Peterson Institute for International Economics

After Brazil's election: What's next for Latin America?

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[00:00:45.25] - Anjali V. Bhatt

Good morning, good afternoon, good evening, wherever you are in the world. Welcome back to the Peterson Institute for International Economics. I'm Anjali Bhatt, Communications Director and a Research Fellow here at the Peterson Institute. We've got a really interesting set of presentations and discussion ahead of us about Latin America, ranging from Brazil to Mexico to Venezuela to Argentina and beyond. But before we get started with our programming, I just want to say here at PAE, we're very sad to be mourning the recent loss of our Senior Fellow Gary Huffbauer. who passed away on November 4th. Gary was a cornerstone of the Institute, and here to give a few remarks in appreciation of Gary's legacy is his co-author and friend for decades, Senior Fellow Jeff Schott. So over to you, Jeff.

[00:01:34.06] - Jeffrey J. Schott

Thank you very much, Anjali. I've been asked to say a few words to honor the memory of Gary Huffbauer, a cherished friend and colleague at the U.S. Treasury and then at the Institute, for most of the past 50 years. He was a decent and honest man and a forthright scholar. When he said something, he meant it, and when he wrote something, he went to great lengths to ensure that he got the facts right. I'm lucky to have had 50 years working with him, but I wish I could have had a few more. Gary was one of the original scholars that joined Fred Bergsten to inaugurate the Institute for International Economics in 1981. The clarity of his thinking and writing on a broad range of trade, investment, sanctions, and tax issues put him in the forefront of public policy experts. Think about it, in all of those various issues, he was one of the world's leading scholars. His wisdom and insights benefited high officials in government and business all over the world. As well as experts in the fields of economics and law, including me. I learned a lot from him while we worked together and hopefully returned the favor to him on occasion, but to be sure, the balance of our bilateral trade in ideas was strongly in his favor.

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Gary was also a world-class mentor. To scores of young researchers who worked with us over the years and who have gone on to excel in their careers in many areas and many countries.

I've heard from many of them in the past few days sending their heartfelt condolences. He clearly had an impact on many people. Almost 50 years ago, while working together at the U.S. Treasury, Gary and I helped write and negotiate the world trading rules on subsidies during the Tokyo round of multilateral trade negotiations in Geneva. Later, reunited at the Institute, we produced the classic study of the use of economic sanctions, which set out the 9 Commandments for using sanctions more effectively. We co-authored other books assessing free trade agreements like NAFTA, initial efforts at economic integration in the Western Hemisphere, and other studies on regional and multilateral trade initiatives. Gary retired as a full-time PIIE Senior Fellow a number of years ago, but he never stopped working, seemingly full-time given his prodigious output, and he never stopped working from his high-altitude perch in Taos, New Mexico. Now he has an even higher abode. God bless you, Gary. Thank you.

[00:04:35.04] - Anjali V. Bhatt

Thank you so much, Jeff. That was really lovely. But the show must go on, and I bet Gary would be super interested in this discussion that we're about to have. And so a discussion we will have today. We'll be discussing Latin America's changing economic and political landscape, given both the changing global economy as well as regional developments like the recent Brazilian election, Argentina's election next year, Mexico's renegotiation of the USMCA, US involvement in Venezuela, and much, much more. Our esteemed speakers today probably don't need any introduction to our esteemed audience, so let me introduce them briefly and then we'll get going with our presentations. So first, we'll be hearing from Annabel Gonzalez, Annabel has been a nonresident senior fellow here at PIE since 2018 and has been on leave for public service since 2021, first as Deputy Director at the WTO and now as the Vice President for Countries at the Inter-American Development Bank. Then we'll turn to Monica de Bol, senior fellow here at PIE since 2017, former Director of Latin American Studies and Emerging Markets at SAIS Johns Hopkins, and was named an honored economist in 2014 by the Order of Brazilian Economists.

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Next will be Maury Obstfeld, our C. Fred Bergsten Senior Fellow, who has been associated with PIAE since 2019. He is also the Class of 1958 Professor of Economics Emeritus at the University of California, Berkeley, and is a former Chief Economist of the IMF. And last but not least will be Alejandro Werner, nonresident Senior Fellow here at PIAE since 2021, and the founding director of the Georgetown Americas Institute. He was previously director of the Western Hemisphere Department at the IMF. After our speakers give our remarks, I'll have a short discussion with them, and then we'll take questions from our online audience. So for those of you watching online on Zoom, you can go ahead and put your questions in the Q&A box whenever you want. So with that, let's turn it over to Annabelle to get us started.

[00:06:25.00] - Anabel González

Well, thank you very much, Anjali. It's very nice to be back at Peterson Institute with this great panel. Let me share my screen here. Okay, let's see. Sorry. Oops. Now, before I make my remarks, I'd like to just join Jeff in honoring Gary, whom I greatly admired, not only for his remarkable contributions to trade, but also because he was such a great person. He will be deeply missed. As you were mentioning, Anjali, I'd like to focus my participation on Latin America's economic prospects and particularly on one question, which is, could the changes that are taking place in the global economy provide the impetus for sustained acceleration in the region's growth? The short answer to that is that there are reasons to think that the external environment is creating important opportunities, but there are also reasons for caution, especially when we look at Latin America's growth experience over the past several years. Let me start with that experience. Latin America has made considerable progress in macroeconomic management, even while there is great heterogeneity across the region. Many countries have stronger macroeconomic frameworks, more credible central banks, more flexible exchange rates, and greater capacity to absorb external shocks than they did 2 or 3 decades ago.

