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The return of foreign capital to Latin America: Good news from the reform front or a case for policy intervention?

THE RETURN OF FOREIGN CAPITAL TO LATIN AMERICA: GOOD NEWS FROM THE REFORM FRONT OR A CASE FOR POLICY INTERVENTION ?

Peter Nunnenkamp

CONTENTS

I. INTRODUCTION

Recently, Latin America has entered another phase of the repeated cycles of boom and bust in foreign capital inflows. After the rapid build-up of non-performing debt until the early 1980s and the subsequent period of serious capital shortage, foreign capital is now returning to Latin America in huge proportions. Net capital inflows soared from less than US$ 10 billion in 1989 to US$ 20 billion in 1990, US$ 39 billion in 1991, and an estimated US$ 57 billion in 1992 (ECLAC 1992, Table 17).

This drastic change appears to suggest that economic advice is no longer needed as to how debt-ridden economies in Latin America may regain access to the international capital market. Actually, the debate in political and scientific circles has shifted to the issue of how to prevent another episode of excessive capital inflows (Calvo, Leiderman, Reinhart 1992, 1993; Reisen 1993a). The discussion on the pros and cons of various types of policy intervention such as taxes on capital imports, higher reserve requirements on bank deposits, as well as sterilized and non-sterilized central bank intervention is based on the (explicit or implicit) assumption that huge capital inflows to Latin America will prove to be another short-lived phenomenon. The perceived "hot money" character of inflows gives rise to several concerns, which policy intervention is supposed to tackle (Calvo, Leiderman, Reinhart 1993, pp. 25f.):

- Capital inflows may adversely affect the international competitiveness of exports if they result in an undesired real exchange rate appreciation.
- A misallocation of resources may result from massive inflows if domestic financial intermediation is deficient.
- A sudden reversal of speculative inflows threatens to trigger a domestic financial crisis.

Much of the current debate suggests that the recent capital inflows and the ensuing economic policy issues are rather bad news for Latin America. The present paper challenges this view from different angles. First, recent trends of capital inflows to Latin America are contrasted with evidence from other regions (Section II). A country-specific assessment of the significance and structure of capital inflows casts doubts on the generalized "hot money" interpretation. Second, the differences among Latin American economies are related to economic policy and performance indicators (Section III). This analysis challenges the widespread perception of a dominant role of external factors in explaining the boom of capital inflows to Latin America. It is argued that the critical question of whether capital inflows can be sustained depends primarily on the policy stance of Latin American governments. Earlier conclusions on how to ensure continued

access to international capital markets are shown to remain highly relevant even under the present conditions of booming inflows. Third, some policy options are discussed to deal with unsustainable capital inflows (Section IV). The economic rationale for policy interventions is questioned. While intervention is counterproductive where capital imports can be considered sustainable, its effectiveness is shown to be seriously flawed when inflows are of a "hot money" character. Countries for which significant "hot money" inflows are revealed are rather required to intensify domestic reform efforts in order to reduce the risk of a sudden reversal of speculative transactions.

II. FROM OUTFLOWS TO UNSUSTAINABLE INFLOWS ?

1. WHY LARGE INFLOWS MUST BE PUT INTO PERSPECTIVE

The sheer magnitude of recent capital inflows to Latin America and the sharp contrast to the earlier shortage of foreign resources are typically taken as telling indications of a short-lived boom episode. Several reasons indeed suggest a temporary phenomenon of particularly high transfers in the early 1990s.[1] Inflows related to privatization schemes are likely to decline with a decreasing number of remaining state enterprises. Similarly, the repatriation of flight capital might have significantly reduced the funds still staying abroad. Economic recovery and rising interest rates in the United States would weaken the incentive of US investors to channel more capital to high-interest locations in Latin America. Moreover, short-term portfolio investment might easily flow out of the region once the economic climate in the United States and other industrialized countries improves.

It would be strongly misleading, however, to consider the inflows to be excessive and induced by speculation simply because the absolute numbers are large. First, capital inflows are not outstandingly high relative to Latin America's GNP. The inflow to GNP ratio increased from 2 to 4.8 per cent in the period 1990-1992 (ECLAC 1992, Table 17; World Bank b, 1992). The 1992 figure largely resembles the ratios reported for the second half of the 1970s (5.1 per cent) and the early 1980s (1980-1981: 4.9 per cent). It does not make much sense to contrast the recent figures with the period of seriously depressed capital inflows to Latin America.[2]

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1 Reisen (1993a) provides a concise summary of the main arguments.

2 In 1982-1989, the average inflow to GNP ratio was down to 1.4 per cent.

Second, a comparison between 10 Latin American countries and 8 Southeast Asian countries reveals that the rise in capital inflows in the early 1990s is not restricted to the former region. Calvo, Leiderman and Reinhart (1993, Table 4) have calculated a similarly large increase of the capital account to GDP ratio for Latin America (2.5 percentage points) and Southeast Asia (2.3 percentage points), when confronting 1990-1991 with 1984-1989. Moreover, the average ratio for the Asian economies is considerably higher (3.5 vis-à-vis 0.4 per cent in 1990-1991). Against this background, one may wonder why there is so much concern about "speculative" inflows to Latin America while such fears are hardly voiced with regard to Asia.

Third, and most importantly, the aggregate picture for Latin America obscures pronounced country-specific differences. Comparing 1984-1989 and 1990-1991, the change in the capital account to GDP ratio of the most important debtor countries varies from -0.3 percentage points for Venezuela, and 1.2-1.6 percentage points for Brazil and Argentina, to 5.8 percentage points for Chile and Mexico (ibid). This variation provides a first indication that capital inflows are concentrated on countries which have established a strong reputation of reform-mindedness.[3] Table 1 presents further evidence in this respect. The capital inflow to GNP ratio increases for nearly all sample countries. But both the initial level of this ratio and its increase differ considerably. Taking averages for 1990-1992, the ratio is highest for Bolivia (10.2 per cent) and Chile (8.4 per cent). Brazil, Uruguay, Colombia and Venezuela range at the bottom with ratios for 1.3 to -2 per cent.

Table 1 - Total Net Capital Inflows to Selected Latin American Countries, 1990-1992 (per cent of GNP)

	1990	1991	1992[a]		1990	1991	1992[a]
Argentina	1.5	4.1	6.8	Ecuador	5.6	6.8	9.4
Bolivia	8.3	9.3	13.1	Mexico	4.6	7.8	8.2
Brazil	1.0	0.3	2.5	Peru	6.6	8.5	7.0
Chile	11.8	4.8	8.5	Uruguay	0.7	0.9	1.4
Colombia	-0.3	-1.8	1.1	Venezuela	-11.2	1.3	3.8
Costa Rica	6.7	7.1	8.0				

[a] Preliminary estimates. GNP figures for 1992 were estimated by applying preliminary GDP growth rates to GNP figures for 1991.

Source: ECLAC (1992), World Bank (b, 1992)

[3] For a detailed assessment of the link between economic reforms and capital inflows, see Section III.

2. WHY "HOT MONEY" IS DIFFICULT TO IDENTIFY

As concerns the sustainability of capital inflows to Latin America, the structure of transfers reveals important insights. The risk of a sudden reversal varies considerably among the different types of inflows. Evidently, this risk is lowest in the case of foreign direct investment (FDI) (Reisen 1993a, p. 3). It remains fairly low for grants and longer-term loans from official sources. With regard to private creditors, the maturity structure of capital inflows is crucially important. The widespread concern about the "hot money" character of inflows implicitly assumes that short-term transfers from private sources constitute the bulk of recent capital imports.

Hard facts justifying such an assumption are largely lacking. This is not surprising given that the available data are seriously deficient. The most detailed breakdown of capital flows into major components is provided by the World Bank (b, 1992). However, this source presents an incomplete picture on total capital flows. The coverage of short-term, speculative flows is particularly poor. In the case of Latin America, statistical deficiencies can be illustrated by contrasting World Bank data with the more comprehensive information on total flows provided by ECLAC (1992, Table 2). The widening discrepancy in the early 1990s may suggest that a rising proportion of "hot money" transactions escape the World Bank statistics.

Table 2 - The Discrepancy in Net Capital Inflows to Latin America between Different Data Sources, 1990-1992

	World Bank definition[a] (1)	ECLAC definition (2)	(1) : (2) (3)
	US$ billion		per cent
1990	15.6		76.8
	(16.3)	20.3	(80.3)
1991	19.4		49.5
	(22.1)	39.2	(56.4)
1992[b]	18.4		32.3
	(22.0)	57.0	(38.6)

[a] Long-term (net) resource flows, excluding IMF loans. In parentheses: including net flows of short-term debt and (net) IMF loans. - [b] Preliminary estimates.

Source: ECLAC (1992), World Bank (b, 1992)

Again, however, a country-specific evaluation is very enlightening, although such a disaggregation is possible for the period 1990-1991 only. Table 3 reveals that the discrepancy between the data sets is most pronounced for Peru and Brazil, where comprehensive and consistent economic reforms were not implemented throughout the 1980s.[4] In these countries, recent capital inflows may indeed consist of "hot money" in the first place. In sharp contrast, long-term resource flows account for 72 per cent of total inflows (reported by ECLAC) in the case of Chile, i.e. the economy with the longest reform tradition.[5] Countries where domestic policy adjustments were postponed (e.g. Mexico) or seriously delayed (e.g. Argentina) range between these two extremes.

