

Latin America: Recent Performance and main challenges

Comments to OECD's Latin American Economic Outlook 2010

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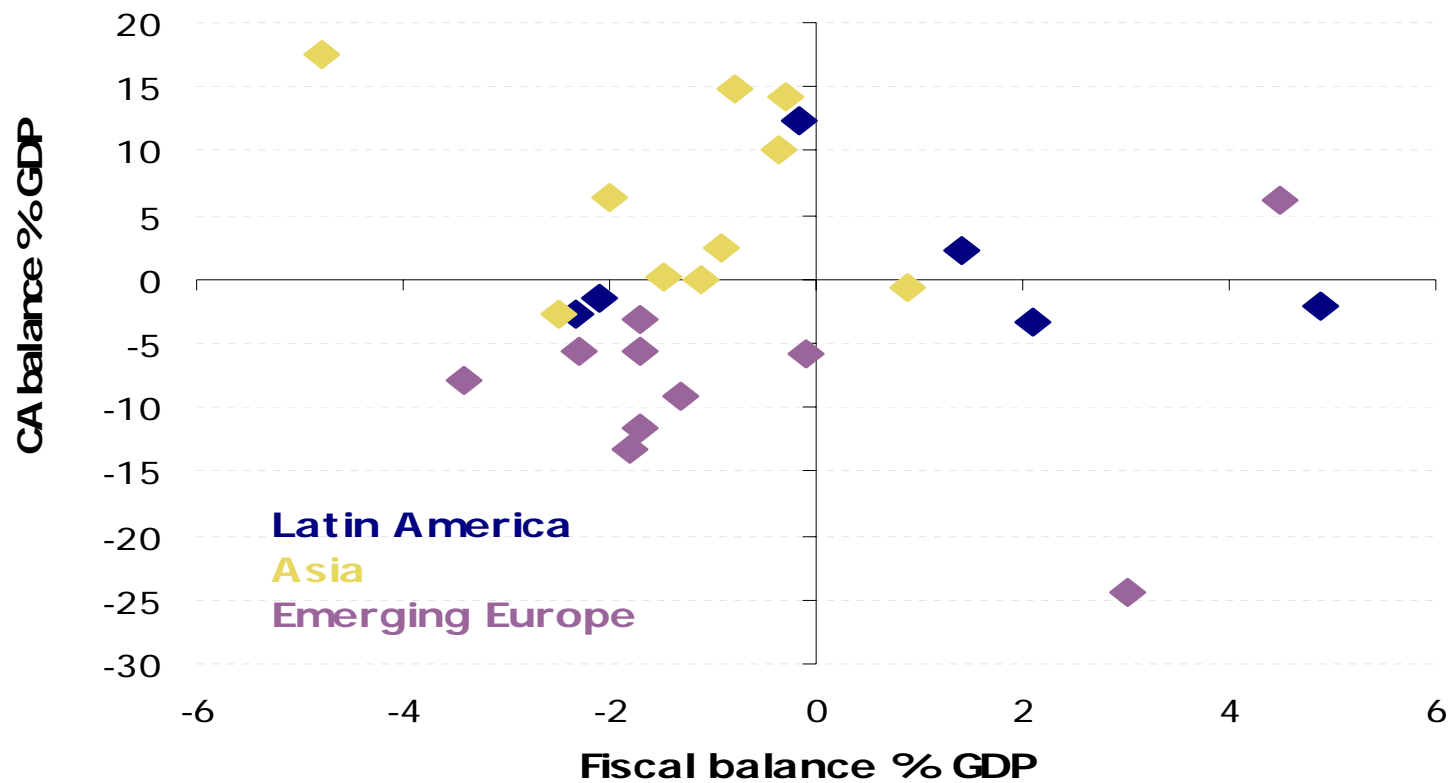
April 2010

- The economic performance of LATAM during the Global Recession is a clear break from the past, reflects the structural changes of economic reforms and will have long lasting effects on country risks ✓
- Better initial conditions – due to a good management of previous bonanza – allowed for effective counter - cyclical policies and a quick return to economic growth ✓
- Sound financial systems and effective responses by monetary authorities helped the region to resist the liquidity squeeze with no bank bailouts. ✓
- Notwithstanding the previous improvements, the region still faces substantial institutional shortcomings: education, low financial development and the business environment are among the most important. 21
- Looking forward we expect the region to resume growth, but it will have to switch from labor intensive growth to one more intensive in capital accumulation and productivity enhancement 21

- **Recent Economic Performance: a break from the past**

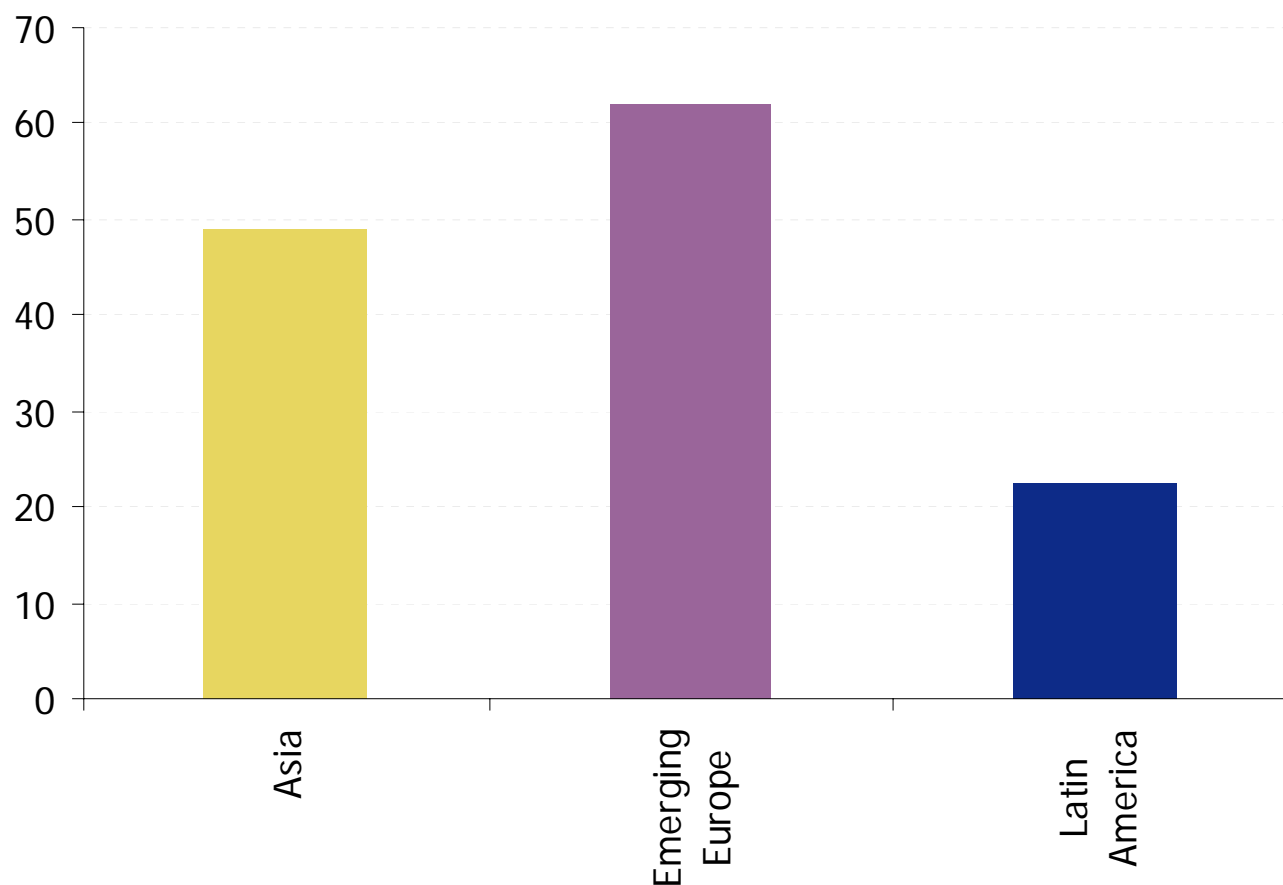
- **The Crisis: better initial conditions**
- **The Financial Sector: a break from the past**
- **Better fundamentals allowed for better policy reactions**
- **Exchange flexibility and price stability**
- **The recovery is underway**

Fiscal and CA Balance % GDP (2008)



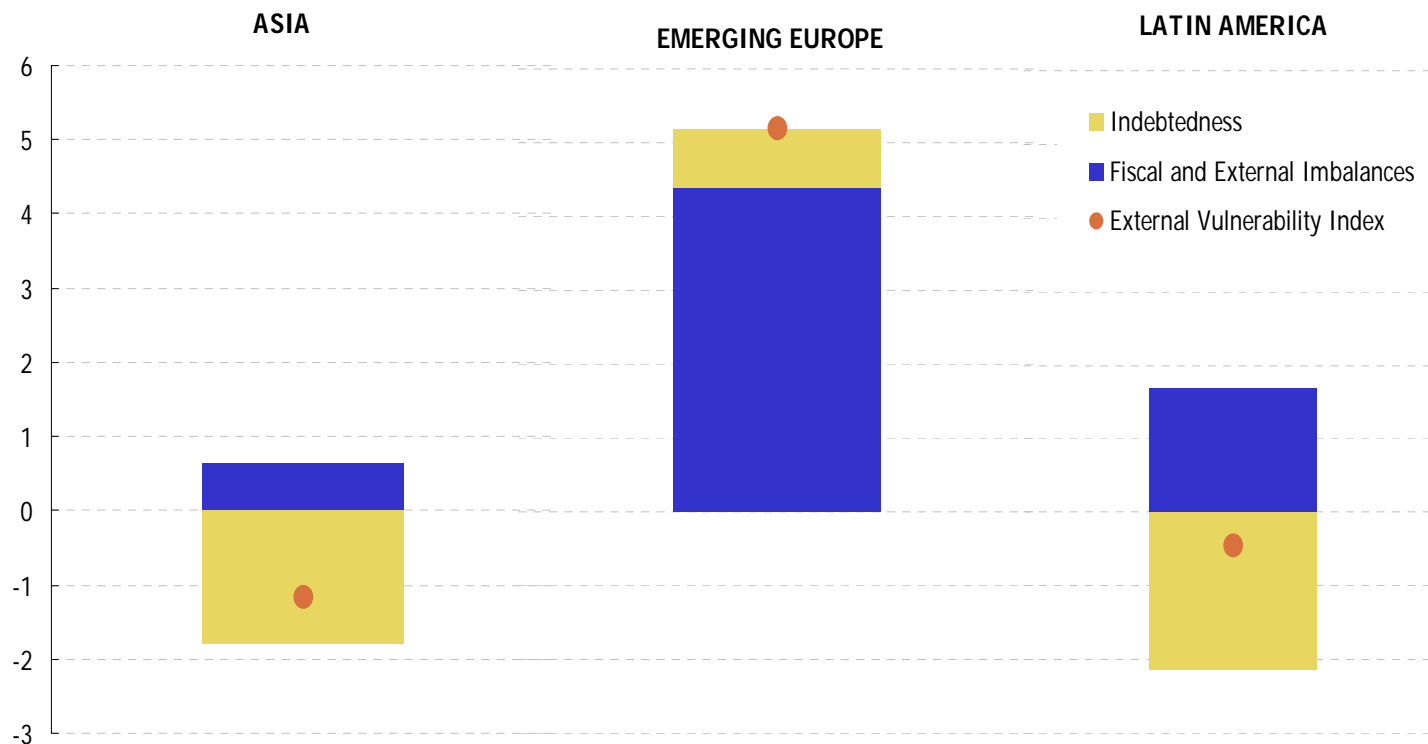
Source: WEO

Total Foreign Liabilities as % of GDP (Sep.2008)



