

Global Outlook and Impact on LatAm

AMCHAM

October 16th, 2024

01

How is the world economy changing?

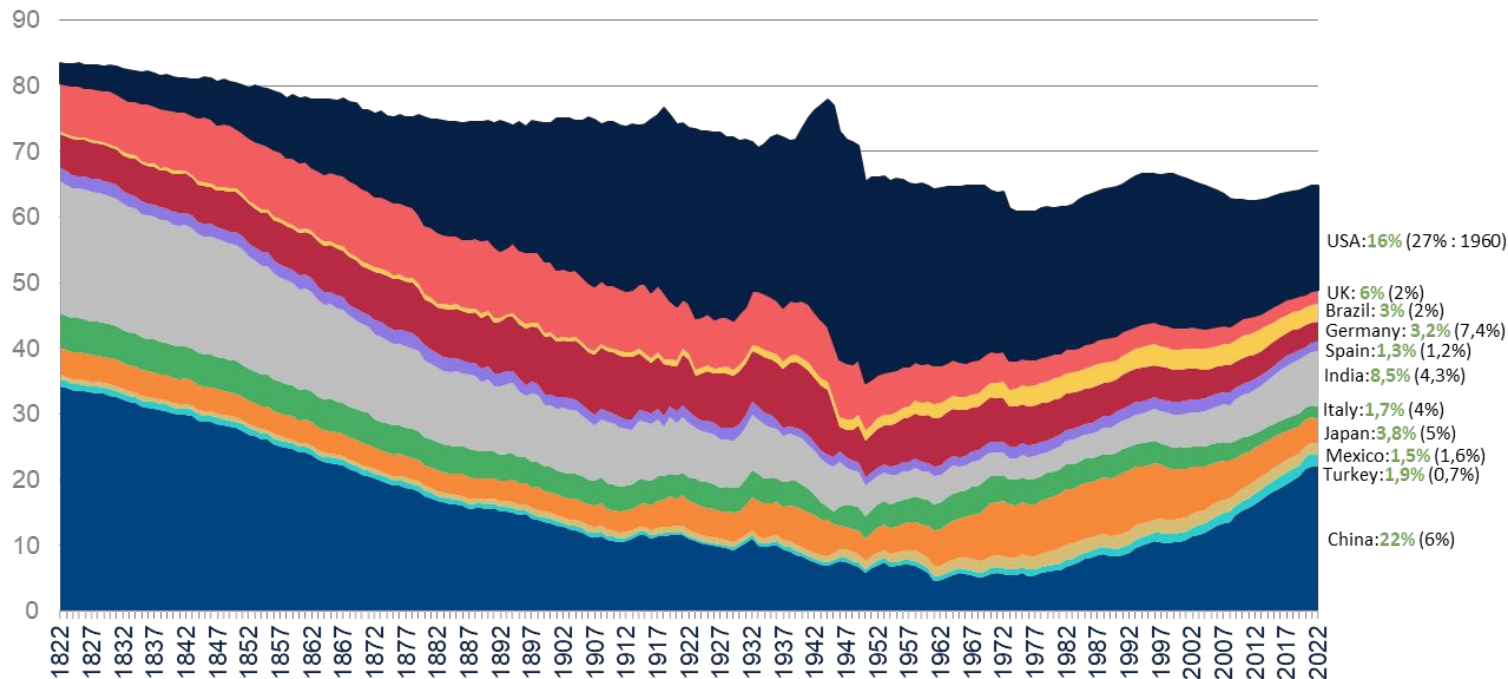
1.1

Geopolitics & Trade

China's regaining of global output share, together with US isolationist tendencies, risk generating a power vacuum

GDP SHARE IN WORLD

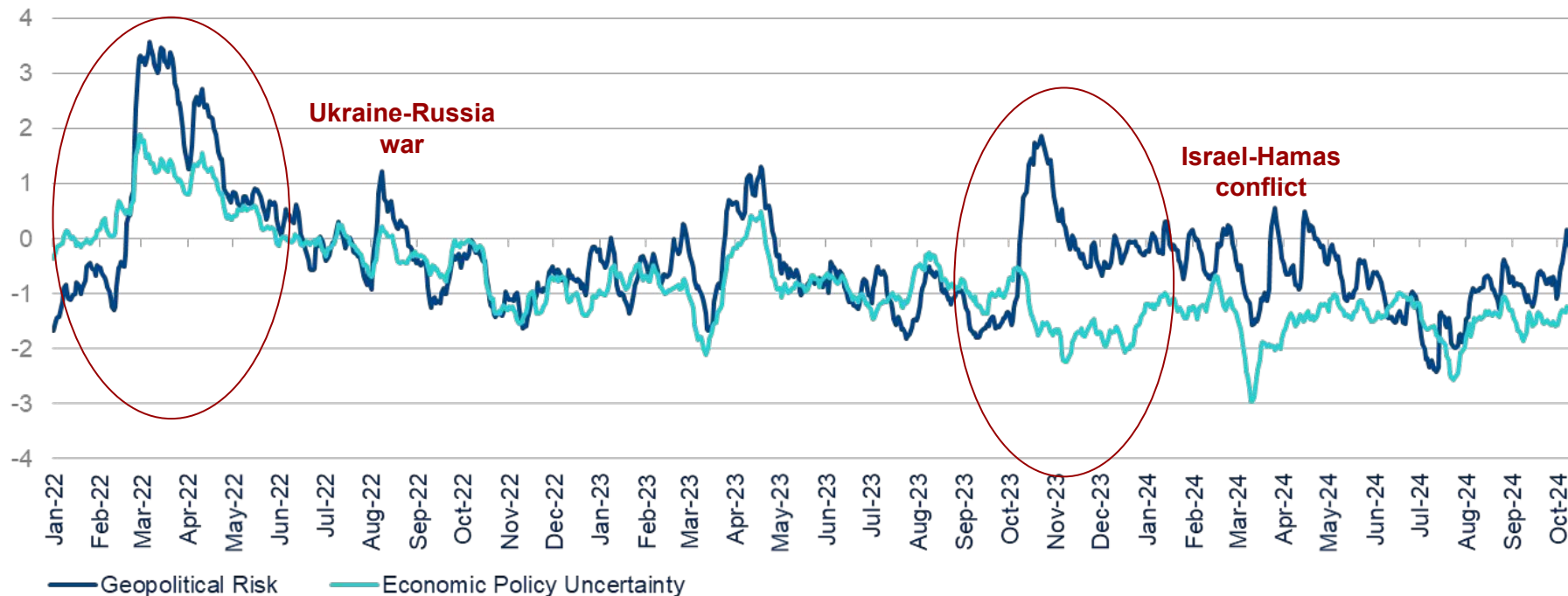
(IN 2011 PPP PRICES; TOTAL SHARE OF SELECTED COUNTRIES AS OF WORLD GDP IN 2022 is 65%)



Power vacuum that leads to more frequent geopolitical conflicts, given the perceived diminished involvement of the US in its role of the world's cop

GEOPOLITICAL RISK AND ECONOMIC POLICY UNCERTAINTY IN G3 REGIONS

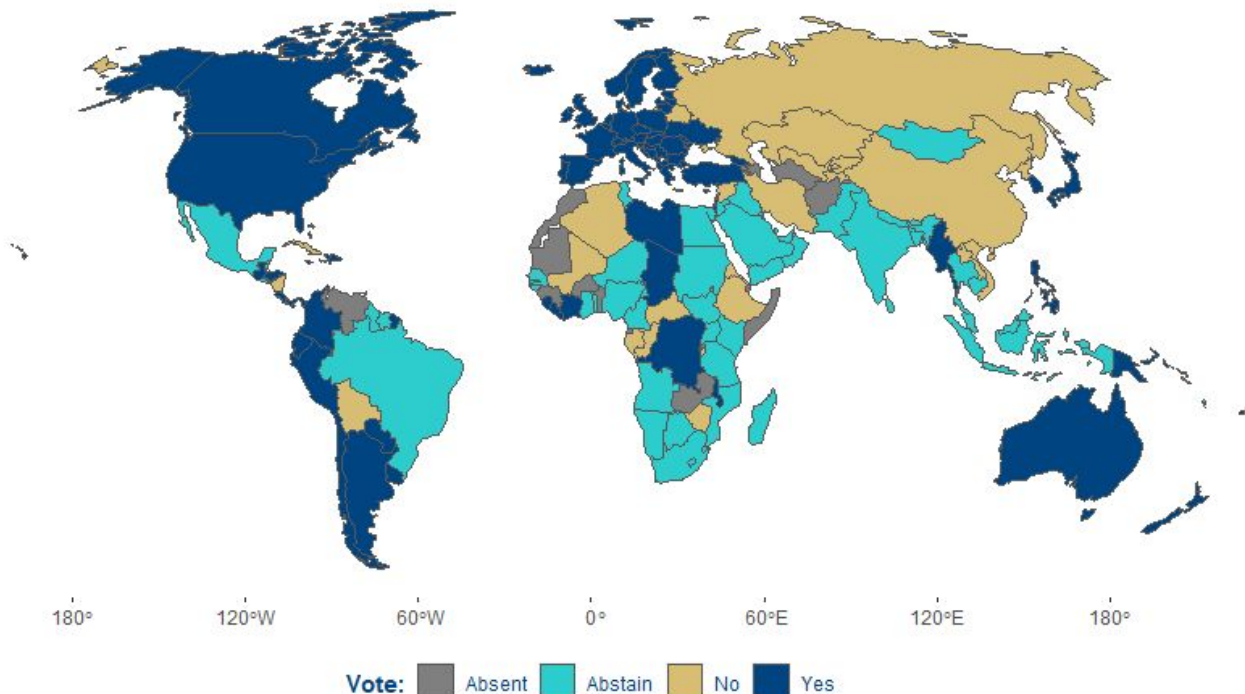
(INDEXES: AVERAGE SINCE 2019 EQUALS TO 0, 28-DAY MOVING AVERAGE)



The increasing rivalry between the US and China (or “the West and the rest”) is now raising the risk of fragmentation into two large trading blocs

Trade blocs

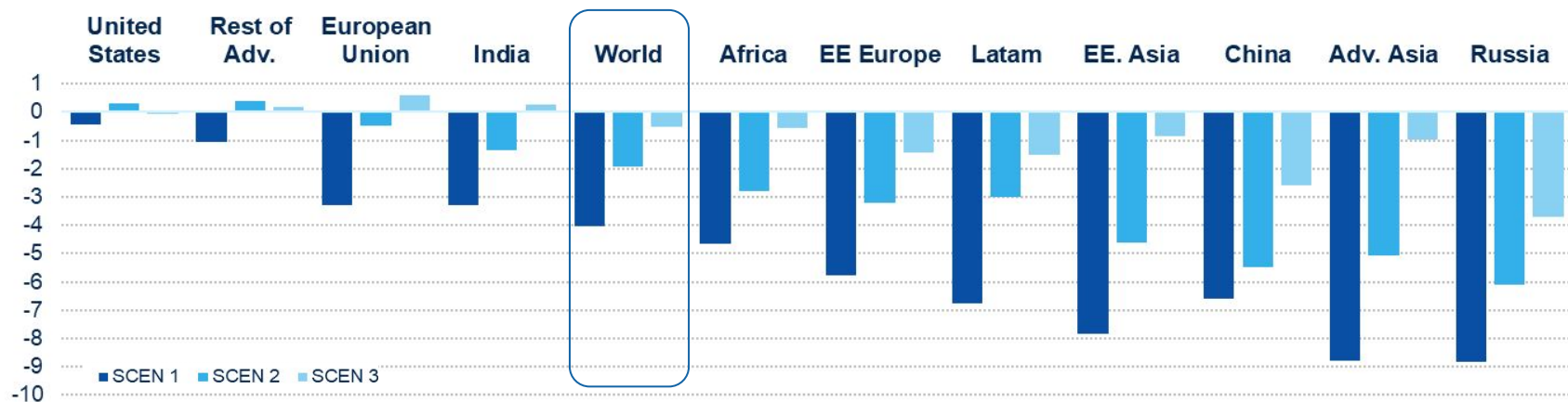
Based on 07-04-22 UNGA Res. about the suspension of Russian membership



* We can divide the world based on each country's vote in the UN resolution about the suspension of Russia's membership, resulting in 3 separate trading blocs

Risk of global leadership splitting into two distinct blocks (US and China) with economic consequences

TWO-BLOCK EQUILIBRIUM: IMPACT ON LONG-TERM TRADE (*) (% OF GDP)