Table 3 - The Discrepancy in Net Capital Inflows to Selected Latin American Countries between Different Data Sources, 1990-1991[a]

	World Bank definition[b] (1)	ECLAC definition (2)	(1):(2) (3)		World Bank definition[b] (1)	ECLAC definition (2)	(1):(2) (3)
	US$ billion		per cent		US$ billion		per cent
Argentina	1.90 (3.09)	6.77	28.1 (45.6)	Ecuador	0.41 (0.23)	1.29	31.8 (17.8)
Bolivia	1.10 (1.01)	0.80	137.5 (126.3)	Mexico	16.09 (18.04)	32.18	50.0 (56.1)
Brazil	1.19 (0.82)	5.96	20.0 (13.8)	Peru	0.39 (0.65)	6.30	6.2 (10.3)
Chile	3.21 (2.03)	4.48	71.7 (45.3)	Uruguay	0.18 (0.11)	0.13	138.5 (84.6)
Colombia	0.56 (0.68)	-0.84	n.a. (n.a.)	Venezuela	3.77 (5.83)	-4.69	n.a. (n.a.)
Costa Rica	0.59 (0.59)	0.88	67.0 (67.0)				

[a] Accumulated figures. - [b] Long-term (net) resource flows, excluding IMF loans. In parentheses: including net flows of short-term debt and (net) IMF loans.

Source: ECLAC (1992); World Bank (b, 1992)

[4] Colombia and Venezuela are not considered here. Negative figures according to the broader ECLAC definition suggest that speculative capital outflows rather than inflows remain unrecorded by the World Bank. Although the discrepancy is less pronounced than for Colombia and Venezuela, World Bank figures exceed the ECLAC figures for Bolivia and Uruguay as well. In the Bolivian case, 70 per cent of long-term resource flows consist of grants.

[5] According to World Bank data (b, 1992), Chile significantly reduced its short-term debt in 1991. Long-term resource flows considerably exceeded total flows under this definition (Table 3), supporting the argument that the bulk of capital inflows to Chile is likely to be sustainable.

3. WHY THE COMPOSITION OF INFLOWS MATTERS

The subsequent information on the structure of capital inflows, as defined by the World Bank, underscores that a country-specific perspective is required for any meaningful assessment of the sustainability issue. Typically, aggregate figures for the whole region disguise remarkable differences at the country level. The data also support the earlier argument that, in many respects, the revival of capital inflows to Latin America is rather modest when contrasted with the evidence for other regions. The following sections focus on the composition of long-term inflows, especially the contribution of FDI, and on their maturity structure.

Table A1 in the statistical appendix reveals that Latin America has not yet restored its attractiveness for foreign capital relative to other capital-importing regions. Its share in total (long-term) flows to all reporting countries dwindled from 35 per cent in 1980 to 11 per cent in 1989. Notwithstanding the subsequent recovery, Latin America's share remained below 20 per cent. The inflow to GNP ratio for this region, which had exceeded the overall average in 1980 (4.25 versus 3.97 per cent), was little more than half the average figure in 1992. Measured by this ratio, Latin America was not only outperformed by regions which largely depend on foreign aid transfers (particularly Sub-Saharan Africa; Table A2). More importantly, a relative decline of attractiveness is to be observed vis-à-vis East Asia, for which the steady increase of resource inflows was interrupted only shortly in the mid-1980s.

The differences between Latin America and East Asia are most pronounced with regard to private non-guaranteed debt. Among the regions given in Table A1, only East Asia succeeded to maintain positive, though temporarily declining, inflows of this type throughout the period considered. In sharp contrast, Latin America suffered most severely from outflows of private non-guaranteed debt, and the figures for the early 1990s suggest that creditworthiness has not yet been regained. Latin America's position with respect to FDI is better, though impaired in relative terms. After FDI inflows had more or less stagnated during the 1980s, they soared in 1991-1992. The recent increase, supporting the sustainability of capital inflows, did not prevent, however, that the region lost in attractiveness as compared to East Asia. The East Asian share in FDI flows to all reporting countries nearly trebled from 14 per cent in 1980 to 39 per cent in 1992, whereas the share of Latin America was down from 66 to 36 per cent.[6]

[6] Notwithstanding this unfavourable development for Latin America, the effect on the sustainability of capital inflows (excluding short-term flows) is not straightforward. Depressed debt inflows after the outbreak of the debt crisis and the recent increase of FDI resulted in high and increasing shares of

As compared to 1982, the (long-term) inflow to GNP ratio was still significantly lower for most Latin American countries in the beginning of the 1990s (Table 4).[7] Nevertheless, considerable differences are evident within the sample. The discrepancy between the ratio in 1982 and its average in 1990-1991 is exceptionally large for Argentina (10.8 percentage points), and considerably above the Latin American average for Peru (5.5 percentage points), Brazil (4 percentage points) and Colombia (3.6 percentage points). Apart from Uruguay, where absolute figures are marginal, the discrepancy is smallest for Chile (2.4 percentage points). A comparison between Brazil and Mexico provides further evidence tentatively supporting the hypothesized impact of economic reforms on restoring the attractiveness for foreign capital. In both countries, the inflow to GNP ratio dwindled to less than 1 per cent during the first half of the 1980s. Thereafter the trend was completely different. The ratio remained low and, temporarily, became even negative in the case of Brazil, whereas Mexico experienced a significant recovery once the adjustment programme gathered momentum (see also Section III).

Similar differences prevail among Latin American economies as concerns major components of capital inflows (Table 4). In 1988-1991, accumulated net outflows of private non-guaranteed debt were highest for Brazil and Mexico. However, the latter country regained creditworthiness in the early 1990s. Again, Chile ranks at the top of the sample in terms of private non-guaranteed debt inflows since the late 1980s. Neglecting the sample countries for which absolute FDI flows were extremely small, Brazil represents the only economy for which FDI flows were still seriously depressed in 1991

FDI in total (long-term) capital inflows to Latin America (Table A2). Throughout the period 1985-1992, the FDI share exceeded the respective share for East Asia. Correspondingly, the contribution of private creditors to total inflows became negative in the case of Latin America whereas it was close to one third (average of the annual figures in Table A2) in the case of East Asia. As argued above, the risk of a reversal of capital flows among the categories included in Table A2 is highest for debt from private sources. Hence, it may be concluded that there is no reason for concern with respect to the sustainability of long-term capital inflows to Latin America. The current debate on sustainability appears to be biased given that no such concerns are expressed for East Asia, although the above figures suggest a higher risk of reversal.

[7] The exception of Bolivia is due to the grants extended by foreign governments to support the country's economic stabilization programme (see also Table A3). Ecuador reported (marginal) net outflows in 1982; the inflows of 1991-1992 are small as compared to the second half of the 1980s. The comparison for Venezuela suffers from lacking data.

Table 4 - Net Resource Flows to Selected Latin American Countries, 1982-1991 (US$ billion)[a]

