

# **Latin America's Performance and Commodity Price Cycles**

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## Main Points

Politics shape institutions and economic policies

Commodity price cycles are a key conditioning factor for economic outcomes

Good institutions and policies open options to deal with commodity cycles

The Great Recession was “the” test for previous macroeconomic reforms, and it was passed by the reforming countries (Pacific Alliance members at least).

However, we see a deterioration in performance in these countries after 2013

To find the causes we have to look deeper into the characteristics of the commodity price shock

- It was much longer than previous cycles, with the additional complexity of the short-lived downturn in 2009.

- There was a story of structural change behind it (Convergence of China as the source of a “super- cycle”)

- It produced a global investment boom in natural resources sectors, with a major and sustained impact on the economies of NR-rich countries.

## Main Points

The long-term cycle of the PA countries was linked to the Investment Boom in Natural Resources

Institutions and policies were designed to deal with the more traditional short-term commodity price cycles and their financial consequences, and not with the impact of a long-lasting real investment cycle

Inflation targeting with FX flexibility has worked well for Chile, Colombia and Peru

The good news is that the investment adjustment phase to falling commodity prices that began in 2012-13, is coming to an end

The big question is how much the good institutions and policies will be affected by the negative impact of the last phase of the real investment cycle

Economic Outlook:

General recovery (with one exception), but moderate growth

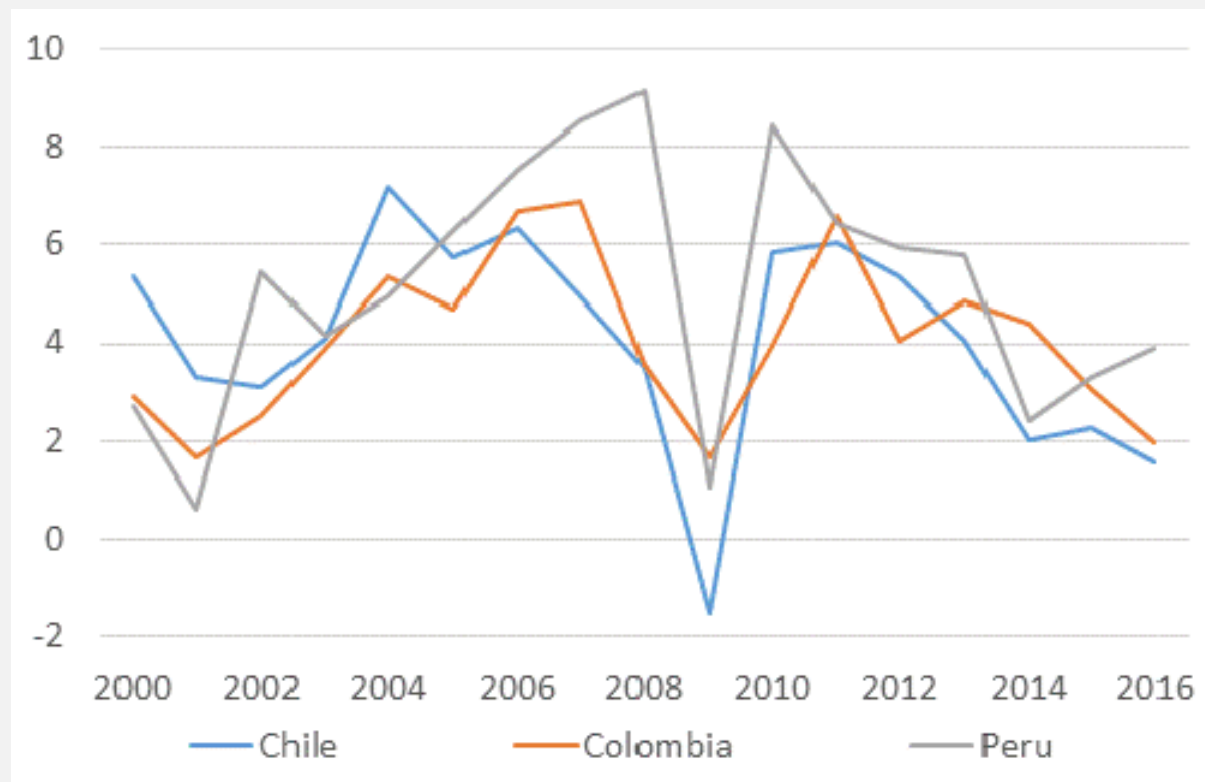
Inflation is back under control (with the same exception)

Fiscal and Current Account balances might become a constraint under tighter global financial conditions, but some countries that accumulated fiscal assets and International Reserves are in a better shape to face those challenges

# Economic performance of some countries in Latin America

GDP growth suffered a temporary interruption in 2009, but after a quick recovery has slowed down gradually

