

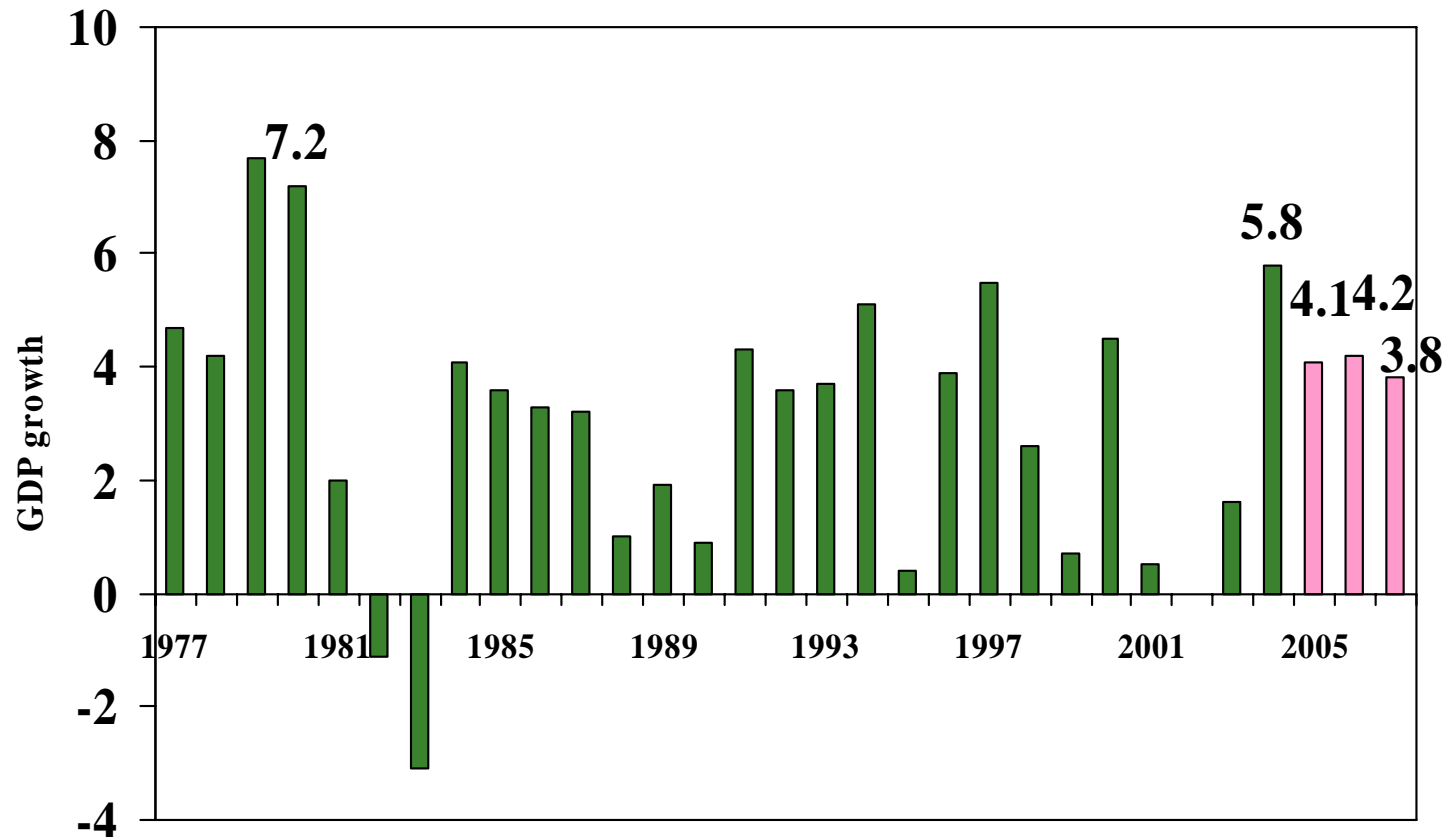
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# **LAC: Recent Economic Developments and Prospects**

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**Guillermo Perry**  
**Chief Economist**  
**Latin American and the Caribbean Region**  
**The World Bank**

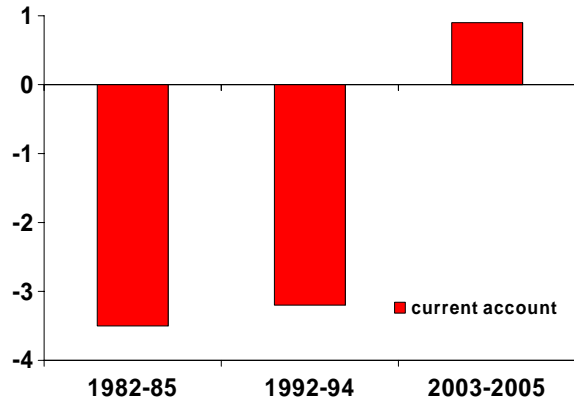
# The current boom in perspective: will it be as short lived as most?



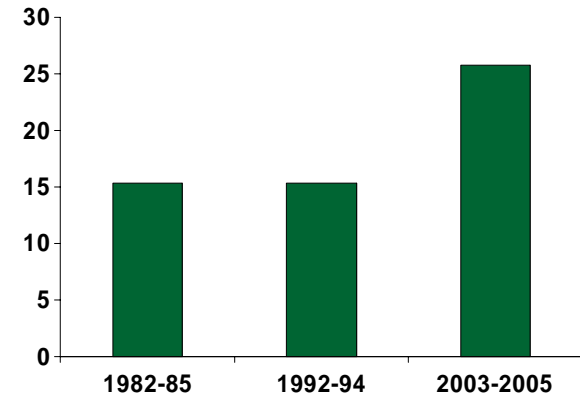
Source: LDB database and Consensus Forecast March 2006.

# The mild REER current appreciation is much more sustainable than those of the 90's and 80's

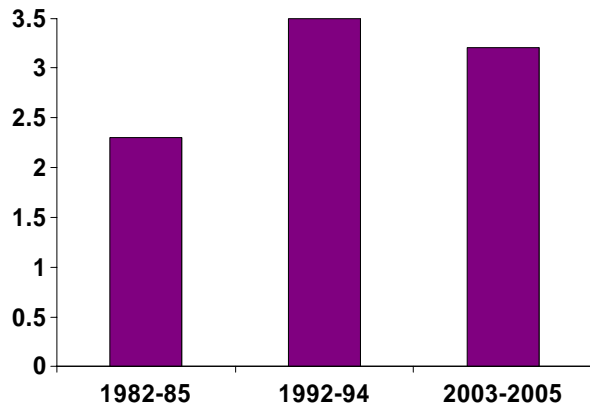
% of GDP Current Account



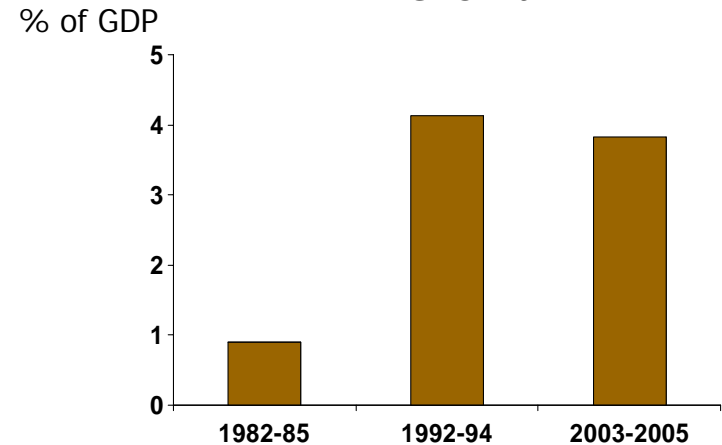
% of GDP Exports



% of GDP Net Private Capital Flows

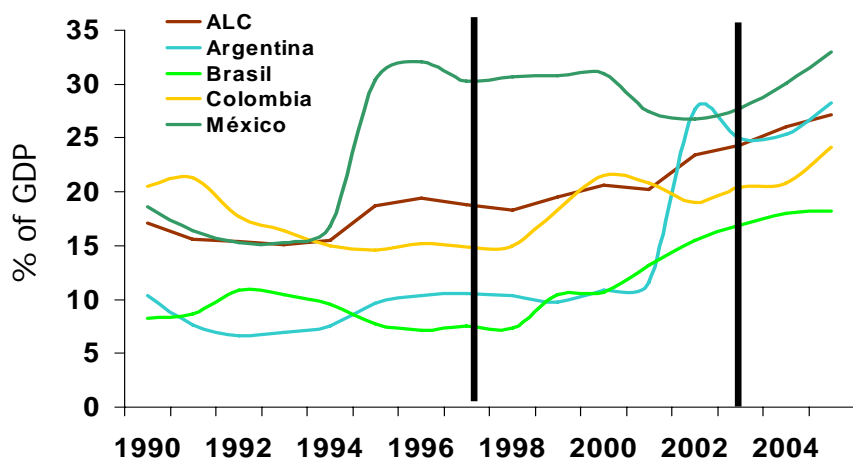


% of GDP Growth

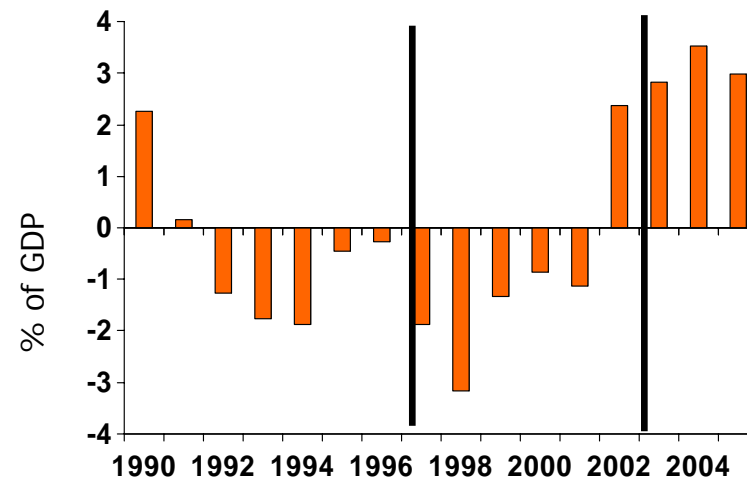


# Differences between the current Boom and the Early 90's

## Exports/GDP



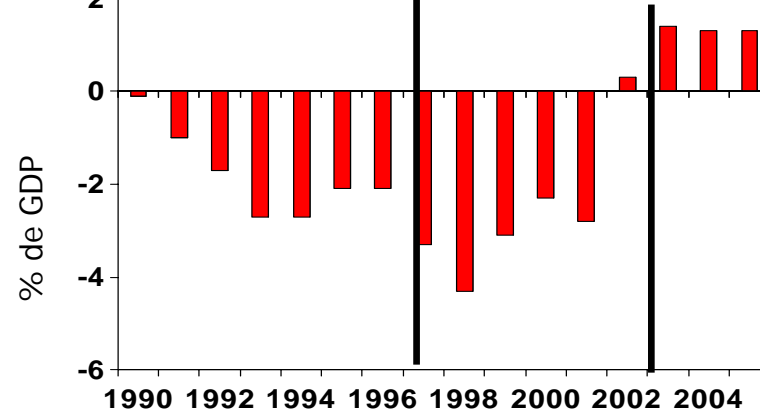
## Trade Balance/GDP



## Exports (Volume)

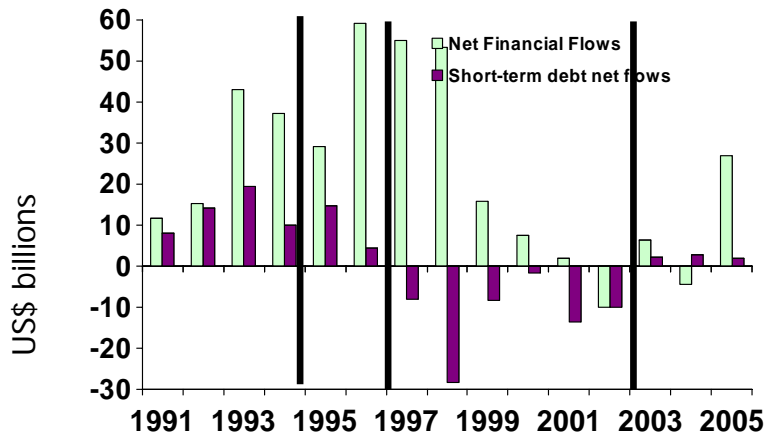


## Current Account/GDP

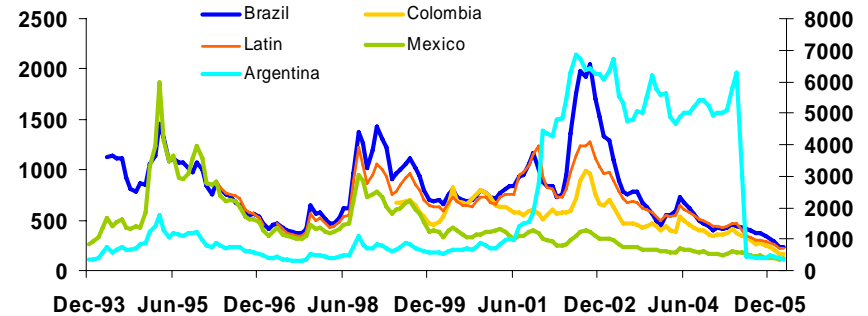


# Differences between the current Boom and the Early 90's

## Net Financial Inflows/GDP

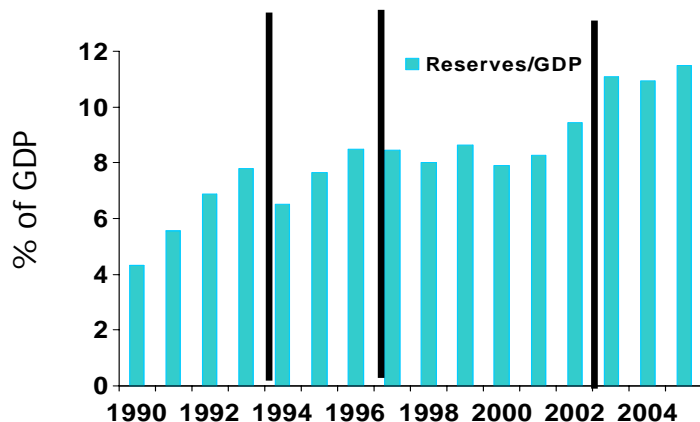


## Sovereign Spreads

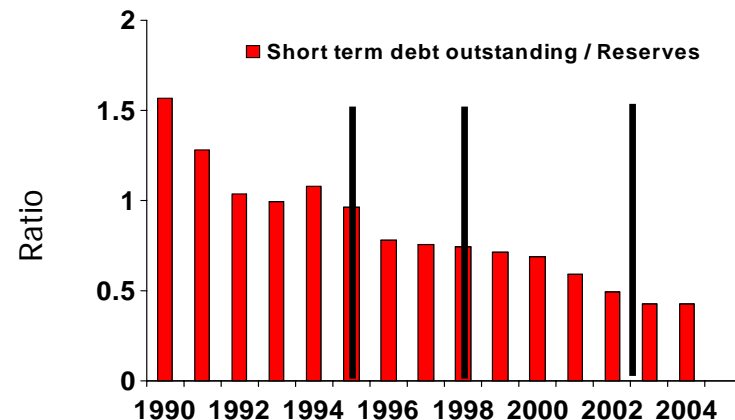


Fuente: JP Morgan EMBI+ indices. Argentina eje derecho.

