

BROOKINGS

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# Latin America's Challenges Beyond the Global Crisis

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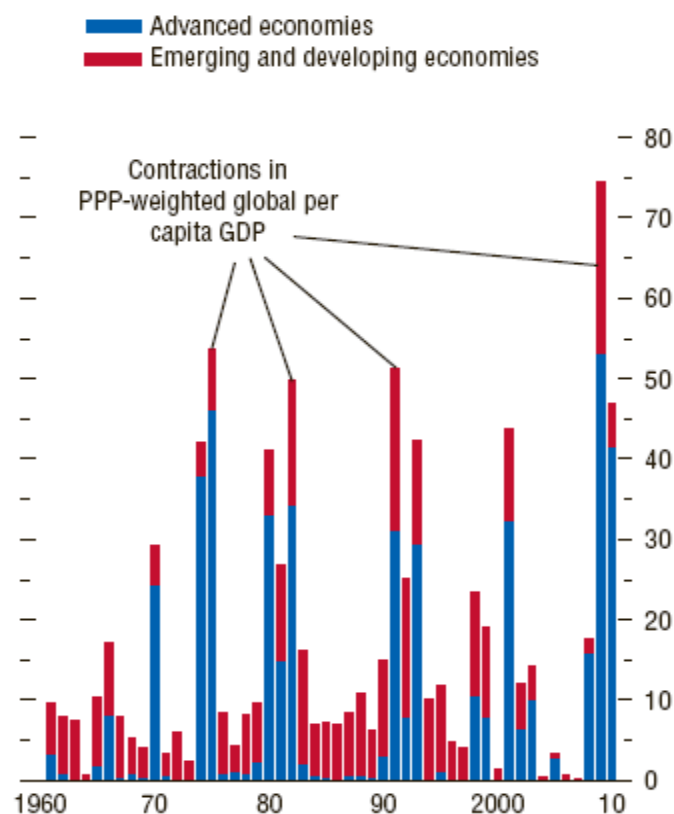
Mauricio Cardenas, Senior Fellow and Director, Latin America Initiative  
Brookings Institution

April 24, 2009

## Point 1: LAC governments should not bet on a V-shaped recovery

### Countries Experiencing Recessions<sup>1</sup>

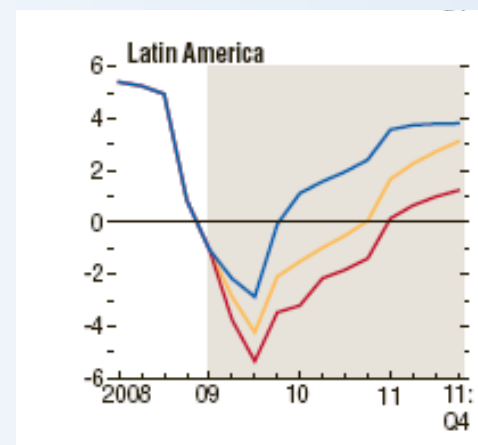
(Purchasing-power-parity (PPP)-weighted percent of countries)



Source: IMF staff estimates.

<sup>1</sup>Data for 2009–10 are based on the WEO forecast.

And according to the latest IMF's projection, there are severe downside risks to LAC's GDP growth:

