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Working Paper

Latin America's debt crisis and structural adjustment: The role of the World Bank

Texto para discussão, No. 198

Provided in Cooperation with:

Departamento de Economia, Pontifícia Universidade Católica do Rio de Janeiro

Suggested Citation: Bacha, Edmar L. (1988) : Latin America's debt crisis and structural adjustment: The role of the World Bank, Texto para discussão, No. 198, Pontifícia Universidade Católica do Rio de Janeiro (PUC-Rio), Departamento de Economia, Rio de Janeiro

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DEPARTAMENTO DE ECONOMIA

PUC/RJ

JULHO 1988

TEXTO PARA DISCUSSÃO

Nº 198

"LATIN AMERICA'S DEBT CRISIS
AND STRUCTURAL ADJUSTMENT:
THE ROLE OF THE WORLD BANK*

Edmar L. Bacha

* This paper was prepared for the Centro de Estudios Monetarios Latinoamericanos (CEMLA). With the usual caveats, I am indebted for comments to Pedro Malan. Preliminary version.

SUMMARY

This is a review of the structural adjustment problems of Latin America, and of the role that the World Bank can play in a growth enhancing solution to the debt crisis of the region. The paper argues that a new pragmatism about needed institutional reforms is emerging in the region, which should facilitate a policy dialogue with the World Bank, provided that a worrisome recent trend for negative net transfers from the Bank to Latin America is reversed. It is also argued that the most productive catalytic role for the Bank - in terms of achieving a lasting resolution of the Latin American debt crisis - may be to facilitate some form of consensual reduction in existing debt service rather than a further addition to the debt stock.

RESUMO

Faz-se uma resenha dos problemas de ajuste estrutural da América Latina e do papel que o Banco Mundial pode ter numa solução consistente com o crescimento da crise da dívida externa da região. Argui-se que um postura pragmática sobre as necessárias reformas institucionais tem emergido na região, o que deverá facilitar o diálogo com o Banco Mundial, desde que uma perturbadora tendência recente de transferências negativas do Banco para a América Latina possa ser revertida. Argui-se também que o papel catalítico mais importante que o Banco pode exercer - para alcançar-se uma solução permanente para a crise da dívida latino-americana - será o de facilitar alguma forma de redução consensual no serviço da dívida em lugar de mais adições ao estoque da dívida.

1. INTRODUCTION¹

Latin America's debt crisis is entering its seventh year since the earth-shaking August 1982 Mexican moratorium. The region has since then lived under the sign of stagflation with no end in sight. "Debt fatigue" has definitely set in, after the failure of the Baker Initiative to revive international capital flows to the region.

After a faltering start, when it allowed the International Monetary Fund to take the lead of the debt workout process, the World Bank is finally catching up with need to develop a forward looking strategy for its operations in the heavily indebted countries of the region. It is pushing sectoral adjustment loans as its main lending instrument and beginning to exert an important

role in the new money packages for some of the most heavily indebted countries in the region. In line with the conventional Washington wisdom, the Bank for years repudiated the idea of "debt relief" as a means of solving the debt problem of Latin America. Timidly, it is now introducing "debt reduction" in its vocabulary to deal with the single most important Latin American development problem.

Time seems ripe to take stock of the evolution of the Latin American debt crisis, and of the role of the World Bank in the structural adjustment of the region.

The next section reviews some salient features of Latin America's economic growth before the debt crisis. The purpose is to provide a long term comparative international perspective on the deep seated structural problems of the region. Section 3 discusses the impact of the debt crisis in Latin America. The role of external shocks and domestic factors to explain the stagflation of the region's economies in the eighties are analyzed. Section 4 summarizes the most important institutional and policy weaknesses of the countries in the region, with a view to introducing the need for "structural change" as a necessary ingredient for the stabilization and the resumption of economic growth in Latin America².

² Sections 2-4 are taken from a previous paper of the author on domestic and external factors in Latin America's economic stagnation in the eighties. See Bacha (1988a).

Section 5 begins the discussion of the role of the World Bank, reviewing the lending experience of the Bank in the region since the inception of the debt crisis. Adjustment lending (or policy based lending) is a new and increasingly important feature of the Bank's operations, which is reviewed in Section 6. This leads to a discussion, in Section 7, of policy conditionality, which has been the single most controversial issue in the relations of the Bank with the region³.

Section 8 discusses the evolving catalytic role of the Bank in the concerted money packages recently provided by private lenders to some of the countries in the region. Section 9 discusses the possibilities for debt reduction, the impact that it might have on the economic growth of the region, and the potential role that the Bank could play in debt reduction schemes⁴.

Conclusions are summarized in Section 10.

2. LATIN AMERICA'S POSTWAR ECONOMIC RECORD

³ Section 5-7 draw heavily on a previous paper of the author with Richard Feinberg, on the relations of Latin America with the World Bank and the IMF. I am indebted to Richard Feinberg for letting me use freely parts of our joint paper in these sections. See Feinberg and Bacha.

⁴ I am indebted to WB officials for sharing their most recent reflections on adjustment lending and the Bank's operational strategy in the heavily indebted middle income countries. Some of these reflections appear almost verbatim in sections 8 and 9. Another paper of the author, analyzing the alternatives for the Latin American countries 'to capture the discount' at which their debts are currently being traded in the secondary market in New York, further develops some of the themes in section 9. See Bacha (1988b).

of industrialization or the overall degree of openness which is in strong contrast with the experience of Southern Europe and the industrial market economies. It is as a consequence of this inward orientation of industry, that the share of total exports in LA's GDP is the lowest of the four groups of countries in Table 1(C).

Furthermore, income distribution remained extremely concentrated, particularly in countries with a long colonial tradition, based on the subjugation of indian cultures or the importation of slave labor, such as Peru, Brazil, or Mexico. What is exceptional in LA - household income shares of the poorest 40 percent in the range of 15 percent - is the rule in Southeast Asia and Southern Europe. Contrarywise, what is exceptional in these two other regions - household income shares of the poorest 40 percent in the 10 percent range - is the rule in LA [Table 2]. Trickle down failed to work in the region as well as it seems to have done elsewhere.

Finally, inflation rates in LA have traditionally been the highest in the world [Table 3]. Even when the tolerance for inflation may vary across regions, and Latin-americans are certainly very tolerant towards it, this price level instability denotes a major malformation in LA's economic system.

In spite of these pitfalls, in terms of per capita income growth, the LA economic performance from the postwar to the early eighties can be described as adequate, both in absolute and relative terms. Thus, per capita incomes in the region were in 1981 twice as high as in 1950. Moreover, since 1965, in spite of a

much higher rate of population growth, LA managed (barely) to start closing the gap separating the region from the industrial market economies, although always failing to keep pace with the high rates of expansion of the two other regions containing middle income developing economies - Southeast Asia and Southern Europe [Table 1(D)]⁵.

3. DEBT AND STAGFLATION

Since the onset of the debt crisis in 1982, the adequate GDP growth rates, which were the redeeming factor in LA's economic development record, evaporated as thin air. LA countries not only stopped growing in absolute terms, but started losing ground both to other middle income developing economies, and to the industrial market economies [Table 1(D)]. Meanwhile, chronic inflation climbed to three digit levels [Table 3]. Not only is a decade of growth been lost, but the perspective of secular stagnation today looms large in the economic horizon of most countries in the region.

