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INTERNATIONAL COMPETITIVENESS AND THE MACROECONOMICS OF CAPITAL ACCOUNT OPENING*

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INTERNATIONAL COMPETITIVENESS AND THE MACROECONOMICS OF CAPITAL ACCOUNT OPENING

Since the early 1990s, Latin American countries have experienced large capital inflows. These have contributed to short term economic reactivation, by releasing the binding external constraint that prevailed during the 1980s. The policy challenge is making this benefit consistent with longer term effects on savings and investment geared to economic growth. The experience of the 1970s was that short-sighted policies led to exchange-rate appreciation, to crowded-out domestic savings and to bubbles in assets markets. The present episode is examined, particularly analyzing cases with different doses of intervention in three markets: capital flows, money and foreign-exchange. A comparative analysis of the cases of Argentina, Colombia, Chile and México shows that the policy mix affects substantially the feasibility of simultaneously achieving stability of the exchange-rate and of monetary aggregates, improvement of competitiveness via better and larger allocation of resources to investment, and enhancing the sustainability of capital inflows.

INTRODUCTION

Both a shortage and an abundance of external funds pose challenges to economic policy. This paper analyses how to improve the capacity to absorb external savings so that they can help to strengthen productive development, improve competitiveness in both the tradeable and non-tradeable sectors, consolidate the balance of payments and encourage macroeconomic policies that promote investment and increased productivity. Unless increases in foreign capital flows are obtained together with some degree of Government control over currency and monetary variables, there is little chance that macroeconomic policy will contribute to an efficient allocation of foreign resources. Policies adopted by different Latin American countries will be examined, bearing in mind the effects that the interrelation between financial and macroeconomic dimensions has on the generation of savings and their intermediation to strengthen the regional economies' linkages with international markets as well as their productive capacity.

In section I, the magnitude of current capital flows is examined. In section II, three areas of Government intervention are discussed: a first level in the foreign-exchange market, a second level in the monetary market and a third level directly on capital flows. Within that framework, the experiences of Argentina, Chile, Mexico and Colombia are assessed in section III. The paper concludes with some policy recommendations.

I. LESSONS FROM RECENT BOOMS IN INTERNATIONAL CAPITAL FLOWS

Since the early 1990s, several Latin American countries have received large net flows of external capital. In 1992 alone, the net flow peaked at US$ 59 billion and for 1993 it was estimated to reach US$ 64 billion. The net entry of capital represented 5% of GDP in 1992 and 1993. This compares with a coefficient of 4.6% in 1981 (see table 1) and only 1.2% in 1983-89.

Large capital inflows, combined with lower interest payments on the external debt, led to the region recording a net positive transfer of resources for the first time since the beginning of the debt crisis. In 1991, in fact, the transfer became positive again, with a value of US$ 8 billion. In 1992, it rose to US$ 33 billion, and for 1993 it was estimated at US$ 26 billion. The positive transfer in these last two years averaged 2.3% of regional GDP, as compared with an average negative figure of 3.7% in 1983-1989 (see table 2).

It is important that external capital should complement —and not replace— the domestic savings effort, because the later is decisive in reaching the required level of investment to achieve the region's challenge of changing production patterns with social equity (ECLAC, 1990; 1992).[1] When there are large-scale capital inflows into a country's economy, two different effects can occur. The first is Keynesian in nature and is reflected in greater effective demand within a context of underutilization of productive capacity. The second type of effect is that capital inflows contribute to savings and, whenever efficiently transformed into investment, can positively affect domestic productive capacity.

However, when this process takes place, there are also significant financial effects which occur as the result of changes

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[1] Figure 1 shows those factors which make national savings efforts as a percentage of GDP decline when measured at constant prices, in response to external shocks such as the negative effect of terms of trade and the net factor payments abroad; one must bear in mind that such an indicator of savings might not be the best because the terms-of-trade effect and net factor payments abroad are more properly income transfers rather than changes in savings. Thus an alternative indicator may measure national savings at current prices, as figure 2 shows. See Held and Uthcff (1994).

in relative prices. During the early stages of a process of strong increases in capital inflows, there is a tendency towards appreciation of the real exchange rate. Efforts at sterilizing the monetary effects of foreign-currency operations pressures upward the real interest rate, which, in turn, encourages both additional inflows and an exchange-rate appreciation (the so-called "Dutch disease"). The significant real exchange-rate appreciations observed in the 1976-1981 period were also associated with the use of the exchange rate as a stabilization tool in various Latin American countries.

The experience of the region during the bank-lending boom of 1976-1981 shows that it failed to create the conditions for a sustainable flow of capital, in a context of macroeconomic stability and enhancement of the savings and investment process. The excess expenditure, of about 4 percentage points of GDP, observed during 1976-81, was accompanied in some countries of the region, particularly Argentina, Chile and Uruguay, by large financial "bubbles" of a speculative nature as the result of excess domestic credit.[2] The value of domestic financial and property assets grew at rates notably greater than those of output and income, and real interest rates were kept above the levels observed in international markets (Akyüz, 1993).

The financial bubbles were due basically to two factors: i) large capital inflows (stimulated by the oversupply of international credit), and ii) the corresponding exchange rate overvaluation sustained by these flows. The severe problems faced by the domestic financial systems during the debt crisis show that these factors were not sustainable over time (Ramos, 1986; Corbo and De Melo, 1987). The required adjustment implied an intense recessive cycle, as these countries that had accommodated their economies to a large capital inflow were forced to face the changes in the conditions underlying the international financial and commercial markets (Ffrench-Davis and Devlin, 1993).

The experience of the region in the last decade and a half provides valuable lessons on the way a relative abundance of capital flows brings about exchange-rate appreciations and aggregate-expenditure increases, which may become inconsistent with medium- and long-term objectives. The authorities must base their decisions on four major objectives: i) to achieve stable capital flows; ii) to sustain a competitive exchange rate; iii) to ensure the stability of monetary aggregates and prices; and iv) to promote

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[2] At that time, the main characteristic was the appearance of a domestic credit bubble within a non-regulated banking sector. These countries were pioneers within the region in the area of deregulation and liberalization of domestic financial markets. Various kinds of supervision and regulation of the commercial banks were implemented after the debt and financial crises of the early 1980s (Held, 1993).

savings, channelling them towards investment in sectors which strengthen the competitiveness of the domestic economy (Reisen, 1993). The absorption of external savings must not discourage national savings and production of tradables, so as to achieve the level of investment required by long-term growth; and the measures adopted for managing the balance of payments (exchange-rate policy and regulation of short-term movements) must not discourage unnecessarily the inflows of long-term capital.

II. THREE LEVELS OF GOVERNMENT INTERVENTION

The recovered access to capital inflows has had several effects on the recipient economies: it allowed for an increase of international reserves to more adequate levels and a recovery of economic activity. As a result of the negative experience of the 1970s, the countries have adopted a more conservative position with regard to the proportion of capital flows that are immediately channelled towards financing the balance-of-payments current account deficit. This has meant that in the 1992-93 period, the countries of the region devoted only 69% of these inflows to the financing of the deficit (use of external savings), i.e., US$ 40 billion annually; this percentage reached 100% in 1980-81 (see table 3). The entry of capital has also had a positive effect by allowing for an increase in the rate of use of existing productive capacity, with the consequent recovery of output, income and employment.[3] The lifting of the external constraint at the beginning of the 1990s has allowed the recovery of economic growth, whose annual rate increased from 1.8% between 1983 and 1989 to more than 3% between 1990 and 1993, without a significant increase in investment.