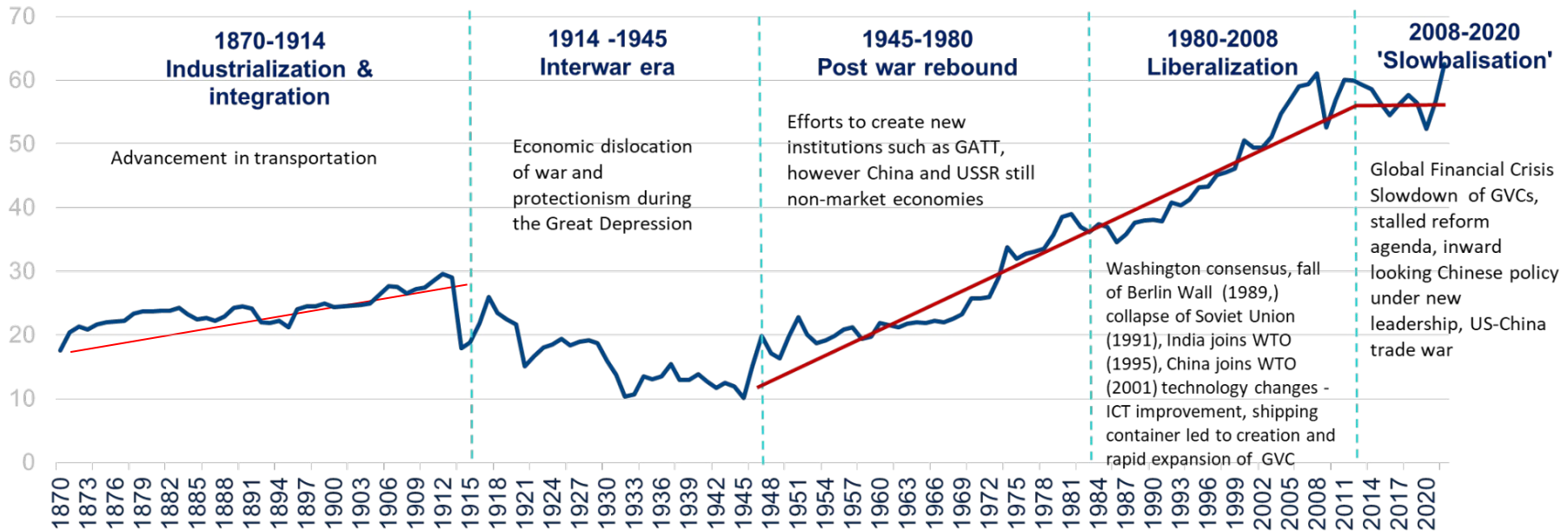
- We estimate the impact for trade of a world fragmentation into geopolitical-driven trading blocs, using an indicator of the similarity of countries' votes in different UN sessions as a proxy of their ideological distance.
- We simulate three scenarios with different intensities, in which the World separates into a western liberal bloc aligned with the US, and another one aligned with Russia and China, and estimate their impact on trade
- Our results show that world's trade would suffer in all the scenarios, with a maximum fall of 4% of GDP in the most extreme division scenario. It is clear that the western bloc would lose the least

(*) Scenarios of geopolitical fragmentation based on deviations from the last observed value of the ideology of each pair of countries, according to the individual vote of each country on the suspension of Russia's UN membership. **Scenario 1:** Completely separate blocks with extreme ideological separation between them and almost absolute similarity within them. **Scenarios 2 and 3:** ideological distance jumps or falls with a different intensity in each scenario (more in scenario 2 than in scenario 3), closing or broadening the distance between/within each block. Source: BBVA Research.

Countries are responding by prioritizing resiliency over efficiency

Risk of reversing globalization, the driver of global growth for five decades

TRADE OPENNESS INDEX - SUM OF EXPORTS AND IMPORTS OF GOODS AND SERVICES (% OF GLOBAL GDP 1/)

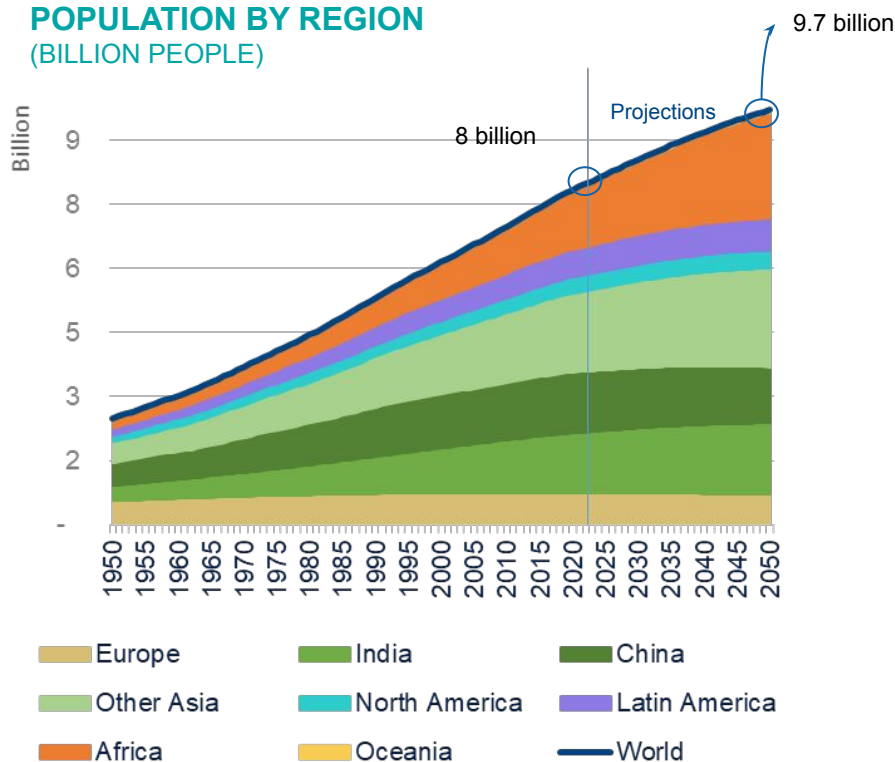


'(1) The series were from data published by the sources in current US dollars, and then converted to GDP shares using a unique source (WB)
Source: PIIER, WB to 2022, BBVA Research

1.2

Demographics

World's population: growth will continue but at a slower pace. Only Africa and parts of Asia will grow significantly

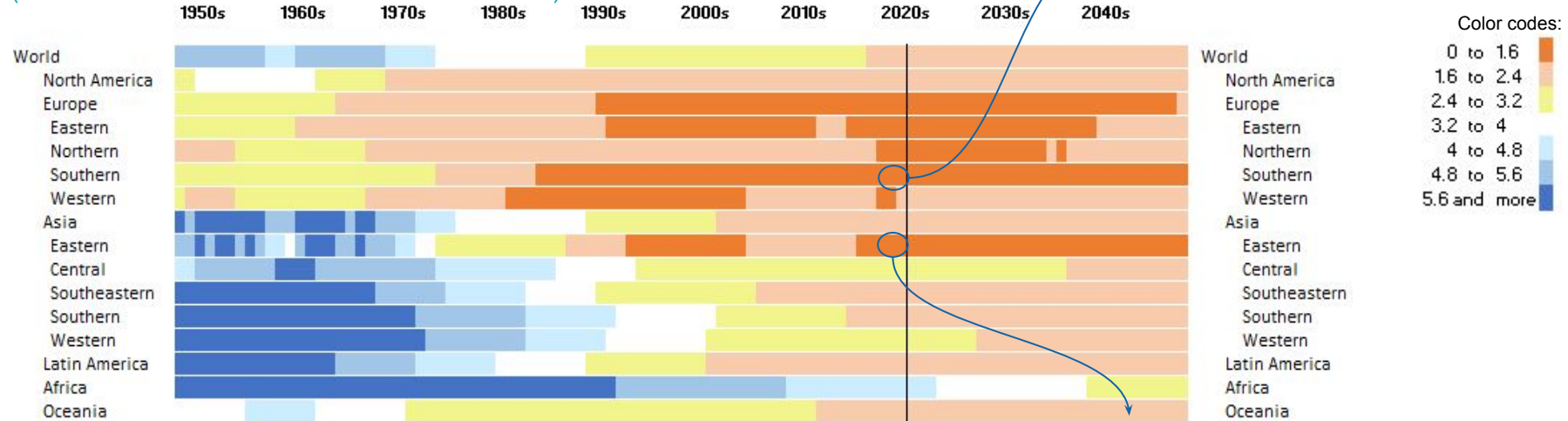


- Global population growth will moderate from 1.9% in the 50-70s decades to 0.7% in the following 30 years
- Population dynamics vary significantly across regions
 - China's population will soon start declining rapidly
 - Only Africa and part of Asia will see significant population growth
 - India's population is expected to overtake China's this year

Average fertility of world population has fallen from 4.9 births per woman in 1950 to 2.3 in 2022 and is expected to decline further to 2.1 by 2050

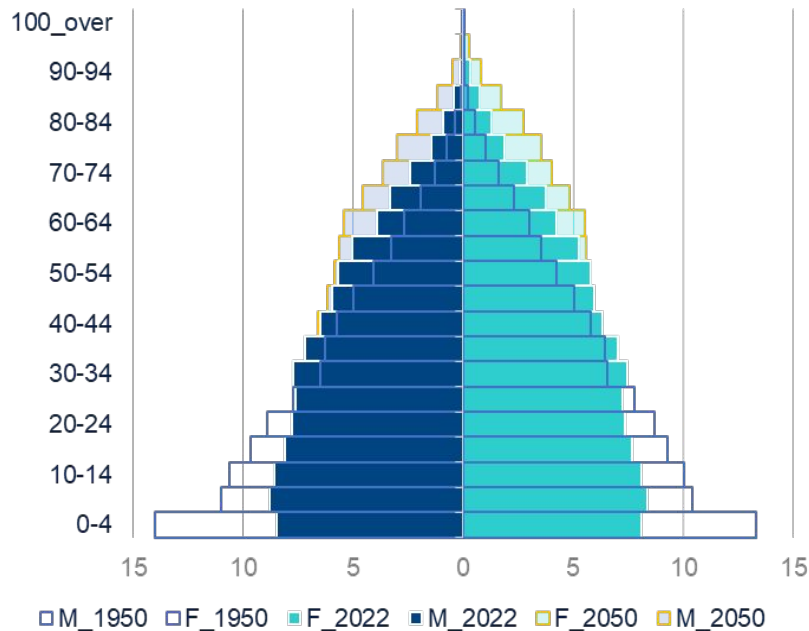
Two-thirds of the global population in 2022 lived in countries with fertility rates below 2.1 births per woman - the level required for zero growth in the long run

FERTILITY RATE BY REGIONS (AVERAGE NUMBER OF CHILDREN PER WOMAN)



Older population is increasing both in numbers and as a share of the total

WORLD POPULATION BY AGE AND GENDER (AS % OF TOTAL)



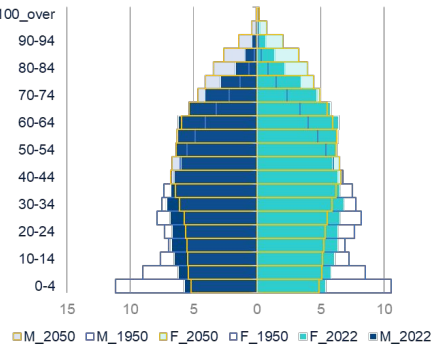
Worldwide population older than 65 years will rise from 11% in 2022 to 19% in 2050 (34% in Europe, 36% in China, 22% in Latam)

- By 2022 only Japan has 2-digit % of population older than 80Y (10.5%); by 2050, 26 countries will have 2-digit % of population older than 80Y, mainly in Europe.
- By 2050 population older than 65 years is projected to be more than twice the number of population under age 5 and about the same as children under age 12

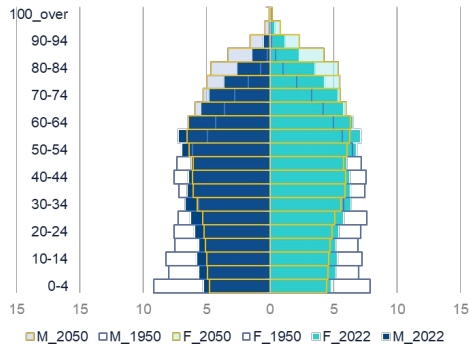
Older population: Ageing will not only affect advanced countries but also most emerging ones

WORLD POPULATION BY AGE AND GENDER (AS % OF TOTAL)

