Latin America and the Global Crisis

José De Gregorio
Governor
Central Bank of Chile
Outline

- Crisis’s Origins: Financial Regulation or Monetary Policy?
- Inflation Developments
- GDP Response and Prospects
Crisis’s Origins: Financial Regulation or Monetary Policy?
Chile’s MPR and US’s Fed Funds (percentage)

(*) Since August 2001 correspond to a nominal interest rate. Before that date, correspond to a real interest rate.

Sources: Central Bank of Chile and Federal Reserve.
House Prices
(nominal index; 2001.Q1=100)

Source: Central Bank of Chile and Bloomberg.
Issues on Financial Regulation and Innovation

- Financial stability is insured by proper regulation and to a lesser extent by monetary policy. Low interest rates and abundant liquidity are necessary but not sufficient to generate financial instability.

- The perils of securitization: what are the incentives for screening and monitoring mortgage loans? How to reap the potential benefits of risk sharing without increasing overall risk?

- The extent of regulation: move beyond regulating institutions that depend on public trust and guarantees, to institutions that can threaten financial stability.

- Relearn the lessons of the early 20th century, before the creation of the FED: liquidity transformation is inherently risky without some form of systemic liquidity insurance.
Inflation Developments
CPI Annual Inflation (percentage)

Source: National Statistics Offices of each country.
CPI: Accumulated Change (percentage points)

(a) Between January 2007 and October 2008.

(b) Between October 2008 and March/February 2009(*)

(*) Hong Kong, Malaysia, Japan, South Africa and United Kingdom as of February 2009.
All other, as of March 2009. Sources: National statistics Offices of each country and Bloomberg.
## Inflation Forecasts
(average annual change, percentage)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009(f)</th>
<th>2010(f)</th>
<th>Inflation Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>8.8</td>
<td>8.6</td>
<td>6.7</td>
<td>7.3</td>
<td>–</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.6</td>
<td>5.7</td>
<td>4.8</td>
<td>4.0</td>
<td>4.5 (1)</td>
</tr>
<tr>
<td>Chile</td>
<td>4.4</td>
<td>8.7</td>
<td>2.9</td>
<td>3.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Colombia</td>
<td>5.5</td>
<td>7.0</td>
<td>5.4</td>
<td>4.0</td>
<td>4.0 / 5.0 (2)</td>
</tr>
<tr>
<td>Ecuador</td>
<td>2.3</td>
<td>8.4</td>
<td>4.0</td>
<td>3.0</td>
<td>–</td>
</tr>
<tr>
<td>Mexico</td>
<td>4.0</td>
<td>5.1</td>
<td>4.8</td>
<td>3.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Peru</td>
<td>1.8</td>
<td>5.8</td>
<td>4.1</td>
<td>2.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Uruguay</td>
<td>8.1</td>
<td>7.9</td>
<td>7.0</td>
<td>6.7</td>
<td>–</td>
</tr>
<tr>
<td>Venezuela</td>
<td>18.7</td>
<td>30.4</td>
<td>36.4</td>
<td>43.5</td>
<td>–</td>
</tr>
<tr>
<td>Western Hemisphere</td>
<td>5.4</td>
<td>7.9</td>
<td>6.6</td>
<td>6.2</td>
<td>–</td>
</tr>
</tbody>
</table>

(f) Forecast.
(1) Corresponds to 2009 IT.
(2) IT is 5.0% to 2009 and 4.0% to 2010.
Source: World Economic Outlook April 2009, IMF.
Monetary Policy

**MPR Change** (basis points)

- Turkey
- Chile
- N. Zealand
- U. Kingdom
- India
- Australia
- Sweden
- Israel
- Norway
- Korea
- Hong Kong
- Euro Zone
- Colombia
- Canada
- South Africa
- Switzerland
- Poland
- Mexico
- China
- Czech Rep.
- Indonesia
- Brazil
- United States
- Malaysia
- Philippines
- Japan
- Peru
- Island
- Hungary
- Russia
- Argentina

Between 09.04.08 and 04.21.09

**MPR Level** (percentage)

- Japan
- United States
- Switzerland
- Canada
- Israel
- Hong Kong
- U. Kingdom
- Sweden
- Norway
- N. Zealand
- Australia
- Poland
- Philippines
- India
- China
- Peru
- Mexico
- Colombia
- Indonesia
- South Africa
- Hungary
- Turkey
- Argentina
- Brazil
- Russia
- Island

At 04.21.09

Source: Bloomberg.
GDP Response and Prospects
GDP and Industrial Production
(real annual change, percentage)

(a) GDP annual change in 2008.Q4.

(b) Industrial production average annual change between October 2008 and January/February 2009 (*)

(*) Peru, Colombia, India, Mexico and Euro Area as of January 2009. All other, as of February 2009.
Sources: Central Bank of Chile, CEIC Data and The People’s Bank of China.
Exports and GDP in 2008.Q4 (percentage)

Capital and Durable Consumption Goods as a Percentage of Total Exports

Exports Contribution to GDP on 2008.Q4 (annualized quarterly change, sa)

Source: Central Bank of Chile.
## GDP Forecasts
(at PPP, real annual change, percentage)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009(f)</th>
<th>2010(f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>5.2</td>
<td>3.2</td>
<td>-1.3</td>
<td>1.9</td>
</tr>
<tr>
<td>United States</td>
<td>2.0</td>
<td>1.1</td>
<td>-2.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Euro Area</td>
<td>2.7</td>
<td>0.9</td>
<td>-4.2</td>
<td>-0.4</td>
</tr>
<tr>
<td>Japan</td>
<td>2.4</td>
<td>-0.6</td>
<td>-6.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Newly Ind. Asian Economies</td>
<td>5.7</td>
<td>1.5</td>
<td>-5.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Emerging and Developing Eco.</td>
<td>8.3</td>
<td>6.1</td>
<td>1.6</td>
<td>4.0</td>
</tr>
<tr>
<td>Western Hemisphere</td>
<td>5.7</td>
<td>4.2</td>
<td>-1.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Argentina</td>
<td>8.7</td>
<td>7.0</td>
<td>-1.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Brazil</td>
<td>5.7</td>
<td>5.1</td>
<td>-1.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Chile</td>
<td>4.7</td>
<td>3.2</td>
<td>0.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Colombia</td>
<td>7.5</td>
<td>2.5</td>
<td>0.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Ecuador</td>
<td>2.5</td>
<td>5.3</td>
<td>-2.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.3</td>
<td>1.3</td>
<td>-3.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Peru</td>
<td>8.9</td>
<td>9.8</td>
<td>3.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Uruguay</td>
<td>7.6</td>
<td>8.9</td>
<td>1.3</td>
<td>2.0</td>
</tr>
<tr>
<td>Venezuela</td>
<td>8.4</td>
<td>4.8</td>
<td>-2.2</td>
<td>-0.5</td>
</tr>
</tbody>
</table>

(f) Forecast.
Source: World Economic Outlook April 2009, IMF.
World Growth at PPP (*)
(annual real change, percentage)

(*) Categories corresponds to IMF definition.
(f) Forecast.
Source: Central Bank of Chile and IMF (WEO, April 2009).
Current Account Balance
(percentage of GDP)

(f) Forecast.

Source: World Economic Outlook April 2009, IMF.
Latin America and the Global Crisis

José De Gregorio
Governor
Central Bank of Chile