But, on average, it also posted some warnings. During this same period: (i) the share of imports in GDP increased more than that of exports; (ii) domestic expenditure rose faster than output or income, while the surplus in the non-financial current account and the total balance of payments was reduced —which is equivalent to an increase in the use of external savings; and (iii) national savings were crowded out by external savings, which is reflected in the fact that the increase in total investment was less than the

[3] By recovery, we are referring to the fact that the external constraint under which the regional economies were operating did not allow them to make use of their production capacity. Once the frontier of production over the short term has been reached, the prospects of continued growth of GDP depend on additional savings and investment efforts and improvements in productivity.

increase in external savings.[4] These outcomes are the result of both the adjustment of economies to the relaxation of foreign-exchange constraints, as well as to economic policy-induced objectives, especially with regard to foreign-exchange and interest-rate policies.

In order to keep some control over these prices, an initial level of intervention arises in the foreign-exchange market. What is implicit in this type of intervention is the concern to moderate the tendencies towards excessive appreciation of the real exchange rate, since this has become one of the main instruments for the promotion of exports.[5] This role has become more crucial as a result of the coexistence of trade liberalization processes and renewed access to international capital markets. Changes in reserves record official sales and purchases of foreign exchange and show the extent to which the central bank intervenes in the foreign-exchange market. This intervention is aimed at providing stability and credibility to exchange-rate policy.

At this **first level** of intervention, two very different situations may be distinguished, depending on the responses which central banks give to increases in capital inflows. One response is not to intervene at this first level. In this case, the capital flows would not bring about changes in the international assets held by central banks, and the totality of increased inflows would exert pressure on the foreign-exchange market, pressing for a revaluation. Thus the inflow is directed to financing a net increase in imports.

The other response is to intervene, accumulating reserves. In the extreme case, if the monetary authorities intervene actively and buy all the foreign exchange brought in by the capital inflows, the increase in the balance of the capital account will be equal to the increase in the official reserves. In this case, the sterilization of these resources implies that the central bank is preventing their use to finance a deficit on current account, and thus avoiding their being channelled in the form of external savings towards the domestic market. This first level sterilization of the effects on the foreign-exchange market has repercussions on

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[4] Something similar occurred during the gestation of the debt crisis. However, at that time, the reduction in national savings responded to a marked expansion of consumption, while now it is the result of a decline in income brought about by deteriorations in the terms of trade. In 1990-92, this loss represented 5.7% of GDP in 1980 dollars, while external savings represented 2% of GDP. In 1976-81 the loss due to the terms of trade was 0.8% of GDP and external savings were 3.9%.

[5] This has not always been the criterion followed. In some cases, in a context of increasing capital inflows and relatively high inflation rates, the exchange-rate policy has served anti-inflationary purposes.

the monetary market.[6] In this situation it must be decided whether or not to sterilize the monetary effects of the accumulation of reserves, which, in fact, influence the degree of liquidity of the economy, through an increase in the money supply. At this **second level**, the intervention implies a choice between an active or passive monetary policy (in terms of handling aggregate demand) and its relationship with macroeconomic stabilization. If the domestic economy is close to full capacity, the central bank must try to sterilize the monetary effects of foreign-exchange operations, in order to maintain the real value of the exchange rate and sustainable macroeconomic balances.

As a last resource, the countries can always consider revising the nature of the opening of the capital account, with a view to regulating the composition of the inflows so as to make them more compatible with the objectives of national development. There now appears **a third level** of intervention (Calvo, Leiderman and Reinhart, 1993; World Bank, 1993). Most of the countries have chosen to open up the capital account. However, several of them have established intervention mechanisms aimed at discouraging inflows of speculative capital and short-term funding that does not necessarily contribute to productive investment.

The possible combinations between the first and second levels yield different mixes of exchange-rate and monetary policy, which allows for distinguishing two major intervention alternatives. The first, favoured by the countries that have chosen to maintain a passive monetary policy, is that which is known as non-sterilized intervention; it consists in accumulating substantial international reserves, since the central bank buys the foreign exchange brought in by capital flows in exchange for national currency, without sterilizing the monetary effect of these operations, under a controlled exchange-rate system.[7] An appreciation of the nominal exchange rate is thus avoided; however, if the adjustment by way of increasing imports does not occur fast enough, this alternative can expand the monetary base beyond the desired point. This may be reflected in inflationary pressures, causing appreciations in the real exchange rate and tendencies towards excesses and changes in the composition of expenditure.

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[6] In order to finance the accumulation of reserves, the central bank may draw on national savings. However, the absolute level of national savings is not affected but there is a change in the portfolio composition. This change may reflect the use of public savings and/or social-security savings in order to compensate for the weakness of the financial markets in the region to meet the needs for open market operations (Reisen, 1993). This involves public-sector savings and fiscal discipline.

[7] The range of usual forms extends from the fixation of a nominal exchange rate and mobile parity to free flotation between pre-established bands. The extreme case, when a nominal exchange rate is fixed and no sterilization is performed, is equivalent to the monetary approach to the balance of payments.

The second alternative, adopted by those countries which, together with defending the exchange rate, have opted for active monetary policies, is known as sterilized intervention. Like non-sterilized intervention, it involves accumulating reserves, pari passu with sterilization of the monetary effects of these operations. The purpose is to isolate the money stock from fluctuations stemming from foreign-capital mobility. This type of sterilization, if effective, prevents domestic real interest rates from falling. In economies that are making full use of their installed capacity, this has the advantage of helping control aggregate spending and preventing further appreciation of the real exchange rate. However, with this option, if interest rate spreads persist, capital inflows continue to be stimulated, generating further needs for sterilization, while at the same time the intervention may be a source of quasi-fiscal deficits, since the central bank is placing commercial paper in the domestic market at higher interest rates than those it obtains on its international reserves.

The sterilized intervention alternative is not problem free. Conflicts arise mainly when there is too little flexibility in fiscal policy to allow national economic authorities to use this policy to offset domestic or external shocks.[8] In these cases the Government is deprived of additional policy instruments and hence cannot use fiscal tools to moderate aggregate spending or stimulate the economy, but must rely solely on monetary and exchange-rate instruments. A more flexible tax system allows for a better policy mix and more stable interest and exchange rates.

In the absence of a flexible fiscal policy, the problems of sterilized intervention arise from the dilemma confronting the economic authorities when they try to control, simultaneously, the real interest rate (as an instrument of monetary policy for implementing stabilization policies) and the real exchange rate (as an instrument of trade policy for promoting the production of tradables). If an interest rate consistent with anti-inflationary objectives (by sterilizing the monetary effects of accumulating reserves) is higher than the international rate adjusted by devaluation expectations, then capital inflows will continue to exert pressure towards appreciation of the real exchange rate. This would run counter to the objective of protecting the tradable's sector. If, on the contrary, the domestic interest rate is allowed to fall, then both objectives are jeopardized. The higher expenditure induced by lower interest rates will exert pressure on prices of non-tradables and also will lead to an overvaluation of the real exchange rate (Zahler, 1992).