**Figure 6: Annual GDP Growth in Select Latin American Economies**  
Percent

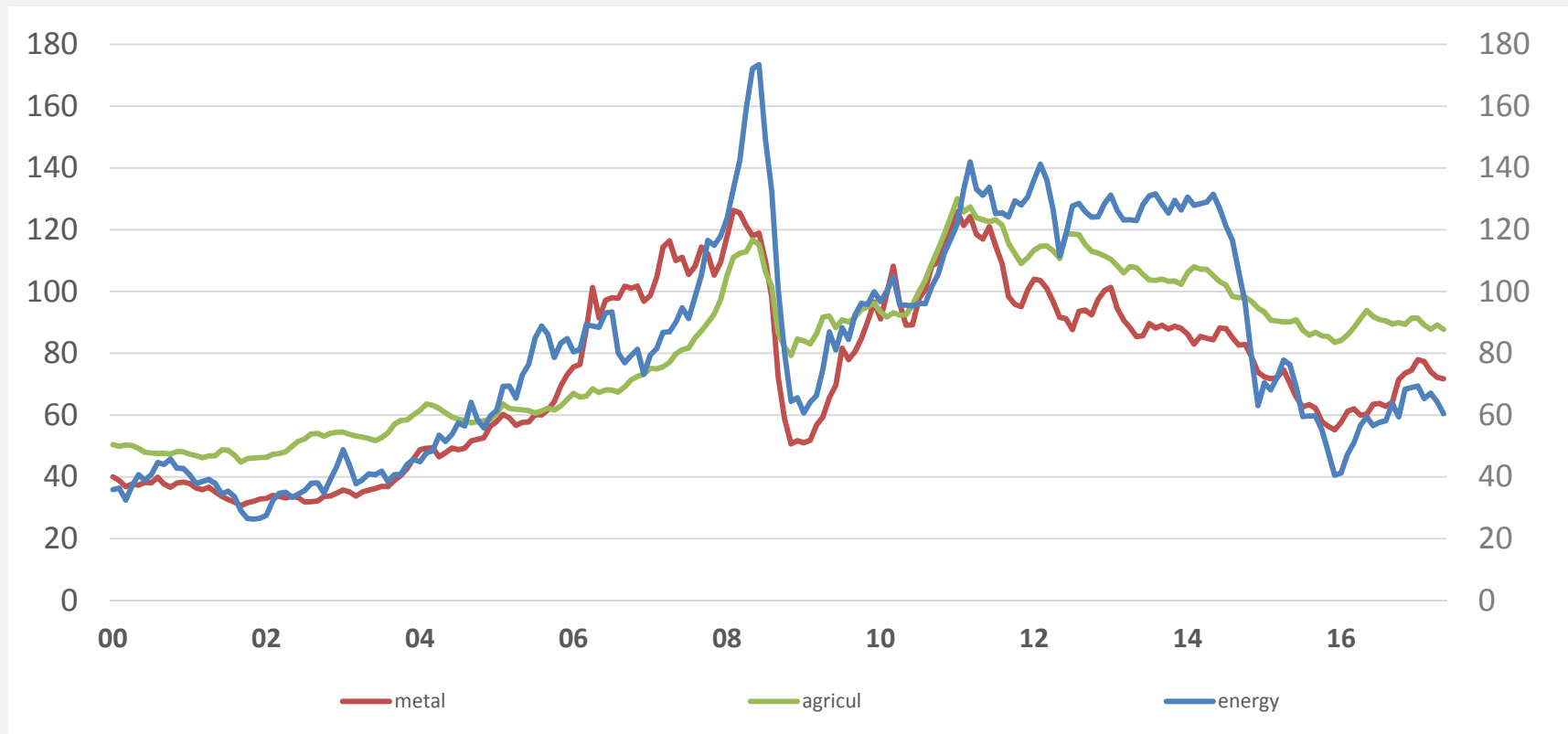


# The last commodity price cycle (s)

1. It was a generalized and long commodity price shock

**Commodity Groups Monthly Price Indices (2000-2017)**

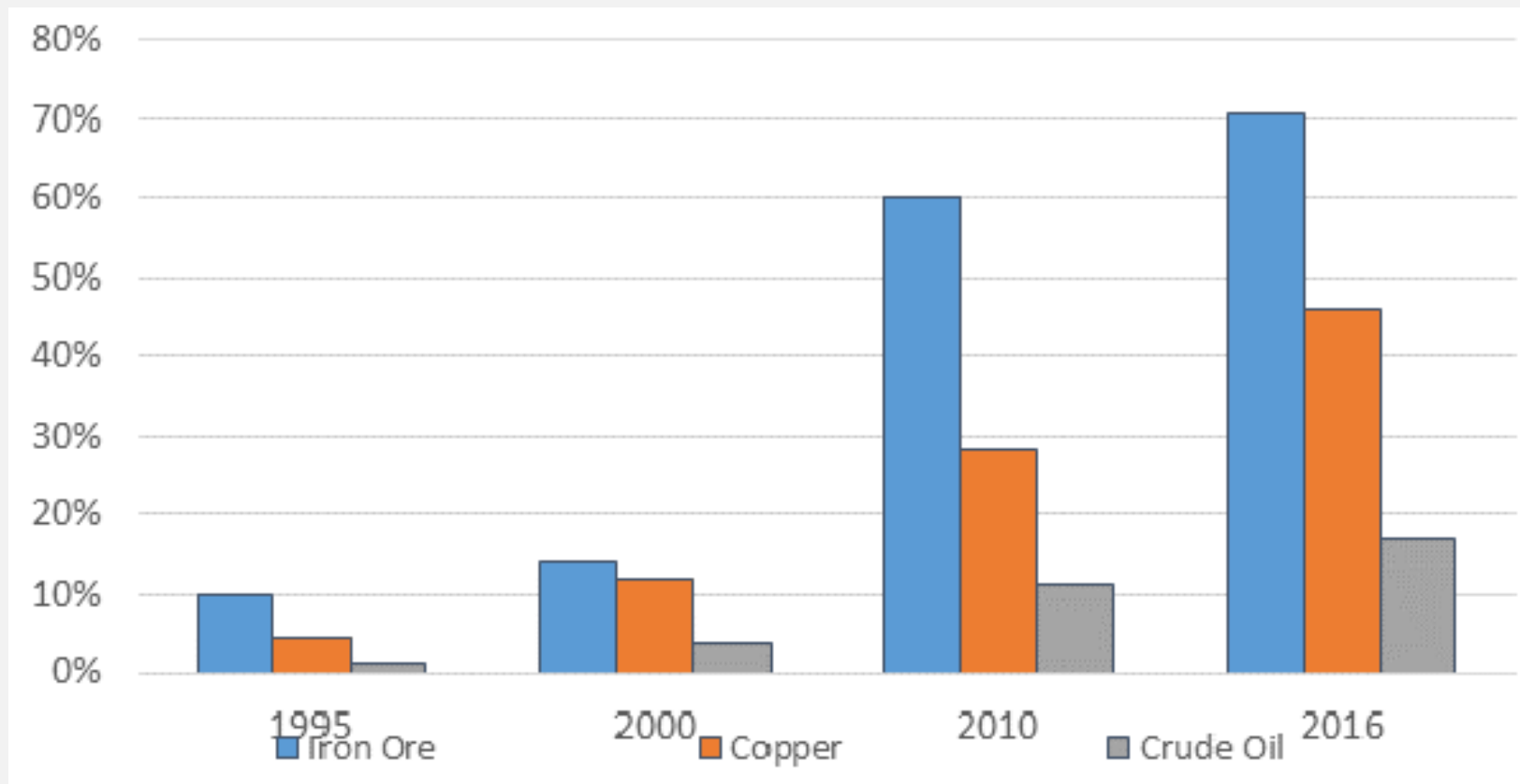
(Source: World Bank. Indexes: 2010=100)



