

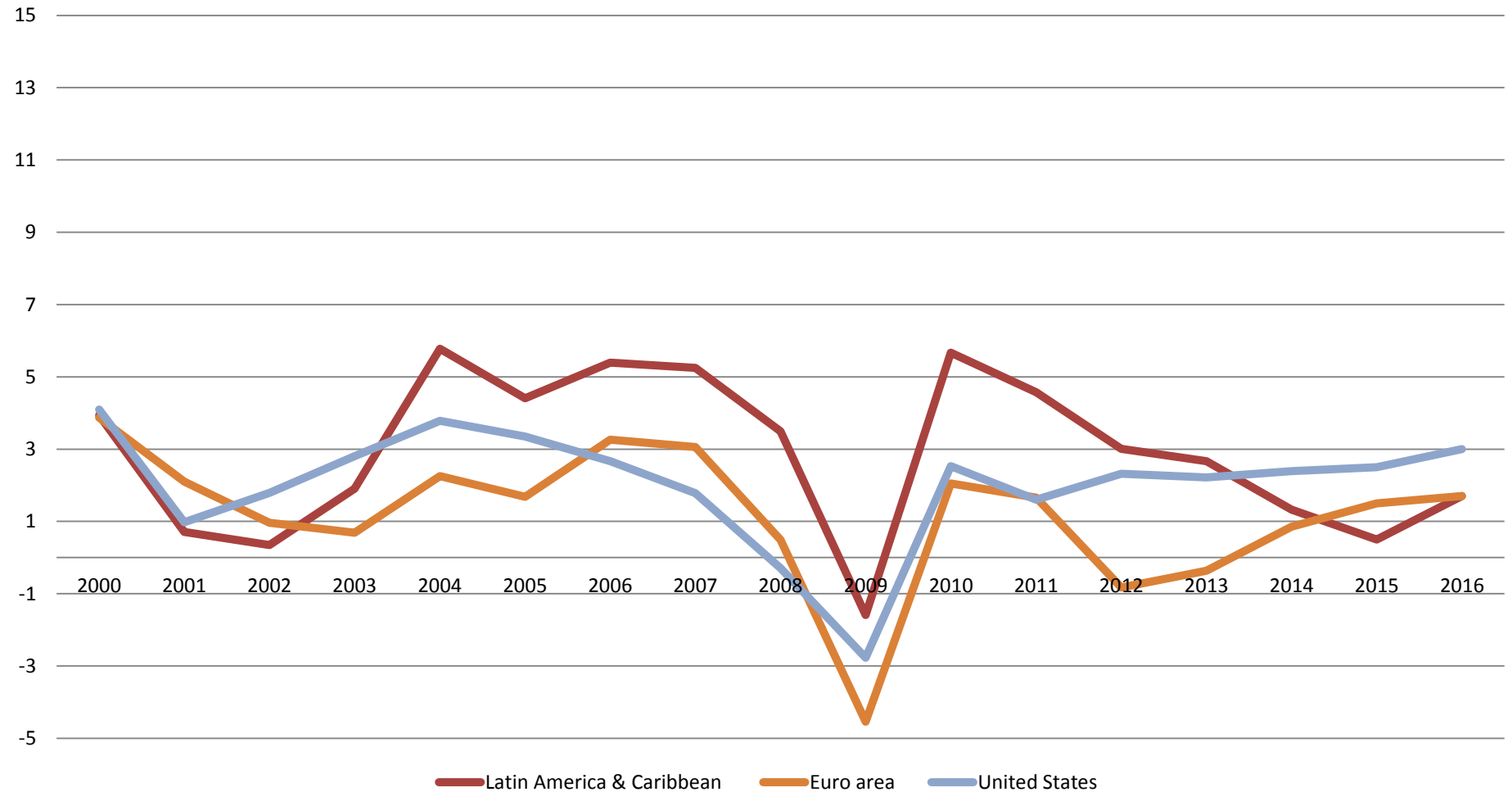
THE IMPACT OF COMMODITY PRICES
ON LATIN AMERICAN GROWTH
and a comment on regional integration

