



# Latin America in perspective: Back to normal?

Conferencia de Primavera de la Asociación  
Americana de Autoridades Portuarias –AAPA

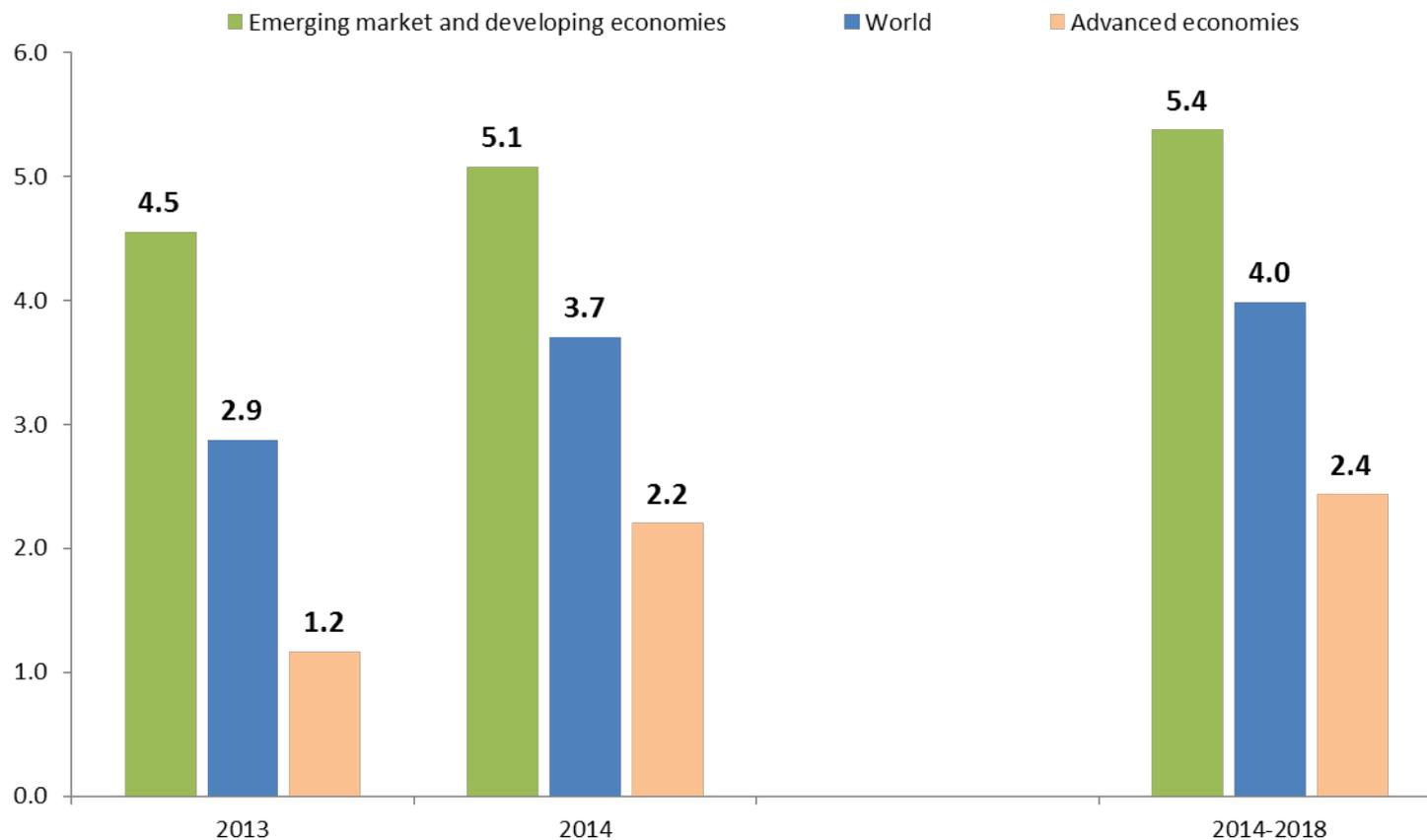
José Juan Ruiz  
March 25<sup>th</sup>, 2014

# Agenda

- 1. *Back to Normal of the Global Economy***
2. Latin America: Back... to Normal or to Usual Times?
3. Apocalyptic and Complacent Equidistant
4. More Productivity, Better Quality of Life

# Global Economy: The tide is rising

## Baseline scenario 2014-2015



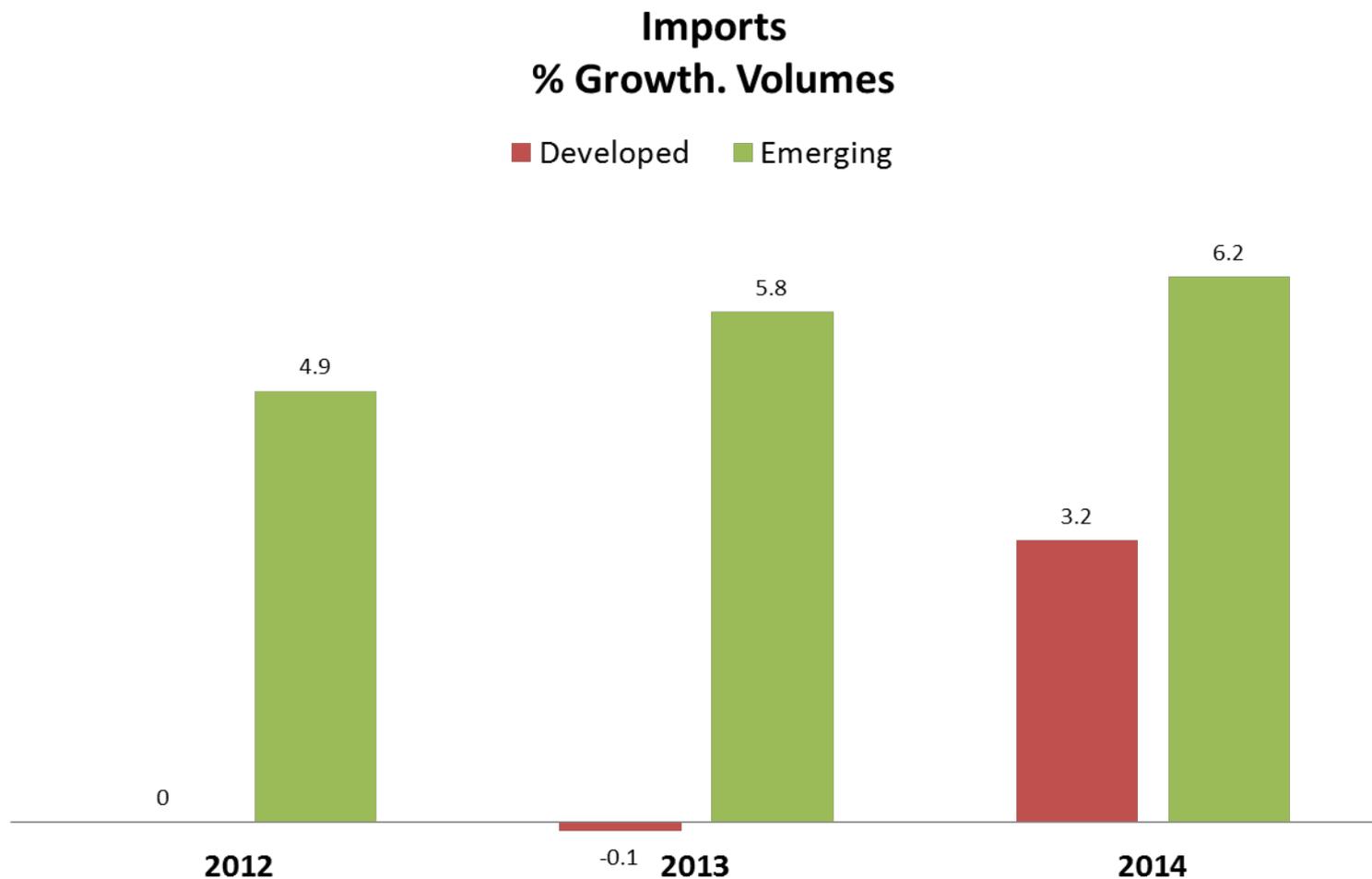
Source: World Economic Outlook, IMF October 2013 and January 2014 update



# Not only the tide is rising....also risks and uncertainties

- World
  - Tapering & QE: US Growth surprise vs unanticipated long term world interest rate increase
  - Debt Overhang
  - China & Commodities
  - Middle Class expectations & Adjustment Fatigue & Institutional dysfunctionalities.
- Developed Economies
  - Deflation risks & Real Debt burden, specially in Euro area
  - Financial system: better, but not yet out of the woods: corporate leverage, asset valuations and tapering.
- Emerging Economies
  - Increase in corporate leverage & foreign currency liabilities.
  - Tapering, Capital flow volatility & Sudden Stops & Contagion
  - Domestic weakness & Weak reaction capacity
  - TFP growth and the political economy of reforms

# Global Economy: Trade recovers



Source: WTO



# Financial Markets: Decoupling Emerging and Advanced

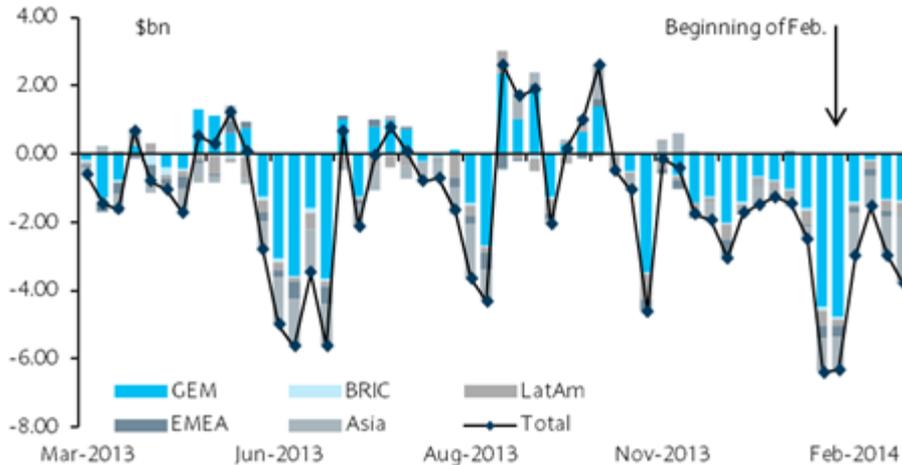
|  |               | Today<br>3/13/2014 | Previous<br>3/12/2014 | Change from<br>last session | Change from<br>5/22/2013 | Change month to<br>date<br>2/28/2014 | Change year<br>to date<br>12/31/2013 |
|--|---------------|--------------------|-----------------------|-----------------------------|--------------------------|--------------------------------------|--------------------------------------|
| <b>Commodities</b>                       |               |                    |                       |                             |                          |                                      |                                      |
| Brent                                    | (\$/barrel)   | 107.89             | 108.02                | ↓ 0.1%                      | 5.2%                     | -1.1%                                | -2.6%                                |
| WTI                                      | (\$/barrel)   | 98.47              | 97.99                 | ↑ 0.5%                      | 4.4%                     | -4.0%                                | 0.1%                                 |
| Gold                                     | (\$/ounce)    | 1,365              | 1,367                 | ↓ 0.1%                      | -0.4%                    | 2.9%                                 | 13.2%                                |
| <b>Forex</b>                             |               |                    |                       |                             |                          |                                      |                                      |
| EUR/USD                                  |               | 1.3941             | 1.3903                | ↑                           | 0.3%                     | 8.4%                                 | 1.0%                                 |
| EUR/CHF                                  |               | 1.22               | 1.22                  | ↑                           | 0.1%                     | -3.3%                                | 0.1%                                 |
| JPY/USD                                  |               | 102.72             | 102.76                | ↓                           | 0.0%                     | 0.4%                                 | -0.9%                                |
| Brazilian real                           |               | 2.35               | 2.36                  | ↓                           | 0.2%                     | -12.8%                               | -0.3%                                |
| Turkish lira                             |               | 2.23               | 2.23                  | ↑                           | 0.2%                     | -17.0%                               | -1.0%                                |
| Korean won                               |               | 1069               | 1071                  | ↓                           | 0.1%                     | 4.2%                                 | -0.2%                                |
| <b>Equities</b>                          |               |                    |                       |                             |                          |                                      |                                      |
| New York                                 | S&P 500       | 1,868              | 1,868                 | ↑                           | 0.0%                     | 12.9%                                | 0.5%                                 |
| Europe                                   | Eurostoxx 50  | 3,066              | 3,065                 | ↑                           | 0.0%                     | 8.1%                                 | -2.7%                                |
| Frankfurt                                | DAX           | 9,199              | 9,189                 | ↑                           | 0.1%                     | 7.8%                                 | -5.1%                                |
| London                                   | FTSE          | 6,603              | 6,621                 | ↓                           | -0.3%                    | -3.5%                                | -3.0%                                |
| Paris                                    | CAC           | 4,303              | 4,306                 | ↓                           | -0.1%                    | 6.2%                                 | -2.4%                                |
| Tokyo                                    | Nikkei        | 14,816             | 14,830                | ↓                           | -0.1%                    | -5.2%                                | -0.2%                                |
| China                                    | Shanghai Comp | 2,019              | 1,998                 | ↑                           | 1.1%                     | -12.3%                               | -1.8%                                |
| Brazil                                   | Bovespa       | 45,862             | 45,862                | ↑                           | 0.4%                     | -18.7%                               | -2.6%                                |
| Turkey                                   | ISE 100       | 63,720             | 63,259                | ↑                           | 0.7%                     | -31.6%                               | 1.9%                                 |
| <b>Libor</b>                             |               |                    |                       |                             |                          |                                      |                                      |
| Euro                                     | 3-mo          | 0.27               | 0.28                  | ↓                           | 0.00                     | 0.16                                 | 0.01                                 |
| Dollar                                   | 3-mo          | 0.23               | 0.23                  | ↓                           | 0.00                     | -0.04                                | 0.00                                 |
| Sterling                                 | 3-mo          | 0.52               | 0.52                  | ↑                           | 0.00                     | 0.02                                 | 0.00                                 |
| <b>Bonds</b>                             |               |                    |                       |                             |                          |                                      |                                      |
| Germany                                  | 10-yr         | 1.59               | 1.60                  | ↓                           | -0.01                    | 0.16                                 | -0.04                                |
| Japan                                    | 10-yr         | 0.64               | 0.63                  | ↑                           | 0.01                     | -0.25                                | 0.06                                 |
| UK                                       | 10-yr         | 2.76               | 2.75                  | ↑                           | 0.01                     | 0.86                                 | 0.04                                 |
| United States                            | 10-yr         | 2.74               | 2.73                  | ↑                           | 0.01                     | 0.70                                 | 0.10                                 |
| <b>Emerging market sovereign spreads</b> |               |                    |                       |                             |                          |                                      |                                      |
| EMBIG                                    | Basis points  | 343                | 344                   | ↓                           | -1                       | 67                                   | -2                                   |