## International Reserves/GDP

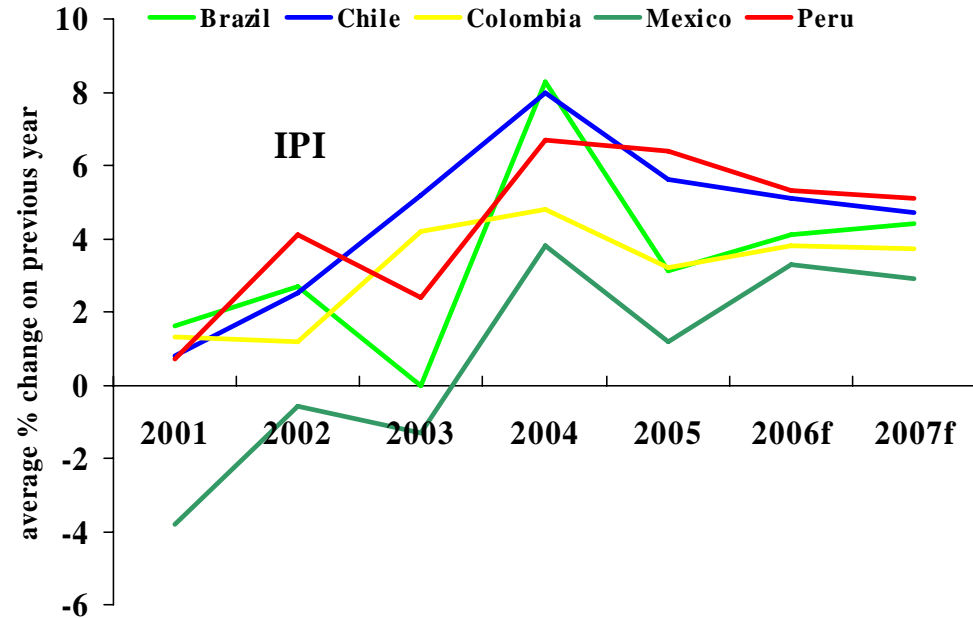
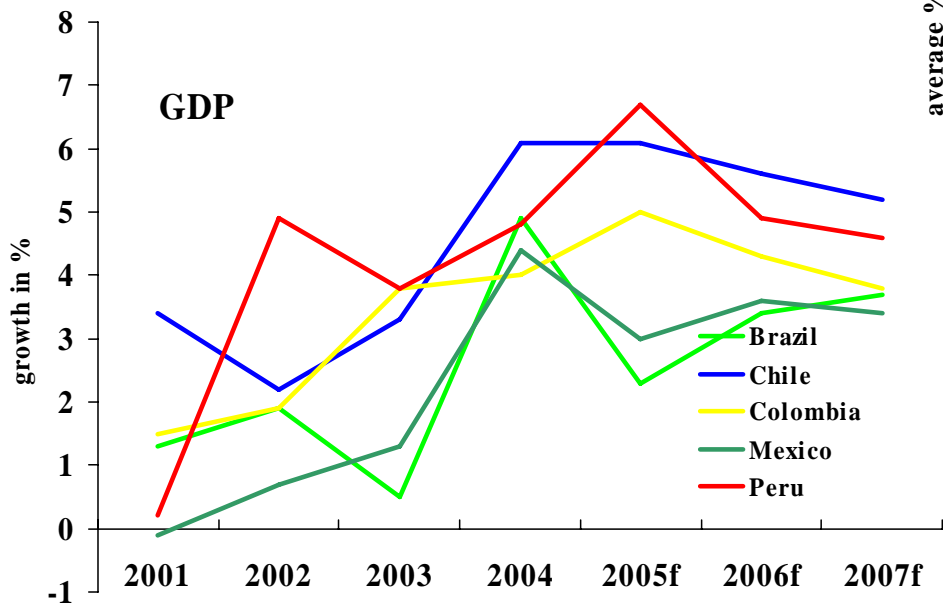


## Liquidity Risk; short term debt/reserves



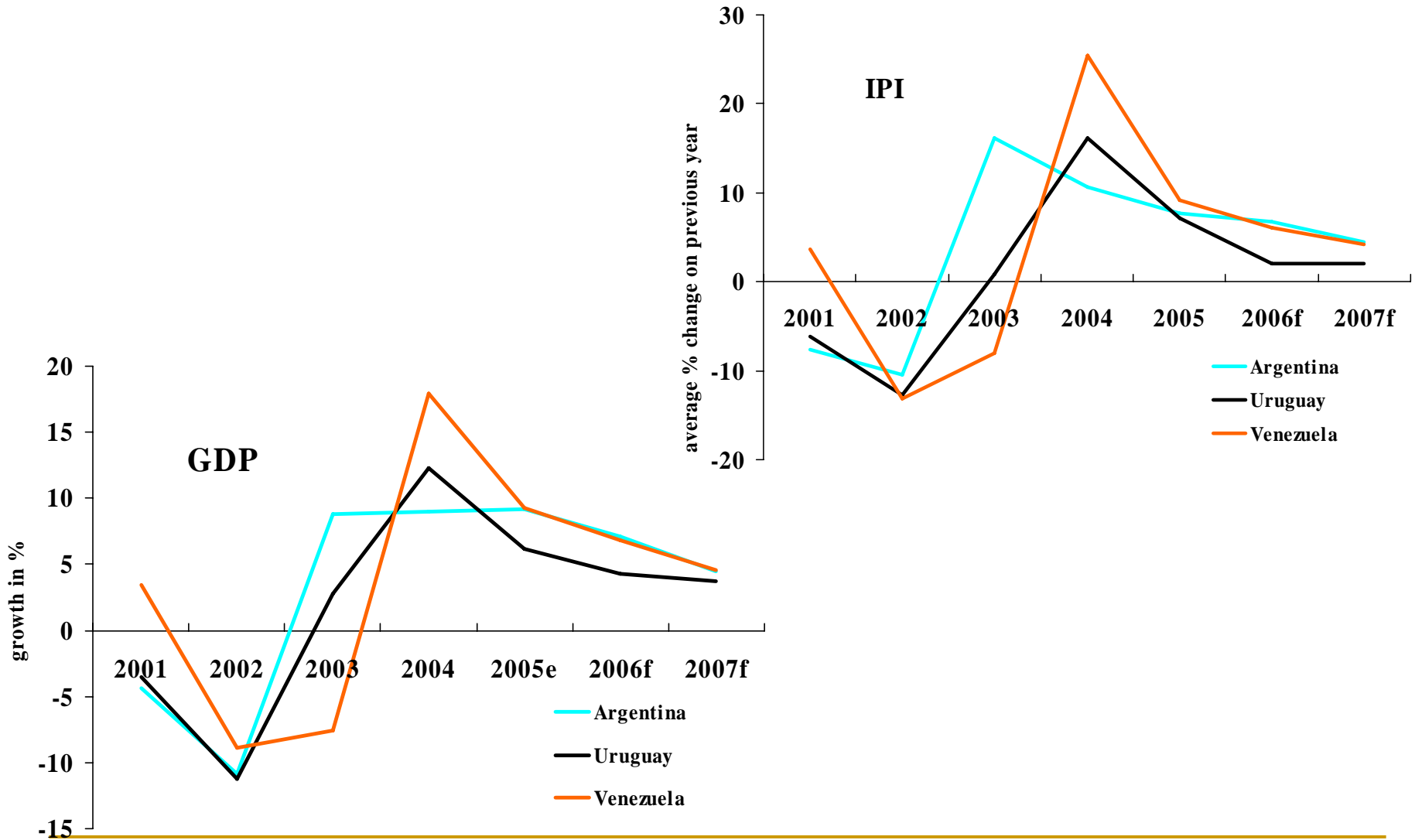
Source: GDF and WDI databases, The World Bank

# Domestic Economic Activity: Slowing down? Market Forecasts..



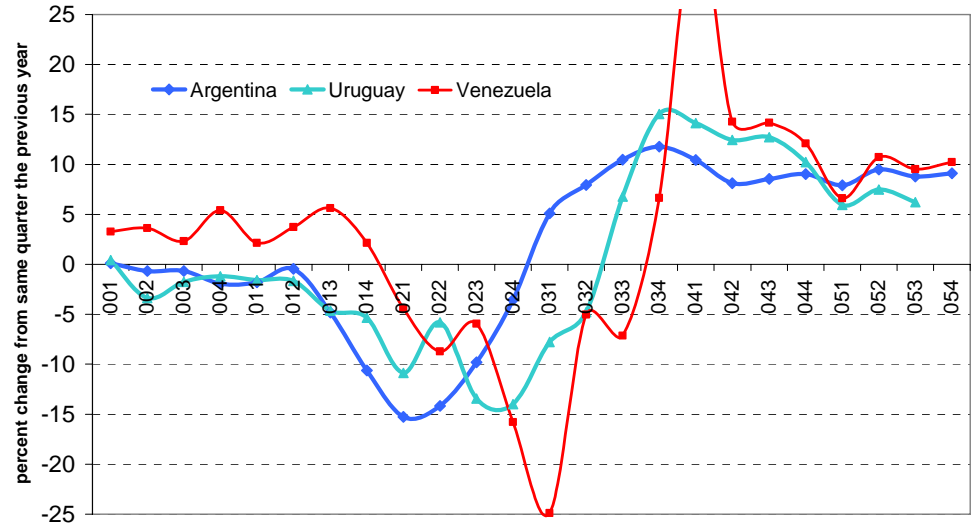
# Domestic Economic Activity:

