



GLOBAL IMBALANCES AND THE EFFECTS ON LATIN AMERICA

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Agenda

- Causes of the global imbalances
- How could the imbalances be reverted?
- Impact on Latin America
- Conclusions



Causes of the global imbalances

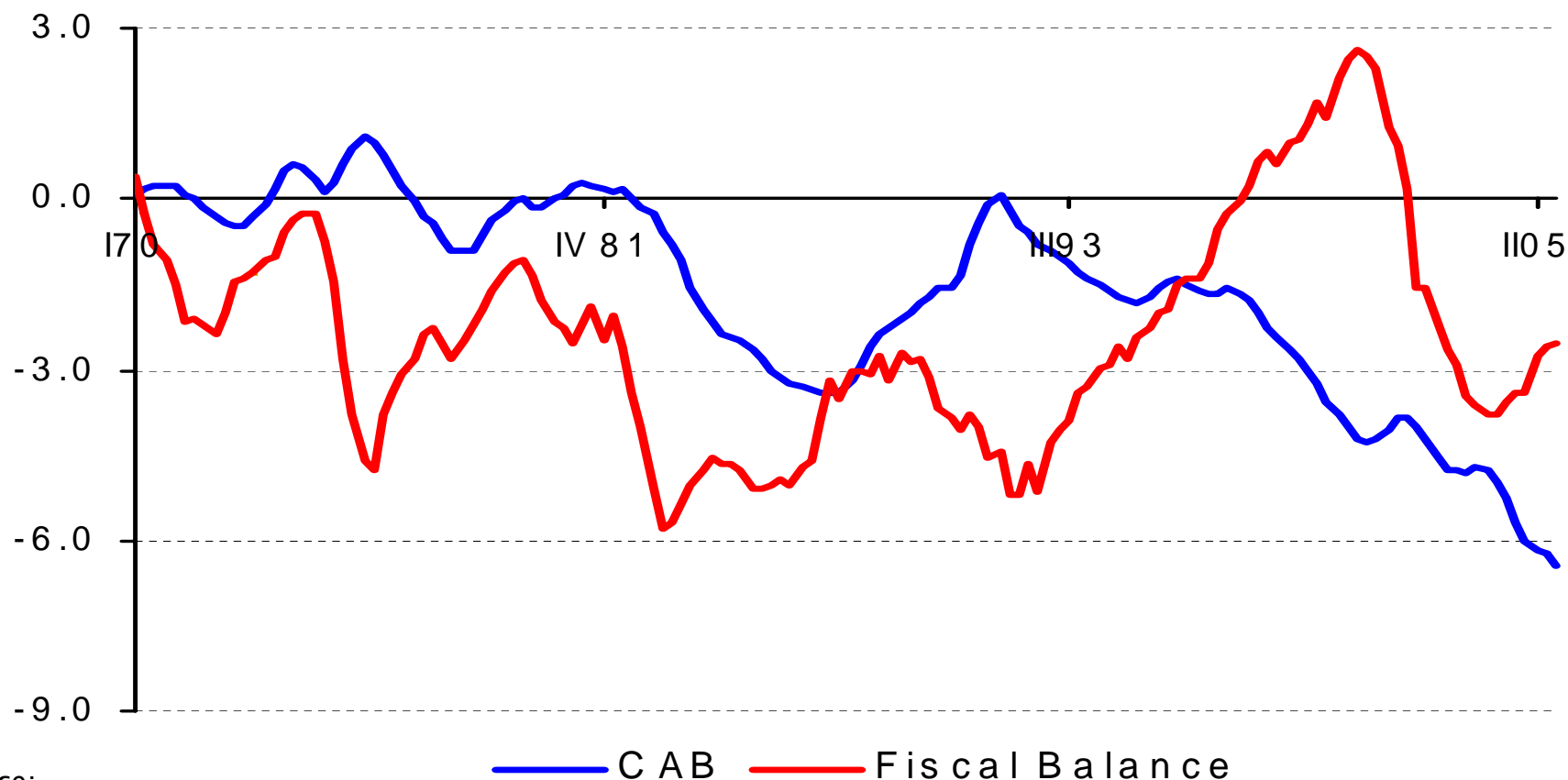
- There are different interpretations about the driving force of actual imbalances.
- The reasons are two-fold: flow and stocks of assets and liabilities.
- Considering flow, one of the causes is a decline in US domestic savings due largely to the decline in US public saving since 2001 (Roubini and Setser, 2004).



Causes of the global imbalances

US Current Account and Fiscal Balances

(1973.I - 2006.I, Jan.1973 = 100))



Source:
Bloomberg



Causes of the global imbalances

Other flow causes:

- High return on investment in the US attracts capital flows from the rest of the world.
- Excessive savings in non-US economies, in particular in Asia.