GUILLERMO PERRY
PRESENTATION AT THE
INTERAMERICAN DIALOGUE
ENERGY, CLIMATE CHANGE AND EXTRACTIVE INDUSTRIES
PROGRAM

WASHINGTON SEPTEMBER 9 2015

LATIN AMERICAN RECENT BOOM AND BUST

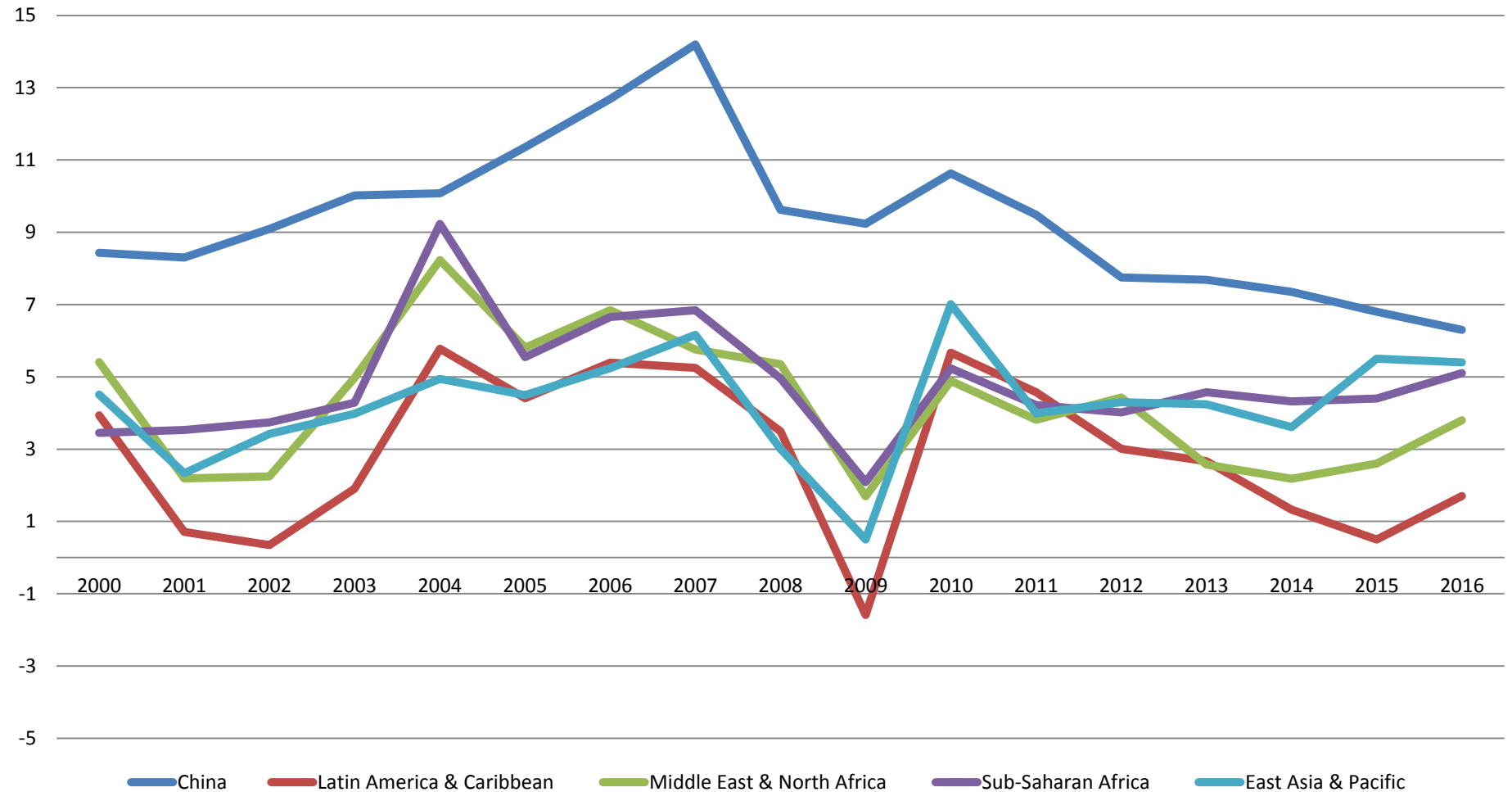
GDP Growth Rates



Source: World Bank, IMF

FASTEST DROP AMONG DEVELOPING REGIONS

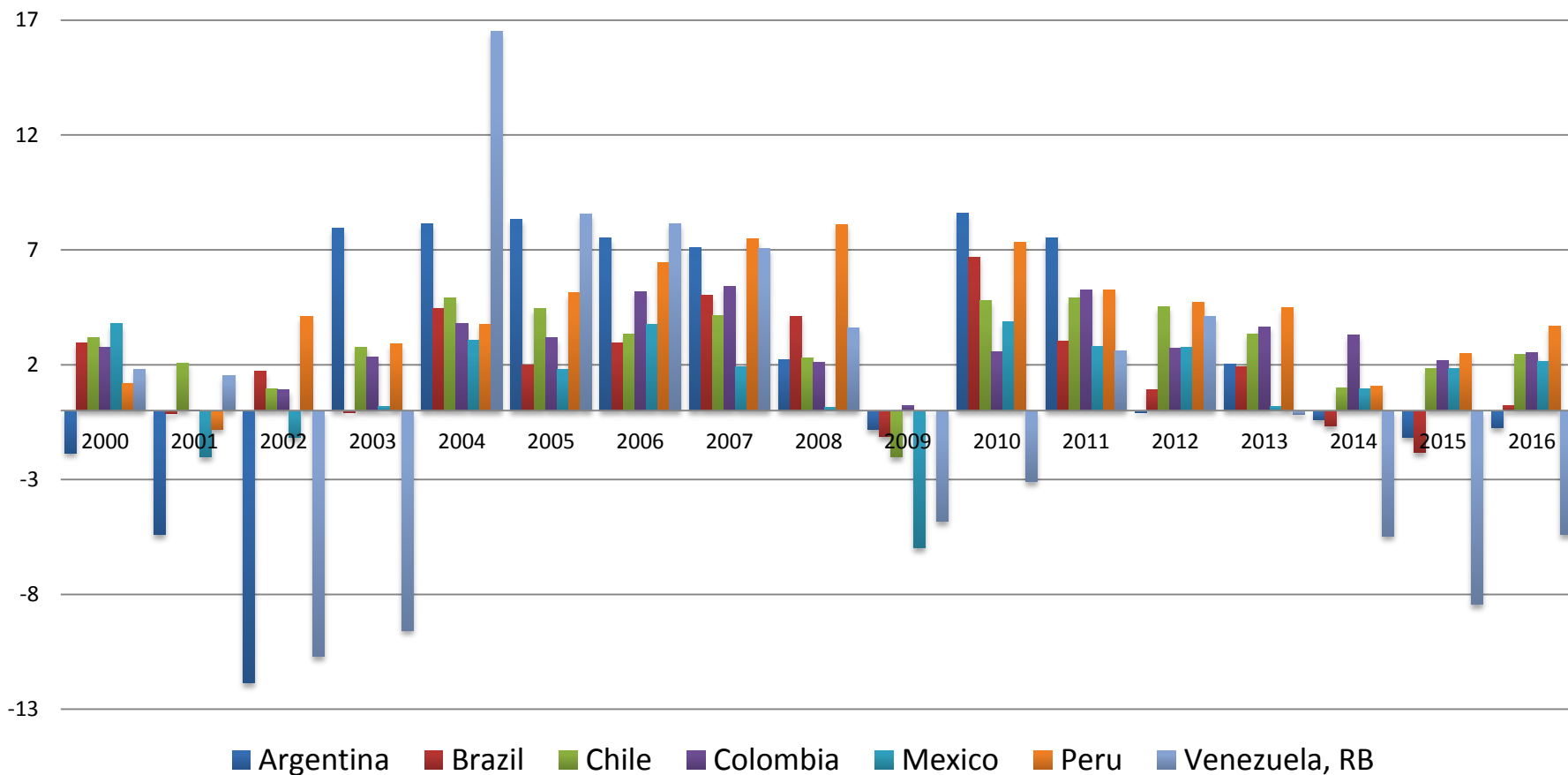
GDP Growth Rates



Source: World Bank, IMF

WITH IMPORTANT INTRA-REGIONAL DIFFERENCES

GDP Growth Rates



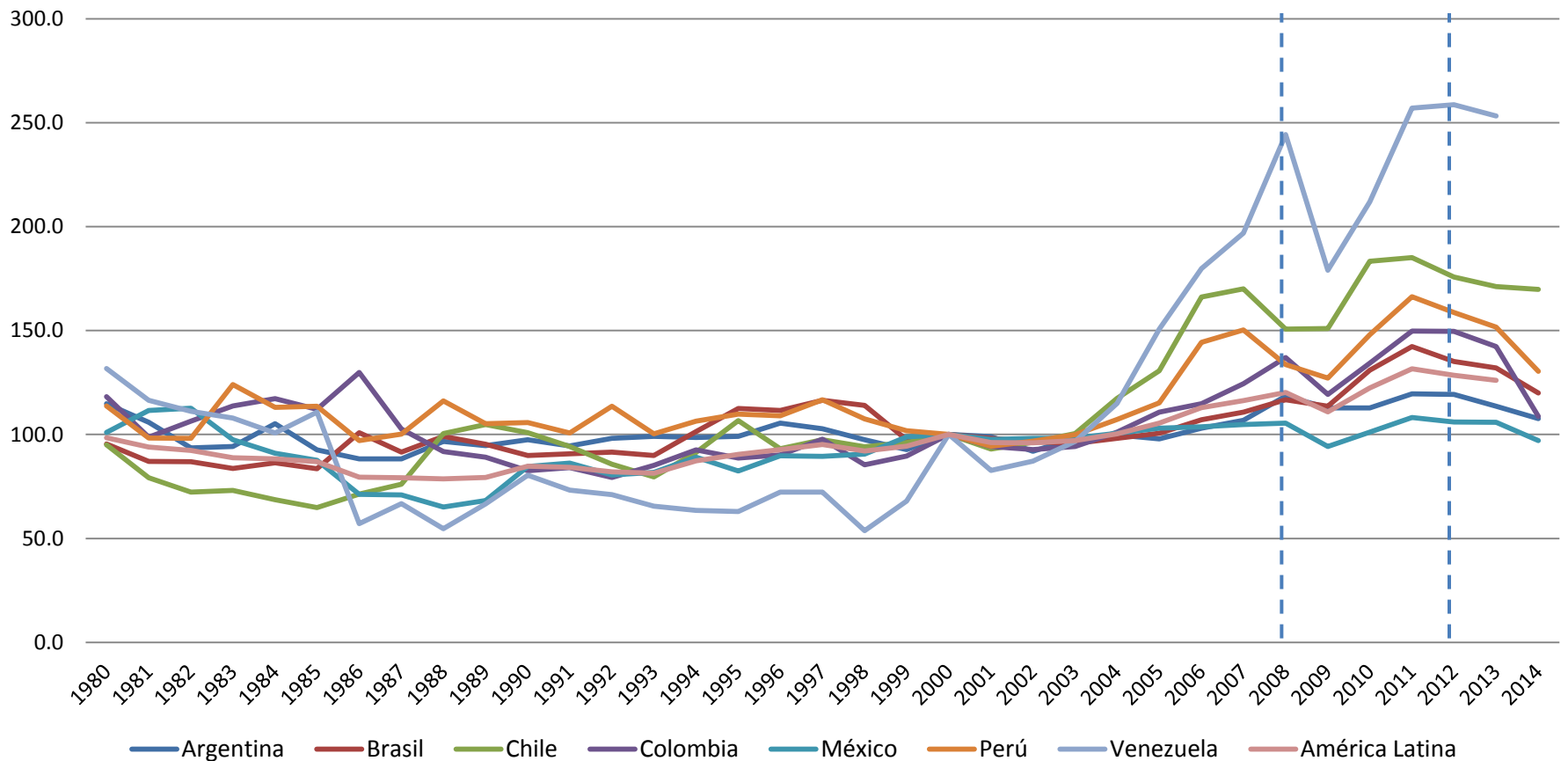
Source: World Bank, IMF

¿WHY DID THE RECENT FALL IN COMMODITY PRICES AFFECT SO MUCH LATIN AMERICA?

- The direct income loss from the reduction in terms of trade (as in other commodity exporters). Higher for oil exporters
- A major drop in investment in primary sectors (especially in oil and mining exploration) and related sectors –e.g., specialized services-) in some countries. Higher for oil exporters
- A general fall in investment and capital flows reversals due to lower growth prospects and higher country risk. Specially in countries with macro fragilities such as Venezuela, Argentina and Brasil, where capital flows reversals led to currency crisis.
- A slow reaction of other tradable sectors to currency depreciation in countries that had significant 'Dutch Disease' effects during the boom. Limits to currency depreciation in countries with inflationary pressures (Venezuela, Argentina, Brasil)
- The effects of fiscal contraction in countries with high fiscal dependence on commodities and fiscal fragility. Specially in oil exporters

