

Bacha, Edmar L.; Feinberg, R. E.

**Working Paper**

## When supply and demand don't intersect: Latin America and the Bretton Woods institutions in the 1980's

Texto para discussão, No. 172

**Provided in Cooperation with:**

Departamento de Economia, Pontifícia Universidade Católica do Rio de Janeiro

*Suggested Citation:* Bacha, Edmar L.; Feinberg, R. E. (1987) : When supply and demand don't intersect: Latin America and the Bretton Woods institutions in the 1980's, Texto para discussão, No. 172, Pontifícia Universidade Católica do Rio de Janeiro (PUC-Rio), Departamento de Economia, Rio de Janeiro

This Version is available at:

<https://hdl.handle.net/10419/186419>

**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.*

Departamento de Economia

PUC/RJ

agosto 1987

TEXTO PARA DISCUSSÃO

Nº 172

WHEN SUPPLY AND DEMAND DON'T INTERSECT :  
LATIN AMERICA AND THE BREITON WOODS  
INSTITUTIONS IN THE 1980s

by

Richard E. Feinberg and Edmar L. Bacha

Paper prepared for the Sistema Economico Latinoamericano (SELA),  
Caracas, Venezuela, May 4-8, 1987.

WHEN SUPPLY AND DEMAND DON'T INTERSECT: LATIN AMERICA AND THE  
BRETTON WOODS INSTITUTIONS IN THE 1980s

by

Richard E. Feinberg and Edmar L. Bacha

The Bretton Woods institutions were established to stabilize the international financial system and to provide member countries with growth capital. Specifically, the IMF was created to make financial resources available to members "to correct maladjustments in the balance of payments without resorting to measures destructive of national and international prosperity."<sup>1</sup> The World Bank's purpose is to provide investment capital for "raising productivity, the standard of living and conditions of labor" in member nations.<sup>2</sup> Yet, in the 1980s, the Bretton Woods agencies have manifestly been unable to prevent a dramatic deterioration in the external financing of Latin America, and a consequent sharp decline in investment and per capita income.

Part of the problem has been the magnitude of the swing in private capital markets. Net annual private lending fell by a spectacular \$35 billion between 1980-82 and 1983-85 (Table 1). During the 1960s and 1970s growth in the resources of the Bretton Woods agencies failed to keep pace with the boom in private markets. The IMF especially fell behind, as its resources declined relative to global capital and trade

- 
1. IMF, Articles of Agreement, Article 1.
  2. IBRD, Articles of Agreement, Article 1.

## Summary

This essay examines the recent history of lending to Latin America by the International Monetary Fund and the World Bank. It describes the major policy shifts that have occurred, and analyzes new programs and resulting patterns of lending. The use of funds is compared to availability of funds, and reasons are given for the failures to take advantage of existing resources. Policy recommendations to make supply meet demand are offered in the conclusions.

## Resumo

Este ensaio examina a história recente dos empréstimos para a América Latina do Fundo Monetário Internacional e do Banco Mundial. Descrevem-se as mudanças políticas mais importantes que têm ocorrido, e analisam-se os novos programas e padrões resultantes de empréstimos. O uso dos recursos é comparado com a disponibilidade de recursos, e se discutem as possíveis razões para o fracasso em utilizar plenamente os recursos disponíveis. Recomendações de política para fazer com que a oferta se encontre com a procura são oferecidas nas conclusões.

flows. So when an unanticipated global recession hit in the early 1980s, and private markets suddenly ceased lending, the Bretton Woods agencies were caught without the means to fully counter these adverse shocks.

But all of the blame cannot be attributed to the failure of the policymakers in the industrial countries that control the major decisions in the Bretton Woods agencies to anticipate the travails of the 1980s. Once the crisis hit, first the IMF and then the World Bank did increase lending, but both agencies failed to fully utilize the resources that were at hand. Contrary to conventional wisdom, the chief constraint on greater IMF and World Bank lending has not been their own liquidity.

The IMF rapidly expanded its lending during 1982-85, but even at the height of its activities it made use of only about half of its readily available resources, and did not seek to draw on other potentially powerful sources of funds. Since 1985 the IMF has begun to withdraw financial resources from developing nations. And as of 1986, years after the debt crisis became evident, the World Bank still had not reached its sustainable lending level -- the maximum activity level consistent with its capital base. The key industrial countries, including the United States, have indicated their willingness to provide the Bank with more capital but only when the Bank fully expends the resources it has already been given.

This essay examines the recent history of lending to Latin America by the International Monetary Fund and the World Bank.<sup>3</sup> It describes the major policy shifts that have occurred in response to the shocks of the 1980s, and analyzes new programs and resulting patterns of lending toward developing countries in general and Latin America and the Caribbean in particular. The use of funds is compared to availability of funds, and reasons are given for the failures to take full advantage of existing resources. This "utilization gap" is explained in terms of policies of key industrial nations, attitudes, procedures and interests within the Bretton Woods agencies, policies in developing countries, and conflicts between lenders and borrowers. The inability to fulfill Latin America's capital needs is also explained in terms of the agencies' difficulties in catalyzing private capital flows. However, we will first characterize the demand for capital in the debt-ridden nations of the Western Hemisphere.

#### The Demand for Loans in Latin America

Just prior to the external shock waves of the early eighties, the rapidly growing Latin American economies were investing at a rate of over 23 per cent of GDP (see Table 2). The foreign contribution to this performance can be measured by different indexes. One alternative is the current account deficit -- which stood at over 5 per cent of GDP

---

3. In this essay the term World Bank is used synonymously with the International Bank for Reconstruction and Development (IBRD). The Bank has two other affiliates, the soft-loan International Development Association (IDA) and the International Finance Corporation (IFC).

(Table 2, column 4). Another is the net real resource transfer from abroad -- which was slightly over 2 percent of the combined GDP of Latin American economies (see Table 3). A third is the net transfer of financial resources from abroad -- which was also slightly over 2 percent of GDP.<sup>4</sup>

Informed opinion may differ as to which is the most appropriate measure of the foreign contribution to domestic growth, and different

---

4. These different measures of the foreign contribution are related to each other by the following set of national accounting identities:

(1) domestic investment = (GNP - domestic consumption) + current account deficit. The difference between GNP and domestic consumption is denominated "national" savings in Table 2.

(2) domestic investment = (GDP - domestic consumption) + net real resource transfer from abroad. The net resource transfer is equal to imports minus exports of goods and non-factor services; the difference between GDP and domestic consumption is denominated "internal" savings in Table 3.

(3) domestic investment = (GDP - domestic consumption) + foreign reserves use + net financial transfer from abroad. The net financial transfer is equal to net capital inflows minus net factor services to abroad.

