



# Latin American Economic Overview

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Global Economic Forum

San Antonio, TX

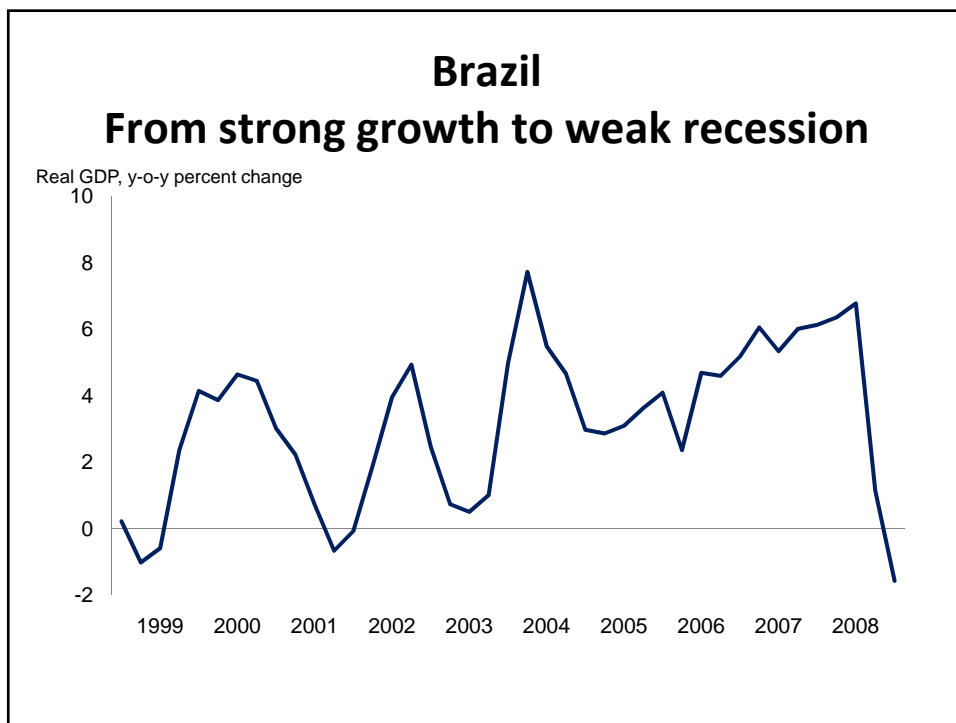
June 30, 2009

## Outline

- A mediocre year for Brazil and Chile
- A horrible year for Mexico
- Importance of structural reforms

## Brazil

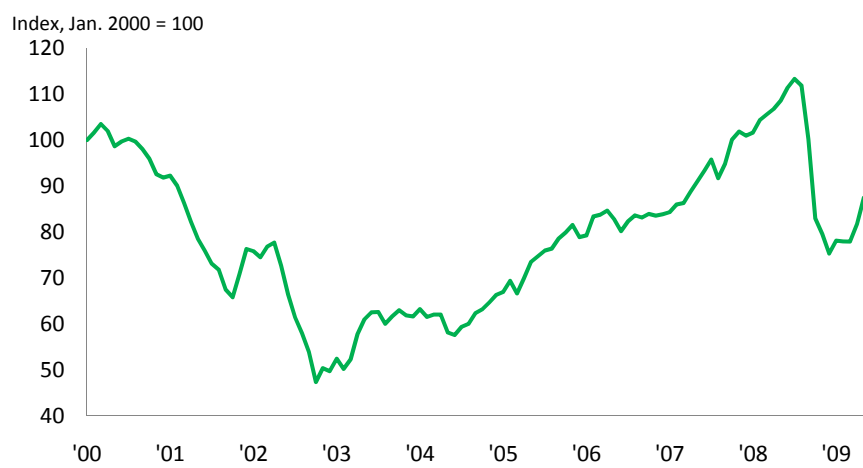
- Entering mild recession



## Brazil

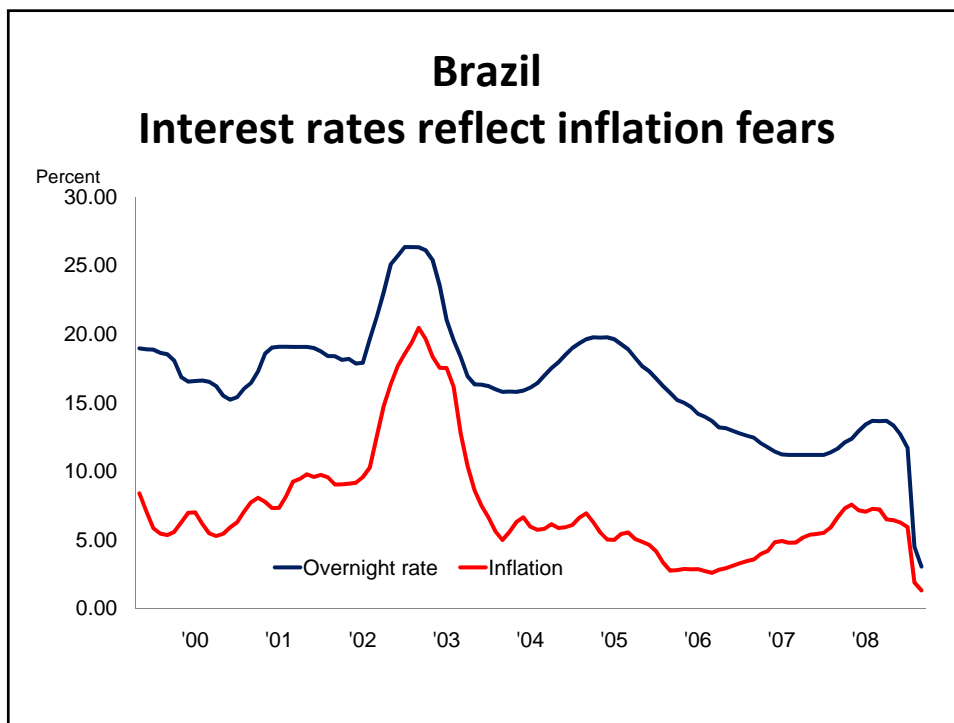
- Entering mild recession
- Exchange rate

