UNITED NATIONS

ECONOMIC AND SOCIAL COUNCIL

GENERAL

E/CEPAL/1014/Add.2
27 July 1976

ENGLISH
ORIGINAL: SPANISH

C E P A L

Economic Commission for Latin America

ECONOMIC SURVEY OF LATIN AMERICA 1975

Volume 3

76-1-036

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Notes and explanation of symbols

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

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

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

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

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

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

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

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

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

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

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

JAMAICA

1. The overall picture

The gross domestic product at factor cost is provisionally estimated to have increased by 17 per cent in current prices in 1975.1/ The corresponding increases in 1973 and 1974 were 16 per cent and 31 per cent respectively. Because of the continuous and widespread rise in prices, however, it is estimated that there was very little real growth in the economy during the year.

The agricultural, mining, manufacturing, construction and government sectors continued to exert great influence on the economy, but in 1975 the individual impact of these sectors varied and their influence on the economy took various forms. Agriculture and industry expanded quite significantly in real terms and there was also an intensification of government and construction activities, but mining decreased.

The rate of inflation was fairly high for the third consecutive year, although lower than in 1974. The only measure of price variations currently available is the consumer price index, which showed an increase of 18 per cent in 1975, compared with 28 per cent in 1974 and 18 per cent in 1973. However, the monthly increase in prices has been diminishing since the third quarter of 1975 and import prices also seem to have risen more slowly. On the other hand, big wage increases continued to be demanded in collective bargaining. There are also indications that the increased liquidity of the banking system (in spite of attempts by the monetary authorities to limit it) and the sluggishness of domestic production exerted some inflationary pressure.

In the external sector, the deficit on merchandise trade came to approximately 370 million dollars, nearly double the figure for

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1/ All values, except those in the balance of payments, are expressed in Jamaican dollars.

/the previous

the previous year. This was due to the decline in the value of exports and the increase in that of imports. Despite the great increase in foreign borrowing by the government and the sustained level of income from tourism, which was close to the 1974 figure, the balance of payments is expected to show a deficit. According to preliminary estimates, the balance of payments in 1974 showed a surplus of 61 million dollars. The balance of payments position in 1975 can be deduced from the reduction in international reserves, which by the end of December 1975 had fallen to about half the 1974 figure.

In 1975 several of the key elements in economic activity showed poor results, with the notable exception of export prices. Even so, the benefits of the higher export prices were offset by increases in the prices of imported raw materials and finished products.

Agricultural production was affected by the drought and by strikes in the sugar industry, among other problems. Industrial production declined because of the shortage of raw materials and because of strikes and other "industrial action" by the workers. Production in the bauxite and alumina industry declined, not only because of the strikes but also because of the reduced demand for aluminum in the world market; furthermore, one firm in the sector temporarily suspended its activities. The reaction of the companies in this industry to the measures taken by the government in order to try to assure greater profits from the bauxite and alumina industry for the country are significant not only in relation to the 1975 output but also to the future of the industry.

Faced with the chronically high levels of unemployment and under-employment, the more or less continuous decline in foreign exchange reserves, especially during the second half of the year, and the sluggishness of manufacturing activity, the government undertook a comprehensive review of its economic and fiscal policies. It was announced that the principal goal of those policies would be to achieve self-sufficiency in food, housing and clothing, and that a wide range

of institutions would be established or strengthened and various methods would be used in order to attain those objectives and combat the high rate of inflation. These methods include the following:

(a) Incentives to stimulate production: credit facilities will be extended in order to encourage production utilizing local raw materials, to finance exports and to promote small businesses. The drive to bring additional land under cultivation will also be intensified;

(b) Employers and employees will be required to make contributions to a National Housing Trust Fund which will be used to finance workers' housing;

(c) Minimum wages will be fixed.

Furthermore, all imports have been made subject to a licensing system, profit and wage guidelines have been established, price controls have been tightened and the government has decided to take steps to reduce expenditure during the fiscal year 1975/1976. It will clearly take some time to establish the necessary institutions and implement some of these measures, and consequently the results of these new policy directives will not be discernible until 1976.

2. Sectoral trends

(a) Agriculture

It is estimated that the gross domestic product of agriculture increased by 25 per cent at current factor cost. This increase, however, was mainly due to the higher price of goods rather than to any growth in production, since the output of most crops declined. It is therefore estimated that in 1975 agricultural production showed only a relatively small increase in real terms.

The output of sucar cane, which had recovered slightly in 1974, is estimated to have fallen again in 1975, judging by the lower volume of sugar manufactured. The average price of sugar exports rose during the year, however. The output of bananas, citrus fruits and pimento also declined, but the production of cocoa, coffee and ginger improved slightly. The gross domestic product created by these traditional export crops is estimated to have increased by nearly 48 per cent, however (see tables 1 and 2).

/Table 1

Table 1

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

	In millions of Jamaican dollars at current prices			Percentage breakdown		Annual growth rates a/		
	1970	1974 b/	1975 c/	1970	1975	1971-1973	1974	1975
Agriculture	79	158	198	8.1	8.8	17.5	23.6	25.1
Mining d/	148	298	281	15.2	12.5	0.4	99.3	-5.6
Manufacturing	133	250	310	13.6	13.8	13.7	28.4	24.0
Construction	114	204	233	11.7	10.3	16.0	14.5	14.0
Subtotal goods	474	911	1 023	48.6	45.4	11.2	39.9	12.3
Electricity, gas and water	15	27		1.5		10.6	35.2	
Transport and communications	70	137		7.2		17.7	18.9	
Subtotal basic services	85	163		8.7		16.5	21.3	
Commerce, restaurants and hotels	139	274	323	14.2	14.3	19.5	15.3	17.8
Financial establishments, insurance and real estate	84	175	907 e/	8.6	40.3 e/	19.2	23.2	23.3 e/
Communal, social and personal services	194	397		19.9		15.8	32.1	
Subtotal other services	417	847	1 230	42.7	54.6	17.6	24.3	21.8
Total gross domestic product	975	1 920	2 252	100.0	100.0	14.6	31.0	17.3

Source: Department of Statistics, Jamaica.

a/ Unlike the figures for most countries covered by the Economic Survey, these rates reflect changes in current prices.

b/ Preliminary figures.

c/ ECLA estimates.

d/ Includes petroleum refining.

e/ Also includes subtotal for basic services.

/Table 2

Table 2

JAMAICA: OUTPUT OF SELECTED AGRICULTURAL PRODUCTS

Commodity	Unit	Production				Annual growth rates b/		
		Average 1968-1969	1973	1974 a/	1975 a/	1968-1969-1973	1974	1975
Sugar cane, milled	Thousands of long tons	4 201	3 584	3 786	...	-3.9	5.6	-
Bananas d/	Thousands of long tons	152	108	72	70	-8.2	-33.3	-2.8
Citrus fruits c/e/	Thousands of cases	1 331	1 062	1 077	1 009	-5.5	1.4	-6.3
Pimento	Long tons	2 735	2 536	2 613	...	-1.9	3.0	-
Copra	Thousands of short tons	18	15	9	7	-4.7	-35.9	-24.9
Cocoa c/	Longs tons	1 917	2 071	1 593	1 771	2.0	-23.1	11.2
Coffee f/	Thousands of bags	230	308	240	242	7.6	-22.1	0.8
Ginger	Thousands of pounds	959	1 498	1 714	1 860	11.8	14.4	8.5
Milk	Millions of grants	43	47	49	49	2.3	4.9	-
Eggs g/	Millions	196	136	139	...	-8.7	2.2	-
Cattle, slaughtered	Thousands of head	61	64	67	90	1.1	4.4	34.1
Hogs, slaughtered	Thousands of head	117	151	100	88	6.5	-33.9	-11.8
Poultry	Millions of pounds	24	45	50	...	16.7	12.5	-
Plantains	Millions of pounds	22	59	58	39	28.0	-1.7	-32.8
Coconuts	Millions	135	99	70	...	-7.5	-28.9	-
Sweet potatoes	Millions of pounds	30	35	45	33	3.9	27.8	-26.9

Source: Economic and Social Survey, 1974, Jamaica; Production Statistics, Jamaica, and data supplied to ECLA.

a/ Preliminary figures.
b/ The growth rates have been calculated from unrounded data.
c/ Crop year ending in the year shown.
d/ Exports only.
e/ Deliveries to packing and processing plants.
f/ Crop year beginning in the year shown, deliveries to the Coffee Industry Board.
g/ Commercial production.

/The increase

The increase in the gross domestic product of crops for the domestic market was much smaller (19 per cent). The expansion of this sub-sector was also mainly due to the higher prices in 1975, as the indications are that the output of most root crops and vegetables declined slightly on account of the severe drought which occurred during the year and completely destroyed some of the crops. Available estimates on the output of sweet potatoes and plantains, for example, indicate decreases of 27 per cent and 33 per cent respectively.

In the livestock sub-sector, the number of animals slaughtered rose considerably. It should be noted that the drought of 1975 caused considerable damage to pasture land and contributed to the increase in the number of cattle slaughtered, although the average weight per head was lower. Milk output remained at around the 1974 level.

Estimates of the fishing catch and the output of the forestry industry do not indicate any growth in quantum.

(b) Mining, quarrying and refining

In 1975 the level of activity in mining, quarrying and refining was lower than in the previous year. The gross domestic product of the sector is provisionally estimated to have declined by approximately 6 per cent in current prices. All the sub-sectors shared in this decline, but the most pronounced reduction was in the output of bauxite and alumina, which, because of its large share of the total, caused a marked decrease in the production of the sector as a whole.

In 1975 the output of bauxite and of alumina declined by 10 per cent and 18 per cent respectively. However, the average export prices for the two commodities rose by 16 per cent and 18 per cent respectively. In contrast, there was an increase in the output of gypsum and the refining of petroleum products increased in terms of value, although the output figures for individual commodities showed varying trends (see table 3).

/Table 3

Table 3

JAMAICA: MINING AND REFINING OUTPUT

Product	Unit	Production				Annual growth rates		
		Average 1970-1971	1973	1974 a/	1975 a/	1970-1971-1973	1974	1975
Bauxite (mined)	Millions of long tons	12.1	13.3	15.0	13.3	4.7	12.9	-10.9
Alumina	Millions of long tons	1.8	2.5	2.7	2.2	18.0	11.0	-18.1
Gypsum (mined)	Millions of long tons	0.3	0.4	0.23	0.24	9.1	-37.0	2.6
Petroleum products:								
Fuel oil	Millions of imperial gallons	187.7	228.6	212.9	174.5	10.3	-6.8	-18.0
Gasoline	Millions of imperial gallons	81.0	78.5	60.1	62.2	-1.5	-23.5	3.5
Kerosene and jet fuel	Millions of imperial gallons	43.0	49.6	45.3	35.2	7.4	-8.6	-22.4
Diesel oil (auto and marine)	Millions of imperial gallons	74.1	79.7	60.7	75.7	3.7	-23.8	24.7
Asphalt	Millions of imperial gallons	4.5	5.2	6.6	8.2	7,0	26.5	24.1
Propane and butane	Millions of imperial gallons	7.7	14.4	13.0	11.6	36.3	-10.1	-10.5
Lubricating oil	Millions of imperial gallons	4.7	5.4	4.7	5.1	6.8	-14.0	10.3
Lubricating grease	Millions of pounds	4.0	4.5	4.8	5.5	5.2	6.8	15.4

Source: Economic and Social Survey, 1974, Jamaica; Production Statistics, Jamaica, and data supplied to ECLA.

a/ Preliminary figures.

b/ The growth rates have been calculated from unrounded data.

/During the

During the year, the bauxite and alumina industry registered severe cutbacks in its production and labour force. There was a temporary suspension of activities by one company, and labour relations were strained resulting in strikes and go-slows. The decline in output was also influenced by the curtailment of the production of primary aluminum by related firms in the producing countries, in response to the fall in world demand for aluminum.

The government's policy of gaining greater control of this important sector of the economy progressed from the first stage of obtaining increased revenue from the bauxite industry by means of production levies and modifications in the price system for the basic products involved, to the stage of acquiring equity participation in the bauxite and alumina producing companies and repurchasing mined-out land.

(c) Manufacturing

Although the gross domestic product of the manufacturing sector rose by 24 per cent at current factor costs, there was little if any real growth in industrial output.

The available data on the production of manufactured goods show a mixed performance. Although the volume of output of sugar, rum and molasses declined marginally during 1975, these activities made a substantial contribution to the sector because of the higher prices obtained in foreign markets. The average export value of sugar, for example, was 551 dollars per ton compared with 275 dollars in 1974.

In 1975 there was a reduction in the output of fertilizers, detergents, textiles, condensed milk and copra. However, there was an increase in the production of ammonium sulphate, sulphuric acid, paints, tyres, cement, salt, soap, edible oils and fats, beverages, cigarettes, animal fodder and flour (see table 4).

The manufacturing sector experienced some difficulties in obtaining inputs, especially from international sources. Moreover, the prices of imported raw materials and intermediate goods continued to rise. These two factors, combined with the reduced demand for final products, delayed the expansion of various manufacturing sub-sectors. The strikes in some industries also contributed to the lower levels of production.

/Table 4

Table 4

JAMAICA: OUTPUT OF SELECTED MANUFACTURES

Product	Unit	1973	1974	1975	Annual growth rates a/		
					1973	1974	1975
Sugar	Thousands of long tons	326	367	355	-12.7	12.4	-3.2
Rum and alcohol	Thousands of gallons	4 034	4 850	4 731	10.3	20.2	-2.4
Molasses	Thousands of long tons	129	121	120	-9.8	-6.4	-1.2
Beer and stout	Millions of gallons	12	13	15	12.1	1.9	14.6
Cigarettes	Millions	1 480	1 546	1 625	-5.7	4.5	5.1
Cigars	Millions	22	19	15	4.8	-15.6	-17.5
Copra	Thousands of short tons	14	9	7	-22.8	-35.7	-22.2
Edible oil	Millions of gallons	3	2	3	-2.2	-15.0	15.3
Edible fats	Millions of pounds	12	13	15	-16.2	4.4	14.7
Soap	Millions of pounds	12	12	13	-25.6	-0.7	12.4
Detergents	Millions of pounds	10	11	11	-8.4	7.6	-0.5
Condensed milk	Millions of pounds	57	64	63	3.4	12.5	-0.6
Textiles (fabrics)	Thousands of yards	7 520	9 188	7 780	-11.2	22.2	-15.3
Cement	Thousands of tons	397	393	399	-6.4	-1.1	1.6
Flour	Millions of pounds	97	83	87	-14.1	-14.2	3.9
Sulphuric acid	Thousands of tons	13	11	15	-1.9	-17.7	37.7
Paints	Thousands of gallons	1 497	1 312	1 543	-4.8	-12.3	17.6
Tyres and tubes	Thousands	356	327	387	12.3	-8.0	18.2
Fertilizers	Thousands of tons	47	56	47	12.7	18.9	-15.7
Ammonium sulphate	Thousands of tons	5	5	7	19.1	2.3	29.1
Salt	Thousands of tons	15	10	16	-2.9	-30.6	53.4
Animal feeds	Millions of pounds	220	301	382	-18.7	36.8	26.7

Source: National Planning Agency, Economic and Social Survey, Jamaica, 1974, and data supplied to ECLA.

a/ The growth rates have been calculated from unrounded data.

/Despite these

Despite these trends in 1975, there are indications that the manufacturing base is being broadened. The new manufacturing establishments under construction in 1975 included a factory to produce cassava flour and a new dairy products plant which will increase production capacity in this sector considerably. Printing and publishing activities and tyre manufacture were also expanding.

During the year, the government announced a new package of incentives to stimulate manufacturing activities as part of its policy of self-sufficiency in housing, food and clothing.

(d) Other sectors

The part-year data indicate that tourism decreased slightly in 1975. The total number of visitors rose by 4 per cent, but the number of hotel guests fell by 9 per cent, as did the number of tourists from North America, the most important market. There are indications that the hotel room occupancy rate was approximately the same as in 1974, while it is estimated that tourist expenditure declined between January and October 1975 compared with the same period in 1974 (see table 5).

The government gross domestic product at current prices is provisionally estimated to have risen by 36 per cent in 1975 compared with 49 per cent in 1974. During 1975 total government expenditure increased from 644 million dollars to 938 million dollars. The 59 per cent increase in capital expenditure was a significant feature. Other interesting aspects were the relatively low growth rate of the government's current revenue and the rise in the deficit (see table 6). As a result it became necessary to increase government borrowing. In 1973 government loans from domestic sources exceeded loans from abroad, but this pattern changed in 1974, and in 1975 the proportion of the debt represented by foreign loans increased even further.

The construction sector did not show any real growth in 1975, although it is estimated that its gross domestic product increased by 14 per cent at current prices. Preliminary figures indicate a decline in the construction activities of the private sector, and although the construction activities of the government appear to have increased, the growth was not sufficient to offset the decline in private construction.

/Table 5

Table 5

JAMAICA: SELECTED STATISTICS ON TOURISM

	1972	1973	1974	1975a/
Number of rooms	9 065.0	10 069.0	11 068.0	...
Number of beds	17 944.0	19 897.0	21 904.0	...
Total visitors (thousands)	493.5	517.4	530.7	552.7
Room occupancy rate (percentage)	48.9	50.3	43.8	43.8
Length of stay (nights)	7.9	8.3	8.4	...
Estimated expenditure (millions of Jamaican dollars)	107.9	115.8	121.2	106.2b/

Source: National Planning Agency, Economic and Social Survey, 1974. The Jamaica Tourst Board, Travel Statistics, and data supplied to ECLA.

a/ January to November.
b/ January to October

/Table 6

Table 6

JAMAICA: GOVERNMENT REVENUE, EXPENDITURE AND NEW BORROWING

	Current values (millions of Jamaican dollars)			Annual growth rates		
	1973	1974 a/	1975 a/	1973	1974	1975
1. Total recurrent revenue	326.4	457.0	566.6	19.0	40.0	24.0
Income tax	128.9	173.6	211.8	18.4	34.7	22.0
Customs duties	53.0	57.6	81.1	-8.5	8.7	40.8
Excise duties	56.6	55.5	51.3	7.0	-1.9	-7.6
Other revenues	87.9	170.3	222.4	61.3	93.7	30.6
2. Current expenditure	309.4	460.4	629.6	31.8	48.8	36.8
3. Capital expenditure	108.2	170.7	271.6	9.1	57.8	59.1
4. Sinking fund and direct debt payment	13.8	13.2	37.2	35.3	-4.3	181.8
5. Total expenditure	431.4	644.3	938.4	25.4	49.4	45.6
Deficit (1-5)	-105.0	-187.3	-371.8	50.2	78.4	98.5
Net borrowing	107.6	158.6	187.2	56.6	47.4	18.0
Domestic	64.6	65.7	73.8	47.5	1.7	12.3
Foreign	43.1	92.9	113.4	73.1	115.5	22.1
Variations in cash balance (minus sign signifies an increase)	-2.6	28.7	184.6	-	-	543.2
Total gross national debt (end of year)	485.7	649.7	842.0	26.4	33.8	29.6

Source: Bank of Jamaica, Bulletin, Report and Statement of Accounts and Statistical Digest.

a/ Preliminary figures.

3. The external sector

During 1975 there was a marked deterioration in the performance of Jamaica's external sector. The evolution of external trade during the year was characterized by divergent trends in the values of imports and exports, which led to an increase in the merchandise trade deficit. The performance of non-merchandise transactions was also unfavourable compared with 1974, and international reserves dropped to a dangerously low level.

The decline in the volume of goods exported cancelled out the favourable effects of the price increases for the four principal export commodities, and indeed for other basic products as well. Thus, the value of exports in 1975 is provisionally estimated to have been around 630 million US dollars, some 20 million dollars less than the 1974 total. On the other hand, imports are estimated to have increased considerably to a figure of nearly 970 million US dollars. As a result, the deficit on merchandise trade was almost double the 1974 figure of 162 million dollars (see table 7).

The levels of exports were largely determined by the value of exports of alumina, bauxite and sugar, which represented about 90 per cent of the total in 1975 (see table 8). Foreign demand for bauxite and alumina declined as a result of the reduction in the output of aluminum in the producing countries because of lower world market demand for this metal. Preliminary data indicate that the average unit value of sugar shipments was much higher than in 1974, however. The price of bananas also increased, but at a much slower rate.

The higher cost of total imports was due to world inflation and occured in spite of the restrictions imposed on imports during the year. The price increases for fuels and manufactured products continued to swell the value of imports, although on the other hand the average price of food imports did not increase as much as in the previous year (see table 9, which for 1975 only includes figures for the period January to September).

/Table 7

Table 7

JAMAICA: BALANCE OF PAYMENTS

(Millions of dollars)

	1970	1972	1973	1974	1975a/
Current account					
Exports of goods and services	522	616	632	920	921
Goods FOB	342	378	393	652	633
Services	180	238	239	268	288
Transport	28	34	36	48	56
Travel	96	135	128	137	143
Imports of goods and services	599	716	773	1 064	1 264
Goods FOB	449	529	571	814	968
Services	150	187	202	250	296
Transport	88	102	111	147	185
Travel	16	21	20	20	24
Net payments of profits and interest on foreign capital	-98	-125	-133	-165	-159
Profits	-104	-124	-125	-150	-146
Interest	6	-1	-8	-15	-13
Net private transfer payments	26	35	33	34	35
Balance on current account	-149	-190	-241	-275	-467
Capital account					
Net external financing (a+b+c+d+e)	149	190	241	275	467
(a) Net external non-compensatory capital	191	161	241	315	406b/
Direct investment	162	98	74	23	-
Long- and medium-term loans	14	41	154	298	-
Amortization payments	-4	-6	-14	-6	-
Net short-term liabilities	23	35	35	6	-
Official transfer payments	-4	-7	-7	-6	-
(b) Domestic non-compensatory capital or assets	-35	3	-35	-7	-
(c) Errors and omissions	8	-5	5	30	...
(d) Allocation of SDRs	6	6	-	-	-
(e) Net compensatory financing (minus sign signifies an increase)	-21	25	30	-63	61
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	-	-	23	-	16
Amortization payments	-	-	-7	-	-13
Foreign exchange reserves (minus sign signifies an increase)	-15	4	14	-64	57
Gold reserves (minus sign signifies an increase)	-	14	-	-	-
SDRs (minus sign signifies an increase)	-6	7	-	1	1

Sources: 1970-1974: International Monetary Fund, Balance of Payments Yearbook, vol. 27;
1975: ECLA, on the basis of official data.

a/ Preliminary figures.
b/ Includes (b) and (c).

/Table 8

Table 8

JAMAICA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB) a/

	Millions of Jamaican dollars at current prices (FOB)				Percentage breakdown		Annual growth rates		
	Average 1969-1970	1973 b/	1974 b/	1975 b/c/	Average 1969-1970	1975	Average 1971-1973	1974	1975 b/
Foodstuffs	58.0	72.6	110.3	149.6	23.4	29.2	7.8	51.9	35.6
Beverages and tobacco	6.0	12.2	17.4	14.0	2.4	2.7	26.7	42.6	-19.5
Raw materials	154.2	229.7	483.9	305.9	62.1	59.7	14.2	110.7	-36.8
Mineral fuels, etc.	6.7	8.5	9.9	7.8	2.7	1.5	8.3	16.5	-21.2
Animal and vegetable oils and fats	-	0.1	0.2	0.1	-	-	-	100.0	-50.0
Chemicals	5.2	7.7	10.2	8.6	2.1	1.7	14.0	32.5	-15.7
Manufactured goods	3.7	7.2	11.9	9.1	1.5	1.8	25.0	65.3	-23.5
Machinery and transport equipment	5.1	6.3	10.3	9.1	2.0	1.8	7.3	63.5	-11.7
Miscellaneous manufactured articles	9.2	10.0	10.0	7.6	3.7	1.5	2.8	-	-24.0
Other goods not elsewhere specified	0.2	0.4	0.3	0.4	0.1	0.1	26.0	-25.0	33.3
Total	248.3	354.6	664.4	512.1	100.0	100.0	12.6	87.4	-22.9

Source: External Trade Reports of the Department of Statistics, Jamaica, and data supplied to ECLA.

a/ In accordance with the Standard International Trade Classification.

b/ Preliminary figures.

c/ January to September.

/Table 9

Table 9

JAMAICA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF) a/

	Millions of Jamaican dollars at current prices (CIF)				Percentage breakdown		Annual growth rates		
	Average 1969-1970	1973 b/	1974 b/	1975 b/c/	Average 1969-1970	1975	Average 1971-1973	1974	1975 c/
Foodstuffs	63.6	115.1	175.2	135.4	15.9	18.0	21.8	52.2	-22.7
Beverages and tobacco	5.6	8.6	6.5	5.4	1.4	0.7	15.4	-24.4	-16.9
Raw materials	10.3	24.3	28.7	26.4	2.6	3.5	33.2	18.1	-8.0
Mineral fuels, etc.	26.7	66.5	177.6	145.8	6.6	19.4	35.5	167.1	-17.9
Animal and vegetable oils and fats	2.4	6.2	11.5	11.8	0.6	1.6	37.2	85.5	2.6
Chemicals	30.9	59.2	81.0	79.6	7.7	10.6	24.2	36.8	-1.7
Manufactured goods	103.1	140.6	180.6	152.5	25.7	20.3	10.9	28.4	-15.6
Machinery and transport equipment	126.5	138.4	141.8	147.5	31.6	19.7	3.0	2.5	4.0
Miscellaneous manufactured articles	31.6	44.1	46.0	44.1	7.9	5.9	11.7	4.3	-4.1
Other goods not elsewhere specified	0.7	1.6	2.0	2.5	0.1	0.3	31.8	25.0	25.0
Total	400.6	604.6	850.8	751.0	100.0	100.0	14.7	40.7	-11.7

Source: External Trade Reports of the Department of Statistics, Jamaica, and data supplied to ECLA.

a/ In accordance with the SITC.
b/ Preliminary figures.
c/ January to September.

/Net receipts

Net receipts from tourism, which are an important factor in offsetting the deficit on visible trade, increased only slightly, if at all, compared with the figure of 117 million dollars recorded in 1974. Government foreign borrowing increased significantly during the year but was not sufficient to prevent a sharp decline in international reserves. There was a progressive rise in the level of reserves from January to December 1974, but the opposite occured in 1975, and in spite of the measures adopted to restrain the fall in reserves, the situation worsened towards the end of the year when total international reserves amounted to approximately 72 million dollars, representing less than the value of one month's imports.

The government made great efforts to improve the balance-of-payments situation, especially during the second half of the year. The bauxite levy introduced in 1974 was retained and efforts were made to keep imports down to a total of 900 million. A system of import licensing was introduced and incentives were granted to firms in the productive sector in an effort to stimulate domestic production.

4. Prices

In 1975, although relatively rapid price increases continued to be an important feature of the economy despite the tightening of price control measures over recent years, the rate of inflation was considerably lower than in 1974. In 1975 the average level of retail prices as measured by the All-Jamaica Consumer Price Index increased by 17.4 per cent, compared with 27.3 per cent and 17.6 per cent in 1974 and 1973 respectively (see table 10).

The sectors showing the biggest increases were household furnishings and furniture, transport, and food and beverages. In the All-Jamaica Index, the household furnishings and furniture led the way with a rise of nearly 28 per cent. However this group represents only 3 per cent of the total index and consequently its high increase did not significantly affect the movement of the overall index. The transport index, which also represents a relatively small part of the total, increased by 19 per cent. The increase in the food and beverages group, which accounts for nearly 50 per cent of the total index, is more significant: it amounted to nearly 18 per cent in 1975.

/Table 10

Table 10

JAMAICA: EVOLUTION OF DOMESTIC PRICES ACCORDING TO THE CONSUMER PRICE INDEX FOR THE WHOLE COUNTRY

(January 1975 = 100)

	Annual rates of increase				
	1971	1972	1973	1974	1975
Consumer price index	5.3	5.4	17.6	27.3	17.4
Food and drinks	6.6	4.8	24.7	29.2	17.7
Personal clothing and accessories	7.2	8.3	8.2	19.2	16.5
All items:					
Kingston, metropolitan area	4.9	6.6	19.1	27.5	16.5
Other towns	5.7	4.5	15.5	26.9	17.7
Rural area	5.7	4.5	18.3	27.0	18.5
All Jamaica	5.3	5.4	17.6	27.3	17.4

Source: Department of Statistics, Jamaica.

/During the

During the year a series of measures were adopted with the aim of curbing inflation. These included measures to broaden and tighten price control regulations, freeze various categories of professional fees, and grant incentives to enterprises in the productive sectors to encourage the use of local raw materials and stimulate increased output of food. It was announced that guidelines would be established for profits and dividends, and a national minimum wage of 50 cents per hour per 8-hour working day was decreed. However, the effects of these measures will not be discernible until 1976, since they were introduced at the end of 1975.

MEXICO

1. The overall picture

In 1975 the growth rate of the Mexican economy fell for the second consecutive year, and although inflation eased, the deficit on the current account of the balance of payments increased.

The gross domestic product increased by 3.9 per cent, which was less than both the 5.9 per cent achieved in 1974 and the 6.1 per cent average for the period 1971-1973. The growth rate of the product was thus only slightly higher than that of the population and, as a result, the increase in the per capita product was very small (0.5 per cent) (see table 1).

Consumer prices - which in 1974 had risen by more than 22 per cent - rose in 1975 by a little less than 17 per cent. In spite of this progress, the rate of inflation continued to be higher in 1975 than in 1973 (when it was 11 per cent), and well above the annual increase of 5 per cent recorded in the opening years of the decade.

The lower rates of increase in production and prices were accompanied by a larger deficit on the current account of the balance of payments. This increased in 1975 to almost 3.9 billion dollars a figure almost a billion dollars higher than that for 1974, and at least three times as high as the average deficit recorded in the period 1971-1973 (see table 1).

This increase in the current account deficit was largely the result of the highly unequal performance of exports and imports. Whereas the value of the former fell slightly, following rapid increases during the four previous years, that of the latter was 8 per cent higher than in 1974, when it increased at the record rate of 47 per cent.

However, the increase in the inflow of non-compensatory capital was even higher than the deficit on current account and, for this reason international reserves increased for the sixth consecutive year.

/Table 1

Table 1

MEXICO: MAIN SHORT-RUN ECONOMIC INDICATORS

(Percentage annual growth rates)

	1971-1973	1974	1975
Gross domestic product	6.1	5.9	3.9
Gross income a/	6.1	6.6	3.8
Per capita gross domestic product	2.7	2.5	0.5
Gross fixed investment	8.2	9.7	8.5
Value of exports	18.1	32.9	-1.4
Value of imports	15.8	47.4	8.1
Terms of trade	-1.5	9.5	-5.2
Balance on current account b/	-1 085.0	-2 934.0	-3 888.0
Variation in reserves b/	181.0	30.0	165.0
Consumer price index	7.3	22.5	16.9
Money	14.6	22.0	21.9
Current income of government	16.8	31.4	45.4
Total expenditure of government	26.5	22.9	49.1
Fiscal deficit/total expenditure of government c/	26.9	29.2	23.3

Source: ECLA, on the basis of official statistics.

a/ Gross domestic product plus terms-of-trade effect.
b/ Absolute values in millions of dollars at current prices.
c/ Percentage.

/The trends

The trends in the economy were not, however, the same throughout the year. Their pattern was rather one of a general gradual improvement in production, prices, and the external sector, which was more perceptible during the second half of the year.

Thus, the annual growth rate of the production of manufactures, which had fallen steadily from 10 per cent in the first half of 1974 to only 2 per cent during the first six months of 1975, increased to 6 per cent in the second half of the year. The trend was the same in the construction sector, whose annual rate of growth was more than 50 per cent higher in the second half of 1975 than in the first.

The current account deficit showed a similar trend. During the first six months of the year it exceeded that of the corresponding period of 1974 by almost 80 per cent. In the second half of 1975 this difference fell to 23 per cent, as a result of the upswing in income from tourism and the international subcontracting enterprises and the slowing down of the growth rate of imports.

The improvement in the position regarding inflation in the course of the year was somewhat more irregular. Although the variations in the consumer price index compared with the corresponding period twelve months earlier grew gradually smaller, the wholesale price index, after plunging in the first quarter, showed an upward trend for the remainder of the year.

To a large extent, the changes described reflected the variations which occurred in the last two years in the world economic scene. Thus, the decline in the rate of price increases was due partly to the drop in the intensity of external inflationary pressures in 1975. Similarly, the loss of impulse by the economy in 1975 was decisively influenced by the economic recession which the industrialized countries suffered in that year and, in particular, the decline in the gross product of the United States. In turn, the recovery of the United States economy, from the second quarter of 1975 onwards, contributed to the increase in economic activity registered in Mexico towards the end of the year and also helped to bring about a gradual reduction in the deficit on current transactions of the balance of payments.

/However, the

However, the course followed by the Mexican economy in 1975 was also shaped by the decisions on economic policy taken by the Government, which sought simultaneously to counter the adverse effects of the decline in external demand on the levels of production and employment, to moderate the increase in prices and the external deficit, and to reduce the existing inequalities in income distribution.

In order to achieve the first of these objectives, the Government increased spending sharply, raising public investment to particularly high levels. At the same time, in order to curb the rate of inflation, the authorities raised taxes, advocated moderate adjustments in wages, and adopted an active policy for the fixing and control of prices. The latter was designed to protect the standard of living of the low-income groups. For this purpose, subsidies for widely-used urban services were increased, as was the radius of action of government bodies to regulate the supply and prices of mass consumer goods. Simultaneously, credit price and marketing policies were adopted with a view to raising rural income and facilitating the transfer of resources from the urban centres to rural areas.

Furthermore, in view of the upward trend in the trade deficit, the Government adopted a series of measures aimed at reducing the demand for imports and strengthening the long-term policy for the promotion and diversification of exports. To achieve this objective, the Development Fund for the Export of Manufactures and the National Foreign Trade Bank increased their financial support to the export sector and at the same time subsidies were granted to facilitate the imports needed in order to expand the export capacity of the industrial plants, the regulations governing the international subcontracting enterprises and the temporary importation of goods for re-export were broadened, and fiscal incentives were provided for shipping companies, companies promoting external sales of technology and national services, and manufacturers of goods sold north of the border.

/2. Recent

2. Recent economic trends

(a) Global trends

As already noted, the Mexican economy slowed down in 1975. The rate of growth of the gross domestic product was the lowest in the last 4 years, and gross income - which in 1974 increased by 6.6 per cent, helped by the improvement in the terms of trade - increased in 1975 at a rate only slightly higher than that of the population. Furthermore, the sharp downturn in the growth rate of the volume of imports was one of the reasons why the growth rate of total supply dropped to half that of 1974 (see table 2).

The principal reason for the drop in the economic growth rate was the decline in demand and, in particular, in external demand. The decline in the latter resulted from the economic recession in the industrialized countries and especially in the United States, where more than 55 per cent of Mexican exports of goods are sold and which is the source of more than four-fifths of Mexico's tourist income.

Primarily because of these factors, the volume of exports of goods and services - which had already stagnated in 1974 - fell by more than 10 per cent during 1975 (see table 2). This sudden decline occurred in spite of the strong expansion in oil sales, the reasons for it being the sharp drops in income from tourism and from exports of manufactures, minerals, processed agricultural products and goods produced by the international subcontracting enterprises (see tables 9 and 11).

Trends in domestic demand were also less favourable in 1975 than in the previous year. In 1974, the rapid increase in world prices and the predominant fear of inflation led to advance purchasing of both foreign and national goods. The volume of imports of goods therefore increased at the exceptional rate of 21 per cent, and demand for the purpose of building up stocks increased by more than 80 per cent (see tables 2 and 10). Stockpiling was therefore much higher than normal and acted as a factor in the expansion of the demand for intermediate and final goods, thus stimulating commercial and productive activities.

/Table 2

Table 2

MEXICO: TOTAL SUPPLY AND DEMAND

	Millions of Mexican pesos at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	1974	1975 a/	1970	1975 a/	1971-1973	1974	1975 a/
Total supply	459 904	589 138	608 440	109.8	110.6	6.2	7.1	3.3
Gross domestic product	418 700	529 516	550 216	100.0	100.0	6.1	5.9	3.9
Imports	41 204	59 622	58 224	9.8	10.6	7.0	18.2	-2.3
Total demand	459 904	589 138	608 440	109.8	110.6	6.2	7.1	3.3
Domestic demand	425 592	544 619	568 491	101.6	103.3	5.9	7.7	4.4
Gross domestic investment	90 200	131 909	138 913	21.5	25.2	8.1	15.9	5.3
Gross fixed investment	82 200	114 330	124 048	19.6	22.5	8.2	9.7	8.5
Public	31 269	...	...	7.5	...	13.7	...	...
Private	50 931	...	...	12.1	...	4.6	...	...
Variation in stocks	8 000	17 579	14 865	1.9	2.7	6.4	82.6	-15.4
Total consumption	335 392	412 710	429 578	80.1	78.1	5.3	5.3	4.1
General government	32 575	44 657	49 123	7.8	8.9	8.2	8.1	10.0
Private	302 817	368 053	380 455	72.3	69.2	5.0	5.0	3.4
Exports	34 312	44 519	39 949	8.2	7.3	9.1	-	-10.3

Sources: 1970-1974: ECLA calculations on the basis of figures provided by the Bank of Mexico; 1975: ECLA estimates on the basis of official data.

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

a/ Preliminary figures.

/In 1975,

In 1975, however - and particularly during the first half of the year - the liquidation of part of the accumulated stocks, although it helped to maintain the growth of commercial intermediation, tended to reduce the pressure of demand on the productive sectors, with consequent unfavourable effects on the level of activity.

The restrictive impact provoked by the drop in the quantum of exports and in the demand for stocks was accompanied by a fall in the growth rate of private consumption. Because of the small increase in the per capita product, the considerable increase in taxes, and the loss in purchasing power suffered by some wage sectors as a result of inflation, per capita consumption showed virtually no growth in 1975, especially in the first half of the year, when the effects of the world recession were more strongly felt. Subsequently, domestic demand for consumer goods picked up again when the wages of government and bank employees and of some employees in other activities covered by the Federal contract law 1/ were adjusted and the action of the Fondo Nacional de Fomento y Garantía para Consumo de los Trabajadores (FONACOT) 2/ was strengthened.

Thus, in 1975 the sole dynamic component of final demand was public expenditure. General government consumption increased by 10 per cent, mainly under the impulse of the sharp expansion in expenditure on agriculture and education. As a result, the high and steady rate of growth which has characterized such consumption since the beginning of the decade further increased.

The same was true of public investment. In spite of the fact that adequate statistical information is lacking, the big increase of 70 per cent recorded in government investment in physical assets

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1/ These employees taken together, represent approximately 15 per cent of the labour force. The average adjustment in civil service wages granted in July was 16 per cent.

2/ In August the savings departments of the private banks were directed to include in their compulsory investment system the deposit in the Bank of Mexico of 1,200 million pesos in cash to finance the purchase of consumer durables through FONACOT.

/during the

during the first nine months of 1975 suggests that the expansion in fixed capital expenditure must have been considerable.3/ The continuation in 1975 of the major investment programmes of the State enterprises in the steel, electricity, oil and petrochemical industries leads to the same conclusion. The growth in private investment, however, was apparently only moderate. According to the Bank of Mexico "its indifferent performance did not have an important impact on economic activity as a whole in 1975".4/ It is likely, moreover, that because of the slow growth of demand and other factors linked with the expected trend of future policies, private savings were directed preferably towards investment which offered, in addition to an adequate yield, a bigger safety margin.

In spite of this, thanks mainly to the sharp increase in public investment total fixed capital expenditure increased by 8.5 per cent in 1975, thereby maintaining the high rate of growth of the four previous years (see table 2).

(b) Sectoral developments

On the side of domestic supply, the slowing down of overall economic growth resulted from the reduction in the growth rates of the main productive sectors, the sole exceptions being agriculture and, to a lesser extent, construction (see table 3).

(i) Agriculture. In spite of the fact that in 1975 the rate of increase in the agricultural product was double that of the previous year, it continued to remain very low. The increase of 2 per cent recorded in 1975 was hardly higher than the very low rate for the three-year period 1971-1973, and once again it was well below the rate of increase of the population.

3/ See table 14. Assuming an average increase of 20 per cent in the price of capital goods, the increase in physical investment in real terms was probably around 42 per cent. If an average increase of 15 per cent in prices is assumed, the increase was probably close to 48 per cent.

4/ Bank of Mexico, Informe Anual 1975, Mexico City, 1976, p. 24.

/Table 3

Table 3

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

	Millions of Mexican pesos at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	1974	1975 a/	1970	1975 a/	1971-1973	1974	1975 a/
Agriculture	41 179	49 870	50 817	11.8	9.7	1.6	0.9	1.9
Mining and quarrying	16 184	21 804	21 908	4.1	4.2	3.9	15.7	4.3
Mining	5 611	7 044	6 621	1.4	1.3	3.5	13.4	-6.0
Petroleum extraction and refining	10 573	13 960	15 287	2.7	2.9	4.1	16.2	9.5
Manufacturing	93 518	120 564	125 848	23.4	24.1	6.8	5.7	4.4
Construction	21 401	29 350	30 377	5.4	5.8	9.9	3.4	3.5
Subtotal goods	178 282	220 788	228 950	44.7	43.8	5.6	5.1	3.7
Electricity, gas and water	5 453	7 827	8 414	1.4	1.6	9.3	10.1	7.5
Transport and communications	10 363	15 180	...	2.6	...	9.6	11.4	...
Subtotal basic services	15 816	23 007	...	4.0	...	9.5	10.9	...
Commerce, financial establishments and insurance	115 249	145 374	...	28.9	...	5.9	6.3	...
Real estate b/	30 115	35 159	...	7.6	...	4.1	3.4	...
Communal, social and personal services c/	59 555	79 438	...	14.9	...	8.0	5.9	...
Subtotal other services	204 919	259 970	...	51.4	...	6.2	5.8	...
Subtotal services	220 735	282 977	294 089	55.3	56.2	6.5	6.2	3.9
Total gross domestic product	399 017	504 624	524 304	100.0	100.0	6.1	5.9	3.9

Sources: 1970-1974: ECLA calculations on the basis of figures provided by the Bank of Mexico; 1975: ECLA estimates on the basis of official data.

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

a/ Preliminary figures.
b/ Refers only to housing.
c/ Includes, in addition, restaurants, hotels and services provided to enterprises.

/However, the

However, the small advance made by the agricultural sector as a whole veiled the diametrically opposed trends which its main components showed in 1975. Thus, whereas agricultural production for export fell by 22 per cent, that of crops for domestic consumption increased by approximately 11 per cent, while the growth rate in livestock production fell to a third of that achieved in the two preceding years (see table 4).

The worst hit of the export crops was cotton, production of which fell by almost 60 per cent. This enormous reduction was, to a large extent the result of the fall in world prices for this product during 1974, but it was also affected by internal factors which helped to displace the cultivation of cotton in irrigated areas in favour, particularly, of oilseeds. Among these factors, the main ones were the increase in costs, the incidence of certain pests, and the exclusion of cotton from the new system of guaranteed prices established in 1974.

The production of sugar cane also fell in 1975. The decrease of a little more than 3 per cent reflected the long-term problems faced by the mills, which led to drops in productivity, higher costs, and reduced income for cane planters and a consequent decline in the cultivation of sugar cane in favour of other more profitable crops. Since there was a parallel increase in the domestic consumption of sugar, there was a smaller surplus available for export and thus, in 1975, in spite of the favourable world prices for sugar, the quantity exported was the lowest for the last fifteen years. In answer to these problems, the Government adopted in October 1975 a series of measures aimed at encouraging the cultivation of sugar cane, increasing yields and raising the income of producers through a new system of purchasing and storage designed to minimize the current losses.

In contrast, coffee production increased by 19 per cent, thus making up for the drop in 1974. To a large extent, this increase was a response to the support policy in favour of small producers implemented by the Instituto Mexicano del Café.

/Table 4

Table 4

MEXICO: INDICATORS OF AGRICULTURAL PRODUCTION

	1971	1973	1975 a/	Annual growth rates				
				1971	1972	1973	1974	1975 a/
	Index 1970 = 100							
Agricultural production	106.5	113.6	121.5	6.5	0.6	6.0	3.1	3.7
Crop farming	107.0	114.8	121.3	7.0	1.8	5.3	1.1	4.5
Exports	106.8	116.8	96.1	6.8	11.3	-1.8	5.8	-22.3
Domestic consumption	107.1	114.4	126.7	7.1	-0.3	7.0	0.1	10.7
Stock-raising b/	105.2	111.1	122.0	5.2	-1.8	7.5	7.4	2.3
	Thousands of metric tons							
Production of some important crops								
Cotton	397	392	210	18.9	5.0	-5.8	30.8	-59.1
Coffee	187	222	214	1.2	8.5	9.0	-18.8	19.0
Sugar cane	32 715	32 721	32 368	-5.6	-1.4	1.4	2.4	-3.4
Tomatoes	939	1 091	1 127	1.7	28.2	-9.4	2.7	0.6
Rice	364	451	759	-8.9	9.2	11.8	9.1	54.4
Beans	954	1 009	918	3.1	-8.8	16.0	-3.7	-5.5
Maize	9 786	8 609	9 400	10.2	-5.8	-6.6	-8.8	19.8
Sorghum	2 516	3 270	4 340	6.4	3.8	25.2	7.0	24.0
Wheat	1 831	2 091	2 750	-31.6	-1.2	15.6	33.4	-1.4
Safflower	411	298	514	42.4	-34.0	9.9	-8.6	88.6
Soya beans	256	585	633	19.2	47.3	55.4	-16.1	28.9

Source: ECLA, on the basis of official figures.

a/ Preliminary figures.
b/ Figures subject to correction.

/In spite

In spite of the fact that the decline in external demand had a major impact on exports of fruit and vegetables, their production continued to increase, although at a lower rate than in previous years. Part of the non-exported production was channelled towards the domestic market, thus bringing about some reduction in prices, whereas the surpluses of non-perishable products such as sisal and cocoa went to increase stocks.

In contrast to export agriculture, crops produced mainly for home consumption made considerable progress. The greatest progress was made by maize - the harvest of which was one-fifth higher than that of 1974 - and fruit and oilseeds, among which the production of safflower increased by almost 90 per cent and that of soya beans by almost 30 per cent. On the other hand, the production of haricot beans fell by 6 per cent and that of wheat was slightly lower than that of 1974.

In spite of the recovery in the maize and oilseed harvests, the volume of imports of these items increased for the fourth consecutive year. The main cause was the poor yield of the spring-summer cycle crops in 1974, as a result of which the necessary stocks were not available in 1975.5/

In general, the sharp increase in agricultural production for domestic consumption recorded in 1975 can be explained by the major support provided by the Government in recent years through its price, credit, marketing and investment policies, aimed at improving the standard of living and productivity of the rural sector and reversing the unfavourable trend in the balance of trade in agricultural products which has existed since the beginning of the decade.6/

5/ For 1976 it is expected, however, that it will be possible to eliminate imports of sorghum, barley and the majority of oilseeds, and to generate exportable surpluses of safflower, rice and beans.