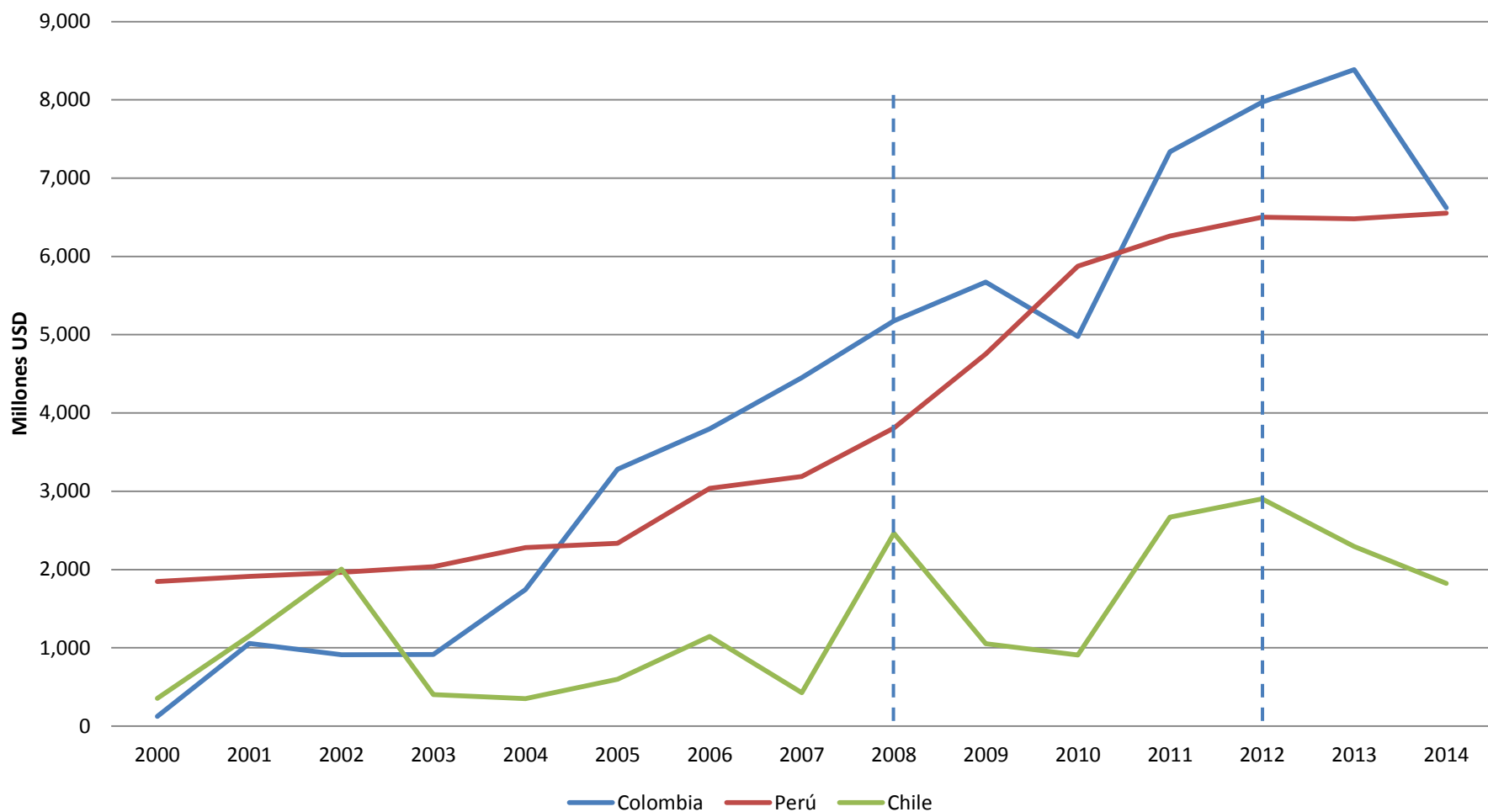
RECENT PERFORMANCE STRONGLY LINKED TO TERMS OF TRADE GAINS (with some exceptions)

