

PERSPECTIVAS ECONÓMICAS PARA EL AÑO 2019

Asamblea Annual FELABAN
Noviembre 2018

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Research



WHERE NEXT FOR THE EM SELL-OFF

Multiple Shocks

- Monetary policy normalization in the G-3.
- Trade & currency war with China (RMB deval).
- Geopolitical tensions, including Russia sanctions.
- Country-specific imbalances (Turkey & Argentina).

Vulnerable Outliers

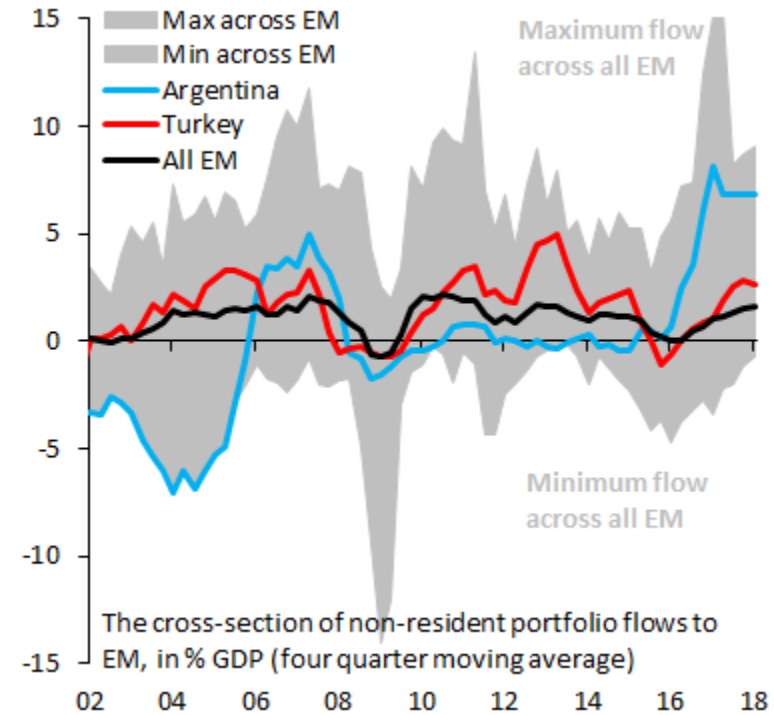
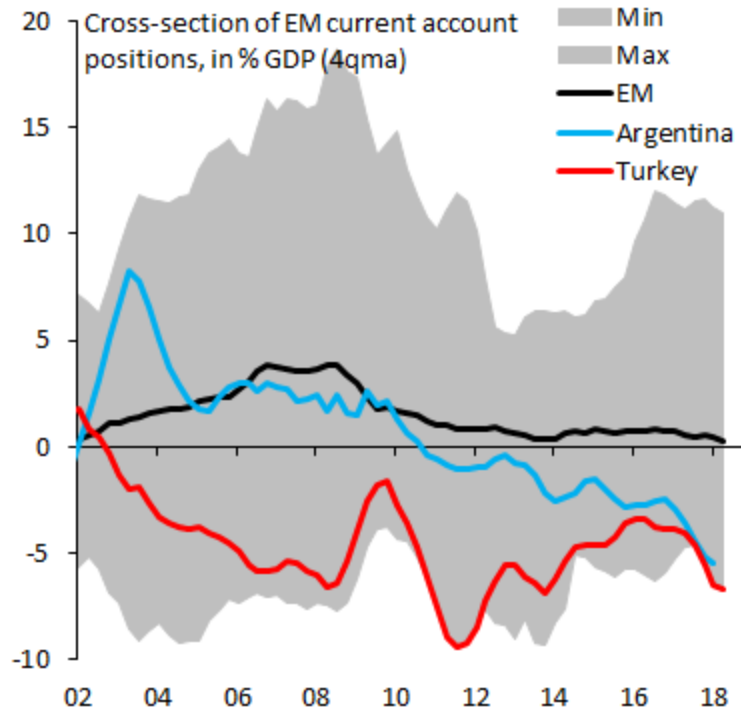
- Large FX overvaluations in Turkey and Argentina, ...
- resulting in almost unprecedented real devaluations.

Contagion Risk

- Record strong inflows to EM in recent years, ...
- with positioning build-ups in certain economies:
- Colombia, Egypt, Indonesia, Lebanon, Peru, South Africa.

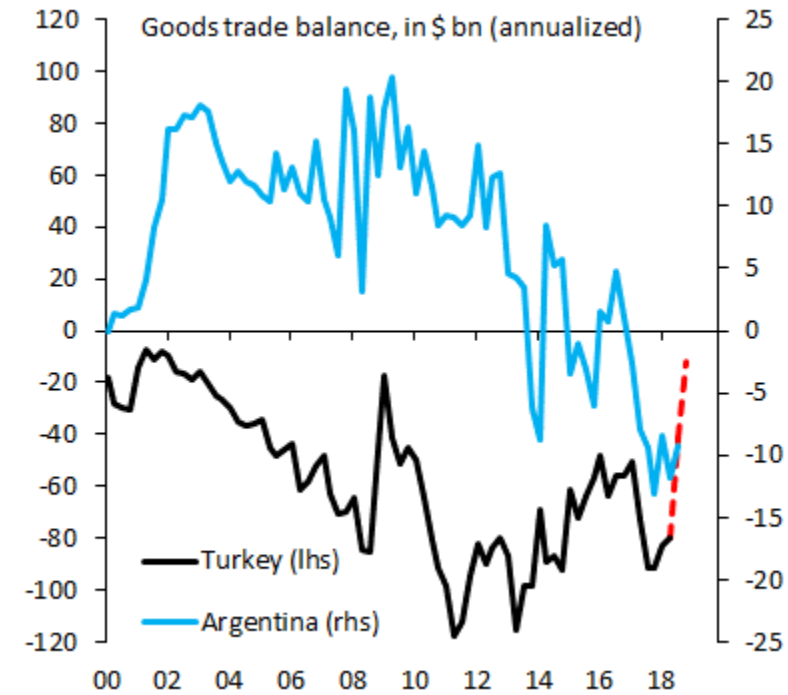
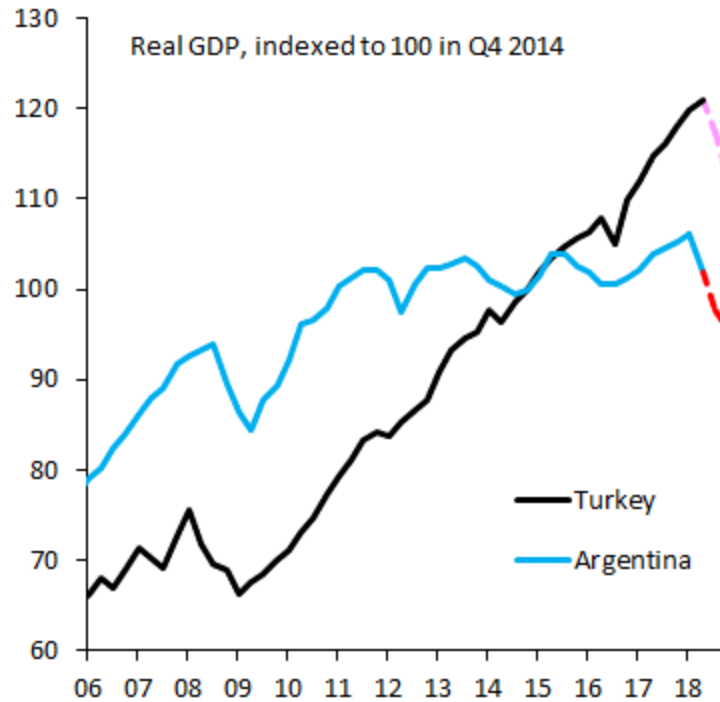
ARGENTINA & TURKEY

Private borrowing in Turkey, public in Argentina, wider c/a deficits in both.



