

# The World Economic Crisis and its Impact on Latin America

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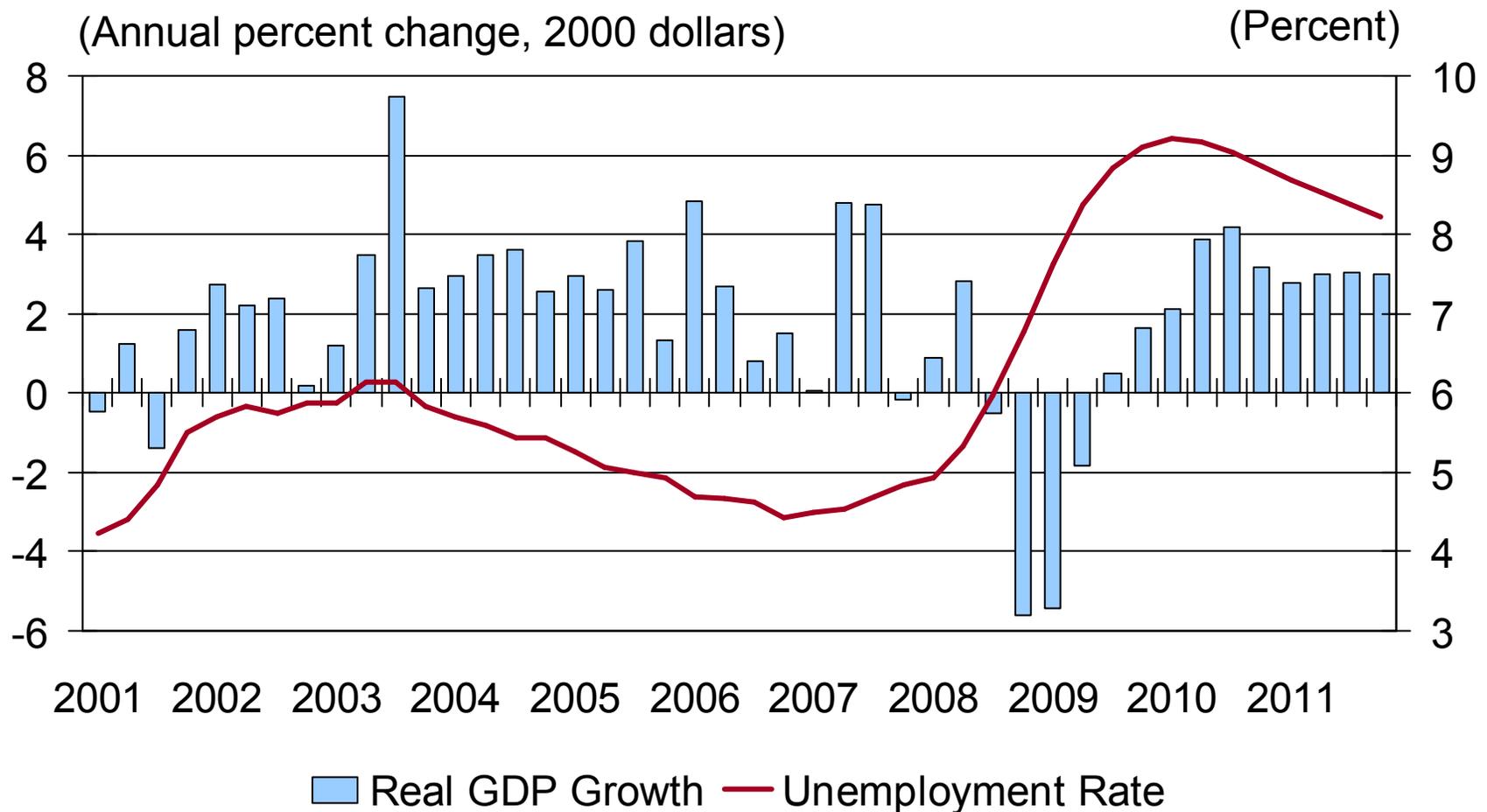
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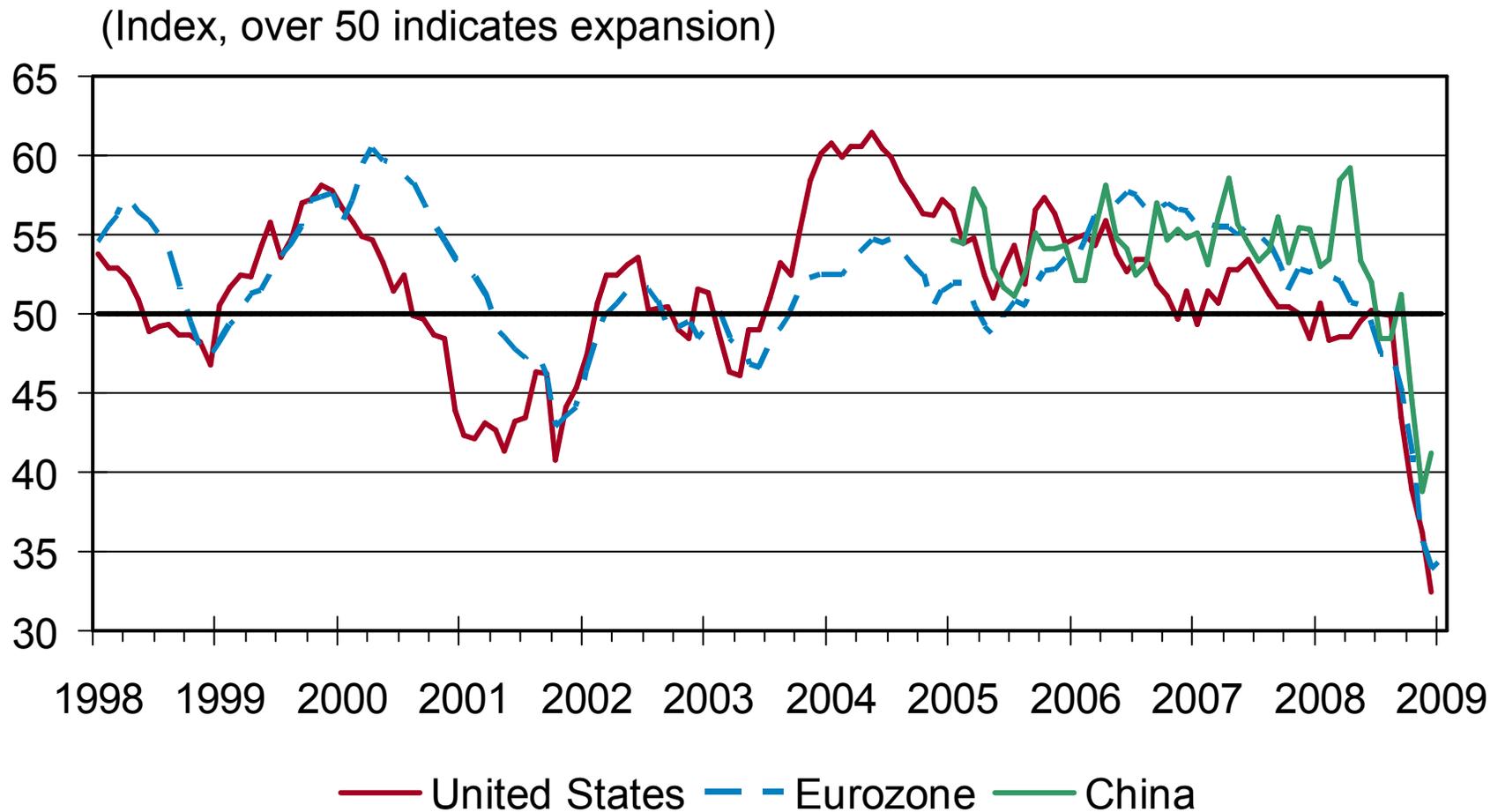
# The Worst Global Recession in Six Decades

- Globalization has increased business-cycle synchronization
- North America, Europe, and Japan are facing severe downturns
- Growth in emerging markets will slow dramatically
- A Great Depression or Japan-style lost decade is unlikely
- Huge fiscal and monetary stimuli will help to spark recovery
- Bottom Line: a deep recession in 2009, modest recovery in 2010, and a stronger rebound in 2011

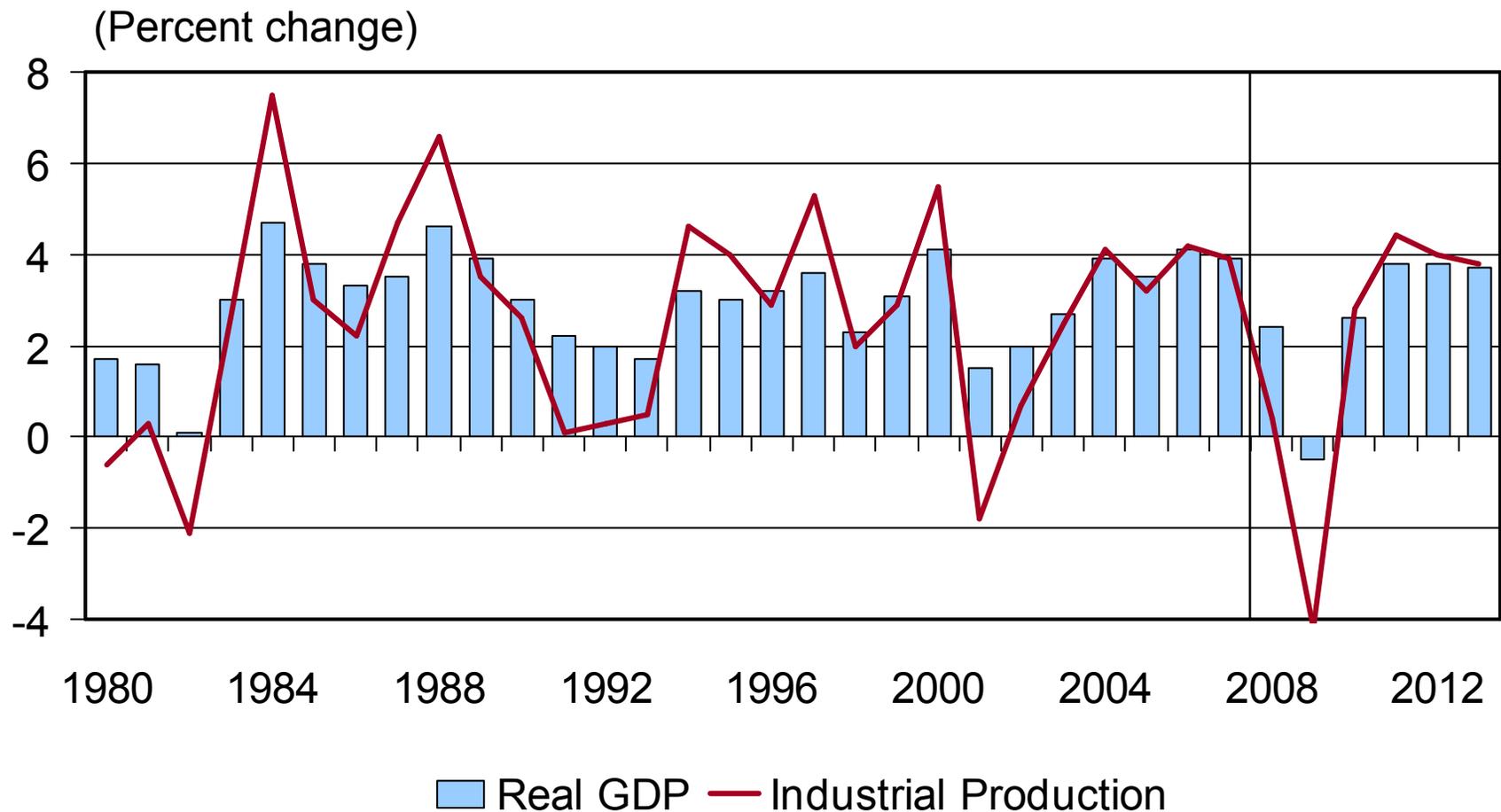
# U.S. Expected To Contract by 2.5% in 2009



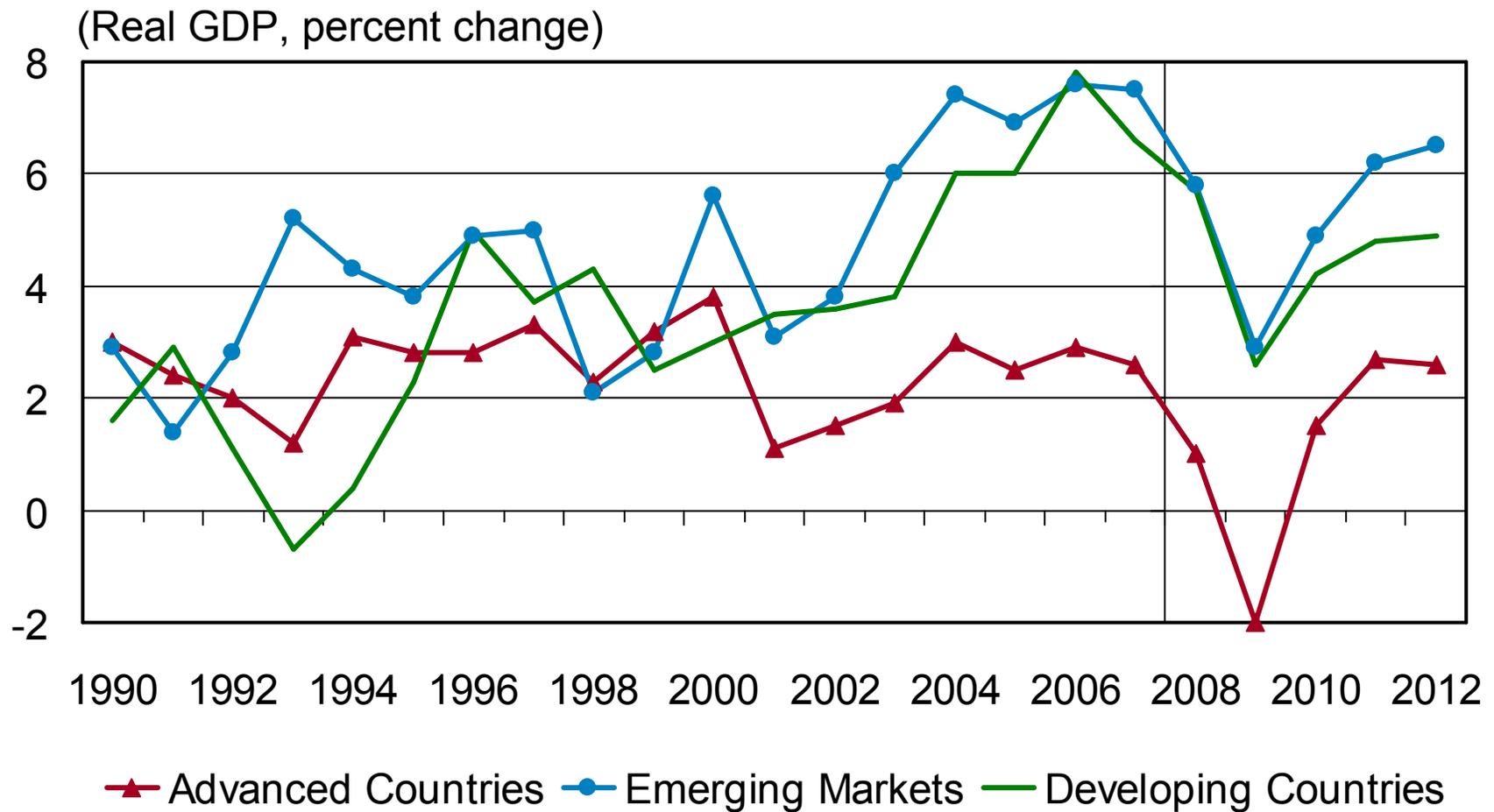
# Purchasing Manager Indexes for Manufacturing Signal a Severe Global Downturn



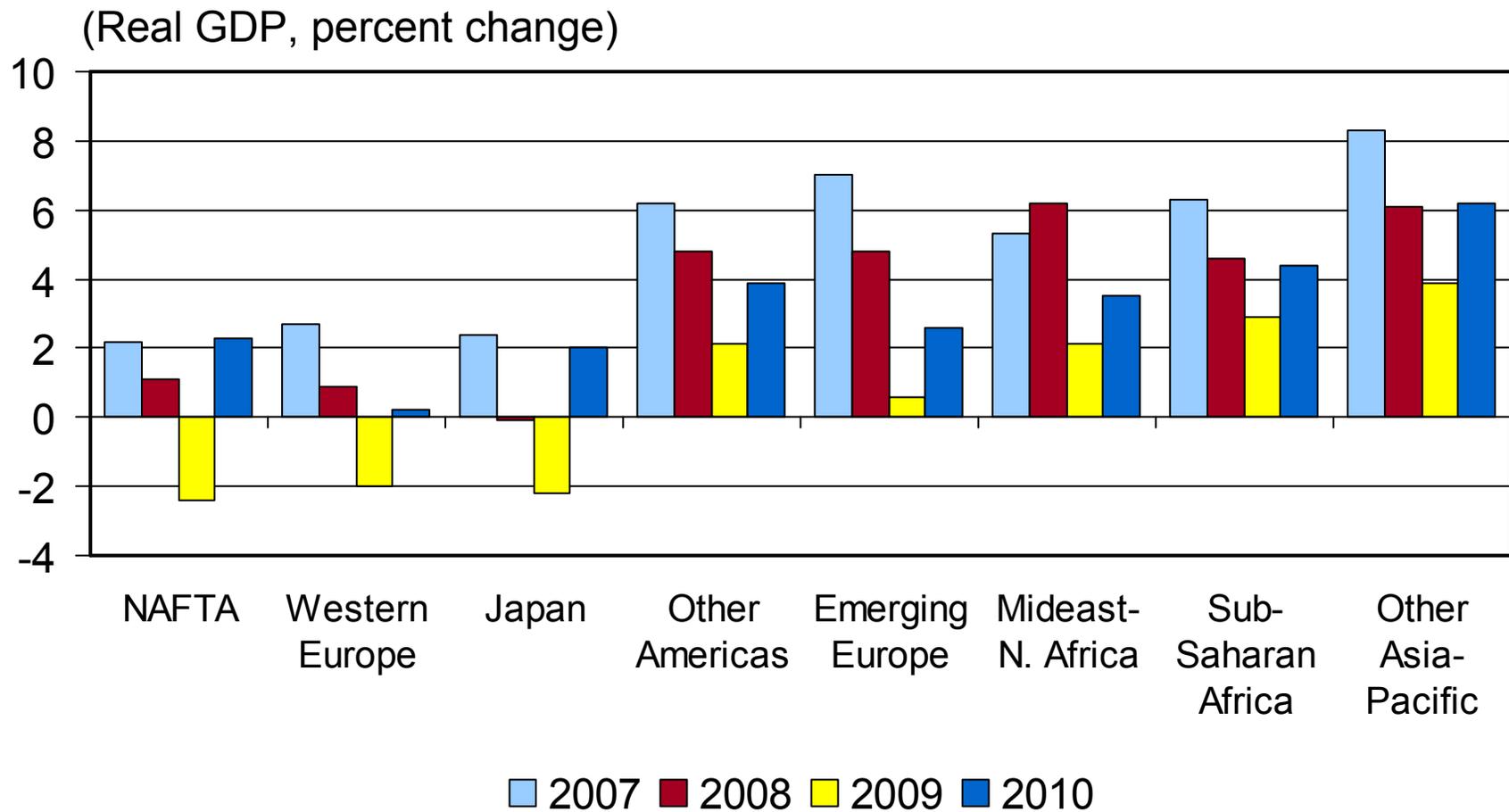
# The World Economy Faces the Worst Recession of the Postwar Era



