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INTERNATIONAL: IMPACT OF A DEVELOPED COUNTRY SLOWDOWN ON THE LATIN AMERICAN DEBT CRISIS

Summary

A recession of any magnitude among developed countries during the next two years would be a serious setback to efforts to resolve the Latin American debt situation and could place the solvency of many Latin American countries in jeopardy. A series of simulations using our Linked Policy Impact Model (LPIM) shows a developed country recession would have a dramatic negative impact on Latin economies. Its precise overall effect would depend on its severity and length. In any event, Latin debtors' loss of exports to developed countries would swamp any relief they got from lower interest rates. A recession's impact among individual Latin American countries, meanwhile, would hinge upon oil price trends. For example, net oil exporters--Mexico and Venezuela--would be additionally hurt if oil prices fell, while Brazil and other oil importers would receive benefits that partially would offset the damage done by a recession. [redacted] 25X1

Even in the case of a mild recession, commercial banks and Latin American countries would have serious trouble sticking to their current strategies for dealing with the debt problem and would require stepped-up assistance from developed country governments and multilateral institutions to do so. Latin debtors, assuming they could not slash imports

This joint memorandum was requested by Richard McCormack, US Ambassador to the Organization of American States. It was drafted by [redacted] Office of European Analysis, with contributions from analysts in the Office of Global Issues, the Office of African and Latin American Analysis, and the Office of East Asian Analysis. Simulations using the LPIM were run and tables prepared by [redacted] Office of European Analysis. Comments and queries are welcome and may be addressed to the Chief, Issues and Applications Division [redacted] 25X1 25X1 25X1

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further, would need a total of at least $15 billion in new money in the period 1987-88, according to our model. A mild recession undoubtedly would give rise to calls for debt relief from Latin American leaders and increased efforts on the part of commercial banks to protect themselves from default. A deep recession, on the other hand, almost certainly would create a rift between Latin governments and commercial banks that, in all likelihood, would lead to massive arrearages in Latin America without a fresh approach to the debt problem. Under these circumstances, the minimum amount of new money needed by Latin debtors would soar to almost $27 billion. In either a mild or deep recession, capital flight would add to the financing needs of Latin American countries, making the situation even more difficult to manage. [redacted] 25X1

Fears of a recession have been engendered by disappointing growth figures for developed countries in 1985 and the first half of 1986, although most private forecasters remain optimistic about the continuation of the current recovery. This paper takes a first look at the threat a recession poses to the Latin American debt situation. It does not, in any way, advocate the view that a developed country recession is imminent. [redacted] 25X1

Model Simulations

A series of simulations using the LPIM indicates that a recession among developed countries would have a dramatic negative impact on the Latin American debt situation. The immediate consequence of such a recession would be a severe cutback in demand for Latin American exports. Dwindling export earnings, in turn, would curtail the ability of Latin American countries to service their debt. Individual Latin American countries are unlikely to suffer equally during the slowdown because of the pivotal role of oil. Nonetheless, a fall in oil prices, on balance, would aggravate the Latin debt crisis. Although some of the damage caused by a developed country recession might be offset by the advantages of lower interest rates, our simulations show that the drawbacks of reduced export earnings overwhelm the benefits of smaller interest payments. [redacted] 25X1

To assess the impact of a developed country slowdown on Latin American debtors, we estimated, first, the impact of the current outlook for developed countries (see Annex) on the debt situation--the baseline case--and then ran two recession scenarios on our LPIM. Oil prices in the baseline are assumed to remain at $15 a barrel. Under baseline conditions, the aggregate Latin American current account deteriorates in 1986 as exports fall more than imports, but recovers in 1987 and moves into surplus in 1988 (see Table 1). Latin American countries require at least $3 billion in net new lending in 1987 and 1988. The total debt figures drawn from our simulations represent the minimum total requirements of Latin debtors to cover current account deficits. Capital flight under worsening economic and political conditions as well as any decision to build up reserves would make borrowing needs greater. We also assume a two-year grace period for repayment of principal and a 12-year principal repayment period on new loans, so that the debt-service ratio (interest and principal payments divided by exports) shows a gradual decline in the baseline and no alarming trends in our scenarios, since principal repayments on the new debt do not begin falling due until 1989. [redacted] 25X1

