

# Latin America Economic Outlook

**César Fuentes, Ph.D.**  
**Professor, University ESAN**  
**Lima, Peru**  
**October 18, 2012**

# Overview

- International Context
- Latin America and Peru
- Summary of Risks

## LA: Is an Open Economy, Commodity Exports as % of GDP (2008)

	Total Exports	Commodity Exports	Exports to US	External Debt	FDI
Argentina	21.4	12.8	1.7	36.4	2.4
Brazil	12.6	6.7	2.0	12.6	2.4
Chile	39.3	30.3	4.8	32.7	9.9
Colombia	15.8	8.8	5.5	19.2	4.4
Ecuador	35.6	27.4	15.5	31.9	1.8
Mexico	26.8	5.6	21.6	19.5	2.0
Peru	24.7	19.0	4.7	24.6	3.2
Venezuela	31.3	30.3	18.1	19.1	0.1

Source: JP Morgan

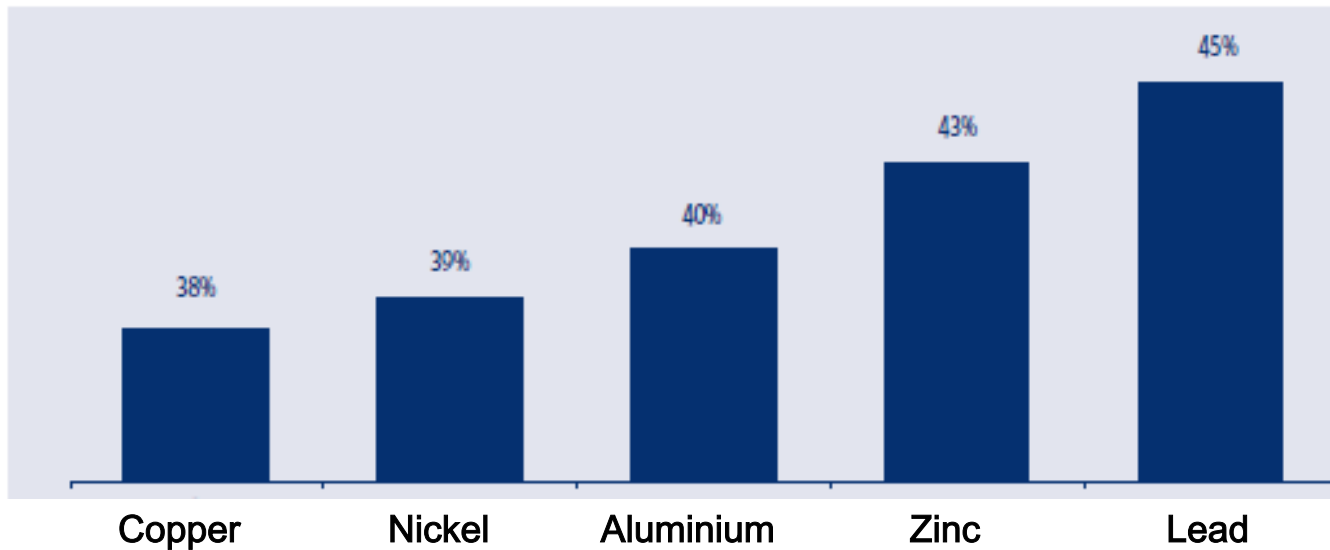
Lecture, 5th Annual EdUniversal World Convention: "Economic Outlook for Latin America",  
ESAN, Lima, Peru

# LA: Is an Open Economy, Has grown steadily in the last decade

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Average 2001-2010
Argentina	-4.4	-10.9	9.0	8.9	9.2	8.5	8.6	6.8	0.8	9.2	4.6
Brazil	1.3	2.7	1.1	5.7	3.2	4.0	6.1	5.2	-0.6	7.5	3.6
Chile	3.5	2.2	4.0	6.0	5.6	4.6	4.6	3.7	-1.7	5.2	3.8
Colombia	1.7	2.5	3.9	5.3	4.7	6.7	6.9	3.5	1.5	4.3	4.1
Ecuador	4.8	3.4	3.3	8.8	5.7	4.8	2.0	7.2	0.4	3.6	4.4
Mexico	-0.9	0.1	1.4	4.0	3.2	5.2	3.2	1.2	-6.2	5.4	1.7
Peru	0.2	5.0	4.0	5.0	6.8	7.7	8.9	9.8	0.9	8.8	5.7
Uruguay	-3.5	-7.1	2.3	4.6	6.8	4.3	7.3	8.6	2.6	8.5	3.5
Venezuela	3.4	-8.9	-7.8	18.3	10.3	9.9	8.8	5.3	-3.2	-1.5	3.5

# China:

## Consumption of Refined Metals as % Global Economy (2010)

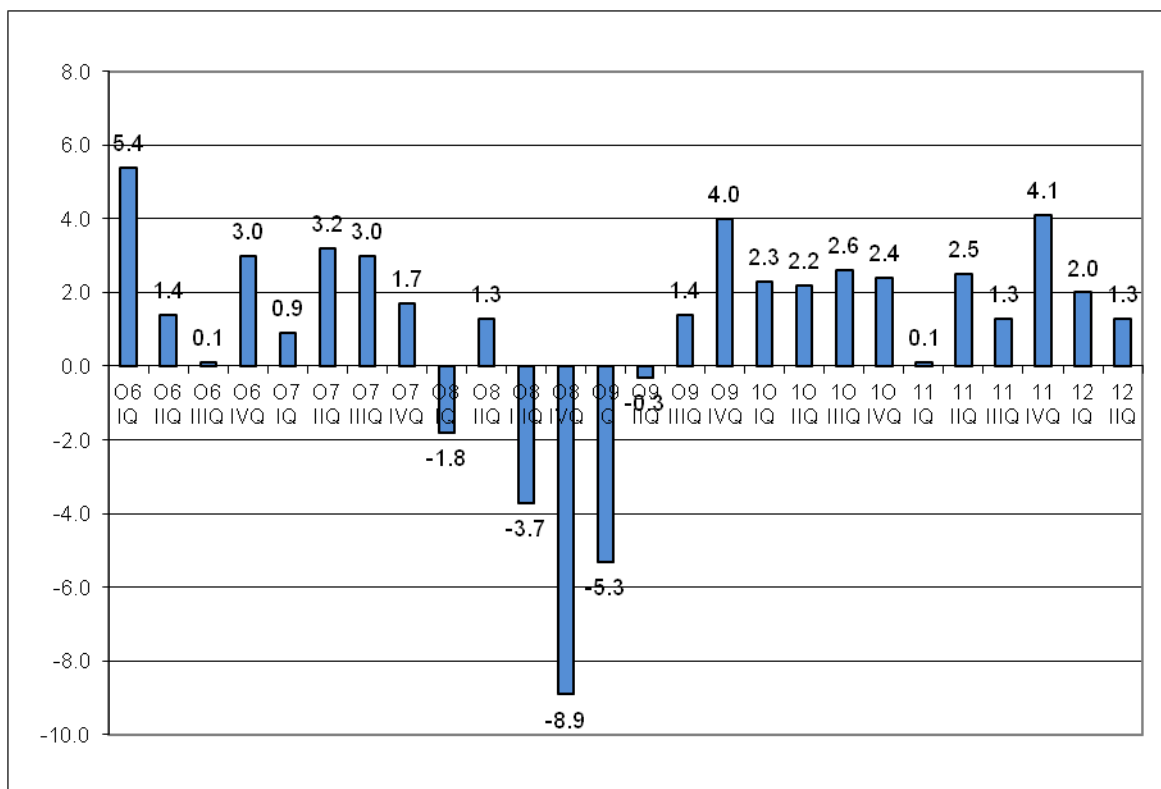


Source: Barclays Capital , May 2011  
Lecture, 5th Annual EdUniversal World Convention: "Economic Outlook for Latin America",  
ESAN, Lima, Peru

