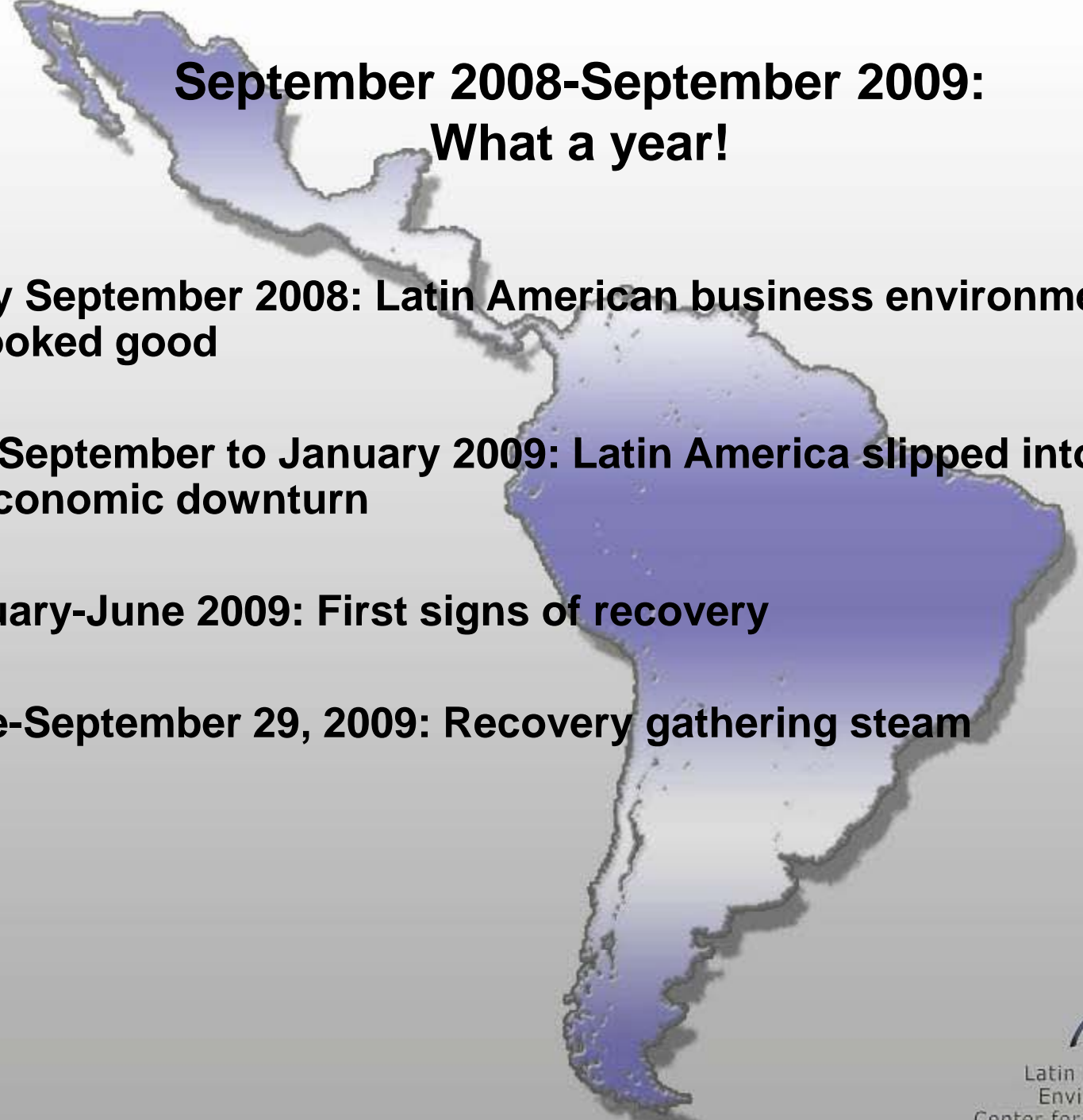




XChange Latin America

***THE 2009 LATIN AMERICAN BUSINESS ENVIRONMENT:
ON THE ROAD TO RECOVERY?***

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**September 2008-September 2009:
What a year!**

