The Latin American Economic Outlook

Exploring opportunities for Italian companies in Latin America

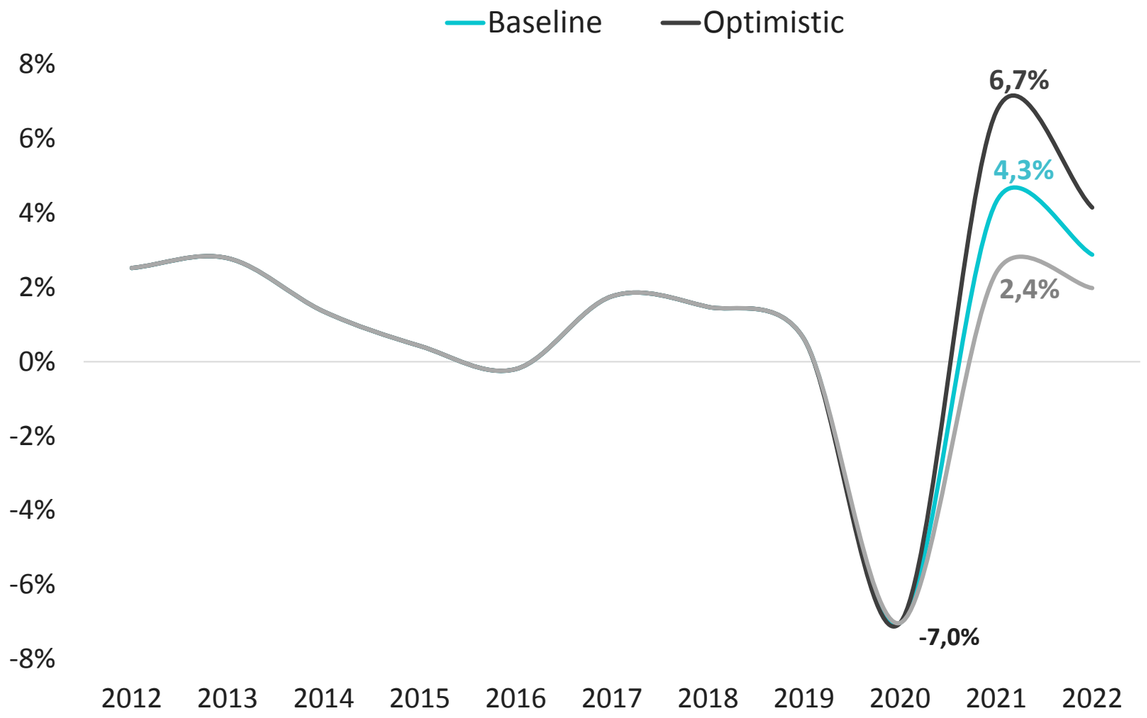
The partnership between CAF & CDP Workshop

March 4th, 2021

The Covid recesion in Latin America: Deep and uneven

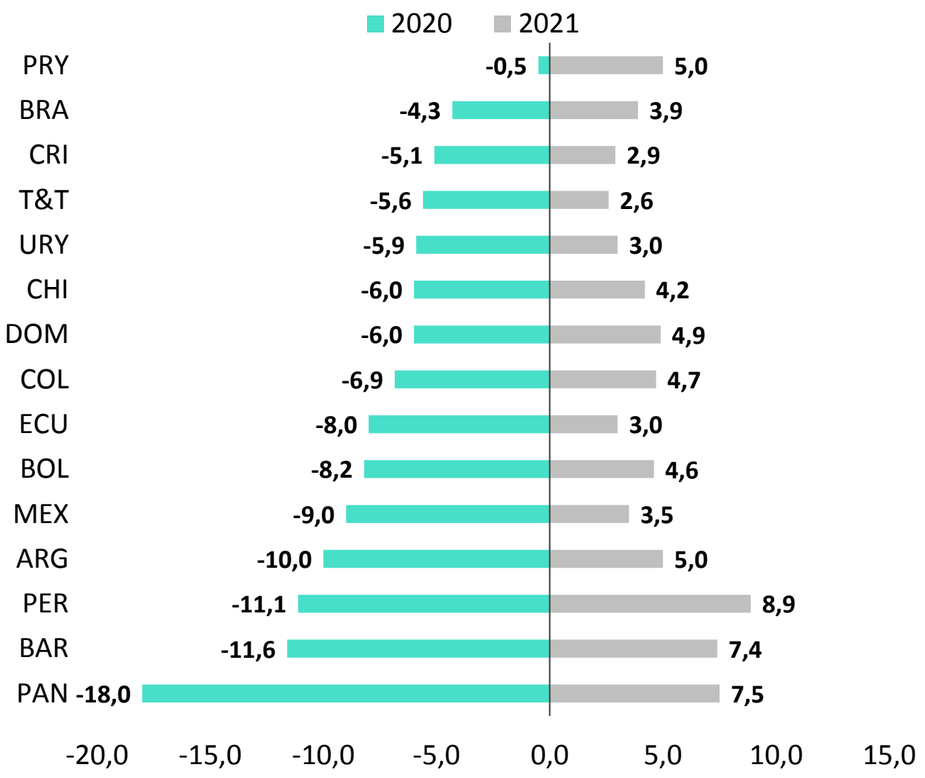
GDP Growth Latin America

(% annual)



Economic Growth by country

(baseline, % annual)



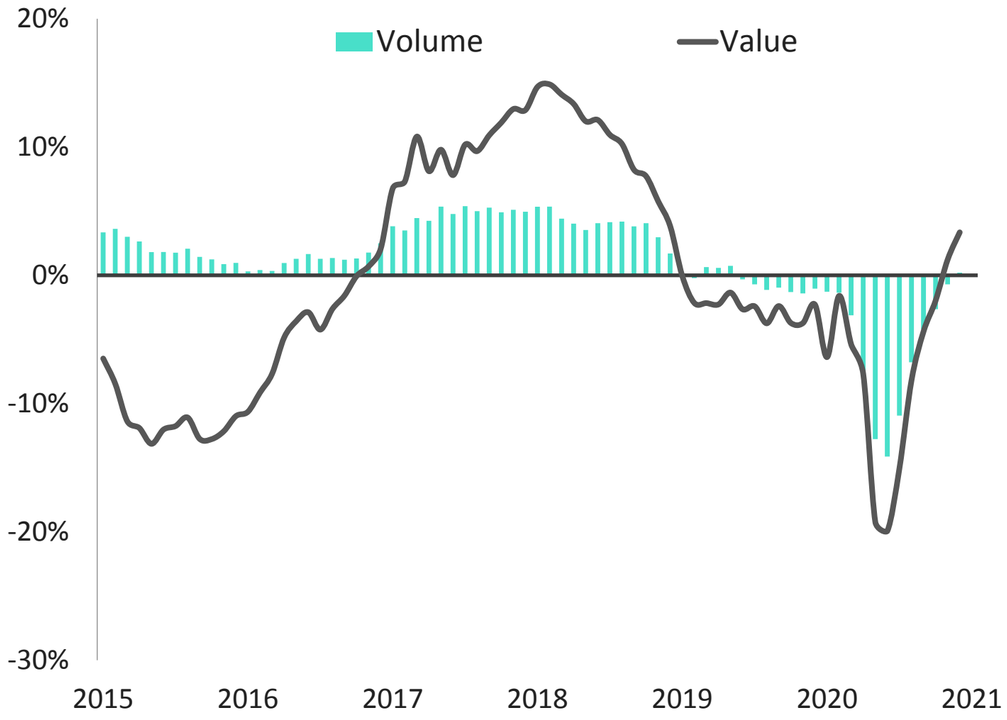
Source: CAF (GVAR) projections, Official Sources and Bloomberg

