LATIN AMERICA

Now hyperinflation is everyone's problem

High oil prices have made Latin America a dual economy in a rather special sense. They have brought untold riches to the two major oil producers in the region, Mexico and Venezuela, which are struggling with the destabilizing effects of sudden wealth. And they have brought a crushing burden of foreign debt to most of the other countries, whose economies have been distorted by the increasing cost of oil imports. For both groups, the major symptom is the same—inflationary pressures that will boost prices by an average of more than 70% this year and are expected to continue at nearly the same level in 1981.

MEXICO, which is exporting $12 billion worth of oil and gas this year, up from $3.8 billion in 1979, has seen inflation replace balance-of-payments concerns as the main stumbling block to growth. Given its long, semi-open border with the U. S., Mexico cannot allow a chronic inflation rate in the 25-30% range. In contrast with the more closed economies of Latin America, soaring inflation could quickly expose Mexico to a flood of U. S. imports. Thus, it is probable that the administration of President José Lopez Portillo will tighten credit and employ other stabilization measures to bring inflation down from this year's near 27% to less than 20% by 1982. This will slow real growth to less than 7%, below the 8% rate that was realized last year and recently established as the official short-term goal.

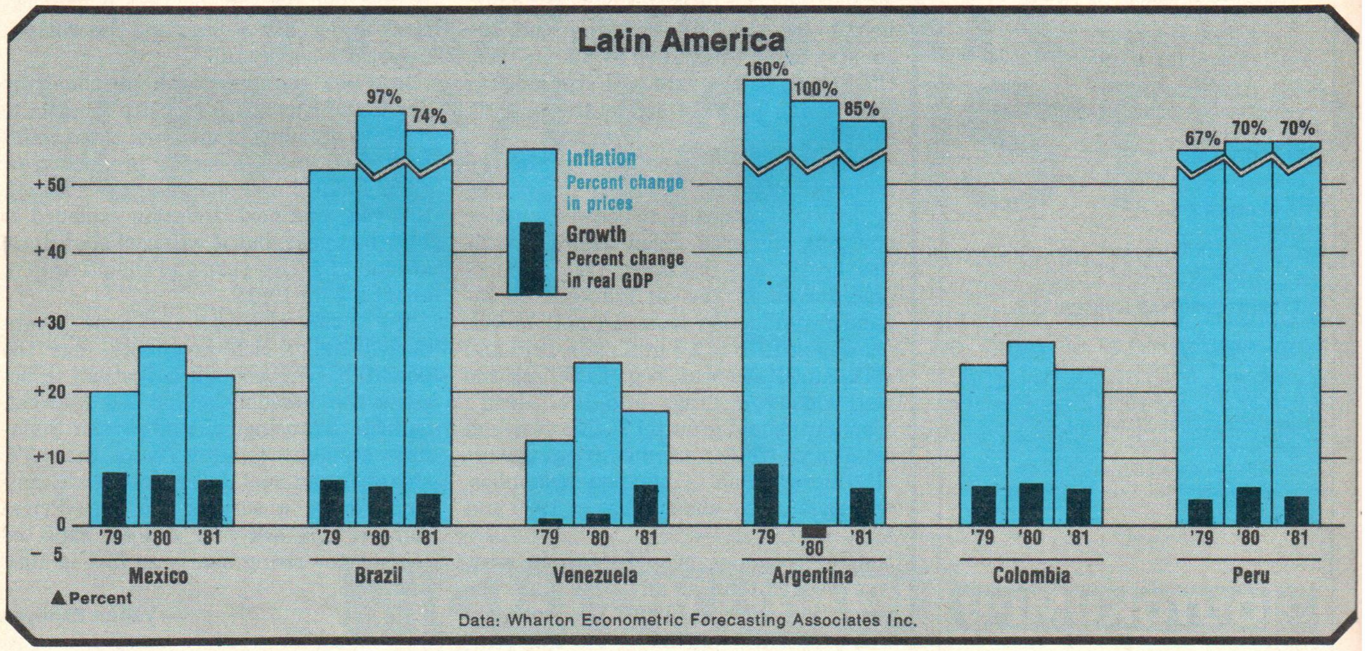
VENEZUELA is still undergoing a cooling-off period that was started in 1979 to correct serious imbalances, including a fiscal system that got out of control. As a consequence, the growth of real gross domestic product will be as low as 1.5% in 1980 although an economic stimulus package expected early in 1981 should boost real growth next year to about 5.3%. Meanwhile, the liberalization of price controls in August, 1979, has brought an inflationary explosion that is expected to boost prices by 24% in 1980 before slowing to 17% in 1981.

