

No Time for Complacency in Latin America

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Latin America Has Been a Safe Haven in the Global Crisis

- Unlike in previous episodes of global turmoil, Latin American financial markets have performed well.
- Economic growth in Latin America has held up well, while external bond spreads remain at historically low levels
- Underlying Latin America's good performances have been a strengthening in its fundamentals and very favorable international commodity prices.
- Since 2000, there has been an impressive turnaround in Latin America's budget and balance of payments performance.
- Over the past five years there has been a dramatic decline in Latin America public and external debt.
- Latin America's investment performance has been the strongest in decades.

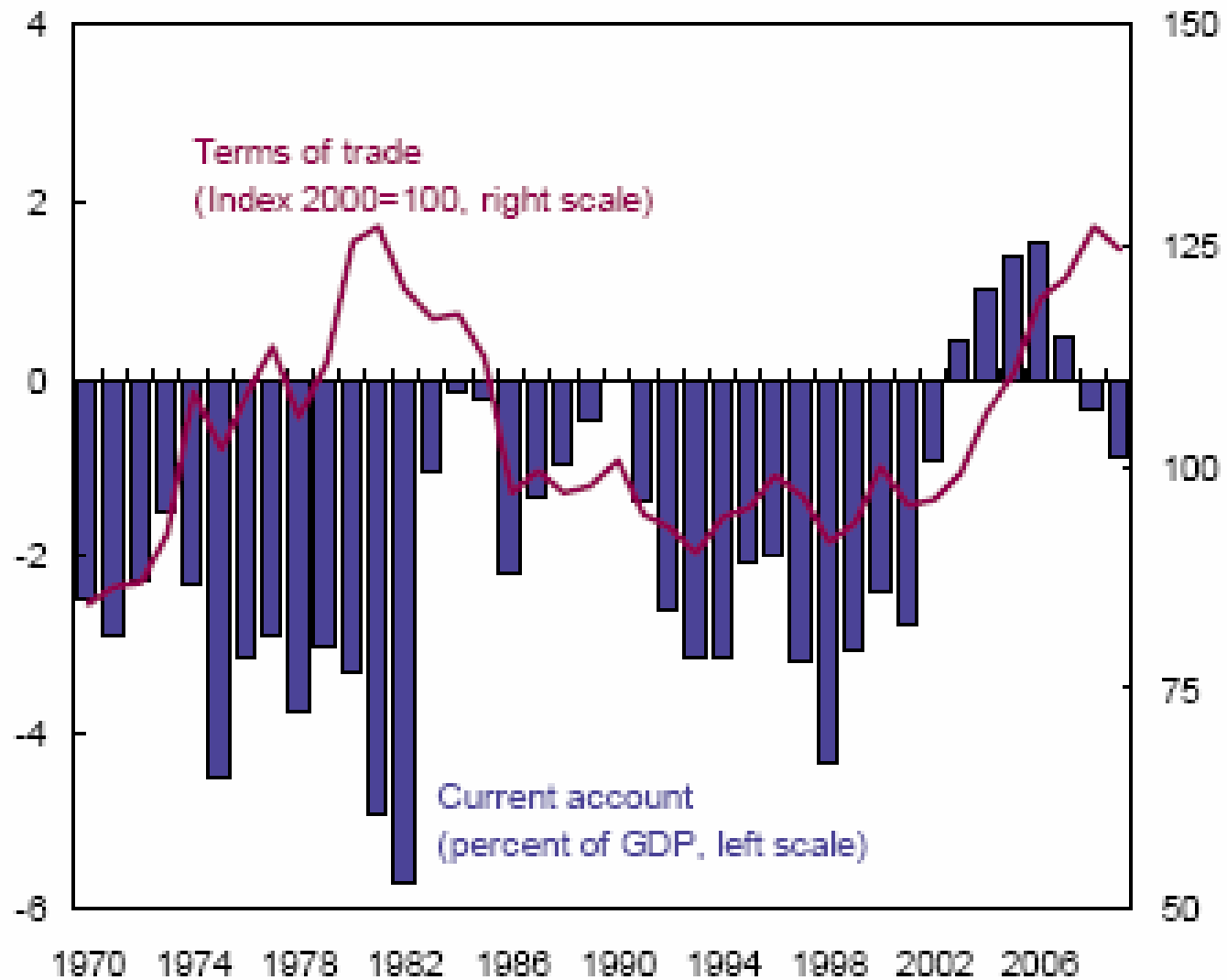
Emerging Market Sovereign and U.S. High-Yield Spreads

(In basis points)



Sources: Bloomberg; and Datastream.

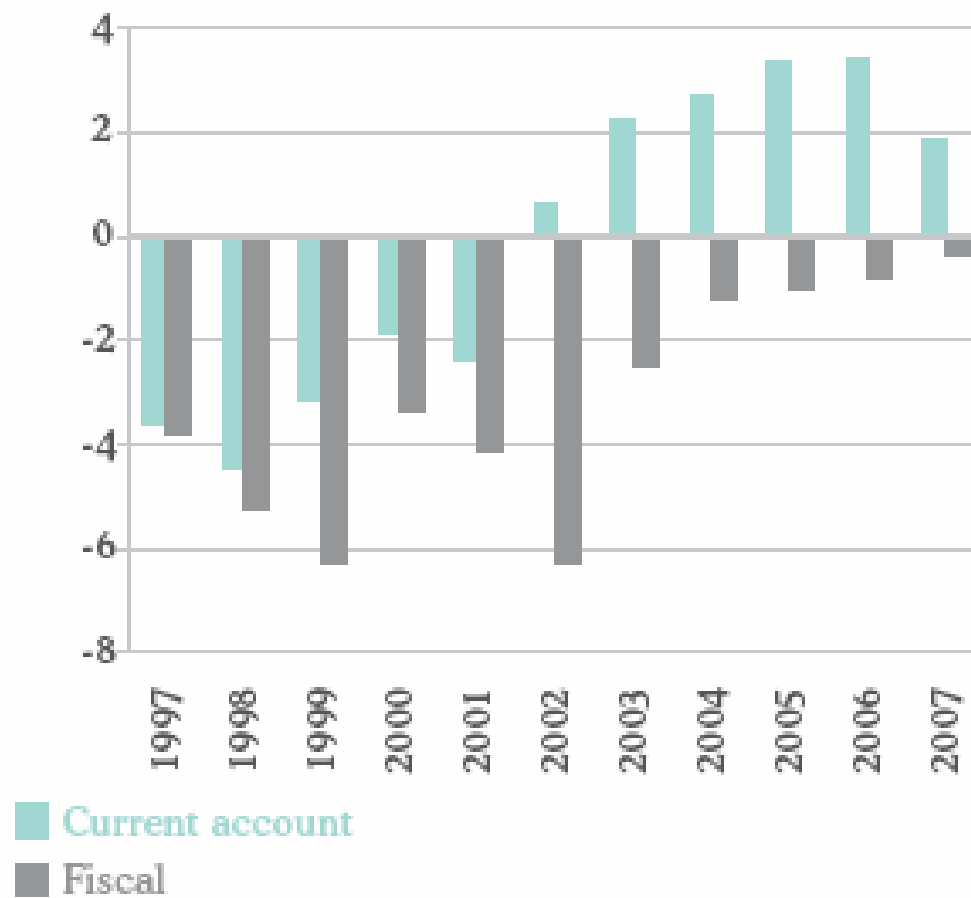
Current Account Balance and Terms of Trade



Source: WEO.

