

Latin America and the End of Global Good News Where do we stand?

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Conference in Honor of Edmar Bacha, Rio de Janeiro, 17th September 2017

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 - Argentina, Brazil, Chile, Mexico and the others.
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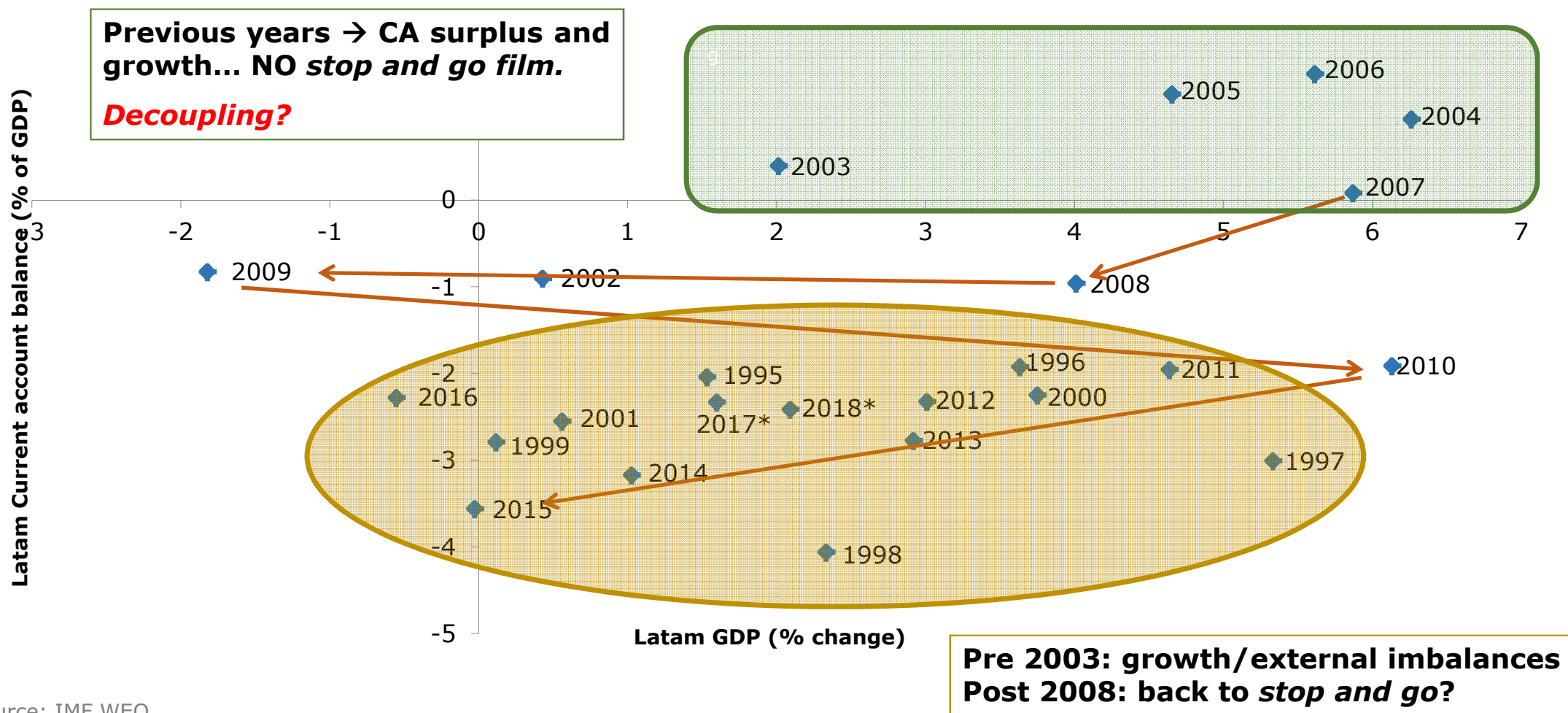
Are the improvements sustainable? Where are we heading to?

- During the commodity boom, Latam had an incredible and unprecedented favorable period.
- Growth + fiscal/external balance. After the crisis, *exhaustion of fire power...* for new adverse shocks
- Consumption and social booms, but will it have a lasting effect?
- Socially, big improvements (↓ poverty, ↓ inequality, etc.), based on conditional cash transfer programs.
- BUT, structurally? Micro, and education?
- Social (education) budgets rise strongly ! But NO or small improvement in education. Increasing enrollment (extensive mode) but no quality..
- Without quality education, innovation/development? What about economic growth and social development? Debt overhang and emerging structural stagnation for some Latam?
- ***The end of populism or the end of incumbents?***

Introduction: Now and then?

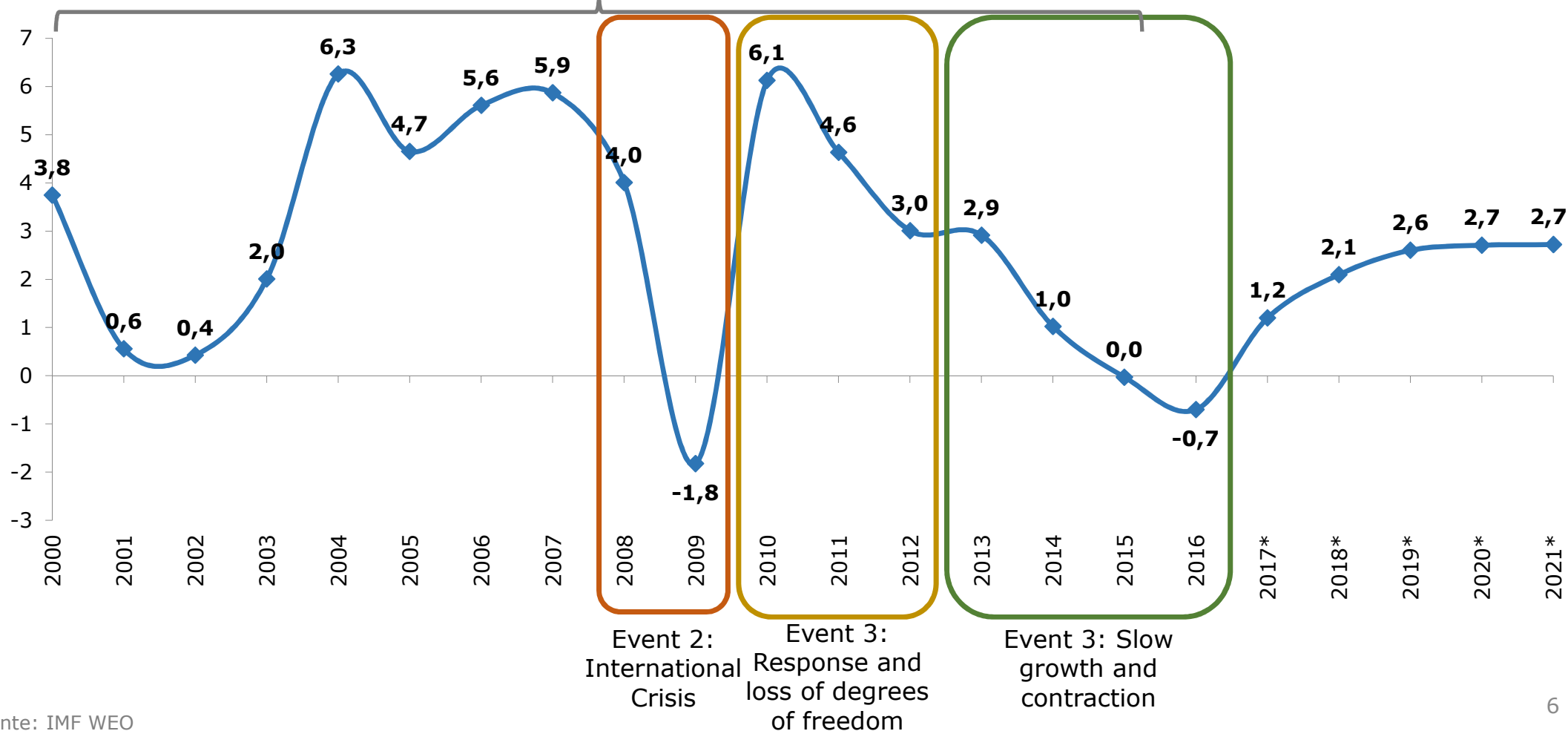
- Growth in the 1980s and 1990s → *Stop and go* cycles
 - Crisis of balance of payments.
 - Speculative attacks on currencies.
 - High/hyper inflation.
- The 2000s:
 1. Boom in commodities demand.
 2. Sound public finance.
 3. Moderate low inflation.
- NOW?

Latam Macro Path, Growth and the Current Account ... before, during and after the international crisis...



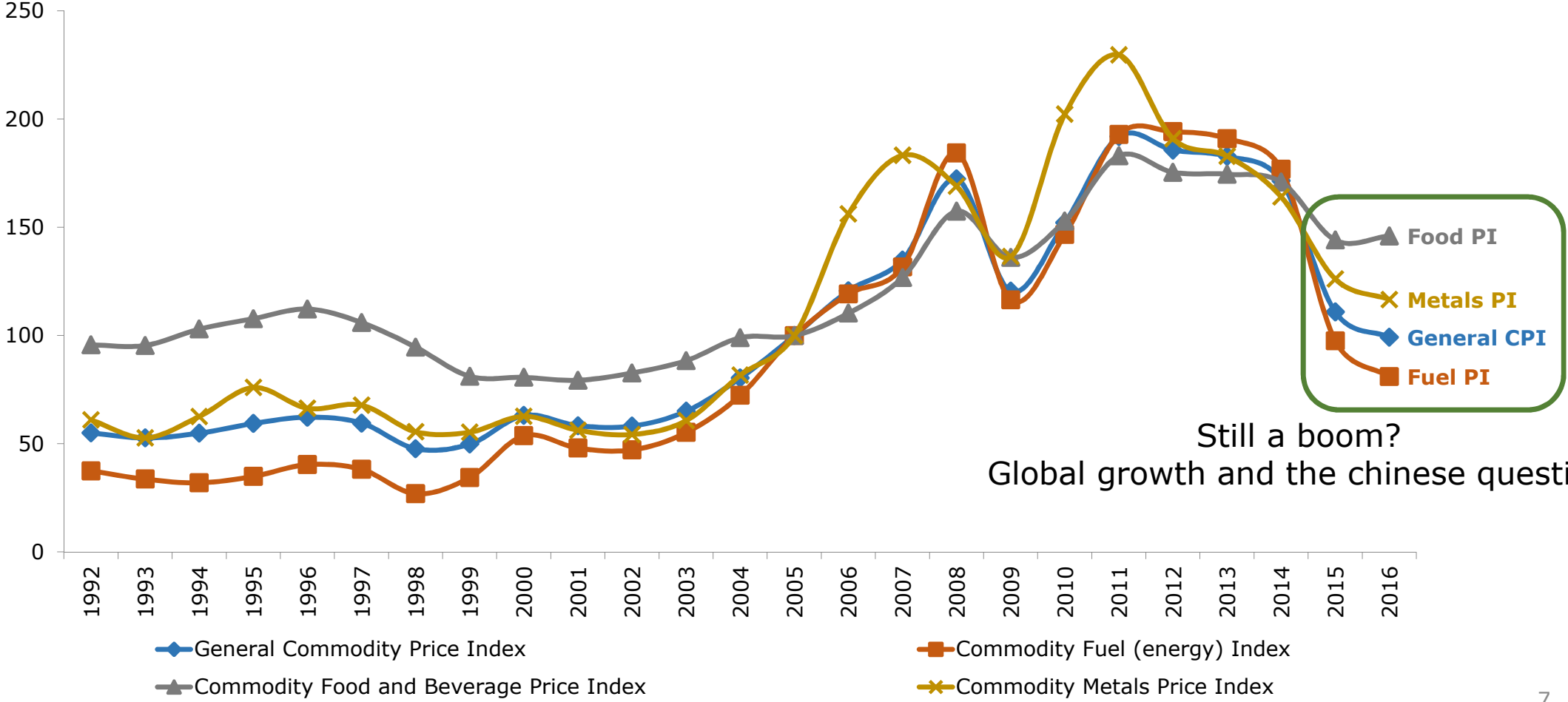
Latin America GDP (% interannual variation)

Event 1: Boom of commodity prices



The Commodity Driver

Price Indexes (2005=100)



Still a boom?
Global growth and the chinese question

Fuente: IMF WEO

Latam Today

Macro, Finance and Micro

After crisis response: worsening fiscal situation...

Net budget Deficits (% of GDP)

0% > Yellow > -3%, Red > -3%

Country	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay	Venezuela
2000	-3.3	-3.7	-3.3	-0.7	-2.9	-0.3	-3.0	-0.9	-2.1	-3.3	4.5
2001	-5.4	-6.8	-3.2	-0.5	-2.9	0.1	-3.1	-0.7	-2.1	-3.4	-4.6
2002	-2.1	-8.8	-4.4	-1.2	-3.4	0.8	-3.4	-2.5	-1.4	-3.7	-1.5
2003	1.2	-7.9	-5.2	-0.4	-2.7	1.0	-2.3	-0.0	-1.6	-2.6	0.2
2004	3.5	-5.5	-2.9	2.0	-1.3	1.9	-1.2	1.0	-1.0	-1.8	2.5
2005	2.2	-2.2	-3.5	4.5	-0.0	0.6	-1.2	1.2	-0.4	-0.4	4.1
2006	1.7	4.5	-3.6	7.5	-1.0	2.9	-1.0	2.1	2.0	-0.5	-1.6
2007	-0.1	1.7	-2.7	7.9	-0.8	2.6	-1.2	2.1	3.3	0.0	-2.8
2008	0.2	3.6	-1.5	3.9	-0.3	0.6	-0.8	3.0	2.7	-1.6	-3.5
2009	-2.4	0.0	-3.2	-4.3	-2.8	-3.6	-5.0	-0.5	-1.4	-1.6	-8.7
2010	-1.3	1.7	-2.7	-0.4	-3.3	-1.4	-3.9	0.7	0.1	-1.4	-10.4
2011	-2.6	0.8	-2.5	1.4	-2.0	-0.1	-3.4	1.9	2.0	-0.9	-11.6
2012	-2.8	1.8	-2.5	0.7	0.1	-0.9	-3.8	-1.6	2.1	-2.7	-15.6
2013	-3.0	0.7	-3.0	-0.5	-0.9	-4.6	-3.7	-1.4	0.7	-2.3	-14.3
2014	-4.0	-3.4	-6.0	-1.5	-1.8	-5.3	-4.6	-0.7	-0.3	-3.5	-16.8
2015	-6.6	-6.9	-10.3	-2.1	-3.5	-5.2	-4.1	-1.3	-2.2	-3.6	-23.1
2016*	-7.1	-8.1	-10.4	-3.2	-2.9	-5.2	-3.0	-1.1	-2.5	-4.3	-25.7
2017*	-7.4	-7.5	-9.1	-2.9	-2.1	0.3	-3.0	-1.1	-1.9	-3.7	-26.1
2018*	-6.6	-7.1	-8.0	-2.0	-1.6	0.4	-2.5	-1.0	-1.4	-3.2	-23.8

From white and yellow (surpluses and low deficits, > -3%)



To yellow and red (low and high deficits, < -3%)

Increasing fragility... debt acumulation by most countries.

Gross public debt (% of GDP)
Green <25%, Yellow >60%, and Red >100%

Country	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay	Venezuela
2000	42.1	66.9	65.6	13.2	44.2	n/a	41.9	34.7	44.4	n/a	28.2
2001	49.4	60.0	70.1	14.4	40.8	62.3	41.1	42.7	43.4	54.9	31.7
2002	152.1	69.1	78.8	15.1	47.2	52.5	43.5	59.4	45.0	109.6	55.0
2003	128.6	74.1	73.8	12.6	44.7	44.9	44.7	45.1	49.0	111.5	55.8
2004	117.1	89.6	70.1	10.3	41.2	39.8	40.8	34.5	46.3	93.5	42.2
2005	66.9	80.4	68.6	7.0	38.3	35.0	39.0	28.0	40.0	83.9	35.6
2006	58.6	55.2	65.8	5.0	35.8	28.8	37.8	21.5	34.8	75.7	25.7
2007	50.8	40.5	63.7	3.9	32.5	27.2	37.5	18.1	31.9	68.0	26.4
2008	43.9	37.2	61.9	4.9	32.1	22.2	42.8	18.1	28.0	67.8	20.3
2009	53.8	40.0	64.9	5.8	35.2	17.7	43.9	18.2	28.4	63.1	27.6
2010	42.6	38.5	63.0	8.6	36.4	19.7	42.2	15.6	25.4	59.4	36.5
2011	38.1	34.7	61.2	11.2	35.7	19.4	43.2	13.0	23.0	58.1	50.6
2012	39.4	33.3	62.3	12.0	34.1	21.6	43.2	16.2	21.2	58.0	58.1
2013	42.2	32.5	60.4	12.8	37.8	25.9	46.4	17.0	20.3	60.2	73.7
2014	43.6	33.0	63.3	15.1	44.2	31.2	49.5	20.2	20.7	61.4	63.5
2015	52.1	36.2	73.7	17.5	50.6	33.8	54.0	24.2	24.0	64.3	41.5
2016*	51.8	40.6	78.3	20.4	47.5	39.6	56.0	25.5	26.3	63.7	32.8
2017*	50.7	42.8	82.4	23.3	47.0	39.7	56.1	25.6	26.5	65.2	28.2
2018*	51.2	45.3	85.2	25.0	45.7	39.7	55.8	26.3	26.2	65.4	25.0
2010 vs 2015	9.5	-2.4	10.7	8.9	14.1	14.2	11.8	8.6	-1.4	4.9	5.0

Chile, Paraguay and Peru still with very low levels of debt.

