Economic Research Department

Latin America: Recent Performance and main challenges

Comments to OECD's Latin American Economic Outlook 2010

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Main messages

- The economic performance of LATAM during the Global Recession is a clear break from the past, reflects the structural changes of economic reforms and will have long lasting effects on country risks ✓

- Better initial conditions – due to a good management of previous bonanza – allowed for effective counter - cyclical policies and a quick return to economic growth ✓

- Sound financial systems and effective responses by monetary authorities helped the region to resist the liquidity squeeze with no bank bailouts. ✓

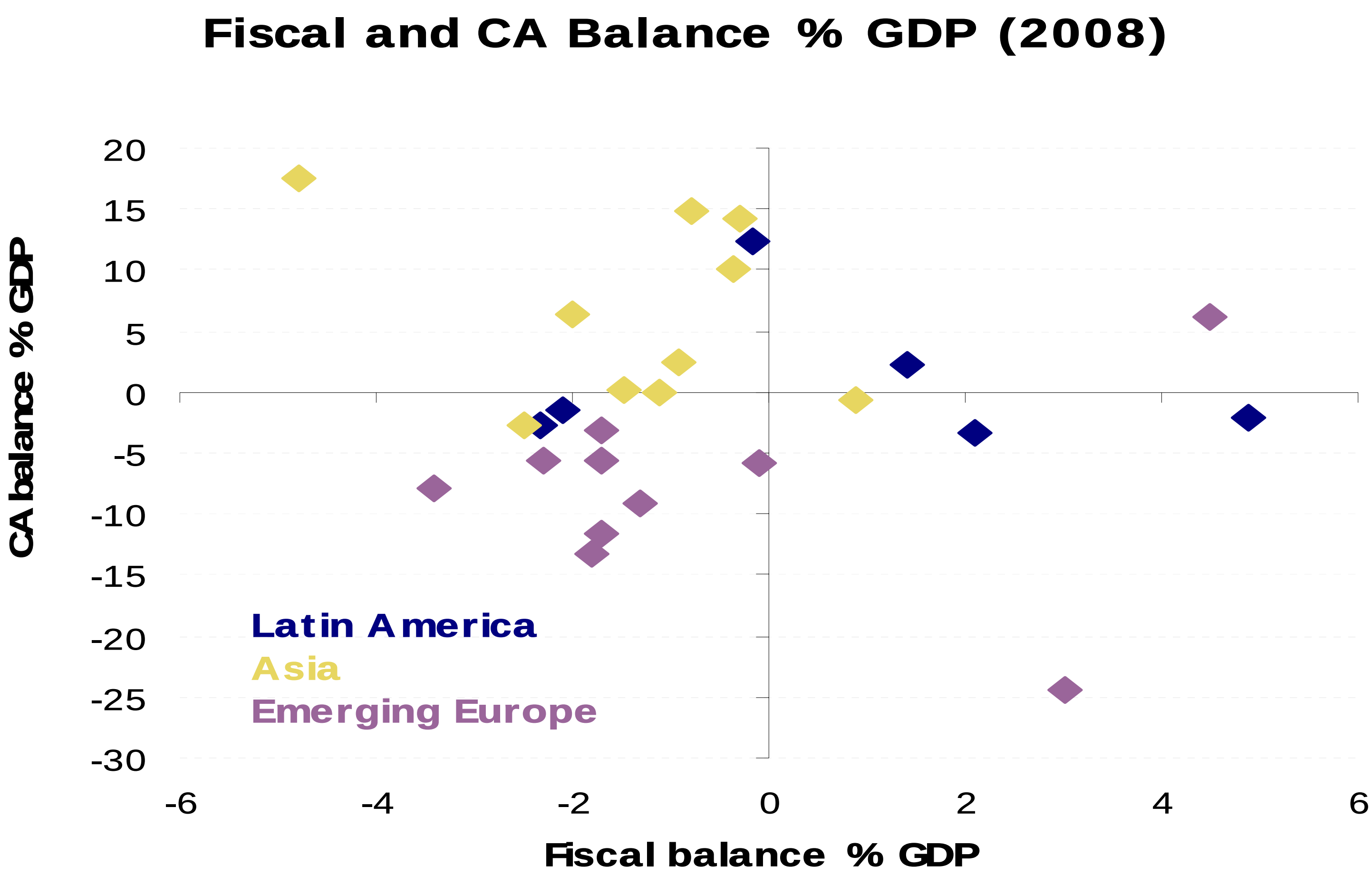
- Notwithstanding the previous improvements, the region still faces substantial institutional shortcomings: education, low financial development and the business environment are among the most important.

- Looking forward we expect the region to resume growth, but it will have to switch from labor intensive growth to one more intensive in capital accumulation and productivity enhancement

Main topics

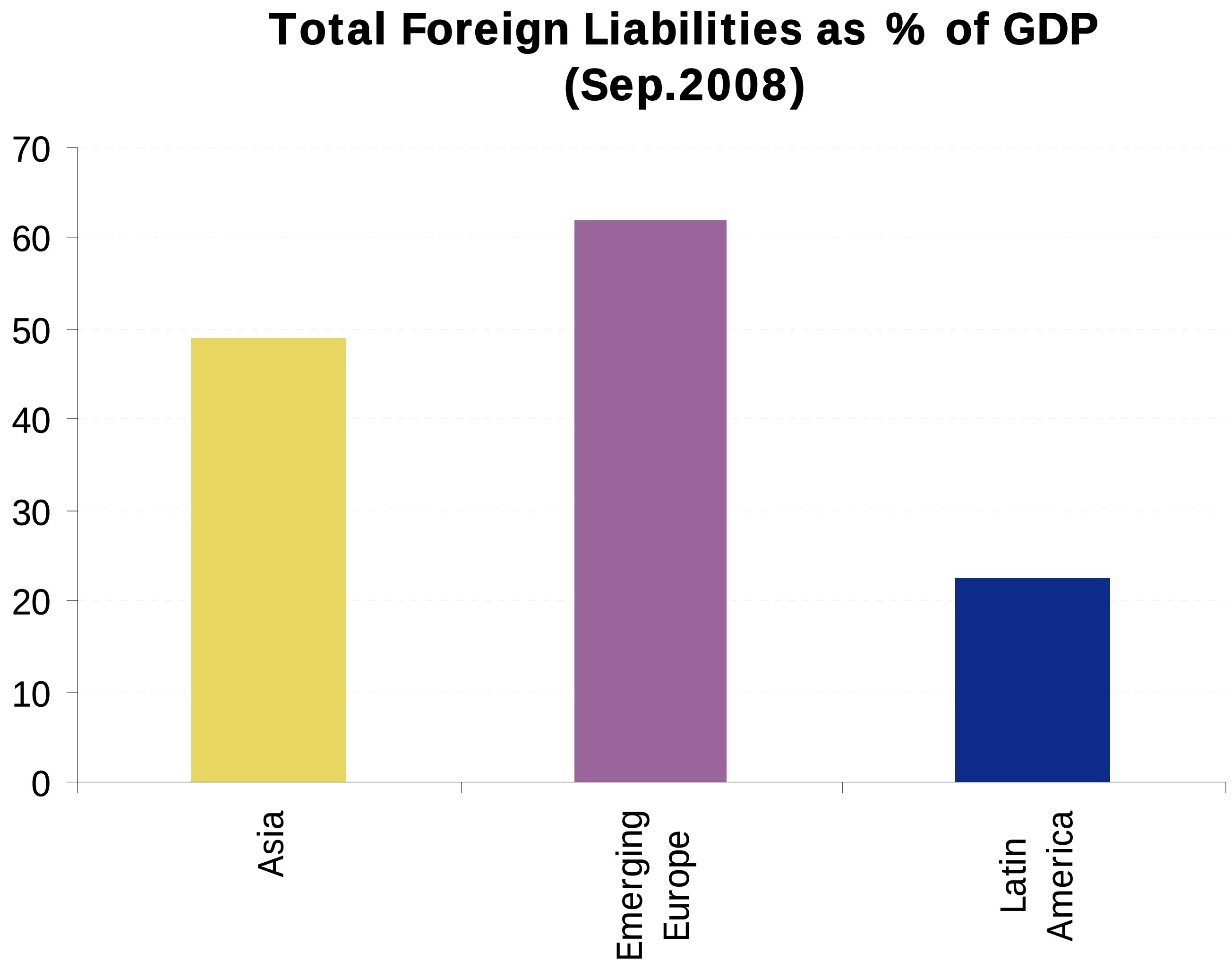
- **Recent Economic Performance: a break from the past**
  - **The Crisis: better initial conditions**
  - **The Financial Sector: a break from the past**
  - **Better fundamentals allowed for better policy reactions**
  - **Exchange flexibility and price stability**
  - **The recovery is underway**

A break from the past: Better initial conditions and resilience



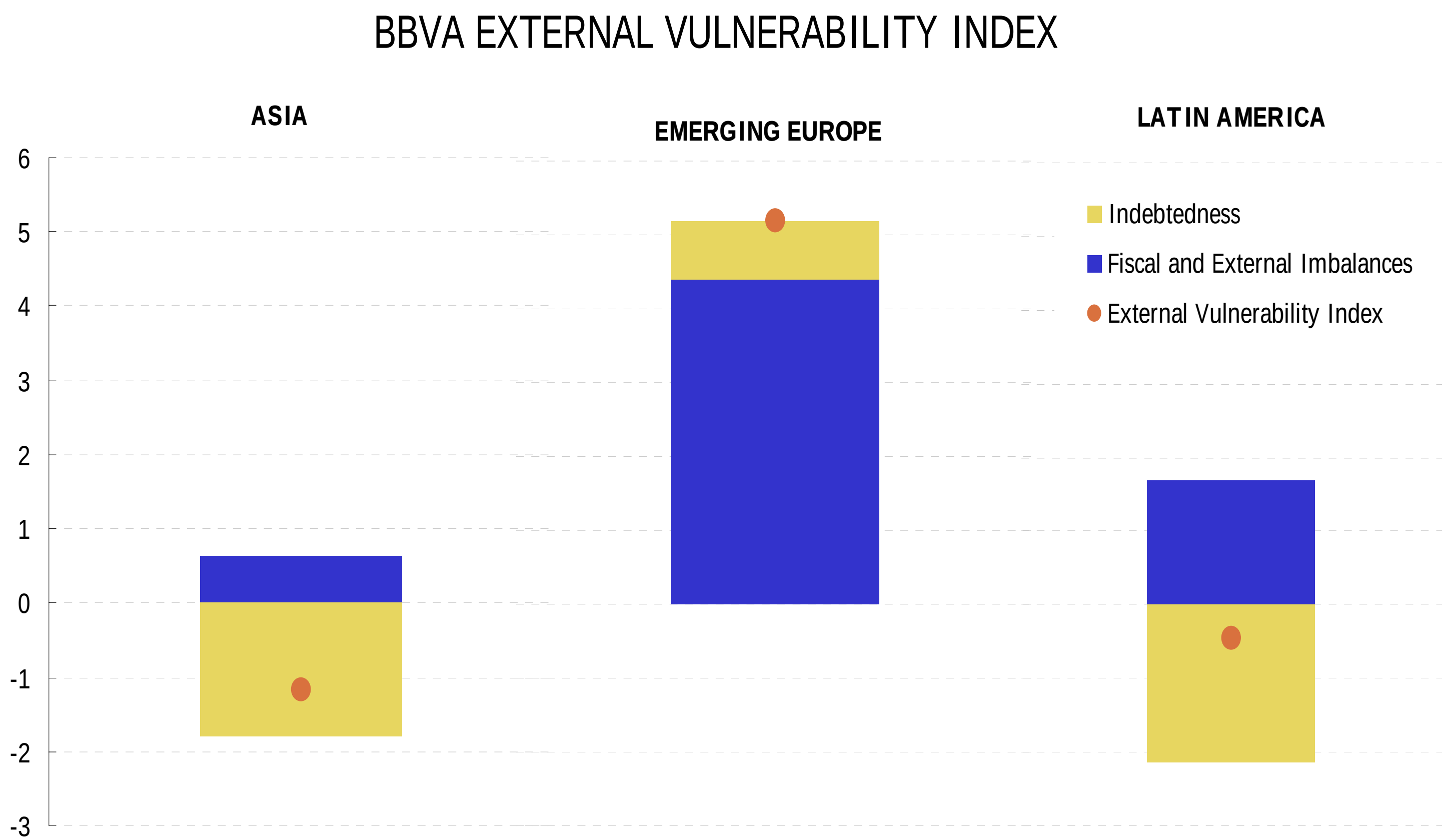
Source: WEO

A break from the past: Better initial conditions and resilience



Source: BIS (Consolidated claims of reporting banks-immediate borrower basis) and BBVA.

