Key LDC Debtors: Grappling With Capital Flight

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A Research Paper

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September 1986

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A Research Paper

This paper was prepared by
Office of Global Issues. It was coordinated with the Office of African and Latin American Analysis and the Office of East Asian Analysis.

Comments and queries are welcome and may be directed to the Chief, Economics Division, OGI

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Key Judgments

Information available as of 25 July 1986 was used in this report.

Capital flight, which has bled nearly $180 billion from eight key LDC debtors over the past 10 years, remains a major obstacle to the solution of their international financial problems:

- Capital outflows are keeping foreign borrowing requirements high at a time when access to foreign financial resources is severely limited.
- Lenders, frustrated that over 70 percent of net foreign borrowing since 1982 has been used to acquire foreign assets, are seizing on capital flight and using it to justify further lending cutbacks.

Unless these countries take steps to stem capital outflows, we believe their international financial crises will linger, multiplying domestic economic problems and undermining political stability.

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Our analysis of past attempts to stanch capital outflows indicates that tighter capital controls are not the answer. Controls have been effective in discouraging capital flight, but funds are still being funneled abroad. We found that many residents can circumvent even the most stringent capital controls. The elite often operate above the law or take advantage of their connections in the business community and the bureaucracy to move funds abroad. The less powerful employ a myriad of tricks to purchase foreign assets without detection. Rather than relying on harsh penalties and moral suasion to stem capital outflows, we believe a better strategy would be to attack the root causes of capital flight.

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Past experience indicates that structural reform would halt the exodus of capital from the key LDC debtors by removing the powerful economic incentives to shift funds abroad. We believe these countries would retain more of their capital if their governments took steps to establish:

- *Realistic exchange rates.* A policy of maintaining real exchange rate parity with trading partners seems to be an important deterrent to capital flight. Brazil has hewed to such a policy and has been very successful in limiting capital outflows.
- *Attractive returns at home.* Capital outflows also seem to slow when domestic assets become as lucrative as foreign assets. When their interest rate was established by auction, Mexican treasury bills attracted some funds that might otherwise have fled abroad.
- *A stable environment.* A tranquil economic and political environment also seems to lead to lower levels of capital flight. In Argentina, capital outflows plunged when the Alfonsin administration adopted sounder economic policies and strengthened democratic institutions.

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We believe, however, that there are formidable economic and political obstacles to structural reform in the key LDC debtors. Currency devaluations increase the burden of the foreign debt and boost inflation in the short run. Devaluations also upset politically powerful elites who have grown accustomed to buying foreign goods at bargain prices. Financial market deregulation increases local borrowing costs in the short run, leading to larger government budget deficits and slower economic growth. In addition, even if these countries adopt sounder economic policies and strengthen democratic institutions, it will take time for them to establish a track record of economic and political stability.

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If the key LDC debtors succeed in overcoming these obstacles to structural reform, the foreign assets accumulated by residents of these countries may hold a key to the solution of their international financial problems. We believe residents of these countries own a stock of foreign assets equal to at least half their foreign debt. If these countries implemented structural reform, they might entice back some of this capital. Any capital that was repatriated would help relieve balance-of-payments pressures and cut foreign borrowing requirements. Even if residents held onto their overseas assets and repatriated only the earnings, the impact on international accounts would be significant.

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If these obstacles prove insurmountable and the key LDC debtors fail to adopt structural reform, we believe capital outflows will remain stubbornly high and international financial problems will continue to dog these countries. They will have an increasingly difficult time balancing international accounts when inflated foreign borrowing requirements run up against growing resistance to new lending. If lenders are unaccommodating, these debtors will be forced to trim their international "expenses." Historically, they have reacted to financial crises by slashing imports, but this option may now be unacceptable because the ensuing drop in real incomes could have serious political consequences. It is more likely that they will target debt service payments. If concessions are not granted by creditors, more debtors may suspend principal repayments and limit interest payments.

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Contents

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25X1

Key LDC Debtors: Grappling With Capital Flight

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Foreword

The international spotlight is increasingly being trained on the continuing exodus of capital from debt-troubled LDCs. Attention was recently drawn to this phenomenon by the Baker Initiative on LDC debt, which made the stanching of capital flight a prerequisite for the additional financing called for in the plan. Several US banks soon released short studies of the capital flight problem. The press responded by publishing articles and editorials on capital flight that drew heavily on the bank studies. Previous research on this subject has focused largely on the magnitude of capital outflows. Many important aspects of the capital flight problem have not been thoroughly examined. This research paper takes a broad look at the flight of capital from eight key LDC debtors over the past decade. The magnitude, mechanics, and side effects of capital outflows are discussed in detail. A subsequent paper will examine capital flight trends over the longer term, in particular assessing the prospects for repatriation of the capital shifted abroad before the international financial crisis of 1982.

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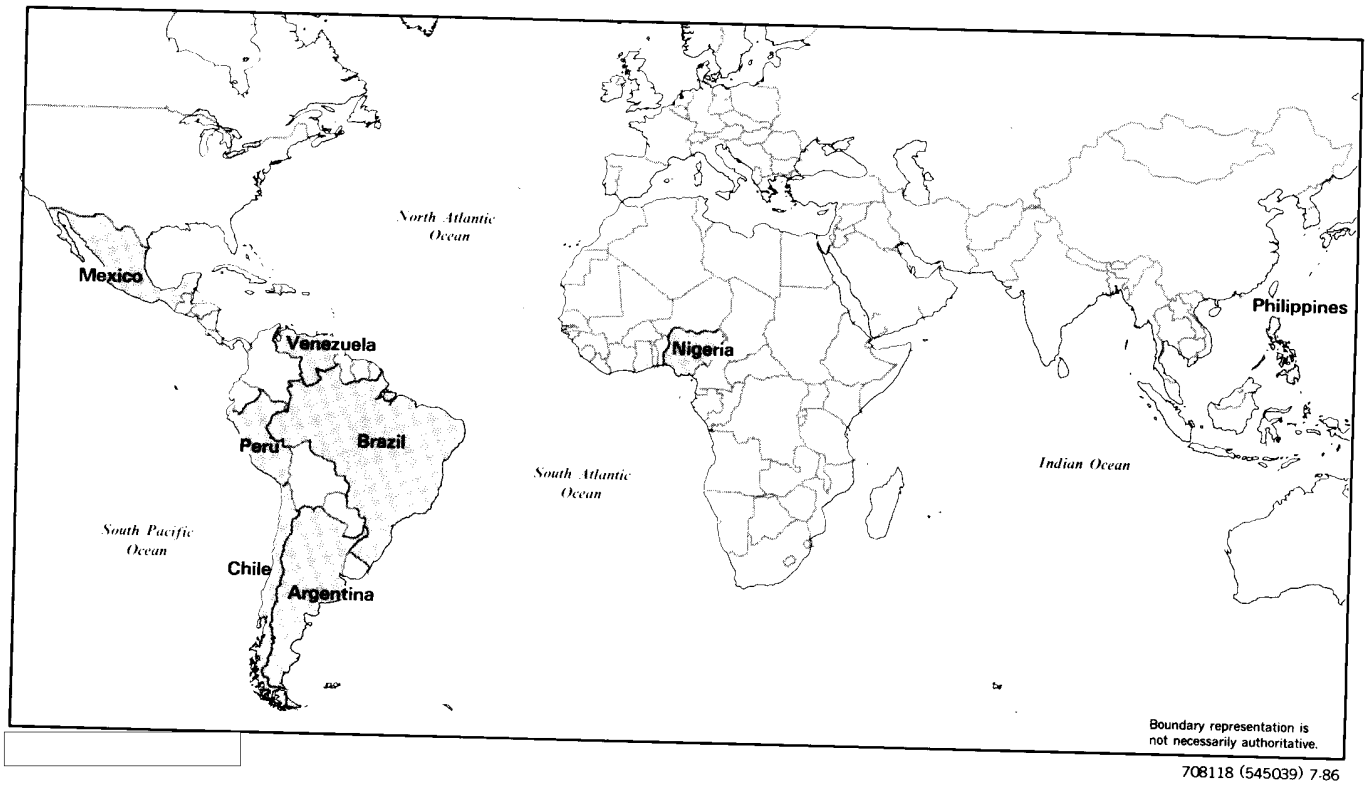
Figure 1
Key LDC Debtors, 1986



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Key LDC Debtors: Grappling With Capital Flight

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Introduction

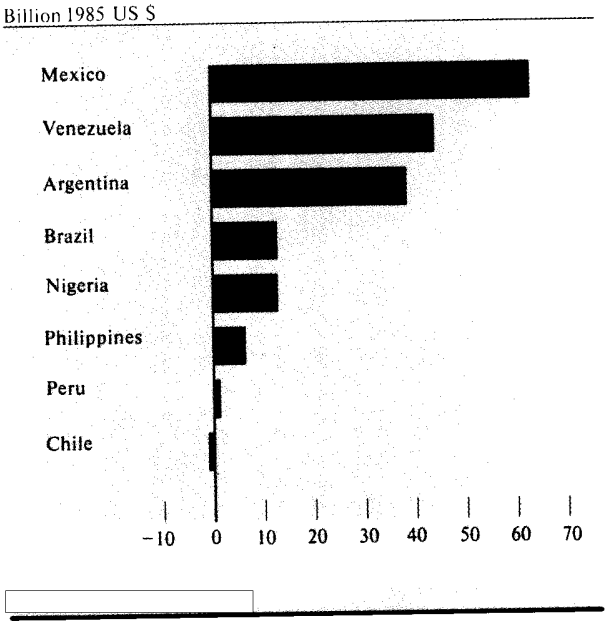
Every individual endeavors to employ his capital so that its produce may be of greatest value. He generally neither intends to promote the public interest, nor knows how much he is promoting it. He intends only his own security, only his own gain.

Adam Smith
The Wealth of Nations *(1776)*

During the past 10 years, capital flight has been a destabilizing force in the key LDC debtors (see figure 1).[1] Our analysis of balance-of-payments and foreign debt data indicates that nearly $180 billion of capital fled these countries during the period from 1976 to 1985—nearly half of net foreign borrowing (see figure 2). Elaborate mechanisms, both legal and illegal, were devised that enabled nearly all segments of society to participate in the foreign asset rush. A vast array of personal property and financial instruments were acquired in industrial countries, neighboring LDCs, and offshore banking centers. This unprecedented buildup of foreign assets aggravated existing economic and political problems. Capital flight, which helped trigger the foreign debt crisis, remains a major obstacle to solving the financial problems of the key LDC debtors.

[1] Key LDC debtors include Argentina, Brazil, Chile, Mexico, Nigeria, Peru, the Philippines, and Venezuela. These developing countries, of strategic interest to the United States, have encountered serious economic problems as a result of their large foreign debt. Capital flight, defined as the net accumulation of foreign assets by private citizens, was estimated using the "implicit capital outflow" method (see appendix A for details). Our estimates should be viewed only as benchmarks representing the minimum level of capital flight. Dollar values are measured in 1985 US dollars and growth rates were calculated from constant-dollar values.