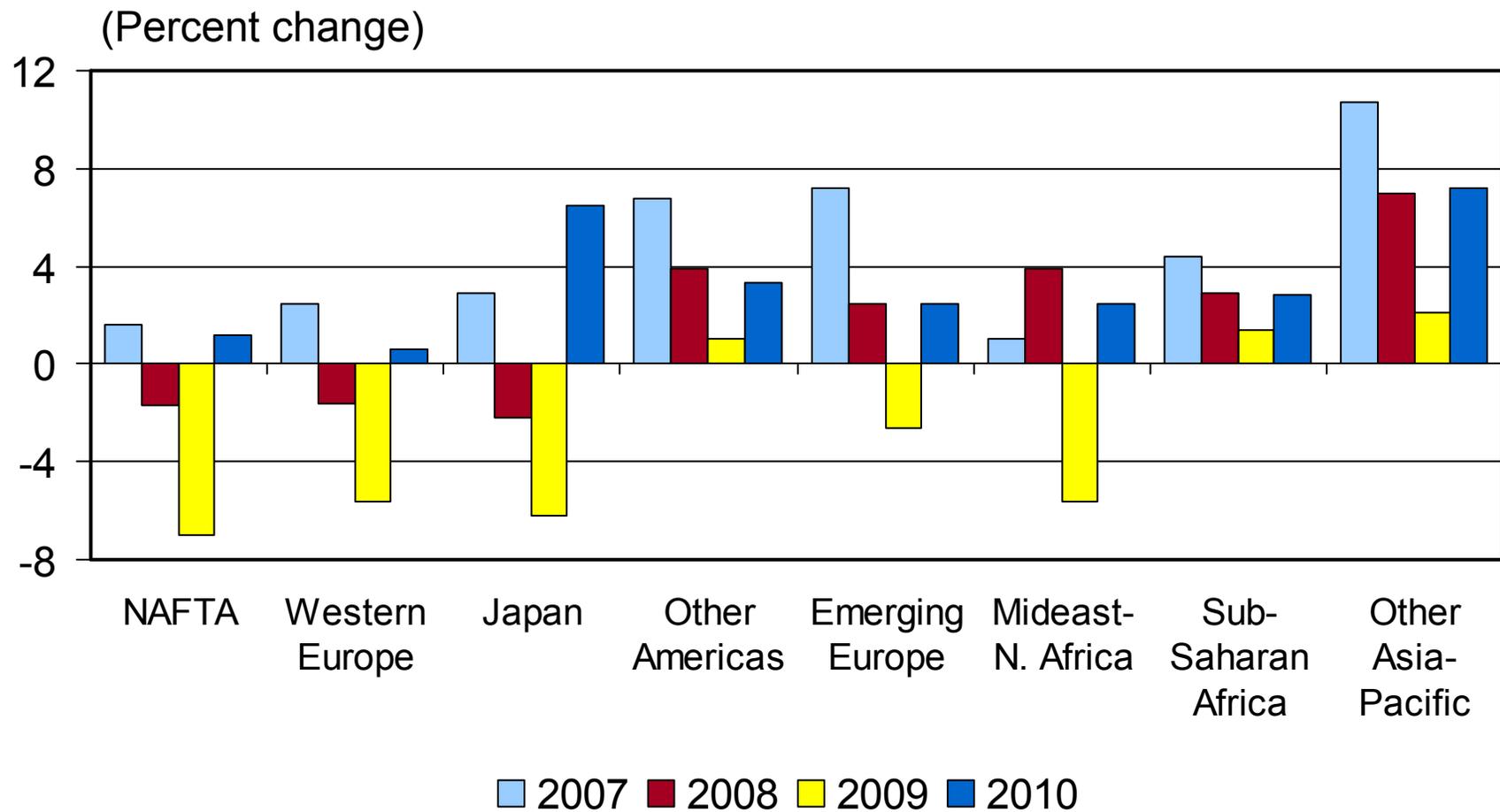
# It's Still a Two-Speed World Economy



# Wide Variations in Regional Economic Growth



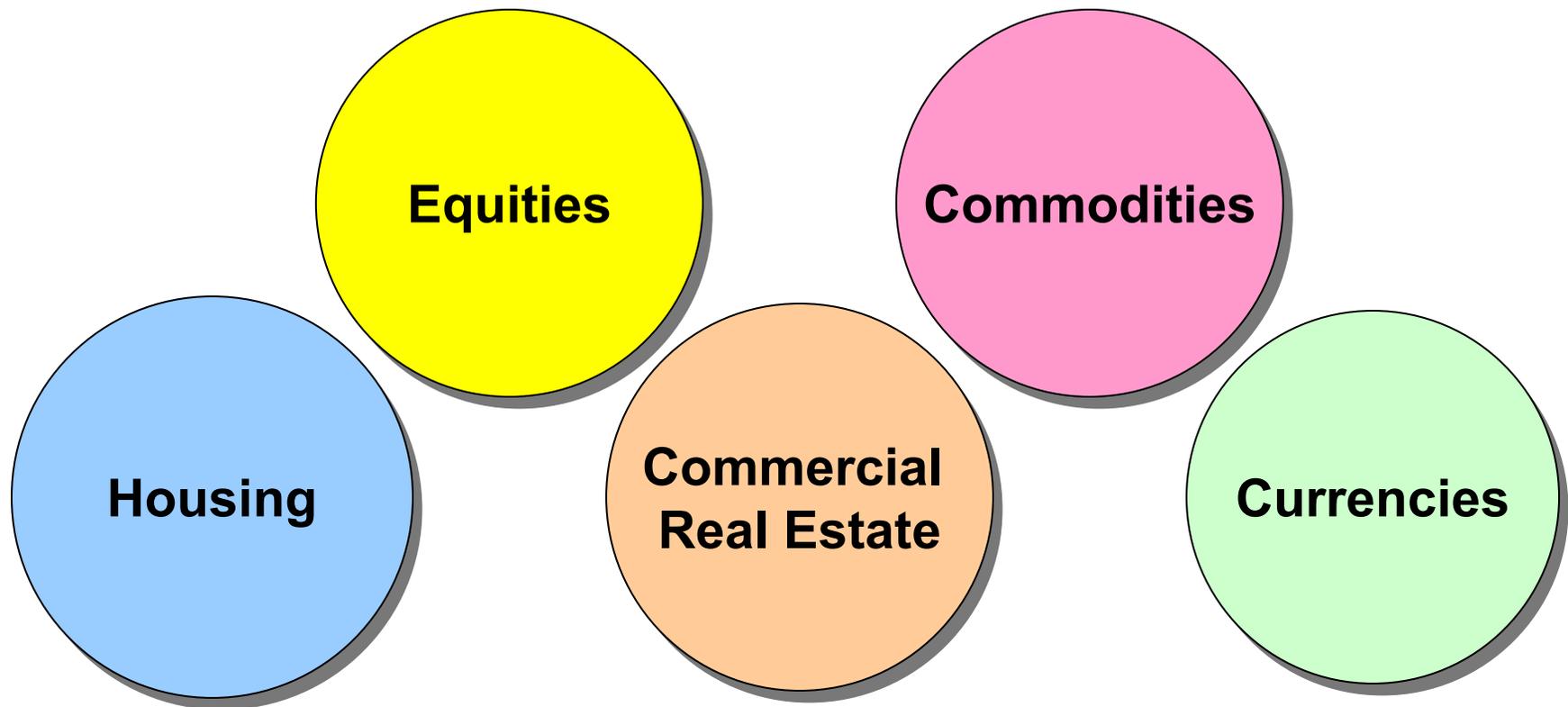
# Industrial Production Is Declining in Many Regions



# The Financial Crisis: Big, Bad, Broadly Based

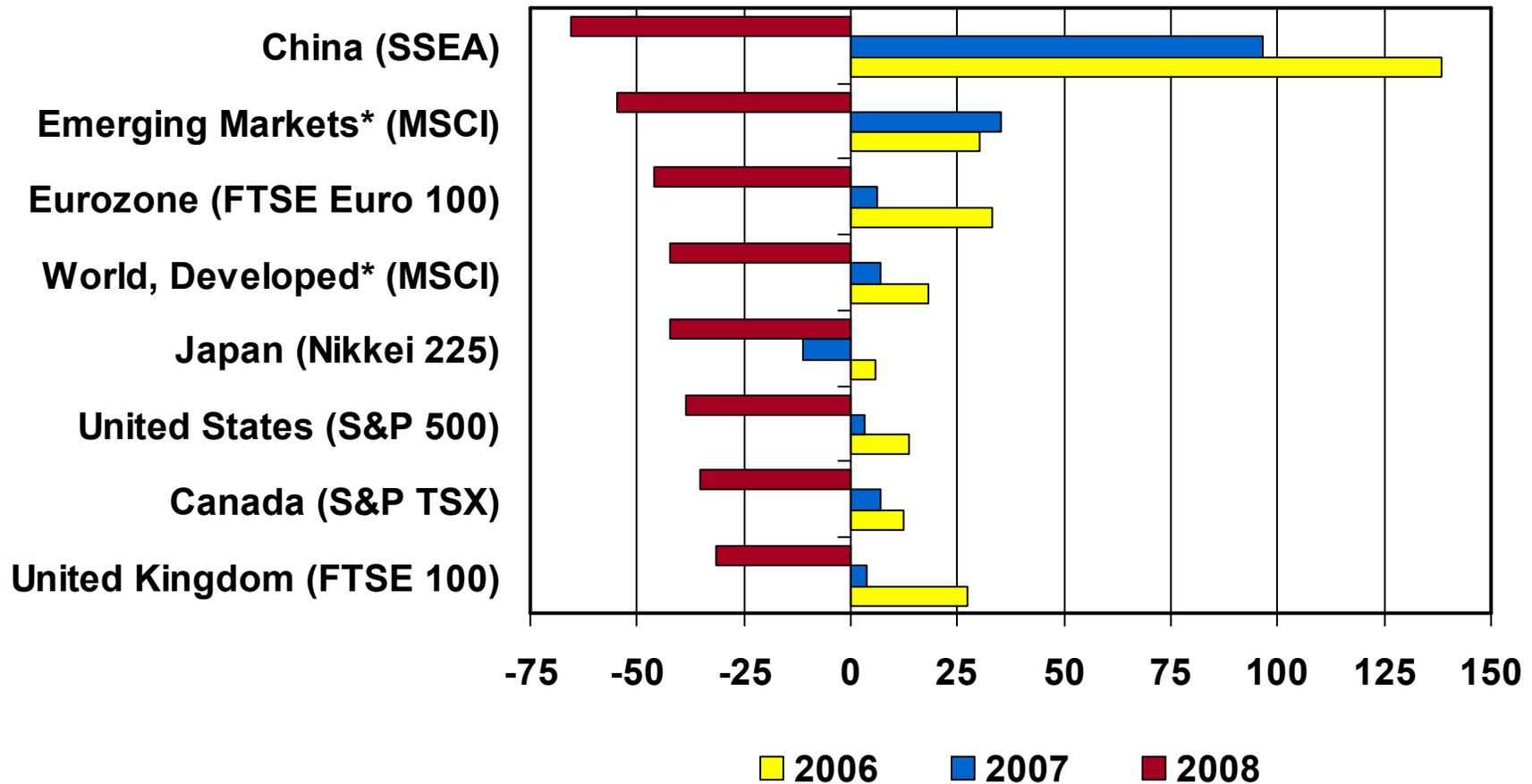
- Perhaps the biggest **global** housing & credit bubble in history
- Credit growth was strong everywhere
- Bank loan/deposit ratios were especially high in Europe
- U.S. subprime mortgage crisis was the first symptom
- Driving forces: loose monetary policies, financial innovation, deregulation, globalization, government policies favoring debt
- No region will be unscathed

# Bubbles Are Bursting Around the World



# A Global Stock Market Correction in 2008

(Percent change, local currencies)

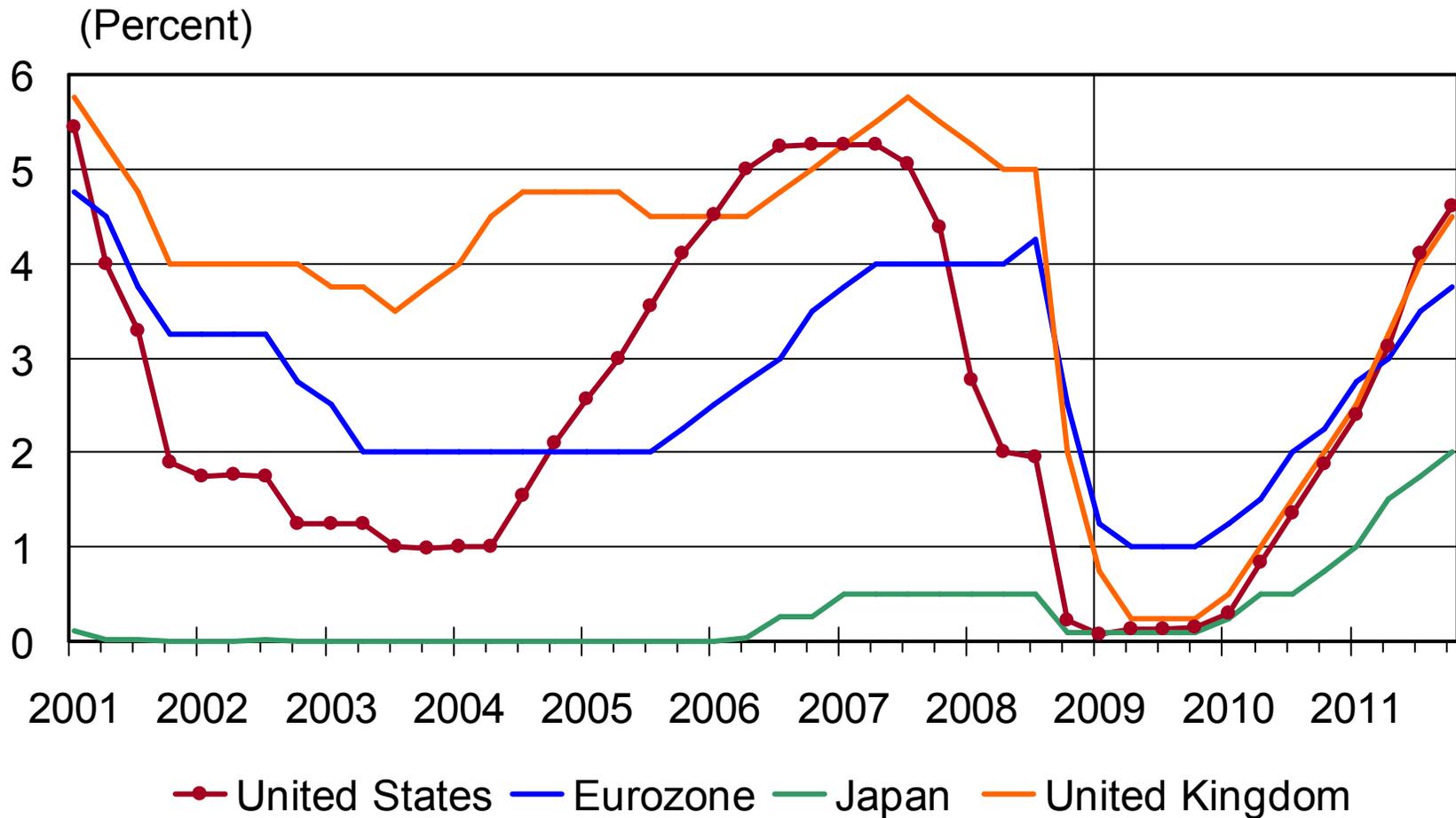


\* In U.S. Dollars

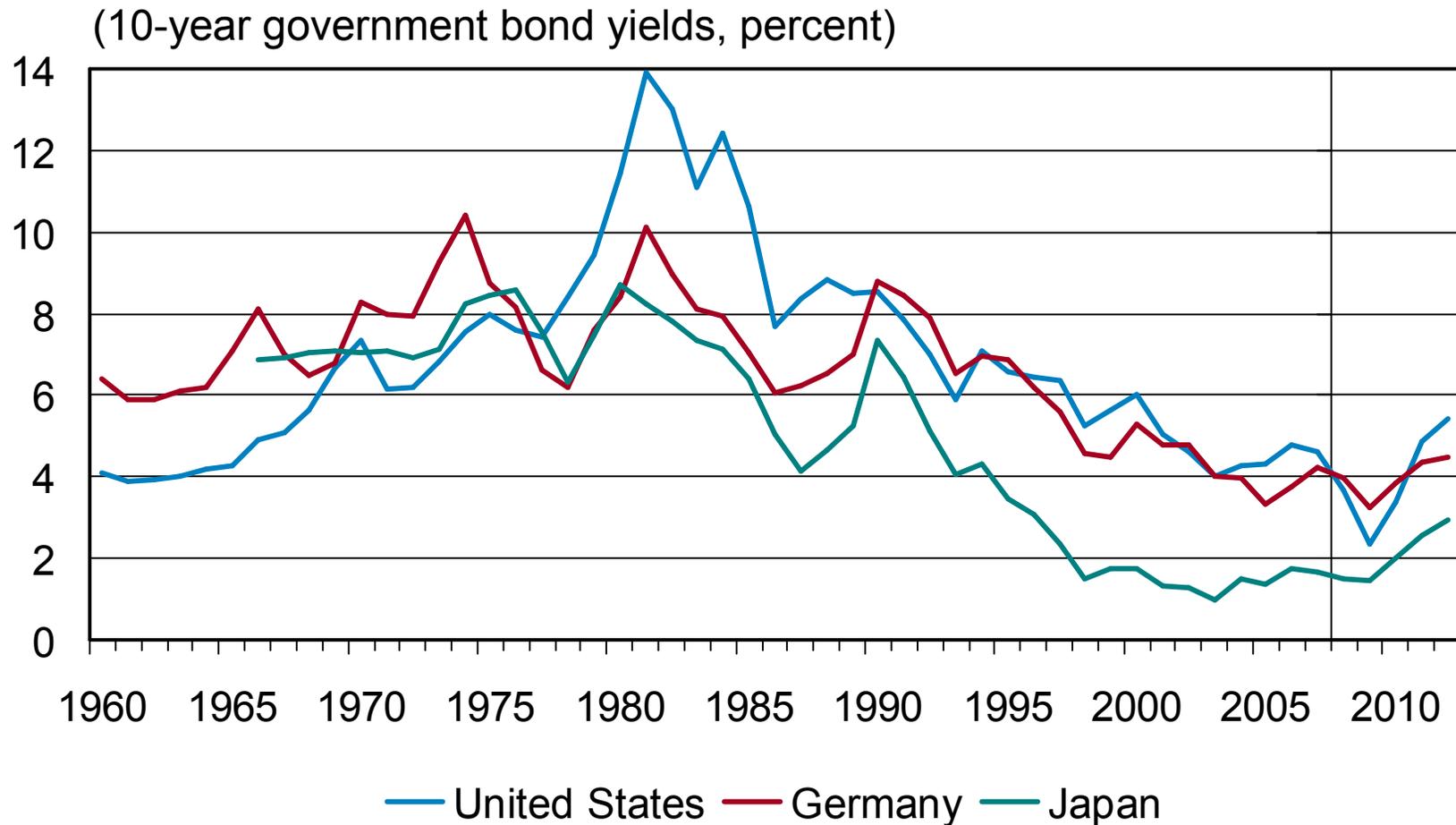
# Lessons from Past Financial Crises

- Financial crises are “hardy perennials”
- The worst crises have occurred in heavily regulated systems
- Deflation is a bigger threat than inflation
- There are limits to crisis management; system solutions are needed—sooner rather than later
- Key ingredients of a successful fix: ample liquidity, capital infusions, deposit insurance, debt guarantees, fiscal stimulus