TERMS OF TRADE GAINS AND DROP



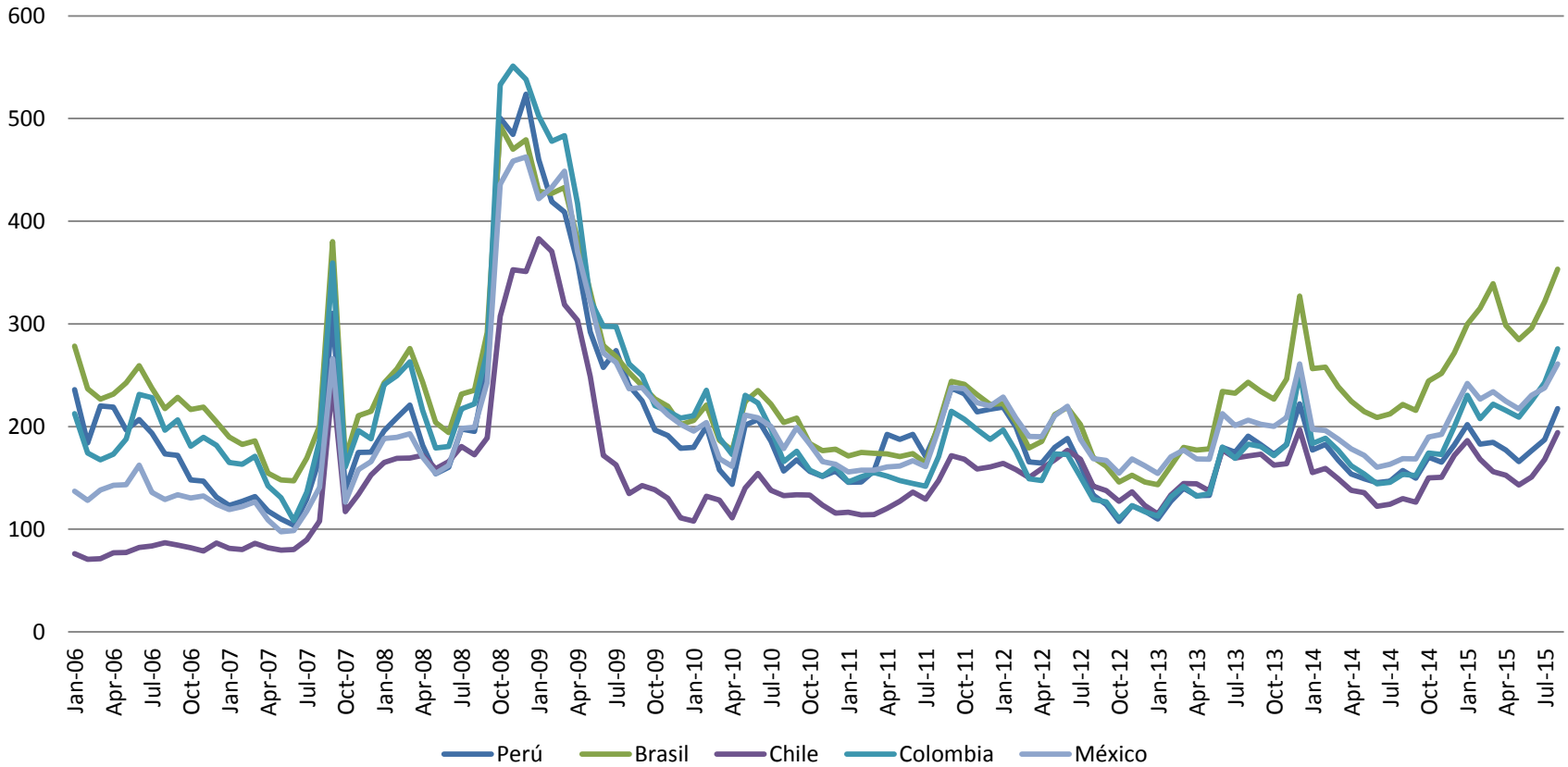
Source: Cepalstat, 2015

Ups and downs in investment in primary sectors (FDI)



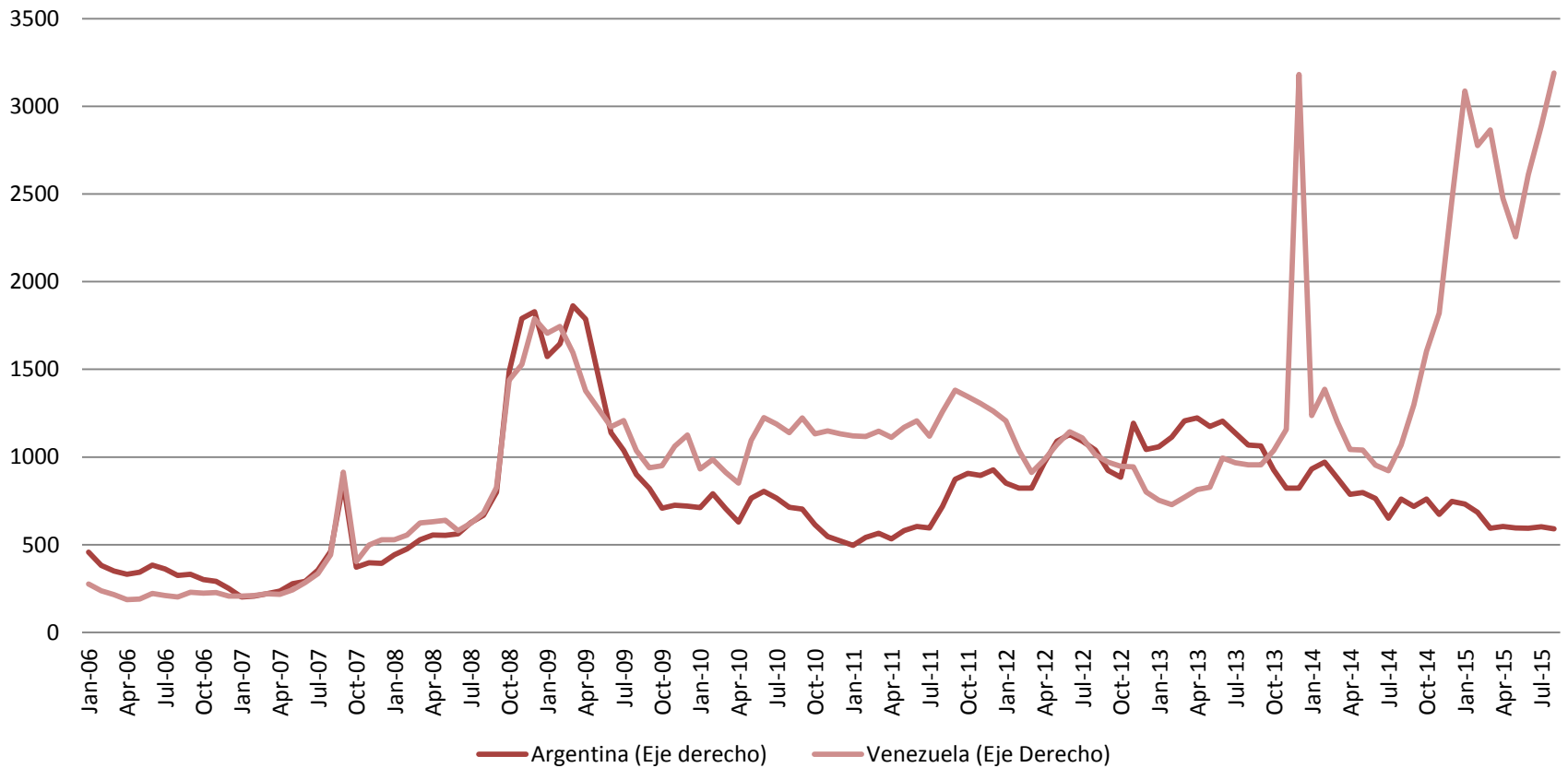
Ups and downs in Country Risk

Spread EMBI



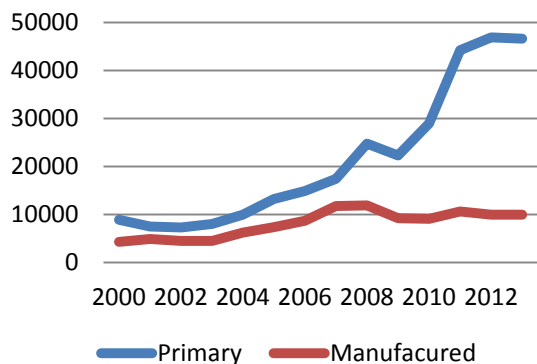
Ups and downs in Country Risk: the outliers

