

Outlook for Latin America A turning point towards markets?

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Latin America: A Tale of Two Types

- A decade of reasonably robust growth, low inflation and fiscal restraint.
- No one Latin American economic model: the region is split between 21st century socialists and 21st century capitalists.
- Recent events may be the start of turns from one to the other:
 - Venezuela: Death of Hugo Chavez
 - Argentina: Repsol expropriation, bond debt case
 - Cuba: Castro's exit plan
- Or mark a turning point in the consolidation of a model:
 - Mexico: Labor, education, telecom, energy and fiscal reforms

The bifurcated region

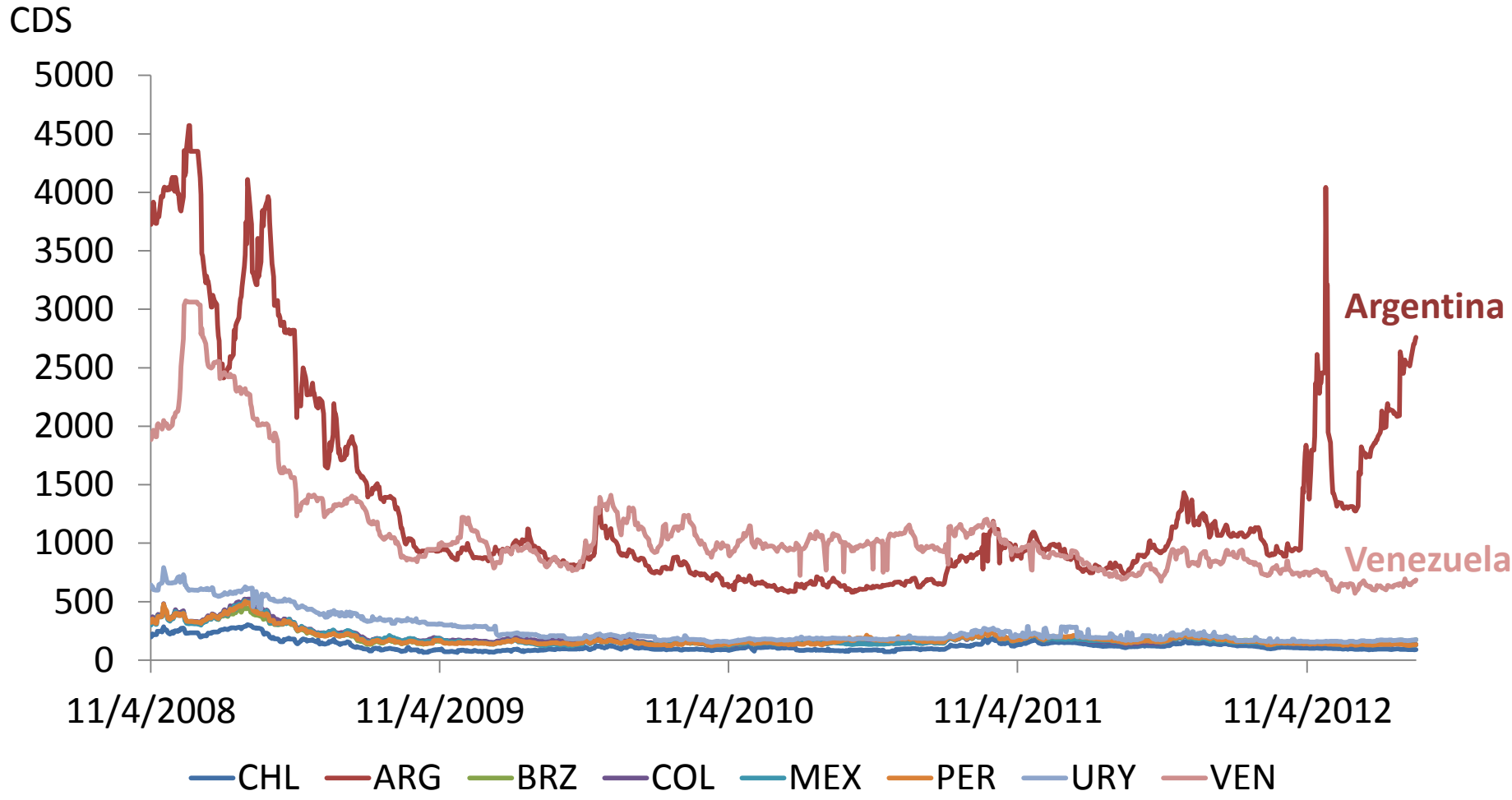
21st century socialist

21st century capitalist



Latin America: bifurcated risk spreads

Nov 2008-March 2013

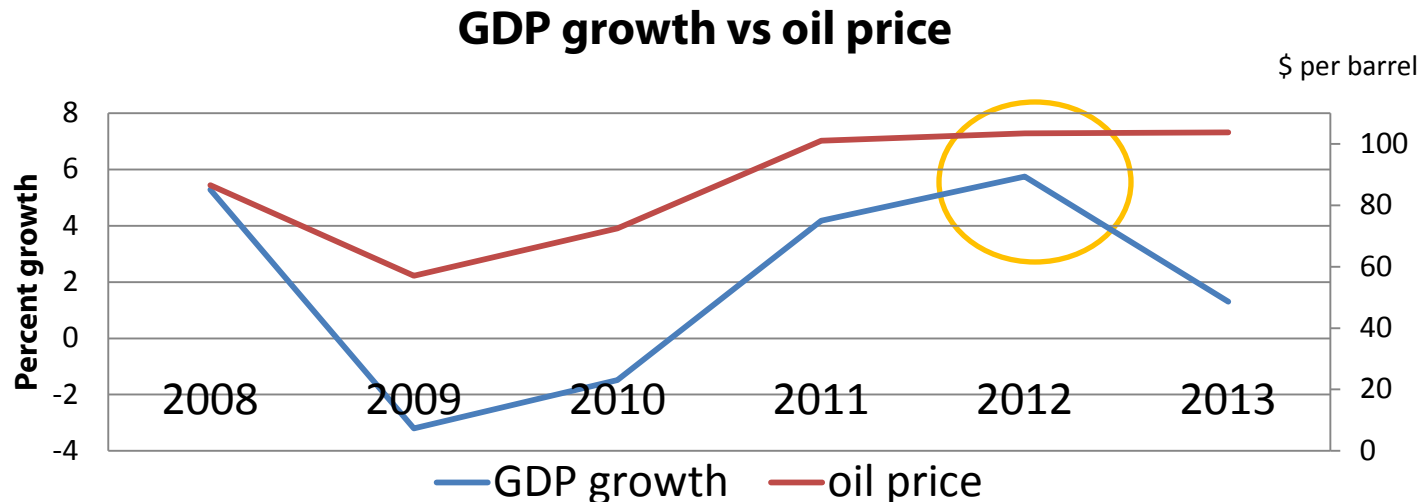


Source: Thomson-Reuters Datastream

Economic Regime Change in Venezuela?

Probably -- but not any time soon.

- **Politics:** No change in political control likely on April 14th
- **Economics:** But Chavez's successor inherits a difficult economic environment with many domestic constraints