# The last commodity price cycle (s)

## 2. Chinese convergence played a major role

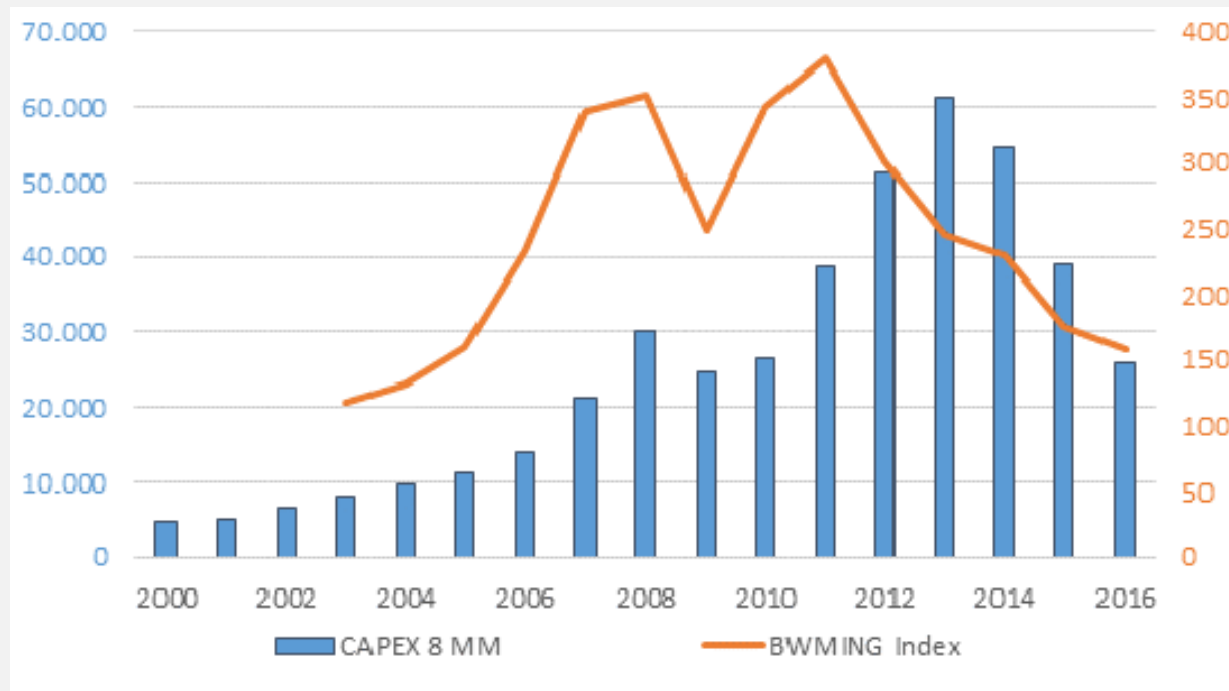
**Share of Chinese Imports in Global Trade of Selected Commodities**  
(Source: UNCTAD; Share of Total Imports per Commodities)



