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LATIN AMERICAN PERSPECTIVES IN THE SHORT TERM*/

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ABSTRACT

Latin-American perspectives of economic growth for 2000 are around 4%. This global rate of growth, that implies a recovery of economic activity in the region after the stagnation in 1999, is a result of different trends for two groups of countries. For those who were successful in the year 1999 it should be interpreted as a strengthening of the economic activity, while for those who were stagnant or fell, it should be interpreted as a recovery. However, for this second group of countries, two types of recovery are expected. Some of them like Argentina, Ecuador, Venezuela and Colombia will grow at a low rate that will be insufficient to reestablish in the year 2000 the level of 1998. On the contrary, countries like Brazil and Chile will grow at rates that will allow the level of the year 2000 to be on top of that of 1998.

The perspectives of trade and financial external relations of the region in the year 2000 are significantly better than those of 1998 and 1999, and constitute an important cause behind the recovery of growth. The significant rise in the price of oil and a moderate rise in the prices of other commodities, added to the recovery of world trade, allow for a general growth of exports. In some countries, this expansion will lead to an improvement of the trade balance, while in others that balance should remain roughly unchanged, due to an equivalent increase in imports. For some countries, high levels of indebtedness or high payments of foreign capital earnings pose a severe external restriction. But balance of payments problems are not the sole restriction for a strong recovery. Significant fiscal imbalances also pose a serious problem. Furthermore, restrictions to internal credit, due to the fragility of the banking system, high internal interest rates, or even low internal demand, also affect the pace of the economic recovery.

LATIN AMERICAN PERSPECTIVES IN THE SHORT TERM

Latin-American perspectives of economic growth for 2000 are around 4%. This global rate of growth that implies a recovery of economic activity in the region after the stagnation in 1999 is a result of different trends for two groups of countries. During 1999, Mexico, many of Central-American countries and Dominican Republic grew at rates above 3% and some of them like Costa Rica, Dominican Republic and Nicaragua, achieved rates between 7% and 8%. They were extremely successful in facing the consequences of the Asian and Russian crises; in some cases, they were relatively immune to financial crisis contagion, due to their little integration in international financial markets. Although some of them showed a reduction of their previous rate of growth (Mexico's growth declined from an average rate of around 6% in the biennium 1997-1998 to 3.6% in 1999), they were able to increase employment and to keep inflation and balance of payments within reasonable limits.

On the contrary, practically all South-American countries (with the exception of Peru) were stagnant or had negative rates of growth in 1999. Especially, Argentina and three Andean countries had very negative rates. Economic activity declined 4.5% in Colombia, and more than 7% in Ecuador and Venezuela. The situation proves that these economies were more vulnerable to the external situation than expected.

It should be stated that the South American group of countries initially reacted to the consequences of the external crises, using fundamentally a tight monetary policy oriented towards defending the rate of exchange and, therefore, the stability of prices. On the contrary, Mexico allowed its exchange rate to float. And, although there was a moderate increase in the interest rate, the policy was clearly different from the one implemented by the South American countries. The recessional effects of the tight monetary policy in these countries were so intense that most of them had to devaluate and to gradually reduce their rates of interest in order to allow for a recovery of the economic activity.

Under these circumstances, the rate of growth projected for the year 2000 should be interpreted as a strengthening of the economic activity for the countries that were successful in 1999 and as a recovery for those whose activity was stagnant or fell. For the second group of countries, two types of recovery are expected. Some of them like Argentina, Ecuador, Venezuela and Colombia will probably grow at a low rate that will be insufficient to reestablish in the year 2000 the level of 1998. On the contrary, countries like Brazil and Chile will grow at rates that will allow the level of year 2000 to be on top of that of 1998. Therefore, implicit in the regional rate of 4%, quite a different significance can be attributed to the positive figures that are shown for the projections of all countries during the year 2000.

The perspectives of trade and financial external relations of the region in the year 2000 are significantly better than those of 1998 and 1999 and constitute an important cause behind the recovery of growth. The significant rise in the price of oil and a moderate rise in the prices of other commodities, added to the recovery of world trade, allow for a general growth of exports.

