

Latin American Economic Perspectives

LASOS 2017

**October 18, Hotel Intercontinental
Buenos Aires, Argentina**



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Partner & Director, Grupo SBS**

AGENDA

- I. Recent economic trends in LA**
- II. The good, the bad, and the ugly**
- III. Main challenges ahead**
- IV. Existing and emerging opportunities**

AGENDA

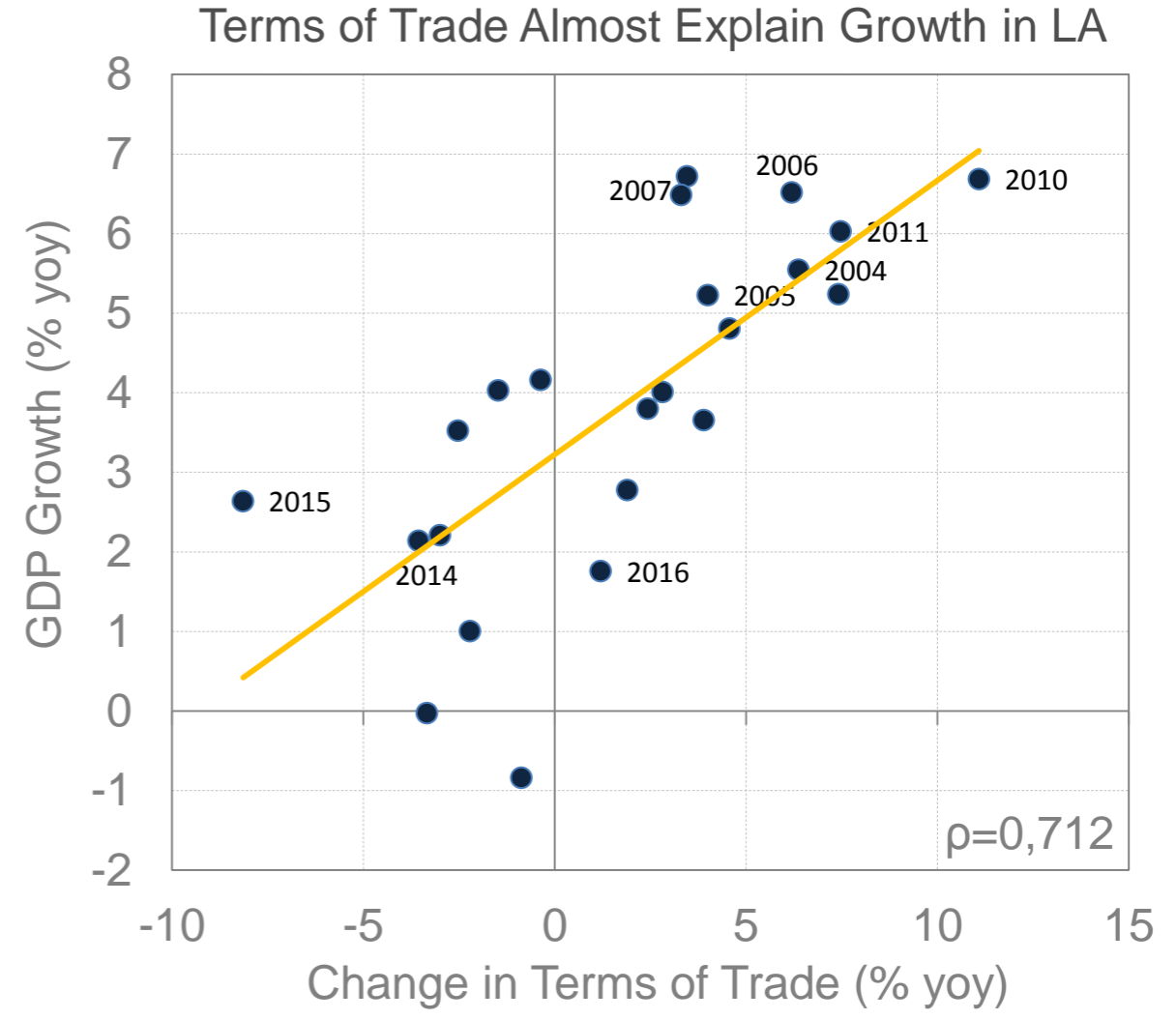
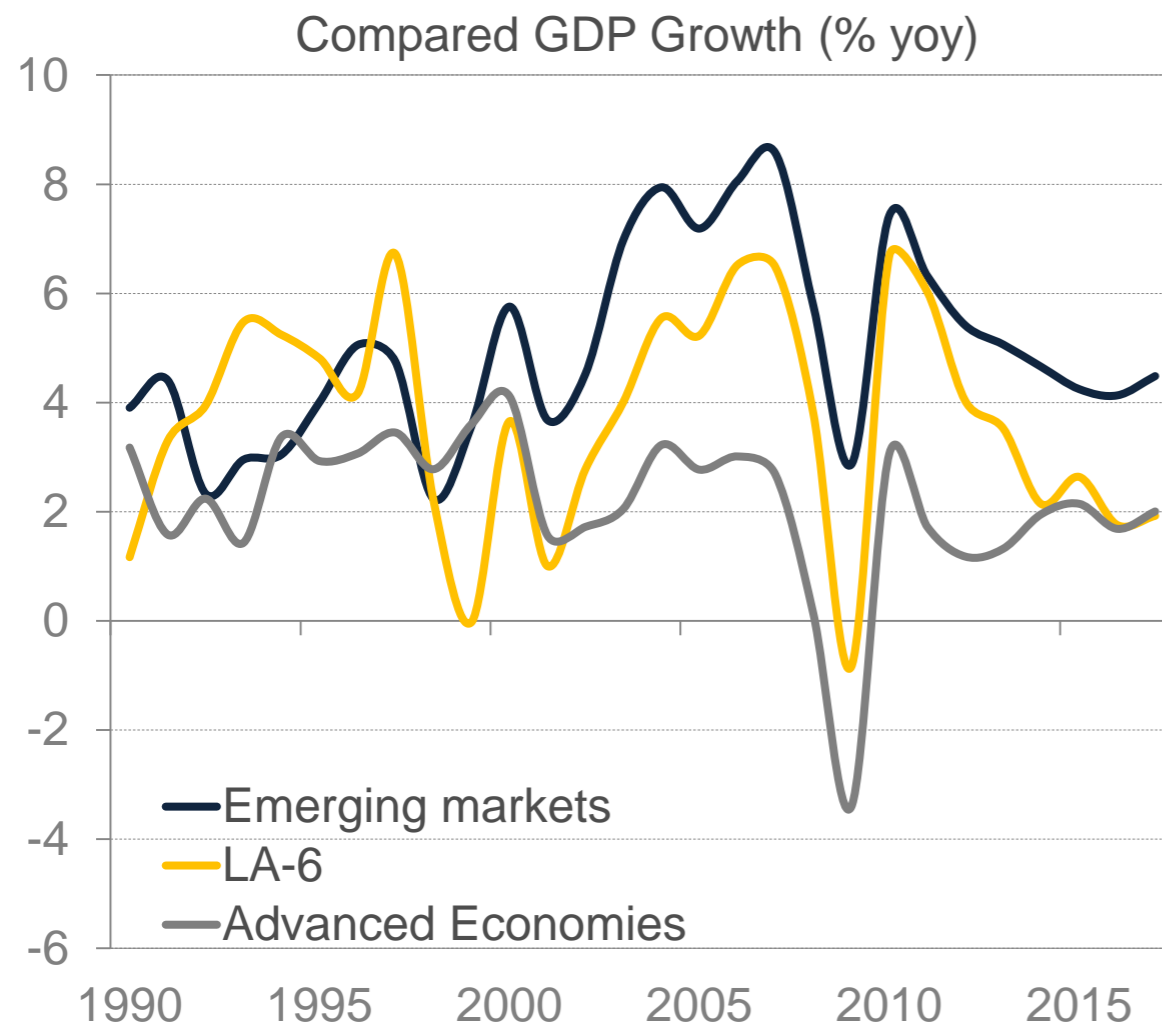
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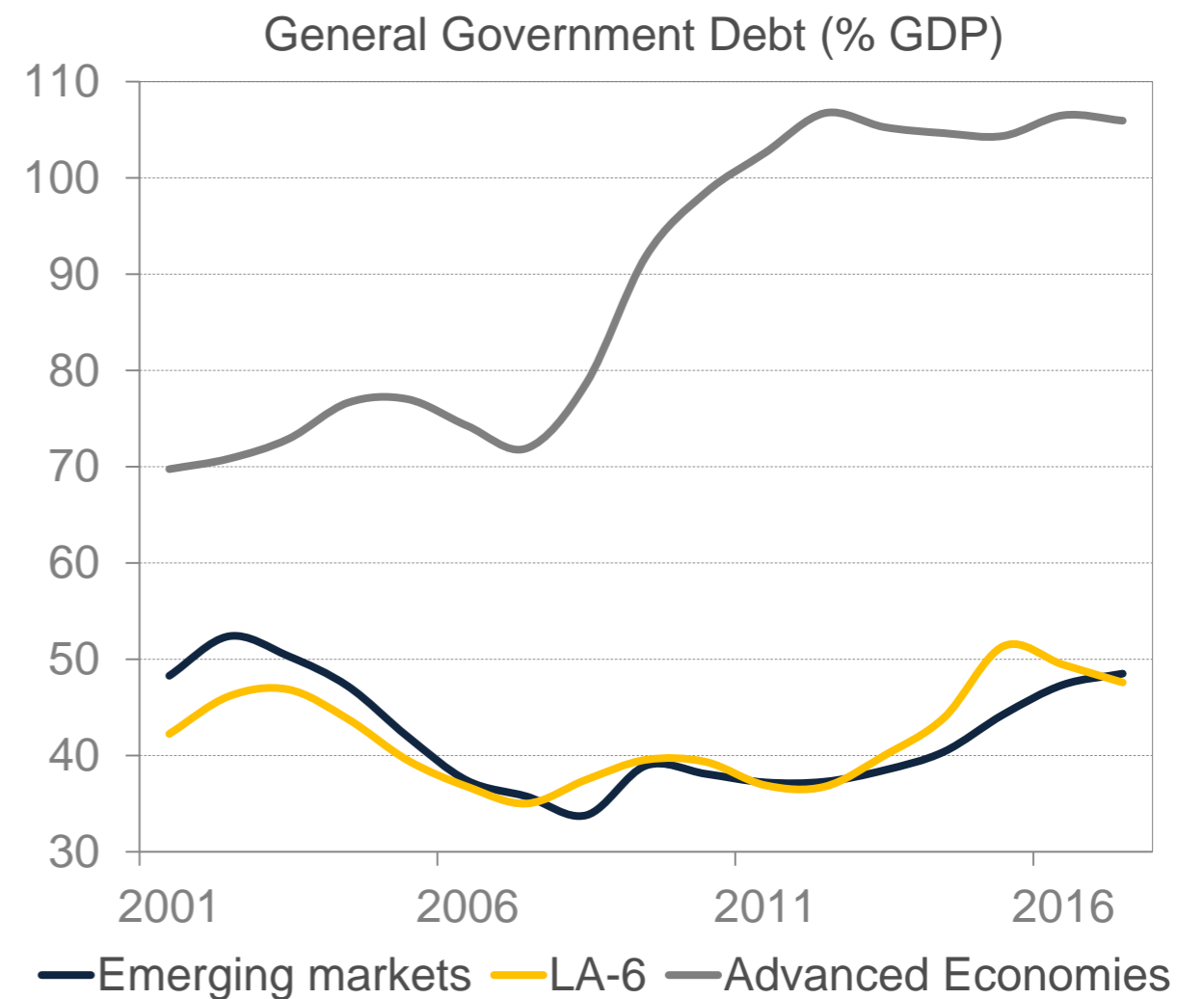
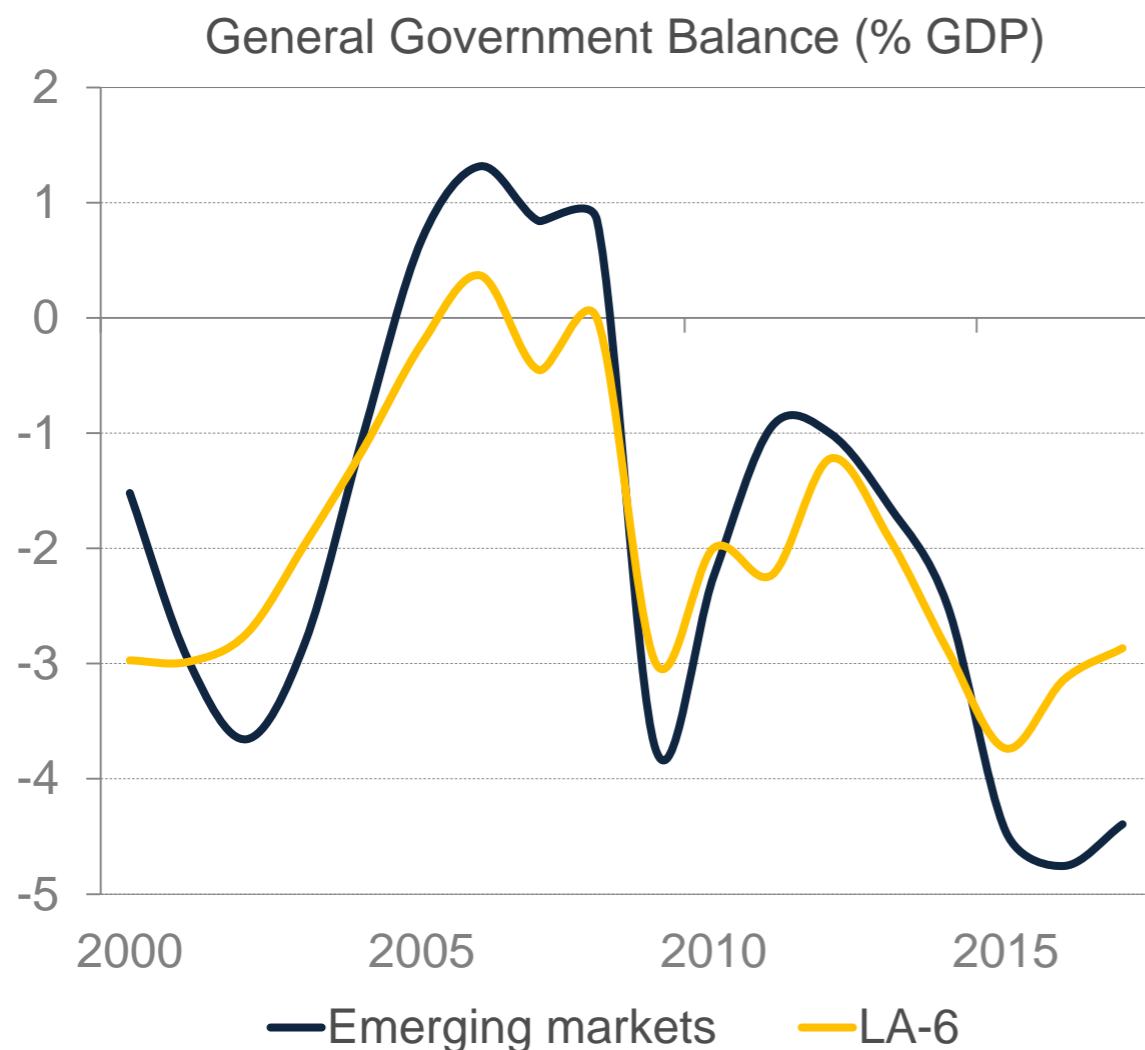
IV. Existing and emerging
opportunities

The economic slowdown after the 2008-09 crisis has been severe, with GDP growth falling behind EM pace once again. Terms of trade should be blamed for, but policies now have to accommodate to the new reality

