



Overview of Economic Conditions in Latin America

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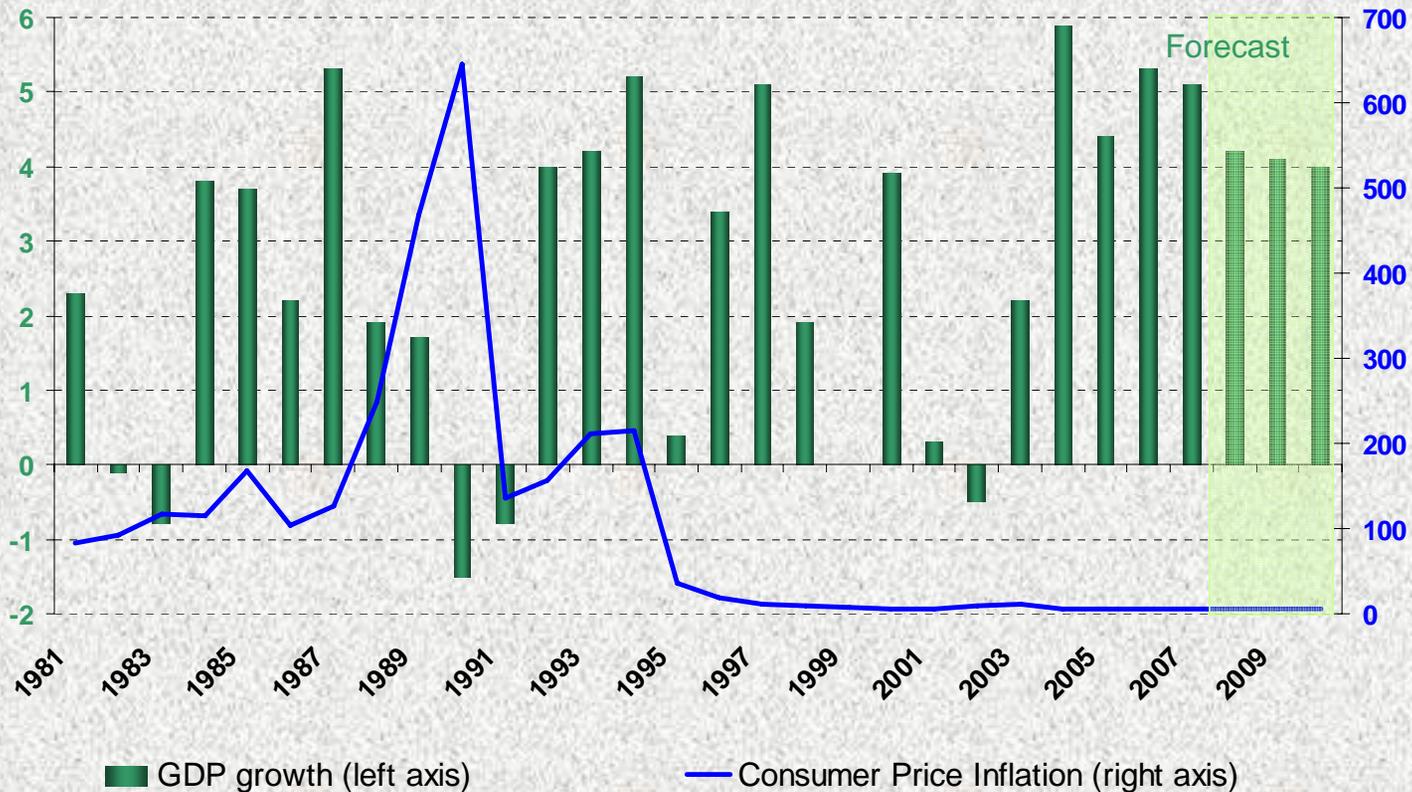
Topics for Overview

- I. Economic growth & inflation
 - II. Exports
 - III. Current account & external debt
 - IV. Financial markets
 - V. Labor market
 - VI. Consumer spending
 - VII. Forecast
 - VIII. Risks to outlook
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Latin America experienced 4 years of above-average growth and low inflation