** Note: Latin America (LA-7) includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay. The scenarios are based on assumptions about external conditions, particularly in the recovery of China and the US. In the optimistic scenario, there would be a stronger rebound in the US (5.2% vs 3.8% at the base), thanks to the full approval of the stimulus package and a greater acceleration in the vaccination program. It is also assumed that stimuli are not withdrawn in China, so growth increases (9.6% vs 8% at the base). In the pessimistic scenario, there would be a slower recovery Both in the US (2.4%) and China (6.5%) due to delays in the vaccination process and lower fiscal stimuli. The baseline scenario incorporates a moderate advance in the vaccination process in Latin American countries, delaying the removal of restrictions on mobility.*

Tailwinds for recovery: Global trade, commodity prices

Global Trade

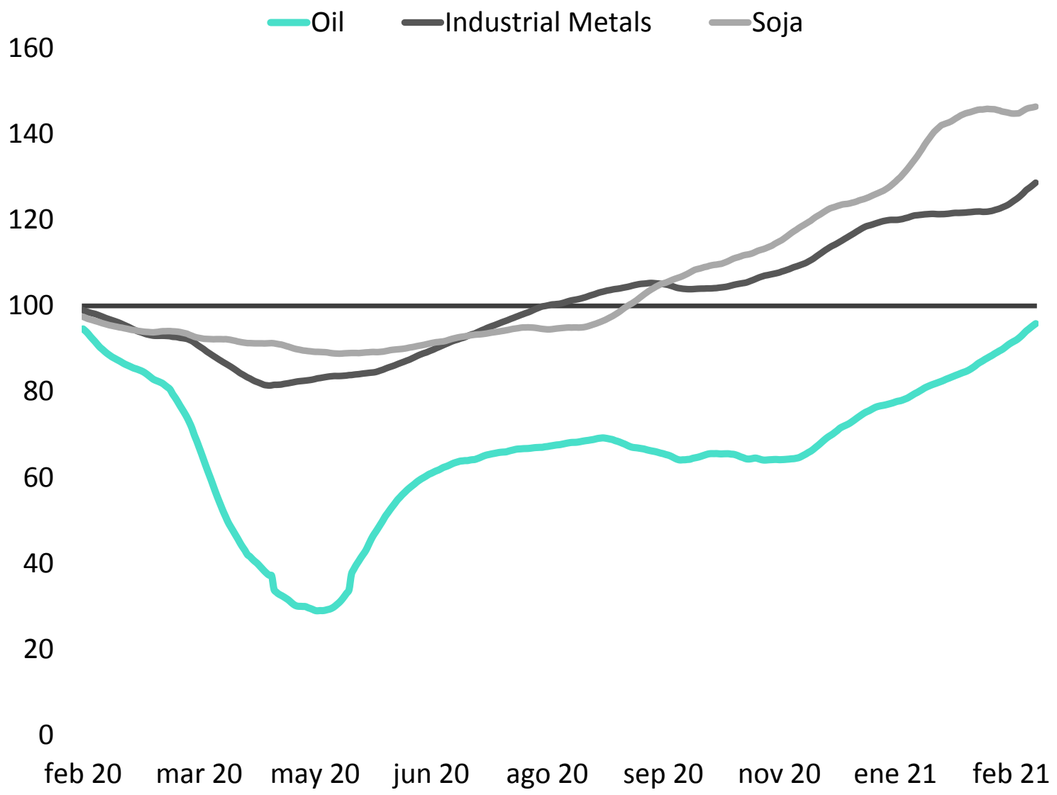
(% change, 3-month moving average)



Source: CBP Netherlands Bureau of Economic Analysis, WTO Short-Term Indicators

Commodities

(30-day average price, Dec 2019 index = 100)