## United States

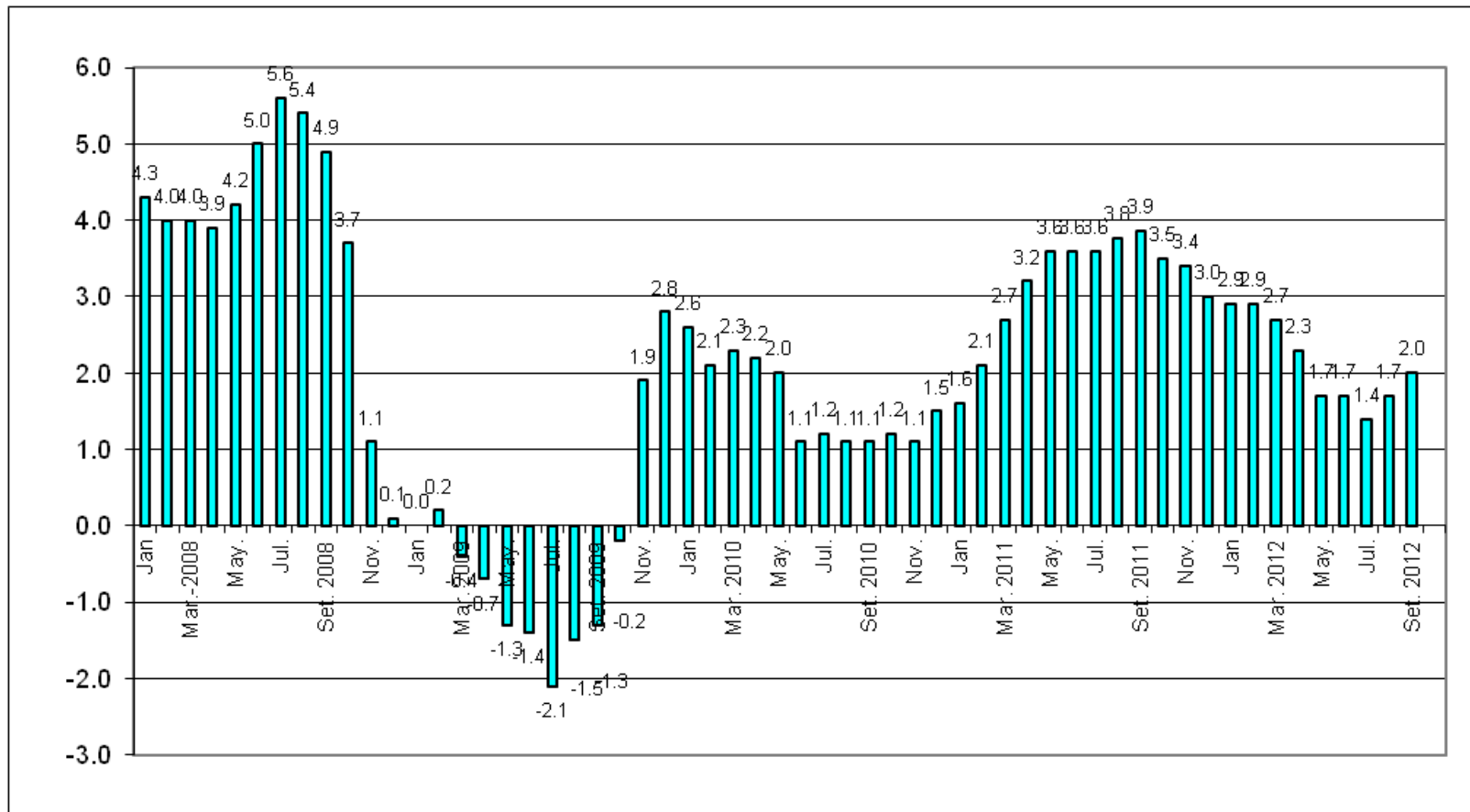
- Modest economic growth in 2013
- Inflation is not yet a concern, despite the monetary expansion
- Tepid growth, accompanied with a current account deficit, fuelled by private investment and a large government deficit

# Since IIIQ 2009, the US Economy is recovering (1,3% in IIQ 2012)



Source: Bureau of Economic Analysis, September 2012  
 Lecture, 5th Annual EdUniversal World Convention: "Economic Outlook for Latin America",  
 ESAN, Lima, Peru

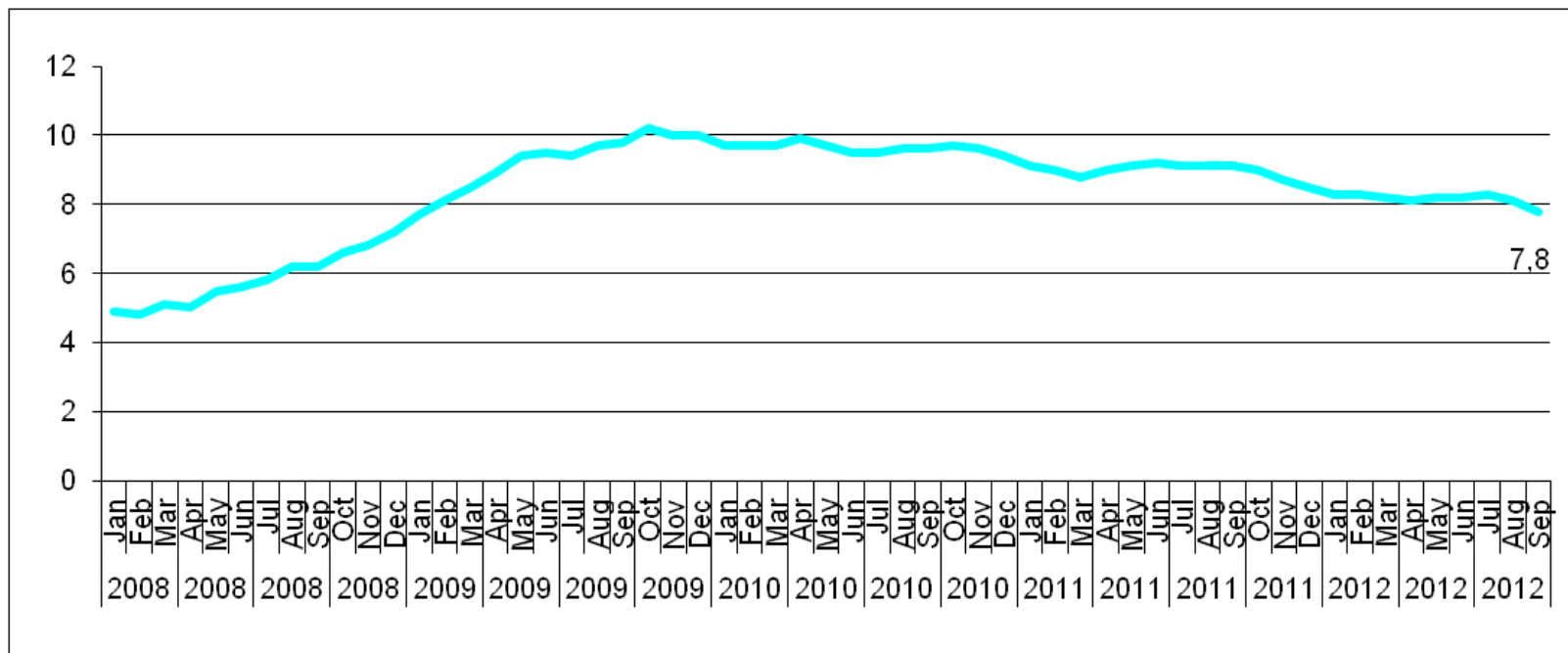
# In the US, inflation is hovering around 2% YoY (2,0% in September 2012)



Source: US Bureau of Labor Statistics, September 2012  
 Lecture, 5th Annual EdUniversal World Convention: "Economic Outlook for Latin America",  
 ESAN, Lima, Peru