Economic Growth & Inflation

annual % change



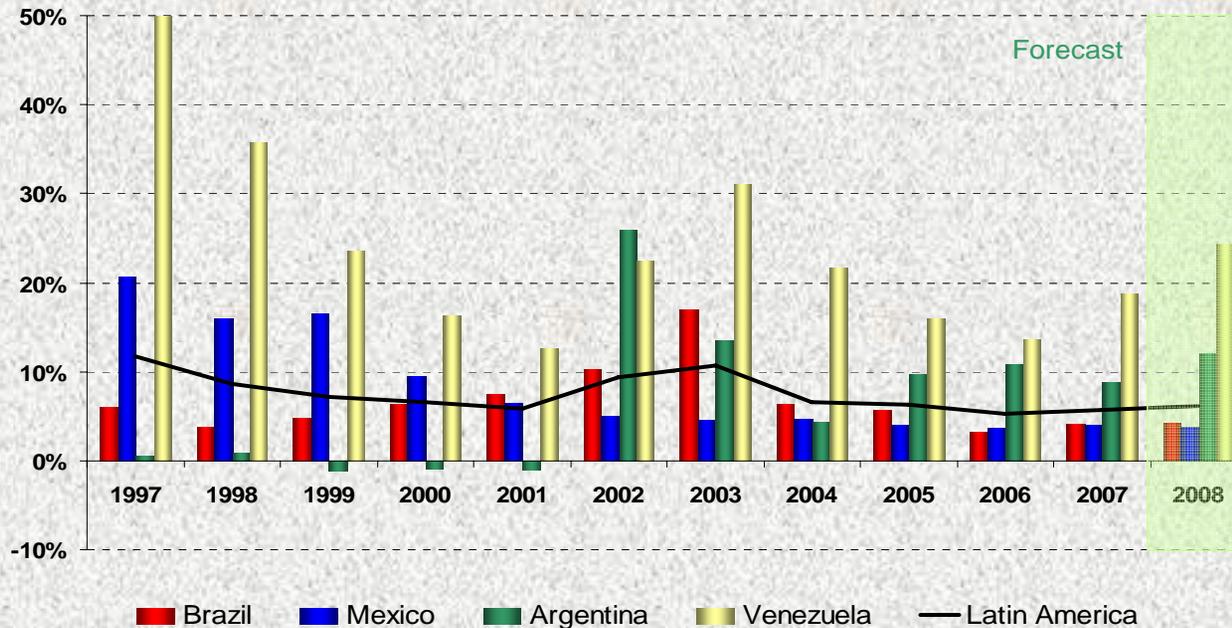
Source: EIU

Inflation

- Consumer inflation declined considerably in Latin America
- Exception: Venezuela and Argentina
- Inflationary pressures increased in 2007, in part due to rapidly rising food prices

Consumer Price Inflation

annual % change



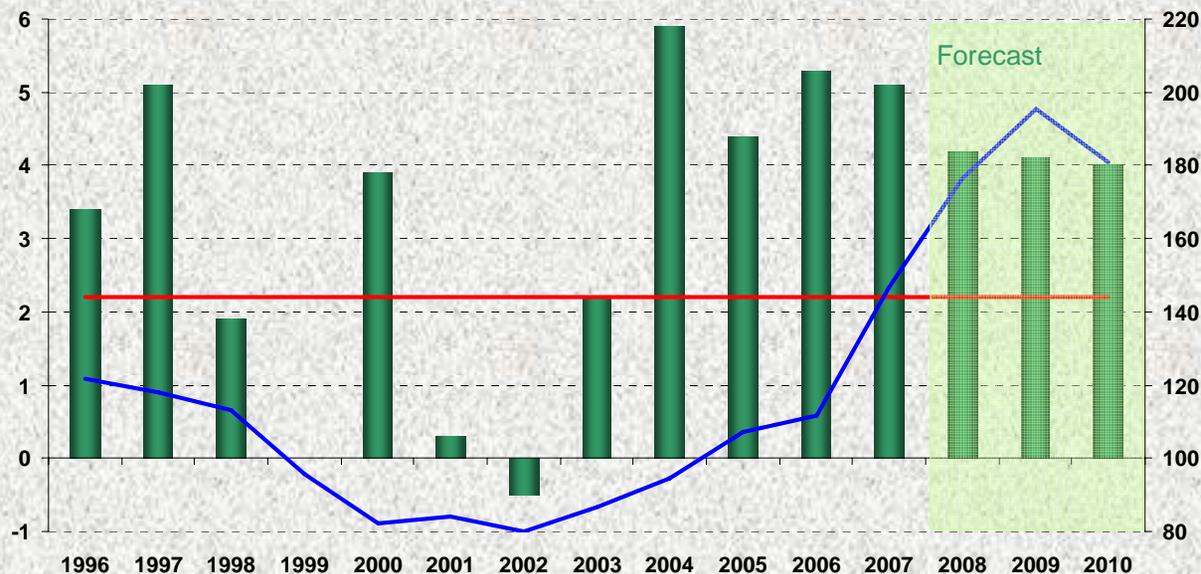
Source: EIU, Haver Analytics

Gross Domestic Product (GDP)

