

How Did Latin America Avoid the Global Financial Crisis? Lessons and Challenges

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Agenda

- I. Some introductory facts
- II. What went right?
- III. Perspectives and challenges
- IV. Concluding remarks

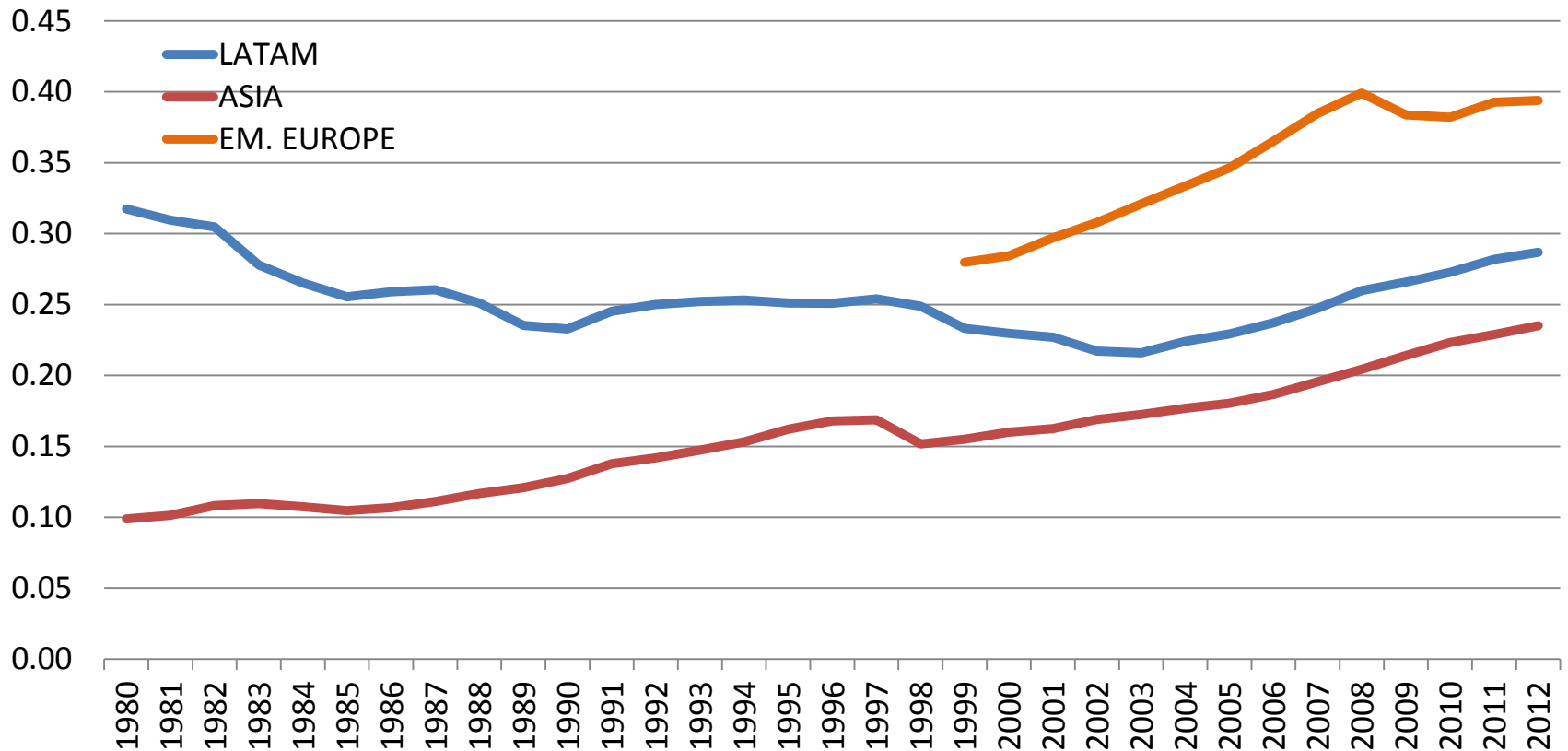
I. SOME INTRODUCTORY FACTS

Overview: Latin America is 9% of global output, almost 7 tr. USD, for global output somewhat less than 80 tr. USD (data for 2011)

| | GDP (MMM USD) | GDP p.c. (USD) | GDP p.c. (PPP USD) | Share Latam (%) | Population (MM) |
|------------------|-------------------------|--------------------------|------------------------------|---------------------------|---------------------------|
| Argentina | 448 | 11,236 | 17,983 | 8.0 | 40 |
| Brazil | 2493 | 12,789 | 11,769 | 44.4 | 195 |
| Chile | 248 | 14,278 | 17,222 | 4.4 | 17 |
| Colombia | 328 | 7,132 | 10,249 | 5.9 | 46 |
| Mexico | 1155 | 10,153 | 14,610 | 20.6 | 114 |
| Peru | 174 | 5,782 | 10,062 | 3.1 | 30 |
| Venezuela | 316 | 10,610 | 12,568 | 5.6 | 30 |

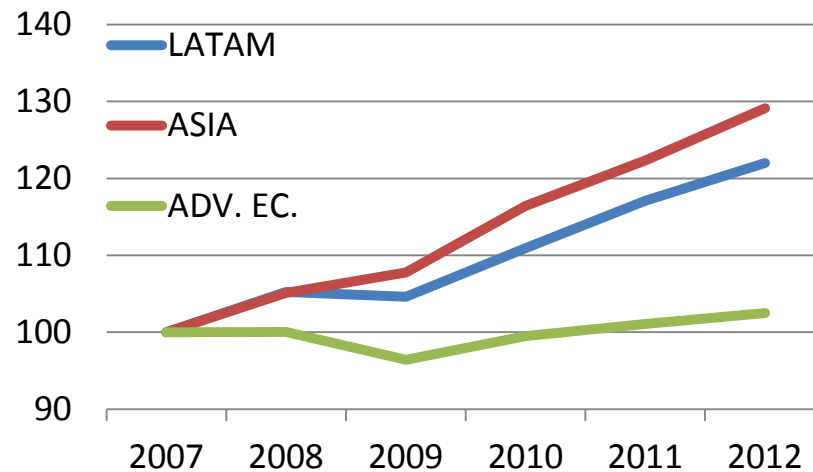
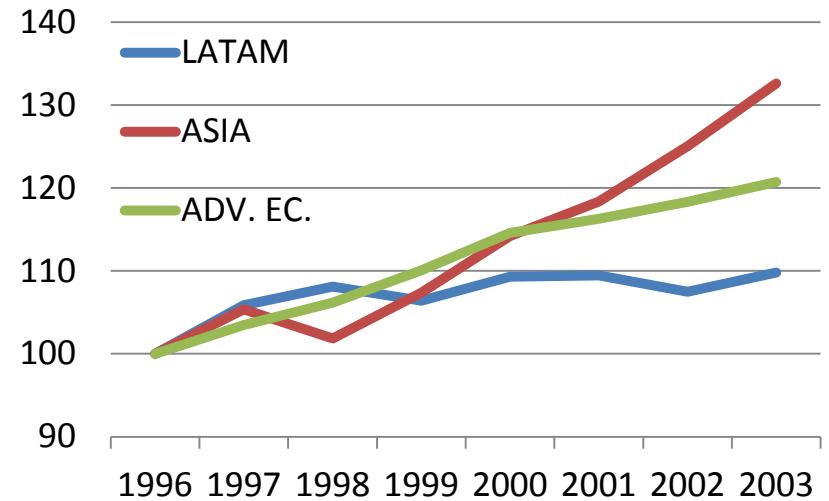
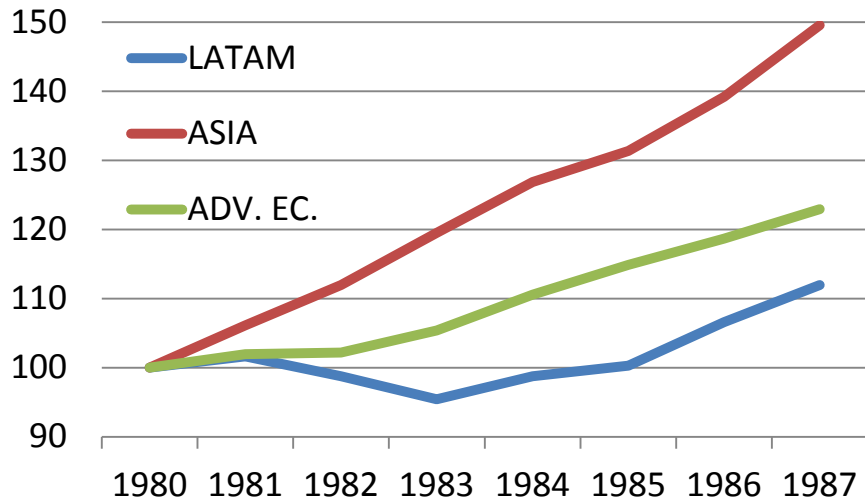
Source: IMF, WEO database.

Regional per-capita GDP as proportion of U.S. per capita GDP



Source: IMF-WEO. Regional data are simple averages across countries. LATAM: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay, and Venezuela. Asia: China, Korea, India, Indonesia, Malaysia, the Philippines, and Thailand. Emerging Europe: Czech Republic, Hungary, Latvia, Lithuania, Poland, and Romania.