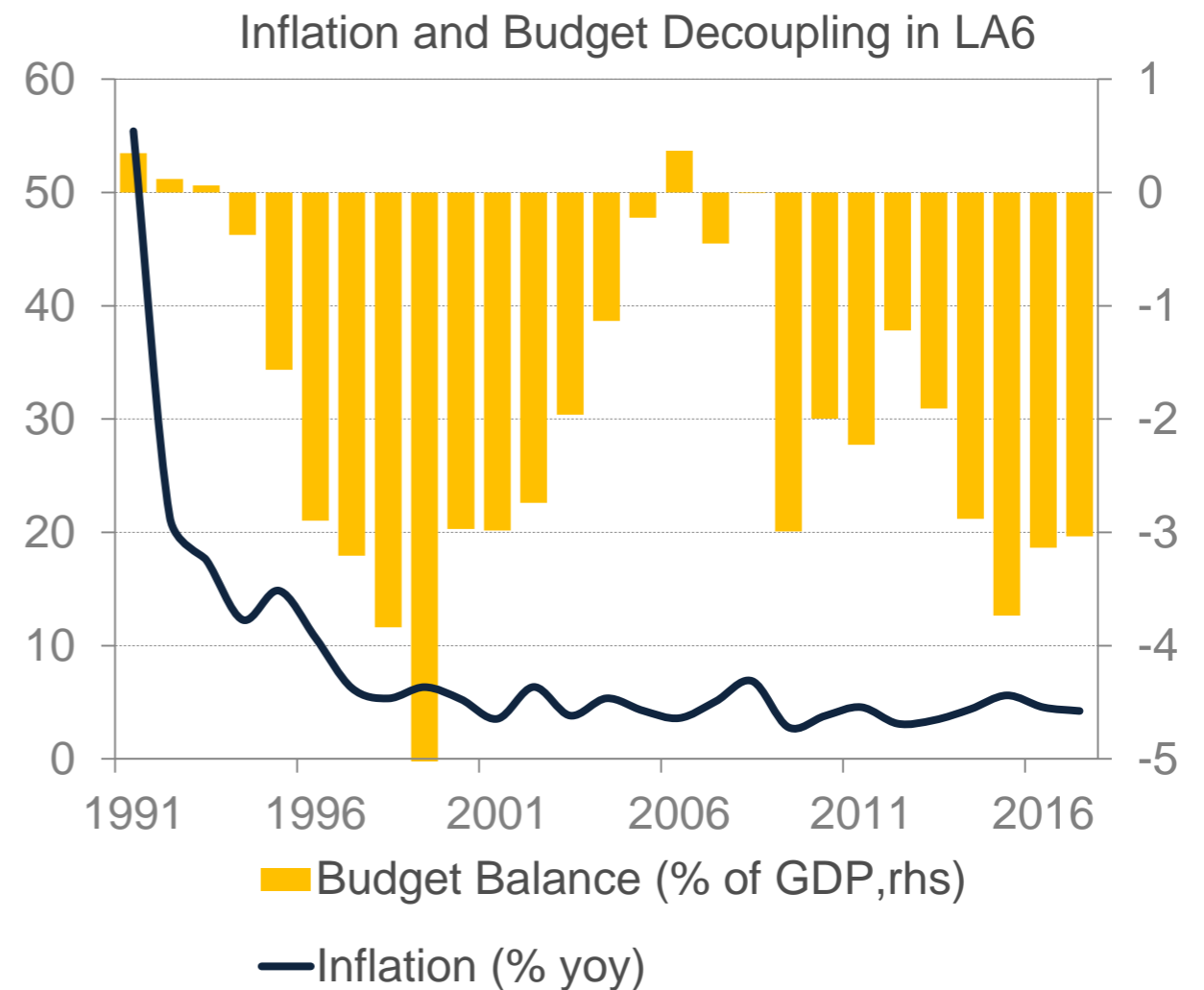
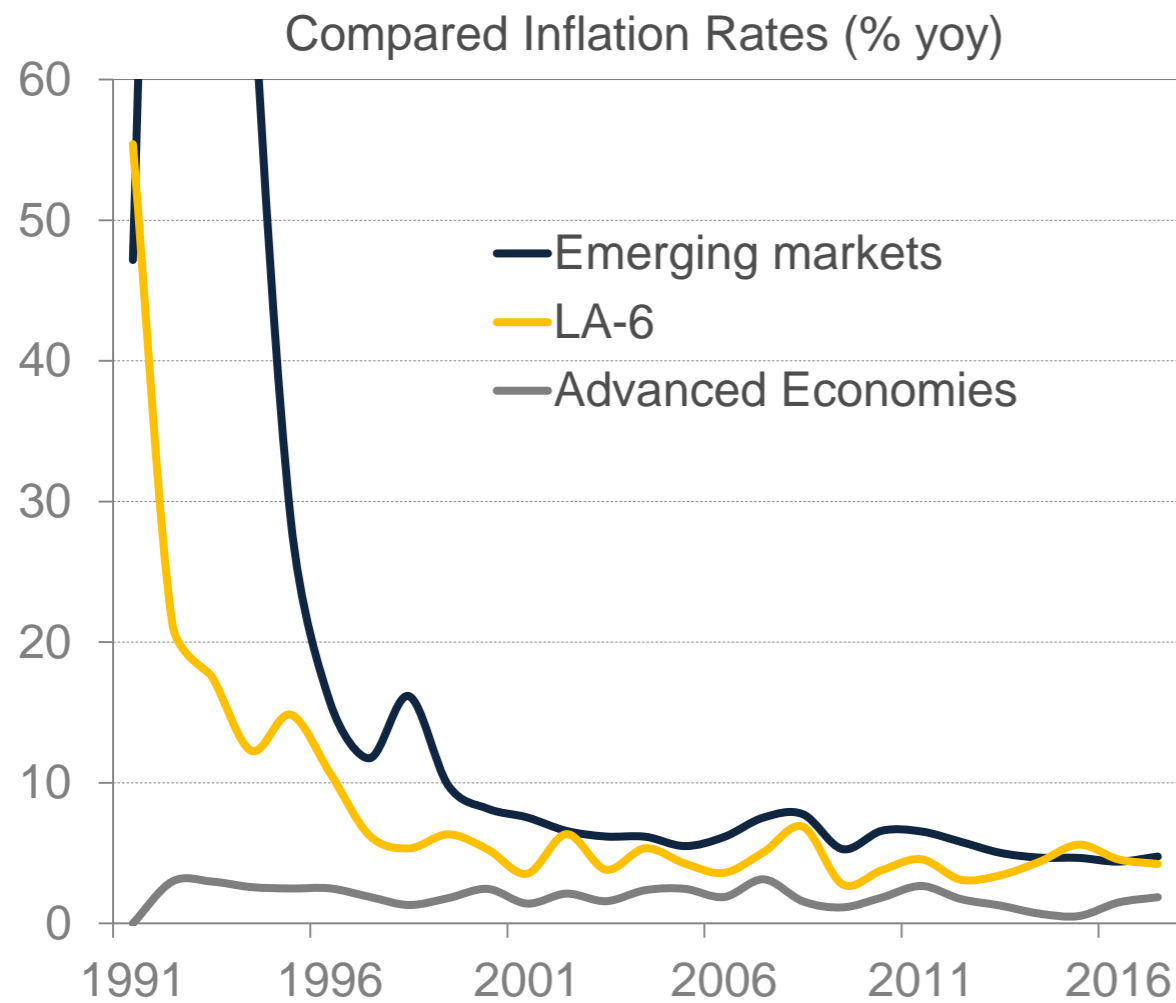


Source: SBS Research, IMF, Bloomberg L.P.

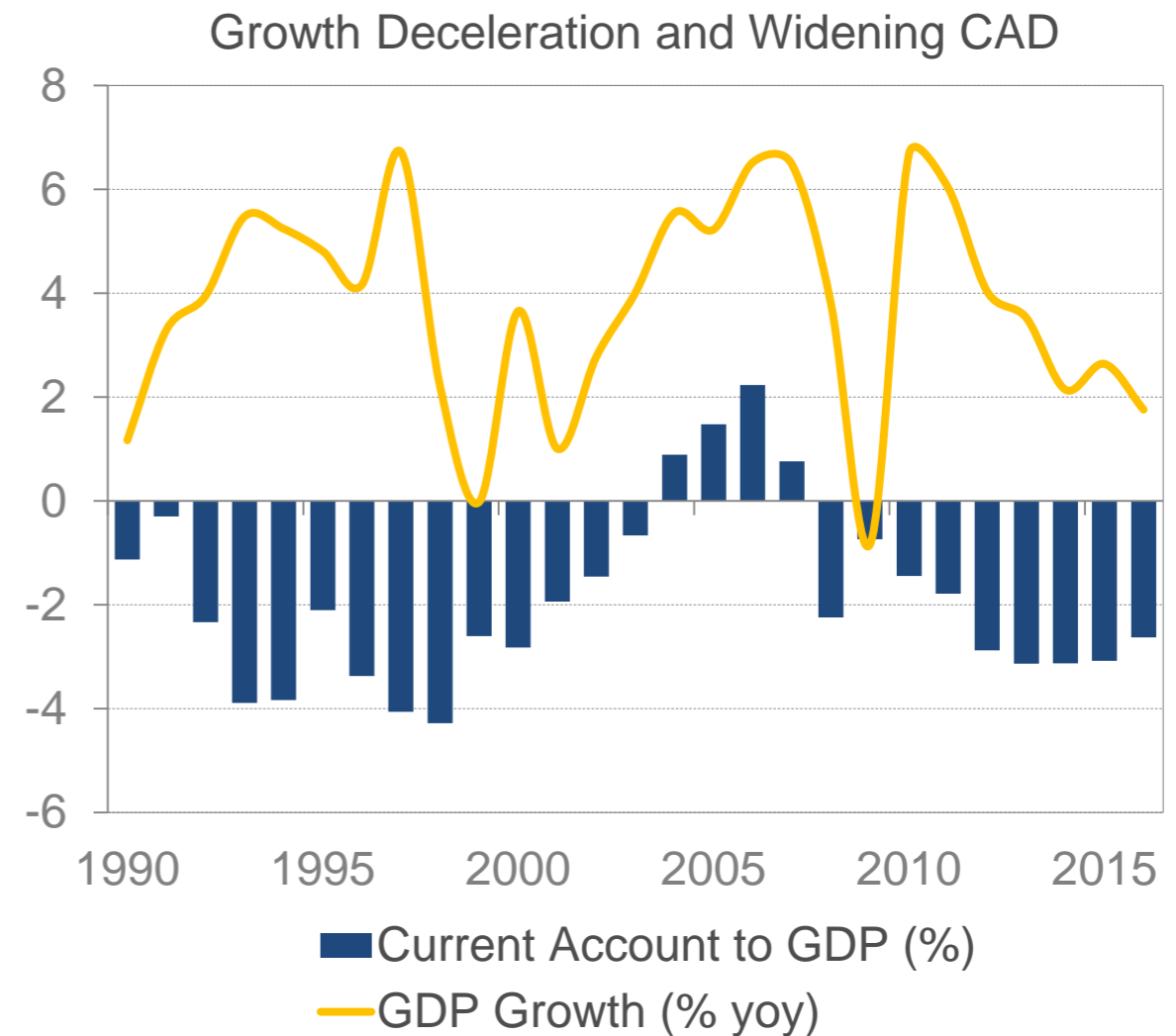
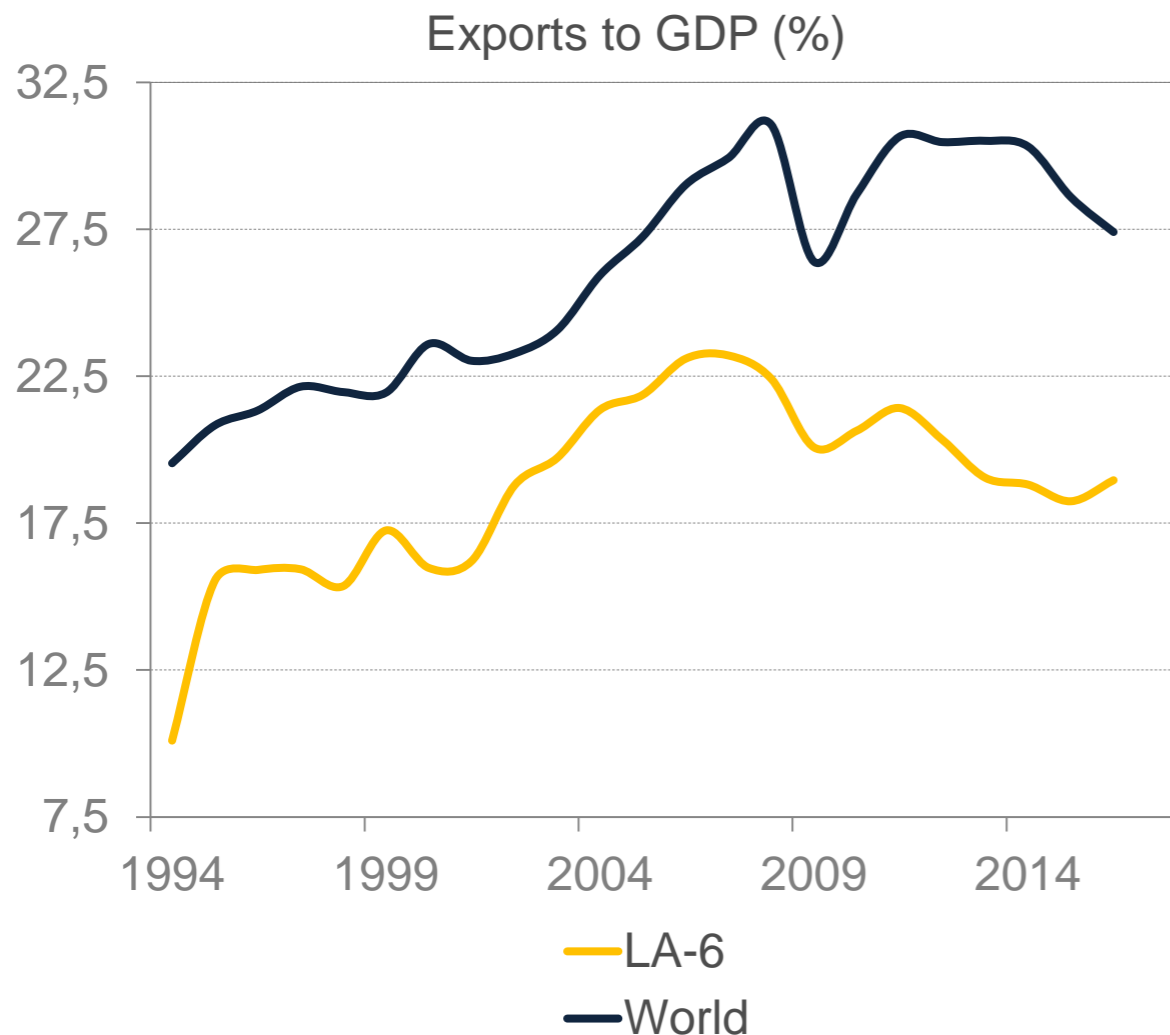
Lower commodity prices have yet to trigger consistent government spending and more prudent fiscal positions. Lower level of public debt than in the past provides room for a gradual adjustment in most cases though



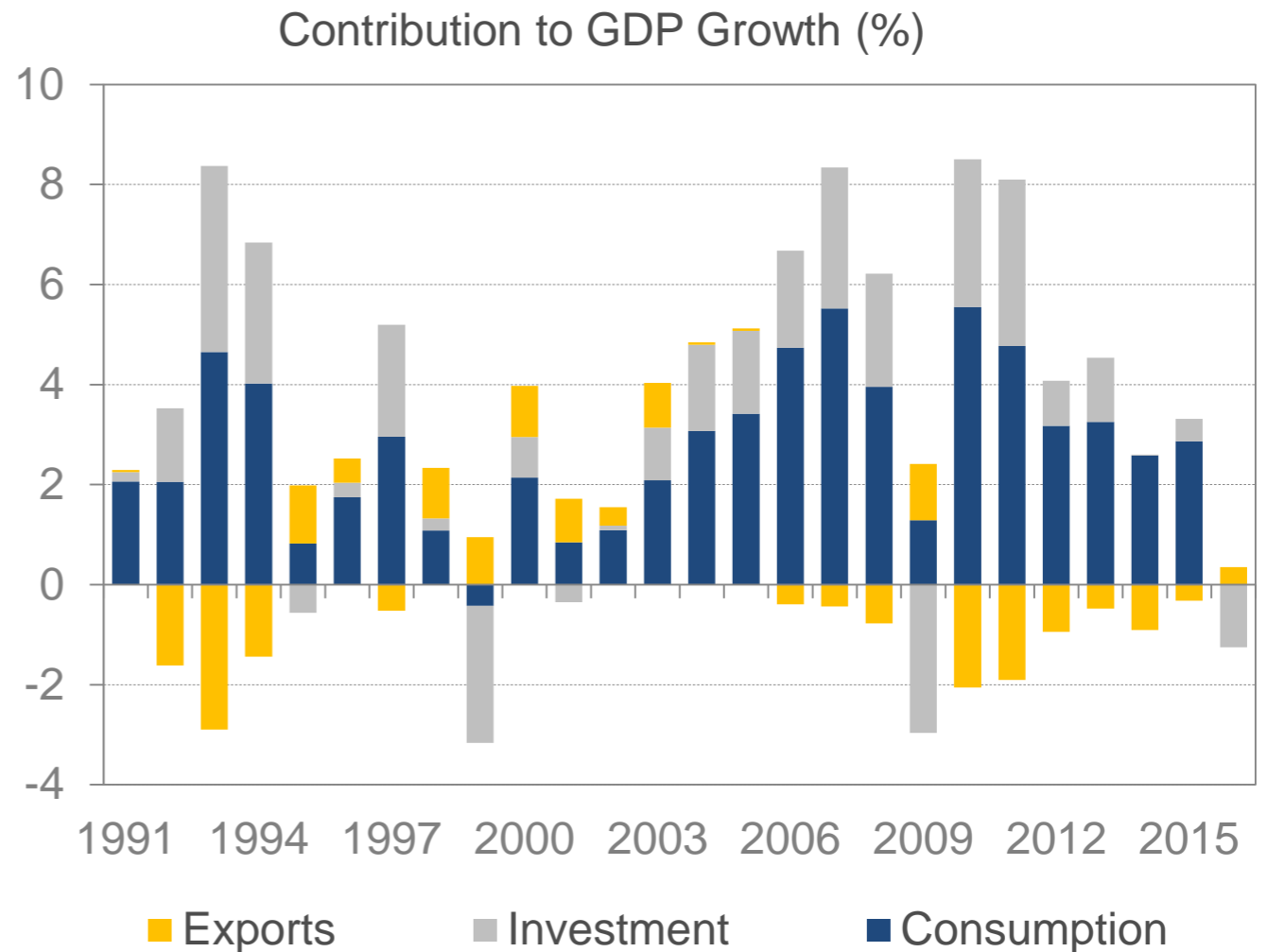
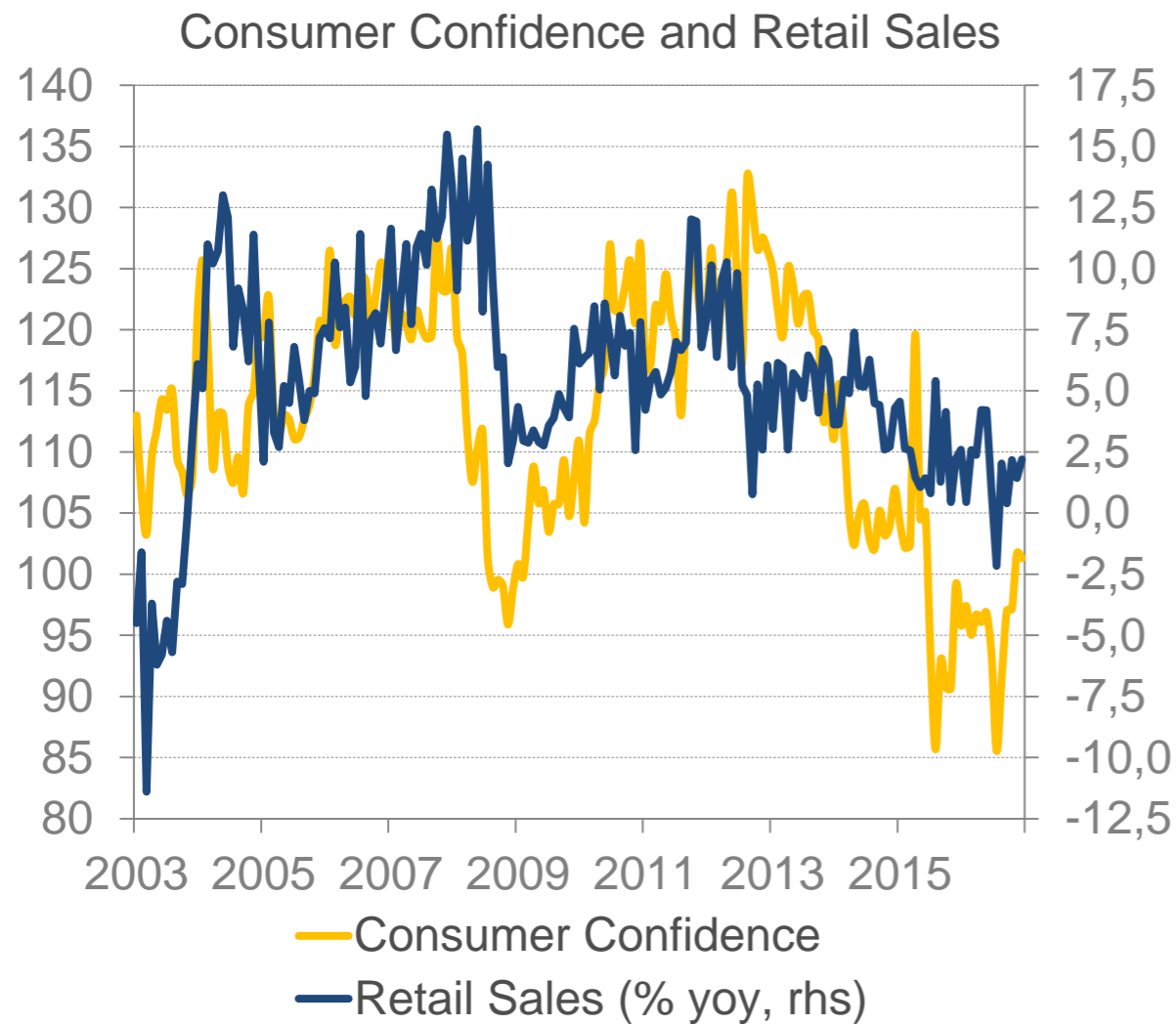
Despite recent fiscal deterioration, strong monetary institutions have solidified inflation control