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[8] What happens today is that, in most of the democracies of the region (and of the world), legislative approval is required in order to change the tax system, while monetary policy depends solely on decisions of the central bank and/or ministry of finance.

For this reason, in practice, the alternative of sterilized intervention has been combined with other policy measures, in order to: i) influence the exchange market, at the first level of intervention; ii) regulate aggregate demand through mechanisms other than the interest rate, at the second level of intervention; and iii) modify the level and composition of capital flows, either directly, through restrictions and charges directed particularly at short-term capital, or indirectly, by generating exchange-rate uncertainty, at the third level of intervention.

Non-sterilized intervention has been frequently adopted by countries which favour price stability as an objective of economic policy; the extreme situation relates to the monetary approach to the balance of payments. It is a strategy which involves direct action to cope with inflation and indirect action to affect the real exchange rate. In establishing this mechanism, it is hoped that both the domestic interest rate and the inflation rate will converge rapidly with their international counterparts.

An important part of the success of this strategy will ultimately depend on the confidence of the economic agents in the economic authorities' capacity to maintain a fixed nominal rate of exchange and on the relationship between the nominal exchange rate and inflation. In the face of substantial lags[9] in the inflationary dynamic, using the nominal exchange rate as an anchor to stabilize prices can cause marked currency appreciations, with their corresponding effects on other relative prices, the allocation of resources and macroeconomic equilibria. In the final analysis, if this trend persists and prices do not adapt, the authorities must be prepared to make adjustments in economic activity whenever the real exchange rate deviates very significantly from its long-term value.

Sterilized intervention has been preferred by countries which have maintained an active monetary policy and a more cautious position as regards the sustainability of capital flows. This presupposes a concern for the continued development of the tradables sector, the generation of national income and its channelling towards saving and investment in that sector.

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[9] This refers to the element of inertia which tends to impede the abrupt reduction in the rate of inflation. This component is a function of the degree of formal and informal indexation of the economy and must be considered in designing an exchange-rate policy for the purposes of price-level stabilization.

III. SOME COUNTRIES EXPERIENCES

While in practice the countries have used different policy mixes, Argentina is one of the countries that have come the closest to non-sterilized intervention, starting from high levels of inflation and placing priority on price stabilization efforts. Among the countries that have used the option of active intervention, Chile has done so most persistently. But Colombia and Mexico can also be mentioned; all three are discussed below.

1. One case of non-sterilized intervention: Argentina

Argentina has adopted a series of measures designed to deregulate capital movements. With regard to the operation of the foreign-exchange market, the Convertibility Act promulgated in March 1991 (which fixed the nominal exchange rate with a parity of one-to-one with the dollar and established legal validity to contracts denominated in different currencies) allowed for a total deregulation of this market. The explicit objective of this Act was to create the conditions for applying the monetary approach to the balance of payments, in an attempt to sharply reduce the inflationary process and to ensure the stability of the nominal exchange rate (Argentina, Ministry of Economic Affairs and Public Works and Services, 1993; Fanelli and Machinea, 1994). Other measures adopted to stimulate capital movements are the Economic Emergency Act (August 1989), establishing equality of treatment for foreign and national capital; Tax Amnesty Act (April 1992); deregulation of financial and securities markets; and, finally, public-sector reforms, which have had an important effect on capital movements, in particular, the State Reform Act, which established the processes for the privatization of public enterprises and debt-conversion schemes.

In September 1992 and within the second level of intervention, Argentina amended the constitution of the Central Bank. Some of the main reforms were: establishment of the independence of the Central Bank, prohibition of monetary financing of the public deficit and elimination of the State guarantee of deposits. With these reforms, the authorities sought to strengthen the credibility of the permanence over time of monetary stability and the convertibility of the currency (Argentina, Ministry of Economic Affairs, Public Works and Services, 1993; Fanelli and Machinea, 1994). In the absence of mechanisms to sterilize the effects of exchange-rate operations, the increase in the international reserves[10] has brought about in a first stage a steep rise in the degree of monetization of the economy (from the low levels observed after the

[10] Measured in import months, the reserves reached the equivalent of 11 and nine months in 1991 and 1992, respectively. In 1989, they were of the order of four months of imports.

hyperinflation recorded in 1989); this situation, together with the expansion of internal credit, increased aggregate demand and economic activity during 1991-1993. The greater use of external savings for imports financing has operated as a monetary buffer.

2. Three cases of sterilized intervention

a) The case of Chile. Since before the debt crisis, Chile has been taking action in fields related to capital movements.[11] After 1990, the authorities had to adopt measures to regulate their entry and to sterilize the monetary effects of the accumulation of reserves, through interventions in the foreign exchange and money markets. Chile used basically three instruments for these purposes: a "dirty" floating of the exchange rate, around a benchmark value determined on the basis of a basket of currencies; the sterilization of the monetary effects of the accumulation of reserves through open-market operations, and the application of charges and reserve requirements on capital inflows to regulate and to discourage excessive flows, mainly over the short term.

Chile's exchange rate policy has undergone significant changes in recent times. In 1983, it adopted again a crawling-peg policy, which consisted in determining a benchmark price for the dollar (dollar fixed by the Central Bank). This was devalued daily by the Central Bank on the basis of net inflation (domestic/external differential). Similarly, in order to allow the short-run market a certain role, the exchange rate was allowed to float within a band around the value of the official rate. In mid-1989, this band was fixed at ± 5% of this price.

After 1990, the official exchange rate was repeatedly located close to the lower limit of the band, requiring the Central Bank to intervene; it thus acquired US$ 1.5 billion in 1990 and US$ 3 billion in 1991. It also carried out numerous open-market operations to sterilize the monetary effect of foreign-exchange operations. By that time the authorities considered that some of the factors which contributed to the positive evolution of the current and capital accounts were more permanent and thus proceeded to accommodate these tendencies through successive additional measures: i) a revaluation of 2%, in June 1991, supplemented by a reduction in customs tariffs of 15% to 11%; ii) in January 1992, there was a new revaluation of 5%. However, it was also thought that a significant part of inflows was of a temporary nature. Thus

[11] Decree Law 600 of 1974 on foreign investment eliminated legal discrimination against foreign investors; chapters XVIII and XIX authorized conversion operations for external debt for both Chileans and foreigners; in 1989, Chile authorized the issue of portfolio securities to various enterprises for sale on foreign securities markets (Fondos de Inversión chilenos); in 1990, American Depositary Receipts (ADRs) were approved as an alternative to the direct issue of shares and debt instruments by Chilean enterprises in the United States (Ffrench-Davis, Agosin and Uthoff, 1994).

later in 1992, the floating band was widened from 5% to 10% of the official rate, in order to generate more uncertainty in the formation of short-term expectations. The above arrangements were supplemented in March 1992 when the Central Bank decided to intervene discretionally within the limits of the band, formally initiating a "dirty floating"; and in July 1992, the exchange-rate regulations were modified in order to reduce the linkage of monetary policy with that of the United States and to associate it more closely with that of Chile's other main commercial partners. With this proposal, the agreed exchange rate was pegged to a basket of currencies, made up of the United States dollar (50%), the German mark (30%) and the Japanese yen (20%), weighting which reflect the different monetary areas in Chile's trade.