6/ Whereas between 1970 and 1974 exports of agricultural products increased by 85 per cent, imports rose by 230 per cent. Between 1972 and 1974 the volume of exports of cattle on the hoof and meat fell by two-thirds and that of sales of cotton and sugar fell by one-quarter, while at the same time there was a sharp increase in imports of oilseeds, maize, milk, and wheat, and rice and beans began to be imported.

/Thus, in

Thus, in 1974 the authorities introduced a radical change in their agricultural prices policy, with a view to reducing the gap between the domestic prices of a number of agricultural products and their respective world prices. As a result of this reform, the guaranteed prices for maize, beans, wheat, rice, sorghum, and oilseeds were adjusted by between 60 and 240 per cent. In pursuance of this policy, in March 1975, the Government authorized new increases in the official prices of these products and extended the increases to some other crops.

At the same time, the Government's credit policy continued to favour the agricultural sector in particular. As in 1974, credits to the sector in 1975 increased at a much higher rate than those granted to the other productive activities.7/ Moreover, in order to rationalize this increased financial support, the authorities decided to merge into a single organ - the Banco Nacional de Crédito Rural - the three agricultural credit banks which operated independently up to 1975.8/ With the same aim of improving the co-ordination of official institutions connected with agricultural development, the Comité Coordinador del Sector Agropecuario (COCOSA) was established in July. The Government also set up in 1975 the Rural Development Research Centre (CIDER), the main function of which is to evaluate rural development programmes, and it gave encouragement to the Promotora Nacional para la Producción de Granos Básicos, whose role is to take systematic action to increase the production of grains.

The Government also maintained its policy of allocating a larger portion of government resources to the agricultural sector. The budget of the Ministry of Agriculture and stock-raising was increased by more than 50 per cent, and in the course of 1975 the Public Investment Programme for Rural Development (PIDER) made investments amounting to 2,500 million pesos in 84 micro-regions of the country - three times as much as the amount invested in the previous year.

7/ In 1974 the respective rates were 30 and 20 per cent; in 1975, 36 and 18 per cent.

8/ These were the Banco Nacional Agropecuario, the Banco de Crédito Agrícola, and the Banco Ejidal.

/(ii) Mining

(ii) Mining. In 1975 the growth rate of the mining product showed a marked decline. After increasing at the exceptional rate of almost 16 per cent in 1974, it rose in 1975 by only a little more than 4 per cent. However, as in the case of agriculture, the overall trends in the mining sector in 1975 concealed the very different paths followed by its principal activities. Thus, whereas the value added in the working of mines and quarries dropped by 6 per cent, the product generated in the extraction and refining of oil increased by more than 9 per cent (see table 3).

In the production of minerals, the drastic reversal of its upward trend was due mainly to the contraction in external demand and, to a lesser extent, to the slower expansion of industry and construction in 1975.

The adverse trends of the international conjuncture affected in particular the production of non-ferrous industrial metals, which together account for 45 per cent of the value of mining production (excluding oil). After rising by 7 per cent in 1974, the production of these metals fell by almost 13 per cent in 1975, mainly because of the very sharp drops which the decline in international demand caused in the production of zinc and lead and the reduction of almost 7 per cent in copper production because of the decline in domestic demand (see table 5).

There was also a very big drop in the growth rate of the production of non-metallic minerals - from 23 per cent in 1974 to 1 per cent in 1975 - and in the production of ferrous metals and minerals, which almost completely stagnated in 1975. In the case of the former, the drop was dictated mainly by the plunge in the growth rate of sulphur production, which was caused, in turn, by the reduction of almost 30 per cent in the volume of exports. The lower rate of expansion of ferrous metals and minerals was linked with the fall in the domestic production of processed iron and steel.

/Table 5

Table 5

MEXICO: ANNUAL VARIATIONS IN MINING PRODUCTION

	Index 1970 = 100			Annual growth rates		
	1973	1974	1975	1971-1973	1974	1975
Mining production (total)	107.0	116.7	109.4	2.3	9.1	-6.2
Precious metals a/	88.5	85.9	83.0	-4.0	-2.4	-3.4
Non-ferrous industrial metals b/	102.7	110.0	95.9	0.9	7.1	-12.8
Zinc	101.9	98.6	79.8	0.6	-3.2	-19.1
Lead	101.5	123.4	99.8	0.5	21.6	-19.1
Copper	131.9	135.5	126.4	9.7	2.7	-6.7
Metals and minerals for the steel industry c/	137.9	137.8	138.5	8.5	7.7	0.5
Coke	142.2	152.2	152.6	12.4	7.0	0.3
Iron	119.2	127.8	129.6	6.0	7.2	1.4
Non-metallic minerals d/	113.8	140.0	141.5	4.4	23.0	1.1
Sulphur	116.5	168.2	167.2	5.2	44.4	-0.6
Fluorite	111.0	113.7	118.9	3.6	2.4	4.6

Source: ECLA, on the basis of official statistics.

a/ Including gold and silver.

b/ Including arsenic, antimony, cadmium, mercury, bismuth, molybdenum, tungsten, selenium and tin.

c/ Including coal and magnesium.

d/ Including barite, graphite, dolomite, koolin, silicon, gypsum, phosphorite, limestone, sodium sulphate, feldspar and magnesite.

/During 1975,

During 1975, State participation continued to expand in the mining sector through the action of institutions such as the Nacional Financiera, the Comisión de Fomento Minero, and the Fondo Mexicano de Minerales, under the rules governing the implementation of that article of the Constitution which lays down the rules for mining concessions.9/

At the same time, the Government strengthened its support for the ambitious oil development programme undertaken by Petróleos Mexicanos (PEMEX) under which, in the last two years, PEMEX has begun to work rich deposits which have generated sizeable exportable surpluses of crude.

As a result of PEMEX's activities the product generated in the extraction and refining of oil - which had already increased in 1974 by more than 16 per cent - increased in 1975 by almost 10 per cent, so that the oil industry maintained its position as the most dynamic activity in the economy (see table 3). In particular, extraction grew at the extraordinary rate of almost 20 per cent for the second consecutive year. However, owing to the increasingly full use of the installed capacity, the rate of growth of refining fell from 14 per cent in 1974 to 4 per cent in 1975 (see table 6).

As a result, in order to cover the domestic consumption of petroleum products it was necessary to increase the exports of crude for processing and to import refined products. Partly for this reason, but particularly because of the increase in production, exports of crude were more than 10 times higher in 1975 than in 1974, and their share in oil production rose from a little more than 2 per cent in the latter year to 12 per cent in 1975.

9/ The law regulating the application of article 27 of the Constitution was promulgated in December 1975 and came into force in February 1976. Its main provisions include a State monopoly for the exploitation of resources of strategic importance for the development of the country (sulphur, phosphates, potash, and uranium) and State participation in the future programmes for the exploitation of coal and iron.

/Table 6

Table 6

MEXICO: ANNUAL VARIATIONS IN THE PRODUCTION OF PETROLEUM AND COKE

(Percentage annual growth rates)

	1971	1972	1973	1974	1975a/
Total	2.8	1.9	1.4	16.2	10.6
Crude petroleum	2.4	7.7	1.2	16.6	10.9
Refining b/	2.2	11.0	-0.2	13.7	3.7
Extraction	-1.3	3.3	3.1	20.7	19.3
Coke	16.6	9.3	10.0	5.9	0.3

Source: Bank of Mexico.

a/ Preliminary figures.

b/ Throughput of crude and processed liquids.

/The main

The main obstacle faced by the oil industry in 1975 was therefore the absence of an adequate infrastructure for meeting the needs of the accelerated expansion of extractive activity. This not only helped to reduce the rate of growth of the value added in the oil sector, but also prevented full use from being made of products such as gas, which, because it was in short supply, in turn affected the operation of some industrial plants in Puebla and Veracruz.10/

In order to overcome this problem, investment was accelerated in 1975 in the refineries at Salina Cruz, Cadereyta and Tula, which, when completed, will increase the primary refining capacity of PEMEX from 760,000 to 1.3 million barrels per day. Exploration activities were also stepped up during the year, and their range of action was expanded to cover the 23 states of the Republic. At the same time, the programme of investment in petrochemicals, production of which increased at a rate of more than 15 per cent for the second consecutive year, continued. At the end of 1975, 10 petrochemical plants were in the process of construction and the engineering studies had been completed for a further 22.

(iii) Manufacturing. In 1975 the rate of growth of manufacturing fell for the second consecutive year. The increase in the industrial product was a little more than 4 per cent: lower than in the previous year and only half the annual increase achieved during the period 1972-1973 (see table 7).

The loss of impulse in the manufacturing sector was linked mainly with the drop in both external demand - which fell to its lowest level in the first quarter of the year - and in domestic demand. The downturn in the latter was caused jointly by the decline in the purchasing power of large sectors of the population as a result of inflation, the advance purchases of consumer goods in 1974 as a hedge against new increases in prices, and the stagnation of investment in some activities.

10/ In the new fields, where use could be made of the by-product gas, this source of energy was wasted because of the lack of installations; the gas flared off represents 25 per cent of total production.

/Table 7

Table 7

MEXICO: ANNUAL VARIATIONS IN THE GROSS DOMESTIC PRODUCT OF THE MANUFACTURING SECTOR AT MARKET PRICES

(Percentage annual growth rates)

	1971	1972	1973	1974	1975
Total	3.1	8.2	8.9	5.4	4.2
Food	1.0	5.5	4.9	3.7	3.5
Textiles	5.4	8.2	8.0	2.5	4.5
Footwear and clothing	7.6	8.4	9.6	2.4	4.7
Wood	-5.2	7.2	6.0	3.1	3.8
Paper and paper products	-7.1	5.6	11.2	12.6	-4.0
Printing and publishing	-1.1	13.1	0.6	5.8	3.5
Rubber products	11.0	10.9	7.1	1.6	10.2
Chemical and mineral products	10.1	14.0	9.9	3.1	2.5
Non-metallic minerals	8.6	11.5	16.3	3.0	5.5
Basic-metals industries	2.7	12.4	8.1	11.4	-1.5
Machinery	0.1	6.8	11.9	4.6	6.0
Transport equipment	5.9	9.9	18.3	19.8	6.3
Other industries	4.5	2.6	8.4	2.7	3.6

Source: ECLA, on the basis of official figures.

/It was

It was also affected by the decrease in the demand for stocks. During 1974, entrepreneurs increased their stocks of raw materials and finished goods considerably as a result of the prevailing fear of inflation and the scarcity of some products in the market, and when price trend expectations changed in 1975, the process of stock liquidation began and thus helped to reduce the derived demand for industrial goods.

However, the downward trend in the growth rate of the manufacturing sector which had started in mid-1974 continued only up to the first half of 1975, during which industrial production increased at the scanty annual rate of 2 per cent. In the second half of the year in contrast, there was a marked upsurge, and the growth rate of the sector was triple that of the first half (see table 8).

This recovery, which was attributable largely to the gradual normalization of the stock situation, to the reactivation of external demand, and to the increase in the demand for consumer goods caused by the improvement in the purchasing power of certain wage sectors, was exceptionally marked in textile and clothing manufacturing and in the wood and rubber industries.

In the textile and clothing industries, which together generate a quarter of the value added in the manufacturing sector and which since mid-1974 had been seriously affected by the contraction in external demand,11/ the impressive recovery of production in the second half of the year caused the growth rate of the product in 1975 to be almost double that of the previous year. In spite of this, however, expansion in 1975 was well below that achieved by both branches in the two-year period 1972-1973, when their product increased at an annual rate of more than 8 per cent.

In contrast, in the basic metals and paper industries, which had shown a high rate of growth up to 1974, production fell in absolute terms and showed no signs of recovery.

11/ During 1975, the volume of exports of cotton textiles fell by 21 per cent, that of man-made fibre yarns by 22 per cent, and that of hemp manufactures by 61 per cent.

/Table 8

Table 8

MEXICO: VARIATIONS IN THE VOLUME OF MANUFACTURING PRODUCTION OVER SIX-MONTH PERIODS a/

(Percentage variations between corresponding periods)

Industries	1973/1974		1974/1975	
	II/II	I/I	II/II b/	I/I
Total	3.9	9.9	6.0	2.1
Food, beverages and tobacco	0.3	5.7	3.0	2.3
Textiles	-5.8	9.1	12.0	-5.0
Clothing	-6.1	9.8	20.7	-3.3
Wood	-14.2	-11.4	35.0	7.7
Paper and paper products	10.6	15.5	-3.7	-2.7
Printing and publishing	4.4	9.0	3.3	4.7
Rubber products	0.4	-2.5	17.7	-0.6
Chemical products	7.1	8.8	7.8	2.3
Non-metallic minerals	5.3	4.7	12.7	7.0
Iron and steel	7.0	18.7	-1.4	-1.1
Machinery	11.2	7.9	11.8	10.1
Transport equipment	29.9	22.4	3.1	9.7

Source: Bank of Mexico, Annual report, 1973, 1974 and 1975.

a/ Excluding those industries for which only annual data are available.
b/ Estimated on the basis of July-October figures.

/In the

In the paper industry, the contraction was due mainly to the decline in demand and the liquidation of the abundant stocks accumulated during 1974. The slight drop in the production of basic metals, for its part, which interrupted the marked expansion recorded in previous years, was linked with the decrease in the production of aluminium, the stagnation of the iron and steel industry, and the marked drop in the growth rate of the production of electrolytic copper.

The production of the latter, which had increased in 1974 by the exceptional amount of 19 per cent, grew by only 1 per cent in 1975 owing to the sharp fall in demand. The slight recession in production of 0.4 per cent in the iron and steel industry, however, was due mainly to factors connected with supply, such as the insufficient supply of gas for the iron and steel plants in Puebla and Veracruz, the interruption in production caused by the maintenance programme for the blast furnaces of Monterrey, and the strike towards the end of the year in the Compañía Fundidora de Hierro y Acero in Monterrey. As a result, the volume of imports of intermediate iron and steel products and scrap iron increased considerably, while exports of iron and steel products fell.

The reduction of 3 per cent in the production of aluminium was also caused by problems linked with supply, such as the inadequate supply of electricity. However, it is also likely that it may have been affected by the time-lag between the increase in electricity tariffs decreed in August and the increase in the price of aluminium authorized in November.12/

In 1975 there was also a drop in the growth rate of the transport equipment industry. This caused an interruption in the steadily increasing rate of expansion which started at the beginning of the

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12/ The investment programmes for the aluminium industry, which at present satisfies approximately 40 per cent of national demand, envisage an increase in installed capacity from the present figure of 33,000 tons of aluminium ingots to 77,000 tons in 1977. The Government has also made public its plans for the installation of a plant of 120,000 tons capacity in which Mexico, Jamaica, Guyana and Trinidad and Tobago will be partners.

decade and reached its peak in 1974 with an increase of 20 per cent brought about by the bigger exports of cars and trucks and the strengthening of domestic demand as a result of advance purchases made because of the expected future increases in prices. In 1975, however, the value added by the transport equipment industry rose by only a little over 6 per cent, and exports - which in 1974 included more than 16,500 cars and 2,500 trucks - fell to a little more than 1,500 trucks and less than 1,000 cars. The slowing down of the growth rate had very distinct effects on the manufacture of trucks and cars, for whereas the production of the latter fell by a little over 2 per cent,13/ that of trucks expanded by 21 per cent.

The food industry - which contributes almost a quarter of the value of the industrial product - also showed an unfavourable trend. Its rate of growth fell for the third consecutive year and was barely equal to the increase in population.

There was a similar trend in the chemical industry, whose annual growth rate showed a marked and steady fall from 14 per cent in 1972 to only 2.5 per cent in 1974. The main factor responsible for this drop was the decline of 4 per cent in the production of basic chemicals, as a result of the combined effect of the stagnation of demand, problems of energy supplies, and the liquidation of stocks accumulated in previous periods. In contrast, the production of man-made fibres and fertilizers increased at much higher rates than those of 1974.

Finally, both the non-metallic minerals and machinery-manufacturing industries expanded in 1975 at higher rates than in 1974. In the former, the higher growth rate was due to a small increase in the production of cement and, to larger extent, the high production of flat glass (which had been limited in 1974 because of maintenance work in the main factory). In spite of these improvements, however, the growth rate

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13/ The drop in production was mainly in the standard car range, and only to a lesser extent in the popular and compact ranges, which have been increasing their share of the market in recent years because of the increase in the cost of gasoline and maintenance services.

/in the

in the production of non-metallic minerals was much lower in 1975 than during the two-year period 1972-1973 when, thanks to the upsurge in construction, the production of cement rose at an average rate of almost 14 per cent. The somewhat higher rate of increase in the manufacture of machinery was due partly to the increase in the production of electrical appliances which are included in this branch (television sets, gramophones, etc.) and partly to the increase in the production of tractors and agricultural implements. In both cases the growth was linked with the expansion of demand. The demand for electrical appliances increased sharply during the second half of 1975 as a result of the policy aimed at supporting workers' consumption carried out by FONACOT. The same trend was observed in the purchases of tractors and agricultural implements, as a result of the determined agricultural development policy implemented by the Government.

(iv) Electricity. In 1975 the product of the electricity industry increased by 7.5 per cent, which was below both the 10 per cent achieved in 1974 and the average rate of over 9 per cent recorded during the period 1971-1973 (see table 3).

Although the slower rate of growth in general economic activity was instrumental in bringing about this decline, the interruptions in the supply of electricity which occurred in Jalisco, Puebla and Veracruz, as a result of the overloading of the generating stations, showed that it was also due partly to the lack of generating capacity. That capacity, after expanding at an annual average rate of 10 per cent between 1963 and 1973, increased by only 6 per cent in 1973. This is particularly important since it is believed that the present technical reserves are less than they should be.

/This situation

This situation has resulted partly from the failure to implement the Federal Electricity Commission's plans to increase generating capacity,14/ mainly because of financing difficulties. For this reason, and in order to improve the financial situation of the Commission, in August 1975, electricity tariffs for industrial and commercial use, public lighting and water pumping were increased by 30 per cent, and tariffs for domestic use were increased by 10 per cent.

3. The external sector

In 1975 the current account deficit of the balance of payments came to almost 3.9 billion dollars. This amount, which exceeded the deficit of the previous year, was equal to almost 65 per cent of the revenue from exports of goods and services.

This greater imbalance in current transactions was produced by the combined action of four main factors: the stagnation of exports of goods, the drop in income from tourism, the increase in imports of both goods and services, and the sharp increase in financial payments (see table 9).

The net inflow of capital exceeded the deficit on current account, however, so that international reserves increased by 165 million dollars.

14/ Among the principal investment projects of the Commission are the hydroelectric stations of Angostura (900,000 kW of installed capacity), Peñitas (400,000 kW) and Chocoasan (2,400,000 kW); the expansion of the hydroelectric station at Malpaso (360,000 kW) and the thermoelectric station at Tula; the Bocas complex, Veracruz; the Gómez Palacio complex, Durango; the Valle de México terminal; and the nuclear power station project at Laguna Verde.

/Table 9

Table 9

MEXICO: BALANCE OF PAYMENTS

(Millions of dollars)

	1970	1971	1972	1973	1974	1975 a/
Current account						
Exports of goods and services	2 868	3 106	3 736	4 656	6 188	6 101
Goods FOB	1 429	1 512	1 882	2 419	3 443	3 445
Services	1 439	1 594	1 855	2 238	2 745	2 657
Transport	47	61	79	85	119	126
Travel	1 171	1 317	1 493	1 751	2 250	2 150
Imports of goods and services	3 296	3 263	3 853	5 071	7 601	8 139
Goods FOB	2 264	2 183	2 625	3 691	5 826	6 291
Services	1 032	1 080	1 228	1 381	1 775	1 848
Transport	151	153	173	227	378	408
Travel	755	785	870	942	1 177	1 180
Net payments of profits and interest on foreign capital	-695	-738	-858	-1 137	-1 620	-1 921
Profits	-480	-494	-593	-751	-988	-1 186
Interest	-215	-244	-265	-386	-631	-735
Net private transfer payments	48	50	54	63	99	70
Balance on current account	-1 075	-845	-921	-1 489	-2 934	-3 888
Capital account						
Net external financing (a+b+c+d+e)	1 075	845	921	1 489	2 934	3 888
(a) Net external non-compensatory capital	769	808	1 214	2 232	3 521	
Direct investment	323	307	301	374	557	
Long- and medium-term loans	893	978	1 208	2 483	3 320	
Amortization payments	-573	-515	-609	-914	-1 026	
Short-term liabilities (net)	119	31	304	280	653	4 053
Official transfer payments	7	7	8	8	17	
(b) Domestic non-compensatory capital or assets	-89	-55	-274	-578	-479	
(c) Errors and omissions	425	234	160	-24	-78	
(d) Allocation of SDRs	45	40	42	-	-	-
(e) Net compensatory financing (minus sign signifies an increase)	-75	-182	-220	-14	-30	-165
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-
Foreign exchange reserves (minus sign signifies an increase)	4	-171	-190	-154	-70	-228
Gold reserves (minus sign signifies an increase)	-31	29	12	13	41	6
SDRs (minus sign signifies an increase)	-48	-40	-42	-	-1	57

Sources: 1970-1974: International Monetary Fund, Balance of Payments Yearbook, vol. 27;
1975: ECLA, on the basis of official statistics.

a/ Estimates.

/(a) External

(a) External trade

(i) Exports. In 1975 the value of exports fell slightly (1.4 per cent), thereby interrupting the extraordinarily sharp upward trend in the sector which started in 1971 and during which the value of export doubled (see table 9). The drop occurred in spite of the increase in the unit value of exports and was therefore due exclusively to the reduction in volume of more than 10 per cent. The volume declined markedly in the first half of 1975 under the influence of the contraction in the volume of export of services; the quantum of the sale of goods, on the other hand, only fell by a little more than 3 per cent (see table 10).

The drop in the volume of exports was due basically to the decrease in external demand caused by the crises in the industrialized countries (and in particular the depression in the United States) and the re-emergence in some of them of protectionist practices. In some cases, however, the drop in export volumes was dictated by a longer-term trend linked to the price structure, which favoured the allocation of resources to production for the domestic market.

As may be seen from table 11, the stagnation in the value of exports of goods had highly diverse effects on the different main export groups.15/

Thus, while exports of minerals fell by almost 16 per cent as a result of the drop in external demand and the fall in international prices for copper, lead and zinc, sales of crude petroleum increased from less than 40 million dollars in 1974 to 435 million in 1975, thereby preventing the total value of sales of goods from falling in absolute terms.

15/ The analysis which follows does not take account of the exports of the international subcontracting enterprises.

/Table 10

Table 10

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

(Percentage)

	1971	1972	1973	1974	1975
Exports of goods					
Value	5.8	24.4	28.6	42.3	0.1
Volume	6.9	13.0	10.8	-	-3.2
Unit value	-1.0	10.1	16.1	42.3	3.3
Imports of goods					
Value	-3.6	20.3	40.6	57.9	8.0
Volume	-7.3	13.7	20.5	21.4	-1.0
Unit value	4.0	5.8	16.7	30.1	9.0
Terms of trade	-4.8	4.1	-0.7	9.5	-5.2

Source: ECLA, on the basis of official figures.

/Table 11

Table 11

MEXICO: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars at current prices (FOB)			Percentage breakdown		Annual growth rates	
	1973	1974	1975	1973	1975	1974	1975
Declared exports	1 821	2 665	2 715	100.0	100.0	46.3	1.9
Agricultural sector	769	872	840	42.2	30.9	13.5	-3.7
Primary products	153	124	167	8.4	6.1	-18.8	34.5
Processed products	616	748	673	33.8	24.8	21.5	-10.0
Extractive industries	92	196	569	5.1	20.9	112.8	190.1
Crude petroleum	-	38	435	-	16.0	-	1 053.8
Other minerals	92	158	134	5.1	4.9	41.9	-15.6
Manufacturing	893	1 507	1 194	49.0	44.0	68.8	-20.8
Products not elsewhere classified	67	90	113	3.7	4.2	33.0	26.3
Revaluation	249	185	143	-	-	-26.0	-22.5
Total a/	2 071	2 850	2 859			37.6	0.3

Source: Ministry of Industry and Trade, Statistics Department.

a/ Excluding exports of international subcontracting industries.

/The recession

The recession in the industrialized economies had an even greater impact on exports of manufactures, which provide approximately half of the income obtained from sales of goods. After a period of steady growth which ended in 1974, during which the value of exports of industrial goods rose by almost 70 per cent, they fell in 1975 by more than one-fifth (see table 11). The drops in the value of exports of cars, motor vehicle spares and components, fertilizers, textiles, clothing and food were of particular significance.16/ In contrast, exports of machinery and electronic appliances swung upwards again, mainly as a result of the flexibility with which they could meet demand through the combined operations of the Mexican subsidiaries of the international corporations and their parent companies.

The decline in external demand and the drop in production of certain agricultural goods also caused a drop of almost 4 per cent in exports of agricultural products. Sales of cattle and meat fell from 87 million dollars in 1974 to 35 million in 1975, mainly as a result of the measures to contain consumption imposed in the United States. Exports of cotton also fell substantially, not only because of the drop in prices, but also because of the sharp decline in production. In contrast, the value of coffee sales increased as a result of the increase of almost 19 per cent in the volume exported and a small rise in prices; the same was true of exports of tomatoes, whose price improved substantially.

The economic recession in the United States also interrupted the steady and marked growth in the exports of the international subcontracting enterprises. These exports, the value of which more than quadrupled between 1971 and 1974, stagnated almost completely in 1975,17/ (see table 9).

16/ The value of exports fell by 90 per cent in the case of cars, 93 per cent in the case of fertilizers, 36 per cent in the case of cotton yarn and textiles, and 47 per cent in the case of clothing. The decline in exports of foodstuffs for its part, was caused by lower production, a drop in external demand, and an increase in sales to the domestic market, induced by, among other factors, the backing given to purchases by CONASUPO.

17/ The exports of the subcontracting enterprises showed, however, clear signs of recovery during the last quarter of 1975.

/The unfavourable

The unfavourable effects of the international conjuncture were also evident in income from tourism, which fell for the first time in the last 20 years. The reduction of approximately 5 per cent was due mainly to the fact that the number of United States tourists visiting the country was 4 per cent lower than in 1974, while their average expenditure fell by more than 2 per cent. However, in the second half of the year this income began to rise again as the result of the recovery in the United States economy. Thus, whereas in the first six months of 1975 this income was 10 per cent lower than in the corresponding period of 1974, in the second half of the year it was 1 per cent higher than that of the July-December period of the previous year. Since the expenditure on foreign travel by Mexican travellers increased at the same time, however, the surplus on tourist transactions dropped from approximately 510 million dollars in 1974 to a little more than 400 million in 1975.

On the other hand, border transactions showed a more favourable balance than in the previous year, mainly as a result of the slower rate of growth of Mexican expenditure abroad in 1975 (see table 9).18/

(ii) Imports. Following their extraordinary expansion during the period 1972-1973, when their value doubled, in 1975 imports of goods increased by 8 per cent. Since at the same time their unit value increased on average by 9 per cent, their volume was thus slightly less (see table 10).

This reduction in quantum was mainly the result of the lessening of fears that rates of inflation would be as high as those of 1974, with consequent use of stocks of imported goods accumulated in 1974, and a slower rate of growth of overall economic activity. Other factors which contributed to this were progress in the production of certain goods (particularly petroleum and some agricultural products)

18/ This slower rate of increase can be explained by the reduction in employment in the international subcontracting enterprises and consequently a reduction also in income from them. This occurred in spite of the fact that the relationship between the rates of inflation of the United States and Mexico favoured spending abroad.

/and the

and the measures taken in August 1975 to improve the trade balance. To this end, the authorities selectively increased customs tariffs, strengthened the machinery for granting import licences, and introduced rules and procedures designed to secure greater rationalization of public sector imports. As a result of these measures, the annual rate of growth of the value of imports fell from almost 12 per cent in the first half of 1975 to 6 per cent in the final six months of the year.

This more gradual growth had, however, highly unequal effects on the main groups of goods. Thus, after a record increase of 20 per cent in 1974, purchases of raw materials declined by 5 per cent in 1975 due to the drop in the overall economic growth rate and the liquidation of part of the stocks accumulated in the previous year. The drop was considerably higher (10 per cent) in the case of imports of durable consumer goods, demand for which was also satisfied partly from stocks in 1975. In contrast, imports of non-durable consumer goods increased slightly following the enormous expansion experienced in 1974. Continued public spending on the infrastructure and basic industries (iron and steel, electricity, railways, and petroleum) was a decisive factor in the acceleration of the growth rates of imports of capital goods.

The increase in public sector purchases of machinery and equipment, together with the fact that in 1975 there was a need to increase - although at a slower rate than in the past - imports of consumer goods of agricultural origin, were reflected in the much higher increase in the growth rate of public sector imports compared with those of the private sector (see table 12).

(b) The balance of payments

The final result of the changes in exports and imports of goods and services was a marked increase in the trade deficit, from 1.4 billion dollars in 1974 to 2 billion in 1975.

/Table 12

Table 12

MEXICO: VALUE AND BREAKDOWN OF IMPORTS OF GOODS

	Millions of dollars at current prices (CIF)				Percentage breakdown 1975	Annual growth rates		
	1970	1973	1974	1975		1971-1973	1974	1975
Consumer goods	...	437	802	793	12		84	-1
Non-durable		291	629	637	10		116	1
Durable		146	173	155	2		19	-10
Intermediate goods	...	1 690	2 882	2 727	41		71	-5
Capital goods	...	1 323	1 705	2 368	36		29	39
Goods not elsewhere classified		365	669	693	11		84	4
Public sector	558	1 223	2 202	2 498	38	30	80	13
Private sector	1 769	2 591	3 855	4 082	62	14	49	6
Total a/	2 327	3 814	6 057	6 580	100	18	59	2

Source: Ministry of Industry and Trade of Mexico.

a/ Excluding exports by international subcontracting industries.

/At the

At the same time, the imbalance caused by net factor payments continued to increase. The hardening of the terms for obtaining external funds resulted in an increase of more than 100 million dollars in net interest payments, while remittances of profits increased by 200 million dollars. The deficit on the factor payment account was therefore more than 1.9 billion dollars in 1975, a figure 18 per cent higher than that of the previous year.

Because of this and of the increase in the trade deficit, the current account deficit came to almost 3.9 billion dollars, 33 per cent higher than in 1974.

Thanks to its traditional links with the international financial markets, Mexico nevertheless had no difficulty in financing the deficit on current account. The inflow of non-compensatory capital amounted to more than 4 billion dollars, and exchange reserves increased by 165 million dollars (see table 9). In particular, the credits obtained by the public sector expanded considerably, so that the net use of official funds was almost 50 per cent higher in 1975 than in 1974, and more than 5 times as high as in 1972. This marked increased helped to finance the sharp upturn in public investment and the major expansion of development programmes in the agricultural sector.

4. Prices and anti-inflationary policies

After three years of continued rapid acceleration, inflation slackened markedly in 1975. The annual average variation in consumer prices fell from 23 per cent in 1974 to 17 per cent in 1975, and wholesale prices declined even more sharply, from 23 per cent in 1974 to 11 per cent in 1975 (see table 13).

/Table 13

Table 13

MEXICO: EVOLUTION OF DOMESTIC PRICES

(Percentage annual growth rates)

	1971	1972	1973	1974	1975
Consumer price index (1968 = 100)					
Mexico City	5.7	5.1	11.2	22.5	16.9
National	5.4	5.0	12.1	23.7	15.0
Food	4.7	4.0	15.8	29.9	12.6
Clothing	6.0	6.6	17.1	17.8	14.8
Wholesale price index					
Mexico City (1954 = 100)	3.7	2.8	15.7	22.5	10.5
Articles of general consumption	4.6	3.1	14.8	23.4	11.3
Articles generally produced	2.2	2.3	17.3	21.0	9.2
Raw materials	1.0	3.5	24.5	20.7	9.0
Fuel and energy	7.2	0.1	4.3	31.1	7.7
Vehicles and accessories	-0.1	0.3	3.0	2.8	15.1

Source: ECLA, on the basis of official figures.

/However, the

However, the trend in consumer prices over the year differed from that of wholesale prices. Whereas the rate of increase of the former fell quite systematically, that of wholesale prices, after a sharp drop during the first quarter, began to rise again rather markedly during the remainder of the year.19/

As in most Latin American countries, the drop in the rate of increase in prices was linked partly with the weakening of external inflationary pressures. Thus, in 1975 the increases in the unit values of both imports (9 per cent) and exports (3 per cent) were well below those recorded in 1974 (30 and 42 per cent respectively). As a result, there was a marked reduction in the incidence of one of the factors which had exercised the greatest pressure on costs in 1974.

Furthermore, the wage and price control policies helped to ease inflationary pressures. As regards wage increases, these were staggered over the year, and in some sectors they were not sufficient to maintain par purchasing power. In the case of certain articles whose prices were fixed or controlled by the authorities, the Government tried to delay the inflationary impact which would have stemmed from automatic adjustments in prices in keeping with the increases in costs. Since this policy was applied in respect of intermediate goods in wide use, it was a further factor helping to cushion the increase in costs.

The price policy was also designed to prevent inflationary pressures from having a strong impact on the prices of essential consumer goods. For this reason (and also because of the smaller increases in the prices of certain imported products in 1975) the sub-indexes for expenditure on food and clothing showed increases lower than those of the general index (see table 13).

19/ Thus, the variation in the wholesale price index over twelve months fell from 13 per cent in December 1974 to somewhat less than 7 per cent in March 1975, but it rose to almost 12 per cent in June and to 13.4 per cent towards the end of 1975.

/At the

At the same time, the authorities took steps to change the relative price system in favour of the rural sector and to see that prices of goods produced by State enterprises were kept more closely in line with changes in costs. As a result of this, the prices of goods of agricultural origin, petroleum and petroleum products, and transport and communications showed higher than average increases.

Inflation eased in spite of the expansionary nature of fiscal policy in 1975. In order to offset the contraction in external demand and the sluggish growth of investment and private consumption, the Government increased total spending by almost 50 per cent. The growth in investment in physical assets was particularly noteworthy, since after falling by 4 per cent in 1974 it increased by 70 per cent in 1975 (see table 14).

The rate of increase in current expenditure was also high (44 per cent), but not as high as that of current income, which increased sharply when the tax and tariff changes approved at the end of 1974 came into force. As a result, the downward trend in government savings was reversed during the period January-September 1975, and savings were in fact 130 per cent higher than those of the same period in the previous year. Even so, the enormous increase in capital expenditure meant that only a small proportion (10 per cent) of such expenditure was financed with savings on current account. For the same reason, the total government deficit continued to increase, and during the early months of 1975 it exceeded that of the corresponding period in 1974 by more than 60 per cent (see table 14).

From the point of view of monetary policy, this sharp increase in the fiscal deficit meant considerable expansionary pressure on top of that generated by the increase in costs of production. As a result the monetary authorities faced a difficult dilemma in 1975: on the one hand they had to consider the need for increasing the finance provided by the banking system in order to cover the increase in government requirements, the increase in costs, and the real increase in production, while on the other, they had to weigh the desirability of limiting the expansion of the means of payment in order to help to reduce the rate of inflation and the imbalance in external transactions.

/Table 14

Table 14

MEXICO: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos at current prices			1974 (January - September)	1975 (January - September)	Annual growth rates		
	1970	1973	1974			1971-1973	1974	1975
1. Current income	33 868	53 822	70 707	50 972	74 113	16.8	31.4	45.4
Tax revenue	29 792	47 979	65 712	47 286	69 158	17.2	37.0	46.3
Direct	16 102	26 982	36 721	26 516	36 655	18.7	36.1	38.2
Indirect	10 165	17 144	23 696	16 959	26 893	18.9	38.2	58.6
On exports	420	470	486	385	498	3.8	3.5	29.3
On imports	3 105	3 383	4 809	3 426	5 112	2.9	42.1	49.2
Non-tax revenue	4 076	5 843	4 995	3 686	4 955	12.8	-14.5	34.4
2. Current expenditure	27 925	55 972	74 258	49 851	71 538	26.1	32.7	43.5
Administration costs	12 541	21 716	30 559	18 641	26 835	20.0	40.7	44.0
Other current expenditure	15 384	34 256	43 699	31 210	44 703	30.6	27.6	43.2
3. Saving on current account (1 - 2)	5 943	-2 150	-3 551	1 121	2 575	-	-65.2	129.7
4. Capital expenditure	12 278	25 265	25 601	14 996	25 144	27.2	1.3	67.7
Investment in physical assets	9 821	20 816	19 952	11 438	19 488	28.5	-4.1	70.4
Other capital expenditure	2 457	4 449	5 649	3 558	5 656	21.8	27.0	59.0
5. Total expenditure (2 + 4)	40 203	81 237	99 859	64 847	96 682	26.5	22.9	49.1
6. Fiscal deficit (or surplus) (3 - 4)	-6 335	-27 415	-29 152	-13 875	-22 569	63.0	6.3	62.7

Source: Bank of Mexico.

/In practice,

In practice, the monetary authorities tried to achieve the first of these objectives, by promoting the tapping of resources by the banks and maintaining the high bank liquidity ratio established in previous years. In this way, it was possible to channel generous flows of funds towards the public sector without cutting down financial support to the private sector.

Thus, during the 12 months ending in November 1975, total financing provided by the banking system as a whole increased by almost 28 per cent, whereas the national consumer price index only rose by 15 per cent. In real terms, therefore, there was a considerable expansion in credit in contrast to the squeeze that took place during the corresponding period in 1974 when prices increased at a slightly faster rate (24 per cent) than that of financing (22 per cent) (see table 15).

As in 1974, the highest rate of expansion of financing was recorded by the Bank of Mexico, mainly because of the support that it had to give to the Federal Government, although as the year elapsed it was clear that less use was being made of this means of expanding the money supply than in 1974.

The funds provided by the remainder of the banking system to public and private borrowers also increased at a higher rate than in 1974, particularly in the closing months of the year. This was particularly noticeable in the case of the savings banks and finance companies, where most of the resources attracted by income-bearing instruments were concentrated.

The marked expansion in funds provided by the banking system was also accompanied by a considerable increase in the means of payment, quasi-money, and deposits of foreign currency.

The means of payment increased in the 12 months ending in November 1975 by 22 per cent, compared with the rate of 17 per cent recorded for the corresponding period of the previous year. At the same time the growth rate of the product fell and inflation declined, so that during 1975 the velocity of the circulation of money slowed down considerably.

/Table 15

Table 15

MEXICO: MONETARY POSITION

	End-year balance (billions of pesos)			Annual growth rates		
	1970	1973	1974	1971-1973a/	1974	1975b/
Total credit provided by the banking system		304.4	378.7	17.4	24.4	27.5
Bank of Mexico		88.5	123.6	26.8	39.7	39.3
Other national institutions		89.6	114.1	17.4	27.3	28.3
Private institutions		126.3	141.0	12.3	11.6	17.8
Deposit Banks		25.5	29.8	7.2	16.9	12.5
Savings Banks		11.2	12.9	17.5	15.2	26.2
Finance Companies		68.9	75.2	11.4	9.1	18.6
Mortgage Companies		19.3	21.5	20.9	11.4	18.3
Other private institutions		1.4	1.6	12.8	14.3	12.6
Tapping of monetary resources by the banking system	204.4	322.6	389.1	16.4	20.6	26.6
National currency	169.4	261.7	309.1	15.6	18.1	25.1
Money	49.0	79.9	97.5	17.6	22.0	21.9
Quasy-money	95.2	140.9	164.9	13.9	17.1	31.2
Savings deposits	10.1	16.6	20.0	18.2	20.4	19.6
Bonds	20.9	33.5	35.3	17.0	5.4	31.5
Notes	27.3	45.4	51.3	18.4	13.0	29.8
Mortgage bonds	13.8	22.8	19.6	18.2	-14.0	6.3
Securities and debentures	10.7	17.3	20.2	17.4	16.8	41.5
Certificates of deposit	-	-	15.0	-	-	-
Other	12.4	5.3	3.5	-24.6	-34.0	-28.2
Capital and other deposits	25.2	41.0	46.7	17.6	13.9	8.9
Foreign exchange	35.0	60.9	80.0	20.2	31.4	32.2

Source: Bank of Mexico.

a/ In the case of financing the rates correspond to the years 1972 and 1973 only.

b/ Rates calculated by comparisons the January-November figures for 1974 and 1975.

/The rate

The rate of increase in quasi-money (31 per cent) was even higher than that of money and almost double the 1974 rate. This was considerably influenced by the policy of maintaining high rates of interest, the attraction of which increased as the rates of interest paid by the main international financial centres fell and the rate of inflation dropped.

Expansion of foreign currency liabilities was also substantial (32 per cent). However, it was lower than that recorded during the corresponding period for 1974 (37 per cent) and its rate tended to decline over the year.

NICARAGUA

1. The overall picture

In 1975 there was a sharp decline in the growth rate of the Nicaraguan economy. This contrasted with the rapid expansion in the gross domestic product in the previous year as a result of the revitalizing impact of the reconstruction work following the damage caused by the earthquake in 1972. At the same time, however, there was a significant drop in the rate of inflation in 1975 and the deficit on current account in the balance of payments was smaller.

In 1975 the product grew by 1 per cent, while gross income and the per capita product fell by 3 and 2.3 per cent respectively (see table 1).

This loss of impulse coincided with a decline in construction activity and scanty increases in agricultural and manufacturing production. The growth of services as a whole was also sluggish.

After the vigorous expansion shown by the external sector in 1973 and 1974, 1975 was marked by drops of 4 per cent in exports of goods and services, of 10 per cent in imports, and of 22 per cent in the quantum of imports.

The decrease in imports helped to reduce the deficit on the current account of the balance of payments by more than 40 million dollars, but even so, the deficit in 1975 was approximately 3 times higher than that of 1973. Inflows of capital were a little higher than the deficit on current account, however, so that international reserves increased.

It is estimated that the implicit deflator of the gross domestic product rose by 12 per cent in 1975, compared with an increase of 18 per cent in the previous year. Factors which influenced the reduction in the rate of increase of prices were the decrease in imported inflation and the slackening of the pressure of demand following the dropping off of reconstruction activities. A further factor was the highly restrictive monetary policy followed by the Central Bank, which brought about a decrease of more than 10 per cent in the money supply (see table 1).

/Table 1

Table 1

NICARAGUA: MAIN SHORT-RUN ECONOMIC INDICATORS

(Annual growth rates)

	1971-1973	1974	1975
Gross domestic product	4.0	9.2	1.0
Gross income a/	4.1	8.6	-3.0
Per capita gross domestic product	0.7	5.6	-2.3
Gross fixed investment	6.3	37.0	-8.2
Value of exports	20.5	20.9	-3.9
Value of imports	22.6	57.5	-10.3
Terms of trade	0.9	-4.4	-17.8
Balance on current account b/	-36.0c/	-255.0	-212.0
Variation in reserves b/	23.0c/	-13.0	13.0
Prices (implicit deflator of the gross domestic product)	6.0	18.0	12.0
Money	25.7	16.5	-13.1d/
Current income of government	17.2	46.1	0.3
Total expenditure of government	18.5	84.7	0.5
Fiscal deficit/total expenditure of government a/	19.5	32.1	32.2

Source: ECLA, on the basis of official statistics.

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

b/ In millions of dollars at current prices.

c/ Average for three-year period 1971-1973.

d/ Variation from August to August.

e/ Percentage.

/2. Recent

2. Recent economic trends

(a) The global trends in the Nicaraguan economy in 1975 provided few grounds for satisfaction, since there was an increase of only 1 per cent in the gross domestic product and a drop of 2.3 per cent in the per capita product. The first rate contrasts sharply with that of 9.2 per cent recorded in the previous year, and it is even below the average 4 per cent growth rate of the three-year period 1971-1973, when economic activity was affected by the 1972 earthquake and two consecutive years of drought (see tables 1 and 2).

Furthermore, when account is taken of the terms-of-trade effect, which was negative in 1975, it can be seen that gross income fell by 3 per cent.

The combined action of both internal and external factors was responsible for the trends outlined. As regards the former, it may be noted that adverse climatic conditions affected the production of cotton and of crops for domestic consumption, while the sharp decline in construction activity and in private investment were also important internal factors. Among the external factors, the most noteworthy was the negative impact of the unfavourable world economic situation, which caused reductions in the amount and unit value of exports and a significant increase in the unit value of imports.

The total supply of goods and services fell by 5.4 per cent as a result of a reduction of more than 21 per cent in imports, which had been increasing at the relatively high rate of over 15 per cent annually during the period 1971-1974. In turn, the drop in imports was mainly the result of the unfavourable trends in the economy and in the balance of payments of the country, and also of the accumulation of stocks imported in 1974 and in previous years, a large part of which was used during 1975 as a result of the changes in domestic and external conditions.

As regards total demand, domestic demand dropped by 6.4 per cent while export demand fell by 1.1 per cent.

/Table 2

Table 2

NICARAGUA: TOTAL SUPPLY AND DEMAND

	Millions of córdobas at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	1974	1975[a]	1970	1975[a]	1971-1973	1974	1975[a]
Total supply	7 499	10 153	9 607	126.8	131.0	6.4	12.3	-5.4
Gross domestic product	5 912	7 261	7 333	100.0	100.0	4.0	9.2	1.0
Imports	1 587	2 892	2 274	26.8	31.0	14.6	21.1	-21.4
Total demand	7 499	10 153	9 607	126.8	131.0	6.4	12.3	-5.4
Domestic demand	6 046	8 185	7 661	102.3	104.5	6.6	11.8	-6.4
Gross domestic investment	1 025	1 931	1 311	17.3	17.9	11.7	35.3	-32.1
Gross fixed investment	895	1 473	1 353	15.1	18.5	6.3	37.0	-8.2
Total consumption	5 021	6 254	6 350	85.0	86.6	5.5	6.2	1.5
General government	497	600	606	8.4	8.2	1.6	15.2	1.0
Private	4 524	5 654	5 744	76.6	78.4	5.9	5.3	1.6
Exports	1 453	1 968	1 946	24.5	26.5	5.8	14.4	-1.1

Sources: 1970-1974: ECLA calculations on the basis of figures provided by the Central Bank of Nicaragua; 1975: ECLA estimates on the basis of preliminary official data.

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

a/ Preliminary figures.

/Private consumption

Private consumption increased by 1.6 per cent, a rate higher than that of the gross domestic product but lower than the annual average of approximately 6 per cent recorded during the period 1971-1973. The sluggish increase in private consumption was matched in the productive sphere by the drop in the production of grains, which form the staple diet of the population.

For its part, general government consumption increased by only 1 per cent, compared with an increase of 15 per cent in 1974. This is to be explained by the contraction in real terms of current government income and by the fact that needs in connexion with the reconstruction of essential services destroyed by the earthquake were fewer.

The pattern of changes in stocks was an important factor in the course taken by investment. Thus, the reduction in stocks in 1975 - following two consecutive years of stockpiling to replace stocks damaged by the earthquake and as a hedge against rising prices - explains why gross domestic investment fell by 32 per cent, whereas the reduction in fixed capital formation was 8.2 per cent. The coefficient of fixed investment in terms of the gross domestic product was 18.5 per cent. This reduction in fixed investment followed two years of rapid growth of approximately 35 per cent per year, which was largely due to the reconstruction work required to repair the damage caused by the earthquake and the derived demand for investment to increase the installed capacity of the industries producing construction inputs. Therefore, as the urgency and the scale of the reconstruction work diminished, particularly in the city of Managua, the multiplier effect of the investment determined by the two factors in question became smaller.