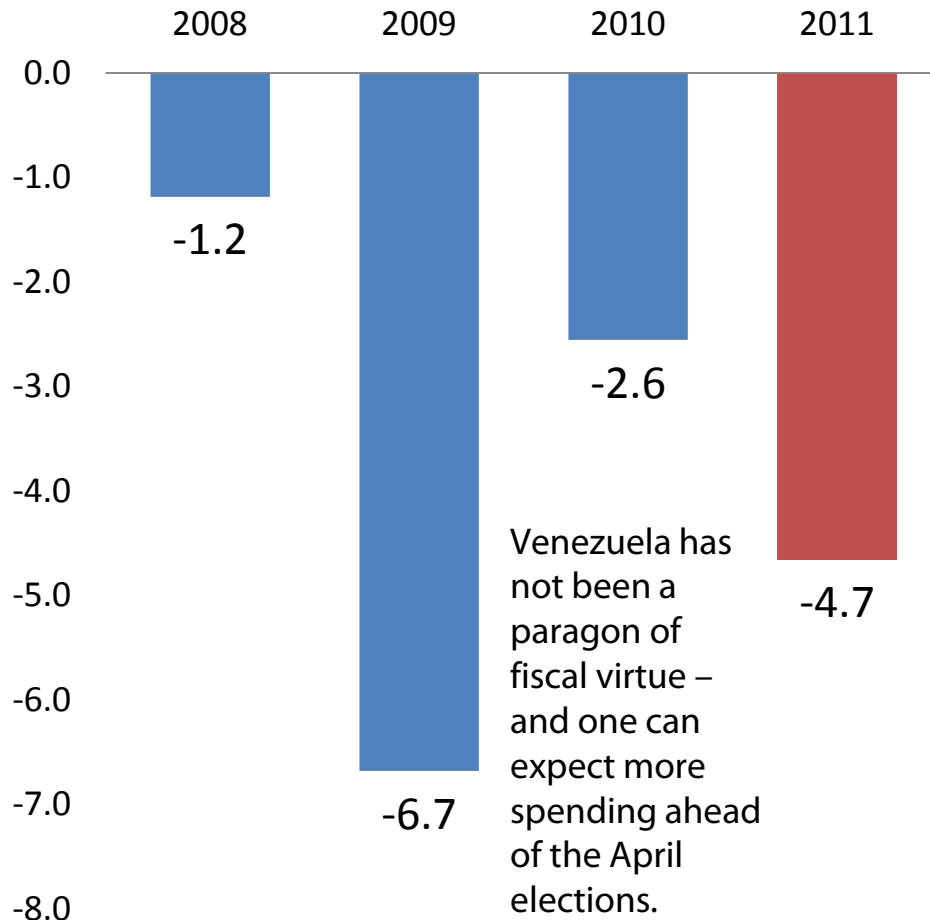


Source: Venezuelan Ministry of Energy and Petroleum, IMF and Consensus Forecasts

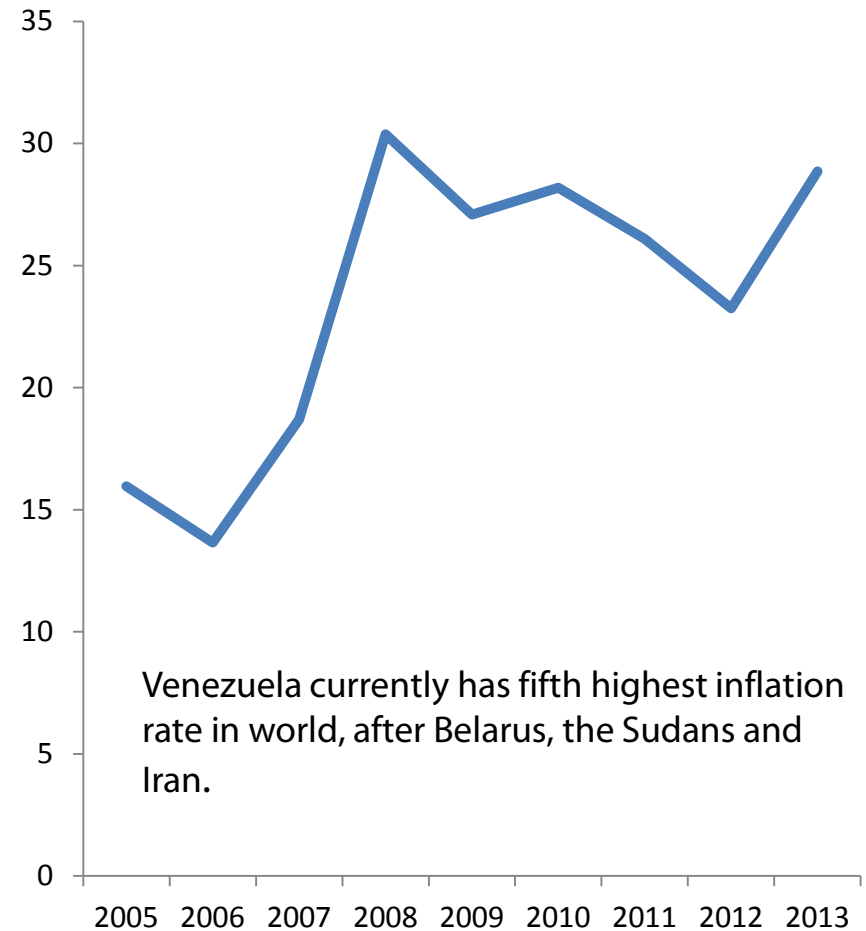
After growing by an average of 10 percent p.a. in 2004-2008, Venezuela grew just under 2 percent in 2009-2012. Despite oil prices of over \$100/barrel, growth will not exceed 3 percent 2013 and 2014.