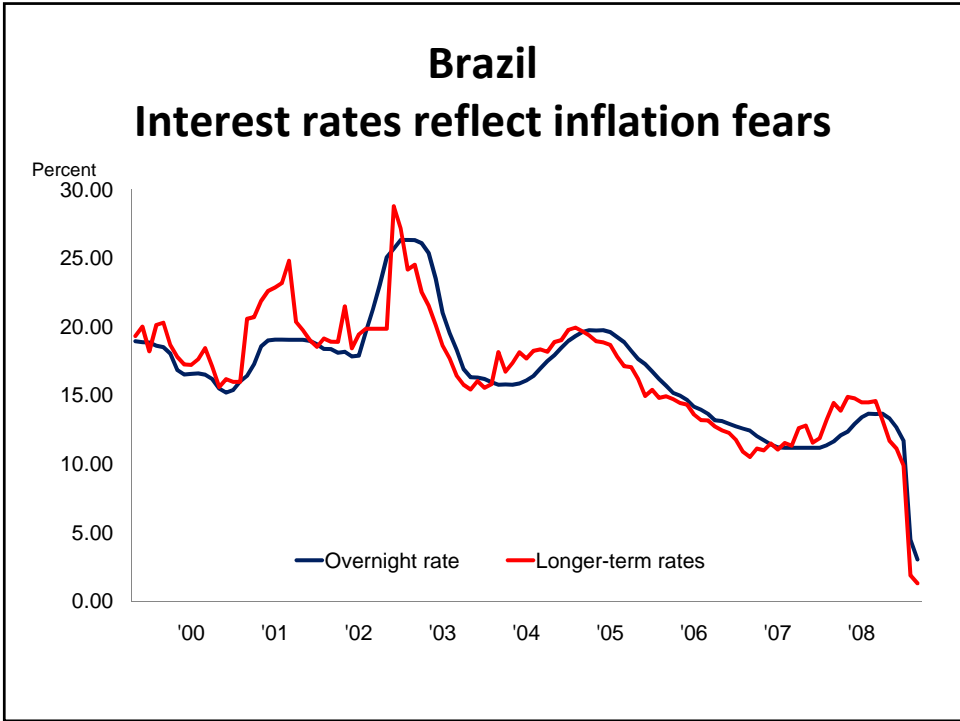
## Brazil Exchange rate recovering



## Brazil

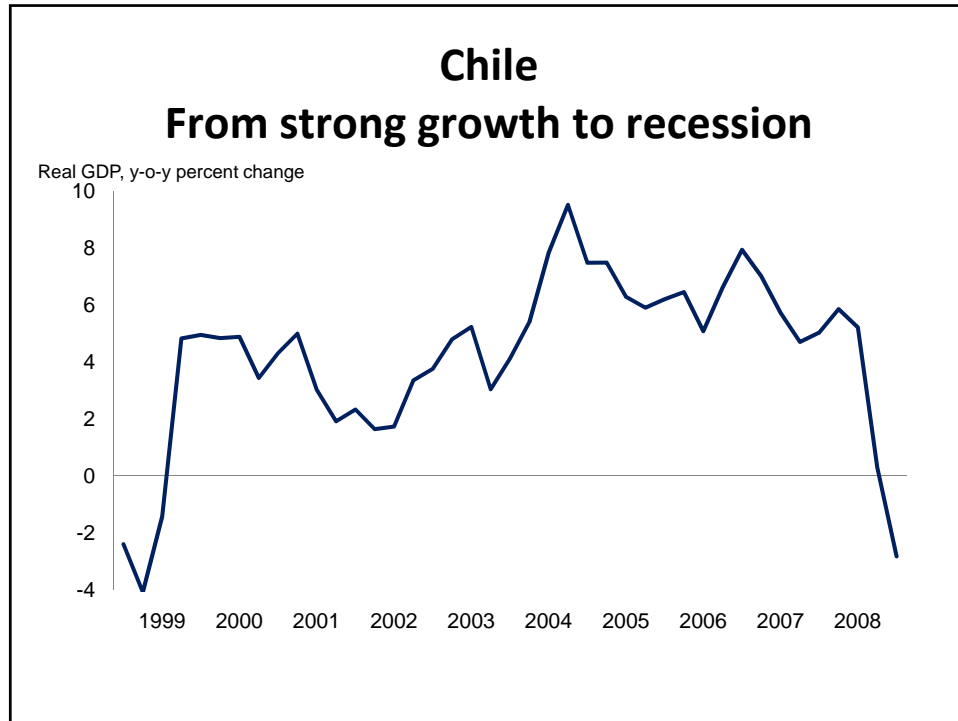
- Entering mild recession
- Exchange rate
- Interest rates spike





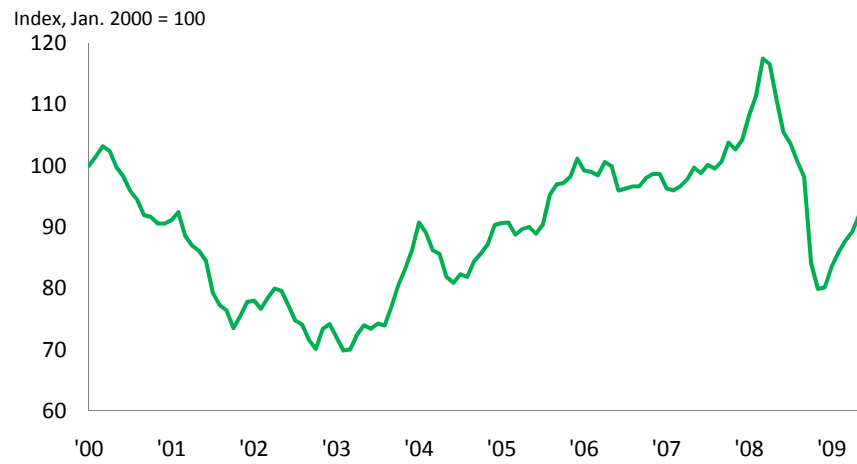
### Chile

- Slightly more severe contraction



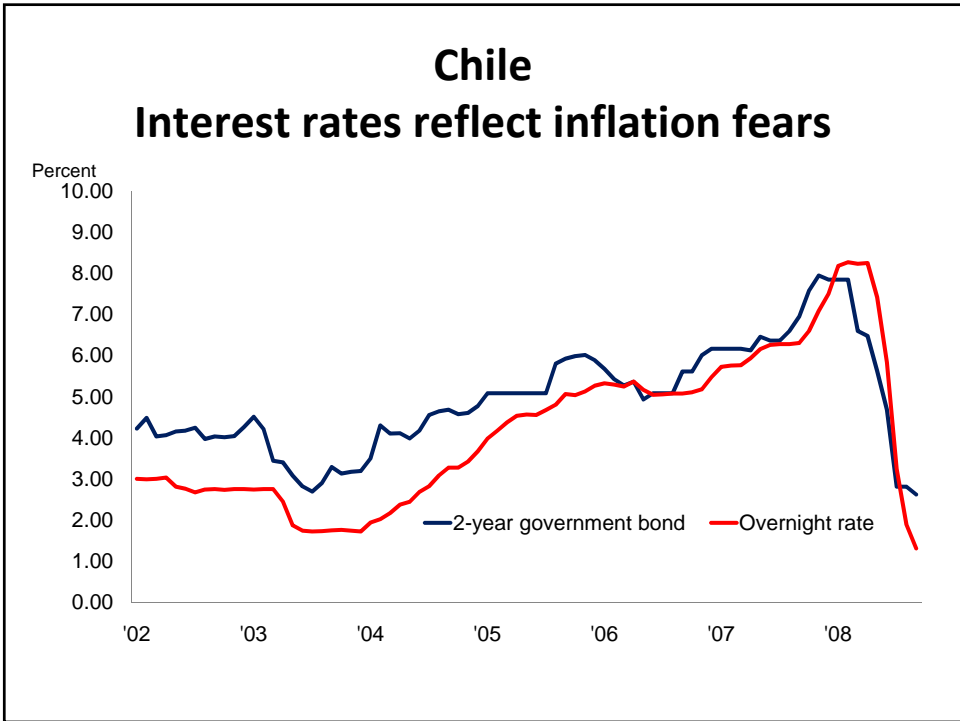
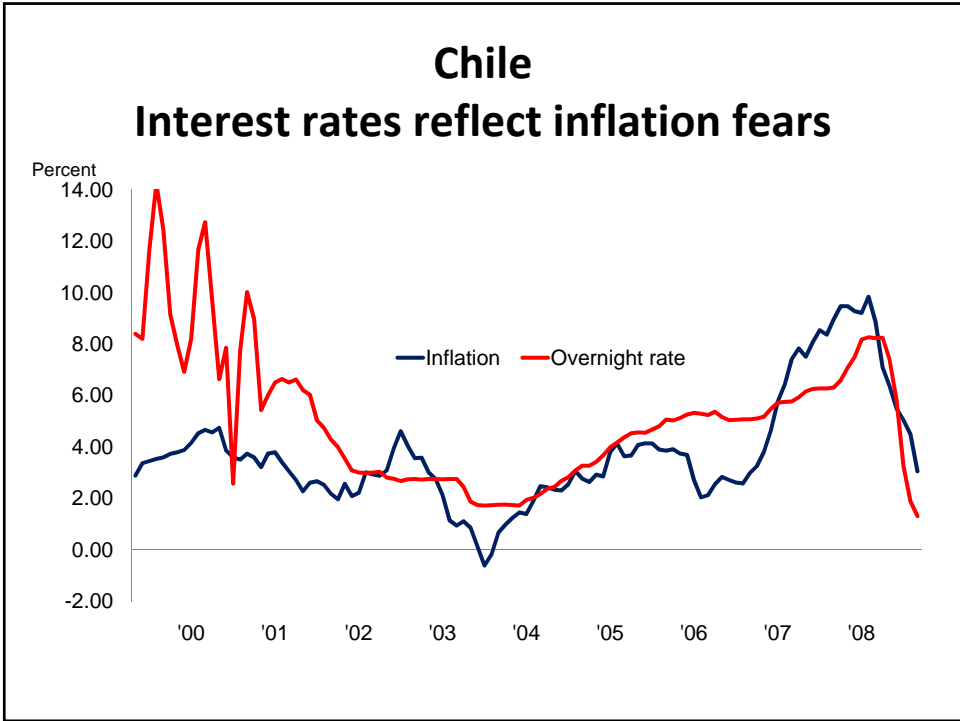
- ### Chile
- Slightly more severe contraction
  - Exchange rate—weakened dramatically in late 2008