Causes of the global imbalances

- Low investment in Asia (non-China) following the financial crisis of the late 90's.
- “Bretton-Woods II” hypothesis (Dooley, Folkerts-Landau and Garber, 2003).



Causes of the global imbalances

Stock causes:

- US collects and channels world savings on account of its unique ability to offer financial assets (Caballero et al., 2006).
- US exports of dark matter (Hausmann and Sturzenegger, 2005).



Possible reversion of the imbalances

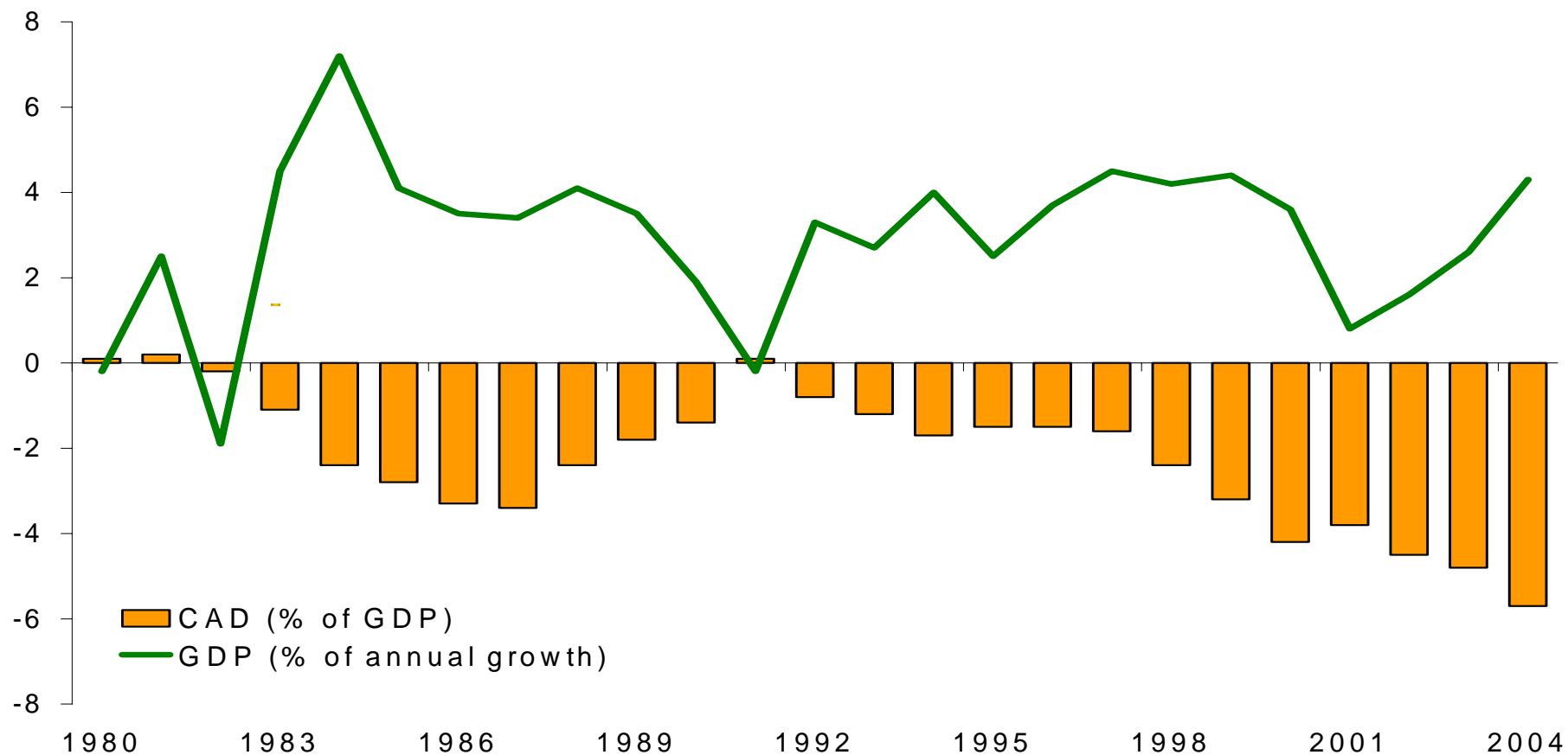
Two views:

- *Optimistic*: gradual adjustment of the imbalances.
- *Pessimistic*: disruptive adjustment in the short run, before factors behind a smooth adjustment take place.