The two recession scenarios assume a decline in interest rates and no cut in Latin American imports. For debtor countries, lower interest rates partially offset the negative impact of the downturn in export demand by reducing the servicing burden on the floating rate portion of their debt. The situation would worsen more quickly if the recession were provoked by tight monetary policies among developed countries that caused interest rates to rise during the slowdown. The scenarios assume that Latin governments do not reduce their import volumes by implementing contractionary policies as they have in the past. They are unlikely to have much political maneuvering room to do so again. [redacted] 25X1

Scenario 1

Scenario 1 assumes OECD growth rates 3 percentage points below the baseline during 1987 and 1988, with oil prices steady at $15 a barrel. This would considerably damage the overall current account of Latin American debtors as lower demand for Latin exports, assuming imports hold steady, would cause the current account deficit to worsen from baseline projections by about $3.5 billion in 1987 and $8 billion in 1988. Latin American exports of nonfuel goods and services to OECD countries would fall by around $7 billion in 1987 and $16 billion in 1988 compared to the baseline, not only because of a steep drop in volume, but also because of a drop in export prices. The weaker export performance easily outweighs the favorable effects of the accompanying 1 to 2 percentage point drop in interest rates. Under this scenario, Latin debtors would need an infusion of at least $15 billion--$12 billion in additional emergency financing plus the baseline requirement of $3 billion--during 1987 and 1988. Lower interest rates and rescheduling of old debt would allow the debt servicing burden to decline slightly. [redacted] 25X1

Scenario 2

Scenario 2 assumes OECD growth rates 5 percentage points below the baseline, with oil prices declining to $10 a barrel. This would lead to a grave debt crisis, especially for heavy Latin oil exporters--Mexico and Venezuela. Mexico's predicament probably would be alleviated somewhat by its agreement with the IMF last month that stipulates a contingency fund based on the price of oil. Under this scenario, Latin America's current account deficit grows about $9 billion in 1987 and $14 billion in 1988 compared to baseline projections. Nonoil exports to OECD countries would fall about $20 billion in 1987 and $35 billion in 1988. Borrowing needs would balloon to nearly $27 billion--approximately $24 billion in addition to the $3 billion baseline requirement. The debt-service ratio rises in this scenario due to the comparatively steep drop in Latin exports.

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The outcome for individual oil exporting countries in Latin America would hinge on oil price trends. If oil prices do not decline, Mexico, for example, would experience only a slight deterioration in its current account in 1987--less than $200 million--from baseline projections, whether developed country growth falls 3 or 5 percentage points below the baseline. Mexican growth probably would slow no more than 1 percentage point. If oil prices fall to $10 a barrel, on the other hand, Mexico's current account deficit would soar by an additional $2.5 billion in 1987 and $3 billion in 1988, and the outlook for growth would darken considerably. If oil prices hold steady, the Venezuelan current account deficit would increase less than $200 million in 1987 over the baseline, in the event of a developed country recession. If oil prices fall to $10 a barrel, the deficit would swell by nearly $2 billion in both 1987 and 1988. [redacted] 25X1

Damage to Brazil and Chile--heavy oil importers--would be reduced considerably if oil price declines accompany a developed country recession; oil prices do not play a pivotal role for Argentina because its oil exports and imports almost balance. With oil prices at $10 a barrel, Brazil's current account would deteriorate less than $1 billion in 1987 and growth prospects would hardly dim. Brazil--climbing back to financial respectability--would suffer a setback if developed countries sank into a recession and oil prices held steady. Its current account would deteriorate at least $1.5 billion more than baseline projections in 1987. Brazilian growth, which has been buoyant the last two years, would be slowed by as much as 2 percentage points. Brazil, nevertheless, almost certainly is the Latin debtor best prepared economically to cope with a developed country recession. [redacted] 25X1