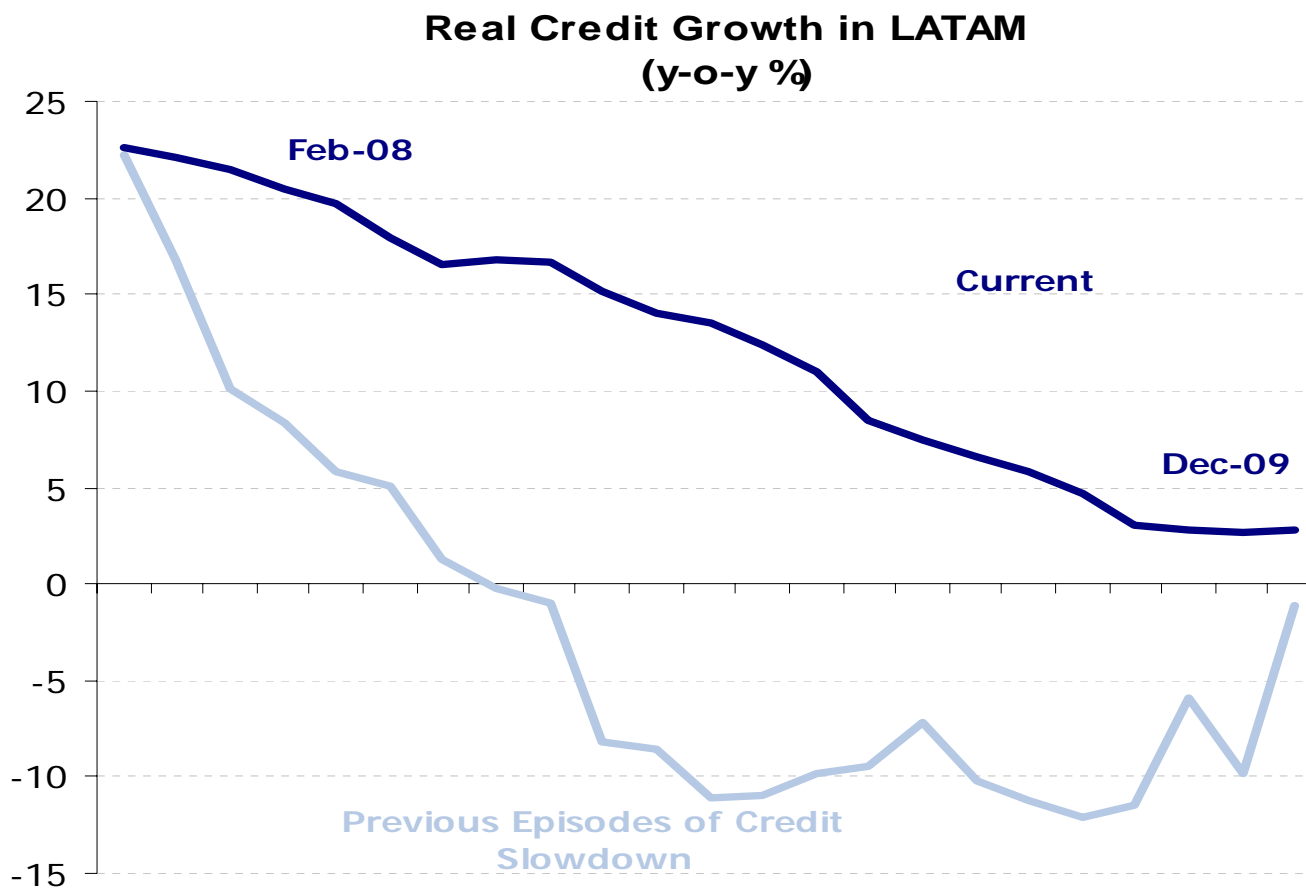
Source: BIS (Consolidated claims of reporting banks-immediate borrower basis) and BBVA.

BBVA EXTERNAL VULNERABILITY INDEX



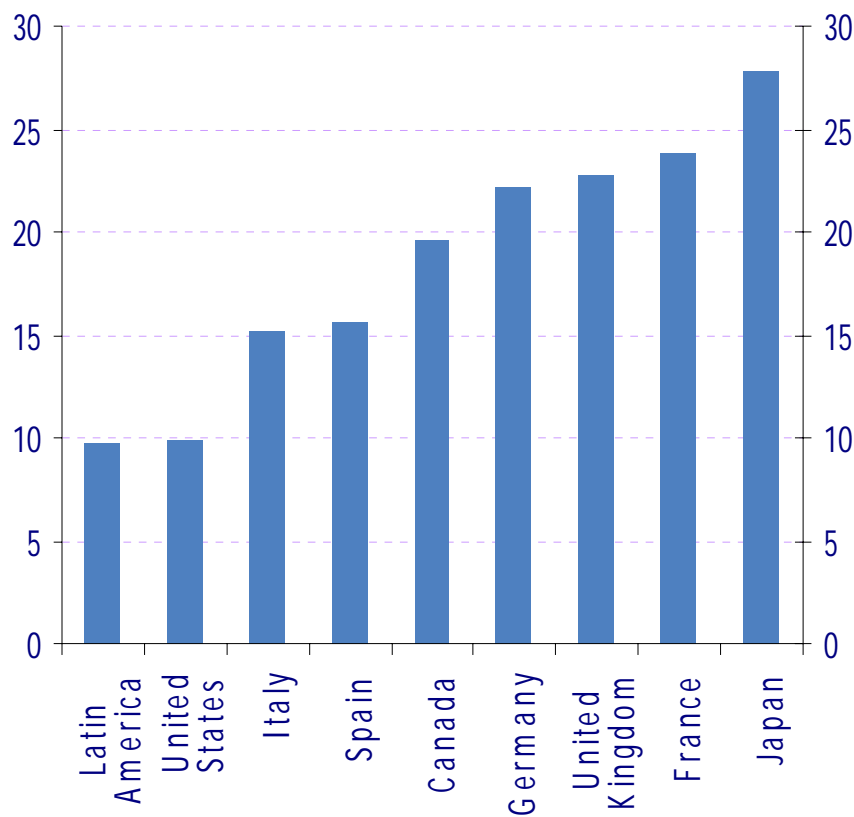
External Vulnerability Index of BBVA includes (1) **Indebtedness** (a) Debt as % of GDP (b) Growth in debt and (c) Short Term Debt as % of reserves and (2) **Fiscal and External Imbalances** (a) Current Account as % of GDP (b) Fiscal Balance as % of GDP and (c) Growth Export. Update: Dec. 2008.

The index ranges from -10 to 10, with greater values reflecting greater vulnerability.



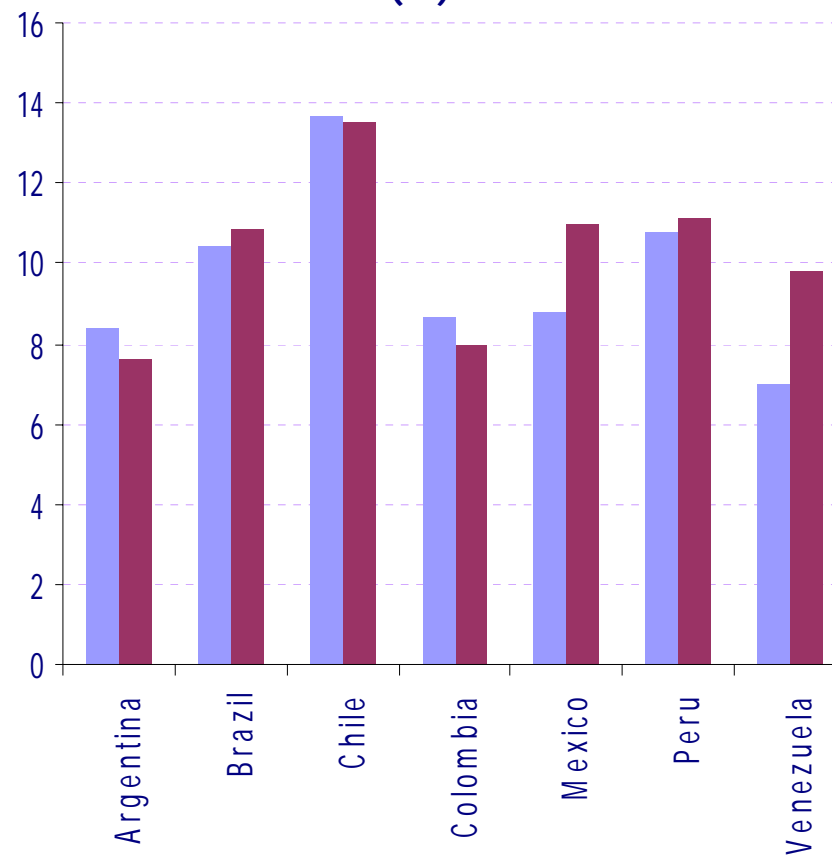
* Previous: 1994-95 (ARG, BRA, MEX), 1982-1983 (CHI), 1998-99 (COL, PER) and 1992-93 (VEN). Credit to the Private Sector. Source: IFS, BBVA

Leverage (%)



