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*Creating Markets, Creating Opportunities*

# Perspectivas para la Economía Global

GLOBAL MACRO & MARKET RESEARCH

20 de Octubre de 2021

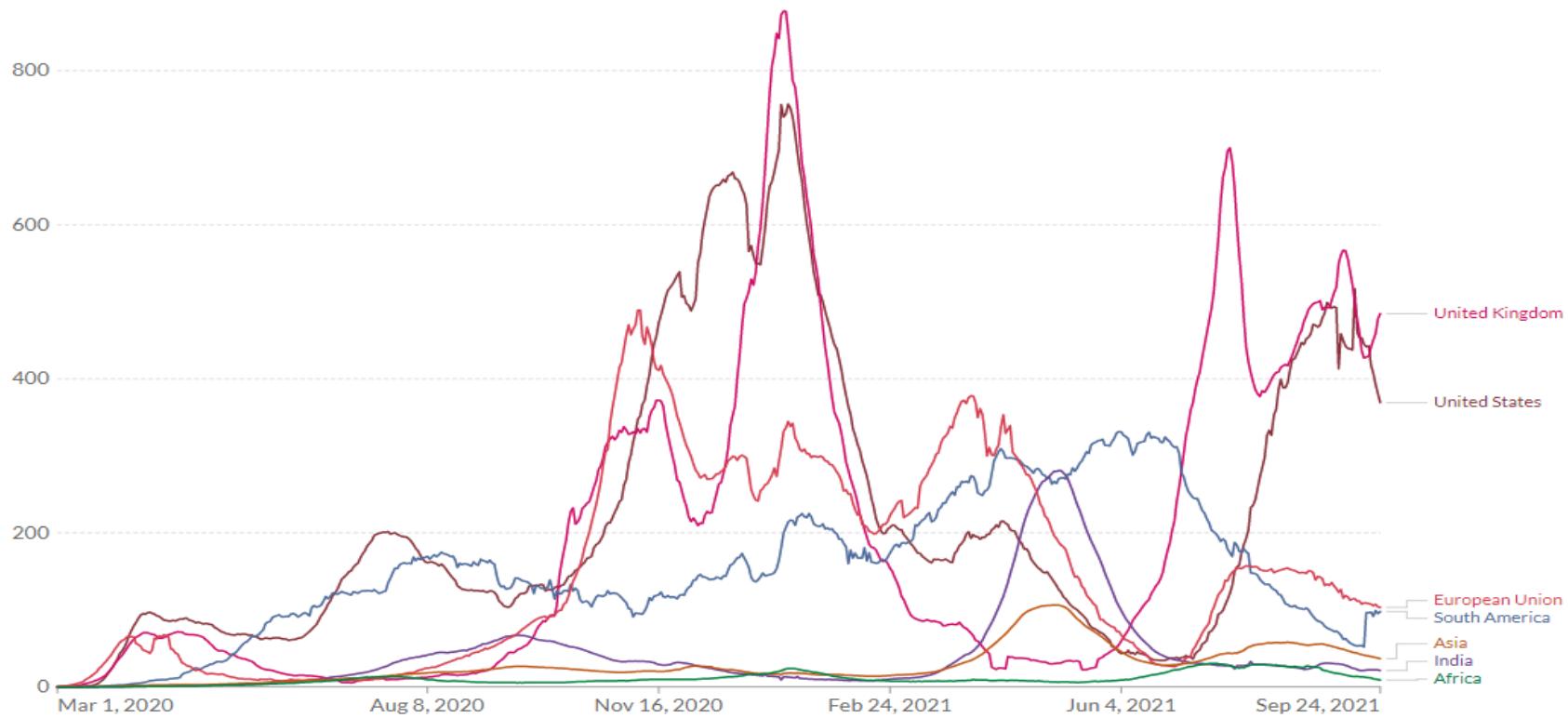


# La variante Delta genera dudas sobre la reactivación económica

- Los casos de COVID parecen haber llegado a una cima en países avanzados y emergentes
- Nuevas olas no deben descartarse durante los meses de invierno del hemisferio norte. Solamente 44% de la población mundial ha recibido al menos una dosis de vacunación.

## Daily New Confirmed COVID-19 Cases per million people

Per million people, cumulative confirmed cases over the previous two weeks, Sept 24<sup>th</sup>



Source: John Hopkins University CSSE COVID-19 data, Our World in Data

# Cuales son los mercados mas vulnerables a la variante Delta?

## Vacunacion, R y presencia de la variante Delta como factores clave

- We consider countries at risk where the delta variant is still spreading. This leads to an increase in the reproduction number until full prevalence of the variant is reached
- However, countries with a higher vaccination rate are less likely to exhibit a stronger increase in the spread of the virus
- Romania, Ukraine, Egypt, Singapore and Chile all have relatively high reproduction rates, indicating a fast spread of the virus, while also reflecting space for the delta variant to further spread
- African countries have a relatively low level of full vaccination, making them more vulnerable to a further spread of any virus variant

**EMs Vulnerable to Delta Variant**

By vaccination status, reproduction number and prevalence of delta variant

Country	% population Fully Vaccinated	Biweekly change of confirmed COVID-19 cases	Current R*	Rank of full vaccination rate and current R
Unit	% of population	In %		50% weight for each above variable
Sri Lanka	54	-51.5%	0.64	4.75
Tunisia	31.51	-67.9%	0.75	7.25
Argentina	41.1	-45.9%	0.71	7.5
Malaysia	60.8	-21.2%	0.8	8.5
Panama	47.7	-16.5%	0.85	10.75
Indonesia	15.6	-55.9%	0.62	11.25
Mexico	31.5	-34.0%	0.91	11.75
South Africa	12.7	-60.5%	0.52	11.75
China	70	36.1%	0.94	12
Chile	72.9	29.3%	1.25	13.75
Lebanon	19	-33.2%	0.76	13.75
Senegal	3.2	-65.5%	0.43	14.25
Turkey	51	19.4%	1.06	14.75
Bangladesh	8.5	-42.5%	0.68	15.25
Colombia	31.2	-10.6%	0.95	15.5
Singapore	76.5	238.3%	1.65	15.5
Pakistan	11	-37.8%	0.78	16.25
Brazil	35.9	49.0%	1.04	16.5
Jordan	30.6	0.7%	1.03	17
Peru	27.7	-6.1%	0.96	17
Kenya	1.5	-48.5%	0.7	17.5
Philippines	15.9	-12.0%	0.94	17.75
India	13.2	-21.0%	0.92	17.75
Russia	27.5	12.3%	1.07	19.25
Vietnam	7.5	-21.6%	0.92	19.75
Nigeria	0.8	-34.6%	0.87	20.75
Romania	27.3	202.8%	1.52	22.5
Ghana	2.3	-29.2%	1.04	22.75
Ukraine	12	116.7%	1.33	25
Egypt	4.1	65.1%	1.15	26.25

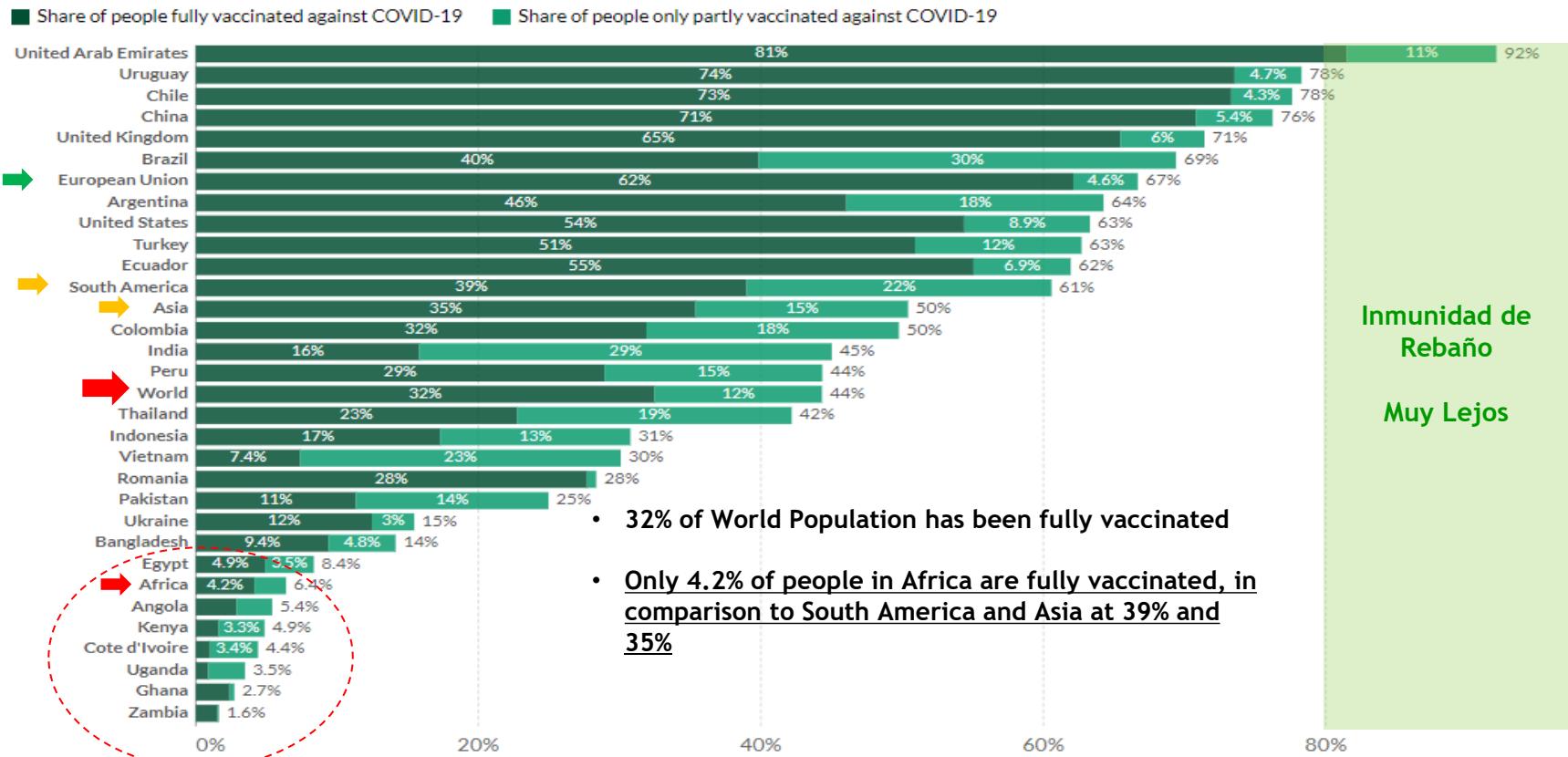
Countries are considered “at risk” if vaccination rates are low (below 20% full vaccination) and the prevalence of delta is below 90%, or reproduction rates are high ( $R>1.1$ ),

Source: GISAID, WHO, ourworldindata, IFC Global Macro & Market Research

# Vacunación: aún lejos de alcanzar la inmunidad de rebaño

- A pesar de los avances, la inmunidad de rebaño es aun distante. Debemos aprender a vivir con el COVID

Share of people vaccinated against COVID-19, Sep 24th, 2021



Source: Official data collated by Our World in Data,

## Desde que comenzó la pandemia

- **Los mercados se han visto estimulados por política fiscal y monetaria expansiva**
  - El estímulo Fiscal permanecerá por un tiempo
  - Los Bancos Centrales están atrapados en un ambiente de tasas bajas – la normalización ha sido difícil.
- **Curvas de rendimiento permanecen por debajo de la inflación**
- **Spreads están en mínimos históricos,**
- **Volatilidad de los mercados en niveles bajos**, dando una sensación errónea de estabilidad a los inversionistas
- **Burbujas en activos con bajos flujos de caja** (arte, crypto, etc)

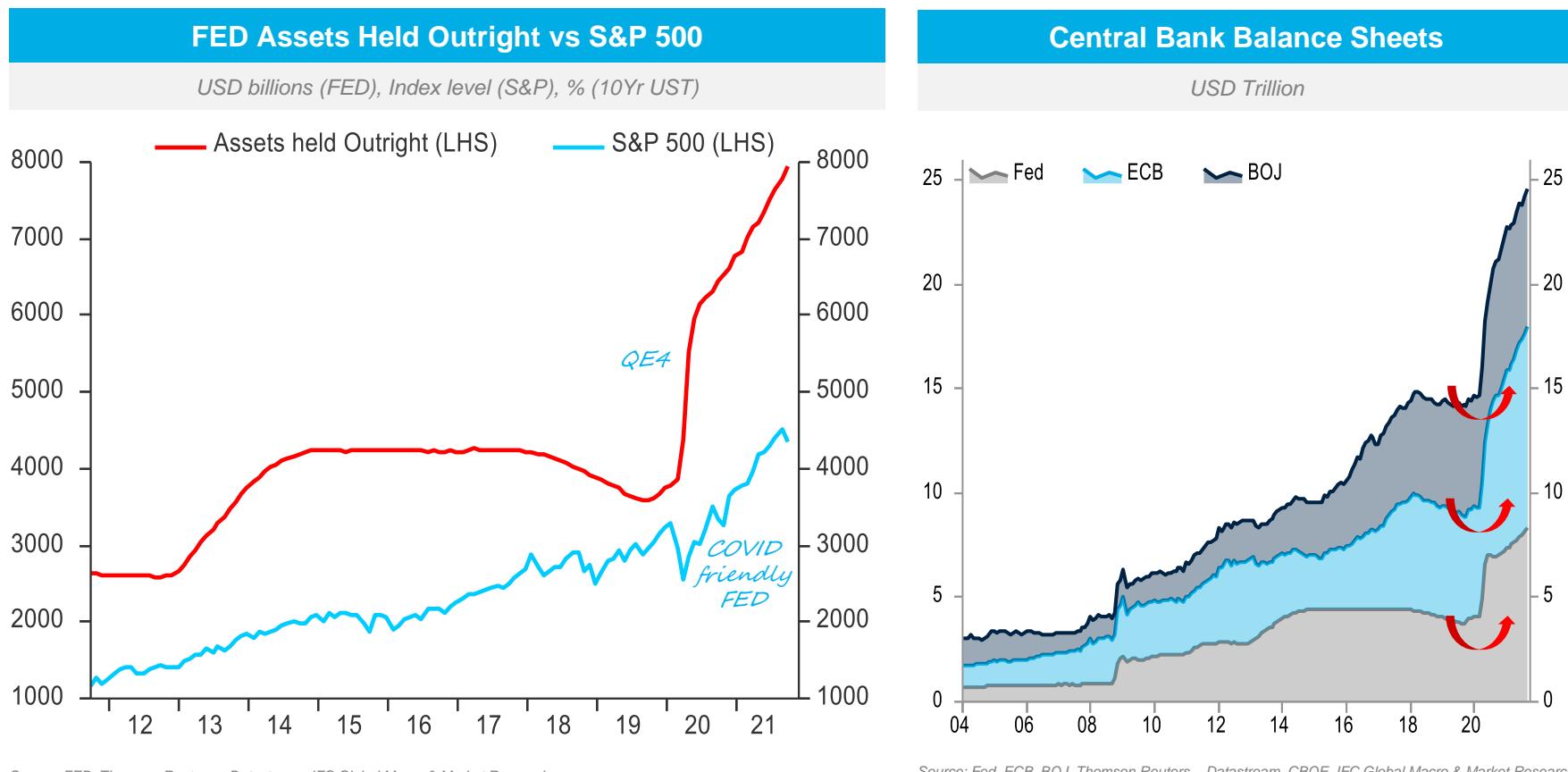


**Tasas de interés negativas llevan a los inversionistas a buscar más riesgo para incrementar su retorno**

**Hasta hace poco el consenso era de reactivación y mercados estables**  
**Distorsiones de política + fragilidad + cambios en tasas de intervención = cambios bruscos en precios de los activos**

# Los Bancos Centrales estan Inyectando Liquidez a un Ritmo sin Precedentes

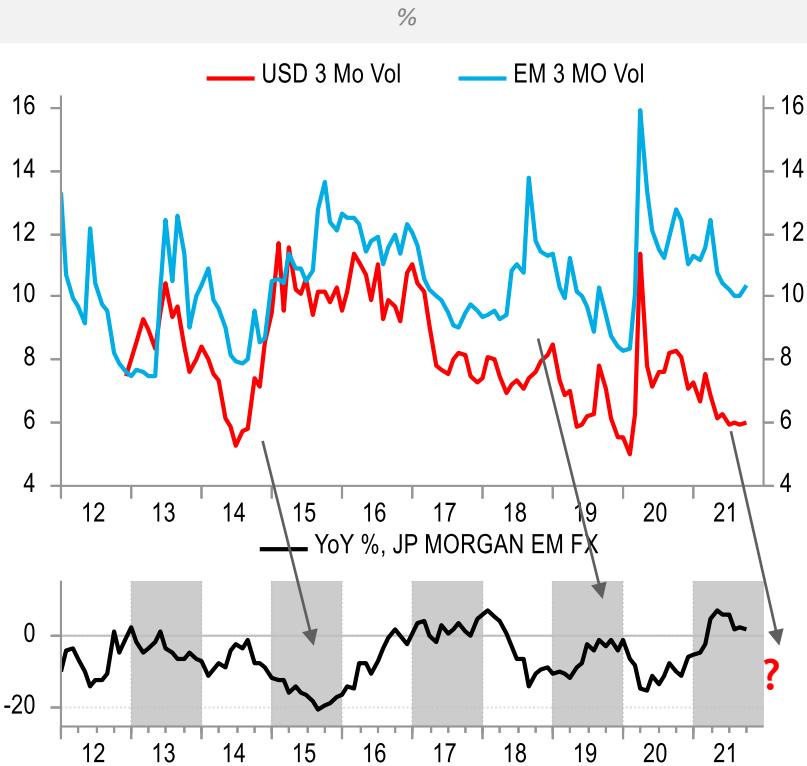
- La politica monetaria expansiva ha resultado en una enorme inyeccion de liquidez en los mercados
- La correlacion entre el desempeno de S&P and y el crecimiento de la hoja de balance de la FED ha alcanzado un 95%!!!!!!!!!