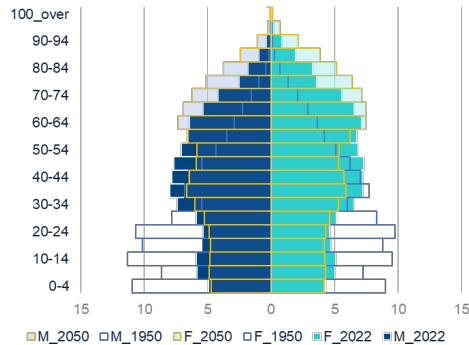
USA



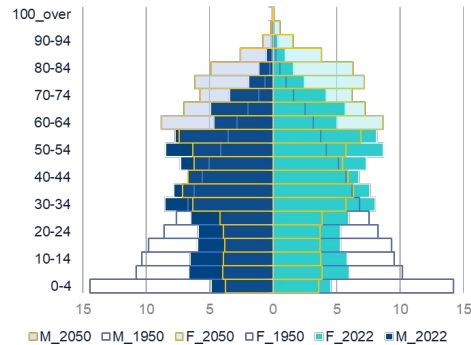
NORTHERN AND WESTERN EUROPE



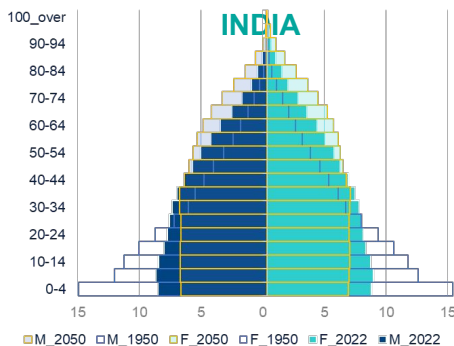
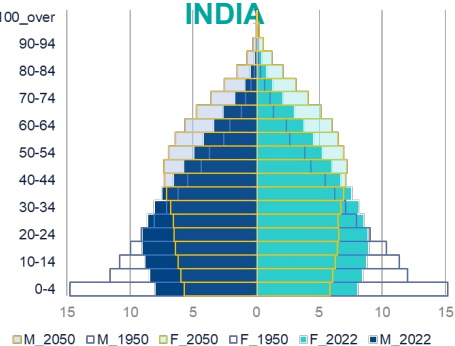
EASTERN AND SOUTHERN EUROPE



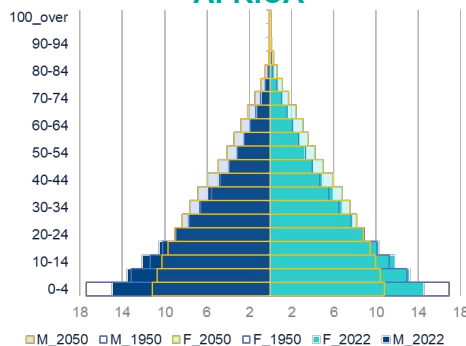
CHINA



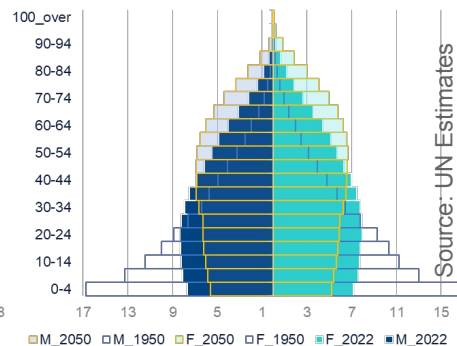
ASIA EXCL CHINA AND



AFRICA



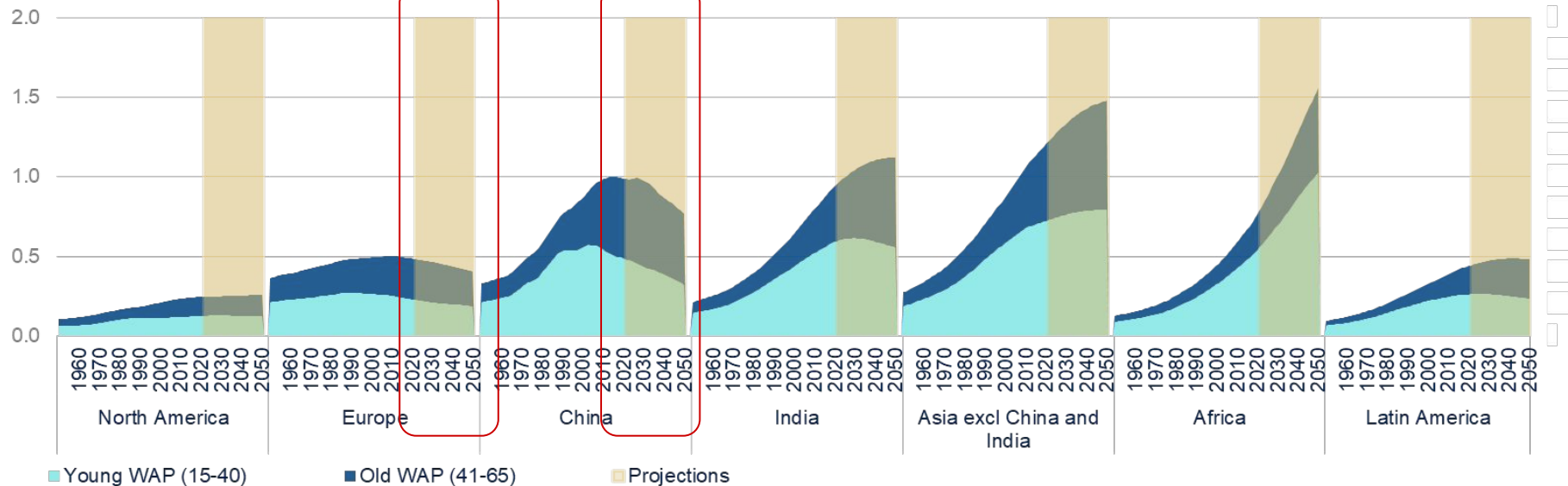
LATAM



Source: UN Estimates

The working age population will decrease in Europe and dramatically in China; will stagnate in the US and grow slowly in Latam

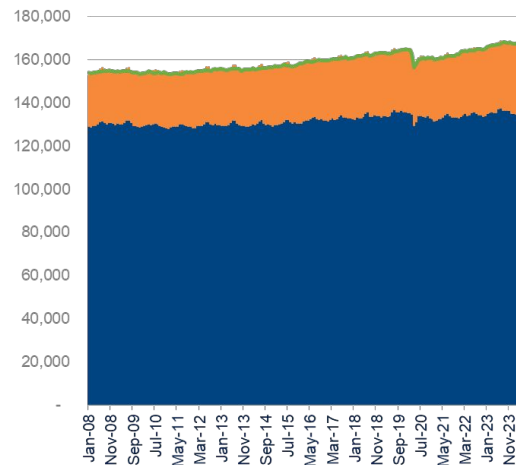
“YOUNG” AND “OLD” WORKING AGE POPULATION (IN BILLION PEOPLE)



Immigration contributes to almost 20% of the total labour force in the US, although it has grown more strongly in Europe in the last 15 years

USA: CIVILIAN LABOR FORCE BY PLACE OF BIRTH

(Thousands people)



2008: 15.5%
2023: 19.2%

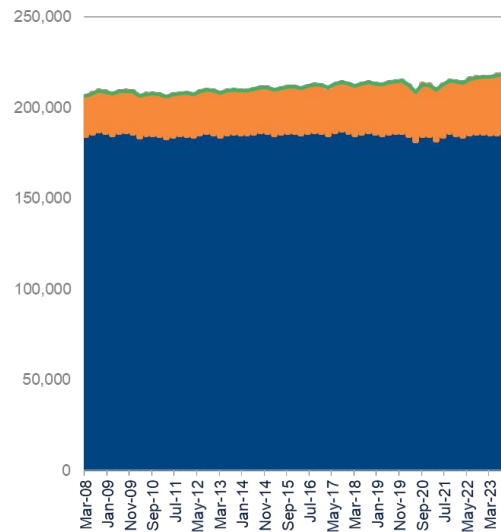
+ 3.7pts

CLF Foreign Born
CLF Native Born
Civilian labor force (CLF)

Source: Federal Reserve Bank of St Louis

EU27: TOTAL ACTIVE POPULATION BY PLACE OF BIRTH

(Thousands people)



2008: 10.5%
2023: 14.9%

+ 4.4pts

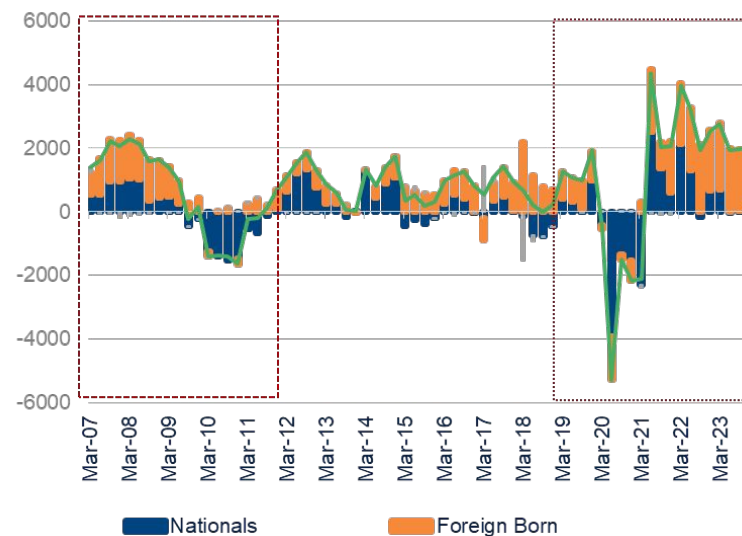
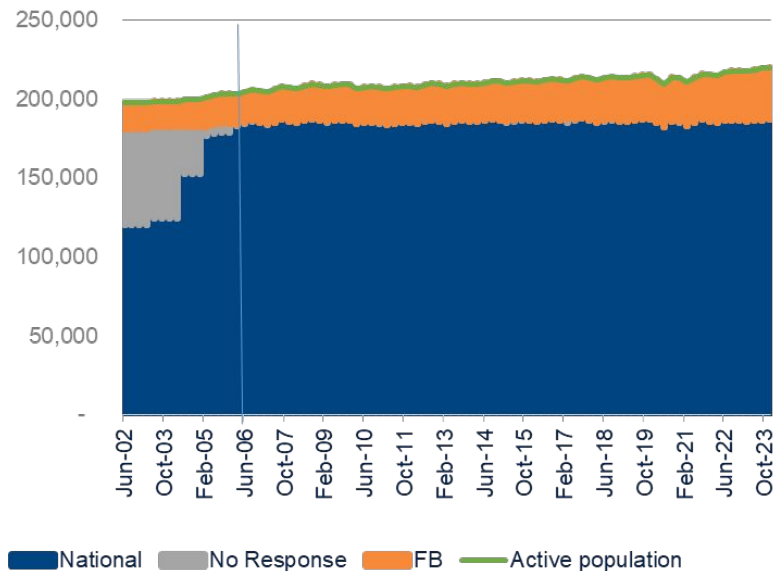
National
FB
Active population

Source: Eurostat

In both the United States and Europe, immigrants have contributed to the change in the workforce, more than before the covid period

EU27: TOTAL ACTIVE POPULATION BY PLACE OF BIRTH

(Thousands people)

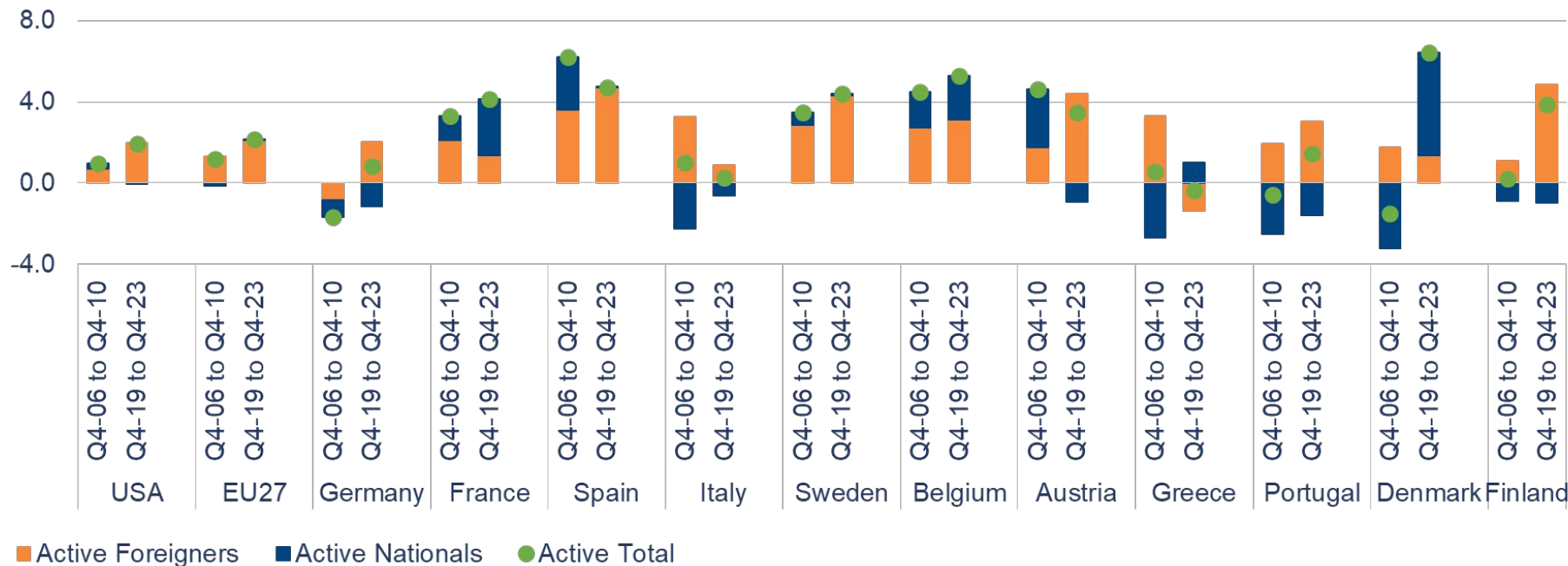


Source: Eurostat

Immigration: This decade so far, the active population in Europe has increased mostly thanks to migrants, particularly in Germany, Italy and Spain