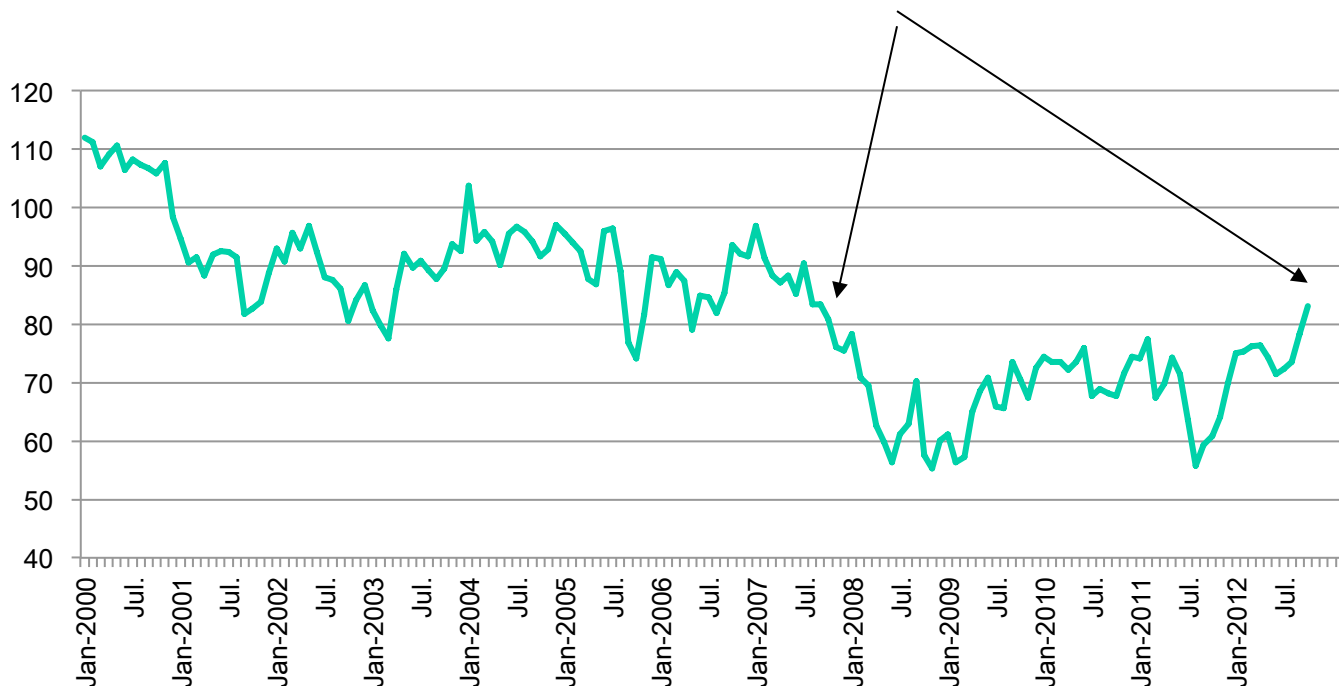


# US Unemployment stable at 7,8% (in September 2012)

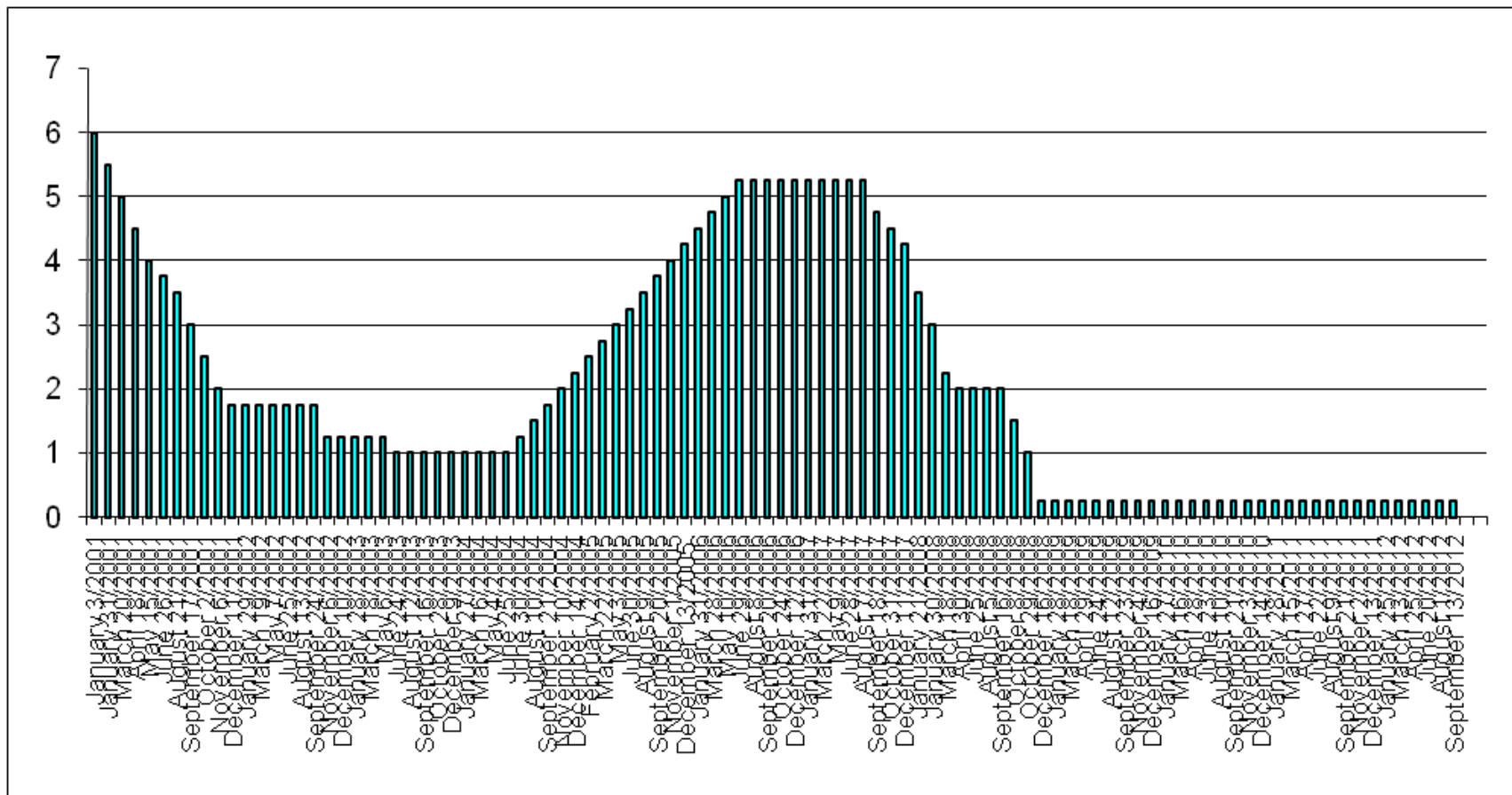


Source: US Bureau of Labor Statistics, September 2012  
 Lecture, 5th Annual EdUniversal World Convention: "Economic Outlook for Latin America",  
 ESAN, Lima, Peru

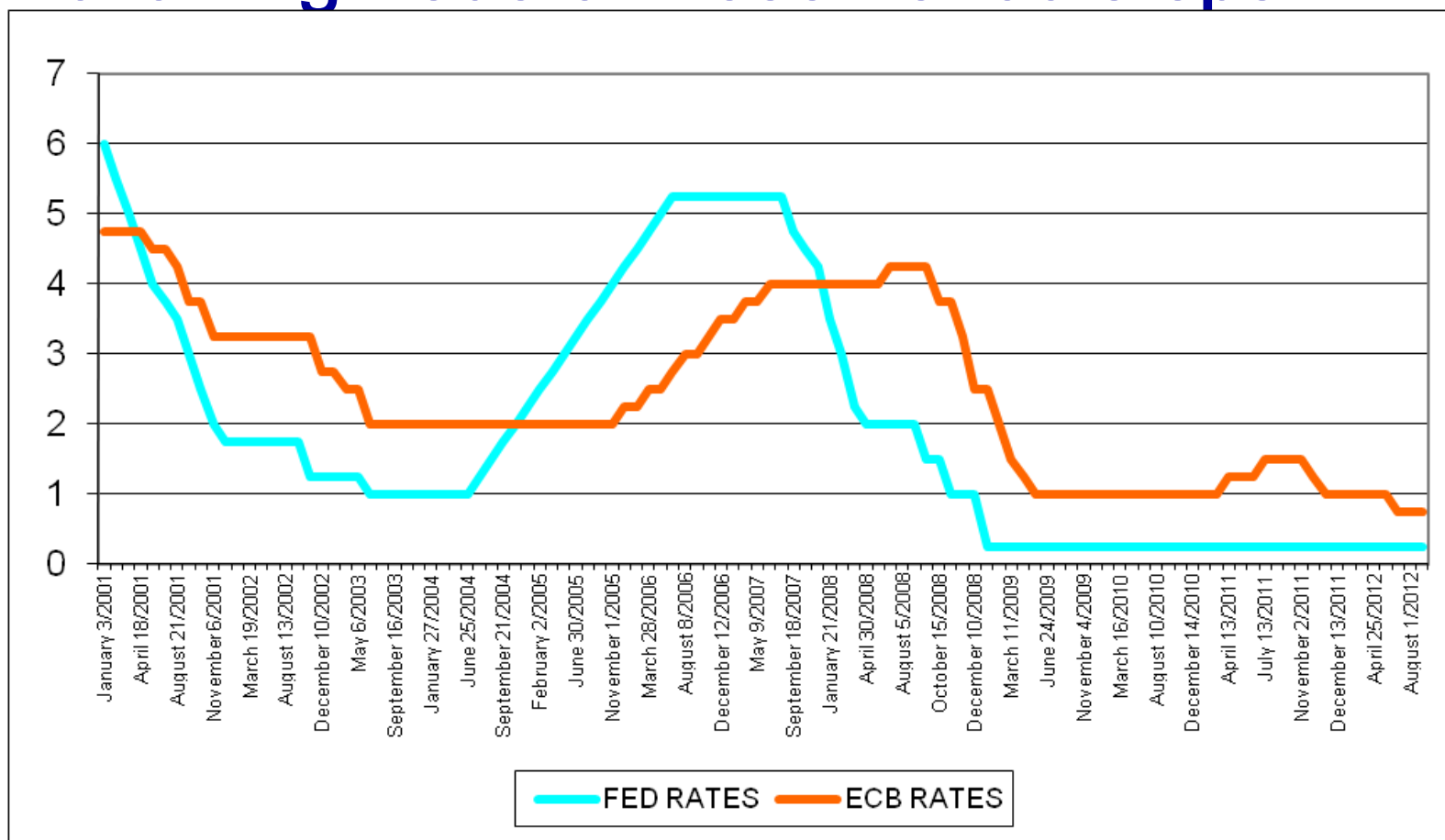
## University of Michigan, Index of Consumer Sentiment: highest since Sep 2007 (83,1 in October 2012)



# Federal Funds Rate (September 2012: Still at 0,25%)



# And the European Central Bank: Following Federal Reserve footsteps



Source: FED, [www.federalreserve.gov/boarddocs](http://www.federalreserve.gov/boarddocs), September 2012 and ECB, September 2012  
Lecture, 5th Annual EdUniversal World Convention: "Economic Outlook for Latin America",  
ESAN, Lima, Peru

## Japan

- A persistent deflation in 2012, could continue in 2013
- Moderate consumption
- Japan continues to export capital
- In spite of falling exports, showing current account surplus

