

Middle Income Country Cases: Discussion

César Calderón

(The World Bank)

Economic Growth in Latin America:

What Have We Learned?

IMF Western Hemisphere Department Workshop

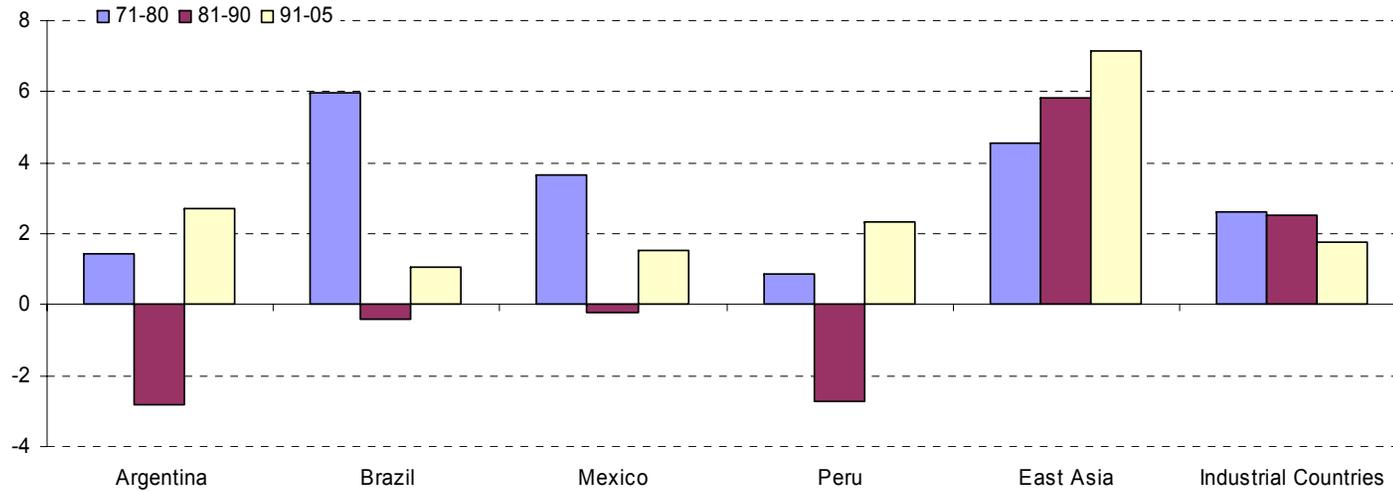
November 17, 2006

I. Stylized Facts

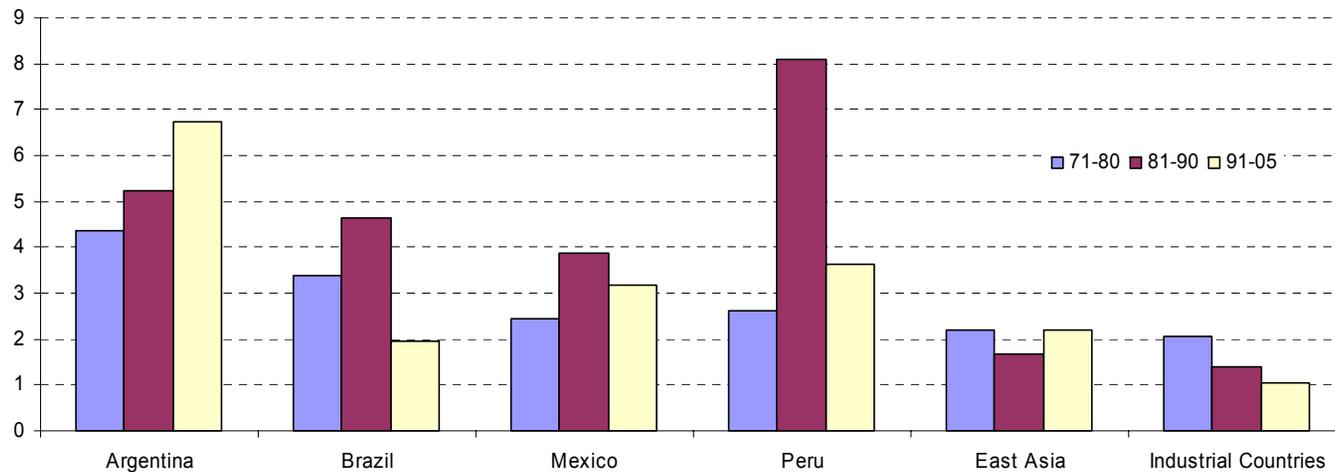
- Features of Latin American Economic Performance
 - Low growth per capita
 - High macroeconomic volatility
 - Persistent inequality
- All middle income countries in the session share the features of the region.

Stylized Fact: Low and Volatile Growth

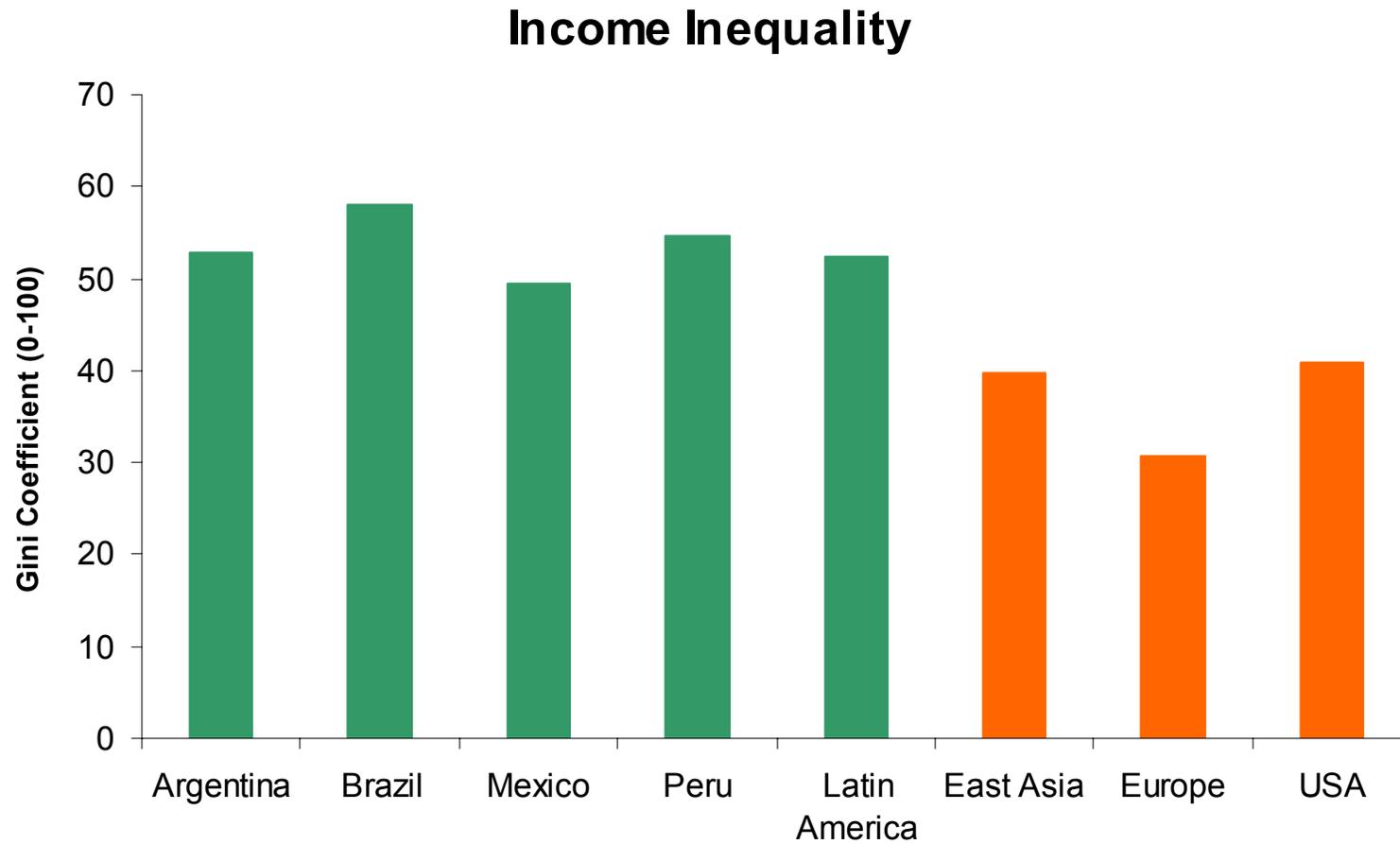
Average Growth in GDP per capita



Standard Deviation of Growth in GDP per capita



Stylized Fact: High Inequality



II. Explaining Growth in LAC

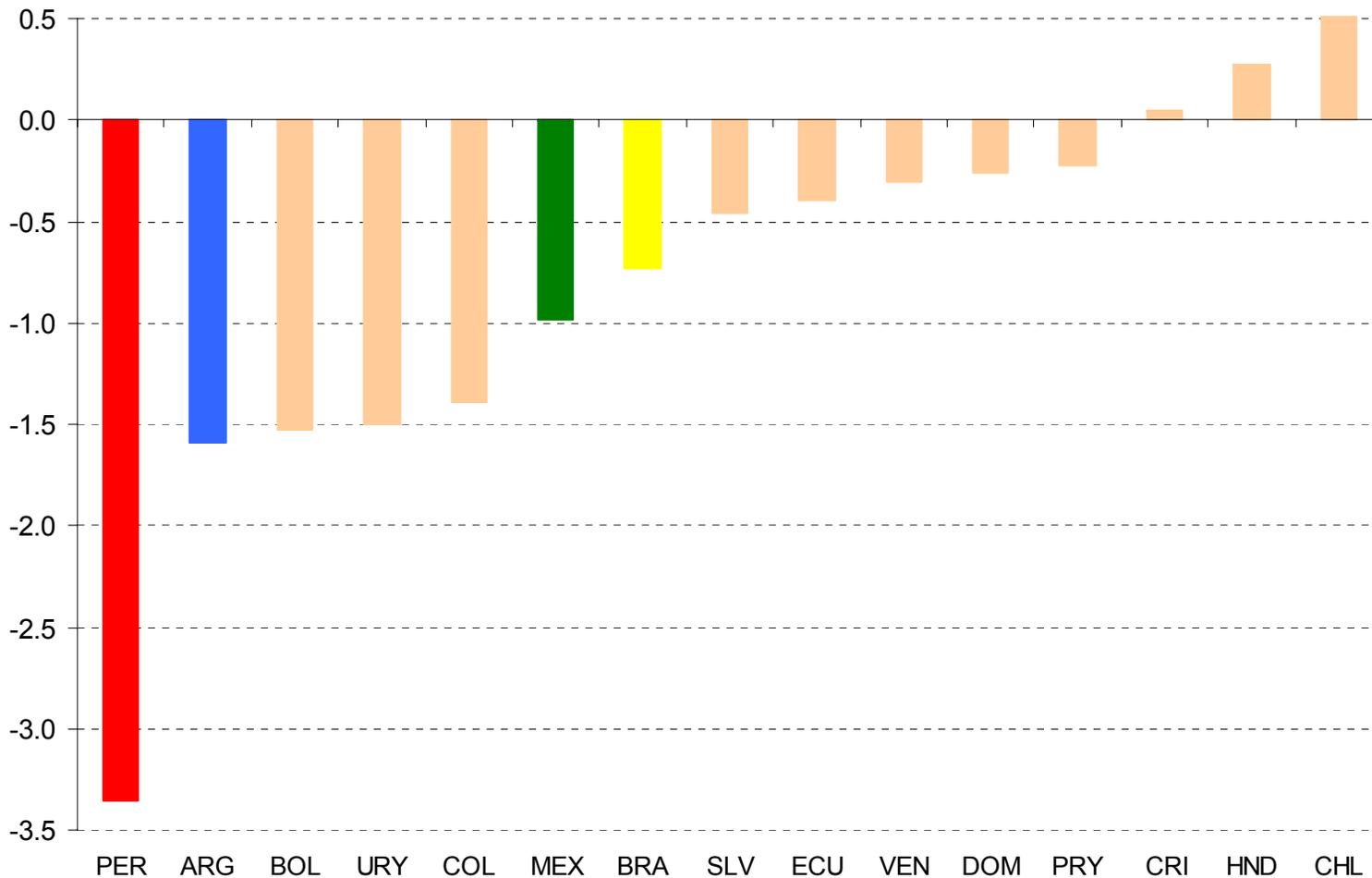
- Lost Decade of the 1980s
 - Macroeconomic policy mismanagement
 - Deterioration of the external environment
- Recovery of the 1990s
 - Contribution of structural reforms
 - Considerable gain but not as large as expected

What explains the “lost decade” of the 1980s?