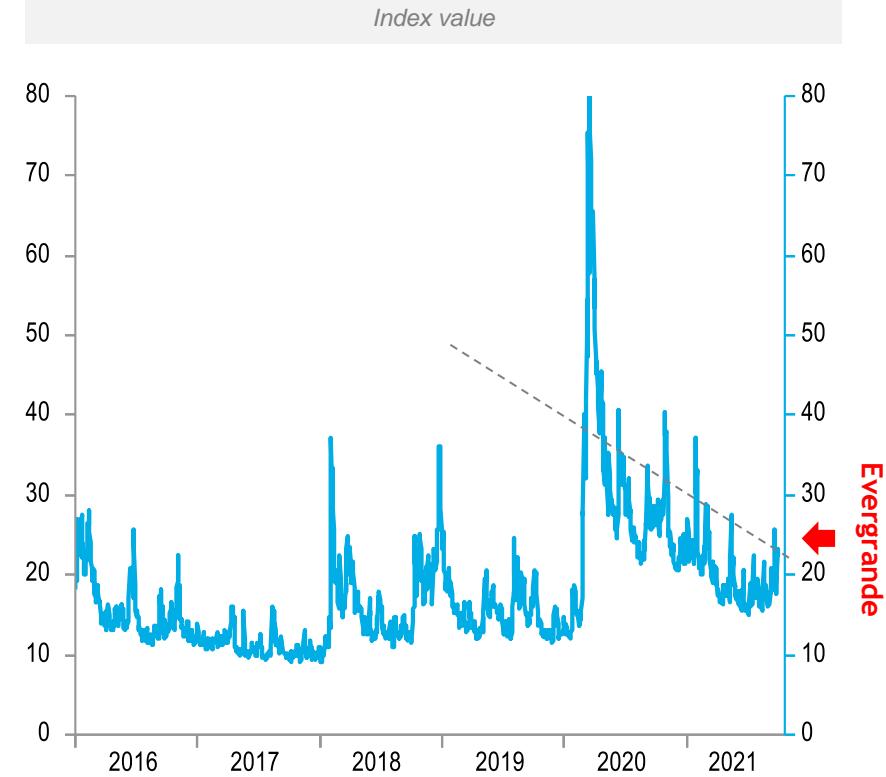
# La Volatilidad en los Mercados ha Alcanzado Minimos Historicos

Complacency can be observed in very low volatilities across markets – from FX to equities

USD and EM 3 Month Vol vs. EM FX Returns



CBOE S&P Volatility (VIX)



Source: Thomson Reuters Datastream, IFC Global Macro & Market Research

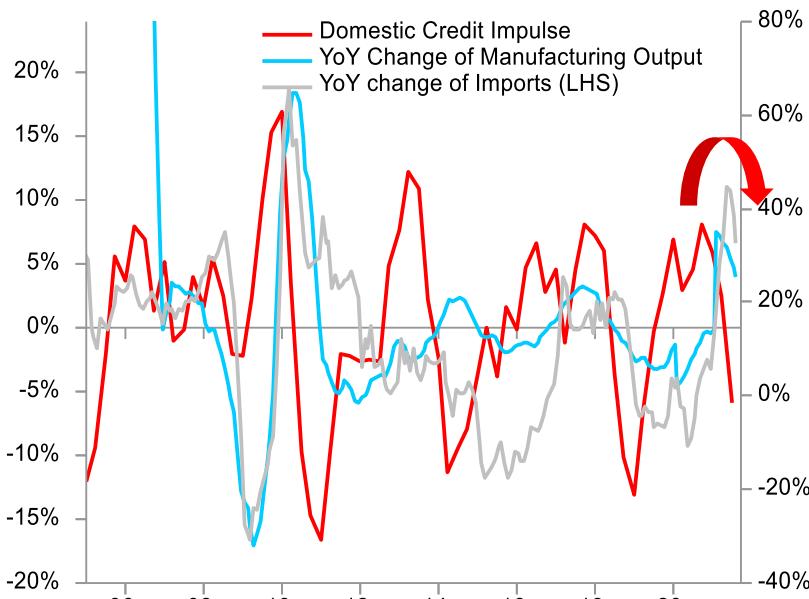
Source: Thomson Reuters – Datastream, CBOE, IFC Global Macro & Market Research

# El Rebote de la Economía China se está Moderando

- **Further regulatory tightening on select industries and a decreased availability of credit** (credit impulse now negative) in 2021 contributed to a further slowdown in domestic activity
- **China captured world export market share during the COVID recovery.** Exports surged mid year on DM demand and re-routing from virus hit Southeast Asia nations
- **However, the strong bounce is fading** as 1) the peak in export performance was in June '21, 2) SE Asian economies will capture share from China as their factories reopen

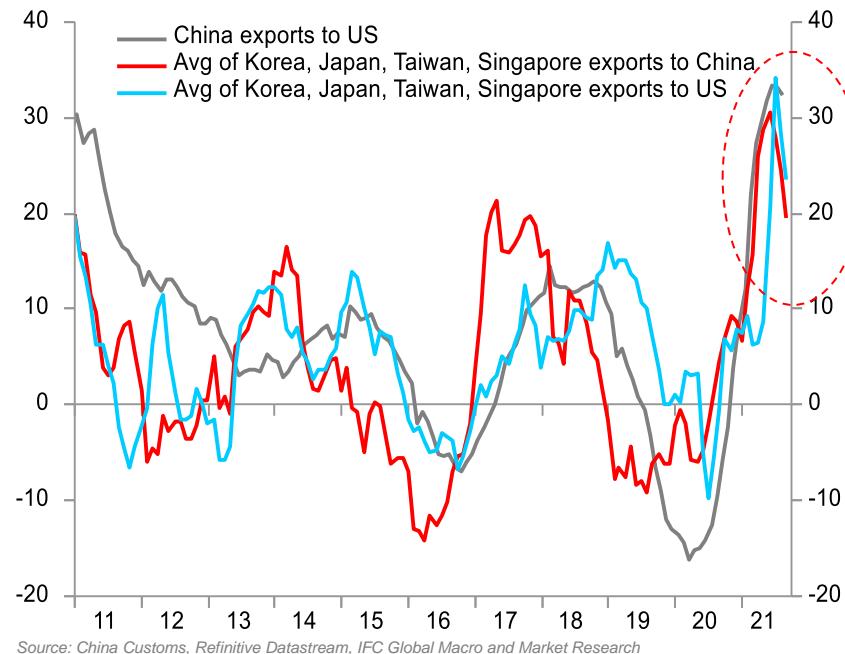
Credit Impulse, Manufacturing and Imports

% YoY, 3MMA



Chinese & US Imports

% YoY, 3MMA, USD and Rmb

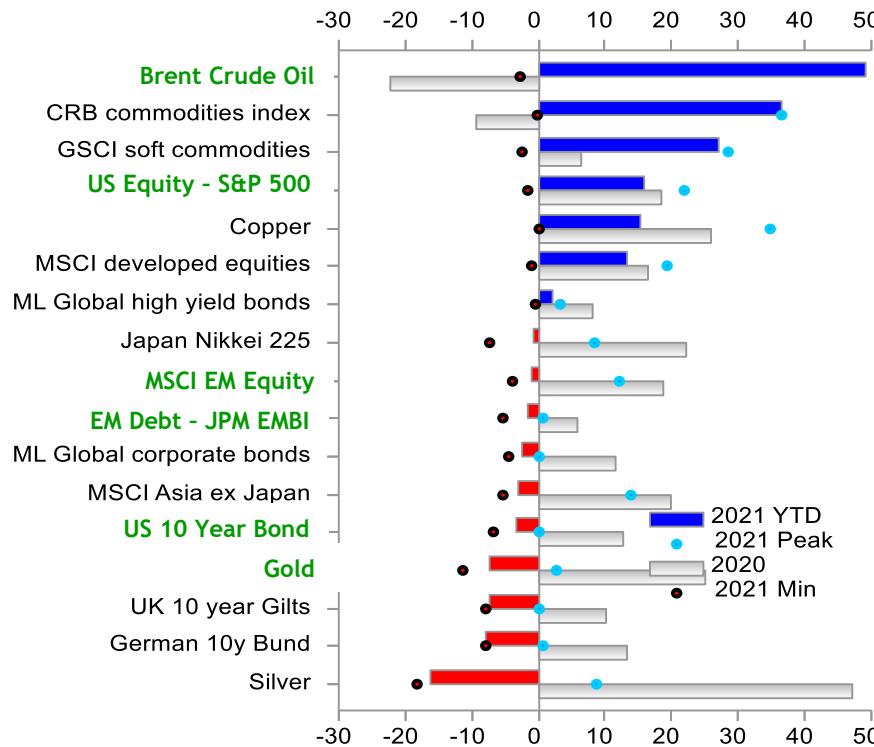


# Despues de Grandes Valorizaciones, Mercados Parecen Estabilizarse

- Commodities outperform along with DM equities, EM get hit
  - However, bonds yields have rebounded from recent lows as Investors fret about inflationary pressures
- NOTE: In the past year, we had nine months where the core CPI averaged +0.12%; and for three months, it averaged +0.85%.

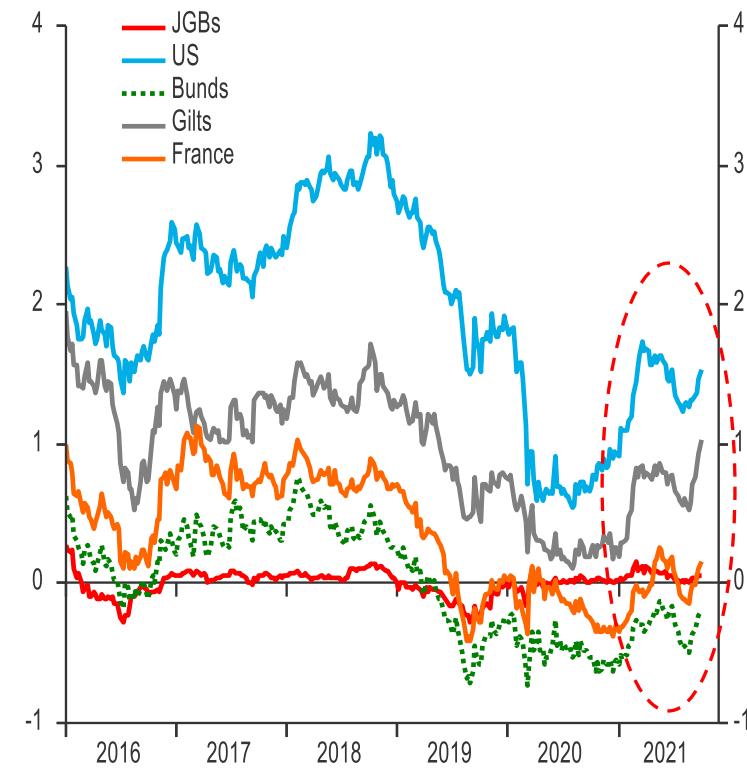
## Broad Asset Class Returns

% Total Return 2020 and 2021 YTD/Peak/Min, USD



## DM 10 Year Government Bonds

%

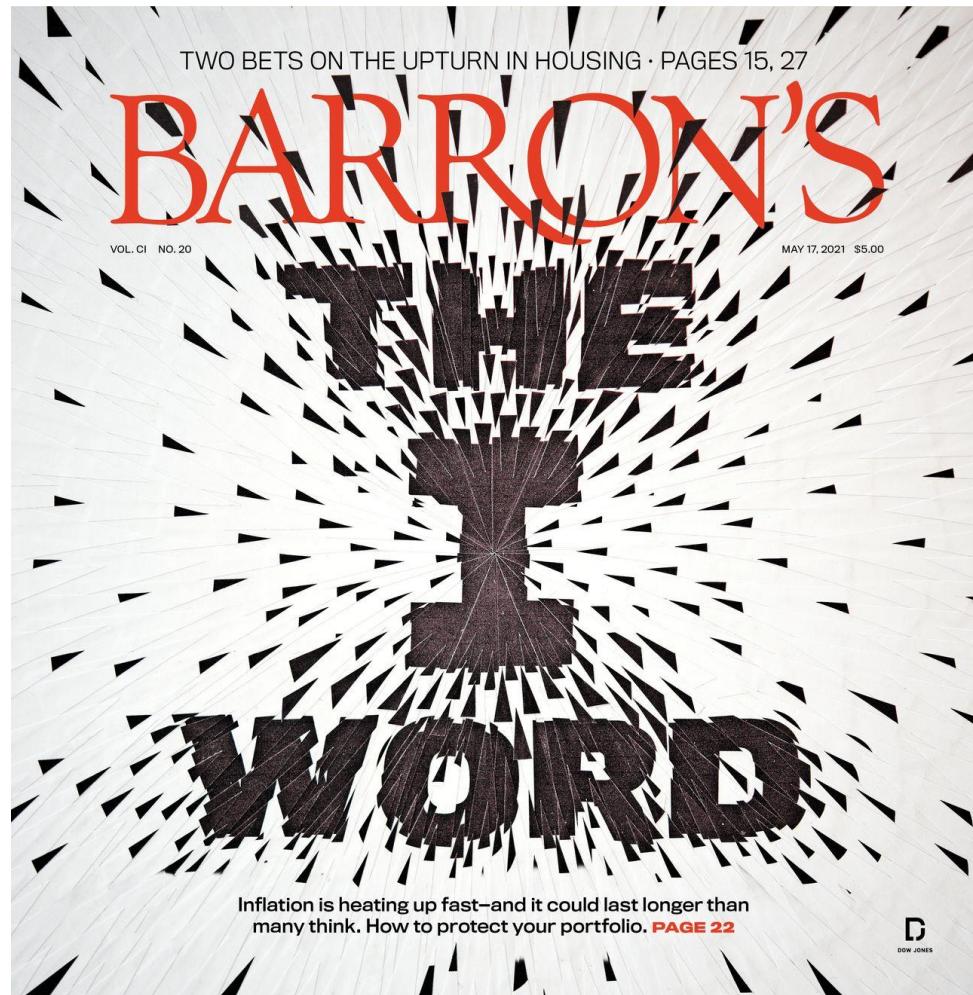
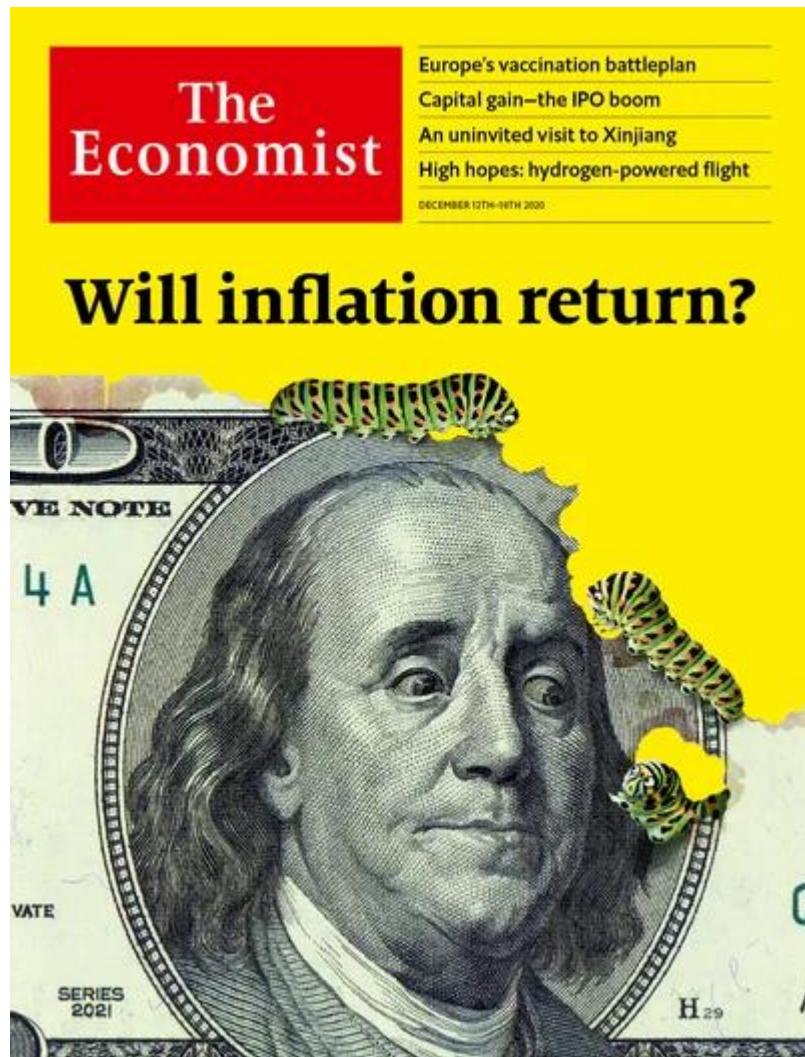


Source: Refinitiv – Datastream, IFC Global Macro & Market Research



¿Como se ve el futuro?