## The last commodity price cycle (s)

3. It brought about a large global investment surge in Natural Resources

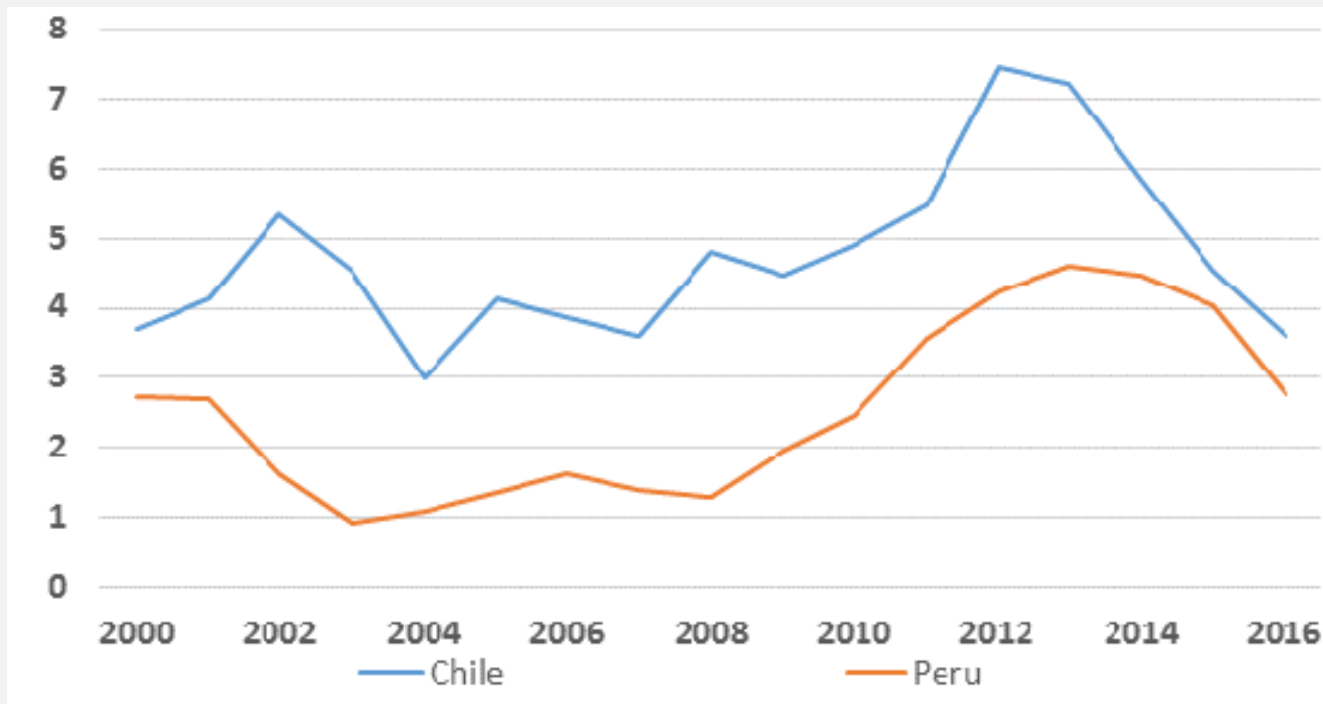
**CAPEX and Stock Prices of 8 Large Mining Multinationals**  
(Source: Bloomberg, Million USD, and Index)



# Economic performance of some countries in Latin America

The mining investment cycle is closely related to the overall cycle in these countries

**Fixed Capital Investment in Mining over the Cycle**  
(Source: local Central Banks. Share of Nominal GDP)





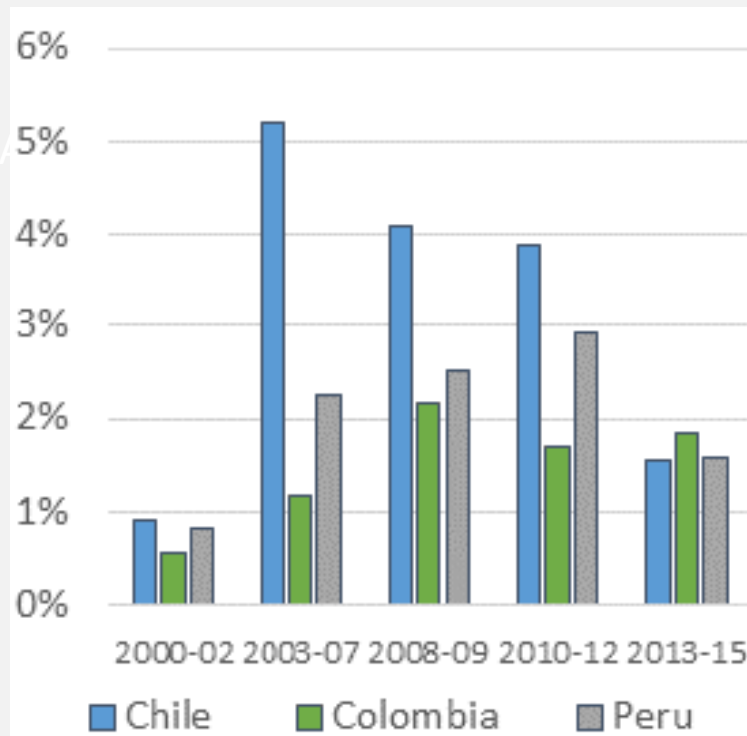
# Economic performance of some countries in Latin America

These countries saved a large fraction of the initial windfall from commodity prices, but now all face public deficits

