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ECONOMIC SURVEY OF LATIN AMERICA, 1974

Part Two

THE LATIN AMERICAN ECONOMY IN 1974

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Part Two

THE LATIN AMERICAN ECONOMY IN 1974

Chapter I

GENERAL TRENDS

1. An overall appraisal

For Latin America, 1974 had some very special features. The second half of the year, in particular, marked an interruption in the favourable trends which had been prevailing in the region's external sector for several years past and had actually further improved in 1973. Except in the case of the oil-exporting countries, this interruption is shown by the drop in the purchasing power of the region's exports, after this power had gone up considerably in the two previous years. At all events, however, even for the countries which are not oil exporters external trade continued to be very dynamic compared with past levels such as, for example, those of the 1960s.

The second element to be appraised is the situation created by the weakening in the growth rate of the central economies, the average growth rate of which is estimated to have been less than 1 per cent. In the case of the United States, whose economic evolution is of special importance for most of the countries of the region, the growth rate was even less. This fact, as may well be realized, directly affected the prices and volumes of Latin America's external transactions giving rise to the results described in the preceding paragraph.

Finally, imported inflation was another negative element which affected almost all the countries of the region to different extents and in different ways, either as a decisive factor or as an accessory impulse.

/In spite

In spite of these inauspicious circumstances, however, Latin America managed to maintain quite a satisfactory growth rate which was almost equal to that of 1973, when these circumstances had been much less unfavourable. Furthermore, as we shall see later, the structure of the overall average was more balanced than the year before. In fact, leaving aside Brazil, the rest of the countries improved on the growth rate of the product achieved in 1973.

Does this mean that the region, or at least most of the countries in it, has reached the stage of self-sustaining development which will permit it to free itself from contingencies as important as those referred to above? To use an expression which was very much in vogue a few years ago, is the time now past when every sneeze in the northern hemisphere gave the countries south of the Rio Grande pneumonia?

One would have to be a great optimist to nourish the hopes implicit in these questions. It seems more rational and cautious to presume that underlying the differences in question is a problem of sequences or moments in a given conjuncture or trend. In other words, if the Latin American growth rate was relatively satisfactory in 1974, then this was due mainly to the fact that the negative elements in question had not yet "matured" or made themselves felt with their full force. An indication of this is that the difficulties seemed to be more acute in many countries towards the end of the year, thus in some respects giving a foretaste of what 1975 could be like.

Even if this more pessimistic evaluation of the situation is adopted, however, this does not mean that we should underestimate what has taken place, which is also of substantial importance. In practice, most of the economies have shown a degree of flexibility which they certainly did not have in the past. Moreover - and perhaps this is the most important feature - the economic policies in various countries have shown flexibility and imagination in using and combining a variety of instruments, and this undoubtedly played a part in achieving these results against a background of deteriorating conditions.

/It seems

It seems evident that the external conditions as regards export prices and markets for the region will be more difficult in 1975, and it will be no easy matter to overcome the inflationary pressures which were unleashed or intensified recently. On the other hand, however, the forecasts about the behaviour of the central economies have improved slightly.

Latin American economic policy must be worked out within this contradictory panorama, which, of course, includes many other important variables, and the experience of 1974 thus gives ground for thinking that the region's capacity for coping with events has improved.

2. Economic growth in 1974

In 1974, for the third year running, there was marked economic growth which was reflected in an increase of the order of 7 per cent per year in the region's gross domestic product. This rate is slightly below that noted in 1973, however, and reflects to a considerable extent the loss of dynamism in the economic evolution of Brazil, and particularly in the manufacturing sector of that country. If we exclude the considerable influence of Brazil in the regional total, then we see that the product grew in 1974 by 6.1 per cent, which is an improvement on the 5.6 per cent recorded the year before (see table 1)

Other countries of major relative economic importance which suffered a decline in their growth rate in 1974 were Mexico, Colombia and, to a lesser extent, Venezuela. In contrast, the growth rate of Argentina grew sharply from 3.8 per cent in 1973 to 7.2 per cent in 1974, there was a marked recovery in Chile after the drop recorded in 1973, and in Peru too the product grew faster than the year before.

In the other countries, the behaviour of the product in 1974 was very uneven. If the evolution of the countries in the last two years is compared, it may be noted that in 1973, of the 19 Latin American countries for which information is available, seven grew at the same rate or faster than the regional average, three others grew by between 6 and 7.2 per cent, and in the nine remaining countries the product grew by an average of 3.1 per cent.

/Table 1

Table 1

LATIN AMERICA: EVOLUTION OF GROSS DOMESTIC PRODUCT[a]

Country	Total			Per capita				
	1970-1972	1973	1974 b/	1970	1974 c/	1970-1972	1973	1974 b/
	Annual growth rates			Dollars		Annual growth rates		
Argentina	3.5	3.8	7.2	1 213	1 370	2.3	2.4	5.7
Bolivia	4.5	5.4	5.7	260	287	1.8	2.7	3.0
Brazil	10.8	11.4	9.6	445	596	7.7	8.3	6.5
Colombia	6.4	7.5	6.1	509	578	3.2	4.2	2.8
Costa Rica	6.6	6.2	4.1	656	739	3.7	3.3	1.2
Chile	4.8	-4.0	5.0	779	798	2.8	-5.7	3.2
Ecuador	6.2	9.3	9.2	372	440	2.9	5.8	5.7
El Salvador	5.2	5.1	6.0	397	432	1.9	1.8	2.7
Guatemala	6.4	7.6	4.7	415	471	3.1	4.3	1.7
Haiti	5.0	4.5	3.0	99	106	2.5	1.9	0.4
Honduras	3.8	5.0	-0.5	289	283	0.3	1.3	-4.0
Mexico	5.3	7.6	5.9	893	991	2.0	4.1	2.4
Nicaragua	4.9	2.2	7.7	432	459	1.5	-1.2	4.3
Panama	7.3	6.5	4.0	868	991	4.6	3.6	1.2
Paraguay	4.9	7.2	8.0	362	403	2.1	4.3	5.0
Peru	6.3	6.0	6.6	526	598	3.3	3.0	3.5
Dominican Republic	11.5	11.2	8.9	347	459	7.9	7.6	5.3
Uruguay	-1.2	1.0	1.9	927	889	-2.4	-0.1	0.7
Venezuela	3.3	5.9	5.1	1 176	1 244	0.3	2.9	2.1
Total 19 countries	6.4	7.2	7.0	640	743	3.4	4.2	4.0
Total (excluding Brazil)	4.8	5.6	6.1	748	825	2.0	2.7	3.2

Source: ECLA, on the basis of official statistics.

a/ At factor cost.

b/ Preliminary figures.

c/ The amounts in national currency at 1970 prices were converted into US dollars on the basis of exchange parities calculated by ECLA for that year by extrapolating the purchasing power equivalents originally calculated for 1962 through the use of price indexes.

/In 1974,

In 1974, in contrast, only six countries showed a growth rate higher than the average of 7 per cent, while three others recorded a rate of 6-7 per cent. In the other ten countries, however, the average growth rate was 5.4 per cent, which was more than in 1973. It may be recalled that the IDS calls for a growth rate of 6 per cent per year (3.5 per cent per capita) in the gross domestic product of the developing countries during the present decade.

The developments described above represent increases in the average per capita product of 4.2 per cent in 1973 and 4 per cent in 1974, but only six countries exceeded this average in 1974, and another twelve failed to reach 3.5 per cent. For the ten countries which showed an average growth rate of 5.4 per cent in the total product in 1974, the corresponding per capita increase was only 1.6 per cent, but this was still much more than the average of 0.5 per cent achieved by the nine countries of least relative growth in 1973.

The economic evolution recorded in 1974 was influenced by various factors. From the point of view of the sectoral production figures, the outstanding feature was the speeding-up of agricultural activity after its slow growth in earlier years, and the significant loss of dynamism of the manufacturing sector. Construction and basic services showed an even more pronounced rising tendency, but this was less marked in the case of other services (see table 2).

After having grown at an annual rate of 3 per cent since the beginning of the decade, agricultural production suddenly grew by 5.8 per cent in 1974. Most of the countries of the region had some part in this, but the most important contributions came from Brazil and Argentina, where the growth rates of 3.5 and 5.5 per cent respectively recorded in 1973 rose to over 8 per cent in 1974, and from Chile, whose agricultural growth rate of 17.2 per cent in 1974 marked a full recovery from the 15 per cent drop in production in the previous year.

/Table 2

Table 2

LATIN AMERICA: EVOLUTION OF MAIN SECTORS OF ECONOMIC ACTIVITY

(Annual growth rates)

Country	Agriculture			Mining and quarrying			Manufacturing			Construction			Goods b/			Basic services c/			Other services d/		
	1970-1972	1973	1974 a/	1970-1972	1973	1974 a/	1970-1972	1973	1974 a/	1970-1972	1973	1974 a/	1970-1972	1973	1974 a/	1970-1972	1973	1974 a/	1970-1972	1973	1974 a/
Argentina	-2.0	5.5	8.1	-0.7	-20.2	2.1	6.3	6.8	6.8	2.3	-9.8	12.5	3.5	4.0	7.5	3.1	5.3	6.6	4.2	3.2	6.8
Bolivia	3.4	2.1	3.5	-0.1	3.0	-	4.1	6.5	6.0	1.9	7.2	14.0	2.4	4.0	4.2	4.9	5.9	6.0	6.4	6.5	7.1
Brazil	7.9	3.5	8.5	6.6	10.7	...	12.7	15.8	7.1	10.6	12.5	11.2	11.0	12.0	8.0	9.1	13.6	15.2	11.0	14.4	10.1
Colombia	4.1	5.3	5.5	-5.3	4.8	-5.0	8.9	10.9	7.0	4.4	11.5	12.5	5.4	7.8	6.4	7.8	9.4	...	7.9	7.4	...
Costa Rica	5.6	7.2	-2.0	e/	e/	e/	9.2	10.0	9.0	7.2	3.5	13.0	7.0	7.8	3.5	8.8	7.8	...	6.0	4.5	...
Cuba																					
Chile	-0.5	-15.2	17.3	-0.6	2.1	19.5	8.5	-5.3	0.6	-0.7	-12.0	13.5	4.4	-5.6	7.8	5.5	...	...	4.9	...	...
Ecuador	1.5	-1.4	2.5	55.0	170.3	4.0	7.9	11.1	14.0	8.0	11.7	8.3	5.9	13.5	7.1	6.9	7.9	5.0	6.8	3.1	13.4
El Salvador	2.6	4.9	5.4	4.7	2.2	5.0	5.8	5.9	6.2	21.3	-11.0	15.9	4.9	4.0	6.4	4.8	4.8	5.9	5.7	6.1	5.7
Guatemala	7.4	9.1	4.3	-6.4	14.3	35.3	6.3	8.1	4.9	9.8	18.0	4.7	7.2	9.3	4.6	9.6	11.4	6.5	4.9	6.1	4.9
Haiti	3.4	0.6	1.2	0.4	30.0	9.4	7.3	10.8	3.9	15.8	15.4	17.2	4.4	3.6	2.7	11.2	3.5	5.3	5.5	6.4	3.2
Honduras	4.6	4.5	-7.4	3.2	26.8	15.8	6.6	8.1	5.5	-8.5	5.7	3.1	4.0	6.4	-2.1	4.4	5.5	2.2	3.3	2.6	1.5
Mexico	1.2	0.6	2.4	4.3	3.0	13.8	5.8	8.8	5.6	7.0	14.8	6.3	4.6	7.0	5.7	8.5	11.9	...	5.8	7.6	...
Nicaragua	6.1	1.7	10.0	-0.3	12.6	9.6	5.7	1.8	8.3	6.2	6.2	32.0	5.9	2.2	10.9	4.8	1.8	10.6	3.6	1.8	4.9
Panama	3.3	3.4	3.4	8.4	37.9	-2.5	7.2	4.2	2.1	15.3	6.3	3.9	6.6	4.4	3.0	12.4	11.6	13.2	7.5	6.5	2.8
Paraguay	4.6	9.7	9.7	53.0	2.4	20.0	4.8	5.2	5.6	8.2	16.3	20.0	5.0	8.6	8.2	10.1	13.6	15.8	4.3	4.6	5.6
Peru	-2.4	0.7	4.4	0.6	1.5	2.5	7.9	7.5	8.0	11.0	8.2	17.0	3.4	4.3	7.1	8.9	7.2	...	7.1	6.5	...
Dominican Republic	4.5	6.6	3.2	80.0	47.4	10.1	30.0	13.0	11.2	28.0	13.9	12.6	13.4	13.4	8.0	10.2	8.8	7.1	9.4	8.8	9.8
Uruguay	-2.3	3.1	0.8	e/	e/	e/	-1.1	-0.4	3.6	5.7	-2.0	9.1	-0.8	0.5	3.3	-0.8	1.4	2.5	-1.6	0.9	0.6
Venezuela	0.5	5.8	6.7	-6.3	6.7	-8.2	8.0	7.7	9.8	21.0	10.8	2.8	1.1	7.4	0.7	8.5	6.0	8.8	5.5	5.4	8.4
Total 19 countries	3.0	3.1	5.8	-1.0	5.4	4.0	8.2	9.5	6.5	8.1	8.9	9.8	5.8	7.2	6.3	6.9	8.6	9.3	6.9	8.1	7.2
Total (excluding Brazil)	1.4	3.0	4.9	-1.7	5.1	3.8	6.5	6.9	6.2	7.1	6.2	9.1	4.1	5.5	5.6	6.2	6.8	7.1	5.5	5.7	6.0

Source: ECLA, on the basis of official statistics.

a/ Preliminary figures.

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

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

d/ Includes commerce and finance, ownership of dwellings, public administration, and defence and other services.

e/ Mining is included in manufacturing.

/Generally speaking,

Generally speaking, 1974 was a good year for agriculture, both because of the favourable weather conditions which predominated in the region and because of the high world prices for certain export products, which encouraged their cultivation. The higher prices which had to be paid for imported inputs, tools and machinery were an adverse factor, however.

The drop in the growth rate of manufacturing from 9.5 per cent in 1973 to 6.5 per cent in 1974 is largely attributable to the sudden drop in the figures for Brazil. That country's manufacturing product, which increased at the rate of 12.7 per cent per year in 1970-1972 and rose by 15.8 per cent in 1973, grew by only 7.1 per cent in 1974, the decline being noted in the most diverse lines of manufactures. Latin American imports showed an extraordinary increase in 1974, due partly to the large international reserves which some countries had been accumulating since 1973, and despite the considerable rise in the prices of imports, the volume of goods and services imported by Latin America as a whole increased by 19.1 per cent.

This increase in the volume of imports, plus the expansion of domestic production and the stagnation of exports in volume terms, meant that during the year the real domestic availability of goods and services increased by around 9 per cent, which is more than in previous years and was reflected on the domestic demand side in an increase of 13.4 per cent in gross capital formation, the coefficent of which with respect to the gross domestic product has risen considerably since the beginning of the decade (from 20 per cent in 1970 to approximately 23.5 per cent in 1974). Consumption expenditure also increased more than in previous years, particularly in the case of private consumption (see table 3).

3. The persistence and extensiveness of the inflationary process

Various sections of this Survey contain descriptions and analyses of the recent inflationary process, identifications of the domestic conjunctural and structural inflationary factors, and considerations on the incidence of imported inflation.

/Table 3

Table 3

LATIN AMERICA: TOTAL SUPPLY AND DEMAND

(Annual growth rates)

	1970-1972	1973	1974a/
Total supply	6.4	7.5	8.2
Imports	6.6	10.0	19.1
Gross domestic product	6.4	7.2	7.0
Total demand	6.4	7.5	8.2
Exports	3.3	7.4	0.1
Domestic demand	6.7	7.5	8.9
Gross domestic investment	8.7	12.0	13.4
Total consumption	6.2	6.3	7.6
General government	6.7	7.5	7.3
Private	6.1	6.1	7.6

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

/Although the

Although the phenomenon is analysed in some detail for only six countries, and even then on the basis of information generally covering the period 1970-1973, the Latin American inflationary picture in 1974 and the factors which explain it suggest that the main conclusions of the above analyses could well have a good deal of validity for many of the countries of the region.

Imported inflation, of course, has become generalized, and although its repercussions have manifested themselves to different degrees and in different ways in the individual countries, its effect on domestic price systems and levels has been decisive.

Judging from the variations in price indexes the Latin American inflationary picture in 1974 confirms the tendencies shown the year before. When it is noted that in 1973 the great majority of the countries showed price rises greater than those of previous periods, and that most of them showed even higher rates of increase in 1974, there can be no doubt about the greater amplitude and virulence of the phenomenon (see table 4).

It may be noted that in twelve of the 22 countries considered, the price rises in 1974 were appreciably greater than those recorded in 1973; of the other countries, six showed price increases of the same order as the year before, and in only four countries was there a significant reduction in the rate of increase.

Looking at the incidence of imported inflation and price rises in 1974, it is possible to distinguish three categories of countries in the region which display quite marked homogeneity from the point of view of inflation.1/

The first category is made up of countries where exogenous influences were predominant in the inflationary process and there were moderate price rises ranging between 10 and 22 per cent. Although 14 of the 22 countries come under this group, these countries only represent 40 per cent of the population and 44 per cent of the product of the region.

1/ It should be noted that in some cases inflation is underestimated because the price indexes suffer from deficiencies which prevent them from faithfully and promptly reflecting the rise in prices.

/Table 4

Table 4

LATIN AMERICA: VARIATION OF CONSUMER PRICE INDEXES

(Percentage variation)

	December - December			Comparison of 1974 with December 1973			
	1971	1972	1973	March	June	September	December
Predomination of imported inflation							
Paraguay	6.3	9.5	14.2	22.3	20.0	17.7	21.9
Ecuador	6.8	6.9	20.5	8.0	12.3	17.7	21.2
Mexico	-0.8	5.2	20.2	5.0	8.0	13.5	21.1
Jamaica	5.2	9.3	29.6	5.4	9.8	17.7	20.8
El Salvador	-0.6	5.2	7.9	5.0	9.4	18.8	20.3a/
Haiti	13.3	7.3	19.7	9.2	11.7	15.2	19.3b/
Trinidad and Tobago	5.0	8.0	24.4	2.8	9.3	14.1	18.6
Peru	7.7	4.3	13.7	5.7	12.5	15.2	17.9
Panama	1.0	6.8	9.6	6.4	11.2	14.0	16.7
Guatemala	3.0	1.1	17.5	1.9	8.9	11.1	15.9
Guyana	1.4	7.1	15.2	2.5	6.7	8.7	15.3a/
Honduras	1.5	6.8	5.0	6.2	12.2	12.7	13.0
Venezuela	3.0	3.5	5.7	0.6	1.7	8.9	12.2
Dominican Republic	10.6	8.0	17.3	1.3	2.2	5.6	10.5
Combination of imported inflation and domestic factors							
Argentina	39.1	64.2	43.8	-3.1	6.7	14.9	40.1
Bolivia	3.3	23.6	34.9	32.6	37.8	35.7	38.8
Barbados	10.1	10.4	26.0	12.0	24.2	30.3	36.6
Brazil	18.1	14.0	13.5	11.1	20.8	27.5	34.1
Colombia c/	14.1	16.4	21.1	12.7	17.3	20.1	31.5
Costa Rica d/	-1.9	6.2	15.4	8.9	21.1	20.6	30.8a
Predomination of domestic inflationary factor							
Chile	22.1	163.4	508.1	62.2	145.6	242.6	375.9
Uruguay	35.6	94.8	77.5	23.4	34.9	62.1	107.2

Source: International Monetary Fund (IMF), International Financial Statistics, vol. XXVII, N° 8 and 9, vol. XXVIII, N° 4; United Nations, Monthly Bulletin of Statistics, vol. XXVI, N° 5, vol. XXVIII, N° 11, vol. XXIX, N° 3.

a/ Variation October 1973 - October 1974.

b/ Variation November 1973 - November 1974.

c/ Consumer price index (manual workers) for Bogotá.

d/ Wholesale price index for San José.

/In th

In the second category, which contains the countries which showed price increases of between 30 and 40 per cent in 1974, the influence of internal factors and so-called imported inflation was more or less equal. In the inflationary processes of the countries of this group (Argentina, Bolivia, Barbados, Brazil, Colombia and Costa Rica), inflation from abroad found fertile ground for spreading and increasing side by side with domestic inflationary factors which were already in an advanced stage of activity or were beginning to act in the financial sphere. The cases of Bolivia and Costa Rica are particularly noteworthy in this group of countries, since throughout the 1960s and up to 1971 these two countries had maintained virtual price stability.

Finally, in the third category of countries the conjunctural and structural internal factors predominate over the external factors as far as the generation and continuation of their inflationary processes are concerned. In other words, in these countries imported inflation only came on top of domestic situations which were already marked by great instability as far as prices and financial flows were concerned. The price increases of 107 per cent in Uruguay and 376 per cent in Chile reflect forms of inflation which are at once chronic and acute.

The immediate future, as far as it can be forecast on the basis of the events of 1974, seems to hold in store even more difficult situations. Although there are indications that the inflationary pressures from the exterior may be reduced, there can be no doubt that the domestic inflationary processes attributable to this cause have now acquired a life of their own and - what is worse - are not likely to be accompanied this time by the positive repercussions which international inflation had on the balance of payments of some of the countries of the region. In other words, only the most pernicious effects of imported inflation will remain.

Even if there are moderate price rises, the above events and forecasts are elements likely to cause serious disturbances in the functioning of social and economic activity. Their effects on the

/processes of

processes of accumulation of wealth, income distribution and distortion of consumption patterns not only make it more difficult to achieve reasonable objectives in this field but may even, in some cases, lead to regrettable loss of ground.

4. The external sector

(a) Latin American trade 2/

The boom in the prices of Latin America's commodity exports which was a main feature of the events in 1973 continued in 1974, albeit at a lower level, except in the case of oil prices, which were higher than ever.

These price increases were maintained in general for the first half of the year, but from then on the prices of some tropical products such as coffee, cocoa and cotton and of some temperate-zone products such as meat and wool began to weaken, although the boom in the prices of sugar, vegetable oils and soya beans continued. This price trend was closely linked with the results of world agricultural production in 1974, since output overtook demand in some cases, wheras in others there continued to be a production deficit and the reserves accumulated for facing extra demand were depleted.

Furthermore, from the third quarter onwards there was a spectacular drop in the price of metals (copper, lead, zinc, and to a lesser extent tin) as a result of the economic recession in the industrialized countries.

In general, the picture at the end of the year was one of an even greater generalized slump in commodity prices because of the prospects of bigger winter harvests and the aggravation in the recession in the industrialized countries.

This contrasted with the acceleration in the domestic inflation of the latter countries, the most important consequence of which was the significant and sustained rise in the prices of the manufactures

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2/ See also ECLA, Latin American development and the international economic situation, February 1975, Part II, pages 1-13

/usually imported

usually imported by Latin America, aggravated by the weakening of the dollar against the currencies of the EEC countries.

(i) Exports. The improvement in commodity prices and even more in the price of oil considerably increased the value of Latin America's exports, which was 70 per cent higher than the year before, thus exceeding the already high growth rate of 44 per cent achieved in 1973 and also exceeding for the second time running the relative increase in world trade, which was 38 per cent in 1973 and 50 per cent in 1974. While the value of Latin American exports thus rose from some 26,250 million dollars in 1973 to some 44,400 million dollars in 1974, however, the increase in the volume of the region's exports was only 2.4 per cent, compared with the increase of 6.7 per cent recorded in 1973. The increases in average prices, in contrast, were 35 per cent in 1973 and 65 per cent in 1974 (see table 5).

If we separate the oil-exporting countries from the rest of the countries of Latin America, then the export performance is different in each case.

The Latin American oil-exporting countries reduced their sales volume by 10 per cent. Except for Trinidad and Tobago, the volume of exports decreased in these countries, particularly in Venezuela as a result of a deliberate policy of reducing production, and in Ecuador as a result of the paralyzation of the oil pipeline by flood damage. Another factor in these countries, as in Bolivia also, was the smaller demand on world markets.

On the other hand, the oil-exporting countries were the decisive factor in the considerable increase in the value of exports for the region as a whole, since their sales in 1974 increased almost 2.7 times as a result of the tripling of the price of oil.

The non-oil-exporting countries of Latin America, for their part, increased the value of their exports by 33 per cent, which is a decline with respect to the increase of 43.5 per cent recorded in 1973. The unit prices rose less than the year before (34.5 per cent in 1973, but only 25.7 per cent in 1974) and the increase in volume was only 5.9 per cent, after having being about 6.5 per cent per year in the two previous years.

/Table 5

Table 5

LATIN AMERICA: ANNUAL VARIATIONS IN EXPORTS AND IMPORTS OF GOODS

(Percentage, on the basis of data in dollars at current prices)

Year	Exports			Imports			Purchasing power of exports
	Volume	Unit value	Value	Volume	Unit value	Value	
1960-1970	4.5	1.2	5.8	4.5	1.7	6.2	4.0
1970-1974	3.5	27.0	31.4	12.0	16.2	30.1	13.1
1971	-	3.7	3.7	6.9	4.3	11.5	-0.6
1972	4.8	12.7	18.2	8.2	5.7	14.4	11.8
1973	6.7	34.8	43.9	11.1	18.3	31.4	21.6
1974	2.4	65.2	69.1	22.5	39.8	71.2	20.9
a) Oil-exporting countries (Venezuela, Bolivia, Ecuador, Trinidad and Tobago)							
1960-1970	4.0	-1.3	2.7	3.2	2.2	5.5	0.5
1970-1974	-2.4	54.0	50.3	10.9	16.1	29.0	29.5
1971	-5.7	24.4	17.3	8.1	6.6	15.2	10.0
1972	-0.6	14.5	13.7	9.6	5.0	15.1	8.3
1973	6.6	35.2	45.0	2.4	16.7	19.5	24.2
1974	-9.8	194.5	165.5	24.8	38.8	73.3	91.3
b) Non-oil exporting countries (19 countries)							
1960-1970	4.7	2.3	7.1	4.9	1.5	6.4	5.5
1970-1974	5.2	16.7	22.8	12.3	16.2	30.5	5.7
1971	2.0	-2.6	-0.7	6.7	3.7	10.6	-4.2
1972	6.5	12.6	19.9	7.9	5.9	14.2	13.2
1973	6.6	34.5	43.5	13.3	18.7	34.4	20.9
1974	5.9	25.7	33.1	21.9	40.1	70.8	-5.0
c) Large countries (Argentina, Brazil, Mexico)							
1960-1970	5.2	1.4	6.7	4.0	1.8	5.8	4.8
1970-1974	5.5	20.6	27.2	16.2	17.4	36.4	8.3
1971	1.4	1.8	3.2	8.7	4.0	13.0	-0.8
1972	7.2	18.1	26.6	12.9	6.3	20.0	19.1
1973	13.4	35.5	53.7	18.1	19.4	40.9	28.7
1974	0.5	29.8	30.4	25.9	43.9	81.2	-9.4
d) Medium-sized countries (Colombia, Chile, Peru)							
1960-1970	3.1	4.4	7.6	4.9	1.2	6.1	6.3
1970-1974	5.1	10.1	15.8	7.8	13.7	22.7	1.8
1971	2.3	-13.1	-11.1	5.8	3.1	9.0	-13.8
1972	2.8	2.3	5.1	1.1	5.8	7.1	-0.7
1973	-2.5	41.1	37.6	4.8	18.9	24.5	15.7
1974	19.3	17.1	39.7	20.5	29.1	55.6	8.2
e) CACM countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua)							
1960-1970	8.4	1.4	9.9	8.8	0.6	9.4	9.2
1970-1974	5.5	11.6	17.8	8.2	14.3	23.7	3.1
1971	3.6	-1.9	1.7	2.6	3.8	6.5	-2.0
1972	12.2	7.8	21.0	-1.6	6.7	5.1	13.4
1973	1.8	20.9	23.1	13.3	18.3	34.1	4.2
1974	4.7	21.4	27.1	19.6	30.0	55.6	-2.2
f) Small countries mainly exporting sugar and bauxite (Dominican Republic, Jamaica, Guyana, Barbados)							
1960-1970	2.4	3.1	5.6	7.4	1.6	9.2	3.9
1970-1974	6.2	14.7	22.0	4.9	13.0	18.5	8.0
1971	6.5	-0.1	6.5	3.0	3.3	6.4	3.1
1972	11.3	6.3	18.3	7.8	2.6	10.7	15.3
1973	-0.2	13.6	13.3	2.8	13.9	17.0	-0.5
1974	7.7	43.5	54.6	6.1	35.0	43.2	14.5
g) Remaining small countries (Haiti, Panama, Paraguay, Uruguay)							
1960-1970	5.4	1.1	6.6	4.3	1.1	5.5	5.4
1970-1974	-1.1	17.7	16.4	3.4	17.6	21.6	-1.0
1971	-4.4	2.3	-2.3	3.1	4.0	7.2	-6.1
1972	-1.3	16.6	15.2	-1.2	4.1	3.0	10.7
1973	-2.3	32.3	29.3	6.7	16.7	24.5	10.8
1974	3.5	21.8	26.0	5.2	51.3	59.2	-16.7

Source: ECLA, on the basis of official statistics.

/The weakening

The weakening of the volume of exports of this group of countries was accounted for by small reductions in the sales of Argentina, Brazil, Paraguay and the Dominican Republic, and bigger drops in those of Haiti, Honduras and Barbados. There were increases, however, in the rest of the countries, especially Chile, Peru and Guyana.

The reduction in the physical volume of Argentina's exports was due to the drop in its sales of meat (closure of the EEC market) and wool (lower world demand), although these were largely compensated by increases in other exports such as cereals and manufactures. In Brazil, the bad harvests of the year before led to a considerable reduction in exports of certain products such as sugar, soya beans, cotton, coffee, etc., although this was almost completely made up for by bigger sales of other commodities such as iron ore, manganese, cocoa, maize, etc., and manufactures. The volume of Honduras' exports dropped as a result of the damage caused by hurricane Fifi, and Paraguay's sales of meat were lower because of difficulties in placing it abroad.

The performance of the countries of this group as regards the value of their exports also varied according to the particular features of the boom in the prices and demand for certain commodities in 1974.

Thus, the countries which mainly export sugar and bauxite (Dominican Republic, Jamaica, Guyana and Barbados) were particularly favoured by the rise in the world prices of those products and increased the value of their sales by 55 per cent. Mexico took advantage of its widely diversified exports to secure an increase of 45 per cent, and Chile benefited from the speculative buying of copper which took place in the first half of the year and the improvement in the prices of iron ore and nitrates, finally securing an increase of 54 per cent in the value of its exports. Peru, with its diversified exports, increased its export sales by about 40 per cent due to the rises in the prices of sugar, cotton and metals (copper, zinc, silver, etc.) and the resumption of sales of fish meal. Nicaragua, too, expanded its export sales by almost 40 per cent, mainly as a result of the increased prices and bigger volume of cotton exports.

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In the rest of the non-oil exporting countries, however, including Argentina and Brazil, the increase in the value of exports was generally lower than the average of 33 per cent by which this group of countries increased their exports in 1974.

(ii) The purchasing power of exports. When we examine the evolution of the purchasing power of exports, we see that in 1974 this almost doubled (increase of 91 per cent) in the Latin American oil-exporting countries, as a result of the tripling of the price of oil. Furthermore, we observe that over the period 1970-1974 the purchasing power grew by 29.5 per cent per year, in spite of the fact that the volume exported declined at the rate of 2.4 per cent per year. In the 1960s, in contrast, because of the characteristics of the world oil market before the OPEC countries defined their new policy, the countries in question increased the volume exported at the annual rate of 4 per cent, but as the terms of trade deteriorated by 3.5 per cent per year, their external purchasing power increased by barely 0.5 per cent annually.

Furthermore, it may be noted that in 1974, despite the increase of 5.9 per cent in the volume of their exports, the Latin American non-oil-exporting countries suffered a decline of 5 per cent in their external purchasing power because of the faster rise in the unit prices of imports (40 per cent) than in that of exports (25 per cent). In other words, the efforts made by these countries to increase their exports in order to improve their purchasing power were frustrated by a deterioration of over 10 per cent in the terms of trade (a loss of some 1,900 million).

Over the period 1970-1974, the increase in the purchasing power of these countries was 5.7 per cent per year, i.e., slightly more than that achieved in the past decade, this being attributable almost entirely to the annual increase of 5.2 per cent in the volume of their exports. It may be added that although the annual increase in purchasing power over those 4 years was almost equal to that recorded in the 1960s, the two periods differ on account of the different rises in the unit prices of exports and imports. Thus, up to the 1960s

/the unit

the unit prices of Latin America's imports rose only at a moderate rate of 1.5 per cent per year, whereas the unit prices of their exports rose at the rate of 2.3 per cent annually, but in the period 1970-1974 the annual rates were 16.7 per cent for imports and only 16.2 per cent for exports.

From a qualitative point of view, it may be asserted that in 1974 the evolution of the terms of trade affected most seriously those non-oil-exporting Latin American countries which had the greatest degree of dependence on imports of manufactures, foodstuffs and other agricultural raw materials and fuels, since the international prices of these products rose more, and of course much faster, than the prices of the goods exported by those countries.

In this respect it may be noted that in 1974 the unit prices of Uruguay's exports rose by scarcely 7.2 per cent (because of a drop in the prices of wool and only a small rise in those of meat), while the prices of imports rose by 56.8 per cent because of Uruguay's high degree of dependence on imported raw materials, chemical products and construction materials (50 per cent), machinery and other manufactures (31 per cent) and fuel (19 per cent). As a result of these differences in price rises, the terms of trade deteriorated by 31.6 per cent and the purchasing power of Uruguay's exports dropped by 28 per cent, even though the volume exported increased slightly. In Brazil the deterioration in the terms of trade was 18 per cent; in Chile 16 per cent; in Haiti 13 per cent, and in Honduras 11 per cent. In Argentina, Colombia, Peru, Costa Rica, El Salvador, Guatemala, Nicaragua and Panama the deterioration in the terms of trade was between 2 and 10 per cent.

In contrast, in Mexico, in the countries mainly exporting sugar and bauxite (Dominican Republic, Jamaica, Guyana, and Barbados) and in Paraguay the terms of trade improved because the prices of these countries' exports rose more than those of their imports.

/Finally, of

Finally, of the countries whose terms of trade deteriorated only Chile, Peru, Colombia and Nicaragua where able to counter the effects of this by increasing the volume exported sufficiently to achieve greater purchasing power. In the other cases, the deterioration in the terms of trade signified a drop in the purchasing power of exports, even though the volume exported increased in most of the countries.

(iii) Imports. In 1974 the considerable increase in the exports of Latin America as a whole was accompanied by an extraordinary increase in imports, so that while the value of exports rose by almost 70 per cent, that of imports rose by 71 per cent. While on the export side this considerable increase represented an increase of scarcely 2.4 per cent in the volume and an actual decline in the growth rate of the volume compared with previous years, on the import side the volume rose by 22.5 per cent, which was twice as much as in the year before.

Over the last three years the region's propensity to import was considerably stimulated by the increase in the purchasing power of exports. Thus, the volume of imports increased between 1970 and 1974 at an annual rate of 12 per cent, and although the volume of exports only increased by 3.5 per cent per year, their purchasing power grew by 13.1 per cent annually (see table 5).

Examining the situation by groups of countries allows us to observe that imports grew at a similar rate in both the non-oil-exporting countries and in the oil-exporting countries. In 1974 the non-oil-exporting countries increased the value of their imports by 70.8 per cent and the volume by 21.9 per cent, while the oil-exporting countries increased the value of their purchases by 73.3 per cent and the physical volume by 24.8 per cent. This took place despite the differences in the evolution of the purchasing power of exports, which dropped by 5 per cent for the first group of countries but increased by 91 per cent for the second group. The natural result of this evolution was that the non-oil-exporting countries suffered increased current account deficits and increased external indebtedness, while the oil-exporting countries improved their net external position.

/The evolution

The evolution of the imports of these two groups of countries was also similar over the period 1970-1974, since the oil-exporting countries increased the value of their imports by 29 per cent per year and their volume by 10.9 per cent, while the non-oil-exporting countries increased the value of their purchases by 30.5 per cent per year and their volume by 12.3 per cent.

Of the oil-exporting countries, the increase in the volume of imports in 1974 was slightly greater in Venezuela (an increase of 30 per cent) than in Ecuador and Bolivia. In Trinidad and Tobago, because of smaller purchases of crude for refining, there was no change in the total imports.

In the non-oil-exporting countries the volume of imports grew more rapidly in the large and medium-sized countries than in the smaller ones, and the amount imported actually went down in Barbados, Haiti and Jamaica.

In the large countries, the volume of imports increased at the rate of 26 per cent per year, with the countries composing this group (Argentina, Brazil and Mexico) fluctuating around this figure. In the period 1970-1974, however, only Brazil showed a steady rate of increase, the growth rate of Argentina's imports being the most irregular.