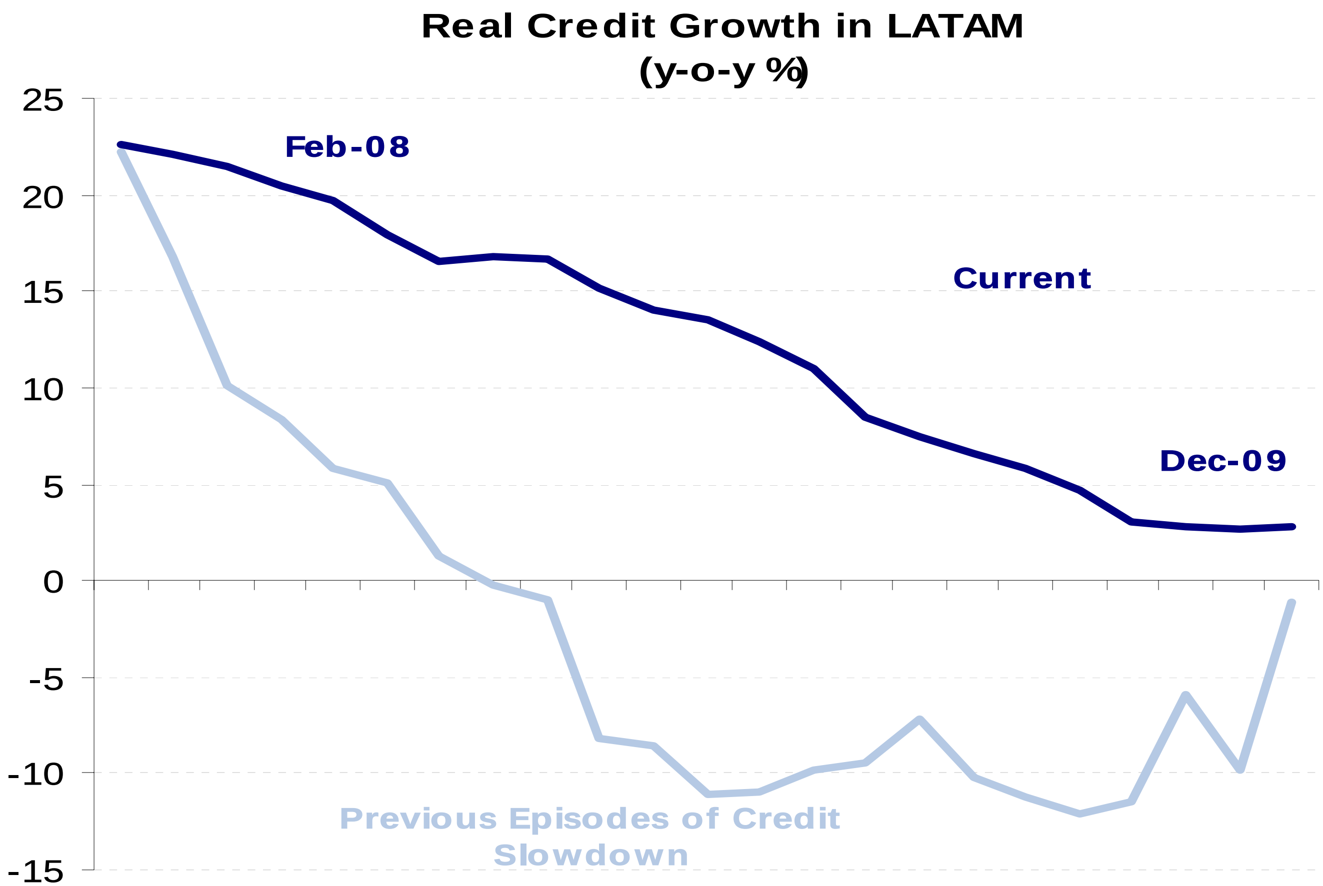
A break from the past: Better initial conditions and resilience



External Vulnerability Index of BBVA includes **(1) Indebtedness** (a) Debt as % of GDP (b) Growth in debt and (c) Short Term Debt as % of reserves and **(2) Fiscal and External Imbalances** (a) Current Account as % of GDP (b) Fiscal Balance as % of GDP and (c) Growth Export. Update: Dec. 2008.

The index ranges from -10 to 10, with greater values reflecting greater vulnerability.

A break from the past: also in the financial sector



* Previous: 1994-95 (ARG, BRA, MEX), 1982-1983 (CHI), 1998-99 (COL, PER) and 1992-93 (VEN). Credit to the Private Sector. Source: IFS, BBVA

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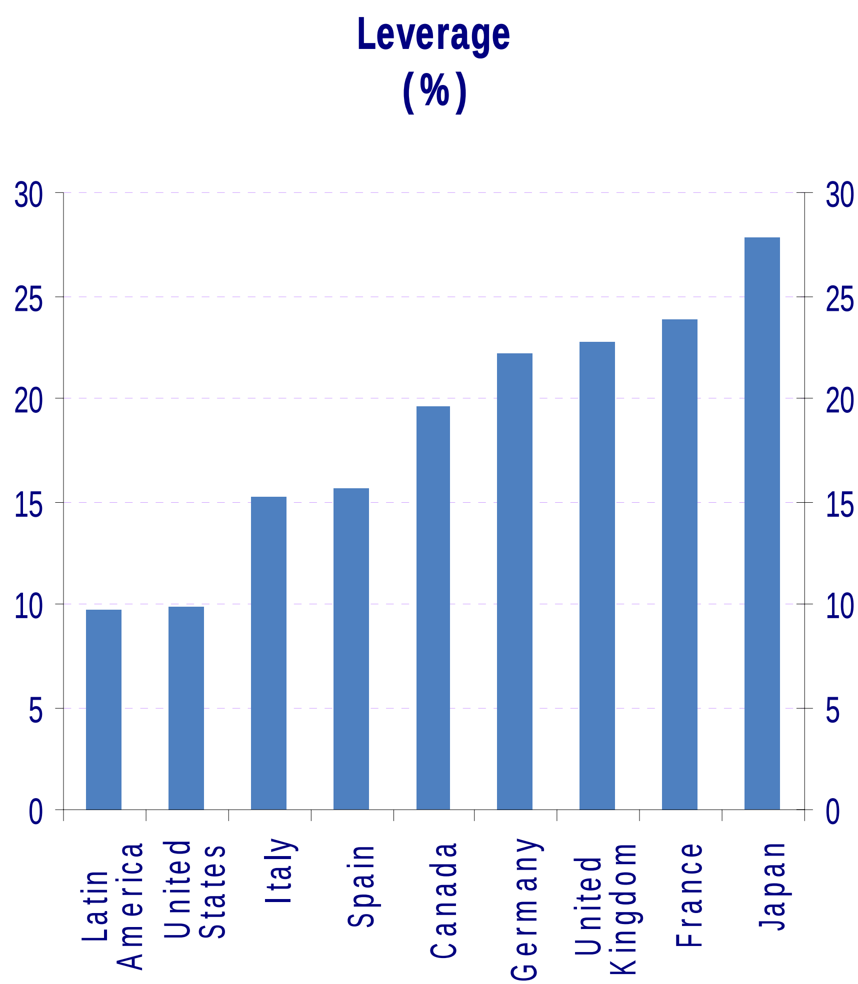
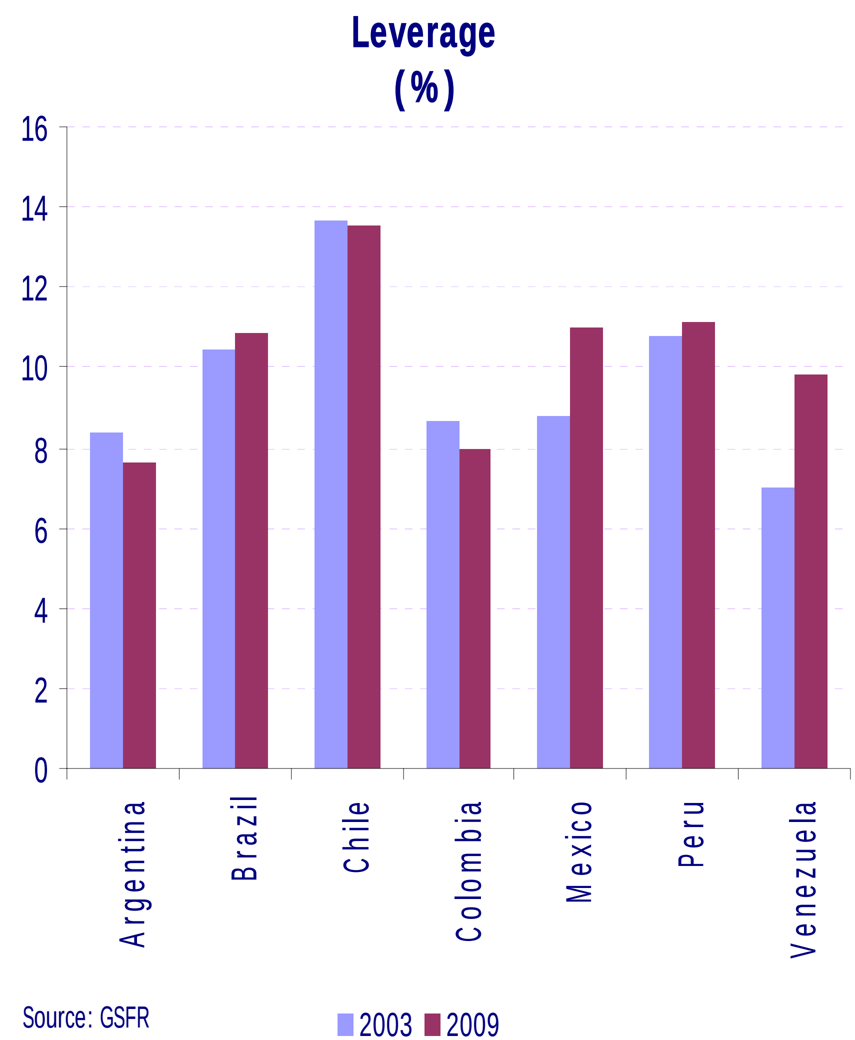