- Real GDP grew 5.1% in 2007—5th consecutive year of growth & significantly above the 2.2% historical average
- Latin America's growth depends on global demand for its exports

Real GDP Growth & Commodity Prices

annual % change



- GDP growth (left axis)
- 1980-2002 average GDP growth (left axis)
- Commodity Price Index (24 commodities) 1990=100 (right axis)

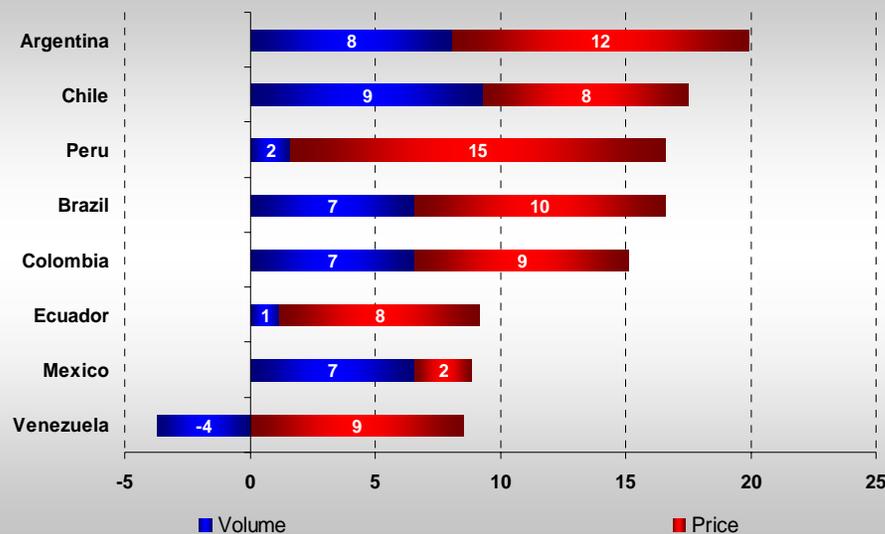
Source: EIU, ECLAC

Exports

- Latin America's export earnings increased 12.3% in 2007
- More than half of that increase came from higher export prices