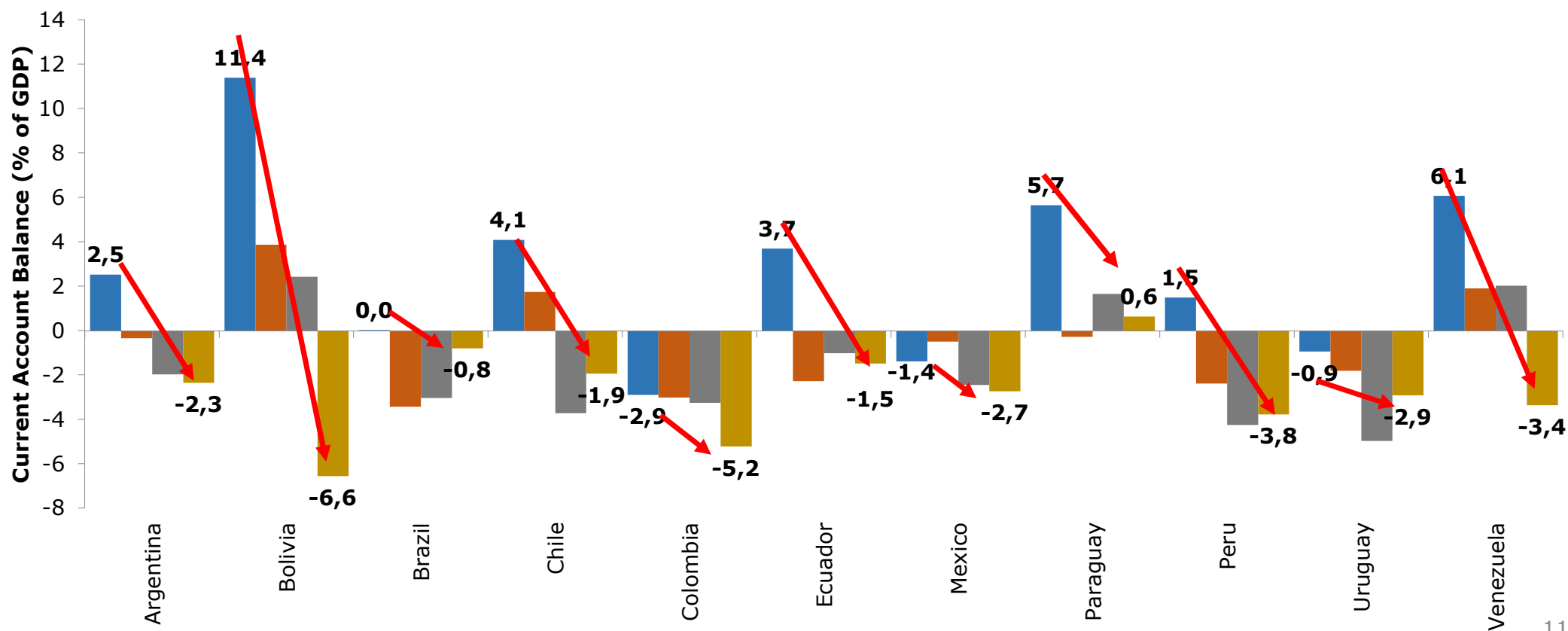
Good conditions to avoid future contagion.

Worsening current account Back to the past???

Even with above average commodity prices!

Current Account Balance (% of GDP)

■ 2007 ■ 2010 ■ 2013 ■ 2016*

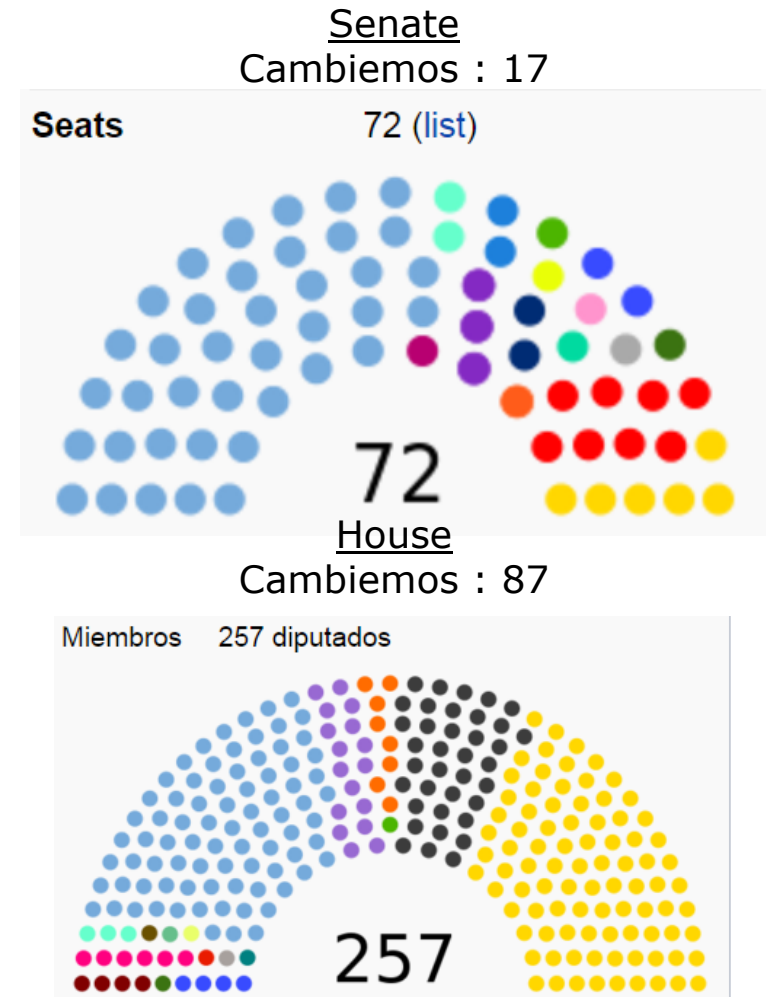


Source: IMF WEO

Argentina: the escape from populism?

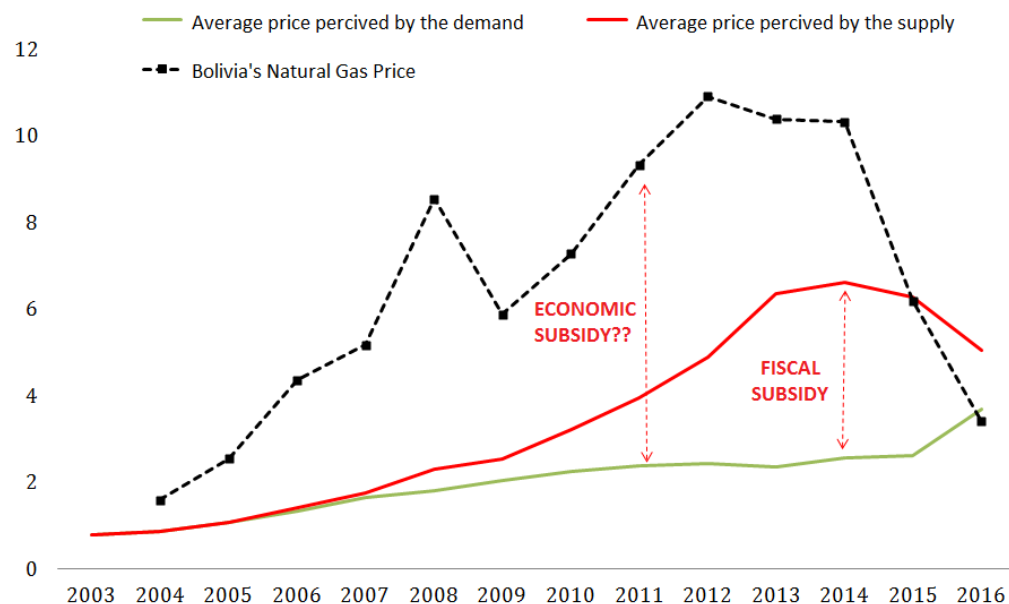
Is it viable?

- Argentina's populism consumed the commodity boom surpluses and savings.
- Now:
 - High inflation.
 - High deficits.
 - Low(ish) debt.
- Political sustainability undoing populism?
 - Open economy in a world of rising protectionism?
 - Higher cost of international credit.
 - Lower commodities prices.

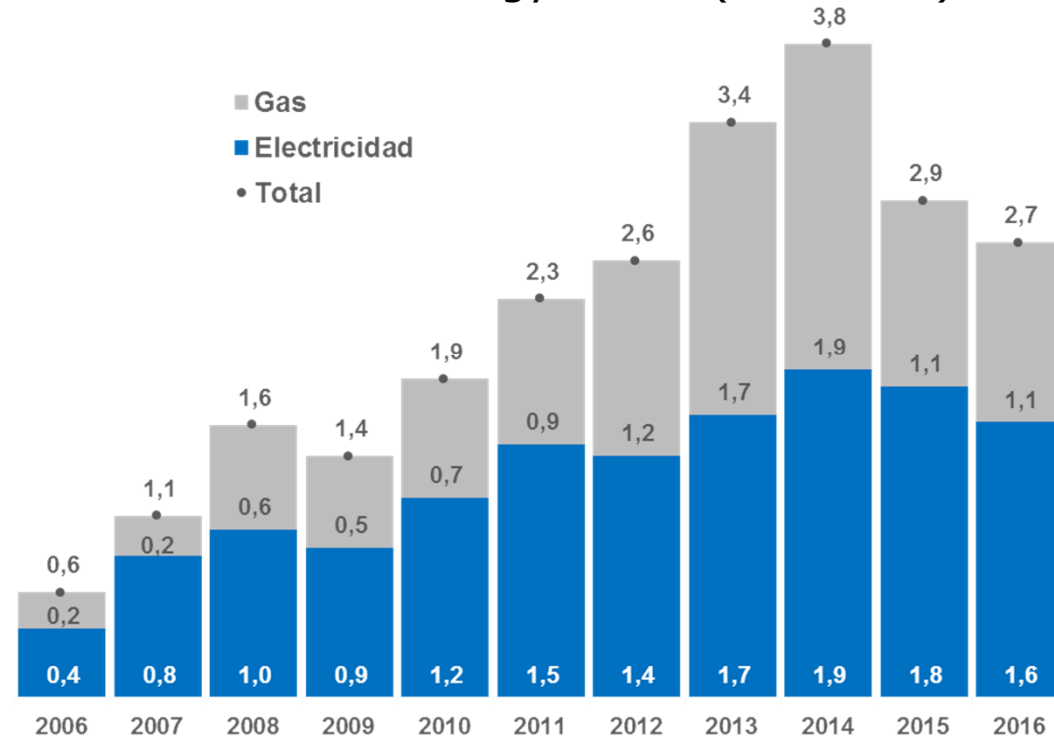


Argentina: energy *populism* and costly regulatory reforms

Average “prices” of Natural Gas in Argentina
In USD for MMBTU 2003-2016



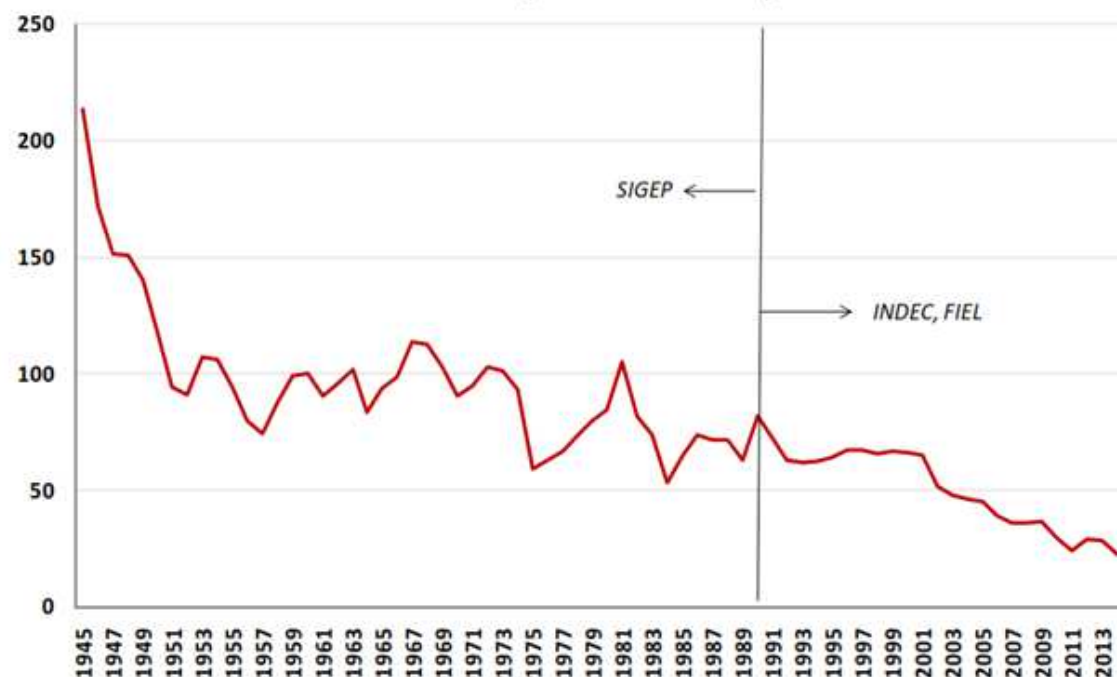
Subsidies to energy sector (% of GDP)



Implicit/explicit subsidies to consumers: direct transfers or public companies deficits.

