



**Asia-Pacific
Economic Cooperation**

2019/SOM1/FDM/004

Agenda Item: 3.1

Economic Outlook and Risks in Latin America and the Caribbean

Purpose: Information
Submitted by: World Bank Group



**Finance and Central Bank Deputies' Meeting
Santiago, Chile
7-8 March 2019**



WORLD BANK GROUP

Economic Outlook and Risks in Latin America and the Caribbean

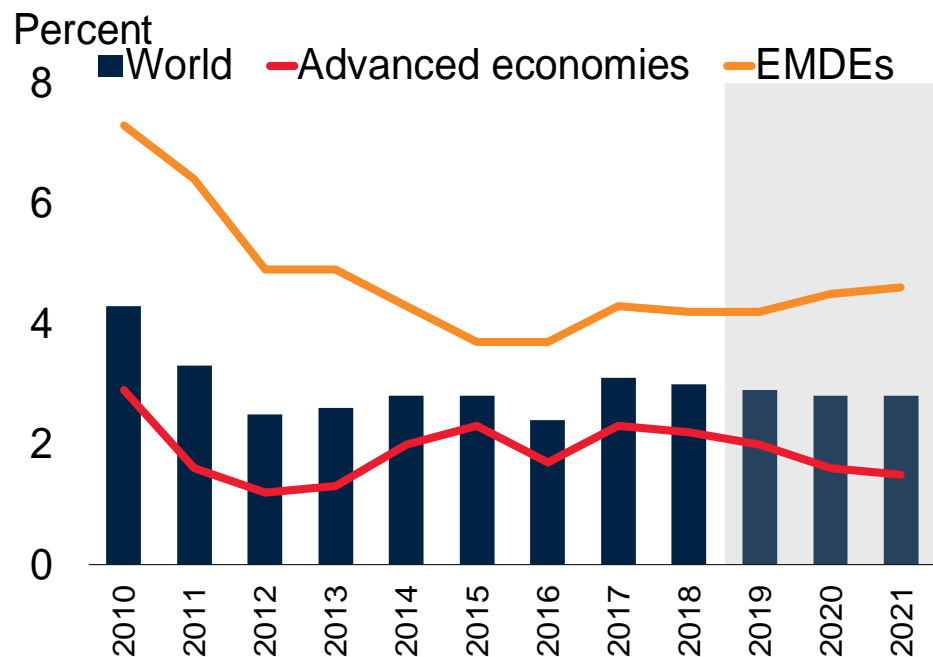
**APEC Finance and Central Bank Deputies' Meeting
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Latin America and the Caribbean
World Bank Group**

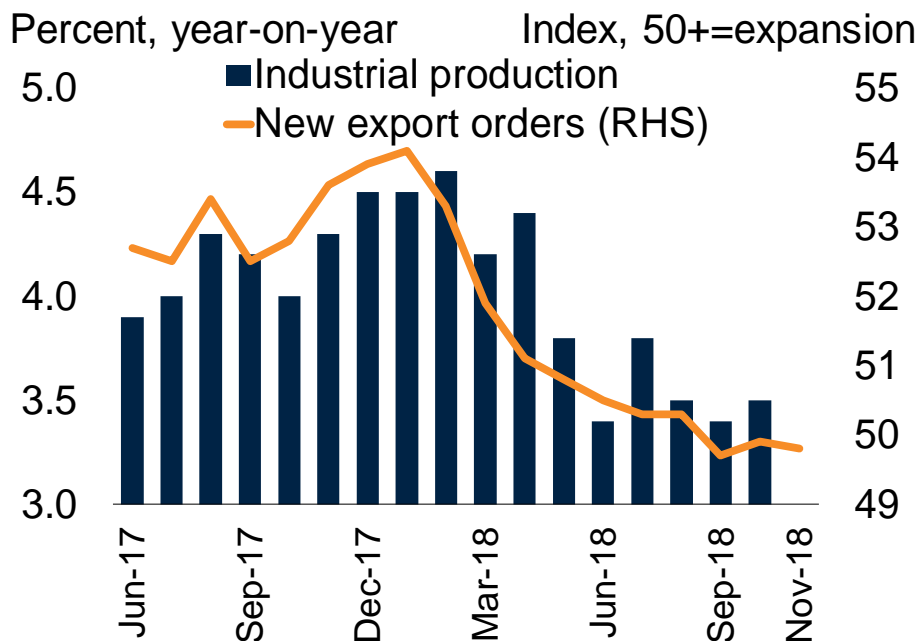
Global Growth:

Slowing down in advanced economies and firming up in EMDEs

GDP growth



Industrial production and export orders



Source: World Bank.