The current account deficit is the more traditional concept of the foreign contribution to growth. It corresponds to that part of domestic investment which is financed by a net increase in the foreign liabilities of Latin American residents. By contrast, the net resource transfer separates the sources of financing not by the national origin of the factors of production, but by the national origin of the goods produced. Thus, the domestic contribution is the difference between GDP (instead of GNP) and domestic consumption, while the foreign contribution is the difference between imports and exports of goods and non-factor services. Factor services imports are excluded from the foreign contribution, since they correspond to domestically generated production. Finally, the net financial transfer considers as the domestic contribution not only the difference between GDP and consumption, but also the use of international reserves. Consequently, the foreign contribution is simply the difference between net foreign capital inflows and net factor payments to foreigners.

models may be used to substantiate these differing views.<sup>5</sup> From a purely empirical point of view, Table 2 indicates that the "national" savings rate (as measured by the GNP share not consumed domestically) tends to vary inversely with the GDP share of net factor payments to foreigners. For example, factor payments expanded from 3.4 to 5.0 per cent of GDP from 1980 to 1985, while "national" savings dropped from 18.6 to 17.2 per cent of GNP over the same period. Consequently, the "internal" savings rate -- measured by the GDP share not consumed by domestic residents, hence adding together "national" savings and factor payments -- tended to be rather stable, as indicated in Table 3. The nearly one-to-one inverse correlation between factor payments and "national" savings suggests that such payments do indeed withdraw resources from domestic investment financing, exactly as if they were negative capital inflows. Hence, it would seem appropriate that they be fully deducted from the foreign contribution to domestic growth. It is for this reason that, henceforth, we take the foreign contribution to be measured by the net resource transfer.<sup>6</sup>

The net resource transfer declined from 2.1 to -4.6 per cent of GDP between 1980 and 1985. This negative movement of the net resource transfer in the 1980-85 period was nearly entirely compensated for by reverse movements in gross capital formation (see Table 3). Gross

---

5. For a further discussion, see E. Bacha, "External Shocks and Growth Prospects: The Case of Brazil, 1973-89", World Development, 14(8), 1986:919-36.

6. Results are similar when the foreign contribution is measured by the net financial transfer.



investment dropped from 23.3 to 16.9 per cent of GDP from 1980 to 1985. Meanwhile, the "internal" savings rate remained constant at slightly over 21 per cent of GDP. These figures confirm the view that the contraction of foreign finance is to be blamed for the decline of the growth potential of the region. Domestic investment shrank when foreign resources were abruptly drained from Latin America.

As investment shrank, the GDP growth rate turned negative in the 1980-83 period. In the following three years, gross capital formation stabilized at a new, lower plateau of about 17 per cent per year, but moderate GDP growth resumed, first from the stimulus of net exports -- in 1984 -- and then from domestic consumption -- in 1985 and 1986. Taking the preliminary IMF data for 1986 at its face value, a weakening of both the "national" and "internal" savings is indicated in the 1984-86 period: the negative resource transfer and the factor payments to foreigners fell, but these favorable movements were reflected not in resumed investment but in a decline of domestic savings. Thus, the negative resource transfer fell from -5.5 to -2.2 per cent of GDP between 1984 and 1986. This was entirely absorbed by a drop of "internal" savings from 22.9 to 19.6 per cent of GDP. Thus, these data suggest that the Latin American recession in 1980-83 was investment-led, but its moderate recovery in 1984-86 was not accompanied by a proportional resumption of capital formation.<sup>7</sup>

---

7. Equally preliminary data from Brazil's Central Bank suggest that such negative trends are not valid for Brazil. In this country, fixed investment increased from 16.5 to 19.2 per cent of GDP between 1984 and 1986, more than matching a drop of the net resource transfer from -5.6 to -3.2 per cent of GDP in

This preliminary data may or may not be correct, but this should not be taken as indicative of a lack of investment opportunities in the region. Rather, such economic trends are consistent with an employment-maximizing strategy to deal in the short-run with foreign exchange fluctuations, provided unused productive capacity is available. For capital goods production in developing countries is rather more import-intensive than consumption goods production (which means that consumption goods are relatively more intensive in domestic labor use than are investment goods). Thus, when an external crisis occurs and imports have to contract, fewer jobs are lost when investment instead of consumption is reduced. Similarly, when some temporary external relief is forthcoming, allowing an expansion of imported inputs, domestic employment opportunities are maximized by expanding consumption rather than investment. This expedient, however, is only a short run possibility, as it is strictly limited by the availability of unused domestic capacity. The experiences of both Brazil and Peru, which in 1986 stretched their respective foreign exchange binds to the outer limits, demonstrate how quickly unused domestic capacity can be exhausted in a consumption-led recovery.

Over the medium run, domestic capital formation and positive net resource transfers are certainly complementary. Other countries in Latin America, in addition to Brazil and Peru, may still benefit from

---

the same period. Cf. Central Bank of Brazil, Brazil: Economic Program, vol. 14. Brasilia, February 1987, Table 3.1, p.60.

temporary demand-led booms, but a permanent recovery of GDP growth rates requires an increase in the provision of finance for investment. In the current context of an impoverished Latin America, this implies a significant contribution of foreign resources -- and certainly a reduction in the current capital outflow.

The need for foreign capital is there, but what about the will to invest? While less dependent on profit incentives, public sector investment is being constrained by internal budgetary constraints -- which are by and large the domestic counterpart of the negative financial transfer abroad. This constraint can be alleviated directly by an inflow of foreign funds. External debt uncertainties and associated dismal growth prospects have chased both domestic and foreign private investors away from Latin America. Once the public sector recovers its capacity to invest in infrastructure, without crowding the private sector out of domestic financial markets, the fundamental complementarity between public and private investment projects in Latin America should reassert itself, generating profitable downstream investment opportunities for the latter.

Having characterized the demand for resources, let us now examine the sources of supply -- the IMF, the World Bank, and the commercial banks.

The Utilization Gap: The Case of the IMF

The Fund's financial reaction to the Latin American debt crisis was both swift and deep -- but it was not lasting. Currently, its reluctance to lend, rather than a lack of resources, is constraining additional capital flows from the Fund to the region.

The Fund responded quickly when the Latin American debt crisis erupted with the Mexican moratorium in September 1982. Thus, the number of new upper credit tranche arrangements, which had fallen from 27 in 1981 to 22 in 1982, jumped to 35 in 1983, involving a record commitment of SDR 14.7 billion (Table 4). In the Western Hemisphere, the increase was even sharper: from 6 programs, with approved amounts of SDR 916 million in 1982, to 11 programs, with approved amounts of SDR 10.9 billion in 1983 (Table 5). As a consequence, the total volume of purchases by all developing countries from the Fund increased from SDR 8.4 billion in 1982 to SDR 14 billion in 1983, whereas purchases by the Western Hemisphere went from SDR 1.9 billion in 1982 to SDR 6.6 billion in 1983 (Table 6).

The Fund's financial reaction was short-lived. The total number of new programs dropped to 21 in 1984, involving amounts of no more than SDR 4.1 billion. Within the Western Hemisphere, 5 new programs were approved in 1984, with authorized drawings of only SDR 1.7 billion. The reduction in the value of new programs continued to occur in 1985 and 1986. The consequence was an abrupt reversal of the Fund's

positive contribution to the balance of payments of developing countries in general and those in the Western Hemisphere in particular. After reaching a record value of SDR 10.4 billion in 1983, net financial transfers [the difference between purchases (IMF disbursements) and repurchases (amortizations) plus charges (or interest payments)] turned negative in 1985 and represented a drain of no less than SDR 4.3 billion in 1986.

For countries in the Western Hemisphere, the net financial transfer from the Fund was still positive in 1985, although down to SDR 0.5 billion from SDR 3.1 billion in 1984. In 1986, however, repurchases related to the record level of arrangements in 1983 became due and, as a consequence, a negative net financial transfer of SDR 0.8 billion occurred. Under current Fund policies, these negative financial transfers should continue to occur through the end of the decade.