Argentina: energy *populism* and costly regulatory reforms

**Electricity: Real Price Evolution
1945-2014 (1960=100)**

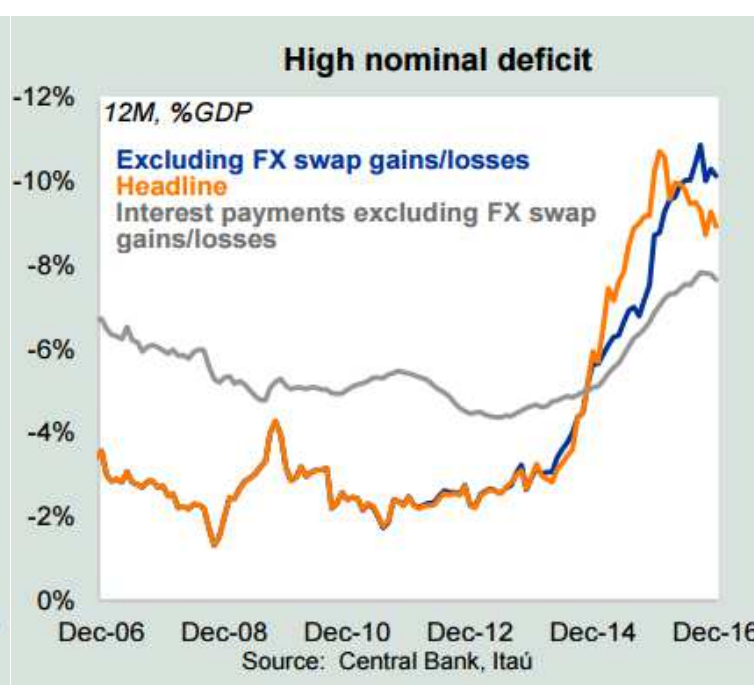
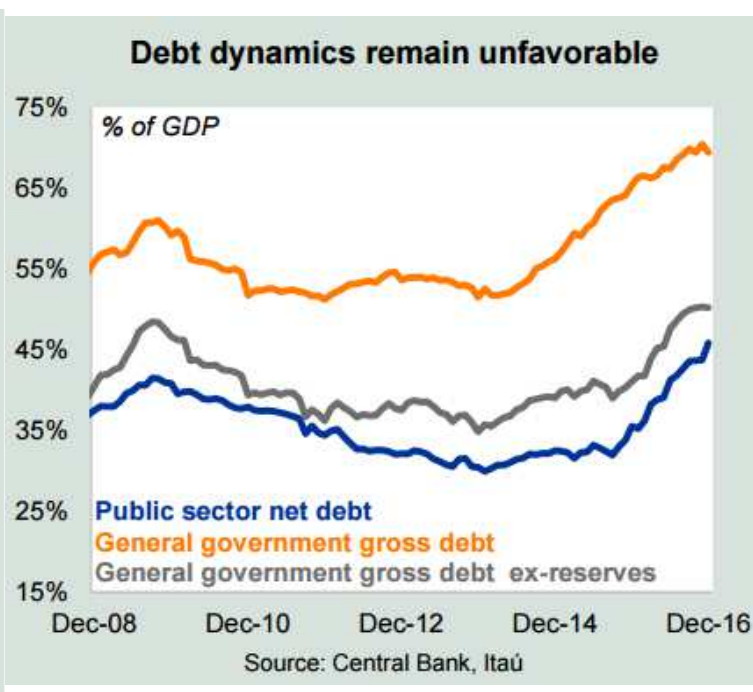
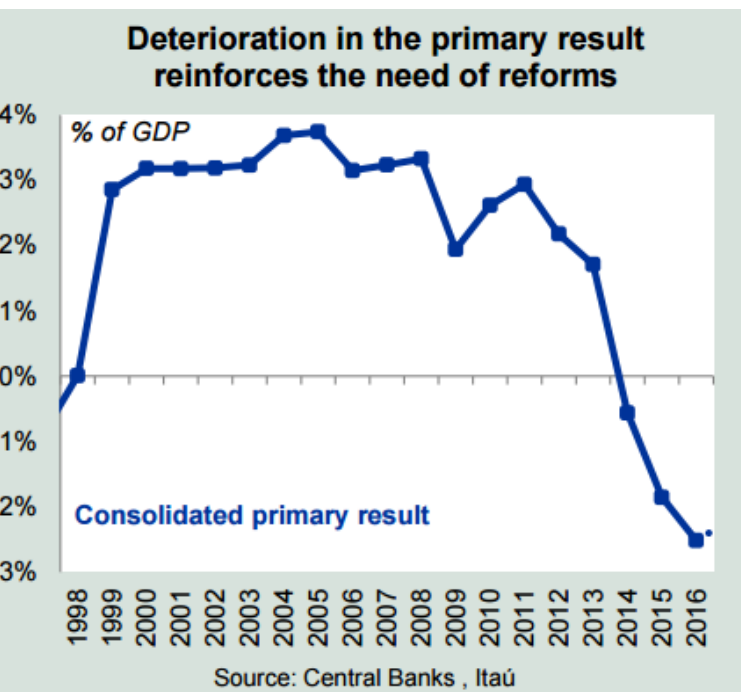


Cycle	Duration (years)	Real decrease	Next year correction	Adjustment correction in first year
1945-52	7	51.3%	17.4%	16.5%
1953-57	4	30.7%	18.1%	20.9%
1960-61	1	9.2%	5.4%	53.3%
1963-64	1	18.1%	12.3%	55.7%
1967-70	3	20.2%	4.4%	17.4%
1973-75	2	42.6%	6.4%	8.6%
1981-84	3	39.2%	21.8%	22.5%
1986-89	3	14.1%	30.0%	182.8%
1990-94	4	23.7%	2.7%	8.7%
2001-15	14	73.0%	?	?

Source: Navajas, FIEL (2015)

Brazil: macro and micro

Debt dynamics and productivity: trouble sooner or/and later!?!?

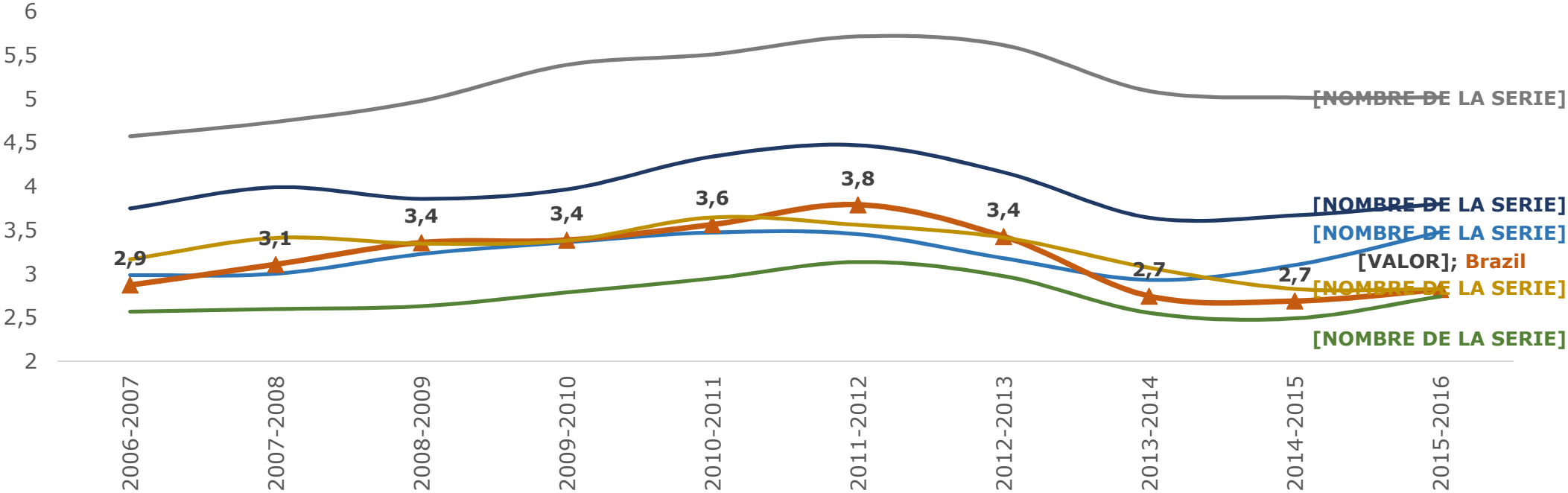


Infrastructure Quality: Latam in bad shape, and Brazil worse ... something has to be done...

Brazil (ranked 123 of 151)/Venezuela (130)/Argentina (122)/Chile (48)

Quality of overall infrastructure, 1-7 (best)

— Argentina — Brazil — Chile — Colombia — Uruguay — Venezuela



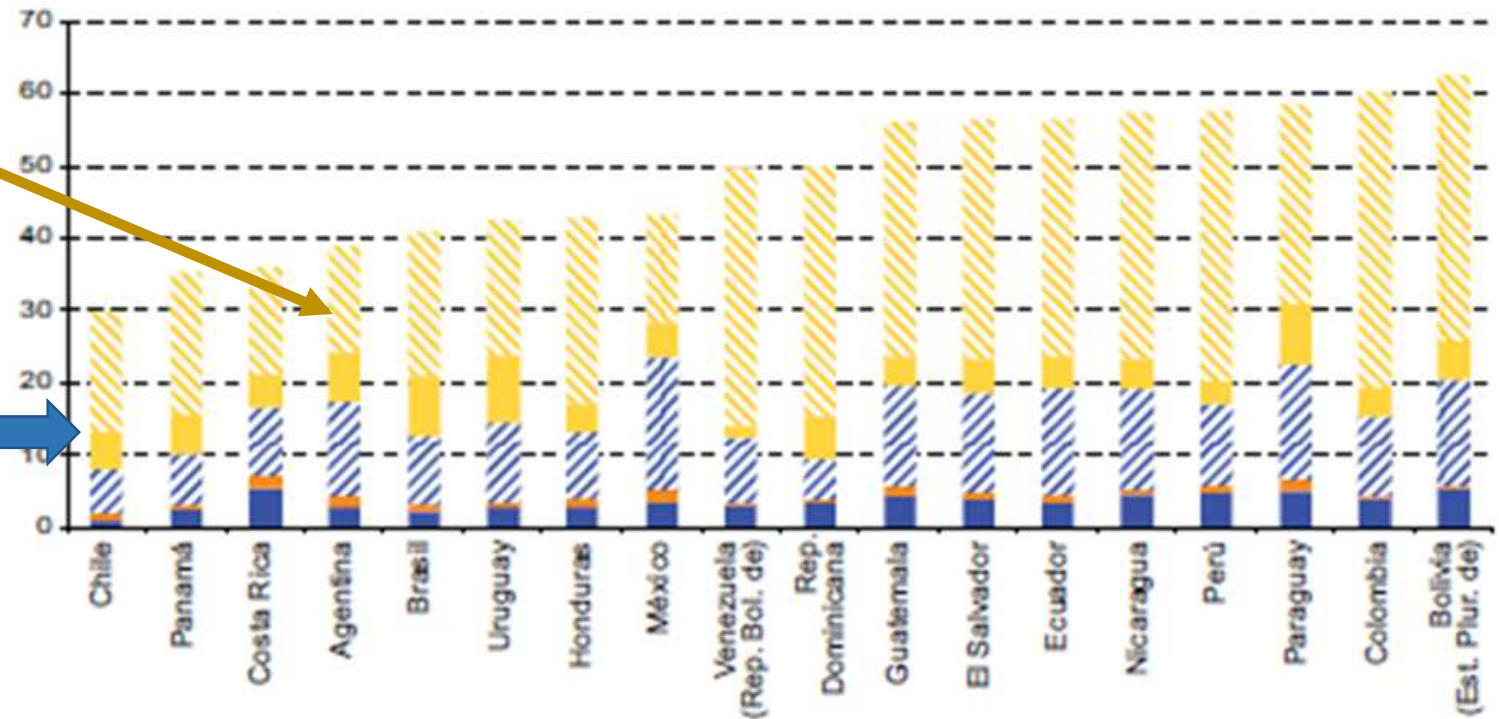
Question: "How do you evaluate the general infrastructure (i.e. transportation, telephone services and electric power) in your country?".
Answers: from 1 = extremely underdeveloped to 7 = extensive and efficient according to international standards.

High % of population in low productivity jobs!

Percentage of the population occupied in low productivity sector (as % of total urban employed population)

High amount of unskilled independant workers in all Latam countries!

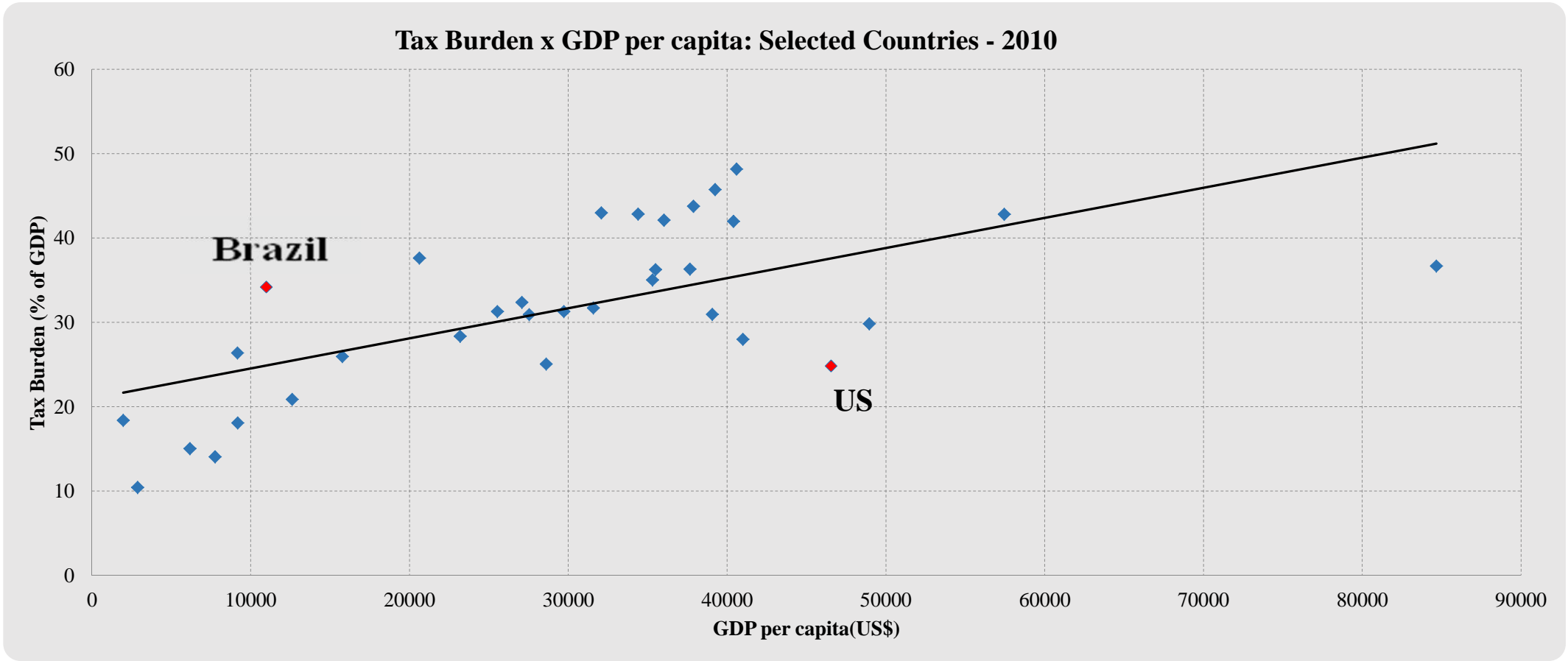
The trend continues: Chile, the best in the region



Source : CEPAL, NU. "Eslabones de la desigualdad: heterogeneidad estructural, empleo y protección social." (2012).

■ Microempresas, empleadores
 ▨ Microempresas, asalariados no profesionales y técnicos
 ▨ Trabajadores independientes no calificados
■ Microempresas, asalariados profesionales y técnicos
 ■ Empleo doméstico

Brazil high taxes and inefficient tax laws: even less competitive



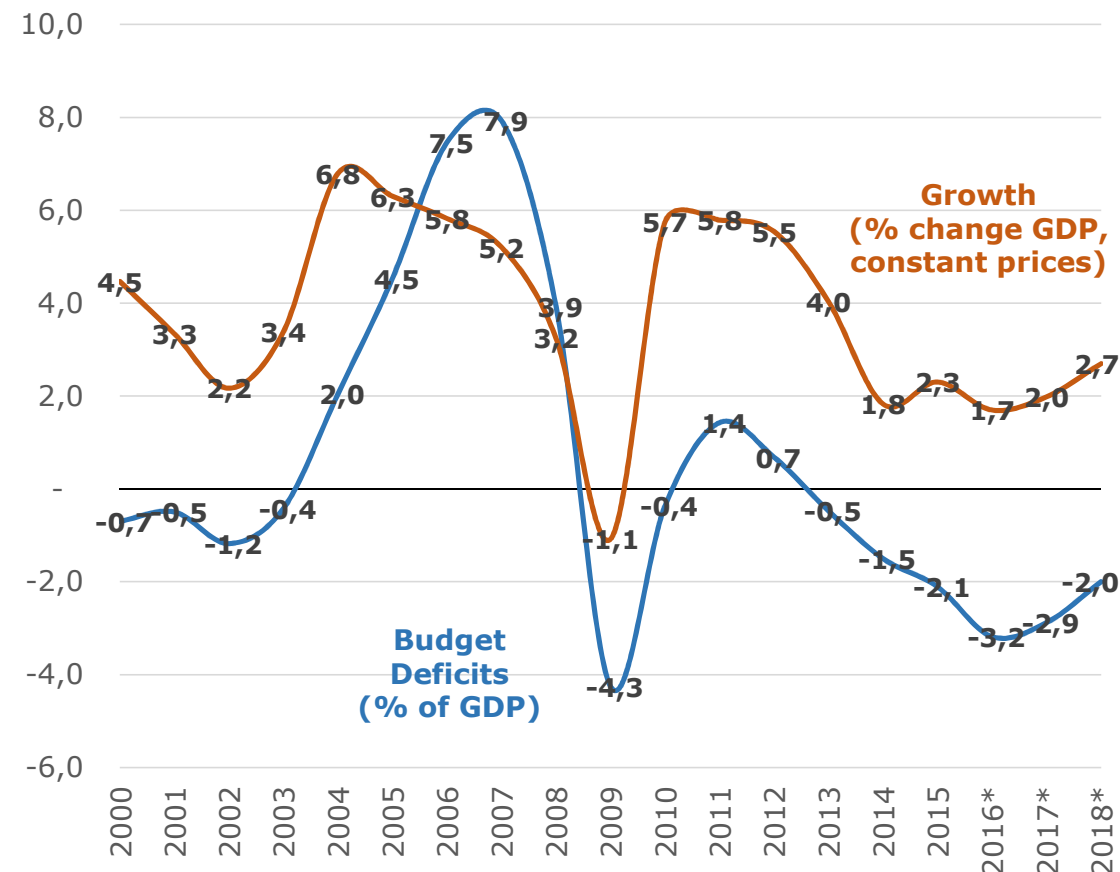
**Low productivity
growth and debt
overhang**



**Stop and stop?
Emerging secular
stagnation?**

Chile: from robust outlier to new populism? A legitimacy crisis

- An economic and political outlier: fiscal conservative + countercyclical fund → allowed best response to the crisis.
 - Monetary Policy: Brazil (150bp to 11.25%), Colombia (200bp to 7%), Mexico (150bp to 6.75%), Peru (150bp to 5%) and **Chile (500bp!!! to 1,75%)**
 - Largest **fiscal stimulus** package in the region (**2,2% of GDP**).
- Change in trend? → populist demands are surging.
 - + Health and educational reform.
 - + Political legitimacy crisis.
- But, still too early to say.
 - Low debt level (25% of GDP).
 - Deficits are not that high.