**Early September 2008: Latin American business environment(s)
looked good**

**Mid-September to January 2009: Latin America slipped into deep
economic downturn**

January-June 2009: First signs of recovery

June-September 29, 2009: Recovery gathering steam

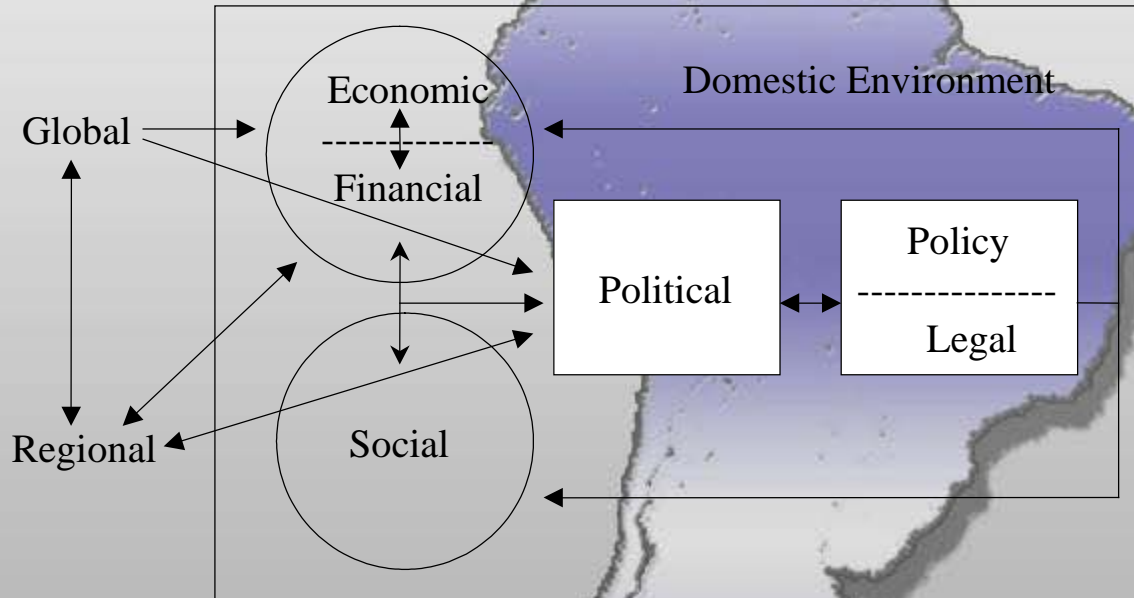


*2009 Latin
American
Business
Environment
Report*

[http://www.latam.ufl.edu/labe/
publications.stm](http://www.latam.ufl.edu/labe/publications.stm)



Latin American Business Environment: Conceptual Framework



Latin American Business Environment: “Before the Fall”

Regional environment was strong

- Robust growth – strongest growth cycle in 25 yrs. – with low inflation
- External performance strong: : exports and investment up, debt down
- Conservative, market-friendly economic policies
- Social environment improving and political environment stable

How long would it last?

- History of stop-go cycles and vulnerability to external shocks
- Global environment was deteriorating but maybe LA was “decoupled”
- Significant country-to-country variations

Had Latin America turned a corner?



Events of Sept-Oct 2008: Global Financial Crisis

Components of Global Crisis →

- Financial markets meltdown
- Falling commodity prices
- Economic slowdown in developed economies
- Bailouts to stem crisis

Impact on Latin America

- Credit and investment dried up
- Falling export earnings
- Slowing growth ↓

Short-term Effects

- Collapse in equity markets
- Increased country spreads
- Currency devaluation
- GDP growth forecasts lowered ↓

Longer-term Scenarios

- Mild downturn & quick recovery (V)
- Major downturn seemed remote – LA was “decoupled”

Subsequent Developments in 2008: Global Economic Downturn

Deepening of Global Crisis

- Frozen credit markets +
- +Falling commodity prices
- +Declining trade flows
- = Onset of global recession
- Governments adopting countercyclical monetary (lower interest rates) and fiscal (stimulus) policies
- Attempts to coordinate global action (G-20)
- Threat of protectionism



Latin America

- Continued deterioration of financial markets and currency devaluation
- +Declining exports
- +Declining FDI
- +Declining remittance flows
- =Lower GDP growth
- Countercyclical policy responses
- Fear of deep recession and slower recovery (U)





2009 Recovery

Needed from External Environment

- Renewed capital flows
- Recovery of commodity prices and trade flows
- Resumption of growth of developed economies + Quick Chinese recovery