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That progress matters because it has helped the region navigate successive disruptions without the widespread macroeconomic crisis that characterized previous periods. Yet the improvement in macroeconomic stability has not been accompanied by a comparably improvement in economic growth. The region is expected to grow a little bit over 2% this year, broadly consistent with its performance in the past decade. Between 2015 and 2025, real GDP growth per capita increased only by 5.5%. Now, perhaps the most striking fact is that Latin America has made almost no progress in convergence towards US income levels over the past 6 decades. In 1960, GDP per capita in the region was 26% of the US level. In 2025, it was 24%. In the meantime, other emerging regions have achieved substantial gains. So this points to a structural program— problem that goes beyond the economic cycle. So investment has remained relatively low at around 20% of GDP, well below levels observed in faster-growing emerging economies. Productivity growth has also been weak, reflecting not only insufficient capital accumulation but also how resources are allocated across firms and sectors. And these problems reinforce each other. Weak productivity reduces the expected returns to investment, While insufficient investment limits the adoption of new technologies, the expansion of firms, and the development of more sophisticated activities.

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In other words, macroeconomic resilience is an important achievement of the region, but it has not resolved its central growth problem. Then the question is, what might be different about the current international environment? Recent analysis suggests that Latin America may benefit from a combination of more favorable global financial conditions, commodity demand, and changes in international trade and investment patterns. Some of these factors are cyclical. A weaker dollar, for instance, can ease financial conditions and support capital flows. And these developments are welcome. But we know from experience that they do not necessarily generate lasting productivity gains. The more interesting question is whether the structural changes underway in the global economy could create opportunities for a different growth trajectory. And I see here 3 developments that I think are particularly relevant. One is the changing geography of global production. We know this. Companies are placing greater emphasis on diversifying suppliers and managing geopolitical supply chain risks. This creates opportunities for Latin America to attract investment and participate more extensively in international production networks. But we should not, I think, overestimate the automatic benefits of supply chain diversification because investments still depend fundamentally on cost, on productivity, on infrastructure, on skills, and the predictability of the operating environment.

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And also, it's not only about attracting investment, but, you know, what matters more for longer-term growth is whether the investment strengthens domestic suppliers, introduces new technologies, develops skills, and expands export capacities. And here, the record of the region has been mixed. Now, a second development is the growing importance of energy, food, and critical minerals. We know Latin America has significant natural advantages. The region is a major food exporter, has abundant mineral resources, and generates more than 60% of the electricity from renewable sources. These advantages have become more valuable as countries seek to diversify strategic supplies and expand investment in electrification and new technologies. But there is an important distinction, again, between benefiting from increased demand for natural resources and using that demand to develop broader productive capabilities. This again requires infrastructure, technology, skills, related industries. Take, for example, critical minerals. The economic contribution of mining can be considerably greater when investments also support processing activities, specialized services, local suppliers, and technological capabilities. Now, at the same time, of course, it's not about just local processing at any cost. It's important to think about how the region can add more value, but in a way that it is competitively rather than pursuing just downstream activities regardless of their economic viability.

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And the same logic applies to agriculture, for instance. Future growth will depend on productivity improvements, on better logistics, on more efficient use of land and water, and not just by simply expanding the agricultural frontier. Now, a third development is the expansion of digital services and artificial intelligence. And here, Latin America digitally delivered services have increased almost fivefold over the past 2 decades, reaching nearly $90 billion in 2024. But the region still accounts for only about 2% of global digitally services exports. So again, this suggests a great potential in going forward, and artificial intelligence could also help address productivity weaknesses across a much broader range of activities, including agriculture, manufacturing, services, and public administration. But again, technology adoption is not the same as productivity growth. The evidence increasingly suggests that the benefits depend on complementary investments in skills, in management practices, and in digital infrastructure. And here, let me take a moment to say that our forthcoming IDB report report on artificial intelligence. And here's a small commercial. It will be launched on November 16th, and you're all invited. So this BlackRock report examines these issues in detail. And basically, its main message is that with broad AI adoption, regional GDP could grow by 5.1% after a decade.

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With limited adoption, only 0.3%. So this brings us again to the main question: what would allow Latin America to turn these opportunities into higher growth? And here I'd like to briefly highlight 3 issues. The first is the investment environment. Macroeconomic stability is essential, but investment also depends on the regulatory predictability, effective institutions, competition, and the capacity to develop and execute projects. And, you know, in many countries, it's not the absence of potentially profitable opportunities, but it's more the difficulty of bringing projects to fruition because of the infrastructure bottlenecks, complex permitting, and others. So addressing these constraints is as important or maybe even more than providing additional finance. The second issue is the allocation of resources and the capacity of firms to grow. Latin America has substantial differences in productivity across firms, even within the same sectors. So greater competition, lower barriers to entry and expansion, better access to finance are all very relevant, particularly relevant for technological adoption. And the third issue is regional integration. Latin America's fragmented market imposes real economic costs They limit scale, discourage specialization, make it harder to develop regional production networks. So there's a need for more cross-border infrastructure, more efficient trade procedures, greater regulatory compatibility or convergence, and for more effective participation in global value chains.

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So there are very promising opportunities in energy interconnection, transport corridors, digital services. And that is the kind of thing that we try to do here at the IDB, particularly providing

regional platforms that combine investments and reforms across shared challenges and priorities in the region. So let me conclude here by saying that there— going back to my initial question, I think that there are good reasons to be more optimistic about Latin America's economic opportunities than its recent growth performance might suggest. The region has experienced favorable external conditions before without necessarily achieving sustained acceleration in productivity. But by removing the constraints on investment, firm growth, and productivity, I think that countries can turn today's favorable conditions into a lasting rise in growth. So thank you very much, Angélique.

[00:18:15.14] - Anjali V. Bhatt

Thank you so much, Annabel. And also for everyone watching, all of the slides will be available on our site after the event. So now over to Monica.

[00:18:25.17] - Monica de Bolle

Thank you. Thanks, Anjali. And thank you to my esteemed colleagues with whom I have the pleasure of sharing this conversation on Latin America. Thank you to Jeff for the words about Gary, who will be greatly missed. In particular, I think he would have loved this discussion. And I have a little anecdote about Gary because he used to call me Cassandra. So I think I'll put that hat on and be a bit Cassandra-like with respect to my analysis of the region. It has been an eventful few weeks for Latin America, specifically for South America, but I think for Latin America as a whole, with the elections in Brazil, with the midterm elections and the result of the midterm elections here in the United States, as well as a few things that have been going on in the region itself. I'm sure many of the people watching us today have seen the disaster, the banking disaster unfolding in Paraguay, and the political consequences of that. So I'll touch a little bit on all of the issues, though I do want to focus a little bit more on Brazil and on some of the implications of the U.S. elections for the region.