Left Panel. Aggregate growth rates calculated using 2010 U.S. dollar GDP weights. Data for 2018 are estimates. Shaded area indicates forecasts. Right Panel: New export orders measured by Purchasing Managers' Index (PMI). . Shaded area indicates forecasts.

Global and Regional Forecasts:

Slowing Advanced Economies; Growth firming up in EMDEs
Growth Forecasts Downgraded from a year ago

GDP growth (Percent)

(percent change from previous year)							Percentage point differences from June 2018 projections		
			Estimates	Projections					
	2016	2017	2018e	2019f	2020f	2021f	2018e	2019f	2020f
World	2.4	3.1	3.0	2.9	2.8	2.8	-0.1	-0.1	-0.1
Advanced Economies	1.7	2.3	2.2	2.0	1.6	1.5	0.0	0.0	-0.1
Emerging Market and Developing Economies (EMDE)	3.7	4.3	4.2	4.2	4.5	4.6	-0.3	-0.5	-0.2
East Asia and Pacific	6.3	6.6	6.3	6.0	6.0	5.8	0.0	-0.1	0.0
Europe and Central Asia	1.7	4.0	3.1	2.3	2.7	2.9	-0.1	-0.8	-0.3
Latin America and the Caribbean	-1.5	0.8	0.6	1.7	2.4	2.5	-1.1	-0.6	-0.1
Middle East and North Africa	5.1	1.2	1.7	1.9	2.7	2.7	-1.3	-1.4	-0.5
South Asia	7.5	6.2	6.9	7.1	7.1	7.1	0.0	0.0	-0.1
Sub-Saharan Africa	1.3	2.6	2.7	3.4	3.6	3.7	-0.4	-0.1	-0.1

Source: World Bank.

Note: e and f refer to estimates and forecasts.

Latin America and the Caribbean:

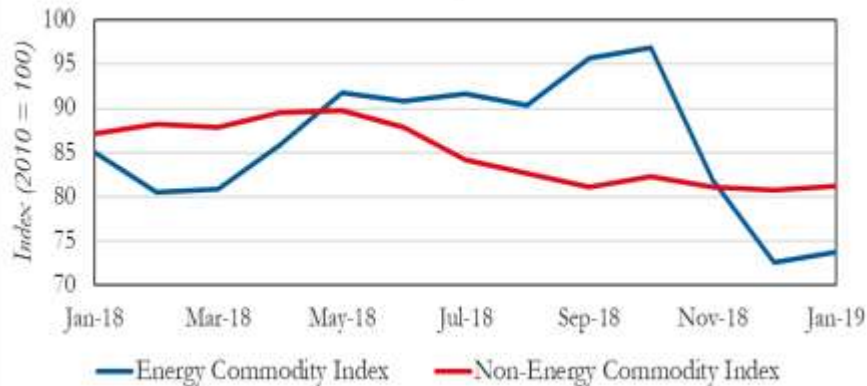
After years of decelerating growth, the region started recovering in 2017 but this recovery has been bumpy