Mexico and Trump: from model global citizen to enemy N°1?

- Mexico played by “the book”:
 - Open economy: commercially and financially.
 - Integration to global value chains.
 - Cooperation in security, political and social matters.
- Built its economy around integration with the US, with the consent and guidance of the US. → and now?
- Tariff?
 - Most exports are intermediate goods, raising US costs: not substitution of Mexico goods for US goods.
 - Appreciation of dollar = makes Mexico more competitive?

US imports from Mexico (2015)

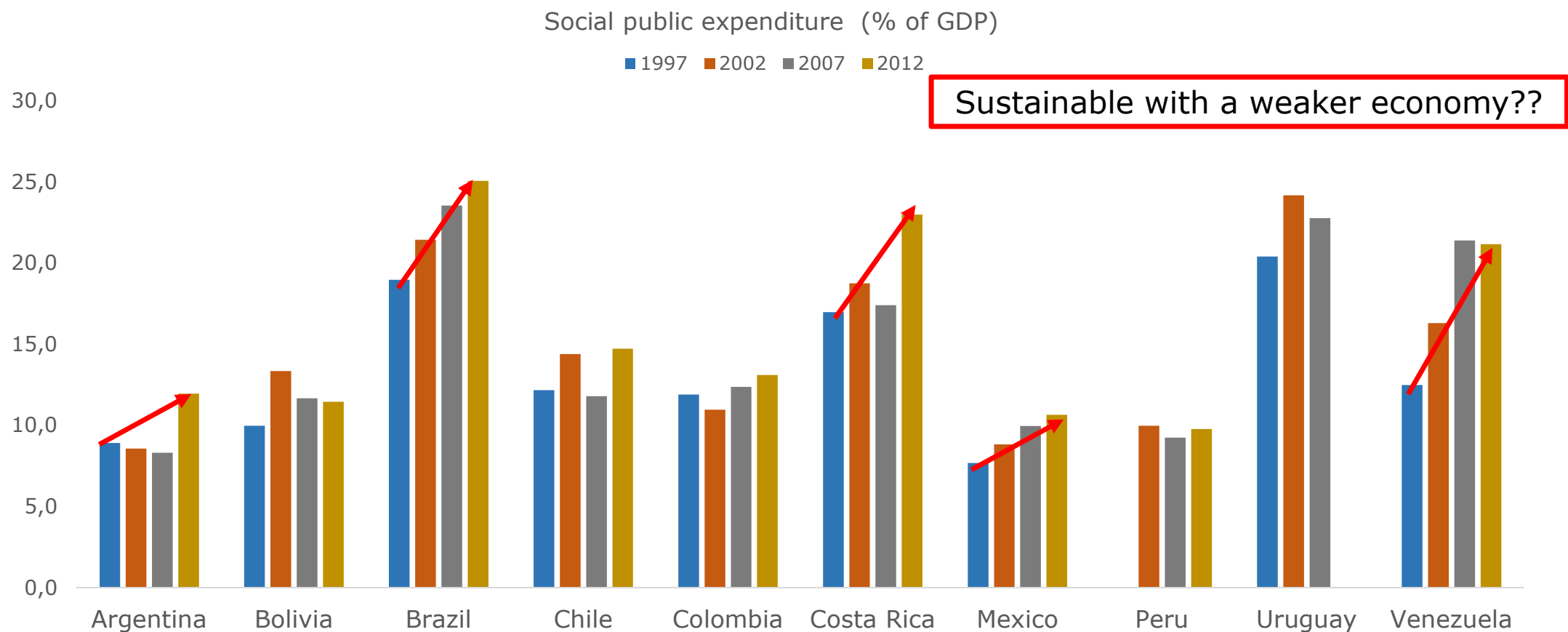
	\$ millions	% of total
Consumer goods	84.572	26,6%
Food	22.432	7,0%
Cars	23.434	7,4%
Clothing	5.257	1,7%
Others	33.448	10,5%
Industrial inputs	89.583	28,1%
Oil	13.689	4,3%
Other raw materials	7.568	2,4%
Auto parts	53.175	16,7%
Other intermediate goods	15.152	4,8%
Investment goods	113.312	35,6%
Computers	41.778	13,1%
Vehicles	31.943	10,0%
Other machinery/equipment	3.959	12,4%
Services and other	30.872	9,7%
Total	318.338	100,0%

The end of the era of populism or just the end of incumbents?

Its politics stupid !!

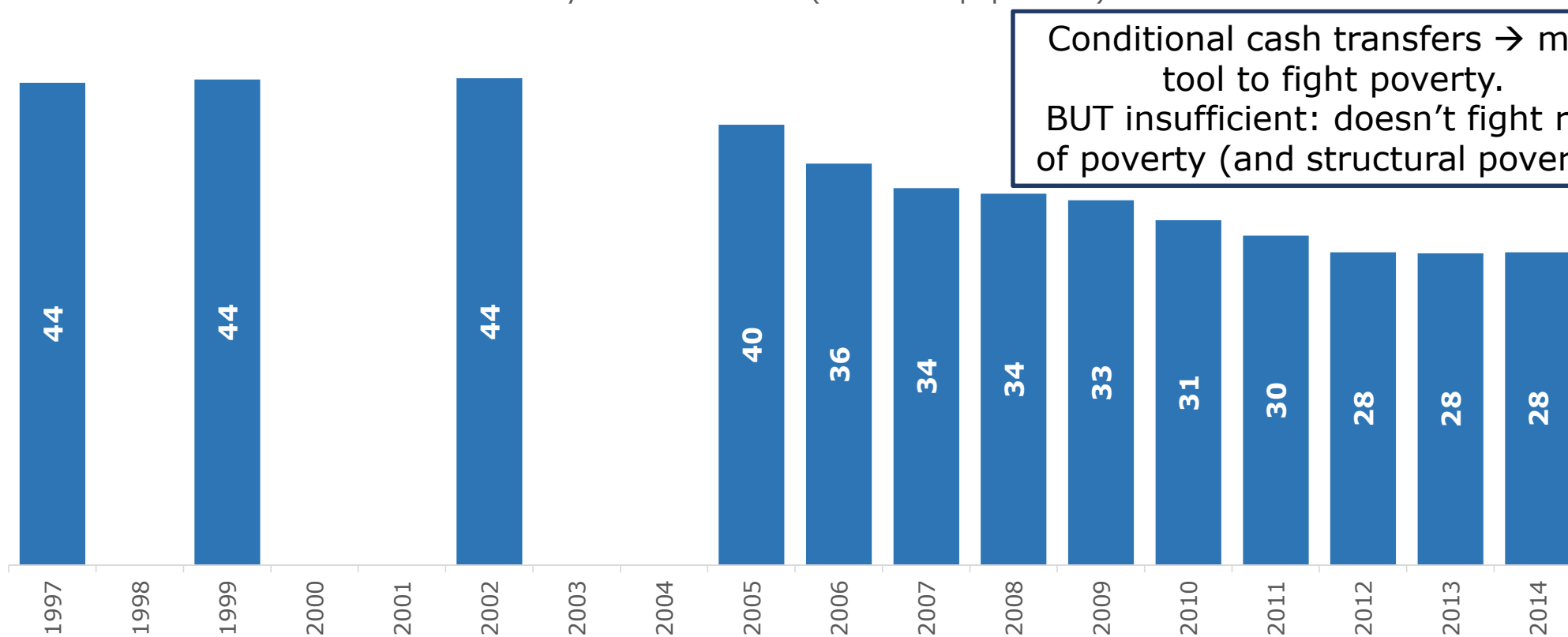
Poverty, Inequality and Middle Classes

Social Public Expenditure: Increase ... but, what results?



Important reduction in region wide poverty levels

Poverty in Latin America (% of total population)

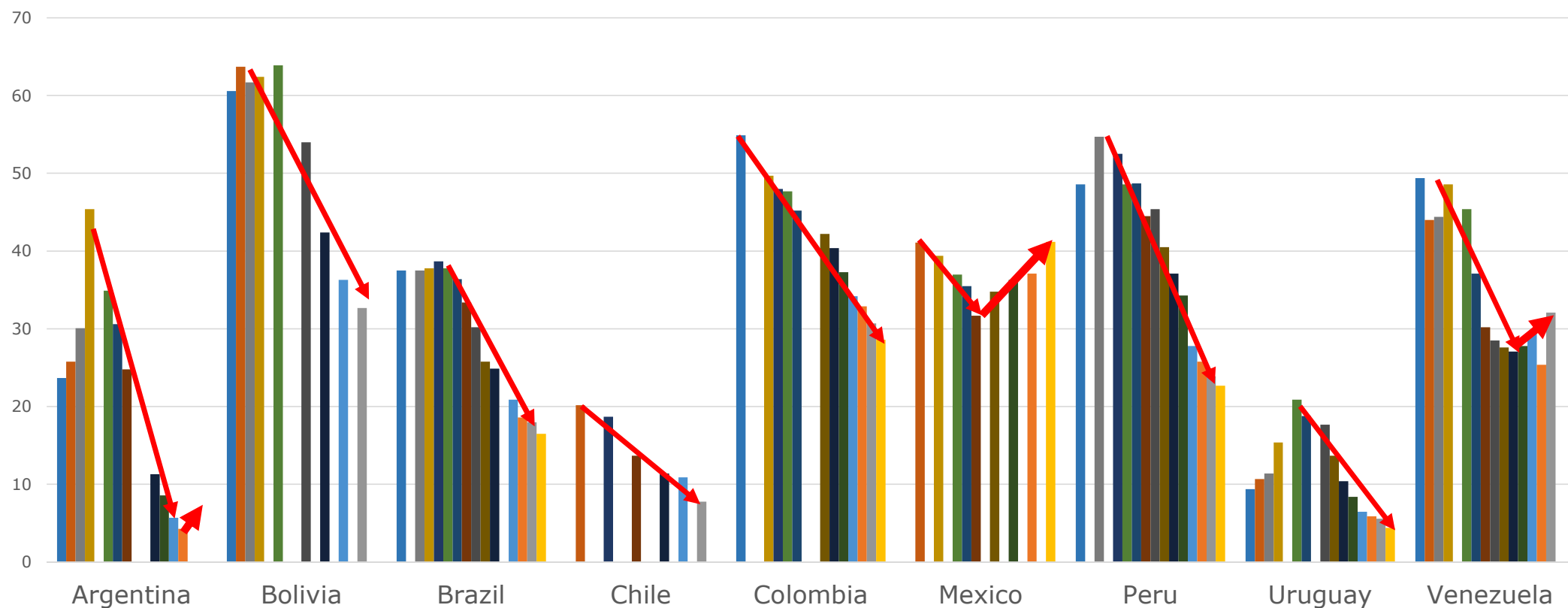


Heterogeneous situation between countries →

Regionally and nationally poverty is down... but poverty is in the rise in some other countries.

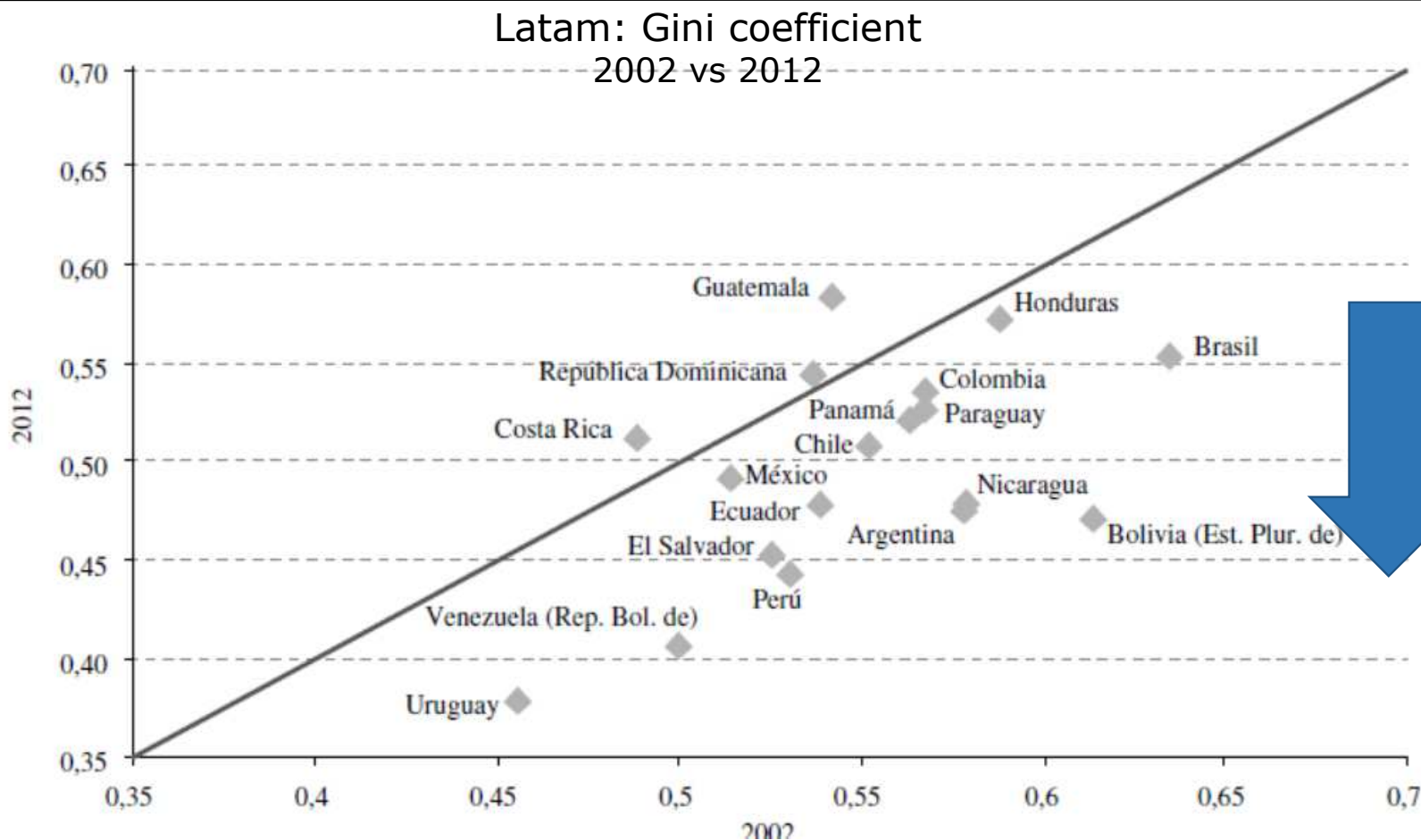
Poverty in Latin American Countries (% of total population)

■ 1999 ■ 2000 ■ 2001 ■ 2002 ■ 2003 ■ 2004 ■ 2005 ■ 2006 ■ 2007 ■ 2008 ■ 2009 ■ 2010 ■ 2011 ■ 2012 ■ 2013 ■ 2014