Early Indicators of Possible Recovery

- Currencies stabilized
- Stock markets began to regain losses
- Commodity prices bottomed out and began to rise
- Governments adopted countercyclical packages

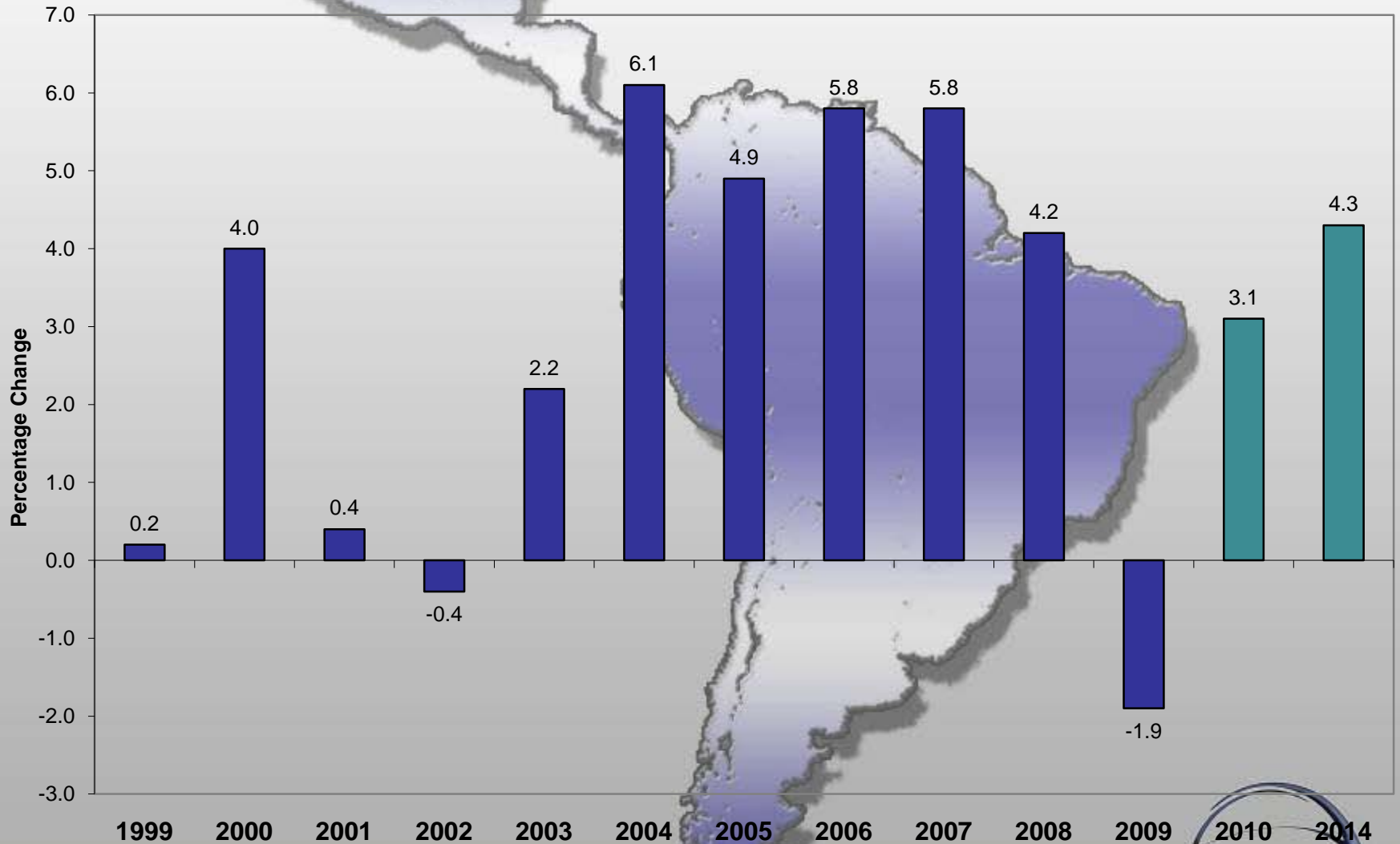
