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GROWTH IS BACK TO LATIN AMERICA AND THE CARIBBEAN

Region to grow 3.8 percent in 2004, led by stronger exports and recovery of Brazil and Mexico

WASHINGTON, April 19, 2004 — Following a slow recovery of 1.3 percent growth in 2003, the Latin America and the Caribbean region (LAC) is expected to grow 3.8 percent in 2004 on stronger exports and a broadening recovery in Brazil and Mexico, says the annual World Bank report, *Global Development Finance 2004*.

"Growth in the region has been slow partly due to uneven performance across countries," **said François Bourguignon, the World Bank's Chief Economist.** *"But with recovery now seen to be broadening, especially after gaining traction in Brazil and Mexico during late 2003, the region is expected to advance by 3.8 percent in 2004."*

According to *Global Development Finance 2004*, regional GDP advanced by 1.3 percent in 2003, following a 0.6 percent drop in 2002. Excluding high-growth rate countries such as Argentina, Uruguay and the Republica Bolivariana de Venezuela, all recovering from acute crises, the strongest performers were in the Andean Group, where Chile, Colombia and Peru recorded growth above 3 percent for the year.

Globally, economic growth rose from 1.8 percent in 2002 to 2.6 percent in 2003, and is forecast to jump to 3.7 percent this year. Developing countries, as a group, grew by an estimated 4.8 percent in 2003, and are expected to register 5.4 percent growth in 2004, which would surpass their previous 5.2-percent record high in 2000.

"Now that the region is growing again, after suffering successive adverse external shocks since 1999, Latin America and the Caribbean must use the opportunity to reduce macro-financial vulnerabilities so as to improve resilience, and to further advance in structural reform in order to improve long term growth," said **Guillermo Perry, the World Bank's Chief Economist for Latin America and the Caribbean**.

Table 1.10 The outlook for growth in Latin America and the Caribbean in summary
percentage growth rates/points/ratios

					estimate	forecast		
	1991-2000	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Real GDP growth	3.4	3.7	0.3	-0.6	1.3	3.8	3.7	3.5
Contribution to growth, points								
Private consumption	2.7	2.5	0.4	-1.4	-0.1	2.4	2.4	2.1
Fixed investment	0.8	0.6	-0.5	-1.3	-0.2	1.3	1.2	0.9
Net foreign balance	-0.3	-0.7	0.4	1.9	1.0	-0.1	0.3	0.1
Current account balance, share of GDP	-2.8	-2.3	-2.8	-0.9	-0.2	-0.5	-0.9	-1.0
Fiscal balance, share of GDP	-8.6	-3.0	-2.9	-3.0	-2.4	-1.4	-1.1	-1.2
Memo items: real GDP growth								
Central America	4.5	3.2	1.9	2.0	3.1	3.1	3.0	2.9
Carribbean	4.3	5.8	2.7	3.0	0.5	0.8	2.9	3.0

Source: World Bank staff estimates

In contrast to other developing regions, the report says that growth gains in Latin America and the Caribbean relied more on stronger net exports in 2003, which contributed one percentage point to growth and made surplus positions become common. Domestic demand, however, decreased, as well as domestic spending, cutting the aggregate current account deficit from $53 billion in 2001 to $4.5 billion in 2003.

According to the report, fundamental underpinnings for recovery include improved macroeconomic management that has reined in inflation across the region, a decades-long pursuit of outward-oriented strategies that has increased trade flows and reduced the volatility of export earnings, and more competitive and flexible exchange rates.

Global Development Finance 2004 warns, however, that as domestic demand revives, import growth is likely to grow and that significant deterioration of external accounts should be avoided though prudent fiscal policies.

"The policy challenge is to target a sustainable pace of growth –specially by addressing the important structural issue of improving productivity growth-- and avoid temptations to overborrow in the context of the weaker dollar and the lower interest-rate spreads", says **Mansoor Dailami, lead author of the report.** *"Indeed, the principal risk to the outlook for Latin America is a sudden rise in international interest rates."*

As for the evolution of financial flows, **net financial-resource flows** into the region dropped sharply from a peak of $138 billion in 1998 to $38 billion in 2002 –or from 6.9 percent of GDP to 2.3 percent –the largest swing for any region, stabilizing at an estimated $46 billon in 2003.

The report says that the evolution of financial flows reflects a weakening in **Foreign Direct Investment (FDI)** inflows from 5 percent of GDP in 1998 to just 2 percent in 2003, due to the end of the privatization boom and the economic difficulties in Brazil and Argentina. But despite the decrease of FDI in LAC, five Latin American countries are still among the top 10 recipients of FDI –China, Brazil, Mexico, Argentina, Poland, the Czech Republic, Chile, the Republica Bolivariana de Venezuela, Thailand and India.

On the other hand, net flows of long-term debt declined from 3.2 percent of GDP in 1998 to an outflow equivalent to 0.6 percent in 2002, before turning slightly positive again in 2003.

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