# LATIN AMERICA ADVISOR

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**FEATURED Q&A**

# What Might Latin America's Economic Recovery Look Like?

The Covid-19 pandemic took a toll this year on Latin American economies. A job fair in Mexico's Guerrero state is pictured above. // File Photo: State of Guerrero.

**Q** **The Covid-19 pandemic hit Latin American and Caribbean economies harder than most other regions of the world, with the International Monetary Fund projecting an 8.1 percent regional GDP contraction this year. Currencies also took a hit, with the Brazilian real falling more than 40 percent and talks of devaluation resurging in Argentina, though the Mexican peso gained traction following a record low in March. What is the outlook next year for the region's main economic indicators, such as GDP and inflation? What trends are likely to be observed in terms of currencies? Which countries will struggle with economic recovery the most next year, and which will bounce back quicker—and why?**

**A** **Alicia Bárcena, executive secretary of the United Nations Commission for Latin America and the Caribbean (ECLAC):** "After falling by an estimated 7.7 percent in 2020—the sharpest contraction in the past 120 years—Latin America and the Caribbean's GDP is forecast to rebound in 2021, growing by 3.7 percent on average. At the subregional level, South America is forecast to grow by 3.7 percent, Central America and Mexico by 3.8 percent and the Caribbean countries by 4.2 percent. The 2021 growth rate is mostly the result of a statistical rebound or carryover effect and will not be enough to regain the GDP levels lost in 2020. Before the pandemic hit, the region showed a very poor growth track in the last decade—1.8 percent on average from 2010-2019 and 0.3 percent from 2014-2019. If after the rebound in 2021 the region regains its average annual growth of 1.8 percent, the pre-pandemic level of GDP would be achieved by 2024. At the average rate of

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Countries and international groups around the world condemned the Nicaraguan Congress' action to allow President Daniel Ortega to ban citizens from running in elections by labeling them terrorists.

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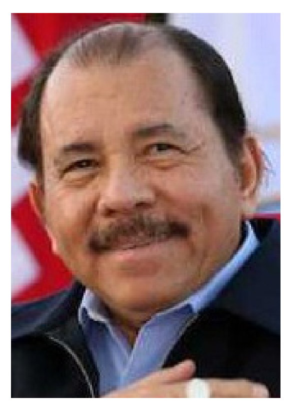

Ortega // File Photo: Nicaraguan Government.

POLITICAL NEWS

# International Groups Blast Nicaragua's Opposition Ban

Countries and international groups on Tuesday condemned Nicaraguan lawmakers' action the day before to pass legislation that virtually bans the opposition from participating in next year's presidential election, the Associated Press reported. The measure empowers longtime President Daniel Ortega to unilaterally declare citizens "terrorists" or "traitors to the homeland" and prohibit them from running in elections. Ortega has already labeled virtually the entire opposition with those terms, so the law appears designed to eliminate any opposition to Ortega extending his rule in the Central American nation. The Organization of American States issued a statement calling on Nicaragua to repeal the legislation, saying it violated Nicaraguans' political rights. "The attempt to call elections in which those who are in the legitimate opposition are prevented from participating is an attack on fundamental rights," said the OAS General Secretariat. The European Union's policy chief, Josep Borrell, said in a statement that the measure "represents another step in the intimidation of the people of Nicaragua and distances the country from the rule of law." Spain's parliament approved a call to "clearly and completely condemn the repeated violation of the human rights of the Nicaraguan people by the Daniel Ortega regime and the passing of laws that clearly imply the violation of political and civil rights." Additionally, Michael Kozak, the acting assistant secretary of the Bureau of Western Hemisphere Affairs at the U.S. State Department, wrote that the law "essentially blocks opposition candidates from running for office." Kozak added, "Ortega is shredding any credibility he has left." Ortega has already exceeded term limits, but he is nevertheless expected to run again in the election, which is scheduled for Nov. 7, 2021. He previously was Nicaragua's president from 1979-1990 and returned to the presidency in 2007 after three failed attempts.

ECONOMIC NEWS

# IMF OKs $2 Billion Loan Disbursement for Ecuador

The International Monetary Fund's executive committee on Monday approved a $2 billion loan disbursement for Ecuador in order to support the country's efforts to fight Covid-19. The disbursement is part of the IMF's economic plan to provide Ecuador with as much as $6.5 billion in loans over the next 27 months. The South American nation's economic activity is expected to shrink by 9.5 percent this year, a contraction that is less sharp than the 11 percent contraction that analysts expected earlier this year. "The Ecuadorean economy is showing nascent signs of economic recovery after bottoming out in the second quarter. New infections and deaths from Covid-19 have moderated compared to the high levels seen in the spring, reflecting decisive actions by the authorities to contain the outbreak," said IMF Deputy Director Antoinette Sayeh. The IMF approved an "Extended Fund Facility" for Ecuador in September. The program aims to support the Ecuadorean government's efforts to stabilize the country's economy, protect lives and livelihoods, expand coverage of social-assistance programs and also ensure the sustainability of debt, among other goals, the IMF said in a statement. "The authorities have continued to advance their reform agenda in key areas," Sayeh added. "On governance and transparency, the National Assembly has approved near unanimously the amendments to significantly enhance the anti-corruption framework, and the authorities have expanded public access to asset declarations of politically exposed persons." Meantime, a top opposition candidate ahead of Ecuador's Feb. 7 presidential election criticized the country's $17 billion debt restructuring deal with the IMF, saying the deal that President Lenín Moreno struck with the lender is bad for Ecuador, the Financial Times reported. "We don't see any sense in continuing with the current program the IMF has with the Moreno government," said Andrés Arauz,