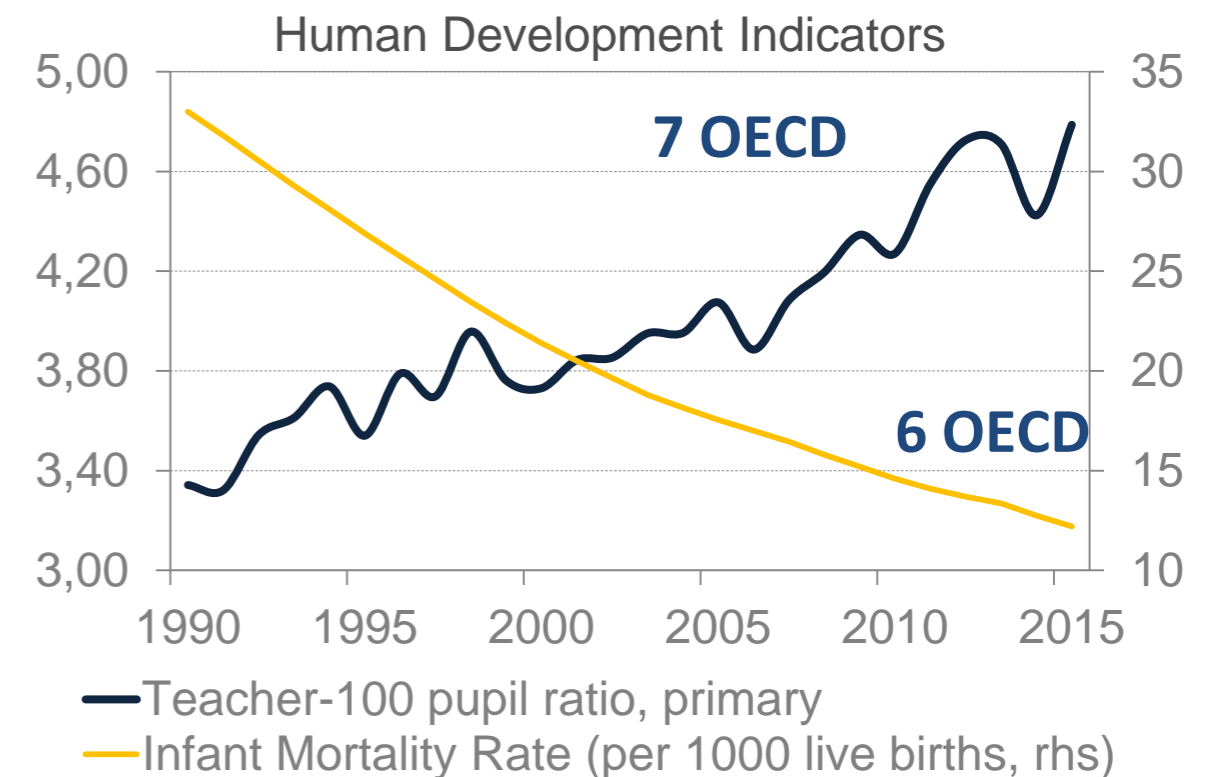
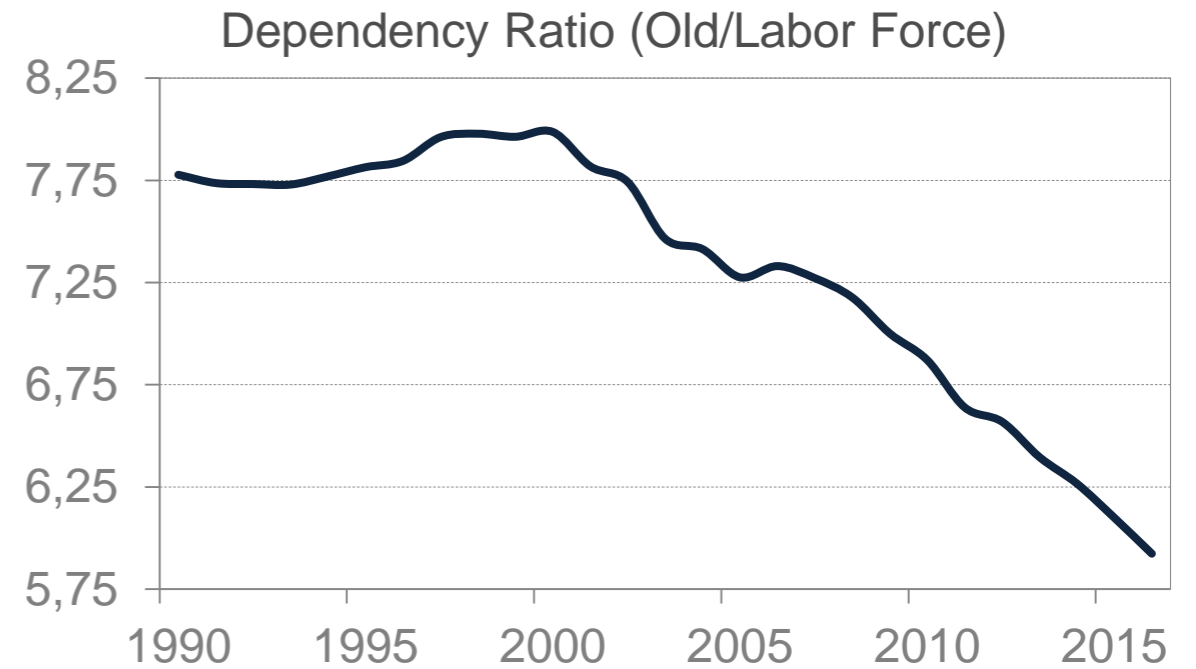
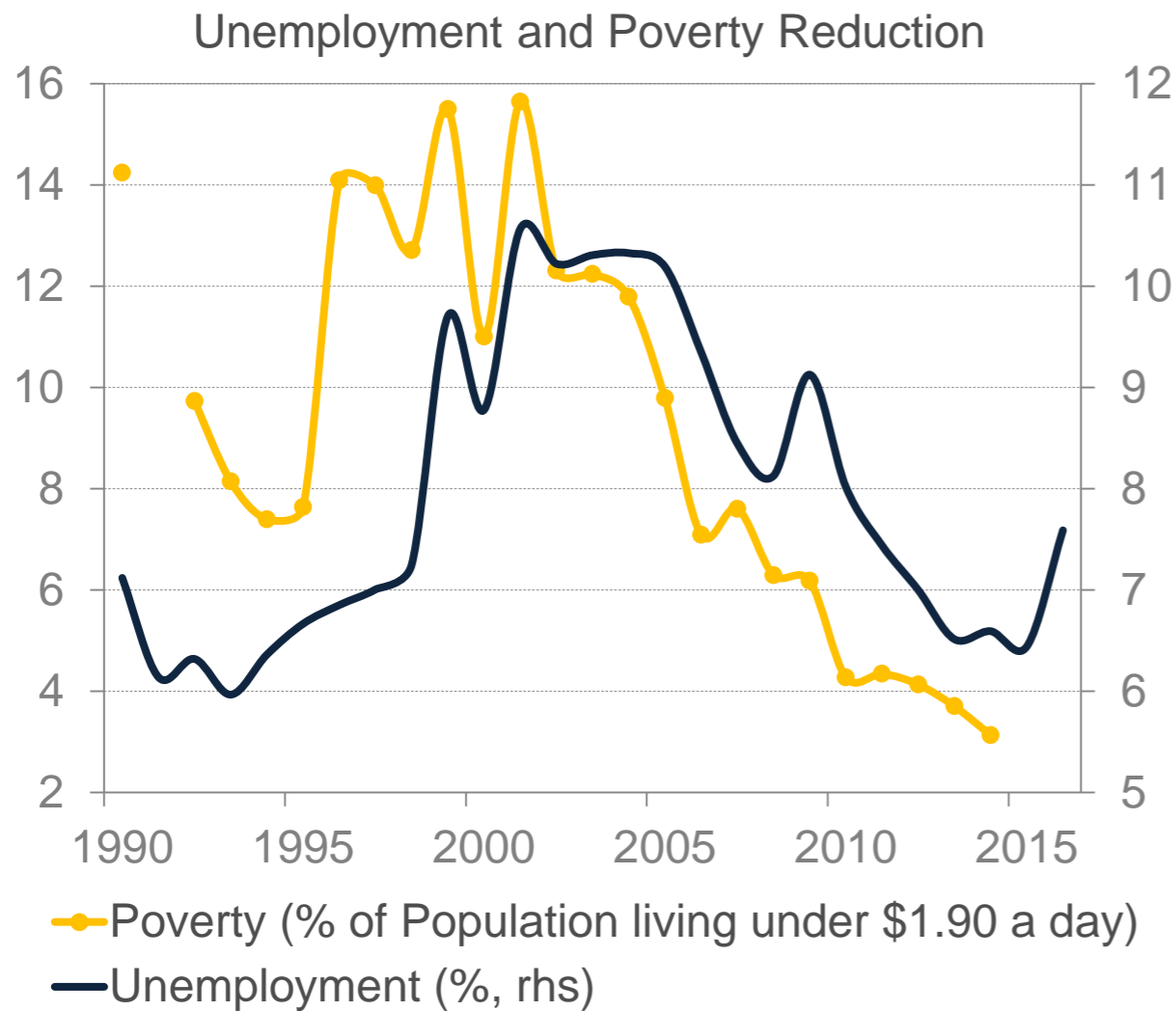
The commodity price boom allowed for significant increases in exports, though current account deficits have been widening in recent years as imports remain high



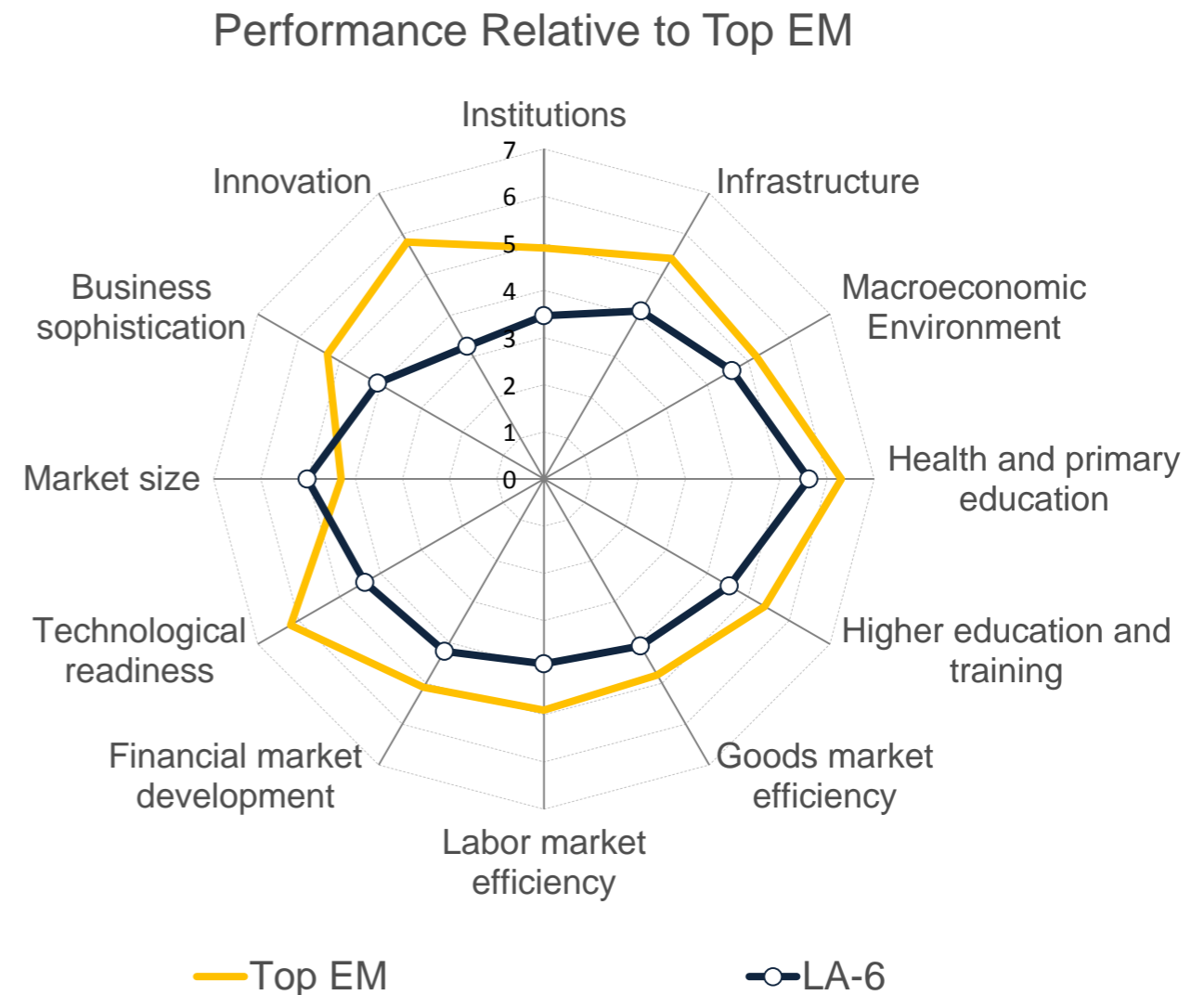
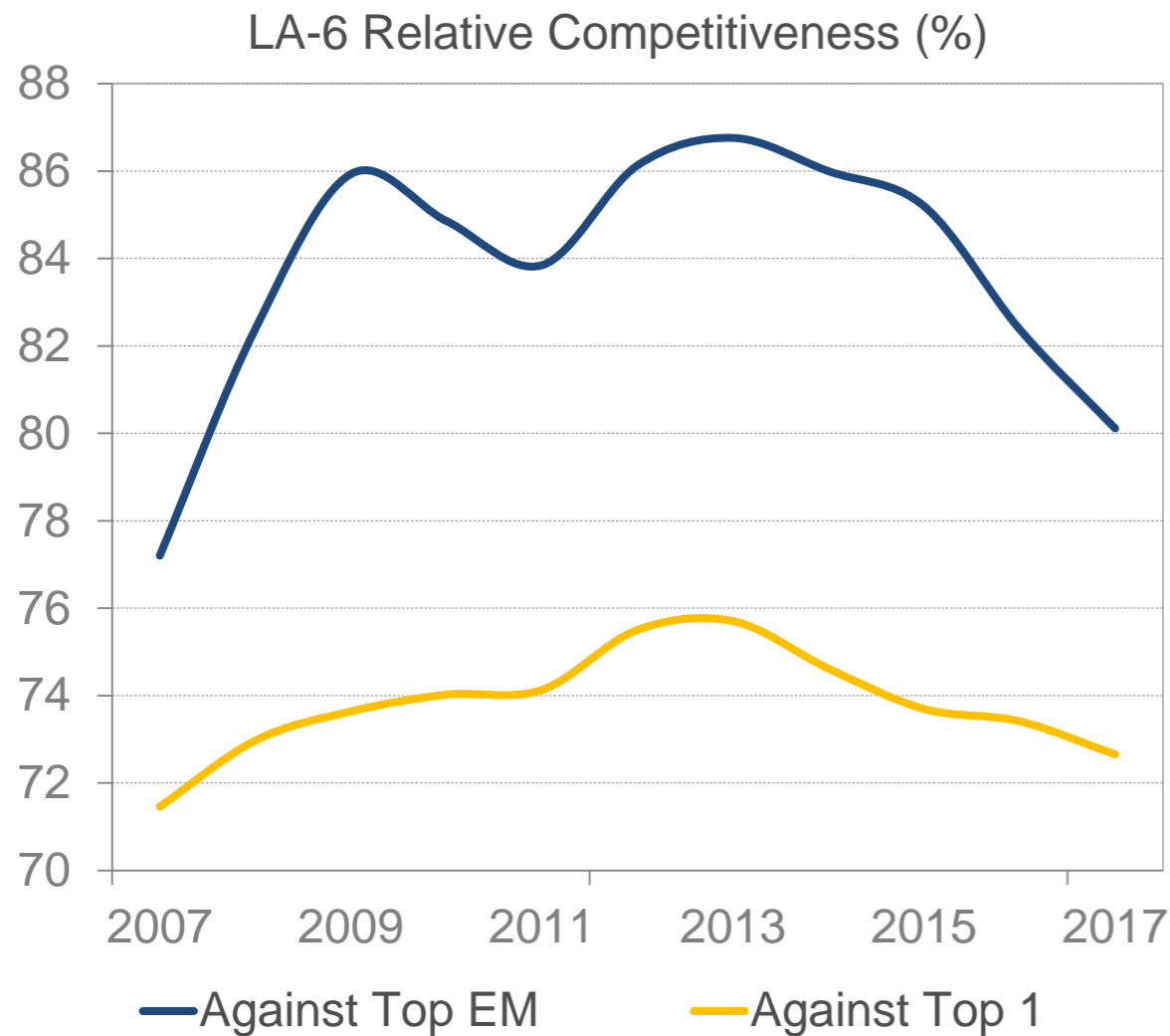
Confidence levels seem to have bounced from lows, which could lead to some recovery in consumption (lifting GDP growth). Weak investment remains the regional challenge