Longer Term Consequences

Our scenarios indicate that as a developed country recession drags on, its impact would become more drastic and uniformly felt among Latin American countries. Latin America's aggregate current account would deteriorate substantially more the second year of a slowdown than the first, compared to the baseline. The borrowing needs of Latin debtors also would be greater in 1988 than 1987. If a recession dragged on until 1989, the capacity of Latin American countries to meet their repayment obligations would deteriorate further as scheduled principal payments on new debt would come on line. A prolonged slowdown would tend to wipe out the advantages obtained by oil importing countries from the decline in oil prices. Consequently, Latin debtors that had been in bad shape before would be far worse off after the second year of a recession, and those that had been making progress would be pushed back. [redacted] 25X1

Debtor and Creditor Reaction

A developed country recession of any magnitude--even less than 3 percentage points below the baseline--almost certainly would make relations among Latin debtors, commercial banks, and developed country governments more difficult. Banks would be likely to try to extricate themselves from the situation, and Latin American countries generally would look to developed countries to share more of the burden of adjustment. They would renew calls for preferential trade treatment and more lending by multilateral banking institutions. [redacted] 25X1

In our judgment, criticism by Latin debtors of developed country policies would depend heavily on the cause of the recession. A slowdown induced by tight monetary policies, loading them with the burden of higher interest rates in addition to lower export earnings, would significantly raise the likelihood of radical action by Latin debtors. Individual Latin governments, in any case, would face heightened pressure to take a get-tough attitude toward their creditors:

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- o In Mexico, we believe President de la Madrid would curry domestic political favor by blaming developed country governments for any hardships and call on the United States to boost its imports from Mexico. We would not expect him to take the lead on any coordinated Latin American position [redacted] unless the downturn were severe and developed countries did not come through with offsetting aid.

- o The Sarney administration in Brazil would decry the damage inflicted on its ability to meet its debt obligations. Brasilia would permit only a limited drawdown of its reserves and would resist import cuts. Although it would seek new bank loans with no strings attached, it already has declared it will not submit to IMF conditions.

- o Other Latin debtors would try to preserve access to at least some types of foreign credits but might be pushed to unilateral action. Argentina, Venezuela, and Chile probably would seek increased lending from multilateral institutions and commercial banks as well as generous concessions on previous debt to make up their external shortfalls. President Garcia of Peru-- who already has taken unilateral action--would be unlikely to seek any reconciliation with his commercial bank creditors or the IMF. [redacted] 25X1

Cooperation between the major Latin debtors and the large banks, in our view, would be sorely tested even by a short, mild downturn and would endure only with substantial new assistance from developed country governments and multilateral institutions like the IMF. A long, deep recession almost certainly would drive debtors and creditors to extreme measures, especially if they viewed developed country governments as indifferent to their plight.* [redacted] 25X1

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*Although it is not possible to determine the exact threshold where a short, mild recession turns long and deep for any one country, we

A mild to moderate developed country slowdown, in our view, would engender a torrent of calls from Latin American leaders for relief and could lead some to unilateral action. Latin debtors already are lining up to make their case for concessions. Mexico is asking commercial banks for a stretchout of its repayment schedule and a link between interest payments and oil prices along the lines of its agreement with the IMF. Other debtors are watching Mexico's talks with its creditors closely and are bound to put in for breaks equivalent to what the Mexicans get. Latin American leaders undoubtedly would press harder for these types of concessions in the event of a mild developed country recession and might up the ante by requesting even more generous relief. Under a short downturn scenario, we expect that the differences among Latin debtors would become more distinct as some continued to make progress and others slipped back in handling their debt problems. Meaningful joint debtor action would be unlikely as Latin American countries less seriously hurt--Brazil, for example--would not want to throw their lot in with those put on the ropes by a mild recession--Argentina, and, if oil prices fell, Mexico and Venezuela. Most Latin American countries, we believe, would not risk cutting themselves off from all forms of finance by making nonnegotiable demands or taking unilateral action unless their governments came under strong political fire. [redacted] 25X1