## Chile Exchange rate strengthening



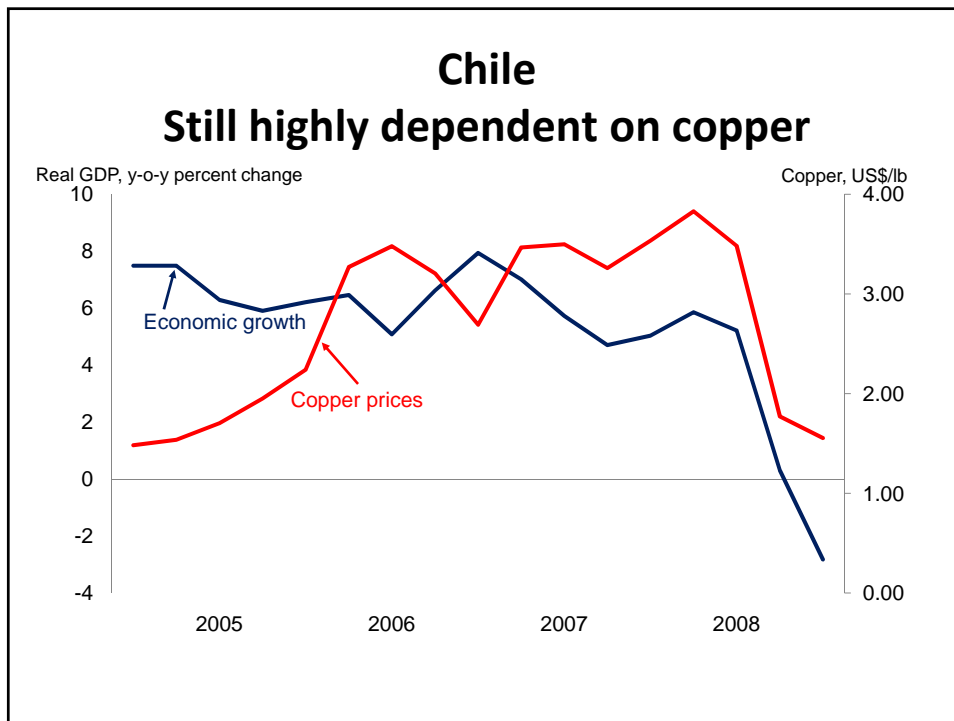
## Chile

- Slightly more severe contraction
- Exchange rate—weakened dramatically in late 2008
- Interest rates somewhat volatile



## Chile

- Slightly more severe contraction
- Exchange rate—weakened dramatically in late 2008
- Interest rates somewhat volatile
- **Copper is king**



**And then there's Mexico...**

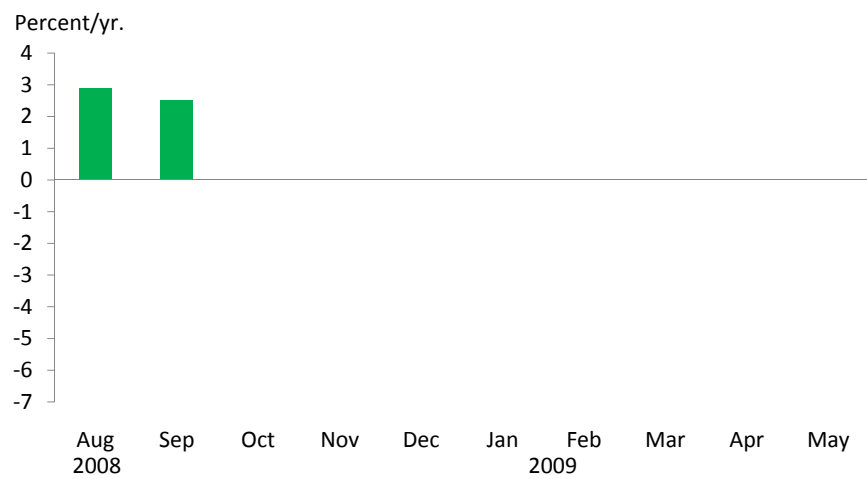


## Mexico—A Horrible Year

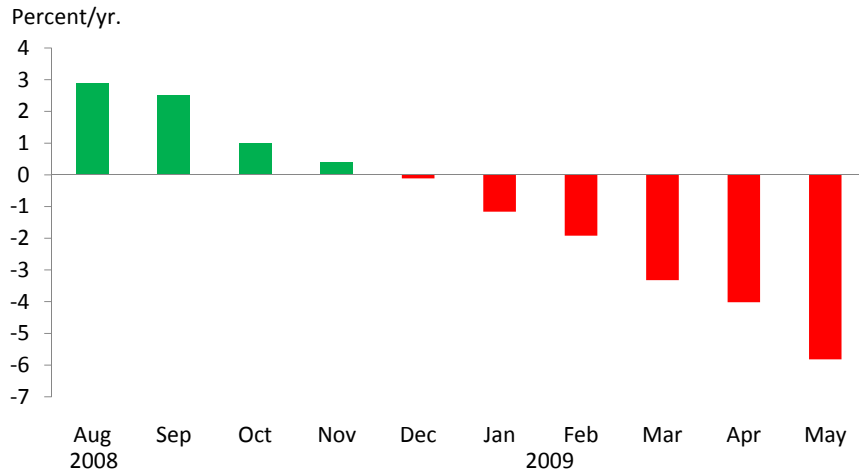
- Several factors:
  - Global recession
  - Capital flight
  - Mexico-specific shocks
- Yet, no utter collapse
- Recovery could be slow, and weak