More Recent Signs of Recovery

- Growth picking up
- V not U shaped recovery seems likely for most countries



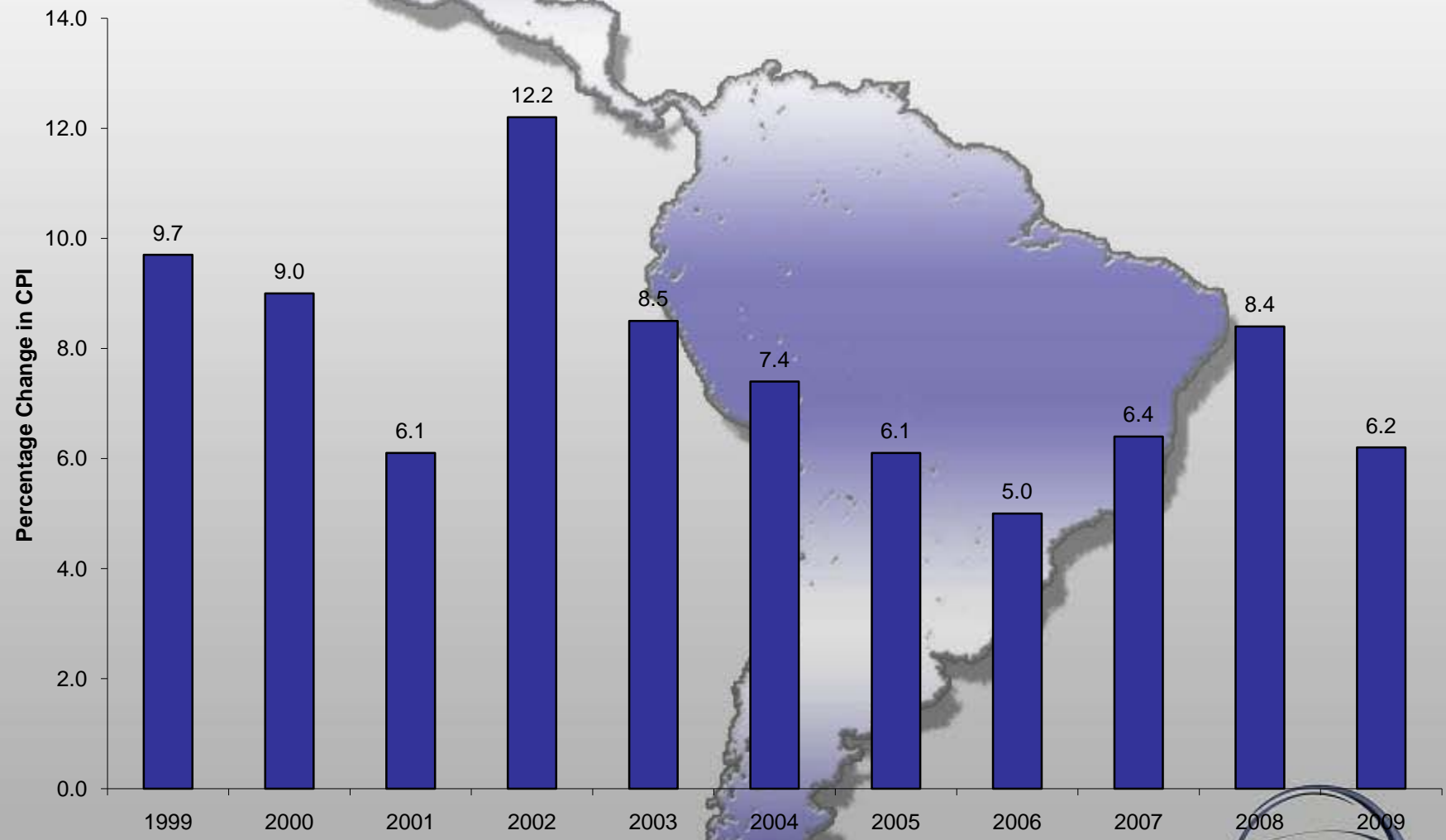
GDP Growth for Latin America, 1999-2014

(Sources: ECLAC 2009, IMF 2009)