- Energy Commodities, upward trend
- Advanced:
  - Strengthen of euro,
  - Upward trend of stocks,
  - Stable short term interest rates,
  - Stable long term interest rates.
- Emerging:
  - Nominal ER depreciation,
  - Downward trend of stocks,
  - EMBIG = 67 bp

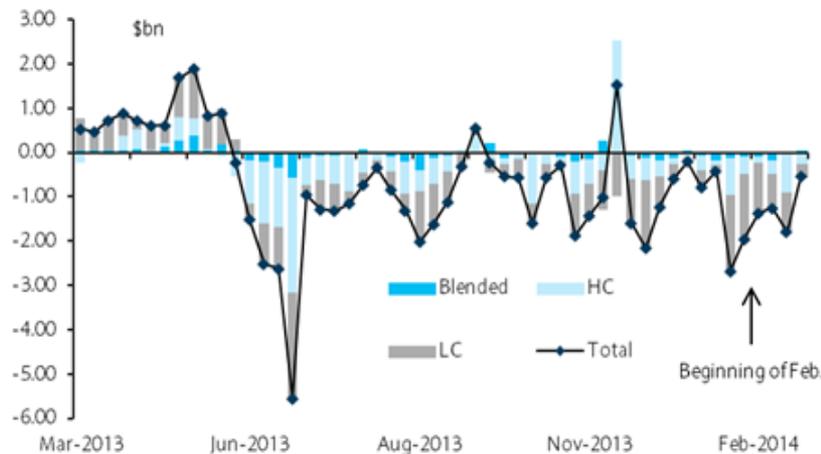


# Equity Funds and Bonds in Emerging countries: The trend changed in May 2013

Flows to dedicated EM equity funds



Flows to dedicated EM bond funds



| Equity | Last \$bn | AUM % | Prev. week \$bn | AUM % | 2014 \$bn | 2013 \$bn |
|--------|-----------|-------|-----------------|-------|-----------|-----------|
| Total  | -3.80     | -0.5  | -2.99           | -0.4  | -30.77    | -14.53    |
| GEM    | -1.35     | -0.3  | -1.32           | -0.3  | -17.51    | 4.95      |
| BRIC   | -0.08     | -1.3  | -0.03           | -0.4  | -0.55     | -3.18     |
| LatAm  | -0.32     | -1.0  | -0.29           | -0.9  | -2.71     | -8.87     |
| EEMEA  | -0.07     | -0.2  | -0.19           | -0.5  | -1.60     | -6.55     |
| Asia   | -1.99     | -0.7  | -1.17           | -0.4  | -8.40     | -0.88     |

| Bonds   | Last \$bn | AUM % | Prev. week \$bn | AUM % | 2014 \$bn | 2013 \$bn |
|---------|-----------|-------|-----------------|-------|-----------|-----------|
| Total   | -0.53     | -0.2  | -1.79           | -0.8  | -11.58    | -14.04    |
| Blended | 0.03      | 0.1   | -0.03           | -0.1  | -0.86     | -0.01     |
| HC      | -0.25     | -0.3  | -0.86           | -0.9  | -3.44     | -11.16    |
| LC      | -0.31     | -0.3  | -0.90           | -1.0  | -7.27     | -2.87     |

Source: Barclays Research

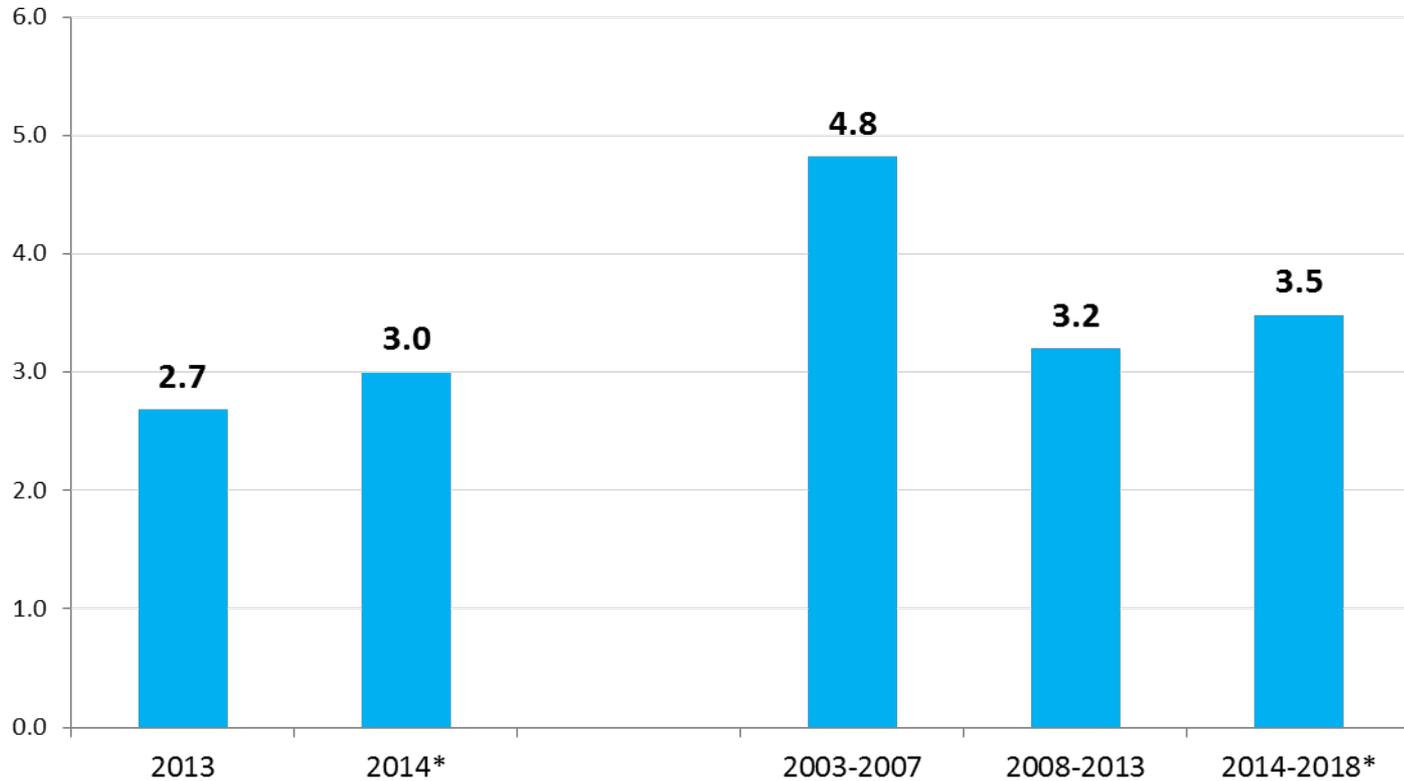


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In Latin America 2014 will also be better than 2013, but around potential and below the golden years 2003-2007 (4.8%)