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So let me start there. We know that the United States has had since last year this different approach, I guess, towards the region, and there has been a lot more U.S. involvement with countries in the region in several different respects. Many countries in the region welcome this, and some countries in the region not so much. And what we have seen, at least since the the result of the midterm elections in the U.S. last week is that for all countries, even for those countries that were, you know, somewhat okay with the, with how the U.S. was involved in the region, I think collectively there's been somewhat of a breath of relief that's happened. We will see whether that's justified or not, I guess, in the coming months. But it is important, I think, to

say that for a lot of countries, and Brazil being notably one of them, that there was a lot of concern regarding how the US administration would push its agenda on critical minerals and natural resources in the region. Brazil in particular, under current reelected President Lula, had been talking up the sovereignty agenda and really highlighting that Brazil should be, should, should follow its own, its own course, of course, keeping its engagement with the US because the US is a very important economy for Brazil, but also with China, which is also another very important country for Brazil, as well as other partners.

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Because of course, we've just seen the EU-Mercosur agreement come into provisional effect in May of this year. And under the EU-Mercosur agreement, there are a number of things, or there are a number of areas for investment in the critical minerals and rare earth elements space. So there is a, there is a somewhat different view now, I guess I'd say, with respect to how the US might treat Brazil and might treat its natural resources, given that Lula on the one hand was reelected, and at the same time we've had the result that we've seen out of the US midterms. Before I dive into Brazil, let me, because I'm on the natural resource angle, let me say a couple words about Venezuela. There is great concern amongst countries in the region with respect to what's happening to oil revenues from Venezuela. There's also great concern in the region with regard to the fact that Venezuela is still an undemocratic regime. So it's still an authoritarian regime that is in place in Venezuela. So in essence, a lot of the problems that The political economy problems, massive political economy problems that we've been seeing coming out of Venezuela have not been resolved.

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And I think there is somewhat of a hope now that things may move forward with respect to Venezuela and that we might know something about oil revenues and what's been happening to Venezuelan oil revenues in recent months. Let me turn to Brazil now. So Brazil had its runoff election about 2 and a half weeks ago. That election happened on Sunday, October 25th. Lula was reelected in what was somewhat surprising because, of course, he had lost to Flávio Bolsonaro, his opponent, in the first round of the elections. But he managed to turn things around and quite substantially because he was reelected by quite a large margin with respect to Flávio Bolsonaro. Now, of course, you know, the week in the first round of the elections, Congress was also elected. This was a general election in Brazil. And the Congress that is going to be incoming in early next year is a much more hostile Congress to President Lula than even the Congress that is in place now, which is already in itself hostile to Lula. So in terms of the economic challenges facing Brazil, they're quite big. There are a number of problems that Brazil will have to face.

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There are issues with respect to the fiscal situation. There are issues with respect to the fact that the country has these abnormally high interest rates that are having a huge impact on the economy. There's a lot of private sector debt. Companies in Brazil are very highly indebted. Households are also very highly indebted, and there isn't really any relief in sight because interest rates have remained high. The central bank seemingly has just interrupted an easing cycle for interest rates on the back of concerns about Brazilian inflation going forward into 2027, the effects of the war in the Middle East that's having a lot of consequences on inflation in Brazil, but also a number of other issues, including fiscal issues itself. The fiscal debate in Brazil now is very heated. People are focusing by and large on the need of adjustment, and there is a need for fiscal adjustment in Brazil, no doubt. But there is another issue that I think bears mentioning in this discussion, which is Yes, Brazil has a large debt-to-GDP ratio. It's currently at around 83% of GDP. But even more than the size of the debt itself, Brazil has a compositional problem in its debt ratio, and it's very different in that respect from what we see across the world and even across the region, because the composition of Brazilian debt includes a lot of instruments which are floating rate or variable rate instruments.

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Almost nearly half or even slightly more than half of Brazilian public debt is actually composed by these variable rate instruments. And what happens with that within those circumstances is that when the central bank raises interest rates to contain inflation, for example, this has a direct impact on the debt-to-GDP trajectory. So just to give people a sense of how large this problem is, the current interest bill of the government in Brazil is slightly higher than 9%age points of GDP, which is huge. Brazil currently does have a primary deficit, but it is a primary deficit that is close to zero. It's at about 0.5% of GDP. Projections kind of estimate that that deficit might increase somewhat in 2027 if there's no containment of expenditures and no measures to raise revenue. But nonetheless, fixing the primary balance in Brazil is not going to do the trick of tapering down the debt-to-GDP trajectory because The interest bill, the impact of the interest bill in the debt-to-GDP trajectory in an environment of very high interest rates is still what is governing and what is driving debt-to-GDP upwards. Let me say one more about why that is. Brazil has these variable interest, these variable rate bonds that Brazil issues.

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They're sort of an inheritance from Brazil's past. Brazil is a country that, unlike others in the world, it had a hyperinflationary process that lasted 25 years, so a quarter of a century. There

aren't any other countries in the world that have had that kind of history with hyperinflation. Many countries have had hyperinflation, but not a 25-year-long process in the same way that Brazil did. And in order to defend itself from the implications of hyperinflation and to learn to live with hyperinflation, Brazil invented a lot of indexation mechanisms. And these variable rate bonds are part of that arsenal. And that is still there as a legacy from the hyperinflationary era. So the debate at the moment is actually quite fascinating on the macroeconomy, because there is now a much more heated discussion about what's to be done with the composition of public debt. And I think that is exactly how the debate should proceed. Because fiscal adjustment alone is not going to fix the issue. So I'll leave that as a point for reflection. In addition to Brazil, I also wanted to say a couple of words about Paraguay and Argentina. I'm sure that everyone has seen what's happened in Paraguay.