In some countries, this expansion will lead to an improvement of the trade balance, while in others that balance should remain roughly unchanged, due to an equivalent increase in imports. The trade deficit reached 32 billion dollars in 1998, descended to around 4 billion in 1999 and will finish in equilibrium in the year 2000. In the reduction between 1998 and 2000, Brazil contributes with 7 billion, Venezuela with 12 billion, Ecuador with 3 billion and Chile and Colombia with around 4 billion each.

The reduction in the current account of the balance of payments from 86 billion in 1998 to 50 billion in 2000 is thus originated in the reduction of the trade deficit. The Russian crisis brought about a significant increase in the spread of the interest rates of the external indebtedness of Latin-American countries. Although the spread started to diminish by the end of 1999, it continued to be higher than that paid before the Asian crisis. Due to this situation, the access of most Latin-American countries to financial capital markets has been extremely limited and most of the financing has come in the form of foreign direct investments.

An important success of Latin-American countries during the nineties that has survived the 1998-1999 problems is the control of inflation. During 1999, the average rate of inflation was of 10% and a reduction to 9% is expected during the year 2000. Only four countries continued to have a rate of inflation superior to 10% in 1999: Honduras and Mexico with 11% and 12%, Venezuela with 20% and Ecuador with 63%.

The contrast between different groups of countries during 1998-2000 reflects, in most cases, differences in the success of their implementation of new patterns of development. In a medium term perspective, some countries seem to have found a more stable pattern of growth. One important feature of those successful countries is that they have found, through different mechanisms, an appreciable equilibrium in their balance of payments. Mexico has been able to diversify its exports: this country is being successful in combining exports of commodities such as oil, a great expansion of the maquila, an expansion of tourism and of manufacturing exports. Therefore, although they also have an important rate of growth of their imports, they have managed to maintain a reasonable deficit in their trade balance. Central American and Caribbean countries are also being successful in expanding tourism and maquila. Furthermore, a group of countries like Mexico, Dominican Republic and El Salvador, where migration to developed countries is significant, are now receiving transfers from abroad that help constructing a more equilibrated balance of payments. The figures for these transfers for Mexico are 6.4 billions, 1.9 for Dominican Republic and 1.6 for El Salvador, which are extremely similar to their trade imbalances. In the case of Chile, the expansion of exports will be significant, as it was during a long period after 1985 (it is expected to reach 16% in 2000), and economic activity is expected to grow about 6%, while maintaining a superavit in their trade balance of goods.

By contrast, those countries that will probably have relatively low rates of growth in the year 2000 show a recurrent tendency to trade and current account imbalances. During the nineties, the trade openness, the renewed access to external financing and some overvaluation of their currencies, lead to an increase in imports much more dynamic than that of exports.

Moreover, the composition of exports continued to be dominated by primary products, whose prices are very dependent on the external conjuncture. As a consequence, their terms of trade deteriorated sharply after the Asian crisis and in many cases they have not recovered their previous level yet.

Furthermore, some of these countries are heavily indebted and have de-nationalized an important part of their public utilities companies, as well as a significant portion of their manufacturing and banking sectors. Therefore, net payments for interests and earnings on FDI represent a significantly permanent burden on the balance of payments, which doesn't decrease during recessions. This implies that these countries are obligated to generate an important surplus in their trade balance, or to rely on foreign financing. In the case of Argentina, the need for more external financing is even higher as important amounts of debt principals are coming to maturity. However, external financing is now relatively expensive, and huge capital inflows are unlikely to move into emerging countries that have already privatized most of their important companies and/or accumulated an important external debt, especially in the frame of growing social and political unrest. On the other hand, a surplus in trade (or a reduction in the trade deficit) has been obtained only in the context of a recession that squeezed imports. If the recovery of growth leads to a rapid increase in imports, as it did in the past, the external restriction will be the cause of a new slowdown, unless these countries manage to obtain a consistent and sustained increase in their exports.

