

CUADERNOS DE LA CEPAL

**THE EVOLUTION OF
THE LATIN AMERICAN
ECONOMY IN 1986**



ECONOMIC COMMISSION FOR LATIN AMERICAN AND THE CARIBBEAN

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This study, which form part of the Economic Survey of Latin America and the Caribbean, 1986, was prepared by the ECLAC Economic Development Division.

Notes and explanation of symbols

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

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

A dash (—) indicates that the amounts is nil or negligible.

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

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

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

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

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

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

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

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

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THE EVOLUTION OF THE LATIN AMERICAN ECONOMY IN 1986

1. GENERAL TRENDS

In 1986 the evolution of the Latin American economy was marked by contradictory changes. While the main variables used to measure domestic economic performance showed some improvement, the situation of the external sector worsened considerably. Thus, although the rate of economic growth picked up and unemployment and inflation slackened, the terms of trade worsened, the trade surplus fell and the balance-of-payments deficit increased sharply (see figure 1).

1. The recovery of economic activity

Following a recovery in 1984 from the declines of the two preceding years and another slowdown in 1985, the rate of economic growth rose slightly. The region's gross domestic product increased by 3.9%, which was similar to its rate for 1984 and higher than the 2.7% recorded in 1985. As a result, the per capita product rose by 1.6% after having risen by barely 0.4% the previous year. Nevertheless, for the region as a whole it was still 7.6% lower than in 1980—the year before the onset of the crisis—and was only slightly higher than in 1978. On account of the worsening of the terms of trade, and despite the drop in net payments of profits and interest, the trend in national income was less favourable than that of the product, as had also been the case in five of the six preceding years. Consequently, per capita national income—which provides a better indicator of the standard of living than the per capita product—has fallen considerably more than the latter since 1980 (see table 1).

In addition to being somewhat more rapid, the expansion of economic activity was also less concentrated than in 1985. While the gross domestic product rose significantly only in Brazil in 1985, in 1986 it increased at a satisfactory rate not only in Brazil but also in Peru, Uruguay, Argentina, Venezuela, Chile and Colombia; unemployment levels fell significantly in all of these countries as well. Nevertheless, this increase in economic activity was far from being a generalized pheno-

menon. Indeed, the rise in gross domestic product was insufficient to offset the impact of population growth in Bolivia, Mexico and Paraguay, as well as in all the countries of Central America and the Caribbean except for Costa Rica, Cuba and Panama.

As in 1984, but in contrast with 1985, the rise in the rate of economic growth was based on a relatively rapid increase in the volume of imports of goods and services. While this had risen by less than 1% the preceding year, it increased by 7% in 1986. Nevertheless, due to the enormous decline seen in 1982 and 1983, imports were still 27% lower in real terms than in the years prior to the crisis.

Fixed capital investment also grew more rapidly: 6.5% as against 4.4% in 1985. In this case too, however, the recovery was far from being sufficient to offset the huge drop which had occurred between 1981 and 1984. As a result, in 1986 fixed investment was barely three-quarters of what it had been in 1980, and the investment coefficient was one of the lowest recorded in the last 40 years.

2. The downturn in inflation and the rise of remunerations

The improvement in the internal economic situation was also reflected in the sharp fall in inflation. After having risen steadily during the six preceding years and having reached an all-time peak of 275% in 1985, the average increase in consumer prices fell to 65% in 1986 (see figure 1).

Although this decrease was partly a reflection of the slackening of inflation in the majority of the region's economies, its main cause was the sharp drop in the rate of consumer price increases in Argentina, Brazil, Peru and above all Bolivia, these being the four countries which, together with Nicaragua, had the highest inflation in 1985.

In spite of this progress, inflation continued to represent a serious problem for most of the countries of Latin America. Indeed, it was considerably above its traditional levels in El Salvador, Guatemala and Paraguay, while it remained high in Uruguay, intensified in Mexico and reached almost 750% in Nicaragua. Moreover, in Argentina, Brazil and Peru the sharp reductions in the annual variation of consumer prices brought about by the application of unorthodox stabilization programmes were not accompanied by a comparable slackening of basic inflationary pressures. As a result, the second half of the year saw a reversal in the downward trend followed by the annual rate of inflation since the third quarter of 1985 in Argentina and Peru, and much the same thing occurred in Brazil towards the end of the year.

Due to the slower increase in the overall level of prices and the faster growth of economic activity, real remunerations rose in almost all

Figure 1
LATIN AMERICA: MAIN ECONOMIC INDICATORS

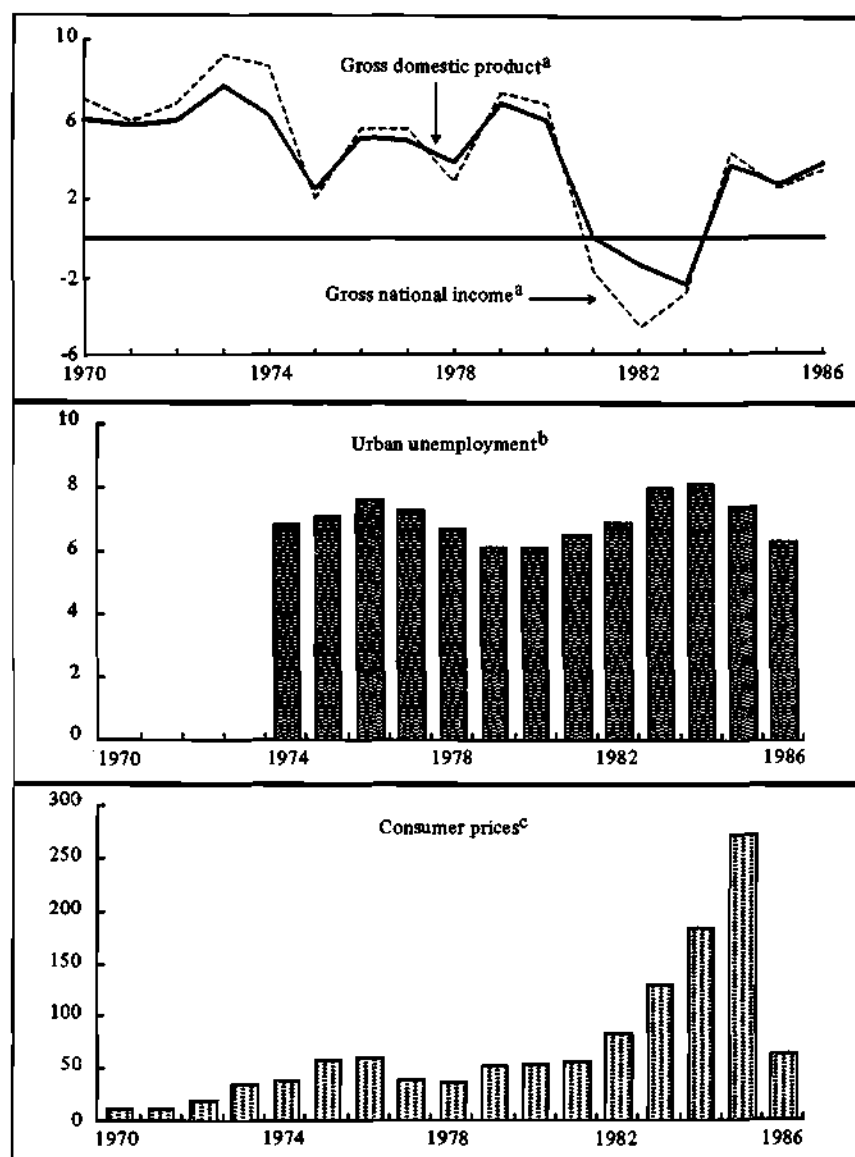
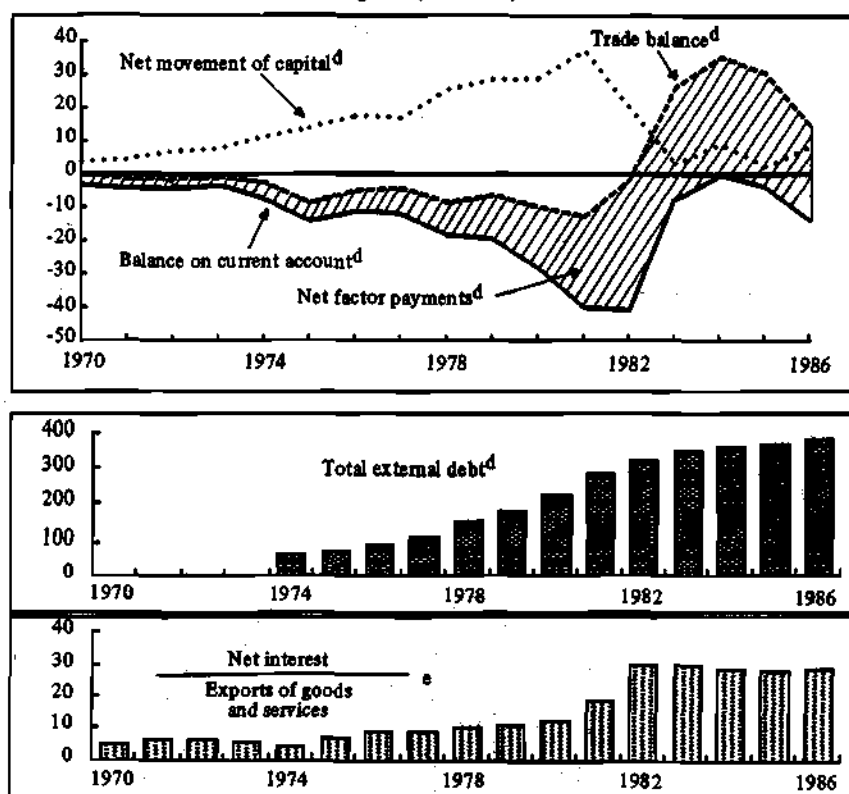


Figure 1 (concluded)



Source: ECLAC, on the basis of official data.

*Annual growth rate.

†Weighted average annual rate for 18 of the 25 most populous cities of Latin America.

‡Percentage variation from December to December.

§Billions of dollars.

¶Percentages.

the countries for which information was available. Nevertheless, in most countries these rises constituted no more than a partial recovery from the considerable declines in the real incomes of wage-earners observed in previous years.

3. The weakening of the external sector

In contrast with the rather more satisfactory trends of domestic variables, external accounts worsened substantially. Due mainly to the collapse of international oil prices, the persistent downward trend in the prices of most other primary products, and the excessive expansion of domestic expenditure in a number of countries, the value of exports fell by 15%. This downturn was naturally more pronounced (-30%) in the petroleum-exporting countries, but was also appreciable in Argentina and Brazil.

Table 1
LATIN AMERICA: MAIN ECONOMIC INDICATORS^a

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 ^b
Indexes (1980 = 100)											
Basic economic indicators											
Gross domestic product at market prices	81.8	85.3	88.5	94.5	100.0	100.0	98.6	96.2	99.6	102.3	106.1
Gross national income	81.2	85.2	87.5	93.9	100.0	98.2	93.7	91.0	94.8	97.1	100.4
Population (millions)	310	322	330	338	346	354	362	370	379	388	396
Per capita gross domestic product	90.2	91.7	92.8	96.8	100.0	97.7	94.1	89.7	90.8	91.1	92.4
Per capita gross national income	89.5	91.6	91.8	96.1	100.0	95.9	89.4	84.9	86.4	86.5	87.4
Growth rates											
Short-term economic indicators											
Gross domestic product	4.8	4.9	3.8	6.8	5.9	-	-1.4	-2.4	3.7	2.7	3.9
Per capita gross domestic product	2.2	2.3	1.2	4.3	3.4	-2.3	-3.7	-4.6	1.3	0.4	1.6
Per capita gross national income	2.6	3.0	0.3	4.8	4.1	-4.1	-6.8	-5.0	1.9	0.2	1.1
Urban unemployment rate ^{ad}	7.7	7.4	6.8	6.0	6.2	6.6	7.0	8.1	8.2	7.5	6.4
Consumer prices ^e	63.0	40.0	39.0	54.1	56.1	52.6	84.8	131.1	185.2	275.3	64.9
Terms of trade (goods and services)	4.3	5.6	-6.1	5.7	5.6	-5.1	-11.8	-2.9	5.9	-3.9	-8.3
Current value of exports of goods and services	15.2	18.0	9.8	33.8	32.2	7.6	-8.8	0.1	11.6	-6.0	-15.3
Current value of imports of goods and services	4.4	15.3	16.7	26.5	33.3	9.6	-18.8	-28.0	3.8	0.1	1.7

Table 1 (concluded)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 ^b
Billions of dollars											
External sector											
Exports of goods and services	47.3	55.8	61.3	82.0	107.6	116.1	103.2	102.4	114.0	109.0	94.6
Imports of goods and services	51.9	59.8	69.8	88.2	117.6	128.7	104.7	75.3	78.2	78.4	79.6
Trade balance (goods and services)	-4.6	-4.0	-8.5	-6.2	-10.0	-12.8	-1.5	27.0	35.8	30.6	15.0
Net payments of profits and interest	5.8	8.2	10.2	13.6	17.9	27.1	38.7	34.3	36.3	34.8	30.5
Balance on current account	-11.0	-11.9	-18.4	-19.7	-28.0	-40.3	-41.0	-7.4	0.1	-3.6	-14.3
Net capital inflow	17.9	17.2	26.1	29.1	29.5	37.5	20.1	3.0	9.5	3.4	8.6
Balance-of-payments position	6.8	5.3	7.8	9.4	1.4	-2.8	-21.0	-4.4	9.2	-0.2	-6.3
Official international reserves ^f	22.8	27.8	36.5	46.8	53.8	46.1	32.3	30.5	37.1	33.5	34.6
Balance of disbursed external debt											
Gross total external debt	97.1	121.6	152.6	185.3	228.4	284.8	328.5	350.8	364.5	374.1	388.6
Net total external debt ^g	74.3	93.8	116.1	138.5	174.6	238.7	296.2	320.3	327.4	340.6	354.0

Source: ECLAC, on the basis of official figures.

^aAll figures refer to the 20 countries listed in table 2, except Cuba. ^bProvisional figures. ^cPercentages. ^dUp to 1978 this corresponds to the weighted average rate of 15 Latin American cities. From 1979, it represents the weighted average rate for the 25 largest cities in Latin America excluding Havana, Santo Domingo, Fortaleza, Curitiba, Guayaquil, San Juan (Puerto Rico) and Guaremalá City (for want of comparable data). ^eDecember-to-December variation.

^fForeign exchange, plus Special Drawing Rights (SDRs), monetary gold valued at the London price per troy ounce fine, reserve position in the International Monetary Fund (IMF), less use of IMF credit. ^gGross total disbursed external debt, less official international reserves.

On account of the decline in external sales as well as of a slight increase in the value of imports of goods and services, the trade surplus was slashed by half, thereby continuing the downward trend which had begun the preceding year.

The shrinkage in the trade surplus was also considerably greater than the drop in net payments of interest and profits. As a result, the deficit on current account, which had virtually disappeared in 1984 but had then risen slightly in 1985, increased fourfold. As the growth in the deficit on this account was well in excess of the moderate expansion seen in the net inflow of loans and investment, the balance-of-payments deficit rose from an insignificant figure in 1985 to US\$6.3 billion in 1986 (see table 1).

The increase in net capital inflow, together with the decline in net payments of interest and profits resulting from the gradual but steady fall in international interest rates, helped to reduce the transfer of resources abroad by one-third. Nevertheless, the amount transferred was still very considerable. Moreover, as the value of exports underwent a sharp decline at the same time, this transfer was equal to more than one-fifth the value of exports, which was an only slightly smaller proportion than that recorded, on average, during the four preceding years.

II. PRODUCTION

1. The rate and structure of economic growth

As has already been mentioned, the 3.9% increase in Latin America's gross domestic product was similar to that achieved in 1984 and somewhat higher than the mere 2.7% recorded in 1985.

In a departure from the trend of the two preceding years, the expansion of economic activity in 1986 was mainly concentrated in the non-petroleum-exporting countries, whose product grew by 6.7%, a considerably higher rate than those recorded in each of the previous 10 years. In contrast, notwithstanding the vigorous recovery of economic activity in Peru and its upturn in Venezuela, the product of the petroleum-exporting countries as a whole fell by 1.4%, primarily on account of the almost 4% drop in Mexico's gross domestic product (see table 2).

The uneven behaviour of the region's economies was also mirrored in the contrast between the high rates of growth of the product in Brazil (8.2%), Peru (8.1%), Uruguay (6.7%), Argentina, Colombia, Chile and Venezuela (between 5% and 6%) and the rates below those of the population increase recorded in Bolivia, Mexico and Paraguay and in all the countries of Central America and the Caribbean, except Costa Rica, Panama and Cuba (see table 3).

As a consequence of this trend, the deterioration occurring since the beginning of the 1980s in the living conditions of the majority of the relatively poorest Latin American economies continued to worsen. Thus, in 1981-1986 per capita product fell by nearly 27% in Bolivia, 20% in Guatemala, more than 18% in Nicaragua, 16% in El Salvador and approximately 14% in Honduras and Haiti. During this period it also fell sharply in countries with considerably higher levels of income and development such as Venezuela (-19%), Costa Rica and Mexico (-10%) and, despite a recovery in 1986, in Argentina (-15%), Uruguay (-14%) and Peru (-8%) as well.

As in 1985, the gross domestic product increased by more than 8% in Brazil in spite of the 7% drop in agricultural production caused by a long and severe drought in that country. In contrast, industry and trade

—which had already expanded markedly the previous year— grew by more than 11% while construction rose by almost 18% (see table 4). The expansion of economic activity was fueled by the remarkable dynamism of domestic demand and made it possible to absorb most of the installed capacity which had been underutilized as lately as the beginning of 1986. The growth of production was also facilitated by the marked increase in non-petroleum imports for the second year running and by the diversion to the domestic market of a portion of the intermediate goods which had been exported in previous years.

An increase in domestic demand and a better use of installed capacity were also the basic causes of the 8.1% rise in Peru's domestic product. These factors played a particularly significant role in the case of

Table 2

LATIN AMERICA: TOTAL GROSS DOMESTIC PRODUCT

	Annual growth rates							Cumulative variation
	1979-1980	1981	1982	1983	1984	1985	1986 ^a	1981-1986 ^a
Latin America (excluding Cuba)	6.3	-	-1.4	-2.4	3.1	2.7	3.9	6.2
Oil-exporting countries	6.2	5.6	-0.3	-5.6	2.5	1.8	-1.4	2.4
Bolivia	0.6	0.4	-2.8	-6.5	-0.8	-1.7	-2.8	-13.8
Ecuador	4.8	3.8	1.2	-1.2	4.8	4.9	3.1	17.4
Mexico	9.1	8.4	-	-5.1	3.6	2.5	-3.8	4.8
Peru	5.2	4.4	-0.4	-11.7	4.8	2.5	8.1	7.1
Venezuela	-0.4	-1.0	-1.3	-5.6	-1.0	-0.6	5.5	-4.1
Non-oil-exporting countries	6.3	-3.2	-2.2	-0.5	4.1	3.0	6.7	7.8
Argentina	4.5	-7.1	-5.3	2.4	2.4	-4.6	6.0	-6.9
Brazil	8.1	-3.4	0.9	-2.3	5.7	8.3	8.2	17.8
Colombia	4.8	2.3	1.1	1.9	3.8	2.9	5.4	18.4
Costa Rica	5.6	-2.3	-7.2	2.7	7.9	0.9	4.0	5.2
Cuba ^b	0.5	16.0	3.9	4.9	7.2	4.6	1.2	43.3
Chile	7.7	5.2	-13.0	-0.5	6.1	2.5	5.5	4.2
El Salvador	-5.5	-8.4	-5.6	0.6	2.3	1.8	0.9	8.8
Guatemala	4.4	1.0	-3.3	-2.7	0.1	-0.9	0.3	-5.7
Haiti	7.3	-2.7	-3.4	0.7	0.5	0.5	0.6	-4.0
Honduras	4.6	1.1	-1.6	-0.5	3.2	1.5	1.9	5.0
Nicaragua	-12.3	5.4	-0.8	3.3	-2.6	-4.7	-0.4	-0.5
Panama	9.5	4.0	5.0	-	-0.4	4.1	3.1	16.5
Paraguay	11.2	8.8	-0.7	-2.9	3.3	4.1	-0.3	12.2
Dominican Republic	5.1	4.0	1.3	5.1	0.4	-2.3	1.9	10.4
Uruguay	6.2	1.5	-10.0	-6.0	-1.2	-0.1	6.7	-9.9

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bRefers to global social product.

Table 3

LATIN AMERICA: PER CAPITA GROSS DOMESTIC PRODUCT

	Annual growth rates							Cumulative variation
	1979-1980	1981	1982	1983	1984	1985	1986 ^a	1981-1986 ^a
Latin America (excluding Cuba)	3.8	-2.3	-3.1	-4.6	1.3	0.4	1.6	-7.5
Oil-exporting countries	3.3	-3.2	-2.9	-8.1	-0.1	-0.7	-3.8	-12.5
Bolivia	-2.0	-2.2	-5.3	-9.0	-3.5	-4.3	-5.5	-26.6
Ecuador	1.8	0.9	-1.7	-4.0	1.8	2.0	0.2	-1.1
Mexico	6.1	5.5	-2.6	-7.5	1.0	-	-6.1	-10.2
Peru	2.5	1.7	-2.2	-14.0	2.1	-0.1	5.3	-8.4
Venezuela	-3.6	-3.9	-4.0	-8.1	-3.7	-3.2	2.6	-19.1
Non-oil-exporting countries	4.0	-5.3	-4.3	-2.5	1.9	0.9	4.5	-5.1
Argentina	2.9	-8.5	-6.8	0.8	0.8	-6.1	4.4	-15.3
Brazil	5.7	-5.5	-1.3	-4.5	3.4	6.0	5.9	3.1
Colombia	2.6	0.1	-1.1	-0.2	1.6	-0.7	3.3	4.2
Costa Rica	-0.2	-5.0	-9.7	0.1	5.2	-1.6	1.5	-10.1
Cuba ^b	-0.8	15.2	3.3	4.3	6.6	3.8	0.3	37.7
Chile	6.0	3.5	-14.5	-2.2	4.3	0.8	3.7	-5.8
El Salvador	-7.1	-9.5	-6.5	-0.2	1.4	0.5	-0.8	-14.8
Guatemala	1.5	-1.8	-6.0	-5.4	-2.7	-3.7	-2.5	-20.4
Haiti	5.5	-4.4	-5.1	-1.1	-1.3	-1.3	-1.2	-13.8
Honduras	1.0	-2.4	-4.9	-3.8	-0.2	-1.8	-1.4	-14.1
Nicaragua	-14.8	2.1	-4.0	-0.1	-5.8	-7.9	-3.9	-18.5
Panama	6.0	1.8	2.7	-2.2	-2.5	1.9	0.9	2.3
Paraguay	7.6	5.4	-3.9	-6.0	0.1	0.9	-3.3	-7.3
Dominican Republic	2.6	1.5	-1.1	2.6	-2.0	-4.5	-0.4	-4.2
Uruguay	5.5	0.8	-10.6	-6.7	-1.9	-0.9	5.9	-13.6

Source: ECLAC, on the basis of official calculations of the gross domestic product. The population figures used are the CELADE estimates published in the *Demographic Bulletin*, vol. XIX, No. 38, July 1986.

^aPreliminary figures.

^bRefers to global social product.

the manufacturing industry, whose production rose by 15%, thereby completely recovering from its sharp fall in 1982-1983. The revival of construction—a sector which had been particularly hard hit by the crisis up to 1985—was even more vigorous (24%). The growth of economic activity went hand in hand with an exceptionally large (45%) increase in the volume of imports—in particular those of consumer and intermediate goods—which was partly financed by the foreign exchange saved as a result of the government's placement of a ceiling on interest payments on the external debt.

The fuller use of existing installed capacity prompted by the expansion of domestic demand was also the key factor in the 6% increase in

Table 4
LATIN AMERICA: GROSS DOMESTIC PRODUCT, BY BRANCHES OF ECONOMIC ACTIVITY
AT 1980 MARKET PRICES

	<i>(Growth rates)</i>													
	Agriculture		Mining and quarrying		Manufacturing		Construction		Subtotal, goods		Basic services		Other services	
	1985	1986 ^a	1985	1986 ^a	1985	1986 ^a	1985	1986 ^a	1985	1986 ^a	1985	1986 ^a	1985	1986 ^a
Latin America ^b	3.9	-2.2	0.4	-0.3	2.7	6.4	3.6	5.8	2.8	3.4	3.4	4.1	2.3	3.4
Argentina	-1.7	-0.9	-2.7	-0.5	-10.5	12.8	-6.8	8.8	-7.5	7.9	-2.1	5.2	-2.8	4.6
Bolivia	3.1	-1.9	-11.9	-19.4	-9.2	1.0	2.6	-0.8	-4.3	-6.5	0.9	1.2	0.1	-0.2
Brazil	8.8	-7.3	11.5	-3.7	8.2	11.3	11.3	17.7	8.8	7.1	8.7	6.5	6.5 ^c	7.2 ^c
Colombia	0.1	2.1	26.6	27.1	2.3	7.7	3.4	-5.8	3.2	5.6	2.2	6.3	1.8	4.6
Costa Rica	-2.9	0.8	-	-	3.2 ^d	7.1 ^d	1.3	1.3	0.1	3.6	-1.9	5.8	2.0	4.0
Cuba ^e	0.9	2.9	-	-	7.4 ^f	1.3 ^f	1.5	0.9	5.3	1.5	1.5 ^g	0.3 ^g	3.6 ^h	0.6 ^h
Chile	5.6	8.8	2.2	1.4	1.2	8.0	16.1	1.3	3.9	5.8	4.8	7.5	1.8	4.1
Ecuador	9.3	7.8	8.5	4.9	-0.5 ⁱ	-0.7 ⁱ	1.9	-5.0	6.3	3.5	4.6	7.5	2.7	1.2
El Salvador	-1.1	-4.9	-	2.6	3.7	2.1	4.6	4.4	0.8	-2.0	3.1	1.9	2.5	1.3
Guatemala	-0.8	-0.2	-14.5	29.2	-0.2	0.3	-9.6	2.4	-1.2	0.3	1.8	1.6	-1.0	-
Haiti	1.1	2.4	18.0	-10.2	-2.9	-2.9	12.7	-6.0	1.2	-0.1	-4.6	3.3	1.2	0.2
Honduras	2.9	1.6	2.3	-4.5	-2.3	1.6	-1.8	-8.3	0.8	0.2	1.2	2.3	2.7	4.0
Mexico	3.8	-2.1	-0.7	-5.8	5.8	-5.6	3.0	-9.1	3.9	-5.4	3.2	-1.0	0.9	-2.7
Nicaragua	-4.8	-5.4	-21.3	31.5	-4.7	1.6	10.0	1.0	-4.1	-1.4	-9.3	2.0	-4.7	-0.1
Panama	4.8	-1.9	-3.9	4.0	1.8	2.2	-1.1	5.0	2.4	1.1	6.5	2.3	3.6	3.4
Paraguay	4.6	-6.1	4.5	11.9	5.0	-1.4	-1.0	1.0	4.1	-3.8	5.4	7.1	3.7	3.0
Peru	3.2	4.5	4.8	-4.0	6.8	14.9	-10.2	24.3	3.6	7.7	1.4	7.5	4.5	7.8
Dominican Republic	-4.8	-2.1	-0.1	-11.3	-5.0	3.9	-15.4	15.5	-6.0	1.2	-2.1	3.0	1.4	2.4
Uruguay	4.5	3.2	18.9	-3.4	-1.6	12.1	28.2	-1.5	-2.5	8.3	-	9.2	1.7	4.9
Venezuela	5.7	6.0	-4.5	7.3	2.2	5.1	-4.1	15.8	-0.7	6.8	4.4	5.1	-0.6	3.4

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bExcluding Cuba.

^cDoes not include real estate and social and personal community services.

^dIncluding mining and quarrying.

^eRefers to social product.

^fIncludes fisheries, mining and quarrying and electricity.

^gIncludes transport and communications only.

^hIncludes commerce and other productive activities in the non-material sphere.

ⁱIncludes petroleum refining which official figures include under crude oil extraction.

economic activity in Argentina, which made up for the 4.6% shrinkage which had occurred the preceding year. This revival was especially pronounced in manufacturing, where production rose by almost 13% after having declined by 10.5% in 1985. In 1986 construction also increased by nearly 9%, thereby bringing to an end its sharp and regular downward trend of the preceding five years, during which it fell by almost 50%. In contrast, the agricultural product declined for the second consecutive year, mainly on account of adverse weather conditions.

In spite of the enormous impact of the steep decline in petroleum prices, the gross domestic product increased by 5.5% in Venezuela, thus halting the continuous drop seen since 1980. As a result, the per capita product rose for the first time in nine years. The recovery of economic activity was also helped by the 5% growth in manufacturing, the 6% increase recorded by the agricultural sector, the more than 7% expansion of mining and the sharp upturn (16%) in construction, following upon nine years of persistent decline. In turn, this progress reflected the policies applied by the government in an effort to cancel out the impact of the drop in petroleum prices on domestic activity. In line with these policies, the special incentives for agricultural products were maintained, and increases were made in the expenditures provided for under the special investment plan for the 1985-1987 period which, mainly for administrative reasons, had been carried out only to a very limited degree in 1985.

The domestic product also increased at relatively satisfactory rates in Colombia, Chile and Uruguay. In contrast to the cases of Argentina, Brazil, Peru and Venezuela, the three countries' economic expansion was accompanied by considerable increases in exports and by significant improvements in their external accounts.