LA's debt crisis exploded in August 1982, but at least in the oil importing countries of the region, the need to adjust was set off by the oil price hike of 1979 and the subsequent reaction

⁵ According to the World Bank data, from which Table 1(D) is derived, LA actually managed to grow faster than Southern Europe from 1970 to 1981 - 5.2 percent against 5.0 percent, on the average - but this was not nearly enough to compensate for its higher rate of population growth - 2.3 percent against 1.6 percent per year.

from the OECD countries⁴. Considering that crisis to be cyclical, most of these countries borrowed heavily to finance their mounting current account deficits. In some of them, specially in the Southern Cone, borrowing was used to expand imports to help lower inflation, thus leading to ever more overvalued exchange rates.

For their part, oil exporters, buttressed by forecasts of ever growing energy prices in the future, also borrowed heavily. In merely two years, 1980 and 1981, the region's external debt rose some \$100 billion to nearly \$290 billion, most financed by commercial banks. This heady but unstable state of affairs came to a close in 1982, with the prolongation of the recession in the OECD and the Mexican moratorium. Adjustment became mandatory in all countries.

Stagflation was the consequence of LA's adjustment to the debt crisis. This involved two sets of external shocks - external financial strangulation and terms of trade deterioration. Financial strangulation resulted from the sharp curtailment of foreign finance at a time when interest payments were increasing substantially. This forced LA not only to reduce abruptly its current account deficit, but also to start generating a substantial transfer of real resources abroad - as measured by the region's trade surplus, inclusive of non-factor services. The burden of this transfer was magnified by the fact that, at the

⁴ The following two paragraphs merely summarize the contents of the section on the origins of the crisis and the need for adjustment of the excellent paper on the debt crisis by Bianchi, Devlin and Ramos.

same time, the external terms of trade turned significantly against the region's primary product exports, which meant that a higher volume of exports became necessary to generate the same trade surplus.

The strength of these shocks is indicated in Tables 4 and 5. Table 4 measures the impact of the net transfer of financial resources, i.e., the difference between net capital inflows and net factor services. This had a positive value of 2.5 percent of LA's GDP in 1979/81, but then it became negative in 1982, to reach an average value of -4.6 percent in 1983/85. This negative turnaround of 6 percent of GDP was aggravated by the concomitant deterioration of LA's terms of trade, as measured in Table 5, which chopped off an additional 1.8 per cent of LA's GDP in the 1981/86 period.

From a macroeconomic perspective, these shocks were absorbed by the LA economies almost entirely through a contraction of real investment rates. Table 6 pictures the consequence of the external strangulation process. This table shows the behavior in the 1979-86 period of the ratio of investment to GDP, and of its sources of financing, namely the net transfer from abroad and internal savings. The net transfer is equal to foreign savings (i.e., the current account deficit) minus net factor services to abroad⁷. Internal savings is equal to the difference between GDP

⁷ The difference between the net financial transfer in Table 4 and the net resource transfer in Table 6 corresponds to net foreign reserves accumulation in LA.

and consumption . As indicated in the table, internal savings did not rise to compensate for the sharp negative movement of the net resource transfer to abroad, from the 1979/81 to the 1983/85 period, and, as a consequence, investment ratios dropped sharply, from over 23 to close to 17 per cent of GDP^e.

Table 6 indicates the behavior of the ratio of nominal investment to nominal GDP. In real terms, investment must have dropped even more, in view of the terms of trade decline - as this decline artificially raises the nominal value of investment in comparison to nominal GDP, because of the high import component of the former^g.

The previous discussion suggests that there was not any significant deterioration of the "internal" savings rate in LA during the 1980s. This is contrary to the perception of some observers. For example, Balassa et al assert that:

"This decline [of the investment ratio] reflected large decreases in the inflow of capital...and a fall in domestic savings ratios in most countries... Domestic savings ratios declined in conjunction with the near stagnation of Latin American economies in the first half of the 1980s (p. 97)."

^e Different sources were used to construct Table 5, as indicated in the notes to the table. In particular, the investment ratio and the net transfer ratio were calculated using different methodologies; this may distort the figures for internal savings - which are calculated as the difference between investment and the net transfer to abroad - but the bias of these calculations, if any, could not be determined.

^g This presumes that non-traded goods prices, which must weight more heavily in the implicit price deflator of GDP than in that of investment, follow more closely the prices of exports than those of imports.

There seems to be an error in this evaluation, stemming from the adoption of an inappropriate concept of savings to analyze whether or not domestic economic behavior aggravated the impact of the external shocks. In the first place, one clearly wants the increase in international interest rates to show as an external shock and not as a domestic maladjustment. However, if output does not expand and/or consumption does not contract, this increase in dollar interest rates will be accounted for as a decline of national savings, when this concept is conventionally measured, as the difference between GNP (which is now lower because of the higher interest outflows) and consumption. It is this peculiarity which justifies the replacement of "national" savings by "internal" savings, as a more adequate concept to measure the relative importance of external shocks and domestic economic actions in altering the financing of domestic investment. This substitution also implies that the foreign contribution to domestic investment financing should be measured, not by the current account deficit, but by the eventual trade-cum-non-factor-services deficit, also known as the net resources gap.

A terms of trade deterioration may also lead to a decline of the nominal savings rate, because nominal consumption tends to increase relative to GDP when import prices rise in relation to export prices¹⁹. For this reason, an appropriate accounting

¹⁹ The importance of this effect depends on the weight of imports in consumption, and also on the behavior of the prices of non-traded goods and services entering both the GDP and the domestic consumption deflators.

framework must be able to isolate the impact of terms of trade changes from alterations in "real" domestic economic magnitudes. When these methodological precautions are taken, the available data seem to confirm that domestic actions cannot be faulted for an aggravation of the negative impact of the external shocks in the region's economies.

However, the available data also suggests that the region's reaction to the external shocks was entirely passive - when these shocks hit, investment rates simply shrank, both through a direct contraction of government capital formation and a crowding out of private investment. This demand contraction provided the necessary room to allow other demand switching measures - such as import controls and real exchange rate devaluations - to be effective in expanding the trade surpluses.

This is not whole story, however. Adjustment through recession rather than demand switching was widespread in the region, particularly in the 1981/83 period, and in those countries which were more strongly hit by the external shocks or lacked the necessary structural flexibility to expand exports or substitute imports - even because they had failed to keep up investment after the first oil shock. In these circumstances, declines in output and employment became inevitable, in view of the sharpness of the external shocks.

4. STRUCTURAL ISSUES

The LA pattern of adjustment to the external shocks was, thus, not conducive to the sustenance of economic growth in face of external adversity. In contrast to the experience of other medium income developing countries, the available data indicate that LA countries did not succeed in expanding their capacity to invest, through increases either in productivity or national savings.

Moreover, although external financial strangulation was by and large a consequence of foreign economic actions, capital flight was an important part of the story in some LA countries. This was particularly the case in Argentina, Mexico, and Venezuela -- which, until 1983, practiced disequilibrium exchange rates and domestic interest rates, while maintaining free convertibility in the capital account. Brazil and Colombia, by contrast, which combined the adoption of more nearly equilibrated exchange rates and domestic interest rates with strict outward capital controls, were by and large successful in avoiding significant capital flight.

Both the comparative record of LA economic development in the postwar period, and its lethargic reaction to the external shocks of the 1980s, are clear indications of the deep seated weaknesses of the region's economic system.

Bianchi, Devlin and Ramos identify four features of the region's economies which magnified the impact of the shocks and limited the speed and capacity of response. First was a high level of external debt. The debt-led strategies of the 1970s raised the

debt/export ratio from 1.4 in 1970 to 2.3 in 1979 - which contrasts with a ratio of 1.0 in South Korea, for example. The second was the high proportion of debt at floating interest rates - 2/3 of it, in contrast to Asia in general - 12% - and South Korea, in particular - 33%. The third was the low level of exports relative to GDP. Exports averaged 13% of GDP in 1979, as opposed to South Korea's 38%. Fourth, the region was very highly dependent on the export of primary commodities. Some 75% of LA exports were made up of a relatively few, natural resource intensive commodities. This contrasts with South Korea, where 90% of exports were represented by manufactured products, with far more responsive supply and demand schedules. They concluded that, when interest rates shoot up and capital inflows collapsed, manufactured exports could not possibly expand as fast as in Korea. Thus, adjustment could not have been expansionary.