Spread EMBI

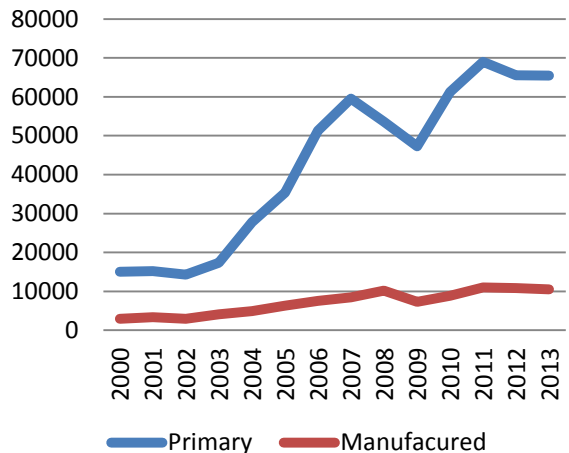


DUTCH DISEASE SYMPTOMS DURING THE BOOM (Export Concentration)

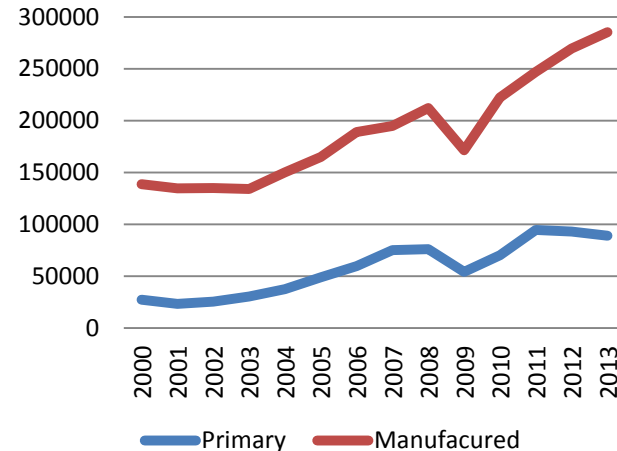
Colombia



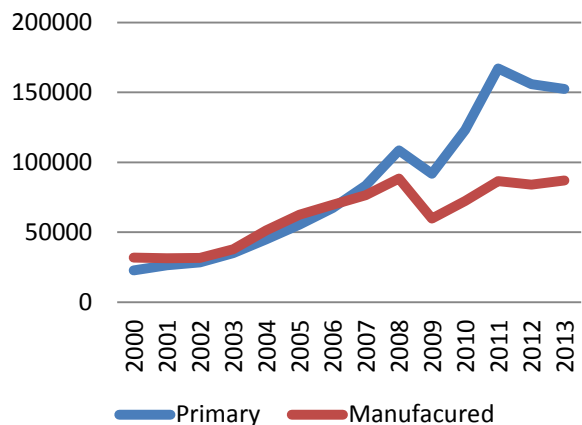
Chile



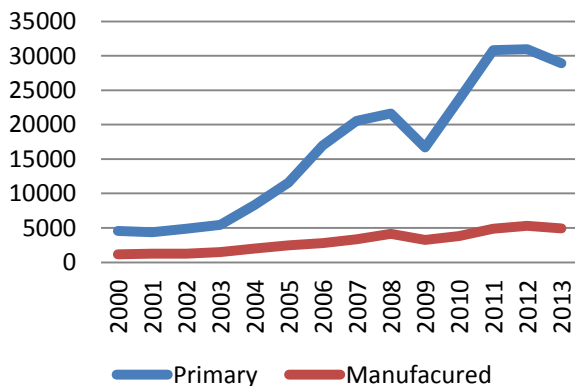
Mexico



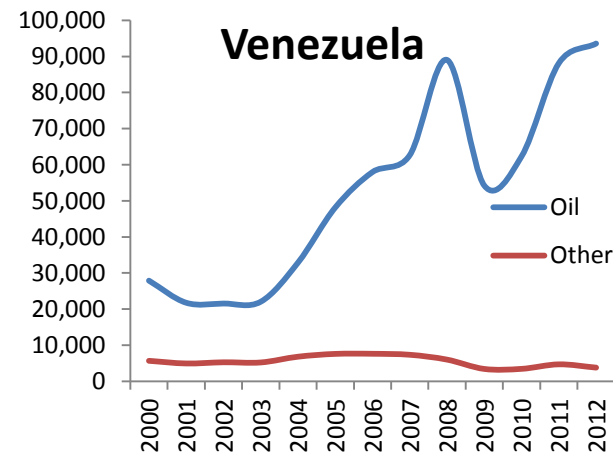
Brasil



Peru

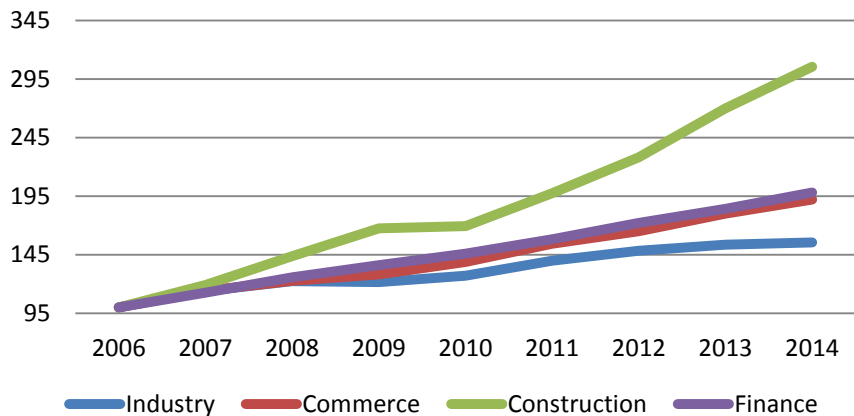


Venezuela

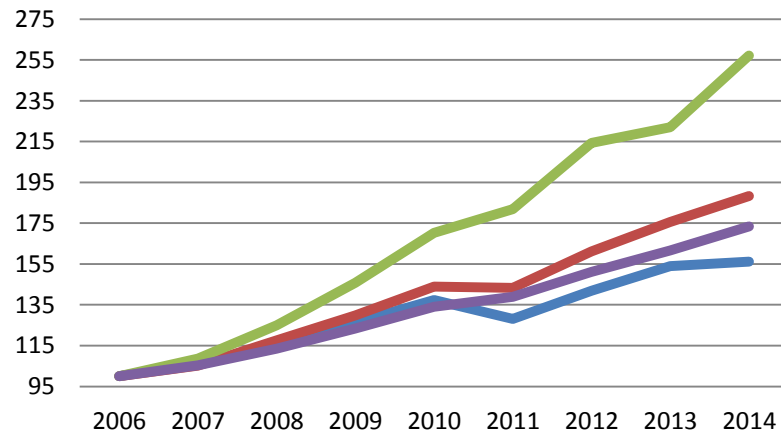


DUTCH DISEASE SYMPTOMS DURING THE BOOM (Industrial recession)

