RFD 614

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

April 26, 1967

Yves Maroni

33 pages

Economic Trends in Latin America
in the 1960's

Yves Maroni
April 26, 1967.

Economic Trends in Latin America in the 1960's

The first half of the current decade was marked by substantial real growth in many parts of Latin America. But nearly two-thirds of the area's population lives in countries which had either slow growth or virtual stagnation. Most of the countries growing at satisfactory rates maintained relative price stability, as did also a few countries experiencing slower growth. However, inflation remains a serious problem in several of the most populous South American countries, and about two-thirds of the people in the Latin American area have been living with the problems engendered by rapid price rises.

Latin America's export prices improved, on the whole, over this period. In addition, the adoption of more realistic exchange rates in some important countries helped to stimulate exports and to limit increases in import demand. As a result, the area's overall merchandise trade surplus grew steadily. The percentage rise in the area's total exports was less than that of total world exports, mainly because Venezuela's exports, which accounted for 30 per cent of the total in 1961, stagnated in the period under review. But thirteen countries responsible for 41 per cent of the area's total exports in 1961 had increases in exports close to or in excess of the rise in world exports.

The area's combined trade deficit with the United States has remained virtually unchanged since 1961. But, in this period, the United States declined in importance as a market for Latin American exports, although not as a source of supply for the area's total imports.

In spite of the improvement in the area's trade performance the overall balance-of-payments position in the early 'sixties remained heavily dependent on external financing. Gross disbursements under United States official loans and grants to Latin America ranged between $740 million and $925 million a year in the last six years. In addition, the area's borrowings from United States banks increased substantially. The area also received credits from other countries and from international lending institutions. Three countries (Argentina, Brazil and Chile) went through comprehensive debt refinancing operations in the last six years (Argentina twice, Brazil twice and Chile once). All of this financing helped the area to cover its large interest and dividend payments abroad. Several countries also faced private capital outflows induced mainly by fears of exchange depreciation or of political instability. Nevertheless, the area's gold and foreign exchange reserves in 1966 were $900 million greater than in 1962.

Economic Growth

In the last six years, the combined real gross domestic product per capita of the Latin American Republics 1/ and Jamaica rose at an average rate of about 1.8 per cent per year. (See Table 1). This is short of the 2.5 per cent target rate set in the Alliance for Progress charter in 1961. The target rate was surpassed in two of the last six years and approached in a third, but the average is pulled down by the poor performance of 1963 and 1966, particularly the former when there was a contraction in the area's real per capita product.

The combined growth rate is derived by averaging the individual rates for the countries of the area, weighted by population. The results are heavily influenced by the performance of Brazil, which accounts for about one-third of the area's total population. Brazil's growth rate was above the area's average in 1961 and 1962, but well below it in the last four years. Excluding Brazil, the average real per capita growth rate of the area in the last six years was about 2.1 per cent per year.

The sharp year-to-year fluctuations in the combined real per capita growth rate of the area reflect mainly the up-and-down performance of Argentina, which substantially exceeded the 2.5 per cent target rate in 1961, 1964 and 1965, but which experienced declines in per capita product in the other three years of the period.

1/ The calculations exclude Haiti for which data are not available.

Table 1

Latin America--Real Gross Domestic Product Per Capita, 1961-66 1/
(Percentage Changes)

	1961	1962	1963	1964	1965	1966 2/	Average
Group A							
Nicaragua	+3.3	+7.4	+4.3	+5.1	+6.3	+5.6	+5.3
Panama	+6.7	+5.3	+6.6	+1.7	+4.0	+4.8	+4.8
Bolivia	+ .8	+4.2	+4.8	+4.3	+3.9	+3.8	+3.6
Peru	+5.3	+6.3	+ .7	+4.7	+1.2	+ .9	+3.2
El Salvador 3/	+ .4	+8.6	+1.4	+3.3	+3.0	+1.3	+3.0
Guatemala 3/	- .5	- .1	+6.9	+5.9	+4.2	+1.9	+3.0
Mexico 3/	+ .1	+1.4	+2.9	+6.5	+1.9	+3.6	+2.7
Chile	+1.5	+4.1	- .7	+1.7	+3.9	+5.4	+2.6
Jamaica	+2.4	+ .7	+ .3	+4.4	+4.2	+2.0	+2.3
Group B							
Honduras	+ .7	+2.9	-1.2	- .5	+4.0	+4.0	+1.6
Dominican Republic	-7.7	+8.7	+1.4	+3.5	n.a.	n.a.	+1.5 5/
Colombia	+2.0	+1.8	- .1	+2.9	- .1	+1.7	+1.4
Brazil	+4.3	+2.4	-1.4	+ .1	+1.7	+ .1	+1.2
Paraguay	+2.7	+2.4	- .8	+ .4	+2.6	- .2	+1.2
Venezuela	-1.9	+2.9	+ .6	+4.5	+1.6	- .4	+1.2
Argentina	+5.3	-3.5	-5.1	+6.5	+6.2	-2.7	+1.1
Group C							
Costa Rica 3/	-3.6	+2.7	+1.4	- .4	+3.3	+1.2	+ .8
Ecuador	-1.3	+ .8	+ .6	+4.3	+ .2	- .4	+ .7
Uruguay	+1.5	-3.8	-2.0	- .6	0	- .3	- .8
All Latin America 4/	+2.5	+1.9	- .2	+3.1	+2.2	+1.1	+1.8
Latin America excl. Brazil 4/	+1.5	+1.7	+ .5	+4.7	+2.6	+1.6	+2.1
Latin America excl. Brazil and Argentina 4/	+ .7	+2.7	+1.6	+4.4	+1.9	+2.4	+2.3

1/ Countries arranged in descending order of average per capita growth for the period. Excludes Haiti for which data are not available.
2/ Preliminary.
3/ Gross National Product.
4/ Weighted average, using population as weight.
5/ Four years only.

SOURCES: United Nations, Yearbook of National Accounts Statistics, 1965 and Monthly Bulletin of Statistics, March 1967; Federal Reserve staff estimates based on country sources.

Excluding Argentina as well as Brazil, the rest of the area had an average real growth rate per capita of about 2.3 per cent over the last six years, and of about 2.6 per cent over the last five years. The latter, of course, fully meets the Alliance for Progress target.