Source: CEPALSTAT

General trend: reduction in inequality

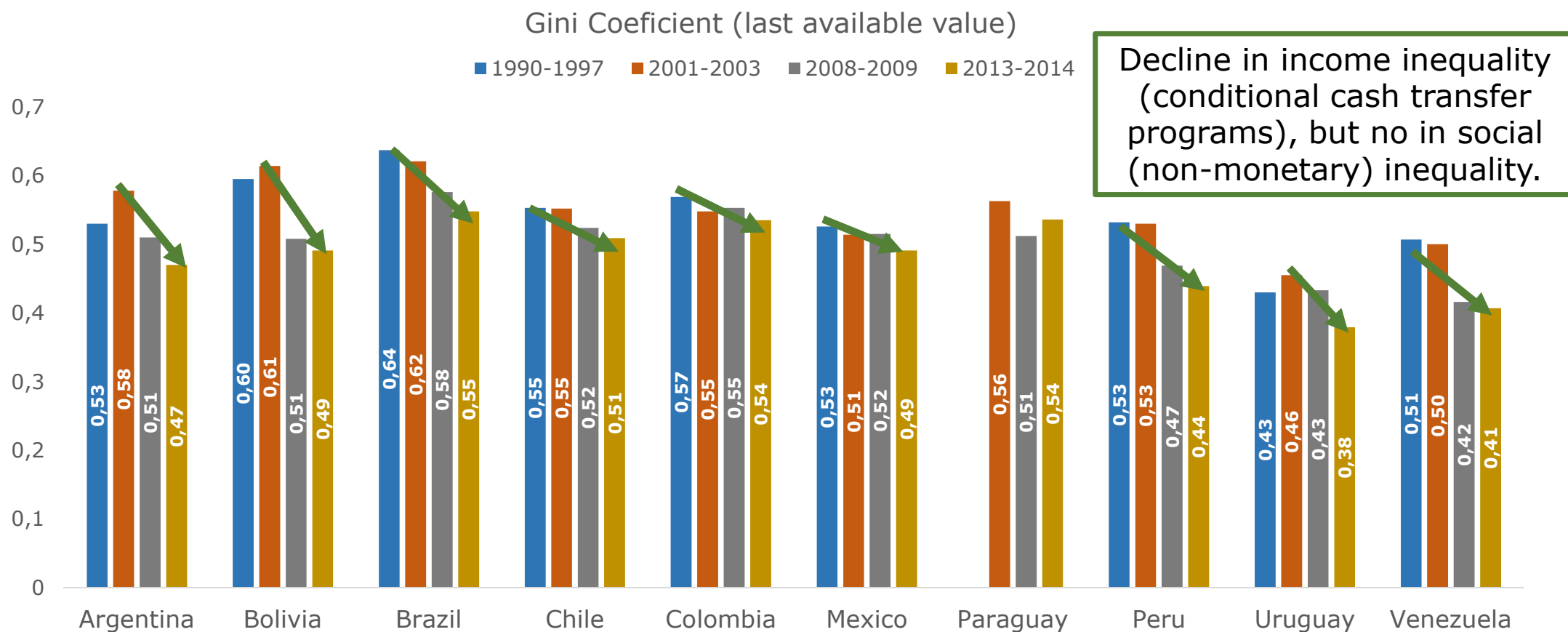


Most countries reduced their inequality during the commodity boom years.

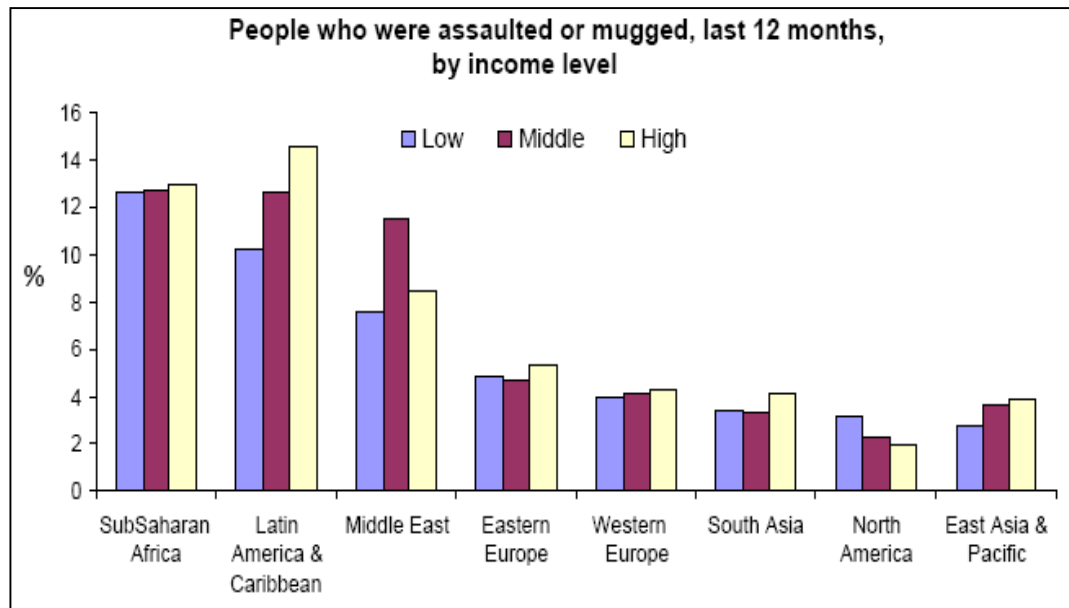
Mostly by conditional cash transfer programs. BUT what about non-monetary (structural) inequality?

Source: Amarante, Verónica, Marco Galván, and Xavier Mancero. "Desigualdad en América Latina: una medición global." *Revista CEPAL* (2016).

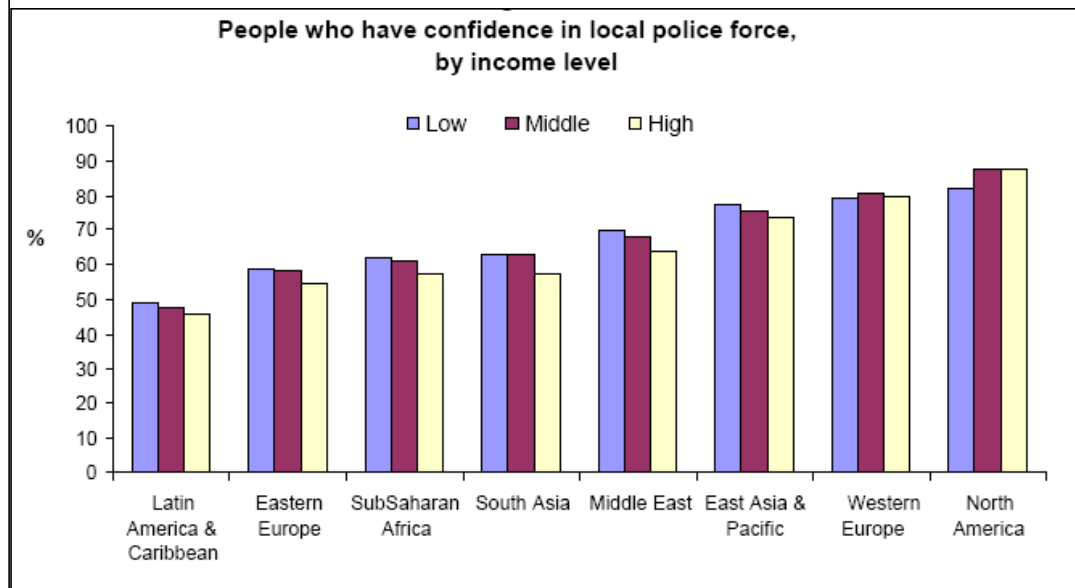
General trend: reduction in inequality



Crime and security



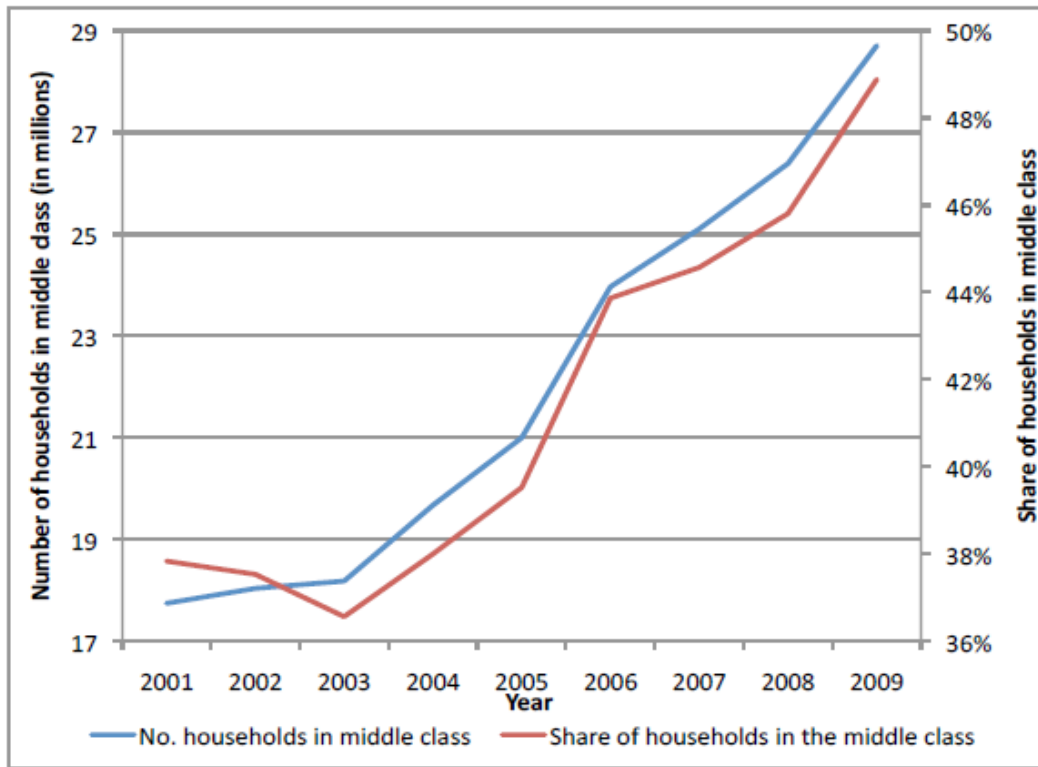
- Latin America has one of the highest criminal rates in the world...



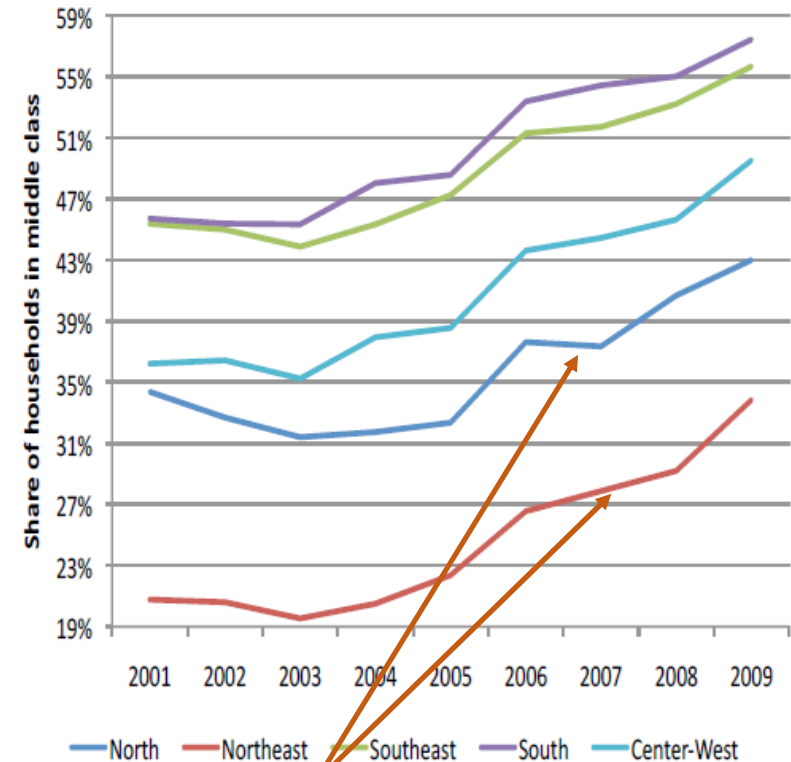
- While confidence in the public police is the lowest...

Middle Class in Brazil: Improvement and regional convergence.

Brazil middle class



Middle class by region



Convergence: relatively poorer regions in 2001 had higher growth in the middle class size.

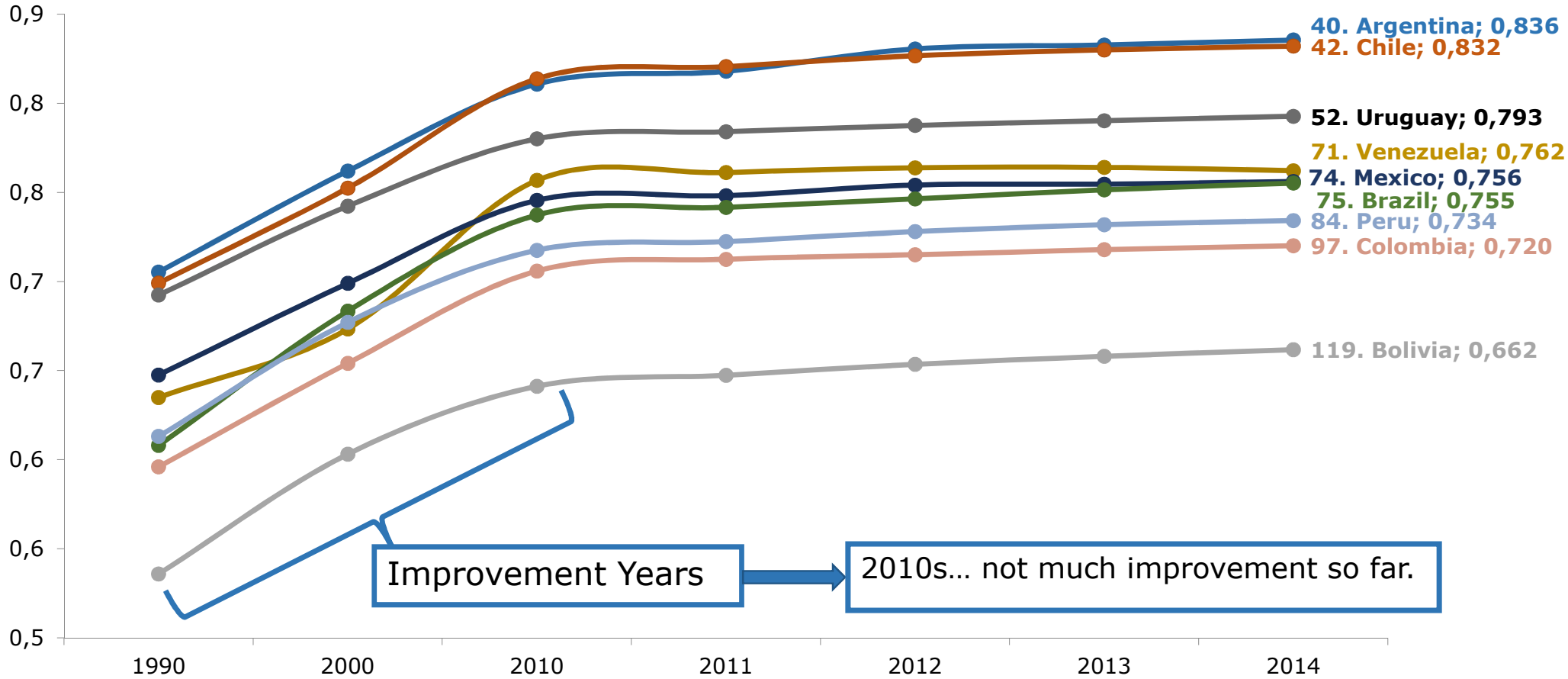
Middle class heterogeneity: long way to go for some countries (Brazil, Colombia, Peru)

32. Current size of lower, middle and upper income across top emerging market economies (2011 or latest available, constant 2000 USD)

	Lower income (less than USD3,000)		Middle class (USD3,000-15,000)		Upper income (above USD15,000)	
	% share of pop.	millions	% share of pop.	millions	% share of pop.	millions
Argentina (AG)	10	4	70	26	20	7
Brazil (BR)	50	97	40	78	10	19
China (CH)	70	944	30	404	0	0
Colombia (CO)	70	32	20	9	10	5
Egypt (EG)	90	71	10	8	0	0
India (IN)	90	1,086	10	121	0	0
Indonesia (ID)	90	217	10	24	0	0
Malaysia (MY)	40	11	50	14	10	3
Mexico (MX)	30	34	60	68	10	11
Pakistan (PK)	100	175	0	0	0	0
Peru (PE)	60	18	40	12	0	0
Philippines (PH)	90	86	10	10	0	0
Poland (PO)	10	4	80	30	10	4
Russia (RU)	70	100	30	43	0	0
Saudi Arabia (SB)	10	3	70	20	20	6
Thailand (TH)	70	45	30	19	0	0
Turkey (TY)	30	22	60	44	10	7

Source: HSBC

Human Development Index Improvement at first, but now stagnated?