Latin American and the Caribbean: GDP growth

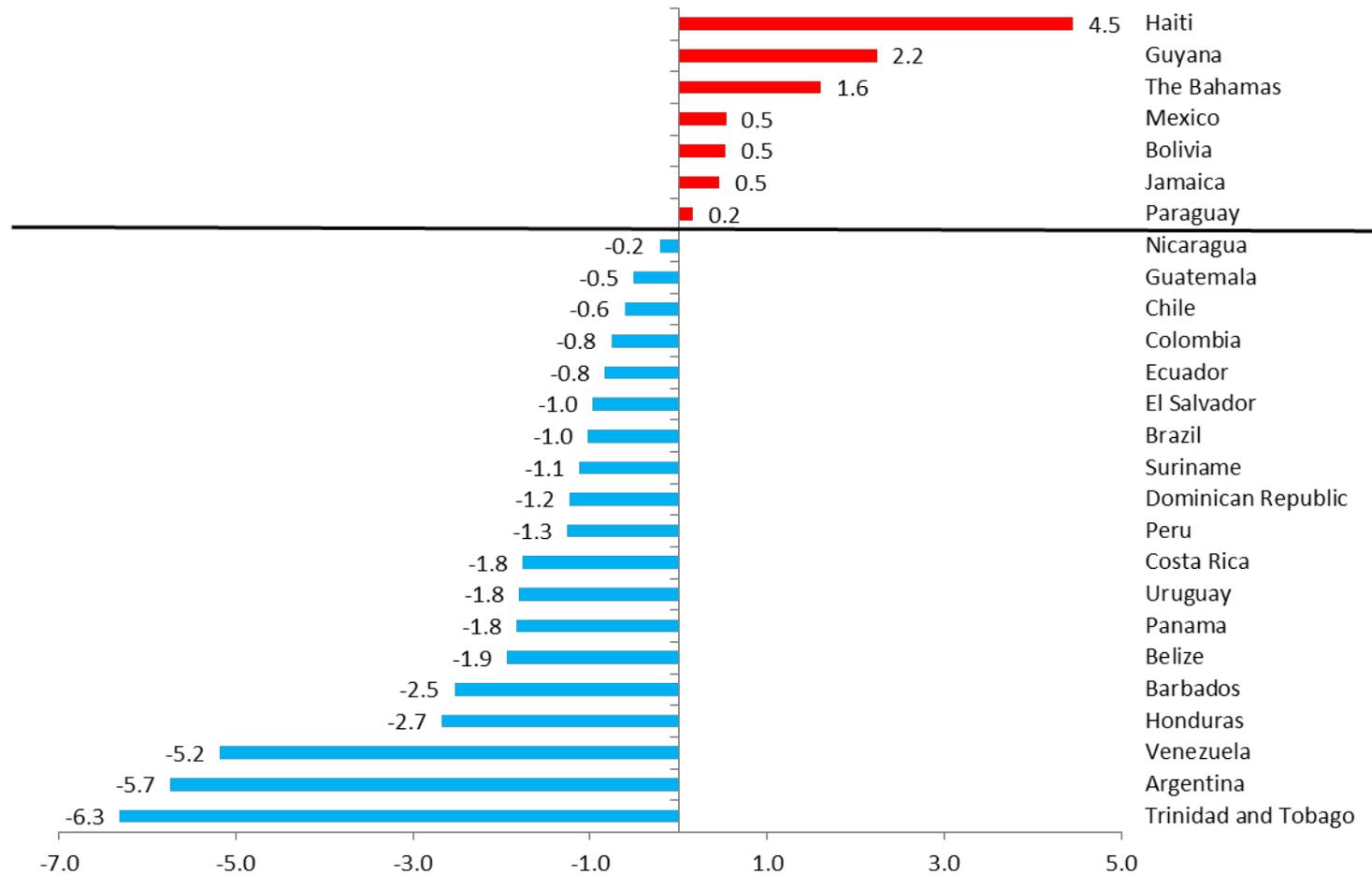


Source: World Economic Outlook, IMF October 2013 and \* January 2014 update



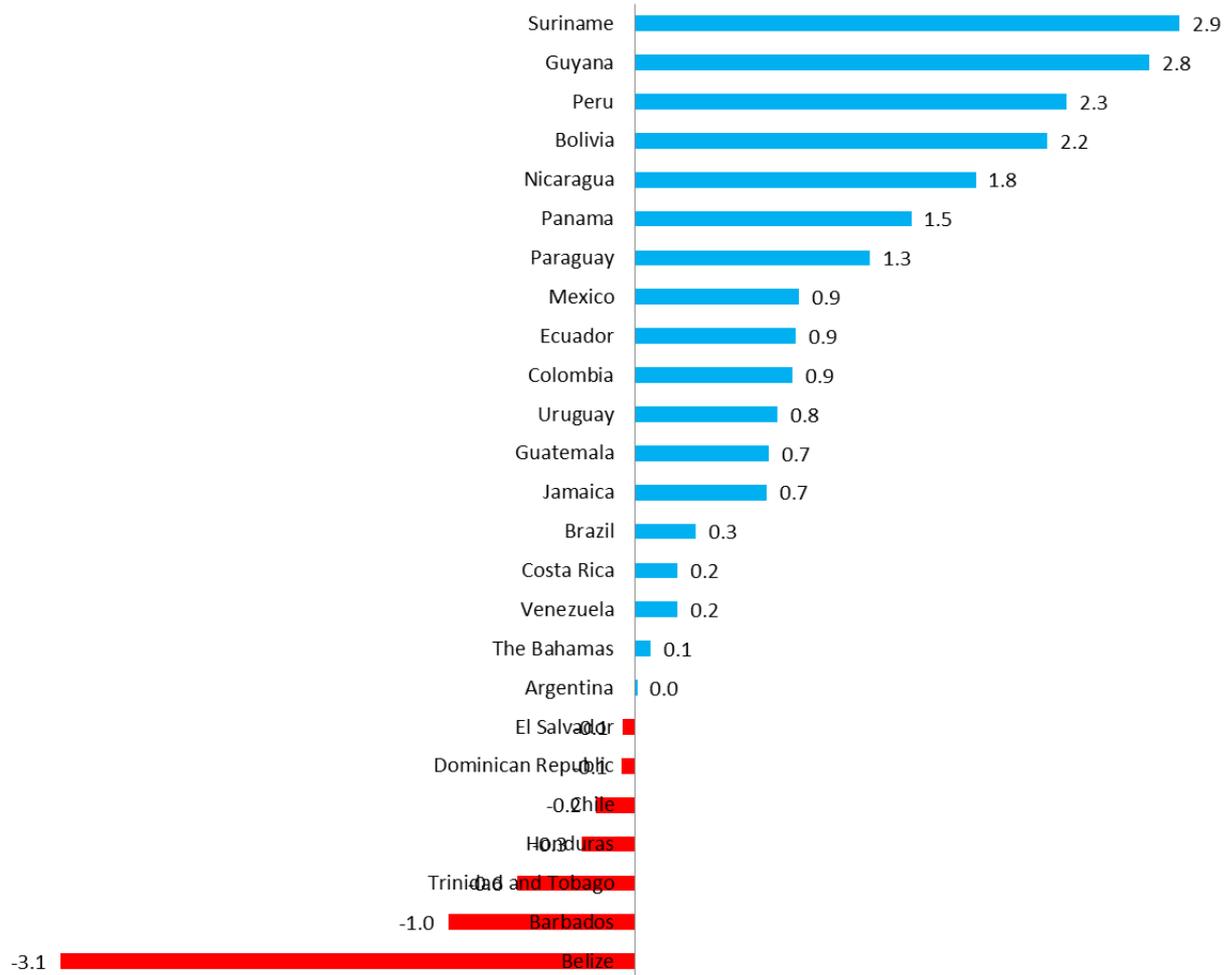
# Only 7 countries will grow more than in the Golden Years...

2014-2018 vs 2003-2008

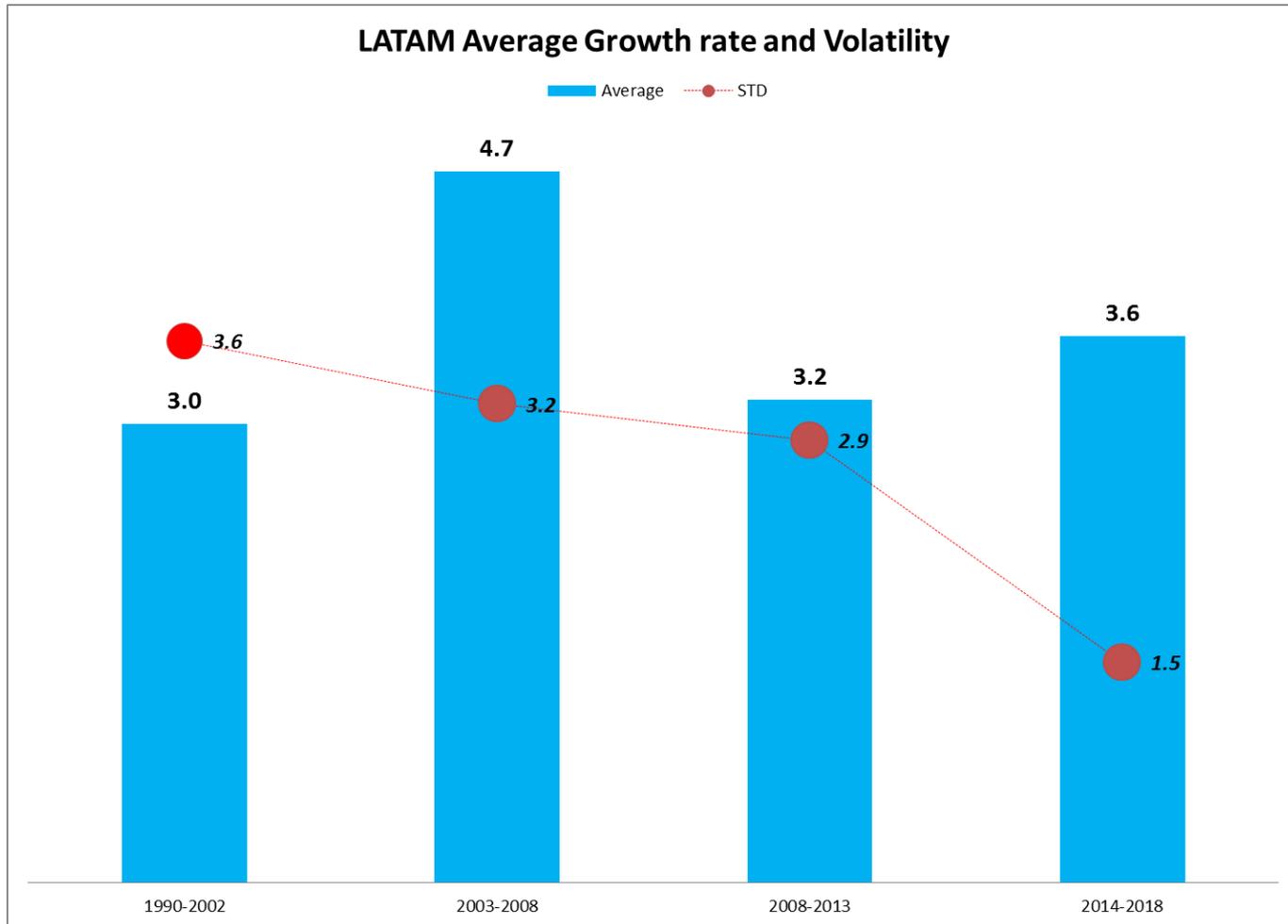


# But only 7 will grow less than the Historical Average...

2014- 2018 vs 1980-2013



# Back to normal ... or to mediocrity?



Source: WEO & IADB



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# Apocalyptic

## Gold was not everything that glittered...



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1. The end of the commodities super-cycle, risk tolerance and liquidity...put an end to the LAC growth model.
2. To grow again it is necessary to redesigned from scratch Institutions and Policies.
3. The transition to the new equilibrium can be tumultuous in social (middle class) and economic (sudden stops) terms.

# Complacent: Better than in the 90s, worst than in 2008 ... but it can be defended at 3%.

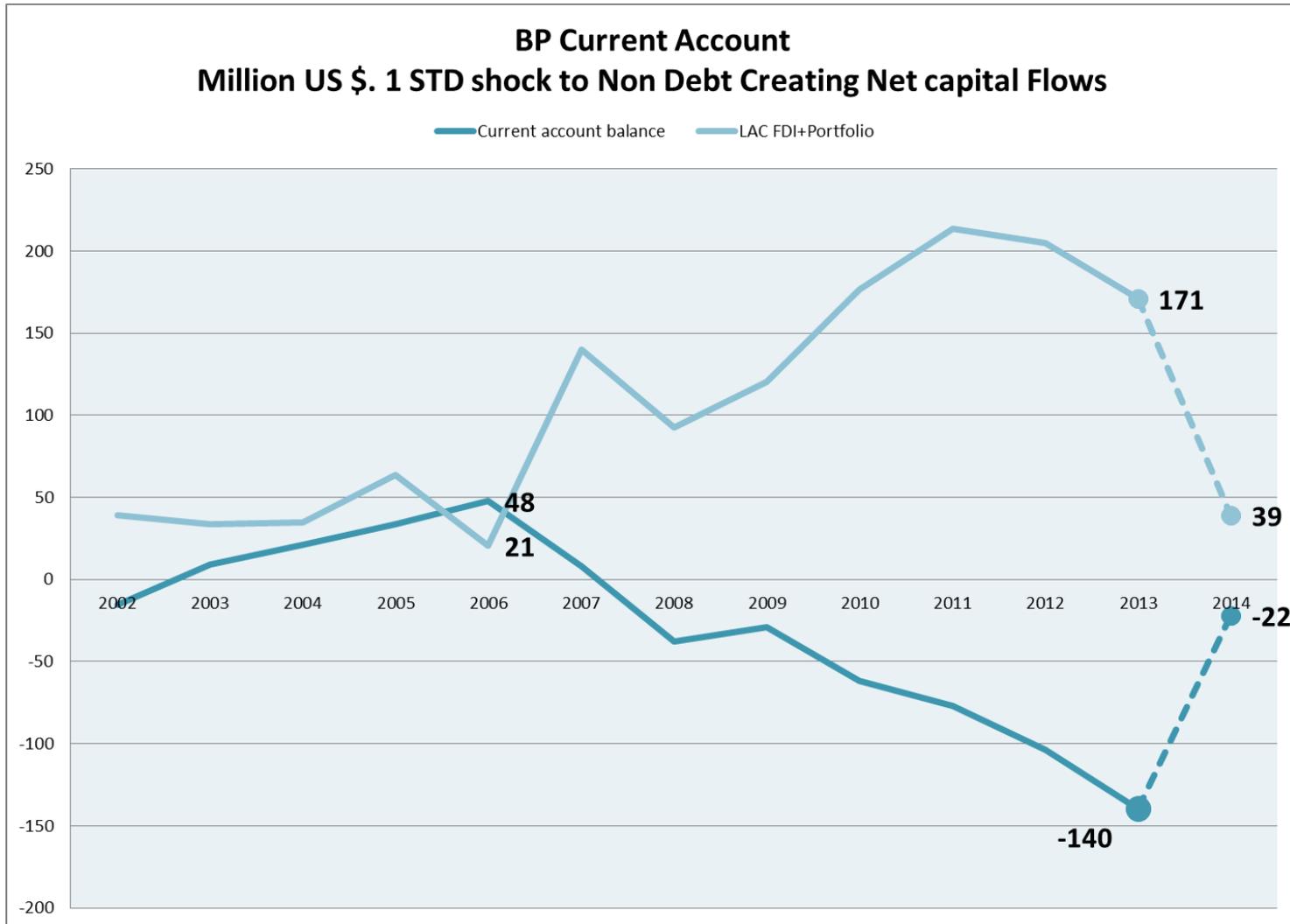
1. The external escenario involves risks for the region. We do dont know the dimension of the external negative shocks.
2. In any case, the impacts of the same shock will be very different depending on the particular country and the different response capabilities that it has.
3. In general, less vulnerabilities than in the 90s, but more than in 2008.
4. In general, less monetary and fiscal space for short term countercyclical policies than in 2008.
5. On average, as a central scenario, it would be reasonable to expect growth of around 3% in line with the past and below other emerging countries.



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# Net capital inflows: Historic volatility and adjustments



Source: World Economic Outlook, IMF October 2013.

# Net Capital Inflows

## Vulnerabilities

- BP Deficit
- Budgetary Balance
- Dollarization
- Financial system

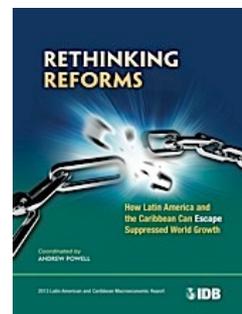
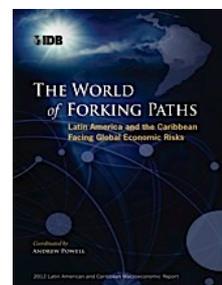
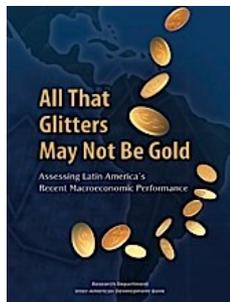
## Mitigating Factors

- Reserves
- Exchange rate regime
- Reputation

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# The Unending Story: LAC and the External Factors



- A large part of LAC Economic Cycle accounted for external factors
  - Growth performance, the strength or weakness of macroeconomic fundamentals and the impact of domestic macro and micro policies on growth, can only be properly appraised by first filtering out the effects of external factors. Failing to do so can lead to highly misleading conclusions.
  - “Contrarian” cycle in the Caribbean and Central America: food commodities, energy, tourism, remittances.
  - LAC 2014-2018 Baseline scenario: Trend growth around 3.5%, with great regional/country dispersion
  - Shocks to Baseline
    - Pace of US Growth recovery and QE Tapering
    - Reduction in risk tolerance and increase in financial volatility.
    - China/Emerging markets Growth and Commodity prices
- <http://www.imf.org/external/np/seminars/eng/2007/whd/pdf/session1-2.pdf>  
Booms and Busts in Latin America: The Role of External Factors. Alejandro Izquierdo, Randall Romero, and Ernesto Tavy. International Monetary Fund. November 26, 2007.
- <http://www.iadb.org/en/research-and-data/research-data,1612.html>

# Global Recovery and Monetary Normalization: Escaping a Chronicle Foretold?



2014 Latin American and Caribbean Macroeconomic Report,  
55th Meeting of the Board of Governors of the  
Inter-American Development Bank  
Brazil, March 30<sup>th</sup>, 2014.

