

Westphalen, Jürgen

Article — Digitized Version

Latin America's external indebtedness

Intereconomics

Suggested Citation: Westphalen, Jürgen (1977) : Latin America's external indebtedness, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 12, Iss. 9/10, pp. 275-277, <https://doi.org/10.1007/BF02928812>

This Version is available at:

<https://hdl.handle.net/10419/139496>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Latin America's External Indebtedness

by Jürgen Westphalen, Hamburg *

Latin America's foreign debts have been mounting fast in the last ten years. The following article shows that it would nevertheless be wrong to suggest that Latin America has generally run up excessive debts.

The rapid increase of Latin America's external indebtedness is attracting increasing attention in economic circles but is not always judged with sufficient objectivity. The discussion is often confined to comments about the absolute debt level. This has indeed risen in recent years at a rate which may, at a first glance, arouse misgivings. However the implications of the external indebtedness of a country can neither be appraised without some knowledge of the distribution of debts between creditors as well as borrowers and the main debts terms nor without an examination of the trends of indebtedness in relation to other relevant economic data. A study of Latin America's external debt situation and prospects, published by the Inter-American Development Bank in May 1977¹, provides comprehensive statistical information about the problems involved which makes it much easier to give a broad picture and judge the question objectively.

Escalating External Indebtedness

References in the following to Latin America's *public* external debt relate to those amounts which have actually been paid out to public debtors; credits on which drawings have not, or not yet, been made are left out of account. One Latin American country has been excluded from the study — Venezuela which thanks to its high balance of payments surpluses occupies a special position.

At the end of 1966 Latin America's public external debts amounted to US \$ 9,689 mn; for the end of 1976 they have been put provisionally at US \$ 49,074 mn. Over ten years the total public external debt has thus risen fivefold. Moreover, the rate of increase has quickened greatly: in the first half of the period (1967–1971) the indebtedness rose by 74 p.c., in the second half (1972–1976) by as much as 190 p.c.

However these figures call for a somewhat closer examination. The term "Latin America's external indebtedness" is in itself misleading, as are most generalizations about the economic life of the continent. There is no Latin American economy;

for any assessment of economic facts or trends in the region it is indispensable to differentiate between groups of countries.

In 1975 the seven major debtor countries² accounted for no less than 87.4 p.c. of Latin America's total public external indebtedness; no more than 12.6 p.c. was thus left for the other 15 countries. The two largest debtors — Brazil and Mexico — shared 57 p.c. of the continent's total public external debt between them. These percentages are, by and large, proportionate to the size of population and national income of the respective groups of countries.

While the statistical information about the public indebtedness is reliable, the figures available in the various countries of Latin America about the external debts of the *private* sector vary quite considerably in extent and reliability; regarding this sector one must therefore be contented with estimates. The figures for Brazil are adequate, and reasonable estimates are also available for Mexico; for these two largest debtor countries it is thus possible to indicate the magnitude of the total — *public and private* — external indebtedness. For Mexico the total foreign debt on December 31, 1976, is put at about US \$ 27 bn and the public debt alone at about US \$ 20 bn which leaves about US \$ 7 bn for private debts to foreign countries — some 26 p.c. of the total. The corresponding figures for Brazil at the same date were: total external indebtedness US \$ 27–28 bn, public debt US \$ 17 bn; hence the private foreign debts amounted to US \$ 10–11 bn, i.e. 37–39 p.c. of the total external debt.

In most Latin American countries the private debts probably account for a smaller part of the total external indebtedness than in Brazil and also in Mexico, for credit becomes in general more readily available to the private sector as a country's economic and, in particular, industrial development progresses. It is therefore probably rea-

* Divisional Manager, Deutsch-Südamerikanische Bank AG.

¹ Banco Interamericano de Desarrollo: El endeudamiento externo de América Latina: Situación actual y perspectivas.

² Argentina, Brazil, Colombia, Chile, Mexico, Peru, Uruguay.

sonable to put Latin America's private external debt at about 20–22 p.c. of the total indebtedness to the outside world. On this assumption by the end of 1976 the external debts incurred by *public and private* borrowers in Latin America (leaving Venezuela aside) would amount to US\$ 61–63 bn.

