

Keynote Address

**Identifying Risks and Opportunities:
A Global View**

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4:15 p.m. – 5:30 p.m.



The Institute of International Finance

Outlook for Latin America

*Global Corporate Treasurers Forum
May, 2007*

Latin America

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Key Developments

- Supportive external environment and improved policies have strengthened fundamentals
- The region's share of global export markets has declined as local currencies have appreciated
- Commodity prices continue to be strong and are supporting favorable export performance
- Strong domestic demand is sustaining growth despite slowing of global growth

Strong growth is continuing

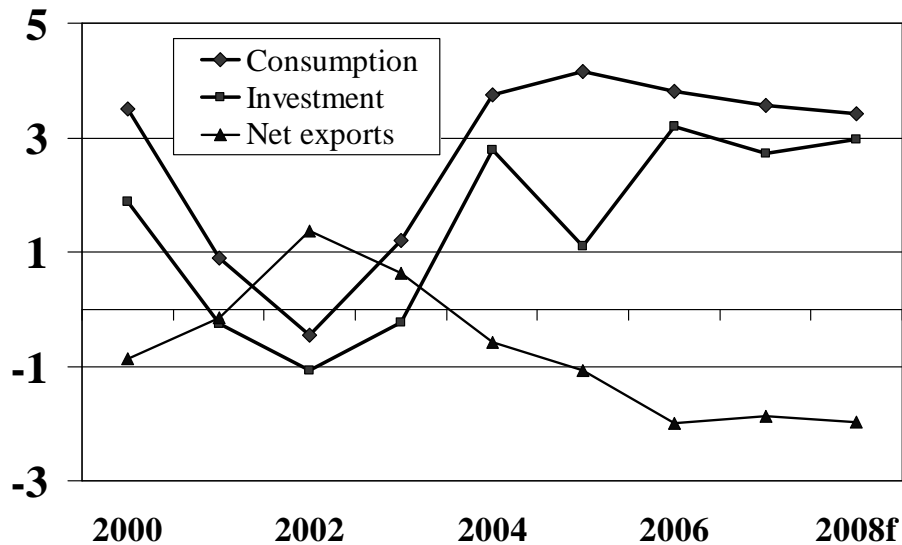
(% change in GDP)

	2004	2005	2006e	2007f	2008f
Latin America	6.1	4.2	5.2	4.7	4.1
Argentina	9.0	9.2	8.5	7.2	5.4
Brazil	5.7	2.9	3.7	4.4	4.0
Chile	6.2	6.3	4.2	5.0	4.8
Colombia	4.9	5.2	6.8	5.4	4.4
Mexico	4.2	2.8	4.8	3.5	3.3
Peru	5.2	6.4	8.0	7.2	5.0
Venezuela	18.3	10.3	10.3	7.5	5.0

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Domestic demand underpinning GDP growth

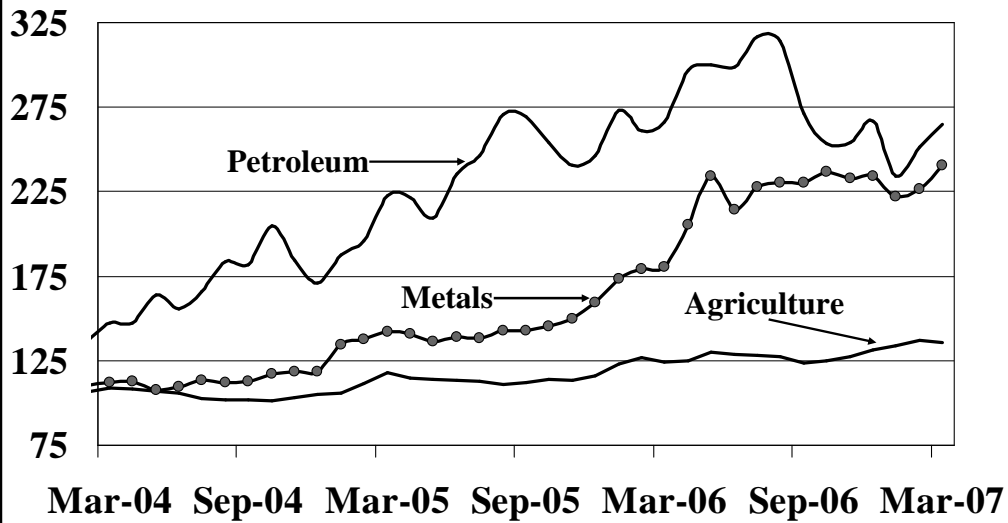
(Percentage-point contribution to real GDP growth)



