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EXTERNAL DEBT AND CAPITAL FLOWS
IN LATIN AMERICA

Richard O'Brien
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Section I: Latin American Debt and the United States: A Hemispheric Issue?

Latin America's total external debt at the end of 1982 was estimated to be at least $350 billion, including short-term debt. This amount is equivalent to half the debts owed by all developing countries. Moreover, several of the Latin American countries dominate the international debt scene, with four out of the top five largest developing country debtors located in the region.

Of these debts, some two-thirds ($210 billion) is owed to international banks, and some $80 billion of that (39%) to United States banks in particular. The region (holding 61% of all debts to international banks) and its individual member countries again dominate the picture. From the lending side, it is again United States banks which play a predominant role (holding 39% of all bank loans to the region, more than any other national banking group), as they have in international lending generally (holding 36% of all bank loans to developing countries).

These data are, to a considerable degree, a reflection of the sheer size of the region and of its constituent countries, compared to other developing regions. In the same vein, the prominence of Latin American countries in United States banks' exposures, and the prominence of United States banks themselves in the region's financing are mainly a reflection of the importance of United States-Latin American trading and economic relations compared to those between the United States and other developing countries.

The aspect of the United States-Latin American financial relationship which cannot be so easily explained by the size of the region alone is the intensity of the debt problems with which Latin American countries are now burdened. As of April 1983, six major Latin American countries were rescheduling part of their bank debt, and only one major country (Colombia) was fully current on its interest payments with no delays during the 1982-83 debt crisis. The size of the region also fails to explain why, in a ranking of 17 major developing country borrowers' ratio of debt service to current account earnings, Latin American countries head the list (see Table 2 in Section III). Seven out of the eight countries with the highest ratios are in the region. And size alone does not explain why Latin American borrowers more frequently have excessive levels of short-term debt.

Yet size does have a lot to do with the extent of the debt burden in Latin America. In an international economy in which external borrowing has suddenly become an expensive exercise (compared to being relatively cheap source of money in the 1970s), and at a time when international trade has slumped, it is not surprising that the larger debtors dominate the debt problem lists. In fact, it is <u>because</u> Latin American countries have been thought more creditworthy than many other developing countries that the region now has a comparatively more severe <u>debt</u> problem. All developing countries have faced deteriorating trade and financing conditions in the past several years. The poorer countries were unable to postpone their adjustment process because their immediate balance-of-payment gaps could not be financed. Because Latin American economies are larger, more developed economically, and more creditworthy than most of the other developing countries (with only a few Asian exceptions), they have been able to attract foreign capital and foreign credit, and to use foreign savings extensively. Many African countries are no less financially strapped than Mexico, but instead of borrowing to finance their desired imports, these poorer countries have had to control imports sharply. Now that many Latin American countries are no longer creditworthy, <u>their</u> imports must also be cut sharply.

United States banks, for "natural business reasons," have played a key role in satisfying the Latin American demand for credit. As United States-based businesses traded with the region, so their bankers had to support their corporate clients with financial services and credit. Thereafter, as United States banks followed up such opportunities and sought to maximize profits and capitalize on their growing knowledge of the region, the banks themselves ventured abroad with their own offices. The majority of United States banks' developing country branches are in Latin America. Where local banking licenses are held, local financing funded by local deposits can be undertaken, providing an important revenue stream. For example, a large percentage of Citibank's Brazilian earnings derive from their local, <u>cruzeiro</u> business. This banking business was expanding long before the eurodollar credit boom of the 1970s. Such banking business opportunities also exist elsewhere in the world, but except for selected Asian countries and Western Europe, the opportunities have been smaller or more recent.

The relationships surrounding the financing of United States businesses which invest in and trade with Latin America are important in two respects. First, these relationships can provide income to the banks, and banking services to developing countries, <u>without a massive accumulation of debt</u>. Second, such relationships can also provide developing countries with a means to accumulate debt <u>without even having to raise medium-term syndicated credit</u>.

Therefore, with an existing reason to be involved in Latin America, it was a relatively easy step both practically and philosophically for United States banks to extend the relationship to the provision of cross-border dollar credit. Indeed, where a bank had built extensive trade-financing, developed a correspondent banking network, and pursued corporate-client links, the opportunities and the pressures to participate in the foreign lending boom were very great. Where the bank had a market (or perhaps even a banking license to protect), even a fine margin on the dollar credit was acceptable given the overall profitability of the business with that country. At the extreme, it could be argued that such new lending was akin to the idea of a "loss leader"--lending at a small marginal profit to protect existing profits, as a business might offer a "loss leader" to attract future business. In this reverse aspect, marginal lending indeed can be more easily justified than a loss leader, given that the protected business is already in place and the total relationship is already profitable. (In contrast, there is less certainty that the loss leader will succeed in leading to future profit.) The only complication is that the marginally profitable business (in this case, dollar lending at small interest rate spreads) may prove to be unprofitable as a result of major credit losses.

It is therefore hardly surprising that United States banks have played an important role in financing Latin America. Supplementary reasons can also be cited, including considerations not specific to United States-Latin American economic relationships. United States banks were generally the pioneers in the international syndicated credit market. Their dominance of the market has declined only as other banks (British, Japanese, German, Arab) entered the market. As pioneers, United States banks built up larger portfolios in developing countries generally. With the United States banks leading the banking industry and Latin American countries leading the developing countries as borrowers, the two trends have combined to put the United States-Latin American financial relationship in the forefront of the international bank-developing country relationship.

The corollary of these two combined forces is that the global developing country debt problem is itself a United States-Latin American problem writ large. And, most important for this study, it must be recognized that the United States-Latin American financial crisis is itself the bank-developing country debt problem in microcosm (albeit in a rather large microcosm).

Of course, Latin America's financial crisis had its own regional catalyst: the April 1982 war between Argentina and Great Britain. The political crisis was a crisis for United States-Latin American relations, and the financial embargoes were a severe blow to the eurocredit market--in much the same way as Poland's debt and political crisis led to a crisis in East-West financial relations. The speed with which the Falklands/Malvinas war produced a domino effect on credit in the region once again led to charges of "herd instinct" against the banks (and not just United States banks). To understand the reasons behind the domino effect and the apparent "herd instinct" of the banking community, one must consider the eurocredit market and its brief historical experience, as well as the nature of banks' risk attitudes.

