What matters for Latam in 2020?

6th BBVA Latin America Conference

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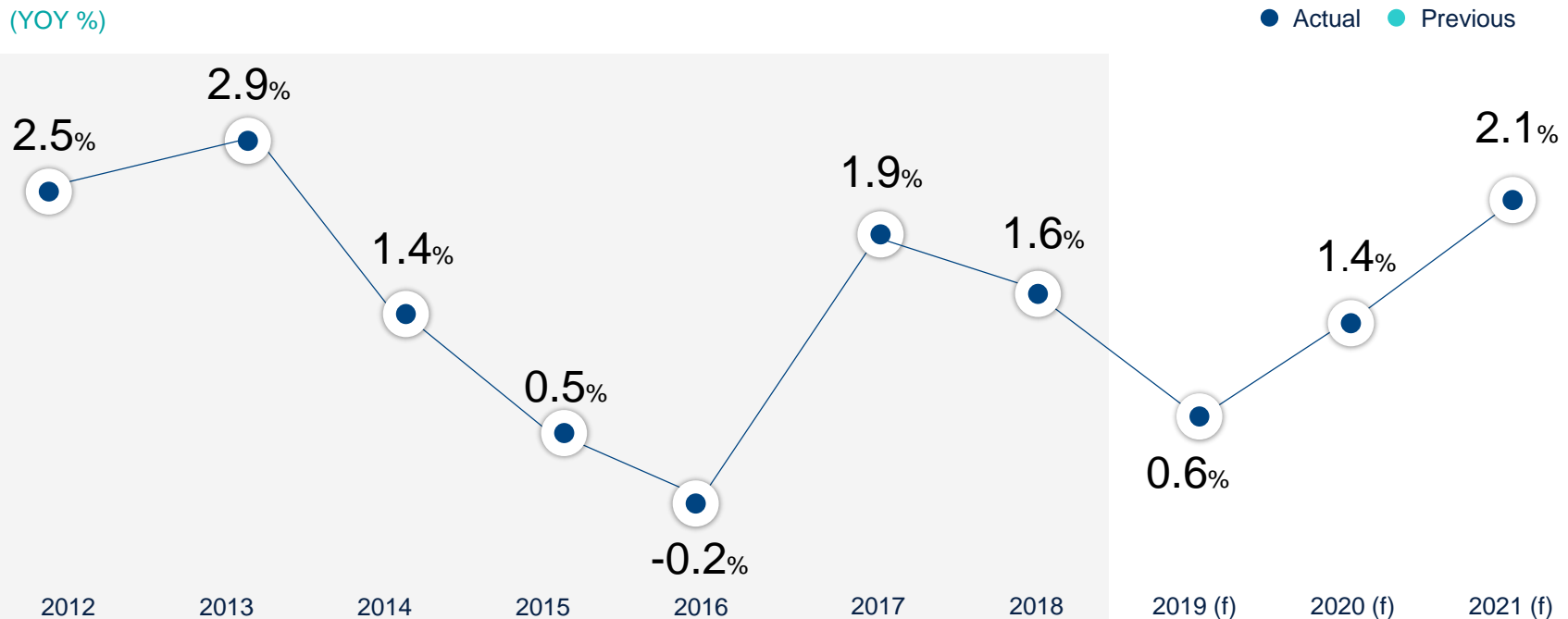
Jorge Sicilia

Creating Opportunities

Modest recovery: Latin America will grow 1.4% in 2020 and 2.1% in 2021, after having expanded 0.6% in 2019

GDP GROWTH IN LATIN AMERICA (*)
(YOY %)

● Actual   ● Previous

2.5% 2012
2.9% 2013
1.4% 2014
0.5% 2015
-0.2% 2016
1.9% 2017
1.6% 2018
0.6% 2019 (f)
1.4% 2020 (f)
2.1% 2021 (f)

(*) (f) = forecast. Latam: weighted average of Argentina, Brazil, Chile, Colombia, México, Peru and Uruguay. Source: BBVA Research

Growth will remain weak relative to both the global economy and the "golden years" (2003-12), when expansion averaged 3.8%
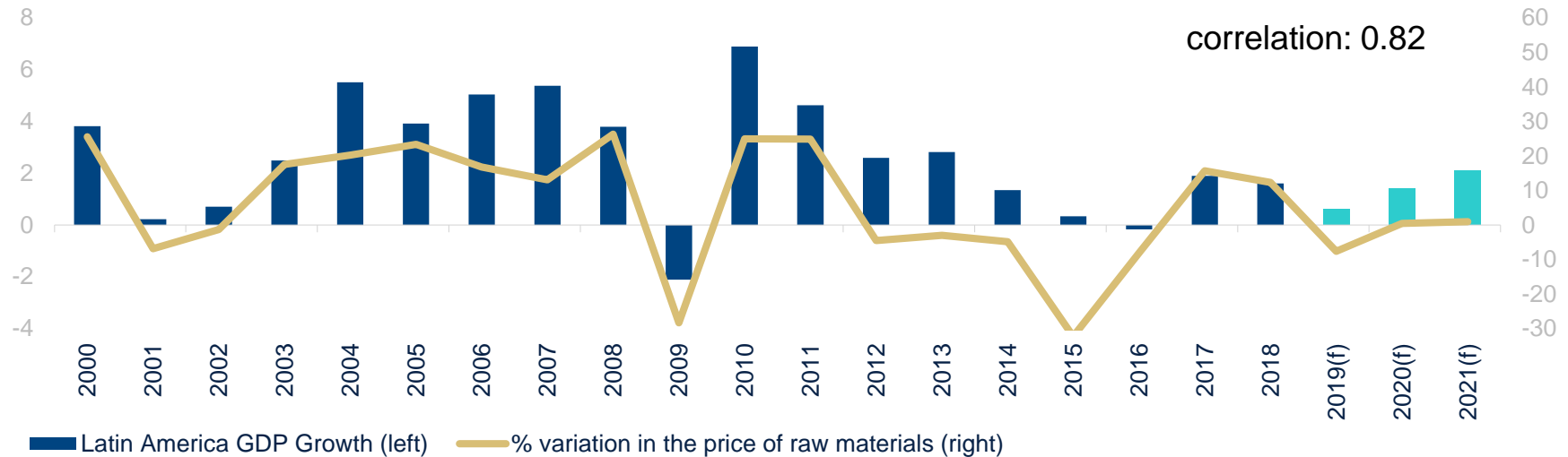
GDP GROWTH: LATIN AMERICA AND WORLD (*)
(% A/A)
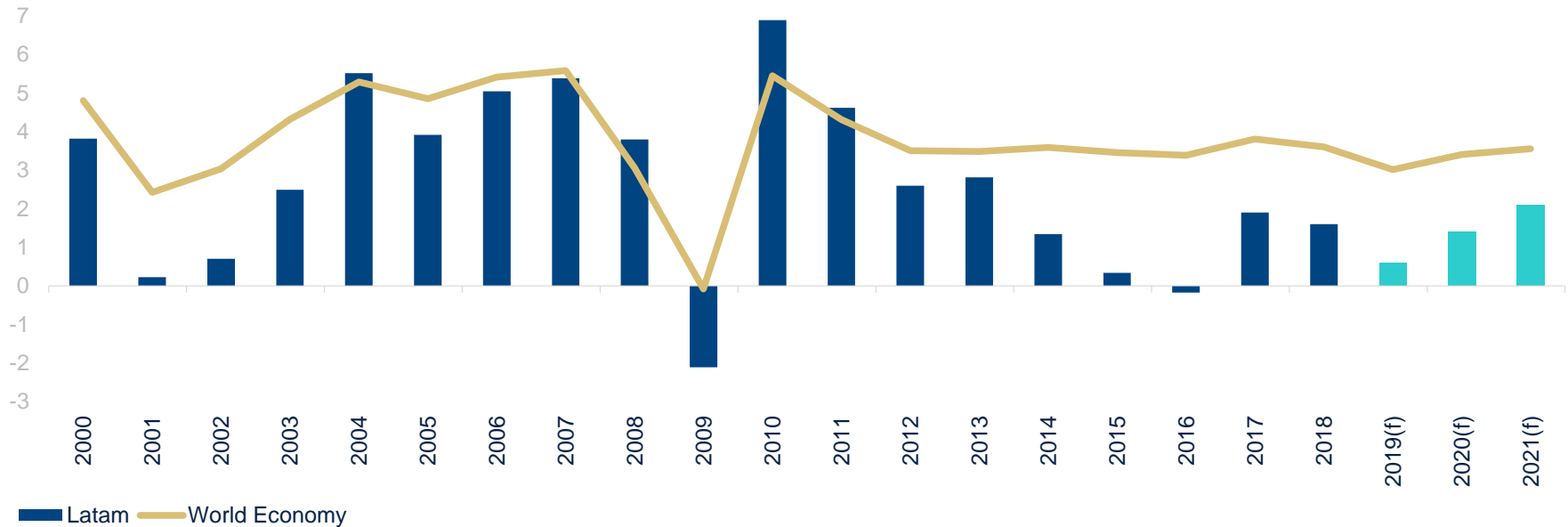
■ Latam — World Economy