But also some measures to stop capital inflows were taken to increase the cost of international transactions: i) in 1991, a reserve requirement of 20% and a tax of 1.2% on short-term external credits were established, and ii) in May 1992, the reserve requirement was raised to 30%. This set of policies has allowed Chile to notably soften revaluating pressures on the exchange-rate.

An important characteristic of the Chilean experience has been the Central Bank's access to the domestic financial market in order to sterilize the effects of the accumulation of reserves, which tripled between 1989 and 1993.[12] The domestic financial market had developed on the basis of a reform of the pension scheme (Uthoff, 1993). This development of the capital market has allowed the Central Bank to sell large volumes of promissory notes, mainly with the object of sterilizing the expansion of liquidity resulting from the purchases of foreign exchange.

b) The case of Mexico. From 1983 onwards, the strategy followed in Mexico has been based on two lines of action: i) macroeconomic adjustment and stabilization of price levels; and ii) structural reforms.[13] The return to international financial markets began in the second half of 1989 and has led to substantial surpluses in the capital account of the balance of payments. It has enabled the country to tackle growing deficits in current account and, at the same time, accumulate international reserves. In this context, and in the face of the possibility that capital inflows, by its expansive effect on aggregate demand, might prevent the inflationary targets from being met, a number of measures aimed at reducing the impact of such flows on the domestic economy were adopted: i) sterilization of the effect of foreign-exchange

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[12] In 1993, these reserves reached the equivalent of one year of imports.

[13] The structural reforms were based, inter alia, on: i) trade liberalization; ii) modifications in the regulatory framework for foreign investment; iii) privatization of public enterprises; iv) domestic deregulation (commercial, industrial, financial); v) strengthening of public finance.

operations; ii) relaxation of exchange-rate policy; iii) imposition of limits on the levels of external indebtedness of commercial banks (Banco de México, 1993; Gurría, 1994).

At the moment, the exchange-rate policy allows the exchange rate to fluctuate within a band, whose maximum point of intervention depreciates daily according to a preannounced amount; in turn, the lower level of the band remains constant.[14] The objective of this measure was, on the one hand, to provide greater flexibility so that the exchange rate would partially adapt itself to the greater supply of capital and, on the other, to extend the band so as to increase the exchange-rate risk, in an attempt to discourage short-term capital inflows.

For purposes of monetary policy, this exchange-rate system (controlled evolution of the nominal rate) involves an endogenous monetary supply determined by variation in domestic credit and the balance of payments. Thus, the main instrument of monetary policy available to the monetary authorities is to control domestic credit, allowing the interest rate to adjust freely to the exchange rate (Banco de México, 1993; Guzmán, 1993).

Open-market operations to sterilize the impact of the capital flows have been used with caution. It is estimated that the cost of sterilization amounted to 0.25% of GDP during 1990-1992 (Gurría, 1994). Side by side with the sterilization and relaxation of exchange-rate policy, in 1992 Mexico placed a limit on the liabilities in foreign currency of the commercial banks, which is now equivalent to 20% of their total assets. The coefficient of liquidity requirements was maintained at 15%.

c) The case of Colombia. During the period 1990-1992, the Bank of the Republic of Colombia accumulated international reserves until they practically doubled the original balance.[15] There is now a degree of consensus among analysts that the bulk of the increase in the reserve stock was a result of capital inflows and not, as on previous occasions, of movements linked to exports (Carrasquilla, 1993).

During the first three quarters of 1991, capital inflows were accompanied by an active policy of sterilizing the monetary effects of reserve accumulation through open-market operations and a

[14] In November 1991, together with abolishing foreign-exchange controls, Mexico widened the band of fluctuation, allowing for a devaluation of the ceiling of 20 centavos a day. In October 1992, Mexico extended the devaluation of the ceiling to 0.40 thousandths of a new peso per day (equivalent to a devaluation of 4.6% a year). Towards the end of 1993, the difference between the minimum and maximum levels would reach 9% (Banco de México, 1993).

[15] In 1990, the reserves were equivalent to 10 months of imports; by 1992, they had jumped to 15 months.

modification of exchange rate policy, in June of that year, designed to support sterilization efforts.[16]

By virtue of this change, the Central Bank would no longer pay cash for the foreign exchange it buys; instead, it pays with exchange certificates (certicambios), non-interest bearing bonds denominated in dollars with a maturity period of one year. The price for redeeming these bonds in pesos (called the official exchange rate) is fixed daily by the Central Bank.[17] At the time of their issue, certicambios may be sold on the secondary market with a discount that fluctuates in a band ranging from 5.5% to 12.5%. Their price on the secondary market is equivalent to the price of the dollar, known as the representative rate.

This rate fluctuates within a band whose limits are those within which the monetary authorities allow the discount on the exchange certificates to fluctuate. If the ceiling of the band tends to exceed the 12.5% discount, the authorities intervene by buying certicambios, so that a greater demand for these certificates reduces their discount (Cárdenas, 1993).

Although the exchange-rate strategy makes it possible to spread over time the monetary effects of reserve accumulation, the monetary sterilization carried out in this period was intense; it is estimated that in 1991 its impact on the quasi-fiscal deficit reached values between 0.5% and 1% of GDP (Cárdenas, 1993; IMF, 1993).

After October 1991, efforts were launched to reduce interest rates in the domestic financial system. Accordingly, Colombia abandoned the policy of active sterilization pursued during the first nine months of 1991, and the emphasis of monetary policy was gradually shifted towards the steady elimination of the differential between the domestic and external rates of interest, with the aim of discouraging inflows of speculative capital, even at the cost of allowing an increase in the means of payment higher than those observed in the previous period. In spite of this increase, the rate of inflation declined in 1992 and 1993 (Carrasquilla, 1993; Garay, 1993).

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[16] Other measures to reduce capital inflows were the application, in June 1991, of a tax of 3% on transactions in foreign exchange generated by personal service provided abroad and on other types of transfers. In February 1992, the Bank of the Republic increased the commission paid for the purchase of foreign exchange from 1.5% to 5% (IMF, 1993).

[17] This price does not constitute an exchange rate in the strict sense, since it is not applied to a purchase or sale of foreign exchange. Rather, it reflects the price of liquidating a paper at the moment when it is due (Cárdenas, 1993).

In order to support a non-sterilizing monetary policy, the tax reform enacted in June 1992 introduced a measure for regulating inflows of foreign exchange related to services, as a mechanism to influence the entry of capital, while relaxing regulations on capital outflows.[18]

3. Comparison of results

Table 4 summarizes some policy outputs for the four selected countries. Net capital inflows have been specially important in Argentina, Chile and Mexico. They climbed to figures of around 8% of GDP (measured in 1980 dollars). The large inflows in all cases were associated with increased deficits on current account, which were particularly high in Argentina and Mexico, more moderate in Chile, and minor in Colombia.

