

EME Turbulence and Political Risks in Mexico and Brazil

Monica de Bolle

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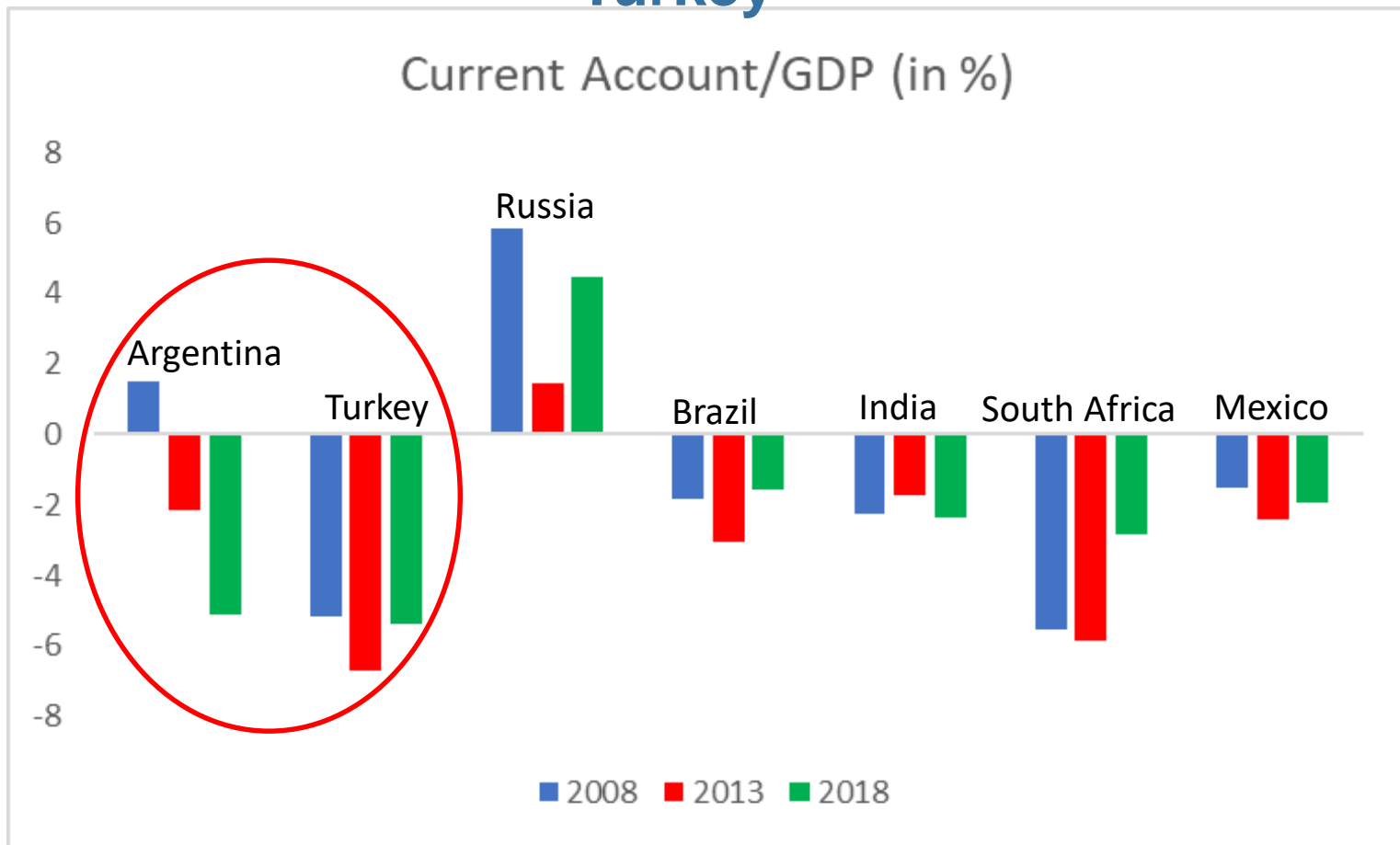
What determines an EME's crisis versus a crisis for EMEs?