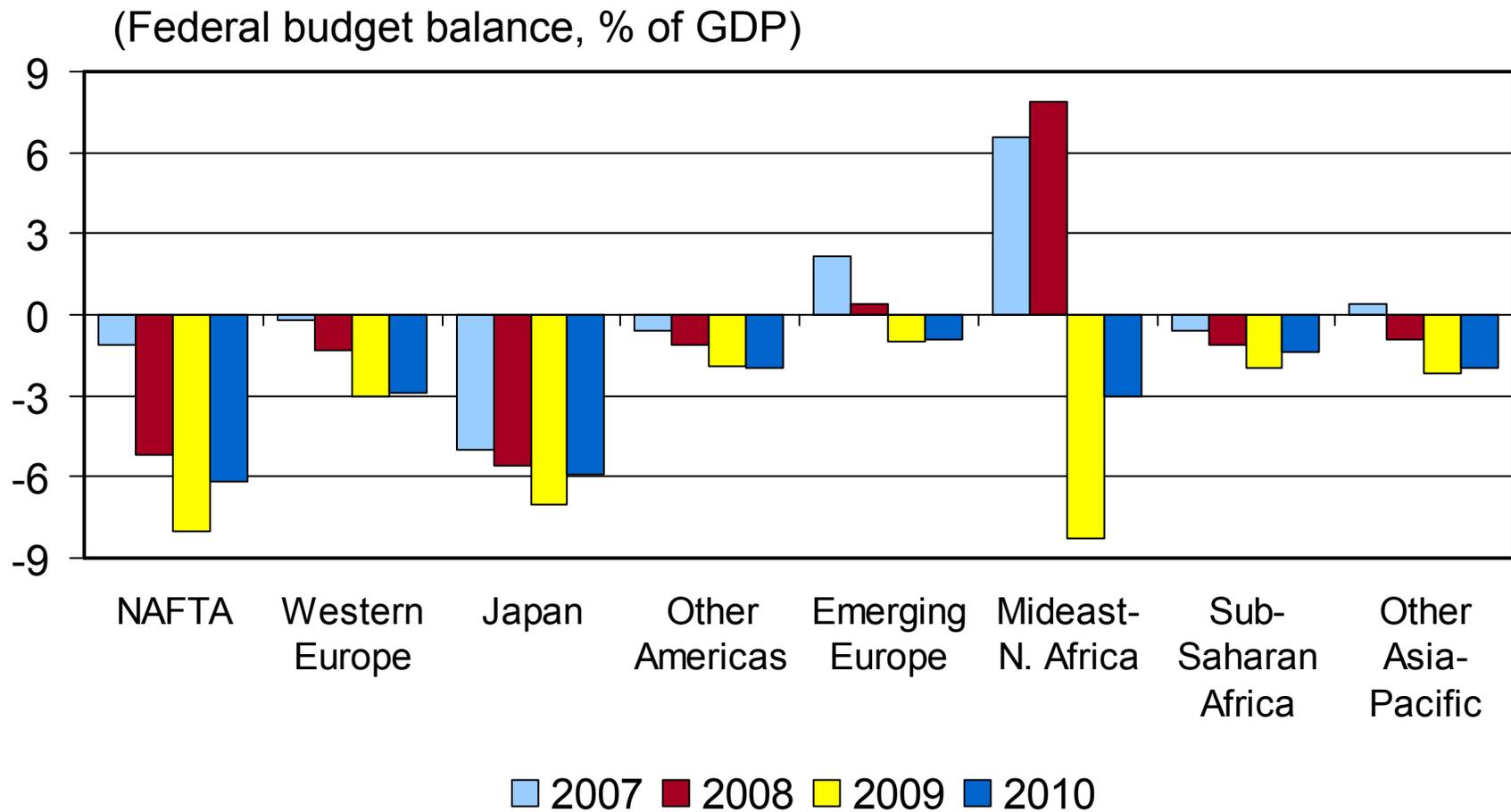
# Policy Interest Rates Are Dropping



# Long-Term Government Bond Yields Are Low



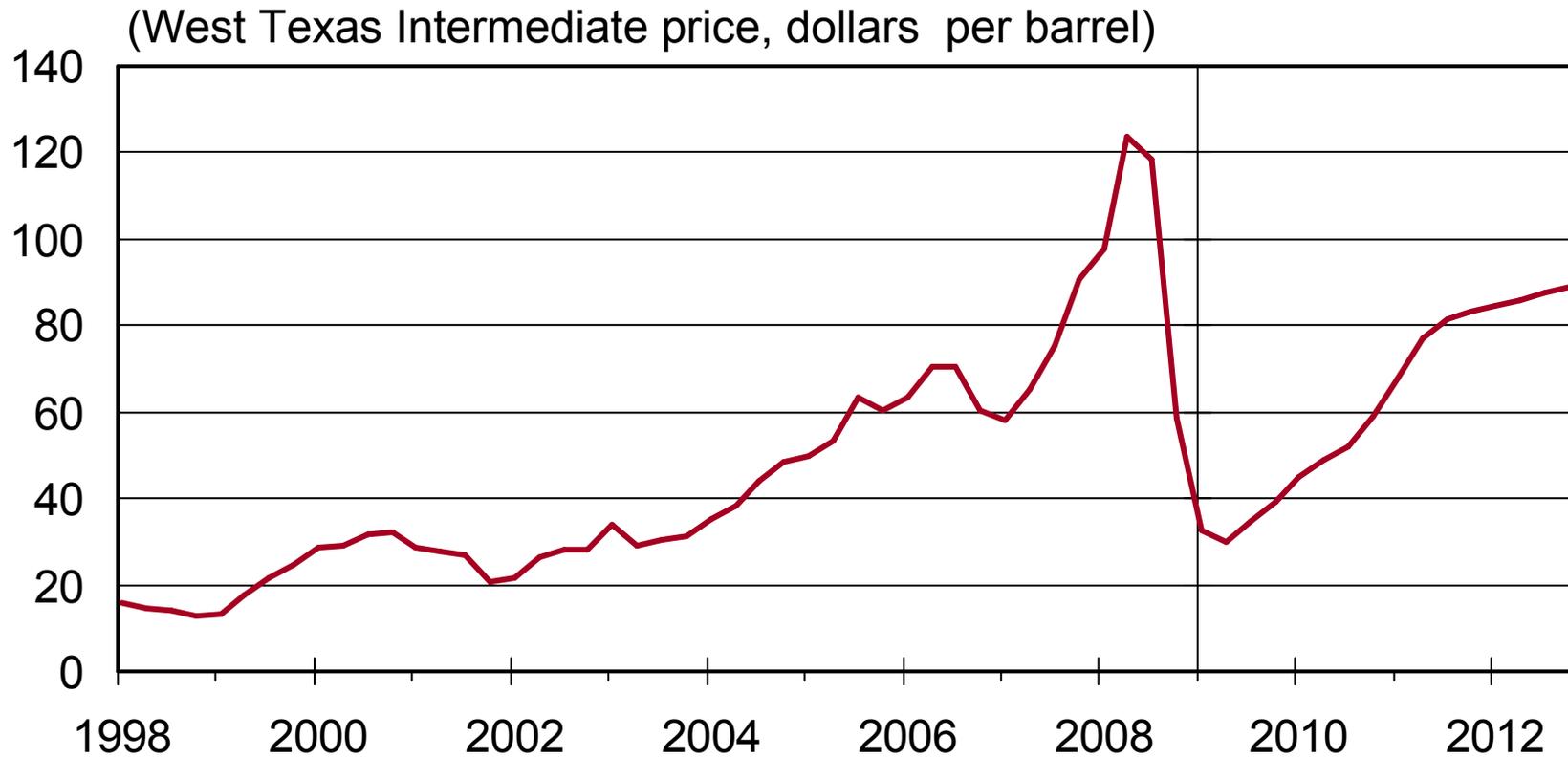
# Fiscal Balances Will Deteriorate Across Regions



# Forces That Drove Up Commodity Prices

- Strong economic growth in emerging markets
- Stimulative monetary policies
- Lagging supply responses to higher prices
- Government subsidies—being removed slowly
- Export restrictions
- U.S. dollar depreciation
- Speculation

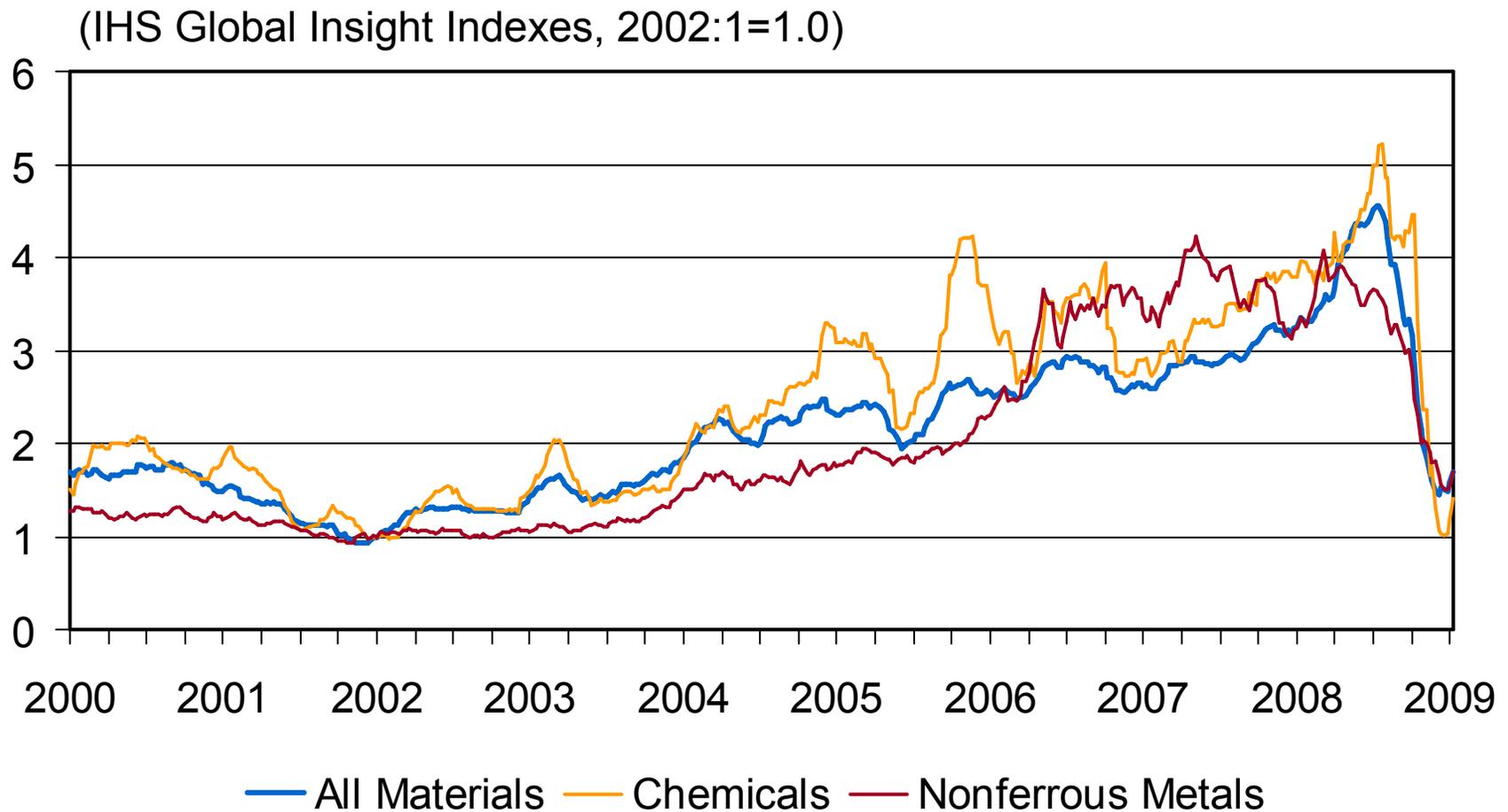
# A Sharp Retreat in Crude Oil Prices



# Oil Prices Are Still a Risk

- Additions to supply continue to disappoint
- Lower prices are discouraging development
- Periodic supply disruptions, geopolitical events, and speculation contribute to price volatility
- Long-term growth in emerging markets will be strong
- The world has abundant energy resources, but they are concentrated in high-risk countries

# And A Swift Correction in Industrial Materials Prices

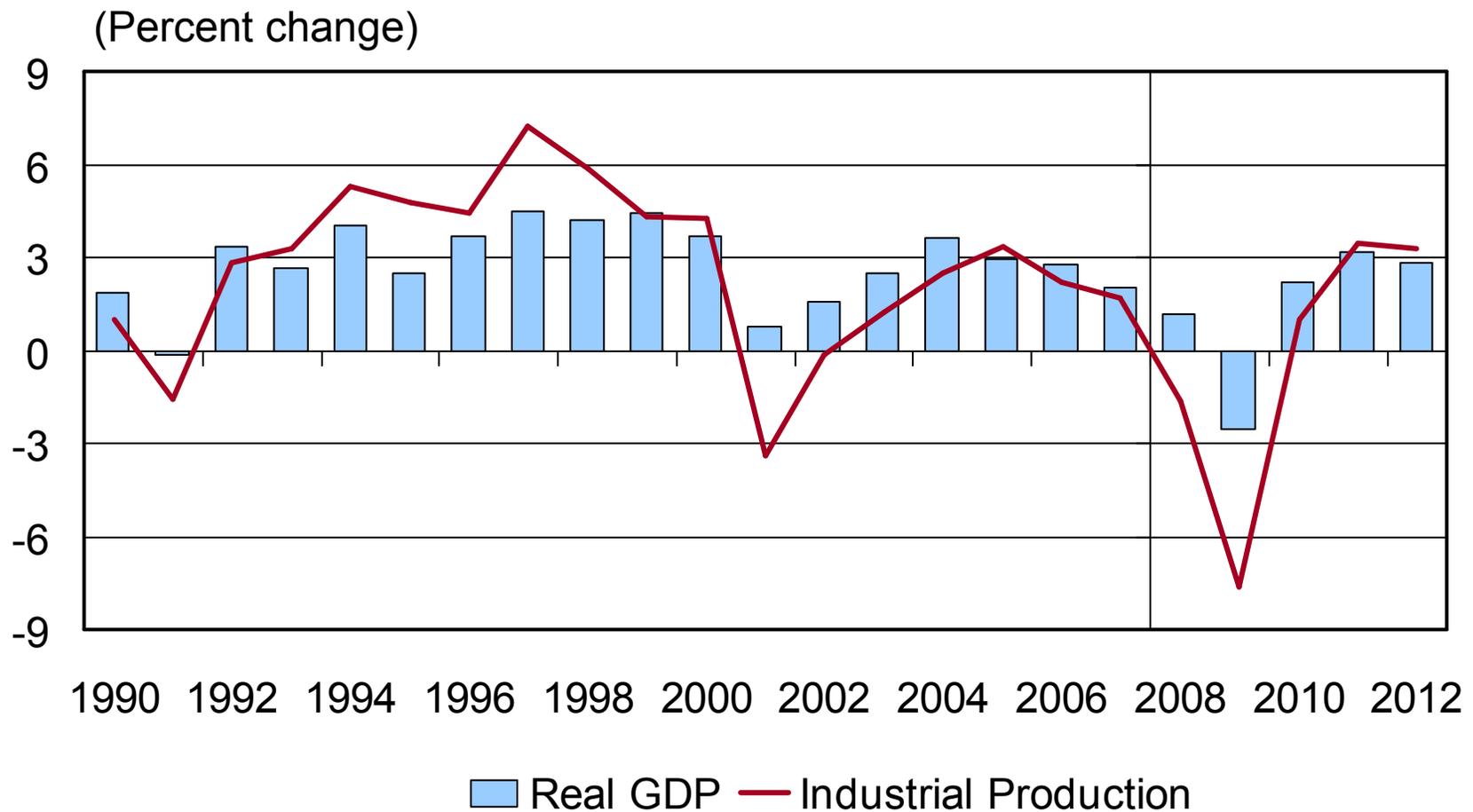


# U.S. Economic Growth by Sector

(Percent change)

	2007	2008	2009	2010
Real GDP	2.0	1.2	-2.5	2.2
Consumption	2.8	0.3	-0.9	2.3
Residential Investment	-17.9	-21.0	-20.8	15.2
Bus. Fixed Investment	4.9	1.9	-15.1	-0.3
Federal Government	2.1	2.8	1.4	1.5
State & Local Govt.	2.3	1.2	0.4	2.9
Exports	8.4	6.4	-7.0	-0.9
Imports	2.2	-3.1	-9.6	6.2

# U.S. Real GDP and Industrial Production Growth



# Global Economic Crisis: Contagion in LATAM

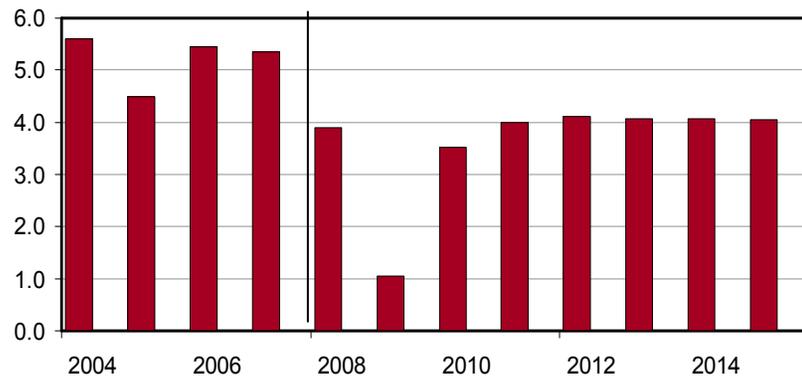
- The combination of a deep U.S. recession and the global financial crisis will impose severe damage to the Latin American economies.
- U.S. and global recession affect Latin America and Caribbean:
  - Trade: lower demand for LATAM exports, lower employment in manufacturing sector
  - Capital: credit tightening, higher interest rates, lower foreign direct investment, capital outflows, flight to quality
  - Lower remittances

# Global Economic Crisis: Contagion in LATAM

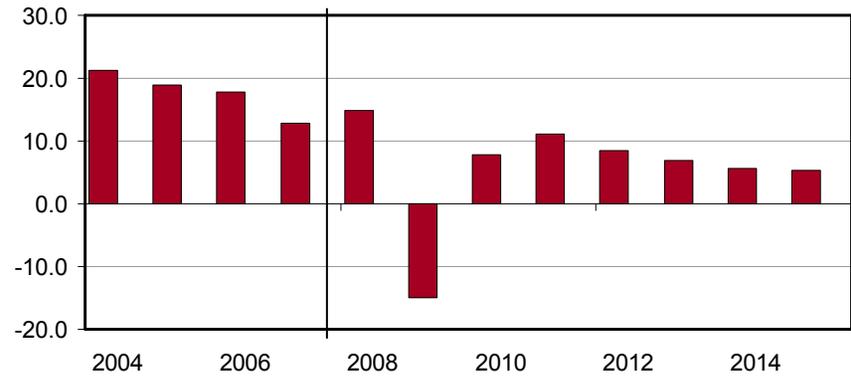
- Lower oil prices is good news for the large majority of countries in the region, but not all. It will help external and fiscal accounts and price stability.
- Inflation: external pressures vanish with lower commodity prices. This will give some relief to fiscal accounts, as subsidies may be ended.
- Exchange rate corrections may continue as external deficits widen.

# Latin America

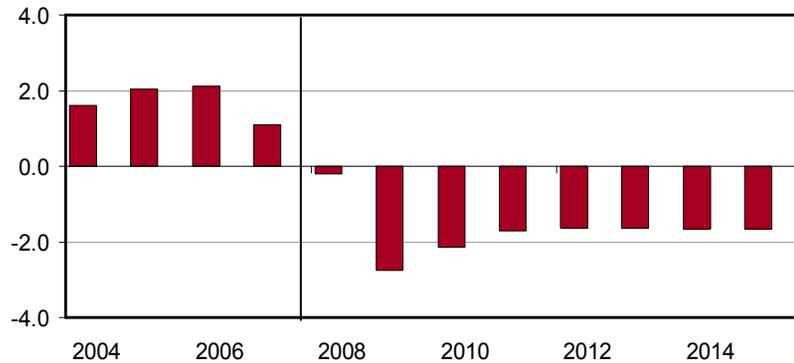
**GDP Growth**  
(y/y in percent)



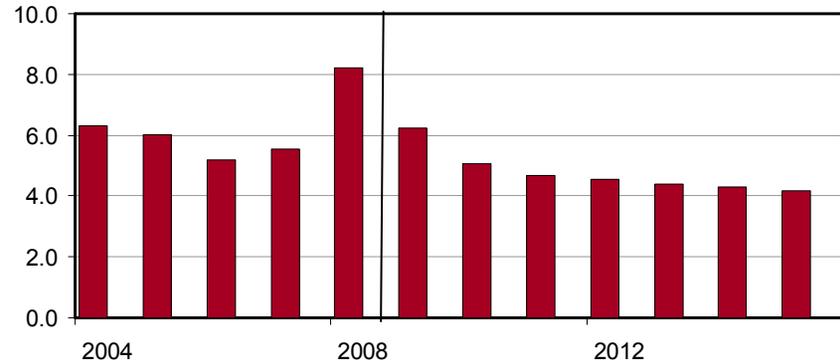
**Exports**  
(growth nominal terms y/y in percent)



**Current Account Balance**  
(percent of GDP)



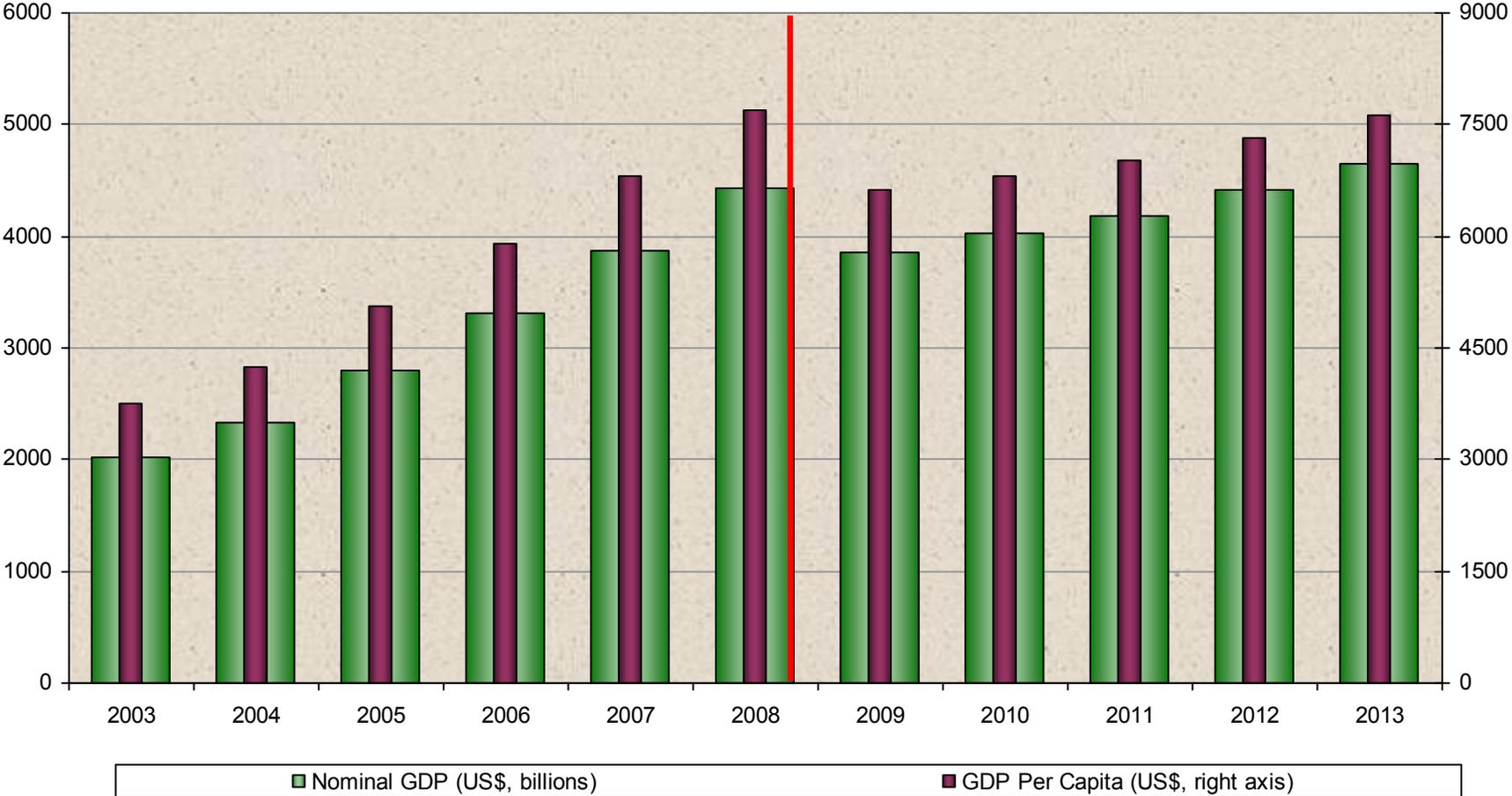
**Inflation**  
(y/y in percent)