CHANGE IN TOTAL ACTIVE POPULATION BY PLACE OF BIRTH

(Contributions to growth)

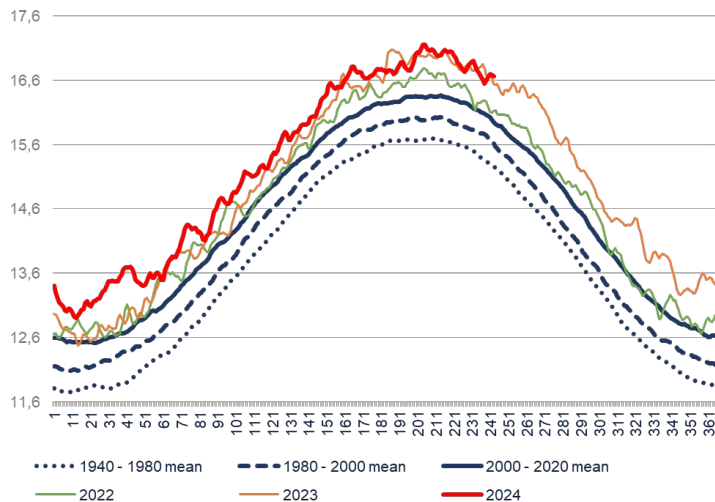


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Climate change

GHG-induced temperature rise accelerates, increasing frequency of extreme weather events

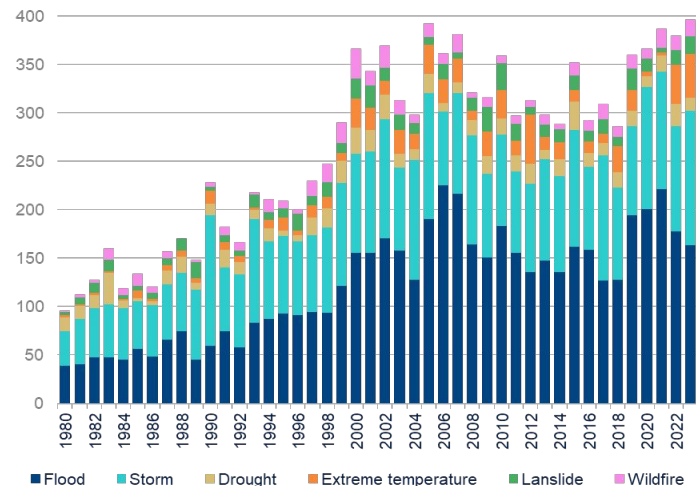
WORLD TEMPERATURE EVOLUTION (°C) 1980-2024



Note: Daily mean surface air temperature (2-meter height)

Source: BBVA Research from [ERA5 hourly data on single levels](#)

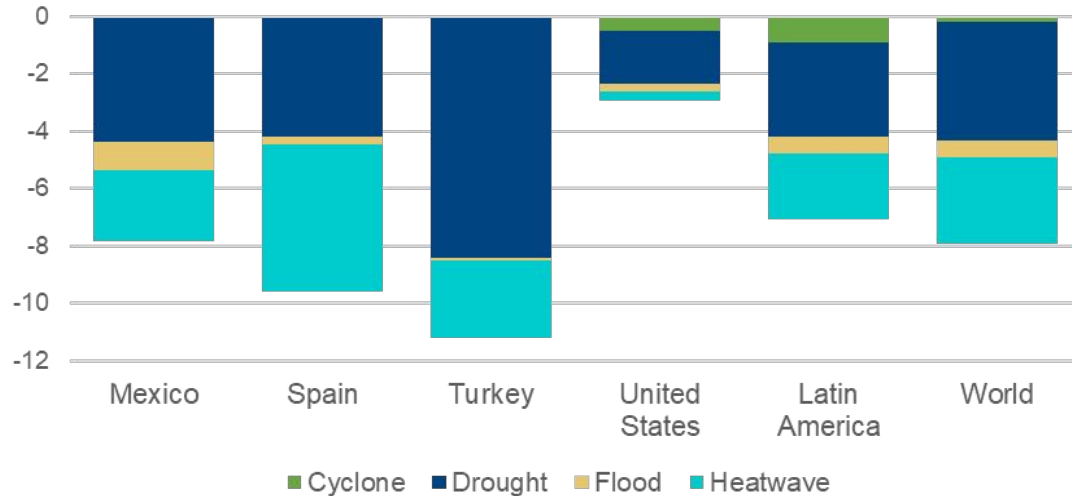
WORLD CLIMATE-RELATED ACUTE EVENTS 1980-2023



Source: BBVA Research from [EM-DAT](#)

Acute climate events would have significant long-term impacts compared to a scenario without climate change

IMPACT ON GDP IN 2050 BASED ON A CURRENT POLICIES SCENARIO
DIFFERENCE IN PP (2017 PPP)
IMPACT RELATIVE TO A REFERENCE SCENARIO W/O CLIMATE CHANGE.



Source: BBVA Research based on NGFS Phase IV.

- The above figure shows how GDP is impacted across scenarios compared with a hypothetical (and impossible) reference scenario in which no transition or physical risks occur.
- The displayed results correspond to damages using the 80th percentile of the modeling results, with the 100th percentile representing the most severe impact. NGFS has not yet released the impact with the median, which would be more logical, and provides impacts with high percentiles, amplifying the damage.

- The projected economic impact of these hazards could lead to an **8% GDP loss** by 2050 under a **Current Policies** scenario.(*)
- Some countries would face in the long term a substantial exposure to **droughts and heatwaves**.
- The required climate mitigation and adaptation measures depend on the **climate ambition** of the authorities, with **greater constraints in emerging economies**.

(*) The NGFS Phase IV of climate scenarios introduces an updated and improved assessment of acute physical risks, including heatwaves, droughts, river floods, and tropical cyclones. More details: [“NGFS: Phase IV unveils more disorderly alternative climate futures”](#). BBVA Research. Nov 24, 2023

1.4

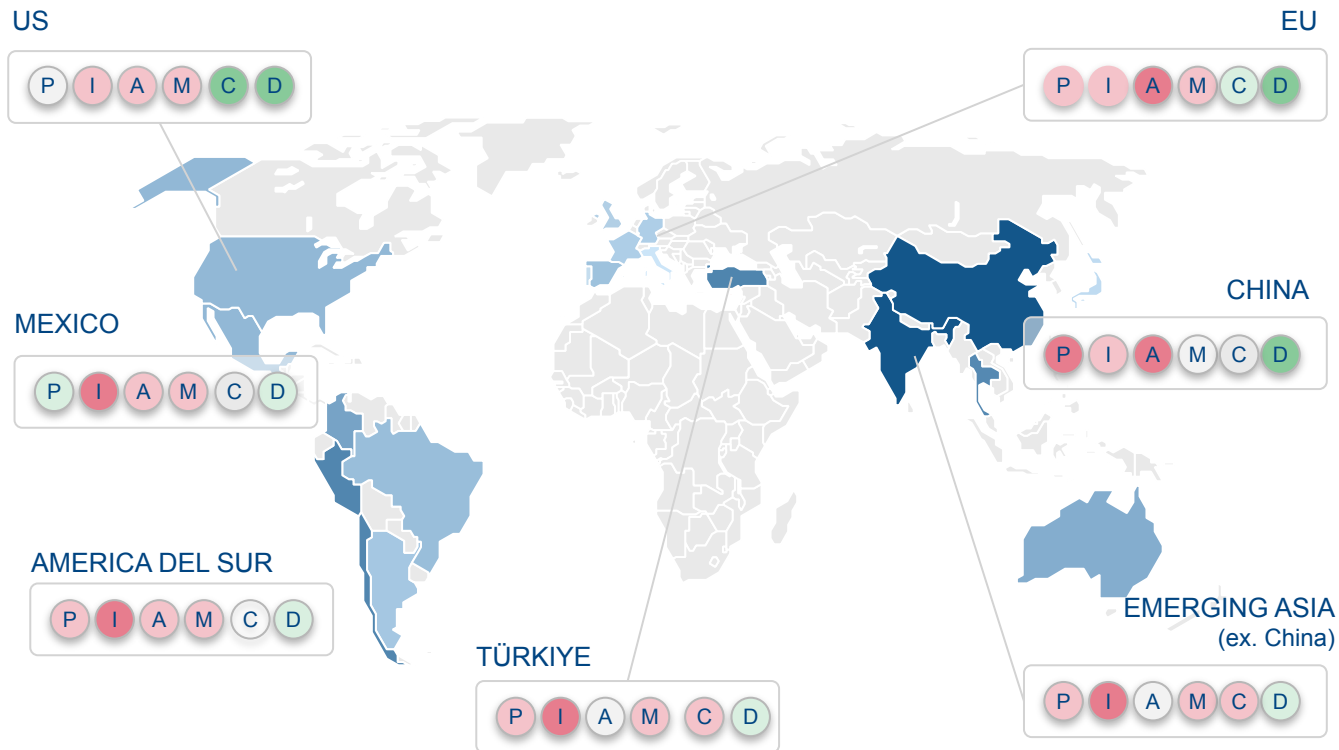
Headwinds and tailwinds to 2030

Expected headwinds and tailwinds to long-term (2030) growth within (and not across) regions/countries. An open discussion.