In 1974, the medium-sized countries increased the amount imported by 20.5 per cent, but Peru increased the volume of its imports by over 50 per cent, due largely to a considerable reactivation of the external financing obtained by that country. In Colombia the increase was 14.2 per cent, and in Chile only 1.4 per cent.

Among the small countries, the Central American countries increased the growth rate of the volume of their imports for the second year running, the average rate of increase being 20 per cent and the rate in Nicaragua and Guatemala being even higher.

Of the countries mainly exporting sugar and bauxite, the Dominican Republic is the only one which expanded the volume of its imports in 1974 by a considerable amount (20 per cent) compared with the level of previous years (6 per cent).

/Finally, in

Finally, in Panama, Paraguay and Uruguay the volume of imports rose by around 6 per cent, which represented a considerable slowing-down for the last two countries compared with the growth rates of the previous year.

(b) The Latin American balance of payments in 1974

The export income of the countries with a surplus of oil (Venezuela, Ecuador, Trinidad and Tobago and Bolivia) began to rise in 1971, but in 1974 it grew very considerably to 18,941 million dollars, which was 2.7 times as much as the figure for 1973 (7,134 million dollars). In 1973 there was not much difference between the increase in income achieved by the oil-exporting countries (45 per cent) and that obtained by the rest of the Latin American countries, but in 1974 the export income of the latter group barely rose by 33 per cent. For the region taken as a whole, however, the differences were smaller and the value of the regions exports increased by 69 per cent from 26,253 million dollars in 1973 to 44,387 million in 1974 (see table 6).

The big increase in the income from oil exports enabled the Latin American countries receiving such revenue to increase their imports from 4,297 million dollars in 1973 to 7,445 million dollars in 1974, i.e., an increase of 73 per cent after one of almost 20 per cent the year before. The demand for imports was relatively greater in Ecuador and Trinidad and Tobago than in Venezuela and Bolivia. The considerable difference between the imports and exports of this group of countries resulted in a trade surplus of 10,574 million dollars in 1974 for the four countries in question, with Venezuela accounting for the major part of this. This was a very different situation from 1973, when Bolivia and Trinidad and Tobago had trade deficits.

While the oil-exporting countries increased their trade surplus in 1974, however, the other Latin American countries saw their trade deficit soar from 1,010 million dollars in 1973 to some 9,010 million dollars in 1974, the result for the region as a whole being a surplus of 1,564 million dollars compared with 1,249 million dollars the year before.

/Table 6

Table 6

LATIN AMERICA: BALANCE OF PAYMENTS FOR THE REGION AND FOR THE INDIVIDUAL COUNTRIES

(Millions of dollars)

	Exports FOB		Imports FOB		Other non-factor net services		Trade balance		Net payments of projects and interest		Balance on current account		Movements of capital		Balance of payments before compensation		Percentage variation in exports		Percentage variation in imports	
	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973	1974
Latin America (23 countries)	26 253	44 387	23 544	40 314	-1 460	-2 509	-1 249	1 564	-5 226	-9 017	-3 765	-7 241	7 457	11 129	3 692	3 888	43.9	69.1	31.4	71.2
Oil-exporting countries	7 134	18 941	4 297	7 445	-568	-922	2 269	10 574	-1 899	-4 736	285	5 750	434	-1 058	719	4 692	45.0	165.5	19.5	73.3
Venezuela	5 573	14 920	2 840	4 529	-482	-782	2 251	9 609	-1 690	-4 270	456	5 229	182	-1 120	638	4 109	46.7	167.7	21.2	59.5
Bolivia	273	560	253	390	-56	-83	-36	87	-23	-21	-54	71	48	52	-6	123	34.5	105.1	29.1	54.2
Ecuador	574	1 261	492	826	-97	-164	-15	271	-100	-190	-98	100	194	12	96	112	77.7	119.7	34.1	67.9
Trinidad and Tobago	714	2 200	712	1 700	67	107	69	607	-86	-255	-19	350	10	-2	-9	348	20.0	208.1	3.0	138.8
Non-oil exporting countries	19 119	25 446	19 247	32 869	-892	-1 587	-1 020	-9 010	-3 327	-4 281	-4 050	-12 991	7 023	12 187	2 973	-804	43.5	33.1	34.4	70.8
Large countries	11 931	15 558	11 921	21 603	-346	-674	-336	-6 719	-2 357	-3 102	-2 595	-9 709	5 593	8 788	2 998	-221	53.7	30.4	40.9	81.2
Argentina	3 266	4 010	1 978	3 160	-189	-242	1 099	608	-394	-352	716	258	4	-163	720	95	68.3	22.8	19.4	59.8
Brazil	6 199	7 968	6 192	12 530	-1 010	-1 340	-1 003	-5 902	-812	-1 230	-1 792	-7 097	3 971	5 881	2 179	-1 216	57.3	28.5	47.7	102.4
Mexico	2 466	3 580	3 751	5 913	853	908	-432	-1 425	-1 151	-1 520	-1 519	-2 870	1 618	3 070	99	200	31.1	45.2	43.6	57.6
Medium-sized countries	3 801	5 310	3 414	5 310	-562	-823	-175	-823	-471	-583	-629	-1 382	514	1 473	-115	91	37.6	39.7	24.5	55.5
Colombia	1 334	1 700	1 023	1 420	-172	-216	139	64	-207	-230	-56	-153	180	68	124	-85	39.1	27.4	25.8	38.8
Chile	1 325	2 037	1 362	1 891	-282	-375	-319	-229	-89	-154	-408	-379	155	269	-253	-110	54.4	53.7	25.1	38.8
Peru	1 142	1 573	1 029	1 999	-108	-232	5	-658	-175	-199	-165	-850	179	1 136	14	286	20.7	37.7	22.5	94.3
Small countries	3 387	4 578	3 912	5 956	16	-90	-509	-1 468	-499	-596	-826	-1 900	916	1 926	90	26	21.1	35.2	23.4	52.2
CACM countries	1 692	2 150	1 695	2 637	-144	-261	-147	-748	-177	-167	-225	-830	334	818	109	-12	23.1	27.1	34.1	55.6
Costa Rica	341	430	399	607	-17	-32	-75	-209	-41	-49	-112	-254	123	215	11	-39	22.2	26.1	18.4	52.1
El Salvador	364	460	340	510	-66	-84	-42	-134	-12	-14	-42	-136	36	146	-6	10	20.5	26.4	36.0	50.0
Guatemala	440	585	388	608	-35	-63	17	-86	-48	-54	9	-112	70	102	79	-10	30.6	32.9	31.1	56.7
Honduras	259	275	244	372	-25	-34	-10	-131	-33	-3	-39	-102	39	77	0	-25	24.5	6.2	37.9	52.5
Nicaragua	288	400	324	540	-1	-48	-37	-188	-43	-47	-41	-226	66	278	25	52	15.7	38.9	58.0	66.7
Small countries mainly exporting sugar and bauxite	1 026	1 587	1 312	1 879	6	-34	-280	-326	-237	-319	-447	-576	410	667	-37	91	13.2	54.7	16.9	43.2
Dominican Republic	448	650	428	670	-72	-119	-52	-139	-78	-108	-101	-220	121	207	20	-13	29.1	45.1	26.6	56.5
Jamaica	396	605	575	790	44	49	-135	-136	-139	-186	-240	-287	209	350	-31	63	4.8	52.8	8.7	37.4
Guyana	135	262	158	232	-18	-25	-41	5	-13	-17	-53	-11	26	52	-27	41	-6.2	94.1	22.5	46.8
Barbados	47	70	151	187	52	61	-52	-56	-7	-8	-53	-58	54	58	1	0	27.0	48.9	19.8	23.8
Remaining small countries	669	841	905	1 440	154	205	-82	-394	-86	-111	-154	-494	172	441	18	-53	29.4	25.7	24.3	59.1
Haiti	53	69	73	103	-11	-14	-31	-48	-6	-7	-16	-33	10	23	-6	-10	23.3	30.2	19.7	41.1
Panama	160	232	456	741	213	288	-83	-221	-45	-52	-137	-285	137	266	0	-19	9.6	45.0	11.5	62.5
Paraguay	128	170	127	176	-12	-16	-11	-22	-10	-12	-19	-33	38	63	19	30	48.8	32.8	60.8	38.6
Uruguay	328	370	249	420	-36	-53	43	-103	-25	-40	18	-143	-13	89	5	-54	35.5	12.8	39.1	68.7

Source: ECLA, on the basis of official data.

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Although in 1974 the non-oil-exporting Latin American countries only increased their exports by 33 per cent, they had sufficient capacity, through greater external financing, to increase their imports by 70.8 per cent, thus helping to increase the trade deficit to the figure of 9,010 million dollars referred to which represented, in 1974, 35.4 per cent of the exports of these countries and 85 per cent of the trade surplus of the oil-exporting countries. It is estimated that around 42 per cent (some 3,760 million dollars) of this trade deficit was due to the higher cost of imported fuels. The remainder (5,250 million dollars) is attributable to the increased volume and greater cost of manufactures and primary commodities imported by these countries.

In the group of oil-exporting Latin American countries the net payments of profits on direct foreign investment and interest payments on loans rose just as much as their export income, rising from 1,899 million dollars in 1973 to 4,736 million dollars in 1974 on account of the considerable participation of foreign capital in the petroleum industry of those countries, except in the case of Bolivia. The coefficient of these external factor payments with respect to export income was around 25 per cent, and they absorbed 45 per cent of the trade surplus of these countries in 1974. The biggest payments in this respect were by Venezuela, and the smallest by Bolivia.

The non-oil-exporting Latin American countries increased their payments of profits and interest on foreign capital from 3,397 million dollars to 4,281 million dollars in the last two years, the coefficient with respect of export income being almost 17 per cent. A noteworthy fact is that the magnitude of these factor payments made in 1974 by 19 non-oil-exporting Latin American countries was lower than the payments under the same heading made by four oil-exporting Latin American countries (see table 6).

/The balance

The balance of payments current account of the Latin American oil-exporting countries closed 1974 with a surplus of 5,750 million dollars after starting with a trade surplus of 10,574 million dollars which was reduced to the figure in question by the large amount of payments of profits and interest on foreign capital. This figure of 5,750 million dollars for 1974 is 20 times more than the 285 million dollars achieved in 1973, when these countries had a trade surplus of 2,269 million dollars.

It may be noted that although 90 per cent of the current account surplus was accounted for by Venezuela, even countries like Bolivia, Ecuador and Trinidad and Tobago which had always suffered from chronic current account deficits were able to record in 1974, as a result of the increase in their export income, a current account surplus which served for the first time to moderate and reduce their external financing needs. The external current account surplus of 5,229 million dollars achieved by Venezuela in 1974 helped to give a balance-of-payments surplus of 4,109 million dollars after exports of capital amounting to 1,120 million dollars. In 1973, in contrast, there was still a small capital income which, in conjunction with the current account surplus, served to improve the position of the monetary authorities by almost 638 million dollars.

The remaining oil-exporting countries (Bolivia, Ecuador and Trinidad and Tobago) also showed a balance-of-payments surplus in 1974, which strengthened the position of their international reserves by 583 million dollars although there was scarcely any capital income except in the case of Bolivia, where the inflow of funds was slightly greater than the year before.

The non-oil-exporting Latin American countries, on the other hand, continued to increase their external current account deficit which rose from 4,050 million dollars to 12,991 million dollars in the last two years under the pressure of the big increase in the trade deficit from 1,020 to 9,010 million dollars and, to a lesser extent, the increase in external factor payments from 3,245 to 4,181 million dollars in the two years in question. They were able to permit

/themselves to

themselves to increase the deficit by this amount because of the inflow of capital, which, as a result of the high degree of international financial liquidity, increased from 7,023 to 12,187 million dollars between 1973 and 1974, thus strengthening their import capacity, which was being undermined by the deterioration in the purchasing power of exports. Despite this considerable increase, however, the inflow of capital was not sufficient to cover the external current account deficit completely and the balance of payments of this group of countries closed with a deficit of some 800 million dollars, unlike the year before when there had been a balance-of-payments surplus of 2,973 million dollars.

In 1974 the external financing facilities continued to be unequally distributed among the non-oil-exporting Latin American countries. The massive flow of capital to Brazil and Mexico (5,881 and 3,070 million dollars respectively, or 73 per cent of the total) continued to increase, thus helping the extraordinary expansion of those countries' imports. While the flow of capital to Mexico was sufficient to finance the deficit and contribute to the strengthening of reserves, however, in the case of Brazil the foreign funds were not sufficient, and there was a net deterioration in the country's external position of some 1,200 million dollars. In Argentina, for its part, the policy of improving the net external position on the basis of strengthening the trade balance continued, although the balance was smaller because of the bigger increase in imports. Even so, it did help to strengthen the net international reserves, although a certain amount of net disinvestment was to be observed.

As regards Colombia and Chile, the net external position deteriorated in 1973 because of the limited inflow of capital. In Colombia, the increase in the current account deficit was accompanied by a considerable reduction in the inflow of capital which made it necessary to use international reserves. In Chile, the volume of exports increased, but as there was only a relatively small increase in the price of copper, it was only possible to achieve a slight reduction in the current account deficit, and although there was some reactivation of the inflow of capital (return of Chilean funds

/transferred abroad)

transferred abroad) this was not enough to avoid a net deterioration in the external situation due mainly to the increase in the liabilities of the Central Bank (renegotiation of the external debt and the use of the Oil Facility to pay for the higher fuel costs).

In Peru there was a big reactivation of the inflow of capital in 1974 (1,136 million dollars) after the country's access to external financing had been restricted since 1968. This made it possible to double imports without any deterioration in international reserves. In 1974 Peru thus came in third place, after Brazil and Mexico, as a major beneficiary from the massive inflow of capital. Its external current account deficit came to 54 per cent of its exports, as against past figures of only 10 per cent.

During the last year, the inflow of capital into the Central American countries rose by a factor of 2.5. Imports were thus able to increase more than exports and the trade deficit widened. As a result, the external current account deficit rose from 13 to 38 per cent of exports in the last two years, and in Costa Rica and Nicaragua the proportion came close to 60 per cent, although on the other hand it also indicates that the inflow of capital was greater in these two countries. Despite the increase in the inflow of capital, the amount was still insufficient in Costa Rica, Honduras and Guatemala, and the net external position of these countries deteriorated, especially in the case of the first two, whose liabilities increased because they used funds from the Oil Facility.

The external capital needs of the countries mainly exporting sugar and bauxite also increased in 1974, although less than in the other groups of countries. The increase in the external current account deficit of this group of countries (Dominican Republic, Jamaica, Guyana and Barbados) was not accompanied by an increase in the coefficient with respect to exports, which fell from 43.5 per cent in 1973 to 36.3 per cent in 1974.

The extraordinary increase in the price of sugar and a readjustment in the price of bauxite caused the exports of these countries to increase more than their imports. This enabled the growth

/of the

of the trade deficit in Jamaica and Barbados to be checked and even made possible a small trade surplus in Guyana. The Dominican Republic, however, increased its imports more than its exports, so that its current account and trade deficits increased, as did the capital requirements for financing them. Even so, the deterioration in the Dominican Republic's net reserves was slight, owing to the use of a contingency credit. In Jamaica and Guyana, in contrast, the international reserves were strengthened as a result of an inflow of capital greater than the external current account deficit.

As far as the other countries are concerned, in Uruguay the reactivation of the inflow of foreign funds is worthy of note, but these were not sufficient to prevent a deterioration in the country's reserves, and it also had to make use of the Oil Facility. In 1974, the external current account deficit represented almost 39 per cent of its exports, unlike the year before when there was a surplus. In Panama the external financing needs increased more in 1974 because of the increase in the trade deficit, and the same occurred in Paraguay and Haiti, although on a much smaller scale.

The allocation of the inflow of capital continued to favour certain countries in 1974. Brazil and Mexico continued to predominate in the amount of capital received, while among the small countries the leading recipients were Jamaica, Panama and Costa Rica. At the same time, however, the reactivation and amount of the inflow of external funds into Peru, and the amounts received in Nicaragua, the rest of the Central American countries, the Dominican Republic, Uruguay and Paraguay represented an increase in the number of countries benefitting and also in the amount of capital provided. The volume of the inflow of capital helped to increase the capacity to import and countered the deterioration in the purchasing power of exports which had been affecting almost all the countries in question, thus obviating restrictions on imports needed for domestic economic development, although at the cost of greater external indebtedness.

This high level of inflow of external resources, maintained for a long period, helped to increase Brazil's imports to such an extent that its external purchases in 1965 were equivalent to only one month of its

/present imports.

present imports. The internal disequilibria which arose in the course of the acceleration of the country's economic activity were compensated with the growing imports, and despite the widening of the trade gap the country had sufficient external resources to finance its imports.

Finally, it should be pointed out that the improvement in the net external position of the region as a whole, which recorded a balance-of-payments surplus of some 3,900 million dollars in 1974, was due to the trade surplus of the Latin American oil-exporting countries and Argentina, and not to the surplus external financing which was characteristic of the situation in previous years and affected almost exclusively Brazil. Indeed, after a number of years when the situation had been quite different, Brazil showed a considerable balance- of-payments deficit of some 1,200 million dollars as a result of the rather sluggish behaviour of its exports and the inadequacy of the inflow of capital to finance its large imports. The need for an additional inflow of capital to pay for the imports required by domestic production activity represents, of course, a different situation from that caused by a period of weakening of exports or of their purchasing power which leads to the deterioration of the net external position of the country.

(c) Inter-Latin American trade

During 1974 trade between eighteen countries of the region (as measured by the CIF value of imports of goods) increased by 71 per cent. This increase was considerably greater than the increase of 38 per cent recorded in 1973, and it was also greater than the growth of the total exports of these eighteen countries, which amounted to 65 per cent in 1974. In the same year trade between the LAFTA countries likewise increased by 71 per cent (taking into account the countries of the Andean Group), while trade between the countries of the Central American Common Market increased by 38 per cent. In the Andean Group, subregional trade increased by 107 per cent (see tables 7, 8 and 9).

/Table 7

Table 7

INTER-LATIN AMERICAN TRADE, 1973

(CIF values of imports of goods, in millions of dollars)

Importing country \ Country of origin	Argentina	Bolivia	Brazil	Colombia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay	Venezuela	El Salvador	Guatemala	Honduras	Nicaragua	Panama	Dominican Republic	Total Latin America
Argentina	-	32.2	205.1	13.1	82.1	11.5	23.2	20.8	18.9	5.9	23.0	-	0.3	0.4	-	6.1	-	442.6
Bolivia a/	37.7	-	18.0	3.6	1.0	0.3	-	-	4.3	0.5	-	-	0.3	-	-	-	-	65.8
Brazil	343.6	19.6	-	6.4	36.5	3.7	56.9	23.1	20.0	16.9	78.0	2.2	0.1	0.2	-	36.9	0.1	644.2
Colombia	15.6	1.3	14.9	-	6.6	16.5	22.6	0.4	9.8	4.2	7.6	-	0.1	0.1	-	7.2	0.3	107.9
Chile a/	165.1	17.6	34.1	9.4	-	16.5	38.1	1.2	16.5	2.4	15.3	-	-	-	-	2.4	-	318.6
Ecuador a/	6.2	-	6.7	6.7	1.0	-	5.7	-	3.1	-	-	-	0.5	-	-	-	-	29.9
Mexico a/	30.3	0.2	43.0	4.2	8.1	3.0	-	1.5	5.9	6.1	90.5	0.7	2.6	0.2	2.2	17.7	-	217.4
Paraguay	29.8	-	16.3	0.2	0.6	0.1	0.7	-	0.2	1.0	0.1	-	-	-	-	-	-	49.0
Peru	27.6	10.5	38.0	39.3	5.9	14.9	15.4	0.6	-	1.7	20.2	-	0.1	-	0.3	1.5	-	179.9
Uruguay	61.8	3.1	48.1	0.3	1.7	0.2	1.9	2.0	1.2	-	1.8	-	-	-	-	0.1	0.9	123.1
Venezuela a/	40.6	-	89.9	14.5	2.9	-	40.6	-	8.7	-	-	-	-	-	-	5.8	-	203.0
Costa Rica	2.4	-	4.6	4.8	-	0.1	11.3	-	0.5	-	22.9	24.0	32.8	2.9	24.0	6.9	4.8	142.0
El Salvador	0.6	-	1.0	2.8	-	0.3	10.1	-	0.9	-	16.2	-	59.4	-	15.6	8.0	-	132.3
Guatemala	1.5	-	1.5	2.3	-	0.1	16.0	-	0.2	-	26.5	57.1	-	3.2	12.4	0.7	-	138.4
Honduras a/	0.7	-	0.6	2.1	-	-	5.1	-	0.8	-	20.8	-	16.2	-	9.3	1.1	-	63.6
Nicaragua	1.0	-	0.7	2.5	-	-	8.0	-	0.2	-	16.9	25.8	29.3	7.1	-	3.3	-	122.5
Cuba	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Haiti	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Panama	2.2	-	2.7	8.5	0.1	51.3	9.4	-	0.8	0.1	33.6	2.8	3.9	0.9	2.5	-	11.4	138.7
Dominican Republic a/	1.2	-	4.0	5.0	-	-	-	-	0.4	-	-	0.1	3.2	-	0.6	0.5	-	15.4
Total Latin America	767.9	84.5	529.3	125.7	146.5	118.5	265.0	49.6	92.4	38.8	373.4	112.7	148.8	15.0	66.9	98.2	17.5	3 134.3

Source: Official foreign trade statistics. Cuba, Haiti and the CARIFTA countries are not included for lack of information.

a/ Estimates based on partial data.

/Table 8

Table 8

INTER-LATIN AMERICAN TRADE, 1974 a/

Country of origin / Importing country	Argentina	Bolivia	Brazil	Colombia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay	Venezuela	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama	Dominican Republic	Total Latin America
Argentina	-	65.0	270.0	33.0	95.0	25.0	46.4	60.7	23.0	6.7	70.6	-	-	0.4	0.4	-	9.0	-	705.2
Bolivia	46.0	-	45.0	8.0	1.0	0.3	-	-	5.0	0.6	-	-	-	0.4	-	-	-	-	106.3
Brazil	390.0	40.0	-	18.0	193.0	8.0	91.0	25.0	25.0	19.1	239.5	-	3.0	0.1	0.2	-	50.0	0.1	1 102.0
Colombia	40.9	2.7	29.0	-	46.5	34.7	37.2	0.6	28.8	2.1	32.5	0.6	0.1	0.2	0.9	0.1	18.0	-	274.9
Chile	345.1	25.5	66.1	10.1	-	46.7	30.6	1.5	29.4	6.5	16.8	-	-	0.4	-	-	-	-	578.7
Ecuador	8.0		13.0	10.0	1.0	-	5.7	0.2	5.0	-	-	-	-	0.5	-	-	-	-	43.4
Mexico	41.2	0.4	60.5	9.4	21.7	9.4	-	2.0	11.5	7.9	168.2	2.7	0.2	4.1	0.2	2.6	20.0	-	362.0
Paraguay	55.9	-	20.3	0.2	0.7	0.1	0.8	-	0.2	2.0	0.1	-	-	-	-	-	-	-	80.3
Peru	34.0	21.0	44.0	75.0	6.0	25.0	30.8	0.3	-	2.0	62.0	4.4	-	-	-	-	2.0	-	306.5
Uruguay	75.0	6.0	93.0	0.2	1.8	0.4	1.9	1.5	1.4	-	5.5	-	-	-	-	-	0.1	1.3	188.1
Venezuela	50.0	-	162.0	20.0	2.3	-	40.6	0.2	10.0	-	-	-	-	-	-	-	6.0	-	291.1
Costa Rica	3.0	-	6.0	12.0	-	0.1	22.6	-	0.6	-	70.3	-	34.0	40.0	10.0	35.0	10.0	7.0	250.6
El Salvador	0.7	-	1.3	15.0	-	0.4	20.0	-	1.0	-	49.7	26.0	-	64.0	-	21.0	12.0	-	211.1
Guatemala	1.8	-	1.9	5.0	-	0.1	24.0	-	0.2	-	81.4	18.0	70.0	-	8.0	18.0	1.1	-	229.5
Honduras	0.9	-	0.8	2.0	-	-	5.0	-	0.9	-	63.9	11.0	-	22.0	-	10.0	1.7	-	118.2
Nicaragua	1.2	-	0.9	4.0	-	-	8.0	-	0.2	-	51.9	44.0	44.0	47.0	12.0	-	5.0	-	218.2
Panama	2.7	-	3.5	22.0	0.1	80.0	14.0	-	0.9	0.2	103.1	10.0	3.0	5.2	0.9	2.6	-	17.0	265.2
Dominican Republic	1.5	-	5.0	8.0	-	-	-	-	0.5	-	0.1	0.5	0.1	4.3	-	0.6	0.6	-	21.2
Total Latin America	1 097.9	160.6	822.3	251.9	369.1	230.2	378.6	92.0	143.6	47.1	1 015.6	117.2	154.4	188.6	32.6	89.9	135.5	25.4	5 352.5

Source: Official foreign trade statistics. Cuba, Haiti and the CARIFTA countries are not included for lack of information.

a/ Estimates based on partial data.

/Table 9

Table 9

INTER-LATIN AMERICAN TRADE BY INTEGRATION GROUPS

(CIF values of imports of goods)

	1970		1971		1972		1973 a/		1974 b/	
	Millions of dollars	Percentage of total inter-Latin American trade	Millions of dollars	Percentage of total inter-Latin American trade	Millions of dollars	Percentage of total inter-Latin American trade	Millions of dollars	Percentage of total inter-Latin American trade	Millions of dollars	Percentage of total inter-Latin American trade
LAFTA	1 347.8	72.8	1 458.3	72.9	1 645.7	72.4	2 286.3	72.9	3 910.5	73.1
CACM	299.0	16.1	276.7	13.8	305.8	13.4	388.0	12.4	534.0	10.0
Andean Group	(133.9)	(7.2)	(159.3)	(8.0)	(164.4)	(7.2)	(254.0) c/	(8.1)	(525.3) c/	(9.8)
Total inter-Latin American trade d/	1 852.6	100.0	2 000.1	100.0	2 274.5	100.0	3 134.3	100.0	5 352.5	100.0

Source: ECLA, on the basis of official statistics.

a/ Provisional figures.

b/ Estimate.

c/ Includes Venezuela.

d/ Trade between the Andean Group countries is also included under LAFTA. In addition to the countries making up the sub-regional groups, which are covered in the corresponding trade figures, the intra-regional total also includes Panama and the Dominican Republic. No data were available for Cuba and Haiti, and the CARIFTA countries were not taken with consideration.

/The countries

The countries which increased their share of intra-regional trade in 1974 were Bolivia, Colombia, Chile, Ecuador, Honduras and especially Venezuela on account of the higher value of its sales of oil. Brazil and Argentina, however, continued to account for the biggest shares (18 and 17 per cent), followed by Venezuela (12 per cent), Chile (9 per cent) and Mexico (7 per cent). In 1973 and 1974 only the Dominican Republic had a share of less than 1 per cent, while twelve countries had a share of between 1 and 5 per cent.

In 1974 the oil-exporting countries appreciably increased their trade surpluses with the region. Thus, Venezuela's trade surplus rose from 170 million dollars in 1973 to 725 million in 1974, that of Bolivia from 19 to 54 million dollars, and that of Ecuador from 89 to 187 million dollars. Argentina, which has traditionally had a trade surplus with the rest of the region, also increased its surplus, from 325 to 393 million dollars, but between 1973 and 1974 a number of countries increased their deficits with the region, the most significant cases being Brazil, Chile, Peru, Uruguay, the Central American countries and Panama. For the eighteen countries considered, the ratio of the trade balances to total regional trade, which had increased from 0.17 in 1971 to 0.20 and 0.22 in 1972 and 1973, reached a figure of 0.26 in 1974. This indicates that the trade imbalance between the countries continued to increase.

Chapter II

THE ECONOMIC SITUATION BY COUNTRIES

ARGENTINA

1. Recent economic trends

In 1974, the economy of Argentina achieved a growth rate of 7.2 per cent, doubling the average annual rate recorded during the period 1970-1973. This time economic growth was associated with the progressive redistribution of income with full employment, and with the relatively favourable evolution of the external variables.

As from mid-1973, the Government boosted the tempo of the economy by a large increase in demand reinforced by a general rise in wages (accompanied by price controls, the application of which began following a period in which profit margins were considered fairly high); the impetus given to the exports of manufactures; state action in the construction of dwellings; and broad-based fiscal, monetary and credit policy. These objectives were attained to a considerable extent, added to which the agricultural year was good, with excellent harvests of fruit and vegetables, industrial crops and some cereals, while stocks of cattle reached unprecedented levels. The industrial sector responded to the increase in demand by making a better use of existing productive capacity, despite some difficulties in the supply of inputs.

Under the circumstances, the growth of the gross domestic product and of consumption were much higher than they had been traditionally, while the unemployment rate dropped to minimum levels, the share of wage-earners in income increased and a large surplus in the trade balance was achieved, although it was much smaller than the previous year.

As the application of the policy described progressed, impediments to its continuation began to appear, mainly as a result of inadequate plans for private investment in industry.

On the other hand, the pressure on prices from imported inflation, growing demand and a shortfall in some inputs together with the slow absorption of idle capacity, were the cause of failures to observe price controls, which in some cases came to constitute

/actual parallel

actual parallel marketing circuits. In the face of this situation, towards the end of 1974, a more flexible price policy was adopted, aimed a stimulating private investment and restoring normal marketing channels.

The last months of 1974 and the first months of 1975 mark a period of transition towards a new balance between economic and social sectors, following a year of good economic results. Prices and incomes thus emerge as one of the most critical areas of the economic policy, in a situation in which the margins of state action will be narrowed by the large fiscal deficit. This situation is projected against the background of an international crisis, which will have adverse effects on the evolution of the domestic economy, although its size and nature still cannot be foretold.

2. Total supply and demand

In 1974, the gross domestic product increased by 7.2 per cent. As has already been said, this figures doubled the average rate of growth of recent years. Imports also showed a large increase (19.3 per cent).

Total demand also grew far more rapidly than in the past. Consumption far surpassed the rate anticipated in the Three-Year Plan,1/ while although investment had grown faster than its traditional rate it did not achieve the goal of the Plan, and the volume of exports showed no change from 1973 (see table 1).

The growth of consumption was the result of the policy of redistribution among the lowest income sectors, and it was also reflected in the increased growth of the sectors of industry producing non-durable consumer goods.

1/ Three-Year Plan for Reconstruction and National Liberation.

/Table 1

Table 1

ARGENTINA: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974a/	1970	1974a/	1970-1972	1973	1974a/
Total supply	102 091	112 696	121 759	108.0	107.9	3.2	3.6	8.0
Imports b/	7 534	7 471	8 916	8.0	7.9	-0.4	-0.1	19.3
Gross domestic product	94 557	105 225	112 843	100.0	100.0	3.6	3.8	7.2
Total demand	102 091	112 696	121 759	108.0	108.0	3.2	3.6	8.0
Exports b/	8 016	7 591	7 593	8.5	6.7	-6.2	7.7	-
Domestic demand	94 075	105 105	114 166	99.5	101.2	4.0	3.3	8.7
Gross domestic investment	18 774	21 390	23 238	19.9	20.6	7.9	-2.1	8.6
Gross fixed investment	18 463	20 114	21 803	19.5	19.3	6.3	-3.6	8.4
Public	5 572	...		5.9	...	...	...	...
Private	12 891	...		13.6	...	...	...	...
Construction	10 092	9 072	10 363	10.6	9.2	2.3	-14.0	14.2
Machinery and equipment	8 371	11 042	11 440	8.9	10.1	11.0	6.9	3.6
Total consumption	75 301	83 715	90 928	79.6	80.2	3.0	4.8	8.6
General government	9 047	...	...	9.6	...	2.8	...	...
Private	66 254	...	...	70.0	...	3.0	...	...

Source: 1970-1972: ECLA calculations on the basis of figures from the Three-Year Plan for Reconstruction and National Liberation; 1973: ECLA calculations on the basis of figures supplied by the Central Bank of Argentina; 1974: ECLA estimates on the basis of preliminary data from the Central Bank.

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/ Goods and services, excluding factor payments.

/The performance

The performance of the components of gross investment was uneven. Private construction increased by around 18 per cent, boosted by the low-cost housing plans which were the responsibility of the Ministry of Social Welfare and by the increased demand for housing for the medium- and high-income groups. Meanwhile, public construction increased by around 10 per cent, particularly as a result of the more rapid growth of work already begun, and the start made to large-scale projects like the hydroelectric power station of Salto Grande.

In connexion with investment in machinery and equipment, the 10 per cent increase in local sales of tractors would appear to indicate an improvement in the agricultural equipment situation. On the other hand, industrial investment apparently did not react to the favourable conditions of demand present throughout the year. In some cases, this tendency may be attributed to a decrease in profits; in others, to the difficulty of returning to the production circuit profits obtained in parallel marketing channels. During the latter part of the year, however, a reactivation of investment was to be observed, and this was reflected in growth during the fourth quarter and confirmed in the surveys of industrial expectations for 1975.

3. The evolution of the gross domestic product

The gross domestic product grew at a rate of 7 per cent higher than that anticipated in the Three-Year Plan for 1974. Of note was the growth of agricultural and industrial output and increased activity in the construction sector (see table 2).

(a) Agricultural sector

During 1974 the growth of the agricultural sector was boosted by production of fruit and vegetables, and some industrial crops. In addition, good harvests of maize and particularly sorghum helped to offset the drop in wheat production. Livestock activity was characterized by an increase in cattle numbers (this was noteworthy in view of the retention practiced in previous years) and by a slightly higher slaughtering rate than in 1973.

/Table 2

Table 2

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

	Millions of pesos at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974a/	1970	1974a/	1970-1972	1973	1974a/
Agriculture	11 217.0	11 363.1	12 287.8	13.2	12.1	-2.0	5.5	8.1
Mining	1 325.0	1 042.7	1 064.2	1.6	1.0	-0.7	-20.2	2.1
Manufacturing	25 399.0	30 638.4	32 721.6	29.9	32.2	6.3	6.8	6.8
Construction	4 578.0	4 318.1	4 857.1	5.4	4.8	2.3	-9.8	12.5
Subtotal goods	42 519.0	47 362.3	50 930.7	50.1	50.1	3.5	4.0	7.5
Electricity, gas and water	1 810.0	2 323.4	2 482.6	2.1	2.4	9.2	7.5	6.9
Transport and communications	8 548.0	9 273.5	9 885.0	10.1	9.7	1.8	4.7	6.6
Subtotal basic services	10 358.0	11 596.9	12 367.6	12.2	12.2	3.1	5.3	6.6
Wholesale and retail commerce, restaurants and hotels	12 526.0	14 345.0	15 508.7	14.7	15.3	5.2	3.5	8.1
Financial establishments, insurance and real estate	3 737.0	4 281.3	4 538.5	4.4	4.5	4.8	4.3	6.0
Community, personal and social services	15 812.0	17 301.8	18 319.5	18.6	18.0	3.2	2.7	5.9
Subtotal other services	32 075.0	35 928.1	38 366.7	37.8	37.7	4.2	3.2	6.8
Gross domestic product, total	84 952.0	94 435.8	101 184.7	100.0	100.0	3.6	3.8	7.2

Source: 1970-1972: ECLA calculations on the basis of figures from the Three-Year Plan for Reconstruction and National Liberation; 1973: ECLA calculations on the basis of figures provided by the Central Bank of Argentina; 1974: ECLA estimates on the basis of preliminary data supplied by the Central Bank.

a/ Preliminary figures.

/Output of

Output of wheat, maize and sorghum together was similar in amount to 1973 figures, when the maximum volume of production ever recorded was obtained.

The increases of 2.1 per cent in maize and of 19 per cent in tons (60 per cent higher than the average for the five-year period 1968/1972) as a result of the exceptional conditions existing in the international and local markets. Grape production for wine-making showed a growth of around 36 per cent in 1974, while fruit production recorded an exceptional increase of 33 per cent and vegetable production increased by 8 per cent.

The outstanding event in the livestock sector was the increase in stocks of beef cattle, which had begun in 1970 following the downswing in the stockbreeding cycle which took place during 1967/1969. It is estimated that towards the end of 1974 stocks of beef cattle reached a historical maximum of around 60 million head and were possibly 57 million at 30 June 1974. This latter figure marks an increase of nearly 9 million compared with June 1969, implying an increase in stocks of around 20 per cent between the lowest point of the cycle and that date.

Although no final figures exist for the total rate of slaughter, the National Meat Board estimate was around 10 million head, i.e., slightly above the 1973 level and similar to that of 1972. Even assuming the existence of a substantial slaughter not registered by the National Meat Board, the slaughter/stocks ratio probably remained below what is considered a normal production figure (22/23 per cent) (see table 3).