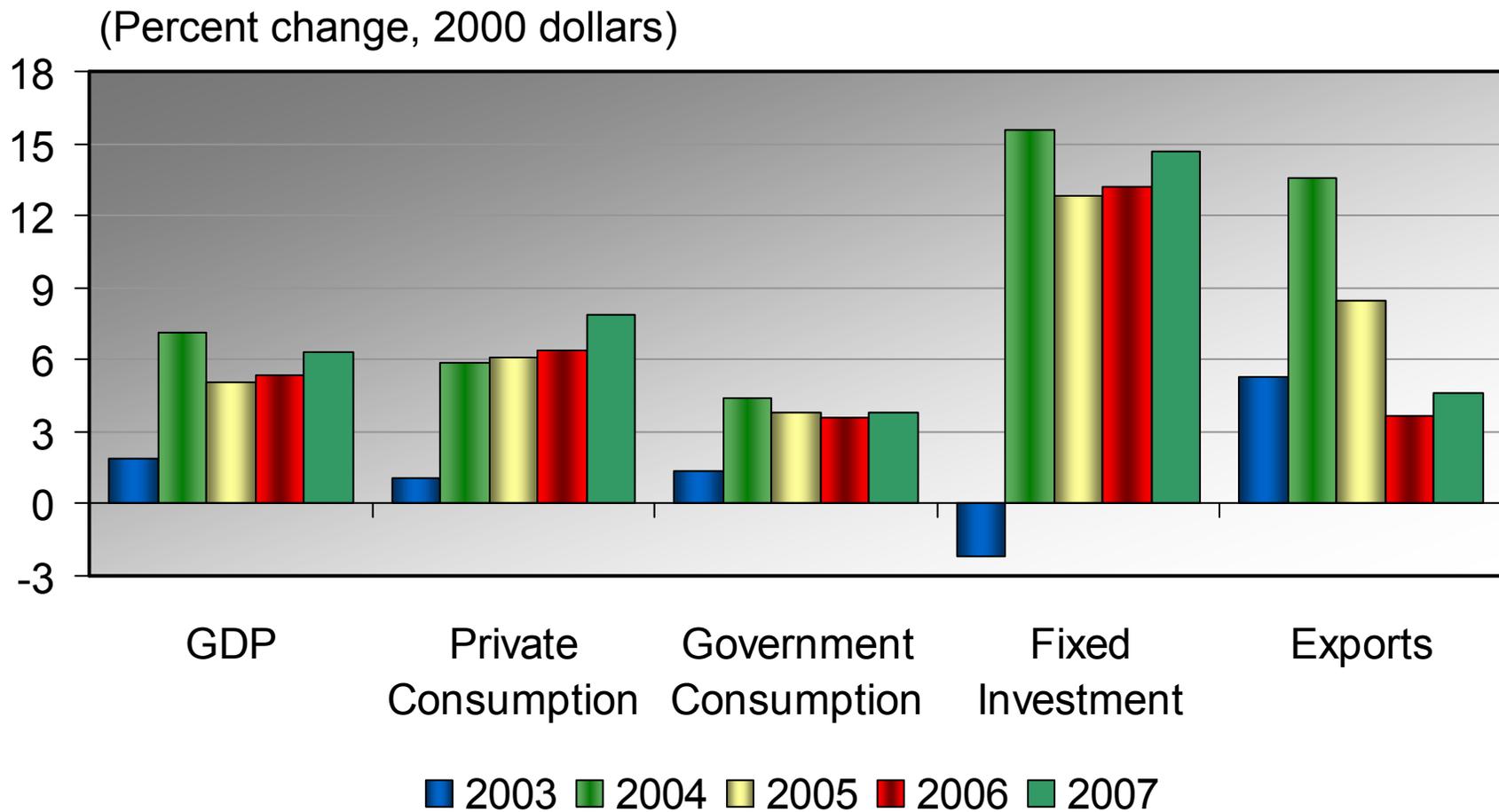
# Latin America: A Temporary Setback

- Exports are falling in response to global slowdown
- Lower commodity prices will hurt several countries
- Currencies are under pressure as investors avoid risk
- But compared with the late 1990s, the region is better shielded from the global financial crisis
- Long-term prospects are bright for countries attracting foreign investment, including Brazil, Chile, Peru, Panama and Colombia
- Policy mismanagement and resource nationalism will take a toll on Argentina, Venezuela, Bolivia, and Ecuador

# Devaluations Bring Down Nominal US\$ GDP

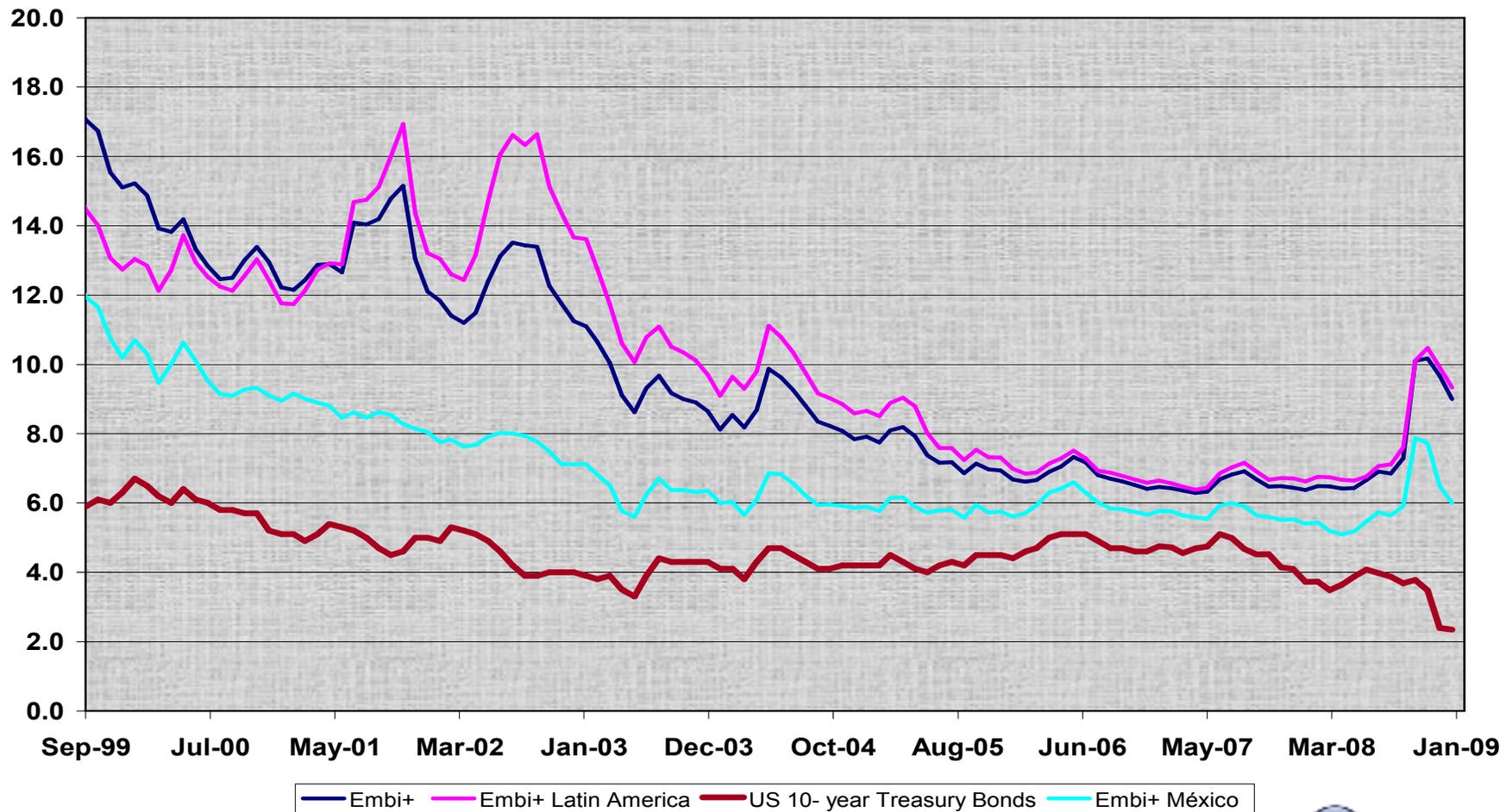


# In the last tranche of the cycle, investment was the major driver of growth



# Higher perception of risk and cost of funding: Argentina and Venezuela push up the average

Interest Rates, percent



# Improved Fiscal Accounts

(Percent of GDP)	1999	2002	2005	2008
Brazil	<b>-5.3</b>	<b>-4.1</b>	<b>-3.0</b>	<b>-1.5</b>
Argentina	<b>-1.6</b>	<b>-1.4</b>	<b>1.8</b>	<b>1.8</b>
Venezuela	<b>0.7</b>	<b>-1.2</b>	<b>0.6</b>	<b>3.8</b>
Chile	<b>-1.3</b>	<b>-0.9</b>	<b>5.2</b>	<b>6.3</b>
Colombia	<b>-5.5</b>	<b>-3.6</b>	<b>0.0</b>	<b>-0.8</b>
Peru	<b>-3.2</b>	<b>-2.3</b>	<b>-0.3</b>	<b>2.3</b>
Mexico	<b>-1.0</b>	<b>-1.0</b>	<b>-0.1</b>	<b>-0.0</b>
Panama	<b>-2.7</b>	<b>-2.7</b>	<b>-1.6</b>	<b>0.8</b>

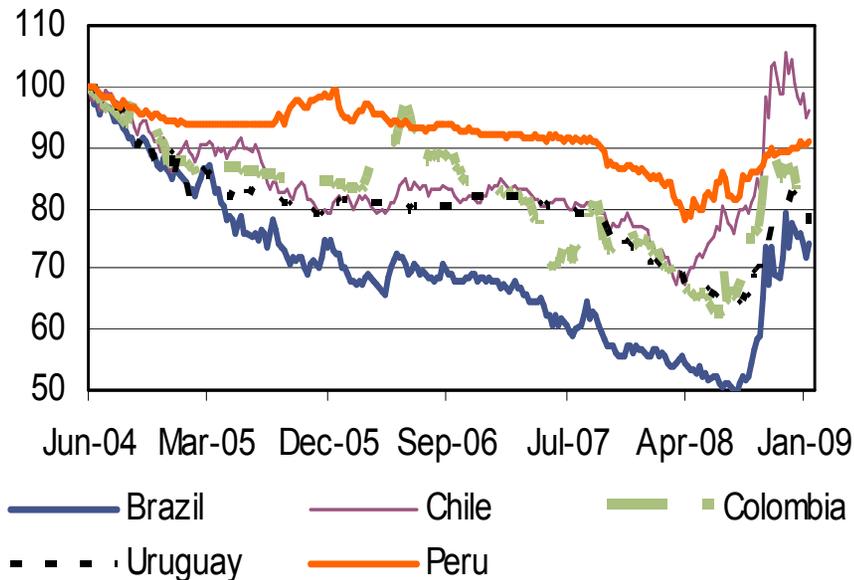
# The Inflation threat has Vanished, but not for all

CPI Percent Change	2006	2007	2008	2009
Brazil	4.2	3.6	5.7	4.7
Argentina	10.9	<b>8.8</b>	<b>8.9</b>	<b>8.9</b>
Venezuela	13.7	18.7	31.3	18.5
Chile	3.4	4.4	8.7	4.0
Colombia	4.3	5.5	7.0	5.7
Peru	2.0	1.8	5.8	3.6
Mexico	3.6	4.0	5.1	3.8
Panama	2.1	4.2	9.0	6.7

# Exchange Rates: Overshooting? ... not yet, maybe Mexico

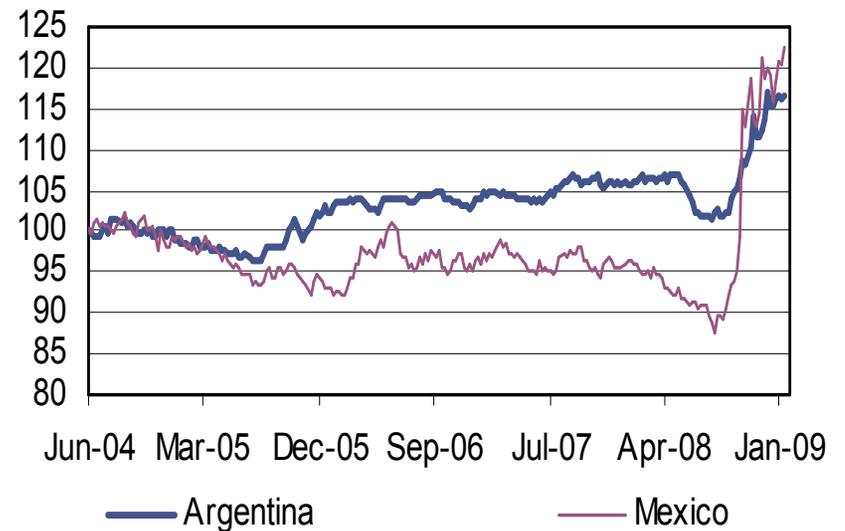
## Exchange Rates

(June 2004=100)



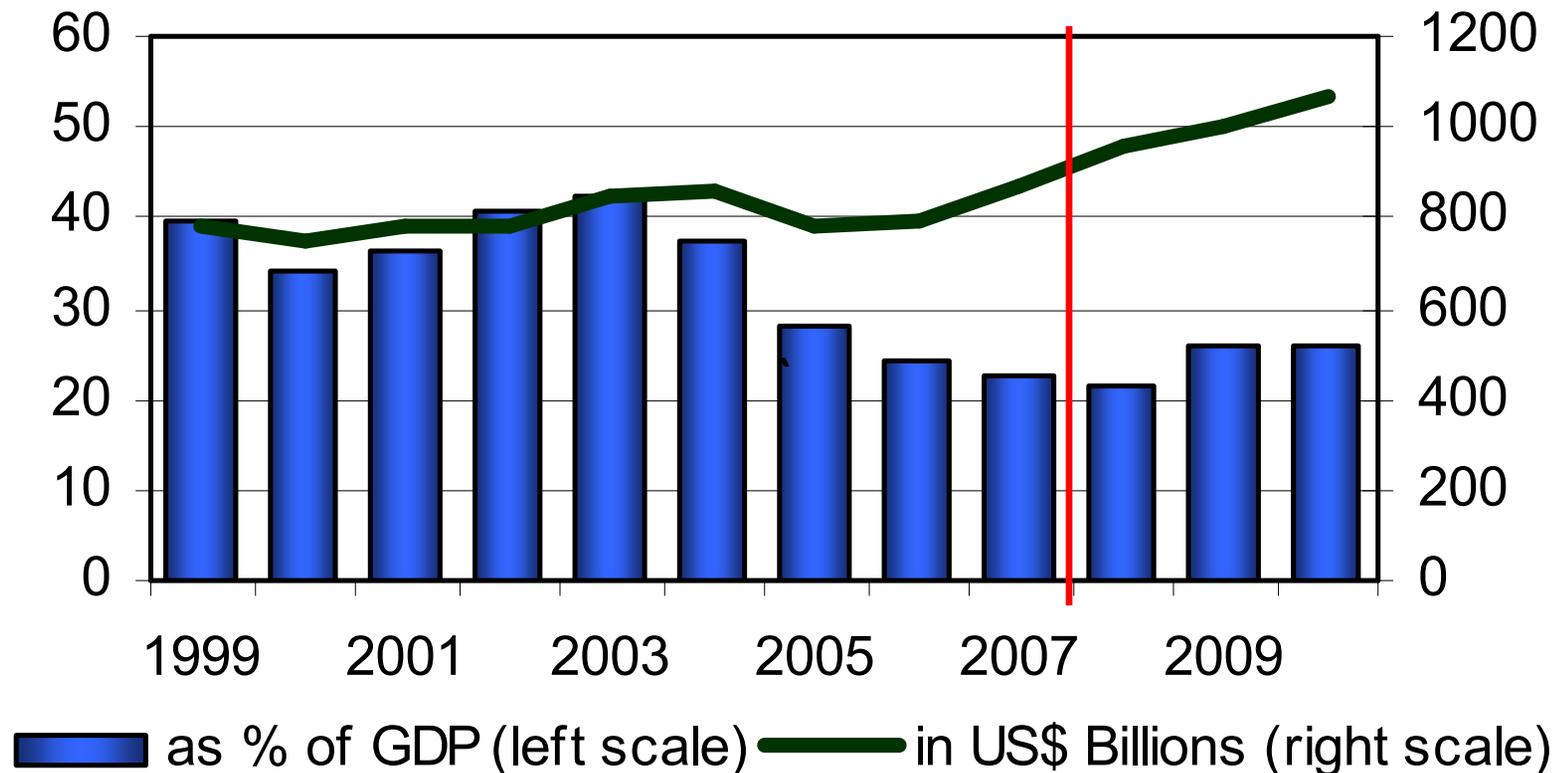
## Exchange Rates

(June 2004=100)



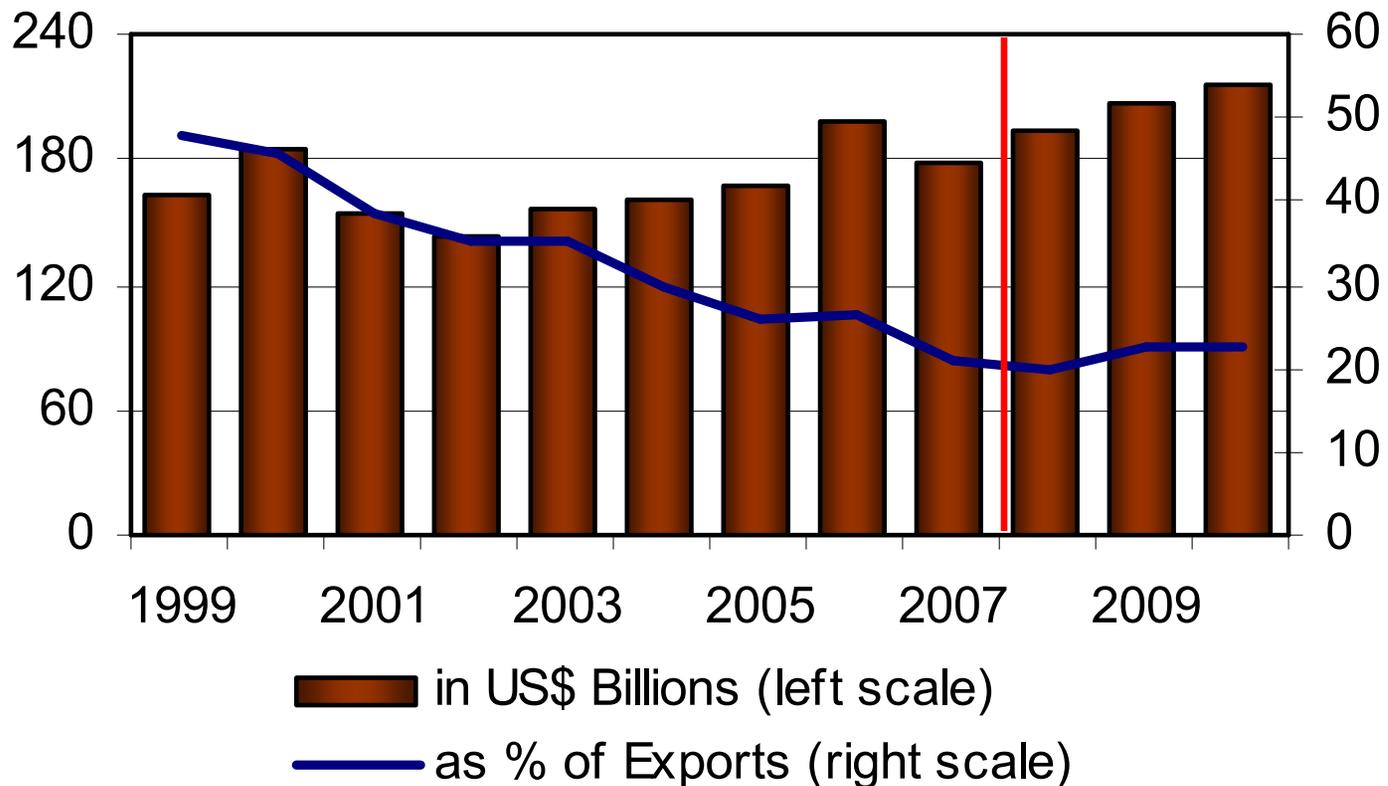
# Enhanced Debt Profile: Total Debt as percent of GDP declined substantially