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There was a banking scandal in Paraguay. It was a very big bank. It went under. A lot of people have not been able to recover their deposits. But more importantly, this bank scandal did have political consequences. It directly affected the president of Paraguay, who is suffering an impeachment process at the moment, and in fact has already been substituted by the vice president. So this has also happened in the last few days, actually not even weeks, few days. And this is creating a lot of noise in the region. Paraguay is relatively small compared to its neighbors, so it's not as if this situation in Paraguay is creating financial contagion to other countries in the region. It isn't. Nonetheless, it is important to underscore it because at the moment there is a similar banking scandal occurring in Brazil. These banks are not related in any way, shape, or form. However, the stories governing both scandals are very similar in the way that they involve corruption and politicians and a number of important people within both countries. In Paraguay, that scandal is unfolding In Brazil, it is unfolding as well, and it has affected ministers, justices from the Supreme Court.

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It has affected politicians in Congress. It has not affected President Lula, but it has come fairly close to that. It has certainly affected the former presidential candidate, the losing candidate, Flávio Bolsonaro, who has fled to the United States and is currently in Miami. So there are a lot of things to talk about when we think about these different issues in the region. Finally, let me say a couple of words about Argentina. So we saw last year, and Maury, I know, is going to talk more, more in depth about Argentina, but we saw last year in October 2025, we saw the US administration give Argentina a $20 billion swap line when they were starting to have a lot of financial problems reminiscent of everything else they've suffered in their past. And, and that That assistance from the U.S. was given right before the legislative elections in Argentina, and

they did help the Milei government gain some ground and stave off challenges, political challenges from the opposition. Since then, markets have been rather calm, although the economic situation in Argentina isn't good in any way, shape, or form. And more recently, After the results of the US elections last week, there have been more— there's been more uncertainty amongst investors in Argentinian assets and in Argentinian markets more broadly because of question marks about whether or not this level of US support will continue into next year.

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Argentina has presidential elections in 2027, and I am currently expecting that they will likely have another episode of financial distress before those elections take place at the end of 2027. So with that, I'll end my brief remarks here and pass on to Maury, who will expand on all of this, I suppose. Thank you.

[00:31:55.09] - Anjali V. Bhatt

Let's go much more into Argentina, Maury. And you're muted, Maury.

[00:32:15.27] - Maurice Obstfeld

Yeah. Okay. I knew that would happen. Trying to do too many things at once. Okay. Well, that's a great segue from Monica into Argentina. But before making that transition, I will always also express my sorrow and appreciation for Gary Hufbauer. You know, he's truly a giant across many areas of international economic policy. And so we are all gonna miss his wisdom in the coming years. Okay, let me— Great. So this is a chart I've used in a number of publications just illustrating the exchange rate history of Argentina since 2023. When Javier Milei came into office, the Peronist regime had managed to drive inflation to over 200% per year. And one undisputed achievement of his presidency has been to bring inflation down significantly, largely through an exchange rate-based process. He immediately devalued the peso, then instituted a crawling peg regime at a rate far below the rate of inflation. moved with the new IMF program in the spring of 2025 to a sort of crawling band regime, which you can see in the picture. And toward the date of the midterm legislative elections in October of 2025 that Monica referred to, the markets began to speculate strongly that this upper band of this exchange rate system would not hold, that the Argentine government, which was quite short of international reserves, would not be able to defend it.

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At that point, the US Treasury came in with unprecedented support, both in the form of a swap line and in the form of direct intervention. in the foreign exchange market. This helped Milei to overcome the crisis, to have a very strong result in the legislative election. And at that point in January of 2026, he moved to an inflation-indexed band, which links the rate of expansion of the upper edge of the band to lag inflation. And the idea of that is to avoid excessive real appreciation of the currency. Since the beginning of the year, there have been some major reforms. The big one is really the labor market reform of February, which aimed to make the labor market more flexible and to reduce informality. There's also an energy subsidy reform, a corporate tax cut is in process, and a revision of the central bank charter to make the central bank more independent is in process as well. But the policy package has led to 2 probably unwelcome developments over time. One is further real appreciation of the peso. As you saw from the chart that I showed initially, I won't go back to that. The peso's depreciation has not kept up with inflation.

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So there has been a significant real appreciation. And furthermore, the unemployment rate has been moving upward. It now stands at close to 8% of GDP. Annabel, in her presentation, focused on the, you know, the very strong exports and development of the whole region in terms of energy and minerals. And Argentina is no exception. The vast Vaca Muerta shale formation has been a source of oil exports. It also holds natural gas. Argentina is rich in other critical minerals. So this is, this is an area which, which could grow a lot. It has benefited from the current configuration of energy prices in the world economy linked to the Iran war. But what we've seen between these developments and the real appreciation is an unbalanced development of the economy But construction is lagging and manufacturing is lagging even more. And some Argentine economists have argued that there is a Dutch disease type phenomenon underway of unbalanced growth, which is too dependent on the mining sector at the expense of other industrial development. Inflation has fallen, as I mentioned. It has now been for a couple of months below 2% per month, which is roughly 30% or so a year.

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But it seems pretty much stuck there. It's not coming down and certainly not coming down to the stated goal of the administration, which is to bring inflation toward average global levels, which are, you know, more like 5% or 4% per year. So there's really very little movement in that direction. And part of the reason is because, in my view at least, there is not a clear nominal anchor for monetary policy. You know, the vague enunciation of a very long-term goal for inflation is not the same as giving the central bank an inflation target, which it tries to meet through using the instruments of monetary policy. And in fact, the exchange rate setup, which

links the rate of change of the top of the exchange rate band to lagged inflation doesn't help with that, with that process. So it remains to be seen if the administration can really progress in bringing inflation down from a rate that still is quite high by global standards. As Monica mentioned, there will be a presidential election in October 2027. And the current economic situation is, is somewhat uneasy for the reasons that I've laid out and for a number of other reasons.