Source: GSFR

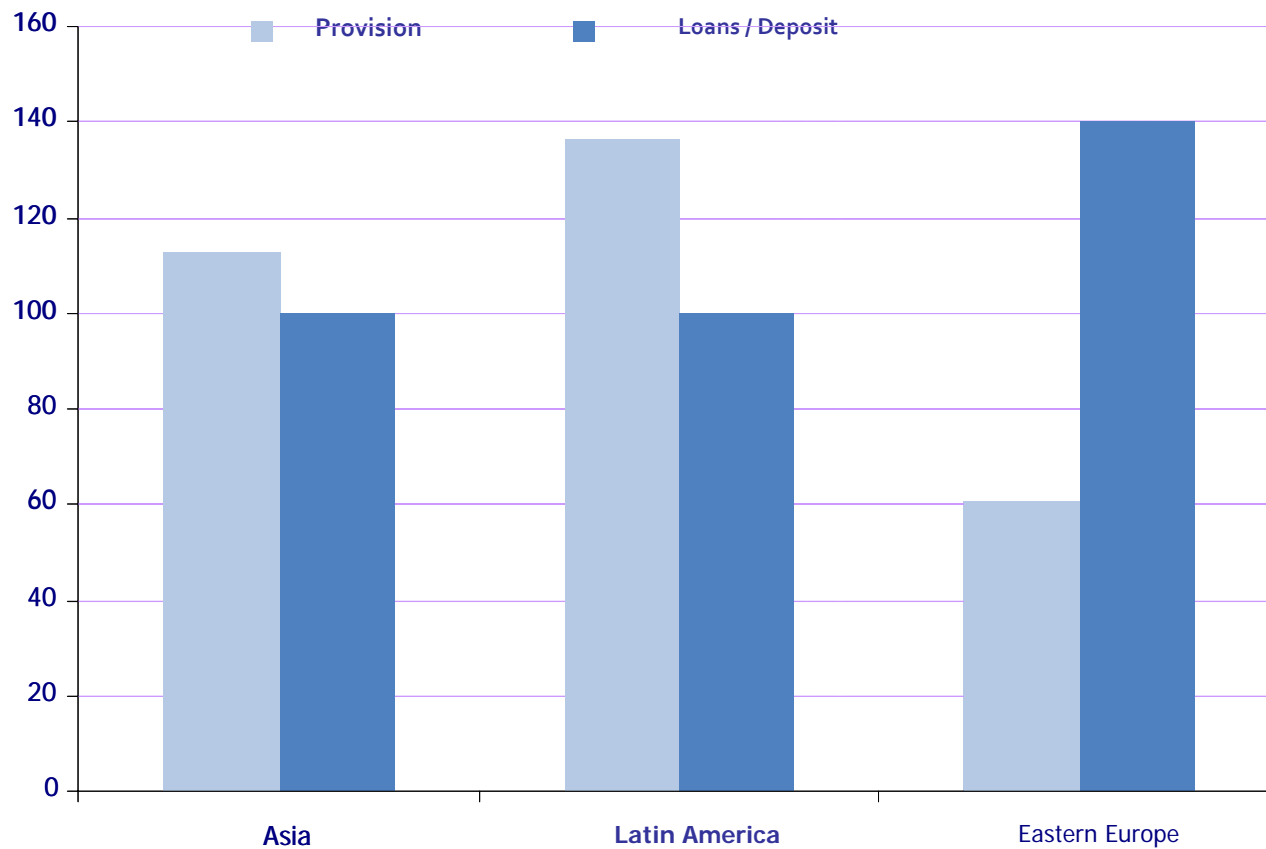
Leverage (%)



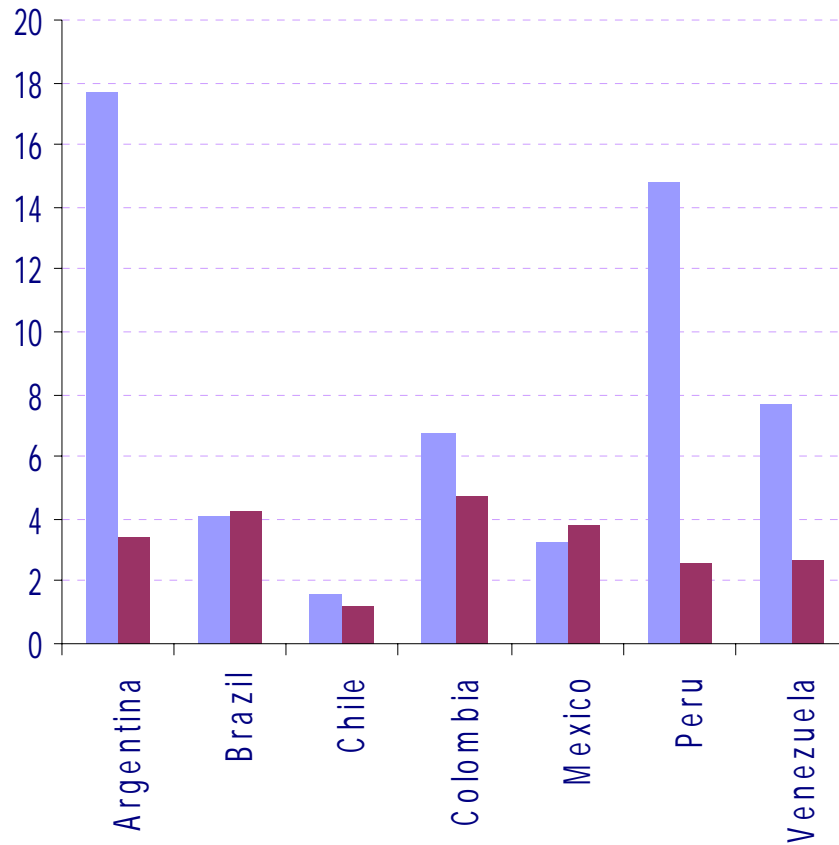
Source: GSFR

■ 2003 ■ 2009

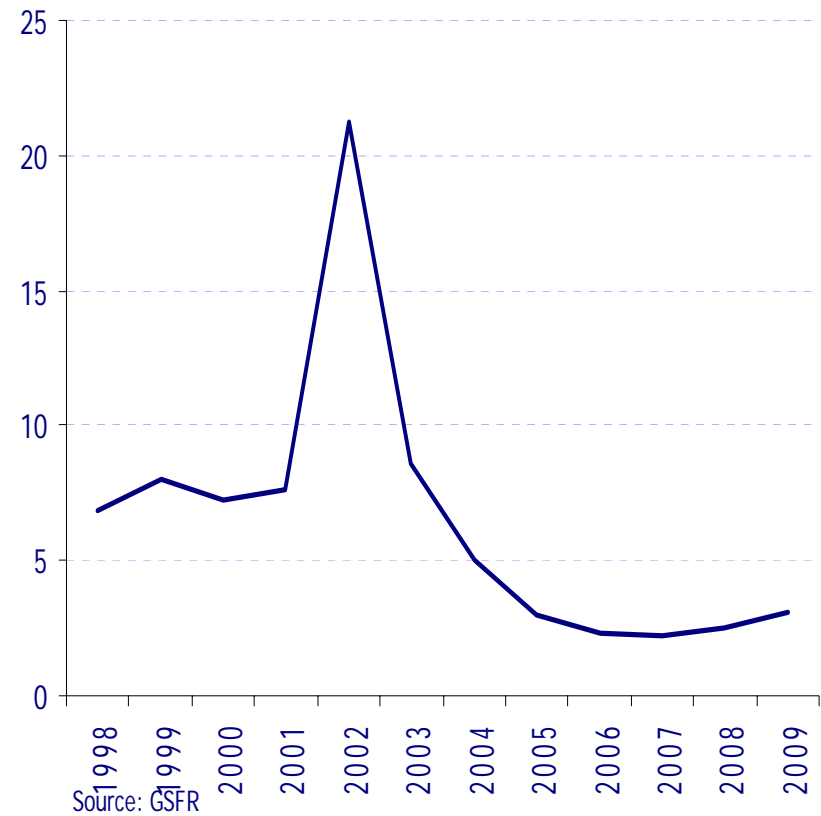
**Emerging. Banking sector
(2009)**



Non Performing Loans



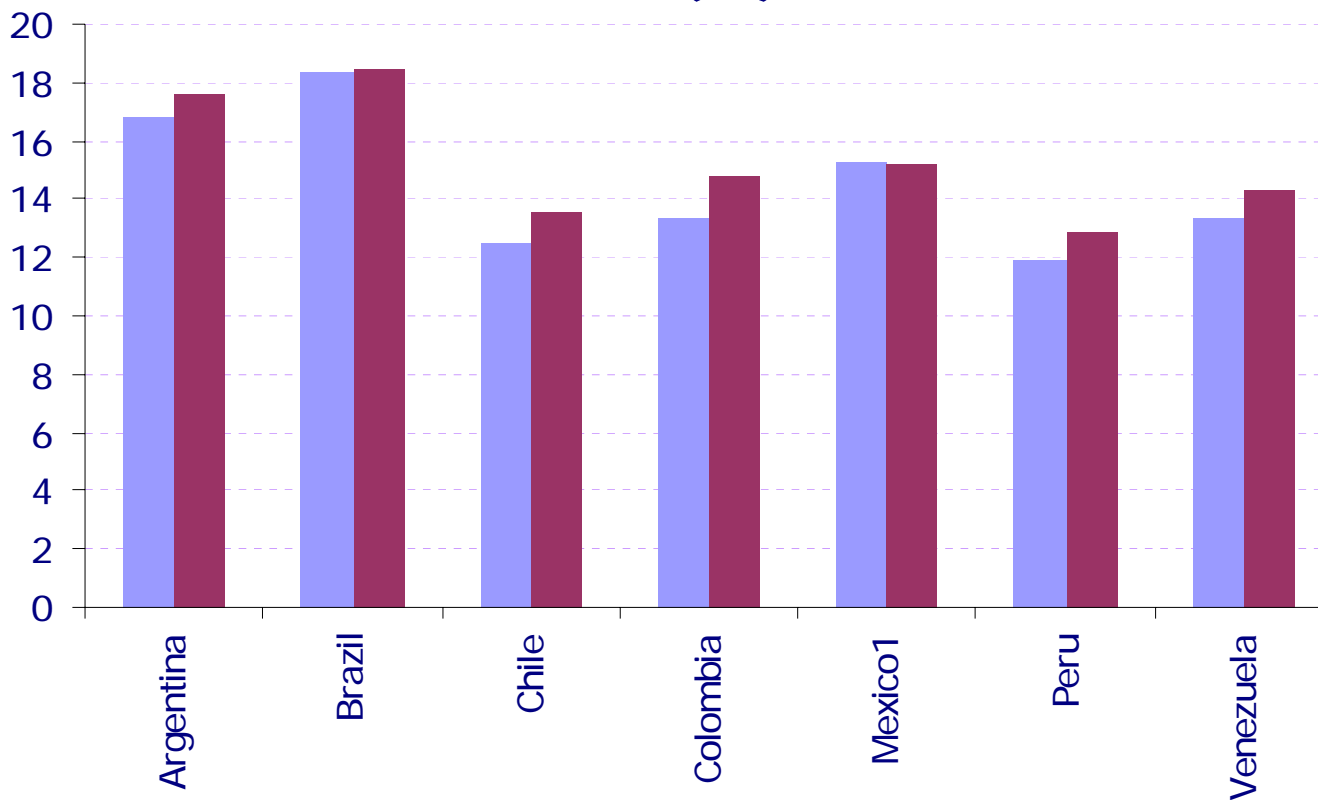
Latin America: Non Performing Loans (%)