## En 2012 modest growth in the US and in Japan Null growth in the Euro area

	Real GDP			Consumer Prices <sup>1</sup>			Current Account Balance <sup>2</sup>			Unemployment <sup>3</sup>		
	2011	Projections		2011	Projections		2011	Projections		2011	Projections	
		2012	2013		2012	2013		2012	2013		2012	2013
<b>Advanced Economies</b>	<b>1.6</b>	<b>1.3</b>	<b>1.5</b>	<b>2.7</b>	<b>1.9</b>	<b>1.6</b>	<b>-0.2</b>	<b>-0.4</b>	<b>-0.3</b>	<b>7.9</b>	<b>8.0</b>	<b>8.1</b>
United States	1.8	2.2	2.1	3.1	2.0	1.8	-3.1	-3.1	-3.1	9.0	8.2	8.1
Euro Area <sup>4,5</sup>	1.4	-0.4	0.2	2.7	2.3	1.6	0.0	1.1	1.3	10.2	11.2	11.5
Japan	-0.8	2.2	1.2	-0.3	0.0	-0.2	2.0	1.6	2.3	4.6	4.5	4.4
United Kingdom <sup>4</sup>	0.8	-0.4	1.1	4.5	2.7	1.9	-1.9	-3.3	-2.7	8.0	8.1	8.1
Canada	2.4	1.9	2.0	2.9	1.8	2.0	-2.8	-3.4	-3.7	7.5	7.3	7.3
Other Advanced Economies <sup>6</sup>	3.2	2.1	3.0	3.1	2.2	2.4	4.7	3.7	3.3	4.5	4.5	4.6
<i>Memorandum</i>												
Newly Industrialized Asian Economies	4.0	2.1	3.6	3.6	2.7	2.7	6.6	5.6	5.5	3.6	3.5	3.5

Source: IMF: World Economic Outlook Update, October 2012

Lecture, 5th Annual EdUniversal World Convention: "Economic Outlook for Latin America",  
ESAN, Lima, Peru

# Null growth in the Euro area

	Real GDP			Consumer Prices <sup>1</sup>			Current Account Balance <sup>2</sup>			Unemployment <sup>3</sup>		
	2011	Projections		2011	Projections		2011	Projections		2011	Projections	
		2012	2013		2012	2013		2012	2013		2012	2013
<b>Europe</b>	<b>2.0</b>	<b>0.1</b>	<b>0.8</b>	<b>3.3</b>	<b>2.8</b>	<b>2.1</b>	<b>0.4</b>	<b>0.8</b>	<b>1.0</b>	...	...	...
<b>Advanced Europe</b>	<b>1.4</b>	<b>-0.3</b>	<b>0.4</b>	<b>2.9</b>	<b>2.3</b>	<b>1.7</b>	<b>1.1</b>	<b>1.5</b>	<b>1.7</b>	<b>9.4</b>	<b>10.2</b>	<b>10.4</b>
Euro Area <sup>4,5</sup>	1.4	-0.4	0.2	2.7	2.3	1.6	0.0	1.1	1.3	10.2	11.2	11.5
Germany	3.1	0.9	0.9	2.5	2.2	1.9	5.7	5.4	4.7	6.0	5.2	5.3
France	1.7	0.1	0.4	2.1	1.9	1.0	-1.9	-1.7	-1.7	9.6	10.1	10.5
Italy	0.4	-2.3	-0.7	2.9	3.0	1.8	-3.3	-1.5	-1.4	8.4	10.6	11.1
Spain	0.4	-1.5	-1.3	3.1	2.4	2.4	-3.5	-2.0	-0.1	21.7	24.9	25.1
Netherlands	1.1	-0.5	0.4	2.5	2.2	1.8	8.5	8.2	8.2	4.4	5.2	5.7
Belgium	1.8	0.0	0.3	3.5	2.8	1.9	-1.0	-0.1	0.3	7.2	7.4	7.9
Austria	2.7	0.9	1.1	3.6	2.3	1.9	1.9	1.9	1.6	4.2	4.3	4.5
Greece	-6.9	-6.0	-4.0	3.3	0.9	-1.1	-9.8	-5.8	-2.9	17.3	23.8	25.4
Portugal	-1.7	-3.0	-1.0	3.6	2.8	0.7	-6.4	-2.9	-1.7	12.7	15.5	16.0
Finland	2.7	0.2	1.3	3.3	2.9	2.3	-1.2	-1.6	-1.7	7.8	7.6	7.8
Ireland	1.4	0.4	1.4	1.2	1.4	1.0	1.1	1.8	2.7	14.4	14.8	14.4
Slovak Republic	3.3	2.6	2.8	4.1	3.6	2.3	0.1	0.8	0.3	13.5	13.7	13.5
Slovenia	0.6	-2.2	-0.4	1.8	2.2	1.5	0.0	1.1	1.0	8.2	8.8	9.0
Luxembourg	1.6	0.2	0.7	3.7	2.5	2.3	7.1	7.3	7.1	5.7	6.2	6.1
Estonia	7.6	2.4	3.5	5.1	4.4	3.2	2.1	0.7	-0.1	12.5	10.1	9.1
Cyprus	0.5	-2.3	-1.0	3.5	3.1	2.2	-10.4	-3.5	-2.0	7.8	11.7	12.5
Malta	2.1	1.2	2.0	2.5	3.5	2.2	-1.3	-1.5	-1.6	6.5	6.0	5.8
United Kingdom <sup>5</sup>	0.8	-0.4	1.1	4.5	2.7	1.9	-1.9	-3.3	-2.7	8.0	8.1	8.1

# Chinese Economy

- Still, showing strong growth in 2013
- The inflation continues to decrease in 2012, food prices are critical
  - (In Asia, around 30% of consumer's basket is food)
- Inflation was 1,9% in September 2012,(YoY), the lowest annual inflation in a 36-month period



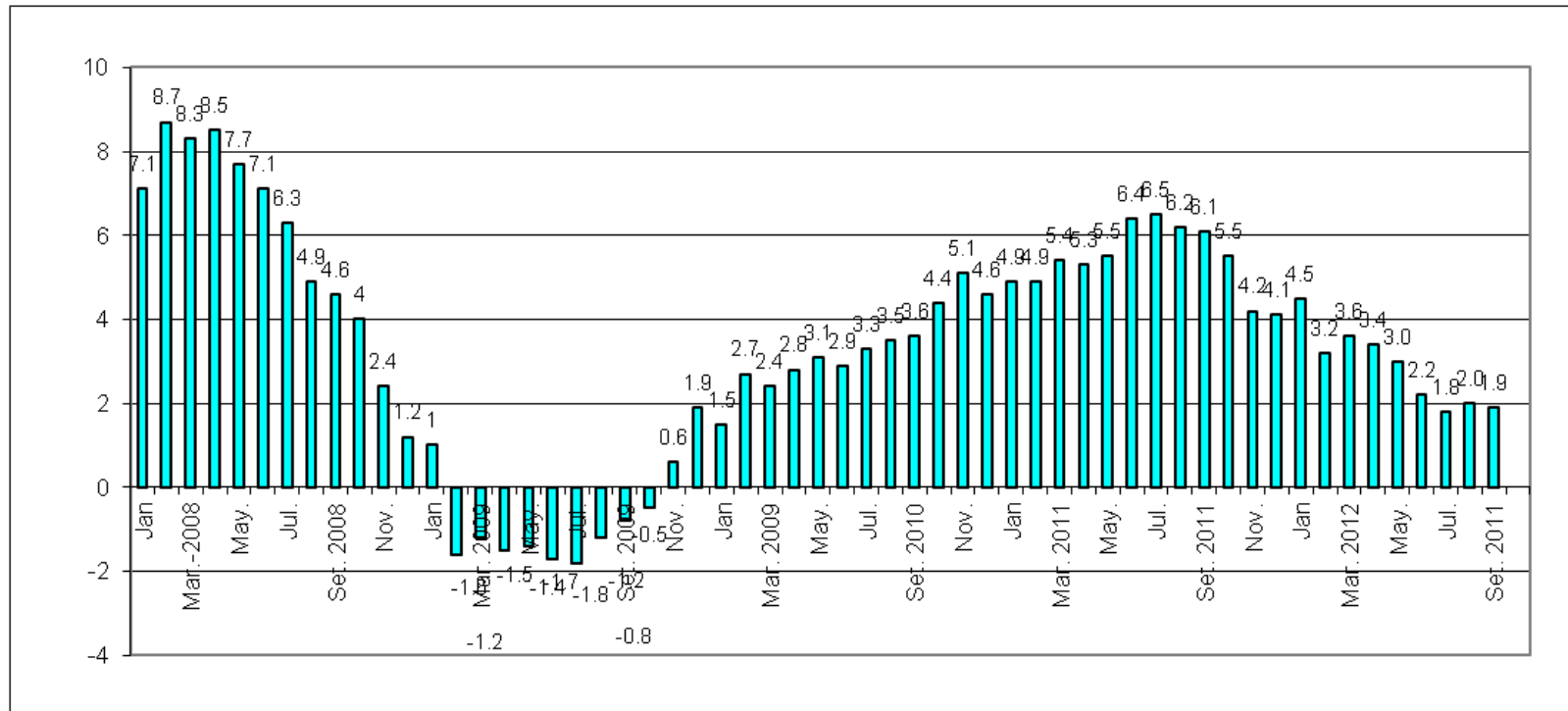
## China continues to show strong growth in 2013