## Latin America & Caribbean: Total Foreign Debt



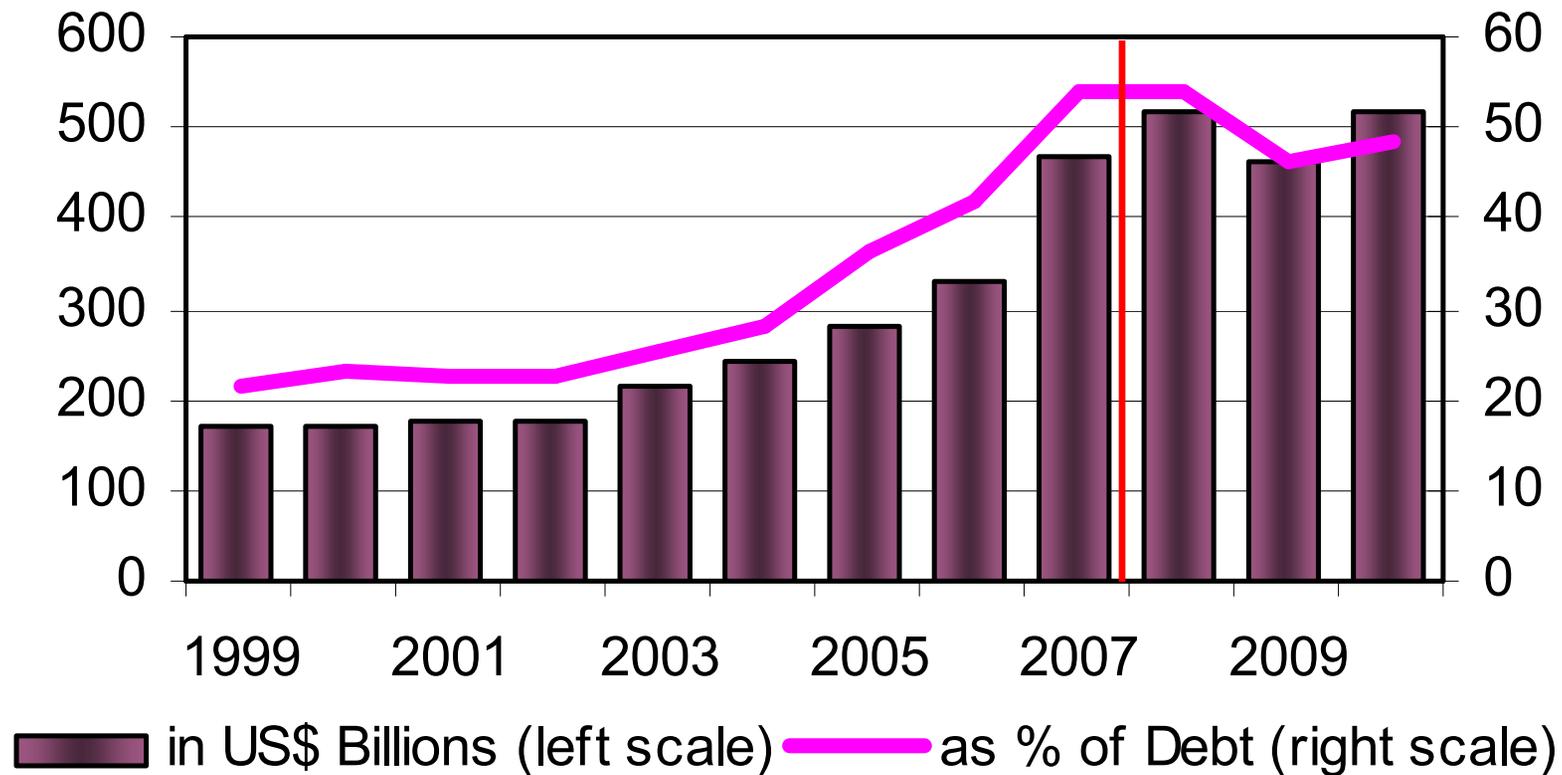
# Enhanced Debt Profile: Debt Service unchanged in nominal terms but significantly lower compared to exports

## Latin America & Caribbean: Debt Service



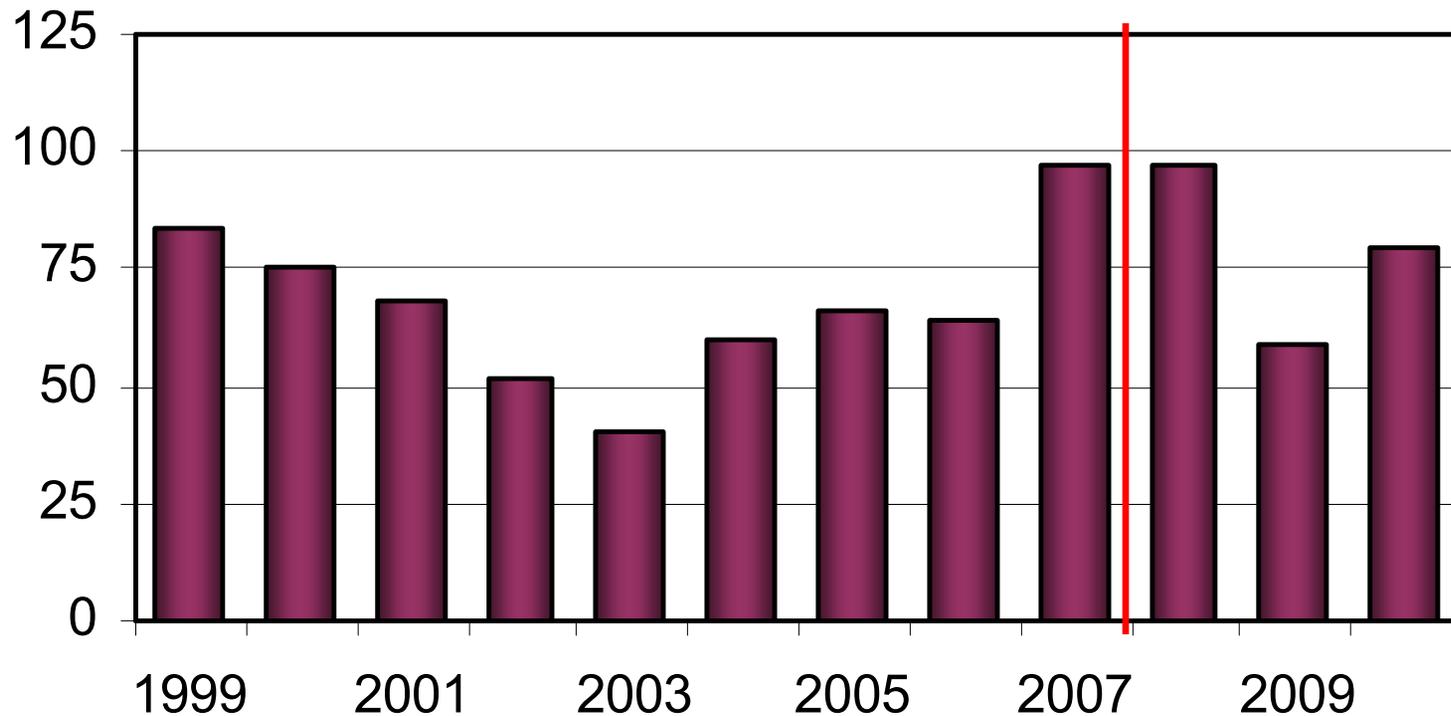
# Enhanced Debt Profile: A sizeable cushion of International Reserves

## Latin America & C: Foreign Exchange Reserves



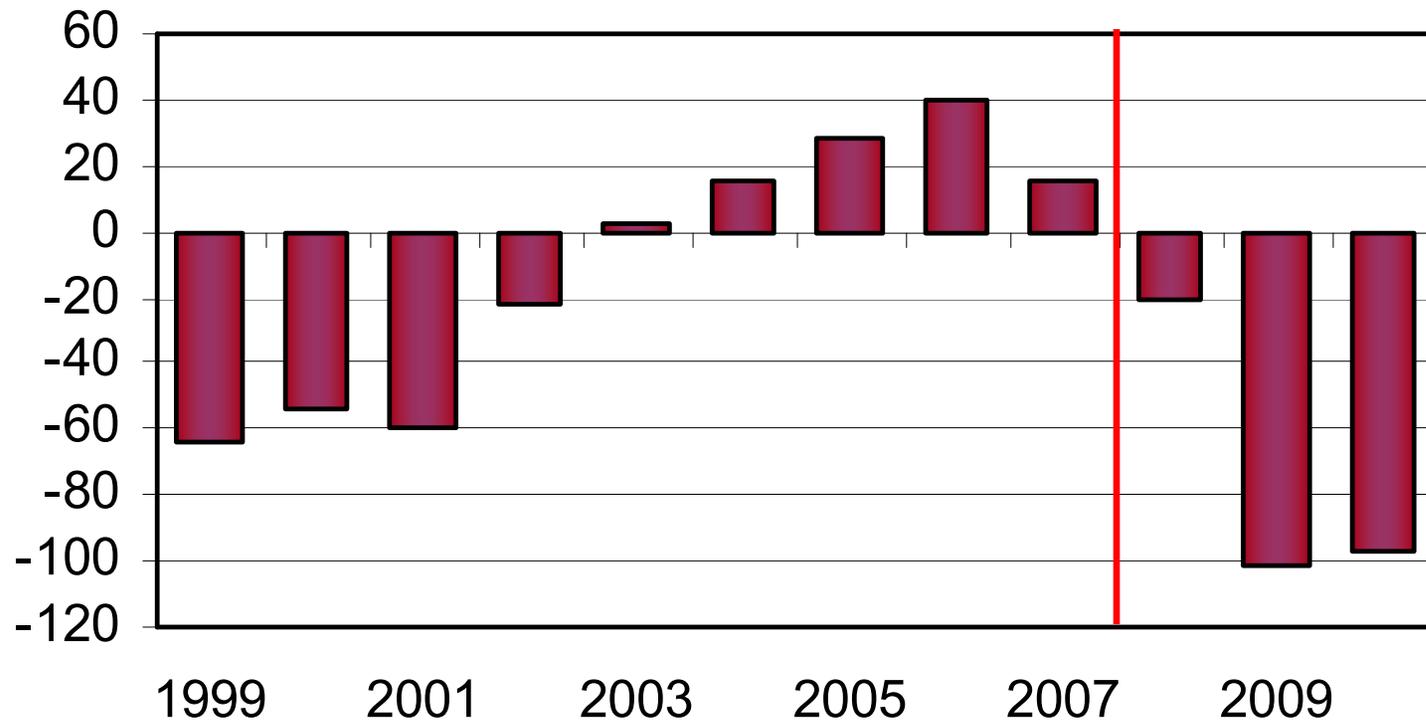
# Will the Region remain attractive for foreign investors?

## Latin America & C.: Foreign Direct Investment (U.S \$ Billions)



# External accounts are back to negative territory but partially financed by FDI

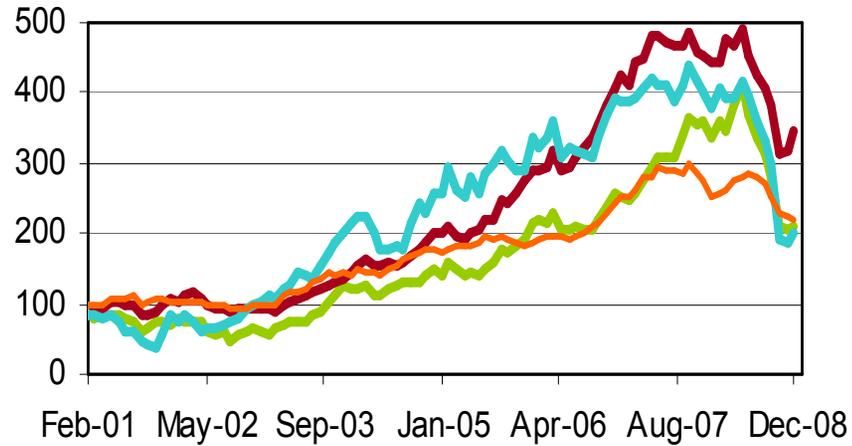
## LATAM & C: External Balance: Current Account (U.S \$ Billions)



# Stock Market Correction

## Stock Markets

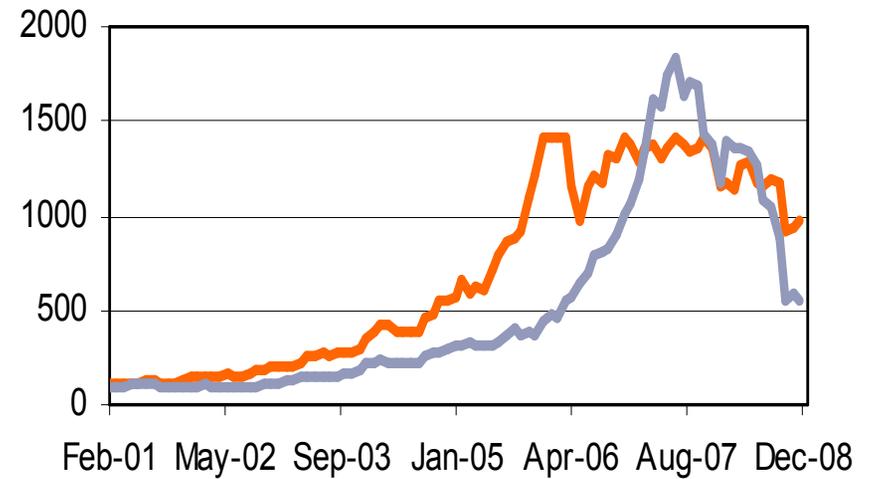
(Jan 2001 = 100)



— Brazil — Mexico — Argentina — Chile

## Stock Markets

(Jan 2001 = 100)



— Colombia — Peru

# Slow down all across the region

GDP Percent Change	2007	2008	2009	2010
Brazil	5.7	5.1	1.5	4.0
Argentina	8.6	5.6	1.0	3.6
Venezuela	8.4	5.6	1.6	3.2
Chile	5.1	3.7	2.4	4.6
Colombia	7.6	3.5	1.5	4.0
Peru	8.9	9.2	3.7	6.1
Mexico	3.2	1.3	-2.3	2.3
Latin America & Caribbean	5.4	4.0	1.0	3.5

# Final Remarks

- The region is set for a sharp deceleration, although risks differ across countries
- Latin American economies are better prepared for external shocks, however a severity of the US crisis will bring some countries into recession too
- External inflationary pressures are fading with correction in commodity prices
- Under the assumption that commodity prices will not drop substantially from current levels, external and fiscal imbalances will be manageable

# Final Remarks

- The region should recover in 2010 in line with improved US and world economic conditions, but growth rates are expected to be moderate
- Venezuela, Argentina and Ecuador may have to deal first with macroeconomic mismanagement
- Under the assumption that commodity prices will not drop substantially from current levels, external and fiscal imbalances will be manageable

**Thank you!**

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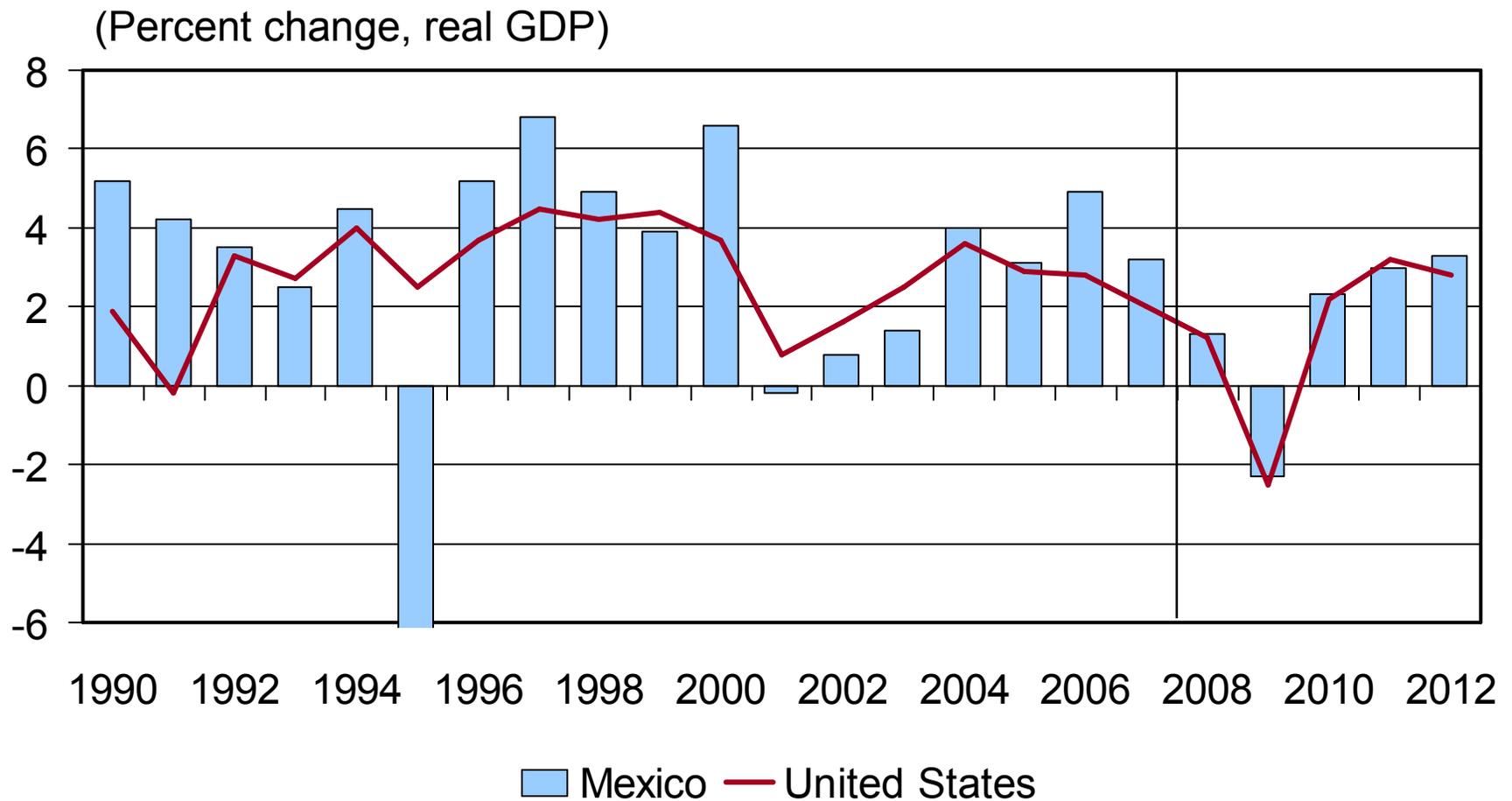
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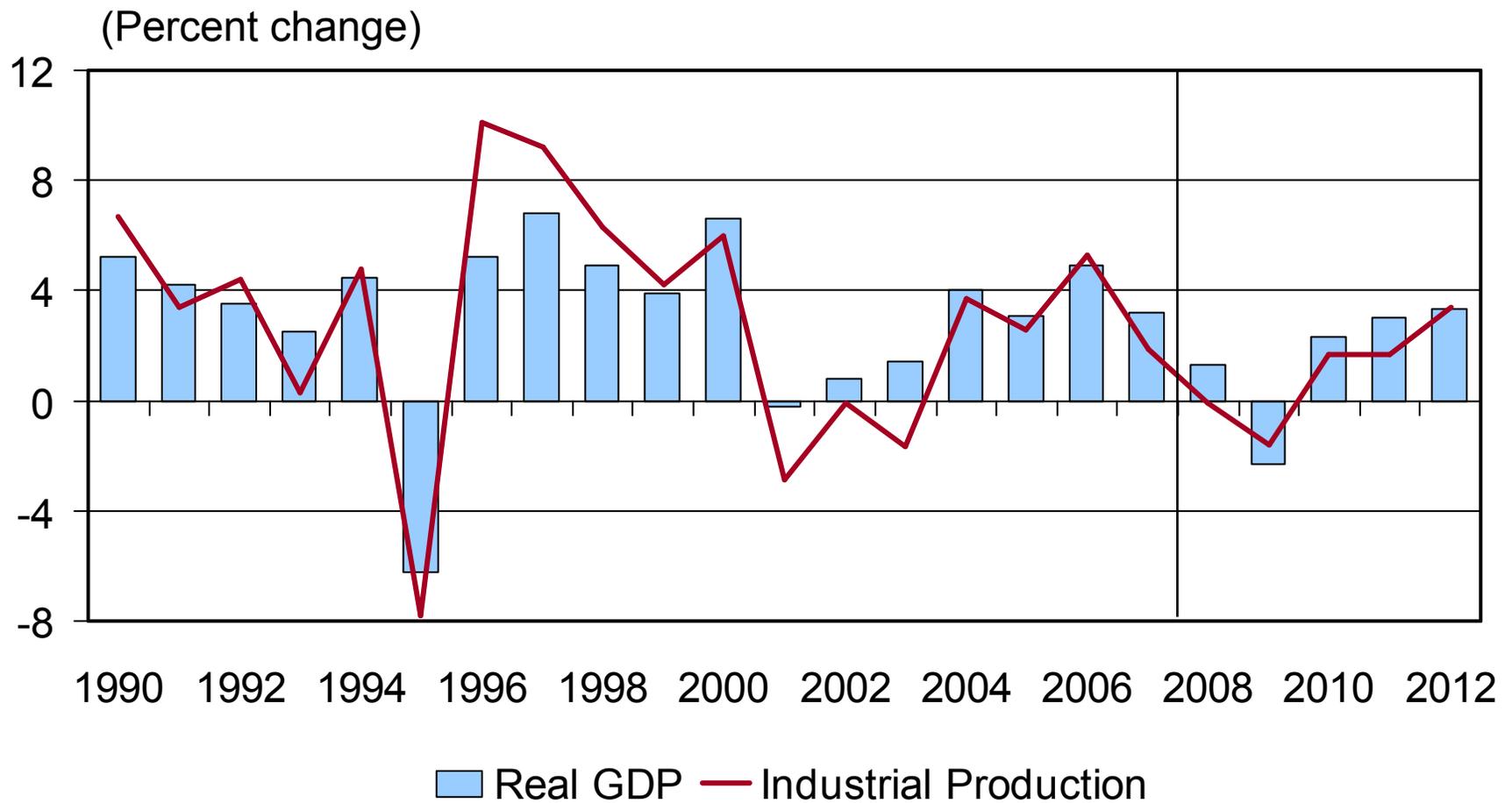
# Mexico's Economy Chilled by U.S. Recession