Contribution to Export Growth in 2006

% points

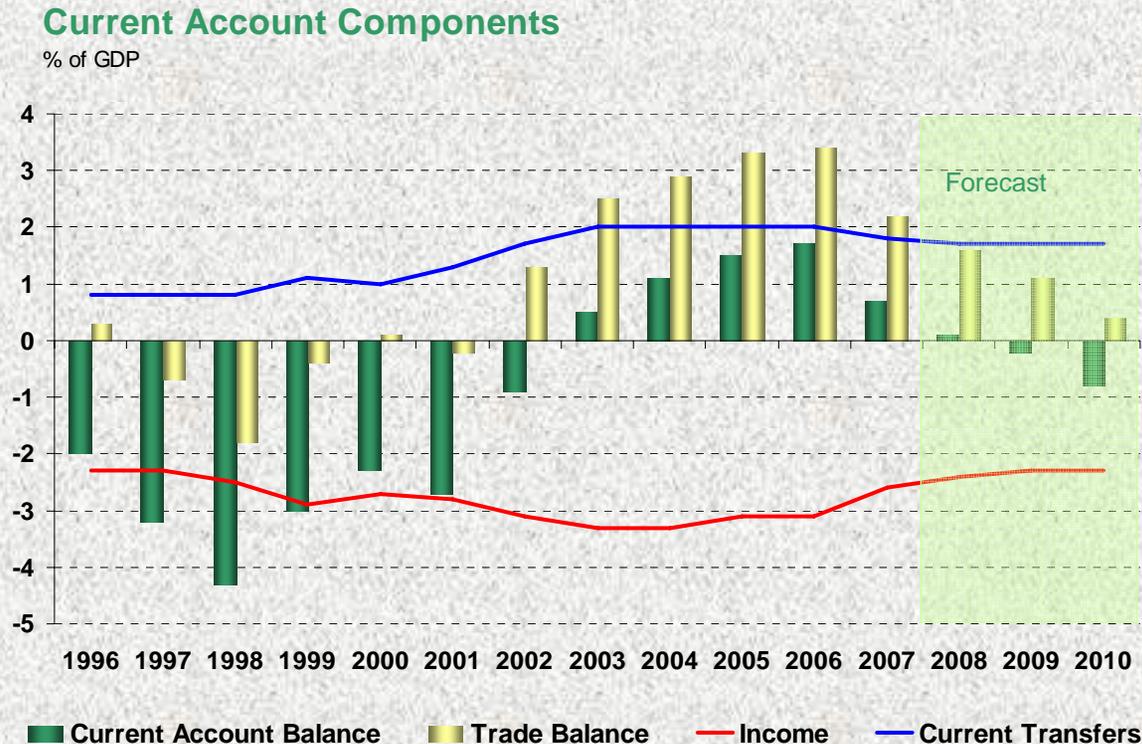


Source: EIU, Own

Country	Top export commodity	% of total exports
Argentina	agricultural products	33%
Chile	copper	60%
Peru	gold, copper	40%
Brazil	transportation equipment, metallurgy	25%
Colombia	petroleum, coal	40%
Ecuador	petroleum	60%
Mexico	manufactured goods	80%
Venezuela	petroleum	85%

Current Account

- Strong export growth resulted in current account surpluses every year since 2003
- Current account surplus is expected to turn into deficit as export growth moderates while imports remain high

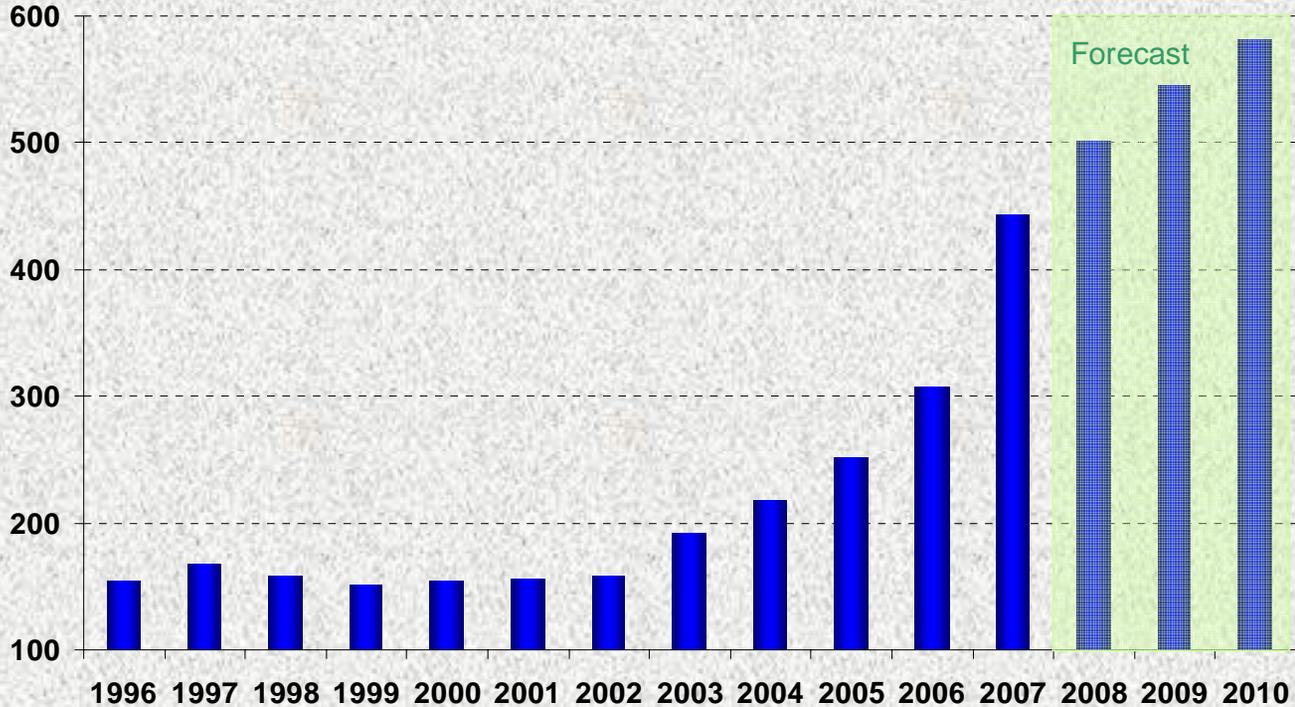


Source: EIU

Current account surpluses allowed countries to accumulate foreign exchange reserves & reduce vulnerability to external shocks