- Modest progress in structural reforms was vastly overshadowed by deterioration in stabilization policies
 - Disastrous in some cases: especially in Peru
 - Chile was the only clear exception
- Convergence and, specially, cyclical reversion had a negative impact on growth
 - This effect was sizable: up to 2.5 pp in Argentina and Brazil
- External factors played strongly against growth in the region
 - The 1980s marked a downward break for world growth conditions: 1-2 pp decrease in the growth rate

Explaining the Lost Decade

Growth Changes due to Stabilization Policies in the 1980s

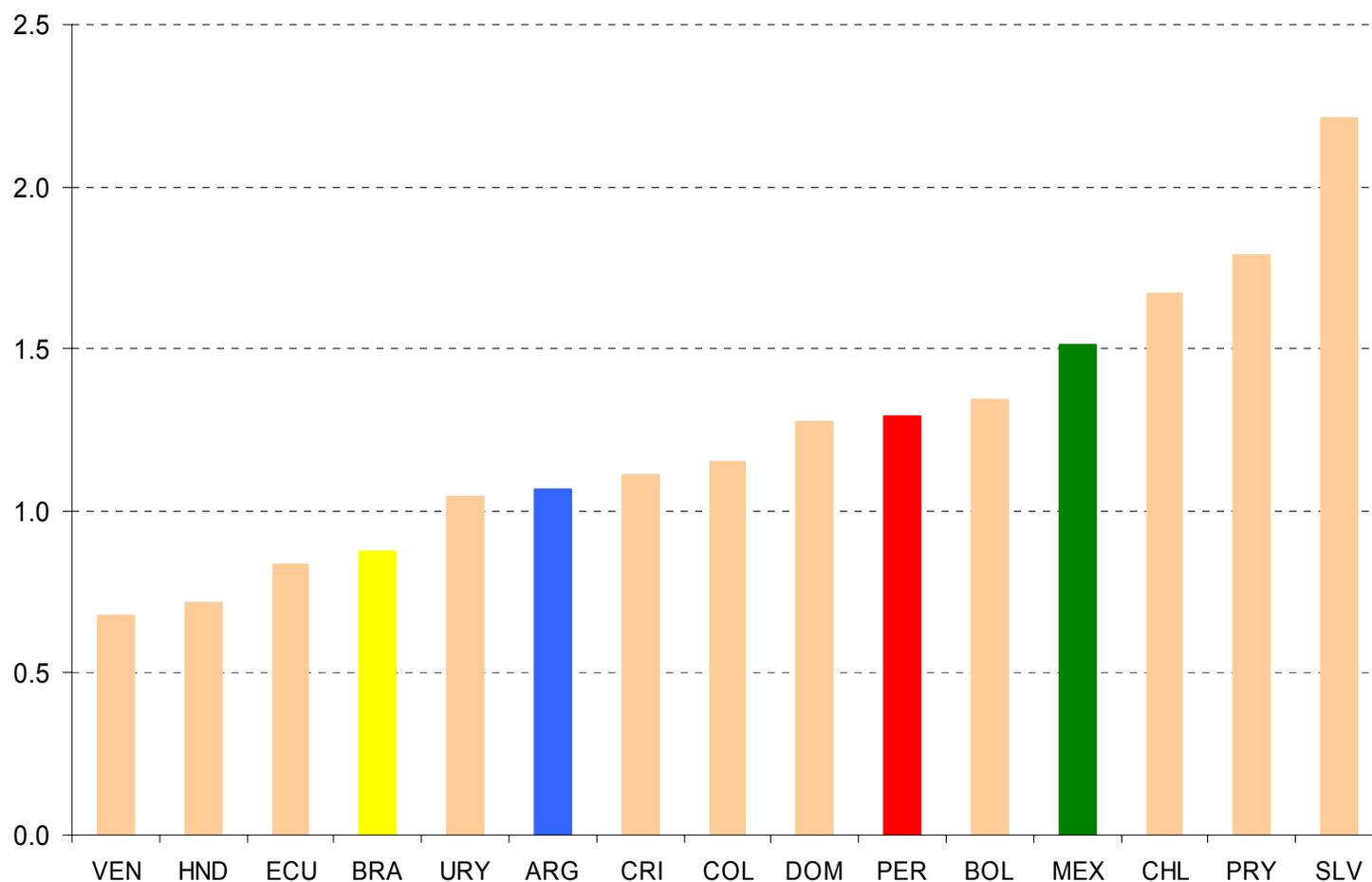


What explains the growth recovery of the 1990s?

- The 1990s was a reform decade.
 - For most reforming countries, the growth contribution from structural and stabilization reforms amounted to 2.5-3 pp
 - This gain is considerable but not as initially expected: we were supposed to become the new “tiger” economies...
- Cyclical recovery had a positive impact on growth
 - This effect was sizable: In Argentina, it explains 25% of the growth increase, and in Brazil, 50%
- External factors again played against growth in the region
 - but not substantially: less than 0.5 pp

Growth Recovery of the 1990s

Growth Changes due to Structural Reforms in the 1990s



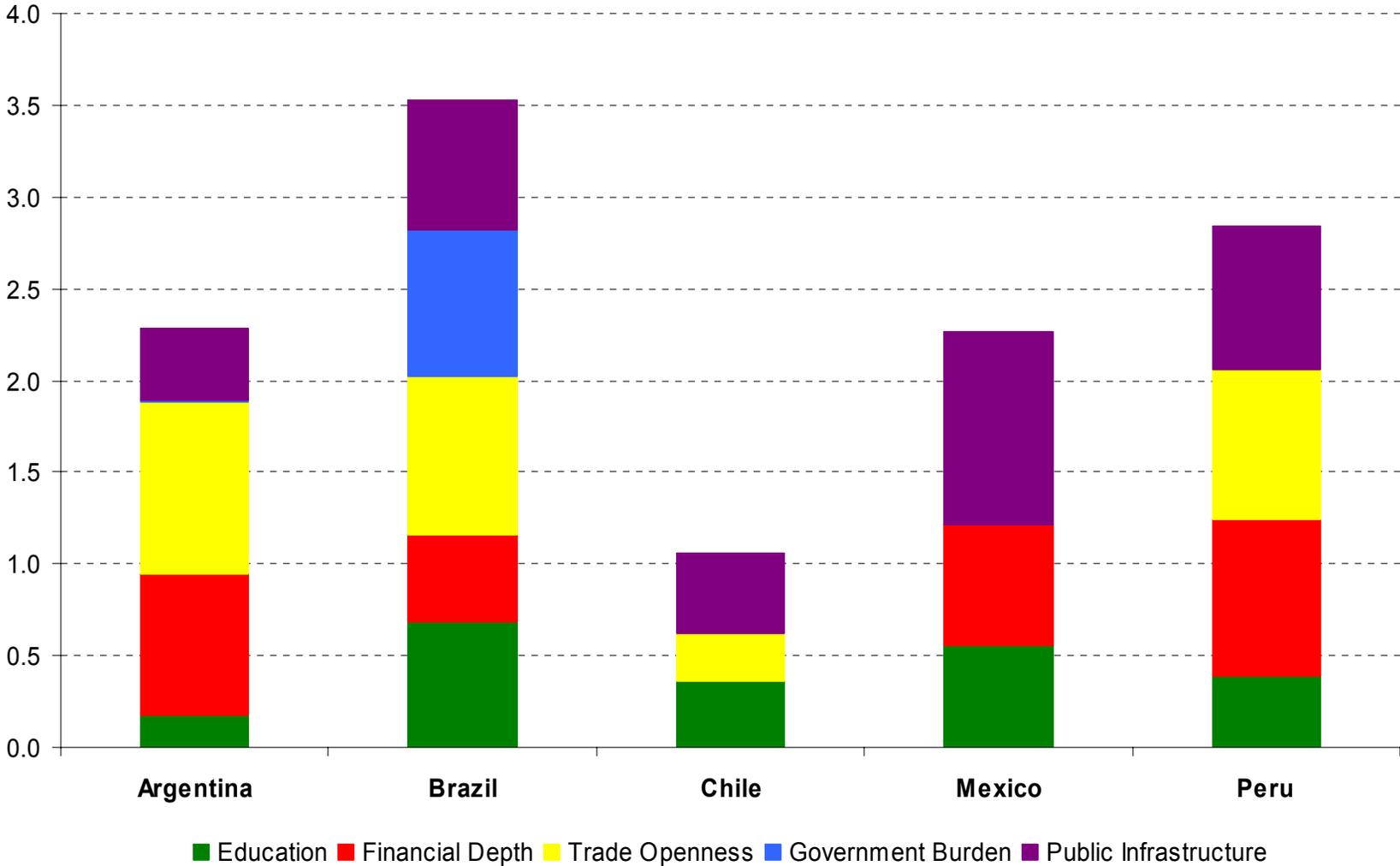
Has LAC's growth in the aftermath of the market-oriented reforms been disappointing?

- In general, the growth performance has not been disappointing:
 - In 80% of LAC countries, the actual growth improvement was higher or equal to the expected change
 - Post-reform growth has not been disappointing because countries that reformed the most, grew the most.