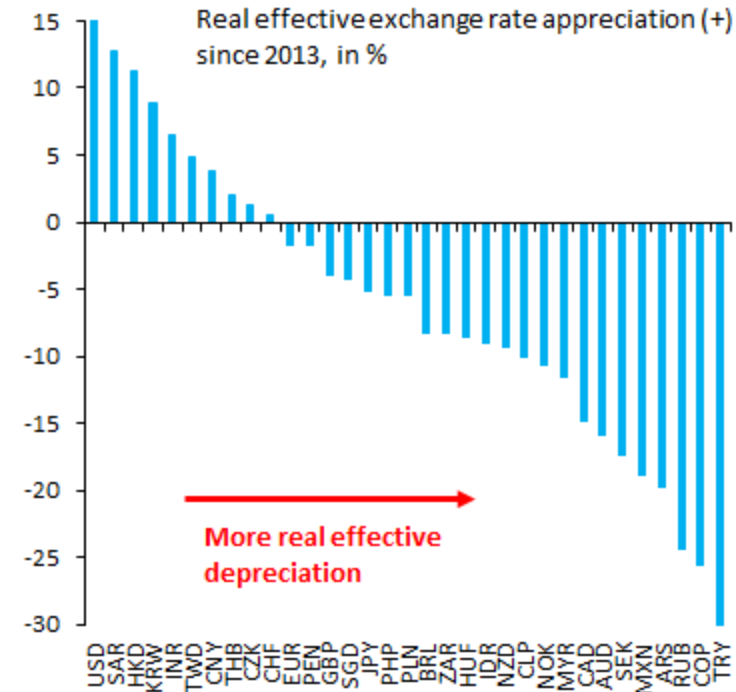
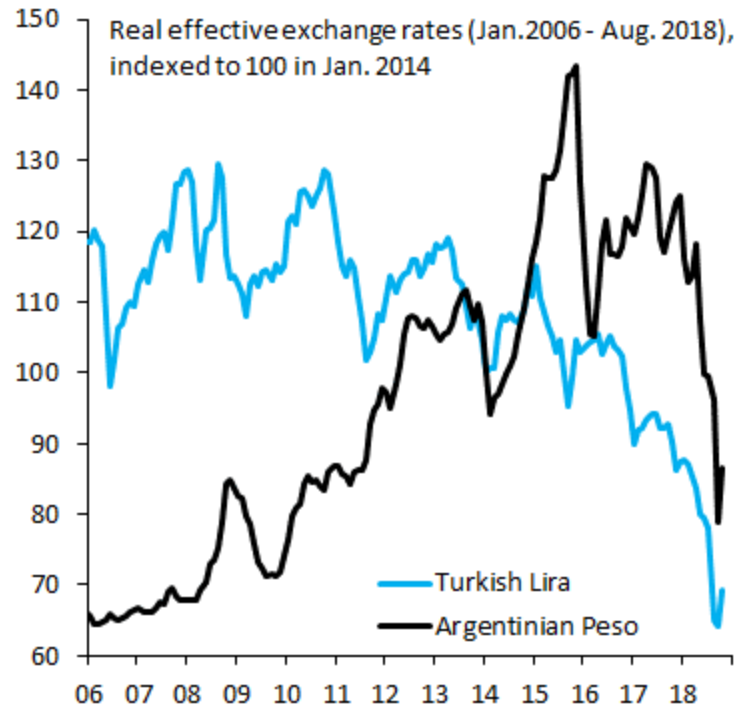
ARGENTINA & TURKEY

Both countries will see GDP fall, Turkey should see sharper contraction.



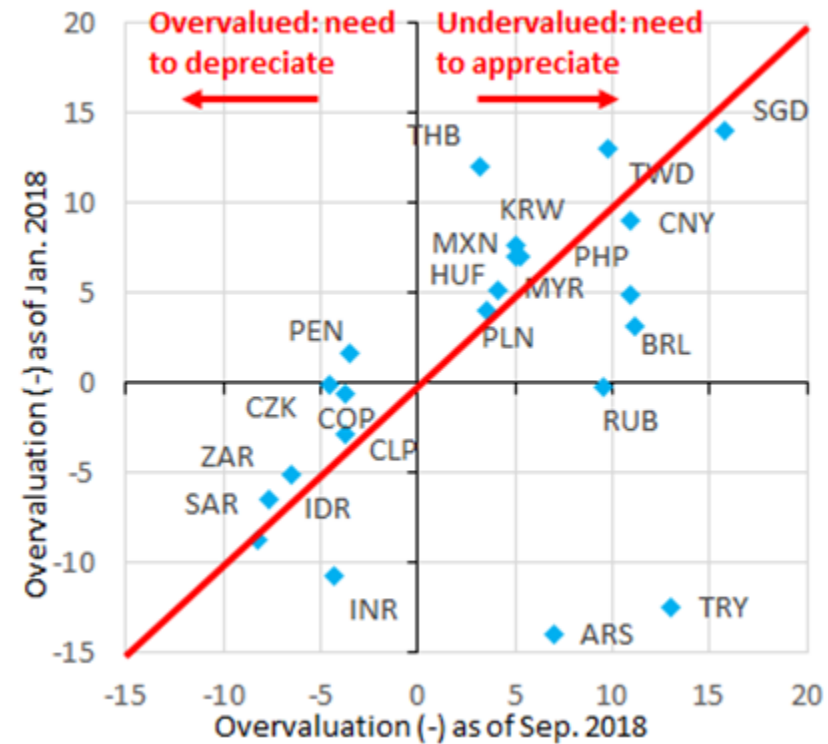
ARGENTINA & TURKEY

Huge real devaluations, but from very different starting points.



ARGENTINA & TURKEY

The Lira is now significantly undervalued, the Peso is getting there.



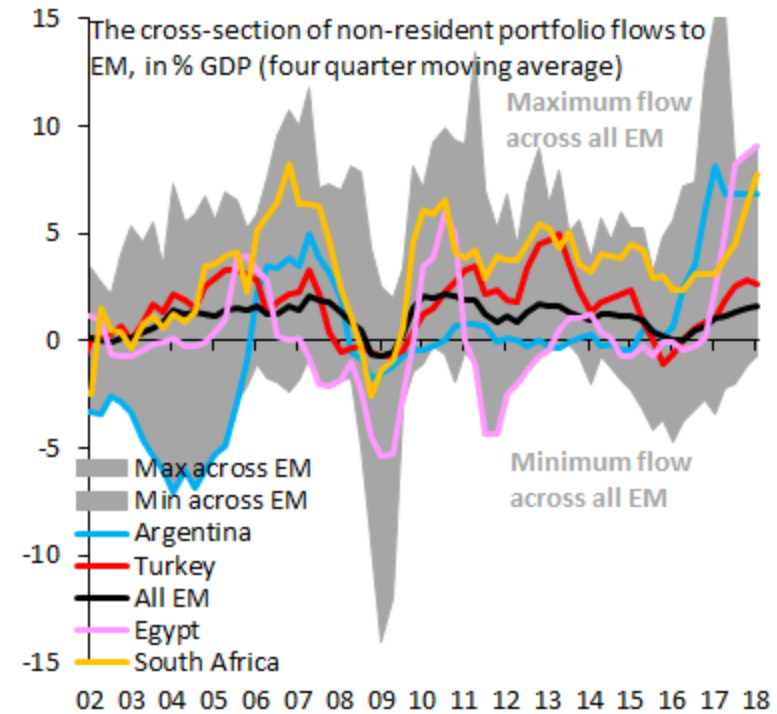
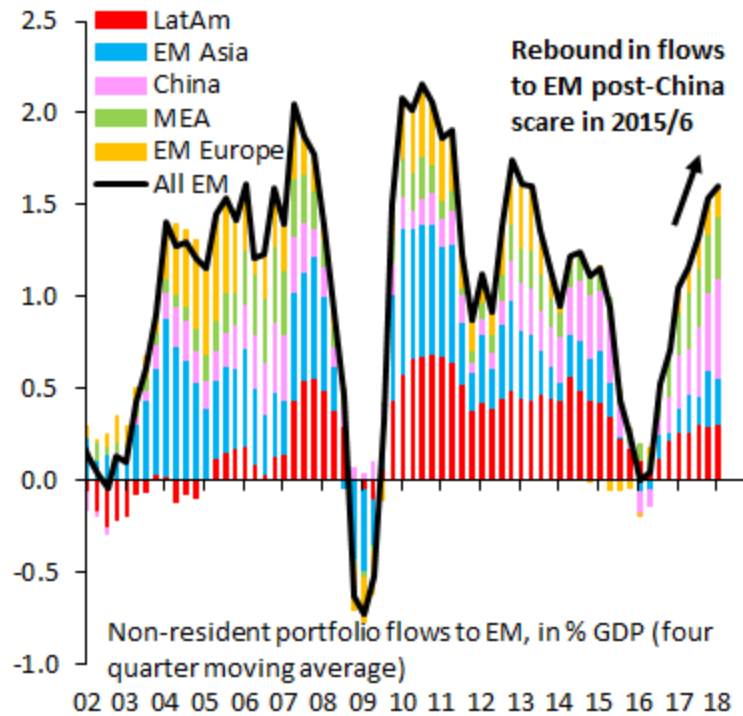
LARGE DEVALUATIONS

Peak to trough contractions of 7-10 percent in Argentina and Turkey.