	Real GDP			Consumer Prices <sup>1</sup>			Current Account Balance <sup>2</sup>			Unemployment <sup>3</sup>		
	2011	Projections		2011	Projections		2011	Projections		2011	Projections	
		2012	2013		2012	2013		2012	2013		2012	2013
<b>Asia</b>	<b>5.8</b>	<b>5.4</b>	<b>5.8</b>	<b>5.0</b>	<b>3.9</b>	<b>3.8</b>	<b>1.9</b>	<b>1.2</b>	<b>1.3</b>	...	...	...
<b>Advanced Asia</b>	<b>1.3</b>	<b>2.3</b>	<b>2.3</b>	<b>1.6</b>	<b>1.2</b>	<b>1.2</b>	<b>2.3</b>	<b>1.5</b>	<b>1.6</b>	<b>4.3</b>	<b>4.3</b>	<b>4.2</b>
Japan	-0.8	2.2	1.2	-0.3	0.0	-0.2	2.0	1.6	2.3	4.6	4.5	4.4
Australia	2.1	3.3	3.0	3.4	2.0	2.6	-2.3	-4.1	-5.5	5.1	5.2	5.3
New Zealand	1.3	2.2	3.1	4.0	1.9	2.4	-4.2	-5.4	-5.9	6.5	6.6	5.7
<b>Newly Industrialized Asian Economies</b>	<b>4.0</b>	<b>2.1</b>	<b>3.6</b>	<b>3.6</b>	<b>2.7</b>	<b>2.7</b>	<b>6.6</b>	<b>5.6</b>	<b>5.5</b>	<b>3.6</b>	<b>3.5</b>	<b>3.5</b>
Korea	3.6	2.7	3.6	4.0	2.2	2.7	2.4	1.9	1.7	3.4	3.3	3.3
Taiwan Province of China	4.0	1.3	3.9	1.4	2.5	2.0	8.9	6.9	7.3	4.4	4.5	4.3
Hong Kong SAR	5.0	1.8	3.5	5.3	3.8	3.0	5.3	4.1	3.8	3.4	3.4	3.3
Singapore	4.9	2.1	2.9	5.2	4.5	4.3	21.9	21.0	20.7	2.0	2.1	2.1
<b>Developing Asia</b>	<b>7.8</b>	<b>6.7</b>	<b>7.2</b>	<b>6.5</b>	<b>5.0</b>	<b>4.9</b>	<b>1.6</b>	<b>0.9</b>	<b>1.1</b>	...	...	...
China	9.2	7.8	8.2	5.4	3.0	3.0	2.8	2.3	2.5	4.1	4.1	4.1
India	6.8	4.9	6.0	8.9	10.2	9.6	-3.4	-3.8	-3.3	...	...	...

Source: IMF: World Economic Outlook, October 2012

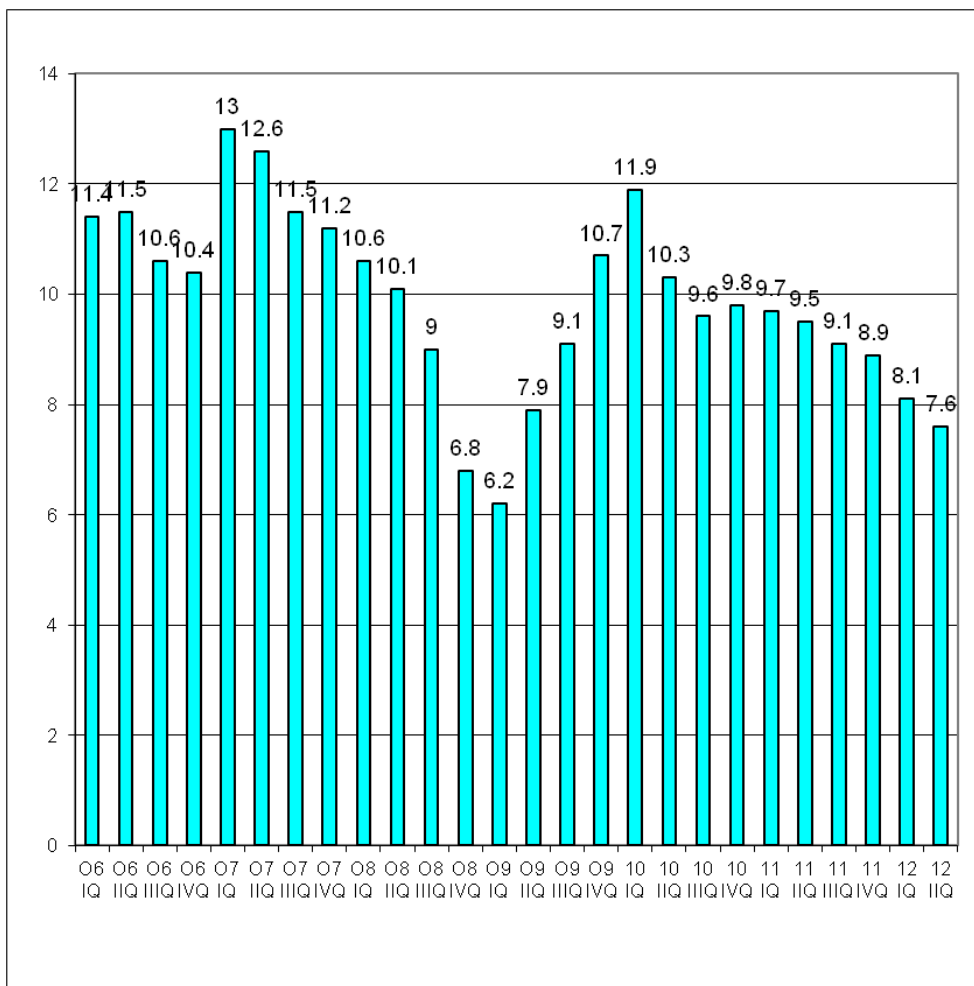
Lecture, 5th Annual EdUniversal World Convention: "Economic Outlook for Latin America",  
 ESAN, Lima, Peru

# China: Inflation is not a risk (1,9% in September 2012 YoY, 36-month low)



Source: China Economic Information Network  
 Lecture, 5th Annual EdUniversal World Convention: "Economic Outlook for Latin America",  
 ESAN, Lima, Peru

# China: GDP Growth ( YoY, 7,6% in IIQ 2012)



## Chinese Dilemma

- In spite of the weak US dollar
- Asia and particularly, China still will be buying T bills and notes to finance the US current account deficit?
  - Apparently 60% in US\$ denominated instruments
- Strategic (avoiding further US dollar weakening) more than financial view, will still hold ?

## US Dilemma

- In 2013 the US current account will be 3,1% of GDP:
- Dilemma:
  - Look for the appreciation of the greenback, guaranteeing short term financing or
  - Betting in a weak US dollar, and expecting in the medium term, a surge in exports and reduction in imports

## US \$ facts

- In 2006, the US\$ depreciated (nominally) against the euro in 11,4%
- In 2007, the US\$ lost 10,3% of its value against the euro
- In 2008, the US\$ appreciated 7,2% against the euro
- In 2009, the US\$ depreciated 14,7% against de euro
- In 2010 (YoY), the US\$ appreciated 9,5% against the euro.
- In 2011, it has appreciated (nominally) 0,5% against the euro

## LA, Growth between 2004-2012

- Supported by strong commodity prices, fuelled by Asian demand, in particular China
- Nevertheless, since 2010, the Greek crisis and the volatility of the euro, have weakened the global outlook
- The outlook for commodities is a key unknown for the years to come

## Latin American Outlook

- Economies still with moderate inflation
- Most countries with fiscal accounts in order
- Medium Size Saving – Investment Ratios (20-25% of GDP)
- In general terms:
  - Appreciation/Revaluation of most of LA currencies to the US dollar has levelled off, since IIIQ of 2008
  - Most countries, since 2008, are showing current account deficits



