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

Sources: WEF Global Competitiveness Index and Heritage/Fraser Index of Economic Freedom
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

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 in 2013 and 2014.
Venezuela has not been a paragon of fiscal virtue – and one can expect more spending ahead of the April elections.

Venezuela currently has fifth highest inflation rate in world, after Belarus, the Sudans and Iran.

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

The new rate is still below the black market rate.

Source: IMF
Source: eldolarparalelo.com
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

Billions of pesos

Government spending as % GDP

Source: IMF IFS
Argentina: pressure points

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

Inflation: official vs. unofficial

Source: IMF, inflacionverdadero.com

Declining reserves, overvalued exchange rate

Source: ThomsonReuters Datastream
Argentina: external pressures

Commodity prices have been high – but are tapering off

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

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
  – 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?