## Are recoveries cooling off? Market Forecasts...

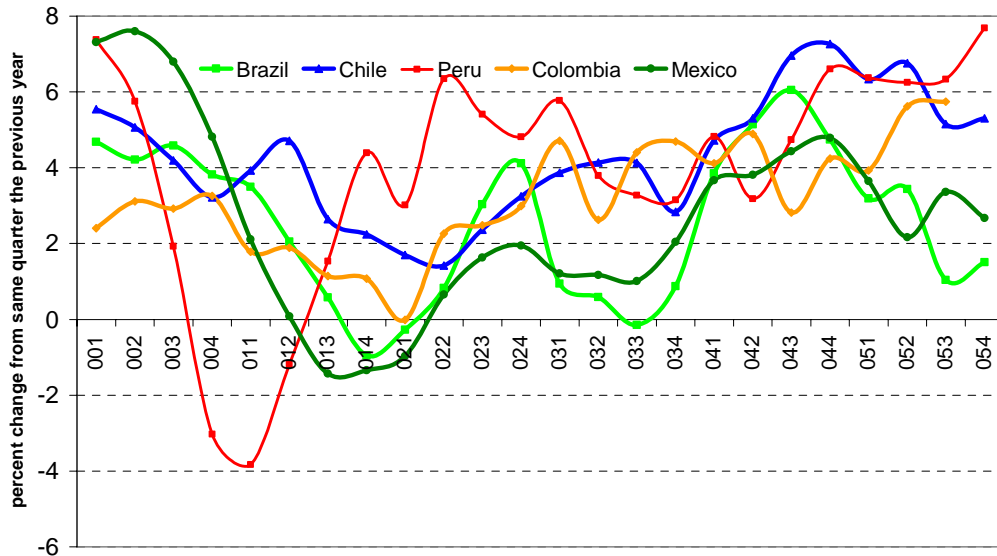


# ... no clear signs yet

## GDP Growth

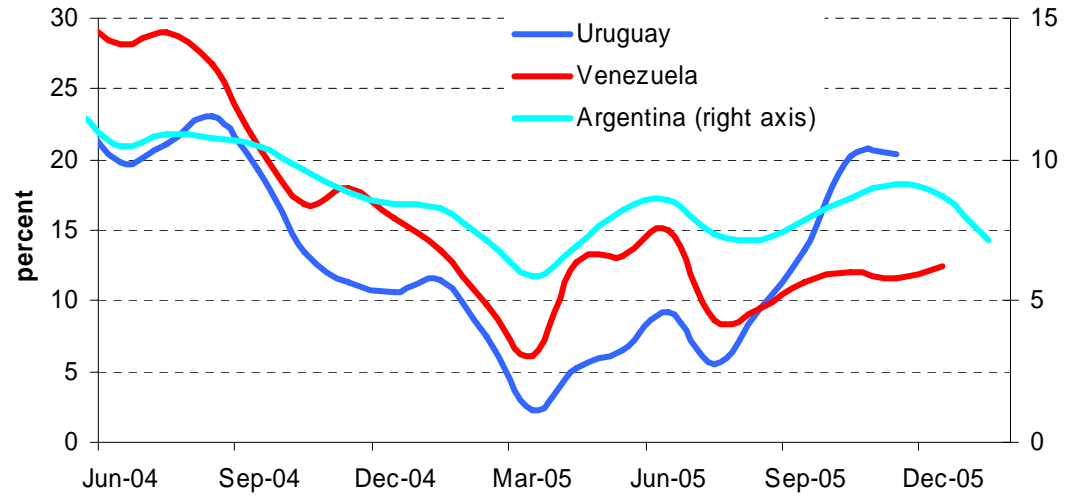


## GDP Growth

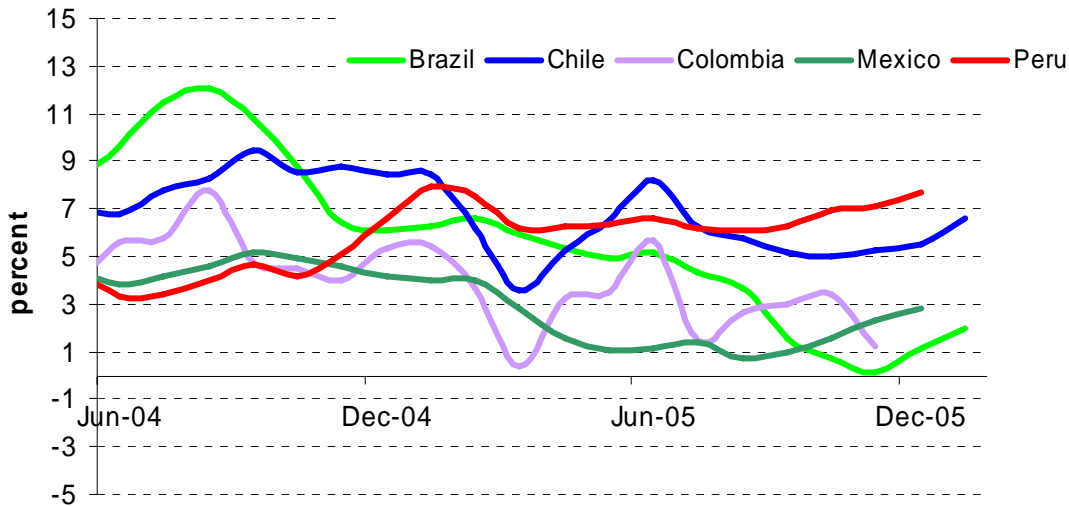


# ... no clear signs yet

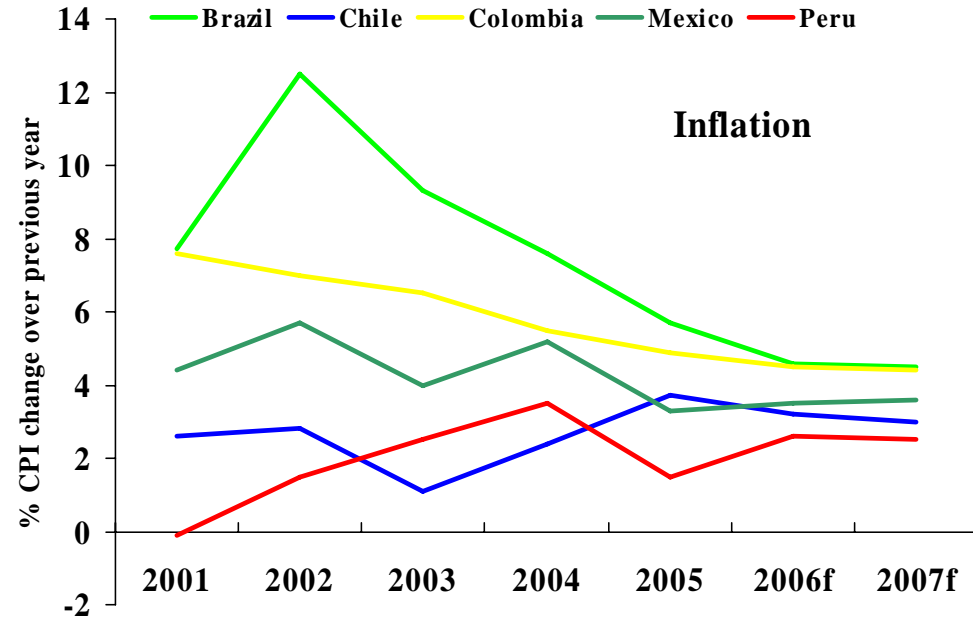
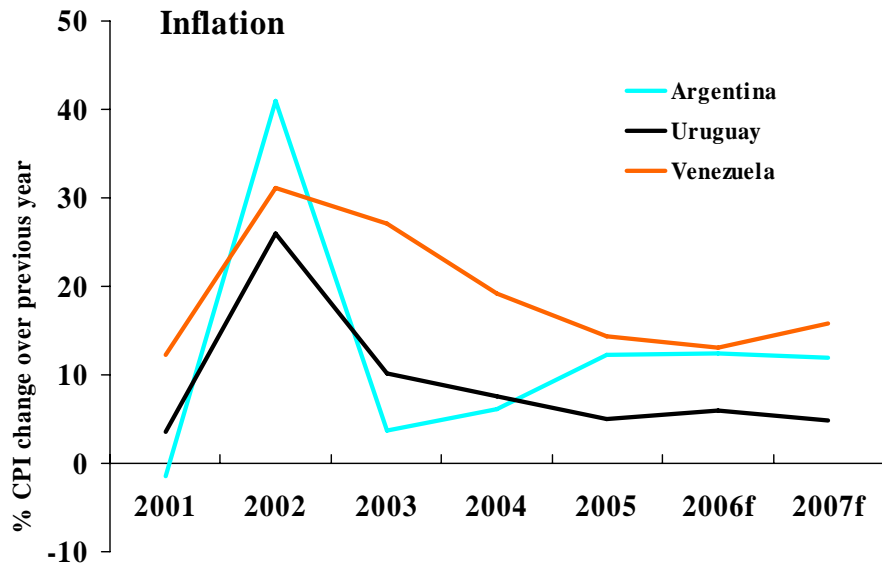
## Industrial Production



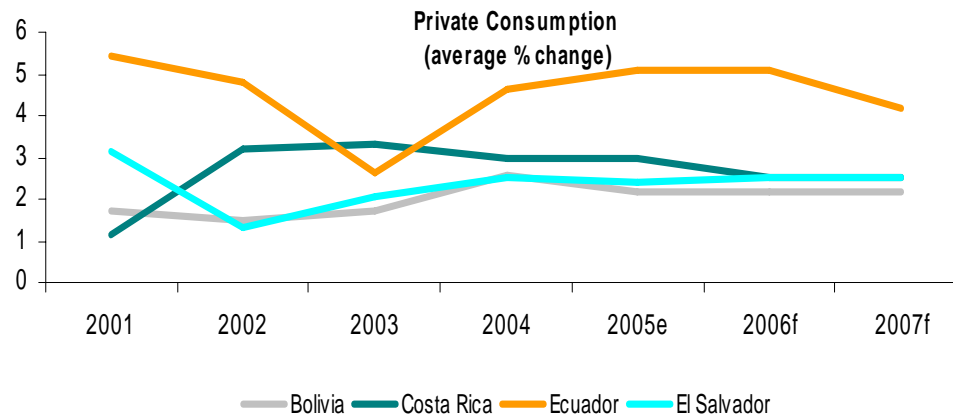
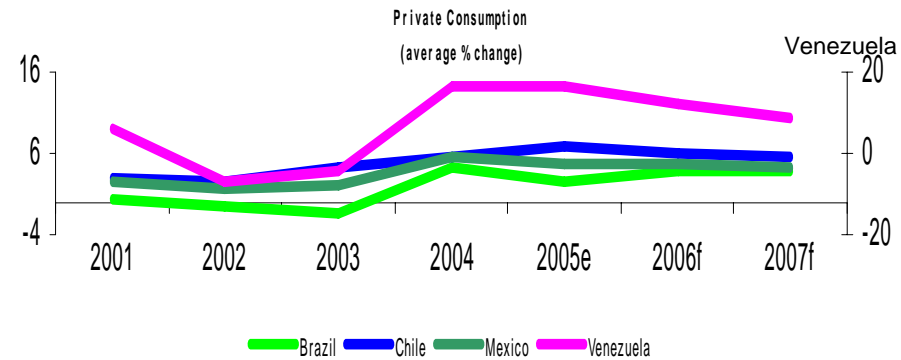
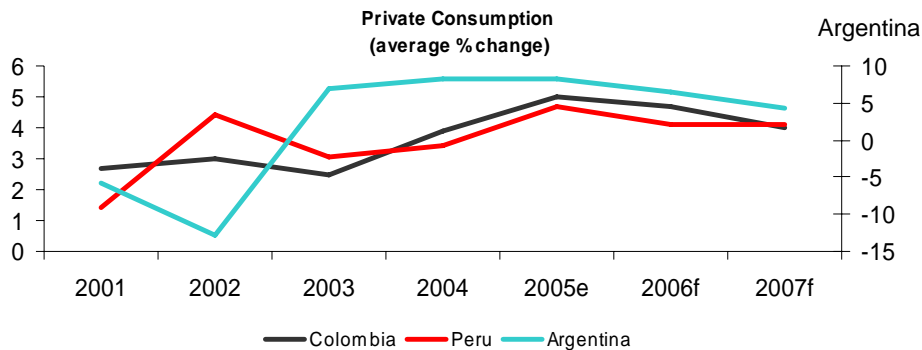
## Industrial production and economic activity



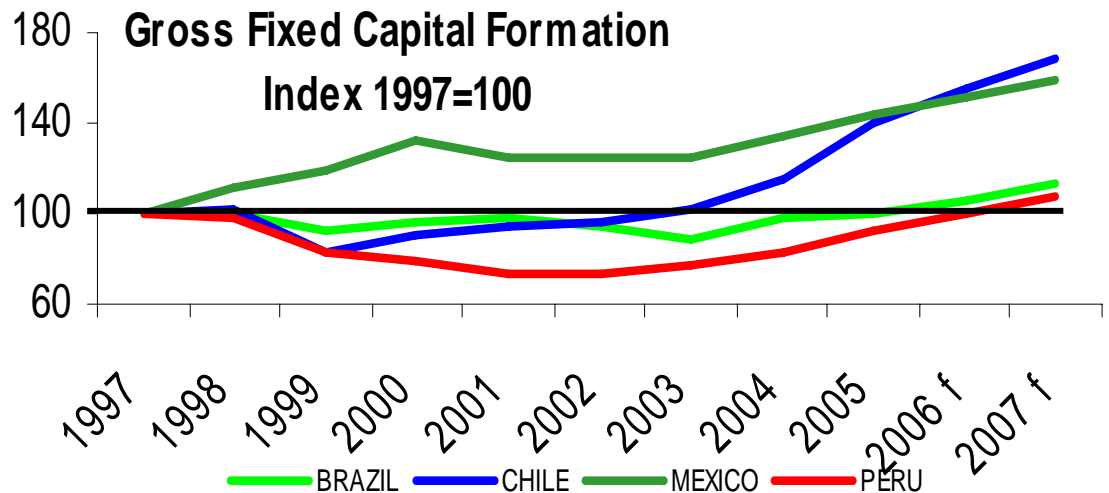
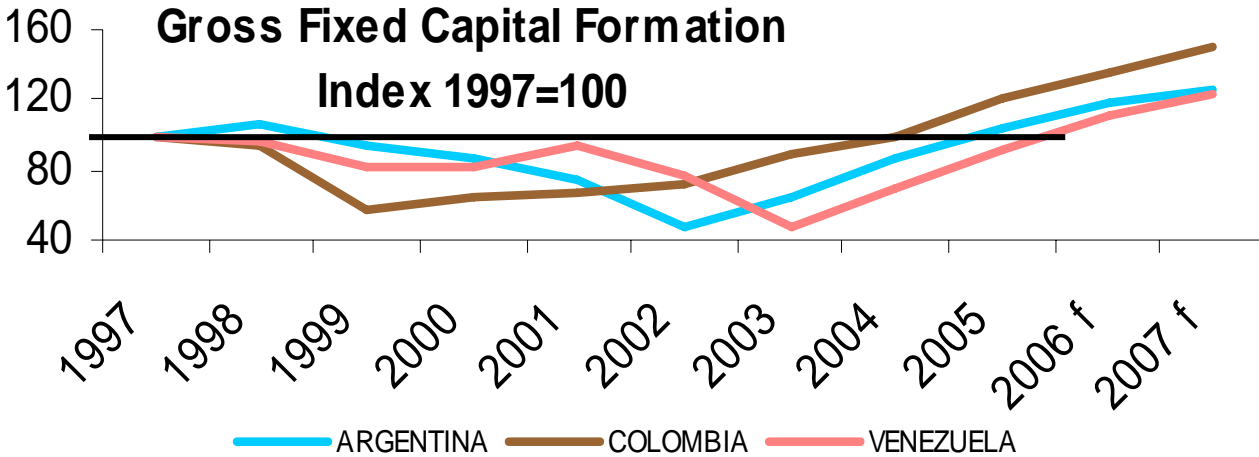
# Inflation under control almost everywhere