BRAZIL, meanwhile, is earning the dubious distinction of accumulating the largest external debt ever for a developing country—an estimated $67 billion by the end of 1981 if current trends continue. This is mainly due to the cost of oil imports, which is generating a current account deficit of $12 billion in 1980 and $14 billion in 1981 despite severe import restrictions, a record soybean crop, and the excellent performance of manufactured exports. The international banking system is expected to continue providing financial support to cover this deficit so long as there are improvements in the trade balance and the appearance of political and economic stability. Brazil's economy is expected to grow by more than 5% this year in real terms and about 4.5% in 1981, with much of the impetus coming from high agricultural production and expanded manufacturing exports. Inflation is expected to run about 97% in 1980, easing to around 80% next year.

ARGENTINA has imposed an austerity program that is expected to bring the rate of inflation down from last year's 160% to about 100% in 1980 and 85% in 1981. The cost, however, is a recession that will reduce real GDP by 1.5% this year in contrast to a positive growth rate of 8.4% last year. Bad weather, which affected agricultural output, and the aftermath of a serious financial crisis are responsible for some of the short-fall. But the lack of competitiveness of exports and the inability of domestic industry to compete with cheaper imports are more permanent problems.

COLOMBIA is seeing its trade balance worsen as the result of declining coffee prices, higher import requirements from ambitious investment projects that are now coming on stream, and higher oil prices. Larger public investment and liberalized credit will increase real growth but keep up inflationary pressures.

PERU is expected to experience an acceleration of inflation to more than 70% this year and next, compared with 67% in 1979. The proximate cause was a 15% wage increase, announced by President Belaunde Terri soon after his inauguration last July, which took place amid a threat of a general strike. A liberalization of import restrictions, designed to keep inflation under control, will reduce Peru's current-account surplus despite favorable prices in commodities mar-



Data: Wharton Econometric Forecasting Associates Inc.

kets. Meanwhile a strong recovery in the construction sector, spurred by public investment in energy, may push GDP growth to about 5% this year, compared with 3.8% in 1979.

CHILE continues on its high growth path. Real GDP has increased by 8% annually since 1977. But a deceleration to 6.5% is expected this year because of energy supply constraints. Higher oil prices have reversed the downward trend of inflation, but government austerity and strict monetary measures will keep the price rise near the 35% range in 1980 and 1981. Unemployment remains at double-digit levels even though growth is high.

PARAGUAY is being aided by intense activity in hydroelectric construction, which has pushed economic growth to more than 10% a year, a rate that should continue for some time. But inflation is accelerating, and massive capital inflows have made it difficult to control the money supply.

BOLIVIA, amid evidence that the new administration is deeply involved in the cocaine trade, is feeling pressure that could delay all economic aid, including renegotiation of the country's $3.5 billion foreign debt from a consortium of U. S. banks and $50 million in aid projects from Europe. After last year's meager 1.5% growth and increasing deterioration in the balance of payments, the outlook is decidedly not optimistic.