# La Inflación Vuelve a Preocupar

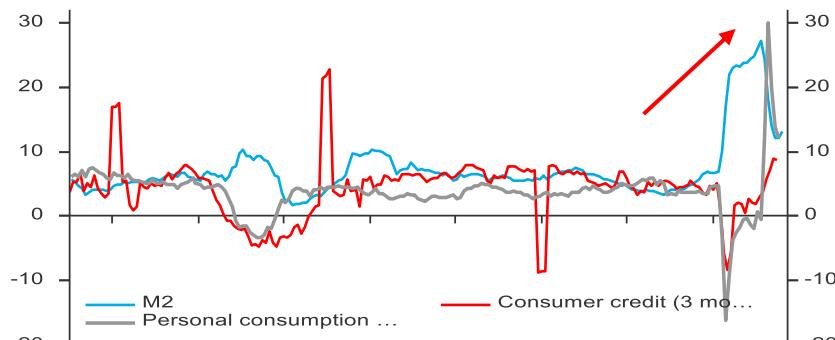


# Es Posible un Escenario de Estan-flacion?

Persistent loose monetary and fiscal policies will continue to stimulate demand and may lead to increases in inflation

US M2, Consumer Credit and Personal Consumption

% of GDP, OECD forecast



US Inflation

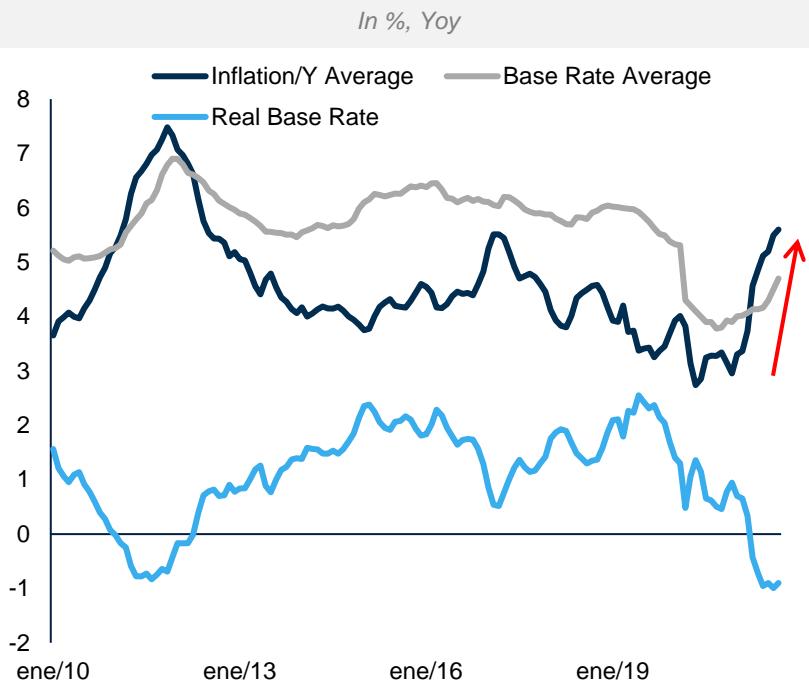
%



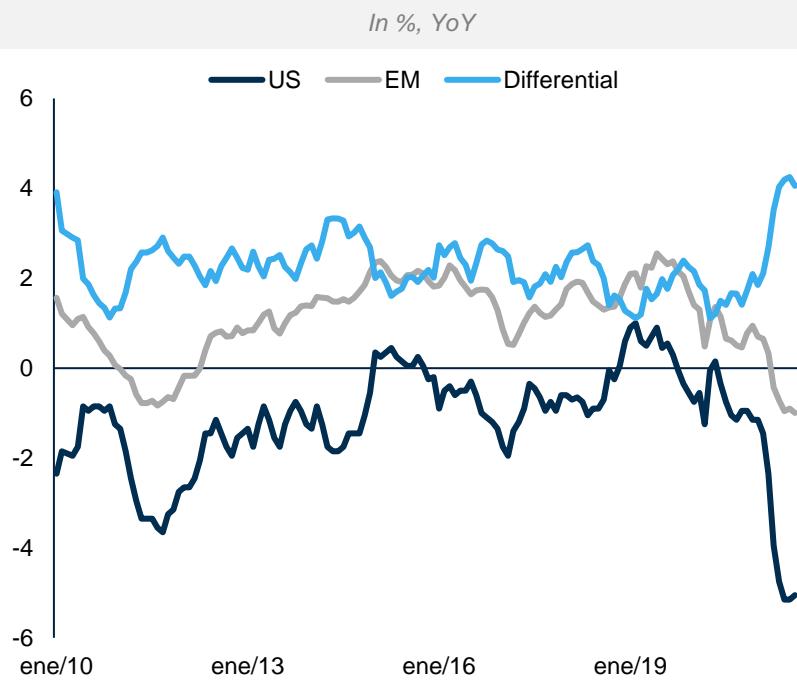
# El Alza en la Inflación Lleva a los Bancos Centrales a Subir Tasas

- EM inflation and monetary policy will be key drivers of how EM assets respond to the possibility of rising US Rates. This follows an increase in EM inflation from 3.2% y/y in January 2021 to 5.5% by August. Some EM central banks (Russia, Brazil, Mexico, Ukraine) have started to respond with policy rate hikes, taking the EM average to 4.2% and dampening growth prospects in the process
- The drop in real rates has been steeper in the US than in most EMs, with headline CPI inflation jumping to 5.3% by August 2021, pushing the real policy rate to a negative 5.1%. Reflecting base effects due to price declines a year earlier, the increase in inflation may well be transitory in the US and many EMs. How real rates evolve remains to be seen.

## EM Inflation and Policy Rate\*



## EM vs US Real Interest Rate Differential



Source: Thomson Reuters – Datastream, IFC Global Macro & Market Research, \* EM is the unweighted average across a sample of 50 emerging and frontier markets excluding Argentina and Lebanon

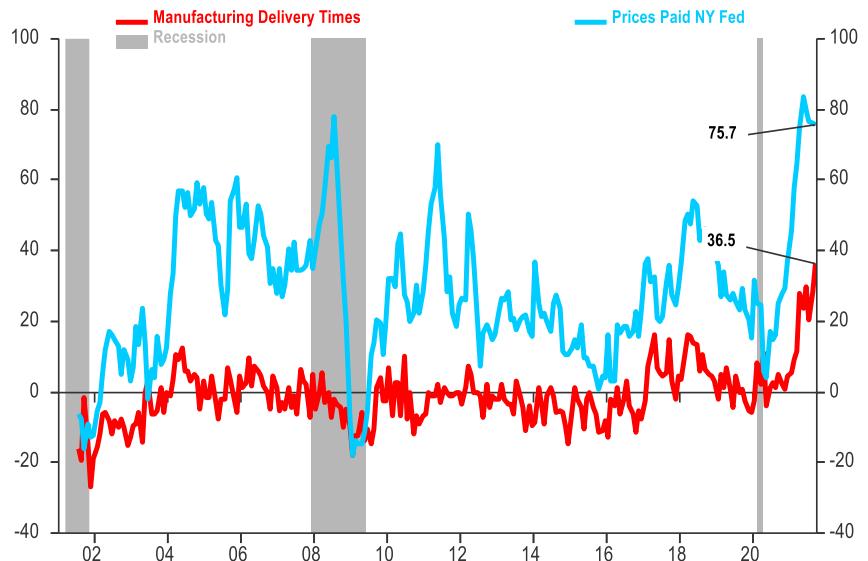
Source: Thomson Reuters – Datastream, IFC Global Macro & Market Research

# Es la Inflación Transitoria?

**Consensus:** the growth slowdown in large economies is the result of supply bottlenecks in labor, services and good markets. As Delta fades and benefits expire, workers return, bottlenecks resolved, output growth accelerates, and core inflation falls back to pre-COVID levels

## US Delivery Times and Prices Paid

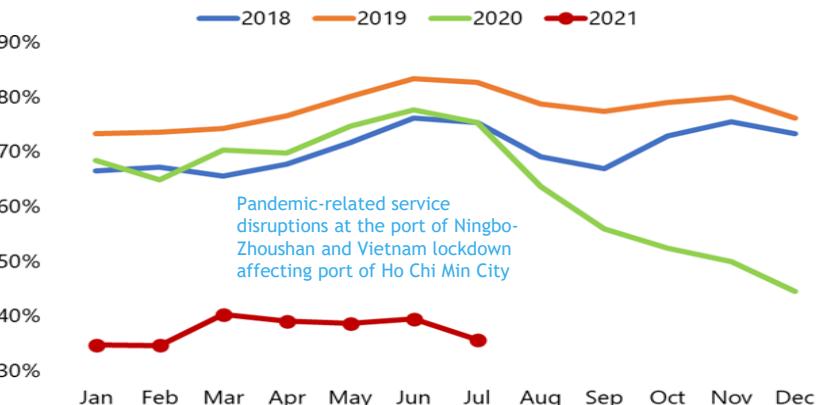
Index Values



- Delta variant is boosting production costs, reducing output and constraining labor supply
- On the production side, Delta is disrupting services and hurting global value chains (logistics, ports)
- Shortages of key inputs hamper production of cars, electronic goods, consumer durables

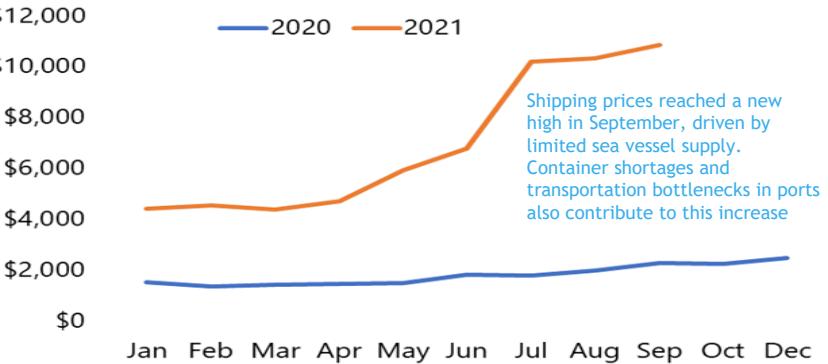
## Global Shipping Reliability

% of ships arriving within 8 hours of schedule



## Freightos Baltic Index (FBX) Global Container Index

2020 and 2021 pricing trends



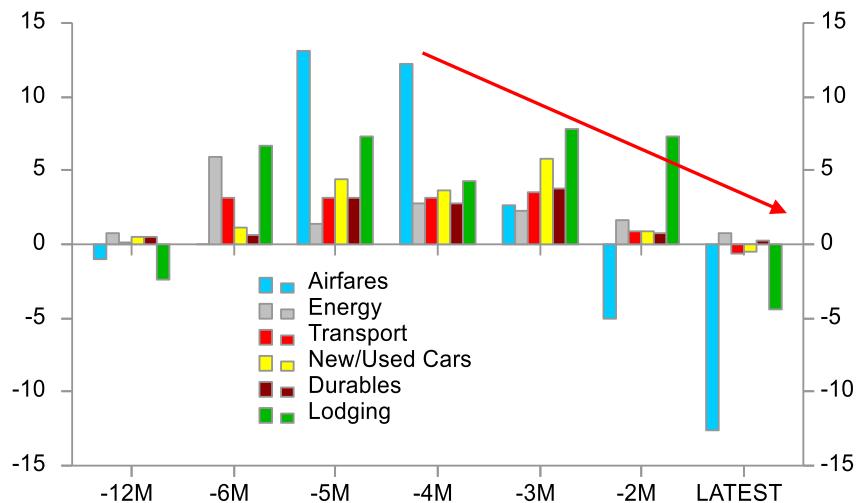
Source: Sea-Intelligence GLP report issue 120, FBX, IFC Global Macro & Market Research

# La Presión de los Precios de Commodities Comienza a Reducirse

Presiones inflacionarias comienzan a ceder

US CPI by Component

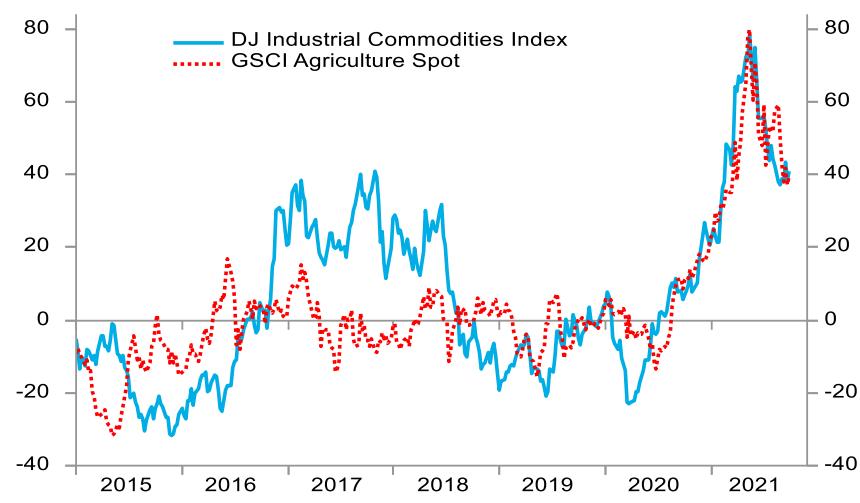
%, MoM change



Source: Bureau of Labor Statistics, IFC Global Macro & Market Research

Commodities Indices

%, YoY change



Source: Dow Jones and Goldman Indices, IFC Global Macro & Market Research

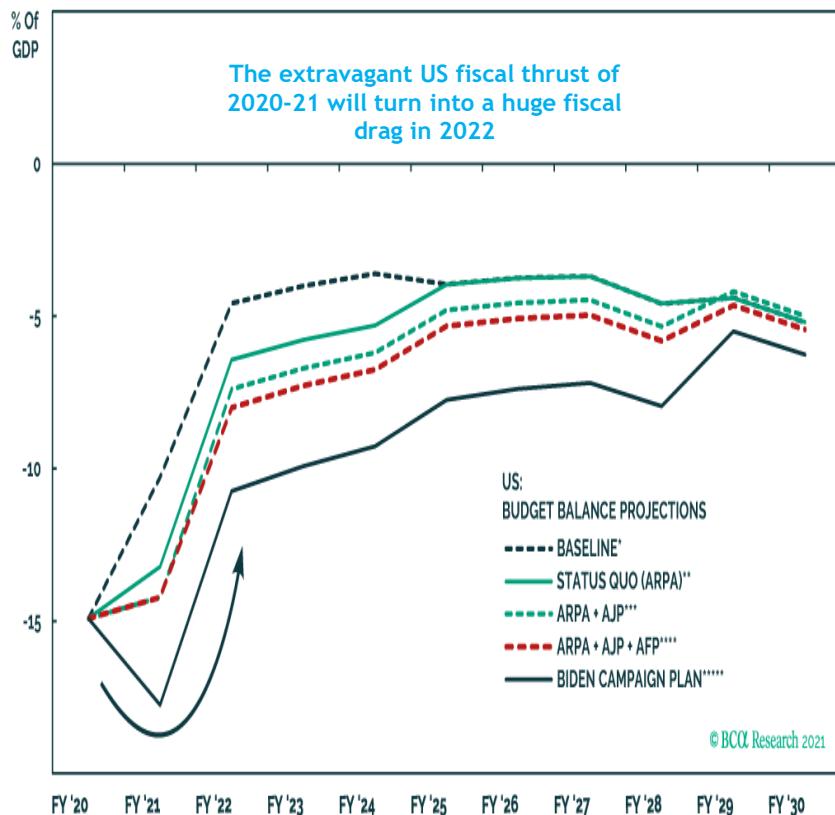
- US CPI report for August showed price declines for many items that saw substantial increases during the pandemic: airfares, lodging, transport, durables, and vehicles. On the semiconductor front, memory chip prices are in a clear downtrend
- For EM, where food prices have been a major driver of inflation, the stabilization (and recent decline) of agricultural spot prices bodes well for easing inflation going forward
- Industrial commodities prices have also corrected from their pandemic induced highs

# La Política Fiscal Dejara de Contribuir al Crecimiento

The FED and other central banks will start to unwind some unconventional policies. Combined with fiscal drag next year (no more income support packages, lower spending), inflation will be under control