Relative prices in the sector deteriorated during the year, especially for livestock production. This became more pronounced in the last few months, following the accelerated growth of industrial prices as may be seen from table 4.

/Table 3

Table 3

ARGENTINA: INDICATORS OF CATTLE BREEDING

	1967	1968	1969	1970	1971	1972	1973	1974
			Millions of head					
Stocks at 30 June	51.3	51.5	48.3	48.4	49.8	52.3	54.8	57.0
Slaughter for the year	12.5	12.8	13.8	12.9	9.5	10.0	9.8	10.0
			Percentages					
Slaughter/stocks	24.4	24.9	28.6	26.7	19.1	19.1	17.9	17.5
			Kilograms annually					
Per capita consumption	82.0	87.0	92.0	84.0	64.0	62.0	66.0	78.0

Source: National Meat Board.
a/ Provisional figures.

Table 4

ARGENTINA: RELATIVE PRICES OF THE AGRICULTURAL SECTOR

(Index base 1960 = 100)

	1969	1973	1974	May 1973	December 1973	June 1974	December 1974
Animal production / Non-agricultural	94.0	130.1	108.9	141.6	120.9	110.0	94.6
Vegetable production / Non-agricultural	105.5	108.2	101.8	102.8	105.1	105.4	100.0
Agricultural / Non-agricultural	100.2	118.9	105.3	121.7	112.9	107.7	97.4

Source: Wholesale price index of the National Institute of Statistics and Censuses (INDEC).

/Official policy

Official policy attempted to avoid this relative decrease having direct repercussion on cattle stocks. In 1974 fiscal measures were thus taken aimed at stimulating the retention of females. In addition, in January 1975, the price of cattle was increased and tax incentives were introduced, especially in the breeding stage, with a view to reducing the rearing-period for cattle. Tax incentives were also introduced for exports of beef, in order to assist the operation of the refrigerating plants.

In view of the situation in the international markets, policy was aimed at giving a rather larger incentives to agriculture. With the fixing of prices for the farming year 1974/1975, there was a tendency for the relative price of wheat to improve compared with industrial goods and livestock.

As regards, the general policy for the agricultural sector, it was decided still not to apply during 1975 potential normal income tax on land.

(b) Mining

The product generated by mining increased by 2.1 per cent, as a result of a drop of around 1.5 per cent in petroleum output, and an increase of around 35 per cent in the production of coal, 9 per cent in natural gas and 15 per cent in other mineral products.

The drop in petroleum production may be attributed to the lower yields of the wells in production and the lack of results of any importance as a result of exploration. For the future, the use of secondary reserves has been programmed, and in a longer-term, the development of the submarine valley.

In 1973 coal production had dropped compared with 1972, which means that the 1974 increase is largely one of recovery. In 1974 the investments made (especially in modes of transport from the coalfields of Rio Turbio) will make expansion possible at a later date.

The rest of mining (metallic mineral products and mineral products for industrial uses and construction) grew by around 15 per cent, especially in response to an increase in materials for

/construction. During

construction. During the year the work of iron-mining in Sierra Grande continued and there is a proposal aimed at opening up the manganese, gold and silver deposits in Aguas del Dionisio, and the copper deposits in Pachón, for production.

A scheme to promote mining was also brought into existence, mainly to assist in prospection and exploration, with the State bearing part of the commercial risk.

(c) Manufacturing

Manufacturing grew at a rate of 6.8 per cent, similar to that of the last five years, but its proportional share in the growth of the gross domestic product was distinctly smaller than was the case traditionally.

As has already been said, this growth was the result of a greater use of installed capacity rather than of any increase in this capacity. Exports played an important role in a wide range of industrial activities. Lastly, an additional feature of the 1974 growth, in contrasts to past experience, was the dynamism of the industrial sectors producing non-durable consumer goods.

As a whole, the sectors producing foodstuffs and textiles, grew more than industry on average. Of the industrial sectors, it was the textile sector which showed most growth, and exceeded the targed of the Three-Year Plan; this was mainly as a result of the increase in the purchasing power of the wage earners, while the increase in exports of some products was also of influence, although to a lesser extent (see table 5).

The activities which had been most dynamic in previous periods evolved at relatively slower rates. The chemical industries grew by 6.9 per cent and experienced some difficulties with supplies of inputs although these problems tended to be rectified towards the end of the year. In the middle of the year the Petroquímica General Mosconi plant came into production, for the production of basic aromatic hydrocarbons.

/Table 5

Table 5

ARGENTINA: VOLUME OF INDUSTRIAL OUTPUT

(Annual growth rate)

Item	Quarters 1974				Year		
	I	II	III	IV	1972	1973	1974
Total Manufacturing	3.8	7.3	6.5	9.0	6.8	6.8	6.8
Food, beverages and tobacco	4.7	6.4	3.6	5.3	4.7	4.2	5.0
Textiles, clothing and leather industry	9.6	10.4	12.3	12.2	4.8	6.2	11.2
Wood and wood products, including furniture	-0.1	1.2	11.9	4.6	-2.6	-2.0	4.5
Paper and paper products, printing and publishing	3.8	7.4	10.0	15.0	-0.7	-0.7	9.2
Chemicals and chemical products, products of petroleum and coal, rubber products and plastics	3.5	7.4	8.1	7.8	2.7	1.6	6.9
Non-metallic mineral products, except products of petroleum and coal	-2.3	4.6	6.7	8.2	4.7	0.3	4.6
Basic metal industries	9.1	5.7	7.4	11.7	5.5	4.0	8.6
Metal products, machinery and equipment	2.2	8.3	4.9	10.1	15.1	14.3	6.6
Other manufacturing industries	-2.6	-1.2	1.9	2.1	-6.1	1.0	0.1

Source: 1972-1973, Central Bank of Argentina; first, second and third quarters of 1974, preliminary data supplied by the Central Bank; fourth quarter and total for 1974, estimates based on preliminary data supplied by the Central Bank.

/The basic

The basic metal industries grew by 8.6 per cent. Production of pig-iron increased by 33 per cent as a result of the opening of the new SOMISA blast furnace, despite some difficulties in external supplies of coal. The expansion of this plant also contributed to a major extent to the growth of steel production, which reached 2.3 million tons (9.2 per cent more than the previous year) and covered around 56 per cent of national consumption. This increase in output in the basic stages of the steel-making process was not reflected in the production of rolled-steel products, which dropped by 2.5 per cent, owing principally to difficulties in supplies of scrap for the semi-integrated steel mills and of semi-processed products for re-rolling.

It should be mentioned that in view of the relatively low level of integration in the steel industry, the substantial growth of pig-iron production did not lead to a further expansion of the sector. It is hoped to achieve self-supply in steel around 1980, on the basis of the expansion of SOMISA, the integration of some private mills (to date two projects which will use the direct reduction process to supply sponge iron to the electric steel mills have been approved) and the establishment of new integrated mills, a study of which was carried out in 1974.

The aluminium-producing plant of Puerto Madryn came into operation, and will enable self-supply of this metal to be achieved in a few years' time.

The industries producing metal goods, machinery and equipment grew by 6.6 per cent. Car production, including non-assembled units for export, increased by around 4.5 per cent, while the production of commercial vehicles remained at a standstill. As regards the destination of output, sales to the local market decreased by 6.8 per cent for cars and increased by only 1.3 per cent for commercial vehicles; but at the same time 7,000 completed cars were exported, 8,200 commercial vehicles and 36,000 non-assembled

/units. Tractor

units. Tractor production increased by 15 per cent, with sales of 20,650 units on the local market (an increase of 10 per cent), while 4,200 units were destined for export (54.4 per cent) (see table 6).

(d) Construction

Private construction increased by around 18 per cent, while the number of building permits in Greater Buenos Aires and the main cities in the interior increased by around 35 per cent (it should be recalled that 1973 was a year of a low level of activity in construction). This growth was boosted by state action, in the form of low-cost housing plans implemented by the Housing Secretariat of the Ministry of Social Welfare, and increased finance channelled through the Banco Hipotecario Nacional and the commercial banks.

Demand for housing for the medium- and high-income groups increased sharply as from the middle of the year. This may be attributed in part to placements of funds as a means of protection against inflation and the channelling of profits obtained outside the price controls. These circumstances caused a sizeable increase in real estate prices, and the absorption of unsold units accumulated in earlier period; they also provided an incentive to completing work already begun and the initiation of new construction work, despite some problems of supply.

/Table 6

Table 6

ARGENTINA: INDICATORS OF SOME ACTIVITIES

Item	1970	1971	1972	1973	1974a/	Growth rate 1974
1. Motor vehicles (thousands of units) b/	168.0	193.4	207.6	233.7	244.6	4.7
2. Commercial vehicles (thousands of units) b/	51.6	60.3	70.6	77.9	77.7	-0.3
3. Tractors (thousands of units)	11.0	13.8	15.4	21.3	24.6	15.3
4. Pig iron (thousands of tons)	810.0	861.0	849.0	804.0	1 069.0	33.0
5. Steel (thousands of tons)	1 823.0	1 915.0	2 105.0	2 155.0	2 354.0	9.2
6. Rolled products (thousands of tons)	2 242.0	2 514.0	2 712.0	2 981.0	2 907.0	-2.5
7. Petroleum (thousands of m^3)	22 798.0	24 565.0	25 194.0	24 260.0	23 860.0	-1.6
8. Cement depots (thousands of tons)	4 743.0	5 515.0	5 398.0	5 195.0	5 454.0	5.0
9. Surface area for new construction permits in main cities (thousands of m^2)	13 131.0	11 140.0	9 503.0	9 293.0	12 358.0	33.0
10. Electricity (thousands of Mwh) c/	21 727.0	23 624.0	25 319.0	26 638.0	27 893.0	4.7

Source: 1 and 2: Secretaría de Estado de Desarrollo Industrial; 3: Asociación de Fábricas Argentinas de Tractores; 4, 5 and 6: Centro de Industriales Siderúrgicos; 7 and 10: Secretaría de Estado de Energía; 8: Asociación de Fabricantes de Cemento Portland; 9: National Institute of Statistics and Censuses.

a/ Provisional figures.
b/ Including non-assembled units.
c/ Including self-supply.

/(e) Energy

(e) Energy

The generation of electrical energy increased at a rate of 4.7 per cent during 1974 as a result of increased production by the public service power stations, which offset the drop in self-supply. Generally speaking, energy policy is aimed at a gradual replacement of petroleum by coal, natural gas and hydroelectric and nuclear energy.

In 1974 the nuclear power station of Atucha came into operation and a project for the construction of a new plant in Río Tercero (Córdoba) is in progress. Progress was made in putting El Chocón into operation, and work is being carried out on the Salto Grande dam (in conjunction with Uruguay). The construction of the Futaleufú dam, which will supply energy to the aluminium plant at Puerto Madryn, was delayed.

Several large-scale hydroelectric projects are at present under study, and should come into operation during the 1980s. Progress was made in studies for the Yaciretá-Apipé dam, which will be built by Argentina in conjuction with Paraguay, while it is hoped to begin work on the Alicopá complex, in the Comahue area, in the near future. A study will also be made of the possibility of making use of the middle reaches of the Paraná, and priority will be given to this project.

4. The external sector

The evolution of the external sector during 1974 showed surpluses of 850 million dollars in the trade balance and 260 million in the current account. At the end of the year reserves covered five months of imports. The outstanding features were the large increases in import prices, especially fuels, the decrease in the volume of exports of meat, and the notable increase in the volume and price of exports of cereals and industrial products.

/(a) Exports

(a) Exports

The value of exports of goods amounted to 4,010 million dollars, i.e., an increase of 23 per cent compared with 1973 and of 73 per cent compared with the average for the last three years.

Exports of meat and meat products were substantially affected by the restrictions imposed by the European Economic Community. The 450 million dollars' worth of exports in 1973 represented a decrease of 43 per cent compared with the previous year and a drop from 24 per cent to 11 per cent in their share of total exports of goods. In addition, in the course of the year there was a drop in the average price of exports of meat, which decreased from 1,318 dollars per ton of meat including bones in January to 825 dollars in December, although the year's average remained above 1973 levels.

Wool exports dropped by 43 per cent, as a result of the decrease in the demand of Japan and the European countries.

The decreases were more than offset by the notable growth of the value of exports of cereals and manufactures. Exports of cereals increased from 864 million dollars' worth in 1973 to 1,440 million dollars' worth (an increase of 67 per cent), with the highest volume of the last 15 years despite the drop in exports of wheat. More than half these exports consisted of maize while sorghum reached its highest figure on record. This increase in volume was complemented by a significant improvement in selling prices (see table 7).

Together with cereals, the value of other products of agricultural origin also increased by more than 50 per cent. Notable examples are fats and oils, with 260 million dollars' worth (an increase of 90 per cent), thanks to better international prices, and despite a drop in volume. Exports of sugar amounted to 200 million dollars' worth and exports of fruit were worth 100 million dollars.

/Table 7

Table 7

ARGENTINA: VALUE OF EXPORTS

(Millions of dollars at current prices)

Item	1970	1971	1972	1973	1974a/
Meat and offal	441	416	691	790	450
Cereals	509	534	339	864	1 440
Hides and skins	97	70	120	121	100
Wool, hair and horsehair	87	72	89	194	110
Other agricultural products	383	395	378	650	1 020
Non-agriculture based industrial products	256	253	324	647	890
Total	1 773	1 740	1 941	3 266	4 010

Source: National Institute of Statistics and Censuses.

a/ Provisional figures.

/Another important

Another important event was the increase of 30 per cent in exports of manufactured products of non-agricultural origin, which came to account for 22 per cent of total exports of goods. Exports include sales of machinery and vehicles, which amounted to around 350 million dollars (with an increase of around 55 per cent in value and 30 per cent in volume compared with 1973). Steel exports were worth 140 million dollars (an increase of 17 per cent) while chemical products amounted to 150 million dollars (50 per cent more than 1973). The magnitude of these exports was not only the result of higher international prices but of a growth in volume. This result was affected by the tax and credit incentives policy, and the bringing of Argentinian industries into line with international requirements.

(b) Imports

The value of imports of goods was 3,160 million dollars, i.e., an increase of 60 per cent compared with the previous year.

The item which showed most growth was fuels, the value of which increased from 172 million dollars in 1973 to 520 million in 1974 on account of increases in international prices, thus accounting for 15 per cent of the total.

Imports of intermediate and consumer goods increased by 58 per cent. Of these, imports of metal products increased by 35 per cent, calculated in dollars at current prices, mainly on account of the price increase, since up to the end of the year there were some problems of supply. Purchases of raw materials for the chemical industry amounted to 470 million dollars, with a large-scale increase in prices.

Imports of capital goods were worth 500 million dollars, i.e., an increase of 11 per cent compared with the previous year; their share in the total, however, dropped from 20 to 14 per cent.

(c) Balance of payments

The surplus in the trade balance was 850 million dollars (equivalent to 707 million SDRs), but it tended to decrease in the second half of the year owing to the sharp increase in the value of imports (see table 8).

/Table 8

Table 8

ARGENTINA: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974a/
Current account					
Exports of goods and services	2 198.0	2 197.0	2 210.0	3 168.7	3 986.1
Goods FOB	1 773.0	1 740.0	1 788.0	2 707.0	3 334.2
Services	425.0	457.0	422.0	461.7	651.9
Transport	215.0	220.0	204.0	251.2	362.5
Travel	74.0	92.0	73.0	72.1	91.5
Imports of goods and services	2 131.0	2 327.0	2 104.0	2 258.4	3 480.7
Goods FOB	1 474.0	1 625.0	1 526.0	1 640.0	2 627.5
Services	657.0	702.0	578.0	615.0	853.2
Transport	352.0	393.0	346.0	364.7	569.6
Travel	130.0	113.0	72.0	70.5	86.5
Net external investment income	-223.0	-256.0	-307.0	-326.5	-292.6
Profits	-70.0	-46.0	-56.0	-64.6	-36.5
Interest	-153.0	-210.0	-251.0	-261.9	-256.1
Net private transfer payments	-1.0	-1.0	-1.0	9.1	1.7
Balance on current account	-157.0	-387.0	-202.0	592.9	214.5
Capital account					
Net external financing (a+b+c+d+e)	157.0	387.0	202.0	-592.9	-214.5
(a) Net external non-compensatory capital	463.0	-203.0	-36.0	-37.0	
Direct investment	11.0	11.0	9.0	8.0	
Long- and medium-term loans	487.0	557.0	346.0	405.0	
Amortization payments	-259.0	-360.0	-317.0	-444.0	
Short-term liabilities	226.0	-409.0	-71.0	-12.0	151.5
Official transfer payments	-2.0	-2.0	-3.0	6.0	
(b) Domestic non-compensatory capital or assets	-91.0	-21.0	59.0	-76.0	
(c) Errors and omissions	6.0	25.0	7.0	66.1	
(d) Allocations of SDR units	59.0	47.0	47.0	-	-
(e) Net compensatory financing (increase -)	-280.0	539.0	125.0	-546.0	-63.0
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	-	141.0	325.0	157.0	...
Amortization payments	-120.0	-1.0	-5.0	-	-110.0
Movements of foreign exchange reserves (increase -)	-84.0	272.0	-240.0	-654.0	64.0
Movements of gold reserves (increase -)	-17.0	70.0	60.0	-	-
SDR units (increase -)	-59.0	57.0	-15.0	-49.0	-17.0

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

a/ Estimates based on official statistics.

/Real services

Real services were in deficit by around 200 million SDRs, i.e., an increase compared with the previous year, due mainly to increases in freights. The deficit in financial services was 293 million SDRs (this figure was 327 million the previous year). This result was affected by the decrease in the amounts of remittances of profits and dividends abroad and the slight drop in net payments of interest.

As a result of this, the balance of the current account showed a surplus of 215 million SDRs, basically as a result of the favourable trend in the first months of the year.

Non-compensatory capital movements recorded a net outflow of 152 million SDRs, among other factors, in the form of payments to finance imports and amortization payments on private sector loans.

All in all, the balance of payments before compensation showed a surplus of 63 million SDRs, which became a net decrease of 110 million SDRs in the compensatory debt situation (repurchase of pesos from the International Monetary Fund and amortization payments on loans from banks abroad) and other items. International reserves showed a deficit to a value of 47 million SDRs, and at the end of the year totalled 1,170 million SDRs, which finances around five months of imports.

(d) Policy for the external sector

(i) Exchange rate. An important element in prices and incomes policy during 1974 was the maintenance of the exchange rate for commercial transactions at 5 pesos per dollar and at 9.98 pesos per dollar for financial operations.

At the same time, various mechanisms were employed to bring about gradual changes in the exchange rates actually used by exporters with a view to maintaining competitiveness. For this purpose, the settlement of some transactions was transferred totally or partially from the commercial to the financial market, or tax incentives, such as the refund of locally-paid taxes, were granted.

/In the

In the case of agricultural exports, the public sector centralization of exports of the most important cereals assisted in separating international prices from those of the local market, thus eliminating the possible inflationary effect.

The curb on exchange rates from mid-1973 was aided in a first stage by the deceleration of local prices, while international prices became increasingly steadier.

These circumstances changed in the course of the year as growing domestic costs and the weakening of international prices became unable to maintain their mutual balance through the medium of the exchange - fiscal machinery. Towards the end of the year, therefore, growing pressures emerged to modify the exchange rate.

(ii) Trade agreements. Lines of credit were granted to various Latin American countries in order to finance their imports of products of Argentinian origin. The agreement signed with Cuba, was the most important because of its magnitude (1,200 million dollars in six years), and because of the high value added of the products negotiated (motor vehicles, agricultural machinery, transport materials, machines, engines, etc.).

The economic co-operation agreement with Uruguay brought in some innovations. It established the drawing up of complementarity agreements, the installation of bi-national enterprises and the gradual liberalization of trade.

Various agreements were also signed with countries of the socialist bloc, aimed at diversifying exports and increasing the volume of trade, participating in the installation, modernization and expansion of factories, and exchanging patents, licences, and technical procedures. They allowed for payment in freely convertible currencies with a repayment period of ten years for purchases by Argentina.

5. Public sector

During 1974, the public sector increased the area of its direct work and control of the national economy.

/As regards

As regards the current income and expenditure of National Government, as in 1973, the accounts of the National Treasury showed a deficit. During 1973, 36 per cent of the current expenditure paid by the national Treasury was not financed by current income; and in 1974 this percentage increased to 38 per cent (see table 9).

The sum of public investment finance requirements, capital transfers and extra-budgetary expenditure gives an approximately deficit for 1974 of 30,000 million pesos, which is 53 per cent higher than that recorded the previous year. As a percentage of the gross domestic product it increased compared with the previous year, and remained at a high level (6 per cent).

The net tapping of credit resources by marketing securities in the capital markets gave a surplus of nearly 2.9 thousand million pesos in 1974, basically on account of the increased acceptance of bonds issued in foreign currency or readjustable bonds.

The final deficit of the Treasury year was 27.4 thousand million pesos, 43 per cent up on the previous year. This was in spite of the considerable increase recorded in the collection of tax revenue (64 per cent) and above all reflects the large increase in public expenditure as a result of increased purchases of goods and services (personal and non-personal) by the central administration and by increased financial contributions to the provinces and public enterprises.

Practically all the financing of the imbalance was charged to Central Bank credit or was covered by available funds deposited in bank accounts on behalf of State agencies.

The effect of this deficit on the creation of money was greater in the second half of the year, because the absolute volume of the deficit was substantially greater, and also because the Central Bank took a larger share in financing it (88 per cent compared with 78 per cent).

/Table 9

Table 9

ARGENTINA: CENTRAL GOVERNMENT MOVEMENTS OF TREASURY FUNDS

(Millions of pesos)

Item	1970	1971	1972	1973	1974
Current resources	7 019	8 649	13 667	20 183	30 504
Budget income	6 802	8 589	13 508	19 389	29 537
Tax income	6 059	7 532	11 111	16 791	27 514
Direct taxes	2 328	2 267	2 884	4 027	7 073
Indirect taxes	2 291	3 200	4 203	6 709	12 274
Taxes on external trade	1 440	2 065	4 024	6 055	8 167
Non-tax income	743	1 057	2 397	2 598	2 023
Extra budgetary income	217	60	159	793	967
Expenditure	7 986	11 836	19 004	39 961	60 796
Budget expenditure	7 684	11 396	18 320	38 256	56 413
Current expenditure	5 883	8 947	14 074	31 467	48 967
Personal services	3 153	4 033	6 080	13 067	18 501
Transfers	1 892	3 494	5 613	14 416	23 555
Others	838	1 420	2 381	3 984	6 911
Capital expenditure a/	1 801	2 449	4 246	6 789	7 446
Substantive investment	542	781	1 511	1 890	2 283
Transfers	550	692	1 053	1 969	1 921
Others	709	976	1 682	2 930	3 242
Extra-budgetary expenditure	302	440	684	1 705	4 383
Financial results	-967	-3 187	-5 337	-19 778	-30 292
Net capital movements	374	586	582	633	2 885
Placement public debt	837	1 318	2 425	4 785	7 055
Amortization public debt	-463	-732	-1 843	-4 152	-4 170
Treasury imbalance	-593	-2 601	-4 755	-19 145	-27 407
Financing	593	2 601	4 755	19 145	27 407
Central Bank of Argentina	502	2 495	3 346	14 892	24 092
Consolidated fund of official current accounts	161	86	1 149	2 788	3 670
Other short-term operations	-70	20	260	1 765	-355

Source: Ministry of the Economy.

a/ Excluding public debt amortization payments.

/The increase

The increase in tax resources was basically due to the increased collection of tax revenue on domestic activity (80 per cent), since taxes on external trade only increased by 35 per cent. Of the taxes on domestic activity, direct taxes increased by 76 per cent, and indirect taxes by 83 per cent; of these, those which increased most were fuels and sales taxes.

As regards taxes on external trade, tax revenue from imports increased, and that from exports decreased by 7.6 per cent, owing to the drop in the duties paid.

The current expenditure of the Treasury increased by 55 per cent mainly as a result of increased transfers to the provinces and State enterprises, while payments for the operational costs of the Central Administration increased by 40 per cent. This expenditure reflects on the one hand the difficulties experienced by the provinces in coping with wage increases using their own tax resources and on the other the increase in the income levels of Central Administration wage-workers and employees, with the 13 per cent wage increase in April, the special half month's salary at the end of June and the 15 per cent increase in November.

The increase in the deficit and the need to control its effect on domestic prices gave rise to an austerity plan during the last quarter, which froze vacancies in administration and cut down on expenditure. The budget for 1975 reduces transfers to the provinces and public enterprises and transforms them to a large extent into effectively refundable loans.

Capital expenditure payments by the Treasury showed an increase of only 9.5 per cent at current prices, indicating a large drop in constant values, which was still more pronounced in transfers to the provinces, and to State enterprises and agencies.

/6. Money

6. Money and credit

As from June 1973 liquidity began to increase (expressed as the ratio of the means of payment or the total monetary supply of private persons to the product), and this process became more pronounced towards the end of the year, increasing the effect of the seasonal variation typical of this period.

During 1974 the quantity of monetary resources expressed in real terms continued to grow. Between the end of December 1973 and December 1974 the means of payment of private persons increased by 55.2 per cent, while the cost of living index rose 40.1 per cent and wholesale prices increased by 36.7 per cent. The average liquidity coefficient for the year probably exceeded the 1973 coefficient by around 40 per cent.

As from the second half of 1973 up to mid-1974 the role of the external sector in the creation of means of payment was extremely important; during this period there was a substantial increase in international reserves and in other net assets with the exterior.

Latterly, during the seond half of 1974 there was a gradual decline in reserves, which came to constitute a factor of contraction. At the same time, the growth rate of credit to domestic sectors increased (see table 10).

Credit to the private and public sectors increased by 50.4 per cent, with slowly increasing monthly rates; however, radical changes occurred in the relative importance of the two sectors. On average, the public sector received 43 per cent of the increase in the balances of net domestic credit (37 per cent in 1973); its share was larger in the first and last quarters.

Parallel with the change in the final destination of credit, which was associated with the deficit situation of the national and provincial governments and of some public enterprises, a substantial change took place in the channelling of credit within the private sector as a result of the law nationalizing bank deposits, in force as from October 1973 for the commercial banks and as from February 1974 for other financial bodies.

/Table 10

Table 10

ARGENTINA: ORIGIN AND DESTINATION OF MEANS OF PAYMENT

(Balances at end of period, in millions of pesos)

Item	1973				1974			
	March	June	September	December	March	June	September	December
Means of payment	32 098	38 847	44 984	56 221	58 055	66 791	73 894	87 261
Cash	13 395	16 400	18 901	26 406	24 307	28 298	32 191	42 162
Current account deposits	18 703	22 447	26 083	29 815	33 748	38 493	41 703	45 099
Net assets in other financial bodies	1 931	2 211	8 172	384	61	233	1 933	...
Factors of expansion	58 817	70 281	81 668	98 286	108 512	122 754	131 936	146 338
External sector	3 522	4 694	7 545	8 486	10 066	14 569	12 163	11 278
Domestic credit	55 295	65 587	74 123	89 800	98 446	108 185	119 773	135 060
Public sector	13 532	17 485	19 471	26 725	31 322	34 672	37 509	46 194
Private sector	41 763	48 102	54 652	63 075	67 124	73 513	82 264	88 866
Factors of contraction	28 650	33 645	44 856	42 449	50 518	56 896	59 975	61 010
Deposits with little mobility	21 999	25 730	29 809	35 778	42 048	48 247	52 078	55 414
Others	6 651	7 915	15 047	6 671	8 470	8 649	7 897	5 596

Source: Central Bank of Argentina.

/The main

The main features of this system are: (a) the commercial banks and other financial institutions affected receive deposits by the public on behlaf of and by order of the Central Bank, and thus, lack authority to dispose of the resources attracted, since they cannot use them for active operations without authorization from the Central Bank; (b) funds for loans come entirely from rediscounts granted by the Central Bank; and (c) the Central Bank fixes the interest rates; it is responsible for the interest paid and the banks and other entities of the system receive a commission for their role as agents.

A year after the introduction of the system, some results may already be seen. There has been a considerable increase in the importance of rediscounts with specific destinations, and this made it possible to increase the selectivity of total credit.

In addition, the resources channelled towards the official banks increased. Since the date on which the system came into force, more than 70 per cent of the increase in the portfolio of bank loans was accounted for by official banks, which during this period probably tapped over 60 per cent of the increase in the deposits. Consequently, the loans deposits ratio deteriorated for both national and foreign private banks.

The increase in the share of the official banks in total loans reflects the incentive policy to industry and housing through the National Development Bank and the Banco Hipotecario Nacional. Between October 1973 and October 1974, National Development Bank loans increased by 75 per cent and those of the Banco Hipotecario by 125 per cent.

The official banks as a whole gave increased importance to specific credit for investment and thus gave less priority to credit for financing commercial drawing by the enterprises.

In September an increase was decreed in the interest rate which had been decreased in June 1973, and the selective interest-rate differentials established at that time were abolished. This was due to the fact that rates of interest had become markedly negative owing to the growth of prices.

/In the

In the last quarter of the year, the lower level of liquidity and the lack of incentive for fixed-term deposits (the rate of which was negative), created conditions for the growth of money markets with less rigid rates - an acceptance market, for example. There was thus a re-emergence to some extent of a financial system outside the banking system.

7. Prices, wages, income distribution and employment

(a) Prices

During 1974, the annual average wholesale prices increased by 20 per cent and consumer prices by 24 per cent. These increases are relatively moderate, compared with the experience of earlier periods (see table 11).

Despite the average increase of 24 per cent in the consumer price index, the food component increased by 15 per cent, mainly as a result of the restriction on the price of meat, which meant that the increases did not come down so heavily on the lowest income groups; this is an approximation, however, since transactions at higher prices than those recorded would appear to have taken place, as well as changes in the quality and specifications of some products, the effects of which on real prices are difficult to quantify.

The average increase of 20 per cent in wholesale prices was a result of the growth of 11 per cent in agricultural prices, 24 per cent in domestic non-agricultural prices and 37 per cent in imported goods. Meanwhile, the cost of construction estimated at average values grew by 35 per cent.

An accelerated evolution of prices during the year may be observed as from April. Indeed, the consumer price index, whose average growth rate fluctuated around 1.5 per cent during the period January-March, showed monthly variations of more than 2.5 per cent as from April and a maximum of 5.2 per cent in December. Consequently, there was an increase of 40 per cent between the months of December 1973 and December 1974.

/Table 11

Table 11

ARGENTINA: EVOLUTION OF DOMESTIC PRICES

(Annual growth rate)

Item	1970	1971	1972	1973	1974
Consumer prices					
General level					
Average	13.6	34.7	58.5	60.3	24.2
Annual variation a/	21.7	39.1	64.1	43.8	40.1
Food					
Average	16.5	41.7	63.1	55.2	15.1
Annual variation a/	29.1	42.4	66.0	36.1	33.2
Wholesale prices					
Average	14.1	39.5	77.0	50.0	20.2
Annual variation a/	26.8	48.2	76.0	30.8	36.7
Cost of construction					
Annual average	11.9	30.9	54.3	72.2	34.7
Annual variation a/	13.3	42.7	58.5	61.3	55.5

Source: National Institute of Statistics and Censuses.

a/ December, compared with the same month of the previous year.

/Wholesale prices

Wholesale prices developed along lines similar to consumer prices, since their monthly rate of growth during the period January-March was less than 0.5 per cent, but remained above 2.5 per cent over the next period, and rose rather more steply at the end of the year.

Agricultural prices increased in all four quarters more slowly than prices of national and imported non-agricultural products; in the last quarter the increase in prices of local non-agricultural products was far greater than that of imported products, and thus came up to the level of the annual growth rate.

During 1973, the inflationary process slowed down as the year advanced; the annual average increase in prices was greater than the actual increase between the beginning and the end of the year. In 1974, however, the reverse occurred.

The factors of inflation were different from those of recent years. The exchange rate, meat prices and public service tariffs increased more slowly than the general level of prices and moderated the rise in prices, unlike the role which they had played in earlier periods when they had boosted the increases. This was in response to the policy of redistribution applied by the Government and was aided by the situation of the livestock cycle, the favourable evolution of the external sector as far as exports were concerned, and fiscal policy.

The price policy was based on a price freeze as from June 1973 and on generalized control, and paralleled a wage agreement reached between the State and the workers' and entrepreneurial organizations. The Acta de Compromiso Nacional of 30 May 1973 laid down the amount of the wage increases, and the general lines of the income policies; from its introduction up to December 1973 prices were almost completely stabilized in contrast to the large-scale growth of the previous period.

As from the end of 1973, however, tensions had began to gather round this stabilization scheme. Increases in domestic demand and pressures on costs (mainly as a result of increased international prices), together with difficulties in the supply of some imported

/inputs, boosted

inputs, boosted price increases against the background of a strict freeze. Between June 1973 and March 1974, the wholesale price index of imported goods increased by 13 per cent in a situation in which the price index of domestic goods increased by less than 2 per cent and the index of national non-agricultural products by less than 1 per cent. In the circumstances, the strict freeze worked efficiently up to the beginning of 1974. In April, demands for wage increases materialized; they were a result of the fact that conditions of supply and demand had allowed some deviations as regards the frozen prices, and of social and political desire not to stop the process of income redistribution. Authorization was thus given to transfer to prices part of the new wages and the higher cost of imported goods. However, most industrial entrepreneurs maintained that their rate of returns had decreased or had disappeared, and that increasingly large gaps were beginning to appear in the official price control and in supply. At the same time, the tendency towards inflexibility in supply for the domestic market became more pronounced, as a result of the progressive absorption of the idle capacity, difficulties in the external supply of some inputs, certain speculative practices, and exports of a part of industrial output.

In the last few months, a more flexible scheme was adopted for the price policy. Without totally abandoning the price control, an attempt was made to seek a new balance in relative prices, although at a higher level.

These measures could eventually become part of an incomes policy aimed at providing an incentive to investment, eliminating the negative rate of returns declared by a series of enterprises and re-establishing the normal functioning of the marketing circuits.

(b) Wages

On the basis of the priority given to the growth of real wages, three general salary increases were granted in 1974, covering all wage-earners, in the public and private sectors. The April increase consisted of 13 per cent of the wage and could not, in addition, be less than 240 pesos; in June, an additional payment of half a month's

/wage or

wage or salary was decided upon; and in November, wages were readjusted by 15 per cent, with a minimum of 300 pesos. According to the policy of redistribution being followed, these increases aimed at a bigger improvement in the situation of the lowest-level wage earners; this was why a fixed minimum was laid down for the increase.

The growth objective for real wages would appear to have been achieved, since the average increases were 9.4 per cent for the basic wage agreed upon for unskilled workers and 5.9 for skilled workers.

In the case of workers with families, the difference was greater, since the family wage showed a larger increase in the lower-income groups than the basic wage. In addition, and partly as a result of the lower unemployment index, the wages actually paid in some sectors would appear to have increased more than was established in the general wage increases.

If instead of annual averages the months of December 1973 to December 1974 are taken as reference periods, smaller increases in real wages may be observed and a standstill in the case of the skilled worker without dependents. This was due to price increases in the last part of the year (see table 12). Since this process became more accentuated during the month of January 1975 the Gran Paritaria Nacional (trade union association of employers and workers) State representatives and representatives of workers' and entrepreneurial organizations, was convened in February to agree on the necessary readjustments to compensate for the deterioration in real wages since the last increase.

During 1974 the Labour Contract law was ratified, and laid down important improvements not connected with wages. Among other benefits, this law makes arrangements for more special leave (for births, marriage, etc.), and extends vacation periods; it increases the amounts of indemnities for dismissal and establishes a more favourable system for sick leave; it sets new norms for the work of women and establishes access to the enterprise's book-keeping system by wage-workers who receive commissions.

/Table 12

Table 12

ARGENTINA: EVOLUTION OF INDUSTRIAL WAGES a/

(Annual growth rate)

Item	1970	1971	1972	1973	1974
Nominal monthly average wage b/					
Skilled worker	15.6	36.4	44.9	72.1	31.4
Unskilled worker	17.8	37.9	46.4	74.6	35.8
Real monthly average wage c/					
Skilled worker	1.8	1.3	-8.5	7.4	5.8
Unskilled worker	3.7	2.3	-7.6	8.9	9.3
Nominal wage (December)					
Skilled worker	13.9	43.4	48.1	65.1	38.2
Unskilled worker	14.8	45.7	48.1	69.0	44.4
Real wage (December)					
Skilled worker	-6.5	3.1	-9.8	14.9	-1.4
Unskilled worker	-5.7	4.7	-9.8	17.5	3.1

Source: National Institute of Statistics and Censuses.

a/ Basic wages fixed by agreement in the Federal Capital.

b/ Sum of monthly wages and bonuses in the year (base 1960 = 100), divided by 13.

c/ Nominal monthly income deflated by consumer price index. Year's average.