Foreign Exchange Reserves

US \$ billions

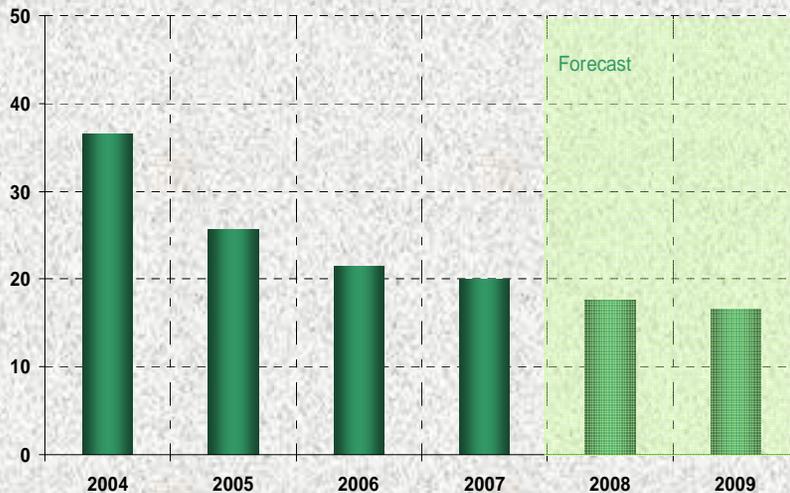


Source: EIU

- The level of external debt has fallen to below 25% of GDP
- Structure of public debt has improved:
 - Longer maturities
 - Fixed rates
 - Less foreign-currency denominated debt