Source: GSFR

■ 2003 ■ 2009

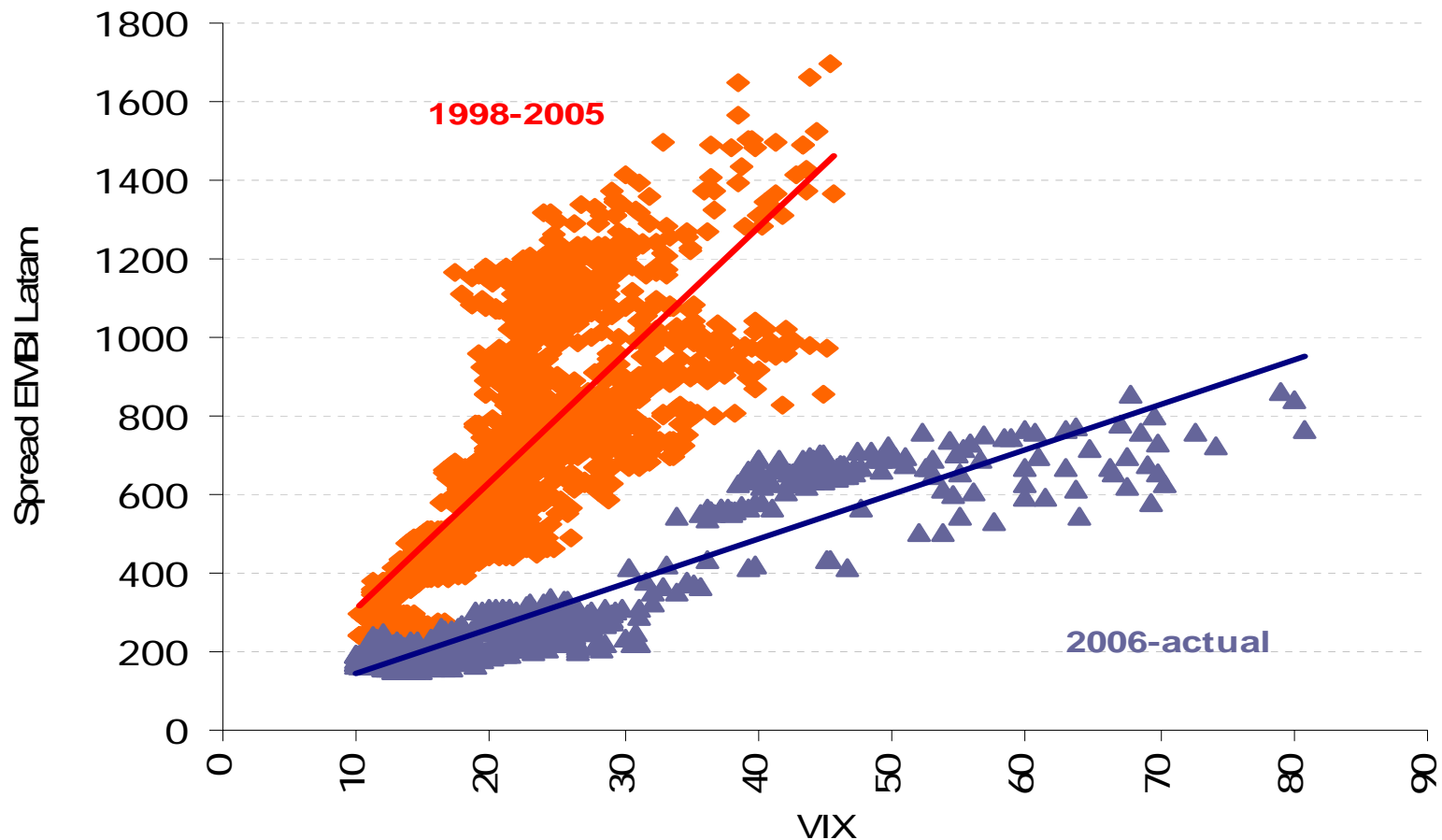
Capitalization: Before and After the Crisis (%)