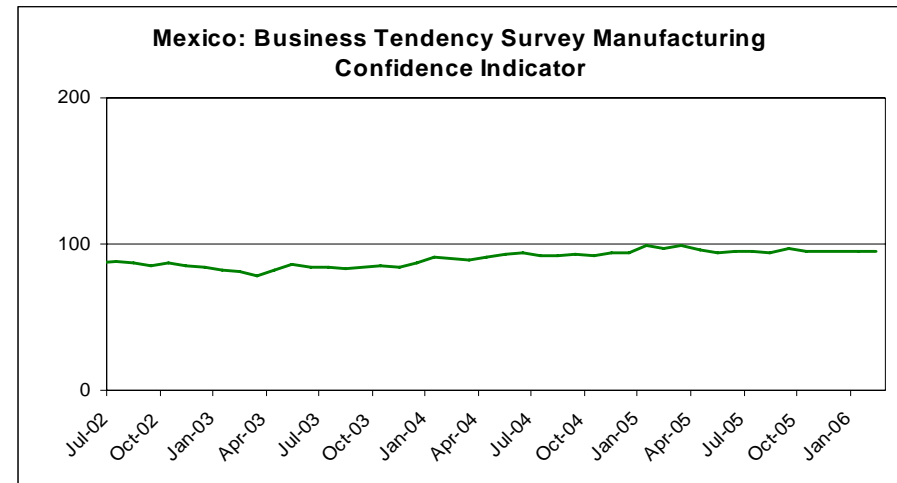
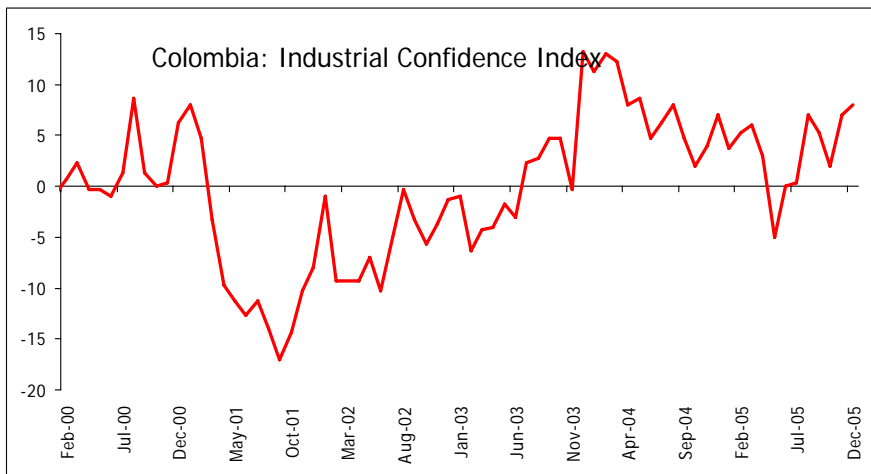
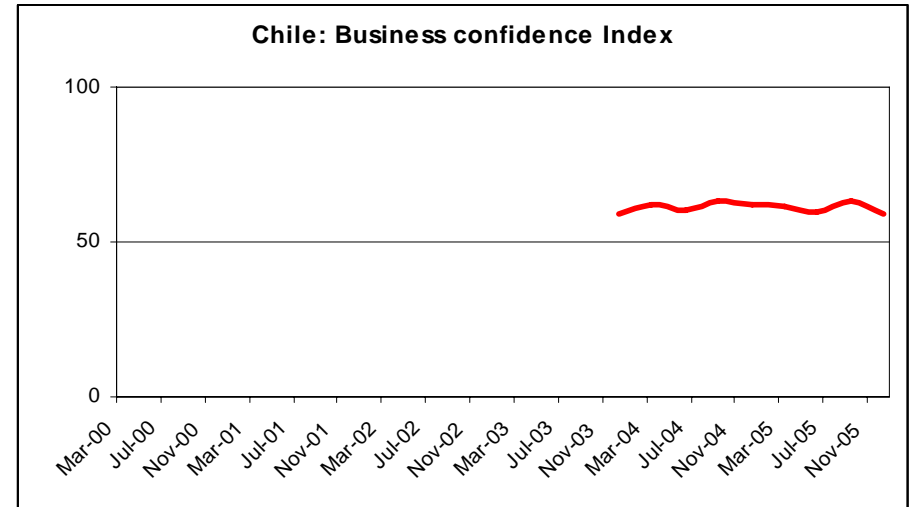
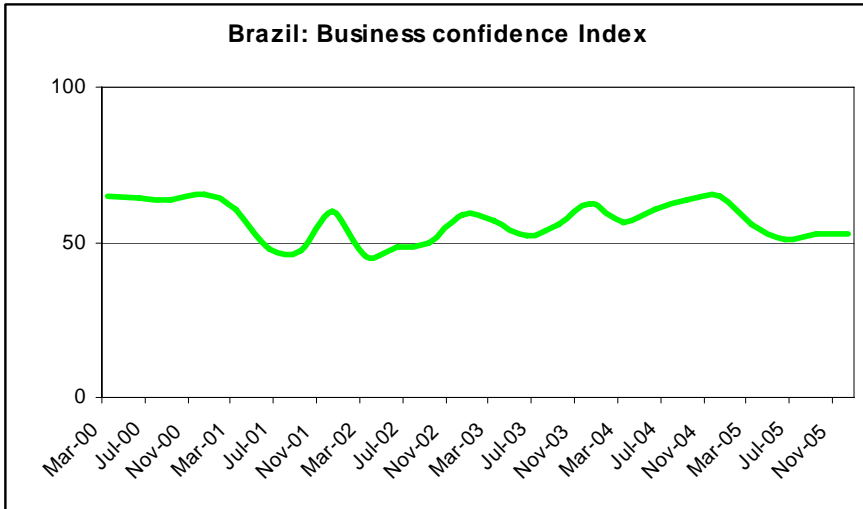
# Private Consumption: Slowdown in demand? Market Forecasts...



# Investment: Favorable Market Forecasts

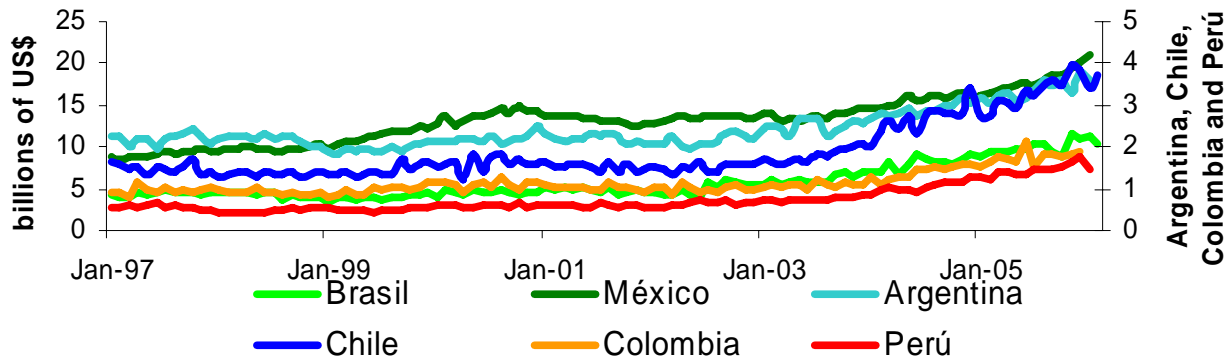


# Business Confidence: Still Positive in most Countries

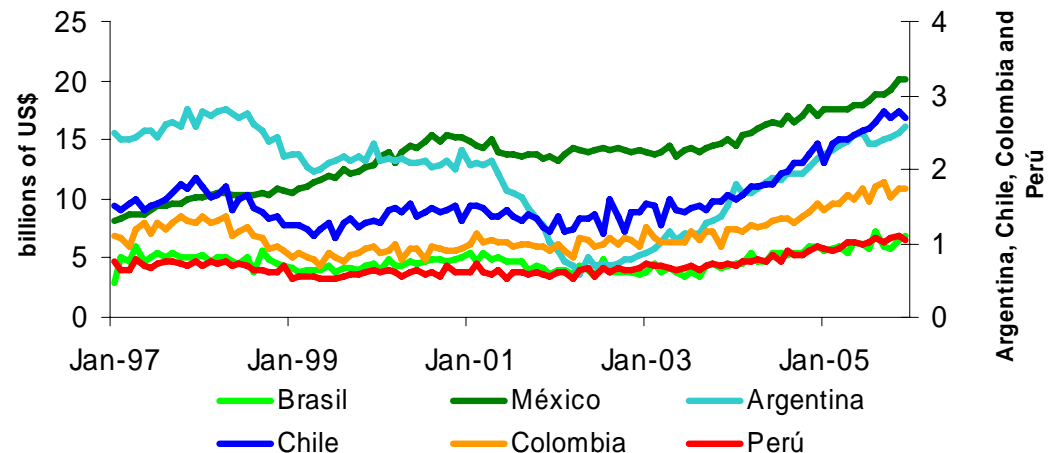


Source: Bloomberg, Fedesarrollo.

# Exports are still growing well

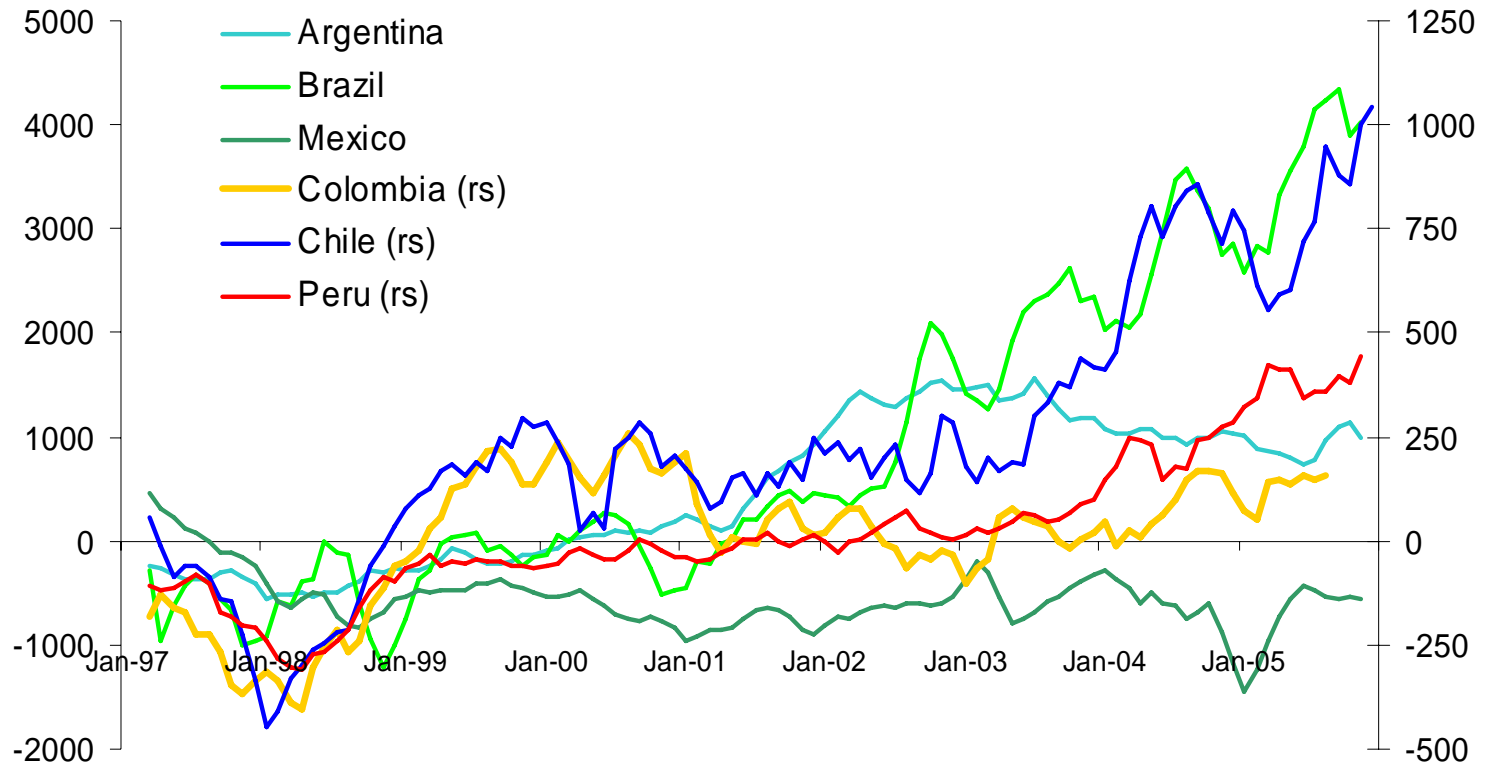


though imports are growing fast...

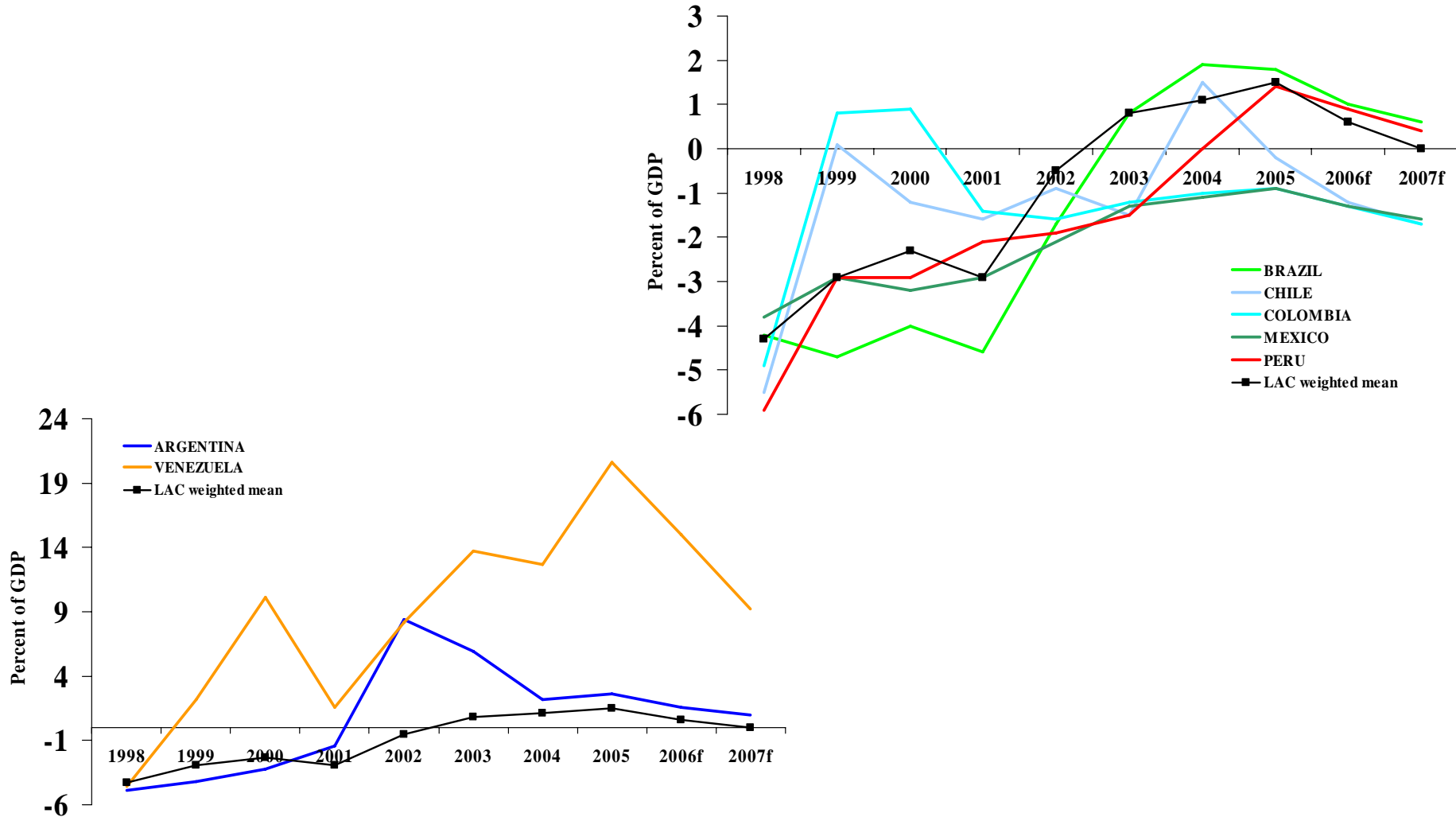


Source: Database Haver basados en datos de oficinas de estadísticas nacionales.