The debt crisis also revealed other structural rigidities of the LA's economies. Most of the LA external debt was contracted by these countries' governments, either directly or through their state enterprises. Moreover, when the debt crisis erupted, under the pressure of external creditors and private domestic debtors, the LA governments ended up by nationalizing a good part of the external debt originally contracted by the local private sector. Nowadays, nearly all medium and long term LA debt is the responsibility of the governments of the region. Thus, the external financial strangulation provoked not only a balance of payments crisis, but also - and perhaps more importantly, when viewed in retrospect - a major fiscal crisis.

In the circumstances, a domestic transfer needed to be made, from the private to the public sector, as a counterpart to the sharp and sudden increase in the transfer of resources to abroad. In principle, the resources could have come from additional taxes, contraction of other government expenditures, the printing press, or from public sector borrowing in the domestic capital market.

As a general rule, LA governments failed to raise additional taxes or to contract their consumption expenditures. Adjustment was done by reducing public sector investment - both in infrastructure and social services - and by borrowing more heavily either from the banking sector or the local capital markets. Additional domestic government borrowing tended to crowd private sector investment out, thus completing the stagflationary pattern of LA's adjustment to the debt crisis.

The problems caused by the awkwardness of the public sector adjustment were compounded by the negative impact of the widespread indexation mechanisms which developed in LA, as a means of maintaining an approximate parity among relative prices, in face of chronic inflation. It was such automatic and retrospective indexation mechanisms - applying to wages, exchange rates, public sector tariffs and prices, government controlled prices in the private sector, and interest rates - which allowed countries like Brazil to maintain relatively high rates of economic growth in spite of extremely high rates of inflation.

But the existence of such rigid indexation mechanisms tended to provoke a substantial acceleration of inflation rates, when LA economies were hit by the external shocks and, additionally, had to devalue their currencies to compensate for these shocks. In fact, in an economy where prices are formed by adding a fixed mark-up over prime costs and where these costs are indexed to past inflation, an external price shock or a maxidevaluation leads to an acceleration of the rate of inflation - proportionally to the share of imported inputs in primary costs -, and not only to a jump in the price level, as might be the case in non-indexed economies. Obviously, this acceleration of inflation would have to be validated by a quickening of monetary expansion, but this was certain to come, in view of the added budgetary difficulties of the central government, caused by the external shocks, as previously described¹¹.

The previous discussion reviewed a number of structural problems of LA economies, which are helpful to explain both the unsatisfactory economic performance of the region in the postwar period and the stagflationary phase which it has been experiencing since the beginning of the 1980s. Three groups of interrelated factors were identified: (i) the high level of public sector

¹¹ Note, also, that a maxidevaluation tends to increase the public sector domestic borrowing requirements, when foreign interest payments are higher than the net loans to the government from abroad, which was the case everywhere in LA after 1982. When, however, the public sector is an important producer of tradables (as in the case of Mexico or Venezuela) this negative "financial" effect may be more than compensated by a positive "trade" effect of the devaluation on the government accounts.

external debt contracted at floating interest rates; (ii) the low level of industrial exports and the high dependence on a handful of primary commodities; and (iii) the lack of flexibility of the public sector and the rigid indexation mechanisms.

A fourth component should be added, which is the extreme degree of concentration of income and wealth. Inward orientation, an inoperative public sector, and a high concentration of land ownership and educational levels, seem to be important explanatory factors for the region's economic maladjustments, as revealed in its high incremental capital output ratios.

Debt and inflation, which were the scape valves of LA in the 70s, became its major problems in the 80s. The following sections will discuss alternative mechanisms to deal with the external debt problem. But clearly the region's economic problems run deeper than its external debt.

As Bianchi, Devlin and Ramos point out, to grow out of the debt problem would require a structural transformation in two senses: the growth strategy needs to be outward oriented and largely based on domestic efforts to raise savings and productivity. Public sector reform - involving privatization of public enterprises, an administrative overhaul, tax simplification and universalization, and a modernization of the state's regulatory framework - should be an important ingredient of this process. A broad consensus on the needed structural changes seem to be taking shape in LA, as expressed by Bianchi, Devlin and Ramos:

"It is likely that there will be much agreement as to the importance of a less inward oriented, more export led growth; of far greater domestic savings; of a more focused distributive effort; of far improved productivity and efficiency; and of the need for a firmer, more coherent and stable macroeconomic policy".

Agreement on such general principles is a first important step. It indicates that a new pragmatism about economic policy making and institutional change is winning over old ideological disputes in the region. This should facilitate the policy dialogue with the World Bank, with a view to developing a growth oriented solution to the debt crisis. To advance in this direction a review is necessary of the Bank's operations in the region as well as of its evolving perceptions about the LA debt crisis.

5. WORLD BANK FINANCING

Replicating the perception of the LA countries, the World Bank (WB) initially considered the debt crisis to be a temporary phenomena. In 1983-84 it simply sat back and watched the IMF take the lead. Indeed, WB's loan commitments to LA stagnated between FY1982 and FY1984 (Table 7)¹². Once it became clear that the twin debt and development crises were longer term problems, the Bank gradually began to alter its disbursement and program patterns. The shift towards higher levels of rapidly disbursing lending was given official sanction and greater impetus in late 1985 by U.S.

¹² World Bank fiscal years (FY) start on July 1 of the preceding calendar year and end on June 30 of the current calendar year.

Secretary of the Treasury James Baker III, in his famous "Baker initiative" speech in Seoul, Korea ¹³. As a result, WB's loan commitments to LA grew from US\$3.0 to \$5.1 billion between FY1984 and FY1987.

Nevertheless, the growth in new loans commitments fell short of the Bank's own goals. Moreover, the value of the Bank's net contribution to LA was substantially reduced by rapidly mounting repayments and interest charges on old loans. Thus, paradoxically, the peak of net financial transfers of the Bank to LA was reached in FY1985. They were nearly null in FY1986 and, after turning up in FY1987, became negative in calendar year 1987. Lending difficulties caused by the Bank's administrative reorganization, and - possibly - also by Brazil's moratorium underlie the negative net transfer in 1987, which the Bank is busily trying to reverse.

It would be unfair to fault the WB for failing to anticipate the debt crisis. Few predicted the gravity of the global recession of the early 1980s or soaring rates of interest and sudden retreat of the commercial banks. Even so, the WB's record might have been better. By excluding short-term and non-guaranteed private creditors, the Bank's data on cumulative debt underestimated the problem and consistently ran one to two years behind events. Bank projections of growth rates for the world economy, and for developing country economies and exports, were

¹³ James A. Baker, III, Statement Before the Joint Annual Meetings of the IMF and the World Bank. Seoul, Korea, October 8, 1985.

persistently optimistic. In 1981, the Bank was working with growth rates for developing countries of between 4.1 and 5.3 percent for the period 1980-85, well above the actual rate of 3 percent. While individual country studies did often recognize a potential debt problem, they typically concluded that, with adequate external financing and sound domestic policies, a happy ending was within reach. Country economists did not want to discourage their clients or other lenders; and a judgement of "not creditworthy" would have raised inconvenient doubts about the Bank's own lending programs.

