March 19, 1987

SECRETARY'S CIRCULAR NO. 87/23

To: Members of the Executive Board

From: The Secretary

Subject: Report on the Seminar on External Debt, Saving and Growth in Latin America

Attached for the information of the Executive Directors is a report on the above seminar co-sponsored by the Fund and the Instituto Torcuato di Tella, held in Don Torcuato, Argentina from October 13 to 16, 1986.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Report on the Seminar on External Debt, Saving and Growth in Latin America

Don Torcuato, Argentina
October 13-16, 1986

Prepared by the External Relations Department

Approved by A. F. Mohammed

March 17, 1987

A seminar on "External Debt, Saving and Growth in Latin America," the second conducted in Spanish in the region, took place in Don Torcuato, near Buenos Aires, Argentina, from October 13 to 16, 1986, under the joint sponsorship of the Instituto Torcuato di Tella, (Buenos Aires), and the Fund. There were 39 participants and observers, including economists from universities, banks, research centers, consulting firms and international organizations located in Argentina, Brazil, Colombia, Ecuador, Mexico, the United States and Venezuela, as well as IMF and World Bank staff members. 1/ The seminar moderator was Dr. Ana Martirena-Mantel, Senior Economist at the Instituto di Tella and President of the Argentine Association of Political Economics.

The seminar consisted of seven sessions at which six papers were presented by Fund staff members and by outside authors; the final session was dedicated to a summing up of the proceedings by the moderator (see attached program). There were two designated discussants for each paper, and their comments were followed by a general discussion and a reply by the author.

A dominant theme in several sessions was the debt strategy, as evidenced by a number of comments made during the discussion of the papers presented by Messrs. Dornbusch, Lanyi, and Ortiz. In light of the experience with management of the debt problem to date, participants agreed that the strategy has "bought time" for debtors and creditors alike, but is beset by a number of problems and uncertainties, particularly as regards the debtor countries' ability to "grow out" of the debt problem. In this context, the large net transfer of financial resources out of the region was seen as a major obstacle to the recovery of investment. Some participants felt that some degree of capital

1/ The staff team was comprised of Messrs. Tanzi (FAD), Beza (WHD), Lanyi (RES), and Puentes (EXR). Mr. Guillermo Ortiz, Executive Director, attended the seminar and authored a paper. The World Bank was represented Mr. Vittorio Corbo (DRDDR).

losses by the commercial bank creditors is unavoidable as debtor countries will be unable to service existing debts in full, and that the challenge to creditors and international organizations consists in devising contingency mechanisms to cope with such developments in an orderly fashion.

Participants cautioned against overemphasizing the role of the return of flight capital as a source of foreign financing, inasmuch as it should only be expected to take place towards the end of stabilization and growth-resumption processes. Similarly, while recognizing the usefulness of debt-equity swaps in some countries, several participants questioned their significance in alleviating the debt burden at large. In noting that the external adjustment in Latin America has been achieved largely at the expense of investment, some participants felt that the failure of industrial country policy makers to recognize this, as well as the Fund's apparent neglect of this aspect, must be considered the most serious shortcoming of the debt strategy. It was pointed out, however, that such criticisms to the strategy were not on the mark as the programs that had been developed were designed to be feasible within the available external financing, and that countries obviously had considered it to their advantage to follow what might be termed a cooperative, as opposed to a unilateral approach. Participants also repeatedly stressed the importance of external economic conditions in the handling of the debt problem and the need for improved coordination of macroeconomic policies among industrial countries.

Several participants felt that under the current debt strategy, the Fund's role was that of a debt collector or enforcer for the banks. Indeed, it was argued that debtor countries had incurred significant social, economic, and political costs during the adjustment process undertaken with the support of the Fund. Nevertheless, they had largely met their debt service obligations. The Fund itself has given further credence to this perception in the medium-term scenarios of the WEO exercise, which have not incorporated assumptions other than those involving compliance with debt service obligations, and have tended to be overoptimistic regarding the ability of debtor countries to grow out of their debt-servicing obligations. Banks were seen as the main beneficiaries of this strategy, and it was questioned whether they were assuming their co-responsibility in the debt problem. The terms of Mexico's agreement with the banks were seen as an important, albeit an incipient, step in the right direction. However, some participants thought that the banks' apparent hesitation throughout the process could be signaling the exhaustion of the "involuntary lending" approach. Other participants suggested that if, realistically, a solution to the debt problem must include lower interest payments, the Fund and the World Bank should conduct simulations for individual countries, under alternative growth hypotheses, in order to determine possible payment scenarios consistent with feasible trade surpluses.