GLOBAL

- P PROTECTIONISM
- I INTERVENTIONISM
- A AGING
- M MIGRATION
- C CLIMATE CHANGE
- D DIGITALIZATION

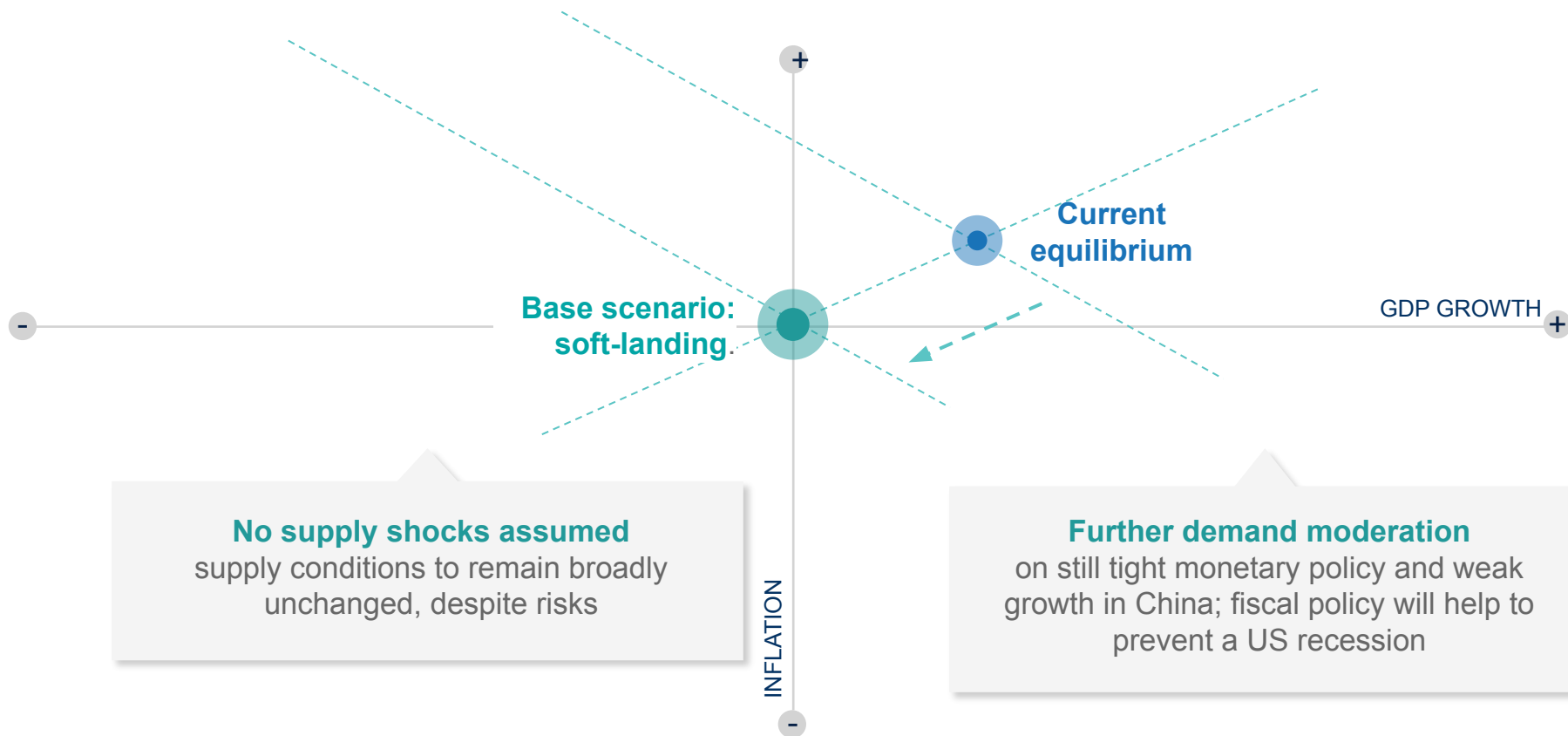
For headwinds
For tailwinds



02

Global outlook: updated forecasts

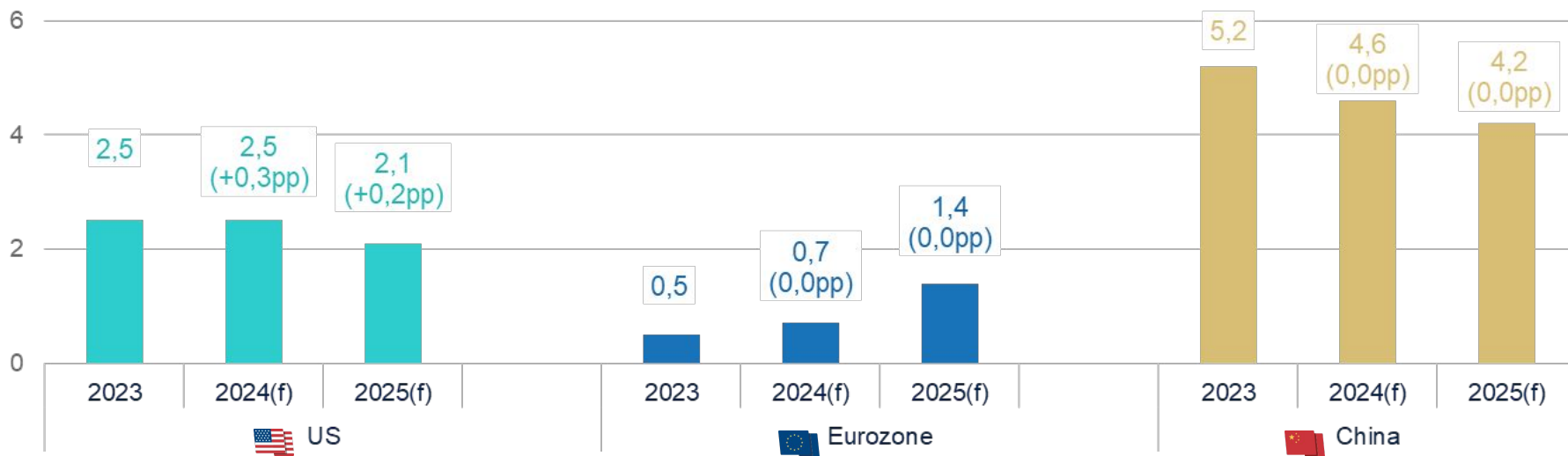
Base scenario: controlled inflation will pave the way for more aggressive rate cuts; global GDP growth is still likely to converge to moderate levels ahead



GDP forecasts: despite labor market deceleration, growth has been revised up on incoming data in the US; unchanged prospects for the EZ and CHN

GDP GROWTH

(%, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



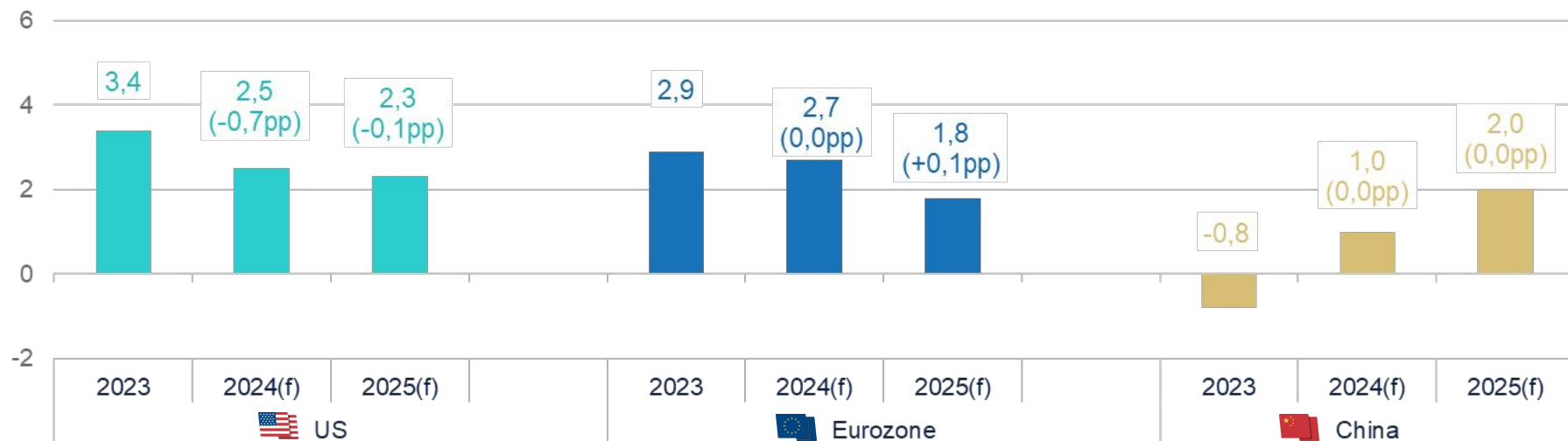
(f): forecast.

Source: BBVA Research.

Inflation forecasts: downward revision in the US on clearer labor slowdown and recent downward surprises; no significant changes in EZ and CHN

HEADLINE CPI INFLATION

(YOY %, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



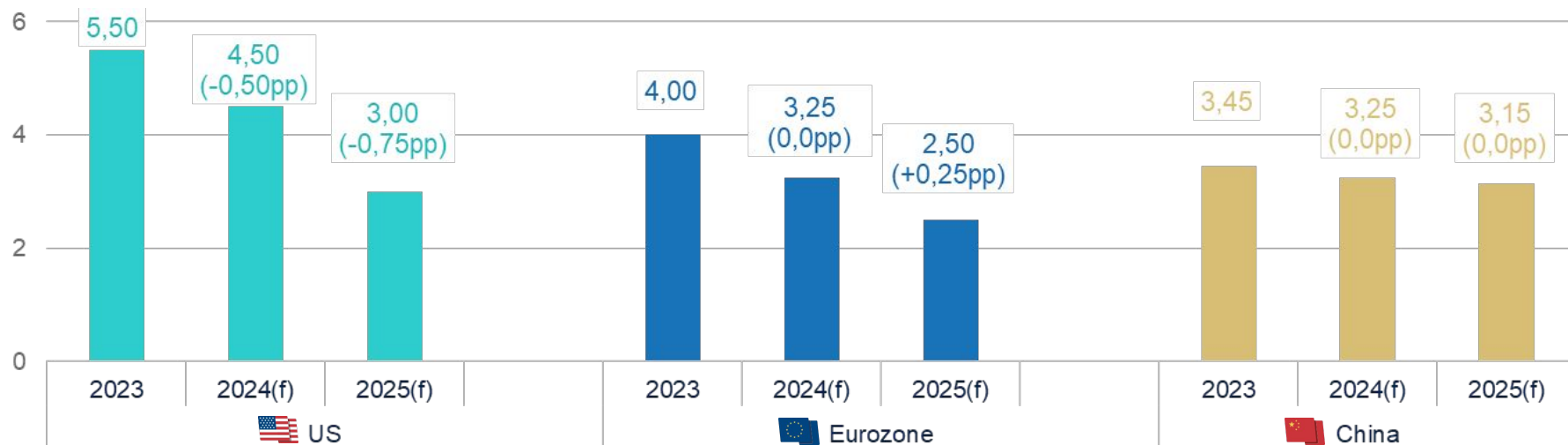
(f): forecast.

Source: BBVA Research.

Fed easing to continue faster than previously expected, towards 3% by mid-'25, on weaker inflation and labor markets; higher terminal ECB rates

POLICY INTEREST RATES (*)

(%, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)

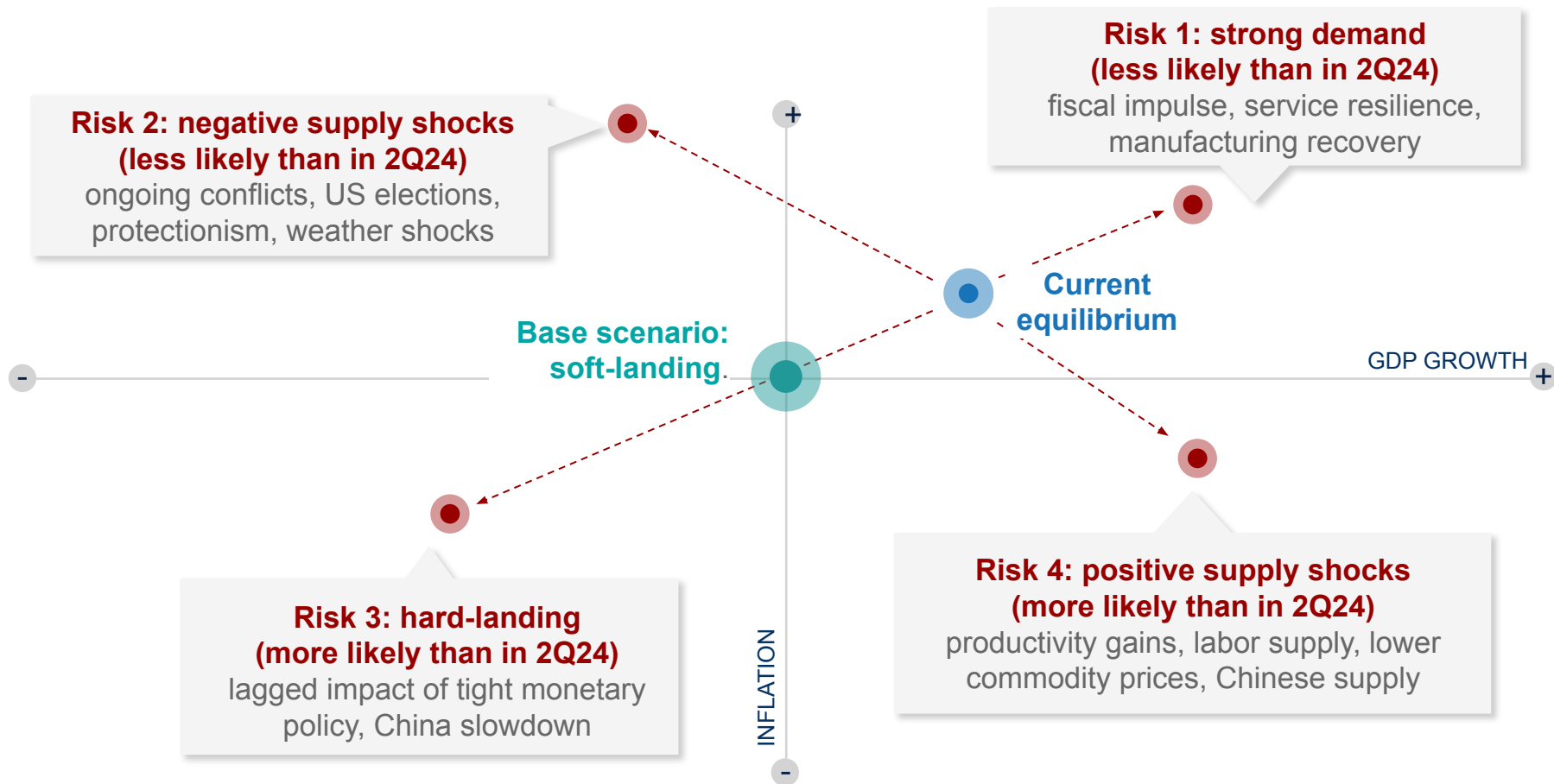


(f): forecast.

(*) In the case of the Eurozone, interest rates of the deposit facility.

Source: BBVA Research.