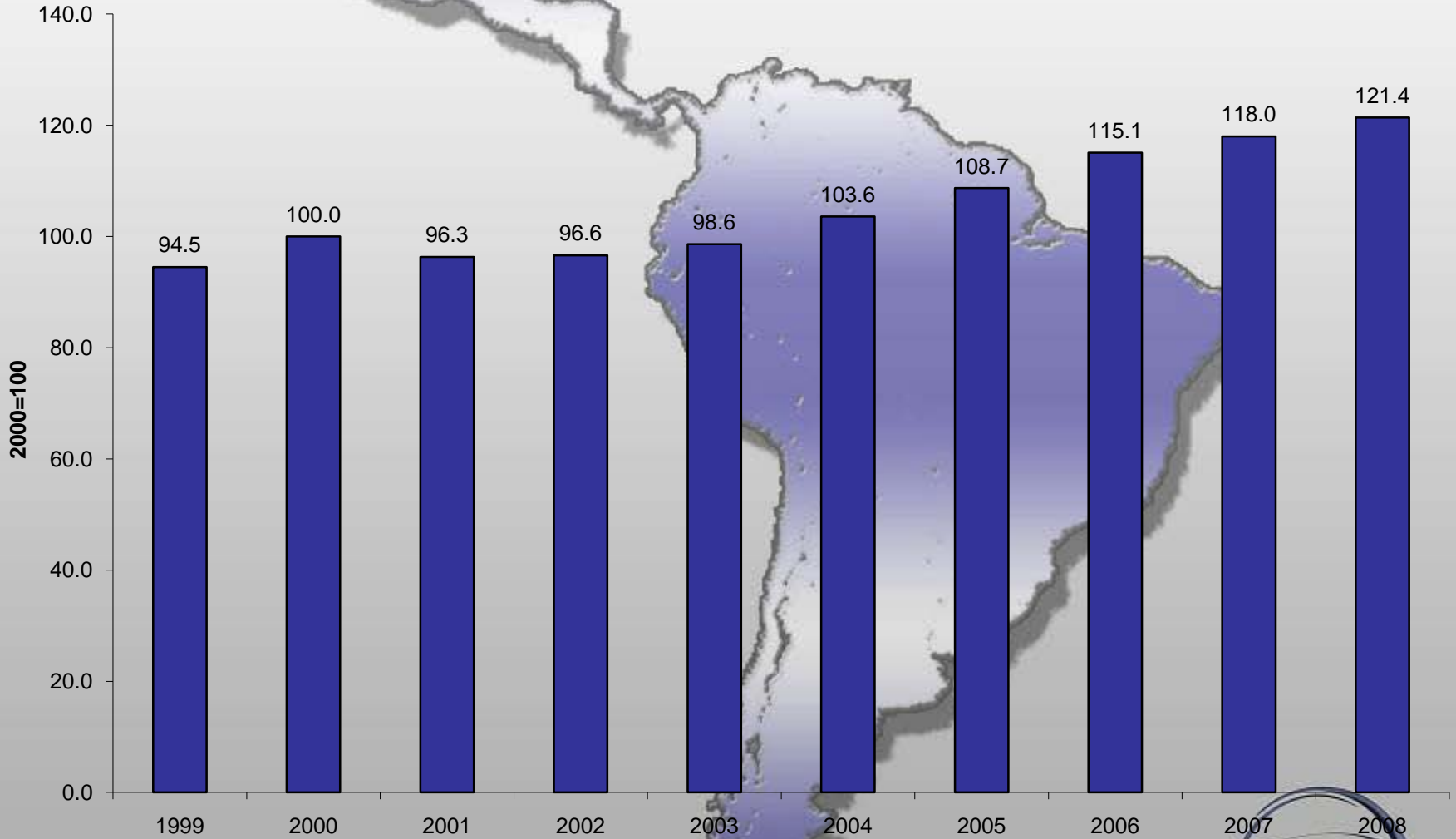
Average Annual Inflation Rate for Latin America, 1999-2009

(Source: ECLAC 2009)