The contraction in the volume of exports contrasted with the sharp growth recorded in 1974 and also with the steady growth maintained during the period 1971-1973. The external and internal factors responsible for this are identified below.

/(b) Sectoral

(b) Sectoral developments

Goods-producing activities as a whole generated a gross domestic product barely 0.4 per cent higher than in 1974. Of these activities, agriculture increased by 0.8 per cent, the construction industry declined by 2.2 per cent, and manufacturing expanded by 0.6 per cent (see table 3).

In agriculture, the prime determining factor was the performance of cotton production. The fall in world cotton prices from the third quarter of 1974 onwards, together with the scanty rainfall in the months of May and June 1975, led to a reduction in the area under cultivation of 40 thousand hectares (a 16 per cent reduction in the area sown in 1974), and it is estimated that production fell by approximately 12 per cent as a result. There were increases in the production of coffee, bananas, and sugar cane which made up for the drops in cotton, beans, and maize production and the stagnation in the output of rice and sorghum, but it is calculated that the production of staple grains as a whole decreased by 0.3 per cent.

The production of green coffee increased from 848,500 to 960,000 quintals, which reflects an increase in yield from 7.1 to 8 quintals per manzana, as a result of the implementation of national production promotion campaigns. These campaigns advocate a changeover to higher-yielding varieties and more intensive use of fertilizers and insecticides. The area planted with sugar cane showed an increase of some 2,400 hectares over the area cultivated in 1974 (52,000 hectares), in response to the high prices for sugar in the world market.

In the stockraising sub-sector, the increase in production was 8 per cent. Slaughtering of cattle increased from 220,000 to 254,000 head, mainly as a result of the situation in the last quarter, when world beef prices rose to the highest level of the year. Slaughtering of pigs increased from 289,000 to 304,000 head as a result of the government programme, launched in 1972, under which technical assistance is provided and credit is made available to small and medium-sized farmers by the official banking network for the purpose of improving herds and animal husbandry techniques.

/Table 3

Table 3

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

	Millions of córdobas at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	1974	1975[a]	1970	1975[a]	1971-1973	1974	1975[a]
Agriculture	1 432	1 793	1 807	26.3	26.8	4.6	9.3	0.8
Mining	34	41	39	0.6	0.6	3.8	9.4	-4.1
Manufacturing	955	1 188	1 195	17.5	17.8	4.4	9.5	0.6
Construction	175	292	286	3.2	4.2	6.2	39.3	-2.2
Subtotal goods	2 596	3 314	3 327	47.6	49.4	4.6	11.5	0.4
Electricity, gas and water	121	140	163	2.2	2.4	-3.2	28.0	16.3
Transport and communications	299	386	378	5.5	5.6	6.3	7.2	-2.0
Subtotal basic services	420	526	541	7.7	8.0	3.8	12.1	2.9
Commerce	949	1 223	1 199	17.4	17.8	6.3	7.2	-2.0
Real estate	484	443	484	8.9	7.2	-4.5	5.1	9.3
Communal, social and personal services	1 004	1 156	1 179	18.4	17.5	3.0	5.4	2.0
Subtotal other services	2 437	2 822	2 862	44.7	42.6	3.0	6.1	1.4
Total gross domestic product	5 452	6 662	6 730	100.0	100.0	4.0	9.2	1.0

Sources: 1970-1974: ECLA calculations on the basis of figures provided by the Central Bank of Nicaragua; 1975: ECLA estimates on the basis of preliminary official data.

a/ Preliminary figures.

/Within a

Within a general context of slow growth, the performance of the different branches of manufacturing varied depending on the end-use of the product. Thus, manufactures for sale in international markets - processed foods in the case of Nicaragua - showed relatively high increases in production, while the manufacture of construction materials and of other articles for domestic consumption decreased.

The production of foodstuffs for export (sugar, shrimp and lobster) benefited from the unusually favourable world prices for those goods. In the first case, specifically, full use was made of the installed processing capacity of the factories and the area under sugar cane cultivation was expanded. In contrast, the low levels in the production of manufactured articles for domestic consumption, and particularly products such as metallic and non-metallic minerals, were due to the drop in construction activity.

This drop, coming as it did after the high levels recorded in 1974, when construction increased by almost 40 per cent, was mainly the result of the completion of the tasks of repairing the infrastructure and houses damaged by the earthquake in 1972. There was also, however, a drop in the rate of construction of new houses and commercial establishments, owing to the deterioration in the overall economic situation and the restrictions imposed on the expansion of credit provided by the financing system.

As regards the other branches of economic activity, the basic services sub-sector increased by almost 3 per cent, in spite of the drop recorded in transport and communications, while those branches which together provide what are classed as "other services" increased by 1.4 per cent.

3. The external sector

In 1975 the value of exports of goods fell by 2.5 per cent (to 371 million dollars), compared with the increase of 37 per cent recorded in 1974 and with the average annual increase of 16 per cent for the period 1971-1973. This change in trend is explained mainly by the drop of 5.5 per cent in unit value, since the export volume increased by 3 per cent (see tables 4 and 5).

/Table 4

Table 4

NICARAGUA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars at current prices (FOB)				Percentage breakdown		Annual growth rates		
	1970	1973	1974[a]	1975[b]	1970	1975	1971-1973	1974	1975
Main export products	108.6	172.7	225.8	232.0	61.1	62.5	16.6	30.7	2.7
Cotton	34.2	63.2	135.9	98.1	19.2	26.4	22.6	115.0	-27.8
Sugar	9.8	13.5	12.3	44.8	5.5	12.1	11.2	-8.9	264.2
Green coffee	32.1	44.3	46.1	46.5	18.1	12.5	11.3	4.1	0.9
Fresh meat	26.6	44.5	21.9	27.9	15.0	7.5	18.7	-50.8	27.4
Shrimp and lobster	5.9	7.2	9.6	14.7	3.3	4.0	6.9	33.3	53.1
Other products	69.2	105.3	154.8	139.0	38.9	37.5	15.0	47.0	-10.3
Total	177.8	278.0	380.6	371.0	100.0	100.0	16.1	36.9	-2.5

Source: ECLA, on the basis of official statistics.
a/ Preliminary figures.
b/ Estimates.

/Table 5

Table 5

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

(Percentage)

	1971	1972	1973	1974	1975
Exports of goods					
Value a/	4.9	33.2	11.9	36.9	-2.5
Volume	6.4	17.5	-1.0	8.6	3.1
Unit value a/	-1.4	13.5	13.0	26.1	-5.5
Imports of goods					
Value a/	6.6	8.2	59.5	65.2	-10.0
Volume	5.4	5.2	34.8	25.3	-21.7
Unit value a/	1.2	2.8	18.4	31.8	15.0
Terms of trade	-2.6	10.4	-4.6	-4.4	-17.8

Source: ECLA, on the basis of official statistics.

a/ Calculated on the basis of figures in dollars at current prices.

/In the

In the case of cotton, which is the principal export item, the value of sales abroad fell by almost 28 per cent as a result of a drop of 30 per cent in the average price and an increase of only 3 per cent in the quantum. A large part of the cotton harvest was exported in the early months of 1975 at around 33 cents per pound, which was a relatively low price, since in the second half of the year the world price rose to over 40 cents.

Other export items helped, to a large extent, to make up for the reduction mentioned above. In particular, exports of sugar increased to approximately 45 million dollars - almost 3 times the figure for 1974 - as a result of the sharp increase in world prices for that product: according to estimates, the unit value of sugar rose by 166 per cent and the quantity exported by 38 per cent. In addition, exports of shrimp and lobster increased by 53 per cent, and those of fresh meat by a little over 27 per cent, the quantum in this latter case being almost 30 per cent higher, whereas the average price fell by 2 per cent.

Exports of coffee showed similar figures in both 1974 and 1975, although in 1975 the quantity sold was 22 per cent greater. The average price dropped by approximately 18 per cent because most of Nicaragua's exports were made during the early part of the year, when world prices were depressed and the loss of harvests in Brazil had not yet taken place.

Finally, the value of sales of the remaining export products fell by 10 per cent, whereas in 1974 it had increased by 47 per cent. This drop can be attributed to the fact that exports from the country to the Central American Common Market in 1975 stagnated at 92 million dollars, which was the same figure as the year before.

As regards imports of goods, there was a drop of 10 per cent in the total value - which came to 486 million dollars - as a result of an increase of 15 per cent in unit value and a drop of 22 per cent in volume.

/In addition

In addition to the reasons mentioned above, which affected the overall performance of imports, it may be mentioned that imports of goods dropped especially in the case of inputs for construction, manufacturing and agriculture. In contrast, imports of fuels increased by approximately 25 per cent, while there was practically no change in imports of consumer goods.

Furthermore, it is estimated that imports of goods from the Central American Common Market fell from 130 to 110 million dollars, mainly because purchases of manufactured articles decreased.

The variation in the unit values of exports and imports of goods led to a deterioration of almost 18 per cent in the terms of trade, which had already fallen by an average of 4.5 per cent a year in the two-year period 1973-1974.

Exports and imports of services fell by almost 11 per cent, thus reducing the trade deficit on services from 55 million dollars in 1974 to 48 million in 1975 (see table 6).

Since the merchandise trade deficit, for its part, fell from 159 million dollars to 115 million, the final result was that the deficit on trade in goods and services fell from 214 million dollars in 1974 to 163 million in the following year. This change was mainly responsible for the reduction in the current account deficit of the balance of payments from 255 to 212 million dollars between 1974 and 1975, after allowing for the changes in payments of profits and interest on foreign capital and in income from private transfers.

The current account deficit in 1975 was almost entirely covered by the net inflow of non-compensatory capital, which amounted to approximately 200 million dollars. Of this sum, almost 80 per cent was official capital and the remaining 20 per cent corresponded to private loans.

In addition, recourse was had to net compensatory loans in the amount of 25 million dollars, which financed that part of the current deficit not covered by the inflow of non-compensatory capital.

/Table 6

Table 6

NICARAGUA: BALANCE OF PAYMENTS

(Millions of dollars at current prices)

	1970	1972	1973	1974	1975[a/]
Current account					
Exports of goods and services	215	291	378	457	439
Goods FOB	178	249	278	381	371
Services	37	42	100	76	68
Transport	10	10	10	23	19
Travel	13	14	12	19	18
Imports of goods and services	231	268	426	671	602
Goods FOB	178	205	327	540	486
Services	54	63	99	131	116
Transport	24	25	37	67	60
Travel	15	17	17	31	28
Net payments of profits and interest on foreign capital	-29	-36	-46	-57	-62
Profits	-23	-25	-31	-28	-30
Interest	-6	-12	-16	-29	-32
Net private transfer payments	3	4	40	16	13
Balance on current account	-42	-9	-54	-255	-212
Capital account					
Net external financing (a+b+c+d+e)	42	9	54	255	212
(a) Net external non-compensatory capital	54	45	150	176	
Direct investment	15	10	13	16	
Long- and medium-term loans	41	61	120	131	
Amortization payments	-10	-19	-16	-20	
Short-term liabilities (net)	4	-10	23	32	200
Official transfer payments	3	3	17	18	
(b) Domestic non-compensatory capital or assets	-3	-9	-78	47	
(c) Errors and omissions	-1	-6	-	8	
(d) Allocation of SDRs	3	3	-	-	-
(e) Net compensatory financing (minus sign signifies an increase)	-11	-24	-25	24	12
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	10	5	23	17	31
Amortizations payments	-14	-7	-10	-7	-6
Foreign exchange reserves (minus sign signifies an increase)	-4	-18	-39	13	-15
Gold reserves (minus sign signifies an increase)	-2	-	-	-	-
SDRs (minus sign signifies an increase)	-1	-3	1	-	2

Source: International Monetary Fund, Balance of Payments Yearbook, vol. 27.

a/ ECLA, estimates based on official data.

4. Price trends and the fiscal and monetary situation

Price trends can only be judged from the variation in the implicit deflator of the gross domestic product, which is the only official information available on the matter. On this basis it has been estimated that the average increase in prices was approximately 12 per cent in 1975: less than the 18 per cent recorded in the previous year, and similar to the figure for 1973. The rate of exchange, for its part, remained constant at approximately 7 córdobas to the dollar.

The decline in imported inflation played an important role in bringing prices under control. Thus, in 1975 the increase in the unit value of imports of goods in dollars was 15 per cent: well below the figure for 1974 (32 per cent), and also below that for 1973 (18 per cent). The drop of 5.5 per cent in the unit value of exports of goods contrasted with the increases of 26 and 13 per cent recorded in 1974 and 1973 respectively.

The gradual normalization of activities affected by the 1972 earthquake and, in particular, the easing of demand pressure as a result of the considerable slackening off in reconstruction work and the recession in overall economic growth also helped to reduce inflation.

The trends recorded by the fiscal and monetary variables also had an anti-inflationary impact.

In 1975 current central government income was practically equal to that of the previous year, expressed in nominal terms. Nevertheless, the yield of direct taxation increased by 51 per cent with the increase in revenue from income and property taxes as a result of the introduction of tax reform and real estate revaluation programmes. In contrast, indirect taxes decreased by 5 per cent as a result of the expiring of the two-year period - established because of the earthquake - during which there was a 10 per cent tax on exports (see table 7).

/Table 7

Table 7

NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Current values (millions of córdobas)				Annual growth rates		
	1970	1973	1974	1975[a]	1971-1973	1974	1975[a]
1. Current income	571	921	1 346	1 350	17.2	46.1	0.3
Tax revenue	512	822	1 137	1 174	17.1	38.3	3.3
Direct	106	131	174	262	7.1	32.8	50.9
Indirect	406	691	963	912	19.3	39.4	-5.3
Non-tax revenue	59	99	209	176	18.9	110.4	-15.6
2. Current expenditure	480	611	1 011	1 049	8.4	65.3	3.8
Wages and salaries	264	312	388	432	5.7	24.3	11.3
Other current expenditure	216	299	623	617	11.5	108.5	-0.9
3. Saving on current account (1 - 2)	91	310	335	301	50.4	8.2	-10.2
4. Capital expenditure	164	461	971	941	41.1	110.4	-3.0
Real investment	110	129	329	348	5.3	154.7	5.9
Other capital expenditure	54	332	642	593	83.3	93.2	-7.6
5. Total expenditure (2 + 4)	644	1 072	1 982	1 990	18.5	84.7	0.5
6. Fiscal deficit (or surplus) (3 - 4)	-73	-151	-636	-640	27.4	319.7	0.8
7. Financing of deficit	73	151	636	640			
External financing (net)	62	218	630	604	51.9	188.7	-4.0
Domestic financing (net)	11	-67	6	36	-	-	496.7

Source: ECLA, on the basis of official statistics.
a/ Estimates.

Current expenditure increased by less than 4 per cent, after having increased by 65 per cent in 1974. Total remunerations increased by 11 per cent, mainly because of the adjustment in the wages and salaries of public employees, whereas other current expenditure fell by 1 per cent.

As a result of the evolution of current income and expenditure, fiscal savings fell by 10 per cent to 300 million córdobas in 1975.

Government investment amounted to 940 million córdobas. This was 3 per cent less than in 1974, but it ought to be borne in mind that investment in that year had been more than double that of 1973. Capital formation in 1975 gave priority to infrastructural works (roads and ports) and works of a social nature (schools and sanitary facilities). In addition, work continued on the laying out of streets and the installation of telephone lines within the framework of a limited reconstruction programme.

As a result, the central government incurred a total deficit of 640 million córdobas, a figure very close to that of 1974. Almost all of the deficit - more than 600 million - was financed by net external borrowings, since domestic financing amounted to only 36 million córdobas (approximately 5 million dollars).

Income from disbursements of foreign credits was similar to that of the previous year. It is estimated that approximately half of the income corresponded to loans from IDB, IBRD, and AID.

In the period from August 1974 to August 1975, the supply of money fell by 13 per cent, compared with the increase of 16.5 per cent recorded in 1974 and the annual average growth rate of 26 per cent for the period 1971-1973 (see table 8).

/Table 8

Table 8

NICARAGUA: MONETARY POSITION

(Millions of córdobas)

	Balance at end of			As at end August		Annual growth rates		
	1970	1973	1974	1974	1975	1971-1973	1974	1975[a]
1. Money	600	1 194	1 391	1 326	1 152	25.7	16.5	-13.1
Currency outside banks	251	413	453	447	411	18.1	9.7	-8.1
Demand deposits	349	781	938	879	741	30.8	20.1	-15.7
2. Factors of expansion	1 153	2 233	2 565	2 729	2 441	24.5	14.9	-10.6
Foreign assets (net)	-206	218	-38	485	-22	-	-	-
Domestic credit	1 359	2 015	2 603	2 244	2 463	14.0	29.2	9.8
Claims on government (net)	39	-8	-95	-143	-78	-	-	-
Claims on official entities	73	35	44	30	34	-	-	-
Claims on private sector	1 247	1 988	2 654	2 357	2 507	16.9	33.5	6.4
3. Factors of absorption	553	1 039	1 174	1 403	1 289	23.4	13.0	-8.1
Quasi-money (savings and time deposits)	310	807	842	1 025	945	37.5	4.3	-7.8
Other items (net)	243	232	333	378	344	-1.5	43.5	-9.0

Source: IMF, International Financial Statistics, February 1976.

a/ Rate compared with corresponding period of previous year.

/This trend

This trend was mainly the result of the monetary policy followed. After having allowed a greater degree of liquidity during 1973 and 1974 in order to help counter the effects of the earthquake, the authorities decided in 1975 to apply a policy designed to reduce that liquidity and thus avoid any unfavourable impact on the level of international reserves. Basically, two types of measures were used for this purpose. On the one hand, the credit policy in force was strengthened by fixing credit ceilings, while at the same time providing incentives for productive activities - particularly the agricultural sector and exports, but not for commercial activities. On the other, bank liquidity ratios were increased from 28 to 35 per cent for current accounts, and from 25 to 26 per cent for time deposits.

As a result of the application of these measures - and of the general situation of the economy - in the twelve-month period ending in August 1975 domestic credit to the private sector increased by approximately 6 per cent, whereas during 1974 the increase had been 34 per cent.

The loss of net international reserves proved to be an important factor of absorption, particularly when compared with the mid-1974 level of the consolidated monetary system's reserves. This was responsible for the reduction in the money supply to which attention was drawn above.

PANAMA

1. The overall picture

The development of the Panamanian economy was rather more favourable in 1975 than during the previous year. There was a slight increase in the rate of economic growth, a small reduction in the current account deficit of the balance of payments, and a marked decline in inflation. Despite these advances, however, the economy did not attain the remarkable indexes of economic growth and price stability which had prevailed during the early years of the 1970s and the previous decade.

Thus, although the 3.3 per cent rate of economic growth attained in 1975 exceeded that of the previous year (2.6 per cent) it was much lower than the rate of 7.2 per cent a year recorded during the period 1971-1973, and it produced only a marginal increase in the per capita product (see table 1). Furthermore, this higher rate of economic growth was almost entirely due to the marked recovery of agriculture and was accompanied by absolute reductions in the mining, manufacturing and construction product and an increase in unemployment in the main urban centres.

There was a rather similar situation in the external sector: the vigorous expansion of exports of goods and the satisfactory growth of exports of services more than offset the increase in imports of goods and services and the growth of the deficit on factor payments aborad, so that the deficit on the current account fell from nearly 270 million dollars in 1974 to just over 250 million dollars in 1975, but even this amount was well over twice the average deficit recorded on the current account of the balance of payment during the period 1971 to 1973 (see table 1).

/Table 1

Table 1

PANAMA: MAIN SHORT-RUN ECONOMIC INDICATORS

(Annual growth rates)

	1971-1973	1974	1975
Gross domestic product	7.2	2.6	3.3
Gross income a/	6.8	-0.9	2.3
Per capita gross domestic product	3.6	-0.2	0.5
Gross fixed investment	9.6	-3.6	-14.0
Value of exports of goods and services	10.7	38.5	18.8
Value of imports of goods and services	11.6	51.9	8.3
Terms of trade	-0.3	-8.1	-4.5
Balance on current account b/	-103.0	-269.0	-253.0
Variation in reserves b/	2.0	-	...
Consumer price index	4.7	16.8	5.5
Current income of government	12.0	20.6	9.5
Total expenditure of government	14.3	15.1	...
Fiscal deficit/total expenditure of government c/	26.8	27.1	...
Rate of unemployment c/d/	...	7.2	8.5

Source: ECLA, on the basis of official statistics.
a/ Gross domestic product plus terms-of-trade effect.
b/ In millions of dollars at current prices.
c/ Percentage.
d/ In Panama City, October 1974 and July 1975.

/However, there

However, there was a more marked improvement as regards the level of inflation: the rate of increase in the consumer price index, which had reached the unprecedented figure of 17 per cent in 1974, fell to less than 6 per cent in 1975. The decrease in the wholesale price index, though a little smaller, was still considerable, the falling as it did from 30 per cent in 1974 to 14 per cent in 1975.

2. Recent economic trends

(a) Global trends

As already noted, the Panamanian economy evolved more dynamically in 1975 than in the previous year. The growth rate of the product, which had been declining steadily since 1971, amounted to 3.3 per cent in 1975 and thus exceeded that of the previous year (2.6 per cent) although it was much lower than the average rate of 7.2 per cent attained during the period 1971 to 1973 (see table 2).

The rate of economic growth in 1975 was only slightly higher than the rate of population increase (2.8 per cent), however. As a result, and since in 1974 the ratio had been the other way round, the per capita product in 1975 barely recovered the level it had already reached two years previously. Moreover, since imports declined and exports greatly increased during the biennium 1974-1975, the per capita supply of goods and services for consumption and investment in 1975 was more than 6 per cent less than in 1973.

On the demand side, the economic recovery in 1975 was stimulated by the marked growth in the volume of exports (9 per cent) and the exceptional expansion of 34 per cent in public investment (see table 2).

The boom in exports, in turn, was due mainly to the very substantial rises in exports of petroleum, sugar and bananas and the increase in services supplied to the free zone at Colón (see table 4). However, because of the peculiarities of the Panamanian economic structure, the expansion of exports had a less favourable influence on the development of the domestic production apparatus than the overall figures might suggest. In many cases the increased exports from Panama

/Table 2

Table 2

PANAMA: TOTAL SUPPLY AND DEMAND

	Millions of balboas at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	1974	1975a/	1970	1975a/	1971-1973	1974	1975a/
Total supply	1 471	1 821	1 840	140.6	134.8	6.4	2.9	1.0
Gross domestic product	1 046	1 322	1 365	100.0	100.0	7.2b/	2.6	3.3
Imports	425	499	475	40.6	34.8	4.3	3.5	-4.7
Total demand	1 471	1 821	1 840	140.6	134.8	6.4	2.9	1.0
Domestic demand	1 081	1 340	1 318	103.3	96.6	7.0	1.3	-1.6
Gross domestic investment	276	333	273	26.4	20.0	9.3	-7.5	-17.8
Gross fixed investment	256	324	279	24.5	20.4	9.6	-3.7	-14.0
Public	68	102	137	6.5	10.0	9.7	13.6	34.4
Private	188	222	142	18.0	10.4	9.6	-10.0	-36.2
Variation in stocks	20	9	-6	1.9	-0.4	...	...	...
Total consumption	805	1 007	1 045	76.9	76.6	6.2	4.5	3.8
General government	150	209	214	14.3	15.7	8.8	8.3	2.1
Private	655	798	831	62.6	60.9	5.6	3.5	4.3
Exports	390	481	522	37.3	38.2	4.6	8.5	8.5

Sources: 1970-1974: ECLA calculations on the basis of figures supplied by the Statistics and Census Office; 1975: ECLA estimates on the basis of data from the same source.

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

a/ Preliminary figures.

b/ The discrepancy between this growth rate and the one shown in table 3 is due to the fact that the rates correspond to different concepts of the product (in this case, market prices, and in table 3, factor costs).

/necessitated almost

necessitated almost simultaneous and only slightly lower increases in imports. The evolution of exports of petroleum products illustrates this point particularly clearly. In the first nine months of 1975 exports were 38 million dollars higher than during the equivalent period in 1974, but the increase in imports of petroleum and fuels during the same period was even greater (48 million dollars).1/

In contrast with the sustained and rapid growth of exports, gross capital formation declined appreciably for the second consecutive year, so that the investment coefficient, which had reached a peak of nearly 28 per cent in 1972, fell to only 20 per cent in 1975.

However, the decrease of almost 18 per cent in gross capital formation recorded in 1975 concealed diametrically opposed trends in public and private investment. While the former expanded rapidly and in 1975 reached double the level achieved three years previously,2/ the latter fell by 36 per cent and in 1975 amounted to little more than half the rate for 1972. Because of these opposing trends, the totals of public and private investment in 1975 were very similar (see table 2).

Like the decreases recorded in the two previous years, the marked decline in private capital formation in 1975 was influenced by a variety of factors. These included the sharp increases in interest rates and the uncertainty felt by manufacturers during a period when economic policy was aiming to change the traditional pattern of development and as a start introduced measures to increase the share of labour in revenue.

1/ The difference between the two amounts is partly due to the rise in domestic consumption and partly to the fact that petroleum sold to ships passing through the Canal is included under the general heading of "Sales to the Canal Zone" (see table 4).

2/ In 1973 public investment concentrated on the development of sugar refineries, the construction of a cement factory and various major projects conceived with, for example, copper and the integral development of the Bayano region.

/In addition

In addition there were other factors of a more structural nature. In recent years the factors which had stimulated the very rapid economic growth of Panama during the 1960s were losing momentum: during the 1960s there had been a combination of a very marked expansion of external income (from the increasing export of bananas; the growth in the sale of services to the Panama Canal Zone; the development of activities in the free zone at Colón and a constantly increasing inflow of tourists) and the development of an incipient process of industrialization oriented towards import substitution. Furthermore, at the beginning of the current decade there was a considerable growth in construction activity linked with the expansion of tourism and with the housing needs of the higher income groups.

In recent years, however, there has been a certain degree of saturation of demand in these spheres, and the consequent restriction of economic growth which was only to be expected, was further aggravated by the economic recession in the industrialized countries, world inflation and the sudden rise in the price of fuels.

Thus in 1975 this combination of adverse circumstances accentuated the marked downward trend followed by private investment since 1973.

However, private consumption increased at a slightly higher rate in 1975 than in 1974, although it did not approach the high rates of growth attained during the first years of the decade (see table 2).

(b) Sectoral developments

From the sectoral angle, economic trends in 1975 were characterized by stagnation in the production of goods, a rapid expansion of basic services and the maintenance of the growth rate in the rest of the services sector (see table 3).

In the goods-producing sectors, the satisfactory performance of agriculture contrasted sharply with the decline in industry, mining and especially construction.

/Table 3

Table 3

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

	Millions of balboas at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	1974	1975a/	1970	1975a/	1971-1973	1974	1975a/
Agricultural	199	216	229	20.7	18.8	3.3	-1.5	6.2
Mining	3	4	4	0.3	0.3	17.2	-5.0	-2.6
Manufacturing	152	172	169	15.8	13.9	5.7	-4.4	-1.9
Construction	60	89	77	6.3	6.3	12.1	4.0	-13.2
Subtotal goods	414	480	479	43.1	39.3	5.6	-1.6	-0.4
Electricity, gas and water	19	29	31	2.0	2.5	14.0	4.6	4.4
Transport and communications	54	84	91	5.6	7.5	10.2	15.0	9.4
Subtotal basic services	73	113	122	7.6	10.0	11.2	12.0	8.1
Commerce, financial establishments and insurance	135	175	187	14.0	15.4	6.9	6.3	6.8
Real estate b/	57	78	82	5.9	6.7	9.5	4.8	4.5
Communal, social and personal services c/	283	334	349	29.4	28.6	4.7	3.0	4.2
Subtotal other services	475	588	618	49.3	50.7	5.9	4.2	5.0
Total gross domestic product	962	1 192	1 232	100.0	100.0	6.5	2.6	3.3

Source: 1970-1974: ECLA calculations on the basis of figures supplied by the Statistics and Census Office; 1975: ECLA estimates on the basis of information from the same source.

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

a/ Preliminary figures.

b/ Refers to owner-occupied dwellings.

c/ Also includes restaurants, hotels, services provided to enterprises and personal services provided in the Canal Zone.

/The agricultural

The agricultural product recorded a considerable increase of more than 6 per cent which more than made up for the decline in the previous year. The growth in the product generated by the crop farming sub-sector was even greater (8 per cent) and was due both to the expansion of the area cultivated and to improvements in yield. The harvests of basic grains - rice, maize and beans - exceeded those of the previous year by between 4 and 8 per cent and the same was true of the production of bananas and coffee. However the highest increase occurred in the output of sugar cane, which, stimulated by the high international prices, rose by 20 per cent.

By contrast, livestock production fell by more than 2 per cent. This was due to the slow increase in the number of animals, lower exports of meat, and the decline in pig rearing and other types of production for the domestic market. However the value added by fisheries increased by over 7 per cent, mainly because of the exceptional expansion of nearly 23 per cent in the catch of species used by industry.

The evolution of manufacturing as a whole was unfavourable. The industrial product declined by 2 per cent, reflecting the persistence of contractive factors and the uncertainties faced by manufacturers, which had already caused a fall in industrial activity in 1974. This decrease was also influenced by the sharp decline of over 13 per cent in construction activity in 1975: the restrictive effect of that decline on the production of intermediate industrial goods was not offset by the expansion in the food and clothing industries generated by the increase in domestic consumption. However, after falling to their lowest level in the middle of the year, industry and construction subsequently began to recover, partly because of the favourable development of agriculture.

The growth rate of the value added by electricity generation and gas and water supply was similar to that of 1974 although it was much lower than the average rate recorded during the rapid expansion of this sub-sector at the beginning of the decade. However, because of the maintenance of a high growth rate in transport and

/communications, the

communications, the rate of increase of basic services in 1975, although less than that of previous years, was still significantly higher than that of the global product (see table 3).

The other service-producing activities were more dynamic in 1975 than in 1974, mainly because of the recovery of the value generated by personal services supplied to the Panama Canal Zone (which had declined in 1974). Even so, these services did not regain the 1973 level, because of the reduction in canal traffic caused by the world recession.

The overall rate and sectoral structure of economic growth in 1975 also affected the employment situation. The slow growth of economic activity and in particular the decline in manufacturing and construction activity led to an increase in open unemployment in the metropolitan area from 7.2 per cent in October 1974 to 8.5 per cent in July 1975: between September 1974 and the same month in 1975 industrial employment fell 4.4 per cent in Panama City and 2.5 per cent in Colón.

However, the new methods of agricultural organization which were introduced and the support extended by the government to the expansion of the agricultural sector helped to reduce open unemployment in the rural areas from 4 per cent in October 1974 to 3.6 per cent in July 1975.

3. The external sector

During 1975 the evolution of the external sector was more favourable than in the previous year. The growth of exports was able to absorb the higher expenditure on imports of goods and services and also the increase in the deficit on factor payments abroad, thus slightly reducing the deficit on current account.

(a) Foreign trade

Exports of goods increased by over 30 per cent in 1975 and, since there had been a considerable rise in the previous year, this meant that the value of exports of goods doubled between 1973 and 1975 (see table 4).

/Table 4

Table 4

PANAMA: VALUE, BREAKDOWN AND DESTINATION OF EXPORTS OF GOODS AND SERVICES

	Millions of dollars at current prices (FOB)						Percentage breakdown		Annual growth rates		
	1970	1973	1974a/	1975b/	January to December 1974	January to December 1975	1970	1974	1971-1973	1974	1975c/
A. Total of goods exports	130.3	161.9	247.1	324.0			100.0	100.0	7.5	52.6	31.1d/
Main export products	97.4	113.7	178.5	262.0			74.8	72.2	5.3	57.0	46.8
Bananas	60.8	63.8	49.6	...	35.0	43.6	46.7	20.1	1.6	-22.3	24.6
Petroleum e/	21.5	24.4	86.3	...	53.8	92.1	16.5	34.9	4.3	253.7	71.2
Shrimps	10.2	16.7	15.1	...	12.3	14.2	7.8	6.1	17.7	-9.6	15.4
Sugar	4.9	8.8	27.5	...	25.0	48.4	3.8	11.1	21.5	212.5	93.6
Other exports	10.7	23.3	6.2	...	...	...	8.2	2.5	29.6	-73.4	...
Sales to the Canal Zone	22.2	24.9	62.4	62.0			17.0	25.3	3.9	150.6	-0.6f/
B. Total exports of services	252.9	358.1	473.1	531.8			100.0	100.0	12.3	32.1	12.4
Transport	35.9	68.2	162.7	170.3			14.2	32.0	23.8	138.6	4.7
Travel	78.2	102.5	120.7	130.5			30.9	24.5	9.4	17.8	8.1
Canal Zone	37.3	39.0	40.3	41.0			14.7	7.7	1.5	3.3	1.7
Other countries	40.9	63.5	80.4	89.5			16.2	16.8	15.8	26.6	11.3
Other services to the Canal Zone	85.2	99.4	105.7	104.3			33.7	19.6	5.3	6.3	-1.3
Net wages and salaries	62.1	76.9	82.0	87.8			24.6	16.5	7.4	6.6	7.1
Other	23.1	22.5	23.7	16.5			9.1	3.1	-0.9	5.3	-30.4
Colón Free Zone (net)	29.7	49.4	42.6	70.1			11.8	13.2	18.5	-13.8	64.6
Other items and adjustments	23.7	38.6	41.4	56.6			9.4	10.7	17.6	7.3	36.7
Total exports of goods and services	383.2	520.0	720.2	855.8			-	-	10.7	38.5	18.8

Source: ECLA, on the basis of official statistics.

a/ Preliminary figures.
b/ Estimates.
c/ Over the same period (January to September) of the previous year.
d/ Full year.
e/ Not including sales to ships in transit, which are recorded as exports of services.
f/ Includes sales of petroleum to ships passing through the Canal.

/This expansion

This expansion was due in particular to the higher prices obtained from the export of shrimps and especially sugar, as well as to the rapid recovery of banana exports.3/ In absolute terms the biggest increase was in exports of petroleum products, although as has already been pointed out these exports necessitated a considerable increase in imports of petroleum (see tables 4 and 5).

Exports of services, which in Panama are greater than exports of goods, also increased at a satisfactory rate (12 per cent). This was mainly due to the considerable rise in the value added generated in the Colón Free Zone and to a lesser extent to the growth of tourism (see table 4). In contrast, imports of goods increased very little: during the first three quarters of the year their value rose by just over 5 per cent, which actually meant a fall in volume because of the rise in international prices. This decline reflected the small overall growth of the economy and particularly the marked decline of investment in 1975 which caused a 5 per cent reduction in the value of imports of capital goods and a decline of nearly 8 per cent in the value of imports of intermediate products and non-edible consumer goods. These reductions suggest that there were decreases in volume of about 15 per cent and 20 per cent respectively. Imports of petroleum, however, increased by a quarter compared with the previous year, when purchases trebled because of the rise in the price of fuels (see table 5).

These divergent trends of the main categories of imports were due to changes in geographical origin: the share of the United States fell considerably, while that of the petroleum exporting countries (Venezuela and particularly Ecuador) increased.

3/ This recovery occurred when the difficulties encountered with a foreign enterprise in 1974 had been solved. The land belonging to foreign firms was recently acquired by the Government of Panama, while at the same time a land lease contract for banana growing was drawn up under new conditions. See in this connexion, Law Nº 5 of 7 January 1976.

/Table 5

Table 5

PANAMA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS a/

	Millions of balboas					Percentage breakdown		Annual growth rates		
	1970	1973	1974b/	January to December 1974a/	January to December 1975a/c/	1970	1974	1971-1973	1974	1975d/
Food products	24.6	42.2	41.6	30.2	32.6	7.5	5.7	19.7	-1.4	7.9
Petroleum and fuels	59.7	88.0	271.2	194.2	242.0	18.3	37.1	13.8	208.2	24.6
Other intermediate and consumer goods	177.6	235.6	301.5	207.0	191.0	54.4	41.2	9.9	28.0	-7.7
Capital goods	64.5	88.2	116.8	103.2	97.8	19.8	16.0	11.0	32.4	-5.2
Total	326.4	454.0	731.1	534.6	563.4	100.0	100.0	11.6	61.0	5.4

Source: ECLA, on the basis of official figures.

a/ FOB values. Excludes merchandise imported from the Canal Zone.

b/ Preliminary figures.

c/ Estimates.

d/ Over the same period (January to September) of the previous year.

/The improved

The improved balance in transactions of goods and services in 1975 contrasted with the very marked increase in the deficit on the factor payments account. As may be seen from table 6, net expenditure on this item increased by 50 per cent because of the unusually large increase in payments on foreign capital to nearly 500 million dollars in 1975 - over six times as much as the 1972 total. This unprecedented increase was mainly caused by the rise in interest paid by banking institutions on external savings deposits and in interest paid by the public sector on loans obtained from private foreign sources to finance the widening gap between the savings and investment of the government and public institutions.

The impact of this growing increase in payments of profits and interest abroad was partly offset by the growth of income from the same items, which was also very high. Thus, the profits and interest received in 1975 amounted to 358 million dollars, which was over seven times more than in 1972 (43 million).

(b) The balance of payments

The transactions described above caused a deficit of 250 million dollars on the current account. Although this was less than in 1974, it was more than double the deficits recorded in the three-year period 1971-1973 (see table 6).

Although full information is not yet available on the evolution of the balance of payments capital account, the financing of the current account in 1975 probably reverted to dependence on the inflow of long-term capital for the national government and even more so on the inflow of foreign capital to foreign banking institutions situated in Panama, as reflected in the rise in deposits by foreign banks and non-resident banks in the banking system (see table 9).

/Table 6

Table 6

PANAMA: BALANCE OF PAYMENTS

(Millions of dollars at current prices)

	1970	1972	1973	1974	1975a/
Current account					
Exports of goods and services	383	454	520	720	856
Goods FOB	130	146	162	247	324
Services	253	308	358	473	532
Income from the Canal Zone and other services	139	164	187	189	231
Transport	36	61	68	163	170
Travel	78	83	103	121	131
Imports of goods and services	423	523	587	892	966
Goods FOB	331	409	461	736	791
Services	92	115	126	155	175
Transport	46	58	68	88	95
Travel	23	26	27	34	40
Net payments of profits and interest on foreign capital	-28	-34	-43	-91	-137
Profits	-19	-14	-13	-14	-15
Interest	-10	-20	-30	-77	-122
Net private transfer payments	-4	-4	-9	-7	-6
Balance on current account	-71	-107	-119	-269	-253
Capital account					
Net external financing (a+b+c+d+e)	71	107	119	269	253
(a) Net external non-compensatory capital	275	676	1 697	2 813	240b/
Direct investment	33	13	32	24	....
Long- and medium-term loans	113	163	176	201	...
Amortization payments	-26	-31	-61	-87	...
Short-term liabilities (net)	147	522	1 541	2 666	...
Official transfer payments	8	9	9	10	...
(b) Domestic non-compensatory capital or assets	-129	-491	-1 474	-2 487	...
(c) Errors and omissions	-72	-78	-105	-76	...
(d) Allocation of SDRs	5	4	-	-	-
(e) Net compensatory financing (minus sign signifies an increase)	-7	-4	-	19	12
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	-	-	-	20	12
Amortization payments	-2	-	-	-1	...
Foreign exchange reserves (minus sign signifies an increase)	-	-	-	-	...
Gold reserves (minus sign signifies an increase)	-2	-4	-	-	...
SDRs (minus sign signifies an increase)	-3	-	-	-	...

Source: International Monetary Fund, Balance of Payments Yearbook, vol 27.

a/ Estimates based on official statistics.

b/ Includes items (b) and (c).

4. Prices and credit

In 1975 the rate of inflation fell to less than half the rate of the previous year. Consumer prices, which had increased by 17 per cent in 1974, rose by less than 6 per cent in 1975. The decline in the wholesale price index was somewhat smaller, but it was still considerable, since the rate fell from 30 per cent in 1974 to 14 per cent in 1975 (see table 7).

The main factor in the slackening of the inflationary process was the much smaller increase in the prices of imported products in 1975 compared with the previous year (13 per cent compared with 29 per cent) as a result of the slackening of inflation in the industrialized countries and the fall in the international prices of many basic products. However the rate of increase in prices in 1975 was still considerably higher than the normal rate which prevailed in Panama before the escalation of world inflation in 1973 and 1974 (see table 7).

As in 1974, the price rises do not appear to have caused a decline in real wages. The average wage increase in Panama City and Colón during the first quarter of 1975 compared with the same period of the previous year was just over 11 per cent, whereas during the same period the consumer price index increased by less than 7 per cent. Since a similar ratio persisted for the rest of the year, the purchasing power of wages seems to have increased somewhat, at least in the main urban centres.

/Table 7

Table 7

PANAMA: EVOLUTION OF THE GENERAL PRICE LEVEL, 1970-1975

	Annual rates of increase				
	1971	1972	1973	1974	1975a/
Wholesale prices in the Republic (1961 = 100)	5.4	8.6	10.5	30.2	14.0
Imports	5.5	6.7	11.6	28.8	12.5
Industrial	5.6	11.9	10.1	33.7	13.3
Agricultural	4.2	4.3	9.1	23.8	20.3
Consumer price index for Panama City (1962 = 100)	2.0	5.3	6.9	16.8	5.5
Food and beverages	2.4	4.6	9.8	22.8	6.8
Housing	2.2	3.9	2.2	11.0	3.0
Clothing	2.6	3.7	4.2	10.0	7.0
Miscellaneous	0.9	8.2	6.6	13.6	4.8

Source: ECLA, on the basis of figures supplied by the Office of the Controller of the Republic of Panama, Statistics and Census Office.

a/ Estimates.

/The inflationary

The inflationary process was probably stimulated to some extent by the fiscal policy. Judging by the available information, the current expenditure of the government increased at a considerably higher rate (16 per cent) than current income (9.5 per cent) (see table 8). In fact, there seems to have been such a wide discrepancy between the expansion of expenditure and the growth of income that in 1975 the government made virtually no savings on current account.4/

Thus, virtually all the capital expenditure of the Government had to be financed by credit. Moreover, since public investment in fixed capital expanded by nearly 35 per cent in real terms in 1975 (see table 2) the amount of credit needed to finance the fiscal deficit must have been very high. The evolution of the portfolio credit made available by the banking system, including that made available to the Government, provides partial evidence in this respect. At the end of the first quarter of 1975 this credit was more than 150 per cent greater than in the previous year (see table 9).

4/ At all events, this was the situation during the first quarter. As may be seen from table 8, savings on current account during the first six months of 1975 amounted to only 1 million balboas, while during the equivalent period of the previous year savings came to over 8 million balboas.
The projection of current expenditure for 1975 as a whole on the basis of the rate of increase during the first quarter produces a similar result. If the 16 per cent growth rate of the first quarter is applied to the 1974 current expenditure of 256 million balboas, a figure of 297 million balboas is obtained for current expenditure in 1975. As may be seen from table 8, this coincides with the figure for current income for that year and therefore suggests a total absence of savings.

/Table 8

Table 8

PANAMA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

(Millions of balboas)

	Current values						Annual growth rates		
	1970	1973	1974	1975a/	First half of year 1974	First half of year 1975	1971-1973	1974	1975
1. Current income	160	225	271	297			12.0	20.6	9.5
Tax revenue	129	173	210	227			10.3	21.7	7.9
Direct	62	82	100	114			9.6	22.6	14.1
Import	37	44	51	44			6.2	14.9	-12.9
Export	1	1	10	14			-	1 357.0	37.3
Indirect	29	46	49	54			16.4	22.7	10.6
Non-tax revenue	31	52	61	70			18.5	17.3	14.8
2. Current expenditure	150	203	256	...	121	140	10.5	26.0	16.1b/
Wages and salaries	83	122	144	...	67	82	13.8	17.6	23.4b/
Other current expenditure	67	81	112	...	54	58	6.2	38.9	7.2b/
3. Saving on current expenditure (1-2)	10	22	16	...	8	1	31.1	-29.0	-87.7b/
4. Capital expenditure c/	67	121	117	...	...	...	21.8	-3.2	...
5. Total expenditure	217	324	373	...	...	...	14.3	15.1	...
6. Fiscal deficit (or surplus) (3-4)	-57	-98	-101	...	...	...	20.0	2.5	...
7. Financing of deficit	57	98	101	...	...	...	...	...	...
Domestic financing	22	14	30	...	...	...	-13.6	112.7	...
External financing	35	84	71	...	...	...	34.2	-16.0	...

Source: ECLA, on the basis of official statistics.

a/ Estimates.

b/ Over the same period (first half) of the previous year.

/Table 9

Table 9

PANAMA: MONETARY POSITION

(Millions of balboas)

	Balance at end of			Balance at end of June and September		Annual growth rates		
	1970	1973	1974	1974	1975	1971-1973	1974	1975
Loans by the banking system	942	3 792	9 085	7 301a/	13 221a/	59.0	139.6	17.9b/
To foreign residents	392	2 399	7 036	4 982	10 338	82.8	193.3	27.9
Domestic	549	1 392	2 049	2 319	2 882	36.3	47.2	-10.0
Personal consumption	54	159	250	287	313	43.4	57.1	-50.9
Production	452	1 027	1 445	1 682	1 970	31.5	40.7	-19.8
Agriculture	36	103	132	173	206	42.0	28.6	6.1
Industry	36	66	143	137	224	22.4	115.9	15.3
Commerce	380	858	1 170	1 373	1 540	31.5	36.3	-28.1
Housing and construction	36	147	234	251	379	59.5	58.8	39.9
Unclassified and others	7	59	120	99	220	103.5	103.0	152.0
Deposits in the banking system	673	3 183	5 923	5 026c/	6 481c/	67.9	86.1	28.9c/
By the private sector	289	510	606	573	614	20.9	18.8	7.2
Sight deposit	99	151	191	161	149	15.1	26.5	-7.5
Time and limited-access deposit	190	359	415	412	465	23.6	15.6	12.9
By the public sector (sight)	15	69	68	68	68	66.3	-1.4	-
By foreign banks d/	369	2 604	5 249	4 385	5 799	91.8	101.6	32.2
Sight deposits	213	131	192	157	164	-14.9	46.6	4.5
Time and limited-access deposits	156	2 473	5 057	4 228	5 635	151.3	104.5	33.3

Source: ECLA, on the basis of official statistics.

a/ At the end of June.

b/ June 1975 growth rate compared with June 1974 rate.

c/ At the end of September.

d/ Includes deposits by foreigners.

/This vigorous

This vigorous expansion was in marked contrast with the decline in the credit made available by the banking system to the productive sectors as a whole during the same period and particularly for the financing of personal consumption. Credit for the latter purpose diminished by half between June 1974 and June 1975, while credit for productive activities fell by a fifth during the same period. This latter decline was entirely due to the fall of almost 30 per cent in loans to commerce. However, there was an increase in credit to agriculture, industry, and above all, construction.5/

Nevertheless, three-quarters of the total expansion of credit was accounted for by the 28 per cent rise in loans to foreign residents. This, together with the also very intensive growth in deposits by foreign and non-resident banks, reflected the continuing rapid development of Panama as an international finance centre. These deposits, which in 1970 had amounted to just over 340 million balboas, had already tripled in 1972 and increased nearly five times between 1972 and 1974, when they reached nearly 5,200 million balboas. By September 1975 the total had again risen and approached 5,800 million balboas.