Possible reversion of the imbalances

United States: Current Account Deficit and GDP Growth

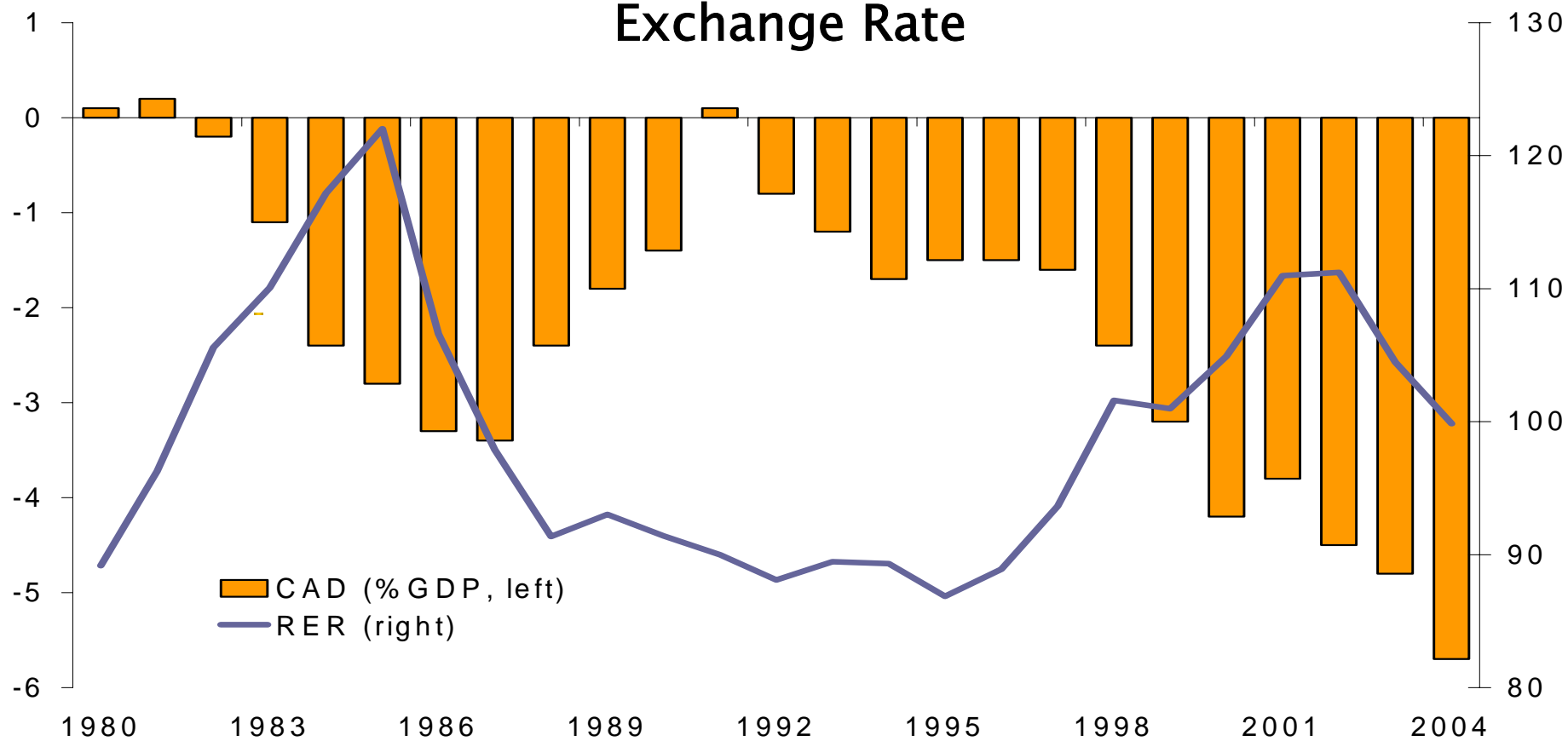


Source: WEO.