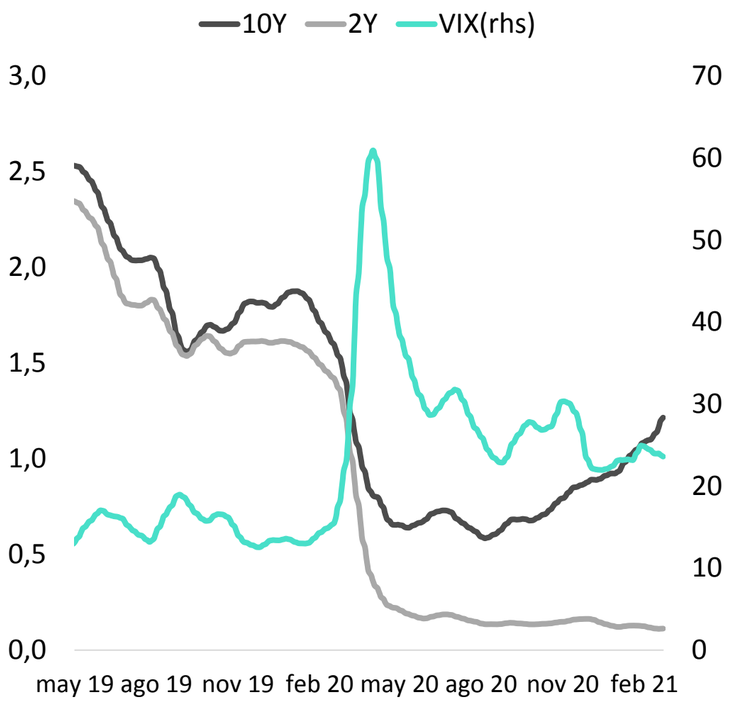


Source: Bloomberg LP

Tailwinds for recovery: Financial conditions

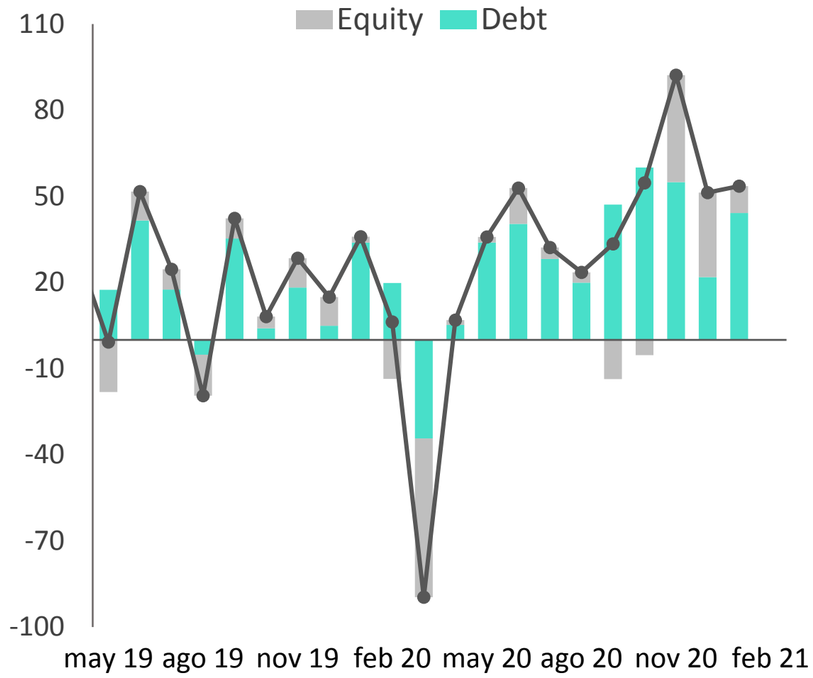
US Treasury Bills Yield and Volatility Index

(30-days moving average)



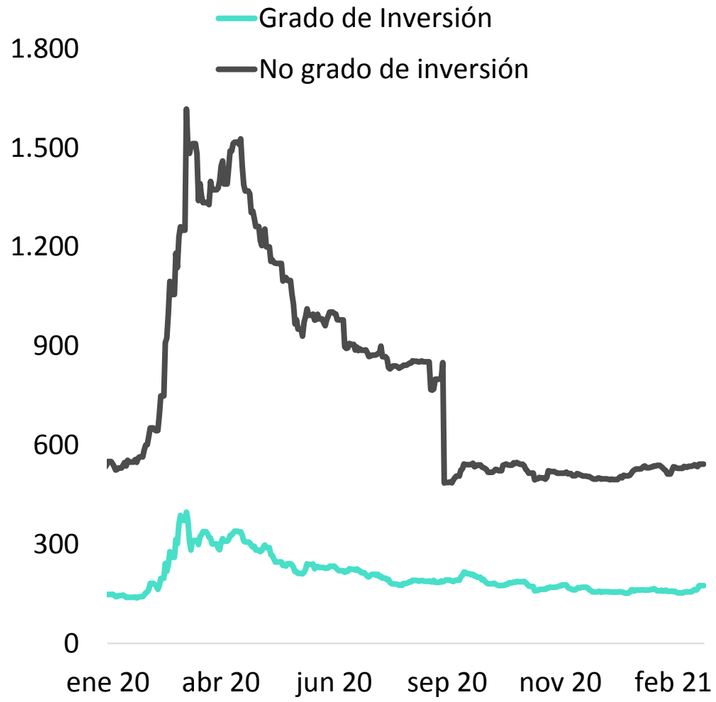
Net non-resident portfolio flows to Emerging Markets

(Bn .USD)



Sovereign Risk Spreads in Latin America

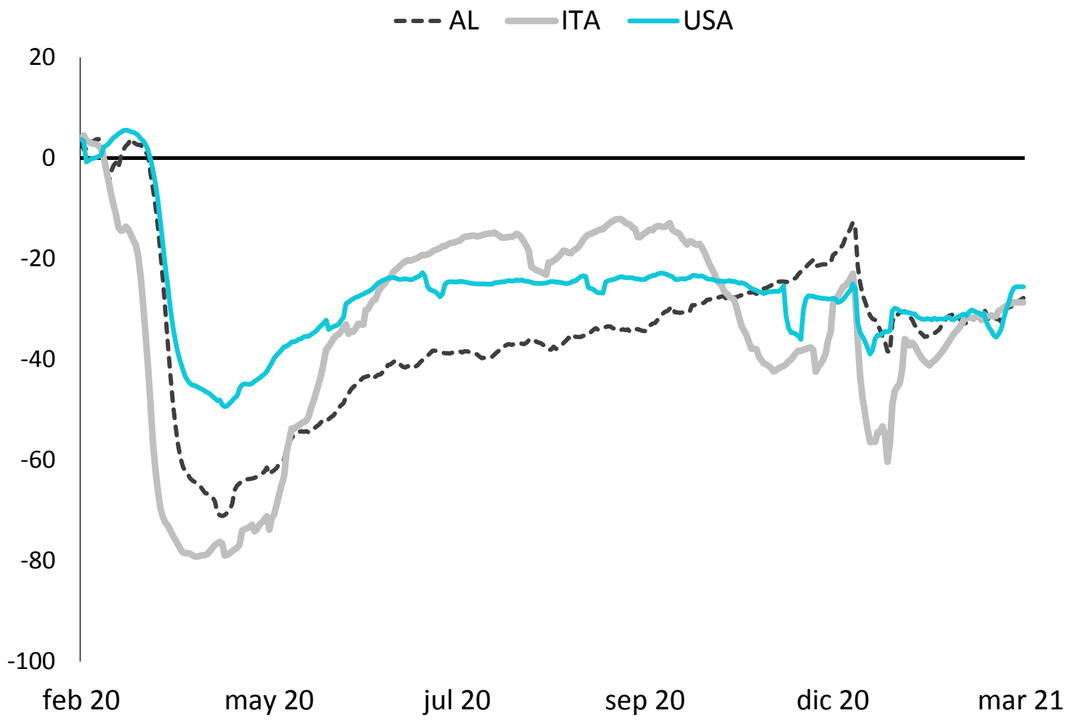
(JP Morgan EMBI+, EMBIG)