In analyzing this paradoxical situation, it is first important to notice that the Fund is definitely not experiencing a liquidity crunch. The Fund's loanable resources consist of gold holdings, currencies of member countries with strong balance of payments positions up to their respective quotas, and borrowed funds. They stood at SDR 75.4 billion on April 30, 1986 (or SDR 71.8 billion if the gold holdings, which can be disposed of only by a vote of a 75 per cent majority of the Fund Board, are excluded.) Of these, only SDR 34.6 billion had in fact been committed, leaving a total of SDR 40.7 billion (or SDR 37.1 billion if

the gold holdings are excluded) of unused loanable funds (Table 7). Moreover, the IMF persists in valuing its gold at \$35 an ounce. If the IMF's 100,000 ounces of gold are instead valued at a more market-related quote, say SDR 40 an ounce, the Fund's resources double, to some SDR 80 billion.

The Fund is awash with liquidity at a time when its developing country members continue to face a dramatic need for foreign exchange. It justifies its conservative financial management thinking:

"While financial assistance to members is the principal use of the Fund's resources, due allowance is also made in assessing the adequacy of Fund liquidity for the need to maintain the liquidity of members' reserve position and loans claims on the Fund (which are encashable upon representation of balance of payments need . . . Liquid claims on the Fund (on April 30, 1986) amounted to SDR 40.6 billion, made up of SDR 14.5 billion in loan claims and SDR 26.1 billion in reserve tranche positions; these claims were held principally by members in strong balance of payments positions."<sup>8</sup>

Taken literally, this explanation for the Fund's liquidity holdings would seem to imply that the Fund not only should retain the funds that it holds, but also that it should stand ready to provide liquidity to its developed country membership, as if it still were operating in the world of the 1950s, with fixed exchange rates and no capital mobility. On the contrary, the overwhelming evidence today is that the developed countries will not need to have access to the Fund's ordinary resources. A reasonably prudent financial management stance

---

<sup>8</sup>. International Monetary Fund, Annual Report 1986, p. 64.

for the 1980s might thus consider the developed countries' reserve tranches as perfectly reasonable reserves to support additional Fund lending to its developing country membership.

Furthermore, experience indicates that only a fraction of Fund credit commitments is effectively drawn by developing country borrowers. The amounts drawn as a percentage of approved loans hovered between 50 and 75 per cent in the 1980-84 period (Table 4). Given the evidence that disbursements tend to fall short of commitments, Gwin and Sobol have suggested that the Fund should behave somewhat more like a bank, and not fully reserve funds in a 1:1 ratio against its commitments.<sup>9</sup>

If lack of liquidity cannot explain the reduction of Fund credit commitments, neither can its eligibility requirements. Member countries' current access limits to Fund resources can be divided into three parts: reserve tranche, credit tranches, and enlarged access policy.<sup>10</sup> A member has automatic access to 25 per cent of its quota through its reserve tranche. A drawing from the reserve tranche requires a balance-of-payments need, but imposes no further conditions for its use. The Fund's basic lending takes place under the credit tranche system. There are four credit tranches, each equivalent to 25

---

9. In C. Gwin and D.M. Sobol, "The financing role of the Fund in promoting adjustment with growth." Prepared for a G-24 Working Group. Washington, D.C., December, 1986, mimeo.

10. This explanation is based on C. Gwin and D. Sobol, *op. cit.*, pp.21-29.

per cent of a member's quota. The Fund's Articles of Agreement stipulate that no member can draw more than 200 per cent of its quota under this system (unless a special waiver is granted). Drawings are conditioned on a stand-by arrangement, usually for one or two years, or an extended arrangement, usually for three years. In recent years, a member's ability to draw on Fund resources has been governed by the Enlarged Access Policy, introduced in May 1981. This policy is financed through borrowing agreements of the Fund with specific member countries. Under the guidelines established for 1986, a member may borrow between 90 and 110 per cent of its quota each year, 270 to 330 per cent over three years, and 400 to 440 per cent on a cumulative basis, excluding amounts available under the special facilities (of which the most important is the Compensatory Financing Facility).

These 1986 limits reflect marked cutbacks from those specified when the policy was introduced in 1981. In fact, the access limits of member countries to Fund credit as a proportion of their respective quotas have been cut by successive decisions since the early 1980s, in order to offset the potential increases in borrowing units resulting from the general increase in IMF quotas. Restrictive as it is now, however, this limitation has not been an explanatory factor for the falling credit commitments in the 1984-86 period. The anticipated average annual effective access for programs approved since 1984 not only has been far below the prescribed limits, but it has also fallen from 59 to 43 per cent of quota between 1984 and 1986, as shown in Table 4. For the Western Hemisphere, effective access has been



somewhat higher than the average, but, with one exception (Mexico in 1986), the region also did not reach the upper limit of 90 per cent of quota in the 1984-86 period (Table 5). It is thus reluctance to lend, rather than a lack of resources or tight lending limits, that is currently constraining additional flows from the Fund to developing countries.

Such reluctance is reaffirmed by the 1983 decision which scaled back the access limits and introduced new conditionality on the use of the Compensatory Financing Facility (CFF). The CFF was introduced in 1963 to mitigate the adverse effects of fluctuations in export earnings. It was set as a low-conditionality, quick-disbursing and semi-automatic facility. In 1983, the access limits under the CFF were reduced from 100 per cent of quota to 83 per cent. Since then, drawings have declined substantially, not only because of reduced access limits but also owing to a highly restrictive application of the "test of cooperation" with the Fund, which, in practice, has often required the concurrent operation or adoption of a standby or extended arrangement. Contrary to its basic purposes, the CFF has now become a high-conditionality credit facility.

This paradoxical situation in which the Fund finds itself in 1987 seems related to a traditional posture of the Fund staff and board, that "too much" financing is inimical to adjustment. Partly as a consequence of this attitude, "too little" financing has in fact been provided to Latin America, as witnessed by the significant drop in

investment rates (Table 2), contrary to the needs of structural adjustment. Once the medium-term posture is adopted--that balance of payments adjustment should occur with the maintenance of an appropriate rate of fixed capital formation -- then financing and adjustment necessarily become complementary, since a sustainable increase in the domestic savings rate will only be obtained over time as a consequence of income growth. Adjustment with growth is not consistent with the Fund's current reluctance to lend.

But could the Fund's reluctance to lend be explained by a legitimate desire to control the quality of its lending portfolio? The answer to this question would be no, from the perspective of the Fund's own lending experience to date. For overdue obligations remain small in relation to outstanding Fund credit. In view, however, of its pivotal role in international lending to developing countries since the debt crisis, the Fund might legitimately take a broader view of default risk, since repayment of Fund credits may be done at the expense of other sources of finance. Thus, the Fund might concern itself with the total value of the net foreign liabilities of its developing country membership, rather than merely with its own exposure towards them. Only a case-by-case examination would allow an evaluation of the default risk in this broader context.

In some cases, this examination may conclude that the member country in fact needs debt restructuring rather than more lending at market-related rates of interest. In those cases, the Fund (and the

Bank) should play a more active role in debt reconstruction exercises, seeking programs that provide the member country with room to grow out of its debt problem. The mere denial of additional Fund resources, which the current policy seems to be, only aggravates the default risk problem without contributing to a positive solution to the debt conundrum.