Possible reversion of the imbalances

United States: Current Account Deficit and the Real Exchange Rate

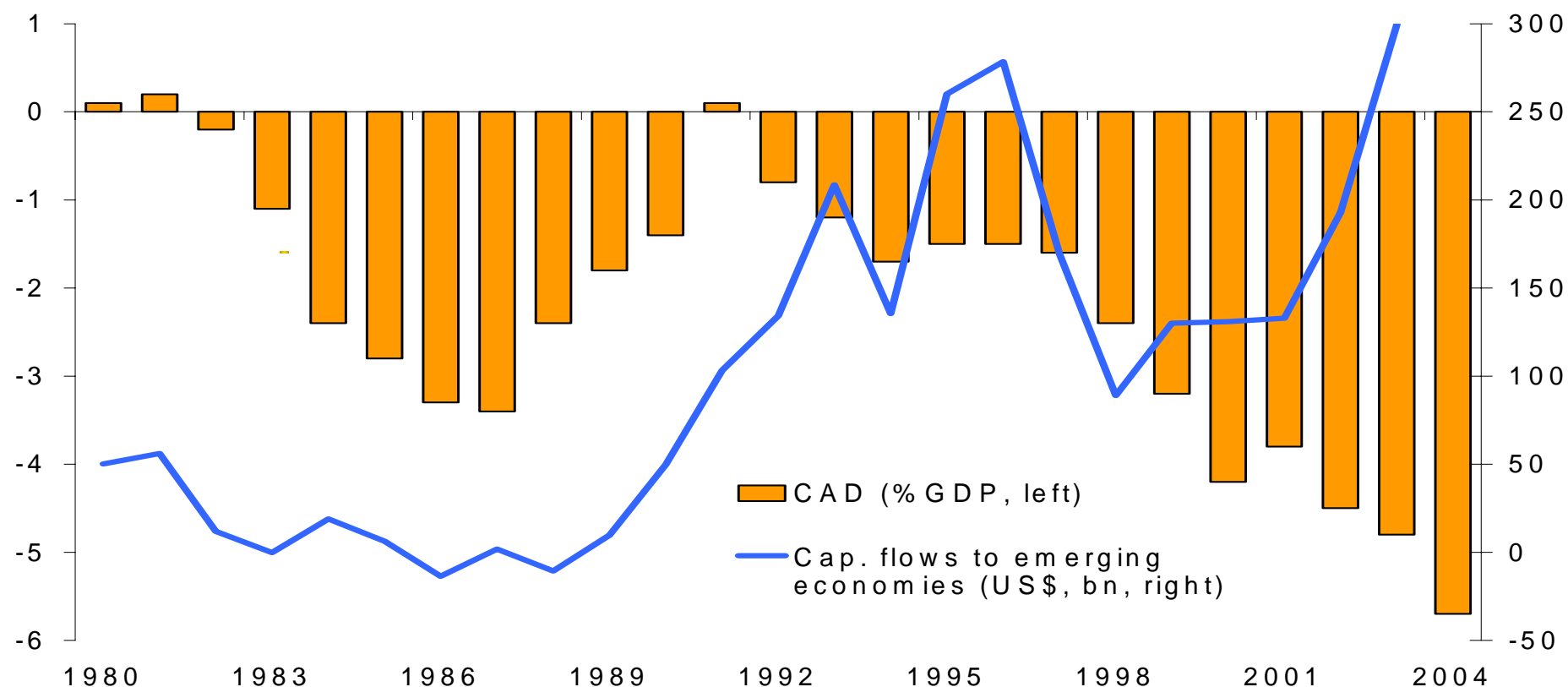


Sources: WEO and Federal Reserve.



Possible reversion of the imbalances

US Current Account Deficit and Capital Flows to Emerging Economies



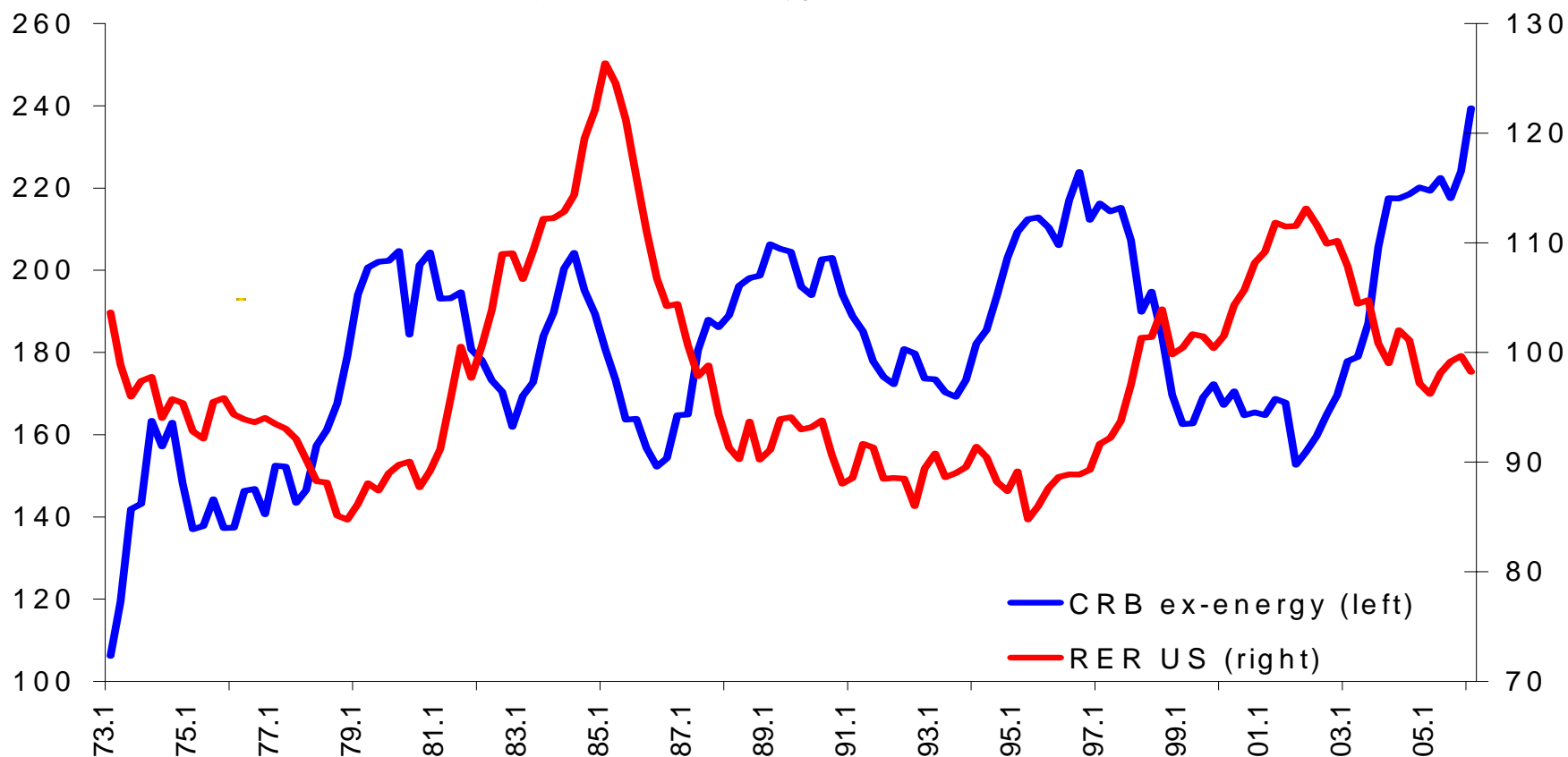
Sources: IFS and WEO.