Turning Point? Venezuela

Fiscal discipline: Government primary balance (% of GDP), 2008-2011

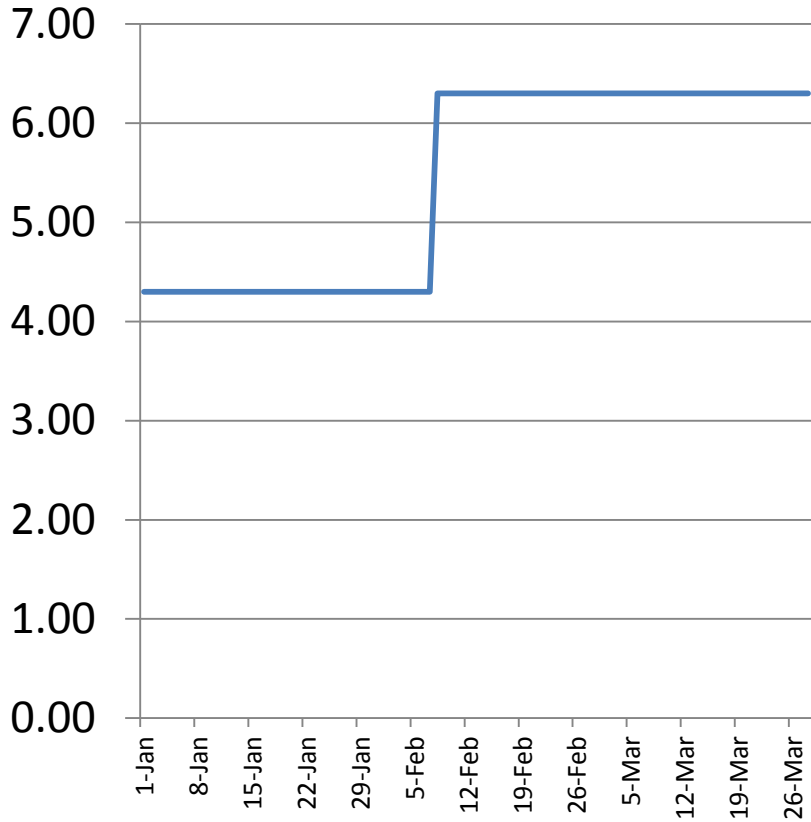


Inflation (% annual CPI)