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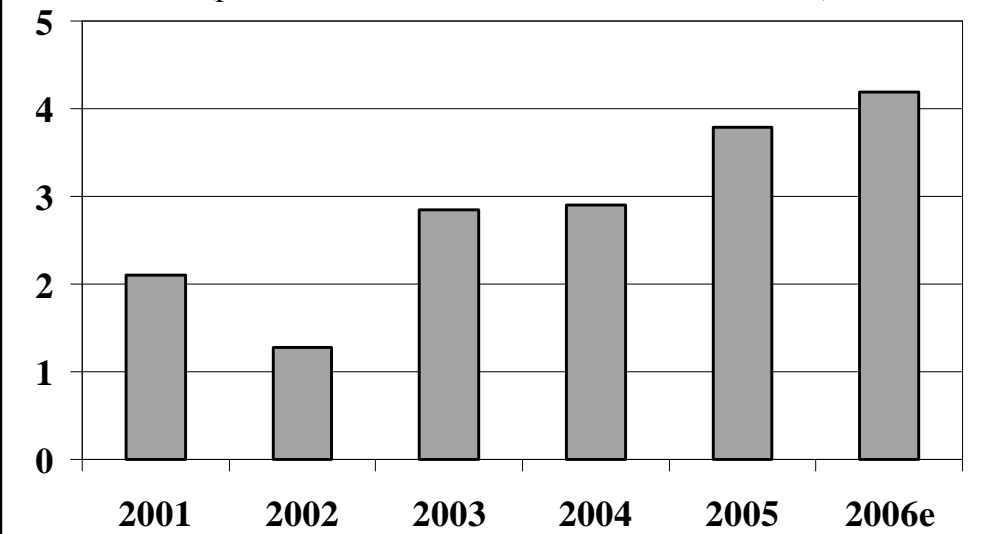
Commodity prices remain high

(2000=100)



Windfall revenues have strengthened public finances

(public sector non-interest balance as % of GDP)



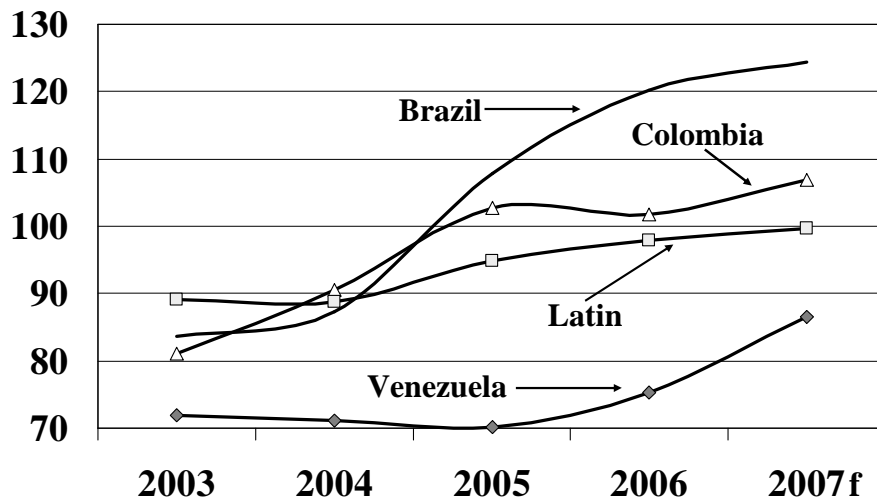
Public sector debt-to-GDP ratios have declined