Possible reversion of the imbalances

Real Exchange Rate and Commodity Prices

(1973.I - 2006.I, Jan.1973 = 100)



Sources: Commodity Research Bureau and US Federal Reserve.



Impact on Latin America

- Significant advances in economic policy have been made in LA:
 - Prudential fiscal policies
 - Improvement of MP frameworks
 - Structural reforms
- Stable macroeconomic scenario reduces LA vulnerabilities to the pessimistic view.



Impact on Latin America

GDP Growth (%)

	1993-2002	2002-06(f)	2005	2006 (f)
World	3.5	4.1	4.3	4.3
Argentina	0.7	3.7	7.5	4.2
Bolivia	3.5	3	3.9	2.5
Brazil	3	2.8	3.3	3.5
Chile	5	4.7	5.9	5.8
Colombia	2.4	3.6	4	4
Ecuador	2.2	3.7	2.7	2.8
El Salvador	3.9	1.9	2	2
Guatemala	3.7	2.7	3.2	3.2
Mexico	2.8	2.6	3	3.5
Peru	4.4	4.7	5.5	4.5
Uruguay	0.5	2.7	6	4
Venezuela	0.1	2.7	7.8	4.5
Average	2.7	3.3	4.6	3.7

(f) Forecast

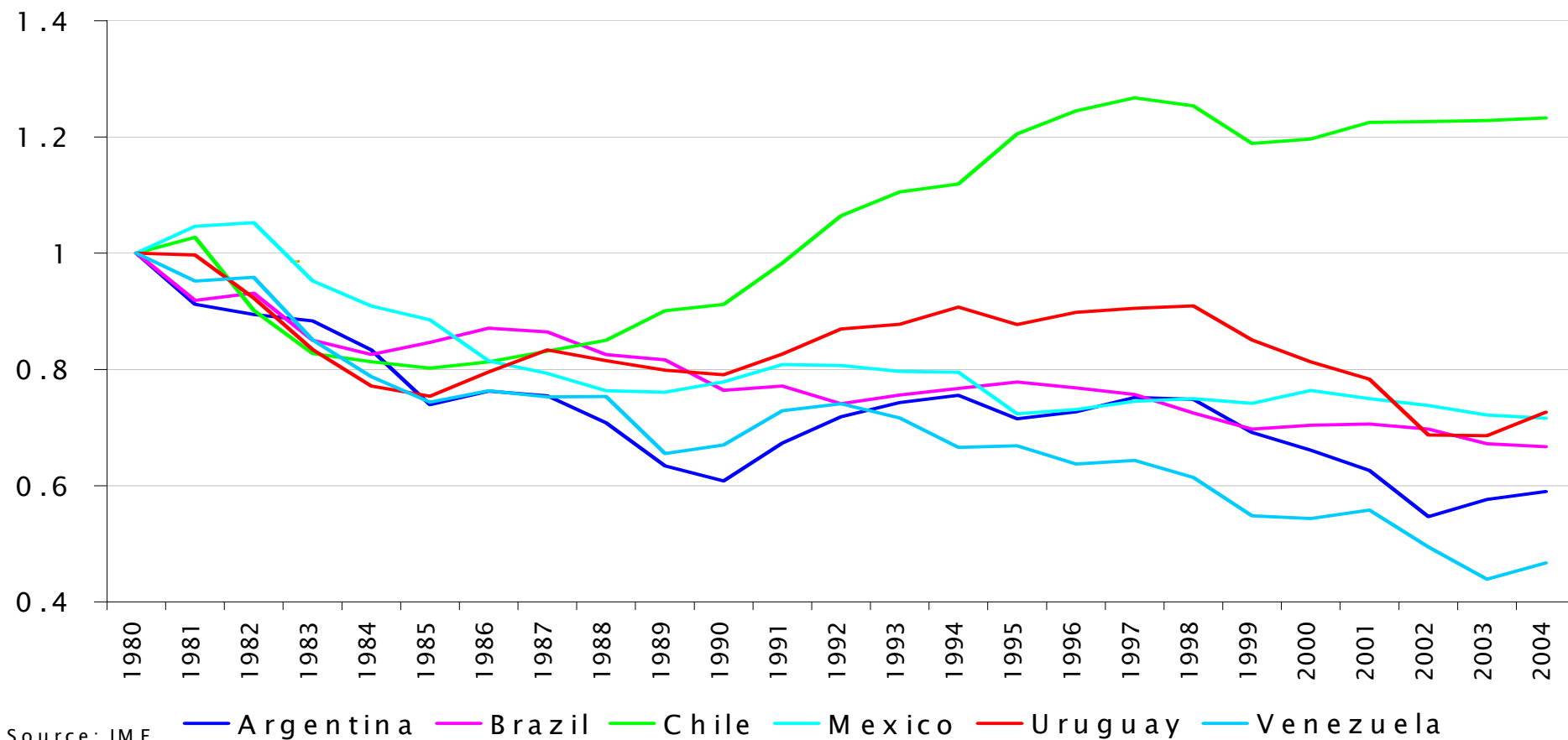
Source: World Economic Outlook, September 2005