Banks, like all businesses, seek to achieve economies of scale. This orientation results in a tendency to specialize in certain businesses, both to justify the initial basic costs of the business and to maximize profits thereafter. The "sovereign creditor" has been perceived as having certain specific characteristics, and thus an international bank generally regards its sovereign loans as one homogeneous part of its portfolio, in the same way that it regards its shipping loans as another homogeneous part.

Having decided that the nature of the business is acceptable (lending on the security of a ship, lending to a country, and so forth, the bank's natural defense against risks for each portfolio will be to diversify names with the portfolio. But that diversification process clearly does little to reduce risk if the attractiveness of the total business (for example, shipping, balance of payments financing, etc.) goes into decline. At that point the bank will seek to reduce its portfolio in that type of risk as soon as possible, notwithstanding that there are sound and unsound shipping companies, or sound and unsound sovereign borrowers. During the retrenchment period the bank will seek to keep the better parts and off-load the poorer, high risk portions as will all banks.

Once serious questions are raised about a major client within the portfolio, then growing risk aversion will lead the bank to question other clients' health. Two cases in the sovereign risk/euromarket experience illustrate this point. In 1979 the oil-rich Islamic state of Iran became a credit risk. Bankers immediately (and prudently) then set about examining their exposure to other oil-rich, Islamic countries. In 1980 the Polish political crisis led to a collapse of this socialist, centrally-planned, Comecon economy. Bankers (and economists) again asked, "How stable is the socialist, European-satellite economic system?" In addition, the umbrella theory also exploded: Rumania, Hungary, and other East European countries were all reexamined in a more critical light. And so it was with Latin America after the Argentina-British war. Where that renewed scrutiny revealed financial weakness, the dominoes fell. If the Latin American countries had been financially sound, they would have withstood bankers' reappraisals. Similarly, where reexamination found the finances of concerned countries wanting, lending was curtailed.

There is an additional aspect to this issue. For a time the South Atlantic war severed British-Argentine economic relations, and other European Economic Community (EEC) countries followed suit. It is assumed in the euromarket, especially in multinational syndicates, that all lenders will be treated equally. If this assumption proves false, there is a crisis. Of course, national governments long criticized this influence of multinational business; it complicates the operation of a world of national, sovereign entities. The euromarket is no exception in this regard. And because money is fungible, financial embargoes are always most difficult to police effectively, and thus cannot be maintained indefinitely. Moreover, their imposition strikes at the very heart of the international financial market's operational system and principles.

Thus the elements for a debt crisis were well in place by early 1982. The South Atlantic war was the first catalyst, followed shortly thereafter by Mexico's financial crisis in August 1982. Both specific episodes gave a special hemispheric feature to the global debt crisis. The Argentine factor affected all United States-Latin American relations, and Mexico is (and always will be) the most important example of how closely United States-Latin American economic and financial relations are intertwined.

The regional or hemispheric nature of the debt problem is thus important. But it should not be overdrawn. This latter observation is significant not just because the region itself is only a part of a global problem, but because within Latin America there are very large country-by-country differences in the common debt problem. In practice, analysis of debt issues is best done primarily on a country-by-country basis, with due regard to any regional aspects which may apply (see section II for a discussion of the debt problem in specific Latin American countries).

Nonetheless, there are three key arguments for a regional approach (alongside global and country treatment) to the debt problem. First, because the global debt crisis is largely manifested in Latin America (with United States banks in the vanguard; see Table 1), it is very important that the Latin American debt problem is accorded high priority by United States policymakers. Second, because almost all the major countries in Latin America have a debt problem (with almost all the major United States banks involved), it makes sense from a policymaker's "economies of scale" perspective to consider a hemispheric approach. And third, because the financial crisis in the region is severe just at a time when United States-Latin American political relationships themselves are at a crucial point, the region's debt problems are a high priority issue for the United States.

A final, cautionary note should be sounded. These three reasons for a hemispheric treatment of the debt issue could be more accurately described as three reasons why the Latin American debt problem is, in 1983, a high priority financial, economic, and foreign policy issue for the United States. It does not <u>necessarily</u> follow that the policy reaction should be predominantly hemispheric, rather than one intended to address a global problem at its country and regional source. Indeed, if the debt problems of the region--or even those of four major countries (Argentina, Brazil, Mexico, and Venezuela)--could be solved, then the developing country debt threat would be much less of a threat to the international financial and economic system. These observations, therefore, neither rule out nor argue strongly for a regional or hemispheric approach. But if a coherent regional approach can be engineered (and for political reasons, the arguments for this might be more appealing), then a regional strategy ought to be encouraged.

Table 1

U.S. BANKS' EXPOSURES IN LATIN AMERICA
AND OTHER DEVELOPING COUNTRIES

(June 1982; US$ billion)

	U.S. Banks	Euromarket	U.S. Bank Share As % of Total
Argentina	8,612	25,305	34.0
Brazil	18,886	55,300	34.2
Chile	6,259	11,757	53.2
Colombia	2,730	5,473	49.9
Ecuador	2,179	4,674	46.6
Mexico	24,926	64,375	38.7
Peru	2,363	5,216	45.3
Venezuela	11,046	27,249	40.5
Other Latin American countries	4,342	10,141	42.8
Total Latin America	81,343	209,490	38.8
Indonesia	2,531	8,155	31.0
Korea	8,622	19,994	43.1
Philippines	5,576	11,365	49.1
Taiwan	4,506	6,427	70.1
Other Asian countries	6,786	16,253	41.8
Total Asia	28,021	62,194	45.1
Middle East Africa	13,068	71,858	18.2
All developing countries	122,432	343,542	35.6
Latin America as % of all developing countries	6.4%	61.0%	NA

NA = Not Available.

SOURCE: Federal Reserve Country Lending Survey and Bank of International Settlements.

Section II: Common External Themes and Contrasting Domestic Characteristics in Latin America's Financial Crisis*

There are two common, largely external themes behind the current economic and financial difficulties faced by Latin American countries. The first is the substantial use of foreign private credits in the years up to 1982 and the subsequent sudden contraction of the markets during 1982. The second is the impact of the world economic cycle which during 1981-83 produced falling commodity prices, weak export markets, and high international interest rates. The impact of this cyclical change was perhaps made greater by a shift away from import substitution toward export orientation and, of course, by the increased use of foreign credit itself.