It should, however, be pointed out that this extraordinary expansion of international banking in Panama involves the risk that a reduction in the inflow of private external deposits might cause difficulties in financing the country's economic growth. Since foreign currency also constitutes the domestic money supply, and reduction in the flow of credit from the external bank could cause serious monetary upheavals as long as the financial gap in the balance of payments persists.

5/ Credit to construction was mainly for building homes for the middle-income groups.

PARAGUAY

1. The overall picture

The most salient features of Paraguay's economic development in 1975 were the adverse changes in the pattern of its foreign trade relations, the major decline in the rate of inflation, and the new impetus created by the initiation of work on the Itaipú hydroelectric complex, a project which has been undertaken jointly with Brazil and which was closely linked with the big increase in the inflow of foreign capital recorded during the year.

The gross domestic product maintained the high rate of expansion of recent years by increasing at a rate of 8 per cent despite the contraction of the agricultural sector. The industrial sector, despite the fall in external demand for some categories of agro-industrial products, grew by 7 per cent, and the construction sector expanded by 30 per cent, stimulated by the initiation of work on the binational project at Itaipú. Among the other sectors, the most dynamic continued to be the basic services sector, which grew by more than 10 per cent; the growth rates of commerce and the other services were similar to that of the global product.

In 1975 an abrupt change took place in the pattern of Paraguayan foreign trade. There was a considerable decline in the rate of expansion of exports and imports, which had both grown at very high rates since 1971 (see table 1), but the most pronounced feature was the marked deterioration in the terms of trade, caused by a 2 per cent decline in the unit value of exports and a rise of nearly 20 per cent in that of imports. This imbalance caused an appreciable increase in the trade and current account deficits, but international reserves nevertheless grew by nearly 30 million dollars for the second consecutive year as a result of further increases in the inflow of non-compensatory capital.

/Table 1

Table 1

PARAGUAY: MAIN SHORT-RUN ECONOMIC INDICATORS

(Annual growth rates)

	1971-1973	1974	1975
Gross domestic product	5.7	8.3	8.0
Gross income a/	7.2	7.9	5.4
Per capita gross domestic product	2.9	5.5	5.2
Gross fixed investment	16.2	11.2	15.2
Value of exports	25.1	35.7	4.0
Value of imports	18.4	49.1	8.6
Terms of trade	10.0	-3.0	-18.2
Balance on current account b/	-18.0	-37.0	-50.0
Variation in reserves b/	11.0	29.0	28.0
Consumer price index	8.9	25.2	6.7
Money	19.9	22.2	18.9
Wages and salaries	5.5	18.2	5.3

Source: ECLA, on the basis of official statistics.

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

b/ Absolute values in millions of dollars at current prices.

/As already

As already mentioned, there was a marked reduction in the rate of inflation in 1975. The consumer price index, which in 1974 had shown an annual average variation of about 25 per cent, rose by less than 7 per cent. Various factors contributed to this favourable change. In the first place there was the Central Bank's stringent monetary policy aimed at controlling the expansion of liquidity generated by the increase in the country's international reserves. Furthermore, the external factors which had strongly affected the rises in domestic prices during the previous year exerted less influence in 1975, while the domestic price control measures and steps to ensure the supply of essential articles also had their effect.

Wages, which had steadily declined in real terms since 1971, again suffered a loss of real value in 1975 since they did not rise fast enough to offset the increase in the cost of living during the year.

2. Recent economic trends

(a) Global trends

In 1975 the growth rate of total supply fell to 5.6 per cent despite the fact that the gross domestic product maintained the high growth rate of the previous year (8 per cent). The evolution of the real supply of imported goods and services since 1970 had helped total supply to expand at a higher rate than the gross domestic product (6 per cent higher during the period 1971 to 1973 and nearly 9 per cent higher in 1974), but in 1975 this trend was reversed, and the growth rate of real supply dropped by over 7 per cent. In keeping with this evolution, the import coefficient rose continually from 1970 onwards until it reached 18 per cent in 1974, only to fall to 15 per cent in 1975 (see table 2).

/Table 2

Table 2

PARAGUAY: TOTAL SUPPLY AND DEMAND

	Millions of guaraníes at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	1974	1975a/	1970	1975a/	1971-1973	1974	1975a/
Total supply	86 999	113 255	119 646	116.1	115.4	6.2	8.6	5.6
Gross domestic product	74 921	96 016	103 697	100.0	100.0	5.7	8.3	8.0
Imports	12 078	17 239	15 949	16.1	15.4	8.9	10.5	-7.5
Total demand	86 999	113 255	119 646	116.1	115.4	6.2	8.6	5.6
Domestic demand	75 823	100 790	106 593	101.2	102.8	6.9	8.8	5.8
Gross domestic investment	11 034	20 549	24 210	14.7	23.3	19.1	10.3	17.8
Gross fixed investment	10 883	18 988	21 873	14.5	21.1	16.2	11.2	15.2
Construction	5 463	8 514	11 068	7.3	10.7	10.9	14.2	30.0
Public	2 955	...	...	3.9	...	...	...	...
Private	8 079	...	...	10.8	...	...	...	...
Machinery and equipment	5 420	10 474	10 805	7.2	10.4	21.1	8.8	3.2
Total consumption	64 789	80 241	82 383	86.5	79.5	4.6	8.4	2.7
General government	6 748	6 294	6 669	9.0	6.4	-2.1	-0.5	5.9
Private	58 041	73 947	75 714	77.5	73.1	5.3	9.2	2.4
Exports	11 176	12 465	13 053	14.9	12.6	1.3	7.4	4.7

Source: 1970-1974: ECLA calculation on the basis of figures supplied by the Central Bank of Paraguay; 1975: ECLA estimates on the basis of information from the same source.

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

a/ Preliminary estimates.

/From the

From the point of view of total demand, the most dynamic factor was total investment, which attained a growth rate of nearly 18 per cent. Between 1970 and 1973 it increased at very high rates (19 per cent on average), stimulated by the need to broaden and modernize the country's productive capacity in order to meet the great increase in external demand for Paraguay's agricultural and agro-industrial products. In 1974 the growth rate of total investment fell conspicuously (although it remained at the high level of 10 per cent), but it recovered significantly in 1975. As a result of this evolution, the investment coefficient rose from just under 15 per cent in 1970 to over 23 per cent in 1975.

The rapid growth of fixed capital investment in 1975 was mainly due to the initiation of work on the Itaipú hydroelectric project. This project is being carried out as part of the scheme for the development of the enormous hydroelectric resources of the river Paraná along the border with Brazil and Argentina,1/ and when it is complete the country will have the largest hydroelectric plant in the world. The plant will be situated on the river Paraná, approximately 14 kilometres upstream from the international bridge which links Puerto Presidente Stroessner in Paraguay with Foz de Iguazú in Brazil.

When complete, the dam will have 18 turbines with a generating capacity of 700 megawatts each, which will give a nominal total capacity of 12,600 megawatts. Thus the capacity of the plant will be six times that of the Aswan dam in Egypt and 30 per cent greater than the Grand Carlee dam in the United States (currently the largest dam in the world).

It is estimated that the cost of construction will exceed 4,500 million dollars at 1974 prices. The work will require more than 10,000 workers and daily supplies of about 1,000 tons of cement, 5,000 cubic metres of sand and over 10,000 tons of coarse aggregates.

1/ In order to develop these vast resources, Paraguay has signed treaties establishing the Itaipú and Yacyretá binational corporations with Brazil and Argentina respectively. Construction of the Yacyretá plant is planned to begin in 1977.

/It is

It is hoped that the big electricity generating capacity created by this project will encourage the installation in Paraguay of industries which make intensive use of electricity. However, even if total domestic consumption expands by 20 per cent a year, by 1989 it will still only be equivalent to 3 per cent of the output of Itaipú. The country will therefore have to sell to Brazil a high proportion of the share of the energy to which Paraguay will be entitled under the agreements signed.

In contrast with the performance of investment, the evolution of consumption was less satisfactory in 1975 than during the previous year. Despite the recovery of Government consumption (up to 6 per cent compared with a decline of 0.5 per cent in the previous year), total consumption grew by less than 3 per cent whereas in 1974 it had expanded at a rate of over 8 per cent. This slower rate of growth was due to the decrease in the growth rate of private consumption from over 9 per cent in 1974 to just over 2 per cent in 1975.

Exports of goods and services, expressed in constant prices, grew at a rate of nearly 5 per cent.

Although exports measured in current prices show a marked expansion from 1971 onwards, if measured in constant prices they are seen to have increased at lower rates than the gross domestic product. Thus the export coefficient fell from close to 15 per cent in 1970 to less than 13 per cent in 1975 (see table 2).

(b) Sectoral developments

The agricultural sector, which contributes over 33 per cent of the total gross domestic product, has been stimulated in recent years by active external demand and supported by agricultural promotion policies and has become one of the most dynamic sectors of the Paraguayan economy. Its 5 per cent expansion in 1975, although satisfactory, however, was considerably less than that of the previous year (see table 3). This rate was the result of increases of 4 per cent in livestock raising, 15 per cent in forestry development and 4 per cent in crop farming. In contrast to the previous year, when the production of nearly all the agricultural crops rose considerably, there was a decrease in the output of some important crops such as sugar cane, bananas, potatoes and casava in 1975. However, this was amply compensated by the increase in the harvests of rice, maize, cotton and soya beans (see table 4).

/Table 3

Table 3

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

	Millions of guaraníes at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	1974	1975a/	1970	1975a/	1971-1973	1974	1975a/
Agriculture	23 805	30 418	31 999	34.3	33.1	5.2	9.8	5.2
Mining	83	226	286	0.1	0.3	33.9	14.9	26.4
Manufacturing	12 004	15 875	16 987	17.3	17.5	6.7	8.9	7.0
Construction	2 076	3 235	4 206	3.0	4.3	10.8	14.2	30.0
Subtotal goods	37 968	49 754	53 478	54.7	55.2	6.1	9.8	7.5
Electricity, gas and water	840	1 527	1 695	1.2	1.7	21.0	2.3	11.0
Transport and communications	2 950	4 147	4 562	4.2	4.7	7.2	14.0	10.0
Subtotal basic services	3 790	5 674	6 257	5.4	6.4	10.6	10.6	10.3
Commerce, financial establishments and insurance	13 529	17 491	18 890	19.5	19.5	5.9	8.8	8.0
Real estate b/	2 281	2 718	2 854	3.3	2.9	4.2	5.4	5.0
Communal, social and personal services c/	11 868	14 164	15 441	17.1	15.9	5.1	2.7	9.0
Subtotal other services	27 678	34 373	37 185	39.9	38.4	5.4	6.1	8.2
Total gross domestic product	69 435	88 987	96 106	100.0	100.0	5.7	8.3	8.0

Source: 1970-1974: ECLA calculations on the basis of figures supplied by the Central Bank of Paraguay; 1975: ECLA estimates on the basis of information from the same source.

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

a/ Preliminary estimates.

b/ Refers to housing only.

c/ Also includes restaurants, hotels, and services supplied to enterprises.

/Table 4

Table 4

PARAGUAY: PRODUCTION OF SOME MAJOR AGRICULTURAL CROPS

(Millions of guaranies at 1972 prices)

	1970	1973	1974	1975	Annual growth rates		
					1971-1973	1974	1975
Cassava	3 372	4 603	4 695	4 528	10.9	2.0	-3.5
Soya beans	440	1 320	2 090	2 310	44.0	58.3	10.5
Maize	1 430	1 777	1 830	2 196	7.5	3.0	20.0
Cotton	782	1 764	1 785	2 100	31.0	1.2	17.6
Sugar cane	706	942	1 034	775	1.5	5.0	-19.8
Oranges	677	713	784	823	1.7	10.0	5.0
Sweet potatoes	537	668	735	713	7.5	10.0	-3.0
Rice	524	304	462	660	-18.0	52.2	42.8

Source: Central Bank of Paraguay.

/The industrial

The industrial sector was affected by the sluggishness of external demand for some products, particularly vegetable oils. However, with the help of major increases in the output of cement, sawn woods and other products it achieved a rate of nearly 7 per cent.

The most dynamic sector of the Paraguayan economy in 1975 was construction, which expanded at a rate of 30 per cent. The boom in construction was closely connected with the initiation of work on the Itaipú hydroelectric complex. The Itaipú Binational Corporation has already signed major contracts with Paraguayan enterprises for the construction of roads, housing, hotels, administrative buildings and other engineering work required for the initiation of such a large-scale project. At the end of 1975 this work was providing employment for over 2,000 persons.

Among the other sectors the most dynamic, for the second consecutive year, was basic services which increased by more than 10 per cent; commerce and other services, for their part, increased at similar rates to that of the total product.

3. The external sector

(a) Exports

In 1975 exports of goods, expressed in current values, rose by nearly 4 per cent. This rate, which represented a sudden interruption in the high rate of increase in foreign currency income from exports recorded since 1972, reflected the increase in sales of timber, tobacco, cotton and coffee and the decline in exports of meat, vegetable oils and sugar (see table 5). Between 1972 and 1974 exports of goods grew at an average annual rate of nearly 40 per cent, mainly as a result of rises in international prices, since the quantum increased at an average annual average of only about 7 per cent during that period. In 1975, however, the unit value of exports fell by 2 per cent, so that in order to reach the level attained by exports in current values it was necessary for the quantum to increase by 6 per cent (see table 7).

/Table 5

Table 5

PARAGUAY: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars at current prices (FOB)				Percentage breakdown		Annual growth rates		
	1970	1973	1974	1975	1970	1975	1971-1973	1974	1975
Main export products	33.9	65.9	83.8	82.7	52.8	47.0	24.8	27.2	-1.3
Meat products	15.0	40.0	34.2	32.2	23.4	18.3	39.0	-14.5	-5.8
Wood	6.1	11.8	24.7	27.9	9.5	15.9	24.5	109.3	13.0
Vegetable oils	7.0	6.6	13.5	10.6	10.9	6.0	-2.0	104.5	-21.5
Tobacco	5.8	7.5	11.4	12.0	9.0	6.8	9.5	52.0	5.3
New exports	4.9	25.8	45.4	53.0	7.7	30.0	74.0	76.0	16.7
Soya beans	-	10.4	15.0	17.5	-	9.9	-	44.2	16.6
Cotton	4.0	11.6	16.5	20.1	6.3	11.4	43.0	42.2	21.8
Sugar	-	1.1	10.0	6.7	-	3.8	-	809.0	-33.0
Coffee	0.9	2.7	3.9	8.7	1.4	4.9	44.1	44.4	123.0
Other exports	25.3	35.2	40.6	40.5	39.5	23.0	11.6	15.3	-0.2
Total	64.1	126.9	169.8	176.2	100.0	100.0	25.5	33.8	3.8

Source: Central Bank of Paraguay.

The exports which increased substantially in volume included beef, sales of which rose by 13 per cent entirely on account of higher sales of canned meat, which rose from just over 8,000 tons in 1974 to 15,000 tons in 1975 in contrast with decreases in the exports of frozen meat and other meat products. There was also quantitative increases in the exports of soya beans (2 per cent), tobacco (6 per cent), cotton (5 per cent) and coffee beans, sales of which were more than three times the total for the previous year. While the unit values of some important export products such as sawn wood, soya beans and vegetable oils maintained a high level during 1975, other products such as meat and cotton registered significant decreases in export prices (24 per cent and 20 per cent respectively).

Paraguay's exports consist almost entirely of agricultural and agro-industrial products and there have been major changes in the structure of these exports in recent years. The relative importance of meat exports fell from 23 per cent to 18 per cent between 1970 and 1975, while soya beans and sugar respectively represented 10 per cent and 4 per cent of total exports in 1975. The relative importance of products such as coffee beans and cotton has also shown a conspicuous increase (see table 5).

(b) Imports

In 1975 imports of goods increased by 8 per cent in terms of current prices. As in the case of exports, this rate represented a major decline from the pace of expansion recorded in previous years. The unit values rose by nearly 20 per cent, so that the 8 per cent increase noted actually represented a reduction of about 9 per cent in real terms. The deterioration in the volume of imports contrasts with the increases of 43 per cent and 11 per cent recorded in 1973 and 1974 respectively.

Until 1973 the high rate of expansion of imports reflected the rapid growth of imports of capital goods in keeping with the high level of domestic investment during those years. In 1974, however, the marked growth of current imports was mainly due to the increased purchases of petroleum and fuels, which were more than 6 times higher than in 1973.

/In 1975

In 1975 the imports which expanded most were again capital goods, which increased by over 22 per cent; in contrast, there was a decline in imports of petroleum and fuels and only a moderate expansion in imports of consumer goods, expressed in current values (see table 6).

The evolution of imports benefited from the policy of maintaining fixed rates of exchange, since the rise in domestic prices was more rapid than the depreciation of the dollar.

(c) The terms of trade

In 1975 the terms of trade deteriorated significantly. The fall in the prices of meat and cotton contributed to a 2 per cent decline in the unit values of exports, while at the same time the unit values of imports continued to increase at a high rate (20 per cent), thus leading to a deterioration of about 18 per cent in the terms of trade.

This contrasts sharply with the favourable situation which existed during the period 1971-1973, when the unit values of exports increased at an annual average rate of nearly 19 per cent, while those of imports rose by less than 8 per cent. In 1974 the rise in the prices of petroleum caused a 34 per cent increase in the average prices of imports, but there was nevertheless only a slight deterioration in the ratio of the terms of trade in that year because of the big increase in the unit values of exports (30 per cent) (see table 7).

(d) The balance of payments and foreign borrowing

The current account deficit in 1975 amounted to more than 50 million dollars. This represented a major increase compared with the previous year, and was mainly due to the deterioration of the trade balance, on which the deficit rose from 16 million dollars in 1974 to 25 million dollars in 1975. In 1975 exports of services increased by 3 million dollars and imports by 4.2 million dollars, while remittances of profits and interest rose by 2 million dollars. Nevertheless, the inflow of non-compensatory capital again exceeded the levels of the previous year and consequently there was a further increase of about 28 million dollars in the country's net international reserves (see table 8).

/Table 6

Table 6

PARAGUAY: VALUE AND BREAKDOWN OF IMPORTS OF GOODS

	Millions of dollars at current prices (FOB)				Percentage breakdown		Annual growth rates		
	1970	1973	1974	1975	1970	1975	1971-1973	1974	1975
Consumer goods	25	30	48	52	39.7	28.1	5.6	60.4	9.2
Intermediate goods	17	26	71	69	27.0	37.4	14.3	177.4	-2.8
Petroleum and fuels	6	7	42	38	9.6	20.7	3.7	516.2	-8.4
Others	11	19	29	31	17.4	16.7	19.3	55.6	5.1
Capital goods	22	49	52	64	33.3	34.5	32.0	6.1	22.4
Total	64	105	171	185	100.0	100.0	18.0	63.5	8.2

Source: Central Bank of Paraguay.

/Table 7

Table 7

PARAGUAY: VARIATIONS IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS

(Percentage)

	1971	1972	1973	1974	1975
Exports of goods					
Value	1.8	28.7	49.8	35.7	4.0
Volume	-3.1	15.5	4.0	4.3	6.1
Unit value	5.0	11.5	44.1	30.1	-2.0
Imports of goods					
Value	8.4	-5.2	61.9	49.1	8.6
Volume	4.2	-10.4	43.1	11.2	-9.3
Unit value	4.0	5.8	13.2	34.1	19.8
Terms of trade	1.0	5.4	28.3	-3.0	-18.2

Source: ECLA, on the basis of official statistics.

/Table 8

Table 8

PARAGUAY: BALANCE OF PAYMENTS

(Millions of dollars)

	1970	1972	1973	1974	1975a/
Current account					
Exports of goods and services	89	106	150	207	217
Goods FOB	65	86	128	174	181
Services	24	20	21	33	36
Transport	3	1	1	2	2
Travel	14	11	11	12	13
Imports of goods and services	101	106	161	235	255
Goods FOB	77	79	127	190	206
Services	25	27	34	45	49
Transport	9	10	15	23	24
Travel	5	8	10	11	12
Net payments of profits and interest on foreign capital	-10	-11	-10	-10	-12
Profits	-3	-3	-2	-2	-2
Interest	-7	-9	-8	-8	-10
Net private transfer payments	2	2	2	1	0
Balance on current account	-20	-9	-20	-37	-50
Capital account					
Net external financing (a+b+c+d+e)	20	10	20	37	50
(a) Net external non-compensatory capital	33	24	51	74	78
Direct investment	4	3	9	20	...
Long-and medium-term loans	23	26	35	32	...
Amortization payments	-7	-11	-11	-10	...
Short-term liabilities (net)	10	2	14	28	...
Official transfer payments	3	4	4	5	...
(b) Domestic non-compensatory capital or assets	-2	-4	-4	-2	...
(c) Errors and omissions	-5	-4	-6	-6	...
(d) Allocation of SDRs	3	2	-	-	...
(e) Net compensatory financing (minus sign signifies an increase)	-8	-10	-21	-29	28
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	0	-	3	1	...
Amortization payments	-1	0	-		
Foreign exchange reserves (minus sign signifies an increase)	-4	-7	-24	-30	-28
Gold reserves (minus sign signifies an increase)	-1	-	-	-	...
SDRs (minus sign signifies an increase)	-3	-2	-	-	...

Source: International Monetary Fund, Balance of Payments Yearbook, vol. 27.

a/ Estimates on the basis of official statistics.

/In recent

In recent years there has been a considerable increase in the inflow of official and private capital to Paraguay, and this is indicative of the growing interest shown by international financial bodies in contributing to the country's development. In 1974 the loans obtained exceeded 95 million dollars, while in 1975 they reached the unprecedented figure of 141 million dollars. This trend is expected to intensify in the near future because of the initiation of the big hydroelectric projects undertaken by the country.

The evolution in the flow of external capital to Paraguay described above has led to a significant increase in the balance of disbursed external debt, which at the end of 1975 amounted to 330 million dollars, more than double the 1970 figure. Foreign debt servicing rose from 14 million dollars in 1970 to 36 million in 1975, of which 24 million corresponded to amortization and 12 to interest. Because of the rapid increase in exports, debt servicing as a percentage of exports fell from 16 per cent in 1970 to nearly 14 per cent in 1973 and 1974, but it rose to 16.4 per cent in 1975 (see table 9).

4. Prices and wages

Up to the end of 1970, prices in Paraguay were relatively stable, but in 1971 they began to rise steadily. The consumer price index registered increases of 5 per cent in 1971, 9 per cent in 1972, 13 per cent in 1973 and 25 per cent in 1974. In 1975, however, the rate of increase in prices fell sharply to less than 7 per cent.

Variations in the food sector had a decisive influence on this fall in prices. During the first half of the year food prices rose by only 1.6 per cent. The reduction of prices of beef and dried beans had a moderating effect during the first six months of 1975, but during the second six months the food index rose by nearly 10 per cent, mainly because of big increases in the prices of vegetables, fruit, and milk products, the supply of which was reduced because of climatic factors (see table 10).

/Table 9

Table 9

PARAGUAY: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars at current prices)

	1970	1973	1974	1975
Balance of public debt and of debts guaranteed by the State a/	152.4	219.1	271.3	330.0
Servicing of external debt	14.2	22.4	28.5	35.6
Amortization payments	9.8	15.1	19.6	24.0
Interest payments	4.4	7.3	8.9	11.6
Servicing of external debt, as a percentage of total exports	15.9	14.9	13.8	16.4

Source: Central Bank of Paraguay.

a/ The figures correspond to the debt disbursed.

Table 10

PARAGUAY: EVOLUTION OF DOMESTIC PRICES

(Annual growth rates)

	1971	1972	1973	1974	1975
Consumer price index	5.0	9.2	12.8	25.2	6.7
Food	8.6	11.1	21.7	24.8	4.6

Source: Central Bank of Paraguay.

/The upward

The upward trend of prices coincided with the improvement of the balance of payments situation. The steady accumulation of international reserves from 1971 onwards led to a considerable expansion in the liquidity of the economy, and the means of payment, after rising at an average rate of 20 per cent during the period 1971-1973, increased by 22 per cent and 19 per cent respectively in the years 1974 and 1975 (see table 11). At the same time, world developments in recent years also had a decisive influence on the domestic inflationary process, both because of the high prices which the country had to pay for imported products and because of the increases in the domestic prices of some of Paraguay's exportable products deriving from the steep rise in the corresponding international prices.

Various factors contributed to the slower rate of price increases in 1975. In the first place there was the Central Bank's stringent monetary policy aimed at regulating the expansion of liquidity in order to alleviate the expansive effects of the big increases in international reserves again recorded in 1975. Furthermore, the effects of "imported" inflation, which had had such a marked influence in recent years, diminished considerably in 1975, while the domestic price-control measures and the steps taken to ensure the supply of basic articles also had some influence.

Wages, as measured by the general index of manual workers' wages in Asunción, increased by 5.5 per cent in the period 1971-1973, by 18.3 per cent in 1974 and by 5.3 per cent in 1975. If these variations are compared with those in the consumer price index, a steady deterioration in the purchasing power of wages can be observed from 1971 onwards. Thus, real wages fell at an average annual rate of 3.2 per cent in the period 1970-1973 and at rates of 5.5 per cent in 1974 and 1.3 per cent in 1975 (see table 12).

/Table 11

Table 11

PARAGUAY: MONETARY POSITION

(Millions of guaraníes)

	Balance at en of				Annual growth rates		
	1970	1973	1974	1975	1971-1973	1974	1975
Money	6 900	11 913	14 560	17 317	19.9	22.2	18.9
Currency outside banks	4 021	6 491	7 553	8 900	17.3	16.4	17.8
Demand deposits	2 879	5 422	7 007	8 417	23.4	29.2	20.1
Factors of expansion	17 077	29 238	35 608	43 372	19.4	21.8	21.8
Foreign assets (net)	153	5 324	10 144	14 192	227.0	90.5	40.0
Domestic credit	16 924	23 914	25 464	29 540	12.2	6.5	16.0
Claims on government (net)	2 058	3 311	1 423	983	17.0	-57.0	-31.0
Claims on official entities	5 856	7 434	9 114	10 212	8.2	22.6	12.0
Claims on private sector	9 010	13 169	14 927	18 345	13.5	13.3	22.9
Factors of absorption	10 177	17 325	21 048	26 415	19.3	21.5	25.5
Quasi-money (savings and time deposits)	6 115	11 459	13 782	18 634	23.2	20.3	35.2
Long-term foreign borrowing	190	671	463	252	52.0	-31.0	-45.6
Other items (net)	3 872	5 195	6 803	7 529	10.3	30.9	10.6

Source: Central Bank of Paraguay.

Table 12

PARAGUAY: EVOLUTION OF WAGES AND SALARIES

(Annual growth rates)

	1971-1973	1974	1975
Wage indexes a/			
Nominal	5.5	18.3	5.3
Real	-3.2	-5.5	-1.3

Source: ECLA, on the basis of official figures.

a/ General index of manual workers' wages in Asunción.

PERU

1. The overall picture

(a) Principal trends and changes

The rate of growth of the Peruvian economy declined in 1975. The gross domestic product, which had risen at an average annual rate of over 6 per cent in the period 1971-1974, rose by 4 per cent in 1975. As a result, the rate of increase in the per capita product fell from 3.5 per cent in 1974 to barely 1 per cent in 1975. Since at the same time the terms of trade deteriorated sharply, the drop in the growth rate of gross income was even greater: from about 9 per cent in 1974 to less than 2 per cent in 1975 (see table 1).

The performance of the external sector was also unfavourable in 1975. The value of exports of goods and services, which had increased by 36 per cent in the previous year, declined by 10 per cent in 1975. In contrast, the value of imports rose by over 20 per cent, following a spectacular rise of 79 per cent in 1974. These diverging trends were due to the fact that the volume and unit value of exports dropped, while the volume and average price of imports increased.

Owing to this uneven performance, the deficit on current account was exceptionally high in 1975, amounting to nearly 1,570 million dollars; it was thus 84 per cent higher than the previous year's deficit, which in turn was 6.5 times higher than the average deficit recorded for the period 1971-1973.

The deficit was largely financed by inflows of long-term capital, which remained at the high level reached in 1974. On the other hand, there was a net outflow of short-term capital in the course of the year, which brought more pressure to bear on the country's international reserves. These, which had increased by 240 million dollars in 1974, dropped by over 540 million in 1975 and by the end of the year amounted to only 150 million dollars.

/Table 1

Table 1

PERU: MAIN SHORT-RUN ECONOMIC INDICATORS

(Percentage annual growth rates)

	1971-1973	1974	1975
Gross domestic product	6.0	6.6	4.0
Gross income a/	6.3	8.7	1.9
Per capita gross domestic product	3.0	3.5	1.0
Gross fixed investment	9.0	25.8	18.3
Value of exports	3.7	36.4	-9.9
Value of imports	13.5	78.6	21.3
Terms of trade	1.5	18.3	-15.1
Balance on current account b/	-114.0	-851.0	-1 567.0
Variation in reserves b/	15.0	242.0	-543.0
Consumer price index	8.5	19.1	24.0
Money	22.4	41.6	28.3

a/ Gross domestic product plus terms-of-trade effect.
b/ Absolute values in millions of dollars at current prices.

/Furthermore, the

Furthermore, the inflationary process gained renewed impetus in 1975. The level of domestic prices rose by 24 per cent, compared with 19 per cent in 1974 and less than 9 per cent in the period 1971-1973. External factors, which had helped to increase the rate of inflation in previous years, had less influence than domestic factors in 1975. In fact, the fiscal deficit increased with the simultaneous rise in public investment and in government price subsidies for essential articles. At the same time, the demand for credit for the promotion of exports increased substantially owing to the recession affecting this sector as a result of the adverse conditions on the world market. The same situation arose in connexion with public enterprises responsible for executing investment projects. Moreover, as inflationary expectations spread among the population, the demand for credit for the purchase of durable goods also increased. However, the partial data available shows that the net liquidity of the economy increased very little owing to the sharp drop in international reserves.

(b) The situation in Peru in the mid-1970s

The above developments cannot be satisfactorily evaluated if the analysis is confined to the factors that prevailed in 1975. That year was really a milestone in Peru's recent economic history, since it marks the opening of a wide gap between the development policy launched at the end of the past decade and implemented vigorously since then, and the conjunctural policy demanded by the impact of the acceleration of the inflationary process from 1973 onwards.

In order to explain this situation it is first of all necessary, to refer to the development patterns followed by the Peruvian economy. It is a well-known fact that Peru has been identified as an example of an open economy. In the past, the cyclical movement of its growth rate depended on the conditions of the world market for its exportable production, and its long-term growth on the discovery of some new natural resource or the entry into production of a new mine.

/If the

If the cyclical variations are excluded, the long-term economic growth rate was seen to rise sharply from time to time with the start of production of some resource or mineral deposit, and to fall when a degree of utilization approaching its production capacity was reached.1/ This deterioration would persist until such time as other sources of income made their appearance on the national economic scene. In the past, this process was often repeated thanks to the abundance and variety of Peru's natural resources.

Since the mid-1950s, a marine resource - anchoveta - has provided the main spur to Peru's economic growth. Its catch and conversion into fish meal and oil required a large fleet of bigger and bigger vessels, and plants stretching the length of the Peruvian coast. By the end of the 1960s, however, the anchoveta catch had, in the opinion of the experts, reached a natural ceiling of around 11 million tons.2/

Within the above context, the prospects for the present decade were not too bright. The rate of population growth rose to an estimated 3.5 per cent annually. Moreover, the industrial development initiated in previous years was not directed towards the export market, while using a high proportion of imported inputs, so that it exercised strong pressure on the current capacity to import. Moreover, the possibility of increasing exports was limited by the fact that the area sown to exportable crops remained static and the yields per hectare on this land were already among the highest in the world. As regards the mining potential, in spite of a widely published list of concessions granted to foreign capital, no interest had been shown in developing it.

It was therefore considered imperative to launch a long-term plan in which the initiative in investment designed to increase exportable production or replace imported inputs would be the responsibility of

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1/ See ECLA, Tendencias y estructuras de la economía del Perú en el último decenio (E/CN.12/925), 1972, p. 3 et seq.

2/ See ECLA, Economic Survey of Latin America, 1971 (United Nations publication, Sales Nº: E.73.II.G.1), pp. 216-217, and Ibid., 1972 (Sales Nº: E.74.II.G.1), pp. 147-148.

/the public

the public sector instead of depending on the interest of private promoters.

The plan formulated in 1968 followed these general lines, although it was not until after 1970 that international conditions were such that new public enterprises and the central government were able to obtain adequate external financing. When this happened, it became possible to launch extensive long-range irrigation projects in areas devoted to export agriculture, in exploration and other activities for the development of mineral deposits whose concessions had reverted to the State, in exploration for hydrocarbons in new areas and their transport to Pacific ports, and, lastly, in the development of heavy industry.

Although the contracting of external financing for these projects was highly satisfactory from 1971 onwards, the current capacity to import followed a discouraging course. Its main component, exports of goods, remained static in real terms up to 1972, after which it started to decline. Thus, in the period 1970-1975, exports dropped at an average rate of 6 per cent annually. Thanks to the rise in their unit value in 1974, however, their purchasing power declined more slowly, at an average rate of 4 per cent annually.

Although the aforementioned problems of capacity would account for the stagnation of some exports, their decline was also attributable to other factors. Of these, one was exclusively due to natural causes: the decrease in the anchoveta catch to one-fifth of the levels prevailing at the end of the 1960s, which in turn was reflected in a rapid drop in exports of fish meal. The index of these exports, with 1970 as the base year, reached a level of only 19 in 1973.3/ Although the index recovered somewhat in the next two years, the figures for 1974 (32) and 1975 (38) clearly show the magnitude of the decline since 1970. As a result, the value of exports of fish meal dropped from about 300 million dollars in 1970 to less than 110 million in

3/ See International Monetary Fund, International Financial Statistics, April 1976.

1975,4/ in spite of the fact that in the latter year the unit value was 50 per cent higher than in 1970.

The second export commodity whose output has declined over a very long period is medium-staple cotton. Despite the increase in production and exports of extra-long-staple cotton (pima), total production of cotton declined. The index dropped from 100 in 1970 to about 65 in 1973 and 1974, and to a little over 40 in 1975.5/ This drop was partly due to the competition between cotton and food crops for the use of arable land.

The fall in cotton exports was also due to the increase in the consumption of the Peruvian spinning mills (which is estimated to have grown by about 5 per cent annually up to 1973). These mills caused the value of cotton exports to drop from about 100 million dollars in 1974 to 66 million in 1975.

The two products mentioned above had a considerable influence on the deterioration of Peru's exports. However, other products also recorded export indexes that were consistently lower than in 1970. This was true of copper exports, which in 1970 contributed nearly 270 million dollars, but which dropped in value to less than 110 million dollars in 1975. This also happened in the case of iron, exported in the form of ore and pellets, the export volume of which has not been as high as the 1970 level in any subsequent year. The same situation arose with respect to sugar, exportable supplies of which were limited, on the one hand, by an area that is difficult to expand and has one of the highest yields per hectare in the world and, on the other hand, by a constantly growing consumption. Some crops, as distinct from those already mentioned, are not faced with problems of capacity but have been limited by international arrangements. This applies to coffe and cocoa, which are produced mainly in the extensive Amazon valley.

4/ See the statements of the Ministry of Commerce in The Lima Times, 26 March 1976.

5/ See International Financial Statistics, op. cit.

/In actual

In actual fact, only medium- and small-scale silver, copper, zinc and lead mining have increased their supply, responding flexibly to the variations in prices. Thus, the volume of exports of this sub-sector increased up to 1974 owing to the rise in prices; when these fell in 1975, the volume also dropped.

In the last instance, therefore, the investment plan came to depend on the credit contracted abroad and the counterpart financing which the finance sector and the central government were able to provide. Available data show that in 1974 and 1975 the former reached a very high level. In fact, the balance of payments recorded long-term capital inflows of 1,254 million and 1,200 million dollars, respectively, in those years. Domestic financing also remained at a high level during this period.

The fact that this should occur precisely when imported inflation was most virulent, brings to the fore the dilemma that faced the Peruvian authorities during this period. To continue with investment under the long-term programme meant increasing the liquidity in the economy through credit and the fiscal deficit. This deficit in itself had its own element of impetus. Central government income had dropped owing to the recession in export activities, the high level of fiscal incentives to industrial development, tax exemptions in favour of most public enterprises and the failings in the systems of tax collection where direct taxes other than those on wages and salaries were concerned. Thus, the inflationary process which already existed was accentuated by the financing of the long-term programme.

Furthermore, the authorities were not completely free to choose the course of suspending investment. In fact, most of the long-term external financing was assigned to specific projects, more often than not negotiated jointly with various sources of funds in the industrialized countries.6/ These projects had been the object of international bids and the contractors had already incurred expenditure which they could

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6/ See ECLA, Economic Survey of Latin America, 1974 (United Nations publication, Sales No: E.76.II.G.1), p. 310.

/only recover

only recover provided the normal time-table of the investment were observed.7/ Therefore, if the projects were suspended, the flows of external capital linked with them would cease and the contractors could claim the indemnification stipulated in the agreements. The foreign suppliers of equipment and materials could do likewise.

Moreover, the projects financed with external funds had been fully justified. Some were intended to increase the country's crop-growing capacity; others to enable regionally redundant crops to be transferred to deficit markets; investment in metal-mining activities would serve to increase the current capacity to import; the investment in hydrocarbons could moreover be expected to reduce the growing shortage and even generate an exportable surplus; lastly, the investment in industry would reduce the excessive dependence of the manufacturing sector on imported inputs. Not to continue with these projects would therefore involve a substantial risk for economic development in the immediate and foreseeable future.

These circumstances hampered anti-inflationary policy and, in general, the possibilities of restrictive action in the face of the external situation. In other words, the decision-making powers of the Peruvian authorities may be assumed to have been somewhat undermined. Either of the two options - the long-term plan or conjunctural policy - involved a high cost. This explains why they did not give way with respect to the former and why, as will be seen later, their anti-inflationary policy was not particularly vigorous.

7/ In January 1976, the Ministry of Economic Affairs informed the country that between 1968 and 1975 public investment in the above-mentioned projects had entailed an expenditure of approximately 1,700 million dollars, but that only 29 per cent of this amount had been spent on projects that were already completed (see Ministry of Foreign Affairs, "Exposición al país y conferencia de prensa del Ministerio de Economía", Anexo al Boletín Informativo del Ministerio, Nº 1829, Lima, January 1976).

2. Recent economic trends

(a) Total supply and demand

As mentioned above, the rate of growth of the product declined in 1975. At the same time, the growth rate of the volume of imports dropped sharply following a spectacular increase (43 per cent) in the previous year. As a result, total supply rose in 1975 by less than 5 per cent, or less than half the rate reached in 1974 (see table 2).

The growth of demand in 1975 was due exclusively to the increase in domestic demand. The volume of exports fell, in contrast, by 8 per cent, thereby accentuating their decline in the period 1971-1974.

As in the four preceding years, investment was the most dynamic component of domestic demand. Gross capital formation, which in 1974 increased at the exceptional rate of 26 per cent, rose by nearly one-fifth in 1975. Thus, in 1975 it amounted in real terms to almost twice the figure for 1970.

The expansion of consumption, particularly private consumption, was slower in 1975. The rate of increase was just over 4 per cent, or one-third of the exceptionally high rate recorded in the previous year. On the other hand, general government consumption rose by nearly 7 per cent, thus maintaining the rate of expansion of the previous four years (see table 2).

(b) Sectoral developments

In 1975 the evolution of the various goods-producing sectors showed marked contrasts. While the agricultural product dropped slightly and the mining product fell by more than 10 per cent, manufacturing grew by 6 per cent and construction activities continued their exeptional expansion of the previous year (see table 3).

(i) Agriculture. Agricultural production increased by only 1 per cent in 1975 (see table 4). This rate of growth, which was slower than in previous years, was due to a drop of more than 2 per cent in agricultural supply, which was not offset by the increase of over 8 per cent in livestock production.

/Table 2

Table 2

PERU: TOTAL SUPPLY AND DEMAND

	Millions of soles at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	1974	1975 a/	1970	1975 a/	1971-1973	1974	1975 a/
Total supply	274 386	364 046	381 386	116.1	122.1	5.9	11.6	4.8
Gross domestic product	236 246	299 919	311 916	100.0	100.0	6.0	6.6	4.0
Imports	38 140	64 127	69 470	16.1	22.1	5.5	43.3	8.3
Total demand	274 386	364 046	381 386	116.1	122.1	5.9	11.6	4.8
Domestic demand	226 374	324 781	345 282	95.8	110.6	8.4	13.9	6.3
Gross domestic investment	28 800	48 832	56 499	12.2	18.0	9.6	29.0	15.7
Gross fixed investment	29 478	48 046	57 768	12.5	18.4	9.0	25.8	18.3
Public	11 508	26 825	32 175	4.9	10.3	14.1	56.5	16.2
Private	17 970	21 221	25 593	7.6	8.1	5.4	0.8	20.6
Total consumption	197 574	275 949	288 783	83.6	92.6	7.8	11.6	4.7
General government	28 306	36 768	39 305	12.0	12.3	6.6	7.2	6.9
Private	169 268	239 181	249 478	71.6	80.3	7.9	12.3	4.3
Exports	48 012	39 265	36 104	20.3	11.5	-5.3	-4.4	-8.1

Sources: 1970-1974: ECLA calculations on the basis of figures supplied by the Banco Central de Reserva del Perú;
1975: ECLA estimates on the basis of data from the same source.

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

a/ Preliminary figures.

/Table 3

Table 3

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

	Millions of soles at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	1974	1975 a/	1970	1975 a/	1971-1973	1974	1975 a/
Agriculture	42 455	42 197	41 968	19.8	15.2	-1.5	4.1	-0.5
Crop farming and stock-raising	36 731	39 515	39 753	17.2	14.4	1.7	2.3	0.6
Fishing	5 724	2 682	2 215	2.6	0.8	-31.4	40.9	-17.4
Mining	19 050	19 954	17 759	8.9	6.4	0.8	2.5	-11.0
Manufacturing	35 966	48 612	51 529	16.8	18.7	7.8	8.0	6.0
Construction	12 550	19 714	23 656	5.9	8.6	9.6	19.5	20.0
Subtotal goods	110 021	130 477	134 912	51.4	49.0	3.4	7.4	3.4
Electricity, gas and water	2 831	...	...	1.3	...	6.4	...	...
Transport and communications	11 340	...	...	5.3	...	8.8	...	...
Subtotal basic services	14 171	...	...	6.6	...	8.3	...	...
Commerce, financial establishments and insurance	34 162	...	...	16.0	...	6.2	...	...
Real estate b/	10 877	...	...	5.1	...	4.5	...	...
Communal, social and personal services c/	44 930	...	...	20.9	...	8.0	...	...
Subtotal other services	89 969	...	...	42.0	...	6.9	5.6	...
Subtotal services	104 140	134 200	140 482	48.6	51.0	6.8	5.7	4.7
Total gross domestic product	214 161	271 883	282 758	100.0	100.0	6.0	6.6	4.0

Sources: 1970-1974: ECLA calculations on the basis of figures supplied by the Banco Central de Reserva del Perú;
1975: ECLA estimates on the basis of official data from the same source.

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

a/ Preliminary figures.
b/ Refers to housing only.
c/ Also includes restaurants, hotels and business services.

/Table 4

Table 4

PERU: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1973	1974	1975 a/	Annual growth rates 1971-1973	1974	1975
Index of agricultural production (1973 = 100)	94.1	100.0	102.3	103.3	2.1	2.3	1.0
Crop farming	...	100.0	100.2	97.7	...	0.2	-2.5
Stock-raising	...	100.0	106.8	115.9	...	6.8	8.5
Production of some crops (thousands of tons)							
Rice		440	468	504		6.4	7.7
Cotton		244	237	210	...	-2.9	-11.4
Coffee		65	65	60	...	-	-7.7
Sugar cane		8 746	9 179	8 966	...	5.0	-2.3
Potatoes		1 712	1 720	1 581	...	0.5	-8.1
Maize		...	550	610	...	...	10.9
Yuca		...	470	350	...	...	-25.6
Wheat		...	142	108	...	...	-23.9
Indicators of some livestock products (thousands of tons)							
Poultry meat		82	103	130	...	25.6	26.2
Beef		73	75	77	...	2.7	2.7
Milk		588	590	600	...	0.3	1.7

Source: Banco Central de Reserva del Perú.

a/ Preliminary figures.

/The decrease

The decrease in agricultural supply was, in its turn, due to the smaller output of export crops. Among these, the production of sugar cane dropped by 2 per cent and that of coffee by 8 per cent. Cotton production continued its prolonged declining trend and fell by 11 per cent. This trend exclusively affected the principal variety of medium-staple cotton, i.e., tanguis, and is attributable to the instability of world prices, the stable exchange rate and the rise in domestic food prices, all of which contributed to the replacement of cotton-growing by other crops in the central coast valleys.

As regards crops destined mainly for domestic consumption, the production of cereals rose by approximately 7 per cent. Maize production increased by nearly 11 per cent, owing partly to the increase in area sown in the coastal region, and partly to the relatively favourable weather condtions in other producing areas. The production of rice, which is grown in coastal areas as well as in the valleys of the rivers flowing into the Amazon, increased at a satisfactory rate for the second year running (see table 4).

On the other hand, wheat production dropped sharply. This drop, like the decrease in the production of potatoes (8 per cent), reflected the impact of the unfavourable domestic prices of these commodities, particularly if they are compared with those of competitive crops which are less important in the Peruvian diet and were therefore not subject to price controls.

Livestock production rose by more than 8 per cent in 1975, largely as a result of the continuing expansion of poultry production in the central coastal region. In contrast, the production of red meat and milk once again rose at a fairly moderate rate.

(ii) Fishing. Fishing in Peru grew at a spectacular rate in the 1950s and the 1960s, thanks to the rapid development of anchoveta fishing and the use of this species in the manufacture of fish meal. At the end of the 1960s, fish meal was Peru's major export commodity. In the 1970s, however, the industry entered a period of prolonged recession with the disappearance, for reasons which are still the subject of considerable controversy, of the huge banks of anchoveta.

/In 1973,

In 1973, for example, the volume of the anchoveta catch was less than one-fifth of that obtained in the two years 1971-1972. From this low level, it increased by 41 per cent in 1974 (see table 5). This increase gave rise to optimistic expectations, the assumption being that the declining cycle of anchoveta fishing was over. Thus, at the beginning of 1975 it was estimated that the catch would increase again that year, this time by 15 per cent. These expectations were not fulfilled, however, and the anchoveta catch was finally 21 per cent lower than in 1974. The consequent reduction in the supply of fish meal prompted the Government to limit exports in order to meet the growing demand from the livestock industry.

(iii) Mining. The activities involved in the exploration and opening of new mines have been the object of large-scale investment in the present decade. In contrast, less investment has been devoted to expanding or improving the capacity of mines already being exploited. This explains why, in spite of the high proportion of total investment absorbed by this sector, its product should have increase so slowly. In the years 1971-1972 the rate of growth was 1 per cent annually, rising to 3 per cent in 1973, and 2 per cent in 1974. In 1975 the mining product suffered a sharp and substantial fall (11 per cent) (see table 3).