GDP in three recessions: The debt crisis – the Asian crisis and the Global Financial crisis (index two years before the crisis=100)



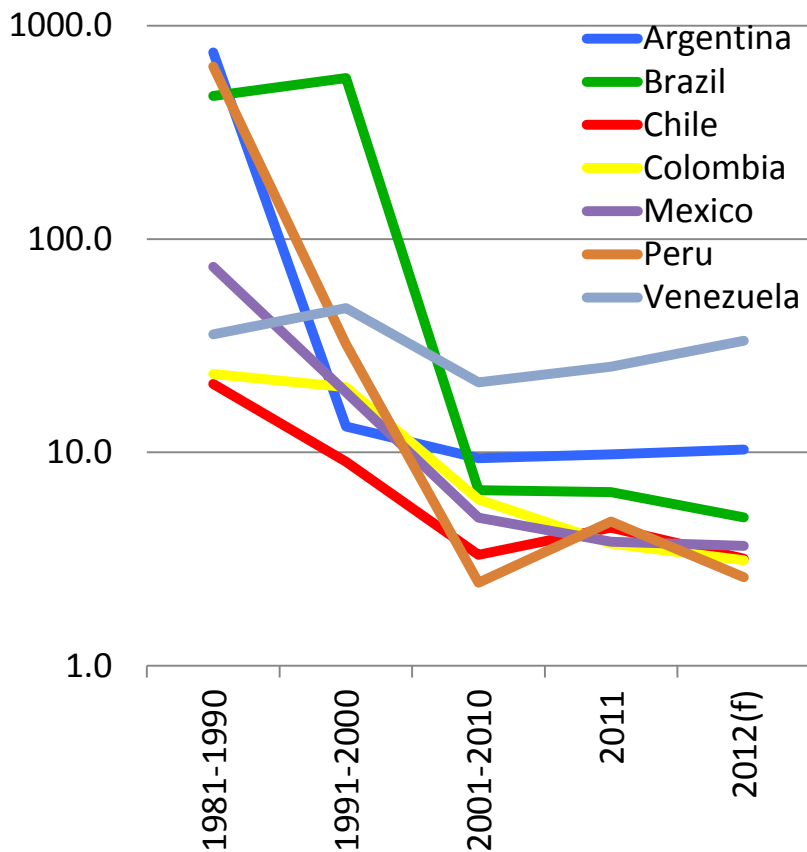
II. WHAT WENT RIGHT?

What went right?

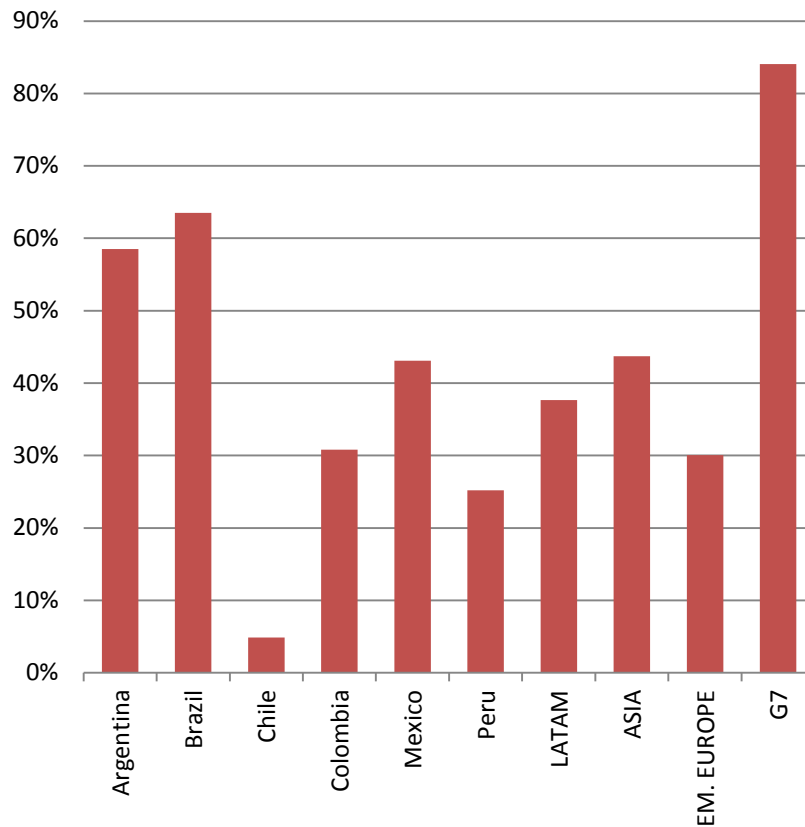
- Good macro: monetary and fiscal
- Exchange rate flexibility
- Strong and well regulated financial system
- High levels of reserves
- ...and a bit of luck

Macroeconomic Stabilization in Latin America

Inflation (%)



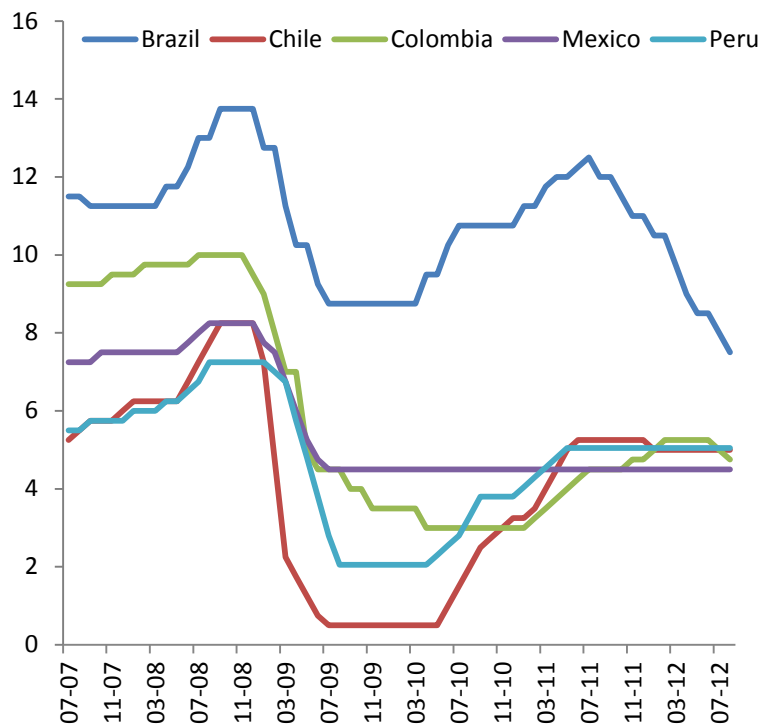
Public debt, 2008 (% GDP)



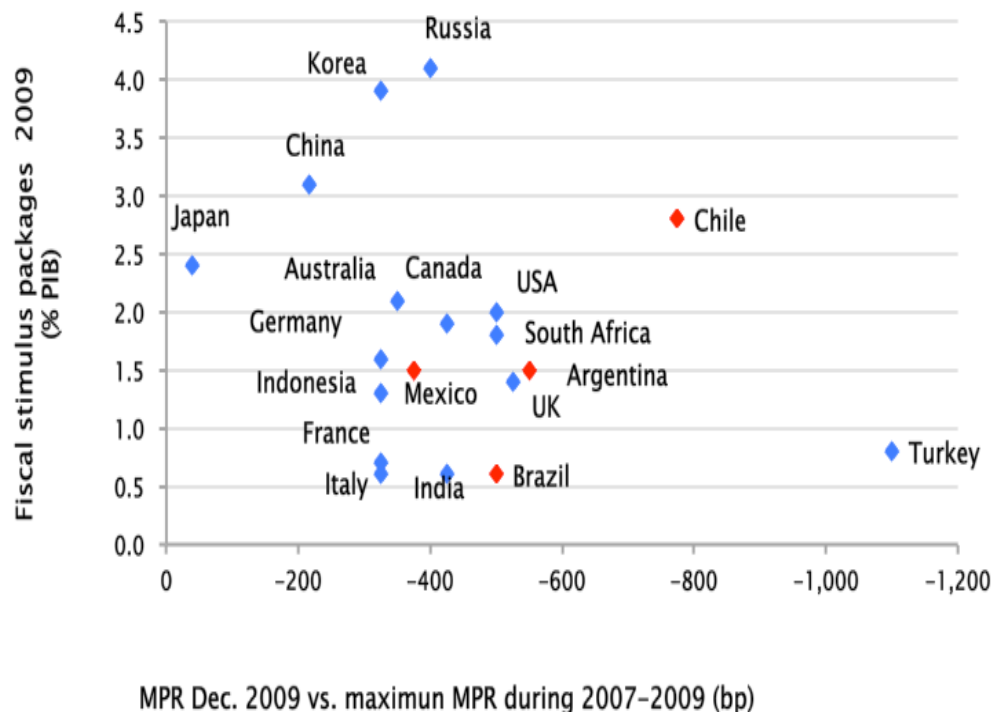
Source: IMF, WEO and Fiscal Monitor Statistics.