Source: GSFR



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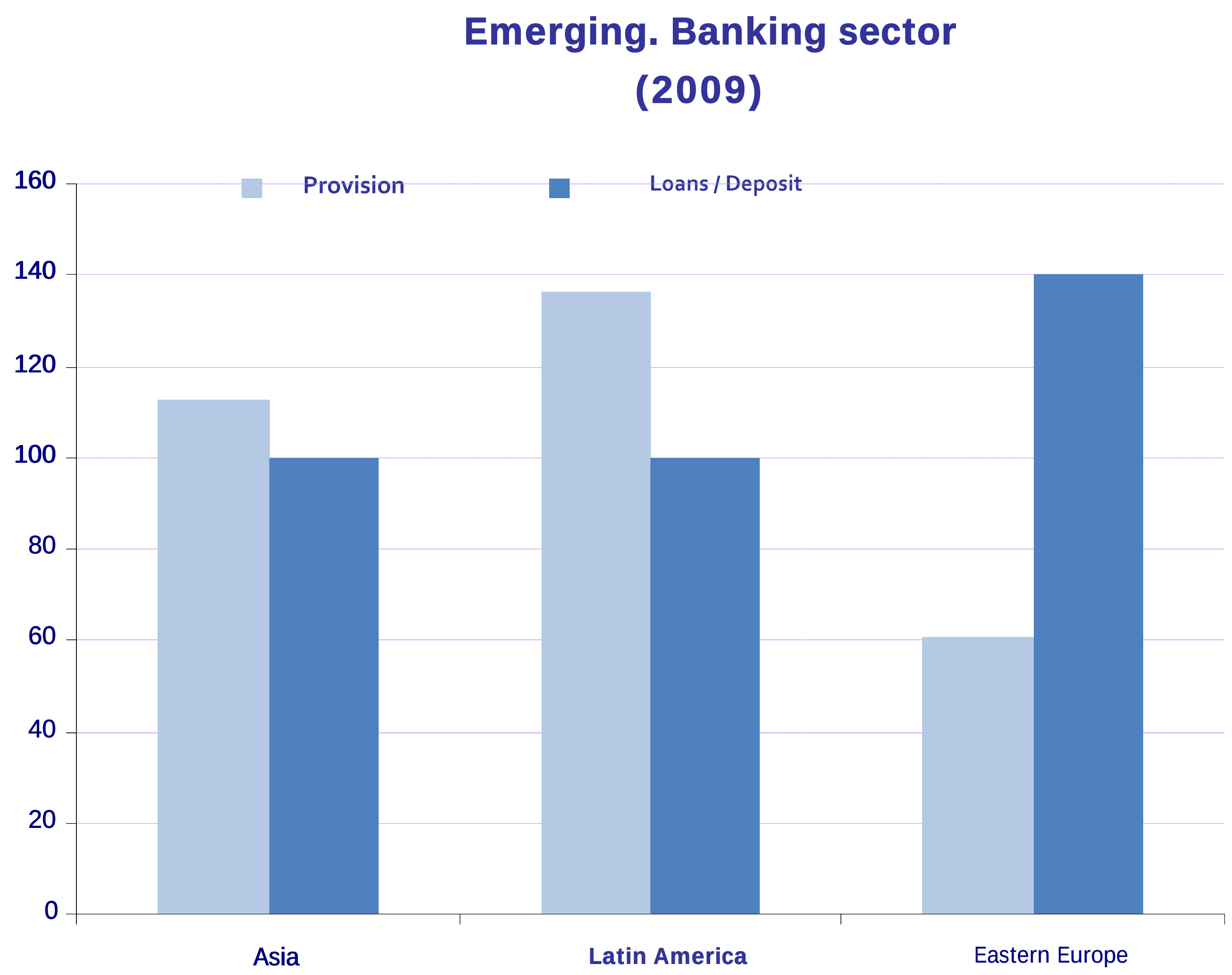

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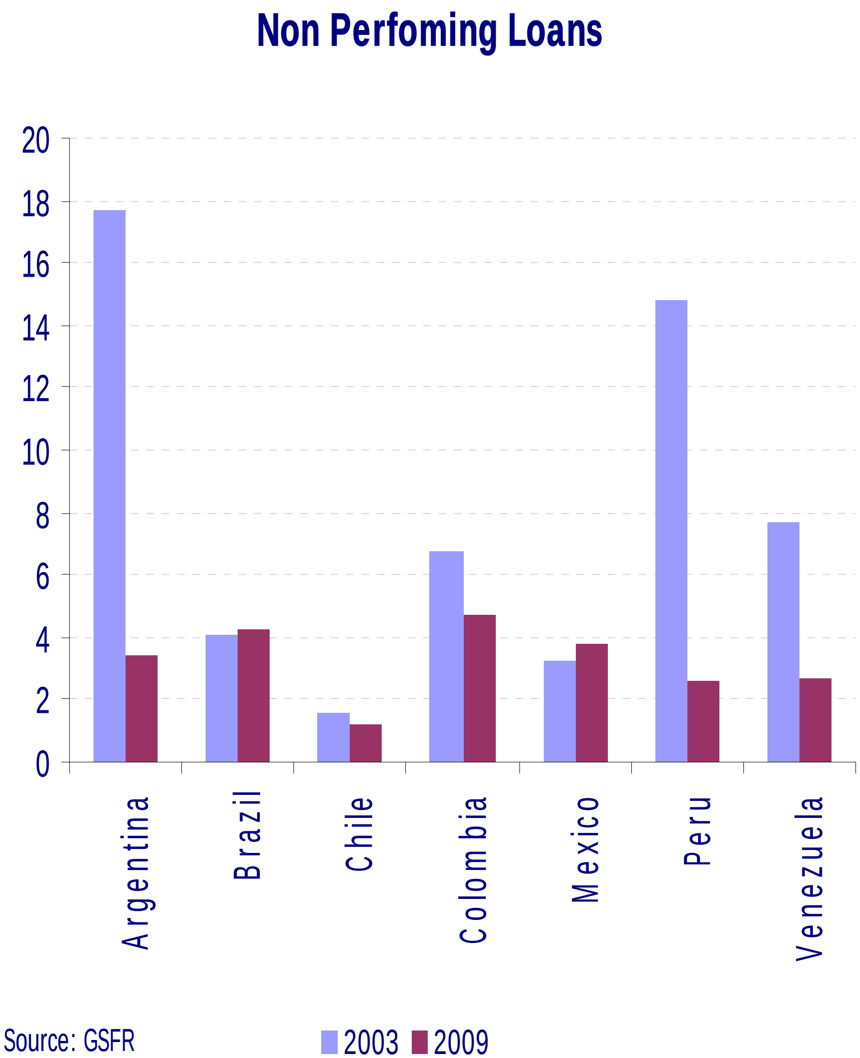
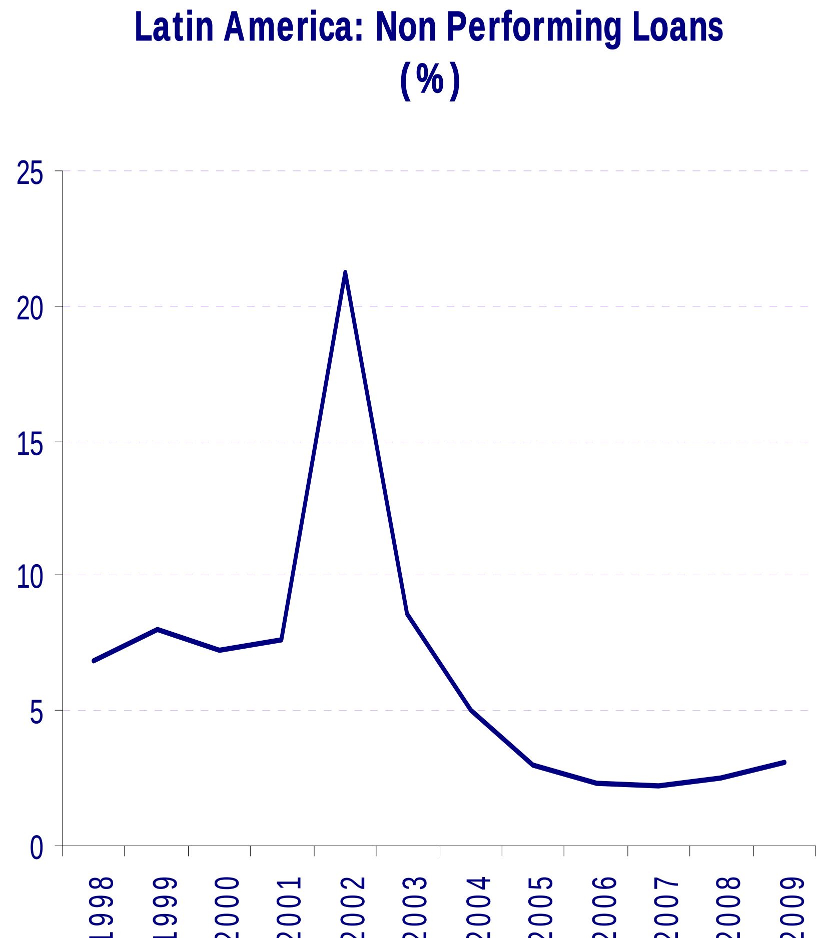


Source: GSFR



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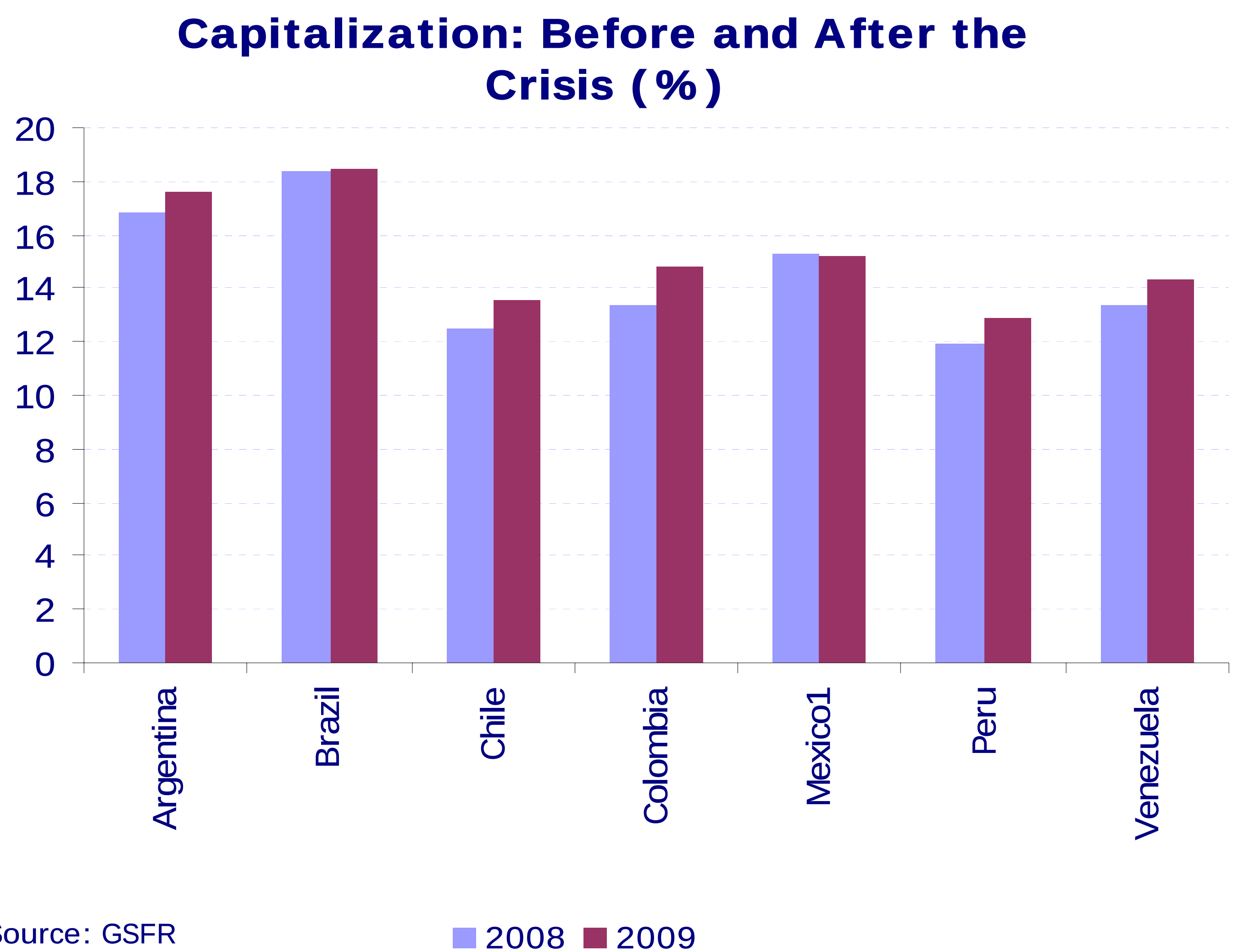