Risks: still sizeable, but more balanced than before



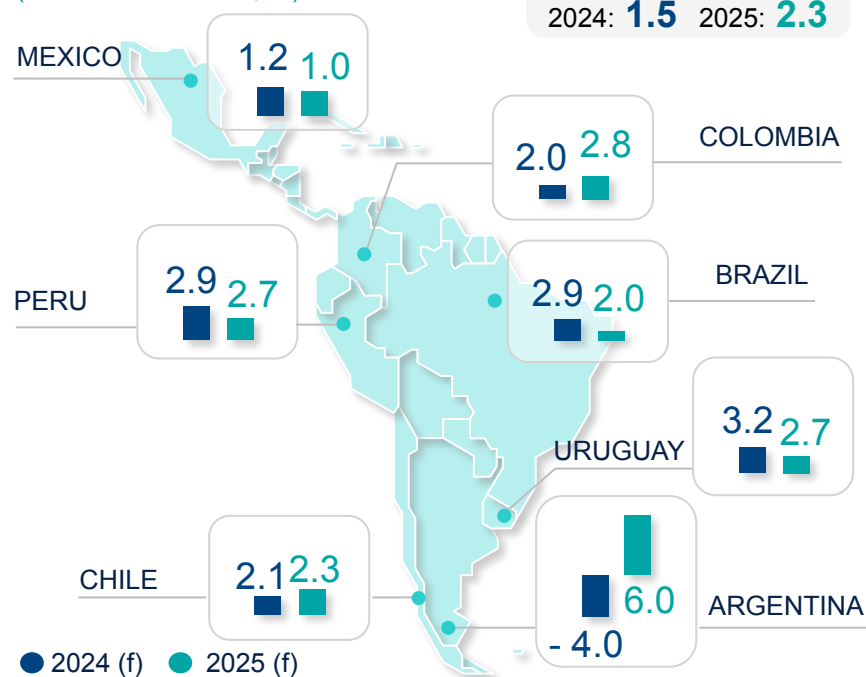
03

Short-term outlook on Latin America

Slow growth recovery in the second half of 2024, consolidating in 2025, supported by lower inflation and interest rates

GDP GROWTH

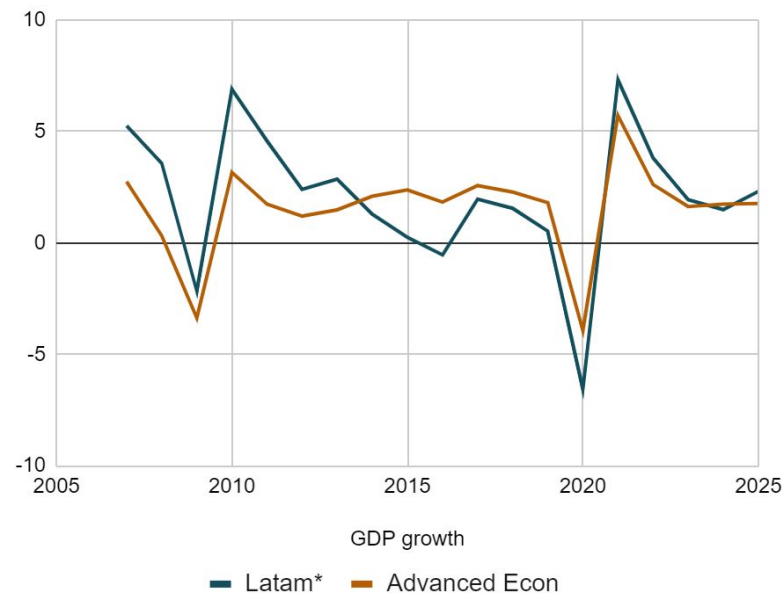
(ANNUAL CHANGE, %)



(f): forecast
Source: BBVA Research.

GLOBAL AND LATAM GDP

(%)



(f):BBVA Research forecast.

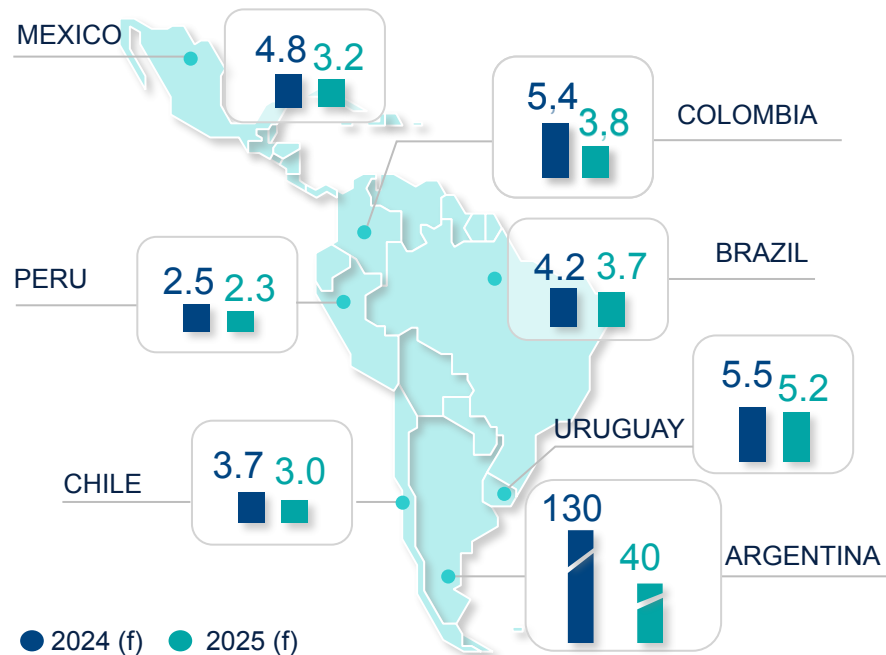
(*): Includes ARG, BRA, CHL, COL, MEX, PER, URU

(**): Includes ARG, CHL, COL, PER, URU.

Inflation continues to abate in 2024, and we expect gradual convergence to CB targets in 2025. Services inflation remain stubbornly high

INFLATION

(ANNUAL CHANGE EOP, %)



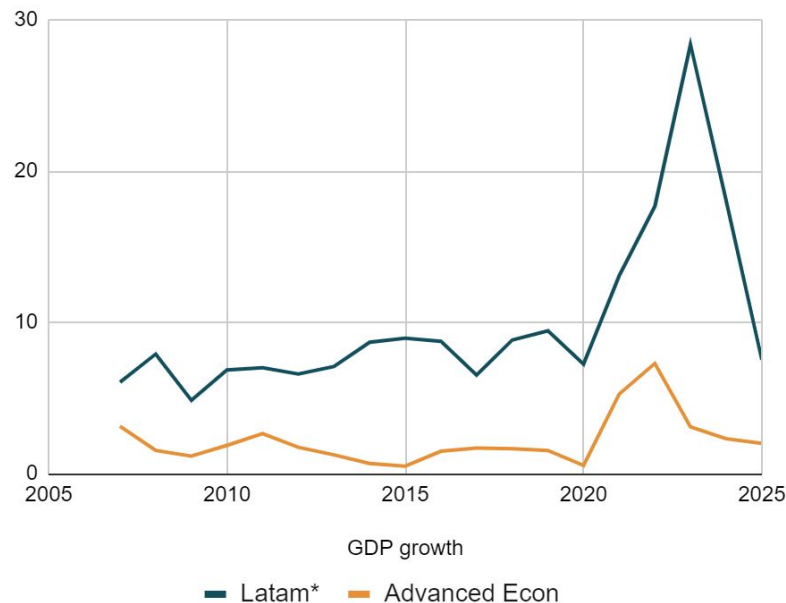
● 2024 (f) ● 2025 (f)

(f): forecast

Source: BBVA Research.

GLOBAL AND LATAM INFLATION

(ANNUAL CHANGE EOP, %)



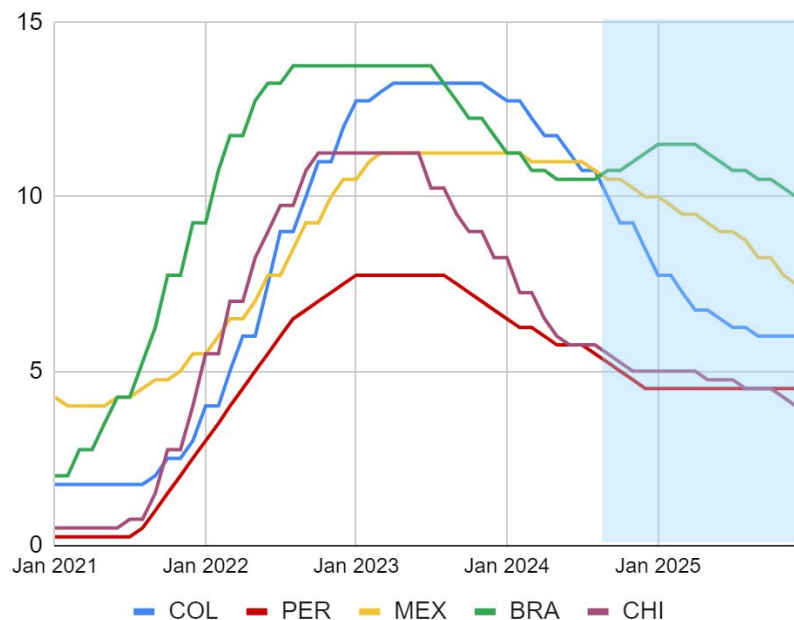
(*) Includes ARG, BRA, CHL, COL, MEX, PER, URU

(**) Includes ARG, CHL, COL, PER, URU.

Monetary easing to continue in Latam but with a close eye on interest-rate differentials with the US

LATAM 5* OFFICIAL INTEREST RATES

%



- Latam CBs started hiking earlier than the Fed
- Easing inflation has allowed for the start of rate cuts, also earlier than the Fed
 - Many countries with a lower interest rate spread to US rates than the last 10-year average.
 - Colombia and Mexico still show significant space to deliver important rate reductions, but uncertainty can run high, especially in Mexico
 - Cautionary tale from Chile on the impact of rapid rate cuts on FX depreciation
 - Hard to see CBs cutting rates below Fed's (eg Peru)

* Latam 5 includes the 5 largest Latam economies with an inflation-targeting framework

Source: National Statistics and BBVA Research

Risks to the Latam growth outlook have become more balanced, but “local considerations” could have a larger impact in certain countries

DOWNSIDE RISKS

- **Tighter-than-expected US monetary policy**, if the Fed falls behind the curve on the easing cycle
- **Commodity price volatility**. Could lead to increased uncertainty affecting production, investment, and exports of commodities
- **Climate-related shocks**. Possible La Niña. Wider spread of tropical diseases.
- **Political uncertainty**
- **Increased crime and social tensions**

UPSIDE RISKS

- **Stronger-than-anticipated growth in key export markets.**
- **Pick-up in infrastructure projects**, less prone to political gridlock
- **Green-growth opportunities** in the production of green energy and minerals.

A big uncertainty: What fallout in Latam from a (possible) Trump 2.0?

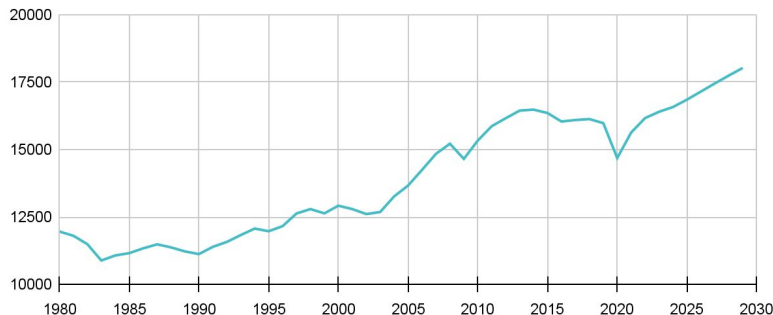
- **Barriers to Trade.** Targeted tariffs. Sand in the wheels of international trade. But Latam is highly dependent on external demand.
- **Market worries on fiscal trends.** Possible increase in long-term rates and risk premia in case of an ultra-loose fiscal policy (tax cuts) and higher deficits.
- **FX.** Possible USD appreciation as market response to a blanket increase in US tariffs and higher interest rates.
- **Skepticism on Climate change.** May push rest-of-the-world for less ambitious targets. Lowers the attractiveness of investment in Latam on climate-related sectors. Lower financial aid towards climate change
- **Tough on immigration.** Reduces social safety valves in many Latam countries. Negative impact on remittances from crackdown on illegal immigrants. But immigration to the US is likely to continue
- **Heterogeneity on political stance vis-a-vis each country**
 - **ARG:** better relationship out of ideological alignment. Net positive on external financing, including IMF?
 - **CHL, URU:** about neutral
 - **BRA, COL:** mildly negative on low political affinity; lower support for climate policies, pressure on migration (COL)
 - **PER:** mildly negative on less pressure from the US to maintain institutionality
 - **VEN:** significantly negative: possible tighter sanctions. Migrants as a bargaining chip
 - **MEX:** increased uncertainty on many fronts: renegotiation of USMCA, tariffs (biggest bilateral trade deficit), border security. But volatility is likely to be lower than in “Trump 2016”.

