LATIN AMERICA: DEBT, INVESTMENT, CAPITAL FLIGHT

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The Latin American gross domestic product (GDP) was on the decline until 2002 in concert with the performance of the world economy. From that year forward, signals of a recovery of growth have begun to emerge. This trend is leading to a reduction in the debt/GDP ratio thanks to GDP growth, although other factors must be considered to explain the behaviour of the debt.

The public debt in Latin America was on the rise since 1997, reaching its peak in 2002. In 2003 the tendency toward growth of debt was reversed.

Currently the world economy finds itself in a cycle of expansion, which is to say, it shows high growth rates, which explains in part the behaviour of the debt/GDP ratio in the countries of Latin America. Nevertheless, the region's growth did not match growth in the rest of the world.

With the exception of Chile, the region's countries show a high level of debt, at both the internal and external level. In the case of Brazil, the most worrying part is the internal debt – that owed by the states and large cities to the federal government – because it is among the highest in Latin America.

The countries of Latin America, and especially Brazil, are placing themselves in greater debt insofar as they present only minimal economic growth. There are a great number of macroeconomic goals that they must meet, including maintaining a primary budget surplus and avoiding errors in exchange rate policy. Argentina, following the crisis, presents the highest levels of debt in all of Latin America.

Rates of foreign direct investment in Latin America registered a rise in 2004 for the first time since 1999, brought on especially by Argentina, Chile, Colombia and Mexico, which were the targets of an increase in foreign investment. In any case, the rates of foreign investment in 2004 are significantly lower than those observed in the mid-1990s.

This tendency toward a reduction in foreign investment at the beginning of the present decade can be observed across all of Latin America. In countries that recently suffered economic crises, such as Argentina and Brazil, between 1999 and 2003 foreign investment fell more than 70%.

TABLE 1. Debt/GDP ratio

PERCENT OF GDP	1996	1997	1998	1999	2000	2001	2002	2003	2004
Argentina									
Public debt of the national government	35.7	34.5	37.6	43.0	45.0	53.7	145.9	138.2	126.5
Internal	8.9	9.6	10.4	13.9	16.4	22.3	52.1	58.2	54.5
External	26.8	24.9	27.1	29.1	28.6	31.5	93.7	80	72.1
Interest payment of the non-financial public sector (percentage of income)	8.8	10.2	11.5	14.4	16.5	21.8	11.3	8.9	...
Primary balance	**-1.2**	**0.8**	**0.2**	**-1.1**	**0.8**	**-2**	**1.8**	**4**	**3.3**
Bolivia									
Debt of the non-financial public sector	67	61.7	61.2	65	66.3	74.9	79.3	93.3	85
Internal	14.1	13.6	13.8	16.7	19.4	26.4	29.1	31.6	31.5
External	52.9	48.1	47.4	48.3	46.9	48.5	50.2	61.7	53.5
Interest payment (percentage of current income)	7.9	5.7	4.7	5.1	5.7	7.5	8.2	10.1	10.6
Primary balance	**0.3**	**-1.7**	**-3.2**	**-1.9**	**-1.9**	**-4.8**	**-6.8**	**-5.4**	**-2.9**
Brazil									
Debt of the central government	16.5	19.3	25.3	32.5	32.1	34.4	41.7	37.2	34
Internal	14.9	17.3	21.1	23.9	24.3	25.7	27	26.9	26.9
External	1.6	2	4.2	8.5	7.8	8.6	14.7	10.3	7.1
Primary balance	**0.4**	**-0.2**	**0.6**	**2.3**	**1.9**	**1.8**	**2.4**	**2.5**	**3**
Chile									
Overall balance	2.2	2.1	0.4	-2.1	-0.6	-0.5	-1.2	-0.4	2.2
Public debt	15.1	13.2	12.5	13.8	13.7	15	15.7	13.1	10.9
Internal	10.9	10	9.3	9.8	10	10.4	10	7.6	6
External	4.2	3.2	3.2	4	3.6	4.5	5.7	5.6	4.8
Interest payment (percentage of income)	6.4	5.7	5.7	6.2	5.6	5.4	5.5	5.5	4.4
Primary balance	**3.6**	**3.3**	**1.6**	**-0.9**	**0.6**	**0.7**	**-0.1**	**0.7**	**3.1**
Venezuela									
Debt of the non-financial public sector	46.8	31.7	29.1	29	26.7	30	41.9	45.8	39
Internal	7.8	5.1	4.6	5.9	8.8	12.1	14.8	17.7	14.3
External	39	26.6	24.5	23	17.9	17.9	27.1	28.1	24.6
Interest payment (percentage of total income)	14.5	9.9	12.8	12.3	9.4	12.5	17.7	16.1	...
Primary balance	**12**	**6.7**	**-1.4**	**4**	**7.5**	**-1.2**	**4.2**	**5.4**	**...**
Uruguay									
Public debt	22	22.6	24	26.2	31.9	41.9	98.7	94.3	74.7
Interest payment (percentage of total income)	7	7.4	6.8	8.4	10.2	12	19.1	26.3	22.9
Primary balance	**-0.6**	**-0.2**	**0.2**	**-2.1**	**-1.5**	**-2**	**-0.8**	**1.1**	**2.4**

Source: INESC with data taken from Economic Commission for Latin America and the Caribbean (ECLAC). *Economic Survey of Latin America and the Caribbean, 2004-2005.*

Latin America's attraction of foreign investments is falling continuously, revealing the limitations of the region's capacity to compete for investments at the global level with regions such as Asia and Eastern Europe. The capacity to attract investment varied according to the strategies of the multinational corporations, such as the search for natural resources, new technologies and local markets or the conquest of the markets of third countries.

In Brazil, the peak of foreign investment entrance into the economy coincided with the period of privatizations of state enterprises, when investors were more attracted to our market. Today, even after adopting an economic policy attractive to external investors, foreign investment in Brazil continues to decline gradually, reaching in 2004 the lowest volume since 1995, and thereby demonstrating the inefficiency of this policy.

Since 2000, financial resources are tending to leave Latin America. After the boom in investment attraction in the 1990s, brought on by privatizations and policies to attract foreign capital, the time has come wen the large international investors are reaping their profits from those operations. The scarce new investments in private companies are not sufficient to cover the flight of profit and interest abroad.

Brazil and Venezuela show the greatest drop-offs in financial transfers. Argentina, after its crisis, presents growth in the balance of liquid transfers. In Argentina's position, already "in a deep hole", any entrance of resources represents progress. One must note the case of Chile, which after the period of privatizations up to the 1990s, has found itself since 2000 in a situation of constant resource flight. ■

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