In conclusion, countries heavily affected by the payment of foreign capital earnings as well as countries that are very dependent on the price of their main export products (raw materials and primary commodities) are severely constrained by an external restriction. Unlike the first group of countries, they have not been able to bring about a sustained process of investment in tradable goods and services, and in related infrastructure.

Balance of payments problems are not the sole restriction for a stronger recovery. In some countries, like Argentina and Brazil, fiscal imbalances pose a serious problem. In Argentina, both the convertibility regime (according to which fiscal deficits may only be financed with the issuance of new debt) and the present agreement with IMF are calling for a reduction in fiscal deficit. But further adjustments, both in fiscal income and in government expenditures may well be self-defeating, as they seem to discourage consumption and hence undermine economic recovery and tax collection. In Brazil, payments of interests over the public internal debt are the most important factor of the public deficit, but at the same time the necessity to finance it hinders a further reduction of interest rates. These rates are still high, in real terms, and remain an obstacle to private investment.

Recovery is also slow, in many cases, due to restrictions to internal credit. In some countries, like Ecuador and Paraguay, credit is restrained by the extreme fragility of the banking system. In others, like Argentina and Venezuela, banks are liquid enough to expand credit supply, but with high levels of incertitude and low levels of reliable internal demand, there is no much demand for new credits. Moreover, in many Latin-American countries that experienced financial crisis during the eighties and the nineties (like Mexico), several banks are still relatively weak or are trying to rebuild their capital and to absorb non-performant assets.

As a result of the factors mentioned above, in many countries, degrees of freedom for setting economic policies aimed at stimulating growth are low. For different reasons, which range from an inappropriate set of relative prices and a weak internal demand, to political incertitude and social unrest, the willingness of private sector to invest is at present rather low, while public investment is refrained by ideological reasons and fiscal balance considerations.

Social and political consequences of the economic situation are a matter of concern. Unemployment in the region as a whole has increased from 7,3% in 1997 to 8% in 1998 and 9% in 1999. These figures show only one part of the worsening of labor conditions. Another aspect is the precariousness and low productivity of most of the new jobs created. Income distribution inequality has risen, as did the level of poverty. Between 1990 and 1997, the level of poverty decreased, if measured as a percentage of households with insufficient income vis-a-vis the cost of a minimum basket of goods and services, while it remained stable in terms of the absolute number of the poor (around 200 million persons). This last figure grew up to 224 million in 1999. No wonder, therefore, that some countries are facing a problem of insufficient internal demand, not only because the consumer's level of confidence is low, but because the income of many households has lessened, as well.

A joint consideration of all these elements, especially for the Group of Latin-American countries that are recovering slowly, helps to understand the political instability that many countries are facing. After one decade or more of adjustments and liberal economic reform, there is in the population a growing "fatigue of adjustments". Furthermore, in the group of countries where growth has been stronger in the last years, the social dissemination of the fruits of growth has encountered serious difficulties as illustrated by the rigidity of income distribution. There is a clear trend in the programs of political parties to incorporate the topic of more equity and alleviation of poverty as priority objectives. In these circumstances, the big dilemma is to explore what are the degrees of freedom of governments to maintain the objectives of economic openness, deregulation of markets and macroeconomic stability, and simultaneously carry out policies that will accelerate economic growth and incorporate to economic activity wide groups of population that do not seem to have the economic and human capital needed to participate in competitive activities.

ANNEX

TABLE 1

LATIN AMERICA: GROSS DOMESTIC PRODUCT

(% increase, millions of 1995 dollars)