# Trade Balances are still strong

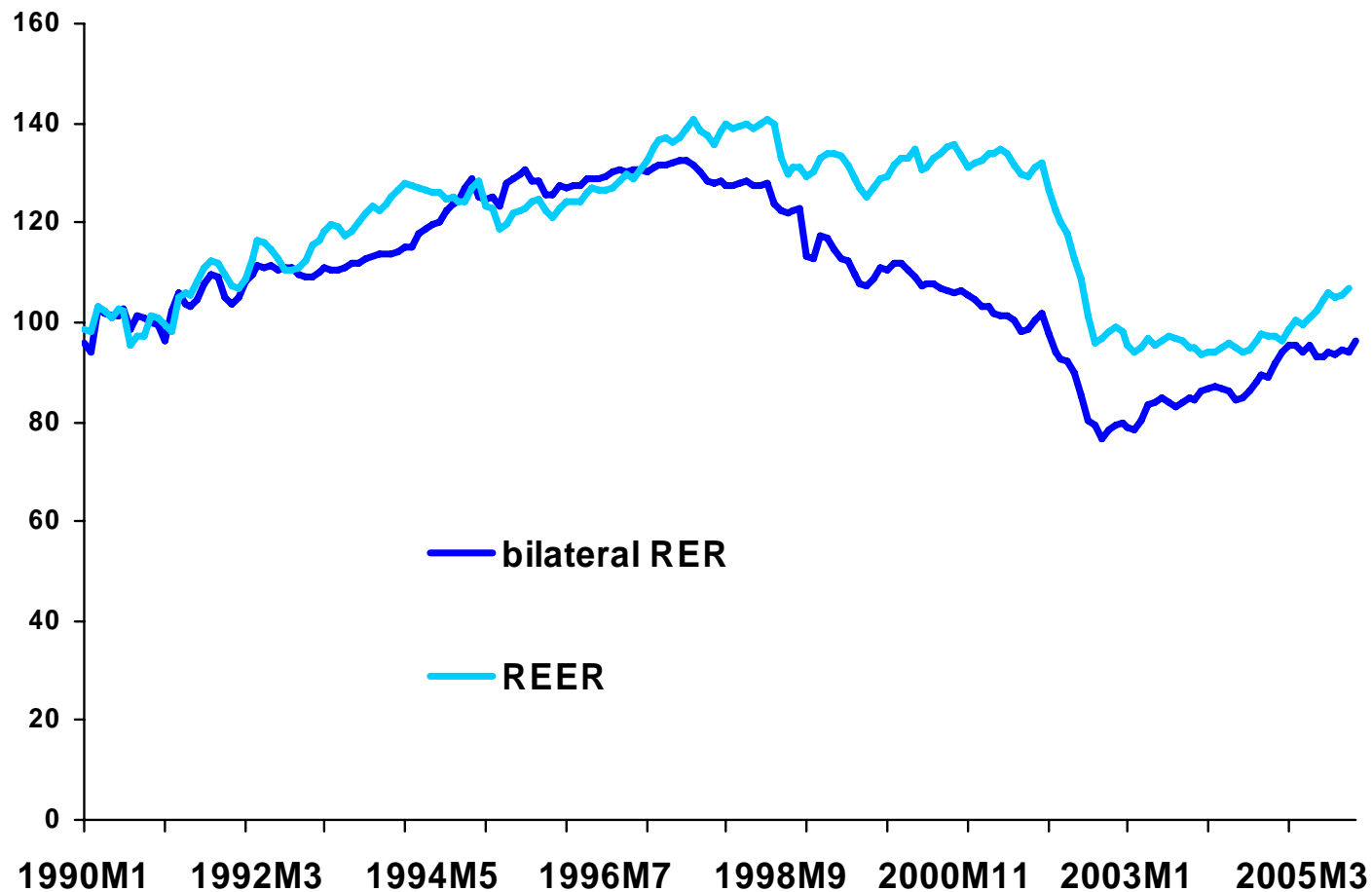


# And Current Account Balances still Healthy



Source: Consensus Forecast, February 2006.

# In Spite Of Real Appreciation Against US\$



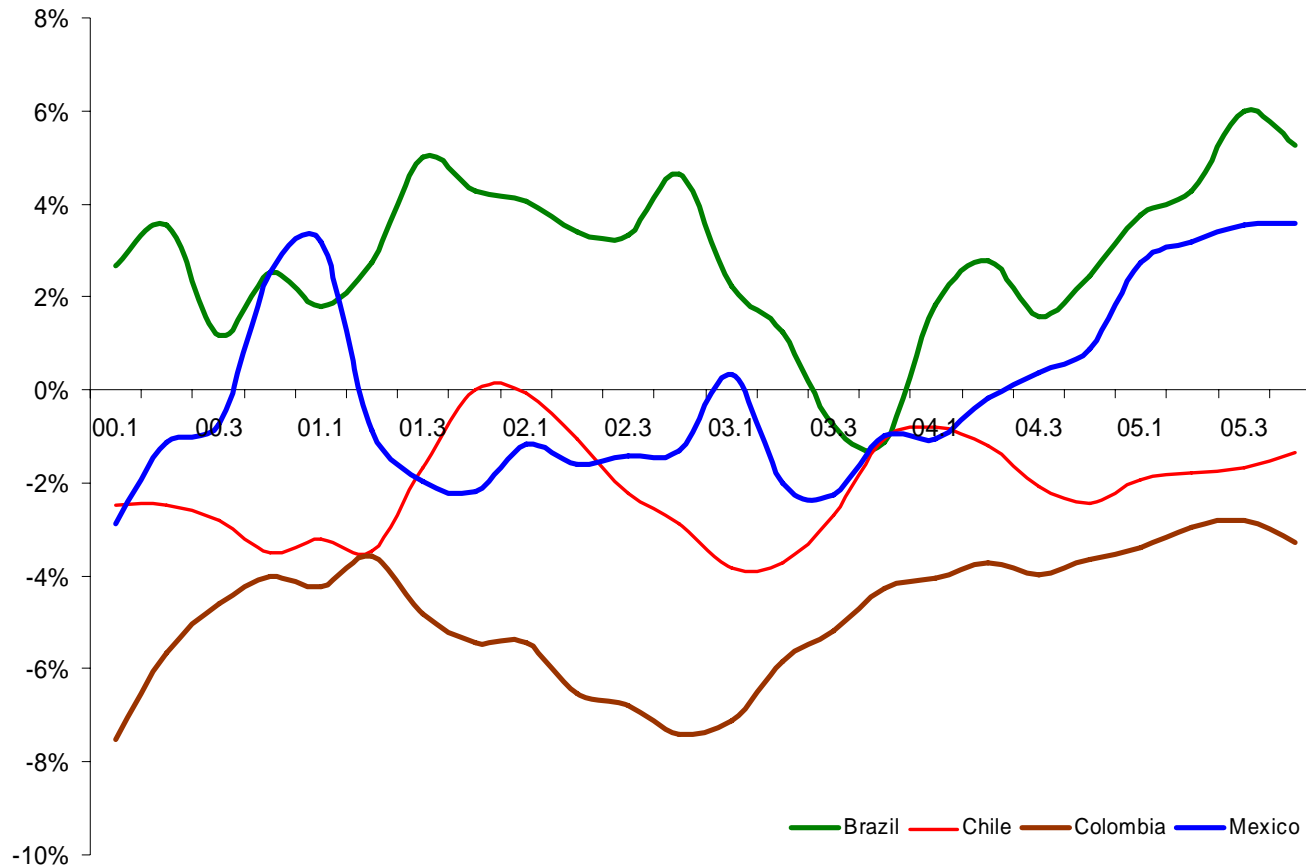
Index: 1990 = 100

Note: An increase in REER represents a real appreciation

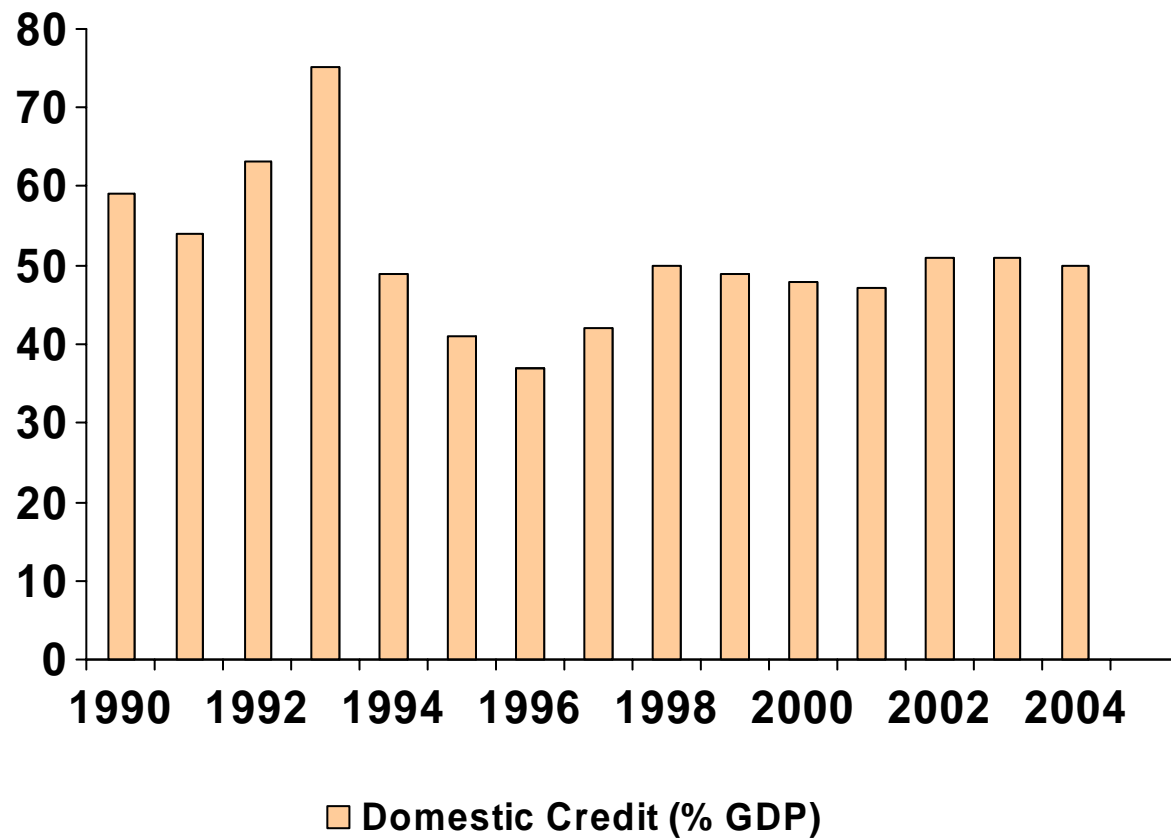


# Stance of Monetary Policy: Sound procyclicality; too tight in Brazil and México?

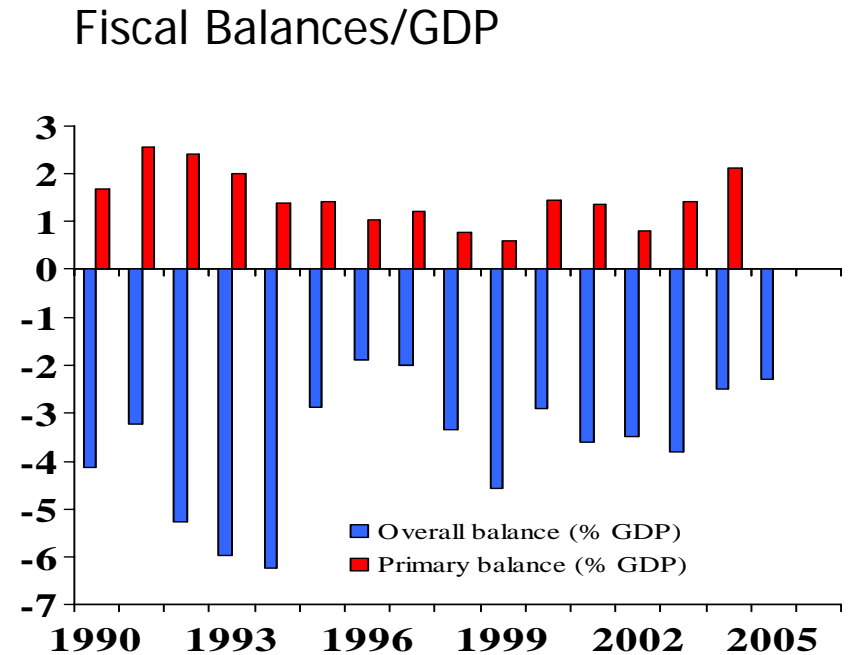
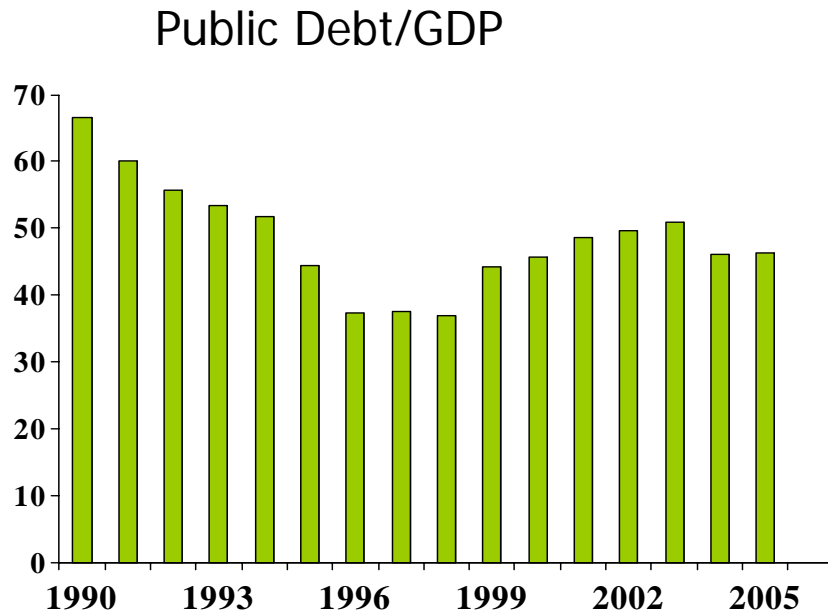
## Differential between real interest rate and neutral rate