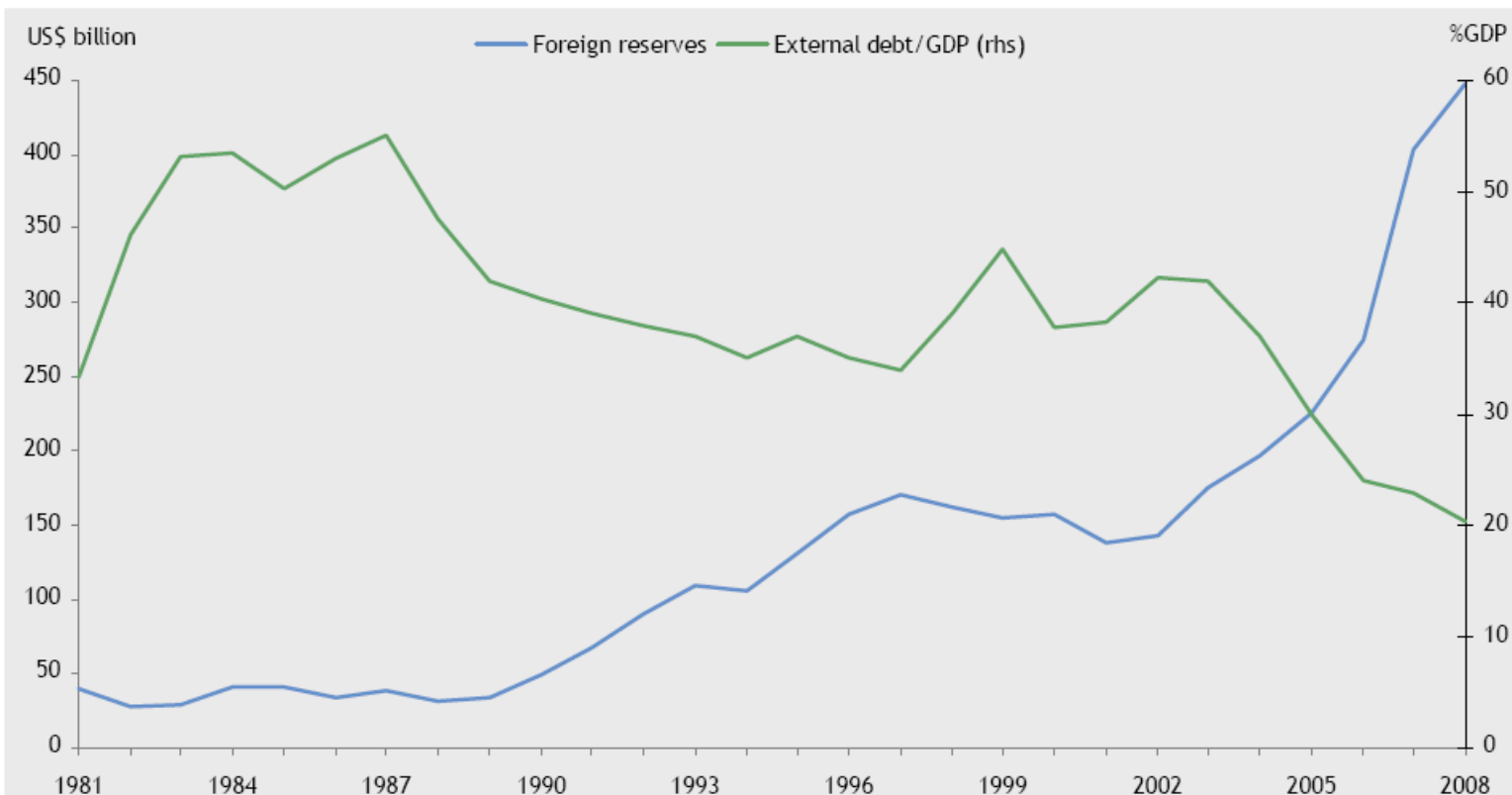


## 2009 GDP Projections

	RGE April 2009	JP Morgan March 2009	WEO April 2009
<b>Argentina</b>	-1.8%	-3.0%	-1.5%
<b>Brazil</b>	-1.4%	-1.4%	-1.3%
<b>Chile</b>	-0.4%	-1.5%	0.1%
<b>Colombia</b>	-0.7%	0.5%	0.0%
<b>Mexico</b>	-4.6%	-4.0%	-3.7%
<b>Peru</b>	2.8%	3.5%	3.5%
<b>Venezuela</b>	-2.0%	-0.5%	-2.2%
<b>Latin America</b>	<b>-2.1%</b>	<b>-2.2%</b>	<b>-1.5%</b>

