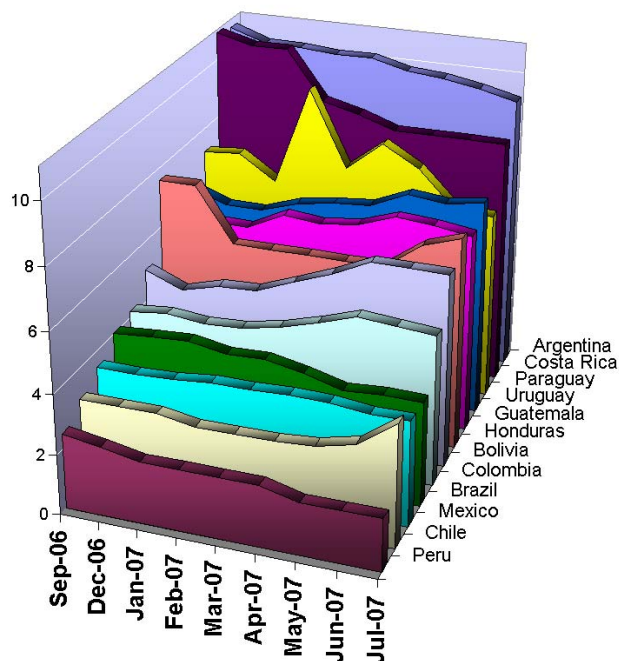




Revelation of Expectations in Latin America
RES-IDB
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About REVELA: Central Banks in Latin America conduct surveys of market participants. The IDB Research Department collects the results of these surveys from participating central banks on a monthly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

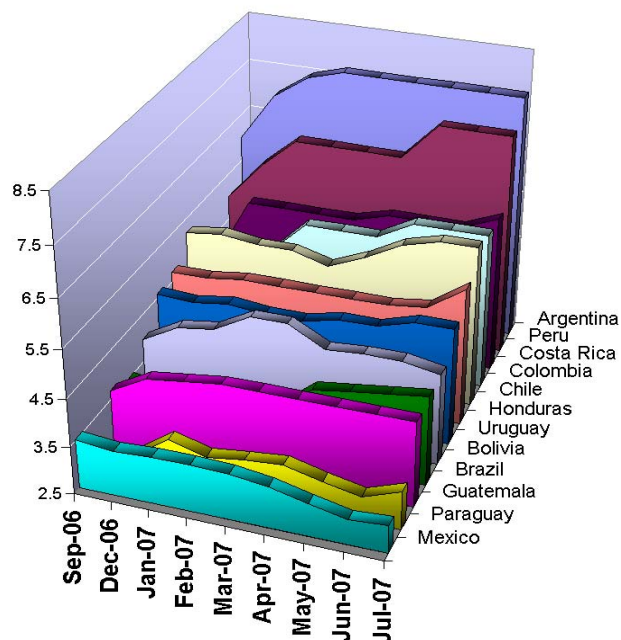
Market Expectations-Inflation (% , end 2007)



Expectations of **growth** in Latin America remain high with a simple average expected growth rate of 5.2% for 2007 for the countries surveyed. This is

0.1% higher than last month. Growth is expected to slow in 2008 to an average of 4.64%, also up slightly from the survey last month. **Inflation** expectations rose although changes were mixed across countries. The simple average indicates expected inflation of

Market Expectations-GDP Growth (% , end 2007)



5.78% for the year, 0.15% higher than last month. Inflation expectations rose in five countries (significantly in Chile) and fell in six. The graphs show the time path of growth and inflation expectations across the countries surveyed.

Growth

Expectations for 2007 growth rose 0.5 percentage points in Honduras, from 4.9% to 5.4%, and 0.3 percentage points in Costa Rica, to 5.8% as opposed to 5.5% from last month. Brazil's 2007 growth is now expected to be 4.38% against 4.28% last month. And in Mexico, 2007 growth expectations increased by 0.05% to 3.09% and by 0.28 points in Paraguay to 3.31%. Increasing expectations for 2007 growth in previous months have stabilized in the following countries: Argentina (7.7%), Chile (5.9%), Colombia (5.8%), Guatemala (4.3%) and Peru (7.2%). Growth expectations for 2007 declined marginally in Bolivia by 0.13% to 4.43% and by 0.01% in Uruguay to 4.96%.

In this July survey we also comment on expectations for 2008. Growth is forecast to slow in 2008 in the region with the simple average indicating 4.64%, increased from 4.55% last month and as opposed to the current expected growth of 5.2% for 2007. However, three countries are expecting higher growth in 2008 than in 2007: Costa Rica (6.00%), Mexico (3.62%) and Paraguay (3.61%). Expectations for 2008 growth rose this month in Brazil, Costa Rica and Paraguay; decreased in Argentina, Bolivia and Uruguay, and did not change in Chile and Mexico.

Inflation

Inflation expectations for 2007 are increasing but are very mixed across countries. There was a substantial rise in inflation expectations in Chile to 4.1% from 3.2%. Inflation is now significantly above the WEO forecast of 2.5% for 2007 and Chilean growth will outpace the WEO forecast of 5.18%. Inflation expectations also rose in Honduras, to 3.5% from 3.43%; marginal increases were also posted last month in Mexico (to 3.52%), Peru (to 1.75%) and Uruguay (to 7.27%). Expectations of inflation for 2007 fell in Guatemala, where prices are expected to rise by 6.67% against 6.86% previously, and in

Colombia where inflation expectations fell by 0.12% reaching 5.04%. Inflation expectations also fell marginally in Bolivia, Brazil, and Paraguay.

Inflation is expected to rise somewhat in 2008 from the current expectation of 5.78% for 2007 to 6.3% for the following year, although this latter figure fell marginally some 0.06% from last month's survey. While Chile expects higher inflation this year (now 4.1%), market participants see this falling back to 3.1% for 2008, up only 0.1% from last month. Expectations of inflation for 2008 decreased from last month in the following countries: Bolivia, Brazil, Guatemala, Mexico, Paraguay, Peru and Uruguay.

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