(*) (f) = forecast. Latam: weighted average of Argentina, Brazil, Chile, Colombia, México, Peru and Uruguay. Source: BBVA Research

The relatively low growth rates in the last few years are to some extent related to the deceleration in China and commodity prices

GDP GROWTH IN LATIN AMERICA AND CHANGE IN AVERAGE COMMODITY PRICES (*)
(% A/A)

correlation: 0.82

■ Latin America GDP Growth (left)　　── % variation in the price of raw materials (right)
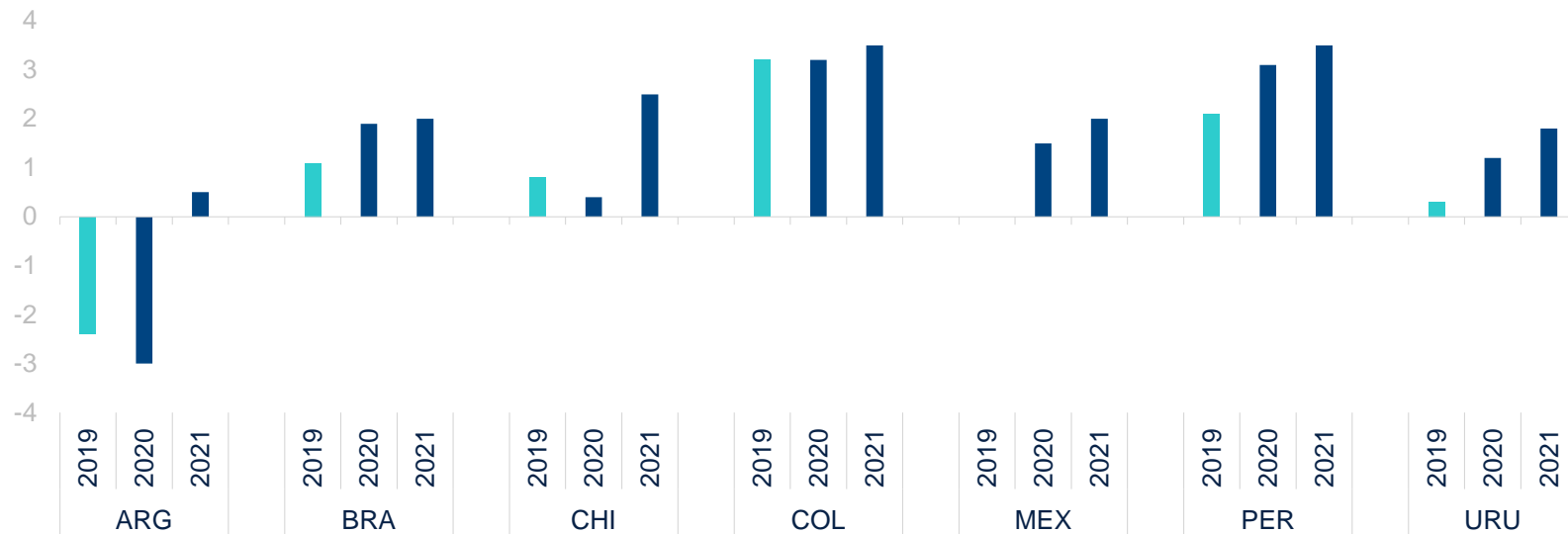
(*) Weighted average of Argentina, Brazil, Chile, Colombia, México, Peru and Uruguay.
Source: BBVA Research, IMF

Heterogeneity: growth to converge to more than 3% in COL and PER, to around 2% in MEX, BRA, CHI and URU, while ARG will face a recession
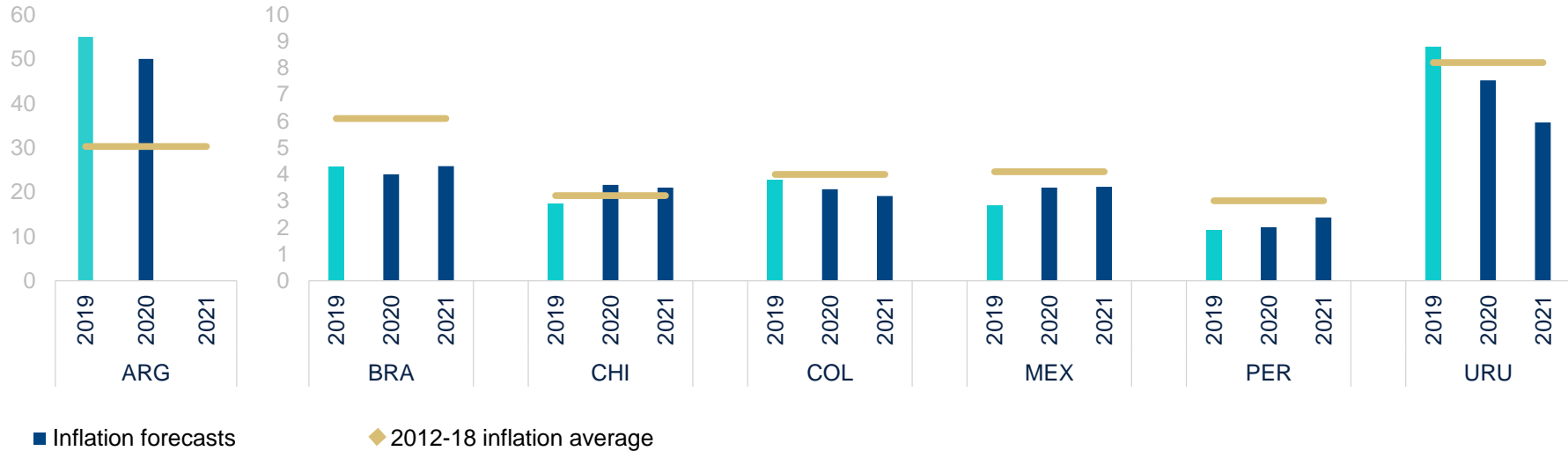

GDP GROWTH
(% A/A)