Source: GSFR

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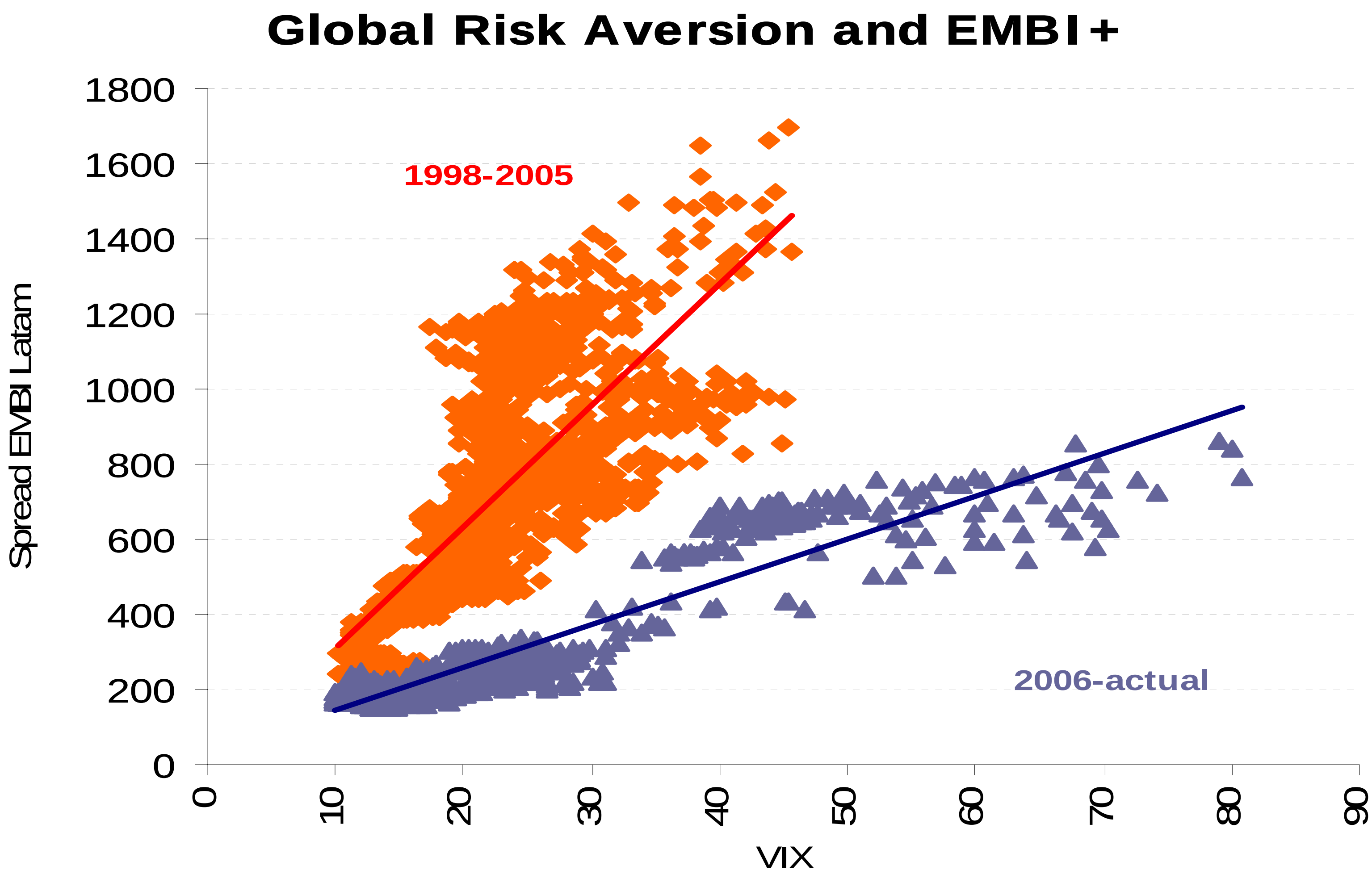
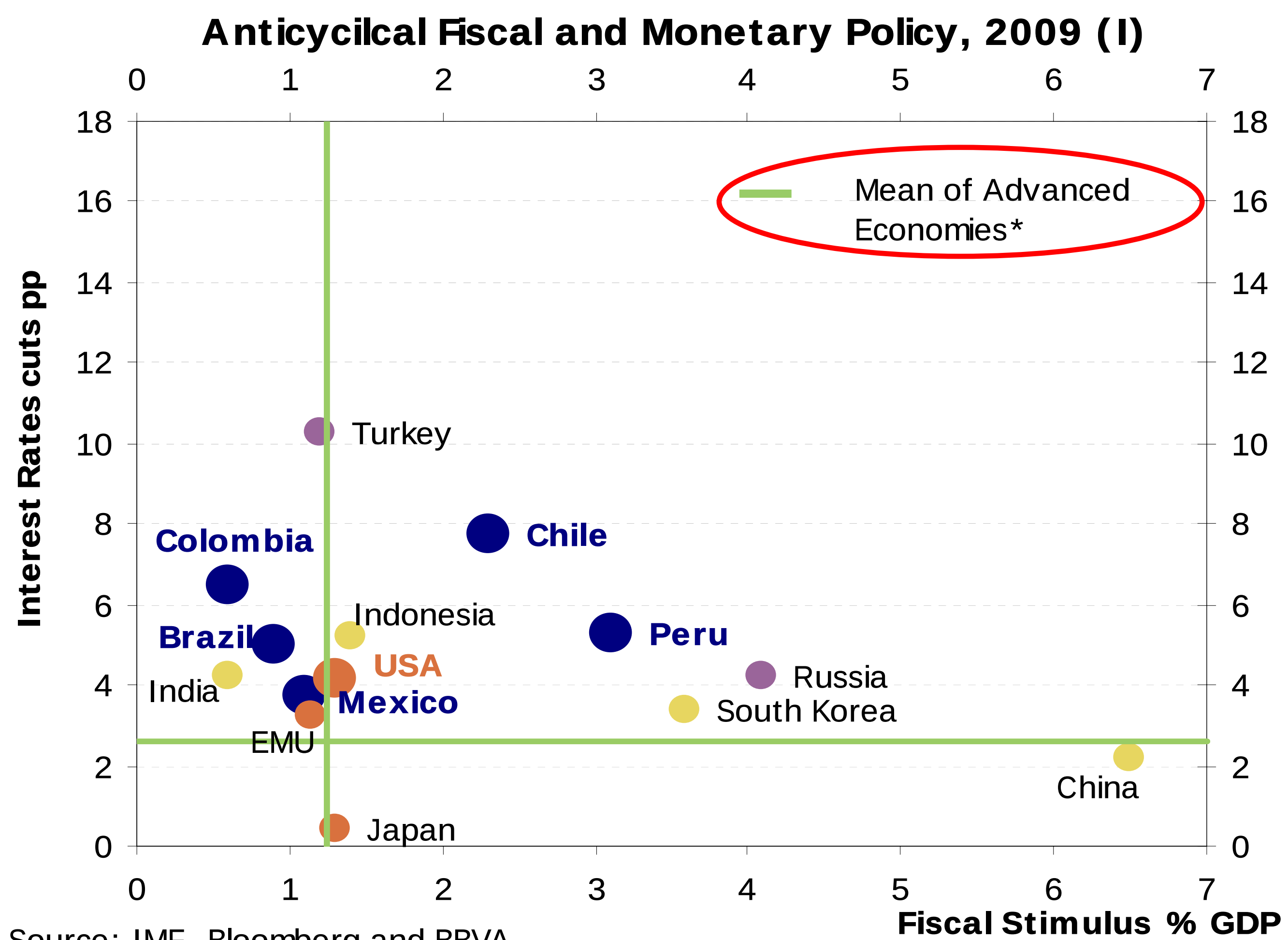
A break from the past: helped ease financial tensions…