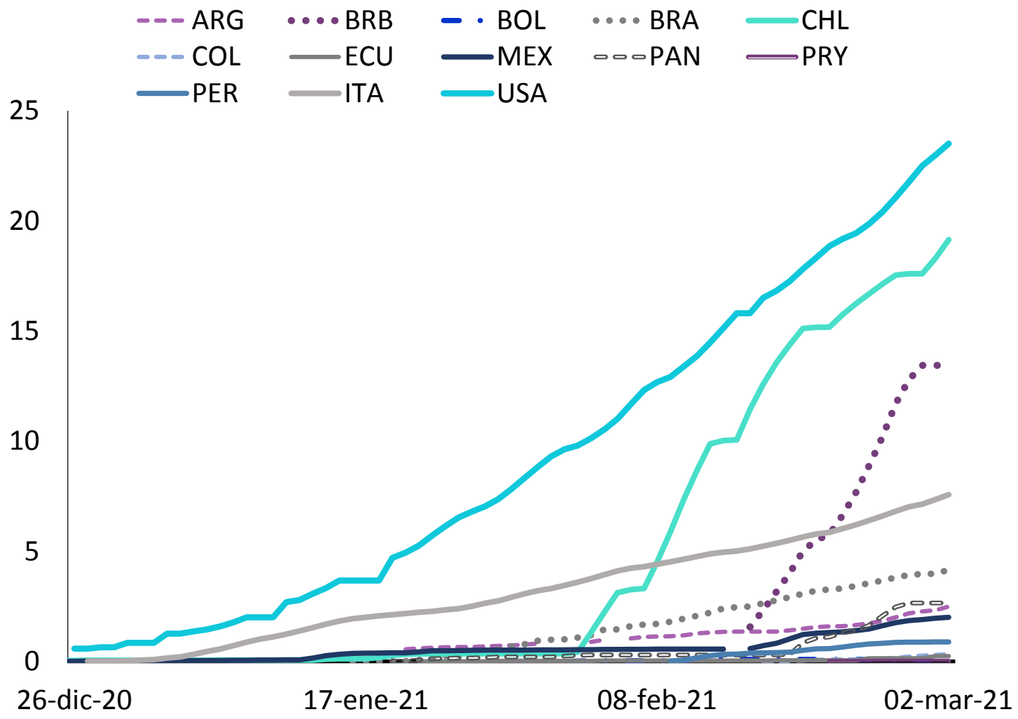
Source: Bloomberg, Institute of International Finance

Headwinds for recovery:
Second wave and slow vaccine roll out

Google mobility data
(% Change compared to January 2020. Average workplaces, supermarkets and pharmacies, shops and leisure and transport stations)



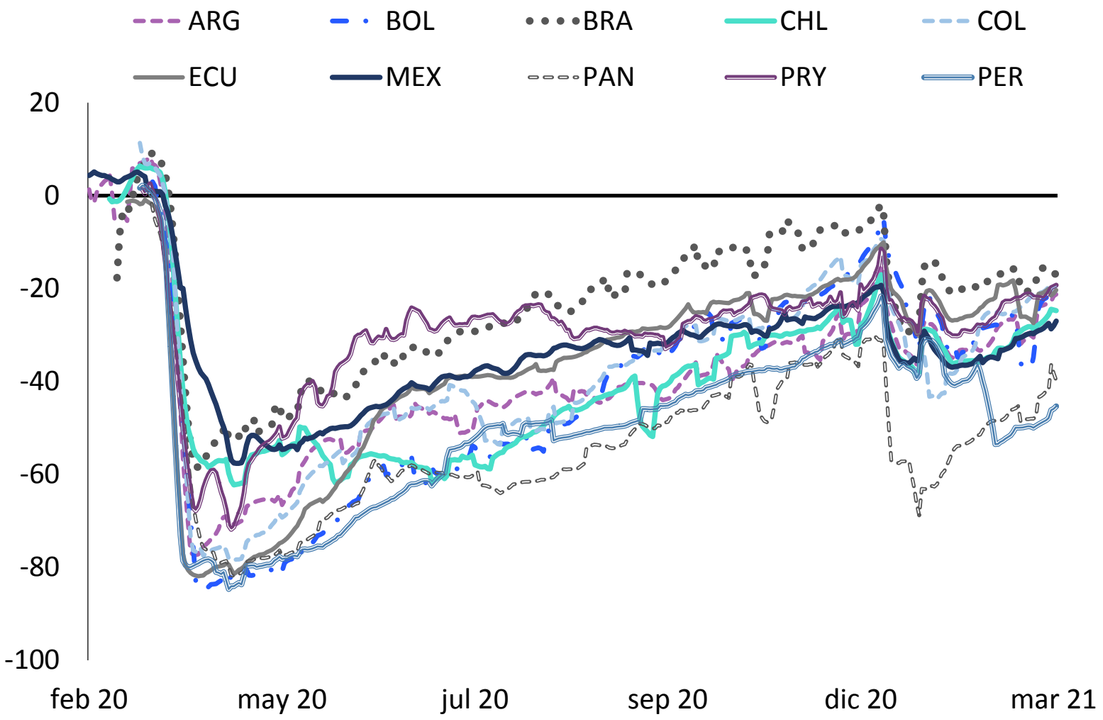
Vaccination
(Accumulated vaccines per 100 inhabitants)



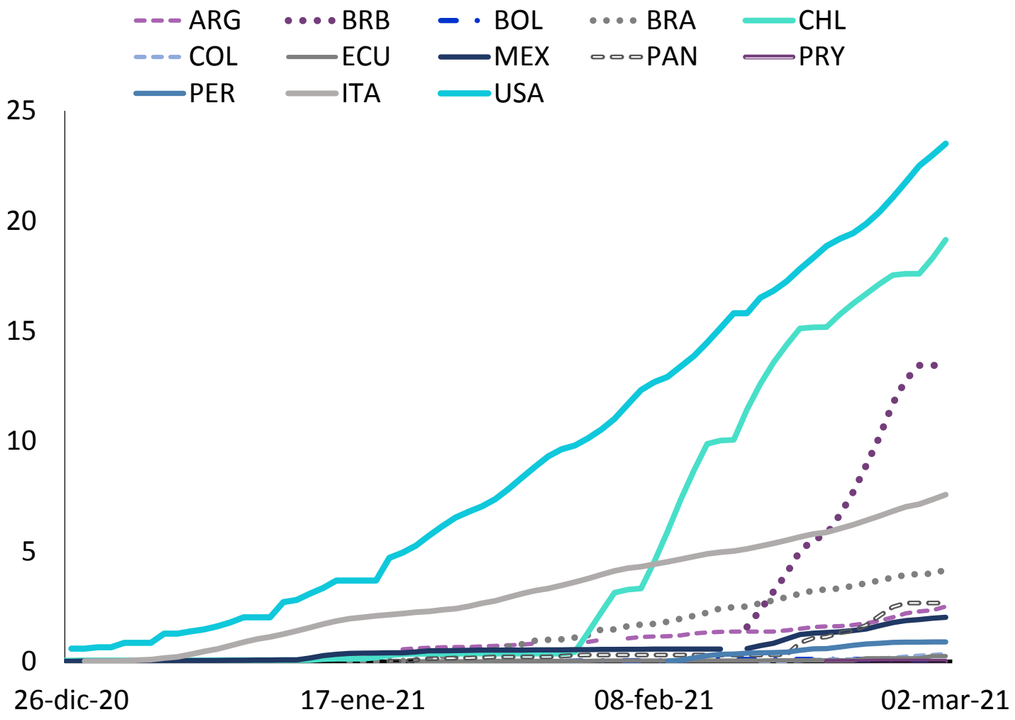
Source: Google Local Mobility Reports, Our World in Data Oxford.

