



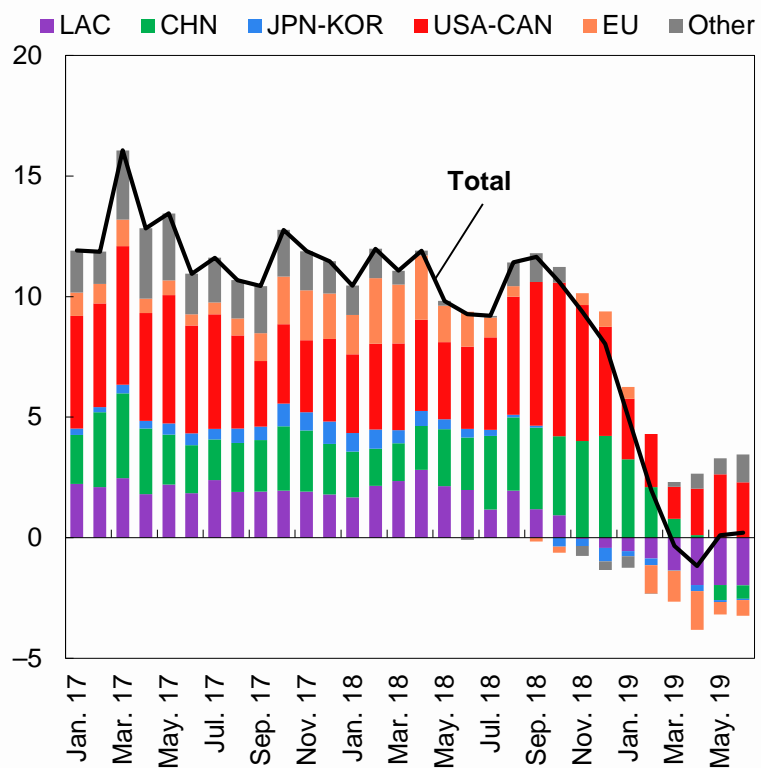
October 2019 REO: Stunted by Uncertainty

OCTOBER 2019

Regional Studies Division
Western Hemisphere Department

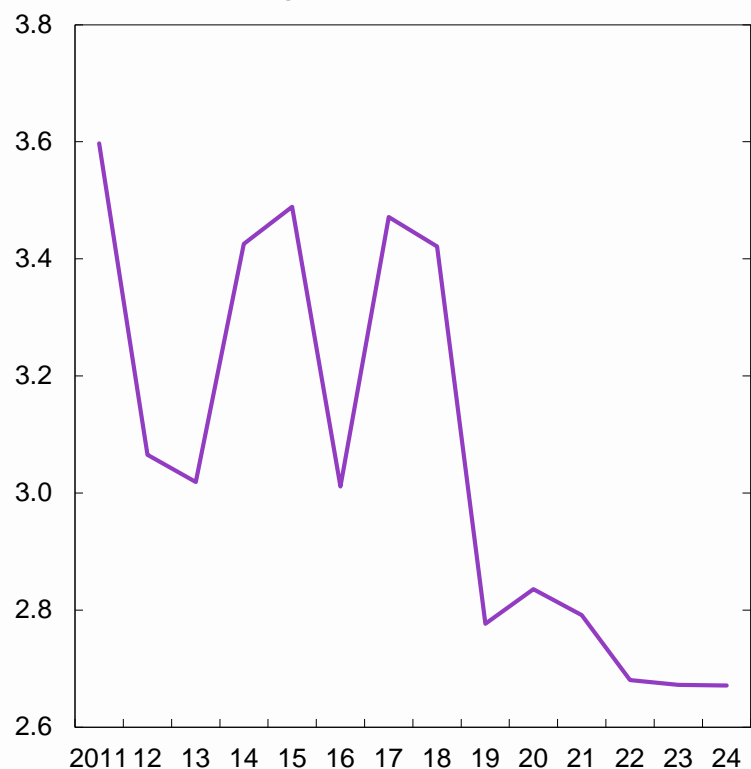
External factors remain a headwind to economic prospects in the LAC region...

LAC: Exports Growth (Percent)



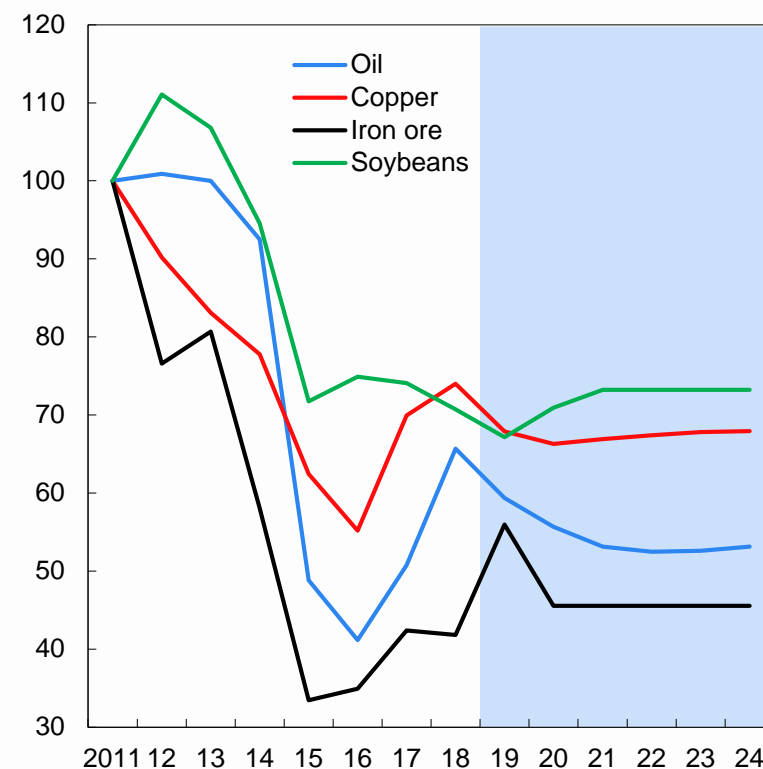
Sources: IMF, Direction of Trade Statistics database; and IMF staff calculations.

LA7: Non-LAC Trading Partners Real GDP Growth (Year-over-year percent change; weighted by exports)



Sources: IMF, World Economic Outlook database; and IMF staff calculations. Note: Based on data for non-LAC partner countries that together account for 100 percent of trade of reporting country. LA7 = Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay.

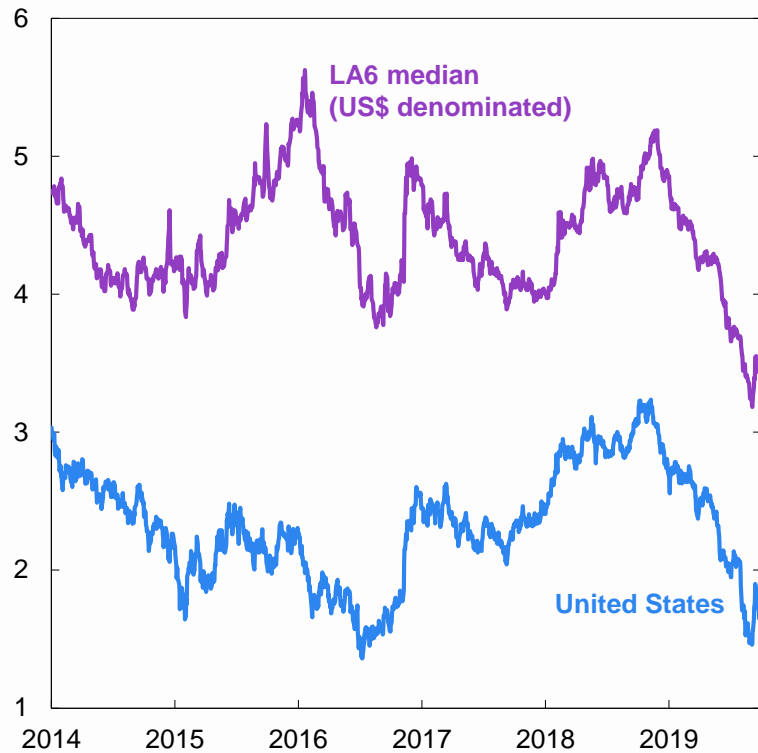
Global Commodity Prices (Index: 2011 = 100)



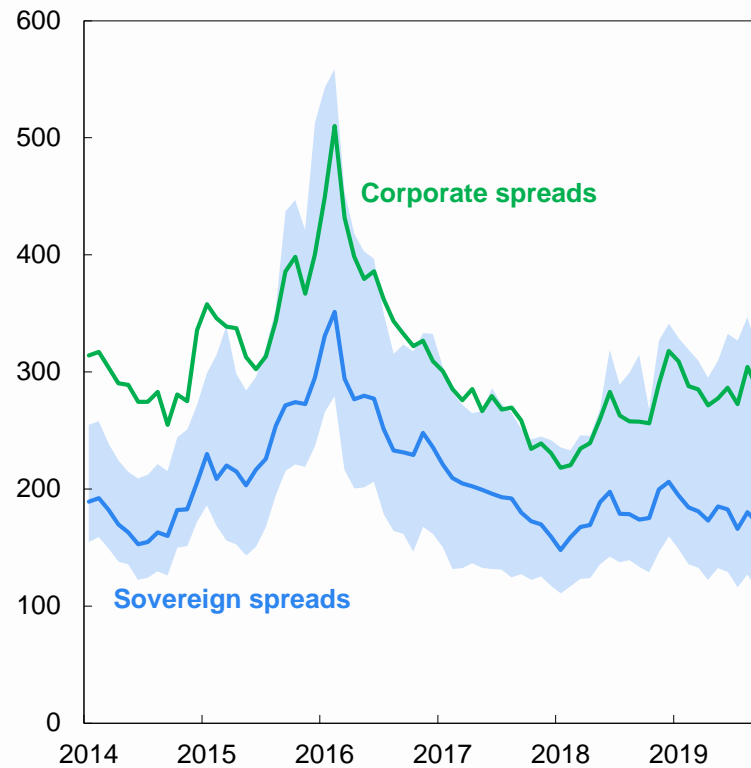
Source: IMF, World Economic Outlook database.

... with easier global financial conditions providing only a partial offset

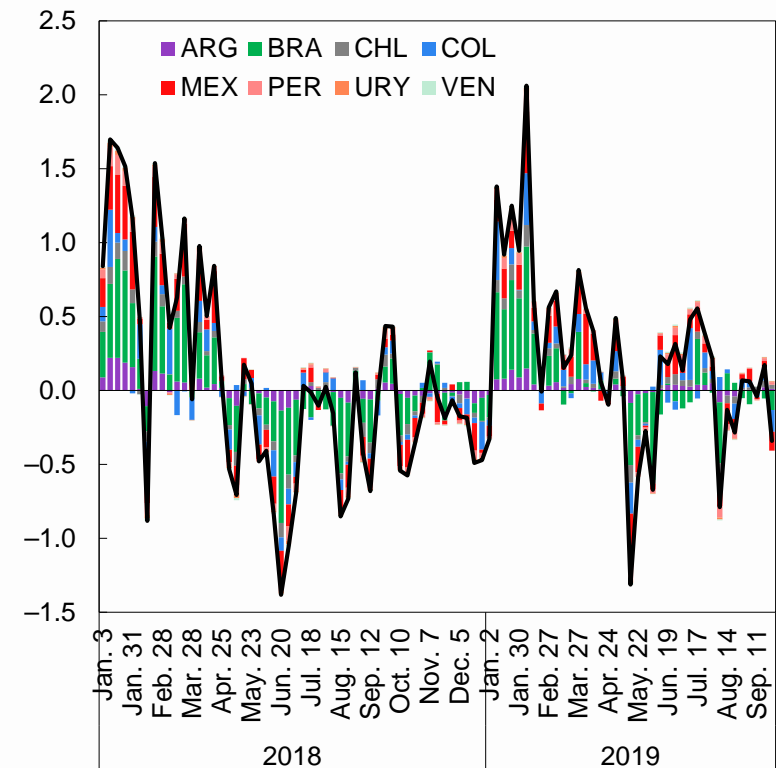
Ten-year Government Bond Yields
(Percent)



Sovereign and Corporate Spreads
(Basis points)



EPFR: Equity and Bond Flows
(US\$ billions)



Sources: Bloomberg Finance, L.P.; Haver Analytics; and IMF staff calculations.
Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, Uruguay.