High growth greatly reduced extreme poverty and helped governments improve living standards, though there are some structural problems to face



The region made important advances in terms of competitiveness though there is still much to do, especially in terms of institutions, infrastructure and innovation



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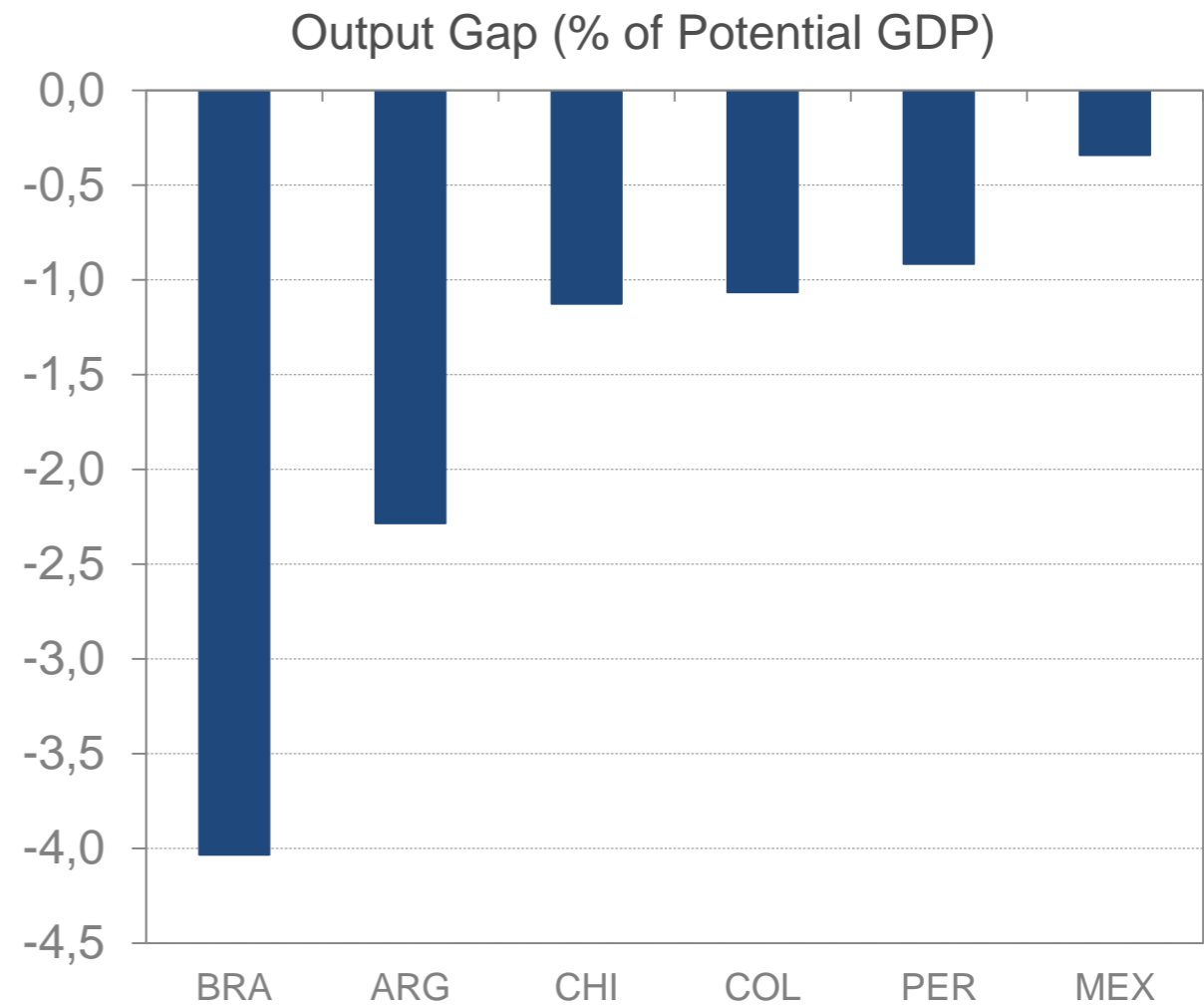
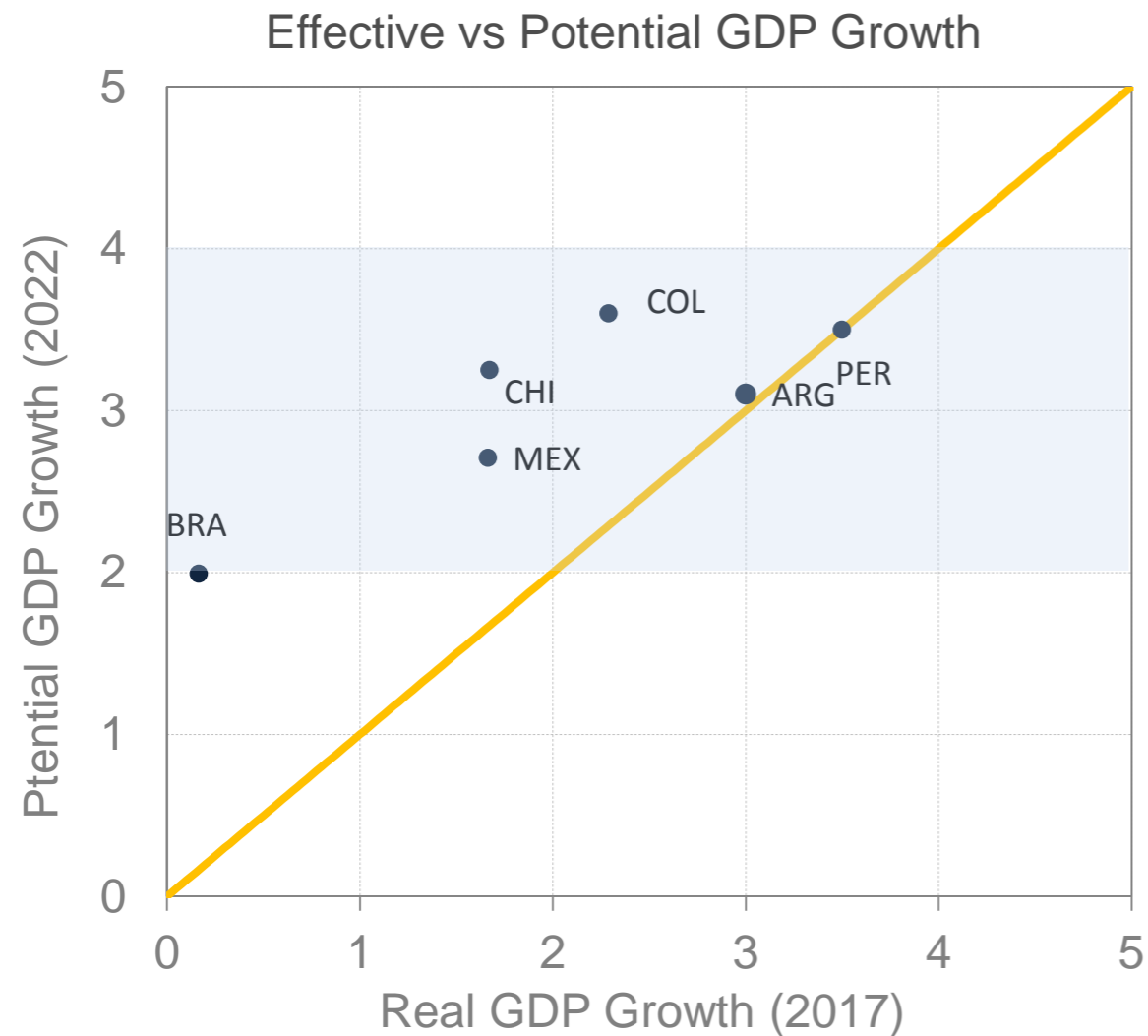
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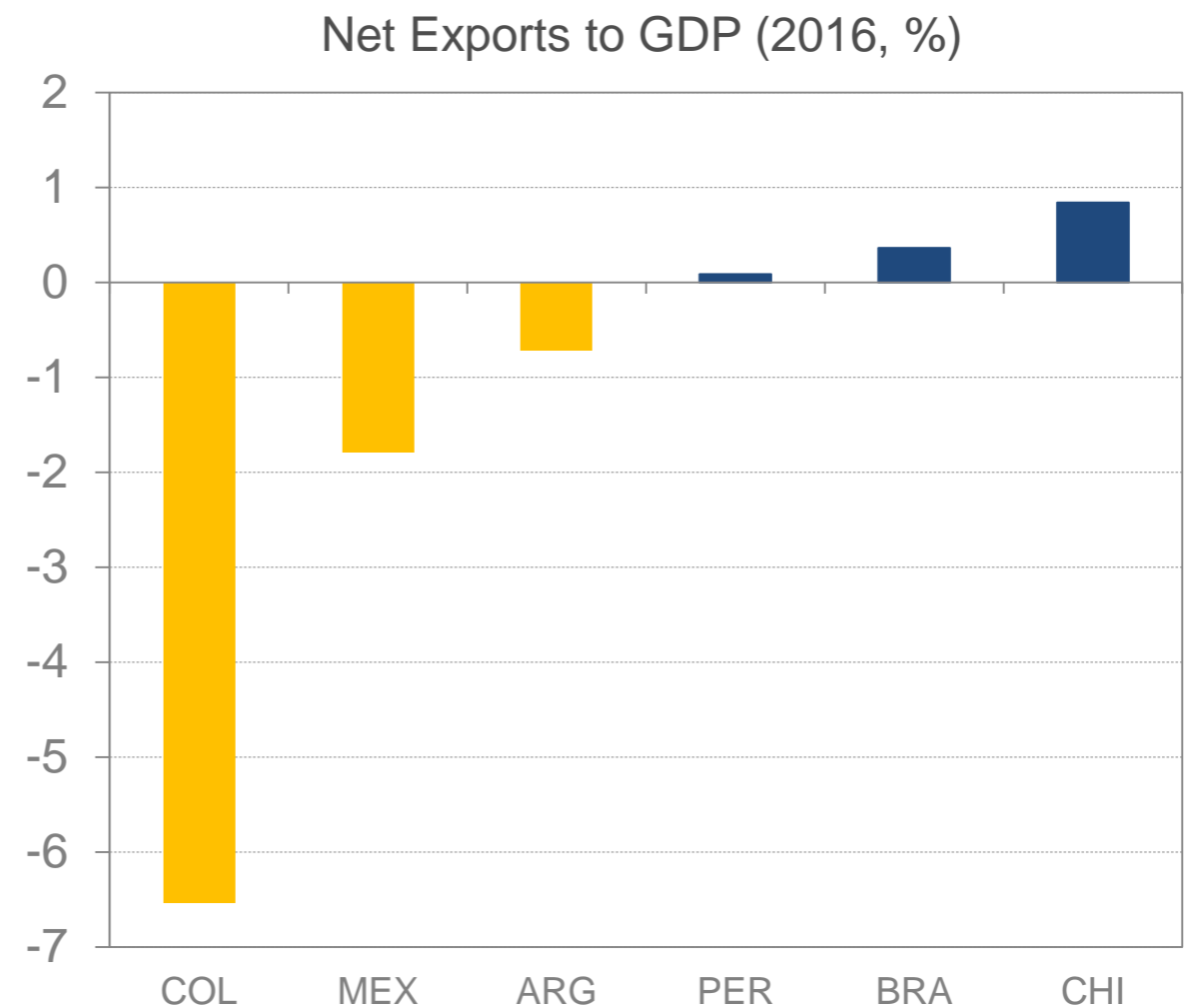
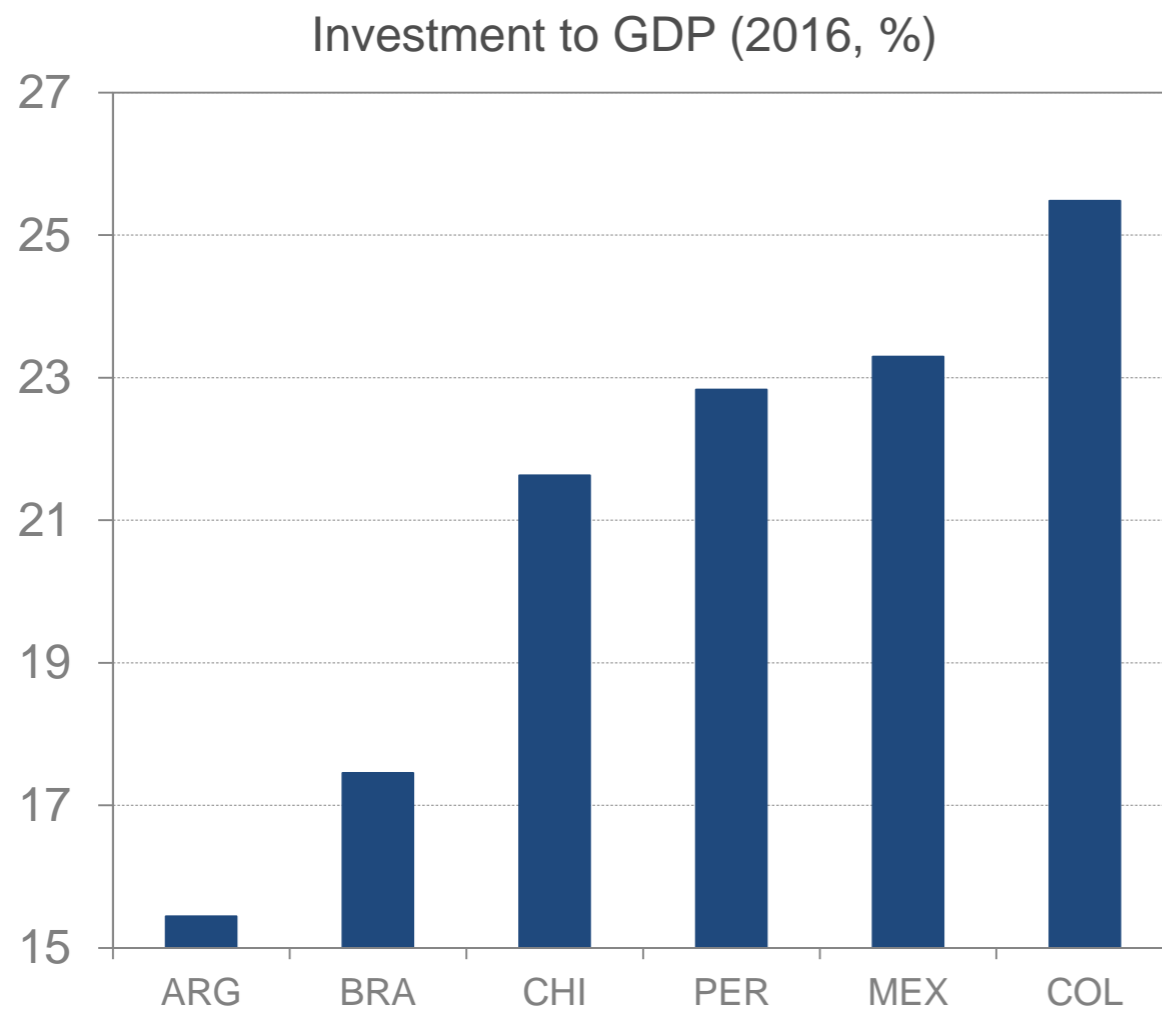
III. Main challenges ahead