The recovery which had begun in the Uruguayan economy during the last quarter of the preceding year gathered speed in 1986. After having fallen continually since 1982, in 1986 the gross domestic product recorded its first significant increase (6.7%) in the last five years. This expansion of economic activity was mainly accounted for by the highly favourable turnaround which took place in the external sector. After having shrunk by almost one-third between 1981 and 1985, the value of exports of goods rose by 27% in 1986, thanks to the progress made by both traditional and non-traditional exports as well as the extraordinary growth of sales to the European Economic Community (70%) and, above all, to Brazil (135%). The increase in exports made possible a considerable expansion of the volume of imports, which had undergone a huge drop (54%) during the five preceding years and whose extremely low level had come to be the main factor hampering economic recovery. Owing to the fall in the price of petroleum, however, the increase in the value of imports was much less than that of exports. Thus, at the same

time that the main constraint on renewed growth eased considerably, the trade surplus expanded. The turnaround in the country's external accounts—to which lower payments of interest and profits also contributed—had a favourable impact on the expectations of economic agents as well. Because of this and of the rise in real wages, both private investment and household consumption made a partial recovery from their huge drops of the preceding four years.

In Chile overall economic activity increased by 5.5%, thereby almost regaining its pre-crisis level. However, due to the increase in the population, the per capita product was still 8% lower than in 1980-1981. As in the preceding two years, growth was mainly accounted for by the sectors producing internationally tradeable goods, whose expansion was spurred by the high real effective exchange rate and by the protection provided for certain agricultural and industrial activities by the policies of agricultural pricebands, tariff surcharges and incentives for minor export items.

In Colombia, where the product grew by 5.4%, the main force galvanizing the economy was the exceptional expansion of exports. One contributing factor was that the fall in Brazilian coffee production sent the international price of coffee up sharply, and Colombia was thus able to increase considerably the volume of its coffee sales. In addition, its exports of coal and petroleum rose substantially as the major investments made in previous years began to bear fruit. As a result, mining grew by 27% for the second year running. In addition, the high level of the real exchange rate stimulated external sales of manufactures. Thus, the total value of exports of goods rose by 49%. The higher earnings of the export sector helped to expand domestic demand, particularly in coffee-producing regions, as well as stimulating industry and commerce.

In contrast to the rapid growth of the gross domestic product in the countries mentioned above, economic activity expanded only moderately in Ecuador, increased very little in the Dominican Republic and Cuba, remained stagnant in Haiti and Paraguay and fell in Bolivia. In all these countries except the Dominican Republic, the fundamental causes of their unsatisfactory economic performance were to be found in quite serious exogenous disturbances. While in Paraguay a severe drought had an adverse effect on the agricultural sector (by far the most important sector in the economy and one whose ups and downs have a decisive impact on its overall performance), Ecuador suffered the consequences of the precipitous fall in the price of petroleum (a product which accounted for almost two-thirds of its merchandise export earnings in 1985) and Bolivia felt the effects of the collapse in the international price of tin and the drop in the price it received for its sales of natural gas, especially since these two products, taken together, generate more than 80% of its export income. Cuba's economic activity was also hurt by the drop in the

international price of petroleum —which considerably reduced the value of its re-exports of fuel— and by adverse weather conditions which caused a notable decrease in sugar production. Mainly on account of these changes, import capacity fell sharply, with the consequent detrimental effect on the country's possibilities of economic growth.

The decline in the international price of petroleum affected the performance of the Ecuadorian economy as well; while it had grown at an average rate of almost 5% during the preceding two years, it expanded by only 3% in 1986, a rate similar to that of its population growth. This slowdown sprang from the sharp drop in the growth of petroleum production (from more than 9% in 1985 to 2.5% in 1986), the stagnation of manufacturing and the downturn in construction, whose effects were not offset by the satisfactory performance of the agricultural sector for the third year running.

In the Dominican Republic economic activity increased by less than 2%, as a result of which the per capita product fell for the fourth time in the last five years. The slight increase in overall production was mainly accounted for by the recovery of construction —which rose by more than 15% after having fallen by a similar percentage in 1985— as well as by a moderate upturn in manufacturing. Agriculture and mining declined, however, for the second year in a row. In Cuba, the global social product rose by just 1.4%, the lowest rate recorded in the last six years. The fall in imports —the first to take place in the 1980s— and the shrinkage of investment were particularly important factors in the economy's loss of dynamism. The expansion of economic activity was even weaker (0.6%) in Haiti, which thus saw its per capita product drop for the sixth year running.

The pronounced deterioration in the external environment also contributed to the decline of some 3% in Bolivia's economic activity. The international price of tin, which had already decreased during the preceding two years, fell to less than half its former level in 1986 as a result of the suspension of the activities of the International Tin Council. Both as a result of this huge drop and as a means of reducing the losses of the State mining sector, operations in a number of mines were either cut back or closed down. Consequently, mining production fell by nearly 20% in 1986; this drop, when taken together with those of the preceding four years, meant that production shrank by more than 50% between 1982 and 1986. The consequences of the steep decrease in the price of tin were compounded by the drop in the price of natural gas and by the negative impact on agricultural production of the floods and adverse weather conditions which prevailed during the first half of the year. In addition, the depressed purchasing power of wage-earners and the high level of real interest rates resulting from the country's stabilization programme, together with keener competition from imported goods, helped account for the slump in industrial production.

The highly unsatisfactory trend of economic activity in the countries of Central America continued in 1986; in all of these countries except Costa Rica and Panama, the per capita product once again fell. In contrast to the situation of the petroleum-exporting countries, this downturn coincided with an improvement in the Central American countries' terms of trade which was due to the rise in the international prices of coffee, bananas and sugar and the collapse of oil prices. Furthermore, most of them saw a decrease in the interest payments on their external debts. However, these changes failed to offset the damage wrought by five years of economic recession and the weakening of intra-regional relations. This situation was further intensified by the uncertainty arising from the serious social and political tension prevalent in most of the countries of the subregion together with the harmful repercussions of the persistence or deepening of inflation in a number of them.

Finally, the gross domestic product fell by almost 4% in Mexico, mainly on account of the sharp contraction of petroleum exports, whose value plummeted by nearly 60% due to the drop in oil prices and an

Table 5

LATIN AMERICA: TOTAL SUPPLY, DOMESTIC DEMAND
AND GROSS NATIONAL INCOME^a

	Indexes (1980 = 100)			Growth rates					Cumulative variation
	1984	1985	1986 ^b	1982	1983	1984	1985	1986 ^b	1981-1986 ^b
1. Total supply (2 + 3)	95.5	97.9	101.8	-3.8	-4.7	3.8	2.5	4.0	1.8
2. Gross domestic product at market prices	99.6	102.3	106.1	-1.4	-2.4	3.7	2.7	3.4	6.1
3. Imports of goods and services	67.5	68.1	72.9	-19.5	-23.1	5.6	0.8	7.0	-27.1
4. Exports of goods and services	125.8	125.9	124.1	-0.2	9.9	7.2	0.1	-1.4	24.1
5. Domestic availability of goods and services (2 + 3 - 4) = domestic demand (6 + 7)	91.5	94.1	98.8	-4.4	-6.9	3.2	2.9	5.0	-1.2
6. Final consumer expenditure ^c	98.0	100.6	105.3	-2.0	-3.9	4.0	2.6	4.7	5.3
7. Gross fixed capital formation	68.3	71.3	76.0	-23.0	-19.1	-0.6	4.4	6.5	-24.0
8. Terms-of-trade effect	...	...	...	...	...	...	...	...	...
9. Net factor payments to rest of world	200.9	194.3	181.0	39.8	-6.0	6.0	-3.3	-6.9	81.0
10. Real gross national income	94.8	97.1	100.4	-4.6	-2.8	4.3	2.5	3.4	0.4

Source: ECLAC, on the basis of official data.

^aNineteen countries.

^bPreliminary figures.

^cIncludes variation in stocks.

Table 6

**LATIN AMERICA: RELATIVE SHARES OF COMPONENTS OF
GROSS DOMESTIC PRODUCT AND OF GROSS NATIONAL
INCOME AT 1980 MARKET PRICES^a**

(PIB = 100)

	Total final consumer expend- iture ^b	Gross fixed capital formation	Domestic demand	Exports of goods and services	Imports of goods and services	Terms- of-trade effect	Net factor payments to rest of world	Real gross national income
1971- 1975	76.8	20.8	97.6	15.1	12.7	-3.4	-1.7	94.9
1976- 1979	77.7	22.5	100.2	13.4	13.6	-1.1	-2.0	96.9
1980	79.0	22.3	101.3	13.5	14.8	-	-2.4	97.6
1981	79.0	21.8	100.8	14.5	15.3	-0.7	-3.4	95.9
1982	78.7	19.2	97.9	14.6	12.5	-2.4	-4.8	92.8
1983	77.3	16.0	93.3	16.5	9.8	-3.0	-4.7	92.3
1984	77.6	15.3	92.9	17.1	10.0	-2.4	-4.8	92.8
1985	77.7	15.6	93.3	16.6	9.9	-2.9	-4.5	92.6
1986 ^c	78.4	16.0	94.4	15.8	10.2	-3.8	-4.0	92.2

Source: ECLAC, on the basis of official figures.

^aNineteen countries.

^bIncludes variation in stocks.

^cPreliminary figures.

almost 11 % shrinkage in the volume exported. In order to counteract the impact of this sharp deterioration in the terms of trade, the government launched an adjustment programme which included major innovations in respect of the plans usually agreed upon with the International Monetary Fund, adopted a highly restrictive monetary and credit policy and introduced new cutbacks in public sector expenditure. As a result of these measures and of the further decline in real wages, domestic demand fell, industrial production dropped by almost 6% —in spite of the extremely rapid growth of exports of manufactures— and activity in the construction sector slowed by 9%.

2. Total supply and demand and the domestic availability of goods and services

Following upon its 2.5 % increase in 1985, total supply went up by 4 % in 1986. This rise was due to both the greater dynamism of domestic economic activity and a much faster expansion of imports, which increased by 7 % in volume as against less than 1 % in 1985 (see table 5). As a result, the import coefficient rose slightly after having fallen during the previous three years to the lowest levels recorded in the entire postwar period. Nevertheless, because of the huge drop which had taken

place between 1982 and 1983, the volume of imports was still 27% lower than in the years prior to the crisis and was equivalent to barely 10% of the gross domestic product (see table 6).

Partly as a result of the upturn in imports and partly as a result of the shrinkage in the volume of exports, the domestic availability of goods and services rose at a faster rate than the product for the second year running. Even so, it was still below the level it had reached at the beginning of the decade. Due to this fact and, even more importantly, to the region's demographic growth, the per capita availability of goods and services—which in the final reckoning is what determines the real standard of living of the population—was 14% lower in 1986 than in 1980.

As in the preceding year, the greater availability of goods and services made it possible to increase both consumption and fixed capital investment. However, as a result of the huge drop (-32%) observed in such investment in 1981-1984, it was still 24% lower in 1986 than in

Table 7

LATIN AMERICA: GROSS FIXED CAPITAL FORMATION

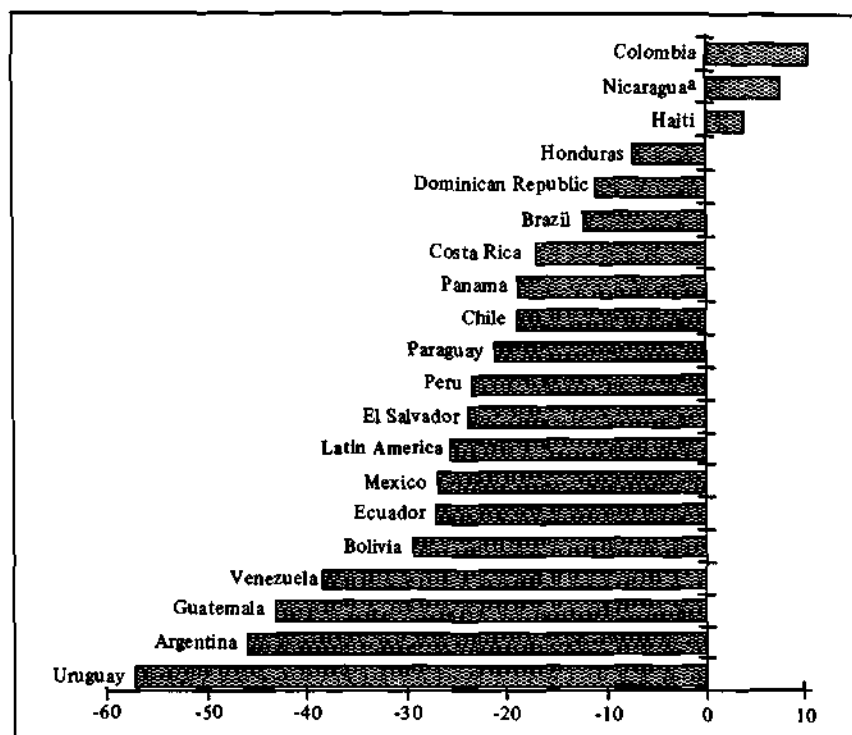
(Indexes 1980 = 100)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 ^a
Latin America	87.2	88.9	93.3	100.0	97.7	85.0	68.8	68.4	71.4	76.0
Argentina	102.0	88.9	95.0	100.0	82.4	59.8	56.7	51.5	46.4	51.5
Bolivia	128.7	141.1	124.8	100.0	97.6	85.0	81.1	75.1	74.9	77.3
Brazil	85.4	88.1	92.2	100.0	86.8	82.1	68.1	70.9	79.2	94.3
Colombia	77.9	85.2	88.4	100.0	106.3	109.5	110.8	112.1	108.4	105.1
Costa Rica	88.6	95.8	110.5	100.0	75.1	54.3	58.7	74.1	77.7	84.7
Chile	59.9	70.3	82.1	100.0	116.8	77.2	65.7	71.6	82.2	88.0
Ecuador	83.5	94.6	94.3	100.0	92.8	93.5	69.0	65.9	70.3	72.5
El Salvador	160.5	164.7	139.0	100.0	89.2	80.3	74.3	76.0	83.8	90.0
Guatemala	109.0	117.0	111.0	100.0	107.8	96.1	70.1	61.9	59.1	59.7
Haiti	85.7	89.7	107.2	100.0	117.5	100.9	102.3	105.6	116.8	115.0
Honduras	75.5	93.1	91.1	100.0	77.3	63.8	73.1	87.9	84.8	75.7
Mexico	62.9	72.4	87.1	100.0	114.8	96.5	69.6	73.4	78.1	68.7
Nicaragua	203.9	113.1	39.7	100.0	160.1	129.3	135.4	138.3	139.9	142.0
Panama	67.0	83.1	82.1	100.0	116.7	117.8	90.2	83.1	77.6	81.2
Paraguay	56.6	68.7	82.2	100.0	118.0	96.3	79.1	74.7	80.0	82.1
Peru	95.3	78.6	82.1	100.0	116.2	113.8	80.8	75.8	68.8	83.2
Dominican Republic	84.7	84.2	95.7	100.0	91.5	81.2	85.6	85.0	83.1	86.8
Uruguay	69.1	79.1	94.1	100.0	97.0	82.6	55.5	48.2	36.7	39.7
Venezuela	146.7	146.3	117.0	100.0	103.1	99.2	73.1	59.3	63.6	73.7

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Figure 2
LATIN AMERICA: GROSS FIXED CAPITAL INVESTMENT
(Percentage variation 1984-1986 average / 1979-1981 average)



Source: ECLAC, on the basis of official data.

^aPercentage variation of 1984-1986 average in respect of 1980-1981 average. Data for 1979 were not included due to the enormous drop in investment occurring in that year.

1980. For the same reason, even though the investment coefficient was higher than it had been in the preceding two years, it was nonetheless 25% below the average for the 1970-1980 period and was one of the lowest recorded in the last 40 years.

The shrinkage in investment was, moreover, an extremely generalized phenomenon. Indeed, gross fixed capital formation during the 1984-1986 period exceeded that of the 1979-1981 period only in Colombia, Haiti and Nicaragua. In all the other countries fixed investment has been far lower in the last three years than it was at the beginning of the decade. The decrease in fixed capital formation reached particularly vast proportions in Bolivia, Venezuela and Guatemala and, above all, in Argentina and Uruguay (see table 7 and figure 2).

On account of the deterioration in the terms of trade and of the high level of net external factor payments, fixed investment also continued to

Table 8

LATIN AMERICA: FINANCING OF GROSS CAPITAL FORMATION

	1971- 1975	1976- 1979	1980	1981	1982	1983	1984	1985	1986*
Coefficients in respect of gross domestic product									
1. Gross domestic savings	24.5	23.3	22.7	22.5	21.8	21.8	22.7	22.6	21.4
2. Net external factor payments	1.7	2.0	2.4	3.4	4.8	4.7	4.8	4.5	4.0
3. Unrequited private external transfer payments	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
4. Terms-of-trade effect	-3.4	-1.0	-	-0.7	-2.4	-3.0	-2.5	-2.9	-3.8
5. Gross national savings (1 - 2 + 3 + 4)	19.6	20.4	20.4	18.5	14.7	14.2	15.7	15.4	13.8
6. External savings	2.7	3.1	3.6	4.8	5.0	1.0	0.0	0.4	2.0
7. Gross capital formation (5 + 6)	22.3	23.5	24.0	23.3	19.7	15.2	15.7	15.8	15.8
Coefficients									
Domestic savings/Gross capital formation	111.1	99.3	94.7	96.6	111.1	143.8	144.8	143.0	135.9
Deterioration in terms of trade/ Domestic savings	13.5	4.5	-	3.3	10.8	13.7	10.6	12.8	17.5
Net external factor payments/ Domestic savings	6.7	8.5	10.4	15.1	22.2	21.3	20.9	19.9	18.8

Source: ECLAC, on the basis of official figures.

*Preliminary figures.

represent a far lower proportion of the gross domestic product than domestic savings. In fact, even though net payments of interest and profits fell for the second year running, they were nonetheless equivalent to 4% of the gross domestic product and absorbed almost one-quarter of domestic savings (see table 8). Moreover, the impact of the decrease in these payments was more than offset by the deterioration in the terms of trade. Consequently, the gap between the domestic product and national income continued to widen and represented almost 8% of the former.

III. EMPLOYMENT AND UNEMPLOYMENT

In 1986 urban unemployment fell for the second year in a row. In the 25 most heavily populated cities in Latin America as a group, the rate of unemployment declined to 6.4%, the lowest level recorded since 1981 (see table 9).

Nevertheless, as in 1985, this drop was the net outcome of the quite different changes which took place in the various countries for which information was available. While the rates of unemployment fell sharply in Brazil, Chile, Panama, Peru, Uruguay and Venezuela and slightly in Argentina and Colombia, they remained unchanged in Costa Rica and Mexico and rose in Bolivia, Ecuador, Guatemala, Honduras, Paraguay and Nicaragua (see figure 3).

The most noteworthy improvements in the employment situation occurred in Brazil and Peru, which were also the two countries of the region in which economic activity increased most vigorously. The average rate of unemployment in the six largest cities in Brazil—which had already fallen from 7.1% to 5.3% between 1984 and 1985—dropped to just 3.9% in 1986—the lowest level ever recorded—and had decreased to less than 3% by the end of the year in Rio de Janeiro, Sao Paulo and Porto Alegre (see table 10). Although employment increased in all sectors, it rose particularly steeply in the construction sector, where unemployment was almost halved, and was thus brought down to the same rate as the also very low level recorded in commerce (see table 11).

A marked decline also occurred in unemployment in Peru. In the case of non-agricultural activities, the rate of unemployment fell from the unprecedented level of almost 12% recorded the preceding year to slightly over 8% in 1986, the lowest figure in the last 10 years. This decline was largely accounted for by the decrease which took place in Lima, where unemployment fell from 10% in 1985 to 5.4% in 1986 (see figure 4). These changes were not only the result of the vigorous expansion of domestic activity, but also reflected the effects of the determined employment policy applied by the government. In 1986, government job-creation programmes provided employment for 3% of the labour force in the country as a whole and almost 5% of the economically active population in Lima. The first of these, the Temporary Income Support

Programme (PAIT), was set up in September 1985 with the aim of improving income distribution and allows public investment projects to be carried out through the hiring of mostly unskilled workers who are paid the equivalent of the minimum wage. In July 1986 another programme, known as the Emergency Employment Programme (PROEM), was added which gives temporary incentives to private firms in order to encourage them to hire additional manpower. In 1986 these programmes provided jobs for 150 000 and 35 000 people, respectively, more than half of them in Metropolitan Lima. As a result, employment expanded in

Table 9

LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT

(Average annual rates)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 ^a
Latin America ^b	7.4	6.8	6.0	6.2	6.6	7.0	8.1	8.2	7.5	6.4
Argentina ^c	3.3	3.3	2.5	2.6	4.7	5.3	4.6	4.6	6.1	5.2
Bolivia ^d	...	...	...	5.8	9.7	10.5	14.2	15.1	18.0	20.0
Brazil ^e	...	6.8	6.4	6.3	7.9	6.3	6.7	7.1	5.3	3.9
Colombia ^f	9.0	9.0	8.9	9.7	8.2	9.3	11.8	13.5	13.9	13.5
Costa Rica ^g	5.1	5.8	5.3	6.0	9.1	9.9	8.6	6.6	6.8	6.7
Chile ^h	13.2	14.0	13.6	11.8	11.1	22.1	22.2	19.3	16.3	13.5
Ecuador ⁱ	...	...	5.4	5.7	6.0	6.3	6.7	10.6	10.4	12.0
Guatemala ^j	...	...	...	2.2	2.7	4.7	7.6	9.7	12.9	14.5
Honduras ^k	...	...	...	8.8	9.0	9.2	9.5	10.7	11.7	12.0
Mexico ^l	8.3	6.9	5.7	4.5	4.2	4.1	6.7	6.0	4.8	4.8
Nicaragua ^m	...	...	...	22.4	19.0	19.9	18.9	21.1	20.9	22.1
Panama ⁿ	...	9.6	11.6	9.9	11.8	10.1	11.7	12.4	15.6	12.2
Paraguay ^o	5.4	4.1	5.9	4.1	2.2	5.6	8.4	7.4	5.2	6.1
Peru ^p	9.4	10.4	11.2	10.9	10.4	10.6	9.2	10.9	11.8	8.2
Uruguay ^q	11.8	10.1	8.3	7.4	6.7	11.9	15.5	14.0	13.1	10.7
Venezuela ^r	5.5	5.1	5.8	6.6	6.8	7.8	10.5	14.3	14.3	11.3

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

^a Preliminary figures. ^b Weighted average for the 25 most populous cities in Latin America, except for Havana, Santo Domingo, Fortaleza, Guayaquil, San Juan (Puerto Rico) and Guatemala City (for want of comparable data). ^c Nationwide urban rate, April-October average; 1986: October only. ^d National total.

^e Metropolitan areas of Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. Twelve-month average; 1980: June-December average. ^f Bogotá, Barranquilla, Cali and Medellín.

^g Average for March, June, September and December; 1985: average for March, July, September and December; 1986: average for April, June, September and December. ^h Nationwide urban rate. Average for March, July and November; 1984: average for March and November; 1986: average for March and July.

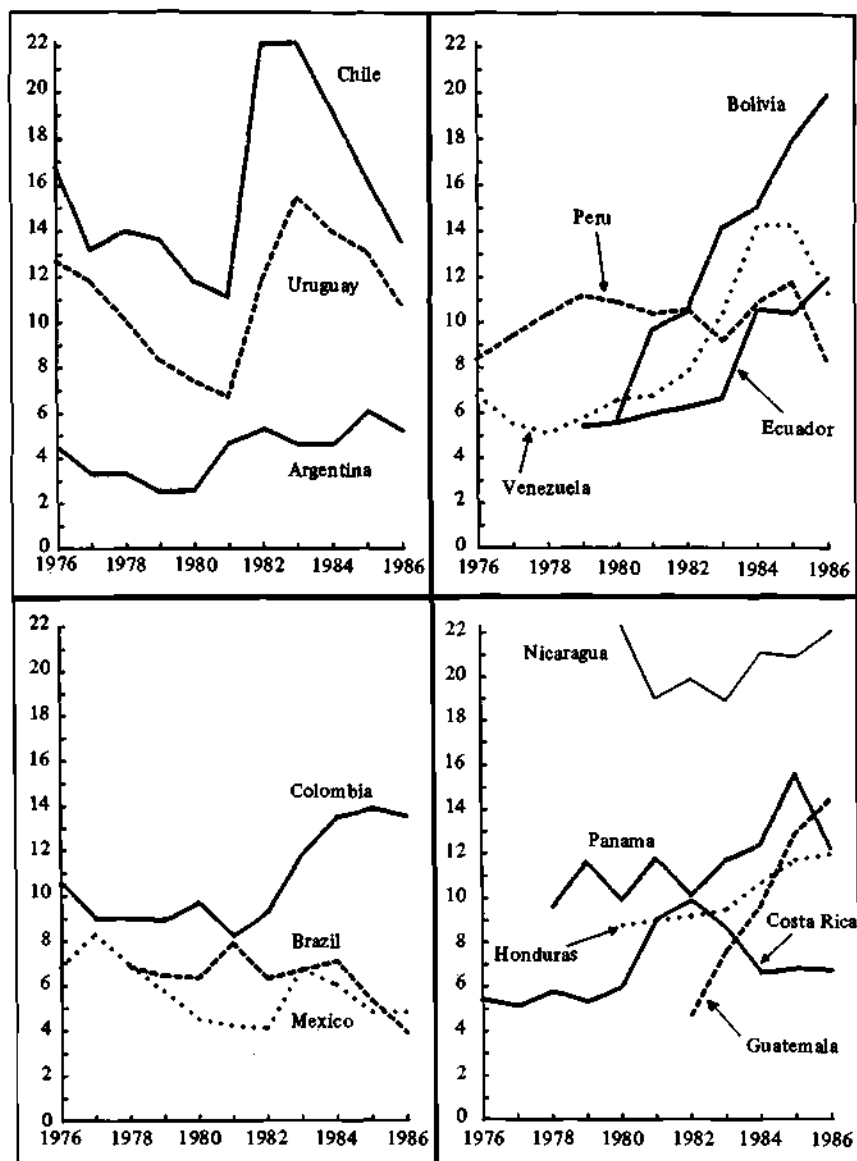
ⁱ Greater Santiago. Average for March, June, September and December. ^j National total, according to official estimates. ^k Metropolitan areas of Mexico City, Guadalajara and Monterrey. Four-quarter average.

^l National average. ^m Metropolitan region. August of each year except 1977-1979, for which data refer to nationwide urban unemployment; 1980: on the basis of data from the national census taken in February.

ⁿ Asunción, Fernando de la Mora, Lambaré and urban areas of Luque and San Lorenzo; 1981: first semester; 1982: first quarter; 1983: average for September, October and November; 1984: average for August, September and October; 1985: November-December average; 1986: annual average. ^o Non-agricultural activities.

^p Montevideo. Two-semester average; as from 1981, four-quarter average. ^q Nationwide urban rate. Two-semester average; 1986: second semester.

Figure 3
LATIN AMERICA: URBAN UNEMPLOYMENT IN SELECTED COUNTRIES
(Annual average rates)



Source: ECLAC, on the basis of official data.

Table 10

**LATIN AMERICA AND THE CARIBBEAN: UNEMPLOYMENT
RATES IN MAJOR CITIES**

	1980	1981	1982	1983	1984	1985	1986 ^a	1985				1986 ^a			
								I	II	III	IV	I	II	III	IV
Latin America ^b	6.2	6.6	7.0	8.1	8.2	7.5	7.0	8.2	7.7	7.5	6.5	7.1	6.9	6.4	5.7
Argentina ^c															
Buenos Aires	2.3	4.5	4.7	4.2	3.8	5.3	4.6	...	5.7	...	4.9	4.8	...	4.4	...
Córdoba	2.4	3.8	4.4	5.0	4.8	5.0	5.8	...	5.3	...	4.1	6.4	...	5.1	...
Greater Mendoza	2.3	4.8	4.1	4.5	3.5	3.7	4.2	...	3.6	...	3.7	4.9	...	3.4	...
Greater Rosario	3.4	5.8	8.4	6.3	6.5	10.7	7.0	...	10.9	...	10.2	6.8	...	7.2	...
Brazil ^d															
Rio de Janeiro	7.5	8.6	6.6	6.2	6.8	4.9	3.7	6.0	5.4	4.5	3.6	4.0	3.9	3.5	2.6
São Paulo	5.6	7.3	6.0	6.8	6.8	5.0	3.3	6.1	5.7	4.8	3.5	4.2	3.7	3.1	2.4
Recife	6.8	8.6	7.5	8.0	9.0	7.2	4.6	7.8	8.4	7.3	5.3	4.9	5.0	4.4	3.3
Porto Alegre	4.6	5.8	5.2	6.7	7.0	5.4	4.4	5.8	6.2	5.6	3.9	4.7	4.5	3.7	2.6
Colombia ^e															
Bogotá	7.9	5.5	7.4	9.4	12.2	12.8	13.2	13.7	13.2	12.6	11.7	14.3	14.2	12.6	11.5
Barranquilla	8.1	11.1	10.4	13.8	13.0	15.7	16.4	14.3	17.9	17.5	13.1	16.0	18.1	15.8	15.6
Medellín	14.7	...	13.3	17.0	16.4	16.0	15.2	16.1	16.5	15.6	15.7	15.1	17.2	14.6	14.0
Cali	10.0	...	9.6	11.6	13.3	14.4	12.7	13.4	15.4	15.2	13.7	12.4	13.5	12.6	12.1
Mexico ^f															
Mexico City	4.3	3.9	4.0	6.3	5.8	4.9	5.1	5.7	4.3	5.2	4.4	4.9	4.4	5.8	5.1
Guadalajara	5.0	5.8	5.0	7.4	6.1	3.4	3.2	3.9	3.5	3.9	2.4	2.6	2.6	4.2	3.4
Monterrey	5.2	4.2	4.9	9.8	7.5	5.4	5.4	6.9	5.1	5.4	4.0	5.0	4.8	6.0	5.6

Table 10 (concluded)

	1980	1981	1982	1983	1984	1985	1986 ^a	1985				1986 ^a			
								I	II	III	IV	I	II	III	IV
Paraguay ^a															
Asunción	3.9	2.2	5.6	8.4	7.4	5.2	...	...	...	...	5.2	...	...	...	6.1
Venezuela ^b															
Caracas	6.7	5.7	7.0	10.5	11.3	13.2	...	...	13.2	...	...	...	...	...	...
Peru ^c															
Lima	7.1	6.8	6.6	9.0	8.9	10.4	5.4	...	...	...	...	...	5.4	...	...
Uruguay ^d															
Montevideo	7.4	6.6	11.9	15.5	14.0	13.1	10.7	13.7	13.2	13.6	12.0	12.0	10.7	10.9	9.2
Costa Rica ^e															
San José	5.6	9.3	10.5	8.5	6.6	6.5	...	6.3	...	7.4	5.9	...	...	...	...
Chile ^f															
Santiago	11.8	11.1	22.1	22.2	19.3	16.3	...	18.0	16.2	17.4	13.8	14.5	15.4	13.5	10.6

Source: ECLAC, on the basis of official data.