Sources: Bloomberg Finance L.P.; and IMF staff calculations.
Note: Sovereign spreads refer to the median of LA6 EMBIG spreads. Corporate spreads refer to the median of LA5 CEMBI spreads. Sovereign bond yields refer to the median of LA6. Shaded area is the min-max range of LA6 sovereign spreads.

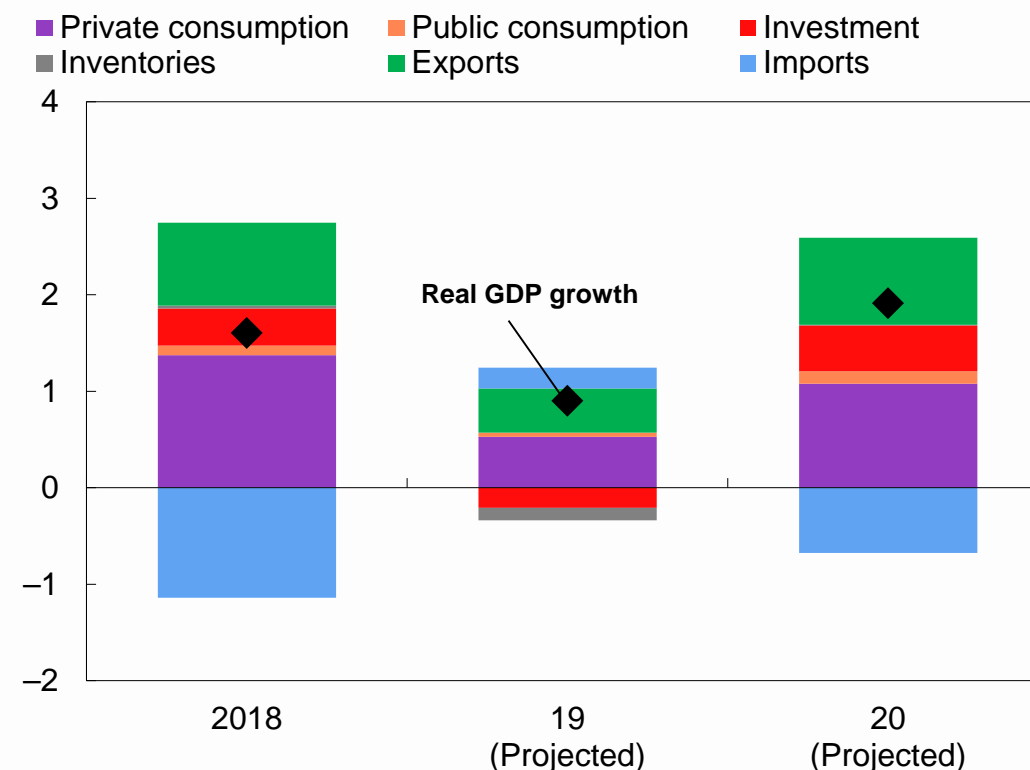
Source: EPFR database; and IMF staff calculations.
Note: Data until September 25, 2019.

A modest recovery in 2020 is expected to be led by private consumption and investment...

Latin America and the Caribbean: Real GDP Growth
(Year-over-year percent change)

	2017	2018	Projections		
			2019	2020	Avg. 2021–24
LAC	1.2	1.0	0.2	1.8	2.6
LAC excluding Venezuela	1.9	1.7	0.9	2.1	2.7
South America	0.6	0.4	-0.2	1.7	2.7
Argentina	2.7	-2.5	-3.1	-1.3	2.5
Brazil	1.1	1.1	0.9	2.0	2.3
Chile	1.3	4.0	2.5	3.0	3.2
Colombia	1.4	2.6	3.4	3.6	3.7
Peru	2.5	4.0	2.6	3.6	3.9
Mexico	2.1	2.0	0.4	1.3	2.2
CAPDR	4.0	3.9	3.3	3.9	4.1
Caribbean					
Tourism dependent	0.8	1.8	1.4	1.1	1.9
Commodity exporters	-0.9	1.0	0.8	17.9	4.8

Selected LAC: Contributions to Real GDP Growth
(Percent; excludes Venezuela)



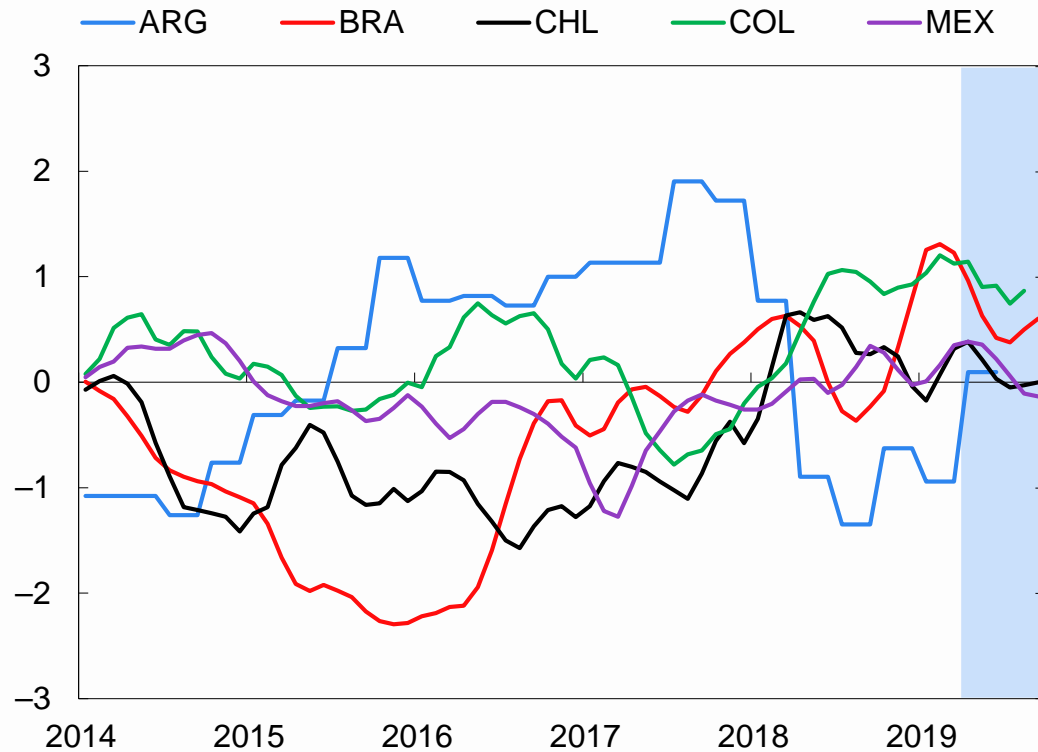
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: PPP GDP-weighted average. South America excludes Guyana and Suriname. Green/red denotes upward/downward revision compared with the April 2019 *World Economic Outlook* forecasts.

Sources: IMF, World Economic Outlook database; and IMF staff calculations.

... anchored on a rebound on business and consumer confidence

Business Confidence

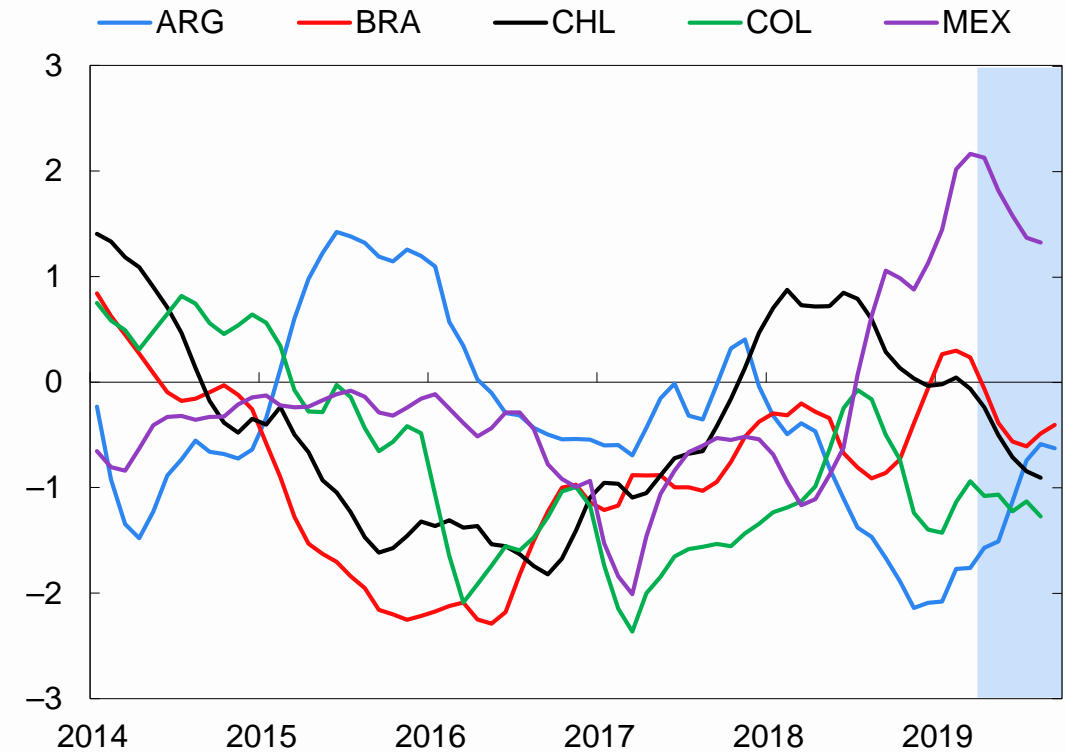
(Normalized; 3-month moving average)



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Shaded area refers to the period after April 2019.