Headwinds for recovery:
Second wave and slow vaccine roll out

Google mobility data
(% Change compared to January 2020. Average workplaces, supermarkets and pharmacies, shops and leisure and transport stations)



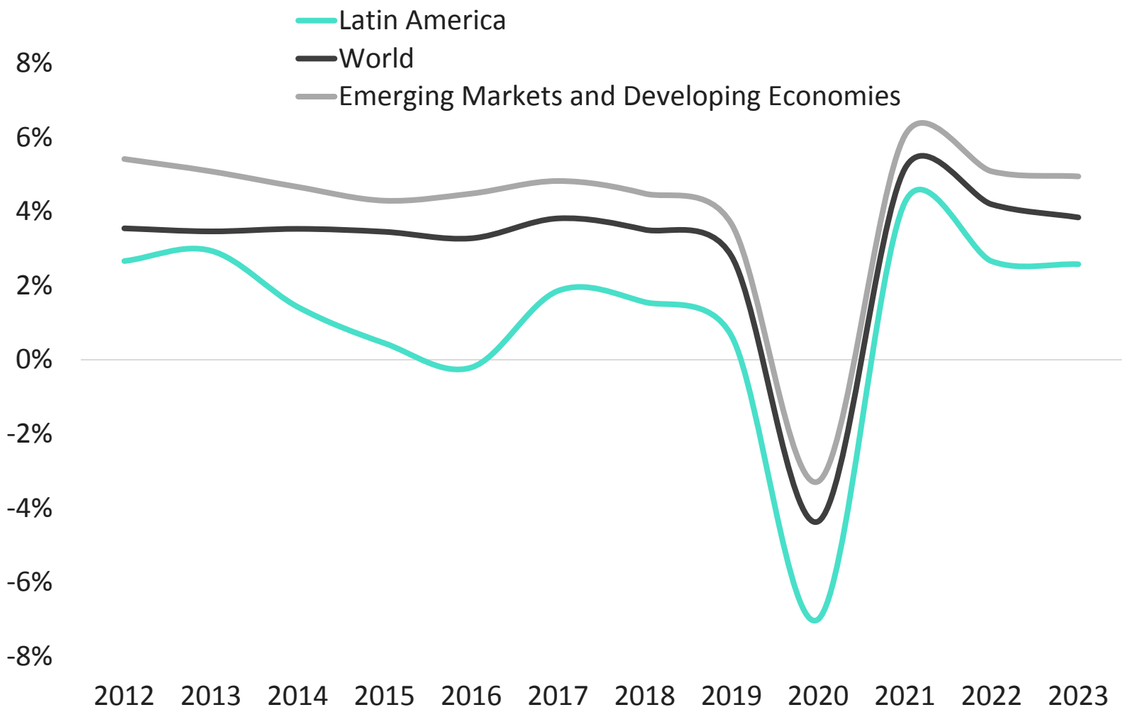
Vaccination
(Accumulated vaccines per 100 inhabitants)



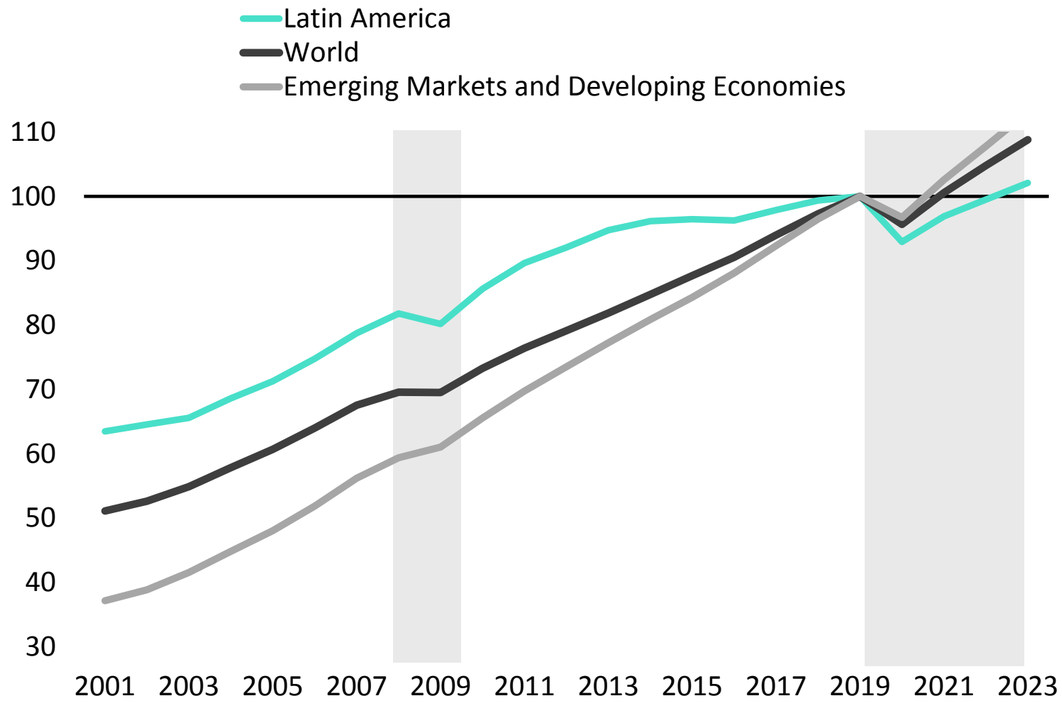
Source: Google Local Mobility Reports, Our World in Data Oxford

Our baseline scenario is a protracted recovery

GDP Growth
(% change annual)



GDP Index
(2019=100)