- Current account balance
- Reserves
- Primary fiscal deficits
- Exchange rate devaluation
- Private sector balance sheets
- Macro policy room for maneuver
- **Political risk**



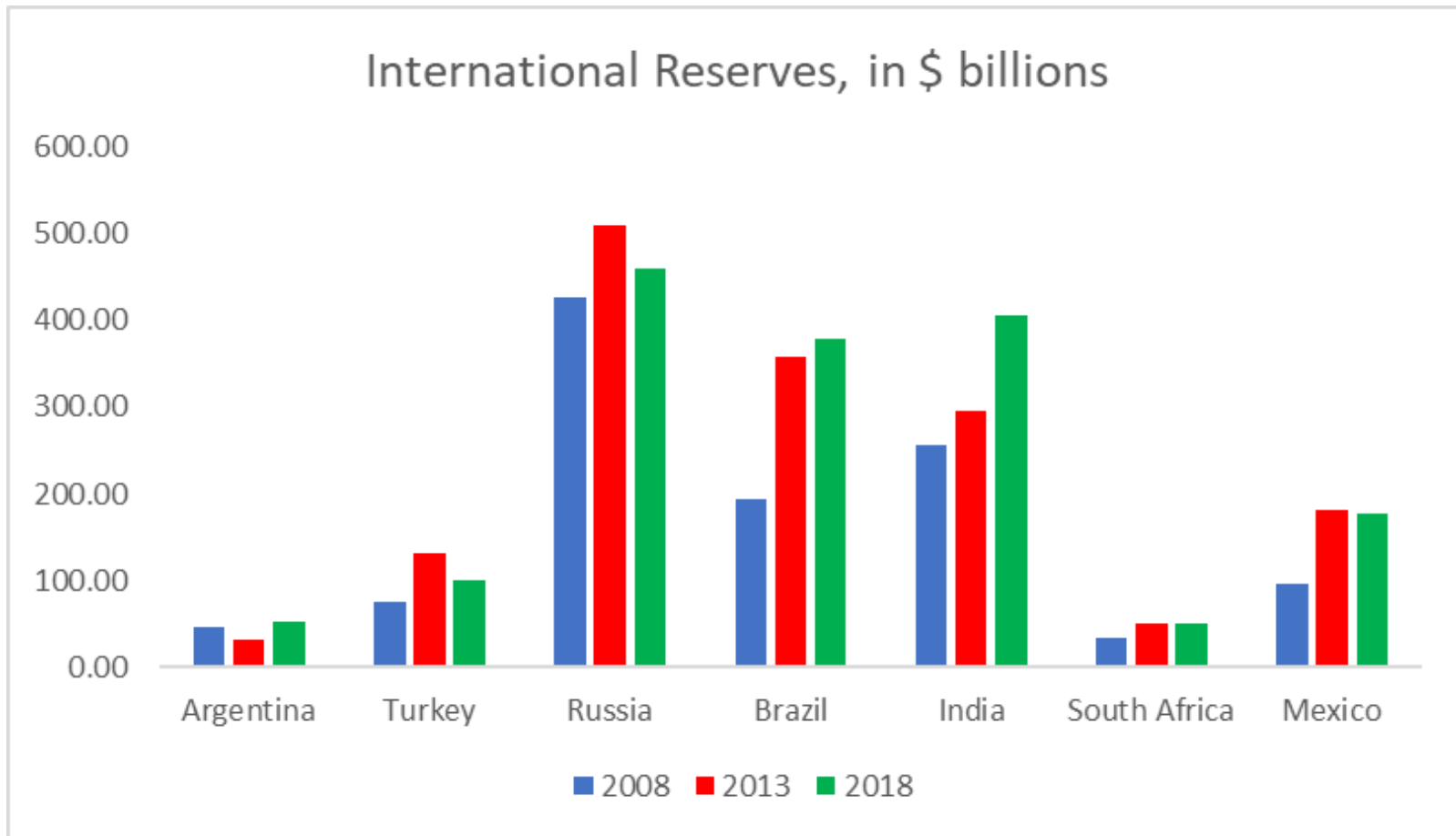
Are EMEs more vulnerable than in 2008? Current accounts a concern for Argentina and Turkey