The steps commercial banks are taking to protect themselves from widespread default in Latin America are likely to enable some of them--especially European and smaller US regional banks--to assume a tougher stance than in the past with debtors. Banks are shoring up their balance sheets by increasing their capital base while making few new loans to troubled debtors. Some banks, however, are further along than others. For example, West European banks--encouraged by generous tax breaks and accommodating regulations--have been a lot more vigorous than US banks in building up their reserves against bad loans. Many regional banks, in the United States and elsewhere, have reduced their exposure by writing off the relatively small sums they have lent Latin debtors or selling off Latin loans at a discount. [redacted] 25X1

[redacted] 25X1

We expect the regional banks--with little at stake--to continue to bail out in growing numbers in the event of even a mild recession.

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believe that an economic slowdown more than 3 percentage points below the baseline for a period longer than a year represents a likely crossover point which would threaten debtor-creditor relations--precipitating widespread interruptions in debt servicing--and force major changes in the current debt strategy. The crossover point would be different for each country and would depend on public and debtor attitudes toward the crisis. For a Latin government not seeking a confrontation with developed countries, the IMF, and commercial banks, the ability to contain the crisis within current strategy would depend on how well the government was able to handle opposition criticism. [redacted] 25X1

[redacted] 25X1

The big banks, consequently, would have to provide the lion's share of any new lending. We believe these banks would have to be prodded to go along with new packages of so-called involuntary lending and would insist that the IMF and developed country governments chip in with new lending facilities. Furthermore, their varying degrees of portfolio vulnerability and the different regulatory environments in which they operate would lead to dissension in their ranks and make these packages much more difficult to put together than in the past. [redacted] 25X1

If a recession hits developed countries and they do not snap back after a year, we believe Latin American countries, either individually or as a group, would act unilaterally to lighten their debt load in the absence of substantial outside relief. Most major Latin debtors so far have avoided this strategy, but they are unlikely to let their debt burden drag down economic growth indefinitely. If they failed to cut a deal with their creditors, we believe they would move on their own by linking debt payments to growth or exports--a step Peru already has taken. A long recession, in our view, would unify Latin American countries by shoving the few that had been doing well into the same camp as all the rest. Latin governments already have a forum, the Cartagena Group, to discuss debt-related matters. So far, Cartagena has been a moderating influence, but a severe developed country slowdown could create a more radical consensus. [redacted] 25X1

Conversely, a deep recession would lay waste the common front commercial banks have tried to maintain. A growing number of them, especially in Western Europe, probably would come to view the debt situation as a lost cause. Banks are chafing at the demands of Latin debtors already. They overwhelmingly repudiated several planks of the proposal Mexico made during refinancing negotiations, including interest capitalization, the elimination of interest rate spreads, and the tie between interest payments and oil prices. They also rejected a scheme Venezuela floated to pay off its private debt. Although the banks do not want to see a string of de facto defaults in Latin America, we believe they would face enormous difficulties maintaining unity if the strain of a severe slowdown jarred them out of the present cycle of involuntary lending. For example, the Swiss Bank Corporation's recent push for interest capitalization that almost held up a bridging loan for Mexico shows the disproportionate power just one bank has under the current unanimous participation rule in commercial bank reschedulings. We believe that, in the event of a deep recession, commercial bank support for any new lending to Latin American countries would disintegrate quickly. The regional banks left in the game, in our view, would be the first to jump ship. Large foreign banks--already having absorbed much of the cost of default--then would be in a position to threaten to leave major US banks holding the bag if arrangements for new lending did not suit them. [redacted] 25X1

Implications for US Debt Strategy

A developed country recession of any magnitude would be a setback to current efforts--such as the US debt initiative--to resolve the Latin American debt crisis. The US initiative, put forth in October