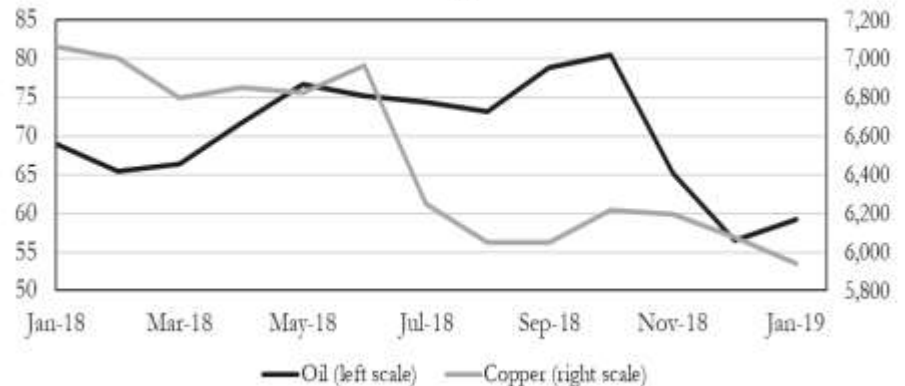
Note: Weighted averages. Sources: World Bank staff estimates (January 2019) when available, otherwise WEO (October 2018).

External headwinds

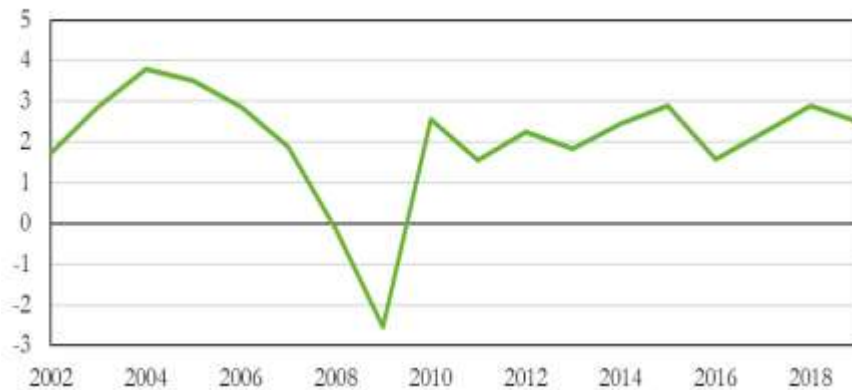
Commodity Prices



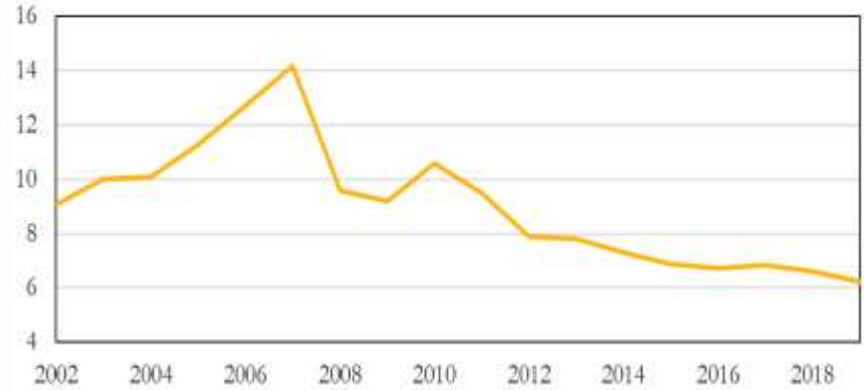
Oil and Copper Prices



U.S.: Real GDP Growth



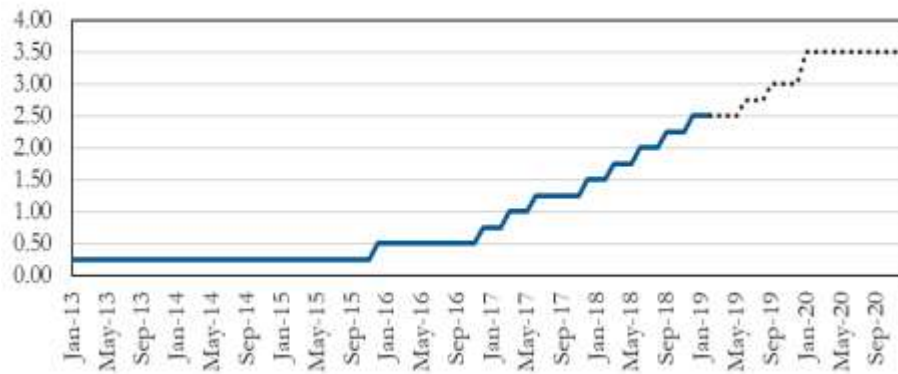
China: Real GDP Growth



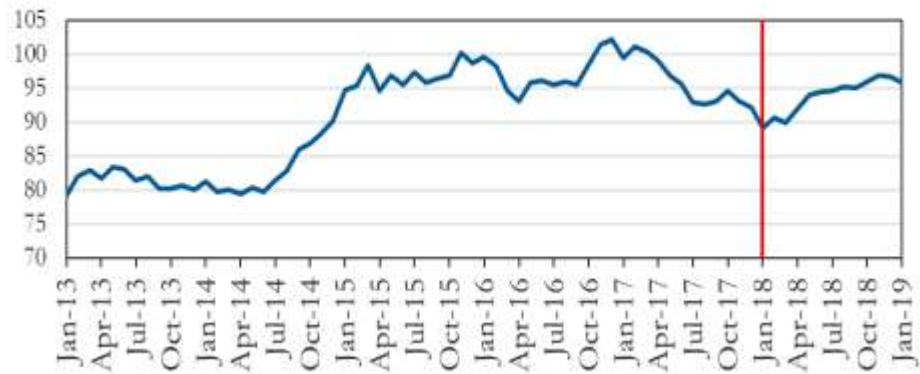
Sources: Consensus Forecast, EPFR Global, WEO, and World Bank Commodity Price Data. Copper prices are per metric ton.

Monetary policy normalization in the U.S.