/(c) Distribution

(c) Distribution of income and employment

The target of the Three-Year Plan for 1974 was that the share of wage-earners in income should increase to 43.8 per cent compared with a percentage of 42.5 per cent in 1973. These figures are part of a progression which would bring the share of wage-earners up to 47.7 per cent in 1977, similar to that attained in 1955, during the second presidential period of General Perón. According to estimates by the Ministry of the Economy, the 1974 objectives was surpassed during the year.

In addition to the redistribution among wage-earners and non-wage-earners, transfers of income within each social sector took place during 1974. Of the wage-earners, the lowest income sector benefited most, in view of the non-proportional method used for granting the increases. Consumption of foodstuffs, prices of which increased less than the average, is of more importance in these groups; and on the other hand, social benefits became cheaper (medical attention, social tourism, etc.) and the purchase of low-cost dwellings was subsidized.

On the other hand, the high-income groups, both wage-earners and non-wage-earners, suffered - particularly towards the end of the year - from the sharp increase in prices of some goods which form part of their normal consumption (non-frozen rents, prices and costs of vehicle maintenance, expenditure on recreation and summer vacations, etc.) since the price controls were less strict for the goods making up the "family basket".

As from April 1973, the unemployment rate underwent a steady decrease, reaching a rate of 2.4 per cent in October 1974 in the Federal Capital and Greater Buenos Aires. This is the lowest percentage on record since this information has been compiled (July 1963). In the cities of the interior, unemployment rates were also less than in previous periods.

BARBADOS

1. Some features of economic trends in 1974

The sharp rise in domestic prices, which increased by 39 per cent, the increase of 49 per cent in the value of goods exported, resulting from high international prices, mainly in respect of sugar, for volume fell by 15 per cent, import restrictions which affected the supply of raw materials and intermediate goods for agriculture and industry, and the drop of 12 per cent in the sugar cane harvest, were the most outstanding events which influenced economic trends in 1974.

In these circumstances, the estimates made on the basis of the limited information available indicate that during the year overall production had fallen. The majority of economic activities, with the exception of tourism, show reduced growth rates, or in the best of cases, maintained their 1974 levels of production. Calculated at current prices it is estimated that there was an increase of 23 per cent in the gross domestic product. (See table 1.)

As regards the inflationary process, the rate of increase of domestic prices has been rising since 1972. This rate rose from 11.8 per cent in 1972 to 16.3 per cent in 1973, and to 38.9 per cent in 1974. In 1974, increases were higher for household operations and furnishings (56 per cent) and foodstuffs and beverages (44 per cent), and occured mainly during the early part of the year.

The increase in domestic prices was closely related to the increase in the prices of imported products, mainly foodstuffs, whose share in the composition of consumption is high. In addition, they had some influence on the increases in wages, which helped to push domestic costs upwards and to increase demand pressure on production which proved to be inelastic.

/Table 1

Table 1

BARBADOS: GROSS DOMESTIC PRODUCT

(At factor cost)

Sector	Millions of Barbados dollars				Growth rates (percentages)		
	1970a/	1972a/	1973b/	1974b/	1972	1973b/	1974b/
Sugar	27.1	27.6	28.2	43.4	15.0	2.2	53.9
Domestic agriculture	13.2	16.6	...	...	18.6	...	...
Manufacturing	31.4	43.6	...	...	17.8	...	...
Construction	27.5	29.0	...	...	2.8	...	...
Distribution	71.2	84.0	105.2	134.1	7.4	25.2	27.5
Government	42.7	54.9	69.8	80.7	16.1	27.1	15.6
Transport and Public Utilities	20.9	27.6	...	...	15.0	...	...
Ownership of dwellings	11.1	13.4	...	...	9.8	...	...
Services	44.8	60.0	...	...	6.0	...	...
Total	289.9	356.7	420.0	516.0	11.0	17.7	22.9

Source: Economic Planning Unit, Barbados, Economic Survey (several issues).

a/ provisional.

b/ ECLA preliminary estimates.

/2. The

2. The performance of selected sectors

The sugar industry represents approximately 8 per cent of total production, whereas the contribution of agriculture for domestic consumption falls below this figure. In 1974 the sugar cane harvest fell by 12 per cent, as a result of poor rainfall during the growing stage of the cane, and the lack of manpower during the reaping stage. However, since the unit yield of sugar increased during the year, the drop in sugar production was just about 2 per cent.

As regards the other agricultural products for which information is available, a general drop was observed in production, the production of yams and potatoes falling by 34 and 22 per cent respectively. Only in the production of poultry and milk was there some increase.

Tourism plays an important role in the economic activity of the country. In addition to the income it generates, which is higher than that received from the export of goods, it provides a large number of jobs and stimulates the development of other productive activities.

Information available for the period January to September, compared with that for the same period for the previous year, shows an increase of 6.5 per cent in the number of persons visiting the country. In this respect, the balance of payments for 1974 recorded an increase of 20 per cent in the inflow of foreign exchange as a result of tourist expenditure in the country, reflecting, in part, the increases in prices which occurred in that year.

As far as the value added by the Government sector is concerned, it is estimated that at current prices its growth rate was much lower than that of the total gross product in 1974, which indicates a marked deterioration in government activity. As at September, and comparing these figures with those for a same period in 1973, current expenditure had increased by 15 per cent whereas income, for the same period, rose by 9 per cent, thus increasing the current deficit. Furthermore, capital expenditure showed no major change compared with that of the previous year.

/Towards the

Towards the end of the year the Government increased the rates of some taxes and obtained external finance for infrastructure projects to stimulate the growth of production and provide jobs.

The situation of the other productive sectors does not appear to have been better than that reflected by the estimate of the overall product.

3. The external sector

In general, external transactions followed the pattern set by the movement of international prices. Higher prices for sugar and other export products meant an increase of 75 per cent in unit values and one of 49 per cent in the value of exports of goods. On the other hand, their quantum fell by 15 per cent.

Meanwhile imports increased at a lower rate, 24 per cent. During the year restrictions were introduced, as a result of which their volume fell by 6 per cent; however, their prices increased by a little more than 30 per cent.

On the basis of part-year data to August, with the exception of imports of fuels, the value of which tripled, and that of foodstuffs, which increased by approximately 70 per cent, there was no major change in the others, in spite of the considerable increase in prices, as the purchases of meat, machinery and equipment clearly show.

In respect of exports, the increases in the value of sugar exports and of its by-products, and in that of clothing exports were the most important, on account of the favourable price situation.

An important feature of the country's external trade flow was the shift in direction observed during 1974, both in respect of exports and imports. Trade with the United Kingdom, traditionally the major trading partner (33 per cent of exports, and 23 per cent of total imports in 1973) fell to second place after the United States. Trade with CARICOM also decreased in 1974, on the other hand trade with Latin America acquired some importance, particularly in respect of imports. These changes in trade flows were dictated by conjunctural factors and reflected the changes observed in sugar exports and in petroleum imports.

/In 1974,

In 1974, the current account of the balance of payments closed with a negative balance of SDR 48 million, a figure similar to that of previous years. Although the trade deficit decreased during the year, income from the travel account, (which exceeded that of exports of goods) did not increase as much as imports did, and this cancelled the effect that the improved performance of exports could have had. (See table 2.)

Meanwhile, net income from non-compensatory capital maintained the levels of recent years and international reserves showed no change.

/Table 2

Table 2

BARBADOS: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974a/
Current account					
Exports of goods and services	97.6	112.7	120.0	126.4	161.6
Goods FOB	35.2	32.0	34.1	38.9	58.2
Services	62.4	80.7	85.9	87.5	103.4
Transport	7.4	12.5	12.3	12.5	14.5
Travel	40.4	51.4	57.7	58.0	69.8
Imports of goods and services	141.3	147.5	158.0	169.5	208.3
Goods FOB	105.2	109.3	116.3	125.4	155.4
Services	36.1	38.2	41.7	44.1	52.9
Transport	17.4	18.9	19.9	23.0	28.4
Travel	3.5	4.2	4.4	5.1	6.2
Net external investment income	-3.2	-4.6	-6.1	-6.0	-6.9
Profits	-4.3	-5.0	-6.7	-6.6	-7.2
Interest	1.1	0.4	0.6	0.6	0.3
Net private transfer payments	4.4	4.3	4.3	5.0	5.5
Balance on current account	-42.5	-35.1	-39.8	-44.1	-48.1
Capital account					
Net external financing (a+b+c+d+e)	42.5	35.1	39.8	44.1	48.1
(a) Net external non-compensatory capital	24.6	29.1	23.6	35.1	
Direct investment	8.7	12.7	15.2	11.0	
Long- and medium-term loans	5.6	7.7	5.0	15.0	
Amortization payments	-	-	-	-	48.1
Short-term liabilities	9.5	7.7	2.1	7.8	
Official transfer payments	0.8	1.0	1.3	1.3	
(b) Domestic non-compensatory capital or assets	-10.9	-5.4	-2.7	3.2	
(c) Errors and omissions	27.5	15.5	18.8	6.9	
(d) Allocation of SDR units	-	1.4	1.4	-	-
(e) Net compensatory financing (increase -)	1.3	-5.5	-1.3	-1.1	-
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	-	-	-	-	-
Amortization payments	-	-	-	-	-
Movements of foreign exchange reserves (increase -)	3.3	-4.1	0.1	-1.6	-
Movements of gold reserves (increase -)	-2.0	-	-	0.2	-
SDR units (increase -)	-	-1.4	-1.4	0.3	-

Source: IMF, Balance of Payments Yearbook, vol. 26

a/ Estimates based on official statistics.

BOLIVIA*

The outstanding economic trends in Bolivia in 1974 were the increased growth of some productive sectors, the performance of the external sector which showed marked fluctuations, and once again, increases and changes in price levels.2/ Keeping to this order, the major economic aspects, characteristic of these trends will be described further on.

1. The product and its sectoral composition

Early in the current decade it was observed that the rate of growth of economic activity had shown some degree of acceleration, judging from the growth rate of the product which was 5.7 per cent in 1974, compared with 5.4 per cent in 1973 and 4.5 over the two year period, 1970-1972 (see table 1). The growth noted is the result of rather unequal performances by the economic sectors. Whereas agriculture continued to develop at very modest rates (3.5 per cent) and mining had obviously stagnated, the productive sectors of basic and other services, e.g., commercial and financial services, showed much higher growth rates.

The growth rate of the construction sector (14 per cent) could be considered important because of the ability of this sector to create employment opportunities and its spread effect on other activities. However, its small share of the total product (less than 5 per cent) and the relatively high share of housing, limits its potential to reactivate economic activity. Moreover, Latin American experience shows that only a long period of sustained growth in this sector could succeed in bringing about important changes in the economic infrastructure.

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* See, in Part One of this Survey, the section dealing with Bolivia, in the Chapter on inflation.

2/ On the base of information available for the years 1972, 1973 and the first half of 1974.

/Table 1

Table 1

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

	Millions of pesos at 1960 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974a/	1970	1974a/	1970-1972	1973	1974a/
Agriculture	1 901.1	2 073.3	2 146.0	16.9	15.8	3.4	2.1	3.5
Mining	1 670.0	1 717.8	1 717.8	14.9	12.6	-0.1	3.0	-
Manufacturing	1 446.4	1 668.4	1 768.9	12.9	13.0	4.1	6.5	6.0
Construction	507.0	564.6	643.6	4.5	4.7	1.9	7.2	14.0
Subtotal goods	5 524.5	6 024.1	6 276.3	49.2	46.2	2.4	4.0	4.2
Electricity, gas and water	218.0	268.2	284.3	1.9	2.1	6.0	9.6	6.1
Transport and communications	995.5	1 144.7	1 213.3	8.9	8.9	4.6	5.0	6.0
Subtotal basic services	1 213.5	1 412.9	1 497.6	10.8	11.0	4.9	5.9	6.0
Commerce and finance	1 265.4	1 591.4	1 734.8	11.3	12.8	8.4	7.0	9.0
Government	1 021.0	1 373.3	1 441.9	9.1	10.6	11.5	8.2	5.0
Ownership of dwellings	978.0	1 066.0	1 130.0	8.7	8.3	1.4	6.0	6.0
Miscellaneous services	1 231.6	1 389.0	1 500.1	11.0	11.0	3.7	4.8	8.0
Subtotal other services	4 496.0	5 419.7	5 806.8	40.0	42.8	6.4	6.5	7.1
Gross domestic product	11 234.0	12 919.8	13 656.3	100.0	100.0	4.5	5.4	5.7

Sources: 1970-1972: ECLA calculations based on figures supplied by the Ministry of Planning and Coordination; 1973: ECLA estimates based on data from the same source; 1974: ECLA provisional estimates based on incomplete data from official sources.

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

a/ Preliminary figures.

/Recently, the

Recently, the highest growth rates were experienced by the service sectors located in the urban centres. In fact, the rate of growth of tertiary activities was a high as 7.1 per cent which, compared with the 4.2 per cent growth rate of the goods producing sectors, left no doubt as to the persistence of that structural heterogeneity referred to on every occasion when Bolivian economic activity has been analysed.

Thus, the composition of the product over time is tending increasingly towards the production of services whose share has increased from 40 per cent in 1970 to 42.8 per cent in 1974, whereas the relative importance of basic activities fell from 49.2 per cent to 46.2 per cent over the same period (see table 1).

2. The supply of goods

During 1974, global supply grew in real terms by 8.8 per cent, a figure somewhat higher than that recorded in previous years (see table 2). This higher growth rate is attributable to the extraordinary increase in the quantum of imports, which increased by 22.6 per cent, for as pointed out above, the gross domestic product only increased by 5.7 per cent.

As a result, the import coefficient rose from 20.9 per cent in 1970, to 26.3 per cent in 1974. The increasing openness of the Bolivian economy is reflected by its greater dependence on imported supplies; the fact that this has resulted mainly from the increase in imports of consumer goods (87 per cent) and intermediate goods (129 per cent), and to a lesser extent by the increase in imports of capital goods (54 per cent),3/ is an indication that such dependence is growing, and this could lead to serious external imbalances with regard to exports which will not continue to expand at a similar rate.

3/ Estimates by the Department of National Accounts of the CONEPLAN Secretariat, based on data provided by the Central Bank.

/Table 2

Table 2

BOLIVIA: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973a/	1974a/	1970	1974a/	1970-1972	1973a/	1974a/
Total supply	14 604	17 047	18 552	120.9	126.3	4.9	6.1	8.8
Imports b/	2 524	3 155	3 869	20.9	26.3	7.0	9.2	22.6
Gross domestic product	12 080	13 892	14 683	100.0	100.0	4.5	5.4	5.7
Total demand	14 604	17 047	18 552	120.9	126.3	4.9	6.1	8.8
Exports b/	2 504	3 149	3 009	20.7	20.5	10.2	3.5	-4.4
Domestic demand	12 100	13 898	15 543	100.2	105.9	3.8	6.7	11.8
Gross domestic investment	1 880	2 337	2 758	15.6	18.8	-1.3	27.6	18.0
Increases in stocks								
Gross fixed investment	1 666	2 106	...	13.8	...	...	...	...
Public	1 053	...	...	8.7	...	...	...	...
Private	613	...	...	5.1	...	...	...	...
Construction	...	...	...	...	...	...	...	...
Machinery and equipment	...	...	...	...	...	...	...	...
Total consumption	10 220	11 561	12 785	84.6	87.1	4.7	5.0	10.5
General government	1 351	1 677	1 845	11.2	12.6	8.5	14.0	10.0
Private	8 869	9 884	10 940	73.4	74.5	4.1	3.5	10.6

Sources: 1970-1972: ECLA calculations based on figures supplied by the Ministry of Planning and Co-ordination; 1973: ECLA estimates based on data from the same source; 1974: ECLA provisional estimates based incomplete data from official sources.

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/ Goods and services, excluding factor payments.

/3. The

3. The composition of demand

Aspects of greater importance with regard to the elements of demand are the drop in the physical volume of exports (-4.4 per cent), the sustained increase in gross domestic investment (18 per cent) and the unprecedented increase in consumption in the Bolivian economy (see table 2).

The fact that estimates of previous variations are preliminary, and could be subject to modifications in the light of more complete information, must be borne in mind. Thus, for example, the sharp changes in prices and the scarcity of appropriate deflator indexes, are per se a source of inaccuracy, and in the case of exports, a more accurate calculation of the volume of contraband goods could lead to adjustment in the drop noted.

In this connexion, the growth in investment could be shown in somewhat greater detail by preparing a complete inventory of private sector accumulation. In any event, if the rate noted were corroborated, this would be a clear pointer to greater future dynamism in economic activity.

As regards consumption, its high rate of growth can be traced, in the main, to the increase in imports of consumer goods. In fact, during 1974 imports of consumer goods represented 122 million dollars, as was already pointed out, 26 per cent of total imports, and approximately 10 per cent of private consumption. Since an important part of this figure is directed mainly to the satisfaction of the needs of high-income urban groups, it can be concluded that the consumption of the majority of the population grew at a lower rate than the 10.6 per cent noted for total private consumption.

4. The performance of the external sector

There is no doubt that the changes of greatest importance took place in this sector of the Bolivian economy. Its analysis would require a distinction to be made between movements in real terms and changes expressed at current prices; such a distinction would make it possible to show that results were highly unequal.

/The marked

The marked growth of 98.5 per cent in the current value of exports exercised great influence not only on the variables linked directly with foreign trade, but also on a large area of economic activity (see table 3). This growth can be explained exclusively by the increase in export prices, for the export quantum decreased, as was mentioned earlier.

The extraordinary supply of foreign exchange stemming from the growth in exports resulted in major increases in the value and quantum of imports. In fact, the corresponding rates increased to 51.1 per cent and 22.6 per cent respectively (see tables 2 and 3).

As a result of the movements mentioned above, there was a positive trade balance of SDR 141 million in contrast to the virtual equilibrium of previous years. The balance on current account also showed a surplus of SDR 60 million, completely reversing the situation as it stood in the past. Capital account flows meant a net increase of SDR 40 million, which together with the surplus on current account resulted in an increase in international reserves of SDR 100 million. A decisive part in this result was played by long-term and medium-term loans obtained by the Government which amounted to SDR 123 million. Without this increased indebtedness the shifts in the balance of payments would have resulted in a reduction in international reserves, in spite of the favourable situation in external trade. This paradox can be explained, on the one hand, by the increase in the imports of consumer goods which, as was stated earlier, amounted to 122 million dollars, an increase of 87 per cent compared with the previous year, and on the other, by the increase in export smuggling and in private deposits made in foreign banks, which the Central Bank estimated at 20 and 25 million dollars respectively for 1974. The use of foreign exchange for importing non-necessary goods, and the outflows already mentioned were the most flagrant ways of transferring resources out of the country.

/Table 3

Table 3

BOLIVIA: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974a/
Current account					
Exports of goods and services	210.3	198.3	206.9	247.7	491.8
Goods FOB	195.7	181.9	187.1	226.6	465.6
Services	14.6	16.4	19.8	21.1	26.2
Transport	1.7	1.7	2.4	2.3	3.6
Travel	2.5	3.8	7.9	9.6	11.5
Imports of goods and services	210.7	227.5	240.1	277.3	419.0
Goods FOB	166.2	181.4	180.3	209.6	324.3
Services	44.5	46.1	59.8	67.7	94.7
Transport	28.6	29.3	32.4	42.2	63.6
Travel	3.9	5.8	9.7	8.0	10.1
Net external investment income	-25.0	-17.0	-20.0	-19.2	-17.5
Profits	-17.0	-8.4	-5.6	-5.4	-6.7
Interest	-8.0	-8.6	-14.4	-13.8	-10.8
Net private transfer payments	1.5	2.1	4.5	4.1	4.2
Balance on current account	-23.9	-44.1	-48.7	-44.7	59.5
Capital account					
Net external financing (a+b+c+d+e)	23.9	44.1	48.7	44.7	-59.5
(a) Net external non-compensatory capital	41.7	67.7	96.1	45.7	68.6
Direct investment	-75.9	1.9	-9.7	3.9	1.1
Long- and medium-term loans	131.2	82.6	129.5	67.3	123.3
Amortization payments	-20.4	-22.0	-28.3	-40.0	-51.7
Short-term liabilities	4.4	0.2	-3.3	5.7	-9.1
Official transfer payments	2.4	5.0	7.9	8.8	5.0
(b) Domestic non-compensatory capital or assets	-6.1	1.7	-15.7	-0.3	-22.7
(c) Errors and omissions	-13.0	-31.6	-31.1	-5.9	-5.9
(d) Allocation of SDR units	4.9	4.0	3.9	-	-
(e) Net compensatory financing (increase -)	-3.6	2.3	-4.5	5.2	-99.5
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	2.2	8.8	11.1	22.9	...
Amortization payments	-0.2	-4.2	-8.4	-9.0	...
Movements of foreign exchange reserves (increase -)	0.1	-1.8	-5.8	-8.7	...
Movements of gold reserves (increase -)	-3.0	-0.8	-0.8	-1.8	...
SDR units (increase -)	-2.7	0.3	-0.6	0.8	...

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 25.

a/ Estimates based on official statistics.

/5. Inflationary

5. Inflationary pressures

The consumer price index, taking account of the averages for 1973 and 1974, showed an increase of 62.8 per cent which reflected the continuous inflationary pressure (see table 4).

However, as regards prices, the increase during 1974 (December 1974 compared with December 1973) was 38.8 per cent; moreover, during the first two months of the year it was 29.9 per cent. This leads to the conclusion that from March 1974 the inflationary process was brought under control, for during the remaining ten months of the year prices increased by only 6.8 per cent. This conclusion would not, however, be wholly valid for the index in question does not take account of imported products whose prices and quantitites increased considerably during 1974. Such an indicator does not, therefore, reflect the true dimension of the impact of imported inflation which has become more acute in recent months.

Furthermore, the systematic trend of rising prices for foodstuffs, compared with other items in the index, has reappeared. On account of this, its weighting in the basket of goods is underestimated, and a correction of this would result in greater increases in the level of prices.

From the point of view of liquidity in the economic system the conditions which permitted the resurgence of inflation in the past year remained unchanged. In fact, private sector credit increased by 60 per cent in 1974 compared with 68 per cent in the previous year.4/ The growth in national currency caused by the accumulation of international reserves was 828 per cent during the first nine months of the year (34 per cent of total expansion), compared with a reduction over the same period in the previous year.5/ For this reason, the reduction in Government borrowing is of no significance.

4/ Central Bank of Bolivia. Consolidated Account of Monetary Operations, Boletín Estadístico, January 1975.

5/ International Monetary Fund. International Financial Statistics, February 1975.

/Table 4

Table 4

BOLIVIA: CHANGES IN THE CONSUMER PRICE INDEX a/

(Percentages)

	Total	Food	Housing	Clothing	Other
1973					
December to December	34.9	44.8	13.5	32.5	15.8
Annual average	31.5	34.9	15.0	38.5	29.6
1974					
December to December	38.8	44.7	19.5	36.0	31.0
Annual average	62.8	81.7	22.1	46.1	35.4
1974 (with reference to Dec. 1973)					
January	15.9	21.1	2.2	8.2	10.7
February	29.9	39.4	5.4	13.9	22.7
March	32.6	42.4	6.5	17.8	23.5
April	33.3	42.6	7.6	20.3	24.7
May	34.5	43.9	9.0	22.1	26.0
June	37.7	48.4	9.0	22.8	77.9
July	38.1	47.3	17.3	23.9	26.4
August	38.6	46.1	19.1	30.3	27.7
September	35.7	41.5	19.1	30.3	27.7
October	34.6	39.1	18.4	33.9	28.9
November	37.7	43.8	19.1	33.8	28.9
December	38.8	44.7	19.5	36.0	31.0

Source: National Institute of Statistics, CONEPLAN.

a/ Consumer price index for middle-income and low-income groups - La Paz, 1966 = 100.

/Global expansion

Global expansion amounted to 40 per cent during the period January-September 1974, somewhat higher than that of 1973 which only amounted to 13.1 per cent. Greater liquidity in the economic system would appear to be inconsistent with a reduction in the inflationary rate in 1974.

The smaller rises in prices appear to be more directly related to the increase in the supply of goods. Global supply, as was pointed out, showed an increase of 8.8 per cent in real terms; this unusual elasticity, brought about by the increase in imports, countered the inflationary effects of greater global liquidity.

On the other hand, the concentration of income resulting from the external economic situation, and the domestic inflationary process itself reduced the effective demand of the salaried sector whose income was rigorously controlled. This factor acquires greater significance in the light of the fact that in January 1975 the Government decreed a drastic reduction in import tariffs, basing the measure on the need to preserve the purchasing power of the groups most affected by inflation.

6. Short-term prospects

The principal determinant of decreasing rates of inflation would appear to lie in the future performance of the external sector. The eminently exogenous nature of its trends make its impact difficult to control and its recently acquired financial importance gives it a unique role in the operation of the economic process and, of course, in the inflationary process.

Apart from its capacity to make supply more elastic through increasing imports, the external sector has acquired enormous importance in financing the government budget.

The fall in the share of revenue from usual financial sources (internal revenue and customs duties) is well known, as opposed to the increase in royalties and taxes, mainly related to export prices. Note that 50 per cent of revenue in 1974 originated from these sources (see table 5).

/Table 5

Table 5

BOLIVIA: NATIONAL TREASURY OPERATIONS

(Millions of bolivian pesos at current prices)

	1973	1974	1975a/	Rates of increase	
				1974	1975
Income	2 469.5	5 104.3	6 564.9	106.7	28.6
Internal revenue	905.7	1 299.1	1 462.5	43.4	12.6
Customs revenue	517.4	947.3	1 180.0	83.1	24.6
Mining royalties	190.6	903.3	596.8	373.9	-43.9
Oil and gas royalties	278.5	883.3	795.9	217.2	-9.9
Adicional tax on exports	452.2	801.0	1 010.4	77.1	26.1
Other income	125.1	270.3	1 519.3	116.1	462.1
Expenditure	2 882.0	5 544.8	6 564.9	92.4	18.4
Personal services	1 332.2	2 313.7	2 811.3	73.7	21.5
Non-personal services materials and supplies	386.9	553.5	825.3	43.1	49.1
Fixed and financial assets	119.9	101.9	195.0	-15.0	91.4
Public debt	433.4	679.1	717.7	56.7	5.7
Transfers and contributions	549.5	1 575.1	1 820.4	186.6	15.5
Other expenditure	60.1	321.5	195.2	434.9	-39.0

Source: Central Bank of Bolivia, Statistical Bulletin, December 1974.

a/ Ministry of finance, Budget Office - Public Sector Budget.

/Although it

Although it is difficult for trends in external trade to become overtly unfavourable in the immediate future, there is the possibility of a relative deterioration; drops in the prices of some raw materials and increases in the prices of manufactured products are signs of this. To the extent that government financing is based on revenue from external trade, the fluctuations usually characteristic of this sector could create difficulties in the financial sphere of the Bolivian economy. Although it is true that revenue projected in the 1975 budget for royalties and export taxes is relatively modest, their share is a substantial one.

In the expenditure budget similar restraint is shown. The items of personal services (wages and salaries) and transfers and contributions, which are of lesser importance, are shown with rather modest increases.

The Government's wages policy will be a crucial element of its economic policy and, in particular, its anti-inflation policy. The various restrictions which act as constraints on the radius of manouevrability of State action could make it difficult to force inflationary rates downwards if, at the same time, the aim is to ensure that the international reserves accumulated during 1974 remain in the country.

BRAZIL*

During 1974 the Brazilian economy underwent a variety of changes. For all its rapid growth (to which the various sectors contributed in very different degree), the economy, and particularly the external sector, was directly affected by the world crisis. Moreover inflation, control of which was always one of the main objectives of the country's economic policy, increased sharply in 1974 after almost a decade of satisfactory progress.

This summary of the trend of the Brazilian economy concentrates on the main real variations in total supply and demand, the principal productive sectors and foreign trade.

1. Supply and demand of goods

Although lower than in previous years, the growth of overall supply was 10.8 per cent in 1974. This substantial and repeated increase is attributable to the growth of both the product (9.6 per cent) and imports (24 per cent). Because imports constantly increased more than the product, the import coefficient rose from 7 per cent in 1970 to 10.2 per cent in 1974 (see table 1).

As regards total demand, the drop in the real value of exports (-1.7 per cent) is striking, particularly compared with the rapid increases during previous periods (8.9 per cent in 1970-1972 and 16.1 per cent in 1973).

Although the share of exports in the economy as a whole is fairly small (about 6 per cent), its reduction is nevertheless significant in that it affects an important sector of economic activity. The decline in the export coefficient in 1974 is a deviation from the trend in certain areas of production.

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* See also the chapter on inflation in Brazil in the first part of this Survey.

/Table 1

Table 1

BRAZIL: TOTAL SUPPLY AND DEMAND

	Millions of cruzeiros at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974a/	1970	1974 a/	1970-1972	1973	1974 a/
Total supply	221 040.8	308 341.0	341 638.9	107.0	110.2	11.5	12.2	10.8
Imports b/	14 476.1	25 587.2	31 741.6	7.0	10.2	20.3	22.0	24.1
Gross domestic product	206 564.7	282 753.8	309 897.3	100.0	100.0	10.8	11.4	9.6
Total demand	221 040.8	308 341.0	341 638.9	107.0	110.2	11.5	12.2	10.8
Exports b/	13 660.0	18 794.5	18 464.6	6.6	6.0	8.9	16.1	-1.7
Domestic demand	207 380.8	289 546.5	323 174.3	100.4	104.3	11.7	12.0	11.6
Gross domestic investment	...	...	...	...	...	...	...	...
Gross fixed investment	43 441.4	70 711.4	80 684.7	21.0	26.0	16.3	20.4	14.1
Public	8 273.1	...	...	4.0	...	...	...	...
Private	35 168.3	...	...	17.0	...	...	...	...
Construction	22 391.6	...	...	...	...	...	...	...
Machinery and equipment	21 049.8	...	...	...	...	...	...	...
Total consumption	163 939.4	218 835.1	242 489.6	79.4	78.2	10.4	9.5	10.8
General government	20 512.0	28 481.8	30 931.2	9.9	10.0	9.5	15.8	8.6
Private c/	143 427.4	190 353.3	211 558.4	69.5	68.2	10.5	8.6	11.1

Sources: 1970-1973: ECLA calculations based on figures published in Sistema de contas nacionais, metodologia e quadros estatísticos (Getulio Vargas Foundation, September 1974); 1974: ECLA estimates based on official statistics 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 specially calculated by ECLA for the purpose.

a/ Preliminary figures.

b/ Goods and services, excluding factor payments.

c/ Including increase in stocks.

/The high

The high growth rate of the economy was attributable to the very rapid growth of investments; the investment coefficient rose from 21 per cent in 1970 to 26 per cent in 1974. The annual growth rate of gross fixed investment, however, declined to 14.1 per cent in 1974, after having risen from 16.3 per cent in 1970-1972 to 20.4 per cent in 1973. Although there was some decline in capital formation in 1974, its growth rate was considerably higher than that of the product (see table 1) and continued to provide a valuable incentive to production.

The growth rate of total consumption remained at the level of previous years, although its principal components followed different trends. For example, the growth rate of government consumption declined from 15.8 per cent in 1973 to 8.6 per cent in 1974, whereas private consumption rose from 8.6 per cent to 11.1 per cent during the same period. Although these changes represent large volumes, they merely revert to the earlier trend of both variables which had changed momentarily the year before.

2. Productive sectors

As already mentioned, the rapid growth of the product (9.6 per cent), although lower than previous years, was the outcome of very different trends in the mainly goods-producing sectors (see table 2).

The substantial expansion of the agricultural sector (8.5 per cent) contrasts with the loss of dynamism of the manufacturing industry, which expanded by only 7.1 per cent in 1974, compared with 15.8 per cent in 1973 and 12.7 per cent in 1970-1972. As in the past, these two sectors registered quite different trends without there being any causal relationship to explain the phenomenon. The construction sector maintained its high rate of growth.

The overall growth rate of the goods-producing sector was 8 per cent in 1974, somewhat lower than in previous years.

/It must

It must be emphasized that the increase in the production of agricultural goods is mainly attributable to the increased production of coffee, soya and wheat. Livestock production showed no variation from the previous year.

The decline in the industrial product derives from the lower growth rates of all its component parts, especially metal-manufactures and machinery, chemicals, textiles, clothing and footware. The so-called dynamic industries continued to expand more rapidly than any others in the sector, but without attaining the high growth rate of previous years. Motor-vehicle production rose by 17.7 per cent, for example, compared with an average of 21 per cent for the period 1968-1973.

The slight decline in overall economic growth is also attributable to the slower growth of the services sectors, which was 10.1 per cent in 1974 compared with 14.4 per cent in 1973 and 11 per cent during the period 1970-1972. The relative weight of these sectors, which contribute over 46 per cent to the product, was largely responsible for the growth of the economy as a whole.

Furthermore, the sectors producing basic services for the most part registered a fairly high growth rate, largely because of the real expansion of the transport and communications sector (16.5 per cent) and the rapid expansion of the electricity, gas and water sector (12 per cent). However, owing to the relatively small weight of these sectors in the economy, insofar as their share of the product is a mere 8.4 per cent, they did not have any substantial quantitative impact (see table 2).

3. The external sector and balance of payments

The external sector is particularly important in Brazil's economy since, on the one hand, it is one of the cornerstones of the country's development style and, on the other, the world crisis has brought about far-reaching changes in foreign trade.

/Table 2

Table 2

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

	Millions of cruzeiros at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 a/	1970	1974 a/	1970-1972	1973	1974 a/
Agriculture	25 082.0	30 217.6	32 785.4	14.3	12.3	7.9	3.5	8.5
Mining	1 574.4	1 982.4	...	0.9	...	6.6	10.7	...
Manufacturing	43 471.2	63 930.9	68 469.8	24.8	25.6	12.7	15.8	7.1
Construction	10 167.2	14 372.2	15 983.0	5.8	6.0	10.6	12.5	11.2
Subtotal goods	80 294.8	110 503.1	119 379.0	45.8	44.7	11.0	12.0	8.0
Electricity, gas and water	4 106.5	5 717.2	6 404.8	2.3	2.4	11.3	12.5	12.0
Transport and communications	10 312.8	13 778.0	16 051.3	5.9	6.0	8.3	14.0	16.5
Subtotal basic services	14 419.3	19 495.2	22 456.1	8.2	8.4	9.1	13.6	15.2
Commerce and finance	38 232.0	53 821.8	59 740.5	21.8	22.4	11.9	12.5	11.0
Government	15 182.3		...	8.7	...	9.2		...
Ownership of dwellings	14 968.5	60 049.2	...	8.5	...	13.4	16.2	...
Miscellaneous services	12 429.3			7.1	...	15.4		...
Subtotal other services	80 812.1	113 871.0	125 445.7	46.0	46.9	11.0	14.4	10.1
Total	175 526.2	240 214.9	263 274.9	100.0	100.0	10.8	11.4	9.6

Sources: 1970-1973: ECLA calculations based on figures supplied by the Getulio Vargas Foundation; 1974: ECLA estimates based on statistics 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.

/The current

The current value of exports of goods in dollar terms rose by 28.5 per cent in 1974, thanks entirely to the 29 per cent increase in prices during the period. With regard to goods exported, the trend of industrial products differs from that of basic primary products. Whereas the former increased in value by over 50 per cent, the latter did so by only 17 per cent.6/ The drop in exports of coffee (from 1,244 million dollars in 1973 to 887 million in 1974) was partly responsible for this slower growth rate. Table 3 shows the trend in the value and volume of the principal agricultural export products and draws attention to the large differences between several important items.

The current value of imports of goods rose by 102 per cent in 1974, owing to a 57.5 per cent increase in prices and 28.5 per cent increase in volume.

Special mention must be made of the higher price of petroleum, which in 1974 rose to four times that of 1973 while the volume imported declined by 2.2 per cent. The share of petroleum in total imports of goods was 22 per cent and its absolute value was around 2,500 million dollars.7/

In spite of the high price of imports, the increase in the physical volume imported over previous years was such that the external sector served as an effective source of supply of goods and services and was even able to meet the exceptional demand for such products in the first half of 1974. This was largely due to the tendency to accumulate stocks before prices rose further.8/ In other words, contrary to what one might expect from the critical situation of international trade, there was no great obstacle to imports thanks to the high external payments capacity of the Brazilian economy.

6/ Estimates of the Getulio Vargas Foundation on the basis of values expressed in dollars.

7/ According to official estimates, deposits discovered in 1974 will enable the country to be self-sufficient in petroleum by the end of the 1970s.

8/ See the chapter on inflation in Brazil.