Foreign Indebtedness and Economic Development

In the ten years from 1966 to 1975 the Latin American gross national product rose at an average rate of 6 p.c. annually. In some countries – especially Brazil, the Dominican Republic and, although not quite to the same extent, also Colombia and Mexico – the average growth rate was even higher. A special feature was the upsurge of the investment coefficient: in the late sixties investments amounted to less than 19 p.c. of GNP; by the mid-seventies the figure was close to 24 p.c. The growth of investment activity was based on an increase of the imports of capital goods and technology. For the ten years from 1966 to 1975 it has been calculated that for every one-per-cent increase of the gross domestic product imports advanced by 1.25 p.c. It was impossible to finance the rising imports out of export earnings alone, for the imports increased over these ten years at an annual rate of 7.4 p.c. whereas the exports went up by 4.1 p.c. only. Without a steady inflow of foreign capital – and this means: without growing external indebtedness – such persistent economic growth as experienced in Latin America during the last ten years would have been impossible. To give just one example: in the mid-sixties the influx of capital from abroad supplied barely 7 p.c. of the financing for the expanding investment activity which has been the driving force for Latin America's economic development in the last ten years; but ten years later already 18.5 p.c. came from this source.

External Causes of the Growing Indebtedness

The economic growth in Latin America does not by itself offer a full explanation for the increase of the external indebtedness over the last ten years. Certain economic occurrences outside the South American continent have also had an appreciable effect on the economic development and the debt situation. In this connection mention must be made of the slow-down in the Western industrialized countries since 1974 and especially the oil price explosion and the rise – in part caused thereby – of the prices for many industrial goods. The impact of the higher oil prices may be judged from their effect on Brazil, the largest country in Latin America, which is engaged in an intensive industrialization process and de-

pends on imports for about 80 p.c. of its oil requirements: Brazil spent about US\$ 770 mn on oil imports in 1973 and had to pay nearly US\$ 3 bn – almost four times as much – for an only slightly larger tonnage in 1974.

The cyclical constraints on exports and the higher import prices hitting the Latin American countries at the same time placed a heavy extra burden on their balances of payments, forcing them to dip into their currency reserves and draw more heavily on foreign sources of financing. In its annual report for 1976³ the Inter-American Development Bank acknowledged that in recent years the growth of external indebtedness was indicative of a very gratifying response by the international financial circles to the more difficult foreign trade conditions experienced by Latin America.

Is the Debt Burden Too Heavy?

Opinions differ widely on the question whether Latin America has reached, or perhaps already exceeded, the limits of its borrowing power. It is surely significant that – in spite of the large absolute increase of Latin America's external indebtedness – the debt servicing ratio, i.e. the proportion of export earnings absorbed by interest and redemption payments due, has undergone little change in these last ten years. The debt service, in which the Inter-American Development Bank in the quoted study includes the interest and redemption payments for foreign loans to public authorities and the profit transfers attributable to foreign direct investments⁴, was equal to 26.8 p.c. and 28.4 p.c., respectively, of the export earnings in 1966 and 1976. For the seven major debtor countries in Latin America the ratio is somewhat higher (1966: 31.1 p.c.; 1976: 33.3 p.c.) but the change over the ten-year period was also remarkably small. In the other countries of Latin America the ratio of debt service to export earnings fluctuated around 17 p.c.

These figures show that firstly over the ten-year period Latin America's export earnings have more or less increased in the same rhythm as the debt service outlays and, secondly, that many Latin American countries – and especially those making up the large group of smaller debtor countries – have apparently not yet availed themselves of their full potential borrowing capacity.

It may be mentioned in this context that Latin America's foreign currency reserves have been rising strongly and steadily since 1966, and this trend has been more pronounced since the be-

³ Banco Interamericano de Desarrollo: Informe anual 1976, p. 19.