Expansionary policies during the Global Financial Crisis

Monetary Policy



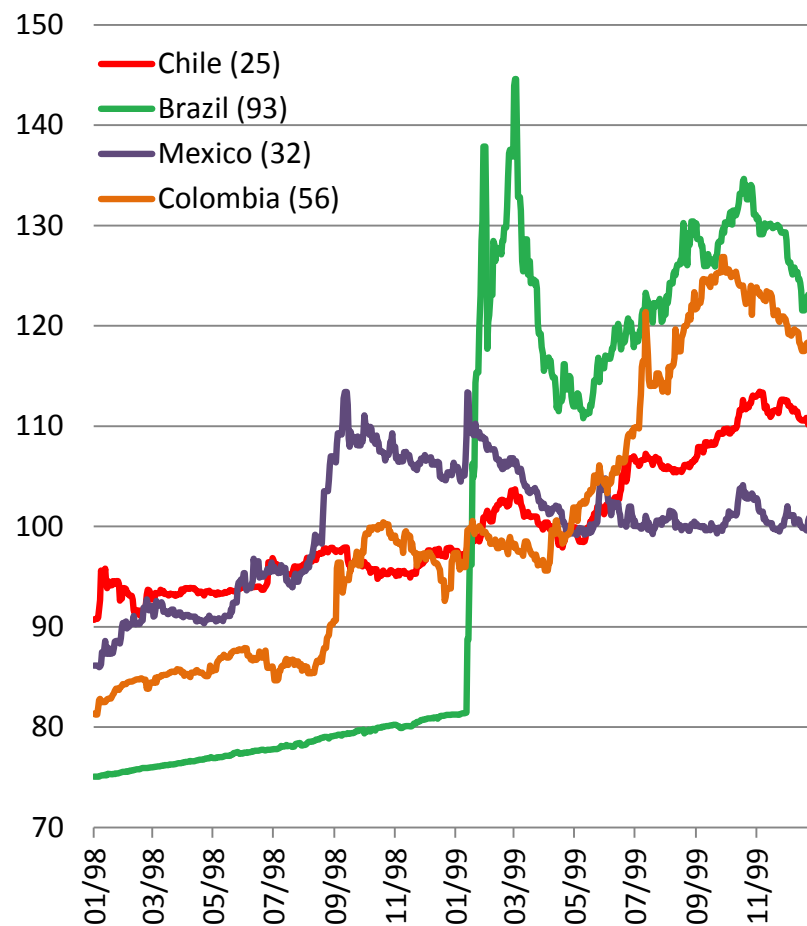
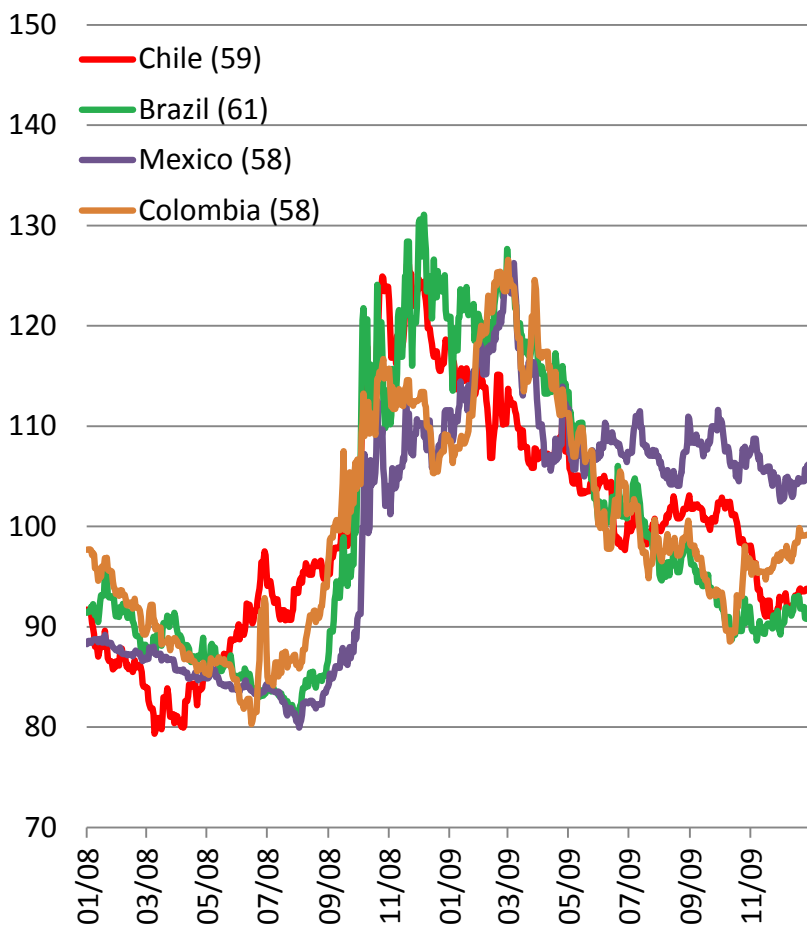
Monetary and Fiscal Stimulus



Sources: Bloomberg, Central Bank of Chile, IMF, and Ministries of Finance.
MPR: Monetary Policy Rate

Exchange Rates during the Asian and the Global Financial Crisis

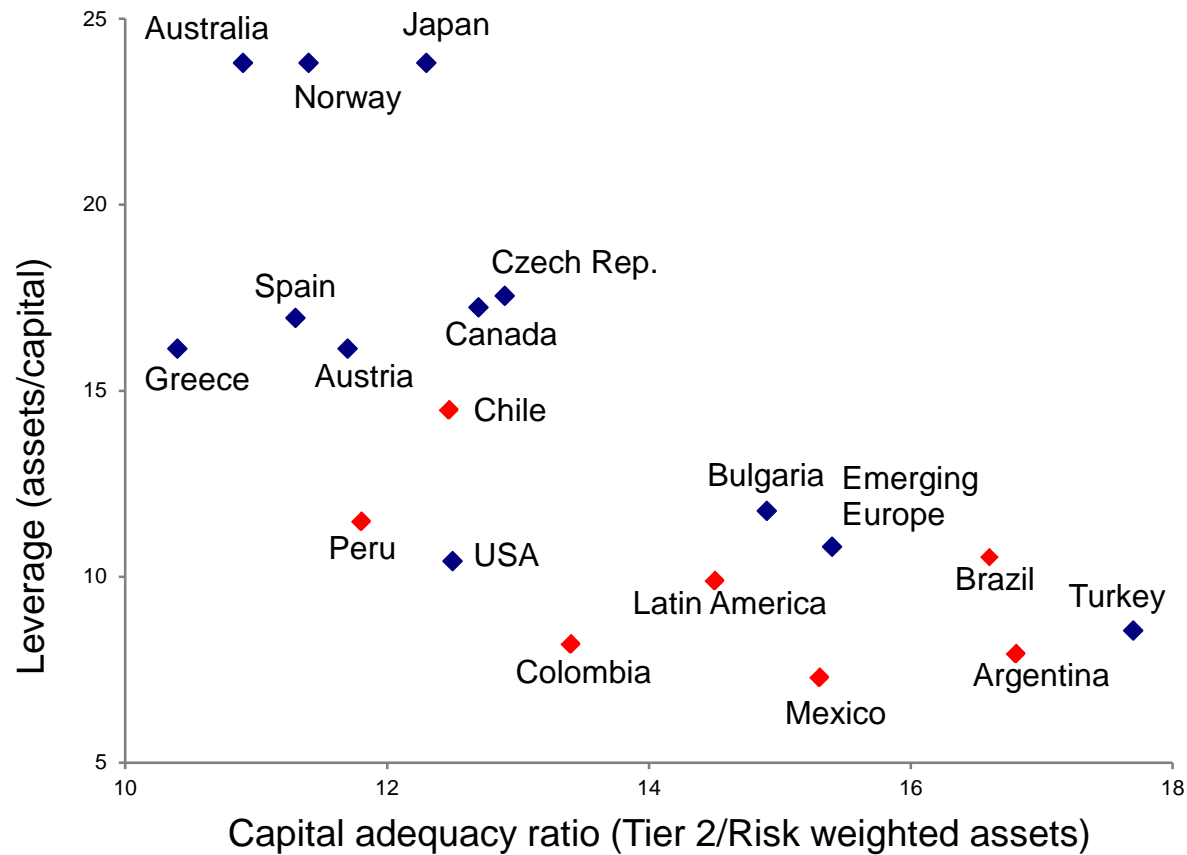
(domestic currency per USD, period average=100)



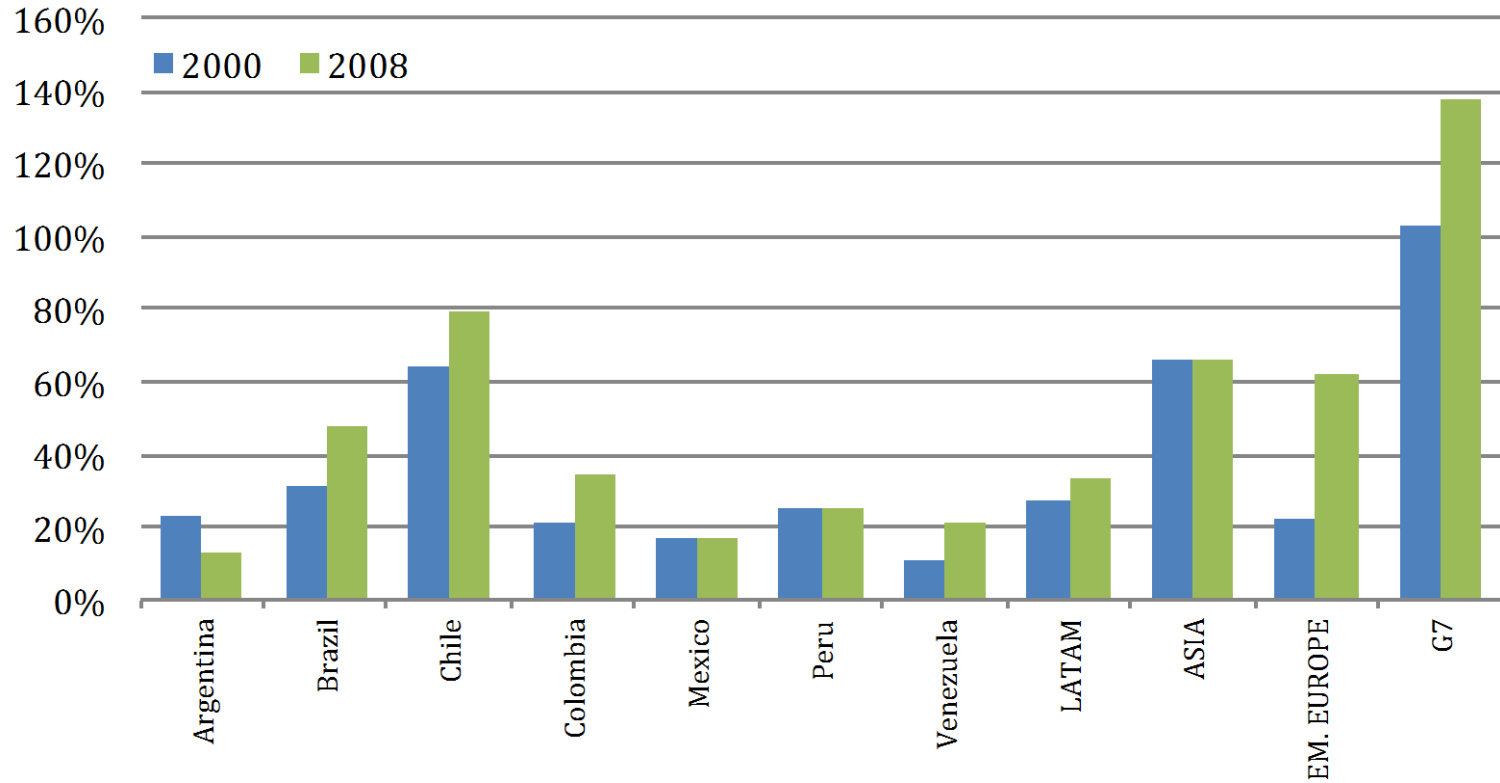
Source: Bloomberg. Figures in brackets indicate depreciation from bottom to top. An increase indicates a depreciation of the currency.