Consumer Confidence

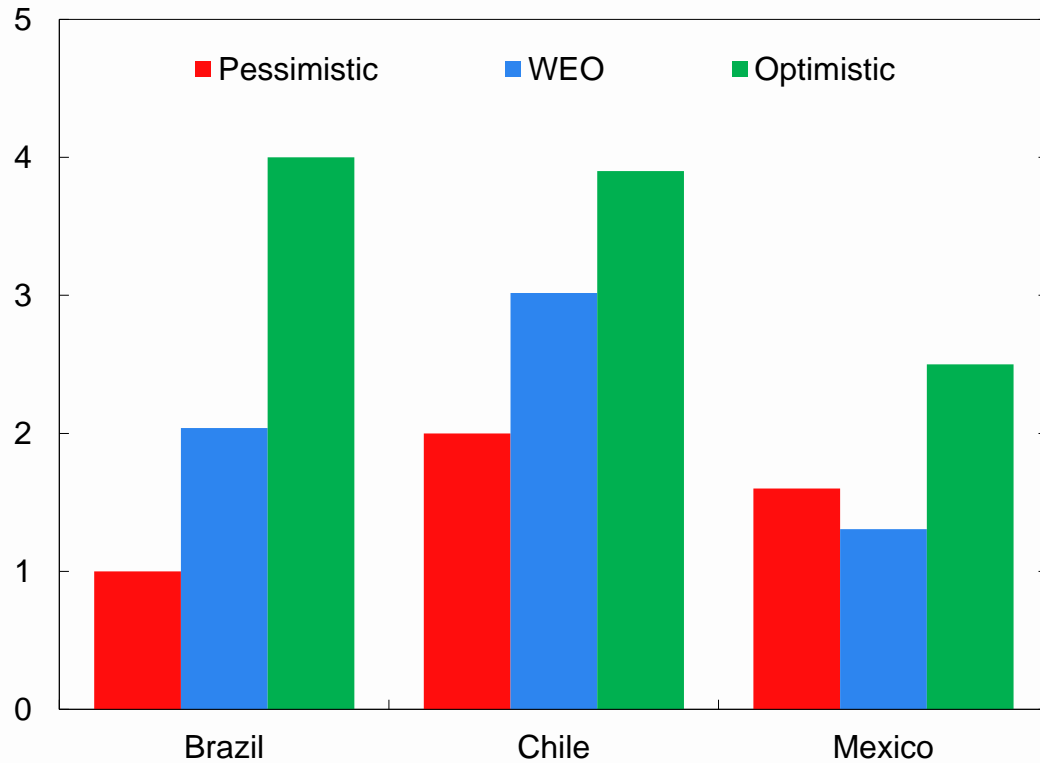
(Normalized; 3-month moving average)



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Shaded area refers to the period after April 2019.

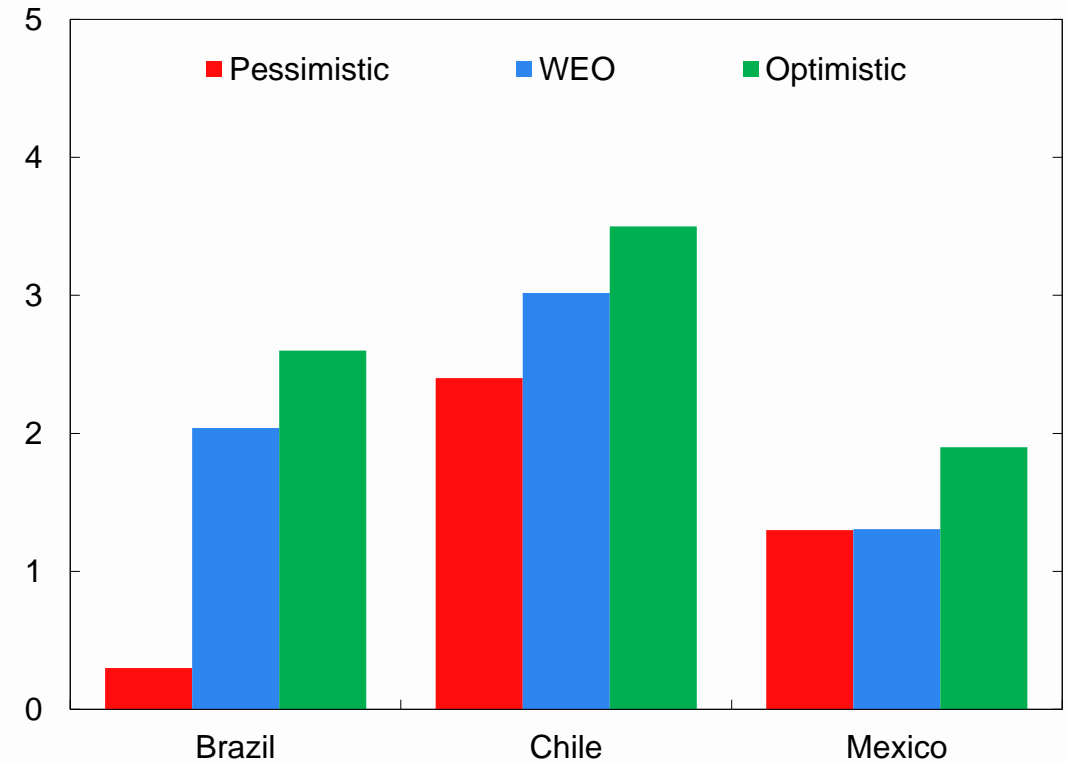
Downside risks to confidence could jeopardize the recovery

2020 GDP Growth Forecasts under Different Scenarios for Business Confidence
(Percent)



Sources: Haver Analytics; IMF, World Economic Outlook (WEO) database; national authorities; and IMF staff calculations.

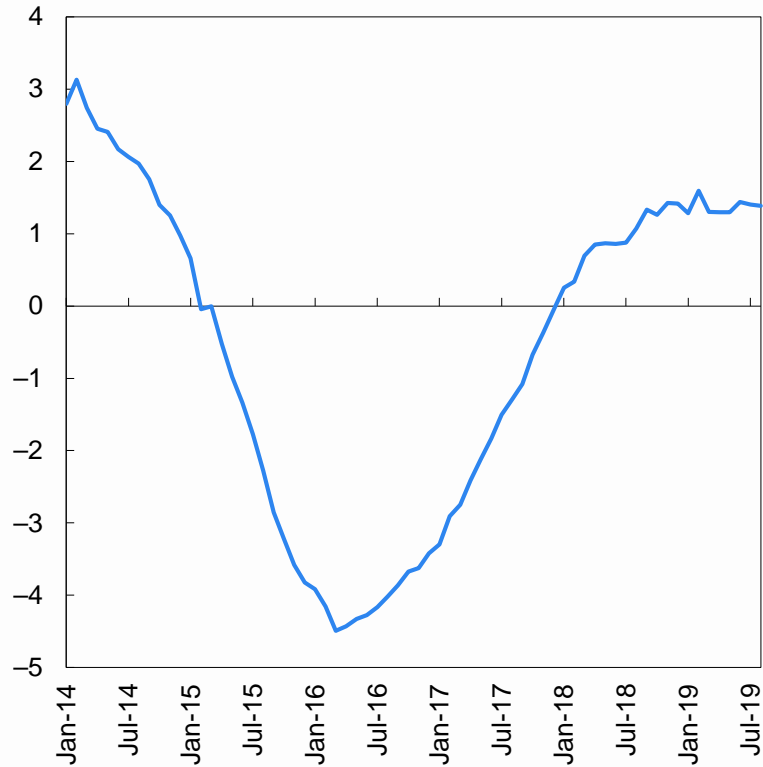
2020 GDP Growth Forecasts under Different Scenarios for Consumer Confidence
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Sources: Haver Analytics; IMF, World Economic Outlook (WEO) database; national authorities; and IMF staff calculations.

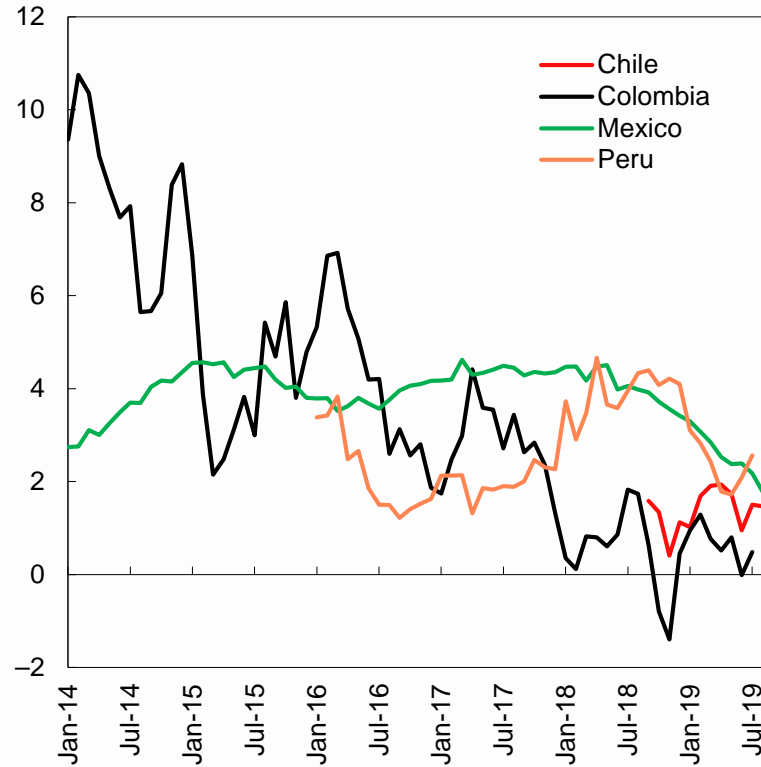
Lackluster labor markets are unlikely to provide much support to consumption and growth

Brazil: Formal Employment
(Year-over-year percent change)



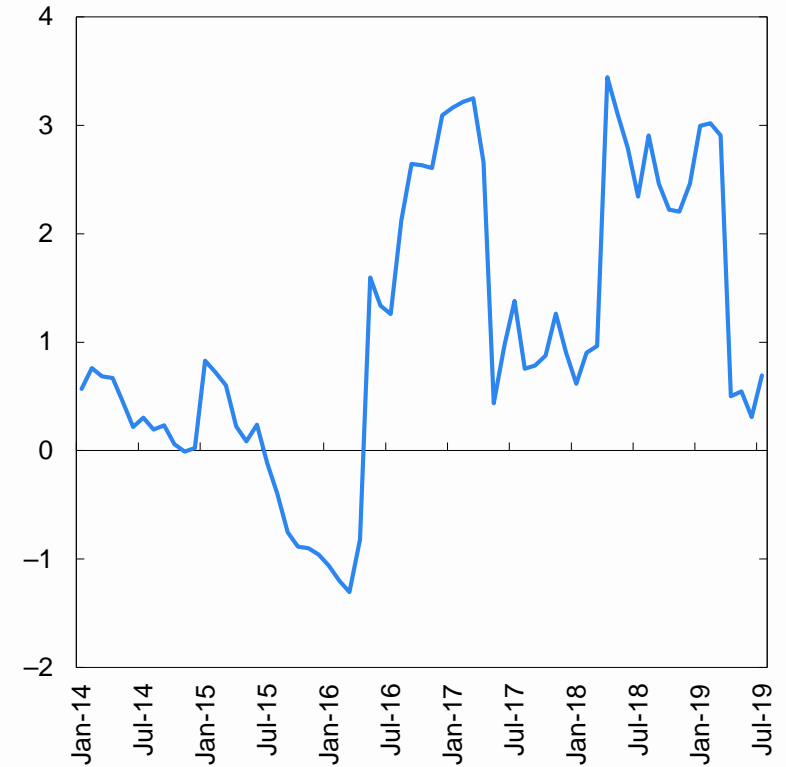
Sources: Haver Analytics; national authorities; and IMF staff calculations.

LA4: Formal Employment
(Year-over-year percent change)



Sources: Haver Analytics; national authorities; and IMF staff calculations.

