to deal with large outflows of capital, especially as economic factors external to these countries favour capital outflows (e.g., an increase in real interest and real growth rates in OECD countries). According to a recent IMF study:

> When surges in inflows are generated principally by changes in external macroeconomic conditions or bandwagon effects, it is less certain that the inflows will be channelled into productive investments: the threats of inflows feeding consumption and speculative investments, unsustainable real appreciation, and reversal of the inflows are greater.[25]

If this is in fact the case, then some of the economies that are least reformed in the region (Brazil and Venezuela, for example) could face significant capital outflows unless domestic economic reforms occur soon.

The Advent of a Second Debt Crisis?

Unlike the problems of the early-1980s, however, a number of factors make large capital outflows unlikely to occur and any outflows are not likely to result in severe consequences for the international financial system. First, bank lending was the norm in the 1970s after the first oil shock. The normally conservative banks were flush with petrodollars and needed an outlet for the increase in deposits. They largely relaxed their normal lending practices, and changed or circumvented banking regulations in the U.S., which relied on collateralized debt holdings (i.e., project lending), and began lending for balance of payments support with no collateral. Today, a larger proportion of the capital inflows are in the form of foreign direct investment, inherently a longer-term type of investment than the extensive reliance on short-term commercial credit at the beginning of the 1980s. Also, although bank lending is only slowly beginning to trickle back into Latin America after a conspicuous absence throughout the 1980s, it will likely increase in the future. Increased regulatory requirements and a more cautious attitude on the part of commercial banks, coupled with better information and the channelling of lending into projects (rather than balance of payments support based on sovereign risk) means that new lending will be more secure.[26]

Second, foreign holders of equity and debt instruments are less concentrated today. Unlike the early 1980s when international commercial banking syndicates

[25]Schadler, et al., *op. cit.*, p. 29.

[26]OECD (Feb. 1994), *op. cit.*, pp. 13-4.