	2004	2005	2006e
Latin America	53.2	41.9	39.0
Argentina	124.7	71.1	67.8
Brazil	73.5	67.6	66.2
Chile	10.8	7.5	5.4
Colombia	49.7	46.0	43.1
Mexico	23.0	22.4	23.9
Peru	44.4	37.8	32.7
Venezuela	38.8	33.3	25.0

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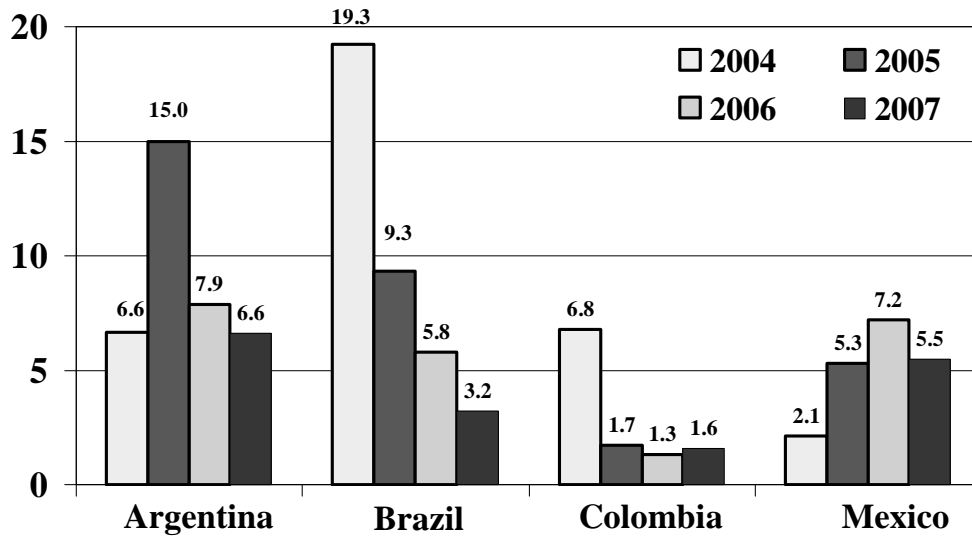
Appreciation of real exchange rates has weakened competitiveness

(REER, 2000=100)

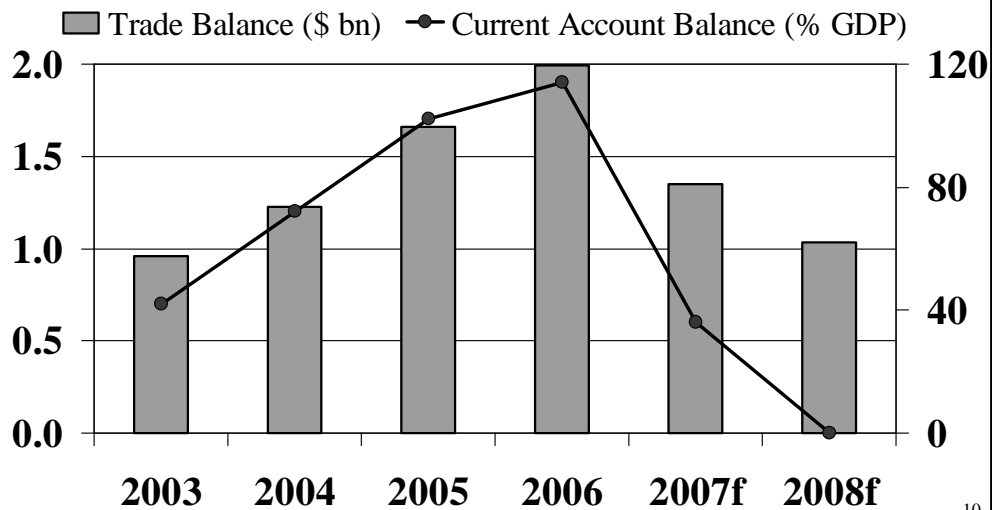


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Export growth in real terms has declined (volume % change yoy)