^aPreliminary figures. ^bWeighted average for the 25 most populous cities in Latin America, except for Havana, Santo Domingo, Fortaleza, Curitiba, Guayaquil, San Juan (Puerto Rico) and Guatemala City (for want of comparable data). ^cFigures for April and October. ^dTwelve-month average; 1980: June-December average.^eFigures for March, June, September and December; 1985: March, July, September and December; 1986: April, June, September and December. ^fQuarterly averages. ^gIncludes Fernando de la Mora, Lambaré and the urban areas of Luque and San Fernando. ^hCaracas Metropolitan area. Two-semester averages: 1985: first semester. ⁱMetropolitan Lima. 1985 official estimates. ^j1980: two-semester average; 1981-1986: four-quarter average.^kMetropolitan area. Figures for March, July and November. ^lGreater Santiago. Figures for March, June, September and December.

all sectors for the first time since 1981. Nevertheless, a simultaneous increase occurred in hidden underemployment, which affected almost 39% of the labour force, the highest figure recorded in the country (see table 12).

In Chile and Uruguay, the rates of unemployment —which had risen extremely sharply in 1982-1983— fell steeply for the third year running (see figure 3). In Chile unemployment nationwide went down from an average of almost 13% in 1985 to 10.5% in 1986 and was slightly below 9% in the last quarter of the year, while in the capital it fell from 16.3% to 13.5%. These downturns occurred in spite of the simultaneous reduction in government job-creation programmes, which accounted for 5% of the labour force as against 7.3% in 1985 and 13.6% in 1983. In Uruguay the rate of unemployment —which had fallen gradually during the previous two years— had dropped to 9.2% by the end of 1986, the lowest level recorded since late 1981. The vigorous recovery of overall economic activity and, in particular, the revival of construction in the closing months of the year were important factors in this decrease.

Rates of urban unemployment also declined significantly in Venezuela (from 14.3% to 11.3%) and in Panama (from 12.3% to 10.2%). In the case of Venezuela, this put an end to the rising trend in unemployment observed since 1979 which had gone hand in hand with a steady decline in economic activity since that same year. The improvement of the employment situation was particularly influenced by the marked

Table 11

LATIN AMERICA (SELECTED COUNTRIES): URBAN
UNEMPLOYMENT IN THE MAIN SECTORS
OF ECONOMIC ACTIVITY

(Annual average rates)

	Manufacturing			Construction			Commerce		
	1984	1985	1986	1984	1985	1986	1984	1985	1986
Argentina ^a	3.8	6.3	...	8.9	12.7	...	4.3	4.9	...
Brazil ^b	7.1	5.2	3.7	12.8	7.7	4.0	6.5	5.6	4.0
Costa Rica ^c	6.4	4.7	...	14.0	8.4	...	6.6	6.3	...
Chile ^d	19.5	14.9	12.9	34.9	27.9	25.1	13.1	11.1	9.7
Uruguay ^e	13.3	12.3	10.5	17.5	17.5	14.9	11.3	11.1	9.8
Venezuela ^f	13.0	13.2	10.9	29.3	30.2	23.3	10.3	10.7	9.1

Source: ECLAC, on the basis of official data.

^aNationwide urban rate, April-October average; 1985: April.

^bMetropolitan areas of Rio de Janeiro, São

Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. Twelve-month average; 1986: January-November average.

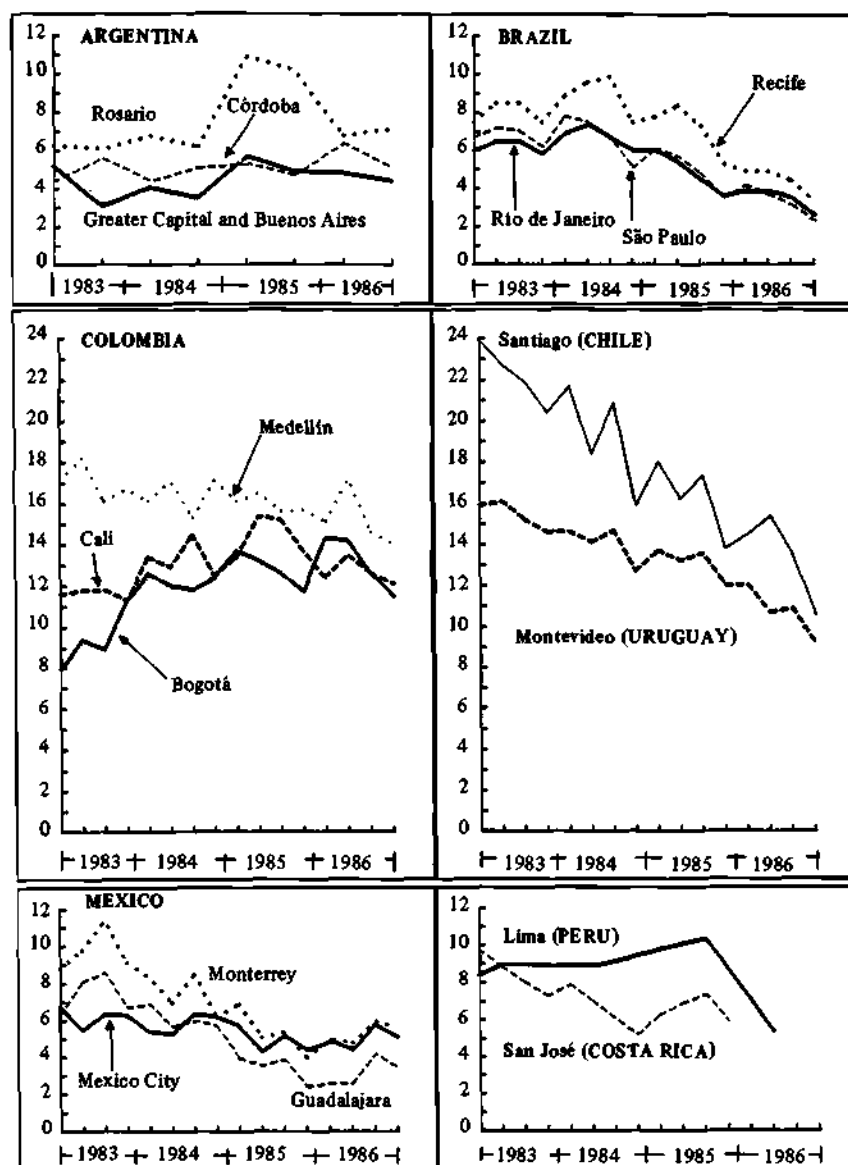
^cMetropolitan area of San José. Data refer to March of each year. ^dGreater Santiago. Average for March, June, September and December.

^eMontevideo. Average for four quarters.

^fWhole country. Average for two semesters.

Figure 4

LATIN AMERICA: UNEMPLOYMENT IN SOME MAJOR CITIES



Source: ECLAC, on the basis of official data.

recovery in construction, following nine years of unremitting decline, and the less pronounced but nonetheless significant upturns in mining, manufacturing and commerce.

The fall in unemployment in Panama also marked a halt in its upward trend of the preceding four years. However, this change coincided with a fairly pronounced drop in the participation rate, which was apparently associated with the shift of part of the labour force to the informal sector (see table 13).

The drop in urban unemployment was considerably more moderate in Argentina and Colombia. In the former, it fell from 6.1% in 1985 to 5.2% in 1986, primarily as a result of the decrease in unemployment in Greater Buenos Aires and Rosario, which more than offset the rises which occurred in Córdoba, Mendoza and Tucumán.

In Colombia the average level of unemployment fell slightly (from 13.9% to 13.5%), but was nonetheless considerably higher than the figure recorded at the beginning of the decade (see figure 3). Until the middle of the year unemployment continued to rise in all the country's main cities, with the exception of Cali, due to the fact that the increase in employment brought about by the growth of the economy was offset by a simultaneous rise in the participation rate. However, as the expansion of

Table 12

LATIN AMERICA (SELECTED COUNTRIES): NON-VOLUNTARY
URBAN UNDEREMPLOYMENT

(Average annual rates)

	1979	1980	1981	1982	1983	1984	1985	1986 ^a
Visible underemployment^b								
Argentina ^c	4.0	5.6	6.4	6.8	4.8	4.6	6.0	6.3
Colombia ^d	14.0	16.0	11.4	10.9	12.1	14.6	...	...
Costa Rica ^e	13.8	15.6	19.3	24.2	17.6	16.4	13.7	...
Peru ^f	3.1	1.4	3.0	4.0	3.8	2.9	...	4.0
Invisible underemployment^g								
Brazil ^h	...	...	...	7.8	8.5	9.7	9.7	...
Costa Rica ^e	...	10.2	10.0	21.5	12.1	8.1	13.4	...
Peru ^f	28.6	24.2	21.4	24.0	29.5	33.9	...	38.8

Source: ECLAC, on the basis of official data.

^a Preliminary figures.

^b Percentage of the labour force that would be willing to accept a longer working day than at present.

^c Greater Buenos Aires, April-October average.

^d Bogotá, Barranquilla, Cali and

Medellín. Average for March, June, September and December; 1984: average for March, June and December.

^e National urban total. Average for March, July and November; 1983: November only; 1984: average for March and November; 1985: March.

^f Metropolitan Lima. Excluding home workers.

^g Percentage of wage earners receiving less than the minimum wage.

^h Weighted average

for the metropolitan areas of Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife; twelve-month average; 1982: second semester; 1985: first semester.

Table 13

LATIN AMERICA: GLOBAL PARTICIPATION RATES^a

(Annual average rates)

	1980	1981	1982	1983	1984	1985	1986 ^b
Bolivia ^c	49.6	49.2	49.1	49.0	48.9	48.7	...
Brazil ^d	61.0	62.0	61.9	60.5	61.3	60.7	61.0
Colombia ^e	54.4	52.3	53.0	54.6	56.2	56.8	57.0
Costa Rica ^f	50.2	49.3	50.9	48.7	48.7	49.3	...
Chile ^g	50.7	51.7	51.7	52.2	52.5	52.3	52.5
Mexico ^h	50.1	50.1	49.5	49.1	49.4	52.6	51.8
Panama ⁱ	51.6	...	53.7	56.1	56.1	56.9	55.5
Uruguay ^j	56.4	54.6	56.6	56.9	57.9	58.5	58.5
Venezuela ^k	55.0	54.7	54.4	54.2	55.8	56.0	56.1

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

^aEconomically active population as a percentage of population of working age, according to household survey data. The lower age limit varies slightly from one country to another (see corresponding footnotes).^bPreliminary figures. ^cNational total. Lower age limit 10 years. ^dMetropolitan areas of Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. Lower age limit 15 years. Average for 12 months; 1986: January-November average.^eBogotá, Barranquilla, Cali and Medellín. Lower age limit 12 years. Average for March, June, September and December. ^fNational urban. Lower age limit 12 years. March of each year. ^gGreater Santiago. Lower age limit 14 years. Average for March, June, September and December.^hMetropolitan areas of Mexico City, Guadalajara and Monterrey. Lower age limit 12 years. Average for four quarters; 1986: first quarter. ⁱNational total. Lower age limit 15 years. ^jNational total. Lower age limit 14 years. Average for four quarters. ^kNational total. Lower age limit 15 years. Average for two semesters.

economic activity gathered speed in subsequent months, an overall decline occurred in unemployment.

In spite of the slow growth of economic activity in Costa Rica and its shrinkage in Mexico, the average annual rate of urban unemployment remained unchanged in both of these countries. Nevertheless, in Mexico the overall employment situation worsened, particularly in the formal sector. During the course of the year employment in manufacturing fell by almost 4% (despite its 17% rise in in-bound assembly plants) and employment in construction had decreased by 38% up to September. At the same time, the number of persons registered with the Mexican Social Security Institute was down 2% and a slight drop occurred in the participation rate.

In contrast, urban unemployment rose in the six other countries of the region for which data were available. In Paraguay, the increase over the relatively low level (5%) of the year before was moderate, and the country's gross domestic product fell by a very small amount due to the combined effect of the sharp drop in agricultural production, the partial recovery made by construction and the fairly rapid expansion which continued to be seen in services.

The increase in unemployment was also slight in Honduras but was more pronounced both in Ecuador and Guatemala. However, in these

three countries the rises constituted a continuation of the regular upward trend in unemployment of previous years, and the rates were therefore not only extremely high, but also well above the levels which had been usual at the beginning of the decade (see table 9).

As in 1985, the highest rates of unemployment were those of Bolivia and Nicaragua. In Bolivia open unemployment affected the unprecedented proportion of one-fifth of the population and was well over three times the level recorded just six years earlier. The increase in unemployment was mainly the outcome of the serious crisis in mining and of the adjustment policy applied in the public sector with a view to balancing the central government's accounts and improving the competitiveness of State enterprises, which led to a decline in the number of civil servants and of workers in State enterprises.

Unemployment was even higher in Nicaragua, where it reached 22%, a somewhat higher level than those recorded in the two preceding years. This rise was due entirely to the increase in unemployment in non-agricultural activities (from 23% to 28%), since unemployment in agriculture fell markedly for the second year running.

IV. PRICES AND WAGES

1. Prices

Inflation was down sharply in Latin America in 1986. The average rate of consumer price increases, weighted by population, which had increased steadily during the preceding six years and which had attained the record level of 275% in 1985, fell to 65%.

Moreover, this fall was quite widespread. The rate of inflation slackened in 13 of the 19 economies for which data were available, and in most of them the drop was considerable. The downturn in inflation was particularly marked in Argentina, Peru, Brazil and above all Bolivia—the four countries which, together with Nicaragua, had experienced the sharpest inflation in 1985 (see table 14).

This progress notwithstanding, inflation continued to constitute a serious problem in most of the countries of Latin America. Indeed, while consumer prices fell in Haiti, they rose by less than 7% only in Honduras, Panama and the Dominican Republic. Inflation stood at levels well above the traditional rates in El Salvador, Guatemala and Paraguay, remained extremely high in Uruguay, spiraled in Mexico and reached almost 750% in Nicaragua. Moreover, during the second half of the year the downward trend followed by inflation since the third quarter of 1985 in Argentina and Peru was reversed, as also occurred towards the end of the year in Brazil.

Among those countries in which inflation slackened, the most spectacular slowdown occurred in Bolivia. This country—which in 1985 had suffered the first case of hyperinflation in the history of Latin America—saw the annual rate of increase in consumer prices fall steadily from the high of 23 500% recorded in September 1985 to 66% in December 1986. Moreover, two-thirds of this rate were accounted for by the very large increases occurring in the consumer price index during the first two months of the year, which were mainly attributable to the payment of bonuses, for which the necessary financing was not available, to government employees. Subsequently, the monthly variations in prices, although erratic, remained below 2% on average (see figure 5). This sharp reduction of inflation was the outcome of extremely strict fiscal and

wage policies as well as of the notable stability of the exchange rate from February onwards, both in the official sector and on the parallel market.

Inflation also plummeted in Argentina, falling from 385% in 1985 to 82% in 1986. However, this decline conceals the considerable differences to be observed between the trends in inflation during these two years. While in 1985 inflation spiraled sharply until June before falling off steeply during the second half of the year as a result of the application of the Austral Plan, in 1986 the monthly price variations were small in January and February, but rose appreciably from March onwards and attained an average level of 6.6% in the second half of the year. As a result, after having fallen to 50% in June—the lowest figure recorded since December 1974—the annual variation in prices rose regularly in subsequent months. Nevertheless, during this period inflation remained considerably lower than prior to the application of the stabilization programme.

Table 14

LATIN AMERICA: CONSUMER PRICES

(Variations from December to December)

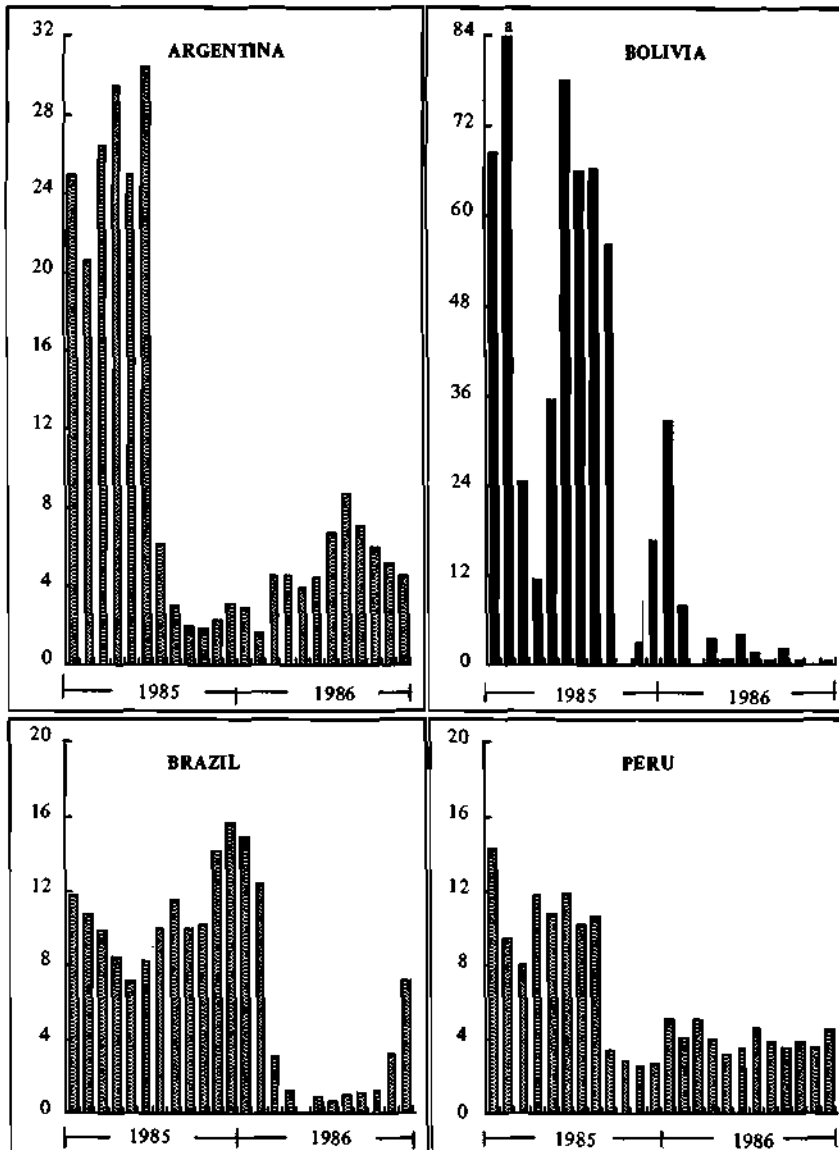
Country	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Latin America ^a	40.0	39.0	54.1	56.1	57.6	84.8	131.1	185.2	275.3	64.9
Argentina	150.4	169.8	139.7	87.6	131.2	208.7	433.7	688.0	385.4	81.7
Bolivia	10.5	13.5	45.5	23.9	25.2	296.5	328.5	2 177.2	8 170.5	66.0
Brazil	43.1	38.1	76.0	95.3	91.2	97.9	179.2	203.3	228.0	58.6
Colombia	29.3	17.8	29.8	26.5	27.5	24.1	16.5	18.3	22.3	20.9
Costa Rica	5.3	8.1	13.2	17.8	65.1	81.7	10.7	17.3	11.1	15.3
Chile	63.5	30.3	38.9	31.2	9.5	20.7	23.6	23.0	26.4	17.4
Ecuador	9.8	11.8	9.0	14.5	17.9	24.3	52.5	25.1	24.4	27.4
El Salvador	14.9	14.6	14.8	18.6	11.6	13.8	15.5	9.8	30.8	30.4
Guatemala	7.4	9.1	13.7	9.1	8.7	2.0	15.4	5.2	31.5	25.6
Haiti	5.5	5.5	15.4	15.3	16.4	4.9	11.2	5.4	17.4	-11.4
Honduras	7.7	5.4	22.5	11.5	9.2	8.8	7.2	3.7	4.2	3.2
Mexico	20.7	16.2	20.0	29.8	28.7	98.8	80.8	59.2	63.7	105.7
Nicaragua	10.2	4.3	70.3	24.8	23.2	22.2	32.9	50.2	334.3	747.5
Panama	4.8	5.0	10.0	14.4	4.8	3.7	2.0	0.9	0.4	0.1
Paraguay	9.4	16.8	35.7	8.9	15.0	4.2	14.1	29.8	23.1	24.1
Peru	32.4	73.7	66.7	59.7	72.7	72.9	125.1	111.5	158.3	62.9
Dominican Republic	8.5	1.8	25.6	4.6	7.3	7.2	7.7	38.1	28.4	6.5
Uruguay	57.3	46.0	83.1	42.8	29.4	20.5	51.5	66.1	83.0	70.6
Venezuela	8.1	7.1	20.5	19.6	11.0	7.3	7.0	18.3	9.0	12.9

Source: ECLAC, on the basis of official price indexes provided by the countries. In some cases, these data were supplemented with figures published by the International Monetary Fund, *International Financial Statistics*, May, 1987.

^aThe totals for Latin America represent the variations in the countries, weighted by their respective populations in each year.

Figure 5

**MONTHLY VARIATIONS IN THE CONSUMER PRICE INDEX
IN ARGENTINA, BOLIVIA, BRAZIL AND PERU**
(Percentages)



Source: ECLAC, on the basis of official data.

*The monthly variation was 182.8 per cent.

One factor which initially contributed to this turnaround in the trend was the changeover from the generalized freeze on prices, wages, utility rates and the exchange rate established by the Austral Plan to a more flexible system of price controls. Thus, in January a wage increase (valid for three months) of 5% in the public sector and of a maximum of 8.5% in the private sector was granted, and at the beginning of April new rules relating to price adjustments were announced. In accordance with these rules, the exchange rate and public utility rates would periodically be raised by small percentages and price controls would be focused on a group of large enterprises through a system of agreements based on changes in costs. A decision was also taken to grant a further quarterly wage increase, and the trade unions and management were encouraged to begin talks aimed at setting basic wages which would incorporate the raises made in these remunerations in the preceding months. Such wages were henceforth to be renegotiated on a quarterly basis within "brackets" set by the government.

In practice, however, wage increases frequently exceeded official guidelines, a fact which led to a considerable rise in the real wage in industry during the second quarter. As a result, business enterprises' costs rose appreciably, and after a time firms transferred this increase to prices. This was, in turn, facilitated by the rapid expansion of the money supply, which increased at a monthly rate of approximately 7% between June 1985 and July 1986. Although this rapid growth of the means of payment did not initially have inflationary effects due to the considerable expansion in the demand for money prompted by the sharp diminution in the rate of price increases, it ultimately surpassed this demand and thus came to constitute a further inflationary factor. The pressure created by the rise in wages and the expansion of the means of payment was compounded by the fact that the demand for food rose faster than supply and, in particular, by the effects of the seasonal rise in the price of meat.

In an attempt to control the resurgence of inflation, at the end of August the government announced a set of measures which, in contrast with those applied during the first phase of the Austral Plan, were designed to gradually bring down the rate of price increases. They included, among others: increases of up to 3% in September in controlled industrial prices and in the rates charged by public enterprises, to be followed by progressively smaller rises in both during subsequent months such that by December the increases would be of 2%; an immediate 3% rise in the exchange rate and its subsequent readjustment by means of a system of small and periodic increases; a tighter monetary policy aimed at rapidly bringing down the growth rate of the means of payment; and a greater regulatory role for the government in wage negotiations between management and trade unions in order to ensure that the increases they agreed upon would be compatible with its gradual

stabilization policy. The government also announced that these measures would be accompanied by a continuation of its efforts to diminish the public-sector deficit.

Thanks to these measures, the monthly variation in prices, which had verged on 9% in August, fell regularly in subsequent months, although at a slower rate than forecast by the authorities (see figure 4).

The slackening of the rate of price increases was also notable in Peru, although less so than in Bolivia and Argentina. As a result of the unorthodox stabilization plan implemented by the new government in August 1985, the annual rate of inflation fell from the all-time high of 192% recorded in that month to 63% in December 1986. This slowdown was largely due to the application of a broad programme of price controls, the decrease in production costs resulting from the lowering of interest rates, the reduction in the sales tax and the maintenance of a fixed exchange rate. In order to mitigate the harmful repercussions of the exchange policy on the international competitiveness of sectors producing tradeable goods, the government raised some tariffs, prohibited or restricted certain imports and authorized producers of non-traditional exports to change an increasing proportion of their foreign currency earnings at the highest exchange rate prevailing on the financial market. Partly as a result of these measures and partly on account of the inflationary pressure generated by the public-sector deficit and the rise in wages, after having fallen to an average of 3% in the last four months of 1985, monthly variations in consumer prices were around 4% in 1986. Consequently, the annual rate of inflation, which had fallen steadily since September 1985, began to pick up slightly a year later.

In order to deal with this situation, at the beginning of December the government announced a series of measures involving major changes in the stabilization policy hitherto applied. Henceforward most imports were to be paid for at the rate of exchange applying to financial operations (which was at the time 25% higher than the rate for commercial transactions). In addition, the authorities raised the proportion of income from exports that could be changed at the exchange rate prevailing in the financial sector and announced that in 1987 the rate of exchange would increase by 2.2% per month. They also announced that the price policy would henceforth be based on four groups of products. The prices of goods in the first group—made up of some 200 products, including, among others, food, medicines, gasoline and cement—were to be subject to controls; the prices of goods in the second group would be "regulated" and could not initially be increased by more than 6%-8%; the third group included public services and housing rents, whose prices were to be covered by special systems, while the last group was made up of goods whose prices were to be freely set by the market.

Inflation also slackened a great deal in Brazil. As a result of the Cruzado Plan—which came into effect at the beginning of March following an eight-month period of extremely sharp price increases—the monthly variation in consumer prices fell from an average of almost 13% between August 1985 and February 1986 to below 1.5% in the following nine months.

The basic assumption of the Cruzado Plan was that inflation in Brazil at that time was essentially the result of inertia. In other words, the plan was based on the idea that whatever the initial causes of price rises may have been in the past, in recent years they had mainly been the consequence of deeply-rooted inflationary expectations and of a widespread system of indexation. Under these circumstances, any alteration—either in demand or in supply—which, in theory, ought to cause a temporary increase in the level of prices, would, in practice, spark off a permanent increase in the rate of inflation. Furthermore, in the absence of exogenous changes, the effects of the system of indexation and of the interplay of inflationary expectations were such that price rises during a given period would tend to mirror those of the preceding period. This phenomenon was seen as the primary manifestation of the inertial nature of the inflationary process.

With this basic assumption as its starting point, the plan provided for the elimination of the system of indexation and, among its other main measures, called for: a) the creation of a new currency—the cruzado—equivalent to 1 000 cruzeiros whose value in terms of the latter would rise at a rate of approximately 15% per month for a period of one year in order to prevent unjustified profits or losses on term contracts drawn up prior to the application of the plan; b) the freezing of all prices at their levels as of 27 February until such time as official lists of ceiling prices were published; c) the establishment of a fixed exchange rate of 13.84 cruzados to the dollar (the authorities emphasized, however, that this parity might be revised, depending on the changes which occurred in the external situation); d) the setting of wages at 8% above their real average level during the preceding six months, and the freezing of the minimum wage at a level 15% above its real average for the previous six months; and e) the elimination of the indexation of financial assets having terms of less than one year and the freezing for one year of rents and housing payments owed to the financial system.

With the application of these measures, consumer prices rose by an average of less than 1% between March and July, while industrial production continued to show rapid growth and unemployment fell sharply. In fact, the main problem which emerged as a result of the application of the plan was not a shrinkage in economic activity, but rather the shortage of certain goods (such as meat, milk and automobiles) that was produced by the huge expansion of demand and by the fact that some prices were frozen at relatively low levels.

To counteract this situation, at the end of July the government decided to reduce consumer credit by 40%, levied a 25% tax on the sale of tickets for international travel and on dollars sold to Brazilian tourists, and introduced a levy in the form of compulsory loans on sales of gasoline and alcohol (equivalent to 28% of the price to the consumer) as well as on purchases of automobiles (30% on new cars, 20% on those with two years of use and 10% on vehicles up to four years old).

In spite of these steps and notwithstanding considerable increases in production and imports, monthly inflation rose slightly but systematically. Consequently, in an attempt to reduce excess demand and to correct the most striking distortions in the price system, in mid-November the government announced a series of measures which, as a whole, were designed to reduce the public-sector deficit by the equivalent of 3% of the product. They included the following: a) readjustments of 80% in postal rates, of 35% in the price of electricity for residential consumption and of 10% in that used by industry, and of 30% in telephone and drinking-water rates; b) price increases of 80% for new automobiles, 60% for gasoline and gasohol, 25% for sugar, of from 45% to 120% for cigarettes and 100% for beverages; c) the abolition as of March 1987 of treasury bonds which were readjusted in line with inflation and their replacement by non-readjustable floating-rate Central Bank bonds; d) the return to an exchange policy based on mini-devaluations of the cruzado and the adoption of a variety of tax measures designed to promote exports; e) the adoption as the new official inflation index of a consumer price index based on the basic shopping basket typically purchased by families whose income is equal to or lower than five minimum wages; and f) the immediate elimination of a number of State bodies and a ban on hiring in the government service until the end of 1987, together with a variety of other measures designed to cut the fiscal deficit.