Figure 2
Key LDC Debtors: Capital Flight by Country, 1976-85



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Before the Financial Crisis

Outflows Up Sharply

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According to our estimates, the flight of capital from the key LDC debtors accelerated dramatically before the international financial crisis of 1982 (see figure 3). Capital flight reached a peak of $31 billion in 1981—up from only $9 billion in 1976. Rapidly growing capital outflows from Mexico and Argentina generated most of this surge in aggregate capital flight. In the

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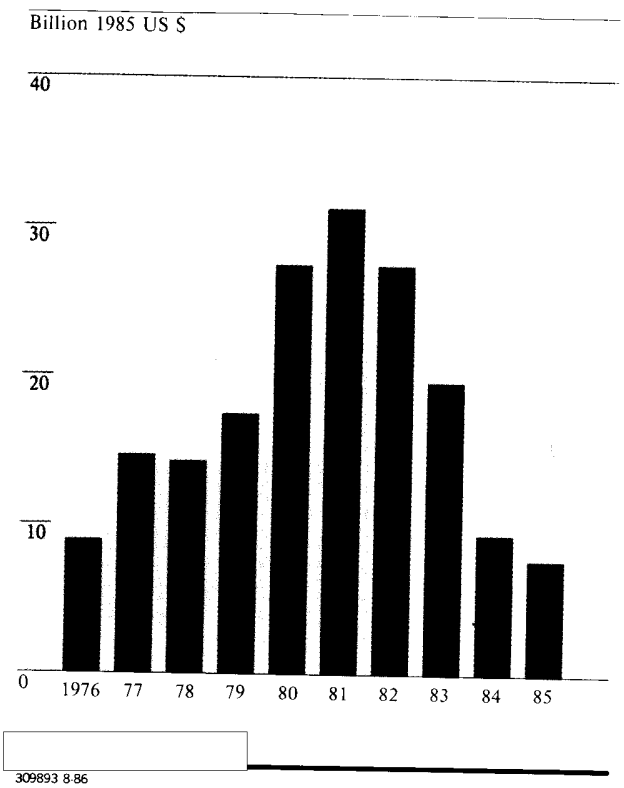
Figure 3
Key LDC Debtors: Capital Flight, 1976-85



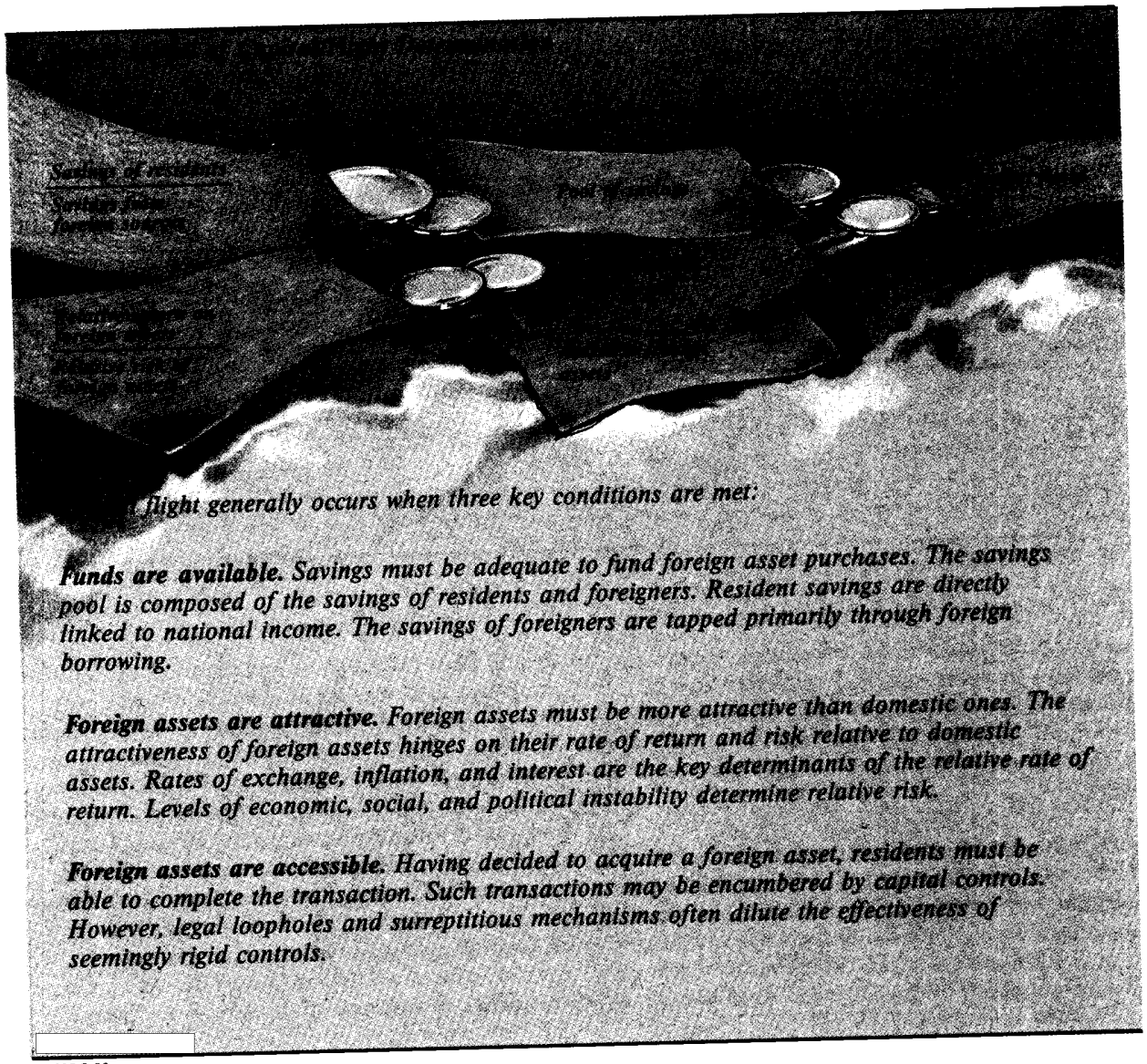
three years before the financial crisis, capital flight hovered around $30 billion per year. Judged by almost any criterion, the $86 billion that was drained from the economies of these eight debtors during 1980-82 is significant. It represents 52 percent of their net foreign borrowing, 12 percent of their gross fixed investment, and nearly 3 percent of their gross domestic product.

Although political turmoil historically has been the key cause of large capital outflows from LDCs, the unprecedented flight of capital during 1980-82 can be traced primarily to economic mismanagement. Before the financial crisis, the governments of the key LDC debtors pursued misguided economic policies that made the purchase of foreign assets almost irresistible:

- We believe *overvalued exchange rates* were the key cause of this capital exodus (see inset). As the world moved toward flexible exchange rates, these debtors defended fixed rates of exchange. By reducing import costs, this policy was supposed to spur development and hold down inflation. When loose monetary policy sparked inflation, however, their real exchange rates appreciated substantially—over 30 percent during 1978-81. Overvalued exchange rates, coupled with free access to foreign exchange, spurred capital flight by making foreign assets cheaper and raising the specter of impending devaluation.

- *Negative returns on domestic assets* were also an important cause of capital flight. Governments fixed nominal interest rates at low levels, in some cases for ideological reasons, but generally to encourage domestic investment and facilitate consumption. When inflation accelerated and governments failed to adjust interest rate ceilings, real interest rates grew increasingly negative. By 1982 the real return on bank deposits in the eight debtors was −25 percent per year while the real return in the United States was at an alltime high of 7 percent. In addition to yielding an attractive return, foreign assets offered as a bonus protection from domestic currency devaluations. 25X1

- *Heightened uncertainty* also spurred capital flight. By 1980 residents were realizing that the harsh economic adjustment postponed by massive foreign borrowing was imminent. The serious economic imbalances caused by misguided economic policies were obvious—growing trade deficits, spiraling inflation, and widening government budget deficits. Estimating the returns and risks of domestic assets was impossible when the timing, pace, and extent of 25X1



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the coming adjustment was unknown. In addition, there was increased political uncertainty in these countries as a result of planned transitions to civilian rule, martial law, military coups, and rising political opposition. Savvy residents opted to move their assets overseas.

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Most Debtors Hit Hard

Of the key LDC debtors, our estimates indicate that *Mexico* was the hardest hit by capital flight. During 1980-82 an annual average of $11 billion was shifted abroad—up from an average of $4 billion during 1976-79 (see table 1). These funds could have financed an 18-percent boost in plant and equipment investment if they had remained at home. The deadly combination of a highly overvalued exchange rate and easy access to foreign assets sparked this capital hemorrhage. The peso appreciated by 51 percent in real terms during 1978-81, and weak capital controls and proximity to the United States allowed ready

Table 1
Key LDC Debtors:
Capital Flight Trends, 1976-85

	Average Annual Capital Flight *(Billion 1985 US $)*				Capital Flight As a Share of: *(Percent)*		
	1976-79	1980-82	1983-85	1976-85	Net Borrowing	Gross Fixed Investment	GDP
Total	**13.8**	**28.7**	**12.2**	**17.8**	**47.6**	**8.4**	**1.8**
Argentina	3.1	8.7	0.1	3.8	69.0	10.8	2.1
Brazil	2.3	0.1	1.1	1.3	12.5	1.9	0.4
Chile	−0.3	0.2	−0.1	−0.1	NA	NA	NA
Mexico	3.6	10.6	5.7	6.3	63.9	13.5	2.7
Nigeria	0.0	2.2	2.0	1.3	57.4	5.0	1.3
Peru	0.3	−0.4	0.4	0.1	12.8	3.6	0.5
Philippines	1.0	1.5	−0.7	0.6	24.2	6.4	1.4
Venezuela	3.9	5.8	3.7	4.4	111.8	21.9	5.8

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access to foreign exchange. In addition, the savings pool was expanding rapidly. Rapid GDP growth, powered by oil exports, spurred domestic savings. Foreign borrowing—$29 billion in 1981 alone—led to a dramatic jump in savings from foreign sources.

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Argentina and *Venezuela* also suffered severe capital flight. They lost an average of $9 billion and $6 billion per year, respectively, during 1980-82—significantly more than during 1976-79. In these two countries, capital flight as a share of GDP, at 5 to 8 percent, was the highest of any of these debtors. As in Mexico, an overvalued currency and free and legal access to foreign exchange proved disastrous. During 1978-81, the real value of the peso Argentino shot up by 80 percent and the Venezuelan bolivar appreciated 30 percent in real terms. In Argentina, instability was high. Erratic policies and triple-digit inflation weakened the economy, while Peronism, the Falklands war, and the planned democratic transition heightened political uncertainty. In Venezuela, rising inflation pushed real interest rates into the −10 to −15 percent range during 1979-80.

Capital flight from *Nigeria* and the *Philippines* drifted upward to an average of about $2 billion a year during 1980-82. While dwarfed by the outflows from the larger debtors, funds salted abroad amounted to about a tenth of fixed investment. Widespread corruption boosted capital flight as politicians, bureaucrats, and cronies secured ill-gotten gains abroad. According to a recent Nigerian Government investigation, members of the Shagari government garnered billions of dollars in bribes and kickbacks during the country's oil boom. Press reports indicate that like amounts were skimmed from foreign loans, diverted from state enterprises, or siphoned off development projects in the Philippines. Political uncertainty was also a factor. President Shagari's tenuous grip on power led to frequent coup plotting, and opposition to President Marcos's autocratic rule was intensifying. Economic policies, while erratic and often flawed, played a smaller role.

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Chile, Brazil, and *Peru* kept capital flight in check during 1980-82. Brazil's success at controlling capital outflows is surprising. Of the $35 billion that was

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borrowed abroad and the nearly $1 trillion of GDP that was produced, only $400 million left the country. We believe realistic exchange rates and stringent capital controls account for this success. Safe and lucrative investments like dollar-indexed bonds also attracted funds that might have otherwise fled abroad. In addition, Brazilians strongly prefer to invest in ventures at home rather than overseas. In Chile, capital returned as Pinochet maintained economic and political order, but the flow was reversed when unrest resurfaced in the early 1980s. The reflow of funds to Peru during 1980-82 followed the transition to civilian rule that was capped by the election of President Belaunde Terry.