(
Source: BBVA Research, IMF

# Inflationary pressures will remain contained, mostly due to the weakness of domestic demand and low global inflation

LATAM: ANNUAL INFLATION
(%, END OF PERIOD)

■ Inflation forecasts   ◆ 2012-18 inflation average

Source: BBVA Research

Fed's expansive tone and domestic inflation under control will allow most central banks to keep monetary stimulus in place
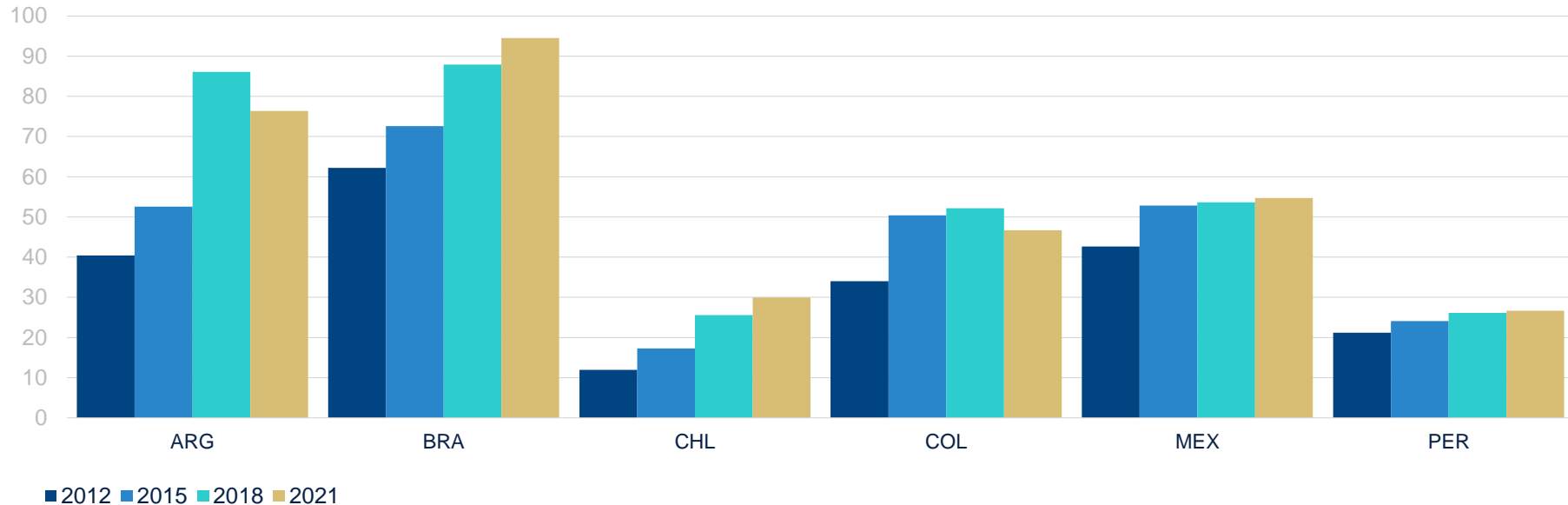
LATAM: INTEREST RATES
(%, END OF PERIOD)

- Interest rate forecasts
- 2012-18 average

Source: BBVA Research
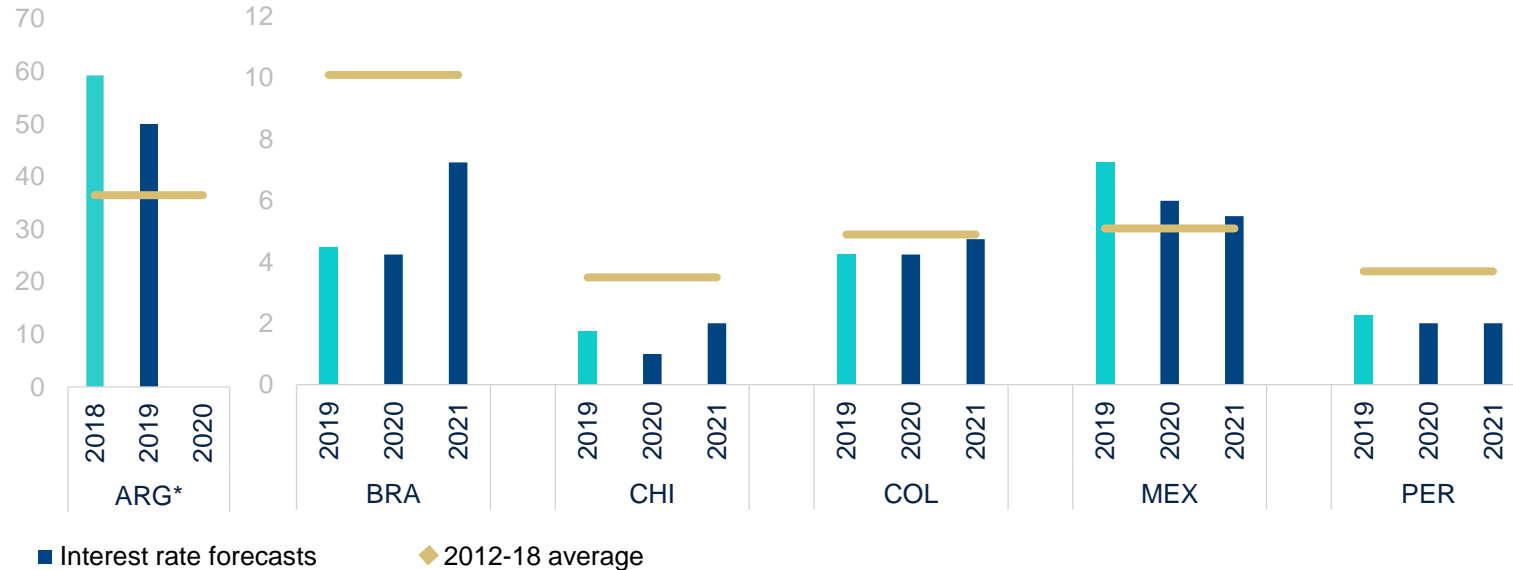
Fiscal policy will be more focused on keeping public accounts under control than on supporting growth

LATAM: PUBLIC DEBT
(% OF GDP)

■ 2012 ■ 2015 ■ 2018 ■ 2021
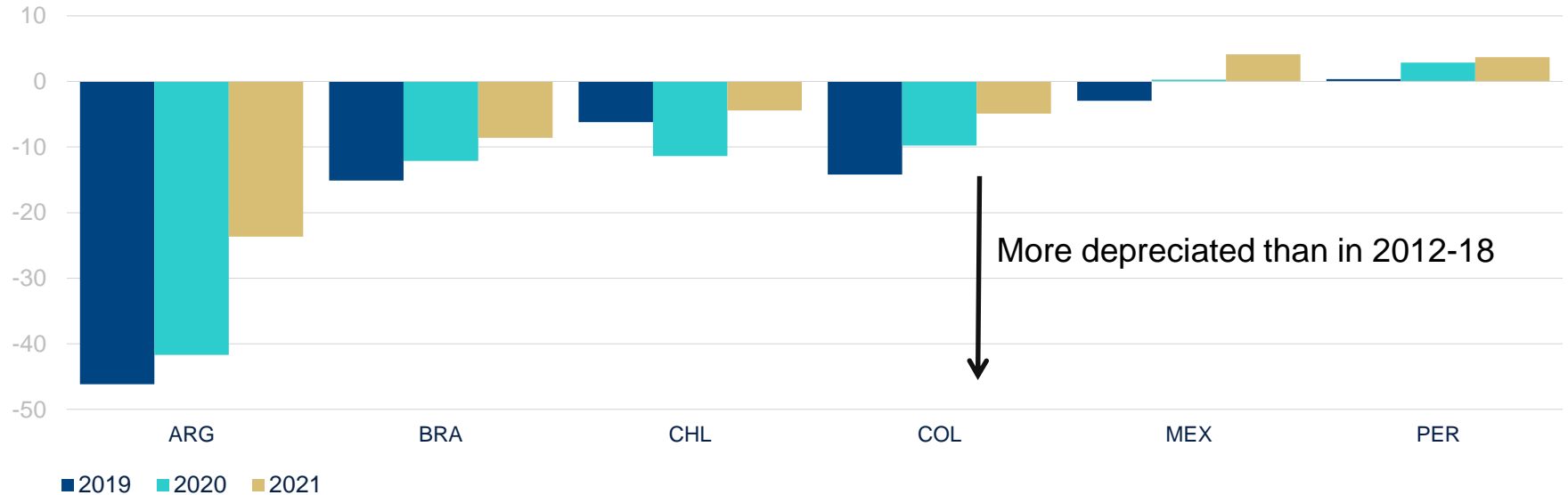
(*) Forecasts for 2021.
Source: IMF