External Debt

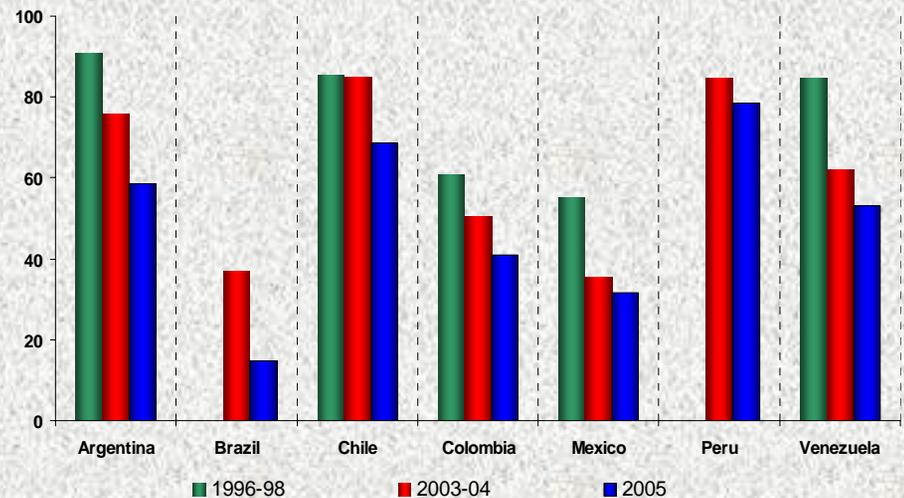
% of GDP



Source: Latin Focus Consensus Forecast

Foreign-currency Denominated Debt

% of total public debt

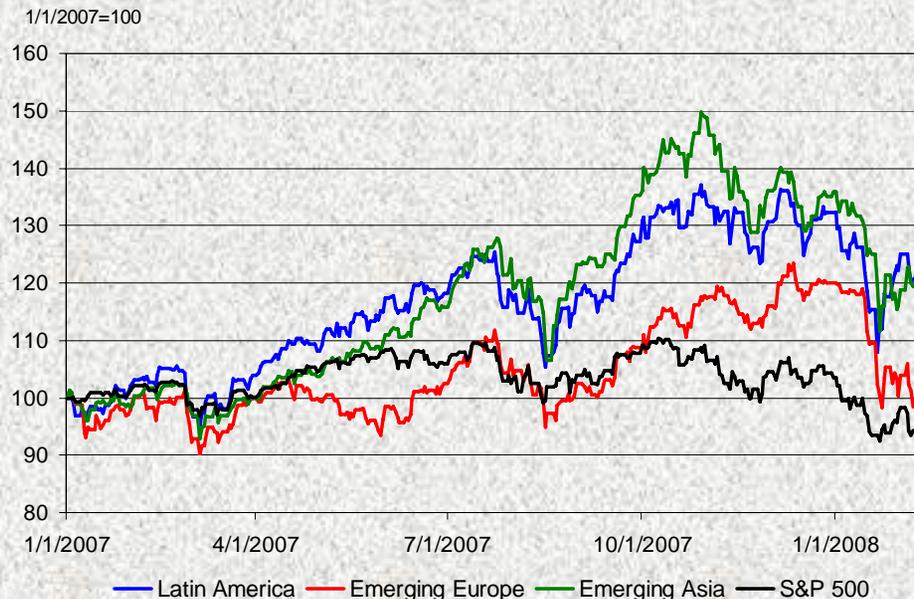


Source: IMF

Financial Markets

- Stock markets in many Latin American countries rose to record levels in 2007
- Global financial markets have deteriorated considerably in the past few months
- Improved economic fundamentals should help Latin America to weather increasing volatility in financial markets

Emerging Equity Markets



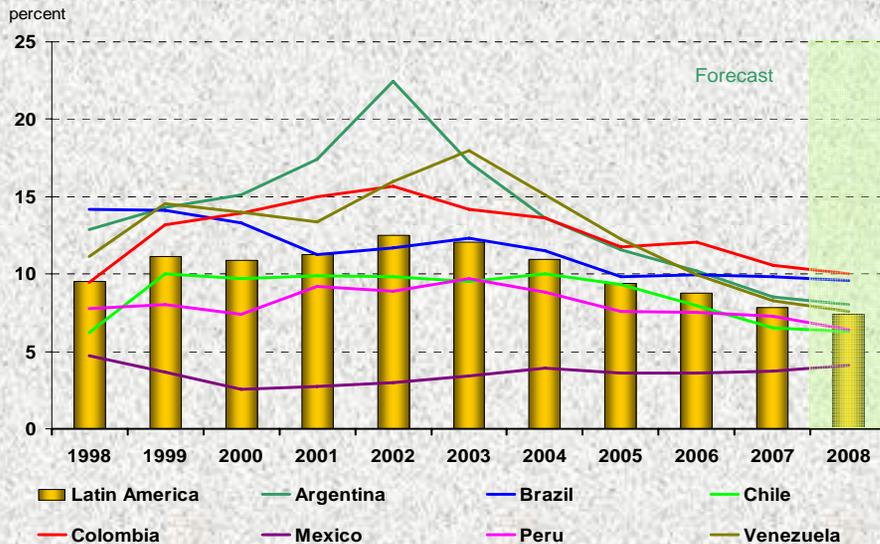
Source: Morgan Stanley Capital International, Bloomberg, Own

Employment

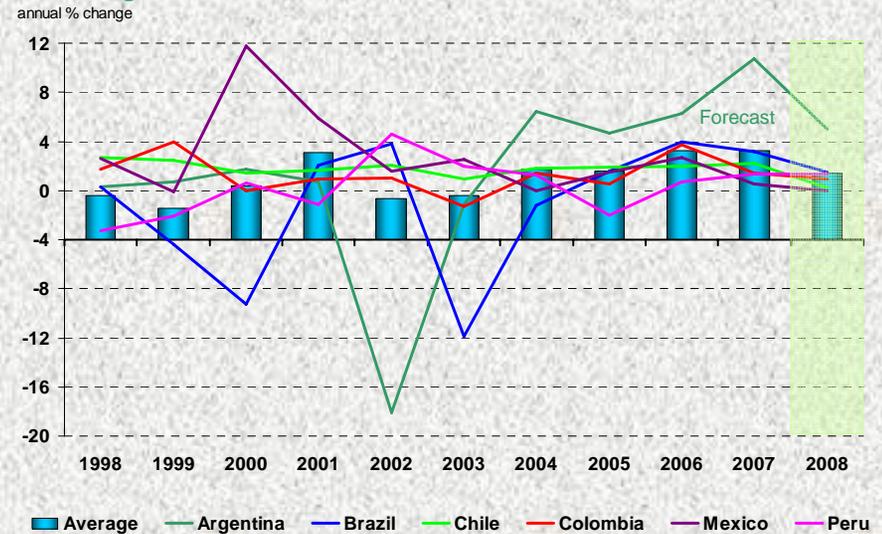
Unemployment rate has declined and **wage** growth has picked up