IV. Existing and emerging opportunities

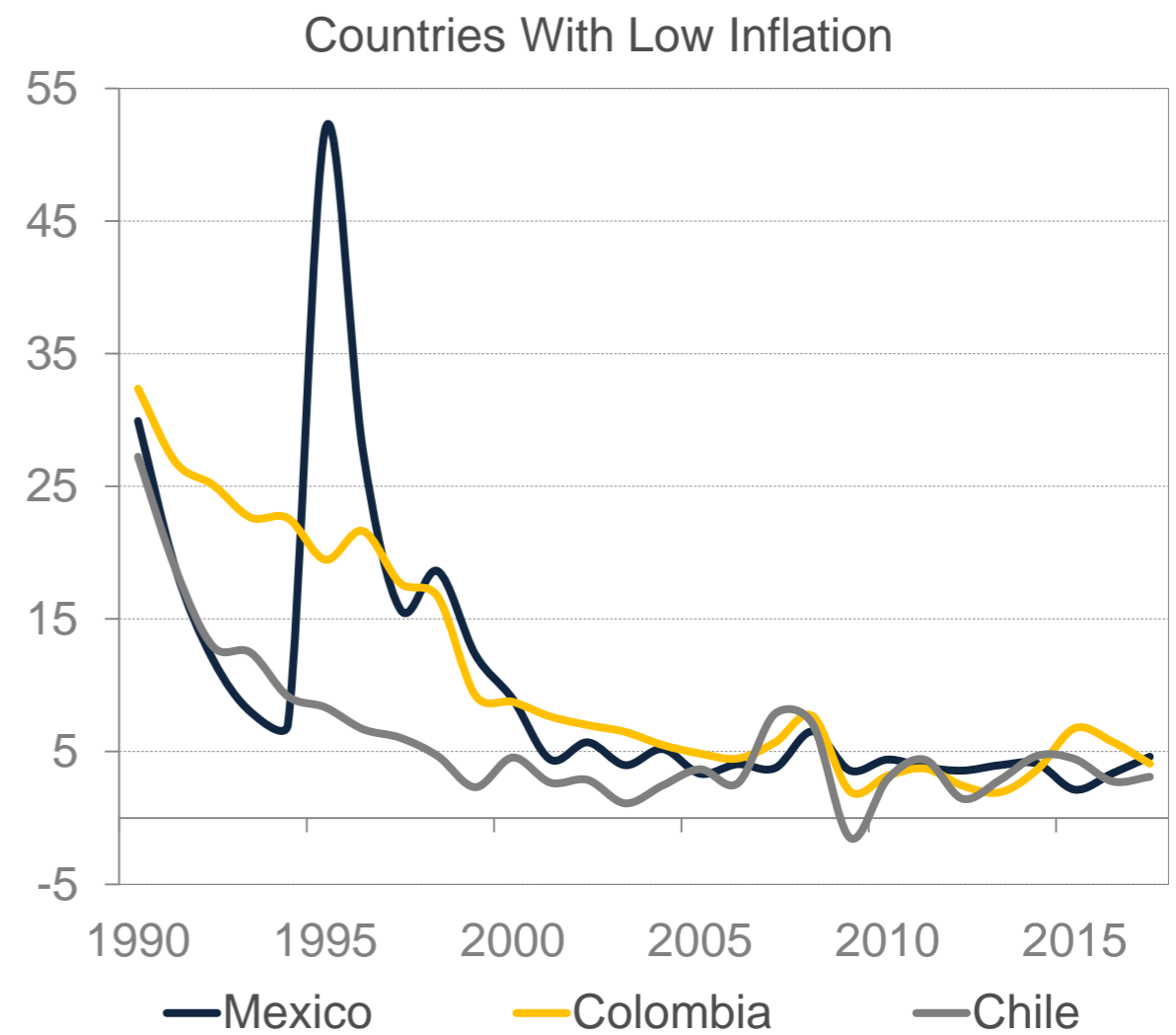
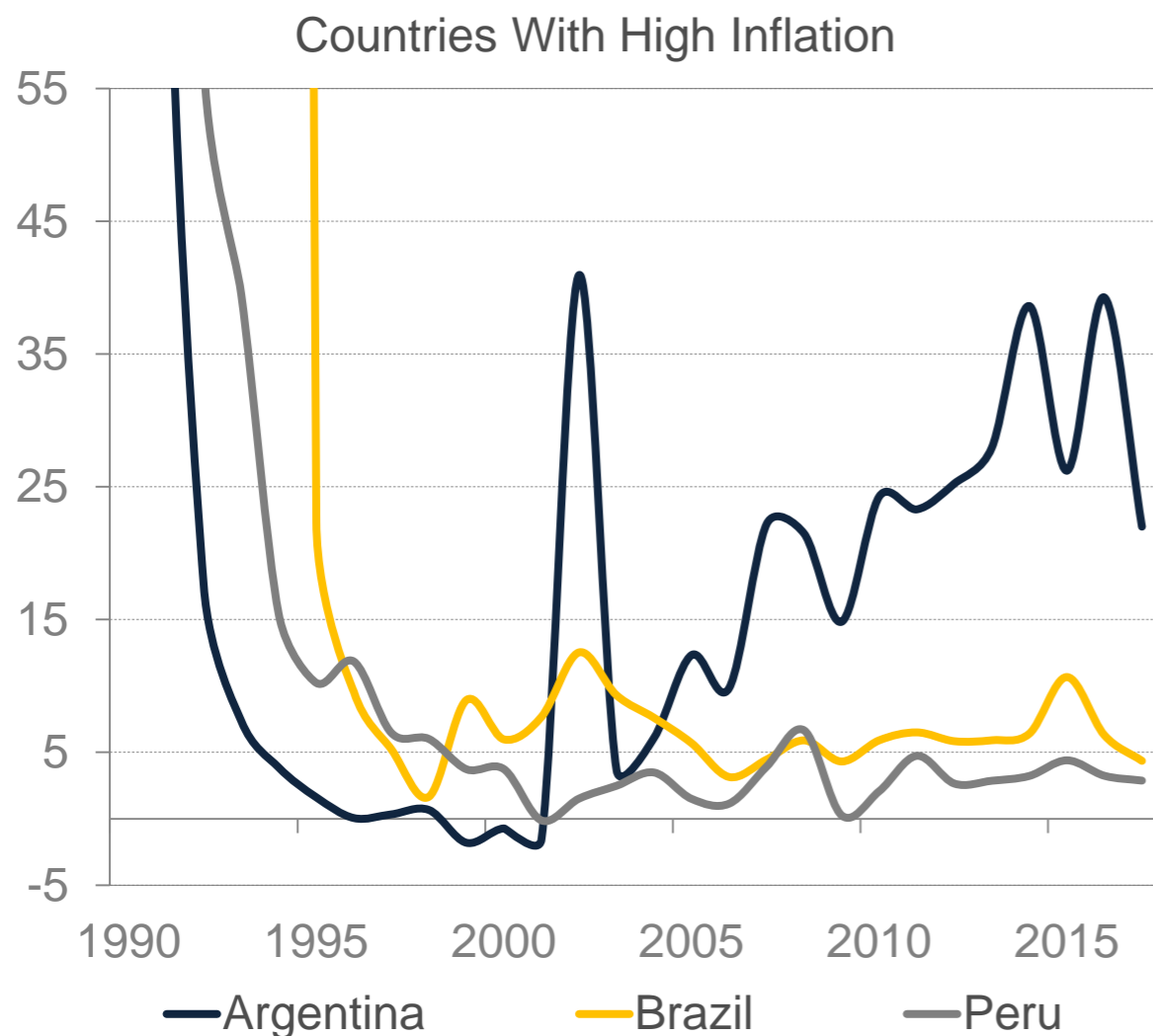
Most economies are growing well below their potential levels with huge output gaps in some cases, particularly Brazil and Argentina



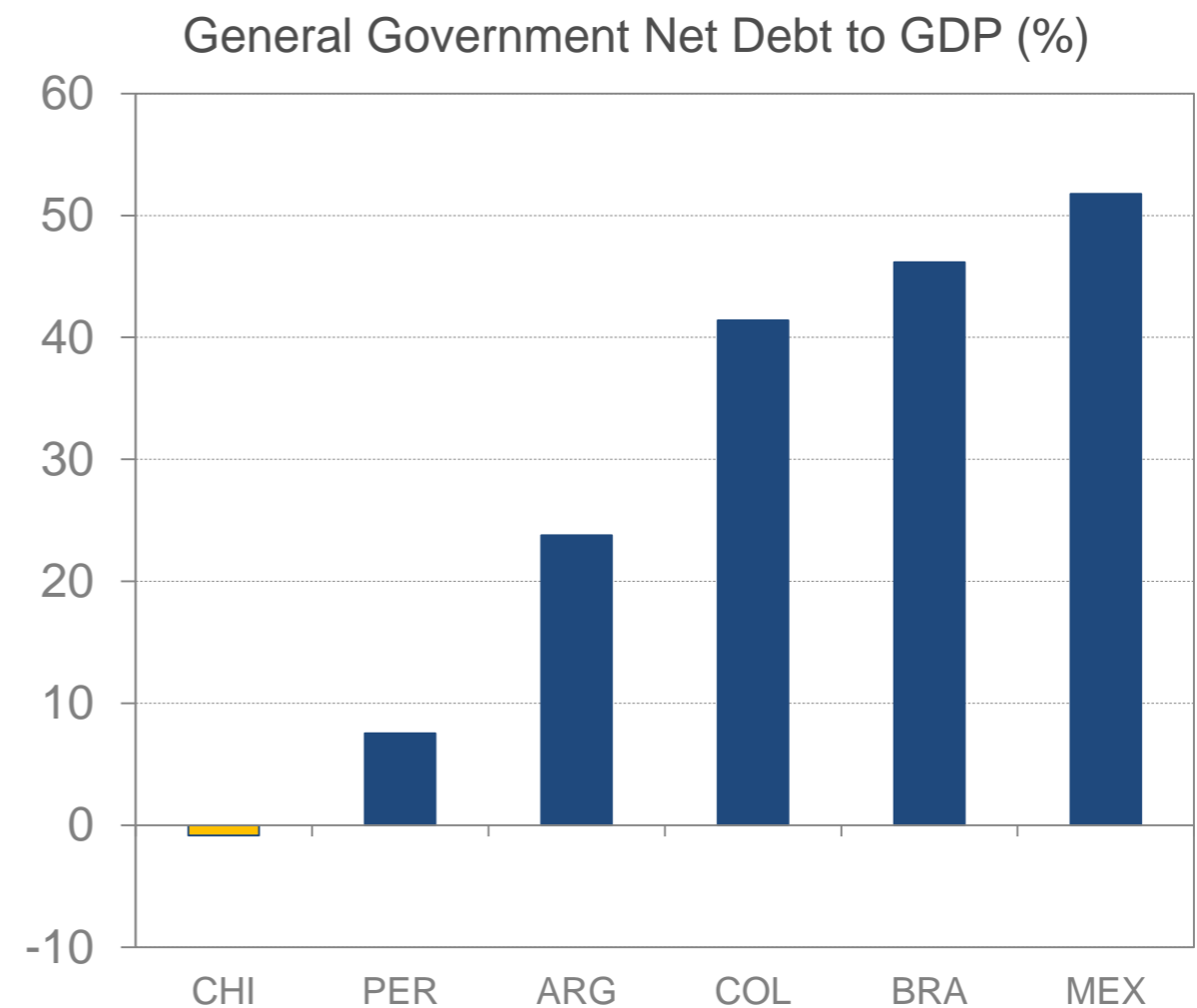
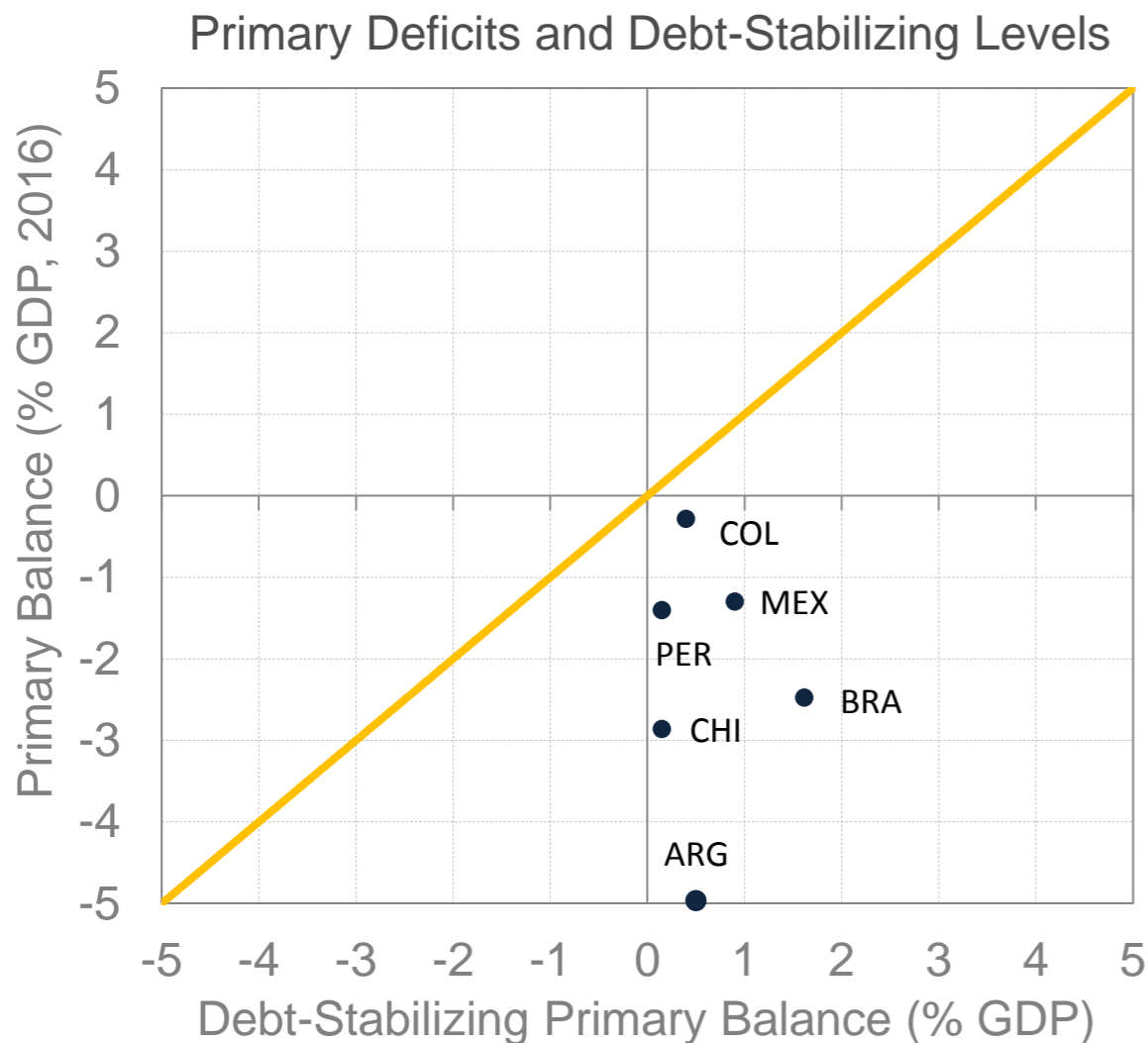
Investment is quite uneven throughout the region, with very low levels (again) in Brazil and Argentina. Similarly, import dependency is larger in Colombia, Mexico and Argentina



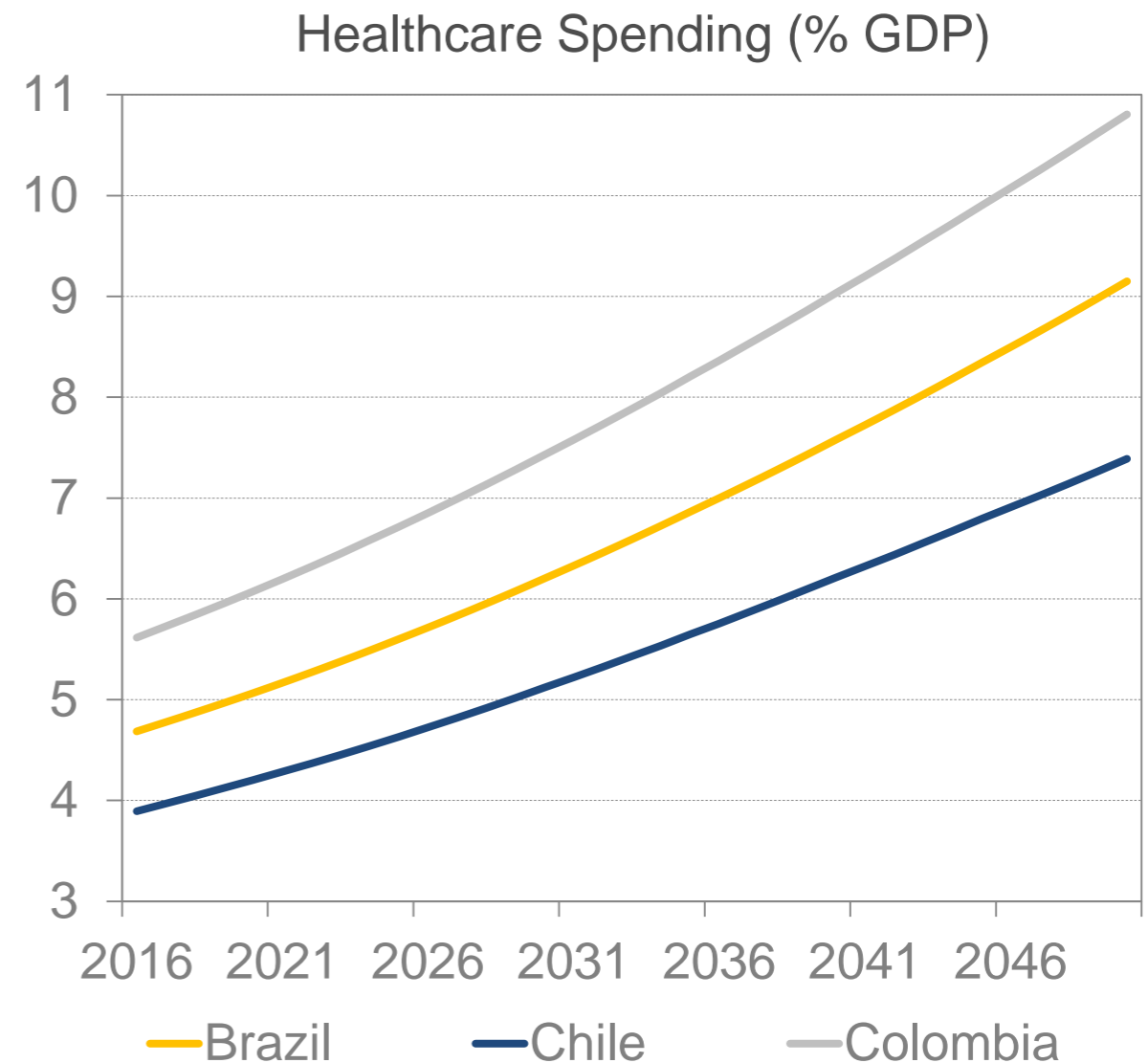
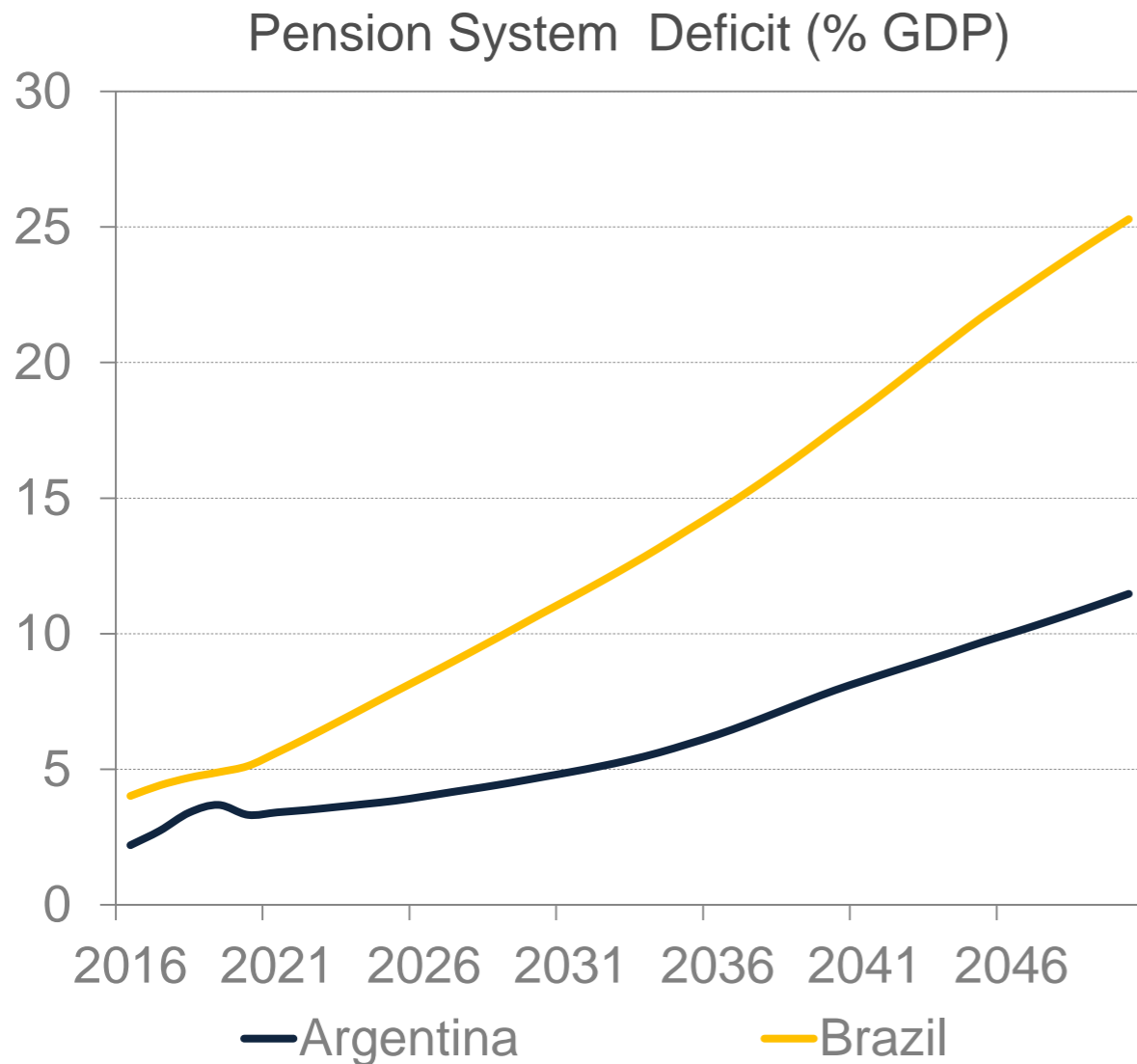
Most countries have developed monetary institutions that allowed for the gradual and sustained reduction in inflation rates. Argentina lagged but is now also on its way (jury still undecided?)