Impact on Latin America

Latin America: GDP per capita

(Ratio of GDP per capita of each country to US GDP per capita; 1980=1)



Source: IMF



Impact on Latin America

Inflation Rates

(percentage)

	1980s	1990-94	1995-99	2000-05	2006(f)
Argentina	565.7	515.7	0.8	8.6	10.4
Bolivia	1383.1	13.4	7.4	3.0	3.2
Brazil	332.3	1690.2	19.4	8.4	4.6
Chile	21.4	17.5	6.0	2.8	3.3
Colombia	23.4	26.3	18.0	6.9	4.8
Mexico	69.1	16.3	24.5	5.7	3.6
Paraguay	20.5	23.3	9.7	9.1	4.7
Peru	481.3	1607.4	8.4	2.2	2.6
Uruguay	57.6	76.4	21.4	10.3	6.5
Venezuela	23.1	41.0	53.8	20.8	18.0
LA average	150.6	236.5	17.0	7.9	5.7

Source: IMF; Wold Economic Outlook, September 2005.



Impact on Latin America

Current Account

(% of the GDP)

	1993-2002	2002-06(f)	2005 (f)	2006 (f)
Argentina	-2.2	3.5	1.3	0.1
Bolivia	-5.4	1	2.6	2.9
Brazil	-2.9	0.7	1.7	0.7
Chile	-2.7	-0.3	0.3	-0.7
Colombia	-2.9	-1.5	-1.8	-1.5
Ecuador	-2.4	-0.8	0.2	2.4
El Salvador	-1.6	-4.3	-4.7	-5.5
Guatemala	-5	-4.7	-4.7	-4.5
Mexico	-3.1	-1.3	-1.1	-0.8
Peru	-5	-0.6	0.3	0.3
Uruguay	-1.5	-1.2	-2.8	-5.3
Venezuela	-3.8	13.1	15.9	14.9
Average	-2.6	0.3	0.6	0.3

