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

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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)

Fuente: Banco de la República Colombia, Comité de Inversión Extranjera de Chile y Proinversión Perú
Ups and downs in Country Risk

Spread EMBI

Perú  Brasil  Chile  Colombia  México
Ups and downs in Country Risk: the outliers
DUTCH DISEASE SYMPTOMS DURING THE BOOM
(Export Concentration)

Colombia

Chile

Mexico

Brasil

Peru

Venezuela

Fuente: Cepalstat, WTO.
DUTCH DISEASE SYMPTOMS DURING THE BOOM (Industrial recession)

Fuente: Brazil, Chile, Colombia and Peru Central Banks
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) multilatinas
  - 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

Source: IMF-DOTS, authors calculations
Especially South America

**Trade openness in LAC Regions**

Imports + Exports / GDP

**Intraregional trade in LAC regions**

Imports + Exports / GDP

Source: IMF-DOTS, authors calculations