Economic activity recovered significantly in all four cases, but with varied timing. In Chile and Mexico, economic activity touched the production frontier in the late 1980s. Argentina was operating with a large underutilization of capacity by that time and was able in 1991-1993 to sharply increase the use of capacity and the level of actual GDP. Colombia, the country with most stable macroeconomic policy, and better performance in the 1980s, sustained an actual GDP close to the production frontier.

Investment also recovered in all cases, but only by a low proportion of increased capital inflows. In fact, after replenishing reserves, one part of the inflows had to be used to finance a widespread worsening of the terms of trade, and other was used to finance consumption; in other words, a significant share of capital inflows crowded out domestic savings. Only Chile, and exclusively in 1993, was able to exceed the investment ratios achieved in the early 1980s (and during the 1960s).

The simultaneous achievement of large capital inflows with other economic-policy targets differ among these countries. Efforts at price stabilization have been successful and concomitant in Argentina and to a lesser extent in Mexico, but have resulted in a sticky level of inflation in Chile and Colombia. After peaking to the maximum level of their real exchange level, currency has appreciated by about 50% in Argentina, 23% in Mexico, and 15% in

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[18] In January 1992, all exporters were allowed to keep part of their foreign-exchange earnings abroad; formerly, this was only permitted to State enterprises exporting oil and minerals, and to exporters of coffee; moreover, residents were allowed to keep abroad assets up to a total of US$ 500,000 without prior permission. In February 1992, Colombia reduced to one year the minimum term for maturity of external loans, which was five years. These loans are permitted only if their object is to finance working capital and fixed investment (IMF, 1993).

Colombia, but has remained relatively stable in Chile. Finally, external equilibria, measured by trends in the non-financial current account balance, show rapid and sharp deteriorations in Argentina and Mexico, whereas they are moderate in the cases of Chile and Colombia.

From the experience of the countries reviewed above it may be concluded, in general, that in those countries where new inflows of capital towards Latin America since the 1990s have been large they also allowed for the revitalization of economic growth. These developments have taken place in macroeconomic contexts that are relatively more stable than those of the previous decade. This is reflected in the noteworthy deceleration in the rate of inflation.

Both in the countries reviewed and in the region as a whole there are significant trends towards currency appreciation and growing deficits in the non-financial and total current accounts. However, countries that have opted for moderate sterilization or non-sterilized intervention tend to show more marked appreciations in the exchange rate, greater increases in the deficit on current account, reductions or moderate increases in national savings and successes in combating inflation.

Those countries that have adopted active policies of intervention tend to show increases in the levels of national savings, a lesser trend towards exchange-rate appreciation, together with relatively smaller deficits on current account. The reduction in the rate of inflation has tended to be more moderate than in the previous cases.

Experience in the region, in particular during the last decade and a half, teaches that one of the main requirements for ensuring that capital inflows will boost medium-term and long-term growth is that the countries maintain macroeconomic stability, which supports efforts to change production patterns and improve international competitiveness. In this sense, success of economic policy must be measured in terms of the capacity to attain simultaneously the permanence of foreign capital flows towards the country over time, the maintenance of a certain control over the exchange rate and monetary policy and an increase in national savings and investment, elements which must expand and enhance the productive base —of tradable and non-tradable items— and international competitivity.

For this purpose, a careful degree of sterilized intervention and regulation of the short-term capital inflows are required. The recent experiences that have been analysed bring out the importance of having instruments that can be adapted with flexibility and rapidly to changing conjunctures. The objective is to ensure that such instruments allow the authorities to maintain a satisfactory balance among regulations designed to: i) isolate the money and foreign-exchange markets from speculative short-term international capital movements; ii) allow for the management of monetary policy when capital inflows lead to changes in the monetary base that generate excess demand; iii) discourage the outflow of capital towards international markets in periods of binding external constraints, neutralizing the effects of conjunctural factors that do not respond to medium- and long-term trends; and iv) equalize the cost of access to foreign capital so as to avoid the debt overhang of the private and/or public sectors and the possible emergence of destabilizing bubbles.

However, there also are risks if countries opt for the intervention alternative. Excessive restrictions must be avoided because: i) the overabundance of regulations causes uncertainty, which generally discourages productive innovation; ii) regulations which persistently go against market forces end up by being infringed and lead to the emergence of parallel markets; iii) if the norms are overly restrictive, they also limit the range of risk, liquidity and terms available to creditors and debtors; iv) they reduce the opportunities available to financial institutions with an international orientation; and v) they may limit economic growth by cutting the country off from major possibilities for long-term financing and for compensating transitory shocks.

IV. POLICY RECOMMENDATIONS

The region's renewed access to international financial markets offers an opportunity to supplement domestic saving in order to meet the requirements of changing production patterns with social equity. It is especially important to promote investments that enhance the competitiveness of the region's economies and the well-being of its population.

From a public policy standpoint, the ideal solution would be to separate the permanent components of capital inflows from the temporary ones. If there is a permanent flow, such related phenomena as real exchange-rate appreciation, growth of the current account deficit and increased consumption could be interpreted as stabilizing adjustments and, therefore, economically healthy. If, on the other hand, capital flows are temporary, the aforesaid movements in key variables would be distortionary, since they would create economic imbalances and the likelihood of disruptive future adjustments with a high social cost. This distinction is, of course, very difficult to make in practice. However, there are economic-policy measures which can have a differentiated impact on short- and long-term flows or on flows of productive as opposed to purely financial investment.

Since capital flows can affect, and are affected by, national economic variables, Governments should exercise caution on two fronts. First, they should avoid a situation where capital inflows create atypical values or major distortions in key national economic indicators, such as real exchange rates, domestic interest rates, sectoral indebtedness, inflation (including asset prices), consumption, investment and the production of non-tradables.

Second, Governments should guard against using foreign capital inflows as their main instrument for achieving a rigid or extreme target for a single domestic economic variable (for instance, the exchange-rate anchor for domestic inflation), especially over a prolonged period of time. Doing so could throw other important variables out of balance, thereby affecting the very instrument they tried to use in the first place, namely, capital inflows.

Capital inflows have had the effect of lifting external restrictions on growth and offers the opportunity to obtain financing both for reactivating economies and for maintaining the investment necessary for sustained and sustainable growth. To seize this opportunity, action must be taken on two fronts related to financial policy: i) the interaction of financial policy with macroeconomic policy to create a stable economic environment, with suitable incentives for economic agents, and ii) the interaction of financial policy with domestic capital markets, to supplement national savings efforts and match them to investment needs.

Promoting a strategy of sustained growth requires, at the strictly macroeconomic level, efforts to manage aggregate demand and its composition. The instruments available for this purpose are fiscal, monetary and exchange-rate policies. In the absence of an active fiscal policy, these instruments are reduced to simultaneously controlling the real interest rate (as a monetary policy instrument to regulate aggregate domestic expenditure) and the real exchange rate (as a trade policy instrument to promote the production of tradables and influence the composition of aggregate expenditure).