Another major theme discussed at the seminar was the nature of Fund-supported stabilization programs, and was mainly sparked by the issues raised in Mr. Tanzi's paper on "Fiscal Policy and Stabilization." Participants welcomed the explicit acknowledgement of some of the methodological and operational problems which characterize stabilization programs. At the same time, they were encouraged to see that the staff of the Fund was aware of these difficulties and that these issues are the subject of internal discussion. Some participants saw the expansion in conditionality as the crucial issue in the paper, inasmuch as the existence of distortions in the public and private sectors of Latin American economies, as well as the desirability of reducing or eliminating them to strengthen the growth process, were generally accepted. Nevertheless, it was argued that the implementation of the microeconomic approach to stabilization, (i.e., where understandings between a member and the Fund must include specific revenue and expenditure measures consistent with demand control and improved efficiency in resource use), would not be easy since a consensus does not exist at the theoretical or empirical levels on the optimal ways to reduce or eliminate distortions in various markets.

Several participants were also troubled by the greater potential for interference in domestic policy decisions as a result of the expansion in conditionality. In this context, the view was expressed that acceptance of additional conditionality is complicated by the lack of definition on the development strategy underpinning structural reforms or policies. Such a definition was deemed essential to any discussion of fiscal reforms in the framework of stabilization programs. The selection of the policies themselves is not made any easier by the absence of a generally accepted economic growth theory in the economic profession. Furthermore, consideration would have to be given to political and timing difficulties associated with the constitutional requirement in many countries for congressional approval of fiscal reforms. These difficulties would complicate the early implementation of policies under a Fund-supported stabilization program.

A number of participants expressed concern over the implications of the proposed approach for the relations between the Fund and the World Bank, in particular with respect to the compatibility of their respective types of conditionality when countries implement growth-oriented stabilization programs with the support of both institutions.

The proceedings of the seminar will be published in Spanish and English.

Attachments

EXTERNAL DEBT, SAVING AND GROWTH IN LATIN AMERICA

Seminar sponsored by
the Instituto Torcuato di Tella and
the International Monetary Fund

October 13-16, 1986

Hindu Club
Buenos Aires, Argentina

Program

October 13, 1986

7:00 p.m. Reception

October 14, 1986

9:30-11:30 a.m. 1. World Economic Outlook: A Medium-term Framework
Author: Anthony Lanyi (IMF)
Discussants: Winston Fritsch (Brasil)
Ernesto Zedillo (Mexico)

3:00-5:00 p.m. 2. External Policies and Conditions: Impact on Debtor Countries
Author: Rudiger Dornbusch (USA)
Discussants: Vittorio Corbo (World Bank)
Manuel Guitian (IMF)

6:00-8:00 p.m. 3. The Choice of a Growth Strategy in Debtor Countries
Author: Julio Berlinski (Argentina)
Discussants: Sterie T. Beza (IMF)
German Botero (Colombia)

October 15, 1986

9:30-11:30 a.m. 4. Adjustment and Economic Growth
Author: Vito Tanzi (IMF)
Discussants: Luis Jorge Garcia (Colombia)
Ricardo Haussman (Venezuela)

3:00-5:00 p.m.	5.	<u>Conditions for Improving Efficiency in Resource-Use</u> Author: Guillermo Ortiz (Mexico) Discussants: Jorge Marcano (Venezuela) Leonidas Ortega (Ecuador)
6:00-8:00 p.m.	6.	<u>The Mobilization of Domestic Savings</u> Author: Carlos Longo (Brazil) Discussants: Ruth de Krivoy (Venezuela) Aldo Arnaudo (Argentina)

<u>October 16, 1986</u>

9:30-11:30 a.m.	Concluding Session and Summing-Up
1:00 p.m.	Farewell Luncheon

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the International Monetary Fund

October 13-16, 1986

Hindu Club
Don Torcuato, Argentina

List of Participants

ARGENTINA

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Universidad de Cordoba

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Instituto Torcuato di Tella

Roque FERNANDEZ
CEMA

Daniel HEYMAN
ECLAC

BRAZIL

Jose Luis CARVALHO
Fundacao Getulio Vargas

Professor Winston FRITSCH
Centro de Ciencias Sociais
Pontificia Universidada Catolica
do Rio de Janeiro

Antonio KANDIR
Universidad de Campinas

Carlos LONGO
Fundacao Instituto de Pesquizas
Economicas (FIPE)

COLOMBIA

German Botero
Consultant

Javier FERNANDEZ
Consultant

Luis Jorge GARAY
Ministerio de Hacienda

Armando MONTENEGRO
Junta Monetaria

ECUADOR

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Leonidas ORTEGA
Banco Continental

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Trimestre Economico

UNITED STATES

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