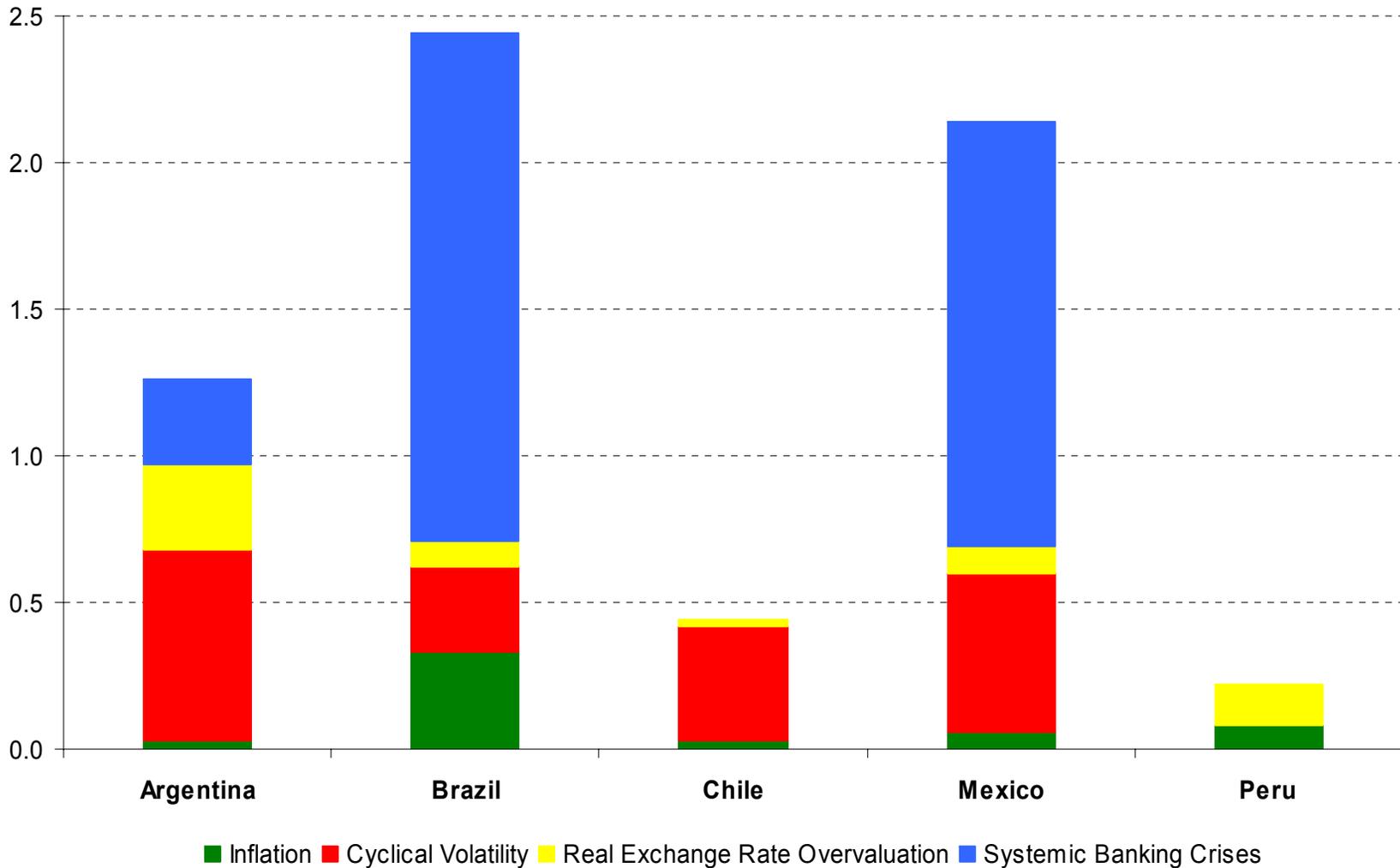
III. Forecasts

- Two Scenarios:
 - Continuation of the trend: realistic
 - **Sharp-progress**: upper bounds
 - To Top Quartile of the World Distribution
- Structural reforms:
 - Education and public infrastructure would be the main engines.
- Stabilization policies:
 - Most gains would come from avoiding financial crises
 - Warning: abandoning macro stability could produce massive losses

Projected Growth due to Advances in Structural Reforms, 2001-10 vs. 1991-99



Projected Growth due to Advances in Stabilization Policies, 2001-10 vs. 1991-99

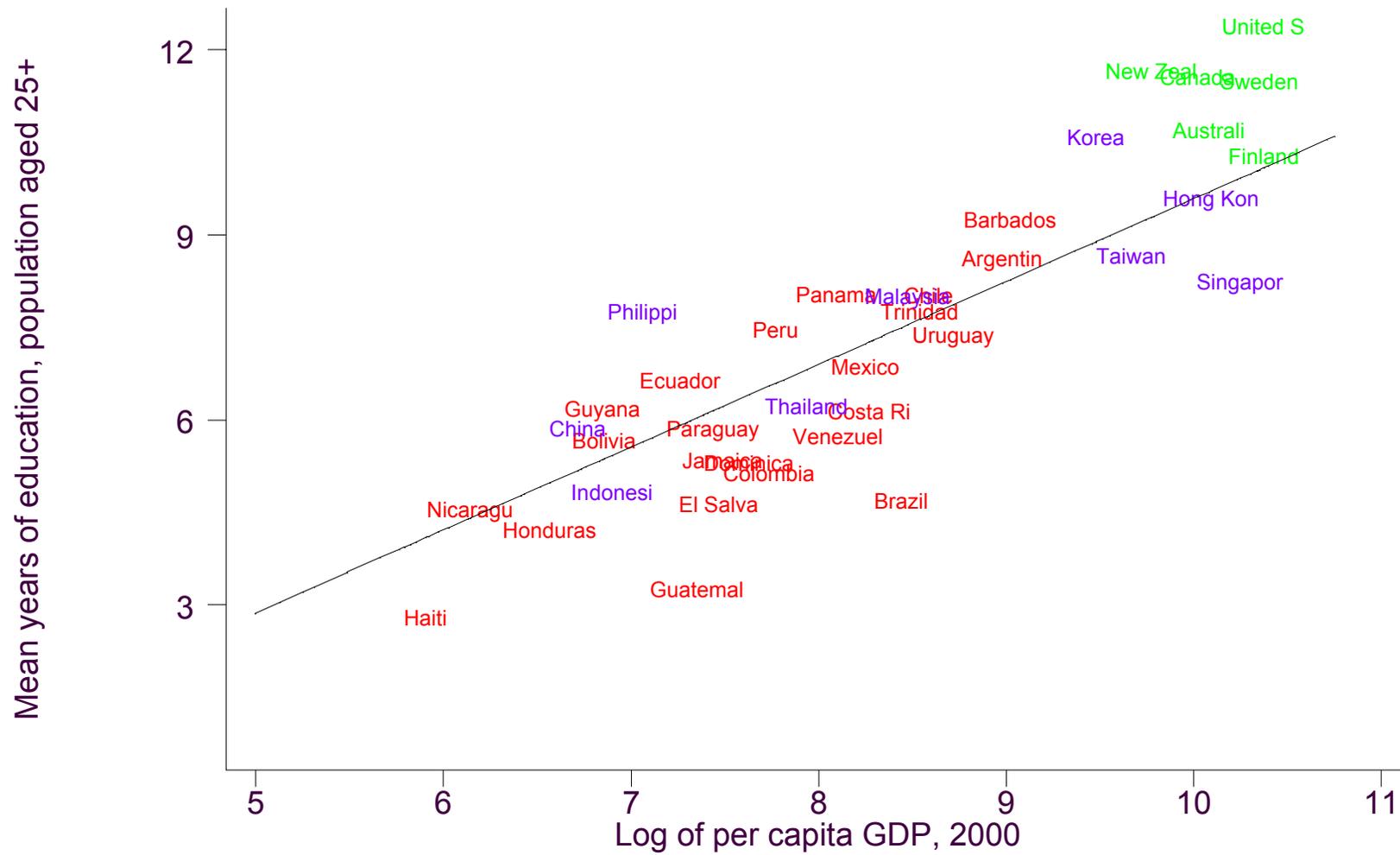


IV. Areas of Opportunity

- Simulations suggest LAC may have potential growth benefits from advances in:
 1. Education
 2. Infrastructure
- LAC needs to design policy responses to volatile shocks.