Banks' Capital ratios

(times, percentage)



Private Credit as Share of GDP (percentage)

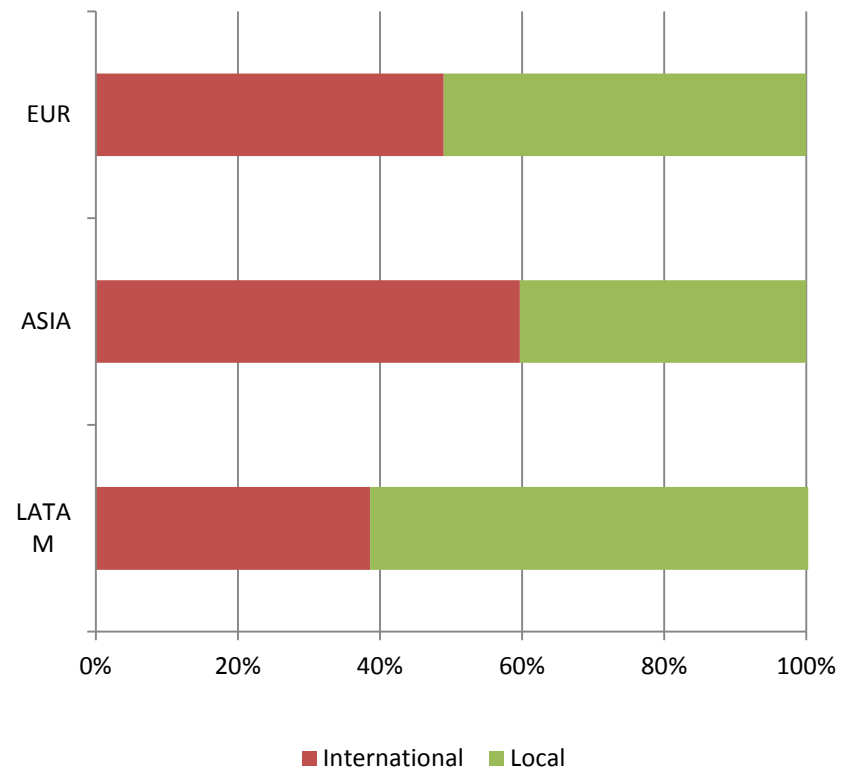
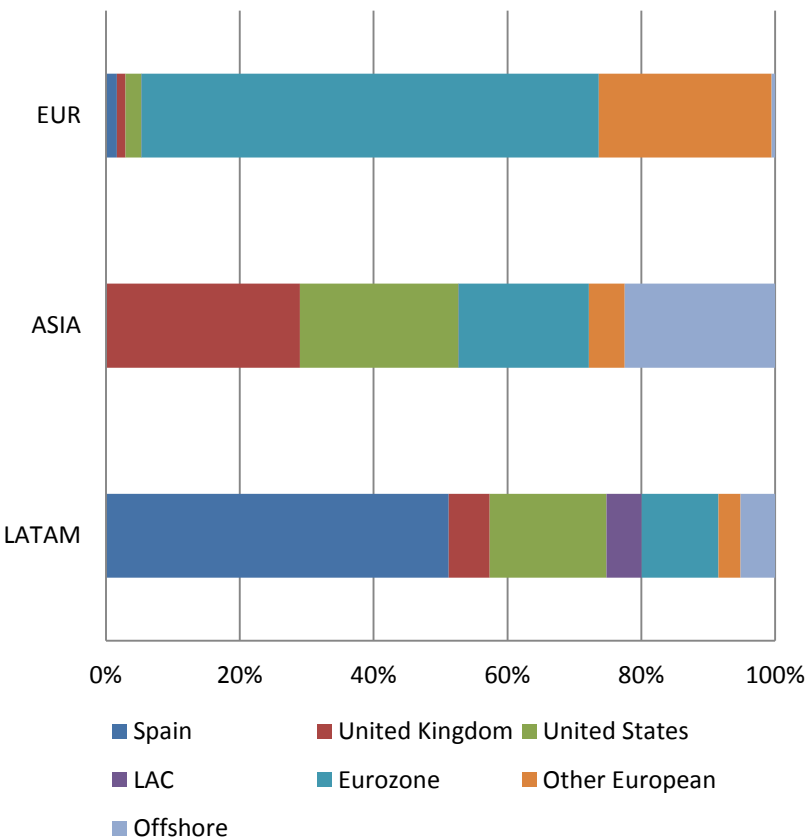


Source: IMF, IFS.

Foreign banks' claims on Emerging Markets

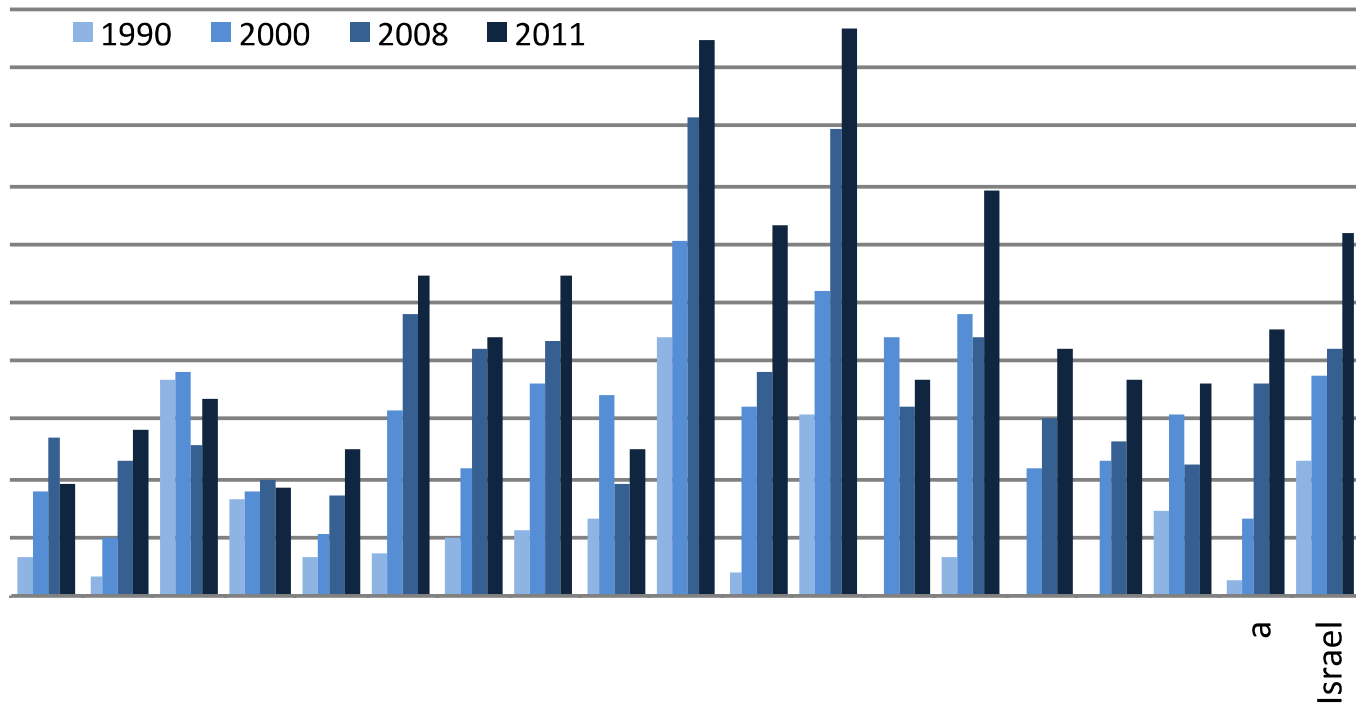
Foreign Claims of BIS Reporting Banks (percentage, 2011.II)

Composition of Foreign Claims (percentage, 2011.II)