## US Fiscal Drag into 2022

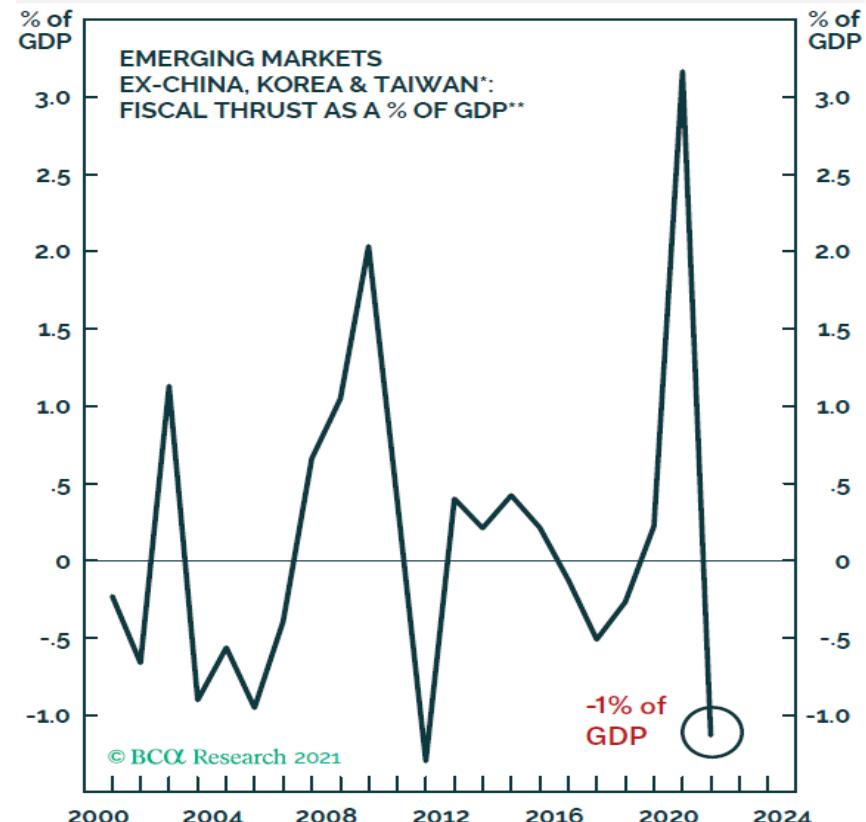
% GDP



Source: BCA Research

## Fiscal Tightening in EM

Fiscal Thrust as % GDP



Source: BCA Research

# Que tan persistente puede ser el aumento en la inflacion?

## Pueden los choques de oferta volverse persistentes?

### 1 Aun falta la recuperacion de Salarios reales

- QE incremento precios de los activos pero no salarios
- Salarios reales no han crecido en mercados desarrollados
- **Presion politica para reducir desigualdad** - Politicas sobre el salario minimo
- **Biden:** "Corporate profits are the highest in decades. Workers pay is the lowest in 70 years. We have ample room to raise worker pay without raising customer prices"

### 2 Los precios de los Commodities permanecen elevados

- Dada Politica fiscal y reducciones a la oferta
- Aun cuando la demanda de paises desarrollados se modere, la demanda de paises emergentes se mantendra fuerte en el mediano plazo.
- EEUU ha reemplazado a China como el comprador marginal - gasto en infraestructura y transicion energentica del gobierno Biden

### 3 Impacto del populismo y tendencias demograficas

- Reducion de globalizacion y aumento del proteccionismo.
- Politicas migratorias agresivas afectan la disponibilidad de mano de obra en paises ricos.
- Envejecimiento de la poblacion en paises desarrollados

### 4 Cambios en cadenas de valor

- Riesgos de offshoring – ejemplo de semiconductores
- **On-shoring de la manufatura de bienes estrategicos** en respuesta al COVID

### 5 Tensiones Geopoliticas

- Impacto economico de tensiones entre China y EEUU
- Intensificacion de competencia por recursos

### 6 Auto-suficiencia

- Pandemias llevaran a la busqueda de autosuficiencia en la manufatura de productos medicos
- Control de exportaciones para bienes clave

### 7 Presion para licuar la deuda con inflacion

- La inflacion parece la mejor alternativa para reducir los altos niveles de deuda: No es viable que esto se de a traves de mayor crecimiento economico, mayores impuestos, default, o tasas de interes negativas persistentes (que ha sido lo mas efectivo historicamente)/

## Podemos esperar

- Choques de oferta negativos pueden tener efectos perversos sobre el crecimiento potencial
- Estimulo monetario y fiscal podria desanclar expectativas de inflacion
- **El resultado podria ser estan-flacion**

The background of the slide is a blurred photograph of an industrial setting. It features several large, dark-colored robotic arms or mechanical structures positioned over what appears to be a conveyor belt or production line. Sparks are visible, suggesting welding or cutting processes are taking place. The lighting is dramatic, with strong highlights and shadows, creating a sense of motion and industrial activity.

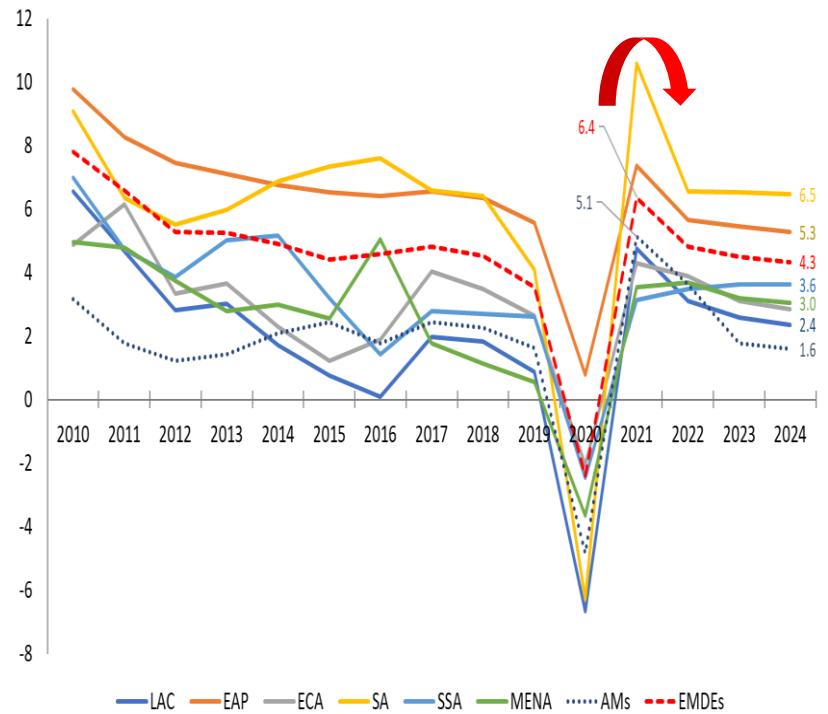
**Viene la desaceleracion**

# Comienza la desaceleracion economica

Although inflation is increasing, both projections and high frequency indicators point to slower growth

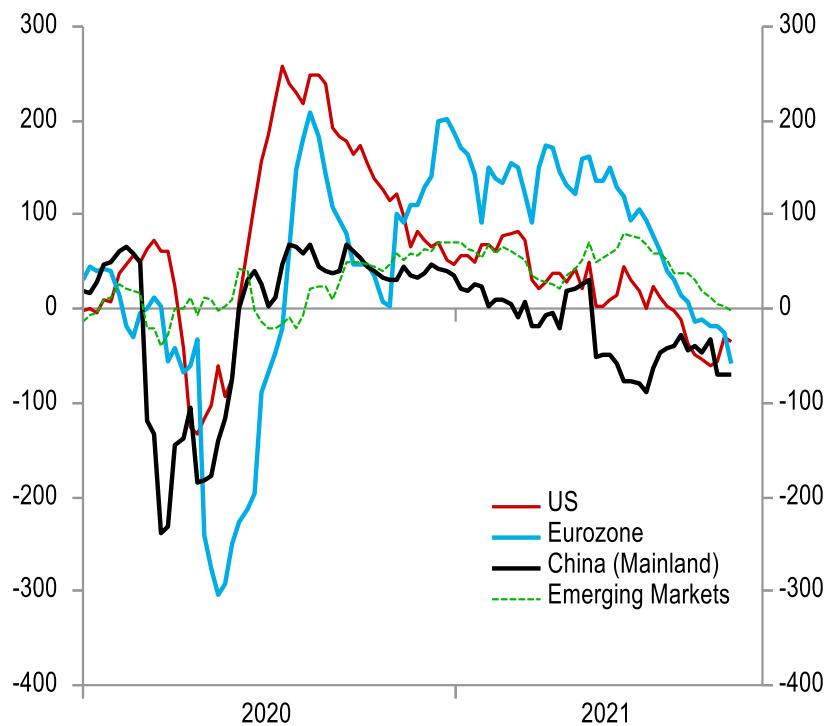
Real GDP growth

% YoY



Economic Surprise Index

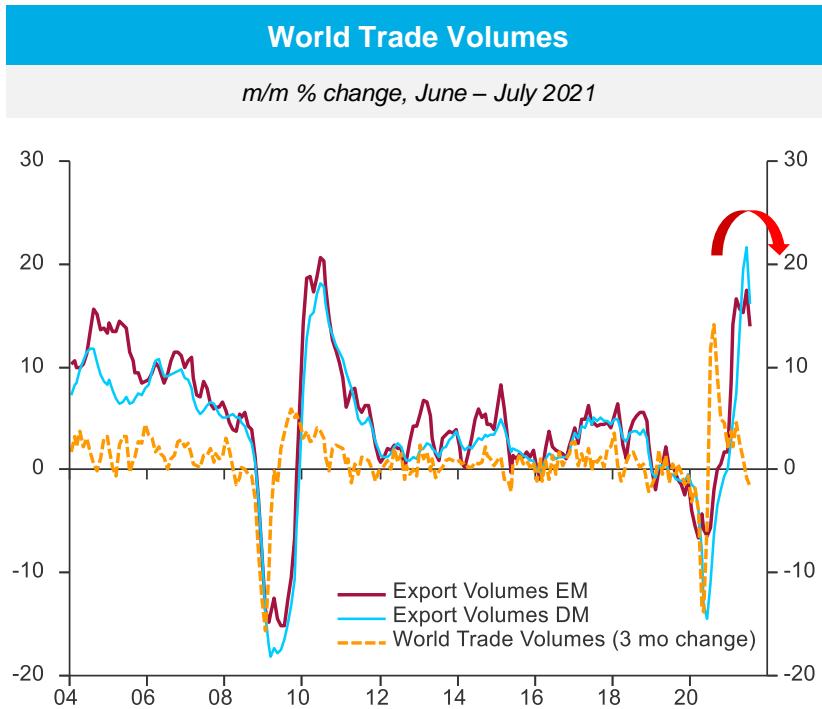
Index value



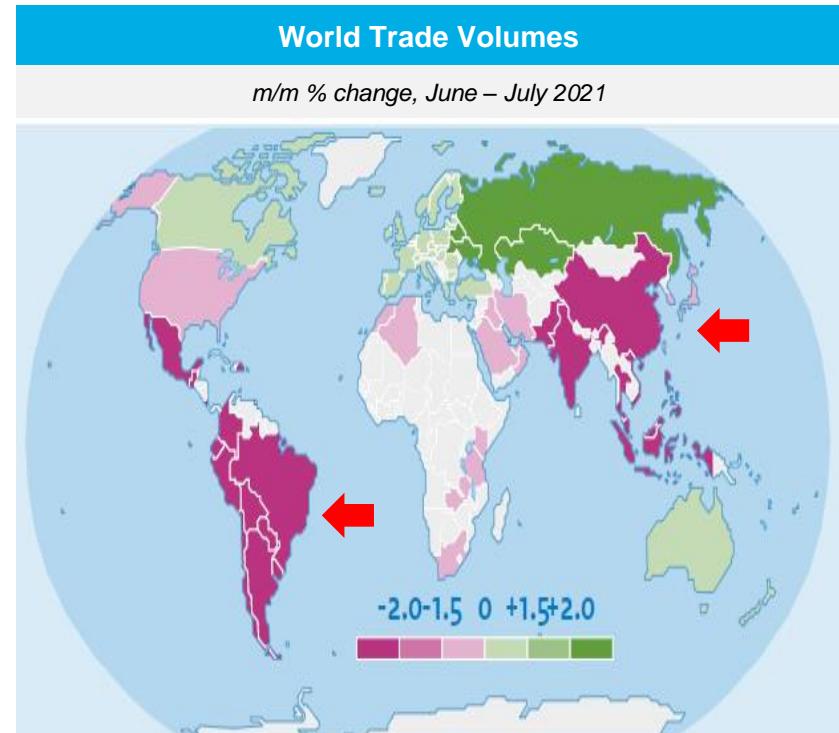
Source: IMF, IFC Global Macro & Market Research

# Desaceleracion de los Flujos de Comercio Internacional

World trade volumes decreased 0.9% in July (m/m) and trade momentum (latest 3-month average vs 3-month average last year) has turned negative



Source: CBP Netherlands Bureau for Economic Policy Analysis, IFC Global Macro & Market Research



- East Asia and LAC are experiencing the most slowdown
- Slowdown from normalization of economies (policy stimulus is pared, reo-penings, etc) but also due to COVID waves and associated lockdowns, bottlenecks (ports, semis)

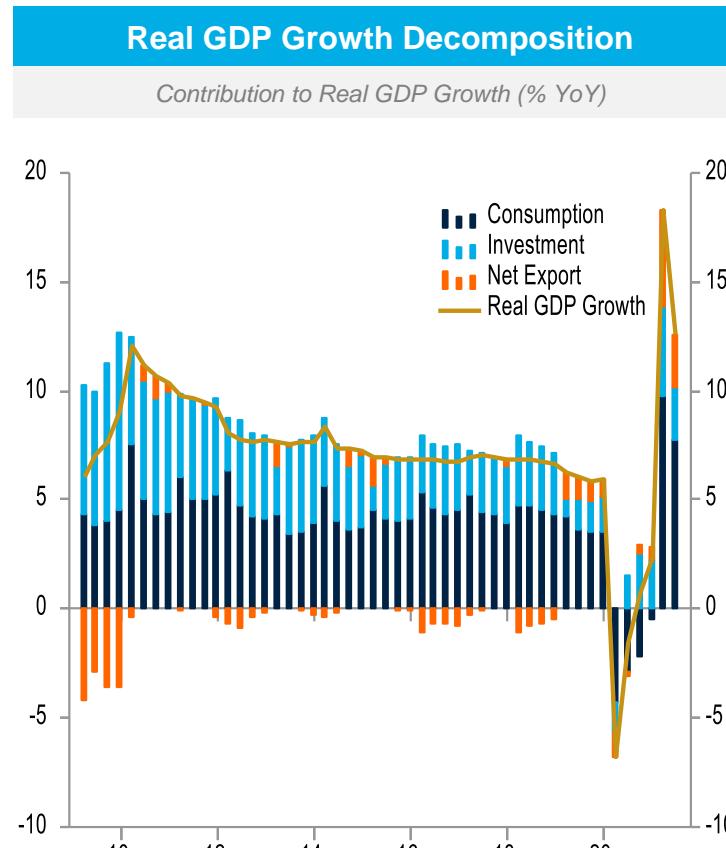


# **Desaceleracion de China y su efecto sobre la economia global**

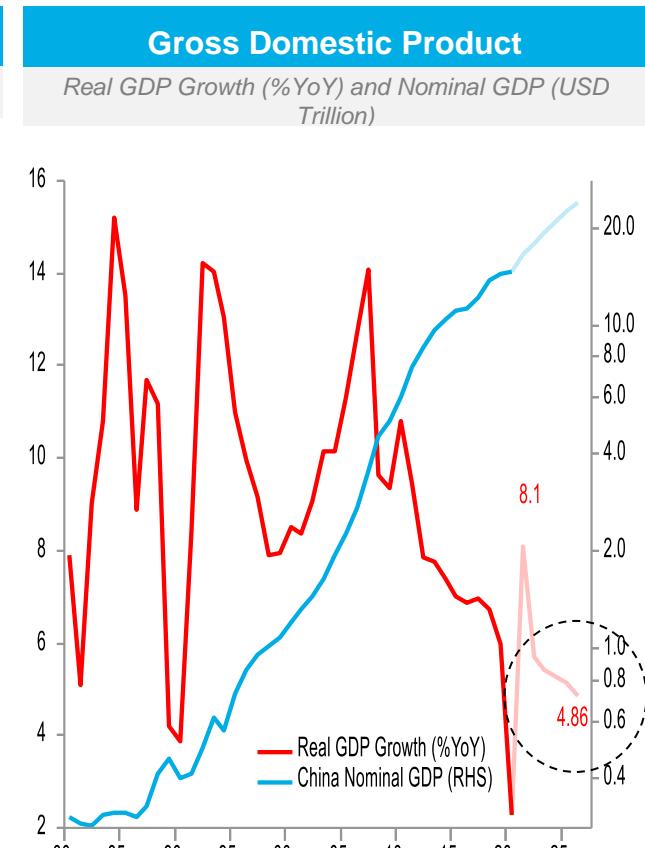
# La Economia China Pierde Dinamismo, a la vez que el Gobierno Incrementa su Intervencion

Se espera un rebote fuerte este año, con un crecimiento real 8.1% en 2021, pero el episodio de Evergrande tendra implicaciones sobre el sector de la construccion tanto en 2021 como 2022.