/Table 3

Table 3

BRAZIL: PRINCIPAL AGRICULTURAL EXPORTS

	FOB values			Volume		
	Thousands of dollars		Percentage variation	Tons		Percentage variation
	1973	1974		1973	1974	
Coffee	1 224 272	877 433	-29.5	1 071 377	692 001	-35.4
Soya	916 788	888 076	-3.1	3 367 632	4 755 010	41.2
Sugar	552 711	1 258 658	127.7	2 797 926	2 250 508	-19.6
Cotton	234 094	101 526	-56.6	393 833	174 360	-55.7
Meat	148 547	29 532	-80.1	98 530	19 170	-80.5
Cocoa	88 522	210 002	137.2	82 774	129 865	56.9
Sisal	59 445	114 130	92.0	160 241	139 013	-13.2
Tobacco	58 458	98 981	69.3	63 599	91 442	43.8
Wool	45 215	43 786	-3.2	17 792	17 996	1.1

Source: Carteira de Comércio Exterior (CACEX), Banco do Brasil (February 1975).

/The various

The various changes in price and volume of exports and imports in 1974 led to a substantial trade balance deficit, compared with a small surplus in 1973. The deficit amounted to SDR 3,793.2 million which was equal to 53 per cent of total exports (see table 4).

The increase in non-factor service payments and profits and interest on external capital helped to swell the deficit on current account to SDR 5,901 million, which is equal to 82.3 per cent of exports in 1974 an increase of 297 per cent over 1973.

The capital account showed a net inflow of external financing of SDR 4,907.8 million, (59 per cent higher than in 1973) and a drop of around 990 million dollars in foreign currency reserves in 1974. In other words, the increased debt, direct foreign investment and decline in reserves facilitated the flow of imports and made it possible to finance the large deficit on current account.

4. Short term prospects

The eminently exogenous nature of the trends of the main variables in the external sector introduces an element of uncertainty in the short term projection of the Brazilian economy. Certain signs of stabilization - if not a reversal - of the trend of export prices and the steady increase in the price of a large number of imports herald a situation in which it may be difficult to maintain the rapid growth of the economy. It is hardly necessary to point out that the sensitivity of world markets makes it impossible to make projections without a serious risk of error. Only if the signs referred to above are confirmed will the external situation suffer a certain ammount of pressure.

The size of the trade deficit and deficit on current account that were recorded in the 1974 balance of payments and the drop in foreign currency reserves show the type of obstacles that could arise. The growth style of the Brazilian economy would seem to be tied to an increasing inflow of imports. The increasing dependence of a substantial part of the productive apparatus on imported supplies means that the external sector is a particularly important factor in future developments.

/Table 4

Table 4

BRAZIL: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974a/
Current account					
Experts of goods and services	3 068.0	3 279.0	4 029.0	5 641.9	7 169.8
Goods FOB	2 739.0	2 882.0	3 630.0	5 138.6	6 625.2
Services	329.0	397.0	399.0	503.3	544.6
Transport	167.0	165.0	168.0	194.0	224.5
Travel	30.0	36.0	35.0	49.0	54.0
Imports of goods and services	3 297.0	4 182.0	4 926.0	6 473.1	12 077.2
Goods FOB	2 507.0	3 246.0	3 862.0	5 132.8	10 418.4
Services	790.0	936.0	1 064.0	1 340.3	1 658.8
Transport	349.0	421.0	470.0	706.2	947.9
Travel	160.0	171.0	199.0	218.8	245.3
Net external investment income	-428.0	-517.0	-570.0	-673.0	-1 022.7
Profits	-186.0	-188.0	-190.0	-247.0	-291.0
Interest	-242.0	-329.0	-380.0	-426.0	-731.7
Net private transfer payments	13.0	11.0	1.0	19.1	29.1
Balance on current account	-644.0	-1 409.0	-1 466.0	-1 485.1	-5 901.0
Capital account					
Net external financing (a+b+c+d+e)	644.0	1 409.0	1 466.0	1 485.1	5 901.0
(a) Net external non-compensatory capital	1 222.0	2 257.0	3 633.0	3 226.0	
Direct investment	196.0	225.0	382.0	901.0	
Long- and medium-term loans	1 143.0	1 838.0	4 256.0	3 921.0	
Amortization payments	-479.0	-572.0	-1 121.0	-1 440.0	4 907.8
Short-term liabilities	354.0	764.0	112.0	-160.0	
Official transfer payments	8.0	2.0	4.0	4.0	
(b) Domestic non-compensatory capital or assets	-41.0	-275.0	-302.0	-336.0	
(c) Errors and omissions	38.0	-6.0	403.0	205.1	
(d) Allocation of SDR units	59.0	47.0	47.0	-	
(e) Net compensatory financing (increase -)	-634.0	-614.0	-2 315.0	-1 610.0	993.2
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	1.0	-	51.0	-	...
Amortization payments	-101.0	-78.0	-50.0	-48.0	...
Movements of foreign exchange reserves (increase -)	-367.0	-488.0	-2 269.0	-1 562.0	...
Movements of gold reserves (increase -)	-105.0	-	-	-	...
SDR units (increase -)	-62.0	-48.0	-47.0	-	...

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

a/ Estimates based on official statistics.

/It must

It must be borne in mind that the import coefficient rose from 7 per cent to 10.2 per cent in the space of four years, which means that their annual growth rate was 22 per cent. The recent trend indicates that for every 1 per cent of growth of the product, the volume of imports must increase by over 2 per cent.

However, one-year projections must allow for the fact that the growth potential which the economy has acquired in recent years, the inflow of foreign capital and the borrowing capacity of the economy would seem to be sufficient to offset any bottleneck which may arise in foreign trade in goods and services.

Under these circumstances, the short-term outlook is that the Brazilian economy will maintain high growth indexes, although possibly not as high as in recent years.

COLOMBIA*

1. Recent economic trends

In 1974, the gross domestic product increased by 6.1 per cent, which is lower than the rate recorded in 1973 but the same as the annual average growth rate for the period 1970-1972. The trend of the total product was the result mainly of a slackening in the growth of manufacturing compared with the previous year. Output of mining also decreased, particularly that of petroleum. On the other hand, agriculture and construction improved their rates of expansion (see table 1).

Total supply of goods and services grew at a faster rate than the gross domestic product, owing to the considerable increase in the volume of imports of goods and services. On the demand side, exports of goods and services and total consumption increased at a slower pace than in 1973. Gross domestic investment, however, rose by over 11 per cent, which enabled the capital formation coefficient in relation to the gross domestic product to reach 21 per cent (see table 2).

In the external sector, exports of goods grew by 28 per cent, i.e., at a slower rate than in 1973, mainly owing to the stagnation in the value of coffee exports. Imports of goods showed a substantial increase (39 per cent), which was higher than that recorded the previous year and was due to increases of 14 per cent in volume and 21.5 per cent in unit value. As a result of these trends, the deficit on current account rose to 127 million SDR units. It was financed by a net inflow of non-compensatory capital and of external resources of a compensatory nature, including the use of international reserves.

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* See, in Part One of this Survey, the action dealing with Colombia in the chapter on inflation.

/Table 1

Table 1

COLOMBIA: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTOR OF ECONOMIC ACTIVITY

	Millions of pesos at 1970 prices			Structure (percentages)			Annual growth rate (percentages)		
	1970	1973	1974a/	1970	1973	1974a/	1970-1972	1973	1974a/
Agriculture	34 880.5	39 830.7	42 021.4	29.1	27.1	26.9	4.1	5.3	5.5
Mining	2 457.7	2 309.4	2 193.9	2.0	1.6	1.4	-5.3	4.8	-5.0
Manufacturing	20 976.7	27 610.9	29 543.6	17.5	18.8	18.9	8.9	10.9	7.0
Construction	6 281.1	7 631.1	8 585.0	5.2	5.2	5.5	4.4	11.5	12.5
Subtotal goods	64 596.1	77 382.1	82 343.9	53.8	52.7	52.7	5.4	7.8	6.4
Electricity, gas and water	1 787.9	2 533.0	...	1.5	1.7	...	11.8	13.3	...
Transport and communications	8 881.1	11 037.2	...	7.4	7.5	...	7.0	8.6	...
Subtotal basic services	10 669.0	13 570.2	...	8.9	9.2	...	7.8	9.4	...
Commerce and finance	20 521.2	26 003.2	...	17.1	17.7	...	8.2	8.2	...
Government	8 283.5	10 458.9	...	6.9	7.1	...	8.6	7.1	...
Ownership of dwellings	6 886.9	8 266.6	...	5.7	5.6	...	6.5	5.9	...
Miscellaneous services	9 069.7	11 249.8	...	7.6	7.7	...	7.7	7.0	...
Subtotal other services	44 761.3	55 978.5	...	37.3	38.1	...	7.9	7.4	...
Subtotal services	55 430.3	69 548.7	73 790.8	46.2	47.3	47.3	7.9	7.8	...
Gross domestic product, total	120 026.3	146 014.0	154 920.8	100.0	100.0	100.0	6.4	7.5	6.1

Sources: 1970-1973: ECLA calculations based on figures supplied by the Banco de la República; 1974: ECLA estimates based on official statistics.

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.

/Table 2

Table 2

COLOMBIA: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			Structure (percentages)			Annual growth rate (percentages)		
	1970	1973	1974a/	1970	1973	1974a/	1970-1972	1973	1974a/
Total supply	151 230.4	178 655.5	190 261.7	115.8	113.0	113.4	5.2	6.8	6.5
Imports b/	20 639.6	20 548.0	22 509.6	15.8	13.0	13.4	-1.8	3.3	9.5
Gross domestic product	130 590.8	158 107.5	167 752.1	100.0	100.0	100.0	6.4	7.5	6.1
Total demand	151 230.4	178 655.5	190 261.7	115.8	113.0	113.4	5.2	6.8	6.5
Exports b/	18 515.8	24 150.2	25 996.2	14.2	15.3	15.5	9.1	9.5	7.6
Domestic demand	132 714.6	154 505.3	164 265.5	101.6	97.7	97.9	4.6	6.3	6.3
Gross domestic investment	28 130.3	31 491.9	35 019.0	21.5	19.9	20.9	2.7	6.1	11.2
Gross fixed investment	25 850.3	30 631.7	...	19.8	19.4	...	2.6	12.5	...
Public	7 732.1	...	...	5.9	...	...	...	...	...
Private	18 118.2	...	...	13.9	...	...	...	...	...
Construction	15 469.3	18 878.2	...	11.8	11.9	...	3.9	13.1	...
Machinery and equipment	10 381.0	11 753.5	...	8.0	7.5	...	0.8	11.5	...
Total consumption	104 584.3	123 013.4	129 246.5	80.1	77.8	77.0	5.1	6.4	5.1
General government	9 961.6	11 800.2	...	7.6	7.5	...	5.8	5.8	...
Private	94 622.7	111 213.2	...	72.5	70.3	...	5.1	6.5	...

Sources: 1970-1973: ECLA calculations based on figures supplied by the Banco de la República;
1974: ECLA estimates based on official statistics.

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/ Goods and services, excluding factor payments.

/The rate

The rate of inflation increased slightly, but the steeper increases in prices were concentrated in the first half of the year, particularly as a result of the rises in food prices. At the end of the year, new levels of minimum urban and rural wages and salaries were established.

The change in the political administration which took place in August gave rise to important modifications in various lines of economic policy. Noteworthy in this respect were the emergency economic measures put into practice, the main objective of which was to redefine the anti-inflationary programme that was being implemented.

2. Major sectors of activity

The agricultural sector grew by 5.5 per cent, that is, at a higher rate than that recorded for the period 1970-1973 and faster than the population growth (3.2 per cent annually). Thus, Colombian agriculture continued to show a relatively dynamic trend, which has frequently not been the case in other countries of the region. The main developments in the agricultural sector were the increases of 30 per cent or more in output of cotton, rice, barley, beans and soya, while in the animal production sub-sector there was an increase in stock.

The contribution of mining to the gross domestic product dropped by 5 per cent as the result of a similar drop in the production of crude petroleum, which has declined steadily since 1970, from 80 million barrels that year to about 64 million in 1974.

In manufacturing, the growth of production was 7 per cent, a lower rate than that observed in 1973 and also in the years 1970-1972. This loss of dynamism was mainly due to circumstantial factors - connected with the change of administration and the reformulation of economic policy which took place during the year - rather than to the bottleneck in the supply of inputs for industry or to the seriously restricted growth of demand for manufactures, or both factors at once.

Construction grew at a slightly faster pace than in 1973, easily exceeding the rate of increase recorded for the three-year period 1970-1972.

Altogether, the goods producing sectors grew by 6.4 per cent, which compares unfavourably with the previous year's rate of 7.6 per cent. In line with this trend in the production of goods, the increase in the gross domestic product was estimated at 6.1 per cent, in contrast with 7.5 per cent recorded in 1973 9/ (see table 1).

3. The external sector

Exports of goods, expressed in SDR units, rose by 28 per cent, as a result of increases of 10 per cent in volume and 16 per cent in unit values (see table 3). Coffee exports remained at much the same level as in 1973, the same quantity being exported and there being only a slight increase in the world price of this commodity.10/ On the other hand, non-traditional exports grew by over 50 per cent; thus the trend towards diversification of exports which had been observed since the end of the previous decade was accentuated.

Imports of goods rose by 39 per cent, with increases of 14 per cent in volume and 21.5 per cent in unit value. The import liberalization policy followed in 1973 and the early months of 1974 contributed to the expanding trend shown by this variable, especially as regards raw materials.

The different rates of growth of exports and imports of goods were determining factors in increasing the deficit on current account from 46 million SDR units in 1973 to 127 million in 1974.

9/ No information was available on the variations in the sectors producing basic services and other services.

10/ World coffee prices dropped by more than 10 per cent between April and October 1974, but recovered in the last two months of the year.

/Table 3

Table 3

COLOMBIA: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974a/
Current account					
Exports of goods and services	1 000.0	984.0	1 104.0	1 348.0	1 699.5
Goods FOB	788.0	755.0	883.0	1 106.0	1 413.5
Services	212.0	229.0	221.0	242.0	286.0
Transport	95.0	106.0	97.0	96.0	115.6
Travel	54.0	69.0	65.0	82.0	95.6
Imports of goods and services	1 149.0	1 260.0	1 121.0	1 233.0	1 646.3
Goods FOB	802.0	878.0	749.0	848.0	1 180.7
Services	347.0	382.0	372.0	385.0	465.6
Transport	163.0	192.0	178.0	187.0	237.0
Travel	66.0	72.0	74.0	89.0	103.9
Net external investment income	-180.0	-176.0	-182.0	-172.0	-191.2
Profits	-91.0	-71.0	-64.0	-56.0	-60.7
Interest	-89.0	-105.0	-118.0	-116.0	-130.5
Net private transfer payments	-1.0	3.0	10.0	10.0	10.8
Balance on current account	-330.0	-449.0	-189.0	-47.0	-127.2
Capital account					
Net external financing (a+b+c+d+e)	330.0	449.0	189.0	47.0	127.2
(a) Net external non-compensatory capital	405.0	303.0	259.0	161.0	
Direct investment	43.0	43.0	17.0	22.0	
Long- and medium-term loans	308.0	290.0	387.0	307.0	
Amortization payments	-121.0	-144.0	-152.0	-135.0	51.2
Short-term liabilities	138.0	163.0	-15.0	-56.0	
Official transfer payments	37.0	31.0	22.0	23.0	
(b) Domestic non-compensatory capital or assets	-36.0	-12.0	-22.0	-33.0	
(c) Errors and omissions	-18.0	55.0	77.0	32.0	
(d) Allocation of SDR units	21.0	17.0	17.0	0.0	-
(e) Net compensatory financing (increase -)	-42.0	6.0	-142.0	-113.0	76.0
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	42.0	55.0	29.0	26.0	...
Amortization payments	-87.0	-42.0	-55.0	-10.0	...
Movements of foreign exchange reserves (increase -)	2.0	-2.0	-106.0	-84.0	...
Movements of gold reserves (increase -)	1.0	3.0	-1.0	-39.0	...
SDR units (increase -)	0.0	-8.0	-9.0	-6.0	...

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

a/ Estimates based on official statistics.

/A factor

A factor which contributed to financing the 1974 deficit was the net inflow of non-compensatory capital of 51 million SDR units, even though this was much less than the 160 million the year before. It is estimated that this smaller inflow was due to a similar decrease in the amount of external public indebtedness, particularly with non-official sources.

Recourse was also had to compensatory capital to a value of 76 million SDR units, which includes the reduction which took place in the country's net international reserves.

4. The course followed by prices and other variables linked to the inflationary process

In 1974, the rate of increase in prices was slightly higher than in the previous period, since the consumer price index rose by about 26 per cent,11/ compared with 24 per cent in 1973. Food prices went up for about 28 per cent, which confirms the trend towards an improvement in their relative prices observable since 1971.

In the first three months of 1974, mainly owing to the impact produced by the internalization of imported inflation, food prices rose by 12 per cent (i.e., at an annual rate of over 50 per cent), which meant an increase of 9 per cent (about 40 per cent annually) in the general index. Subsequently, this impact lost some of its force - added to which the stabilization policy was reformulated in August - and inflation slowed down to the annual rates indicated above.

As regards the public finances, on the basis of the information collected it is only possible to compare the figures for the first half of 1974 with those covering the same period in 1973. Current income of the National Government increased by 26.7 per cent, while total expenditure rose by 24.4 per cent. Therefore, in the first half

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11/ Between December 1973 and December 1974, as an average for the whole country and considering employees and workers as a whole. See National Administrative Department of Statistics (DANE), Indice nacional al consumidor.

/of 1974

of 1974 the national government deficit was almost negligible; net external indebtedness showed a negative balance of 205 million pesos, and net internal indebtedness rose to 208 million. The reverse situation had arisen in 1973, when external credit was an important source of financing (see table 4).

The available data on monetary trends were also incomplete. Between December 1973 and July 1974 the money supply increased by 9.5 per cent, in contrast with the 10.5 per cent increase recorded between December 1972 and July 1973.12/ It is estimated that in the last few months of 1974 the slower rate of growth of the money supply may have been accentuated, so that the increment for the whole year would be approximately 25 per cent. This is below the rates of 27 per cent and 31 per cent recorded for 1972 and 1973 respectively.

The slackening in the growth of the means of payment was influenced by the change in the balance-of-payments position. While in 1972 and 1973 the gain in net international reserves acted as a factor of expansion within the operation of the monetary system, in 1974 the decrease in reserves acted in the opposite direction, i.e., as a factor of contraction.13/

As regards foreign exchange, the mechanism of periodical mini-devaluations of the peso designed to maintain the real value of the national currency was continued. Between the end of 1973 and the end of 1974, the principal rate of exchange was devalued by 15.3 per cent, the rate rising from 24.89 to 28.69 pesos to the dollar. In the second half of the year, the rate of devaluation was much more rapid than in the first.

12/ See IMF, International Financial Statistics, June 1974 and March 1975.

13/ Although the trend followed by net international reserves in 1974 is not known, as an indication of what took place it may be mentioned that between December 1973 and December 1974 the reserves of the monetary authorities declined from 534 to 449 million dollars.

/Table 4

Table 4

COLOMBIA: NATIONAL GOVERNMENT FINANCE

(Millions of pesos at current prices)

	1973	January-June 1973	January-June 1974	Percentage variation Firts half 1974/ firts half 1973
Current income a/	20 073	9 638	12 206	26.6
Total expenditure	22 449	9 815	12 209	24.4
Total national government deficit	2 376	177	3	-
Financing of the deficit b/	2 376	177	3	-
(a) Net external indebtedness	3 051	1 696	-205	-
(b) Net internal indebtedness c/	-675	-1 519	208	-

Source: International Monetary Fund (IMF), International Financial Statistics, March 1975.

a/ Excluding tax rebate certificates (Certificados de Abono Tributario - CAT) and Tourist Development Certificates (Certificados de Desarrollo Turístico - CDT).

b/ After deduction of amortization payments on the external and internal debt.

c/ Including variations in cash balances.

/Lastly, as

Lastly, as regards the trend of wages and salaries, it is interesting to note that in November 1974 new levels were established for urban and rural minimum wages, which had not been adjusted since April 1972. The adjustments approved range from a minimum of 33 per cent in activities such as construction to a maximum of 48 per cent in transport and agriculture.

5. Some economic policy trends

A new administration initiated its period of government in August. Naturally, this change gave rise - and continued to give rise - to important modifications in the basic orientation of government economic policy, which affect both the development strategy itself and shorter-term problems, particularly as regards the combating of inflation. However, in view of the essentially conjunctural nature of this note and taking into account the emphasis which the administration has placed on "economic emergency" measures adopted in October 1974, it seems desirable at this time to refer to these measures rather than to other provisions oriented more to the medium and the long term that have gradually taken shape.

Evoking its constitutional powers, the new administration adopted a number of measures designed to intensify anti-inflationary policy and to provide better protection for the lower-income groups against the consequences for them of the continuous steep increases in prices.

The measures adopted - and other supplementary action - mainly cover three spheres of action.

In the fiscal field, the basic objectives was to reduce the government deficit, which it is estimated may amount to 3,000 million pesos in the second half of 1974 and over 5,000 million in 1975.

With this end in view, the severe curtailment of public expenditure was approved, subsidies for wheat imports and consumption were eliminated and incentives to encourage exports were reduced. As regards export incentives, a change was introduced in the mechanism of tax rebate certificates, Certificados de Abono Tributario (CAT), by virtue of which a tax incentive of up to 15 per cent was granted for

/non-traditional exports

non-traditional exports; as from January 1975 the maximum subsidy was reduced to 5 per cent and only 1 per mil for those products considered of vital importance for domestic supply.

Concurrently, a tax reform was introduced with the aim of stepping up the collection of fiscal revenue, in the form of an increase in sales taxes and a heavier tax on capital income and non-essential consumption. At the same time, however, preferential treatment was given to income from labour, particularly below certain minimum levels.

In the financial sector, several provisions were put into effect with a view to the more efficient co-ordination of the different instruments in operation for tapping savings.

For this purpose, adjustments were made in the interest rates paid in respect of some of these instruments, and, on the other hand, the monetary correction which may be earned by the units of constant purchasing power (UPAC) used in the system of adjustable savings and loans for housing was limited to 20 per cent.

In addition, the Monetary Board introduced important changes in the management of the monetary apparatus designed to make the Board's control over its development more effective. These changes include the measures adopted as regards cash reserves, rediscount margins and regional distribution of credit.

Lastly, as regards the income and prices policy, reference has already been made to the increase approved in minimum wages. To supplement this, a system of tripartite commissions was established - composed of representatives of the State, the workers and the entrepreneurs - with the object of studying and negotiating various measures designed to achieve concerted changes in prices and wages.

COSTA RICA*

1. Recent economic trends

In 1974 the Costa Rican economy expanded by a little over 4 per cent: that is to say, at a slower rate than in the last three years (see table 1).

The fragmentary information available on the evolution of the supply by sectors brings out particularly the drop in agricultural activity due to the lower production of bananas, sugar cane, maize and beans, which the increases in coffee, tobacco and beef failed to make up for. The sectors showing most growth were those of construction and manufacturing, the most important elements in their growth being the exports to Central America and the demand generated by capital formation in both the public and the private sectors, especially as a result of private construction activity (see table 2).

In more general terms, the loss of dynamism of the economy as a whole was due fundamentally to events which could not be counteracted by economic policies, although it was also due to some extent to structural maladjustments such as the lack of diversification of exports, the negative effects of which were quite marked in the conditions of 1974.

Costa Rica faced a number of adverse circumstances of external origin which affected the initial impulse and multiplication and acceleration effects normally produced by external demand. Thus, as a result of the instability of international markets, but also partly because of certain internal difficulties which affected production, exports of bananas dropped by 11 per cent in 1974 in contrast to a rise of over 9 per cent the year before.

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* See the section corresponding to Costa Rica in the chapter on inflation in Part One of the present Survey.

/Table 1

Table 1

COSTA RICA: TOTAL SUPPLY AND DEMAND

	Millions of colones at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974a/	1970	1974a/	1970-1972	1973	1974a/
Total supply	8 807.4	10 409.9	11 064.3	135.0	134.9	6.0	5.1	6.3
Imports b/	2 282.9	2 531.3	2 862.7	35.0	34.9	4.3	1.9	13.1
Gross domestic product	6 524.5	7 878.6	8 201.6	100.0	100.0	6.6	6.2	4.1
Total demand	8 807.4	10 409.9	11 064.3	135.0	134.9	6.0	5.1	6.3
Exports b/	1 841.2	2 344.7	2 459.1	28.2	30.0	12.1	1.3	4.9
Domestic demand	6 966.2	8 065.2	8 605.2	106.8	104.9	4.4	6.3	6.7
Gross domestic investment	1 339.9	1 737.0	2 083.3	20.5	25.4	5.9	15.7	19.9
Increase in stocks	...	...	...	...	...	...	...	...
Gross fixed investment	1 269.8	1 592.5	1 719.9	19.5	20.9	10.4	2.9	8.0
Public	289.6	353.8	364.4	4.5	4.4	14.3	-6.5	3.0
Private	980.2	1 238.7	1 355.5	15.0	16.5	9.2	6.0	9.4
Total consumption	5 626.3	6 328.2	6 521.9	86.3	79.5	4.0	4.0	3.1
General government	819.8	961.8	1 029.1	12.6	12.5	5.9	4.7	7.0
Private	4 806.5	5 366.4	5 492.8	73.7	67.0	3.7	3.9	2.4

Sources: 1970-1973: ECLA calculations based on figures supplied by the Central Bank of Costa Rica; 1974: ECLA estimates based on 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.
b/ Goods and services, excluding factor payments.

/Table 2

Table 2

COSTA RICA: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTOR OF ECONOMIC ACTIVITY

	Millions of colones at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974a/	1970	1973	1970-1972	1973	1974a/
Agriculture	1 452.1	1 737.5	1 702.8	25.0	24.8	5.6	7.2	-2.0
Mining Manufacturing	878.4	1 152.1	1 255.8	15.1	16.4	9.2	10.0	9.0
Construction	275.2	327.6	370.2	4.7	4.7	7.2	3.5	13.0
Subtotal goods	2 605.7	3 217.2	3 328.8	44.8	45.9	7.0	7.8	3.5
Electricity, gas and water	114.3	156.0	...	2.0	2.2	11.2	10.3	...
Transport and communications	276.7	342.7	...	4.8	4.9	7.7	6.7	...
Subtotal basic services	391.0	498.7	...	6.8	7.1	8.8	7.8	...
Commerce and finance	1 299.7	1 590.8	...	22.4	22.7	7.9	5.0	...
Government	693.2	774.7	...	12.0	11.1	3.6	4.1	...
Ownership of dwellings	485.5	559.8	...	8.4	8.0	5.4	3.8	...
Miscellaneous services	324.2	364.0	...	5.6	5.2	4.1	3.7	...
Subtotal other services	2 802.6	3 289.3	...	48.4	47.0	6.0	4.5	...
Subtotal services	3 193.6	3 788.0	3 963.6	55.2	54.1	6.3	4.9	4.6
Gross domestic product, total	5 799.3	7 005.2	7 292.4	100.0	100.0	6.6	6.2	4.1

Sources: 1970-1973: ECLA calculations based on figures supplied by the Central Bank of Costa Rica; 1974: ECLA estimates based on official data.

a/ Preliminary figures.

/On top

On top of the slowing down in this important activity there was the increase in the cost of imports - particularly of petroleum and petroleum products - which increased the inflationary pressures already quite noticeable in the previous year and affected the purchasing power of the broad sector made up of those receiving medium and low incomes, thus having repercussions on domestic demand. In contrast, the rise in the real income of the richer social groups led them to obtain foreign credit facilities for the purchase of imported consumer goods, in the expectation of a rise in world prices. This partly explains the substantial rise of 13.1 per cent in the volume of imports of goods and services (see table 1).

The recent inflationary process, which involved a rise in wholesale prices estimated at between 35 and 40 per cent and reduced the purchasing power of large sectors of the population, led the Government in April 1974 to grant wage increases designed to palliate the deterioration in the real wages of the working classes. These increases proved to be insufficient, however, as prices continued to go up.

The change in wage levels practically coincided with the unification of the exchange rates, which had become necessary owing to the critical balance of payments situation but which caused considerable increases in domestic production costs and thus further depressed the purchasing power of wages.

As a result of the above developments, private consumption once again grew only slowly, its growth rate being lower than that of 1973 and actually negative in per capita terms (see table 1).

Apart from the measures taken to avoid a serious deterioration in the purchasing power of wages, there were compensatory elements on the domestic expenditure side. Thus, total investment and Government consumption showed some degree of dynamism. Private investment, mainly on housing construction, rose 9.4 per cent, and the 7 per cent increase in Government consumption expenditure was also of significance when compared with the tendencies of 1972 and 1973. Finally, public investment, which had fallen in 1973, rose by

/a modest

a modest 3 per cent in 1974, the main expenditure being on economic infrastructure programmes (among them work in the energy field) and social progress (mainly housing and health).

With the passage of time, the possibilities for manoeuvring in economic policy have become smaller, partly because of the increasing indebtedness of the economy which has in its turn reduced its capacity to import, and partly because of the need to allot appreciable volumes of external credit to maintaining the supply of goods and services. In 1974, against a background of a marked deterioration in the terms of trade, the major part of the real resources from abroad - plus part of the foreign currency reserves - had to be used to finance essential imports such as fuel and other industrial inputs and to help to satisfy the demand for consumer goods.

Thus, the external sector continues to be the central element in economic activity, as well as remaining one of the basic causes of the process of rising prices. With this in mind, steps have been taken to work out unitary and convergent action on various economic policy fronts.

In this respect, the Government adopted a number of measures designed to reduce inflationary pressures and external imbalances. From the point of view of supply, the main measures taken were the fixing of support prices for producers of basic grains, the maintanance of adequate external supplies of mass consumption products, and the stimuli provided through new selective credit programmes and favourable interest rates in order to give sustained support to the productive sectors - especially manufacturing - and facilitate the expansion of exports of non-traditional products.

From the medium- and long-term point of view, the above programmes have been complemented with action designed to promote economic growth and make better use of resources. External loans have been obtained for new investments in agriculture, industry and tourism, and efforts have been stepped up in connexion with public works, especially as regards the strengthening of road construction

/programmes (with

programmes (with particular importance being attached to secondary roads), the beginning of the construction of a new port at Caldera, the continuation of work to modernize and expand the port facilities at Limón, the renewed impulse being given to the hydroelectric project at Arenal, and the expansion of the national telecommunications system. There is also every indication that progress is being made in the execution of high-priority investment projects such as those connected with the extraction of copper and aluminium and the refining and overland transport of petroleum and petroleum products.

With the aim of modifying the structure of demand, changes were made in the taxation system, especially as regards the raising of the selective taxes designed to check luxury spending and the introduction of export duties. Other measures aimed at reducing pressures on the balance of payments and checking luxury consumption include the regulation of credit purchases, the regulation of credit operations by private finance companies, and the raising of interest rates on deposits of foreign currency.

2. The external sector and the balance of payments

There was a serious deterioration in the balance of payments in 1974, when, mainly as the result of an exceptional increase in imports, the current account deficit reached the unprecedented level of 211.3 million SDR units (see table 3). Despite a significant inflow of capital from abroad, the capital account income was not enough to finance the current account deficit, and there was consequently a drop in net reserves of 32.5 million SDR units. It is estimated that the level of reserves at the end of 1974 was not enough to finance the imports needed by the Costa Rican economy for two weeks. Furthermore, a considerable proportion (90 million SDR units) of the capital account income was from short-term loans.

/Table 3

Table 3

COSTA RICA: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974a/
Current account					
Exports of goods and services	280.1	283.8	319.1	345.4	433.6
Goods FOB	231.0	224.6	256.8	283.1	357.5
Services	49.1	59.2	62.3	62.3	76.1
Transport	14.5	20.6	19.0	19.5	26.4
Travel	22.1	24.2	27.4	27.4	31.6
Imports of goods and services	346.5	390.7	385.2	407.4	607.0
Goods FOB	286.8	316.3	310.5	331.0	504.3
Services	59.7	74.4	74.7	76.4	102.7
Transport	35.9	44.3	43.5	46.9	67.5
Travel	12.7	17.0	17.4	17.2	19.8
Net external investment income	-13.6	-14.6	-32.1	-34.1	-40.9
Profits	-3.8	-3.4	-19.4	-20.3	-23.3
Interest	-9.8	-11.2	-12.7	-13.8	-17.6
Net private transfer payments	3.4	3.5	3.7	3.0	3.0
Balance on current account	-76.6	-118.0	-94.5	-93.1	-211.3
Capital account					
Net external financing (a+b+c+d+e)	76.6	118.0	94.5	93.1	211.3
(a) Net external non-compensatory capital	79.1	128.0	98.1	81.9	131.0
Direct investment	26.4	22.0	23.8	22.2	23.0
Long- and medium-term loans	42.2	68.4	87.1	100.7	153.0
Amortization payments	-19.2	-30.6	-35.3	-48.1	-53.0
Short-term liabilities	27.2	64.3	20.1	7.5	8.0
Official transfer payments	2.5	3.9	2.4	-0.4	...
(b) Domestic non-compensatory capital or assets	-5.9	-19.8	-42.6	-31.5	47.8
(c) Errors and omissions	-9.5	20.3	35.9	50.9	
(d) Allocation of SDR units	4.2	3.4	3.4	-	-
(e) Net compensatory financing (increase -)	8.7	-13.9	-0.3	-8.2	32.5
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	1.4	3.8	15.7	1.7	...
Amortization payments	-4.2	-3.3	-8.4	-5.4	...
Movements of foreign exchange reserves (increase -)	15.7	-20.2	-3.7	-4.5	...
Movements of gold reserves (increase -)	-4.0	5.7	-	-	...
SDR units (increase -)	-0.2	0.1	-3.9	-	...

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

a/ Estimates based on official statistics.

/The growth

The growth of 35 per cent in imports is to be attributed primarily to the extraordinary increase of 31.3 per cent in prices, due largely to the higher price of petroleum and petroleum products. It should be noted, however, that even in constant terms there was an appreciable increase estimated at 13.1 per cent in imports of goods and services, due largely to purchases of a speculative nature made in the expectation that prices would soon go up. From this point of view there was no external strangulation, and the increased cost of imports did not prevent them from growing more than in previous years, although this was achieved at the expense of greater indebtedness and the depletion of reserves.

Exports of goods, for their part, rose by 26 per cent, mainly because of the higher prices obtained (18.3 per cent) although these were of course outstripped by the rise in the prices of imports, thus leading to a serious deterioration in the terms of trade.

Analysis of the main export products of Costa Rica shows an increase in both the price and the volume of exports of coffee. The increased volume was due fundamentally to the greater production achieved as a result of the favourable weather conditions prevailing during the last harvest, but the prospects for coffee are uncertain, since it is expected that next year domestic production will be smaller, mainly on account of the reduction in the use of fertilizers because of their higher price and scarcity.

The price of bananas went up, but the volume exported went down as a result of lower production caused not only by a strike lasting over a month in one of the main producing companies, but also by the negotiations regarding the establishment of an export tax.

The volume of sugar exported went down also, but the price went up considerably. The lower volume is explained by the effects of the drought in the preceding year and also by the reduction in cutting in various areas attributed to action by producers to obtain higher prices.

/In the

In the case of meat the price went down in the second half of the year and some difficulties wer encountered in placing meat on the external market, but even so the total volume exported went up.

Finally cocoa exports went up in both volume and price.

One of the most favourable factors in the external sector was the increase in exports to the rest of Central America, which made it possible to balance transactions with the other members of the Central American Common Market and helped to encourage the production of manufactures, which form the main part of such exports.

As regards capital account movements, the most significant development concerned long- and medium-term loans, since these increased by 52 per cent in 1974 to a total of 153 million SDR units. Direct investment, however, did not show any variation compared with the recent past (see table 3).

During the year, the Costa Rican Government took a number of measures designed to relieve the balance-of-payments situation. Among the most important of these was the exchange rate unification which eliminated the rate of 6.62 colones to the dollar and thus made it possible to bring the prices of the country's international trade goods in line with the higher prices reigning on the world market.

The rates of interest prevailing in Costa Rica were brought into line with the higher rates offered abroad, so as to stop the exit of capital and stimulate national saving.

In addition, restrictions were imposed on foreign travel and on other forms of expenditure which might affect the balance of payments. At the same time, the banks were allowed to receive term deposits in foreign currency with the aim of attracting funds and avoiding the flight of capital abroad. Stricter control was also applied to the granting of loans for the purchase of non-essential consumer goods, with the aim of avoiding the naturally unfavourable consequences on the availability of foreign exchange.

Furthermore, as already stated, export taxes were introduced which will keep in line with the prices attained by the products affected on the foreign market. These new taxes not only constitute

/an important

an important instrument from the point of view of their fiscal effects but will also make it possible to reduce the possible effect of higher prices abroad on domestic prices.