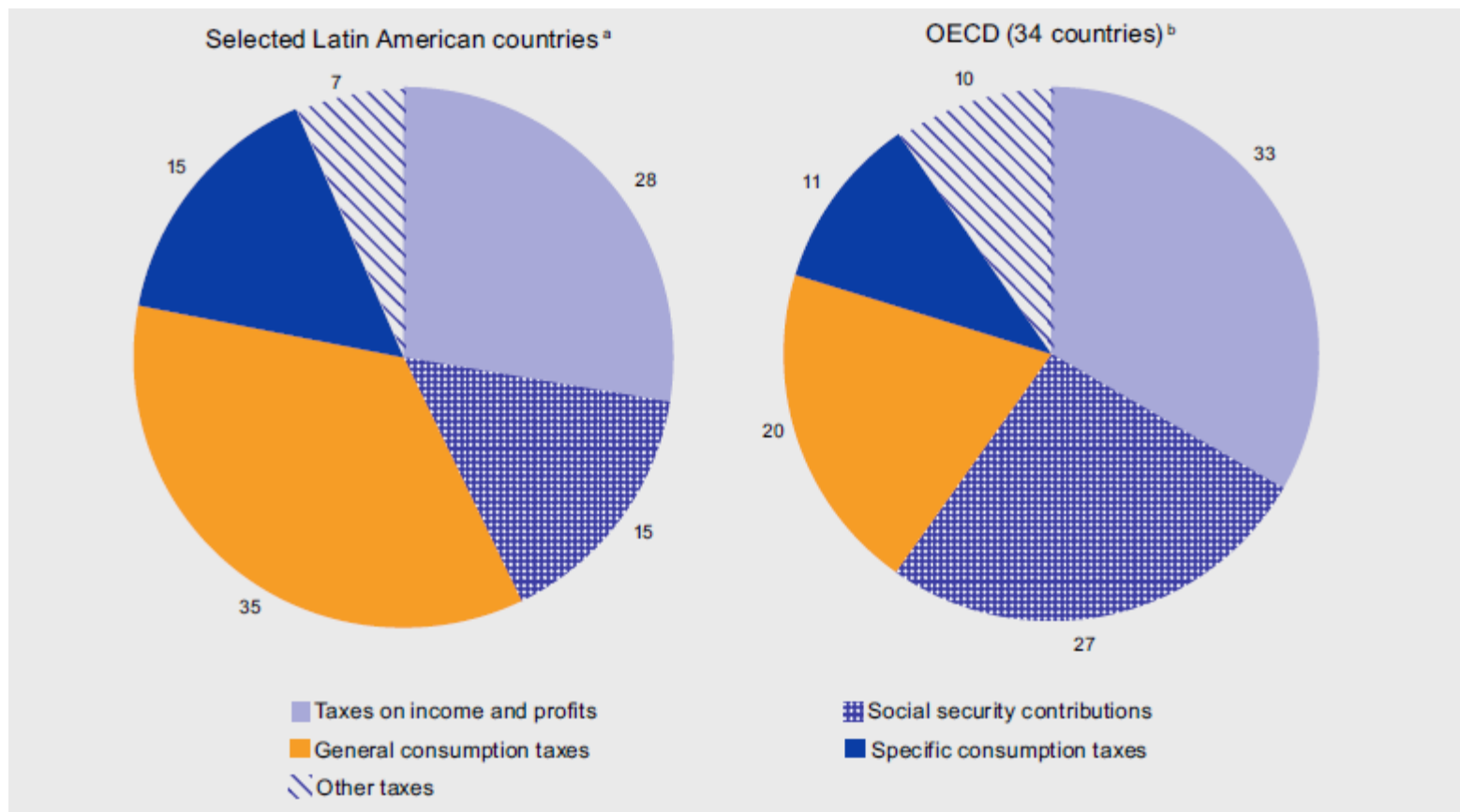
# LA: Small Debts and Deficits in the Fiscal Front, % of GDP (source: eclac)

	Resultado primario					Resultado global					Deuda pública <sup>a</sup>									
											Gobierno central					SPNF				
	2006	2007	2008	2009	2010 <sup>b</sup>	2006	2007	2008	2009	2010 <sup>b</sup>	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
América Latina y el Caribe <sup>c</sup>	1,9	2,1	1,4	-0,6	...	-1,2	-0,5	-1,2	-3,4	...	53,6	47,3	46,1	48,9	...	...	...	...	...	...
América Latina <sup>c</sup>	2,4	2,3	1,3	-1,1	-0,6	0,1	0,4	-0,4	-2,9	-2,4	35,8	29,9	28,5	29,9	28,5	40,5	33,6	31,9	33,5	31,7
El Caribe <sup>c</sup>	1,5	2,1	2,0	0,3	...	-2,9	-1,6	-2,1	-4,0	...	79,7	72,6	71,8	76,5	...	...	...	...	...	...
Argentina	2,7	2,7	2,8	1,2	2,2	1,0	0,6	0,7	-1,0	0,1	63,6	55,7	48,5	48,5	44,6	76,3	66,7	57,8	57,7	52,5
Bolivia (Estado Plurinacional de) <sup>d</sup>	5,3	3,5	0,8	0,4	-1,9	3,5	2,3	0,0	-1,1	-3,5	49,6	37,1	34,0	34,5	35,0	52,4	40,0	36,8	37,6	37,9
Brasil	2,1	2,2	2,4	1,3	1,2	-2,9	-1,9	-1,2	-3,6	-2,1	31,0	30,7	24,2	29,7	27,0	47,0	45,1	38,4	42,8	39,1
Chile	8,4	9,0	5,3	-3,9	-0,4	7,7	8,4	4,8	-4,4	-1,0	5,3	4,1	5,2	6,1	7,0	10,6	9,1	12,0	12,7	13,6
Colombia	0,2	1,0	0,9	-1,1	-1,2	-3,4	-2,7	-2,3	-4,1	-4,4	37,4	32,9	33,4	35,1	34,5	47,3	43,8	42,8	45,3	41,9
Costa Rica	2,7	3,7	2,4	-1,3	-2,6	-1,1	0,6	0,2	-3,4	-5,2	33,3	27,6	24,9	27,4	27,2	38,4	31,8	29,9	34,1	33,6
Ecuador	2,0	1,9	0,3	-4,2	-2,0	-0,2	-0,1	-1,1	-5,1	-2,9	29,5	27,7	22,9	18,2	18,8	32,0	30,2	25,0	19,6	20,0
El Salvador	2,0	2,2	1,7	-1,2	-0,7	-0,4	-0,2	-0,6	-3,7	-3,0	37,3	34,5	33,4	41,7	39,6	39,5	36,5	35,8	44,2	42,0
Guatemala	-0,6	0,0	-0,3	-1,7	-1,9	-1,9	-1,4	-1,6	-3,1	-3,5	21,7	21,3	20,1	23,0	22,9	21,9	21,6	20,4	23,3	23,2
Haití	1,2	-1,3	-1,0	-0,8	0,3	0,0	-1,6	-1,3	-1,3	-0,2	36,2	33,6	42,3	34,4	31,0	38,7	35,9	44,5	35,0	31,6
Honduras	-0,1	-2,4	-1,9	-5,4	-3,4	-1,1	-3,1	-2,5	-6,2	-4,5	28,7	17,3	19,9	24,3	24,6	30,0	18,2	18,9	22,6	22,4
México <sup>e</sup>	2,1	1,9	1,6	-0,4	-0,5	0,1	0,0	-0,1	-2,3	-2,7	20,6	20,9	24,4	28,2	27,4	22,6	22,7	26,9	35,0	33,4
Nicaragua	1,9	2,0	0,0	-0,9	0,0	0,0	0,4	-1,2	-2,3	-1,5	69,5	43,1	39,0	44,1	41,6	70,0	44,0	40,1	45,3	42,7
Panamá	4,4	4,6	3,4	1,4	1,8	0,2	1,2	0,3	-1,5	-1,1	60,3	52,3	44,8	44,9	40,8	61,0	52,9	45,4	45,6	41,5
Paraguay	1,5	1,8	3,1	0,7	0,0	0,5	1,0	2,5	0,1	-0,5	23,8	16,9	14,5	15,7	14,4	24,8	19,9	17,3	17,8	16,5
Perú	3,2	3,5	3,5	-0,6	0,4	1,5	1,8	2,2	-1,8	-0,7	30,1	26,2	24,1	23,4	20,8	31,3	27,2	24,5	23,8	21,2
República Dominicana	0,3	1,4	-1,9	-1,5	-0,2	-1,1	0,1	-3,5	-3,4	-2,3	20,4	18,4	24,4	28,0	26,4	...	21,5	25,3	28,6	26,9
Uruguay	3,2	2,1	1,7	1,3	1,1	-1,0	-1,6	-1,1	-1,5	-1,4	57,8	48,9	47,7	43,3	39,4	61,1	52,1	51,1	47,4	43,0
Venezuela (República Bolivariana de)	2,1	4,6	0,1	-3,7	-2,8	0,0	3,1	-1,2	-5,1	-4,4	24,1	19,5	14,2	18,4	18,7	24,1	19,5	14,2	18,4	18,7

# LA: Modest counter cyclical policy: Fiscal stimulus and monetary easing (source:eclac)

Measure	Country																		
	AR	BO	BR	CL	CO	CR	EC	SV	GT	HT	HN	MX	NI	PA	PY	PE	DO	UY	VE
<b>Monetary and financial policy</b>																			
Reduction of legal reserve requirements or increased flexibility	X		X	X	X				X		X				X	X			
Provision of liquidity in national currency	X		X	X	X	X	X		X		X	X			X	X	X	X	
<b>Fiscal policy</b>																			
Tax cuts or increased subsidies	X		X				X				X		X	X					
Spending increased or brought forward (infrastructure)	X	X	X	X	X	X		X	X		X	X			X	X			X
<b>Foreign exchange and trade policy</b>																			
Provision of liquidity in foreign currency <sup>2</sup>	X	X	X	X	X				X							X			X
Increased tariffs or import restrictions	X						X												
Tariff cuts	X						X					X	X			X			
Export financing	X		X	X	X		X								X				X
Credit from international financial bodies					X				X		X		X		X	X			
<b>Sectoral policies</b>																			
Housing			X	X					X		X					X			X
Small and medium-sized enterprises	X			X					X			X				X			X
Agriculture			X			X				X	X			X					X
Tourism																			X
Industry	X																		X
<b>Employment and social policy</b>																			
Promoting job creation	X			X					X			X				X			
Social programmes			X	X	X	X		X		X			X			X			

