International Monetary Fund & World Bank Forecasts On Capital Flow To Latin America & Related Topics

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According to a report on global economic forecasts released April 24 in Washington, the International Monetary Fund (IMF) predicted a 1% aggregate growth rate for Latin America in 1991, and 3.3% in 1992. Factors contributing to regional economic performance are US GNP growth from 0.2% in 1991 to 2.7% in 1992, and a decline in world market interest rates. Assuming continuity of current economic austerity policies, the average weighted consumer price inflation index for Latin America and the Caribbean in 1991 is forecast at 122.9%, and 35.9% in 1992. The 1990 index was 768%, due largely to spiralling inflation in Brazil, Argentina and Peru. The region's current account deficit was $12 billion in 1990, compared to a predicted $13 billion for 1991 and 1992. The IMF says the world economy is about to "bottom out," after three consecutive years of decline, from 3.3% in 1989, to 2.1% last year, and a forecast of 1.2% in 1991. A new "growth cycle" is expected to get underway in 1992 with an expected overall growth rate for the year of 2.9%. The report was prepared for the annual joint spring meetings with the World Bank, which commenced April 25 in Washington. April 28: Lawrence Summers, chief economist and vice president of the World Bank's development economics department, said that in the next five years repayments to the World Bank by middle-income nations will exceed disbursements by the institution to those nations. According to Summers, between 1975 and 1980 net capital transfer to the Third World from the World Bank averaged $9 (1991 dollars) per capita, while in the next five years the average will decline to $2 per capita. For the majority of Latin American nations who do not qualify for loans from the International Development Association (AIF), the resource flow vis-a-vis the World Bank will be negative until at least 1996. The AIF is the World Bank affiliate which provides concessionary loans to the world’s most impoverished countries. At present, AIF clients in Latin America and the Caribbean are Haiti, Bolivia, Honduras, Guyana and St. Lucia. Summers said greater efficiency in resource use has always been more profitable for raising the standard of living on a per dollar basis than increasing investments, a rule of thumb of great importance in the current context of capital shortage for Third World development projects. He added that creating conditions to attract domestic and foreign investments is also indispensable since in the next decade there will be no other major capital inflows into developing nations. Next, Summers asserted that a great deal remains to be done in terms of improving the efficiency of public spending. As an example, he pointed out that while Brazilian and Uruguayan GDP per capita is effectively the same, life expectancy in Uruguay is six years higher than in Brazil. The gap between rich and poor nations is increasing, as well as the income inequalities within nations, said Summers. If current tendencies continue, he added, in the next two decades 95% of the increase in the global labor force will be contributed by Third World nations, but the developing world will receive only 15% of capital investments. April 29: Colombian Finance Minister Rudolf Hommes told the IMF interim committee that the advanced industrialized nations must put their economic houses in order since failure to do so has negative impacts throughout the global economy. Hommes spoke on behalf of G-24, or developing nations in Asia, Africa and Latin America. Fiscal deficits in world’s wealthiest nations, said Hommes, are absorbing the lion’s share of savings on a global scale, and thus reducing
investment capital for the Third World. Developing nations also receive only the "crumbs" of direct foreign investment, since the bulk is invested in the advanced industrialized nations. Hommes mentioned the most obvious example of the flow of Japanese and European investment into the US. The only hope for developing nations, said Hommes, is in creating conditions for macroeconomic and political stability toward encouraging the return of flight capital. Colombian flight capital is estimated at $18 billion. If only a fraction of this capital returns to Colombia, according to Hommes, it would by far outstrip sums available from multilateral institutions. Hommes then pointed out that since privatization on a mass scale creates unemployment and aggravates poverty, governments need to dedicate more resources to social welfare spending. However, he said, the major effect of privatization "will be efficiency." According to Hommes, resources liberated from state-run companies can now be invested in social welfare spending, or education, health and infrastructure. (Basic data from EFE, 04/24/91; AFP, 04/24/91, 04/28/91, 04/29/91)

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