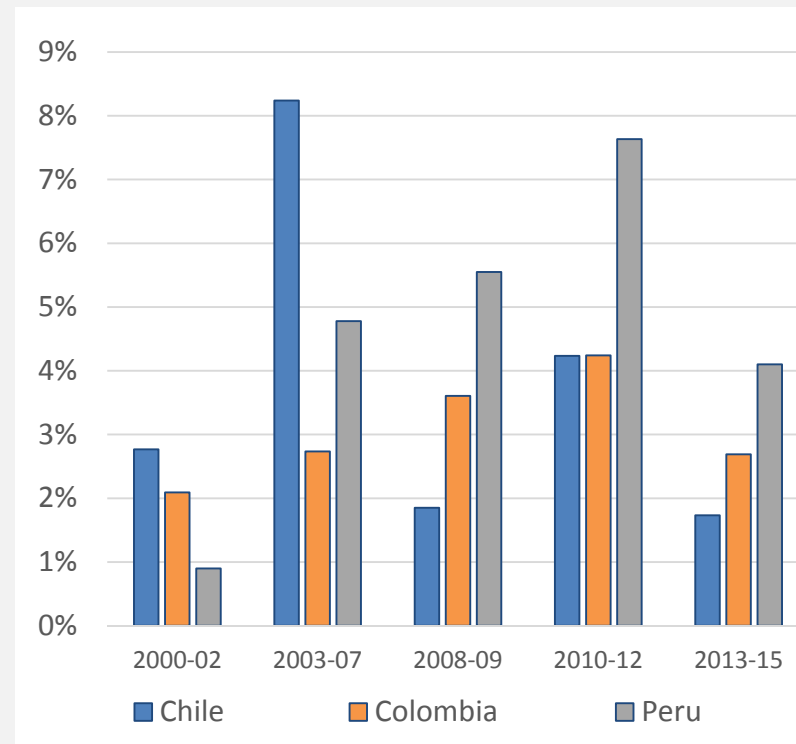
## Fiscal Revenues & Public Savings from Commodities Throughout the Cycle

(Source: Ministries of Finance. Share of Nominal GDP)

A: Fiscal Revenues from NR

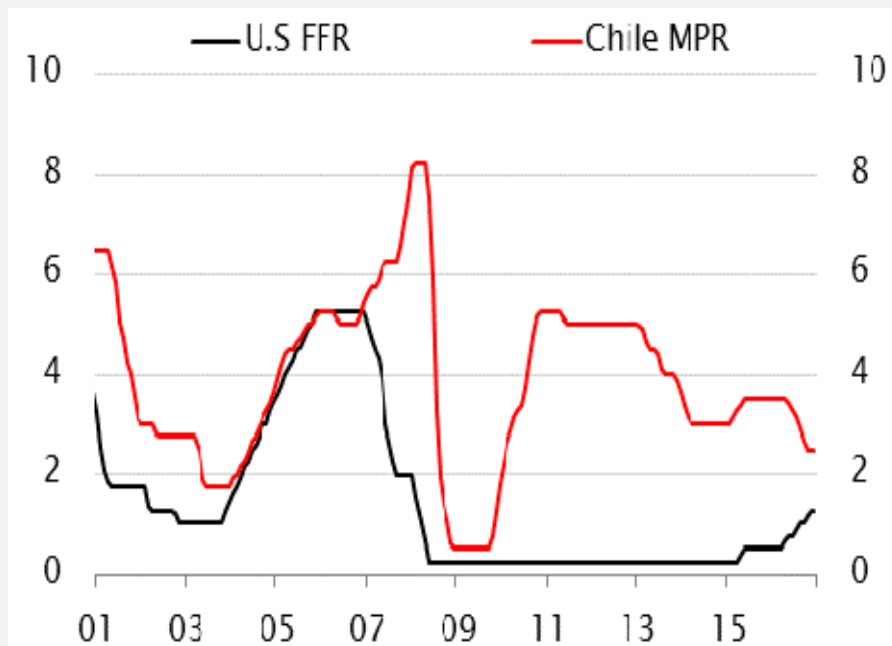


B: Public Savings



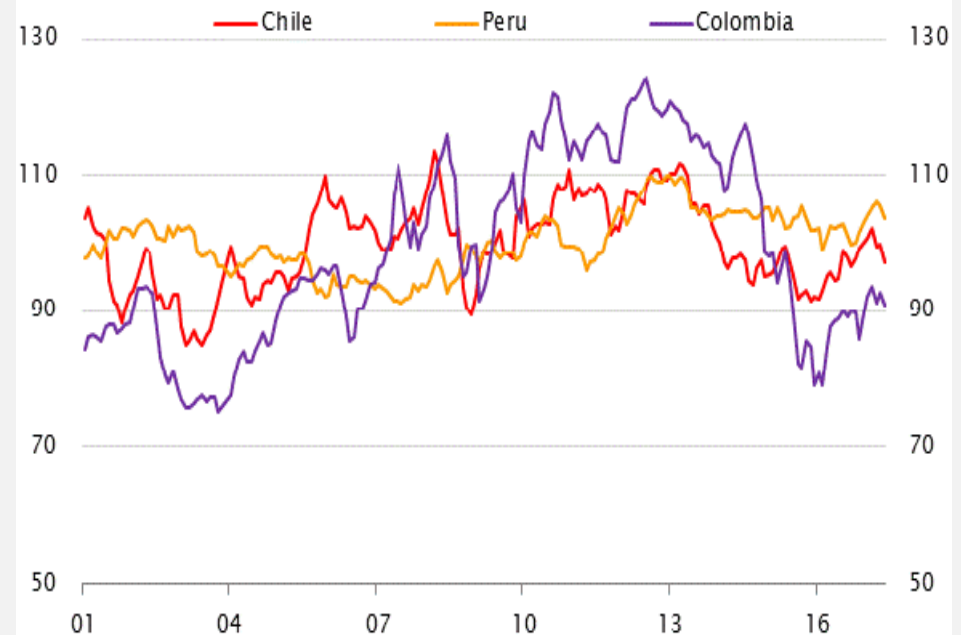
# What we learned?: Monetary policy and FX flexibility work well together