## Growth Expectations for 2009

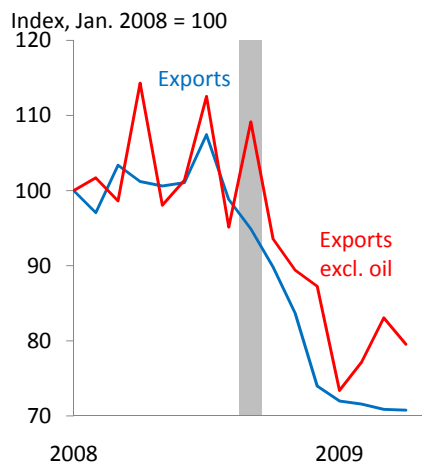
(by survey vintage)



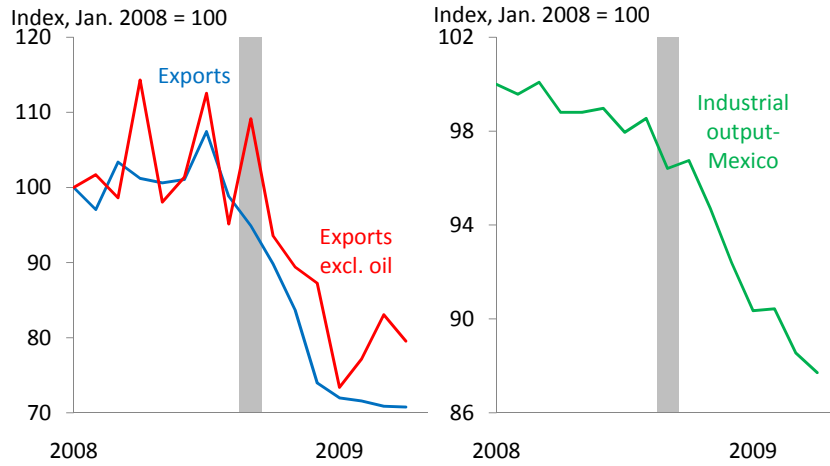
## Growth Expectations for 2009 (by survey vintage)



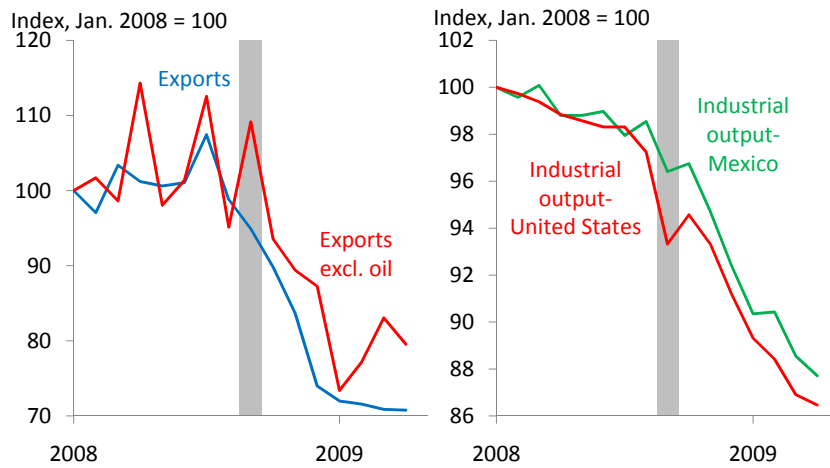
## Exports collapse,...