# There is no Credit Boom

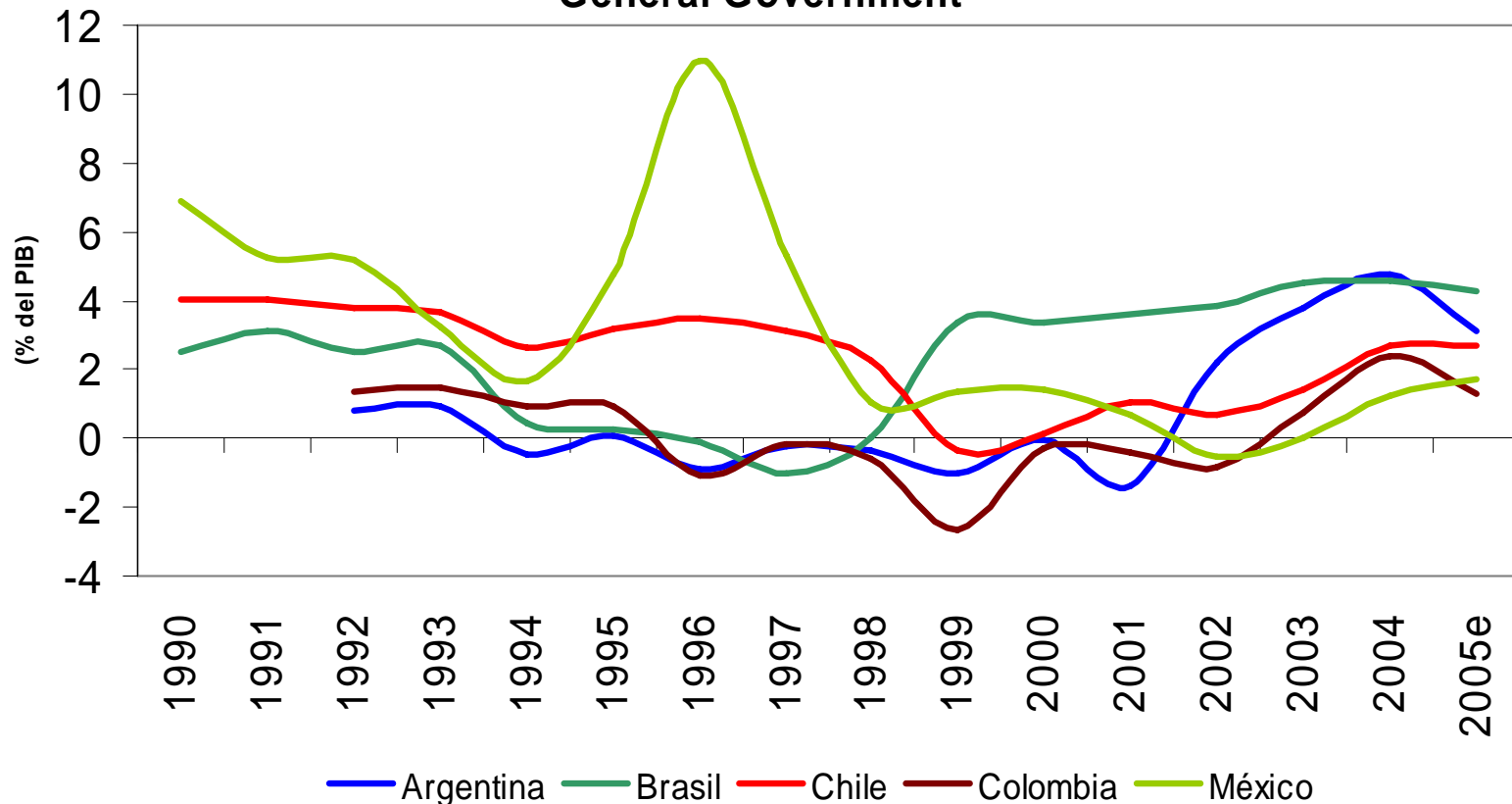


# Public Debt...still the Achilles heel?



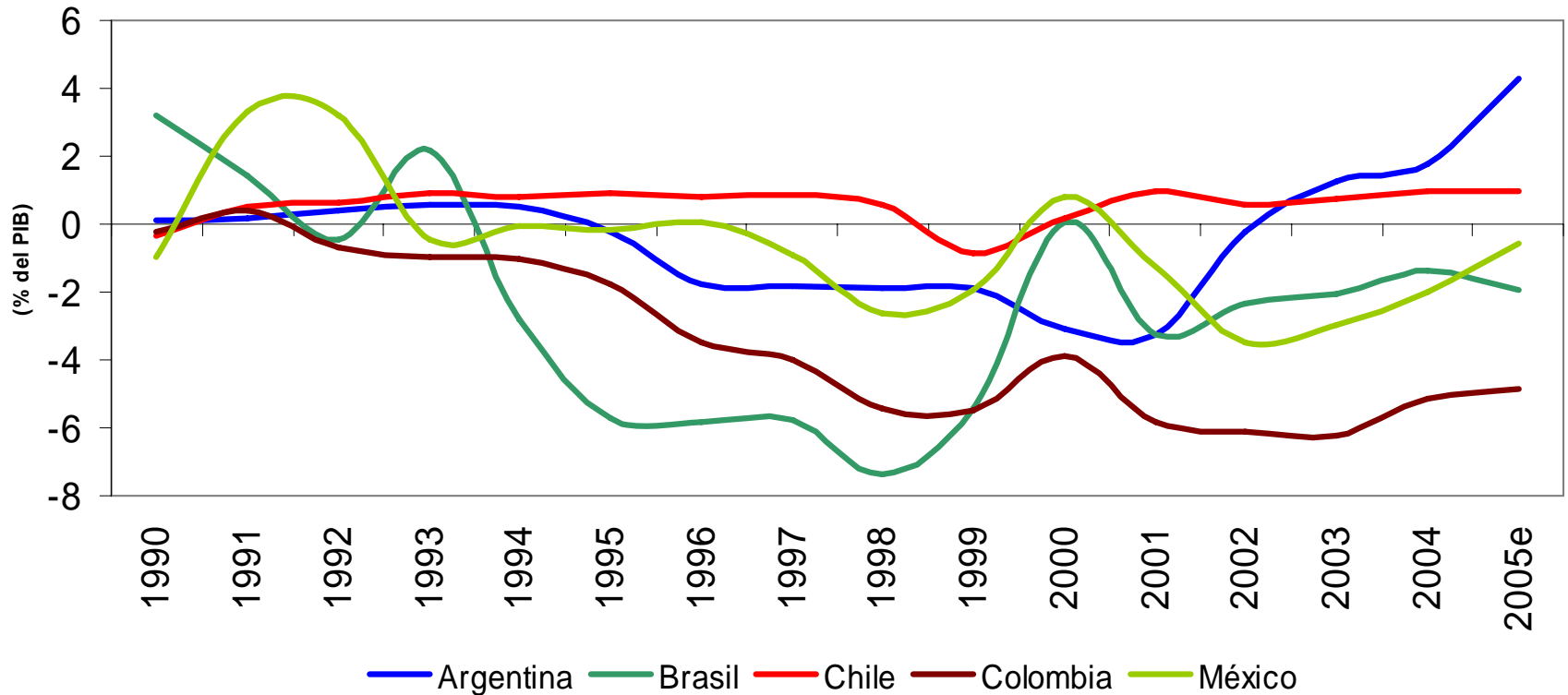
# Structural primary balances improving ... but strong enough?

Structural Primary Balances in LAC, 1990-2005e  
General Government



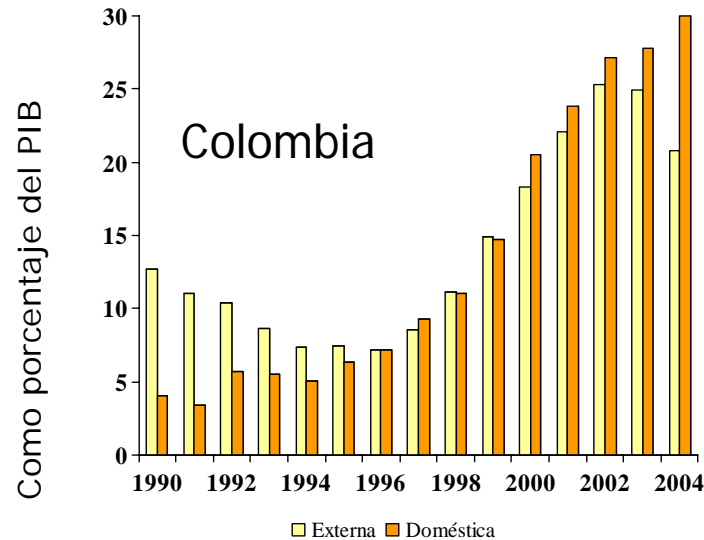
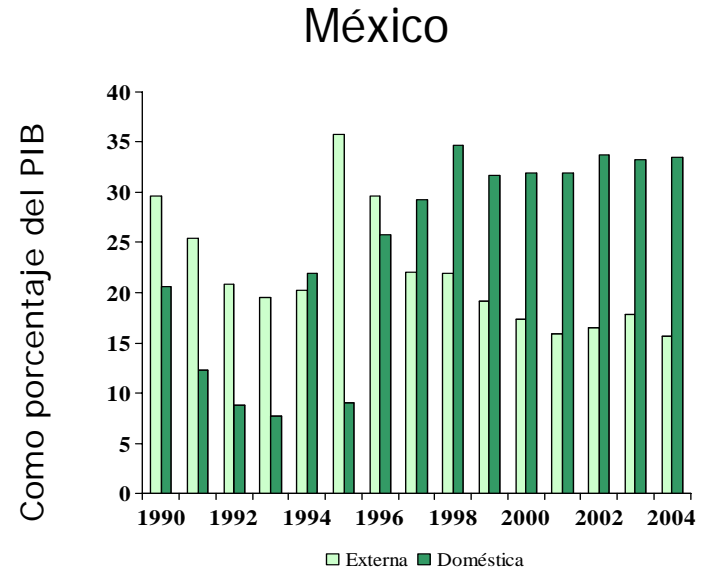
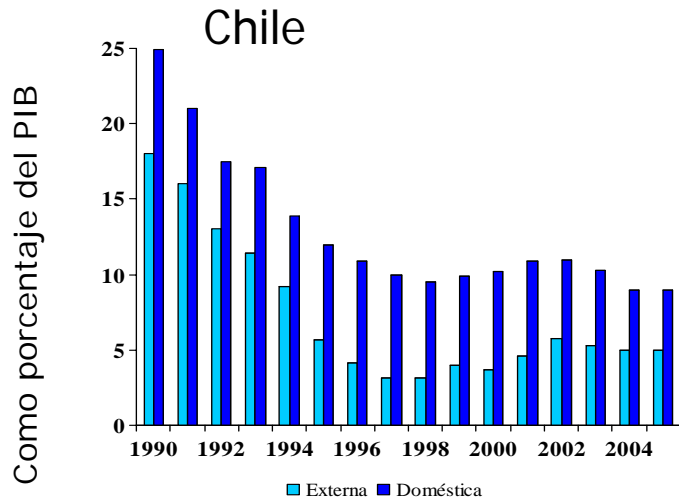
# ... not everywhere