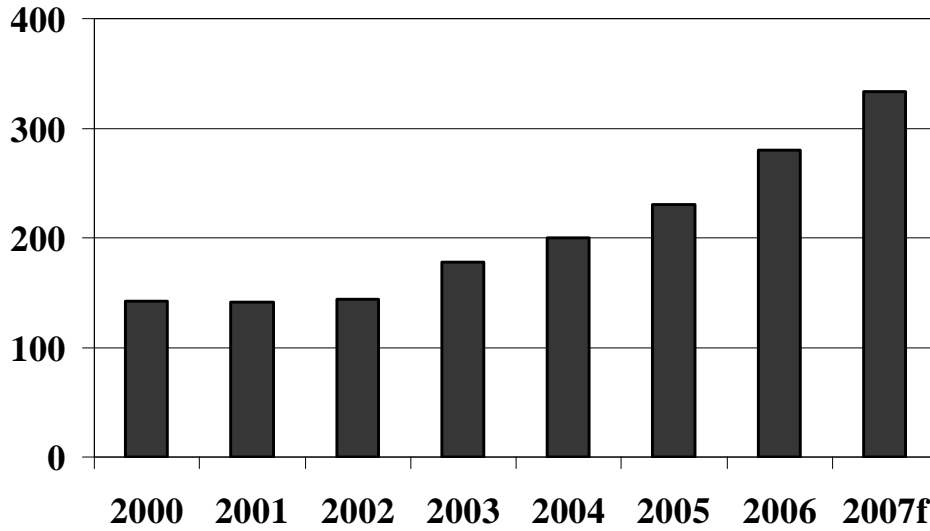


Current account surplus is declining as trade surplus falls



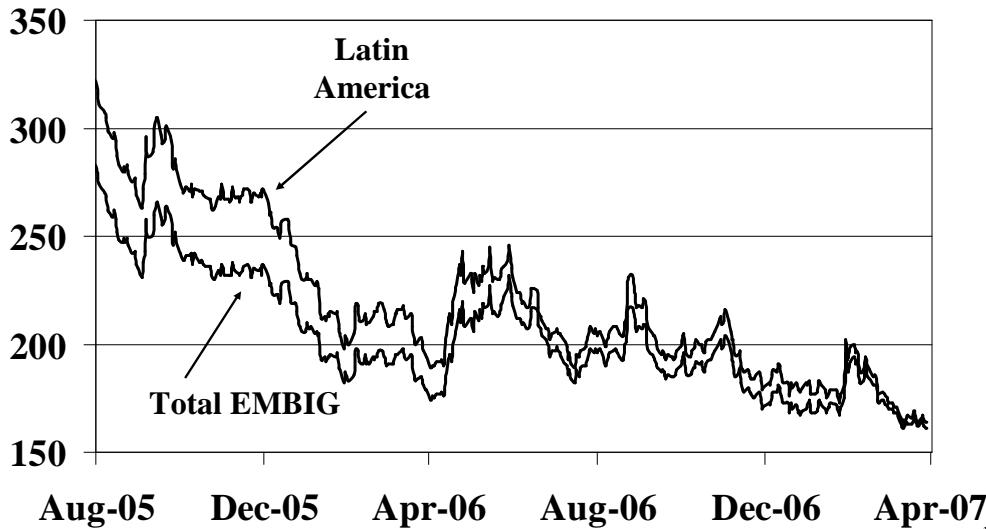
International reserves continue growing as net private capital inflows increase

(excluding gold, billions of dollars)