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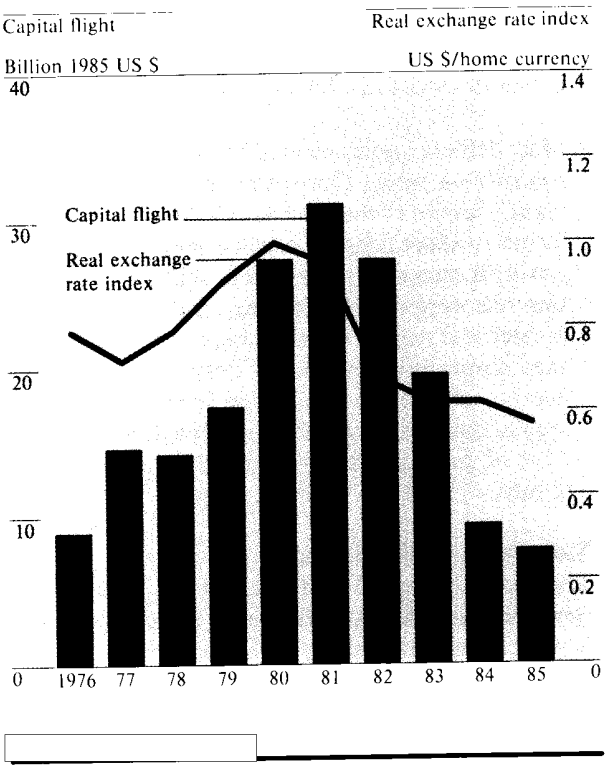
Figure 4
Key LDC Debtors: Capital Flight and Currency Strength, 1976-85



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After the Financial Crisis

Outflows Taper Off

Although our estimates indicate that outflows tapered off after the international financial crisis began in 1982, capital flight continued to torment the key LDC debtors. When massive capital outflows from Mexico and Argentina were partially stanched, capital flight from the eight debtors dropped from $31 billion in 1981 to less than $10 billion a year in 1984 and 1985. We believe, however, that this loss of capital inflicted more damage than past episodes of higher capital flight because of the severe shortage of foreign exchange during the period. The $37 billion that fled during 1983-85 amounted to over 70 percent of net foreign borrowing—up from about 50 percent during 1980-82. In addition, we believe actual capital flight may have been considerably higher than our estimates. When foreign exchange controls were tightened after 1982, capital outflows that once were easily measured were pushed underground and became nearly impossible to detect.

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We believe a combination of new foreign exchange policies and economic austerity reduced capital outflows from the key LDC debtors during the past three years:

- The most important step taken to limit capital flight was the move to *more realistic exchange rates.* Faced with financial crisis, most of the debtor countries took steps to correct the gross overvaluation of their currencies. As a group, they devalued their currencies by 35 percent in real terms during 1982-84. These devaluations, with a lag of about one year, reduced capital flight by over 70 percent during 1983-85, when foreign assets became more expensive (see figure 4). Maxidevaluations induced some capital outflows, however, when they undermined confidence in domestic currencies and sparked inflation.

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- *A drop in savings*—the funds available to finance foreign asset purchases—also stifled capital flight. Forced economic austerity in the key LDC debtors led to a 13-percent contraction in the pool of savings

during 1983-85. Sluggish GDP growth limited resident saving. When real wages fell, residents tried to maintain their standard of living by cutting back on, or dipping into, savings. More important, savings from foreign sources plummeted when foreign borrowing was curtailed. Net foreign borrowing—the chief source of foreigners' savings—fell from $55 billion in 1982 to $4 billion in 1985.

- Most debtors also implemented *stringent capital controls*—a potent short-term deterrent to capital flight. Despite exchange rate reform, they were forced to adopt controls because there were still powerful economic incentives to shift funds abroad. Controls were supposed to buy time so the lingering problems of negative real interest rates and heightened uncertainty could be addressed. Residents became adept at circumventing foreign exchange regulations, however, and capital controls became more of an irritant than a barrier to capital flight.

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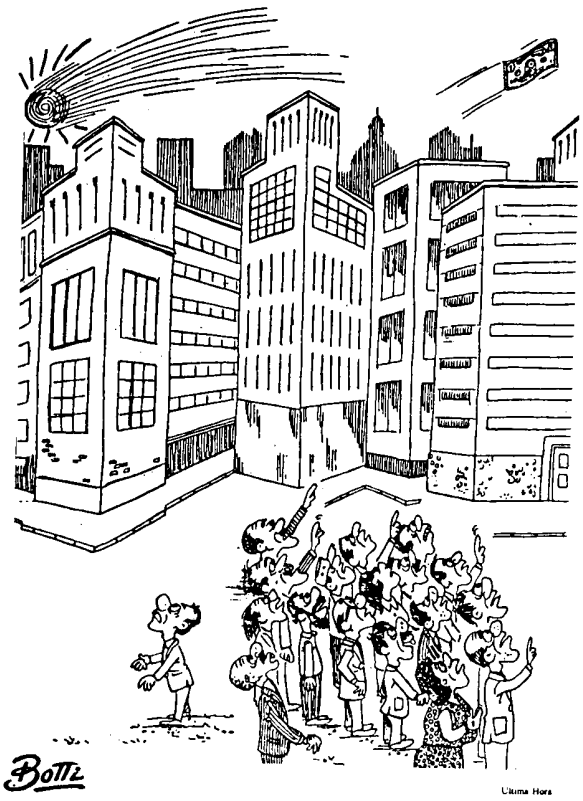
Most Debtors Still Plagued

The exodus of capital from *Mexico* and *Venezuela* slowed during the past three years, but capital outflows remained alarmingly high (see cartoon). During 1983-85 an annual average of $6 billion and $4 billion fled Mexico and Venezuela, respectively—roughly 40 percent less than during 1980-82. Maxidevaluations and stringent capital controls led to this decline. The real value of the Mexican peso fell by over 40 percent during 1982-83, and the Venezuelan bolivar was devalued by one-third in real terms in 1984 alone. In addition, a savings slump, the result of sluggish GDP growth and a drop-off in foreign borrowing, reduced the pool of potential flight capital. Capital flight remained stubbornly high, however, as the problems of inflation and negative real interest rates lingered. In Mexico, rising opposition to the ruling party before key elections heightened political uncertainty.

One and two billion dollars a year, on average, fled *Brazil* and *Nigeria,* respectively, during the past three years. In Nigeria, capital flight was about 10 percent lower than during 1980-82. When foreign borrowing and petroleum revenues dropped off, so too did opportunities for graft—a key source of flight capital. However, outflows continued as Lagos clung to eco-



Most residents of key LDC debtors find capital flight a more spectacular phenomenon than Halley's Comet.

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nomic policies fostering an overvalued exchange rate, negative real interest rates, inflation, and stagnant savings. A successful military coup and continuing rumors of coup plotting boosted uncertainty. In Brazil, average outflows were about $1 billion a year higher than during 1980-82. Uncertainty surrounding transition to civilian rule, the death of President-elect Neves, and rising inflation probably sparked this outflow. A realistic exchange rate and effective capital controls, however, kept a lid on capital flight.

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Since 1983, capital flight from *Peru* and *Argentina* has averaged less than $500 million per year. Outflows from Argentina plummeted from an annual average of $9 billion during 1980-82 to $100 million

per year during 1983-85. Sharp currency devaluation—about 55 percent in real terms during 1982-85—and stringent foreign exchange controls choked off capital flight. Euphoria over the transition to civilian rule and the election of the center-left presidential candidate, Raul Alfonsin, actually sparked capital reflows. Capital returned despite real interest rates of −30 percent and spiraling inflation. In Peru, modest reflows were reversed during 1983-85. Economic mismanagement during the latter stages of the Belaunde administration, which contributed to rising inflation and negative real interest rates, spurred capital flight despite sharp currency devaluations, tight capital controls, and a shrinking pool of savings. In addition, it was becoming clear in 1985 that the continuing political transition would end with the election of the left-leaning Alan Garcia to the presidency.

Our estimates indicate that, on balance, residents of *Chile* and the *Philippines* have been repatriating capital during the past few years. While capital reflows to Chile were small, an annual average of $700 million appears to have returned to the Philippines during 1983-85. Given the unsettled climate in the Philippines during this period, capital reflows are puzzling. Even though the Philippine peso was devalued, capital controls were tightened, and savings shrank, it is surprising that rising inflation and volatile real interest rates did not induce capital flight. Moreover, Benigno Aquino's assassination, Marcos's ill health, growing insurgency, and rising opposition threatened political stability. Various experts have speculated that wealthy Filipinos repatriated funds to keep businesses afloat, to maintain living standards, to fund longer term speculative investments, or to finance elections. Our methodology may have captured these inflows and missed large, well-hidden capital outflows.

Mechanics of Capital Flight

The mechanics of capital flight illustrate why the key LDC debtors have been frustrated in their attempts to stop capital outflows. While most segments of society in these countries acquired foreign assets, residents with economic and political power were the true capital flight artists. As capital controls were tightened, these residents devised increasingly elaborate schemes for moving funds abroad without detection. Sifting through open-source information and diplomatic reporting, we have uncovered about 20 different ways to execute capital flight transactions without drawing the attention of the authorities. Having successfully transferred funds out of the country, residents purchased an array of financial assets and personal property in many locations around the world.

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Capital Flight Artists

Government officials were implicated in the most flagrant cases of capital flight from the key LDC debtors. Per capita, they probably acquired more foreign assets than any other group. Corrupt officials at all levels of government salted away funds overseas:

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- *Corrupt chief executives* were the premier capital flight artists. To ensure financial security after their power fades, they exploited vast opportunities for graft and amassed fortunes that had to be secured abroad. According to press reports, Marcos used ill-gotten gains to purchase over $3 billion in foreign assets. The bulk of these purchases were financed by kickbacks that Marcos's cronies paid to the President and his wife, Imelda—"Miss 10 Percent." Former Mexican President Lopez Portillo has been accused by the press of absconding with over $1 billion. Miguel de la Madrid, his successor and the standard bearer of the "moral renovation" campaign, deposited over $160 million in Swiss banks in 1983 alone, according to a US press report.

- *Corrupt cabinet ministers and bureaucrats* also funneled illegal payments overseas (see inset). Before signing off on major contracts, import permits, or construction approvals, they often demanded bribes ranging from 10 to 25 percent, generally with the proviso that the funds be deposited abroad. The Nigerian Government estimates that, at the height of the 1978 oil boom, corrupt politicians were shifting $25 million a day abroad. Transport Minister Dikko was accused in the press of stashing over $10 million

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The Binondo Central Bank: Pipeline for Flight Capital

According to press and diplomatic reporting, the currency black market in Manila's Binondo district is a major pipeline for capital fleeing the Philippines. Before the assassination of Benigno Aquino, Chinese currency traders operated freely, buying and selling US dollars and transferring them overseas illegally. Because the black-market exchange rate was close to the official rate, the government chose to ignore the operation. However, following the Aquino shooting, the differential between the two rates grew ever larger, putting pressure on the government to devalue the peso officially. President Marcos, disturbed by the peso's weakness and jealous of the large profits of the Chinese traders, took a dramatic step. In November 1983 he ordered Minister of Trade and Industry Roberto Ongpin to take over the black market.

Minister Ongpin gained control of the black market and established what came to be known as the Binondo Central Bank. Given broad powers of arrest, Ongpin initially tried to coerce the Chinese traders into offering an exchange rate nearer the official rate.

The Binondo Central Bank collapsed when key traders followed Marcos out of the country.

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overseas. In 1974, Argentina's Minister of Economics was paid $4 million in a Swiss account after a nuclear reactor construction contract was signed, according to a US press report.

Although the press focused on the misdeeds of government officials, *the business community* probably moved more capital abroad in total. Decisions to convert domestic profits to foreign assets were based almost exclusively on economic fundamentals. Prominent businessmen led the way. Flush with local currency, these sophisticated investors searched both domestic and international markets for attractive investments. Businessmen with political connections often received warning of government actions in time to reap a windfall. Their connections in banks and the bureaucracy allowed them to elude capital controls. For example, Marcos issued hundreds of decrees that exempted his cronies from a variety of economic regulations. Small businessmen, especially those dealing with exports, imports, or foreign securities, also shifted capital abroad. Their small capital movements were easily disguised as commercial transactions. Finally, multinational corporations contributed to capital flight when they remitted funds above legal limits.

The *general public* in the key LDC debtors also participated in a small way in the foreign asset rush. Even the unsophisticated quickly learned the benefits of holding foreign assets. Many residents held them within the country—mostly US dollars "in the mattress."

The general populaces in these countries also acquired assets overseas. With weak capital controls, anyone could shift funds abroad through international financial channels. Mexicans could move pesos overseas for conversion to US dollars by mailing a peso draft or by electronic transfer. With rigid capital controls, the man in the street often physically transferred his capital. Because of the small amounts involved, local currency, black-market US dollars, or other valuables could be mailed or carried abroad.