Beyond these common external themes which have affected the whole region, it is much less easy to find shared factors in the debt crisis, either in the policies pursued or the economic experiences of the Latin American economies. Most countries in the region enjoyed a relatively high rate of growth in 1979 and 1980. Data from the United Nations Commission for Latin America show an average growth of 6.5% and 5.9%, respectively, about the same as the average for 1970 to 1978. For some countries (for example, Peru and Chile), this continued expansion derived from buoyant commodity exports. For others (such as Brazil and Mexico) growth continued as a result of expansionary policies coupled with large capital inflows. In contrast, Venezuela followed a deliberately cautious policy which produced economic stagnation despite higher oil earnings. Brazil's economic growth stopped abruptly in 1981 when the economy moved into recession, while the Mexican oil boom continued into the first few months of 1982.

Exchange rate management has not surprisingly been a highly visible factor in the problems of many Latin American countries. After defending a particular exchange rate by various combinations of high domestic interest rates, foreign exchange intervention, foreign exchange controls or exhortations, all such governments have been forced eventually to devalue (for example, Argentina, Mexico, Chile, and Venezuela). Devaluations bring in their wake distress to dollar debtors and protracted negotiations regarding how to help private sector debtors meet their external obligations. The immediate effect of devaluation is to disturb relative prices and discourage imports. Only when a new parity or "crawling peg" exchange rate can be established, and when speculation or further devaluation risks have subsided, can capital flight be reversed. In the interim, domestic interest rates may tend to rise rather than fall, bringing increased distress to domestic currency debtors and worsening recession and unemployment. Exports only respond after a lag of at least several months. These problems can be observed in countries from Mexico down to the Southern Cone.

However, the causes of exchange rate problems have varied. Mexico and Venezuela had enjoyed currencies buoyed by oil reserves, which

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*I am indebted to my colleague, John Calverley, for his assistance in drafting this section.

unfortunately undermined the structure of the nonoil economy (the so-called "Dutch disease"). When the oil prop suddenly disappeared, the economic and political costs of moving to a lower exchange rate (particularly with some hope that the oil market would firm again) encouraged a delay in policy response. This delay eventually made adjustment more difficult, especially since debt was high and reserves lower after the struggle to maintain parities. In Venezuela the support provided oil reserves was not especially important. The current account was in small deficit in 1982, but outflows on the capital account were the factor which eventually made devaluation imperative.

In contrast, the fixed exchange rate policy in Chile, Argentina, and Uruguay was the centerpiece of an economic policy aimed at winning the long-running battle against inflation. Other countries (Brazil, for example) have used a crawling peg arrangement for many years, although they have had only limited success in avoiding the same problems of high real interest rates and, now, recession. Nevertheless, the crawling peg strategy did at least prevent massive overvaluation, which inevitably brought major convulsions in the domestic economy when correction was attempted.

Fiscal policy also has varied widely among Latin American countries. For example, Chile and Uruguay achieved near balance in public sector finances, while others continued to run significant deficits. Several countries adopted vigorous policies of trade and investment liberalization, while others (notably in the Southern Cone) continued import substitution policies.

The overall diversity of economic policies among different countries in the region is therefore striking. Perhaps the only common element in policy in most countries was the substantial use of foreign capital. Yet up until 1979 foreign borrowing was cheap because real interest rates lagged behind inflation. Indebtedness therefore made good sense. After 1979 the options to limit borrowing narrowed as oil and interest bills rose while export revenues fell.

Oil exporting countries took the opportunity to borrow to develop oil and related industries, pursuing what turned out in retrospect to have been an overly bullish view of future oil prices. Borrowing--particularly at short maturities--increased sharply during 1980-81, bringing the cash flow deterioration which triggered the crises. If the world recession had ended in 1981 all might have been well, but by 1982-83 most countries found themselves in poor shape to weather another recession year without major adjustments. The experiences of six countries in the region--Argentina, Brazil, Chile, Mexico, Peru, and Venezuela--illustrate the diversities of policies and the impact of the common external shocks on the debt problem.

Brazil

Between 1963 and 1981 Brazil's real gross domestic product (GDP) grew at an average rate of more than 8% per year, making it one of the fastest growing countries in the world. Growth slowed to an average 7% per year after the 1973-74 oil shock, and foreign borrowing increased substantially to maintain the balance of payments despite higher import payments (especially for crude oil). At the end of 1978 total debt stood at $49 billion, just over half the end-1982 total of $86 billion. The second oil price shock in 1979-80, coinciding with the rise in real international interest rates, placed severe strain on the external balance. Calculations suggest that from 1979 to 1982 the "excess" interest costs due to higher than normal interest rates were $6 billion, while the "excess" oil payments (defined as the result of the escalation of oil prices) were $18 billion.

The government's initial response to this situation was to borrow further and maintain economic growth. In 1980 the current account deficit exceeded $12 billion (or about 4 1/2% of GDP) and was financed partly by a rundown of reserves. The pricing of new loans was a major bone of contention that year because banks were unwilling to digest such large new lending without higher interest rate spreads. The rundown of reserves was thus perceived as necessary.

The government undertook adjustment measures in 1979-80, including a tightening of fiscal and monetary policy, a maxi-devaluation, and a liberalization of foreign trade. Nevertheless, economic growth accelerated in 1980 to 8% and only cooled down in 1981, registering a decline of 1.9%. Bank financing expanded again in 1981 with the recognition that economic adjustment was underway, and the attraction of spreads were much higher than for most other newly-industrialized countries. Financing was thus secured for the still-substantial current account deficit of $11 billion.* The 16% boost in exports was particularly encouraging, bringing the trade account from a deficit of $3 billion in 1980 to a surplus of $1 billion in 1981. But Brazil typically runs a nonfinancial services deficit of $2-3 billion per year even before net interest payments are included. By 1981, boosted by substantial debt and high United States interest rates, the net financial services deficit was $9.2 billion--up from $6.3 billion in 1980 and more than triple the 1978 figure.

In 1982 the balance of payments deteriorated sharply, with the current account finishing at a deficit of $14.4 billion. Continuing high interest payments, slumping exports due to weaker commodity prices, and weak foreign markets (particularly some of the developing country markets which had been so successfully penetrated in 1981) were the main factors producing this down-turn. But this increased deficit could not be financed in the markets. For 1982 as a whole only $5.5 billion was covered by net capital inflows, leaving nearly $9 billion to be financed from a loss in net international reserves.