South America: current account and fiscal balance

(% GDP)



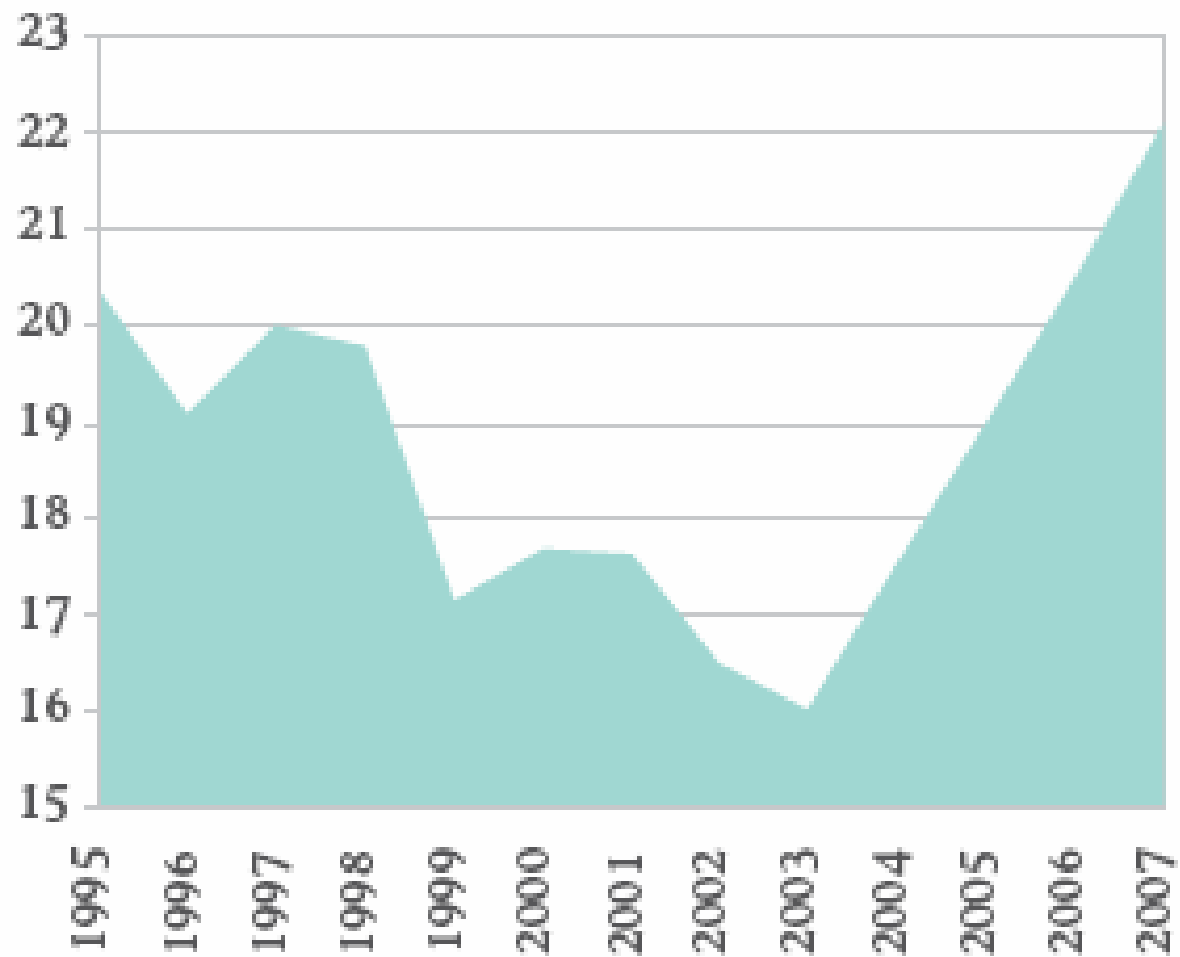
Source: BBVA

South America: public and external debt (% GDP)



Sources: BBVA using National Statistics Offices' data

South America: Investment (%GDP)



Source: BBVA

Too Early to Declare Victory

- The global crisis shows every sign of intensifying in the quarters ahead
- Risk aversion could return to the markets
- The present commodity price super boom could prove to be ephemeral
- A number of Latin American currencies could prove to be overvalued
- A number of Latin American countries, most notably Argentina and Venezuela, are relapsing to the failed policies of the past

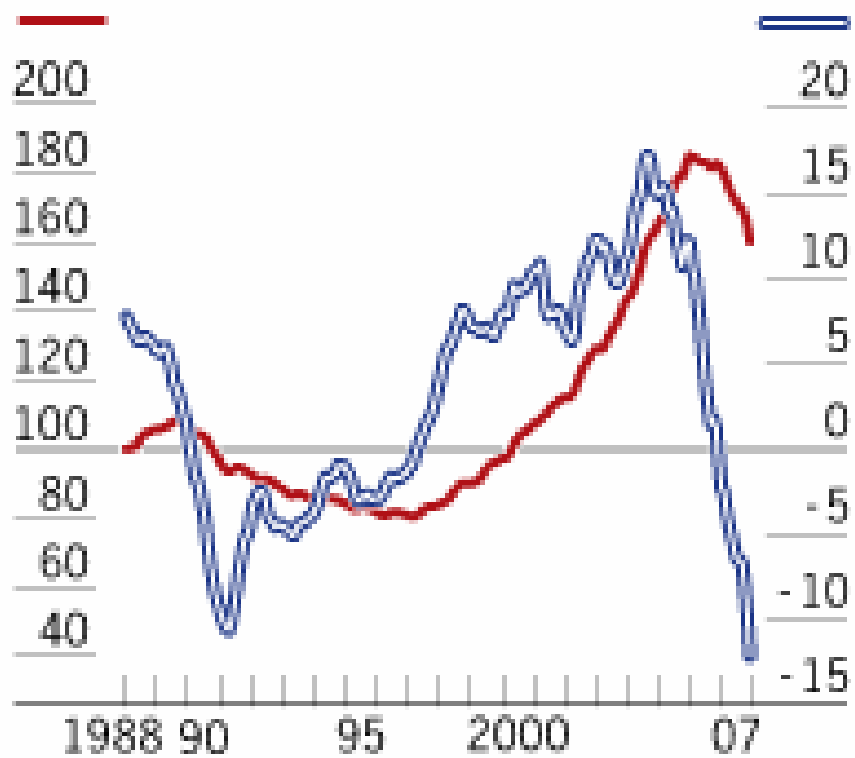
A Confluence of Negative Shocks Still Impacts the U.S. Economy