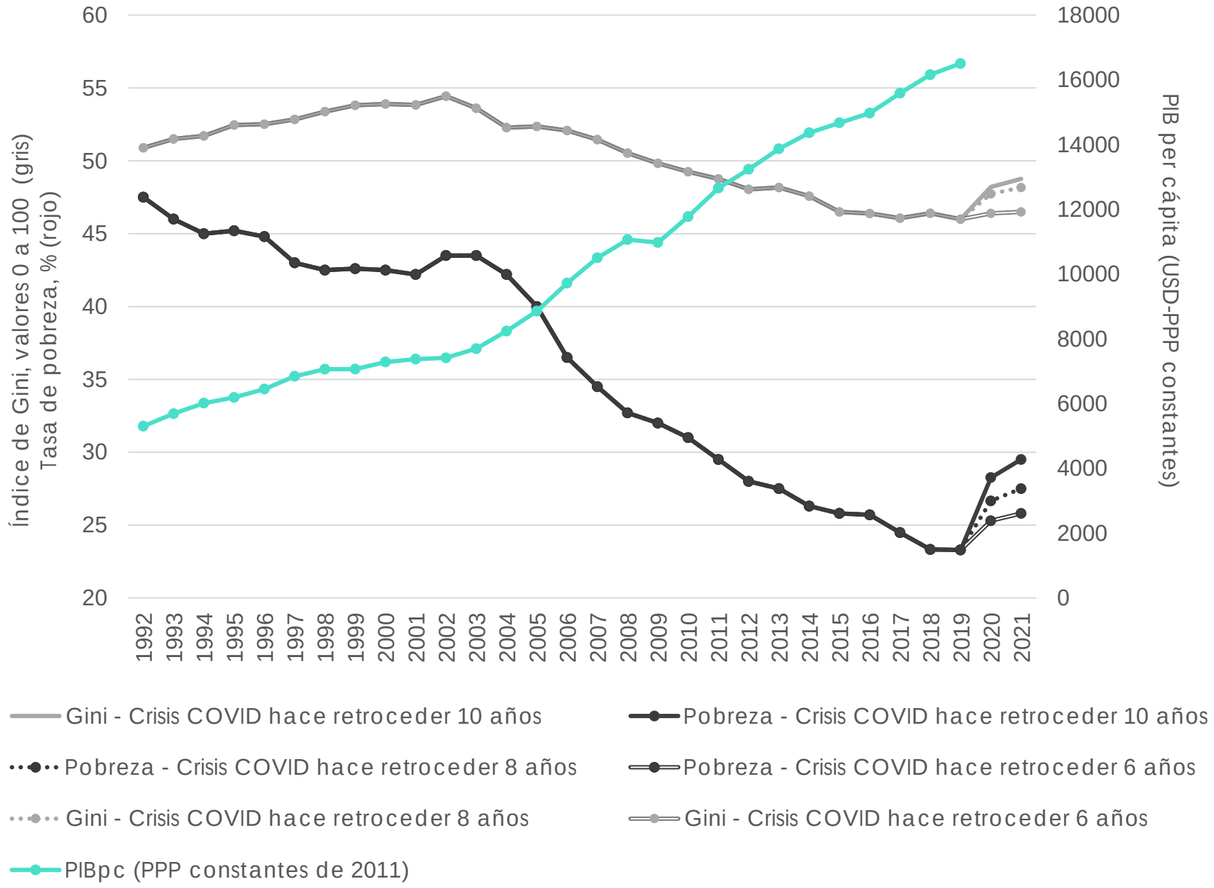


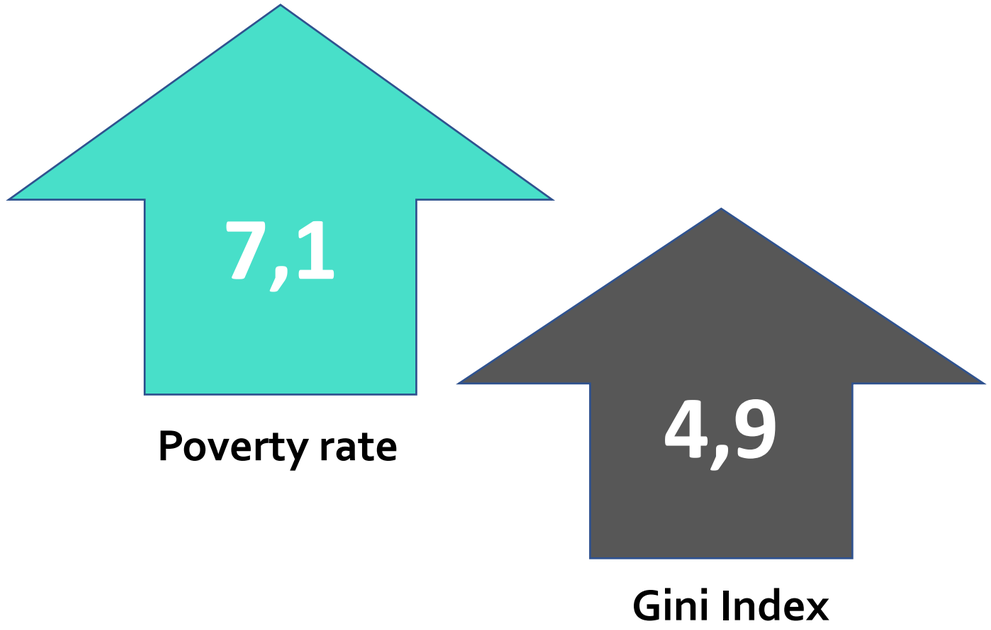
Source: CAF Projections, World Economic Outlook, IMF Jan-2021

The contraction had a severe social impact…

Increase in poverty and inequality in Latin America

(percentage points)