A conflict arises when an interest rate consistent with the objective of curbing inflation and stabilizing economic activity (by sterilizing the monetary effects of accumulating reserves) is higher than the international rate, adjusted for expectations of devaluation, thereby providing an incentive for the inflow of capital and promoting exchange-rate appreciation, thus jeopardizing the objective of protecting the economy's tradeable sector. If real domestic interest rates are allowed to fall, both objectives are thwarted, since the higher expenditure induced by lower interest rates would put pressure on prices and boost the current account deficit, threatening to cause an unsustainable macroeconomic imbalance. The authorities can resolve this conflict by acting directly or indirectly on capital flows, as Chile has been doing systematically, and Colombia and Mexico partially, in the 1990s.

When the authorities are faced with an unexpected abundance of external financing that they consider to be partly transitory or as flowing too fast for the economy to absorb, they can intervene at three levels. At the first level, they can act to moderate this inflow's impact on the exchange rate through the purchase of foreign exchange (i.e., accumulating reserves) by the central bank. At the second level, they can adopt sterilization policies to mitigate the monetary impact of the accumulation of reserves at the first level of intervention. At the third level, they can establish surcharges or quantitative controls to regulate inflows of capital, thereby influencing the composition and volume, the aim being to encourage flows whose volume is consistent with the domestic capacity to absorb them, channelling them into productive investment projects, and, conversely, discouraging the entry of short-term speculative capital.

Since most countries in the region have at some point opted for sterilized intervention, they have faced serious conflicts between exchange-rate and monetary management. To moderate such conflicts, they have used complementary measures, such as providing for a degree of flexibility in fiscal policy to regulate aggregate demand; stabilization funds for the main export products to soften shocks in their price cycles (as in the case of Chilean copper and Colombian coffee), and income policies to adapt the relative prices of factors to changes in productivity (as in Chile and Mexico).

Measures intended to change the volume and composition of capital flows, giving priority to long-term flows include incentives (reserve requirements or taxes, and exchange-rate measures that generate more uncertainty for short-term capital flows) or even quantitative controls. Some direct quantitative controls include requirements as to minimum maturity periods; minimum volumes for bond issues, and regulations on the participation of foreign capital in the stock market.

In the area of exchange-rate management, the aim is not only to lessen trends towards real appreciation but also to discourage international interest rate arbitrage, particularly by increasing uncertainty as to short-term trends in currency prices through mechanisms that give the authorities a wider margin for intervention. For example, one option is to allow "dirty" floating within a pre-established band, in relation to a reference value for the currency which has been fixed according to the market conditions of the different trading partners.

Fiscal flexibility may include, for instance, variable rates of some taxes and contributions to social security, such as of the value added tax and obligatory savings in pension funds. The Government could be given the authority to change these rates in determined recessive or expansive conjunctures. In that way, monetary and exchange-rate policies could be complemented with compensatory fiscal policies, thus distributing the adjustment among a more balanced set of variables.

In the current circumstances of abundant external funds and comparatively low international interest rates, the use of third-level intervention policies, compensatory fiscal management, and sterilized intervention help to prevent excess expenditure (especially private spending). In that way, it forestalls artificial and temporary increases in domestic spending, which could cause severe declines in national savings and excessive increases in external liabilities, without a corresponding rise in the capacity to produce tradables.

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Table 1
LATIN AMERICA AND THE CARIBBEAN: NET CAPITAL FLOWS
(Percentages of GDP) a/

	1950-1965	1966-1973	1974-1976	1977-1981	(1981)	1982	1983-1989	1990	1991	1992	1993b/
Latin America and the Caribbean	1.2	2.8	4.2	4.5	4.6	2.8	1.2	1.7	3.3	4.8	4.9
Oil-exporting countries	1.0	2.5	3.7	4.6	4.3	1.2	0.2	2.1	5.9	6.3	7.1
Bolivia	3.9	2.4	2.9	7.1	13.1	8.8	6.0	7.8	9.0	14.9	14.9
Colombia	0.8	4.0	2.4	3.4	5.4	5.4	2.3	0.1	0.0	0.4	4.3
Ecuador	1.3	6.1	3.6	7.3	4.9	6.8	4.7	5.5	6.8	1.1	8.0
Mexico	1.7	2.6	4.2	5.1	6.5	1.7	-0.4	4.4	7.6	7.5	8.3
Peru	2.4	2.1	7.6	4.5	4.9	6.7	4.2	4.9	6.5	7.3	5.9
Venezuela	-0.8	0.9	1.0	2.9	-6.1	-5.8	-3.0	-11.2	0.9	3.9	3.0
Non-oil-exporting countries	1.3	3.0	4.6	4.5	4.8	4.0	1.9	1.4	1.7	3.8	3.4
South America	1.0	2.5	4.1	4.1	4.4	3.5	1.4	1.1	1.2	3.5	3.1
Argentina	0.7	0.4	0.4	2.0	1.3	2.5	2.5	-0.8	1.8	5.0	4.1
Brazil	1.0	3.6	5.5	4.1	4.4	3.8	0.7	1.0	0.4	2.1	2.0
Chile	2.0	2.0	2.3	12.7	16.2	4.3	6.5	10.2	4.2	8.6	6.4
Paraguay	2.7	4.5	6.8	10.2	8.5	6.2	5.4	7.7	13.0	6.9	9.6
Uruguay	2.1	0.4	3.6	6.2	4.3	-1.6	1.7	1.4	1.4	2.0	4.7
Central America and the Caribbean	4.8	8.7	10.5	9.2	10.3	10.6	7.6	6.5	9.6	9.1	8.0
Costa Rica	4.0	9.0	11.8	12.7	13.3	16.1	10.3	6.3	9.0	8.8	7.1
El Salvador	0.5	1.8	6.4	2.1	6.5	5.8	6.2	9.7	4.9	7.5	6.6
Guatemala	2.2	2.4	4.7	2.7	3.2	4.1	4.6	2.6	7.7	6.8	7.6
Haiti	...	4.4	21.6	13.5	20.3	15.0	14.1	11.5	8.3	4.4	5.9
Honduras	2.3	5.1	12.3	9.7	8.8	6.0	8.1	10.4	12.1	10.0	8.5
Nicaragua	5.8	7.2	11.3	11.0	29.7	21.2	34.4	29.8	58.7	62.1	42.0
Panama	7.7	6.9	11.4	8.0	-1.3	3.2	-6.0	7.4	9.4	6.6	5.7
Dominican Republic	0.6	6.0	4.8	7.8	7.7	5.7	5.3	0.9	5.4	5.5	5.4

Source: ECLAC, "Postwar Transfer of Resources Abroad by Latin America", (LC/G.1657-P), Cuadernos de la CEPAL N° 67, Santiago, Chile, 1992. United Nations publication, Sales No. E. 91.II.G.9, and updated with estimates prepared by the Statistics and Economic Projections Division on the basis of official data as of 8/94.

a/ The estimates of gross domestic product in current dollars were obtained on the basis of data on GDP in national currency and the exchange rate of exports of goods and services, implicit in the IMF Balance of Payments series.

b/ Preliminary estimates.