Moving Capital Abroad

Capital flight artists used a variety of methods to move their capital abroad. Most of the capital that fled the key LDC debtors before the financial crisis in 1982 moved overtly through *legitimate channels*. Unless the funds were tainted, there was little need to develop complicated schemes for moving money abroad when capital controls were so porous. In most cases, funds were transferred electronically. Residents made deposits in local banks and the funds were transferred by wire to accounts overseas. Small transfers were often exempt from transaction reporting. Argentine banks could transfer $20,000 per day abroad without declaration. Capital was also physically carried out of the country. Residents mailed bank drafts overseas for deposit in foreign accounts or took large amounts of cash with them on foreign trips. The latter resulted in large inflows of US currency into the Federal Reserve districts that include Miami, El Paso, San Antonio, and San Francisco.

As capital controls tightened after the financial crisis, residents developed increasingly elaborate schemes to move funds abroad without detection (see inset). The least elaborate ploys involved *smuggling*. According to press and diplomatic reporting, everything from Krugerrands to cattle was smuggled, but financial assets—cash, bank drafts, bonds, and traveler's checks—were the preferred cargo. Residents also transported jewelry, gems, precious metals, gold coins, stamps, antiques, drugs, and other assets readily converted to cash. They even smuggled low-unit-value agricultural and mineral commodities. Most contraband was smuggled on common carriers. For example, despite checkpoints at departure gates, Filipinos frequently arrived in Hong Kong laden with cash and securities, according to a Hong Kong newspaper. Customs agents were either deceived or were paid to look the other way. Large-scale smuggling operations used private aircraft or boats. Once overseas, contraband was converted to hard currency and the proceeds were invested.

More elaborate schemes to move funds abroad surreptitiously usually involved *misreporting*. Exporters underinvoiced shipments and remitted to the central bank only a portion of the foreign exchange earned. Importers overinvoiced purchases and drew more foreign exchange from the central bank than was owed. Excess foreign exchange was invested abroad

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Surreptitious Capital Flight: Some Tricks of the Trade

In the absence of restrictions on international capital movements, capital flight is accomplished by straightforward transfers of funds by bank draft or by wire. If capital controls are in place, however, elaborate methods of moving funds abroad without detection are devised. The creativity of such schemes is limited only by the imagination of the capital flight artist. Historically, when authorities closed off one capital flight route, resourceful residents discovered two more. Some tricks include:

- Airline ticket ploys. *Before embarking on a foreign trip, a traveler buys several expensive airline tickets using local currency. Upon arrival abroad, the traveler cashes in the unused airline tickets for hard currency.*

- Back-to-back operations. *Residents deposit soft currency in the local branch of a foreign bank. Using this deposit as collateral, residents borrow hard currency from a branch of that foreign bank overseas.*

- Black markets. *Shadowing the central bank, black markets act as clearinghouses for foreign exchange, bank drafts, and other readily convertible financial instruments. Besides providing convertible assets for shipment overseas, black-marketeers can carry out the actual capital transfer or provide technical assistance. The black market operating in Manila's Binondo district is among the most efficient.*

- Border bank transfers. *Illegal capital movements can be hidden in interbank transfers involving border banks. For example, a Mexican could deposit pesos in a local bank having an account with a US border bank. After a bank official is bribed, the funds are transferred to the local bank's account in the US bank bundled with hundreds of border transactions that are exempt from reporting regulations. Once the funds are in the United States, the local bank orders the funds shifted to the Mexican's account in another US bank.*

- Check purchasing. *Many expatriate workers send their hard currency paychecks back home to relatives who sell them to brokers in the black market for local currency. Brokers may resell the checks for local currency to residents wishing to move funds abroad. Brokers themselves may deposit the checks in accounts overseas and use the proceeds to complete future capital flight transactions.*

- Currency smuggling. *Physically carrying currency out of the country is the oldest method of executing capital flight. Smugglers, trying to conceal cash on their persons or in their luggage, often pay a premium for high-denomination US currency. If deception fails, payments to customs officials speed the smuggler through checkpoints. Small private aircraft are also used to ferry cash abroad.*

- Export underinvoicing. *An exporter presents a fraudulent invoice, which understates the foreign exchange earned from an export sale, to the central bank. Foreign exchange equal to the invoice amount is turned in to the central bank and the unreported foreign exchange is invested abroad.*

- Fictitious transactions. *Residents bribe an official at the central bank to release foreign exchange for the declared purpose of meeting import or debt service payments. The declared transaction never takes place, but the foreign exchange is remitted to a foreign bank account.*

- Front companies. *Front companies obscure the ultimate destination and owner of funds moved abroad. A tangled web of shell companies with third-party directors and shareholders can be set up easily in Hong Kong, Panama, the Channel Islands, Liechtenstein, or numerous small Caribbean countries. Law firms in Panama reportedly have such companies already formed and "on the shelf."*

- Import overinvoicing. *An importer presents fraudulent documents, which overstate the foreign exchange needed for imports, to the central bank. The central bank remits foreign exchange equal to the stated amount to the importer, who in turn purchases the imports and invests the surplus foreign exchange abroad.*

- Kickbacks and skimming. *Government officials and businessmen demand kickbacks on foreign purchases. On occasion, they also skim off some of the proceeds from foreign borrowing. To hide their ill-gotten gains, they almost always require that payments to them be deposited in overseas bank accounts.*

- Self loans. *Residents use hard currency deposits overseas as collateral for hard currency loans, the proceeds of which are invested abroad. To meet debt service payments, they obtain hard currency from the central bank, generally at highly favorable rates of exchange.*

- Shipment of other assets. *Residents buy with local currency assets that are easily converted to cash abroad and carry, ship, or smuggle them out of the country. Preferred assets include precious metals, uncut gems, jewelry, stamps, gold coins, antiques, illegal drugs, and negotiable instruments—US Treasury bills, bearer bonds, and unencoded bank drafts.*

- Swap arrangements. *Generally, currency is swapped. For example, a US firm in need of pesos deposits dollars in the US bank account of a Mexican. The Mexican then deposits an equivalent amount of pesos in the corporation's bank account in Mexico. Mexican "maquilladoras" along the US border often participate in these deals. On occasion, real estate and other assets are swapped.*

- The name game. *Residents often execute a myriad of currency transfers, each under $10,000, in the names of their chauffeurs, maids, and children to avoid filing transaction reports in the United States. They also disperse funds at many banks under different names, often those of third parties who reside legally in the United States.*

- Trade deals. *Using local currency, a businessman buys a commodity exempt from export controls. The commodity is then discreetly sold or bartered abroad for hard currency.*

- Traveler's check scams. *After obtaining permission to travel, the prospective traveler is authorized to buy traveler's checks. The traveler then cancels the trip and mails the checks overseas where they are deposited in a bank account.*

- Triangle letters of credit. *To conceal export underinvoicing, for example, the real exporter in the Philippines might request that a US importer open a letter of credit (LOC) for the actual sale price for a dummy exporter located in Hong Kong. The dummy exporter, an agent of the Philippine exporter, then opens an LOC for a lower amount for the Philippine exporter. When the goods are shipped, two invoices are issued: one by the Philippine exporter for the dummy exporter and the other by the dummy exporter for the US importer. The difference remains abroad.*

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by the traders or by others who acquired it in the black market. Capital flight artists also misstated other foreign payments such as loan proceeds and debt service payments. They even bribed officials to approve phony transactions. According to the press, the Mexican Government may have lost access to over $2 billion in foreign exchange last year because of misreporting. Fraud was so extensive in Nigeria that the government hired a Swiss firm to review foreign exchange transactions.

Clever residents also concocted a host of more exotic ploys to acquire foreign assets without drawing the attention of the authorities. These ploys fall into three general categories:

- *Convertible asset ploys.* Those intent on moving their capital out of the country by physically transporting assets abroad had to first obtain assets that could be easily converted to hard currency. In most countries, readily convertible assets were scarce or their possession was prohibited. Citizens without access to black markets were forced to devise schemes to acquire bearer bonds, bank drafts, traveler's checks, airline tickets, expatriate workers' paychecks, and uncontrolled tradable commodities—all without detection, for shipment abroad.

- *Hidden transfer ploys.* Residents also went to great lengths to ensure that their capital flight transactions through legitimate channels escaped detection. To avoid reporting requirements, large transactions were split into numerous small transfers in the names of relatives and associates. As an added precaution, residents covered their tracks so that even if their transactions were detected, they would not be identified. The most complicated schemes involved front companies, border banks, and triangle letters of credit.

- *Pseudotransfer ploys.* Capital flight transactions that involved pseudotransfers were among the most exotic ploys. A series of parallel transactions often enabled residents to acquire assets abroad without actually transferring funds across the border. Brokers often arranged currency or real estate swaps between individuals in different countries (see inset). Residents also used bank deposits in one country as collateral for hard currency loans in another. It was nearly impossible for the authorities to detect this variety of capital flight scheme. 25X1

Safehavens for Flight Capital

On the basis of our analysis of press and diplomatic reporting, we estimate that about three-quarters of the capital that fled the key LDC debtors found sanctuary in developed countries (see figure 5). The United States was the largest recipient of flight capital, with Switzerland a distant second 25X1 Assets in these countries were preferred because they offered high return and low risk. Funds were also moved to offshore money centers in Panama, Hong Kong, and smaller havens like the Cayman Islands, the Channel Islands, and The Bahamas. These offshore havens attracted flight capital because of their strict bank secrecy laws and laissez faire regulatory policies that encouraged shady financial dealing. Flight capital was often laundered in these offshore havens en route to a final destination elsewhere. Finally, a small amount of flight capital flowed to nearby LDCs. According to the press, some Filipinos salted away funds in Singapore and some wealthy Argentines moved capital across the Rio de la Plata to Uruguay. 25X1 25X1 25X1

Residents of the key LDC debtors invested their flight capital in an array of assets overseas. Press and diplomatic reporting suggests that about two-thirds of this flight capital was used to purchase financial assets. Bank deposits and US Treasury bills were preferred because they were liquid, safe, tax free, and simple. Stocks, bonds, and commercial paper were also popular. Ironically, press reports indicate that some residents avoided banks with high exposure in debt-troubled LDCs. Flight capital was also invested in tangible assets, mostly real estate. Residents acquired personal property ranging from houses and condominiums to antiques, jewelry, artwork, and precious metals. They also used flight capital to buy business property—office buildings, factories, banks, supermarkets, shopping centers, automobile dealerships, restaurants, and boutiques. In short, many residents of the key LDC debtors have made ready for themselves new lives overseas. 25X1

Facilitators of Capital Flight

Capital flight facilitators have played an important role in the exodus of capital from the key LDC debtors. Those aiding and abetting capital flight include:

- *In the key LDC debtors,* black-market traders *are probably the most important facilitators of capital flight. They provide the foreign exchange, bank drafts, bearer bonds, traveler's checks, and other negotiable instruments to residents who then carry or ship these readily convertible assets overseas. Black marketeers also provide other capital flight support services. For a fee, they may execute the actual capital transfer or just provide technical assistance to clients wishing to shift funds overseas themselves.*

- *Ironically, many* commercial banks *with high exposure in the key LDC debtors are wooing flight capital through "international private banking" (IPB) departments. One US bank, with over $26 billion in IPB assets, has over 1,500 employees dedicated to this activity worldwide, according to the press. Many commercial banks are involved in transferring clients' funds abroad. Some even help clients set up offshore trusts and shell companies to conceal capital transfers. Bankers publicly deny involvement with capital flight*

[redacted]

- *Stringent capital controls have spawned a unique class of capital flight facilitators known as* blocked-funds specialists. *They look for escape hatches for funds trapped by foreign exchange controls. According to the press, two US firms are leaders in this fast-growing field. Their experts first hunt for loopholes that allow funds to be moved legally or easily out of the country. If no loopholes are found, they set up currency swaps through discreet dealings with currency brokers abroad trading in the parallel market. If this fails, they try to complete the capital transfer through trade deals.*