As Table 1 shows, in the last six years, nine of the countries had what may be called a satisfactory average per capita rate of growth in real gross domestic product (i.e., a rate close to or in excess of the 2.5 per cent target). However, only about 35 per cent of the area's population lives in these nine countries. Nearly 60 per cent of the population lives in countries with what may be called slow growth (Group B in the table). Three countries, inhabited by 4 per cent of the area's people,[1/] had virtual stagnation, and one of these (Uruguay) actually had a decline in its average per capita real product.

In 1966, the expansion of real per capita product of the entire area barely exceeded 1 per cent, a rate half as high as in 1965. The average was pulled down especially by Brazil and Argentina. Excluding these two countries, the 1966 expansion of real per capita product of the rest of the area was about 2.4 per cent, almost as high as the target. However, eleven countries in addition to Argentina and Brazil experienced slower growth in 1966 than in 1965. In 1966, only six countries exceeded the 2.5 per cent target, down from eleven in 1965.

1/ Growth data are not available for Haiti, where 2 per cent of the area's population lives.

These results must be viewed in the light of the fact that the area's population is growing at a rate of about 3 per cent a year. Indeed, there are only six countries in the area (Argentina, Chile, Uruguay, Bolivia, Haiti and Jamaica) 1/ with lower rates of population growth, while nine others (Mexico, the Dominican Republic, four Central American countries and the Northern tier of South America) have rates ranging from 3.3 to 3.8 per cent a year. Thus, most of the countries in the area must have rates of growth in total real gross domestic product of at least 5.5 per cent a year in order to equal the 2.5 per cent target in per capita real growth.

In the area as a whole, gross fixed domestic investment has not increased as fast as gross domestic product in the first half of this decade. In 1965, 2/ gross fixed domestic investment averaged about 15.5 per cent of gross domestic product, down from 16.8 per cent in 1960. This reflects mainly the pronounced decline of the investment ratio in Argentina, Brazil, Colombia and Uruguay over this period. On the other hand, there were sharp increases in the investment ratio in Bolivia, Chile, Nicaragua and Peru, and moderate increases (following initial declines) in Mexico, Venezuela, Ecuador and El Salvador. In 1965, three countries (Peru, Bolivia and Argentina) had investment ratios of at least 20 per cent. Three others (Brazil, Uruguay and the Dominican Republic) had ratios of less than 12 per cent.

1/ Jamaica's rate of population growth fluctuates markedly with the intensity of emigration. It has reached 3 per cent in years of low emigration, such as 1966, but averaged 2.6 per cent in the last four years.

2/ Last year for which data are available.

Prices

Of the nine countries with an average per capita real growth of close to or more than 2.5 per cent per year in the last six years, six (Mexico, Panama, Jamaica and three Central American countries) maintained relative price stability, with the cost of living rising 3 per cent per year or less in this period. (See Table 2, Group A). But the other three had varying degrees of inflation. The seven countries with relatively slow per capita real growth (Group B) and the three countries with virtual stagnation (Group C) also had widely divergent price experiences. But only three of these ten countries maintained relative price stability, while four had strong or severe inflation. Thus there seems to be some correlation between growth and price stability in the area. (See Graph A on p. 9).

Altogether, [1/] relative price stability was maintained in nine of the area's countries in the last six years (Venezuela, Honduras and Costa Rica, in addition to the six already named). Inflation was relatively mild in Bolivia, the Dominican Republic, Ecuador and Haiti, where the cost of living increases averaged between 3 and 6 per cent a year, and relatively strong in Peru and Colombia, where the cost of living increases averaged 10 and 15 per cent, respectively. But inflation was severe in Argentina, Brazil, Chile and Uruguay, where the cost of living rose at average rates ranging from 27 to 60 per cent a year.

1/ This summary excludes Paraguay for which price information is available for only part of the period.

Table 2

Latin America--Cost of Living
(Percentage Changes) 1/

	1961	1962	1963	1964	1965	1966	Average
Group A 2/							
Nicaragua	-2	0	+3	+2	+4	+5	+2
Panama	0	0	+2	+3	0	0	+1
Bolivia	+7	+3	=1	+11	+5	+8 6/	+6
Peru	+7	+5	+10	+12	+16	+8	+10
El Salvador	-4	+2	+2	+2	0	-2	0
Guatemala	+3	-1	+1	-1	-1	+3	+1
Mexico	-3	+3	0	+3	+5	+4	+2
Chile	+9	+27	+45	+39	+26	+17	+27
Jamaica	+5	0	+3	+1	+3	+4	+3
Group B 3/							
Honduras	0	+5	+2	+4	+4	+4	+3
Dominican Republic	-5	+16	+10	-2	-3	+8	+4
Colombia	+5	+5	+46	+2	+15	+14	+15
Brazil	+43	+61	+81	+85	+41	+46	+60
Paraguay	n.a.	n.a.	n.a.	n.a.	+3	+1	n.a.
Venzuela	+1	-2	+1	-2	+5	+1	+1
Argentina	+19	+32	+28	+18	+38	+30	+27
Group C 4/							
Costa Rica	0	+6	+2	+2	-1	+2	+2
Ecuador	+3	+4	+5	+3	+6	+8	+4
Uruguay	+10	+11	+44	+35	+88	+50 6/	+40
Group D 5/							
Haiti	+2	+6	+9	+6	+2	+12	+6