To deal with the crisis, the government then adopted a comprehensive stabilization package. There were five key elements in the government's plans:

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*Brazil almost applied to the International Monetary Fund (IMF) for assistance in late 1980. The policy changes that the government implemented were understood to be broadly in line with policies which the IMF itself would have endorsed.

1. To boost the trade surplus from \$0.8 billion in 1982 to a target of \$6 billion in 1983. The goal was to push exports up by \$1.8 billion and imports down by \$3.4 billion. The commitment to this policy was emphasized by the February 1983 23% maxi-devaluation.

2. Agreement with the commercial banks to maintain previous levels of trade finance and short-term credit lines, provide an additional \$4.4 billion in medium-term finance, and reschedule most of the medium-term debt falling due in 1983.

3. Various measures to dampen domestic demand and impose economic efficiency, such as reducing the nonfinancial public sector deficit from 16.9% of GDP in 1982 to 8.8% in 1983.

4. Agreement with the IMF to the above program as part of a financial package totalling \$5.9 billion over 3 years.

5. Recognition that at least in the next few years Brazil would have to rely much less on foreign capital inflows. The restoration of rapid growth would also require a boost in domestic savings.

Chile

Two themes dominate any assessment of the performance of the Chilean economy in recent years--copper prices and economic policy. Copper now accounts for 40-50% of total exports, down from the peaks of the early 1970s. However, price volatility is substantial. In 1982 copper exports earned about \$1.7 billion, down from \$2.1 billion in 1980 despite an increase in export volume.

Government economic policy until mid-1982 followed a relatively pure version of free market economics inspired by University of Chicago-trained economists. The government eliminated its deficit, substantially reduced import protection and, perhaps most controversially, pegged the peso from spring 1979 onward at 39 pesos to the dollar. The direct results of these policies were twofold. First, inflation was dramatically reduced from over 400% in the mid-1970s to less than 10% in early 1982. Second, the peso became increasingly overvalued until 1982. This situation produced very high domestic interest rates and, consequently (because the government promised to maintain the peso parity), large-scale foreign borrowing by the private sector. Simultaneously, noncopper exports fell off after 1980 while imports tripled between 1977 and 1981, bringing large trade and current account deficits--the counterpart to this capital inflow. Interest payments also increased very substantially between 1979 and 1982 due to the growing debt and higher international interest rates.

Economic adjustment began in 1981 as economic growth slowed and imports began to contract. Financial distress grew, particularly in traceable-goods industries facing foreign competition and companies with heavy peso debts. Weaknesses began to emerge in the financial structure geared to high inflation and in some domestic banks linked closely to conglomerate companies. In early 1982, the strains of real interest rates of over 40% and increasing bankruptcies and unemployment eventually forced devaluation on the government. With copper prices at two-thirds of 1980 levels and capital inflows slowing, there was little sign of relief. The only alternative to devaluation was to wait for the peso's overvaluation to dissipate by running a lower inflation rate than in the United States. With United States inflation back below 10% this would have been impossible without crippling high peso interest rates. The peso was initially devalued by 18% in June 1982, and then allowed to float in August. By the end of 1982 the devaluation was about 100%.

The initial effects of devaluation were inevitably destabilizing. Dollar debtors were largely unprepared for the sharp increase in the peso cost of their debt, and peso debtors gained little because domestic interest rates stayed high as expectations of further devaluation increased. Moreover, continuing tight fiscal policy and the domestic recession kept inflation at around 20% for the year despite the devaluation of nearly 100%. This meant that the change in the real exchange rate was unusually large. Most economies inflate rapidly after a large devaluation, thus diminishing the realignment gained.

The worst of the adjustment probably came in 1982. Chile's GDP fell an estimated 14%, and imports in the second half of the year ran at under half the 1981 level. Although imports had undoubtedly been inflated by the economic boom and inventory accumulation, this fall was nothing short of drastic. Unemployment increased to 25% (double the 1981 level), and there were widespread corporate bankruptcies and state interventions of banks.

Peru

In 1979-80 oil revenues boosted Peru's export earnings substantially as increased production coincided with higher prices. Export earnings peaked in 1980 at $3.9 billion, compared to only $1.9 billion two years earlier. Along with the stabilization and liberalization measures introduced in 1978 as part of an IMF program, these developments moved the current account into surplus in 1979 and, despite higher imports, close to balance in 1980. Foreign debt (which had been rescheduled) was repaid on the original schedule, and Peru was able to borrow further sums from the capital markets.

However, after 1980 the prices of Peru's commodity exports began to drop sharply almost without exception. Copper, silver, zinc, and lead prices all fell, followed in 1981 by a decline in oil prices. Real exports prices fell an average weighted 50% from their peaks. Of course, 1980 had been an exceptional year for metals but, by spring 1982, Peru's commodity prices (excluding oil) were at their lowest level in real terms in postwar history.

In 1982 Peru implemented a stabilization program aimed at reducing the current account deficit and stabilizing the domestic economy. The principal elements were a reduction in the public sector deficit to 4.2% of GDP and limitations on external borrowing. The deficit fell significantly, though the overall public sector deficit declined to only 6.6% of GDP. Imports were cut by $300 million (about 8%), but export earnings remained constant and interest payments rose. Overall the stabilization program trimmed the current account deficit by only about \$100 million, to \$1.4 billion. Meanwhile economic growth slowed to 0.7% per year, and unemployment and underemployment became an increasing problem. Confidence that Peru was moving in the right direction enabled the government to continue borrowing in 1982, though often at short maturities. With uncertainty rising in the absence of any imminent improvement in commodity prices, the government had to take steps to maintain this short-term exposure.

Venezuela

Venezuela's current difficulties stem from three sources: declining oil export revenues, excessive short-term debt, and currency management. Oil revenues rose from \$8.6 billion in 1978 to a peak of \$18.9 billion in 1981, and then fell to \$16 billion in 1982. The volatility of oil revenues did not in itself pose a major problem. Venezuela ran a current account surplus of \$4.4 billion in 1981 and even in 1982 the deficit was only \$2.2 billion. This compared to Central Bank foreign exchange reserves of \$7 billion at end-1981, plus up to another \$15 billion in reserves held by state enterprises.

