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Latin Inflation: Panama Best, Venezuela Worst

Latin America will set a new record in low inflation next year. Panama will have the lowest rate and Venezuela the highest one.

BY CHRONICLE STAFF

Venezuela will continue to lose its battle against consumer prices, according to the International Monetary Fund. Next year the South American country will post an inflation rate of 15.4 percent, which will be worse than the 12.1 percent the fund estimates for this year. The 2007 rate will also be the worst in Latin America, which is expected to see an average rate of 5.2 percent. That is the lowest rate in the IMF World Economic Outlook database, which goes back to 1980.

Latin America's inflation next year will be lower than other world regions like Africa (10.6 percent), the Middle East (7.9 percent) and the Commonwealth of Independent States (9.2 percent), but higher than the world average of 3.7 percent and regions like developing Asia (3.6 percent), the European Union (2.4 percent) and the United States (2.9 percent), the IMF forecasts.

VENEZUELA, ARGENTINA AND COSTA RICA

The spike in Venezuela comes despite progress this year compared to the 15.9 percent rate in 2005. The good news for Venezuela is that the IMF originally had forecast an even worse rate for 2007 in its previous outlook, released in April. Then the IMF said it expected a 17.3 percent inflation rate for Venezuela next year.

Nevertheless, Venezuela is among the only three nations in Latin America that will post double-digit inflation next year (the others are Argentina and Costa Rica) and one of only two that will see a rise in inflation compared to 2006. The other country is Peru. However, that country's rise is only minimal, 0.1 percentage point and Peru will therefore end up having 2.5 percent inflation, Latin America's second-lowest rate.

While Argentina is expected to reduce its inflation rate next year, the expected rate of 11.4 percent will mean that the country once again will have Latin America's second-highest inflation. This year, the IMF expects consumer prices will grow by an average of 12.3 percent, which is worse than the 9.6 percent recorded last year.

"In rapidly growing Argentina, the monetary policy stance has been gradually tightened in response to double-digit inflation but remains accommodative," the IMF said in its World Economic Outlook.

The good news is that the IMF has revised downwards its inflation forecast for both 2006 and 2007. As late as April, the fund predicted a rate of 15.0 percent for 2007.

Costa Rica, the third country with relative high inflation, is making better progress than Argentina. Next year, the Central American country should see an inflation rate of 10.9 percent, which is lower than the 13.0 percent expected this year and the 13.6 percent recorded last year.

The inflation in Venezuela, Argentina and Costa Rica undermine actions aimed at boosting salaries. According to a survey by Mercer Human Resource Consulting, Venezuela is forecast to raise salaries by 17.4 percent next year, more than any other country in Latin America and nearly three times the world average. Yet, after subtracting the expected inflation rate of 15.4 percent, salaries will only grow by 2.0 percent. Also Argentina and Costa Rica will see high pay raises undermined by high inflation rates (See [Pay Hikes: Paraguay Best, Argentina Worst](#)).

PANAMA AND OTHER INFLATION WINNERS

Panama, long a bastion of low inflation, will get the honor of having the region's lowest inflation in 2007, according to the IMF. The rate will end up at 2.3 percent, which is better than the 2.8 percent estimated for this year.

While Haiti will end up with one of the higher rates in the region, 9.0 percent, that still marks a significant improvement compared to the last few years. This year, the Caribbean country will likely post 14.1 percent inflation.

Paraguay is also set to see an improvement next year, with inflation falling to 4.9 percent from the estimated 8.9 percent this year. A similar trend will take place in the Dominican Republic, the IMF predicts. That country will see inflation reach 5.0 percent next year, which will be lower than the 8.5 percent expected this year.

BRAZIL AND MEXICO

Brazil, Latin America's largest economy, is slated to reach an inflation rate of 4.1 percent next year, which is lower than the 4.5 percent rate estimated for this year and the 6.9 percent registered in 2005. Mexico, the second-largest economy in the region, is seeing a similar trend. Inflation will likely reach 3.3 percent next year, a reduction from the 3.5 percent rate expected in 2006 and the 4.0 percent noted last year.

The same goes for Chile and Colombia, which are expected to reduce their inflation next year compared to this year.

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