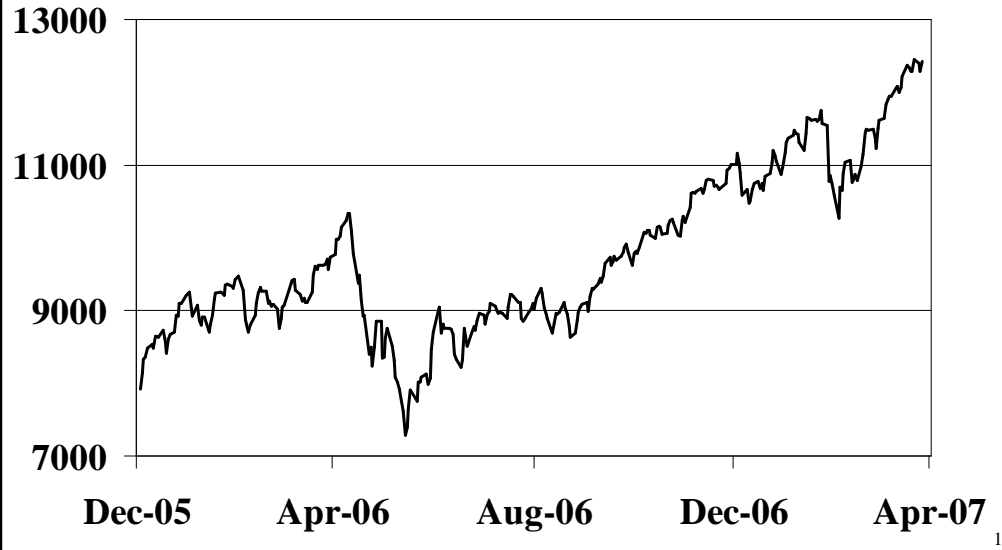
Spreads resume their decline to record lows following March volatility

(EMBI Global, bps over U.S. Treasuries)



Latin America

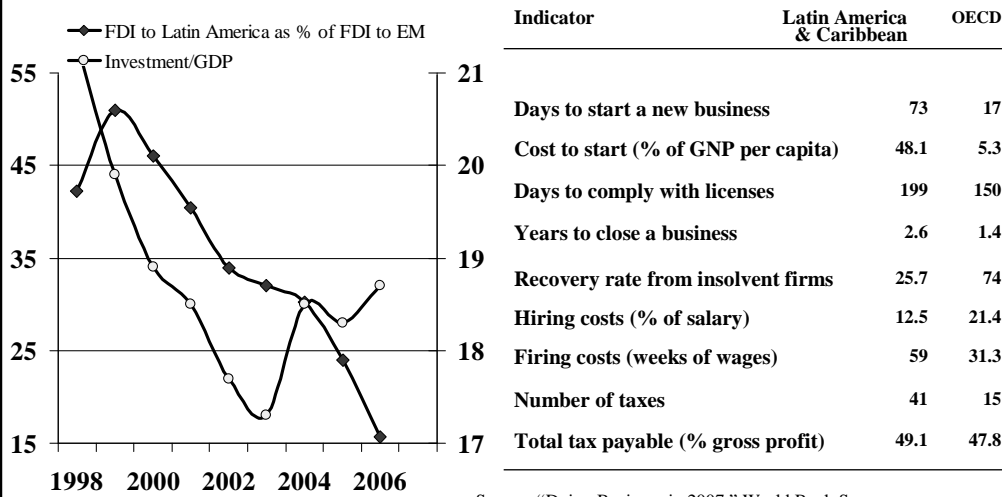
Latin American stock markets have also recovered and continue rising rapidly (MSCI Index)



Latin America

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... but, the low investment ratios to GDP are limiting growth and the region is losing its share of total FDI to emerging markets...