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1985, stresses the adoption of market-oriented growth policies by debtor countries as well as stepped-up lending by commercial banks and multilateral institutions. It retains the case-by-case approach traditionally taken by banks and the IMF to deal with debtors that run into trouble. The IMF and World Bank endorsed the plan and are studying ways they can contribute to this kind of strategy. [redacted] 25X1

The object of the US debt initiative, to lay the foundation for long-term growth while keeping all the players in the game, would experience some difficulties during a short, mild recession. Nonetheless, we believe that if developed country governments and organizations like the IMF stood ready to give extremely generous assistance to those Latin debtors that faltered, the US strategy could be held together. However, it would be unlikely to withstand a long, deep recession, which probably would require an even bigger and qualitatively different role for developed country governments and multilateral institutions. [redacted] 25X1

A mild slowdown among developed countries undoubtedly would hamper the growth aspects of the current US debt strategy but developed country governments and multilateral banking institutions, if needed, probably could prevent a financial collapse in Latin America by activating new and substantial resources. In these circumstances, a new IMF facility--similar to the oil and compensatory financing facilities--geared to troubled debtors probably would come under consideration. The World Bank, meanwhile, would be likely to take a bigger role in the debt situation. It already is considering providing more medium-term financing not attached to specific projects. Other organizations--the Bank for International Settlements and the Group of Ten--could be mobilized to give short-term emergency financing to tide debtors over a short downturn. For their part, commerical banks would hesitate to put up more new money even if governments and international organizations were willing to expand their role. [redacted] 25X1

A deep developed country recession would encourage all actors in the debt situation to implement progressively more radical measures that would eventually overturn the current debt strategy. Commercial banks and Latin debtors both would be likely to try to bail out of the situation. Developed country governments almost certainly would have to mount a series of major financial rescue operations to stave off financial collapse in Latin America. Most Latin leaders, already coping with several years of sluggish growth, probably would be uncooperative or even hostile. These leaders almost certainly would face turmoil in their own countries which would make it impossible to assert any kind of economic discipline. Under these circumstances, we believe that developed countries, if they chose to keep Latin debtors from default, would have to fall back on some major new scheme to take over their debt either through existing multilateral banking institutions or a new agency established for that purpose. [redacted]

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Annex: Risks in the Outlook for Developed Countries

Economic forecasters are optimistic about the continuation of the current recovery among developed countries but are backing away from the projections for strong short-term growth that they made on the heels of the sharp drop in oil prices earlier this year. Forecasters are revising their growth figures for 1986 downward and reducing the odds against a recession. They believe their earlier forecasts were too optimistic about the effect of lower oil prices and the ability of developed countries to rectify the imbalances lurking behind the scenes of the recovery. Slow expansion in the United States during the second quarter of 1986 has raised questions about the health of the US economy. Most forecasters, nevertheless, believe that the factors hindering growth are temporary and that developed countries will enjoy an upturn in 1987. [redacted] 25X1

Growth among OECD countries now is expected by most forecasters to weaken in 1986 to 2.3 percent, from 2.7 percent in 1985, and then rebound in 1987 to about 3 percent. The dip in 1986 is a pattern common to forecasts for most major developed countries:

- Growth in the United States, according to the consensus of private forecasters, will remain sluggish at around 2.2 percent in 1986 but recover sharply to more than 3 percent in 1987. The weakness in 1986 has been brought about by a downturn in business investment, due to what some observers see as uncertainty over tax reform, and a lopsided deficit in the current account. The comeback in 1987 probably will be propelled by consumer spending, an improved performance by US exporters, and business investment, particularly if budget issues are resolved.

- Japanese growth is likely to slow to 2 percent in 1986--the lowest rate since 1975--as the strong yen forces exporters to trim investment spending. Growth should recover to over 3 percent in 1987 as the real income benefits of the yen's rise take hold and business steps up investment in nonexport industries. Tokyo's recently announced stimulus package is unlikely to have any effect in 1986 and probably will provide only a mild fillip to growth in 1987.