## Point 2: Reserves are at record highs and external debt at record lows

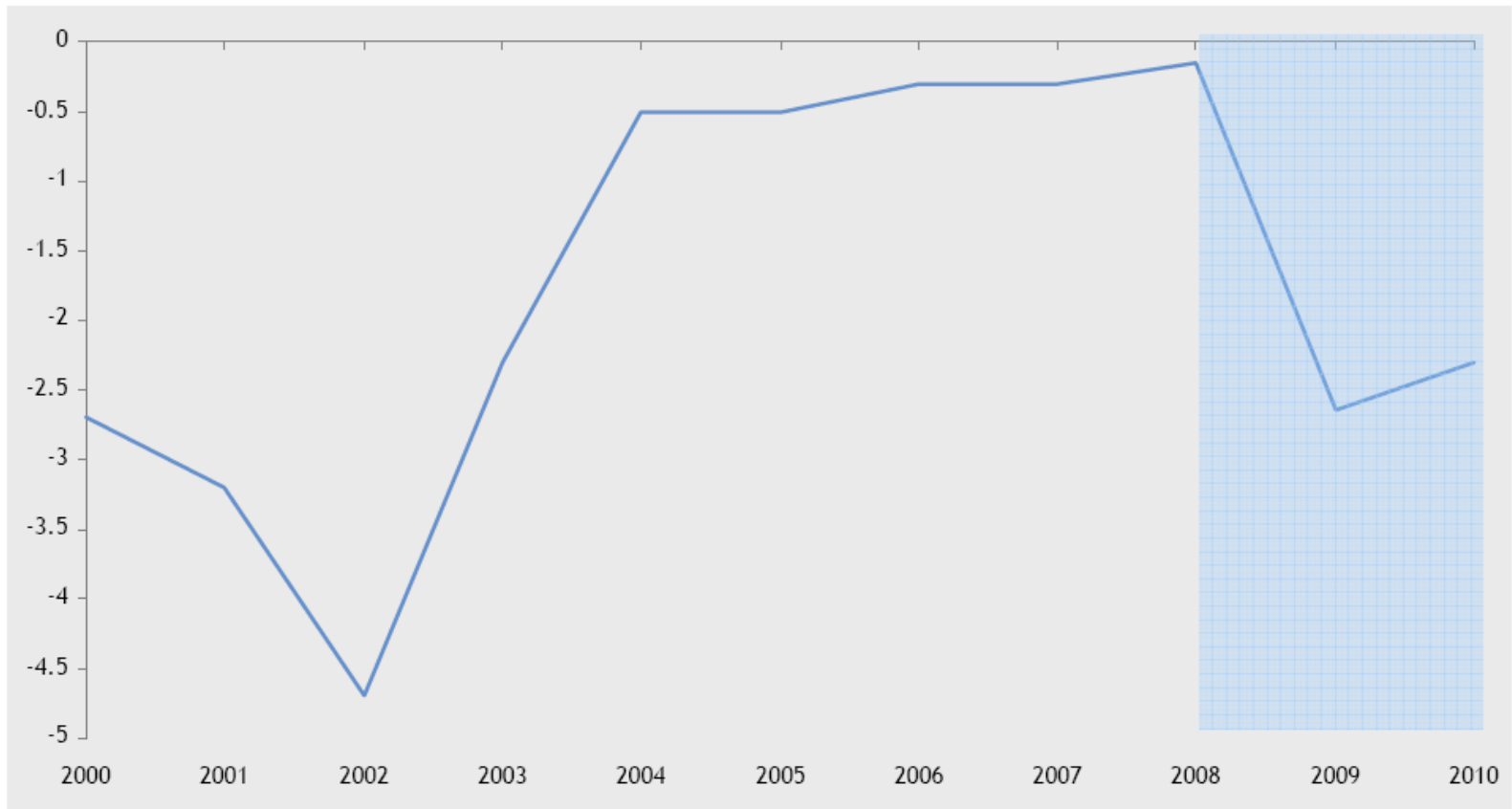
Foreign reserves and external debt to GDP



Source: J.P. Morgan

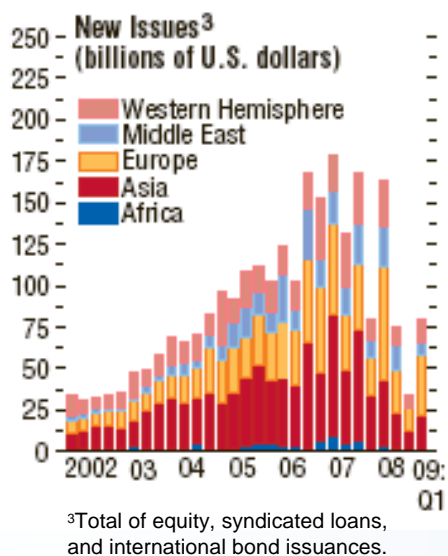
## Point 3: Fiscal accounts have worsened, but not too much.