Federal Funds Rate



U.S. Dollar Index



Net Capital Inflows to LAC

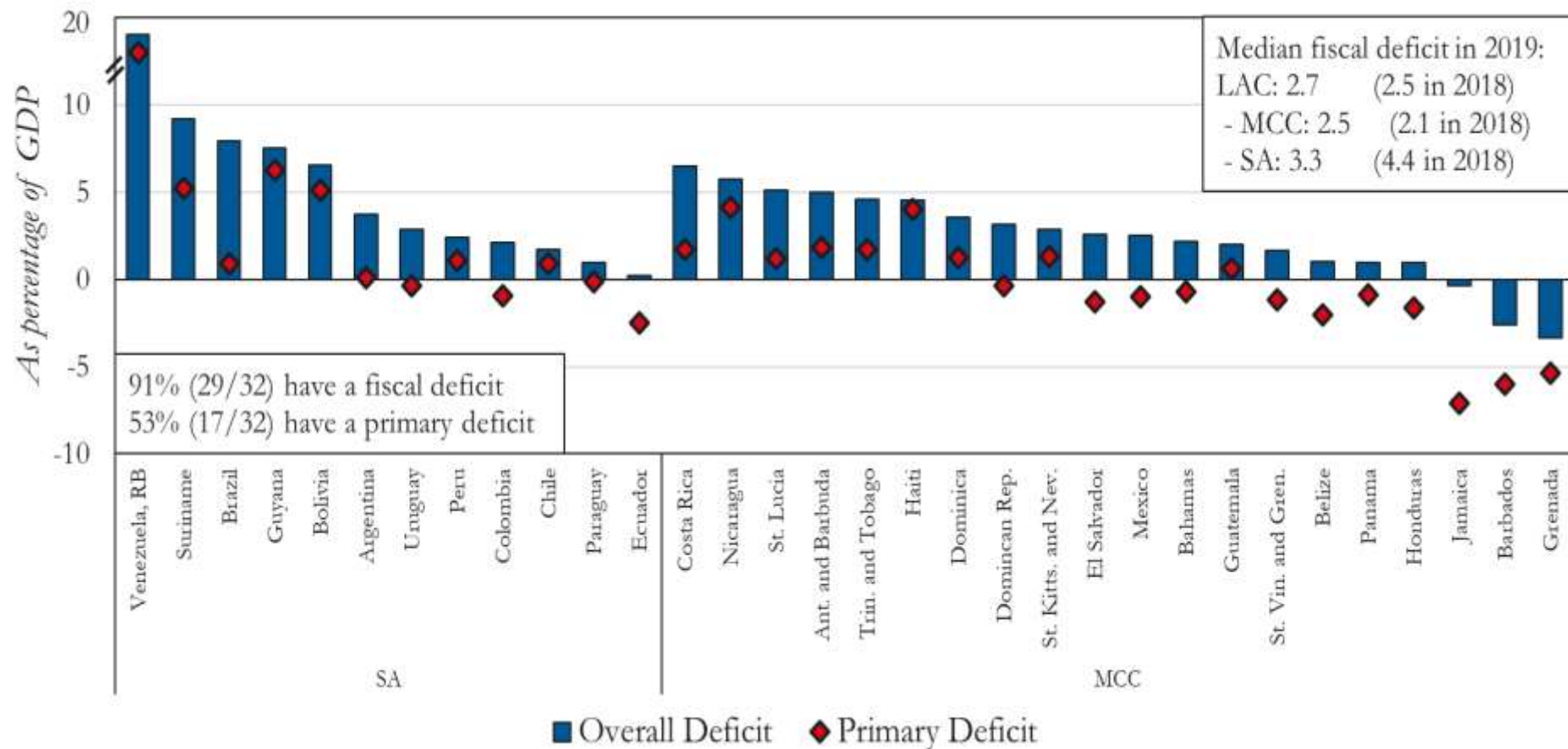


MSCI Emerging Markets' Currency Index

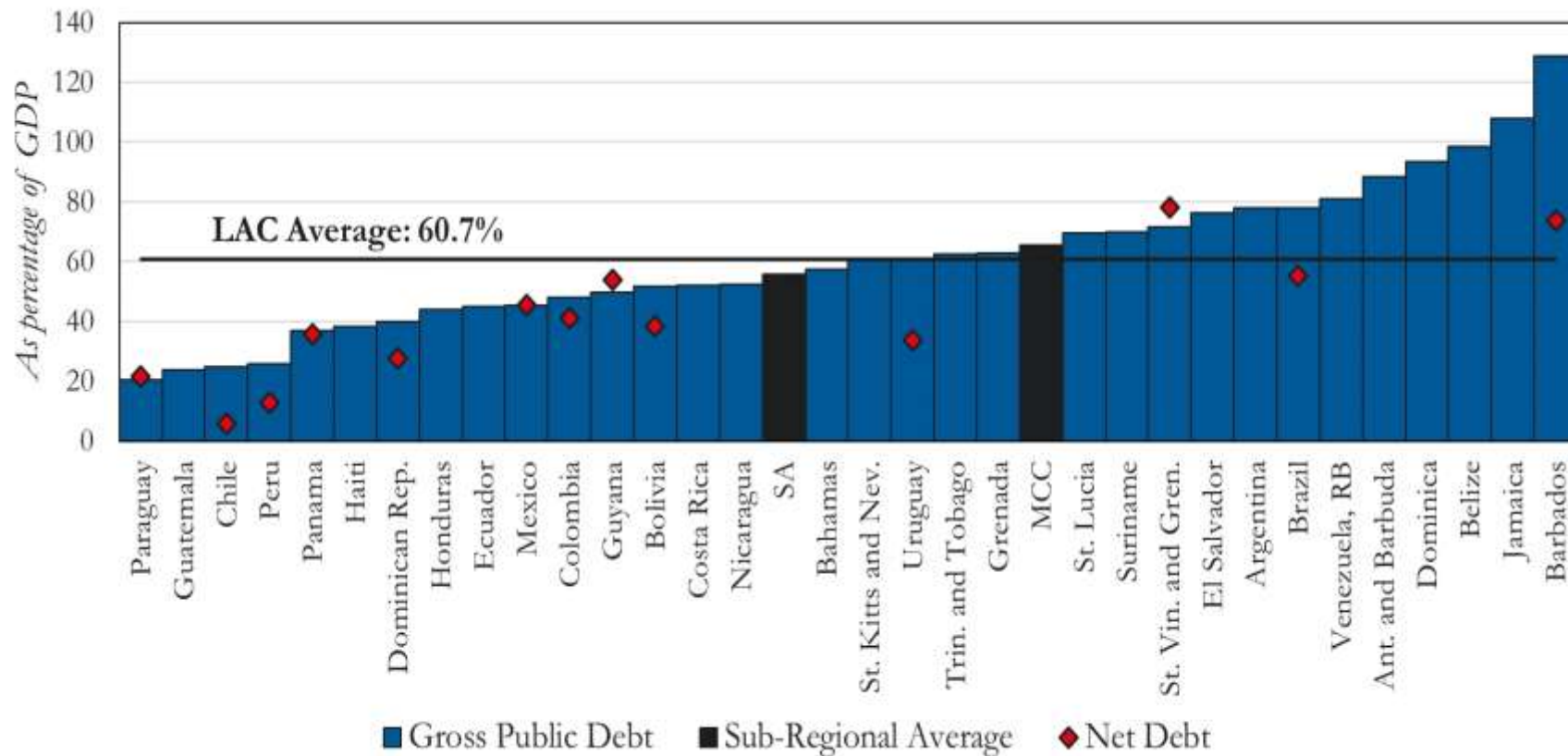


Notes: Net capital inflows are calculated as the twelve-month sum, and only include portfolio and equity investment. For both U.S. Dollar and Emerging Markets' Currency Indices, an increase (decrease) implies appreciation (depreciation). Sources: Bloomberg and Haver Analytics.