(f) Forecast

Source: World Economic Outlook, September 2005



Impact on Latin America

Fiscal Balance

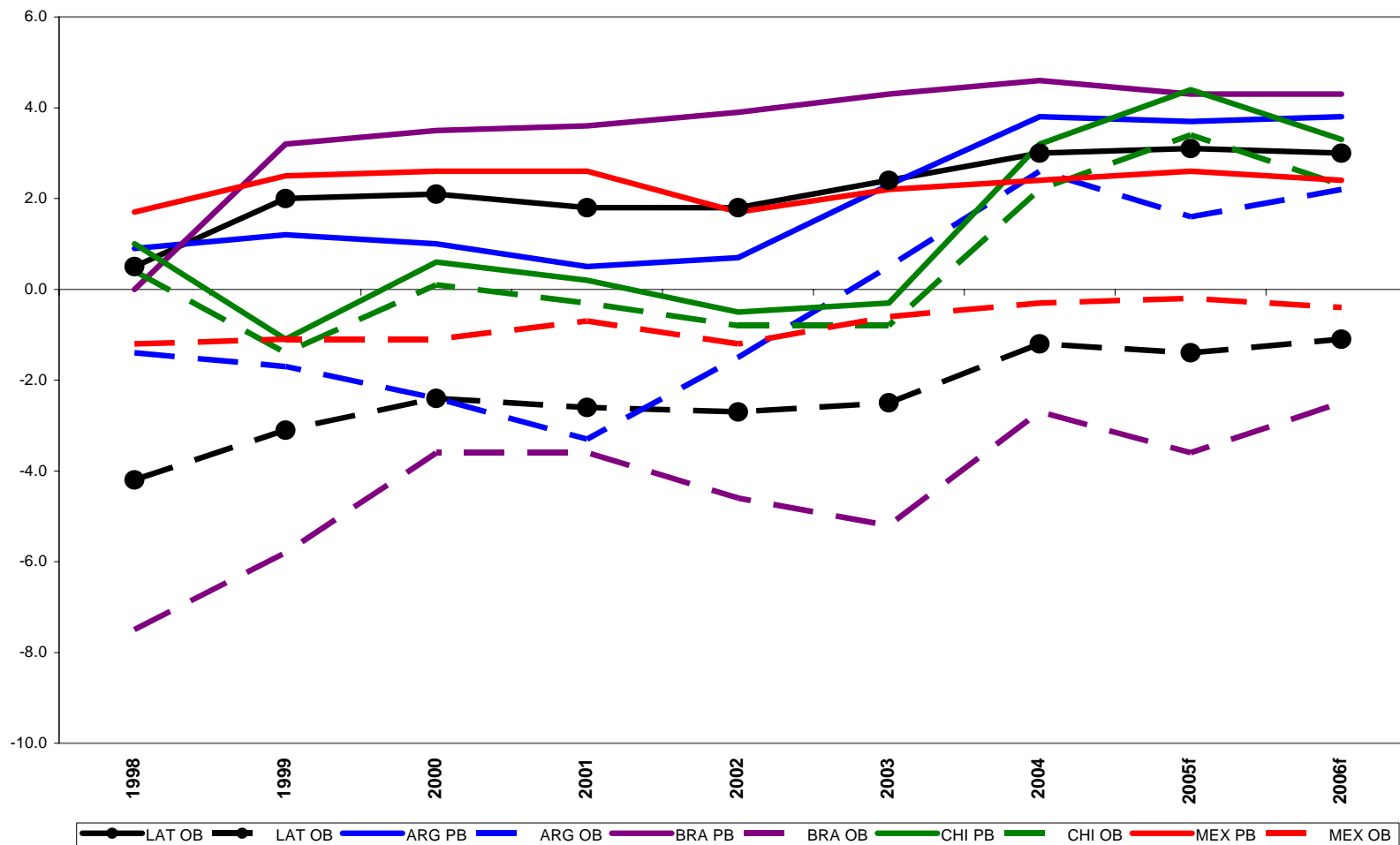
	1998	1999	2000	2001	2002	2003	2004	2005f	2006f
Latin America									
Primary Balance	0.5	2.0	2.1	1.8	1.8	2.4	3.0	3.1	3.0
Overall Balance	-4.2	-3.1	-2.4	-2.6	-2.7	-2.5	-1.2	-1.4	-1.1
Argentina									
Primary Balance	0.9	1.2	1.0	0.5	0.7	2.3	3.8	3.7	3.8
Overall Balance	-1.4	-1.7	-2.4	-3.3	-1.5	0.5	2.6	1.6	2.2
Brazil									
Primary Balance	0.0	3.2	3.5	3.6	3.9	4.3	4.6	4.3	4.3
Overall Balance	-7.5	-5.8	-3.6	-3.6	-4.6	-5.2	-2.7	-3.6	-2.5
Chile									
Primary Balance	1.0	-1.1	0.6	0.2	-0.5	-0.3	3.2	4.4	3.3
Overall Balance	0.4	-1.4	0.1	-0.3	-0.8	-0.8	2.2	3.4	2.3
Colombia									
Primary Balance	-1.9	-1.8	-1.9	-1.7	-2.5	-0.6	-1.2	-1.2	-1.2
Overall Balance	-4.7	-5.2	-5.8	-5.7	-6.4	-5.0	-5.5	-5.6	-5.7
Ecuador									
Primary Balance	-0.7	3.9	8.1	4.8	4.3	4.2	4.9	4.0	3.6
Overall Balance	-5.7	-4.7	1.5	0.0	0.8	1.2	2.3	1.5	1.0
Mexico									
Primary Balance	1.7	2.5	2.6	2.6	1.7	2.2	2.4	2.6	2.4
Overall Balance	-1.2	-1.1	-1.1	-0.7	-1.2	-0.6	-0.3	-0.2	-0.4
Peru									
Primary Balance	1.0	-0.9	-0.8	-0.2	-0.2	0.4	1.1	0.9	0.9
Overall Balance	-1.2	-3.3	-3.2	-2.5	-2.3	-1.8	-1.2	-1.4	-1.3
Venezuela									
Primary Balance	-0.7	1.5	-0.1	-3.4	-0.5	-1.3	0.2	2.0	1.6
Overall Balance	-3.9	-1.6	-2.6	-6.2	-4.8	-5.9	-3.9	-1.1	-1.2

Source: UBS, November 2005.