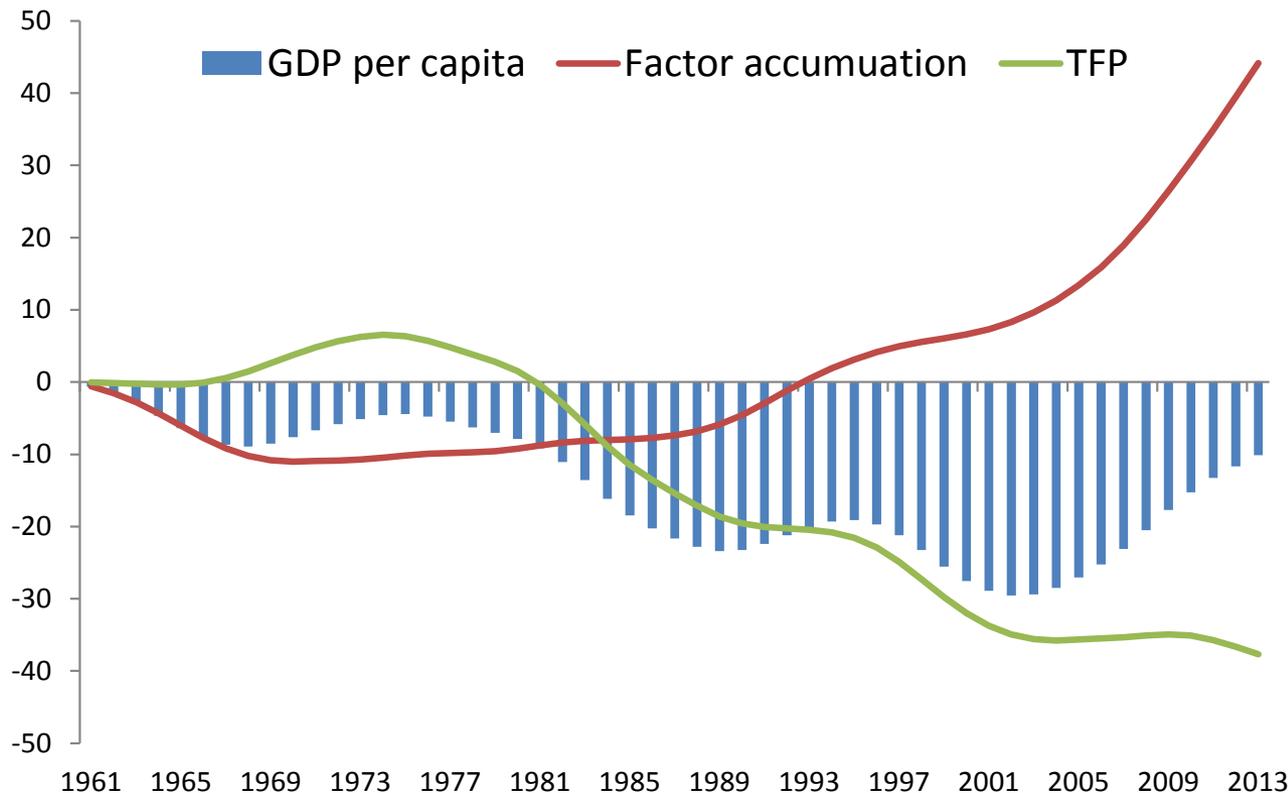


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# Loss in relative productivity is the main cause of loss in relative GDP per capita in the typical LAC country

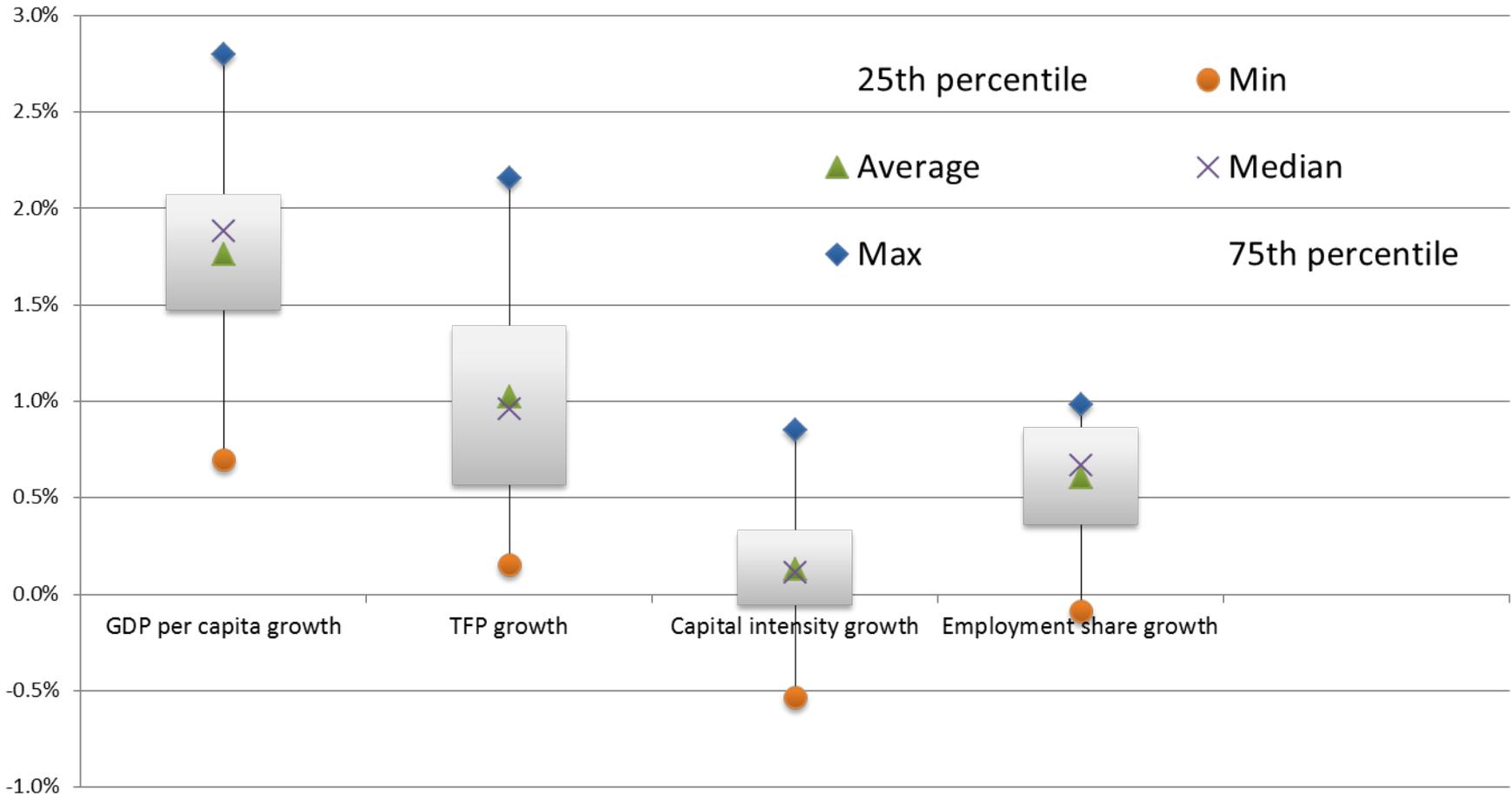
## Evolution of relative GDPpc , TFP and factor accumulation, vs U.S.



Divergence vs U.S. between 1960 and 2013 grew 10%.

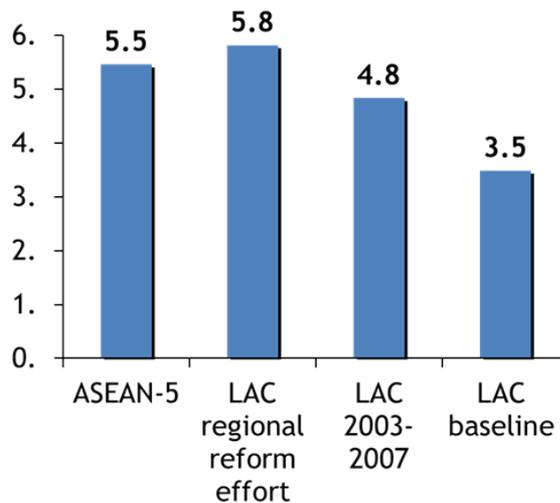
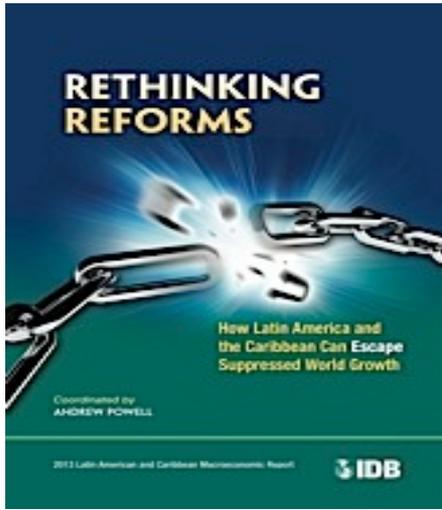
Factor accumulation was not enough to compensate negative TFP.

# Baseline growth reflects the low TFP growth



Source: Penn World Table 8.0 (2013) and authors' calculations

# Total Factor Productivity, Consensus and Reforms



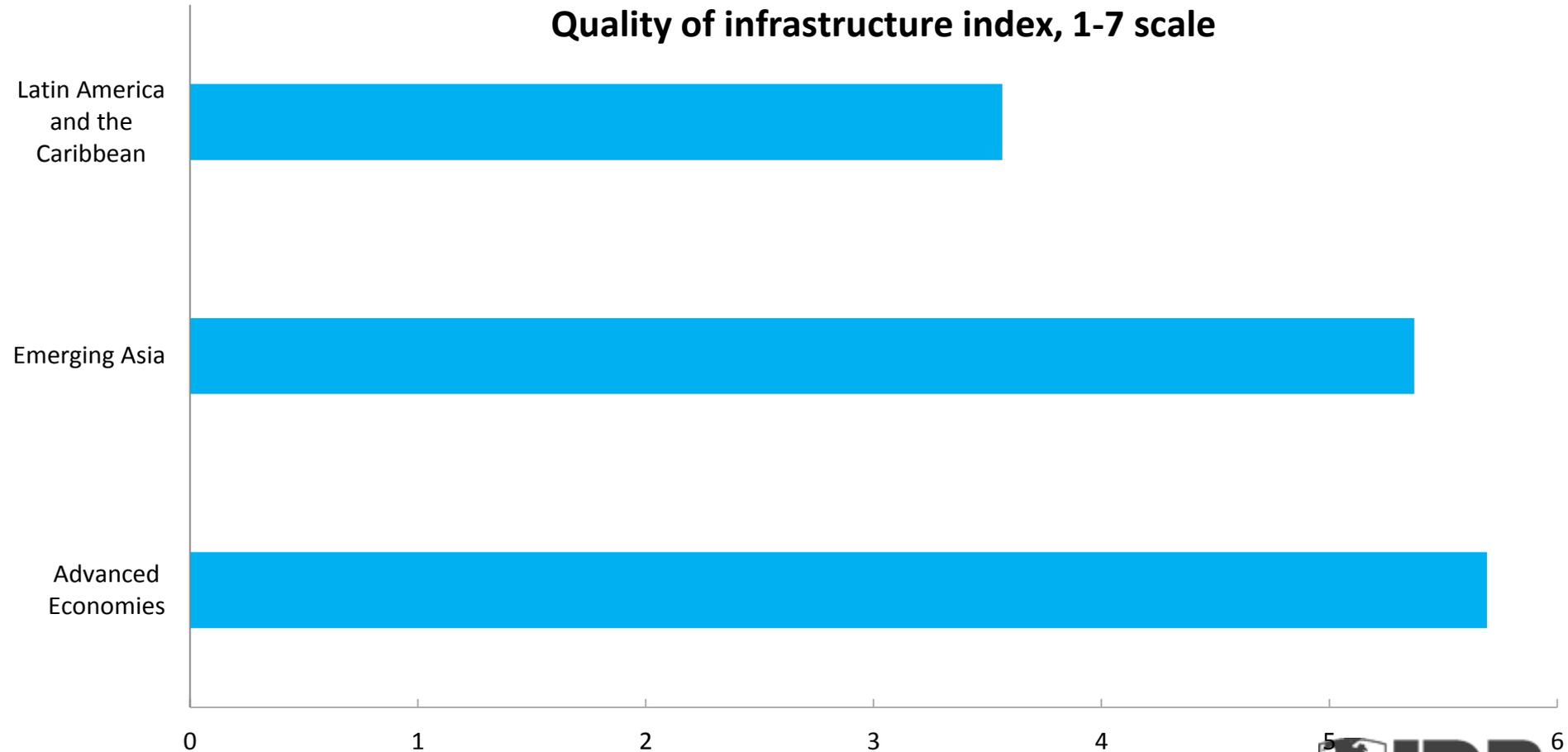
- A reform scenario would add 1.5% growth on average
- There are significant spillovers across the reform
- If all countries pursue a similar reform effort, regional growth could be boosted by 2.3%.
- LAC growth would then be close to 6% per annum, somewhat in excess of that of the ASEAN-5