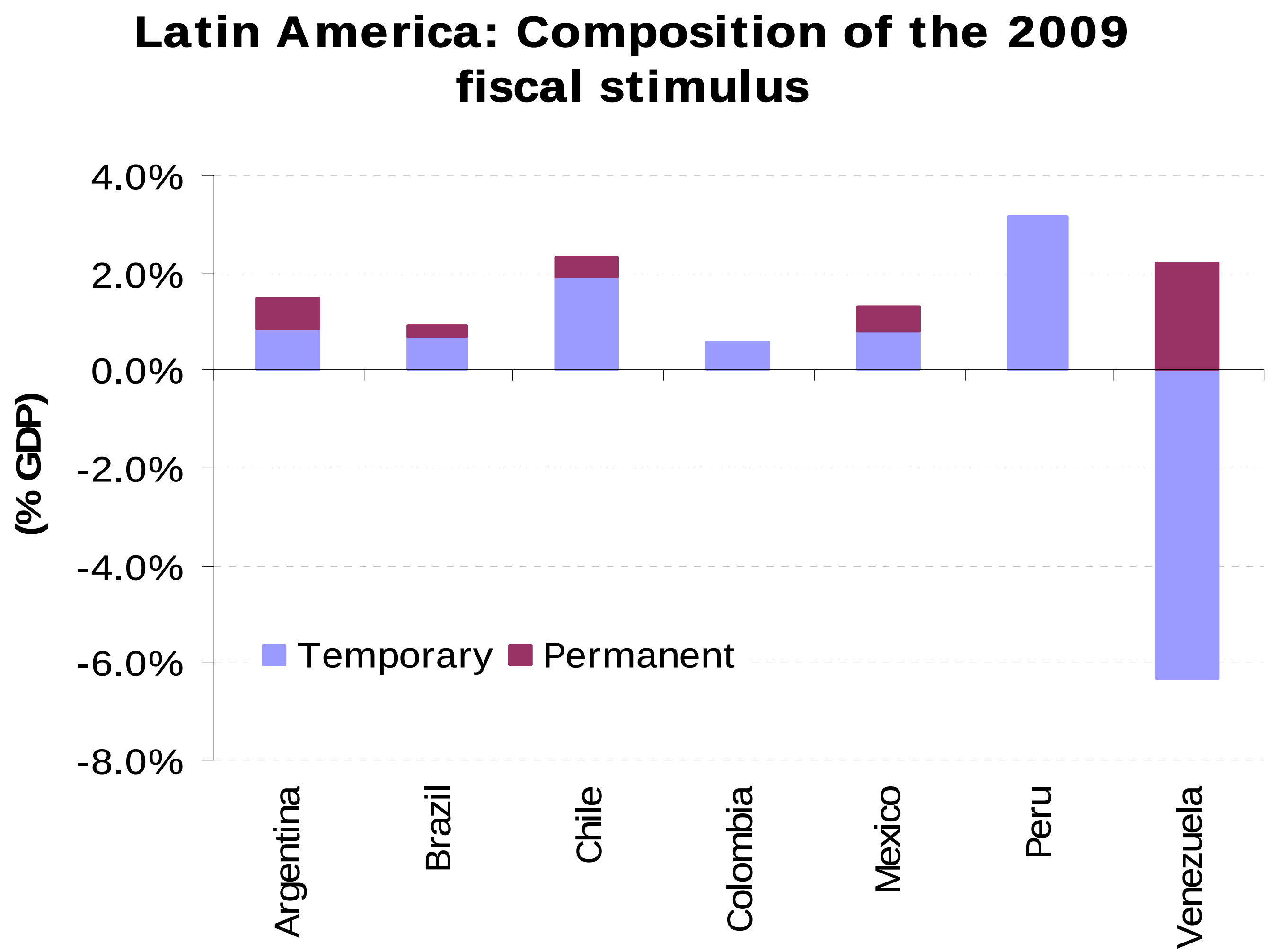


Stronger fundamentals allowed decisive policy reactions…



Source: IMF, Bloomberg and BBVA
* Advanced Economies: USA, EMU and Japan

Stronger fundamentals allowed decisive policy reactions…



Source: BBVA

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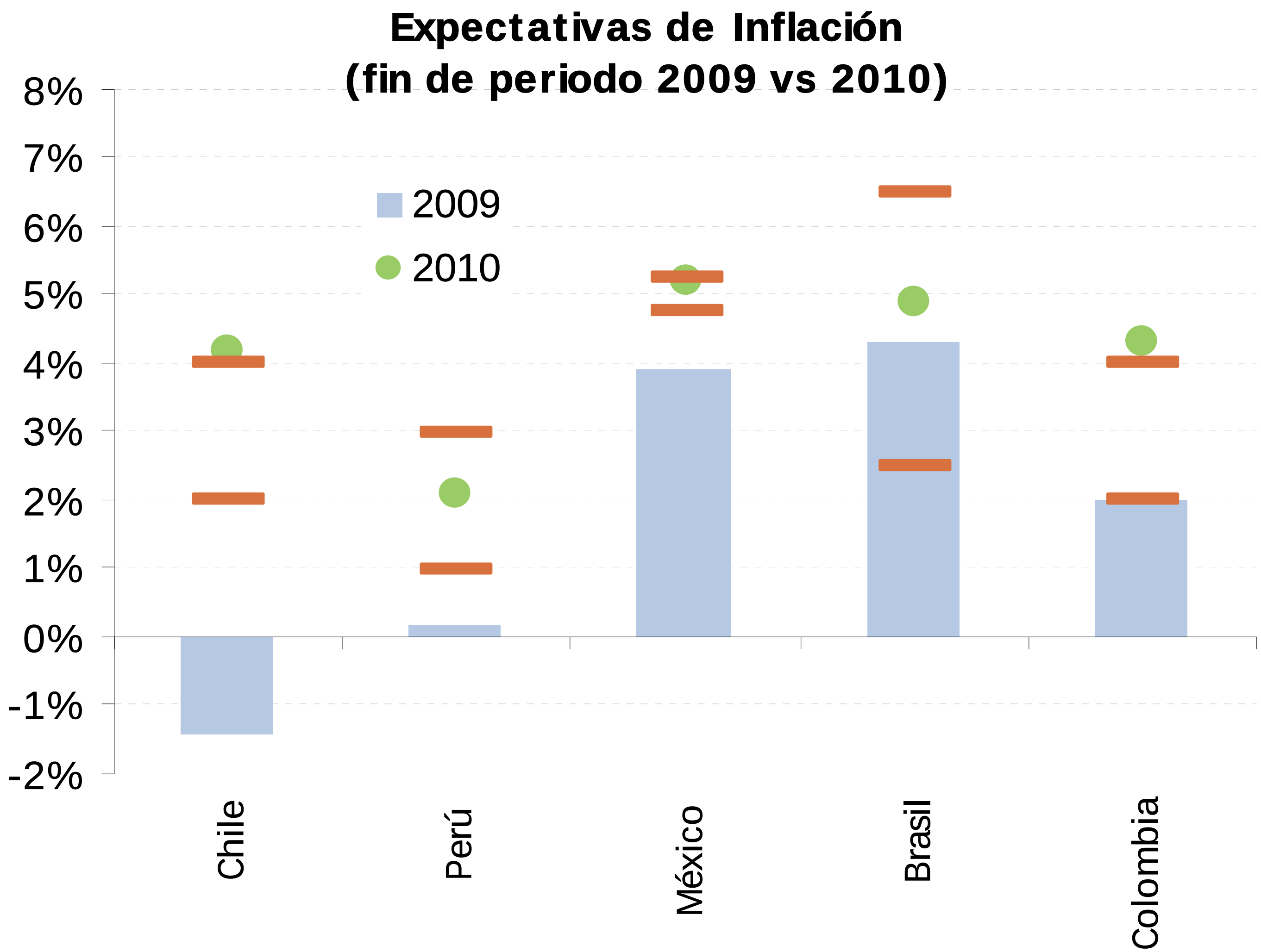
With inflation under control new challenges arise



Fuente: BBVA. Las líneas rojas definen los objetivos del Banco Central para 2010

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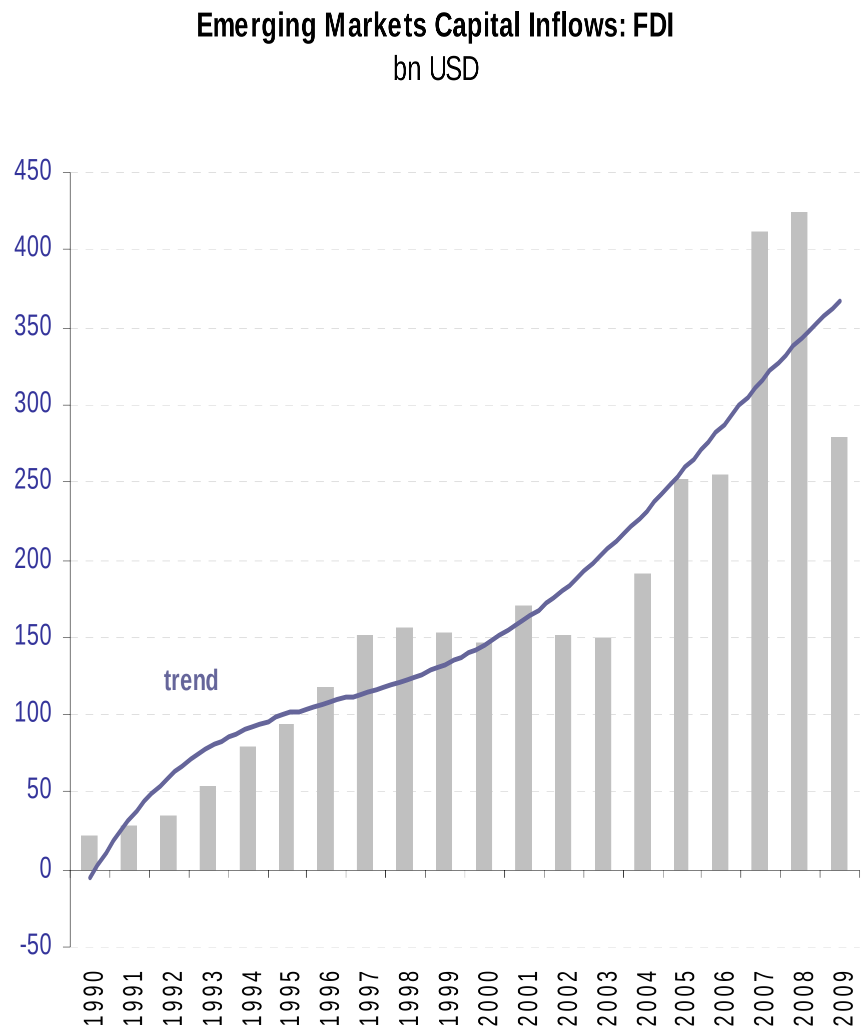
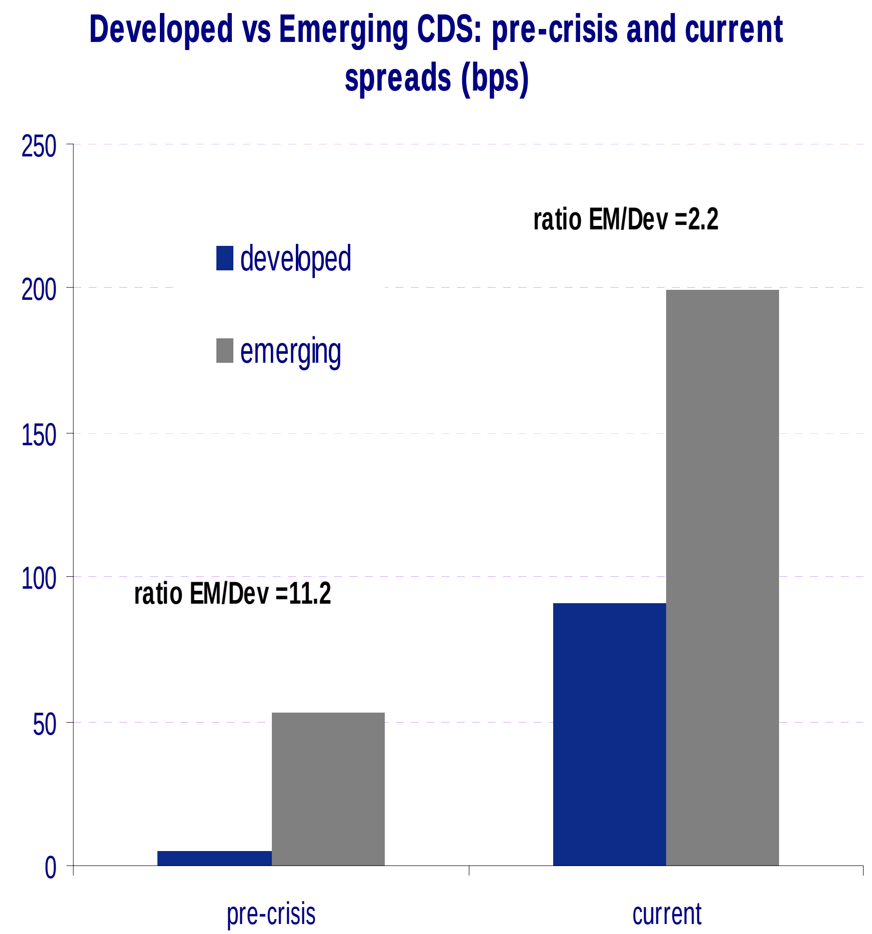
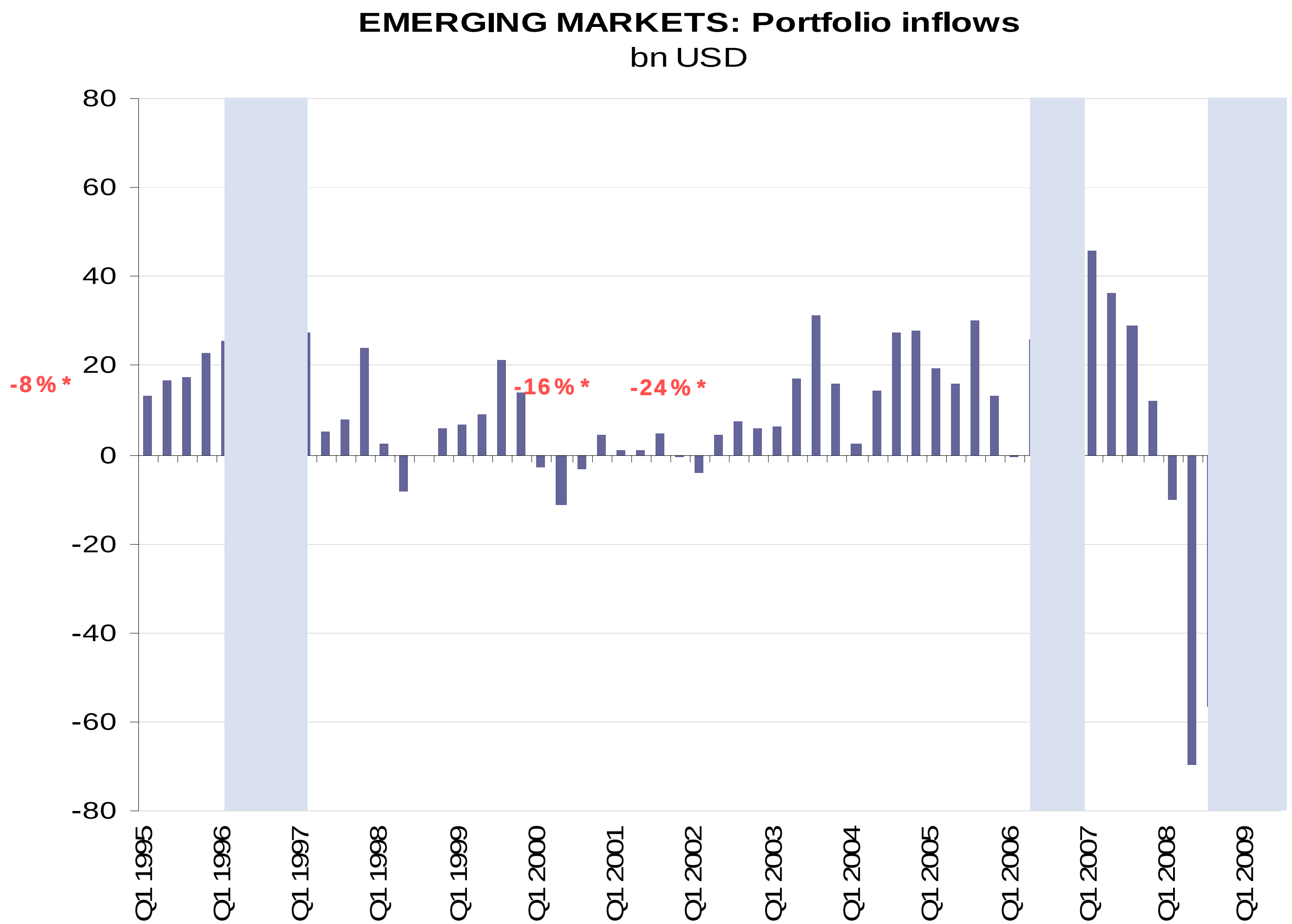
FX control: inflows and appreciations once again