Indicator	Latin America & Caribbean	OECD
Days to start a new business	73	17
Cost to start (% of GNP per capita)	48.1	5.3
Days to comply with licenses	199	150
Years to close a business	2.6	1.4
Recovery rate from insolvent firms	25.7	74
Hiring costs (% of salary)	12.5	21.4
Firing costs (weeks of wages)	59	31.3
Number of taxes	41	15
Total tax payable (% gross profit)	49.1	47.8

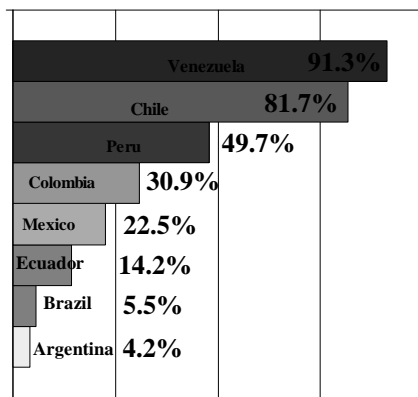
Source: "Doing Business in 2007," World Bank Survey

...and, the regions exposure to the commodity price cycle is high...
 (% of each country's 2006 exports)

	Commodities	Oil	Metals	Agriculture & other
Latin America	41	18	11	12
Argentina	61	17	2	42
Brazil	52	8	18	26
Mexico	19	15	1	3
Chile	75	0	56	19
Colombia	57	26	16	15
Ecuador	77	58	0	19
Peru	75	9	56	10
Venezuela	90	87	3	0

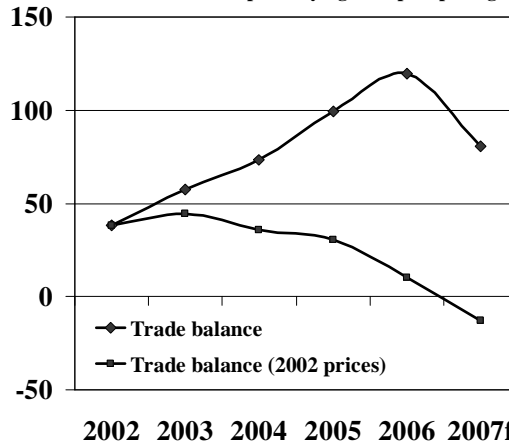
...which makes the improvement of Latin America's trade balance excessively reliant on terms-of-trade gains

Cumulative terms of trade gains from 2003 - 2006



Source: JP Morgan

Latin America trade surplus relying on export price gains



The region's political and policy risks are most acute in Ecuador and Venezuela

- Chavez is using his landslide victory last December to further increase his power and increase the state's dominant role in the economy
- Rafael Correa is following the Chavez model in Ecuador by increasing the role of the state and convening a constituent assembly aimed at rewriting the constitution to strengthen his power
- In 2007, the region's only major election will be in Argentina where Kirchner is expected to win reelection easily; expansionary policies will continue through the election

Will the region implement the structural reforms needed to increase productivity and growth?

	Political Reforms	Economic Reforms
Brazil		Central Bank autonomy Labor and union reform Legislation to cap current public expenditure growth
Chile		Capital markets deepening
Colombia		Transfers reform bill
Ecuador	Possible political reform via constituent assembly	Free Trade Agreement with the US Oil sector reform Banking sector reform
Mexico		Social security (ISSSTE) Labor reform Energy sector reform Fiscal reform
Peru		Tax reform
Uruguay		Tax reform TIFA Agreement with the US
Venezuela	Abolish presidential term limits Constitutional reform	Monetary reform Labor reform Banking sector reform

Brazil

Key Developments

- Prudent macroeconomic policies have improved fundamentals
- Proactive liability management has greatly reduced vulnerability to shocks
- Improved creditworthiness has reduced borrowing costs and moved Brazil closer to investment grade
- Virtuous circle gaining momentum with growth accelerating in an environment of macroeconomic stability

Fundamentals have improved significantly

	2002	2006	2007f
Consumer Price Inflation (IPCA% yoy)	12.5	3.1	3.7
SELIC Policy Rate (%)	25.00	13.25	11.00
Exchange rate R/\$\$\$	3.50	2.15	2.00
Primary Fiscal Balance (% of GDP)	3.4	4.0	3.5
Current Account Balance (% of GDP)	-1.5	1.3	0.8
International Reserves (\$ bn)	37.7	85.6	140.0
Real GDP Growth Rate (%)	2.7	3.7	4.4
EMBIG Spread (bps over UST)	1460	190	156*