## Monetary Policy Rates in Chile and the U.S.



## Real Effective Exchange rates selected countries in Latin America

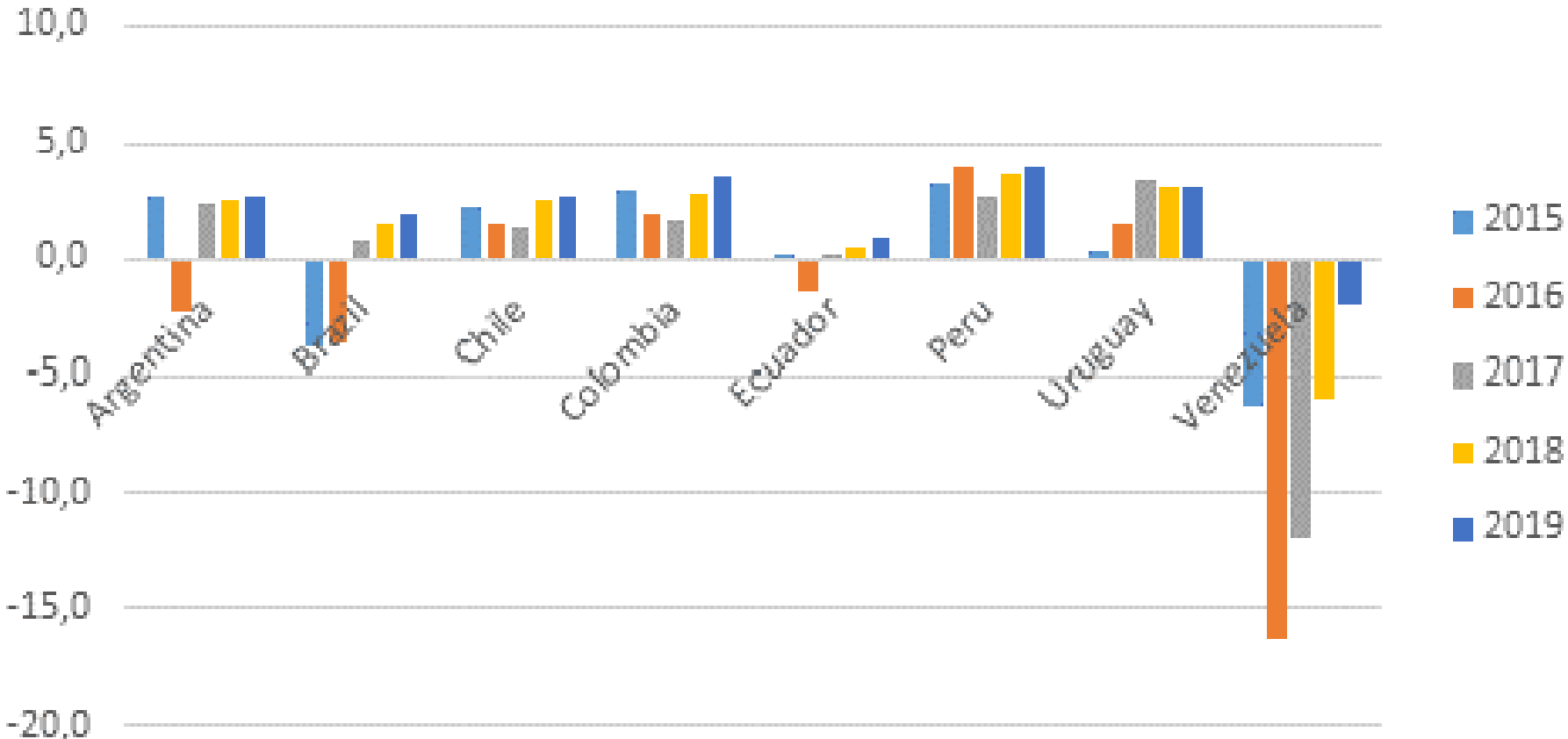
(Source: BIS. Monthly indexes, 2001-2015=100)



