

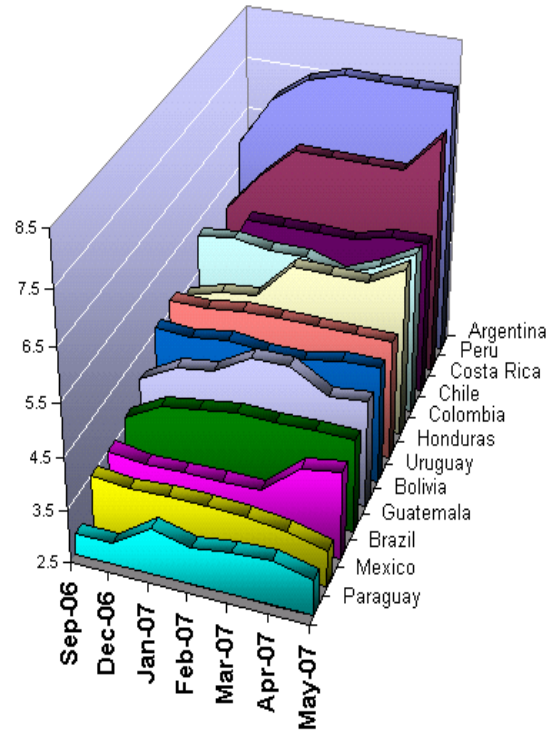


Revelation of Expectations in Latin America
RES-IDB
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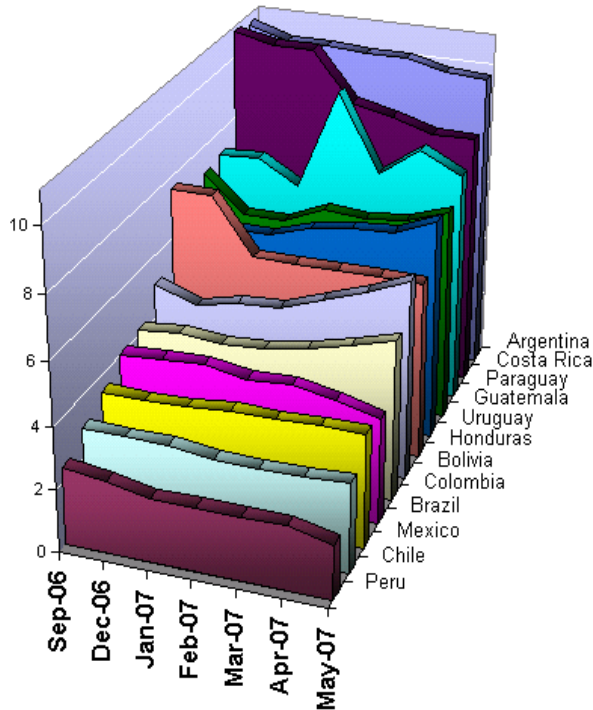
About REVELA: Central Banks in Latin America conduct surveys of market participants. The IDB Research Department collects the results of these surveys from participating central banks on a monthly basis (around the 20th of each month) to produce REVELA. This document analyzes differences in market expectations for growth and inflation across countries and determines trends over time. The data is available at www.iadb.org/res

Expectations of **growth** in Latin America remain very high with a (simple) average expected growth rate of 5.06% for 2007 for the countries surveyed. Moreover, **inflation** expectations remain relatively subdued with an average expected inflation rate of 5.76% for the year.

Market Expectations-GDP Growth (% , end 2007)



Market Expectations-Inflation (% , end 2007)



The time trend of these expectations illustrates that while growth expectations are still increasing in several countries they have now stabilized to a considerable degree and inflation expectations in general are rising. The following graphs illustrate expectations for growth and inflation for 2007 across countries and across time.

Growth

Increasing expectations of growth for 2007 have stabilized in several countries including Argentina (7.7%), Costa Rica (5.5%), Guatemala (4.3%), Honduras (4.8%) and Uruguay (4.74%). They have declined in Mexico by 0.17% to 3.2% and by 0.19% in Paraguay to 3.18%. The exceptions to the general trend of lower increases in growth expectations are Peru where growth is now expected to be 7.2% against 6.43% last month and Brazil where growth is now expected to be 4.18% against 4.01% two months back. Chile and Colombia also have slightly higher 2007 growth expectations this month to 5.7% and 5.8% respectively.

Inflation

Inflation expectations for 2007 are on the rise in several countries in the region in particular in Colombia (5.25%), Uruguay (7.21%) and Bolivia (6.48%). In the case of Bolivia inflation expectations rose by 0.55% from last month. Chile also has slightly higher inflation expectations (2.9%). The exception to the trend is Brazil where inflation expectations fell from 3.76% to 3.43% in the lower part of the central bank's target range. Inflation expectations also fell in Mexico, Paraguay and Peru.

The table summarizes the movement in expectations from the April 2007 to May 2007 surveys. As can be seen most changes in growth expectations remain positive while changes in inflation expectations are mixed.

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Average changes		
	Inflation	Growth
Argentina	▼	—
Bolivia	▲	▲
Brazil	▼	▲
Chile	▲	▲
Colombia	▲	▲
Costa Rica	—	—
Guatemala	▲	—
Honduras	—	—
Mexico	▼	▼
Paraguay	▼	▼
Peru	▼	▲
Uruguay	▲	▲

Source: Latin American Market expectations surveys