**Structural Balances in LAC, Central Government 1990-2005e**  
(accounting for fluctuations in interest payments)



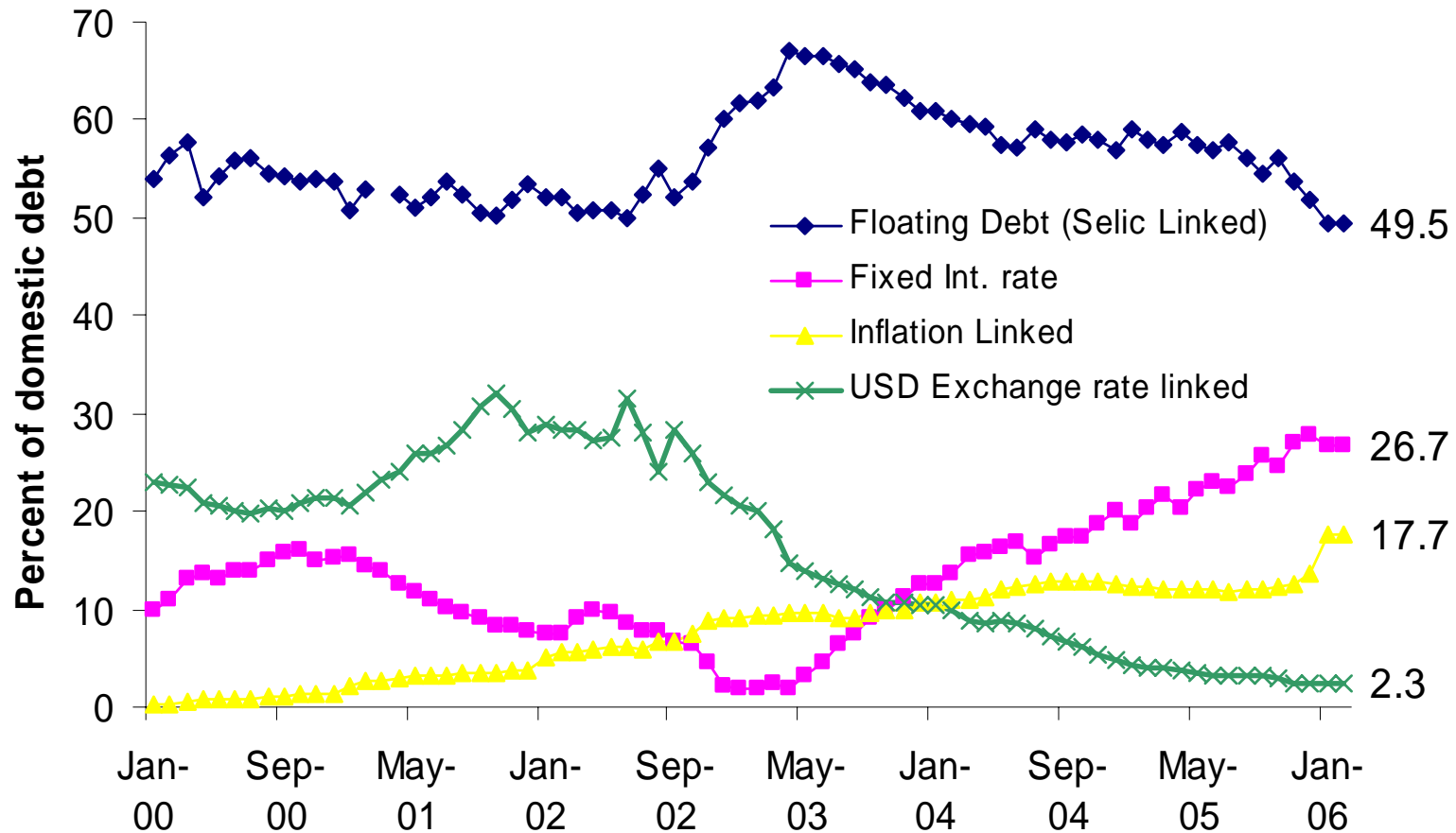
Source: Staff calculations

# Debt Composition is Improving



# Debt Composition is Improving

## Brazil: Debt Composition



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# The Current “Boom”

- More sustainable than the early nineties’ one
  - “Driver:” Export Revenues. Current Accounts in Surplus or small Deficits. Likely to stay: Commodity prices and world growth is expected to remain strong in the short and medium term.
  - More moderate long term capital inflows, in spite of higher international liquidity, due to lower financial needs (?) and “new” prudence by Governments and private sector (less indebtedness/more in domestic currency).
  - No domestic credit booms; stronger, better regulated financial sectors
-

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# The Current “Boom”

- Appreciation against US\$ has been a consequence of a needed US\$ depreciation. REER have appreciated much less, just in response to strength in current account, and remain competitive still. Central Banks have attempted to mitigate appreciation (and accumulated reserves)
  - In summary, much lower vulnerabilities (liquidity or balance sheet risks) to capital flows reversals
  - However, some countries still have some severe problems of liquidity risk and public sector sustainability. Public sector debt is high and primary surplus not always strong enough. We need more counter-cyclical fiscal policies. On the good side, public debt composition is now much better (lower currency mismatches, longer duration)
-

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# Main Risks:

## ■ External:

- ❑ A sharp increase in FED rates if the US twin deficits are not reduced and the rest of the world stops financing them
- ❑ Capital flows reversals
- ❑ A hard landing in China that will send commodity prices spiraling down
- ❑ Higher oil prices

## ■ Domestic:

- ❑ Political Risks: Tensions and elections.
  - ❑ Wasting the good times. Where are the structural reforms? Where are the microeconomic Reforms?
-

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**THE END**

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# Economic Growth

## GDP Growth

(in percent)

GDP Growth (in %)	Forecast					
	2002	2003	2004	2005e	2006f	2007f
<b>ARGENTINA</b>	-10.9	8.8	9.0	9.2	7.1	4.5
<b>BOLIVIA</b>	2.8	2.5	3.6	3.9	3.1	3.1
<b>BRAZIL</b>	1.9	0.5	4.9	2.3	3.4	3.7
<b>CHILE</b>	2.1	3.3	6.1	6.1	5.6	5.2
<b>COLOMBIA</b>	1.7	3.9	4.0	5.0	4.3	3.8
<b>COSTA RICA</b>	3.0	6.5	4.2	3.7	3.6	3.4
<b>DOMINICAN REPUBLIC</b>	4.1	-0.4	2.0	8.2	5.9	4.8
<b>ECUADOR</b>	3.4	2.7	6.9	3.1	3.2	3.0
<b>MEXICO</b>	0.9	1.3	4.4	3.0	3.6	3.4
<b>PANAMA</b>	0.7	4.1	6.2	5.4	4.4	4.0
<b>PARAGUAY</b>	-2.3	2.6	2.8	3.0	3.4	3.2
<b>PERU</b>	4.9	3.8	4.8	6.7	4.9	4.6
<b>URUGUAY</b>	-10.8	2.8	12.3	6.2	4.3	3.7
<b>VENEZUELA</b>	-8.9	-7.6	17.9	9.3	6.8	4.6
<b>LAC average</b>	-0.5	2.5	6.4	5.4	4.5	3.9
<b>LAC weighted average</b>	0.0	1.6	5.8	4.1	4.2	3.8
<b>United States</b>	2.4	3.0	4.2	3.5	3.3	3.0
<b>Euro-zone</b>	0.8	0.5	1.7	1.4	2.1	1.8
<b>South East Asia</b>	4.0	4.4	6.2	5.4	5.2	5.2
<b>China</b>	8.0	9.3	9.5	9.9	9.1	8.7

# Inflation is under control almost everywhere

## Inflation

(percentage change of CPI over previous year)

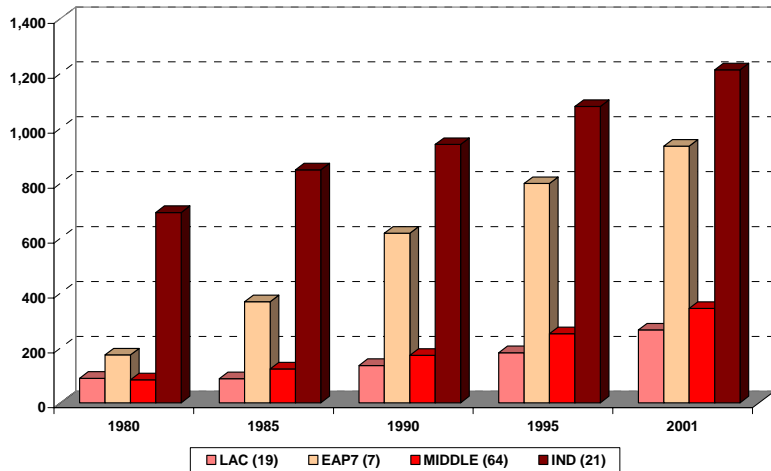
	1998	1999	2000	2001	2002	2003	2004	2005	2006f	2007f
<b>ARGENTINA</b>	0.9	-1.2	-0.9	-1.5	41.0	3.7	6.1	12.3	12.5	11.9
<b>BOLIVIA</b>	7.7	2.2	4.6	0.9	2.5	3.9	4.6	4.9	4.8	4.8
<b>BRAZIL</b>	3.2	4.9	7.0	7.7	12.5	9.3	7.6	5.7	4.6	4.5
<b>CHILE</b>	5.1	3.3	3.8	2.6	2.8	1.1	2.4	3.7	3.2	3.0
<b>COLOMBIA</b>	20.4	11.2	9.5	7.6	7.0	6.5	5.5	4.9	4.5	4.4
<b>COSTA RICA</b>	11.7	10.0	11.0	11.0	9.7	9.9	13.1	14.1	11.0	8.8
<b>DOMINICAN REPUBLIC</b>	7.4	5.2	9.0	4.3	10.5	42.6	28.7	7.4	6.9	6.7
<b>ECUADOR</b>	36.1	52.3	96.1	22.4	9.4	6.0	2.0	4.4	4.4	4.6
<b>MEXICO</b>	15.9	16.6	9.5	4.4	5.7	4.0	5.2	3.3	3.5	3.6
<b>PANAMA</b>	0.6	1.4	1.5	0.0	1.8	1.7	1.1	3.2	2.1	1.7
<b>PARAGUAY</b>	11.5	6.8	9.0	8.3	14.7	9.3	2.8	9.9	8.2	6.8
<b>PERU</b>	7.3	3.5	3.8	-0.1	1.5	2.5	3.5	1.5	2.6	2.5
<b>URUGUAY</b>	10.8	5.7	4.8	3.6	26.0	10.2	7.6	5.0	6.0	4.9
<b>VENEZUELA</b>	35.8	23.6	16.2	12.3	31.2	27.1	19.2	14.4	13.0	15.8
<b>Mean</b>	12.5	10.4	13.2	6.0	12.6	9.8	7.8	6.8	6.2	6.0
<b>Weighted Mean</b>	11.2	10.6	9.1	5.6	12.2	7.4	6.9	5.7	5.3	5.3
<b>Median</b>	9.2	5.4	8.0	4.4	9.6	6.3	5.4	5.0	4.7	4.7

# The Recent and Coming Elections

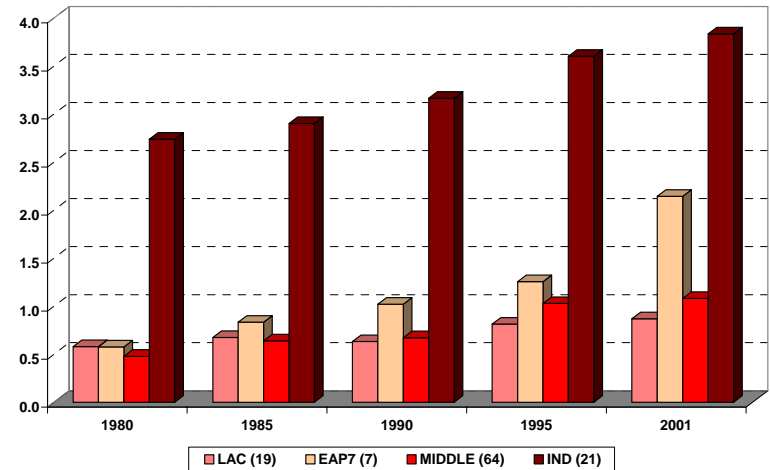


# Infrastructure: LAC Region lagging East Asia in Coverage

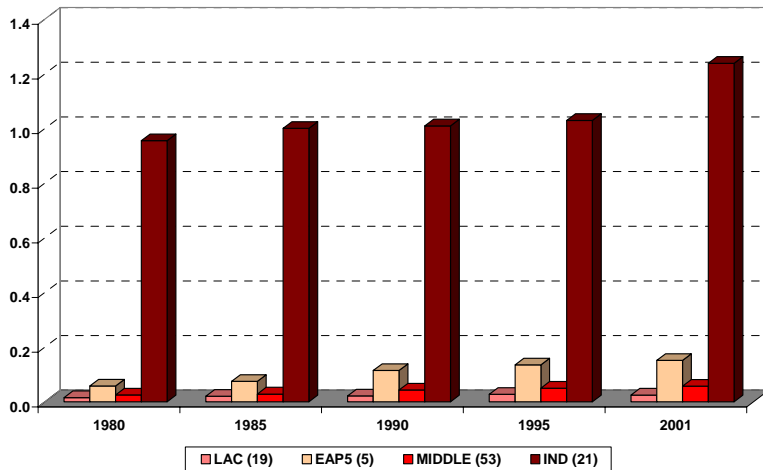
Telephone Main Lines, Medians by Region  
(lines per 1,000 workers)



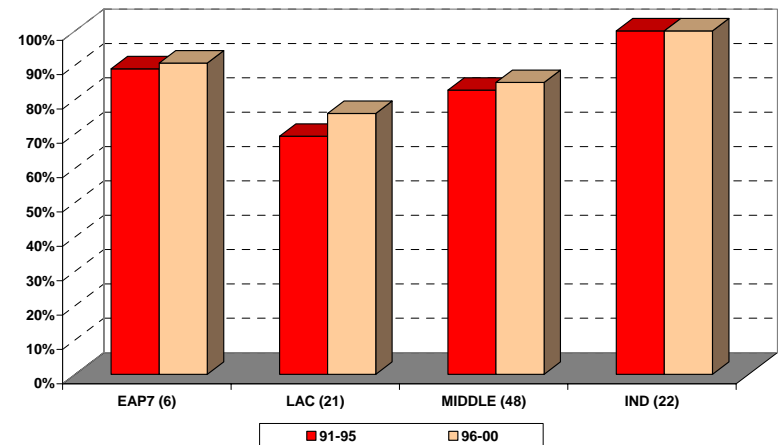
Electricity Generating Capacity, Medians by Region  
(megawatts per 1,000 workers)



Paved Road Length, Medians by Region  
(km per area)



Safe Drinking Water by Region  
(% of population with access)

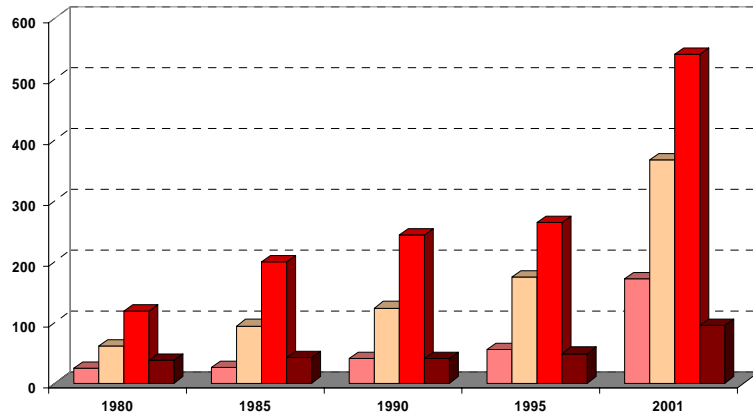


Source: Calderon and Servén (2004)

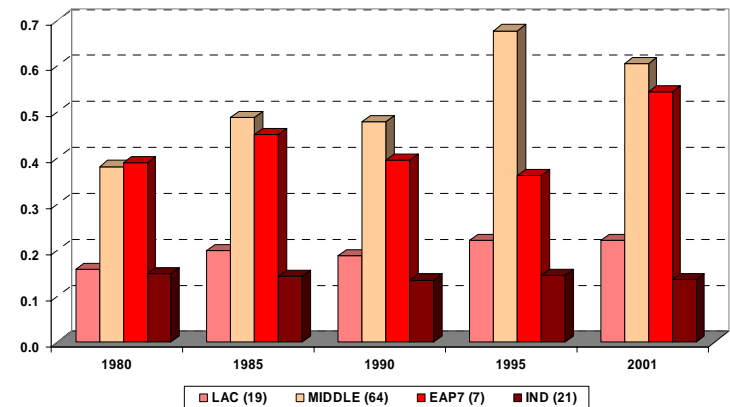
Source: Fay and Yepes (2003), World Bank and United Nations.