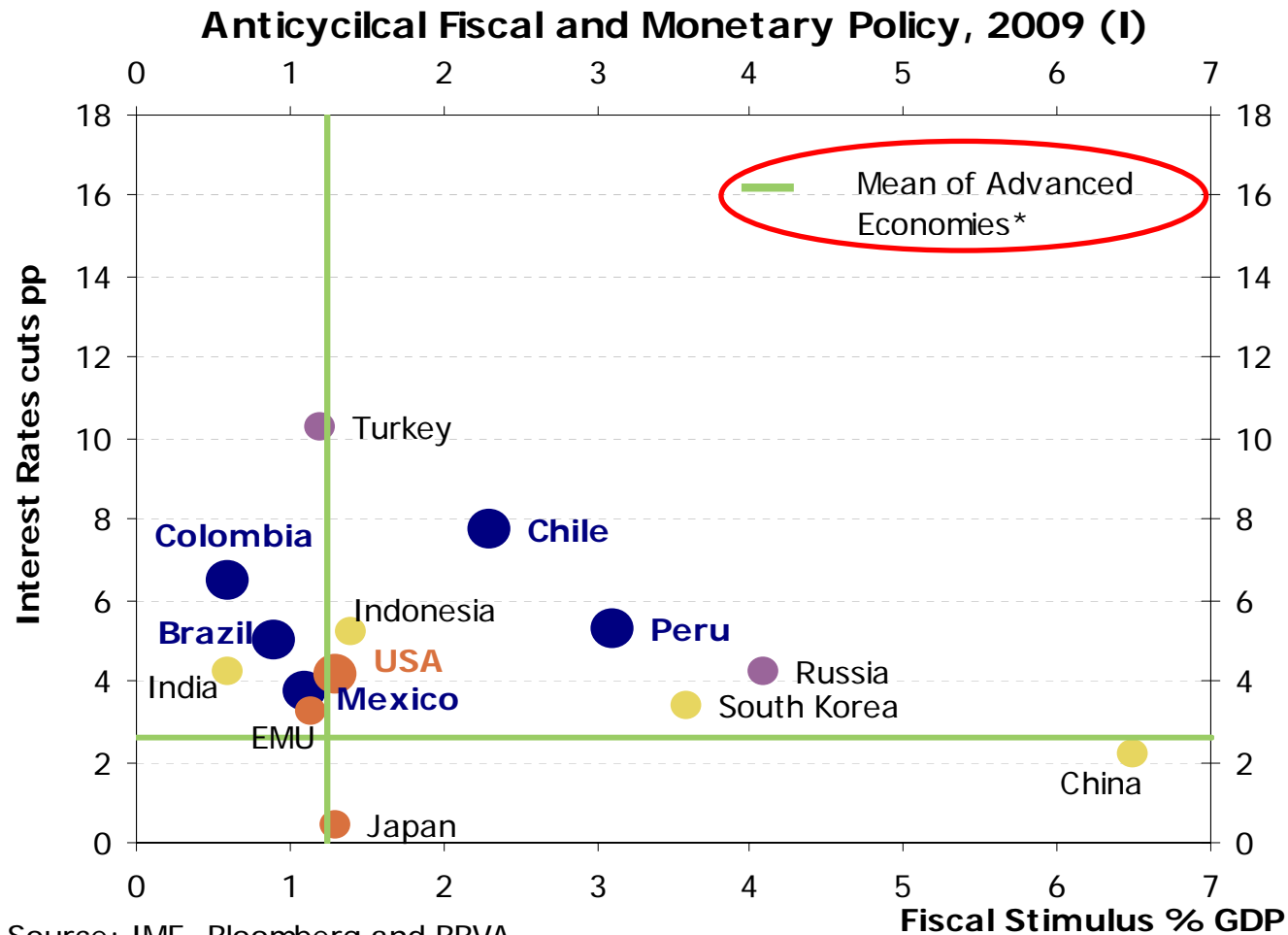


Source: GSFR

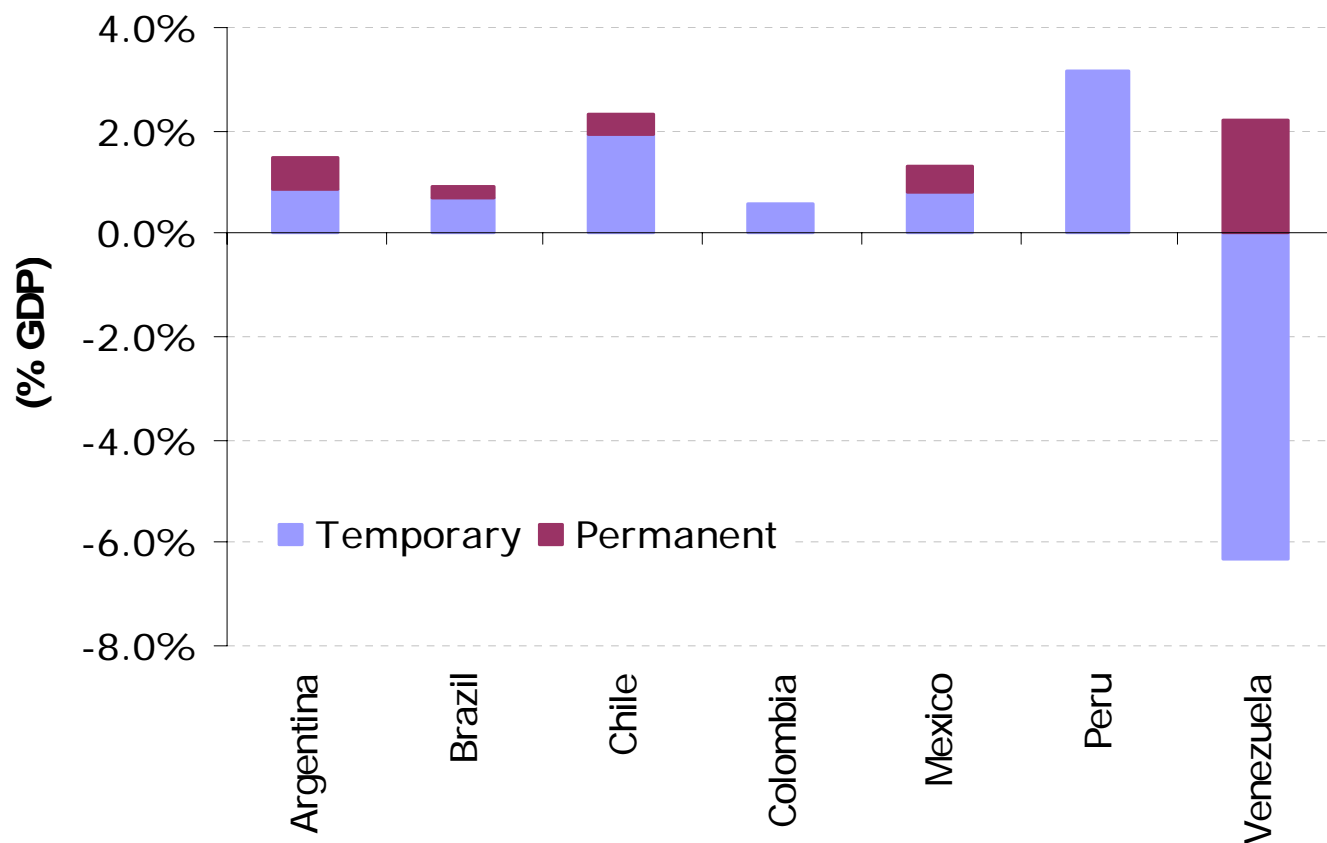
■ 2008 ■ 2009

Global Risk Aversion and EMBI +

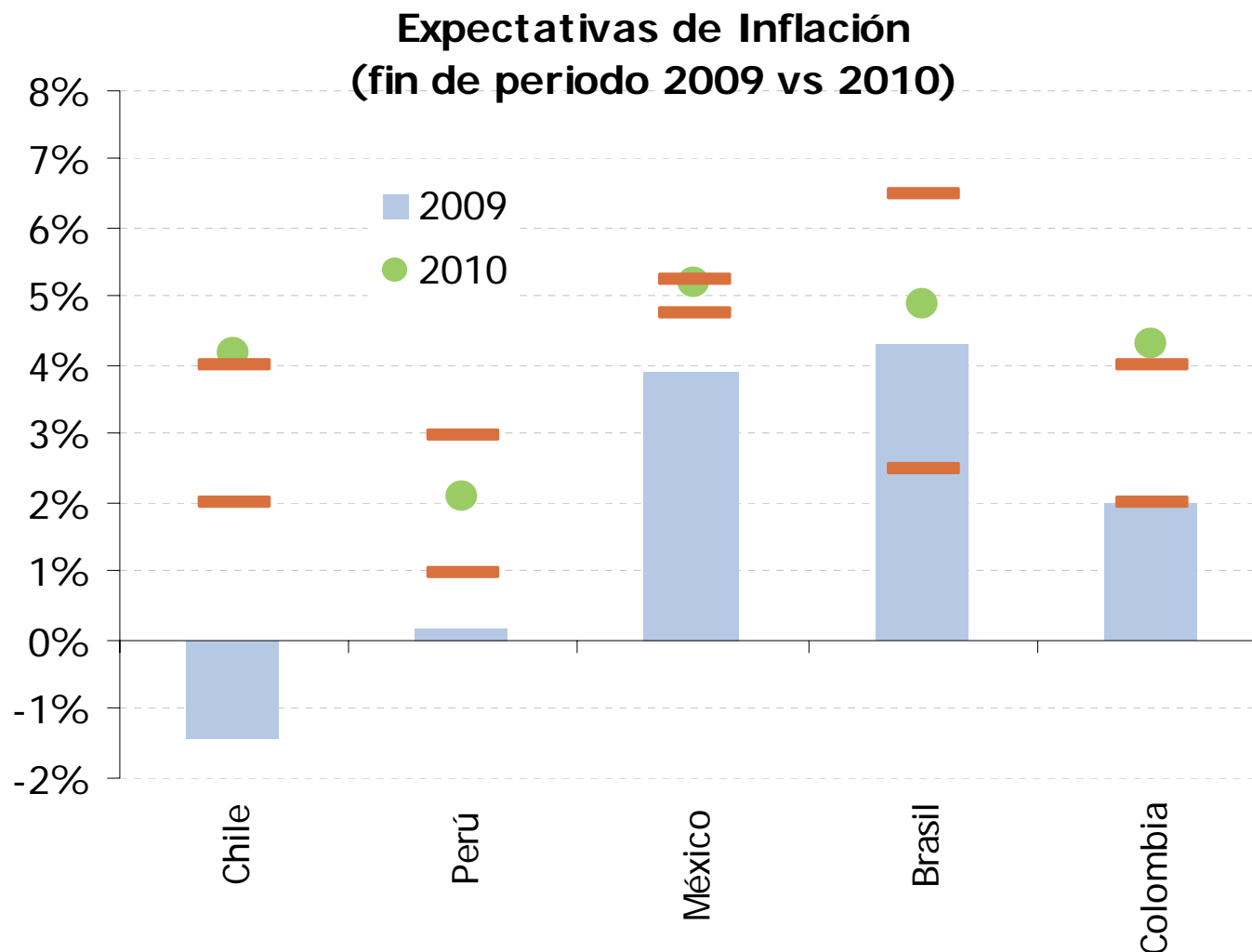




Latin America: Composition of the 2009 fiscal stimulus

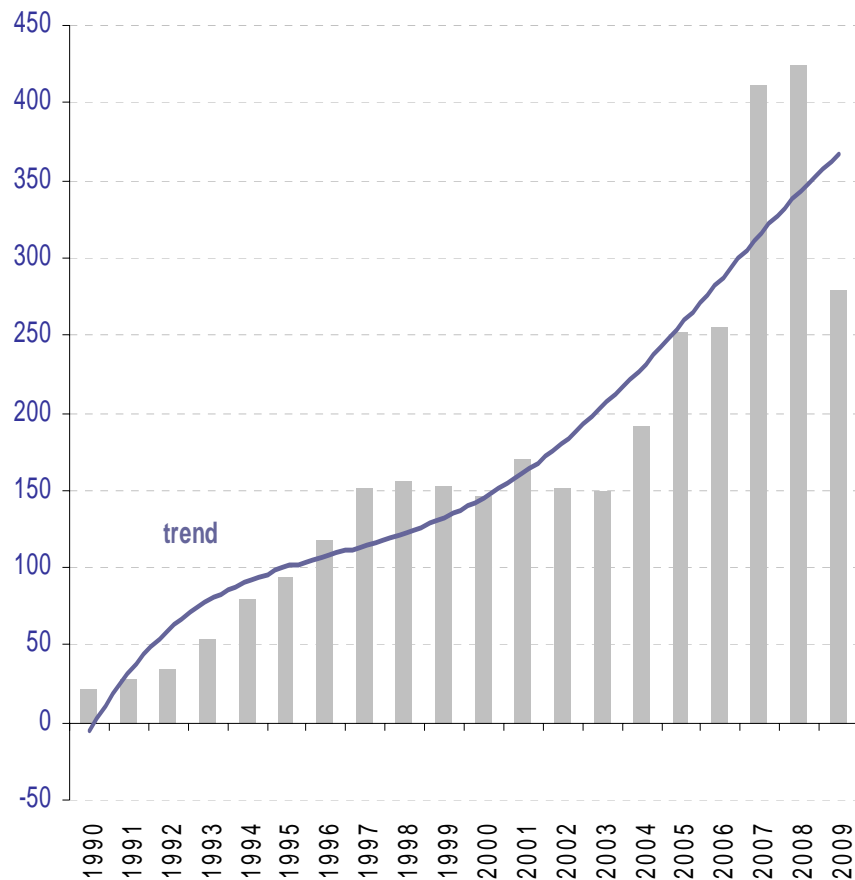


Source: BBVA

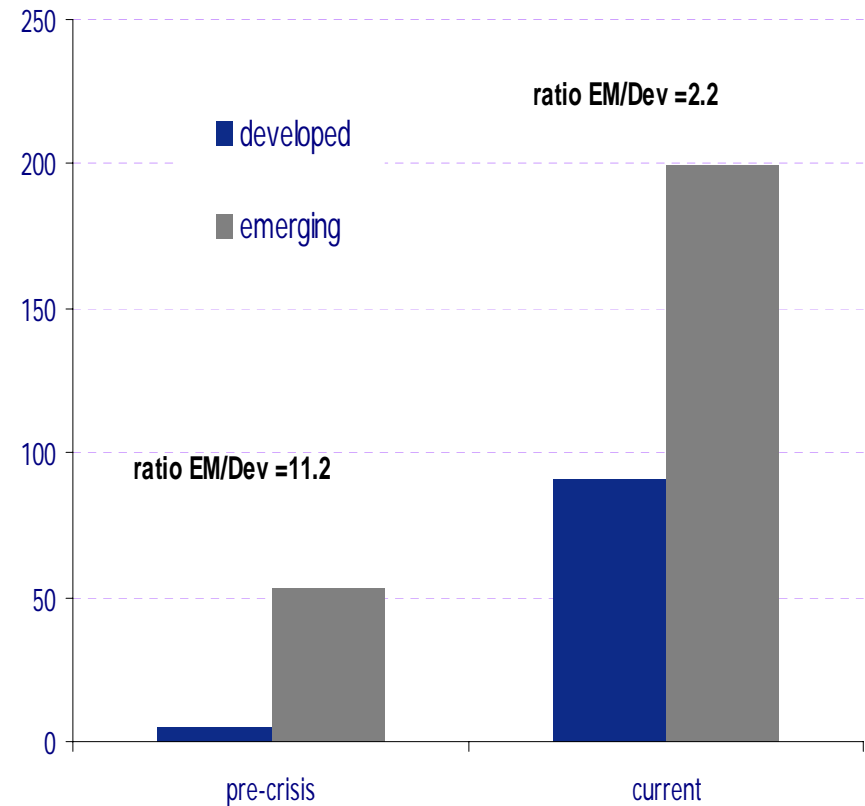


Fuente: BBVA. Las líneas rojas definen los objetivos del Banco Central para 2010

Emerging Markets Capital Inflows: FDI
bn USD

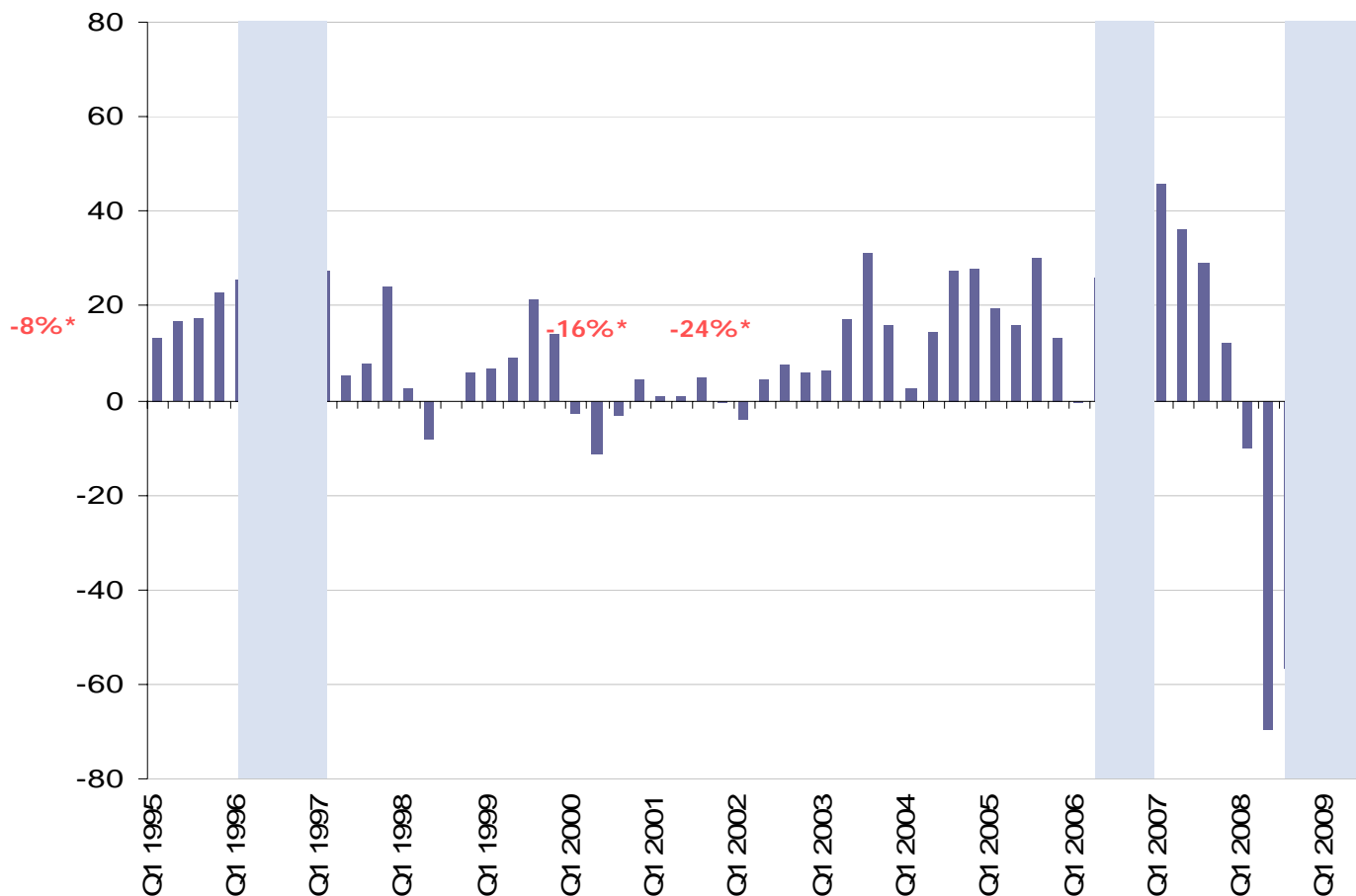


Developed vs Emerging CDS: pre-crisis and current spreads (bps)



Source: Datastream. *pre-crisis date is June 1st, 2007.
Aggregates are simple avgs

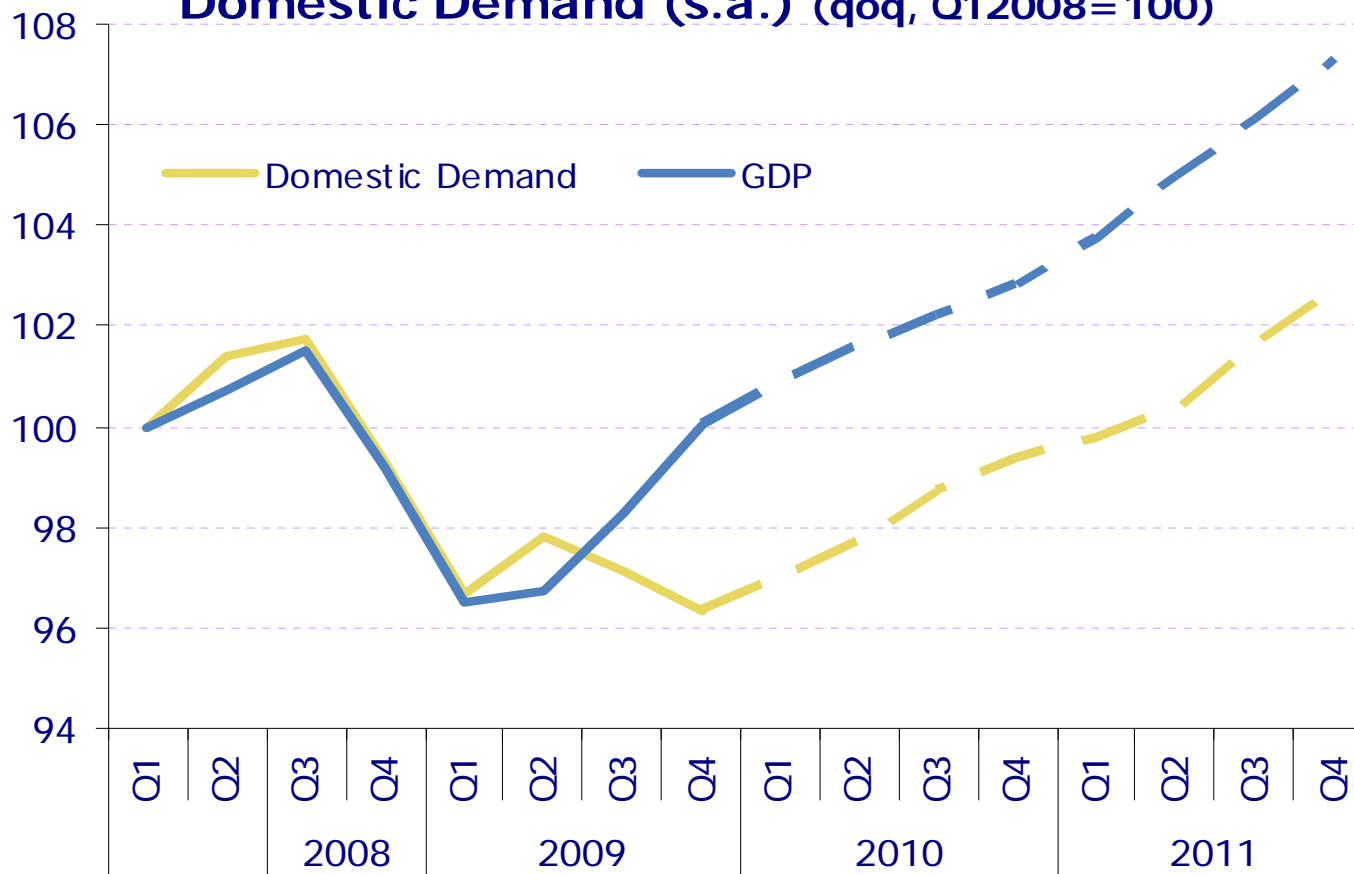
EMERGING MARKETS: Portfolio inflows