		Argentina	Bolivia	Brazil	Chile	Colombia	Costa Rica	Ecuador	Mexico	Peru	Uruguay	Venezuela
Total	1982	5.99	0.26	10.93	1.84	1.63	0.16	-0.06	9.70	1.43	0.24	0.95
(long-term)		(11.5)	(9.0)	(4.1)	(8.2)	(4.3)	(7.3)	(-0.5)	(6.0)	(6.0)	(2.7)	(n.a.)
	1985	3.49	0.04	1.90	1.27	2.37	0.41	0.47	0.55	0.35	0.03	-0.60
		(5.8)	(1.5)	(0.9)	(8.9)	(7.1)	(11.3)	(4.2)	(0.3)	(2.3)	(0.7)	(n.a.)
	1988	1.66	0.29	5.25	1.12	0.86	0.28	0.35	1.19	0.31	0.04	-0.61
		(1.9)	(7.0)	(1.7)	(5.6)	(2.3)	(6.6)	(3.8)	(0.7)	(1.8)	(0.5)	(-1.0)
	1989	0.71	0.38	-2.53	0.90	0.72	0.22	0.55	2.84	0.32	0.09	0.73
		(1.3)	(8.9)	(-0.6)	(3.8)	(1.9)	(4.6)	(6.0)	(1.4)	(1.2)	(1.2)	(1.8)
	1990	0.21	0.30	-0.10	1.81	0.37	0.21	0.24	8.77	0.27	-0.04	0.94
		(0.2)	(7.0)	(-0.0)	(7.0)	(1.0)	(3.8)	(2.4)	(3.8)	(0.8)	(-0.5)	(2.0)
	1991	1.69	0.80	1.29	1.40	0.20	0.39	0.17	7.32	0.12	0.22	2.84
		(1.3)	(16.7)	(0.3)	(4.7)	(0.5)	(5.4)	(1.6)	(2.7)	(0.2)	(2.4)	(5.4)
Long-term debt[b]	1982	5.76	0.19	7.99	1.43	1.26	0.12	-0.11	7.97	1.33	0.24	0.70
		(11.1)	(6.5)	(3.0)	(6.3)	(3.3)	(5.5)	(-1.0)	(4.9)	(5.6)	(2.7)	(n.a.)
	1985	2.57	-0.04	0.52	1.12	1.33	0.18	0.39	-0.02	0.26	0.03	-0.67
		(4.2)	(-1.5)	(0.2)	(7.9)	(4.0)	(4.9)	(3.5)	(-0.0)	(1.7)	(0.7)	(n.a.)
	1988	0.50	0.14	2.23	0.95	0.62	0.05	0.24	-1.48	0.17	-0.03	-0.70
		(0.6)	(3.4)	(0.7)	(4.7)	(1.6)	(1.2)	(2.6)	(-0.9)	(1.0)	(-0.4)	(-1.2)
	1989	-0.37	0.23	-3.84	0.67	0.11	-0.02	0.43	-0.24	0.14	0.08	0.52
		(-0.7)	(5.4)	(-0.9)	(2.9)	(0.3)	(-0.4)	(4.7)	(-0.1)	(0.5)	(1.0)	(1.3)
	1990	-1.82	0.10	-1.04	1.51	-0.17	0.06	0.11	6.09	0.06	-0.05	0.48
		(-1.8)	(2.3)	(-0.2)	(5.8)	(-0.4)	(-1.1)	(1.1)	(2.6)	(0.2)	(-0.6)	(1.0)
	1991	-0.79	0.15	-0.36	0.73	-0.27	0.16	0.03	2.50	-0.07	0.21	0.92
		(-0.6)	(3.1)	(-0.1)	(2.5)	(-0.7)	(2.2)	(0.3)	(0.9)	(-0.1)	(2.3)	(1.7)
Private non-guaranteed (long-term) debt	1982	2.02	0.05	1.52	0.60	0.33	0.01	0.18	-0.70	0.18	-0.12	-0.04
		(3.9)	(1.7)	(0.6)	(2.7)	(0.9)	(0.5)	(1.6)	(-0.4)	(0.8)	(-1.3)	(n.a.)
	1985	-0.18	-0.03	-0.76	-0.01	0.13	-0.02	-0.04	-0.90	-0.14	-0.07	-0.05
		(-0.3)	(-1.1)	(-0.4)	(-0.1)	(0.4)	(-0.5)	(-0.4)	(-0.5)	(-0.9)	(-1.6)	(n.a.)
	1988	0.01	0.00	-0.49	0.46	0.01	0.02	0.05	-2.72	-0.00	-0.06	-1.19
		(0.0)	(0.0)	(-0.2)	(2.3)	(0.0)	(0.5)	(0.5)	(-1.7)	(-0.0)	(-0.8)	(-2.0)
	1989	0.00	0.00	-0.91	0.58	-0.27	0.00	0.04	-0.73	-0.00	-0.06	-0.16
		(0.0)	(0.0)	(-0.2)	(2.5)	(-0.7)	(0.0)	(0.4)	(-0.4)	(-0.0)	(-0.8)	(-0.4)
	1990	0.00	-0.02	-0.13	1.27	-0.15	-0.00	0.01	0.44	-0.05	0.01	-0.17
		(0.0)	(-0.5)	(-0.0)	(4.9)	(-0.4)	(-0.0)	(0.1)	(0.2)	(-0.2)	(0.1)	(-0.4)
	1991	0.00	-0.03	-0.12	0.62	-0.01	-0.00	-0.02	0.28	-0.11	0.18	0.00
		(0.0)	(-0.6)	(-0.0)	(2.1)	(-0.0)	(-0.0)	(-0.2)	(0.1)	(-0.2)	(1.9)	(0.0)
Foreign direct investment	1982	0.23	0.03	2.91	0.40	0.37	0.03	0.04	1.66	0.05	0.00	0.26
		(0.4)	(1.0)	(1.1)	(1.8)	(1.0)	(1.4)	(0.3)	(1.0)	(0.2)	(0.0)	(n.a.)
	1985	0.92	0.01	1.35	0.11	1.02	0.07	0.06	0.49	0.00	0.00	0.07
		(1.5)	(0.4)	(0.6)	(0.8)	(3.0)	(1.9)	(0.5)	(0.3)	(0.0)	(0.0)	(n.a.)
	1988	1.15	-0.01	2.97	0.14	0.20	0.12	0.08	2.59	0.03	0.05	0.09
		(1.3)	(-0.2)	(0.9)	(0.7)	(0.5)	(2.8)	(0.9)	(1.6)	(0.2)	(0.7)	(0.2)
	1989	1.03	-0.02	1.27	0.18	0.58	0.10	0.08	3.04	0.06	0.00	0.21
		(1.9)	(-0.5)	(0.3)	(0.8)	(1.6)	(2.1)	(0.9)	(1.5)	(0.2)	(0.0)	(0.5)
	1990	2.01	0.03	0.90	0.25	0.50	0.16	0.08	2.63	0.04	0.00	0.45
		(2.0)	(0.7)	(0.2)	(1.0)	(1.3)	(2.9)	(0.8)	(1.1)	(0.1)	(0.0)	(0.9)
	1991	2.44	0.05	1.60	0.58	0.42	0.14	0.09	4.76	-0.01	0.00	1.91
		(1.9)	(1.0)	(0.4)	(2.0)	(1.1)	(1.9)	(0.8)	(1.7)	(-0.0)	(0.0)	(3.6)

[a] In parentheses: in per cent of GNP. - [b] Excluding IMF loans.

Source: World Bank (b, 1992)

as compared to 1982.[8] By contrast, neighbouring countries attracted increasing amounts of FDI. The growth of FDI was most impressive in Argentina and Mexico.[9] Together with Chile, Costa Rica and Venezuela, these countries received significant FDI inflows in terms of GNP in 1991, which helps the sustainability of capital imports (Table 4).[10]

4. WHY THE MATURITY OF DEBT IS IMPORTANT

As shown above, World Bank statistics are deficient as concerns short-term capital inflows. Nevertheless, they provide some important information which has been largely neglected in the debate on sustainability. Such information relates to the maturity of new credit commitments and to the significance of short-term debt flows. The widespread concern about the sustainability of capital flows to Latin America suggests that maturities have been shortened and short-term debt has gained in importance. The empirical support for these propositions is weak at best.

A comparison between Latin America and other regions reveals the following (Table 5):

- The average maturity of new commitments by all creditors is somewhat lower in Latin America than in most other regions. This is due to the traditionally larger role of loans from private sources which typically carry relatively short maturities. In contrast to the above proposition, however, the average maturity did not decline but rather increased. A clear decline is neither to be observed with regard to the maturities offered by private creditors; the average maturity in 1990-1991 was nearly the same as in 1985.

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[8] This may be interpreted as another indication that the sustainability of capital inflows is at risk for Brazil in the first place. However, a qualification is required since the decline of debt flows was more severe than the decrease of FDI flows (see also note 6). Because of outflows of long-term debt, the FDI share in total long-term inflows to Brazil exceeded 100 per cent in 1991, as was the case for Argentina and Colombia (Table A3). The seriously eroded creditworthiness improved the sustainability of the remaining long-term capital inflows, but at the cost of a continued shortage of foreign resources.

[9] High FDI inflows to Venezuela were restricted to 1991.

[10] The interpretation of Table A3 may reasonably be restricted to countries with positive accumulated debt flows in the period 1989-1991, i.e. less impaired or improved creditworthiness. The following classification is then possible with regard to the changes in the structure of long-term capital inflows (1991 vis-à-vis 1985): First, the sustainability definitely improved in Ecuador (higher shares of FDI and grants), Chile (higher FDI share) and Costa Rica (higher FDI share, while the relative decline of grants was compensated by credits from official sources). Second, the FDI share remained very high for Mexico, although it compares unfavourably with periods of small total inflows. Third, Bolivia does not face serious problems of sustainability due to its continued strong reliance on grants. Fourth, the evidence is inconclusive or incomplete for Peru, Uruguay and Venezuela.

Table 5 - The Maturity of Debt in Developing Countries, 1985-1992

		All reporting countries	Latin America and the Caribbean	Sub-Sahara Africa	North Africa and Middle East	East Asia and Pacific	South Asia	Eastern Europe and former Soviet Union
Maturity of new commitments (years)								
All creditors	1985	15.0	12.6	22.3	15.4	14.5	28.2	8.8
	1988	15.0	13.2	24.3	11.8	17.5	23.4	7.7
	1989	16.3	14.6	25.7	12.4	19.3	22.1	8.5
	1990	16.3	15.2	25.3	11.5	18.8	26.2	9.2
	1991	16.0	14.8	28.2	13.5	17.4	22.2	8.7
Private creditors	1985	9.8	9.4	9.1	11.0	11.2	10.4	8.5
	1988	8.9	8.9	10.0	6.6	11.2	10.6	7.2
	1989	9.8	9.6	9.0	7.2	13.1	9.9	8.3
	1990	10.3	10.1	12.0	5.9	13.4	10.8	8.1
	1991	10.2	8.2	7.6	8.0	11.1	7.6	8.8
Short-term debt								
(per cent of total	1985	14.2	11.4	14.5	14.9	21.7	7.2	15.0
debt stocks)	1988	13.1	11.4	10.4	11.8	16.2	7.3	20.1
	1989	14.8	14.0	11.1	12.7	16.9	7.8	23.1
	1990	15.5	15.6	12.2	13.6	18.5	7.7	17.6
	1991	15.5	15.3	12.4	13.7	20.6	7.4	14.6
	1992[a]	15.6	16.2	13.4	13.9	20.6	6.3	12.9
Net flows of short-term debt[b]								
per cent of net	1986	-0.0	-159.0	27.2	9.3	-69.9	14.8	78.1
flows of total	1988	35.3	67.0	19.1	7.9	44.2	12.2	63.0
debt	1989	34.5	189.3	16.0	20.4	16.4	15.2	63.2
	1990	15.6	-8.4	30.9	100.9	42.2	10.0	n.a.
	1991	30.1	61.9	-27.4	51.2	41.4	0.1	-7.0
	1992[a]	15.0	80.7	3.1	27.7	30.6	-5.7	-24.8
per cent of GNP[c]	1986/87	0.2	0.0	1.9	-0.0	-0.1	0.2	0.2
	1988/89	0.4	0.5	0.9	0.3	0.3	0.2	0.5
	1990/91	0.3	0.2	0.4	0.7	1.1	0.1	-0.7
	1992[a]	0.2	0.4	0.1	0.3	0.7	-0.1	-0.4

[a] Projected. - [b] Not available until 1986. - [c] Period average.

Source: World Bank (b, 1992)

- The share of short-term debt stocks in total debt stocks of Latin America increased by 4-5 percentage points. Notwithstanding this unfavourable development, the share remained considerably below that one of East Asia.
- The annual share of short-term debt flows in total debt flows fluctuated heavily, especially so in Latin America.[11] Taking averages for 1990-1992, Latin America (45 per cent) ranged between East Asia (38 per cent) and North Africa and the Middle East (60 per cent). In terms of GNP, the significance of short-term debt inflows was considerably smaller than in East Asia in the early 1990s. Furthermore,

[11] For the extreme volatility of this indicator with respect to individual Latin American economies, see Table A4.

the projected 1992 ratio of 0.4 per cent for Latin America compares favourably with 1988-1989.