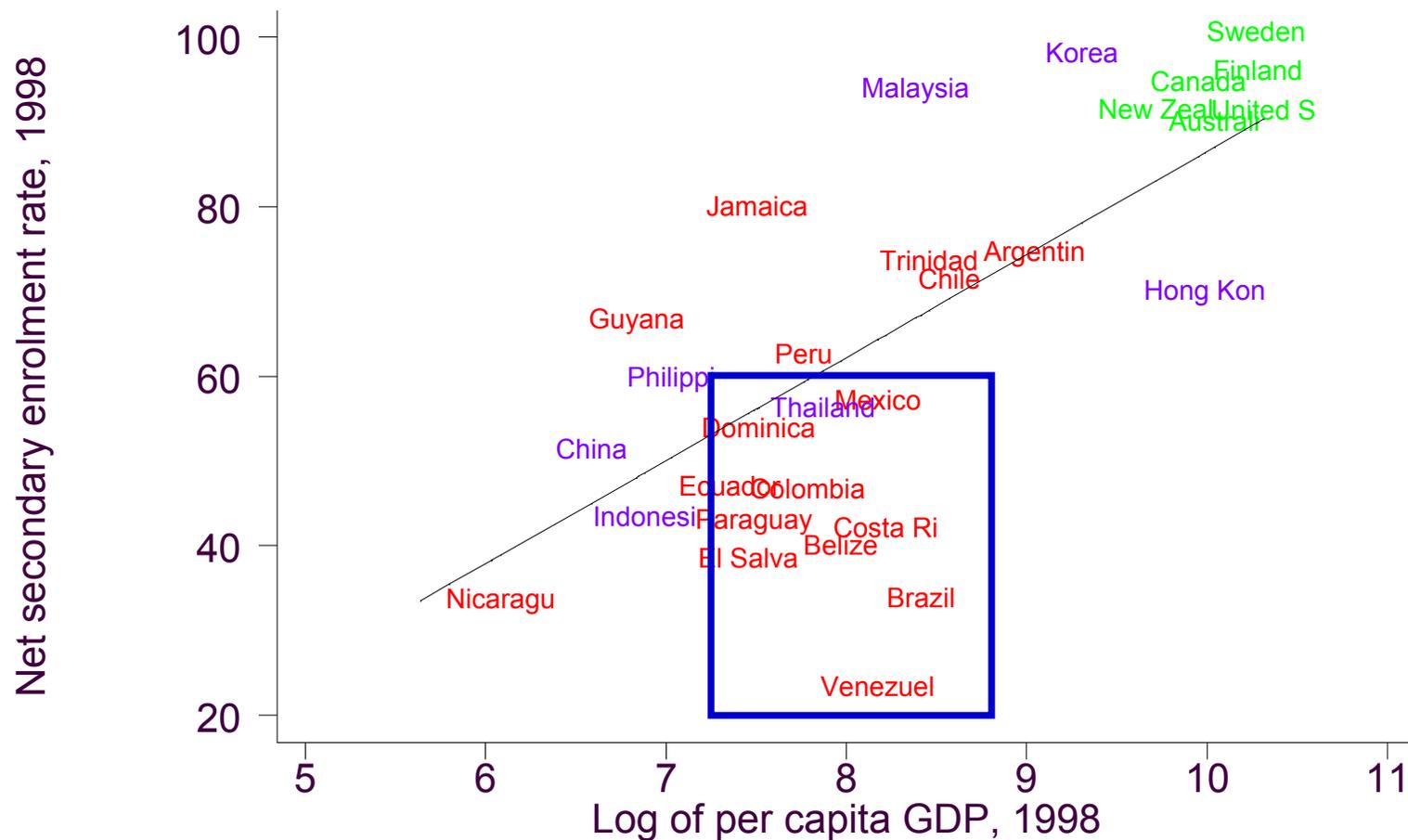
4.1 EDUCATION

Deficit in Years of Education



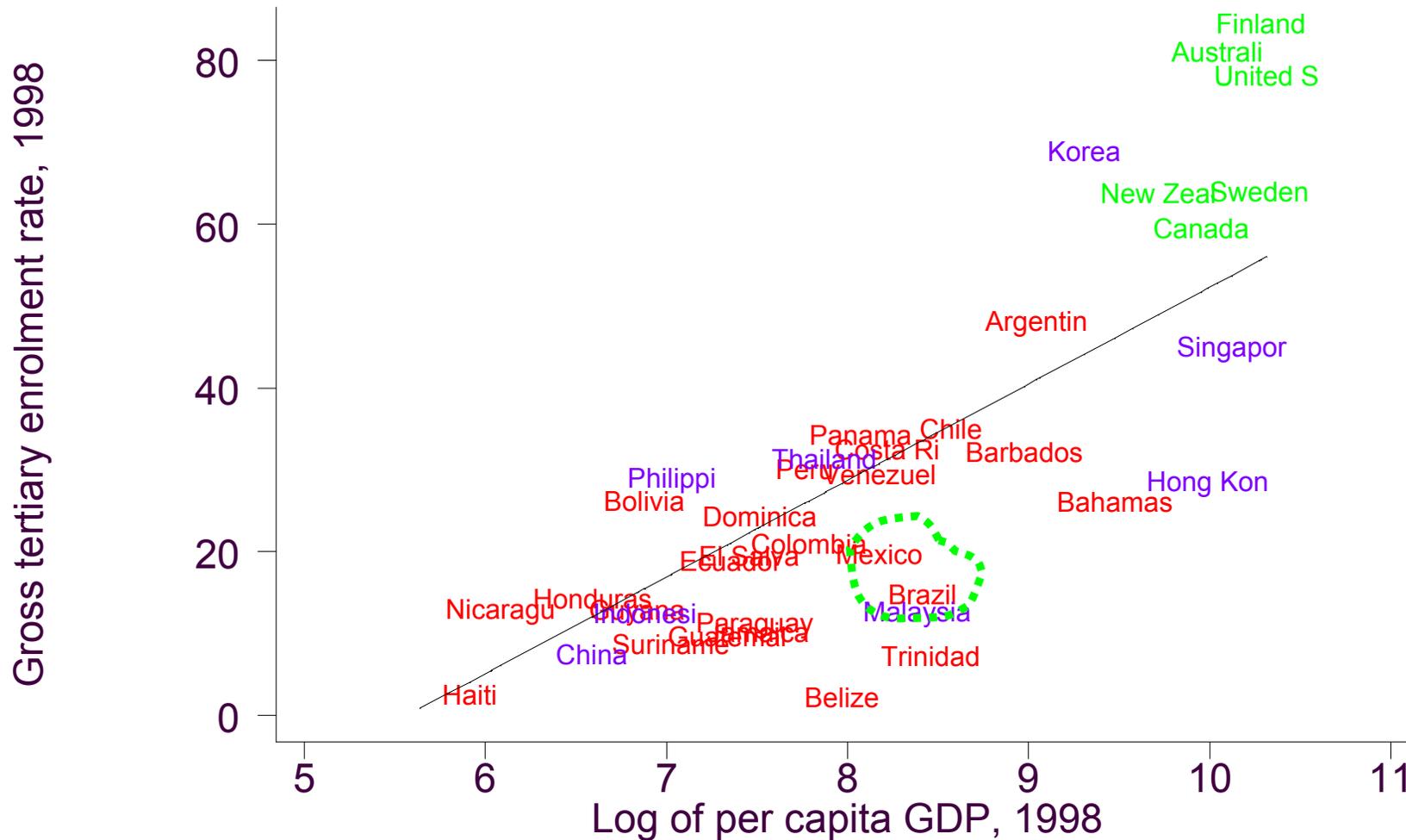
Fuente: De Ferranti et al. (2003) *Closing the Gap in Education and Technology*. The World Bank

The Deficit in Secondary Enrollment



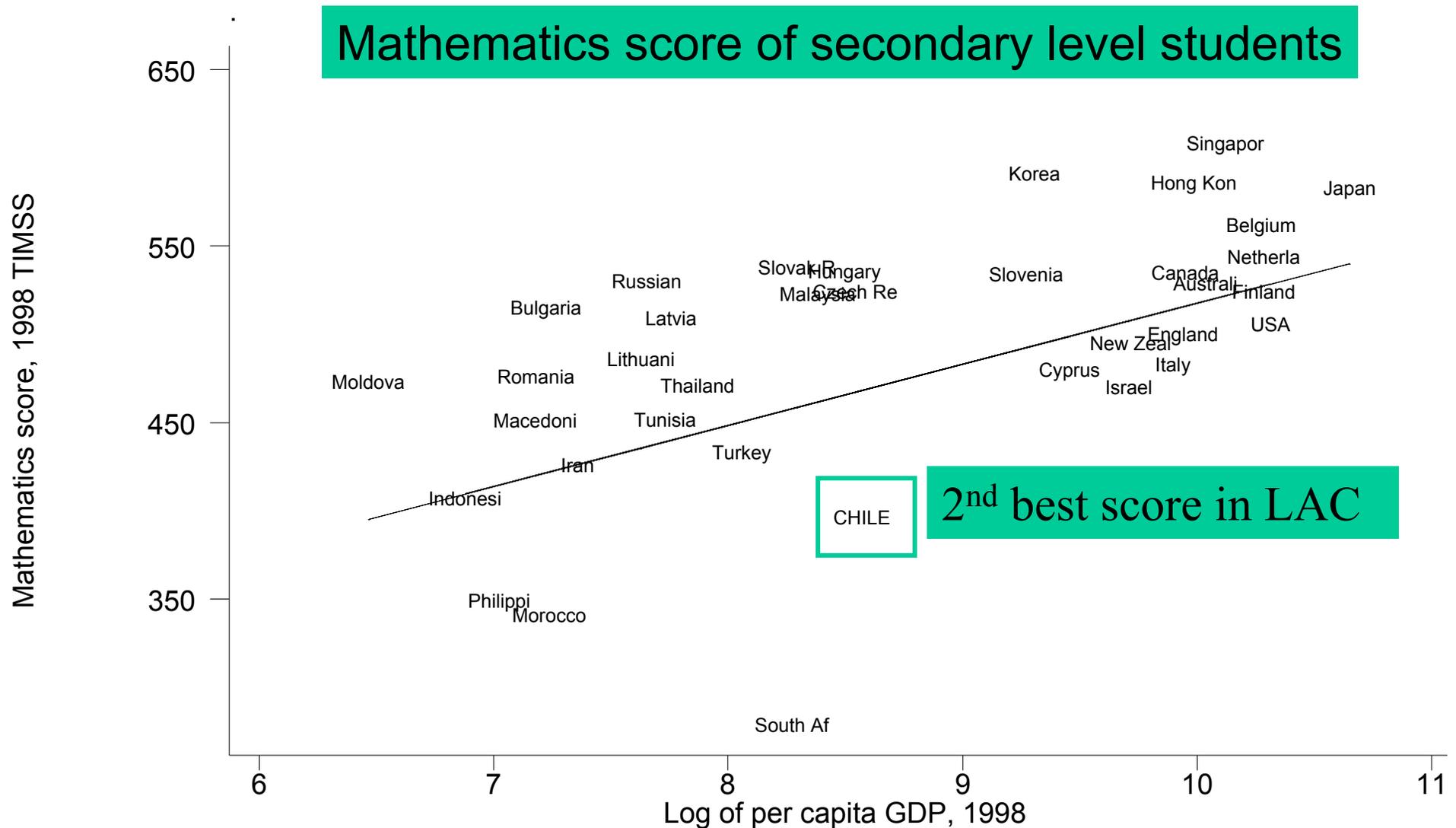
Fuente: De Ferranti et al. (2003) *Closing the Gap in Education and Technology*. The World Bank

The Deficit in Tertiary Enrollment



Fuente: De Ferranti et al. (2003) *Closing the Gap in Education and Technology*. The World Bank

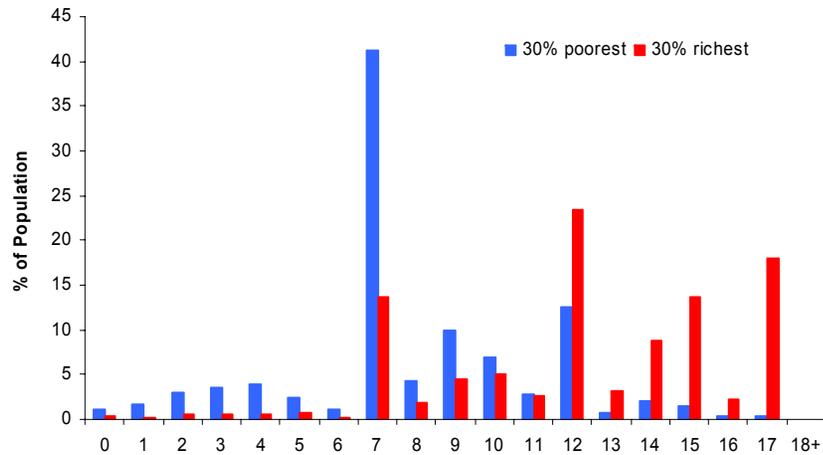
Quality of education is poor too



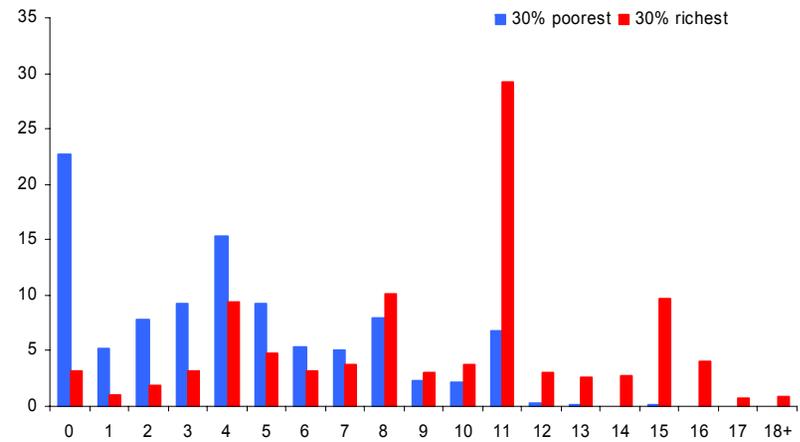
Fuente: De Ferranti et al. (2003) *Closing the Gap in Education and Technology*. The World Bank

Education Inequality

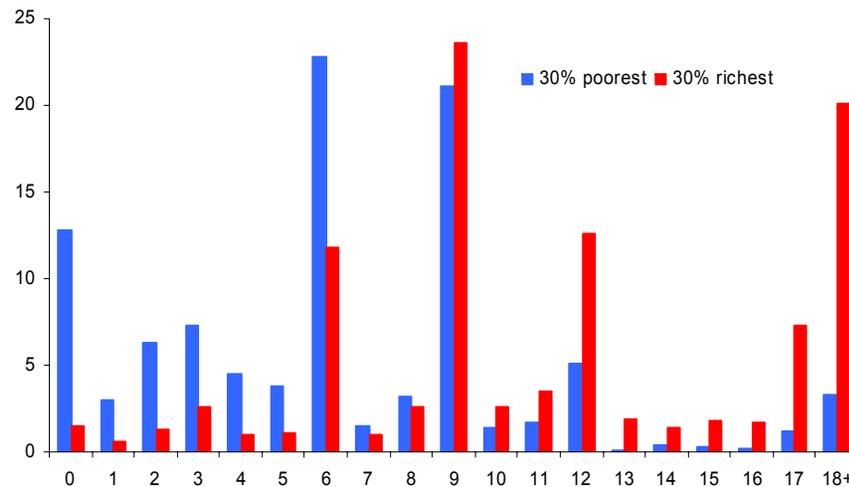
ARGENTINA



BRAZIL



MEXICO



Source: Perry, Arias, López, Maloney and Servén (2006) “Poverty Reduction and Growth: Virtuous and Vicious Circles.” Washington, DC: The World Bank Latin American and Caribbean Studies