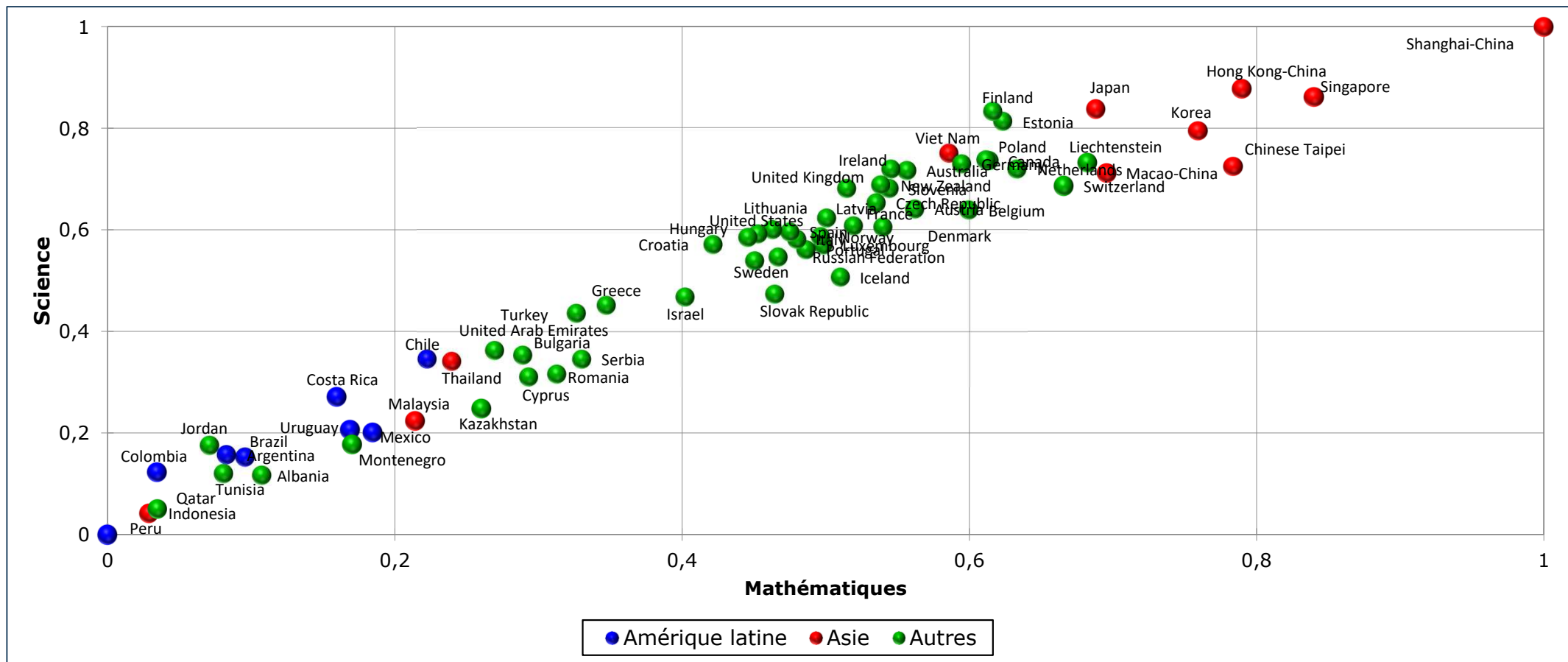


Source: UN

Education: expenditure and quality

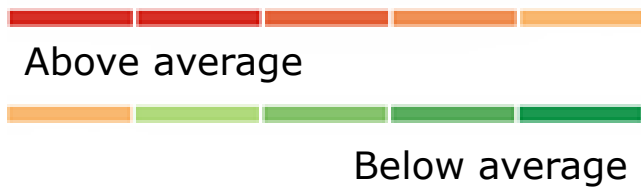
Latin America, at the bottom of the global ranking

PISA 2012

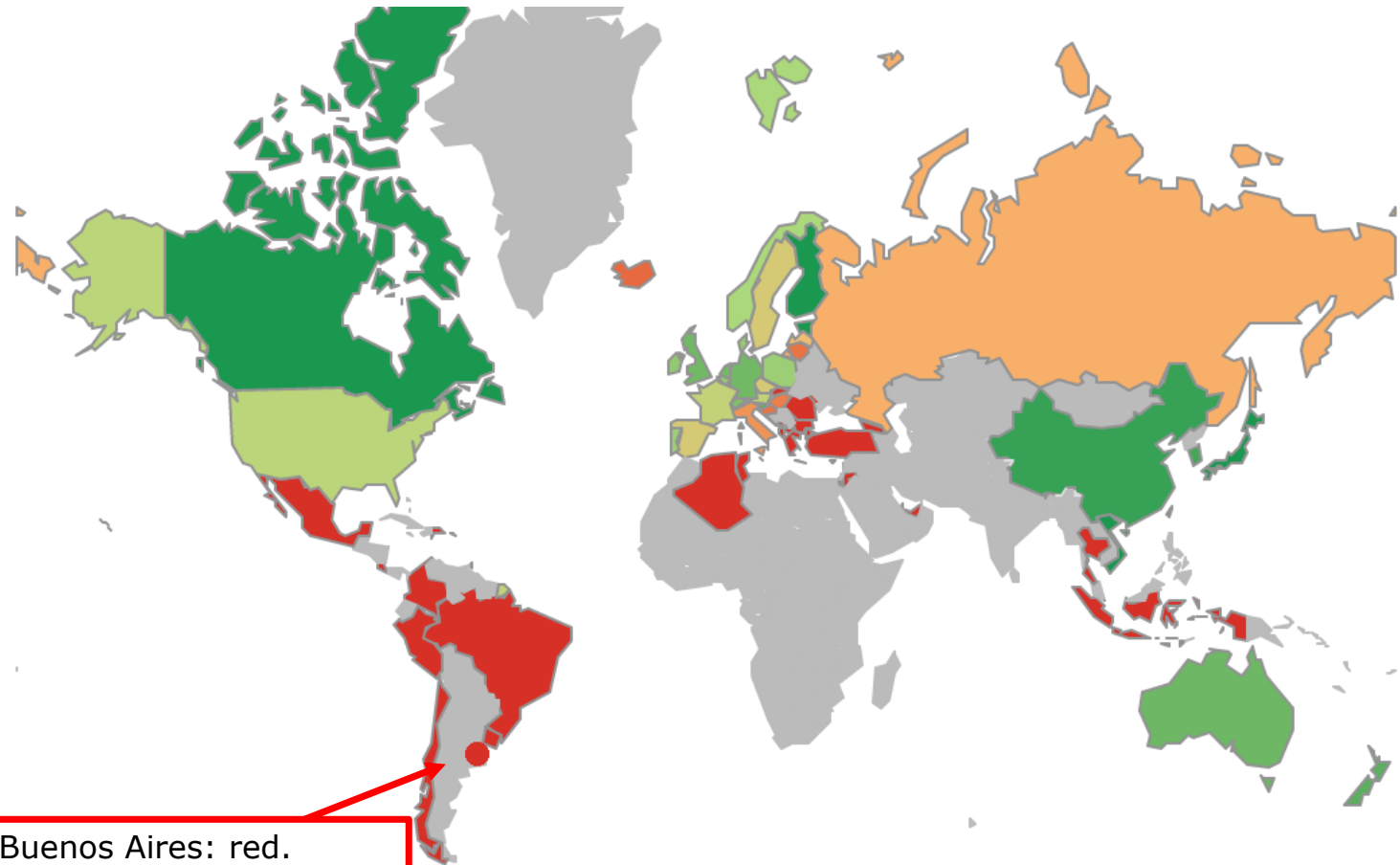


Education quality: Latin America is far behind the average

PISA 2015 (Science Average): International comparison



- One can only notice the gap between the academic performance of Latin American countries and that of the Western countries and especially the Asian countries, whose investment in education is unanimously recognized.



Buenos Aires: red.
Argentina: not published
because of manipulation

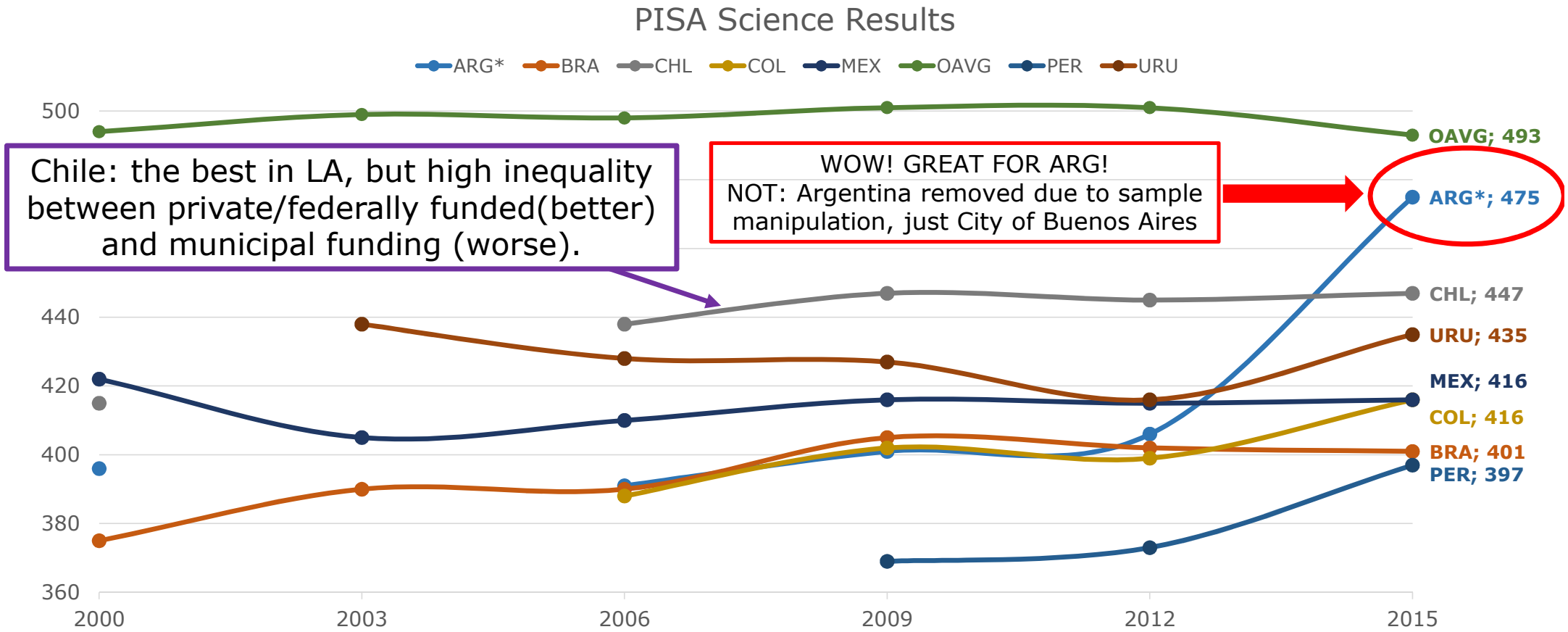
Increasing investment in public education in Latin America

Part du PIB (en %) investie dans l'éducation entre 1990 et 2013

	1990	1992	1994	1996	1998	2000	2002	2004	2006	2008	2009	2010	2011	2012	2013
Argentine	1,1	-	-	3,7	4	4,6	4	3,2	3,7	4,3	4,9	4,6	5	5,1	5,3
Bolivie	-	-	4,8	4,7	5,5	5,5	6,2	-	6,3	7	8,1	7,6	6,9	6,4	6,3
Brésil	-	-	-	-	4,7	3,9	3,7	4	4,9	5,3	5,5	5,6	5,7	5,9	-
Chili	2,4	-	2,6	2,9	3,4	3,7	4	3,5	3	3,8	4,2	4,2	4,1	4,6	4,6
Colombie	-	-	-	-	3,9	3,5	4,3	4,1	3,9	3,9	4,7	4,8	4,5	4,4	4,9
Mexique	2,3	3	3,7	-	3,5	4,1	4,6	4,8	4,7	4,9	5,2	5,2	5,2	-	-
Paraguay	1,1	-	-	-	4,3	4,6	3,9	3,4	-	-	-	3,8	5	5	-
Pérou	-	-	-	3,2	3,3	3,3	2,8	3	2,7	2,8	3,1	2,8	2,7	2,9	3,3
Uruguay	-	2,4	2,3	2,9	2,2	2,4	2,2	2,5	2,9	-	-	-	4,4	-	-
Venezuela	2,5	4,5	5,2	-	-	-	-	-	3,7	-	6,9	-	-	-	-
Moyenne générale*	-	-	3,5	-	3,6	3,9	4,2	4,3	4,2	5,2	6	5,3	4,7	-	-
Moyenne - Cuba*	-	-	3,3	-	3,4	3,7	3,9	3,7	3,9	4,5	5,4	4,8	4,7	-	-

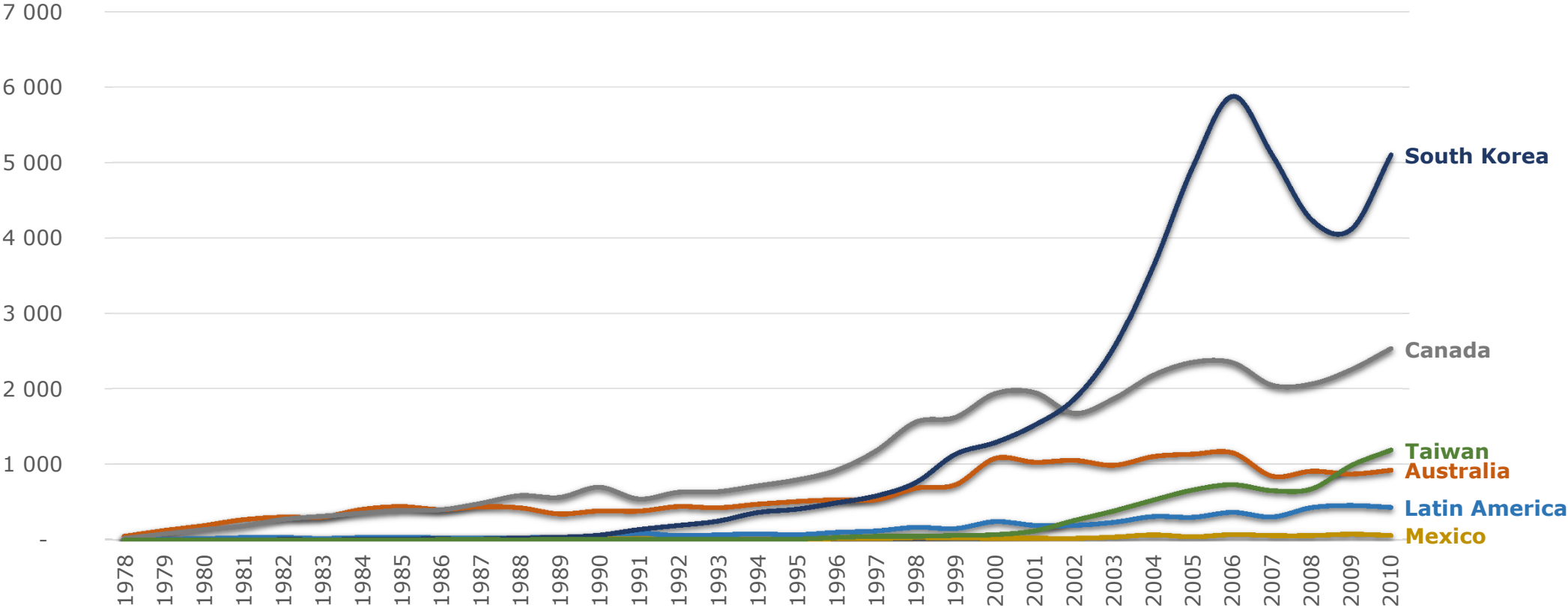
- Undeniable polarization, but the Latam public school is far from moribund.
- Strong increase in education public expenditure since 1990s.

Not much improvement in the last 15 years.



