

Latin American Economic Outlook Bright, IMF Official Says

(IMF's de Rato says political consensus needed to support economic policies) (480)

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Washington -- Latin America's economic outlook is as bright as it has been in many years, and the current economic expansion offers regional leaders the opportunity to deepen reforms and build on recent gains, according to International Monetary Fund (IMF) Managing Director Rodrigo de Rato.

In February 4 remarks to the Canning House in London, de Rato said global economic growth should remain robust in 2005. He pointed out that while growth in industrialized countries has slowed noticeably in recent months, Latin American growth has remained strong.

De Rato also pointed out that the region's recent strong economic performance has been accompanied by modest inflation -- approximately 7 percent in 2004, with possibly lower inflation projected for 2005. The IMF official added that many hemispheric governments are harnessing the revenue from the region's robust growth to reduce budget deficits and restructure debt.

Within this context, de Rato cautioned that although Latin America's broad-based economic expansion should continue in 2005, the region's positive outlook must not lead to complacency.

"We must recognize that, despite recent developments, difficult problems continue to loom," de Rato said.

He cited high unemployment and poverty levels and severe income disparities as examples of these looming problems and noted, "the importance of continued and sustained reforms cannot therefore be overemphasized."

More importantly, de Rato said, a political consensus needs to be forged in many Latin American countries to support the policies that are essential to poverty reduction and growth.

Outlining challenges and opportunities for Latin America moving forward, the IMF official said regional policy-makers must maintain appropriate public debt levels, balance spending and capital investment, and keep inflation in check.

De Rato also said that globalization will present challenges that must be addressed.

Despite bold trade liberalization efforts over the past decade, Latin America is still less open than other emerging markets, according to de Rato. He said that continued trade liberalization would be "crucial" to encouraging growth and that the greatest benefits

would be gained from the completion of multilateral trade talks resulting in improved market access for key regional exports, such as agricultural products and textiles.

As trade liberalization moves forward, labor reforms will be increasingly important to Latin American nations, de Rato said. He added that such reforms are essential for increasing both flexibility and growth.

De Rato said that financial sector stability will also be a key to sustainable growth. He indicated that many Latin American nations must strengthen bank regulations and supervision, improve accounting and auditing standards, and revise bankruptcy laws.

These and other steps that enhance the rule of law, encourage more effective contract enforcement and remove hurdles to starting a new business will create the more attractive regional investment environment that de Rato said is "key to unlocking growth potential in the region."

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