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The IMF just completed the 3rd review of its 2025 Extended Fund Facility, and it lauded macro policies but also pointed to the need for Even more reforms, even more investment and productivity growth. Again, a theme of Annabel's presentation for financial market reforms and also for continuing net reserve accumulation, which has been an area where the the Malay administration has made progress, but still is below the the IMF's targets. And it is below what is probably needed to have an adequate buffer for foreign exchange operations if necessary, and also to meet external obligations. The successful review by the IMF did unlock about $900 million in funds, however. The relationship between Argentina and Brazil, given Lula's reelection is not helpful. There was conflict in the run-up to Brazil's election. There is conflict in the way that Flávio Bolsonaro fled Brazil. And a fractious relationship here impedes regional integration efforts and joint efforts through Mercosur to deepen relations with the rest of the world. Milei is also quite unpopular one year out from the election. He and the Peronists are tied. However, at least a quarter of voters would like a third option. They're not happy with either option on offer currently.

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But Milei is underwater by about 19% on his approval. And there are still unresolved corruption concerns That can continue to be discussed in the press, and that are not helpful in trying to create a contrast with the Peronis. The borrowing spread over U.S. Treasuries is quite worrisome at the moment. It is about; it is more than double where it was in July. Last week, it last week, it. spiked to about 930 basis points on Thursday and Friday. It fell by about 50 basis points yesterday in the— on the back of the global rally in risk assets. But it is still in the 860 basis point range. And this is quite worrisome because it indicates the presence of a credibility trap For Malay, there's a danger as the election nears. With the midterm election in the U.S., the support of the Treasury down the road is, if anything, more questionable. I think that played a role in the spike in the yield last week. And if markets turn against Malay, Without that kind of support from the US, that could damage his credibility, damage his ability to implement further policies, which would damage his credibility yet further in a self-fulfilling process.

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So I think that's the great danger that awaits as we go toward the 2027 election. I'll stop there.

[00:43:46.29] - Anjali V. Bhatt

Great. Thank you so much, Maury, and we will turn it over to Alejandro.

[00:43:50.28] - Alejandro Werner

Thanks, Anjali, and I'm honored to be here with my esteemed panelists. Let me try to briefly go over many of the things that were talked about and discuss some other countries. I share Annabel's view in terms of the opportunities that are open for Latin American countries in the current international context. The fragmentation and geopolitical economic factors that are now central to economic relations, I think, make Latin America a region that is not significantly involved in active conflicts and one of the main suppliers of commodities to the world. a very trustful supplier of important commodities, and therefore their commodities coming to the market maybe at a premium or having significant demand for them. And many of them also very important in the global value chain of AI, energy transition, et cetera. Secondly, on this new fragmented world, geography helps Latin America. I mean, Mexico, Central America, et cetera, should eventually, when things normalize, be an important part of the North American value chain in the manufacturing sector. So I think things, Latin America continues to be relatively young compared to other middle-income regions, although aging faster. But then we come to the history of Latin America where we have lost many good opportunities in the past.

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And I think Anabel kind of hinted at these important risks. And now we have a pretty polarized region, I think a region where we have not seen significant structural changes lately. Where we have seen important structural changes, let's say, is in Argentina, where we still have significant macro challenges, as Mauri was highlighting. So people highlight these opportunities but are also pretty skeptical that Latin America will be able to take advantage of them and really that we can really see a convergence process towards upper middle income GDP per capita levels or lower high income countries. Also now, I mean, there are important fiscal challenges, especially in Brazil and Colombia, but then Mexico as well. And then I would say, I mean, Peru and Chile having a lot of time with low debts, primary deficits, but low interest rates, et cetera. to adjust their fiscal situation into the future under a much more robust institutional fiscal setup in both of those countries. And then we have Argentina, Ecuador, and Bolivia still struggling to get their fiscal house in order, very restricted access to the international capital markets, in some cases not even access, and in other ones, very complicated access.

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So let me, in the rest of my presentation, talk about 4 countries, Colombia, Mexico, Argentina, and Venezuela. I think Colombia, I mean, behind Brazil and maybe on top of Brazil, if you look at CDS spreads and interest rates, is the most delicate fiscal crisis. I mean, according to the government, The expected deficit for 2025 in an inertial scenario, it's a deficit of 9% of GDP, a primary deficit of 4.5% of GDP. Therefore, the government put out what they call a fiscal rescue package that aims to achieve a small primary surplus in 4 years. Most of the adjustments should take place according to this legislation in the first 2 years. The first year should be a year in which most of the adjustment around 2.5% of GDP is undertaken by cutting down on government expenditure. And in the second year, they're proposing a pretty ambitious tax reform that actually streamlines the VAT, increases the amount of people that pay income taxes, and then they also close significant tax tap loopholes around the tax code. They're proposing a novel way to refund, I think, up to the 4th or 5th decile of their VAT payments. But it's a very challenging endeavor.

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They will be adjusting their fiscal accounts for more than half of the presidential term. The economy now is going to be hit by El Niño, a significant fiscal adjustment, very high interest rates, high inflation. The combination of these and a political economy in which President de la Espriella won the election by 1%age point of GDP, I think highlights that the probability that Colombia is entering a cycle between right-wing and left-wing populism is not out of the question, no, because at the end of the day, we will be having elections in 3 years and a half. Unlikely that economically this is going to be a super successful presidency. And the median voter has in their minds a Petro administration that maybe was the one that grew the most post-pandemic in Latin America. where the medium household did well, and it left a bunch of macroeconomic imbalances for the next administration, and the next administration was not able to successfully deal with them. Therefore, we might go back to what we had before. I think it's a situation that we need to watch closely. Argentina, I agree with all the points that Maury said. Argentina technically might be in recession with 2 quarters of negative quarter-over-quarter growth.