However, Venezuela's second problem--that of a large short-term public debt--made its cash flow position much weaker than a balance of payments analysis would suggest. By the end of 1981 commercial banks reported to the Bank of International Settlements that Venezuela had \$16.6 billion falling due in 1982, of which approximately \$14.4 billion probably had an original maturity of less than one year. Several attempts to refinance much of this debt at longer maturities during 1980-82 failed as a result of disagreements over price and coverage. As uncertainty grew about Latin American risks in general--and oil exporters in particular--this reliance upon short-term debt left Venezuela's cash flow position weak. This, together with calculations that on a purchasing power basis the bolivar had become overvalued since being pegged to the dollar in 1976, fueled speculation that devaluation was imminent and led to a massive capital outflow between early 1982 and February 1983.

With reserves falling close to minimum prudential levels, the government had to choose between capital controls and/or devaluation. But with the prospect of a large current account deficit in 1983 unless imports were curbed, there were doubts whether this could be financed in the more difficult lending markets then prevailing. Moreover, with reserves insufficient to meet a large short-fall, the moment for capital controls had probably passed. Devaluation or partial devaluation was necessary to help cut imports and restore confidence in the bolivar, and thereby to encourage some capital to return.

In March 1983 the government announced a three-tier exchange rate system which required that foreign debt repayments and essential imports be exchanged at the old rate (4.3 bolivars/dollar), established a rate of 6 bolivars/dollar for another list of important imports, and set a free market rate for other imports. General uncertainty regarding Venezuela's financial situation left little choice but for a moratorium on public sector debt repayments for three months, pending refinancing of much of the short-term debt. Venezuela simultaneously opened discussions with the IMF for financial support.

Argentina

Economic policy in Argentina in recent years has been less coherent than in most other Latin American countries, with frequent changes both in substance and in emphasis. The principal aim of the post-1976 military government was to reduce inflation, which had reached over 400% per year during the civil war in the early 1970s. On at least two occasions the exchange rate was used as a principal element to achieve this end. In December 1978, for example, the government initiated a new policy of announcing the nominal exchange rate in advance. The idea was to pitch the rate of devaluation below the inflation rate so that world price levels would force a slowing of domestic inflation. However, without other important supporting measures--particularly substantial reductions in the public sector deficit--this policy proved unworkable. Moreover, in its initial stages this approach encouraged foreign borrowing because it guaranteed a high rate of return on loans, while in the later stages capital outflow was only controlled by high domestic interest rates.

Exports grew significantly from 1977 to 1981 due to price increases for beef and wool and larger volume of other export commodities, particularly corn and skins. Total export earnings grew by an average of 13% per year. However, imports grew more rapidly due largely to tariff liberalization policies which reduced the average tariff from 95% to below 40%. The total cost of imports almost tripled from 1977 to 1980 and took the trade account into deficit. Imports of services almost quadrupled over the same period, reflecting high interest payments on foreign debt.

By end-1981 Argentina's total debt was $34 billion, which in relation to total export receipts placed Argentina among the heavily indebted countries. As a result of economic stagnation, imports began to fall in 1981. This process has since continued. Exports stopped growing as falling prices offset higher volumes. Still, the current account deficit narrowed in 1981 and finished 1982 with a deficit of only $3.1 billion.

At the beginning of 1982 there was some optimism regarding Argentina's future economic situation, primarily because the new Finance Minister, Alemann, received strong backing from President Galtieri to take strong measures to reduce the public sector deficit, a prerequisite for controlling inflation. However, the South Atlantic war and fall of General Galtieri led to renewed instability of policy and dashed hopes that rescheduling of debt could be avoided.

Mexico

Between 1960 and 1972 Mexico's annual economic growth averaged 6.8%, with an average annual inflation rate of 3.8%. Then between 1973 and 1976, budgetary and monetary policies produced accelerating inflation which made the peso increasingly overvalued and eventually led to an 80% devaluation--the first modification in Mexico's exchange rate since 1955. Economic growth was only 4.2% in 1976 and 3.4% in 1977. The discovery of oil (or rediscovery, since Mexico has produced oil since 1904) on a substantial scale in 1976 offered the opportunity for rapid investment-led growth.

Oil exports rose from just over 200,000 barrels per day (bpd) in 1977 to 500,000 bpd in 1979; oil revenues quadrupled to $4 billion in the same two years. The value of proven oil reserves increased from $80 billion in 1976 to $898 billion in 1979, and to over $2 trillion in 1982. These prospects led to a massive upscaling of investment plans in both the public and private sectors. The public sector concentrated on investment in infrastructure and basic industries such as ports, iron and steel, and petrochemicals, as well as the necessary investments in petroleum production.

Although some observers raised doubts regarding the orientation of these investments, development planners were undoubtedly motivated by a long-term vision of Mexico as an industrial giant rather than by short-term calculations of returns from different investments. The public sector deficit averaged 7.7% of GDP from 1976-80, while the current account gap averaged 3.1% of GDP. With oil exports building up slowly, albeit steadily, a substantial part of this deficit was financed by borrowing. In 1976 public sector foreign debt (excluding banks recently nationalized) totaled $19.6 billion. By end-1981, the total had reached $53 billion. Private sector debt rose from $4.9 billion in 1976 to $14.9 billion in 1981.

The emergence of a world oversupply of oil in 1981 was a surprise to most observers. In 1981 Mexico had planned to export 1.5 million bpd of its total production of 2.3 million bpd, thus earning about $20 billion. In fact, Mexico sold an average of only 1.1 million bpd at a price well below the $36 per barrel initially anticipated. The $5.5 billion shortfall in oil earnings ballooned the current account deficit from $6.8 billion in 1980 to $13.0 billion in 1981. This deficit, plus a substantial private outflow on the capital account as devaluation fears increased, was financed by borrowing. Total external debt thus increased almost 50%, reaching $74.9 billion. Of the $24.2 billion net total raised, $9.3 billion consisted of new public sector short-term debt.

Some attempts were made to restrain public sector spending and control the current account deficit. But the oil glut was thought to be only a temporary phenomenon, and the government therefore avoided major policy changes. Flows into dollars (the peso was fully convertible) increased in late 1981 and early 1982. The short-fall in oil earnings and the consequent balance of payments disequilibrium had become evident, and the peso had become increasingly overvalued in terms of purchasing power. Estimates based on wholesale prices suggested a one-third decline in competitiveness since 1977. Imports surged ahead while nonoil exports and tourist income languished. In February 1982 speculation finally forced a devaluation, and the peso rapidly moved from 26 to 45 to the dollar.