### The Utilization Gap: The Case of the World Bank

Initially perceiving the debt crisis to be a temporary phenomena, the World Bank sat back and watched the IMF take the lead. Indeed, The Bank's worldwide loan commitments stagnated between 1981 and 1984 (Table 8). Once it became obvious that the twin debt and development crises were longer term problems, the Bank gradually began to alter its disbursement and program patterns. The shift toward higher levels of rapidly disbursing lending was given official sanction and greater impetus in late 1985 by U.S. Secretary of the Treasury James Baker, III, in his famous "Baker initiative" speech in Seoul, Korea.<sup>11</sup> As a result, in fiscal year 1987, disbursements to the Latin American region are expected to jump by some 50 percent over 1986, to about \$4.5 billion (Table 9). Nevertheless, the growth in new loan commitments -- worldwide and for Latin America -- is falling short of the Bank's own goals, jeopardizing future activity levels. Moreover, the value of the Bank's net contribution to Latin America is substantially reduced by

---

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

rapidly mounting repayments and interest charges on old loans, which are eating up over 60 percent of disbursements (Table 9).

It would be unfair to fault the World Bank 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 the sudden retreat of the commercial banks. Even so, the World Bank'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 persistently optimistic. In 1981, the Bank was working with growth rates for developing countries of between 4.1 percent and 5.3 percent for the period 1980-85, well above the actual rate of 3 percent.<sup>12</sup> 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 judgment of "not creditworthy" would have raised inconvenient doubts about the Bank's own lending programs.

---

12. Richard E. Feinberg, "An Open Letter to the World Bank's New President," in Feinberg (ed.), Between Two Worlds: The World Bank in the Coming Decade (New Brunswick, New Jersey: Transaction Books, for the Overseas Development Council, 1986).

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 savings and investment rates further impeded such a shift. World Bank management did not sufficiently anticipate that this stabilization strategy would play havoc with national development plans and de-fund the investment projects that are the Bank's stock in trade. Certainly, Bank management did not foresee that Latin America would still be mired in stagnation five years after Mexico halted debt service in the summer of 1982.

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" lending had been gaining ground in industrial-country governments as well as among World Bank staff. Several factors converged to gain support for balance-of-payments loans that carry conditions for the borrower's macroeconomic

or sectoral policies. Donors found that otherwise well-designed projects could still fail if the surrounding "policy environment" was adverse. More pointedly, a rising chorus of voices -- in the United States government, in academic circles strongly influenced by the neoclassical paradigm, and in bureaus of the World Bank itself, particularly the research division -- attacked the "inward-oriented" or import substitution industrialization (ISI) 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 World Bank 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 nations undertaking reforms. Third, the drought in investment projects left policy-based loans as the main vehicle for the expansion of Bank activity levels.

Broad structural adjustment loans (SALs) that encompass macroeconomic and other crucial policy variables have been used relatively sparingly in Latin America, and with the exception of Chile have been restricted to the smaller nations. Governments in the larger countries may have been willing to tolerate short-term IMF influence over their macroeconomic policies, but have resisted sharing power for

several additional years with an external agency. Facing this obstacle, the Bank wisely lowered its sights, and began to design sector loans, whose scopes are limited to a particular sector or problem, such as education, energy or trade. Thus, by FY1984, balance of payments loans surpassed \$700 million, or nearly one quarter of Bank lending to Latin America (Table 10). The quantity dipped to under \$500 million in FY85 but rebounded to \$1.5 billion in FY1986, although this included a traditional \$400 million loan for earthquake reconstruction in Mexico.

These increases are significant in terms of previous Bank behavior, but are still small compared to the adverse movements in private capital markets or the need for finance in Latin America. 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 credits. Partly as a result, Bank management generally limited SALs to about 10 percent of new commitments and all policy-based loans to about 30-40 percent of lending to any given country.<sup>13</sup>

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

---

13. For a longer discussion, see Edmar L. Bacha and Richard E. Feinberg, "The World Bank and Structural Adjustment in Latin America", World Development Volume 14, No. 3, 1986.

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 balance of payments support. Policy-based loans are generally tied to IMF stand-bys, thereby increasing the IMF's leverage while enhancing the likelihood of successful adjustment.<sup>14</sup> 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.

Why then have policy-based loans failed to grow to levels that would be significant in terms of the adverse movements in private capital markets or the needs of developing nations? Prior to James Baker's address in Seoul, it could be argued that policy-based lending was limited by the overall size of the Bank. Given a fixed maximum level of activity, the Bank had to balance policy-based loans against project loans. But following Seoul, the Reagan administration told the Bank that it would relax this constraint by seeking a large General Capital Increase (GCI), only if the Bank could demonstrate that it needed more resources. In effect, the United States challenged the Bank to sharply boost its lending.

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

---

14. Richard E. Feinberg, "The Changing Relationship Between the World Bank and the International Monetary Fund," report prepared for the Group of 24, November, 1986, mimeo., p.37-38.



\* Bank staff and management insist that loan conditions 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.

\* Policy-based loans generally take 1-2 years to design. Despite successive efforts to streamline the large Bank bureaucracy, loans have 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. But 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.

\* 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 bonds. 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 maximum amounts 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.

Most of these constraints could be relaxed if Bank management so desired and the Executive Board agreed. The loan approval process could be speeded. Loan design could be simplified and the number of target variables reduced. Sector loans could be approved in the absence of an IMF agreement on the grounds that progress can be made in, say, education or energy even when macroeconomic policies are askew, and a member's current creditworthiness is probably only weakly correlated with its ability to repay Bank loans 5-15 years hence. Lending levels could most easily be increased by a bold decision to augment the size of individual policy-based loans. Whereas loan quality needs to be maintained, the Bank could sometimes be more willing to take risks, and to bet on the good intentions and general directions of a government even when the loan agreement is not optimal. Finally, the Bank could humbly agree to help finance worthwhile reforms that member governments have undertaken entirely on their own. Bank staff could not take credit for initiating the reforms, but could take satisfaction from improving the likelihood of their success.

The Bank's cautious Treasurer's Department might warn that such reforms would weaken the market rating of World Bank bonds. However, if these reforms -- taken together with other measures to alleviate the debt crisis -- strengthen the finances of developing countries, they would actually improve the value of the Bank's portfolio. In any

event, it might be asked to what extent bond buyers are aware of the details of Bank operations. It has been argued that the Bank's triple-A bond rating is primarily a reflection not of the Bank's own operations or portfolio but of the callable-capital backing of the industrial-country governments.<sup>15</sup> The fact that the Bank's bond rating has held steady despite the collapse of the credit ratings of many of its major borrowers is supports for this view.

Constraints on the demand side have also slowed Bank lending. As mentioned earlier, 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, London, and Paris to renegotiate debts do not have the time or inclination to address structural reforms whose payoff 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

---

15. Charles R. Blitzer, "Financing the World Bank," in Richard E. Feinberg (ed.), Between Two Worlds: The World Bank in the Coming Decade (New Brunswick: Transactions Books for the Overseas Development Council, 1986).

new objectives and language of Bank programs, and master the new format of policy-based loan documents.

But the single biggest demand constraint is undoubtedly that of loan conditionality.

### Loan 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. Current difficulties in developing "objective indicators" for macroeconomic coordination among OECD countries are illustrative of this. Sovereign countries, especially if they are big, 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 such as the Bank and Fund.