- The US housing bust threatens to be by far the most severe in the post-war period.
- The global credit crunch is still very much in play.
- International oil prices have risen to record levels even after adjusting for inflation.
- The US non-residential property market bubble appears to be bursting.

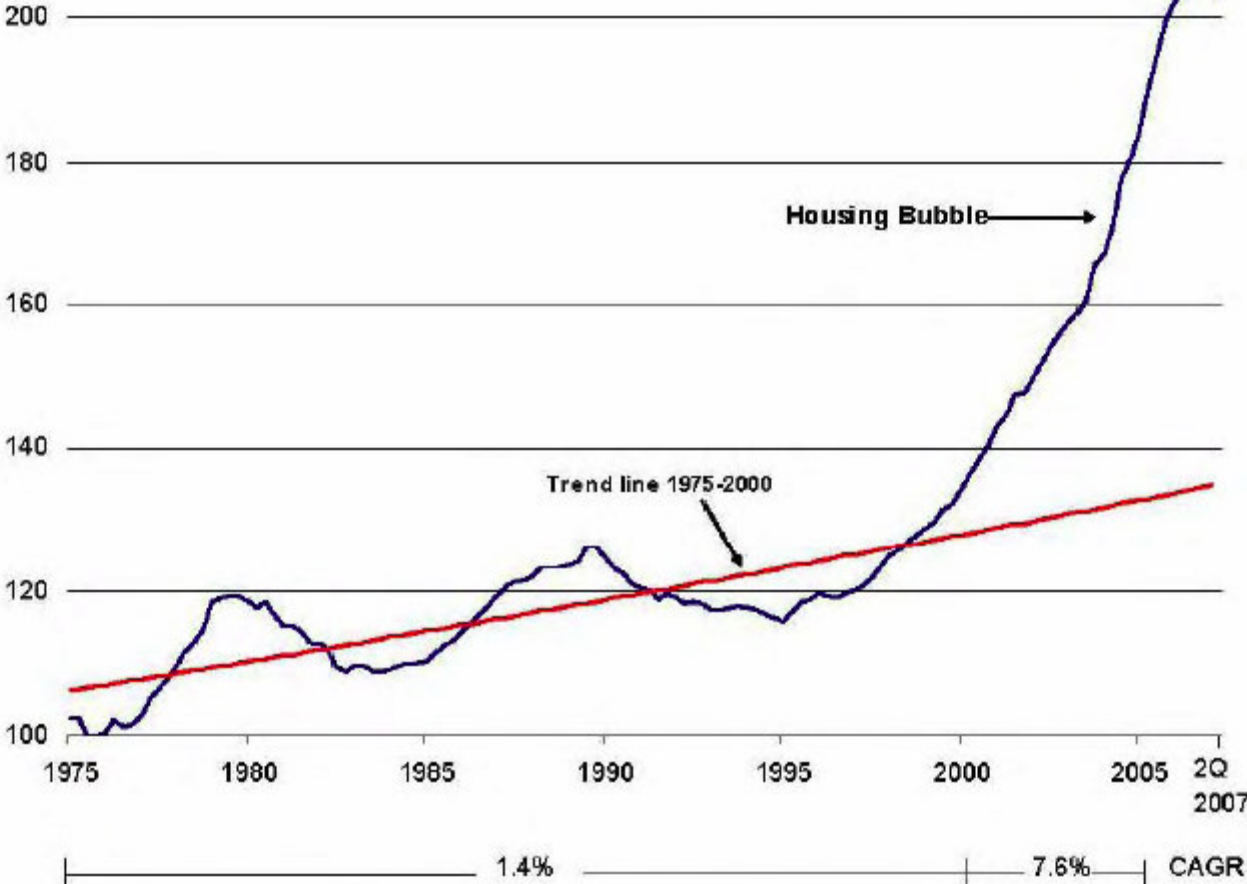
US real house prices

Case-Shiller 10-city composite, deflated by CPI

Annual % change