Turning Point? Venezuela

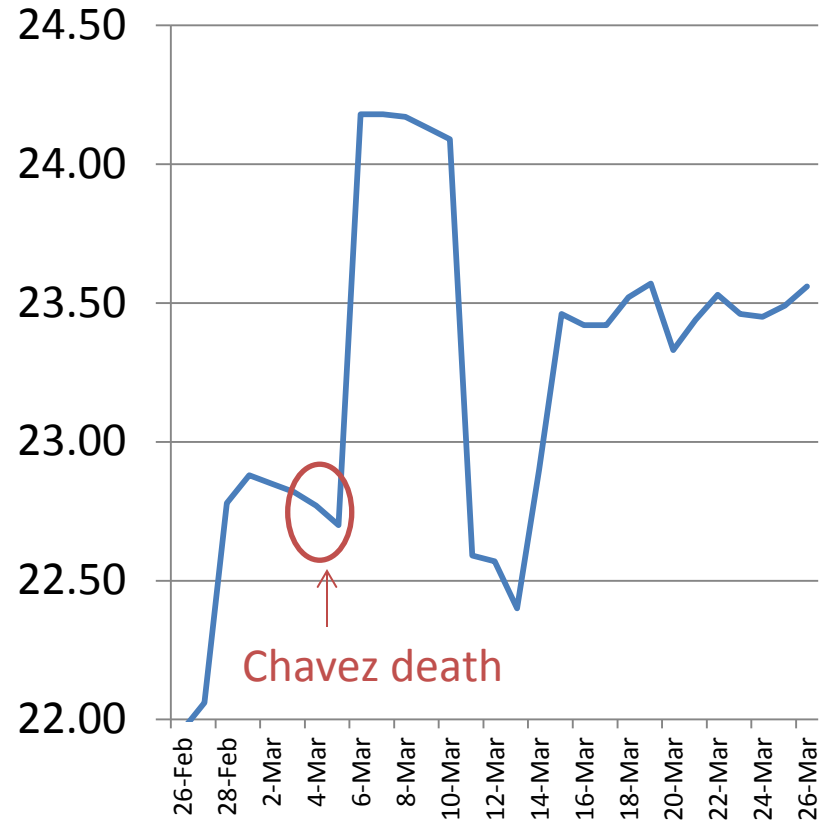
Bolivar



Source: IMF

Government devalued the bolivar on Feb 8 from 4.3 bolivares to the dollar to 6.3 bolivares.

Black market



Source: eldolarparalelo.com

The new rate is still below the black market rate.

The Future of Socialist Venezuela

- Will President Maduro be able to continue Chavez's 21st Century Socialism?