- Manufacturing and remittances are adversely affected by the U.S. recession
- Monetary policy makes a U-Turn
- Fiscal policy is expansionary
- Currency adjustments have improved competitiveness
- Declining oil production is a problem
- More structural reforms are needed

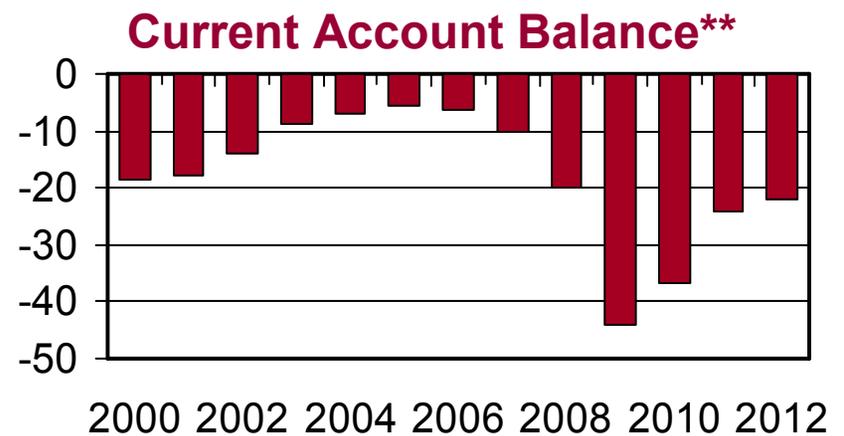
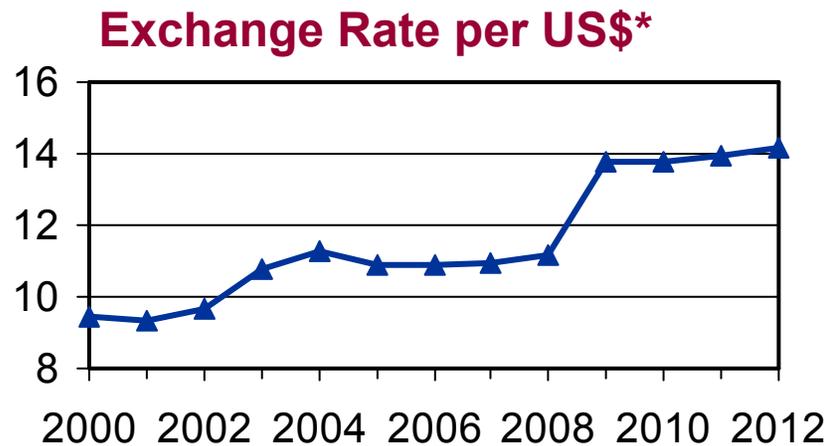
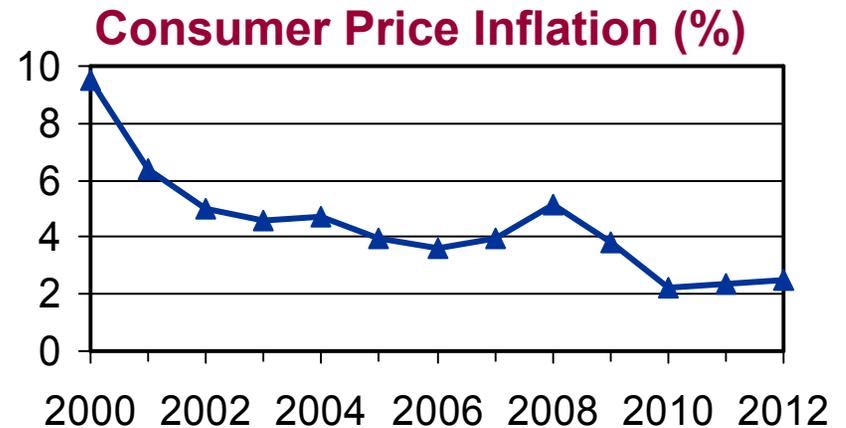
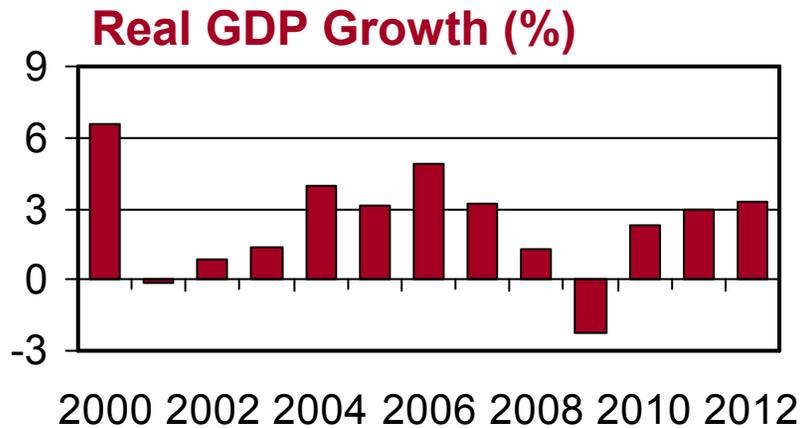
# A Downturn in Mexico's Economy



# A Downturn in Mexico's Economy



# Mexico Outlook Summary



\*Annual average, \*\*Billions of U.S. dollars

# Mexico's Real Economic Growth by Sector

(Percent change)

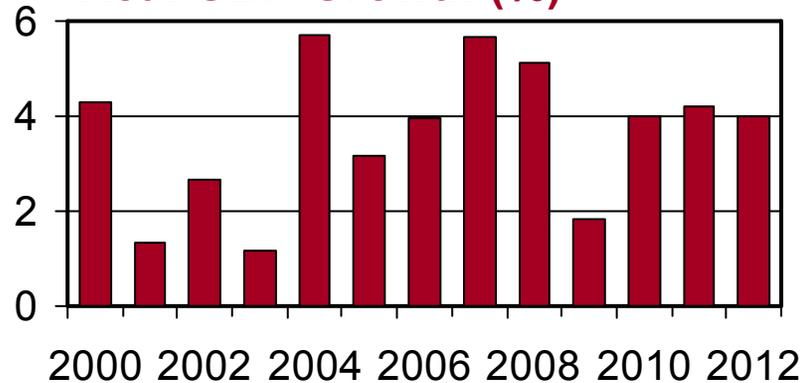
	2007	2008	2009	2010
Real GDP	3.2	1.3	-2.3	2.3
Private Consumption	4.2	3.1	1.3	1.9
Fixed Investment	5.6	5.1	-3.5	3.1
Government Consumption	1.0	0.6	2.3	1.9
Exports	6.2	1.8	-3.2	4.3
Imports	7.1	7.9	-1.4	4.6

# Brazil's Economy Faces Competitive Challenges

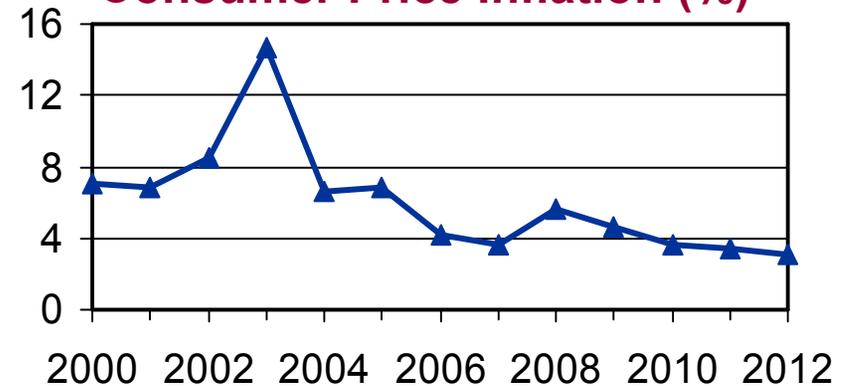
- The engines of growth—business investment and exports—have slowed abruptly
- Sound monetary policies have kept inflation low, but interest rates are still very high
- The global financial crisis has put downward pressure on the real's exchange rate, correcting an overvaluation
- Competitiveness is undermined by high and complex taxation, heavy bureaucracy, and insufficient infrastructure investment

# Brazil Outlook Summary

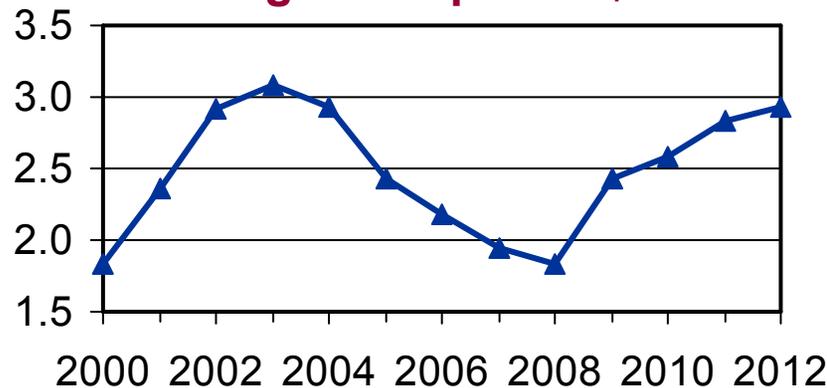
**Real GDP Growth (%)**



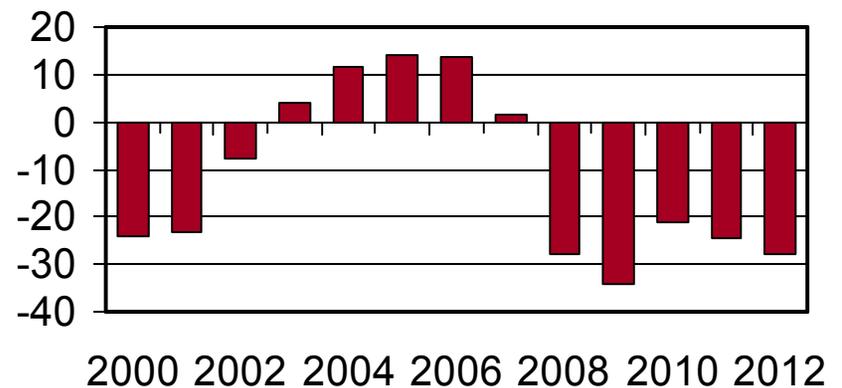
**Consumer Price Inflation (%)**



**Exchange Rate per US\$\***



**Current Account Balance\*\***



\*Annual average, \*\*Billions of U.S. dollars

# Brazil's Real Economic Growth by Sector

(Percent change)

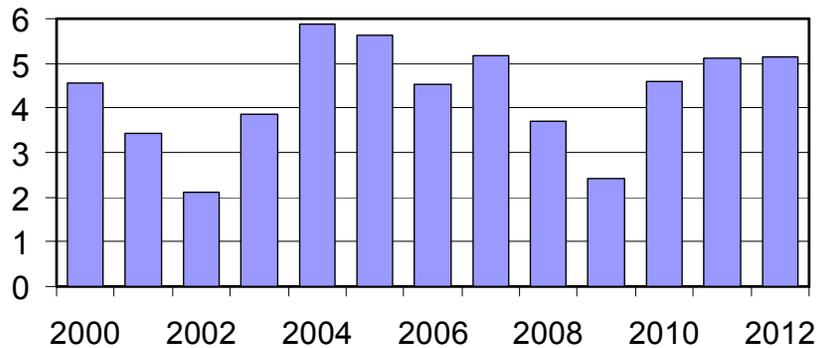
	2007	2008	2009	2010
Real GDP	5.7	5.1	1.8	4.0
Private Consumption	6.3	6.2	3.9	4.0
Fixed Investment	13.5	17.5	6.0	5.6
Government Consumption	4.8	6.4	3.4	2.6
Exports	6.7	3.0	2.1	6.8
Imports	20.8	20.4	9.0	5.4

# Chile's Solid Fundamentals Payoff During Crisis

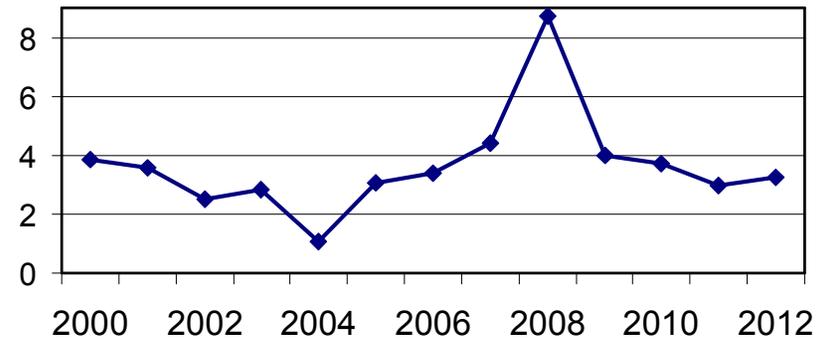
- Chile's Economy is well positioned to weather the current crisis:
  - Low level of public debt (below 5% of GDP),
  - US\$ 50 billion in sovereign wealth funds and foreign reserves
  - Countercyclical fiscal policy and prudent monetary policy
  - Financial system with minimal exposure to global credit crisis
- The global financial crisis has put downward pressure on the peso's exchange rate, mainly through less favorable terms of trade.
- The Chilean economy should resume a higher growth rate in 2010 as local demand and exports recover from the crisis.
- Annual inflation will converge to the 2-4% target zone by mid-2009

# Chile Outlook Summary

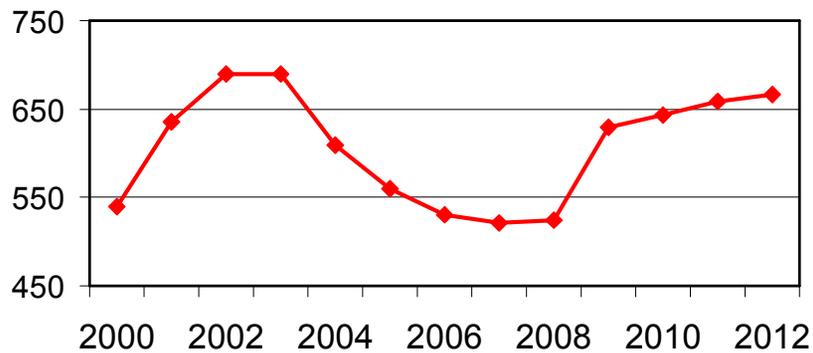
## Real GDP Growth (%)



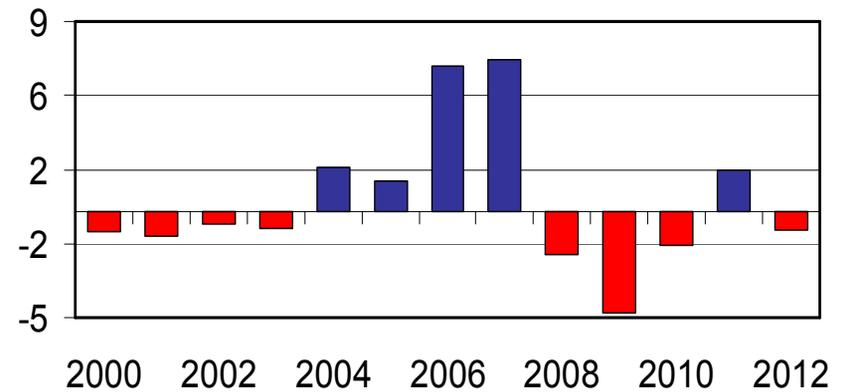
## Consumer Price Inflation (%)



## Exchange Rate per US\$\*



## Current Account Balance\*\*



\*Annual average, \*\*Billions of U.S. dollars

# Chile's Real Economic Growth by Sector

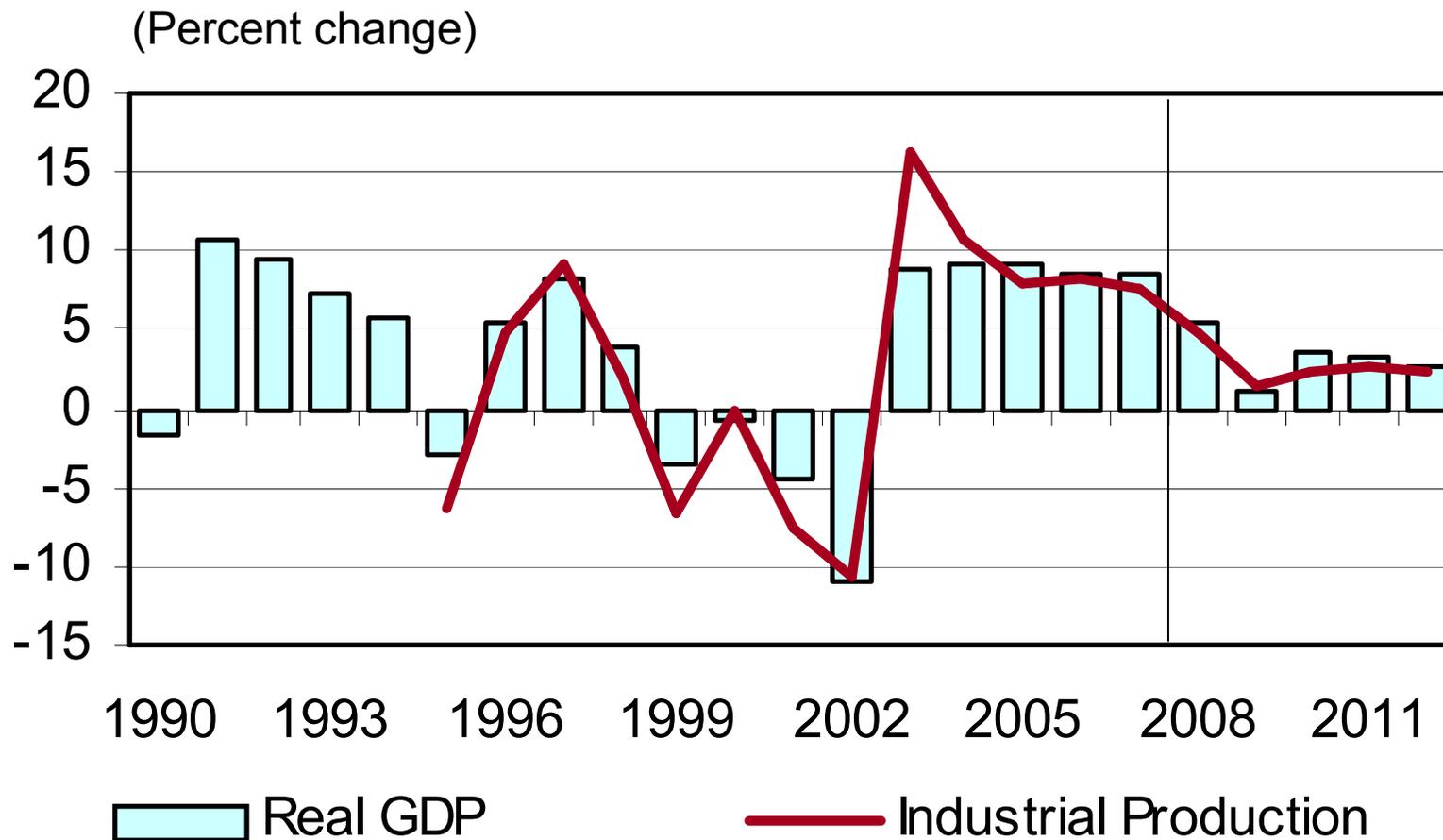
(Percent change)

	2007	2008	2009	2010
Real GDP	5.1	3.7	2.4	4.6
Private Consumption	7.7	5.6	2.3	6.3
Fixed Investment	11.8	19.1	0.5	8.8
Government Consumption	5.8	5.3	5.6	5.1
Exports	7.7	1.3	0.2	7.4
Imports	14.3	15.1	2.4	6.7