Although the impact of these measures was not apparent in the November inflation figures (partly due to the date on which they were adopted and partly as a result of the change in the official index), they did lead to a significant rise in price levels in December and strengthened inflationary expectations.

Inflation also fell in 1986 in the Dominican Republic, Chile and Colombia, although rather less so than in the countries mentioned above.

In the Dominican Republic the annual variation in consumer prices dropped from over 28% in 1985 to just 6.5% in 1986. The downward trend of inflation was influenced by the stability of the exchange rate (following its sharp rise in January 1985), the decrease in the price of fuels, the sharp reduction of inflation in the United States and a greater degree of monetary and fiscal discipline (see figure 6).

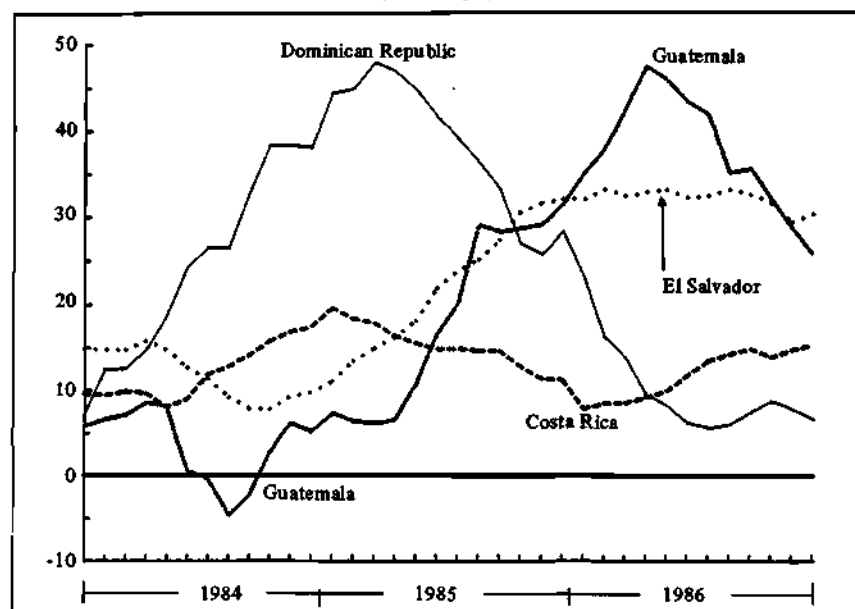
The gradual but steady decline of inflation in Chile—from 26% in 1985 to 17% in 1986—was attributable to the very small increase in the

prices of imported goods in Chilean pesos (owing to the decrease in external inflation which was mainly brought about by the sharp drop in the price of petroleum and the smaller increase of the nominal exchange rate in 1986); the pronounced reduction in domestic interest rates; the stability of real wages during most of the year; and the improved balance of fiscal accounts.

In contrast, in Colombia the slight drop in inflation from 22.3% in 1985 to 21% in late 1986 was entirely accounted for by the rates for May and June, when consumer prices fell in absolute terms. This drop was, in turn, due to the steep decline in food prices seen during these two months as a result both of more bountiful harvests—thanks to highly favourable weather conditions—and of the considerable contraband trade in agricultural products from Venezuela. Owing to these factors, the annual rate of inflation fell to 13.5% in June, the lowest figure recorded in almost 14 years. Subsequently, however, the rate of inflation rose persistently (see figure 7).

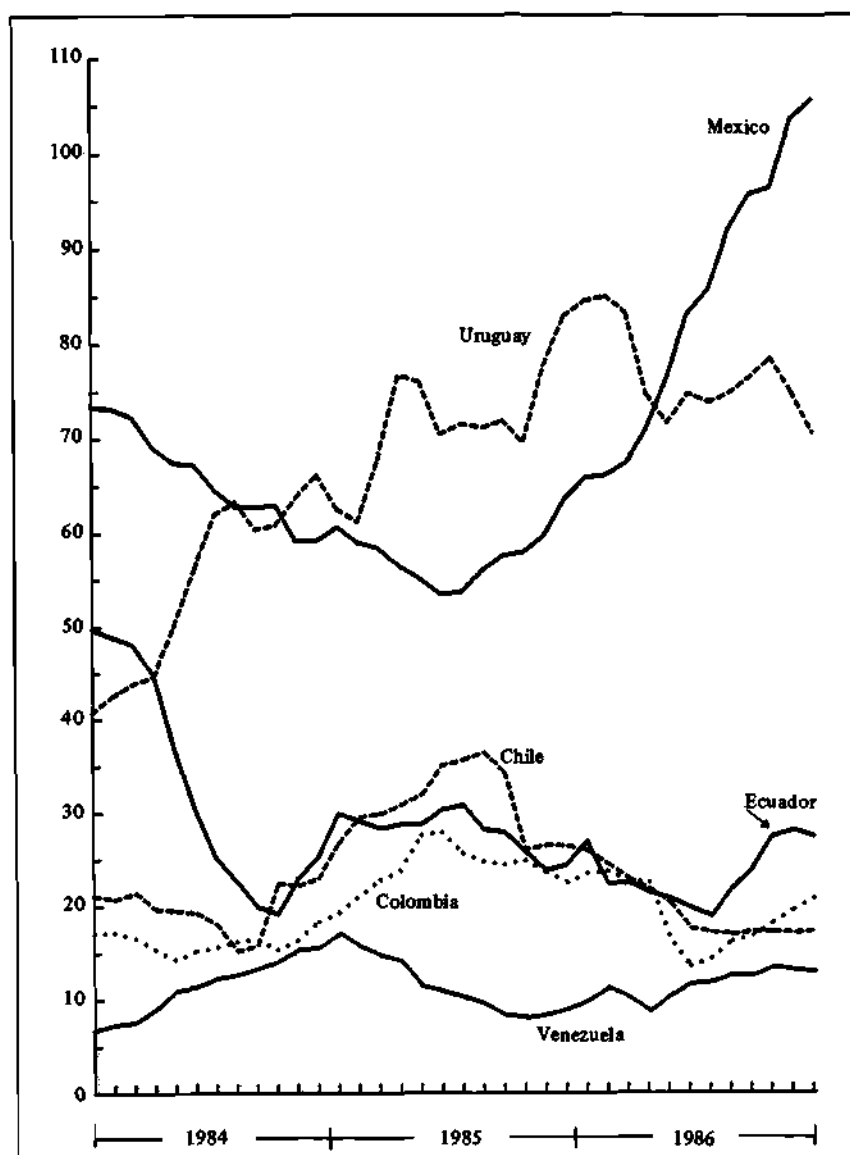
In 1986 inflation remained extremely low in Honduras and Panama, where the rate of increase of domestic prices has traditionally

Figure 6
LATIN AMERICA: TWELVE-MONTH VARIATIONS IN THE CONSUMER
PRICE INDEX OF SELECTED COUNTRIES
(Percentages)



Source: ECLAC, on the basis of official data.

Figure 7
**LATIN AMERICA: TWELVE-MONTH VARIATIONS IN THE CONSUMER
 PRICE INDEX OF SELECTED COUNTRIES**
(Percentages)



Source: ECLAC, on the basis of official data.

followed that of international inflation, and, in particular, that of the United States.

Inflation increased, however, in Venezuela as a result of the elimination of the preferential exchange rate for some imports, the readjustments made at the beginning of the year in agricultural wages and in the wages of lower-level civil servants and of workers not covered by collective bargaining, and of the more expansionary nature of the monetary policy. Early in 1986 a reversal also occurred in the downward trend followed by inflation in Costa Rica since the end of 1984. A similar turnabout began to take place in Ecuador as of August, mainly on account of the sharp devaluation of the sucre during that month which accompanied the adoption of a free exchange rate (see table 14 and figure 7).

For the second year in a row inflation reached unusually high levels in El Salvador (30%) and Guatemala (26%), in both of which price variations had traditionally been among the lowest in the region. Their currencies had also been perfectly stable until 1986, in the case of the former, and 1985, in the case of the latter, when they sharply increased their exchange rates. Nevertheless, in Guatemala the rate of inflation fell sharply from August onwards.

Price increases were even greater in Uruguay —where inflation jumped to over 70%, which was the highest rate recorded in the past 10 years except for those of 1979 and 1985— and higher yet in Mexico. In this country, the rate of inflation —which had already begun to rise in mid-1985 due primarily to the sharp devaluation of the peso in July of that year— continued to gather speed unrelentingly in 1986 until reaching an all-time high of 106% by the end of the year. This trend in inflation constituted at one and the same time both the effect and the main cause of the repeated sharp rises in the exchange rate, the large and more frequent readjustments made in the current value of minimum wages, the high level of nominal interest rates and the reinforcement of inflationary expectations.

Finally, in 1986 inflation soared for the second year running in Nicaragua. After having risen from 50% in 1984 to 335% in 1985, the consumer price index leaped by approximately 750% in 1986. In this case too, the factors contributing to the worsening of inflation included the marked increases in the various exchange rates, the rapid expansion of the means of payment and the very considerable deficit of the public sector, which proved difficult to correct on account of, *inter alia*, the inflexibility of fiscal expenditure associated with the country's defence needs. The persistence of supply shortages and parallel markets on which goods were sold at prices far in excess of official ones also helped to intensify speculation and inflationary expectations.

2. Wages

In 1986 real wages generally followed quite positive trends in the countries for which data were available. Nevertheless, in most of them, the increases constituted no more than slight upturns following upon the considerable declines seen in previous years (see figure 8).

Undoubtedly, the factors which influenced the evolution of wages were different from one country to another. In a number of them—Brazil, Costa Rica, Ecuador, Paraguay and Peru— wage policy was purposefully expansionary with a view to offsetting previous decreases and stimulating domestic demand. Thus, in Costa Rica, the authorities decreed general wage increases, which were scaled so as to be of greatest benefit to workers earning the lowest incomes; in Peru, general wage rises which were higher than both past and projected inflation were granted; in Brazil, together with a price freeze instituted at the beginning of March, average wages were raised 8% above their real level of the previous six months; in Paraguay, the minimum wage was readjusted in January and July by higher percentages than inflation; and in Ecuador the same thing was done in January and August. The increase in real wages in these countries was also influenced by the moderate rate of inflation in some cases (Costa Rica) and its sharp decline in others (Brazil and Peru). In these last two countries, the rise in wages was further facilitated by the strong expansion of economic activity. As a result, real average wages climbed by 25% in Lima, by between 8% and 26% in the major cities in Brazil and by 6% in Costa Rica, while the purchasing power of the minimum wage increased by almost 18% in Paraguay and 8% in Ecuador (see tables 15 and 16).

The downturn in the rate of inflation—although within the context of rather restrictive wage policies—and the rapid growth of total production were also the main causes of the rise in real wages in Colombia and Chile. In Chile the slight increase in average wages (1.7%) was fairly widespread, the main exception being the construction sector, where wages increased by 5% and the public sector, in which they fell notably. (See table 17.) The purchasing power of the minimum wage fell, however, for the fourth consecutive year, although by a smaller percentage than in the preceding years (see figure 9). In Colombia, where the minimum wage was increased by 20% at the beginning of the year, the growth of national income and of domestic demand brought about by the rise in the international price of coffee and by the dynamic expansion of industrial and mining exports were contributing factors in the almost 5% increase in the purchasing power of industrial wages.

The slight rise in real wages paid by the manufacturing industry in Argentina as well as the increase of nearly 6% in real wages in Uruguay were largely the result of intense pressure from labour, which prompted

Figure 8
LATIN AMERICA: AVERAGE REAL WAGES IN SELECTED COUNTRIES
(Indexes: 1980 = 100)

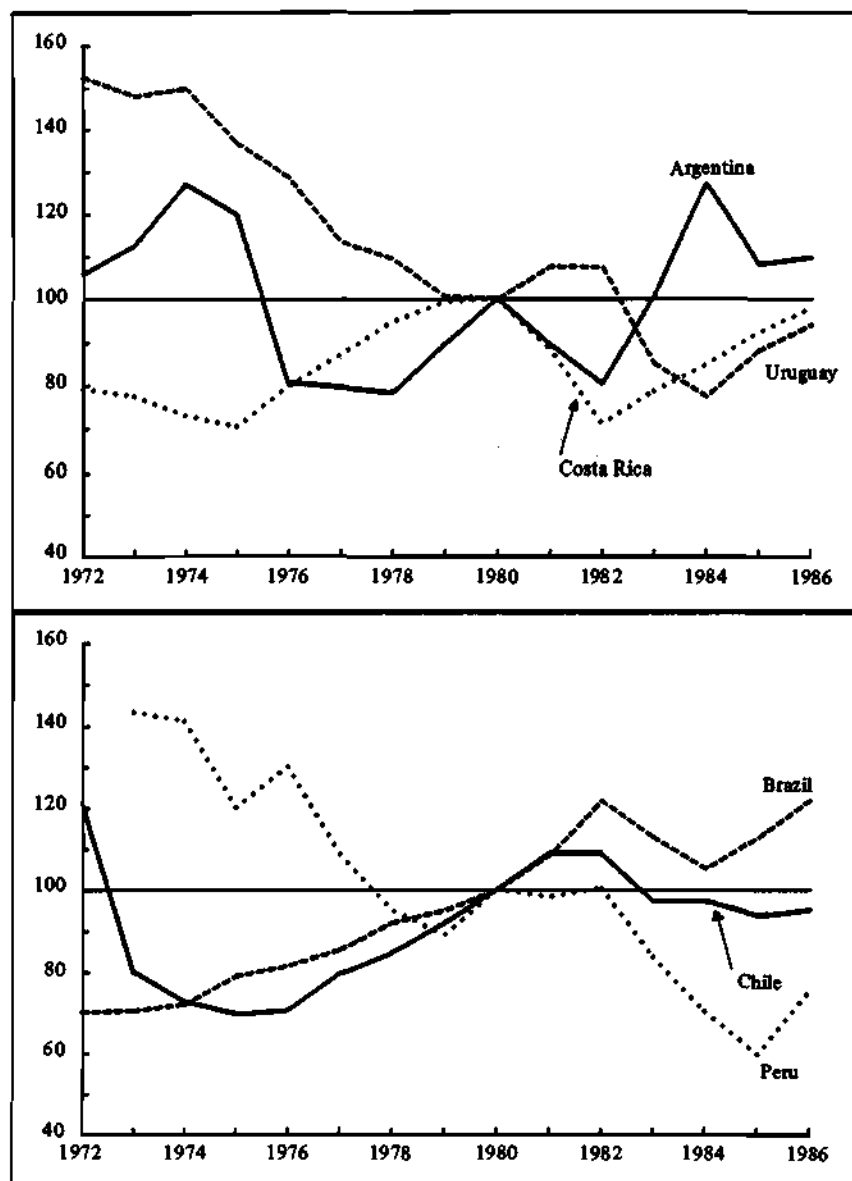
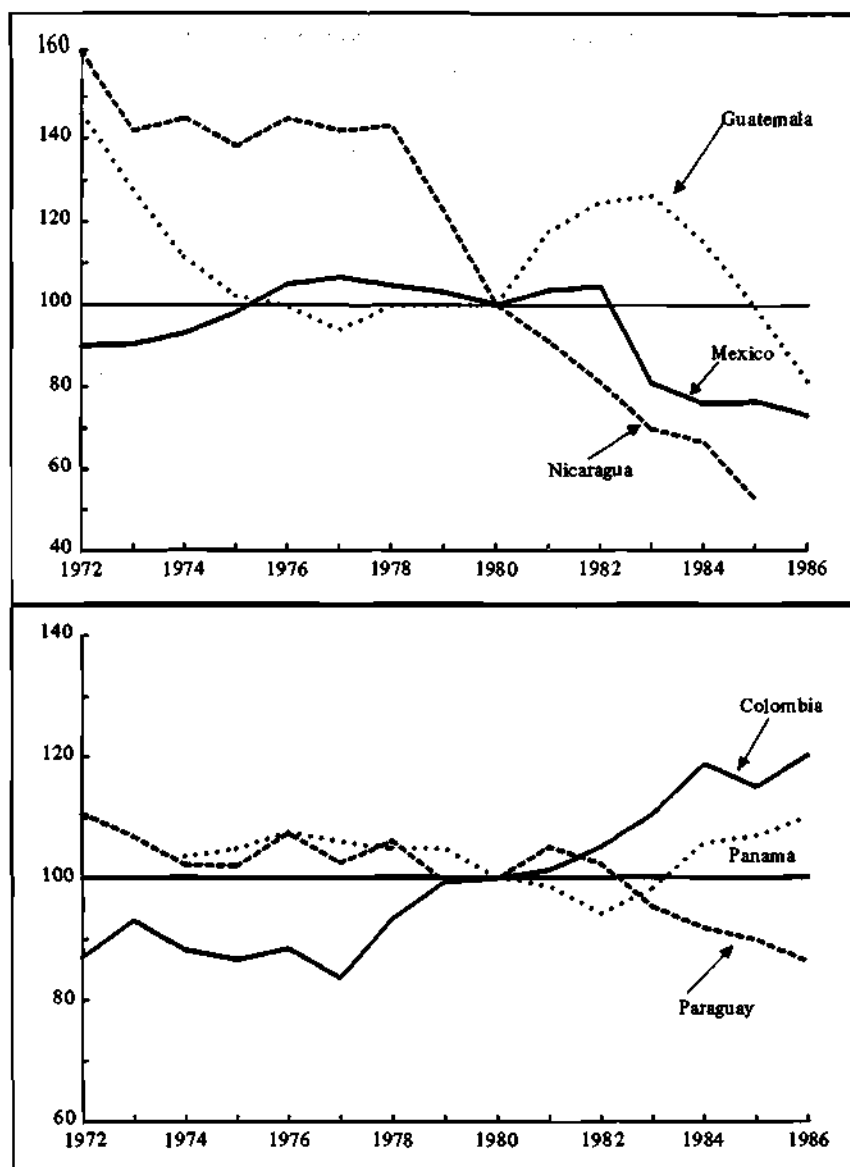


Figure 8 (concluded)



Source: ECLAC, on the basis of official data.

Table 15

LATIN AMERICA AND THE CARIBBEAN: REAL AVERAGE WAGES

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 ^a
Average annual indexes (1980 = 100)										
Argentina ^b	79.3	77.9	89.5	100.0	89.4	80.1	100.5	127.1	107.8	109.5
Brazil										
Rio de Janeiro ^c	89.1	93.9	95.1	100.0	108.5	121.6	112.7	105.1	112.7	121.8
São Paulo ^d	76.3	85.7	92.3	100.0	104.7	107.2	94.0	96.7	118.9	149.8
Colombia ^e	83.5	93.2	99.3	100.0	101.4	105.2	110.4	118.7	114.9	120.2
Costa Rica ^f	87.0	94.7	99.2	100.0	88.3	70.8	78.5	84.7	92.2	97.8
Chile ^g	79.6	84.7	91.8	100.0	108.9	108.6	97.1	97.2	93.5	95.1
Guatemala ^h	...	...	99.9	100.0	117.6	124.7	126.2	115.0	99.2	81.1
Mexico ⁱ	106.6	104.4	102.9	100.0	103.6	104.4	80.7	75.7	76.6	72.8
Nicaragua ^j	...	...	122.7	100.0	91.2	81.0	69.8	66.6	52.5	...
Panama ^k	...	...	104.8	100.0	98.7	94.1	98.2	105.8	107.0	110.0
Paraguay ^l	...	...	99.4	100.0	105.3	102.4	95.2	91.8	89.9	86.2
Peru ^m	108.7	94.9	88.9	100.0	98.3	100.5	83.7	71.0	60.5	75.8
Uruguay ⁿ	113.2	109.1	100.4	100.0	107.5	107.1	84.9	77.1	88.1	94.0
Percentage variation ^a										
Argentina	-1.5	-1.8	14.3	11.8	-10.6	-10.4	25.5	26.4	-15.2	1.6
Brazil										
Rio de Janeiro	4.0	5.4	1.3	5.2	8.5	12.1	-7.3	-6.7	7.1	8.1
São Paulo	6.5	12.2	7.7	8.4	4.7	2.4	-12.3	2.9	22.9	26.0
Colombia	-5.6	11.5	6.5	0.8	1.4	3.7	5.0	7.3	-3.0	4.9
Costa Rica	9.4	8.8	4.8	0.8	-11.7	-19.8	10.9	7.8	8.9	6.1
Chile	12.9	6.5	8.3	9.0	9.1	-0.2	-10.7	0.1	-3.8	1.7
Guatemala	...	...	...	0.1	17.6	6.0	-1.2	-9.0	-13.6	-18.3
Mexico	1.6	-2.1	-1.4	-2.9	3.5	0.9	-22.7	-6.6	1.6	-4.9
Nicaragua	...	...	-14.3	-18.5	-8.8	-11.2	-13.8	-4.5	-21.2	...
Panama	...	...	-0.1	-4.6	-1.3	-4.7	4.4	7.7	1.1	2.8
Paraguay	...	...	-6.5	0.7	5.3	-2.7	-7.1	-3.5	-2.1	-4.1
Peru	-16.6	-12.7	-6.3	12.4	-1.7	2.3	-16.8	-15.2	-15.3	25.2
Uruguay	-11.9	-3.6	-8.1	-0.4	7.5	-0.3	-20.7	-9.1	14.1	6.7

Source: ECLAC, on the basis of official data.

^a Preliminary figures.

^b Average total monthly wages in the manufacturing industry. Twelve-month average.

^c Average wages in basis industry, deflated by the consumer price index for Rio de Janeiro.

^d Twelve-month average.

^e Average wages in the manufacturing industry in the State of São Paulo, deflated by the cost-of-living index for São Paulo. Twelve-month average.

^f Wages of manual workers in the manufacturing industry. Twelve-month average.

^g Average remunerations declared by persons covered by the social security system.

^h Average remunerations of wage earners in non-agricultural sectors. Twelve-month average.

ⁱ Average wages of persons covered by the social security system.

^j Average wages in the manufacturing industry. Twelve-month average.

^k Average industrial wages in the districts of Panama and Colón. Twelve-month average.

^l Wage of manual workers in Asunción. Average for June and December.

^m Wages of private-sector manual workers in metropolitan Lima. Average for February, May, August and November; 1986: average for February, April, August and October.

ⁿ Real average wage index. Twelve-month average.

^o In comparison with the same period of the preceding year.

Table 16
LATIN AMERICA AND THE CARIBBEAN: REAL
URBAN MINIMUM WAGE

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 ^a
Average annual indexes (1980 = 100)										
Argentina ^b	99.7	81.0	85.3	100.0	97.8	97.8	136.9	167.7	117.1	111.1
Brazil ^c	...	97.7	95.7	100.0	104.4	104.9	93.0	86.0	88.8	87.1
Colombia ^d	77.9	89.5	97.5	100.0	98.9	103.2	107.6	113.3	109.1	113.9
Costa Rica ^e	86.2	96.0	98.5	100.0	90.4	85.9	99.3	104.4	112.2	118.6
Chile ^f	79.6	100.7	99.8	100.0	115.7	117.2	94.2	80.7	76.4	73.6
Ecuador ^g	53.8	48.1	60.4	100.0	86.2	75.9	63.6	62.8	60.8	65.4
El Salvador ^h	90.3	90.3	87.7	100.0	96.8	86.6	76.5	76.8	66.3	...
Guatemala ⁱ	77.6	70.0	62.5	100.0	107.5	107.5	102.5	99.1	83.6	...
Haiti ^j	74.3	94.1	85.8	100.0	93.5	99.3	91.5	86.0	88.3	85.4
Honduras ^k	104.6	100.0	109.2	100.0	105.6	104.5	96.6	92.1	88.8	85.1
Mexico ^l	112.5	108.6	107.2	100.0	101.9	92.7	76.6	72.3	71.7	64.9
Nicaragua ^m	118.1	119.8	112.7	100.0	90.2	74.4	56.7	63.6	45.1	...
Panama ⁿ	120.5	115.7	113.6	100.0	93.3	89.4	102.1	100.8	99.7	99.9
Paraguay ^o	92.0	94.8	92.4	100.0	103.6	101.4	93.9	93.7	99.5	110.4
Peru ^p	94.2	72.3	80.8	100.0	84.2	77.8	79.7	61.6	53.9	55.9
Dominican Republic ^q	...	94.7	105.0	100.0	93.0	86.4	80.8	82.0	80.2	...
Uruguay ^r	114.7	113.6	104.8	100.0	103.4	104.6	89.6	89.9	94.1	89.2
Venezuela ^s	74.4	69.3	61.6	100.0	86.8	80.1	75.1	66.7	91.4	85.5
Percentage variation ^a										
Argentina	-4.1	-18.8	13.7	17.3	-2.2	0.1	39.9	22.5	-30.2	-5.1
Brazil	...	...	-0.2	2.6	4.4	0.4	-11.3	-7.5	3.3	-1.9
Colombia	3.7	13.1	10.7	2.5	-1.1	4.3	4.1	5.6	-3.8	4.4
Costa Rica	8.4	11.4	2.6	1.4	-9.6	-5.1	15.7	5.2	7.4	5.7
Chile	17.9	26.5	-0.8	0.2	15.9	0.7	-19.5	-14.5	-5.2	-3.3
Ecuador	-11.2	-10.6	25.7	65.5	-13.8	-11.9	-16.2	-1.3	-3.2	7.6
El Salvador	-10.7	-	-2.9	8.6	-3.2	-10.5	-11.7	0.4	-13.6	...
Guatemala	-8.7	-9.7	-10.7	59.9	7.5	-	-4.7	-3.3	-15.6	...
Haiti	...	26.6	-8.8	16.5	-6.5	6.2	-7.9	-6.0	2.7	-3.2
Honduras	-6.9	-4.4	11.5	-8.3	5.0	-0.5	-7.7	-4.5	-3.3	-4.2
Mexico	-0.9	-3.4	-1.3	-6.7	1.9	-9.0	-17.4	-5.6	-1.7	-8.8
Nicaragua	1.7	...	-5.9	-11.3	-9.8	-17.5	-23.8	12.1	-29.1	...
Panama	-4.4	-4.0	-1.8	-12.0	-6.7	-4.2	14.2	-1.3	-1.1	0.1
Paraguay	-8.3	3.1	-2.5	8.0	3.6	-2.0	-7.5	-0.2	6.2	17.8
Peru	-12.2	-23.2	11.7	27.5	-15.8	-7.6	2.4	-22.7	-12.5	3.6
Dominican Republic	...	...	9.7	-4.8	-7.0	-7.1	-6.5	1.5	-2.2	...
Uruguay	-33.5	-0.5	-7.7	-4.6	3.4	1.2	-14.3	0.3	4.7	-5.2
Venezuela	-7.2	-6.8	-11.1	62.3	-16.3	-9.2	-6.6	-13.0	30.0	-6.6

Source: ECLAC, on the basis of official data.

^aPreliminary figures. ^bNational minimum wage. ^cMinimum wage for the city of Rio de Janeiro, deflated by the corresponding consumer price index. ^dMinimum wage for upper urban sectors. ^eMinimum income. ^fMinimum overall living wage, calculated on the basis of annual minimum living wages and legal supplementary benefits. ^gMinimum wage for non-agricultural activities in San Salvador. ^hMinimum daily wage paid in industrial firms. ⁱMinimum wage in the Central District and San Pedro Sula, for manufacturing. ^jMinimum wage in Mexico City deflated by the corresponding consumer price index. ^kMinimum wage for industrial workers in the Department of Managua. ^lMinimum wage applying to all activities except construction and domestic service. ^mMinimum wage in Asunción and Puerto Stroessner. ⁿMinimum wage in Metropolitan Lima for non-agricultural activities. ^oNational minimum wage of workers over 18 years of age. ^pNational minimum wage for non-agricultural activities, deflated by the consumer price index for the lowest income quartile. ^qIn comparison to the same period of the preceding year.