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Let's say 2027, a repeat of 2026, a growth rate, average growth rate of 1.5%, inflation not coming down that fast. Although I think if you look at Polimarket's Calci, the probability of Milei getting reelected might be between 40% and 50%. Then move another year. with a very

complicated macro scenario, employment falling, etc. If the Peronists move a little bit to the center or bring in a more centrist candidate than Axel Kicillof, they can win the elections, or at least they can generate a lot of volatility that then becomes a self-fulfilling trap. As Mauri was saying, the exchange rate from an internal equilibrium point of view is overvalued. Externally, they're doing fine. The economy is not growing that much and exports are growing a lot. On top of that, from a stock adjustment perspective, Argentina in the next 5 years needs to build maybe $50 billion of net international reserves. On top of that, they need to go out to the market and get another $50 billion to repay the IMF in a good scenario. That will tell you that they need a weak exchange rate in the next 5 years to accomplish all of these things, not to continue to use the exchange rate for an inflation stabilization program that needs to be changed.

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If they truly believe on central bank independence, they could de facto give independence to the central bank while the law is being discussed in Congress. I think there are many things that Argentina could do to streamline their monetary and exchange rate policy that is not being done. In the case of Mexico, Mexico is stuck in an equilibrium, I would say, of an inflation of around 4%. a growth rate that might eventually stabilize at around 1.5% while gradually building some fiscal imbalances. Now, they have a very small primary deficit of maybe half a percentage point of GDP while postponing a lot of expenditures and also using quasi-fiscal vehicles to finance mainly infrastructure, Their pension funds are flooded with resources. So I think there's no immediate fiscal looming crisis down the road in Mexico. And then they have, while they have been negotiating the revision of the USMCA, Mexico's bilateral trade surplus with the US went up due to a huge boom in exports of computing equipment linked to the AI boom. Basically, the shift in the composition of exports in Mexico has been biased towards these computers. Finished automobiles has been coming down and auto parts have defended themselves.

[00:53:27.29]

That's what we have seen. They have been complying with the US in terms of limiting Chinese imports and establishing mechanisms to limit Chinese foreign direct investment into Mexico. Now with the changes in the new US environment, it seems that if Mexico continues to drag on with these negotiations, eventually it will be facing maybe a US administration that might put some order into North American trade, and Mexico would have successfully negotiated this environment. Finally, just a word on Venezuela. I think the recent changes in the US and in Venezuela with Maria Corina Machado going back to Caracas seems that maybe the political transition will accelerate itself. That eventually, if it happens with elections taking place sometime in 2027, might generate a positive feedback loop between the economics and the politics. I think there were a lot of talk about debt restructuring. Debt restructuring, I think, is

not— in terms of sequences, should come after political transition. Also, we need first to have visibility of what the macroeconomic framework and policies are going to be, and that this can only be put in place by a legitimate government. In my view, I think debt restructuring hopefully will wait until this happens and a legitimate government first put policies into place.

[00:55:03.19]

Second, start the debt restructuring process, and together with that, an IMF program that leads credence to the policies and eventually to the macro framework that will underpin the debt restructuring. Thank you.

[00:55:16.26] - Anjali V. Bhatt

Okay, thank you so much, Alejandro, and thank you, all of you. We covered a lot of ground there, a lot of countries, a lot of topics, so we could go a lot of places. I'm going to pose a couple of questions to our panelists and a reminder to everyone online, That you can put your questions in the Q&A box and we can, we can get to those. So I'm going to start off a little bit broadly here. So Monica talked about the effects of the US election on sort of Brazilian politics and how that will change the US-Brazilian election or relationship. And how she said that perhaps the region has maybe breathed a sigh of relief. I just wanted to ask a little bit more directly to our other panelists to speak about the US elections and the impact it has on the relationships with some of the other countries in the region. We spoke a little bit about Argentina, but we can go to any of the other countries that you want and see sort of how the relationships with the US, relationships with the countries in the region will differ given the election results.

[00:56:25.11]

And so I will start with Anabel.

[00:56:31.08] - Anabel González

So thank you, Anjali. So I want to really go back to this notion that some of the most important elements of the external environment that Latin America is facing are really more more structural and less politically driven in the sense that if you think about issues like increased interest in diversification of suppliers and resilience, I think that would continue. It is really structural. Or if you think about demand for energy, for food, for critical minerals, I mean, those are dependent again on other drivers. Like technological change, AI, you know, increase in demographics. So again, and if you think about digital services and AI, again, even if you can see changes that may, for instance, be implemented here in the US, I think that the fundamental

sort of characteristics of these drivers will continue to be in place. From the perspective of Latin America, I believe that the external political environment in the US, for example, is always relevant for sure. But my point is that even as relevant or even more so are the actions that countries can take at the domestic level to try to take advantage of these opportunities and address some of the constraints that have been limited.

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the ability of the region to grow. My point is that growth at 2% levels are not enough to address the social demands of the region, are not enough to address the fiscal challenges that some countries may face. Focusing on growth is really, in my view, a very important priority, I think, for the region at this point.

[00:58:48.16] - Anjali V. Bhatt

Yeah, thank you. Um, Maury?

[00:58:56.21] - Maurice Obstfeld

Well, the, uh, you know, one of the, um, salient foreign policy pivots of the Trump administration has been to focus strongly on Western Hemisphere and Latin America. Um, almost as an extension of the America First approach. It's sort of America's First. And I think there are aspects of that that are positive and aspects that are less positive. And former Latin American finance minister remarked to me a year ago that they were very happy with benign neglect from the US, and they're not sure that the attention they're getting would be positive But, you know, if you look at, you know, the recent electoral outcomes in Latin America, clearly a big theme in pushing Latin America to the right has been a voter concern about drugs and gangs and violence. And I think that, you know, to the extent that there can be more cooperation with the US in that area, I think that's something that could get bipartisan support in the US. Where I think there might be a bigger change is the tendency for the Trump administration to use, to think of the engagement with more right-wing Latin American governments as an opportunity, as a sort of business opportunity, the opportunity for very non-opaque business deals.