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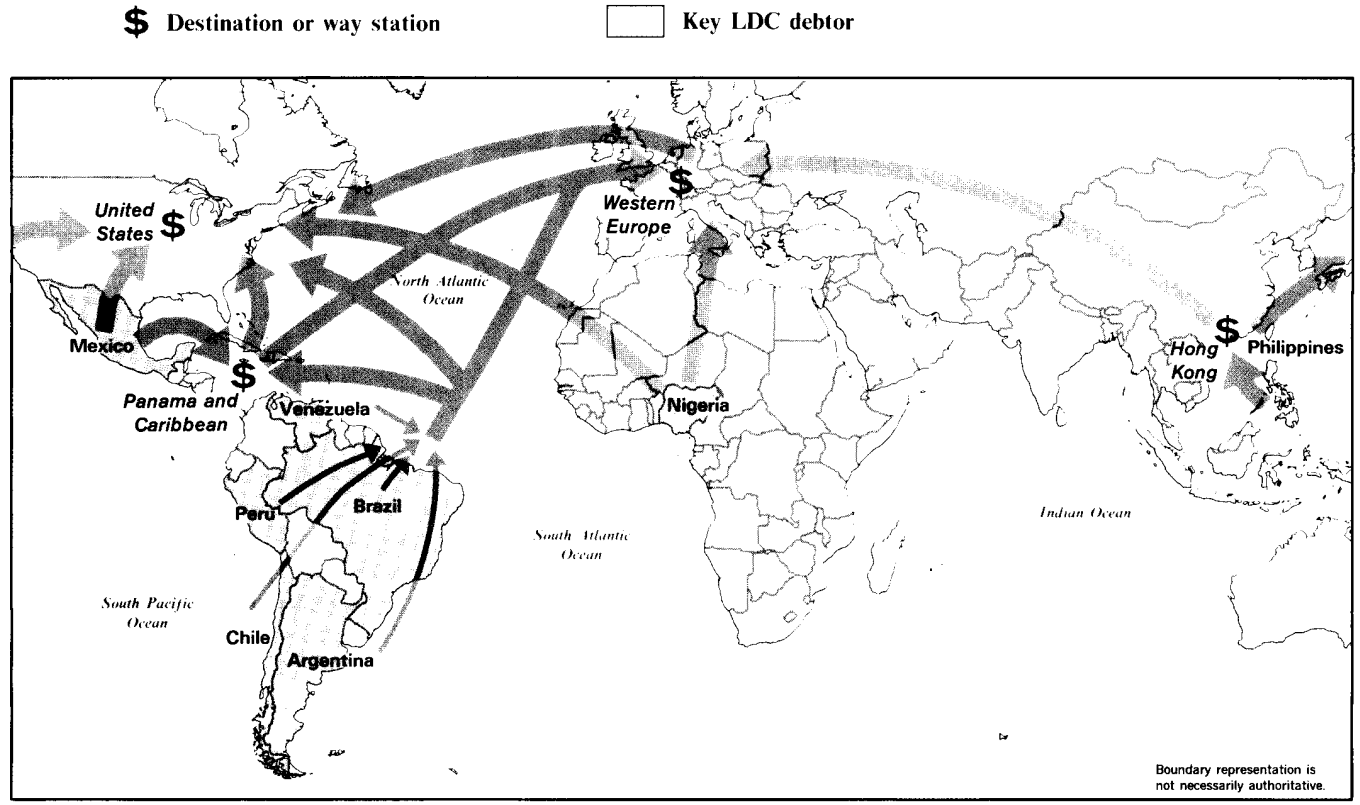
Figure 5
Capital Flight From Key LDC Debtors: Routes, Destinations, and Way Stations



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Fallout From Capital Flight

Some individuals benefited from the foreign asset rush, but capital flight inflicted severe damage on the key LDC debtors. On the positive side, residents who shifted funds abroad were wealthier than they otherwise would have been. They managed to preserve their capital and earn attractive returns as well. Citizens in countries receiving flight capital also were better off. Capital inflows bolstered their countries' balance of payments and sparked economic growth, enabling them to consume more. However, the benefits accruing to these two groups were overshadowed by the harmful effects of capital flight on the key LDC debtors. We believe massive capital outflows multiplied their economic problems and undermined their political stability.

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Economic Problems Multiplied

A *higher foreign debt* is the principal legacy of a decade of capital flight from the key LDC debtors. The balance-of-payments accounting identity implies that capital flight boosted their foreign debt by nearly $180 billion during the past 10 years. Initially, when capital streamed out of these countries, international reserves fell at an alarming rate. Governments could have devalued their currencies in an attempt to stem the capital outflow, but they decided instead to borrow abroad to replace the lost capital. This decision touched off a capital-flight, foreign-borrowing spiral that was probably responsible for about one-half of the buildup in their foreign debt during this

period. Because of this, many experts believe the exodus of capital from the key LDC debtors escalated an international financial problem into an international financial crisis.

Capital flight also reduced real income in the key LDC debtors, leading to a *lower standard of living* for most citizens. As capital fled the country, the pool of funds available for investment contracted and domestic capital formation dropped off. This investment slump reduced the countries' long-term potential to produce goods and generate income. If the flight capital of the past 10 years had been invested domestically, the historical relationship between investment and GDP growth implies that an extra $350 billion of income might have been generated—an amount equal to Brazil's GDP in 1985. The countries' real income also fell when the key LDC debtors finally devalued their currencies to stem massive capital outflows. The shift in their terms of trade made imports more expensive and exports cheaper, further reducing the real income of residents.

Finally, capital flight *increased income inequality*. It widened the already large gap between income groups in the key LDC debtors. Those who acquired foreign assets, mostly the wealthy, benefited at the expense of those who did not. Capital flight affected the income distribution in two ways. First, the foreign asset purchases of the wealthy were subsidized by others. For years, governments borrowed foreign exchange abroad and sold it to residents at bargain rates. Much of this foreign exchange was used by the wealthy to purchase foreign assets. All income groups, however, were called upon to service the foreign debt. Second, the wealthy purchased foreign assets paying high returns while others had to settle for local assets yielding at best low returns. Moreover, the wealthy generally avoided paying taxes on foreign asset income, shifting the tax burden further onto other income groups.

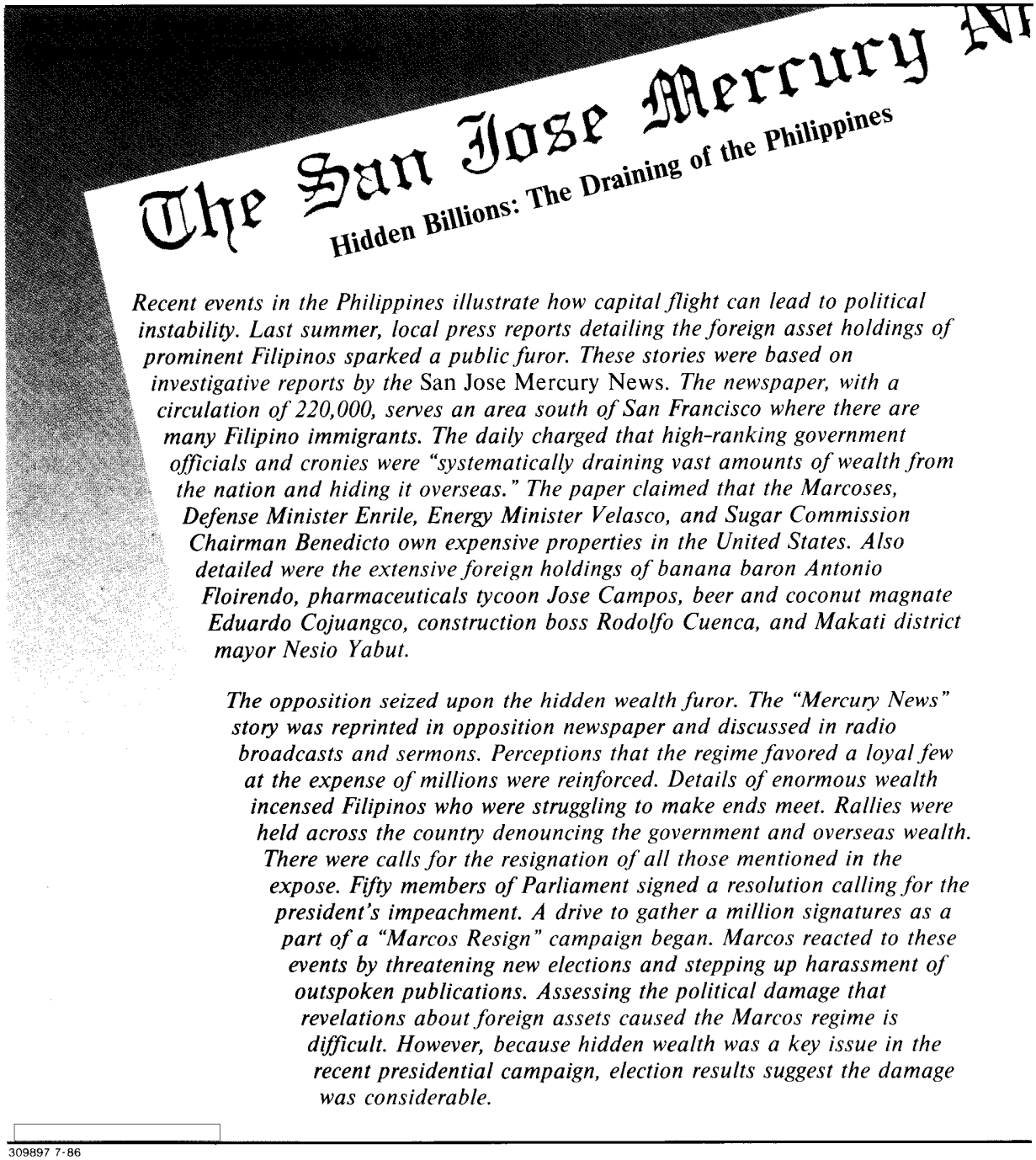
Political Stability Undermined

Assessing the political fallout from capital flight is a difficult task because there is no generally accepted theoretical framework that specifies the myriad connections between economic and political events. Nevertheless, logic and anecdotal data suggest that capital flight has had serious political consequences for the key LDC debtors. Our analysis indicates that capital flight has undermined the political stability of these countries by eroding residents' allegiances to their countries, their governments, and their political systems. 25X1

As wealthy residents accumulated foreign assets, they had *less national allegiance*. With the bulk of their capital abroad, they had little personal stake in their countries' futures. As the situation at home got out of hand, many followed their assets out of the country. For example, over 600 Mexican families have moved to La Jolla, California, since 1982. The families are headed by intellectuals, professionals, and industrialists, whose commitment to their country gave way to financial concerns, according to the press. Thus, a segment of the population that had a moderating influence on domestic politics became less active in local affairs. This increased the prominence of political groups catering to the poor, putting more pressure on governments to adopt populist and nationalistic policies, which historically have contributed to political instability. 25X1 25X1

The capital flight issue also provided *ammunition for opposition groups* in the key LDC debtors (see inset). The opposition tried to embarrass political leaders and undermine government support by drawing attention to capital flight. The accumulation of foreign assets by government officials and their cronies was a potent political issue because a large segment of the population in these countries was struggling to survive during harsh economic times. In the Philippines, newspaper reports that detailed the overseas wealth of prominent Filipinos sparked a public furor last summer. The opposition fanned the flames of the foreign asset controversy, putting President Marcos on the defensive and making capital flight a key issue in the presidential campaign. 25X1

The adverse effects of capital flight on the poorer residents of the key LDC debtors *increased support for leftist ideologies*. The real incomes of the poor declined, in part because of the exodus of capital, and the already large gap between income groups grew 25X1



The San Jose Mercury N

Hidden Billions: The Draining of the Philippines

Recent events in the Philippines illustrate how capital flight can lead to political instability. Last summer, local press reports detailing the foreign asset holdings of prominent Filipinos sparked a public furor. These stories were based on investigative reports by the San Jose Mercury News. *The newspaper, with a circulation of 220,000, serves an area south of San Francisco where there are many Filipino immigrants. The daily charged that high-ranking government officials and cronies were "systematically draining vast amounts of wealth from the nation and hiding it overseas." The paper claimed that the Marcoses, Defense Minister Enrile, Energy Minister Velasco, and Sugar Commission Chairman Benedicto own expensive properties in the United States. Also detailed were the extensive foreign holdings of banana baron Antonio Floirendo, pharmaceuticals tycoon Jose Campos, beer and coconut magnate Eduardo Cojuangco, construction boss Rodolfo Cuenca, and Makati district mayor Nesio Yabut.*

The opposition seized upon the hidden wealth furor. The "Mercury News" story was reprinted in opposition newspaper and discussed in radio broadcasts and sermons. Perceptions that the regime favored a loyal few at the expense of millions were reinforced. Details of enormous wealth incensed Filipinos who were struggling to make ends meet. Rallies were held across the country denouncing the government and overseas wealth. There were calls for the resignation of all those mentioned in the expose. Fifty members of Parliament signed a resolution calling for the president's impeachment. A drive to gather a million signatures as a part of a "Marcos Resign" campaign began. Marcos reacted to these events by threatening new elections and stepping up harassment of outspoken publications. Assessing the political damage that revelations about foreign assets caused the Marcos regime is difficult. However, because hidden wealth was a key issue in the recent presidential campaign, election results suggest the damage was considerable.