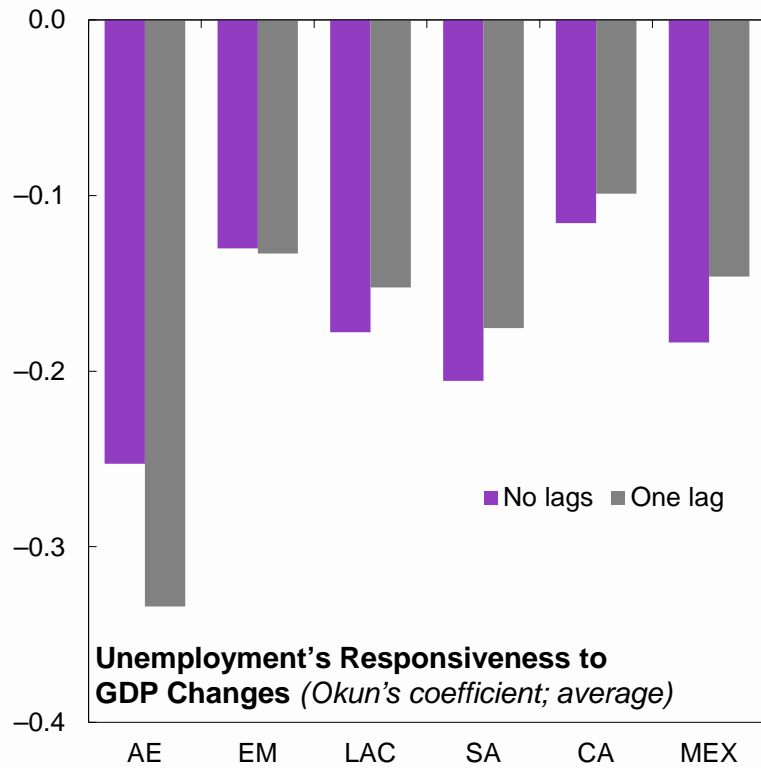
Real Wage Growth
(Year-over-year percent change)



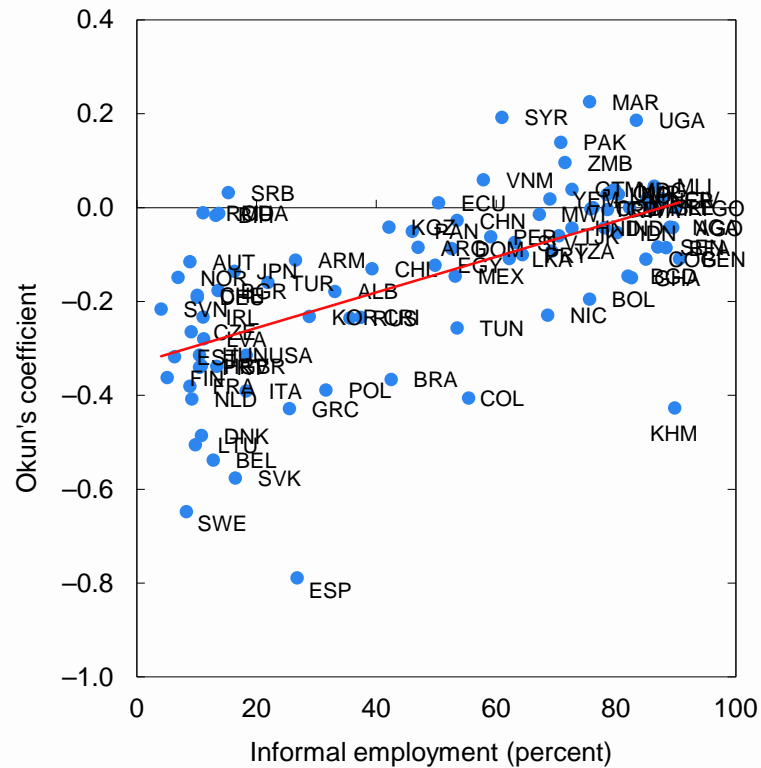
Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Simple average of Brazil, Chile, Colombia, Mexico, and Peru. Peru data are based on minimum wage real index.

Informality affects labor market dynamics over the business cycle

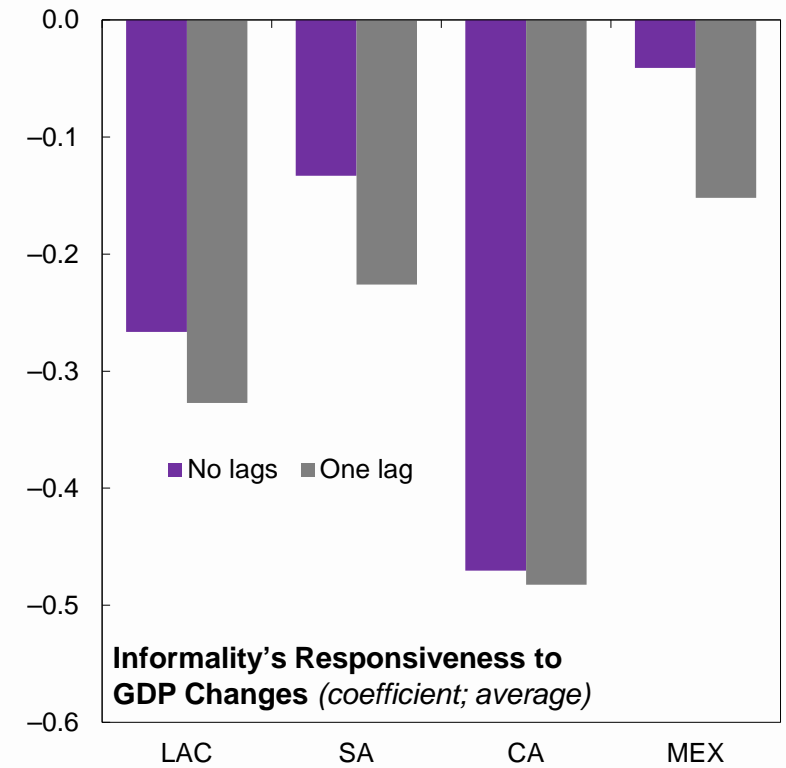
Unemployment in LAC is less responsive to fluctuations in GDP...



... which in part reflects high levels of informality.



Informality acts as a "buffer", it increases in downturns and decreases in upswings

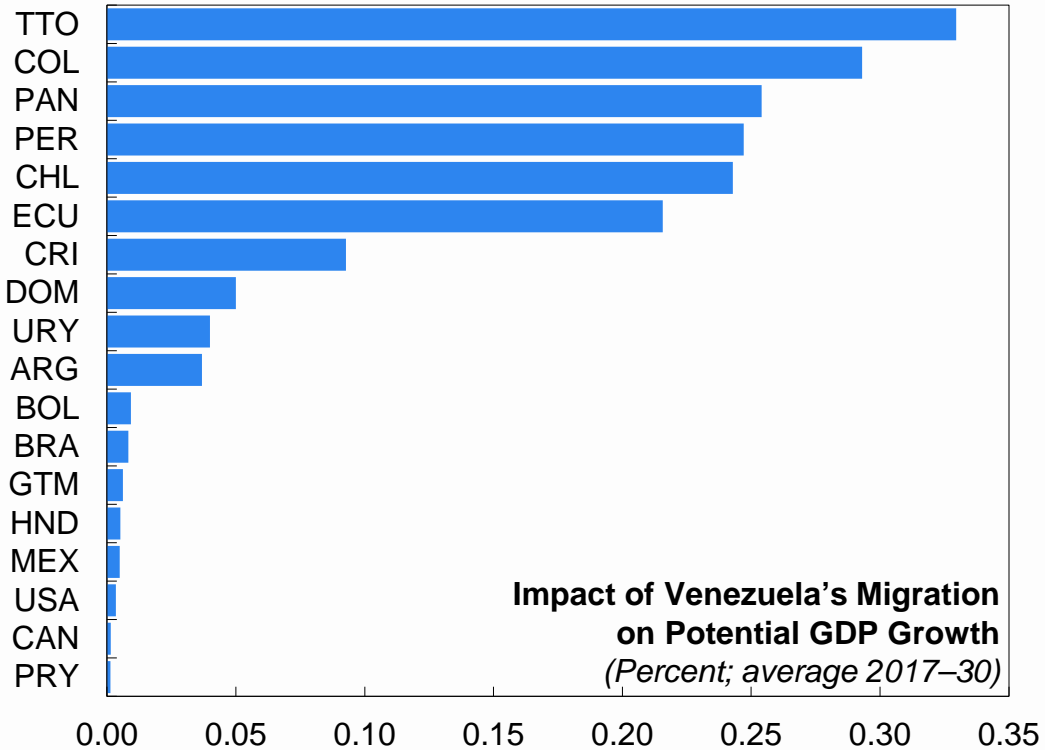


Sources: Haver Analytics; International Labour Organization; and IMF staff calculations.

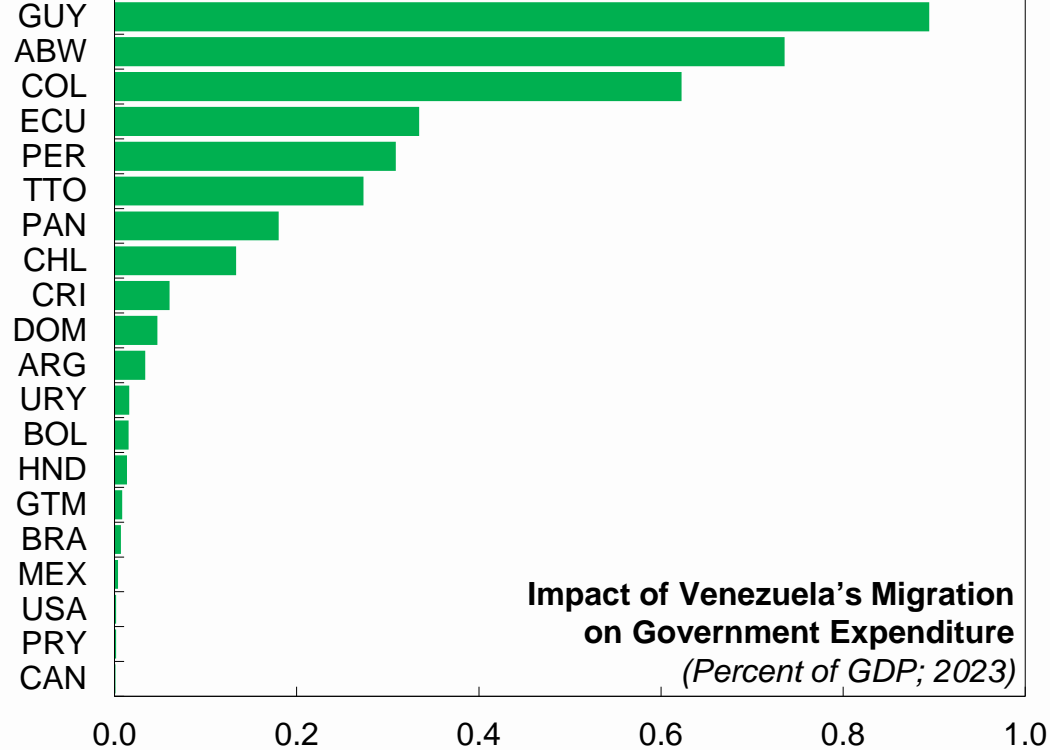
Note: AE = advanced economies; CA+MEX = Central America and Mexico; EM = emerging markets; LAC = Latin America and the Caribbean; SA = South America.

Migration from Venezuela likely to increase growth and government expenditure in recipient countries over medium-term

The demographic and skills composition of migrants should lead to positive impact on potential growth...