Following the tax payment certificates introduced in 1973 which can be used by exporters to pay any form of taxes and thus represent a stimulus for exports, a number of additional measures were taken in 1974 to encourage exports of industrial goods. Prominent among these measures was the increase in the amount of credit made available at favourable interest rates.

3. The budget situation

In 1974, for the first time in this decade, it proved possible to reduce the central government deficit as a result of an increase in 38.5 per cent in current income contrasted with increases of only 28.4 per cent in current expenditure and 15.5 per cent in capital expenditure.14/

The bigger tax revenue was due on the one hand to the introduction of new taxes and on the other to the rise in revenue from existing taxes. Among the new taxes were the export taxes established on an *ad valorem* basis, with rates varying from 2 to 13 per cent. The lowest rate - 2 per cent - is applied to exports of non-traditional products to the rest of the world, the rate of 7 per cent to exports of other goods to the rest of the world and exports to Central America and Panama in general, while the highest rate of 13 per cent is applied to traditional export products such as coffee, meat, sugar and cocoa.

The bigger revenue achieved from existing taxes is of course attributable partly to the rise in prices, but also to a number of administrative measures taken in order to check tax evasion.

The taxes which played the biggest part in this increased revenue were income tax, selective consumer taxes, sales tax and import duties. The latter, of course, reflect the considerable increases in the prices of imports.

14/ Source: Ministry of Finance and Popular Credit.

/As regards

As regards current expenditure, the increases were due mainly to the wage increases granted to central government employees and to the bigger payments which had to be made by the central government to finance similar wage increases in decentralized bodies.

The biggest expenditure on capital account corresponded mainly to the expansion of the economic infrastructure (construction of highways, airports, etc.) and the building of more schools.

As far as the financing of the fiscal deficit was concerned, it proved possible to place a considerable proportion of the bonds issued (although this proportion was less than the previous year) and thus avoid issuing more means of payment.

External funds, which totalled almost as much as domestic funds in 1974, played a more significant part than in 1973 in financing the deficit.

4. Inflationary pressures

From the information available on wholesale prices, it would appear that inflationary pressures persisted in Costa Rica during 1974, although they showed a declining trend in the second half of the year. Thus, while the increase in prices during the first half of the year was 26 per cent (an average of 4 per cent per month), the monthly rate was around 1.7 per cent in the period July-November. On the basis of this information, it may be estimated that wholesale prices rose by between 35 and 40 per cent in 1974 compared with a rise of 27 per cent in the previous year.

From the middle of 1973 onwards, imported inflation was of special significance in Costa Rican price movements. An acceleration in the rise of import prices will obviously affect domestic prices also in an economy so open to the exterior as that of Costa Rica. It may be recalled in this connexion that the prices of imports rose by 15.3 per cent in 1973 and by 31.3 per cent in 1974.

One of the more important elements among the domestic inflationary factors was the greater liquidity in the economic system. Thus, overall liquidity rose by 32.4 per cent in 1974 compared with 12.8 per cent the year before (see table 4).

/Table 4

Table 4

COSTA RICA: MONETARY POSITION

(End-of-period figures in millions of colones)

	1972	1973	1974a/	Growth rate 1973/1972	Growth rate 1974/1973
Composition of monetary resources	2 629.2	2 965.2	3 927.4	12.8	32.4
Money	1 617.3	2 007.7	2 394.3	24.1	19.3
Quasi-money	855.6	951.1	1 603.6	11.2	68.6
Long-term loans	79.0	72.6	197.9	-8.1	172.6
Other items (net)	77.3	-66.2	-268.4	-	-305.4
Expansion and contraction factors	2 629.3	2 965.5	3 927.2	12.8	32.4
Reserves	189.1	276.4	-115.9	46.2	-
Credit	2 440.2	2 689.1	4 043.1	10.2	50.4
To the government	379.0	304.5	336.9	-19.7	10.6
To official bodies	83.3	163.3	340.2	96.0	108.3
To the private sector	1 977.9	2 221.3	3 366.0	12.3	51.5

Source: International Monetary Fund (IMF), International Financial Statistics, March 1975.

a/ Preliminary figures.

/The 51.5 per

The 51.5 per cent increase in credit to the private sector, which was receiving 83 per cent of total credit at the end of 1974, appears to have been the main cause of this expansion, but another contributory cause was the credits granted to the Government of official bodies, even though their total amount is much less than credit to the private sector.

The drop in reserves acted as a form of contraction and had a fairly significant effect on the overall liquidity of the economy.

From the point of view of monetary resources, the most important changes concerned money and quasi-money, both because of the important influence they have within the total and because of the considerable size of the variations in them, which came to 19.3 per cent and 68.6 per cent respectively in 1974.

The foregoing developments led to the adoption of a number of measures designed to achieve greater control over the whole monetary and credit system. Outstanding among these was the regulation of the non-banking finance system, which seems to be handling an appreciable amount of funds used mainly for the acquisition of non-essential consumer goods. Also noteworthy were the measures taken to fix more restrictive conditions for credit sales of consumer durables.

CHILE

1. General appreciation

The economic evolution of Chile in recent times has been influenced by political events known to all, which have had a decisive effect on the important variables considered in these annual accounts. This does not, however, prevent some objective elements, which are important and valid over and above any controversy, from being singled out.

Naturally, the very particular and obvious impact of the external economic situation on the economy of Chile draws one's attention; it once again brings to the fore certain features and weaknesses in the structure of production, and while these are not absolutely original in the context of Latin America there is no doubt that they tend to stand out particularly in Chile.

Some facts detailed below give an idea of the essence of the problem. In 1974 the country had to pay nearly 40 per cent more for imports, the volume of which increased by slightly over 1 per cent. Although the value of exports increased by a respectable 54 per cent, it is equally true that their quantity had to increase 33 per cent to produce this result.

The reasons for such uneven - and in the last instance such onerous - developments continue to be the same as affected other critical external trade situations, whether expansionist or recessive. The structure of imports with its high proportion of food products and basic inputs on the one hand, and the overdependence on copper for foreign exchange earnings on the other, make Chile highly vulnerable to fluctuations in international trade. In addition, in periods of general price increases, like that of recent years, facts (like the above) show that the protection provided by copper is far from offsetting the weakness implicit in Chile's import structure.

It cannot be ignored that these facts have an important influence on the difficulties which have affected the economy of Chile. They also aid in evaluating the initiatives and procedures aimed at

/expanding and

expanding and diversifying the country's export base - an old but elusive objective of many attempts at an economic policy for Chile.

It should, however, be borne in mind that as a whole 1974 was a fairly good year and did not bring up any major difficulties for the administration of the external accounts. The deterioration of the situation towards the end of the year was mainly caused by the divergence between the downswing in copper and rising import costs, but in addition to this element there was a certain under-estimation of the traditional vulnerability of Chile's external sector. When the optimistic estimates made in some circles at the beginning of 1974 came to nothing, it was once more seen that the margin for liberal policies in foreign exchange expenditure continued to be narrow.

The continued existence of inflation is another aspect which requires comment on account of its decisive influence in recent times. As will be seen below, despite the priority given to efforts to contain it, progress has been rather limited.

In order to form an accurate idea of this, it is indispensable to consider the variety of influences or stimuli which have kept inflation alive. Obviously, a capital element is the legacy of accelerated price increases from 1972-1973, together with the serious repercussions of imported inflation. Against this background - the inflationary potential of which requires no comment - appear the consequences of what is known as "corrective inflation" (undertaken to eliminate the price distortions which had accumulated) and of a policy of liberalized prices and periodic readjustments in the exchange rate.

Although the first two factors were outside the shpere of influence of the authorities, the others, however, derive from the general strategy employed. Seen from this point of view, the quid pro quo facing this policy emerges clearly. On the one hand were the specific objectives of "corrective inflation" and the measures for liberalization and exchange readjustments, and on the other the impact of these objectives on the increase in prices. In solving the dilemma

/the first

the first group of considerations would appear to have prevailed over the second. The inherited or exogenous influences of the inflationary process were thus to some extent maintained or fortified by the directives of the economic policy already mentioned. In other words, it remains open to discussion whether the tactics were the most appropriate for reinforcing or recovering control over the development of inflation.

In any case the persistence of the phenomenon has aroused understandable controversy over these tactics. If for some their fault was in not making any attempt to moderate the powerful stimuli from recent years the impact of which was redoubled by the international economic situation, for others the root of the question lies in the fact that no drastic measures were taken to check the accumulated inflationary potential at its base.

In view of the acuteness of the phenomenon and the magnitude of the unknowns laid bare by any of these criteria, it should not appear surprising that the policy has hesitated to opt finally for any one of them.

2. Recent economic trends

In 1974 the Chilean economy showed a clear recovery, and began to get the better of the squeeze which affected it the previous year. In 1974 the gross domestic product increased by around 5 per cent following its 4 per cent drop in 1973. However, this result as regards the growth of the product took the form of a rather smaller increase in real income, with the deterioration of the terms of trade as a result of the lower prices obtained by copper in the international market, especially in the second half of the year and the higher prices which the country had to pay for the products it imported (see table 1).

/Table 1

Table 1

CHILE: GROWTH OF THE PRODUCT AND REAL INCOME

(Annual growth rate)

Year	Gross domestic product	Real income
1970	3.7	3.8
1971	7.7	4.2
1972	1.4	1.2
1973	-4.0	-1.9
1974	5.0	2.5

Source: ECLA, on the basis of national statistics.

In the performance of the main sectors of production the considerable dynamism of the activities producing goods stood out, with the exception of manufacturing, compared with the poor level of growth of the services sectors. Mining output increased substantially as the result of the major increase in copper mining (basically in the first half of the year) and other smaller increases in the other mineral products. Another important factor was the recovery in agricultural and construction activities. The growth rate of the manufacturing sector was very poor, and there were sharp decreases in the output of consumer goods and in the metal manufactures and machinery sectors. There was a large-scale increase in the generation of electrical energy compared with the result of the previous year, but it did not reach the average rate of the period 1970-1972.

Total supply increased during 1974 less than the gross domestic product, owing to the standstill in imports of goods and services (expressed in constant values). The most active components of total demand, were exports (the volume of which increased by 27 per cent) and expenditure on investment. The formation of fixed capital increased by 8.5 per cent exclusively as a result of the

/increase in

increase in expenditure on construction. Total consumption declined much further than in 1973, as a result of a sharp squeeze in consumer expenditure in the private sector, while general government expenditure probably increased at a rate similar to that of 1973.

The increase in the value of exports was much more pronounded than in imports, but since the deficit in the services account and net remittances abroad of profits and interest increased significantly, especially the latter, the decrease in the current account deficit at the end of the year did not turn out to be very large (it was reduced by around 30 million dollars). On the other hand, as total net inflows of non-compensatory capital were larger than those of the previous year - of these 50 per cent was accounted for by the return of funds existing abroad but owned by Chilean residents - the balance of payments deficit dropped to less than half its 1973 level.

As regards the evolution of domestic prices, their growth rate showed some decrease. The consumer price index rose 375.9 per cent between December 1973 and December 1974; wholesale prices increased by 570.6 per cent over the same period. The decline in the growth rate of prices was more pronounced in the second half of the year.

As regards real wages, the results obtained during the year showed that their average level was around 6 per cent lower than that of 1973. In any case, the evolution of average wages during the second half of the year came closer to the level which had been proposed as a wage policy target, and which consisted in maintaining in 1974 the average 1973 level of real income.

The unemployment situation, according to data available for Greater Santiago, tended to deteriorate in the course of the year. At December 1974 the unemployment rate was close on 10 per cent, in contrast to December 1973 when the rate was around 7 per cent. In the last quarter an increase was to be seen in the percentage of persons seeking work for the first time and a similar trend in the indicator for the out-of-work period. The situation in Government finance was characterized by an improvement in the attraction of

/resources, basically

resources, basically from taxes, and a much slower increase in expenditure than in income while the change in the pattern of expenditure came to place emphasis on capital formation. Current expenditure as a percentage of total expenditure dropped from 73 per cent in 1973 to slightly over 60 per cent in 1974, and was complemented by an increase in the percentage allocated to investment. The proportionally larger increase in income than in expenditure took the form of a reduction in the fiscal deficit from 35 per cent in 1973 to 21 per cent in 1974 of total expenditure.15/

Lastly, in connexion with monetary trends, a large-scale increase - almost uninterrupted in the course of the year - was to be noted in the high growth rates of the quantity of money. While in January 1974 total money grew at an annual rate of 404 per cent and private sector money at a rate of 347 per cent, in November 1974 total money increased at the rate of 320 per cent, and private sector money at the rate of 240 per cent. Of the increase in total money over the year, the larger share was accounted for by the money supply of the fiscal sector. Between January and November total money increased by 237 per cent, private sector money by 178 per cent and fiscal sector money by 398 per cent.

The basic factors of expansion of money issue, which according to figures provided by the Central Bank of Chile 16/ increased by 168 per cent up to October, were the fiscal deficit and domestic credit operations which had a much smaller influence; exchange operations on the other hand apear as a factor of absorption. The impact of these factors, however, was different in the two halves of the year. In the first half of the year the fiscal deficit had a relatively slight influence, owing to the fact that exchange operations constituted an important element of expansion owing to sizeable purchases of foreign currencies, stemming from the favourable balance of payments situation. Domestic credit was a source of

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15/ Statement on the state of the Public Treasury, October 1974.

16/ Summary of money matters.

/absorption during

absorption during this period. However, in the second half of the year, exchange operations became a marked factor of absorption of money issue, thus reflecting the deficit in the balance of payments during those months; the opposite was the case with total domestic credit, which came to constitute a factor of expansion.

3. Main sectors of activity and total supply and demand

(a) Sectors of production

The recovery in the growth rate of the gross domestic product during 1974 basically reflected the forward-looking performance of activities producing goods with the exception of manufacturing; as a whole they recorded an increase of nearly 8 per cent: however, the contribution to the services sector was estimated at barely exceeding 1 per cent (see table 2).

As regards the output of the agricultural sector, the most recent ODEPLAN estimates 17/ attribute to it an increase of around 17 per cent, expressed in terms of its value added and of around 12 per cent measured in terms of the gross value of production. The estimation of this difference can only be a drop in the proportion of the inputs used by the sector as a whole.18/ This reactivation of agricultural production was motivated to a large extent by the increase in agricultural output, which settled at around 16 per cent above the previous year's level.

17/ Estimates provided by the Department of Agriculture of the Division of Social Accounts (February 1975).

18/ In support of this opinion, mention may be made of the fact that the increase in agricultural output was based to a large extent on the increase in the harvests of the main annual crops, almost exclusively as a result of the increase in the area under cultivation. During the farming-year 1972-1973 there was a decrease of slightly over 20 per cent in the area destined for these crops. In addition, it is possible that the high prices reached by the main inputs during the year (fertilizers, cattle-feed, fuels, etc.) influenced this trend.

/Table 2

Table 2

CHILE: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTOR OF ECONOMIC ACTIVITY

	Millions of escudos at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973a/	1974a/	1970	1973	1970-1972	1973a/	1974a/
Agriculture	6 386.0	5 324.6	6 247.6	7.8	6.1	-0.5	-15.2	17.3
Mining	10 101.0	10 195.3	12 182.8	12.3	11.7	-0.6	2.1	19.5
Manufacturing	23 569.6	26 260.0	26 428.0	28.7	30.2	8.5	-5.3	0.6
Construction	3 610.9	3 130.0	3 552.0	4.4	3.6	-0.7	-12.0	13.5
Subtotal goods	43 667.5	44 909.9	48 410.4	53.2	51.6	4.4	-5.6	7.8
Electricity, gas and water	1 245.4	1 606.4	1 735.7	1.5	1.8	13.0	1.0	8.0
Transport and communications	4 904.2	...	...	6.0	...	3.5	...	...
Subtotal basic services	6 149.6	...	...	7.5	...	5.5	...	...
Commerce and finance	14 888.5	...	...	18.1	...	5.4	...	...
Government	5 541.0	...	...	6.7	...	3.5	...	...
Ownership of dwellings	1 354.5	...	...	1.6	...	-0.2	...	...
Miscellaneous services	10 642.0	...	...	12.9	...	5.4	...	...
Subtotal other services	32 426.0	...	...	39.3	...	4.9	...	...
Subtotal services	38 575.6	42 083.1	42 610.7	46.9	48.4	5.0	-1.0	1.3
Gross domestic product, total	82 243.1	86 225.7	90 536.4	100.0	100.0	4.5	-4.0	5.0

Source: ECLA calculations on the basic of official statistics supplied by ODEPLAN.

a/ Preliminary figures.

/The increase

The increase in cereal production was 25 per cent in wheat and maize, which are major crops, while harvest of oats and barley increased by nearly 40 per cent and rye by over 70 per cent. The only cereal crop which showed a decrease (which had in fact been the case for several years already) was rice, with a drop in production of around 38 per cent. Pulse crops showed an increase of rather more than 17 per cent, with a large increase in peas and lentils (over 30 per cent), and a slightly smaller one in beans and chickpeas (15 per cent for the former and 22 per cent for the latter). Of the industrial crops, sunflour production dropped by 23 per cent while sugarbeet production increased by around 7 per cent. As regards other outputs by the agricultural sector, a substantial increase was to be observed in the potato harvest (62 per cent) and a much smaller increase in fruit and vegetables. Wine-growing dropped by 12 per cent according to first estimates.

According to preliminary calculations, livestock activity grew much more slowly than agricultural activity and its rate probably fluctuated around 7 per cent. Some of its main components reflected the adverse effect of depressed demand and sharp increases in the price of inputs (poultry and pig production among others).

Production levels in Chilean mining were relatively favourable during 1974. The estimates available give an increase of around 20 per cent, based on an increase of 30 per cent in copper, 11 per cent in iron ore and 12 per cent in coal mining, and 6 per cent in nitrates and iodine. Production of crude oil, however, dropped by 12 per cent.

While the production of large-scale copper mining increased by 24 per cent (exceeding 760,000 tons), medium- and small-scale mining grew by 66 per cent. It is estimated that the output of this last-mentioned sector may have reached 200,000 tons. The comparable figure for 1973 was 120,100 tons.

The increase in the value of the main mineral products during 1974 had a decisive influence on the price increases of nearly all these products on the international market. In the first months of

/the year,

the year, copper reached the highest prices on record,19/ and while these prices dropped sharply after the month of June, the average price for the year was nearly 16 per cent higher than the average price in 1973. The price of nitrates more than doubled compared with the average for the previous year (in 1973 the price per ton was 56.2 dollars and in 1974 it was estimated at 104.7 dollars) while the price of iron also increased, although by a much smaller percentage (approximately 7 per cent). It is estimated that manufacturing production in 1974 made a slight recovery, which may be expressed as a rate of 0.6 per cent, thus maintaining the level of the 1973 squeeze (see table 2). As a whole, the industries manufacturing goods for personal consumption showed a drop in their level of output, although this was less pronounced than in 1973 (possibly around 3 per cent). The only sectors of this industrial group which escaped the downwards trend were those manufacturing food products and tobacco (see table 3). However, some activities in food production, such as the processing of flourmill and bakery products and the manufacture of cocoa and sugar products, remained at levels lower than those of 1973. The decline in the production of beverages and in the manufacture of footwear and clothing was particularly pronounced, although in the last-mentioned sector the percentage was smaller.

The group of industries producing raw materials and intermediate goods was the only sector which achieved positive results on account of the increased activity of the industries which process cellulose, paper and its products (particularly cellulose), non-metallic mineral products and basic metal products. However, there was a sharp drop in the leather and leather products industries and in the industry producing chemical substances and products.

19/ On 1 April the price of a pound of copper was 1.52 dollars.

/Table 3

Table 3

CHILE: MANUFACTURING PRODUCTION INDEX

	1972	1973	1974
Manufacturing	105.6	100.0	100.6
Consumer goods industries	106.3	100.0	97.0
Intermediate goods industries	107.0	100.0	103.0
Metal manufactures and machinery industries	95.8	100.0	95.0

Source: ECLA, on the basis of statistics supplied by: INE, Index of manufacturing output; SOFOFA, Indices and percentage variation in volume of output, Boletines mensuales.

Lastly, the industries of the metal manufactures and machinery group showed a drop in production which may have exceeded 5 per cent, and which was basically to be explained by the decrease in the output of machinery (with the exception of electrical machinery) and metal products.

The manufacture of electrical articles and the construction of transport material showed increases, although these were fairly small in the last-mentioned sector.

The growth of construction activity, which was the third sector to make a definite comeback in 1974, reached 13.5 per cent according to preliminary figures supplied by ODEPLAN. Although this percentage contrasted with the decline which affected it in 1973 and the near-stagnation of 1970-1972, it was not sufficient for the sector to recover the level of activity it achieved in 1970.

Fiscal expenditure on public works, such as the construction of dwellings, showed a relatively large increase, especially during the last quarter of the year. Where government expenditure was for construction, it should be mentioned that it was aimed to a large extent at completing work begun in earlier periods (especially dwellings) rather at beginning new construction work. This was to

/be seen

be seen in the sharp decrease in contracting as well as in the actual start of construction work in 1974.

The construction of dwellings financed by the private sector, recorded a considerable comeback, especially in the second half of the year. Available data on the surface area of dwellings constructed by this sector give an increase of nearly 25 per cent for the first 10 months of the year (monthly averages in 1973 and 1974). The activity of the SINAP Associations - at least 80 per cent of private investment destined for the construction of dwellings is tied up with the financing of SINAP - was the decisive factor of the boom in private construction.

(b) Total supply and demand

Total supply was 4.2 per cent up on its 1973 level, but grew less than the gross domestic product owing to the slight decrease in the volume of imports of goods and services (0.6 per cent). Larger volumes of supplies of goods and services in the Chilean economy in 1974 were exclusively due to the growth of domestic output. The import coefficient as a percentage of the gross domestic product, which had increased from 15.5 per cent to nearly 17 per cent between 1970 and 1973 dropped to 16 per cent in 1974 (see table 4).

The analysis of the evolution of total demand shows that exports of goods and services (expressed at constant values) constituted the most dynamic component, since they increased at the high rate of 27.2 per cent in 1974 in contrast with the decline experienced in the period 1970-1972 and in 1973 (1.2 per cent and 1.7 per cent respectively). The reason for this growth in the volume of exports was to be found in the evolution of copper production, and in the increase in other lesser outputs; this situation is commented upon in the part of this study dedicated to the external sector. The coefficient relating the volume of exports to the gross domestic product also showed an appreciable change: from 15.8 per cent in 1970 it dropped to 14.4 per cent in 1973 and rose to 17.5 per cent in 1974.

/Table 4

Table 4

CHILE: TOTAL SUPPLY AND DEMAND

	Millions of escudos at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973a/	1974a/	1970	1973a/	1970-1972	1973a/	1974a/
Total supply	107 031	113 626	118 391	115.5	116.9	4.6	-2.9	4.2
Imports b/	14 358	16 465	16 372	15.5	16.9	5.0	4.1	-0.6
Gross domestic product	92 673	97 161	102 019	100.0	100.0	4.5	-4.0	5.0
Total demand	107 031	113 626	118 391	115.5	116.9	4.6	-2.9	4.2
Exports b/	14 591	14 004	17 807	15.8	14.4	-1.2	-1.7	27.2
Domestic demand	92 440	99 622	100 584	99.7	102.5	5.4	-3.1	1.0
Gross domestic investment	15 796	...	...	17.0	...	-6.8	...	...
Gross fixed investment	13 818	9 667	10 489	14.9	9.9	-9.3	-15.0	8.5
Public	...	...	...	...	...	...	...	...
Private	...	...	...	...	...	...	...	...
Construction	7 478	...	...	8.1	...	...	...	...
Machinery and equipment	6 340	...	...	6.8	...	...	...	...
Total consumption	76 644	89 955	...	82.7	92.6	7.8	-1.6	...
General government	12 613	15 439	...	13.6	15.9	9.3	2.5	...
Private	64 031	74 516c/	...	69.1	76.7	7.5	-2.4	...

Sources: 1970-1973: ECLA calculations based on figures supplied by ODEPLAN; 1973-1974: ECLA estimates based on preliminary official statistics.

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 specially calculated by ECLA for the purpose.

a/ Preliminary figures.

b/ Goods and services, excluding factor payments.

c/ Including increases in stocks.

/The other

The other element of total demand which stood out as a driving factor in the domestic economy was investment expenditure. Gross fixed capital formation increased in 1974 by 8.5 per cent; this rate was inadequate but denoted a recovery compared with earlier years. Between 1970 and 1972 it had decreased by an annual average of 9.3 per cent and in 1973 it dropped by 15 per cent. This development in fixed investment was also manifested in a decrease in the investment coefficient as a percentage of the product of around 15 per cent in 1970 and nearly 10 per cent in 1973, while it remained at a similar level in 1974.

Construction expenditure became the dynamic element of fixed investment in 1974, when it increased by nearly 14 per cent. Investment in machinery and equipment increased very little (not more than 2 per cent) as a result of a small increase in imports of capital goods and the standstill in national output of these goods.

According to partial data, total consumption declined for the second year running as a result of the pronounced drop in private consumption. Among the indirect indicators which would support this, were the decrease in the production of industrial consumer goods (3 per cent) and the drop of approximately 6 per cent in the average level of wages. General government expenditure on consumption maintained at least its 1973 growth rate (2.5 per cent).

4. The external sector

The general evolution of external trade in Chile in the course of 1974 was satisfactory but actually concealed fairly dissimilar performances in the two halves of the year. While income from exports increased considerably during the first half of the year, enabling the country's reserves to increase and a favourable balance of payments situation to be achieved, in the second half of the year there was a diametrically opposed situation, when income from exports decreased sharply, and generated a deficit in the balance of payments.

/The value

The value of exports of goods, for the second year running, showed a large increase of 54 per cent in 1974 compared with 1973, and doubled their 1970-1972 value. This evolution was due to a large extent to the increase in copper exports, the value of which increased in the course of the year by 45 per cent (from 1,103 million dollars in 1973 to 1,600 million in 1974), with an increase of 26 per cent in the quantity of copper exported and a rise of 15.5 per cent in average international prices. These results were made possible by the conjunction of two factors which appeared simultaneously: the favourable conditions prevailing in prices in the international markets during the first half of the year, and the existence of spare production capacity in the mining centres, which enabled Chile to expand its production, and increase its shipments abroad.

This situation was substantially modified in the second half of the year owing to the sharp drop in international copper prices, which brought Chile and the other member countries of CIPEC to reduce production by around 10 per cent towards the end of the year, as a measure aimed at moderating the downswing in prices. To illustrate the sharp drop in the price of copper between the two halves of the year, it may be observed that while the average price during the first six months of 1974 was 117.7 US cents per pound of electrolytic copper, in the second six months this price dropped to an average of 70 cents, i.e., a decrease of 40.5 per cent.

While this was the situation in exports, expenditure on imports also increased sharply, although at a slower rate, and while it had amounted to 1,764 million dollars in 1973 it increased to 2,401 million in 1974, i.e., an increase of 36 per cent.

Consequently, the trade balance which was in deficit by 37 million dollars in 1973 became a surplus of 150 million in 1974. The performance of the balance of goods already described had the effect of causing the current account of the balance of payments to achieve a reduction in the deficit at the end of 1973 (408 million dollars in 1973 and 379 million in 1974), since the deficit of the services account had increased by 33 per cent (282.1 million dollars in 1973 and 375 million in 1974), and

/net remittances

net remittances of profits and interest abroad also increased substantially from 89 million dollars in 1973 to 154 million in 1974.

The increase in the value of exports of goods was particularly affected by the increase of 33.2 per cent recorded in the export quantum. The average unit value, however, increased by 16.5 per cent.

If exports of goods in 1973 and 1974 are compared in value and volume, it may be seen that not only were there increases in nearly all export items, but that this increase was much more pronounced in the case of products other than copper. The changes recorded in the main items are indicated in table 5.

Table 5

CHILE: EXPORTS OF GOODS

	Years		Variation 1974 (percentages)	
	1974 a/	1974 a/		
	(millions of dollars)		Value	Quantity
1. Mining products	1 206.9	1 749.9	45.0	25.0
Copper	1 102.6	1 600.0	45.1	25.6
Others	99.3	149.9	51.0	17.4
2. Agricultural and marine products	25.0	55.0	120.0	64.4
3. Industrial products	120.0	273.3	127.8	100.8
Total goods	1 346.9	2 078.2	54.3	32.4
Total goods (excluding copper)	244.3	478.2	95.7	63.2

Source: ECLA, on the basis of data supplied by the Central Bank of Chile, Gerencia de Estudios, Sección Comercio Exterior.

a/ Provisional figures.

/The value

The value of exports of other mining products also increased substantially (51 per cent), with a more considerable improvement in the unit value than in the quantum exported. The increase in exports of nitrates and iron ore were decisive factors in the above results.

The export items with the most important increases in 1974 were those in the agricultural and marine sector and the industrial sector. The level of these exports increased from 140 million dollars in 1973 to slightly less than 330 million in 1974 with an increase of 135 per cent. Industrial products, with a value exceeding 270 million dollars, achieved an increase in 1974 which more than doubled the value and volume of the previous year's level (see table 5). The items which had most impact in the upsurge of these products were exports of fishmeal (shipments of which had increased by 492 per cent in the first 10 months of the year) and exports of paper and cellulose, the 1974 value of which quadrupled 1973 levels. The increases recorded in exports of semi-processed copper and transport material were also important. Lastly, the volume of exports of agricultural and marine products more than doubled 1973 levels in 1974, reflecting to a large extent the satisfactory recovery of agricultural activity in the course of the year.

It is interesting to observe that as a result of the dynamism in exports of agricultural and industrial products, compared with copper, the relative share of income generated by copper in the total value of exports of goods dropped from 81.9 per cent in 1973 to 77 per cent in 1974.

The exchange policy followed during the period under analysis, which consisted of periodic and differentiated readjustments in the value of foreign exchange so as to maintain its real value and achieve some unification in the different areas of exchange,20/ meant an important stimulus to the growth of exports, this was more

20/ The differentiated exchange rate which existed for copper returns reached the same level as the bank market rate as from August, thus reducing the areas of exchange to two as from this date.

/intensive in

intensive in exports originating in the manufacturing, agricultural and small- and medium-scale mining sectors). The bank market rate was readjusted between December 1973 and December 1974 by 372 per cent (from E° 343.23 to E° 1,619 per United States dollar) and the brokers' market rate was readjusted by 124 per cent (from E° 775.16 to E° 1,737 per dollar). The difference between the rate in the two areas of exchange, which was 126 per cent at December 1973, was reduced to slightly over 7 per cent at December 1974.

It is interesting to compare the evolution of the exchange rate and of domestic prices in the course of the year. Table 6 gives these variations for each of the four quarters of 1974.

Table 6

CHILE: QUARTERLY VARIATION IN EXCHANGE RATES AND PRICES

(Percentages)

Period	Exchange rate		Consumer price index
	Bank market rate	Brokers' market rate	
1st quarter	40.7	-3.8	62.2
2nd quarter	50.1	6.7	51.4
3rd quarter	40.8	36.1	24.1
4th quarter	58.6	60.4	30.9
Year 1974	371.7	124.1	375.9

Source: Basic figures, Central Bank of Chile, Boletín Mensual. National Institute of Statistics, Consumer price index.

As may be seen, during the first half of the year, the evolution of the rates in the two areas lagged behind the increase in prices, but it was the bank market rate which was particularly badly out of step. While the level of consumer prices increased by 62 per cent in the first quarter and 51 per cent in the second, the

/bank market

bank market rate increased by 40.7 per cent in the first quarter and 50.1 per cent in the second, and the brokers' market rate dropped by nearly 4 per cent in the first quarter and increased by merely 6.7 per cent in the second.

In the last two quarters, the readjustments in the foreign exchange rates in both markets exceeded the increase in domestic prices during these periods. As a result of these development, while the level of prices rose in 1974, the bank market rate increased by 372 per cent, and the brokers' market rate by 124 per cent, as has already been described.

Imports of goods, the CIF value of which exceeded 2,200 million dollars, experienced an increase of around 39 per cent in 1974, which was higher than the rate recorded in 1973 (25 per cent). This increase was exclusively due to the increase recorded in the index of unit values of imports (37 per cent), since the increase in terms of the volume imported had only been slightly over 1 per cent, contrary to the case of exports, where an increase in value of 54 per cent accompanied an increase in the volume exported of 33 per cent. The very unbalanced percentage variations appearing in 1974 in the values, quantities and prices of the imports and exports of goods may be seen more clearly in table 7.

Table 7

CHILE: IMPORTS AND EXPORTS OF GOODS, 1974

(Percentage variation)

Imports of goods	
Value	38.9
Volume	1.4
Unit value	36.9
Exports of goods	
Value	53.7
Volume	33.2
Unit value	15.5

/In the

In the performance of the different import items, of special importance was the sharp drop in imports of food and also the considerable growth achieved in imports of intermediate goods (see table 8). Purchases of foodstuffs (finished products and raw materials for the food industry) expressed in current values, decreased by 21 per cent compared with their 1973 level. If it is considered that the prices of these products on the international market increased sharply during 1974, it may be concluded that the decrease in the volume of imported foods was much greater (it is estimated to exceed 40 per cent).

In imports of intermediate goods the increase in current values reached 103 per cent; of particular importance was the increase in the fuels and lubricants group, which in 1974 more than tripled its 1973 value. This growth above all reflected the increase in petroleum prices in 1974. Also of importance was the growth of purchases abroad of raw materials, the values of which increased by 73 per cent compared with 1973 levels, and spare parts, the value of which increased by 97 per cent.

One of the items recording the lowest growth rates was imports of capital goods which were slightly more than 18 per cent above the levels they had reached in 1973 expressed in current values, while expressed in real terms they would show an even more modest growth rate.

The increase recorded in net remittances abroad of profits and interests on foreign capital, which was 77 per cent, was basically motivated by the increased expenditure in the course of the year which was used to cover interest on the long-term debt, the payment of which had been postponed in 1973. Remittances of profit abroad as an item amounted to 9 million dollars in 1974, while the interest on lines of external credit underwent no variation.

/Table 8

Table 8

CHILE: CIF IMPORTS OF GOODS

	1973a/	1974a/	Variation in 1974 (percentages)
	(millions of dollars)		
1. Food	594.9	472.0	-20.7
2. Consumer goods other than food	64.0	70.4	10.0
3. Intermediate goods	663.8	1 350.5	103.4
Raw materials	352.5	610.8	73.3
Spare parts	141.3	278.0	96.7
Fuels and lubricants	120.0	372.7	210.6
Large-scale copper mining	50.0	89.0	78.0
4. Capital goods	285.0	338.0	18.6
5. Total	1 607.7	2 230.9	38.8

Source: ECLA, on the basis of data provided by the Central Bank of Chile, Gerencia de Estudios, Sección Comercio Exterior.

a/ Provisional figures.

In the evolution of the capital account of the balance of payments, preliminary data show that during 1974 the economy of Chile had a total net inflow of non-compensatory capital estimated at 225 million SDRs (see table 9). Of this, 50 per cent corresponded to net income from foreign capital and the other 50 per cent to assets owed by persons resident in Chile, the inclusion of which was made possible under facilities granted by the Central Bank in the form of measures for legalizing holdings of foreign exchange. It should be mentioned that the net flow of foreign funds - which was less than in 1973 - was the result of a credit for 338 million SDRs for the use of external loans and an outflow of 226 million SDRs in amortization payments.

/Table 9

Table 9

CHILE: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974a/
Current account					
Exports of goods and services	1 278.0	1 132.0	923.0	1 197.9	1 805.9
Goods FOB	1 135.0	984.0	790.0	1 098.4	1 693.7
Services	143.0	148.0	133.0	99.5	112.2
Transport	70.0	75.0	70.0	70.5	79.0
Travel	50.0	50.0	46.0	16.6	19.1
Imports of goods and services	1 183.0	1 231.0	1 297.0	1 462.0	1 996.4
Goods FOB	848.0	919.0	1 003.0	1 128.7	1 572.3
Services	335.0	312.0	294.0	333.3	424.1
Transport	194.0	210.0	218.0	260.3	345.1
Travel	86.0	46.0	13.0	27.4	29.1
Net external investment income	-164.0	-137.0	-98.0	-73.8	-128.1
Profits	-148.0	-72.0	-2.0	-	-7.5
Interest	-16.0	-65.0	-96.0	-73.8	-120.6
Net private transfer payments	-	-	-	-	3.3
Balance on current account	-69.0	-236.0	-472.0	-337.9	-315.3
Capital account					
Net external financing (a+b+c+d+e)	69.0	236.0	472.0	337.9	315.3
(a) Net external non-compensatory capital	247.0	-31.0	239.0	128.1	
Direct investment	41.0	-42.0	-	-	
Long- and medium-term loans	380.0	245.0	507.0	217.6	
Amortization payments	-140.0	-192.0	-361.0	-92.8	
Short-term liabilities	-34.0	-42.0	87.0	-	225.3
Official transfer payments	-	-	6.0	3.3	
(b) Domestic non-compensatory capital or assets	-7.0	25.0	-13.0	-	
(c) Errors and omissions	-103.0	-22.0	43.0	-0.1	
(d) Allocation of SDR units	21.0	17.0	17.0	-	-
(e) Net compensatory financing (increase -)	-89.0	247.0	186.0	209.9	90.0
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	5.0	102.0	125.0	192.4	...
Amortization payments	-73.0	-40.0	-4.0	-	...
Movements of foreign exchange reserves (increase -)	8.0	202.0	29.0	15.8	...
Movements of gold reserves (increase -)	-7.0	-1.0	-	-	...
SDR units (increase -)	-22.0	-16.0	36.0	1.7	...