Change y/y (%)	Real GDP Growth						
	2013	2014	2015	2016	2017	2018f	2019f
Mature Markets	1.3	1.9	2.3	1.6	2.2	2.3	2.1
United States	1.8	2.5	2.9	1.6	2.2	2.9	2.6
Euro Area	-0.2	1.3	2.1	1.8	2.4	2.1	1.9
Japan	2.0	0.3	1.4	1.0	1.7	1.2	1.1
Emerging Markets	4.9	4.4	3.9	4.2	4.7	4.5	4.6
Latin America	2.6	0.8	-0.4	-1.3	1.2	0.6	1.7
Argentina	2.4	-2.5	2.7	-1.8	2.9	-2.4	-1.0
Brazil	3.0	0.5	-3.5	-3.5	1.0	1.1	2.2
Mexico	1.4	2.8	3.3	2.9	2.0	2.0	2.2
EM Europe	3.0	1.9	0.7	1.6	4.0	2.9	1.9
Turkey	8.5	5.2	6.1	3.2	7.4	3.0	-0.9
EM Asia	6.7	6.5	6.4	6.3	6.3	6.3	6.0
China	7.8	7.3	6.9	6.7	6.9	6.6	6.4
India	6.1	7.0	7.6	7.9	6.2	7.6	6.8
Africa/ Middle East	3.1	3.9	2.9	2.9	1.4	1.5	2.2
South Africa	2.5	1.8	1.3	0.6	1.3	0.3	1.2
Saudi Arabia	2.7	3.7	4.1	1.7	-0.9	2.2	2.6
World	2.7	2.9	3.0	2.6	3.2	3.2	3.1
World (PPP weights)	3.4	3.4	3.3	3.1	3.7	3.7	3.7

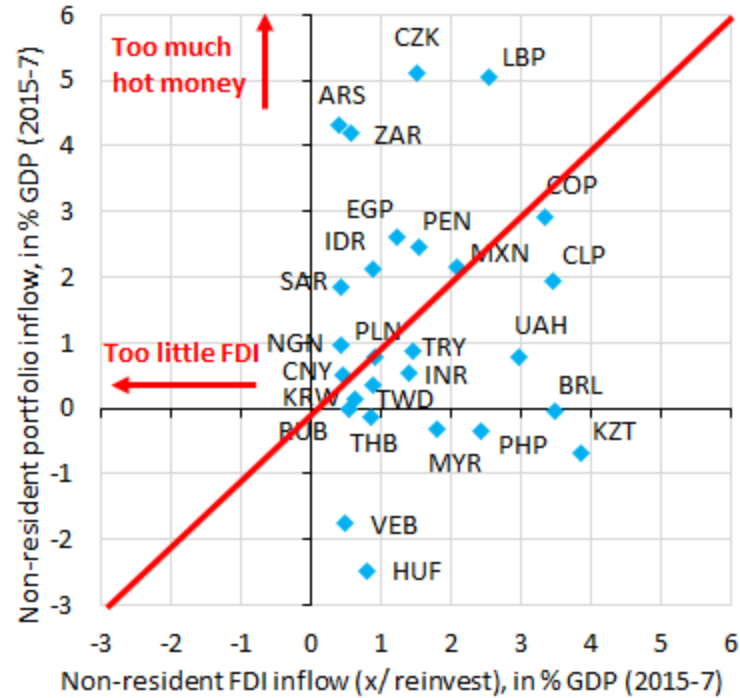
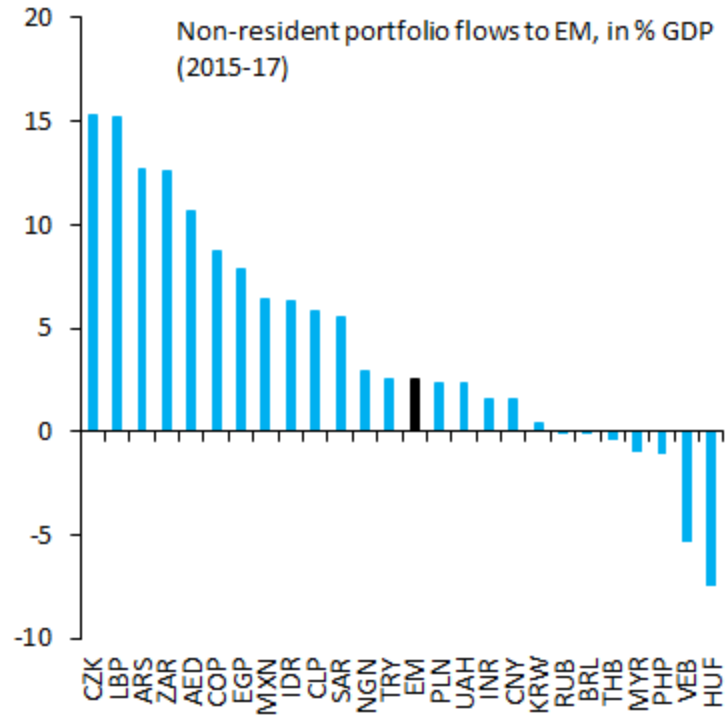
CONTAGION RISK

Recent years have seen portfolio flows to EM close to record strength.



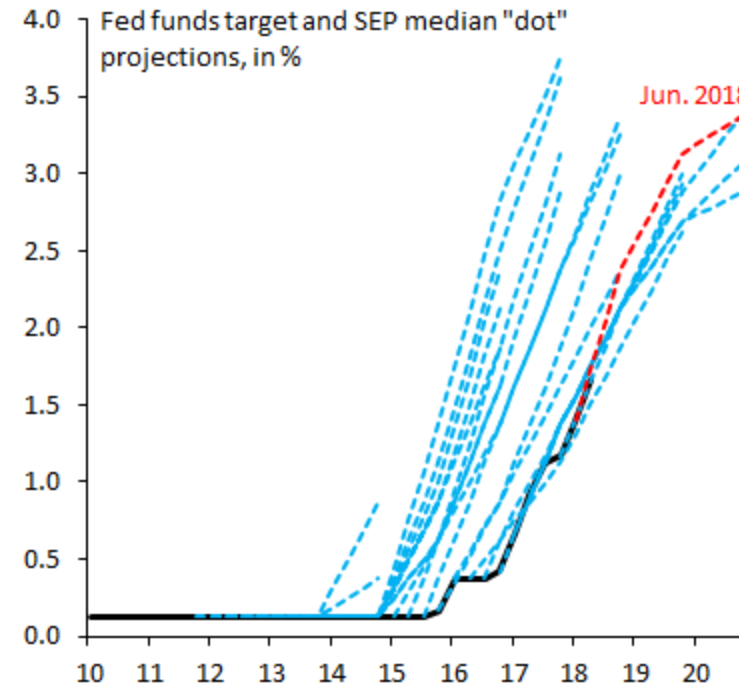
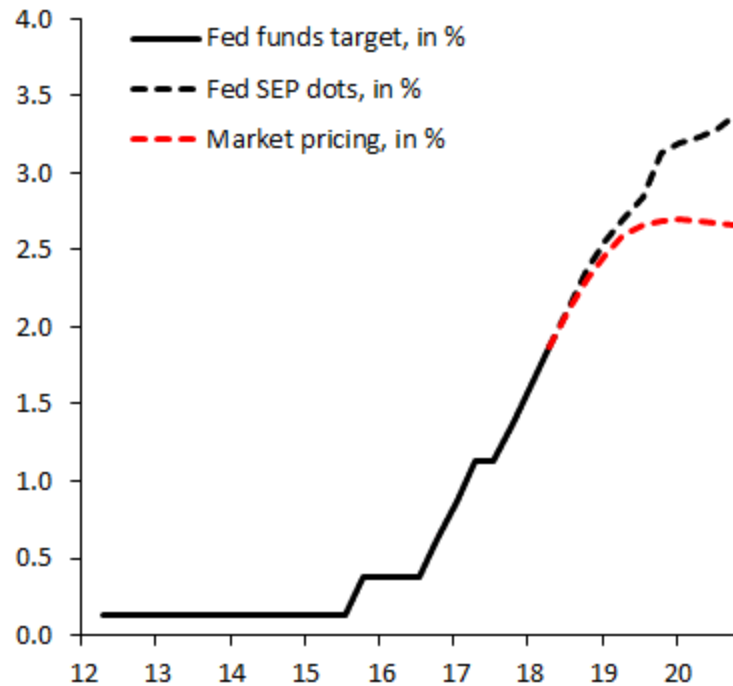
CONTAGION RISK

Positioning build-ups in LBP, ZAR, EGP, IDR, COP, PEN.