Table 17

LATIN AMERICA: REAL WAGES IN THE
CONSTRUCTION SECTOR

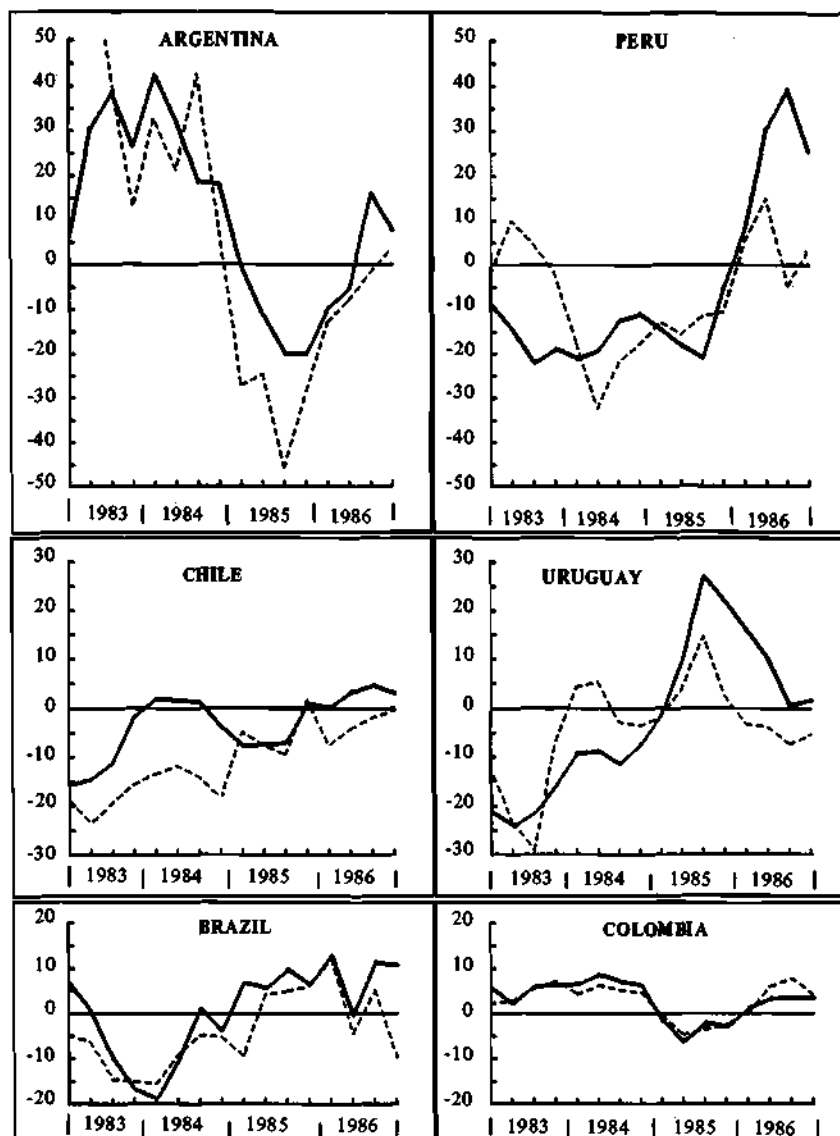
	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 ^a
Average annual indexes (1980 = 100)										
Argentina ^b	...	84.7	84.6	100.0	91.3	82.5	124.8	147.4	102.2	95.5
Brazil ^c	...	107.0	99.3	100.0	96.0	94.8	83.0	80.0	82.8	89.5
Colombia ^d	...	78.9	89.0	100.0	102.0	102.4	106.8	118.7	105.1	105.2
Costa Rica ^e	...	94.7	103.3	100.0	85.1	66.0	79.8	86.8	95.6	...
Chile ^f	...	84.8	91.9	100.0	105.9	101.2	78.5	76.3	64.2	67.1
Honduras ^g	...	89.7	107.2	100.0	104.5	102.2	94.4	90.1	87.1	83.4
Mexico ^h	...	103.9	104.6	100.0	103.3	101.1	78.0	72.8	69.5	62.6
Nicaragua ⁱ	...	137.1	116.8	100.0	99.5	94.1	96.9	94.9	78.6	...
Panama ^j	100.0	98.5	99.7	103.8	105.3	106.3	...
Paraguay ^k	...	116.9	103.8	100.0	104.7	98.5	87.2	89.3	93.1	94.0
Peru ^l	...	93.0	95.1	100.0	99.0	108.5	91.6	74.3	64.0	92.6
Uruguay ^m	...	120.5	108.3	100.0	110.5	104.9	80.1	64.7	70.6	78.6
Percentage variation ⁿ										
Argentina	...	-29.9	-0.1	18.2	-8.7	-9.7	51.2	18.1	-30.7	-6.5
Brazil	...	-2.8	-7.2	0.7	-4.0	-1.3	-12.4	-3.6	3.5	8.2
Colombia	...	14.9	12.8	12.3	2.0	0.4	4.3	1.8	-3.4	0.1
Costa Rica	...	8.8	9.1	-3.2	-14.9	-22.4	20.8	8.7	10.2	...
Chile	...	4.3	8.4	8.8	5.9	-5.1	-21.9	-3.2	-15.9	5.1
Honduras	...	-5.4	19.0	-6.7	4.5	-2.2	-7.7	-4.5	-3.3	-4.2
Mexico	0.7	-4.4	3.3	-2.1	-22.8	-6.8	-4.5	-9.9
Nicaragua	...	2.2	-15.2	-14.0	-0.5	-5.4	3.0	-2.1	-17.2	...
Panama	-1.5	1.2	4.1	1.5	1.0	...
Paraguay	...	6.3	-11.1	-3.8	4.7	-6.0	-11.5	2.5	4.2	1.0
Peru	...	12.1	2.3	5.2	-1.0	9.6	-15.5	-14.8	-13.9	44.8
Uruguay	...	-4.8	-10.1	-7.7	10.5	-5.0	-23.6	-19.2	9.5	12.0

Source: ECLAC, on the basis of official data.

^a Preliminary figures.^b Average cost of labour, including social security contributions, in the Federal Capital; 12-month average.^c Hourly labourer's wage in Rio de Janeiro; 12-month average.^d Average cost of labour in Bogotá; 12-month average.^e Average wage according to household surveys. Average for March, June and November; 1984: average for March and November.^f Up to 1983: salaries and wages for average construction work; from 1984: average wage in the sector; 12-month average.^g Minimum wage for construction in the Central District and San Pedro Sula.^h Average cost of labour in the country; 12-month average.ⁱ Average wage of persons covered by social security; 12-month average; 1985: January-October average.^j Collective agreement wage in Panama City; annual average.^k Average wage of manual workers in Asunción; average for June and December.^l Average wage in the Lima Metropolitan area; average for February, May, August and November; 1986: average for February, April, June, August and October.^m Average cost of labour in the country; 12-month average; 1986: January-August average.ⁿ In comparison with the same period of the preceding year.

Figure 9
LATIN AMERICA: TWELVE-MONTH VARIATIONS IN
REAL WAGES IN SELECTED COUNTRIES

— Average wage in the manufacturing sector
- - - Minimum urban wage



Source: ECLAC, on the basis of official data.

higher rises than those laid down by official guidelines. As of January, in Argentina the system of quarterly readjustments was reintroduced and a substantial increase was made in the minimum wage. In spite of this, the purchasing power of average industrial wages rose little, while real wages in construction and in the government service (which possess less wage bargaining power than other sectors) declined for the second year running. This was mainly the result of the revival of inflation during the second half of the year.

In 1986 Uruguayan wage policy was based on four-monthly readjustments in remunerations according to the expected rate of inflation. Nevertheless, the increases granted were, in practice, considerably in excess of official guidelines, as was the actual inflation rate. Thus, real wages remained stable throughout the year. However, as they were considerably higher than those recorded in the first half of 1985, their average annual level was also higher than in that year.

Finally, in 1986 the purchasing power of the minimum wage fell by nearly 7% in Venezuela and almost 9% in Mexico, while in Guatemala the average real wage of workers covered by the social security system fell by 18%. In Venezuela, where the real minimum wage had risen steeply in 1985, the decrease was due to the harmful repercussions of sharper inflation and to the fact that the adjustment to the minimum wage decreed at the beginning of 1986 did not actually enter into effect until November. In Mexico, where the minimum wage was readjusted three times in 1986 instead of the usual two, its purchasing power declined on account of the sharp resurgence of inflation. This was also the main cause of the shrinkage in real wages in Guatemala, although the virtually total stagnation of economic activity was also a factor.

V. THE EXTERNAL SECTOR

The collapse of the international price of petroleum, the continuation of the persistent downward trend in the prices of almost all primary products and the successive reductions in international interest rates had a profound influence on the evolution of Latin America's external sector in 1986. These changes had an extremely diverse impact on the balance of payments of the various countries of the region, whose external-sector performance also reflected the equally marked differences in their policies on exchange rates, trade and external indebtedness.

1. Foreign trade

a) *Exports of goods*

After having fallen by 6% in 1985, the value of exports of goods declined by 15% in 1986 as a result of a decrease of some 14% in their unit value and a 2% shrinkage in the volume exported (see table 18).

This decline was primarily due to the sharp drop in the exports of the petroleum-producing countries, which fell by 30% in value as a result of the steep reduction in the international price of hydrocarbons, in spite of the considerable expansion of non-petroleum exports from Mexico and Ecuador. However, in 1986 the exports of Paraguay, Brazil, Haiti, Argentina and Nicaragua also fell by between 10% and 20% and those of the Dominican Republic by 2% (see table 19).

In contrast, the value of exports rose spectacularly (49%) in Colombia. This was partly due to the increase in the price of coffee, but an even more important factor was the dynamic growth of the volume of exports of coffee, as well as of petroleum, coal and manufactures. External sales also rose sharply (27%) in Uruguay—which took advantage of the huge expansion of Brazilian imports and also considerably increased its sales of traditional and non-traditional goods to Europe—and in Panama (23%) as a result of a particularly robust expansion of re-exports. The value of exports also grew by more than 10% in Costa Rica and Honduras

Table 18

LATIN AMERICA: VARIATIONS IN EXPORTS
AND IMPORTS OF GOODS

(Growth rates)

	Exports			Imports		
	Value	Volume	Unit value	Value	Volume	Unit value
Latin America						
1972	16.3	4.4	11.4	13.8	7.9	5.6
1973	44.3	8.1	33.3	32.8	13.8	16.6
1974	54.9	-6.5	65.7	72.1	19.3	44.2
1975	-8.0	-10.3	2.6	6.4	-3.4	10.2
1976	16.4	8.3	7.5	3.9	2.6	1.2
1977	19.4	1.9	17.2	15.1	6.8	7.7
1978	7.6	7.2	0.3	13.8	4.4	9.1
1979	34.5	9.7	22.7	25.8	7.6	16.9
1980	32.3	4.4	26.6	34.9	11.1	21.4
1981	7.6	9.0	-1.3	8.1	2.8	5.1
1982	-8.8	0.8	-9.5	-19.9	-18.8	-1.2
1983	0.1	11.1	-9.9	-28.5	-21.4	-9.1
1984	11.7	7.6	3.7	4.1	8.2	-3.8
1985	-6.0	-1.2	-4.8	0.3	2.1	-1.7
1986 ^a	-15.3	-2.0	-13.6	1.8	7.1	-4.8
Oil-exporting countries^b						
1972	4.4	-2.1	6.6	13.3	3.3	9.7
1973	51.4	10.5	37.0	21.0	3.9	16.5
1974	131.2	-12.2	163.3	57.8	20.5	31.0
1975	-19.9	-23.0	4.0	36.7	25.0	9.4
1976	9.3	6.6	2.3	7.4	6.5	0.8
1977	12.4	-1.3	13.8	18.8	11.2	7.0
1978	8.3	6.5	1.8	16.7	4.3	11.9
1979	53.7	11.8	37.5	16.1	4.4	11.3
1980	42.3	0.2	42.0	32.5	16.4	13.8
1981	9.6	6.1	3.4	21.0	16.1	4.2
1982	-5.5	4.6	-9.7	-20.2	-19.2	-1.2
1983	-2.3	12.7	-13.4	-43.1	-34.1	-13.7
1984	8.5	5.4	2.8	15.5	17.6	-1.8
1985	-8.9	-7.4	-1.6	10.0	11.6	-1.3
1986 ^a	-29.5	6.4	-33.8	-4.1	-1.7	-2.6
Non-oil-exporting countries^c						
1972	20.4	10.6	8.9	13.9	8.6	4.9
1973	42.2	6.2	33.9	35.2	16.6	16.0
1974	31.0	-1.6	33.1	74.3	19.1	46.3
1975	-1.2	-0.1	-1.1	1.7	-7.3	9.7
1976	22.0	10.1	10.8	1.5	0.4	1.1
1977	24.1	5.2	18.1	12.4	4.3	7.8
1978	7.0	7.8	-0.8	11.7	4.4	7.1
1979	22.4	7.8	13.5	33.2	9.5	21.5
1980	24.3	8.6	14.4	36.5	7.9	26.6
1981	5.7	11.6	-5.4	-0.3	-5.8	5.8
1982	-11.8	-2.6	-9.5	-19.5	-18.6	-1.1
1983	2.4	9.5	-6.5	-17.1	-11.2	-6.6
1984	14.8	9.6	4.8	-2.2	2.6	-4.6
1985	-3.3	4.4	-7.3	-5.7	-4.3	-1.5
1986 ^a	-3.2	-8.9	6.2	6.2	13.9	-6.8

Source: ECLAC, on the basis of official data.

^a Preliminary figures.^b Up to 1975, includes Bolivia, Ecuador and Venezuela; from 1976 onwards, also includes Mexico and Peru.^c From 1976 onwards, does not include Mexico or Peru.

Table 19

LATIN AMERICA: EXPORTS OF GOODS FOB

(Indexes: 1980 = 100 and growth rates)

	Value				Unit value				Volume			
	In- dex	Growth rates			In- dex	Growth rates			In- dex	Growth rates		
		1984	1985	1986 ^a		1984	1985	1986 ^a		1984	1985	1986 ^a
Latin America	87	11.7	-6.0	-15.3	69	3.7	-4.8	-13.6	127	7.6	-1.2	-2.0
Oil-exporting countries	71	8.5	-8.9	-29.5	54	2.8	-1.6	-33.8	130	5.4	-7.4	6.4
Bolivia	58	-4.1	-13.9	-12.8	61	4.7	-4.6	-36.0	94	-8.4	-9.8	36.1
Ecuador	88	11.7	9.5	-23.8	59	-3.3	-3.4	-25.8	147	15.5	13.3	2.7
Mexico	100	8.4	-9.6	-26.7	56	4.5	0.7	-27.4	178	3.8	-10.2	1.0
Peru	64	4.3	-5.8	-15.4	67	-10.2	-8.5	-11.5	96	16.2	3.0	-4.4
Venezuela	46	9.6	-11.2	-38.7	47	4.0	-3.3	-48.4	96	5.4	-8.2	18.6
Non-oil-exporting countries	103	14.8	-3.3	-3.2	83	4.8	-7.3	6.2	124	9.6	4.4	-8.9
Argentina	84	3.4	3.7	-16.6	69	13.0	-10.1	-8.7	126	-8.5	15.3	-8.7
Brazil	111	23.3	-5.1	-12.6	83	3.2	-6.1	5.7	134	19.4	1.1	-17.4
Colombia	139	43.9	-13.1	49.3	110	3.5	-5.9	25.2	126	39.0	-7.7	19.3
Costa Rica	108	17.0	-6.7	16.4	93	2.1	-2.4	13.7	116	14.6	-4.5	2.4
Chile	89	-4.7	4.2	10.4	64	-5.5	-11.8	7.6	140	0.8	18.1	2.6
El Salvador	73	-1.3	-6.5	7.1	89	-7.4	-4.2	21.9	76	6.6	-2.4	-12.1
Guatemala	68	3.7	-6.4	-0.2	95	2.8	-7.0	19.6	73	0.9	0.7	-16.5
Haiti	96	11.2	8.6	-14.8	100	20.1	2.7	19.0	89	-7.4	5.7	-28.3
Honduras	103	6.7	4.3	12.9	111	7.1	-4.1	16.8	93	-0.3	8.7	-3.4
Nicaragua	54	-10.1	-21.8	-19.3	97	16.8	-6.0	9.6	55	-23.1	-16.8	-26.3
Panama	106	0.6	16.2	23.1	104	4.0	-0.4	10.0	103	-3.2	16.7	12.0
Paraguay	72	10.8	-10.2	-10.6	74	26.5	-6.9	-11.6	98	-12.4	-3.6	1.1
Dominican Republic	75	10.6	-15.0	-2.2	80	8.2	-15.5	10.0	94	2.2	0.7	-11.1
Uruguay	103	-20.1 ^b	-7.7	27.4	79	2.3	-7.1	1.5	130	-21.9 ^b	-0.6	25.5

Source: ECLAC, on the basis of official data.

^aPreliminary figures. ^bIncludes sales of non-monetary gold. If these sales were excluded, the rates would be -11.6 for the value index and -13.6 for the volume index in 1984.

(largely on account of the improved international prices of coffee, sugar and bananas) as well as in Chile, where the expansion was due to a 20% increase in exports other than copper.

b) Imports

Notwithstanding the shrinkage in exports, in 1986 the recovery of imports continued for the third consecutive year, following upon its enormous 42% drop of the 1982-1983 period. The increase in the value of imports, albeit weak (1.8%), was quite widespread. In fact, their value fell in only six countries and markedly so only in Mexico, Guatemala and Haiti. While the growth rate of the value of external purchases in the

remaining economies of the region varied widely, in most cases the expansion in volume was considerable. This was particularly true in Peru (45%), Uruguay (37%), Argentina (29%), Bolivia (22%) and Brazil (19%), although the increase was also significant in Paraguay, Panama, Chile, Costa Rica and El Salvador. Nevertheless, in most of these countries the volume of imports remained considerably lower than that recorded prior to the crisis (see table 20).

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

In spite of the decline in the unit value of imports for the fifth year running, Latin America's terms of trade fell by 9%, for a total decline of approximately 20% over the last six years (see table 21).

Table 20

LATIN AMERICA: IMPORTS OF GOODS FOB

(Indexes: 1980 = 100 and growth rates)

	Value				Unit value				Volume			
	In- dex	Growth rates			In- dex	Growth rates			In- dex	Growth rates		
		1986 ^a	1984	1985		1986 ^a	1986 ^a	1984		1985	1986 ^a	1986 ^a
Latin America	66	4.1	0.3	1.8	85	-3.9	-1.7	-4.8	78	8.3	2.1	7.1
Oil-exporting countries	67	15.5	10.0	-4.1	84	-1.8	-1.3	-2.6	80	17.6	11.6	-1.7
Bolivia	101	-16.9	12.3	25.3	89	-10.0	-2.4	2.3	113	-7.7	15.0	22.5
Ecuador	73	11.3	10.0	-5.3	93	-17.4	8.2	0.4	78	34.7	1.7	-5.8
Mexico	60	31.6	19.6	-15.1	87	7.4	-2.7	-2.5	70	22.6	23.0	-12.9
Peru	82	-21.4	-12.7	35.1	79	-7.7	-3.6	-6.8	104	-14.8	-9.5	45.0
Venezuela	71	13.3	1.7	4.2	80	-7.3	-1.5	-1.0	89	22.2	3.2	5.3
Non-oil-exporting countries	65	-2.2	-5.7	6.2	86	-4.7	-1.5	-6.8	76	2.7	-4.3	13.9
Argentina	46	0.0	-14.6	22.2	84	-6.5	3.4	-5.2	55	6.9	-17.4	28.9
Brazil	61	-9.8	-5.4	6.7	84	-6.3	-4.1	-10.1	73	-3.8	-1.3	18.6
Colombia	87	-9.8	-7.3	-0.7	96	-3.2	2.9	0.6	90	-6.8	-9.9	-1.2
Costa Rica	76	11.0	0.8	3.8	85	-3.0	-4.1	-5.2	90	14.4	5.1	9.5
Chile	57	18.0	-12.0	4.9	77	0.9	-5.5	-4.7	73	17.0	-6.8	10.1
El Salvador	105	10.1	-1.7	4.4	101	5.2	0.7	-5.0	104	4.6	-2.4	10.0
Guatemala	62	11.9	-8.9	-14.6	88	-0.7	-1.6	-7.8	71	12.7	-7.5	-7.4
Haiti	95	-1.6	0.9	-13.3	99	-4.6	-3.0	3.7	96	3.1	3.9	-16.3
Honduras	94	16.3	-0.6	3.0	99	3.7	-1.3	-2.7	96	12.1	0.7	5.9
Nicaragua	104	-1.3	8.1	0.7	90	-7.9	1.9	-2.0	116	7.2	6.1	2.8
Panama	99	7.9	8.4	8.9	89	-0.2	-2.0	-5.2	111	8.0	10.6	14.9
Paraguay	86	17.7	-20.5	12.4	71	-21.2	-3.6	-2.2	122	49.4	-17.6	15.0
Dominican Republic	83	-1.7	2.3	-1.6	86	-2.5	2.1	-5.8	97	0.8	0.2	4.5
Uruguay	47	-1.0	-7.8	17.1	76	-4.7	2.6	-14.2	63	3.9	-10.1	36.5

Source: ECLAC, on the basis of official data.

*Preliminary figures.

Table 21

LATIN AMERICA: TERMS OF TRADE FOB/FOB (GOODS)

(1980 = 100)

Year	Latin America		Oil-exporting countries ^a		Non-oil-exporting countries ^b	
	Index	Variation	Index	Variation	Index	Variation
1976	91.4	6.2	66.8	1.5	116.7	9.6
1977	99.4	8.8	71.2	6.6	127.8	9.5
1978	91.4	-8.0	64.7	-9.1	118.5	-7.3
1979	95.9	4.9	80.1	23.8	110.6	-6.7
1980	100.0	4.3	100.0	24.8	100.0	-9.6
1981	93.9	-6.1	99.2	-0.8	89.4	-10.6
1982	86.0	-8.4	90.8	-8.5	81.8	-8.5
1983	85.2	-0.9	91.1	0.3	81.9	0.1
1984	92.1	8.1	95.4	4.7	90.0	9.9
1985	89.1	-3.3	95.1	-0.3	84.6	-6.0
1986 ^c	81.0	-9.1	64.7	-32.0	96.5	14.1

Source: ECLAC, on the basis of official data.

^aIncludes Bolivia, Ecuador, Mexico, Peru and Venezuela.^bIncludes Argentina, Brazil, Colombia, Costa Rica, Chile, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Dominican Republic and Uruguay.^cPreliminary figures.

However, unlike what had occurred in 1985, this deterioration was wholly accounted for by the petroleum-exporting economies (whose terms of trade worsened severely); by Argentina (where they fell by 4% on account of further declines in the international prices of cereals and meat); and by Paraguay (whose terms of trade were much less favourable due to the slump in cotton and soya bean prices) (see tables 22 and 23).

In the remaining economies of the region, a marked improvement occurred in the terms of trade. The improvement was particularly pronounced in Brazil (where petroleum constitutes a particularly significant import); in the Central American countries (which drew benefit both from the fall in the international price of petroleum and from the substantial rises in the prices of coffee and bananas, as well as from the partial recovery of sugar prices from their extremely low 1985 level); and above all in Colombia (on account of the considerable significance of coffee in its total exports).

As a result of the deterioration in the terms of trade and, to a much lesser extent, of the drop in export volumes, the purchasing power of exports fell by over 11%. This contraction was mainly accounted for by the petroleum-exporting countries, where the purchasing power of exports has shrunk by one-third during the last two years (see table 24 and figure 10). In contrast, in most of the other economies in the region, and especially in Uruguay, Chile and the coffee-exporting countries, the purchasing power of external sales recovered significantly (see table 25).

2. The balance of payments

a) *The current account*

Due to the sharp fall in the value of exports and the slight increase in that of imports, in 1986 the merchandise trade surplus was lower for the second consecutive year. After having followed a sustained upward trend since 1981 and attaining a record high of US\$39.4 billion in 1984 (which had, however, fallen to US\$33.4 billion in 1985), the surplus dropped to US\$18.3 billion in 1986 (see table 26).

Most of this shrinkage was accounted for by the huge decline in the surplus of the petroleum-exporting countries, which fell by 66% from US\$17.6 billion in 1985 to less than US\$6.1 billion in 1986. As was to be

Table 22

LATIN AMERICA: TERMS OF TRADE FOB/CIF (GOODS)

(Indexes: 1980 = 100 and growth rates)

	Indexes (1980=100)						Growth rates			
	1981	1982	1983	1984	1985	1986 ^a	1983	1984	1985	1986 ^a
Latin America	94	86	84	90	87	79	-1.5	7.0	-3.2	-9.4
Oil-exporting countries	99	90	89	93	93	63	-0.9	4.0	-0.4	-32.3
Bolivia	90	93	94	105	102	64	1.3	11.9	-2.9	-37.2
Ecuador	100	98	81	92	83	61	-17.4	13.8	-9.7	-26.1
Mexico	98	88	85	83	86	64	-2.9	-2.9	3.5	-25.8
Peru	89	80	95	91	86	81	19.2	-3.9	-5.4	-6.3
Venezuela	103	94	101	112	109	57	-6.9	11.2	-2.7	-47.9
Non-oil-exporting countries	89	81	81	88	83	95	-0.2	8.7	-5.9	13.7
Argentina	96	85	81	96	84	81	-4.9	18.9	-12.1	-3.8
Brazil	85	80	78	85	83	98	-2.6	9.7	-2.3	17.4
Colombia	85	87	93	99	90	112	7.6	5.9	-8.5	24.6
Costa Rica	85	83	84	87	89	106	2.0	3.5	1.4	19.5
Chile	87	75	82	76	71	80	9.1	-7.8	-6.0	12.8
El Salvador	91	93	82	71	68	87	-12.4	-12.6	-4.9	27.9
Guatemala	87	82	84	86	81	104	2.7	2.0	-6.1	29.1
Haiti	70	73	65	79	82	94	-11.0	22.2	3.8	15.0
Honduras	89	91	92	94	91	109	0.5	2.2	-3.0	19.8
Nicaragua	90	85	82	103	95	106	-3.6	25.3	-7.8	11.7
Panama	95	83	94	97	98	114	12.8	3.2	1.5	15.8
Paraguay	106	92	88	138	134	121	-4.3	56.1	-2.8	-9.7
Dominican Republic	114	81	85	93	80	93	5.1	9.8	-14.8	16.7
Uruguay	96	91	90	96	87	102	-1.1	6.6	-9.3	17.0

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

Table 23

LATIN AMERICA: PRICES OF MAIN EXPORT PRODUCTS

	Annual averages					Growth rates				
	1970-1980	1983	1984	1985	1986 ^a	1982	1983	1984	1985	1986 ^a
Unrefined sugar ^b	12.8	8.5	5.2	4.1	6.1	-50.3	1.2	38.8	-21.1	48.8
Coffee (mild) ^b	121.8	141.6	147.3	155.9	220.1	2.3	-4.7	4.0	5.8	41.2
Cocoa ^b	86.3	96.1	108.7	102.3	93.8	-16.1	21.6	13.1	-5.9	-8.3
Bananas ^b	11.8	20.4	19.0	18.4	22.1	-4.2	10.9	-6.9	-3.2	20.1
Wheat ^c	125.1	158.0	153.0	138.0	115.0	-9.0	-2.5	-3.2	-9.8	-16.7
Maize ^c	127.5	162.2	167.3	135.3	112.9	-24.1	18.0	3.1	-19.1	-16.6
Beef ^b	82.2	110.7	102.6	97.7	95.0	-3.4	2.1	-7.3	-4.8	-2.8
Fish meal ^c	354.7	453.0	373.0	280.0	321.0	-24.6	28.3	-17.7	-24.9	14.6
Soya beans ^c	232.4	282.0	282.0	225.0	208.0	-14.9	15.1	-	-20.2	-7.6
Cotton ^b	61.2	84.8	80.3	61.7	52.9	-14.7	16.5	-5.3	-23.2	-14.3
Wool ^b	131.5	144.0	141.6	140.7	147.7	-13.2	-6.9	-1.7	-0.6	5.0
Copper ^b	69.6	72.2	62.5	64.3	62.3	-14.9	7.4	-13.4	2.9	-3.1
Tin ^d	3.9	5.9	5.6	5.4	2.6	-9.4	1.7	-5.1	-3.6	-51.9
Iron ore ^c	17.6	23.7	22.4	22.0	21.6	4.6	-3.3	-5.5	-1.8	-1.8
Lead ^b	25.3	19.3	20.1	17.7	18.4	-24.8	-22.2	4.1	-11.9	4.0
Zinc ^b	29.7	34.7	40.6	34.3	32.3	-12.0	2.7	17.0	-15.5	-5.8
Bauxite ^c	103.5	179.5	165.0	164.3	165.2	-3.7	-13.8	-8.1	-0.4	0.5
Crude oil ^e										
Saudi Arabia	10.0	29.3	28.5	28.0	13.7	3.1	-12.5	-2.7	-3.5	-51.0
Venezuela	10.1	28.1	27.0	25.9	13.2	-	-12.2	-3.9	-1.9	-49.0

Source: UNCTAD, *Monthly Bulletin of Commodity Prices*, Supplements, 1960-1980 and July 1987; International Monetary Fund, *International Financial Statistics, Yearbooks*, 1981 and November 1987; Petroleum Intelligence Weekly, 1987 (various issues); ECLAC, on the basis of official data.

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

^aPreliminary figures.

^bUS cents per pound.

^cDollars per metric ton.

^dDollars per pound.

^eDollars per barrel.

expected, the decrease in the trade surplus was particularly staggering in Mexico (-US\$3.8 billion) and above all in Venezuela (-US\$5.8 billion). It was also very large in Brazil (-US\$4.1 billion) and Argentina (-US\$2.2 billion) and was significant in Peru (whose surplus of almost US\$1.1 billion in 1985 was completely wiped out in 1986) and in Ecuador (where it was US\$6 million lower than in 1985).

In contrast, Colombia's external trade underwent a favourable turnaround in 1986 when, after having ended 1985 with a slight deficit, it earned a surplus of more than US\$1.8 billion. Guatemala and Costa Rica also managed to replace the previous year's deficits with surpluses, while the remaining countries in Central America, with the exception of

Nicaragua, reduced their deficits and Chile and Uruguay considerably improved upon their 1985 surpluses.

In contrast with the situation in 1984, the surplus on trade in goods failed to cover net transfers of profits and interest, even though the latter fell by US\$4.3 billion as a result of the decline in international interest rates. The proportion of these payments financed by the merchandise trade surplus was also much lower (60%) in 1986 than in 1985 (96%).

As a consequence of the sharp drop in this surplus and the increase in net payments for services, the deficit on current account increased fourfold to over US\$14 billion. This accentuated the turnaround in the trend of the current account deficit, which, after having hit the unprecedented level of US\$41 billion in 1982, was virtually eliminated just two years later, only to re-emerge in 1985 (see table 27).