	1995	1996	1997	1998	1999 Estimation	2000 Forecast
Argentina	-2.9	5.5	8.0	3.9	-3.0	2.5
Bolivia	4.7	4.5	4.1	4.6	0.8	3.0
Brazil	4.2	2.5	3.5	-0.1	0.8	3.9
Chile	9.1	6.9	6.8	3.1	-1.1	6.0
Colombia	5.2	2.1	3.4	0.5	-4.5	3.0
Costa Rica	2.2	-0.5	3.5	6.4	7.7	6.0
Ecuador	3.0	2.3	3.9	1.0	-7.3	0.0
El Salvador	6.2	1.8	4.2	3.2	2.6	3.0
Guatemala	5.0	3.0	4.3	5.0	3.4	4.0
Honduras	3.7	3.8	5.0	3.9	-1.9	3.5
Mexico	-6.2	5.4	6.8	5.0	3.6	5.3
Nicaragua	4.4	5.1	5.4	4.1	6.9	5.0
Panamá	1.9	2.7	4.7	4.4	3.2	3.5
Paraguay	4.5	1.1	2.4	-0.6	0.5	2.0
Peru	8.6	2.3	8.6	0.1	3.8	4.7
Rep. Dominicana	4.4	6.8	7.1	6.0	7.6	7.5
Uruguay	-2.0	5.0	5.0	4.6	-3.4	2.5
Venezuela	5.9	-0.4	6.6	-0.2	-7.2	2.2
LATIN AMERICA	**1.1**	**3.6**	**5.4**	**2.1**	**0.3**	**4.0**

TABLE 2

LATIN AMERICA: FOREIGN TRADE OF GOODS (FOB) AND CURRENT ACCOUNT BALANCE

(millions of dollars)

	1998				1999				2000			
	EXP	*IMP*	*BALANCE GOODS*	*BAL CURR. ACCOUNT*	*EXP*	*IMP*	*BALANCE GOODS*	*BAL CURR. ACCOUNT*	*EXP*	*IMP*	*BALANCE GOODS*	*BAL CURR. ACCOUNT*
Argentina	26441	29558	-3117	-14228	23310	24144	-834	-12159	25175	24868	306	-12544
Bolivia	1104	1759	-655	-676	1051	1539	-488	-556	1135	1616	-481	-546
Brazil	51120	57711	-6591	-33611	48011	49218	-1207	-24378	52812	52171	641	-22459
Chile	14830	17346	-2517	-4144	15616	13951	1665	-78	18114	16392	1722	-358
Colombia	11456	14006	-2550	-5293	12302	10041	2261	-1107	13901	11647	2253	-1697
Costa Rica	5541	5835	-294	-495	6593	5911	682	-490	7120	6502	618	-717
Ecuador	4203	5198	-995	-2174	4230	2606	1624	927	4865	2658	2206	1656
El Salvador	2452	3720	-1267	-84	2470	3874	-1404	-286	2544	4106	-1562	-372
Guatemala	2867	4366	-1499	-1012	2746	4267	-1521	-1081	2985	4438	-1453	-993
Honduras	2093	2338	-245	-43	1849	2558	-709	-175	2047	2778	-731	-351
Mexico	117500	125243	-7743	-15786	136634	142037	-5403	-13998	158495	164763	-6267	-16267
Nicaragua	642	1384	-741	-817	620	1683	-1063	-1072	682	1910	-1228	-1108
Panamá	6325	7696	-1371	-1212	5085	6234	-1149	-1096	5746	7169	-1423	-1073
Paraguay	3824	3938	-114	-107	2740	2845	-106	-120	2876	3016	-139	-129
Peru	5723	8200	-2477	-3789	6114	6714	-600	-2030	6970	7453	-483	-2063
Rep. Dominicana	4981	7597	-2617	-338	5204	8214	-3010	-500	5516	8764	-3248	-698
Uruguay	2832	3594	-762	-400	2480	3305	-825	-564	2852	3702	-850	-570
Venezuela	17564	14250	3314	-1996	20915	12669	8246	4591	277712	14063	13650	9726
LATIN AMERICA	**281498**	**313738**	**-32241**	**-86204**	**297968**	**301810**	**-3842**	**-54172**	**341548**	**338016**	**3531**	**-50563**

TABLE 3

LATIN AMERICA: FOREIGN TRADE OF GOODS (FOB)
(% increase, millions of dollars)