Impact on Latin America

Fiscal Accounts: Primary and Overall Balance





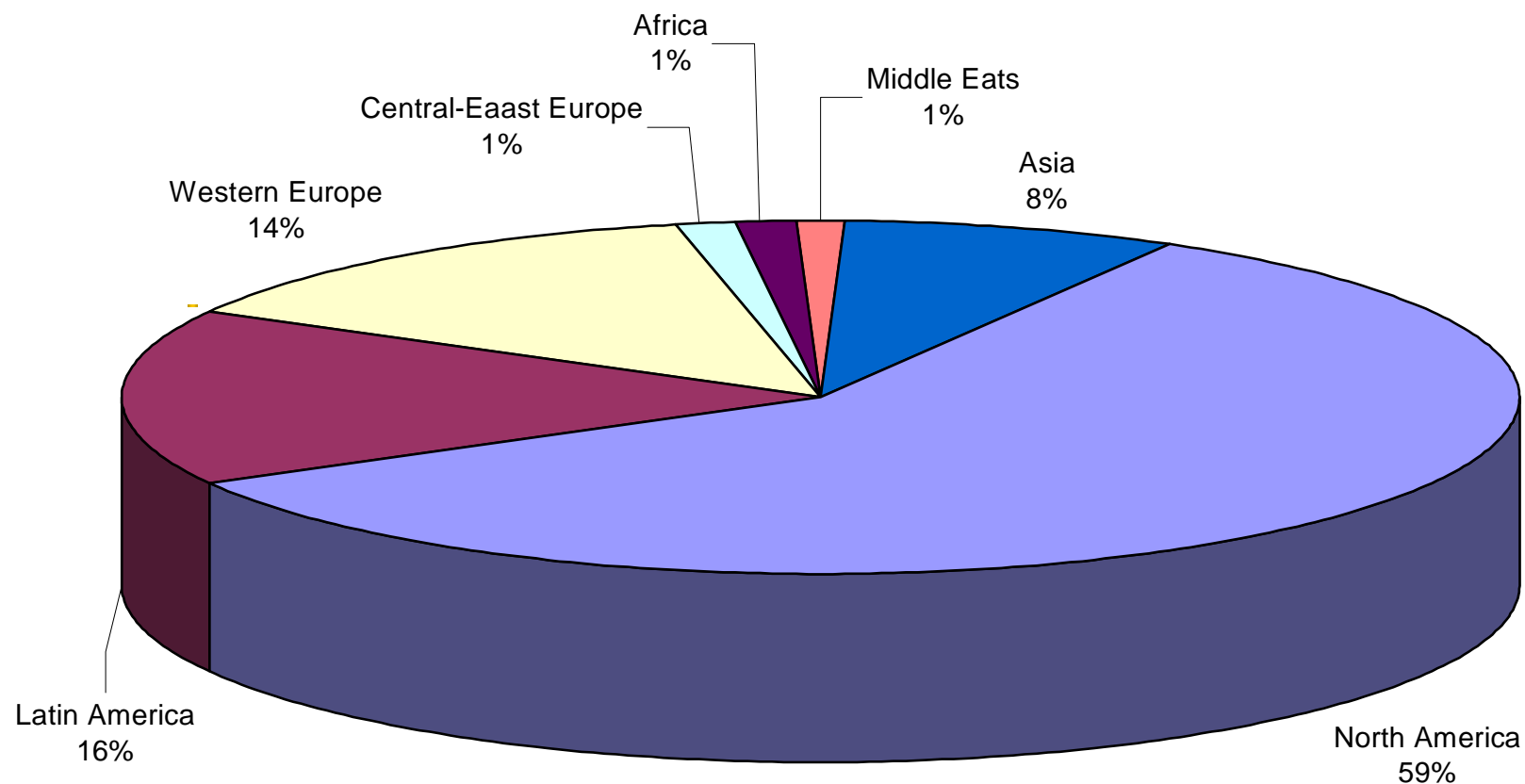
Impact on Latin America

- However, LA is sensitive to external demand for region's exports and changes in prices of commodities.
- The impact would depend on:
 - Share of non-commodity exports to the US
 - Share of commodity exports



Impact on Latin America

Latin American Exports Destination (2003)





Conclusions

- Given the US large gross asset and liability positions, an exchange rate adjustment is required to revert imbalances.
- Economic conditions in LA reduce vulnerability.
- However, LA is still sensitive to external demand and changes in the price of commodities.



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