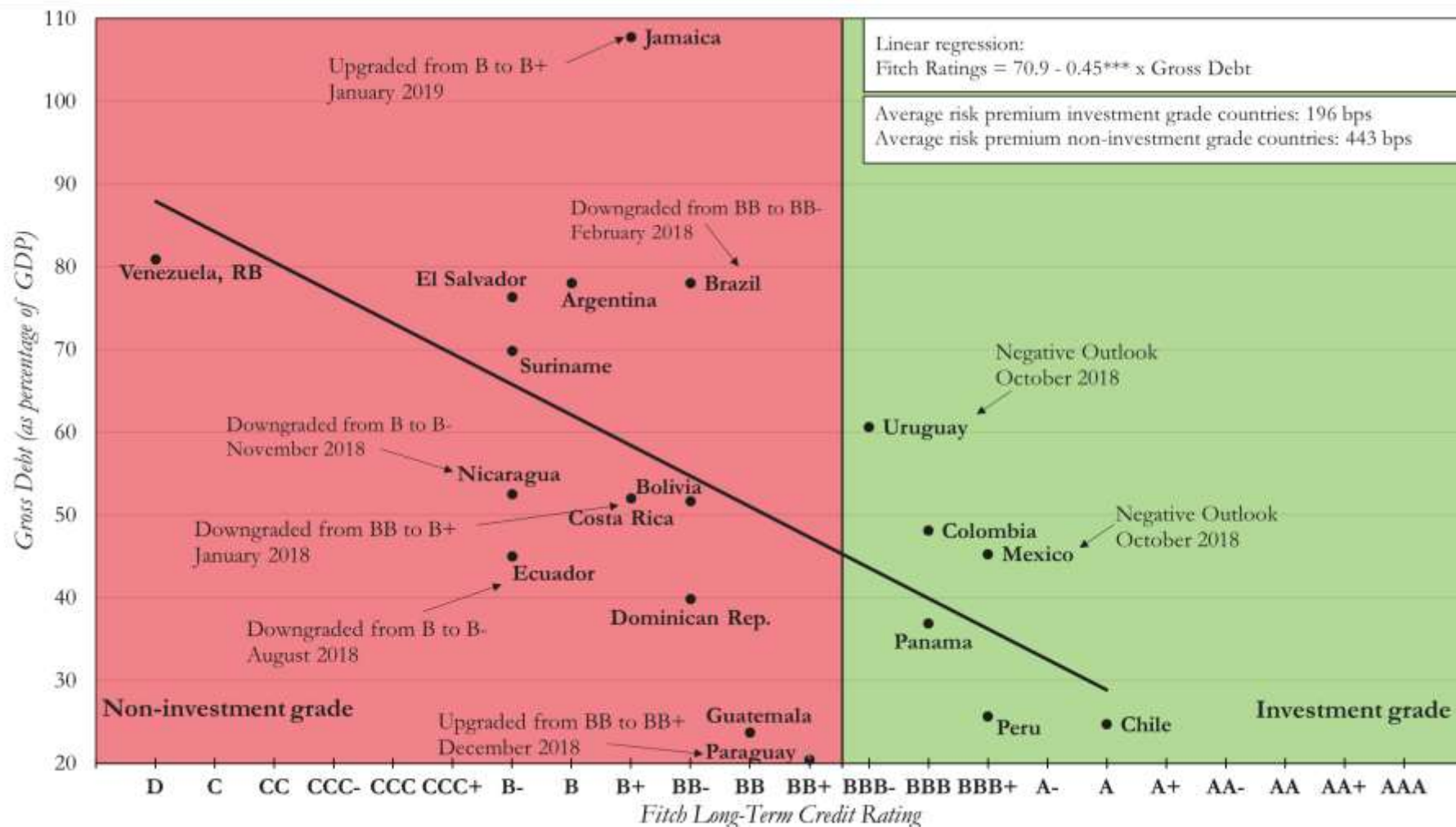
Widespread fiscal deficits



...which have fueled public debt



...and threaten hard-won credit ratings

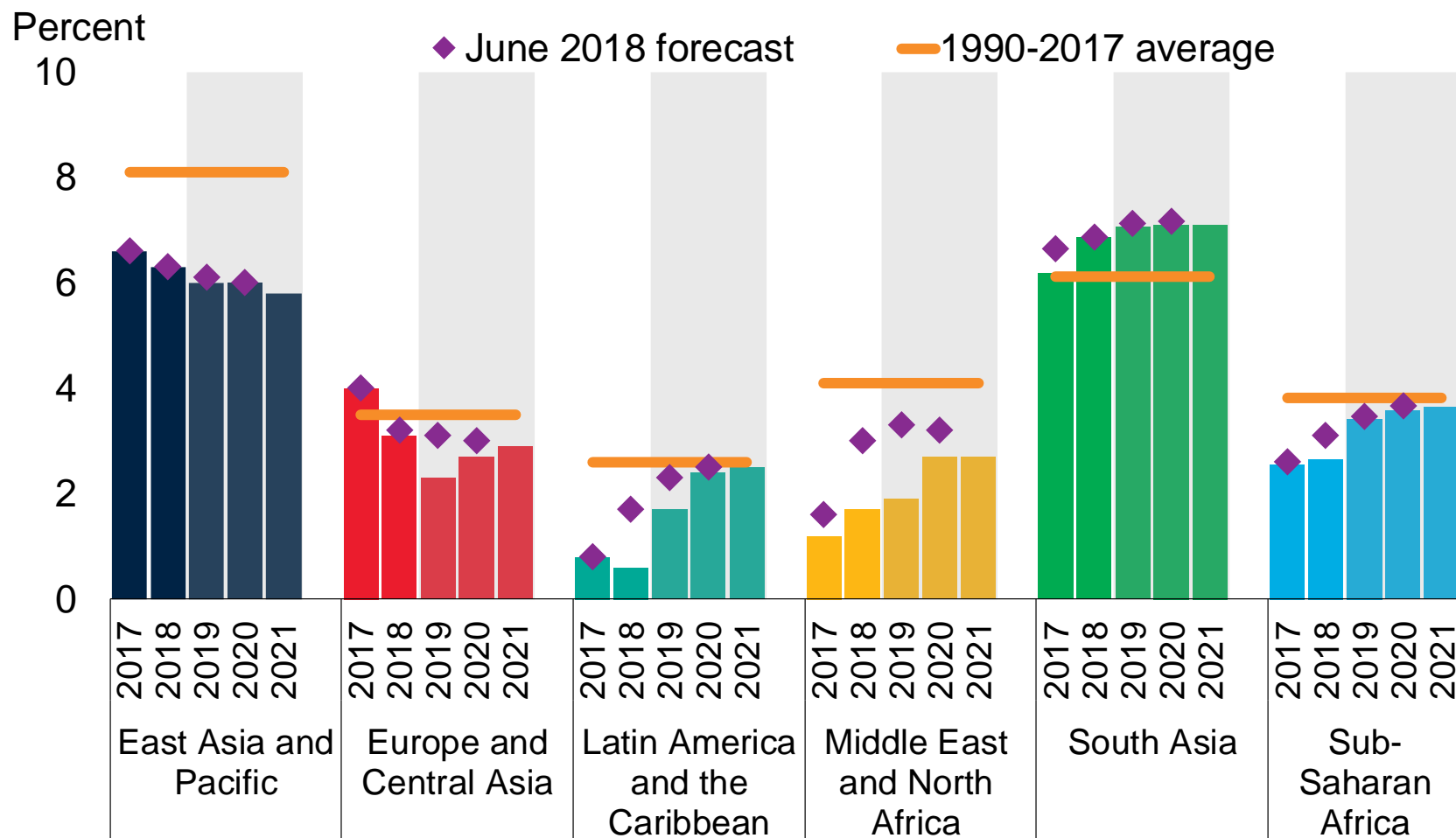


Domestic recessions/crises exacerbate difference in growth across sub-regions

Region	Annual Real GDP Growth Rates (as percentage)				
	2015	2016	2017	2018	2019f
LAC	0.3	-0.9	1.1	0.6	1.7
LAC (excl. Venezuela, RB)	0.6	-0.2	1.9	1.5	2.0
Central America	4.2	3.9	3.7	2.7	3.4
Caribbean	4.2	2.8	2.3	4.4	4.0
Mexico	3.3	2.9	2.0	2.1	2.0
South America	-1.0	-2.6	0.6	-0.1	1.4
South America (excl. Venezuela, RB)	-0.7	-1.6	1.6	1.1	1.8
Argentina	2.7	-1.8	2.9	-2.8	-1.7
Brazil	-3.5	-3.5	1.0	1.2	2.2
Colombia	3.0	2.0	1.8	2.7	3.3
Venezuela, RB	-6.2	-16.5	-14.5	-18.0	-8.0

Notes: Sub-regional values are weighted averages; “f” stands for forecast. Sources: World Bank staff estimates (January 2019) when available, otherwise WEO (October 2018).