Innovation, Specialization and Industrial Policy

Patents by Latam, Australia, Canada and South Korea



Source: Euro patent office

Not just know: Latam has not been able to catch up/develop a innovative economy

	1978-1990	1990-2000	2000-2013	TOTAL	1978-1990	1990-2000	2000-2013	TOTAL
WORLD	493 643	811 031	1 426 021	2 730 695	1 000.000	1 000.000	1 000.000	1 000.000
Argentina	57	249	454	760	0.115	0.307	0.318	0.278
Brazil	177	538	2 023	2 738	0.359	0.663	1.419	1.003
Chile	14	44	296	354	0.028	0.054	0.208	0.130
Colombia	21	28	103	152	0.043	0.035	0.072	0.056
Mexico	60	181	582	823	0.122	0.223	0.408	0.301
Peru	2	3	14	19	0.004	0.004	0.010	0.007
Latin America	374	1 165	3 568	5 107	0.758	1.436	2.502	1.870
Australia	4 099	5 804	10 664	20 567	8.304	7.156	7.478	7.532
Canada	4 502	10 548	23 463	38 513	9.120	13.006	16.453	14.104
New Zealand	428	822	1 872	3 122	0.867	1.014	1.313	1.143
South Korea	199	5 620	46 038	51 857	0.403	6.929	32.284	18.990
Taiwan	54	324	8 156	8 534	0.109	0.399	5.719	3.125

Argentina vs. Taiwan:

1990: 57 vs 54
2013: 454 vs 8156

Argentina x8!
Taiwan x151!!!

Brazil vs. S. Korea:

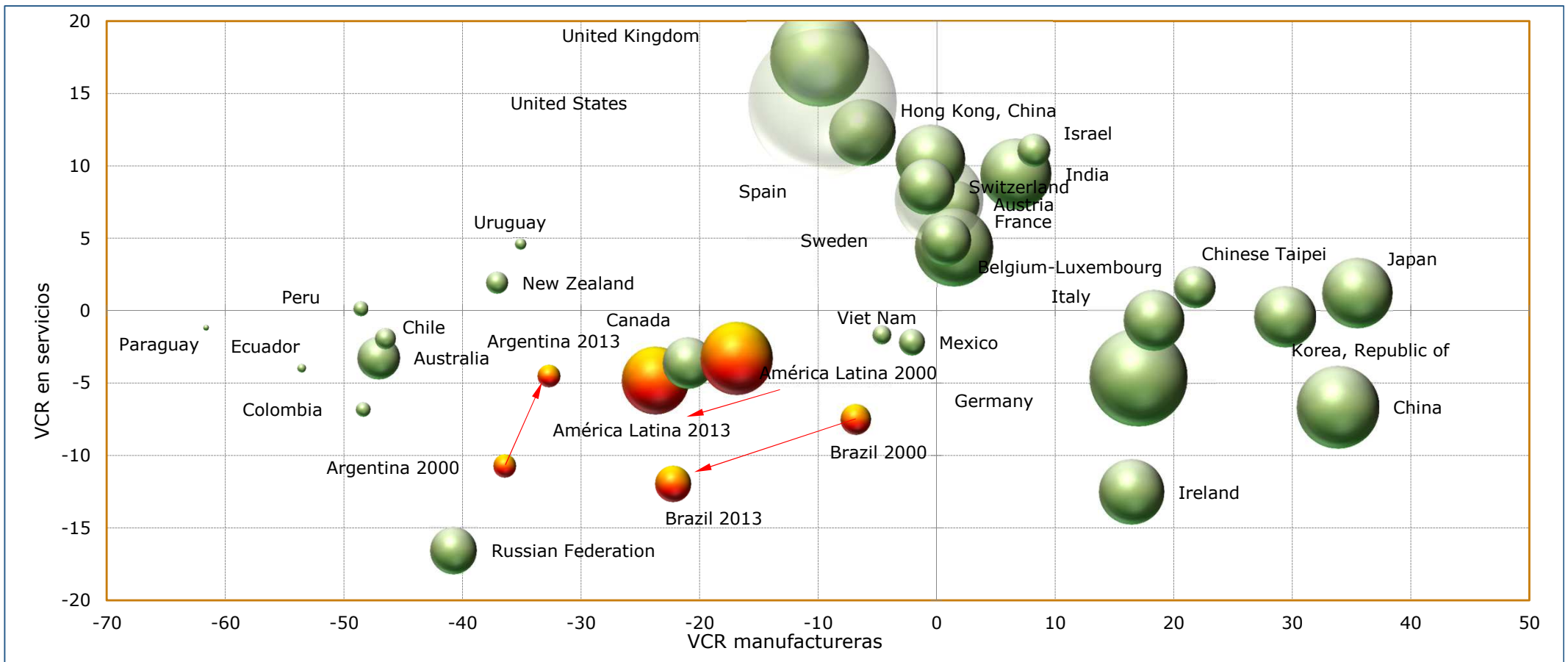
1990: 177 vs 199
2013: 2023 vs 46038

Brazil x11!
S. Korea x231!!!

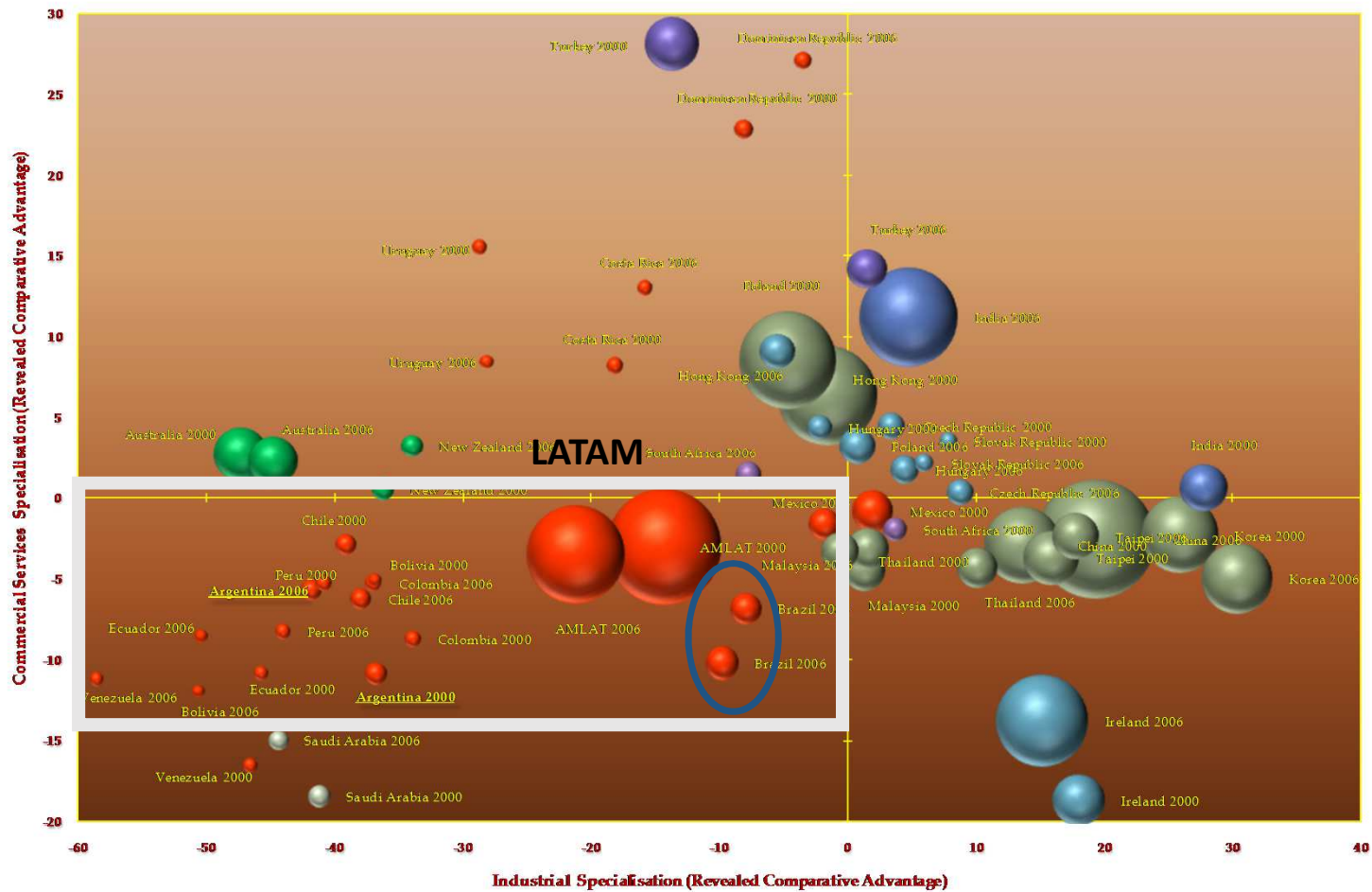
Canada/Australia:

Agro based countries,
BUT with high patent
count.

International Specialization I : Latam and the World (Revealed Comparative Advantage, 2013)



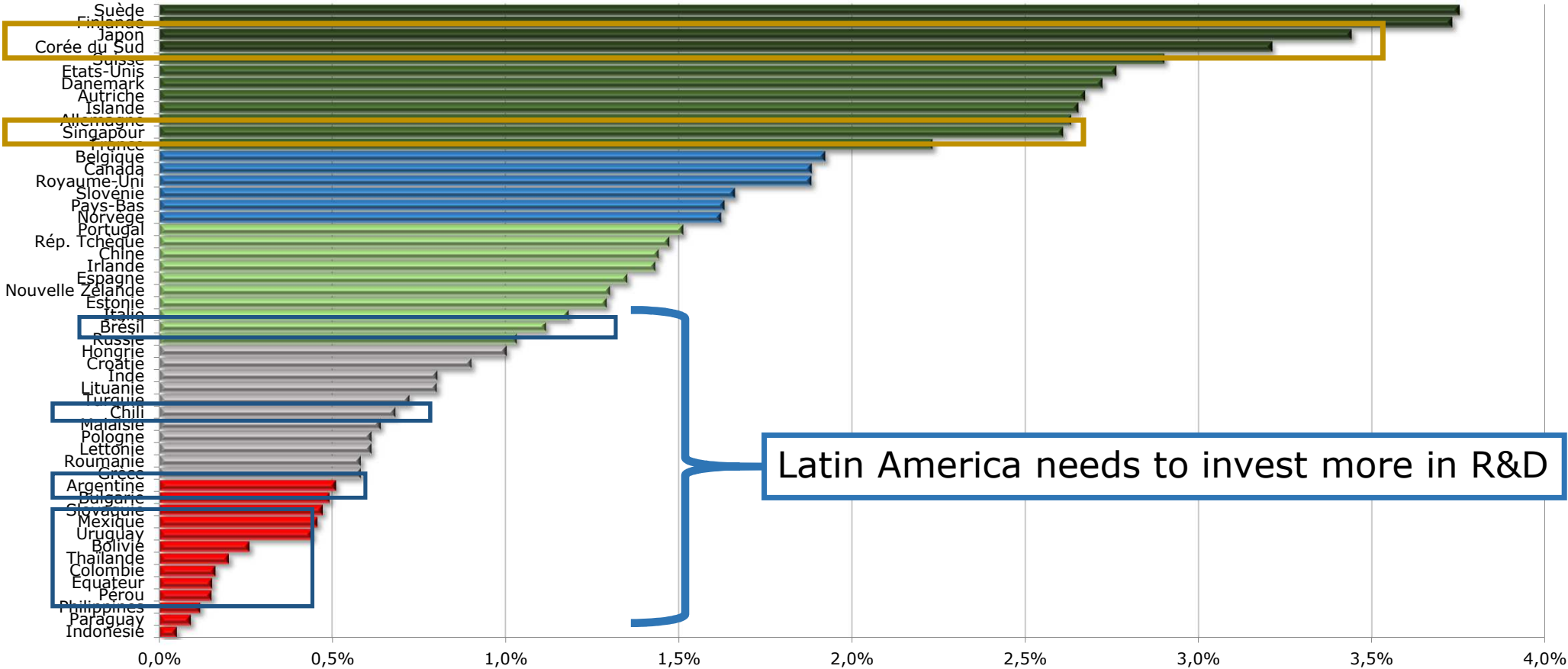
International Specialization II: NOT the industry



International Specialization III: Division of productive process

- **Strong comparative disadvantages for the industry**
 - Industry looks like an exclusive deal for some few developed economies and developing Asian countries
 - Mexico competes with Asia, while Mercosur is complementary to Asia. NOT ALL Latam is the same!
- **Industrial Mercosur??? Economies of scale... Post Asia... not sustainable.**
- In the EEUU, between 10 and 30% of jobs are under threat of disappearing (Blinder 2007)
- **How many Jobs are threatened in Mexico and Latam? → Social and political tension**
- Raw materials + services combination.... Little research and experiences
- Some exceptions: small economies like Uruguay, Costa Rica and Dominican Republic.

R&D : Invisible Latam (R&D/GDP – 2007-2010)



Latin America needs to invest more in R&D

Source: Euro patent office

Technological catch up: fools errand?

- Highly improbable that countries with low technological adoption will be able to catch up with simple commercial protection or active industrialization theories.
- Cost and technological difference with Asia and developed countries too large.
- A industrial policy obsessed with catch up, competitiveness of the industry, based on industrial exports and the selection of “winner” industries, will probably end as a frustrating experience.
- What if the only possible industrial policy was a structural policy based on education at all levels?

Conclusions

Are the improvements sustainable? Where are we heading to?

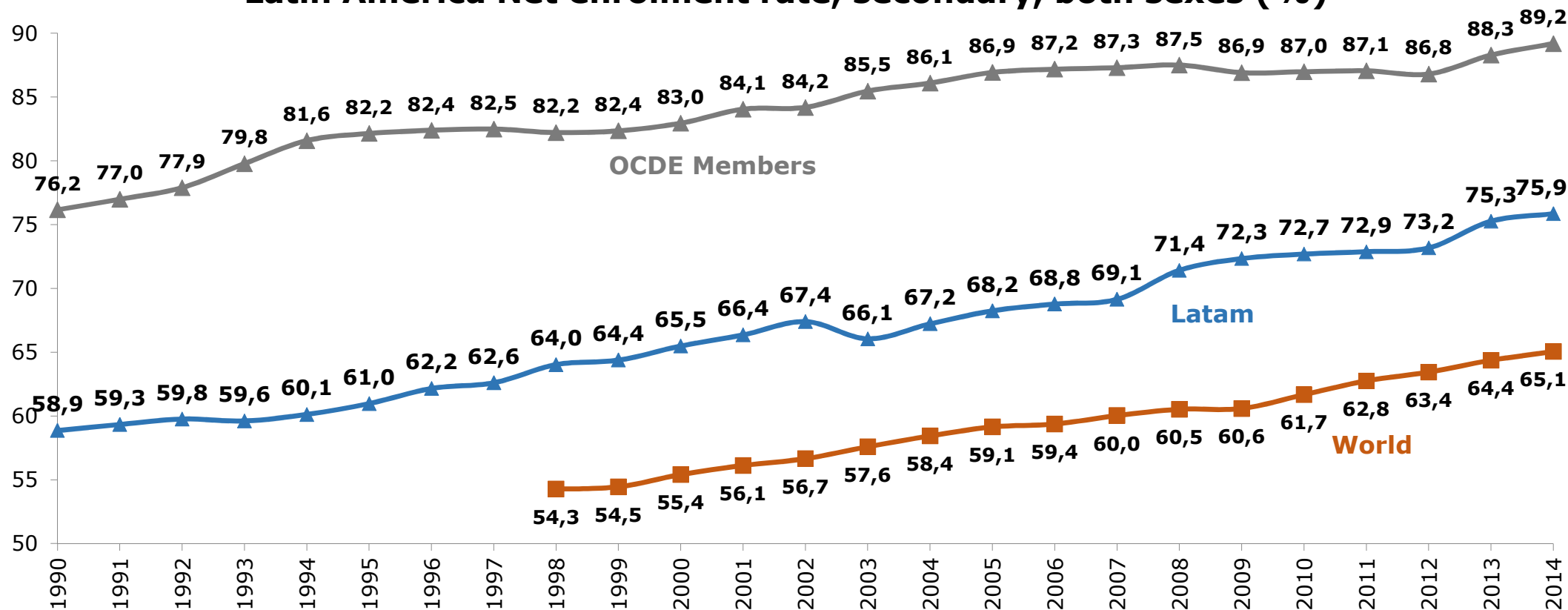
- During the commodity boom, Latam had an incredible and unprecedented favorable period.
- Growth + fiscal/external balance. After the crisis, *exhaustion of fire power...* for new adverse shocks
- Consumption and social booms, but will it have a lasting effect?
- Socially, big improvements (↓ poverty, ↓ inequality, etc.), based on conditional cash transfer programs.
- BUT, structurally? Micro, and education?
- Social (education) budgets rise strongly ! But NO or small improvement in education. Increasing enrollment (extensive mode) but no quality..
- Without quality education, innovation/development? What about economic growth and social development? Debt overhang and emerging structural stagnation for some Latam?
- ***The end of populism or the end of incumbents?***