The Bank accepted a debt strategy which was conceived of by others - by industrial country governments, the commercial banks, and the IMF. The debt strategy that ruled from 1982-85 had several components: lending by the IMF and modest levels of concerted lending by commercial creditors; the rescheduling of most principal payments falling due; and stabilization in debtor nations through spending reductions and tight credit, which lowered the demand for imports. Ideally, devaluations and cuts in domestic spending would stimulate exports, but most countries adjusted their current accounts primarily by slashing imports. Existing productive capacity was not sufficiently flexible to easily switch from domestic to foreign markets; low investment rates further impeded such a shift. WB management did not sufficiently anticipate that this stabilization strategy would play havoc with national development plans and de-fund the investment projects that still are the Bank's stock in trade.

6. ADJUSTMENT LENDING

As the debt crisis persisted, the Bank began to stir and to seek an alternative to its traditional project lending, which was stymied by the shortage of counterpart funds and new investments. Even before the debt crisis, momentum for "policy based" or adjustment lending had been gaining ground in industrial country governments as well as among WB staff. Several factors converged to gain support for balance of payments loans that carry conditions for the borrower's macroeconomic or sectoral policies. Directors from the industrial countries felt that otherwise well designed projects could still fail if the surrounding "policy environment" was adverse. More pointedly, a rising chorus of voices - in the U.S. government, in academic circles strongly influenced by the neoclassical paradigm, and in bureaus of the WB itself, particularly in the research division - attacked the "inward oriented" or import substitution industrialization model of development. In its place they argued for policies which relied on market mechanisms to allocate resources and on export markets to provide the engine of growth.

The debt crisis gave the WB several important institutional motives for increasing policy based lending. First, the Bank found debtor nations that were starving for capital to be more susceptible to accepting external advice in return for new lending. Second, policy based loans more readily fit into larger financial packages being assembled by creditors for developing

nations undertaking reforms. Third, the drought in investment projects left policy based loans as the main vehicle for the expansion of Bank activity levels.

For these reasons, the WB became actively involved in developing and supporting programs of structural adjustment. Under a Structural Adjustment Loan (SAL) money is disbursed in support of a program of reforms, rather than to fund a specific investment. Agreement is reached on specific measures and progress in implementation is monitored, forming the basis for release of loan tranches or the processing of further SALs. The reforms undertaken with SAL support have generally aimed to increase efficiency economy wide through changes in pricing and trade policies, in the size and structure of government expenditure, and in the extent of the government's control on productive activity.

In addition, the Bank has supported more narrowly focused programs of reform and restructuring through sector adjustment loans. The policy packages supported by sector adjustment loans range from major changes in macroeconomic policy in broadly defined sectors such as trade or agriculture to the establishment of an appropriate framework for investments in a more narrowly defined sector such as energy and education. Sector adjustment loans, like SALs, are designed to disburse rapidly and often for general imports. Those that support sectoral investment programs, however, may have a planned disbursement period of up to five years.

Broad structural adjustment loans have been used relatively sparingly in LA, and with the exception of Chile have been restricted to the smaller nations, as listed in Table 8. Governments in the larger countries may have been willing to tolerate short term IMF influence over the macroeconomic policies, but have resisted sharing power for several additional years with an external agency. Facing this obstacles, the Bank wisely lowered its sights, and began to design sector loans, whose scopes are limited to a particular sector or problem, such as agriculture, energy or trade. From FY83 to FY87, nine LA countries received a total of 17 sectoral adjustment loans, as listed in Table 9. By FY1984, adjustment lending to LA surpassed \$700 million, or nearly one quarter of Bank lending to the region. The quantity dipped to under \$500 million in FY1985, but rebounded to over \$1.5 billion in FY1986 and FY1987, representing almost one third of total Bank lending to the region (Table 7).

These increases are significant in terms of previous Bank behavior, but are still small compared to the adverse movements in private lending or the need for finance in LA. Initially, policy-based lending was constrained by cautious or hostile attitudes in the U.S. Treasury and the IMF, where policy based loans were sometimes seen as vehicles for pumping out easy money, and as potentially competing with IMF stand by credits¹⁴.

¹⁴ For a longer discussion, see Bacha and Feinberg.

Since 1985, however, these constraints have been alleviated if not entirely removed. The Reagan administration has become a fervent convert to policy based lending, while striving to maintain loan quality. The IMF remains concerned that structural adjustment lending will impinge on its macroeconomic turf, including exchange rate and fiscal policies, but at the same time recognizes the need for longer term balance of payments support. Policy based loans have generally been tied to IMF stand-bys, thereby increasing the IMF's leverage while enhancing the likelihood of successful adjustment. In addition, to the extent that policy based loans add to a debtor's liquidity, they facilitate making the mounting repayments due the Fund from many countries (To LA alone the IMF made a negative transfer of US\$1.4 billion in 1987). A complicating factor is that they also facilitate the negative transfers that debtor countries have been making to commercial banks.

Policy based lending remains constrained by numerous factors operating on both the supply and the demand side. On the supply side:

* Bank staff and management insist that loan conditionality be rigorous and consistent with Bank wide policy guidelines. Some Executive Directors and member governments, particularly the United States, scrutinize loans carefully for evidence that the Bank is placing quantity over quality. And the Bank is typically not content to merely certify and support reforms that a government has unilaterally implemented, seeking instead to press for additional progress.

* The Bank has systematically associated policy based loans with IMF stand by agreements. The Bank thus assures itself that the country is seeking to create a stable macroeconomic environment in which sector reform can succeed. This informal cross-conditionality also assures the IMF that the Bank is not undercutting its bargaining position. But this form of Bank-Fund collaboration often delays and sometimes prevents the signing of policy based loans.

* Some countries are no longer considered "creditworthy". A country that is in extended arrears on payments to the bank automatically loses access to Bank funds, as has occurred in the case of Nicaragua. A country may also be considered uncreditworthy if its macroeconomic policies are inconsistent with sustainable growth, as the Bank so categorized Peru in 1986-87. Countries considered uncreditworthy are not automatically denied project loans, but are unlikely to receive policy based loans. As a consequence of the debt crisis, an increasing number of countries are in arrears in debt service to the Bank.

* Policy based loans may take 1-2 years to design. Despite successive efforts to streamline the large Bank bureaucracy, loans have frequently moved slowly through the many layers required for final approval. In mid-1987, Bank president Barber Conable instituted a major organizational shake-up intended, among other objectives, to speed the loan process. This reorganization temporarily caused a major disruption of Bank lending operations, but this is expected to be reversed soon. Loan approval can also be delayed for substantive reasons.

* Policy based loans have often become extensive and ambitious, and programs that encompass a wide variety of complex variables inevitably take time to design and negotiate. Different offices in the Bank have sometimes locked horns over loan design, further delaying the process. A promising development to overcome these difficulties are the so-called "hybrid loans", which have an investment content but are embedded in a sectoral policy framework. These loans should help the Bank to focus its policy advice in what it does better which is investment financing, while also guaranteeing that its resources are used for development purposes rather than to bail out other creditors.

* Internal lending limits and inter-regional quotas inhibit sharp shifts in loan allocation. The Bank seeks to limit exposure in any given country to 10 percent of its capital, a ceiling that has constrained lending to Brazil; portfolio diversification is meant to assure the purchasers of World Bank loans. Members from geographic regions often attempt to maintain their historic share of Bank resources. Country program size is not constrained by quotas (as in the IMF) or any other such rigid baseline, but these self-imposed or politically-generated constraints inhibit Bank lending.

* The size of individual policy-based loans is arbitrary, and their maximum amounts (currently \$500 million) are generally limited more by tradition and the staff's sense of what management or the Board will entertain than by any objective, economic criteria. Politically, the loans are often too small a carrot in

relation to the degree of disruption that the proposed reforms may cause.