Education Agenda

- Must raise level of secondary enrollment
 - Not just an issue of money, but institutions and incentives
- Must facilitate access to tertiary
 - Improve credit markets, financing
- Improve quality of education systems
- Link training programs to productive sector

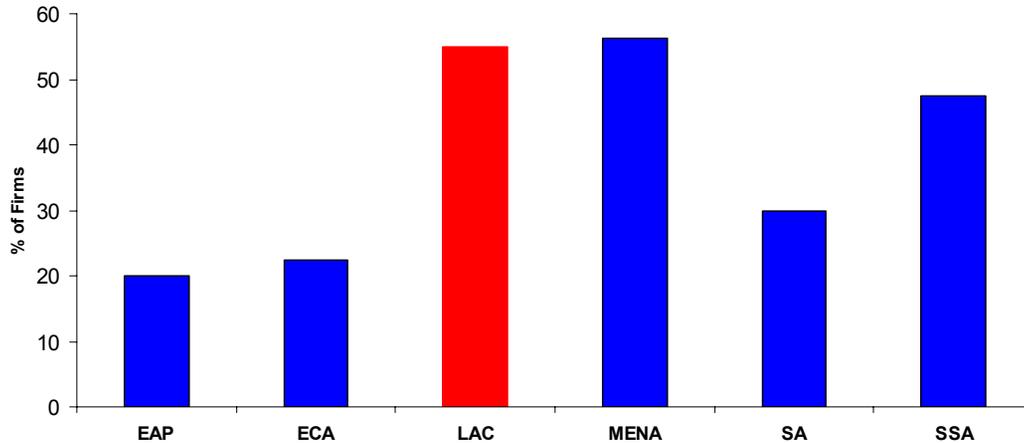
INFRASTRUCTURE

V. Infrastructure

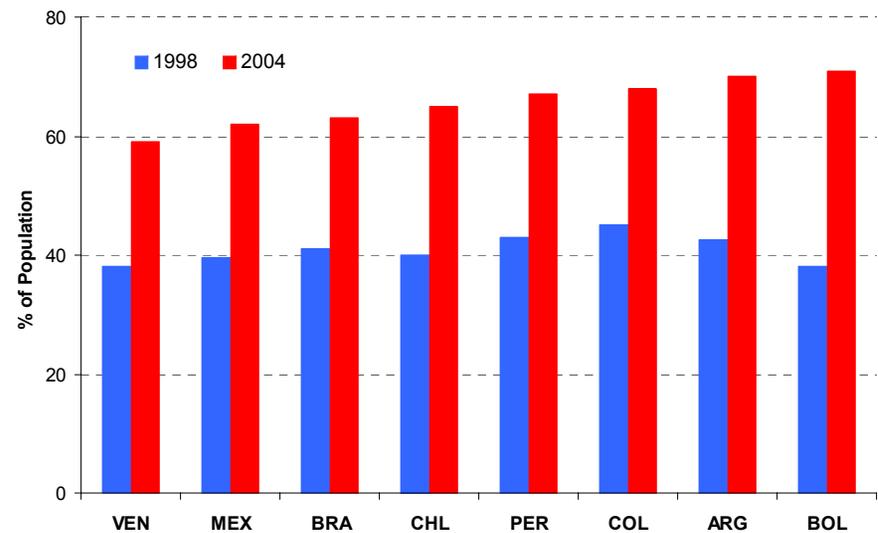
- Need to close the Gap:
 - Stock
 - Quality
 - Access
- Focus on sectors:
 - Telecommunications
 - Electric Power
 - Roads
 - Water and Sanitation

Infrastructure: Key to Growth

Businesses that see Infrastructure as Serious Problem



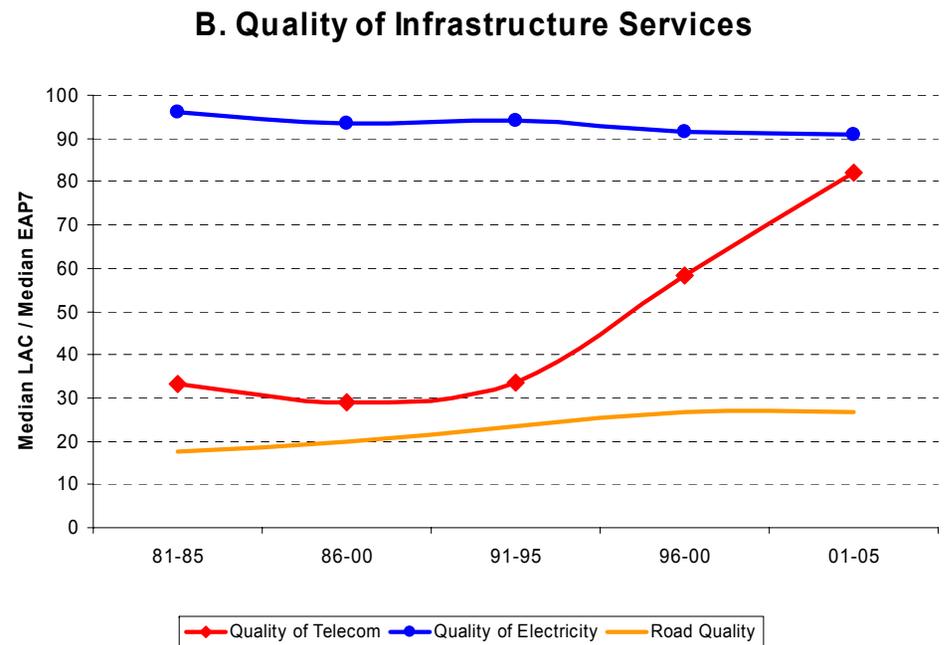
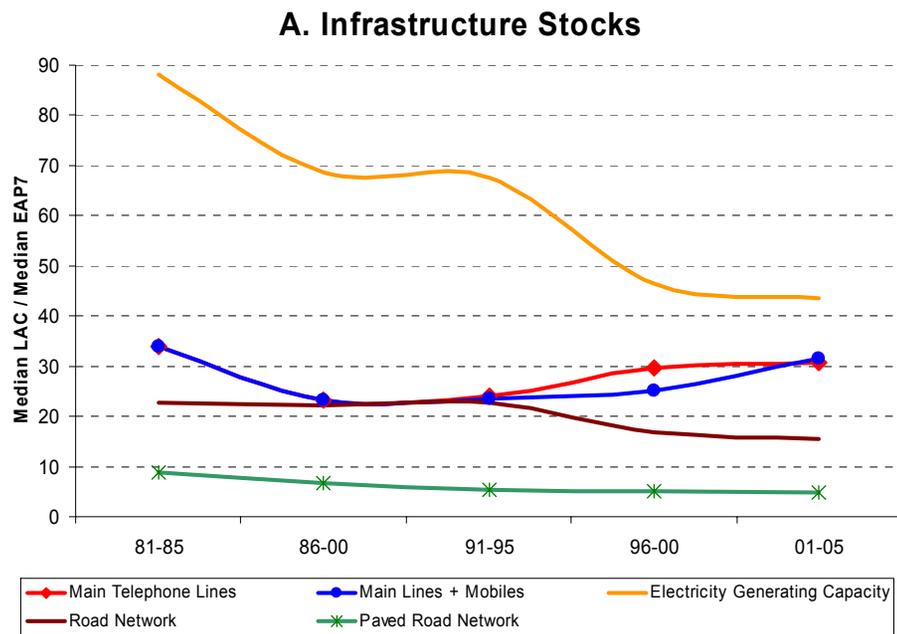
Dissatisfaction with Infrastructure Privatizations in LAC



Source: Fay and Morrison (2006) "Infrastructure in Latin America and the Caribbean: Recent Development and Key Challenges." *Directions in Development: Infrastructure*. Washington, DC: The World Bank.

Infrastructure Gap with EA7?

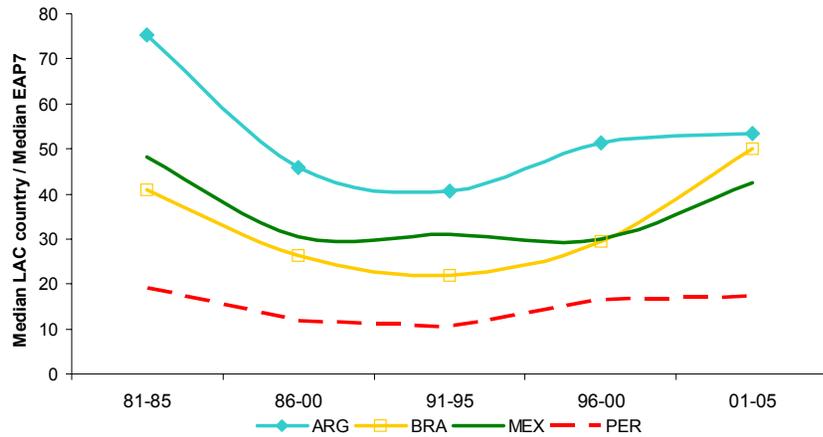
- Infrastructure stocks grew steadily but at a slower pace than EA7 countries.
- Only Telecom narrow the gap with EA7 in last 25 years.



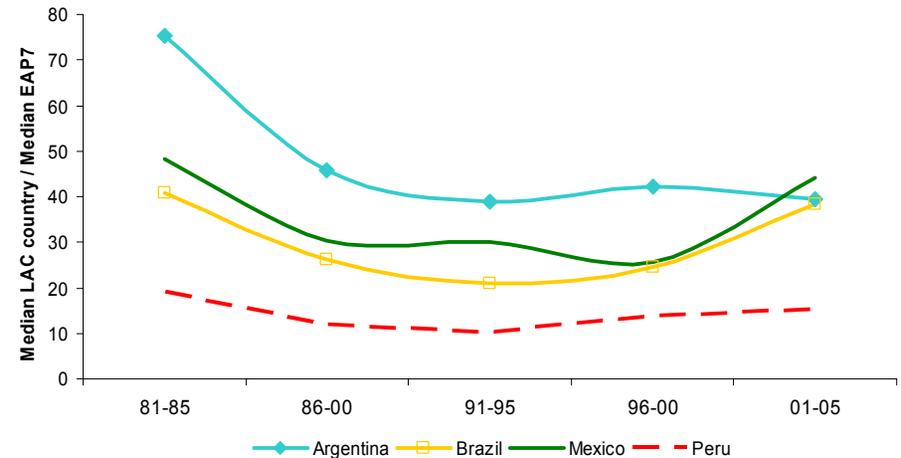
Source: Calderón and Servén (2004) *Trends in Infrastructure in Latin America, 1980-2001*. The World Bank Policy Research Working paper 3401.

Infrastructure Gap with EA7?