While some conflict is inevitable, tensions between the Bretton Woods agencies and Latin American governments have become unnecessarily 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, which made only too obvious the degree of interference of that country in the decisionmaking process of both institutions. Their credibility as relatively non-political, genuinely multilateral agencies was undermined. Furthermore, some Bank and Fund 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 old and new questions, such as incomes policies versus fiscal austerity in anti-inflation programs; state-owned versus transnational corporations; protectionism versus trade liberalization; import substitution versus export promotion; etc. But excessive emphasis has perhaps been placed on differences in ideology and policy orientation to explain the mismatches of the Fund and Bank with the developing countries. In practice, 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, or the insensitivity toward political realities of the Bretton Woods institutions. But there has been a marked shift of attitude in Latin America on the importance of market incentives, economic efficiency, and fiscal responsibility, for the promotion of domestic economic growth.<sup>16</sup>

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. Previous sections discussed the limitations on the disposal of funds by the Bank and the Fund. However, as made clear by the numbers in Table 1, these organizations by themselves 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.

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

---

16. An example of this is the recent report of the G-24 on the role of the IMF. See Intergovernmental Group of Twenty-Four on International Monetary Affairs, The Role of the IMF in Adjustment with Growth. Report of the Working Group of G-24, Washington, D.C., March 25, 1987.

The Bretton Woods Institutions and Private Lenders

The Bretton Woods agencies have always viewed themselves as catalysts of private capital flows. In the short term, Fund and Bank programs often seek to gather associated private flows to help finance stabilization programs and supplement development efforts. In the longer run, successful stabilization efforts and more vigorous growth can promote additional private investment.

When the debt crisis hit in 1982, the IMF quickly recognized that it lacked the resources to tackle the problem alone. Managing Director Jacques de Larosiere feared that if all banks ceased lending at once, many might perish in the ensuing financial panic and contraction. He therefore worked closely with the U.S. administration to prevent the withdrawal of the banks from the Third World. De Larosiere and Federal Reserve Chairman Paul Volcker informed the banks that IMF loans would be conditioned on modest amounts of new lending by the commercial banks. Initially some bankers were shocked by official intervention, but most soon recognized that an official hand was necessary to overcome the anarchical, self-destructive tendencies that can grip panicky capital markets.

This "concerted lending" generated \$14 billion in private commitments in 1983 and \$16.5 billion in 1984, accounting for the bulk



of new private lending to the major debtor nations.<sup>17</sup> More recently, however, the Fund's persuasive powers seem to have waned. Private bank commitments tied to IMF programs declined to \$2.2 billion in 1985, and to zero during the first three quarters of 1986 excluding a large Mexico package. The latest IMF estimate is that private creditors withdrew \$5.1 billion from Latin America in 1986 (Table 1.). IMF and U.S. government officials have repeatedly bemoaned the hardening attitudes of the banks and their increasing resistance to undertaking new exposure in debt-ridden nations (Table 11). But the decline in the Fund's own willingness to provide resources hardly encourages confidence and it certainly reduces the Fund's leverage over private creditors.

The World Bank is struggling to devise techniques to stimulate more private credit and investment flows. It has sought to make its cofinancing arrangements more attractive by introducing, in 1983, so-called "B-loan" mechanisms that tighten its linkage to the commercial portion of a financial package. The World Bank may guarantee the commercial loan, take a portion of the commercial loan for its own portfolio, or accept a contingent participation in the final maturity of a commercial loan. The reluctance of the World Bank to assume the full risk, however, has limited the program's appeal; and the contribution of the commercial banks to cofinancing packages has failed

---

17. IMF, International Capital Markets: Developments and Prospects (Washington, D.C.: IMF, December, 1986), table 45, p.121.

to exceed much more than \$1 billion a year, falling to a disappointing \$580 million in FY1986.<sup>18</sup>

The U.S. Treasury has generally supported the Bank's resistance to commercial bank pressures to make more use of the Bank's guarantee authority. The Bank has resisted full-scale guarantees on two grounds: private banks should bear some of the risk, and since guarantees are billed 100 percent against Bank lending capacity, the Bank might just as well make the loan itself. It's a matter of debate as to whether the Bank's Articles of Agreement would have to be amended for the Bank to adopt a system in which only a fraction of contingent liabilities are charged against total lending amounts.

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. In 1985 the commercial banks co-financed policy-based loans to Colombia and Chile, and in late 1986 agreed to provide Mexico with up to \$7.7 billion associated with World Bank sector loans, an IMF stand-by, and Bank and Fund-supported facilities contingent upon oil prices and growth rates. Quarterly commercial bank disbursements are contingent upon Mexico complying with World Bank sector agreements. But the Bank has insisted that the Mexico package is not a precedent for other borrowers, and most sector loans continue to be unaccompanied by private cofinancing. The World Bank has yet to establish the mechanisms and procedures for ensuring that the

---

18. World Bank, Annual Report 1986, Table 1-10, p.28.

commercial banks make significant contributions to Bank-backed reform programs.

In addition to encouraging commercial banks to modestly increase their lending to countries undertaking approved reforms, the Bank and the Fund have supported the rescheduling of principal payments. The Bretton Woods agencies, however, have emphatically sought to discourage proposals that intend to improve debtors' reserve positions by reducing interest payments. On the contrary, Fund stand-bys often give priority to the clearing up of arrears on commercial debts. Both agencies have warned that debt-relief proposals would destroy nations' credit ratings and delay the day when the debtors might again access private capital markets. These warnings are increasingly less convincing, however, as the return of "voluntary" lending by the banks is nowhere in sight. On the contrary, developing-country debt trades at substantial discounts on secondary markets.

#### Policy Recommendations

Large established bureaucracies develop their own institutional interests. These interests may conflict with the general welfare, and even with the purposes for which the institutions were originally created. Rigid standard operating procedures can impede adaptation to new circumstances, and can place the institution at odds with important clients.

The World Bank and the International Monetary Fund have extremely high-quality, hard-working staffs, and both agencies have made major adaptations to the changing global environment of the 1980s. But established institutional rules and procedures -- vigilantly guarded by powerful industrial-country members -- have prevented both agencies from contributing more forcefully to meeting the capital needs of Latin America.

The IMF ought not to be draining resources from financially-troubled nations that have not yet stabilized their economies. Rather than hoarding resources on the fictitious grounds that a key-currency nation may want to purchase them, the Fund should devote a substantial portion of its \$40 billion in usable currencies to assisting developing nations meet their most severe financial crisis since the the creation of the Bretton Woods agencies.

To increase its net lending, the Fund should work on both sides of the payments equation. It should consider several options:

- \* Assuming that quotas are not increased, the Fund could relax its access rules. By tightening them, the Fund has effectively negated the value of the 1983-84 quota increase to developing countries.

- \* The Compensatory Financing Facility could be strengthened. Compensatory financing could be made to cover a higher percentage of the export shortfall either by increasing the access limits as a

percentage of quota, or by delinking the facility from quotas altogether. The facility might also seek to smooth the flows of interest payments by compensating for fluctuations in the costs of capital. The "test of cooperation" with the Fund should not necessarily require the concurrent operation by the member country of a high-conditionality credit facility.

\* Existing resources could be stretched by recognizing that developed countries will not fully draw on their reserve positions. Moreover, the Fund could implicitly move to a "fractional reserve" system. If additional resources are needed, the Fund could repeat previous experiences and borrow from capital-surplus governments, particularly Japan and West Germany. The General Arrangements to Borrow (GAB), a pool of funds that industrial countries can make available to the IMF, might be activated for the larger debtor nations whose health affects the international financial system. And the Fund could resume issuance of SDRs, as most member governments favor.

With regard to the stream of repayments, the Fund could consider introducing contingency clauses that would allow for slower repayments in the event of adverse shocks, just as current agreements call for accelerated repayments in the event of good fortune.<sup>19</sup>

---

19. Peter B. Kenen, Financing, Adjustment, and the International Monetary Fund (Washington, D.C.: Brookings Institution, 1986), p.59.