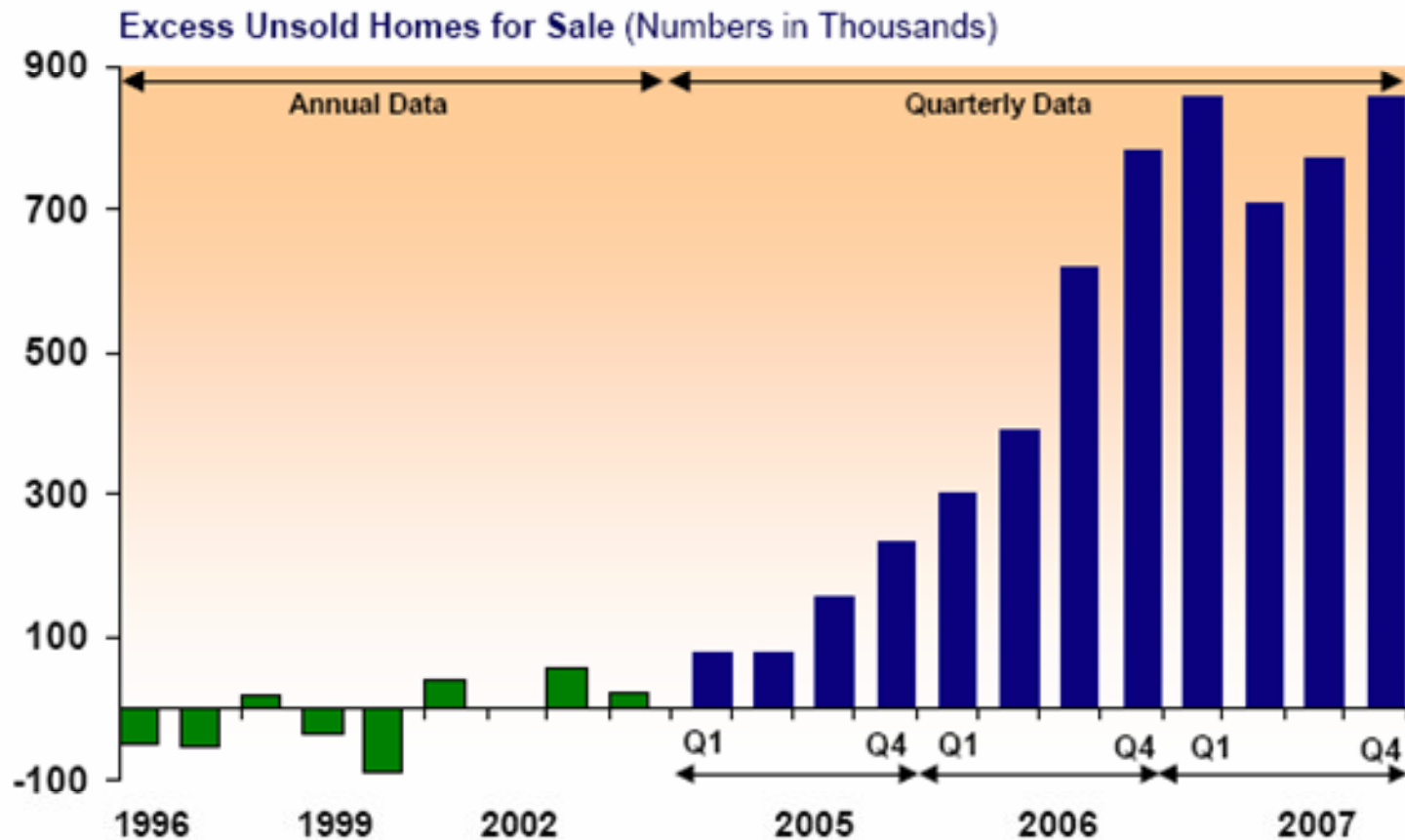


Real Home Price Index (1975 = 100)



Sources: OFHEO, Bureau of Economic Analysis.

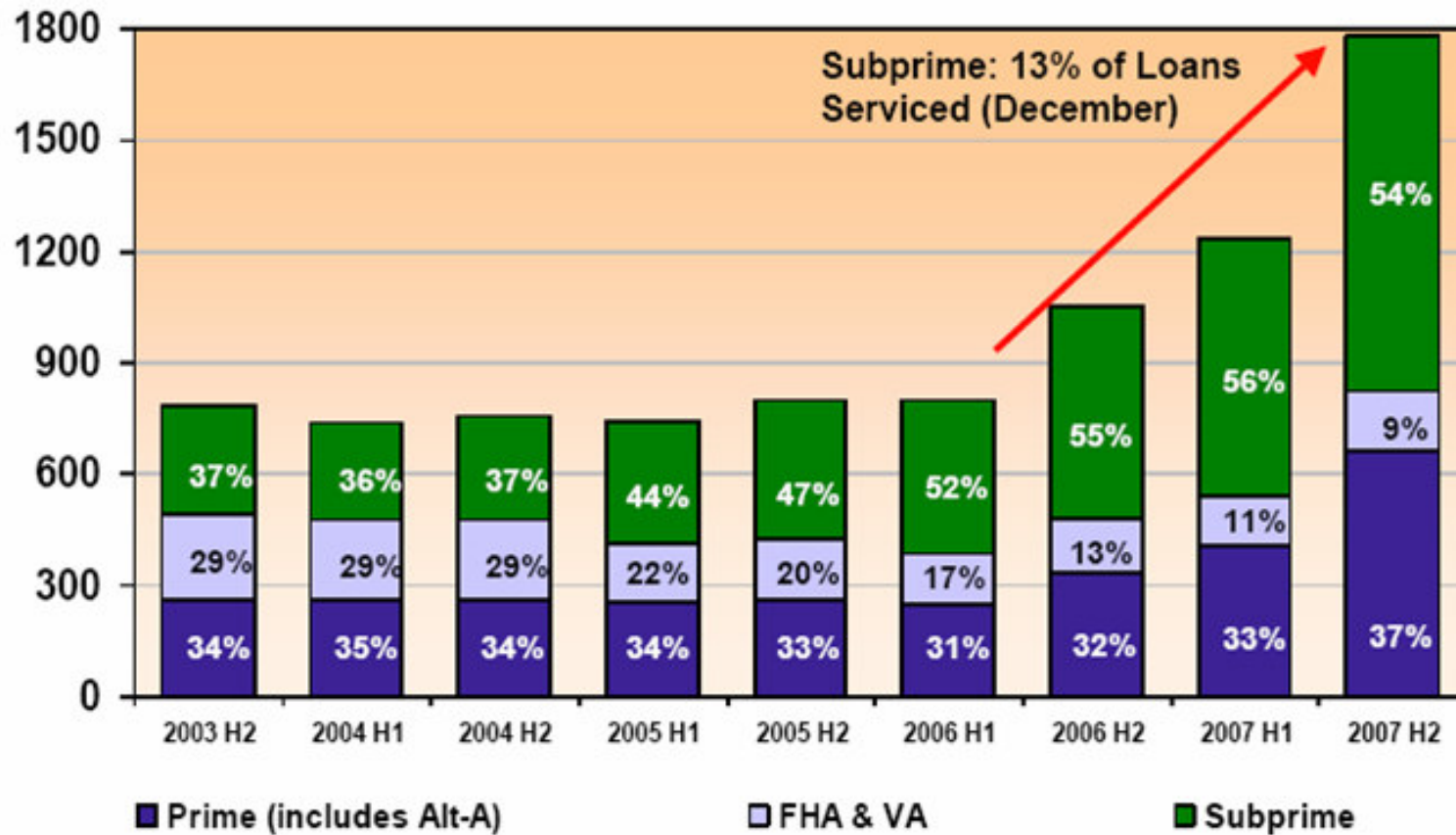
A Large Inventory Overhang Remains within the Housing Market



Source: Bureau of Census (1996-2004:Annual Data, 2005Q1-2007Q4:Quarterly Data)
 Note: The excess unsold homes were estimated based on the average vacancy rate from 1996Q1 to 2005Q4 (1.7%).