As in 1985, the increase in the deficit on current account was the result of conflicting changes in the different economies in the region. While Mexico and Venezuela—which in 1985, together with Panama, had been the only countries with surpluses—recorded considerable deficits in 1986 and while the deficit increased sharply in Argentina, Brazil, Bolivia, Ecuador and Peru, it underwent a spectacular turnaround in Colombia and fell for the second year running in Chile (the two economies which had recorded the heaviest deficits in 1985). The deficit also fell in the Dominican Republic and in all the countries of Central

Table 24

LATIN AMERICA: PURCHASING POWER OF EXPORTS OF GOODS

(1980 = 100)

Year	Latin America		Oil-exporting countries ^a		Non-oil-exporting countries ^b	
	Index	Variation	Index	Variation	Index	Variation
1976	71.9	16.0	56.4	-17.3	86.1	21.0
1977	80.2	11.5	59.0	4.6	99.5	15.5
1978	79.4	-1.0	57.5	2.5	99.3	-0.2
1979	90.7	14.2	79.6	38.4	100.8	1.5
1980	100.0	10.2	100.0	25.6	100.0	-0.8
1981	102.1	2.1	105.2	4.9	99.2	-0.8
1982	93.9	-8.0	99.9	-5.0	96.6	-12.7
1983	102.7	9.4	113.3	13.4	96.7	11.7
1984	118.3	15.2	122.8	8.4	115.1	19.0
1985	113.6	-4.0	113.5	-7.6	113.3	-1.6
1986 ^c	100.6	-11.4	81.2	-28.5	118.2	4.2

Source: ECLAC, on the basis of official figures.

^aIncludes Bolivia, Ecuador, Mexico, Peru and Venezuela.

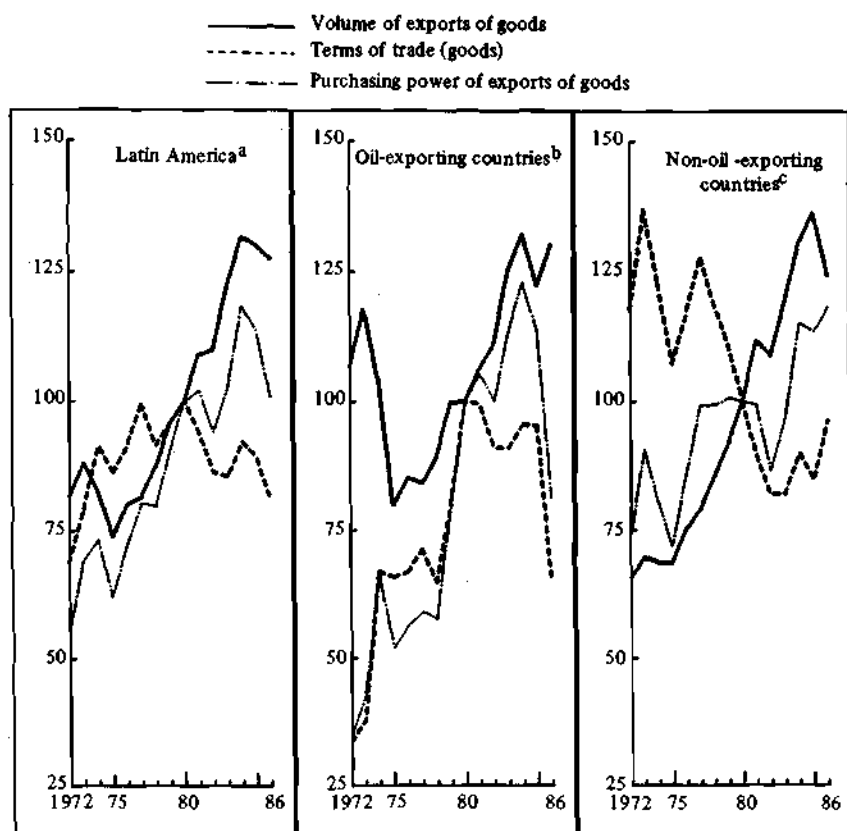
^bIncludes Argentina, Brazil, Colombia, Costa Rica, Chile, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Dominican Republic and Uruguay.

^cPreliminary figures.

Figure 10

LATIN AMERICA: SELECTED EXTERNAL TRADE INDICATORS

(Indexes: 1980 = 100)



Source: ECLAC, on the basis of official data.

^aNineteen countries.

^bFrom 1972 to 1975 includes Bolivia, Ecuador and Venezuela; as from 1976 also includes Mexico and Peru.

^cFrom 1972 to 1975 includes 16 countries; as from 1976 excludes Mexico and Peru.

America (except Nicaragua) and was done away with completely in Uruguay, where the current account yielded a surplus for the first time since 1973.

As a result of the increase in the current account deficit and the shrinkage in the value of exports, the relation between the deficit and external sales, which had gone up slightly in 1985, rose sharply in 1986. Nevertheless, this coefficient (15%) although much higher than during the preceding three years, was less than half of what it had been, on average, between 1978 and 1982 (see table 28).

b) *The capital account and the net transfer of resources abroad*

As in the previous three years, net capital income was very low in 1986. Although it was slightly higher than in 1985, this rise, far from representing a significant and generalized expansion in the flow of loans and investment towards the region, largely reflected the turnaround which took place in Mexico's capital account. After having ended 1985 with a deficit of more than US\$3 billion, this account showed a surplus of US\$2.2 billion in 1986. This about-face was accounted for both by the substantial bridging loans granted to the country by the governments of the industrialized countries, public international financial agencies and commercial banks and by the government's highly restrictive credit policy, which in 1986 led many firms to repatriate funds they had maintained abroad in order to finance their activities.

Table 25

LATIN AMERICA: PURCHASING POWER OF EXPORTS OF GOODS

(Indexes: 1980 = 100 and growth rates)

	Indexes						Growth rates			
	1981	1982	1983	1984	1985	1986 ^a	1983	1984	1985	1986 ^a
Latin America	102	94	103	118	114	101	9.4	15.2	-4.0	-11.4
Oil-exporting countries	105	100	113	123	114	81	13.4	8.4	-7.6	-28.5
Bolivia	89	83	78	80	71	60	-5.1	2.6	-12.3	-14.6
Ecuador	102	99	89	117	119	91	-10.0	31.4	2.4	-24.1
Mexico	117	128	161	162	151	113	26.0	0.7	-7.0	-25.1
Peru	80	85	80	89	87	78	-5.7	-11.7	-2.6	-10.4
Venezuela	101	80	85	99	89	55	5.4	17.2	-10.7	-38.1
Non-oil-exporting countries	99	87	97	115	113	118	11.7	19.0	-1.6	4.2
Argentina	113	98	106	115	117	102	8.0	8.8	1.4	-12.2
Brazil	105	91	104	136	135	131	14.0	30.9	-1.2	-3.0
Colombia	76	73	77	113	95	142	4.4	47.3	-15.6	48.7
Costa Rica	96	85	87	104	100	123	3.3	18.7	-3.2	22.4
Chile	82	82	94	88	97	112	14.5	-6.2	9.9	15.7
El Salvador	70	61	68	63	58	66	10.3	-7.0	-7.2	12.3
Guatemala	78	73	72	75	71	76	-0.5	2.9	-5.4	7.8
Haiti	67	77	82	92	101	84	5.4	13.1	9.8	-17.5
Honduras	85	78	82	83	88	102	5.4	1.8	5.4	15.7
Nicaragua	108	87	96	93	71	59	10.7	-3.5	-23.2	-17.7
Panama	104	101	76	76	90	117	-24.8	0.0	18.5	29.6
Paraguay	98	98	84	115	108	99	-13.5	36.7	-0.6	-8.7
Dominican Republic	115	75	87	98	84	87	15.5	12.3	-14.1	3.9
Uruguay	110	118 ^b	120 ^b	100	90	132	1.9 ^b	-16.7 ^b	-9.9	46.8

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bIncludes sales of non-monetary gold. If these sales were excluded, the indexes and rates would be 96 for 1982 and 109 for 1983, and 13.0 for 1983 and -7.8 for 1984.

Table 26
LATIN AMERICA: TRADE BALANCE
(Millions of dollars)

	Exports of goods FOB			Imports of goods FOB			Merchandise trade balance			Net service payments ^a			Trade balance		
	1984	1985	1986	1984	1985	1986	1984	1985	1986	1984	1985	1986	1984	1985	1986
Latin America (19 countries)	97 713	91 956	77 749	58 285	58 582	59 465	39 427	33 376	18 284	4 262	3 390	3 743	35 167	29 986	14 541
Oil-exporting countries	46 656	42 503	29 955	22 638	24 903	23 868	24 018	17 602	6 087	1 569	1 436	752	22 450	16 166	5 335
Bolivia	724	623	543	412	463	580	312	160	-37	159	149	164	153	11	-201
Ecuador	2 622	2 870	2 186	1 567	1 723	1 631	1 055	1 147	555	441	291	416	614	856	139
Mexico	24 196	21 867	16 031	11 256	13 460	11 432	12 941	8 407	4 599	-1 048	-537	-1 192	13 989	8 944	5 791
Peru	3 147	2 965	2 509	2 141	1 869	2 525	1 006	1 097	-16	219	147	304	787	950	-320
Venezuela	15 967	14 178	8 686	7 262	7 388	7 700	8 704	6 791	986	1 798	1 386	1 060	6 907	5 405	-74
Non-oil-exporting countries	51 057	49 453	47 794	35 647	33 679	35 597	15 409	15 774	12 197	2 693	1 954	2 991	12 717	13 820	9 206
Argentina	8 101	8 397	7 000	4 119	3 520	4 300	3 981	4 877	2 700	769	527	900	3 213	4 350	1 800
Brazil	27 001	25 634	22 393	13 915	13 168	14 044	13 086	12 466	8 349	1 743	1 703	2 133	11 343	10 763	6 216
Colombia	4 273	3 713	5 543	4 027	3 734	3 709	246	-21	1 834	437	307	608	-191	-328	1 226
Costa Rica	997	930	1 064	997	1 005	1 016	1	-75	48	-17	-20	-20	17	-55	68
Chile	3 650	3 804	4 199	3 357	2 954	3 099	293	850	1 100	434	338	388	-141	512	712
El Salvador	726	679	727	915	899	939	-189	-220	-212	39	-28	-31	-227	-192	-181
Guatemala	1 132	1 060	1 058	1 182	1 077	920	-50	-17	138	153	84	67	-203	-101	71
Haiti	206	224	191	346	349	303	-140	-125	-112	81	99	69	-221	-224	-181
Honduras	746	835	876	880	954	900	-134	-119	-22	70	79	71	-204	-198	-93
Nicaragua	385	301	243	768	830	836	-383	-529	-593	77	106	70	-460	-635	-663
Panama	1 686	1 959	2 412	2 503	2 712	2 955	-817	-753	-543	-843	-894	-830	26	141	287
Paraguay	361	324	290	649	516	580	-288	-191	-290	-18	-18	-38	-270	-173	-252
Dominican Republic	868	739	708	1 257	1 286	1 205	-389	-547	-497	-202	-274	-349	-187	-273	-148
Uruguay	925	854	1 088	732	675	791	192	178	297	-30	-55	-47	222	233	344

Source: ECLAC, on the basis of official data.

^aExcluding net payments of profits and interest.

Table 27
LATIN AMERICA: BALANCE OF PAYMENTS

(Millions of dollars)

	Trade balance			Net payments of profits and interest ^a			Balance on current account ^b			Balance on capital account ^c			Total balance ^d		
	1984	1985	1986	1984	1985	1986	1984	1985	1986	1984	1985	1986	1984	1985	1986
Latin America (19 countries)	35 167	29 986	14 541	36 254	34 804	30 489	-64	-3 552	-14 316	9 310	3 383	8 577	9 248	-170	-6 301
Oil-exporting countries	22 450	16 166	5 335	13 975	13 405	10 981	8 618	2 966	-5 394	-4 588	-3 648	2 061	4 030	-683	-3 333
Bolivia	153	11	-201	415	373	309	-241	-342	-484	357	299	682	116	-44	198
Ecuador	614	856	139	882	966	826	-268	-110	-687	187	136	635	-81	26	-52
Mexico	13 989	8 944	5 791	10 160	8 853	7 550	4 059	379	-1 444	-1 902	-3 108	2 227	2 157	-2 729	783
Peru	787	950	-320	1 166	1 023	831	-379	-73	-1 151	628	427	692	249	354	-459
Venezuela	6 907	5 405	-74	1 352	2 190	1 465	5 447	3 112	-1 628	-3 858	-1 402	-2 175	1 589	1 710	-3 803
Non-oil-exporting countries	12 717	13 820	9 206	22 279	21 399	19 508	-8 682	-6 518	-8 922	13 898	7 031	6 516	5 218	513	-2 968
Argentina	3 213	4 350	1 800	5 711	5 303	4 400	-2 495	-955	-2 600	2 660	1 992	1 900	165	1 037	-700
Brazil	11 343	10 763	6 216	11 471	11 192	10 330	33	-289	-4 037	5 342	-222	408	5 375	-511	-3 629
Colombia	-191	-328	1 226	1 510	1 527	1 505	-1 411	-1 412	458	1 038	1 567	958	-373	154	1 416
Costa Rica	17	55	68	314	320	268	-265	-338	-165	209	410	215	-56	73	50
Chile	-141	512	712	2 018	1 901	1 887	-2 118	-1 342	-1 135	2 209	1 240	883	91	-102	-252
El Salvador	-227	-192	-181	134	133	135	-243	-199	-173	250	246	158	7	47	-15
Guatemala	-203	-101	71	203	165	178	-378	-247	-32	389	358	55	11	111	23
Haiti	-221	-224	-181	17	-30	15	-196	-145	-144	175	121	170	-20	-24	26
Honduras	-204	-198	-93	178	188	191	-372	-374	-271	382	385	269	11	11	-2
Nicaragua	-460	-635	-663	47	48	25	-505	-681	-685	598	562	805	93	-119	120
Panama	26	141	287	16	-46	-90	-45	131	321	-39	-256	281	-84	-125	40
Paraguay	-270	-173	-252	57	60	30	-325	-231	-280	311	103	117	-14	-128	-163
Dominican Republic	-187	-273	-148	241	286	356	-223	-317	-245	320	342	110	97	25	-135
Uruguay	222	233	344	362	352	278	-139	-119	66	54	183	187	-85	64	253

Source: ECLAC, on the basis of official data.

^aExcluding labour and ownership.

^bIncluding net private unrequited transfers.

^cIncluding long- and short-term capital, official unrequited transfers and

errors and omissions. ^dTotal balance is equal to variation in international reserves (of opposite sign) plus counterpart items.

Table 28

**LATIN AMERICA: RELATION BETWEEN THE BALANCE-OF-PAYMENTS
DEFICIT ON CURRENT ACCOUNT AND THE VALUE OF
EXPORTS OF GOODS AND SERVICES^a**

(Percentages)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 ^b
Latin America	21.1	29.8	24.0	26.0	34.7	39.8	7.2	0.1	3.3	15.1
Oil-exporting countries	29.0	40.6	14.9	8.4	23.3	26.9	-16.5	-15.8	-5.9	14.2
Bolivia	18.8	50.2	46.6	5.2	48.9	22.2	23.8	29.5	47.5	73.5
Ecuador	23.7	42.9	27.1	23.5	35.3	45.2	4.8	9.3	3.4	27.3
Mexico	24.0	30.3	36.7	35.4	48.7	24.5	-19.3	-13.4	-1.4	6.6
Peru	45.8	10.2	-14.8	1.6	47.0	43.6	29.3	9.9	2.0	34.8
Venezuela	30.8	58.1	-2.5	-23.8	-19.2	24.0	-28.1	-32.4	-20.7	17.2
Non-oil-exporting countries	15.9	22.3	31.5	42.5	46.1	52.6	30.0	14.6	11.1	15.7
Argentina	-17.1	-24.5	5.8	48.3	43.4	25.6	26.2	26.0	9.5	31.3
Brazil	39.3	51.5	62.7	58.8	46.1	74.3	29.0	-0.1	1.1	16.6
Colombia	-12.8	-7.4	-9.6	3.9	45.8	69.1	79.9	27.3	30.1	-7.1
Costa Rica	23.6	36.1	50.5	54.9	34.7	24.6	29.2	20.8	27.7	12.2
Chile	21.8	37.6	26.1	33.9	96.0	51.1	25.1	47.1	30.0	22.6
El Salvador	-2.0	31.6	-1.2	-	29.4	33.0	24.2	27.2	23.3	19.4
Guatemala	2.8	20.9	14.2	9.5	39.7	31.3	19.2	30.8	21.3	2.7
Haiti	40.2	39.8	45.5	45.9	100.3	69.8	71.1	63.7	42.8	49.3
Honduras	23.9	24.7	24.4	35.1	36.3	32.5	31.7	43.4	39.4	27.2
Nicaragua	26.7	4.8	-13.4	99.2	101.8	115.1	112.2	117.4	201.5	234.6
Panama	20.4	25.6	31.9	11.2	0.6	4.2	-10.5	1.5	-4.0	-8.7
Paraguay	15.2	27.2	40.9	49.1	66.9	61.3	54.4	42.0	21.2	25.9
Dominican Republic	14.2	38.1	31.7	53.1	26.4	40.0	35.3	16.3	24.1	18.2
Uruguay	21.2	14.5	30.4	46.9	27.5	15.9	5.0	10.8	9.5	-4.4

Source: ECLAC, on the basis of official figures.

^aNegative figures indicate a surplus on the balance-of-payments current account.

^bPreliminary figures.

Moreover, in the region as a whole, the increase in the net flow of loans and investments was considerably lower than that of the current account deficit. Consequently, after having closed 1985 with a small deficit of US\$170 million, the balance of payments yielded a deficit of US\$6.3 billion in 1986.

On account of the expansion of capital inflows and the drop in net payments of interest and profits, the net transfer of resources out of Latin America declined by almost one-third. Nonetheless, at US\$22 billion, it

remained extremely high. Furthermore, as a result of the simultaneous decline in exports of goods and services, the transfer of resources out of the region was equal to more than 22% of its exports, which was only slightly less than the figure recorded, on average, for the preceding four years (see table 29).

As in previous years, most of the transfer of resources abroad came from Brazil, Mexico, Venezuela and Argentina, although, especially in Mexico, it fell significantly (see table 30). Nevertheless, in all of these countries the transfer was equivalent to more than 24% of exports. The transfer was also relatively significant in Chile and the Dominican Republic, where, as in Colombia, it rose sharply in absolute terms. In contrast, El Salvador, Honduras, Paraguay and above all, Nicaragua, Bolivia and Haiti were the recipients of a substantial transfer of resources from abroad.

Table 29

**LATIN AMERICA: NET INFLOW OF CAPITAL
AND TRANSFER OF RESOURCES**

(Billions of dollars and percentages)

	Effective net inflow of capital ^a	Unregis- tered trans- actions ^b	Net inflow of capital (1 + 2)	2/1	Net pay- ments of profits and in- terest	Transfer of resources		Exports of goods and services	6/8	7/8
	(1)	(2)	(3)	(4)	(5)	(1 - 5)	(3 - 5)	(8)	(9)	(10)
1976	18.9	-1.0	17.9	-5.3	6.8	12.1	11.1	47.3	25.6	23.5
1977	15.5	1.7	17.2	11.0	8.2	7.3	9.0	55.8	13.1	16.1
1978	24.3	1.8	26.1	7.4	10.2	14.1	15.9	61.3	23.0	25.9
1979	26.9	2.2	29.1	8.2	13.6	13.3	15.5	82.0	16.2	18.9
1980	35.2	-5.7	29.5	-16.2	17.9	17.3	11.6	107.6	16.1	10.8
1981	48.5	-11.0	37.5	-22.7	27.1	21.4	10.4	116.1	18.4	9.0
1982	30.0	-9.9	20.1	-33.0	38.7	-8.7	-18.6	103.2	-8.4	-18.0
1983	6.0	-3.0	3.0	-50.0	34.3	-28.3	-31.3	102.4	-27.6	-30.6
1984	9.4	0.1	9.5	1.1	36.3	-26.9	-26.8	114.1	-23.6	-23.5
1985	5.7	-2.3	3.4	-40.4	34.8	-29.1	-31.4	109.0	-26.7	-28.8
1986 ^c	9.5	-0.9 ^d	8.6	-9.5	30.5	-21.0	-21.9	94.6	-22.2	-23.2

Source: 1976-1985: International Monetary Fund, 1986: ECLAC, on the basis of official data.

^aEquivalent to net inflow of capital minus unregistered transactions.

^bCorresponds to balance-of-payments item "errors and omissions".

^cPreliminary estimates.

^dDoes not include unregistered transactions for Argentina, Costa Rica, Panama and the Dominican Republic.

Table 30

LATIN AMERICA: NET TRANSFER OF RESOURCES^a

	Net transfer of resources (millions of dollars)					Relation between the net transfer of resources and exports of goods and services (percentages)				
	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986 ^b
Latin America ^c	-19 744	-32 068	-27 535	-31 687	-22 724	-19.0	-31.3	-24.3	-30.5	-23.6
Oil-exporting countries	-15 113	-19 621	-18 734	-17 132	-8 956	-29.4	-39.1	-34.4	-36.7	-23.6
Bolivia	-184	-119	-61	-76	371	-20.2	-13.9	-7.5	-10.6	56.3
Ecuador	-137	-625	836	-940	-327	-5.1	-23.6	-28.9	-29.1	-13.0
Mexico	-9 972	-12 580	-12 088	-11 936	-5 221	-38.1	-46.3	-40.1	-43.1	-23.7
Peru	654	-74	-538	-596	-139	16.0	-2.0	14.1	-16.3	-4.2
Venezuela	-5 474	-6 223	-5 212	-3 584	-3 640	-31.2	-39.3	-31.0	-23.8	-38.4
Non-oil-exporting countries	-4 631	-12 447	-8 801	-14 555	-13 768	-8.6	-23.8	-15.0	-25.1	-23.5
Argentina	-3 368	-5 935	-3 484	-3 715	-2 900	-36.7	-63.9	-36.3	-37.0	-34.9
Brazil	-2 390	-6 262	-6 131	-11 434	-9 949	-10.9	-26.5	-21.2	-41.3	-40.9
Colombia	1 226	-16	-514	95	-584	27.7	-0.4	-9.9	2.0	-9.0
Costa Rica	23	39	-112	83	-61	2.1	3.4	-9.3	7.0	-4.5
Chile	-1 009	-1 162	152	-696	-1 042	-21.7	-25.1	3.4	-15.5	-21.0
El Salvador	137	114	149	177	113	16.6	13.1	16.7	20.7	12.7
Guatemala	248	163	182	188	-130	19.4	13.9	14.8	16.2	-11.1
Haiti	155	162	158	101	155	57.4	56.3	52.8	29.5	53.1
Honduras	2	55	204	197	78	0.3	6.9	23.8	20.8	7.8
Nicaragua	276	526	551	514	780	61.7	113.6	130.6	152.1	267.1
Paraguay	381	191	273	48	109	61.8	41.2	35.4	4.4	10.1
Dominican Republic	57	5	79	56	-246	5.0	0.4	5.8	4.2	-18.2
Uruguay	-369	-288	-308	-169	-91	-24.0	-20.4	-23.9	-13.5	-6.1

Source: ECLAC, on the basis of data provided by the International Monetary Fund, *Balance of Payments Yearbook*, 1987.

^aThe net transfer of resources is equal to net capital inflow minus payments for factor services.

^bPreliminary figures. ^cExcluding Panama.

VI. THE EXTERNAL DEBT

1. The evolution of external indebtedness

In 1986 the growth rate of the external debt was low, thereby maintaining the trend of the two preceding years. Indeed, the year-end debt balance was estimated at US\$388 billion, which represented an increase of slightly less than 4% (see table 31). If the almost 2% increase in prices in the industrialized countries is taken into account, then the level of debt in real terms increased only slightly, after having remained stagnant in 1984 and declining in 1985. Moreover, almost the whole of the increase in the debt in 1986 was attributable to the revaluation of liabilities expressed in currencies other than the dollar as a result of the latter's decline in value on international markets during the year. Consequently, the region as a whole did not incur any additional debt in net terms.

The increase in the individual countries' indebtedness was in keeping with the low average rate of growth of the debt. Furthermore, Venezuela's debt fell for the third year running, bringing its level to 10% below that recorded in 1983. The only debts to increase significantly were those of Colombia, Ecuador, Haiti, Bolivia, Nicaragua and the Dominican Republic; this was largely accounted for by loans from official sources and, in the case of the last three countries, the accumulation of arrears with some creditors.

The available information on international capital transactions in 1986 indicates that the evolution of the debt in Latin America continued to be restricted by the virtual cessation of lending activity by private banks in respect of the region and the inability of official sources to offset this trend to any significant extent. Estimates made by the Bank for International Settlements indicate that in 1986 net credit granted by private banks to Latin America increased by merely US\$2 billion in nominal terms (1%) over 1985 (see table 32). Moreover, this increase was due to the revaluation of loans expressed in currencies other than the dollar; if they are adjusted for variations in exchange rates, it emerges that the amount of credit granted by international banks in fact fell slightly in absolute terms.¹

The net commitments of the private international banking system fell in nominal terms in all the petroleum-exporting countries except

Table 31
LATIN AMERICA: TOTAL DISBURSED EXTERNAL DEBT^a

	End-of-year balances in millions of dollars						Annual growth rates				
	1981	1982	1983	1984	1985	1986 ^b	1979-1981	1982-1983	1984	1985	1986 ^b
Latin America	284 777	328 527	350 824	364 549	374 064	388 567	23.3	11.0	3.9	2.6	3.9
Oil-exporting countries	126 609	143 202	152 415	155 208	156 462	159 631	25.3	9.7	1.8	0.8	2.0
Bolivia ^c	2 824	2 889	3 265	3 272	3 323	3 696	15.8	7.7	0.2	1.6	11.2
Ecuador	5 868	6 187	6 908	7 198	7 772	8 626	25.5	8.4	4.2	8.0	11.0
Mexico	74 900	87 600	93 800	96 700	97 800	100 500	30.8	12.0	3.1	1.1	2.8
Peru	9 606	11 465	12 445	13 338	13 721	14 468	1.3	13.4	7.2	2.9	5.4
Venezuela ^d	33 411	35 061	35 997	34 700	33 846	32 341	27.5	3.8	-3.6	-2.5	-4.4
Non-oil-exporting countries	158 168	185 325	198 409	209 341	217 602	228 936	21.8	12.0	5.5	4.0	5.2
Argentina	35 671	43 634	45 087	46 903	48 312	50 300	41.9	12.4	4.0	3.0	4.1
Brazil	79 978 ^e	91 304 ^e	97 855 ^e	102 039	105 126	110 282	14.4	10.7	4.3	3.0	4.9
Colombia	8 042	9 528	10 554	11 611	12 847	14 761	25.6	14.6	10.0	10.6	14.9
Costa Rica	2 687	3 188	3 532	3 752	3 742	3 739	21.6	14.7	1.1	-0.3	-0.1
Chile	15 591	17 159	18 037	19 659	20 403	20 670	30.5	7.6	9.0	3.8	1.3
El Salvador	1 608	1 808	2 023	2 095	2 162	2 200	17.7	13.4	3.6	3.2	1.8
Guatemala	1 385	1 841	2 149	2 505	2 624	2 641	19.0	27.8	16.6	4.8	0.6
Haiti ^c	372	410	551	607	599	680	26.5	21.7	10.2	-1.3	13.5
Honduras	1 588	1 986	2 162	2 392	2 803	2 931	17.5	17.0	10.6	17.2	4.6
Nicaragua ^c	2 566	3 139	3 789	4 362	4 936	5 773	27.1	21.5	15.1	13.2	17.0
Panama ^c	2 333	2 810	3 392	3 644	3 674	3 874	7.5	20.6	7.4	0.8	5.4
Paraguay	949	1 204	1 469	1 654	1 773	1 842	12.4	24.4	12.6	7.2	3.9
Dominican Republic	2 286	3 076	3 237	3 447	3 701	4 050	19.9	19.9	6.5	7.4	9.4
Uruguay	3 112	4 238	4 572	4 671	4 900	5 193	36.1	22.0	2.2	4.9	6.0

Source: ECLAC, on the basis of official data.

^aIncludes debt with the IMF.

^bPreliminary figures.

^cPublic debt.

^dTotal debt according to official data and information supplied by international

financial agencies.

^eTotal debt according to World Bank data.

Table 32

PRIVATE BANKS' EXPOSURE IN LATIN AMERICA^a

	End-of-year balances in millions of dollars				Growth rates		
	1983	1984	1985	1986 ^b	1984	1985	1986 ^b
Latin America ^c	237 502	238 261	244 165	246 305	0.3	2.5	0.9
Oil-exporting countries	112 517	108 957	111 747	109 834	-3.2	2.6	-1.7
Bolivia	740	685	620	615	-7.4	-9.5	-0.8
Ecuador	5 086	4 937	5 172	5 342	-2.9	4.8	3.3
Mexico	71 955	72 332	74 520	73	964	0.5	3.0
Peru	6 478	5 698	5 608	5 185	-12.0	-1.6	-7.5
Venezuela	28 258	25 305	25 827	24 728	-10.5	2.1	-4.3
Non-oil-exporting countries ^c	124 985	129 304	132 418	136 471	3.5	2.4	3.1
Argentina	27 377	26 081	28 937	31 373	-4.7	11.0	8.4
Brazil	71 162	76 871	76 890	78 761	8.0	-	2.4
Colombia	7 554	7 098	6 461	6 564	-6.0	-9.0	1.6
Costa Rica	1 074	860	836	892	-19.9	-3.0	6.7
Chile	13 049	13 639	14 335	13 925	4.5	5.1	-2.9
El Salvador	213	222	218	214	4.2	-1.8	-1.8
Guatemala	580	486	604	505	-16.2	24.3	-16.4
Haiti	40	29	28	30	-27.5	-3.4	7.1
Honduras	396	394	345	339	-0.5	-12.4	-1.7
Nicaragua	663	554	783	782	16.4	41.3	-0.1
Paraguay	401	614	545	645	53.1	-11.2	18.3
Dominican Republic	542	436	447	444	-19.6	2.5	-0.7
Uruguay	1 934	2 020	1 953	1 997	4.4	-3.3	2.3

Source: Bank for International Settlements.

^aTotal assets. No adjustments have been made for changes in the exchange rate between the dollar and other currencies. ^bPreliminary figures. ^cDoes not include Panama.