- West Germany probably will experience unspectacular growth rates in the short term as it faces a similar transition away from export-led growth. After a disappointing first quarter this year, the West German economy appears to be bouncing back. Its growth--bolstered by tax cuts--should hold steady at around 2.5 percent in 1986 and 1987.

- Growth in other major OECD countries should be about 2.5 percent overall in both 1986 and 1987 as, in most countries, consumer spending holds up demand and disciplined fiscal policy encourages investment. The French economy is likely to follow this pattern. Growth in the United Kingdom, however, may be

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somewhat lower, particularly if lower oil prices continue to depress the energy industry. [redacted] 25X1

Although most forecasters view the current low growth among developed countries as a pause rather than an end to the recovery, some trends are making them nervous, particularly about the US economy. They believe that, although US policymakers are coming to grips with the budget deficit, if they fail, government borrowing would push interest rates higher than otherwise and crowd out private investment. Moreover, many are worried that the surge in US business investment is over and policies designed to cut interest rates are more likely to reignite inflation than revive real domestic demand. Given this fear, along with the prospect that the public sector stimulus to the economy will decline, a slip in consumer confidence--which still is running strong--would deal a hard blow to growth. [redacted] 25X1

Forecasters, however, are most troubled by the international arena and the difficulty developed countries are having straightening out the imbalances that many believe threaten the recovery. The dollar's slide, for example, was supposed to give US exporters a lift and turn back mounting US current account deficits. Instead, it is starting to hurt Japanese and West German exporters, with newly-industrialized-country exporters rather than US firms reaping the benefits. Developed countries, furthermore, are experiencing difficulty reaching agreement on new coordinated economic policies. Tokyo and Bonn have been reluctant to cut interest rates to boost demand despite low inflation and a cloudy growth picture. Consequently, rather than making up for the slowdown in US demand that occurred in the second half of 1985, domestic demand actually fell in Japan and West Germany in the first quarter of 1986. [redacted] 25X1

Although forecasters are displaying, on balance, a positive attitude, the elements hindering growth could drag on, sweeping developed countries into a recession and buffeting other economies. If factors apart from exchange rates are behind the US current account deficit, they might continue to stymie attempts to put US exporters back on their feet. In addition, most forecasters see little room for US policymakers to maneuver if the domestic economy begins to slip. Tokyo and Bonn, meanwhile, appear intent on waiting for proof of a downturn before acting, although a sharp appreciation of their currencies probably would speed them up. Tokyo's fiscal tightness and Bonn's overall cautious policies run the risk of choking off growth in their own countries, fueling protectionist sentiment among their trading partners, and, consequently, inducing a contraction in world trade. Whatever its source, a developed country slowdown undoubtedly would have serious implications for the entire world economy. [redacted] 25X1

