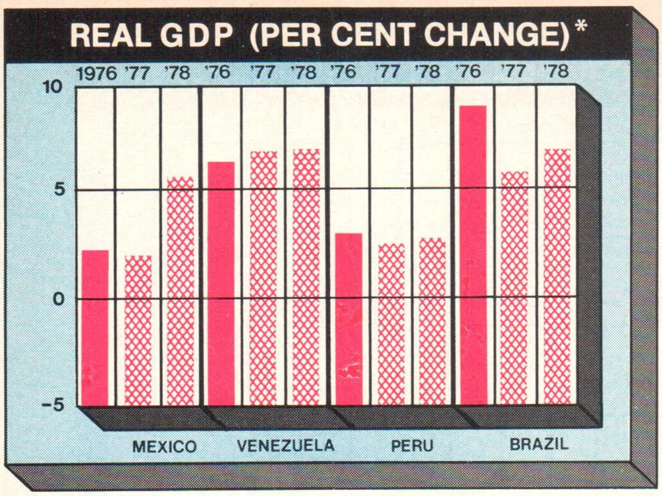
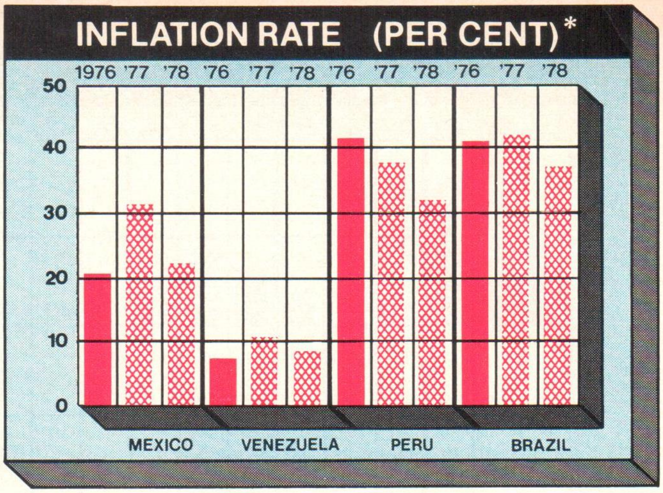
Special Report

WORLD ECONOMIC FORECAST

Autumn '77



*The figure for per cent change in real GDP in Argentina for 1976 was -3.0; in Chile it was 4.0. Because levels of inflation in both these countries are so high, any growth-rate projections are highly tentative. For 1977 and 1978 Argentina should experience a 2.6 and 3.5 growth rate respectively; Chile should show a growth rate of 5.1 and 5.8 respectively.



*The inflation rate in Argentina in 1976 was 401 per cent; in Chile, it reached 180 per cent. Current monthly inflation rates are running so high in both nations that it is impossible to project figures for 1977 and 1978. However, 1977's anticipated triple-digit inflation for Argentina and Chile should be reduced to double-digit figures in 1978.

1977, the growth rate of most African countries is below expectations. The current-account deficit of non-OPEC Africa—which stood at $2.1 billion in 1973, $4 billion in 1974 and $8 billion in 1975—increased to $10 billion in 1976. A major factor that will tend to depress growth rates further is the rising food-import bill. The quantity of imports of food, particularly cereals, is expected to rise from an annual average of 4 million tons over the 1969-71 period to 21 million tons in 1985. Inevitably, the high price of these imports will adversely affect development programs. The average GDP growth rates in Africa may be less than 3 per cent in the years ahead, with population expanding at about 3 per cent. The implication is clear: per capita income will be stagnant for the rest of the decade, and perhaps beyond, unless alternative strategies of development are found.

Latin America

The keynote for Latin America in 1976 was recovery. Real GDP rose by an average of 5 per cent, a substantial improvement over 1975's low growth rate of 2.7 per cent. Only economically embattled Argentina showed a decline in GDP.

Exports grew by 14 per cent as demand for Latin American products rose steadily. The region's imports edged up by just 3 per cent with only the oil- and coffee-exporting countries able to increase their purchases abroad. But the over-all 1976 trade balance showed considerable improvement, reversing the 1974 and 1975 downturns. These improved trade figures, together with a net capital inflow, accounted for a balance-of-payments surplus of about $2 billion.

However, South America was once again plagued by staggering inflation. Even excluding the hyperinflation of Argentina and Chile, the average rise in consumer prices was close to 30 per cent, way above the 19 per cent average for 1975. Prospects for 1977 and 1978 are mixed. More rapid GDP growth and expanding trade surplus in several countries will be offset by continuing, and even worsening, inflation.

The battle against hyperinflation being waged by Argentina and Chile should soon begin paying off. Argentina's real GDP should expand moderately in 1977 and 1978, following absolute decreases in GDP in both 1975 and 1976. Chile's recovery, initiated in 1976, should continue with GDP growth between 5 and 6 per cent in 1977 and 1978. Favorable trade balances will be one of the major factors in that recovery: Chile is highly dependent for external earnings on its copper exports and 1976 was a banner year for copper sales. But in both Chile's and Argentina's cases, some of the gains are likely to be achieved at the cost of high unemployment and a reduction in real income.

Pressures: Brazil should experience lower GDP growth in 1977 and 1978 compared with 1976, partially as a result of last December's decision to freeze public spending in order to reduce inflation and balance-of-payments pressures. This policy, together with direct import controls and currency mini-devaluation, should restrict rises in imports, although inflation will continue at high levels. With export gains in 1977 due to favorable coffee prices, the end result should be a small surplus in the trade balance this year and next.

Two other large countries, Colombia and Peru, will continue to face strong inflationary pressures. Despite tight monetary policy and measures to boost domestic production, price increases this year should be about 40 per cent. GDP growth in Colombia is expected to be close to 7 per cent in 1977, but Peru should experience less than half that rate. One of the causes for such dissimilar performance in growth between the two countries is that while Colombia enjoys a trade surplus due to high coffee prices, Peru still suffers large deficits.

Mexico will continue to feel the consequences of last year's severe devaluation of the peso for one or two years to come. But the longer-term outlook for Mexico is brighter as oil discoveries spur growth and help the balance of payments. This year's growth, however, will again be about 2 per cent, although slow growth, along with the new peso parity, should halve the external current deficit from $3 billion in 1976 to $1.5 billion in 1977. In 1976 there was a flight of $2.2 billion in capital, but in 1977 the outflow should not exceed $500 million, making the country considerably less reliant on external financing. Inflation is expected to hover around 30 per cent.

Venezuela, as an oil-exporting country, will enjoy prosperity. High and growing GDP rates are expected for 1977 and 1978. Although the inflation rate will be higher than in 1976, it will be substantially lower than in other Latin American countries. Ecuador, the other OPEC member, should show high GDP growth and declining inflation.

The picture for Bolivia and Paraguay is unchanged. GDP growth rates should be about 7 per cent with continued moderate inflation and small balance-of-trade deficits. For Uruguay there will be low GDP growth and a very small surplus in 1977's trade balance. And although Uruguay's inflation rate will be in the 50 per cent range, it will still be lower than the three-digit inflation rates of previous years.

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