Office of the Chief Economist

Number of Foreclosures Started (Annualized Rate in Thousands)



Source: Mortgage Bankers Association National Delinquency Survey
(Data as of December 2007; number expanded to reflect 85% coverage)

Office of the Chief Economist

Federal Reserve Senior Loan Officer Survey

Net Percentage of Domestic Respondents Tightening Standards for C&I Loans

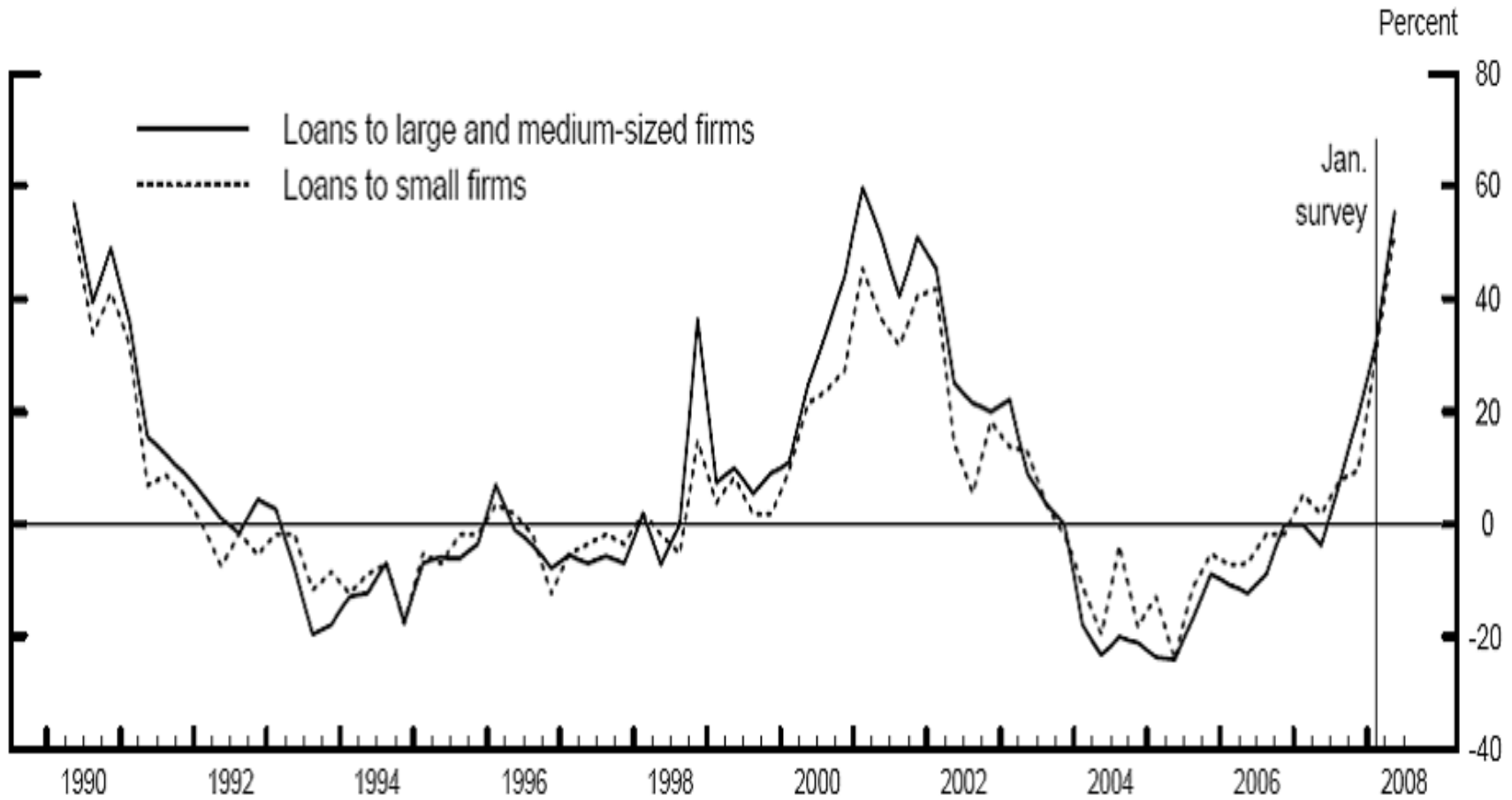
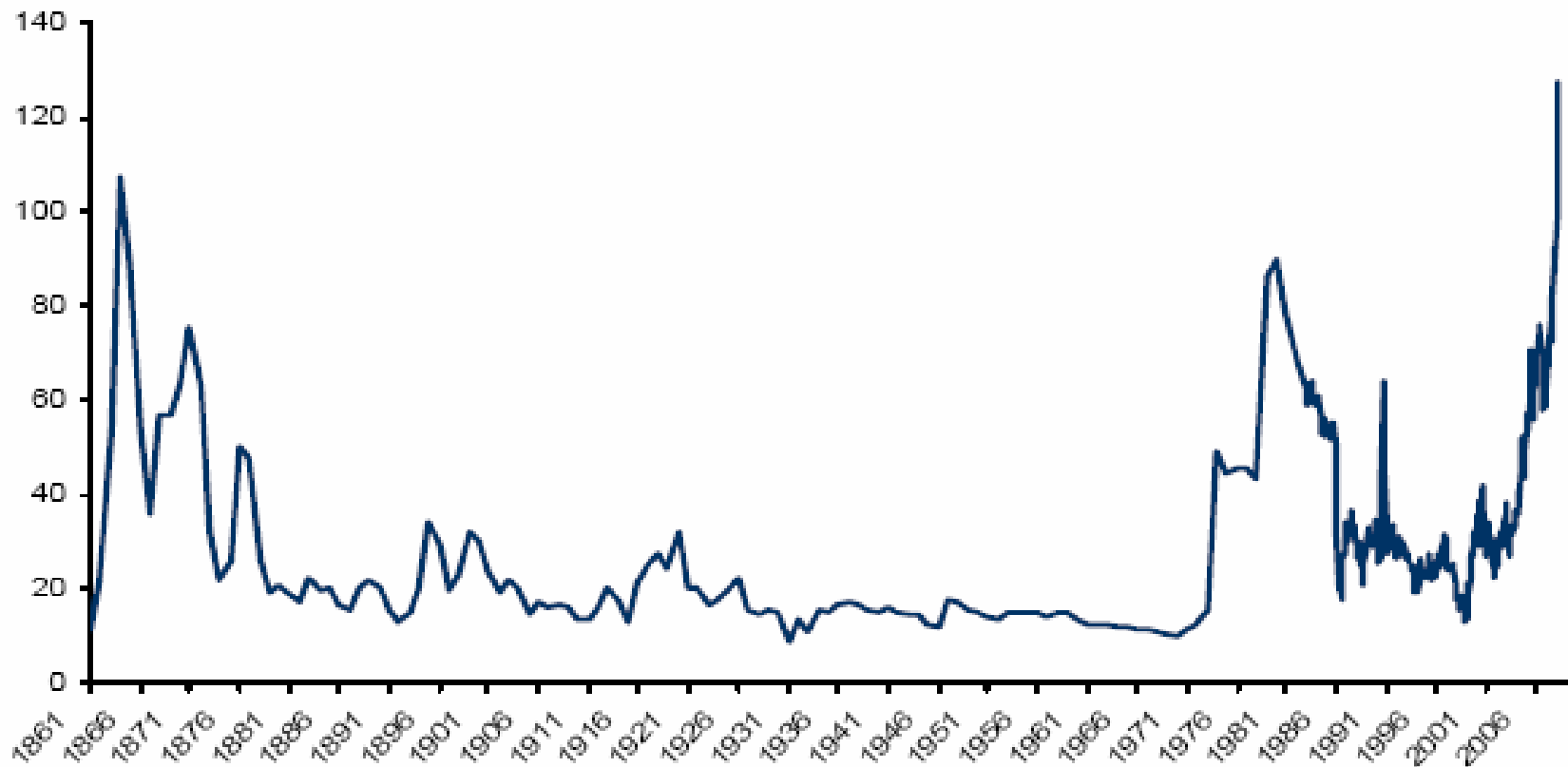


