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According to a recent study commissioned by the UN General Assembly, Latin America’s net capital outflow in 1990 came to US$15.6 billion, followed by a net inflow last year of US$4.4 billion. The study, released Oct. 13 in New York, pointed out that a large proportion of short-term capital inflows into developing nations bears no relation to improved growth prospects, but rather recession in advanced industrialized countries and corresponding low interest rates. Interest rate differentials between the US and several Latin American countries increased to such an extent after the US Federal Reserve reduced the US rates, that the margin was enough to cover the risk of exchange rate fluctuation. The study pointed out that not all Latin American countries are in a position to absorb sudden capital inflows without suffering currency devaluation, and subsequent consumer price inflation. A parallel phenomenon to the positive transfer of capital is the increase in imports. The study cites the case of Argentina, where imports doubled in 1991 and the trade surplus was reduced by half (US$4.7 billion). The trend accelerated in early 1992, leading to predictions that Argentina’s trade surplus could be eliminated by year-end. (Source: Inter Press Service, 10/13/92)

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