Several factors account for this deterioration. In the case of copper, two main factors were responsible for the 16 per cent drop in production. In the first place, Peru, as a member of the Intergovernmental Council of Copper Exporting Countries (CIPEC), supported the decision that the world's supply of copper should not be increased, and, although the Government did not give any instructions to reduce production, neither did it encourage its growth. Secondly, the world price of copper dropped by 40 per cent in 1975. While this did not affect copper production in the Toquepala mine, it resulted in the closing of or slowing down of work in mines that had been developed during the period of rising copper prices.

/Table 5

Table 5

PERU: INDICATORS OF FISHERY PRODUCTION

	1970	1973	1974	1975 a/	Annual growth rates 1971-1973	1974	1975
Index of fishery production (1973 = 100)	329.1	100.0	140.9	116.4	-32.8	40.9	-21.1
Output of fishery products (thousands of tons)							
Total	12 481	2 289	4 125	3 436	-43.2	80.2	-16.7
For consumption b/	185	294	324	263	16.5	10.2	-18.9
For fish meal and oil	12 296	1 995	3 801	3 173	-45.4	90.6	-16.5

Source: Banco Central de Reserva del Perú.

a/ Preliminary figures.

b/ Comprises fresh and processed fish consumed in the country or exported.

/As regards

As regards other non-ferrous metals, the production of lead dropped by 10 per cent, that of zinc by 6 per cent and that of silver by 7 per cent (see table 6). These three metals should be examined together in the case of Peru, since it frequently happens that the mines contain two or more of these products in commercial quantities. Moreover, many of the mines are fairly small.8/ Accordingly, the enterprises concerned, although highly sensitive to variations in the prices of these metals, are favoured by the combination of metals contained in the ore when prices follow trends which compensate for one another. In 1975, however, the prices of all three metals dropped in relation to 1974, while those of zinc and lead fell even below the 1973 prices. The simultaneous nature of these drops thus created negative conditions for production in all the mines, added to which were those deriving from the high prices of petroleum and imported inputs. As a result, many of the medium- and small-scale mines were forced to cut back their production in spite of the special financing granted to them by the government development bank with the aim of preventing a larger scale of unemployment in the country.

On the other hand, the fall of 19 per cent in the production of iron ore was due to special circumstances. The principal mine, which is an opencut mine, was exploited up to 1974 by the Marcona Corporation, a subsidiary of the multinational enterprise, the Utah Corporation. The negotiations for its nationalization which started in 1971 prompted this subsidiary company to work the mine more vertically.9/

8/ It is estimated that 40 per cent of total mining production comes from medium- and small-scale enterprises, 30 per cent from public enterprises and 30 per cent from large-scale foreign companies.

9/ This reduces the cost, since the sterile rock covering the ore need not be removed, an operation which normally has a technical limit in terms of the acceptable risk of the walls of the tunnel caving in.

/Table 6

Table 6

PERU: INDICATORS OF MINING PRODUCTION

	1970	1973 a/	1974 a/	1975 b/	Annual growth rates 1971-1973	1974	1975 b/
Index of mining production (1973 = 100)	96	100	103	91	1.4	3.0	-11.7
Production of some important minerals							
Copper (thousands of tons of fines)	218	215	223	187	-0.5	3.7	-16.1
Silver (thousands of kilograms of fines)	1 217	1 288	1 218	1 133	1.9	-5.4	-7.0
Lead (thousands of tons of fines)	164	215	202	181	9.4	-6.0	-10.4
Zinc (thousands of tons of fines)	360	480	467	440	10.0	-2.7	-5.8
Iron (thousands of tons of fines)	6 117	5 852	6 220	5 067	-1.5	6.3	-18.5
Petroleum (millions of barrels)	22.6	25.8	28.2	26.2	4.5	9.3	-7.1

Source: Banco Central de Reserva del Perú.

a/ Preliminary figures.
b/ Estimates.

/The Government

The Government nationalized Marcona in 1975 and a new public enterprise, Hierroperú, took over the operation of the mine. The main problem facing Hierroperú was the marketing of the product. The market for iron ore is administered, that is, there is actually no world price for it, the transactions being effected by means of contracts between producers and users. Hierroperú found that the users of this ore were unable to continue purchasing owing to opposition from the Marcona Corporation, the shipping subsidiary of Utah and Marcona International (Panama), which were involved in the above-mentioned sales contracts.

Shipments were suspended and work in the mines proceeded slowly, while new sales contracts were being drawn up. Shipments were resumed at the end of the year, but on a limited scale since they consisted exclusively of special products of vital importance in steelmaking. Since then, sales agreements have been signed with several countries, including Venezuela.

Production of crude oil dropped by 7 per cent, reflecting not only the depletion of the old reservoirs on the northern coast, but also the existence of technical problems in the operation of the rest of the reservoirs in that area. The reactivation of some wells, which were of marginal profitability at the prices prevailing before 1974, and the still somewhat small-scale Amazon production, failed to compensate for the above factors.

In 1975 the development of the oilfields in the Amazon valley proceeded, as also the work on the trans-Andean pipeline, 367 kilometres of pipe having already been laid. In the Marañón River area alone, 159 structures have been discovered through the seismic method of exploration, of which 41 have been drilled so far and 16 have proved productive. Exploration south of the Marañón River has not been so successful, although one company discovered petroliferous structures in Madre de Dios. The upshot was that 12 out of the 16 private foreign companies which had obtained concessions in the valley started to wind up their operations. In all, proven reserves of 550 million barrels - i.e., which can actually be extracted - were discovered between 1971 and 1975.

/According to

According to preliminary estimates of Petroperú,10/ the consumption of petroleum products declined in 1975. This decline, which contrasts with the trend in previous years, was apparently due to the rise of 110 per cent in consumer prices in 1975.

(iv) Manufacturing. In 1975 the growth rate of the manufacturing product was 6 per cent, compared with the average rate of 8 per cent for the period 1971-1974. However, an analysis at a lower level of aggregation affords a more favourable picture than that presented by the overall figures (see table 7 and table 3).

If the fish meal industry is excluded, the growth rate of the sector was maintained at around 6.5 per cent. This was due to the rapid growth of the sub-sector producing intermediate goods (8 per cent) and the renewed dynamism of the sub-sector producing capital goods (18 per cent). Their expansion thus more than counterbalanced the relatively weak rate of increase of slightly over 2 per cent in the production of manufactured consumer goods.

Among the consumer goods industries, the production of textiles dropped by 4 per cent, that of tobacco by 3 per cent and that of furniture by 2 per cent. Food production was affected by the stagnation in the sugar refining capacity and grew by only 2 per cent. In contrast, output of beverages rose by 7 per cent, and that of footwear and made-up textile goods by 2 per cent.

In the sub-sector producing intermediate goods, the only drops were in the production of processed wood and paper and paper products. The growth of the supply of basic metals was fairly slow, in spite of the entry into production of the Ilo refinery. The rest of the components of this sub-sector expanded vigorously. Chief among them was the chemical industry, with a growth of 15 per cent, the main increases being in the production of acrylic fibre, caustic soda and compound fertilizers. Petroleum refining increased by only 5 per cent, but a higher proportion of catalytic cracking led to a fairly large increase in solvents, agricultural oils and other non-fuel products.

10/ See Petroperú, Petróleo en el Perú: presente y futuro, Lima, 1975.

/Table 7

Table 7

PERU: INDICATORS OF MANUFACTURING PRODUCTION

	1970	1973	1974	1975 a/	Annual growth rates 1971-1973	1974	1975
Index of manufacturing production							
Factory industry b/		164.1	174.8	186.3		6.5	6.6
Factory industry c/		152.8	164.9	174.8		7.9	6.0
Consumer goods industries		158.3	166.5	170.7		5.2	2.5
Intermediate goods industries b/		161.7	175.3	189.3		8.4	8.0
Intermediate goods industries c/		135.9	152.3	162.0		12.1	6.4
Capital goods industries		203.0	215.5	255.2		6.2	18.4
Production of some important manufactures							
Sugar (thousands of tons)	386	485	526	550	7.9	8.4	4.6
Export sugar (thousands of tons)	386	413	467	413	2.3	13.1	-11.6
Acrylic fibre (Tow) (thousands of tons)	-	7	10	11	-	42.9	10.0
Caustic soda (thousands of tons)	-	33	36	40	-	9.1	11.1
Calcium superphosphate (thousands of tons)	11	15	6	7	10.9	-60.0	16.7
Total refined petroleum (millions of barrels)	29	37	40	42	8.5	8.1	5.0
Passenger cars and station-wagons (thousands)	10	20	19	21	26.0	-5.0	10.5
Commercial vehicles (thousands)	3	12	11	13	58.6	-8.3	18.2
Tyres for passenger cars and lorries (thousands)	606	744	767	810	7.1	3.1	5.6
Other indicators of industrial production							
Consumption of electricity by industry in Lima and Callao (millions of KWH)	975	925	1 001	1 060		8.2	5.9

Source: Banco Central de Reserva del Perú.

a/ Preliminary figures.
b/ Excluding fish meal.
c/ Including fish meal.

/The growth

The growth rate of the industries producing durable goods accelerated in 1975. Their output, which had increased by 6 per cent in 1974, rose by 18 per cent in 1975. A decisive factor was the recovery of the assembly of vehicles. This industry increased by 10 per cent in 1975 to slightly over 34,000 units, one-third of which were utility vehicles. Production of machinery other than electrical grew at a rate of 58 per cent and that of electrical equipment, including consumer items, by 13 per cent.

(v) Construction. In 1975 the construction sector maintained its previous dynamism, growing by 20 per cent. This was largely due to the continued large-scale investment by the Government and public enterprises, which included irrigation works, port works, fishery terminals and the pipeline linking the Pacific Ocean with the Amazon oilfields.

There were ample financial resources available for the construction of dwellings and other urban work. However, the rise in the prices of urbanized land and of building in general led to a marked decline in the growth rate of this activity towards the end of the year.

(vi) Other sectors. The generation of electricity continued to increase at a rate of over 10 per cent. This trend was influenced by the interconnexion of regional systems, which in several cases enabled the maximum load to be increased. Transport activity grew by over 7 per cent and commerce by no more than 3 per cent.

3. The external sector

As noted earlier, foreign trade followed an unfavourable trend in 1975. The value of exports of goods fell by 12 per cent, as a result of drops in both volume (8 per cent) and unit value (5 per cent). In contrast, the value of imports rose by 25 per cent after virtually doubling in 1974. The rise in 1975 was due to similar increases in volume and unit value (see table 8).

/Table 8

Table 8

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

(Percentage)

	1971	1972	1973	1974	1975
Exports of goods					
Value	-14.0	6.3	17.9	41.1	-12.3
Volume	-7.6	7.2	-17.5	-3.8	-7.8
Unit value	-7.0	-0.9	43.0	46.7	-4.9
Imports of goods					
Value	4.4	11.3	27.4	93.1	24.7
Volume	1.7	3.9	11.2	55.7	11.4
Unit value	2.7	7.1	14.6	24.1	12.0
Terms of trade	-9.4	-7.4	24.8	18.3	-15.1

Source: ECLA, on the basis of official statistics.

As a result of the rise in the unit value of imports and the drop in the average price of exports, the terms of trade fell by 15 per cent, after the favourable trend recorded in the previous two years. The drop in the terms of trade in its turn contributed to a 22 per cent decrease in the purchasing power of exports.

(a) Exports

The current value of exports of goods fell from slightly over 1,570 million dollars in 1974 to just below 1,380 million in 1975, owing to the sharp drop in the value of the main commodities exported.

As regards agricultural products, exports of cotton dropped from a value of approximately 100 million dollars in 1974 to 66 million in 1975 (see table 9). Sales of sugar continued to be favoured by the relatively high world prices, rising from about 200 million dollars in 1974 to 265 million in 1975. The same situation arose in connexion with coffee exports, which went up from 35 million to around 50 million between these two years.

In contrast, exports of fish meal were 46 per cent lower in value than in 1974, decreasing from a little over 200 million dollars in 1974 to only 108 million in 1975.

As regards metals, exports of silver and zinc increased. In the case of copper, however, the simultaneous fall in the volume exported and in world prices caused the value of exports to fall from 300 million dollars in 1974 to just over 180 million in 1975. The export values of iron and lead also declined.

The above trends led to fairly substantial changes in the structure of exports, which became more diversified. Thus, in 1975, copper and fish meal, which have traditionally been the major export commodities, fell back to second and fith place, respectively. Sugar, on the other hand, which had shared third place with iron in 1970, became the most important source of foreign exchange, while silver and zinc advanced to third place (see table 9).

/Table 9

Table 9

PERU: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars at current prices (FOB)				Percentage breakdown		Annual growth rates		
	1970	1973	1974	1975	1970	1975	1971-1973	1974	1975
Main export products	937	901	1 252	1 079	90.6	78.3	-1.3	39.0	-13.8
Fish meal	294	136	202	108	28.4	7.8	-22.6	48.5	-46.5
Copper	269	284	301	183	26.0	13.2	1.8	5.7	-39.1
Sugar	66	89	197	265	6.4	19.2	10.3	121.9	34.3
Iron	66	61	75	54	6.4	3.9	-2.6	23.6	-28.1
Silver	62	69	137	156	6.0	11.3	3.6	99.0	14.0
Cotton	53	62	97	66	5.1	4.8	5.5	54.9	-31.4
Zinc	47	93	150	156	4.5	11.8	25.8	61.2	3.4
Coffee	45	64	35	47	4.3	3.4	12.9	-45.9	35.1
Lead	35	43	58	44	3.4	3.2	6.6	34.9	-24.5
Others	97	213	320	299	9.4	21.7	30.0	50.2	-6.6
Total	1 034	1 114	1 572	1 378	100.0	100.0	2.5	41.1	-12.3

Source: Banco Central de Reserva del Perú.

/(b) Imports

(b) Imports

The value of imports of goods has increased steadily since 1970. It rose at an exceptionally high rate as from 1973, when it exceeded 1,000 million dollars; it doubled this extraordinarily high figure in 1974, and soared once again in 1975 (see table 10).

This trend is attributable to the demand for inputs from the manufacturing sector and, since 1973, to purchases of equipment. In 1975, too, the propensity to accumulate stocks increased and imports of hydrocarbons rose.

Imports of consumer goods went up by 51 per cent in 1975, but continued to represent only one-tenth of total imports.

The value of imports of intermediate goods, which had increased by over 70 per cent in 1974, also rose by more than 50 per cent in 1975. Part of this increase may be ascribed to the rise in both volume and price of imported petroleum. As a result, the value of petroleum and fuel imports more than doubled in 1974 and rose by one-third in 1975.

Imports of capital goods followed a rising trend similar to that of the aforementioned groups. Between 1970 and 1975 they tripled in value, while their relative position declined from 32 to 30 per cent.

(c) Services on current account

The value of exports of services increased slowly in 1975, accounting for 284 million dollars of the country's foreign exchange earnings. Payments for imported services were almost twice this amount and were 40 million higher than in 1974.

These movements were reflected in a current account deficit of nearly 1,570 million dollars, a considerably higher figure than in 1974 (850 million), which, in its turn, had quadrupled the 1973 deficit of just under 210 million dollars (see table 11).

(d) Capital account

The financing of the large deficit on current account in 1975 showed some special characteristics.

/Table 10

Table 10

PERU: VALUE AND BREAKDOWN OF IMPORTS OF GOODS

	Millions of dollars at current prices (FOB)				Percentage breakdown		Annual growth rates		
	1970	1973	1974	1975	1970	1975	1971-1973	1974	1975
Consumer goods	88	154	165	250	12.6	10.0	20.4	7.1	51.2
Non-durable	72	102	116	...	10.3	...	12.5	12.9	...
Durable	16	52	49	...	2.3	...	47.0	-4.4	...
Intermediate goods	309	464	797	1 230	44.2	49.4	14.5	71.7	54.3
Petroleum and fuels	12	57	119	(160)	1.7	...	66.8	110.6	34.2
Others	297	407	678	...	42.5	...	11.1	66.3	...
Capital goods	224	381	563	750	32.1	30.0	19.2	47.7	33.2
Total a/	699	1 035	1 998	2 491	100.0	100.0	14.0	93.1	24.6

Sources: 1970-1974: Banco Central de Reserva, Indices de comercio exterior, Lima, August 1975; 1975: Official statistics.

a/ Including miscellaneous and adjustments.

/Table 11

Table 11

PERU: BALANCE OF PAYMENTS

(Millions of dollars)

	1970	1972	1973	1974	1975 a/
Current account					
Exports of goods and services	1 212	1 152	1 352	1 845	1 662
Goods FOB	1 034	945	1 114	1 572	1 378
Services	178	207	238	273	284
Transport	69	63	78	109	111
Travel	41	60	72	78	86
Imports of goods and services	960	1 103	1 402	2 504	3 037
Goods FOB	699	812	1 035	1 999	2 491
Services	261	291	367	505	546
Transport	123	161	181	315	364
Travel	51	45	54	60	61
Net payments of profits and interest on foreign capital	-148	-121	-163	-198	-203
Profits	-85	-47	-80	-93	-98
Interest	-63	-74	-83	-106	-104
Net private transfer payments	26	7	6	6	11
Balance on current account	130	-65	-207	-851	-1 567
Capital account					
Net external financing (a+b+c+d+e)	-130	65	207	851	1 567
(a) Net external non-compensatory capital	-53	143	433	1 325	
Direct investment	-77	23	86	91	
Long- and medium-term loans	278	334	786	1 254	
Amortization payments	-199	-264	-392	-416	
Short-term liabilities (net)	-111	17	-82	354	1 024
Official transfer payments	56	33	36	42	
(b) Domestic non-compensatory capital or assets	194	6	-55	-150	
(c) Errors and omissions	14	-111	-63	-65	
(d) Allocation of SDRs	14	14	-	-	-
(e) Net compensatory financing (minus sign signifies an increase)	-299	13	-107	-259	543
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	20	72	-	-	-
Amortization payments	-27	-3	-73	-17	-
Foreign exchange reserves (minus sign signifies an increase)	-254	-42	-1	-242	539
Gold reserves (minus sign signifies an increase)	-24	1	-38	-	-
SDRs (minus sign signifies an increase)	-14	-14	5	-	4

Sources: 1970-1974: International Monetary Fund, Balance of Payments Yearbook, vol. 27:
1975: ECLA, on the basis of preliminary official data.

a/ Estimates.

/The long-term

The long-term capital account (including direct investment) rose from 745 million dollars in 1974 to around 1,140 million in 1975. A comparison of this item with other balance-of-payments items brings out the importance of this source of funds. For example, as noted earlier, the value of exports of goods in 1975 was nearly 1,380 million dollars, while imports of capital goods amounted to 750 million dollars and imports of intermediate goods to 1,230 million dollars.

The loans contracted for specific projects kept to the programmed schedule of disbursements with only minimal changes. Although tied in this manner, such resources helped considerably to bring the inflow of long-term capital to a very high level.

Not all the capital flows followed the same trend, however. In the Eurodollar market, Peru's short-term indebtedness reflected a net payment of 59 million. This outflow, added to that under the head of loans contracted in other markets, caused the short-term capital account to finish the year with a net balance of 112 million dollars.

In order to cover the difference between availabilities and payments of external financial resources, recourse was had to international reserves, which, according to data supplied by the Banco Central de Reserva del Perú, fell from a level of nearly 700 million dollars at the end of 1974 to 150 million in December 1975.

4. Inflation

In 1975 inflation spurted for the second year running. The consumer price index, which had risen by 17 per cent in 1974, rose by 24 per cent in 1975 (see table 12).

Between 1969 and 1972 the Peruvian economy maintained a relative balance between the monetary, financial and fiscal variables and prices. During this period, prices rose at an annual rate of around 7 per cent. At the same time, money and credit grew by about 25 per cent annually.

/Table 12

Table 12

PERU: MAIN INDICATORS OF INFLATION AND ANNUAL VARIATION IN BANK CREDIT

	1971	1972	1973	1974	1975
	Percentage annual growth rates				
Main indicators of inflation					
Domestic prices	6.8	7.3	9.5	16.9	23.6
Export prices	-7.0	-0.1	43.0	46.7	-5.0
Import prices	2.7	7.1	15.8	24.5	12.0
Money	23.0	20.0	27.0	31.8	11.7a/
Credit	27.0	23.7	31.8	21.6	38.4a/
	Thousands of millions of soles				
Annual variation in bank credit					
Total bank credit		11.9	19.7	17.7	38.3a/
Government		5.3	6.2	-2.5	10.3
Official entities		0.7	5.8	15.7	16.2
Private sector		5.9	7.6	4.5	11.8

Sources: ECLA, on the basis of official statistics; and International Monetary Fund, International Financial Statistics, February 1976.

a/ Up to November.

/This balance

This balance began to be disrupted in the middle of 1973. Export prices rose by 60 per cent between June and December. One of the products whose price increased was cotton fibre, the production of which is divided between exports and the demand for inputs from the manufacturing sector. Its export price rose by more than 40 per cent in the first half of the year, which was reflected in a rise in the production costs of yarn, textiles, footwear and made-up textile goods. At the same time, the increase in the prices of non-ferrous basic metals raised the costs of an even bigger range of industries, including steelmaking and the manufacture of batteries, car radiators and electrical appliances.

In this first stage, imports had a moderately inflationary impact. Their unit value rose by 16 per cent, but the subsidies granted for imports of essential items prevented the cost-of-living index from increasing very much. This index, which had risen by 7 per cent in 1972, went up by only 10 per cent in 1973 (see table 12).

The second stage in the inflationary process occurred in 1974. The unit values of exports increased even more rapidly and import prices rose now by 24 per cent. Consequently, the level of domestic prices accelerated sharply, the rate of increase being 17 per cent. During that year, and in spite of the food subsidies granted, the rise in food prices was 19 per cent.

These factors increased the liquidity of the economy, first that of the export sector and later, through the demand for credit, that of the import sector. Thus, the currency issue rose by 32 per cent, which was considerably faster than the increase in prices. However, in that year the expansion of bank credit was reduced with respect to the 1973 rate. Its growth in 1974 was only 22 per cent, as a result of the reduction in the central government's indebtedness with the banking system and the moderate increase in the amount of credit to the private sector (see table 12).

This even further increased the cost of the subsidies which the central government granted directly for certain imported food items, and also of those granted indirectly by public enterprises, which

/refrained from

refrained from increasing their prices in the same proportion as their costs. Noteworthy among the second group was the case of fuels sold by Petroperú, which had to import more than one-third of the fuel it refined.

Since at the same time the investment required by the long-term plan continued, central government expenditure increased rapidly without an equivalent rise in its regular income. The total public sector deficit thus increased considerably, even though public enterprises were authorized to raise their sales prices.

As a result of the drop in international reserves, however, the rate of increase in the money supply in 1975 was relatively low (12 per cent in the first 11 months of the year). At the same time, credit increased at a much higher rate than in 1974. This situation was decisively influenced by the credit granted by the banking sector to both the government and the private sector. The former had reduced its indebtedness by 2,500 million soles in 1974, but in the first 11 months of 1975 it received 10,300 million, which is equal to more than one-quarter of total bank credit (see table 12).

For its part, the private sector, which had obtained credit amounting to 4,500 million soles in 1974 and in the same year had to resort to the unofficial Peruvian capital market which charges higher interest rates than the banking system, received nearly 12,000 million soles from the banking system in the first 11 months of 1975. In addition, the private sector seems to have maintained its demand in the unofficial market.

Thus, without losing sight of the fact that the recent inflationary process in Peru has been linked with world inflation, the acceleration experienced in 1975 was essentially the result of the domestic factors described. The most important of these factors were the expansion of credit, the price increases required to avoid losses in public enterprises, and the rise in the fiscal deficit.

DOMINICAN REPUBLIC

1. The overall picture

During 1975 there was a further slackening of the high rate of growth recorded by the Dominican economy during the first three years of the current decade. Thus, the gross domestic product increased by 11 per cent per year in the period 1971-1973, but the rate fell to 9 per cent in 1974 and to just over 6 per cent in 1975. Even so, the 1975 rate was still one of the highest in the region (see table 1).

Since the population increased by about 3.3 per cent a year, this evolution of the product meant that the per capita product rose from a level of 350 dollars in 1970 to the equivalent of about 480 dollars in 1975.

This trend was even more pronounced in the case of gross income because of the exceptional improvement in the terms of trade, which rose by 21 per cent in 1974, and by 48 per cent in 1975. Since the beginning of the decade real income has grown at a rate of 12 per cent a year, which is equivalent to an increase of 8 per cent in per capita income.

Although exports expanded at an unusually high rate in the last two years, doubling in value between 1973 and 1975 as a result of the high prices reached by sugar and other Dominican export products, the growth rates of the other economic activities diminished.

Productive activities, except for mining and electricity generation, grew more slowly than in the previous year. In general they were affected by the contraction of domestic demand, which partly resulted from the restrictive policy followed in the fiscal and monetary sphere with a view to containing inflation. Furthermore, the volume of exports diminished for the second consecutive year.

At the same time, agriculture and the agro-industries were hit by the consequences of a prolonged drought and then, in September, by hurricane Eloise which caused its greatest devastation to crops in the North of the country.

/Table 1

Table 1

DOMINICAN REPUBLIC: MAIN SHORT-RUN ECONOMIC INDICATORS

(Annual growth rates)

	1971-1973	1974	1975
Gross domestic product	11.4	8.9	6.2
Gross income a/	11.8	12.2	12.7
Per capita gross domestic product	7.8	5.4	2.8
Gross fixed investment	23.1	18.0	...
Value of exports	26.2	41.9	42.8
Value of imports	15.3	62.1	13.9
Terms of trade	1.1	21.4	47.6
Balance on current account b/	-81.0	-228.0	-63.0
Variation in reserves b/	19.0	7.0	30.0
Consumer price index	11.9	10.5	16.5
Money	16.9	46.4	-0.8
Current income of government	14.2	31.7	34.4
Total expenditure of government	14.0	32.3	8.8
Fiscal deficit/total expenditure of government c/	-4.6	-5.2	17.1

a/ Gross domestic product plus terms-of-trade effect.
b/ Absolute values in millions of dollars at current prices.
c/ Percentage.

/On the

On the supply side, the slower growth rate of production was combined with an increase of barely 1 per cent, in the import quantum, which had risen by 28 per cent in 1974. This resulted in an increase of only 5 per cent in total supply: less than half the growth rate registered in previous years.

During 1975 current public expenditure diminished in real terms, but public investment continued to expand as rapidly as in previous years. Unfortunately no information is available on the trends of private investment and consumption. However, it is estimated that domestic demand must have increased by around 7 per cent, which is about half the increase registered in the previous year (see table 2).

The containment of fiscal expenditure, bank credit and the money supply - which at the end of the year had diminished slightly compared with the December 1974 level - augured slower future growth in domestic prices. Furthermore, in an attempt to curb the expansion of its expenditure, the government set up a fund with the unusually high surpluses derived mainly from the higher prices of sugar. This fund will be used in the next few years to finance investment projects in the agricultural sphere.

Even so, domestic prices increased by 16.5 per cent between December 1974 and the end of 1975, compared with the rise of 10.5 per cent recorded in 1974. These results were undoubtedly influenced by the inadequacy of domestic supply, which was particularly low in the case of food products because of the meteorological factors already mentioned and the restriction of imports.

The accumulation of international reserves and their entry into the domestic monetary flow must have influenced the rise in prices too. Exports increased three times more than imports, and in addition to causing a substantial reduction in the current deficit of the balance of payments this contributed to an increase of over 30 million dollars in the Central Bank's currency reserves. In contrast, imported inflation was less serious in 1975, since the increase in the prices of imports (13 per cent) was half that of the previous year. This situation was very different from that obtained in 1974, when a considerable influence was exerted by the high price of petroleum - a product of which the country is a major importer - and also of other products.

/Table 2

Table 2

DOMINICAN REPUBLIC: TOTAL SUPPLY AND DEMAND

	In millions of Dominican pesos at 1970 prices			Percentage breakdown		Annual growt rates		
	1970	1974	1975[a]	1970	1975[a]	1971-1973	1974	1975[a]
Total supply	1 849	2 807	2 952	124.5	124.3	10.6	12.3	5.2
Gross domestic product	1 485	2 236	2 374	100.0	100.0	11.4	8.9	6.2
Imports	364	571	578	24.5	24.3	7.0	28.0	1.2
Total demand	1 849	2 807	2 952	124.5	124.3	10.6	12.3	5.2
Domestic demand	1 593	2 436	2 615	107.3	110.2	9.9	15.2	7.3
Gross domestic investment	284	592	...	19.1	...	20.2	20.0	...
Gross fixed investment	246	541	...	16.6	...	23.1	18.0	...
Construction	147	...	...	9.9	...	23.2	...	...
Machinery and equipment	99	...	...	6.7	...	22.9	...	...
Public	76	199	255	5.1	...	29.4	21.0	28.1
Private	170	342	...	11.5	...	20.0	16.3	...
Total consumption	1 309	1 846	...	88.2	...	7.3	14.0	...
General government	172	165	...	11.6	...	-2.6	4.0	...
Private	1 137	1 681	...	76.6	...	8.7	15.1	...
Exports	256	369	337	17.2	14.2	14.8	-4.6	-8.7

Sources: 1970-1974: ECLA calculations on the basis of figures supplied by the Central Bank of the Dominican Republic; 1975: ECLA estimates on the basis of official data.

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

a/ Preliminary figures.

/2. Sectoral

2. Sectoral developments

The rapid growth of the gross domestic product during the five-year period 1971-1975 was mainly due to increases in mining, manufacturing and construction. Commercial and financial activities, which until 1974 had increased at a rate of nearly 12 per cent a year, grew by only just over 3 per cent in 1975, being affected by the slower expansion of economic activity in general (see table 3).

Agriculture, for its part, developed even more slowly, and in 1975 the agricultural product actually diminished by nearly 2 per cent. Between 1970 and 1975, despite the efforts made by the government to encourage agricultural development, production grew at an average rate of 3.4 per cent a year, which was only about the same as the rate of population increase, and between these years the share of agriculture in the total product fell from 26 per cent to 19 per cent. However, it continues to be the most important economic activity and about half the population make their living from it.

Official information indicates that during 1975 there were very pronounced decreases in many of the principal agricultural products, so that the output destined mainly for domestic consumption declined by 18 per cent. The crops most affected were rice, maize, beans, sweet potatoes and onions. The fall in the output of export products appears to have been about 8 per cent, which is equivalent to the decline in sugar cane production (see table 4).

The production of meat and milk also declined, although to a lesser degree (4 per cent). This decrease was offset by the rise in poultry slaughtering which had already begun in 1974.

The two most direct causes of the adverse performance of agricultural production were the severe drought which affected agriculture until August and then, in mid-September, hurricane Eloise. The drought prevented sowing in about 60,000 hectares including 18,000 hectares of rice. The hurricane did not cause so much damage because the main agricultural areas of the country were those least affected by it. The damage caused by the two disasters is estimated at some 100 million pesos.

/Table 3

Table 3

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

	In millions of Dominican pesos at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	1974	1975[a]	1970	1975[a]	1971-1973	1974	1975[a]
Agriculture	342	411	405	25.8	19.2	5.2	3.3	-1.5
Mining	23	121	153	1.7	7.3	69.4	9.9	26.5
Manufacturing	221	347	372	16.7	17.6	12.2	11.2	7.2
Construction	73	153	169	5.5	8.0	23.3	12.6	10.0
Subtotal goods	658	1 033	1 099	49.7	52.1	13.3	8.0	6.4
Electricity, gas and water	18	28	30	1.3	1.4	14.3	6.5	8.0
Transport and communication	113	158	167	8.5	7.9	9.2	7.4	5.6
Subtotal basic services	131	186	197	9.8	9.3	9.9	7.2	6.0
Commerce, financial establishments and insurance	169	262	271	12.7	12.8	12.3	9.8	3.4
Ownership of dwellings	100	145	159	7.6	7.5	8.7	12.4	9.7
Communal, social and personal services b/	267	358	385	20.2	18.3	7.0	9.1	7.5
Subtotal other services	536	765	815	40.5	38.6	9.0	9.9	6.5
Total gross domestic product	1 325	1 995	2 119	100.0	100.0	11.4	8.9	6.2

Source: 1970-1974: ECLA calculations on the basis of figures supplied by the Central Bank of the Dominican Republic; 1975: Estimates.

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

a/ Preliminary figures.

b/ Includes restaurants, hotels and services provided to enterprises.

/Table 4

Table 4

DOMINICAN REPUBLIC: OUTPUT OF MAIN AGRICULTURAL PRODUCTS

	Thousands of 1973 pesos		Growth rates	
	1973	1975	1974	1975
Rice	39 079	33 730	-8.0	-6.1
Maize	7 120	4 512	-7.2	-31.7
Beans	22 899	12 865	11.3	-49.7
Pigeon peas	3 217	3 474	2.4	5.4
Sweet potatoes	8 058	3 293	-11.5	-58.0
Yams	3 375	3 439	2.7	2.3
Potatoes	2 386	2 909	-30.1	74.5
Arrowroot	5 931	4 873	3.0	-20.2
Cassava	19 277	17 680	-19.4	13.8
Pumpkins	1 346	1 386	-	3.0
Onions	1 271	1 430	60.5	-29.9
Tomatoes	1 259	1 202	2.9	-7.2
Plantains	62 279	37 966	-24.6	-19.2
Peanuts	6 362	4 427	-21.1	-11.8
Sugar (cane)	111 412	110 406	7.9	-8.2
Coffee	22 516	27 269	26.6	-4.4
Cocoa	20 654	22 211	32.0	-18.5
Tobacco	30 576	24 009	-22.8	1.8
Milk	20 510	19 110	3.8	-10.2
Beef	52 099	47 647	4.0	-12.0
Pork	11 224	11 822	2.9	2.4
Chicken	17 527	23 426	10.0	21.5
Total	471 077	419 086	-0.5	-10.6

Source: Ministry of Agriculture.

/In 1975

In 1975 the government's agricultural policy covered various aspects. As far as the encouragement of agriculture was concerned, a system of subsidies to farmers (particularly those producing food) was maintained and this guaranteed them a minimum fixed price which was periodically readjusted. The government also allocated a significant proportion of its investment resources to building up the rural infrastructure, with particular attention to irrigation projects. Thus, for example, it initiated the construction of the Sabaneta, Sabana Yegua and Rincón dams. It also allocated a fairly large amount (about 78 million 1975 pesos) in loans to the sector through the Agricultural Bank. In comparison, less credit was granted to agriculture by commercial banks - up to September they had lent 47 million pesos, a sum equivalent to the total disbursed in 1974.

During the year further progress was made in agrarian reform, a process which had begun some time back, and in the implementation of the "agrarian laws" of 1972. During the year, the Dominican Agrarian Institute distributed about 8,600 hectares divided into 1,890 plots. This made a total of 306,000 hectares divided among 42,700 smallholders. Recently there has been more emphasis on the establishment of collective settlements, which are expected to lead to a rise in productivity.

During the year a new impetus was given to mining when the firm Rosario Dominicana S.A., which has a production capacity of 350,000 ounces of gold and 1,500,000 ounces of silver, began to develop the country's gold and silver deposits. Thus the mining product increased by about 27 per cent in 1975: a percentage much higher than that registered in 1974, although lower than that obtained in 1972 and 1973 when ferro-nickel production began.

As for manufacturing, its growth rate in 1975 was much lower than the high rates recorded in the four previous years (see table 3). This slower growth is attributable to a combination of factors. The decline in agricultural production affected the regular supply of inputs and thus curbed the expansion of the agroindustries and the food industry, which have a great influence in the Dominican

/manufacturing sector.

manufacturing sector. There were also difficulties in the supply of electric energy because of technical faults in three power stations. Another factor was the slower expansion of demand caused by the restriction of credit and of monetary liquidity. In addition to this there was a decline in exports of non-traditional manufactured products. Thus, industry operated well below its production capacity throughout the year.

Nevertheless, the loss of dynamism in manufacturing did not affect the installation of new production capacity by the Dominican State Enterprises Corporation (CORDE) and the Industrial Development Corporation in the industrial parks and free zones run by the latter or the establishment of enterprises under the Law on the Protection and Promotion of Industry. During 1975 the Ministry of Industry and Commerce received requests for permits to establish industrial installations representing investments of over 50 million pesos; these include two cement factories.

3. The external sector

The 43 per cent increase in income from current transactions with the exterior in 1975 made it possible to finance the 14 per cent rise in imports and to achieve a considerable reduction in the deficit on current account. During the year the net inflow of capital was considerably lower than in the previous year, but even so the net international reserves rose by some 30 million dollars.

For the second consecutive year exports of goods showed an increase of about 45 per cent. This meant that in only two years the value of exports of goods more than doubled, as had already happened in the first three years of the current decade: the value thus rose from just over 210 million dollars in 1970 to 920 million dollars in 1975 (see table 5).

/Table 5

Table 5

DOMINICAN REPUBLIC: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars			Percentage breakdown		Annual growth rates		
	1970	1974	1975[a]	1970	1975[a]	1971-1973	1974	1975[a]
Sugar	103	324	561	48	61	22	73	73
Sugar-cane derivatives	13	24	34	6	4	13	26	42
Coffee	29	45	43	14	5	17	-2	-5
Cocoa	20	48	29	9	3	6	98	-40
Tobacco	14	40	36	7	4	30	30	-10
Ferronickel	-	93	102	-	11	-	12	10
Bauxite	15	18	17	7	2	-1	20	-6
Gold and silver	-	-	27	-	3	-	-	-
Total	213	637	921	100	100	27	44	45

Source: Bulletin of the Central Bank and ECLA estimates.
a/ Preliminary figures.

/During the

During the period 1974-1975 the rapid expansion of exports was entirely due to the high international prices which benefited the main Dominican export products and particularly sugar. The unit value of exports increased by 55 per cent in 1974 and by 67 per cent in 1975. There volume, however, decreased by 20 per cent over the two years.

Sugar represents about 60 per cent of total exports, and the 73 per cent increase in sales of this commodity in both 1974 and 1975 accounts for more than three-quarters of the rise in total exports over those years.

In mid-1974 the price of sugar began to rise rapidly,1/ and in November it reached a level of approximately 56 US cents per pound. However, because of the practice of selling sugar on the basis of advance orders, the average price obtained for sales in 1974 was only just over 14 cents. During 1975 the international prices fell rapidly, but a high proportion of the sales were transacted in the first six months at prices which were still high, and this brought the average price for the year to around 27 cents per pound.

However, the volume of sugar exported fell in recent years and in 1975 amounted to less than one million tons because of the drought which affected production and because of technical problems in one of the major refineries.

Exports of ferro-nickel are next in importance after those of sugar, although they lag considerably behind. In 1975 sales of ferro-nickel exceeded 100 million dollars because of an appreciable rise (40 per cent) in price. The volume of bauxite exports, however, fell by more than a third in 1975, largely offsetting the higher prices of the commodity.

1/ During 1974 the prices quoted in the United States market tended to be the same as those on the free market. Furthermore, the United States abolished the system of assigning country quotas for its purchases of sugar.

/The other

The other traditional export products diminished in value; in the case of cocoa there was a decline of about 40 per cent because of decreases in both volume and price. The prices obtained for coffee and tobacco improved in comparison with the previous year and partially offset the appreciable reductions in quantum.

In April 1975 the export of gold and silver began, and by the end of the year these exports amounted to some 27 million dollars. It is hoped that in the next few years their value will increase substantially.

The exceptional rise in the prices of exports, especially in the last two years, greatly exceeded the increases in the unit values of imports over the same period (28 per cent in 1974 and 13 per cent in 1975), despite the very steep rise in the prices of petroleum and its derivatives in 1974. This very marked difference was reflected in clear improvements in the terms of trade (21 per cent in 1974 and 48 per cent in 1975). Thus, although in the past the ratio had been well below the base index 1970=100, it increased to 185 in 1975. This very favourable situation of the ratio of external prices also produced a very considerable improvement in the purchasing power of exports (see table 6).

Imports of goods and services, which rose by 62 per cent at current prices in 1974 because of the high price of fuels and greater imports of food, rose by only 14 per cent in 1975. In the latter year the increase in the quantum imported was slight and imports of food fell by almost half despite the unsatisfactory performance of agriculture.

The slower growth of imports was achieved through the application of a number of measures adopted with a view to reducing the severe current account deficit recorded in 1974.

Thus total sales of foreign exchange by the Central Bank were limited to 800 million dollars in 1975, and furthermore the system of quotas and prohibitions affecting imports made with official foreign exchange was expanded and the sale of foreign currency for travel was suspended.

/Table 6

Table 6

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

(Percentage)

	1971	1972	1973	1974	1975
Exports of goods					
Value	14.0	43.0	27.5	43.7	44.7
Volume	17.6	26.5	4.7	-7.5	-13.3
Unit value	-3.1	13.0	21.8	55.3	66.8
Imports of goods					
Value	11.4	19.5	14.2	59.2	14.9
Volume	7.1	14.0	-2.5	24.5	1.6
Unit value	4.0	5.6	17.5	27.9	13.0
Terms of trade	-6.8	7.0	3.7	21.4	47.6
Purchasing power of exports	9.0	34.0	8.8	12.6	27.3

Source: ECLA, on the basis of official data.

/Since the

Since the beginning of the current decade exports have been increasing more rapidly than imports, so that while imports almost tripled, exports increased four times over that period. However, it was only in 1975 that the gap between the two types of transactions began to disappear and the trade deficit fell to a small figure. This virtual equilibrium between exports and imports, even after taking into account higher remittances of profits and interest abroad, was reflected in a considerable reduction of the big current account deficit recorded in 1974 (see table 7).

In 1975, however, there was also a pronounced fall in the net inflow of capital, which had reached an exceptionally high level in the previous year. Even so, the total exceeded that of the deficit on current account and consequently the Central Bank's gold and currency reserves and the net position with the International Monetary Fund improved by 30 million dollars. At the end of 1975 the country's international reserves amounted to 116 million dollars, which was equivalent to some 40 days' imports.

Between 1970 and mid-1975 the external debt rose from 290 to 750 million dollars, which meant that during this period net borrowing amounted to some 100 million dollars per year - equivalent to about 15 per cent of the imports of those years. This considerable influx of capital in the form of loans and direct investment explains how international reserves came to rise by some 90 million dollars during that period, despite the big deficit on the current account of the balance of payments. In 1972, when the development of ferro-nickel began, there was an increase of some 230 million dollars in the total private external debt, which currently represents over 40 per cent of the total foreign debt and explains the increase noted in debt servicing and payments of profits and interest on foreign capital (see table 7).

/Table 7

Table 7

DOMINICAN REPUBLIC: BALANCE OF PAYMENTS

(Millions of dollars)

	1970	1972	1973	1974	1975
Current account					
Exports of goods and services	256	411	514	729	1 041
Goods FOB	213	347	443	637	921
Services	43	63	71	93	120
Transport	9	12	14	15	21
Travel	16	33	38	54	70
Imports of goods and services	365	471	566	917	1 044
Goods FOB	278	370	423	673	773
Services	87	101	143	244	271
Transport	41	51	71	142	163
Travel	37	38	52	76	77
Net payments of profits and interest on foreign capital	-26	-47	-77	-90	-109
Profits	-18	-35	-54	-67	-85
Interest	-8	-12	-23	-23	-24
Net private transfer payments	30	45	49	50	49
Balance on current account	-104	-62	-80	-228	-63
Capital account					
Net external financing (a+b+c+d+e)	104	62	80	228	63
(a) Net external non-compensatory capital	97	81	75	177	-
Direct investment	58	45	55	54	-
Long- and medium-term loans	54	60	40	139	-
Amortization payments	-23	-16	-19	-30	-
Short-term liabilities (net)	7	-9	-3	12	-
Official transfer payments	1	2	2	2	-
(b) Domestic non-compensatory capital or assets	20	21	38	87	-
(c) Errors and omissions	-21	-26	-11	-29	93
(d) Allocation of SDRs	5	5	-	-	-
(e) Net compensatory financing (minus sign signifies an increase)	2	-19	-21	-7	-30
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	7	-	14	14	-
Amortization payments	-7	-16	-19	-4	-
Foreign exchange reserves (minus sign signifies an increase)	5	5	-10	-17	-31
Gold reserves (minus sign signifies an increase)	-3	-	-13	-	-
SDRs (minus sign signifies an increase)	-	-8	-	-	1

Source: ECLA, on the basis of official data.

/4. Prices

4. Prices and monetary and fiscal evolution

(a) The evolution of prices

In 1975 domestic prices rose sharply again at a rate close to the maximum recorded in 1973. Thus, the consumer price index in Santo Domingo increased by 16.5 per cent, measured between the months of December of each year, compared with 17.3 per cent in 1973 and 10.5 per cent in 1974. However these variations become less pronounced if the increases are compared on the basis of the annual averages; if measured in that way, the food component is seen to have grown more rapidly than the general index (see table 8).

In 1974 the rate of the inflationary process was successfully reduced despite the strong influence exerted by imported inflation that year not only through the prices of imports (which rose by 28 per cent) but also through the higher prices for exports (55 per cent). This reduction was achieved by the application of a firm policy on various fronts. The expenditure on subsidies for food and fuels was expanded enormously in order to maintain the low prices of these items, while at the same time guaranteed or support prices were fixed for farmers in order to raise, or at least maintain, the levels of the supply of food.

Table 8

DOMINICAN REPUBLIC: CONSUMER PRICE INDEX IN SANTO DOMINGO

(Rates of variation between annual averages)

	1971	1972	1973	1974	1975
General	4.3	7.8	15.1	13.2	14.5
Food	6.5	6.0	18.4	17.7	17.7

Source: PLANDES, Informe económico anual, 1975; International Monetary Fund, International Financial Statistics, various issues.

/Furthermore, the

Furthermore, the supply of imported food was also expanded considerably. The Institute for Price Stabilization (INESPRE) imported 98 million dollars' worth of food, mainly rice (40 million), wheat, maize and oil, and these products were sold at subsidized prices.

Another aspect of the policy applied was more stringent price control. The prices of a number of primary articles were frozen by law and they could only be increased with the prior authorization of a technical committee. During the second half of 1974 the committee exercised this power on many occasions.

In 1975 the factors which contributed to the acceleration of inflation were mainly domestic. Although the unit values of exports showed an increase as exceptional as that of the previous year, those of imports rose by only 13 per cent. Among the domestic factors, the fall in agricultural production undoubtedly exerted a major influence. On the other hand the monetary and fiscal variables rose less than prices, and the same was true of wages and salaries in general.

The prices of unprocessed food products rose in inverse proportion to the variations in their production. In some cases the increases were of the order of 100 per cent (plantains, onions and pumpkinks); in others, they ranged from 50 to 60 per cent (beans, potatoes, sugar, sweet potatoes) and in others around 20 per cent (rice, yams, milk).

Although the production deficit was partly made up with imports, INESPRE reduced its purchases of food abroad by 47 per cent (52 million dollars).