# Summary Economic Overview: Economic Growth

## GDP Growth

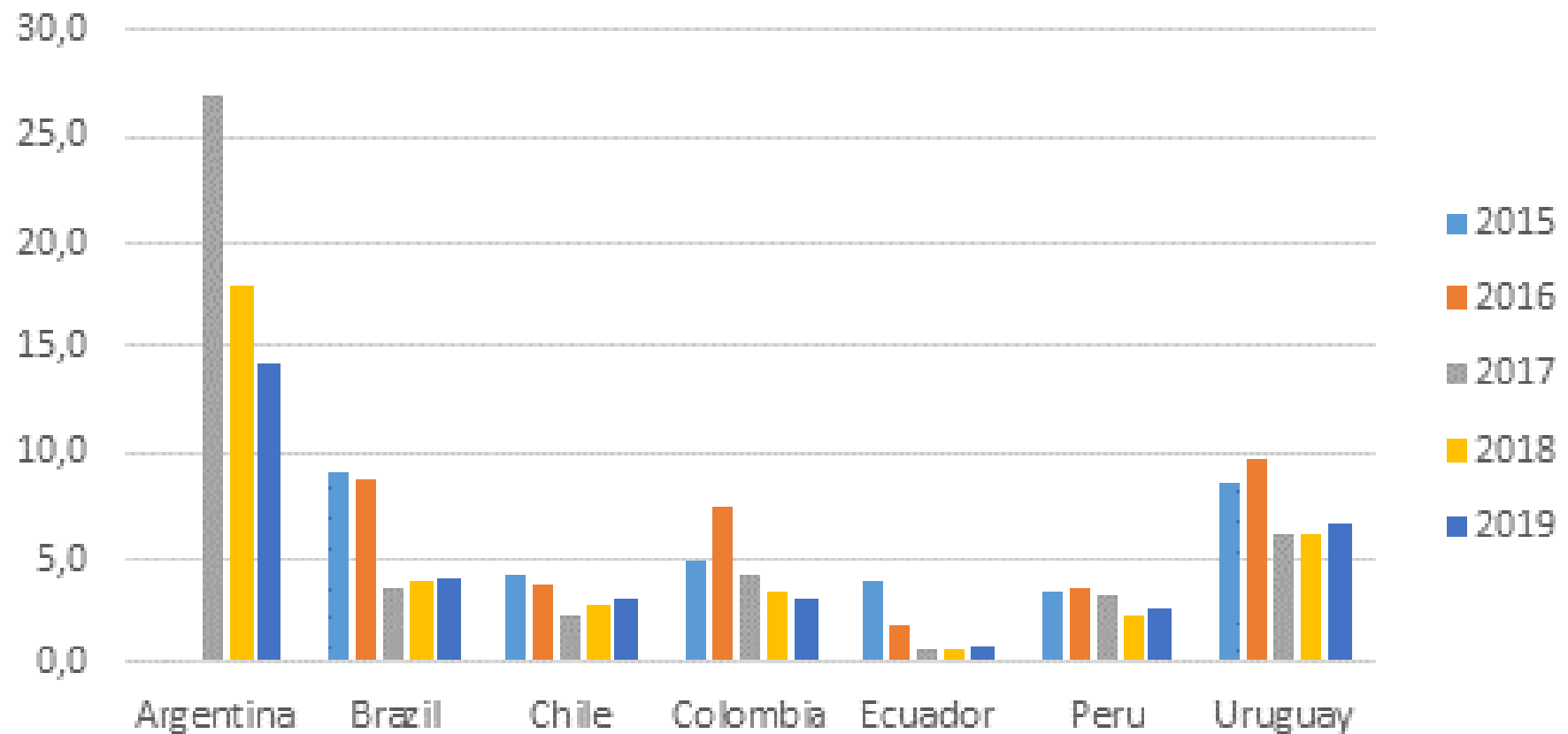
(percent change. Source IMF WEO)