Overall fiscal balance (% of GDP)

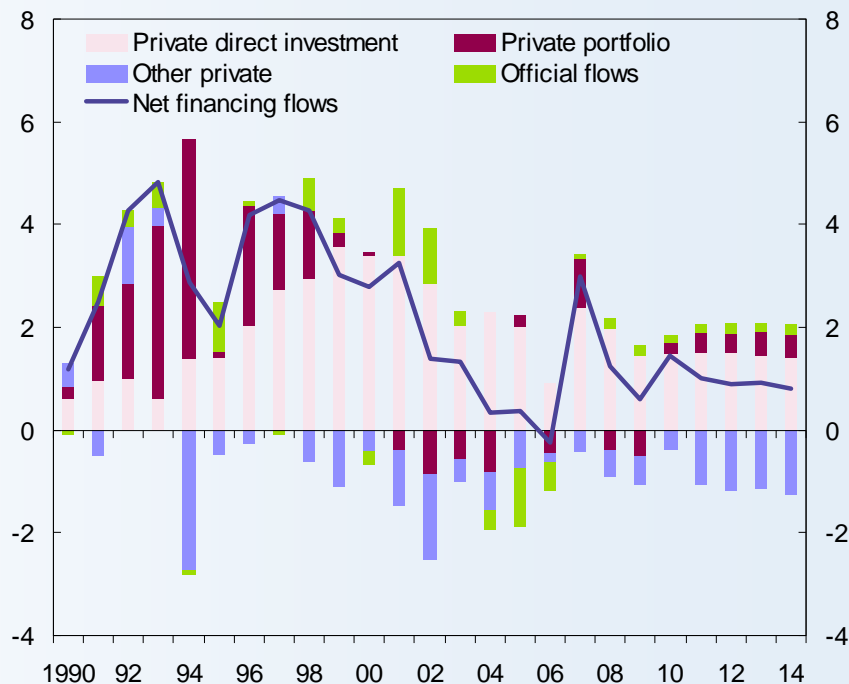


Source: J.P. Morgan

## Point 4. Capital flows are the big source of uncertainty



**Balance of Payments Financing: Latin America and the Caribbean**  
(Percent of GDP)



## Point 5. There is optimism in Brazil

	<b>December 2008</b>	<b>January 2009</b>	<b>February 2009</b>	<b>March 2009*</b>
<b>Retail Sales</b>	-0.3% (m-o-m) +3.9% (y-o-y)	1.4% (m-o-m) +6.0% (y-o-y)	+1.5% (m-o-m) +3.8% (y-o-y)	N/A
<b>Auto Sales</b>	+3.5% (m-o-m) -4.5% (y-o-y)	+11.1% (m-o-m) -0.3% (y-o-y)	+4.6% (m-o-m) +0.1% (y-o-y)	+8% (m-o-m) +17.0% (y-o-y)
<b>Industrial Production</b>	-12.4% (m-o-m) -14.5% (y-o-y)	+2.1% (m-o-m) -17.4%(y-o-y)	+ 1.8% (m-o-m) - 17.0% (y-o-y)	N/A
<b>Proxy of São Paulo state IP**</b>	-13.5% (m-o-m)	+5.7% (m-o-m) -14.9% (y-o-y)	+5.0% (m-o-m) -17.5% (y-o-y)	+6.2% (m-o-m) -5.4% (y-o-y)
<b>Consumer Conf. Index</b>	100.3	96.3	99.2	N/A
<b>Unemployment rate</b>	6.8%	8.2%	8.5%	N/A

\*There are two more working days in March09 than in March08.

\*\* The proxy of São Paulo industrial production is a monthly economic indicator, elaborated by FGV and AES Eletropaulo, that anticipates industrial tendencies in the state.

Sources: newswires, IBGE, and FGV.

## Conclusion

Under high uncertainty, LAC governments should hope for the best but prepare for the worst.

### How?

- Use the IMF's Flexible Credit Line facility
- Do not use all fiscal firepower at once
- Capitalize regional development banks
- Improve surveillance of the private sector (financial and nonfinancial)
- Rethink the composition of fiscal stimulus packages: social programs should be a priority



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