04

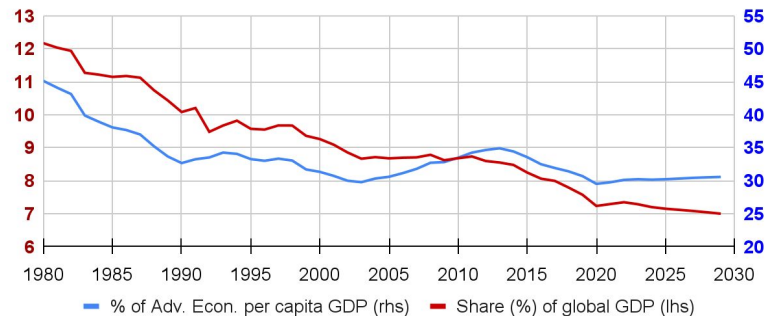
Opportunities and risks for Latin America

Latam: dealing with the fourth negative shock in short succession

LATAM GDP PER CAPITA - CONSTANT USD PPP



LATAM GDP GAPS - IN PPP



■ Four Shocks to the region since 2014

- End of commodity supercycle (2014).
- COVID (2019).
- War in Ukraine (2022-).
- Tightening global financial conditions.
- GDP per capita not likely to recover until 2025 (A missed decade? unlike the 80s!).

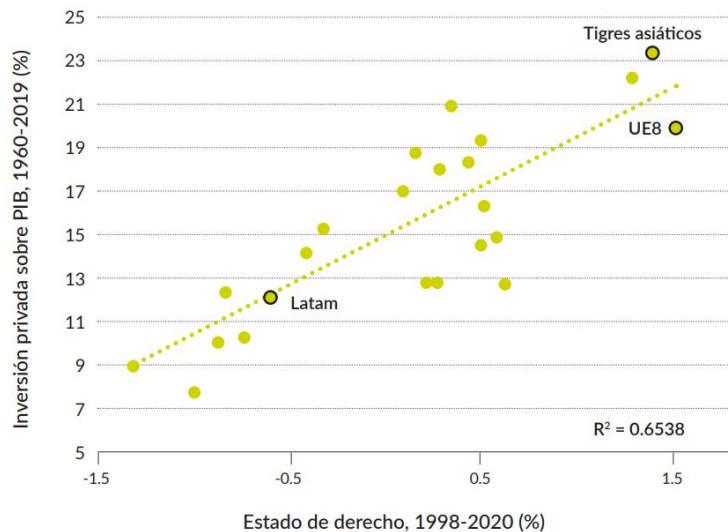
■ Latam's share of Global GDP continues to decline.

- This is not just the rise of Asia: the gap of GDP per capita between Latam and Advanced Economies remains at historical highs.

■ Need to revamp productivity growth. How?

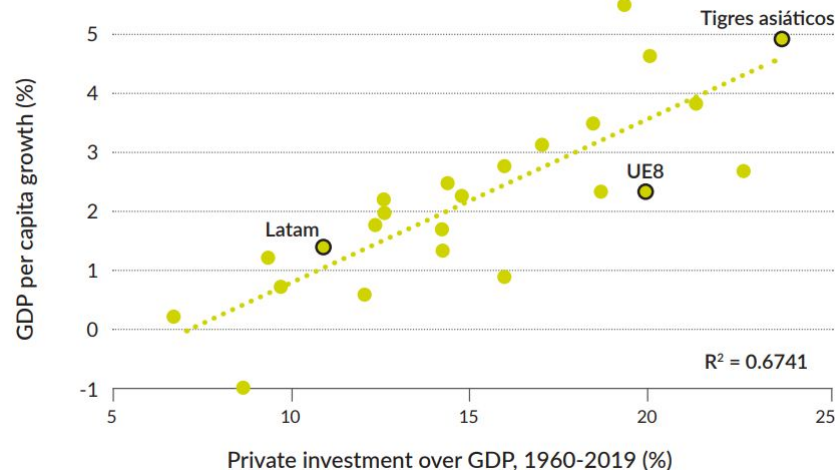
Latam and Europe need to increase per-capita growth: the role of private investment and institutions is key

PRIVATE INVESTMENT AND RULE OF LAW



Source: IMF, World Governance Indicators and BBVA Research.

PRIVATE INVESTMENT AND GROWTH



Source: IMF, Penn World Tables and BBVA Research.

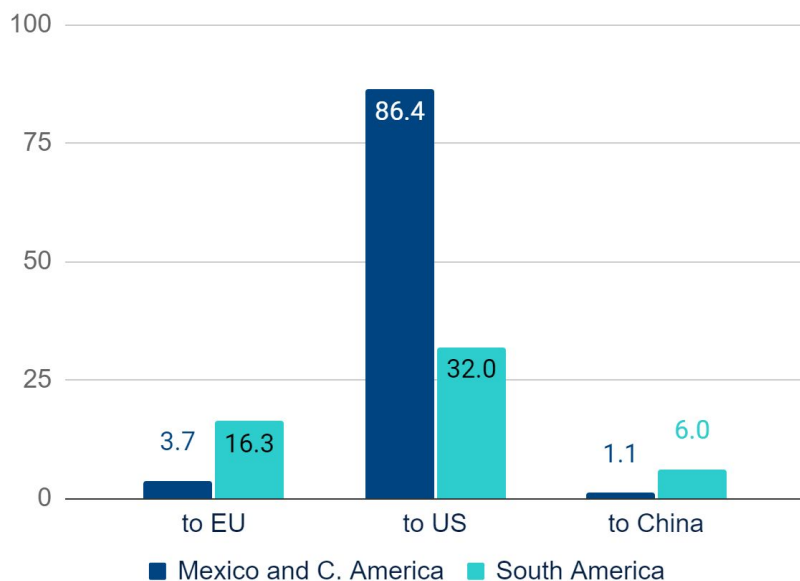
Countries with **better institutions** and better rule of law correlate with **higher investment**.
Higher private investment translates into **higher per-capita growth** and faster convergence.

Levers for productivity in Latam (1): Trade? Difficult.

- Difficult given the **lack of appetite for new trade deals** in the US or Europe.
- **China is a poor substitute** with lower potential impact on the region: important destination for commodities, but not for high-value-added exports.
- **Deficient intra-region trade** due to lack of infrastructure, atomized trade deals, over reliance on commodities (except Central America).
- Nearshoring? Mexico is well positioned. Will it take advantage of it? It is key what countries do.
 - (South America is much farther away; never took advantage of rise of value chains)

LATAM: EXPORTS OF MEDIUM- AND HIGH-TECHNOLOGY

% OF TOTAL EXPORTS OF ITS KIND



Levers for productivity in Latam (2): FDI. Need to improve business environment

FDI STOCK IN LATAM, 2021

(% OF SUM EU+US+CHINA)



CUMULATIVE FDI FLOWS TO LATAM, 2010-20

(% OF SUM EU+US+CHINA)



Source: Instituto Elcano (2023).

A big win for Latam

- Key component of transfer of know-how.
- Institutional anchor.
- EU and US still dominant in Latam
 - Stock of EU+US FDI is 20 times bigger than China's;
 - 5 times bigger flows than China during 2010-2020

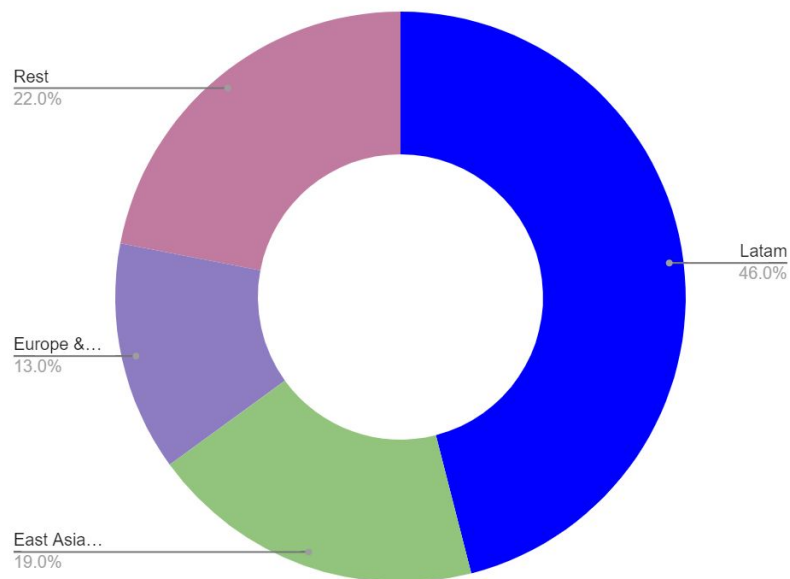
A potential big win for EU (and US)

- Access to key resources.
- Access to local markets.
- Export platforms (eg USMCA in Mexico) and cost advantages.

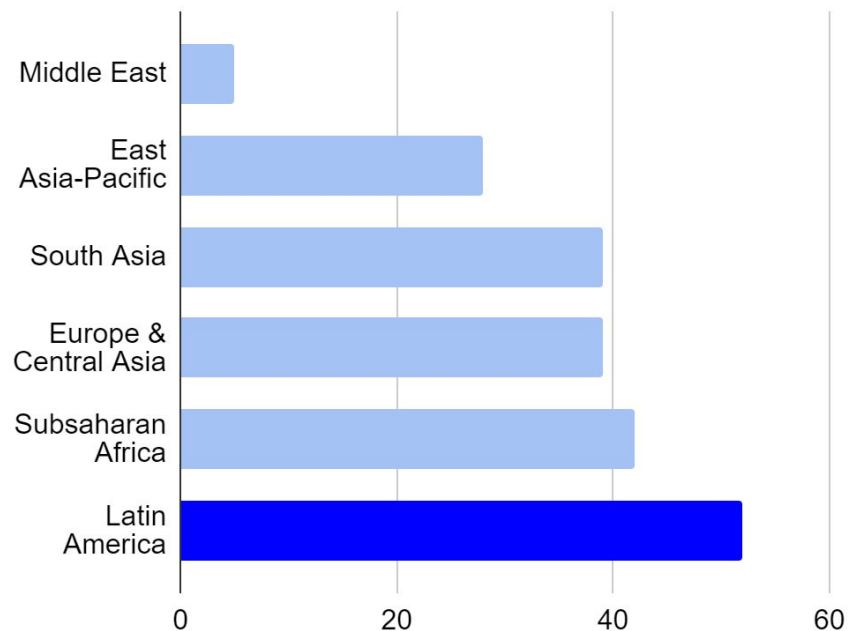
Need to improve business environment

Levers for productivity (3): Latam well positioned in the fight against climate change

COPPER PRODUCTION (% OF GLOBAL)



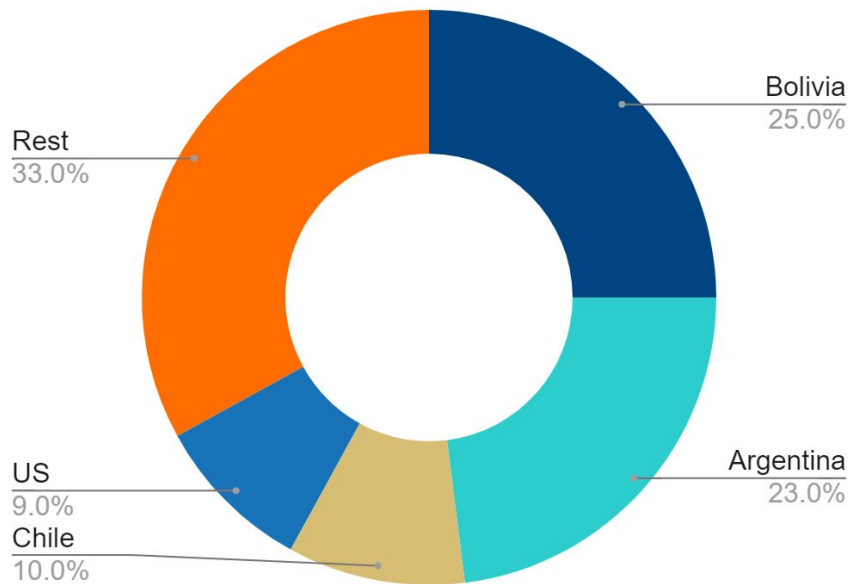
EM: ELECTRICITY GENERATION FROM RENEWABLES (% OF TOTAL)



Leveraging climate change and biodiversity

LITHIUM RESERVES

(% OF GLOBAL)



Source: IADB and BBVA Research.

■ Latam: leveraging Climate action for growth?

- Latam has a larger share of **key resources** (copper, lithium) than its share of global GDP
- Latam is also prone for **clean energy export** (hydrogen) to EU or receive **energy-intensive industries**, part of GVCs.
- LatAm also needs to unlock the **potential of natural capital**, to combat biodiversity loss; it needs the right investment and regulatory framework as **private investment is key**

■ A possible win-win for EU and US

- Secure supply chains for climate action, including clean energy. EU/US investment?
 - Work toward EU emissions goals.
 - Part of the value added to remain in Latam.
 - Help improve Latam environmental standards.

Levers for productivity in Latam (4): structural reforms 2.0. But domestic political dynamics represent a headwind

REFORMS 1.0

- **Latam: Successful macro reforms in the 90s**
 - Central bank independence
 - Prudent Fiscal policies
 - Flexible exchange rates
 - improved bank regulation and supervision
- **... led to a more stable macro environment**
 - Low and anchored inflation
 - Exchange rate acted as a shock absorber
 - Resilient to external shocks (2008, 2014/5)
 - No crises: balance of payment, banking, or fiscal in macro-reforming countries.

