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March 13, 2002 at 1 p.m. EST (Washington time)
or 18:00 GMT**



The World Bank

News Release No. 2002/225/LAC

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GROWTH IN LATIN AMERICA AND THE CARIBBEAN REMAINS WEAK WITH PROSPECTS FOR REBOUND DELAYED UNTIL 2003

Region's growth of 0.6% in 2001 and 0.5% in 2002, picking up to 3.8 in 2003

WASHINGTON, March 13, 2002—Latin America and the Caribbean is expected to grow 0.5 percent in 2002, following the 0.6 percent it experienced in 2001, but is likely to recover to 3.8 percent growth in 2003, provided that countries maintain sound macroeconomic policies, Argentina stabilizes and the external environment improves, the World Bank said today.

According to the **Global Development Finance 2002** report, weak GDP growth of Latin American and Caribbean (LAC) countries in 2002 is the result of the weaker global environment after September 11 and the Argentine crisis. Excluding Argentina, the region's GDP grew 1.3 percent in 2001 with a potential for 2 percent growth in 2002.

*“The trade slowdown is taking a major toll in Latin America and the Caribbean, along with the fall of capital flows, commodity prices and tourism,” says **World Bank Chief Economist Nicholas Stern**. “But the region as a whole also has shown a strong resilience. There has been no general contagion effect from Argentina and the region remains the number one recipient of foreign direct investment (FDI) in the entire developing world.”*

Export volumes (goods and services) are estimated to have grown by a meager 1.4 percent in 2001, after growing by 9 percent in 2000, mirroring the collapse in import demand from important markets such as the United States. Export revenues fell more rapidly after September 11 as security tightened along the Mexican-U.S. border, commodity prices fell further and tourism revenues collapsed, affecting Central America and the Caribbean in particular.

Capital market commitments to Latin America totaled about \$75 billion in 2001, 17 percent below 2000 levels, due to sharp fall-offs in commercial bank lending and international equity placement, while bond financing remained close to 2000 levels. Bank lending to LAC fell by 18

percent in 2001 but the decline was less than the 25 percent fall in developing country bank flows, while international equity issuance was down over 80 percent.

Lower levels of export revenues and capital flows, as well as large public debt loads, prevented most countries from adopting counter-cyclical policies, resulting in a general increase in regional unemployment, falling inflation rates in most countries, and little change in real interest rates or in fiscal balances.

Nevertheless, **Foreign Direct Investment (FDI)** flows to the region reached about \$71 billion, only 6 percent less than in 2000, becoming the most important source of financing in many countries. The fall in flows to Argentina, and to a lesser extent to Brazil, was made up by increases in virtually all other countries. Mexico's flows of approximately \$25 billion surpassed Brazil as the favored destination of investors in Latin America, and was second only to China among developing countries.

"The relatively robust size of last year's FDI inflow is a sign of improvement in macro management within the region and improved investor confidence, as large-scale privatization programs have begun to abate," says **Guillermo Perry, World Bank Chief Economist for Latin America and the Caribbean.**

LAC is expected to recover to GDP growth of 3.8 percent in both 2003 and 2004, when private capital flows will have increased again and fuller recovery in industrial countries will have boosted the price of the region's primary commodities and the volume of manufactured exports.

Nevertheless, risks remain significant for the 2002 forecast should Argentina's inflation rise significantly and output decline sharply, or Venezuela's investment climate deteriorate further. In addition, the expected rise in US interest rates in 2003 could have a dampening effect on countries where public debt levels are already high (above 50 percent of GDP), constraining governments' ability to support growth through increased spending.

Latin America and the Caribbean forecast summary

(percent per year)				Est. Forecast			
	1991-2000	1999	2000	2001	2002	2003	2004
Growth rates/ratios							
Real GDP growth	3.3	0.0	3.8	0.6	0.5	3.8	3.8
Consumption per capita	1.2	-1.9	2.1	-0.5	-1.3	1.8	2.1
GDP per capita	1.6	-1.6	2.2	-1.0	-1.0	2.3	2.4
Population	1.7	1.6	1.6	1.6	1.5	1.4	1.4
Gross Domestic Investment / GDP /a.	19.5	19.6	20.2	19.9	19.8	20.0	20.5
Inflation /b.	12.7	4.8	8.6	5.5	4.3	4.1	4.0
Central Gvt budget balance / GDP	-3.5	-4.4	-2.7	-2.6	-2.8	-2.6	-2.2
Export Market Growth /c	9.0	5.1	12.0	-0.4	1.6	7.7	7.3
Export Volume /d.	8.5	6.9	9.1	1.4	5.3	11.5	8.9
Terms of Trade / GDP /e.	0.1	0.3	0.6	0.9	-0.4	0.0	0.1
Current Account / GDP	-2.8	-3.2	-2.4	-2.7	-2.7	-2.8	-3.0
<i>Memorandum items</i>							
GDP growth: LAC excluding Brazil	3.8	-0.4	3.4	-0.4	-0.7	3.6	3.9
Central America	4.4	4.4	2.7	0.7	1.6	3.6	3.8
Caribbean	3.5	5.0	5.3	1.4	3.0	3.7	3.8

- a. Fixed investment, measured in real terms.
- b. Local currency GDP deflator, median.
- c. Weighted average growth of import demand in export markets.
- d. Goods and non-factor services.
- e. Change in terms of trade, measured as a proportion to GDP (%).

Source: World Bank baseline forecast, February 2002.

*“The region still has to navigate in treacherous waters, but if countries maintain sound economic policies, they are likely to experience a strong rebound in 2003, as the U.S. and the industrialized economies recover,” says **Stern**.*

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