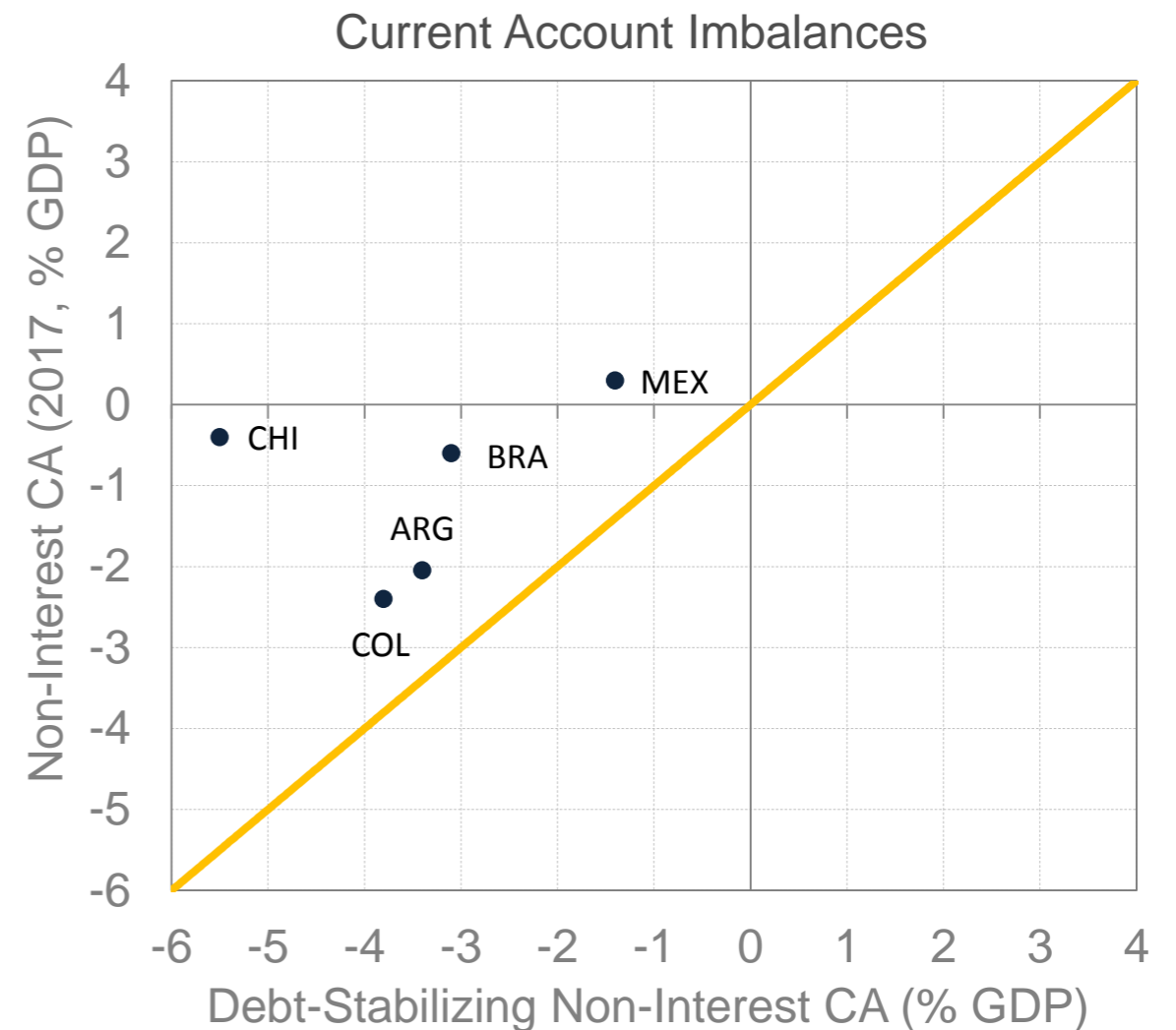
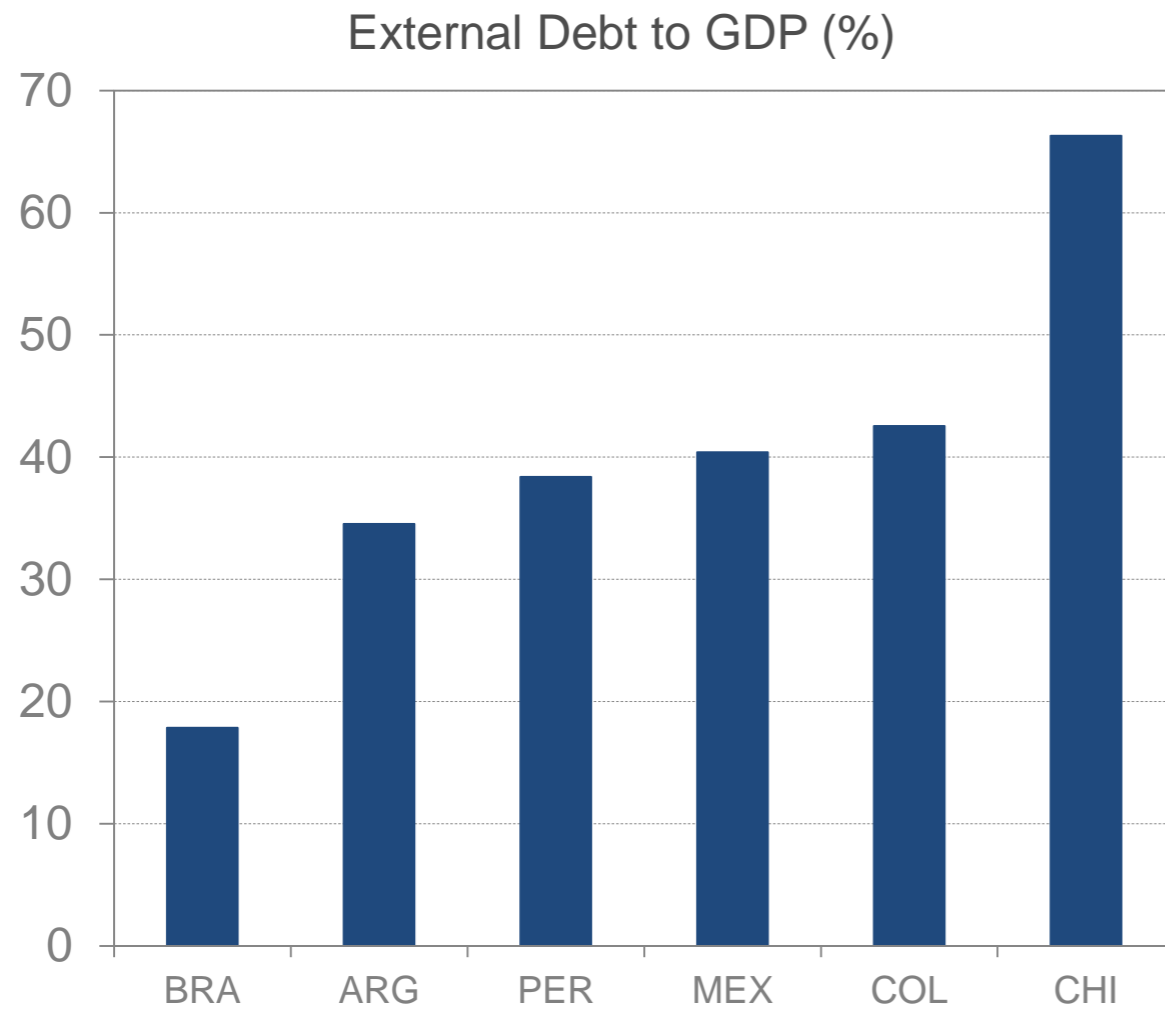
Fiscal imbalances have been well below their debt-stabilizing levels, especially in Argentina and Brazil, demanding action soon. Debt levels are high in Mexico, Brazil and Colombia



Some governments will soon have to introduce reforms to their pension and healthcare systems to ensure sustainability. Brazil and Argentina are leading again



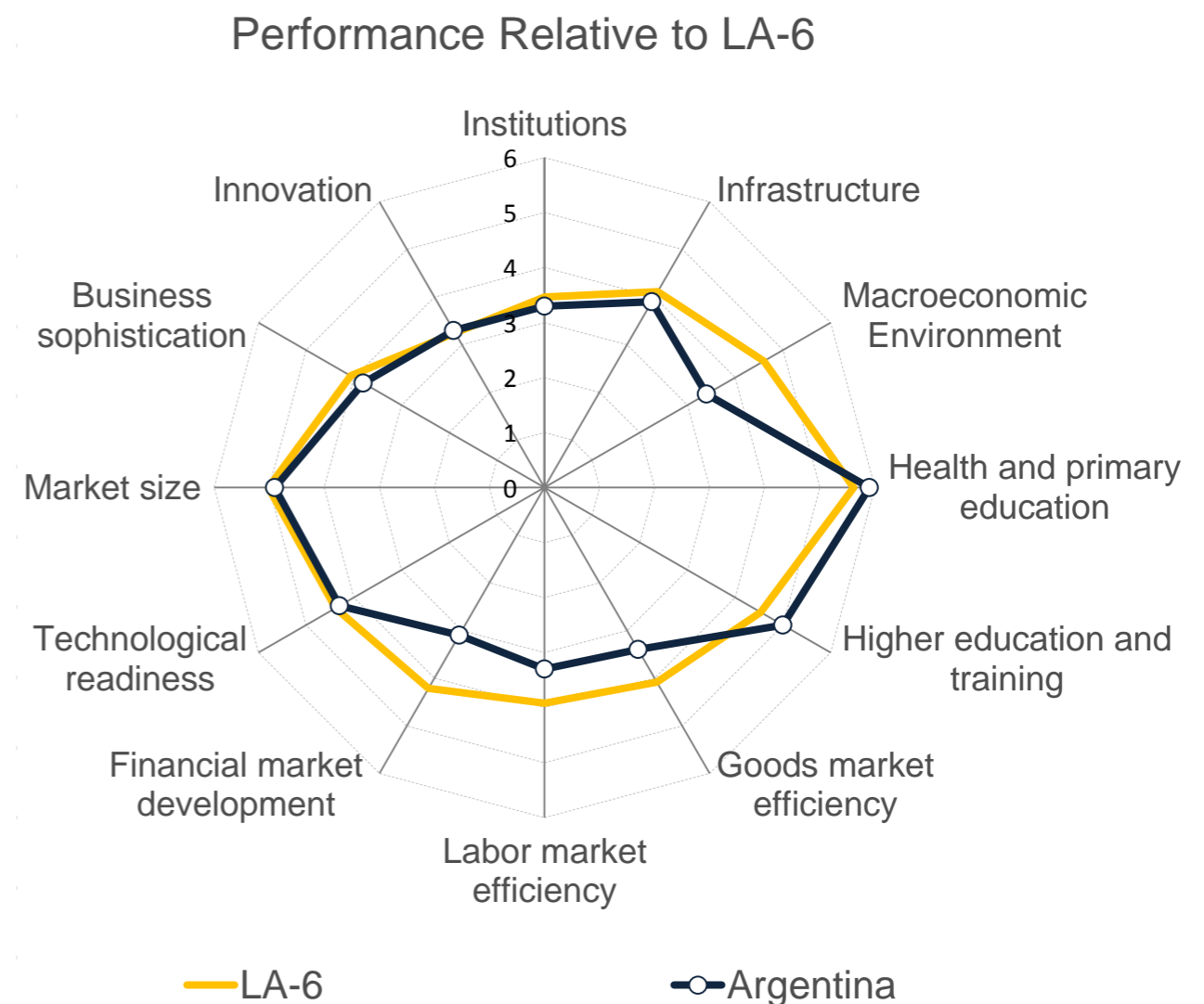
Current account imbalances have also widened but external debt dynamics remain ok, not creating the usual risk of the past



Argentina is the worst performer in LA-6, but has made serious progress on its macro environment and financial market development

Performance in Global Competitiveness Rankings

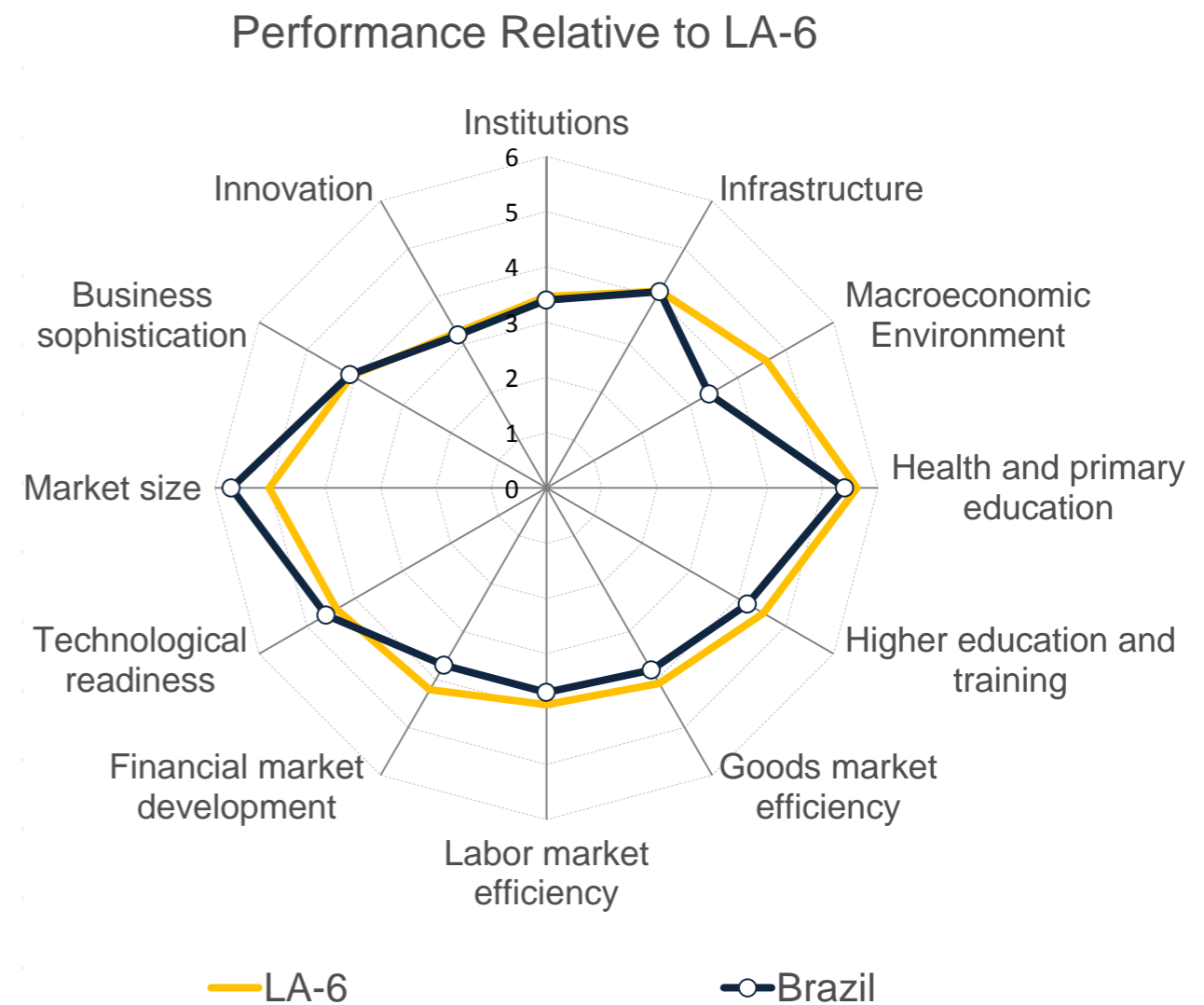
	Rank	Score	LA 6
Global	92	4,0	4,3
Basic Requirements	103	4,1	4,4
Institutions	113	3,3	3,5
Infrastructure	81	3,9	4,1
Macroeconomic Environment	125	3,4	4,6
Health and primary education	64	5,9	5,6
Efficiency Enhancers	81	4,0	4,4
Higher education and training	38	5,0	4,5
Goods market efficiency	133	3,4	4,1
Labor market efficiency	132	3,3	3,9
Financial market development	121	3,1	4,2
Technological readiness	66	4,3	4,4
Market size	32	4,9	5,0
Innovation and sophistication	75	3,6	3,7
Business sophistication	78	3,8	4,1
Innovation	72	3,3	3,3