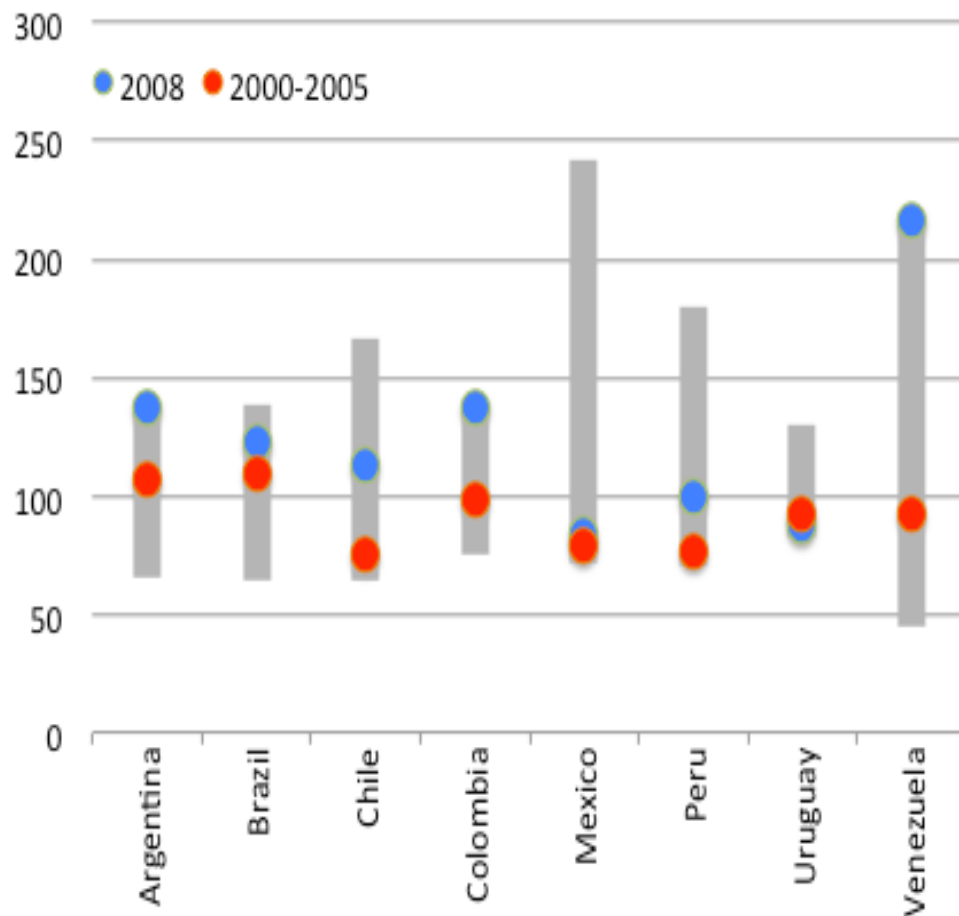
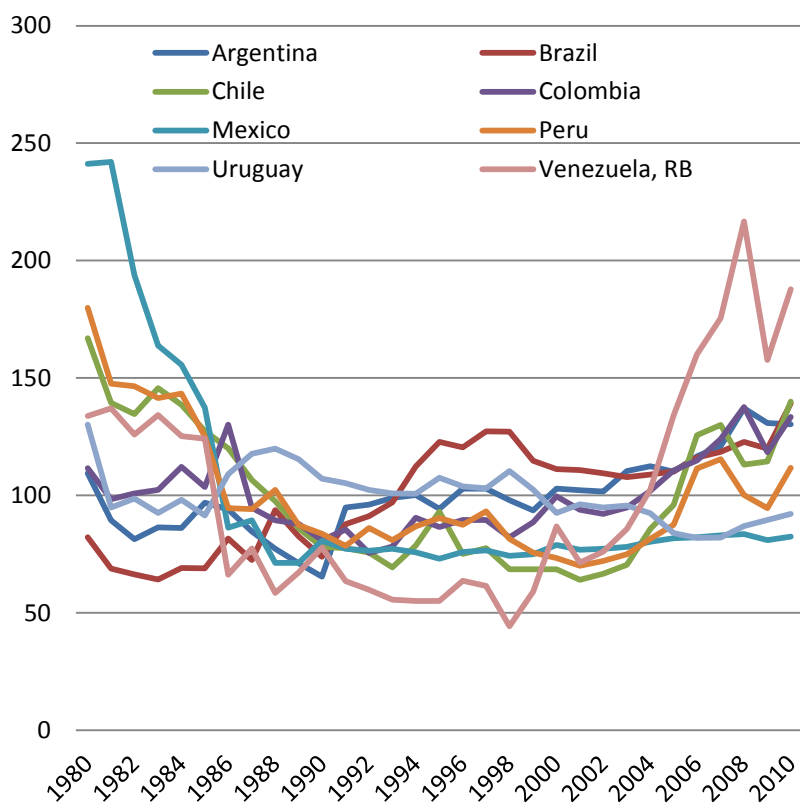
Source: Consolidated Banking Statistics (immediate borrower basis), BIS.

International Reserves (% of GDP)



Source: IMF-IFS and WEO.

Terms of Trade (Average 1980-2010=100)



Source: World Bank, Net Barter Terms of Trade Index,
<http://data.worldbank.org/indicator/TT.PRI.MRCH.XD.WD>

III. PERSPECTIVES AND CHALLENGES

Perspectives and challenges

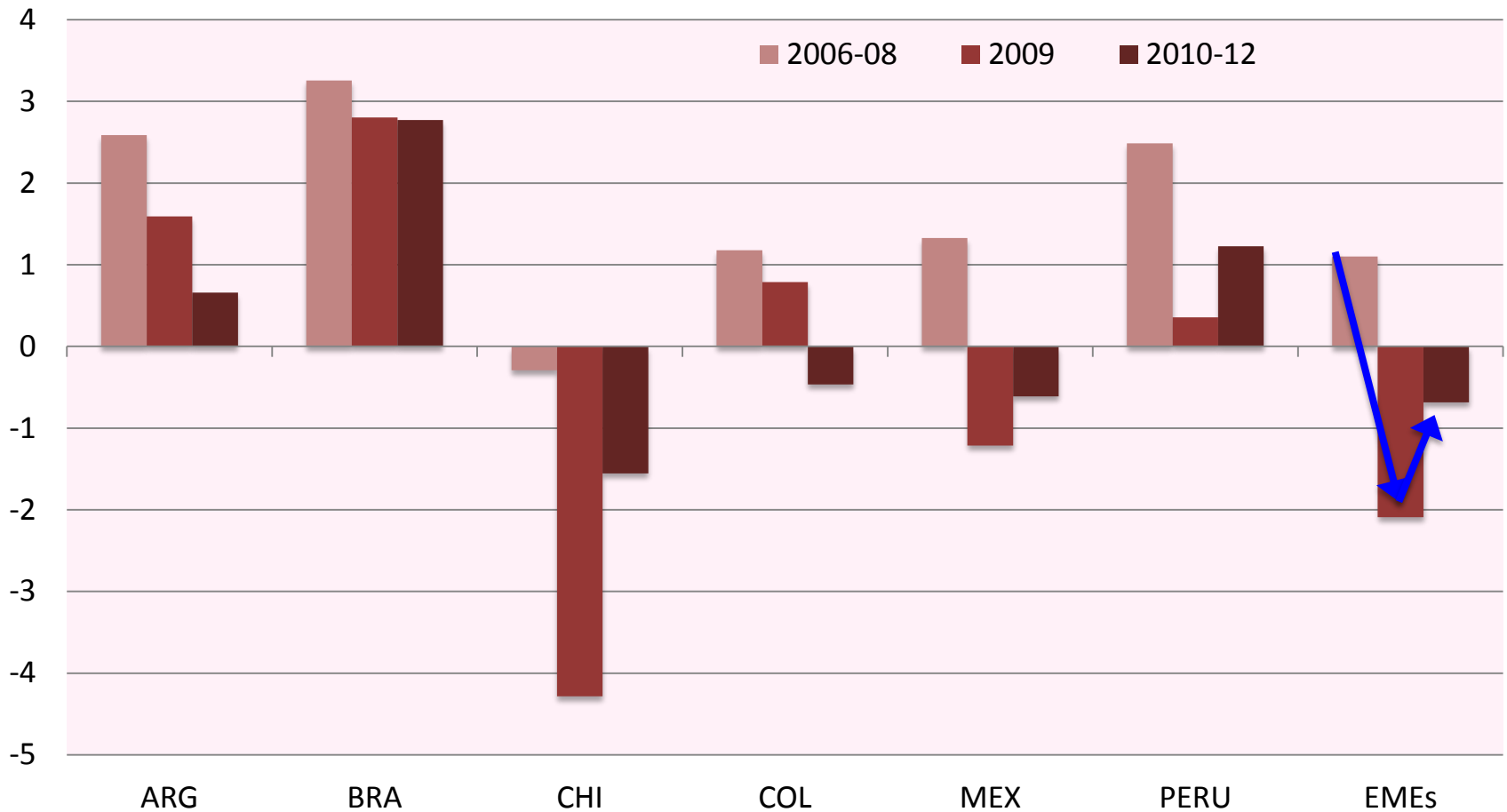
- Perspectives
- Fiscal space
- Exchange rates
- Capital flows

Latin America Recent Growth and Forecast

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|------------------|-------------|-------------|------------|------------|------------|
| Argentina | 0.9 | 9.2 | 8.9 | 3.0 | 2.2 |
| Brazil | -0.3 | 7.5 | 2.7 | 1.5 | 4.0 |
| Chile | -1.0 | 6.1 | 6.0 | 5.0 | 4.5 |
| Colombia | 1.7 | 4.0 | 5.9 | 3.5 | 4.4 |
| Mexico | -6.3 | 5.5 | 4.0 | 3.6 | 3.7 |
| Peru | 0.9 | 8.8 | 6.9 | 6.0 | 7.0 |
| Venezuela | -3.2 | -1.5 | 4.2 | 5.0 | 1.0 |

Source: IMF, WEO. Forecast 2012 and 2013, IMF, consensus forecast, JP Morgan, Central Bank of Chile, and author estimates.