Weaker currencies will help the region to cope with lower commodity prices

REAL EXCHANGE RATE: 2019-21 LEVELS COMPARED TO THE 2012-18 AVERAGE
(BILATERAL RATE AGAINST THE USD, %, ANNUAL AVERAGE)

More depreciated than in 2012-18

Legend: 2019 2020 2021

(*) Forecasts for 2020 and 2021.
Source: BBVA Research

Challenges: driving growth up in a context of relatively low commodity prices and global growth are among the main ones

ARGENTINA

- **Debt** restructuring
- Sustainable reduction in **inflation**
- **Growth recovery** in a dollar scarcity context

BRAZIL

- **Public debt** sustainability
- Reforms to improve **productivity**

CHILE

- **Social unrest**
- **Institutional uncertainty** created by decision to elaborate a new constitution

COLOMBIA

- **External vulnerability**
- **Fiscal consolidation** and fulfillment of fiscal targets
- **Populism** threat

MEXICO

- **Growth recovery**
- **Uncertainty** about policy decisions
- Take advantage of the **USMCA** opportunities

PERU

- Boost **public investment**
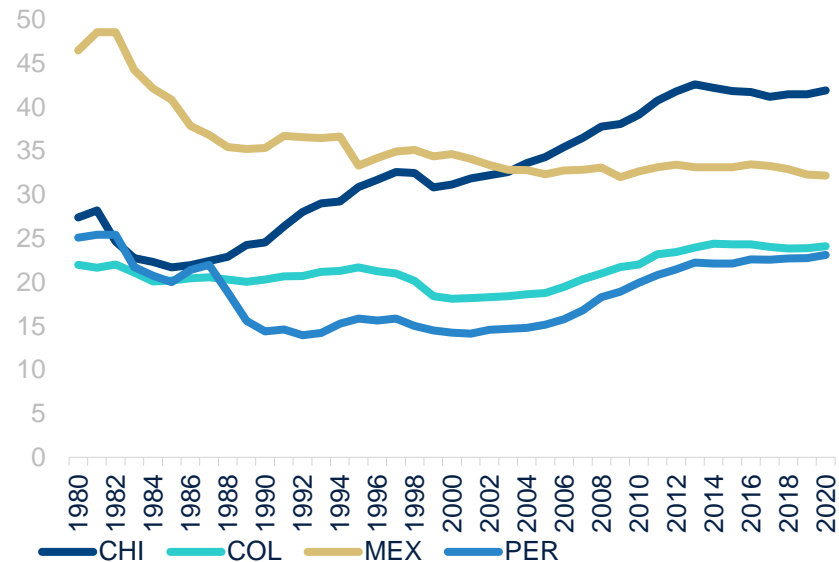- **Political uncertainty**

From a more long-term perspective, productivity growth is a problem that prevents the closure of the income gap with respect to the US

GDP PER CAPITA: AS A SHARE OF US GDP PER CAPITA
(%, PPP-ADJUSTED)

Legend: ARG, BRA, PAR, URU

GDP PER CAPITA: AS A SHARE OF US GDP PER CAPITA
(%, PPP-ADJUSTED)
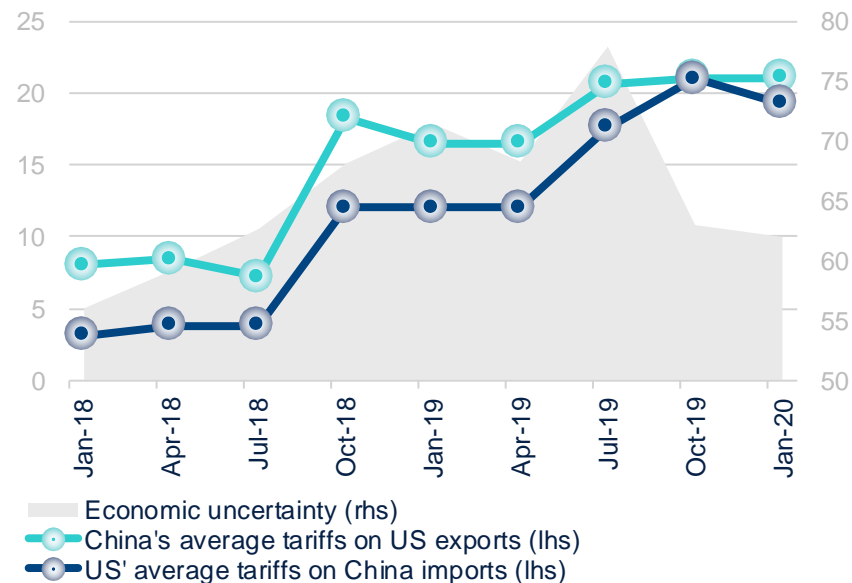

Legend: CHI, COL, MEX, PER
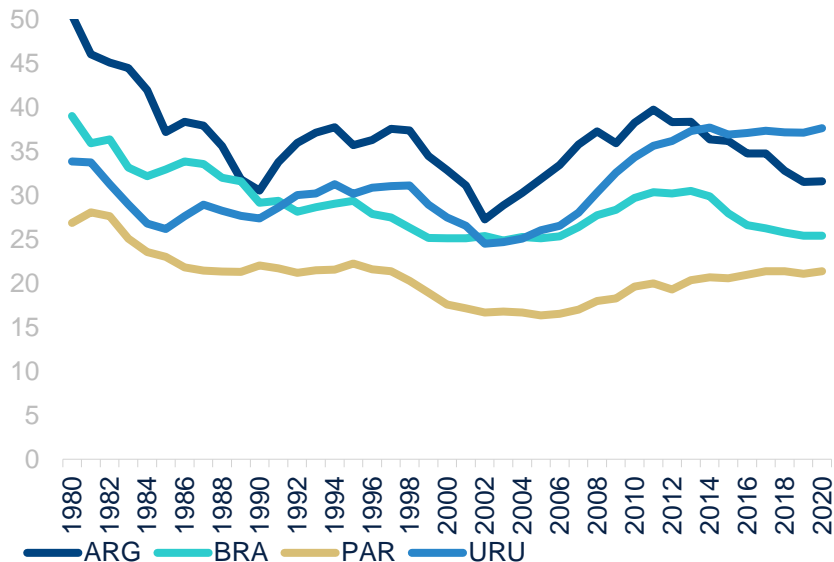
(*) Forecasts for 2019 and 2020.
Source: BBVA Research, IMF