- **El modelo tradicional de crecimiento Chino, impulsado por credito, esta cambiando** – el enfasis es reducir el riesgo financiero y promover la prosperidad compartida. create “conditions that are more inclusive and fair” and to “adjust excessive incomes”, President Xi
- **El credito ha venido moderando su crecimiento, impactando el crecimiento de sectores prociclicos como la construccion y el consumo.**
- **El crecimiento ha perdido momentum y los riesgos financieros han aumentado.** debido al COVID, regulacion mas estricta en sectores clave como salud, educacion, y propiedad, altos precios de bienes basicos y la campana de crecimiento verde.



Source: National Bureau of Statistics, IFC Global Macro and Market Research

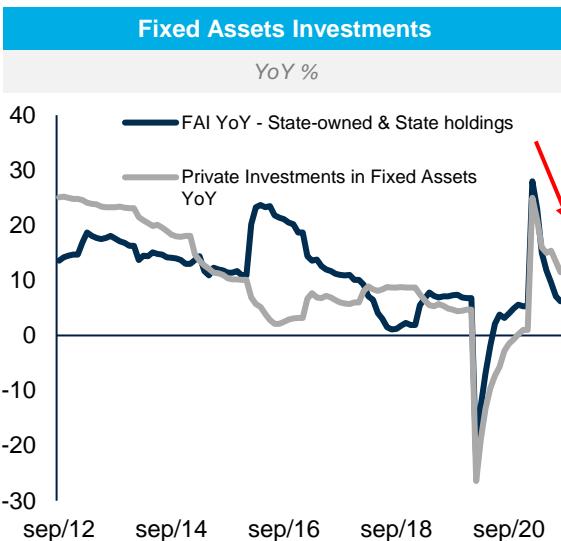


Source: IMF, IFC Global Macro and Market Research

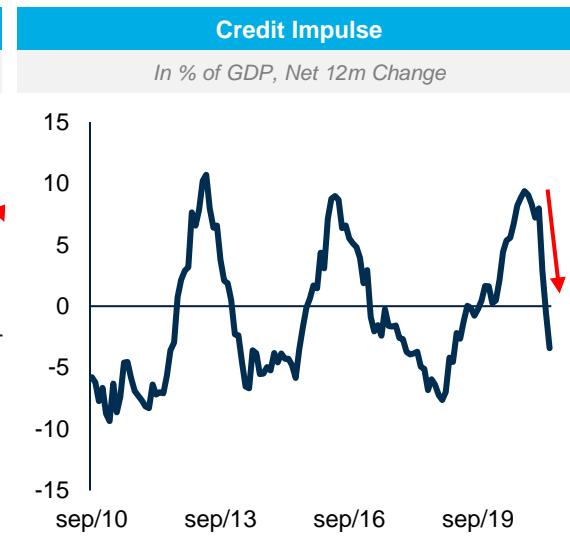
# Economic Momentum has Slowed Sharply with the Delta Variant



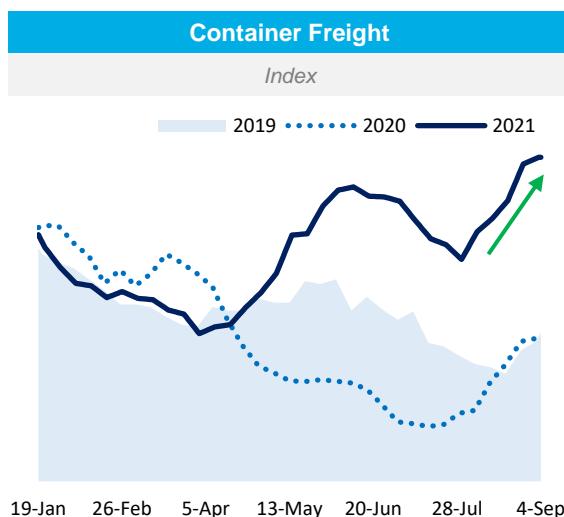
Source: Wind, IFC Global Macro & Market Research



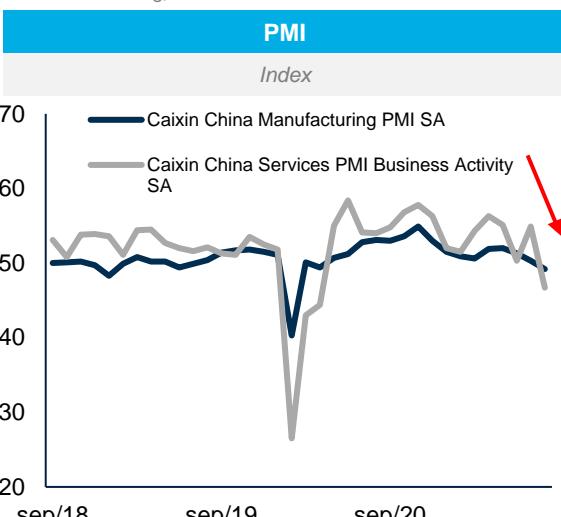
Source: Bloomberg, IFC Global Macro & Market Research



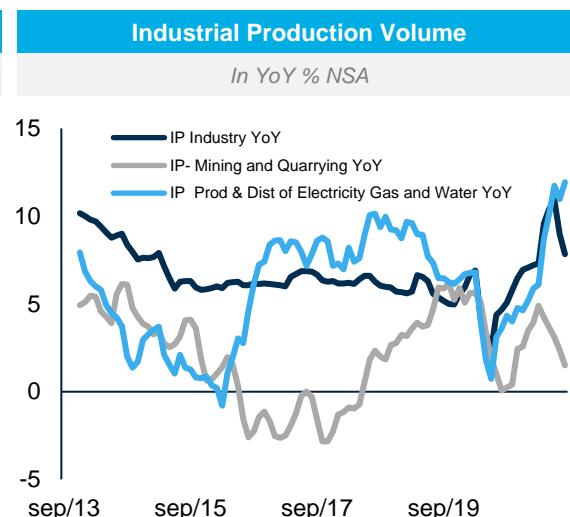
Source: Bloomberg, IFC Global Macro & Market Research



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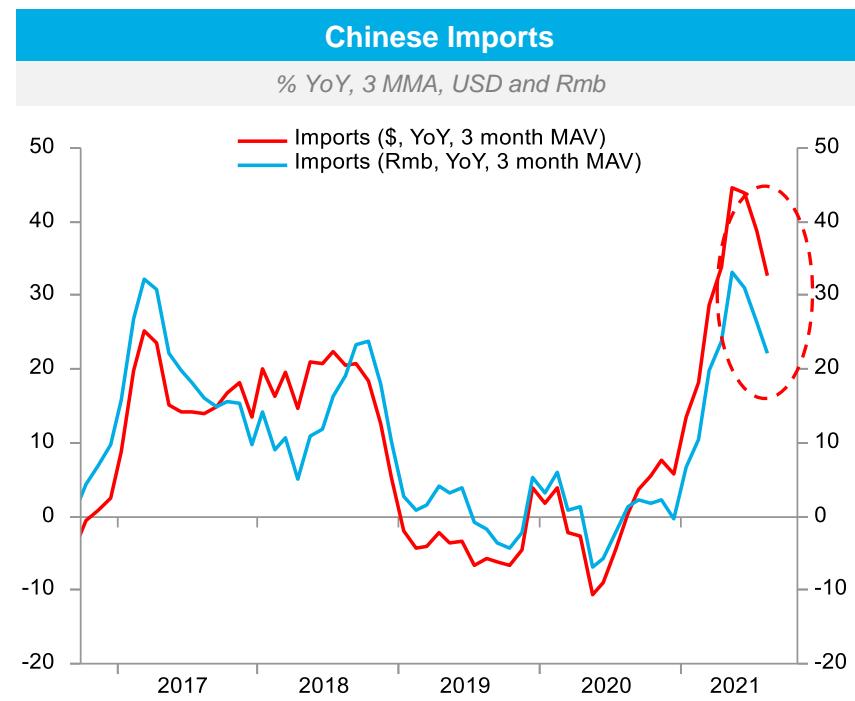
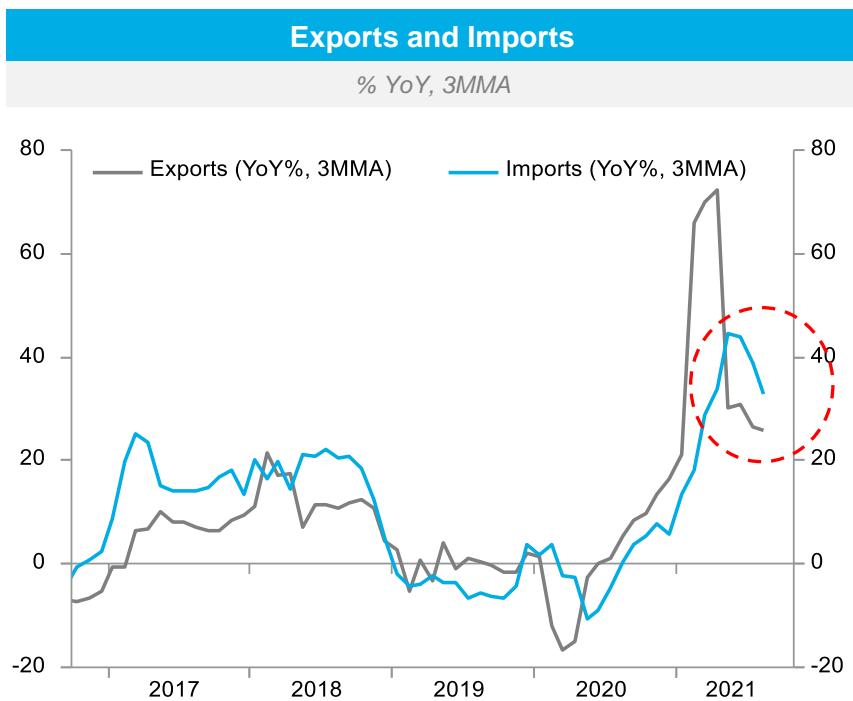
Source: Wind, IFC Global Macro & Market Research



Source: Wind, IFC Global Macro & Market Research

# Exports and Imports Dented as well

- In 2020, exports turned into a growth driver, despite the yuan's rise**, as China was able to gain global export market share as it reopened production ahead of others
- China's export momentum has slowed recently amid near-term headwinds.** However, strong global import demand should continue to underpin China's exports through this year, albeit at a slower pace than recent quarters
- The retreat of pandemic-related demand and the rotation of global growth away from goods and towards services will dampen China's export growth.** But strong global demand for electronics will persist, and China's role in global supply chains is still very strong



Source: Refinitive Datastream, IFC Global Macro and Market Research

Source: Refinitive Datastream, IFC Global Macro and Market Research

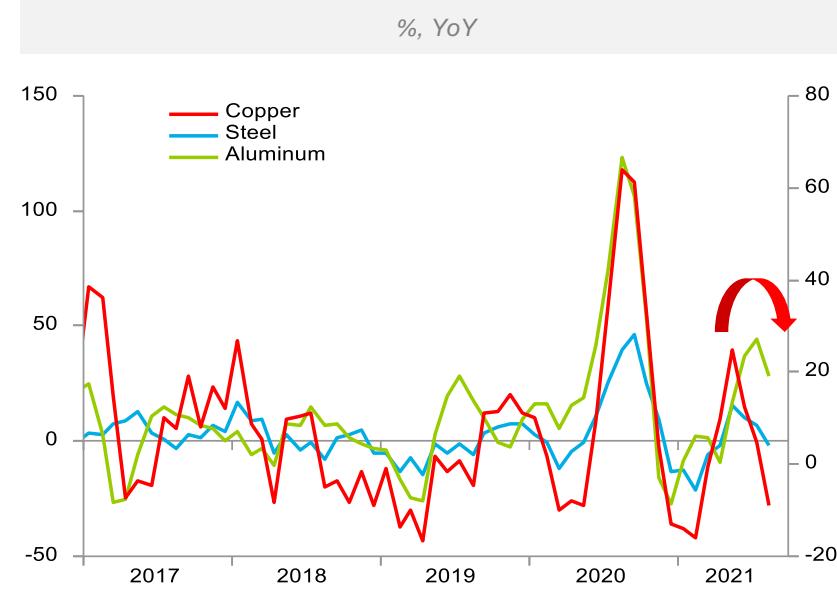
# Se Reduce la Demanda de Commodities por parte de China

La demanda de commodities continuara debilitandose en la medida en que los sectores de construccion e infraestructura se desaceleren durante la segunda mitad de 2021.

Material Stocks China, Materials New Orders Taiwan



China Copper and Natural Gas Imports



Source: PBoC, Refinitiv, IFC Global Macro & Market Research

Source: PBoC, Refinitiv, IFC Global Macro & Market Research

- Chinese imports of industrial metals and oil boomed last year due to pent up demand and restocking, the latter facilitated by easy financing
- Decelerating commodity demand out of China and an unwinding of long non-commercial commodity positions are key risks for EM producers. Should their fall continue, EM currencies will follow suit



# Uncertain Outcomes

*Need to Refocus our Lenses*

# Vaso Medio Lleno para Mercados Emergentes?

## (1) Factores que impulsaran a las economias emergentes

Olas de COVID menos pronunciadas en la medida en que se intensifique la vacunacion y se reabran las economias.

- Mas de 10 billion de dosis de vacunas para COVID seran producidas en 2021
- El numero de casos nuevos de COVID alcanzo su pico en la mayoria de mercados emergentes

Presion inflacionaria deberia reducirse

- Muchos mercados emergentes tuvieron que incrementar tasas ante el aumento en inflacion, para anclar las expectativas y limitar la depreciacion del tipo de cambio.
- Brasil, Chile, Colombia, Mexico, Peru, Rusia, and Turquia han aumentado la tasa de intervencion. Los efectos negativos sobre el crecimiento pueden verse moderados en los paises donde el banco central esta “adelante de la curva”.

China estimulara su economia, debido a la debacle de Evergrande

- Despues de una primera mitad de 2021 debil y una reduccion en cuarentenas , la politica econmica puede buscar estimular la economia nuevamente.. El PBoC ha dado senales de incrementar la disponibilidad de credito

Un dolar debil beneficiaria a los activos emergentes

- Por ser una moneda contraciclica, el dolar se deberia debilitar en un entorno de crecimiento global por encima de la tendencia.
- Diferenciales de tasas de interes se han invertido, y estimularan menos a los activos de EEUU
- El crecimiento del deficit comercial en EEUU, genera retos en su financiacion que podria debilitar al dolar si los flujos de portafolio se reducen

# ...o Medio Vacío?

## (2) Excluyendo a China, los Mercados Emergentes permanecen vulnerables a shocks.

### Crece el riesgo político

- Incertidumbre geopolítica entre EEUU y China

### Continua la desaceleración en China

- Estímulo fiscal y monetario de China es gradual– reducir riesgos a estabilidad financiera es la prioridad.
- Este enfoque cauteloso– y un mercado de Vivienda débil– implican que la economía no recupera momentum hasta 2022

En los demás países emergentes:

### Política monetaria contractiva

- Incremento de tasas resulta en una restricción de la oferta, en lugar de la demanda, casi garantizando la desaceleración económica en 2022.

### Lidiando con una China más assertiva

- Un mundo bi-polar
- Era de “desacoplamiento” en curso → destrucción y reorganización de cadenas de valor

### Post-COVID

- Una deuda elevada, bajo apetito de parte de los bancos para prestar, espacio fiscal y monetario restringido y tasas reales elevadas contribuyen a moderar el crecimiento en varios países.

### El pasado reciente justifica gobiernos de corte populista

- Un periodo de ingresos débiles y mayor desigualdad están generando cambios políticos con elevada incertidumbre que resultan en mayores premiums riesgo.