During the early months of 1982 concern over the direction of the economy mounted both internally and externally. Following the devaluation the government granted compensatory wage increases of approximately 60%

for the year, which made higher inflation inevitable. Domestic confidence had reached a low ebb. Many companies with predominantly peso revenues had borrowed in dollars and now needed relief. Investment fell off sharply, and real economic growth was not expected to exceed 2%. It also became clear that oil export earnings would be little higher than in 1981. Debt amortizations totalling $7.1 billion in public sector medium-term debt and $10.7 billion in outstanding short-term debt were due in December 1981.

It was in this climate--with the growing belief that the world oil glut would persist in the short-run, and with many banks approaching prudential limits in their lending--that new bank loans began to dry up. Mexico's policy of maintaining relatively low foreign exchange reserves (averaging less than two months' coverage of imports) then brought on the crisis very suddenly.

In 1983 most countries in Latin America faced a period of austerity and economic adjustment as they struggled to reduce dependence on foreign capital inflows in the face of world recession. As this section has shown, the origins of the crisis lie partly in policies specific to each country and partly in external events. Virtually the whole range of economic policy tools has been used in the region. But this diversity did prevent most of the countries in the region from reaching the common position of deep recession and debt/financial crisis.

In response, a patchwork of international support has emerged, consisting of rescheduling, maintenance of short-term credit lines, as well as IMF finance with policy conditionality. But the rescue packages cannot offer much more than temporary alleviation of the region's financial squeeze. Long-term adjustment depends crucially on an upturn in the world economy to bring firmer commodity prices and reopen export opportunities in processed and manufactured goods. Some further easing of interest rates is also needed to help ease the debt servicing burden. The longer the industrialized countries' recovery is delayed (or if the current improvement proves to be weak), the larger and deeper will be the crisis in Latin America.

Section III: Aspects of Latin American Debt

A. Measurement of the Debt Service Burden

The present debt servicing requirements in Latin America are very onerous. Three countries (Argentina, Brazil, and Mexico) are due to use more than 30% of current account earnings for the payment of interest alone, and three other countries (Chile, Colombia, and Peru) will pay more than 20% of current account earnings for this purpose. This interest burden is not eased by the rescheduling of principal; indeed, higher interest rate spreads on rescheduled loans may even increase the burden. Latin American countries head and dominate the "league table" of interest burdens (see Table 2).

Table 2

INTEREST PAYMENTS AS % OF 1983 CURRENT ACCOUNT EARNINGS
FOR MAJOR DEBTOR COUNTRIES*

Argentina	35.1
Mexico	33.0
Brazil	32.0
(Ivory Coast)	27.6
Colombia	23.6
Chile	23.3
Ecuador	23.3
Peru	23.0
(Turkey)	17.8
(Philippines)	17.8
Venezuela	13.8
(Algeria)	12.4
(Korea)	11.0
(Nigeria)	9.5
(Thailand)	9.4
(Indonesia)	9.2
(Malaysia)	8.1

*Estimates for 1983, using current account earnings for 1982. Earnings may fall in 1983 for oil-exporting countries, thus worsening the ratios.

SOURCE: The AMEX Bank Review, March 1983.

Debt service ratios must also take into account principal repayments (see Table 3). Latin America again leads the list of major debtor countries in this regard. Because all debts are being rolled over only with great difficulty, short-term repayments should also be included in a full cash flow debt service ratio. However, this balloons the ratios to such a degree that clearly such debt servicing will not take place. Nonetheless, some attempt to include excessive short-term credits, while allowing for some reasonable levels of trade financing, is instructive (see Table 4). The first column in Table 4 (Debt Service Ratio A) indicates the total debt service burden after successfully rescheduling excessive short-term debts. Ratio B indicates (where different from Ratio A) the debt service burden prior to any such rescheduling. The reschedulings improve the burdens significantly, though all these Latin American countries' ratios remain above the traditional 20% yardstick once thought to be a significant level.

Table 3

AMORTIZATION PAYMENTS AS % OF CURRENT ACCOUNT EARNINGS
FOR MAJOR DEBTOR COUNTRIES

1.	Argentina	52.8
2.	Brazil	33.2
3.	Chile	28.4
4.	Peru	23.3
5.	(Algeria)	22.7
6.	(Indonesia)	18.6
7.	Mexico	17.1
8.	Ecuador	14.6
9.	(Ivory Coast)	14.4
10.	Colombia	12.1
11.	(Philippines)	11.6
12.	(Turkey)	10.4
13.	(Korea)	9.5
14.	(Thailand)	9.3
15.	(Nigeria)	8.8
16.	Venezuela	8.7
17.	(Malaysia)	3.0

*Medium-term debts due in 1982 as % of 1982 current earnings. This table assumes that excessive short-term credits are successfully rescheduled.

SOURCE: The AMEX Bank Review, March 1983.

Table 4

DEBT SERVICE RATIOS FOR MAJOR DEBTOR COUNTRIES, 1983*

	Ratio A	Ratio B
Argentina	87.9	150.6
Brazil	65.2	80.4
Chile	51.7	67.0
Mexico	50.4	107.9
Peru	46.3	53.4
(Ivory Coast)	42.0	--
Ecuador	37.9	72.6
Colombia	35.7	--
(Algeria)	35.1	--
(Philippines)	29.4	58.0
(Turkey)	28.2	--
(Indonesia)	27.8	--
Venezuela	22.5	54.8
(Thailand)	18.7	--
(Korea)	18.5	--
(Nigeria)	18.3	--
(Malaysia)	11.1	--

*A: After rescheduling excess short-term debt obligations.
B: Prior to rescheduling excess short-term debt obligations. Both ratios represent debt service burdens as a proportion of total current account earnings.

SOURCE: The AMEX Bank Review, March 1983.

B. Trade Financing, Excess Short-Term Debt, and Rescheduling

A great deal of international bank lending activity has traditionally been of a short-term nature especially in the form of being 90- to 180-day financing for a country's export and import trade. Thus even before medium-term lending became fashionable, countries readily built up short-term exposures and continually rolled over some debt. However, the sharp buildup of--and reliance upon--short-term credits in Latin America since 1980 has in several cases gone well beyond levels which might be thought acceptable by trade financing standards, even when taking into account the boom in imports. Table 5 lists each country's short-term debt to banks and its equivalent in months of imports. The table includes both Latin American and selected other developing countries for comparative purposes. The Latin American debtor countries dominate the list dramatically, all having well above the amount of short-term debt which might be expected for a country using 90- to 180-day trade financing. (The rolling float short-term trade finance might "normally" be expected to lie somewhere between three and six months' equivalent of imports.)