### ...industrial output follows



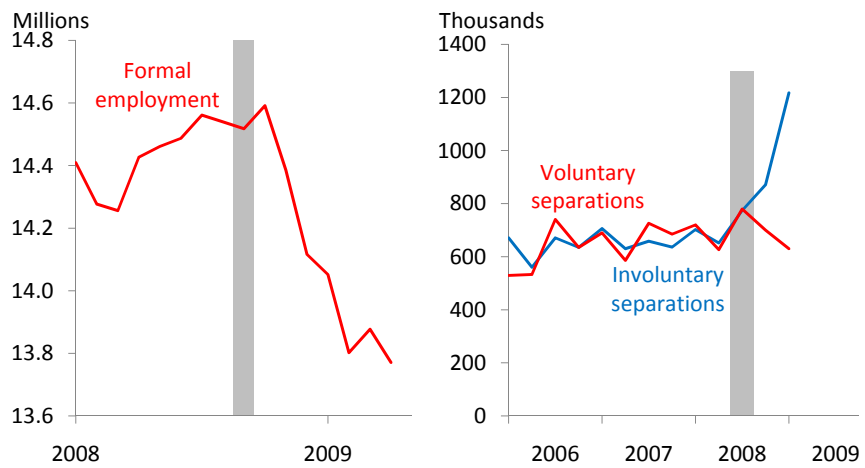
### ...industrial output follows



## Employment dives



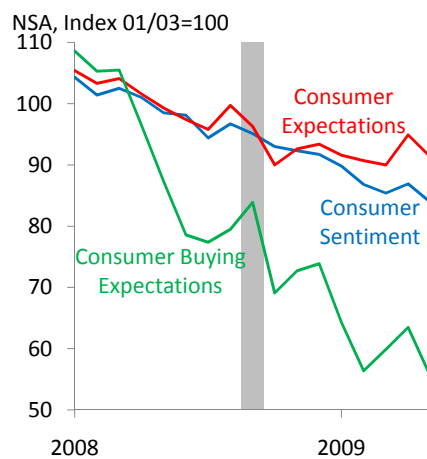
## Employment dives



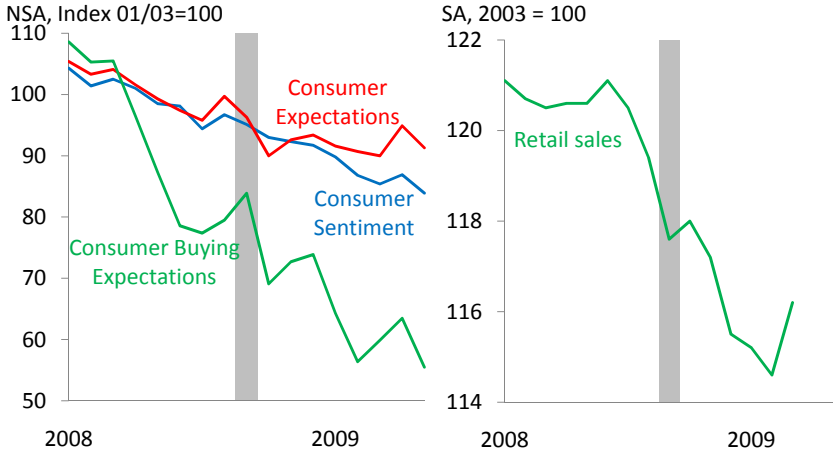
## Remittances down sharply



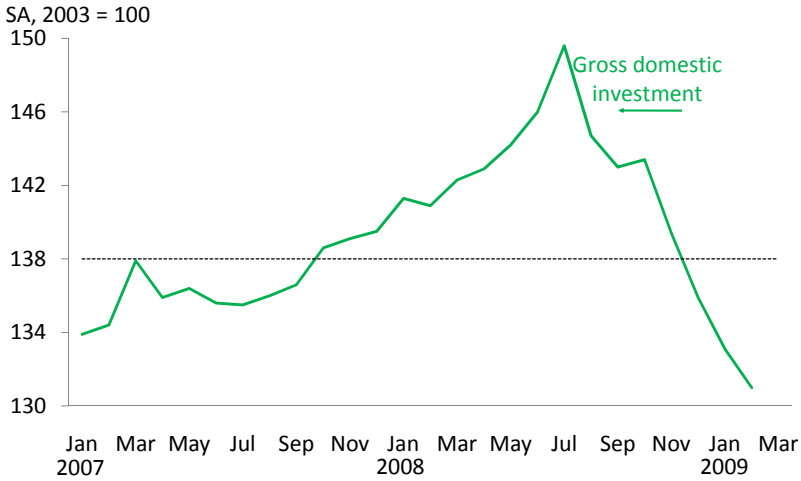
## Consumers hold back



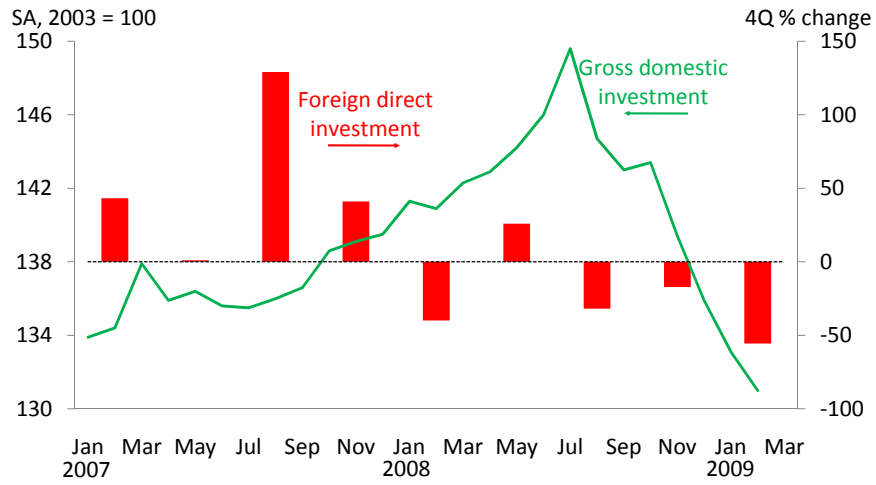
### Retail sales tumble



### Investment falls

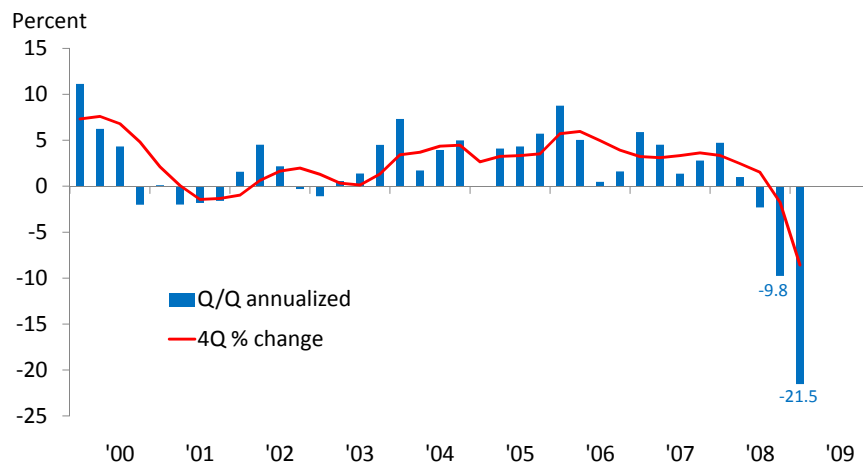


## Investment falls

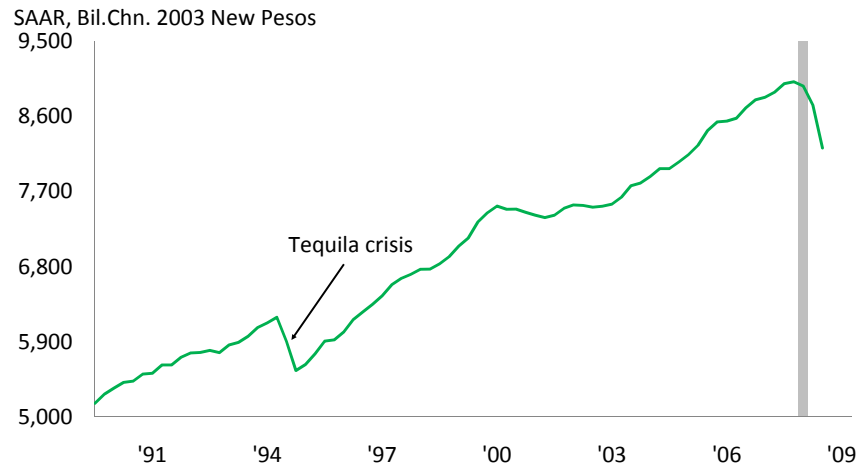


## The bottom line: jaw-dropping

(Real GDP)



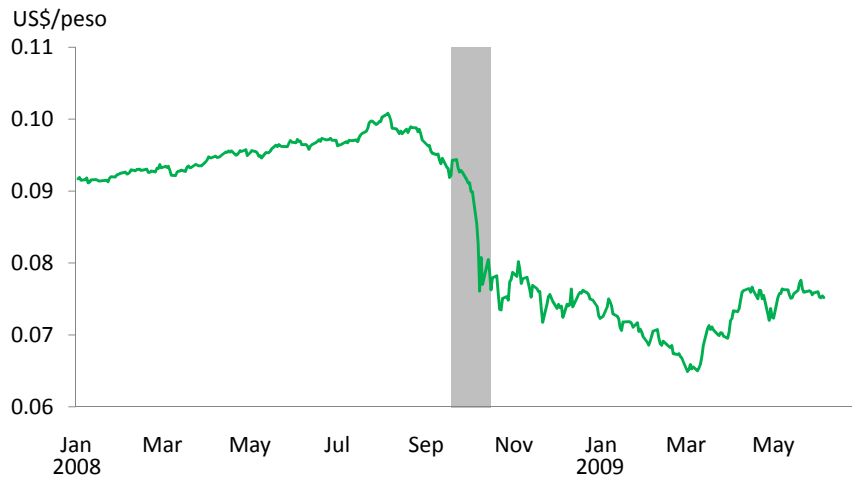
## A GDP collapse of Tequila proportion



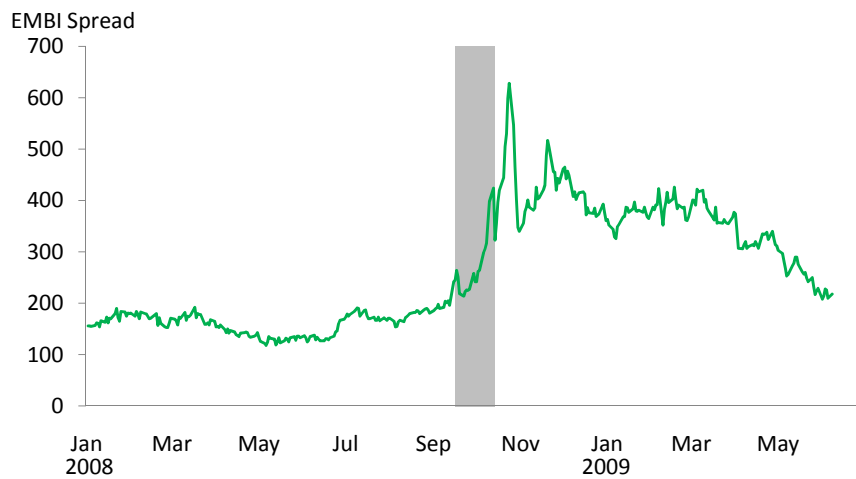
## A Tequila repeat?