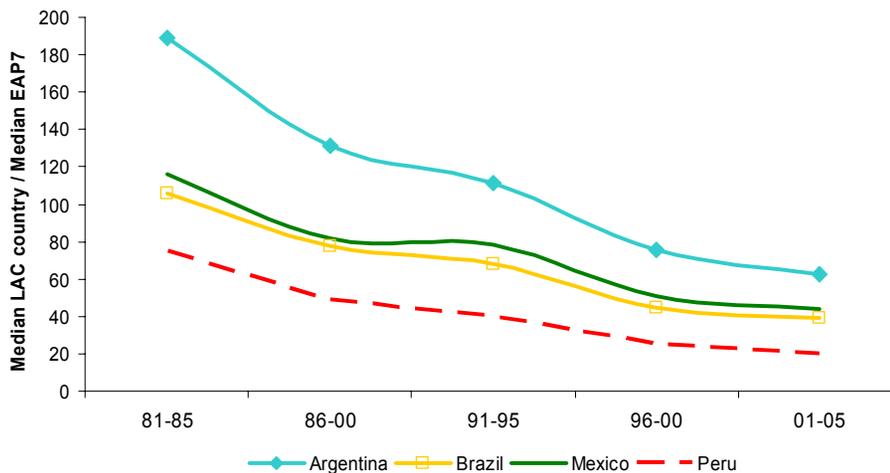
Main Telephone Lines per 1000 workers



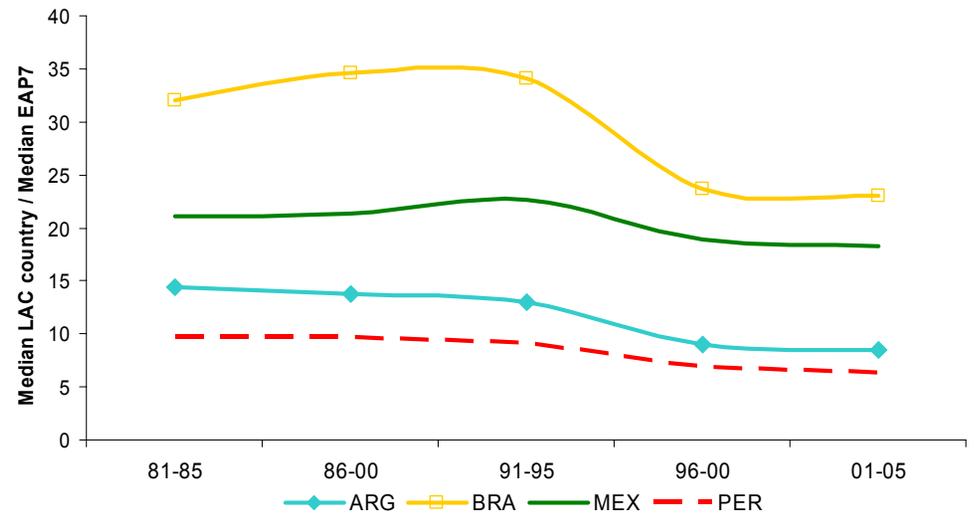
Main Lines and Mobile Phones per 1000 workers



Electricity Generating Capacity (MW per 1000 workers)

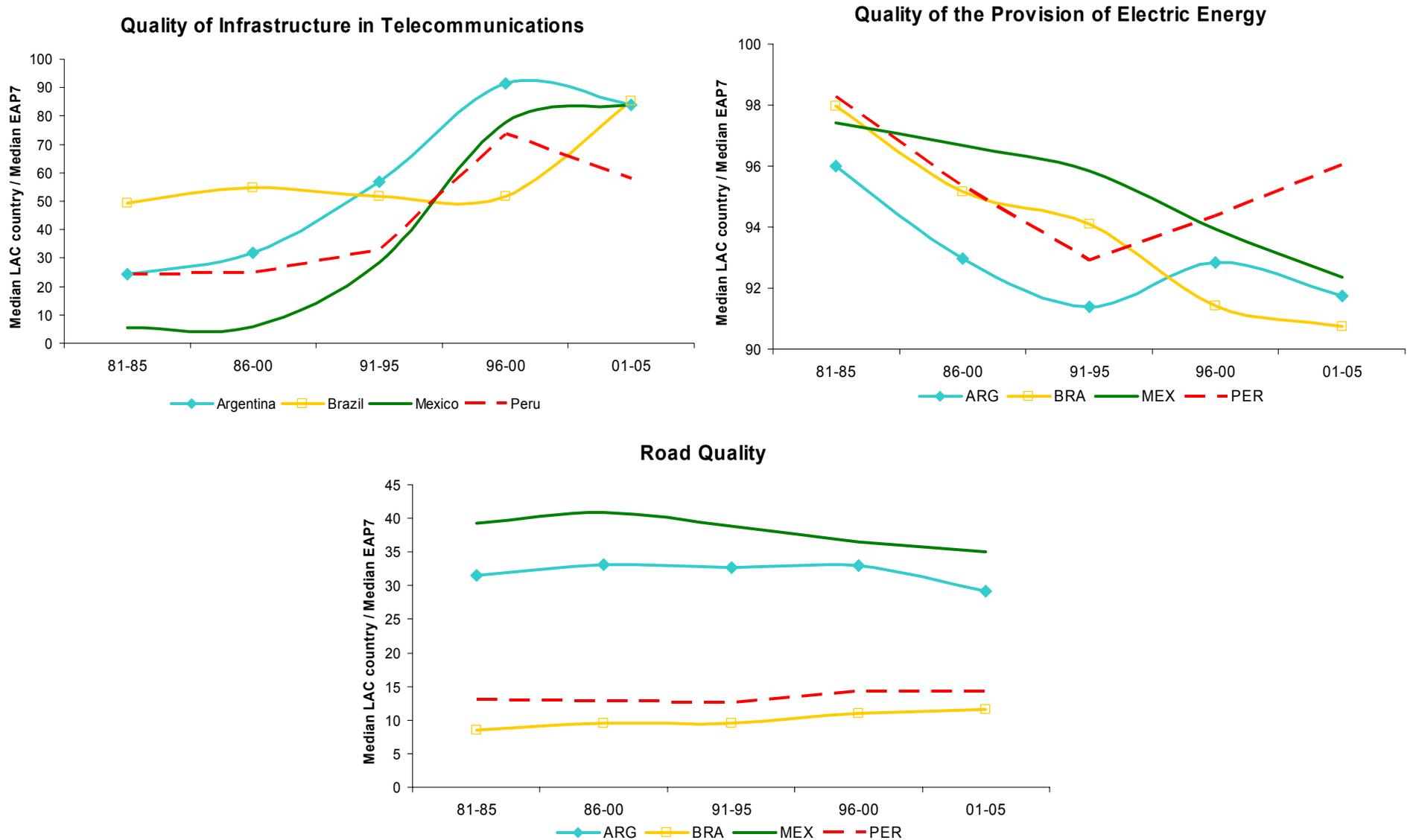


Road Network (km. per sq.km. of surface area)



Source: Calderón and Servén (2004) *Trends in Infrastructure in Latin America, 1980-2001*. The World Bank Policy Research Working paper 3401.

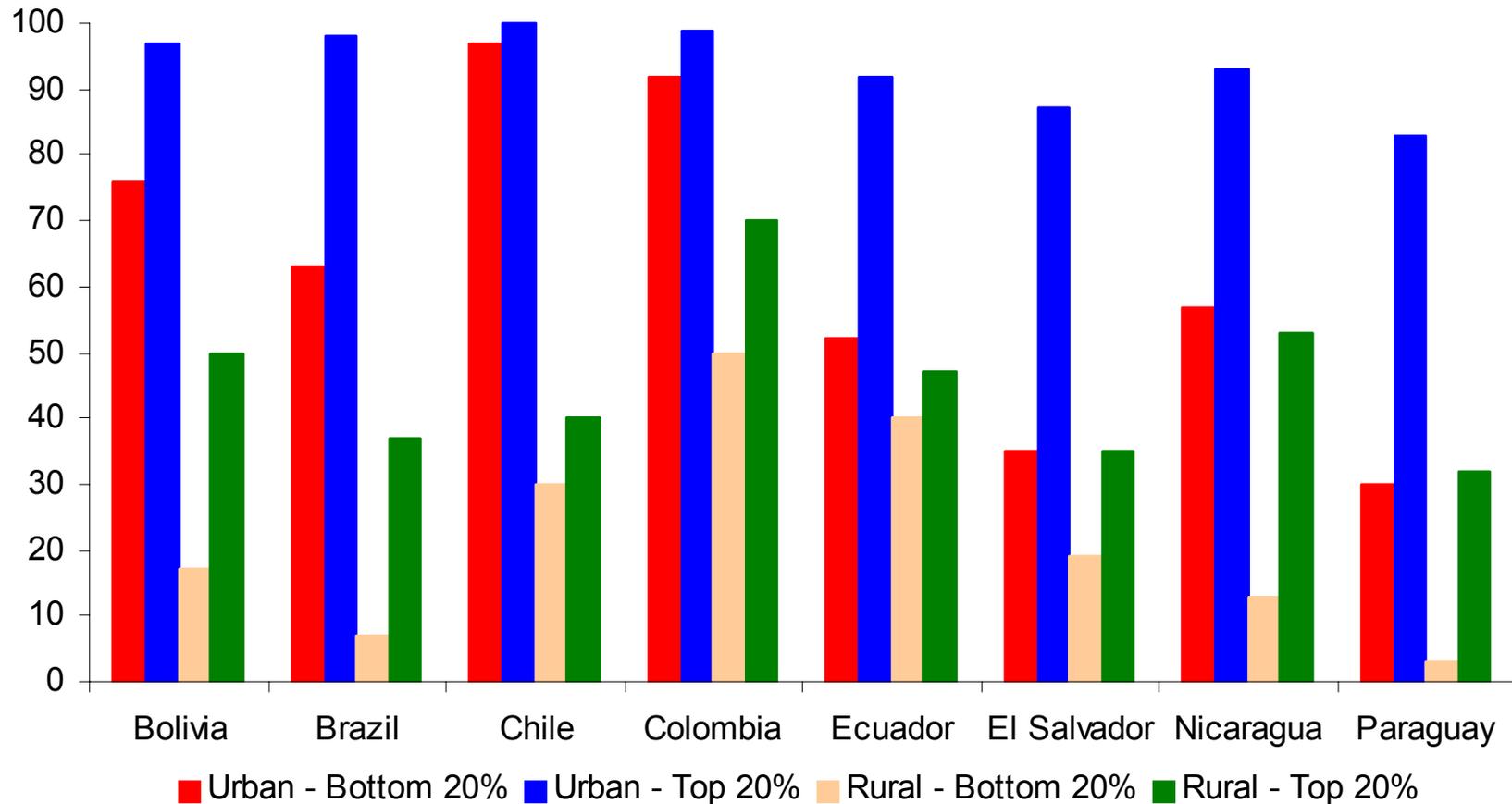
Infrastructure Gap with EA7?



Source: Calderón and Servén (2004) *Trends in Infrastructure in Latin America, 1980-2001*. The World Bank Policy Research Working paper 3401.