Regional integration and trade opening could be further obstructed by the "anti-trade" global environment and more "managed" trade

TARIFFS AND ECONOMIC UNCERTAINTY*
(%, INDEX: 0 TO 100)

- Economic uncertainty (rhs)
- China's average tariffs on US exports (lhs)
- US' average tariffs on China imports (lhs)

TRADE AND INVESTMENT OPENESS
(2013-2017 AVERAGE; % OF GDP)

- Exports and Imports as % of GDP
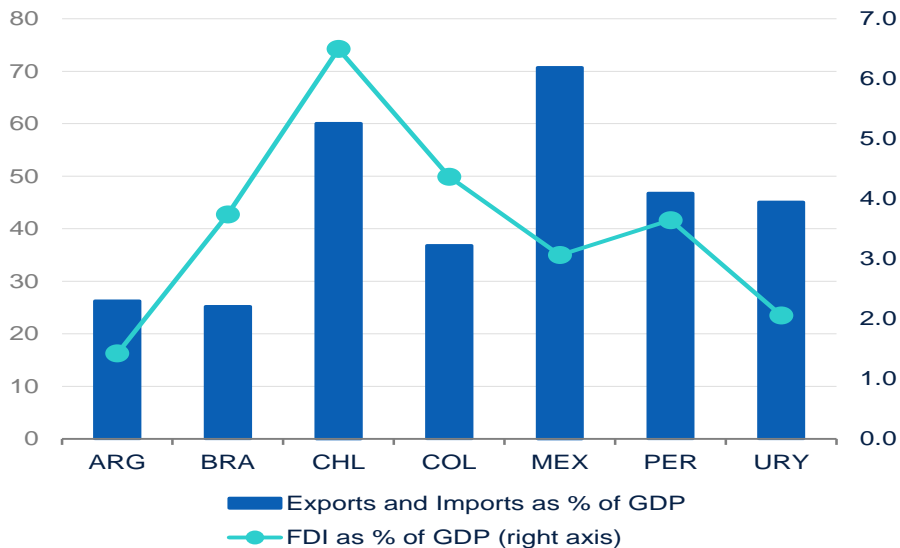- FDI as % of GDP (right axis)

* Average tariffs at the beginning of each quarter. BBVA Research Index of Economic Uncertainty: tone of the news about economic uncertainty; quarterly average (except 1Q20: average until January 9, 2020).
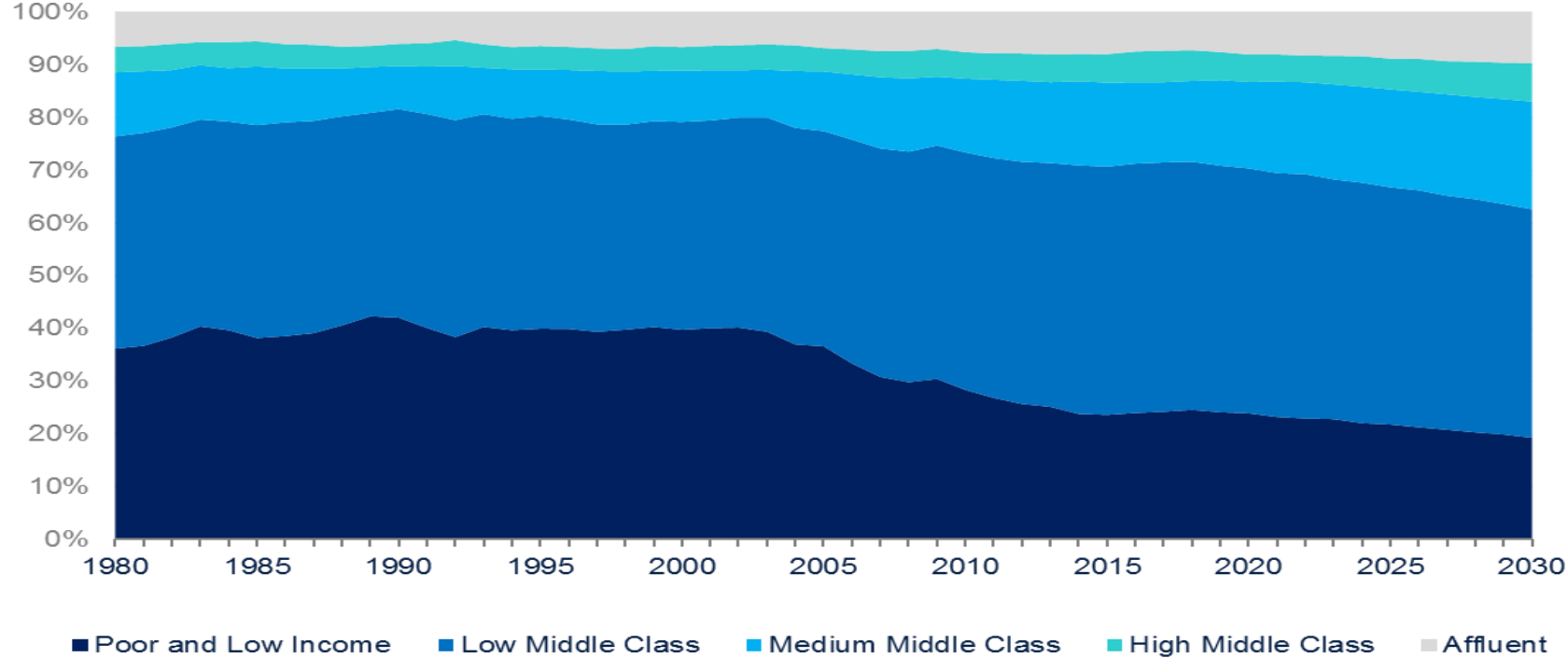Source: BBVA Research, PIIE

Exports and imports of goods and services, FDI Inflows.
Source: BBVA Research, WB

# Expansion of middle classes is likely to continue, but at a much softer pace than in the recent past…

TOTAL LATIN AMERICAN POPULATION BY INCOME GROUPS (%)

Legend: ■ Poor and Low Income ■ Low Middle Class ■ Medium Middle Class ■ High Middle Class ■ Affluent

… and, in spite of the improvements, poverty and inequality will continue to be a concern in most countries

POPULATION BY INCOME GROUPS IN SELECTED COUNTRIES
(SHARE OF TOTAL POPULATION)