- Peso collapsed; borrowing costs soared

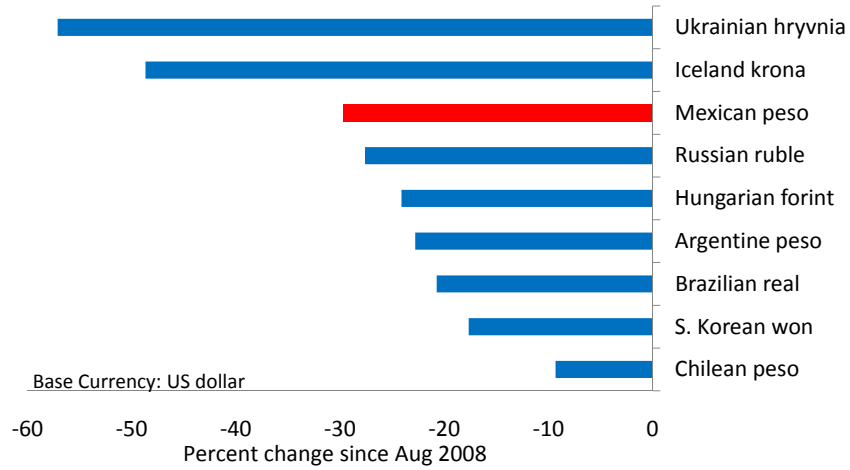
## Peso shoots down



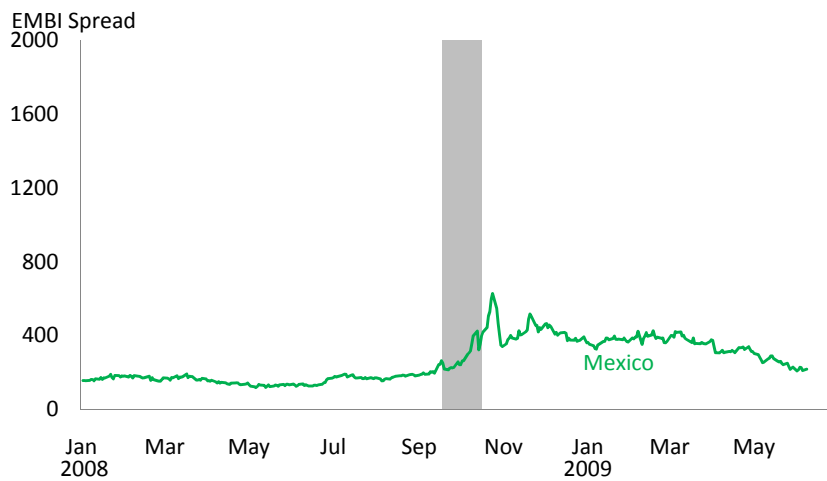
## Country premium shoots up (Emerging Market Bond Index sovereign debt spread)



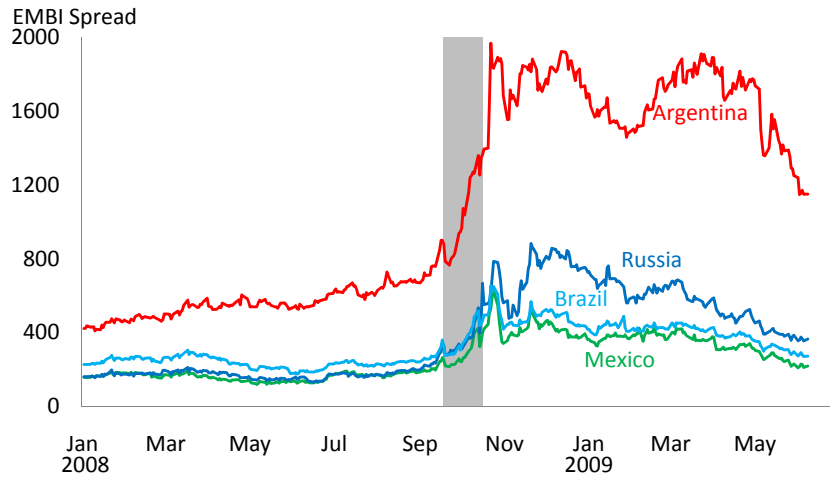
## Investors dump emerging markets



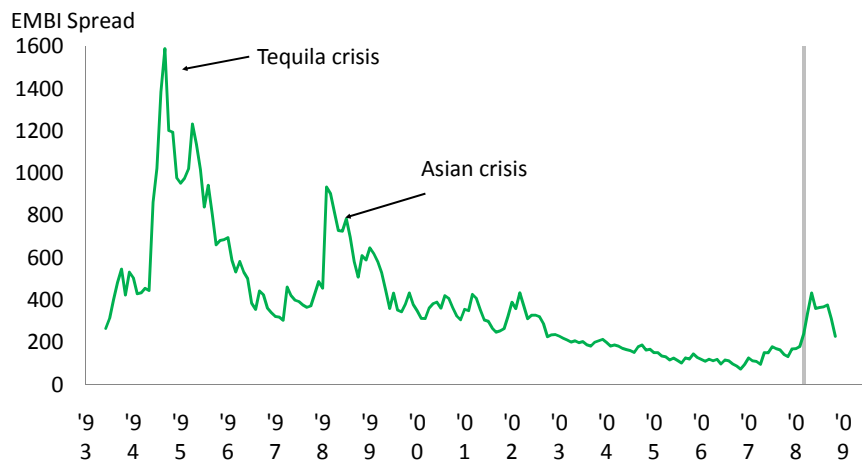
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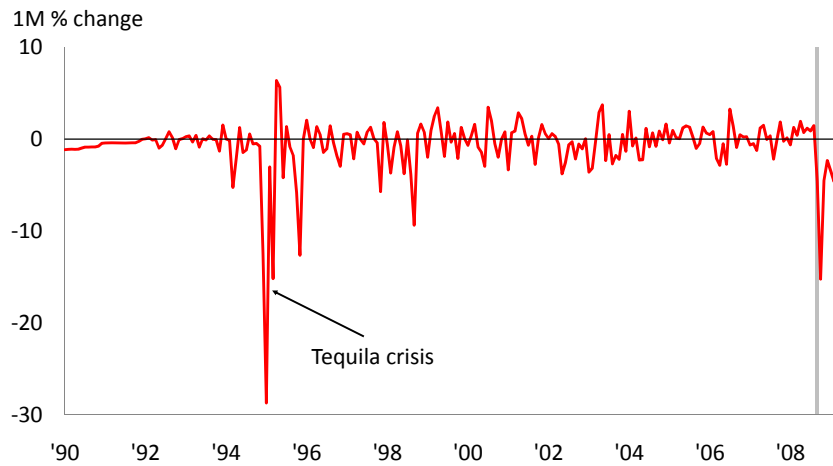
## Investors dump emerging markets