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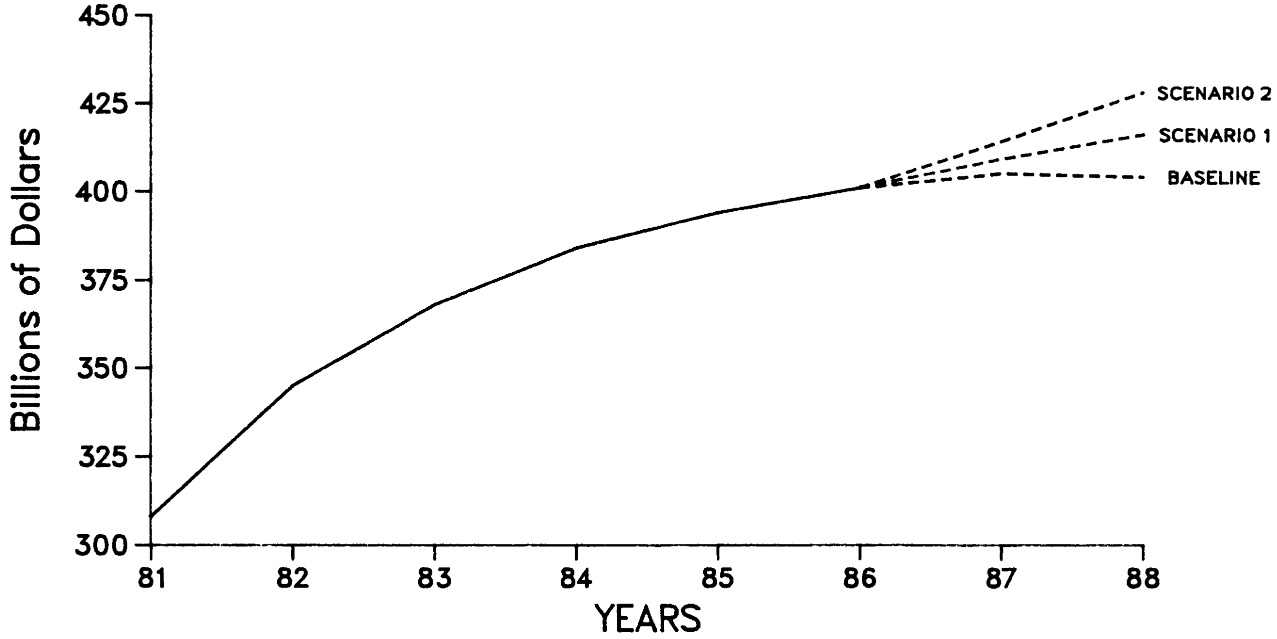
LATIN AMERICA: TOTAL FOREIGN DEBT*



* BASELINE AND ALL SCENARIOS ASSUME DEBTORS CAN RAISE THE FUNDS NEEDED TO COVER CURRENT ACCOUNT DEFICITS.

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Table 1

LATIN AMERICA: BASELINE CASE
(Billions of Dollars)

	1985	1986	1987	1988
Current Account Balance	-4.3	-7.0	-4.0	.8
Trade Balance	24.0	18.8	19.7	22.1
Exports of Goods	102.0	96.0	100.7	108.0
Exports of Services	32.0	34.9	36.6	40.0
Imports of Goods	78.0	77.2	81.0	85.9
Imports of Services	68.0	65.3	64.3	64.8
Total Debt	394.0	401.0	405.1	404.2
Total Interest Payments	32.8	28.1	26.2	25.4
Debt Service Ratio	34.3	32.0	29.1	26.5
Oil Trade Balance	23.6	15.0	13.1	12.3
OECD Real GDP Growth Rate (%)	2.7	2.3	3.0	3.2
Latin American Exports of Nonfuel Goods and Services to OECD	110.9	107.5	112.7	121.6
London Interbank Rate (%)	8.2	6.5	6.0	6.0
Oil Price ($ per Barrel)	27.0	15.0	15.0	15.0

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Table 2

OECD RECESSION: IMPACT ON LATIN AMERICA
(Changes from Baseline Scenario)

	Assumptions						Results	
	Change in OECD Real GDP Growth rate (percentage points)		Change in Interest Rate (percentage points)		Change in World Oil Prices ($ per Barrel)		Change in Latin American Current Account Balance (US $ billion)	
	1987	1988	1987	1988	1987	1988	1987	1988
Scenario 1:	-3.0	-3.0	-1.5	-2.0	0	0	-3.6	-8.1
Scenario 2:	-5.0	-5.0	-3.0	-4.0	-5	-5	-9.4	-14.3

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Table 3

Scenario 1

Latin America:

CHANGES FROM BASELINE CASE
(Billions of Dollars)