Source: IMF

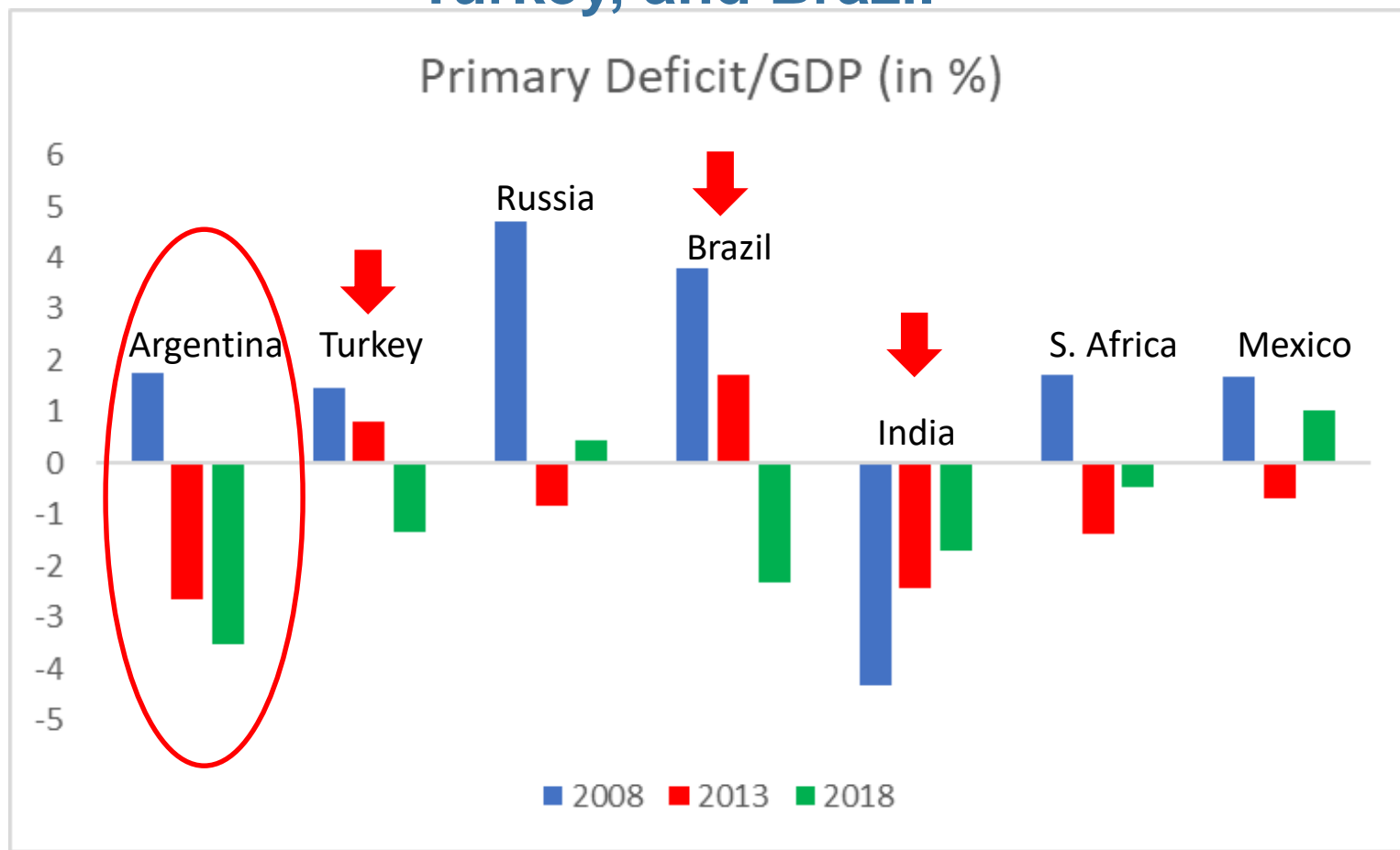


Are EMEs more vulnerable than in 2008? Reserves say the same or better



Source: IMF

Are EMEs more vulnerable than in 2008? Fiscal erosion limited except for Argentina, Turkey, and Brazil

