

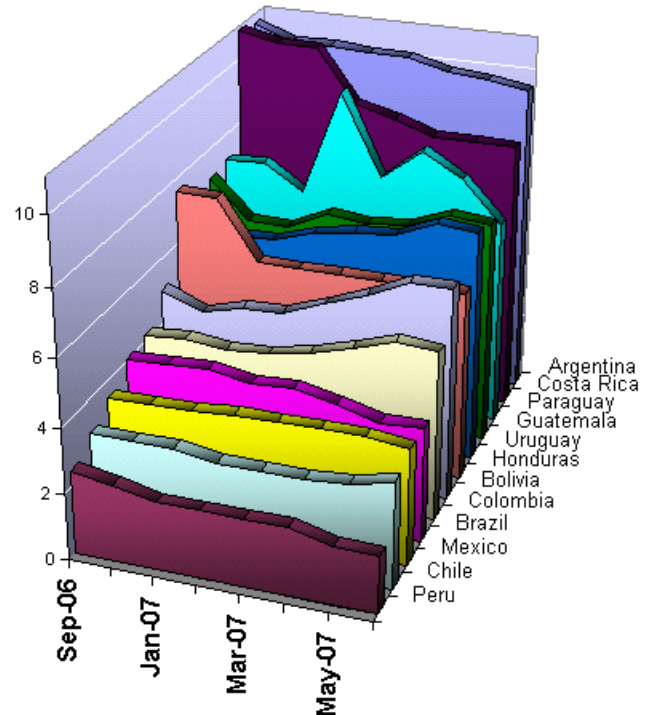


Revelation of Expectations in Latin America
RES-IDB
Issue 2 - June 2007.

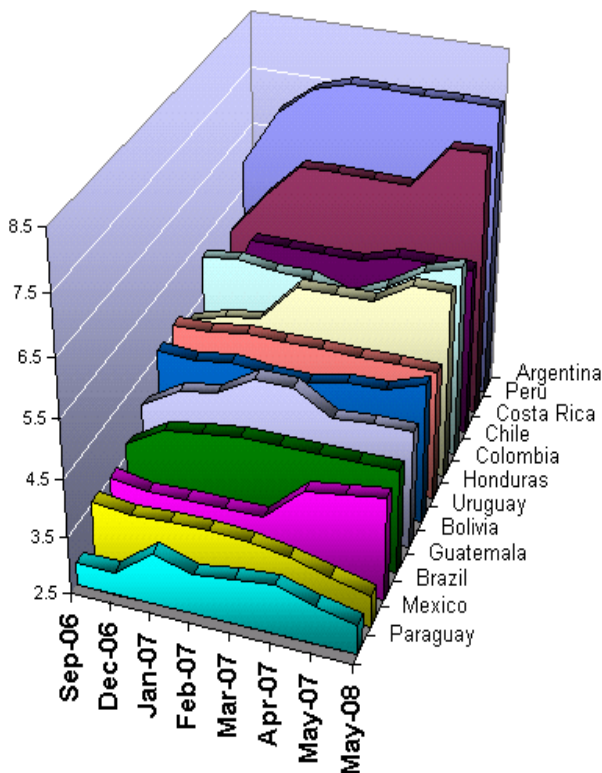
About REVELA: Central Banks in Latin America conduct surveys of market participants. The IDB Research Department collects the results of these surveys from participating central banks on a monthly basis (around the 20th of each month) to produce REVELA. This document analyses differences across countries and 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 5.09% for 2007 for the countries surveyed. Moreover **inflation** expectations remain relatively subdued with an average expected inflation rate of 5.63% for the year.

Market Expectations-Inflation (% end 2007)



Market Expectations-GDP Growth (% 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 stabilizing or lowering. The 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%), Colombia (5.8%) and Peru (7.2%). They have declined in Mexico by 0.16% to 3.04% and by 0.15% in Paraguay to 3.03%. The exceptions to the general trend of lower increases in growth expectations are Brazil where growth is now expected

to be 4.28% against 4.18% last month; Chile where growth is now expected to be 5.9% against 5.7% last month. Uruguay also has higher 2007 growth expectations this month at 4.97%.

Inflation

Inflation expectations for 2007 are still high, but they are falling in several countries in the region in particular in Colombia where prices are expected to rise by 5.16% against 5.25% previously, and Uruguay where inflation expectations fell by 0.13% to 7.16%. Inflation expectations also fell in Argentina, Guatemala, Mexico, and Paraguay, The exceptions to the trend are Brazil and Chile. In Brazil, inflation expectations rose from 3.43% to 3.5%, which is still

in the lower part of the central bank's target range. Chile, has higher inflation expectations rising from 2.9% to 3.2% since last month.

The table summarizes the movement in expectations from the May 2007 to June 2007 surveys. As can be seen most changes in growth expectations remain positive or expectations are stable while changes in inflation expectations are mostly negative.

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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