Brazil is also in need of improving its macro environment, but it is not clearly lagging LA-6 in other aspects

Performance in Global Competitiveness Rankings

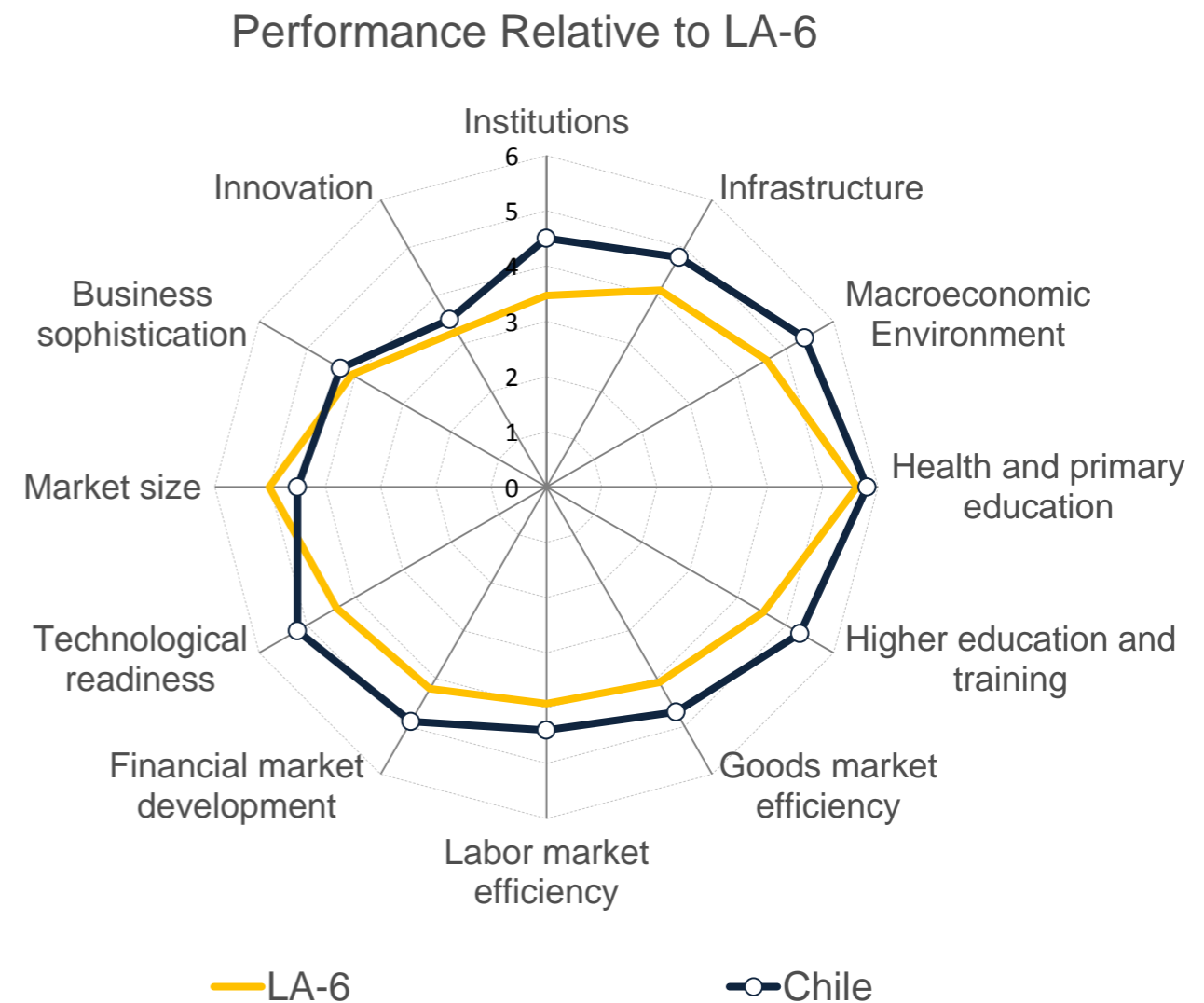
	Rank		Score	LA 6
Global	80		4,1	4,3
Basic Requirements	104		4,1	4,4
Institutions	109		3,4	3,5
Infrastructure	73		4,1	4,1
Macroeconomic Environment	124		3,4	4,6
Health and primary education	96		5,4	5,6
Efficiency Enhancers	60		4,3	4,4
Higher education and training	79		4,2	4,5
Goods market efficiency	122		3,8	4,1
Labor market efficiency	114		3,7	3,9
Financial market development	92		3,7	4,2
Technological readiness	55		4,6	4,4
Market size	10		5,7	5,0
Innovation and sophistication	65		3,7	3,7
Business sophistication	56		4,1	4,1
Innovation	85		3,2	3,3



Chile is by far the best performer in the region, clearly out passing LA-6 standards in institutions, infrastructure and macro environment

Performance in Global Competitiveness Rankings

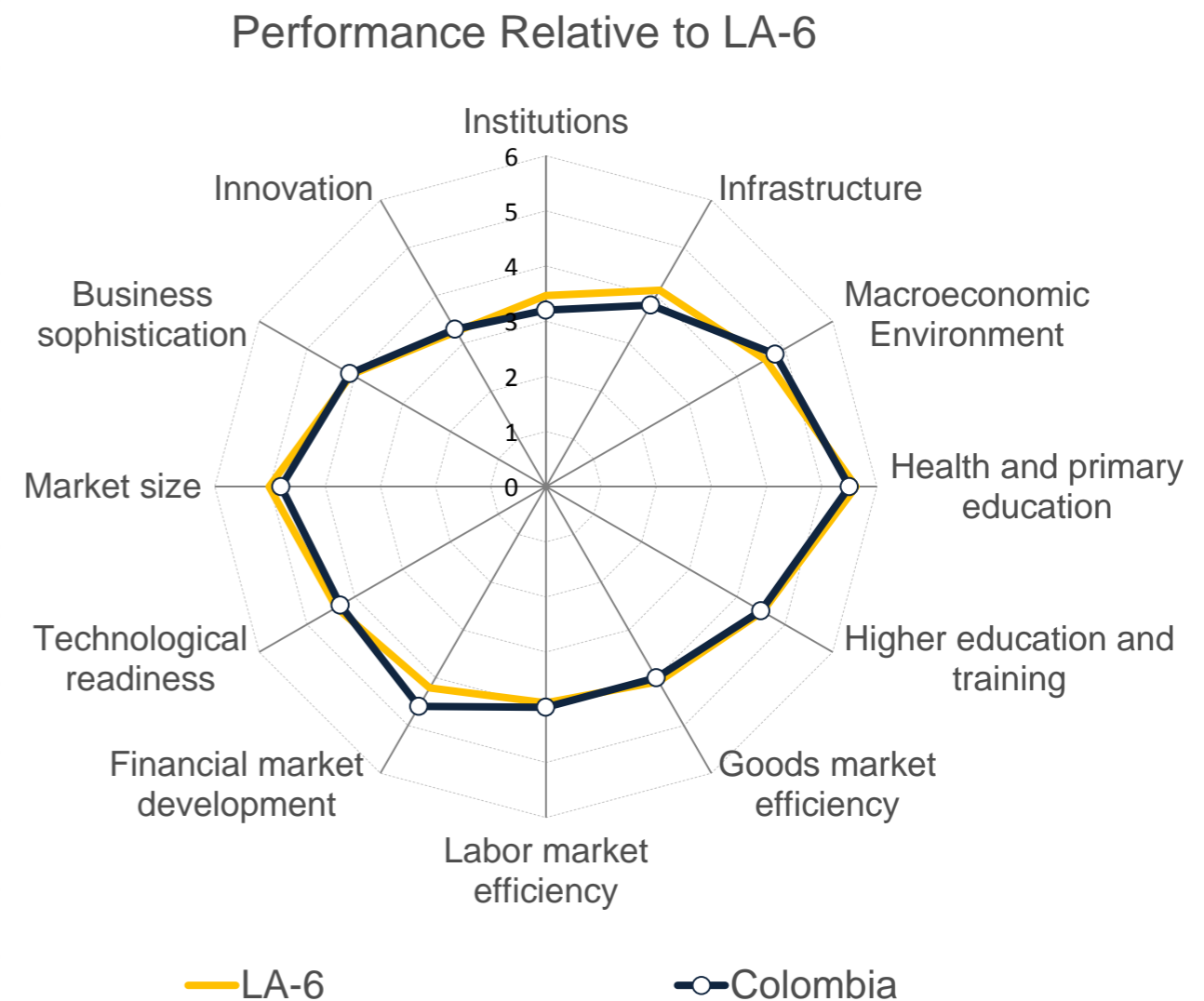
	Rank		Score	LA 6
Global	33		4,7	4,3
Basic Requirements	36		5,1	4,4
Institutions	35		4,5	3,5
Infrastructure	41		4,8	4,1
Macroeconomic Environment	36		5,4	4,6
Health and primary education	66		5,8	5,6
Efficiency Enhancers	31		4,8	4,4
Higher education and training	26		5,3	4,5
Goods market efficiency	39		4,7	4,1
Labor market efficiency	49		4,4	3,9
Financial market development	17		4,9	4,2
Technological readiness	38		5,2	4,4
Market size	44		4,5	5,0
Innovation and sophistication	50		3,9	3,7
Business sophistication	50		4,3	4,1
Innovation	52		3,5	3,3



Colombia's scorecard is now in line with the region, having some room to improve institutions and infrastructure

Performance in Global Competitiveness Rankings

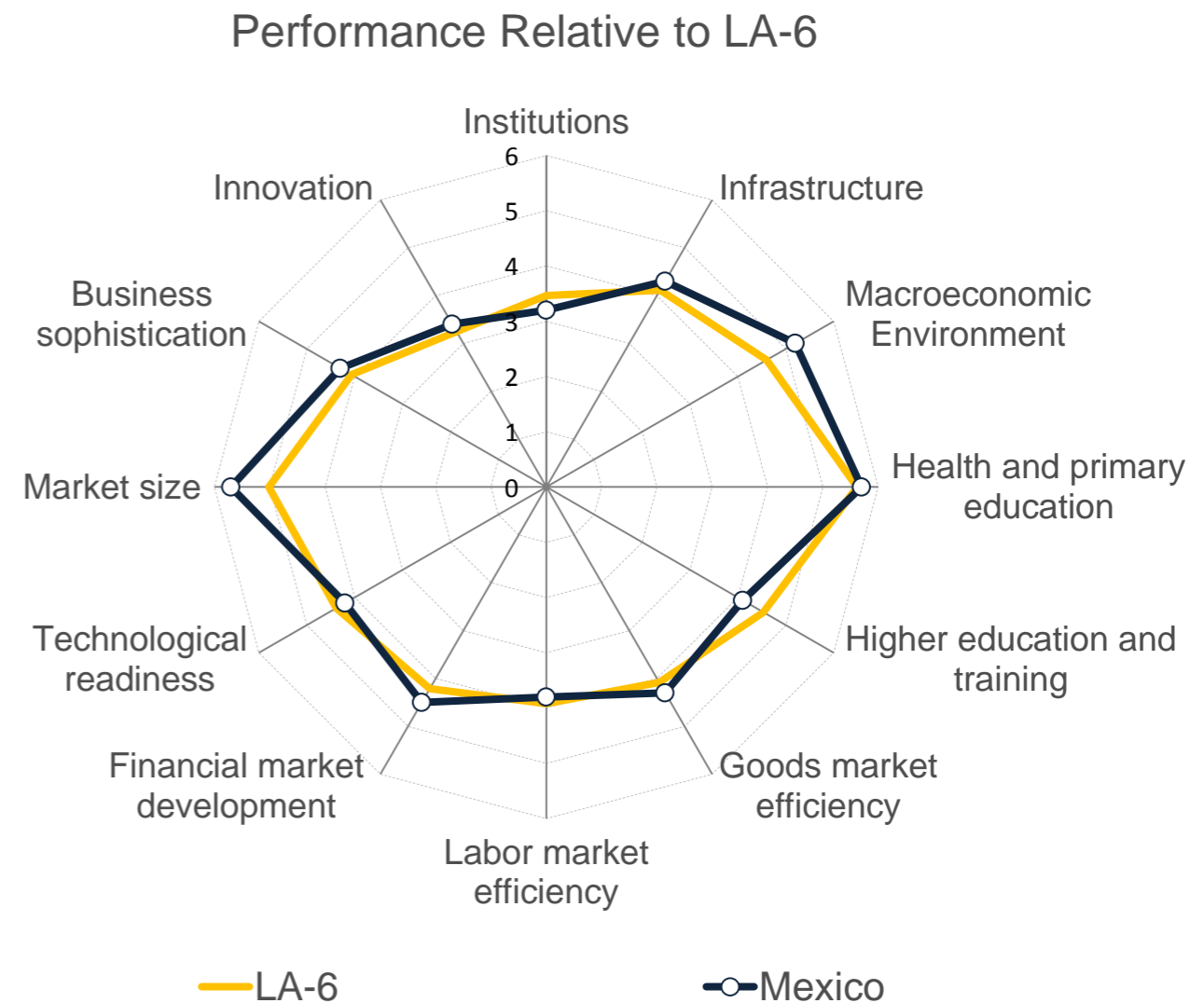
	Rank		Score	LA 6
Global	66		4,3	4,3
Basic Requirements	90		4,3	4,4
Institutions	117		3,2	3,5
Infrastructure	87		3,8	4,1
Macroeconomic Environment	62		4,8	4,6
Health and primary education	88		5,5	5,6
Efficiency Enhancers	54		4,4	4,4
Higher education and training	66		4,5	4,5
Goods market efficiency	102		4,0	4,1
Labor market efficiency	88		4,0	3,9
Financial market development	27		4,6	4,2
Technological readiness	65		4,3	4,4
Market size	37		4,8	5,0
Innovation and sophistication	64		3,7	3,7
Business sophistication	64		4,1	4,1
Innovation	73		3,3	3,3



Mexico is the other regional leader in terms of competitiveness exceeding LA-6 in most categories, but facing weaknesses in education

Performance in Global Competitiveness Rankings

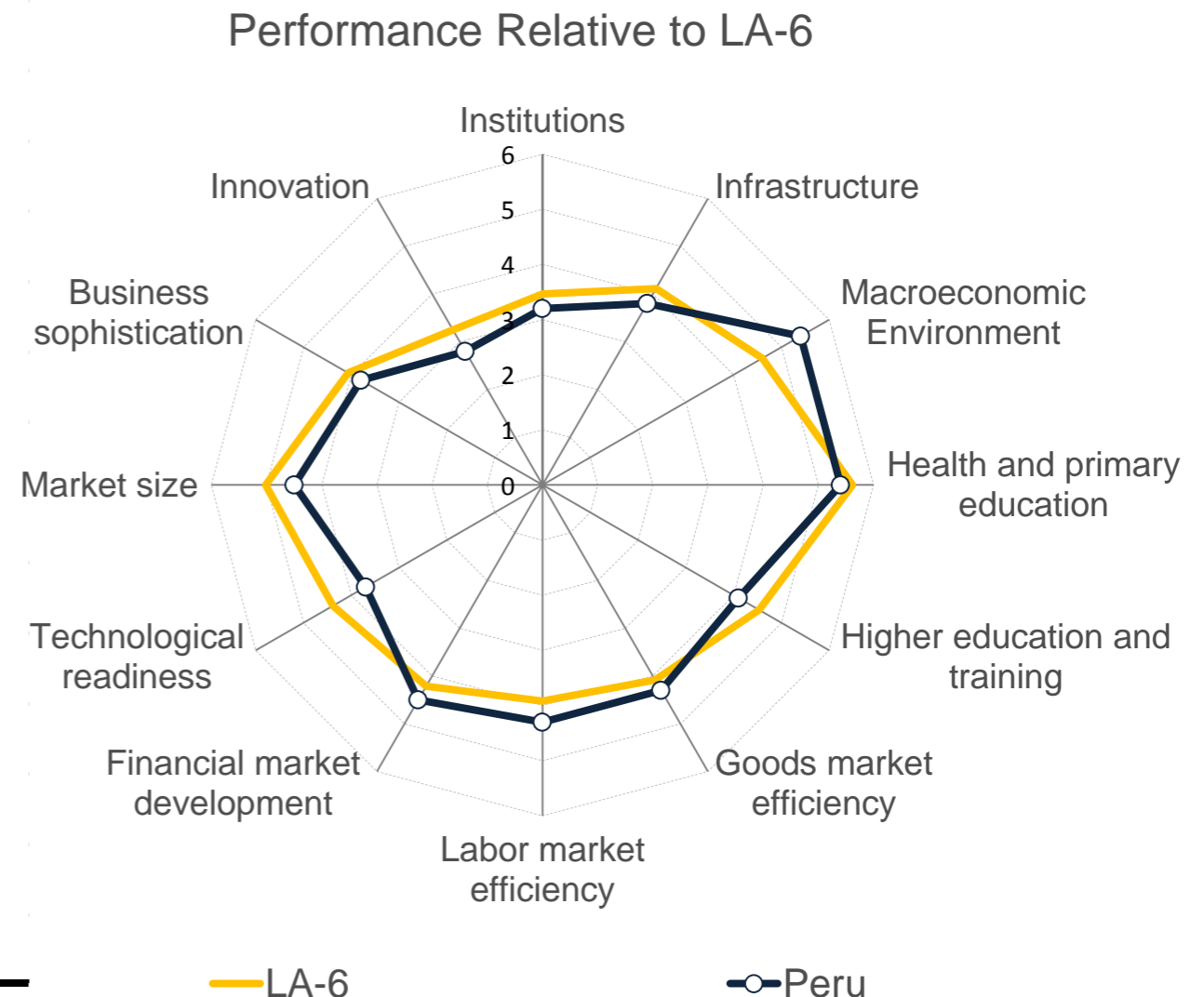
	Rank		Score	LA 6
Global	51		4,4	4,3
Basic Requirements	68		4,6	4,4
Institutions	123		3,2	3,5
Infrastructure	62		4,3	4,1
Macroeconomic Environment	43		5,2	4,6
Health and primary education	76		5,7	5,6
Efficiency Enhancers	47		4,4	4,4
Higher education and training	80		4,1	4,5
Goods market efficiency	70		4,3	4,1
Labor market efficiency	105		3,8	3,9
Financial market development	36		4,5	4,2
Technological readiness	71		4,2	4,4
Market size	11		5,7	5,0
Innovation and sophistication	51		3,8	3,7
Business sophistication	49		4,3	4,1
Innovation	56		3,4	3,3