Constraints on the demand side have also slowed Bank lending. Recession ridden developing countries have been unable to provide the counterpart funds or the new investments for project loans. Demand for policy based loans has suffered from the inability of governments that are too distracted by immediate financial crises to formulate medium-term adjustment policies. Government officials that are struggling to combat fierce inflations or are busy travelling to New York, Paris or Tokyo to renegotiate debts do not have the time or inclination to address structural reforms whose pay-off may not be visible for years, but which may quickly generate hostile political reactions. Where officials do have an interest in structural adjustment, they may lack the knowledge of how to design programs that conform to Bank criteria. A period of learning may be required, during which government officials become familiar with the new objectives and language of Bank programs, and master the new format of policy based documents. But the single biggest demand constraint is undoubtedly that of loan conditionality.

7. POLICY CONDITIONALITY

Policy based loan conditionality has always been a stumbling block in the way of good relations between the Bank (and Fund) and their developing country membership. These historically

difficult relations were aggravated in the eighties, as a consequence of the enhanced role of the Bretton Woods institutions in the region.

Aspirations of national sovereignty inevitably conflict with the reality of global economic interdependence. When interdependence is institutionalized in a multilateral agency, the conflict is personified. Domestic policy monitoring by an international agency is particularly prone to raise sovereignty issues. Big countries specially will resist external efforts to influence their policymaking. Compromise is the only possible solution to the dilemmas posed by the inevitable conflicts between sovereignty and institutionalized interdependence as represented by multilateral organizations as the Bank.

While some conflict is inevitable, tensions between the Bank and LA governments have become more acute as a result of a number of factors, both stylistic and substantive. The undiplomatic style of the U.S. Treasury under the Reagan administration made only too obvious the degree of interference of that country in the decision making process of the Bank. Its credibility as a relatively non-political, genuinely multilateral agency was thus undermined. Furthermore, some Bank missions were intellectually arrogant, lacking recognition of the economic complexities and the political difficulties involved in the large-scale policy reforms they began requesting of member countries. As a consequence, textbook recommendations and ready-made solutions sometimes substituted for a deeper consideration of the theoretical and practical problems involved in these reforms.

Conflict also arose regarding the nature of such reforms, involving apparent dilemmas between incomes policies versus fiscal austerity in anti-inflation programs; state-owned versus transnational corporations; protectionism versus trade liberalization; import substitution versus export promotion. In practice, however, the divergence of views over these policy issues has become much less pronounced than in the past. Countries will quarrel about the proliferation of conditionality criteria, the required speed of adjustment, the lack of adequate external financing, or the intellectual arrogance and the insensitivity toward political realities of the Bank staff and board. But as expounded before there has been a marked shift of attitude in Latin America on the importance of appropriate incentives, economic efficiency and fiscal responsibility, for the promotion of domestic economic growth.

Most important of all has been the lack of effective external financial support for a growth oriented adjustment program. When adjustment comes to mean curtailing investment, it is hard to find much room for agreement between the adjustor and the adjustee. Even under the recently authorized general capital increase, the Bank by itself can only make a dent in the problem as long as private creditors remain indisposed towards LA and continue to drain large sums of net resources from the region.

The solution to the current disputes over policy-based loan conditionality depends partly on adjustments of style, partly on a revision of procedures, particularly on a change of policy

attitudes, but mostly on the provision of adequate external finance. This leads naturally to a discussion of the "catalytic role" of the Bank.

8. THE WORLD BANK AND PRIVATE LENDERS

Recently, the World Bank has made some effort to follow the IMF's example of persuading private creditors to participate in financial packages tied to economic reform programs. Two types of instruments have been used: (1) formal linkages between its own lending and that of commercial lenders; and (2) specific credit enhancement of selective portions of the new money package. The linkages in principle can be of four types:

(i) Issuance of statements by the borrower or the Bank, pertaining to the eligibility of the borrower for Bank loans or the net resource transfer from the Bank to the borrower, that would trigger the release of tranches, under the commercial lending agreement.

(ii) In certain parallel financings, in which the commercial loan is tied to a particular Bank loan, the Bank has agreed to share non-confidential information on the status of the Bank loan, the borrower's eligibility to drawdown WB loans and other factors related to the financing.

(iii) In some cofinancings, the drawdown availability under the commercial loan is conditioned upon events such as release of WB loan tranches, loan effectiveness, or loan approval.

(iv) A more controversial instrument are optional cross default clauses, inserted in the Bank's own loan agreement, which would allow for the Bank to declare default in cases where the parallel commercial loan has been suspended, terminated, or accelerated.

Apart from the formal linkages, the Bank can play a catalytic role by providing specific credit enhancement on specific portions of the new money package. In principle, this can be provided either through partial guarantees or by taking a direct participation in a syndicated loan. As a guarantor, the Bank's role is to make certain payments if the borrower fails to do so. As a direct participant in a commercial loan, the Bank's legal standing is essentially the same as that of the commercial banks. This means that in order for the Bank to be repaid on either interest or principal, the co-lenders must also be repaid on their own claims, effectively elevating the entire loan to preferred creditor status. The relatively targeted and confined nature of guarantees has thus made them the instrument of choice in providing credit enhancement to new money agreements.

The Bank has provided catalytic support to commercial banks' lending agreements with restructuring countries in ten instances, seven of them in LA. Guarantees were provided in three instances: Chile in 1985, Uruguay in 1986 and Mexico in 1987. In the other cases, the Bank agreed to varying degrees of linkages. In spite of commercial bank pressures, in no case has the Bank agreed to direct participation in a loan, for the reasons cited above.

Numerous potential new money techniques are being developed, which could involve Bank participation, such as new money bonds, convertible bonds, interest capitalization, contingent lending agreements, interest rate hedging techniques, commodity-linked bonds, and trade financing facilities. An example of potential Bank participation in these new techniques is the so called "rolling" guarantees of interest that would cover, at any given time, one or two interest installments, but would - if the covered payments are made - "roll" to subsequent payments.

Use of the Bank's credit enhancement power through these new techniques would have to be balanced against four considerations: (i) they spend Bank's capital and hence detract from direct Bank lending; (ii) in view of the special nature of the Bank-borrower relationship, the Bank has access to confidential information which may preclude it from undertaking certain roles such as bond underwriting involving full disclosure clauses; (iii) the Bank should assure itself that it is in fact enhancing and not replacing the credit and financial judgement of private financial institutions, for it is the responsibility of the commercial banks and not of the Bank to make the concerted lending process more streamlined and responsive; and (iv) preservation of the Bank's prime standing in the financial markets remains a dominant concern in deciding on the Bank's role in the heavily indebted countries.

9. DEBT REDUCTION SCHEMES

A worrisome aspect for the World Bank of these innovations in the "menu approach" to the debt workout process is the prospective expansion of its commitments in the highly indebted medium income countries. To sustain growth in the range of 4-5 percent per year in these countries, the Bank estimates the need for commercial banks financing in the range of at least \$6-9 billion per year¹⁵. This compares with net flows over the past three years of less than \$4 billion per year, which was concentrated on a few large countries and part of which was in the form of interest arrears. The Bank correctly doubts that the sharp decline in concerted new money packages is likely to be reversed, particularly for some of the smaller countries. Prospects are in fact that all countries will continue to experience serious difficulties in mobilizing support from commercial banks.

The failure of the heavily indebted countries to secure adequate financial relief from private banks and other sources creates difficult problems for the Bank. First, because the adjustment programs it supports becomes underfunded, and hence, the risk of breakdowns of debt service increases. Second, because the Bank's share of total debt service rises over time, thus weakening the capacity of the borrower to respect its preferred

¹⁵ Bank's projections of foreign capital requirements are based on balance of payments needs. This may severely underestimate the requirements of countries, such as Brazil, the main growth restriction of which is not the balance of payments but rather the fiscal budget.

creditor status. Hence, to maintain the quality of its loan portfolio, the Bank has a strong interest in helping ensure that countries secure adequate financial relief from other creditors.