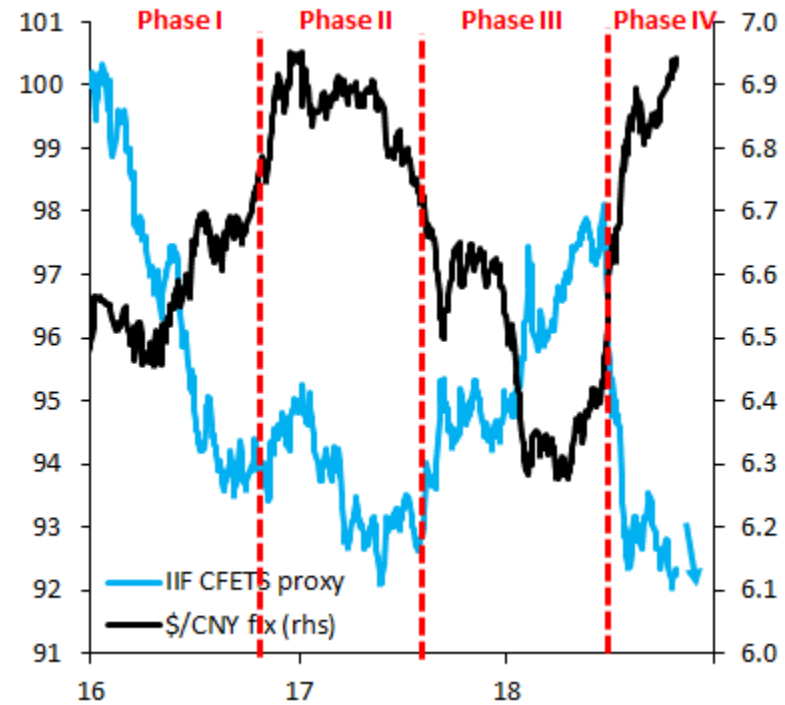
CATALYSTS

The Fed is unlikely to be a bearish EM catalyst any time soon.



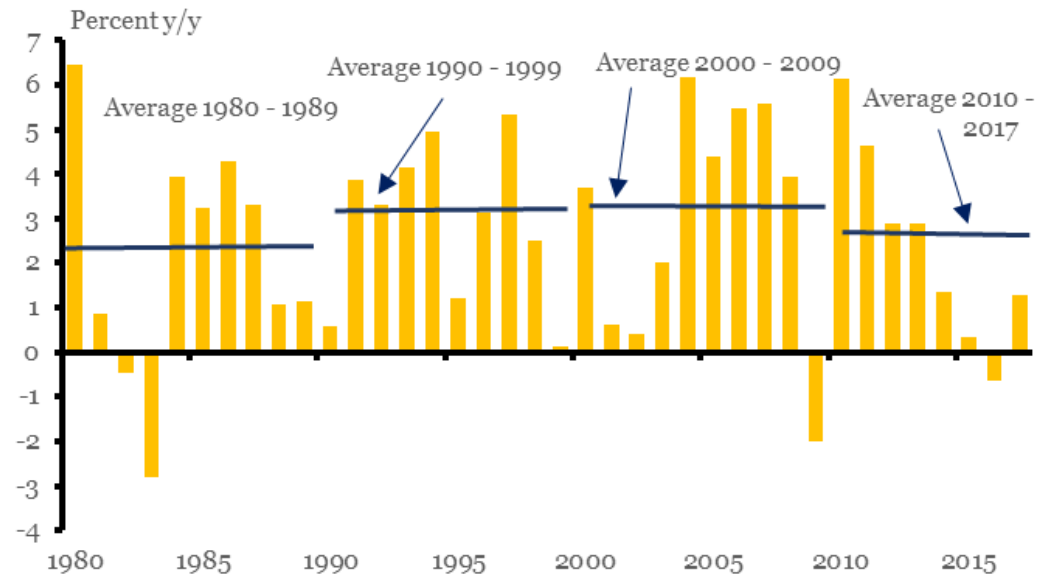
CATALYSTS

Another round of RMB devaluation more likely EM negative catalyst.



WHERE NEXT FOR LATIN AMERICA

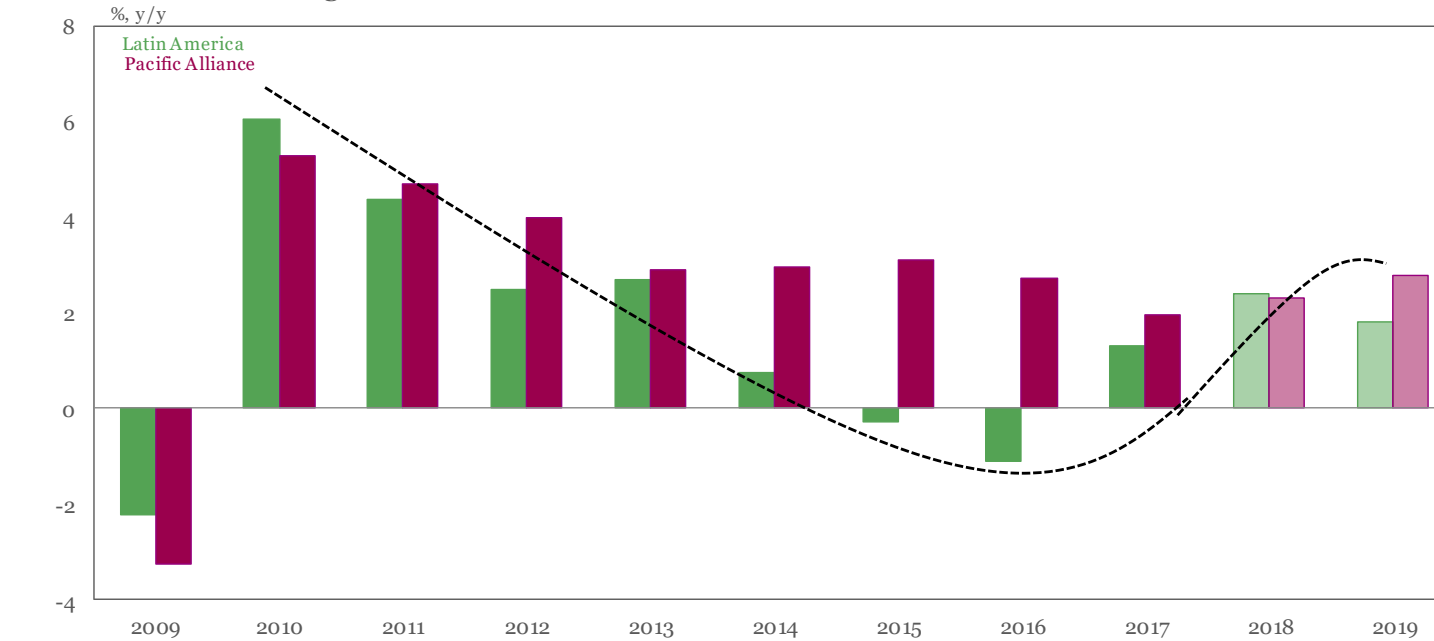
The region is leaving a long and painful recession behind.



ECONOMIC GROWTH

Growth is set to remain moderate.

Latin America: Real GDP growth



Source: IIF

ECONOMIC GROWTH

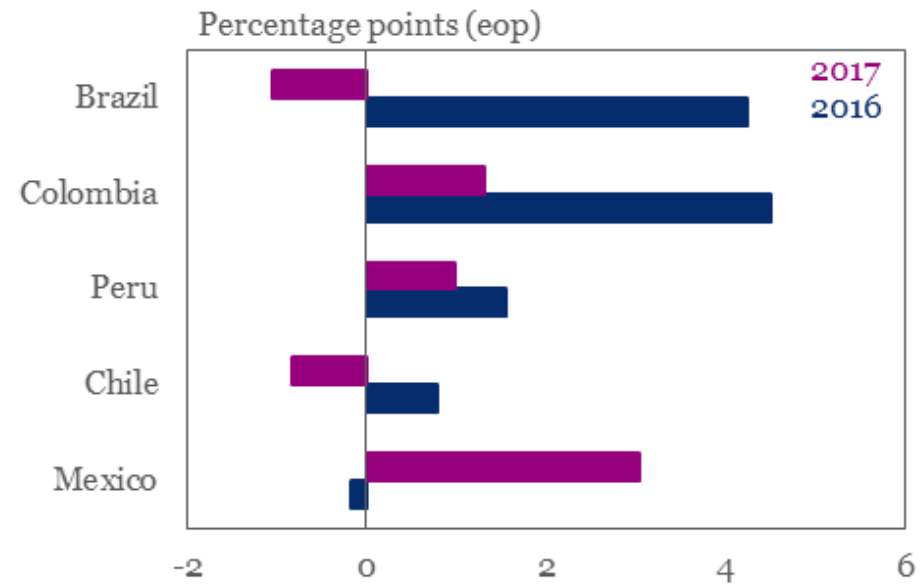
Reflecting divergences across countries

	LATAM					Pacific Alliance				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Real GDP Growth (% y/y)	-0.1	-0.5	1.7	1.2	2.0	3.1	2.7	2.0	2.6	2.8
Inflation (% oya, eop)	9.5	9.8	7.1	8.9	6.1	3.0	3.3	5.0	3.6	3.1
Public Sector (% of GDP)	-6.8	-5.7	-4.9	-5.0	-4.5	-3.1	-2.5	-1.8	-2.4	-2.3
Current Account (% of GDP)	-3.3	-2.0	-1.7	-2.0	-1.9	-3.4	-2.5	-1.9	-2.0	-1.9

Source: IIF.