... but the provision of public services will be strained, increasing government expenditure

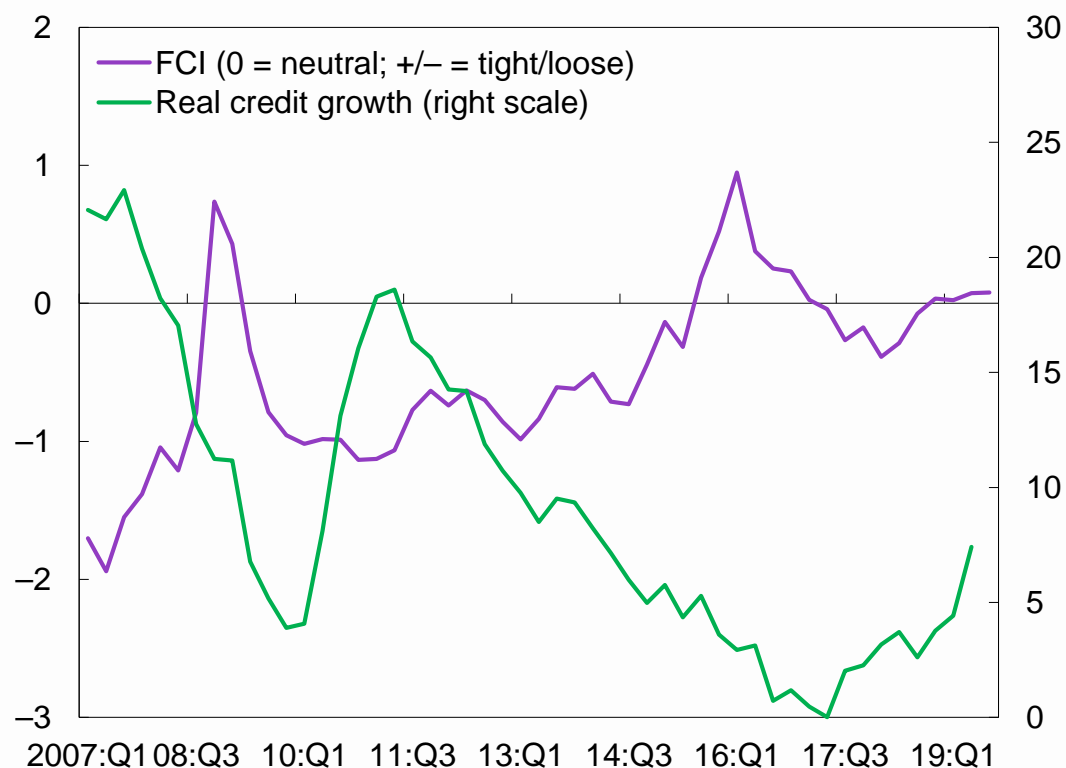


Source: IMF staff calculations.

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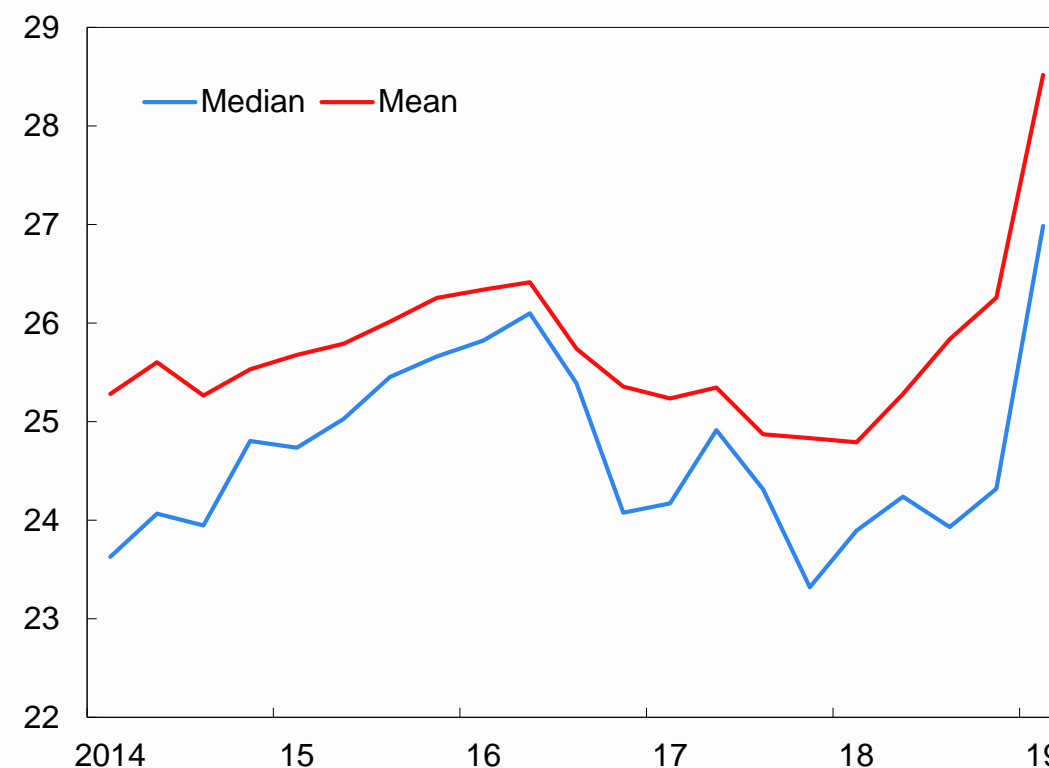
Neutral domestic financial conditions and modest credit growth also unlikely to significantly boost consumption and investment

Latin America: Financial Conditions Index and Real Credit Growth



Sources: IMF, International Financial Statistics database; and IMF staff calculations.
 Note: For methodology and variables included in the FCI, refer to the online annex of the October 2018 *Global Financial Stability Report*. Real credit growth purchasing-power-parity GDP-weighted aggregate excludes Argentina.

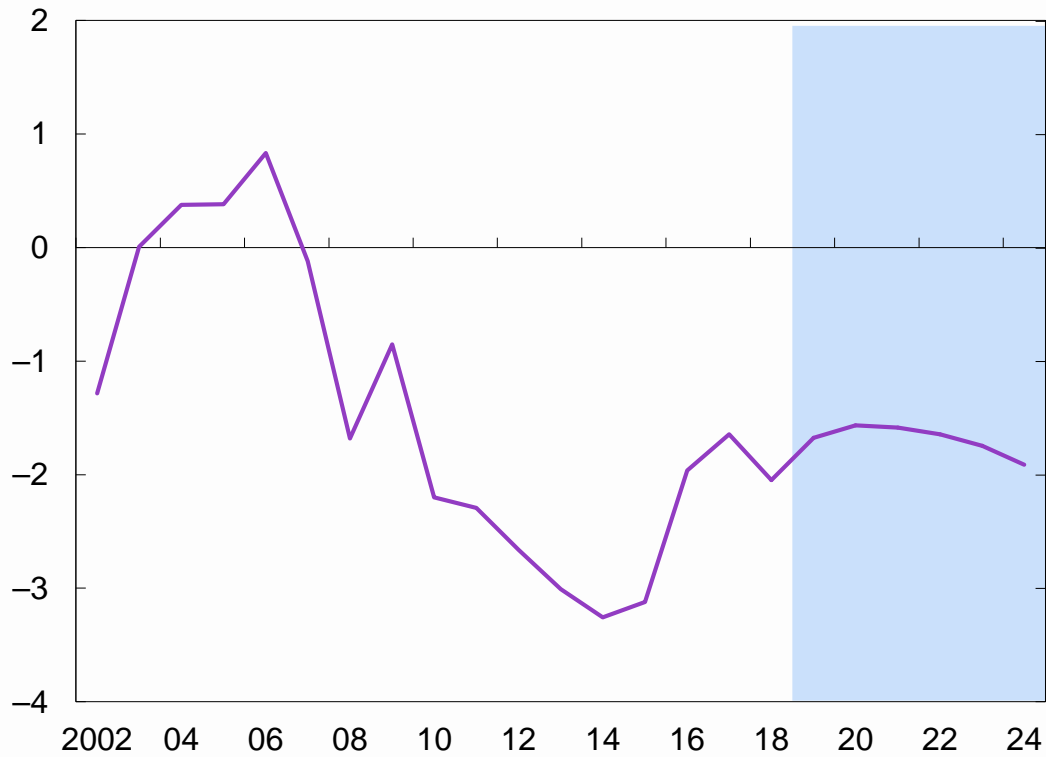
Corporate Leverage
(Debt to assets; percent)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.
 Note: Includes nonfinancial corporations of Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

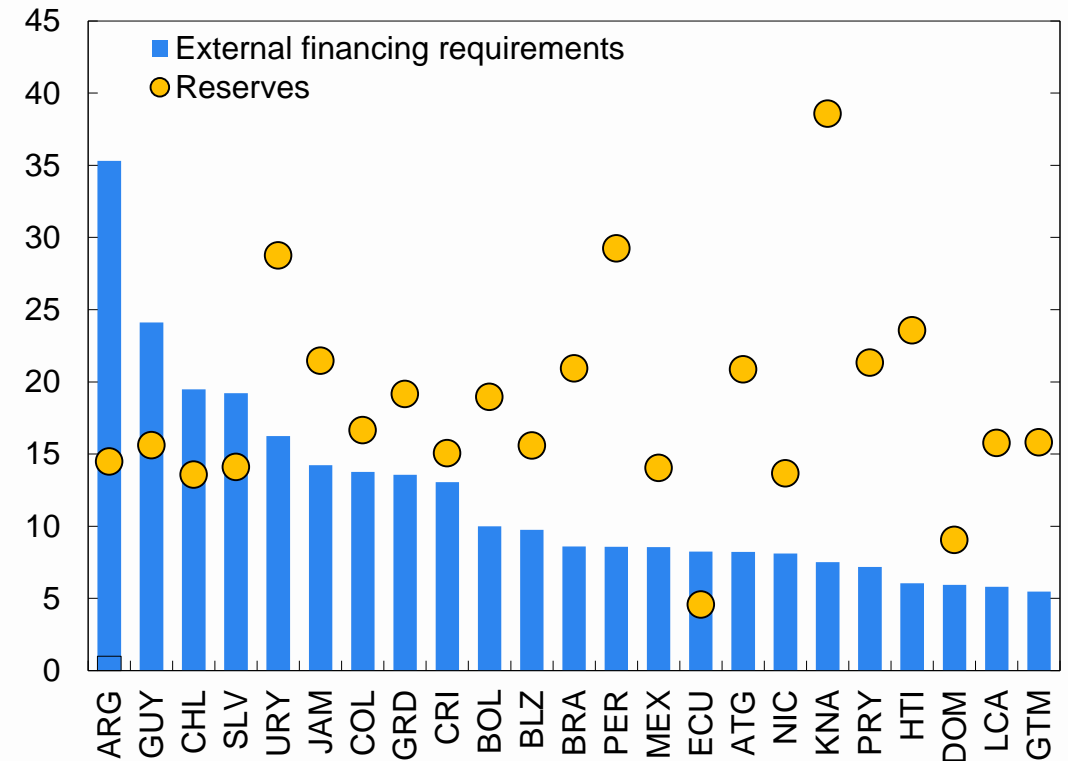
Broadly balanced external sector with adequate reserve buffers in most countries

LAC: Current Account Balance
(Percent of GDP; excludes Venezuela)



Source: IMF, World Economic Outlook database.

External Financing Requirements and Reserves, 2019
(Percent of GDP)



Sources: IMF, International Financial Statistics database; IMF, World Economic Outlook database; and IMF staff calculations.

Note: External financing requirements calculated as the difference between short-term debt on a remaining maturity basis and current account balance.