The evidence for individual countries is more difficult to interpret (Table A4). Clear trends can rarely be identified because small overall debt flows result in strong annual variations of the indicators considered. The average maturity of new commitments from all sources varies according to the creditor structure of debt. It is noteworthy, however, that the maturity declined in Brazil although the initial level of 12 years was already among the lowest in 1985. By contrast, the remaining seven economies with maturities below 14 years in 1985 reported longer maturities of total new commitments in 1990-1991.[12]

In the early 1990s, the stock of short-term debt reached about 20 per cent of total debt stocks in Argentina, Brazil, Peru and Uruguay (Table A4). Again, the sustainability of capital inflows appears to be at risk in Brazil and Peru in the first place, which experienced the steepest rise of short-term relative to total debt stocks. Argentina comes close to these two countries.[13] For all remaining sample countries, the significance of short-term debt stocks is considerably lower.[14] In many of these economies, net flows of short-term debt were negative in the early 1990s (particularly in Chile and Bolivia), which further weakens the justification of concerns about sustainability.

5. WHY FLAWED INDICATORS PROVIDE VALUABLE INSIGHTS

Evidently, the discussion on the sustainability of capital inflows to Latin America suffers from serious data shortcomings. Deficiencies and inconsistencies between different sources are most pronounced where information is most urgently needed to clarify the issue, i.e. with respect to short-term capital movements. Objections may be raised against each individual indicator considered in the preceding paragraphs. All the more surprisingly, however, the analysis results in a fairly consistent picture and casts

[12] The changes in maturities of commitments by private creditors are rather puzzling. In some cases (e.g. Costa Rica, Peru), the observed volatility is probably due to the limited number of underlying loans. Fairly stable or increasing maturities (1990-1991 vis-à-vis 1985) are consistent with the evidence on commitments from all sources in the cases of Colombia, Ecuador, Mexico and Uruguay. Not surprisingly, a pronounced decline of maturities is reported for Brazil. However, a similarly strong decline occurred in Chile. The latter development can be attributed to a significant shift from public and publicly guaranteed loans from private creditors to private non-guaranteed debt, the maturities of which are probably shorter (World Bank b, 1992, p. 75).

[13] On the role of exchange rate policies as an incentive for speculative capital inflows to Argentina, see Section III.

[14] Based on the change of this indicator since 1985, the sustainability of capital inflows improved quite substantially in Bolivia, Colombia and Venezuela.

considerable doubts on the mainstream reasoning about problems of sustaining capital inflows to Latin America.

Taken together, the indicators suggest four conclusions. First, it is implausible to restrict the discussion to Latin America. The risk of a sudden reversal of capital inflows, as reflected by the data, is not exceptionally large as compared to other regions such as East Asia. Second, the regional perspective must be supplemented by a closer evaluation of country-specific evidence. Typically, the regional aggregates for Latin America obscure remarkable differences at the country level. Third, such a disaggregated analysis shows consistently that the sustainability of capital inflows is at risk in Brazil and Peru in the first place. Concerns appear to be largely unjustified in the case of Chile, while the evidence for the remaining sample countries is less straightforward. Fourth, the ranking of Latin American economies in terms of the sustainability of capital inflows seems to be related to their domestic economic policies. The tentative proposition of a link between reform-mindedness and capital inflows will be evaluated in some more detail in the subsequent section.

III. ECONOMIC POLICY AND THE SUSTAINABILITY OF CAPITAL INFLOWS

1. THE RELEVANCE OF DOMESTIC POLICIES

When the debt crisis erupted in the early 1980s, adverse global shocks such as oil price hikes, the world recession and soaring interest rates were considered to be the major cause in many early analyses (see e.g. the influential evaluation by Cline 1984). The focus is again on external factors in the current debate on the nature of recent capital inflows to Latin America. The universality of these inflows is attributed to "falling interest rates, a continuing recession, and balance of payments developments in the United States (that) have encouraged investors to shift their resources to Latin America" (Calvo, Leiderman, Reinhart 1993, pp. 2f.). The widespread concern about the sustainability of capital inflows is basically due to the emphasis on global developments. Another reversal of capital movements is anticipated once external conditions change to the detriment of the present recipients.

It is not to be denied that global events contributed to both the simultaneous onset of the debt crisis and the recent boom of capital flows to Latin America. Surprisingly, however, the debate on sustainability reveals the same bias towards external factors as was the

case with earlier analyses of debt problems. Subsequent and more comprehensive assessments of the causes of the debt crisis provided ample empirical evidence on the relevance of domestic economic policies.[15] Section II tentatively suggests that the economic policy stance of Latin American governments might also explain the differences among the sample countries in terms of the significance and structure of capital inflows. The analysis of this section attempts to substantiate the link between domestic policies and the sustainability of capital inflows. Subsequently, it is shown that such an analysis helps to develop appropriate policy conclusions.

Previous investigations into the internal determinants of capital inflows have identified the "attractiveness portfolio" of recipient countries to consist of favourable overall economic performance, macroeconomic stability, less pervasive government interference into goods and factor markets, and favourable sovereign risk perceptions.[16] These policy areas can reasonably be supposed to matter for the sustainability of capital inflows as well. For some of them, it is relatively straightforward to construct meaningful indicators. In other respects, this proves to be fairly difficult, especially if cross-country information is required for the very recent past. Because of data limitations, the subsequent discussion focuses on selected indicators of economic performance and stability, and some proxies reflecting the risk perceptions of foreign capital suppliers. The evidence on government encroachment on private economic activities is particularly deficient.[17]

2. ECONOMIC PERFORMANCE AND STABILITY

For various reasons, the sustainability of capital inflows is likely to depend on fundamental performance indicators such as per-capita GDP growth and the private investment ratio. Times and again, economic growth has been shown to be a crucially important determinant of FDI, i.e. that type of capital inflow subject to the lowest risk of a sudden reversal (Section II.3).[18] A favourable growth performance stimulates longer-term engagements of foreign investors and creditors. It reduces the risk that external

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[15] Sachs (1985, p. 526) concluded: "The debt crisis of the early 1980s was triggered by a combination of global economic events and domestic developments in the debtor countries .... The best evidence for the role of distinctively national developments is the success of many debtor countries in surmounting external shocks without an emergency rescheduling". See also Cuddington (1989); Sachs (1989a); Nunnenkamp (1986).

[16] For details, see Agarwal, Gubitz, Nunnenkamp (1991); Hiemenz, Nunnenkamp et al. (1991); Nunnenkamp (1992).

[17] On conceptual questions and data constraints in analyzing goods and factor market distortions, see Hiemenz, Nunnenkamp et al. (1991).

[18] For an overview of the literature, see Agarwal, Gubitz, Nunnenkamp (1991, Chapter II).

obligations cannot be serviced because the mobilization of due payments suffers from domestic resource constraints.[19] High and rising investment indicates promising growth prospects and reduces debt-overhang concerns.[20]

The similarity in the ranking of the sample countries with respect to the sustainability of capital inflows on the one hand, and the performance indicators on the other hand is striking (Table 6). Chile for which concerns about sustainability were found to be largely unjustified experienced particularly high growth rates, which further increased in the late 1980s and early 1990s (1989-1992: 5.1 per cent). Moreover, this country reported the steepest increase of private investment.[21] Those economies for which the above discussion suggests the highest risk of a sudden reversal of capital inflows are to be found at the opposite extreme. Only in Brazil and Peru, per-capita income declined for three consecutive years in the 1990s. The reduction of the private investment ratio by about 3 percentage points in Peru, though from a high initial level, was only surpassed by Venezuela. As in Section II, the remaining sample countries rank in a medium position. According to the performance indicators of Table 6, the chances for sustainable capital

Table 6 - Economic Growth and Private Investment in Selected Latin American Countries, 1985-1992

	Per-capita GDP growth (per cent)					Private investment ratio (per cent of GDP)			
	1985-88[a]	1989	1990	1991	1992[b]	1985-88[a]	1989	1990	1991
Argentina	-1.0	-7.5	-1.0	6.0	4.8	6.2	4.8	4.5	n.a.
Bolivia	-1.9	0.4	0.2	1.7	1.1	2.2	2.0	1.9	2.1
Brazil	2.7	1.4	-6.1	-0.8	-3.1	n.a.	n.a.	n.a.	n.a.
Chile	3.5	8.0	0.3	4.1	7.8	8.1	13.7	15.6	13.9
Colombia	3.2	1.7	1.9	0.5	1.4	9.5	9.6	8.5	7.3
Costa Rica	0.6	2.6	0.8	-1.4	1.5	13.9	16.1	17.7	15.2
Ecuador	0.1	-2.3	-1.0	1.7	1.1	11.3	11.7	10.1	n.a.
Mexico	-1.8	1.0	2.2	1.4	0.6	13.3	14.4	14.8	15.1
Peru	0.5	-13.3	-7.0	-0.1	-4.5	15.1	12.7	12.0	12.2
Uruguay	3.8	0.9	0.2	1.0	6.4	6.9	7.2	7.7	7.8
Venezuela	1.6	-9.9	4.4	7.8	5.0	11.5	7.9	4.9	8.2

[a] Period averages. - [b] Preliminary estimates.

Source: Pfeffermann, Madarassy (1992); ECLAC (1992)

[19] On transfer risks, see Section III.4 below.

[20] On the vicious circle of a debt overhang, depressed investment and impaired debt-service capacity, see e.g. Krugman (1988); for a critical assessment, see e.g. Hofman, Reisen (1991).

[21] The major emphasis is placed here on changes of the private investment ratio. Different levels of this ratio across countries may be largely because private investment is calculated as the difference between total gross domestic investment and consolidated public investment; for the data problems inherent in this method, see Pfeffermann, Madarassy (1992, pp. 7f.).

inflows improved in Mexico while they deteriorated in Colombia. For Argentina and Bolivia, it remains to be seen whether private investment will pick up as did economic growth.