Table 5

SHORT-TERM DEBT TO BANKS AND TRADE FINANCING IN MAJOR DEBTOR COUNTRIES*

	Short-Term Debts to Banks (US$ millions)	As % of Imports (in months)
1. Argentina	11.05	16.1
2. Mexico	28.75	14.9
3. Venezuela	12.68	12.3
4. Ecuador	2.10	10.7
5. (Philippines)	6.48	9.8
6. Brazil	14.68	8.0
7. Chile	4.19	7.7
8. Peru	2.17	6.8
9. Colombia	2.20	5.5
10. (Korea)	10.29	5.1
11. (Ivory Coast)	0.65	3.9
12. (Thailand)	2.34	3.1
13. (Nigeria)	3.49	2.4
14. (Indonesia)	2.60	1.9
15. (Malaysia)	1.55	1.6
16. (Turkey)	0.72	1.1
17. (Algeria)	0.73	0.9

*Short-term debts as of June 1982, divided by imports for year to December 1981.

SOURCE: The AMEX Bank Review, March 1983.

What do these data imply for the handling of the debt crisis in Latin America? First, the data in Table 5 confirm that the growing emphasis on short-term maturities has pushed short-term outstanding debt well beyond expected norms. Second, the data imply that some of rescheduling of excess short-term debt now makes sense for countries in which this debt exceeds the equivalent of six months' imports. (In fact all such countries except the Philippines are now seeking to reschedule this debt.) For four of the eight countries above this level, the amount of excess short-term debt due exceeds the amortization of other debts due during the year. Third, the impact on the debt service burden can be assessed by calculating the impact of rescheduling any excess short-term debts (see Section III A).

Finally, the amount of excess short-term debt can be compared to the amount of existing medium-term exposure to banks in order to gauge the impact on the banks' asset maturity structure of that rescheduling. Rescheduling excess short-term debt would increase banks' term exposures by 80% in the case of Mexico and by 50% in the case of Argentina. These short-term loans are already on banks' balance sheets so there is no increase in their overall leading exposure. But term increases will quickly soak up any remaining term lending capacity, and might also substantially reduce banks' inclinations to loan to the countries in question. An increase in term outstandings would reverse the excessive use of short-term loans in the past three years. Nonetheless, an unanticipated 50% increase in term loans in one year is a shock to any bank, even though the rescheduling makes a dramatic improvement in the country's debt service ratios.

By emphasizing the degree of excessive short-term debt, it is possible to identify the amount of short-term lines of credit which, in a calmer market environment, borrowers might expect to reestablish with their bankers (for example, a six-month equivalent level). But in the present crisis, banks seek to minimize all exposures, making even "normal" trade financing credit difficult to obtain.

Section IV: Positions of United States Banks

A. Bank Exposure

The most significant aspect of United States banks' exposure in Latin America concerns their levels of exposure as a percentage of bank equity. Of the top twenty United States banks (ranked by total assets), ten banks have loans in Mexico and Brazil combined which are equivalent to total bank capital. Although no bank in this group has its entire capital exposed in any one country in the region, and although there are only seven cases in which country exposures exceed two-thirds of equity, there are another 12 exposures which are more than 50% of equity. All 20 banks have more than 10% of capital in Mexico; 17 have more than 15% of capital in Brazil; and at least 12 have more than 15% of capital in Venezuela. At these levels the losses which would be associated with outright default by any one of these three countries would seriously damage the capital base (not just earnings) of United States banks.

Table 6

DISTRIBUTION OF TOP TWENTY U.S. BANKS' LOAN EXPOSURES TO MAJOR LATIN AMERICAN BORROWERS*

Total Loan as % of Bank Equity, 1982	Mexico	Brazil	Venezuela	Three Borrowers Combined
90 to 100%		1		1
80 to 90%		1		1
70 to 80%	1	1		2
60 to 70%	3	2	1	6
50 to 60%	4	5		9
40 to 50%	4	2	1	7
30 to 40%	5	2	4	11
20 to 30%	2	3	5	10
10 to 20%*	1	(0 - 3)	(1 - 9)	(2 - 13)
Less than 10%*	0	(0 - 3)	(0 - 8)	(0 - 11)
Total	20	20	20	

*Specific figures cannot be given at these lower levels as a result of reporting requirements.

SOURCE: Based on data compiled by The American Banker using Securities and Exchange Commission records.

B. The Role of Smaller United States Banks

The actions of smaller, nonmoney-center banks* received a great deal of attention during the 1982-83 debt crisis. These banks play an important role for several reasons. First, if such banks choose to withdraw from the market, the burden of rescheduling is thrown upon the larger banks. Second, insofar as smaller banks have an exposure, the effect of the debt crisis is felt more widely throughout the United States economy. Third, the smaller banks have reached country lending limits. The absence of the smaller banks now would not only add to the larger banks' burden but also remove one source of growth from the credit market. Finally, the smaller, regional bank aspect of the debt crisis is a phenomenon particular to the United States. Elsewhere in the euromarket smaller banks have not engaged in international lending to a significant degree, nor can they because the national banking systems in other countries tend to be dominated by a few large banks.

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*This analysis concentrates on a comparison between the nine money-center banks and those United States banks outside the top 24 banks. The role of the intermediate 15 banks is assumed to be approximately "elsewhere in between."

A number of considerations shape the likely reactions of the smaller United States banks to the current debt crisis in Latin America:

1. The smaller banks provide up to one-quarter of the total loans to the major Latin American borrowers (led by Mexico at 26.6%; see Table 7). To a degree their share rises as the size of the country's debt increases;

2. The smaller banks generally hold a higher share of bank-guaranteed loans (up to one-third in Mexico) than of public sector or nonbank private sector loans. Their shares of the last two categories are relatively similar;

3. Smaller banks' exposures tend to be more heavily weighted toward loans to banks than other borrowers (for all of the eight borrowers analyzed). Conversely, loans to the public sector and the private nonbank sector tend to be less significant for the smaller borrowers than for the nine money-center banks;

4. The importance of the smaller United States banks, in all categories, tends to be greater for the Latin American borrowers than for the major Asian borrowers (especially with regard to loans to banks);

5. Smaller banks do not differ significantly from larger banks in the weighting of their shorter- or longer-term maturities. Nor do maturities shorten as these smaller banks' take a larger share of the market;

6. Smaller banks tend to have a relatively small share of loans to the nonbank private sector (which are relatively more significant for Latin American borrowers than for the major Asian borrowers);

7. Mexico has a special position vis-a-vis the smaller banks: (a) in all categories, the smaller banks' share of the market is greatest for Mexico; (b) these and other banks' portfolios are much less weighted toward Mexican banks, and more heavily weighted toward the nonbank Mexican private sector. Only the nine money-center banks have a Mexican public sector exposure similar in magnitude to the nonbank exposure.