Table 2
LATIN AMERICA AND THE CARIBBEAN: NET TRANSFER OF RESOURCES a/
(Percentages of GDP) b/

	1950-1965	1966-1973	1974-1976	1977-1981	(1981)	1982	1983-1989	1990	1991	1992	1993c/
Latin America and the Caribbean	-0.6	0.7	2.4	1.9	1.1	-2.5	-3.7	-1.4	0.7	2.5	2.5
Oil-exporting countries	-2.2	-0.1	1.8	1.9	1.1	-4.3	-4.7	-1.4	3.2	3.7	4.5
Bolivia	3.7	0.3	2.0	1.8	3.5	-7.0	0.9	2.4	4.1	11.2	11.2
Colombia	-0.2	0.8	0.0	1.6	4.0	3.0	-2.2	-5.3	-5.9	-3.7	1.1
Ecuador	-0.9	3.4	0.5	3.2	-0.2	0.3	-4.1	-5.1	-1.9	-5.8	1.6
Mexico	0.2	0.9	2.0	1.6	2.4	-5.9	-5.6	1.2	5.2	5.4	5.8
Peru	0.7	0.1	5.7	0.0	0.7	2.6	-0.4	1.9	4.2	5.0	3.8
Venezuela	-9.5	-4.5	0.6	3.3	-5.2	-8.0	-6.7	-12.8	-0.3	1.0	0.0
Non-oil-exporting countries	0.4	1.3	2.8	1.9	1.2	-1.2	-3.0	-1.4	-1.0	1.7	1.3
South America	0.4	1.2	2.6	1.7	1.0	-1.6	-3.5	-1.6	-1.4	1.5	1.1
Argentina	0.4	-0.7	-0.6	0.4	-1.9	-4.4	-5.1	-3.9	-0.5	3.4	2.9
Brazil	0.2	2.5	4.0	1.4	0.7	-0.8	-3.3	-1.4	-2.0	0.2	-0.3
Chile	0.3	-0.1	-0.9	8.9	11.4	-3.7	-3.3	4.2	-1.2	4.0	3.0
Paraguay	2.2	2.9	5.0	9.0	8.1	6.7	2.8	7.0	12.2	5.7	8.3
Uruguay	1.5	-0.7	1.9	5.2	3.6	-3.4	-3.5	-2.4	-0.9	0.4	3.7
Central America and the Caribbean	0.8	2.6	5.0	4.0	5.2	3.8	4.3	2.7	5.9	5.7	5.1
Costa Rica	1.9	6.8	9.0	7.9	2.0	1.1	2.8	2.1	5.7	5.8	4.5
El Salvador	-0.1	0.8	4.7	0.0	3.5	3.1	3.7	7.4	2.8	5.8	5.0
Guatemala	1.9	0.5	3.3	2.0	2.0	2.7	2.3	0.0	6.3	5.2	6.6
Haiti	...	0.8	5.7	13.5	23.9	22.6	12.4	9.9	6.9	3.9	5.4
Honduras	0.3	1.8	9.6	4.7	3.4	-1.0	2.4	1.9	3.1	1.4	0.4
Nicaragua	2.8	3.7	7.6	5.8	22.5	14.6	24.2	16.0	35.9	33.5	18.6
Dominican Republic	-1.2	3.9	1.8	4.0	2.8	1.0	0.3	-1.0	2.9	2.8	3.1

Source: ECLAC, "Postwar Transfer of Resources Abroad by Latin America", (LC/G.1657-P), Cuadernos de la CEPAL N° 67, Santiago, Chile, 1992. United Nations publication, Sales No. E.91.II.G.9, and updated with estimates prepared by the Statistics and Economic Projections Division on the basis of official data as of 8/94.

a/ The Net transfer of resources equals the net imports of capital (Official unilateral transfers, Short-term and long-term capital and Errors and omissions), minus net profits and interest, which include both the interest effectively paid and the interest due and unpaid. In this table the negative quantities indicate transfers of resources abroad.

b/ The estimates of gross domestic product in current dollars were obtained on the basis of data on GDP in national currency and the exchange rate of exports of goods and services, implicit in the IMF Balance of Payments series.

c/ Preliminary estimates.

Table 3

LATIN AMERICA: SELECTED INDICATORS

(Percentages of GDP based on 1980 dollars)

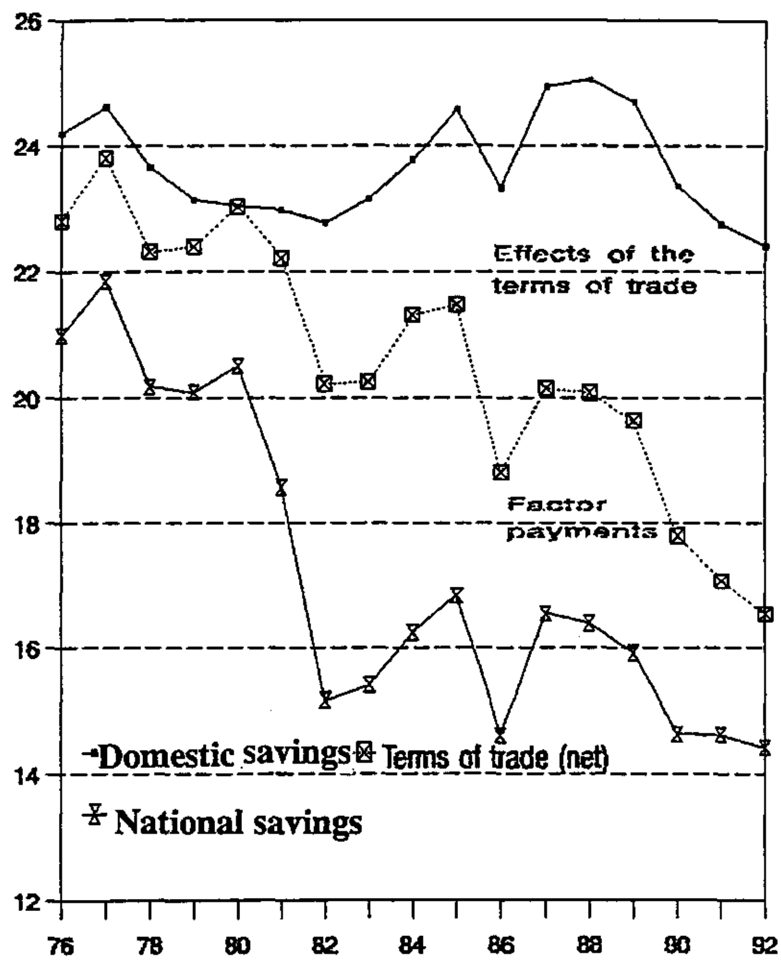
	1976-79	1980-81	1982	1983-89	1990	1991	1992	1993
Net capital inflows	4.9	4.7	2.6	1.0	2.2	3.7	5.7	5.9
Changes in reserves	1.6	-0.1	-2.7	0.0	1.4	1.9	2.5	1.9
External savings	3.4	4.8	5.3	1.0	0.7	1.8	3.2	4.0
Effect on recovery								
GDP growth (%)	5.3	3.1	-1.2	1.8	0.3	3.8	3.0	3.4
Goods imports	11.6	12.3	10.2	8.9	10.8	12.2	14.1	14.8
Gross capital formation	24.1	24.4	20.4	17.0	15.4	16.6	18.1	17.9
Per capita GDP in 1980 dollars	1 996	2 000	2 046	1 985	1 966	2 004	2 025	2 057
Medium-term effect								
Domestic savings	23.9	23.0	22.8	24.2	23.1	23.0	23.2	23.0
National savings	20.8	19.5	15.2	16.0	14.7	14.8	14.8	13.8
Goods exports	12.0	12.5	13.4	15.7	18.0	18.2	19.0	19.7
Non-financial external balances								
Trade balance (exports-imports of goods)	0.4	0.2	3.2	6.8	7.1	6.0	4.8	4.8
Non-financial current account (exports-imports of goods and services)	-0.2	-1.4	2.3	7.2	7.7	6.4	5.1	5.1