# LA and OECD Countries: Tax Structures (2009)



# LA: GDP growth, downward risk

In 2013, risk : that growth weakens, with inflationary pressures

	Real GDP			Consumer Prices <sup>1</sup>			Current Account Balance <sup>2</sup>			Unemployment <sup>3</sup>		
	2011	Projections		2011	Projections		2011	Projections		2011	Projections	
		2012	2013		2012	2013		2012	2013		2012	2013
<b>North America</b>	<b>2.0</b>	<b>2.3</b>	<b>2.2</b>	<b>3.1</b>	<b>2.1</b>	<b>1.9</b>	<b>-2.9</b>	<b>-3.0</b>	<b>-3.0</b>	...	...	...
United States	1.8	2.2	2.1	3.1	2.0	1.8	-3.1	-3.1	-3.1	9.0	8.2	8.1
Canada	2.4	1.9	2.0	2.9	1.8	2.0	-2.8	-3.4	-3.7	7.5	7.3	7.3
Mexico	3.9	3.8	3.5	3.4	4.0	3.5	-1.0	-0.9	-1.1	5.2	4.8	4.8
<b>South America<sup>4</sup></b>	<b>4.8</b>	<b>2.9</b>	<b>4.0</b>	<b>7.8</b>	<b>6.8</b>	<b>6.9</b>	<b>-1.0</b>	<b>-1.5</b>	<b>-1.7</b>	...	...	...
Brazil	2.7	1.5	4.0	6.6	5.2	4.9	-2.1	-2.6	-2.8	6.0	6.0	6.5
Argentina <sup>5</sup>	8.9	2.6	3.1	9.8	9.9	9.7	-0.1	0.3	-0.1	7.2	7.2	7.2
Colombia	5.9	4.3	4.4	3.4	3.2	2.8	-3.0	-2.9	-2.9	10.8	11.0	10.5
Venezuela	4.2	5.7	3.3	26.1	23.2	28.8	8.6	6.7	5.6	8.1	8.0	8.1
Peru	6.9	6.0	5.8	3.4	3.7	2.5	-1.9	-3.0	-3.0	7.7	7.5	7.5
Chile	5.9	5.0	4.4	3.3	3.1	3.0	-1.3	-3.2	-3.0	7.1	6.6	6.9
Ecuador	7.8	4.0	4.1	4.5	5.1	4.3	-0.3	-0.3	3.0	6.0	5.8	6.2
Uruguay	5.7	3.5	4.0	8.1	7.9	7.6	-3.1	-3.0	-1.9	6.0	6.7	7.0
Bolivia	5.2	5.0	5.0	9.9	4.8	4.7	2.2	1.8	1.1	...	...	...
Paraguay	4.3	-1.5	11.0	6.6	5.0	5.0	-1.0	-1.1	-0.4	5.6	5.8	5.4
<b>Central America<sup>6</sup></b>	<b>4.7</b>	<b>4.3</b>	<b>4.1</b>	<b>5.6</b>	<b>5.0</b>	<b>4.9</b>	<b>-6.9</b>	<b>-7.2</b>	<b>-6.9</b>	...	...	...

Source: IMF, Global Economic Outlook, October 2012  
 Lecture, 5th Annual EdUniversal World Convention: "Economic Outlook for Latin America",  
 ESAN, Lima, Peru

## Latin America Outlook

- Barring a large US recession or a Chinese downturn in 2013:
  - LA countries will continue to grow at moderate/strong rates

## Commodity Prices: Still Strong Prices (Monthly and annual averages)

	COPPER	TIN	GOLD	SILVER	LEAD	ZINC	NICKEL	OIL
	London	London	London	H.Harman	London	London	London	WTI
	cUS\$/lb.	cUS\$/lb.	US\$/oz.tr.	US\$/oz.tr.	cUS\$/lb.	cUS\$/lb.	cUS\$/lb.	US\$/bar.
1998	75.0	251.3	294.5	5.5	24.0	46.5	210.1	14.4
1999	71.3	245.1	279.2	5.3	22.8	48.8	272.8	19.2
2000	82.2	246.6	279.4	5.0	20.6	51.2	392.0	30.3
2001	71.6	203.4	271.2	4.4	21.6	40.2	269.9	25.9
2002	70.7	184.2	310.1	4.6	20.5	35.3	307.3	26.1
2003	89.7	222.0	262.6	4.9	23.4	37.5	437.0	31.1
2004	130.0	386.1	409.8	6.7	40.2	47.5	627.3	41.4
2005	166.9	334.8	445.5	7.3	44.3	62.7	668.8	56.5
2006	304.9	398.3	604.6	11.6	58.5	148.6	1100.2	66.1
2007	322.9	659.5	697.4	13.4	117.0	147.1	1688.7	72.3
2008	315.5	839.6	872.7	15.0	94.8	85.0	957.6	99.6
2009	233.5	615.8	973.6	14.7	77.9	75.1	663.9	61.7
2010	342.3	926.6	1225.3	20.2	97.6	98.2	991.0	79.4
<b>2011</b>	<b>400.2</b>	<b>1,184.0</b>	<b>1,569.5</b>	<b>35.2</b>	<b>109.0</b>	<b>99.5</b>	<b>1,038.1</b>	<b>95.0</b>
<b>2012</b>								
Jan.	363.8	968.3	1654.6	30.8	94.8	89.5	895.9	100.1
Feb.	382.0	1104.2	1745.3	34.2	96.4	93.4	928.3	102.3
Mar.	383.6	1044.0	1675.9	33.0	93.5	92.3	848.7	106.1
Apr.	375.1	1003.8	1649.8	31.5	93.3	90.5	811.7	103.3
May.	360.0	926.8	1589.6	28.8	90.8	87.7	772.7	94.5
Jun.	336.3	874.0	1599.2	28.1	84.2	84.2	748.0	82.4
Jul.	341.2	844.2	1591.0	27.4	85.1	84.0	733.0	87.9
Aug.	340.1	849.0	1630.8	28.9	86.1	82.3	711.7	94.1
Sep.	366.0	938.8	1745.3	33.7	98.4	90.8	780.9	94.6

Source: Central Reserve Bank of Peru, Nota Semanal Cuadro 58, Oct 2012  
Lecture, 5th Annual EdUniversal World Convention: "Economic Outlook for Latin America",  
ESAN, Lima, Peru

## LA: Downside Risks

- Central Banks dilemma, holding in neutral policy or contractionary policies in 2013?
- It is apparent that the Pass-Through from Wholesale Prices to Consumer Prices is just unfolding
- Most are staying in 2013 with neutral policies



## LA: Global Shocks to the Region?

- LA local money has remained stable, since the onset of the 2008 crisis
- The domestic front remains calm, the global financial uncertainty is a key risk for the LA Region at large
- In spite of export composition and restricted access to capital markets, risk has stabilized



## LA: Spreads nearly 2008 levels, before Lehman Brothers crisis

Date	Diferencial de rendimientos del índice de bonos de mercados emergentes (EMBIG) / <i>Emerging Market Bond Index (EMBIG) Stripped Spread</i>								LATIN EMBIG Países Latinoamericanos / Latin Countries
	Perú	Argentina	Brasil	Chile	Colombia	Ecuador	México	Venezuela	
<u>2009</u>									
Dec.	179	720	202	111	208	820	202	1125	361
<u>2010</u>									
Dec.	157	521	178	116	161	928	163	1132	350
<u>2011</u>									
Jan.	146	497	171	116	146	865	156	1120	343
Feb.	146	542	175	114	151	763	157	1118	348
Mar.	157	566	174	114	155	781	157	1148	364
Apr.	192	533	173	120	152	761	161	1113	371
May.	187	581	171	127	147	786	162	1170	379
Jun.	192	605	174	136	145	799	167	1207	388
Jul.	171	595	164	129	142	783	161	1119	368
Aug.	200	719	203	147	171	864	197	1259	417
Sep.	237	874	244	172	215	880	238	1382	470
Oct.	232	908	241	168	207	888	237	1344	483
Nov.	214	896	231	159	197	868	223	1306	464
Dec.	217	927	222	161	188	842	220	1261	454
<u>2012</u>									
Jan.	219	851	222	164	197	805	229	1207	460
Feb.	200	822	204	158	176	790	208	1037	415
Mar.	166	823	179	150	149	803	190	911	372
Apr.	164	967	186	159	147	805	190	984	392
May.	180	1089	212	168	173	850	211	1072	425
Jun.	188	1129	219	177	173	890	220	1145	444
Jul.	163	1090	202	168	151	857	188	1108	416
Aug.	133	1039	170	142	129	805	169	1013	375
Sep.	124	924	161	138	127	753	167	971	360
Oct. 1 to 9	115	867	150	134	115	746	159	955	358