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BLACK AFRICA

A prospect of increasing economic disarray

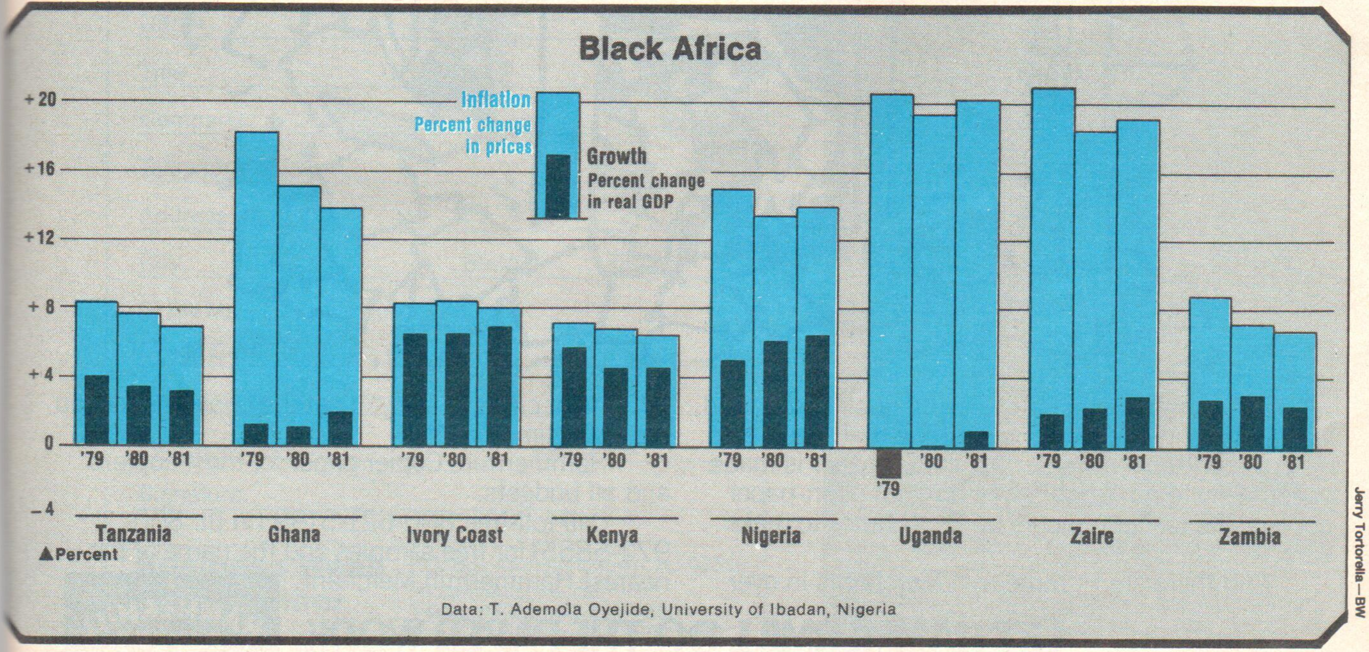
The black African nations will continue on a path of feeble growth in 1980 and 1981, and the specter of economic and political collapse that has haunted much of the continent for years is likely to continue. Most of the 40 countries in the area are burdened by large and inefficient agricultural sectors, huge growing debts, and a heavy dependence on widely fluctuating world commodity prices. Solving even some of these economic problems is complicated in many countries by ongoing political instability.

Real gross domestic product in black Africa is expected to rise less than 5% in 1980 and 1981—and the figure looks better than it actually is because the large, oil-rich Nigerian economy, which should grow by close to 6.5% this year and next, is such a heavy weight in the region that it pulls the average up. Many countries—such as Chad, the Central African Republic, the People's Republic of the Congo, Ghana, and Uganda—will grow less than their anticipated population growth rates of 2% to 5%, and that means their standards of living will be falling.

Double-digit inflation in most of the region will not make things any easier. Rising food and fuel import bills coupled with expansionary economic policies have been generating double-digit inflation since the early 1970s, and no end is in sight. Inflation in Chad, Uganda, Zaire, Ghana, Mauritania, and Ethiopia is expected to exceed 25% annually in the next few years. For the continent overall, inflation will average close to 17% in 1980 and 1981—but that could turn out to be optimistic in light of the most recent price increases in some countries.

Agricultural inefficiency. These problems are rooted in Africa's weak agricultural sector, which is being steadily undermined by inefficient farming techniques. In most of Africa, agriculture still employs 70% or more of the total population but contributes only about 40% or less to GDP. Because of low productivity, increasing numbers of countries are suffering from inadequate domestic food supplies, forcing them to import more and cutting into their ability to export agricultural commodities. Except for a handful of efficient producers, growth of agricultural production will average only 2.5% annually in most countries in the early 1980s. And in the Sahelian region, which is prone to frequent droughts as well as political upheaval and mounting refugee problems, starvation is a stark reality.

There are three groups of countries, however, that have managed to post fairly good growth rates in recent years, and they are expected to continue that trend in the next few years. The re-



Jerry Tortorella—BW