During the year special emphasis was placed on the control of fiscal expenditure and of the factors of expansion of the means of payment. Although demand factors exerted more influence in some months through the seasonal increase in the money in circulation, credit and the levels of public expenditure, the trend of the year as a whole was restrictive. It was not possible for the government to maintain the payments of subsidies for consumer goods at the same levels as in the previous year, and the same was true of the scales of charges of public enterprises.

/(b) The

(b) The fiscal situation

According to preliminary information, central government revenue rose by about 34 per cent in 1975, but expenditure did not vary very much. Thus there appears to have been a high current surplus of some 360 million pesos which not only greatly exceeded capital expenditure, estimated at some 270 million pesos, but also made it possible to accumulate a further 90 million pesos to finance new investment projects (see table 9).

Between 1971 and 1973 fiscal revenue increased by about 14 per cent per year. This rate rose to 32 per cent and 34 per cent respectively in the two following years because of the high levels reached by export taxes, which increased five-fold between 1973 and 1975. Table 9 clearly shows the importance acquired by these taxes, which are almost equal to the taxes on imports and to direct taxes and greatly exceed the income from indirect taxes.

A proportion of these increased financial resources, which are believed to be exceptional in nature, was temporarily frozen in an account at the Central Bank with a view to ensuring the most advantageous allocation and at the same time lessening the additional inflationary effect which could be caused by their influx into the monetary flow. In April 1975 a "budgetary reserve fund" was set up with the fiscal revenue which is obtained in excess of the budgeted income every month; by the end of the year 60 million pesos had been accumulated and it is expected that this money will be allocated to financing agricultural development programmes.

A very important aspect of the policy of domestic price stabilization was the sharp contraction in budgetary expenditure, and particularly current expenditure, in 1975. Since the beginning of the current decade there has been a much more marked growth in revenue than in current expenditure, and this situation became particularly marked in 1975 when the increase in current expenditure amounted to less than 2 per cent. In the case of wages, the increase was only a little over 4 per cent, which, taking into account the 15 per cent rise in domestic prices, represented a sharp deterioration in real wages and salaries.

/Table 9

Table 9

DOMINICAN REPUBLIC: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Current values (millions of Dominican pesos)				Annual growth rate		
	1970	1973	1974	1975[a]	1971-1973	1974	1975[a]
1. Current income	242	360	474	627	14.2	31.7	34.4
Tax revenue	219	320	426	592	13.5	33.1	39.0
From taxes on external trade	105	161	227	332	15.3	41.0	46.3
Exports	(9)	(30)	(65)	(154)	49.4	116.7	136.9
Direct	66	102	132	165	15.6	29.4	25.0
Indirect	48	57	67	95	5.9	17.5	41.8
Other income	23	40	48	45	20.3	20.0	-6.2
2. Current expenditure	173	217	269	274	7.8	24.0	1.9
Wages and salaries	109	124	144	150	4.4	16.1	4.2
Other current expenditure	64	93	125	124	13.3	34.4	-0.8
3. Savings on current account (1-2)	69	143	205	363	27.5	43.4	77.1
4. Capital expenditure	82	161	231	270	25.2	43.5	16.9
Real investment	51	131	183	200	37.0	39.7	9.3
Construction	49	125	172	184	36.6	37.6	7.0
Machinery and equipment	2	6	11	16	44.2	83.3	60.0
Other capital expenditure	31	30	57	70	-1.0	90.0	22.8
6. Fiscal deficit (or surplus) (3-4)	-13	-18	-26	93	11.5	44.4	-

Sources: Central Bank; International Bank for Reconstruction and Development, Updating Report on the Economy of the Dominican Republic, April 1975; PLANDES, Informe económico anual, 1975.

a/ Preliminary figures and ECLA estimates on the basis of partial figures for the year.

/The growth

The growth rate of capital expenditure also diminished in comparison with the exceptionally high rates recorded in previous years. This trend was particularly clear in the investment allocated to construction, but in contrast capital accumulation in the form of machinery and equipment continued to increase at a very high rate.

Central government expenditure represented only about half the total expenditure of the public sector.2/ It should be borne in mind that there are a considerable number of State enterprises in the Dominican Republic, and these contribute 35 per cent of the capital formation of the public sector, which represents 43 per cent of total fixed investment.

The pattern of public sector income and expenditure in 1975 was similar to that of the central government, except that income appears to have grown less (about 20 per cent) while current expenditure seems to have diminished by about 5 per cent. Thus, the current savings of the public sector must have amounted to some 570 million pesos; this sum served to finance public fixed investments of 320 million pesos (50 per cent higher than in 1974) and financial investments of 200 million pesos (125 per cent greater than in the previous year).

(c) The monetary picture

In contrast with 1974, when the 46 per cent expansion in money in circulation was one of the factors which contributed to the rise in prices, no variations were recorded in the means of payment between December 1974 and December 1975. However, there were changes in the components: the amount of currency outside banks increased by 12 per cent and the total of demand deposits fell by 8 per cent (see table 10).

2/ Purchases of goods and non-personal services by State enterprises are not included as part of this expenditure.

/Table 10

Table 10

DOMINICAN REPUBLIC: MONETARY POSITION

(Millions of pesos)

	Balance at end of				Annual growth rates		
	1970	1973	1974	1975	1971-1973	1974	1975
Money	176.2	281.3	411.7	408.6	16.9	46.4	-0.8
Currency outside banks	81.2	116.2	140.6	157.7	12.7	21.0	12.2
Demand deposits a/	95.0	165.1	271.1	250.9	20.2	64.2	-7.5
Factors of expansion	327.1	618.1	850.1	1 065.1	22.4	37.5	25.3
Foreign assets (net)	-25.9	-6.5	-36.8	24.9	-	-	-
Domestic credit	363.0	624.6	886.9	1 040.2	19.8	42.0	17.3
Public sector (net)	130.6	190.6	255.6	282.8	13.4	34.1	10.6
Private sector	232.4	434.0	631.3	757.4	23.1	45.5	20.0
Factors of absorption	160.9	336.8	438.4	656.5	27.8	30.2	49.7
Quasi-money (saving and time deposits)	118.1	244.8	361.3	467.5	27.5	47.6	29.4
Other items (net)	42.8	92.0	77.1	189.0	29.0	-16.2	145.1

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

a/ Includes deposits of the private sector in the Central Bank.

/During the

During the period 1971-1974 money increased at a rate of 24 per cent per year - a slightly lower rate than that for domestic credit - but there was a net loss of international reserves.3/ In 1975, however, there was a major increase in international reserves because of the improvement in the trade balance. However, the impact that this increase might have had on the money supply was largely averted by the Monetary Board's decision to freeze a proportion of the money received by exporters in exchange for their foreign-currency earnings.

Net domestic credit, the other factor of expansion of the money supply, increased less than half as much as in the previous year because of the limitations introduced at the beginning of the year. Its overall rate of increase was similar to that of prices, while in the specific case of credit to the public sector it was considerably less. This was due to the restrictive policy applied in respect of government expenditure and the consequent major increase in the government's current savings. The establishment of the budgetary reserve also helped prevent excessive expansion of the money in circulation.

In turn, the growth rate of loans by commercial banks declined from 46 per cent in 1976 to about 20 per cent in 1975, thus showing the favourable results of the restrictive policy followed in this respect. There was no great variation in the destination of these loans: loans to manufacturing and commerce continued to predominate, each representing about 27 per cent of the total. In contrast, the share of loans received by agriculture from the commercial banks amounted to less than 7 per cent. However, this sector also received

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3/ Although in the balance of payments the concept of "international reserves" is limited to the reserves of the monetary authorities, in this case the net reserves of the commercial banks are also taken into account.

/financing from

financing from the "agricultural" bank, a State entity which in 1975 granted 78 million pesos in credit to agriculture, 15 per cent more than in the previous year.

Other factor which helped curb the growth of the means of payment were the relatively low expansion (11 per cent) in the primary issues of the "central" bank and the big increase in time and savings deposits (see table 10).

TRINIDAD AND TOBAGO

1. The overall picture

Preliminary calculations indicate that the gross domestic product, at current prices, grew by 32 per cent in 1975. As no deflator is available for the national accounts, it is difficult to evaluate the trends in the real product, but the available indicators suggest that the most decisive element in the increase in the absolute value of the product was the rise in prices. Even so, economic activity does appear to have grown in real terms after two years in which it tended to stagnate.

The external position of the country in 1975 was very sound for the second year running. After having registered unprecedented increases in 1974, the value of exports and imports dropped by 14 per cent in 1975, due mainly to the reduction of the volume handled under the petroleum refining agreements. Even so, however, the country's external position continued to be very sound. The surpluses on the current account and the overall external accounts continued to be substantial, so that once again a considerable volume of foreign exchange was added to the reserves (see table 1). Thanks to the very favourable results shown by the balance of payments in 1974 and 1975, the reserves increased from the very low figure of 47 million dollars at the end of 1973 to 750 million dollars at the end of 1975.

External factors had strong repercussions on the domestic behaviour of the economy in 1975. Among these factors were the increases in the prices of most imports and some exports and the drop in production in some sectors of the economy due to the shortage of imported raw materials. In addition, there was the considerable depreciation of the Trinidad and Tobago dollar, which is linked to the pound sterling and whose exchange rate deteriorated between the end of 1974 and the end of 1975 from 2.04 to 2.37 units per United States dollar. As the price of the country's main export (petroleum) is fixed in United States dollars, this depreciation helped to increase the government's local currency revenue and to generate inflationary pressures.

/Table 1

Table 1

TRINIDAD AND TOBAGO: MAIN SHORT-RUN ECONOMIC INDICATORS

(Annual growth rates)

	1971-1973	1974	1975
Gross domestic product	12.4a/	40.4a/	32.3a/
Value of exports	17.0	149.9	-13.6
Value of imports	13.0	120.8	-13.8
Terms of trade	6.7	26.0	-1.8
Balance on current account b/	-101.7c/	112.4	107.0
Variation in reserves b/	-	335.0	345.0
Consumer price index (December - December)	12.2	18.6	13.4
Money	10.6	32.5	54.6
Current income of government	14.8	173.6	-2.2c/
Total expenditure of government	12.9	65.5	9.1c/
Fiscal deficit/total expenditure of government e/	17.0	50.6d/	35.0c/d/
Rate of unemployment e/	12.0	15.0	15.0

Source: ECLA, on the basis of official statistics.

a/ In Trinidad and Tobago, unlike other countries, these rates correspond to the nominal growth of the product.

b/ In millions of dollars at current prices.

c/ Budget estimates.

d/ Surplus.

e/ Percentage.

/Inflation continued

Inflation continued to be a disturbing factor in the economy in 1975, although the rate of inflation was somewhat lower. Thus, the rise in the retail price index dropped from 19 per cent in 1974 to 13 per cent in 1975. Among the factors which helped to reduce the rate of increase of domestic prices were the slackening of the rate of inflation in the industrialized countries, the somewhat larger supply of food produced by the domestic agricultural sector, and the price controls, subsidies and other government measures designed to protect the consumer price index from inflationary pressures.

Monetary liquidity rose appreciably for the second year running. The supply of money increased 55 per cent in 1975 after an increase of 32 per cent in 1974. In both years the main factor in this development was the expansion of the net international reserves as a result of the favourable results recorded by the balance of payments. Some of the expansionary effects of the increase in international reserves were compensated, however, by a reduction in net credit to the public sector, since the government increased its deposits in the banking system.

As regards the government accounts, the budget estimates for 1975 foresaw a slight reduction in government income compared with 1974, when the total income increased by 174 per cent because of the big rise in income from petroleum. It was calculated that expenditure, for its part, was likely to rise by 9 per cent, mainly because of the increase in current expenditure. Since the expenditure in 1974 was 65 per cent higher than in 1973, the 1975 expenditure is therefore expected to have been 80 per cent higher than in the latter year.

Although the budgets of the last two years appear to have been expansionary in nature, the authorities have tried to mitigate the inflationary effects of the increase in income from petroleum by channelling an appreciable part of fiscal revenue to capital accounts. Furthermore, a large part of the budgetary resources has been retained

/as a

as a surplus (see table 1). For the most part, these surpluses have been placed in special funds which will be used at a later date to finance projects in the government's development programme.

Many unionized workers received considerable wage and salary increases in 1975, often after prolonged labour disputes. Not much progress seems to have been made, however, in reducing the chronically high level of employment in Trinidad and Tobago (see table 1).

2. Sectoral development

As in previous years, the leading activity in 1975 was the oil industry, the current value of whose production was 55 per cent higher than in 1974 (see table 2). The industry's growth in real terms was also vigorous, and the volume produced was appreciably higher than the year before. The real growth of the rest of the economy seems more dubious, however, since the rate of activity apparently dropped in most of the other main sectors. Various sub-sectors of the economy were affected by serious labour disputes, which resulted in the loss of many hours of work and production delays.

Before going into the performance of each sector, it is worth noting that the Government plans to devote the accumulated income from oil to the development of new energy-intensive industries. The main projects are two fertilizer plants, an iron and steel complex, a polyester fribre plant, a furfural plant, and the expansion of the national cement factory. Consideration is also being given to other projects which are at a much less advanced stage, including various petrochemicals complexes, a liquefied natural gas plant, and the expansion of an oil refinery. Among the infrastructural works needed for the first set of projects, there is talk of establishing an electric power station and a liquefied gas pipeline running right across the island. Most of these new enterprises will be mixed, with the Government as majority shareholder in association with some transnational enterprise. It is calculated that in 1975 the cost of the investments in the first group of projects and the associated infrastructural works came to around 1 billion dollars.

/Table 2

Table 2

TRINIDAD AND TOBAGO: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of Trinidad and Tobago dollars			Percentage breakdown		Annual growth rates a/		
	1970	1974b/	1975b/	1970	1975	1971-1973	1974	1975
Agriculture	128	188	247	7.7	5.6	-2.7	58.6	31.4
Mining and refining	351	1 024	1 587	21.1	36.2	14.8	93.2	55.0
Manufacturing	314	487	555	18.9	12.7	10.1	16.2	14.0
Construction	73	166	216	4.4	4.9	19.2	33.3	30.1
Subtotal goods	866	1 865	2 605	52.1	59.4	11.2	56.5	39.7
Electricity, gas and water b/c/								
Transport and communications	305	502	602	18.3	13.7	10.2	23.0	19.9
Subtotal basic services	305	502	602	18.3	13.7	10.2	23.0	19.9
Commerce, restaurants and hotels; Financial establishments, insurance and real estate; Communal, social and personal services	491	943	1 173	29.5	26.8	15.7	24.4	24.4
Subtotal other services	491	943	1 173	29.5	26.8	15.7	24.4	24.4
Total gross domestic product	1 662	3 310	4 380	100.0	100.0	12.4	40.4	32.3

Source: Government of Trinidad and Tobago, Draft Third Five-Year Plan, 1969-1973, and ECLA estimates.

a/ The growth rates were calculated on the basis of unrounded data and correspond to the nominal growth in the products of the respective economic activities.

b/ Estimates.

c/ Electricity, gas and water are included in "other services".

/(a) Agriculture

(a) Agriculture

This sector has been showing a lack of dynamism for several years past, due to a complex set of factors which include bad weather conditions, labour problems, inadequate credit facilities and inefficient marketing systems. Even so, this sector continues to be an important source of foreign exchange. In 1975, agriculture registered uneven results and the volume of its overall production increased only slightly.

Sugar has traditionally been the leading product in this sector because its exportation generates considerable income.1/ The bad weather and other difficulties have led to a persistent decline in production, however, from 240,000 tons in 1968 to 183,000 tons in 1974. In 1975 the weather conditions were favourable but a prolonged strike by the sugar workers was a contributory factor in the decline of production by 13 per cent to 160,000 tons, which is the lowest output since the country's independence. Such a low output was regrettable in view of the relatively high prices for sugar which prevailed during the year in world markets.

The available data indicate that the results for other export crops were also uneven. The production of cocoa and coffee seems to have recovered appreciably since the setback caused by the drought in 1973, and there was also an increase in the output of agricultural and stock-raising products for the domestic market, especially meat, copra and vegetables. There was an appreciable drop, however, in the production of citrus fruits (see table 3).

The Government has announced its intention of promoting agriculture by channelling to it some of the revenue received by the country from its oil. With this aim in view, in 1975 the Government continued to put money into a fund designed to provide resources for agricultural projects.

1/ Sugar production is included under manufacturing in the national accounts data, but in view of its close link with agriculture it is dealt with in this section.

/Table 3

Table 3

TRINIDAD AND TOBAGO: MAIN INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1973	1974	1975[a]	January - June		Annual growth rates		
					1974[a]	1975[a]	1971-1973	1974	1975[a]
Production of some important crops (millions of units)									
Sugar cane (tons)	2.6	2.0	1.9	1.7			-8.3	-1.7	-12.0
Cocoa beans (pounds) b/	13.7	7.1	8.9	...	7.6	10.3c/	-19.8	25.5	35.9
Coffee beans (pounds) b/	5.9	5.9	4.6	...	4.1	9.5c/	-0.1	-22.3	131.6
Citrus fruits:									
Oranges (pounds)	...	1.6	24.7	6.6			...	1486.6	-73.3
Gropefruit (pounds)	...	9.8	39.0	13.8			...	299.0	-64.6
Citrus fruit juices (gallons)	...	0.3	2.1	0.7			...	585.0	-67.4
Meat:									
Beef and veal (pounds)	3.3	3.4	3.2	...	1.6	6.9	1.0	-6.0	323.7
Pork (pounds)	4.6	5.3	4.4	...	2.2	1.8	5.0	-18.2	-17.1
Poultry (pounds)	...	44.2	55.6	...	...	55.8d/	...	25.8	...
Eggs (dozen) e/	4.5	3.9	3.4	...	1.8	1.9	-4.4	-13.3	6.0
Fish (pounds) f/	8.8	8.4	7.5	...	3.7	3.9	-1.4	-10.9	4.7
Milk (gallons) g/	1.6	1.6	1.6	...	0.8	0.5	-0.1	0.6	-43.9
Tobacco (pounds)	0.5	0.7	0.7	...	0.6	0.5	10.7	-6.0	-23.7
Copra (thousands of tons)	11.0	11.6	6.6	...	3.0	6.3	1.8	-43.2	110.0

Source: Central Statistical Office, Quarterly Economic Report; Central Bank of Trinidad and Tobago, Statistical Digest; and figures supplied by the Cooperative Citrus Growers' Association of Trinidad and Tobago Ltd. and the Sugar Manufacturers' Association.

a/ Estimates.
b/ Deliveries to main exporters.
c/ Figures for January-July.
d/ Figures for January-September.
e/ Figures for Commercial production.
f/ Fish delivered to main markets.
g/ Figures for main products only.

/(b) Mining

(b) Mining and oil refining

The oil industry has always been a dominant economic activity from the point of view of its contribution to the gross domestic product, to export income and to government revenue. As it is a capital-intensive industry, however, it only employs around 3 per cent of the labour force. In the last two years oil has become even more important for the economy because of the recovery in Trinidad's production of crude and the high price attained by oil on the world market.

Between 1968 and 1971 the oil industry suffered the effect of the exhaustion of oil deposits, and production dropped by 30 per cent in that period (see figure 1). The steady decline in production was halted in 1973, however, when two oilfields near the east coast of the island began to be exploited. The production of these oilfields more than made up for the declining output of the traditional inland oil wells, so that there was a 45 per cent rise in production from 129,000 barrels per day in 1971 to 187,000 barrels in 1974.

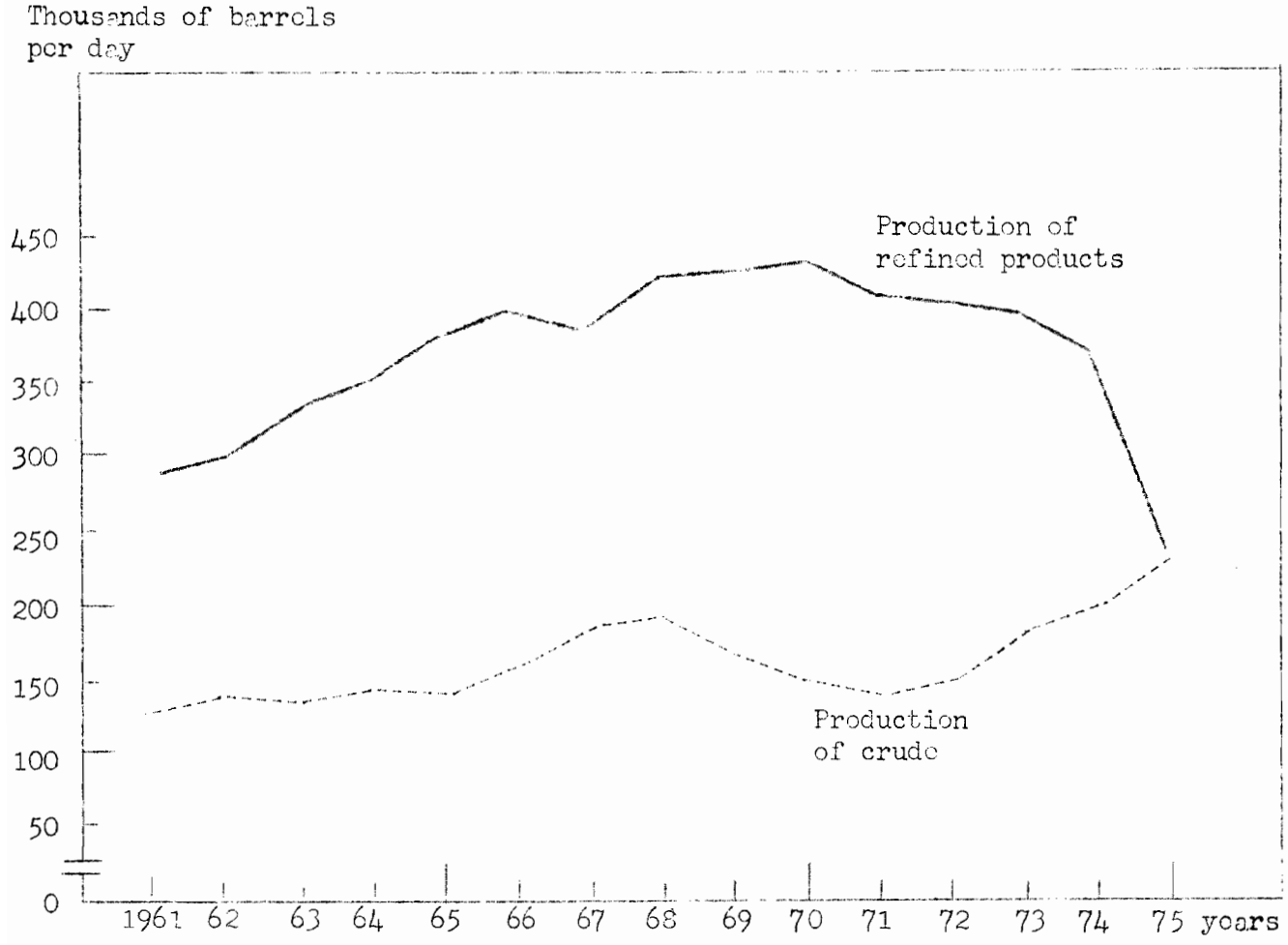
The available information indicates that in 1975 production increased by 18 per cent to an average of 219,000 barrels per day, entirely due to the activities on the east coast.

Oil refining is another important activity, and Trinidad has refining capacity for over 450,000 barrels per day. It is interesting to note, however, that most of the refinery's output is based on imported crude. This is because the national production of crude is far below the refining capacity, and also the refineries in Trinidad are designed to process heavy crude, whereas the local oil is mostly of a lighter grade and is exported abroad for processing. Since 1971 the output of the oil refineries has gone down sharply, and an appreciable part of their capacity is not being used (see figure 1). In 1975 there was a particularly sharp decline of 40 per cent, so that the refining industry was working at less than 50 per cent of its capacity. This unsatisfactory result is to be attributed primarily to the strike in the country's biggest refinery, which paralyzed production for six months.

/Figure 1

Figure I

TRINIDAD AND TOBAGO: OIL PRODUCTION



Source: Central Statistical Office, Quarterly Economic Report (several issues) and data provided by ECLA.

/Everything seems

Everything seems to indicate that the improvement in the production and sales of natural gas which began in 1974 became still more marked in 1975. It is expected that the production of natural gas, especially from the east coast deposits, will go up appreciably when the new energy-intensive industries mentioned earlier begin to operate in the next few years.

(c) Manufacturing

The general manufacturing index for the first nine months of 1975 was 3 per cent lower than for the corresponding period in 1974 (see table 4). It is estimated that, taking the year as a whole, there was a general drop in the volume of production compared with the year before.

The partial indicators available reflect a reduction in the levels of output of most of the main manufacturing industries. Tendencies towards a drop in production were observed in the case of sugar, rum, beer, margarine, lard and butter substitutes, building blocks and bricks, and fertilizers, but the production of soap, edible oil and cement increased. The performance of the assembly industries was uneven: the output of motor vehicles increased, while that of radio and television receivers decreased (see table 4).

The expansion of manufacturing activities was limited by unfavourable external and internal factors. Among the internal factors, labour disputes disturbed production processes in various ways and were reflected in a loss of man-hours and a drop in the production of finished goods. In addition, the economic recession and the high rate of inflation in the industrialized countries affected the cost of the inputs imported by the sector.

/Table 4

Table 4

TRINIDAD AND TOBAGO: INDICATORS OF MANUFACTURING PRODUCTION

	1970	1973	1974	January-September		Annual growth rates		
				1974a/	1975a/	1971-1973	1974	1975
Index of manufacturing production (1971 = 100)		108.9	115.7	115.8	112.7		6.2	-2.7
Processed foodstuffs		110.0	130.6	132.4	134.6		18.7	1.7
Beverages and tobacco		124.6	133.2	127.0	129.4		6.9	1.9
Textiles and footwear		69.4	78.9	80.7	77.0		13.7	-4.6
Production of some important manufactures								
Sugar (thousands of tons)	230.9	181.1	183.4	183.4	160.0	-7.8	1.3	-12.7
Rum (millions of gallons)	2.5	2.4	4.3	3.3	2.7	-0.4	77.6	-16.0
Beer (millions of gallons)	4.6	5.2	4.5	3.2	3.1	4.4	-13.2	-3.8
Tobacco and cigarettes (millions of pounds)	1.8	2.0	1.8	...	1.6	3.9	-11.9	
Edible oils (millions of pounds)	2.1	2.0	1.3	...	1.3	-0.7	-34.5	
Margarine, lard and butter subtitutes (millions of pounds)	12.2	14.1	16.3	12.8	10.7	4.8	16.4	-16.1
Soap (millions of pounds)	12.0	13.1	11.8	8.8	10.7	3.2	-9.9	22.0
Cement (thousands of tons)	283.0	249.1	237.7	159.1b/	173.0b/	-4.1	-4.6	8.7
Building bricks and blocks (millions)	27.5	25.8	25.0	16.7b/	13.1b/	-2.1	-2.9	-21.8
Fertilizers (millions of short tons)	0.6	0.5	0.4	...	0.2b/	-10.0	-10.5	...
Assembly industries								
Motor vehicles (thousands)	11.0	9.0	6.0		5.1b/	-6.5	-33.2	...
Radio and television sets (thousands)	29.8	33.5	25.1		14.5b/	4.1	-25.1	...

Source: Central Statistical Office of Trinidad and Tobago, Annual Statistical Digest, Quarterly Economic Report and Economic Indicator; Central Bank of Trinidad and Tobago, Statistical Digest; and ECLA figures.

a/ Estimates.

b/ These figures correspond to the variation between the period January - August 1975 and the corresponding period in 1974.

/(d) Other

(d) Other sectors

The other essential sectors generally displayed a slow rate of economic activity in 1975. Construction, which is an important source of employment, only seems to have attained a modest real rate of growth. Public sector construction, especially of school buildings and roads, accounted for most of the activity during the year. The real level of production of this sector was affected by various factors, including in particular the labour disputes which seriously upset the production of cement and building blocks and bricks. Further repercussions were caused by the transport difficulties due to the shortage of petroleum products on account of the labour problems in the oil industry, while there was also some shortage of labour on some construction projects.

The performance of tourism - an activity which is concentrated mainly in the island of Tobago - was adversely affected by the economic recession in the United States and Canada and the rise in the cost of air transport as a result of the higher fuel prices. The number of tourists grew only marginally in 1975 and - even more important - it is unlikely that tourist expenditure went up in real terms. Fortunately, however, unlike most of the English-speaking Caribbean countries Trinidad and Tobago do not depend very much on tourism for obtaining foreign exchange.

3. The external sector

In 1975 the country maintained the very sound external position which it had attained in 1974, and although the trade surplus and the surplus on current account were somewhat smaller than the year before, they were nevertheless quite large. Moreover, the reduction in the current account surplus was more than made up for by the bigger inflow of foreign capital, so that the overall balance-of-payments surplus was greater than in 1974. Since it has had appreciable balance-of-payments surpluses for two years running, Trinidad and Tobago is in the unusual position of having one of the highest levels of reserves in Latin America, measured on the basis of its import requirements.

/Before going

Before going into the external accounts in greater detail, it is worth contrasting the very favourable results shown by the balance of payments in 1974 and 1975 with the serious external problems experienced in previous years.

In 1970-1972 there were growing trade and current account deficits because of the slow evolution of export income and the relatively rapid increase in import needs. The growth rate of exports during this period suffered from the unfavourable repercussions of declining oil output, while imports grew markedly because it was necessary to satisfy the capital requirements connected with the programme for developing the country's oil production and, to a lesser extent, the buoyant demand for consumer goods. Except in 1971, the inflow of capital was not enough to cover the current account deficit, and the balance of payments as a whole showed a deficit (see tables 5 and 7).

In 1973, the position as regards the trade balance improved appreciably, since exports increased because of the recovery in oil production while import requirements remained almost unchanged. All this was reflected in a marked reduction in the current account deficit from 155 million dollars in 1972 to the relatively modest sum of 19 million dollars in 1973. Even so, the balance of payments as a whole showed a deficit yet again because of the spectacular drop in the net inflow of capital due to the decline in the foreign investment inflows with the termination of the oil industry development programme, the increase in amortization payments of the external debt, and the outflow of short-term capital because of the attraction of the higher rates of interest paid abroad and the expectation that there would be a devaluation of the national currency (see table 5). This balance-of-payments deficit was a factor in the drop in reserves at the end of the year to barely 47 million dollars - less than the amount needed to cover three weeks' import requirements.

/Table 5

Table 5

TRINIDAD AND TOBAGO: BALANCE OF PAYMENTS

(Millions of dollars)

	1970	1972	1973	1974	1975[a]
Current account					
Exports of goods and services	595	755	952	2 380	2 056
Goods FOB	503	595	720	2 069	1 751
Services	92	160	232	311	305
Transport	57	94	100	176	160
Travel	24	51	59	66	70
Imports of goods and services	611	843	882	1 948	1 680
Goods FOB	496	700	718	1 686	1 429
Services	115	143	164	263	251
Transport	78	109	99	193	173
Travel	23	27	24	25	28
Net payments of profits and interest on foreign capital	-61	-69	-87	-317	-267
Profits	-59	-67	-80	-326	-280
Interest	-2	-2	-7	9	13
Net private transfer payments	2	2	-2	-2	-2
Balance on current account	-75	-155	-19	113	107
Capital account					
Net external financing (a+b+c+d+e)	75	155	19	-113	-107
(a) Net external non-compensatory capital	73	101	65	67	246
Direct investment	83	87	65	63	...
Long- and medium-term loans	8	24	34	35	...
Amortization payments	-9	-5	-39	-30	...
Short-term liabilities (net)	-5	1	12	9	...
Official transfer payments	-4	-6	-7	-9	...
(b) Domestic non-compensatory capital or assets	1	7	3	-64	...
(c) Errors and omissions	-18	27	-56	219	...
(d) Allocation of SDRs	7	7	-	-	...
(e) Net compensatory financing (minus sign signifies an increase)	12	13	7	-335	-353
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	-	-	-	-	...
Amortization payments	-	-	-	-	-8
Foreign exchange reserves (minus sign signifies an increase)	16	13	-1	-328	-342
Gold reserves (minus sign signifies an increase)	-4	-	8	-6	-4
SDRs (minus sign signifies an increase)		-	-	-1	1

Source: International Monetary Fund, Balance of Payments Yearbook, vol 27.

a/ Estimates based on official statistics.

/The country's

The country's situation changed spectacularly in 1974, when the world price of oil trebled while at the same time the domestic production of crude continued its recovery. There was consequently an impressive improvement in the trade balance. The value of exports rose by 187 per cent, due entirely to the higher prices of oil and sugar 2/ (see table 6), and although at the same time there was a very marked increase of 135 per cent in the price of imports, most of this was due to the higher prices of the crude that was imported under the agreements for the refining of oil for subsequent re-export, since the value of imports other than crude increased by only 38 per cent.

Thus, the merchandise trade account changed from a deficit in 1973 to a surplus of 383 million dollars in 1974. Thanks to the sound trade balance position, there was a current account surplus of 112 million dollars and this, together with the appreciable flow of foreign capital, resulted in the overall balance of payments having an unprecedented surplus of 334 million dollars.

The balance-of-payments position was equally sound in 1975, although the values of both exports and imports of goods were 15 per cent lower than in 1974. In both cases there was a marked drop in volume, compensated only partially by the increase in unit value (see table 6). As the reduction in absolute terms in export income was greater than the drop in imports, the merchandise trade surplus dropped by 16 per cent, but even so the surplus of 322 million dollars thus recorded remained a very high figure compared with the period before 1974.

2/ The decline of 4 per cent recorded in the volume of exports reflected the smaller volume of exports of sugar and refined petroleum, partially compensated by the increase in exports of domestic crude.

/Table 6

Table 6

TRINIDAD AND TOBAGO: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS

(Percentage)

	1971	1972	1973	1974	1975
Exports of goods					
Value	5.5	12.2	20.9	187.3	-15.3
Volume	-14.3	16.5	-7.4	-3.7	-23.0
Unit value	23.1	-3.7	30.6	198.5	10.0
Imports of goods					
Value	22.4	15.3	2.4	134.8	-15.2
Volume	9.3	9.4	-5.1	-0.9	-24.3
Unit value	12.0	5.4	8.0	137.0	12.0
Terms of trade	9.9	-8.6	21.0	26.0	-1.8

Source: ECLA, on the basis of official data.

/The partial

The partial figures available on trade indicate that the drop in the value of imports in 1975 was due entirely to the reduction in imports of crude under the oil-refining agreements. The value of these imports dropped by approximately 40 per cent compared with 1974 because there was a marked drop in their volume and a smaller drop in their unit price.3/ If petroleum and petroleum products are excluded, however, there was a very marked rise in the value of imports especially of capital goods (see table 7). The volume was much greater than in 1974, and prices were also higher, although the average increase was appreciably less than in 1974 because of the reduction in the rates of inflation in the industrialized countries.

It would appear that the reduction in export income in 1975 was due mainly to the marked drop in the volume of exports of refined petroleum products. The labour problems in the refining industry were a contributory factor in bringing about a reduction in the output and volume of exports of petroleum products.

Although specific information on prices is not available, the reduction in the world demand for oil would suggest that on average oil prices remained at the same level as in 1974 or even went down slightly. As regards crude, the bigger domestic production gives grounds for assuming that the volume of exports went up, but the unit price suffered from the same unfavourable market conditions which affected petroleum products.

The reduction in the income from exports of petroleum was compensated to some extent by the increase of over 40 per cent in the value of food exports, due mainly to the increased income from exports of sugar, which doubled in spite of a drop of 13 per cent in production. Sugar received the benefits of the prevailing high prices and in particular of the export price guaranteed by the European Economic Community.

3/ The average world price of crude dropped slightly in 1975.

/Table 7

Table 7

TRINIDAD AND TOBAGO: VALUE AND BREAKDOWN OF IMPORTS OF GOODS

	Millions of dollars at current prices (CIF)			1974[a/]	1975[a/]	Percentage breakdown		Annual growth rates b/		
	1970	1973	1974			1970	1975[a/]	1971-1973	1974	1975
Consumer goods	191	264	362	257	331	17.7	15.0	11.4	36.9	28.8
Intermediate goods c/	790	1 098	3 202	2 307	1 523	72.9	68.9	11.6	191.8	-34.0
Petroleum and fuels d/	537	769	2 740	1 925	1 023	49.6	46.3	12.7	256.5	-46.9
Others	253	329	462	382	500	23.3	22.6	9.2	40.6	29.8
Capital goods	102	169	257	185	356	9.4	16.1	18.2	51.9	92.8
Total	1 083	1 531	3 821	2 749	2 210	100.0	100.0	12.2	149.6	-19.6

Source: Central Statistical Office of Trinidad and Tobago, Quarterly Economic Report, July-September 1975, table 17.

a/ January to September.

b/ Growth rates calculated on the basis of unrounded figures.

c/ Includes value of raw materials.

d/ Includes fuels, lubricants and additives.

/In Trinidad

In Trinidad and Tobago, the fluctuations in the terms of trade may be misleading in some cases, since the total value of imports of goods is strongly influenced by the value of imports of crude under the refining agreements. Thus, for example, the improvement in the terms of trade in 1974 (see table 6) was considerably under-estimated because when the world price of oil trebled this considerably inflated the average prices of imports. In 1975, however, the world prices of oil varied relatively little, and this index must have reflected the real tendencies quite faithfully. It would therefore appear that after the marked improvement in the terms of trade in 1974, there was a moderate deterioration in 1975.

The behaviour of the other components of the current account was generally favourable. The traditional surplus on the non-factor services account increased by 11 per cent compared with 1974, since the net cost of freight, insurance and transport dropped and the net income in respect of travel showed a slight increase. Moreover, factor payments were 6 per cent lower than in 1974. These smaller outgoings reflected the reduction in remittances of profits, which is probably to be partly explained by the fact that the profits of the oil companies were affected by the strikes in the oil industry and by the deterioration of market conditions.

The transactions in respect of goods and services and private transfers were reflected in a current account surplus of 107 million dollars, which was approximately 5 per cent less than in 1974. The inflow of capital was even greater in 1975 than in the year before, however, and the overall balance-of-payments surplus increased by 6 per cent to 353 million dollars.4/

4/ Although little information is available, it is considered that the net inflow of capital included considerable amounts of funds transferred for speculative reasons. In spite of the country's sound external position, the Trinidad and Tobago dollar was devalued by 16 per cent with respect to the United States dollar in 1975 (see table 8) because of its traditional link with the weakening pound sterling. This being so, it would not be surprising to find that appreciable financial resources were taken out of the country in expectation of the abandonment of the link with the pound sterling and the revaluation of the Trinidad and Tobago currency.

/The increase

The increase of 1,500 per cent in the reserves in only two years must be attributed to the bing balance-of-payments surpluses in 1974 and 1975. The reserves of 750 million dollars shown in the balance of payments at the end of 1975 were sufficient to satisfy the country's import needs for over five months, and if the crude imported under the refining agreements is left out of the reckoning the reserves would have been sufficient to satisfy the country's import needs for almost nine months.

4. Prices, wages and employment

Before 1972, the level of prices in the country was relatively stable, as reflected in the moderate average increase of 2.8 per cent per year in the consumer price index during the period 1969-1971. In the following years, however, the rate of inflation began to increase reaching its peak in 1974 when the average annual increase in prices attained the unprecedented figure of 22 per cent (see table 8). Inflation continued to be a problem in 1975, although the average increase in prices was more moderate (17 per cent). The slackening in the rate of inflation can also be clearly observed by taking the changes in prices during the twelve month period ending in December: on this basis, the increase was 13 per cent compared with 19 per cent in 1974.

In 1975 the component of the consumer price index which showed the biggest increase was that of services. There were also appreciable increases in the prices of fuels and electricity, medicaments and toilet articles, but their weighting in the overall index is relatively small. These increases were compensated to some extent by a reduction of almost 50 per cent in the rate of increase of the foodstuffs price index, which has a heavy weighting in the overall index.

/Table 8

Table 8

TRINIDAD AND TOBAGO: EVOLUTION OF PRICES

	1971	1972	1973	1974	1975
Annual growth rates					
Consumer price index	3.5	9.3	14.9	22.0	16.9
Foodstuffs	4.6	11.5	19.0	30.0	16.9
December - December rates					
Consumer price index	5.0	8.2	24.3	18.6	13.4
Foodstuffs	5.1	10.8	31.5	21.7	12.2

Source: United Nations, Monthly Bulletin of Statistics.

/An important

An important factor in the recent high rates of inflation has been the rise in the world level of prices. Since the country's economy is quite open (imports other than crude exceed 40 per cent of the gross domestic product), it is very vulnerable to imported inflation. Thus, the increasing rate of increase of international prices in 1973-1974 caused a rapid rise in domestic prices, while similarly the slackening of the rate of inflation in the industrialized countries in 1975 helped to reduce the price rises in that year.

Another external factor which has aggravated inflation has been the depreciation of the Trinidad and Tobago dollar with respect to the United States dollar on account of the traditional link between the former currency and the weakening pound sterling (see table 9). This depreciation was quite marked in the second half of 1975, and by the last quarter of the year the exchange rate with respect to the United States dollar had suffered a deterioration of 13 per cent compared with the corresponding period in 1974. This influenced domestic prices in two ways: firstly, it raised the cost of imports from North America, which form an important part of the total non-crude imports, and secondly, since exports of petroleum (which are responsible for the bulk of total export income) are paid in dollars, it was necessary to issue ever-increasing amounts of national currency to deal with the inflow of income from oil exports: this, in its turn, increased the domestic money supply more than if there had been fixed parity with the United States dollar.

Among the domestic factors which contributed to inflation was the now traditionally deficient performance of the agricultural sector. The prolonged drought of 1972-1973 did a great deal of harm because it devastated crops and generated serious pressures on food prices. The more moderate fluctuations in the price index in 1975 were due primarily to government controls on food prices, bigger subsidies granted in respect of a wider range of products, and a relatively increase in the production of agricultural foodstuffs for the domestic market.

/Table 9

Table 9

TRINIDAD AND TOBAGO: EVOLUTION OF EXCHANGE RATE

Period	Exchange rate (currency units per US dollars a/
1972	1.92 a/
1973	1.96 a/
1974	2.05 a/
I	2.11
II	2.00
III	2.04
IV	2.06
1975	2.17 a/
I	2.01
II	2.07
III	2.26
IV	2.35

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

a/ Average.

/Generally speaking,

Generally speaking, fiscal and monetary trends have had expansionary effects and have undoubtedly helped to raise domestic prices.

The supply of money has been growing consistently since 1970 (except in 1973) for a number of reasons. After increasing at a moderate average annual rate of 6 per cent in 1967-1969 it grew at an annual rate of 20 per cent in the next three years, and after a contraction of 7 per cent in 1973 it increased by 32 per cent in 1974 and 54 per cent in 1975.

The main element behind the growth of the money supply at the beginnig of the 1970s was the expansion of domestic credit, and particularly that granted to the Government. In addition, in 1974 and 1975 there was a very big increase in net international reserves, which also stimulated expansion (see table 10). In both these years, however, the public sector credit had a moderating influence, since the authorities made large net deposits in the banking system. Credit to the private sector increased by 12 per cent in 1974 and 34 per cent in 1975.

The fiscal results for the country in recent years can be divided into two periods. The first of these began at the same time as the present decade, and in it the trend towards bigger expenditure, combined with the stagnation of income from petroleum, led to increasingly marked budget deficits which were financed mainly through domestic indebtedness: after being almost balanced in 1969, the budget showed a deficit of 124 million Trinidad and Tobago dollars (23 per cent of expenditure) in 1972. In 1973 fiscal policy was to some extent more restrictive, since the efforts made to contain expenditure and increase income brought about a reduction of 60 per cent in the total deficit.

/Table 10

Table 10

TRINIDAD AND TOBAGO: MONETARY POSITION

(Millions of Trinidad and Tobago dollars)

	Balance at end of				Annual growt rates		
	1970	1973	1974	1975	1971-1973	1974	1975
1. Money	144	195	259	400	10.6	32.5	54.6
Currency outside banks	56	79	98	143	12.3	23.8	46.1
Demand deposits	88	116	161	257	9.7	38.7	59.9
2. Factors of expansion	488	888	1 167	1 597	22.0	31.4	36.9
Foreign assets (net)	81	54	765	1 733	-12.3	1 306.1	126.5
Domestic credit	407	834	402	-136	27.0	-51.8	-
Claims on government (net)	76	159	-326	-1 086	27.7	-	(233.1)
Claims on official entities	5	90	74	70	169.8	-17.8	-5.5
Claims on private sector	326	585	654	880	21.4	11.9	34.5
3. Factors of absorption	344	693	908	1 197	26.5	31.0	31.9
Quasi-money (savings and time deposits)	338	616	817	1 021	22.1	32.6	25.0
Other items (net)	6	77	91	176	135.0	18.5	94.3

Source: International Monetary Fund, International Financial Statistics, May 1976.

/In the

In the second period, which began in 1974, there was a spectacular turnaround in the fiscal account, since the price of oil trebled while at the same time higher taxes were imposed on the income of foreign oil companies. Total fiscal income increased by 174 per cent in that year, mainly as a result of the increase of almost 540 per cent in the tax income from the oil industry. As might be expected, the spectacular increase in income stimulated a marked expansion in spending and total expenditure increased by 65 per cent compared with an average annual increase of 13 per cent in the period 1971-1972 (see table 11).

Although the 1974 budget was expansionary, there can be no doubt that the authorities proceeded with moderation in formulating fiscal policy. Current expenditure increased by 40 per cent, while capital expenditure rose by 152 per cent, over half the total increase in expenditure coming under this latter heading. The important point to note, however, is that 490 million Trinidad and Tobago dollars (53 per cent of the total increase in income) was kept as a budget surplus. A large part of this surplus was deposited in special funds which will subsequently be used for financing the government development programme.

The budget estimates for 1975 indicate that a sound fiscal position was maintained. The estimates provided for an increase of 16 per cent in current expenditure, partly because wages were due to rise by 12 per cent after having risen by 50 per cent in 1974. On the other hand, a slight reduction in capital expenditure was expected compared with the unprecedentedly high level reached in 1974. The estimates also foresaw another substantial budgetary surplus, although smaller than that in 1974, because it was assumed that income would go down slightly (see table 11). These surplus resources were to be deposited mainly in special development funds.

/Table 11

Table 11

TRINIDAD AND TOBAGO: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Current values				Annual growth rates a/		
	1970	1973	1974	1975 b/	1971-1973	1974	1975
1. Total income	327	494	1 353	1 323	14.8	173.6	-2.2
Oil income c/	84	129	883	879	15.3	583.2	-0.4
Other income	243	365	470	444	14.6	28.7	-5.7
2. Current expenditure	266	419	586	680	16.4	39.9	16.0
Wages and salaries	116	195	292	329	18.8	49.8	12.4
Other current expenditure	150	224	294	351	14.5	31.3	19.6
3. Capital expenditure	111	124	312 d/	300	3.6	152.1	-3.8
4. Total expenditure	377	543	898	980	12.9	65.5	9.1
5. Fiscal deficit (or surplus) (3 - 4)	-50	-48	455	343	-1.1	-	-24.6
6. Financing of deficit	50	48	-455	-343	-1.1	-	-24.6
Domestic financing	58	45	45	35	-8.1	-0.9	-21.7
External financing	8	66	137e/	15	104.5	108.0	-89.1
Other	-16	-63	-361f/	-193g/	58.0	475.0	-45.0
Deposits in special funds			-276	-194	-	-	-29.5

Source: Permanent Executive Committee of the Inter-American Economic and Social Council (CEPCIES), The Economic and Social Development of Trinidad and Tobago.

a/ Calculated on the basis of unrounded data.

b/ Budget estimates.

c/ Figures for 1974 include 80 millions TT dollars from sale of oil concessions; 1975 figures include 30 millions TT dollars from same source.

d/ Includes 94.4 millions TT dollars for acquisition of financial assets of Shell Trinidad Ltd.

e/ Includes 94.4 millions TT dollars for payment of debt contracted in order to require Shell Trinidad Ltd.

f/ Includes 69.6 millions TT dollars for same purpose

g/ Includes 24.8 millions TT dollars for same purpose.