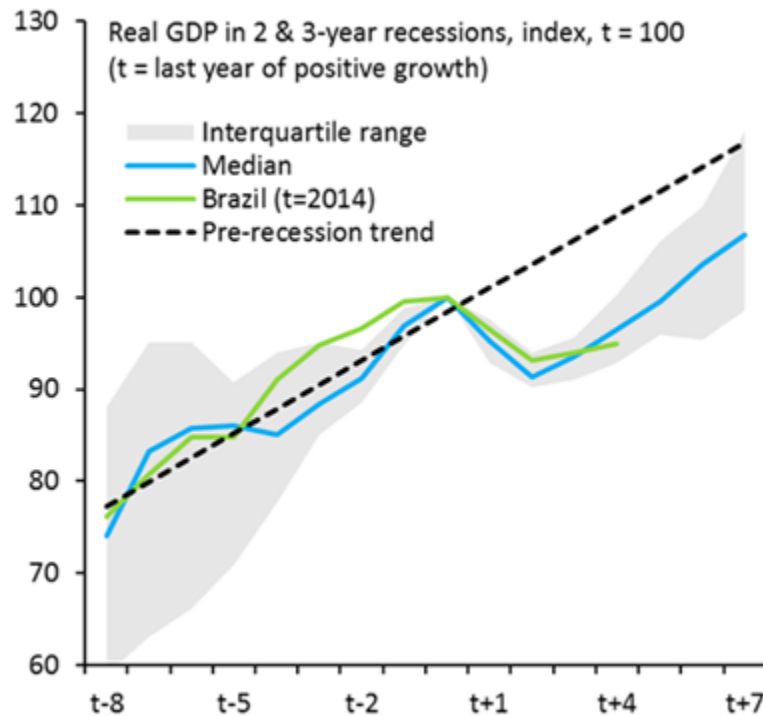
POLICY OUTLOOK

Monetary policy takes the lead



BRAZIL

A sizable fiscal deficit is the main macro weakness

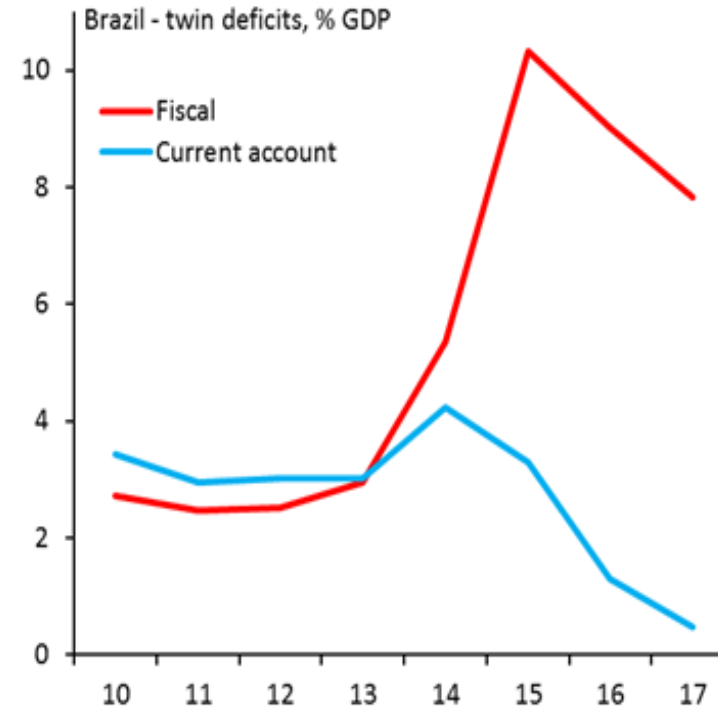
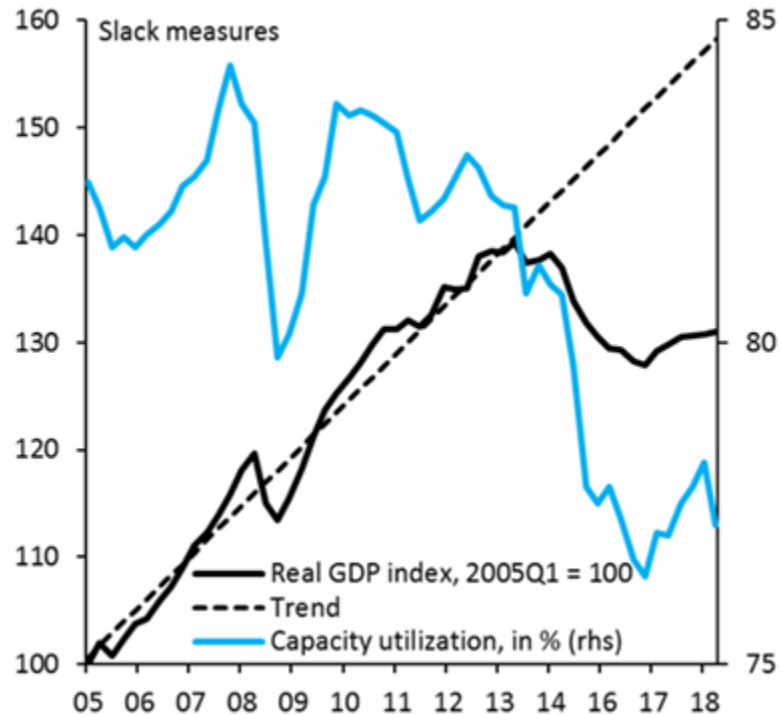


	2016	2017	2018	2019
Real GDP Growth (% y/y)	-3.5	1.0	1.0	2.1
Inflation (% oya)	6.3	2.9	4.2	4.3
Public Sector Balance (% of GDP)	-9.0	-7.8	-7.5	-7.0
Current Account Balance (% of GDP)	-1.3	-0.5	-0.9	-1.5

Source: IIF.

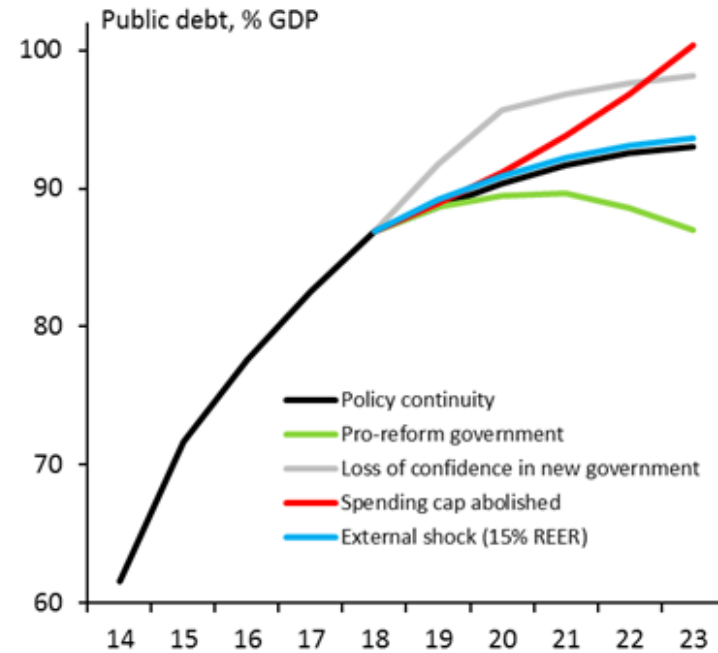
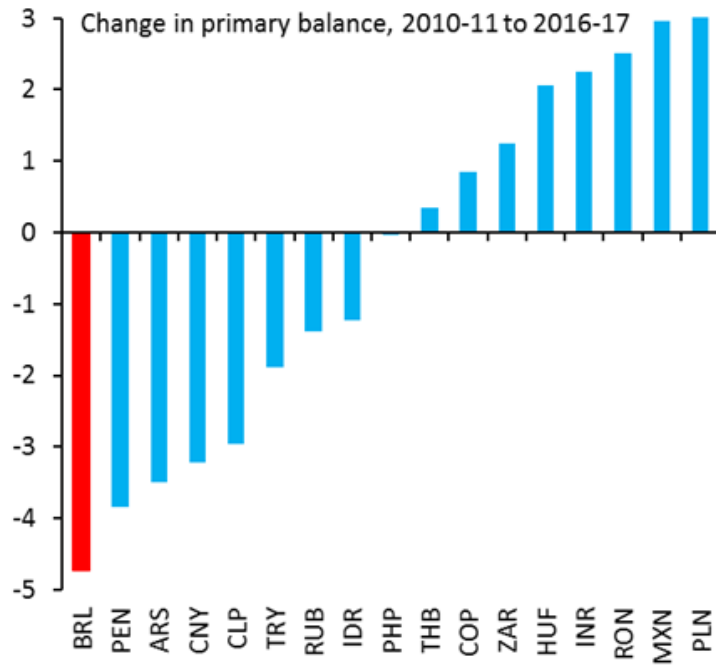
BRAZIL