# Argentina's Economy Faces Local and External Shocks

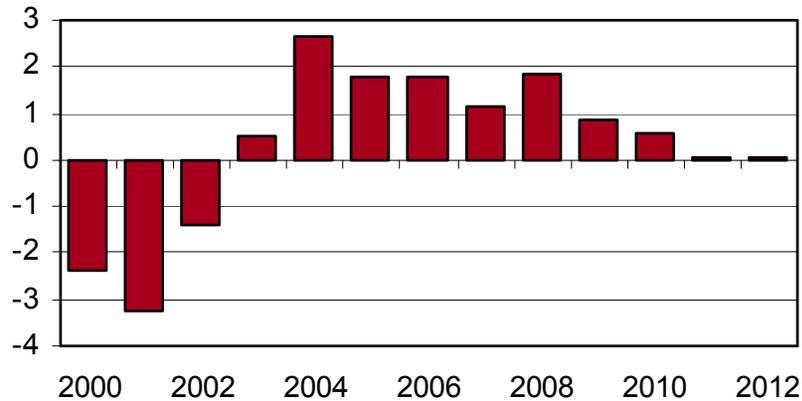
- Lower commodity prices will test external and public accounts
- Severe drought is affecting the agriculture sector
- Debt service secured in 2009 thanks to retirement funds
- Manipulation of inflation statistics continues, but inflation is decelerating
- Fiscal balances continues to deteriorate. 2009 is an electoral year
- Deteriorating consumer confidence will contain household expenditure

# Argentina: Surviving the 8-year economic cycle

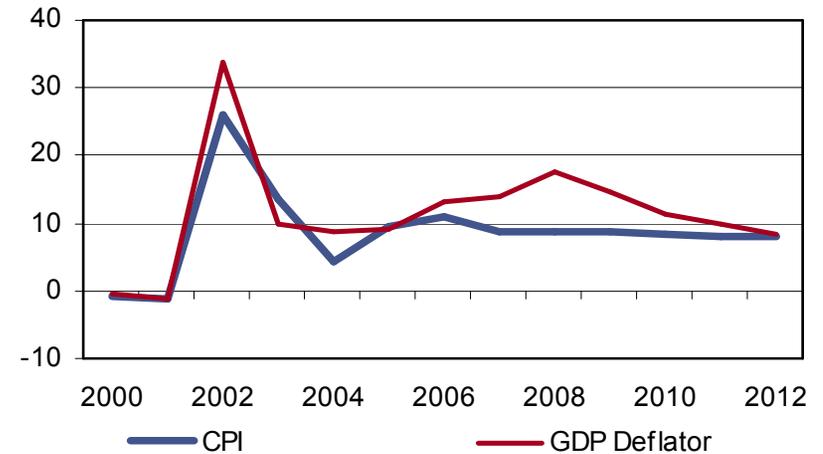


# Argentina Outlook Summary

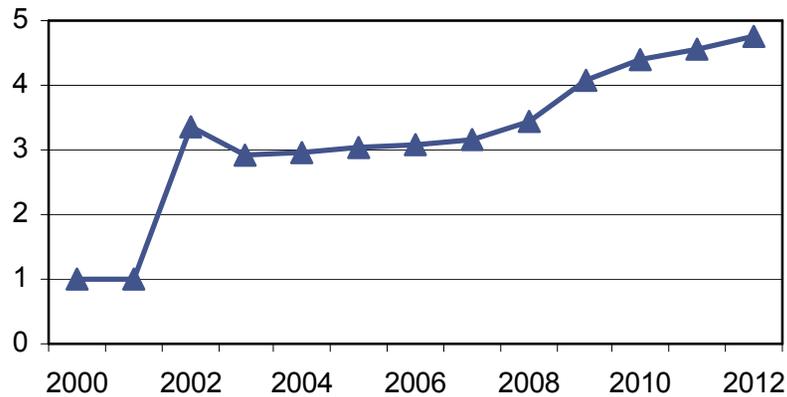
## Fiscal Balance\*



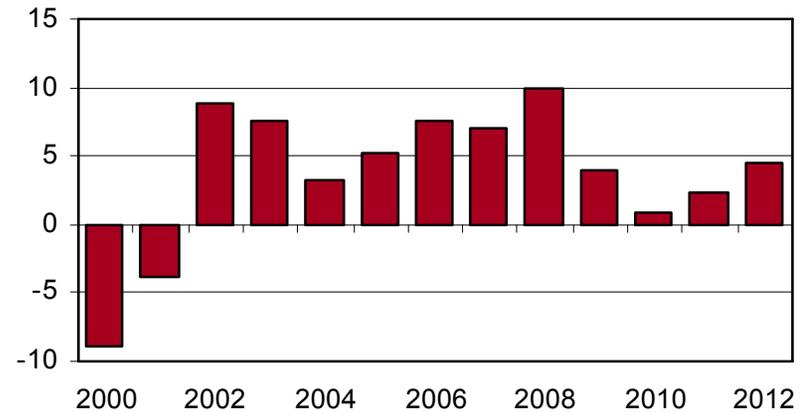
## Inflation (%)



## Exchange Rate per US\$\*\*



## Current Account Balance\*\*\*



\*As % of GDP. \*\*End of period, \*\*\*Billions of U.S. dollars

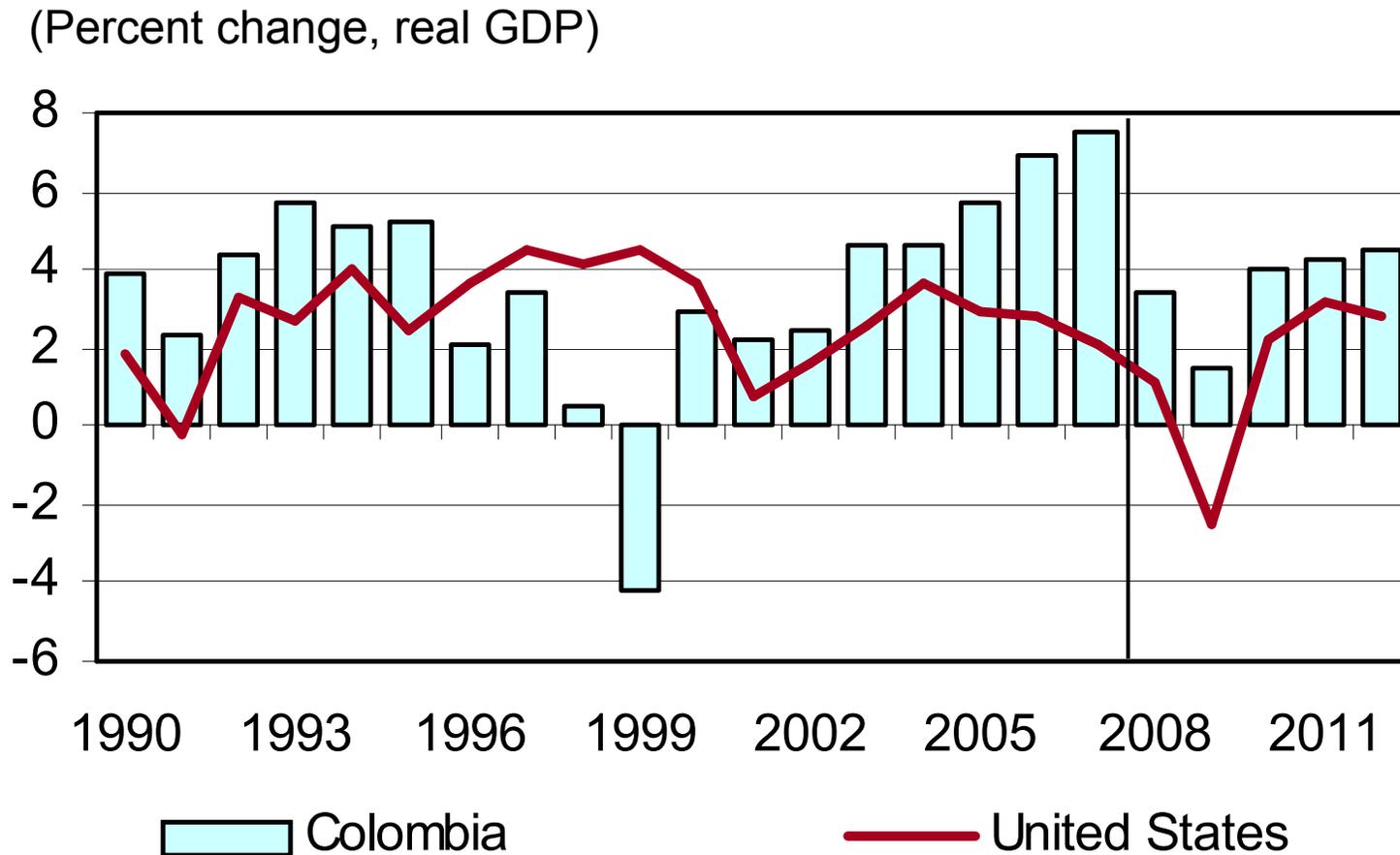
# Argentina's Real Economic Growth by Sector

	2007	2008	2009	2010
Real GDP	8.6	5.6	1.0	3.6
Private Consumption	9.0	6.8	2.1	2.8
Fixed Investment	13.7	11.7	4.0	6.2
Government Consumption	7.6	7.4	3.4	3.2
Exports	9.1	5.0	-4.5	3.0
Imports	20.5	17.4	-3.3	5.8

# Colombia's Private Sector will Drag Economic Growth

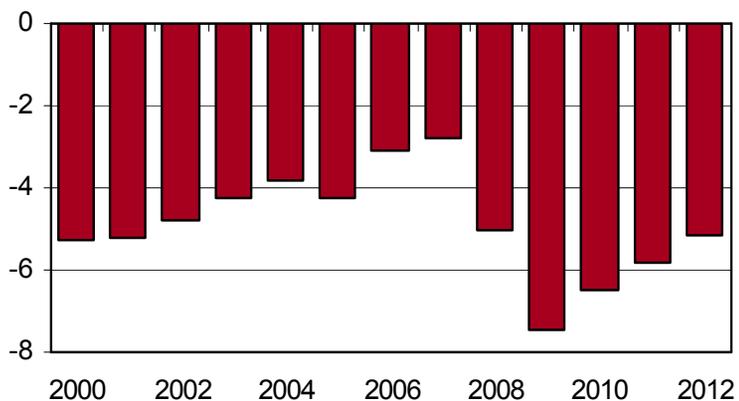
- Monetary easing started rather late due to inflation resilience
- Limited maneuver space for fiscal expansion. The government is, in fact, cutting expenditures.
- Exporters are recovering some competitiveness thanks to a weaker peso
- Increasing unemployment and ponzi-schemes recently discovered affect consumer confidence
- Lower FDI will make it difficult to finance the current account deficit

# A Downturn in Colombia's Economy

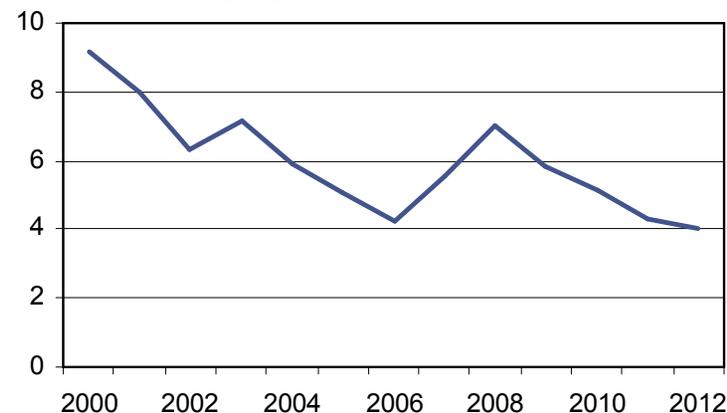


# Colombia Outlook Summary

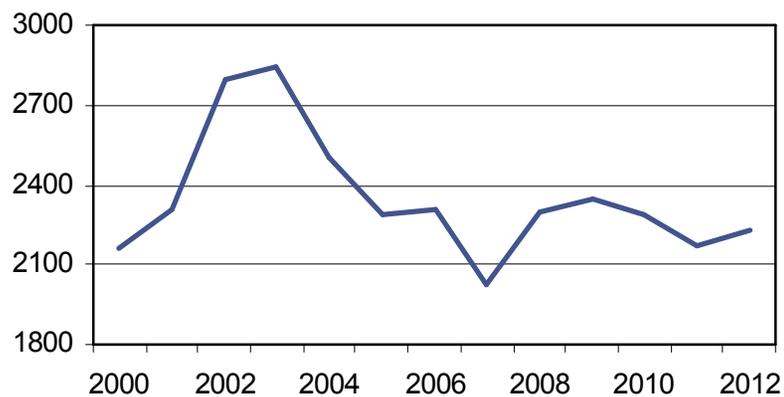
## Fiscal Balance\*



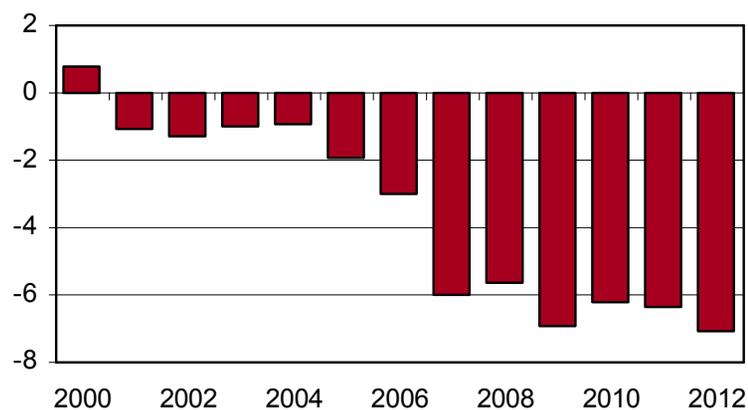
## Inflation (%)



## Exchange Rate per US\$\*\*



## Current Account Balance\*\*\*

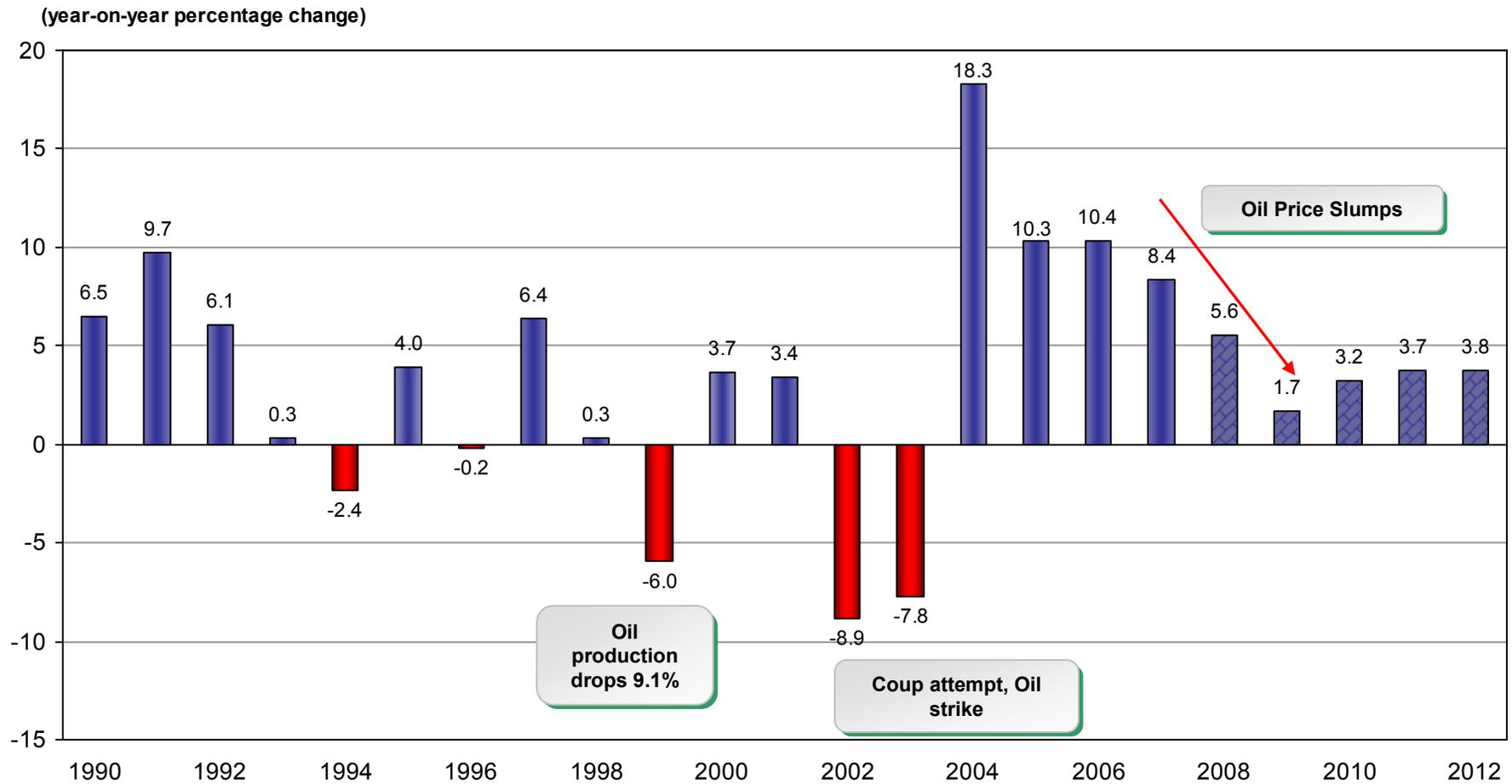


\*As % of GDP. \*\*End of period, \*\*\*Billions of U.S. dollars

# Colombia's Real Economic Growth by Sector

	2007	2008	2009	2010
Real GDP	7.6	3.5	1.5	4.0
Private Consumption	7.6	2.7	1.1	3.4
Fixed Investment	15.1	10.4	7.0	9.5
Government Consumption	4.5	2.2	2.7	3.1
Exports	11.4	5.5	0.0	6.6
Imports	13.9	8.0	1.4	7.3

# Venezuela and the Oil Bust



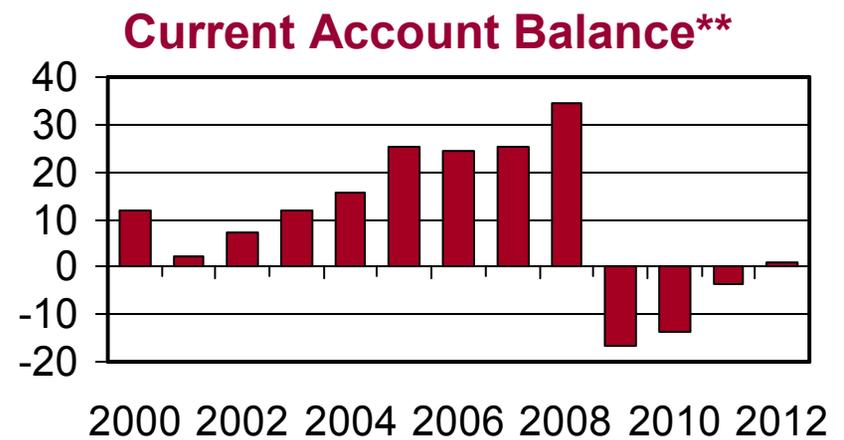
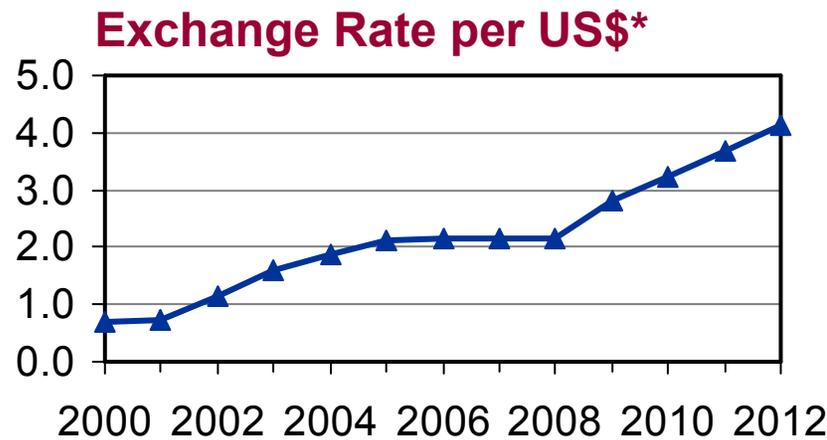
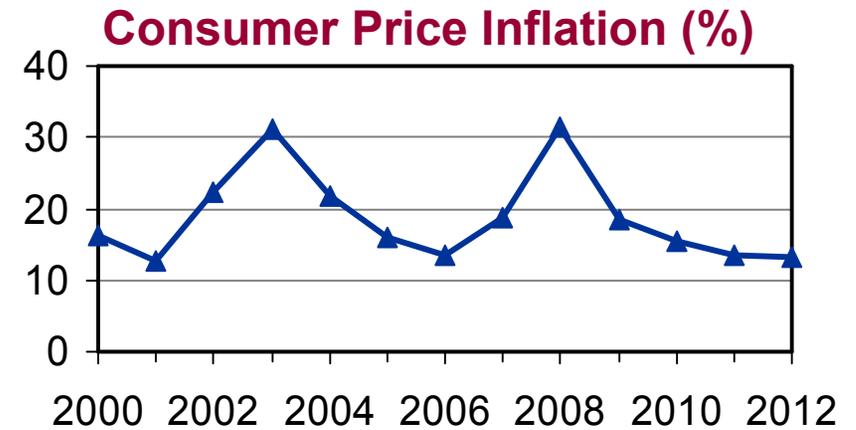
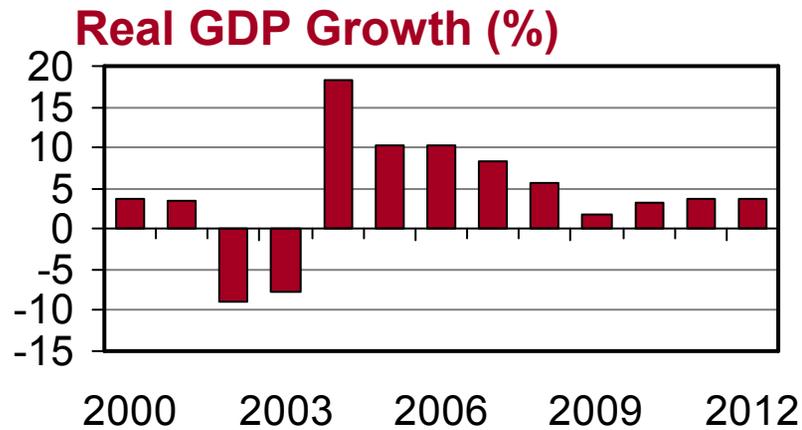
# Overdependence on Oil and Macroeconomic Mismanagement