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That enrich, you know, essentially friends and cronies of the administration. And I think those sorts of arrangements are going to come under more intense oversight from the US Congress and might give more pause to, you know, actors in the Latin American region from pursuing those things, which also I don't think are very popular domestically, given the legitimate voter concerns about corruption. So, you know, I think there's some elements that— of the closer

relationship that are probably positive, but there are others that may be under more pressure. And I think rightly so.

[01:01:29.10] - Anjali V. Bhatt

Okay, thank you. Alejandro?

[01:01:31.29] - Alejandro Werner

Yeah, just maybe trying to put together what was said by Maury and Anabel, we can see that there are at least 3 important elements in this new relationship between the US and Latin America. One is a reflection of the fragmentation that economies are experiencing and imposing. And in that sense, the structural elements are in many cases positive for Latin America. And Latin America can actually say, look, I mean, we align with the US on things that are actually truly about security, defense, et cetera. But on the rest of our economic relationships, we trade and we do business with everybody in the world and we reap the benefits of of that. Then there's an ideological aspect now of pushing and helping governments that are ideologically aligned with the US. That is not so good. Then there's an extractive component that Maury was mentioning of taking advantage of the asymmetric geopolitical power to extract value added from these countries. To the extent that, I mean, given the election results, we continue with the first, we eliminate the second, or maybe we eliminate the second and the third, or they are at least tempered. I think for every country in Latin America, this is positive, except those countries that actually were super ideologically aligned and had a super complicated macroeconomic policy, which are these countries basically Argentina, maybe Ecuador, etc., that were counting on the financial support of the US to try to bridge these very complicated couple of years in their financial structure.

[01:03:34.21] - Anjali V. Bhatt

Monica, I just wanted to ask you one more thing related to this. You said that Lula is facing a hostile Congress and what that means for the economic policy in Brazil. That reminded me a lot of this new situation in the US where Trump is now facing a very— will be facing a very hostile Congress. I was wondering if you see just any sort of parallels there that from the Brazilian context that could be applied to the US or vice versa.

[01:04:04.14] - Monica de Bolle

Yes and no. So let me start with the no, because that's the easier part. But the Brazilian political system is completely different from the US political system. Yeah, the US has a— has a— it's essentially a bipartisan system, although within each party there's a lot of fragmentation, but it is

a bipartisan system. In Brazil, it is a multi-party system. So Congress is very fragmented, always has been very fragmented. What happened in these elections that was kind of different is that in the first round, which where we had, you know, the elections for Congress, we saw the far-right party, which houses, you know, the Bolsonaro family, we saw that party make significant headway both in the Senate as well as the lower house. And there was this expectation, there still is to a degree, this expectation that with the size of, you know, their representation within the Senate and the lower house, the PL, which is the far-right party, will probably present a lot of obstacles to Lula's agenda. However, you know, after what happened in the runoff of the elections with Lula being reelected and notably with Flávio Bolsonaro fleeing Brazil, Flávio Bolsonaro, who was slated to become the leader of the opposition, is no such leader anymore.

[01:05:38.01]

So the so-called opposition, the PL, that's made these significant gains in Congress is currently headless. They don't really have a leader, so to speak. And they are at the moment fighting within themselves for that kind of leadership. And there are various factions within the PL. It is a very fragmented party itself. So that is a story to be seen, you know, how exactly that is going to unfold going forward. Whether this far-right party can get its act together and really present an opposition, or whether they're going to end up— even though they have a substantial portion of Congress, they may end up being sidelined by the more savvy political parties in the Brazilian Congress that have absolutely no ideological side whatsoever and who usually will side with whomever is in power. And, and that person is So, you know, there are lots of open questions now. And it's interesting because this flipped in 3 weeks. Yeah. 3 weeks ago we would have said, oh no, you know, Lula's attempt to govern Brazil is going to be impossible with this far-right party. But the real turn of events was the fleeing of Flávio Bolsonaro and how that's changed the political game.

[01:06:54.03]

That's very different from what's happened in the US. What's happened in the US was not a general election. It was a midterm election. So, you know, the composition of Congress has completely changed, and that will have its own implications for politics in the US. So the only similarity really is that you now have a sort of a majority in Congress in both places where, you know, they are ideologically opposed and in policy terms also opposed to the current administration in both places. But the internal dynamics are completely different. And I think that is important to say. I wanted to just add a word on the discussion about, you know, the, the, what's happened since, since the US midterms and what kind of change it has made for certain countries. For Brazil, it's important to say that a very large part of the discussion going into the runoff of the presidential election was really this issue of sovereignty. And this issue of

sovereignty had direct relationship with the US and with the way by which the US has been trying to get Brazil to sign on to specific deals relating to critical minerals and rare earths.

[01:08:15.08]

That really became part of the conversation in a way that's never happened in past elections. And it is notable that it made a change in terms of how people viewed the 2 candidates, Lula versus Flávio Bolsonaro. Flávio Bolsonaro was seen as someone who would have, if not completely aligned with the United States, at least aligned with the United States in a way that many people perceived as being prejudicial to Brazilian interests. And that, that really did make a difference, I think, in these elections. So I wanted to just, you know, add that.

[01:08:53.03] - Anjali V. Bhatt

Okay. Well, we're getting close to time, but we can still have a little bit more of a conversation. So, Annabel and Alejandro, both of you spoke about how Latin America has sort of faced these favorable global conditions before and sort of squandered those opportunities. Or now people are sort of skeptical that some of these Latin American countries can take advantage of sort of the the headwinds in the global economy. I was wondering, and either of you can answer and we can expand this as well, what's different this time, if anything? Is there something different about these opportunities that are facing Latin America right now that means that they will take better advantage and capitalize on the conditions that they're facing?