	1998		1999		2000	
	EXP	**IMP**	**EXP**	**IMP**	**EXP**	**IMP**
Argentina	0.0	3.5	-11.8	-18.3	8.0	3.0
Bolivia	-5.4	7.0	-4.8	-12.5	8.0	5.0
Brazil	-3.5	-5.9	-6.1	-14.7	10.0	6.0
Chile	-11.0	-4.8	5.3	-19.6	16.0	17.5
Colombia	-5.0	-5.2	7.4	-28.3	13.0	16.0
Costa Rica	27.4	27.3	19.0	1.3	8.0	10.0
Ecuador	-20.2	11.4	0.6	-49.9	15.0	2.0
El Salvador	1.5	5.6	0.7	4.2	3.0	6.0
Guatemala	10.1	23.2	-4.2	-2.3	8.7	4.0
Honduras	13.7	13.5	-11.7	9.4	10.7	8.6
Mexico	6.4	14.1	16.3	13.4	16.0	16.0
Nicaragua	-6.5	4.1	-3.5	21.7	10.0	13.5
Panamá	-5.2	4.5	-19.6	-19.0	13.0	15.0
Paraguay	-3.9	-5.9	-28.4	-27.8	5.0	6.0
Peru	-15.3	-4.3	6.8	-18.1	14.0	11.0
Rep. Dominicana	8.0	15.0	4.5	8.1	6.0	6.7
Uruguay	1.4	2.8	-12.4	-8.0	15.0	12.0
Venezuela	-25.1	10.5	19.1	-11.1	32.5	11.0
LATIN AMERICA	**-1.3**	**5.6**	**5.9**	**-3.8**	**14.6**	**12.0**

TABLE 4

LATIN AMERICA: ANNUAL INFLATION

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Argentina	84.0	17.6	7.4	3.9	1.6	0.1	0.3	0.6	-1.9	0.5
Bolivia	14.5	10.5	9.3	8.5	12.6	7.9	6.7	4.4	3.1	4.0
Brazil	475.8	1149.1	2489.1	929.3	22.0	9.1	4.3	2.5	8.9	6.5
Chile	18.7	12.7	12.2	8.9	8.2	6.6	6.0	4.7	2.3	4.0
Colombia	26.8	25.1	22.6	22.6	19.5	21.6	17.7	16.7	9.2	9.0
Costa Rica	25.3	17.0	9.0	19.9	22.6	13.9	11.2	12.4	10.1	10.0
Ecuador	49.0	60.2	31.0	25.4	22.8	25.6	30.6	43.6	62.6	85.0
El Salvador	9.8	19.9	12.1	8.9	11.4	7.4	1.9	4.3	-1.0	2.5
Guatemala	10.2	14.2	11.6	11.6	8.6	10.9	7.1	8.5	5.4	7.5
Honduras	21.4	6.5	13.0	28.9	26.8	25.3	12.7	24.1	10.9	13.0
Mexico	18.6	11.9	8.0	7.1	52.1	27.7	15.7	18.0	12.3	10.0
Nicaragua	865.6	3.5	19.5	14.4	11.1	12.1	7.3	18.5	9.5	11.0
Panamá	1.6	1.6	0.1	1.3	0.8	2.3	-0.5	1.3	1.4	1.5
Paraguay	11.8	17.8	20.4	18.3	10.5	8.2	6.2	14.6	5.5	6.5
Peru	139.2	56.7	39.5	15.4	10.2	11.8	6.5	6.0	3.7	4.5
Rep. Dominicana	7.9	5.2	2.8	14.3	9.2	4.0	8.4	8.6	4.0	5.0
Uruguay	81.3	59.0	52.9	44.1	35.4	24.3	15.2	8.6	4.2	5.0
Venezuela	31.0	31.9	45.9	70.8	56.6	103.2	37.6	30.0	20.2	20.0
LATIN AMERICA [1]	**203.4**	**424.7**	**898.3**	**340.9**	**25.9**	**18.6**	**10.3**	**10.4**	**9.8**	**9.5**

[1] In Latin America inflation countries are weighted by their respective population.

FIGURE 1
LATIN AMERICA: GROSS DOMESTIC PRODUCT WITHOUT SEASONALITY
(Indexes base 1995=100)