Source: Central Reserve Bank of Peru, Nota Semanal Cuadro 37, Oct 2012  
Lecture, 5th Annual EdUniversal World Convention: "Economic Outlook for Latin America",  
ESAN, Lima, Peru

## What about Peru?

- The Peruvian economy, is a small open economy, the size or New Zealand in nominal terms, and the size of the Czech Republic in PPP terms
- Even though has diversified, the core of exports (60%) are minerals (copper and gold)
- It has fiscal accounts in order, a surplus in 2008 and small deficit in 2009 and 2010 and surplus in 2011

# Peru: Since 2009 has Investment Grade

COUNTRIES	SPECULATION GRADE												INVESTMENT GRADE												
	D	SD	R	CC	CCC-	CCC	CCC+	B-	B	B+	BB-	BB	BB+	BBB-	BBB	BBB+	A-	A	A+	AA-	AA	AA+	AAA		
1 Chile																									
2 México																									
3 Brasil																									
4 Perú																									
5 El Salvador																									
6 Colombia																									
7 Panamá																									
8 Costa Rica																									
9 Guatemala																									
10 Venezuela																									
11 Uruguay																									
12 Honduras																									
13 Rep. Dom.																									
14 Paraguay																									
15 Argentina																									
16 Bolivia																									
17 Ecuador																									
18 Nicaragua																									

## Peru

## Brazil

## Chile

## Colombia

### Global Competitiveness Index

	Rank (out of 142)	Score (1–7)	Rank (out of 142)	Score (1–7)	Rank (out of 142)	Score (1–7)	Rank (out of 142)	Score (1–7)
<b>GCI 2011–2012</b> .....	<b>67</b>	<b>4.2</b>	<b>53</b>	<b>4.3</b>	<b>31</b>	<b>4.7</b>	<b>68</b>	<b>4.2</b>
GCI 2010–2011 (out of 139).....	73	4.1	58	4.3	30	4.7	68	4.1
GCI 2009–2010 (out of 133).....	78	4.0	56	4.2	30	4.7	69	4.1
<b>Basic requirements (40.0%)</b> .....	<b>78</b>	<b>4.4</b>	<b>83</b>	<b>4.3</b>	<b>29</b>	<b>5.4</b>	<b>73</b>	<b>4.5</b>
Institutions.....	95	3.5	77	3.7	26	5.1	100	3.5
Infrastructure.....	88	3.6	64	4.0	41	4.7	85	3.7
Macroeconomic environment.....	52	5.0	115	4.2	14	6.1	42	5.2
Health and primary education.....	97	5.4	87	5.4	71	5.7	78	5.6
<b>Efficiency enhancers (50.0%)</b> .....	<b>50</b>	<b>4.3</b>	<b>41</b>	<b>4.4</b>	<b>34</b>	<b>4.5</b>	<b>60</b>	<b>4.1</b>
Higher education and training.....	77	4.0	57	4.4	43	4.7	60	4.3
Goods market efficiency.....	50	4.4	113	3.8	25	4.8	99	3.9
Labor market efficiency.....	43	4.6	83	4.2	39	4.6	88	4.1
Financial market development.....	38	4.5	43	4.5	37	4.6	68	4.1
Technological readiness.....	69	3.6	54	4.0	45	4.3	75	3.6
Market size .....	48	4.3	10	5.6	46	4.3	32	4.6
<b>Innovation and sophistication factors (10.0%)</b> .....	<b>89</b>	<b>3.3</b>	<b>35</b>	<b>4.0</b>	<b>42</b>	<b>3.9</b>	<b>56</b>	<b>3.7</b>
Business sophistication .....	65	3.9	31	4.5	39	4.3	61	4.0
Innovation.....	113	2.7	44	3.5	46	3.4	57	3.3

# Peru: 77 out of 142 in Higher Education 113 out of 142 in Innovation

## 5th pillar: Higher education and training

5.01	Secondary education enrollment, gross %* .....	89.1	.....	65
5.02	Tertiary education enrollment, gross %* .....	34.5	.....	67
5.03	Quality of the educational system .....	2.6	.....	128
5.04	Quality of math and science education .....	2.4	.....	135
5.05	Quality of management schools .....	4.7	.....	<b>43</b>
5.06	Internet access in schools.....	3.9	.....	76
5.07	Availability of research and training services .....	4.1	.....	73
5.08	Extent of staff training .....	3.9	.....	75

## 12th pillar: Innovation

12.01	Capacity for innovation.....	2.7	.....	<b>99</b>
12.02	Quality of scientific research institutions .....	2.9	.....	109
12.03	Company spending on R&D.....	2.6	.....	118
12.04	University-industry collaboration in R&D.....	3.2	.....	103
12.05	Gov't procurement of advanced tech products.....	3.3	.....	98
12.06	Availability of scientists and engineers .....	3.5	.....	102
12.07	Utility patents granted/million pop.* .....	0.0	.....	83

# Public Expenditure on Education

	Public expenditure per student						Public expenditure on education		Trained teachers in primary education	Primary school pupil-teacher ratio
	Primary		% of GDP per capita Secondary		Tertiary		% of GDP 2010 <sup>a</sup>	% of total government expenditure 2010 <sup>a</sup>	% of total 2010 <sup>a</sup>	pupils per teacher 2010 <sup>a</sup>
	1999	2010 <sup>a</sup>	1999	2010 <sup>a</sup>	1999	2010 <sup>a</sup>				
Argentina	12.9	16.8	18.2	27.1	17.7	19.1	6.0	14.0	..	16
Bolivia	14.2	..	11.7	..	44.1	..	..	..	..	..
Brazil	10.8	18.5	9.5	19.5	57.2	27.6	5.4	..	..	23
Chile	14.4	17.4	14.8	17.7	19.4	13.7	4.5	..	..	23
Colombia	15.2	15.7	16.1	15.3	37.7	29.4	4.8	14.9	100.0	28
Ecuador	4.4	..	9.6	..	..	..	..	..	82.6	17
Mexico	11.9	13.7	14.5	13.6	48.8	38.9	4.9	..	95.6	28
Peru	7.6	7.8	10.8	8.9	21.1	..	2.6	16.4	..	20
Uruguay	7.2	..	9.9	..	..	..	..	..	..	14
Venezuela, RB	..	..	..	..	..	..	..	..	88.4	12
<b>Low &amp; middle income</b>	..	..	..	..	..	..	4.1	..	..	26
East Asia & Pacific	..	..	..	..	37.8	..	3.8	17.2	..	17
Europe & Central Asia	..	..	..	..	..	17.3	4.4	14.0	..	17
Latin America & Carib.	12.6	12.4	12.9	13.6	..	..	4.4	..	..	24
Middle East & N. Africa	..	..	..	..	..	..	4.8	20.0	..	24
South Asia	..	8.8	13.1	..	95.0	..	2.5	12.6	..	..
Sub-Saharan Africa	..	..	..	..	..	..	5.0	18.9	..	46



## Peruvian New Administration: Mr Ollanta Humala (2011-2016)

- Mr Humala is the first candidate from the left, who has won an election in Peru
- Despite the Peruvian record economic growth, resolving themes such income inequality are pending
  - There is an enormous demand for better education, health and public services
- Nevertheless taxes are around 20% of GDP, there is no much room left, unless there is a genuine reform on tax collection

## Peruvian New Administration: Mr Ollanta Humala (2011-2016)

- One of the electoral topics have been increasing taxes on the Mining Industry
  - Controversy: Increasing these on profits or just sales
- Nowadays, Mining is responsible 33% of total Income Tax
- Peru has 10,1% of global Copper reserves, 4,3% of Gold Reserves, 13,3% of Silver and 8% of Zinc
- Peru is now the the 2nd global producer of Copper and Zinc, 6th in Gold and 1st in Silver



## Peruvian New Administration: Mr Ollanta Humala (2011-2016)

- It is apparent that the Humala administration, will continue the macro policies (fiscal conservatism and prudent monetary policies)
- The emphasis will be in social programs and looking for political support and the public financing for these programs

## For Perú: Which are the (Downward) Risks?

- Fragile recovery of the US in 2011
- US GDP around US\$ 15 200 billion (22% of Global GDP)
  - Persistent US unemployment (now 9%)
  - Downbeat Consumer Sentiment, meaning less consumption
  - Protracted deleveraged of families and firms
- Eventual China downfall, meaning less mining products demand
- Fiscal crisis in Europe (Greece, Spain), increases European banks exposure, pushing increases in interest rates
- Unstable domestic political cycle, implying postponement of private investment projects in mining related activities

## Lessons and Pending Agenda

- It is clear that emerging markets, driven by China, and East Asian countries, have increased its share in the global output
  - Most have built enormous amounts of International Reserves
- Nevertheless, the US economy is still preponderant, regarding financial and capital markets
- LA countries and Peru must hold to prudent monetary and fiscal policies, tackling a state reform focus in offering a better quality of state services (education, health services and infrastructure) and improving national income distribution