 - Social programs: **yes, but with cuts**
 - Foreign policy
 - Aid to Cuba: **No**
 - Petrocaribe: **No**
 - Support to like-minded leaders: **No**
 - Fund regional initiatives: UNASUR, ALBA: **Maybe**
 - Price controls: **Mostly no**

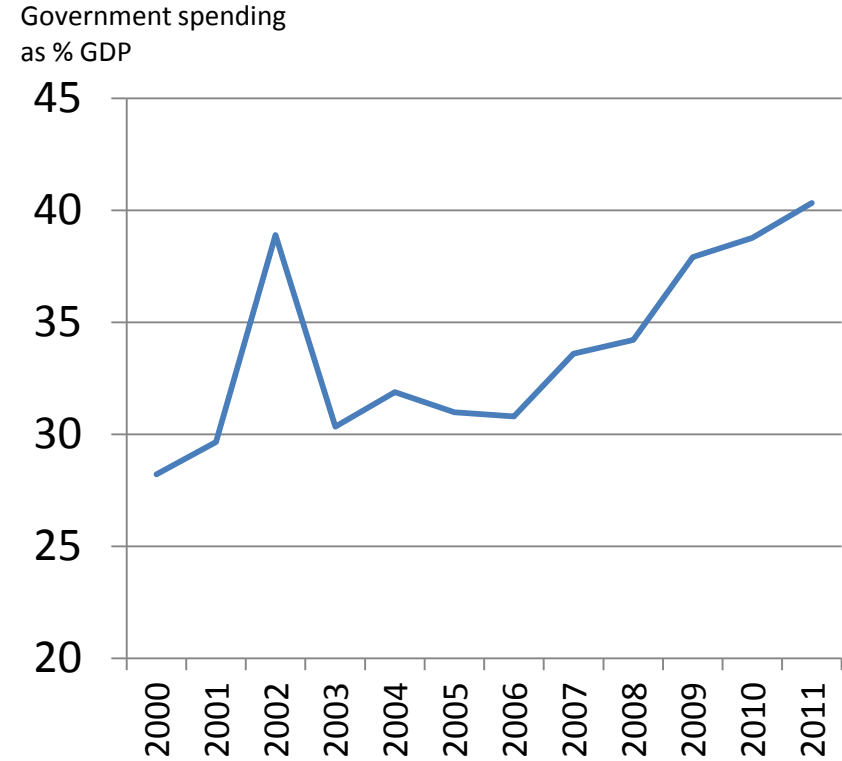
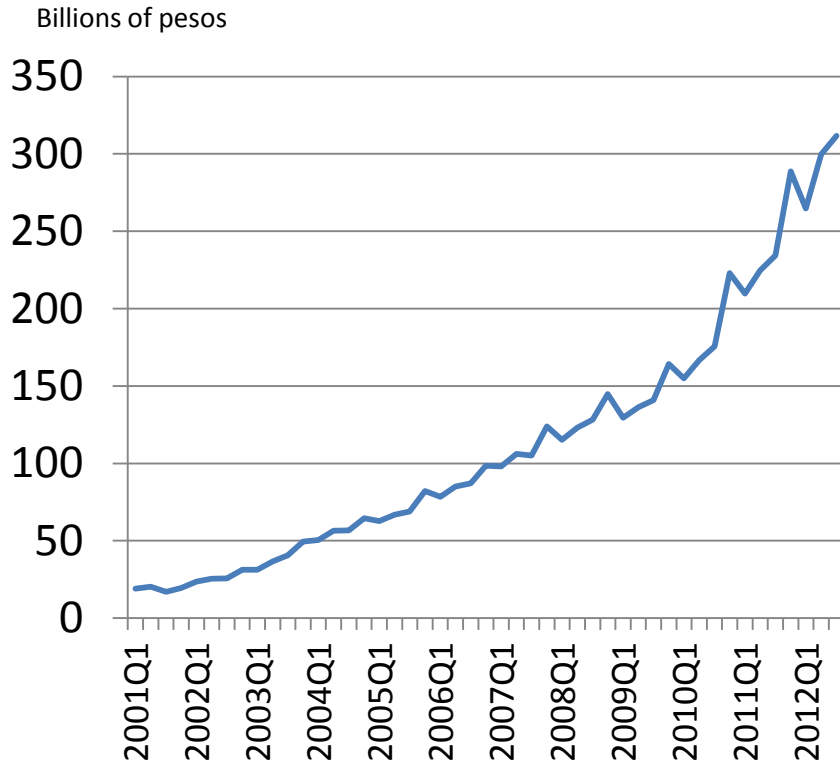
Pressures on Argentina