50% of labor force in **informal sector**

Unemployment



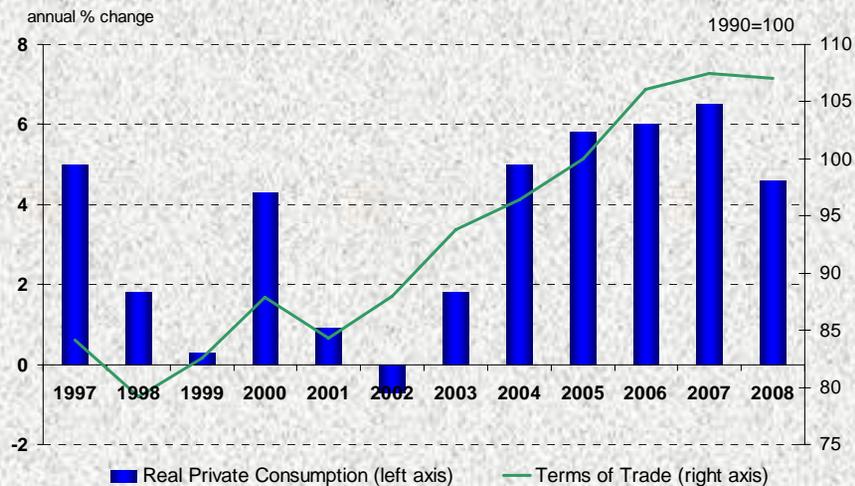
Real Wages



Consumer Spending: main growth engine

- Improved terms of trade
- Growing remittances
- Higher public spending
- Rising personal incomes due to higher employment & real wages
- Strong household credit growth