Annex

Education: expenditure and quality

Secondary school enrolment has gone up in Latam BUT still a long way to go to catch up to the develop world

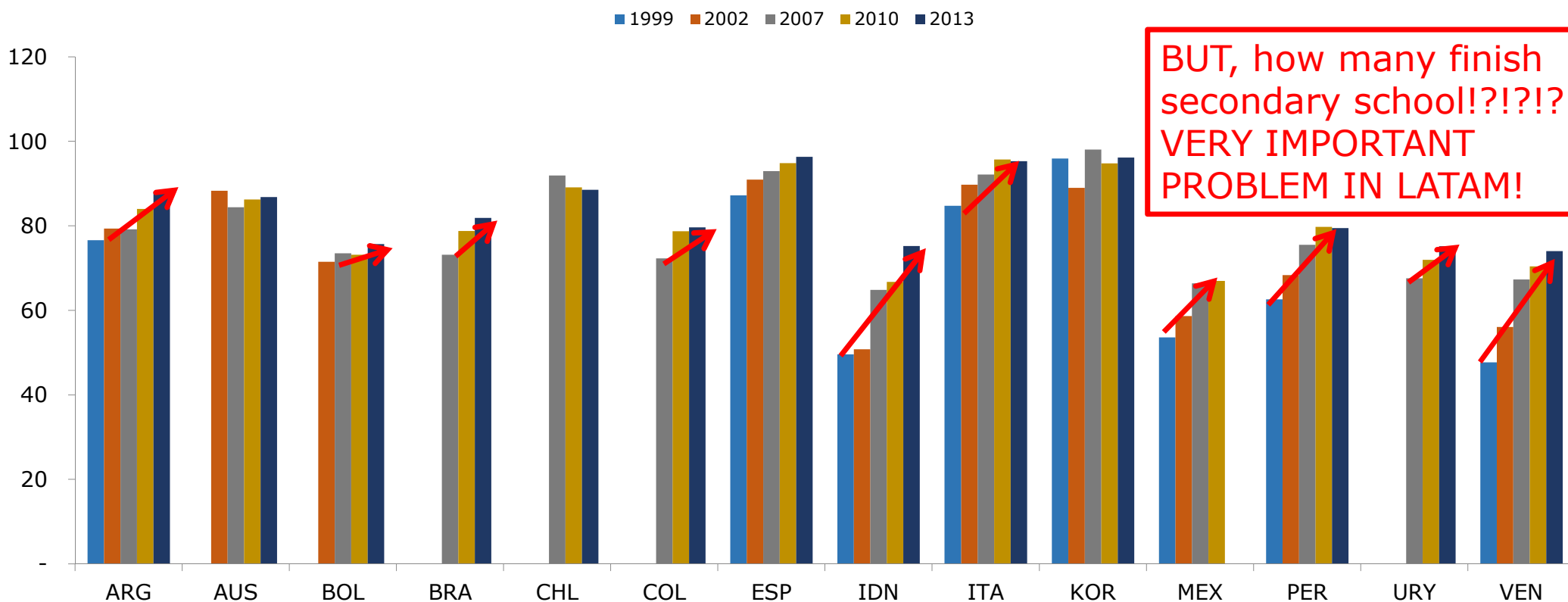
Latin America Net enrolment rate, secondary, both sexes (%)



Source: Unesco

Some countries greatly improved... Mexico, Peru, Venezuela...

Net enrolment rate, secondary, both sexes (%)



**BUT, how many finish secondary school!?!?!?
VERY IMPORTANT PROBLEM IN LATAM!**

The Crisis

Export explosion before the crisis

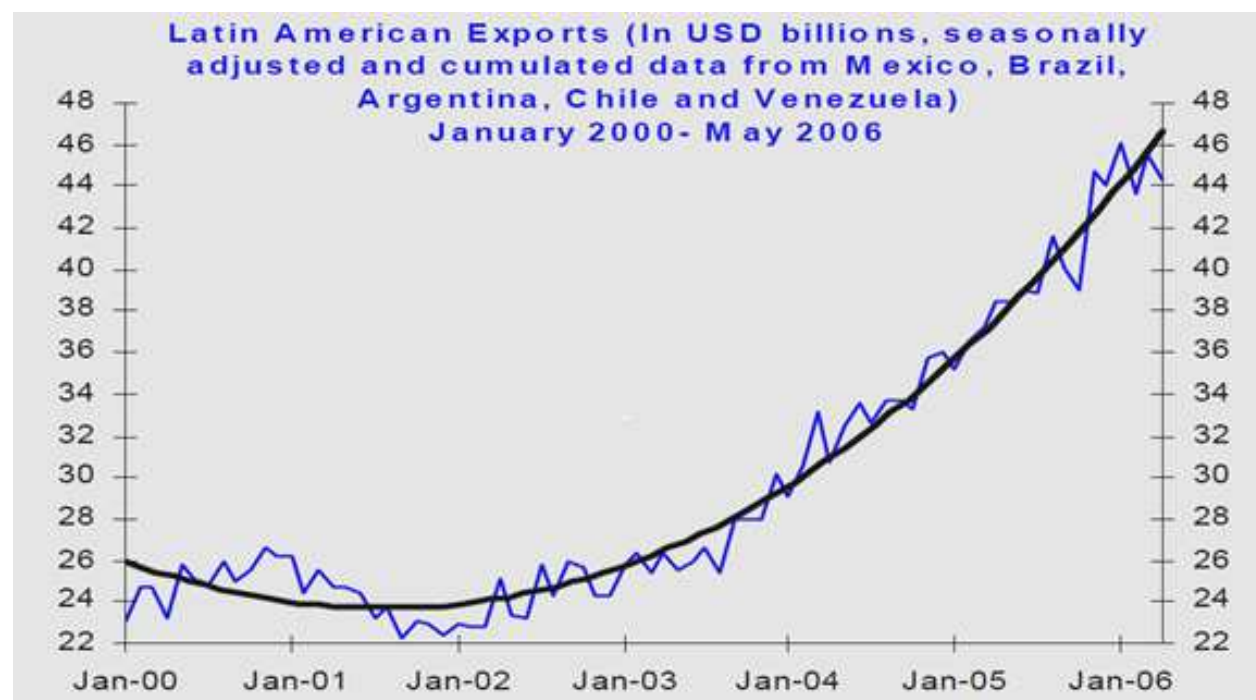
- World demand of commodities
- Tenfold increase in exports → source of sustainable growth.
 - Current accounts showing regular surpluses.

• Large accumulation of foreign Exchange reserves.



Dreaming the end of *stop and go*

- Latam stability, hitherto unknown



The *soft* Great Recession 2008: Decoupling chimera?

- EM would not suffer the usual contagion from other international financial crisis → ***Latam decoupling dream***
 - Robust external accounts, healthy public finance and high levels of international reserves.
- BRICS, and China, the new counterweights to the slowdown in developed countries?
 - Significant contribution to global economics, but still not enough.
 - China's strong dependence on demand for industrial goods from developed economies (USA, EU).
- Latin America felt the financial epidemics: raw materials/competitor of Asia in US
- Robust finances helped contain the damage, but ***decoupling proved a chimera.***

Contagion Channels I: Trade flows and remittances

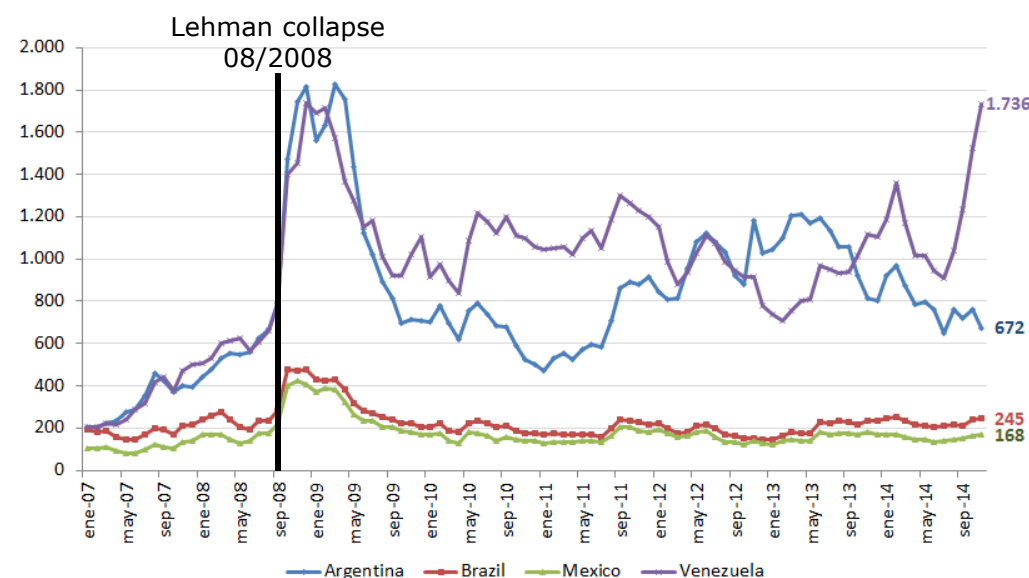
- Latam highly exposed to commodities → BUT important variation from country to country
- Not only through exports, high share in fiscal revenues
- **Geography and economics**
- Strong trade integration with US → Commodities/Manufactures
 - Mexico (80% of exports, Manuf), Venezuela (58%), Ecuador (44%) and Colombia (35%).
- And China? → Complementarity/Competition
 - Mexico: competitor/Mercosur, Chile, Peru: strong complementarities
- Remittances: important in Central America and Caribbean.
 - 22% of GDP in Honduras, 35% in Haiti.
 - Intra Latin America: Paraguay/Bolivia from Argentina/Brazil. Indirect global slowdown to AR/BR and then....

Country	Commodity Participation in	
	Exports	Fiscal Revenues
Argentina	12,9%	3,9%
Brazil	4,1%	0,8%
Chile	27,0%	8,9%
Colombia	7,8%	3,4%
Ecuador	17,9%	9,4%
Mexico	3,9%	4,2%
Peru	18,0%	3,1%
Venezuela	30,3%	24,0%

Contagion Channels II: Capital Flows

- 90% reduction in private capital flows !!
- 50% decrease in capital inflows to the public sector.
- Increased risk perception of international investors
 - Argentina: 1800bp; Venezuela: 1800bp; Ecuador: 4000bp.
 - Brazil, Colombia, Mexico, Panama, Peru: +400bp
- Effect on exchange rates due to outflows of capital → search for safer assets (US Treasuries).
- Banking panic contagion? **NO, the good of the bad !!**
- Low financial intermediation and mostly shortish (less developed mortgage markets, no leveraged institutions, no subprime risk).
 - Except Mexico: large exposure to international (US) banks.

EMBI for selected countries



Great Recession: Latam response to the crisis

- Financial solvency a powerful tool to counter the effects of contagion
 - Previous contagion (Tequila, Russian crisis) → no tools to counter.
- Financial solvency? → current account surplus (due to commodity boom), large foreign exchange reserves (due to surpluses), sound fiscal situation (surplus or small deficits).
- Fiscal policy: public spending (+social transfers) and tax cuts (scheduled as transitory).
- Monetary policy: moderate expansionism → avoids falling returns on financial assets.
- Expansionary fiscal and monetary policy → conservative recovery.

Great Recession: Latam Response II

... moderate monetary/fiscal expansions ... *and the chilean outlier*

Monetary Policy

- Significant easing of monetary policy.
 - Brazil (150bp to 11.25%), Colombia (200bp to 7%), Mexico (150bp to 6.75%), Peru (150bp to 5%) and **Chile (500bp!!! to 1,75%)**
 - Constrained by international arbitrage/dollarization of assets (Argentina, Peru and Uruguay).
- Central Banks provide liquidity:
 - Eased mandatory bank reserves (Brazil, Peru, Colombia).
 - Reserves to protect export credit lines.
- Foreign exchange market interventions
 - Spot: Mexico, Costa Rica.
 - Swap: Brazil, Chile.
- Support by advanced economies and multilaterals: provide additional resources (reserves swap, IMF facilitated credit lines).

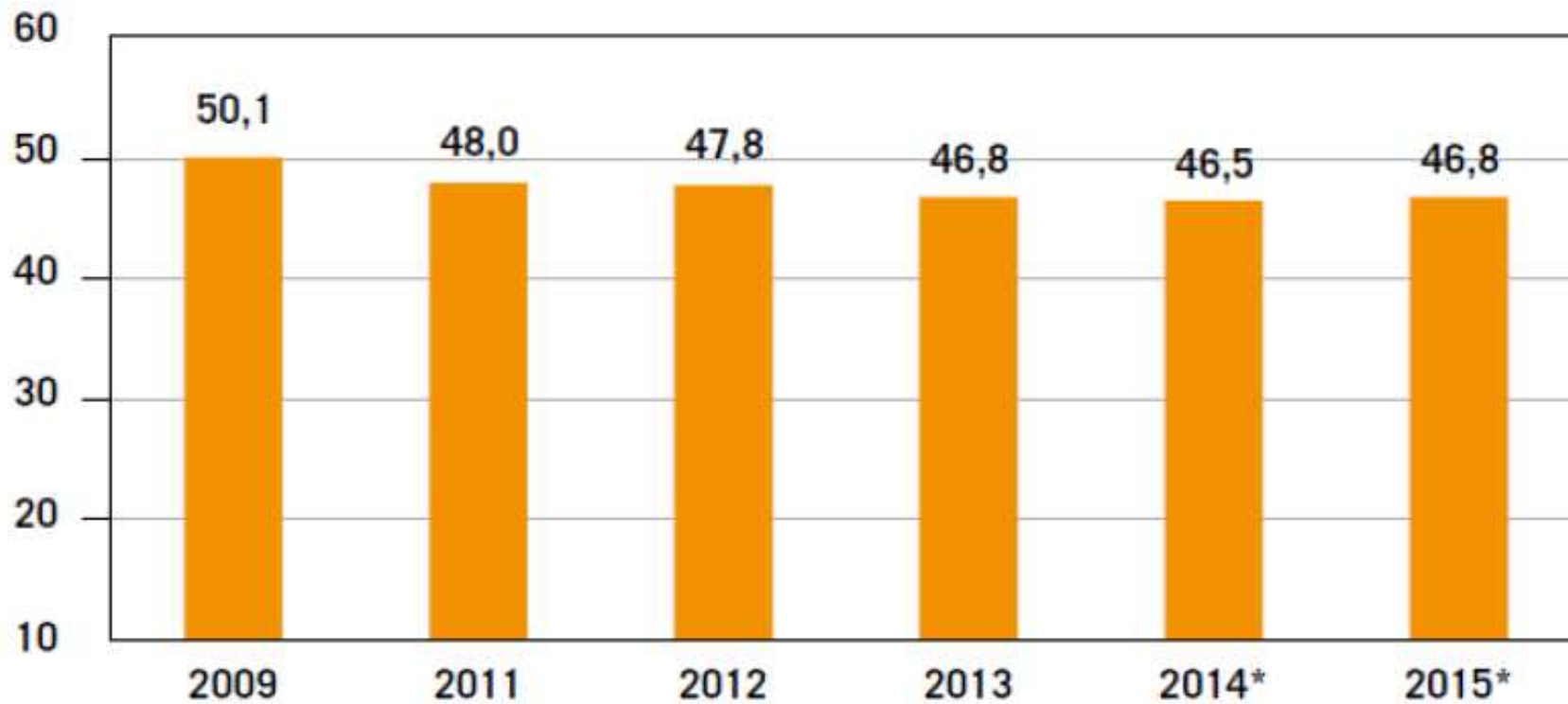
Fiscal Policy

- Important limitations for some Latin American countries → Argentina, Bolivia, Ecuador, Nicaragua and Venezuela.
 - Lack of savings during economic boom.
 - Limited access to capital markets.
 - Market unfriendly and inconsistent regulation.
 - Exchange depreciations (+Debt to GDP ratio).
- **Chile, the outlier:** largest fiscal stimulus package in the region (2,2% of GDP).
 - Best prepared for expansionary fiscal policy.
 - Low stock of debt, fiscal surpluses and countercyclical stabilization fund.
- Other countries robust initial conditions: Brazil, Colombia, Peru and Mexico.
 - Commodities boom years: worked on sovereign liabilities and fiscal position + large reserves.

Others

After years of reduction, informal labour is on the rise again.

**Informal Labour in Latin America
(2011-2015, %)**



Deterioration of public schools in Latin America

- The introduction of market logics in education systems has had the effect of multiplying the supply and thus the private educational structures.

**Proportion of secondary school pupils enrolled in the private sector
(2010, %)**