- **Chavez will redirect resources towards the domestic economy, Petro-Diplomacy will take a back seat during the oil price slump.**
- **New taxes and VAT tax rate raises already in the pipe.**
- **Risk of Devaluation of local currency, 35%-45% in 2009**
- **Inflation is still a problem.**
- **Myopic Short-Term Planning => Market Distortions:**
  - **Price Controls on Food Items and Essentials**
  - **Foreign Exchange Controls, inefficiencies in the system**
  - **Capital Controls**
  - **Arbitrary Import Quotas, Higher Tariffs, on Selected Items**
  - **Import Subsidies on Food Items**

# Show me the Money

<b>2009 Fiscal Budget</b>		<b>US\$59.4 billion</b>	<b>Venezuela's <u>Net Public Sector Assets</u> (as of January 2009)</b>		<b>US\$83.1 billion</b>
IHS Global Insight's Estimated Fiscal Revenues from Oil Sector (WTI price of US\$37 per barrel)		US\$22.9 billion	International Reserves	US\$28.7 billion	
New Debt to issue, approved in budget		US\$5.7 billion	FEM (Macroeconomic Stabilization Fund)	US\$0.8 billion	
<b>Revenues needed from the rest of the economy</b>		<b>US\$30.8 billion</b>	Fonden (Development Fund, unallocated funds)	US\$16 billion	
			Accounts Receivables (credit lines to other countries/foreign enterprises)	US\$22.9 billion	
			Portfolio Investments	US\$12.3 billion	
			Deposits Abroad	US\$27.7 billion	

# Venezuela Outlook Summary



\*Annual average, \*\*Billions of U.S. dollars

# Venezuela's Real Economic Growth by Sector

(Percent change)

	2007	2008	2009	2010
Real GDP	8.4	5.6	1.6	3.2
Private Consumption	18.7	9.6	4.8	4.4
Fixed Investment	25.4	2.5	4.2	10.1
Government Consumption	5.1	6.5	4.6	-0.4
Exports	-5.6	-0.6	-3.5	2.4
Imports	33.6	5.9	4.9	8.3

# Panama

## Country Overview

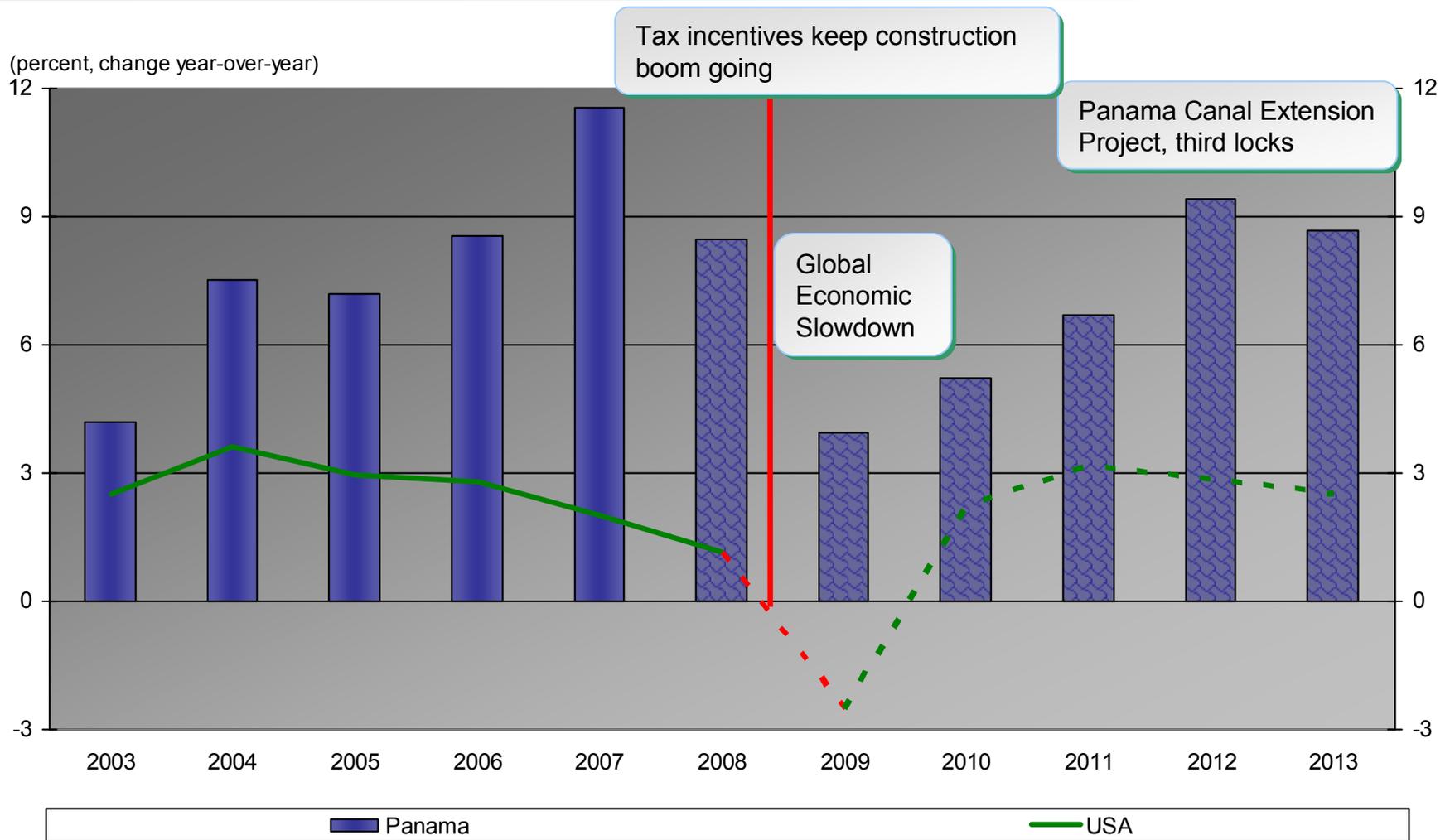


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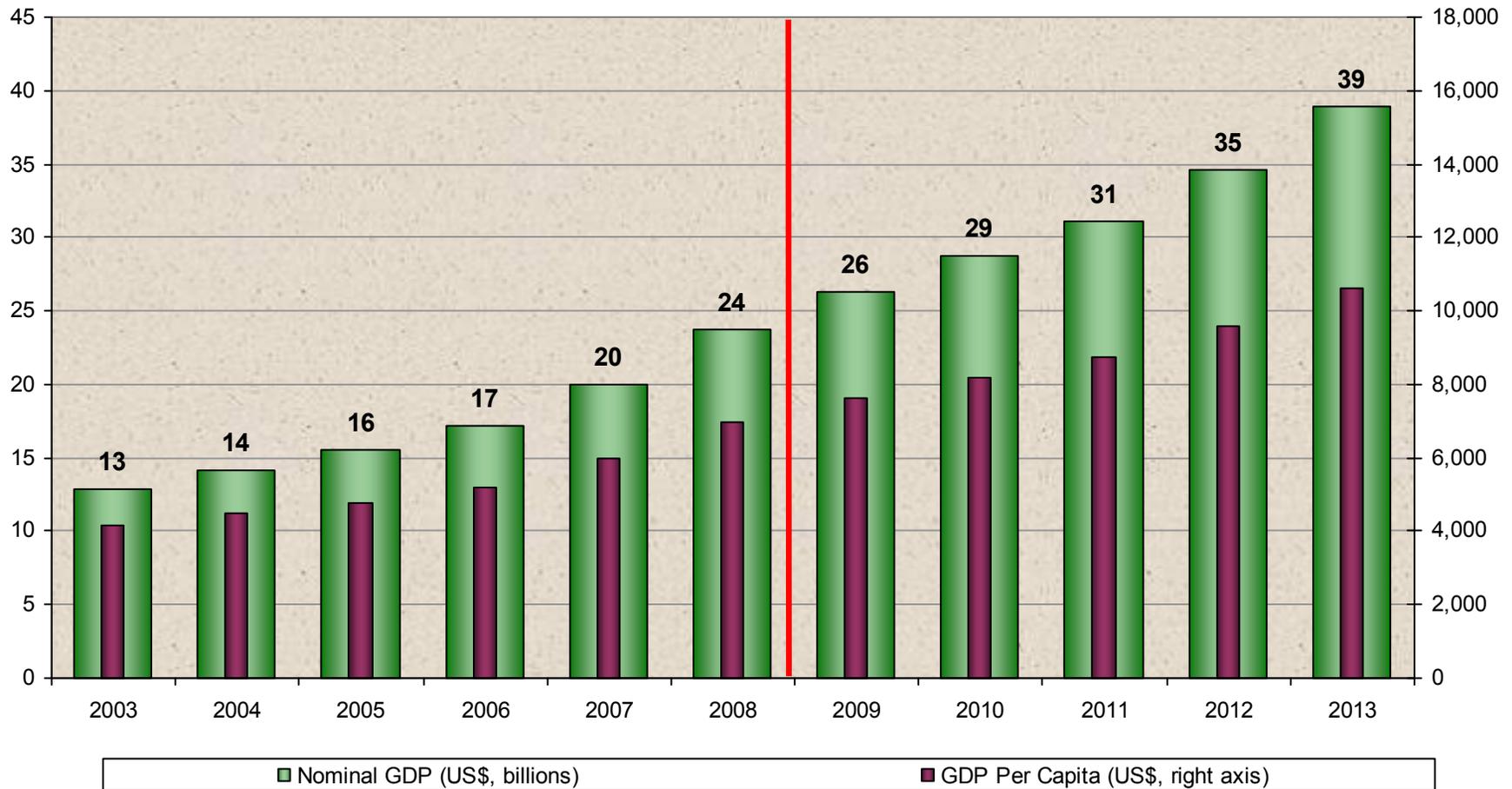
# Macroeconomic Fundamentals

- While many world economies struggle to keep afloat, Panama posted a 9.2% year-on-year GDP growth in the third quarter of 2008.
  - Construction, the Panama Canal, and the Colon Free-Trade Zone are the drivers of growth.
- The Negatives:
  - The global trade slowdown expected for 2009 will affect two of the main drivers of growth. Exports to the United States account for 34% of the total.
  - They artificially fuel the construction boom, but will also raise the risk of a real estate bubble burst in Panama
- The Positives:
  - Panama's authorities and the Panama Canal authority have secured more than 50% of the funds needed to build the Canal's expansion project.
  - Panama's on-course fiscal performance should help the country in building a good reputation on the external markets and gain access to external financing.

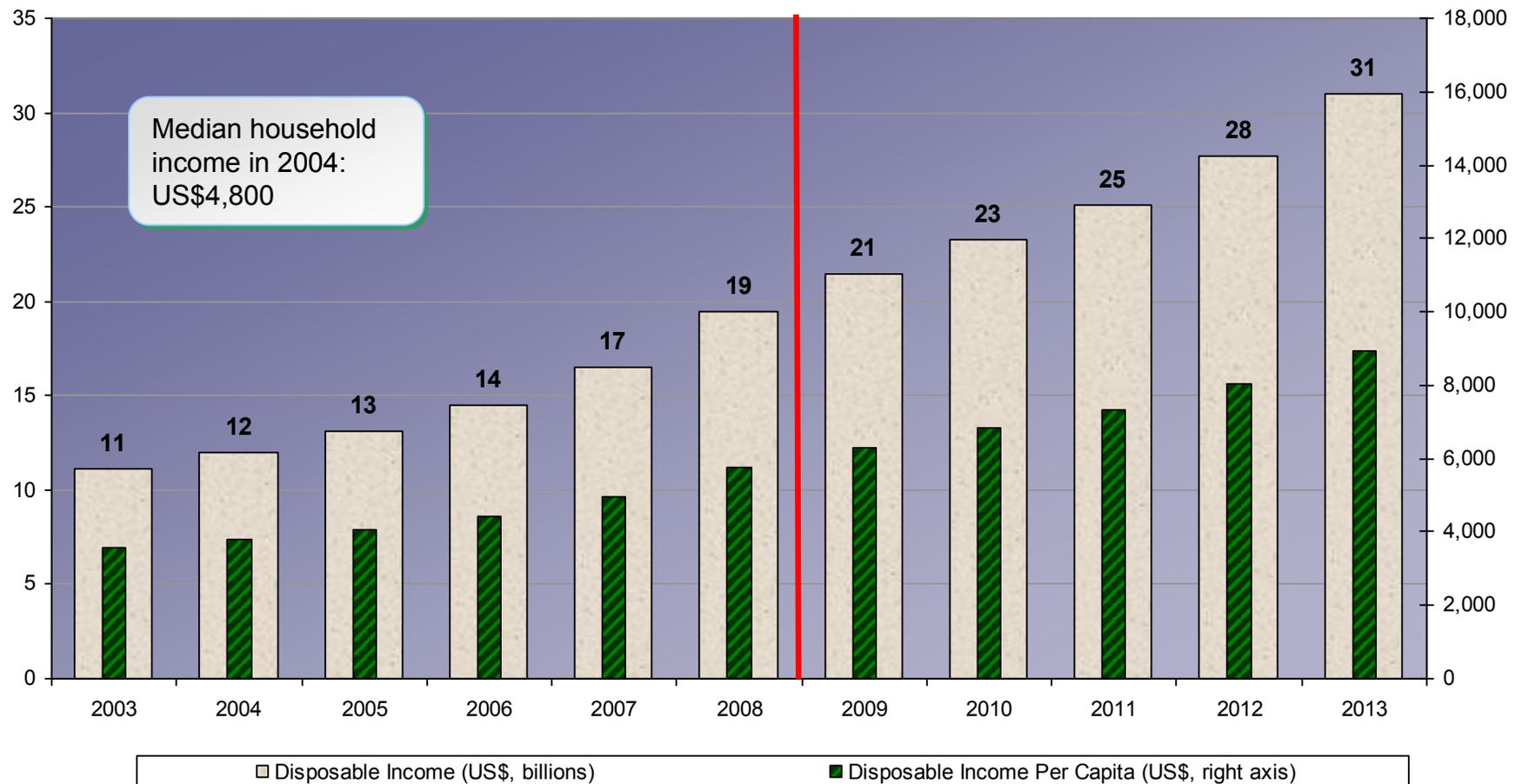
# Sluggish Economic Growth in 2009



# Strong Growth in GDP per Capita

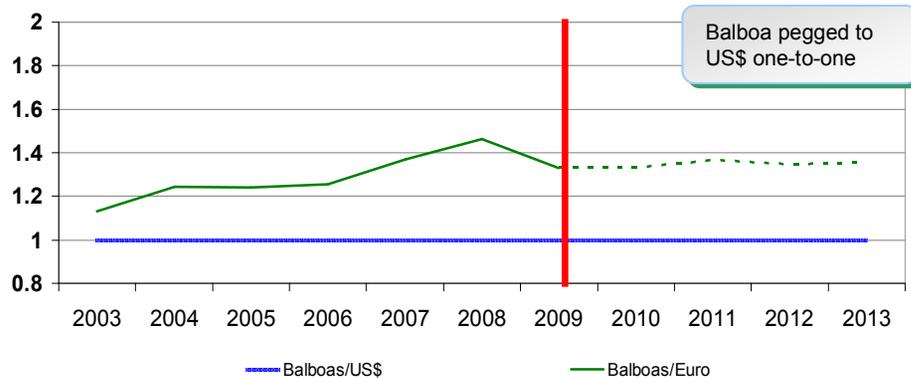


# More Moderate Growth in Disposable Income

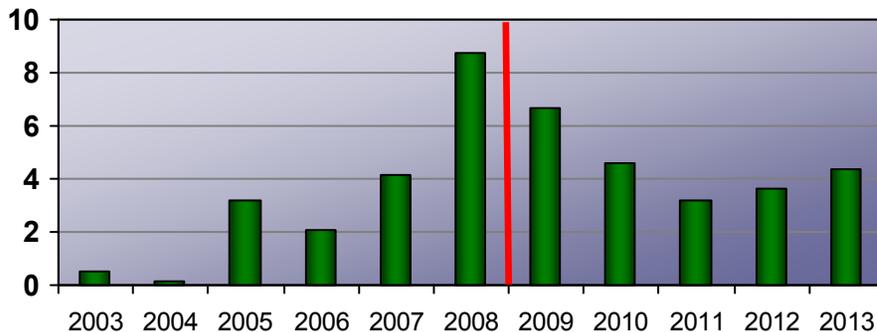


# Stable Local Currency

Annual Average Exchange Rate



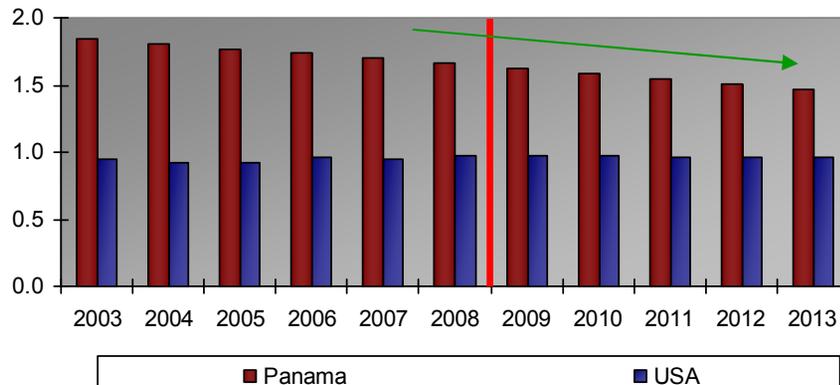
Annual Inflation Rate  
(percentage)



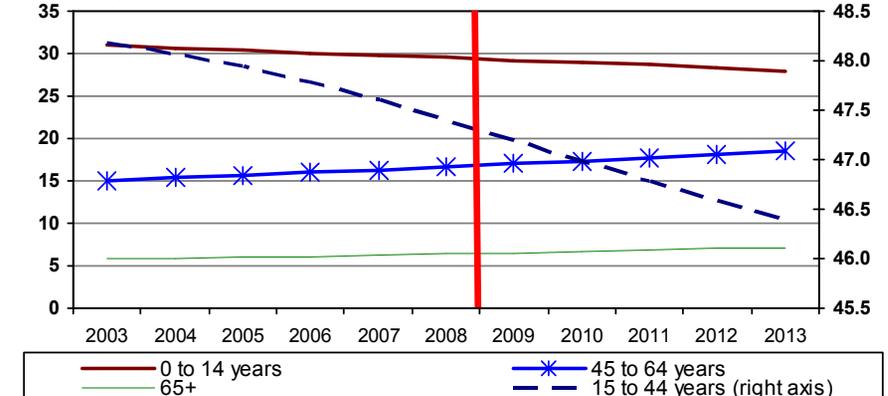
- Local currency pegged to the U.S. dollar is a double-edge sword.
- The annual inflation rate should reflect the impact of strong economic growth in the last stage of the Canal extension program.

# Population Growth is Decelerating

**Population Growth Rate**  
(percentage)



**Distribution of Population by Age Bracket**  
(percentage)



- Total population estimated at 3.3 million in 2007
  - 49.6% Female
- Aging population
  - Share of individuals aged 14 to 44 drops from 48.1% in 2003 to 46.4% in 2013
  - Share of individuals aged 45 to 64 increases from 15.1% in 2003 to 18.5% in 2013
- Increasing participation rate in the labor force, declining unemployment rate, declining share of employment in the informal sector

# Retail and Consumption

- Nominal Value-Added Retail Sector (NIA): US\$489.3 in 2003 and US\$729.3 million in 2007
- Private Consumption in Food and Beverages: US\$3.8 billion in 2007
- Imports of Consumption Goods: US\$2.6 billion in 2007, of which US\$734 million were non-durable goods and estimated to have been US\$1 billion in 2008
- Consumer confidence index indicates positive outlook in the next 12 months.
  - Positive outlook at household and country level

# A Comparison of Key Emerging Markets in 2007

	GDP (\$Billions)	Population (Millions)	GDP per Capita (\$)	Real GDP Growth (%)
China	3,281	1,321	2,483	11.9
India	1,140	1,169	975	9.0
Brazil	1,313	192	6,847	5.4
Mexico	1,023	105	9,720	3.2
Russia	1,288	142	9,037	8.1
Turkey	656	75	8,766	4.5
U.S.	13,808	303	45,595	2.0

# Bottom Line

- The global recession now underway will be the most severe of the postwar era
- If the financial crisis dissipates, a modest rebound in 2010 is possible, if not ...
- De-leveraging in worst-hit countries could take years
- Falling commodity prices will rebalance growth and change the terms of trade
- North American resilience and Asian dynamism will reassert themselves once the crisis has blown over

**Thank you!**

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610.490.2723



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