Access to Infrastructure

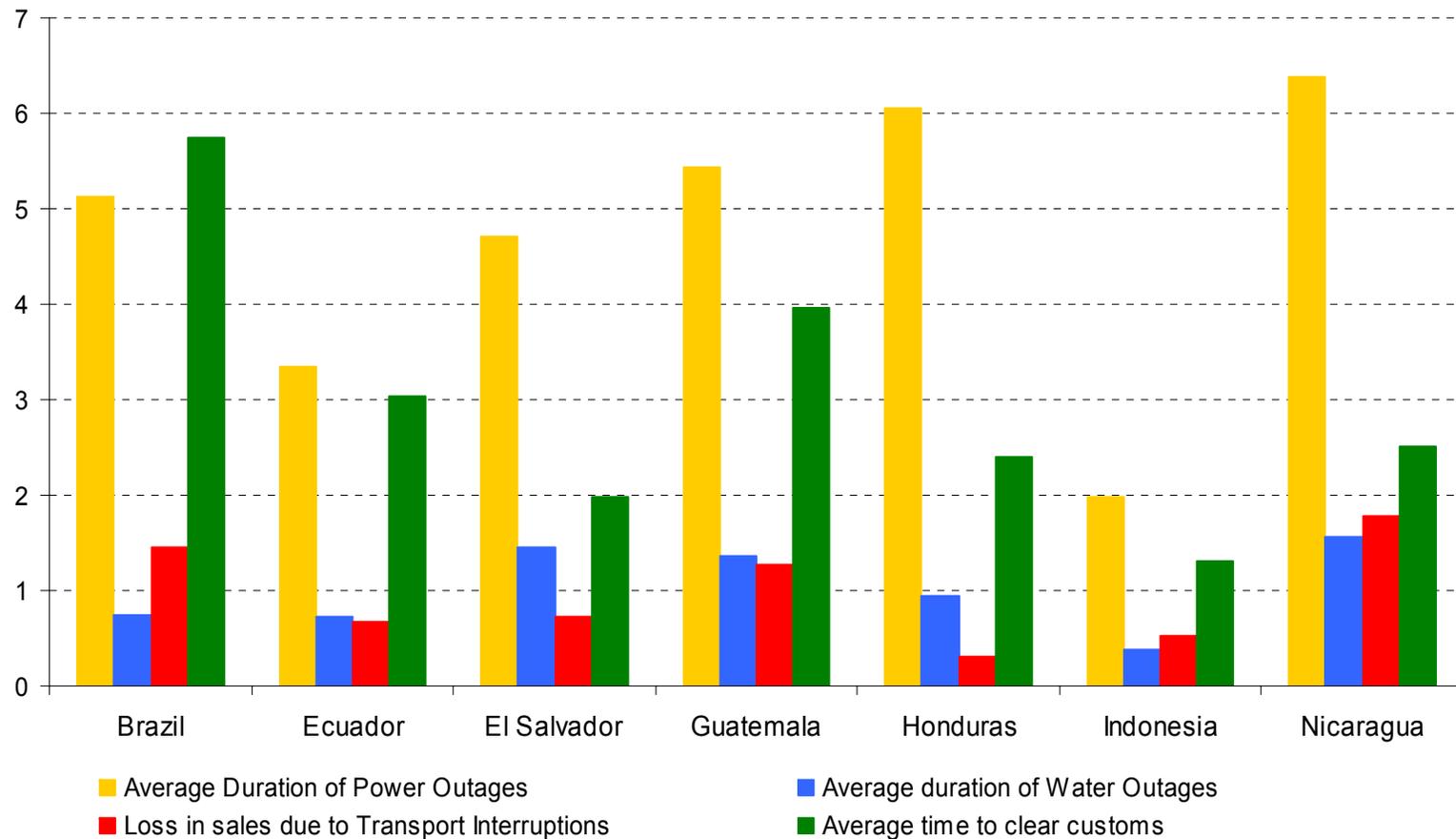
Coverage of Piped Water Connections (% of Population)



Infrastructure and Productivity

Productivity Gains from Infrastructure

(from 20% improvement of investment climate variables)

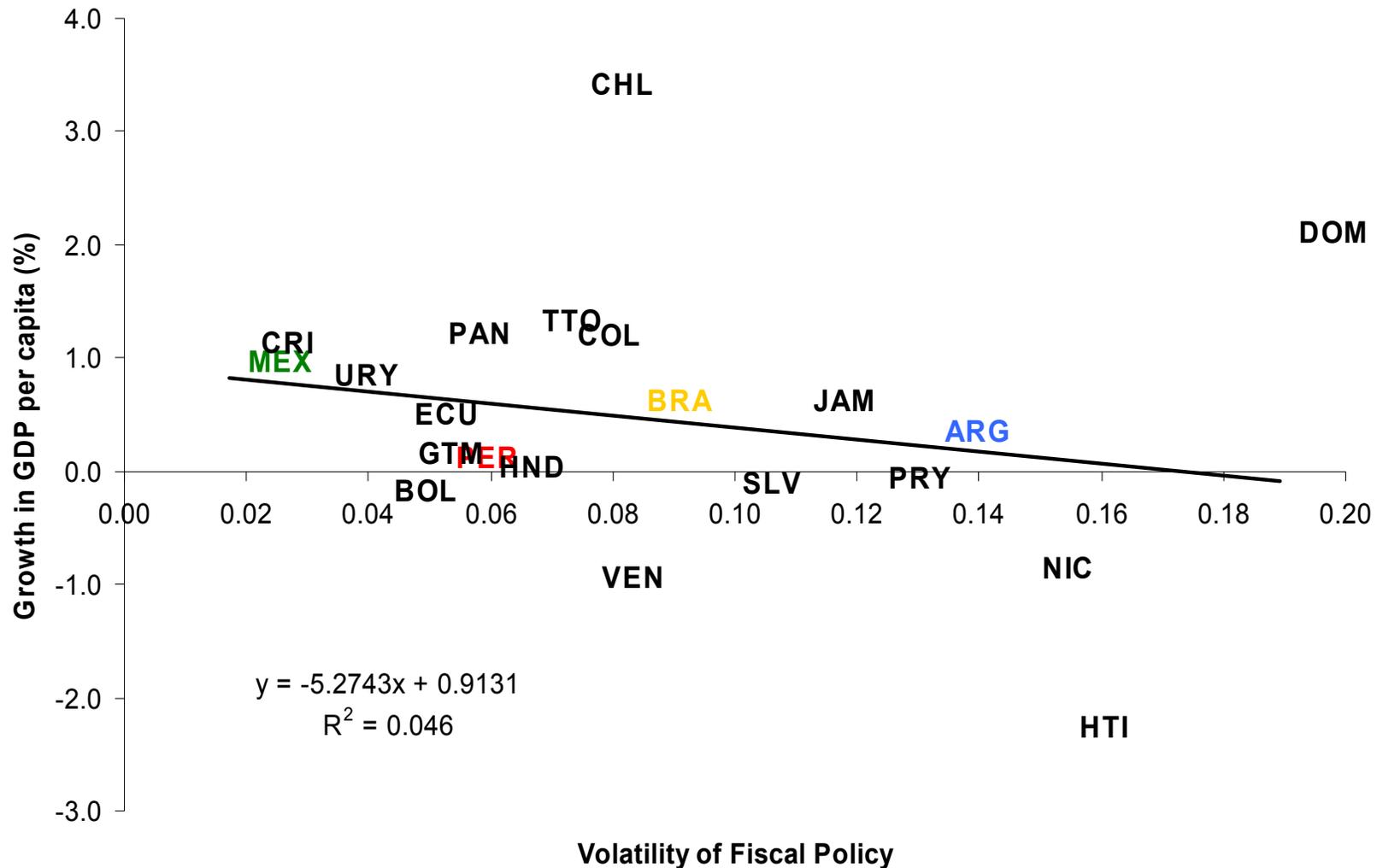


Source: Escribano, Peltier-Thiberge, Garrido and Singh (2005) "The Impact of Infrastructure on Competitiveness in Latin America: A Firm-Level Analysis based on Investment Climate Assessments." Washington, DC: The World Bank