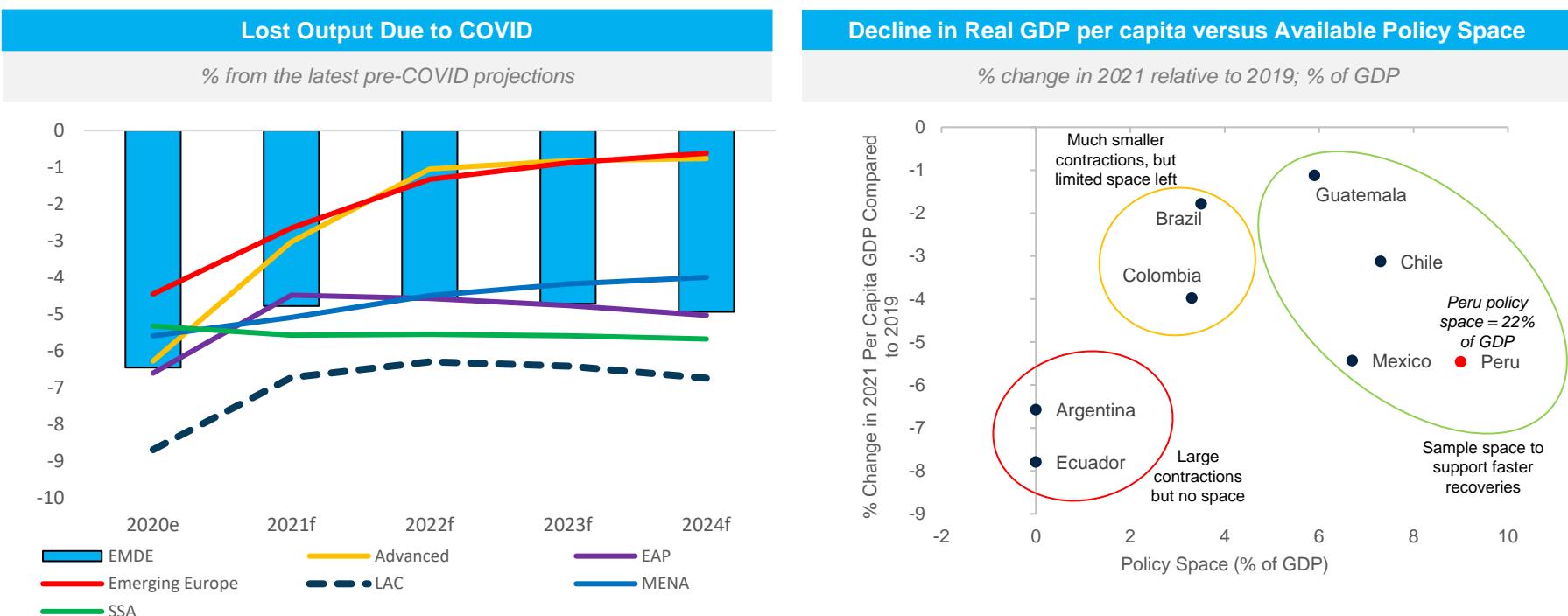
International  
Finance Corporation  
WORLD BANK GROUP

*Creating Markets, Creating Opportunities*

# Perspectiva para Latinoamerica

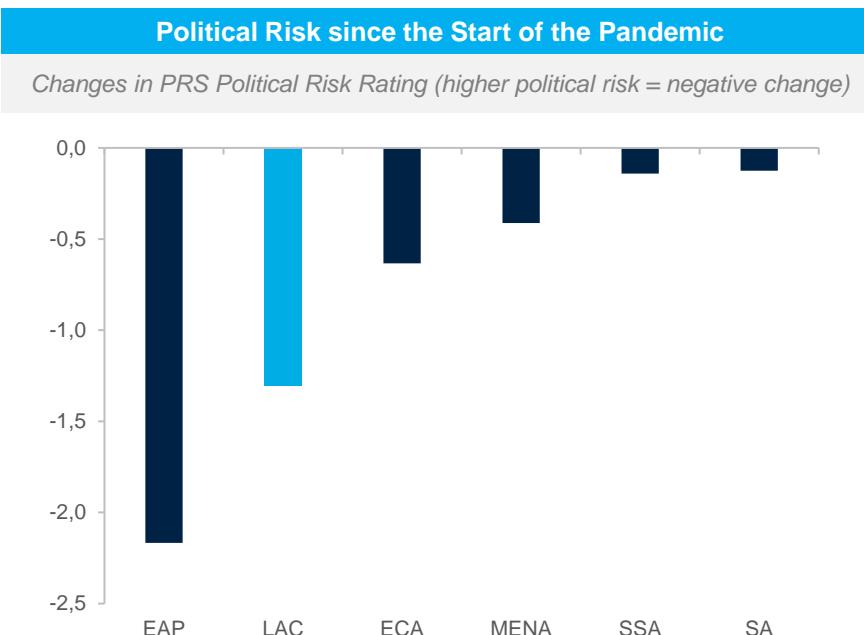
GLOBAL MACRO & MARKET RESEARCH

# Altos Niveles de Deuda han Limitado el Margen del Gobierno para Estimular la Economía



- **LAC has arguably suffered most from COVID-19 as the region is still expected to lose the most output relative to pre-COVID projections.** Large fiscal stimulus in some economies limited the contraction in LAC real GDP in 2020
- **Higher debt, wider fiscal deficits and low or falling FX reserves in some cases now constrain governments' policy space to support faster recoveries.** In Argentina and Ecuador, where GDP per capita is still more than 6% below pre-crisis levels, low net reserves leave no space to pursue expansionary policies over the medium-term, maintaining tight capital controls, or triggering sharper peso depreciation in Argentina. Brazil and Colombia are vulnerable as they have limited policy space left but have flexible exchange rates – they also suffered smaller contractions in 2020
- **Policy space is greater in Chile, Guatemala, and Mexico and is abundant in Peru.** Additional fiscal stimulus could recover large output losses in the latter two, but, until now, the AMLO administration has been less keen to do so

# El Mayor Riesgo Político Puede Resultar en Mayor Gasto Social



Sources: PRS Political Risk Service, IFC Global Macro & Markets

**Political Risk Index Over Time**

Average of Govt Stability, Govt Effectiveness, Political Risk, Resource Nationalism

Country	2017-Q2	2017-Q4	2018-Q2	2018-Q4	2019-Q2	2019-Q4	2020-Q2	2020-Q4	2021-Q2
Argentina	6.6	6.6	6.8	6.7	6.5	6.3	6.3	6.1	5.6
Brazil	6.3	6.6	6.6	6.4	7.2	6.7	6.6	6.1	6.1
Chile	7.6	7.7	8.0	7.9	8.0	7.7	7.1	7.0	7.0
Colombia	6.7	6.7	6.7	7.2	6.9	6.7	6.2	5.8	6.0
DR	7.5	7.4	7.5	6.7	6.8	6.8	6.8	7.1	7.2
Ecuador	5.0	4.8	6.0	6.3	6.3	6.5	6.7	6.6	6.5
El Salvador	6.8	6.5	6.4	6.8	6.6	6.6	6.6	7.2	7.1
Honduras	6.4	6.5	6.4	6.6	6.7	6.4	6.3	6.2	6.1
Mexico	7.3	7.6	7.5	7.6	7.1	7.0	6.8	6.6	5.9
Peru	7.4	7.4	7.1	7.2	7.3	7.3	7.2	7.1	7.2

Higher number = Less risky

Color coding applied to changes and trends within each country

Sources: Verisk Maplecroft, IFC Global Macro & Markets

- COVID hit LAC after many years of marginal growth (avg 0.6% GDP growth in 2014-19), where social discontent grew due to high inequality and COVID.** Chile, Ecuador, Bolivia, and Colombia already suffered social unrest ahead of COVID, while government changes in Argentina, Brazil, and Mexico in 2018-19 reflected discontent around poor economic performance
- The health crisis and lack of significant policy space to address the economic fallout (LAC's real GDP contracted 7% in 2020, the worst EM performer) are materializing now in rising social discontent and political risk.** GDP per capita in 2020 is only 2/3 of the peak reached in 2011 (in current US\$)
- The economic and health crisis is leading to unrest, a further rise in populism, and increased political fragmentation.** Governability challenges are likely to rise, even for newly elected administrations (Peru, Ecuador). Spending and deficit monetization are and will be on the rise and could negatively affect inflationary expectations. Nationalization of resources or increased government intervention may also become more prevalent

# La Fragmentación Política en la Región Representa un Reto para la Gobernabilidad

## Peru

Distribución de escaños en el Congreso de la República



In **Peru**, Pedro Castillo's party Peru Libre will have only 37 seats out of 130 in congress

## Ecuador



In **Ecuador**, President Lasso's party CREO has only 12 seats in congress, out of 137 seats, and will need to forge alliances with other parties such as PSC to govern

## Apruebo Dignidad

9	RD
7	PCCh
6	CS
4	FREVS
1	Comunes
1	PI

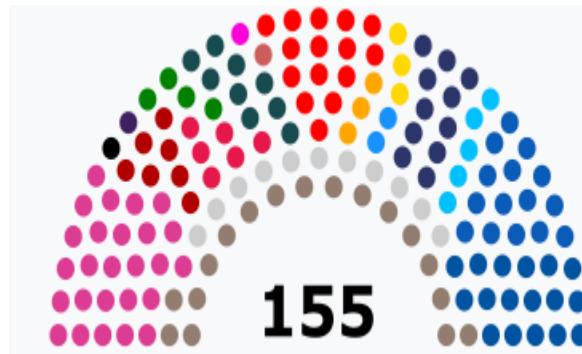
## Lista del Apruebo

15	PS
3	PPD
3	PL
2	PDC
1	PR
1	PRO

## La Lista del Pueblo

26	Independientes
	Listas de independientes y candidaturas fuera de pacto
11	Independientes
	Independientes por una Nueva Constitución
11	Independientes
	Vamos por Chile
17	UDI
15	RN
5	EVOP
	Otros
17	Pueblos originarios

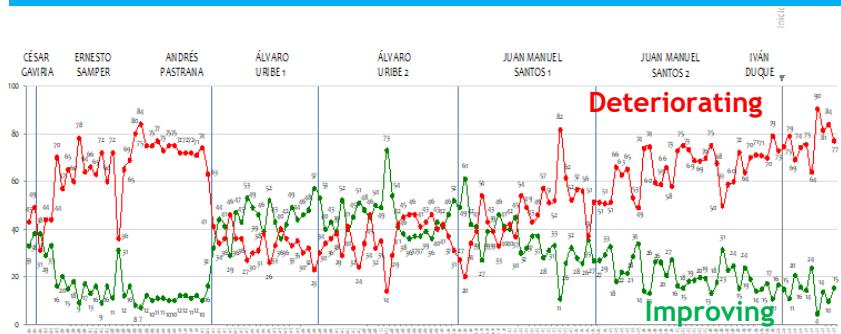
## Chile



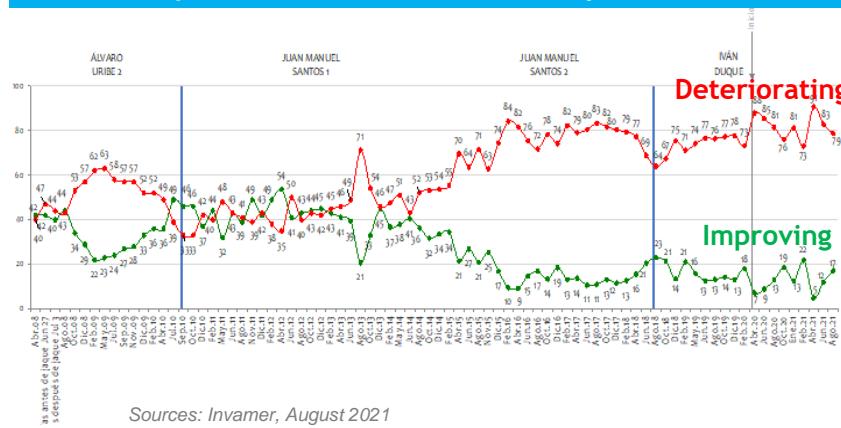
**Chile's** Constitutional Assembly, in charge of rewriting the Constitution, also shows a large degree of fragmentation among small political parties and independents

# Gobiernos Conservadores se han Vuelto Crecientemente Impopulares

Do you think things are improving or deteriorating in Colombia?

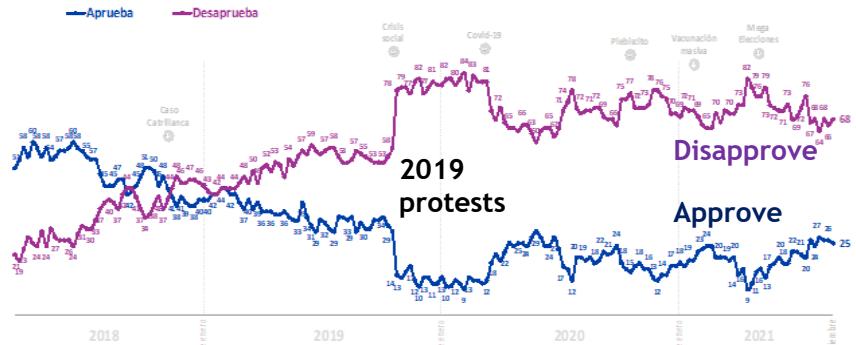


Perception on the state of the economy in Colombia

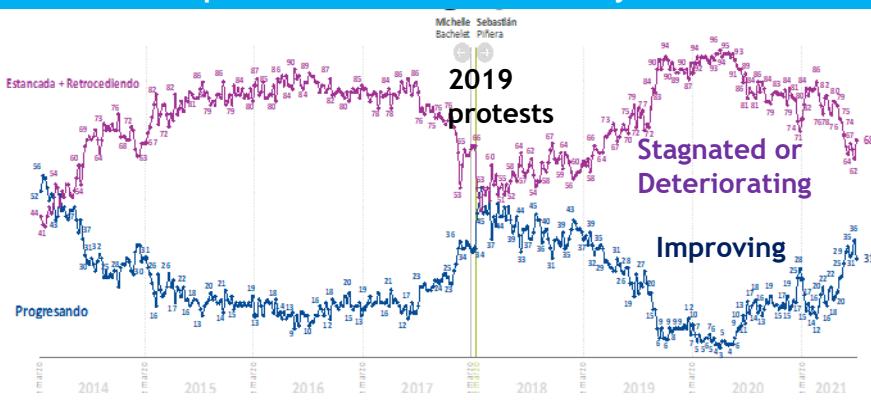


Sources: Invamer, August 2021

Approval of President Piñera in Chile



Perception on the state of the economy in Chile



Sources: Encuesta Plaza Pública 2021

- Low approval ratings have resulted in reduced governability.** In both Colombia and Chile, the Government has been forced to increase spending substantially to manage social unrest, in the face of upcoming Presidential elections. In both cases, the result has been a significant deterioration in the fiscal outlook
- Pessimism regarding the state of the economy** is influenced by still high unemployment figures. Unemployment and corruption rank as population's top concerns in Colombia
- In Chile, however, while firms and households are optimistic regarding their economic situation, they are pessimistic regarding the overall state of the economy