/In 1975,

In 1975, domestic inflation made it necessary to raise wages and salaries in the public and private sectors. Moreover, many of the labour agreements in 1975 included machinery for automatic adjustments in line with movements of the retail price index. Such readjustment machinery is relatively new in Trinidad and Tobago as far as the fixing of wages is concerned, and it only came into general use in 1972, when the consumer price index underwent relatively marked fluctuations.

It is clear that the wage increases in the main unionized sectors in 1975 were considerably bigger than in previous years. Thus, for example, in three years wages in the big sugar mills rose by 100 per cent and in two big oil companies by 57 per cent, while daily paid central and local government staff obtained increases of 53 per cent. The minimum wage rates for manual workers in all industries rose by an average of 20 per cent between May 1974 and May 1975, while the indexes for construction, sugar manufacturing and the food, beverages and tobacco industries rose by 29 per cent, 54 per cent and 19 per cent respectively.

The wage and salary increases obtained by the non-unionized workers in 1974 and 1975, in contrast, appear to have been considerably smaller, so that the inequality of income between these workers and the unionized workers may have become even greater.

Unemployment continued to run at the relatively high rate of around 15 per cent and was concentrated mainly in the under-25 groups. High rates of unemployment are a chronic phenomenon in the English-speaking Caribbean countries, but Trinidad and Tobago, which has a solid financial basis and possibilities of rapid growth, is in a better position than most of the countries of the region to solve this problem. Since it seems that most of the new industries which are to be set up under the government development programme are capital-intensive, they will probably not themselves have any important effect on employment, except during the short period when they are being constructed. It would therefore appear that in order to secure an appreciable reduction in unemployment in the long term it is necessary to stimulate more successfully the expansion of labour-intensive activities in agriculture and industry.

URUGUAY

1. The overall picture

In 1975 there was a considerable increase in the growth rate of the Uruguayan economy. The gross domestic product rose by 3.6 per cent and the per capita product by 2.6 per cent, but because of a substantial decline in the terms of trade the gross income expanded by only 0.7 per cent. There was a significant slackening of the rate of inflation, but at the same time, there was an increase in the deficit on the current account of the balance of payments (see table 1).

This greater dynamism corresponded to the acceleration of the growth of manufacturing and construction and a moderate increase in agricultural activity. The service sectors, taken together, expanded at a rate similar to that of the previous year, while the rate of urban unemployment remained at around 8 per cent of the labour force.

Exports of goods and services in dollars at current prices, rose by 3 per cent because of the vigorous development of non-traditional categories. On the other hand there was a decline in the country's traditional exports, particularly meat. The value of imports of goods and services rose by 10 per cent, while their volume increased by around 3 per cent after having declined by 5 per cent in 1974.

The evolution of the trade in goods and services in 1975 was a determining factor in the formation of a deficit exceeding 210 million dollars on the current account of the balance of payments. The net inflow of non-compensatory and compensatory capital came to only 185 million dollars, so that there was a drop in the level of the country's international reserves.

The rate of increase in domestic prices fell from 107 per cent in 1974 to 67 per cent in 1975. This fall in the rate of inflation was due to the reduced impact of imported inflation and to the application of stabilization measures - consisting mainly of a pause of approximately six months in exchange and wage adjustments - by the Government. Between 1974 and 1975 real wages and salaries diminished on average by around 8 per cent.

/Table 1

Table 1

URUGUAY: MAIN SHORT-RUN ECONOMIC INDICATORS

(Annual growth rates)

	1971-1973	1974	1975
Gross domestic product	-1.1	1.8	3.6
Gross income a/	0.2	-2.0	0.7
Per capita gross domestic product	-2.1	0.8	2.6
Gross fixed investment	-9.7	1.7	10.6
Value of exports	12.3	14.1	2.9
Value of imports	4.7	58.0	10.2
Terms of trade	15.8	-41.5	-26.4
Balance on current account b/	-16.0c/	-154.0	-212.0
Variation in reserves b/	14.0c/	-10.0	-43.0
Consumer price index d/	67.4	107.2	66.8
Money d/	63.1	62.5	53.5
Current income of government	64.7	58.8	67.6
Total expenditure of government	63.0	94.2	70.8
Fiscal deficit/total expenditure of government e/	18.0	25.5	26.9
Wages and salaries f/	54.5	74.6	66.4
Rate of unemployment g/	8.1	...	8.0

Source: ECLA, on the basis of official statistics.

a/ Gross domestic product plus terms-of-trade effect.
b/ Absolute values in millions of dollars at current prices.
c/ Average for three-year period 1971-1973.
d/ December to December.
e/ Percentage.
f/ Total wage-earners; nominal variations between annual averages.
g/ Figures for Montevideo at approximately the end of the first quarter.

2. Recent economic trends

(a) Global trends

As already noted, there was an improvement in the growth rate of the Uruguayan economy in 1975. The gross domestic product rose by 3.6 per cent, which was double the rate of the previous year. This expansion contrasted with the average annual decline of approximately 1 per cent recorded by the product during the period 1971-1973. Taking into account the increase in the population (1 per cent a year), the per capita product grew by 2.6 per cent in 1975 (0.8 per cent in 1974) (see tables 1 and 2).

The very adverse evolution of the terms of trade for the second consecutive year was the cause of the increase of only 0.7 per cent in gross income; that unfavourable result followed a decline of 2 per cent in 1974.

There were some positive factors which helped offset the unfavourable effects of the evolution of the terms of trade and the world economic recession. The intensification of the policy of opening the Uruguayan economy to the exterior and rationalizing the prices mechanism made it possible to increase non-traditional exports substantially and this had favourable repercussions on industrial production, in addition to the greater inflow of currency it entailed. Furthermore, the economic policy applied was sufficiently stable and pragmatic to make it possible to allocate national and foreign resources for investment on more solid foundations than in previous periods.

The increases in construction activity and fixed capital formation were quite considerable, especially considering the prolonged stagnation of the Uruguayan economy. They resulted from the implementation of various large-scale public investment projects and the resumption of housing construction in areas of tourist attraction, and the direct and indirect effects of this development had a strong influence on the economy.

/Table 2

Table 2

URUGUAY: TOTAL SUPPLY AND DEMAND

	Thousands of Uruguayan pesos at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	1974	1975 a/	1970	1975 a/	1971-1973	1974	1975 a/
Total supply	688 716	672 476	695 050	112.5	111.3	-1.2	1.3	3.4
Gross domestic product	612 154	602 454	624 142	100.0	100.0	-1.1	1.8	3.6
Imports	76 562	70 022	70 908	12.5	11.3	-1.7	-3.8	1.3
Total demand	688 716	672 476	695 050	112.5	111.3	-1.2	1.3	3.4
Domestic demand	617 080	612 746	620 549	100.8	99.4	-2.1	1.4	1.3
Gross domestic investment	70 030	61 838	61 838	11.4	9.9	-3.4	-1.8	-
Gross fixed investment	68 478	51 176	56 601	11.2	9.1	-9.7	1.7	10.6
Construction	40 416	38 583	43 126	6.6	6.9	-2.1	1.8	11.7
Machinery and equipment	28 062	12 593	13 475	4.6	2.2	-23.5	1.2	7.0
Variation in stocks	1 552	10 662	5 237	0.2	0.8	-	-	-
Total consumption	547 050	550 908	558 711	89.4	89.5	-0.3	1.8	1.4
General government	92 117	82 349	84 984	15.0	13.6	-3.2	-1.3	3.2
Private	454 933	468 559	473 727	74.4	75.9	0.2	2.3	1.1
Exports	71 636	59 730	74 501	11.7	11.9	-6.0	0.3	24.7

Sources: 1970-1974: ECLA calculations on the basis of figures supplied by the Central Bank of Uruguay; 1975: ECLA estimates on the basis of information from the same source.

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

a/ Preliminary figures.

/Total supply

Total supply grew at a rather slower rate than the gross domestic product because the volume of imports of goods and services rose by only just over 1 per cent. This increase in purchases abroad, although small, nevertheless contrasted with the average decline during the period 1970-1974.

As regards total demand, the rate of domestic demand differed sharply from that of exports of goods and services. Thus, while the former expanded by 1.3 per cent (a rate similar to that of 1974), the volume of the latter rose by about 25 per cent. This pronounced increase, which was a departure from the trend towards the contraction of sales to the exterior observed during the period 1970-1974, occurred in spite of the adverse export price trends.

In 1975, for the first time in many years, gross fixed investment stimulated economic activity by rising about 11 per cent, in contrast with an increase of less than 2 per cent in 1974 and an average annual decline of approximately 2 per cent in the period 1970 to 1973. Thus the ratio of fixed investment to the domestic product rose to 9 per cent, although that figure is well below the average for countries with a per capita income similar to that of Uruguay.

It is estimated that in 1975 the construction component of capital formation grew by around 12 per cent. The machinery and equipment component, for its part, is calculated to have increased by 7 per cent, taking into account the fact that imports of capital goods, expressed in dollars at current prices, are estimated to have increased by over 15 per cent (see table 8).

The recovery of investment in construction was influenced by the execution of a number of major public investment projects, particularly the Salto Grande hydroelectric plant and two road bridges linking Argentina and Uruguay (Fray Bentos-Puerto Unzué and Paisandú-Colón) which were financed jointly with Argentina. It may be noted that the Salto Grande project is very large-scale by Uruguayan standards and will therefore have widespread repercussions on domestic economic activity.

/Another factor

Another factor in this recovery was the construction of a substantial number of apartment blocks, especially in the tourist area of Punta del Este and the vicinity. Abundant private capital from neighbouring countries entered Uruguay for this purpose.

With regard to the sectoral distribution of investment, it would appear - on the basis of the partial information available - that there was a decline in capital formation in agriculture (especially in the permanent pastures sector and the acquisition of equipment in that connexion) and an increase in investment in manufacturing, especially in the sectors concerned with exports of non-traditional products. Both cases were influenced by the evolution of the relative prices in each sector and by the state of the international markets for agricultural and manufactured products. These aspects will be discussed in more detail further on.

In 1975 gross domestic investment, unlike fixed investment, did not increase because of the variations in the accumulation of stocks. In the course of the year the demand for stocks fell by half and this had a restrictive effect on domestic investment. The reduced accumulation of stocks in 1975 was largely due to the reduction of stocks of agricultural products because of the export of wool reserves from previous shearings and the decline in the number of cattle.

Total consumption and private consumption grew by just over 1 per cent, after having risen by around 2 per cent in 1974. General Government consumption, for its part, increased by approximately 3 per cent in contrast with its persistent decline during the period 1970-1974.

With regard to the employment situation, it is not possible to make an accurate assessment of the trend followed by the rate of unemployment on the basis of the information available in the country. It is only known that in the first quarter of 1975 the rate amounted to 8 per cent of the labour force in the city of Montevideo, which was similar to the average percentage recorded during the first half of each year during the period 1971-1973.

/(b) Sectoral

(b) Sectoral developments

There was an improvement in the growth rate of all the goods-producing sectors, without exception. Taken together, their share in the gross domestic product rose by 6.5 per cent in 1975, which was more than double the 1974 rate (3 per cent) and contrasted sharply with the average decline of nearly 2 per cent recorded in 1971-1973 (see table 3).

Agricultural production rose by over 1 per cent, compared with an increase of 0.8 per cent in 1974 and an average decline of 2.6 per cent in 1971-1973. This increase was due to the higher activity in the livestock sub-sector, which generates around two-thirds of the value added by agriculture (see table 4).

In the crop-farming sub-sector production is calculated to have increased by 1 per cent in 1975, the biggest increases being in the harvests of wheat (77 per cent), rice (19 per cent), linseed (49 per cent) and sugar beet (32 per cent). However there was a substantial decline (31 per cent) in the maize harvest and it is estimated that the production of other sectors remained more or less unchanged.

The area sown with wheat increased by over 50 per cent between the crop years 1973/1974 and 1974/1975 (from approximately 300,000 to 450,000 hectares), in response to the Government's policy of providing incentives to this activity in the form of guarantees, support prices and adequate credit. The area sown with rice and sugar beet also expanded significantly for similar reasons. All in all, it is estimated that the area sown with the main crops increased from about 700,000 hectares to about 850,000 hectares.

The livestock sub-sector increased by 1.5 per cent because of the higher production of wool and milk. The output of wool increased because of the favourable climatic conditions and production rose by around 5 per cent although there was no increase in the sheep herd. Similarly, the increase in milk production (13 per cent) can be attributed almost entirely to the relatively mild winter of 1975.

/Table 3

Table 3

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

	Thousands of Uruguayan pesos at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	1974	1975 a/	1970	1975 a/	1971-1973	1974	1975 a/
Agriculture	67 164	62 589	63 372	12.6	11.6	-2.6	0.8	1.3
Mining Manufacturing	128 760	129 508	138 192	24.2	25.4	-1.0	3.6	6.7
Construction	20 182	18 630	22 795	3.8	4.2	-4.7	6.5	22.4
Subtotal goods	216 106	210 726	224 358	40.6	41.2	-1.8	3.0	6.5
Electricity, gas and water	7 919	7 919	8 240	1.5	1.5	1.4	-4.2	4.1
Transport and communications	45 496	47 915	48 473	8.6	8.9	0.4	4.0	1.2
Subtotal basic services	53 415	55 834	56 713	10.0	10.4	0.6	2.8	1.6
Commerce, financial establishments and insurance	91 603	87 490	91 346	17.2	16.8	-2.5	3.2	4.4
Real estate b/	27 436	28 303	28 363	5.2	5.2	1.0	0.1	0.2
Communal, social and personal services c/	143 070	142 927	143 230	26.9	26.3	-	-0.2	0.2
Subtotal other services	262 109	258 720	262 939	49.3	48.3	-0.8	1.0	1.6
Total gross domestic product	531 630	523 178	542 004	100.0	100.0	-1.1	1.8	3.6

Sources: 1970-1974: ECLA calculations on the basis of figures supplied by the Central Bank of Uruguay; 1975: ECLA estimates on the basis of official data.

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

a/ Preliminary figures.

b/ Refers to ownership of dwellings.

c/ Also includes restaurants, hotels and services provided to enterprises.

/Table 4

Table 4

URUGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1973	1974	1975	Annual growth rates 1971-1973	1974	1975
Index of agricultural production (1961 = 100)	116.8	107.9	108.7	110.0	-2.6	0.7	1.3
Crop farming	128.5	128.4	131.6	132.9	-0.1	2.4	1.0
Stock-raising	105.4	97.6	97.2	98.7	-2.6	-0.4	1.5
Production of some important crops a/ (thousands of tons)							
Wheat	447	187	297	527	-25.3	59.1	77.4
Maize	189	229	225	157	6.5	-1.5	-30.8
Rice	139	137	158	189	-0.4	15.3	19.4
Linseed	90	30	26	39	-30.9	-10.8	49.4
Sunflower seed	52	71	48	51	10.7	-32.0	6.2
Sugar beet	275	371	434	573	10.4	17.2	32.0
Indicators of stock-raising production							
Number of livestock (thousands of head) b/	8 564	9 860	11 000	11 400	4.8	11.6	2.2c/
Number of animals slaughtered (thousands of head)	1 791	1 224	1 573	1 755	-11.9	28.5	11.6
Percentage slaughtered	20.9	12.4	14.3	15.4	-	-	-

Source: Central Bank of Uruguay, on the basis of data supplied by the Ministry of Stock-raising and Agriculture.

a/ Agricultural year.
b/ Up to 30 June of each year.
c/ Variation between December 1974 and December 1975.

/Beef production

Beef production fell by just over 3 per cent because the reduced proportion of breeding cows in the total herd caused a decline in the number of calves born. The lower rate of reproduction and the increase in slaughtering (12 per cent) caused a decrease of about 2 per cent in the total herd. Despite the pronounced deterioration in relative livestock prices,1/ there was no excessive slaughtering of stock, as is indicated by the figure for cattle slaughtering as a percentage of the total herd. This could be due, inter alia, to the fact that the capacity of the pasture lands was good because of the favourable climatic conditions prevailing, and especially to the fact that future increases in the real prices of meat were expected because of the probable improvement in international prices for the product.

Manufacturing also evolved favourably: in 1975 production increased by about 7 per cent, compared with an increase of less than 4 per cent in 1974 and an average decline of around 1 per cent during the period 1971-1973 (see table 5).

The textiles and tanneries sectors were the most dynamic, each growing by about 23 per cent. The expansion of these two activities was mainly due to the increase in exports made possible by the fiscal, commercial, credit and exchange incentives for non-traditional exports which were in force from 1975 onwards. Thus, the value of exports by tanneries and textile firms almost doubled between 1974 and 1975, rising from approximately 34 to about 60 million dollars.

The higher production of the food industry (8 per cent) was also influenced by the rise in exports, especially of oils, linseed "expellers" and milled rice, which were made possible by the increase in domestic production of the corresponding agricultural raw materials.

1/ Other aspects of the trends in the nominal and relative prices of products of the agricultural sector will be discussed in the section on the evolution of prices.

/Table 5

Table 5

URUGUAY: INDICATORS OF MANUFACTURING PRODUCTION

	1970	1973	1974	1975	Annual growth rates 1971-1973	1974	1975
Index of manufacturing production (1961 = 100)	119.3	116.4	120.7	128.8	-0.8	3.7	6.7
Food	136.8	122.3	131.4	141.9	-3.7	7.4	8.0
Beverages	153.2	133.6	134.2	134.2	-4.5	0.4	0.0
Tobacco	132.8	147.4	146.7	148.2	3.5	-0.5	1.0
Textiles	91.8	87.2	88.8	108.9	-1.7	1.8	22.6
Footwear and clothing	114.2	88.5	90.4	82.4	-8.1	2.1	-8.8
Paper and paper products	172.7	216.7	216.7	200.2	7.9	0.0	-7.6
Printing and publishing	113.8	122.0	108.9	108.7	2.3	-10.7	-0.2
Rubber products	76.9	84.3	104.6	109.8	3.1	24.1	5.0
Chemical products	122.5	138.4	144.6	128.0	4.2	4.5	-11.5
Petroleum derivatives	114.5	113.0	118.4	130.0	-0.4	4.8	9.8
Non-metallic mineral products	155.6	192.5	209.1	218.9	7.4	8.7	4.7
Metal products	72.3	68.9	61.3	58.2	-1.6	-11.0	-5.1
Electrical machinery	58.8	51.9	50.5	53.2	-4.1	-2.7	5.4
Tanning	-	-	-	-	-	-	22.5
Transport equipment	-	-	-	-	-	-	-0.9
Miscellaneous industries	-	-	-	-	-	-	10.1

Source: Central Bank of Uruguay.

/The increases

The increases in production of other categories of manufactures were linked with the higher demand resulting from the growth of construction. This was particularly so in the case of non-metallic mineral products and of various inputs used in construction.

In some branches of manufacturing, however, there was no appreciable variation in production, or there was even a decline. This was the case with beverages, tobacco, footwear and clothing, paper and paper products, chemical products, metal products, transport equipment, and printing and publishing. Generally speaking these activities are almost entirely dependent on private domestic consumption, which remained almost unchanged between 1974 and 1975. Finally, the major purchases made in Argentina by Uruguayan tourists, taking advantage of the relatively high value attained by the dollar in the parallel market of that country, had a significant adverse effect on certain industrial sectors.

With regard to construction, judging by the information available on the trends in the production of cement and other inputs used for this activity it is estimated that in 1975 the gross domestic product of the sector rose by just over 22 per cent, which was three times the growth rate of the previous year and contrasted with the average decline of nearly 5 per cent a year during the period 1971-1973.

For their part, both basic services and other services grew by 1.6 per cent in 1975. Commerce and the electricity, gas and water sector showed significant increases compared with 1974 (see table 3).

3. The external sector

(a) The merchandise trade

The current value of exports of goods rose by only 1 per cent in 1975. This contrasts with the 16 per cent increase in this value in 1974 and also with the average expansion of nearly 30 per cent a year during the period 1972-1973. However, this decline in the growth rate was entirely due to the 21 per cent fall in the unit value of exports, expressed in dollars in current prices, since the volume rose by 28 per cent. This high rate was more than four times that of 1974 and contrasts sharply with the average decline of approximately 9 per cent recorded during the period 1971-1973 (see table 6).

/Table 6

Table 6

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

(Percentage)

	1971	1972	1973	1974	1975
Exports of goods					
Value a/	-12.2	23.0	35.4	16.4	1.0
Volume	-13.0	-5.2	-5.6	7.3	27.7
Unit value a/	1.0	29.7	43.4	8.5	-20.9
Imports of goods					
Value a/	-0.1	-12.0	39.1	75.7	11.0
Volume	-1.3	-21.0	29.8	-5.2	3.3
Unit value a/	1.3	11.4	7.2	85.3	7.5
Terms of trade	-0.3	16.5	33.8	-41.5	-26.4

Source: ECLA, on the basis of official statistics.

a/ Calculated on the basis of figures in dollars at current prices.

/In 1975

In 1975 there was a drop of 24 per cent in the value of external sales of the basic commodities which have traditionally been the country's main categories of exports (meat, wool and hides); this meant that their share in total export sales fell to just under 50 per cent, compared with nearly 80 per cent in 1970 (see table 7).

Exports of meat declined by 41 per cent as the result of a fall of nearly 35 per cent in the average price obtained in the international markets (1,280 dollars per ton in 1974 but only 835 dollars in 1975) and a reduction of around 8 per cent in the volume exported. Although there was a slight improvement in sales to the European Economic Community, it was not possible to repeat the substantial sales made to Brazil and Argentina the previous year.

The value of wool exports in 1975 was almost the same as in 1974, although the average price obtained fell by over 30 per cent. There was a marked increase in the quantum exported (over 40 per cent) because of the rise of domestic production during the year and in particular the liquidation of wool stocks from previous shearings.

With regard to the export of hides, the value of sales declined by 11 per cent, but no separate information is available on the evolution of the unit value and quantum.

The total value of non-traditional exports rose by 50 per cent by 1975. This marked expansion, which was particularly significant for having taken place in a year of world recession, followed similar rises in 1973 and 1974; thus the total value of non-traditional exports more than trebled between 1972 and 1975, rising from under 60 million dollars to over 190 million dollars.

Many non-traditional export products grew rapidly, the most conspicuous being leather products, milled rice, various textile products, cement and glass, tyres and other products for the automobile industry, and also various articles of agricultural and manufacturing origin which are included under the heading "other products" in table 7.

/Table 7

Table 7

URUGUAY: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars at current prices (FOB)			Percentage breakdown		Annual growth rates		
	1973	1974	1975	1970	1975	1971-1973	1974	1975
Main export products	245	252	192	78.0	49.7	-	2.9	-24.1
Wool	98	87	87	31.4	22.5	-	-10.6	-0.7
Meat	122	141	84	36.1	21.7	-	15.7	-40.9
Hides	26	24	21	10.5	5.5	-	-7.0	-10.8
Other exports	82	129	194	22.0	50.3	-	56.6	50.1
Leather manufactures	10	19	41	1.7	10.6	-	86.5	110.8
Milled rice	15	28	33	1.6	8.5	-	88.0	16.3
Textile products	12	15	19	2.6	4.8	-	26.1	28.3
Cement and glass	3	6	12	1.5	3.2	-	61.8	121.8
Products for the automobile industry	4	10	12	0.4	3.2	-	127.9	26.5
Other products	38	52	77	14.2	19.9	-	36.6	48.7
Total	328	382	385	100.0	100.0	13.5	16.4	1.0

Source: Central Bank of Uruguay.

/The policy

The policy of encouraging non-traditional exports - which was consistent with the general development strategy adopted by the country since mid-1973 - and the adoption of other complementary measures have undoubtedly had a favourable influence on the evolution of these exports. Thus, the favourable results achieved were the consequence of the gradual adoption of a series of measures during the period 1973-1975 and the appropriate utilization of the prices mechanism and rate of exchange as economic instruments.

The boom in this type of exports was due not only to the adoption of a policy of remunerative agricultural prices and periodic mini-devaluations but also to the application of a more liberal trade policy and to the introduction of the Industrial Incentives Act and the Export Promotion Act in 1974. Furthermore, the decisions taken on external trade helped to eliminate the administrative obstacles which prevented or hindered the expansion of industrial activities oriented towards the external market. Moreover, the Government of Uruguay facilitated the export of non-traditional products through trade exchange agreements with Argentina in 1974 and with Brazil in 1975. These agreements led to a considerable expansion of the market for national industry by opening up new export opportunities, in addition to those offered by the favourable conditions of demand for certain Uruguayan products in the international market.2/

In 1975 the value of imports of goods rose by 11 per cent as a result of an increase of about 3 per cent in volume and of 8 per cent in unit value. Comparison of these figures with those of the previous year shows that the moderate increase in unit value was quite moderate, since in 1974 the steep increase in the international price of petroleum and the high share of fuels in the country's imports (approximately one-third of the total) caused an 85 per cent increase in unit value.

2/ See CEPCIES, Situación, principales problemas y perspectivas de la economía del Uruguay, CEPCIES/135, 29 March 1976, pp. IV-4 to IV-12.

The composition of imports did not vary very much between 1974 and 1975. The various categories in table 8 showed similar increases to that of the total value of imports.

It should also be stressed that the economic policy was designed to maintain adequate supplies of imported products to prevent bottlenecks in the investment plans and in the provision of inputs for industry and the agricultural sector, as well as to help create the conditions of supply and competition necessary for the implementation of the anti-inflationary programme. To this end the Government was prepared to lose a reasonable amount of international reserves and it adopted various liberalization measures, including the elimination of import quotas and of the requirement to finance imports within certain time limits. Prior deposits, however, which were considered as an important instrument of monetary policy, were maintained almost until the end of the year and were finally abolished in December, when a 7 per cent tax (approximately equivalent to the financial cost of the prior deposits) was imposed on the value of imports, basically for fiscal purposes.

The variations in the unit values of exports and imports in 1975 caused a deterioration of over 26 per cent in the terms of trade, after a decline of nearly 42 per cent in 1974 (see table 6). Over the last two years the deterioration of the terms of trade has been so severe that, despite the increases recorded in 1972-1973, the absolute level in 1975 was only 67, taking as the base index of 100 the average value recorded during the period 1960-1970. This decline shows clearly that in recent years the Uruguayan economy has been one of the Latin American economies most affected by the trends of international prices.

/Table 8

Table 8

URUGUAY: VALUE AND BREAKDOWN OF IMPORTS OF GOODS

	Millions of dollars at current prices (CIF)				Percentage breakdown		Annual growth rates		
	Average 1971-1973	1973	1974	1975	1970	1975	1971-1973	1974	1975
Fuels and lubricants	46	55	161	184	14.6	33.7	17.5	193.6	14.7
Crude petroleum	36	45	141	164	11.7	30.0	18.2	215.4	16.1
Others	196	230	326	362	85.4	66.3	5.3	41.7	11.1
Vehicles and machinery	47	43	57	65	15.6	12.0	6.1	31.1	15.6
Raw materials and construction materials	110	144	217	297	41.7	54.3	14.3	50.7	10.2
Miscellaneous	39	43	53		28.1		-12.6	22.6	
Total	242	285	487	546	100.0	100.0	7.2	70.9	12.3

Source: Central Bank of Uruguay.

/(b) The

(b) The balance of payments situation

In the services trade (mainly transport and travel) it is estimated that in 1975 exports rose by nearly 12 per cent, while imports grew by less than 8 per cent. This, combined with the evolution of the merchandise trade already described, led to a rise of nearly 3 per cent in the value of exports of goods and services and of 10 per cent in that of imports of the same items. Thus the deficit on the trade in goods and services increased from 111 million dollars in 1974 to 157 million in 1975 (see table 9).

This deficit was further increased by a rise of nearly 13 million dollars in net payments of profits. Thus the deficit on the current account balance of payments rose from 154 million dollars in 1974 to 212 million in 1975.

In order to finance this deficit the country had at its disposal a net inflow of non-compensatory capital amounting to 138 million dollars. The issue of treasury bonds to a net value of over 100 million dollars accounted for a significant part of this influx. There was also a major inflow of foreign capital for the financing of short-term investment and capital, which largely reflected the policy of encouragement followed by the Government.

Furthermore, the country received net compensatory financing amounting to a total of 47 million dollars, mainly from credit operations with the International Monetary Fund. To make up the total it was necessary to utilize a total of 27 million dollars of net international reserves 3/ (see table 9).

3/ Gross international reserves declined by over 40 million dollars from 215 million dollars at the end of 1974 to approximately 170 million in 1975.

/Table 9

Table 9

URUGUAY: BALANCE OF PAYMENTS

(Millions of dollars)

	1970	1972	1973	1974	1975 a/
Current account					
Exports of goods and services	290	311	410	468	481
Goods FOB	224	242	328	381	385
Services	66	69	82	86	96
Transport	8	9	12	13	15
Travel	43	45	43	45	50
Imports of goods and services	319	280	367	579	638
Goods FOB	203	179	249	437	485
Services	117	101	118	142	153
Transport	50	42	47	68	75
Travel	45	40	44	42	44
Net payments of profits and interest on foreign capital	-25	-24	-25	-43	-55
Profits	-2	-	-	-	-
Interest	-23	-24	-25	-43	-55
Net private transfer payments	-1	-	-	-	-
Balance on current account	-55	7	18	-154	-212
Capital account					
Net external financing (a+b+c+d+e)	-55	-7	-18	154	212
(a) Net external non-compensatory capital	24	64	6	167	
Direct investment	-	-	-	-	
Long- and medium-term loans	26	47	21	38	
Amortization payments	-17	-14	-39	-19	
Short-term liabilities (net)	5	19	5	126	138
Official transfer payments	10	12	19	22	
(b) Domestic non-compensatory capital or assets	18	-6	34	31	
(c) Errors and omissions	-26	-60	-31	-96	
(d) Allocation of SDRs	9	8	-	-	-
(e) Net compensatory financing (minus sign signifies an increase)	30	-13	-27	52	74
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	42	31	54	82	47
Amortization payments	-25	-24	-50	-40	-15
Foreign exchange reserves (minus sign signifies an increase)	13	-37	-27	12	13
Gold reserves (minus sign signifies an increase)	-	25	-	-	13
SDRs (minus sign signifies an increase)	-	-8	-4	-2	16

Source: International Monetary Fund, Balance of Payments Yearbook, vol. 27.

a/ ECLA estimates based on official data.

/4. The

4. The trends of prices and other variables linked with the inflationary process

(a) Prices

During 1975 the rate of increase in prices was significantly lower than in the preceding period, for the consumer price index showed a variation of less than 67 per cent compared with one of approximately 107 per cent in 1974. The rate of increase of food prices declined from 106 per cent in 1974 to 53 per cent in 1975 (see table 10).

The rate of increase in wholesale prices followed a similar downward trend (88 per cent in 1974 and 65 per cent in 1975), which was also more pronounced in the agricultural products sector (55 per cent in 1974 and 36 per cent in 1975). Thus, a comparison of the averages for 1974 and 1975 shows that the relative agricultural prices deteriorated by around 20 per cent, compared with prices for manufactures, and this decline is almost entirely attributable to the evolution of the prices of livestock products.

In considering the factors which affected the lessening of the rate of inflation a distinction should be made between the effects of imported inflation and the influence of the stabilizing action undertaken by the Government.

The most salient aspect of the diminishing effect of imported inflation on domestic prices in 1975 was the rise of only about 8 per cent in the dollar unit value of imports, which was less than one-tenth of the increase in 1974. This major decline was particularly significant for the domestic prices of imported products and of national goods with a high imported component.

At the same time the unit value of exports declined by 21 per cent after having risen by around 9 per cent in 1974 and by an annual average of over 35 per cent in 1972-1973. This decline, as well as being important in absorbing existing inflationary pressures on the global level, had a particularly significant stabilizing effect on certain agricultural products which are exported but for which there is also widespread domestic demand.

/Table 10

Table 10

URUGUAY: EVOLUTION OF DOMESTIC PRICES

	Price indexes (annual average) 1970 = 100			Annual growth rates (December to December)				
	1973	1974	1975	1971	1972	1973	1974	1975
Consumer price index	430.8	763.5	1 384.9	35.7	94.7	77.5	107.2	66.8
Food	489.3	843.7	1 441.2	49.0	108.3	77.2	105.5	53.1
Wholesale price index	492.2	879.6	1 516.2	40.0	114.6	91.7	87.5	65.4
Agricultural products	578.3	934.7	1 377.9	61.6	141.0	81.3	54.9	35.5
Manufactures	460.8	858.9	1 564.0	32.1	102.8	97.2	103.4	75.9
Agricultural prices/ manufacturing prices	125.5	108.8	88.1					

Sources: Directorate - General of Statistics and Censuses;
Central Bank of Uruguay.

/The case

The case of meat was the most representative in this respect, since in addition to the above-mentioned factors the difficulties encountered in exporting this product and the high level of cattle stocks meant that there were abundant domestic supplies. Thus, during 1975 the average price of the various cuts of meat which make up the family shopping basket rose by around 28 per cent 4/ in contrast with the increase of 67 per cent recorded in the consumer price index.

(b) The prices and wages policy

In general terms, the anti-inflationary strategy which had been applied since 1972 and readjusted in mid-1974 was further developed in 1975. Its main characteristics were flexibility in the prices mechanism and the "functional nature" of changes in both the level and system of prices. Thus rates of inflation considered acceptable by the authorities were generally tolerated in view of other economic policy priorities, particularly those of growth orientation and requirements.

In accordance with this criterion, the flexible policy on prices was maintained during 1975 and at the same time further adjustments were made in the prices and charges for goods and services supplied by public enterprises (particularly energy, transport and communications) and in rents. These measures corresponded to a fundamental objective of economic policy - that of restoring the relative prices of goods and services, which had fallen behind during the inflationary process in recent years. The purpose of this was to increase the proportion of auto-financing of public enterprises, to raise the cost of energy consumption, and to re-establish remunerative conditions of urban property ownership with a view to reviving the interest of the private sector in housing construction. As a result of this policy the costs of rents, fuels, electricity and other public services more than doubled during the year.

4/ The rise in wholesale prices of beef amounted to only 2 per cent during the year.

/Furthermore, with

Furthermore, with a view to enhancing the role played by market forces in the allocation of resources, the process of eliminating subsidies on the prices of certain goods was continued and at the same time direct price controls were made more flexible and were simplified.

In view of the evolution of the main real and financial variables of the economy the Government considered it advisable from April 1975 onwards to make some changes in the stabilization scheme it was applying. To that end it introduced a freeze in the periodic modifications of two basic cost factors: the exchange rate and wages.

There were no further mini-devaluations in the commercial rate of exchange between the months of April and September, and the rate remained stable at 2.33 pesos per dollar. At the end of September mini-devaluations were resumed in order to avoid imbalances in the system of prices and the fiscal-financial apparatus and the rate of exchange in fact rose by around 67 per cent between the end of 1974 and 1975. This increase was almost the same as that recorded for consumer and wholesale prices.5/ During 1973 and 1974, in contrast, the devaluations of the national currency seem to have been lower than the relative variations in domestic prices (see table 11).

At the same time, as already noted, various measures aimed at reducing the cost of imported goods were adopted, including the abolition of the system of compulsory 180-day financing and the reduction of consular rates, and a free supply of imported goods was ensured by the abolition of import quotas.

No wage adjustments were authorized between the months of April and October 1975. In November an increase of 22 per cent was granted to workers in the private sector, and in December this was extended to employees in the public sector.

5/ The rate of exchange on the financial market, which fluctuates widely on the basis of the supply and demand of foreign currency, rose by only 30 per cent between the end of 1974 and 1975 and remained relatively stable throughout the second half of 1975.

/Table 11

Table 11

URUGUAY: EVOLUTION OF EXCHANGE RATE AND PRICES

Period	Exchange rate a/ (pesos per dollar)		Wholesale price index b/	
	Value	Percentage variation	Value	Percentage variation
End of:				
1971	0.37	48.0	269.4	40.0
1972	0.73	97.8	377.1	114.6
1973	0.94	28.0	809.2	91.7
1974	1.59	69.1	1 517.0	87.5
1975 (May)	2.33	46.5	1 946.5	28.3
1975 (September)	2.33	46.5	2 083.2	37.3
1975 (December)	2.66	67.3	2 510.3	65.4

Source: ECLA, on the basis of official statistics.

a/ Corresponds to the commercial exchange rate.
b/ Of domestic products (1968 = 100).

/Under this

Under this policy, according to the information available on the evolution of average wages in 1975 as measured by comparison of the averages for 1974 and 1975, wage-earners gained a nominal increase of around 66 per cent in their average wages and salaries. The rate for private sector employees was a little more than this, and that for public sector employees was a little less. Taking into account the rise in consumer prices, these nominal variations meant that average real wages fell by just over 8 per cent (nearly 8 per cent for private sector wages and around 9 per cent for public sector wages) in 1975 - a bigger decrease than in 1974 (see table 12).

The effects of the exchange rate and wages freeze were discernible in the short-term evolution of the price indexes. During the period of approximately six months when the freeze was in force, the average monthly rises in consumer and wholesale prices declined to approximately 3 per cent and just over 2 per cent respectively. These figures were around half the average monthly rise in prices during the six months preceding the date when this measure was introduced. In November and December, however, the rate of inflation reverted to levels similar to those recorded at the beginning of the year.

(c) Fiscal developments

The most salient feature of the central government finances during 1975 was the growth of 68 per cent in nominal current income, which is equivalent, in constant-value national currency, to a decline of nearly 8 per cent.6/ This trend was influenced by the slower rise in taxes on foreign trade, which amounted to only 15 per cent in current values and was mainly due to the reduction in taxes on exports of meat and wool introduced by the Government in an effort to allay the unfavourable repercussions for producers of the decline in the international prices of these products. Taxes on imports, expressed in constant-value national currency were also reduced in the context of the import liberalization measures introduced during the year.

6/ Using as a deflator the consumer price index, which rose by 81.4 per cent as between the 1974 and 1975 averages.

/Table 12

Table 12

URUGUAY: EVOLUTION OF AVERAGE WAGES

(Annual growth rates)[a/]

	1971-1973	1974	1975
Nominal			
Total wage-earners	54.5	74.6	66.4
Public sector wage-earners	54.2	72.7	65.5
Private sector wage-earners	54.6	76.4	67.1
Real [b/]			
Total wage-earners	-5.1	-1.4	-8.3
Public sector wage-earners	-5.2	-2.5	-8.8
Private sector wage-earners	-5.0	-0.4	-7.9

Source: Directorate - General of Statistics and Censuses.

a/ Between annual averages.

b/ Deflated on the basis of the consumer price index.

Current revenue from domestic activity rose by 78 per cent, which is a rate close to the increase in consumer prices. The tax on the minimum assessed productivity of land (IMPROME) did not yield as much as had been expected in the budgetary estimates because of the decline in the revenue from the livestock sector. Furthermore, the revenue derived from the value added tax does not seem to have risen as much as was originally calculated by the governmental authorities when estimating the probable increases in domestic prices and production.

Current fiscal expenditure rose by 70 per cent, which was slightly more than the increase in revenue. In the wages and social security category the increase amounted to approximately 73 per cent, while other current expenditure rose by 61 per cent. The decline of over 11 per cent in this latter category in terms of constant values was largely due to the efforts made by the Government to reduce subsidies to the private sector and transfers to the public enterprises (see table 13).

As a result of the trends in revenue and current expenditure, the central government deficit rose by 80 per cent between 1974 and 1975, amounting in the latter year to about 220 million pesos (approximately 100 million dollars). The relative importance of this deficit, which arose entirely between 1973 and 1975, is significant because it is equivalent to around a quarter of the country's gross fixed investment in 1975.

Fiscal investment grew by 81 per cent after having risen by 134 per cent in 1974, so that in real terms expenditure in 1975 was still about one-third higher than in 1973. This rise in government investment was mainly due to three major investment projects in energy and transport: the hydroelectric plant at Salto Grande and the two international bridges linking Argentina and Uruguay.

/Table 13

Table 13

URUGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE[a]/

	Current values (in millions of pesos)				Annual growth rates		
	1970	1973	1974	1975	1971-1973	1974	1975
1. Current income	82.9	370.2	587.9	985.5	64.7	58.8	67.6
Taxes on external trade	17.0	77.5	94.3	108.9	65.8	21.7	15.3
Other taxes and non-tax revenue	65.9	292.7	493.6	876.6	64.4	68.6	77.6
2. Current expenditure	85.0	372.2	709.4	1 203.8	63.6	90.6	69.7
Wages and social securities	57.5	255.7	499.1	865.9	64.4	95.2	73.5
Other current expenditure	27.6	116.5	210.3	337.9	61.6	80.5	60.7
3. Saving on current account (1 - 2)	-2.1	-2.0	-121.5	-218.3	...	...	79.7
4. Investments	8.5	34.3	80.1	145.0	59.2	133.5	81.0
5. Total expenditure (2 + 4)	93.5	406.5	789.5	1 348.8	63.0	94.2	70.8
6. Fiscal deficit (or surplus) (3 - 4)	-10.6	-36.3	-201.6	-363.3	...	...	80.2
7. Financing of deficit	10.6	36.3	201.6	363.3	...	...	80.2
Domestic financing (net)	9.5	28.2	200.6	362.7	43.6	611.3	80.8
Central Bank and Bank of the Republic	(3.3)	(20.9)	(53.8)	(95.2)	(85.0)	(157.4)	(77.0)
Issue of securities	(5.8)	(9.8)	(113.8)	(258.7)	(19.1)	(1 061.2)	(127.3)
Other	(0.4)	(-2.5)	(32.9)	(8.8)	(...)	(...)	(...)
External financing (net)	1.1	8.1	1.0	0.6	94.5	-87.7	-40.0

Source: Central Bank of Uruguay, on the basis of data supplied by the Office of Accounts and General Treasury of the Nation.

a/ Actual income and expenditure (Treasury accounts).

/During 1975

During 1975 as a whole the cash movements of the central government generated a total deficit of 363 million pesos (some 160 million dollars), which was equivalent to 27 per cent of total government expenditure, compared with a proportion of 25.5 per cent in 1974 and an average annual rate of 18 per cent in 1971-1973 (see table 1).

Nevertheless, the monetary and inflationary constraints which could have been created by the relative size and rapid growth of the fiscal deficit were lessened by the change in the composition of the financing of this deficit between 1974 and 1975. In 1975, as already mentioned, there was a net issue of readjustable Treasury letters and bonds amounting to nearly 260 million pesos (127 per cent more than in 1974) and this meant that there was no need for the government to increase in real terms its utilization of net credit from the Central Bank and the Bank of the Republic. At the same time the external financing utilized by the Treasury declined to less significant levels than in 1974 (see table 13).

(d) The monetary picture

A study of the monetary trends shows that between the end of 1974 and 1975 the supply of money grew by just over 53 per cent, so that the level of real liquidity of the economy fell by around 8 per cent. During 1974 the increase in the means of payment amounted to 63 per cent and real liquidity diminished by about 22 per cent (see tables 14 and 10). The factors of monetary expansion, taken together, increased by 64 per cent during 1975. However, total domestic credit and credit to the private sector rose by 80 per cent and 75 per cent, respectively: i.e., they increased by more than the rise in domestic prices (67 per cent). This situation of relatively easy credit contrasted with that of 1974 when, although there was a 107 per cent rise in prices, total domestic credit and credit to the private sector both rose by less than 80 per cent. On the other hand, however, the increase in credit to the government amounted to 102 per cent in 1974 and only 74 per cent in 1975.

/Table 14

Table 14

URUGUAY: MONETARY POSITION

(Millions of pesos)

	Balance at end of			Annual growth rates		
	1973	1974	1975	1971-1973	1974	1975
Money	331	538	826	63.1	62.5	53.5
Currency outside banks	202	316	470	51.2	56.5	48.8
Demand deposits	129	222	356	93.1	71.7	60.0
Factors of expansion	636	996	1 637	39.1	56.6	64.2
Foreign assets (net)	49	-47	-242	-	-	-
Domestic credit	587	1 043	1 879	31.6	77.6	80.1
Claims on government (net)	(100)	(202)	(351)	35.6	102.5	73.9
Claims on official entities	(14)	(-10)	(35)	-	-	-
Claims on private sector	(473)	(851)	(1 493)	33.4	79.8	75.4
Factors of absorption	305	458	811	24.0	50.3	76.8
Quasi-money (savings and time deposits)	209	316	676	28.2	50.9	114.0
Importers' deposits and funds in trust	84	155	137	83.3	85.4	-12.0
Long-term foreign borrowing	25	37	45	27.2	45.5	22.0
Other items (net)	-13	-50	-47	-	-	-

Source: Central Bank of Uruguay.

/In 1975

In 1975 domestic credit was able to expand in real terms because there was a significant decrease in the net international reserves of the monetary system, combined with a bigger balance-of-payments deficit, as already described. This loss of reserves made it possible to absorb about a quarter of the increase in total domestic credit.

Furthermore, savings and time deposits, which more than doubled and which increased at more than twice the rate recorded in 1974, represented a particularly important factor of absorption. The policy followed on interest rates, which consisted of determining positive real "passive" rates for the tapping of quasi-money resources by the banking system, was the predominant influence in this development. Thus, the share of institutionalized financial savings grew to the detriment of other forms of tapping funds.

At the same time, the rates of interest collected in respect of credit operations (i.e., the "active" rates of interest) also became more favourable in real terms, for the first time in 15 years. Thus, the demand for credit was to some extent contained and speculative uses financed by banking placements, including the acquisition of foreign currency on the parallel market, were discouraged.

The increased monetary resources which entered the banking system in the form of sight and time deposits made it necessary nevertheless to adopt some measures to prevent the excessive growth of domestic credit. To that end, from 1 January 1975 onwards the cash reserve required for increases in deposits recorded after that date was raised to 40 per cent. In October, however, this figure was reduced by half for time deposits, so as not to discourage commercial banks from securing this type of deposit. Finally, at the end of the year the system of bank cash reserves was reorganized and at the same time efforts were made to facilitate the financing of the central government deficit.7/

7/ On 30 December a system of flat cash reserve rates of 40 per cent for sight deposits and 20 per cent for time deposits for one year or longer was introduced. At the same time, it was decided that private banks must maintain portfolios of public securities in the amount of at least 19 per cent of their deposits in national currency, while 11 per cent of the deposits must be made up of national-currency Treasury bonds.