These reforms do not violate the "revolving fund" nature of the IMF, and they are consistent with the Fund's basic purposes as stated in its founding Articles of Agreement.

The World Bank has been given a green light by the U.S. government to increase its contribution to developing-country growth. In policy-based lending, the Bank has been fashioning the vehicle for increasing its activity levels. The movement from broad structural adjustment loans to more focused sector loans reflects a more realistic appraisal of what is feasible and acceptable in most of Latin America. The increased number and volume of policy-based loans during 1986, and the consequent sharp jump in disbursements, are heartening. But more needs to be done if the Bank is to provide a significant net financial contribution to Latin America. The tempo of lending could be further accelerated by several measures:

\* Bureaucratic reforms could reduce the layering and number of approvals required of loan documents. Conable's decision to meld the research division and the office that coordinates policy-based lending is a welcome step that should help simplify and unify Bank practices.

\* Determination of the size of policy-based loans could be more rational and transparent. Are loan amounts a function of the probable economic or political costs of reform, of the client's balance-of-payments needs, or of some largely predetermined country lending limit?

Applying either of the first two criteria might often require much larger loans, but would make adjustment programs more viable.

\* Many sector loans and most project loans could be delinked from IMF agreements. A genuine case-by-case approach should be the rule, and the burden of proof should rest with those who argue that flawed macroeconomic policies make it hopeless to proceed with reforms at more micro levels.

Both the IMF and the World Bank should reverse the recent tendency toward a proliferation of performance criteria. A long list of requirements either holds an entire program hostage to a secondary issue, or is open to highly subjective judgements. Loan conditionality should focus on a few, select issues. Most importantly, Bank and Fund staff should approach their task with more humility, and should enter into an open give-and-take with national economists. Programs need to take into account the peculiarities of each nation, and to be sensitive to political realities.

The shift in attitudes in many developing countries regarding the importance of economic efficiency and fiscal responsibility provides the multilateral agencies with unique opportunities to engage in genuine dialogue, and to assist promising processes of economic reform. But policy dialogues will bear fruit only if they are more akin to participatory teamwork than to adversarial negotiation.

Finally, the new leadership at the Bank and Fund should directly tackle the debt problem. Failure to do so not only jeopardizes members' economies but also threatens to blacken the tenure of Messrs. Conable and Camdessus. The chronic and massive net financial transfer to the commercial banking system threatens to continue to swamp even enlarged official flows.

The Bretton Woods agencies could establish target figures for reducing the resource drain that is afflicting many developing nations. The target figures should be consistent with reasonable rates of economic expansion. Increased official flows are part of the answer, but there should also be a concerted effort to narrow the gap between the interest bill being paid to commercial banks and the amount of new money they are willing to extend. In each country case, creditors and debtors can decide whether they would prefer to close the gap by extending new loans or accepting less debt service.<sup>20</sup>

The many reforms suggested here demand leadership and vision. They involve some risk-taking for the Bretton Woods institutions and their top management. But international institutions are created precisely to manage tough systemic problems. The International Monetary Fund and the World Bank have demonstrated such leadership in

---

20. An elaboration on this proposal can be found in Richard E. Feinberg, "Third World Debt: Toward a More Balanced Adjustment," testimony before the Subcommittee on International Debt, Committee on Finance, U.S. Senate, Washington, D.C., March 9, 1987.



the past. We will see shortly whether they are capable of meeting the challenge again.

Table 1. Private and Official Lending to Latin America and the Caribbean, 1980-86

(billions of dollars)

<u>Source</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Net external borrowing	43.8	62.3	41.2	19.9	16.7	6.6	3.7
Private creditors <sup>a</sup>	38.0	55.9	24.7	1.9	5.0	2.6	-3.8
Bretton Woods Agencies <sup>b</sup>	<u>1.1</u>	<u>1.5</u>	<u>3.2</u>	<u>8.5</u>	<u>6.0</u>	<u>3.3</u>	<u>N.A</u>
IMF	-0.1	0.3	1.9	6.9	3.9	1.5	0.2
IBRD	1.2	1.2	1.3	1.6	2.1	1.8	<u>N.A</u>

a Calculated by the IMF as a residual

b Net disbursements

Sources: IMF, World Economic Outlook (April, 1987), Table A41, p. 170  
 IBRD, World Debt Tables (1986-87), pp. 262-3 and by communication; IMF  
International Financial Statistics (March, 1987), pp. 29, 31.

TABLE 2

## LATIN AMERICA: INVESTMENT AND SAVINGS

Year	GDP share of gross invest- ment	"National" savings rate (GNP share not consumed by domestic residents)	GDP share of net factor payments abroad	GDP share of current account deficit	Growth rate of GDP
	(1)	(2)	(3)	(4)	(5)
1980	23.3	18.6	3.4	5.4	5.3
1981	22.5	16.3	4.7	6.9	0.5
1982	20.7	14.9	6.4	6.7	-1.4
1983	17.4	17.1	5.6	1.2	-2.4
1984	17.5	18.4	5.5	0.0	3.2
1985	16.9	17.2	5.0	0.1	2.7
1986	17.4p	16.2p	4.1p	1.9p	3.4

NOTES: (1) This is equal to gross fixed investment plus inventory changes. Source: IMF, World Economic Outlook, April 1987.

(2) Calculated as a residual from the national accounting identity:  $(1) = (2)(100 - (3))/100 + (4)$ . The dollar value of output was calculated from a constant price series in A. Bianchi, R. Devlin, and J. Ramos, "The adjustment process in Latin America, 1981-86", paper presented on the Symposium on Growth-Oriented Adjustment Programs, Washington, D.C., World Bank and IMF, February 25-27, 1987. Table 2; inflated by the U.S. GNP price deflator in IMF, op. cit.; and adjusted to the dollar value of Latin American output in 1984 calculated in IDB, Economic and Social Progress in Latin America - 1986 Report, Table 3, p. 408.

(3), (4), and (5) are from A. Bianchi et al, op. cit, Table 2, pages unnumbered.

p - preliminary.

TABLE 3

## LATIN AMERICA: INVESTMENT AND RESOURCE FLOWS

Year	GDP share of gross invest- ment	"Internal" savings rate (GDP share not consumed by domestic residents)	GDP share of foreign reserves use	GDP share of net transfer of financial resources	GDP share of net resource transfer
	(1)	(2)	(3)	(4)	(5)
1980	23.3	21.3	-0.1	2.2	2.1
1981	22.5	20.2	0.5	1.8	2.3
1982	20.7	20.3	3.4	-3.1	0.3
1983	17.4	21.7	0.7	-5.1	-4.4
1984	17.5	22.9	-1.4	-4.1	-5.5
1985	16.9	21.4	0.1	-4.7	-4.6
1986	17.4p	19.6p	0.8p	-3.0p	-2.2p

NOTES: (1) See Table 1.

(2) Calculated as a residual, from the national accounting identity: (1) = (2) + (3) + (4).

(3) and (4) From A. Bianchi et al., Ibid. Net transfer of financial resources is equal to external financing minus net factor services.

(5) This is equal to (3) plus (4). It is also equal to the trade cum non-factor services deficit.

p - preliminary.