- Economic Pressures:
 - High inflation (officially still not recognized)
 - Declining foreign currency reserves
 - Significant devaluation
- Political pressures:
 - increasing civil unrest
 - decreasing union support
 - IMF sanctions
 - Bond debt court ruling

Argentina: the good times rolled...unsustainably

From 2003 to 2011, Argentina grew by an average of 7.8 percent per year...

Expansionary monetary and fiscal policy

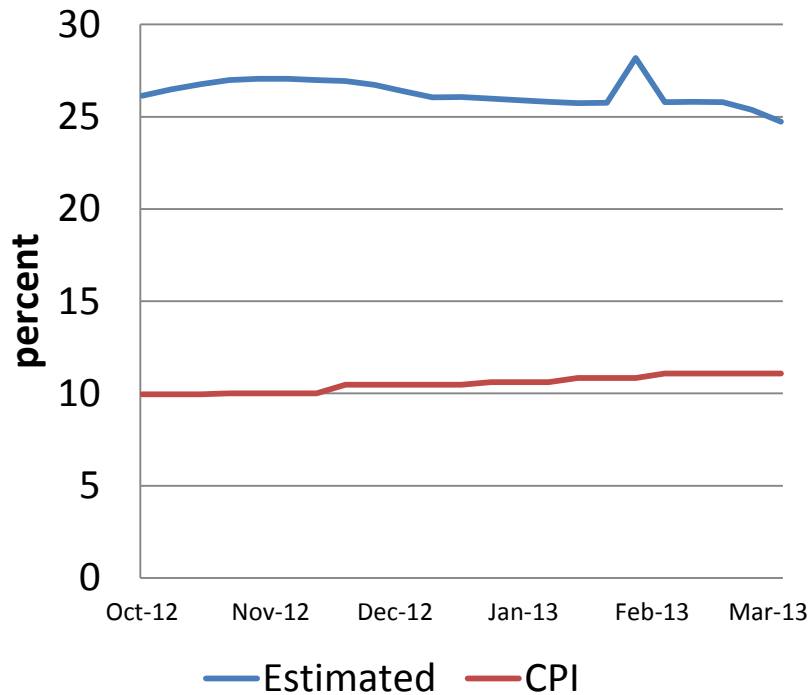


Argentina: pressure points

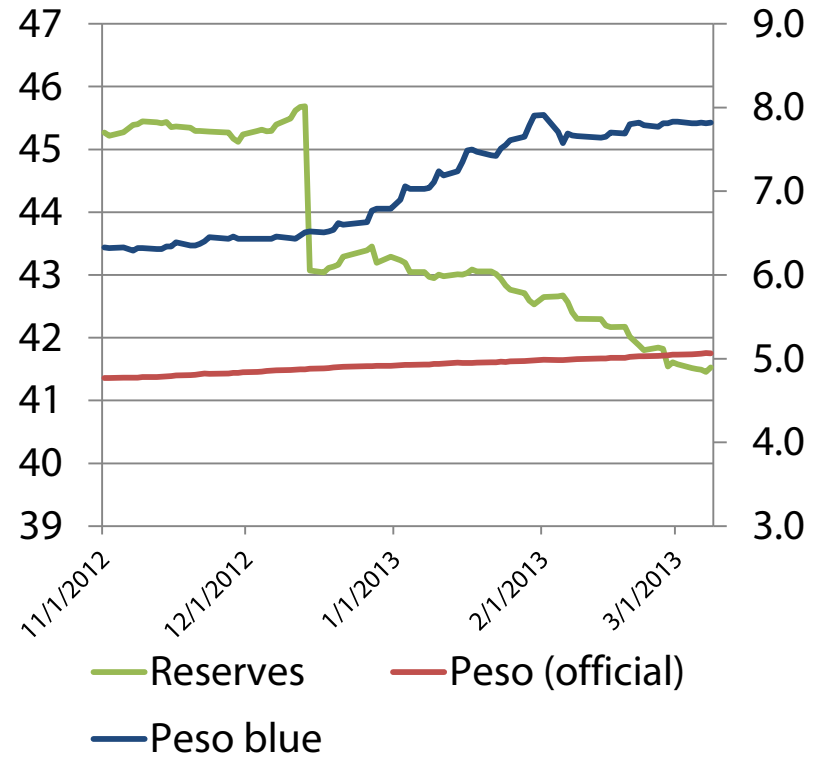
Overvalued exchange rate, rising and understated inflation, and declining reserves