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

a/ Estimates based on official statistics.

/In 1974

In 1974 the monetary authorities maintained their policy for rebuilding Chile's international reserves, with the accumulation of a sum of around 244 million SDRs. Although this was the amount of gross reserves, the outstanding increase in external liabilities - as a result of the renegotiation of debts and the utilization of the oil facility to offset increased fuel costs - led to a deficit of 90 million SDRs in the balance of payments. In any case, the level of this deficit was less than half that calculated for 1973 (209.9 million SDRs).

5. Prices, wages and employment

(a) Prices

In the evolution of domestic prices in 1974, the two most noteworthy elements of that year were the decrease in the growth rate of prices, especially during the second half of the year, although they remained at very high levels, and the marked process of change taking place in the system of relative prices.

If the trend described is measured against the consumer price index, it may be seen that the increase in prices between December 1973 and December 1974 was 375.9 per cent compared with 508.1 per cent between December 1972 and December 1973. In the first 6 months of the year, consumer prices increased by 145.6 per cent, while in the second half of the year, this percentage dropped to 93.8 per cent.21/ The variations in the main components of this indicator (see table 10) showed a sharper increase in the prices of food, housing, and miscellaneous items, while clothing showed smaller increases.

21/ There was a weakening of this trend in the first months of 1975. In March 1975 the consumer price index had grown by 60.9 per cent, compared with 62.2 per cent for the same period in 1974.

/Table 10

Table 10

CHILE: EVOLUTION OF CONSUMER AND WHOLESALE PRICES

(Percentage variation)

	1973	1974		
	December to December	December to December	To June	To December
(a) Consumer prices				
General index	508.1	375.9	145.6	93.8
Food	474.2	392.0	138.8	106.1
Housing	408.5	437.5	184.2	89.1
Clothing	646.6	172.4	74.3	56.3
Miscellaneous	599.3	446.4	209.2	76.7
(b) Wholesale prices				
General index	1 147.1	570.6	189.1	132.0
National products	1 021.2	517.5	191.1	112.2
Agricultural	512.9	381.0	116.7	122.0
Mining	1 503.1	823.4	305.7	127.6
Industrial	1 244.2	527.4	200.0	109.1
Imported products	1 692.2	714.5	183.6	187.2

Source: National Institute of Statistics, Consumer price index and wholesale price index.

The price increases in wheat products (basically bread) and in food and vegetables, especially in the first half of the year, had a decisive influence on the performance of the food sector. Also important were the price increases recorded in oils, sugar and sweets and milk products, but their importance was less since they carried less weight in the basket of goods used to calculate the index. The prices for other food products showed more moderate increases, especially in the case of meat, poultry and fish, and also preserves and concentrates.

/The increase

The increase in the prices of housing basically reflected the increases which had taken place in items such as rent, water supply, fuels and electricity, while the increase in expenditure on transport and communications was a decisive element in the high percentage represented by the miscellaneous section.

A consideration of the importance which each item of expenditure has in the consumer price index shows that food was responsible for an increase of 43 per cent in the general level of prices in 1974, while expenditure on housing had a share of 26 per cent and miscellaneous expenditure a share of 25 per cent; the share of clothing was 6 per cent.

As regards the evolution of wholesale prices, the index showed a growth rate for the year of 570.6 per cent (December to December), giving - as for consumer prices - a reduction in the annual rate and in the rate for the second half of the year compared with the first half (see table 10). The prices of local products increased by 517.5 per cent, basically as a result of the increase in industrial prices, which during the same period increased by 527.4 per cent. The manufactured items with the highest increases included food and beverages (588.4 per cent), chemical and petroleum products (635.3 per cent), metal products (625.4 per cent) and generation of electrical energy for industrial purposes (4,641.9 per cent). The lowest price increases took place in articles produced by the textile industry (215.7 per cent) and the clothing industry (322.4 per cent). The increase in prices of construction materials was also fairly low (390.1 per cent).

Although agricultural products as a whole showed smaller price increases (381 per cent), their main components gave evidence of markedly uneven variations. While the prices of the agricultural sector exceeded the average for national products (532.3 per cent), those from livestock and fishing activities increased at much more moderate rates, the former by 288.1 per cent and the latter by 104.2 per cent.

/The section

The section including mining products grew most during the year (823.4 per cent), especially in the first half of the year, since in the second half the rate of change in its prices decreased notably. This performance basically followed the evolution of copper prices on the international market during this period.

Prices of imported goods recorded one of the largest increases among the components of the general index (714.6 per cent), despite which this increase was only of relative importance, owing to its low weighting in the wholesale price index.

Imported goods of vegetable origin, like chemical products and petroleum products, experienced the most accelerated price increases (1,031.1 per cent for the former and 757.1 for the latter). Among the first, the magnitude of the increase in raw sugar and cotton, and among the second crude oil, stood out. The prices of other imported products evolved within lower limits (between 200 and 300 per cent).

One of the important conclusions which emerged from the analysis of the price indicators was constituted by the marked process of change in relative prices recorded in the course of the year.

In intersectoral terms, it may be observed that during the period there was a change in the price ratio of agricultural goods to industrial goods, markedly in favour of the latter. This basically occurred in the first half of the year, when prices of industrial goods increased by nearly 40 per cent compared with agricultural goods and altered this relationship, and then remained practically at this level for the rest of the year. This result was probably adverse for the agricultural sector as a whole, and basically was caused by less pronounced variations in prices which affected the products of the livestock sector (particularly meat). The proof of this was that the livestock/crop production price ratio changed in the course of the year with a 60 per cent increase in prices of agricultural goods.

/As important

As important as the changes which took place in the relative prices of the different sectors of the economy was the change in prices of goods and services considered individually. Table 11 shows the percentage variation in the prices of a selected group of goods in 1974.

Table 11

CHILE: VARIATION IN PRICES OF SOME FOOD PRODUCTS

Items	Percentage variations between November 1973 and December 1974
Bread	1 025
Tea	780
Sugar	733
Pastas	662
Oil	580
Pasteurized milk	567
Rice	311
Pulses	294
Eggs	250
Poultry meat	146
Cheap stewing-steak	100
Hake	79
Beef sirloin	72

Source: ECLA, based on Patricio Meyer and Jaime Ruiz Tagle P., "El poder adquisitivo de los sectores populares y medios", Mensaje 236, January-February 1975.

As may be observed, while products such as bread, tea and sugar increased their prices between seven and ten times, the prices of other products such as meat and fish increased by less than one and half times.

/The price

The price ratio of national goods to imported goods evolved in 1974 to the advantage of the latter. All in all, this result was influenced by the constant increase during the year in prices of imports - at similar rates in both halves of the year - and by the decrease in the growth rate of industrial prices in the second half of the year.

(b) Wages

The basic objective of the wage policy applied in 1974 was to maintain during this year the average purchasing power of 1973 wages, the level of which was 26 per cent lower than the average for 1970. In order to attain this goal, a wage policy was implemented which, through periodic readjustments and special allocations to the lowest-income sectors, would make it possible to avoid sharp fluctuations in real wages and protect the purchasing power of these groups.

The results obtained in the course of the year in achieving the target proposed are given in table 12.

Table 12

CHILE: INDEX OF REAL SALARIES AND WAGES IN 1974

(Average 1973 = 100)

January	102.02	July	98.09
February	90.65	August	99.31
March	87.00	September	97.69
April	82.13	October	90.24
May	94.44	November	90.38
June	93.76	December	102.42
Average first half	91.67	Average second half	96.36
Year's average for 1974 = 94.0			

Source: Department of Economics, University of Chile, "Comentarios sobre la situación económica, 2º semestre de 1974" (Publication Nº 18).

/As may

As may be seen, in only two months of the year was the Government's target slightly exceeded (January and December), while in another three (July, August and September) there was a fair approximation to the target. During the other months, the purchasing power of wages and salaries was below the level of the 1973 average, while the decrease in the real incomes of wage-earners which took place between January and April tended to be fairly large (nearly 20 per cent). The fair recovery in real wages which took place in the months of May and June coincided with the general readjustment of wages and salaries granted at this time, and with the inclusion and extension of other additional and special benefits of a compensatory nature (family, collation, transport, length of service, and other allowances). In the second half of the year the frequency of the readjustments in wages and other benefits was increased, and the fluctuations in the index became less intensive, while as from 1 October a system of automatic quarterly readjustments of wages and salaries was introduced. All in all, actual achievements remained below the target of 6 per cent fixed for 1974, while the decrease in the purchasing power of wages was much more pronounced in the first half of the year than in the second. In the first six months the decrease slightly exceeded 8 per cent and in the second six months it stood at around 4 per cent.

The drop in real average income which took place in 1974 probably varied in intensity in the different income receiving sectors. According to estimates by the Department of Economics of the University of Chile, average real liquid wages in the fiscal sector decreased by 19 per cent compared with levels in the month of January 1974. Among the wage-earners of this sector there are some employees who have lost more than others and even some who have increased their real earnings, as may be seen from table 13.

/Table 13

Table 13

CHILE: INDEX OF REAL LIQUID WAGES, SINGLE SCALE

(Base January 1974 = 100)

	Annual average
Grade 35	97.3
Grade 33	91.7
Grade 25 without professional allocation	77.1
Grade 25 with professional allocation	86.7
Grade 17 without professional allocation	73.0
Grade 17 with professional allocation	84.1
Grade 8 without professional allocation	72.6
Grade 8 with professional allocation	84.2
Grade 4 without professional allocation	73.0
Grade 4 with professional allocation	85.1

Source: Department of Economics, University of Chile, "Comentarios sobre la situación económica, 2º semestre de 1974" (Publication Nº 10).

Lastly, the sharper decline in the real earnings of the public sector than in average overall wages, was offset by the fact that in the private sector the real income of the wage workers may have decreased to a lesser extent, or even increased in some cases.

(c) Employment

The only quantitative data in existence on the evolution of employment in 1974 as this note is written, are the quarterly reports prepared by the National Institute of Statistics (INE) and the Department of Economics of the University of Chile on employment and unemployment in Greater Santiago. It may be observed that more than one-third of the country's population is concentrated in this urban centre, as well as a majority share of industrial, commercial and service activities.

According to these data, the volume of employment in Greater Santiago in 1974 grew much less than the increase in the labour force, and consequently the level of unemployment increased substantially.

/Between December

Between December 1973 and December 1974, according to the INE sample, employment increased by 1.7 per cent, the number of persons entering the labour force by 6 per cent, and the rate of unemployment increased from 5.6 per cent to 9.4 per cent. A similar trend may be observed in the study being prepared by the Department of Economics of the University of Chile, although with a smaller difference between employment and the labour force.

If unemployment throughout the year is analysed it may be observed that, in an increasing trend, the highest level of unemployment was found between the months of June and October. In June, the unemployment rate given by the Department of Economics reached 10.3 per cent, and in October the INE index showed its highest level of 10.4 per cent.

Of the components of unemployment, both the out-of-work rate and the rate for persons seeking work for the first time increased between December 1973 and December 1974. However, the out-of-work index showed a decrease in the second half of the year. While it amounted to 7.5 per cent in June, it was 6.8 per cent in September and 6.1 per cent in December.

It may also be deduced from the survey of the Department of Economics that there was a generalized spread of unemployment to all the sectors of economic activity; the highest sectoral rates were for activities producing goods (8.3 per cent), especially construction (12.6 per cent), while services showed a lower rate (5.1 per cent).

ECUADOR*

1. Recent economic trends

In 1974, the gross domestic product rose by 9.2 per cent, which is slightly lower than the 1973 rate but higher than that recorded for 1970-1972. The trend of the total product was basically the result of a drop in the growth rate of mining activity in relation to 1973, the first complete year of petroelum production in the country. The construction and transport and communications sectors also reduced their rates of expansion. In contrast, the growth rate of agriculture, manufacturing and government activity improved (see table 1).

Total supply of goods and services rose at a higher rate than the gross domestic product, since the volume of imports of goods and services increased significantly. On the total demand side, a contraction is noted in the volume of exports of goods and services and a substantial rise in capital formation, following others observed in previous years. Thus, the ratio of gross investment to the gross domestic product has risen steadily, from 19.5 per cent in 1970 to 24.4 per cent in 1974 (see table 2).

The main development in the external sector was the sharp increase in the export and import trade. Exports of goods and services, in terms of SDR units, rose 113 per cent, in response to the increase in the international prices of petroleum and, on a lesser scale, sugar and cocoa. Imports of goods and services rose by 65 per cent, owing to increases of around 30 per cent in both volume and unit value. The current account reflected a surplus of 83 million SDR units and the total balance-of-payments surplus stood at practically the same figure because the net inflow of non-compensatory capital was reduced.

The rate of inflation spurted, but the most serious maladjustments were concentrated in the first part of the year, particularly as a result of increases in food prices. By the end of 1974 the annual rate of inflation was approximately 20 per cent, or similar to that observed in 1973.

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* See, in Part One of this Survey, the section dealing with Ecuador in the chapter on inflation.

/Table 1

Table 1

ECUADOR: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTOR OF ECONOMIC ACTIVITY

	Millions of sucres at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974a/	1970	1974a/	1970-1972	1973	1974a/
Agriculture	9 404	9 555	9 794	29.9	23.2	1.5	-1.4	2.5
Mining	449	2 827	2 940	1.4	6.9	55.0	170.3	4.0
Manufacturing	5 713	7 397	8 436	18.2	19.9	7.9	11.1	14.0
Construction	1 387	1 807	1 957	4.4	4.6	8.0	11.7	8.3
Subtotal goods	16 953	21 586	23 127	53.9	54.6	5.9	13.5	7.1
Electricity, gas and water	418	...	...	1.3	...	6.6	...	...
Transport and communications	2 091	2 625	2 773	6.7	6.6	6.9	9.6	5.6
Subtotal based services	2 509	3 096	3 252	8.0	7.7	6.9	7.9	5.0
Commerce and finance	4 505	5 374	6 171	14.4	14.6	8.7	1.0	14.8
Government	3 275	3 664	4 415	10.4	10.4	4.0	3.4	20.5
Ownership of dwellings	1 948	2 378	2 527	6.2	6.0	7.2	6.3	6.3
Miscellaneous services	2 238	2 630	2 815	7.1	6.7	6.3	4.0	7.0
Subtotal other services	11 966	14 046	15 928	38.1	37.7	6.8	3.1	13.4
Total	31 428	38 728	42 307	100.0	100.0	6.2b/	9.3b/	9.2

Sources: 1970-1973, ECLA calculations based on figures supplied by the Central Bank of Ecuador; 1974, ECLA estimates based on statistics from the same source.

a/ Preliminary figures.

b/ The discrepancy between the growth rate in this table and that in the table on total supply and demand is due to the fact that they measure different concepts of the product (in the first case at factor cost, and in the second at market prices).

/Table 2

Table 2

ECUADOR: TOTAL SUPPLY AND DEMAND

	Millions of sucres at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974a/	1970	1974a/	1970-1972	1973	1974a/
Total supply	43 130	54 329	61 068	121.5	126.0	6.5	11.1	12.4
Imports b/	7 629	9 967	12 617	21.5	26.0	7.2	13.8	26.6
Gross domestic product	35 501	44 362	48 451	100.0	100.0	6.3	10.5	9.2
Total demand	43 130	54 329	61 068	121.5	126.0	6.5	11.1	12.4
Exports b/	5 590	9 687	8 868	15.8	18.3	16.7	27.2	-8.5
Domestic demand	37 540	44 642	52 200	105.7	107.7	4.9	8.1	16.9
Gross domestic investment	6 936	9 966	11 854	19.5	24.4	12.5	13.6	18.9
Increase in stocks	...	...	...	...	...	...	...	...
Gross fixed investment	6 327	9 323	10 541	17.8	21.8	13.2	15.0	13.1
Total consumption	30 604	34 676	...	86.2	...	3.1	6.6	...
General government	4 152	4 752	...	11.7	...	3.3	7.2	...
Private	26 452	29 924	...	74.5	...	3.1	6.5	...

Sources: 1970-1973, ECLA calculations based on figures supplied by the Central Bank of Ecuador; 1974, ECLA estimates based on statistics from the same source.

a/ Preliminary figures.

b/ Goods and services, excluding factor payments.

/2. Major

2. Major sectors of activity

The agricultural sector grew by 2.5 per cent, that is, at a slower rate than the population, but higher than that recorded in the period 1970-1973. It is estimated that the exportable agricultural surplus increased by about 15 per cent, while production for domestic consumption remained at the same level.

Mining increased its contribution to the gross domestic product by only 4 per cent, since petroleum production rose by less than 3 per cent. OPEC's policy of fixing international oil prices and restricting production in the oil-exporting countries is basically responsible for the small increase in Ecuador's petroleum output.

Manufacturing production rose by 14 per cent; thus the fairly dynamic trend recorded by this sector since the end of the 1960s was accentuated. This brought industry's share of the gross domestic product to 20 per cent, compared with 18.2 per cent in 1970 and about 17 per cent in 1967. The development of manufacturing activity was favourably influenced by the trends of both factory industry and small-scale and artisan industry.

Construction grew at a rate of 8.3 per cent, which is lower than in 1973 but similar to the rate observed in the period 1970-1972.

The goods-producing sectors as a whole increased their contribution to the gross domestic product by 7.1 per cent compared with 13.5 per cent in 1973. Output of the basic services sectors rose by 5 per cent in 1974, which is lower than the rate recorded the previous year (see table 2).

The slower growth rate of the goods-producing and basic services sectors was, however, largely compensated for by the greater activity of the services sectors (13.4 per cent in 1974 and 3.1 per cent the year before). This bigger contribution to the gross domestic product was mainly the result of the 20.5 per cent increase in government activity. In this respect, it is estimated that the number of government officials increased by 8.5 per cent and that, in terms of current prices, the total wages and salaries paid by the State rose by around 47 per cent.

/3. The

3. The external sector

Exports of goods and services rose by 113 per cent, in terms of SDR units, as a result of an increase of over 120 per cent under the head of goods (see table 3). Reflecting, above all, the trend of petroleum sales and the international market conditions for this product, exports of goods dropped by 8 per cent in volume compared with 1973, while their average unit value rose by 138 per cent.

International prices of a number of export commodities increased substantially. The rise in the price of petroleum was 246 per cent, while sugar, cocoa and coffee prices rose 220, 88 and 32 per cent, respectively. In contrast, banana prices went up by only 7 per cent.

Imports of goods and services rose by 65 per cent, and those of goods, considered separately, by 68 per cent. The volume of imports of goods increased by 29 per cent, and the average price paid for them was almost 30 per cent higher than in 1973.

The significant increase in imports was due, among other factors, to the policy of progressive liberalization adopted in view of the increased capacity to import,22/ the expansion of domestic demand, and a certain tendency of local entrepreneurs to stock up imported goods in anticipation of a rise in world prices. In addition, the exchange rate has been kept at 25 sucres to the dollar since 1970.

Thanks to the trend of exports and imports of goods and services, the trade balance changed from a deficit of 12 million SDR units in 1973 to a surplus of 225 million in 1974. However, mainly because payments of profits on foreign capital doubled, the balance on current account showed a more moderate movement, from a deficit of 81 million SDR units in 1973 to a surplus of 83 million in 1974.

Since the net inflow of non-compensatory capital amounted to 6 million SDR units, the total balance-of-payments surplus was 89 million SDR units, which includes the increase in the country's net international reserves.

22/ This policy included the elimination of prior import deposits in 1973, and an appreciable reduction in customs tariffs in 1974.

/Table 3

Table 3

ECUADOR: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974
Current account					
Exports of goods and services	258.0	269.8	326.1	508.4	1 082.6
Goods FOB	234.3	242.9	297.7	476.0	1 048.5
Services	23.7	26.9	28.4	32.4	34.1
Transport	1.1	1.0	5.0	7.7	8.3
Travel	8.5	8.9	8.4	12.3	13.3
Imports of goods and services	375.5	459.7	436.7	520.3	857.2
Goods FOB	266.2	360.7	337.7	407.8	686.8
Services	109.3	99.0	99.0	112.5	170.4
Transport	44.8	58.3	59.2	66.5	101.4
Travel	9.4	11.5	10.1	13.0	15.8
Net external investment income	-29.2	-35.7	-42.0	-83.3	-158.0
Profits	-19.2	-25.2	-31.6	-77.5	-159.6
Interest	-10.0	-10.5	-10.4	-5.8	1.6
Net private transfer payments	7.5	7.7	5.8	13.9	15.8
Balance on current account	-139.2	-217.9	-146.8	-81.3	83.2
Capital account					
Net external financing (a+b+c+d+e)	139.2	217.9	146.8	81.3	-83.2
(a) Net external non-compensatory capital	118.0	193.1	226.9	90.2	
Direct investment	88.6	162.1	138.2	45.0	
Long- and medium-term loans	49.2	49.0	103.1	50.0	
Amortization payments	-27.4	-29.8	-26.1	-27.9	
Short-term liabilities	-1.8	3.8	3.0	5.3	5.8
Official transfer payments	9.4	8.0	8.7	17.8	
(b) Domestic non-compensatory capital or assets	4.7	-3.2	-5.1	-8.6	
(c) Errors and omissions	16.2	-5.8	16.1	79.7	
(d) Allocation of SDRs	4.2	3.5	3.5	-	-
(e) Net compensatory financing (increase -)	-3.9	30.3	-94.6	-80.0	-89.0
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	22.9	20.8	10.6	9.0	...
Amortization payments	-6.5	-11.0	-32.6	-24.9	...
Movements of foreign exchange reserves (increase -)	-21.3	23.3	-75.4	-58.8	...
Movements of gold reserves (increase -)	1.1	0.4	6.2	-6.4	...
SDRs (increase -)	-0.1	-3.2	-3.4	1.1	...

Source: IMF, Balance of Payments Yearbook, vol. 26.

a/ Estimates based on official statistics.

/4. The

4. The trend of prices and other variables related to the inflationary process 23/

A study of the variations from December to December in the consumer price index in Quito shows that the rate of inflation rose to 21.2 per cent in 1974, or slightly above the previous year's rate. On the other hand, the variations between annual averages indicate an acceleration of 12.9 per cent in 1973 and 23.4 per cent the following year (see table 4).

Table 4

ECUADOR: CONSUMER PRICE TRENDS IN QUITO

(Percentages)

	1972	1973	1974
Variation from December to December			
(a) General Index	6.9	20.5	21.2
(b) Food and beverages	10.7	31.1	28.0
Variation between annual averages			
(a) General index	7.9	12.9	23.4
(b) Food and beverages	11.1	20.3	32.4

Source: National Statistical Institute (INE), Indice de precios al consumidor.

Moreover, pursuing the trend observable since the mid-1960s, food prices rose more than the general index in 1974. This trend has been associated with the stagnation of agricultural production and its impact as a structural factor of inflation.

Generally speaking, the trend of the inflationary process in 1974 continued to be defined by the same external and internal factors as those identified in the special study on the subject. However, it is worthwhile to add some comments on developments in the fiscal and monetary areas.

23/ A special section in another chapter of this Survey is devoted to the study of inflation in Ecuador.

/As regards

As regards central government finance, total current income rose by 87 per cent. The income not directly connected with increasing petroleum output went up by 22 per cent - or somewhat less than the average rise in prices - while income obtained from petroleum rose 330 per cent. The National Development Fund (FONADE)24/ obtained an income of 3,555 million sucres (over 140 million dollars) (see table 5).

Total government expenditure grew by 80 per cent and, if FONADE's disbursements are excluded, the increase was 47 per cent. At constant prices, this increase was about 20 per cent.

The overall operation of the fiscal finances reflected a surplus of 750 million sucres, in view of the surplus of 1,030 million sucres obtained by FONADE. Therefore, excluding FONADE, the Treasury showed a deficit of 276 million sucres, which was covered by means of internal borrowing to a value of 1,372 million, since at the same time there was a net reduction of 1,096 million in the external debt.

In addition to the expansionist effect produced by the vigorous increase in fiscal demand, the government finances were partly responsibl for the increase in the means of payment, to the extent that the foreign currency income of the Government - especially of FONADE - had to be converted into national currency to finance local expenditure. This was a particularly important factor during the first half of the year when, as a result of the overall balance of payments trend, the economy rapidly increased its level of gross international reserves. In the second half of the year, however, the effect was less marked, owing to the decrease in reserves on account of the sharp increase in imports.25/

24/ The Fund which operates independently of the budget and finances new investment projects, received all the income from petroleum in excess of the reference price of 7.30 dollars per barrel.

25/ Gross international reserves amounted to 241 million dollars in December 1973, 444 million in June 1974 and 350 million in December of that year.

/Table 5

Table 5

ECUADOR: CENTRAL GOVERNMENT FINANCE

(Millions of sucres at current prices)

	1973	Percentage variation	1974	Percentage variation	FONADE
1. Current income	7 810	47.0	14 853	86.7	3 555
(a) Excluding petroleum	6 167	-	7 517	21.9	-
(b) Income from petroleum	1 643	-	7 066	330.1	-
2. Total expenditure	7 692	30.0	13 831	79.8	2 527
(a) Excluding FONADE	7 692	-	11 304	47.0	-
(b) Expenditure of FONADE	-	-	2 527	-	-
3. Surplus (1-2)	118	-75.0	752	-	1 028
4. Composition of surplus	118	-	752	-	-
(a) Net external borrowing a/	46	-	1 096	-	-
(b) Net internal borrowing a/	72	-	-1 372	-	-
(c) Surplus of FONADE	-	-	1 028	-	-

Source: ECLA, on the basis of official statistics.

a/ The plus signs indicate that there were net reductions in the external and the internal debt, while the minus signs denote net borrowing.

/Between December

Between December 1973 and October 1974 the increase in the money supply was 21.2 per cent, but for the 12-month period up to December 1974 it is expected to be around 30 per cent, that is, similar to the increase in 1973 (see table 6).

A study of monetary trends over the 10-month period covered by the table shows that the variation in net international reserves and in domestic credit to the private sector acted as factors of expansion, while net credit to the Government (in the same 10 months and including FONADE) was a factor of contraction. Nevertheless, between 1973 and 1974 the percentage increase in reserves was smaller than in the previous year, while the rate of increase in credit to the private sector accelerated.

/Table 6

Table 6

ECUADOR: MONETARY TRENDS

(Millions of sucres at current prices)

	1972	1973	Percentage variation	1974 end October	1974 Percentage variation (in 10 months)
I. Composition of monetary resources					
1. Money	7 321	8 568	30.7	11 595	21.2
2. Quasi-money	3 019	3 598	19.2	4 798	33.4
3. Bonds	1 844	2 135	15.8	2 621	22.8
4. Other (net)	664	219	-67.0	...	...
II. Factors of expansion and contraction					
5. Net international reserves	3 199	5 874	83.6	9 384	59.8
6. Domestic credit	9 647	9 644	-	10 853	12.5
(a) to the Government (net)	(1 821)	(211)	(-88.4)	(-1 581)	(...)
(b) to the private sector	(7 826)	(9 433)	(20.5)	(12 434)	(31.8)

Source: IMF, International Financial Statistics, March 1975.

/EL SALVADOR

EL SALVADOR

1. Recent economic trends

The growth rate of 6 per cent recorded by the Salvadorian economy in 1974 was the highest rate achieved in the current decade (5.2 per cent annually in the period 1970-1973), thus fulfilling the target laid down in the Development Plan (see table 1).

The growth of 7.1 per cent in demand was stimulated in particular by the considerable expansion of public investment and the significant increase in private consumption (8.2 per cent). Public investment, which included sizable inflows of capital supplemented by domestic resources in the form of bank credit, rose at a rate of over 40 per cent. This was the outcome of the convergence of efforts in connexion with a group of projects which, because of their medium- and long-term effects in overcoming the bottlenecks existing in the production system, are the object of continuing attention.26/

The effect of those two factors of expenditure found a sufficiently flexible response from the domestic production sectors, which, in addition to the promotion measures, were favoured by good weather conditions for their crops, the existence of idle capacity and the accumulation of large stocks of raw materials and inputs that had been imported the year before. These circumstances stimulated the production of goods, the dynamic impetus of which was transmitted to the services sectors (see table 2).

26/ Among the highest priority projects are the construction of the Cerrón Grande hydroelectric dam and promotion of the Ausoles de de Ahuachapán Geothermic Project which will enable better use to be made of natural resources for energy generation - thereby reducing the country's dependence on imported fuels - which will be supplemented by rural electrification programmes. Progress was also made on the installation of the Valle de Jiboa Sugar Plant, designed to spur the activity of a broad sector of medium- and small-scale sugar cane producers.

/Table 1

Table 1

EL SALVADOR: TOTAL SUPPLY AND DEMAND

	Millions of colones at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 a/	1970	1974a/	1970-1972	1973	1974a/
Total supply	3 202.8	3 862.5	4 135.3	124.6	130.4	6.0	7.2	7.1
Imports b/	631.4	871.7	965.0	24.6	30.4	9.4	15.3	10.7
Gross domestic product	2 571.4	2 990.8	3 170.3	100.0	100.0	5.2	5.1	6.0
Total demand	3 202.8	3 862.5	4 135.3	124.6	130.4	6.0	7.2	7.1
Exports b/	638.8	783.6	821.0	24.8	25.9	11.6	-1.6	4.8
Domestic demand	2 564.0	3 078.9	3 314.3	99.8	104.5	4.6	9.7	7.6
Gross domestic investment	340.6	484.2	519.4	13.3	16.4	3.3	33.2	7.3
Gross fixed investment	308.0	426.1	455.8	12.0	14.4	16.7	1.6	7.0
Public	72.3	119.4	171.3	2.8	5.4	30.0	-2.2	43.5
Private	235.7	306.7	284.5	9.2	9.0	12.3	3.2	-7.2
Construction	132.2			5.1		...		
Machinery and equipment	175.8			6.9		...		
Total consumption	2 223.4	2 594.7	2 794.9	86.5	88.2	4.8	6.3	7.7
General government	275.6	323.5	338.0	10.7	10.7	5.2	6.0	4.5
Private	1 947.8	2 271.2	2 456.9	75.8	77.5	4.7	6.3	8.2

Sources: 1970-1972: ECLA calculations based on figures supplied by the Banco Central de Reserva de El Salvador; 1974: ECLA estimates based on official statistics.

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 indexed calculates by ECLA for the purpose.

a/ Preliminary figures.

b/ Goods and services, excluding factor payments.

/Table 2

Table 2

EL SALVADOR: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTOR OF ECONOMIC ACTIVITY

	Millions of colones at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 a/	1970	1974a/	1970-1972	1973	1974a/
Agriculture	727.3	803.0	846.0	30.6	28.9	2.6	4.9	5.4
Mining	4.2	4.7	4.9	0.2	0.2	4.7	2.2	5.0
Manufacturing	418.0	495.3	526.0	17.6	18.0	5.8	5.9	6.2
Construction	72.4	94.8	109.9	3.1	3.8	21.3	-11.0	15.9
Subtotal goods	1 221.9	1 397.8	1 486.8	51.5	50.9	4.3	4.0	6.4
Electricity, gas and water	38.8	52.0	56.6	1.6	1.9	9.9	10.9	8.8
Transport and communications	126.3	137.9	144.5	5.3	4.9	3.1	2.7	4.8
Subtotal basic services	165.1	189.9	201.1	7.0	6.8	4.8	4.8	5.9
Commerce and finance	483.3	569.4	605.9	20.4	20.7	4.7	7.5	6.4
Government	200.2	246.2	258.5	8.4	8.8	8.0	5.4	5.0
Ownership of dwellings	94.9	108.0	111.9	4.0	3.8	4.8	3.5	3.6
Miscellaneous services	209.7	249.1	263.0	8.8	8.9	6.4	4.9	5.6
Subtotal other services	988.1	1 172.7	1 239.3	41.6	42.3	5.7	6.3	5.7
Gross domestic product, total	2 375.1	2 762.4	2 928.2	100.0	100.0	5.2	5.1	6.0

Sources: 1970-1972: ECLA calculations based on figures supplied by the Banco Central de Reservas de El Salvador; 1973-1974: ECLA estimates based on official statistics.

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 agricultural

The agricultural sector, apart from the sput provided by favourable weather conditions, responded to the policy incentives based on the increase in support prices and the expansion of credit facilities, achieving a growth of 5.4 per cent which compares favourable with the 1973 rate of 4.9 per cent and the moderate progress made in previous years. The abundant rainfall contributed to general increases in yield and the bumper coffee harvest reversed the downward trend of the year before. Thus, between green coffee and other varieties, over 3 million quintals were exported, while production for domestic consumption also increased. Cotton producers also had various incentives to maintain a high level of output, but the main stimulus came from the high international prices. In the second half of 1974, quotations for Salvadorian cotton tended to drop, and this may have the effect of reducing the 1974/1975 harvest, since in addition weather conditions were unfavourable in October.

The results obtained in the production of sugar-cane were particularly significant. In response to external demand on the world market, especially the Middle East, the cultivated area was increased by about 10,000 manzanas (20 per cent) which, combined with a bigger yield, enabled production to be raised by 26 per cent. This increase, together with the high external prices, helped to boost the country's foreign exchange receipts.

With a population of 3.9 million and an area of 21,000 square kilometres, less than half of which are arable, the expansion of agriculture reached its maximum limits.

The incorporation of new agricultural land, the greater credit facilities granted and the increase in support prices acted as the main factors of the increase in the production of grains and other staple products, which exceeded the previous harvests, particularly of maize, beans and rice. However, in other basic lines of agricultural production for home consumption (sorghum, tobacco, henequen, kenaf, sesame and fruit and vegetables) and in stock-raising, production was maintained at practically the same levels as the previous year. The shrimp catch, on the other hand, increased.

As regards manufacturing, the value added was 6.2 per cent higher than in 1973. The faster growth (in 1973 the rate was slightly below 6 per cent) is basically attributable to the expansion of domestic and

/Central American

Central American demand, the use of installed capacity being stepped up without any problems of supply, in view of the fairly large stocks of semi-processed materials and products imported in 1973.

As public investment gathered momentum, its effects were felt particularly in the construction sectors (a growth of approximately 16 per cent in value added). A significant level of activity was also recorded in electricity services and the provision of financial services (see table 2).

In spite of the satisfactory expansion of overall economic activity disruptions caused by an unusual intensification of inflationary pressures made themselves felt (in the first 10 months of 1974 the wholesale price index rose 25 per cent), the basic factors being the increase in import prices and the transmission to the domestic market of the situation of steadily rising prices of some export commodities. Despite the acceleration of inflation, private consumption expanded at a rate of 8.2 per cent - compared with 6.3 per cent in 1973 - partly as a result of the wage adjustments designed to prevent any further deterioration of real income in the labour sector. During the year, wages and salaries were adjusted by proportions of over 20 per cent in commerce and industry, over 15 per cent in the private sector and over 10 per cent in agriculture. The rise in domestic prices, particularly of imports (30 per cent), discouraged the private sector from incurring new expenditure on capital formation, decisions to intensify the use of equipment prevailing over expansion plans and projects. Thus, private investment dropped by about 7 per cent (see table 1).

The unfavourable situation as regards international prices (the unit values of exports increased less than those of imports) led to a serious disequilibrium in current external transactions, in addition to a smaller increase in the volume of exports than in that of imports. Up to a point, this disequilibrium was due to the delay in marketing substantial coffee surpluses in the expectation of better prices, although the resulting financial pressures were eased, at least in the current financial year, by means of external loans actively contracted by the Central Bank and other official institutions.

/The measures

The measures designed to mitigate the effects of this external instability centred on financial policy instruments. Thus, not only was domestic bank credit increased, but extensive use was also made of fiscal incentives, in addition to strengthening the mechanisms favouring producers by means of support prices.

2. The external sector

Although exports of goods and services at current prices rose 26 per cent, the more rapid growth of imports of goods and services (44 per cent) led to a sharp increase in the balance of payments deficit on current account (see table 3). This deficit, which amounted to 112.5 million SDR units, was exceeded by non-compensatory inflows of capital, the result being an increase of 7.4 million SDR units in net international reserves.