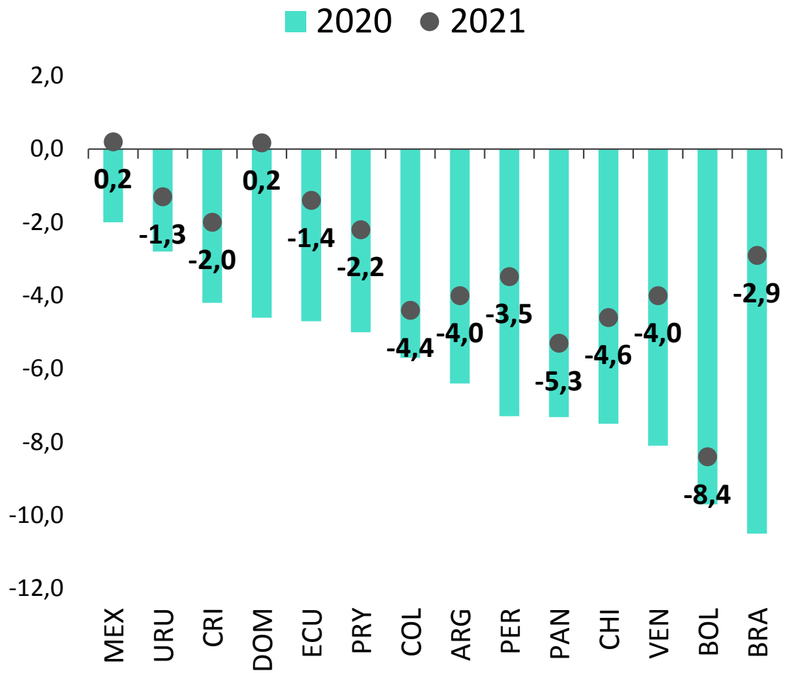




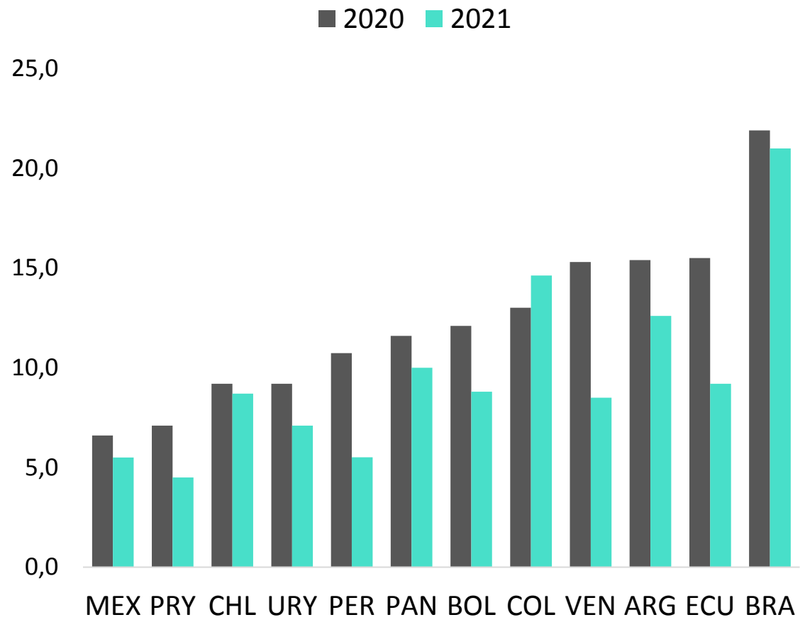
An estimated **2.7** million companies, mostly micro establishments, would have closed in the region in 2020, leading to the loss of **8.5** million jobs

… and a debt legacy

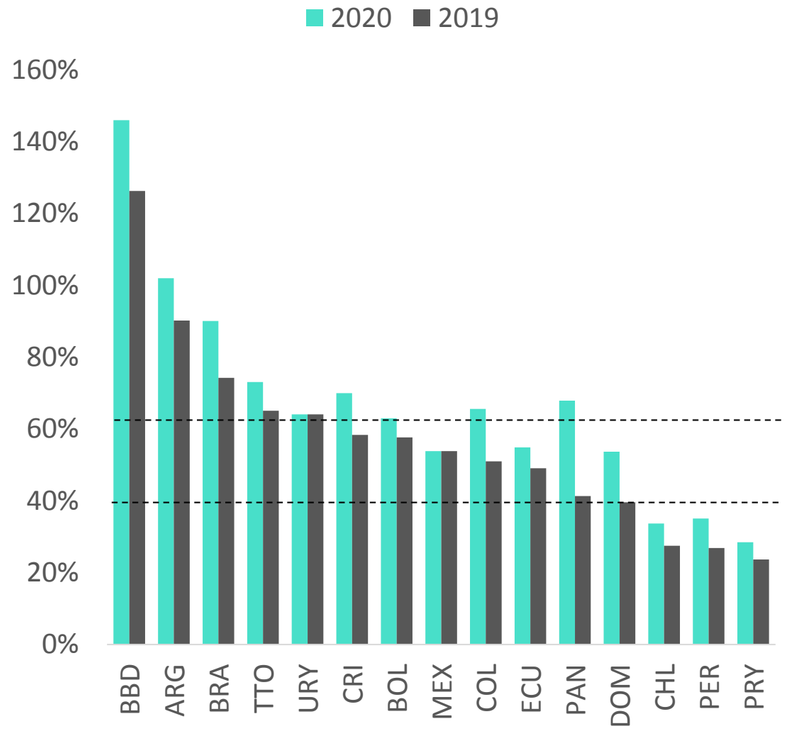
Primary fiscal deficit (% GDP)



Gross Financing Needs (% GDP)



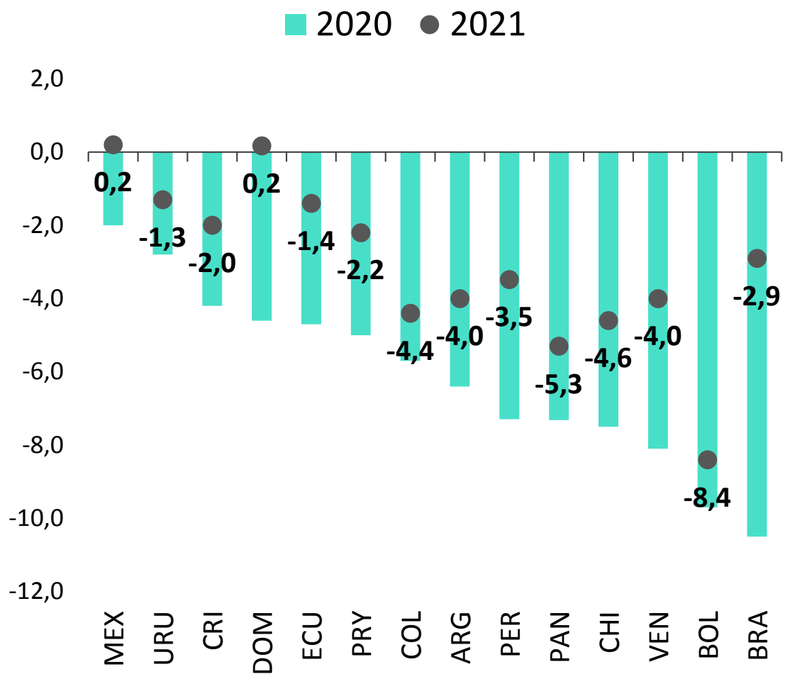
Gross Debt (% GDP)