NEWS BRIEFS

## Mexico's Three Main Opposition Parties Form Alliance

Mexico's three main opposition parties, the conservative National Action Party, the centrist Institutional Revolutionary Party and the left-of-center Democratic Revolution Party, on Tuesday announced an alliance in a bid to compete against the ruling Morena party in the legislative elections scheduled for June 6, the Associated Press reported. The three parties have been bitter rivals in the past and have little in common ideologically. In announcing the alliance, dubbed "Va por México," or "This is for Mexico," party leaders blasted Mexican President Andrés Manuel López Obrador, calling him a populist.

## Substation Fire Causes Blackout in Buenos Aires

A huge power outage left Buenos Aires in the dark on Tuesday for several hours, leaving hundreds of thousands of homes and businesses without electricity and paralyzing metro lines, BBC News reported. Power company Edesur said about one million people in the south-central area of Buenos Aires were affected. The outage was caused by a fire at a substation, Edesur said, adding that by Tuesday evening power had been restored to nearly all customers.

## Brazil's Bank Lending Grows 1.8% in November

Brazil's level of bank lending grew 1.8 percent in November as compared to October as individuals and businesses took out more loans, banking lobby organization Febraban said Tuesday. Over the past 12 months, the level of bank lending grew 15.2 percent, the quickest pace since September 2013, said Febraban. Government lending programs to help small businesses largely fueled the increase, the organization added.

a 35-year-old economist. "Firstly because the quantity of resources is too small and secondly because the conditionality associated with it is absolutely counterproductive for Ecuador's growth and development needs," Arauz told the newspaper in an interview. Instead, Arauz is proposing an immediate public spending increase of as much as 1.5 percent of gross domestic product, a large public works program, a wealth tax and an end to privatizations.

**BUSINESS NEWS**

# Pemex's Talks With Consortium Will Continue: Talos CEO

Talks between Mexican state oil company Pemex and a private consortium headed by U.S.-based Talos Energy over the future of a shared crude deposit can continue at least until March, after the energy ministry approved an extension, Talos CEO Tim Duncan told Reuters on Tuesday. A previous deadline for an initial so-called unitization deal had been set for next week, but Mexico's energy ministry agreed to let negotiations between the two parties continue through March 25, Duncan said. "Continuing talks with Pemex during the extended period represents the clearest and fastest route toward expedited first oil, which benefits all parties involved, including the government of Mexico," said Duncan. The two companies have been in conflict over who should manage a potentially lucrative project in the offshore Zama field, which Talos discovered three years ago and which is estimated to hold nearly 700 million barrels of oil. Pemex has claimed that more than half of Zama lies in its neighboring block. "A politically driven slowdown on the development of one of Mexico's most promising oil fields is a discouraging signal not just for private energy investment in Mexico but for all companies seeking productive partnerships with the government," Kirsten Lorgen-Knapp, an associate manager at Kroll, told the Energy Advisor in **Q&A** published in February.

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the las six years (2014-2019), it will take more than a decade. The negative social economic and productive effects in terms of unemployment, poverty, inequality and losses in productive capacity and human capital will take years to overcome. Hence, expansive macroeconomic policies have a crucial role to play in enabling the region not only to mitigate the economic and social costs of the pandemic, but also to improve on its recent growth performance, following the expected rebound in 2021. Without these active measures, a return to pre-crisis levels of economic activity is likely to take several years."

**A** **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "Latin America left the recession behind. The recovery began in the third quarter, driven by domestic reactivation and recovery of external demand. The region did not escape a contraction in 2020, around 7 percent (excluding Venezuela), but is on track to post a rebound in 2021. The region's economy was hit hard by the Covid-19 pandemic from the end of the first quarter and through the second quarter. Prospects for 2021 remain positive given the improvement in business climate stimulated by the rollout of a vaccine during the first half of the year. This will reduce uncertainty and enhance confidence, particularly stimulating investment decisions. External demand will strengthen with the United States' and China's recoveries fueling demand for commodities and boosting Latin America's exports of manufacturing inputs. The region should be able to reach a growth rate of around 4.5 percent in 2021, which includes the statistical effect generated by the low comparison base in 2020. Inflation rates will stay below or around targets, given that economies will still perform at below capacity. Currencies will return to more stable conditions due to improvement in confidence generated by the vaccine and the advance in the recovery. South America will lead the recovery, with Peru, Chile and Colombia reporting the highest growth rates, followed by Brazil. Mexico and some Central American countries will advance at more moderate rates due to reduced policy space and consequent limited support from governments. Given the capacity destruction caused by the pandemic, in terms of physical and human capital, it will take at least two years for the region to recover its pre-pandemic levels of production. The region is not exempt from a potential proliferation of populist policies that inhibit private investment, and from the resurgence of virulent social discontent."