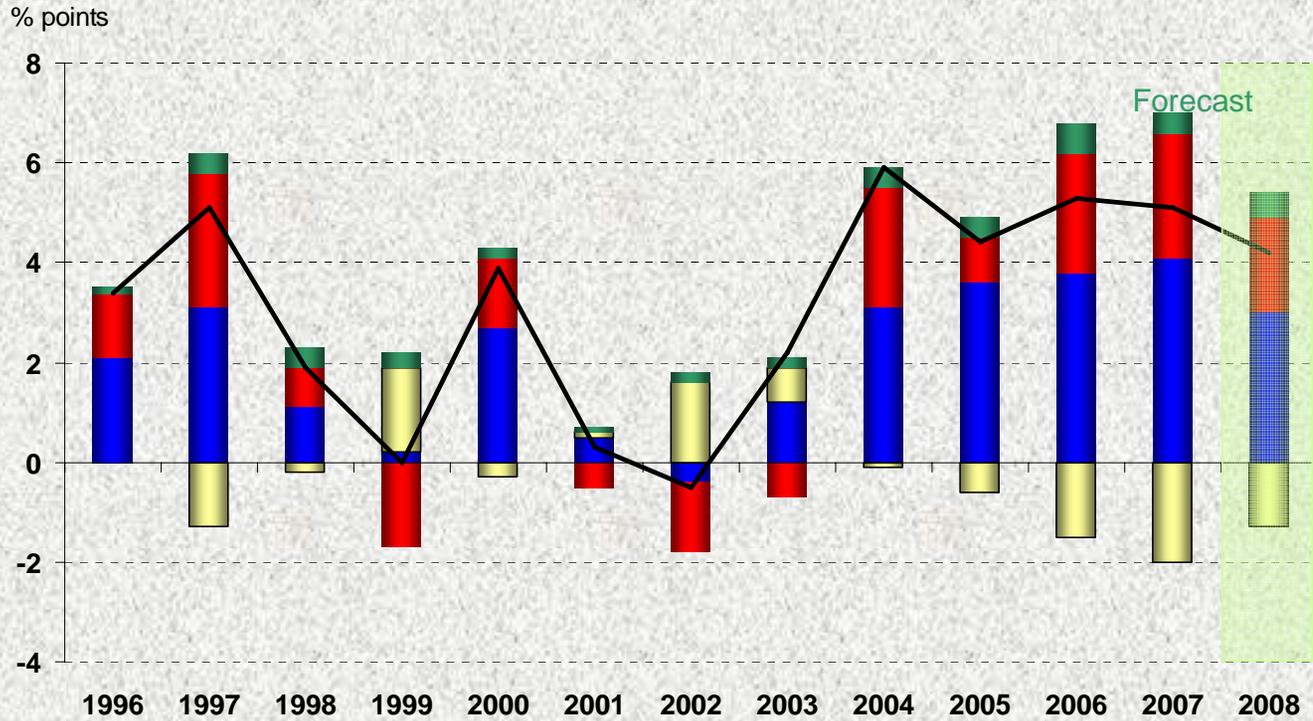
Consumer Spending & Terms of Trade



Source: EIU

Consumer spending is forecast to remain the key driver of growth, while trade balance will subtract from real GDP

Contribution to Real GDP Growth



■ Private Consumption ■ Gross Fixed Investment ■ Trade Balance
■ Government Consumption — Real GDP Growth

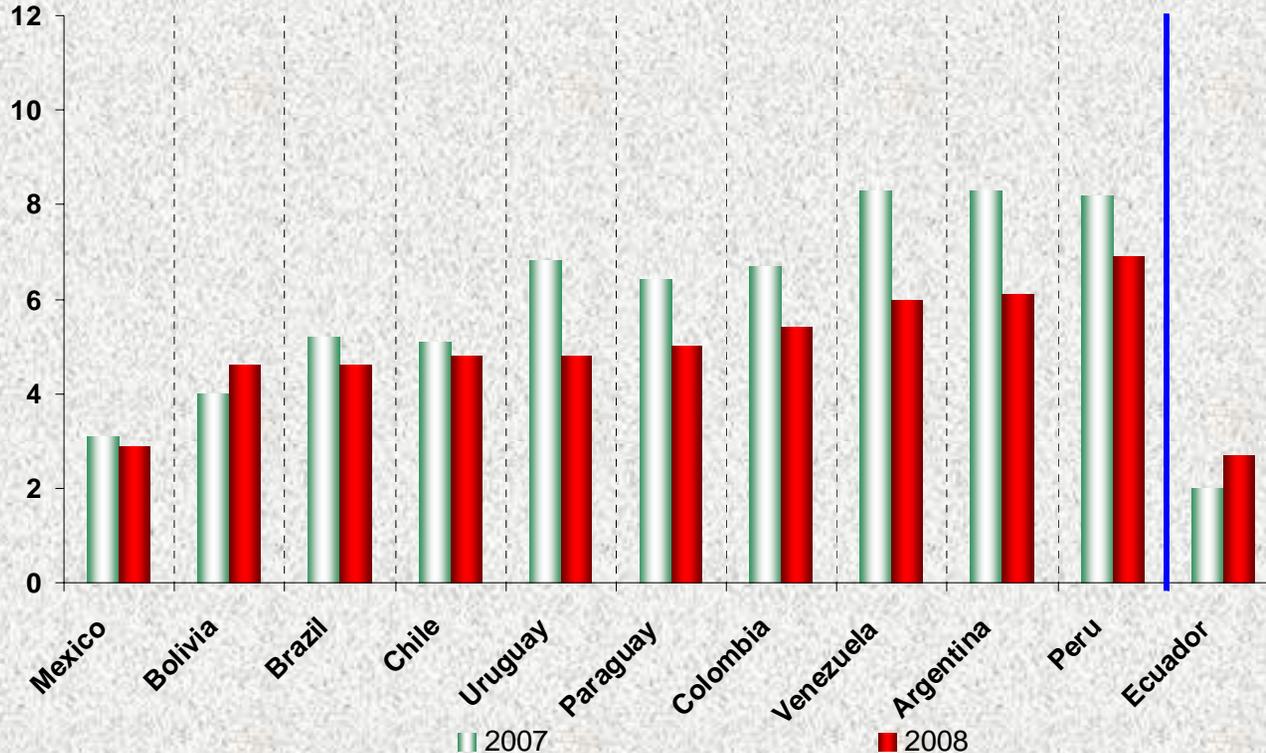
Source: EIU

Forecast for 2008

Latin America's economic expansion is expected to slow down to 4.5% in 2008 as global growth decelerates

Real GDP Growth by Country

annual % change



Source: LatinFocus

Outlook

Optimistic, but with downside risks

- Optimism: growth in the region has been more robust and healthier than in the past

- Risks:

- Uncertainty about the outlook for the international economy & financial markets

- Unresolved issues relating to the sustainability of growth