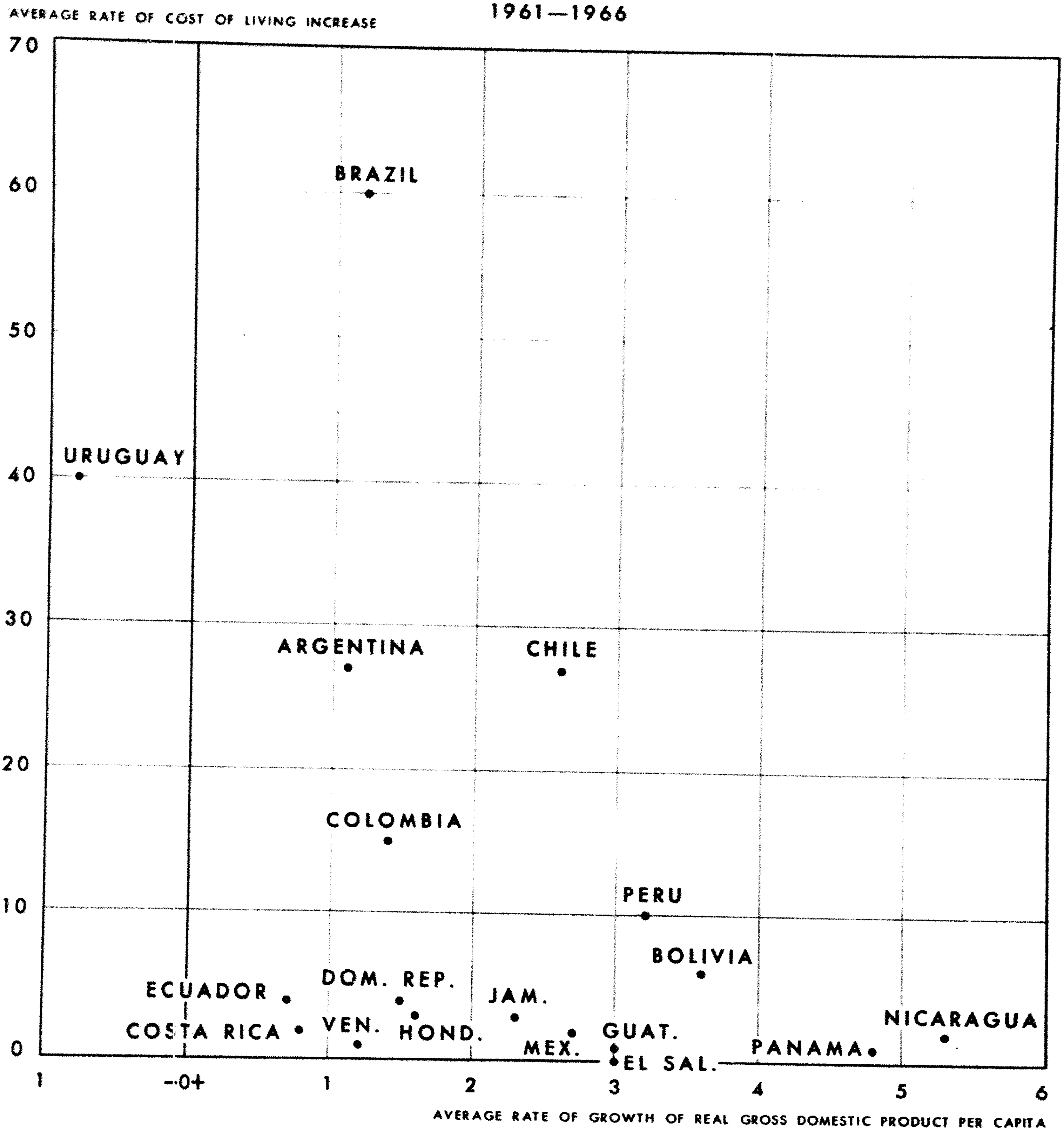
1/ December to December changes.
2/ Countries with "satisfactory" growth in real per capita gross domestic product (i.e. growing at average rates of 2.3 per cent a year or more in period 1961-66)
3/ Countries with "slow" growth in real per capita gross domestic product (i.e. growing at average rates varying between 1.0 and 1.7 per cent a year in period 1961-66)
4/ Countries with "stagnation" in real per capita gross domestic product (i.e. growing at average rates lower than 1.0 per cent a year in period 1961-66)
5/ Countries for which growth data not available
6/ Preliminary

SOURCES: International Monetary Fund, International Financial Statistics.

Graph A

LATIN AMERICA – RELATIONSHIP BETWEEN REAL PER CAPITA GROWTH AND COST OF LIVING INCREASES

1961—1966



The countries experiencing substantial growth with relative price stability have, in general, enjoyed careful financial management. In Mexico, for example, the budget deficits have, by and large, been held within the capability of the Bank of Mexico to cushion them or to limit their monetary effects. The Bank has also kept credit to the private sector from expanding at an excessive pace. These policies have enabled the authorities to maintain a stable exchange rate without exchange restrictions of any kind. International reserves have tended to rise but so did Mexico's external public debt.

On the other hand, where growth has been slow and/or where there has been serious inflation, financial management has often left something to be desired. The chief characteristics of the finances of countries experiencing rapid inflation have been large budget deficits almost entirely financed by the central bank, excessive expansion of commercial bank credit to the private sector, wage increases far in excess of the increase in productivity, and unrealistic exchange rates, often maintained with the help of more or less elaborate exchange controls.

Two of the four countries with severe inflation, Brazil and Chile, have launched programs to reduce the rate of price increases gradually over a period of several years. The Chilean program initiated early in 1965, has cut the rate of price increases down from 39 per cent in 1964, to 26 per cent in 1965 and 17 per cent in 1966. The

Brazilian program, adopted in the second quarter of 1964, held the rate of cost of living increase to 85 per cent in that year, when a 35 per cent rise had already taken place in the first quarter, and brought it down to 41 per cent in 1965, but the effort faltered in 1966 when the cost of living rose somewhat faster.

In Uruguay, the rate of cost of living increase reached a peak of 88 per cent in 1965. Last year's rate was about 50 per cent, as the Constitution bars wage increases to public employees (a large part of the labor force) in an election year. But now that the election is over, pent up demands for considerably higher wages are likely to produce an even more rapid increase in the cost of living this year. A 90 per cent pay increase for public employees was authorized in February, but part of this increase is reportedly not being paid in cash. Government statements suggest that an anti-inflationary effort may be in the offing.

In Argentina, where cost of living increases have ranged between 18 and 38 per cent a year over the past six years, a promising new stabilization program was launched in recent months. This features strong restraints on wages, improved efficiency in public enterprises to reduce their need for subsidies from the Treasury, increases in taxes, a realistic exchange rate, elimination of most exchange controls, and lower import duties. While the Argentine authorities have said that they plan to curb inflation gradually, the bold measures adopted may achieve the desired results relatively quickly.