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A Troublesome Asymmetry in International Accounts

A fundamental asymmetry in the international balance sheets of the key LDC debtors plays a key role in the continuing international financial crisis. Most of their foreign debt is owed by governments, while the overseas assets that foreign borrowing helped purchase are owned by private citizens. This asymmetry between foreign assets and liabilities arose when:

- *Governments borrowed abroad to finance budget deficits. They took the hard currency proceeds from foreign loans to central banks and converted it to local currency, which was needed to pay general government expenses. The central bank then sold the hard currency to residents, who used much of it to buy foreign assets.*

- *Governments assumed some foreign liabilities of the private sector. Many businessmen borrowed large sums abroad, frequently using the proceeds from foreign loans to acquire foreign assets. When the firms established by the businessmen were threatened with bankruptcy, governments often assumed their foreign debt in order to forestall job losses.*

The asymmetry between foreign assets and liabilities is causing serious problems for both the key LDC debtors and their creditors. The countries suffer because hard currency earnings on private foreign assets, which usually are not repatriated, are unavailable to governments that are struggling to service foreign debt. The Government of Mexico must make payments on nearly all of the country's $100 billion of foreign debt, with little help from the roughly $50 billion of foreign assets owned by Mexican citizens. Creditors are also in a difficult position. The foreign liabilities of the key LDC debtors are largely government debts, subject to default or repudiation if governments cannot or choose not to pay. In contrast, most of these countries' foreign assets are private. If governments default, creditors cannot legally seize the foreign assets of private citizens.

wider. In addition, the rich were able to preserve their wealth during economic adjustment by purchasing foreign assets while other residents watched their savings erode. As capital flight made inequities more pronounced, support for the existing economic and political systems was undermined. As an alternative, some residents probably were attracted to leftist ideologies promising a classless society and an equitable income distribution. For example, gross inequities in the Philippines, together with the economic slump, helped fuel the small, but fast-growing, rural insurgency of the Communist New People's Army.

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Looking Ahead

While the exodus of capital from the key LDC debtors has slowed, capital flight remains a major obstacle to the solution of their financial problems (see inset). Capital outflows are keeping foreign borrowing requirements high at a time when access to foreign financial resources is severely limited. Since 1982, for example, net foreign lending to these debtors plunged by $50 billion. With foreign exchange scarce, capital flight is inflicting more damage on their balance of payments than ever before. Moreover, lenders have seized upon capital flight and are using it to justify further lending cuts. They point to the growing share of foreign borrowing that is fleeing these countries (see figure 6). Over 70 percent of the funds borrowed abroad since 1982 were used to acquire foreign assets—up from about 50 percent during 1980-82. Unless the key LDC debtors take further steps to stem capital flight, we believe their international financial problems will linger.

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Our analysis of past attempts to stanch capital outflows indicates that tighter capital controls alone are not the answer. The key LDC debtors adopted other measures to discourage capital flight, but most of these countries rely on tight capital controls to limit capital outflows. Controls have been partially effective, but funds are still being funneled abroad. Our study of the mechanics of capital flight reveals that many residents are able to circumvent even the most

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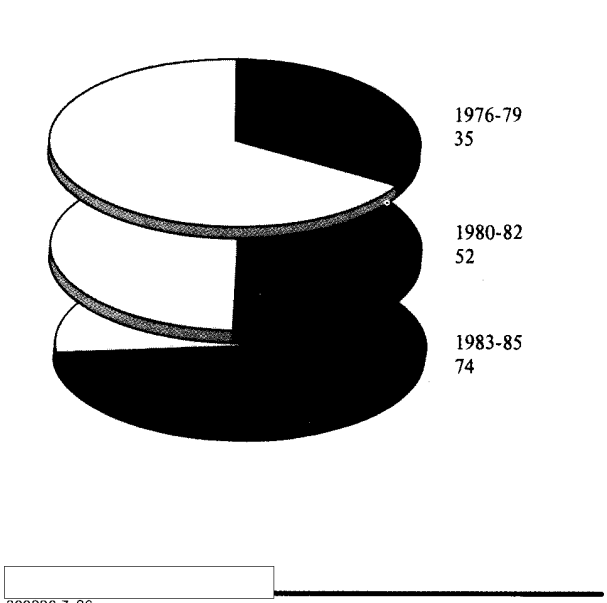
Figure 6
Key LDC Debtors: Capital Flight



stringent capital controls. The elite frequently operate above the law or take advantage of their connections in the business community or the bureaucracy to move funds abroad. The less powerful employ a myriad of tricks to purchase foreign assets without detection. Rather than relying on harsh penalties and moral suasion to stem capital outflows, past experience indicates a better strategy would be to attack the root causes of capital flight.

Developments in the key LDC debtors over the past few years suggest that structural reform would halt the exodus of capital by removing the powerful economic incentives to shift funds abroad:

- *Realistic exchange rates* seem to be an important deterrent to capital flight. In the past, these countries have maintained overvalued exchange rates, which make foreign assets cheaper. Maxidevaluations after the financial crisis reduced this overvaluation, drove up the cost of foreign assets, and cut capital flight. However, there is still a tendency for currencies to become increasingly overvalued as devaluations fail to keep pace with inflation. Adoption of a policy of maintaining real exchange rate parity with trading partners would solve this problem. Brazil has hewed to such a policy and has been remarkably successful in limiting capital outflows.

- Capital outflows also seem to fall when there are *attractive returns at home*—domestic assets are as lucrative as foreign assets. Financial assets in the key LDC debtors frequently have yielded negative real returns because governments failed to adjust interest rate ceilings for inflation. But, in cases where they let market forces set interest rates, real returns were attractive and there was less incentive to acquire foreign assets. According to the US Embassy, Mexican treasury bills, the Cetes, were a popular investment when their rate of interest was established by auction. Some investors shifted funds abroad, however, when the Mexican Government fixed the Cetes rate at an unattractive level last October.

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- A *stable domestic environment* also seems to lead to lower levels of capital flight. In the past, residents of the key LDC debtors have been buffeted by erratic economic policies and political upheavals. Recent developments in Argentina illustrate how increased stability can reduce capital outflows. Buenos Aires, with a history of domestic turmoil, has made remarkable progress in stabilizing its economic and political environment. The Alfonsin administration has adopted sounder economic policies and taken steps to strengthen democratic institutions. This has reduced the risk of holding domestic assets, and capital outflows have fallen off dramatically.

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We believe, however, that there are formidable economic and political obstacles to structural reform in the key LDC debtors. Currency devaluations, which are needed to establish realistic exchange rates, increase the burden of the foreign debt and boost inflation in the short run. They also upset politically powerful elites that have grown accustomed to buying

foreign goods at bargain prices. Financial market deregulation, which makes domestic assets more attractive by raising real returns, increase local borrowing costs in the short run. Higher borrowing costs in turn widen government budget deficits and slow economic growth when investment and consumption decline. In addition, even if these countries adopt sounder economic policies and strengthen democratic institutions, it will take time for them to establish a track record of economic and political stability. 25X1

If the key LDC debtors succeed in overcoming these obstacles to structural reform, the foreign assets accumulated by residents of these countries may hold a key to the solution of their international financial problems. We believe residents of these countries own a stock of foreign assets equal to at least half their foreign debt. If these countries adopted structural reform, they might entice back some of this capital. Any capital that was repatriated would help relieve balance-of-payments pressures and cut foreign borrowing requirements. Even if residents held onto their overseas assets and repatriated only the earnings, the impact on international accounts would be significant. For example, according to the press, annual earnings on the foreign asset holdings of Mexican citizens amount to over two-thirds of the annual interest on Mexico's foreign debt. 25X1

If these obstacles prove insurmountable and the key LDC debtors fail to adopt structural reform, we believe capital outflows will remain stubbornly high and international financial problems will continue to dog these countries. They will have a harder time balancing their international accounts when inflated foreign borrowing requirements bump up against creditors' increased resistance to new lending. If lenders are unaccommodating, these debtors will have to cut their international "expenses." In the past, they have reacted to foreign exchange crises by slashing imports. However, this option may now be unacceptable because the ensuing drop in living standards could have serious political consequences. It is more likely that the key LDC debtors will target debt service payments. If their creditors refuse to grant concessions, more debtor countries may suspend principal repayments and limit interest payments to a share of exports. 25X1

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Appendix A

Estimating Capital Flight

In this paper, "capital flight" is broadly defined as the net accumulation of foreign assets by private citizens. In most cases, this accumulation is the natural reaction of residents, who are trying to preserve or increase their wealth, to economic and political conditions in their country. This definition encompasses both speculative and long-term capital outflows. Speculative outflows occur when residents with no plans to leave their country move funds abroad temporarily to avoid losses or to earn a windfall arising from a foreseen economic or political event. Long-term outflows occur when residents, fed up with longstanding political and economic problems, acquire assets abroad before emigration. In addition, our definition includes both legal and illegal capital flight.

Because of its often surreptitious nature, capital flight cannot be measured directly or accurately. However, crude estimates can be made using balance-of-payments and foreign debt data. We adopted the widely accepted "implicit capital outflow" method, which estimates capital flight as a residual. According to the balance-of-payments identity, foreign exchange inflows that are not used to build up reserves, to cover the current account deficit, or to repay foreign debt, are used by private citizens to acquire foreign assets. Accordingly, our capital flight estimate equals net foreign direct investment plus net foreign borrowing minus the change in nongold reserves plus the current account balance.

We believe this method of estimating capital flight is superior to the alternatives. Estimates based solely on the errors and omissions item in the balance-of-payments or bank deposit data in receiving countries will dramatically understate capital flight. The errors and omissions item measures capital flows that cannot be accounted for by reported transactions—a fair measure of clandestine capital flight, when negative, but not total capital flight. Bank deposit data broken down by owner nationality will understate the bank deposits of foreigners, because such accounts are often held in trust by residents in the receiving country, who are of a different nationality than the actual owners. Moreover, bank deposits represent only a fraction of foreign asset holdings. 25X1

While our estimates may be the best available, they too probably understate the actual amount of capital flight. Our methodology captures legal capital outflows that are reported and illegal capital outflows when one side of the transaction is detected. If both sides of the transaction go unreported, capital flight is nearly impossible to detect. This occurs when capital flight is carried out through fraud or the black market or in combination with smuggling or narcotics trafficking. Researchers have tried to develop methods to measure this invisible capital flight, but their results have been unsatisfactory so far. Given these shortcomings, our estimates should not be viewed as point estimates, but rather as benchmarks representing the minimum level of capital flight. 25X1 25X1

Data used to estimate capital flight during 1975-85 were collected from open sources. Net foreign direct investment, changes in nongold reserves, and current account balances were drawn from *International Financial Statistics*, published by the International Monetary Fund. Net foreign borrowing was calculated from total external debt data drawn from Chase Econometrics' data base. Series denominated in current US dollars were converted to 1985 US dollars using the implicit US GDP price deflator published in the *Economic Report of the President*. Some data for 1985 are based on part-year data or projections. Because our capital flight estimates are calculated as a residual, they are subject to any measurement errors in these underlying data series. 25X1 25X1

Table 2
Key LDC Debtors:
Capital Flight

Billion 1985 US $

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total [a]	**12.3**	**8.9**	**14.6**	**14.2**	**17.4**	**27.4**	**31.2**	**27.4**	**19.6**	**9.4**	**7.7**
Argentina	0.2	1.1	3.6	4.9	2.8	8.9	9.8	7.3	1.6	−0.5	−0.9
Brazil	3.0	−3.6	4.3	4.9	3.4	0.8	−0.9	0.5	2.0	−0.6	1.9
Chile	0.1	−0.5	−0.3	−0.3	−0.1	−0.7	0.0	1.2	0.3	−0.5	0.0
Mexico	3.6	6.1	2.9	2.5	2.7	4.7	13.9	13.1	9.4	4.0	3.6
Nigeria	0.6	0.1	0.7	0.2	−0.9	0.7	2.4	3.5	1.1	3.0	2.0
Peru	0.8	0.3	0.4	0.8	−0.3	−0.1	−0.9	−0.3	0.5	0.2	0.6
Philippines	0.0	0.8	1.7	1.1	0.3	1.0	1.7	1.8	−1.5	−0.9	0.4
Venezuela	4.0	4.8	1.3	0.1	9.4	12.1	5.2	0.2	6.2	4.8	0.1

[a] Because of rounding, components may not add to totals shown.