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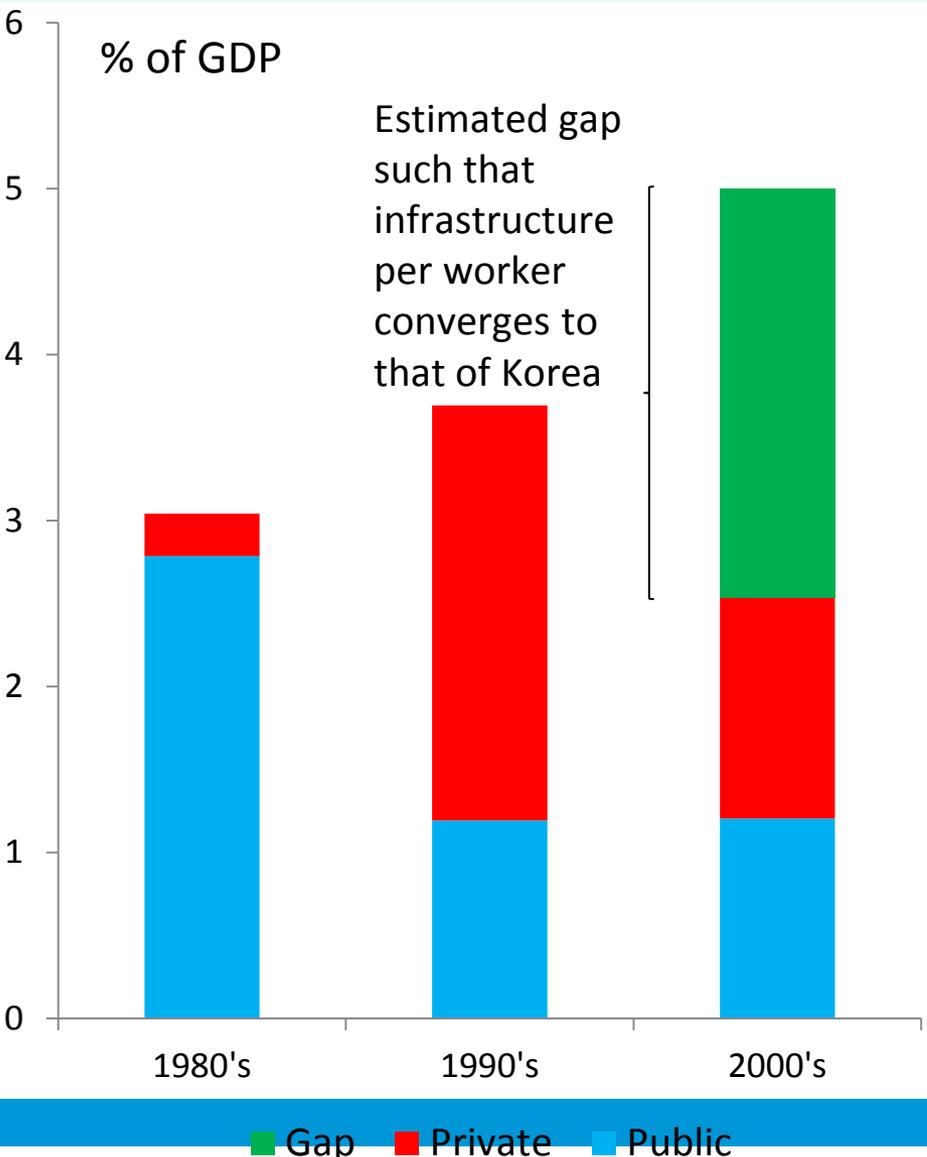
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# Infrastructure: perception that in LAC quality is low

Quality of infrastructure index, 1-7 scale

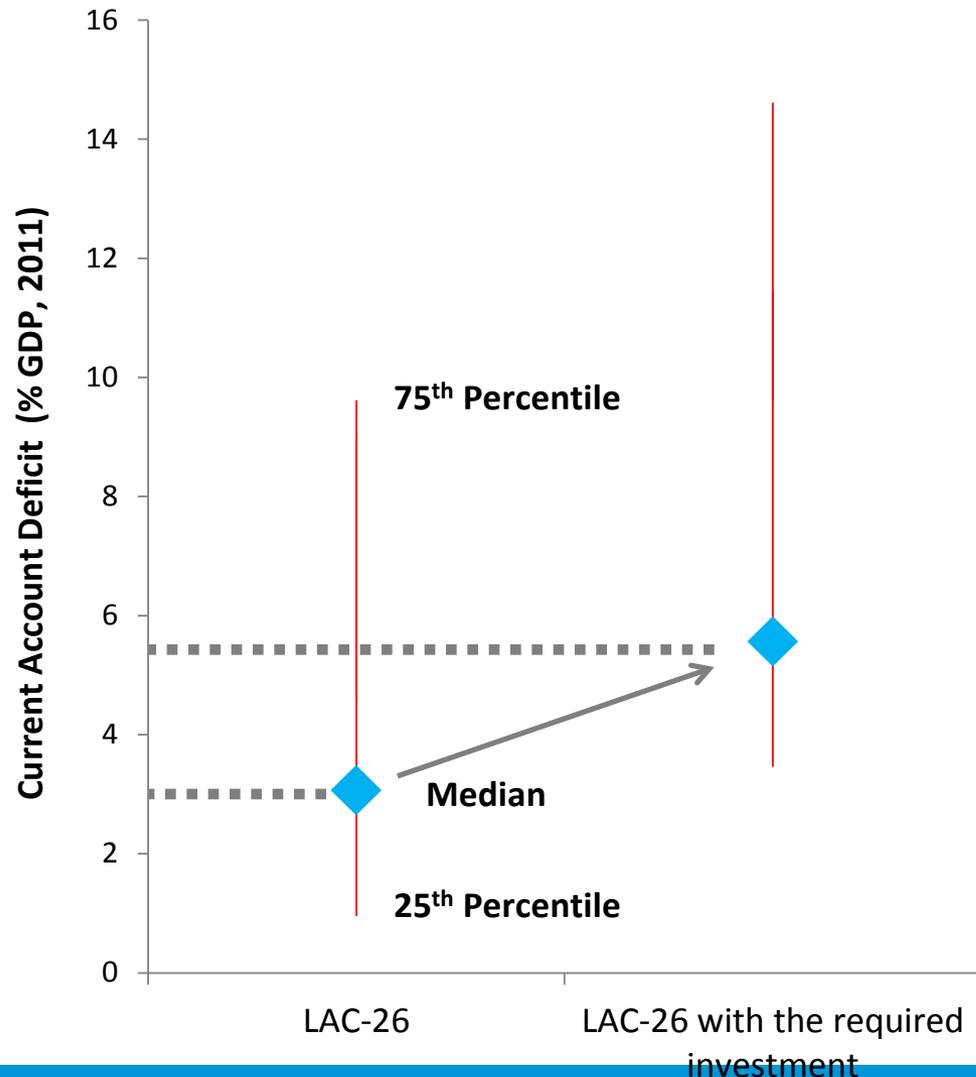


# Infrastructure investment has fallen



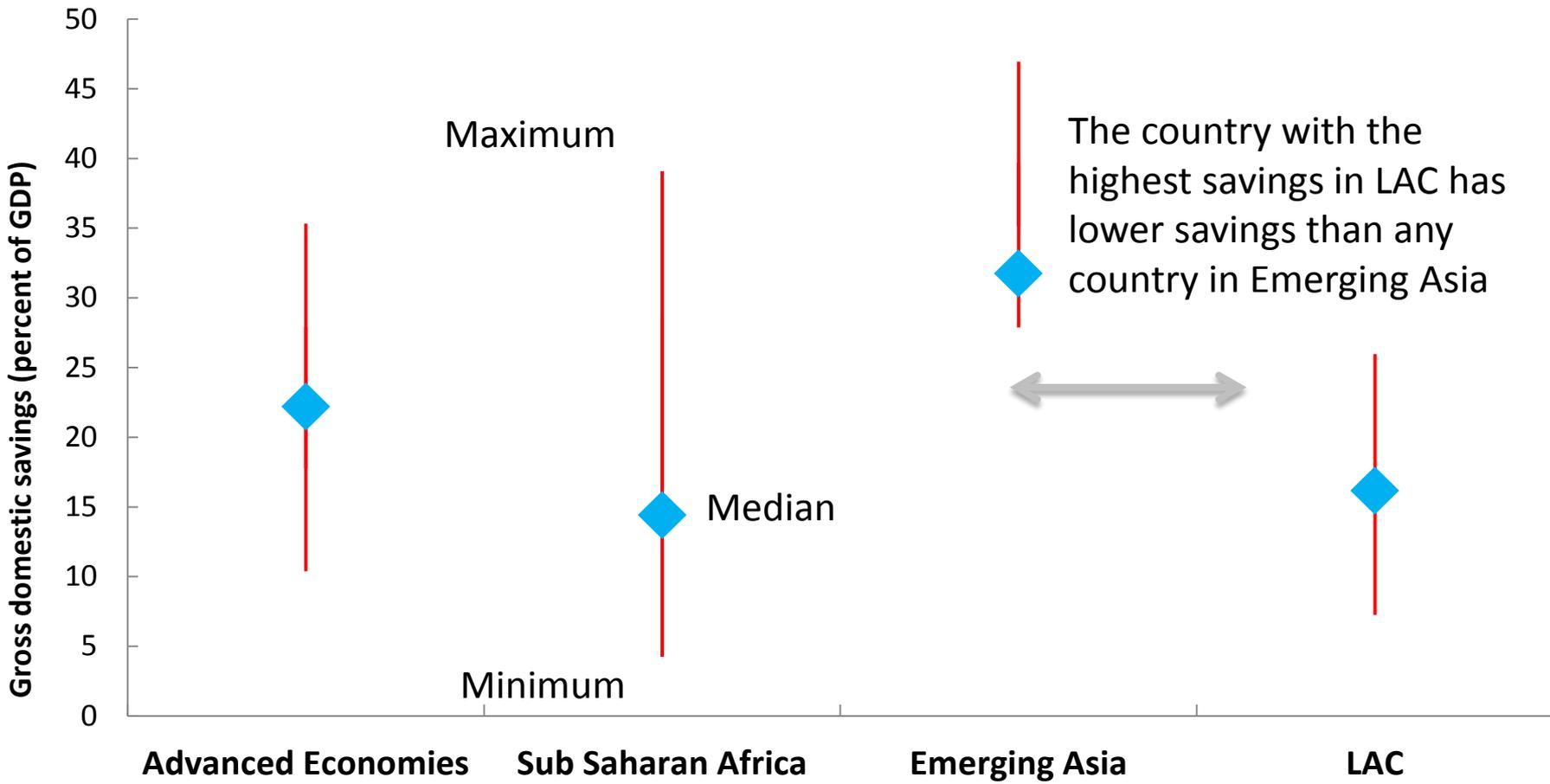
**Investment in infrastructure exceeded 3% of GDP in the 1980's and 1990's**  
**It has fallen to about 2.5% in the 2000's**  
**To close the infrastructure gap, investment of 5% of GDP may be required**  
**Given fiscal constraints, private investment needs to be boosted**  
**This requires frameworks to make these investments attractive to investors**

# Enhancing infrastructure investment will need more long-term domestic currency savings



Over the last 30 years, only 7 countries in LAC have been able to sustain for more than 5 years the current account deficit needed to finance the estimated infrastructure gap

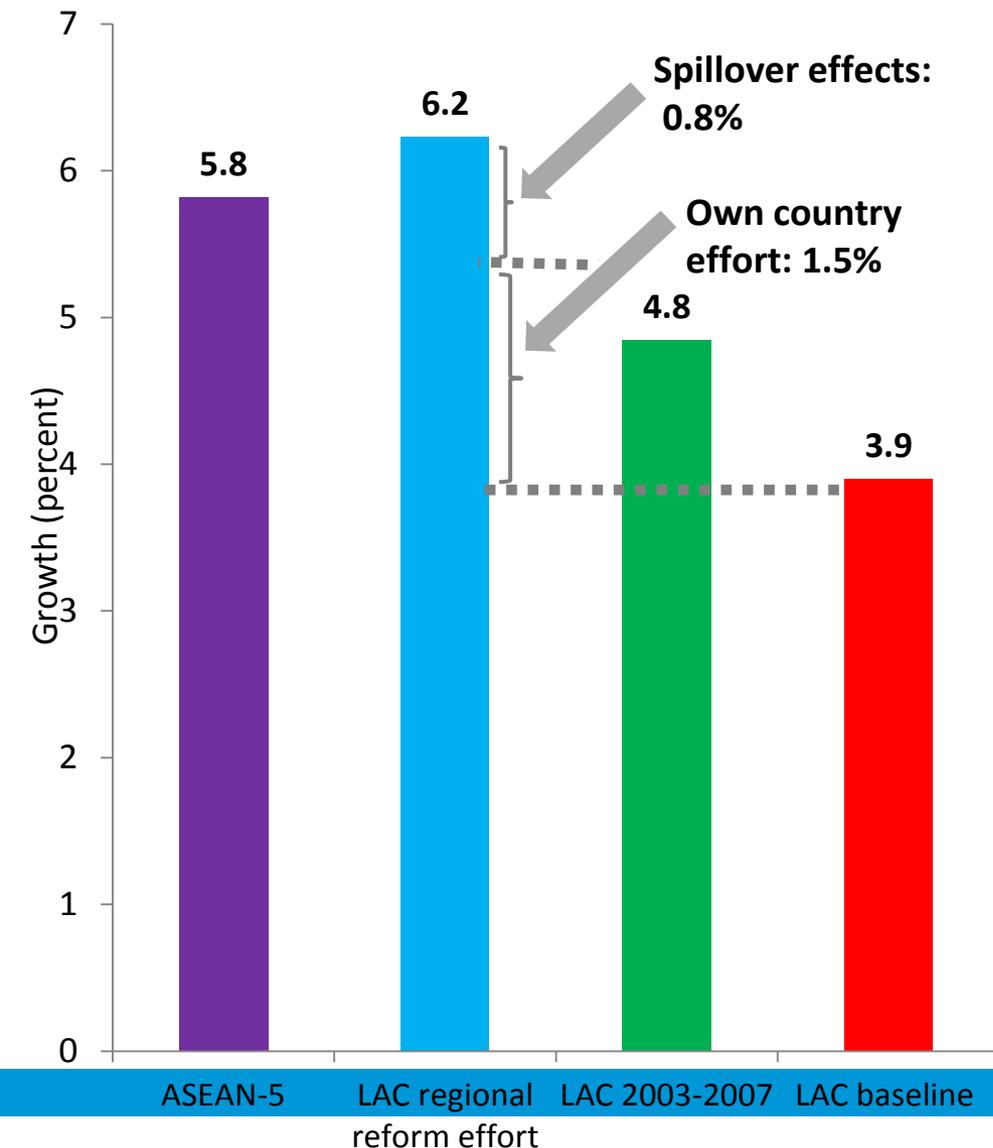
# Domestic savings in LAC are low



The median savings rate in LAC is lower than that of Emerging Asia and Advanced Economies and almost the same as countries in Sub Saharan Africa



# In a concerted regional reform effort, LAC growth could exceed that of the ASEAN-5



- Positive spillovers between countries are a function of trade and other interactions.