In recent years, Colombia has fought inflation without too much success. Inflationary financing of large budget deficits has been a problem in four of the last six years. In the other two years, the central bank sharply increased its credit to the banks and markedly expanded its direct loans to the private sector. Large central bank loans for the stockpiling of surplus coffee also added inflationary fuel to the fire, especially in 1966. Efforts to maintain a realistic exchange rate were frustrated by the persistent inflation combined with strong opposition to devaluation. Attempts to liberalize imports put pressure on reserves and last November, tight exchange and import controls were restored. A new comparatively mild stabilization effort has just been launched, following a modification of the multiple exchange rate system which permits the principal rate applicable to trade to fluctuate.

In Peru, the exchange rate has been stable since 1959 and relative price stability was reasonably well maintained until 1963. But in that year, the situation began to deteriorate. Since 1964, the budget deficit has increased sharply, until, last year, it represented 20 per cent of total public expenditures, up from 5-6 per cent in 1962 and 1963. Price increases accelerated from 5 per cent in 1962 to 16 per cent in 1965. Last year's increase was about 8 per cent, as increased imports held down price advances. However, international reserves declined. The Government has been slow to take corrective action. Some press stories report that talk of devaluation has begun to appear.

Trade

Latin America depends heavily on exports of primary commodities, and fluctuations in growth rates are influenced by variations in world market prices for these exports. This is illustrated by the sharp rise in Chile's rate of growth in 1965 and 1966, which reflects the sharp rise in world copper prices and the prosperity which this generated in the country.

The influence of improved prices for internationally traded commodities over the area's growth was especially noticeable in 1964, when a fairly general strengthening of such prices took place and the combined per capita growth rate of the area (excluding Brazil) exceeded 4.7 per cent. Even before 1964, there had been a rise in prices of such commodities as tin (Bolivia's principal export), sugar (an important export of such countries as Peru and the Dominican Republic), and lead (affecting mainly Mexico and Peru). Some of these prices later came down, notably sugar in 1964, and others, in particular cotton, petroleum and linseed oil, showed a downward trend in the last six years. Nevertheless, the export price indices of most of the area's countries were higher in 1966 than in 1960. While export prices are important, they are not the sole determinant of growth rates. It is noteworthy that Nicaragua enjoyed the highest average per capita real growth in this period in spite of the fact that it experienced very little improvement in export prices. Other countries, such as the Dominican Republic, failed to convert substantial improvements in export prices into correspondingly high rates of growth. In the Dominican Republic, an improvement of 36 per cent in export prices from 1960 to 1964 produced less than a 3 per cent rise in export receipts, due mainly to the disruption of production in the aftermath of the overthrow of dictator Trujillo, and the rate of real growth per capita in this period was only 1.5 per cent.

Partly reflecting the improvement in export prices, and policy shifts in Argentina, Brazil and Chile, including the adoption of more realistic exchange rates, there was a steady growth in the combined merchandise trade surplus of the 19 Latin American Republics and Jamaica in the last five years. (See Table 3). In 1966, this surplus amounted to $1,170 million, if Venezuela's oil exports are valued at the fixed "posted" prices, or to $770 million if these exports are valued at the realized prices, which were substantially lower. (Official tabulations frequently use the unrealistic posted price figures.) The trade surplus in 1961, when realized oil prices were close to the posted prices, was about $30 million. Excluding Venezuela, the combined merchandise trade balance of the rest of the area improved from a deficit of slightly more than $1.2 billion in 1961 to a deficit of only about $100 million in 1966.

These results reflect the fact that the area's merchandise exports rose more than its imports. The export rise from 1961 to 1966 was about 31 per cent or $2.6 billion (valuing Venezuelan oil

Table 3

Latin America--Merchandise Trade 1961 and 1966
(in millions of dollars)

	Exports			Imports			Balance		
	1961	1966	% Change	1961	1966	% Change	1961	1966	Absolute Change
Group A									
Nicaragua	61	142[1/]	+133	74	160	+112	- 13	- 18[1/]	- 5[1/]
Panama	30	87	+190	146	254	+ 74	- 116	-167	- 51
Bolivia	58	118	+103	73	126[1/]	+ 73	- 15	- 8[1/]	+ 7[1/]
Peru	494	763	+ 54	468	817	+ 75	+ 26	- 54	- 80
El Sal.	119	192	+ 61	109	221	+103	+ 10	- 29	- 39
Guatemala	113	220[1/]	+ 95	134	223[1/]	+ 66	- 21	- 3[1/]	+ 18[1/]
Mexico	826	1,226	+ 48	1,139	1,605	+ 41	- 313	-379	- 66
Chile	506	833[1/]	+ 65	598	685[1/]	+ 15	- 92	+148[1/]	+ 260[1/]
Jamaica	172	222[1/]	+ 29	211	329[1/]	+ 56	- 39	-107[1/]	- 68[1/]
Group B									
Honduras	73	162[1/]	+122	72	134[1/]	+ 86	+ 1	+ 28[1/]	+ 27[1/]
Dom. Rep.	143	137	- 4	80	183	+129	+ 63	- 46	- 109
Colombia	435	506	+ 16	557	679[1/]	+ 22	- 122	-173[1/]	- 51[1/]
Brazil	1,403	1,749	+ 24	1,460	1,496	+ 2	- 57	+245	+ 302
Paraguay	31	49	+ 58	41	58	+ 41	- 10	- 9	+ 1
Venez.[2/]	2,453	2,343[1/]	- 4	1,182	1,467[1/]	+ 24	+1,271	+876[1/]	- 395
Argentina	964	1,593	+ 65	1,460	1,124	- 23	- 496	+469	+ 965
Group C									
Costa Rica	84	138	+ 64	107	179	+ 67	- 23	- 41	- 18
Ecuador	127	147[1/]	+ 16	106	172[1/]	+ 62	+ 21	- 25[1/]	- 46[1/]
Uruguay	175	209[1/]	+ 19	209	149[1/]	- 29	- 34	+ 60[1/]	+ 94[1/]
Group D									
Haiti	32	48[1/]	+ 50	42	46[1/]	+ 9	- 10	+ 2[1/]	+ 12[1/]
TOTALS									
All L. A.	8,299	10,876[1/]	+ 31[1/]	8,268	10,107[1/]	+ 22[1/]	+ 31	+769[1/]	+ 738
Total excl. Venezuela	5,846	8,533[1/]	+ 46[1/]	7,086	8,640[1/]	+ 22[1/]	-1,240	-107	+1,133

1/ Preliminary.
2/ Data from balance of payments statements, valuing petroleum exports at realized prices.