Source: Datastream. *pre-crisis date is June 1st, 2007. Aggregates are simple avgs

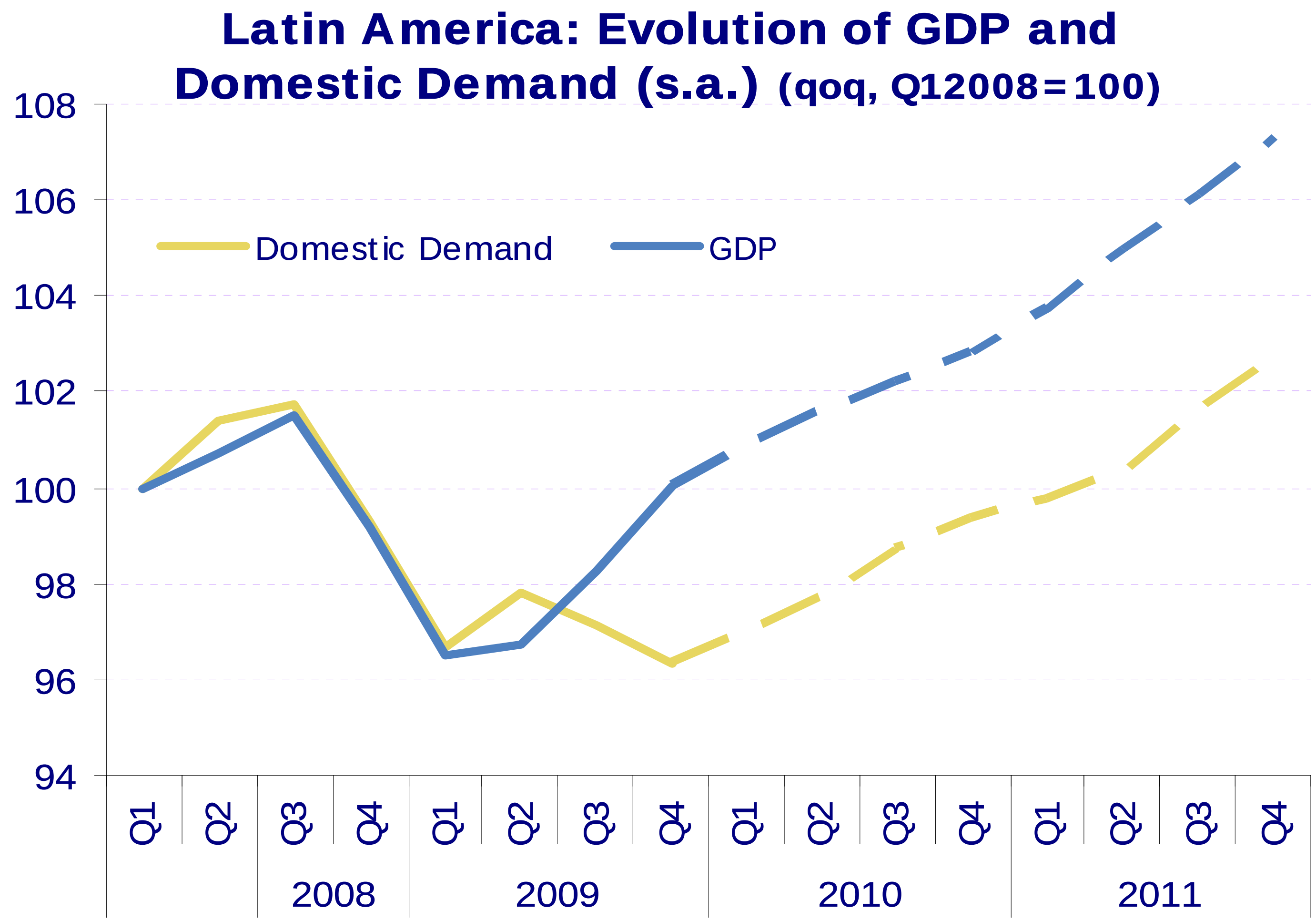
FX control: inflows and appreciations once again



Source: IFS and ERD BBVA

* The value is the maximum appreciation registered during the flow surge period (simple average between key emerging countries: Argentina, Brazil, Mexico, Colombia, Chile, Peru, Venezuela, China, India, Indonesia, Malaysia, Korea, Thailand, Poland, Russian and Turkey).

Even tough there has been a recession, the recovery is underway



Source: ERD BBVA

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Main topics

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  - The Crisis: better initial conditions
  - The Financial Sector: a break from the past
  - Better fundamentals allowed for better policy reactions
  - Exchange flexibility and price stability
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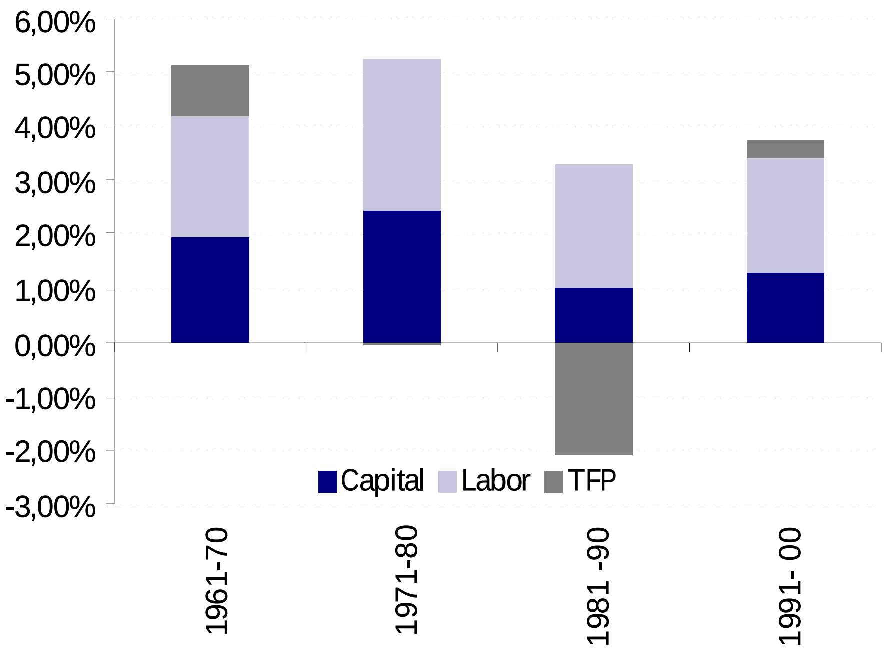
- Main Challenges for the future
  - Labor – intensive growth
  - Demographics and the labor market
  - Informality and growth
  - Investment must rise
  - Pension Reform and Capital Investment