*as of April 27, 2007

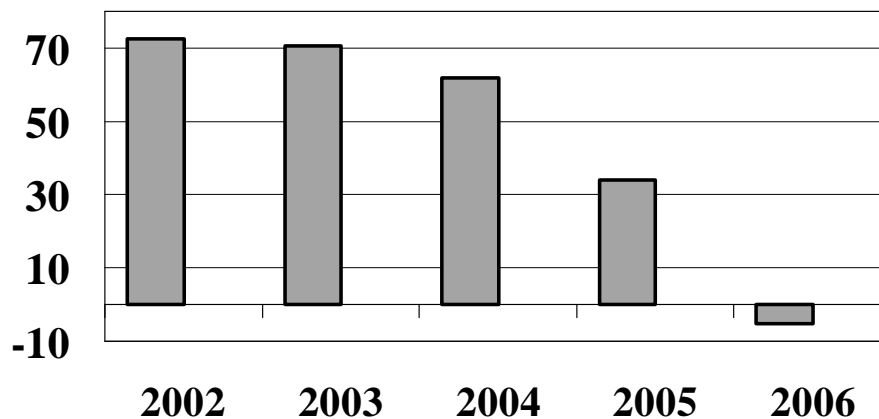
Objectives of debt liability management:

- Reduce public sector debt to GDP
- Reduce exchange risk by eliminating public fx exposure
- Reduce market risk by bringing down variable rate debt
- Eliminate highest cost debt
- Smooth out and lengthen debt profile
- Develop local capital market