■ Poor and low income   ■ Low Middle Class   ■ Medium Middle Class   ■ High Middle Class   ■ Affluent
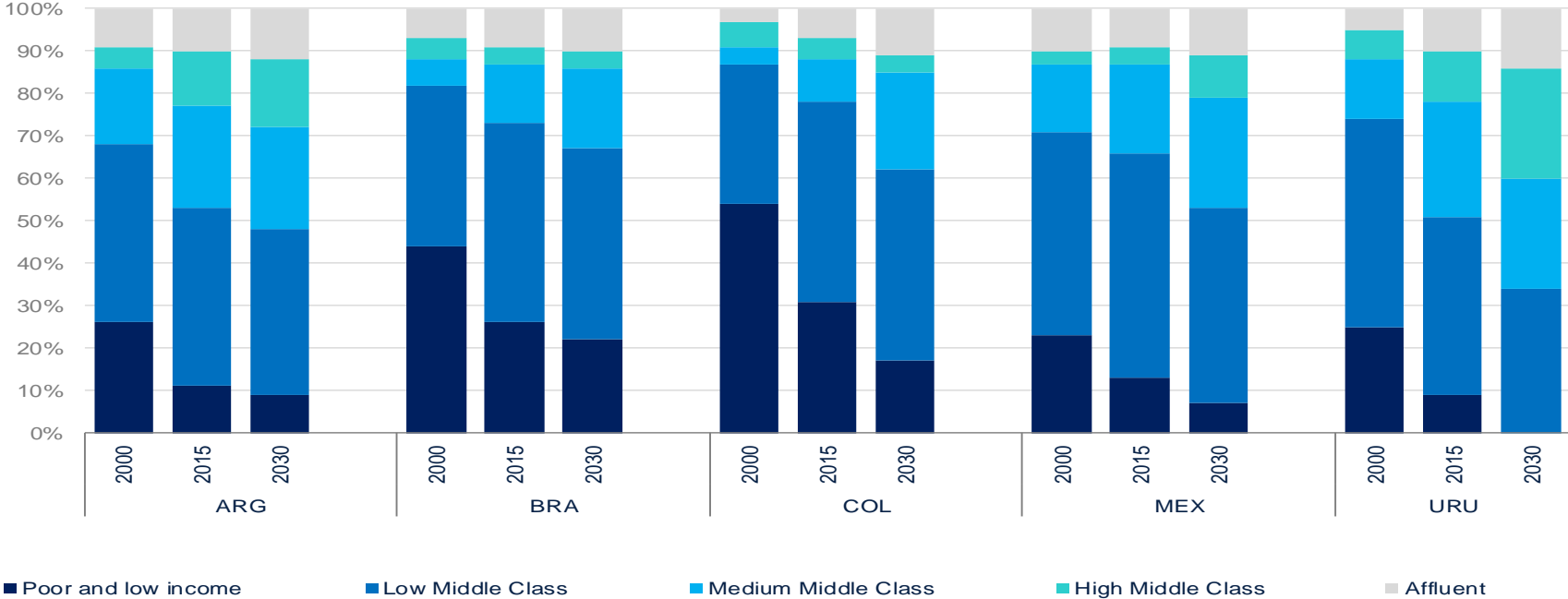
Source: BBVA Research

Inequality is still very high, despite having declined in most countries during the last 15 years

COEFICIENTE DE GINI Y PIB PER CÁPITA

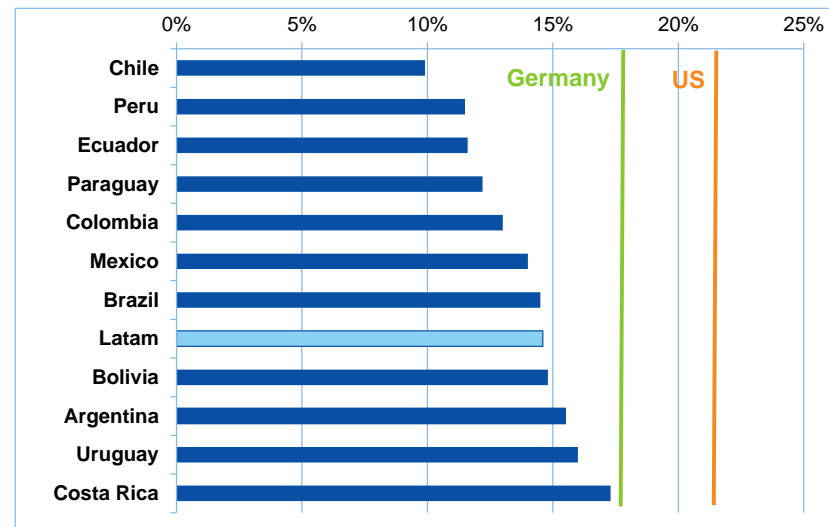FUENTES: Fondo Monetario Internacional y Banco Mundial.
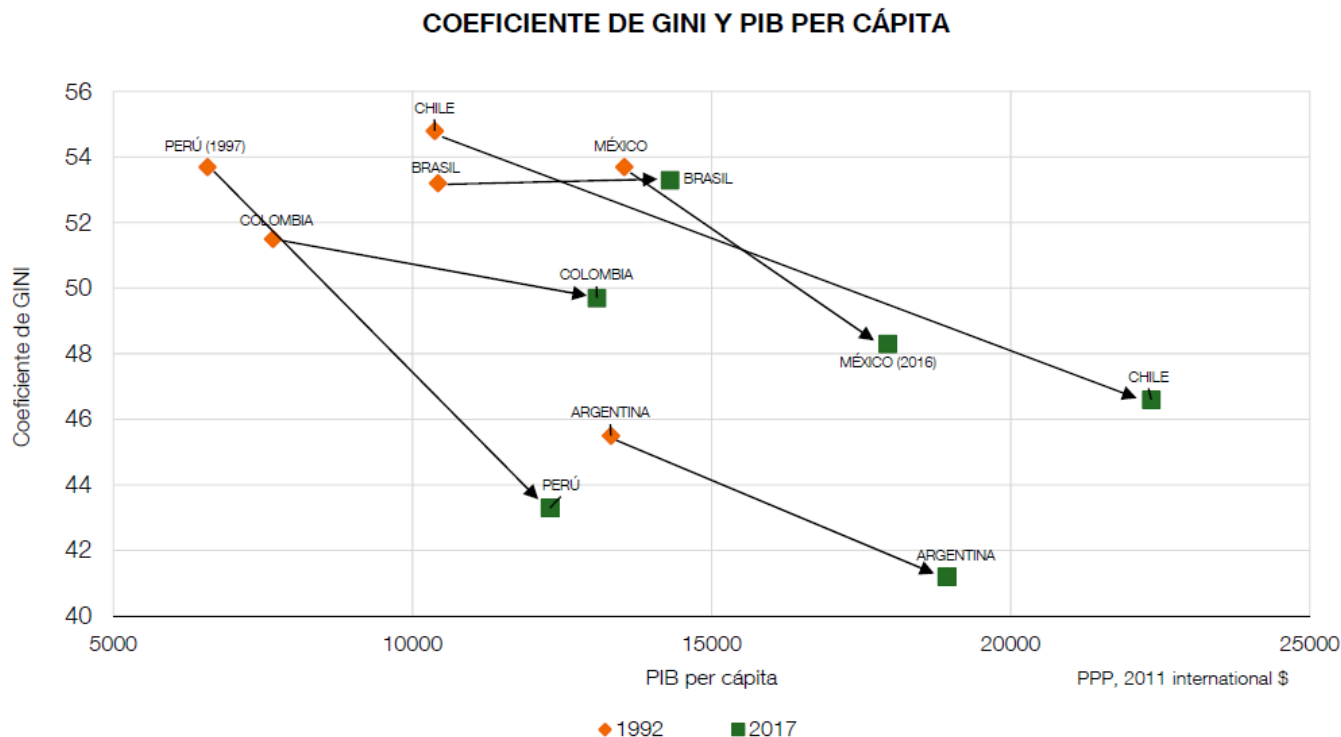
As with inequality, intergenerational mobility in education (a proxy for social mobility) has been improving, but it is still low in Latam

EDUCATION LEVEL COMPOSITION MATRIX(*)
(%, END OF PERIOD)
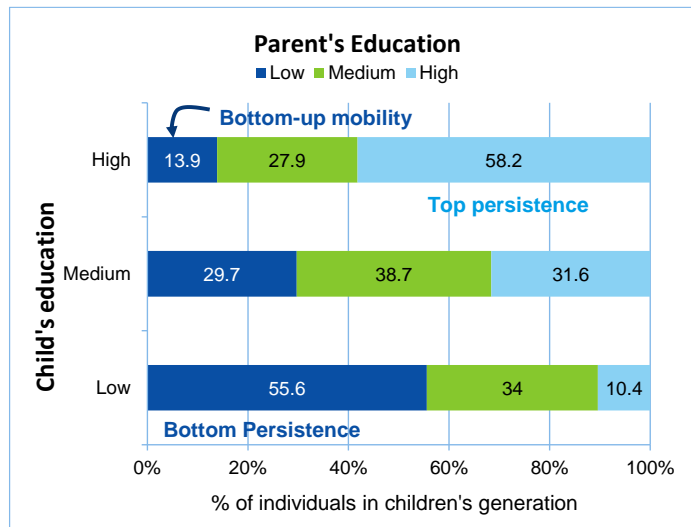
BOTTOM-UP MOBILITY (*)
(%, END OF PERIOD)