SOURCE: International Monetary Fund, *International Financial Statistics.*

exports at realized prices) while the import rise was only 22 per cent or $1.8 billion. Excluding Venezuela, which was responsible for 30 per cent of the area's total exports in 1961, the 1961-66 export rise of the area was about 46 per cent ($2.7 billion), and the import rise was 22 per cent ($1.6 billion).

Whether or not Venezuela is included, the 1961-66 export rise of the area was less than that of total world exports (53 per cent). However, thirteen of the countries, accounting for 41 per cent of the area's total exports in 1961, had increases in exports close to or in excess of the rise in world exports. Included among these thirteen countries, were eight of the nine countries experiencing real growth per capita at rates close to or in excess of the Alliance for Progress target. On the other hand, six of the seven countries with export increases well below the rise in world exports were among the ten countries experiencing slow growth or stagnation. This highlights the importance for developing countries of promoting export oriented activities as a means of achieving satisfactory rates of economic growth.

The largest dollar gains in exports were scored by Argentina ($629 million), Mexico ($400 million), Brazil ($340 million), Chile ($327 million), and Peru ($270 million). The five Central American countries and Panama together increased their exports by $461 million, as Panama's exports nearly tripled, while those of Nicaragua and

Honduras more than doubled and those of Guatemala did nearly as well. Venezuela's export earnings declined by $100 million.

Mexico had the largest increase in imports ($466 million), followed by Peru ($350 million) and Venezuela ($285 million). The Central American countries and Panama together recorded a $529 million increase in imports, and there were increases of about $100 million each for Colombia, the Dominican Republic, Jamaica and Chile. Argentina's imports were $336 million lower in 1966 than in 1961, while Brazil's were roughly unchanged, following a recovery last year from the reduced levels of 1964 and 1965.

Argentina, Brazil and Chile together had a combined trade surplus of $862 million in 1966, compared with a combined trade deficit of $650 million in 1961. On the other hand, the Venezuelan trade surplus shrank by about $400 million. Leaving out these four countries, the remaining countries in the area experienced a deterioration in their combined trade balance of about $380 million. The financial deterioration in Peru (see above) and the difficulties experienced in the Dominican Republic in the aftermath of the overthrow of the Trujillo dictatorship are the principal reasons why the combined Latin American trade balance did not improve even more.

This improvement in Latin America's overall trade balance was not reflected in its trade balance with the United States. In 1965, Latin American exports to the United States were $3.6 billion, 12.5 per cent higher than in 1961, while imports from the United

States were $3.8 billion, 10 per cent higher than in 1961. The combined trade deficit with the United States was only $60 million smaller than in 1961. (See Table 4).

Data for 1966 from Latin American sources are not yet available for all countries. But, U. S. Department of Commerce data suggests that Latin American purchases from the United States rose faster last year than sales to the United States. 1/

The expansion of the area's exports to the United States is accounted for mainly by Mexico, Peru, Ecuador and Central America. Only three of the area's countries exported less to the United States in 1965 than in 1961, the principal decline being recorded by Brazil. The rise in the area's imports from the United States reflects mainly increased purchases by Mexico, Venezuela, Central America and Peru. It would have been much larger if there had not been large dollar declines in imports from the United States by Argentina, Brazil and Colombia, and smaller dollar declines by three other countries. The smallness of the change in the area's combined merchandise trade balance with the United States between 1961 and 1965 obscures the fact that this balance improved for eleven of the countries and deteriorated for the other nine, as Table 4 shows.

The fact that the area's merchandise trade with the United States increased much less than its total merchandise trade may reflect, in part, the rapid growth of the economies of Europe and

---

1/ This is in contrast with the U. S. trade balance with the rest of the world which deteriorated from 1965 to 1966.

Table 4

Latin America--Trade with the United States
1961 and 1965

(in millions of dollars)

	Exports to U. S.			Imports from U. S.			L. A. Surplus (+) or Deficit (-) 1/		
	1961	1965	% Change	1961	1965	% Change	1961	1965	Absolute Change
Group A									
Nicaragua	32	37	+ 16	36	75	+108	- 4	- 38	- 34
Panama	20	42	+110	64 2/	79 2/	+ 23	- 44	- 37	+ 7
Bolivia	25	56	+124	33	59	+ 79	- 8	- 2	+ 6
Peru	178	236	+ 32	207	290	+ 40	- 29	- 54	- 26
El Sal.	40	47	+ 17	43	63	+ 46	- 2	- 16	- 13
Guatemala	59	58	- 2	63	97	+ 54	- 5	- 39	- 34
Mexico	502	627	+ 25	798	1,025	+ 28	-296	-398	-102
Chile	186	213	+ 14	238	237	- 1	- 52	- 24	+ 28
Jamaica	62	81	+ 31	51	90	+ 76	+ 10	- 9	- 19
Group B									
Honduras	43	74	+ 72	37	57	+ 54	+ 6	+ 17	+ 11
Dom. Rep.	89	111	+ 25	30	76	+153	+ 59	+ 35	- 24
Colombia	260	252	- 3	279	217	- 22	- 19	+ 35	+ 54
Brazil	563	499	- 11	515	326	- 37	+ 48	+173	+125
Paraguay	7	14	+100	5 2/	9 2/	+ 80	+ 2	+ 5	+ 3
Venezuela	940	967	+ 3	536 2/	670 2/	+ 25	+405	+297	-107
Argentina	84	101	+ 20	383	273	- 29	-299	-171	+128
Group C									
Costa Rica	47	56	+ 19	50	71	+ 42	- 3	- 15	- 12
Ecuador	54 3/	106 3/	+ 96	48 2/	78 2/	+ 62	+ 6	+ 28	+ 22
Uruguay	25	32	+ 28	47	20	- 57	- 22	+ 12	+ 34
Group D									
Haiti	16 4/	20 4/	+ 25	29	23	- 21	- 13	- 3	+ 10
TOTALS									
All L. A.	3,232	3,632	+ 12	3,493	3,836	+ 10	-261	-204	+ 57
Total excl. Venezuela	2,292	2,665	+ 16	2,957	3,166	+ 7	-665	-501	+164

1/ Surpluses and deficits may not exactly equal differences between exports and imports due to rounding.
2/ f.o.b.
3/ Derived from U. S. data.
4/ Year ended September 30.