- If all countries pursue a similar reform effort, regional growth would be boosted by 2.3%.

- LAC growth would then exceed 6% per annum, somewhat in excess of that of the ASEAN-5.

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# Physical Integration Gaps

- Insufficient capacity and quality of land transportation (road and rail) networks.
- Port congestion: high volume to value goods in LAC.
- Insufficient intermodal connections between rail and highway transport, with ports and maritime transport.
- Bottlenecks at border crossings and customs-related inefficiencies at ports.
- Need huge investments to address infrastructure gaps...
- ...but public investment in infrastructure is barely 2% of GDP in LAC vs. 6–10% in East Asia.
- Complementary investments in trade facilitation are much less expensive and also get big returns.

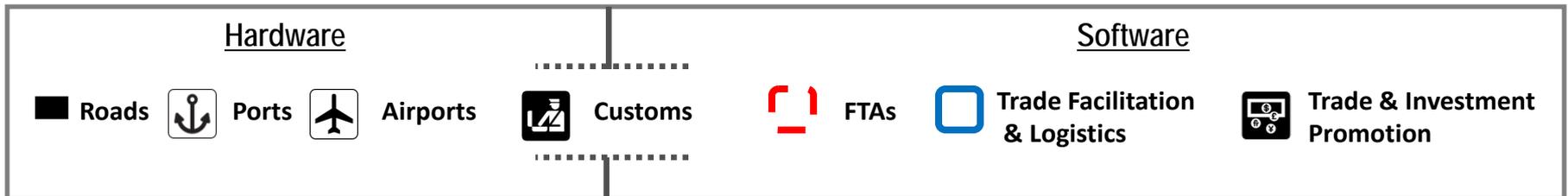
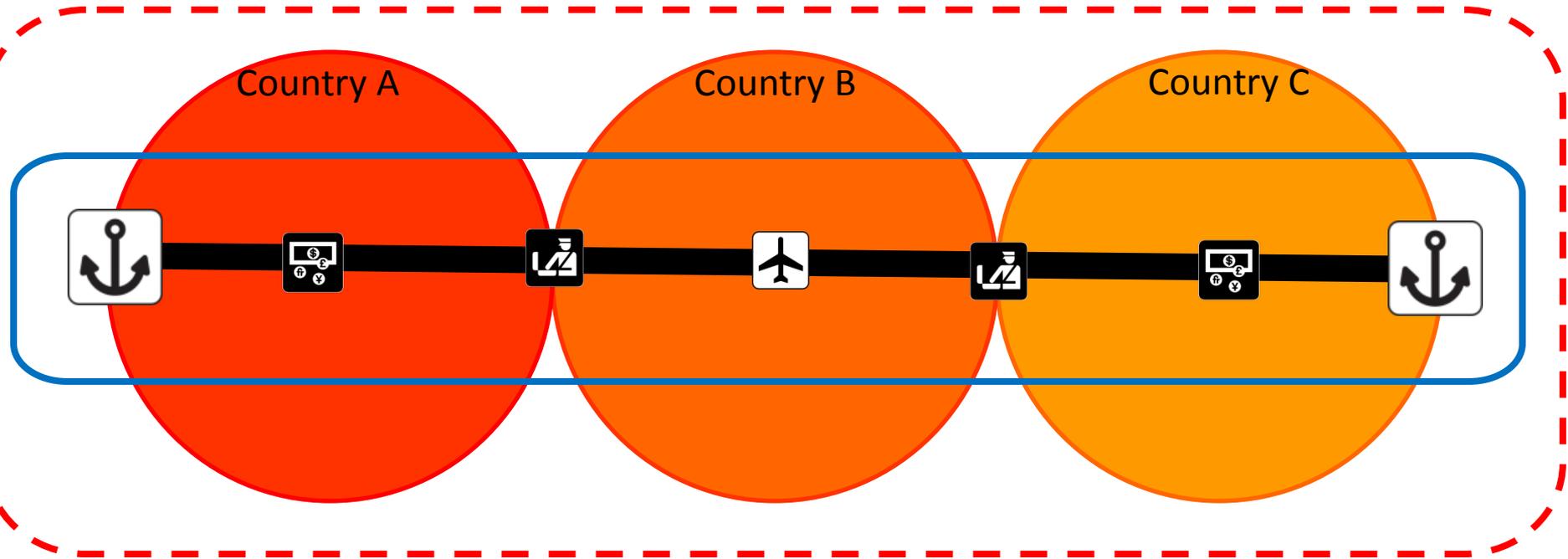


## Ports in Latin America and the Caribbean

- Ports are crucial hubs for the region's integration, handling more than 80% of international trade.
- Alongside increased economic performance, container port traffic in LAC rose to 41 million containers in 2011.
- But port traffic remains proportionally lower in terms of economic size compared to other parts of the world.
- Freight charges on LAC exports to the U.S. are on average 70% higher than those in the Netherlands.
- Expansions of port capacity should be accompanied by the development complementary means of transportation (such as the rail network), and by reforms of regulatory and policy frameworks (software).

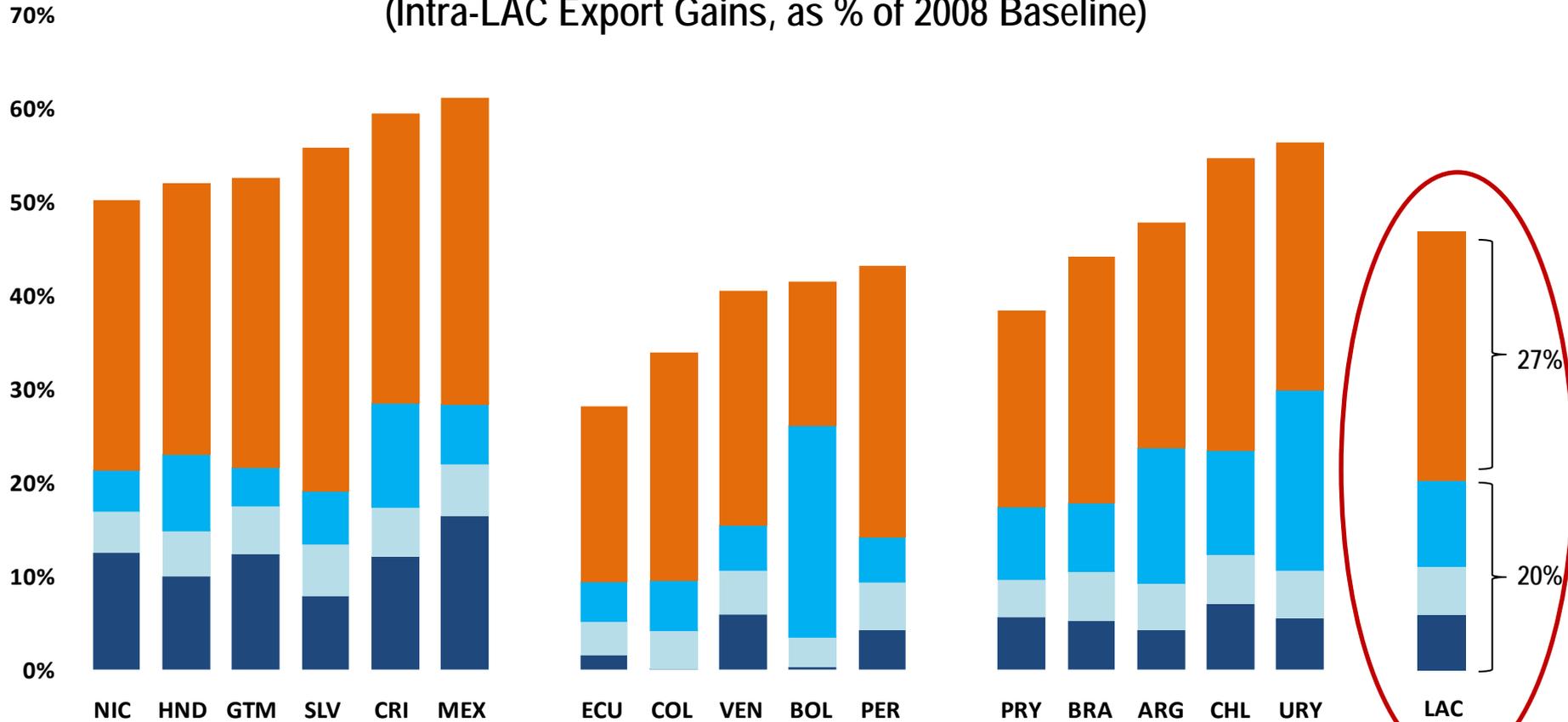


# Combined *hard-soft investments* in sustainable integration corridors...



# ...can bring high returns in each segment of the integration agenda

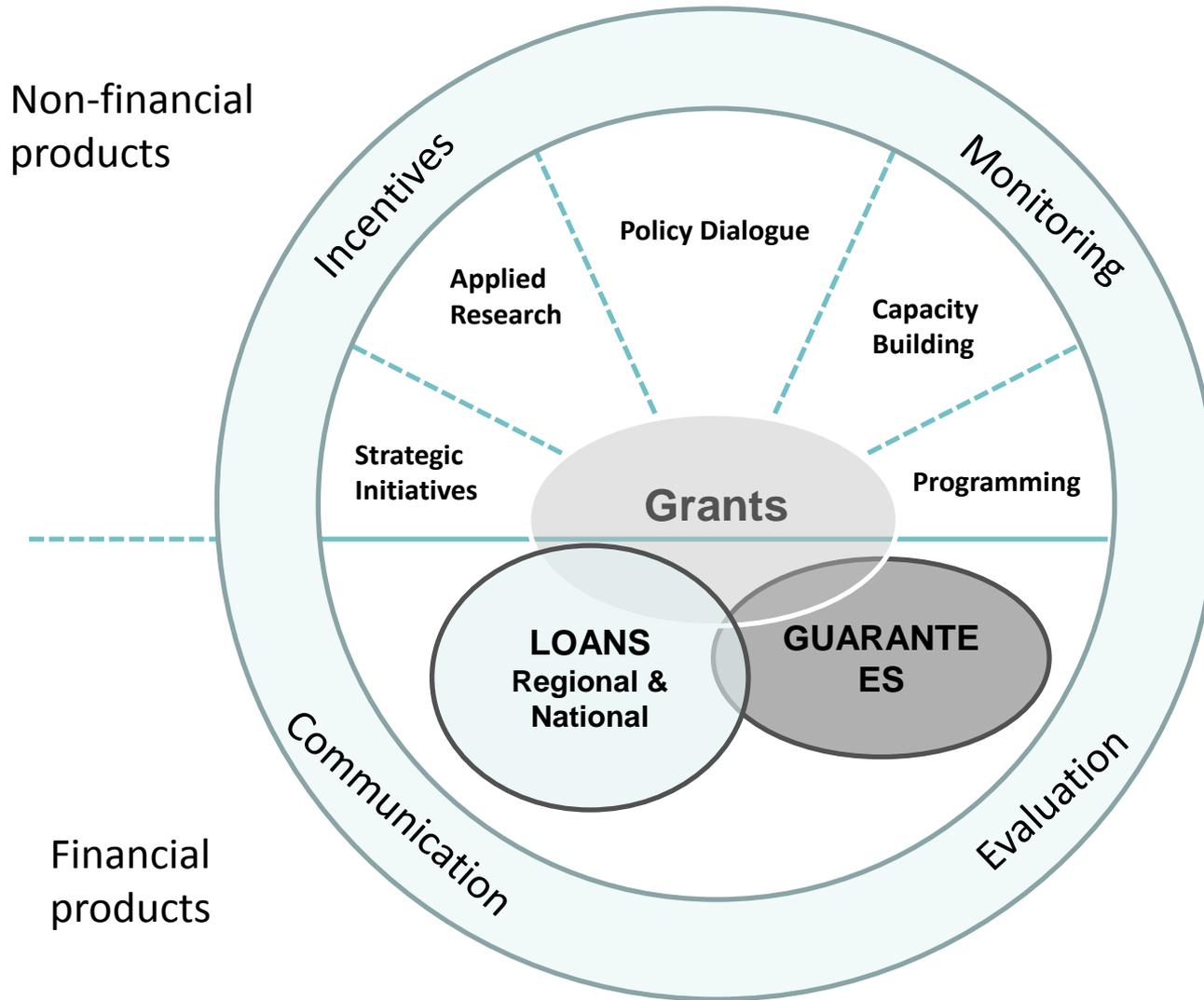
Export Effects of Software Policy Reforms and Hardware Investment  
(Intra-LAC Export Gains, as % of 2008 Baseline)