The experience indicates that the difficulties of ensuring new money packages from the private creditors for all but the largest debtors are probably insurmountable. The wisdom of insisting with new money packages for the largest debtors may also be questioned. For the commercial banks have already made clear that if new bank lending is to come forth in adequate amounts, ways must be found to provide measurable credit enhancement, through explicit WB guarantees. But a significant expansion of these guarantees is limited both by the Bank's capital and by the preferred creditor status that the Bank currently enjoys in debtor countries. Hence, it might be more interesting for the Bank in furthering its catalytic role to search for a consensual reduction in existing debt service rather than a further addition to the debt stock of the region.

As an illustration - and considering that LA debt is currently being sold at an average 55 percent discount in the New York secondary market -, if an average 50 percent discount were applied to all long term LA debt to private creditors (an estimated \$232 billion, or 35 percent of LA's GNP in 1987), the total net external debt of the region (an estimated \$353 billion, or 53 percent of LA's GNP) would fall by one third. Provided that private net capital inflows remained unaffected, the resulting decline in interest payments - an estimated \$10 billion per year -

would amount to a reduction of about 1.5 percent of GNP of the financial transfers of the region to abroad. Combined with an increase in the internal savings rate of 1.25 percent of GNP, and an expansion of official external credits of .75 percent of GNP (or \$5.0 billion per year), this would allow fixed investment to increase from the current 17.5 to 21 percent of GNP, thus permitting Latin America to resume growth at the rate of 5 percent per year¹⁶.

The previous calculations suggest that two conditions need to be satisfied, for a debt reduction scheme to have a decisive impact on the growth perspectives of LA. First, net official capital inflows should be stepped up, and private capital inflows maintained at current levels ¹⁷. Second, complementary domestic resource mobilization and efficiency improving measures - i.e., lower ICORs and higher domestic savings rates - should be an integral part of the scheme.

Operationally, debt service relief can be achieved either through debt reduction techniques (i.e., that work on reducing the principal outstanding) or through interest reductions or waivers.

¹⁶ The figures for the above calculations - excepting the incremental capital-output ratio - are from the World Bank and the IMF as presented in Barandiaran. The estimated ICOR of about 4 is much lower than the average for the eighties, but slightly higher than in the 1965/81 period, as can be seen in Table 1(B).

¹⁷ This basically means that non-debt creating flows, to the tune of \$3.5 billion in 1987, should not be negatively affected, as net external borrowing from private creditors and short-term flows were already negative - minus \$1.8 billion - in 1987.

Debt reduction has naturally attracted greater interest as increased discounts have appeared in the secondary market in LDC debt. The basic idea is to issue some form of tradable security in exchange for existing loan claims. The Mexican collateralized exchange scheme significantly increase the flow of proposals in this area. Collateralized schemes have the obvious drawback that upfront resources for securing the principal and waivers of negative pledge by creditors are required.

Debt service relief can also come from interest reduction or waivers. An advantage of interest reduction from the standpoint of lenders is that they could allow a more gradual recognition of loss than an upfront writedown of principal. Also, the rescindable nature of waivers makes them more easily tied to conditionality. Interest waivers are also easier to accomplish in the context of syndicated loan agreements. On the negative side for creditors, interest waivers do not affect their exposure to the country. From the point of view of borrowers, interest waivers also provide significant cashflow relief, without requiring upfront payment as in cash buybacks or collateralized exchange offers.

In both circumstances of debt relief, the range of possible WB involvement as quite broad. One form of support in the case of Mexico's collateralized exchange offer was the waiver of the Bank's negative pledge, which was necessary to allow the transaction to proceed. Other possibilities include official encouragement to debt repurchases at a discount (as the Bank missed doing in the case of Bolivia), various forms of trustee

arrangements including monitoring of conditional interest rate reductions or waivers, establishing selective optional cross-default linkages between WB loans and bonds issued in exchange for commercial bank debt, partial guarantees, and issuing specifically tailored WB securities to provide top-grade collateral for Mexico-type exchange offers. The provision of partial guarantees on a largely self-financing basis, and hence using little or no Bank's capital, is also a possibility: the Bank would charge a premium for the guarantee approximately equal to the present value of its obligation. The premium plus accumulated reserves would be refunded to the borrower if the guarantee was not called.

This discussion seems to confirm that the most productive catalytic role for the Bank - in terms of achieving a lasting resolution of the LA debt crisis - may be to facilitate some form of consensual reduction in existing debt service rather than a further addition to the debt stock.

10. SUMMARY AND CONCLUSIONS

The purpose of this paper was to review the structural adjustment problems of the Latin American economies, and the role that the World Bank can play in a growth enhancing solution to the debt crisis of the region.

Latin America's economic growth before the debt crisis was reviewed, in a comparative international perspective. The stagflationary consequences of the external shocks of the early

eighties were considered. This led to a discussion of the institutional weaknesses of the Latin American economies, revealed both by their lackluster performance in the postwar period, and their lethargic response to the debt crisis.

The discussion suggested that a new pragmatism about needed institutional reforms and economic policy making changes is emerging in the region. This should facilitate a policy dialogue with the World Bank, with a view to developing a growth oriented solution to the debt crisis.

A review of World Bank lending to Latin America in the eighties revealed a worrisome tendency for decreasing net transfers to the region, which can hopefully be reversed now that the Bank's capital basis has been substantially enhanced.

Adjustment lending is already responsible for one third of Bank lending to the region, and its tendency is to increase, provided that a meeting of minds between World Bank officials and Latin American economic policy makers can be developed about the needed policy reforms and the nature of the Bank's conditionality. Hybrid loans are a welcome new development in the Bank's menu, as they incorporate an investment content thus sharpening the policy focus of Bank's financing.

But the main issue in Latin American relations with the Bank is the lack of effective external financial support for a growth oriented adjustment program. Even under the recently authorized general capital increase, the Bank by itself can only make a dent in the problem, as long as private creditors remain

indisposed towards Latin America and continue to drain large sums of net resources from the region.

A discussion followed of the "catalytic role" of the Bank. Recently, the Bank has been making increasing efforts to persuade private creditors to participate in financial packages tied to economic reform programs in the region, both through formal linkages between its own lending and that of commercial lenders and through guarantees and cofinancing. Two types of problem emerge. First, the involvement of the Bank with the commercial banks may become too close for a multilateral development institution which should be exclusively oriented by the collective interests of its shareholders. Second, experience indicates that the difficulties of ensuring new money packages from the private creditors for all but the largest debtors are probably unsurmountable.

Thus, the most productive catalytic role for the Bank - in terms of achieving a lasting resolution of the Latin American debt crisis - may be to facilitate some form of consensual reduction in existing debt service rather than a further addition to the debt stock. Alternative possibilities for debt reduction with World Bank participation are discussed, and illustrative calculations are made to show that these debt reduction schemes can have a decisive impact on the growth perspectives of Latin America, provided that they are accompanied by a stepping up of official capital flows and by complementary domestic resource mobilization and efficiency improving measures.