Despite the improved outlook, growth in LAC remains relatively low



Notes: Notes: Bars denote latest forecast; diamonds correspond to June 2018 forecasts in the Global Economic Prospects report. Average for 1990-2017 is constructed depending on data availability. For Europe and Central Asia, the long-term average uses data for 1995-2017 to exclude the immediate aftermath of the collapse of the Soviet Union. Aggregate growth rates calculated using constant 2010 U.S. dollar GDP weights. Since largest economies account for about 50 percent of GDP in some regions, weighted averages predominantly reflect the developments in the largest economies in each region.

Lots of Uncertainty on the Horizon in the Short Run

Sources of risk:

- Fed's tightening
- Trade protectionism
- Commodity prices
- Growth in major economies
- Fiscal adjustment
- Polarized political systems
- Geopolitical risks/negative regional spillovers
- Disaster risk

Positive factors

- Central Banks have followed prudent policies keeping inflation low
- There have not been any banking crisis
- Ratio of international reserves to short-term debt is large

World Bank Report

From Known Unknown to Black Swans: How to Manage Risk in Latin America and the Caribbean <https://openknowledge.worldbank.org/handle/10986/30478>

Policy Priorities:

Improving fundamentals as countries adjust to a world of lower liquidity

**What major actions needed to
improve resilience and boost
growth?**

Fiscal	Mobilize revenues, strengthen fiscal frameworks, improve efficiency of government spending
Monetary	Prepare monetary and financial policy frameworks for rising global interest rates
Structural	Improve human capital, competitiveness, institutions and trade integration

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