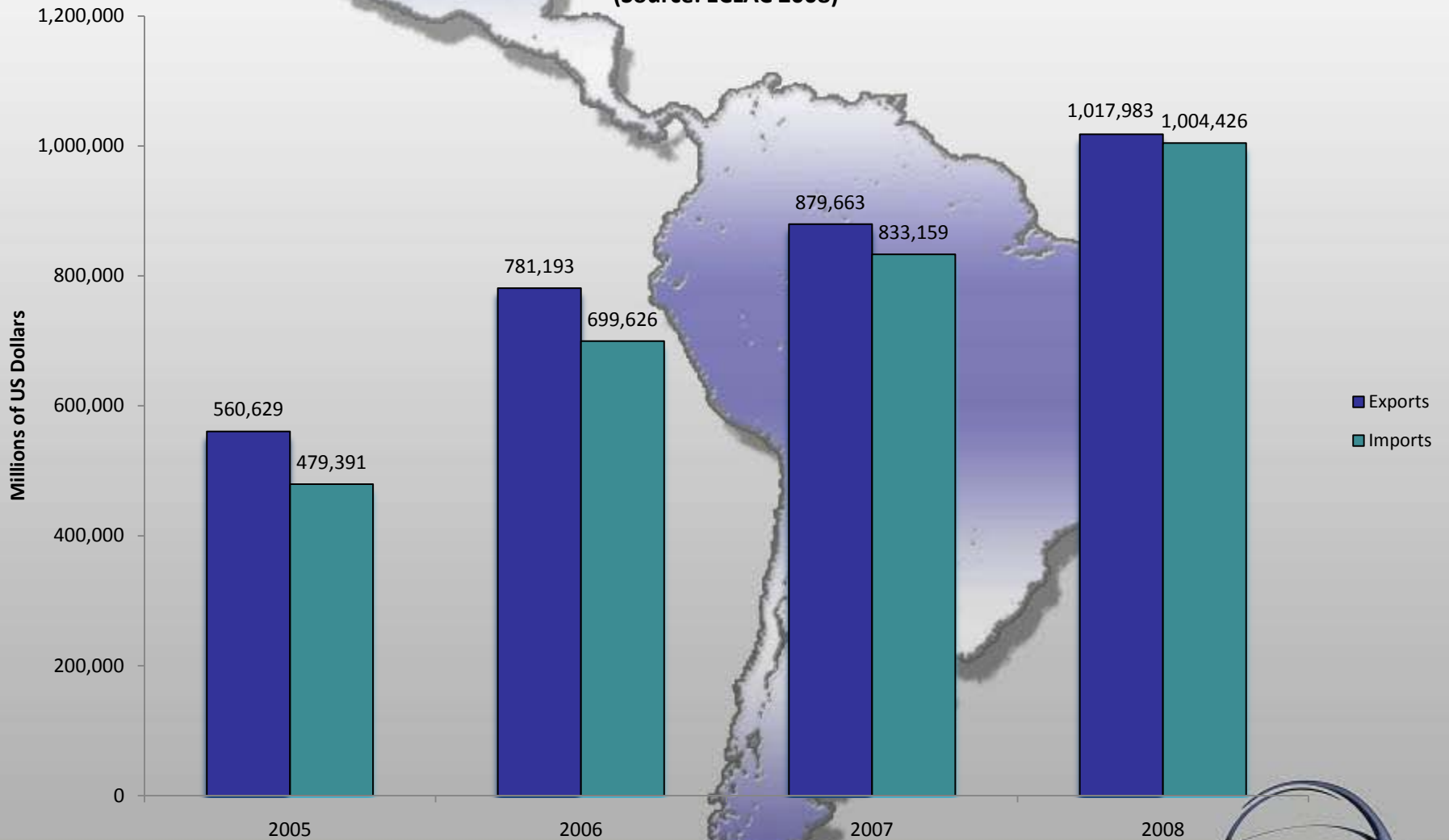
Terms of Trade for Latin America, 1999-2008

(Source: ECLAC 2008-2009)



Exports and Imports of Goods and Services in Latin America, 2005-2008

(Source: ECLAC 2008)