## Premium flare-up not out of ordinary...



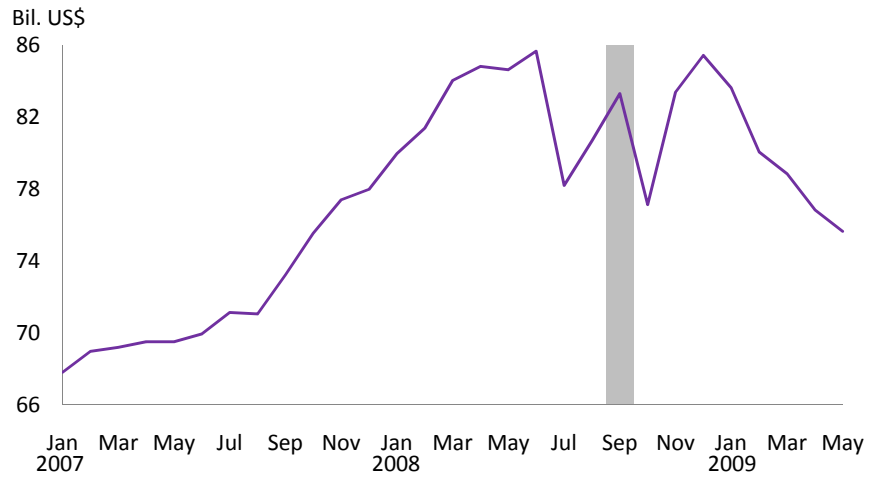
**...but this peso run is a dandy.**



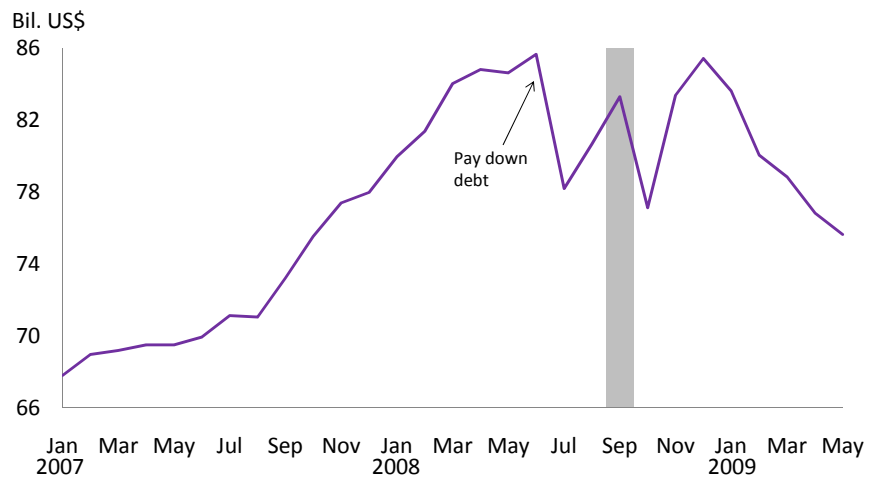
## **A Tequila repeat?**

- Peso collapsed; borrowing costs soared
- Spending international reserves to prop up the peso

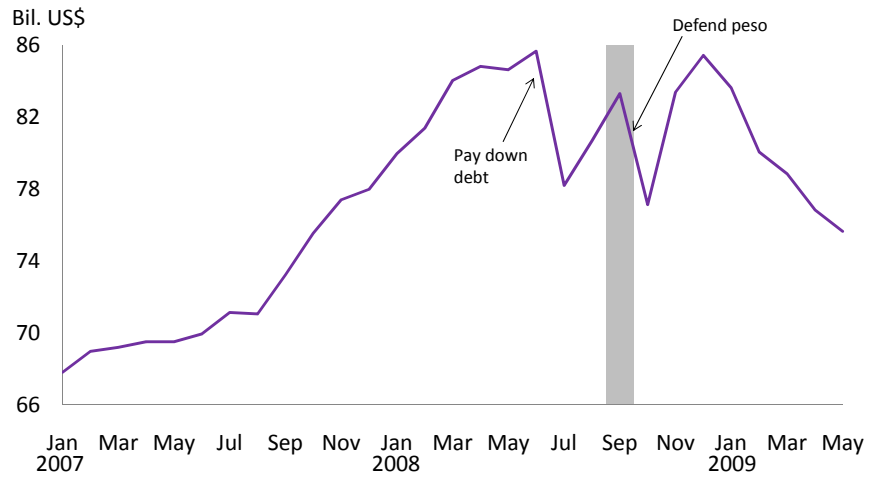
## Mexico digs into its reserves



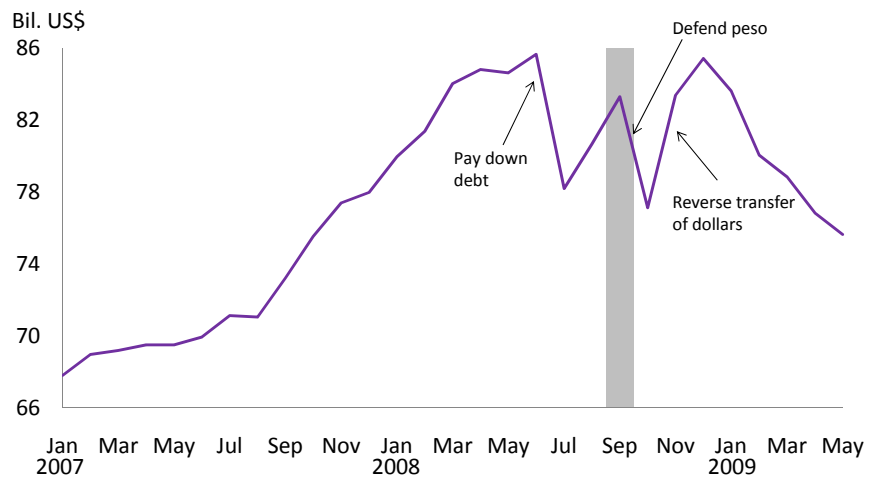
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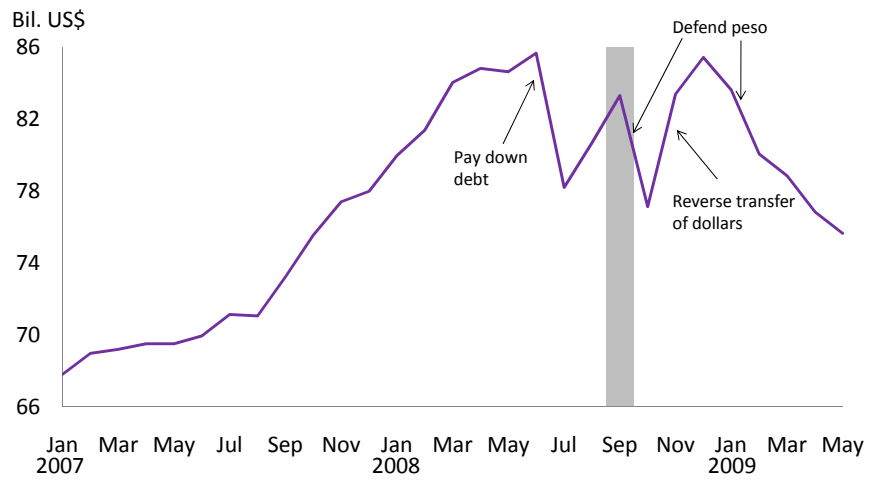
## Mexico digs into its reserves



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## A Tequila repeat?