⁴ The direct investments are not a formal part of the external debt; it is however advisable to take the profit transfers attributable to direct investments into account when calculating the debt service ratio.

ginning of the seventies. In 1976 they reached US \$ 14.9 bn (incl. Venezuela US \$ 23.5 bn).

It may be inferred from these facts that there is probably no immediate cause for the concern about the level of Latin America's indebtedness, which has been voiced frequently in the recent public discussion. The development of the debt servicing ratio shows clearly that ten years ago it was no less problematic than today to find the means for servicing the debt which must after all, in the final resort, come out of the earnings from exports; or to put it more positively: today as ten years ago the debt service need not be regarded as an insoluble problem.

The Structure of the Foreign Debts

A knowledge of the spread of the debts over different groups of creditors is indispensable if the burden of external debts for each debtor country is to be judged objectively. The information about the composition of the debts also admits of substantial conclusions about the terms of borrowings. Over the last ten years the borrowings by public authorities in Latin America from private banks abroad have definitely gained in importance compared with their borrowings from foreign governments. In its annual report⁵ the Inter-American Development Bank remarked in this connection: "Latin America's part in the international financial cooperation accorded to the developing countries, which is composed of bilateral public and private contributions by the member countries of the OECD's Development Assistance Committee and the finance provided by international agencies, declined from 22 p.c. (1973/1974) to 17 p.c. (1975). Only a little over 8 p.c. of the public development aid forming part of the total financial assistance in 1974/1975 went to Latin America. The inadequacy of these sources of finance against a background of mounting balance of payments deficits caused Latin America to make increasing efforts to gain access to other external finance facilities, especially in the Euro-currency markets." However, the normal interest and repayment conditions in the Euro-currency markets were too onerous for most of the Latin American countries as were likewise the requirements for access to these markets.

The shift towards private sources of external financing is illustrated by the following figures: The public debts to private creditors abroad in relation to Latin America's total public external debt rose from 40 p.c. in 1966 to 52 p.c. in 1975; foreign bank credits have become far more important among these public debts to private creditors (1966: 9 p.c.; 1975: 30 p.c.) while the sup-

pliers' credits are now less important (1966: 20 p.c.; 1975: 13 p.c.). The proportion of credits from international agencies and foreign governments has declined from 60 to 48 p.c., that from foreign governments alone relatively even more — from 38 p.c. (in 1966) to 26 p.c. (in 1975). The significance of the international agencies as a source of credits changed little in the past ten years; their share fluctuated between 20 and 24 p.c. of Latin America's total public indebtedness.

In general it may be noted that, as suggested in the quoted passage from the annual report of the Inter-American Development Bank, the terms for private credits tend to be more stringent than those of governments or international agencies; the interest rates are higher and the maturities shorter. The growing importance of private sources of financing has had the result that the proportion of external public debts coming up for redemption within five years rose from 44 p.c. in 1971 to 48 p.c. in 1974 while the borrowing costs which had increased in 1961–1965 at an average rate of 9.5 p.c. a year rose in 1974 by as much as 43 p.c. and in 1975 still by 33 p.c.

To sum up, Latin America's external indebtedness has increased considerably over the last ten years and more especially since the beginning of the seventies. The export earnings which are playing a crucial role as the main source of finance for servicing the debt have however risen at about the same pace. There is therefore certainly no general cause so far for the assertion that Latin America has incurred excessive debts. In the public discussion about this question, which is extremely important for the credit standing of the Latin American countries in the world, more attention should be paid to the particular trends in individual countries and groups of countries than is generally the case, and the trend of other relevant economic data must be taken into consideration.

The countries of Latin America will remain dependent upon foreign financing in order to cope successfully with the existing economic and social development problems. With advancing industrialization they will probably have to incur even heavier external debts. A lasting economic recovery in the industrialized countries, from which Latin America's exports would benefit, is therefore of utmost importance to them. It is equally important that the industrialized countries should hold their markets open to Latin American export goods. It is, besides, greatly to be desired that foreign governments and international agencies should pay more attention to Latin America in the allocation of credits on soft terms than they have done in the last years.

⁵ Banco Interamericano de Desarrollo: Informe anual 1976, p. 20.