Source: ECLAC, estimates prepared by the Statistics and Economic Projections Division, on the basis of official data as of 7/94.

Table 4
COMPARISON OF RESULTS

ECONOMIC POLICY OUTPUTS	NON-STERILIZED INTERVENTION CASES	STERILIZED INTERVENTION CASES		
(Figures obtained from data in US$ 1980)	ARGENTINA	CHILE	MEXICO	COLOMBIA
NET INFLOWS OF CAPITAL (% of GDP)				
1983-1989	1.5	4.7	-0.4	2.2
1990	1.0	7.9	4.7	0.1
1991	3.3	3.6	8.4	-1.0
1992	7.4	8.0	8.6	0.6
RATE OF GROWTH OF GDP (%)				
1980-1989	-1.1	3.3	1.5	4.1
1990	-0.1	2.0	4.4	4.0
1991	8.9	5.8	3.6	1.9
1992	8.6	10.3	2.6	3.6
1993	6.0	6.0	1.0	4.5
REAL EXCHANGE RATE (1985=100)				
1989	144.3	133.5	110.4	152.7
1990	99.0	139.5	107.4	172.5
1991	85.4	137.6	98.0	173.0
1992	79.9	131.8	90.7	154.8
1993	73.8	132.0	85.4	148.3
CPI INFLATION RATE (%)				
1989	4 923.0	21.4	19.7	26.1
1990	1 344.0	27.3	29.9	32.4
1991	84.0	18.7	18.8	26.8
1992	17.0	12.7	11.9	25.1
1993	7.7	12.2	8.7	21.2
INVESTMENT COEFFICIENT (% of GDP)				
1980-1981	23.7	22.2	27.9	20.1
1983-1989	17.0	14.5	17.0	17.5
1990	13.3	18.1	18.9	14.9
1991	15.3	17.4	19.5	14.4
1992	18.5	20.1	20.7	16.1
NON FINANCIAL CURRENT ACCOUNT BALANCE (% of GDP)				
1980-1981	-1.4	-7.2	-2.9	-1.9
1983-1989	7.1	9.3	10.0	2.5
1990	13.3	9.6	5.2	7.3
1991	8.2	11.2	3.6	8.4
1992	3.6	9.2	-0.3	5.9

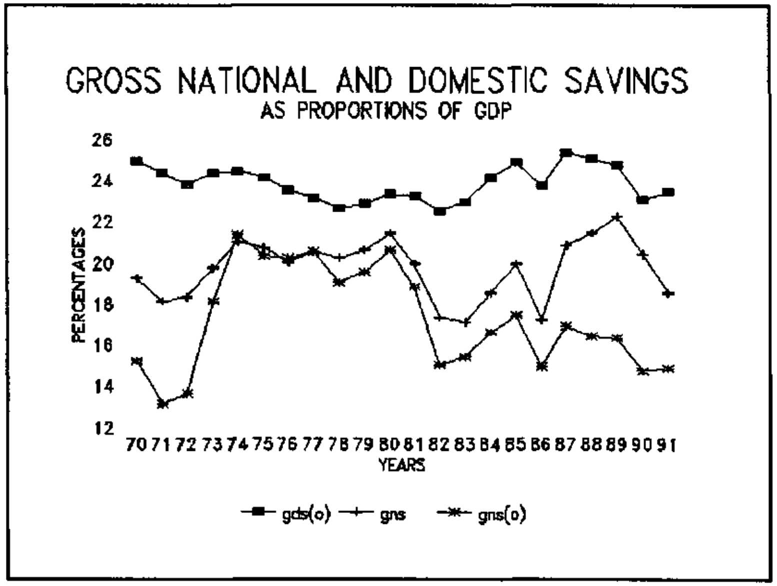
Figure 1
LATIN AMERICA: DOMESTIC AND NATIONAL SAVINGS
(Percentages of GDP)

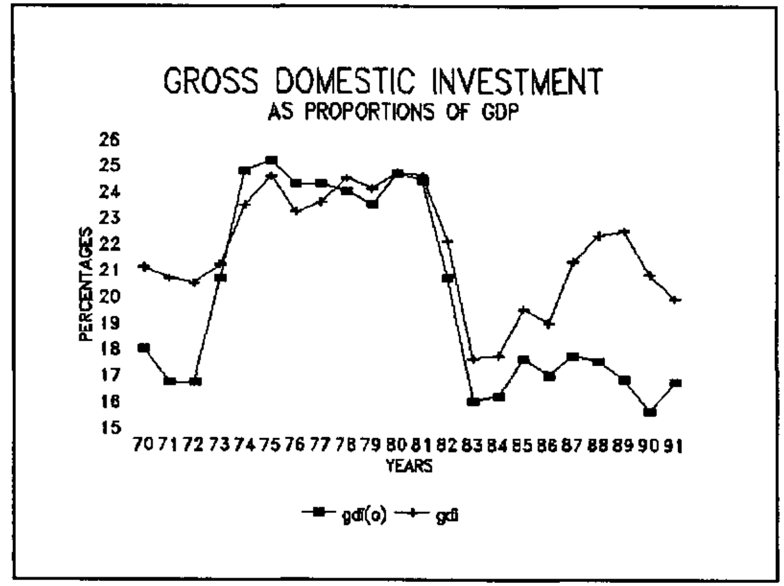


Source: On the basis of ECLAC, Statistics and Economic Projections Division

Figure 2

LATIN AMERICAN AND THE CARIBBEAN
(Alternative indicators of savings and investment)





gds(o) = Gross domestic savings at constant prices as a proportion of GDP at these prices.
gns = Gross national savings at current prices as a proportion of GDP at these prices.
gns(o) = Gross national savings at constant prices as a proportion of GDP at these prices.

gdi = Gross domestic investment at current prices as a proportion of GDP at these prices.
gdi(o) = Gross domestic investment at constant prices as a proportion of GDP at these prices.

Source: G. Held and A. Uthoff, "Indicators and determinants of savings for Latin America and the Caribbean", paper prepared for the Conference on Growth and Long-term Development, El Escorial, Madrid, 11-13 July 1994.

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