# Primary Elections Showed a Widespread Dissatisfaction in Argentina

JUNTOS POR EL CAMBIO

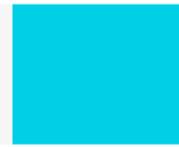


**40,02%**

8.852.581  
votos

Opposition -  
led by former  
President  
Macri

FRENTE DE TODOS

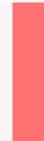


**31,03%**

6.863.835  
votos

President  
Fernandez and  
Cristina Kirchner  
party

IZQUIERDA



**5,85%**

1.294.499  
votos

Left parties

TERCERA VÍA



**4,46%**

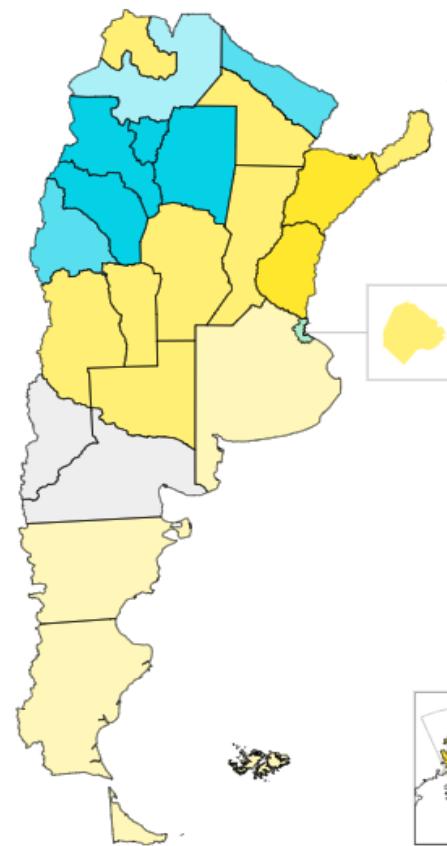
985.528  
votos

OTROS

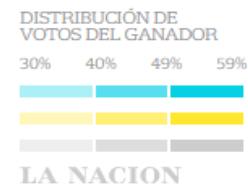


**14,87%**

3.289.606  
votos



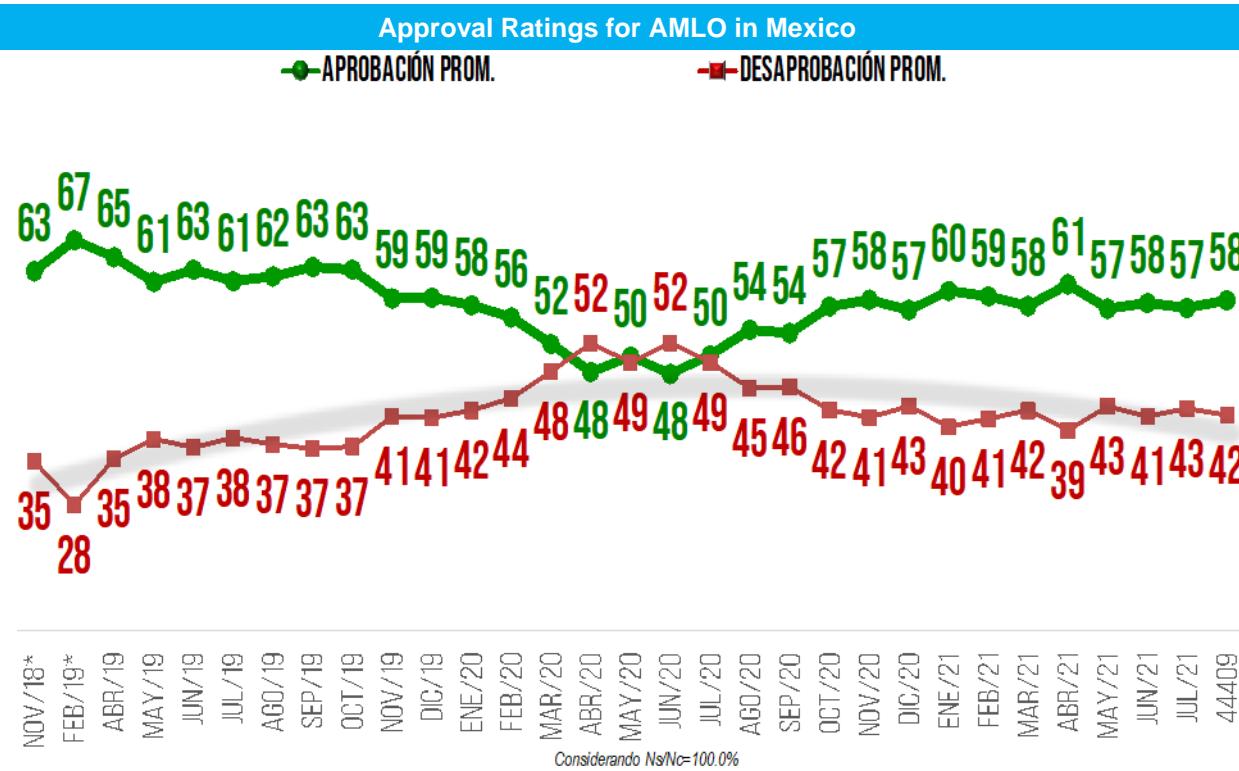
Clickéa en el mapa  
para más detalle



LA NACION

In Argentina, primary elections showed a worrying trend for the government ahead of the November mid-term elections. The main opposition party obtained more votes in key districts and a 9% difference countrywide. If these differences maintain in November, President Fernandez government will find itself in a much weaker position in congress for the last 2 years of its term

# Solo AMLO, en Mexico Parece Gozar de Alta Favorabilidad



Approval Ratings for Pedro Castillo in Peru									
Respuestas	TOTAL %	ÁMBITO		INTERIOR		REGIÓN			
		Lima %	Interior %	Urbano %	Rural %	Norte %	Centro %	Sur %	Oriente %
Aprueba	38	24	46	42	54	38	44	58	41
Desaprueba	45	66	34	37	28	44	39	21	34
No precisa	17	10	20	21	18	18	17	21	25

In Peru, President Castillo faces a very divided electorate, in particular with very low approval ratings in Lima, and most support coming from rural areas in the center and South of the country

# El Alto Nivel de Desigualdad Económica es uno de los Factores Detrás de la Inestabilidad Social en la Región

## Economic Inequality\* - Overall Red Flags in EM

Equality weighted average of rankings for Social Mobility Index, Income Gini Coefficient, Poverty, and Unemployment

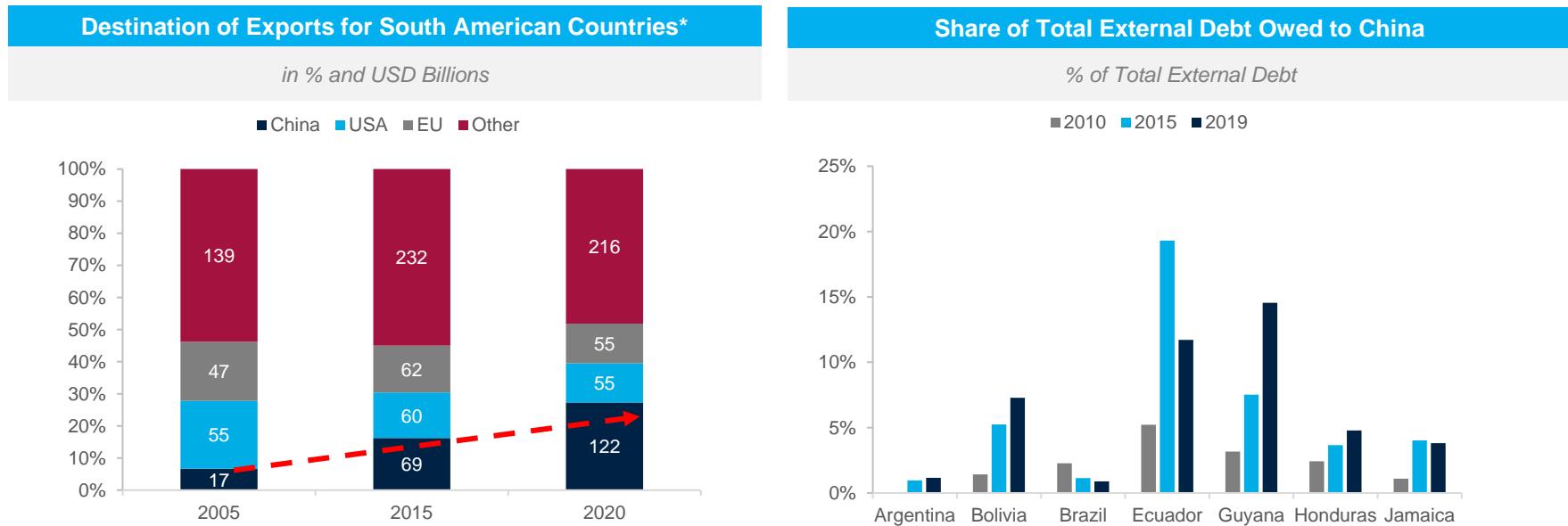
Rank	Country	Social Mobility Index	Gini Coefficient	Poverty	Unemployment	Rank	Country	Social Mobility Index	Gini Coefficient	Poverty	Unemployment
1	Czech Republic	74.7	25	10.1	2.9	27	Pakistan	36.7	31.6	24.3	4.7
2	Poland	69.1	30.2	15.4	3.6	28	Georgia	55.6	35.9	19.5	12.1
3	Hungary	65.8	29.6	12.3	4.4	29	Tunisia	51.7	32.8	15.2	16.7
4	Kazakhstan	64.8	27.8	4.3	6.1	30	Morocco	43.7	39.5	4.8	10.2
5	Moldova	59.6	25.7	7.3	4.7	31	Bangladesh	40.2	32.4	24.3	5.3
6	Slovak Republic	68.5	25	11.9	6.8	32	Peru	49.9	41.5	20.2	6.2
7	Vietnam	57.8	35.7	6.7	2.3	33	India	42.7	35.7	21.9	7.1
8	Thailand	55.4	34.9	9.9	1.0	34	El Salvador	47.4	38.8	22.8	7.0
9	Ukraine	61.2	26.6	1.1	9.5	35	Ghana	45.5	43.5	23.4	4.5
10	China	61.5	38.5	0.6	5.0	36	Armenia	53.9	29.9	26.4	20.2
11	Estonia	73.5	30.3	21.7	6.5	37	Brazil	52.1	53.4	0	13.7
12	Malaysia	62	41.1	5.6	4.6	38	Mexico	52.6	45.4	41.9	4.7
13	Croatia	66.7	29.7	18.3	7.2	39	Ecuador	53.9	45.7	25	6.2
14	Russia	64.7	37.5	12.6	5.7	40	Egypt	44.8	31.5	32.5	10.5
15	Sri Lanka	52.3	39.3	4.1	4.8	41	Turkey	51.3	41.9	14.4	13.9
16	Lithuania	70.5	35.7	20.6	8.4	42	Costa Rica	61.6	48.2	21	17.1
17	Indonesia	49.3	38.2	9.4	4.1	43	Côte d'Ivoire	34.5	41.5	39.5	3.5
18	Latvia	69	35.1	22.9	8.2	44	Argentina	57.3	42.9	35.5	11.7
19	Romania	63.1	35.8	23.8	4.8	45	Cameroon	36	46.6	37.5	3.6
20	Lao PDR	43.8	38.8	18.3	1.0	46	Paraguay	46.8	45.7	23.5	7.6
21	Uruguay	67.1	39.7	8.8	12.7	47	Panama	51.4	49.8	22.1	10.2
22	Philippines	51.7	42.3	16.7	3.4	48	Guatemala	43.5	48.3	59.3	4.7
23	Albania	55.6	33.2	14.3	11.7	49	Senegal	36	40.3	46.7	7.1
24	Bulgaria	63.8	41.3	23.8	5.7	50	Honduras	43.5	48.2	48.3	9.4
25	Serbia	63.8	36.2	23.2	9.1	51	Colombia	50.3	51.3	35.7	15.4
26	Chile	60.3	44.4	8.6	11.5	52	South Africa	41.4	63	55.5	28.7

Sources: World Bank, Tellimer, World Economic Forum, IFC Global Macro and Markets

LAC countries in red

\*Social Mobility Index (World Economic Forum) for 2020, where zero indicates minimal mobility and 100 the fastest mobility; Income Gini Coefficient for latest available year (World Bank), where zero indicates total equality and 100 indicates maximum inequality; Poverty rate (World Bank, latest available year) measures the share of population below the national poverty line; and Unemployment (World Bank for 2020) measures the unemployed as a share of the total labor force (modeled ILO estimate). Sorted by aggregate rank after simple average of ranks for individual variables

# La Dependencia de la Region en China ha Aumentado



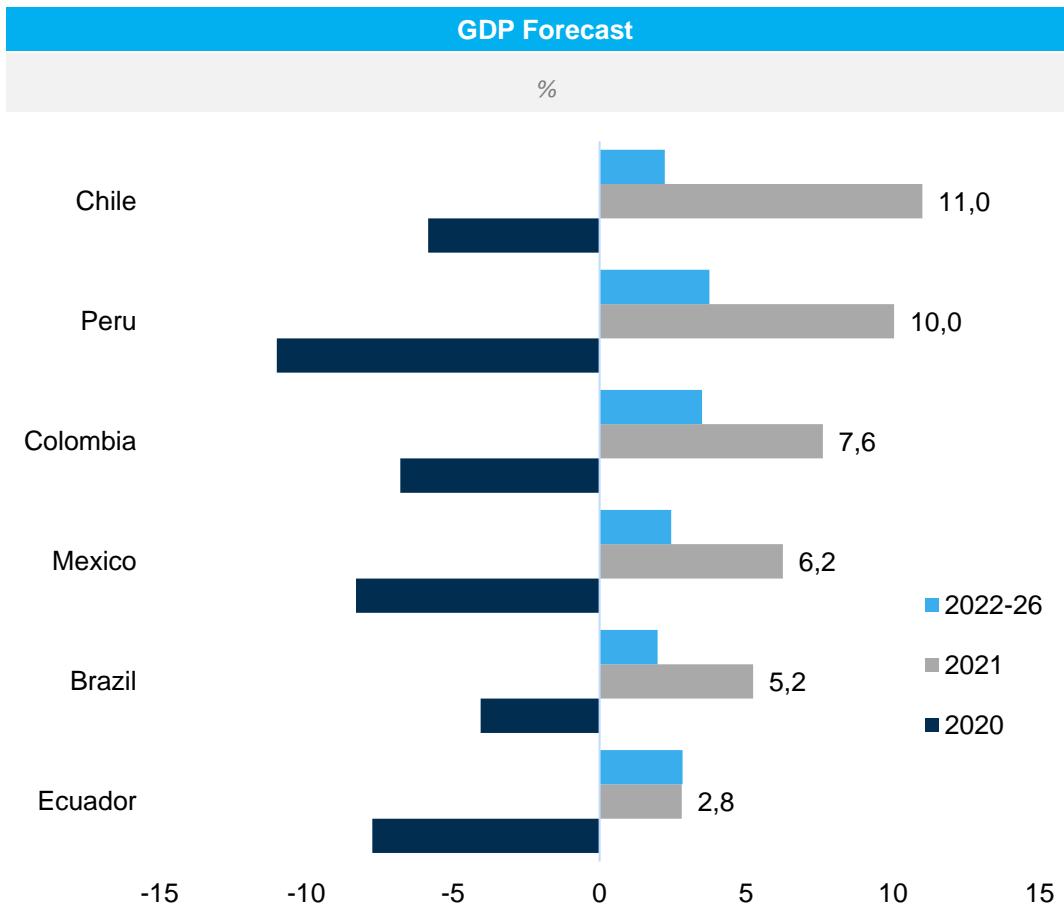
\*Excludes Guyana, Suriname and Venezuela

Sources: IMF Direction of Trade Statistics, World Bank's IDS, IFC Global Macro & Markets

- China's influence in LAC has grown over time.** Commodity exporters have taken advantage of China's demand for raw materials. Among major South American economies, exports to China in 2020 were seven times the level in 2005. Over the same period, exports to the US and EU have remained virtually stagnant and, combined, are less than those to China
- Greater financing needs, coupled with weaker credit ratings and lost access to capital markets at affordable rates has coincided with some countries relying more on Chinese creditors for public and private funding.** In many cases, this funding has not only plugged external or fiscal financing gaps but has financed investment in infrastructure
- Going forward, China's demand for commodities and provision of new credit will depend on the pace and structure of its economic growth.** A shift from investment to consumption-driven growth, and slower potential growth will diminish China's demand for oil. However, demand for food should continue to rise as household incomes grow. Further, Chinese outbound investment depends heavily on China's economic growth.\*\* As growth slows, so may financing for balance of payments support and infrastructure. Consequently, potential growth in LAC, particularly among commodity exporters, will remain subdued, absent successful efforts at economic diversification

\*\*Horn et al. (2019) "Chinese Overseas Lending" suggest that real GDP growth in China is a primary determinant of Chinese outbound capital flows.

# La Mayoría de Países de la Región Tendrá un Rebote Importante este año, Sin Embargo, el Mediano Plazo se ve mas Sombrío



**En 2021 el crecimiento reflejara un importante estímulo fiscal** – consumo fuerte, promovido por transferencias a los hogares o retiros pensionales (Chile, Perú)

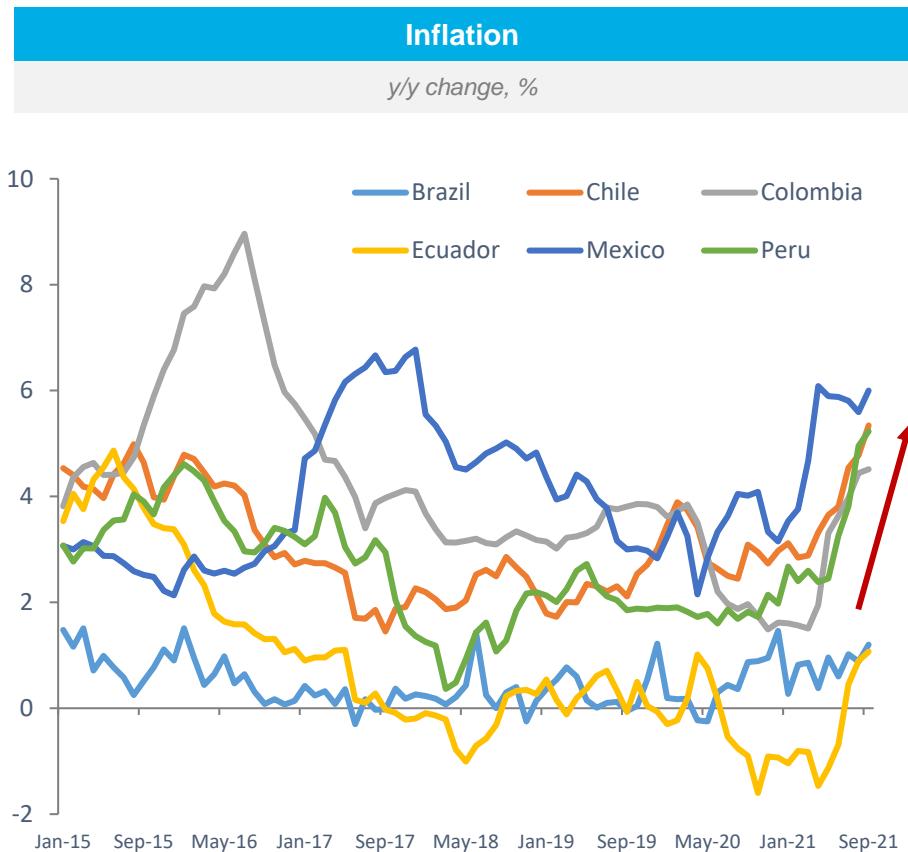
**La mayoría de economías están cerca de alcanzar el nivel Pre- COVID,** aunque permanecen por debajo del PIB potencial.