SOURCE: International Monetary Fund, Direction of Trade.

Japan. It may reflect also the growth of intra-regional trade which, although still on a comparatively small scale, has assumed increasing importance in the last six years under the stimulus of efforts to create a common market in Central America and a free trade area among eight South American countries and Mexico. In addition, changes in the structure of Latin American trade as new exports are developed and as shifts take place as between different types of domestic expenditures have led to some reorientation of the area's trade. These factors help to explain the changes that have occurred in the relative importance of the United States as an export market and as a supplier for the area.

Since 1961, the United States has declined in relative importance as an export market for 13 Latin American countries and for the area as a whole. (See Table 5). In 1965, the 19 Latin American Republics and Jamaica sent about 35 per cent of their total exports to the United States, down from about 39 per cent in 1961. The percentage of exports shipped to the United States fell most sharply in Nicaragua (from 53 to 26 per cent) and in Guatemala (from 52 to 31 per cent), as cotton exports from these two countries soared. But there were substantial declines also for such important trading partners as Brazil (from 40 to 31 per cent), Mexico (from 61 to 55 per cent), and Colombia (from 60 to 47 per cent), reflecting the expansion of non-traditional exports of which the United States purchases a smaller proportion than it does of the traditional exports. The

Table 5

United States Share in Latin American Trade 1961 and 1965

	Percentage of Latin American Exports Shipped to United States		Percentage of Latin American Imports Supplied by United States	
	1961	1965	1961	1965
Argentina	8.7	6.8	26.2	22.8
Bolivia	42.4	51.1	44.9	46.5
Brazil	40.1	31.3	35.3	29.7
Chile	36.7	31.1	39.7	39.2
Colombia	59.8	46.9	50.1	47.8
Costa Rica	56.3	50.4	46.6	39.9
Dominican Republic	62.2	89.9	37.5	71.3
Ecuador	42.5	71.6	45.6	45.4
El Salvador	33.8	24.9	39.1	31.1
Guatemala	52.0	31.1	47.4	42.3
Haiti	50.0	56.9	69.0	65.3
Honduras	59.0	58.4	52.1	47.1
Jamaica	36.0	38.4	24.4	31.4
Mexico	60.8	54.7	70.1	65.7
Nicaragua	52.8	26.0	49.3	46.8
Panama	67.3	54.0	43.8	35.2
Paraguay	33.2	25.4	12.9	18.3
Peru	36.1	35.4	44.2	40.4
Uruguay	14.1	16.8	22.5	13.6
Venezuela	38.3	39.7	45.3	44.9
TOTAL	38.9	35.4	42.2	41.8

SOURCES: International Monetary Fund, International Financial Statistics and Direction of Trade.

seven countries increasing the percentage of their exports shipped to the United States were Venezuela, Bolivia, the Dominican Republic, Ecuador, Haiti, Jamaica, and Uruguay.

Since 1961, the United States has also declined in importance as a source of supply for the imports of 14 Latin American countries, but because the total imports of some of the dominant countries were falling while they were rising for the other dominant countries, the United States' share in the imports of the area as a whole showed little change. In 1965, the area as a whole purchased 42 per cent of its imports from the United States, virtually the same as in 1961. The United States' share of the market declined in Argentina (from 26 to 23 per cent) and in Brazil (from 35 to 30 per cent), two important trading partners whose total imports were substantially lower in 1965 than in 1961. It declined also in Mexico (from 70 to 66 per cent) and in Venezuela (fractionally around 45 per cent), two important trading partners whose total imports were substantially higher in 1965 than in 1961. The United States increased its share of the market in only four of the area's countries (Bolivia, Paraguay, Jamaica and the Dominican Republic), and held its own in two more (Chile and Ecuador).

External Borrowings

In spite of the improvement in the area's trade performance, the overall balance-of-payments position in the early 'sixties remained heavily dependent on external financing.

In the six years 1961-66, gross disbursements under United States official credits and grants to Latin America totaled about $4.8 billion. (See Table 6). Disbursements ranged between $740 million and $925 million a year. The largest recipients were Brazil ($1,380 million), Chile ($700 million) and Colombia ($465 million). On a per capita basis, the largest recipients were Chile ($80), Panama ($67) and the Dominican Republic ($62), while the smallest were Mexico and Guatemala ($9 each) and Haiti ($8). There does not seem to be any close correlation between the per capita amount of official financing received from the U. S. and the rate of real growth per capita.

The area also increased its borrowings from private banks and suppliers in the United States and elsewhere, from other governments, and from international financial institutions. Since the end of 1962, outstanding borrowings from United States banks alone, both short- and long-term, increased from about $2,375 million to about $3,700 million. (See Table 7). More than 40 per cent of this increase took place in 1964, but there were substantial increases also in the other three years. Nearly two-thirds of the four-year increase was in short-term borrowings, making the area's near term

Table 6

Total U. S. Credits and Grants to Latin America
Disbursements 1961-1966 1/
(in millions of dollars)

