

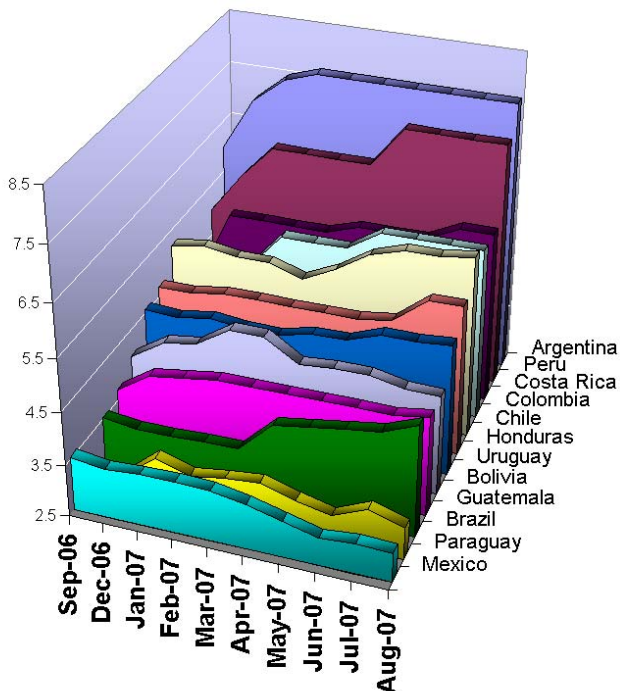


Revelation of Expectations in Latin America
RES-IDB
Issue 4 – August 2007

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 analyzes differences across countries and trends over time. The data are available at www.iadb.org/res

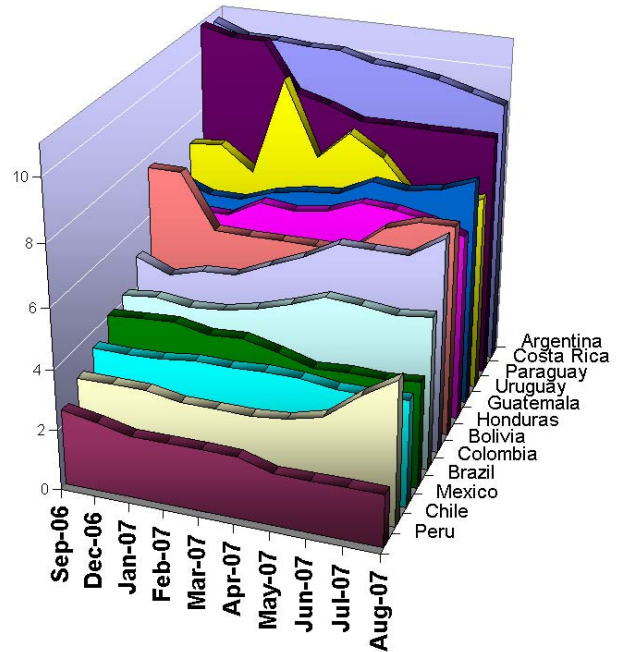
Despite recent market turbulence, **growth** expectations in Latin America remain relatively high for 2007 and 2008. The simple average expected growth rate for 2007 is 5.21% for the countries surveyed, 0.02% higher than last month. Growth is expected to slow in 2008 to an average of 4.65%.

Market Expectations-GDP Growth
(%, end 2007)



Expectations of growth for 2008 are almost the same as those of last month. Expectations of **inflation**, however, continue to rise, reaching an average of

Market Expectations-Inflation
(%, end 2007)



5.93% for the year, 0.15% higher than last month. On average, inflation is expected to rise in 2008, although this differs across countries. The graphs show the time path of growth and expectations of inflation expectations across the countries surveyed.

Growth

Expectations for 2007 growth rose in four countries, most significantly in Brazil, where 2007 growth is now expected to be 4.64%, compared to 4.38% last month. Growth is now expected to be 0.10 percentage points more in Chile (rising from 5.9% to 6.0%) and Guatemala (rising from 4.3% to 4.4%), and 0.06 percentage points more in Uruguay (to 5.02% as opposed to 4.96% last month). Growth expectations for 2007 remained stable in Argentina (7.7%), Costa Rica (5.8%), Colombia (5.8%), Honduras (5.4%) and Peru (7.2%) and declined in three countries: by 0.01% in Bolivia to 4.42%, by 0.03% in Mexico to 3.06% and by 0.2% in Paraguay, from 3.31% to 3.11%.

Growth is forecast to slow in 2008 in the region, with the simple average indicating 4.65%, almost the same

as the 4.64% average of last month's survey and as opposed to current expected growth of 5.21% for 2007. However, some countries are expecting higher growth in 2008 than in 2007: Costa Rica (6.00%), Mexico (3.65%) and, Paraguay (3.24%). Compared to last month, expectations for 2008 growth rose this month in Bolivia, Brazil, Chile, Mexico and Uruguay, decreased in Paraguay, and did not change in Argentina, Costa Rica and Honduras.

Inflation

Inflation expectations for 2007 increased in most countries surveyed, especially in Bolivia, where they rose from 6.47% to 7.20%. In Chile, inflation expectations continued to rise even after last month's significant increase and are now 4.8% against 4.1% last month. Expectations for 2007 inflation were also higher in Brazil, now 3.59% against 3.47%; in Colombia, 5.15% against 5.04%, in Uruguay, 7.68% against 7.27% and in Paraguay, 6.68% against 6.32% of last month. They increased marginally in Mexico (to 3.58%). Expectations of inflation for 2007 fell in Guatemala by 0.36% to 6.31%.

Inflation is expected to rise in 2008 from the current average of 5.93% for 2007 to 6.54% for the following year. Compared to last month's survey, inflation expectations for 2008 rose from 6.3% to 6.54%. Inflation expectations for 2008 increased in the following countries: Argentina, Bolivia, Brazil, Chile, Paraguay and Uruguay. They decreased from last month in Guatemala and Mexico and did not change in Costa Rica and Honduras.

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

Source: Latin American Market expectations surveys

The table summarizes the movement in expectations from the July 2007 to August 2007 surveys. As can be seen, changes in growth expectations are mixed, including both increases and declines, while changes in inflation expectations are positive, with general expectations of higher inflation for 2007.

Andrew Powell,
Juan Francisco Martínez,
and Mariana Salazni
Research Department, IDB