bn USD



Source: IFS and ERD BBVA

* The value is the maximum appreciation registered during the flow surge period (simple average between key emerging countries: Argentina, Brazil, Mexico, Colombia, Chile, Peru, Venezuela, China, India, Indonesia, Malaysia, Korea, Thailand, Poland, Russian and Turkey).

Latin America: Evolution of GDP and Domestic Demand (s.a.) (qoq, Q12008=100)



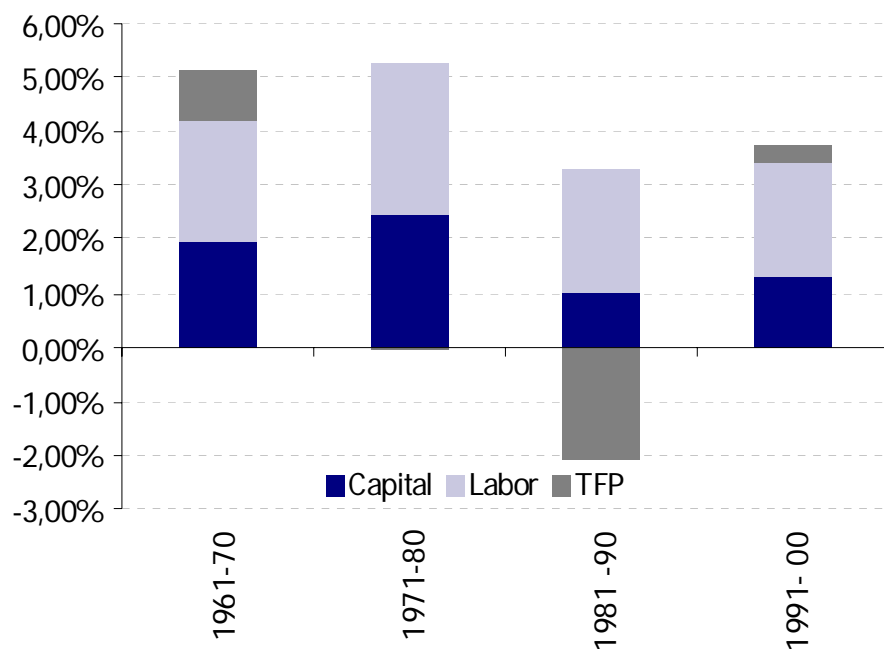
Source: ERD BBVA

- **Recent Economic Performance: a break from the past**
 - **The Crisis: better initial conditions**
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 - **Exchange flexibility and price stability**
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- **Main Challenges for the future**