Ecuador, where they rose by 3%. In the non-petroleum-exporting countries, these commitments rose significantly only in Argentina, Costa Rica, Haiti and Paraguay, although this phenomenon, here again, was partly due to the revaluation of bank credits expressed in currencies other than the dollar.

The data relating to United States banks provides a number of further criteria for assessing the nature of the cutback in external financing. At the end of 1986, the net commitments of United States banks in Latin America were 5% lower than at the end of 1985 and 4% below their June 1982 balance (just a few months before the outbreak of the debt crisis) (see table 33). Although the net commitments of the nine principal United States banks increased by 5% between June 1982 and December 1986, medium-sized and small banks reduced their commitments considerably (18%). This illustrates the fact that the largest banks

Table 33
UNITED STATES BANKS' EXPOSURE IN LATIN AMERICA

	Millions of dollars									Growth rates					
	June 1982			December 1985			December 1986			December 1986/ December 1985			December 1986/ June 1982		
	Nine largest	Rest	Total	Nine largest	Rest	Total	Nine largest	Rest	Total	Nine largest	Rest	Total	Nine largest	Rest	Total
Latin America	48 714	33 368	82 082	52 237	30 853	83 090	51 209	27 479	78 688	-2.0	-10.9	-5.3	5.1	-17.6	-4.1
Oil-exporting countries	23 567	17 285	40 852	22 909	14 884	37 793	21 645	13 897	35 542	-5.5	-6.6	-6.0	-8.2	-19.6	-13.0
Bolivia	231	137	368	55	48	103	43	46	89	-21.8	-4.2	-13.6	-81.4	-66.4	-75.8
Ecuador	1 257	910	2 167	1 207	749	1 956	1 222	795	2 017	1.2	6.1	3.1	-2.8	-12.6	-6.9
Mexico	13 602	14 619	25 221	13 834	10 606	24 440	13 473	10 072	23 545	-2.6	-5.0	-3.7	-0.9	-13.3	-6.6
Peru	1 330	1 017	2 347	867	640	1 507	652	506	1 158	-24.8	-20.9	-23.2	-51.0	-50.2	-50.7
Venezuela	7 147	3 602	10 749	6 946	2 841	9 787	6 255	2 478	8 733	-9.9	-12.8	-10.8	-12.5	-31.2	-18.8
Non-oil-exporting countries	25 147	16 083	41 230	29 328	15 969	45 297	29 564	13 582	43 146	0.8	-14.9	-4.7	17.6	-15.6	4.6
Argentina	5 595	3 212	8 807	6 203	2 533	8 736	6 425	2 621	9 046	3.6	3.5	3.5	14.8	-18.4	2.7
Brazil	12 336	8 179	20 515	15 837	9 735	25 572	16 160	7 464	23 624	2.0	-23.3	-7.6	31.0	-8.7	15.2
Colombia	2 075	961	3 036	1 843	692	2 535	1 534	621	2 155	-16.8	-10.3	-15.0	-26.1	-35.4	-29.0
Costa Rica	221	259	480	213	208	421	210	189	399	-1.4	-9.1	-5.2	-5.0	-27.0	-16.9
Chile	3 314	2 761	6 075	3 900	2 349	6 249	4 022	2 232	6 254	3.1	-5.0	0.1	21.4	-19.2	2.9
El Salvador	53	16	69	23	26	49	15	40	55	-34.8	53.8	12.2	-71.7	150.0	-20.3
Guatemala	96	53	149	41	27	68	33	13	46	-19.5	-51.9	-32.4	-65.6	-75.5	-69.1
Honduras	139	64	203	60	37	97	66	40	106	10.0	8.1	9.3	-52.5	-37.5	-47.8
Nicaragua	257	168	425	44	46	90	25	41	66	-43.2	-10.9	-26.7	-90.3	-75.6	-84.5
Paraguay	299	28	327	154	17	171	94	13	107	-39.0	-23.5	-37.4	-68.6	-53.6	-67.3
Dominican Republic	338	108	446	317	110	427	300	99	399	-5.4	-10.0	-6.6	-11.2	-8.3	-10.5
Uruguay	424	274	698	693	189	882	680	209	889	-1.9	10.6	0.8	60.4	-23.7	27.4

Source: ECLAC, on the basis of figures supplied by the United States Federal Financial Institutions Examination Council (1982, 1985 and 1986).

are the creditors with the heaviest exposure in the region inasmuch as they have been compelled to participate in the involuntary package loans which constitute part of both the adjustment programmes sponsored by the IMF and the debt rescheduling process. In contrast, small and medium-sized institutions, which in general have far lower commitments in the region, have had much less of an incentive to participate in involuntary lending and have consequently reduced the absolute level of their net commitments. However, it should be pointed out that in 1986 all United States banks, regardless of their size, reduced their net commitments in Latin America.

During the period of almost five years between June 1982 and December 1986, the net commitments of the United States banking system shrank substantially in most of the countries of Latin America. This was even the case in countries which had not been affected by a debt crisis, such as Colombia. The system increased its commitments only in Argentina, Brazil, Chile and Uruguay, as the fresh loans from major banks more than offset the withdrawal of small and medium-sized institutions (see table 33).

The retreat made by private banks means that official lending has become the sole source of additional net credit. Nevertheless, even this sphere has been beset by problems. During 1986, the International Monetary Fund (IMF) emerged as a net recipient of funds from Latin America and the Caribbean, since amortization and interest payments on earlier standby loans exceeded fresh disbursements. Meanwhile, the net transfer of World Bank funds to the region fell to just US\$200 million as against US\$1.2 billion during the previous fiscal year. The Inter-American Development Bank (IDB) also encountered problems in meeting its credit targets, since many Latin American countries found it necessary to devote a considerable percentage of their domestic savings to financing transfers of resources abroad and thus had little left over for the counterpart funds they would have needed to proceed with investment projects partly financed by the IDB.

The fall in international interest rates which had begun in mid-1984 continued in 1986. During the second half of the year the LIBOR rate stabilized at around 6%, which was its lowest level since 1977 and a far more favourable one than that recorded in 1985 (see table 34). It has been calculated that this drop signified a saving of approximately US\$5 billion for Latin America (excluding Panama) as against the payments of US\$37 billion made in 1985. The countries which saved the most as a result of this lower rate were those which had a high proportion of variable rate loans with commercial banks: Mexico (85%), Chile and Venezuela (84%), Brazil (75%), Argentina (70%) and Ecuador (68%).

Despite the decrease in international interest rates in nominal terms, debt servicing continued to constitute a heavy burden in 1986. The

real LIBOR rate (the nominal rate adjusted for world inflation) remained virtually unchanged in comparison with 1985 and, for the sixth consecutive year, was more than double the 2% rate which is the approximate historical average (see figure 11). An alternative way of calculating a real rate is by deflating nominal rates by the price variations in the exports of the debtor countries. In view of the steep decline in export prices in 1986, the real rate of interest, when calculated on this basis, showed a sharp increase over the already high real rate recorded in 1985.

Table 34

NOMINAL AND REAL INTERNATIONAL INTEREST RATES

(Percentages)

	Nominal LIBOR ^a	Nominal Prime rate ^b	CPI indus- trial- ized coun- tries (3)	Variation in unit value of Latin American exports (4)	Real LIBOR		Real Prime rate	
					^c (1)/(3)	^d (1)/(4)	^c (2)/(3)	^d (2)/(4)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1974	11.20	10.81	13.3	65.7	-1.9	-32.9	-2.2	-33.1
1975	7.61	7.86	11.1	2.6	-3.1	4.9	-2.9	5.1
1976	6.12	6.84	8.3	7.5	-2.0	-1.3	-1.3	-0.6
1977	6.42	6.83	8.4	17.2	-1.8	-9.2	-1.4	-8.8
1978	8.33	9.06	7.2	0.3	1.1	8.0	1.7	8.7
1979	11.99	12.67	9.2	22.7	2.6	-8.7	3.2	-8.2
1980	14.15	15.27	11.9	26.6	2.0	-9.8	3.0	-8.9
1981	16.52	18.85	9.9	-0.9	6.0	17.6	8.1	19.9
1982	13.25	14.77	7.5	-9.9	5.3	25.7	6.8	27.4
1983	9.79	10.81	5.0	-7.1	4.6	18.2	5.5	19.3
1984	11.20	12.04	4.8	2.6	6.1	8.4	6.9	9.2
1985	8.64	9.93	4.2	-6.0	4.3	15.6	5.5	16.9
1986	6.82	7.99	2.3	-12.7	4.4	22.4	5.9	23.7
1984								
I	11.10	11.68	5.1	...	5.7	...	6.3	...
II	11.30	12.40	4.5	...	6.5	...	7.6	...
1985								
I	9.05	10.37	4.4	...	4.5	...	5.6	...
II	8.23	9.50	4.0	...	4.1	...	5.3	...
1986								
I	7.43	8.98	2.8	...	4.5	...	6.0	...
II	6.20	7.70	1.9	...	4.2	...	5.7	...

Source: ECLAC, on the basis of data from Morgan Guaranty Trust, *World Financial Markets*, and International Monetary Fund, *International Financial Statistics*.

^aCorresponds to the interest rate for 180-day Eurodollar deposits in London.

^bPreferential rate granted by

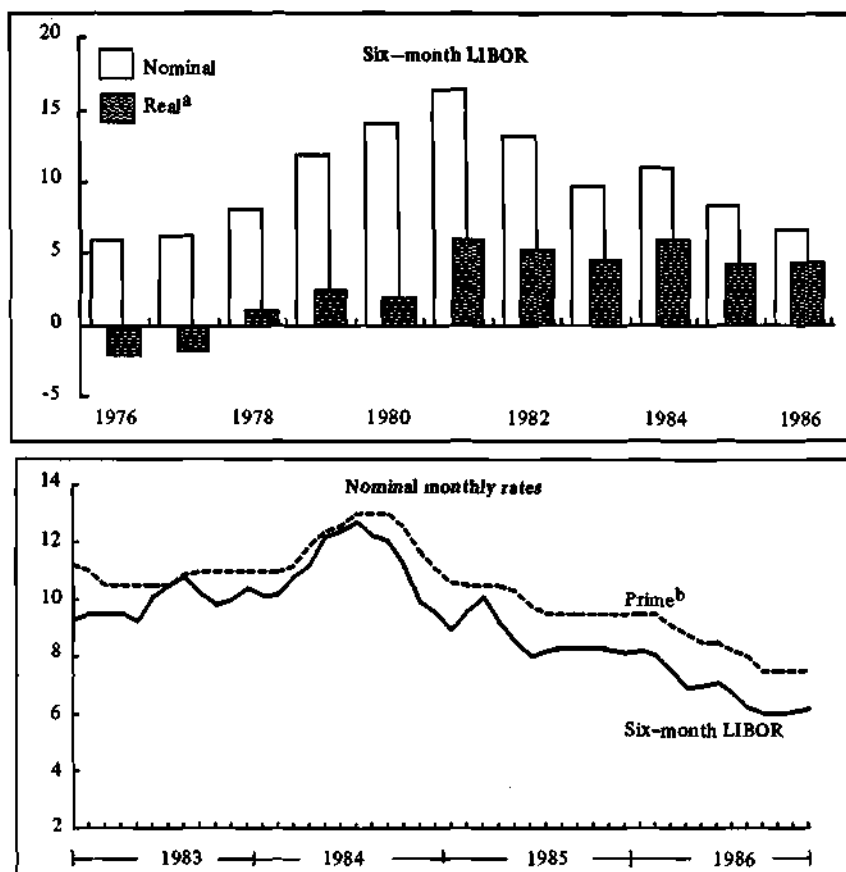
United States banks to their best clients.

^cNominal rate deflated by the consumer price index of the

industrialized countries.

^dLIBOR deflated by the unit value of Latin American exports of goods.

Figure 11
INTERNATIONAL INTEREST RATES
(Percentages)



Source: ECLAC, on the basis of information from the International Monetary Fund, *International Financial Statistics*.

^aNominal rate deflated by the consumer price index of the industrialized countries. ^bPrime rate granted by United States banks to their best clients.

The lower prices of exports of goods and services in 1986 also helped account for the fall in export income, which virtually cancelled out the foreign exchange savings derived from the lower international rates of interest. As a consequence, the region's interest/export coefficient (excluding Panama) remained at the high level recorded in 1985 (34%), which was roughly double the average ratio for the three-year period 1978-1980 (see table 35).

The level of this coefficient differed depending on whether the debtors were petroleum exporters or not. In the case of the former, with

the exceptions of Bolivia and Peru, export income fell as much as or more than interest payments; as a result, the coefficient for this group rose by three percentage points as against 1985 to the onerous figure of 35%. In the case of the non-petroleum-exporting countries, on the other hand, the average coefficient was 34%, which was a drop of two percentage points. In countries such as Uruguay, Costa Rica, Chile and El Salvador, the fall in the interest payments/export ratio reflected a combination of lower interest payments and increased export earnings. The improved figure for Colombia, however, was entirely accounted for by the sharp increase in the value of its exports. In contrast, the fall in Nicaragua's coefficient was exclusively due to its lower interest payments, which more than offset the decline in exports. The rise in the ratio in countries such as the Dominican Republic and Paraguay reflected the repercussions of their increased interest payments and lower external sales; in

Table 35

**LATIN AMERICA: RELATION BETWEEN TOTAL INTEREST PAYMENTS
AND EXPORTS OF GOODS AND SERVICES^a**

(Percentages)

	1978	1980	1981	1982	1983	1984	1985	1986 ^b
Latin America^c	15.7	19.5	27.1	39.6	35.0	34.7	34.1	34.3
Oil-exporting countries	16.1	16.6	22.6	35.6	31.7	32.3	32.2	35.3
Bolivia	13.7	25.0	34.5	43.4	39.9	49.9	46.8	42.6
Ecuador	10.4	18.3	24.3	30.1	27.4	30.7	27.0	30.9
Mexico	24.0	23.3	29.0	47.3	37.5	39.0	36.0	37.9
Peru	21.2	16.0	24.1	25.1	29.8	33.2	30.0	26.7
Venezuela	7.2	8.1	12.7	21.0	21.6	20.1	26.1	32.8
Non-oil-exporting countries^c	15.5	22.3	31.6	43.5	38.4	36.9	35.8	33.6
Argentina	9.6	22.0	35.5	53.6	58.4	57.6	51.1	50.6
Brazil	24.5	34.1	40.4	57.1	43.5	39.6	40.0	41.4
Colombia	7.5	11.8	21.8	25.9	26.7	22.8	26.3	19.6
Costa Rica	9.9	18.0	28.0	36.1	33.1	27.9	29.0	19.9
Chile	16.9	19.3	38.8	49.5	38.9	48.0	43.2	38.6
El Salvador	5.3	5.9	7.9	11.9	12.3	12.3	12.9	12.5
Guatemala	3.7	5.3	7.5	7.8	8.7	12.3	14.9	16.4
Haiti	2.8	2.0	2.5	2.2	2.4	5.4	5.3	3.4
Honduras	8.2	10.6	14.5	22.4	16.4	15.8	15.3	15.5
Nicaragua	9.3	17.8	21.9	32.2	14.3	12.1	13.3	8.9
Paraguay	8.4	13.4	14.8	13.5	14.3	10.1	8.3	9.3
Dominican Republic	14.0	14.8	19.0	22.6	24.5	18.0	22.2	28.8
Uruguay	10.4	11.0	12.9	22.4	24.8	34.8	34.2	24.7

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

^aIncluding interest on the short-term debt.

^bPreliminary figures.

^cDoes not include Panama.

Table 36

**LATIN AMERICA: RELATION BETWEEN THE TRADE SURPLUS
AND TOTAL INTEREST PAYMENTS^a**

(Percentages)

	1978	1980	1981	1982	1983	1984	1985	1986 ^b
Latin America ^c	-89.3	-47.6	-40.7	-3.6	75.5	90.4	82.2	45.4
Oil-exporting countries	-155.8	40.8	-15.7	19.0	139.0	128.5	100.3	40.1
Bolivia	-252.1	77.7	-40.1	49.4	35.4	38.0	4.2	-70.5
Ecuador	-263.1	-11.3	-29.8	-25.0	101.7	84.9	110.8	35.4
Mexico	-23.0	-40.6	-55.6	50.9	142.2	119.0	89.5	68.2
Peru	64.8	102.7	-89.7	-72.5	3.5	62.0	86.7	-36.3
Venezuela	-755.8	300.0	144.3	-56.2	196.9	205.0	137.6	-2.4
Non-oil-exporting countries ^c	-39.5	-108.9	-58.4	-21.9	24.4	60.1	68.2	49.2
Argentina	350.0	-146.7	-19.7	54.1	63.9	65.9	92.6	52.4
Brazil	-84.7	-79.6	-16.3	-22.3	39.7	99.1	97.2	61.8
Colombia	176.4	-20.0	-184.2	-197.8	-194.9	-12.7	-20.7	96.7
Costa Rica	-266.0	-212.5	-38.6	18.1	-4.3	7.1	-12.9	-10.9
Chile	-136.8	-91.7	-167.0	-16.5	31.8	-5.0	30.2	38.7
El Salvador	-581.6	62.5	-324.7	-222.4	-174.8	-236.4	-232.7	-244.1
Guatemala	-783.0	-247.8	-530.3	-348.0	-139.2	-131.8	-55.5	40.4
Haiti	-1 633.3	-2 967.0	-4 883.0	-3 717.0	-3 386.0	-1 381.0	-1 244.0	-1 810.0
Honduras	-158.9	-185.0	-138.3	-32.6	-84.7	-151.1	-130.6	-60.0
Nicaragua	94.0	-470.5	-400.0	-265.3	-700.0	-902.0	-1 411.0	-2 550.0
Paraguay	-251.4	-361.8	-514.6	-536.1	-371.2	-370.5	-197.8	-264.0
Dominican Republic	-281.0	-346.0	-106.3	-152.3	-110.5	-75.7	-93.2	-67.1
Uruguay	-61.1	-367.9	-180.5	-14.0	62.0	49.4	54.4	92.7

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

^aA minus sign indicates a trade deficit.

^bPreliminary figures.

^cDoes not include Panama.

other countries such as Argentina, Brazil and Haiti, however, the impact of the lower interest payments was cancelled out by the decrease in the value of their exports.

Although interest payments fell in 1986, the region's capacity to finance them with the surplus from its trade in goods and services took a sharp turn for the worse. For Latin America as a whole (excluding Panama) the trade surplus was equivalent to 45% of interest payments, as against 82% and 90% in 1985 and 1984, respectively. This difference was primarily due to the sharp decline in the external sales of the petroleum-exporting countries, as a result of which the average percentage of interest payments financed by the trade surplus fell from 100% in 1985 to 40% in 1986. For the non-petroleum-exporting countries, this figure dropped from 68% to 49% (see table 36).

There were nonetheless striking contrasts among those countries which earned a trade surplus. In the group of petroleum-exporting countries, Mexico and, to a lesser extent, Ecuador managed to obtain

substantial surpluses, although they were lower than those recorded in 1985. In contrast, Bolivia, Peru and Venezuela saw their surpluses become deficits. In the group of non-petroleum-exporting countries, Argentina's and Brazil's disappointing external trade performance pushed down their respective coverages from 93% and 97% in 1985 to 52% and 62% in 1986. The percentage of interest payments financed by the trade surplus in Colombia and Uruguay rose sharply, however, reaching the equivalent of 97% and 93%, respectively. In Chile this percentage rose from 30% to 39% while Costa Rica transformed its negative coverage into a slightly positive one.

The slump in exports and the consequent increase in the debt burden was also apparent in the debt/exports coefficient. For the region

Table 37

**LATIN AMERICA: RELATION BETWEEN TOTAL DISBURSED
EXTERNAL DEBT AND EXPORTS OF GOODS
AND SERVICES**

(Percentages)

	1978	1980	1981	1982	1983	1984	1985	1986 ^a
Latin America	249	211	245	318	343	320	343	411
Oil-exporting countries	254	186	219	279	303	285	311	421
Bolivia ^b	259	227	281	317	381	400	462	561
Ecuador	175	162	201	230	261	249	240	343
Mexico	316	216	259	335	345	321	353	457
Peru	388	206	239	281	334	349	375	438
Venezuela	167	148	160	200	227	206	225	341
Non-oil-exporting countries	245	234	271	358	381	352	370	404
Argentina	167	275	329	475	485	488	481	606
Brazil	391	320	313	416	414	353	379	454
Colombia	103	121	188	215	279	225	274	228
Costa Rica	186	184	229	286	312	310	311	270
Chile	238	188	311	370	390	437	454	411
El Salvador	107	97	174	220	232	234	253	247
Guatemala	63	61	96	144	183	204	226	225
Haiti ^b	88	87	155	152	191	203	175	233
Honduras	143	147	180	259	270	279	295	294
Nicaragua ^b	174	369	464	702	818	1 034	1 460	1 977
Panama ^b	...	65	63	78	115	124	112	105
Paraguay	154	152	171	195	317	214	163	171
Dominican Republic	161	162	151	269	261	252	281	320
Uruguay	136	141	183	276	324	362	392	346

Source: ECLAC, on the basis of official data.

^aPreliminary figures.

^bRelation between the external public debt and exports of goods and services.

Table 38
LATIN AMERICA (SELECTED COUNTRIES): RENEGOTIATION
OF EXTERNAL DEBT WITH PRIVATE BANKS
(THIRD ROUND OF RENEGOTIATIONS, 1984/1985)^a

(Millions of dollars)

	Gross bank debt ^a at end of 1985	Start of negotiations	Renegotiation of debt with private banks							
			Amount			Maturities of rescheduled amortizations	Loans granted in 1985		Maintenance of lines of short-term credit	
			Total	Public	Private		IMF ^c	Fresh credit	Commercial	Inter-bank
Argentina	28 937	Dec 1983	13 500 ^d	10 000	3 500	1982-1985	964	4 200; 483 ^e	1 200	1 400
Bolivia	620	Oct 1982	- ^f	-	-	-	-18	-	-	-
Brazil	76 890	Nov 1984	16 300 ^g	...	...	1985-1986	-64	-	10 000	5 800
Costa Rica	836	... 1984	280 ^h	280	-	1985-1986	13	75	-	-
Cuba	1 609	Jan 1985	82 ⁱ	82	-	1985	-	-	373	-
Chile	14 335	Oct 1984	5 700 ^j	4 400	1 300	1985-1987	192	714; 371 ^k	1 700	-
Ecuador	5 172	Nov 1984	4 200 ^l	2 850	1 350	1985-1989	82	200	700	-
Honduras	345	... 1984	220 ^m	...	...	1985-1986	-16	-	-	-
Mexico	74 520	Jun 1984	48 700 ⁿ	48 700	-	1985-1990	289	-	-	-
Nicaragua	783	... 1984	300 ^o	300	-	Jun 85-Jun 86	-9	-	-	-
Panama	...	Nov 1984	603 ^p	603	-	1985-1986	6	60	-	50
Dominican Republic	...	... 1984	790 ^q	...	...	1984-1989	43	-	-	-
Uruguay	1 953	Dec 1984	1 700 ^r	1 700	-	1985-1989	90	45	-	-
Venezuela	25 827	Oct 1982	21 200 ^s	21 200	-	1983-1988	-	-	-	-

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

Note: For detailed information concerning the first and second rounds of renegotiations, see ECLAC, *Economic Survey of Latin America and the Caribbean 1983*, pp. 66-72, and ECLAC, *Economic Survey of Latin America and the Caribbean 1984*, pp. 51-58.

Table 38 (continued 1)

^aIncludes countries which signed final or provisional agreements during 1984 or 1985 covering payments falling due in 1985 and/or preceding years. Also includes countries which had reached no final agreement with international banks during preceding rounds of renegotiations and which signed refinancing agreements during the third round. In addition, includes Bolivia and Honduras, which were in the process of negotiating with private banks in late 1985 but signed no agreement in that year. Does not include the English-speaking countries of the Caribbean.

^bRefers exclusively to each country's short-, medium- and long-term public and private debt with the private commercial banks that provided information to the Bank for International Settlements. Does not, therefore, include debts owed to governments and official agencies, to suppliers, or to those commercial banks which do not report to BIS. In some countries this last item is significant, and the corresponding figures may therefore underestimate the banking system's share in the total external debt.

^cUse of International Monetary Fund credit during 1985.

^dIn December 1984 Argentina reached a preliminary agreement with the committee of creditor banks which provided for: 1) the refinancing of US\$13.5 billion in amortization payments on the external debt corresponding to the period 1982-1985; 2) new loans from international banks in the amount of US\$3.7 billion and short-term commercial credits totalling US\$500 million; 3) maintenance of lines of short-term commercial credit amounting to US\$1.2 billion at a spread of 1.13% over LIBOR and with a commission of 0.13%, and lines of short-term inter-bank credit for US\$1.4 billion at a spread of 0.25% over LIBOR with a commission of 0.13%; and 4) a commitment on the part of the government to pay nearly US\$750 million in overdue interest at the end of 1984 and to pay US\$750 million in March 1985 of a bridging credit which had been agreed upon in 1982 (this was done between June and September 1985). In August 1985 the government signed the final contracts for the reprogramming of its external debt.

^eIn June 1985 an agreement was reached with IMF which permitted the award of a US\$483 million bridging credit; the United States Federal Reserve provided US\$250 million of this loan and the remaining US\$200 million was supplied by 12 countries.

^fAfter a number of years of sporadic debt servicing, in April 1984 the government formally suspended amortization and interest payments to private banks. In September 1985 the government announced that it was going to ask the private banks to grant a 15-year grace period for loan amortization payments, a 10-year grace period for interest payments and a fixed annual interest rate of 6%.

^gIn early 1985 the government reached a provisional agreement for the rescheduling of US\$45 billion in amortization payments corresponding to the period 1985-1991 which provided for a spread of 1.25% over LIBOR, a 16-year term and a seven-year grace period. This agreement was not finalized, however, because IMF suspended its extended facility arrangement due to the country's non-fulfilment of certain monetary and fiscal policy goals specified therein. Lines of short-term commercial credit in the amount of US\$10 billion and lines of short-term inter-bank credit totalling US\$5.8 billion remained open in 1985. Both of these were granted at a 1% spread over LIBOR and called for the payment of a commission of 0.13%. In March 1986 the parties reached a provisional agreement for the refinancing of US\$16.3 billion in amortization payments falling due in 1985 and 1986 (US\$6.7 billion in 1985 and US\$9.6 billion in 1986). In addition, the above-mentioned lines of credit remained open until March 1987.

^hIn July 1985 the country reached a provisional agreement with the committee of creditor banks for the refinancing of US\$280 million in amortization payments corresponding to the period 1985-1986 and for US\$75 million in fresh credit.

ⁱIn July 1985 the parties reached an agreement for the refinancing of US\$82 million in payments falling due in 1985. In addition, lines of short-term commercial credit totalling US\$373 million (at a 1.13% spread over LIBOR and with a commission of 0.13%) were renewed until September 1986.

^jIn June 1985 a provisional agreement was reached with the committee of creditor banks which provided for the following: 1) The restructuring of US\$5.7 billion in amortization payments owed by the public sector and by the private financial sector on government-guaranteed loans corresponding to the period 1985-1987. Commercial banks may obtain a government guarantee for the private financial sector's debt by paying a guaranty commission of 0.50% in 1987, 0.75% in 1990 and 0.88% in 1994. 2) Fresh loans from private banks for 1985 and 1986 in the amount of US\$1.85 billion (US\$714 million in 1985 and US\$371 million in 1986). Of this amount, US\$300

Table 38 (continued 2)

million was to be disbursed through a co-financing programme with the World Bank, under which the World Bank would guarantee US\$150 million. 3) As in other countries, the international banks improved the terms and conditions of the contracts covering the amounts rescheduled during the first round of renegotiations (the interest rate structure applying to 1982/1983 maturities was modified so as to be equivalent to the structure for 1985/1987 maturities, and the spread over LIBOR was lowered to 1.75% for the new loans obtained in 1983). 4) The maintenance until 1987 of lines of short-term commercial credit in the amount of US\$1.7 billion at a spread of 1.38% over LIBOR and with a commission of 0.13%.

⁴ These figures correspond to 1985 and 1986, respectively, and include US\$150 million guaranteed by the World Bank.

⁵ In December 1984 Ecuador announced that it had reached a provisional agreement with the committee of creditor banks for the refinancing of US\$4.2 billion of its external debt. This amount included amortization payments which had already been rescheduled during the first and second rounds of negotiations. The US\$431 million in fresh credit granted by the banks in 1983 was also restructured, with a 1.63% spread over LIBOR and a 10-year term with a two-year grace period. Lines of short-term commercial credit totalling US\$700 million were also maintained. In December 1985 the rescheduling of the external debt was completed and new loans for US\$200 million were obtained.

⁶ In April 1985 the country signed a provisional agreement for the rescheduling of US\$220 million in amortization payments corresponding to the biennium 1985-1986; in the end, however, this agreement did not go into effect.

⁷ In August 1984 Mexico reached a provisional agreement for the refinancing of US\$48.7 billion of its public external debt. This sum was made up of the following: 1) US\$23.7 billion in payments originally falling due between August 1982 and December 1984 which had already been rescheduled during the first round of negotiations; 2) US\$20 billion in payments originally falling due between 1985 and 1990 which had not yet been rescheduled; and 3) US\$5 billion in additional loans obtained in March 1983. In March 1985 the final contracts for the restructuring of US\$28.6 billion were signed with about 600 creditor banks. These contracts covered the payments mentioned in 1) above as well as the refinancing of the new loan arranged in March 1983 and provided for the prepayment during 1985 of US\$1.2 billion, a spread of 1.50% over LIBOR and a 10-year term with a six-year grace period. In August 1985 final contracts were signed for the restructuring of another US\$20.1 billion. In addition, lines of short-term credit from EXIMBANK amounting to US\$2 billion remained open during 1985.