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TABLE 1

LATIN AMERICA AND OTHER REGIONS:
COMPARATIVE MACROECONOMIC RECORD

(A) AVERAGE NATIONAL SAVINGS RATIOS (*), 1960-81

Regions(**)	1960	1970	1981
Latin America and the Caribbean	19.4	20.4	19.5
Southern Europe	18.6	20.6	18.8
East Asia and Pacific	10.3	18.0	25.7
Industrial market economies	23.2	25.0	22.0

(B) INCREMENTAL CAPITAL-OUTPUT RATIOS, 1960/1981 (***)

Region	1960/65	1965/70	1970/81
Latin America and Caribbean	3.6	3.2	3.6
Southern Europe	3.7	3.5	5.4
East Asia and Pacific	2.4	2.4	3.2
Industrial mkt economies	4.2	5.2	7.9

[Table 1 continues next page]

[Table 1, continued]

(C) EXPORTS AND MANUFACTURING RATIOS, 1980/81

Region	Share of manufacturing in GDP at factor costs, excluding services (1981)	Share of manufactures in total merchandise exports (1980)	Share of exports of goods and NFS in GDP at market prices (1980)
Latin America and the Caribbean	43.9	22.2	16.9
Southern Europe	50.5	65.3	22.0
East Asia and Pacific	47.2	47.0	47.2
Industrial market economies	53.8	73.6	19.8

(D) COMPARATIVE GDP GROWTH RATES, 1950-86
(average annual real growth rates)

Regions	1950-65 total (per capita)		1965-81 total (per capita)		1981-85 total (per capita)	
Latin America and Caribbean	4.9	(1.9)	5.5	(2.9)	1.4	(-0.8)
Southern Europe	6.2	(4.4)	5.6	(3.9)	2.5	(1.3)
East Asia and Pacific	5.4	(2.8)	8.0	(5.6)	4.8	(2.7)
Industrial market econ.	4.6	(3.3)	3.6	(2.8)	2.8	(2.2)

[Table 1 continues next page]

[Table 1 continued]

NOTES TO TABLE 1:

(*) Gross national savings (excluding net current transfers from abroad), expressed as a percentage of gross national product at current market prices.

(**) The following are the countries included in each region:

Latin America and the Caribbean: Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, French Guiana, Grenada, Guadeloupe, Guatemala, Guyana, Haiti, Honduras, Jamaica, Martinique, Mexico, Netherlands Antilles, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, Venezuela, Virgin Islands (U.S.).

Southern Europe: Cyprus, Gibraltar, Greece, Israel, Malta, Portugal, Turkey, Yugoslavia.

East Asia and Pacific: American Samoa, Fiji, French Polynesia, Guam, Hong Kong, Indonesia, Kampuchea Democratic, Kiribati, Korea Democratic Republic, Korea Republic, Lao People's Democratic Republic, Macao, Malaysia, Mongolia, New Caledonia, Papua New Guinea, Philippines, Singapore, Solomon Islands, Thailand, Tonga, Trust Territory of the Pacific Islands, Vanuatu, Viet Nam, Western Samoa.

Industrial Market Economies: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany Federal Republic, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, United Kingdom, United States.

(***) Calculated as the sum of the gross domestic fixed investment from the first year of the period to the year preceding the ending year, divided by the change in GDP over the period (both at constant prices). Since the total of fixed investment prior to 1970 is not available for the Latin American countries, gross domestic investment was used for 1960/65 and 1965/70.

SOURCE: WB (1984) and by private communication.

TABLE 2

LATIN AMERICAN COUNTRIES AND OTHERS:
SHARE OF THE LOWEST 40 PERCENT
IN HOUSEHOLD INCOME

Region and Country	Year	Lowest 40 percent income share
Latin America and the Caribbean		
El Salvador	1976-77	15.5
Peru	1972	7.0
Costa Rica	1971	12.0
Brazil	1972	7.0
Mexico	1977	9.9
Argentina	1970	14.1
Venezuela	1970	10.3
Trinidad and Tobago	1975-76	13.3
Southeast Asia and Pacific		
Indonesia	1976	14.4
Philippines	1985	14.1
Thailand	1975-76	15.2
Malaysia	1973	11.2
Rep. of Korea	1976	16.9
Hong Kong	1980	16.2
Southern Europe		
Turkey	1973	11.5
Portugal	1973-74	15.2
Yugoslavia	1978	18.7
Israel	1979-80	18.0

SOURCE: WB (1987), Table 26, pp. 252-3.

TABLE 3

LATIN AMERICA AND OTHER REGIONS:
COMPARATIVE INFLATION RATES, 1969-85
(average compound annual rates of change of consumer prices)

Region	1969-79	1980-82	1983-85
Latin America and the Caribbean [i]	32.3	60.4	126.9
Asia (developing countries) [ii]	8.6	10.0	7.1
Europe (developing countries) [iii]	11.8	29.9	24.5
Industrial market economies [iv]	7.7	9.8	4.6

NOTES: [i] As in Table 1, excluding Bermuda, Cuba, French Guyana, Guadeloupe, Martinique, Puerto Rico, and Virgin Islands (U.S.).

[ii] Afghanistan, Bangladesh, Burma, China, Fiji, India, Indonesia, Korea Republic, Lao P.D. Rep., Malaysia, Maldives, Nepal, Pakistan, Papua New Guinea, Philippines, Singapore, Solomon Islands, Sri Lanka, Thailand, Vanuatu, Viet Nam, Western Samoa.

[iii] Cyprus, Greece, Hungary, Malta, Poland, Portugal, Romania, Turkey, Yugoslavia.

[iv] As in Table 1.

SOURCE: IMF (1987), Tables A9 and A11, pp. 48 and 50.

TABLE 4

LATIN AMERICA: IMPACT OF THE NET TRANSFER
OF FINANCIAL RESOURCES, 1979-86

Year	Net capital inflows (US\$bi)	Net factor services (US\$bi)	Transfer of financial resources from abroad US\$bi as a % of GDP	
1979	29.1	-13.6	15.5	3.4
1980	29.7	-18.2	11.5	2.2
1981	37.6	-27.2	10.4	1.8
1982	20.4	-38.8	-18.4	-3.0
1983	3.0	-34.4	-31.4	-5.1
1984	9.3	-36.3	-27.0	-4.1
1985	3.3	-34.8	-31.5	-4.5
1986	8.7	-30.5	-21.8	-2.9

NOTE: The transfer of financial resources from abroad is equal to the difference between net capital inflows and net factor services.

SOURCE: ECLA (1987), Table 15, p. 23; except for the GDP figures which are as in Note B of Table 6.

TABLE 5

LATIN AMERICA: IMPACT OF THE TERMS OF TRADE
DETERIORATION, 1980-86

Year	Merchandise exports at constant 1980 dollar prices	Terms of trade (1980=1.0)	Purchasing power of exports (PPE)	Difference between PPE and exports at constant 1980 US dollar prices	
	(US\$blns.)		(US\$blns.)	US\$blns.	as a % to GDP in 1980 prices
1980	89.1	1.000	89.1	---	---
1981	95.9	.940	90.1	- 5.8	-1.1
1982	87.4	.852	74.5	-12.9	-2.5
1983	87.5	.856	74.9	-12.6	-2.5
1984	97.7	.930	90.9	- 6.8	-1.2
1985	92.0	.910	83.7	- 8.3	-1.5
1986	78.3	.840	65.8	-12.5	-2.2

NOTE: The purchasing power of exports is equal to the product of the constant dollar value of exports by the terms of trade.

SOURCES: ECLA(1987), Tables 12 and 15, pp. 20 and 23; and Bianchi, Devlin, and Ramos, Table 2; except for the GDP in 1980 dollars, the sources for which are as in Note B to Table 6, with the following values in US\$ billions: 1980 (\$524.5), 1981 (528.1), 1982 (521.8), 1983 (508.2), 1984 (527.6), 1985 (545.4), 1986 (565.4).