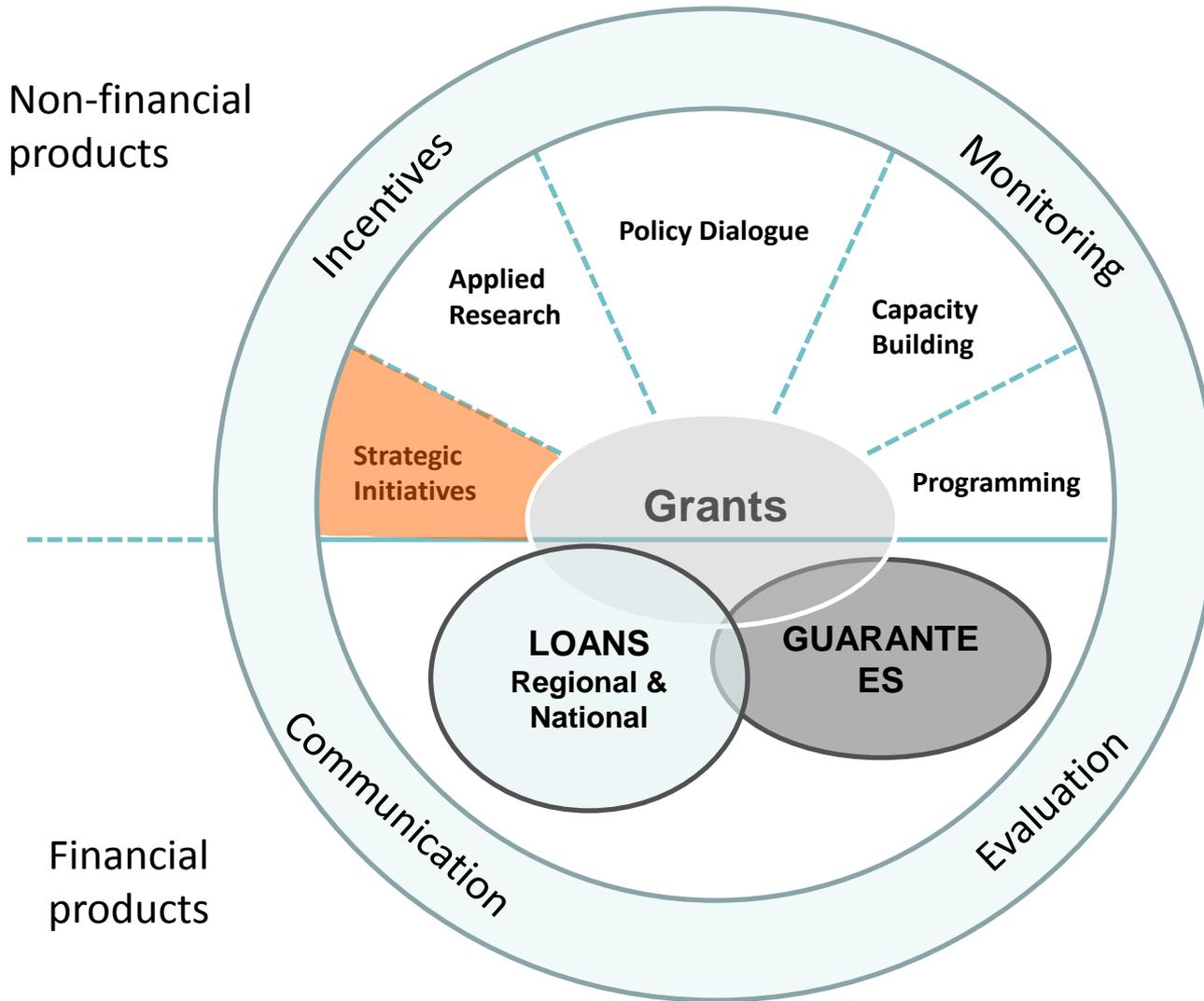
■ Tariff liberalization   ■ Trade facilitation   ■ NTB reduction   ■ Infrastructure investment



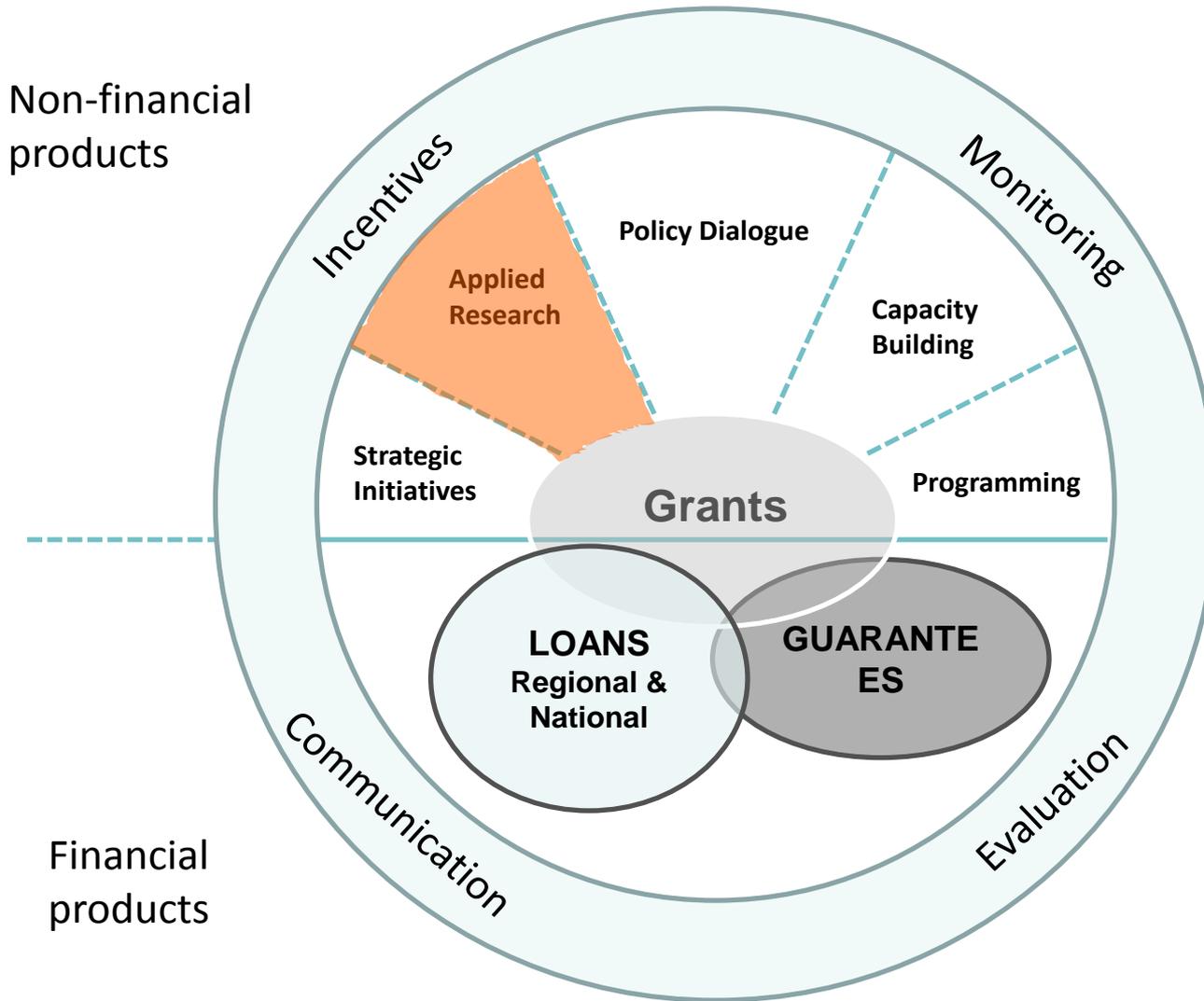
# Range of Products to Support Integration