TABLE 4

## SUMMARY OF FUND UPPER CREDIT TRANCHE ARRANGEMENTS, 1980-86

YEAR	NUMBER	AMOUNTS			AVERAGE ANNUAL ACCESS (in % of quota)
		APPROVED (in billions of SDRs)	DRAWN	*DRAWN AS PERCENTAGE OF APPROVED	
1980	23.0	6.8	3.4	50.0	160.0
1981	27.0	14.6	10.0	69.0	100.0
1982	22.0	3.1	2.2	71.0	100.0
1983	35.0	14.7	9.9	67.0	107.0
1984	21.0	4.1	3.1	75.0	59.0
1985	26.0	3.3	----	----	49.0
1986	22.0	3.1	----	----	43.0

\* Programs which had expired or cancelled at the end of 1986.  
Source: IMF.

TABLE 5.

UPPER CREDIT TRANCHE ARRANGEMENTS OF THE FUND WITH THE WESTERN  
HEMISPHERE, 1980-86

COUNTRY (1)	ORIGINAL DURATION (months)	AMOUNTS APPROVED (millions of SDRs)	ACCESS AS PERCENT OF QUOTA TOTAL	ANNUAL
<u>1980</u>				
Bolivia	12	66	148	148
Costa Rica	24	61	148	74
El Salvador	12	11	25	25
Guyana*	36	100	400	133
Panama	20	90	133	80
Uruguay	12	21	25	25
<u>1981</u>				
Costa Rica*	36	277	450	150
Dominica*	36	9	295	98
Grenada	12	3	76	76
Guatemala	12	19	25	25
Jamaica*	36	478	213	71
Uruguay	12	32	25	25
<u>1982</u>				
Barbados	20	32	125	75
Costa Rica	12	92	150	150
Haiti	14	35	100	86
Honduras	14	77	150	129
Panama	12	30	44	44
Peru*	36	650	264	88
<u>1983</u>				
Mexico*	36	3,410	425	142
Chile	24	500	154	77
Dominican Republic*	36	371	450	150
Argentina	15	1,500	187	150
Brazil*	36	4,239	425	142
Uruguay	24	378	300	150
Panama	18	150	222	148
Ecuador	12	158	150	150
Grenada*	36	14	300	100
Guatemala	16	115	150	113
Haiti	23	60	174	91

1984

Peru	15	250	76	60
Jamaica	12	64	44	44
Dominica	12	1	35	35
Belize	16	7	75	56
Argentina	15	1,419	106	85

1985

Ecuador	12	106	70	70
Costa Rica	13	54	64	59
Dominican Republic	12	79	70	70
Panama	21	90	88	50
Jamaica	22	115	79	43
Chile*	36	750	170	57
Uruguay	18	123	75	50

1986

Bolivia	12	50	55	55
Ecuador	12	75	50	50
Mexico	16	1,400	120	90

(1) Ordered within each year according to the effective date of arrangement.

\* Extended arrangements. All others are stand-by arrangements.

Source: IMF

TABLE 6.

IMF FINANCIAL TRANSFERS TO ALL DEVELOPING COUNTRIES  
AND TO LATIN AMERICA, 1980-86

(millions of SDRs)

<u>Developing Countries</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Purchases	3,753	7,082	8,442	14,045	8,097	4,199	4,007
less: Repurchases	1,860	1,593	1,166	1,926	2,295	3,641	5,669
less: Charges	406	624	1,218	1,758	2,566	2,904	2,627
Net transfer	1,487	4,865	6,058	10,361	3,216	(2,346)	(4,289)
 <u>Latin America</u> <sup>1</sup>							
Purchases	294	561	1,856	6,609	3,989	1,863	1,779
less: Repurchases	371	275	162	188	219	403	1,645
less: Charges	N.A.	N.A.	N.A.	N.A.	695	956	965
Net transfer	N.A.	N.A.	N.A.	N.A.	3,075	504	(831)

<sup>1</sup> Developing country members of the Fund in the Western Hemisphere

Source: International Monetary Fund



TABLE 7

SOURCES AND USES OF FUND RESOURCES, 1980-1986  
 (in billions of SDRs)  
 Financial Year Ended April 30

	1980	1981	1982	1983	1984	1985	1986
<b>SOURCES</b>							
Holdings of Liquid Resources (1) (less Gold)	15.6 (12.0)	32.1 (28.4)	26.1 (22.5)	22.4 (18.7)	43.0 (39.3)	45.5 (41.9)	40.7 (37.1)
Outstanding Borrowings	3.8	4.3	6.8	11.0	14.0	14.2	14.6
Total Loanable Funds (less Gold)	23.9 (20.3)	41.6 (38.0)	40.9 (37.3)	45.9 (42.3)	74.7 (71.1)	80.5 (76.9)	75.4 (71.8)
<b>USES</b>							
Outstanding Fund Credit	8.3	9.5	14.8	23.6	31.7	35.0	34.6
Excess Loanable Funds (less Gold)	15.6 (12.0)	32.1 (28.5)	26.1 (22.5)	22.4 (18.7)	43.0 (39.3)	45.5 (49.2)	40.7 (37.1)
MEMO: Members' reserve tranche position	8.4	13.1	15.6	20.6	27.4	28.3	26.1

(1) Sum of the holdings of the General Resources Account in usable currencies, SDRs, and gold. "Usable currencies" are those that are available to the Fund for net sales. The criterion for including currencies for net sales is that the members concerned have a balance of payments and reserve position that the Fund considers "sufficiently strong" for that purpose. Gold is valued at SDR 35 a fine ounce.

SOURCE: IMF, Annual Report 1986, Table II.10, p. 82.

TABLE 8

## IBRD LENDING AND NET TRANSFERS TO ALL COUNTRIES, 1980-85

(billions of dollars, and by calendar years)

	1980	1981	1982	1983	1984	1985	1986
Commitments	7.98	9.74	9.99	11.98	9.25	11.72	13.76
Gross Disbursements	4.59	5.66	6.67	7.87	8.64	8.49	10.09
Repayments	1.05	1.34	1.78	2.19	2.83	3.38	4.76
Net Disbursements	3.54	4.31	4.89	5.68	5.82	5.11	5.33
Interest Payments	1.81	1.89	2.19	2.65	3.13	3.55	5.22
Net Transfers	1.73	2.43	2.69	3.03	2.69	1.56	0.11

Source: IBRD, World Debt Tables (1986-87), pp. 2-3, 250-251; and by communication.

TABLE 9

IBRD: NET TRANSFERS TO CURRENT BORROWERS IN LATIN AMERICA  
 (by fiscal years unless otherwise specified,  
 and in billions of dollars)

	1982	1983	1984	1985	1986	7/1/86 - 12/31/86
Commitments	2.8	3.4	3.0	3.7	4.7	1.6
Gross Disbursements	1.8	2.0	2.9	3.2	3.1	3.0
Less Repayments	0.5	0.7	0.9	1.1	1.5	1.0
Net Disbursements	1.3	1.4	2.0	2.1	1.6	2.0
Less Interest & Charges	0.7	0.8	0.9	1.0	1.4	0.9
Net Transfer	0.6	0.6	1.1	1.2	0.2	1.1

Source: World Bank.

TABLE 10

## POLICY-BASED LENDING BY THE WORLD BANK

(IBRD and IDA, in billions of dollars unless otherwise specified.)