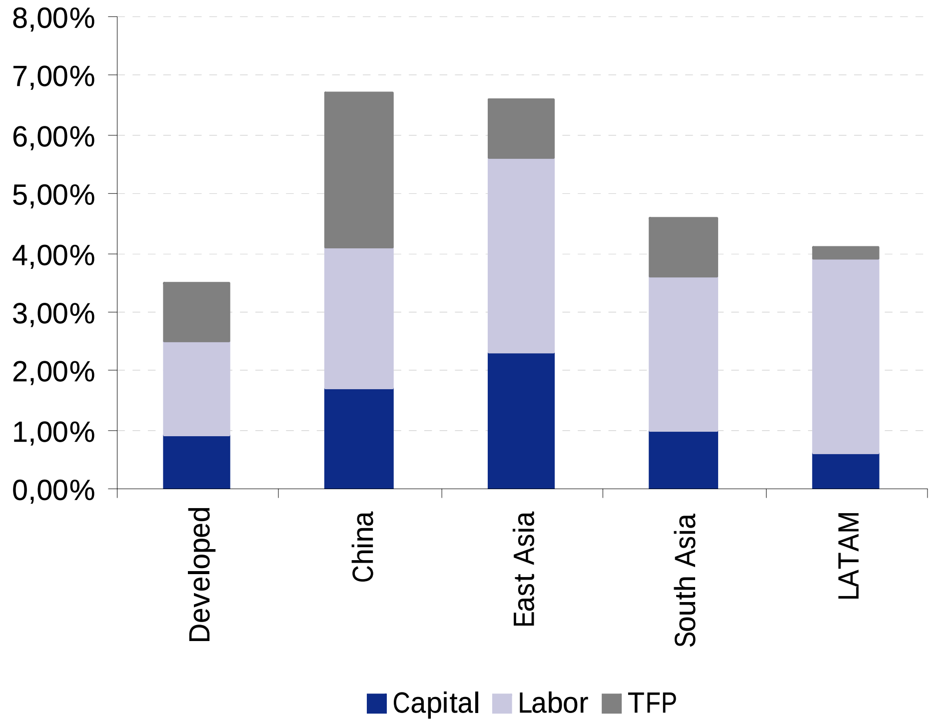
Long Term Performance: Too much reliance on labor to grow

Sources of Growth for Latin America

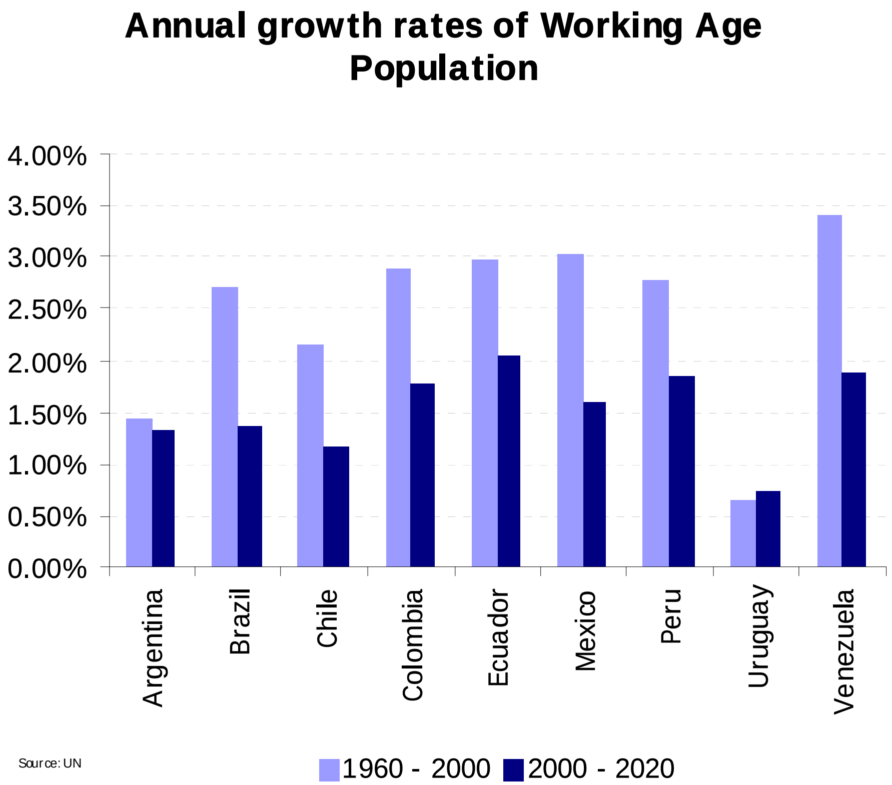


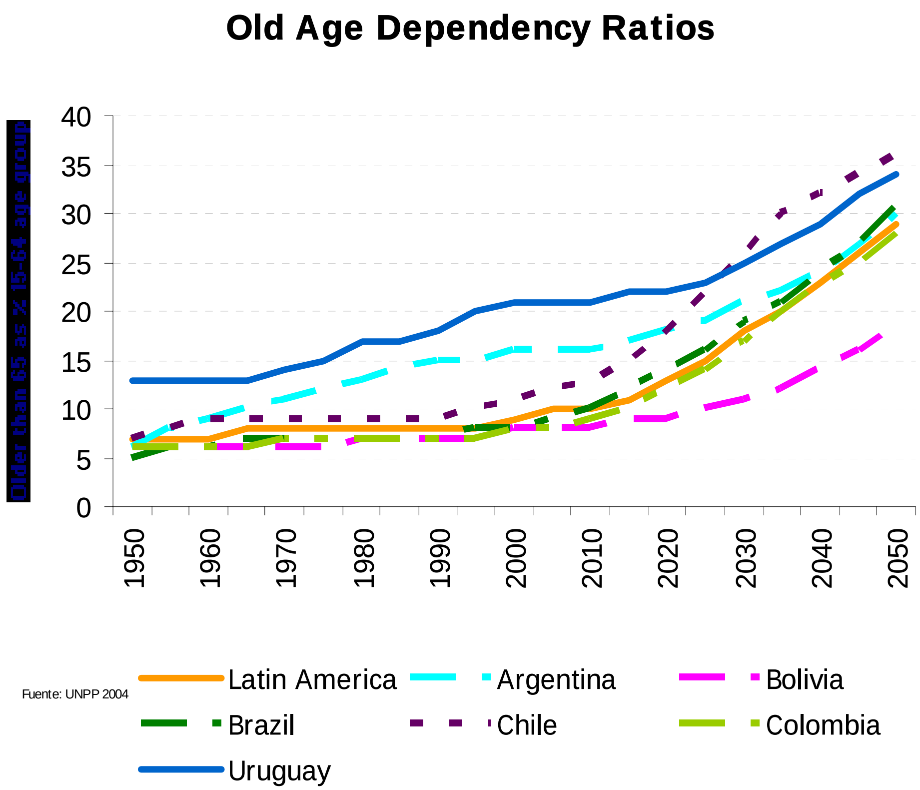
Source: Calderón, Loayza and Fajnzylber

Sources of GDP growth 1960-2000

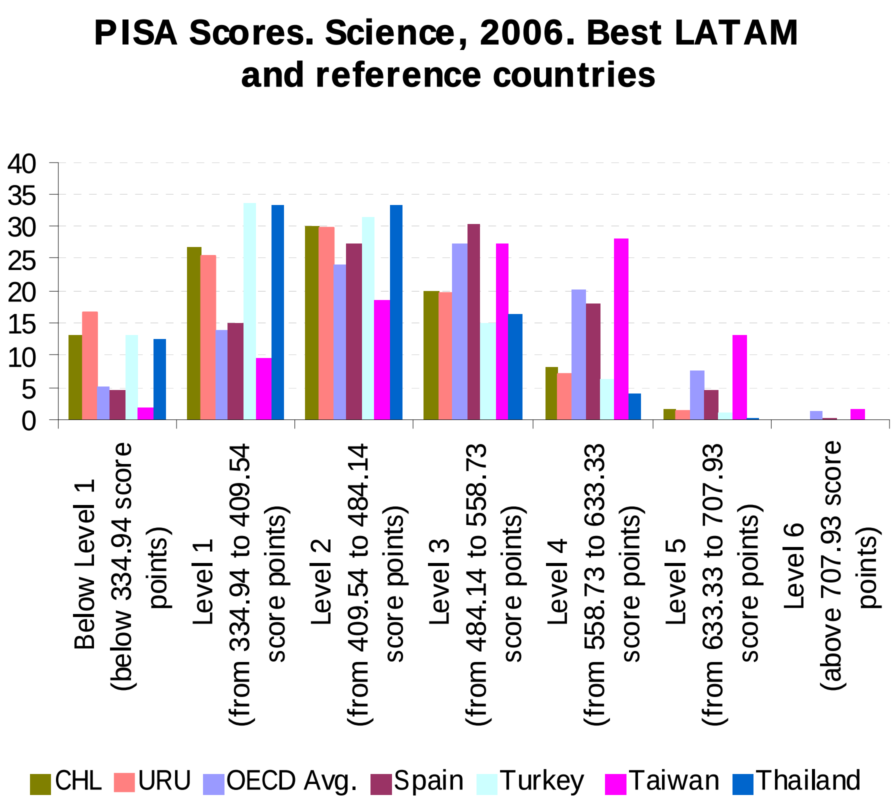


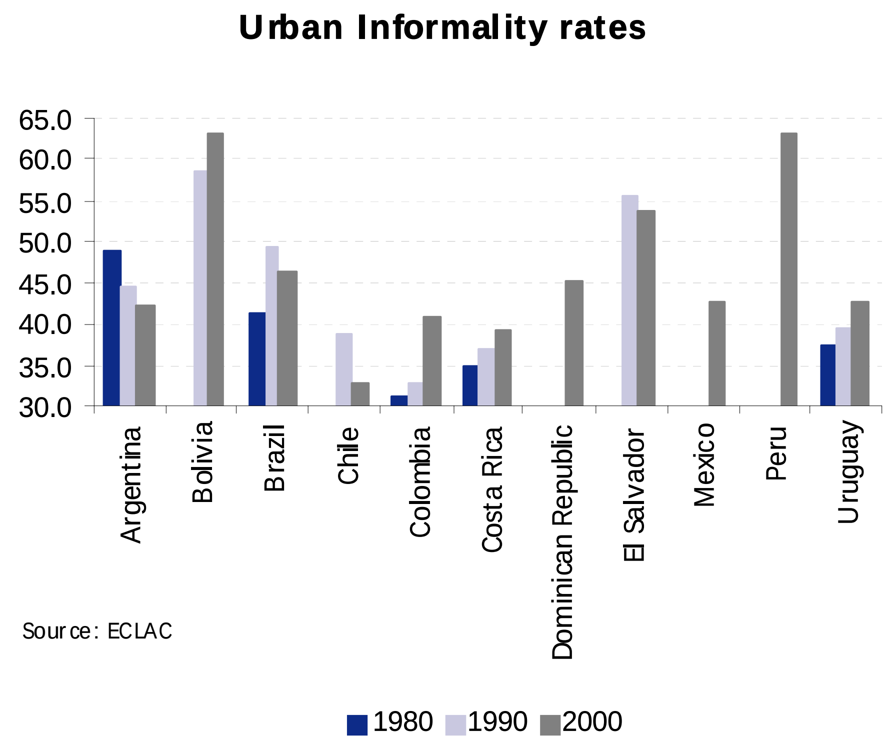
Long Term Performance: Demographics will not help in the future