Risks to the near-term outlook remain tilted to the downside

External

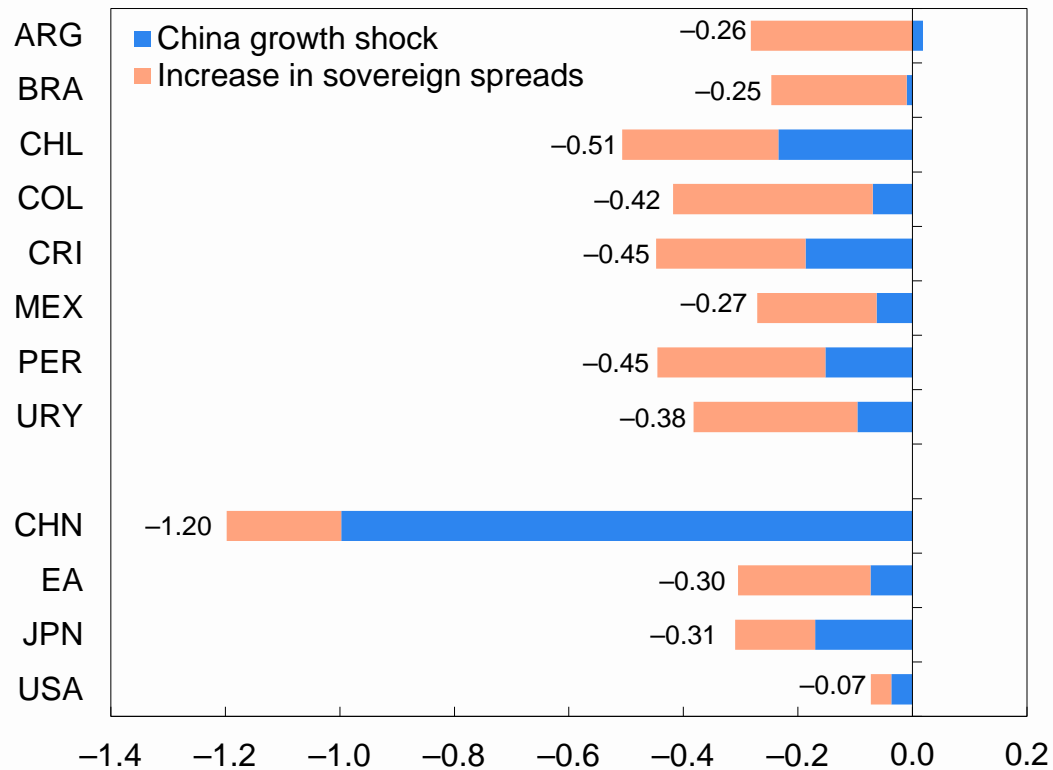
- Trade tensions and lower global growth
- Volatility in commodity prices
- Sharp increase in risk premia

Domestic

- Increased policy uncertainty in some large economies
- Financial contagion from Argentina
- Further outward migration from Venezuela
- Natural disasters

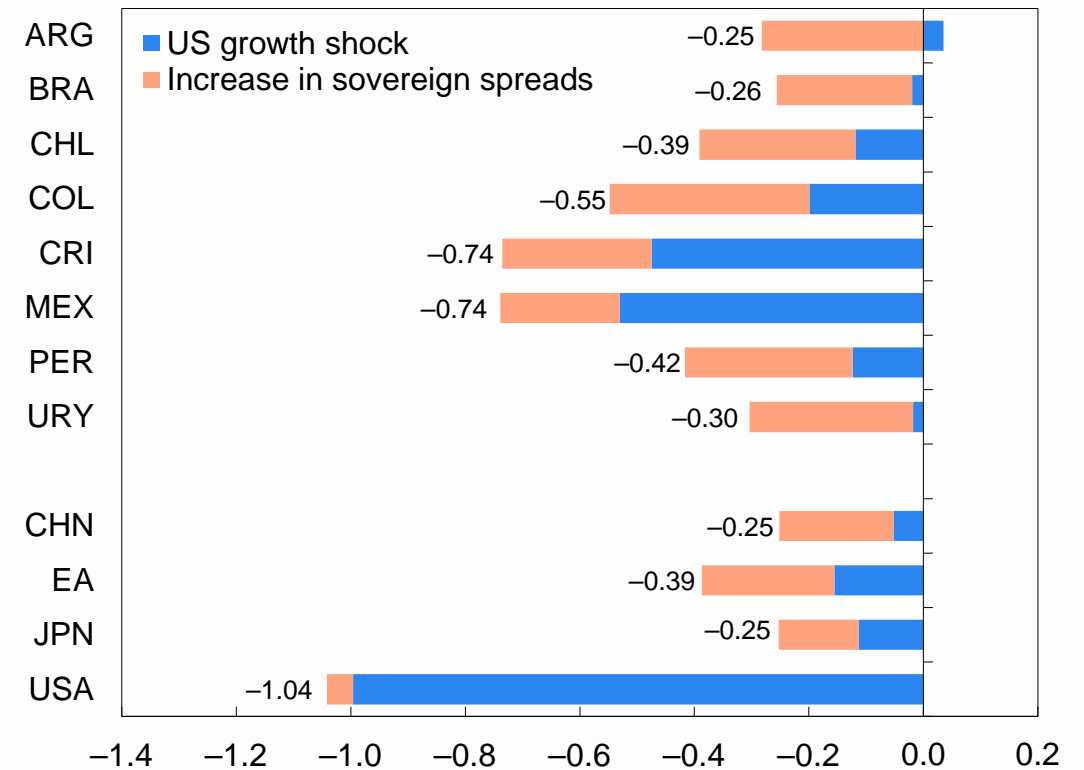
The effects of ongoing trade tensions, through slowdowns in the US and China, could be large

Growth Response to a China Growth Shock and Higher Spreads



Source: IMF staff calculations.

Growth Response to a US Growth Shock and Higher Spreads



Source: IMF staff calculations.

Policy Mix

❖ Near term: Balance between rebuilding policy space and supporting growth.

- Fiscal consolidation is a priority in many countries given high public indebtedness and still large fiscal deficits.
- Monetary policy can remain supportive given well anchored inflation expectations in most countries.

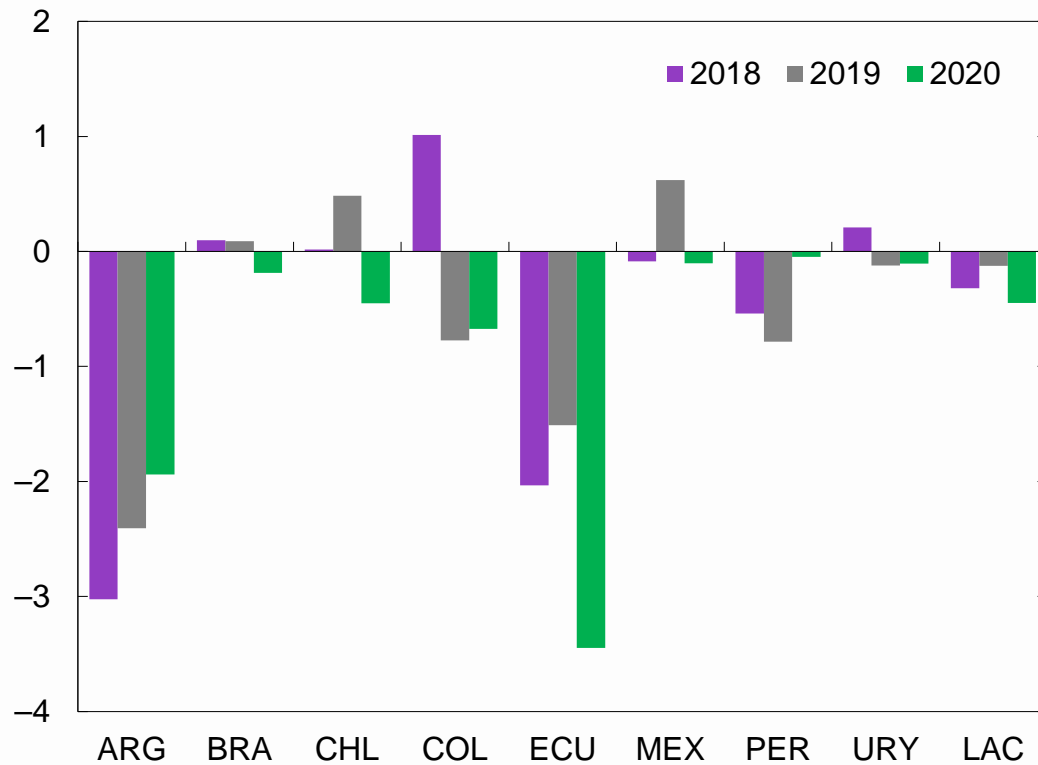
❖ Medium term: Structural reform imperatives:

- Improving the quality of infrastructure and education.
- Further progress on governance.
- Opening further to trade and foreign direct investment.
- Addressing rigid labor market regulations to tackle informality.

Limited fiscal space to support growth and fiscal consolidation remains a priority

Fiscal Impulse

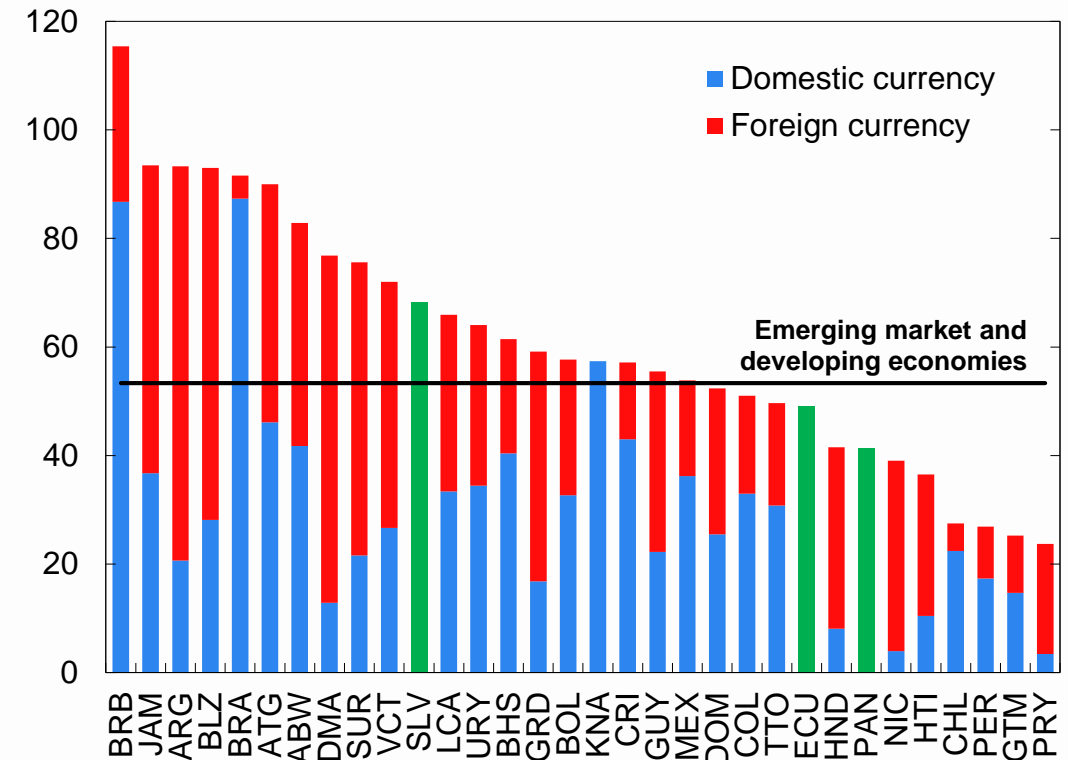
(Percentage points of GDP; +/- = loosening/tightening)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

General Government Gross Debt, 2019

(Percent of fiscal year GDP)

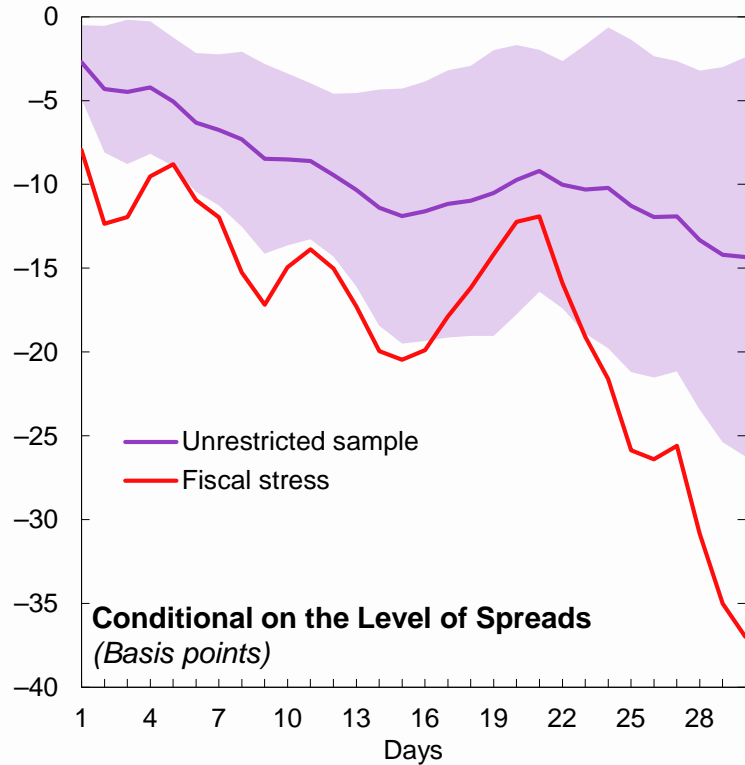


Sources: IMF, World Economic Outlook database; and national authorities.