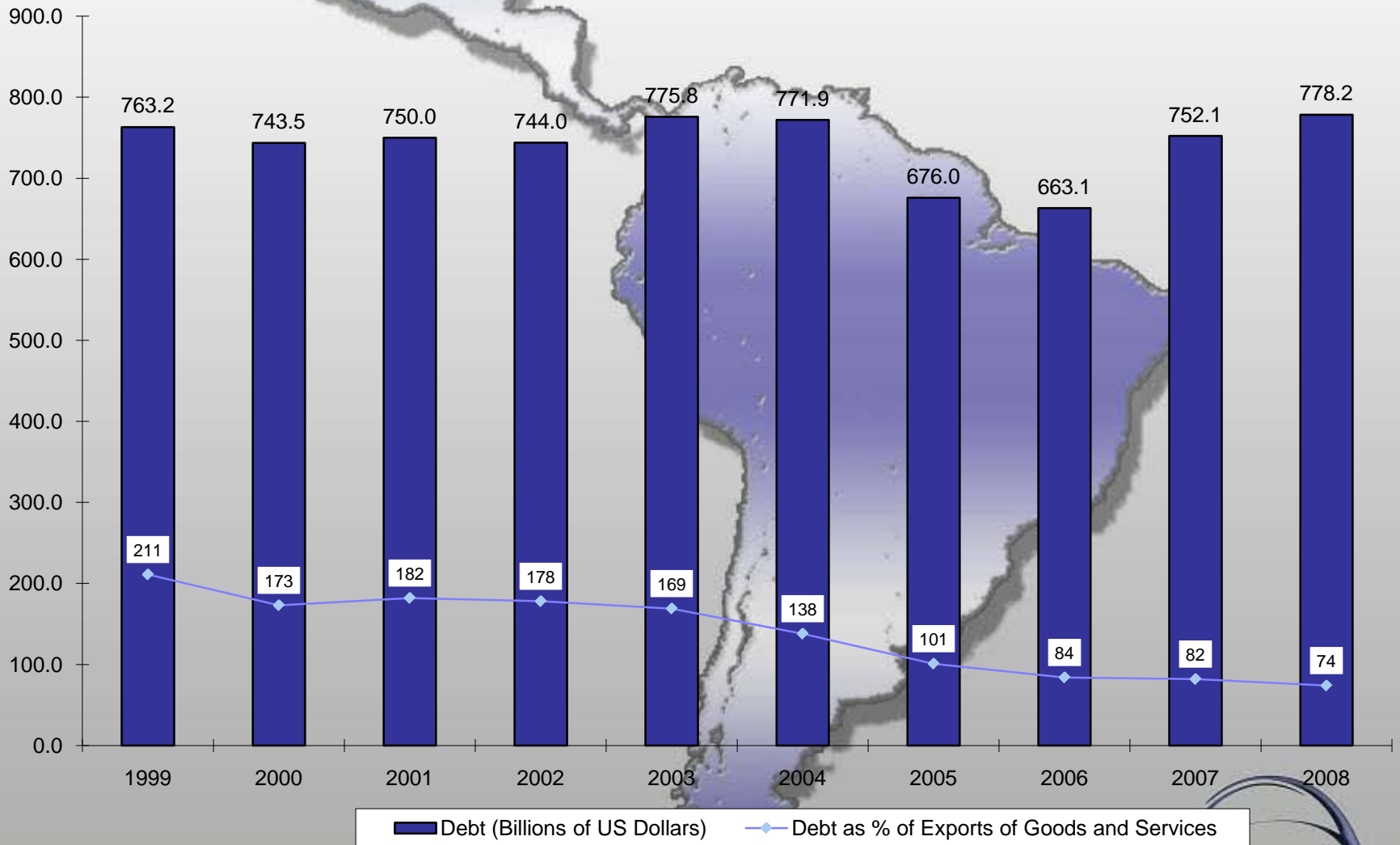
Net Foreign Direct Investment in Latin America, 1999-2008

(Source: ECLAC 2008-2009)



Gross Disbursed External Debt, 1999-2008

(Source: ECLAC 2008)





Policy Environment

Macroeconomic Orthodoxy

- Inflation-targeting with interest rates
- Fiscal discipline with primary surplus
- Floating exchange rates
- Regulatory states
- Effective countercyclical response to downturn – Lowered interest rates and adopted fiscal measures to stimulate recovery