# Infrastructure: LAC Region lagging East Asia in Coverage

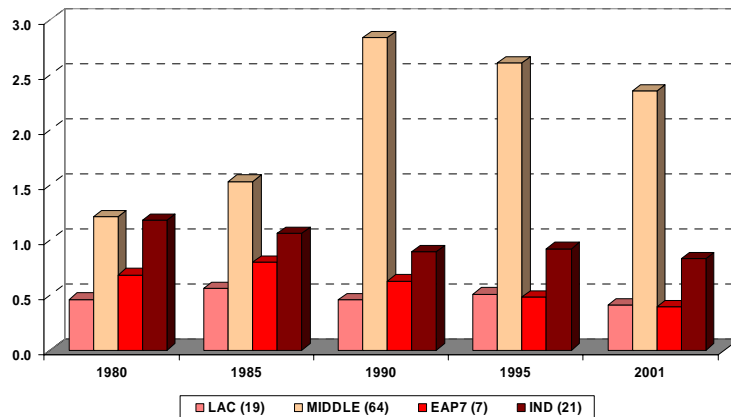
Total Telephone Lines per worker, Medians by Region (relative to GDP per capita of the region)



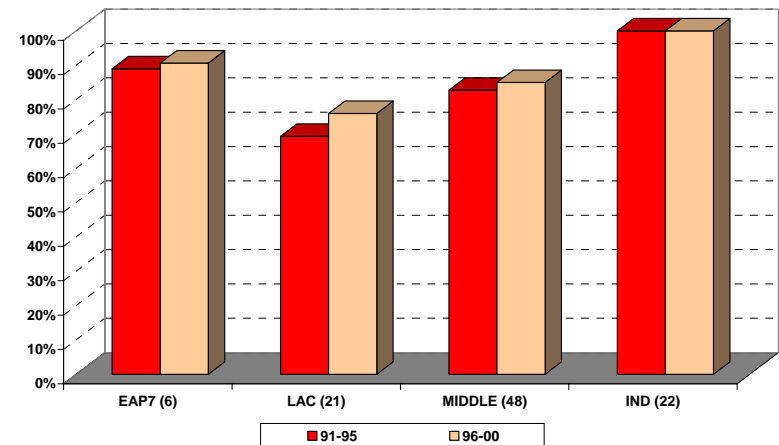
Electricity Generating Capacity in MW per workers, Medians by Region (relative to GDP per capita of the region)



Paved Road Length in kilometers per workers, Medians by Region (relative to GDP per capita of the region)



Safe Drinking Water by Region (% of population with access)

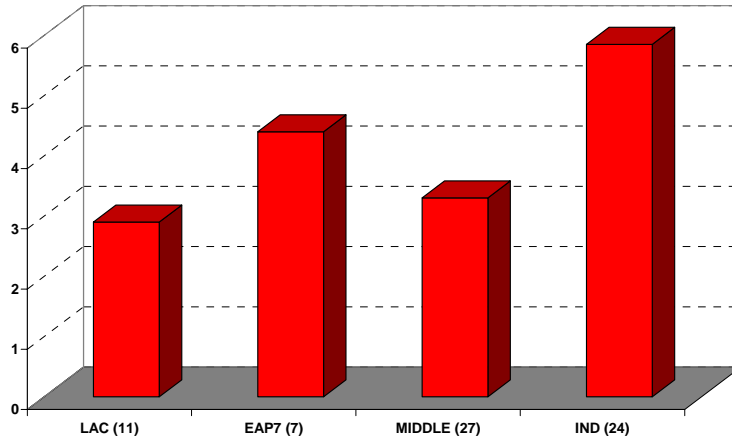


Source: Calderon and Servén (2004)

Source: Fay and Yepes (2003), World Bank and United Nations.

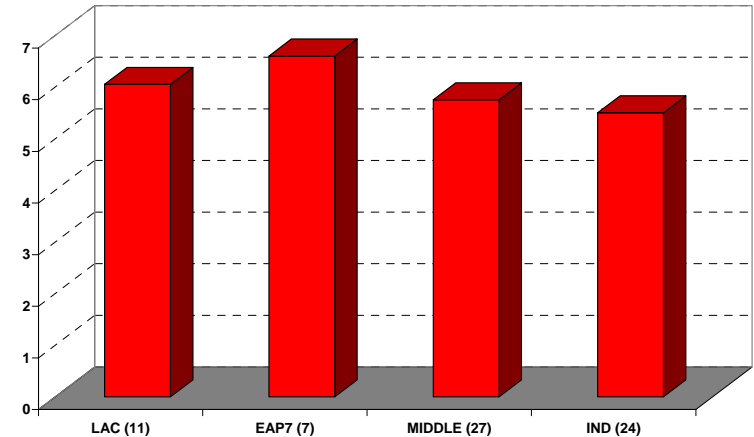
# ... and in Quality of Infrastructure Services

Overall Infrastructure Quality  
Medians by region and income level, 2000



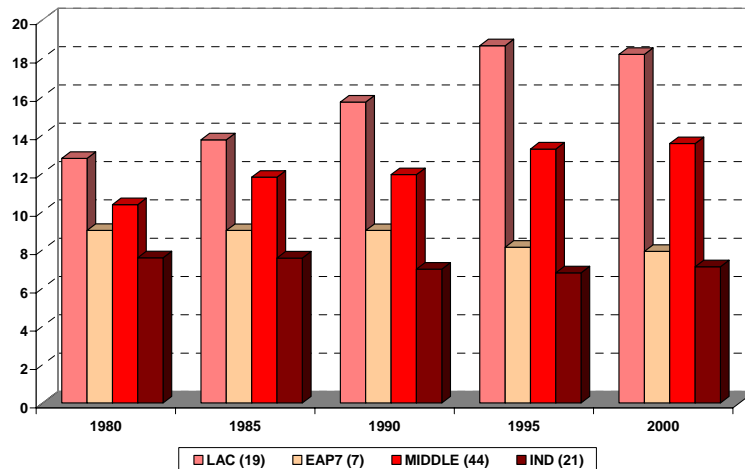
Question: The quality of the infrastructure is among the best in the world (1=strongly disagree; 7=strongly agree).

Reliability of Telephone Services  
Medians by region and income level, 2000

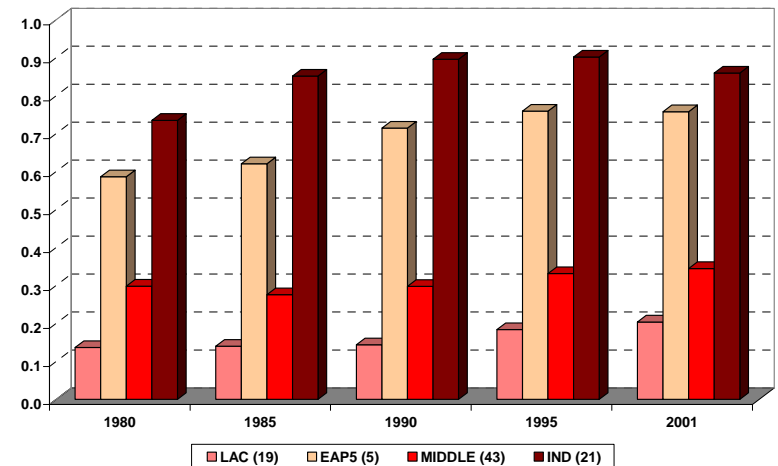


Question: Telephone lines have ample capacity and are highly reliable (1=strongly disagree; 7=strongly agree).

Power Losses, Medians by Region  
(percentage of power output)

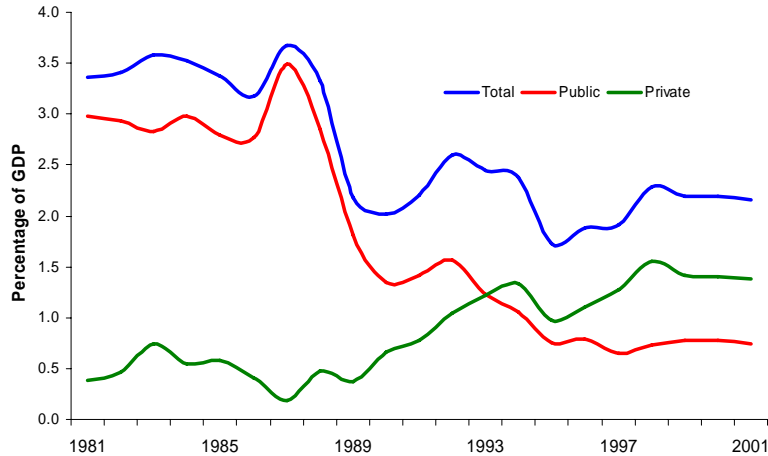


Paved Roads as a percentage of Total Roads  
Medians by Region

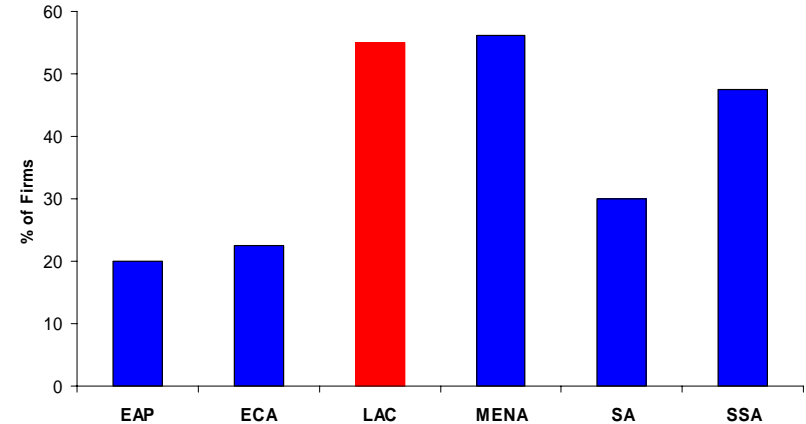


# Infrastructure Investment Needs in LAC

Infrastructure Investment in the 9 Largest LAC Countries

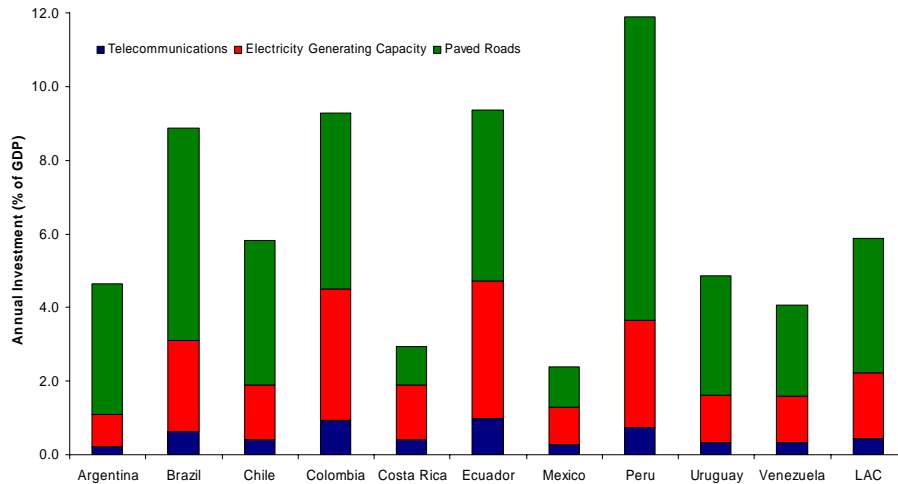


Businesses that see Infrastructure as Serious Problem

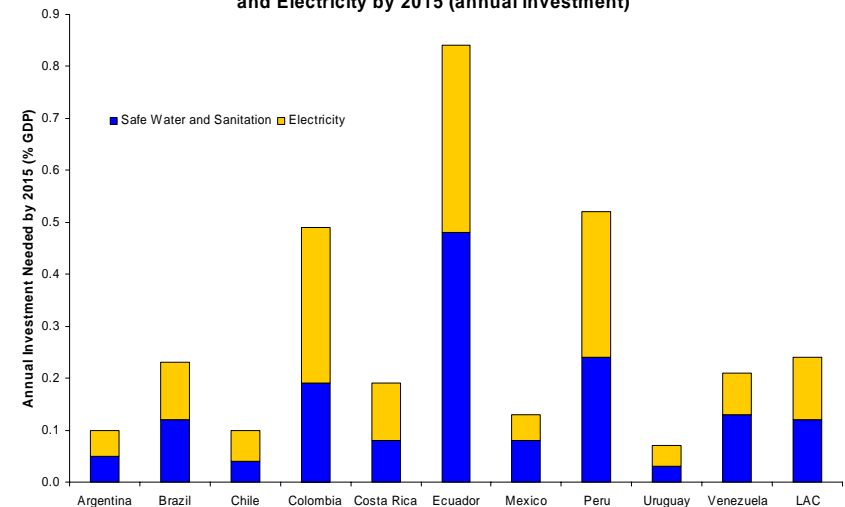


Source: The World Bank - Investment Climate Surveys

Investment Needs to Reach Infrastructure Coverage per worker in Korea (annual cost over the next 20 years)



Investment Needs to reach Universal Access in Water & Sanitation and Electricity by 2015 (annual investment)



Source: Calderon and Servén (2004), World Competitiveness Report