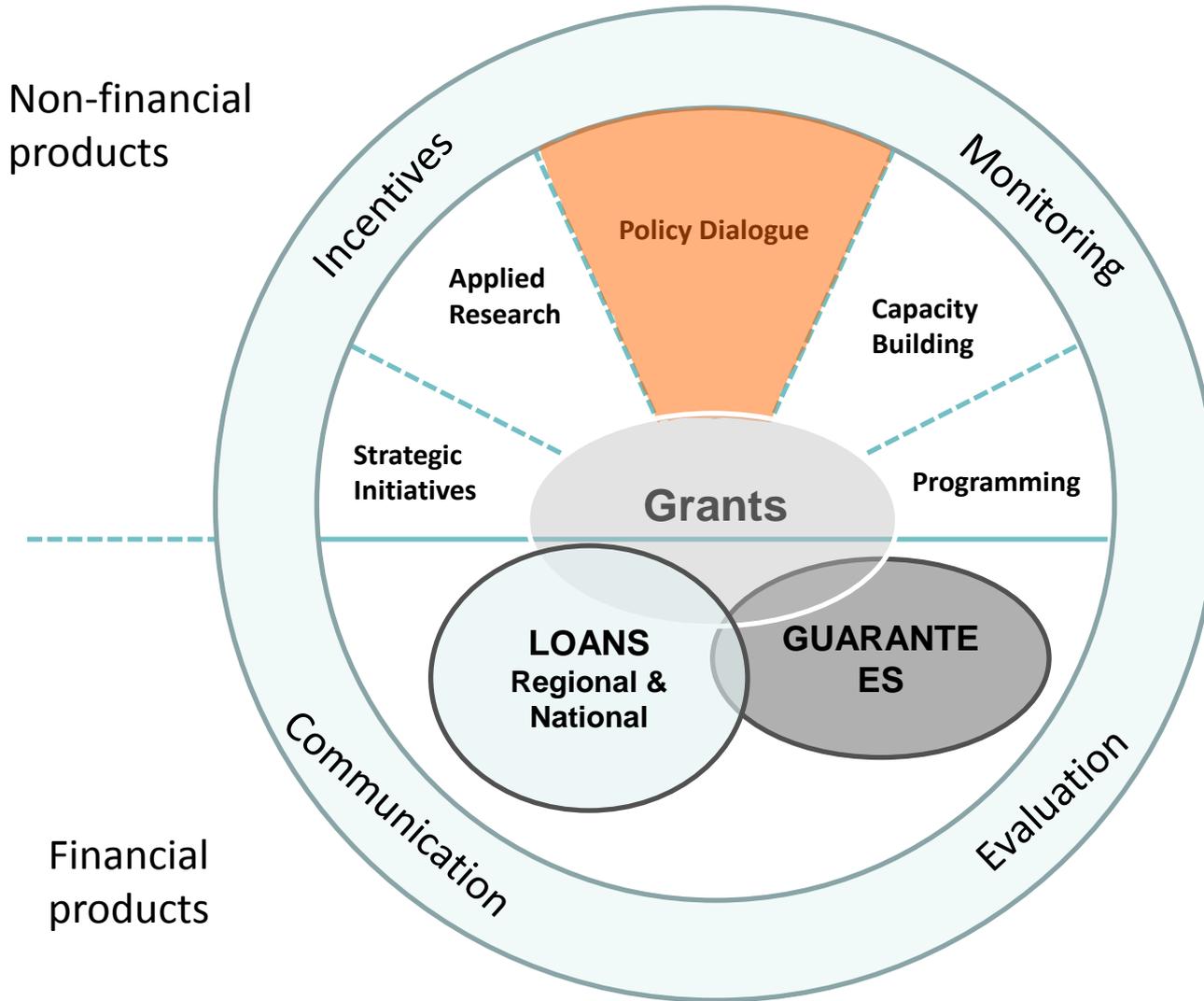
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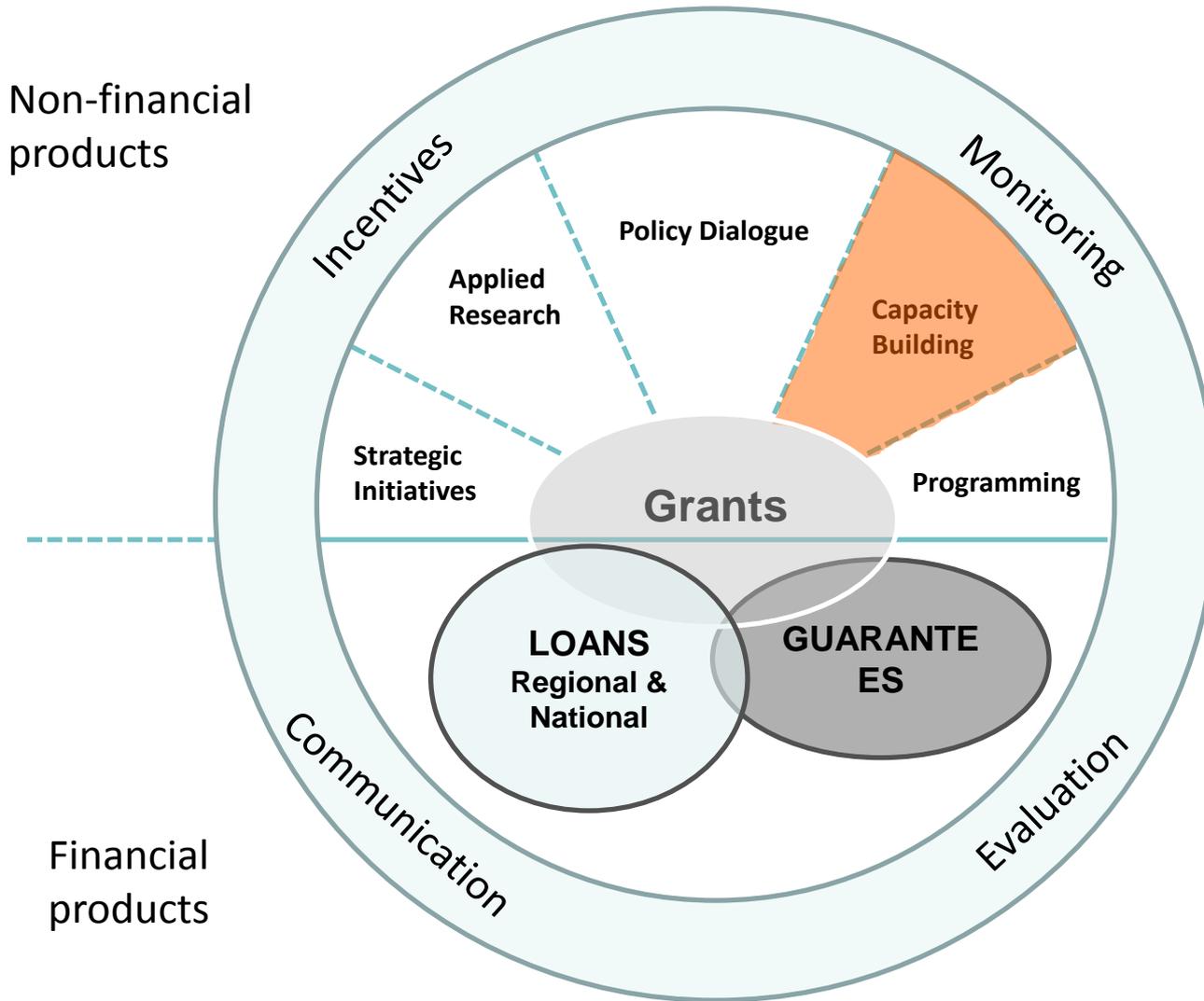
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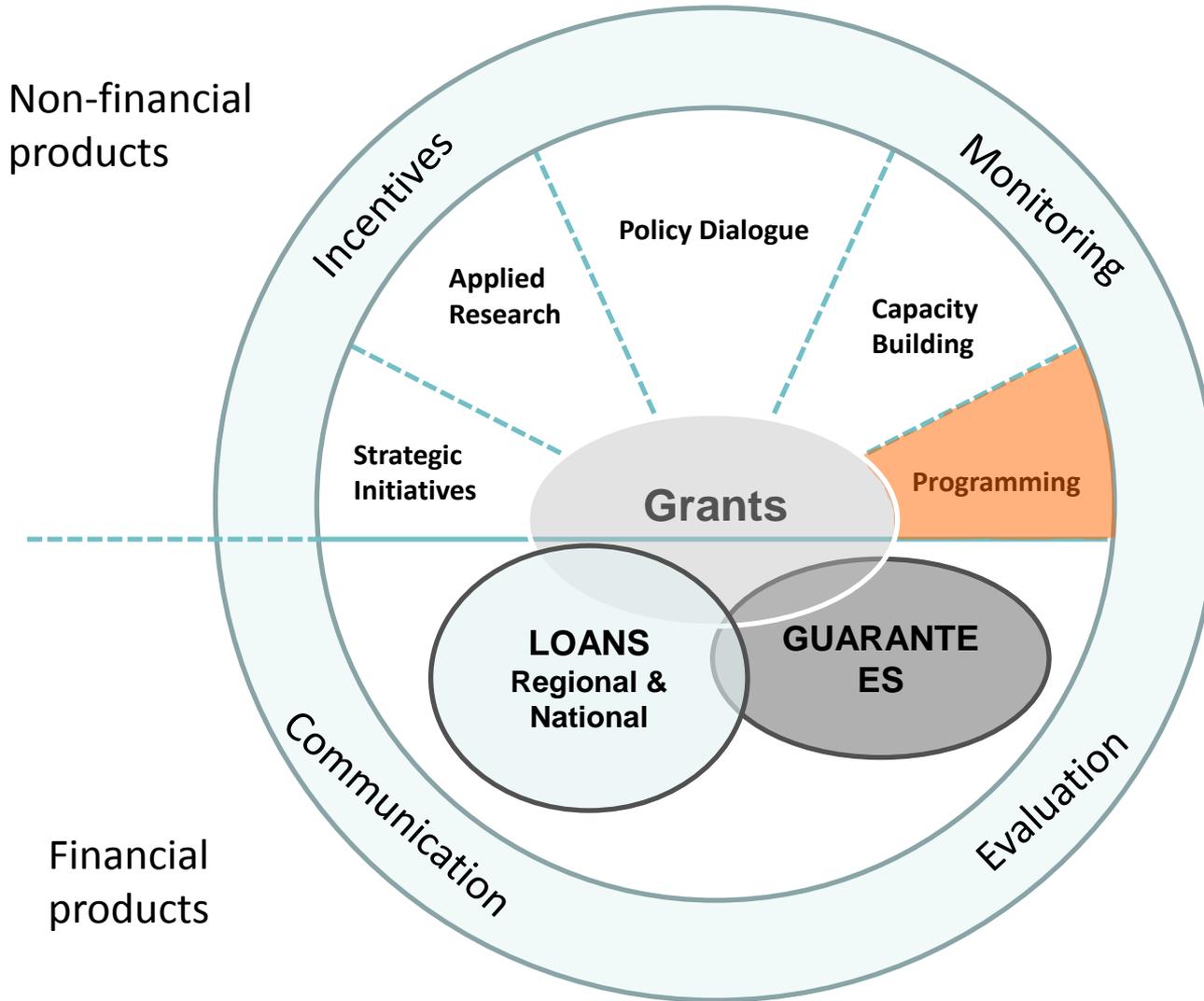
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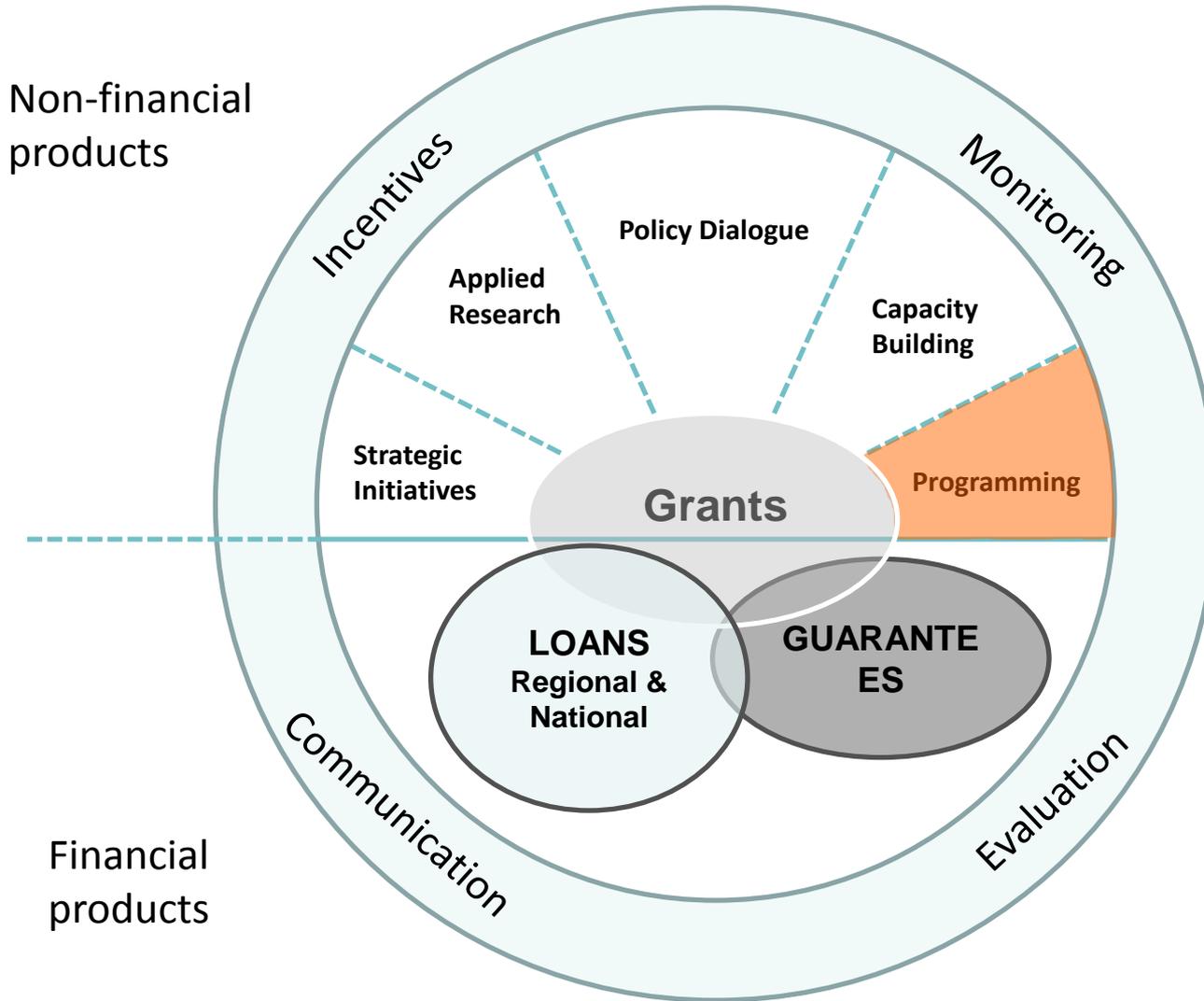
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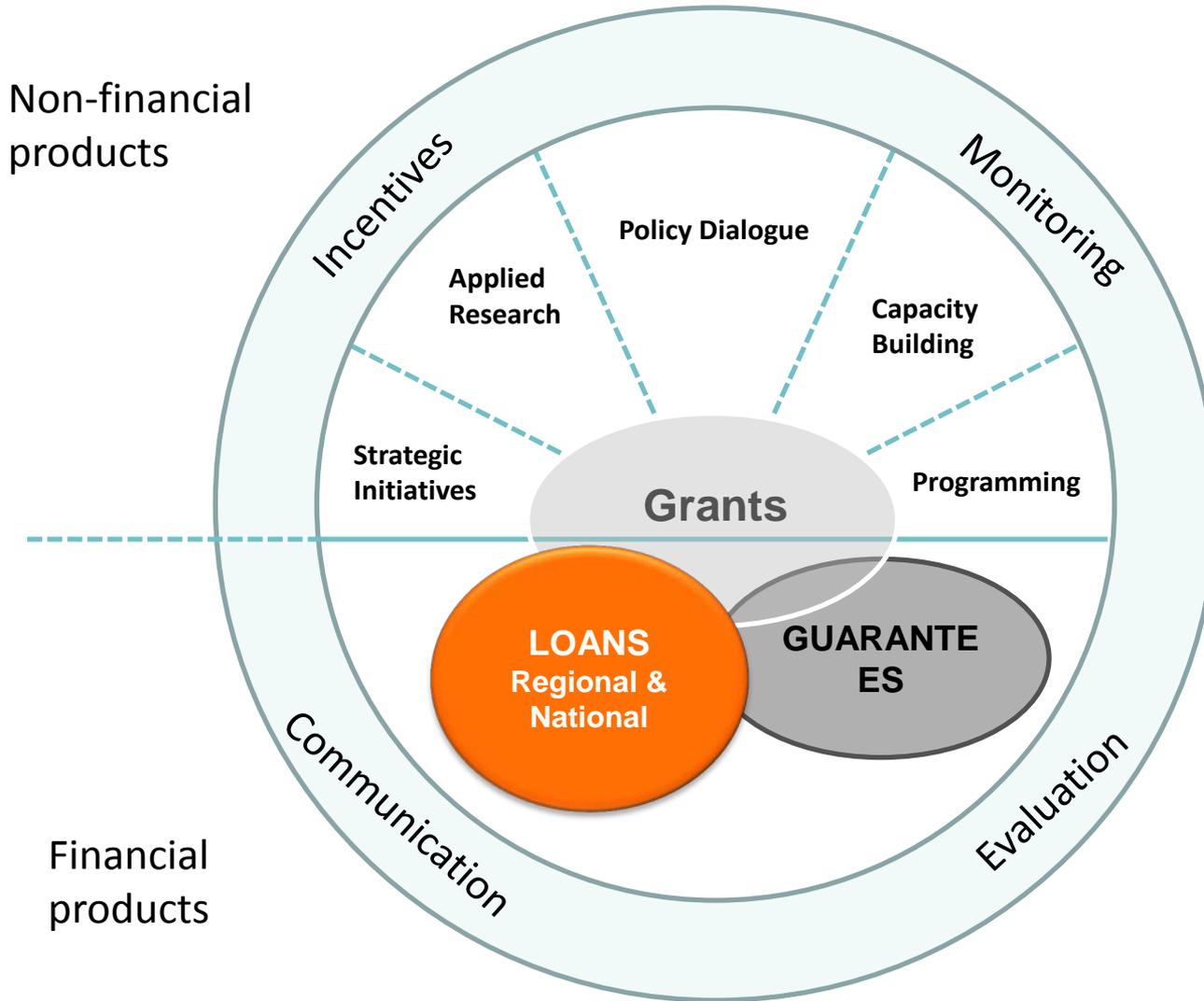
# Range of Products to Support Integration



# Range of Products to Support Integration



# Range of Products to Support Integration



Thank you



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