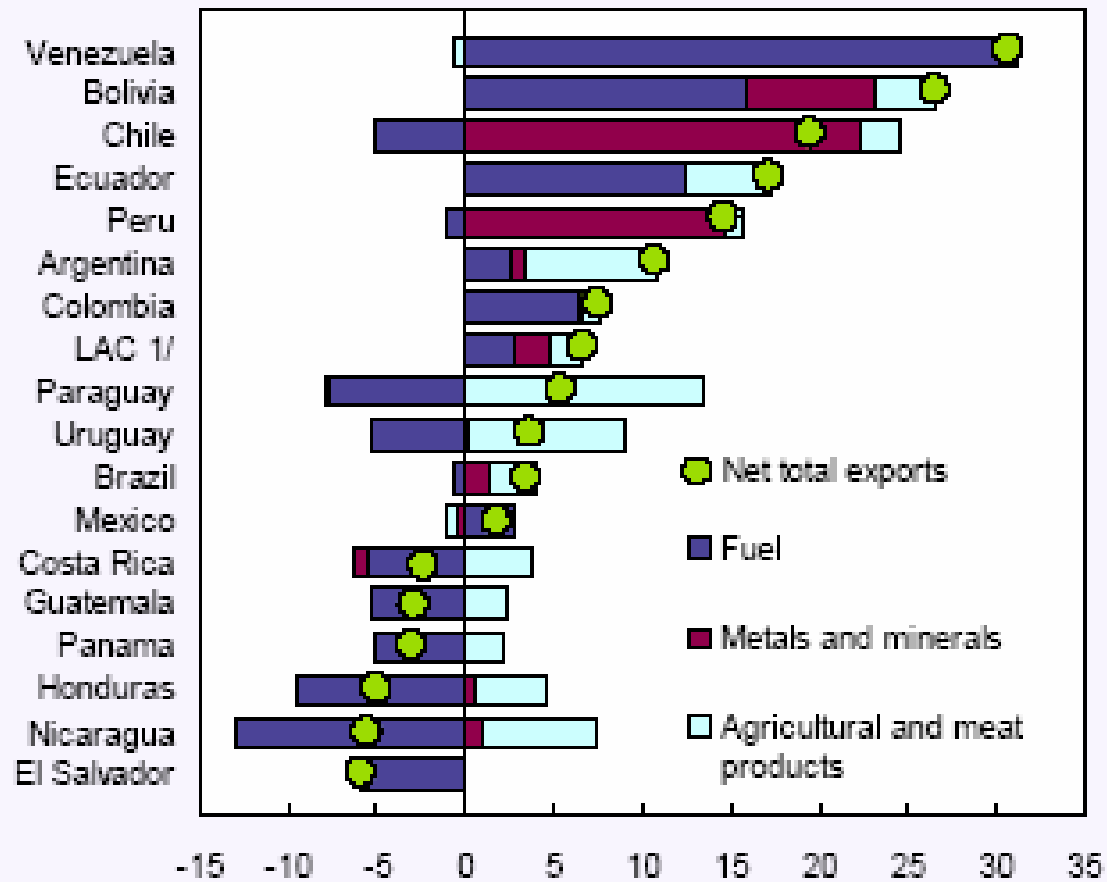
Exhibit 1: Long-Run Real Oil Price (in 2007 dollars)



Latin America Remains Dependent on Commodity Exports

- Net commodity exports exceed 10 percent of GDP in Argentina, Bolivia, Colombia, Ecuador, Peru, and Venezuela
- International commodity prices have experienced an unprecedented boom over the past five years
- International commodity prices must be expected to ease if there were to be a global recession
- Large speculative and investment positions by pension funds and insurance companies have been built over the past year
- China's economic growth would be materially impacted by a slowing in the industrialized countries

