Outlook for Latin America

José De Gregorio
Governor
Central Bank of Chile
Terms of trade will see a sizeable fall this year, comparable to the worst performance in last 30 years. Nonetheless, its level is still high.

Terms of Trade (*)

(*) Corresponds to the IMF’s Western Hemisphere definition.
(f) Forecast.

Source: WEO April 2009, IMF.
Nonetheless, Latam’s 2009 growth will be less affected than in the past, especially considering the magnitude of the reduction in demand in advanced economies (and ToT).

GDP Growth
(annual real change, percent)

(*) Corresponds to a simple average including Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
(f) Forecast.
Source: WEO April 2009, IMF.
Partly because the fall in world demand for exports has hit hardest those economies selling manufactured goods.

Source: Central Bank of Chile.
There are several reasons that can explain the better performance of Latin American economies, including fiscal soundness.

Fiscal Balance (*)
(as a percentage of GDP)

(*) Corresponds to a simple average including Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. Between 1990 and 1992, excludes Argentina. Between 1980 and 1990, excludes Brazil.

Source: IIF.
Inflation has ceased to be a big problem in most countries: monetary policy has focused on controlling it.

(*) Corresponds to a simple average including Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
(f) Forecast.

Source: WEO April 2009, IMF.
The ToT bonanza was used to hoard reserves.

(*) Corresponds to the IMF’s Western Hemisphere definition.
Source: WEO April 2009, IMF.
The external debt has been downsized considerably.

External Debt (*)

(*) Corresponds to the IMF's Western Hemisphere definition.
(f) Forecast.
Source: WEO April 2009, IMF.
Furthermore, the requirements of external funding for this and next year are smaller than in past crises.

Current Account Balance (*)(as a percentage of GDP)

(*) Corresponds to a simple average including Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
(f) Forecast.

Source: WEO April 2009, IMF.
Many challenges remain

- Financial systems have suffered no significant stress situations. Innovation and regulation problems that affected developed economies were not replicated in Latin America. Currency mismatches have been avoided. Overall, there will be challenges facing the development and monitoring of new financial activities.

- Global economic conditions are complex and have called for major fiscal and monetary stimulus packages to mitigate effects. Sustainable and credible economic policies are crucial in insuring the effectiveness of macroeconomic stimulus. Exchange rate flexibility has helped to improve performance by acting as a shock absorber.

- The region has made big progress in recent years, but the challenge of overcoming poverty and income inequalities is yet to be addressed and solved.

- Monetary policy has cooperated and should continue contributing to create an environment of macroeconomic stability that sets the stage for economic development.
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