Latin America: Changing climate and common problems



Lia Valls Pereira , *Rio de Janeiro*

IN 2009 the gross domestic product (GDP) of Latin America as a whole fell by 2%. In 2010, stimulated by Chinese demand and expansionary domestic policies, GDP in the region tripled to 6%. In 2011, a deterioration in international conditions lowered growth to 4.7%. For 2012, the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) projects an increase of 3.7%.

In the current scenario, how are the major economies of the region behaving? We will consider six major economies in terms of participation in the GDP of Latin America (current dollars, 2011): Brazil (43.7% of regional GDP); Mexico (20.3%); Argentina (7.9%); Colombia (5.9%); Chile (4.4%); and Peru (3.2%).

Every quarter the Brazilian Institute of Economics of the Getulio Vargas Foundation (IBRE / FGV), in partnership with the German institute Ifo, conducts a survey of Latin American economies. The survey monitors and anticipates economic trends based on information provided by experts in the economies covered. The Economic Climate Index (ECI) is the summary indicator, composed of the average of two qualitative questions, the Present Situation Index (ISA) and the Expectations Index (IE), which deal with the general economic situation of the country at the moment and forecast over the next six months.

The graphs show the behavior of the ECI in selected countries from July 2008 to April 2012. Results above 100 indicate a favorable evaluation and below 100 an unfavorable one.

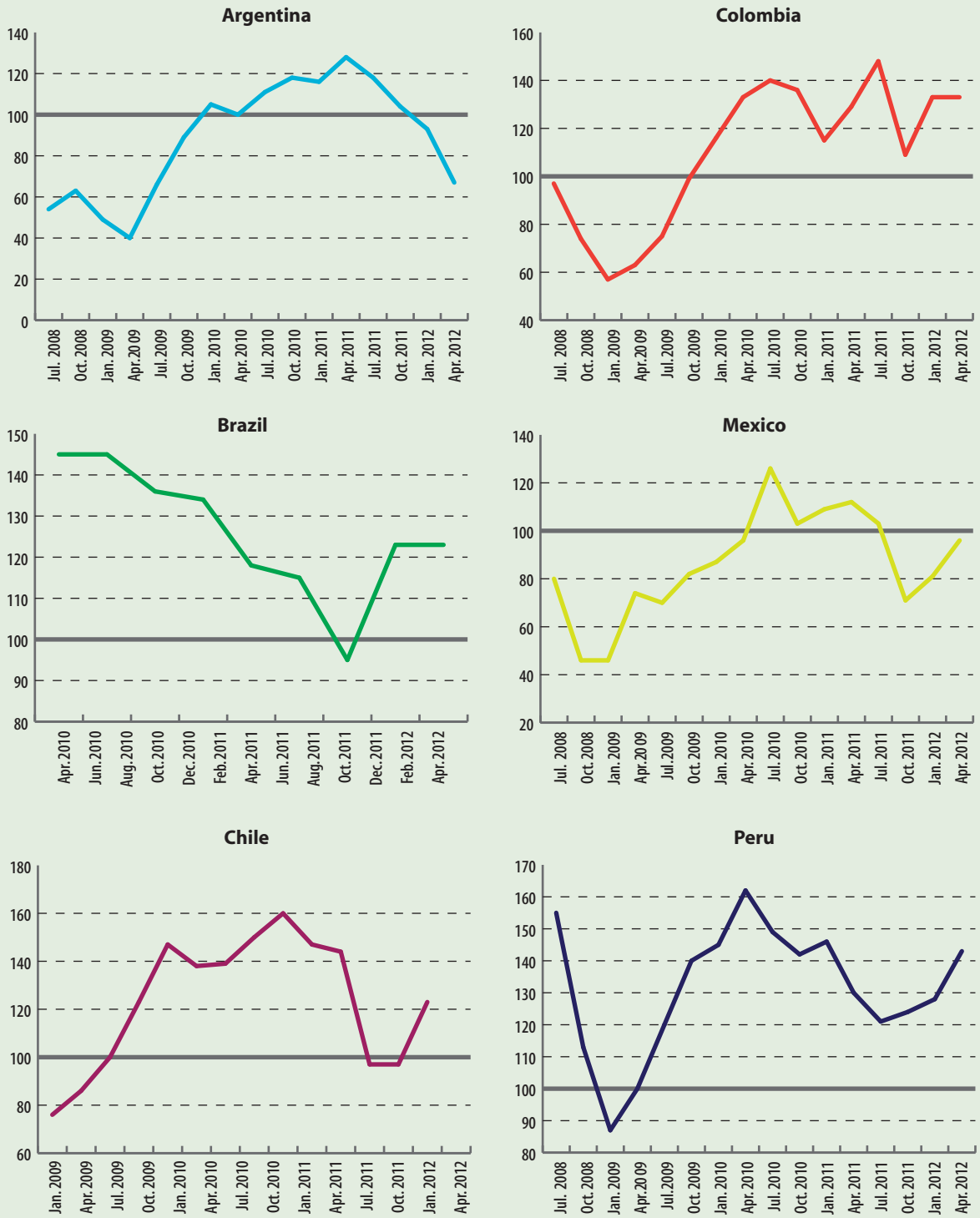
Changing climate

Brazil and Peru were those that suffered least from the 2008 crisis, although other factors may have influenced the results. Their economic climate was unfavorable only in January 2009 and was already positive again in July 2009. It took longer for Argentina and Colombia, where the economic climate was unfavorable in 2008 and become favorable only in January 2010. However, Argentina's ECI was much less favorable than Colombia's. In Chile the economic climate turned favorable in October 2009 and in Mexico in July

Coordinator, Center for External Sector Studies, IBRE

ECONOMIC CLIMATE INDEX

(Above 100 favorable climate)



Source: IBRE and Ifo institute.

2010. Since mid-2010, the ECI has been increasing for all these countries.

The most recent survey, in April 2012, shows that, except for Argentina, in all the countries about which we are concerned the ICE held steady or improved. In some countries like Brazil, more recent economic activity data shows, however, that in April the ECI was optimistic and is likely to drop in the August survey.

In April evaluation of the current situation was favorable in all countries except Brazil and Argentina. Assessment of the future situation worsened only in Argentina, held constant in Colombia, improved in Chile and Mexico (though both remain in the negative), and increased significantly in Peru and Brazil.

Common problems

As the global crisis lingers, domestic factors become more prominent in the evolution of the ECI. In the April 2011 survey, inflation and a lack of competitiveness were identified as very important problems for Brazil, while in Peru the lack of competitiveness and the scarcity of skilled labor were identified as only moderately important.

In all countries the lack of competitiveness (except in Chile) and of skilled labor (except in Argentina) were considered important. Unemployment is a major concern only in Mexico. Lack of confidence in government policy and inflation are the main issues in Argentina.

Finally, the survey underscores similarities and differences. In all countries competitiveness and education (skilled labor) need to be addressed—the agenda is the same throughout the region. But ECI trends suggest that Chile, Peru, and Colombia have a more favorable environment for growth than their neighbors.

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