# Summary Economic Overview: Inflation

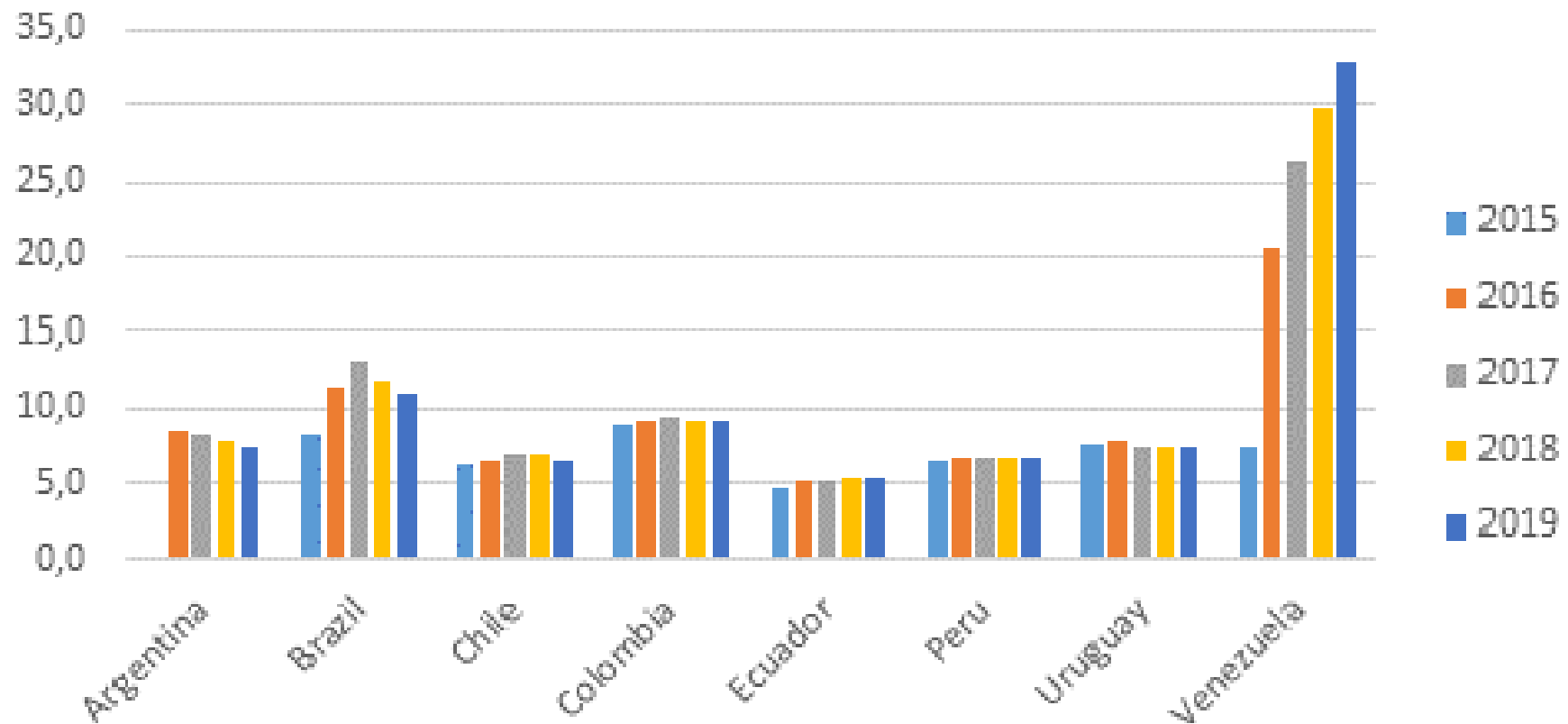
## Inflation

(CPI percent change. Source IMF WEO)



# Summary Economic Overview: Unemployment

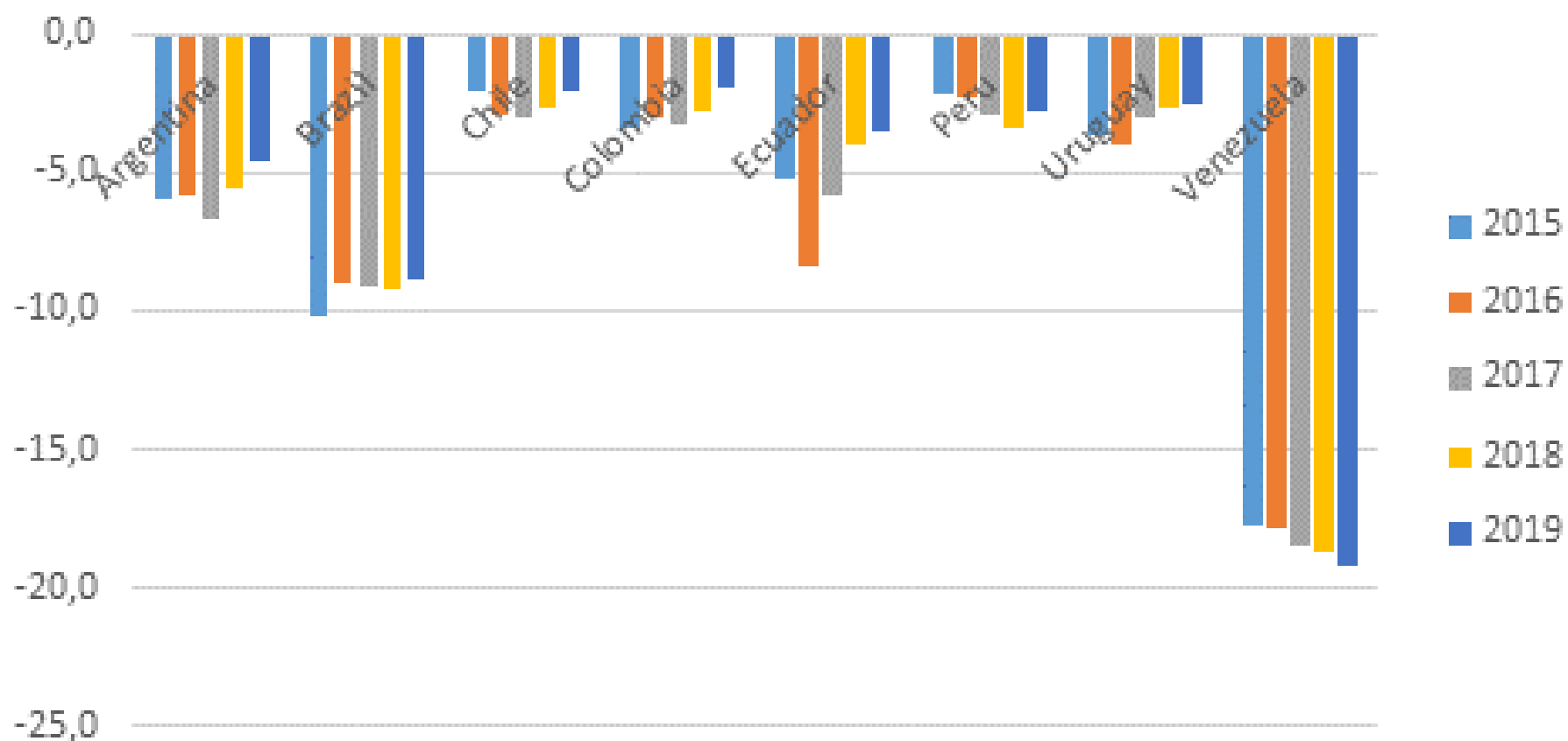
**Unemployment rate**  
(Percent. Source IMF WEO)



# Summary Economic Overview: Fiscal Balance

## General Government Balance

(Percent of GDP. Source IMF WEO)



# Summary Economic Overview: Current Account Balance

## Current Account Balance

(Percent of GDP. Source IMF WEO)