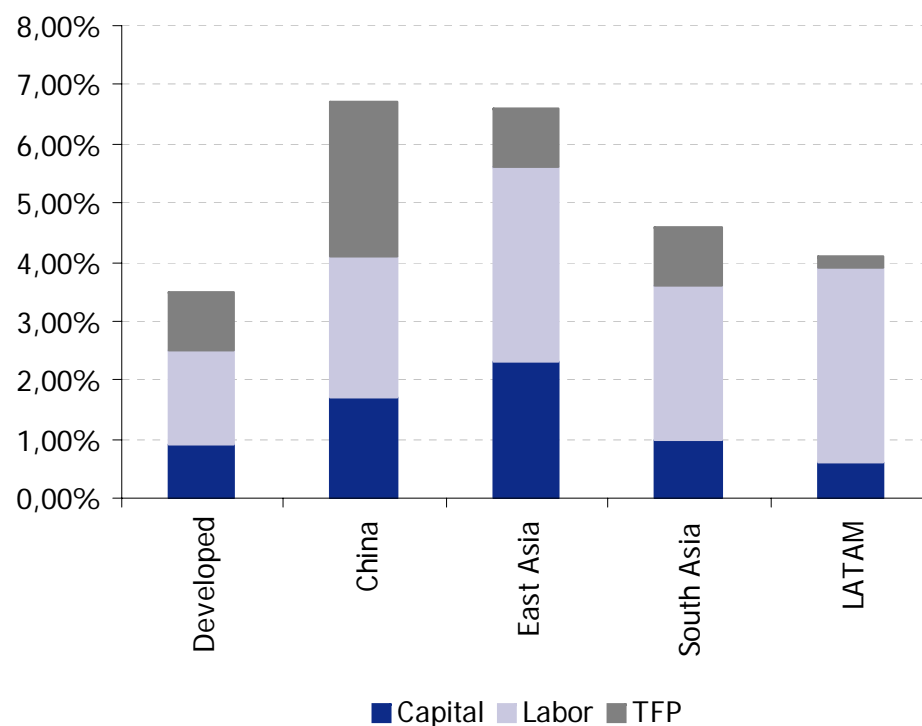
- **Labor – intensive growth**
- **Demographics and the labor market**
- **Informality and growth**
- **Investment must rise**
- **Pension Reform and Capital Investment**

Sources of Growth for Latin America

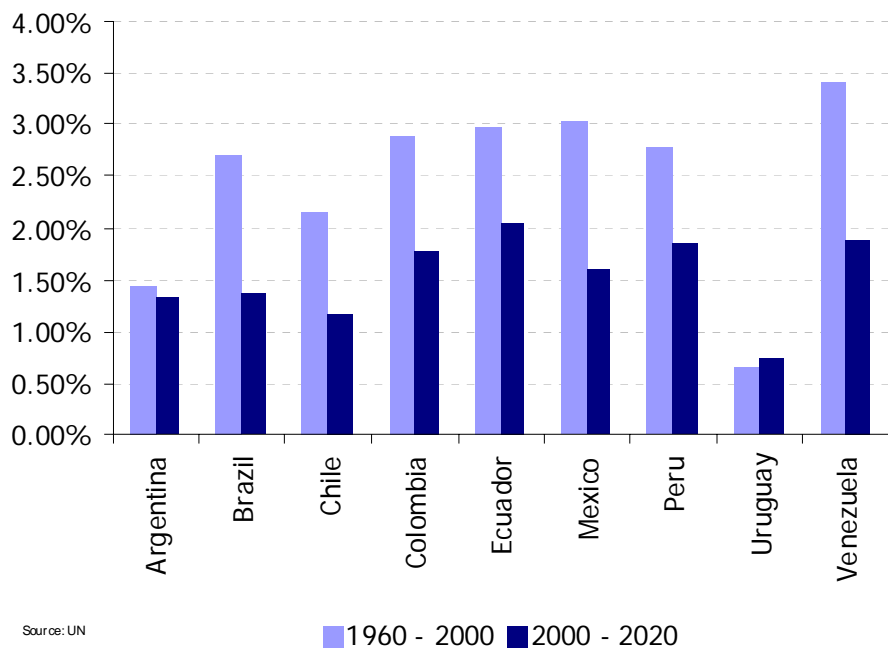


Source: Calderón, Loayza and Fajnzylber

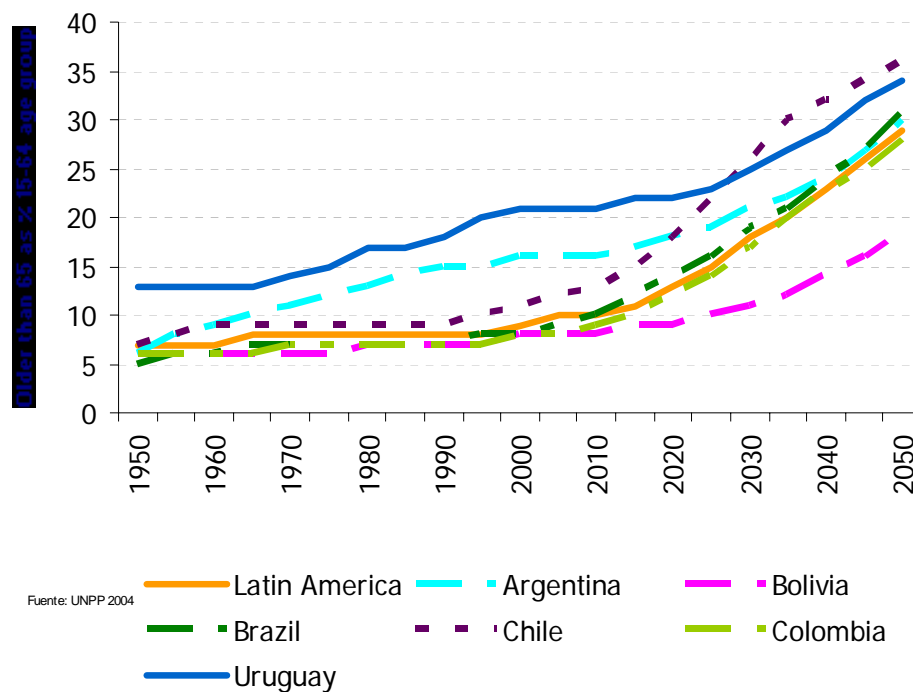
Sources of GDP growth 1960-2000



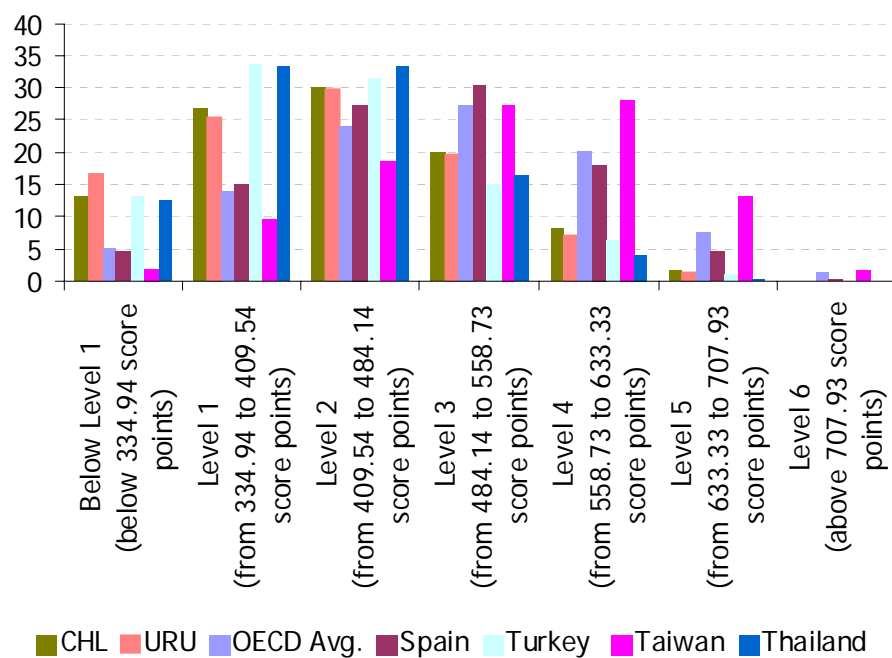
Annual growth rates of Working Age Population