[01:09:40.26] - Anabel González

Let me just say one factor and maybe Alejandro can also comment on this or something else, which is that I think one difference between now and previous occasions is that the region is in a different place in terms of— from the perspective of macroeconomic stability. I mean, there's great heterogeneity that we've heard it today, but the reality is that the region is— or many countries in the region are much more responsible from a macroeconomic perspective. The starting point, which is the macroeconomic stability, not for all countries, but again, for many countries in the region, is there. I think the second point is that the demands of the population have increased as the region has moved. The region has been making progress, for instance, in terms of poverty reduction. But there are a lot of people, middle-income, people that have a number of expectations. And I think that they are, you know, governments are keen that they need to address those expectations as well. And these opportunities are really quite significant in terms of the, you know, the volumes of investment, the potential that they have for attracting investment. So I want to think that, you know, there are a number of conditions there that may

push the region to take advantage of these external factors and increase productivity because that is the main challenge that the region faces.

[01:11:28.13] - Alejandro Werner

I would add that also looking at the challenging fiscal situations that countries are going through that there might be a more pragmatic way of addressing the opportunities that they're facing and maybe a bit less ideological, no? And in that sense, and also with the interest of the, let's say, the European Union and the US, et cetera, putting together agendas to advance on critical minerals, et cetera, I think the combination of a more pragmatic approach to the frameworks within which to exploit these minerals together with the more keen interest of these 2 key economic blocs, maybe that will force an equilibrium that will have a more pragmatic approach and also a more stable situation looking into the future that although governments might change, the structure that it's pinned down by the treaties or the agreements reached with the US and the European Union will stick even under significant change in government.

[01:12:48.05] - Anjali V. Bhatt

Thank you. We're almost at time, so I'll give each of you the last word. I also just wanted to touch on the elephant in the region, which is China. If you guys could talk a little bit about sort of where you see the future of that relationship going. And then we'll wrap up there. I'll start with Maury.

[01:13:12.03] - Maurice Obstfeld

I mean, I think the relationships with China in the region, which are extensive and deep, are a, you know, a definite point of conflict with the current U.S. administration that is you know, has not really come to a head yet, but, you know, could, could become more contentious if the, if the Trump administration really, really pushes on that. For example, you know, Argentina has a big swap line with the People's Bank of China, which is very helpful to them in contending with the types of foreign exchange pressures that they faced in 2025 and could face in 2027. So, you know, a lot of that has sort of been under the radar, although certainly the, the, you know, the Trump administration has made no secret of their long-term goal. And in fact, Pete Hegseth mentioned this today in his press briefing of pushing China out of the region. And that seems to me it's just not going to happen regardless of these ideological, uh, uh, changes.

[01:14:18.15] - Anjali V. Bhatt

Monica, I see you agreeing, so why don't we go to you next?

[01:14:22.08] - Monica de Bolle

Yeah, no, I agree completely. I mean, all the countries in Latin America have become very heavily dependent on China. And even in those countries where we saw ideological alignment with the US administration, we also saw them not undoing their relationship with China. I mean, Argentina comes to mind, Chile comes to mind, Peru comes to mind. You know, everybody has kind of left their China relationship intact. And the same goes for everybody else. So this deep entrenchment of China in Latin American economies will continue. I fear the same thing that Maury does. I think the real dispute between the US and China in Latin America has not yet come to a head. So we may still see that happen. And then there's the other elephant in the room, Anjali, the BRICS, right? And that is a big one because now with Lula having been reelected in Brazil, Lula is a big defender of the BRICS. And of course, during, you know, this, this last year of his in office, or at least, you know, since, since 2025, Lula has been trying to make this move of approximation with the BRICS in order to stave off pressure from the United States.

[01:15:40.05]

That is likely to continue. And I think we should also mention one important thing. There is a stalemate at the moment, a diplomatic stalemate. Between the U.S. and Brazil. A few months ago, the U.S. revoked partially the visa of the Brazilian ambassador in the United States, and the U.S. appointee as ambassador to Brazil has not been accepted by the Brazilian government yet. So the current ambassador to the, to the United The current Brazilian ambassador to the United States is in limbo, and the appointment of the US ambassador to Brazil is also in limbo. So it'll be interesting to see what happens on that front. But certainly, you know, I do not see any movement away from China. If anything, I only see what's currently already happening and perhaps an even deepening of those ties.

[01:16:42.16] - Anjali V. Bhatt

Alejandro?

[01:16:43.02] - Alejandro Werner

Look, I think there's a— there has been a move away from China because also China came into the region in a way that it was maybe ill-informed, it was hasty, and they made a lot of mistakes. So more from the supply side that the Chinese have, I think, redesigned their strategy. and is much more thoughtful, cautious, et cetera, than the one that led them to sunk in billions of dollars in Venezuela or in Bolivia, et cetera, that were unsuccessful. I mean, we have seen a more cautious and thoughtful approach. And secondly, I think the weight of China maybe is

smaller than what people think. But to materialize on that, the US has to be much more predictable. It has to be much more muscular in the instruments that it's going to put in place to support countries in Latin America and to forge more long-lasting partnerships. And I think both of these things are very hard to predict, and therefore it's very hard to see a substantial change in the equilibrium that we're seeing.

[01:18:08.00] - Anjali V. Bhatt

Yeah, thank you. Anabel, you get the last word.

[01:18:13.11] - Anabel González

So a high-income path by 2040 for the region requires investment of around 28% from 20% today. The region really needs to be pragmatic in terms of the actions and the measures and the policies and the reforms that it— in the investments that it puts in place to be able to attract the capital that is necessary and to undertake the reforms that it needs in terms of infrastructure, skills, the investment environment. I want to think that while mindful, of course, and being impacted by changes in the global economy and the geopolitical landscape, the region can actually leverage its position and focus on what it needs to do to take advantage of these opportunities that lie ahead.

[01:19:12.12] - Anjali V. Bhatt

All right, I think that's a great way for us to wrap up. So we covered a lot of ground. I think that we could keep going forever, but we're going to stop here. Thank you so much to our panelists, and thank you to all of us for joining us, and we'll see you online next time.

[01:19:25.20] - Anabel González

Thank you very much.