(*) Composition of educational classes by parental education background. Relative educational position measured in standard deviation from own country's average years of education and grouped in three quartiles (high/medium/low). People born 1940-1990.
Source: BBVA Research based on Neidhofer, Serrano and Leonardo (2017)

(*) Percentage of individuals with a high education coming from parents with low education
Source: BBVA Research based on Neidhofer, Serrano and Leonardo (2017)

Social unrest and political tensions will continue to be a source of concern over the next years

BBVA RESEARCH INDEX OF POLITICAL TENSIONS (*)
(ANNUAL AVERAGES)
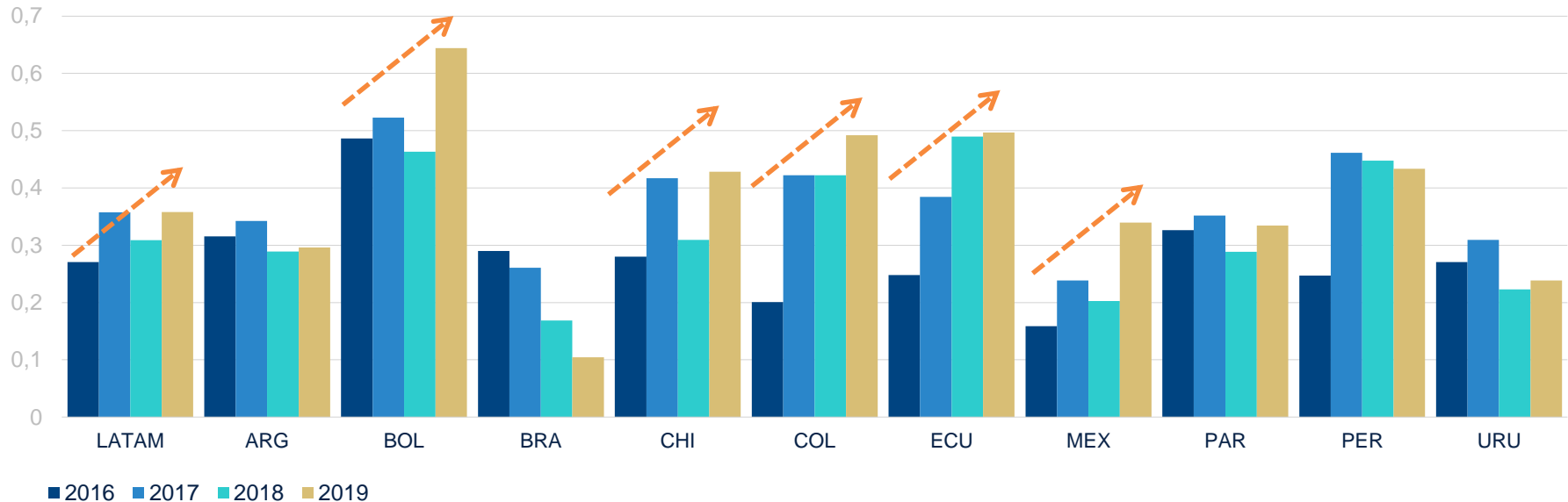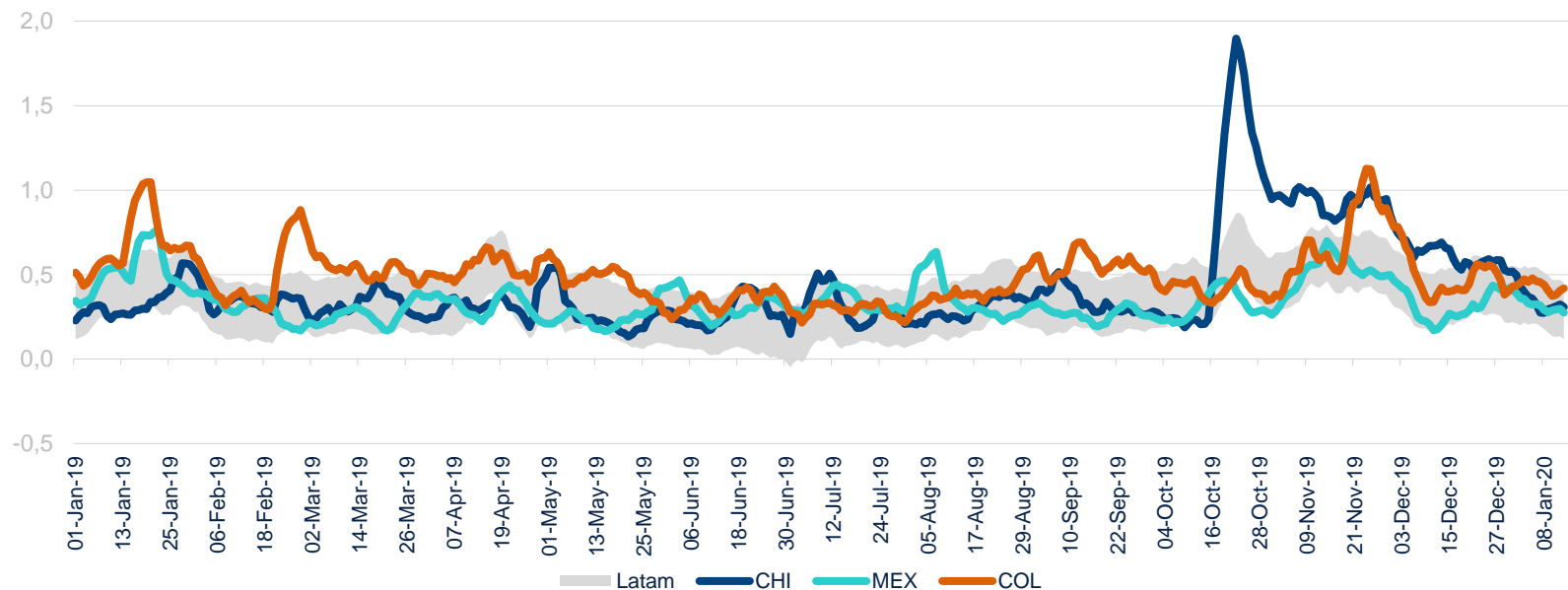

■ 2016 ■ 2017 ■ 2018 ■ 2019

(*) Tone of the news on politics in the local press, weighted by media coverage.
Source: BBVA Research, GDELT

Protests have peaked in the October/November and eased more recently

BBVA Research index of political tensions
(%, PPP-ADJUSTED)

(*) Tone of the news on politics in the local press, weighted by media coverage.
Source: BBVA Research, IMF

Protests in Latin America

✓ Against leftist (BOL, VEN, BRA [Rousseff], NIC) and rightist (ECU, CHI, COL) governments

✓ Possible triggers?

 - Growth deterioration

 - High inequality

 - Low social mobility

 - Scarce and expansive public services (quantity / quality)

 - (Frustrated) expectations of the middle classes

 - Corruption scandals

 - Disconnection between the political system and the population

 - Reduction of political freedoms, attempts to hold on to power

 - Demonstration effect?