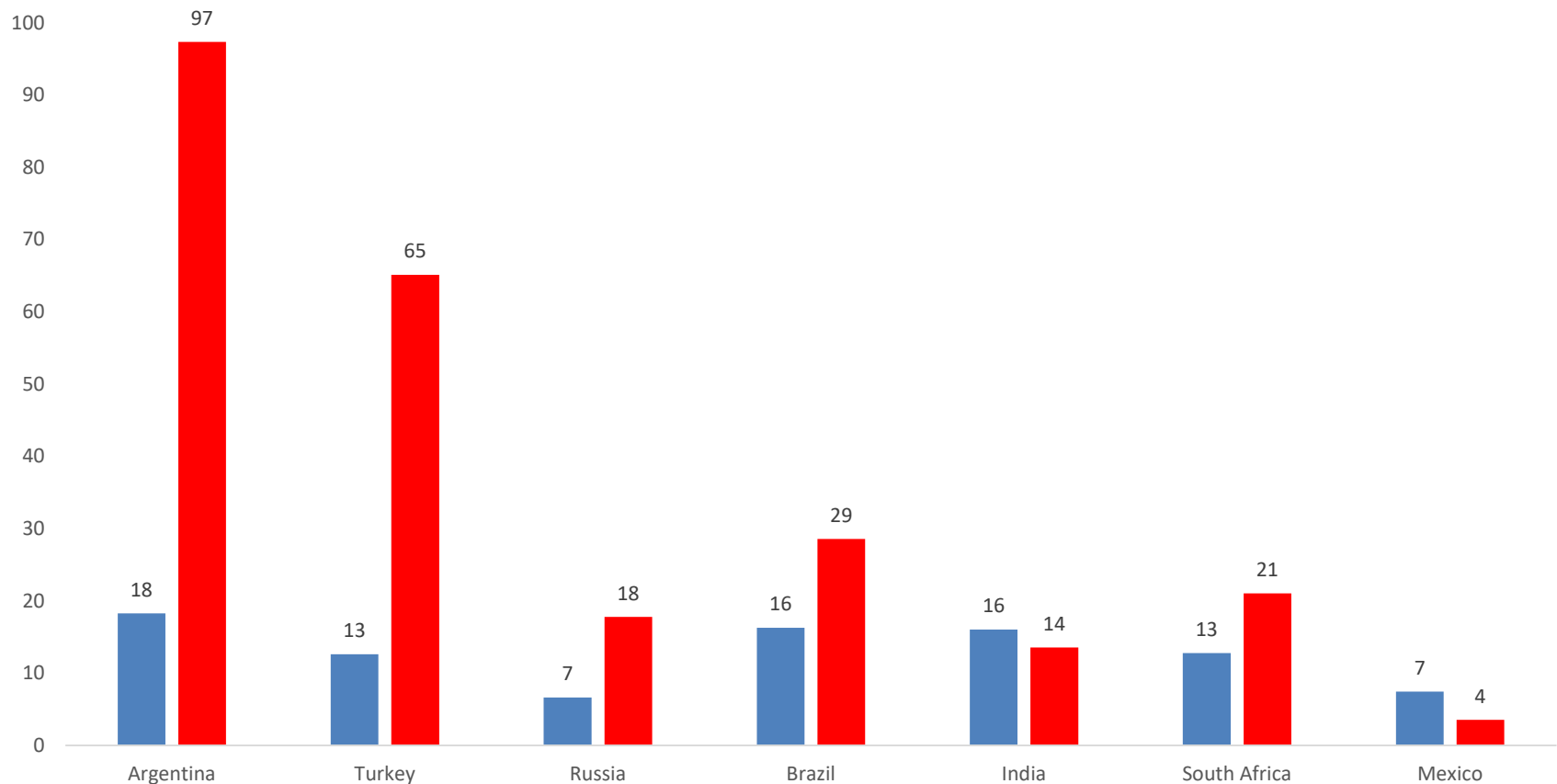


Source: IMF

Weaker Currencies? The Taper Tantrum (May-November 2013) vs. Now (February-September 2018): **Worse for some countries**



Exchange Rate Devaluations relative to USD (%)



Source: Bloomberg

■ 2013 Taper Tantrum ■ 2018



Which EMEs or All EMEs at risk?

	Argentina	Turkey	Brazil	Russia	India	S. Africa	Mexico
Current Account							
Reserves							
Primary deficit							
Exchange Rate							
Corporate Debt							
Policy room							



Political Risk: Mexico

- July elections delivered a majority (leftist) president.
- How pragmatic? How authoritarian?
- Majority may be good for reforms – social policies – but little to no checks on presidential power.



Political Risk: Brazil

- An extremely polarized election between 2 weak candidates: Bolsonaro (far-right) and Haddad (Workers' Party, PT)?
- Both candidates would have significant difficulties dealing with a highly fragmented Congress.
- Both candidates would face the risk of social upheaval given the mobilization of the 2 opposing camps.