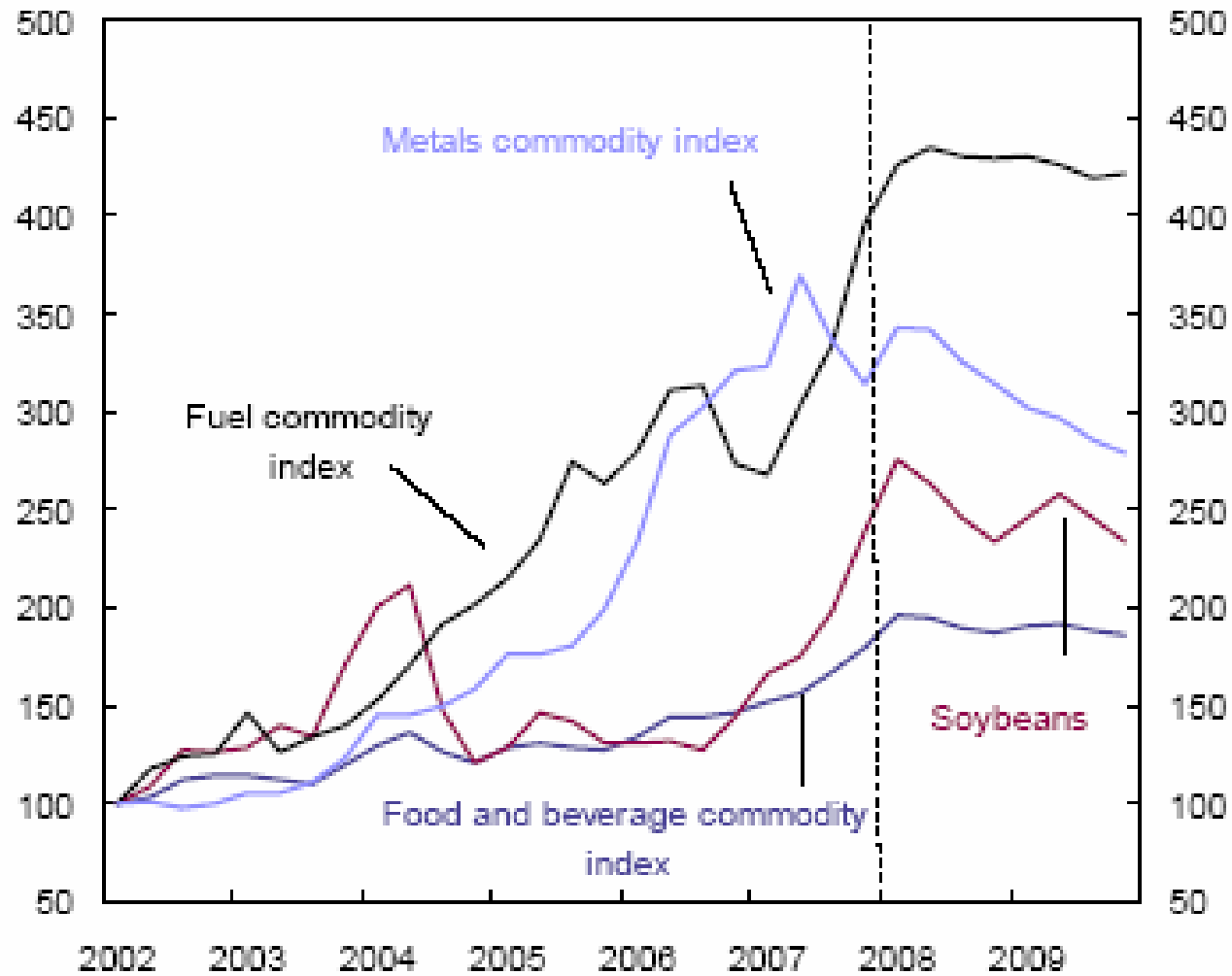
Net Commodity Exports by Country, 2006 (In percent of GDP)



Sources: WEO; United Nations Commodity Trade Statistics (UNCOMTRADE) database; and IMF staff estimates.

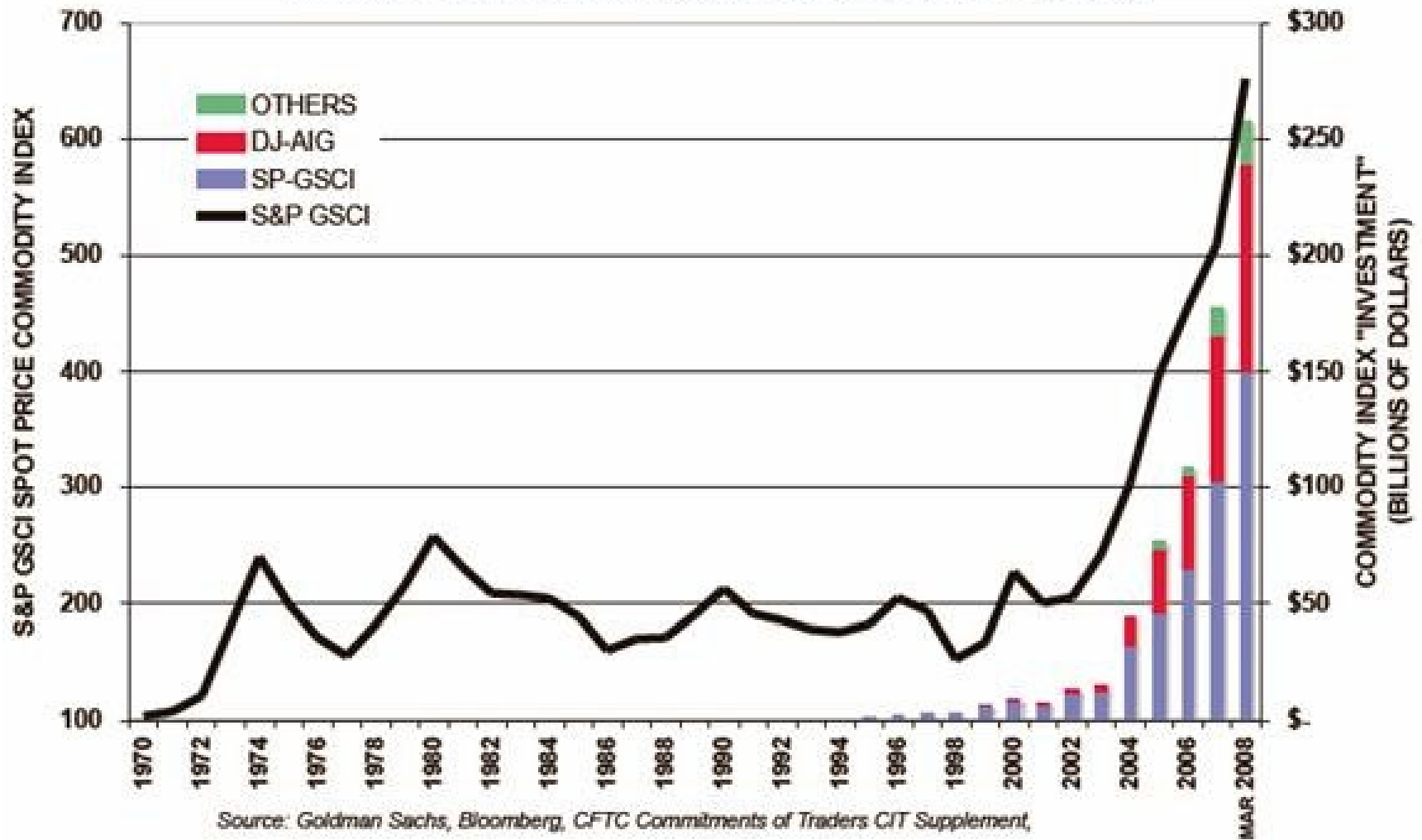
1/ Aggregate for 17 countries.

Commodity Price Developments (2002Q1 = 100)



Sources: WEO; and IMF staff calculations.