✓ Greater interconnectivity: a catalyst?

✓ Channels of impact on activity: break up of productive chains (short term); uncertainty (short and medium term); institutional changes (long term, potential growth)

In the past, insufficient and slow tech adoption was a problem; now the region has a new opportunity to reap the gains of tech innovation…
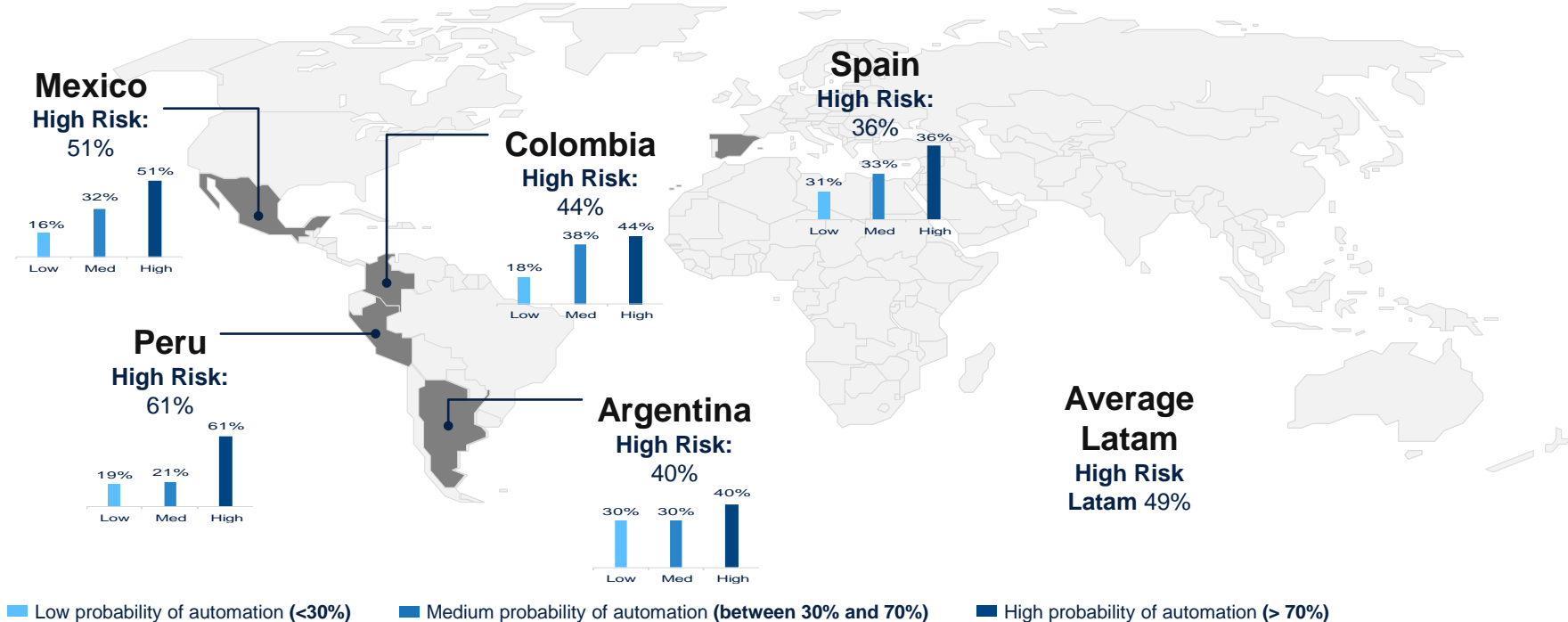
DIGITALIZATION INDEX (DIGIX) (*)
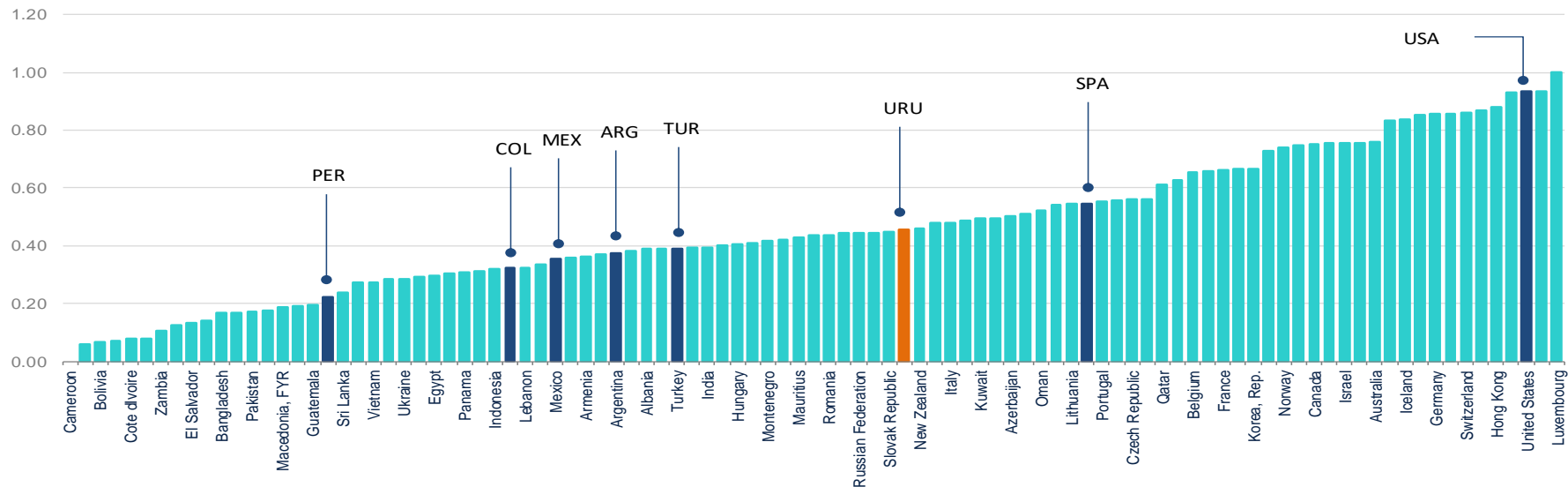
(*) DiGiX is a composite index that measures the degree of digitization in 99 countries around the world. It classifies information into three broad categories, supply conditions, demand conditions, and institutional environment.
Source: BBVA Research

… even though job destruction could be a challenge: between 40% and 61% of the workforce is potentially at risk in Latin America

Mexico
High Risk:
51%

- Low 16%
- Med 32%
- High 51%

Colombia
High Risk:
44%

- Low 18%
- Med 38%
- High 44%

Spain
High Risk:
36%

- Low 31%
- Med 33%
- High 36%

Peru
High Risk:
61%

- Low 19%
- Med 21%
- High 61%

Argentina
High Risk:
40%

- Low 30%
- Med 30%
- High 40%

Average Latam
High Risk
Latam 49%

Low probability of automation **(<30%)**   Medium probability of automation **(between 30% and 70%)**   High probability of automation **(> 70%)**

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Source: BBVA Research

GDP forecast table

	GDP (% Y/Y)				
	2017	2018	2019	2020	2021
Argentina	2.7	-2.5	-2.4	-3.0	0.5
Brazil	1.3	1.3	1.1	1.9	2.0
Chile	1.3	4.0	0.8	0.4	2.5
Colombia	1.4	2.6	3.2	3.2	3.5
Mexico	2.4	2.1	0.0	1.5	2.0
Peru	2.5	4.0	2.1	3.1	3.5
Uruguay	2.6	1.6	0.3	1.2	1.8

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Source: BBVA Research