TABLE 6
LATIN AMERICA:
FINANCING OF CAPITAL FORMATION
(in percent of GDP)

Year	Gross capital formation	Foreign savings	Factor services	Net transfer from abroad	Internal savings
	(1)	(2)	(3)	(4)	(5)
1979	23.4	4.7	-2.4	2.3	21.1
1980	23.3	5.8	-3.0	2.8	20.5
1981	23.2	7.4	-4.2	3.2	20.0
1982	20.5	7.0	-5.7	1.3	19.2
1983	17.4	1.8	-5.3	-3.5	20.9
1984	17.4	0.4	-5.3	-4.9	22.3
1985	17.4	0.6	-4.6	-4.0	21.4
1986	18.8	2.3	-3.9	-1.6	20.4

SOURCES AND NOTES: (A) Gross capital formation is as in IMF (1987), Table A7, p.46, and represents arithmetic averages of country ratios, weighted by the average US dollar value of GDPs over the preceeding three years.

(B) Foreign savings is equal to the current account balance and factor services is equal to the net investment income, as they appear in US dollar terms in IMF (1987), Table A36, p. 79. The US dollar value of LA GDP was calculated as follows: the basis was an estimate of the GDP value for 1984 in IDB (1986), Table 3, p. 408; the other numbers were constructed by applying the US GDP price deflator (in IMF, 1987) to the real product series in ECLA (1987). The estimated series for LA's GDP in US\$ billion is as follows: 1979(453.0), 1980(524.7), 1981(578.8), 1982(608.5), 1983(614.9), 1984(662.3), 1985(706.8), 1986(751.9).

(C) The values for net transfers from abroad were obtained as a residual, from the identity: (4) = (3) + (2).

(D) The values for internal savings were obtained as a residual, from the identity: (5) = (1) - (4).

TABLE 7

WORLD BANK NET TRANSFERS TO LATIN AMERICA
 (by fiscal years unless otherwise specified
 and in billions of dollars)

Item	FY1982	FY1983	FY1984	FY1985	FY1986	FY1987	1987
Commitments	3.0	3.5	3.0	3.7	4.8	5.1	5.2
<u>of which:</u>							
Adjustment lending5	.7	.5	1.5	1.5	n.a.
Gross Disbursements	1.9	2.1	2.9	3.2	3.1	4.7	3.8
Less Repayments	.6	.7	.9	1.1	1.5	2.1	2.3
Net Disbursements	1.3	1.4	2.0	2.1	1.6	2.5	1.5
Less Interest & Charges	.7	.8	1.0	1.0	1.5	1.9	2.0
Net Transfer	.6	.6	1.1	1.2	.2	.6	- .5

SOURCE: World Bank.

TABLE 8

WORLD BANK STRUCTURAL ADJUSTMENT LOANS TO LATIN AMERICA,
FISCAL YEARS 1980-87

Country	Amount (\$m)	Board Approval
Bolivia	50.0	06/05/80
Chile I	250.0	10/22/85
II	250.0	11/20/86
Costa Rica	80.0	04/16/85
Dominica	3.0	06/09/87
Jamaica I	76.2	03/23/82
II	60.2	06/14/83
III	55.0	11/20/84
Panama I	60.2	11/15/83
II	100.0	12/11/86
Uruguay	80.0	06/16/87

SOURCE: World Bank

TABLE 9

WORLD BANK SECTORAL ADJUSTMENT LOANS TO LATIN AMERICA,
FISCAL YEARS 1979-87

Country	Loan/Credit	Amount (\$m)	Board Approval
Argentina	Agriculture sector	350.0	04/03/86
	Trade policy	500.0	05/19/87
Bolivia	Recon. Import I	55.0	05/20/86
	Recon. Import II	47.1	06/23/87
Brazil	Ag. Credit/Ex. Dev.	303.0	10/04/83
	Export Development	352.0	10/04/83
Colombia	Agriculture Sector	500.0	06/26/86
	Trade Policy	300.0	05/23/85
	Trade & Ag. Sector	250.0	04/15/86
Costa Rica	Export Development	25.2	05/03/83
Ecuador	Agriculture Sector	100.0	10/22/85
Jamaica	Export Dev. Fund I	31.5	05/31/79
	Export Dev. Fund II	37.0	04/30/81
	Export Dev. Fund III	30.1	06/16/83
	Public Enterprises	20.0	06/17/87
	Trade & Finance	40.0	06/17/87
Mexico	Export Development	350.0	06/23/83
	Trade Policy	500.0	07/29/86
Uruguay	Agriculture Sector	60.0	08/08/84

SOURCE: World Bank.

TEXTOS PARA DISCUSSÃO

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150. Abreu, M.P. e W. Fritsch; "GSP Graduation: Impact on Major Latin American Beneficiaries".
151. Franco, G.H.B.; "Fiscal 'Reforms' and the Ends of Four Hyperinflations".
152. Carneiro, D.D.; "The Cruzado Experience: An Untimely Evaluation After Ten Months/1".
153. Amadeo, E.J. e A.K. Dutt; "The Neo-Ricardian Keynesians and the Post-Keynesians".
154. Modiano, E.M.; "The Cruzado Plan: Theoretical Foundations and Practical Limitations".
155. Franco, G.H.B.; "Política de Estabilização no Brasil: Algumas Lições do Plano Cruzado".
156. Neto, A.F.; "Problemas do Controle Monetário no Brasil".
157. Abreu, M.P. e W. Fritsch; "G-5 Policies, Credit Availability and Latin American Growth".
158. Bacha, E.L.; "Do Acordo de Plaza à Moratória Técnica: os Tortuosos Caminhos da Renegociação da Dívida Externa Brasileira, 1983-87".
159. Franco, G.H.B.; "The Rentenmark 'Miracle'".
160. Moggridge, D.E.; "Problems in the History of the International Economy since 1870: the Gold Standard".
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162. Moraes, P.B.; "Keynes and the Role of Monetary Policy in a Stabilization Program".
163. Werneck, R.L.F.; "Public Sector Adjustment to External Shocks and Domestic Pressures in Brazil, 1970-85".
164. Moggridge, D.E.; "On Editing Keynes".
165. Modiano, E.M.; "Necessidade e Dificuldade de um Novo Cruzado".
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171. Modiano, E.M.; "Plano Cruzado: a Primeira Tentativa".
172. Feinberg, R.E. e E.L. Bacha; "When Supply and Demand don't Intersect: Latin America and the Bretton Woods Institutions in the 1980s".
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175. Werneck, R.L.F.; "Um Modelo de Simulação para Análise do Financiamento do Setor Público".
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177. Amadeo, E.J.; "Teoria e Método nos Primórdios da Macroeconomia [IV]: Hicks e o Difícil Compromisso entre Tempo e Equilíbrio".
178. Franco, G.H.B.; "Direct Investment in Brazil: Its Role in Adjustment and Emerging Issues".
179. Carneiro, D.D.; "Heterodoxia e Política Monetária".
180. Modiano, E.M.; "Repases Mensais X Reajustes Trimestrais".
181. Bacha, E.L.; "Moeda, Inércia e Conflito: Reflexões sobre Políticas de Estabilização no Brasil".
182. Corrêa do Lago, L.A.; "Economic Relations of Brazil and the European Economic Community in the Post-War Period: a Historical Perspective and the Present Situation".
183. Modiano, E.M.; "Novo Cruzado e Velhos Conflitos: o Programa Brasileiro de Estabilização de 12 de Junho de 1987".
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186. Moraes, P.B. e L. Serven; "Currency Substitution and Political Risk: México 1978-82".
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193. Abreu, M. de P.; "Brazil as a Creditor: Sterling Balances, 1940-1952".
194. Abreu, M. de P.; "On the Memory of Bankers: Brazilian Foreign Debt, 1824-1943".
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