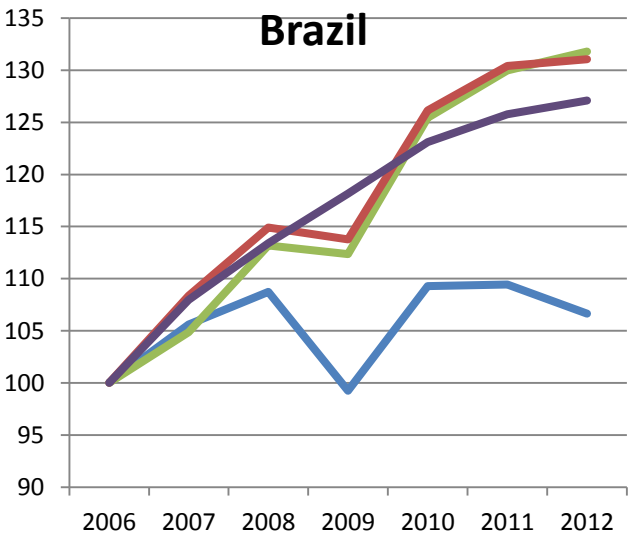
Colombia



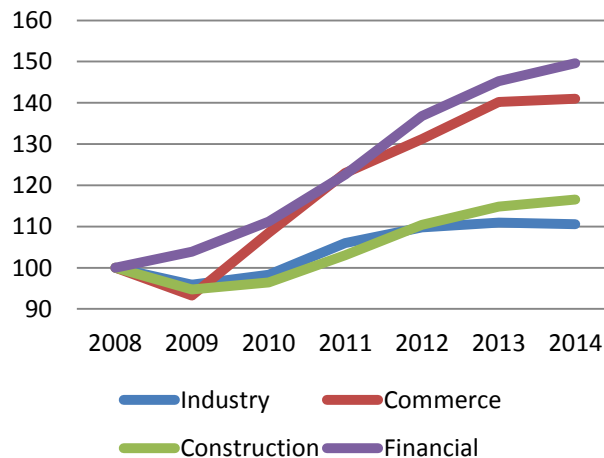
Peru



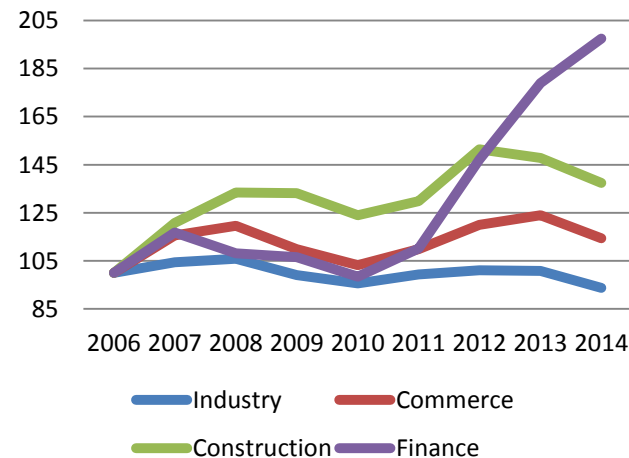
Brazil



Chile



Venezuela

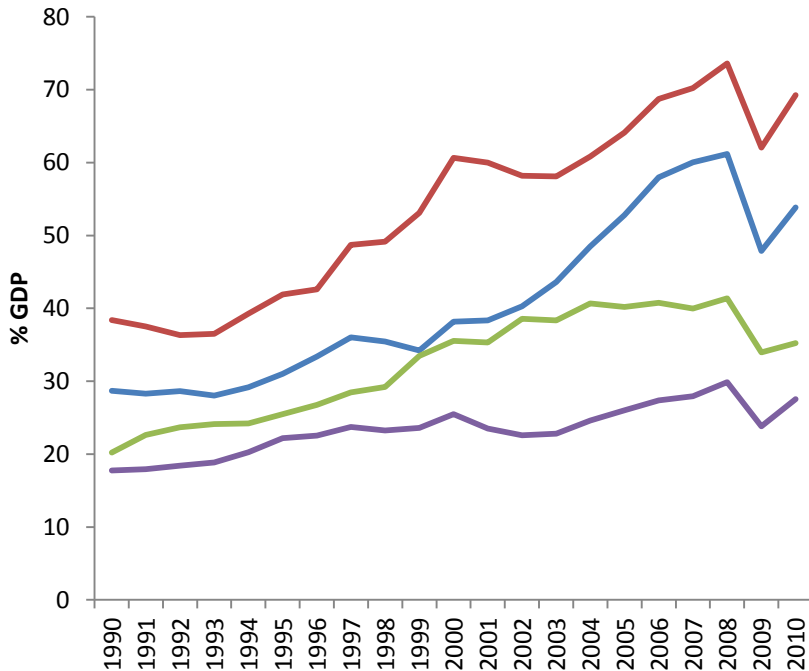


A comment on regional integration

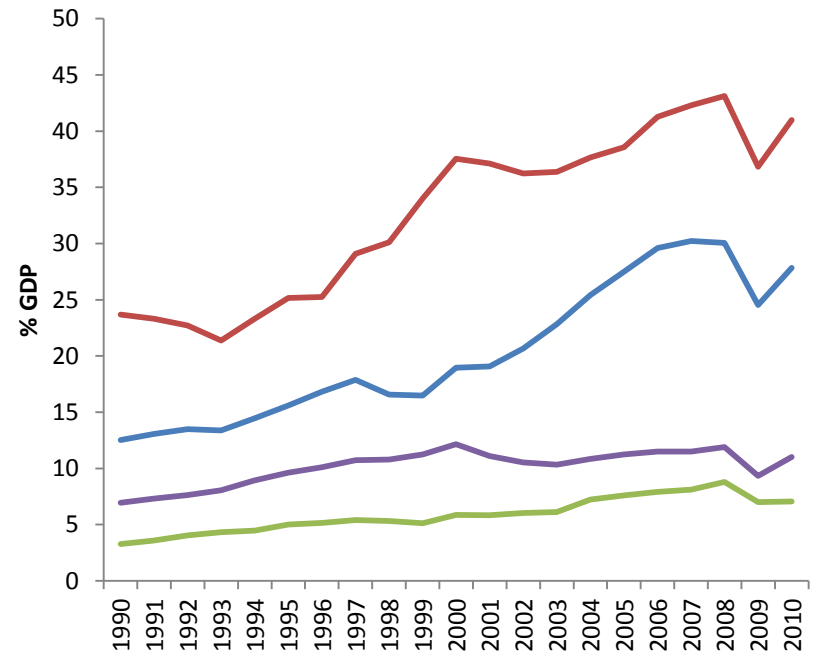
- Latin America fares poorly in global and regional trade integration (especially South America): strong rhetoric, disappointing realities.
- Partly because of geography and poor infrastructure integration (transport, energy, telecoms)
- In contrast, high financial integration (capital mobility) and cooperation:
 - Capital Account Opening
 - Financial (and energy) multilaterals
 - Cooperation in regulation and supervision:
 - Central America and Colombia
 - MILA
 - Regional financial institutions