What do these observations imply for the relationship between United States banks and Latin American debtor countries? The most obvious fact is that the contributions of smaller banks are notably greater for Mexico than for the other major debtor countries; only Chile comes close to this level of dispersion of exposure among banks. Thus in rescue operations to date it has been particularly important to keep smaller banks involved in Mexico. The threat of a Mexican default would be more widely felt among United States banks than a default by any other major country.

Table 7

SMALL BANKS SHARE OF LOANS TO MAJOR DEBTOR COUNTRIES

Total Loans		To Banks		To Public Sector		To Private Nonbank Sector	
Mexico	26.6	Mexico	33.4	Mexico	22.5	Mexico	27.0
Chile	25.2	Chile	32.7	Chile	20.4	Venezuela	19.2
Brazil	18.7	Brazil	29.9	(Korea)	16.1	Chile	15.2
(Korea)	17.6	Argentina	26.5	Argentina	11.6	Argentina	13.8
Argentina	16.7	Venezuela	25.7	Brazil	11.4	(Philippines)	

The high degree of dispersion among banks' loans to Mexico undoubtedly stems from two factors. First, as Mexico's total financing needs rose above other countries' needs, the larger banks were compelled to sell down a large portion of these assets to smaller banks. Second, a wider range of United States banks has found lending to Mexico acceptable given its location and banks' other business connections there. Just as United States banks generally have had greater incentives to lend to Latin America than to other regions, so Mexico represents that "natural" relationship in a more intense form.

For Latin America as a whole, the role of the smaller banks is more important than for other regions due to both the generally larger demand for credit there (thus a greater need for money-center banks to sell down to smaller banks) and the greater intensity of United States-Latin American economic relations.

Section V: Policy Options for 1983

This essay has argued that, although the hemispheric treatment of Latin American bank debt is possible, the problem is in many respects part of the wider developing country debt problem. It has also shown that Latin American countries have pursued a wide variety of economic policies, policies which themselves have emerged from the diversity of economic structures in the region. The paper has also attempted to quantify the debt problem, both with regard to the size of Latin American countries' debt and the exposure of United States banks. This analysis raises two issues. First, the debt service burden of many economies is now at an extremely high level, particularly considering interest payments as a percentage of current account earnings. Second, United States banks also have a substantial problem given the high exposures to capital among the large banks and the decreasing willingness of smaller banks to lend or roll over credit Latin American debtor countries. The data presented here show that the problem of smaller banks' participation (and potential lack of participation) affects different countries in different ways.

The experience of one country, Brazil, clearly illustrates the policy dilemmas posed by the debt problem in Latin America. Brazil is a particularly important example because its fortunes are likely to influence other countries' practices and the banking industry's attitude toward debt. The dilemmas arise from a series of factors: Brazil is having difficulty meeting its IMF targets, although it is succeeding in increasing its trade surplus (achieving a \$4.8 billion surplus on an annual basis in the first four months of 1983); not all the bank funds requested for roll-over during the rescheduling package have come through; ultimate success in Brazil's export drive depends upon the world economic recovery getting under way in 1983; and even if the above problems are solved, the debt burden is high and banks' exposures are very large. These factors--especially the high debt level and banks' high exposures--leave the parties involved very little room for maneuver, although all parties continue to display a desire to solve the problem as swiftly as possible. More than any other country, Brazil has suffered from the general slowdown in bank lending to Latin America. Moreover, because of the country's active use of all financing facilities in recent years, this slowdown affects the country more than others in the region.

This situation poses two issues for policymakers: first, how to deal with the existing debt problem; and, second, how to improve the financing system for Latin America (and developing countries more generally) so that such a problem does not arise again.

The latter question is now being considered, with the United States bank regulators' five-point program the current focus of debate. The program seeks to obtain more information in the future about bank lending to countries, to impose stricter limits on such lending within certain guidelines, and to establish a stiffer system of loan loss reserves. The regulators also ask that the IMF impose more discipline on borrowing countries, especially by placing limits on short-term and long-term borrowing under stablilization programs. The program also calls for stricter accounting of fees, though this is hardly a fundamental issue.

In 1983, however, the first issue is more urgent: how to deal with debt overhang. It can be argued that the problems faced in 1983 arise from certain specific problems in the 1973-83 period, especially the escalation of oil prices compounded by high interest rates. (The oil price shocks during this period, particularly that of 1979-80, were probably the greatest single factor leading to the balance-of-trade imbalances which subsequently affected the banks.) But if the debt overhang problem can be resolved, then there is no reason to suggest that future financing flows cannot be handled satisfactorily by a mixture of private bank lending and government lending. A greater use of direct foreign investment would be much healthier, but Latin American countries' long-term desire to limit foreign ownership constitutes a limiting factor. Direct foreign investment remains the most effective way of obtaining risk capital, which for developing countries is the ideal form of capital and much more appropriate than foreign borrowing.

The Latin American debt overhang therefore, if it proves too great to service, has to be eased by new money contributions from various sources; further injections of government funds from the United States and other countries; limited and gradual write-down of certain debts by the banks; further extension of medium-term credit where there is a debt maturity problem; and adjustment by borrowing countries by generating trade surpluses to reduce the absolute level of debt. Each major debtor country in the region has its own capabilities for easing its problem: Mexico's potential oil production offers a strong foreign exchange source in the future; Venezuela's debt problems arise principally from the maturity schedule, not from the absolute size of its debt; Brazil's continued development and diversification into manufactured products offers the prospect of expanded future foreign exchange earnings; Argentina continues to be a basically self-sufficient and wealthy economy; commodity producers such as Chile and Peru would benefit from a rise in commodity prices.

The first phase of the major debt reschedulings is now drawing to a close. Shortcuts have had to be taken, and the growing links between the IMF and the private banks to some degree blur responsibilities. However, in a period of crisis, such blurring is inevitable. The reschedulings themselves make sense only if there is a generalized world recovery leading to a growth in Latin American countries' earnings, and eventually to a firming of the international petroleum market.