VENEZUELA */

1. Introduction and summary

In 1975 the Venezuelan economy experienced its highest rate of growth in recent years. Furthermore, this growth was accompanied by a marked slowing down in the rate of inflation. The external accounts, on the other hand, weakened with respect to 1974 because of a sharp dip in export earnings and a large increase in imports for the second consecutive year. Despite significant erosion of its surplus position, however, the country's balance of payments continued to be highly favourable.

The gross domestic product (GDP) expanded by 6.6 per cent in 1975, i.e., 3.6 per cent more than the estimated growth of population. This compares with a growth of 4.5 per cent in 1974 and an average growth of slightly more than 4 per cent per annum in the period 1971-1973. Gross income, on the other hand, suffered a decline of 12 per cent owing to a sharp deterioration in the terms of trade, but this loss of income offset only a part of the extraordinary gains achieved in preceding years (see table 1).

Sectoral development in 1975 followed approximately the same trends as in 1974, when the sectors producing for the domestic market expanded very rapidly and output of the export-oriented petroleum sector underwent a severe contraction. In 1975, however, the expansion of the domestic sector and the contraction of the external sector were considerably more marked. Accelerated growth in the domestic sector was spearheaded by sharply increased output in agriculture and manufacturing.

The weakening of the external sector with respect to 1974 was largely due to a 17 per cent deterioration in the terms of trade - compared with a 141 per cent increase the year before - and a smaller volume of exports and a larger volume of imports.

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*/ The exchange rate used is 4.285 bolívares = 1 dollar.

/Table 1

Table 1

VENEZUELA: MAIN SHORT-RUN ECONOMIC INDICATORS

(Annual growth rates)

	1971-1973	1974	1975
Gross domestic product	4.1	4.5	6.6
Gross income a/	9.0	45.4	-12.0
Per capita gross domestic product	1.1	1.6	3.5
Gross fixed investment	13.4	-5.5	15.0
Value of exports	27.0	170.2	-26.7
Value of imports	13.5	46.2	40.0
Terms of trade	19.0	141.0	-17.0
Balance on current account b/c/	251.0	6 228.0	3 100.0
Variation in international reserves b/c/	423.0	4 075.0	2 348.0
Consumer price index d/	3.9	11.6	8.0
Money	18.4	40.8	53.0
Current income of government	17.0	160.7	-5.0
Total expenditure of government	13.1	185.9	-6.2
Fiscal surplus/total expenditure of government e/	-	0.1	2.1

Source: ECLA, on the basis of official statistics.

a/ Gross domestic product plus terms-of-trade effect.
b/ Absolute values in millions of dollars at current prices.
c/ Average for three-year period 1971-1973.
d/ Calculated from December to December.
e/ Percentage.

/The value

The value of exports of goods declined by 27 per cent in 1975 compared with the extraordinary increase of 170 per cent in 1974. Earnings fell because the economic recession in the industrialized countries led to a contraction in the volume of petroleum exports and a moderate decline in their unit price, which had increased threefold in 1974. Meanwhile, increased volume and prices caused imports to expand by 40 per cent, which was not much less than the record 46 per cent growth of 1974.

A 50 per cent reduction in the surplus on the trade account contributed to a similar reduction in the current account surplus. Amounting as it did to 3.1 billion dollars, however, the surplus remained large, both in absolute terms and relative to trends in the current account prior to 1974 (see table 1). Outflows of capital decreased with respect to 1974, permitting a large accumulation of reserves for the second consecutive year, but the increase of 2.3 billion dollars was considerably less than that of around 4.1 billion dollars in 1974.

Price increases in 1975 remained high for a country accustomed to price stability, but the rate of increase was less than in 1974. The average rise in wholesale prices was 13.6 per cent, compared with 16.5 per cent in 1974. The slowing down of inflation is even more apparent from the fact that the rise in wholesale prices in the 12-month period ending December 1975 was less than half that for the corresponding period of 1974. The average increase in consumer prices was slightly higher than in 1974, but price increases grew less intense towards the end of the year, finally giving an 8 per cent rise in prices for the 12-month period ending December 1975 (see table 1). The improved inflationary picture was due to a marked slowing down of the rate of increase in the prices of imported goods, and to government measures designed, in some degree, to insulate domestic prices from the full impact of strongly expanded demand and monetary liquidity.

/Current income

Current income of the government declined by 5 per cent in 1975, after an increase of 161 per cent in 1974. The reduction reflected a 12 per cent fall in revenue from the petroleum sector, which was partially cushioned by a notable gain in revenue from non-petroleum sources. Notwithstanding the fall in 1975, current fiscal income remained roughly one-and-a-half times larger than it was in 1973.

The unprecedented rise in revenue in 1974 led to a similar increase in budgetary outlays. Total government spending was cut back by 6 per cent in 1975, but still remained very high in relation to 1973. The Government continued the practice, first begun in 1974, of depositing resources that could not be safely absorbed by the economy in the Venezuelan Investment Fund (FIV). However, the shortfall in anticipated petroleum receipts caused the contribution to the Fund to be roughly 40 per cent less than the amount envisaged at the beginning of the year.

The Fund's resources totalled the equivalent of 5.2 billion dollars by the end of 1975. Most of these resources have been placed abroad in short-term bank deposits and foreign government securities that will earn income until the resources can be repatriated to finance priority development projects. A significant proportion of FIV's resources, however, has been used to provide financial assistance to multilateral lending institutions and governments in the region. By the end of 1975, commitments deriving from international assistance of this type exceeded 2.7 billion dollars.

Finally, it should be noted that in 1975 Venezuela accomplished its goal of bringing key economic sectors under national control. The iron ore industry was nationalized at the beginning of 1975 and, in particular, final preparations were made during the year for the State take-over of the petroleum industry in January 1976.

2. Recent economic trends

(a) Global trends

In 1975 the Venezuelan economy registered vigorous economic expansion. The GDP increased by 6.6 per cent in real terms, which is considerably higher than the rate of growth in 1974 (4.5 per cent) and

/the average

the average annual rate for the period 1971-1973 (4.1 per cent). With the population growing at a rate of about 3 per cent annually, there was also a notable gain of 3.5 per cent in the per capita GDP.

While real output expanded at its highest rate in recent years, gross income suffered a 12 per cent decline due to the higher prices paid for imports and a modest erosion of export prices. However, the loss of income offset only part of the gains achieved in preceding years (particularly 1974, when a threefold increase in petroleum prices contributed to an extraordinary rise of 45 per cent in gross income), and even after the decline in 1975, gross income was 32 per cent higher than the 1971-1973 GDP and 28 per cent higher than the level of income in 1973.

The growth of the product in 1975 was accompanied by a very rapid expansion of imports of goods and services. The volume of imports rose by 16 per cent compared with the increase of 19 per cent in 1974. Both rates of growth are far superior to those previously experienced (imports rose by an average of 4 per cent annually in the years 1971-1973) and reflect higher levels of national income and an ample availability of foreign exchange. The higher level of imports, coupled with the increased production of goods and services, contributed to a very rapid expansion of aggregate supply (see table 2).

In the growth of aggregate demand, the domestic and external sectors put up very different performances. While domestic demand grew rapidly in 1975 (13 per cent), the volume of exports declined sharply (20 per cent). The pattern had been similar, although somewhat less accentuated, in 1974. In that year domestic demand expanded by 10 per cent and the volume of exports fell by 7 per cent.

The dramatic growth of consumption - public as well as private - was a key factor behind the upsurge of domestic demand in 1975.

/Table 2

Table 2

VENEZUELA: TOTAL SUPPLY AND DEMAND

	Millions of bolívares at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	1974	1975 a/	1970	1975 a/	1971-1973	1974	1975 a/
Total supply	62 003	74 818	80 986	119.3	124.0	4.2	6.9	8.2
Gross domestic product	51 991	61 250	65 292	100.0	100.0	4.1	4.5	6.6
Imports	10 012	13 568	15 694	19.3	24.0	4.5	18.8	15.7
Total demand	62 003	74 818	80 986	119.3	124.0	4.2	6.9	8.2
Domestic demand	48 888	63 102	71 628	94.0	109.7	5.5	9.9	13.5
Gross domestic investment	14 415	18 245	20 976	27.7	32.5	9.1	-2.6	14.9
Gross fixed investment	11 325	15 631	17 976	21.8	27.5	13.4	-5.5	15.0
Public	3 061	4 817	6 402	5.9	9.8	24.3	-16.6	32.9
Private	8 264	10 814	11 574	15.9	17.7	9.0	0.6	7.0
Total consumption	34 473	44 857	50 652	66.3	77.6	3.9	16.0	12.9
General government	6 889	9 616	10 626	13.3	16.3	6.3	16.1	10.5
Private	27 584	35 241	40 026	53.0	61.3	3.3	15.9	13.6
Exports	13 115	11 716	9 358	25.2	14.4	-1.3	-7.1	-20.1

Sources: 1970-1974: ECLA calculations on the basis of figures supplied by the Central Bank of Venezuela;
1975: ECLA estimates on the basis of official data.

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

a/ Preliminary figures.

Consumption expenditure rose by 13 per cent or more than three times the average annual increase recorded for the period 1971-1973, but the increase was less than in 1974, when consumption grew by an unprecedented 16 per cent. The factors encouraging consumption expenditure in 1975 were similar to those prevailing in 1974: higher national wage and salary scales,1/ ample availability of credit and a relatively high level of public expenditure.

The sharp expansion of gross domestic investment in 1975 (15 per cent) represented a recovery from 1974, a year in which public investment fell by 17 per cent and private investment showed practically no growth. Public investment displayed a more marked reaction, rising by 33 per cent, while private investment rose by 7 per cent. The resurgence of investment activity reflected the development of the physical infrastructure, especially roads and irrigation systems, and the initiation of important industrial and agricultural projects. Investment in the latter area was facilitated by an ample supply of credit for purchases of capital goods.

The revival of public investment in 1975 is significant because it marks the initial states of a programme designed to channel the country's accumulating oil wealth into investments that will help to diversify and decentralize the national economy.

(b) Sectoral developments

Since 1971, Venezuela's development has been characterized by a vigorous expansion of sectors producing for the domestic market and a steady contraction of the export-oriented petroleum industry (see table 3). The diverging growth trends were particularly accentuated in 1974, when the sectors producing for the domestic market had a combined growth rate of 7 per cent and the real product of the petroleum sector declined by 12 per cent. The trend accelerated still further in 1975, when the sectors associated with the domestic market expanded by 11 per cent and the petroleum industry underwent a contraction of 16 per cent.

1/ In the period 1974-1975 the authorities took a number of measures designed to raise the levels of income and employment, which include regular wage adjustments, tax relief for low- and medium-income workers, and legislation requiring firms with 10 or more employees to increase their work force by 5 per cent.

/Table 3

Table 3

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

	Millions of bolívares at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	1974	1975 a/	1970	1975 a/	1971-1973	1974	1975 a/
Agriculture	3 682	4 253	4 640	7.5	7.4	2.4	7.6	9.1
Petroleum	10 959	8 868	7 431	22.3	11.9	-2.8	-11.9	-16.2
Extraction	9 132	7 472	...	18.6	...	-2.4	-11.8	...
Refining	1 827	1 396	...	3.7	...	4.2	-12.5	...
Mining (excluding petroleum)	717	976	956	1.5	1.5	5.8	15.9	-2.0
Manufacturing	5 584	7 421	8 378	11.4	13.4	6.8	9.0	12.9
Construction	1 984	2 928	3 338	4.0	5.3	16.7	-7.1	14.0
Subtotal goods	22 926	24 446	24 743	46.6	39.6	2.7	-1.5	-1.2
Electricity, gas and water	827	1 209	1 356	1.7	2.2	9.3	12.0	12.2
Transport and communications	5 144	7 049	7 937	10.5	12.7	7.0	11.8	12.6
Subtotal basic services	5 971	8 258	9 293	12.2	14.9	7.3	11.9	12.5
Commerce, restaurants and hotels	5 444	6 479	7 030	11.1	11.3	3.2	8.2	8.5
Financial establishments, insurance and real estate	6 288	7 737	21 340	12.8	34.2	5.4	5.1	9.5
Communal, social and personal services	8 514	11 745		17.3		7.1	12.2	
Subtotal other services	20 246	25 962	28 370	41.2	45.5	5.5	9.1	8.9
Total gross domestic product	49 143	57 894	61 715	100.0	100.0	4.1	4.5	6.6

Sources: 1970-1974: ECLA calculations on the basis of figures supplied by the Central Bank of Venezuela; 1975: ECLA estimates on the basis of data supplied by the Central Office for Planning and Co-ordination (CORDIPLAN).

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

a/ Preliminary figures.

/The sharply

The sharply differing performance of the domestic and external sectors in 1974 and 1975 reflect the effects of a development strategy aimed at broadening the base of the national economy and thus freeing the country from its traditional dependence on petroleum. An integral part of the strategy is the rapid expansion of agricultural output. Priority has also been assigned to another key sector, i.e., manufacturing, for which an ambitious programme has been prepared with the aim of developing large-scale heavy industries for the production of steel, aluminium, petrochemicals and ships.2/ Petroleum is not neglected in the overall strategy, but it is the Government's intention to conserve the country's limited petroleum resources in order that the sector may continue to be an effective source of financial resources.

The influence of the aforementioned strategy can be seen not only in the broad evolution of the economy, but also in the performance of the individual sectors.

Petroleum. In 1975 the production of crude suffered its most severe contraction in recent years. The average output of 2.35 million barrels a day was 21 per cent less than in 1974. This followed a 12 per cent reduction in 1974 and an average decline of 3 per cent per annum in the period 1971-1973. The fall in production of petroleum products was even more severe, amounting to 28 per cent, or more than three times the decline experienced in 1974 (see table 4).3/

2/ Since these industries are energy-intensive, the authorities expect output to be sufficiently competitive to penetrate export markets.

3/ The fall in production of crude and refined products in 1975 is somewhat more severe than the reduction in value added of the sector that is recorded in preliminary national accounts data (see table 3). This suggests that the preliminary data may underestimate the contraction of the petroleum industry in 1975.

/Table 4

Table 4

VENEZUELA: PRODUCTION OF PETROLEUM AND IRON

	1970	1973	1974	1975	Annual growth rates 1971-1973	1974	1975
	Millions of barrels per day						
Crude	3.71	3.37	2.98	2.35	-3.2	-11.6	-21.2
Petroleum products	1.30	1.30	1.20	0.87a/	0.3	-8.1	-27.6
	Millions of metric tons						
Iron	22.10	23.10	26.80	24.60a/	1.5	16.0	-8.2

Source: ECLA estimates on the basis of information provided by the President of Venezuela in his Second Message to Congress, Caracas, May 1976.

a/ Provisional figures.

/The annual

The annual decline in petroleum production since 1971 (except in 1973) has led to a striking decline in the participation of petroleum in the sectoral structure of the GDP (see table 3). However, when the GDP is measured in current prices, the opposite is the case. At current prices, petroleum's share in the GDP rose from 18.5 per cent in 1970 to almost 23 per cent in 1973 and then jumped to over 38 per cent in 1974. This reflects the fact that increases in petroleum prices during the period - especially the threefold rise between 1973 and 1974 - offset declines in output to such an extent that the value added in petroleum rose faster than the value added in the national economy, even in the face of increasing prices and output for the latter. The petroleum sector's share slipped somewhat in 1975, however, as lower prices and output in that sector, contrasted with higher prices and output in the domestic sectors, caused petroleum's contribution to the GDP to fall by approximately 30 per cent.

The reduced level of output in 1975 (and 1974 as well) was a consequence of sharply depressed world demand for petroleum products and the Government's policy - like that of several other OPEC members - of sacrificing sales volume rather than reducing prices. The cutbacks in output and the defence of high prices were consistent with official policy of conserving petroleum reserves.

The Government's recent preoccupation with petroleum conservation stems from the relatively limited "production life" of proven reserves.4/ In 1960, national petroleum reserves of 17.38 billion barrels were equivalent to 16.7 years' production but the 1973 reserves had fallen to 14.08 billion barrels and their production life to only 11.5 years, thus raising the spectre of the approaching exhaustion of exploitable deposits.5/

4/ "Production life" is a theoretical concept referring to the number of years which economically recoverable reserves will last at prevailing rates of extraction.

5/ The decline in reserves was due, at least in part, to a slackening of new investment in exploration and equipment by the foreign oil companies in the face of what was considered by them as an unfavourable oil policy.

/In 1974,

In 1974, however, the production life of reserves was extended to 17.1 years by cutbacks in output and a rise in estimate reserves to 18.6 billion barrels as a result of the inclusion of marginal deposits that became economically recoverable with the rise in oil prices. Further production cutbacks in 1975 extended the theoretical life of reserves (estimated at the same level as in 1974) to over 20 years, its highest level in the post-war period. By prolonging the life of reserves, the authorities hope to gain sufficient time to develop the technology needed to tap the huge deposits of heavy oil located in the Orinoco Tar Belt (estimated at over 700 billion barrels) and fully explore new areas in the Gulf of Venezuela and on the continental shelf.

Another manifestation of the petroleum policy followed was the decision to nationalize the industry. In September 1975 the National Congress enacted legislation that transferred the assets of foreign oil companies to the State as from 1 January 1976.6/ Compensation for the nationalized assets was set at 4.32 billion bolívares, or slightly over 1 billion dollars. Payment will be over five years with a 6 per cent rate of interest that will be free of domestic taxes. At the same time a new State enterprise named Petróleos de Venezuela (PETROVEN) was established to control and co-ordinate the activities of the 18 nationalized companies.

Furthermore, in order to ensure the smooth operation of the industry, the foreign oil companies have been contracted to provide technical assistance to PETROVEN. They will also, at least initially, market the bulk of PETROVEN's output of petroleum products.7/

6/ The 1975 nationalization decree superseded the 1971 Hydrocarbons Reversion Bill that had established 1983 as the date on which the petroleum industry should be under State control.

7/ Initial sales contracts called for the companies to purchase about 1.5 million barrels a day of crude and derivatives beginning January 1976. Any output in excess of this figure would be directly marketed by PETROVEN.

Mining. Mining output, excluding petroleum and natural gas, showed a decrease of 2 per cent in 1975. Reduced activity in this sector is largely attributable to an 8 per cent drop in iron ore output as a result of cutbacks in steel production in the industrialized countries and, to a lesser extent, of labour problems during the year in one of the local mining companies (see table 4).

On 1 January 1975 - as stipulated in a nationalization decree issued in December 1974 - the Government assumed control of two foreign-owned companies that had been mining iron ore. In order to facilitate the transition to State ownership, the companies continued to operate the mines up to the end of 1975, but at the expense and risk of the government-owned Corporación Venezolana de Guayana (CVG). In 1976 the Government would become directly responsible for the operation of the industry.

Agriculture. The 9 per cent growth of agricultural output was the highest in more than a decade. This growth, added to the 8 per cent increase the year before, underscores the Government's success in stimulating production in a sector that was only able to achieve an average rate of growth of 2.4 per cent annually in the period 1971-1973 (which was slower than the population growth).

Some products which showed considerable increases were sorghum (77 per cent), maize (33 per cent), rice (24 per cent), yuca (34 per cent), cotton (28 per cent) and coffee (25 per cent). Significant gains were also achieved in the production of cocoa (15 per cent), fish (15 per cent), poultry (12 per cent), pork (9 per cent) and tobacco (9 per cent).

Generally favorable weather conditions contributed to the accelerated growth of agriculture, which was also aided by government policies specifically designed to boost the output of the sector. One of the most important measures has been increase credit flows to agriculture. Special development funds have been created to channel low-cost resources into food production. In addition, commercial banks have been obliged to increase progressively their credit to the sector

/in order

in order eventually to reach the point where agriculture will receive a minimum of 20 per cent of all commercial bank loans.8/ Other measures adopted to stimulate agricultural growth included minimum support prices, subsidies for key inputs, debt relief for small- and medium-scale farmers, and elimination of taxes on income earned from agricultural activities.

Notwithstanding the unprecedented growth of agriculture, Venezuela remained dependent on significant quantities of agricultural imports (valued at 260 million dollars in 1975) to augment the domestic food supply. Among the commodities that Venezuela must still import in significant quantities are maize, wheat, sorghum, soybeans, oils and fats, and powdered milk.

Manufacturing. This sector continued to display accelerated growth in 1975. Output expanded by 13 per cent, compared with 9 per cent in 1974 and an average increase of 7 per cent per annum in the period 1971-1973.

The predominant factor behind the very high rate of growth in manufacturing was unusually strong demand for consumer goods, a phenomenon that first appeared in 1974. Among the durable goods, machinery, electrical equipment and transport equipment showed particularly strong growth. Among the non-durables, production of clothing and shoes were especially dynamic. Rising demand for consumer goods also led to sharply increased output of intermediate products like basic metals, chemicals, rubber and leather.

Significant investment projects under way in 1975 included the expansion of the capacity of Siderúrgica del Orinoco C.A. (SIDOR), the State-owned steel industry, and Aluminio del Caroní, S.A. (ALCASA), the national aluminium producer that is partly-owned by the Government. Other large investments were made to expand production of chemicals such as phosphoric acid, sodium sulphate and ammonium chloride. There was also considerable investment designed to expand the country's sugar refining capacity.

8/ Net commercial bank credit to the sector totalled 2.1 billion bolívares in November 1975, an increase of 78 per cent over November 1974; agricultural loans represented 8.4 per cent of total credit, compared with 7 per cent in November 1974.

/A further

A further indication of development in this sector is the approval by the authorities of 955 industrial projects in 1975, 572 of which are new industries and 383 are expansions of existing capacity. The total cost of these new projects at the time of their approval exceeded 1.9 billion dollars.

It is worth noting that the government is making a serious attempt to decentralize economic activity. At the present time, most industry and employment are located in the heavily congested Caracas-Valencia region. But outright prohibitions on new development in the capital area plus extensive fiscal incentives and credit facilities for location elsewhere are in force to encourage more balanced development in the future. Thus, it is not surprising that a majority of new industries authorized in 1975 are to be located in the interior.

Construction. The 14 per cent increase in value added in this sector represents a marked recovery from 1974 when output contracted by 7 per cent. The recovery was particularly noticeable in the case of public construction, which was heavily oriented towards road and irrigation projects.

In 1975 the Government took steps to encourage construction activity through the expansion of credit facilities. In addition, a national urban development fund was created, to which the equivalent of 460 million dollars will be made available to finance the construction of housing, educational and health establishments, and tourism facilities. Lastly, the law governing the national savings and loan system was modified in order to increase the amount of financing available to individuals for the acquisition of housing.

Services. Sharply rising overall economic acitivity caused the electricity, gas and water sub-sectors to maintain a high rate of growth in 1975. Their combined increase of 12 per cent is on a par with the rise in 1974 and slightly higher than the average increase of 9 per cent per annum in the period 1971-1973.9/

9/ In the case of electric power, it is worth noting that Compañía Anónima de Administración y Fomento Eléctrico (CADAFE) invested 174 million bolívares in 1975 to bring the electricity services to 500.000 new subscribers in rural and marginal areas.

Transport, storage and communications experienced a combined growth of 13 per cent, which was slightly higher than in 1974 (12 per cent). The relatively high rate of growth (the sector expanded at an average rate of 7 per cent per annum in 1971-1973) reflects increased domestic economic activity as well as the increased volume of imported merchandise entering the country.

(a) Exports of goods

In 1975 the value of exports of goods totalled 11.1 billion dollars, compared with 15.2 billion dollars in 1974. The 27 per cent decline reflects drops of 24 per cent in the volume of exports and 4 per cent in the unit value (see table 5).

The fall in exports - like the 170 per cent increase the year before - is explained by the change in the trend of petroleum sales, which accounted for 96 and 94 per cent of total earnings in 1974 and 1975, respectively. In 1974 the value of petroleum exports increased by 177 per cent (to a total of 14.7 billion dollars, because a threefold rise in price more than offset an 11 per cent contraction in volume. In 1975, however, the volume fell by 24 per cent and export prices by 4 per cent, causing petroleum exports to decline by 4.1 billion dollars, or 28 per cent. Nevertheless, the export value in 1975 doubled that of 1973, despite the fact that the volume declined by one-third (see table 6).

The plunge in the volume of petroleum exports that took place in 1975 stemmed from sagging demand in the industrialized countries because of the economic recession and the consumers' resistance to the new prices of fuels. As noted earlier, another factor which undoubtedly accentuated the decline in volume was the Venezuelan Government's determination to defend the higher prices and conserve petroleum reserves.

/Table 5

Table 5

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

(Percentage)

	1971	1972	1973	1974	1975
Exports of goods					
Value	22.4	12.1	48.8	170.2	-26.7
Volume	-5.9	-5.2	3.8	-9.8	-23.9
Unit value	30.0	18.2	43.3	199.5	-3.7
Imports of goods					
Value	11.2	17.5	12.1	46.2	40.0
Volume	6.6	11.0	-5.1	17.7	20.7
Unit value	4.3	5.9	18.1	24.2	16.1
Terms of trade	24.6	11.7	21.4	141.0	-17.0
Purchasing power of exports	15.6	6.5	31.9	125.8	-37.5

Source: ECLA, on the basis of official statistics.

/Table 6

Table 6

VENEZUELA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars (FOB)				Percentage breakdown		Annual growth rates		
	1970	1973	1974	1975	1970	1975	1971-1973	1974	1975
Total exports	2 756	5 628	15 207	11 150	100.0	100.0	27.0	170.2	-26.7
Petroleum and petroleum products	2 496	5 294	14 669	10 530	90.6	94.4	28.5	177.1	-28.2
Iron ore	177	201	252	313	6.4	2.8	4.3	25.4	24.2
Other products	83	133	286	307	3.0	2.8	17.0	115.0	7.3

Source: ECLA, on the basis of official statistics.

/The drop

The drop in the unit price of petroleum exports in 1975 was the first decline in eight years. It reflects the fact that the series of significant increases in petroleum prices between 1973 and 1974 - the average export price of crude rose from 4.04 dollars per barrel in September 1973 to 14.08 dollars by July 1974 - was broken by a temporary rollback in prices during 1975. The rollback occurred at the outset of the year when the authorities decided that market conditions merited reducing the average price of crude to 13.38 dollars per barrel. This price prevailed until October, when in accordance with OPEC guidelines the authorities decided to raise the average export price to 14.59 dollars. Thus, for most of 1975, the price of Venezuela's petroleum was somewhat lower than that prevailing in 1974. Consequently, the average export price for crude and derivatives fell from 14.35 dollars per barrel in 1974 to an estimated 13.76 dollars in 1975.

Exports of iron ore, which represent about 3 per cent of total exports, grew in 1975 by approximately the same rate (24 per cent) as in 1974 (25 per cent). The rise in export value was the result of a 50 per cent increase in average price and a 17 per cent decline in volume.

(b) Imports of goods

Imports showed a spectacular growth for the second consecutive year. After a 46 per cent rise in 1974, the value of imports of goods increased by another 40 per cent in 1975, thus reaching a level of 5.4 billion dollars. The growth of imports in 1974 and 1975 greatly exceeded any annual increases that had taken place previously and was responsible for their doubling in value in just 2 years (see tables 5 and 7).

The volume of imports showed increases of 18 and 21 per cent in 1974 and 1975, respectively. The significantly higher volume was due to the vigorous economic expansion in Venezuela and the need to supplement domestic supply with increasing imports. Furthermore, with no shortage of foreign exchange, the Government made no attempt to retard the growth of imports, and in some cases encouraged it by selective tariff reductions and the granting of credit for purchases abroad.

/Table 7

Table 7

VENEZUELA: BALANCE OF PAYMENTS

(Millions of dollars)

	1970	1972	1973	1974	1975a/	
Current account						
Exports of goods and services	2 943	4 004	5 950	15 640	11 655	
Goods FOB	2 756	3 781	5 628	15 207	11 150	
Services	187	223	322	433	505	
Transport	59	57	79	105	110	
Travel	50	73	119	175	210	
Imports of goods and services	2 319	3 007	3 386	4 953	6 612	
Goods FOB	1 794	2 343	2 626	3 841	5 377	
Services	525	664	760	1 112	1 235	
Transport	238	317	354	458	509	
Travel	140	178	194	285	319	
Net payments of profits and interest on foreign capital	-669	-1 062	-1 584	-4 329	-1 808	
Profits	-657	-1 046	-1 582	-4 508	-2 238	
Interest	-12	-16	-2	179	430	
Net private transfer payments	-86	-89	-105	-130	-135	
Balance on current account	-131	-154	875	6 228	3 100	
Capital account						
Net external financing (a+b+c+d+e)	131	154	-875	-6 228	-3 100	
(a) Net external non-compensatory capital	156	-132	-71	-667		
Direct investment	-23	-376	-329	-196		
Long- and medium-term loans	168	236	212	136		
Amortization payments	-34	-111	-132	-316		
Short-term liabilities (net)	51	124	184	-227		
Official transfer payments	-6	-5	-6	-64		-752
(b) Domestic non-compensatory capital or assets	-78	-122	13	-98		
(c) Errors and omissions	101	582	-205	-1 388		
(d) Allocation of SDRs	42	38	-	-	-	
(e) Net compensatory financing (minus sign signifies an increase)	-90	-212	-612	-4 075	-2 348	
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	2	-	-	5	-	
Amortization payments	-5	-3	-3	-	-	
Foreign exchange reserves (minus sign signifies an increase)	-30	-171	-609	-3 729	-1 919	
Gold reserves (minus sign signifies an increase)	-9	-	-	-349	-430	
SDRs (minus sign signifies an increase)	-48	-38	-	-2	1	

Source: International Monetary Fund, Balance of Payments Yearbook, vol. 27.

a/ ECLA estimates on the basis of official statistics.

/The recovery

The recovery of public and private investment in 1975 suggests that a significant part of the increased volume was attributable to larger imports of capital goods, which apparently did not occur in 1974 when total investment declined. Consumption goods participated heavily in the increased volume of imports in both 1974 and 1975. The upsurge of imports also brought with it a significant quantity of what are usually called non-essential items; it is estimated that 800 million dollars' worth of this type of goods was imported in 1975.

With regard to prices, the unit value of imports rose by 16 per cent in 1975, which is the lowest rate of increase in 3 years as a result of declining rates of inflation in the industrialized countries.

(c) Terms of trade

In view of the fact that in the period 1970-1974 the rise in petroleum prices exceeded the rise in import prices, Venezuela's terms of trade index rose by 69 per cent in the period 1971-1973 and by an extraordinary rate of 141 per cent in 1974. But 1975 witnessed a 17 per cent decline in the terms of trade because of the aforementioned fall in the average price of petroleum exports and the increase in import prices. Notwithstanding this deterioration, the index was still more than double that of 1973.

The deterioration in the terms of trade, coupled with the drop in the volume of exports, caused the purchasing power of exports to fall by 38 per cent with respect to 1974. As a result of this, and in view of the developments in 1974, the purchasing power of exports was 41 per cent higher than it was in 1973 (see table 5).

(d) The balance of payments

The strongly contrasting movements of exports and imports caused the trade surplus to decline by roughly 50 per cent with respect to 1974, but at 5.8 billion dollars, it was still 2.8 billion dollars larger than that recorded in 1973.

The traditional deficit on the services account increased moderately in 1975. Meanwhile, net payments of profits and interest on foreign capital decreased by 58 per cent with respect to 1974. The dramatic fall in payments (from 4.3 billion dollars in 1974 to 1.8 billion dollars

/in 1975)

in 1975) reflects reduced remittances of profits by the foreign oil companies owing to sluggish petroleum sales and higher government taxes on profits. There was also a sharp increase in net interest receipts as a result of the increasing foreign exchange deposits kept in foreign banks by the Venezuelan monetary authorities.

The net effect of the behaviour of the various components of the current account (including transfer payments) was a 50 per cent drop in the current account surplus, from 6.2 billion dollars in 1974 to 3.1 billion dollars in 1975. Even at this diminished level, however, the surplus was still considerable, especially in view of the fact that in the first few years of the present decade the current account was in deficit (see table 7).

The outflow of capital (including errors and omissions) amounted to slightly 0.7 billion dollars, or roughly one-third of the outflow recorded in 1974 (2.1 billion dollars). Although information is limited, the smaller outflow appears to be due mainly to a marked reduction in the movement of private short-term capital. In 1974 the net outflow of short-term funds was unusually large - officially 0.2 billion dollars, but in actual fact probably much larger given the figure of 1.4 billion dollars for errors and omissions - owing to a number of factors, including speculative flows and unattractive domestic interest rates. In 1975 the speculative operations appeared to have declined and domestic interest rates where somewhat more competitive with those offered on international markets.

Taking into account the size of the current account surplus, the smaller outflow of capital in 1975 permitted a considerable increase in international reserves (2.35 billion dollars). This increase was, however, lower than the unprecedented increase of 4.1 billion dollars which took place in 1974. At the end of 1975 Venezuela's international reserves stood at around 8.9 billion dollars, or approximately enough to cover its import requirements for 16 months.

/4. The

4. The course followed by prices and other variables linked with the inflationary process

(a) Prices

Venezuela, a country traditionally accustomed to moderate price increases, shared in the spread and intensification of world-wide inflation in 1973 and 1974. Domestic wholesale prices, which rose by an average of 3.5 per cent in 1971 and by the same percentage in 1972, increased by 6.3 per cent in 1973 and by 16.5 per cent in 1974. Consumer prices, as measured by the index for the Caracas metropolitan area, also accelerated their rate of increase, although not to the same extent as wholesale prices because of the cushioning effect of price controls and subsidies (see table 8).

Prices continued to rise sharply in 1975, but there was a noticeable slackening of the rate of inflation. Wholesale prices rose by an average of 13.6 per cent, compared with the 16.5 per cent increase registered in the previous year. An even more telling indicator of a moderating trend, however, is the fact that the 9.8 per cent rise in wholesale prices in the 12-month period ending December 1975 was less than half that recorded for the 12-month period ending December 1974. The reduced intensity of the rise in the unit price of imports referred to above contributed to the improved picture, as indicated by the more moderate rise in the imported goods component of the wholesale price index.

With regard to consumer prices, their average rise in 1975 (10.3 per cent) was greater than in 1974 (8.3 per cent). Nevertheless, the rise in prices in the 12-month period ending December 1975 was 8 per cent, representing a considerable decrease with respect to the rate for the 12-month period ending December 1974 (11.6 per cent) (see table 8).

/Table 8

Table 8

VENEZUELA: EVOLUTION OF PRICES

(Percentage)

	1971	1972	1973	1974	1975
	Annual average				
Consumer price index a/	3.2	2.9	4.1	8.3	10.3
Food	3.4	4.9	7.6	12.7	14.7
Wholesale price index	3.5	3.5	6.3	16.5	13.6 b/
Imported products	4.9	4.5	5.4	16.2	12.2
Domestic products	2.3	2.7	7.2	16.7	14.3
	December				
Consumer price index a/	3.0	3.5	5.1	11.6	8.0
Food	3.5	7.4	8.1	18.3	8.7
Wholesale price index	3.7	2.7	11.0	19.9	8.6 b/
Imported products	4.4	3.7	12.1	17.0	5.4
Domestic products	3.1	2.1	10.3	21.9	10.9

Sources: President of Venezuela, Mensaje al Congreso de la República, May 1975 and 1976; Central Bank, Informe económico, 1970, 1971 and 1972.

a/ Cost-of-living index for Caracas metropolitan area.
b/ Provisional figures.

(b) Monetary trends

Total monetary liquidity (money and quasi-money) showed very high rates of expansion in 1974 and 1975 (31 per cent and 46 per cent, respectively). These rates of growth are far higher than the average annual expansion of 20 per cent experienced in the period 1971-1973. The primary factor of expansion was the sharp increase in international reserves - as consistant with the balance of payments position - which widened the monetary base of the economy and permitted the banking system vigorously to expand credit to the private sector. Private sector credit rose by 34 per cent and 47 per cent in 1974 and 1975, respectively, compared with an average increase of 18 per cent per annum in the period 1971-1973. Net credit to the public sector, on the other hand, acted as a factor of absorption, owing to increasing government deposits in the banking system (see table 9).

As to the components of total liquidity, money grew rapidly by 41 per cent in 1974 and 53 per cent in 1975. Quasi-money expanded somewhat more slowly - 22 per cent and 38 per cent in 1974 and 1975, respectively - indicating a preference for more liquid monetary assets on the part of the public and the relative absence of adequate incentives that would make investment in the various types of quasi-money more attractive.

(c) Fiscal trends

The 1974 and 1975 government budgets - like the monetary trend - were also expansionary. The large influx of tax revenue from the petroleum sector led to a much higher level of government expenditure, even though a substantial volume of resources was "sterilized" in the form of deposits in special investment funds. Thus, despite the generation of a fiscal surplus in both years, the government finances provided an unprecedented stimulus to the domestic economy.

/Table 9

Table 9

VENEZUELA: MONETARY POSITION

(Millions of bolívares)

	Balance at end of				Annual growth rates		
	1970	1973	1974	1975	1971-1973	1974	1975
1. Money	6 420	10 629	14 969	22 902	18.4	40.8	53.0
Currency outside banks	2 199	2 885	3 844	4 690	9.5	33.2	22.0
Demand deposits	4 221	7 743	11 125	18 212	22.4	43.7	63.7
2. Factors of expansion	13 418	24 745	43 029	...	22.6	73.9	...
Net international reserves	4 009	10 518	27 909	37 948	38.0	165.3	35.9
Domestic credit	9 409	14 227	15 120	...	14.8	6.2	...
Government	239	485	4 598	...	-	835.7	256.0a/
Official entities	346	162	209	...	-22.2	29.0	-34.0a/
Private sector	8 824	14 550	19 449	...	18.2	33.6	46.8a/
3. Factors of absorption	6 998	14 116	28 060	...	26.5	98.8	...
Quasi-money (savings and time deposits)	5 517	10 275	12 490	17 199	23.0	21.6	37.7
Investment funds	-	-	11 772	16 344	-	-	38.8
Other items (net)	1 481	3 841	3 798	...	37.3	-1.1	...

Sources: Central Bank of Venezuela, Boletín mensual, Nº 383, December 1975; International Monetary Fund, International Financial Statistics, March 1976.

a/ Variation in the period January-November 1975 compared with the same period of 1974.

/Current fiscal

Current fiscal revenue suffered a 5 per cent decline in 1975, after rising by 161 per cent in 1974. This decline, like the extraordinary rise the year before, is mainly accounted for by the trends in the revenue obtained from petroleum, which accounted for 86 per cent and 79 per cent of total current revenue in 1974 and 1975, respectively. In 1974 a threefold rise in the price of petroleum and an increase in the tax rate for oil company profits (from 58 to 63 per cent) caused tax revenue from this source to rise by 222 per cent, despite a 12 per cent decline in production; but in 1975 petroleum tax revenue fell by 12 per cent, owing to the decline in petroleum production and the lower average export price (see table 10). It should be noted, however, that at the beginning of the year the rate of taxation on the oil companies' profits rose to 72 per cent, which helped to cushion the drops in the production and price of petroleum. This raised the Government's share per barrel of petroleum by 0.42 dollars to a total of 9.45 dollars.

The decline in revenue from petroleum was partially offset by the sharp increase in receipts from taxes on domestic economic activity. In 1975, tax receipts from sources other than petroleum reached 8.5 billion bolívares, an increase of 38 per cent with respect to 1974. This compares with the increase of about 20 per cent in 1974 and the average rise of 4 per cent annually in the period 1971-1973. The biggest contribution came from direct tax receipts, which rose by 49 per cent in 1975 compared with 22 per cent in 1974. The other major contributor was customs revenue, which showed significant growth for the second consecutive year owing to the sharp increase in imports. Following a 67 per cent increase in 1974, import duties rose by another 38 per cent in 1975, notwithstanding the drop in income of about 1.8 billion bolívares due to the reduction or elimination of import tariffs.

A considerable proportion of the increased budgetary resources in 1974 was absorbed by current expenditure, which rose by 41 per cent; it continued to rise in 1975 despite the fall in revenue, but the 6 per cent increase was considerably less than in the previous year. In both 1974 and, in particular, 1975 the relative increases in wages and salaries were larger than those in other current expenditure.

/Table 10

Table 10

VENEZUELA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Current values (millions of bolívares)				Annual growth rates		
	1970	1973	1974	1975 a/	1971-1973	1974	1975
1. Current income	10 252	16 433	42 843	40 719	17.0	160.7	-5.0
Petroleum	5 822	11 376	36 671	32 242	25.2	222.0	-12.0
Direct b/	2 336	3 070	3 747	5 571	9.5	22.1	48.7
Indirect	727	911	1 020	1 120	7.8	12.0	9.8
Imports	613	698	1 163	1 609	4.4	66.6	38.3
Other current income	754	378	241	177	-20.5	-36.4	-26.5
2. Current expenditure	6 882	9 972	14 106	14 945	13.2	41.5	5.9
Wages and salaries	3 292	4 451	6 593	7 273	10.6	48.1	10.3
Other current expenditure	3 590	5 521	7 513	7 672	15.4	36.1	2.1
3. Saving on current account (1-2)	2 616	6 082	28 487	25 597	32.5	368.4	-12.2
4. Capital expenditure	3 404	4 900	28 413	24 933	12.9	479.9	-12.2
Real investment	1 539	2 317	3 875	4 341	14.6	67.2	12.0
Transfers	1 522	1 731	22 667	18 644	4.4	1 209.4	-17.7
Amortization of debt	194	775	1 645	745	58.6	112.2	-54.7
Other capital expenditure	149	77	226	1 203	-19.8	193.5	432.3
5. Total expenditure (2+4)	10 286	14 872	42 519	39 878	13.1	185.9	-6.2
6. Fiscal surplus (1-5)	-34	1 561	315	841	-	-79.8	167.0

Source: President of Venezuela, II Mensaje al Congreso de la República, May 1975.

a/ Provisional figures.

b/ Including tax on iron.

/The operation

The operation of the fiscal accounts led to current account surpluses of 28 billion and 26 billion bolívares in 1974 and 1975, respectively, or more than four times the surplus achieved in 1973. The bulk of this saving was used to finance the capital account, leaving final budget surpluses of 300 million bolívares in 1974 and 800 million bolívares in 1975. In 1974, capital expenditure increased at the extraordinary rate of 480 per cent with respect to the previous year, while in 1975 it was cut back by 12 per cent owing to the drop in current income noted above; even so, it was still five times higher than in 1973.

In 1974 and 1975 the Government increased its direct investment by 67 and 12 per cent, respectively. Other capital resources were absorbed by amortization payments, particularly in 1974 when this item jumped by 112 per cent as a result of the Government's decision to accelerate repayment of external obligations bearing high interest rates. However, most of the additional capital resources were allocated to State enterprises, regional and local governments, and special investment funds, as shown by the spectacular growth (1,200 per cent) recorded by transfers in 1974 (see table 10).

The special investment funds absorbed 60 per cent and 47 per cent of the capital transfers in 1974 and 1975, respectively. These funds were created in mid-1974 in view of the Government's concern that the economy might not be reasonably able to absorb the substantially increased influx of petroleum revenue initiated at the end of 1973. Thus the authorities, recognizing that such a sudden and voluminous increase in budgetary resources would have tremendous inflationary implications if directly and rapidly injected into the domestic economy, decided to "sterilize" a significant proportion of the additional revenue by depositing it in specially created funds.

The primary instrument used to sterilize resources has been the Venezuela Investment Fund (Fondo de Inversiones de Venezuela - FIV). It is designed to absorb a significant proportion of the petroleum revenue and place it abroad in investments that maintain their real

/value and

value and produce income. These resources will later be progressively repatriated to finance the industrial projects which the Government intends to undertake as part of its programme to diversify the economy.

In 1974, 13 billion bolívares, or 35 per cent of the total revenue from petroleum, were allocated to FIV. Contributions in 1975 had been budgeted at 13.2 billion bolívares, but a shortfall in petroleum revenue resulted in a smaller contribution of 7.5 billion bolívares, or 23 per cent of the total receipts. Most of the Fund's resources have been placed abroad in the form of short-term bank deposits in the United States and Europe, and in foreign government securities. Accumulated earnings on the Fund's investments totalled 1.9 billion bolívares at the end of 1975.

It is noteworthy that a significant proportion of the Fund's resources have been earmarked for various forms of international financial co-operation. Commitments for such co-operation exceeded the equivalent of 2.7 billion dollars at the end of 1975. These commitments involve loans - many of which have been fully or partially disbursed - to world and Latin American multilateral institutions and to some countries in the region. At the multilateral level, recipients of these loan commitments have been the World Bank (500 million dollars), the Inter-American Development Bank (500 million dollars) and the Oil Facility of the International Monetary Fund (around 780 million dollars), In addition, 100 million dollars have been assigned to the United Nations Emergency Fund. Other recipients of these commitments have been regional finance institutions like the Caribbean Development Bank (35 million dollars), the Andean Development Corporation (60 million dollars) and the Central American Bank for Economic Integration (40 million dollars). Bilateral co-operation has included loans to the Central American countries to help them finance their oil deficits and stockpile coffee, and loans to Jamaica, Panama and Peru to help them finance their oil imports.

The FIV's resources have also begun to find their way back to the national economy. In 1975 the Fund granted loans worth 1 billion bolívares for domestic investment projects. In addition, 3.6 billion bolívares were earmarked for public and private projects that are compatible with the Government's development plans.

/While FIV

While FIV has been the main recipient of petroleum resources, significant although much smaller amounts have been channelled into special domestic investment funds, the two principal ones being the Agricultural Credit Fund and the Industrial Credit Fund which together received contributions of 600 million bolívares in 1974 and 1.2 billion bolívares in 1975. These funds are designed to help develop their respective sectors through the extension of concessionary credit to applicants with economically feasible projects.

The sterialization of a proportion of the petroleum resources, while significant, was not enough to prevent strongly expansionary budgets, particularly in 1974. Even after substracting transfers to special funds and amortization of the external debt, fiscal outlays thus calculated rose by 91 per cent and 11 per cent in 1974 and 1975, respectively. In absolute terms the increases were 13.2 billion bolívares in 1974 and 3.2 billion bolívares in 1975, compared with 1.4 billion bolívares in 1973. As a result of these increases, the adjusted fiscal expenditure in 1975 was more than double the expenditure in 1973, and on a per capita basis it reached the high level of 2,600 bolívares (approximately 600 dollars).

It is clear that the expansion of fiscal expenditure and monetary liquidity in the years 1974-1975 gave rise to inflationary pressures. Conscious of this, the Government adopted a number of measures, complementing those referred to above, designed to mitigate the actual consequences of those pressures.

Among the direct anti-inflationary measures introduced during the period was the operation of a mechanism for regulating the prices of some important consumer items such as food, clothing and shoes in order to protect, in particular, the purchasing power of the lower-income groups. Along these same lines, an extensive system of consumer subsidies was also established. With that end in view, a network of 230 popular markets was set up throughout the country, which enabled basic food items to be sold at considerably lower prices than those prevailing in private commercial establishments.

/At the

At the same time, the Government attempted to hold down prices through policies that would boost domestic supply. Fiscal incentives such as support prices and reduced taxes on income were frequently introduced to encourage output of key domestic products (mainly food). It should also be remembered that increasing imports played an important role in boosting supply and were often encouraged by means of selective tariff reductions and the granting of bank credit to importers. Finally, if shortages appeared despite these measures, the Government did not hesitate to intervene in supply and distribution networks in order to help solve any problem that might have arisen.

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