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GROWTH IN LATIN AMERICA AND THE CARIBBEAN IS DOWN IN 2001 BUT PROSPECTS FOR REBOUND ARE STRONG

Regional growth of 0.9 percent in 2001, 2.5 in 2002, and 4.5 in 2003

Washington, Oct. 31, 2001—Slower global growth, the September terrorist attacks in the U.S., and some adverse domestic conditions are expected to reduce GDP growth in Latin America and the Caribbean to 0.9 percent in 2001, down from 3.8 percent in 2000, according to a World Bank report released today. However, the same report predicts a recovery in the region's growth to 2.5 percent in 2002 and 4.5 percent in 2003, provided there is a U.S. economic recovery by mid-2002 and that the region avoids major disruptions in financial markets.

The report **Global Economic Prospects and the Developing Countries 2002: Making Trade Work for the World's Poor**, notes that among Latin American and Caribbean (LAC) countries, the slowdown was especially acute in Argentina, Brazil and Mexico, reflecting the increasing impact of the rapid deterioration in global activity. This deterioration also contributed to a sharp decline in export revenues, particularly in Mexico and the Central American countries, which depend heavily on trade with the U.S.

Excluding Mexico, dollar exports from the region grew by an average of about 8 percent year to year in the first half of 2001, down from over 15 percent in 2000. In Mexico, the decline was even more dramatic, from an average 22.6 percent growth in 2000 to zero by June 2001.

"The terrorist attacks put a huge drag on the already sputtering engines of the global economy and the trade slowdown is taking a major toll on Latin America and the Caribbean," said **David de Ferranti, World Bank Vice President for the Latin America and the Caribbean Region**. *"That is precisely why the industrialized nations should do more to reduce trade barriers and contribute to the recovery."*

According to the report, growth in global trade in 2001 has undergone one of the severest decelerations in modern times – from 13 percent in 2000 to perhaps one percent in 2001. Developing countries face a 10-percent drop in the growth of demand for their exports, seriously undermining their overall growth this year. On the upside, the volume of world’s exports is expected to grow by 7.2 percent over 2002-3.

Falling investment rates in several countries, weaker growth in Argentina and Brazil, and a worsening of the external environment, contributed to a deceleration of growth in other South American countries.

In Central America, a collapse of commodity prices --especially for coffee and semiconductor prices-- a severe drought, and weakening of economic activity in Mexico and the U.S. lowered growth rates significantly, while the Caribbean countries saw a reduction in growth rates due to declining tourism revenues, especially in the latter part of the year. In contrast, Ecuador and Venezuela did better than in 2000 due to relatively high oil prices.

Capital market commitments to the region also weakened markedly, falling by 21 percent (year to year) in the first half of 2001. This decline, reflecting the difficult conditions in Argentina and slower economic activity in the region as a whole, exerted downward pressure on most regional currencies.

Despite falling U.S. interest rates, domestic interest rates remained high in most countries in an effort to maintain investor confidence. In fact, secondary market spreads on debt have been rising since July and continued at high rates after September 11 -- contributing to both the growth slowdown and the increase of already high levels of unemployment in parts of the region, such as in Argentina, where it stood at 16 percent in May.

Prospects for recovery

Despite short term risks and the significant worsening of the external environment, especially since the September 11 terrorist attacks, LAC’s GDP is expected to start its recovery next year.

Although 1.9 percentage points lower than the Spring forecast, the projection for regional growth is 2.5 percent in 2002, provided that countries under financial stress are able to avoid debt service defaults. In 2003-04, GDP is expected to grow by 4.5 percent a year, reflecting the projected rapid growth momentum in the U.S. and world output in the latter part of 2002 and into 2003, as well as the recovery in world trade.

In the long term (2004-2010), LAC countries could grow 3.9 percent a year, with an average 2.6 percent per capita GDP growth –a full one percentage point higher than what the region achieved in the 1990s.

“Despite the current slowdown, the long-term prospects for developing countries are still bright and the Latin America and the Caribbean region is no exception,” says

Guillermo Perry, World Bank Chief Economist for the LAC region. “Thanks to progress on macroeconomic management, fiscal improvements, trade liberalization and the other economic reforms of the 1990s, LAC is in a good position to return to relatively high growth rates as soon as the U.S. and the industrialized economies begin to recover. For this to happen, the region has to navigate through some treacherous near-term waters, especially in managing its external liabilities.”

The report notes that the key factors supporting the “cautious optimism” for growth in the 2002 include improvements in health, education, and literacy indicators, better macro management leading to greater stability and a notable decrease of inflation rates, improved investment climate attracting foreign direct investment (FDI), and progress on deepening trade integration with the regional and global economies.

In fact, trade doubled as a proportion to GDP over the last ten years, FDI as a share of region-wide GDP rose from less than 1 percent at the beginning of the 1990s to nearly 4 percent in 2000, and regulation and supervision of financial sectors have been strengthened. According to the report, these developments over the course of the 1990s are likely to produce benefits in the next decade, underpinning the one percentage point faster growth in 2004-2010.

“Economic recovery and expanded trade will be critical to ensure that the fight against poverty in Latin America and the Caribbean succeeds,” said **Ernesto May, World Bank Director for Poverty Reduction and Economic Management for the LAC region.**

Global Economic Prospects and the Developing Countries 2002 warns, however, that the region remains vulnerable in a number of areas, such as low saving rates, high debt, and limited trade integration and export diversification. Likewise, the report says that the region still lags in reaching its potential capacity to raise capital domestically rather than abroad, in improving infrastructure, and the quality of institutions. Progress in these areas could propel high and sustainable growth rates.

Latin America and the Caribbean forecast summary

Growth rates/ratios	Baseline Forecast						
	1991-2000	1999	2000	2001	2002	2003	2004 - 2010
Real GDP growth	3.3	0.1	3.8	0.9	2.5	4.5	3.9
Consumption per capita	1.5	-1.7	2.2	1.0	1.6	2.0	2.5
GDP per capita	1.6	-1.5	2.2	-0.7	1.0	3.0	2.6
Population	1.7	1.6	1.6	1.6	1.5	1.4	1.3
Median inflation ^a	12.6	5.8	6.9	7.9	6.3	6.0	5.0
Gross domestic investment/GDP ^b	21.8	19.4	19.7	19.4	20.1	20.7	23.5
Central Gvt. Budget deficit/GDP	-3.5	-4.4	-2.9	-3.2	-3.0	-2.5	-1.7
Export volume ^c	8.4	5.7	9.7	2.6	4.2	9.5	6.7
Current account/GDP	-2.8	-3.1	-2.4	-2.8	-3.3	-3.2	-2.2
Memorandum Items							
GDP growth: LAC excl. Brazil	3.8	-0.4	3.4	0.5	2.3	4.7	3.7
Central America	4.4	4.3	2.7	1.0	2.2	4.0	3.8
Caribbean	3.4	5.7	5.5	1.4	3.0	4.2	4.0

a. Local currency GDP deflator, median.
b. Investment ratio measure in real terms.
c. Goods and non-factor services
Source: World Bank baseline forecast, October 2, 2001. Preliminary.

“Many countries in the region have made strides in addressing some of these areas and, should investor sentiment towards emerging markets improve significantly, the region could grow at a faster pace than in the current forecast,” according to the report.

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