Chile occupies a top position with regard to macroeconomic stability as well (Table 7). Continued stabilization efforts supported a long-term, i.e. sustainable, engagement of investors and creditors. Economic stability renders it easier for private agents to assess the return to financial transactions. Instability reflected in high and volatile inflation, excessive budget deficits and heavily fluctuating real exchange rates is likely to induce a shift towards projects with short pay-off periods and, eventually, results in another reversal of capital flows. Such risks were forestalled in Chile by its long-standing reputation of containing inflation and consolidating public sector balances. Furthermore, real exchange rate volatility was kept at bay since 1985 (Table 7). Though less

Table 7 - Macroeconomic Stability in Selected Latin American Countries, 1985-1992

		Argentina	Bolivia	Brazil	Chile	Colombia	Costa Rica	Ecuador	Mexico	Peru	Uruguay	Venezuela
Inflation rate[a]	1985	385.4	8170.5	239.0	26.2	22.4	10.9	24.4	63.7	158.3	83.2	7.3
(per cent)	1989	4923.6	16.6	1861.6	21.5	26.1	10.0	54.2	19.7	2775.3	89.2	81.0
	1990	1343.9	18.0	1584.6	27.3	32.4	27.3	49.5	29.9	7649.6	129.0	36.5
	1991	84.0	14.5	475.8	18.7	26.8	25.3	49.0	18.8	139.2	81.5	31.0
	1992[b]	18.0	11.4	1131.5	14.0	25.7	18.1	66.0	12.9	56.6	58.6	33.4
Budget deficit[c]	1985	-7.4	-41.2	-11.2	-2.4	-3.2	-1.3	2.0	-8.4	-2.2	-2.4	5.3
(per cent of GDP)	1989	-0.5	-1.2	-16.1	n.a.	-1.9	-2.1	1.9	-5.4	-4.7	-3.4	1.1
		(-4.8)	(-4.5)	(-6.9)	(5.5)	(-1.9)	(-4.1)	(-1.6)	(-5.1)	(-4.2)	(-3.4)	(-1.1)
	1990	n.a.	-1.5	-5.7	n.a.	n.a.	-3.1	1.9	n.a.	-3.0	0.4	4.4
		(-5.1)	(-3.9)	(1.2)	(1.5)	(-0.4)	(-4.4)	(0.6)	(-2.9)	(-2.5)	(-0.1)	(-0.2)
	1991	n.a.	n.a.	n.a.	n.a.	n.a.	-0.0	1.5	n.a.	n.a.	n.a.	n.a.
		(-2.2)	(-3.0)	(0.3)	(1.7)	(0.1)	(-3.1)	(-1.2)	(3.4)	(-0.6)	(0.4)	(1.2)
	1992	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
		(n.a.)	(-3.0)	(-1.5)	(1.8)	(-0.4)	(-2.0)	(-3.2)	(4.6)	(-1.0)	(1.0)	(-7.5)
Real effective exchange rate[d] (1985=100)	1989	144	135	72	133	153	110	150	110	52	111	184
	1990	113	191	65	140	173	112	159	108	42	129	192
	1991	86	215	76	138	171	121	151	98	35	111	180
	1992[e]	82	234	85	133	174	116	143	91	33	104	169
Exchange rate volatility[f]	1985-92	23.2	46.0	15.6	13.5	25.0	6.5	21.4	19.4	26.8	9.7	32.0

[a] Consumer prices. - [b] Figures correspond to the variation between November (or October) 1992 and November (October) 1991. - [c] Surplus indicated by positive figures. In parentheses: ECLAC figures which are not comparable across countries. The latter figures correspond to the national non-financial public sector (excluding provinces and municipalities) in the case of Argentina; the non-financial public sector in the case of Bolivia, Colombia, Chile, Ecuador and Venezuela; to the operational deficit of the non-financial public sector in the case of Brazil; to the central government in the case of Costa Rica, Mexico, Peru and Uruguay. Figures for 1991 and 1992 are preliminary estimates. - [d] Real exchange rate between the currency of each country and the currencies of its main trading partners (weighted by the relative participation of trading partners in the exports of the country under analysis). Consumer price indices were used as deflators. - [e] January - to - September average. - [f] Standard deviation of the real effective exchange rate.

Source: ECLAC (1992); IMF (a)

consistently, macroeconomic instability has been low by Latin American standards in Colombia and Costa Rica as well.

More recently, major stabilization efforts have reduced the risk of a sudden reversal of capital movements in Bolivia and Mexico. Argentina followed suit in 1991. However, exchange rate volatility has remained considerable in all three cases. The exceptionally high standard deviation of the real effective exchange rate in Bolivia is due to sharp real devaluations. By contrast, a real appreciation occurred in Argentina and Mexico in the early 1990s. Both countries have implemented exchange-rate based stabilization programmes. The subsequent real appreciation threatens to undermine the international competitiveness of their exports. It also implies that the effects of macroeconomic stabilization on the sustainability of capital inflows remain ambiguous. Earlier experiences have shown that a nominal exchange rate anchor encourages speculative capital inflows.[22] A peg is apt to raise the "hot money" share in capital inflows, since differentials between domestic and foreign short-term interest rates can be exploited as long as the peg is credible (Reisen 1993a, p. 4). Speculative inflows might easily be reversed once the sustainability of the peg is questioned by private agents.[23]

For some of the remaining sample countries, the sustainability of capital inflows is threatened even more seriously. Fiscal consolidation suffers from low credibility in Brazil where it was mainly achieved through the accumulation of arrears on the external debt and the deferment of internal debt service (Ohana, Mussi 1991). Furthermore, inflation is still exceptionally high. High, though reduced, inflation rates, persistent public sector deficits, and volatile and dramatically appreciated real exchange rates are salient features in Peru. Macroeconomic stability has neither been achieved in Ecuador, Uruguay and Venezuela.

3. STRUCTURAL ADJUSTMENT AND CONSISTENCY OF REFORMS

The above discussion on exchange rate policies has indicated that the sustainability of capital inflows also depends on the consistency of adjustment programmes. More generally, it can be argued that isolated attempts at macroeconomic stabilization are a

[22] For a detailed evaluation of exchange-rate based stabilization episodes in the Southern Cone of Latin America in the 1970s and early 1980s, see the contributions in the special issue of World Development (1985); for a summary, see e.g. Edwards (1989, pp. 164f.) as well as Schweickert, Nunnenkamp, Hiemenz (1992, pp. 14ff.).

[23] Schweickert (1993) analyzes in detail the relation between the exchange rate regime and capital movements.

necessary but insufficient condition to ensure continued capital inflows.[24] Especially in Latin America, stabilization has to be supplemented by structural reforms to be credible and sustainable (Nunnenkamp, Schmieding 1991). In order to improve the attractiveness for long-term capital inflows, distortions in factor and goods markets must be removed (Hiemenz, Nunnenkamp et al. 1991).

Recent information on relevant indicators reflecting the degree of such distortions is seriously deficient.[25] Therefore, the subsequent paragraphs are restricted to indicators on the degree of openness to import competition and on export performance. Although this restriction is enforced by data limitations, the information presented in Table 8 is highly

Table 8 - External Trade of Selected Latin American Countries, 1985-1992

	Imports (per cent of GDP)				Exports (per cent of world exports)				
	1985	1989	1990	1991	1985	1989	1990	1991	1992[a]
Argentina	8.7	9.5	n.a.	n.a.	0.46	0.33	0.37	0.35	n.a.
Bolivia	16.7	18.1	20.3	23.2	0.03	0.03	0.03	0.02	n.a.
Brazil	7.1	5.1	5.5	n.a.	1.41	1.18	0.94	0.92	0.92
Chile	26.3	34.2	33.7	31.0	0.21	0.28	0.25	0.26	0.28
Colombia	12.5	13.8	14.8	13.0	0.19	0.20	0.20	0.21	0.19
Costa Rica	32.5	38.8	42.1	40.5	0.05	0.05	0.04	0.05	0.05
Ecuador	20.9	31.2	28.5	31.1	0.16	0.08	0.08	0.08	0.08
Mexico	10.0	n.a.	n.a.	n.a.	1.21	0.79	0.81	0.79	n.a.
Peru	16.5	11.7	11.8	11.5	0.16	0.12	0.10	0.10	0.09
Uruguay	21.1	19.2	19.3	19.8	0.05	0.05	0.05	0.05	n.a.
Venezuela	18.1	22.3	20.2	26.2	0.79	0.46	0.53	0.44	0.36

[a] First two quarters.

Source: IMF (a)

relevant as concerns the impact of policy induced distortions on the sustainability of capital imports. Besides fiscal policy, trade policy interventions turned out to be at the root of Latin America's impaired attractiveness for foreign capital in the 1980s

[24] On the relevance of policy coherence for inducing (foreign and domestic) investment, see Hiemenz, Nunnenkamp et al. (1991, pp. 80ff.).

[25] For a tentative comparison of financial market conditions between four major debtor countries in Latin America, see Nunnenkamp (1992). Measured by real interest rates and financial deepening, it turned out that the functioning of financial markets was seriously impaired in Argentina and Brazil. Chile represented the antipole. Economic reforms in Mexico appeared to have helped overcoming financial repression. More comprehensive information on factor and goods markets distortions is available for specific countries. For example, it has been shown that Brazil's attractiveness for foreign capital suffered from interventionist goods markets policies (e.g. the tradition of price controls), labour market deficiencies, and policy induced shortcomings of financial intermediation (Nunnenkamp, Funke, Schweickert 1992).

(see e.g. Sachs 1989a, and the underlying country studies). The elimination of an anti-export bias would help to sustain capital inflows in countries which had previously promoted import substitution. A less protectionist and more balanced trade regime prevents the misallocation of investment and may, thereby, enhance the long-term financing of projects which are in conformity with the country's comparative advantage. Openness towards world markets will probably raise the share of FDI in total capital inflows. Export-oriented FDI will be encouraged in the first place. Furthermore, import barriers have recently been shown to be ill-suited to stimulate FDI as a means to jump over protectionist fences (Agarwal, Gubitz, Nunnenkamp 1991). It rather turned out that exports from the home country of foreign investors to potential host countries were a predecessor of FDI.