	Average FY79-80	Average FY81-82	FY83	FY84	FY85	FY86
Total World Commitments	10.7	12.7	14.5	15.5	14.4	16.3
1) Percent of Total: Sector Loans	0.4	0.5	4.4	8.5	10.3	14.0
2) Percent of Total: Structural Adjustment and Program Loans	4.9	9.9	9.6	8.4	1.1	5.0
To Latin America and the Caribbean	2.5	3.1	3.5	3.0	3.7	4.8
1) Percent of Total: Sector Loans	0.6	0.6	11.7	21.7	9.7	26.3
2) Percent of Total: Structural Adjustment and Program Loans	3.6	1.6	1.7	2.0	3.6	5.2

Source: The World Bank, Planning and Budgeting Department

TABLE 11

Total Commercial Bank Claims on Latin American Countries  
(end of period, in billions of dollars)

	1980	1981	1982	1983a	1984	1985	1986-03
TOTAL BANK CLAIMS ON LATIN AMERICA	154.4	185.5	196.8	265.1	243.3	250.6	251.8
TOTAL BANK CLAIMS ON BAKER-15 COUNTRIES	170.1	203.5	218.2	272.6	273.3	281.2	282.6

a) As a result of a change in data collection procedures, the series suffers a discontinuity between 1982 and 1983.

Source: The Bank for International Settlements - Quarterly Series Reports.

The Baker-15 countries include: Argentina, Bolivia, Brazil, Chile, Colombia, Ivory Coast, Mexico, Morocco, Peru, Philippines, Uruguay, Ecuador, Nigeria, Venezuela, and Yugoslavia.

TEXTOS PARA DISCUSSÃO - DEPARTAMENTO DE ECONOMIA

PUC/RJ

102. Bacha, E. "Banco Mundial: Um Memorando Brasileiro".
103. Camargo, J.M. "Política de Renda e Ajuste Macroeconômico".
104. Lopes, F.L. "Novo Austral na Argentina".
105. Abreu, M. de P. e W. Fritsch. "Brazil's Foreign Borrowing from Multilateral and Governmental Agencies: An Overview of Past Experience and the Present Challenge".
106. Modiano, E.M. "Repases Mensais: Uma Alternativa de Política Salarial".
107. Abreu, M. de P. e W. Fritsch. "Latin American and Caribbean Countries in the World Trade System : Past Problems and Future Prospects".
108. Modiano, E.M. e F. Lopes. "Inflação: Análise do Impacto de Mudanças na Política Salarial".
109. Carneiro, D.D. "Long Run Adjustment, Debt Crisis and the Changing Role of Stabilization Policies in the Brazilian Recent Experience".
110. Bacha, E.L. "Preliminary Notes on the Economic Strategy of the New Brazilian Government".
111. Lopes, F.L. "A Medida da Inflação no Brasil".
112. Modiano, E.M. "O Choque Argentino e o Dilema Brasileiro".
113. Modiano, E.M. "A Escala Móvel e o Fio da Navalha".
114. Moraes, P.B. "Uma Nota sobre as Importações Brasileiras de Produtos Manufaturados".
115. Lopes, F.L. "O Problema do Descongelamento".
116. Amadeo, E.J. "Notes on Growth, Distribution and Capacity Utilization".
117. Modiano, E.M. "O Pacto Social: A Experiência de Israel".
118. Amadeo, E.J. "Changes in Output in Keynes's Treatise on Money".
119. Abreu, M. de P. e W. Fritsch. "Condicionantes Externos ao Crescimento Brasileiro: Cenários para a Segunda Metade dos Anos 80".
120. Amadeo, E.J. "Changes in Capacity Utilization in "Fully Adjusted Situations".
121. Werneck, R.L.F. "Poupança Estatal, Dívida Externa e Crise Financeira do Setor Público".
122. Amadeo, E.J. "A Preliminary Essay on Ideology and Economics".
123. Amadeo, E.J. "The Post-Wicksellian Approach to the Theory of Employment and Price Determination".
124. Camargo, J.M. "Margem Bruta de Lucros, Fragilidade Financeira e Nível de Atividade".

125. Carneiro, D.D. "Passivo do Governo e Déficit Público: A experiência da economia brasileira no período de 1970/84".
126. Amadeo, E.J. "On Money Wages: Keynesian and Monetarist Critiques of Keynes's Closure of the Labor Market".
127. Abreu, M.P. "Política Social no Brasil: A Relevância dos Paradigmas Históricas e Comparativos".
128. Moraes, Pedro B. e Luis Serven. "Dollarization and Credibility: An Analysis of the Mexican Experience".
129. Lopes, Francisco. "Inflation and External Debt Problems in Latin America".
130. Abreu, M.P. e Fritsch, W. "Exogenous Determinants of Trade and Debt Patterns in Latin America".
131. Bacha, E.L. "A Inércia e o Conflito: O Plano Cruzado e seus Desafios".
132. Dutt, A.K. "Growth, Distribution and Technological Change".
133. Werneck, R.L.F. "Retomada do Crescimento e Esforço de Poupança: Limitações e Possibilidades".
134. Modiano, E.M. "Mitos e Fatos sobre o Setor Público Brasileiro".
135. Moraes, P.B. "The Brazilian Stabilization Program of 1964: Price Guidelines cum Credit Restrictions".
136. Camargo, J.M. "Ajuste Estrutural e Distribuição da Renda".
137. Saldanha, F. "Fixprice Analysis of Labor-Managed Economies".
138. Carneiro, D. "Stabilization Policies and Adjustment: The Brazilian Economy in the Eighties".
139. Bacha, E.L. "Debt, Stabilization and Growth: Brazilian-Based Reflections".
140. Franco, G.H.B. "Testing Monetarist Models of Hyperinflation".
141. Franco, G.H.B. "Inertia, Coordination and Corporatism".
142. Amadeo, Edward. "Ensaio sobre a Economia e Política de J.M. Keynes".
143. Amadeo, Edward. "Teoria e Método nos Primórdios da Macroeconomia (final): a Revolução Keynesiana e a Análise do Multiplicador".
144. Franco, Gustavo H.B. "O Plano Cruzado: diagnóstico, performance e perspectiva a 15 de novembro".
145. Saldanha, F. e Conn, D. "Stability of General Equilibria in Labor-Managed Economies: A Non-Tatonnement Approach".
146. Bacha, E.L. "The Design of IMF Conditionality: A Reform Proposal".
147. Carneiro, D. e Moraes, P.B. "Inflation and the Development of the Brazilian Financial System".
148. Abreu, M.P. "Equações de Demanda de Importações Revisitadas: Brasil, 1960-1985".

149. Abreu, M.P., Fritsch, W. e Modiano, E.M. "Debt, Growth and Structural Adjustment in Latin America: an Appraisal of the Baker Initiative".
150. Abreu, M.P., Fritsch, W. "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 Dutt, A.K. "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 Fritsch, W. "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".
161. Lago, L.A.C. "Investimentos Diretos no Brasil e a Conversão de Empréstimos em Capital de Risco".
162. Moraes, P.B. "Keynes and the Role of Monetary Policy in a Stabilization Program".
163. Werneck, R.L. "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".
166. Modiano, E.M. e Fritsch, W. "A Restrição Externa ao Crescimento Econômico Brasileiro: Uma Perspectiva de Longo Prazo."
167. Franco, G.H.B. "Um Modelo para a Adoção de Indexação em Condições de Alta Inflação".
168. Amadeo, E.J. "Multiplier Analysis".
169. Amadeo, E.J. "Expectations in a Steady State Model of Capacity Utilization".
170. Bacha, E.L. "Project Analysis and Income Distribution: Notes on the IDB/OECD Conference".
171. Modiano, E.M. "Plano Cruzado: A Primeira Tentativa".