However, external buffers are robust.



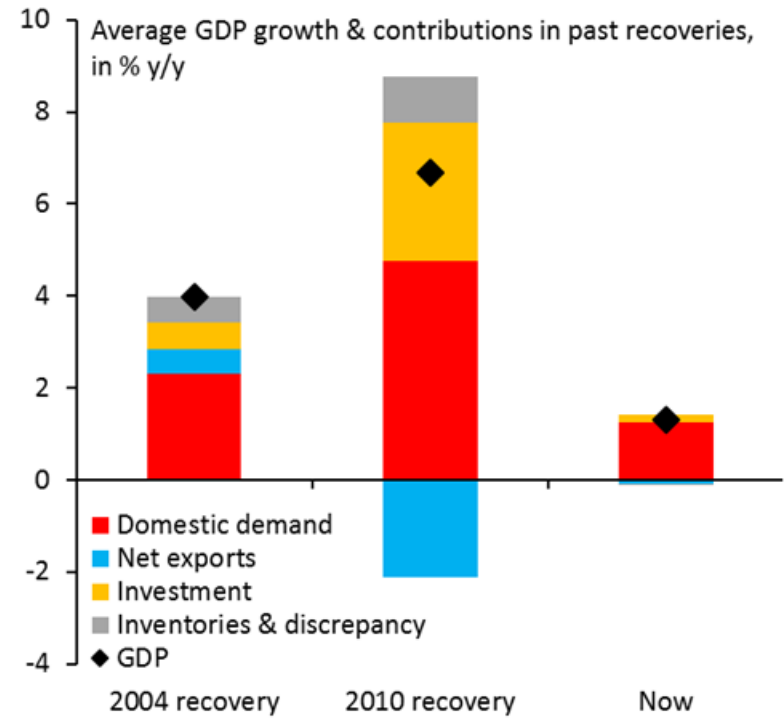
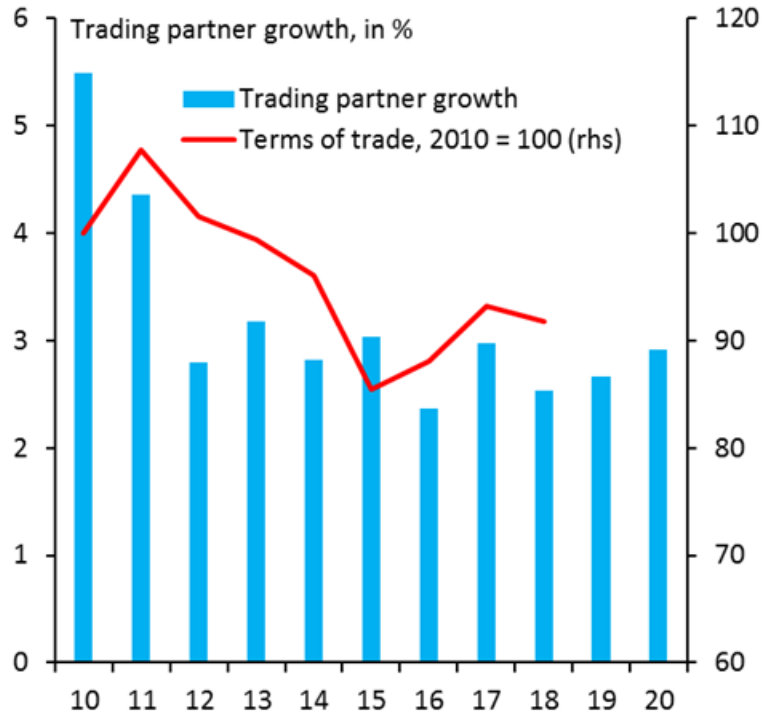
BRAZIL

A faster recovery will require the implementation of reforms.



BRAZIL

A sizable fiscal deficit is the main macro weakness



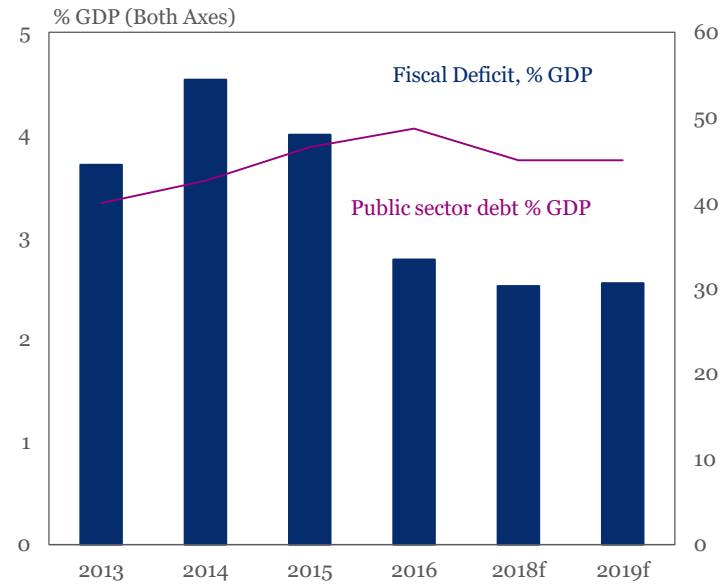
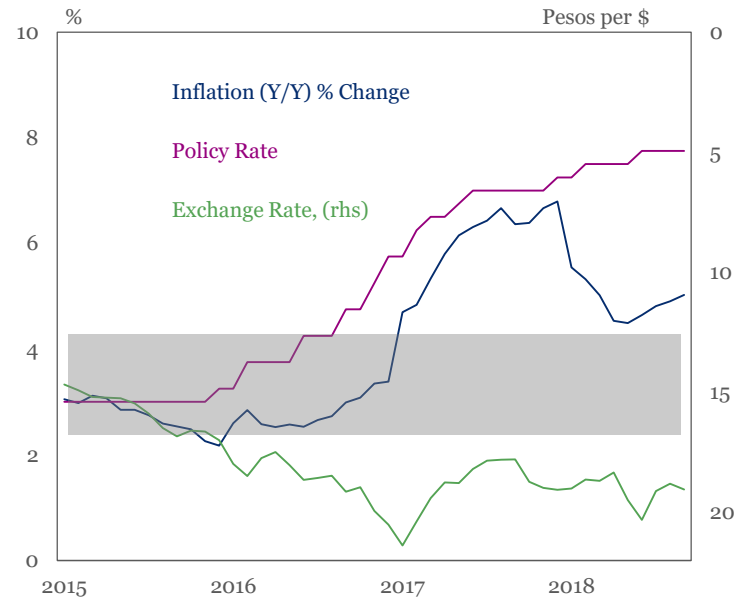
MEXICO

Subdued growth; high inflation

	2016	2017	2018	2019
Real GDP Growth (% y/y)	2.9	2.0	2.0	2.2
Inflation (% oya)	3.4	6.8	4.5	3.8
Public Sector Balance (% of GDP)*	-2.5	-1.1	-2.5	-2.4
Current Account Balance (% of GDP)	-2.2	-1.7	-2.0	-1.8