Indicators on the trade policy stance of Latin American governments would optimally relate to effective protection rates which are, however, not available on a current cross-country basis. As an imperfect substitute, the development of import/GDP ratios and world market shares is portrayed in Table 8.[26] Notwithstanding conceptual limitations, the typical ranking of sample countries is revealed once again. Both indicators point to a further opening up towards world markets in the case of Chile. At the opposite extreme, an increasing isolation from world markets is observed for Brazil and Peru. The evidence is more ambiguous for most of the remaining sample countries. Rising import/GDP ratios suggest less protectionist trade policies in Bolivia, Costa Rica, Ecuador and Venezuela. In some of these cases, declining world market shares have to be attributed to depressed oil prices. The oil factor is also important for Mexico. However, a more favourable world market performance was probably hindered by the real appreciation of the Mexican peso in the early 1990s (Table 7) (Corbo 1992). Argentina is currently facing the same risk. This underlines the earlier argument that exchange-rate based stabilization programmes may undermine the international competitiveness of exports and, as a corollary, the sustainability of capital inflows.

4. SOVEREIGN RISK PERCEPTIONS

The foreign debt situation has improved in nearly all sample countries when recent debt-service ratios are compared to the situation in the mid-1980s (Table 9). In countries such as Argentina, Brazil and Peru, however, lower debt-service ratios are largely due to the

[26] Import/GDP ratios are subject to a large country bias. Therefore, the interpretation is restricted to the changes of this indicator over time. World market shares are influenced by different price developments for world exports on the one hand, and the sample countries' exports on the other hand. The ensuing distortions are particularly large for oil-exporting countries.

accumulation of interest arrears. It is rather unlikely that capital inflows are sustainable unless the uncertainties arising from arrears are overcome. Moreover, the persistance of arrears in some countries suggests that declining debt-service ratios should not be misinterpreted as if sovereign risks were reduced across the board.

Table 9 - The Foreign Debt Situation of Selected Latin American Countries, 1985-1992

		Argentina	Bolivia	Brazil	Chile	Colombia	Costa Rica	Ecuador	Mexico	Peru	Uruguay	Venezuela
Debt-service ratio[a] (per cent)	1985	58.9	49.5	38.6	48.4	41.9	41.5	33.0	51.5	28.0	42.7	25.0
	1989	36.2	32.7	34.6	27.1	46.1	17.7	35.6	37.9	8.9	30.1	24.5
	1990	39.4	40.0	22.6	26.0	38.0	24.5	33.1	27.8	10.9	42.5	23.2
	1991	48.1	34.0	30.8	33.9	35.1	18.4	32.2	30.9	27.4	38.2	18.7
Interest arrears (US$ billion)	1985	0.78	0.31	0.34	0.00	0.01	0.01	0.01	0.00	0.87	0.00	0.00
	1989	5.53	0.05	3.76	0.00	0.00	0.39	1.07	0.00	3.32	0.00	0.01
	1990	7.23	0.01	9.24	0.00	0.03	0.08	1.52	0.00	3.82	0.00	0.00
	1991	9.12	0.02	4.35	0.00	0.02	0.07	1.89	0.00	2.79	0.00	0.00
Credit rating[b]	1985	21.0	7.5	30.9	23.3	38.6	14.2	25.0	39.2	18.2	27.5	37.3
	1989	19.0	9.0	27.8	33.6	36.9	18.4	17.8	30.3	10.2	28.8	32.1
	1990	18.3	13.2	26.5	37.8	33.7	21.1	17.6	35.0	11.1	30.9	32.2
	1991	20.2	15.0	26.5	41.1	36.6	22.5	19.6	38.7	12.2	31.2	37.2
	1992	26.2	17.0	27.1	45.9	37.2	23.8	20.4	42.6	13.3	32.0	39.0
Secondary market notation[c] (per cent)	1986	66	7	75	67	n.a.	n.a.	n.a.	56	18	65	74
	1987	34	11	47	61	n.a.	n.a.	n.a.	50	7	59	57
	1988	22	10	43	55	n.a.	12	13	44	5	60	41
	1989	13	11	22	59	n.a.	17	14	36	6	50	34
	1990	20	11	25	74	63	34	20	46	4	57	50
	1991	38	11	31	90	81	51	24	62	13	75	68
	1992	41	16	29	90	76	61	27	63	15	76	60

[a] Interest and amortization payments in per cent of exports of goods and services. - [b] The Institutional Investor's rating ranges from 0 (most unfavourable) to 100 (most favourable); September values. - [c] In per cent of face value of loans; 1986-1991: fourth quarter; 1992: November.

Source: World Bank (b, 1992); World Bank (a); Institutional Investor (various issues)

Sovereign risk adversely affects the sustainability of capital inflows as foreign investors and creditors cannot be confident to be fully repaid in the future. The theory of sovereign risk relates to the unwillingness of capital recipients to service their external obligations.[27] Debt inflows are subject to the risk of wilful default, while FDI may be expropriated. Practically, the available indicators on the risk perceptions of foreign capital suppliers cannot isolate the risk of wilful transfer restrictions from the risk that capital recipients are unable to service external obligations. The country credit ratings and the secondary market notations reported in Table 9 indicate the degree to which any foreign engagement, apart from speculative transactions, is discouraged because of

[27] For an overview, see Eaton, Gersovitz, Stiglitz (1986).

unfavourable risk perceptions prevailing in international capital markets.[28] In other words, the indicators provide a summary assessment of the afore-mentioned elements of the sample countries' "attractiveness portfolio" and, thereby, of the consistency of their reform efforts.

Not surprisingly, the ranking of the sample countries with regard to the two indicators on risk perceptions reveals strong similarities:

- Chile outperformed all other sample countries. Secondary market notations approached the face value of Chilean debt recently. The country's credit rating improved most impressively since 1985 so that Chile ranked among the top third of the 126 (developed and developing) countries evaluated by the Institutional Investor in September 1992.
- Costa Rica represents another case of dramatically increasing secondary market notations, and a steady and significant improvement of the credit rating. Apart from Chile, a similarly strong increase of the latter indicator is only observed for Bolivia, where it started from an extremely low level, however.
- Typically, risk perceptions deteriorated severely over much of the 1980s, but indicator values recovered thereafter. This applies to Argentina, Mexico and Venezuela in particular. In the former two cases, the recovery appears to be closely related to the comprehensive reform programmes implemented in 1991 and the late 1980s respectively.
- Throughout the period under consideration, the indicators point to a relatively favourable risk perception in the cases of Colombia and Uruguay. Bolivia and Peru rank at the other extreme. Secondary market notations improved somewhat recently, but remained extremely low. The development of the credit rating reveals a noteworthy difference between these two countries, however. The improvement of this indicator for Bolivia and its deterioration for Peru had as a consequence that the former country is no longer among the bottom quarter of all countries considered by the Institutional Investor, while Peru joined this subgroup recently.
- Unfavourable risk perceptions in the case of Brazil support earlier concerns about the sustainability of capital inflows to this country. The evidence is striking in several respects. Among the major Latin American debtor countries, Brazil is the only one for which the credit rating in 1992 was still lower than in 1985. Secondary market

[28] Most evidently, new lending is discouraged if the existing creditors do not expect to be fully repaid. The market valuation of additional transfers would become identical to the value of existing claims (Dooley 1986). FDI inflows may be subject to similar disincentive problems. The profitability of new foreign investment will be impaired if investors expect a debt overhang to result in high taxes levied on investment-induced incremental income (Sachs 1989b; Agarwal, Gubitz, Nunnenkamp 1991, pp. 78ff.).

notations recovered only marginally from the bottom value of 22 per cent in 1989. The 1992 notation was less than 40 per cent of the 1986 notation, which is outstandingly low as compared to other problem borrowers such as Argentina and Venezuela.

To summarize, the evaluation of risk perceptions largely confirms the evidence on specific policy indicators and performance criteria reported in previous sections. The sustainability of capital inflows is at serious risk in some Latin American countries, particularly in Brazil and Peru. Such risks are substantially lower for the rest of the sample. Especially for Chile, concerns about the sustainability of capital inflows are largely unjustified.

IV. POLICY OPTIONS TO DEAL WITH UNSUSTAINABLE CAPITAL INFLOWS

The preceding analysis offers several insights which contradict some (explicit or implicit) assumptions underlying the current debate on capital inflows to Latin America. First, it is rather good news that the region has regained access to international capital markets after a long period of serious shortage of foreign capital, notwithstanding the policy challenges the recent trend reversal might involve. Second, the inflows are not excessive when contrasted with the evidence on capital inflows to other regions such as East Asia.

Third, any generalized "hot money" interpretation of capital inflows to Latin America is grossly misleading. Their significance and structure differ remarkably among the economies of the region. Typically, the extremes are represented by Chile on the one hand, and Brazil and Peru on the other hand. The evidence suggests that unreported "hot money" transactions are relatively small in the Chilean case, but significantly larger for the latter countries. The traditionally favoured location of FDI in Latin America, i.e. Brazil, suffered from a serious loss in attractiveness, especially vis-à-vis Mexico. All in all, the risk of a sudden reversal of inflows is heavily concentrated on a limited number of sample countries, among which Brazil and Peru figure prominently.

Fourth, it cannot be denied that external factors play an important role in explaining the recent boom of capital inflows. However, the country-specific differences in terms of sustainability are clearly related to domestic economic performance and the policy stance of Latin American governments. Long-term capital inflows are concentrated on countries such as Chile and Mexico which have established a strong reputation of reform-

mindedness. While these countries have stabilized their economies and opened up towards world markets, persistent macroeconomic instability and further isolation from international competition endanger the sustainability of inflows in Brazil and Peru. Risk perceptions developed unfavourably where governments continued to adhere to a muddling-through approach, the most prominent example of which is Brazil. By contrast, comprehensive reform efforts helped to restore creditworthiness, e.g. in Argentina and Mexico. However, remaining policy inconsistencies must be tackled in the latter countries. A sudden reversal of capital inflows cannot be ruled out as long as speculative transfers are encouraged by using the exchange rate as a nominal anchor.