As regards the trade balance, there was an increase of 5.5 per cent in the volume of goods exported, which was supplemented by a 20 per cent rise in prices, resulting in an increase of 26.4 per cent in the total value of exports. The results might have been even better had it not been for the long-drawn-out negotiations between coffee exporters and the principal buyers in an attempt to reach agreements that would be fair to both parties. Placing their hopes on these agreements, Salvadorian exporters held back considerable surpluses until the critical financing aspects caused them to effect a high proportion of their operations in the last three months of the year when prices had decreased significantly.

There was a 44 per cent increase in the volume of cotton exports. Sales of meat and shrimps were affected by the liberalization of the traditional quota system and the protection accorded to United States producers. Consequently, they fell short of the previous year's total, and in the case of shrimps, although the volume increased (20.8 per cent), prices fell more than proportionally to just over 4,300 dollars per ton compared with 5,673 dollars in 1973.

In order in some degree to offset the instability of the external markets for traditional commodities, steps were taken to promote exports of new products. In this respect, various measures have been taken

/Table 3

Table 3

EL SALVADOR: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974a/
Current account					
Exports of goods and services	252.4	263.2	310.0	334.3	421.3
Goods FOB	231.5	238.9	277.9	301.7	382.5
Services	20.9	24.3	32.1	32.6	38.8
Transport	1.5	1.8	7.9	8.7	11.2
Travel	8.5	10.1	10.0	9.0	10.4
Imports of goods and services	253.8	291.0	299.6	369.0	532.2
Goods FOB	194.7	227.3	230.0	281.9	423.8
Services	59.1	63.7	69.6	87.1	108.4
Transport	26.3	29.8	33.2	38.4	49.9
Travel	20.4	20.4	18.8	29.6	35.6
Net external investment income	-8.8	-10.2	-10.1	-10.0	-11.6
Profits	-6.7	-6.4	-6.3	-6.3	-7.5
Interest	-2.1	-3.8	-3.8	-3.7	-4.1
Net private transfer payments	12.4	16.1	8.2	9.9	10.0
Balance on current account	2.2	-21.9	8.5	-34.8	-112.5
Capital account					
Net external financing (a+b+c+d+e)	-2.2	21.9	-8.5	34.8	112.5
(a) Net external non-compensatory capital	14.7	29.0	14.5	37.9	120.0
Direct investment	3.7	7.0	6.1	3.0	
Long- and medium-term loans	8.7	14.7	27.6	23.0	
Amortization payments	-6.8	-10.3	-13.1	-11.4	
Short-term liabilities	7.2	16.5	-9.0	21.2	
Official transfer payments	1.9	1.1	2.9	2.1	
(b) Domestic non-compensatory capital or assets	-6.0	-1.0	-11.4	-6.4	
(c) Errors and omissions	-2.7	-14.0	1.7	-0.6	
(d) Allocation of SDR units	4.2	3.7	3.7	-	-
(e) Net compensatory financing (increase -)	-12.4	4.2	-17.0	3.9	-7.5
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	1.1	18.3	11.9	-	...
Amortization payments	-12.1	-13.7	-12.8	-15.1	...
Movements of foreign exchange reserves (increase -)	1.1	1.7	-14.7	19.0	...
Movements of gold reserves (increase -)	-2.5	0.1	0.2	-	...
SDR units (increase -)	-	-2.2	-1.6	-	...

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

a/ Estimates based on official statistics.

/to promote

to promote non-traditional sales, in particular through the implementation of the law on export promotion and the organization of, and active participation in, international fairs.

Imports of goods rose by 50 per cent as a result of increases of 15 per cent in volume and 30 per cent in price.

The increase in value of intermediate goods was 70 per cent, representing two-thirds of the total value of imports of goods, more than one-quarter of which consisted of crude petroleum and manufactured fertilizers.

As regards imports of capital goods, the increase was mainly in the public sector which, as stated previously, showed great activity in the execution of infrastructure projects.

In 1974 there was a net inflow of non-compensatory capital of 120 million SDR units, i.e., nearly four times more than the previous year. The banking sector received nearly half, and the rest were private and official transactions. The latter accounted for 20 per cent, with the contraction of medium- and long-term operations which facilitated the process of increasing basic social capital formation.

That same year, the movement of bank capital financing rose to unprecedented levels by virtue of the monetary authorities' policy that permitted external borrowing by the Central Bank, commercial banks and even private individuals to finance production.

As mentioned above, net international reserves showed a recovery of 7.5 million SDR units which, added to the balance accumulated in December 1973, brought the total to 68 million. This amount is in any case somewhat meagre, since it is estimated that it would enable the country to pay for its imports for only one and a half months in 1975 if they follow the same trend as in the year under review. Over half of this recovery took place in the last three months of the year as a result of the greater activity in exports during that period.

As in previous years, the trade balance with Central America reflected a surplus, but it now recorded an unusual increase of 70 per cent, notwithstanding the increase in freight rates which

/affected trade

affected trade with Nicaragua in particular, and the suspension of certain imports from that market as from mid-November.

3. Public finance

The principal aim of the Government's financial policy in 1974 was to cushion some of the negative effects of the inflationary process on domestic economic activity and as far as possible to attain the goals laid down in the Development Plan.

This meant public expenditure involving a considerable deficit, as a result of the combination of several factors. First, tax collections grew by a somewhat modest rate (18.6 per cent) considering the increases in prices, owing to the adoption of a number of fiscal measures to keep the domestic market supplied by means of preferential treatment for external purchases of certain essential products, such as wheat, petroleum and manufactured fertilizers. In this way, the Government helped to maintain production and employment levels in both the agricultural and the manufacturing sector.

Secondly, it was not possible to obtain a higher fiscal revenue because of the trend of exports of some traditional commodities, mainly coffee and cotton, since the increase in the amounts collected in the form of taxes did not correspond to the increase in the value of these operations (possibly owing to marketing problems). Yet another factor was the granting of exemption in order to promote exports of manufactured products.

Current expenditure of the central government rose by 24 per cent, the share of social services (53.8 per cent) and those of the economic and administrative sectors remaining the same as in previous years.

At the same time, capital expenditure was increased by 60 per cent, mainly to provide assistance to the rest of the public sector in the form of transfers of capital, important support being given to the electrification programmes being carried out by the Río Lempa Hydro-electric Executive Commission.

/The autonomous

The autonomous institutions, for their part, more than doubled their capital expenditure of the previous year. This trend was mainly due to financial investment, while material investment increased by 40 per cent.

The Government covered the fiscal deficit mainly by having recourse to domestic credit and, on a lesser scale, to external credit. Internal borrowing, which amounted to 66.6 million colones, was affected by means of the sale of securities to the public through the commercial banks, which served to finance the autonomous institutions. With the new credit obtained in 1974, the public debt rose to 566.7 million colones, and continued to represent about 14 per cent of the gross domestic product.

4. Money and banks

In 1974 the means of payment increased by 35 per cent. This expansion was appreciably greater than the year before (19.6 per cent), notwithstanding the measures adopted to prevent excessive monetary expansion.

Among the credit lines accorded during the year were those used for imports of fertilizers and raw materials for the agricultural sector.

In order to cover the credit requirements of private institutions and public investment programmes, the Central Bank increased its external indebtedness from 77.2 to 242.5 million colones (figures for November of each year), thus trebling the total reached in 1973. These resources were used basically to enable the official autonomous institutions to fulfil their investment programmes.

The credit institutions acquired securities issued or guaranteed by the State in order subsequently to sell them to the public. In this operation, minimum percentages were established for purchases by commercial banks (8 per cent of their total assets) and insurance companies (15 per cent of their technical reserves).

/In the

In the middle of the year, a policy of bank cash reserves was adopted as a means of regulating the Central Bank's credit programme, deposits at more than 90 days being included in the compulsory 30 per cent deposit.

Furthermore, bank interest rates were raised with the aim of encouraging domestic saving, discouraging the outflow of domestic capital and promoting certain economic activities. The rates paid in commercial bank operations rose by approximately 1 per cent, while the differential treatment of credit was maintained according to its use.

In order to restrict the outflow of foreign exchange, the system for the sale of foreign exchange to cover travel expenses was modified. In line with the new regulations, 20 per cent of the total value of travel expenses in excess of 600 colones per head (to be checked later) must be deposited. Moreover, new non-essential articles were added to the import lists, subject to a prior deposit of up to 100 per cent of their value, as in the case of cars.

GUATEMALA

1. Recent economic trends

In 1974 there was a change in the trend of the growth which had characterized the economy of Guatemala since 1970. The rate of growth of the gross domestic product, which had been 7.3 per cent in 1972 and 7.6 per cent in 1973, dropped to 4.7 per cent in 1974 (see table 1).

This took place against a background of increasing inflationary pressures which were reflected in an increase of 19.8 per cent in the gross domestic product, calculated at current prices, and in an increase of 15.9 per cent in domestic consumer prices.

Gross fixed capital investment decreased by 5.1 per cent compared with the previous year, owing to a considerable decline in the real level of public investment and to stagnation in private capital spending. This unsatisfactory state of affairs may partly be attributed to the above-mentioned inflationary tensions, which meant a substantial increase in the cost of capital goods, with the consequent decline in purchases of such goods, and the decrease in investment in the manufacturing sector in the face of continuing uncertainty as to the future of the Central American Common Market. It is to be assumed that part of the savings generated in the course of 1974 were channelled into stockpiling, owing to expectations of an upswing in prices. This may be seen in the notable increase in total gross investment which includes a considerable increase in stocks.

Among the activities making up overall demand, however, public consumption and the export quantum proved fairly active. General Government spending on consumption expressed in constant prices increased by 7.5 per cent, following the stagnation of 1973.27/ This change reflects the efforts made by the public sector to attend to a series of services, the unsatisfied demand for which had been accumulating for a long time, and which at least partly offsets the low rate of increase in public consumption.

27/ Contrary to events of 1972 and 1973 when public sector capital expenditure was one of the factors with most drive.

/Table 1

Table 1

GUATEMALA: TOTAL SUPPLY AND DEMAND

	Millions of quetzales at 1970 prices			Structure (percentages)		Annual growth rate (percentages)		
	1970	1973	1974 a/	1970	1974a/	1970-1972	1973	1974a/
Total supply	2 242.5	2 703.2	2 871.8	117.8	118.2	5.8	7.7	6.2
Imports b/	338.5	382.2	441.7	17.8	18.2	2.0	8.6	15.6
Gross domestic product	1 904.0	2 321.0	2 430.1	100.0	100.0	6.5	7.6	4.7
Total demand	2 242.5	2 703.2	2 871.8	117.8	118.2	5.8	7.7	6.2
Exports b/	353.6	425.0	447.1	18.6	18.4	2.8	13.6	5.2
Domestic demand	1 888.9	2 278.2	2 424.7	99.2	99.8	6.3	6.7	6.4
Gross domestic investmet	244.2	281.7	338.9	12.8	14.0	-1.0	17.8	20.3
Gross fixed investment	238.6	285.3	270.7	12.5	11.1	3.8	10.9	-5.1
Public	45.2	75.0	60.0	2.4	2.4	20.7	14.0	-20.0
Private	193.3	210.3	210.7	10.1	8.7	-0.5	9.8	0.2
Construction	70.8	...	...	3.7	...	...	...	...
Machinery and equipment	167.7	...	...	8.8	...	...	...	...
Total consumption	1 644.7	1 996.5	2 085.8	86.4	85.8	7.4	5.3	4.5
General government	151.4	154.9	166.7	8.0	6.8	1.1	-	7.5
Private	1 493.3	1 841.6	1 919.1	78.4	79.0	8.0	5.7	4.2

Sources: 1970-1973, ECLA calculations based on figures supplied by the Banco de Guatemala; 1974, ECLA estimates based on 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.
b/ Goods and services, excluding factor payments.

/Logically enough

Logically enough, the external sector was affected by trends in the world economy. The primary commodities exported by Guatemala profited - at least during the first half of the year - from the price increases, and for the second year running assisted in attracting foreign exchange, but this relative advantage was countered by still higher increases in import prices, as will be described below. Exports of goods and services expressed in constant prices increased by 5.2 per cent, and unit values increased by 24 per cent. Their value at current prices increased from 534 million dollars in 1973 to 693 million in 1974 (30 per cent).

Owing to the changes which were taking place in the course of the year in the international economic situation, as 1974 advanced, the balance-of-payments situation would appear to have deteriorated steadily, while the position of the Central Government improved, for the reasons given below. The increase in the means of payment too was outwardly much greater in the first half of the year than during the second half, and the monthly price index of consumer goods suggests that inflationary pressures tended to diminish during the last quarter of 1974.

Lastly, it may be concluded from an analysis of total supply and demand in the economy, that for the second year running, the import quantum grew much more than the gross domestic product. On the one hand this may be attributed to the tendency to stockpile imported goods, owing to expectations of an upswing in prices observed during most of the year, and also to the increase in the earnings of the export sector, where the tendency to consume imported products has always been strong.

The result of the increase in the import quantum, combined with the considerable increase of 30 per cent in unit values, was an unprecedented rise (50.5 per cent) in the total value of imports of goods and services at current prices, particularly fuels. This noteworthy increase took place against the background of a decline in the purchasing power of exports on account of a deterioration in the terms of trade. The financing of imports consequently affected the

/country's external

country's external payments situation and generated a current account deficit of 112 million dollars (compared with the 10 million surplus of the previous year) and a cutback in its international reserves.

2. Major sectors of activity

From the point of view of sectoral supply, the drop in the growth rate of the main sectors of production - agriculture and industry - compared with the rates for 1972 and 1973, and the increase in the value added by public administration, which increased by 9.4 per cent, are noteworthy (see table 2). This last did in fact result in the extension of services to the population, and also provided a means of alleviating the problem of unemployment and underemployment, but did not contribute, in the short-term at least, to increasing the supply of goods.

As regards the agricultural sector, the partial data available show that the supply of basic foodstuffs, although slightly larger than in 1973, was inadequate to satisfy domestic demand and was even lower than in 1972. This may be attributed, at least in part, to the inadequate supply of inputs for agriculture, to the lower level of economic viability of such crops compared with those destined for export, and to adverse weather and other natural conditions, including the effects of hurricane Fifi in September 1974 and the eruption of Volcán de Fuego in October.28/ The output of the majority of agricultural export items increased, however, at a rate estimated at approximately 7 per cent higher than 1973 levels.

28/ Hurricane Fifi, which caused tremendous damage in Honduras, also affected the northern area of Guatemala, and led to the formation of another depression on the Pacific coast - hurricane Orlene - which caused damage of some consideration in the coastal plains of El Salvador and Guatemala. The volcanic dust from the eruption of Volcán de Fuego in October of the same year seriously jeopardized the sesame, maize and cotton harvests. The Banco de Guatemala estimated losses at around 30 million quetzales for 1974 and at an even higher figure for 1975, particularly on account of the damage suffered by the cotton plantations.

/Table 2

Table 2

GUATEMALA: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTOR OF ECONOMIC ACTIVITY

	Millions of quetzales at 1970 prices			Structure (percentages)			Annual growth rate (percentages)		
	1970	1973	1974	1970	1973	1974	1970-1972	1973	1974
Agriculture	535.8	674.7	703.9	30.1	31.2	31.0	7.4	9.1	4.3
Mining	1.7	1.7	2.3	0.1	0.1	0.1	-6.4	14.3	35.3
Manufacturing	259.8	317.6	333.2	14.6	14.7	14.7	6.3	8.1	4.9
Construction	38.6	54.9	57.5	2.2	2.5	2.5	9.8	18.0	4.7
Subtotal goods	835.9	1 048.9	1 096.9	47.0	48.5	48.4	7.2	9.3	4.6
Electricity, gas and water	15.9	20.8	22.7	0.9	1.0	1.0	9.1	10.0	8.6
Transport and communications	62.7	84.5	89.4	3.5	3.9	3.9	9.8	11.8	5.9
Subtotal basic services	78.6	105.3	112.1	4.4	4.9	4.9	9.6	11.4	6.5
Commerce and finance	489.5	580.9	607.8	27.5	26.8	26.8	4.9	7.9	4.5
Government	125.0	143.3	156.9	7.0	6.6	6.9	5.9	2.2	9.4
Ownership of dwellings	138.0	146.3	149.8	7.8	6.8	6.6	2.0	1.8	2.4
Miscellaneous services	111.9	139.2	144.6	6.3	6.4	6.4	7.5	7.6	3.8
Subtotal other services	864.4	1 009.7	1 059.1	48.6	46.6	46.7	4.9	6.1	4.9
Total	1 778.9	2 168.5	2 271.4	100.0	100.0	100.0	6.5	7.6	4.7

Sources: 1970-1973, ECLA calculations based on figures supplied by the Central Bank of Guatemala; 1974, ECLA estimates based on 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.

/The lack

The lack of dynamism in the manufacturing sector may be attributed to the slow growth of private consumption and the shortfall in the supply of some raw materials and industrial inputs, especially during the first half of 1974. It may be assumed that the drop in the real income of large strata of the population, along with inflation, reduced domestic consumption of non-essential manufactures and shifted it towards basic foodstuffs and other essential goods and services. The decline in domestic purchases of manufactures was partially offset, as will be described below, by the steady increase in Central American Common Market demand, but despite this it was not possible to maintain the rate of industrial growth.

The construction sector also recorded a rate of growth lower than that of previous years, no doubt owing to the slowing down of the growth of public investment, while the remaining sectors, generally speaking, maintained their relative share of the gross domestic product.

3. The external sector and the balance of payments

For the third year running increases were recorded in the quantum and in the unit value of exports. The export quantum of goods and services increased by 5.2 per cent in 1974. This growth was 5.5 per cent in 1972 and 13.6 per cent in 1973. The unit value of exports for its part increased by 24 per cent. The value of exports of goods increased from 440 million dollars in 1973 to 585 million dollars in 1974 and the value of services from 94 million to 108 million dollars.

Increases of some consideration were recorded in the current value of all the main export products. These were a result of increases in volume and in unit prices, except in the case of meat whose quantum did not change compared with 1973, and bananas the unit values of which decreased slightly. The biggest increase was recorded by sugar, thanks to the considerable growth of output and the tripling of prices. The value of sugar exports increased from 14 million dollars in 1972 to 22 million in 1973 and 56 million in 1974 (see table 3).

/Table 3

Table 3

GUATEMALA: VALUE AND QUANTUM OF MAIN EXPORT PRODUCTS

	1971	1972	1973a/	1974b/	Annual growth rate	
					1970-1973	1974
			Millions of quetzales			
Coffee	96.3	105.3	145.6	163.3	13.1	12.2
Cotton	26.0	40.9	46.6	65.5	19.7	40.6
Bananas	14.5	17.2	24.7	28.8	22.0	16.6
Fresh meat	17.4	18.0	25.1	29.6	25.0	17.9
Sugar	9.9	16.1	21.9	56.1	34.0	156.2
			Millions of quetzales at 1970 prices			
Coffee	105.8	120.2	121.4	125.2	6.5	3.1
Cotton	26.2	40.0	39.9	47.3	13.6	18.5
Bananas	15.9	18.3	16.0	18.7	5.6	16.9
Fresh meat	17.0	16.1	18.1	18.1	12.6	-
Sugar	10.7	14.6	20.1	22.4	30.0	11.4

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

/Exports to

Exports to the rest of the Central American Common Market also showed considerable activity, with an increase of 42 per cent between 1973 and 1974. The boom in the export sector, however, reached its maximum in mid-1974, and since then the prices of coffee, cotton and meat have dropped. The second half of the year thus obscures the rather favourable picture of the first half of the year and prospects for 1975.

If the country's exports showed dynamism, however, imports grew at a much faster rate. The import quantum of goods and services increased by 15.6 per cent and unit values by 30 per cent. Imports of goods alone increased from 388 million dollars in 1973 to 607.8 million in 1974, i.e., by 56.6 per cent. Services, particularly transport, increased from 130 to 171 million dollars during the same period.

As may be supposed, the value of imports of fuels and lubricants tripled, from 33 million dollars in 1973 to 105 million in 1974. Imports of raw materials increased by 53.2 per cent during the same period, despite the shortfall in international supply of specific products.

Of total imports of goods, 114 million dollars' worth (15.6 per cent) originated in the Common Market, compared with 89.6 million dollars' worth in 1973, producing once again a positive trade balance in intra-Central American trade, which increased from 40.4 million quetzales in 1973 to 70.9 million quetzales in 1974.

External transactions of goods and services left a negative balance at the end of 1974 of 93 million SDRs in the current account of the balance of payments (in 1973 a surplus of 7.8 million had been recorded), which after the deduction of the net inflow of non-compensatory capital of 82 million SDRs, resulted in a decrease of around 11 million SDRs, in the country's international reserves, for the first time in the present decade (see table 4).

/Table 4

Table 4

GUATEMALA: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974a/
Current account					
Exports of goods and services	350.8	344.3	364.2	443.0	576.5
Goods FOB	298.3	290.5	310.8	364.7	486.4
Services	52.5	53.8	53.4	78.3	90.1
Transport	10.9	11.4	10.9	13.8	18.6
Travel	12.1	13.6	15.6	30.7	35.3
Imports of goods and services	337.3	373.2	365.2	429.1	647.6
Goods FOB	266.6	292.0	272.3	323.7	505.4
Services	70.7	81.2	92.9	107.4	142.2
Transport	35.4	37.9	46.6	46.6	72.0
Travel	14.5	21.5	22.4	31.7	37.4
Net external investment income	-31.2	-36.4	-43.7	-40.1	-45.3
Profits	-22.9	-24.0	-30.8	-32.4	-35.8
Interest	-8.3	-12.4	-12.9	-7.7	-9.5
Net private transfer payments	17.9	25.7	27.7	34.0	23.3
Balance on current account	0.2	-39.6	-17.0	7.8	-93.1
Capital account					
Net external financing (a+b+c+d+e)	-0.2	39.6	17.0	-7.8	93.1
(a) Net external non-compensatory capital	46.1	51.0	48.6	77.6	
Direct investment	22.5	22.8	14.1	23.0	
Long- and medium-term loans	71.7	59.3	66.6	58.2	
Amortization payments	-46.9	-33.3	-48.9	-37.3	82.4
Short-term liabilities	-1.3	3.2	18.0	33.2	
Official transfer payments	0.1	-1.0	-1.2	0.5	
(b) Domestic non-compensatory capital or assets	-18.5	11.3	8.6	-20.8	
(c) Errors and omissions	-12.1	-11.6	-3.3	-7.6	
(d) Allocation of SDR units	4.2	3.9	3.8	-	-
(e) Net compensatory financing (increase -)	-19.9	-15.5	-40.7	-57.0	10.7
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	3.4	2.9	0.3	-	...
Amortization payments	-11.5	-4.0	-2.8	-5.0	...
Movements of foreign exchange reserves (increase -)	-9.6	-5.8	-32.5	-48.0	...
Movements of gold reserves (increase -)	-0.2	-2.8	-5.9	-0.1	...
SDR units (increase -)	-2.0	-5.0	0.2	-3.9	...

Source: International Monetary Fund (IMF), Balance of Payments Yearbook, vol. 26.

a/ Estimates based on official statistics.

/In capital

In capital account operations, there was an important inflow of private capital, since the balance of official and banking capital operations barely reached 12.7 million SDRs in response to the low rate of disbursement of the international loans obtained by the public sector, which contribute to financing its capital expenditure.

4. Inflationary pressures and current economic policy

One of the main factors which affected the evolution of the economy in 1974, as in 1973, was the continuing and growing presence of inflationary pressures which it proved very difficult to measure accurately on the basis of the country's present price indexes.29/

The consumer prices of 46 essential articles in Guatemala City rose by 16.9 per cent between December 1973 and December 1974. The comparable increase for the previous year was 14.4 per cent. The wholesale price index rose by 22.8 per cent while the deflator inferred in the gross domestic product increased by 14.4 per cent compared with 11.5 per cent in 1973.

These pressures are due to a large extent to factors of external origin. The generalized increase in prices of imported goods and services which began to appear in 1972 and became worse in 1973, took on new dimensions with the dizzying rise in the price of petroleum and its products. According to official figures, the unit value of imports for 1974 increased by an average of 30 per cent, while the unit value of crude increased by 240 per cent. The increase in import prices also contributed indirectly to cost inflation in the form of the introduction of imported inputs in the goods produced by Guatemala.

Higher prices in the international markets for goods produced by Guatemala (sugar, meat, cotton, timber and also a wide range of manufactures) also brought pressure to bear on the domestic prices of

29/ The indexes suffer from certain defects which stem from the methodology followed for data collection, the content of the basket of goods making it up, and the excessively distant base year used (1946). The Dirección General de Estadística, the Banco de Guatemala, and the Office of the General Secretary of the National Economic Planning Council have already undertaken the preparation of a new index.

/the same

the same products. The boom in the export sector during 1973 and the first two or three quarters of 1974 slanted the structure of production, redirecting it towards exportable output and creating problems of domestic supply, in addition to the price increases already referred to.

Unfortunately, no reliable data is available on the evolution of wages during 1974. There are, however, some indications that wage adjustments did not keep up with price changes, with the consequent deterioration of the distribution of factor income.

The phenomena mentioned have meant increasing concern for the Government sector. Especially during the second half of 1974, the Government adopted a series of measures to deal with them, including some aimed at stimulating supply, others aimed at maintaining an adequate level of demand, and yet others directed at mitigating the effects of cost inflation. The first include measures to encourage the sowing of basic food grains, and include support prices, supplies of inputs at subsidized prices and concessional credits.

As far as demand is concerned, an endeavour was made to maintain the purchasing power of the wage-earning sectors, by fixing minimum wages for some sectors of activity and revising others. In addition, the Central Government and the majority of decentralized bodies agreed on wage readjustments for their employees. In its turn, with a view to regulating the expansion of the currency, the Banco de Guatemala raised the ceilings on passive and active interest rates (from 7 and 9 per cent annually, to 9 and 11 per cent). This measure was also aimed at stimulating savings and cutting down the flight of capital. In addition, the liquidity ratio on money deposits was increased from 30 to 40 per cent and limits were set to portfolio holdings of securities in industries producing non-essential articles, while at the same time a selective incentive policy for productions was maintained. To alleviate cost inflation, price limits were set for a selected list of essential articles. The State also adopted a selective policy of subsidies, which enabled it to maintain tariffs unchanged for electrical energy and public transport in the country's

/main urban

main urban areas, and made possible sales of basic food grains, especially of imported origin, by the National Agricultural Marketing Institute, at prices lower than those currently operating in the market.

The great majority of the measures described came into force during the third and fourth quarters of the year. Their effectiveness, however, may be restricted by difficulties of an administrative nature, especially in the application of price limits, and by inadequacies in the machinery available to the private sector for promoting wage adjustments. All in all, the adoption of these measures indicates a more flexible response than that of 1973 and is the first integrated action to further economic stability in Guatemala.

GUYANA

1. Recent growth characteristics

An expansion of exports which practically doubled their value, as the result of high world market prices that benefited Guyana's staple export products and of increases in the sales volume of some of these goods, was the mainspring of economic activity, and in particular of that linked to the export sector. Its dynamic influence made itself apparent in an increase of 17 per cent in the gross product at current prices, according to a highly tentative estimate based on the evolution of the principal branches of production. This improvement compares favourably with the 10-per-cent rise achieved in the preceding year, even when allowance is made for the greater price increases that occurred in the meantime (see table 1).

Although imports of goods were subject to restrictions, they expanded by 47 per cent - much less than exports -, which implied that in real terms supplies of imported goods were 6 per cent larger than in 1973, since import prices rose by 38 per cent. Notwithstanding this more plentiful supply of imported items available during the year, the poor results achieved in certain branches of production mainly serving the domestic market, in conjunction with other factors, such as the high prices paid for imported goods and the excessive liquidity caused by the substantial export earnings, pushed up domestic prices to higher levels than in previous years, despite the efforts made to control them.

The consumer price index, which had risen by 5 per cent in 1972 and 7.5 per cent in 1973, showed an increase of 16.5 per cent by October 1974 (taking the average for the ten months), and the corresponding figure for the whole year was expected to be still higher. In the case of the food component of the index, the increase was approximately 25 per cent.

/Table 1

Table 1

GUYANA: GROSS DOMESTIC PRODUCT AT FACTOR COST, BY SECTORS OF ECONOMIC ACTIVITY

Sectors	Millions of Guyana dollars at current prices			Annual growth rates (percentages)		
	1972	1973	1974a/	1972	1973	1974
Agriculture	92.7	93.6	...	1.6	1.0	...
Sugar-cane	(56.7)	(49.7)	(115.9)	(4.4)	(-12.3)	(133.2)
Rice	(9.1)	(12.9)	(23.2)	(-18.8)	(41.8)	(80.0)
Fishing	5.9	6.8	...	9.3	15.3	...
Forestry	5.6	6.0	...	12.0	7.1	...
Mining and quarrying	89.7	80.5	117.0	-1.1	-10.3	45.3
Manufacturing	64.0	62.4	...	4.6	-2.5	...
Sugar processing	(19.9)	(17.5)	(40.7)	(4.2)	(-12.1)	(132.6)
Rice processing	(2.1)	(2.9)	(5.7)	(-34.4)	(38.1)	(96.6)
Transport and communications	32.8	37.1	...	10.1	13.1	...
Construction	42.8	47.9	...	10.9	12.0	...
Commerce	58.7	64.4	...	7.7	9.8	...
Ownership of dwellings; Financial and other services	50.7	56.2	...	3.9	10.8	...
Government	79.1	121.2	126.6	13.0	53.2	4.5
Total	522.0	576.0	790.0	5.4	10.3	37.2

Source: Economic Survey of Guyana, 1971; and information provided by the Statistical Bureau, Guyana.

a/ Provisional figures.

/2. Production

2. Production in selected sectors

The high growth rate of the gross product estimated for 1974 is based on the results achieved in four staple branches of agro-industrial and mining production intended mainly for export: sugar, rice, calcined bauxite and alumina. The data on other products are on the whole unfavourable as regards volumes of output (see table 2).

Production in the other sectors of the economy was adversely affected by the high prices of imported inputs and materials, as would seem to have been the case with construction and some lines of manufacturing. The government sector increased its contribution to the total product by barely 4.5 per cent in terms of current values.

In the agricultural sector, output of sugar cane exceeded 4 million tons, thus improving upon the poor preceding crop by 25 per cent. The rice harvest expanded by about 27 per cent, thanks to favourable weather conditions. These increases gain enhanced significance when multiplied by the high price levels reached during the year, and account for the noteworthy expansion of the agricultural product (at current prices), of which they represent about 67 per cent.

In the case of other agricultural products volumes of output dropped sharply, despite the Government's investment in agricultural infrastructure and the subsidies granted to farmers with the aim of increasing food production and reducing imports.

The product of the mining sector rose by 45 per cent at current prices. In terms of volume, however, output of dried bauxite (excluding refractory bauxite) contracted by about 10 per cent in the first nine months of 1974, while that of calcined bauxite and alumina increased by 25 and 21 per cent, respectively, in the same period.

Despite the diversification of the structure of manufacturing which has taken place in the past few years, the sugar industry and rice processing still account for about one-third of the product of the sector.

/Table 2

Table 2

GUYANA: OUTPUT OF SELECTED STAPLE PRODUCTS

Product	Units (thousands)	1972	1973	1974
Sugar-cane	Tons	3 566	3 252	4 050 a/
Rice (clean)	Tons	94	110	140 a/
Coconuts	Units	68 468	61 074	...
Tubers	Pounds	60 500	62 678	45 000 a/
Plantains	Pounds	52 000	55 016	22 000 a/
Citrus fruit	Pounds	23 000	23 759	22 000 a/
Bananas	Pounds	14 800	18 234	10 000 a/
Beef	Pounds	9 600	9 612	8 300 a/
Poultry b/	Pounds	10 843	12 553	12 500 a/
Sugar	Long tons	316	266	228 c/
Edible oil	Gallons	1 171	788	182 c/
Margarine	Pounds	3 105	2 062	1 961 c/
Molasses	Gallons	19 888	17 080	...
Dried bauxite	Long tons	1 616	1 664	1 153 c/
Calcined bauxite	Long tons	690	636	557 c/
Alumina	Long tons	262	234	227 c/

Sources: Ministry of Agriculture of Guyana; Statistical Bureau, Guyana.

a/ Estimates.

b/ Including only marketed output.

c/ Data up to September.

/It is

It is estimated that output of sugar and rice expanded considerably during 1974 as a result of bumper harvests. Owing to the high levels reached by the prices of these commodities, the increases in the product of their processing (values at current prices) are estimated at 133 per cent in the case of sugar and 97 per cent in that of rice.

Generally speaking, output of other manufactures was very uneven during the year.

3. Foreign trade trends

While the value of exports of goods almost doubled in 1974 (rising by 94 per cent), that of imports increased by 47 per cent.

Of the export increment, a little over 50 per cent was due to the rise in prices and 28 per cent to the increase in the quantum.

Sales of sugar alone, which more than trebled in value, accounted for about two-thirds of the expansion of total exports.

It is estimated that the export value of bauxite rose by about 40 per cent and that of alumina by over 50 per cent. Moreover, by October external sales of rice had surpassed the value exported in the whole of the year 1973 by 53 per cent.

The quantum of imports showed an increase of 6 per cent and their unit value one of about 38 per cent, with the result that their value rose by 47 per cent, despite the import restrictions imposed by the Government on a wide range of goods, with the aim of safeguarding the country's scanty reserves of foreign exchange and promoting the substitution of domestic food production for imports. According to incomplete data for the year, increases in imports were substantial in the case of fuels and of inputs and intermediate goods, and slight in that of food. A considerable contraction was observable in that of manufactures.

The year 1974 witnessed changes in the direction of export flows. By September the proportion of total exports shipped to the United States had climbed from 21 per cent (1973) to 30 per cent, to the detriment of exports to the United Kingdom, whose share dropped from 30 to 17 per cent

/Exports to

Exports to Latin American markets also showed a relative increase, whereas the percentage represented by trade with other Caribbean countries underwent little variation.

As the expansion of exports was substantially greater than that of imports during the year, the trade balance once again showed a surplus - customary in the first years of the 1970s and lost in 1973 - amounting this time to 24.9 million SDR units. This situation made for a considerable reduction of the balance-of-payments deficit on current account, and, in combination with a net inflow of non-compensatory capital which exceeded the preceding year's by 94 per cent, brought about an increase of 33 million SDR units in net international reserves, which thus recouped the losses that had been recorded in 1973 (see table 3).

/Table 3

Table 3

GUYANA: BALANCE OF PAYMENTS

(Millions of SDR units)

	1970	1971	1972	1973	1974a/
Current account					
Exports of goods and services	148.9	165.7	152.4	130.1	239.7
Goods FOB	129.0	145.5	132.8	111.8	217.8
Services	19.9	20.2	19.6	18.3	21.9
Transport	3.8	3.9	3.4	3.4	4.1
Travel	3.4	3.4	3.1	3.0	3.5
Imports of goods and services	153.6	154.2	152.4	164.4	236.0
Goods FOB	119.9	119.7	118.7	131.1	192.9
Services	33.7	34.5	33.7	33.3	43.1
Transport	17.1	16.5	17.7	18.6	25.6
Travel	3.0	3.4	3.3	3.6	4.2
Net external investment income	-15.9	-18.1	-10.4	-10.8	-14.0
Profits	-14.2	-16.5	-6.8	-4.7	-7.9
Interest	-1.7	-1.6	-3.6	-6.1	-6.1
Net private transfer payments	-0.5	-0.2	0.8	0.7	0.9
Balance on current account	-21.1	-6.8	-9.6	-44.4	-9.4
Capital account					
Net external financing (a+b+c+d+e)	21.1	6.8	9.6	44.4	9.4
(a) Net external non-compensatory capital	14.1	9.1	10.5	26.3	
Direct investment	9.0	-55.6	2.3	-0.9	
Long- and medium-term loans	9.8	69.5	10.9	25.3	
Amortization payments	-1.2	-1.7	-2.3	-3.4	
Short-term liabilities	-3.5	-4.1	0.7	2.6	42.4
Official transfer payments	0.0	1.0	-1.1	2.7	
(b) Domestic non-compensatory capital or assets	1.5	4.0	1.8	-3.5	
(c) Errors and omissions	3.1	-4.8	4.8	-0.9	
(d) Allocation of SDRs	2.5	2.1	2.1	-	-
(e) Net compensatory financing (increase -)	-0.1	-3.6	-9.6	22.5	-33.0
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	-	2.2	-	3.9	...
Amortization payments	-	-0.1	-2.1	-	...
Movements of foreign exchange reserves (increase -)	0.6	-5.4	-5.0	17.9	...
Movements of gold reserves (increase -)	-0.6	1.8	-0.6	0.6	...
SDRs (increase -)	-0.1	-2.1	-1.9	0.1	...

Source: IMF, Balance of Payments Yearbook, vol. 26.

a/ Estimates based on official statistics.

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