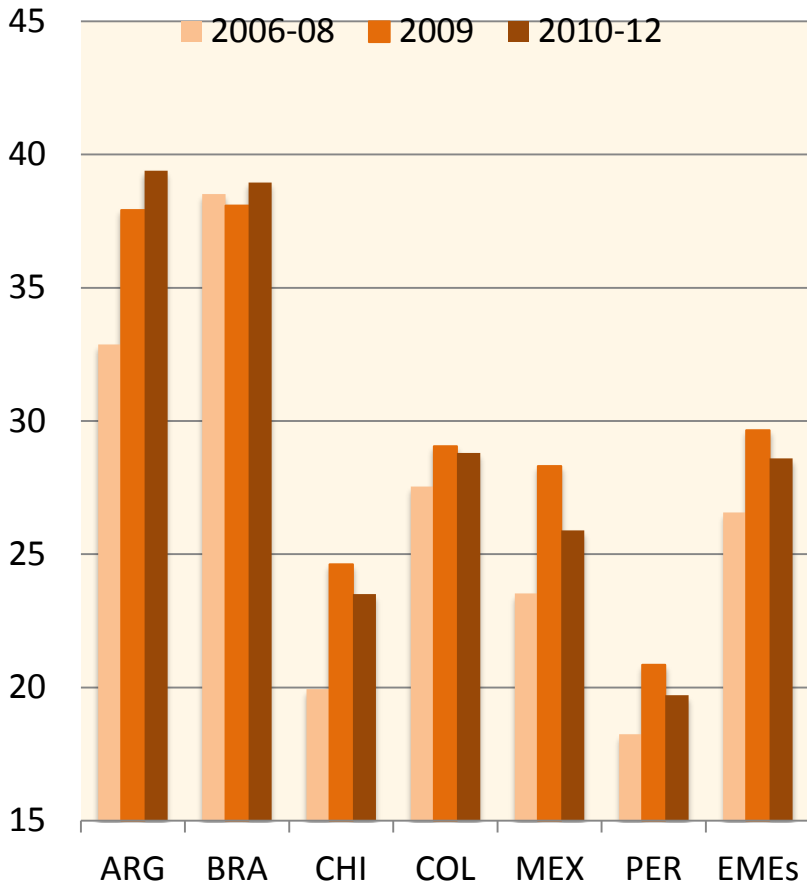
Fiscal Space: Cyclically Adjusted Primary Balance (% of GDP)



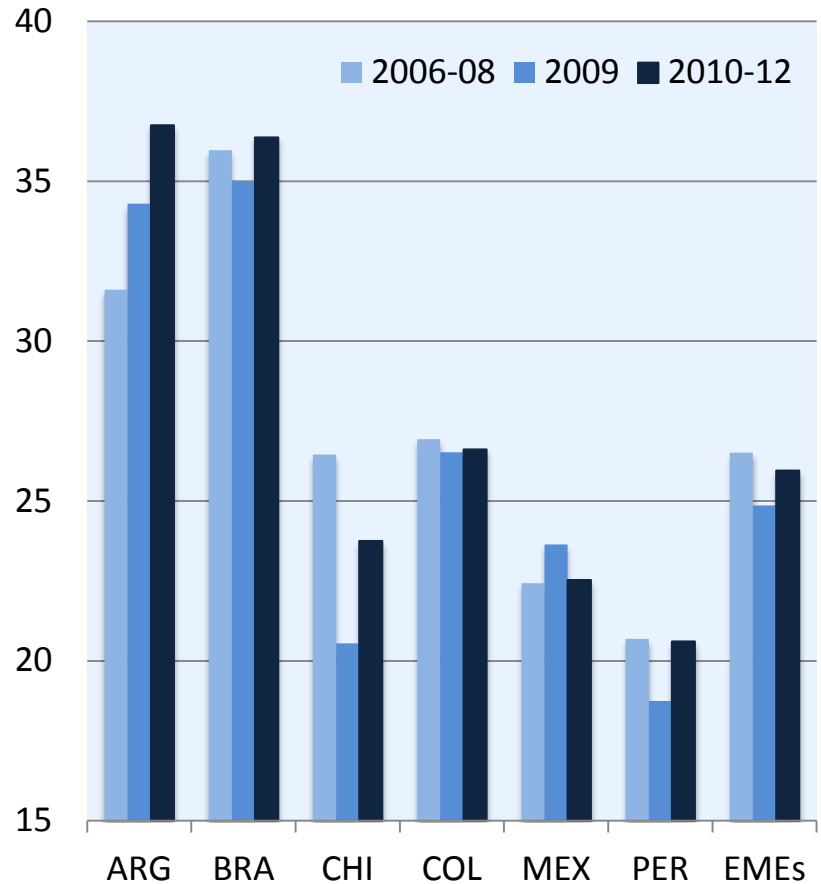
Source: Fiscal Monitor, IMF, April 2012.

Fiscal Space: General Government

Expenditure (% GDP)

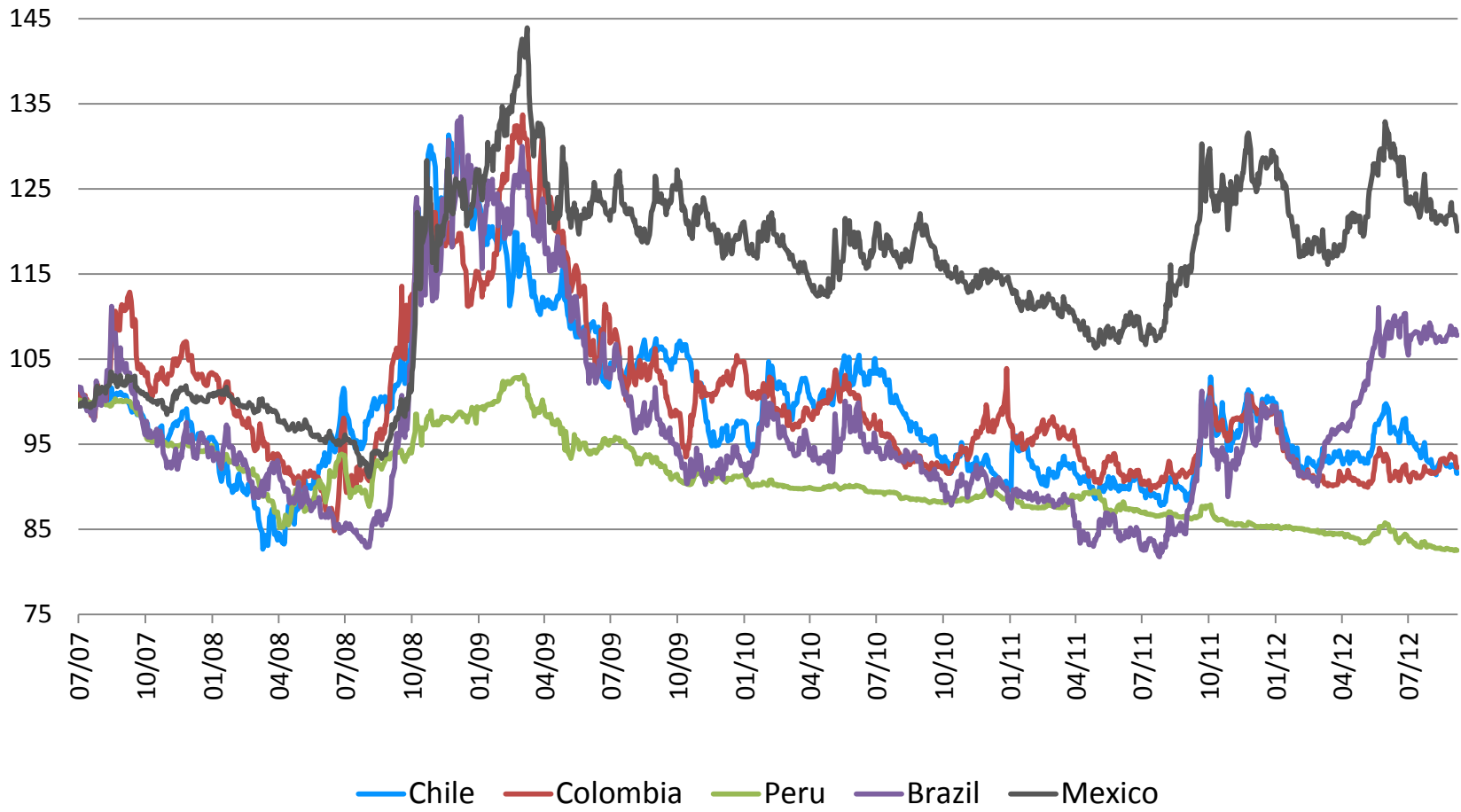


Revenue (% GDP)