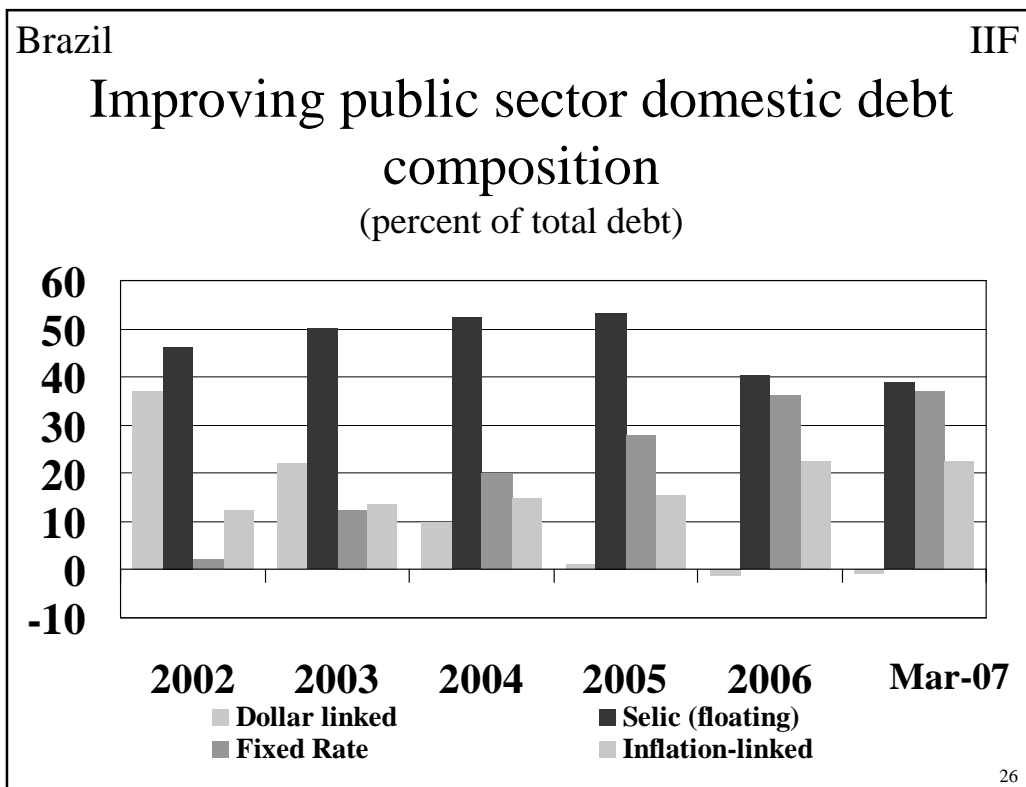
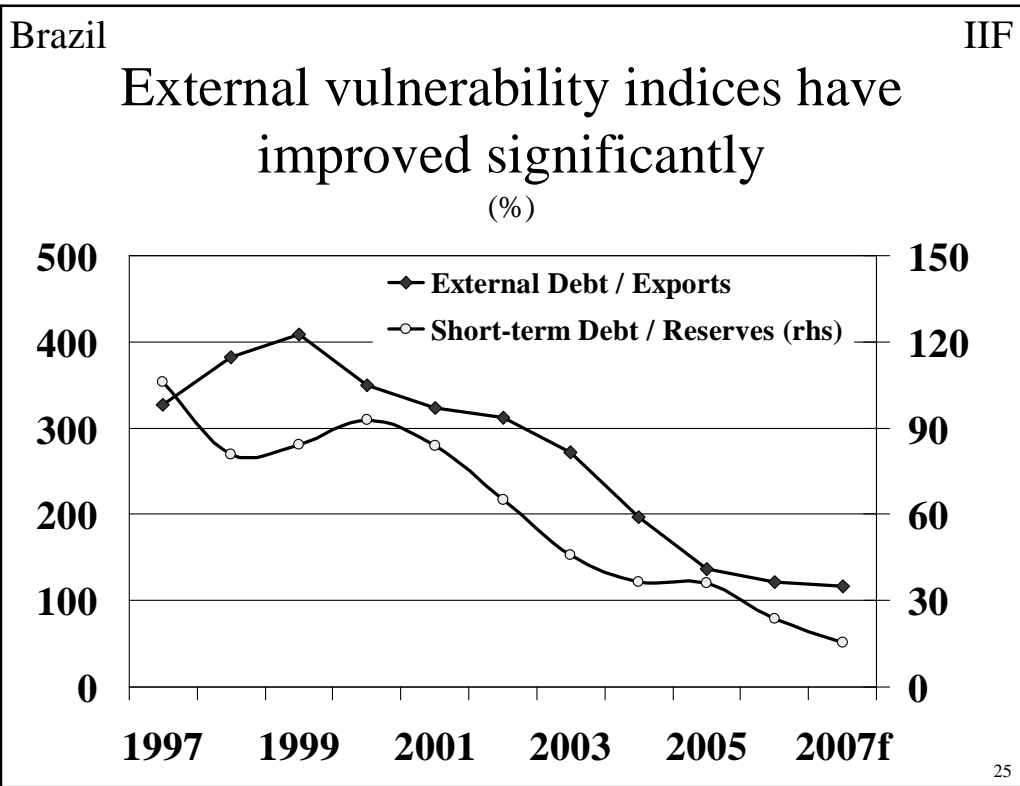
Substantial Improvement in Public Sector Debt Indicators

	2002	2006
Net Public Sector Debt to GDP (%)	50	45
Gross Public Sector Debt to GDP (%)	86	66
Average Maturity on Domestic Debt (months)	22	27
External Public Sector Debt to GDP (%)	26	9
Total External Debt to Exports (%)	312	122
International Reserves to Short Term Debt	1.5	4.2

Central government has eliminated its net foreign currency liabilities* (billions of dollars)



*Includes international reserves, external debt and reverse swaps



What risks does Brazil face going forward?

- How have politics changed?
- Is the direction of policy changing?
- Where is inflation headed?
- What happens to interest rates?
- What does this mean for reform, growth and fundamentals?
- What would be the impact of lower global growth and commodity prices?



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