COMMODITY INDEX INVESTMENT COMPARED TO S&P GSCI SPOT PRICE COMMODITY INDEX

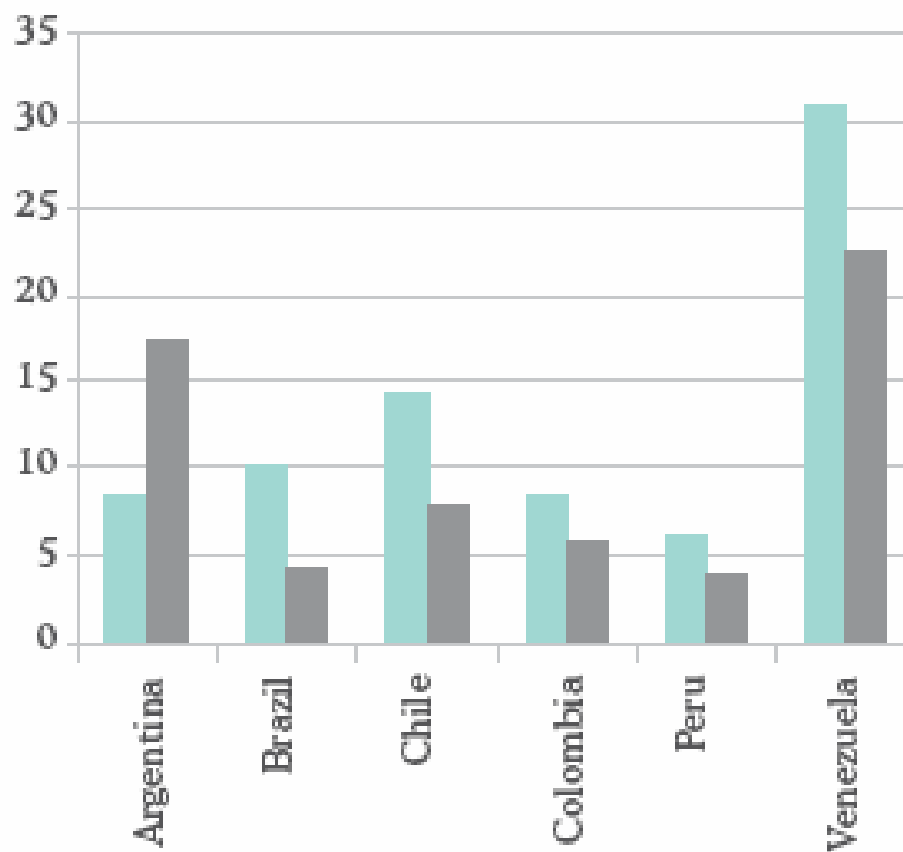


Fundamentals will Count in Next Downturn

- In the event of renewed financial turmoil, investors will reward countries with better economic fundamentals
- Amongst the major Latin American economies, Brazil and Mexico have demonstrably better fundamentals than Argentina and Venezuela
- Mexico and the Central American countries have closer links to the U.S. than the South American countries
- Inflation is again rearing its ugly head especially in Argentina and Venezuela on the back of more populist policies and rising food prices

South America: overall and food inflation in 2007

(%yoy)

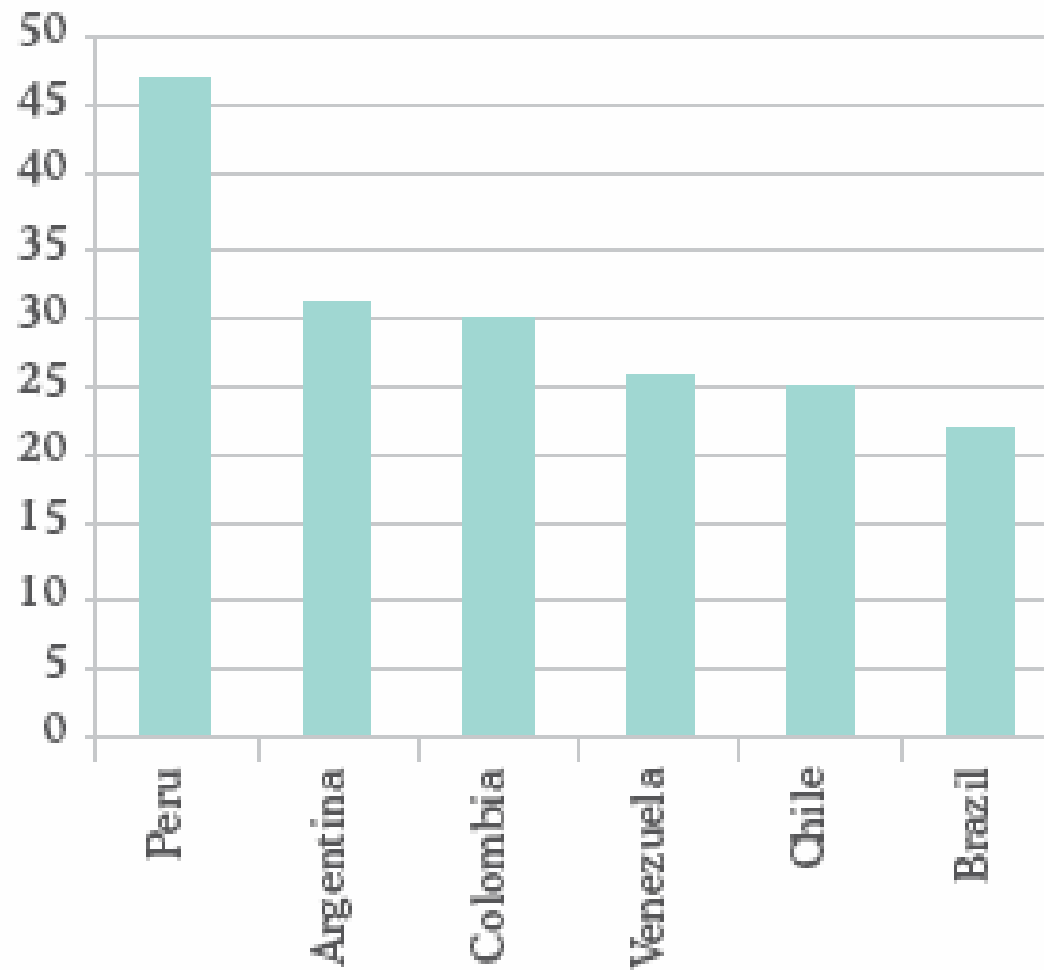


■ Food Inflation Dec 07

■ Inflation Dec 07

Source: National Statistics Offices

South America: Share of food in CPI (%)



Source: BBVA