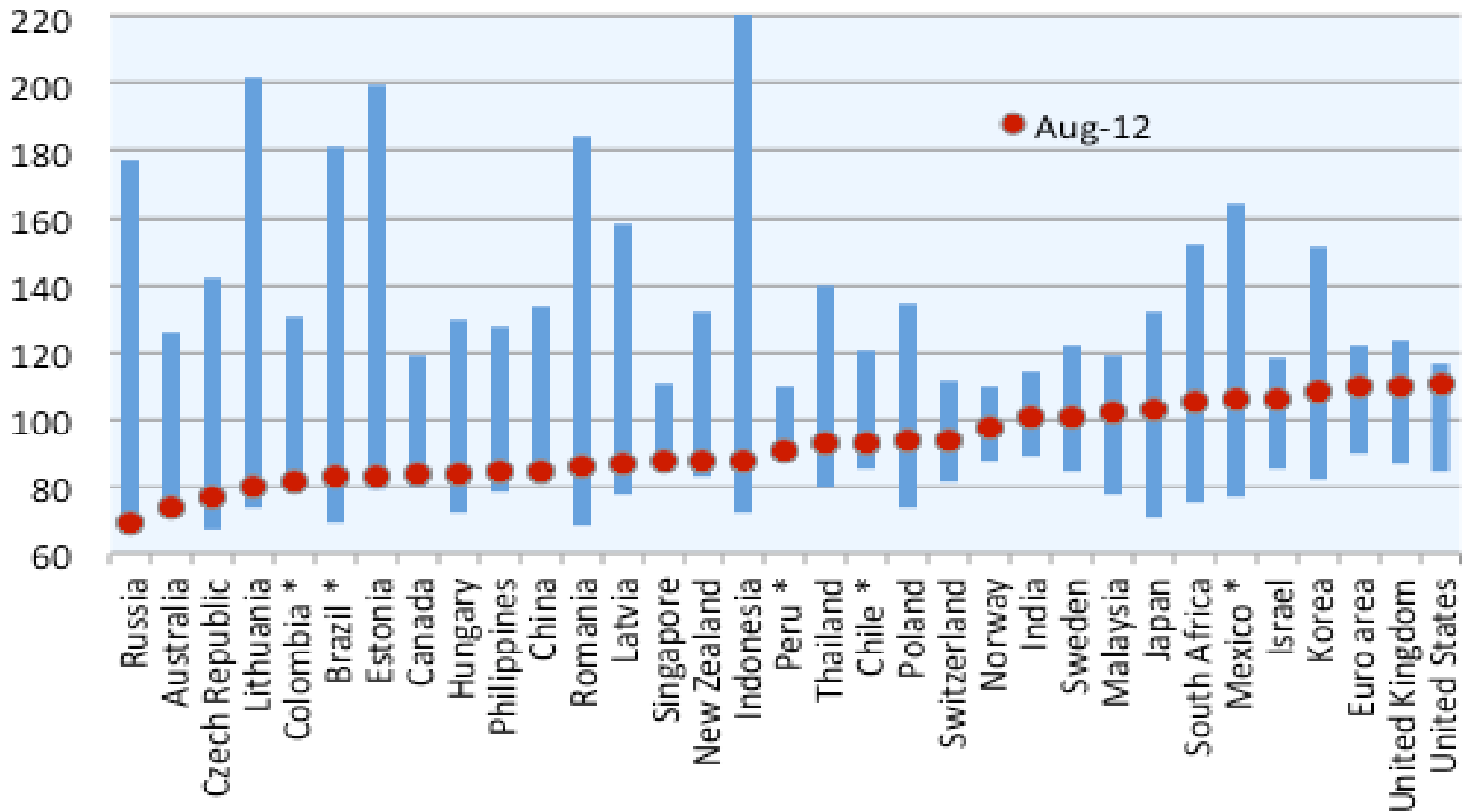
Source: Fiscal Monitor, IMF, April 2012.

Exchange Rates Latin America (July 07=100)



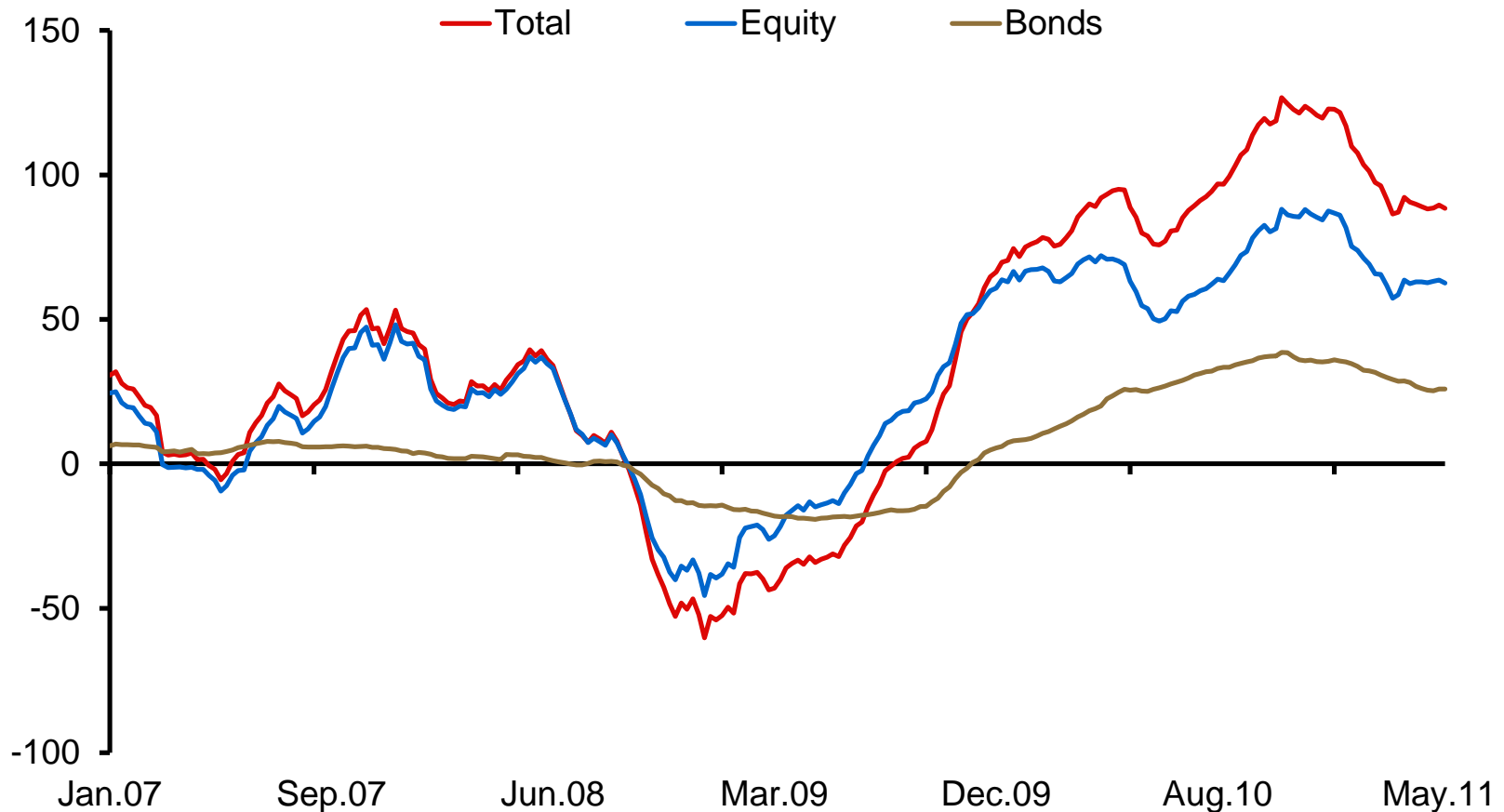
Source: Bloomberg.

Real exchange rates 1994-2012 (index, period average =100)



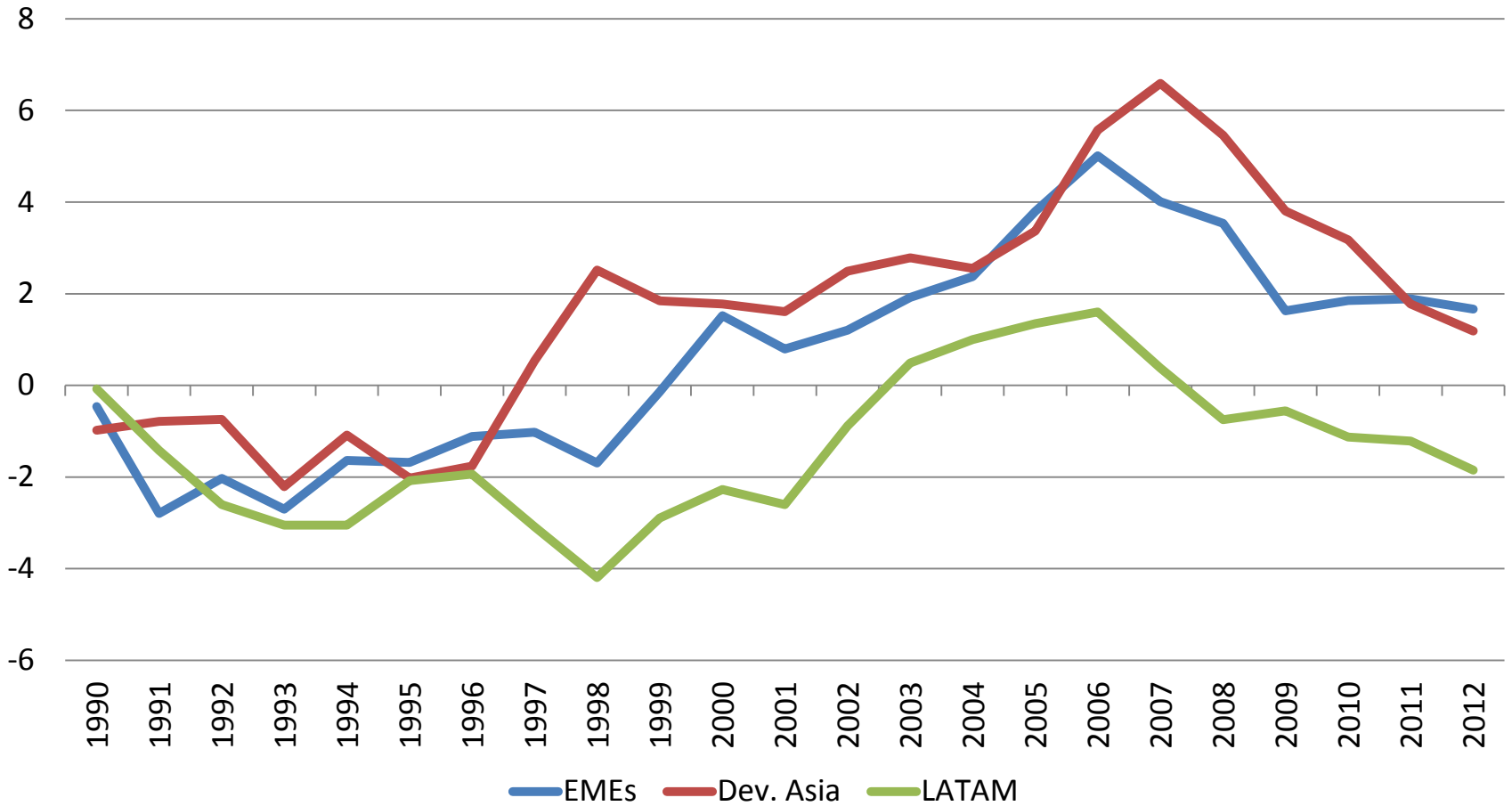
Source: BIS

Capital flows to Emerging Market Economies (Billion US dollars, 12-month accumulated)