	1961	1962	1963	1964	1965	1966 2/	Total 1961-66	Dollars Per Capita 1961-66
Group A 3/								
Nicaragua	6.7	7.4	8.5	8.5	7.1	12.0	50.2	30
Panama	6.2	10.4	17.9	10.5	19.8	20.9	85.7	67
Bolivia	22.0	34.0	45.2	33.3	25.8	21.7	182.0	49
Peru	15.7	29.0	29.3	40.4	51.6	52.6	218.6	18
El Sal.	8.1	6.0	11.8	14.0	15.5	19.0	74.4	24
Guatemala	12.0	7.5	10.7	10.2	11.4	7.4	59.2	9
Mexico	113.2	54.4	34.0	59.8	64.6	82.6	408.6	9
Chile	136.2	102.9	133.5	121.4	109.7	92.6	696.3	80
Group B 3/								
Honduras	6.1	5.5	5.4	5.0	9.8	7.6	39.4	17
Dom. Rep.	.1	21.3	47.6	29.0	81.3	51.8	231.1	62
Colombia	75.0	63.9	100.6	62.7	73.8	91.5	467.5	25
Brazil	312.2	203.4	202.2	212.8	147.3	298.9	1,376.8	16
Paraguay	8.9	4.7	8.8	8.7	6.5	6.3	43.9	21
Venezuela	28.9	62.1	42.8	35.1	37.4	48.3	254.6	28
Argentina	56.0	84.2	61.1	32.0	23.1	36.2	292.6	13
Group C 3/								
Costa Rica	4.4	9.7	7.0	8.3	13.4	11.3	54.1	36
Ecuador	14.0	14.9	17.2	21.1	19.6	23.8	110.6	21
Uruguay	4.3	5.1	9.5	2.4	3.7	4.6	29.6	11
Group D 3/								
Haiti	16.0	4.9	3.4	3.7	4.9	3.2	36.1	8
Regional and unallocated	15.8	14.5	15.4	24.9	23.9	33.4	127.9	--
Total L. A.	861.8	745.8	811.9	743.8	750.2	925.7	4,839.2	20

1/ Calendar years. Includes credits and grants from AID, Export-Import Bank, Food for Peace, Social Progress Trust Fund and Peace Corps. (Excludes military assistance, Export-Import Bank debt re-scheduling and consolidation credits, U. S. Treasury compensatory financing, value of goods delivered under Title I, PL 480, estimated to result in generation of local currency for U. S. uses, and U. S. subscription to IDB.)
2/ Preliminary.
3/ Countries are arranged in decreasing order of real per capita growth rates and grouped as in earlier tables.

SOURCES: Reports prepared by the U. S. Government for the Inter-American Committee on the Alliance for Progress and for various meetings of the Inter-American Economic and Social Council, February 1966 and April 1967.

Table 7

Latin America--Liabilities to U. S. Banks at the end of 1962 and 1966

(in millions of dollars)

	Short-Term		Long-Term		Total	
	1962	1966	1962	1966	1962	1966
Argentina	181	193	62	66	243	259
Brazil	171	114	253	120	424	234
Chile	186	159	19	45	205	204
Colombia	131	308	64	78	195	386
Cuba	17	16	1	1	18	17
Mexico	408	767	195	513	603	1,280
Panama	30	84	21	71	51	155
Peru	85	211	13	150	98	361
Uruguay	122	45	2	50	124	95
Venezuela	102	226	167	89	269	315
All Other	113 1/	272	36 1/	124	149 1/	396
TOTAL	1,546	2,393	833	1,308	2,379	3,701

1/ Partly estimated.

SOURCES: Federal Reserve *Bulletin*, U. S. Treasury *Bulletin*.

external position more vulnerable. At the end of 1966, these short-term borrowings amounted to about $2,400 million (about two-thirds of the total).

About half of the 1962-66 increase in the area's total borrowings from United States banks was incurred by Mexico. Other large increases were recorded by Peru and Colombia. Brazil's indebtedness to United States banks was significantly reduced in this period. At the end of 1966, Mexico's borrowings from United States banks amounted to $1,280 million, somewhat more than a third of the area's total, while Colombia, Peru and Venezuela each had between $300 million and $400 million in debts to United States banks.

Principal Non-Trade Payments

All of this financing helped many Latin American countries to cover their large interest and dividend income payments abroad. These payments totalled nearly $1.7 billion in 1964, up from about $1.2 billion in 1960. About 40 per cent of such payments were made by Venezuela, a country which received comparatively small amounts of external financing. Excluding Venezuela, interest and dividend payments of the rest of the area exceeded $1 billion in 1964, up from about $700 million in 1960. Although complete data on these payments are not yet available through 1966, it is likely that their total over the last six years, excluding Venezuela, exceeded $5.5 billion, more than the total amount of U. S. official financing received by the area in this period.

The need to make large and rising payments abroad on interest and dividend account and for the amortization of the growing external indebtedness of many countries is one of two financial burdens shaping the balance-of-payments position of the area. The other is the tendency of many countries to undergo outflows of private capital. These outflows are motivated by a variety of reasons, including fears of currency depreciation and of expropriation, the search for higher profits, the desire to diversify personal assets and the fact that most Latin American countries do not tax income originating abroad. Unfortunately, there are no comprehensive statistics on the amount of private capital flowing out of Latin America each year. Available statistics cover only the recorded flows and inevitably leave out clandestine flows which, for example, may take the form of over-invoicing of imports or under-invoicing of exports for exchange control purposes.

Widely divergent estimates of the total amount of Latin American capital held abroad have been cited in recent years, ranging from $3 billion to $15 billion. About the only hard information on this subject is that, at the end of 1966, about $2 billion belonging to Latin American businesses and individuals was deposited in United States banks. This was about $950 million more than was reported five years earlier. Part of these holdings no doubt represent funds that are required to facilitate legitimate business transactions. But the ratio of dollar deposits held by businesses and individuals to deposits held by official and banking institutions is far higher for Latin America than for the rest of the world. This suggests that a substantial part of the $2 billion in deposits is held in the United States for reasons other than facilitation of trade or other international business.

Gold and Foreign Exchange Reserves

At the end of 1966, the 19 Latin American Republics and Jamaica had combined gold and foreign exchange reserves of $3.1 billion, up $900 million from the low of four years earlier. (See Table 8). This recovery, following a sharp decline during the previous five years, still left the area's combined reserves at the end of 1966 about $350 million below the 1957 peak. Reserve gains of $482 million in 1963, $127 million in 1964, and $434 million in 1965, were followed by a $125 million decline in 1966.