- Peso collapsed; borrowing costs soared
- Spending international reserves prop up the peso
- Reduced access to credit

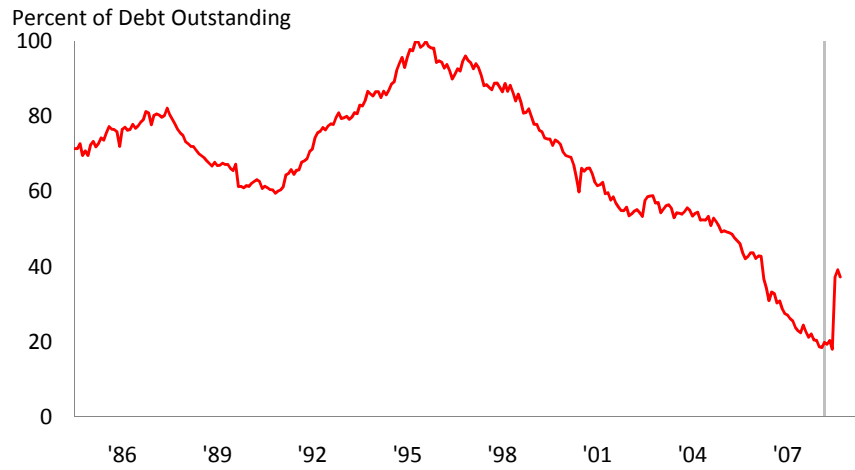
## **A Tequila repeat?**

- Peso collapsed; borrowing costs soared
- Spending international reserves to prop up the peso
- Reduced access to credit
  
- But. . .

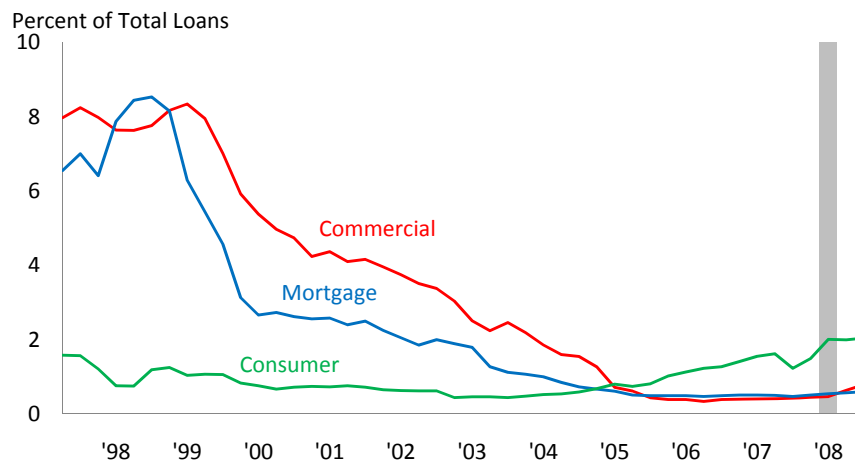
## **That was then, this is now**

- In the past, these shocks would have caused financial chaos
- They haven't
- Rewards Mexico's discipline over the past decade

## Less foreign dependence



## A healthier banking sector (past-due loans)



## **A healthier banking sector (other factors)**

- More lending discipline
- Less currency mismatch
- Higher levels of capital
- Better supervision

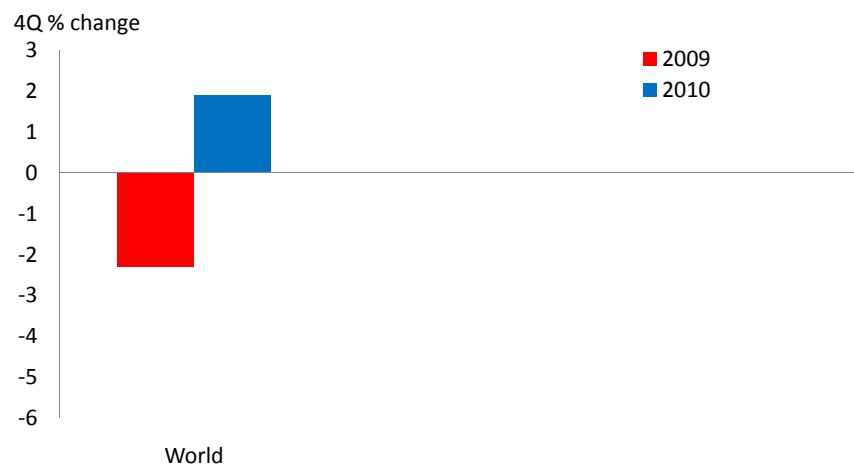
## **That was then, this is now**

- In the past, these shocks would have caused financial chaos
- They haven't
- Rewards Mexico's discipline over the past decade
- So far, no traditional crisis

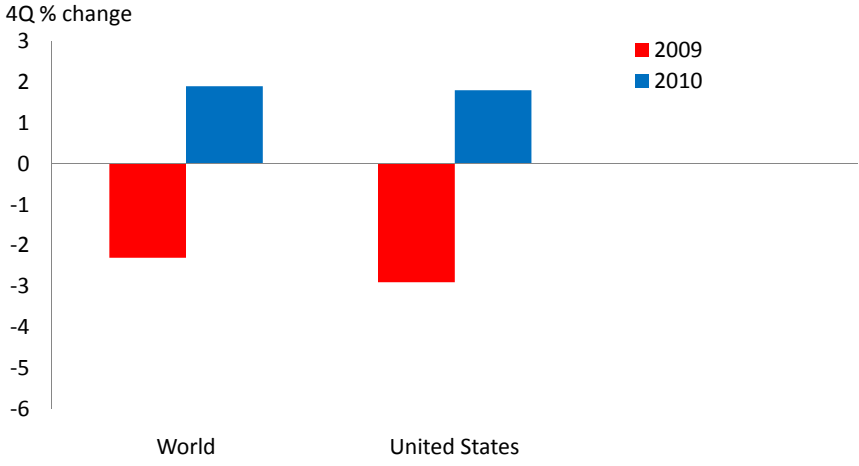
## Tying things up. . .

- The recovery will begin when the world economy does
- Early 2010 is the central forecast for this to happen
- Even so, 2010 looks weak too

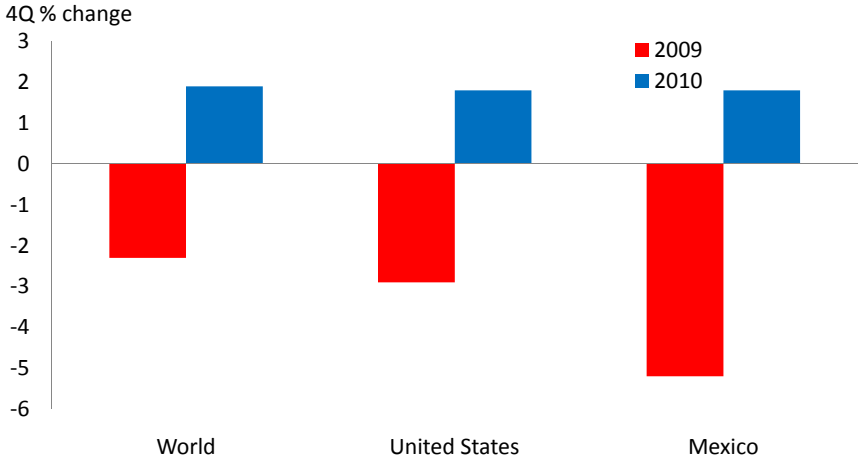
## Consensus Forecasts



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## Lessons

- Rumors of decoupling may have been greatly exaggerated
- Disciplined policymaking vital
- Financial stability can only do so much
- Structural reforms vital