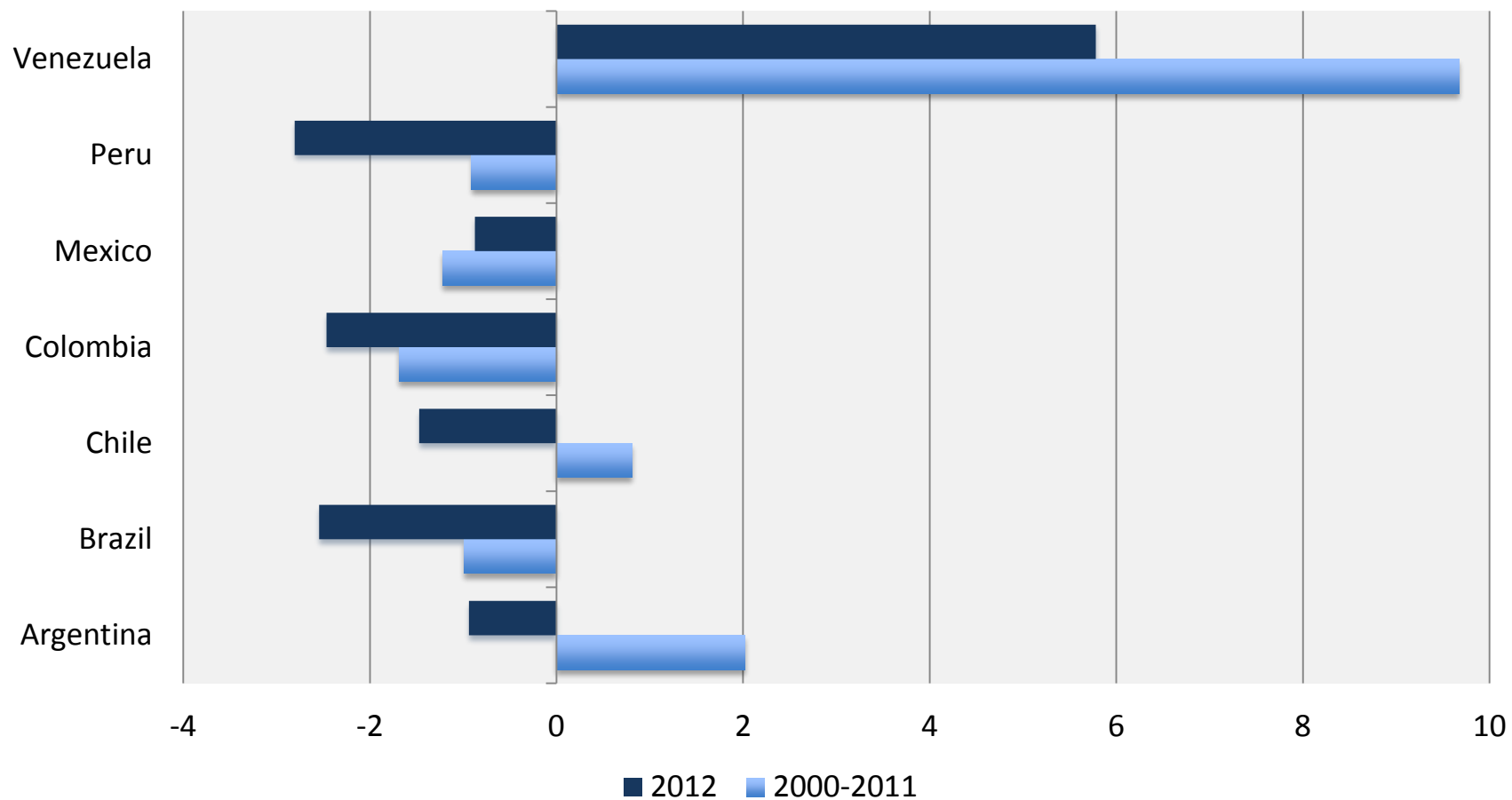
Source: Emerging Portfolio Fund Research.

Current account balance (% of GDP)



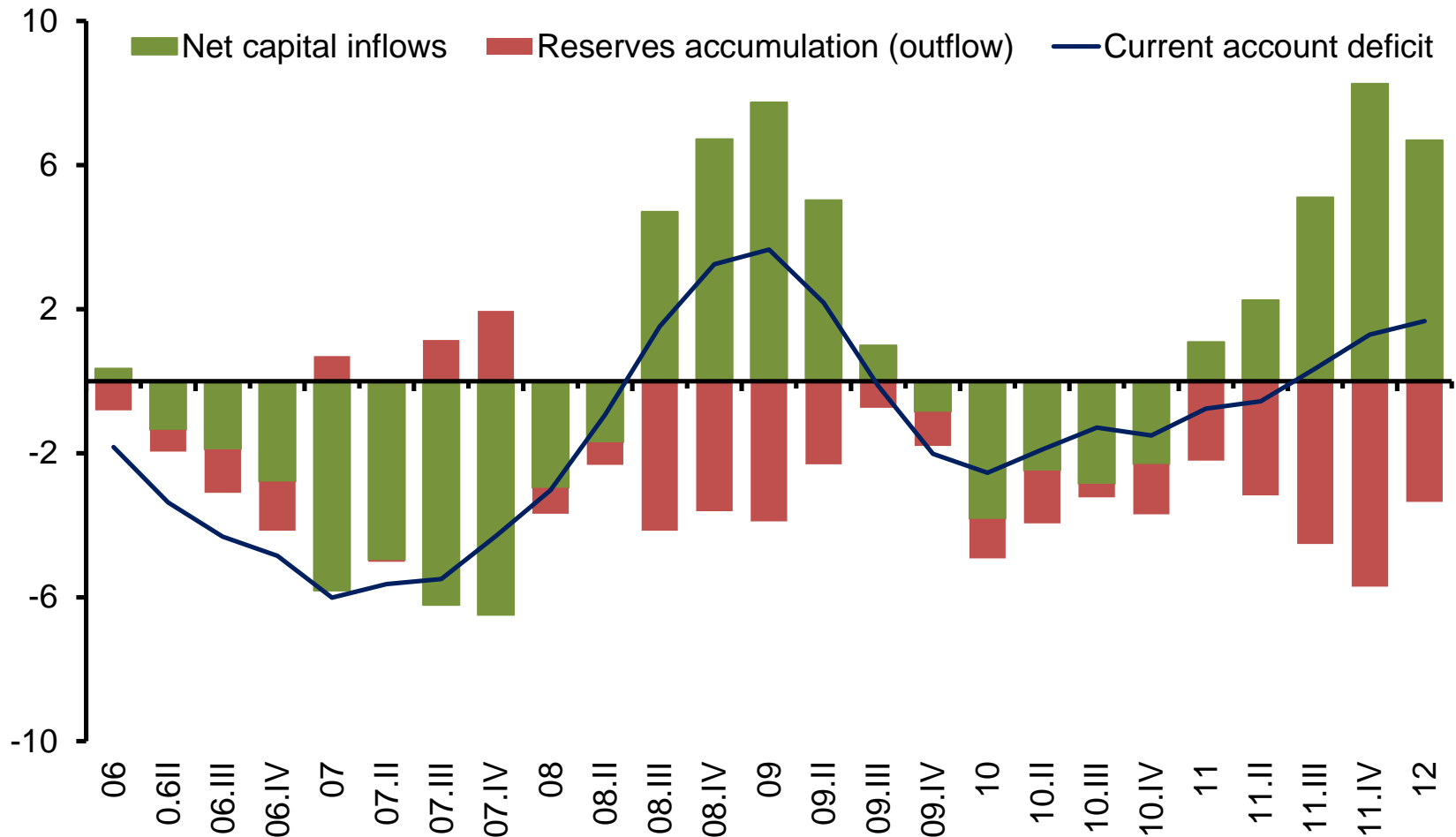
Source: IMF, International Financial Statistics.

Current account (% GDP)



Fuente: WEO, IMF.

Chile: Current Account and Net Capital Inflows (% of GDP)



Source: Central Bank of Chile.

IV. CONCLUDING REMARKS

Concluding remarks

- Success does not imply immunity. This has implications for the private sector and for policies.
- Be prepared for a decline in the terms of trade, especially if China's slowdown intensifies.
- The sense of macroeconomic immunity and high inequality may lead to populism, which is not the right way to tackle this important challenge.
- Resilience does not result in sustained growth. Growth is more difficult, but good macro policy is a necessary starting point.
- Policies must promote growth and social inclusion.