**A** **Claudio M. Loser, president of Centennial Group Latin America and former head of the Western Hemisphere department at the International Monetary Fund:** "The collapse of output observed in 2020—8.1 percent—is the worst recorded in the last 40 years, which includes the so-called 'lost decade' of Latin America. Just for reference, during the worst year (1983) of that decade, GDP declined by 2.8 percent; in 2009, it declined by 2 percent. This year's decline follows a decade of subpar performance relative to the world. Even so, there has been a rebound so far this year, and GDP is expected to increase by 3.6 percent next year, and then by some 3 percent in 2022, according to the IMF. Estimates may differ among institutions, but the bottom line is that the region's GDP will not fully recover before 2023-24, in terms of total output, and a year or two later, on a per-capita basis. Of course, this will be the case for many other countries, although this is little consolation. The recovery will be complex, to account for the heavy human toll and the financial burden, which will need to be tackled eventually. Beyond Venezuela and Argentina, inflation is not an issue. For Argentina, prices may increase by between 40 percent and 50 percent. For the rest of the region, inflation may be about 3 percent, above that of advanced economies but well under control. The region has been resilient,

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but countries such as Argentina, Brazil, Ecuador, Mexico and Peru will have a slower recovery, mostly on account of generally weak policies and complex politics. As to exchange rates, projecting them would not be more than a guess."

**A** **Joydeep Mukherji, managing director of sovereign ratings at Standard & Poor's in New York:** "The region will recover slowly in 2021, but most countries are not likely to regain their 2019 GDP until the second half of 2022. Peru, Chile and Colombia are likely to recover faster than most countries, but Mexico may recover slower than the region on average. Poor relations between the government and the domestic private sector had contributed to a mild recession in 2019 in Mexico, prior to the pandemic. Many countries entered the recession with weak public finances and lower investment and economic growth than emerging markets as a whole. The negative impact of the pandemic and lockdowns has led us to downgrade or place a negative outlook on two-thirds of sovereign ratings in the region, more than in other regions of the world. The poor performance reflects economic and political weaknesses that existed before the pandemic, as well as worsening external conditions. The common challenge facing the region is to recover from the pandemic and restore economic growth while managing weaker public finances. Government debt will increase this year by more than 10 percentage points of GDP in many countries (including Brazil, Colombia, Peru, Chile and Costa Rica). A weak economic recovery threatens to increase poverty, exacerbate income inequality (already higher than in other regions), reinforce anger at corruption and sharpen existing political and social divisions. That, in turn, may worsen distrust of the political class, exacerbate political fragmentation and make it harder for leaders to reach agreements on key economic policies, potentially worsening sovereign credit ratings."

**A** **Vangie Bhagoo-Ramrattan, head of the economics research unit at First Citizens in Port-of-Spain, Trinidad and Tobago:** "The sudden onset of the global pandemic, with almost all countries implementing travel restrictions, closure of nonessential businesses and social-distancing measures, certainly has had a significant negative impact on the Caribbean region, which is primarily dependent on travel and tourism. Foreign exchange earnings and government revenue have been significantly eroded, while the labor market has deteriorated sharply. In its October World Economic Update, the IMF downgraded its 2020 regional forecast for GDP growth, now much steeper than initially anticipated and a deterioration relative to April's forecasts. The region's tourism-dependent economies are projected to contract by an average of 9 percent in 2020, well below the average contraction of 3.3 percent for emerging markets globally. Faced with already strained fiscal flexibility, governments have been forced to ramp up pandemic-related expenditure, amid dwindling revenue with the growing funding needs financed largely through multilateral institutions. Prior to March, many of the countries in the region were on course to sustainably reducing indebtedness through rigid consolidation programs, including in Barbados, Jamaica and Grenada. Due to the shock of 2020, the process of fiscal and debt sustainability will certainly be prolonged. While the IMF projects an uptick in overall GDP growth in 2021 for the region, we are a bit more cautious. Even with the rollout of the vaccine, regaining economic momentum will prove to be difficult, especially as tourism and travel may take some time to fully recover. The impact on the labor market may likely linger due to the deep contraction of 2020 and the permanent impact it may have had on some businesses. This will likely hinder any uptick in private consumption. Overall, 2021 is anticipated to be another challenging year for the region as countries try to recover from a devastating 2020."

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