 - CAF and FLAR

Trade Integration: Latin America fares poorly

Trade openness by World Regions
Imports+Exports / GDP



Intraregional trade by World Regions
Imports+Exports / GDP



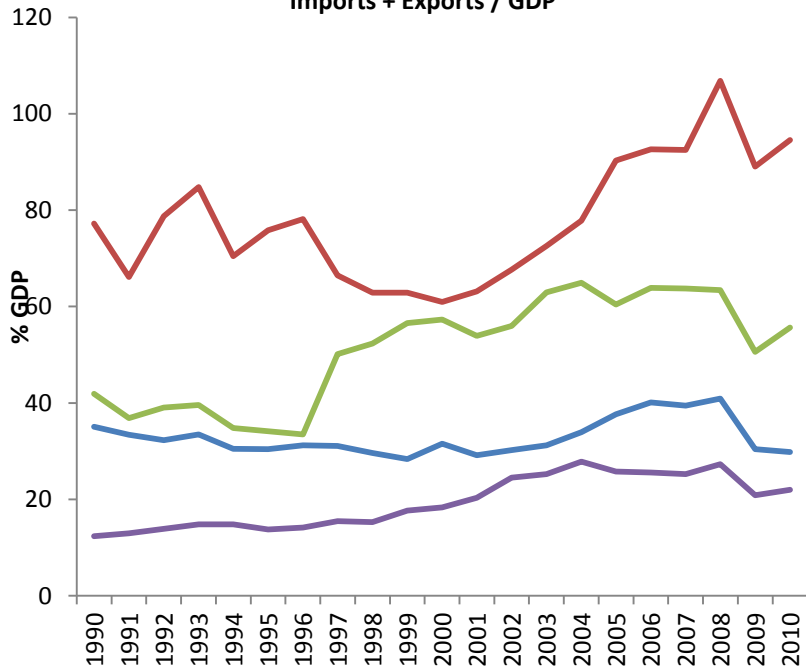
East Asia & Pacific European Union Latin America & Caribbean NAFTA

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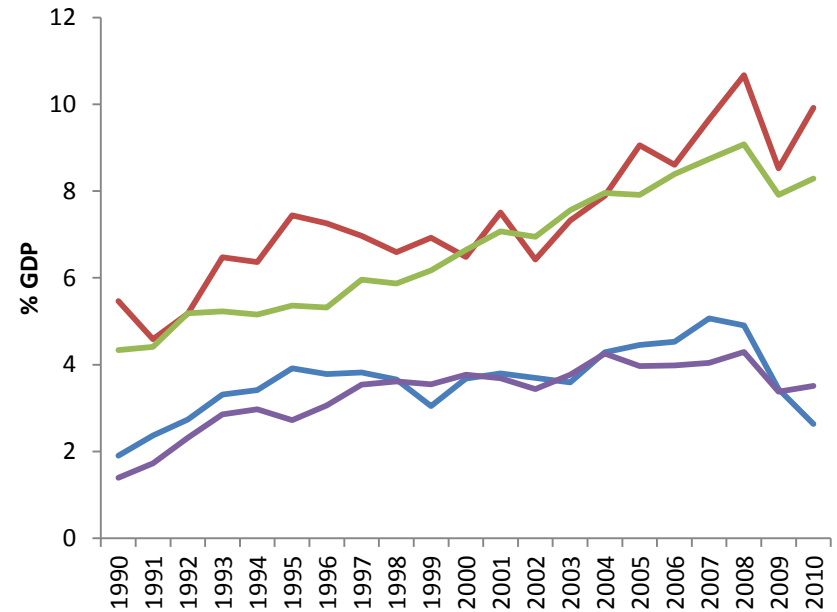
Source: IMF-DOTS, authors calculations

Especially South America

Trade openness in LAC Regions
Imports + Exports / GDP



Intra-regional trade in LAC regions
Imports + Exports / GDP



— Andean Community — CARICOM — Central America — MERCOSUR

Source: IMF-DOTS, authors calculations

— Andean Community — CARICOM — Central America — MERCOSUR

Source: IMF-DOTS, authors calculations