	1987	1988
Current Account Balance	-3.6	-8.1
Trade Balance	-4.0	-7.8
Exports of Goods	-5.0	-11.7
Exports of Services	-2.8	-6.4
Imports of Goods	-1.0	-3.8
Imports of Services	-3.1	-6.2
Total Debt	3.6	11.7
Total Interest Payments	-2.8	-5.2
Debt Service Ratio	-.4	-.3
Oil Trade Balance	.0	.0
OECD Real GDP Growth Rate (% pts)	-3.0	-3.0
Latin American Exports of Nonfuel Goods and Services to OECD	-7.0	-16.0
London Interbank Rate (% pts)	-1.5	-2.0
Oil Price ($ per Barrel)	.0	.0

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Table 4

Scenario 2

Latin America:

CHANGES FROM BASELINE CASE
(Billions of Dollars)

	1987	1988
Current Account Balance	-9.4	-14.3
Trade Balance	-10.7	-15.8
Exports of Goods	-16.9	-28.4
Exports of Services	-5.1	-11.6
Imports of Goods	-6.3	-12.7
Imports of Services	-6.4	-13.0
Total Debt	9.4	23.7
Total Interest Payments	-5.6	-10.6
Debt Service Ratio	.7	0
Oil Trade Balance	-4.4	-4.1
OECD Real GDP Growth Rate (% pts)	-5.0	-5.0
Latin American Exports of Nonfuel Goods and Services to OECD	-19.7	-35.0
London Interbank Rate (% pts)	-3.0	-4.0
Oil Price ($ per Barrel)	-5.0	-5.0

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Table 5

Latin American Debtors: Impact of an Economic Slowdown Among Developed Countries*

(US $ billions)

	Baseline			Scenario 1		Scenario 2	
	1986	1987	1988	1987	1988	1987	1988
Total Latin America							
Current account balance	-7.0	-4.0	.8	-7.6	-7.3	-13.4	-13.5
Total foreign debt	401.0	405.1	404.2	408.6	415.9	414.4	427.9
Debt-service ratio	32.0	29.0	26.5	28.7	26.2	29.8	26.5
Selected Net Oil Exporters							
Mexico							
Current account balance	-3.0	-1.9	-1.4	-2.0	-2.2	-4.6	-4.5
Total foreign debt	106.0	107.9	109.3	108.0	110.2	110.6	115.1
Debt-service ratio	52.9	47.2	42.5	45.7	41.6	50.0	44.6
Venezuela							
Current account balance	-.8	-2.0	-1.3	-2.1	-1.5	-4.0	-2.9
Total foreign debt	36.0	38.0	39.3	38.1	39.6	40.0	42.9
Debt-service ratio	35.3	32.3	30.6	31.7	29.6	36.4	32.7
Selected Net Oil Importers							
Brazil							
Current account balance	0.8	1.3	1.5	0	-2.2	0.4	-3.1
Total foreign debt	109.0	109.0	109.0	110.3	114.0	109.9	114.5
Debt-service ratio	33.6	29.6	26.2	28.9	26.8	27.4	25.5
Argentina							
Current account balance	-1.6	-1.7	-1.6	-2.2	-2.8	-2.5	-3.4
Total foreign debt	51.8	53.5	55.1	54.0	56.8	54.3	57.7
Debt-service ratio	24.5	21.3	18.8	21.1	19.3	20.7	18.5
Chile							
Current account balance	-1.0	-1.1	-1.3	-1.2	-1.7	-1.2	-1.8
Total foreign debt	22.0	23.1	24.4	23.2	24.9	23.2	25.0
Debt-service ratio	47.2	41.6	36.9	40.9	37.8	39.2	36.6

*Debt-service ratios decline in the baseline case primarily because of reduced principal repayments negotiated in debt reschedulings. Last year Latin American countries' debt-service payments included only 3 percent of the principal outstanding, in addition to the interest paid. For both scenarios, we assumed rescheduling agreements already negotiated remain intact.

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1 - D/OEA
1 - OGI
1 - D/LDA
1 - D/OIR
1 - D/OIA
1 - D/OSWR
1 - Author
DDI/EURA/IA [redacted] (30ct86) 25X1

[redacted] 25X1