Peru has made significant progress in recent years and is now in line with LA-6 standards, though it is still falling behind in terms of technology

Performance in Global Competitiveness Rankings

	Rank		Score	LA 6
Global	72		4,2	4,3
Basic Requirements	79		4,4	4,4
Institutions	116		3,2	3,5
Infrastructure	86		3,8	4,1
Macroeconomic Environment	37		5,4	4,6
Health and primary education	93		5,4	5,6
Efficiency Enhancers	64		4,2	4,4
Higher education and training	81		4,1	4,5
Goods market efficiency	75		4,3	4,1
Labor market efficiency	64		4,3	3,9
Financial market development	35		4,5	4,2
Technological readiness	86		3,7	4,4
Market size	48		4,5	5,0
Innovation and sophistication	103		3,3	3,7
Business sophistication	80		3,8	4,1
Innovation	113		2,8	3,3



The next 12 months will see important elections in Latin America. Argentina mid-term election could confirm the current path for improvement, while presidential elections in Chile, Paraguay, Colombia, Mexico, Brazil and eventually in Venezuela could set the basis for more positive changes

Key Regional Elections Scheduled for 2017-2018

October	2017	Argentina	Mid-term Congressional
November	2017	Chile	Presidential, Congress, States
Abril	2018	Paraguay	Presidential and Congressional
March-May	2018	Colombia	Presidential and Congressional
July	2018	Mexico	Presidential and Congressional
October	2018	Brazil	Presidential, Congress, States
H2	2018	Venezuela	Elections?

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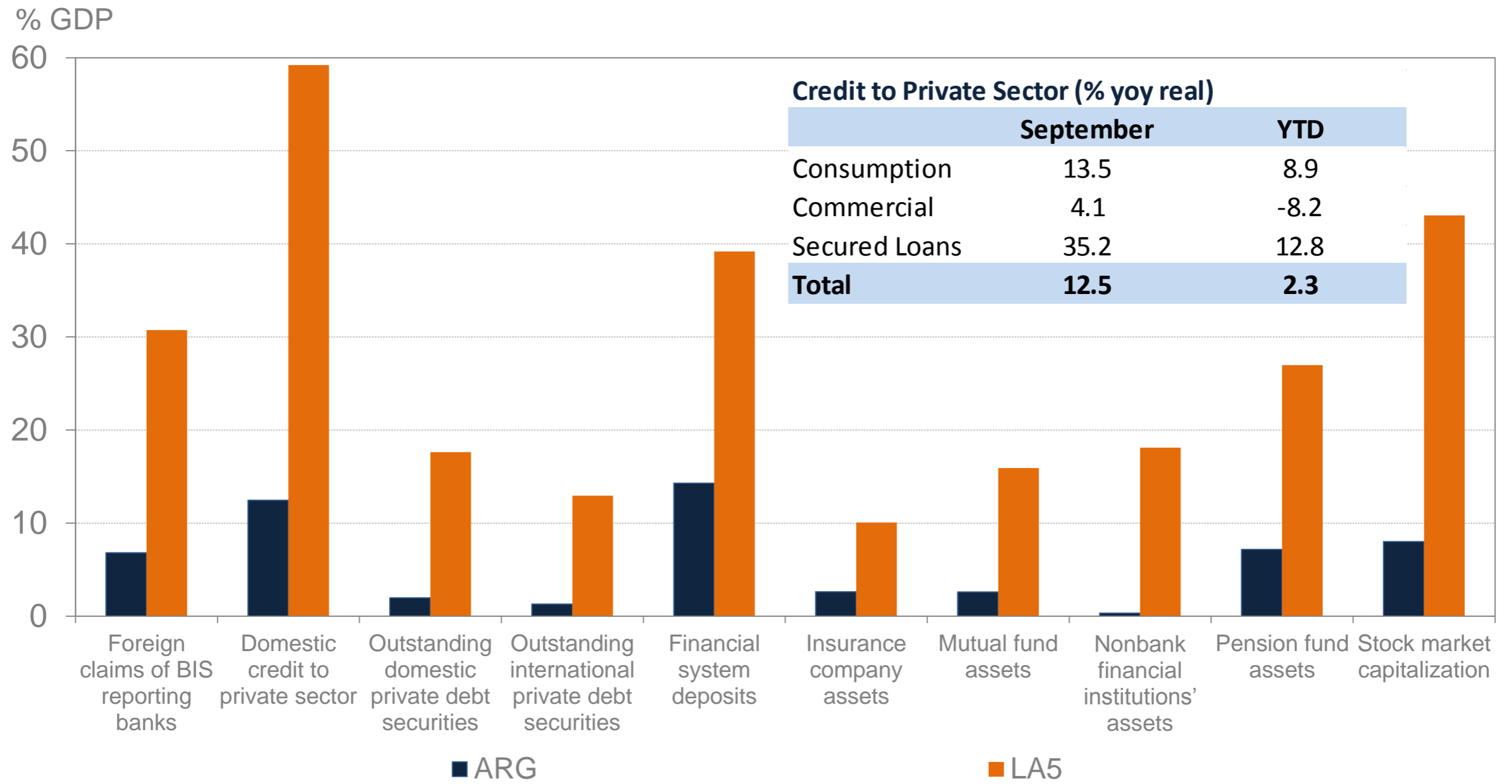
- 1. *Leaving behind populism.*** Last decade commodity boom financed market intervention and anti-capitalist practices. The new reality demand slimmer public sectors, lower taxes, high spending in infrastructure and human capital formation, and a very dynamic private sector. Restoring incentives to invest and guaranteeing macro stability will be key for some countries.
- 2. *Fiscal consolidation.*** This is the first fundamental step towards macro stability. In particular in Brazil and Argentina; Colombia and Mexico to a lesser extent but fiscal consolidation needed anyway.
- 3. *Structural challenges.*** To support productivity and competitiveness more is needed in:
 - infrastructure spending
 - reducing labor market informality and enhancing female participation
 - investing in human capital
 - improving governance and curbing corruption
 - fostering regional trade and financial integration

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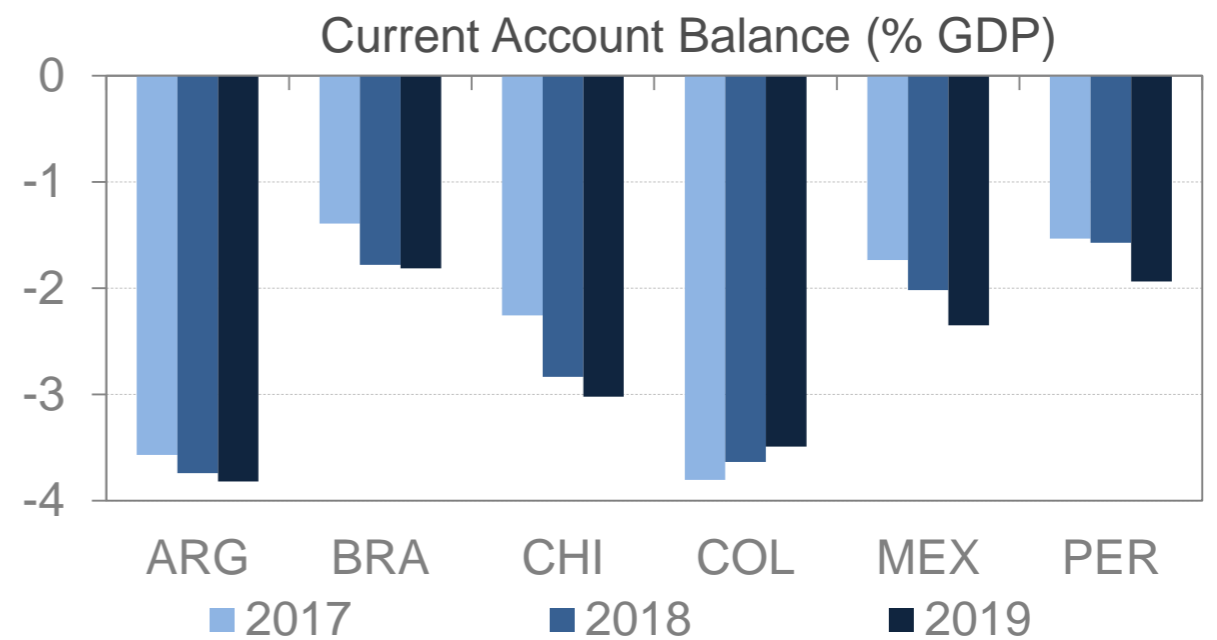
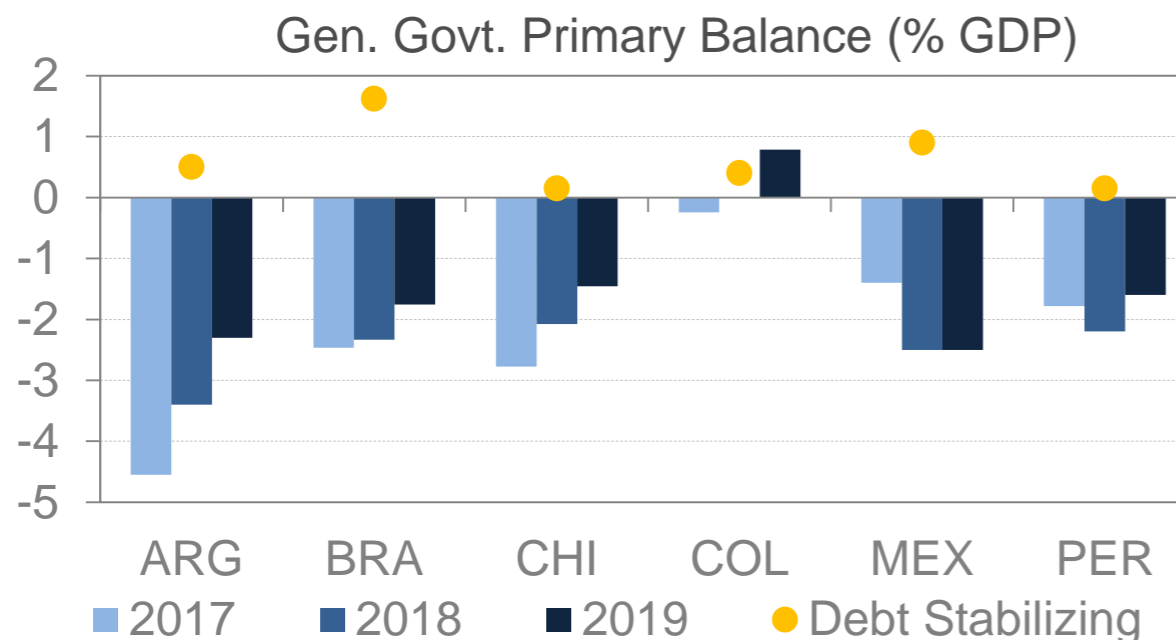
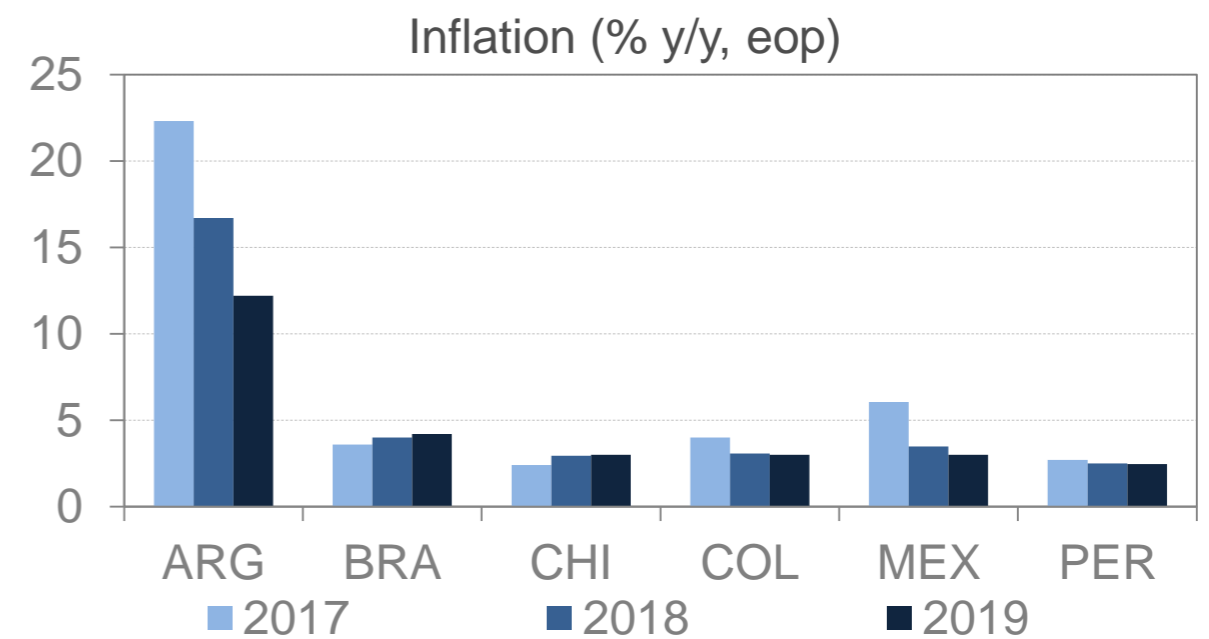
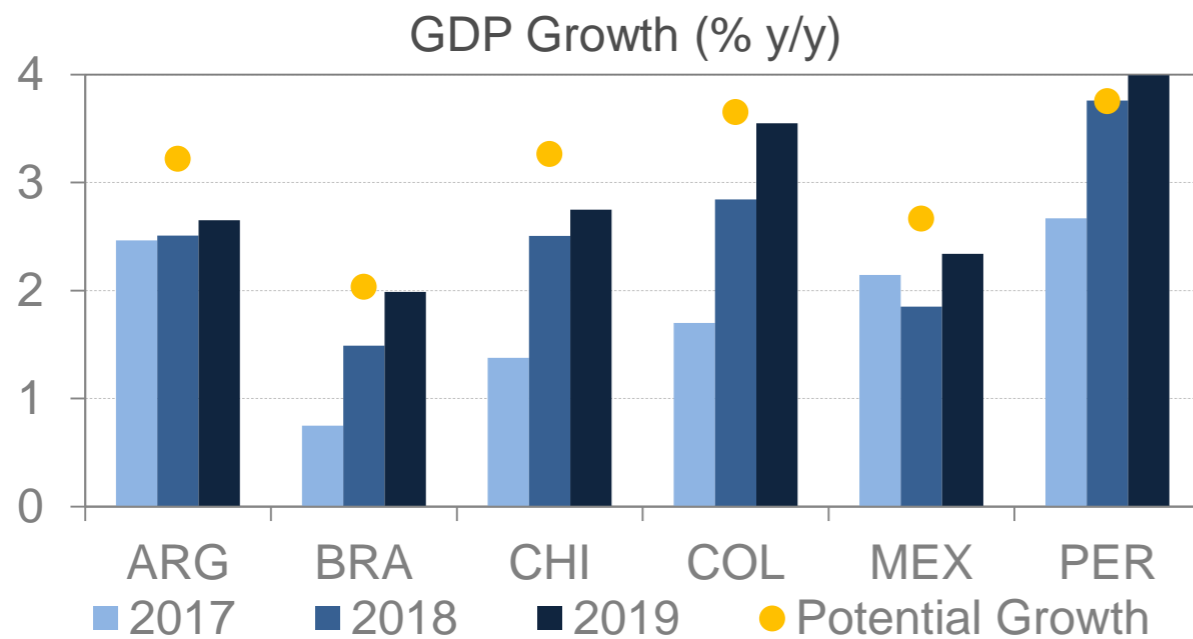
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- 1. *Stability and growth in Peru and Chile.*** Better accommodated to the reduction in commodity prices, Peru and Chile represent the more stable and better managed economies. A new moderated/pro-business government in Chile is likely to push economic growth to a faster pace.
- 2. *Fiscal and policy fine-tuning in Colombia and Mexico.*** Fiscal consolidation should continue in Colombia and Mexico. Recent peace agreement, a new infrastructure agenda, and policy stability should help Colombia adjusting while preserving growth momentum. In Mexico the presidential elections should demonstrate whether policy setbacks are a serious risk.
- 3. *A cultural change after reaching bottom in Argentina and Brazil.*** Extreme populism finally brought economic and political misery. Argentina is demonstrating how normal policies have a pay off. Brazil is starting to consolidate from fear.
- 4. *Venezuela remains a question mark.*** But still helped by resources

Low indebtedness will be Argentina’s greatest ally in this reform process, allowing to smooth the costs of the transition



Growth slowly picking up, with stable inflation and, hopefully, some fiscal consolidation



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