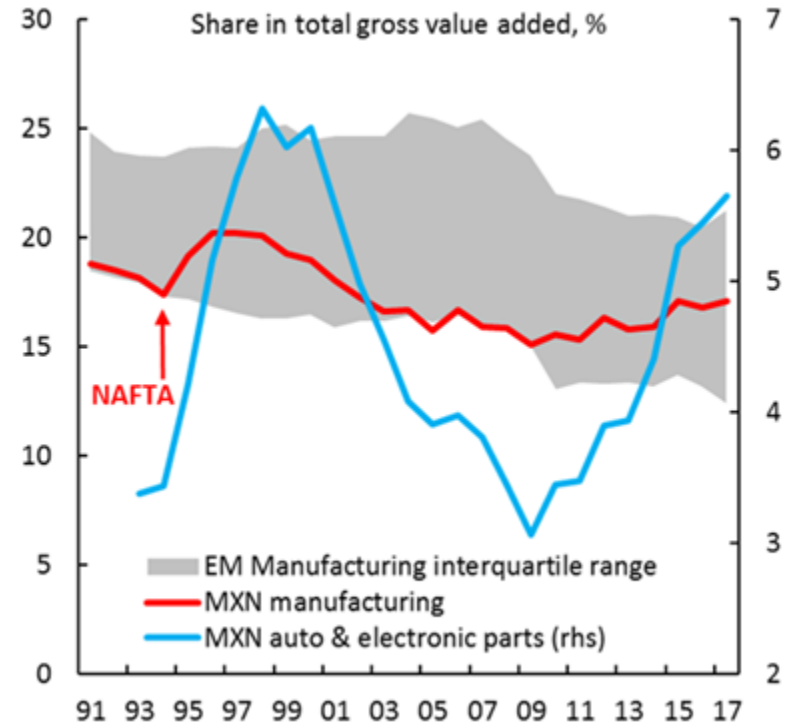
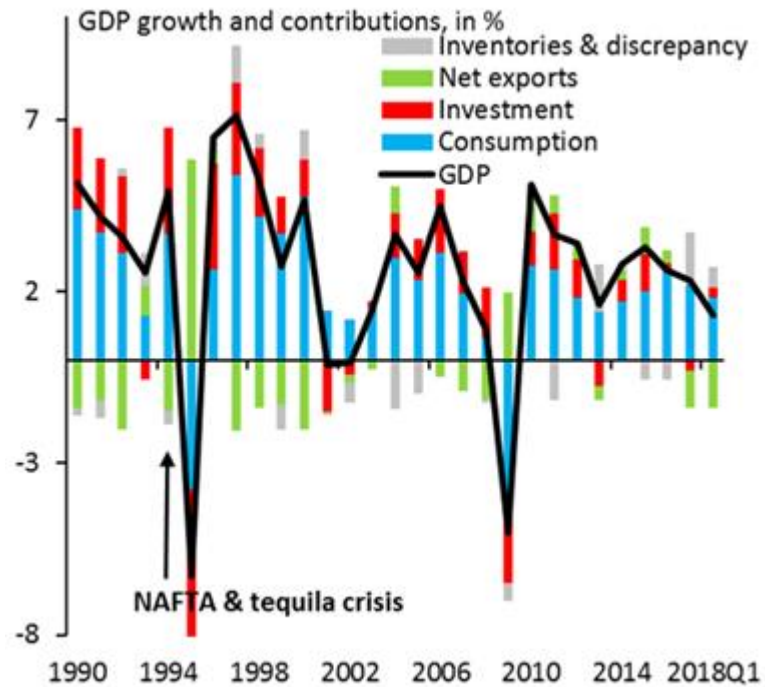
MEXICO

Subdued growth; high inflation

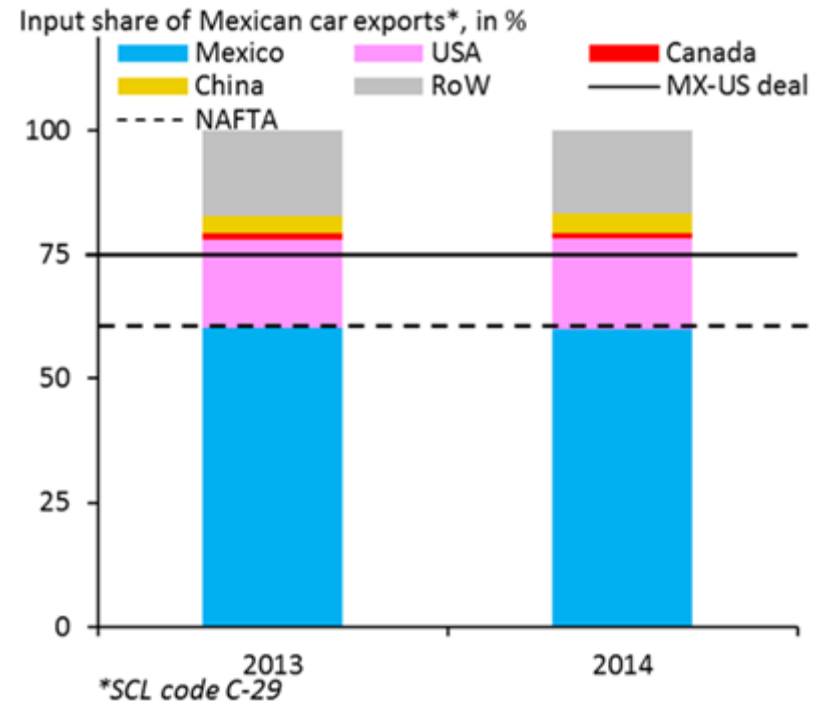
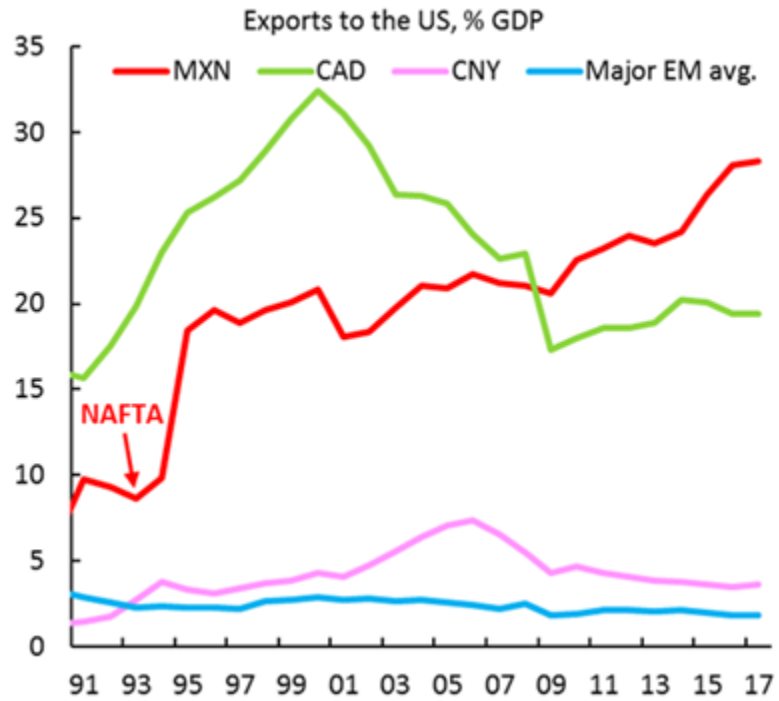


MEXICO

Impact of NAFTA has been significant...

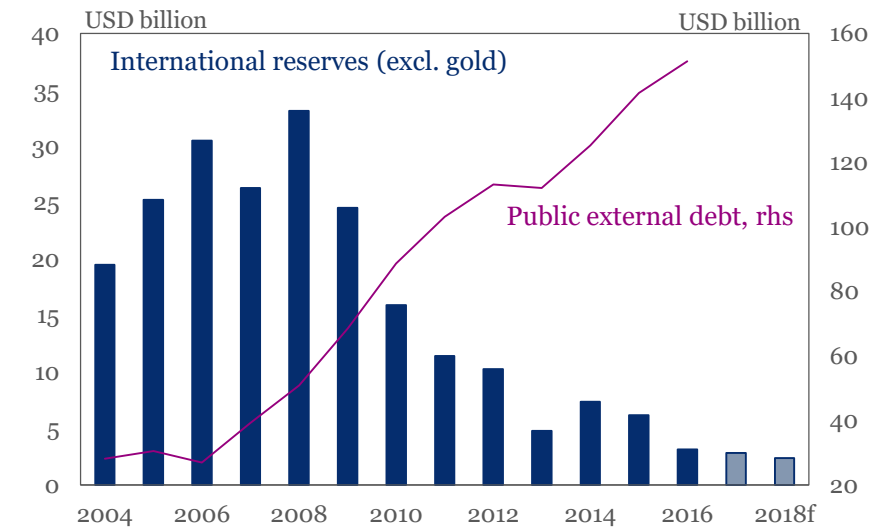


MEXICO



VENEZUELA

Collapse in oil production intensifies the crisis.