These results have important policy implications. This refers to the ongoing discussion on how to interfere with present capital inflows in the first place (Calvo, Leiderman, Reinhart 1992, 1993; Reisen 1993a). The economic rationale of any intervention is questionable if capital inflows can reasonably be considered sustainable. Furthermore, the effectiveness of the various options to deal with unsustainable inflows is open to question once politico-economic constraints are taken into account. And, finally, the above analysis suggests that broadly defined economic policy reforms are superior to targeted intervention for enhancing the sustainability of capital inflows.

The economic rationale for policy intervention rests on the alleged adverse impact of capital inflows on (1) the international competitiveness of exports, and (2) domestic financial stability once inflows are reversed (see also Section I). Such concerns are largely unjustified, however, if the prospects of sustaining the inflows are fairly good. Under such favourable conditions, which prevail particularly in Chile, increased exchange rate fluctuations triggered by volatile capital flows, and the ensuing uncertainties for exporters are unlikely to materialize. The real appreciation which permanent capital inflows might induce may lead to a new exchange rate equilibrium so that policy intervention would be counterproductive. Furthermore, capital inflows do not automatically result in a considerable real appreciation. Its degree is reduced to the extent that capital inflows are spent on traded goods, e.g. higher imports. It is consistent with this reasoning that the real exchange rate appreciated (vis-à-vis 1985) in Brazil and Peru whose imports declined relative to GDP, while all sample countries with rising import to GDP ratios prevented the real exchange rate from appreciating.

The effectiveness of various interventionist policy options to deal with unsustainable inflows is flawed on purely economic grounds (Calvo, Leiderman, Reinhart 1992, pp. 34ff.):

- Experience suggests that taxes on capital inflows can be easily evaded, e.g. through misinvoicing of trade transactions.
- Non-sterilized intervention by the central bank, i.e. the absorption of imported foreign capital in exchange for domestic money, adds to inflationary pressures. Thereby, it creates the real exchange rate appreciation it was supposed to combat.
- In the case of sterilized intervention, the central bank absorbs the imported foreign capital in exchange for government bonds.[29] While additional inflationary pressure is avoided, sterilization tends to maintain relatively high domestic interest rates. Persistently high international interest-rate differentials do not only have adverse fiscal effects, but also perpetuate the capital inflows which led to the intervention in the first place.[30]
- Trade policy measures such as export subsidies, through which the export sector might be insulated from the real exchange rate appreciation, could considerably distort the allocation of resources and undermine fiscal consolidation.

Political economy arguments raise further doubts as concerns the effectiveness of policy intervention, particularly in a Latin American context. For example, it may be announced that trade policy measures will be phased out in order to contain misallocation and fiscal costs. However, past experience in Latin America renders it rather unlikely that such announcements would be credible and induce the desired private sector response. More generally, from a political economy point of view, scepticism is justified as to the governments' ability and willingness to react appropriately and as timely as would be required by sudden changes in capital flows. There is little reason to assume that governments know better than private agents operating in financial markets, whether capital inflows will prove to be a speculative bubble or turn out to be sustainable. Even if the need for intervention is correctly assessed, any delay in the decision process may eventually result in pro-cyclical policy effects, rather than smoothing booms and busts in short-term capital movements.

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[29] This type of intervention has been the most popular policy response recently. Chile and Colombia are examples in Latin America.

[30] It does not help very much that the fiscal costs of sterilized intervention are negligible in present value terms if capital inflows and the ensuing exchange rate appreciation are correctly assessed as temporary (Reisen 1993a, p. 7). In a Latin American context, the credibility of governments is at stake. Consequently, the immediate fiscal impact is likely to dominate private sector behaviour.

Finally, intervention may adversely affect the sustainability of capital inflows even under the most favourable circumstances, i.e. when problems of implementation can be avoided. The negative side effects of policy interference threaten to undermine the credibility of economic reform programmes. This is most evident if the macroeconomic environment is destabilized. Macroeconomic stabilization has been shown to be crucially important to enhance the sustainability of capital inflows. Ad-hoc interventions resulting in higher inflation and larger fiscal deficits would, thus, compromise favourable longer-term effects of successful stabilization, even if short-term speculation were contained. A similar conflict exists with respect to trade-related interventions which would delay the opening up of Latin American economies towards world markets.

Interventionist policies threaten to erode the very basis on which their effectiveness relies, i.e. the government's credibility. This conflict might be easier to avoid by governments which have established a strong reputation of macroeconomic stability and world market orientation.[31] While this may apply to industrialized countries and Asian NIEs, the conditions are dramatically different in most Latin American countries. For this region, the critical question of whether recent capital inflows can be sustained depends primarily on the consistency of economic reform programmes and the governments' revealed determination to stay on course.

Traditional policy conclusions on how to ensure continued access to international capital markets remain highly relevant under the present conditions of booming inflows to Latin America. Pervasive evidence supports the proposition that reform-mindedness and strong internal adjustment efforts help sustaining urgently needed foreign capital inflows. Latin American countries such as Brazil and Peru, facing considerable risks of a sudden reversal of speculative inflows should no longer postpone a comprehensive overhaul of misguided domestic policies. The increasing number of success stories in the region provides most relevant lessons in this respect. In dealing with unsustainable capital inflows, the intensification of reform efforts is clearly superior to discretionary policy interference.

[31] On successful sterilized intervention in Asian countries, see Reisen (1993b).

ANNEX

Table A1 - Net Resource Flows to Developing Countries, 1980-1992 (US$ billion)[a]

		All reporting countries	Latin America and the Caribbean	Sub-Sahara Africa	North Africa and Middle East	East Asia and Pacific	South Asia	Eastern Europe and former Soviet Union
Total (long-term)	1980	84.22 (3.97)	29.38 (4.25)	11.05 (5.73)	11.60 (5.79)	12.37 (2.35)	5.76 (2.61)	8.27 (3.96)
	1985	63.15 (2.26)	13.40 (2.11)	9.59 (5.45)	10.84 (3.24)	15.94 (2.81)	5.74 (2.08)	3.46 (0.47)
	1988	69.61 (2.12)	13.35 (1.73)	13.75 (9.16)	8.10 (2.91)	13.66 (1.79)	8.94 (2.55)	2.76 (0.32)
	1989	72.48 (2.06)	7.75 (0.88)	15.96 (10.68)	6.38 (2.38)	18.83 (2.15)	8.89 (2.49)	4.75 (0.56)
	1990	90.44 (2.40)	15.65 (1.54)	17.31 (10.70)	8.19 (2.94)	26.31 (2.97)	7.80 (2.01)	9.02 (1.03)
	1991	101.24 (2.67)	19.37 (1.82)	17.92 (11.03)	7.25 (2.86)	31.79 (3.34)	9.07 (2.57)	9.02 (1.09)
	1992[b]	122.46 (2.99)	18.40 (1.55)	17.80 (10.56)	9.54 (3.50)	34.68 (3.17)	10.09 (2.80)	22.96 (2.84)
Long-term debt[c]	1980	62.43 (2.94)	22.90 (3.31)	7.94 (4.12)	6.41 (3.20)	10.41 (1.98)	3.22 (1.46)	8.13 (3.89)
	1985	37.98 (1.36)	7.80 (1.23)	3.72 (2.11)	6.81 (2.04)	10.93 (1.93)	4.00 (1.45)	3.44 (0.47)
	1988	32.06 (0.98)	3.69 (0.48)	6.09 (4.06)	5.32 (1.91)	4.73 (0.62)	6.42 (1.83)	2.75 (0.32)
	1989	30.58 (0.87)	-1.05 (-0.12)	6.62 (4.43)	3.57 (1.33)	8.27 (0.94)	6.33 (1.77)	4.48 (0.53)
	1990	39.82 (1.05)	5.71 (0.56)	4.97 (3.07)	0.31 (0.11)	13.55 (1.53)	4.99 (1.29)	8.11 (0.92)
	1991	37.50 (0.99)	3.31 (0.31)	3.55 (2.19)	1.33 (0.53)	17.06 (1.79)	5.97 (1.69)	3.97 (0.48)
	1992[b]	54.21 (1.33)	2.23 (0.19)	3.87 (2.30)	2.38 (0.87)	17.37 (1.59)	6.50 (1.80)	17.26 (2.14)
Private non-guaranteed (long-term) debt	1980	9.83 (0.46)	6.00 (0.87)	0.69 (0.36)	0.14 (0.07)	1.52 (0.29)	0.20 (0.09)	1.21 (0.58)
	1985	-0.99 (-0.04)	-2.08 (-0.33)	0.43 (0.24)	0.24 (0.07)	0.47 (0.08)	0.19 (0.07)	-0.12 (-0.02)
	1988	-2.77 (-0.08)	-3.95 (-0.51)	0.50 (0.33)	0.04 (0.01)	0.69 (0.09)	-0.07 (-0.02)	0.02 (0.00)
	1989	2.07 (0.06)	-1.52 (-0.17)	0.45 (0.30)	-0.06 (-0.02)	2.83 (0.32)	-0.04 (-0.01)	0.17 (0.02)
	1990	8.28 (0.22)	1.14 (0.11)	0.47 (0.29)	-0.09 (-0.03)	6.54 (0.74)	-0.12 (-0.03)	0.01 (0.00)
	1991	6.99 (0.18)	0.76 (0.07)	0.40 (0.25)	-0.06 (-0.02)	6.48 (0.68)	0.01 (0.00)	-0.37 (-0.04)
	1992[b]	5.29 (0.13)	-0.61 (-0.05)	-0.07 (-0.04)	-0.14 (-0.05)	5.90 (0.54)	0.14 (0.04)	0.01 (0.00)

(continued)

Table A1 - Net Resource Flows to Developing Countries, 1980-1992 (US$ billion)[a] (continued)

		All reporting countries	Latin America and the Caribbean	Sub-Sahara Africa	North Africa and Middle East	East Asia and Pacific	South Asia	Eastern Europe and former Soviet Union
Foreign direct investment	1980	9.25 (0.44)	6.12 (0.89)	0.02 (0.01)	1.39 (0.69)	1.32 (0.25)	0.11 (0.05)	0.01 (0.00)
	1985	10.96 (0.39)	4.35 (0.68)	1.32 (0.75)	1.50 (0.45)	3.18 (0.56)	0.16 (0.06)	0.02 (0.00)
	1988	19.74 (0.60)	8.01 (1.04)	1.04 (0.69)	1.46 (0.53)	7.59 (0.99)	0.23 (0.07)	0.02 (0.00)
	1989	23.32 (0.66)	7.14 (0.81)	2.48 (1.66)	1.62 (0.60)	9.07 (1.04)	0.23 (0.06)	0.27 (0.03)
	1990	24.01 (0.64)	7.73 (0.76)	0.67 (0.41)	1.16 (0.42)	10.89 (1.23)	0.29 (0.07)	0.30 (0.03)
	1991	33.91 (0.89)	12.77 (1.20)	1.75 (1.08)	0.71 (0.28)	13.02 (1.37)	0.36 (0.10)	2.39 (0.29)
	1992[b]	38.25 (0.94)	13.78 (1.16)	1.28 (0.76)	2.06 (0.75)	15.06 (1.38)	0.42 (0.12)	2.70 (0.33)

[a] In parentheses: in per cent of GNP. - [b] Projected. - [c] Excluding IMF loans.