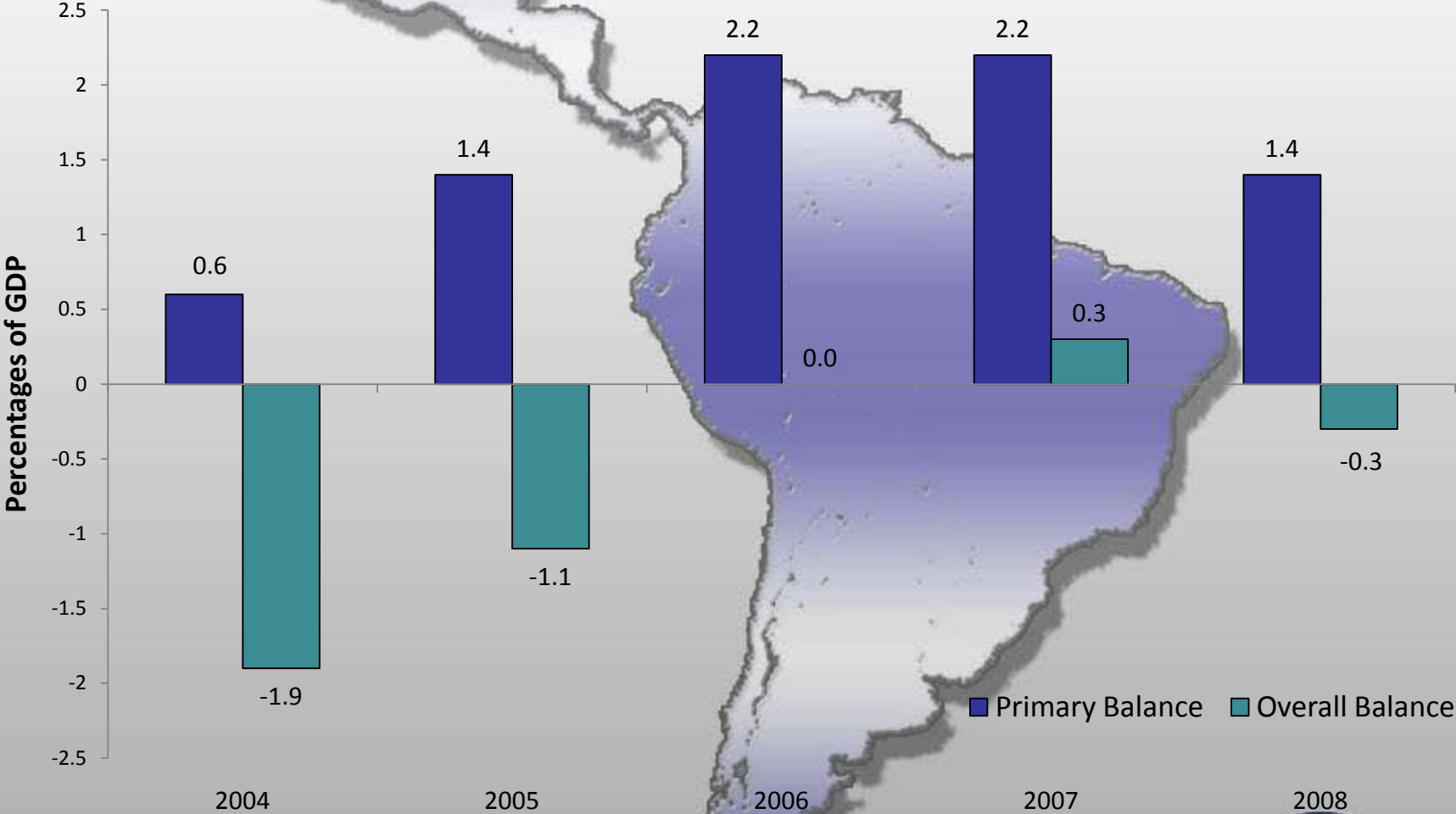
Populist Exceptions (Venezuela, Bolivia, Ecuador, Argentina)

- Price controls, fixed exchange rates, higher inflation
- Re-nationalization of economy
- Interventionist states



Central Government Balance for Latin America 2004-2008

(Source: ECLAC 2008)



■ Primary Balance ■ Overall Balance



Conclusions

Latin America is on road to recovery

- Faster and more dynamic than expected earlier in the year (a V shaped recovery)
- Recovering sooner than the U.S. and other developed economies

Latin America has turned the corner

- Performed well under adverse situations as well as favorable
- May have broken past pattern of stop-go cycles
- Building productive links with evolving architecture of new global economy

But now all countries are on this path



Country Outlooks for 2010

GROWTH

Strong

($\geq 3.0\%$)

Attractive (8)

Costa Rica*

Panama

Peru

Brazil*

Chile*

Uruguay*

ENVIRONMENTS

Mixed (5)

Colombia*

El Salvador

Guatemala

Argentina

Paraguay

Problematic (5)

Bolivia*

Venezuela

Honduras*

Nicaragua

Ecuador

Weak

($\leq 3.0\%$)

Mexico

Dominican Rep.

*Presidential Elections