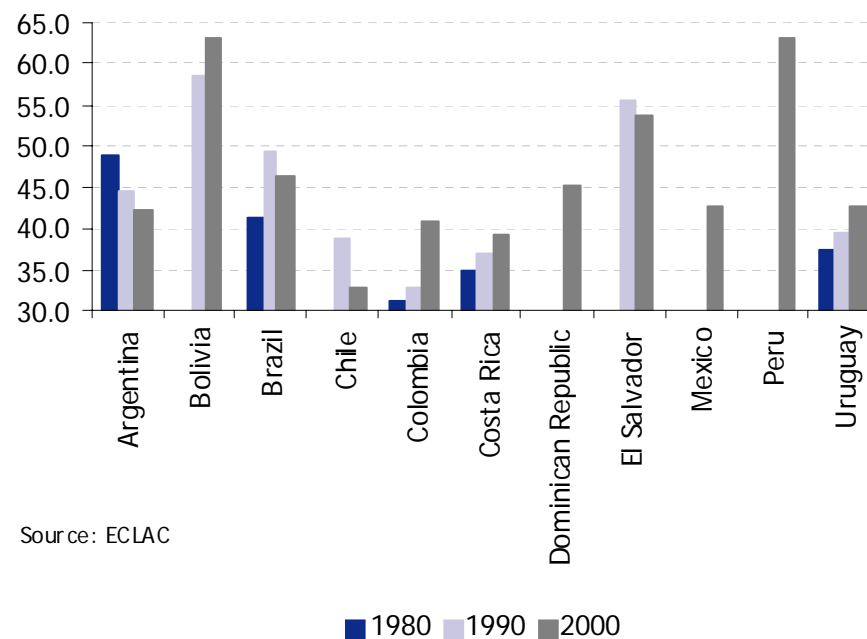
Old Age Dependency Ratios



PISA Scores. Science, 2006. Best LATAM and reference countries

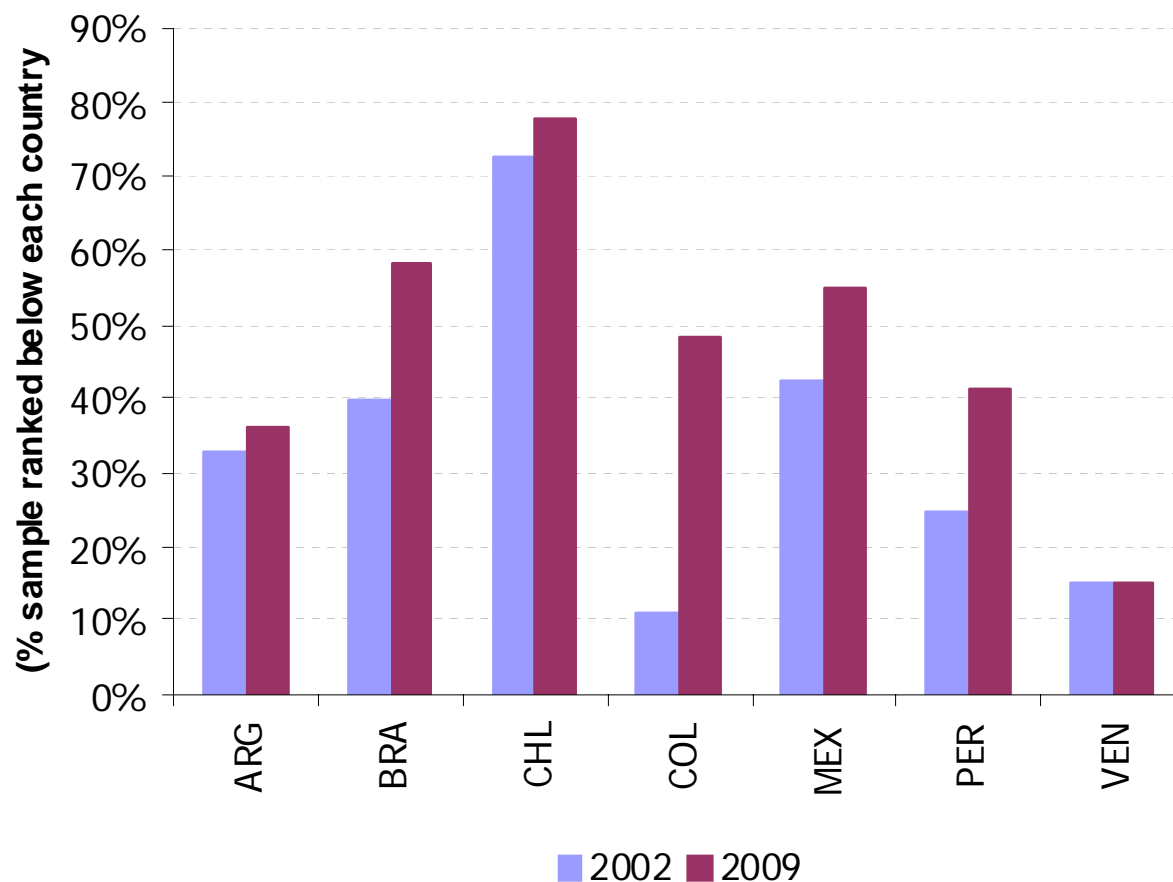


Urban Informality rates

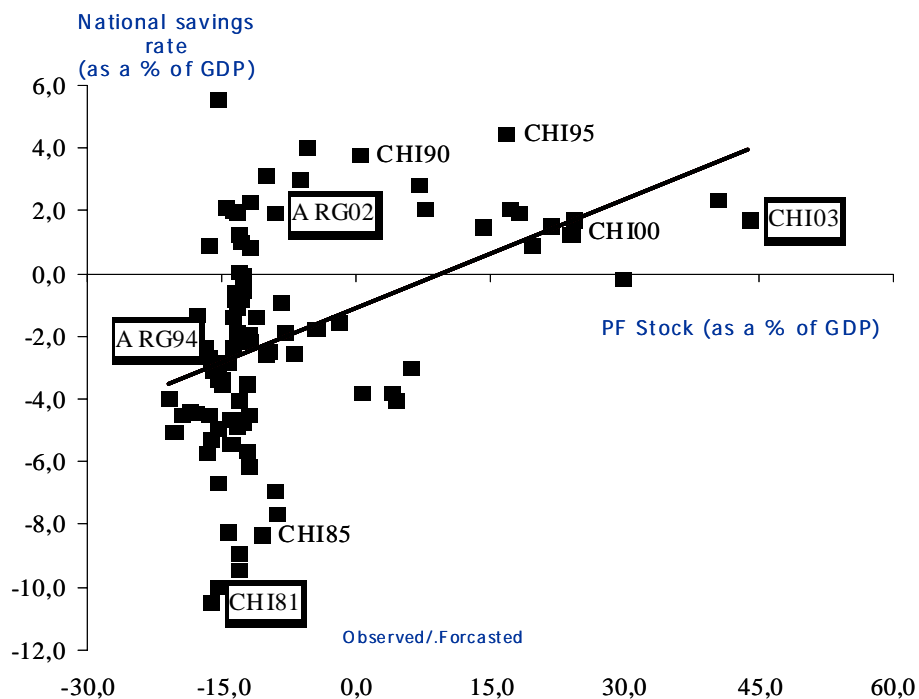


Source: ECLAC

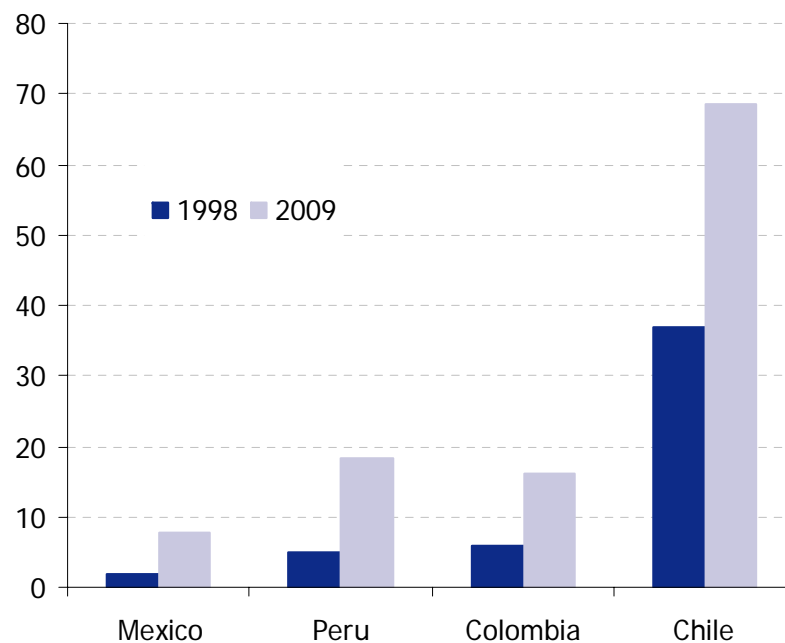
Global Competitiveness Index (WEF)



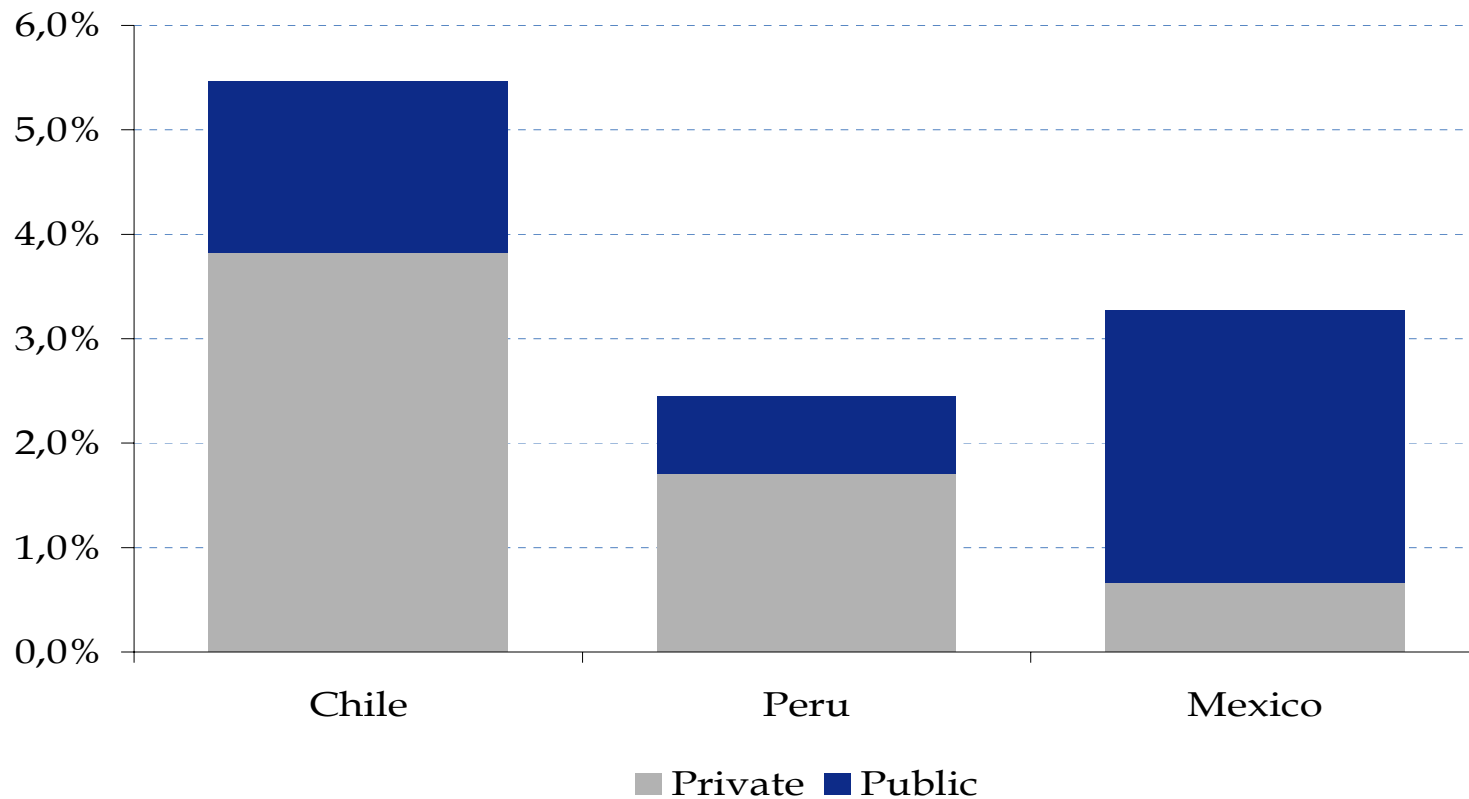
Pension funds and savings ratios



Pensions Funds Value: 1998 y 2009 (percentaje of GDP)



Infrastructure investment over GDP in Chile, Mexico and Peru, around 2000



Source: World Bank, official sources and BBVA

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