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Table 3
Key LDC Debtors:
Capital Flight

Billion US $

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total [a]	**6.5**	**5.0**	**8.8**	**9.2**	**12.2**	**21.0**	**26.3**	**24.5**	**18.2**	**9.1**	**7.7**
Argentina	0.1	0.6	2.2	3.2	2.0	6.8	8.2	6.6	1.5	−0.5	−0.9
Brazil	1.6	−2.0	2.6	3.2	2.4	0.6	−0.8	0.4	1.9	−0.5	1.9
Chile	0.0	−0.3	−0.2	−0.2	−0.1	−0.5	0.0	1.1	0.2	−0.5	0.0
Mexico	1.9	3.4	1.8	1.6	1.9	3.6	11.7	11.8	8.8	3.9	3.6
Nigeria	0.3	0.0	0.4	0.1	−0.6	0.6	2.0	3.1	1.0	2.9	2.0
Peru	0.4	0.2	0.2	0.5	−0.2	−0.1	−0.8	−0.3	0.4	0.2	0.6
Philippines	0.0	0.4	1.0	0.7	0.2	0.8	1.5	1.6	−1.4	−0.9	0.4
Venezuela	2.1	2.7	0.8	0.1	6.6	9.3	4.4	0.2	5.8	4.6	0.1

[a] Because of rounding, components may not add to totals shown.

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Table 4
Key LDC Debtors:
Net Foreign Direct Investment

Billion 1985 US $

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total [a]	**5.9**	**3.1**	**5.2**	**5.5**	**6.4**	**5.1**	**8.5**	**6.2**	**3.0**	**2.5**	**2.5**
Argentina	0.0	0.0	0.2	0.4	0.4	1.0	1.1	0.3	0.2	0.3	0.4
Brazil	2.2	2.4	2.8	2.9	3.2	2.0	2.7	2.8	1.5	1.6	1.5
Chile	0.1	0.0	0.0	0.3	0.3	0.2	0.4	0.4	0.2	0.1	0.1
Mexico	1.1	1.1	0.9	1.3	1.9	2.9	3.0	1.9	0.5	0.4	0.4
Nigeria	0.8	0.6	0.7	0.3	0.4	−1.0	0.6	0.5	0.4	0.2	0.2
Peru	0.6	0.3	0.1	0.0	0.1	0.0	0.2	0.1	0.0	−0.1	−0.1
Philippines	0.2	0.2	0.3	0.2	0.0	−0.1	0.2	0.0	0.1	0.0	0.0
Venezuela	0.8	−1.6	0.0	0.1	0.1	0.1	0.2	0.3	0.1	0.0	0.1

[a] Because of rounding, components may not add to totals shown.

25X1

Table 5
Key LDC Debtors:
Net Foreign Direct Investment

Billion US $

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total [a]	**3.1**	**1.7**	**3.1**	**3.6**	**4.5**	**3.9**	**7.2**	**5.6**	**2.7**	**2.4**	**2.5**
Argentina	0.0	0.0	0.1	0.3	0.3	0.8	0.9	0.3	0.2	0.3	0.4
Brazil	1.2	1.4	1.7	1.9	2.2	1.5	2.3	2.5	1.4	1.6	1.5
Chile	0.1	0.0	0.0	0.2	0.2	0.2	0.4	0.4	0.1	0.1	0.1
Mexico	0.6	0.6	0.6	0.8	1.3	2.2	2.5	1.7	0.5	0.4	0.4
Nigeria	0.4	0.3	0.4	0.2	0.3	−0.7	0.5	0.4	0.4	0.2	0.2
Peru	0.3	0.2	0.1	0.0	0.1	0.0	0.1	0.1	0.0	−0.1	−0.1
Philippines	0.1	0.1	0.2	0.1	0.0	−0.1	0.2	0.0	0.1	0.0	0.0
Venezuela	0.4	−0.9	0.0	0.1	0.1	0.1	0.2	0.3	0.1	0.0	0.1

[a] Because of rounding, components may not add to totals shown.

25X1

Table 6
Key LDC Debtors:
Net Foreign Borrowing

Billion 1985 US $

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total [a]	**30.5**	**32.2**	**32.7**	**45.5**	**47.0**	**49.8**	**61.9**	**54.6**	**29.0**	**16.8**	**4.1**
Argentina	0.9	1.9	4.3	4.3	9.4	10.6	10.1	8.8	2.6	1.9	1.9
Brazil	11.7	10.1	11.1	20.0	11.1	11.3	11.3	12.8	8.3	5.3	1.0
Chile	0.9	−0.2	0.7	2.2	2.4	3.3	5.2	1.8	1.5	1.9	0.8
Mexico	10.2	10.6	6.0	6.5	8.9	13.7	28.7	14.2	6.7	3.0	0.4
Nigeria	−0.2	−0.5	0.2	2.2	1.6	1.2	1.3	8.5	4.6	3.0	0.2
Peru	2.1	1.9	2.0	1.1	0.0	0.4	0.0	1.7	1.4	0.9	0.1
Philippines	1.3	3.0	2.5	3.1	3.1	4.4	3.1	4.0	1.3	0.3	1.3
Venezuela	3.6	5.3	6.0	6.2	10.5	5.0	2.1	2.8	2.6	0.6	−1.6

[a] Because of rounding, components may not add to totals shown.

25X1

Table 7
Key LDC Debtors:
Net Foreign Borrowing

Billion US $

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total [a]	**16.2**	**18.2**	**19.7**	**29.4**	**33.1**	**38.2**	**52.1**	**48.9**	**26.9**	**16.3**	**4.1**
Argentina	0.5	1.1	2.6	2.8	6.6	8.1	8.5	7.9	2.4	1.8	1.9
Brazil	6.2	5.7	6.7	12.9	7.8	8.7	9.5	11.5	7.7	5.1	1.0
Chile	0.5	−0.1	0.4	1.4	1.7	2.5	4.4	1.6	1.4	1.8	0.8
Mexico	5.4	6.0	3.6	4.2	6.3	10.5	24.2	12.7	6.2	2.9	0.4
Nigeria	−0.1	−0.3	0.1	1.4	1.1	0.9	1.1	7.6	4.3	2.9	0.2
Peru	1.1	1.1	1.2	0.7	0.0	0.3	0.0	1.5	1.3	0.9	0.1
Philippines	0.7	1.7	1.5	2.0	2.2	3.4	2.6	3.6	1.2	0.3	1.3
Venezuela	1.9	3.0	3.6	4.0	7.4	3.8	1.8	2.5	2.4	0.6	−1.6

[a] Because of rounding, components may not add to totals shown.

25X1

Table 8
Key LDC Debtors:
Change in Nongold Reserves

Billion 1985 US $

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total [a]	**−0.4**	**5.8**	**2.7**	**5.6**	**12.9**	**1.7**	**−9.3**	**−14.5**	**3.0**	**13.4**	**−2.4**
Argentina	−1.7	2.1	2.8	2.8	6.2	−3.5	−4.2	−0.9	−1.4	0.1	1.4
Brazil	−2.3	4.4	1.2	7.1	−4.1	−4.2	1.0	−3.0	0.4	7.4	−0.5
Chile	0.0	0.5	0.0	1.1	1.1	1.6	0.1	−1.6	0.2	0.3	−0.5
Mexico	0.2	−0.4	0.8	0.3	0.3	1.2	1.3	−3.6	3.3	3.5	−3.2
Nigeria	0.0	−0.7	−1.5	−3.6	5.3	6.1	−7.5	−2.6	−0.6	0.5	−0.5
Peru	−0.9	−0.2	0.2	0.0	1.6	0.7	−1.0	0.2	0.0	0.3	−0.5
Philippines	−0.2	0.5	−0.2	0.5	0.7	0.8	−1.0	−1.3	−0.1	−0.1	0.0
Venezuela	4.5	−0.5	−0.7	−2.6	1.8	−0.9	1.9	−1.8	1.2	1.3	1.4

[a] Because of rounding, components may not add to totals shown.

25X1

Table 9
Key LDC Debtors:
Change in Nongold Reserves

Billion US $

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total [a]	**−0.2**	**3.3**	**1.6**	**3.6**	**9.1**	**1.3**	**−7.8**	**−13.0**	**2.8**	**13.0**	**−2.4**
Argentina	−0.9	1.2	1.7	1.8	4.4	−2.7	−3.5	−0.8	−1.3	0.1	1.4
Brazil	−1.2	2.5	0.7	4.6	−2.9	−3.2	0.8	−2.7	0.4	7.2	−0.5
Chile	0.0	0.3	0.0	0.7	0.8	1.2	0.1	−1.4	0.2	0.3	−0.5
Mexico	0.1	−0.2	0.5	0.2	0.2	0.9	1.1	−3.2	3.1	3.4	−3.2
Nigeria	0.0	−0.4	−0.9	−2.3	3.7	4.7	−6.3	−2.3	−0.6	0.5	−0.5
Peru	−0.5	−0.1	0.1	0.0	1.1	0.5	−0.8	0.2	0.0	0.3	−0.5
Philippines	−0.1	0.3	−0.1	0.3	0.5	0.6	−0.8	−1.2	−0.1	−0.1	0.0
Venezuela	2.4	−0.3	−0.4	−1.7	1.3	−0.7	1.6	−1.6	1.1	1.3	1.4

[a] Because of rounding, components may not add to totals shown.

25X1

Table 10
Key LDC Debtors:
Current Account Balance

Billion 1985 US $

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total [a]	**−24.5**	**−20.5**	**−20.6**	**−31.3**	**−23.2**	**−25.8**	**−48.5**	**−48.0**	**−9.3**	**3.5**	**−1.3**
Argentina	−2.4	1.2	1.8	2.9	−0.7	−6.3	−5.6	−2.7	−2.6	−2.6	−1.7
Brazil	−13.2	−11.7	−8.5	−10.8	−14.9	−16.7	−14.0	−18.2	−7.3	0.0	−1.1
Chile	−0.9	0.2	−1.0	−1.7	−1.7	−2.6	−5.6	−2.6	−1.2	−2.2	−1.4
Mexico	−7.5	−6.0	−3.2	−5.0	−7.8	−10.7	−16.5	−6.5	5.6	4.1	−0.4
Nigeria	0.0	−0.7	−1.7	−5.9	2.4	6.6	−7.0	−8.0	−4.5	0.3	1.1
Peru	−2.8	−2.1	−1.5	−0.3	1.1	0.1	−2.0	−1.8	−1.0	−0.3	0.1
Philippines	−1.7	−1.9	−1.3	−1.7	−2.1	−2.5	−2.5	−3.6	−3.0	−1.3	−0.9
Venezuela	4.1	0.5	−5.3	−8.8	0.6	6.1	4.8	−4.7	4.7	5.5	3.0

[a] Because of rounding, components may not add to totals shown.