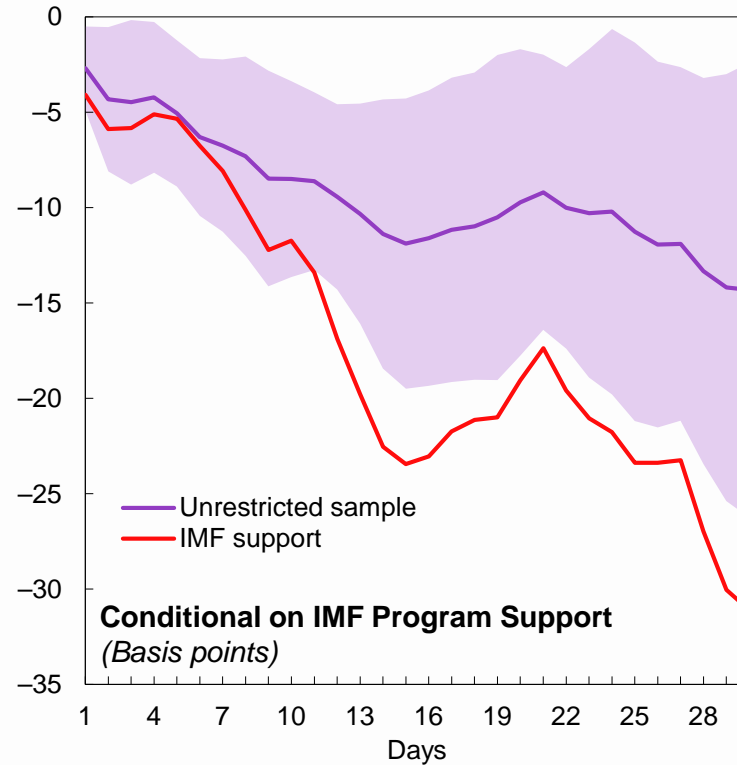
Note: Green bars refer to dollarized economies (Ecuador, El Salvador, Panama). Breakdown by denomination for St. Kitts and Nevis is not available; bar denotes total public debt.

The fiscal adjustment packages that lead to lower spreads mitigate drag on growth

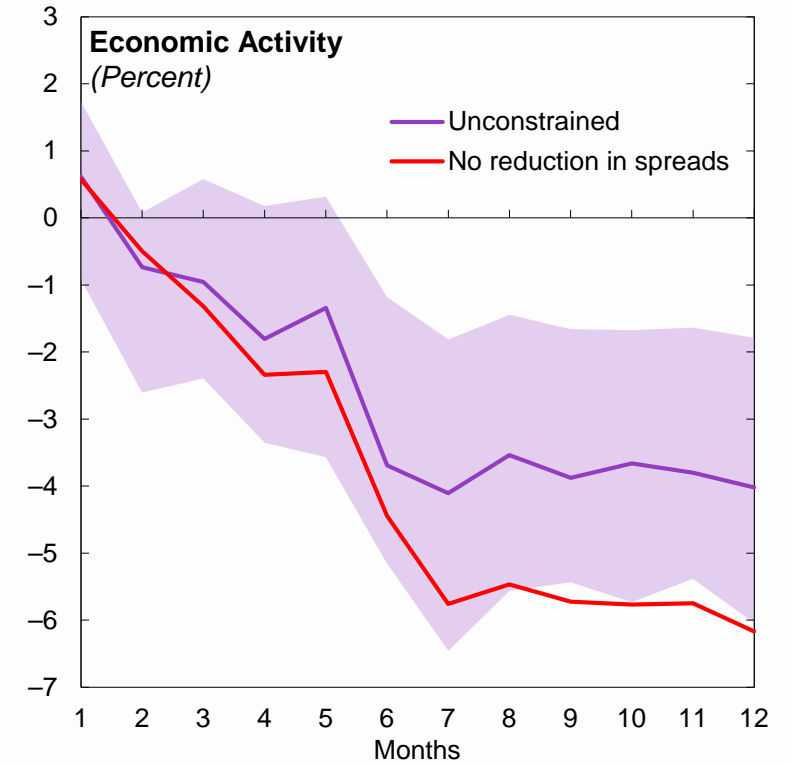
Consolidation announcements reduce sovereign spreads, especially in times of fiscal stress



IMF supported-programs are also linked to higher reductions in spreads



Consolidations that reduce spreads lead to smaller drag on economic activity in periods of high fiscal stress

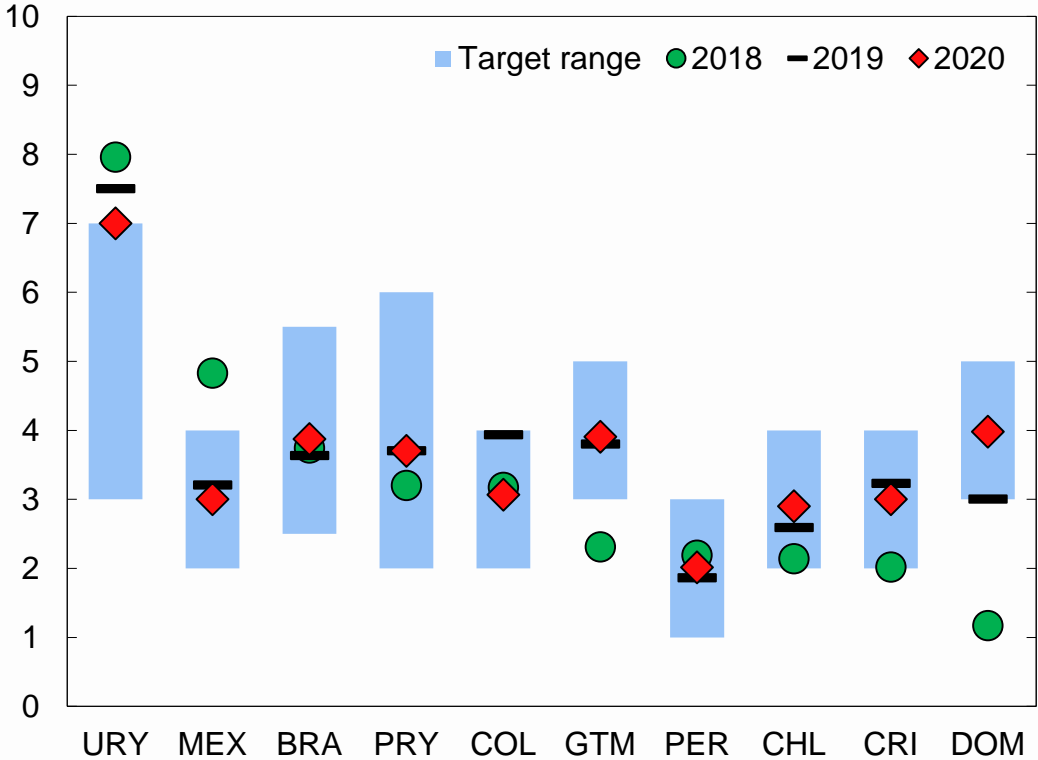


Source: IMF staff calculations.
Note: Estimates based on local projection methods. Shaded area indicates 90 percent confidence intervals using HAC standard errors.

Source: IMF staff calculations.
Note: Estimates based on a PVAR. Shaded area indicates 90 percent bootstrap confidence intervals. The red line is the counterfactual scenario in which spreads do not respond.

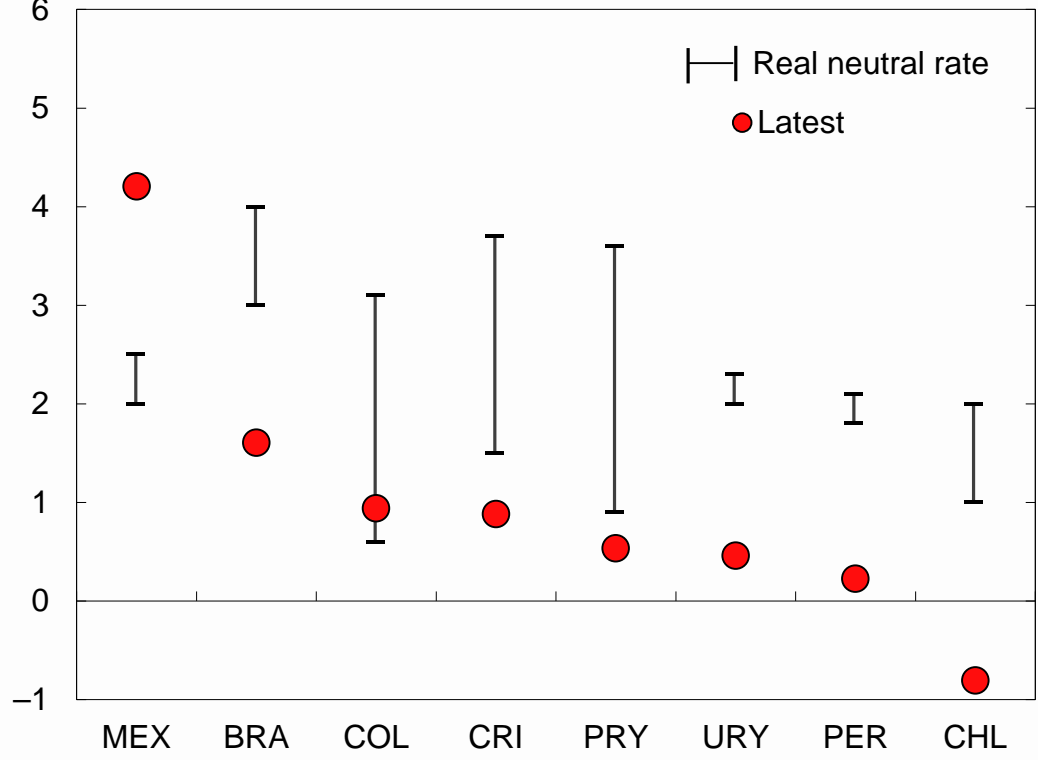
Monetary policy can remain supportive given stable inflation and well-anchored inflation expectations

Inflation
(Percent; end of period)



Sources: IMF, World Economic Outlook database; national authorities; and IMF staff calculations.