Declining reserves, overvalued exchange rate

Inflation: official vs. unofficial



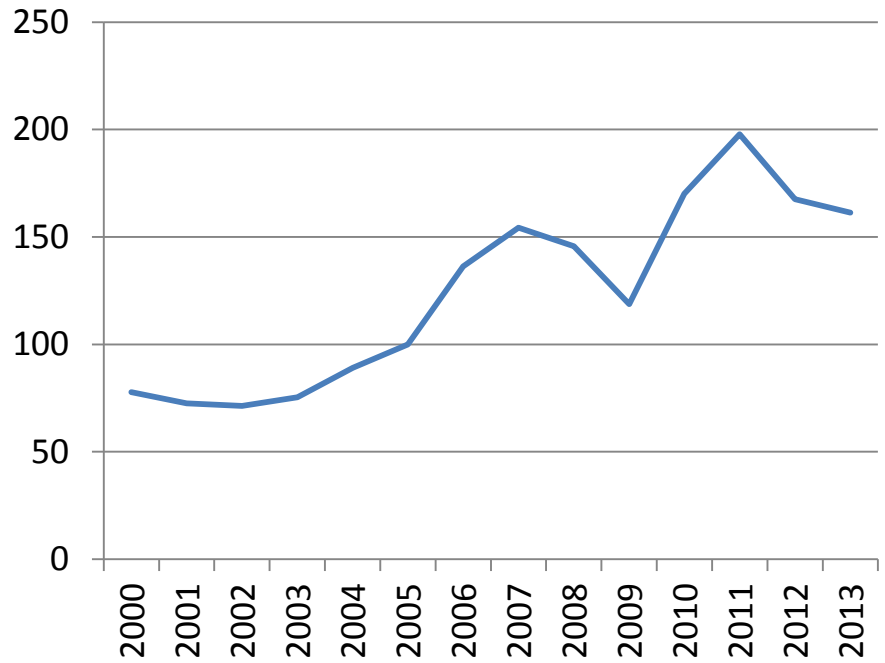
Billions \$US Pesos/\$US



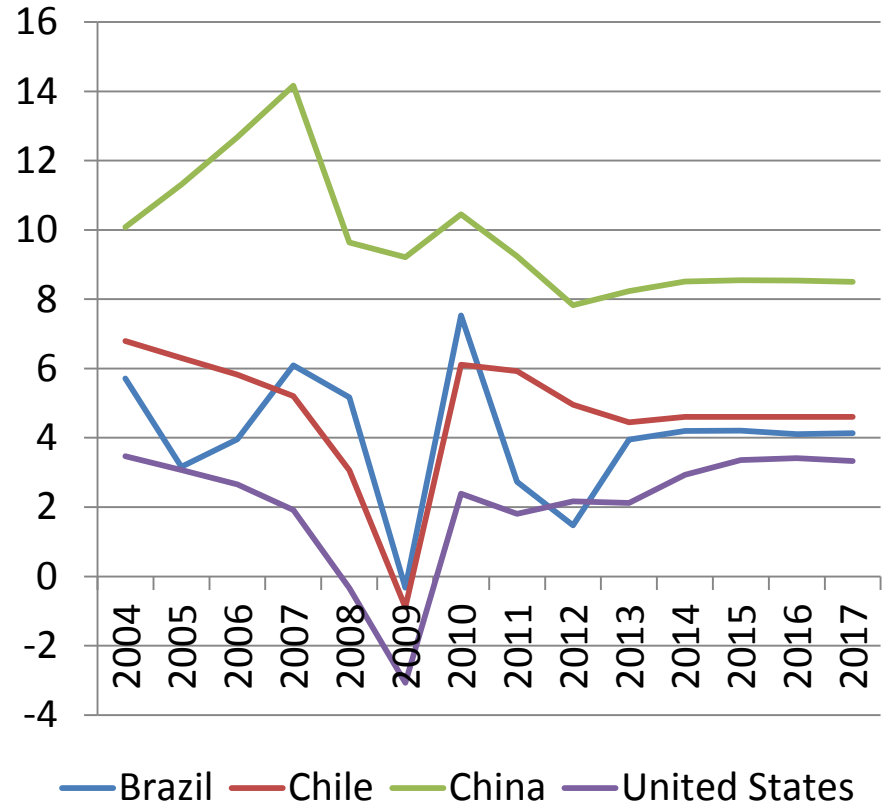
Argentina: external pressures

Commodity prices have been high – but are tapering off

Industrial Inputs (agricultural raw materials and metals): 2005=100



Slower growth in Argentina's main export markets:



Source: IMF WEO

Mexico: turning to growth?

- Mexico's growth has been tepid over past half-decade despite low inflation, low debt and steady interest rates
- Forecasts of 3.5 and 3.9 percent, respectively, in 2013-14
- Recent reforms may boost this growth:
 - Labor reform ✓
 - Education reform ✓
 - Telecommunications reform ✓
 - Energy and fiscal reform?

Cuba: finally, some reforms?

- Most significant reforms in decades
 - Succession plan. 2018: the end of Castro.
 - Loosening controls on people
 - End of travel ban
 - Cell phones allowed
 - Loosening economic role of state
 - Public sector layoffs
 - Private sector openings
- Changes, yes – **but expect continued “relentless gradualism”**

Conclusions

- Growth in Latin America is highly dependent on external factors, including the US and EU economic outlook and, increasingly, China.
- South American growth also influenced by Brazil.
- Will the cases discussed be turning points, or bumps in the road to more of the same?
 - Venezuela: how long can Chavez's legacy last?
 - Argentina: when will reserves run out?
 - Mexico: will the pact last long enough to bring about real economic reform?
 - Cuba: How slow to go?