25X1

Table 11
Key LDC Debtors:
Current Account Balance

Billion US $

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total [a]	**−13.0**	**−11.6**	**−12.4**	**−20.2**	**−16.3**	**−19.8**	**−40.8**	**−43.0**	**−8.6**	**3.4**	**−1.3**
Argentina	−1.3	0.7	1.1	1.9	−0.5	−4.8	−4.7	−2.4	−2.4	−2.5	−1.7
Brazil	−7.0	−6.6	−5.1	−7.0	−10.5	−12.8	−11.8	−16.3	−6.8	0.0	−1.1
Chile	−0.5	0.1	−0.6	−1.1	−1.2	−2.0	−4.7	−2.3	−1.1	−2.1	−1.4
Mexico	−4.0	−3.4	−1.9	−3.2	−5.5	−8.2	−13.9	−5.8	5.2	4.0	−0.4
Nigeria	0.0	−0.4	−1.0	−3.8	1.7	5.1	−5.9	−7.2	−4.2	0.3	1.1
Peru	−1.5	−1.2	−0.9	−0.2	0.8	0.1	−1.7	−1.6	−0.9	−0.3	0.1
Philippines	−0.9	−1.1	−0.8	−1.1	−1.5	−1.9	−2.1	−3.2	−2.8	−1.3	−0.9
Venezuela	2.2	0.3	−3.2	−5.7	0.4	4.7	4.0	−4.2	4.4	5.3	3.0

[a] Because of rounding, components may not add to totals shown.

25X1

Supporting Data

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Appendix B

Supporting Data

This section contains the data underlying our analysis of capital flight trends. Supporting data were collected from a variety of open sources. National income account data—gross domestic product, gross fixed investment, and the various savings series—were drawn from Chase Econometrics' data base. Some data for 1985 are based on part-year data or are projections. [redacted] 25X1

Exchange rate and price statistics were drawn from *International Financial Statistics*, published by the International Monetary Fund. Exchange rate indexes are quoted in terms of home currency units per US dollar. Real exchange rate indexes were derived by adjusting nominal exchange rate indexes for relative prices. Aggregate indexes are weighted averages of individual country indexes using real GDP in 1980 as weights. [redacted] 25X1

Interest rate data were taken primarily from Morgan Guaranty Trust Company's *World Financial Markets* or *Morgan International Data*. Interest rates are commercial bank deposit rates for two- to four-month maturities at yearend. Real interest rates are nominal interest rates adjusted for consumer price inflation at yearend. Consumer price data were collected from *International Financial Statistics*. Aggregate interest rate series are also weighted averages. [redacted] 25X1

Table 12
Key LDC Debtors:
Gross Domestic Product

Billion 1985 US $

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total [a]	**824.0**	**871.5**	**919.7**	**942.5**	**1,004.7**	**1,053.4**	**1,053.6**	**1,039.9**	**1,012.7**	**1,039.0**	**1,066.1**
Argentina	180.9	180.0	191.6	185.0	196.9	198.5	186.1	176.2	181.6	185.3	177.9
Brazil	232.0	254.5	268.4	281.3	300.1	323.7	317.4	321.8	311.5	325.6	349.7
Chile	25.0	25.9	28.4	30.8	33.4	36.0	38.1	32.6	32.3	34.4	35.1
Mexico	176.0	183.5	189.9	205.5	224.3	242.9	262.2	260.9	247.1	255.7	265.6
Nigeria	87.2	96.4	102.9	97.0	102.8	103.3	97.8	95.7	93.6	93.5	95.2
Peru	23.1	23.6	23.6	23.5	24.4	25.3	26.3	26.5	23.5	24.5	25.0
Philippines	34.0	36.4	38.9	41.2	44.1	46.2	47.9	47.9	48.4	46.2	44.2
Venezuela	65.7	71.2	76.2	78.2	78.9	77.6	77.8	78.4	74.6	73.8	73.4

[a] Because of rounding, components may not add to totals shown.

25X1

Table 13
Key LDC Debtors:
Gross Fixed Investment

Billion 1985 US $

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total [a]	**186.6**	**203.6**	**220.6**	**222.7**	**232.2**	**247.1**	**241.6**	**215.3**	**181.1**	**179.3**	**186.0**
Argentina	35.1	37.9	45.4	40.8	42.4	45.4	34.9	29.6	29.1	25.6	24.3
Brazil	61.4	66.6	65.6	69.2	72.2	76.2	70.8	68.7	56.7	58.0	61.8
Chile	3.9	3.3	3.8	4.4	5.2	6.4	7.3	4.6	4.2	4.3	4.6
Mexico	38.2	38.3	35.7	41.2	49.6	57.0	65.3	54.9	39.6	41.7	45.4
Nigeria	21.1	24.0	30.3	25.9	24.6	27.6	27.6	21.9	23.7	25.4	26.9
Peru	4.4	3.8	3.1	2.7	2.9	3.7	4.3	4.2	2.6	3.0	3.1
Philippines	7.4	8.1	8.5	9.5	11.1	11.3	11.5	11.6	11.3	8.2	7.3
Venezuela	15.0	21.5	28.3	28.8	24.3	19.6	19.8	19.8	13.8	13.0	12.6

[a] Because of rounding, components may not add to totals shown.

25X1

Table 14
Key LDC Debtors:
Total Savings

Billion 1985 US $

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total [a]	**206.5**	**228.4**	**245.9**	**248.3**	**254.8**	**271.5**	**275.8**	**277.9**	**235.9**	**229.2**	**243.2**
Argentina	35.9	42.3	50.3	46.3	45.0	43.6	35.4	39.7	39.8	34.3	35.1
Brazil	81.4	81.9	79.8	85.1	90.8	107.0	101.6	102.2	85.5	85.6	91.7
Chile	4.2	3.9	4.6	5.8	6.5	8.8	11.2	6.3	5.7	8.3	8.0
Mexico	45.2	44.5	45.7	50.8	58.3	66.3	77.1	63.1	51.0	54.7	61.0
Nigeria	15.3	27.2	33.8	27.7	31.3	26.9	32.8	38.7	38.2	34.6	36.3
Peru	6.9	5.9	4.6	4.4	3.3	3.8	5.9	5.9	4.5	4.4	3.8
Philippines	9.4	10.9	11.0	12.1	14.1	15.1	15.4	16.3	15.6	11.7	9.3
Venezuela	8.3	11.7	16.1	16.1	5.5	0.1	−3.5	5.8	−4.4	−4.3	−1.9

[a] Because of rounding, components may not add to totals shown.

25X1

Table 15
Key LDC Debtors:
Savings of Residents

Billion 1985 US $

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total [a]	**182.0**	**207.8**	**225.3**	**217.0**	**231.6**	**245.7**	**227.4**	**229.9**	**226.7**	**232.7**	**240.6**
Argentina	33.5	43.5	52.1	49.2	44.3	37.3	29.8	37.0	37.2	31.7	33.4
Brazil	68.2	70.3	71.4	74.3	75.9	90.3	87.6	84.0	78.2	85.6	90.6
Chile	3.2	4.0	3.6	4.1	4.8	6.2	5.6	3.7	4.6	6.2	6.6
Mexico	37.7	38.5	42.5	45.8	50.5	55.6	60.6	56.6	56.6	58.8	60.6
Nigeria	15.3	26.5	32.1	21.8	33.7	33.6	25.8	30.6	33.7	34.9	36.1
Peru	4.0	3.8	3.1	4.1	4.4	3.9	3.8	4.1	3.5	4.0	3.9
Philippines	7.7	8.9	9.7	10.4	11.9	12.6	12.9	12.7	12.6	10.3	8.4
Venezuela	12.5	12.2	10.8	7.3	6.1	6.2	1.2	1.1	0.3	1.2	1.1

[a] Because of rounding, components may not add to totals shown.

25X1

Table 16
Key LDC Debtors:
Savings From Foreign Sources

Billion 1985 US $

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total [a]	**24.5**	**20.5**	**20.6**	**31.3**	**23.2**	**25.8**	**48.5**	**48.0**	**9.3**	**−3.5**	**2.6**
Argentina	2.4	−1.2	−1.8	−2.9	0.7	6.3	5.6	2.7	2.6	2.6	1.7
Brazil	13.2	11.7	8.5	10.8	14.9	16.7	14.0	18.2	7.3	0.0	1.1
Chile	0.9	−0.2	1.0	1.7	1.7	2.6	5.6	2.6	1.2	2.2	1.4
Mexico	7.5	6.0	3.2	5.0	7.8	10.7	16.5	6.5	−5.6	−4.1	0.4
Nigeria	0.0	0.7	1.7	5.9	−2.4	−6.6	7.0	8.0	4.5	−0.3	0.2
Peru	2.8	2.1	1.5	0.3	−1.1	−0.1	2.0	1.8	1.0	0.3	−0.1
Philippines	1.7	1.9	1.3	1.7	2.1	2.5	2.5	3.6	3.0	1.3	0.9
Venezuela	−4.1	−0.5	5.3	8.8	−0.6	−6.1	−4.8	4.7	−4.7	−5.5	−3.0

[a] Because of rounding, components may not add to totals shown.

25X1

Table 17
Key LDC Debtors:
Real Exchange Rate Index

1980 = 1.00

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total	**1.09**	**1.26**	**1.38**	**1.26**	**1.10**	**1.00**	**1.05**	**1.47**	**1.61**	**1.62**	**1.76**
Argentina	0.93	1.94	2.30	1.85	1.32	1.00	1.27	2.76	2.52	2.43	2.85
Brazil	0.99	0.96	0.92	0.89	0.91	1.00	0.98	1.02	1.39	1.50	1.60
Chile	1.85	1.49	1.28	1.29	1.13	1.00	0.98	1.20	1.52	1.52	1.90
Mexico	1.06	1.16	1.39	1.29	1.17	1.00	0.92	1.40	1.60	1.41	1.43
Nigeria	1.44	1.22	1.34	1.25	1.03	1.00	1.23	1.32	1.29	1.29	1.39
Peru	0.81	0.88	1.02	1.26	1.11	1.00	0.97	1.03	1.17	1.22	1.50
Philippines	1.15	1.14	1.13	1.10	1.04	1.00	1.04	1.10	1.34	1.40	1.33
Venezuela	1.27	1.28	1.27	1.27	1.15	1.00	0.98	1.02	1.00	1.50	1.46

25X1

Table 18
Key LDC Debtors:
Change in GDP Price Deflator

Percent

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total	**49.1**	**56.6**	**52.9**	**59.2**	**59.7**	**59.6**	**82.7**	**140.0**	**198.7**	**218.7**
Argentina	93.3	162.1	159.2	152.3	101.2	106.7	188.8	361.5	593.7	683.5
Brazil	45.8	44.9	44.2	57.7	94.6	97.3	96.9	146.0	207.9	225.5
Chile	253.2	103.6	56.5	46.3	29.2	12.2	13.3	26.6	31.0	34.3
Mexico	19.7	30.4	16.6	20.3	28.7	27.3	61.1	92.2	66.0	55.2
Nigeria	27.9	−0.3	12.7	25.5	2.2	0.0	9.0	14.0	10.2	12.0
Peru	35.0	38.3	61.6	78.2	55.0	65.9	64.9	112.5	113.1	166.8
Philippines	9.4	7.7	9.5	15.7	14.9	10.8	8.5	11.6	49.7	21.2
Venezuela	5.1	8.0	6.4	21.2	24.8	12.5	1.5	5.6	14.2	13.5

25X1

Table 19
Key LDC Debtors:
Real Interest Rate on Bank Deposits

Percent

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total	NA	NA	**1.1**	**−5.4**	**−11.6**	**−11.6**	**−3.2**	**−25.1**	**−19.6**	**−14.2**	**−4.3**
Argentina	NA	NA	6.8	−16.6	1.3	0.0	−0.8	−39.8	−33.9	−27.7	−30.3
Brazil	−9.6	−6.0	−3.7	1.8	−28.2	−28.8	−14.2	−15.7	−6.2	0.2	−2.4
Chile	NA	NA	28.6	28.5	2.4	2.2	32.1	−5.0	0.9	−6.9	19.5
Mexico	0.7	−31.1	−5.1	−1.2	−2.4	3.8	2.8	−27.9	−1.9	−1.1	2.7
Nigeria	−9.1	−4.3	−6.6	−2.3	6.6	−1.1	5.0	−0.2	−18.4	27.7	−3.1
Peru	−2.8	−16.0	−3.6	−16.2	−15.3	−24.6	−2.7	−17.0	−16.6	−18.9	9.7
Philippines	6.7	8.5	0.6	−4.3	−5.2	−0.3	6.1	10.5	−19.1	−0.8	13.3
Venezuela	−1.8	0.2	−1.1	−1.6	−15.2	−10.5	4.0	10.1	2.7	−12.2	−3.1

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