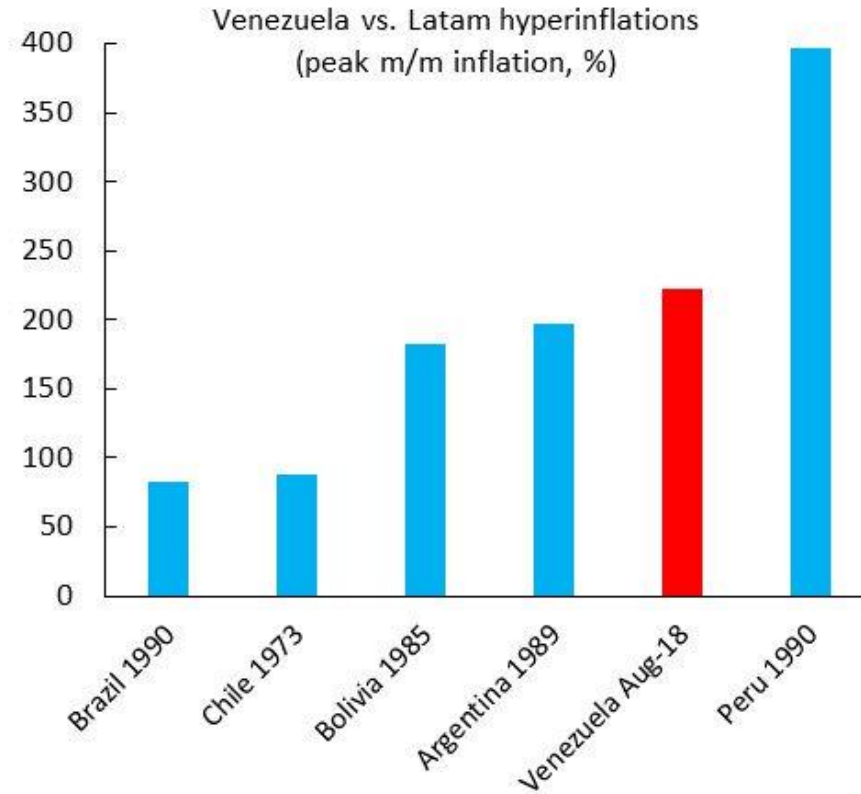
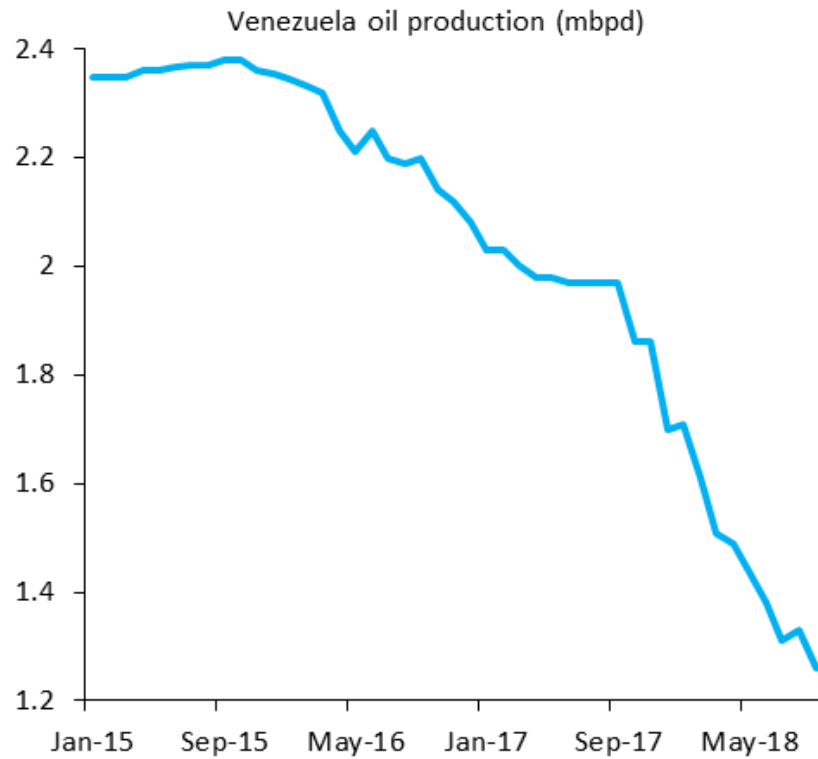
Source: Haver, IIF

	2016	2017	2018	2019
Real GDP Growth (% y/y)	-16.5	-15.5	-20	-10
Inflation (% oya)	530	2478.3	1277556	18706391
Public Sector Balance (% of GDP)	-20	-17	-28	-25
Current Account Balance (% of GDP)	-3.7	-0.3	3.3	3.8

Source: IIF.

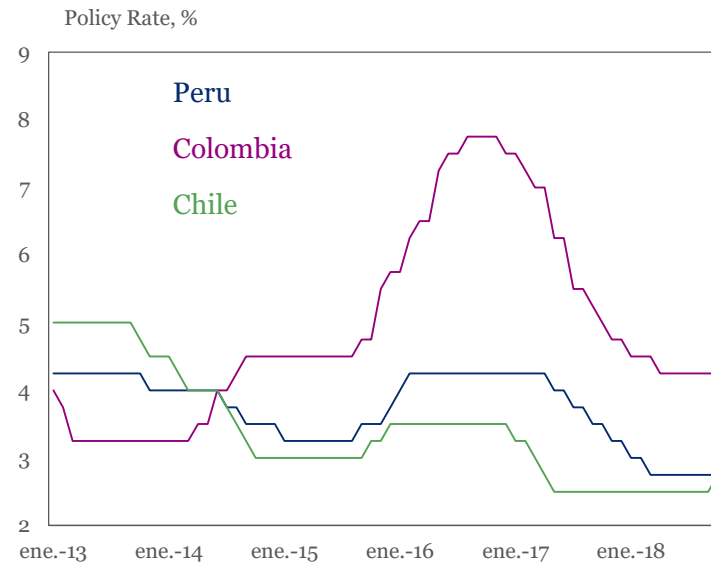
VENEZUELA

Oil production has collapsed.



COLOMBIA, CHILE AND PERU

Subdued growth due to weak confidence.
Politics is the name of the game.



CHALLENGES

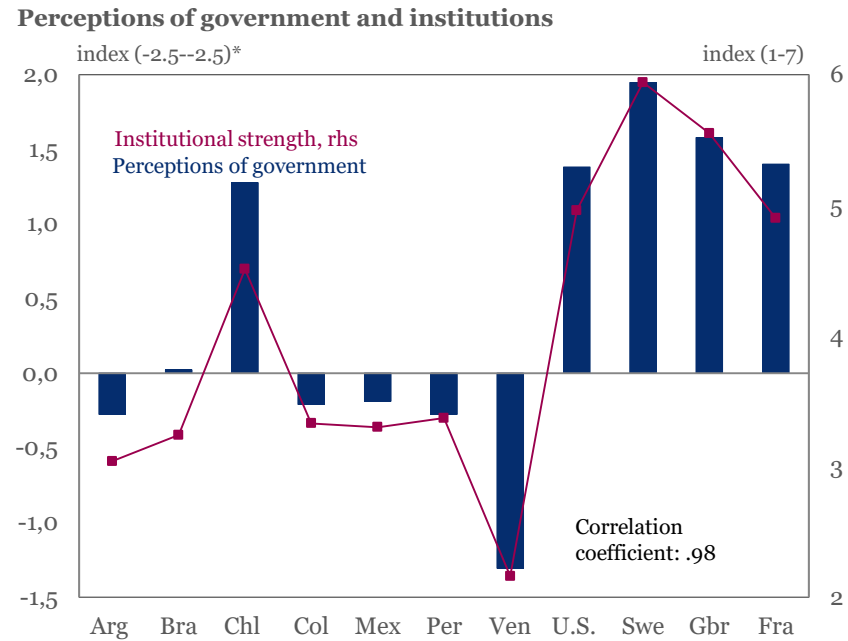
Key challenge: advancing reforms.

Ease of doing business, 2019		
Rank (out of 190 countries)	LatAm average	OECD average
Overall	109	29
Starting a business	134	52
Getting credit	79	63
Paying taxes	148	40
Trading across borders	121	26
Enforcing contracts	98	45
Resolving insolvency	94	26
Construction permits	124	48

Source: World Bank, IIF

CHALLENGES

... against a difficult political backdrop.



Source: World Bank, World Economic Forum, IIF; *above 0 is a positive perception