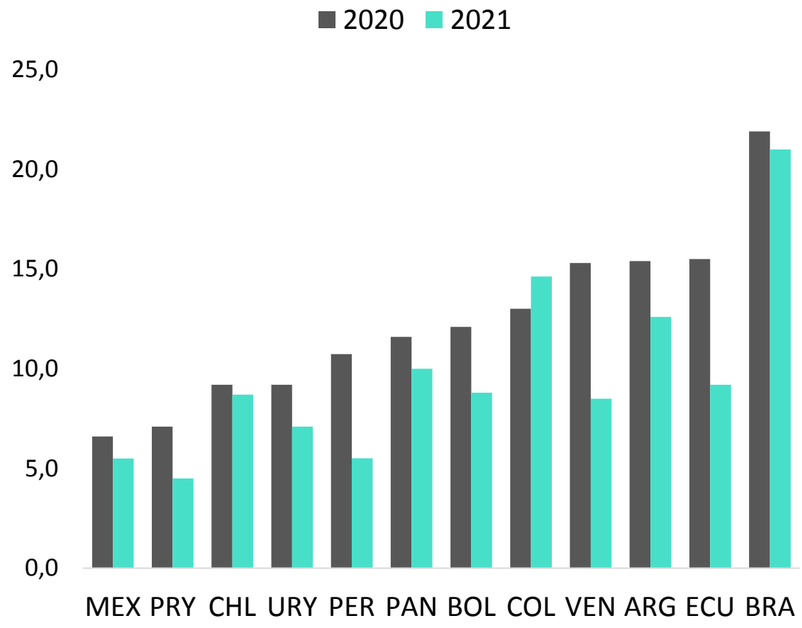
Fuente: Fuentes Oficiales y Proyecciones CAF

… and a debt legacy

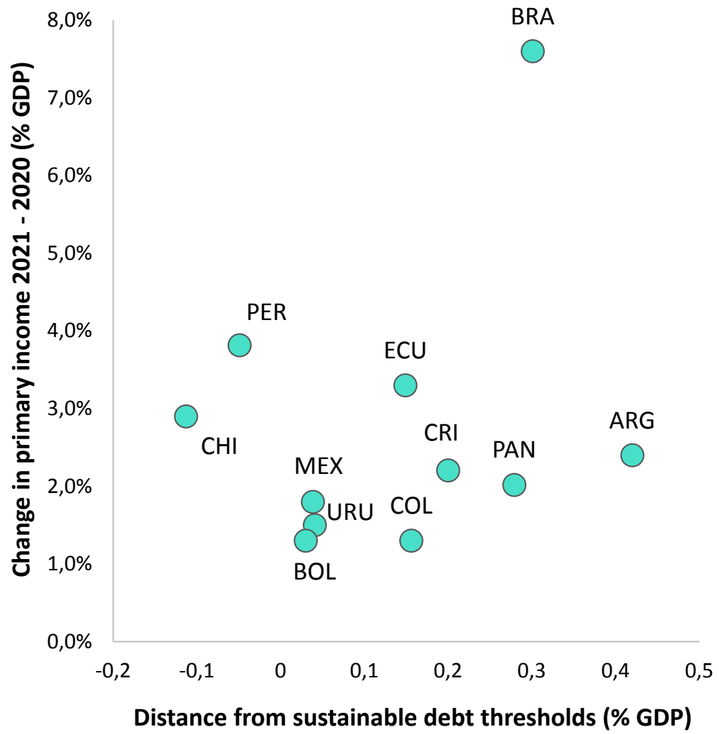
Primary fiscal deficit (% GDP)



Gross Financing Needs (% GDP)

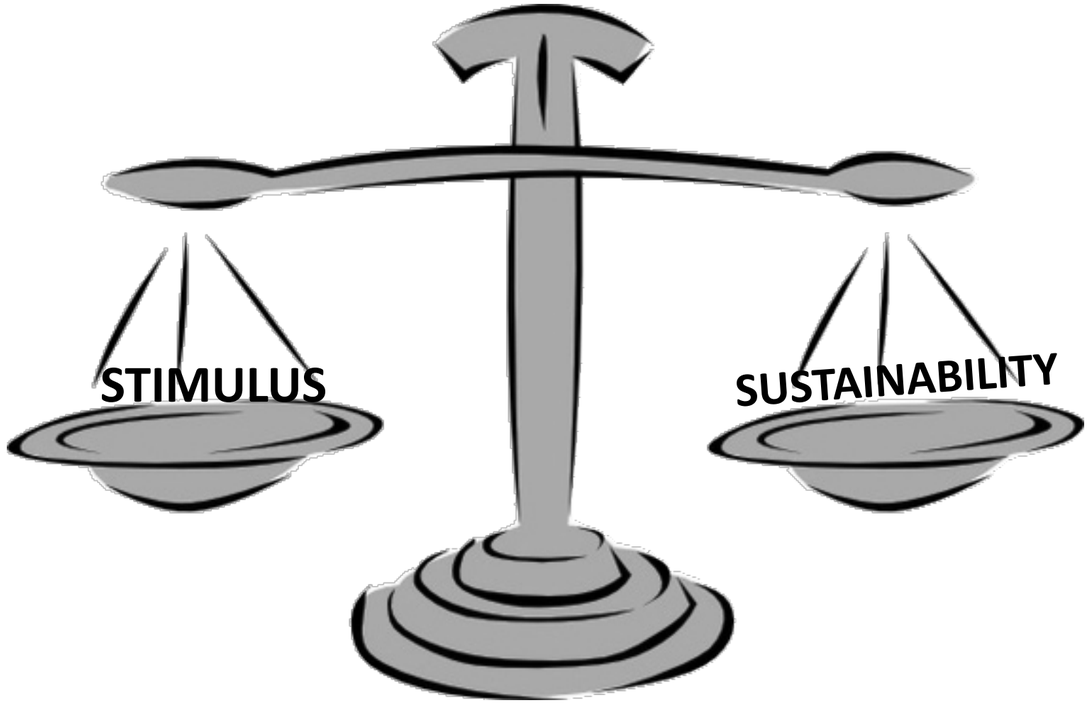


Primary adjustment vs Debt (% GDP)



Fuente: Fuentes Oficiales y Proyecciones CAF

The fiscal policy challenge



Recover growth Use ***fiscal space***

Gradual consolitation

A comprehensive reform agenda to build back better…

Fiscal Institutions

Prductivity

Social Inclusion

State Capacities

…and to consolidate protuctive potential

Value chains

Tourism

Telecoms

Trade services

Energy

Financial services

Digital transformation

Green transformation

Infrastructure

Pharmaceuticals

Agri-business

Mining

Never let a good crisis go to waste

Winston Churchill

CAF BANCO DE DESARROLLO DE AMÉRICA LATINA

Detrás de todo lo que hacemos estás tú

BANCO DE DESARROLLO
DE AMÉRICA LATINA

www.caf.com
@AgendaCAF