POLICY VOLATILITY AND FINANCIAL MARKETS

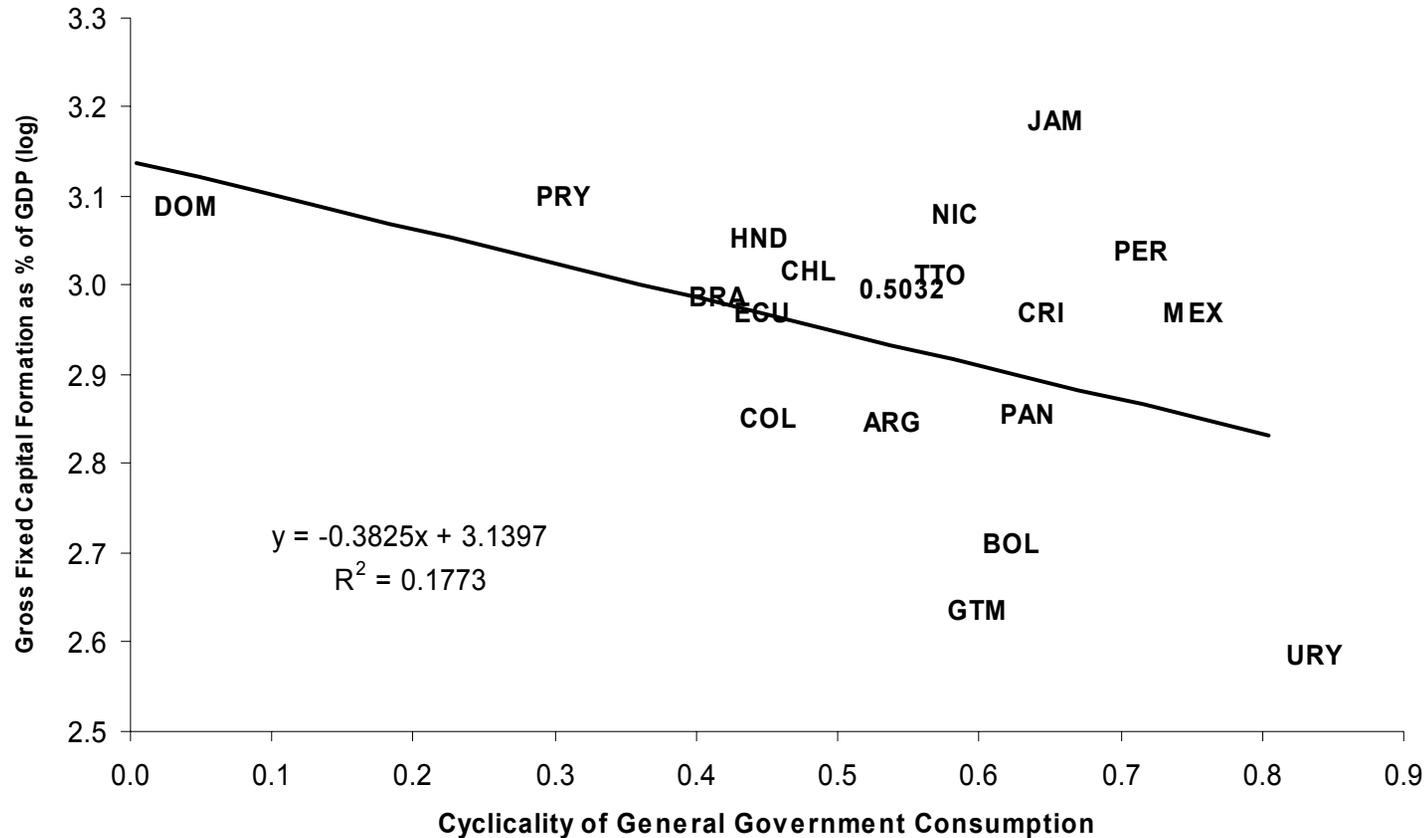
Policy Volatility and Growth

Volatility of Discretionary Fiscal Policy vs. Growth in Real GDP per capita



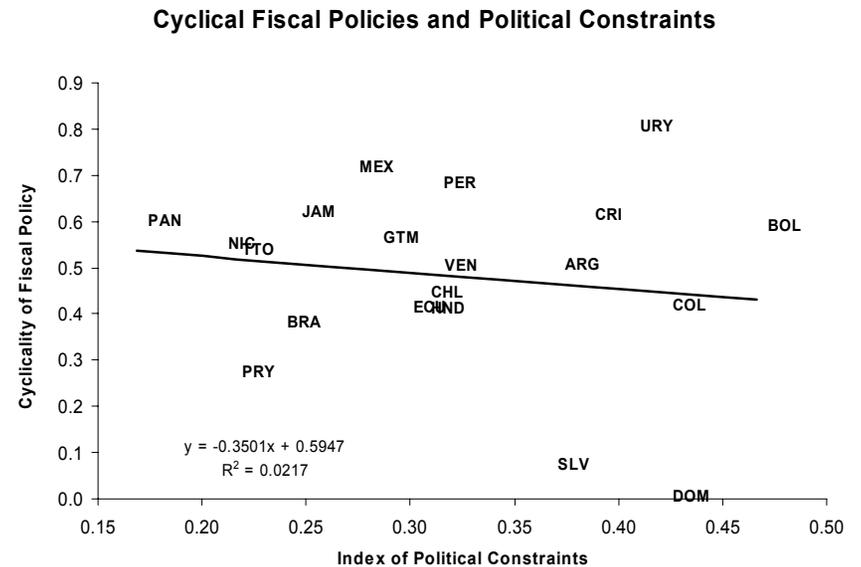
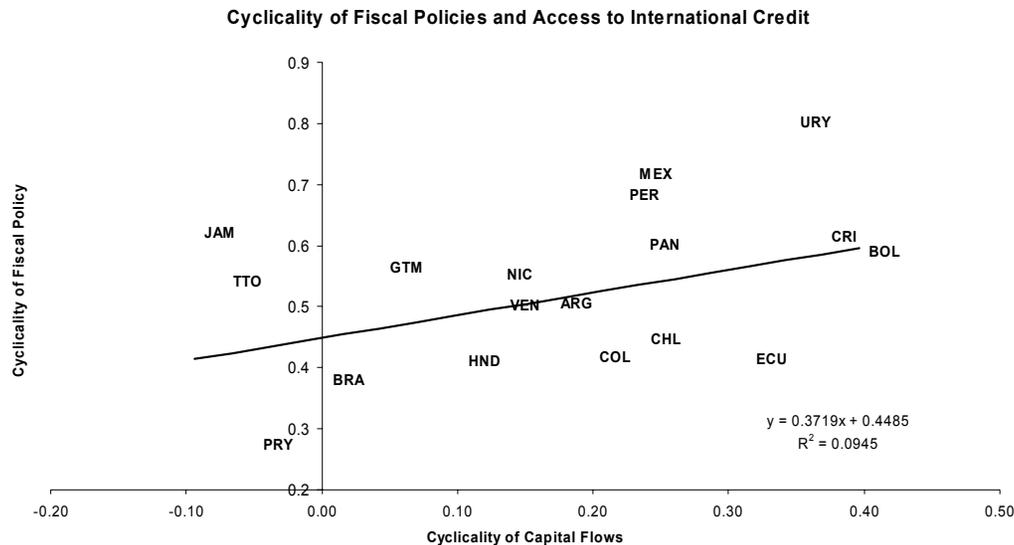
Pro-Cyclical Fiscal Policies

Cyclical Fiscal Policies and Domestic Investment



- **Procyclical Fiscal Policies may have an anti-investment bias in LAC**

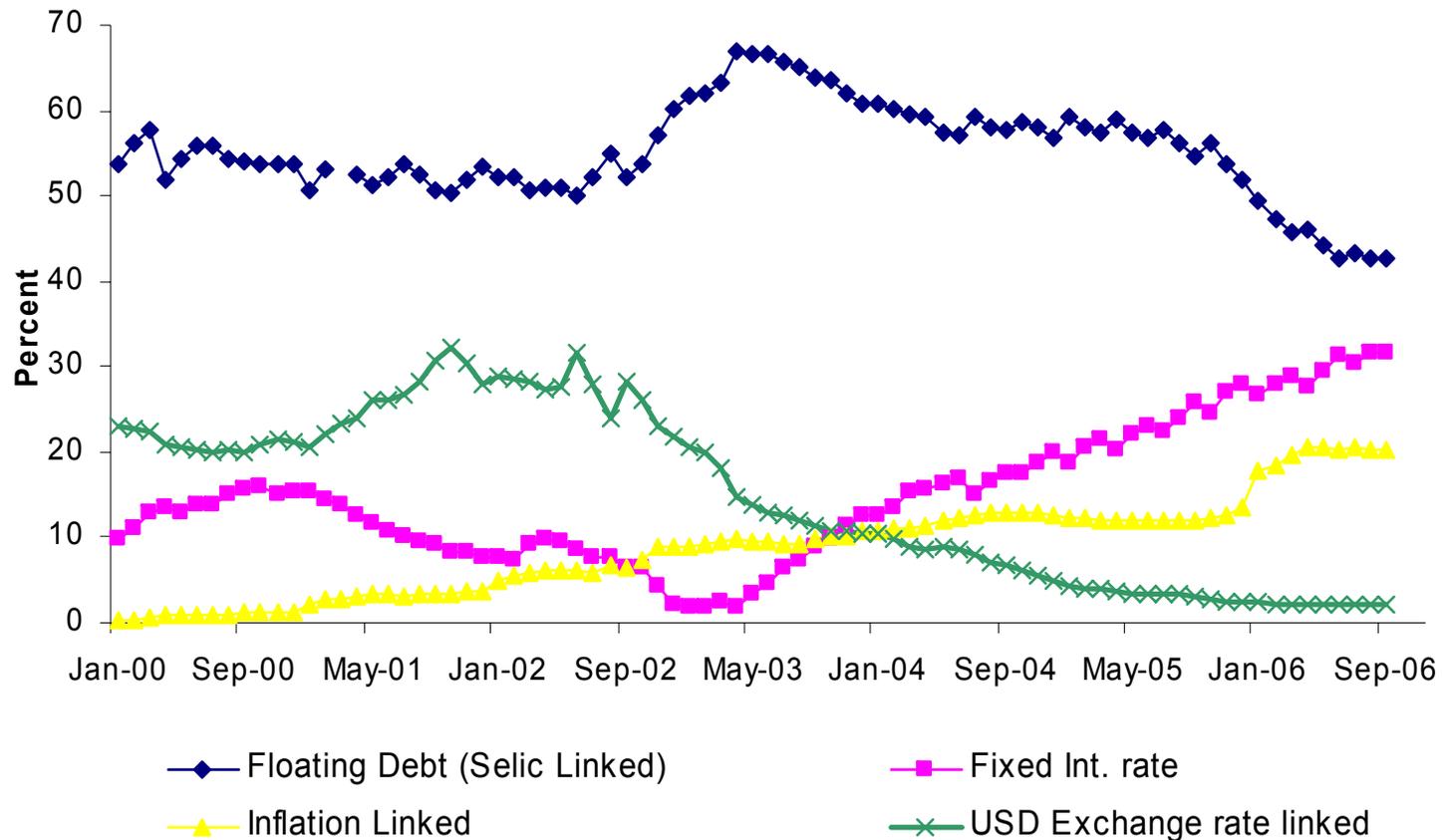
Pro-Cyclical Fiscal Policies



- **Procyclical Fiscal Policies are associated with:**
 - **Access to international capital markets, and**
 - **Weak governments**

Developing Domestic Currency Markets

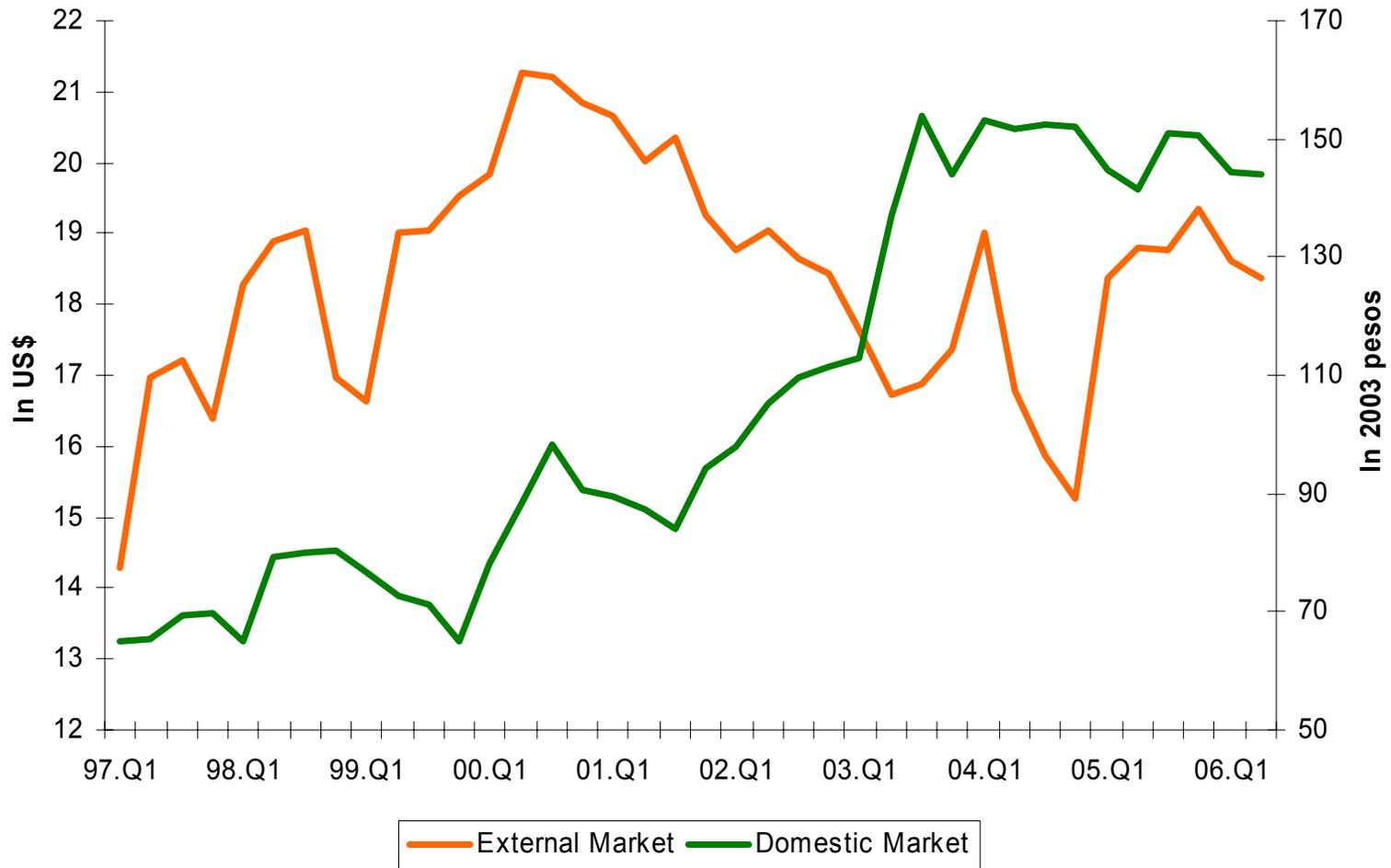
Brazil: Debt Composition



Source: Bloomberg

Developing Domestic Currency Markets

Mexico: Private Bond Issuance
(in billions)



Source: BIS

THE END