Global economic outlook and Latin America

Luis Oscar Herrera
BTG Pactual Andean Region & Argentina
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Transitioning from the post-financial crisis world

Latin America stuck in the middle of all

US recovery and FED interest-rate liftoff

China’s slowdown, deleverage and demand rebalancing
Agenda

My five key takeaways from the Lima meetings
1 Global growth rotation and the “new mediocrity”
Mediocre global outlook, but not the end of the world

Source: IMF WEO October 2015

World GDP growth (% y/y, PPP adjusted)

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Source: IMF WEO October 2015
Global growth rotation

EMs and resource exporters slowdown, modest pickup in AEs

Emerging economies (GDP %y/y)

Advanced economies (GDP %y/y)

Source: IMF WEO October 2015
Commodities glut to drag on
Commodities prices to remain “low-for-long”

Faltering demand, new capacity and lower production costs

Metals & oil real prices (index, 2000=100)

Metals & oil world production (2000=100)

Source: IMF WEO October 2015, ICSG October 2015 EIA October 2015.
Commodity exporters will face an uphill climb

**GDP growth (% y/y)**

- **EMEs: Commodity exporters**
  - 2012-2014: 2.9%
  - 2015-2017: 4.7%

- **Other EMEs**
  - 2012-2014: 1.7%
  - 2015-2017: 3.8%

**Investment (% GDP)**

- **EMEs: Commodity exporters**
  - 2012-2014: 23.2%
  - 2015-2017: 23.8%

- **Other EMEs**
  - 2012-2014: 22.2%
  - 2015-2017: 24.0%

**Current account balance (% GDP)**

- **EMEs: Commodity exporters**
  - 2012-2014: 2.1%
  - 2015-2017: 0%

- **Other EMEs**
  - 2012-2014: 1.8%
  - 2015-2017: 2.7%

**Fiscal balance (% GDP)**

- **EMEs: Commodity exporters**
  - 2012-2014: -0.9%
  - 2015-2017: -5.7%

- **Other EMEs**
  - 2012-2014: -4.5%
  - 2015-2017: -4.3%
3 Risk rotation and capital retrenchment from EMEs
Tighter financial conditions in EMs will continue

Fear of the FED, weaker growth and external deficits

Capital inflows to EMEs (US$ billions)

Asset prices in LatAm (January 2010=100)

Source: IIF October 2015 & Bloomberg
Stronger national and sovereign balance sheets in EMs

But higher leverage of non-financial corporations in EMs

International Reserves in LatAm-6 (%)

Corporate debt in EMs (US$bn)

LatAm-6 corresponds to the simple average of Brazil, Chile, Colombia, Mexico, Peru and Uruguay.

Latin America’s “golden years” are over
And they will not return for a long time
Latin America’s Golden Decade: 2004-13

Rising GDP per head, falling poverty and lower inequality

LatAm GDP per head (% advanced econ., PPP)

LatAm income distribution (Gini Index)

Source: World Economic Outlook October 2015, World Bank Development Indicators.
China and the commodities super-cycle

It was good while it lasted

LatAm & China GDP growth (% y/y)

LatAm GDP & ToT (% y/y, avg. 2004-13)

Source: Bloomberg, including consensus forecasts up to 3Q15, World Bank WDI
Rising fiscal and external gaps after the 2008/09 crisis

Funded mainly through FDI and local currency debt

LatAm current account deficit (% GDP)

LatAm fiscal deficit (% GDP)

Source: IMF WEO October 2015
Rising public and private leverage

Loose monetary and fiscal policies after the crisis

Gross government debt (% GDP)

- Brazil
  - 1997: 62
  - 2007: 64
  - 2014: 65
- Chile
  - 1997: 13
  - 2007: 14
  - 2014: 14
- Colombia
  - 1997: 25
  - 2007: 32
  - 2014: 38
- Mexico
  - 1997: 38
  - 2007: 43
  - 2014: 50
- Peru
  - 1997: 41
  - 2007: 32
  - 2014: 21

Domestic credit private sector (% GDP)

- Brazil
  - 1997: 41
  - 2007: 47
  - 2014: 47
- Chile
  - 1997: 69
  - 2007: 84
  - 2014: 109
- Colombia
  - 1997: 22
  - 2007: 31
  - 2014: 38
- Mexico
  - 1997: 22
  - 2007: 31
  - 2014: 53
- Peru
  - 1997: 34
  - 2007: 26
  - 2014: 21

Source: IMF WEO October 2015
Low and uneven growth in LatAm

Latam-8 GDP growth (% y/y, PPP adjusted)

LatAm-8 corresponds to the GDP weighted average of Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay and Venezuela.

Source: BTG Pactual and IMF WEO October 2015
2016 is at the crossroads

Smooth normalization or going from mediocre to miserable
China slowdown, deleverage and demand rebalancing

A tough balancing act
U.S. Fed interest rate liftoff

Which way?
Negative TFP growth in Latin America

Economic growth driven by labor and capital accumulation

**Labor growth: LatAm vs RoW (% y/y)**

- Latin America: 2,0 (1990-2000), 2,3 (2000-2014)
- EME & LDCs: 1,7 (1990-2000), 1,7 (2000-2014)
- OECD: 0,9 (1990-2000), 0,8 (2000-2014)

**TFP growth: LatAm vs RoW (% y/y)**

- Latin America: -0,6 (1990-2000)
- EME & LDCs: 1,2 (2000-2014)

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For additional information, please read carefully the notice at the end of this presentation.