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OUTPUT GROWTH AND STRUCTURAL REFORM IN LATIN AMERICA: HAVE BUSINESS CYCLES CHANGED?

ABSTRACT

This paper documents important changes in real gross domestic product (GDP) growth of six large Latin American countries. The main results can be summarized as follows. First, there is evidence of a structural break in real GDP toward stronger mean growth and a substantial reduction in volatility. Second, the timing of the breaks suggests that the important changes in economic policies of the 1980s and 1990s have been effective in permanently improving economic growth in the region. These changes in the growth processes imply recessions that are shorter in duration and milder in amplitude. The sustained increase in commodity prices observed in recent years explains an important share of growth in the region since 2003. But after accounting for the effect of commodity prices, there is even stronger evidence of a structural break in real GDP growth.

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