**Los distintos sectores se han recuperado a ritmos distintos.** El comercio se ha visto estimulado por el consumo, una vez se redujeron las medidas de cuarentena. El sector de la construcción ha tomado mayor tiempo en recuperarse.

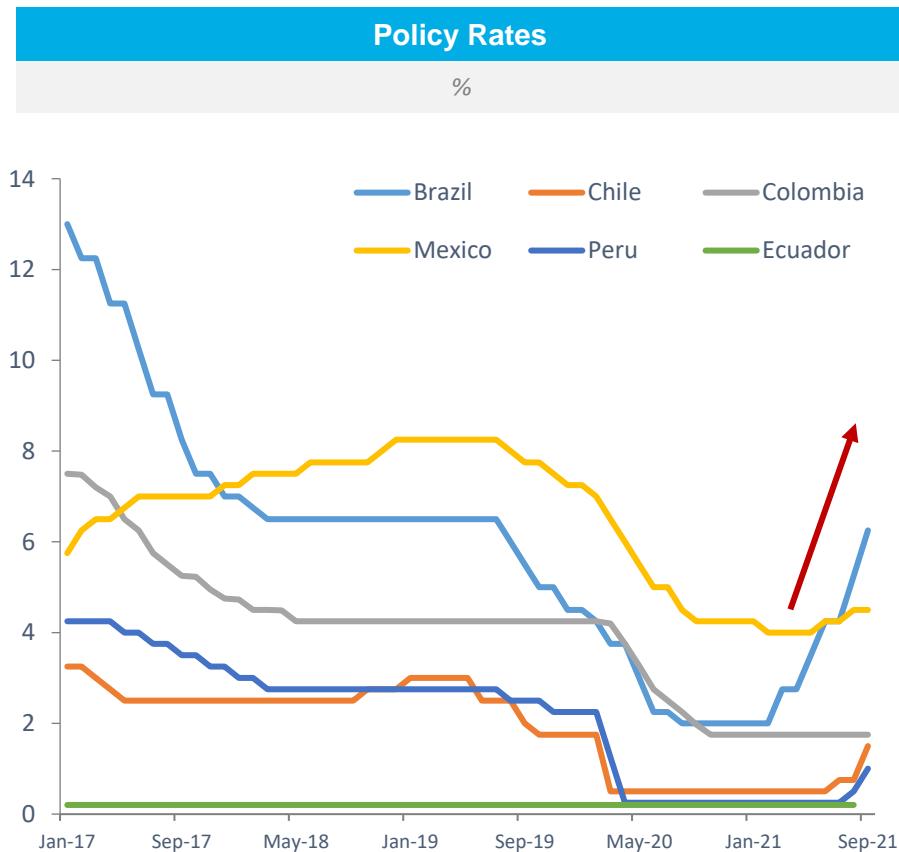
**En el mediano plazo, el ritmo de crecimiento dependerá de los resultados electorales y lo que esto implique para la política fiscal y la inversión privada.**

Source: IMF WEO, IFC Global Macro and Market Research

# En Línea con el Resto del Mundo, la Región Enfrenta un Choque Inflacionario

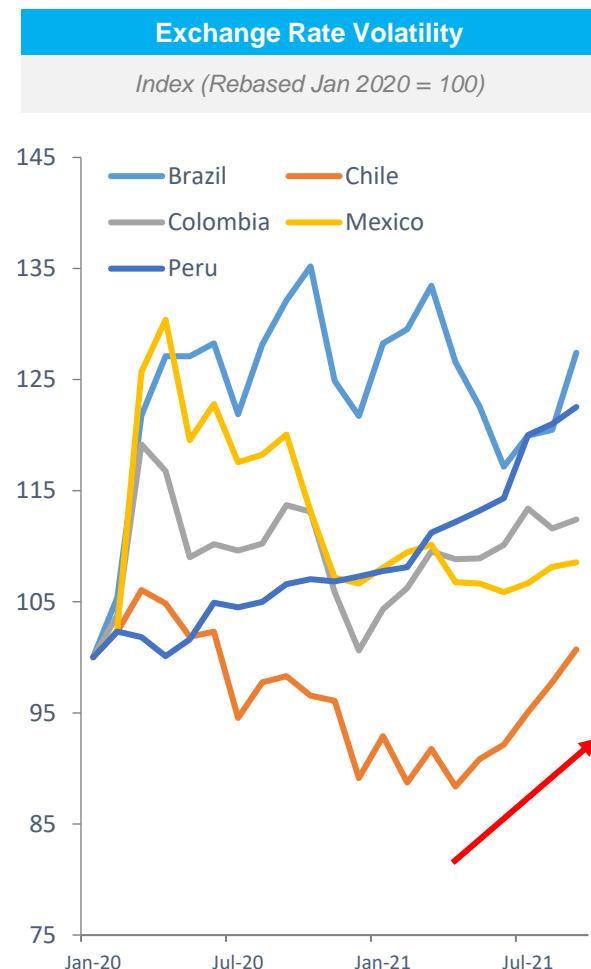
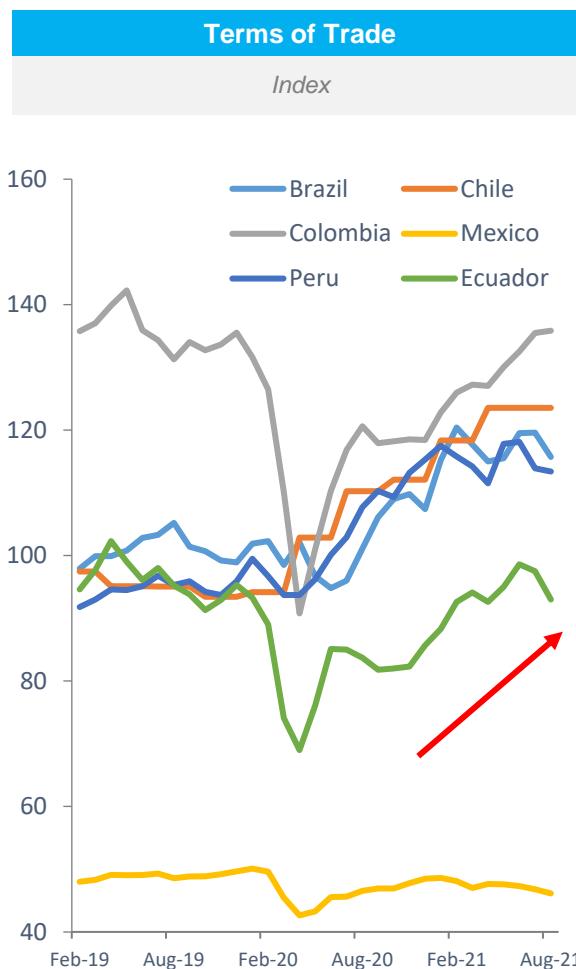
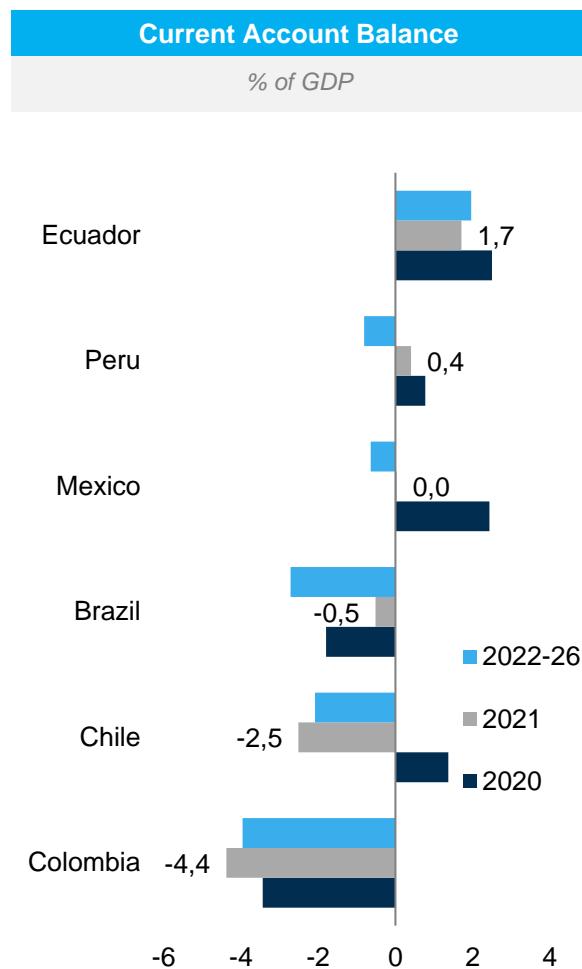


Source: Haver, IFC Global Macro and Market Research



Source: Haver, IFC Global Macro and Market Research

# La Mayoria de Paises ha Tenido un Choque Positivo de Terminos de Intercambio, pero las Monedas se han Debilitado

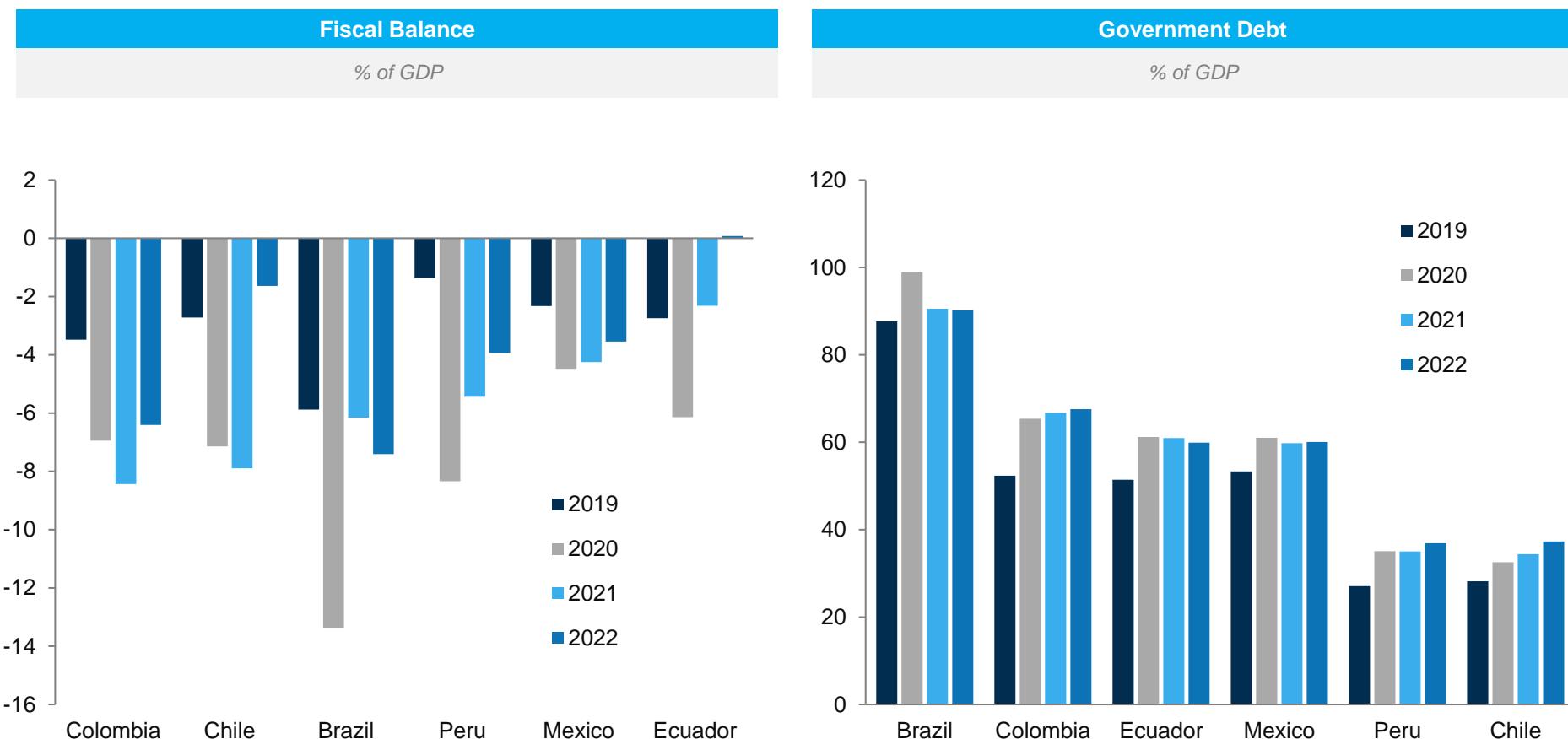


Sources: IMF, IFC Global Macro & Markets

Sources: Haver, IFC Global Macro & Markets

Sources: Haver, IFC Global Macro & Markets

# El Estímulo Fiscal ha sido Sustancial, y el Ritmo de Consolidación Fiscal es Incierto



Sources: IMF, IFC Global Macro & Markets

Sources: Central Banks, IFC Global Macro & Markets

# Perdidas de Capital Estimadas para el Sistema Financiero: Ecuador y Argentina Entre los mas Afectados

- The CGR model estimates the potential capital losses for banks in 27 countries (9 of them in Latin America) by including three main factors
- 1) increases in NPLs (and therefore, loan loss provisions) mainly due to the slowdown in economic activity, 2) changes to exchange rate fluctuations to net open FX positions and FX-denominated loans, and 3) mark-to-market losses (or gains) on bank holdings of government securities due to price changes or sovereign debt restructurings
- Against this framework, Argentina and Ecuador are most vulnerable countries in Latin America, as projected losses would diminish banks' capital by as much as 20% (1.1% of GDP). Least affected are likely to be banks in Panama and Chile
- Losses from rising NPLs are likely to be highest in Ecuador, Argentina, but also in Colombia, while banks in Guatemala, Argentina, and Mexico are exposed to currency depreciations as a high share of their loans is denominated in FX. High shares of assets invested in government bonds in Argentina, Ecuador and Brazil expose banks there to risks of default or a decline in bond prices
- Banks will be able to offset these losses by profits from other segments of their portfolio, but low profitability in Ecuador, Peru or Colombia may reduce banks' internal capacity to replenish capital

	Estimated Capital Losses						Policy Space	Profitability		
	Estimated Capital Losses (cumulative)			Estimated Capital Losses, % of capital				Return on Equity		Retained Earnings
	% Capital	% Assets	% GDP	NPLs	FX	Bonds	% GDP	% of equity		
	2021-2022			2020-21			2021	Actual 2020	Estimated 21/22	Estimated 21/22
<b>Worst Affected</b>										
Argentina	-23.8	-6.2	-1.1	-13.8	-2.0	-8.0	none	28.7	35.1	21.6
Ecuador	-17.5	-3.3	-1.1	-14.1	0.0	-3.4	none	5.8	5.1	3.5
<b>Significantly Affected</b>										
Peru	-11.5	-1.8	-0.9	-8.0	-2.2	-1.3	ample	2.8	13.3	5.4
Colombia	-10.3	-2.1	-1.0	-9.0	-0.9	-0.4	ample	10.2	12.7	5.3
<b>Least Affected</b>										
Guatemala	-6.1	-0.5	-0.3	-0.4	-3.1	-2.6	5.9	16.6	19.3	N/A
Brazil	-5.8	-0.7	-0.6	-0.8	-1.5	-3.5	3.5	11.2	21.0	7.6
Mexico	-5.8	-0.8	-0.3	-2.4	-1.9	-1.5	6.7	11.1	22.9	10.3
Chile	-4.8	-0.8	-0.5	-2.5	-1.5	-0.7	7.3	7.1	20.5	6.3
Panama	-3.3	-1.1	-0.8	-2.8	0.0	-0.4	limited	6.0	19.2	N/A

\*All else held equal except losses from NPLs, FX depreciation and government bond holdings. Changes in capital ratios assume no changes in risk-weighted assets, or changes to capital from fluctuations in profitability and/or dividends

Sources: IMF, Oxford Economics, Bloomberg, IFC Global Macro & Markets

# Como se ve el Futuro para la Region?

- **Los altos precios de commodities** seguirán contribuyendo al crecimiento y a reducir desequilibrios externos en el corto plazo – sin embargo, la desaceleración de puede China limitar este efecto hacia adelante
- Los Bancos Centrales continuarán **reduciendo el estímulo monetario**, tratando de anclar las expectativas de inflación, lo que deberá traducirse en un crecimiento más moderado en 2022-2023
- El principal reto de la mayoría de países de la región será la **consolidación fiscal**, que a su vez estará en manos de nuevos gobernantes que enfrentan fuerte presión social.
- **La incertidumbre política** limitará la capacidad de los gobiernos para ajustar sus finanzas públicas.
- Gobiernos de corte populista (Perú) tendrán un impacto negativo sobre la inversión privada, afectando la recuperación económica hacia delante.
- Si bien 2021 será un año de rebote en actividad económica, las economías se desacelerarán en 2022, convergiendo a niveles de PIB potencial más bajos.



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<b>COUNTRY RISK</b>		<b>MACRO</b>		<b>PORTFOLIO</b>	
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