Source: World Bank (b, 1992)

Table A2 - The Structure of Net Resource Flows to Developing Countries, 1985-1992

		Total long-term flows	Grants[a]	Foreign direct investment	Long-term debt[b]	
					Official creditors	Private creditors[c]
		(US$ billion)	per cent			
All reporting countries	1985	63.1	22.5	17.4	32.7	27.4
	1988	69.6	25.6	28.4	25.5	20.5
	1991	101.2	29.5	33.5	26.2	10.9
	1992[d]	122.5	24.5	31.2	24.7	19.5
Latin America and the Caribbean	1985	13.4	9.4	32.4	41.6	16.6
	1988	13.3	12.3	60.0	30.8	-3.2
	1991	19.4	17.0	65.9	9.5	7.6
	1992[d]	18.4	13.0	74.9	25.5	-13.3
Sub-Sahara Africa	1985	9.6	47.5	13.7	32.4	6.3
	1988	13.8	48.1	7.6	32.9	11.3
	1991	17.9	70.5	9.7	19.7	0.1
	1992[d]	17.8	71.1	7.2	24.5	-2.7
North Africa and Middle East	1985	10.8	23.4	13.8	42.1	20.7
	1988	8.1	16.3	18.1	27.0	38.6
	1991	7.2	71.8	9.8	35.6	-17.2
	1992[d]	9.5	53.4	21.6	34.7	-9.8
East Asia and Pacific	1985	15.9	11.5	20.0	20.6	47.9
	1988	13.7	9.8	55.6	24.2	10.4
	1991	31.8	5.4	41.0	17.7	36.0
	1992[d]	34.7	6.5	43.4	17.3	32.8
South Asia	1985	5.7	27.5	2.7	52.6	17.1
	1988	8.9	25.5	2.6	55.5	16.4
	1991	9.1	30.3	3.9	58.8	7.0
	1992[d]	10.1	31.4	4.2	58.4	6.0
Eastern Europe and former Soviet Union	1985	3.5	0.0	0.4	17.9	81.6
	1988	2.8	0.1	0.5	-63.3	162.7
	1991	9.0	29.5	26.5	80.0	-36.0
	1992[d]	23.0	13.1	11.8	21.2	54.0

[a] Excluding technical cooperation grants. - [b] Excluding IMF loans. - [c] Includes public and publicly guaranteed debt from private creditors plus total non-guaranteed private debt. - [d] Projected.

Source: World Bank (b, 1992)

Table A3 - The Structure of Net Resource Flows to Selected Latin American Countries, 1985-1991

		Total long-term flows	Grants[a]	Foreign direct investment	Long-term debt[b]	
					Official creditors	Private creditors[c]
		(US$ billion)	per cent			
Argentina	1985	3.49	0.2	26.3	6.2	67.3
	1988	1.66	1.1	69.0	26.5	3.3
	1991	1.69	2.4	144.5	31.5	-78.3
Bolivia	1985	0.04	161.4	22.7	-2.3	-81.8
	1988	0.29	54.4	-3.5	71.8	-22.6
	1991	0.80	74.9	6.5	20.8	-2.3
Brazil	1985	1.90	1.8	71.0	44.3	-17.1
	1988	5.25	0.9	56.6	0.5	42.1
	1991	1.29	3.6	124.4	-120.1	92.1
Chile	1985	1.27	2.5	9.0	34.4	54.2
	1988	1.12	2.3	12.6	57.0	28.2
	1991	1.40	6.9	41.2	3.5	48.4
Colombia	1985	2.37	0.8	43.1	39.5	16.5
	1988	0.86	4.0	23.7	39.0	33.2
	1991	0.20	25.6	211.1	-73.9	-62.3
Costa Rica	1985	0.41	40.1	17.0	32.6	10.2
	1988	0.28	39.9	43.1	18.4	-1.4
	1991	0.39	21.6	36.9	49.9	-8.3
Ecuador	1985	0.47	5.3	13.1	39.0	42.6
	1988	0.35	8.6	23.0	79.6	-11.2
	1991	0.17	33.7	51.2	62.0	-47.0
Mexico	1985	0.55	14.3	89.8	147.9	-151.9
	1988	1.19	6.4	218.3	84.4	-209.2
	1991	7.32	0.8	65.0	19.1	15.0
Peru	1985	0.35	25.8	0.3	51.9	22.1
	1988	0.31	38.0	8.4	44.8	8.8
	1991	0.12	158.9	-5.6	39.5	-92.7
Uruguay	1985	0.03	6.9	0.0	34.5	58.6
	1988	0.04	48.6	134.3	137.1	-222.9
	1991	0.22	4.5	0.0	61.6	33.9
Venezuela	1985	-0.60	n.a.	n.a.	n.a.	n.a.
	1988	-0.61	n.a.	n.a.	n.a.	n.a.
	1991	2.84	0.2	67.4	19.7	12.7

[a] Excluding technical cooperation grants. - [b] Excluding IMF loans. - [c] Includes public and publicly guaranteed debt from private creditors plus total non-guaranteed private debt.

Source: World Bank (b, 1992)

Table A4 - The Maturity of Debt in Selected Latin American Countries, 1985-1991

		Argentina	Bolivia	Brazil	Chile	Colombia	Costa Rica	Ecuador	Mexico	Peru	Uruguay	Venezuela
Maturity of new commitments (years)												
All	1985	9.6	30.3	12.0	13.1	12.0	18.4	13.5	12.0	20.9	5.5	12.8
creditors	1988	15.1	29.8	11.3	12.6	13.2	20.0	18.3	13.4	11.2	10.1	7.2
	1989	18.4	27.1	11.7	16.3	13.5	18.2	13.1	15.6	14.9	12.7	11.9
	1990	18.4	29.1	11.7	17.4	16.4	15.2	14.8	13.4	7.8	11.7	14.4
	1991	19.9	25.0	11.1	14.7	11.8	6.4	15.5	12.9	29.6	13.7	15.1
Private	1985	9.0	6.8	9.2	10.4	8.8	13.4	8.5	8.5	28.9	5.3	12.1
creditors	1988	7.7	n.a.	10.5	8.6	10.6	5.8	9.0	7.3	11.0	7.9	5.3
	1989	6.9	6.8	9.8	6.5	11.5	10.3	9.2	6.5	18.1	7.6	9.0
	1990	8.0	6.0	7.2	7.7	9.8	3.2	8.7	10.1	6.7	8.5	13.4
	1991	n.a.	19.2	5.3	5.4	10.9	1.1	6.4	8.2	n.a.	10.3	10.2
Short-term debt												
(per cent	1985	13.2	13.7	9.1	8.2	21.8	8.6	11.4	5.6	15.2	20.8	25.3
of total debt	1988	9.7	7.2	9.4	11.2	9.5	13.1	11.1	9.4	26.3	12.4	15.1
stocks)	1989	12.9	6.2	16.7	16.5	9.6	15.3	12.4	10.8	26.7	21.9	7.0
	1990	16.3	3.6	20.8	17.5	8.3	10.1	15.0	9.9	28.0	25.7	6.0
	1991	22.0	3.8	17.3	12.3	10.1	8.4	17.6	10.9	22.7	23.9	6.6
Net flows of short-term debt												
per cent of	1985	-229.1	n.a.	n.a.	-22.9	14.8	33.5	-134.3	n.a.	n.a.	77.9	n.a.
net flows of	1988	43.9	n.a.	4.9	17.4	-7.8	n.a.	1.1	175.7	70.4	n.a.	243.9
total debt[a]	1989	n.a.	-17.1	n.a.	54.2	4.5	n.a.	-5.3	84.7	n.a.	103.5	n.a.
	1990	n.a.	n.a.	n.a.	22.8	n.a.	n.a.	n.a.	-10.1	n.a.	n.a.	-13.9
	1991	310.2	-6.3	n.a.	n.a.	n.a.	-12.8	n.a.	35.0	161.6	n.a.	20.1
per cent of	1986/87	-1.8	1.8	0.2	1.1	-2.1	-0.1	-1.8	0.1	0.5	-1.4	n.a.
GNP[b]	1988/89	-0.2	-2.5	0.6	2.2	-0.1	0.0	-0.1	1.2	0.4	1.9	-1.8
	1990/91	0.9	-0.7	0.1	-1.4	0.2	-0.4	-0.1	0.2	0.4	0.5	0.0

[a] n.a. if net flows of total debt are close to zero (below US$ 100 million) or negative. - [b] Period average.

Source: World Bank (b, 1992)

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