The 1963 reserve gain was due chiefly to large reserve gains by Venezuela ($162 million), Mexico ($123 million) and Argentina ($156 million). Venezuela was just emerging from a severe fiscal and foreign exchange crisis. Mexico was pursuing policies which limited the growth of imports and attracted increasing amounts of foreign capital. Argentina adopted a freely fluctuating exchange rate which stimulated exports and discouraged imports at a time when a sharp recession was already causing imports to drop. Only three

Table 8

Latin America--Gold and Foreign Exchange Reserves
1962-1966 1/

(in millions of dollars)

	1961	1962	1963	1964	1965	1966
Argentina	386	114	270	153	236	216
Bolivia	7	4	10	22	36	41
Brazil	470	291	216	252	505	410
Chile	74	79	77	89	138	171
Colombia	149	96	106	124	130	123
Costa Rica	6	13	16	19	20	17
Dominican Republic	9	21	42	41	51	37 2/
Ecuador	38	43	52	52	46	61
El Salvador	25	26	44	53	56	57
Guatemala	55	46	57	60	68	61
Haiti	4	3	3	3	2	2
Honduras	12	13	12	20	23	27
Jamaica	76	74	91	97	96	107
Mexico	411	420	543	583	534	557
Nicaragua	14	17	32	39	57	57 3/
Panama	27	30	34	19	30	36
Paraguay	2	2	3	5	10	11
Peru	110	117	135	160	175	155
Uruguay	212	211	197	190	190	196
Venezuela	580	583	745	831	843	776
TOTAL	2,667	2,203	2,685	2,812	3,246	3,118 4/

1/ Data at end of year.
2/ August.
3/ November.
4/ Preliminary.

SOURCE: International Monetary Fund, International Financial Statistics.

countries lost reserves in 1963, the largest loss ($75 million) being that of Brazil where inflationary pressures were increasing, severe restrictions on profit remittances were just taking effect, and the atmosphere toward private enterprise was deteriorating.

In 1964, all but four countries gained reserves, but the Venezuelan and Mexican gains were on a smaller scale, the former mainly because of the slow growth of petroleum exports, the latter because of overheating of the economy. While Argentina's reserves turned down, Brazil's turned up as a new government reversed economic policies and began curbing inflation.

In 1965, the Venezuelan gain shrank further and Mexican reserves turned down. But, there were gains of $253 million by Brazil, $83 million by Argentina and $49 million by Chile. Only three countries other than Mexico had reserve losses.

For the three-year period, 1963-65, as a whole, the largest gains were recorded by Venezuela ($260 million), Brazil ($214 million), Argentina ($122 million) and Mexico ($114 million). The five Central American countries together gained $109 million, while Chile, Peru and Bolivia together gained $149 million. Only Haiti and Uruguay had reserve losses.

Last year, seven countries suffered declines in reserves, as three of the four chief reserve gainers of the previous three years saw their reserves turn down. Venezuela lost $67 million as relative stagnation of oil exports continued to take its toll, Brazil lost $95 million as the anti-inflationary effort faltered somewhat, and Argentina lost $20 million. The Central American reserve gains also ceased even though the combined trade deficit of this group of countries narrowed substantially. Peru lost $20 million, mainly as a result of a deteriorating fiscal situation. A small recovery of Mexican reserves and continued gains by Chile and Bolivia were not enough to prevent an overall decline in the area's reserves.

Only five countries converted any part of their reserve gains of the last four years into gold. These countries, the most important of which are Argentina, Peru and Mexico, together increased their gold holdings by $60 million. (See Table 9). Mexico alone actually converted a total of about $75 million of its gains into gold in 1963 and 1964. But, thereafter, it reduced its gold holdings by about $60 million, including $22.5 million transferred to the International Monetary Fund in connection with the increase in Fund quotas last year.

Since conversions into gold were relatively small while the area's total reserves increased substantially, the ratio of gold holdings to total reserves for the area as a whole fell from 54 per cent at the end of 1962 to 32 per cent at the end of last year. The ratio fell for all but two countries, as the table shows. It fell even for four of the five countries which converted part of their gains into gold, Peru being the exception. It fell most in the case

Table 9

Latin America--Gold Holdings
1962 and 1966 1/

	Gold Holdings (million dollars)		Ratio of Gold to Total Reserves (%)	
	1962	1966	1962	1966
Argentina	61	84	53	39
Bolivia	3	7	75	17
Brazil	231	45	79	11
Chile	43	45	54	26
Colombia	57	26	59	21
Costa Rica	2	2	15	12
Dominican Republic	3	3 2/	14	8 2/
Ecuador	19	11	44	18
El Salvador	18	18	69	32
Guatemala	23	20	50	33
Haiti	1	negl.	23	4
Honduras	negl.	negl.	1	*
Jamaica	--	--	--	--
Mexico	95	109	23	20
Nicaragua	1	1 3/	3	1 3/
Panama	--	--	--	--
Paraguay	negl.	negl.	*	1
Peru	47	65	40	42
Uruguay	180	146	85	74
Venezuela	401	401	69	52
TOTAL	1,185	983	54	32

1/ Data at end of year.
2/ August.
3/ November.
* Less than half of one per cent.

SOURCE: International Monetary Fund, International Financial Statistics.

of Bolivia (from 75 to 17 per cent) and in that of Brazil (from 79 to 11 per cent). Bolivia had very low reserves in 1962, and its gains in the last four years, while small in absolute terms, were very large in percentage terms. The small increase in its gold holdings was only a small fraction of its total reserve gains. Brazil, for its part, sold gold as its reserve position worsened in the early part of the period, but subsequently, when its total reserves recovered, it did not convert any part of its gains into gold.

Altogether, six countries reduced their gold holdings during the last four years by a total of about $260 million. Brazil disposed of $186 million, including $17.5 million transferred to the Fund last year in connection with the increase in quotas. The other principal declines in gold holdings were those of Colombia ($31 million) and Uruguay ($34 million). The decline in Colombian gold holdings resulted in a substantial reduction of the percentage of its total reserves held in this form (from 59 to 21 per cent). But the Uruguayan gold sales left its gold ratio still at a high level (74 per cent). In Uruguay, there is considerable reluctance to sell gold even though total reserves remain under severe pressure and foreign exchange holdings are very low. At the end of 1966, all of the area's countries except Uruguay held less than 55 per cent of their total reserves in the form of gold, and fourteen of them held less than 30 per cent in this form.