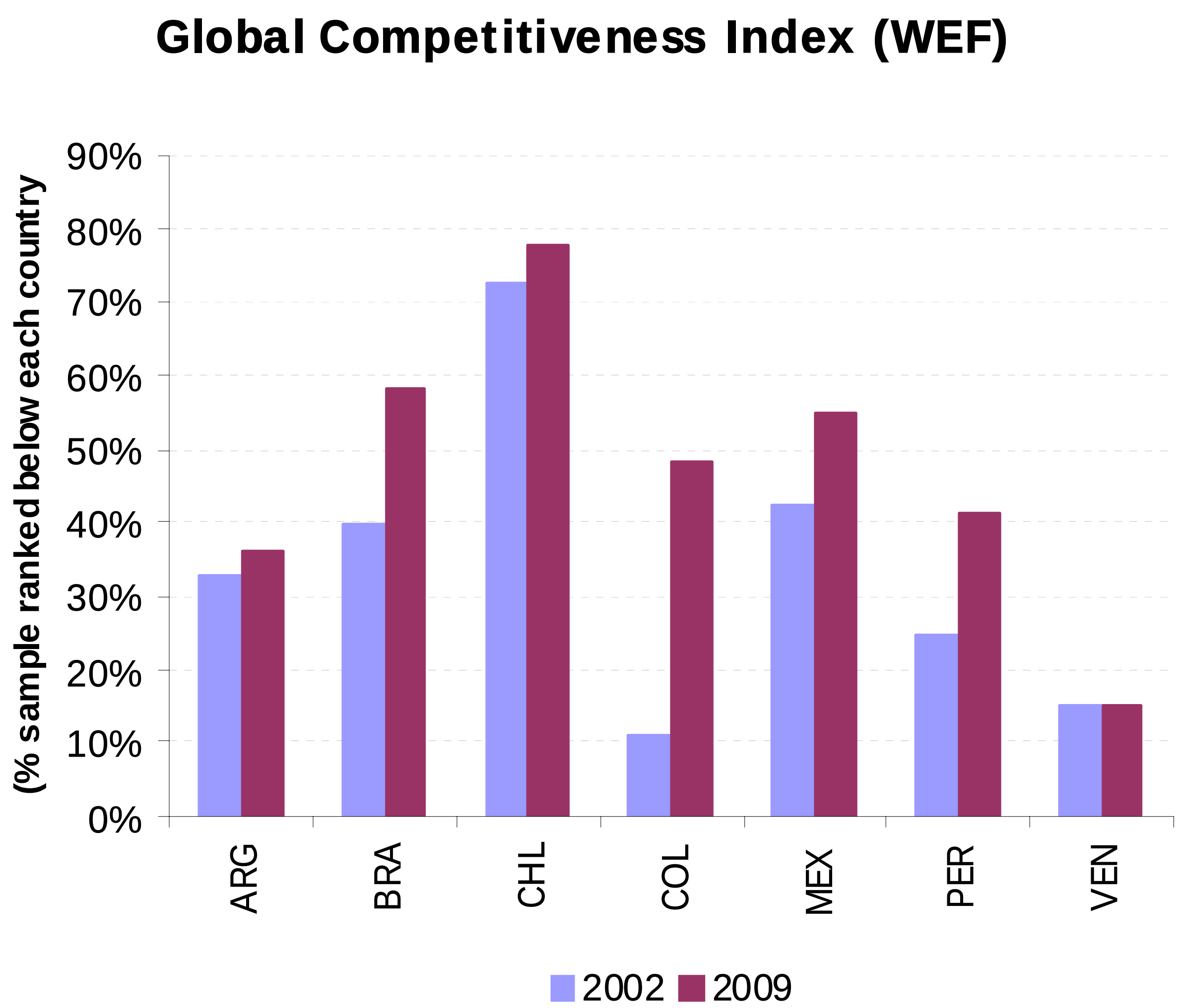


Improving Labor contributions to growth face major challenges

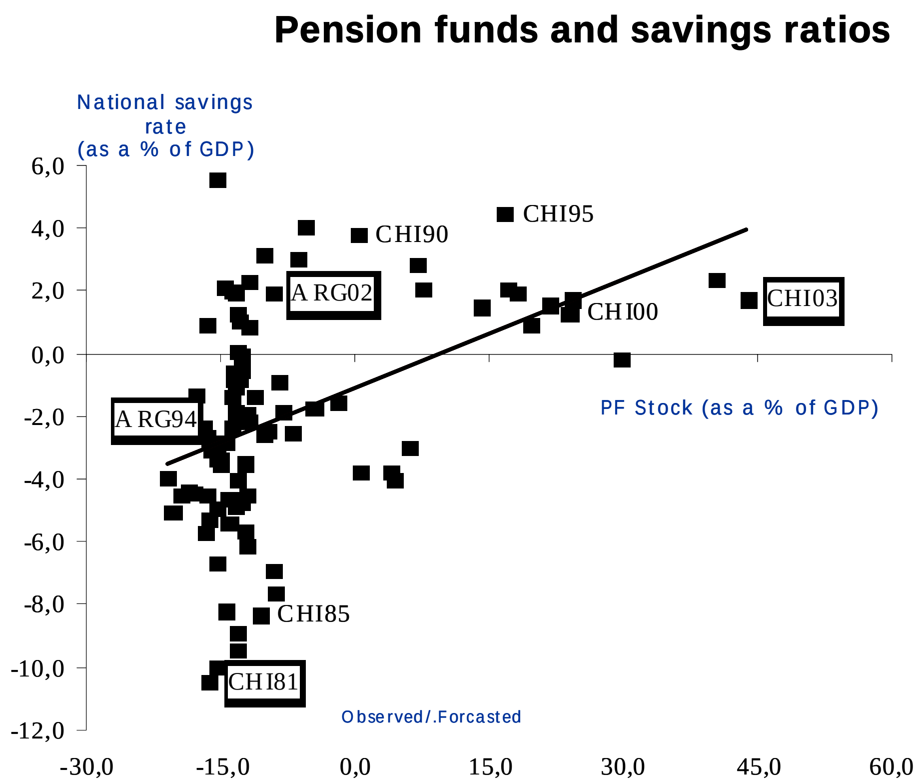


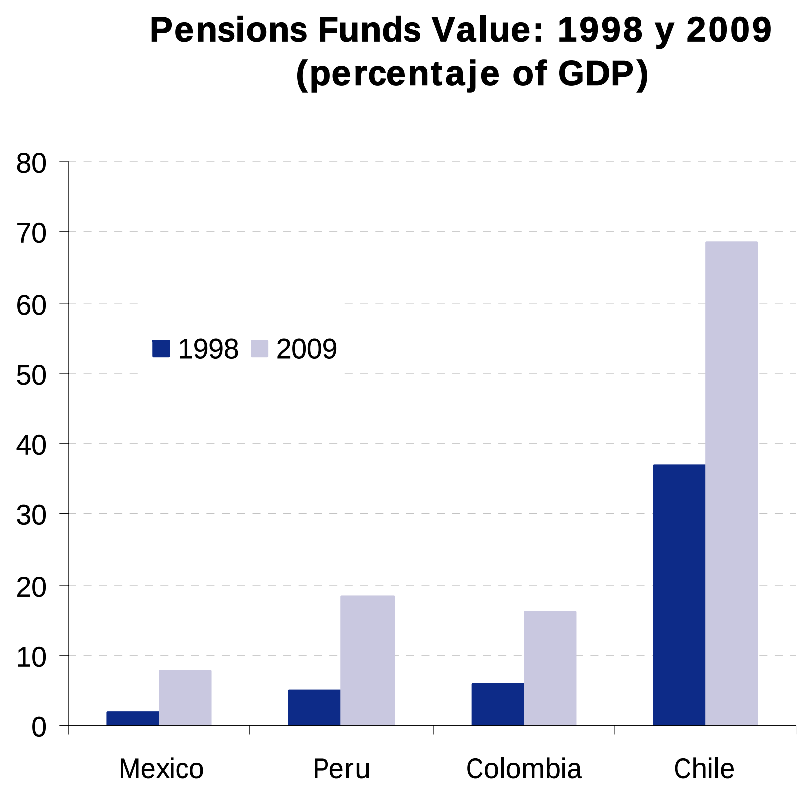


Long Term Performance: Competitiveness is a problem



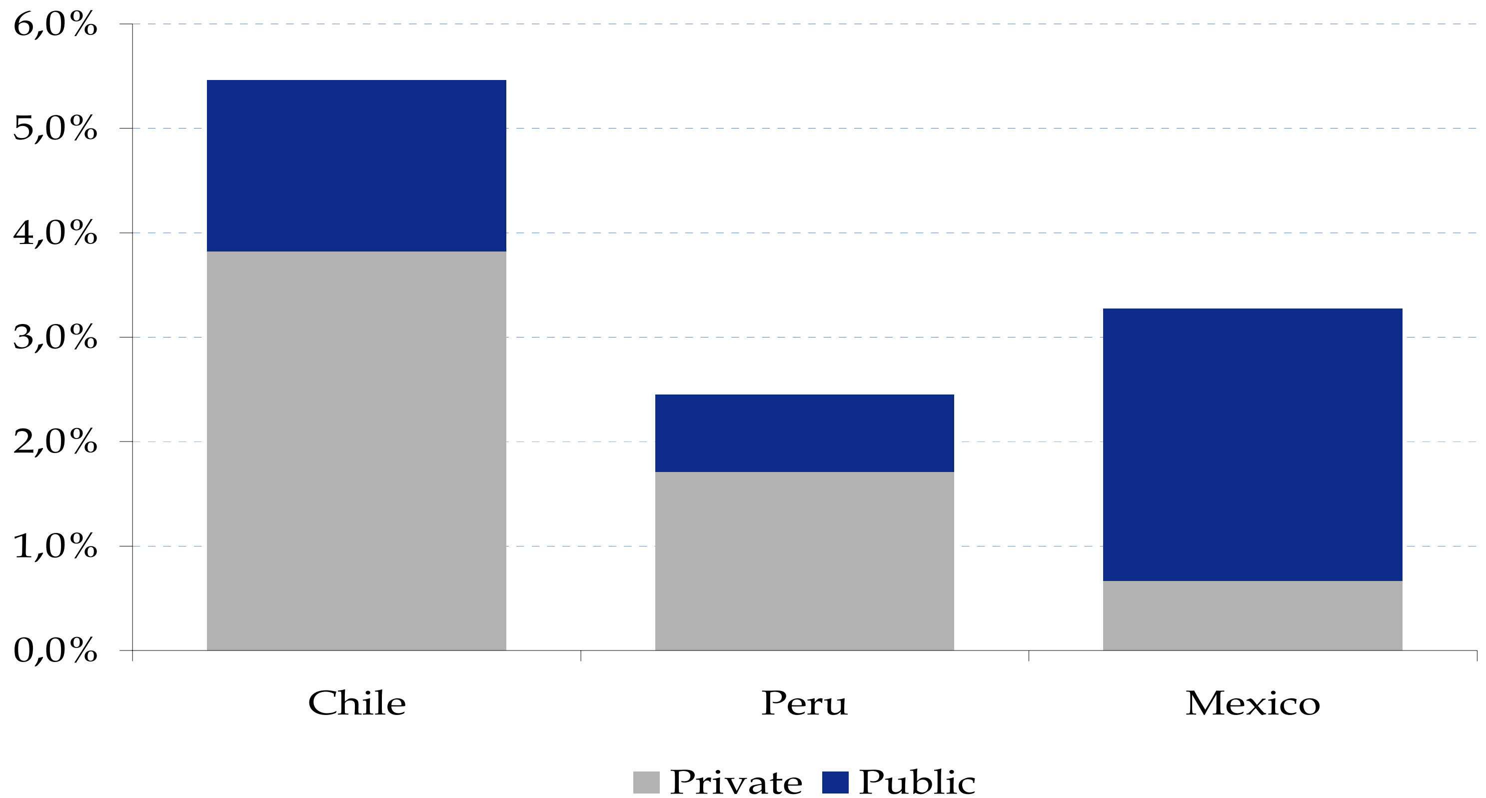
Some areas of improvement: contribution of pension funds





Some areas of improvement: contribution of pension funds

Infrastructure investment over GDP in Chile, Mexico and Peru, around 2000



Source: World Bank, official sources and BBVA

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