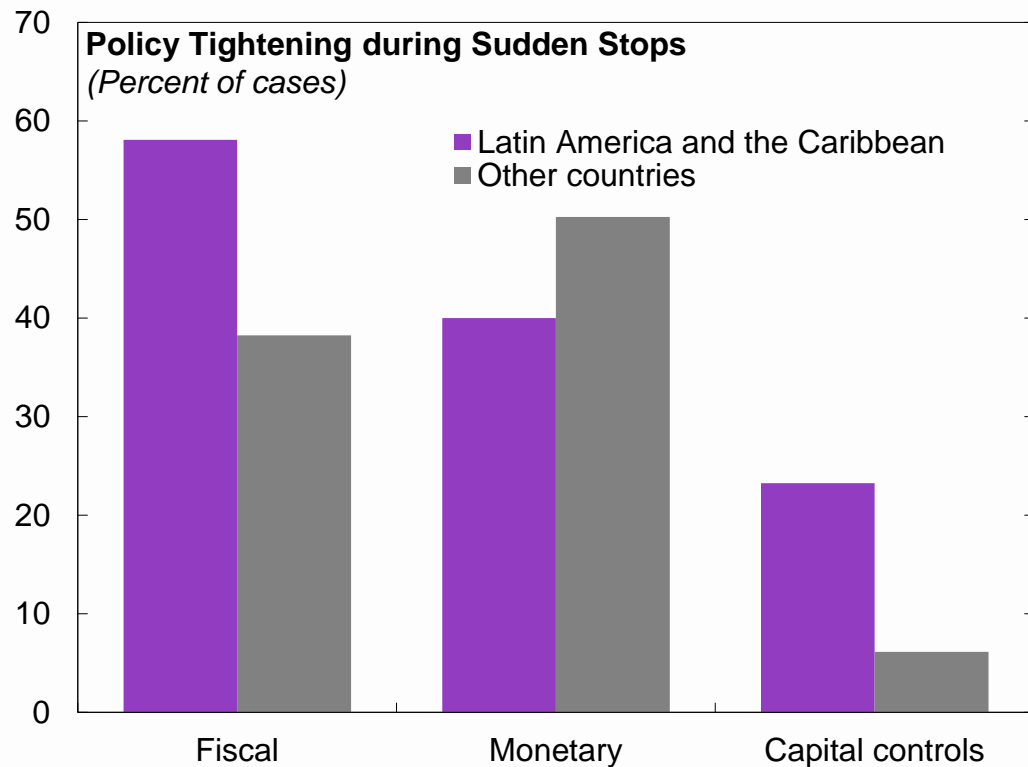
Real Policy Rates and Neutral Rates
(Percent)



Sources: Consensus Economics; Haver Analytics; national authorities; and IMF staff calculations.
Note: Real (ex ante) policy rates is the difference between the policy rate and the 1-year-ahead inflation expectations. Uruguay does not have a policy rate. Interest rate shown is based on the 1-month nominal yield (letras).

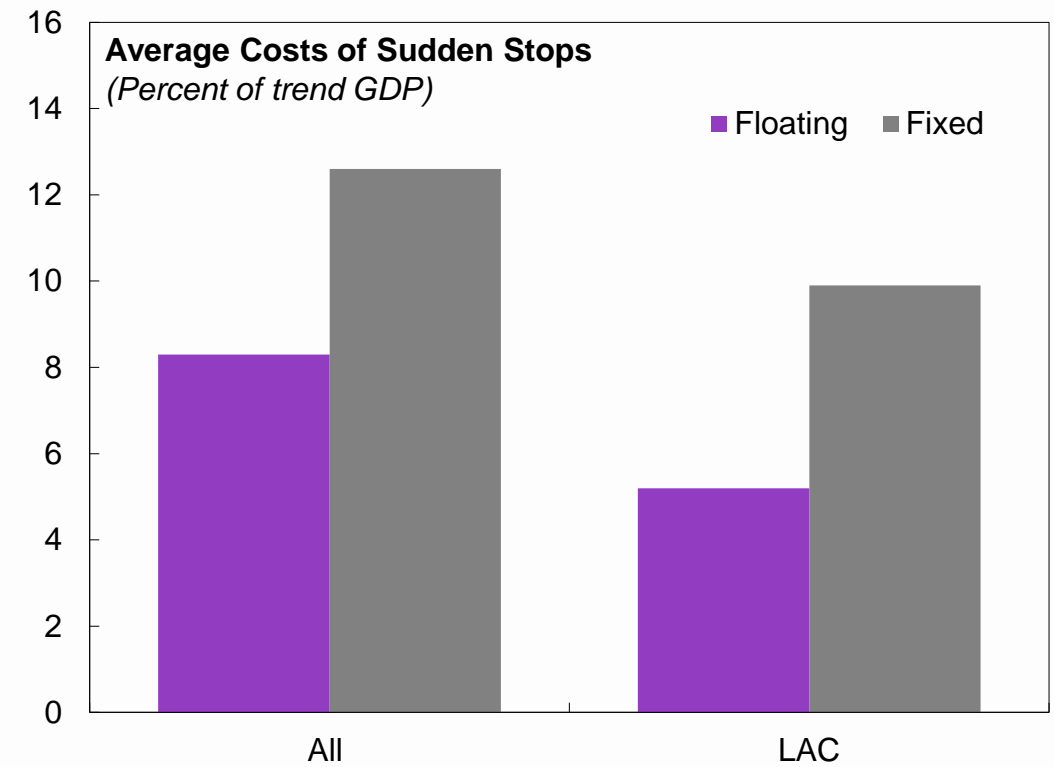
In case of sudden stops in capital flows, exchange rate flexibility to play a pivotal role

LAC countries are more prone to tighten fiscal policy and capital controls after sudden stops



Source: IMF staff calculations.

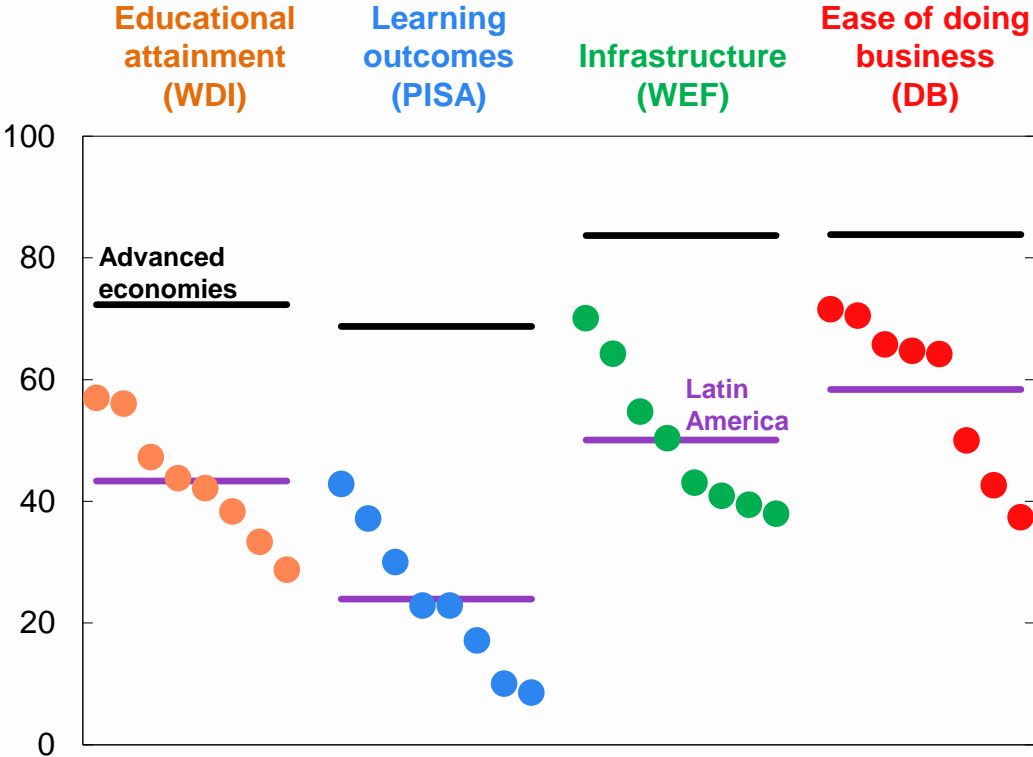
Costs of sudden stops are lower for countries with flexible exchange rates



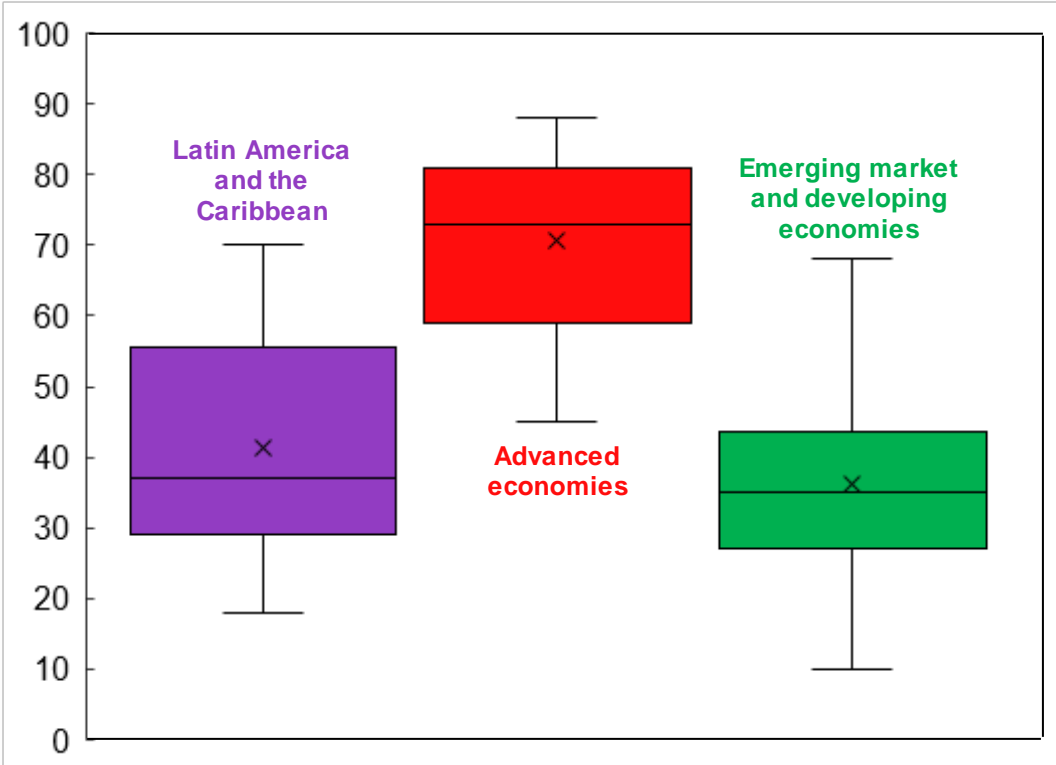
Source: IMF staff calculations.

Reviving productivity requires improving the business climate, education, and infrastructure

Structural Performance Indicators
(Percentile ranks, unless noted otherwise)



Corruption Perception Index Distributions by Region, 2018



Sources: OECD, 2015 PISA; WB, 2019 Doing Business (DB) database; WB, WDI database; WEF, 2018 Global Competitiveness Report; and IMF staff calculations.

Note: For WDI, educational attainment is the percentage of population ages 25+ that attained or completed upper secondary education. For PISA, WEF, and DB, the scale reflects the percentile distribution in all countries for each respective survey. Latin America includes Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru, and Uruguay.

Source: Transparency International.

Thank You