⁸ In June 1985 the government reached an agreement with international banks to postpone US\$300 million in amortization payments for one year. The government was to pay US\$24.2 million in interest (i.e., 2%) during the 12 months ending in June 1986. In the past few years, the debt owed to private banks has increased significantly due to interest capitalization agreements and the build-up of arrears.

⁹ In June 1985 the parties arrived at a provisional agreement for the refinancing of US\$603 million in amortization payments for 1985-1986. Fresh credits in the amount of US\$60 million were also granted.

¹⁰ In June 1985 the government reached a provisional agreement for the refinancing of US\$790 million in public- and private-sector amortization payments corresponding to the period 1985-1989. This amount included US\$327 million in amortization payments which had been refinanced during the first round on different terms, as well as arrears accumulated during 1984.

¹¹ In December 1984 the committee of creditor banks authorized the deferral of amortization payments for six months; this was later extended until 30 September 1985. In February 1986 a provisional agreement was reached for the refinancing of US\$1.7 billion in amortization payments on the public debt for the period 1985-1989. Also restructured were US\$240 million corresponding to a loan signed in 1983 which was refinanced at a spread of 1.63% over LIBOR. The final contracts for the refinancing of the debt were signed in July 1986. In October 1986 contracts were signed with 35 commercial banks and the World Bank for a US\$90 million co-financing operation; the commercial banks are to provide US\$45 million of this loan, which is to be used for an energy development programme.

¹² The international banking system authorized the postponement of payments for three months beginning in October 1982; this deferment was extended on eight different occasions, the last one

Table 38 (concluded)

being up to July 1985. In September 1984 the government announced that it had reached a provisional agreement with its creditors, without signing a stand-by arrangement with the IMF, under which it is to pay US\$21.2 billion of its public external debt over a period of 12 years. In May 1985 it announced that it had reached a final agreement concerning a detailed plan for restructuring the public external debt which included the amortization of US\$750 million in 1986. A novel aspect of this agreement is that it includes a contingency clause under which the terms of the agreement may be modified if the country is faced with an economic crisis. This clause was invoked in 1986 as a result of the drop in oil prices. Accordingly, the government amortized only US\$650 in 1986 and took steps to secure a new agreement under which its annual debt amortization payments would be reduced.

as a whole, the ratio climbed steeply from 343% in 1985 to 411% in 1986 (see table 37). This figure constituted an all-time high and was almost double that recorded in 1980. As was to be expected, the fall in petroleum prices led to a substantial rise in this coefficient for all the petroleum-exporting countries: the record average (420%) was 35% higher than in 1985 and was more than double the figure for 1980. Bolivia's coefficient broke the 500% barrier, while that of Mexico edged towards this level.

In the non-petroleum-exporting countries the debt/exports ratio also rose, although more moderately, to a level of 405%. This figure also constituted a new record, as it surpassed the highest level registered until that time (381% in 1983) and was 1.7 times higher than the figure for 1980.

However, this regional average conceals the great diversity of circumstances existing in the different countries. Thus, the increase in the debt and the decline in exports caused a sharp rise in the debt/exports coefficient in Nicaragua and Argentina. In Nicaragua the coefficient soared by more than 500 points to almost 2 000%, while in Argentina it jumped by 100 points to 606%. For similar reasons, the coefficient also rose, although more moderately, in Brazil, Paraguay and the Dominican Republic. In contrast, in Colombia, Uruguay, Chile and Costa Rica the debt/exports coefficient fell sharply. In the first two of these countries, the decrease was accounted for by the vigorous expansion of exports, while in the other two it was also due to the growth rate of the debt, which was very low in Chile and nil in Costa Rica. The coefficient also fell, although by less, in El Salvador, Guatemala, Honduras and Panama, where the expansion of exports was greater than the growth rate of the external debt.

To sum up, the most noteworthy features of the region's external indebtedness in 1986 were the complete lack of net disbursements of credit by private banks and the deterioration in major indicators of the debt burden, which reached levels as bad as or even worse than those recorded at the onset of the crisis.

2. Debt renegotiations

The year was an eventful one in respect of debt renegotiations. The opening of the year followed upon the increasingly insistent demands made by the debtor countries in 1985 for a more equitable sharing of the costs of the debt crisis, a sentiment which found its full expression in the "Emergency Proposal for Negotiations on Debt and Growth" presented in the Montevideo Declaration of the Cartagena Consensus in mid-December of that year.

The already difficult circumstances surrounding debt negotiations were further complicated by the spectacular drop in world petroleum prices during the first quarter of 1986. This severely eroded the payment capacity of two of the region's principal debtors —Mexico and Venezuela— as well as that of other smaller debtor countries (Peru, Ecuador and Bolivia). It also precipitated the opening of a fourth round of negotiations on Latin America's external debt (see tables 38 and 39).

Many of the events of the 1986 debt negotiations revolved around the Mexican case. The adjustment programme applied by Mexico began to run into difficulties in 1985. Accordingly, towards the end of that year consideration was given to a new global financial proposal for 1986 which called for fresh loans of approximately US\$4 billion, of which US\$2.5 billion was to come from private banks. Nevertheless, after petroleum prices plummeted at the beginning of 1986, the Mexican authorities suggested during the first quarter of the year that they might need between US\$9 billion and US\$10 billion in fresh financing.

Mexico's creditors put up staunch resistance to its attempts to obtain fresh funds. Negotiations dragged on until mid-1986, when the recessionary conditions implicit in the creditors' counterproposals prompted the Mexican government to harden its position. The resolute negotiating stance adopted by Mexico made it necessary for the creditors to give ground, as they feared the direct consequences which a unilateral declaration of a moratorium by Mexico would have for them, as well as the indirect demonstration effect that it, together with a break with the IMF, might have on other debtor countries.

The new plan put forward by Mexico gave concrete expression to the principles set out in the Baker Plan and marked the beginning of the fourth round of debt reschedulings. In exchange for its acceptance of an adjustment programme agreed upon with the IMF involving the introduction of major reforms to liberalize the economy, Mexico received an explicit guarantee that the funds needed to finance growth of not less than 3% in 1987 would be forthcoming.

The main innovation in this agreement was the provision that global financing would conform to the country's economic growth requirements rather than the reverse, as had been the case in the adjust-

Table 39

**LATIN AMERICA (SELECTED COUNTRIES): RENEGOTIATION
OF EXTERNAL DEBT WITH PRIVATE BANKS
(FOURTH ROUND OF RENEGOTIATIONS, 1986/1987)^a**

(Millions of dollars)

	Gross bank debt ^b as of 30 September 1986	Start of negotiations	Renegotiation of debt with private banks			Maturities to be resched-uled	Loans granted in 1986 and 1987			Maintenance of lines of short-term credit	
			Amount				IMF ^c	Priv-ate banks	Gov. and official agencies	Com-mercial	Inter-bank
			Total	Public	Private						
Argentina	30 785	Apr 1986	29 500 ^d	...	...	1986-1990	149	1 950	500 ^e	2 200	...
Bolivia	642	Oct 1982	...	...	...	1982-...	98	...	-	-	-
Brazil	78 520	Apr 1986	...	...	...	1987-...	-576	4 000 ^f	...	10 000	5 800
Costa Rica	875	Oct 1986	...	...	...	1986-1989	-34	...	-	-	-
Cuba	2 050	Apr 1986	...	...	-	1986-1987	-	300 ^f	-	373	-
Chile	13 984	Dec 1986	12 490 ^h	...	...	1988-1991	107	-	-	1 700	-
Ecuador	5 144	Mar 1987	...	...	...	...	78	...	150 ^m	700	-
Honduras	345	... 1984	218 ⁿ	...	...	1985-1986	-46	-	-	-	-
Mexico	74 119	Jan 1986	55 400	43 700 ^o	11 700 ^p	1985-1990	676	6 000	6 400 ^q	-	5 200
Nicaragua	771	Jun 1986	...	...	...	...	-	-	-	-	-
Panama	1 800	Oct 1986	1 200 ^s	1 200	-	1987-1990	5	-	-	-	-
Venezuela	25 736	Jul 1986	26 450	20 450 ^t	6 000 ^u	1986-1988	-	-	-	-	-

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

Note: For detailed information concerning the first and second rounds of renegotiations, see ECLAC, *Economic Survey of Latin America and the Caribbean 1983*, pp. 66-72 and ECLAC, *Economic Survey of Latin America and the Caribbean 1984*, pp. 51-58.

Table 39 (continued 1)

^aIncludes countries which signed final or provisional agreements during 1986 or 1987 covering payments falling due in 1986 and/or subsequent years and those which obtained additional loans as part of their debt restructuring. Also includes the countries which announced that they intended to negotiate a restructuring of their liabilities, either to eliminate arrears or to refinance debts about to mature. Does not include the English-speaking countries of the Caribbean.

^bRefers exclusively to each country's short-, medium- and long-term public and private debt with the private commercial banks that provide information to the Bank for International Settlements. Does not, therefore, include debts owed to governments and official agencies, to suppliers, or to commercial banks which do not report to BIS. In some countries this last item is significant, and the corresponding figures may therefore underestimate the banking system's share in the total external debt.

^cUse of International Monetary Fund credit during 1986.

^dBeginning in April 1986 the international banking system twice authorized the postponement of amortization payments for six months. In April 1987 the parties reached a provisional agreement providing for: 1) the refinancing of US\$29.5 billion in amortization payments on the external debt, with US\$4.2 billion of that amount corresponding to the restructuring of fresh credits granted in 1983 and 1984; 2) loans amounting to US\$1.95 billion (US\$400 million of this sum corresponded to lines of short-term credit and another US\$500 million was to be disbursed through a cofinancing programme with the World Bank); and 3) the maintenance of lines of short-term credit totalling US\$2.2 billion.

^eIn February 1987, 15 industrialized countries granted a bridging loan for US\$500 million while the country awaited the disbursement of the credit granted by IMF in response to the drop in export prices.

^fIn April 1984 the government suspended amortization and interest payments to private banks. It continues to engage in talks with its creditor banks concerning the sums owed. As of the end of 1986, its interest payments in arrears amounted to US\$300 million. In April 1987 the government made a formal offer to buy back its debt of US\$670 million from the commercial banks at a tiny fraction of its nominal value.

^gIn mid-1986 the government announced that it wished to negotiate with its creditors in order to reduce its transfer of resources to them from its current level of nearly 4% of the country's gross domestic product to 2.5%. Then, on 20 February 1987, the government suspended amortization and interest payments on its external debt to commercial banks. This measure did not apply, however, to payments on short-term loans. In May 1987 the government requested a 90-day deferral of payments on lines of short-term commercial credit totalling US\$10 billion and on lines of short-term inter-bank credit amounting to US\$5 billion. In June 1987 the government stated that it would lift its partial moratorium if the private banks would agree to refinance 50% of the interest.

^hThe government suspended interest payments to private banks beginning on 7 May 1986. It then proposed a multi-annual reprogramming scheme in December 1986 (a term of 25 years, a grace period of seven years and a reduction of interest rates to 4% in 1986-1987, to 5% in 1988 and to 6% in 1989). As a show of good faith, it also began to pay US\$5 million per month to the private banks in part payment of the interest owed.

ⁱIn July 1986 the government requested the refinancing of its amortization payments for 1986 and 1987, suspended interest payments, and requested fresh loans for around US\$300 million. In December 1986 it was informed that the banks were offering a credit of US\$85 million, the reprogramming of US\$75 million in amortization payments due in 1986 and the roll-over of lines of short-term credit for one year.

^jLoans requested.

^kIn February 1987 the country reached a provisional agreement with the committee of creditor banks which provided for: 1) the restructuring of US\$12.49 billion (US\$10.6 billion of this amount corresponded to amortization payments to be made by the public and private sectors on government-guaranteed loans and payments to be made by the private sector on unguaranteed loans for the period 1988-1991; the remaining US\$1.89 billion corresponded to the restructuring

Table 39 (concluded)

of fresh loans obtained during previous rounds of renegotiations); 2) the maintenance up to 1989 of lines of commercial credit amounting to US\$1.7 billion at a 1.12% spread over LIBOR; and 3) an agreement that interest payments would be made once per year beginning on 1 January 1988. The final contracts for the refinancing of the debt were signed in June 1987.

¹In January 1987 the government began to fall into arrears with its debt payments. In March it formally announced an indefinite suspension of amortization and interest payments. It was estimated that during 1987 interest payments to private banks would total US\$450 million.

^mIn May 1986 the United States Department of the Treasury granted a short-term (150-day) loan for US\$150 million.

ⁿThe government is once again making arrangements for the refinancing of US\$218 million in amortization payments corresponding to 1985 and 1986 in addition to its 1987-1989 maturities. (In 1985 it had arrived at a provisional agreement, but this was never finalized.) Honduras submitted a proposal to the international banks for the conversion of US\$43.4 million in arrears into fresh loans and the refinancing of 100% of its outstanding maturities for a 19-year term with a three-year grace period at an interest rate equivalent to LIBOR, without surcharges. The banks' counterproposal provided for an amortization period of 14 years and a 1.75% spread over LIBOR, conditional upon the immediate payment of 10% of the debt balance. Early in 1987 the international banks announced that if the country wished to continue the talks it would have to pay its interest arrears and sign an agreement with IMF.

^oIn March 1986 the committee of creditor banks authorized the postponement of US\$950 million in amortization payments which had been arranged for during the third round of renegotiations. In July 1986 the committee of creditor banks agreed to reschedule maturities and to grant US\$6 billion in financing subject to the signing of an agreement with IMF; this condition was met during the same month. The agreement, which was signed in March 1987, covered the following: 1) the restructuring of US\$43.7 billion in amortization payments on the public external debt which had already been renegotiated during the third round; 2) new loans from private banks for 1986 and 1987 amounting to US\$6 billion, of which US\$500 million are to be financed and hence guaranteed by the World Bank; 3) stand-by financing totalling US\$1.7 billion, with the disbursement of this credit depending upon oil prices and the growth of the product and investment in 1987; 4) maintenance up to 1989 of lines of inter-bank credit for US\$5.2 billion; 5) the option, upon the signing of the agreement, of obtaining an additional US\$6.4 billion from the governments of the creditor countries and international lending agencies.

^pPrivate external debt registered with the exchange-risk coverage trust fund (FICORCA).

^qIncludes US\$1.6 billion in IMF credits, US\$2 billion in World Bank loans, US\$1 billion in investments by Japan, and the refinancing of debts through the Paris Club representing a saving of US\$1.8 billion in short-term payments.

^rThe government is in arrears with its interest payments on the external debt.

^sIn October 1986 the international banks authorized a six-month postponement of payments which was then extended in order to allow the negotiation of a multi-annual external debt restructuring agreement. The attainment of an agreement has been hampered, however, by the difficulties encountered in fulfilling the requirements of a Structural Adjustment Lending (SAL) programme with the World Bank. On 1 June 1987 the government formally suspended payment on interest and capital to government creditors and payments on the capital of debts owed to private banks.

^tIn March 1987 a provisional agreement was reached for a second restructuring of US\$20.45 billion in public-sector amortization payments which had already been refinanced in February 1986. This agreement permits the government to reduce the amortization payments arranged for under the preceding agreement from around US\$1 billion to US\$250 million in 1987, US\$400 million in 1988 and US\$700 million in 1989.

^uIn December 1986 the government proposed a plan to the private banks for the rescheduling of US\$6 billion in amortization payments on the private debt. This plan provides, *inter alia*, for a term of eight years and for quarterly amortization payments beginning with the first quarter of 1987.

ment programmes agreed upon in the first three rounds of reschedulings. Thus, the amount of financing to be made available would be adjusted in accordance with circumstances on the petroleum market and economic growth trends: should the price of petroleum fall below US\$9 per barrel, the supply of credit would automatically be increased; if, on the other hand, it were to rise above US\$14, less credit would be made available. Moreover, if projections indicated that economic growth would fail to attain the minimum target set for 1987 (3%), Mexico would be entitled to US\$500 million in fresh funds to stimulate public investment and economic activity. Within the US\$9-US\$14 petroleum price bracket, the proposal relating to global financing for the 18-month period up to December 1987 represented a total figure of US\$12 billion. Approximately half of this amount was to be provided by commercial banks, while the rest would come from official international public sources.

A further innovation, and one which was necessary in order for an expansionary adjustment process to be carried out, was that IMF made its criteria for measuring fiscal deficits more flexible. In Mexico's case, for the first time the Fund excluded the impact of inflation on interest payments due on the domestic debt from its calculations of the operating deficit. As a result, it was estimated that the nominal deficit, which represented around 13% of the gross domestic product, was equal to an operating deficit of barely 3%. In accordance with the programme, Mexico undertook to gradually reduce its operating deficit to zero by the end of 1987. However, on account of the methodological change mentioned above, the reduction in the nominal deficit during the 18-month period would only be from 13% to 10% of the gross domestic product.

The global financial package designed for Mexico constituted a continuation of the trend observed in the previous rounds of reschedulings, each of which had included progressively more favourable clauses for the debtors. In the fourth round, the banks agreed to renegotiate almost US\$44 billion of the debt falling due in 1985-1990 at a spread of 0.81% over LIBOR (in comparison to the spread of 1.13% charged in the third round and to that of 0.50% paid by some of the most solvent non-Latin American developing countries which have independent access to the Eurocurrency market). Moreover, the amortization period offered in respect of the rescheduled maturities was 20 years, with seven years grace, as against a total period of 14 years in the preceding round. Nor was any provision made for the payment of commissions, a precedent which had been established in the third round of negotiations. The fresh bank loans of US\$6 billion were also subject to a spread of 0.81%. The amortization period for these loans was set at 12 years and no commission was charged (see table 40).

However, because the international banking community was reluctant to provide the fresh funding which had been agreed upon, it held up

Table 40

**LATIN AMERICA (SELECTED COUNTRIES): TERMS OF RESCHEDULING
OF EXTERNAL DEBT OWED TO PRIVATE BANKS
(THIRD AND FOURTH ROUNDS OF RENEGOTIATIONS)^a**

	Spread over LIBOR (percentage)		Total period (years)		Grace period (years)		Commissions ^b	
	R (1)	AC (2)	R (3)	AC (4)	R (5)	AC (6)	R (7)	AC (8)
Third round of renegotiations (1984/1985)								
Average ^c	1.19	1.63	12.9	10.4	1.6	3.3	-	0.58
Argentina	1.38	1.63	12.0	10.0	3.0	3.0	-	0.63
Brazil	1.13	-	12.0	-	5.0	-	-	-
Costa Rica	1.63	1.75	10.0	7.0	3.0	2.0	1.00	1.00
Cuba	1.50	-	10.0	-	6.0	-	0.38	-
Chile	1.38 ^d	1.63	12.0	12.0	6.0	5.0	-	0.50
Ecuador	1.38	1.63	12.0	10.0	3.0	2.0	-	-
Mexico ^{ef}	1.13 ^g	-	14.0	-	- ^h	-	-	-
Panama	1.38	1.63	12.0	9.0	3.5	3.0	-	0.50
Dominican Republic	1.38	-	13.0	-	5.0	-	-	-
Uruguay	1.38	1.63	12.0	12.0	3.0	3.5	-	-
Venezuela ^{ef}	1.13	-	12.5	-	- ^h	-	-	-
Fourth round of renegotiations (1986/1987)								
Average ^c	0.85	0.83	17.8	12.0	5.2	4.2	-	-
Argentina ⁱ	0.81	0.88	19.0 ^j	12.0	7.0	5.0	-	-
Chile	1.00 ^k	-	15.0	-	6.0	-	-	-
Mexico ^l	0.81	0.81	20.0	12.0	7.0	4.0	-	-
Venezuela ^l	0.88	-	14.0	-	- ^h	-	-	-

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

^aColumn R refers to rescheduled maturities and column AC to the terms and conditions for additional credits.

^bCalculated as a percentage of the total amount of the transaction and paid once only upon the signing of the loan contracts. There is evidence that some commissions were never declared, and these figures may consequently underestimate the commissions paid.

^cWeighted average determined on the basis of the sums represented by rescheduled amortization payments and additional credits.

^dSpread over LIBOR applying to rescheduled payments in the event that the commercial banks do not request a guarantee from the Government of Chile for the rescheduling of the private financial sector's debt. If the international banks were to use this option, they would have to pay a guaranty commission of 0.50% in 1987, 0.75% in 1980 and 0.88% in 1994.

^eA refinancing agreement was reached without the government having signed any arrangement with the International Monetary Fund.

^fTerms for the refinancing of the public-sector debt.

^gDuring the first two years, the average applicable rate is to be 0.88% over LIBOR; during the following five years, the spread over LIBOR is to be 1.13%, and during the final seven years, 1.25%.

^hAmortization payments are to be very low during the first few years and are then to increase over time.

ⁱExit bonds are to be made available to small and medium-sized banks if they did not wish to take part in the lending of fresh funds. The bond has a term of 25 years and a fixed annual interest rate of 3%.

^jThe term for the restructuring of new loans granted in 1983 and 1984 is 12 years.

^kThe spread over LIBOR is 1.13% for the restructuring of fresh loans obtained during previous external debt renegotiations.

the signature of a definitive agreement as well as the disbursement of the US\$6 billion in additional financing. Consequently, in order to ensure that the country would have the external funding it needed during the intervening period, the creditor banks on the Steering Committee agreed to grant a short-term emergency loan, which was paid off once the country began to receive the US\$12 billion credit.²

Although Mexico was unquestionably the centre of attention during the 1986 debt negotiations, other countries also played leading roles in significant events.

During the first quarter, after prolonged negotiations, Bolivia signed a special drawing rights agreement with IMF. This paved the way for negotiations with its creditors concerning the payment of capital and interest in arrears totalling approximately US\$1 billion which had been accumulated since 1982, mainly with foreign commercial banks. The agreement with IMF also made it possible for the Bolivian government to carry out renegotiations with the Paris Club concerning debts it had contracted with governmental creditors in which it requested a 10-year extension for maturities corresponding to 1986 and 1987.

For its part, towards the middle of the year Brazil signed an agreement to renegotiate with private banks the payment of US\$6 billion in arrears going back to 1985 and of US\$9.5 billion maturing in 1986; in addition, it obtained lines of short-term commercial credit for US\$15.5 billion. A spread of 1.13% over LIBOR was established for the rescheduled credits together with an amortization period of 12 years with five years grace, and no commission was charged. These were better terms than those obtained in Brazil's previous rescheduling, which had been carried out during the second round and had included a 2% spread over LIBOR, an amortization period of nine years and a 1% commission (see tables 38 and 40).

Brazil succeeded in rescheduling its debt with commercial banks despite its refusal to accept an IMF programme, which has traditionally been a precondition for undertaking any rescheduling of commitments. However, the Paris Club proved less flexible, and its insistence that the country should sign an agreement with the Fund posed an obstacle to the rescheduling of Brazil's bilateral debt with each of the member governments of the Club. In the absence of a rescheduling agreement, Brazil accumulated arrears in its payments to government creditors; nevertheless, in mid-1986 it unilaterally began to deposit funds in the accounts of its creditors as a provisional solution to the problem. In August the government also announced that, in order to support the process of investment and growth, it would seek an agreement with its creditors for the establishment of a negotiated ceiling on debt payments equivalent to 2.5% of the country's gross domestic product, a considerably lower percentage than the approximately 4% of the product recorded in 1984-1985.

In February 1986, as part of the third round of negotiations, Venezuela signed a rescheduling agreement with its creditor banks (see table 38). The agreement provided for the postponement of US\$21 billion in payments originally scheduled for the six-year period between 1983 and 1989. However, in view of the sharp drop in world petroleum prices, few observers believed that the agreement would be fulfilled. Indeed, in April the government invoked an escape clause contained in the February agreement, which allowed it to renegotiate the terms of the agreement should economic conditions take a turn for the worse.

Towards the middle of the year the Venezuelan Congress drew up a new plan for the management of the registered private-sector debt, which was estimated at approximately US\$7 billion. This plan called for the elimination of the subsidized exchange rate of 4.3 bolívars to the dollar applying to the servicing of this debt. Debtors were also to be required to purchase dollar bonds issued by the government, which would unilaterally take the place of cash payments to banks. The bonds would have an amortization period of 15 years and would pay 5% interest, which was below the market rate. Venezuela's creditors, together with a number of debtors in the country's private sector, put up determined resistance to the plan, and in August the government withdrew the proposal, although it maintained the devaluation of the exchange rate for the servicing of the private external debt. Along with the devaluation decreed in December, the government announced a fresh plan; while under this plan the government refused to guarantee private-sector debts, it did offer private debtors a guaranteed and subsidized exchange rate of 7.5 bolívars to the dollar (plus the payment of a premium to the Central Bank) for the servicing of their commitments to foreign bankers who offered a repayment period of no less than eight years.

Cuba, which had not fallen behind in the interest payments on its debt, also encountered difficulties in 1986. The fall in sugar production and the decline in its profits from the re-export of petroleum combined to spark off an acute shortage of foreign exchange. Towards the middle of the year amortization payments were suspended together with disbursements in respect of interest. Subsequently, talks were begun with its creditors in order to find the best way of solving the problem. The government sought between US\$300 million and US\$500 million in fresh credit to refinance part of the interest owed and to reschedule amortization payments. Meanwhile, the maturities corresponding to 1986 were rescheduled with the member governments of the Paris Club.

Costa Rica suspended payment of its debt in May due to a foreign exchange shortage. The problem arose partly as a result of the difficulties the country had in complying with the IMF programme, in view of which both this agency and the World Bank suspended the disbursement of previously-arranged credits. Subsequent to new agreements between the

government and the creditors in respect of economic conditionality, the disbursements of the loans were resumed and conditions more conducive to solving the problem of payments were established. In October the government submitted an attractive proposal to its creditor banks. This proposal called for the reprogramming of outstanding debts over the next 25 years, with seven years grace. The rate of interest was to be 4% and would gradually rise to a 6% maximum in 1993, while no commission was to be paid. Under this plan total annual debt payments to banks were to be limited to the equivalent of approximately 1.5% of the gross domestic product. As an expression of goodwill, the government began to remit US\$5 million per month to the creditor banks as part payment of the interest on its external debt.

During the first half of the year Peru continued to apply its policy of restricting payments on the medium- and long-term public debt entered into before July 1985 to 10% of the country's export earnings. This policy set no limit on the servicing of the short-term debt, on that of the private-sector debt or on payment in kind. As regards the medium- and long-term public debt, priority was given to servicing commitments to those creditors which were actually providing the country with net loans; in respect of the others —for the most part commercial banks— the refinancing of payments and the capitalization of interest were imposed unilaterally. By the end of 1986, the arrears in interest payments owed to banks —which had in fact begun to build up towards the end of 1984 under the previous government— were in excess of US\$1 billion.

In July, after having assessed the country's payment capacity, the government decided to extend the 10% limit on the servicing of the medium- and long-term public debt for another year. The need to conserve the scant supply of foreign exchange in order to finance the country's growth also prompted the government to introduce a ceiling on payments of the private sector's medium- and long-term debt and to place a two-year restriction on the remittance of profits on foreign investment. Servicing of the short-term debt, however, remained normal.

Further difficulties arose between Peru and the IMF during 1986. The country had actually been making a net transfer of resources to this agency, partly on account of its decision not to sign new stand-by credit agreements. As a result, the Fund felt itself to be potentially at risk as a consequence of the Peruvian decision to place a limit on debt service payments, and proceeded to set a 15 August deadline for the payment by Peru of US\$180 million in arrears of interest and principal which had been accumulating since September 1985. When the government set a US\$35 million ceiling on payments, the Fund declared Peru to be "ineligible" to receive fresh loans. By the end of 1986, US\$250 million in arrears were owed to the Fund.

Peru continued to experiment with plans to allow it to service its debt through payments in kind. In 1986 this form of payment (mostly to governments of centrally-planned economies) represented US\$110 million, as against US\$160 million the year before. However, a number of banks began talks with the Peruvian government concerning the possibility of payments in kind; Furthermore, negotiations with one United States bank concerning debt payments in the form of non-traditional Peruvian exports were at an advanced stage.

Chile continued to lead the field in taking advantage of the discounts on the nominal value of its external loan securities which are traded on secondary markets. Generally speaking, both foreign investors and Chilean residents and non-residents have the opportunity to use their own foreign exchange resources to purchase the country's debt certificates, which were being sold at a discount of between 30% and 35% on foreign markets in 1986. These certificates can then be converted into pesos in Chile at their nominal value, less a direct or indirect discount applied in the country, which is lower than that in force abroad. The payments in pesos can take the form of financial securities, cash or share capital, depending on the circumstances of the transaction and the preferences of the certificate holders. In 1986 the debt was reduced by approximately US\$800 million by means of this mechanism. A number of foreign banks have made use of this programme in order to transform debts into shares in the Chilean financial sector.

At the end of 1986, Chile also began negotiations with a view to a fourth round of rescheduling. One innovation in the initial proposal made to creditors was that the funds for the 1987-1988 financial programme should not come from fresh loans, but instead from reductions in the interest rate and from the retiming of payments from a half-yearly basis to a yearly one.

Jamaica's relations with its creditors became tenser in 1986 due to the country's difficulties in meeting the adjustment criteria set by the Fund. Arrears began to build up (approximately US\$60 million) during the year as the government postponed the payment of its debts to the Fund.

Finally, for the first time since the outbreak of the crisis, two Latin American countries whose debt had been rescheduled obtained voluntary private loans in 1986. In October, a French bank announced that it had set up a pre-export financing service for Ecuador involving US\$220 million at a 1.5% spread over LIBOR. This service, which is self-financing and consequently involves little risk, was found so attractive that it was oversubscribed by international banks. Uruguay also received a voluntary loan of US\$45 million from a banking consortium, although this credit had the exceptional feature of being part of a package proposal for cofinancing with the World Bank.

NOTES

¹The data on the volume of bank assets may to some extent underestimate actual loans due to the existence of writedowns, swaps and debt conversion operations.

²The agreement was not finalized until March 1987, i.e. more than six months after the initial agreement was reached with the Steering Committee of creditor banks.



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