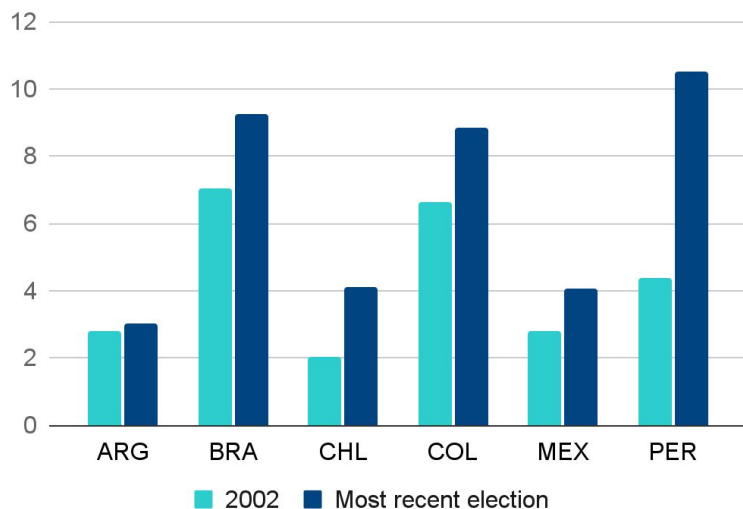
REFORMS 2.0

- **What's needed: Reforms focused on the micro side**
 - Labor market flexibility, product market competition
 - Infrastructure and logistics
 - Increase saving to finance investment
 - Improve health and education quality
 - Rule of law, corruption, judicial system
 - Reduce informality
- **Structural reforms need consensus, like 90s**
 - More difficult in a polarized political environment

Political cycle in Latam: “pink wave” or “insatisfaction wave”?

POLITICAL FRAGMENTATION

(Index of effective number of parties in Congress)



* The number of effective parties is computed as the inverse of the Herfindahl concentration index for party seats in Congress. It represents the equivalent number of parties in Parliament if all of them were of equal size.

Source: National Congresses and BBVA Research.

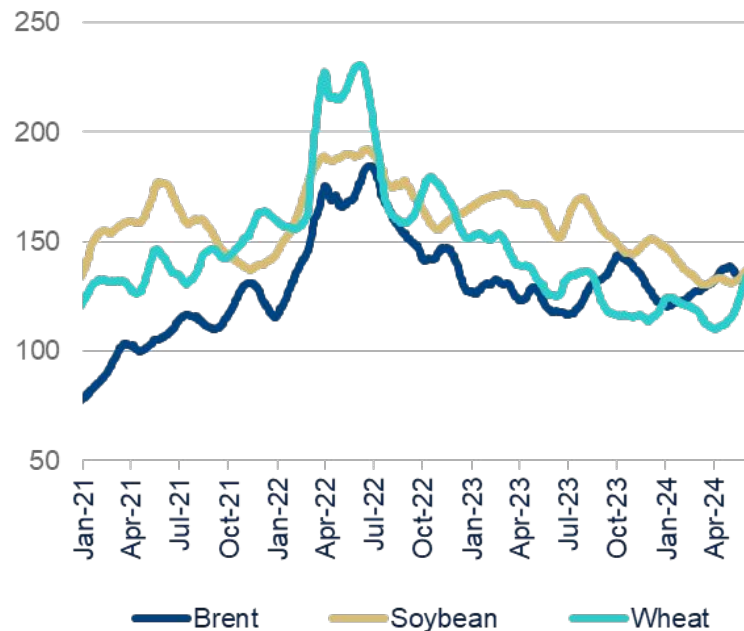
- 2022-24 is the latest election cycle in Latam (CRC, COL, BRA, ARG, PRY, GTM, MEX, ELS, VEN, URU)
- Pink Wave (PER, COL, BRA, CHI) cannot be generalized: see ARG, ECU, CRC.
- Since 2018, opposition has won 76% of elections in Latam. No ruling party candidate has won presidency, except MEX.
- “Punishment vote” started around 2015, with the growth slowdown. It reduces the length of mandates, relative to long mandates in the high-growth decade (2003-13)
- Polarization and fragmentation have become the norm. Elected Presidents on average got 37% of vote in first-round in 2018-22 (48% in 2009-13).
- Difficult governability. Difficult to pass reforms.
- Mexico is the notable exception to this regional pattern

Annex 01: Commodity prices, assumptions 3Q24

Demand concerns have paved the way for lower commodity prices, despite geopolitical tensions

COMMODITY PRICES

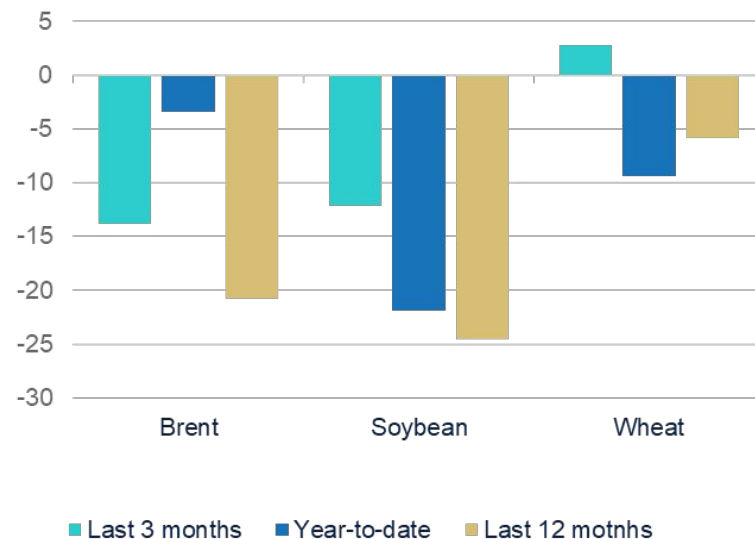
(INDEX: 2019 AVERAGE = 100, 30-DAYS MOVING AVERAGE)



Source: BBVA Research based on data from Haver.

COMMODITY PRICES (*)

(% CHANGE DURING SELECTED PERIODS)



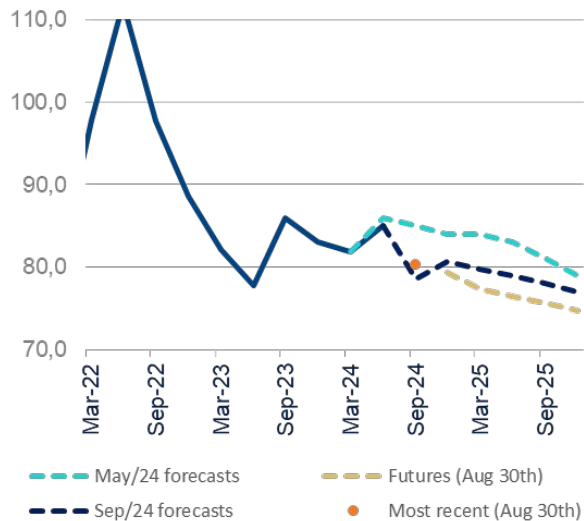
(*) Last available data: September 19th

Source: BBVA Research based on data from Haver

Oil and copper forecasts have been revised down, in line with most recent trends

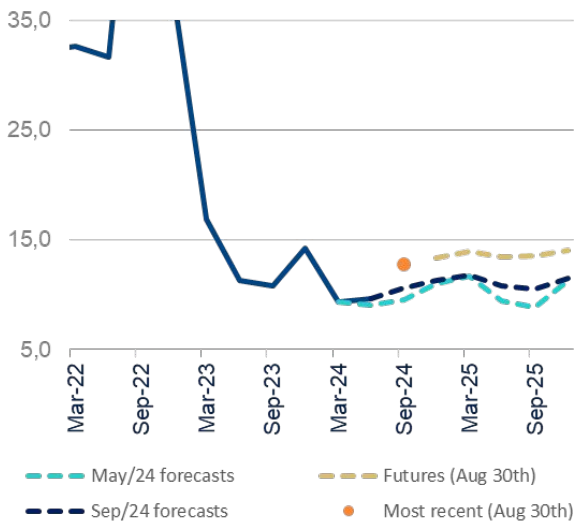
OIL PRICES

(USD/ BARREL, QUARTERLY AVG.)



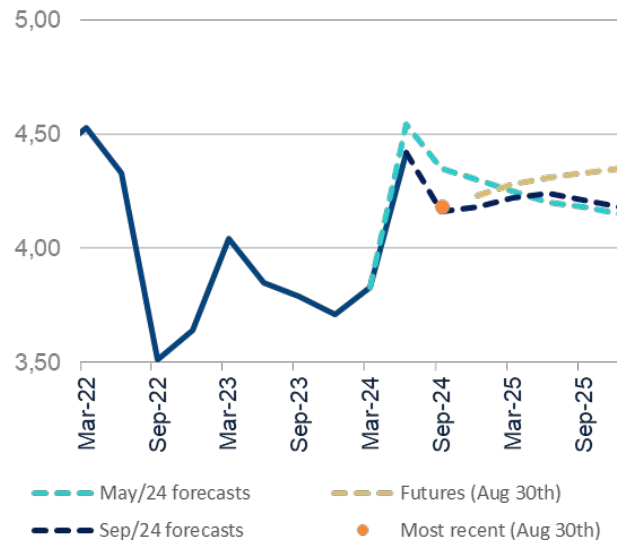
EUROPEAN GAS PRICES

(USD/MMBtu, QUARTERLY AVG.)



COPPER PRICES

(USD/TON, QUARTERLY AVG.)



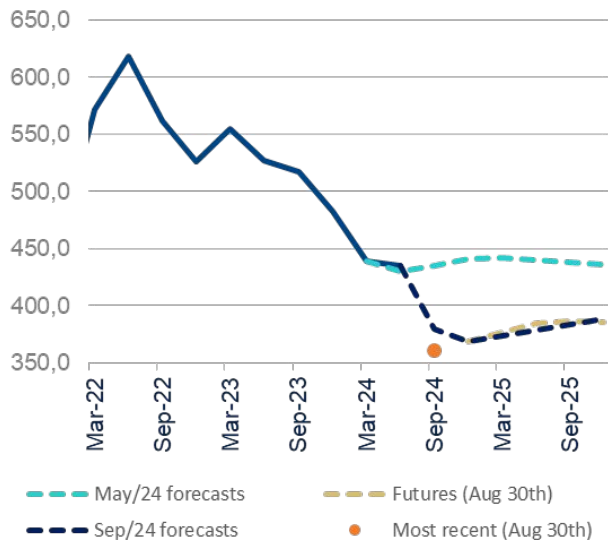
More details about forecasts: [here](#) and [here](#)

Source: BBVA Research

Larger downward correction in grain prices (and forecasts) as positive supply developments add to ongoing demand concerns

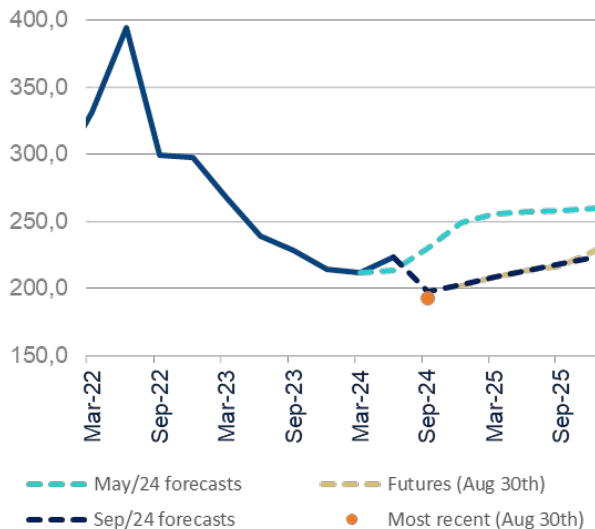
SOYBEAN PRICES

(USD/TON, QUARTERLY AVG.)



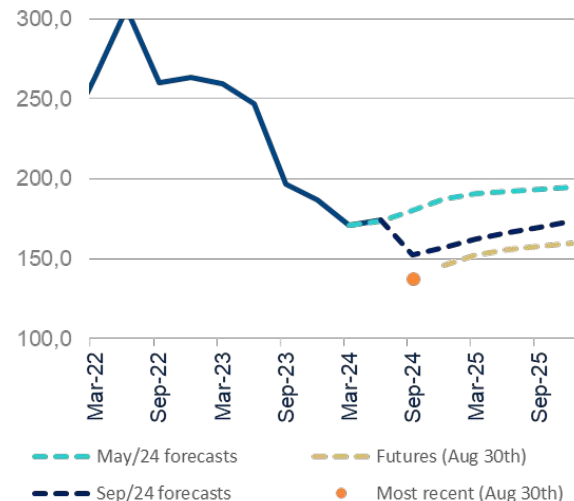
WHEAT PRICES

(USD/TON, QUARTERLY AVG.)



CORN PRICES

(USD/TON, QUARTERLY AVG.)



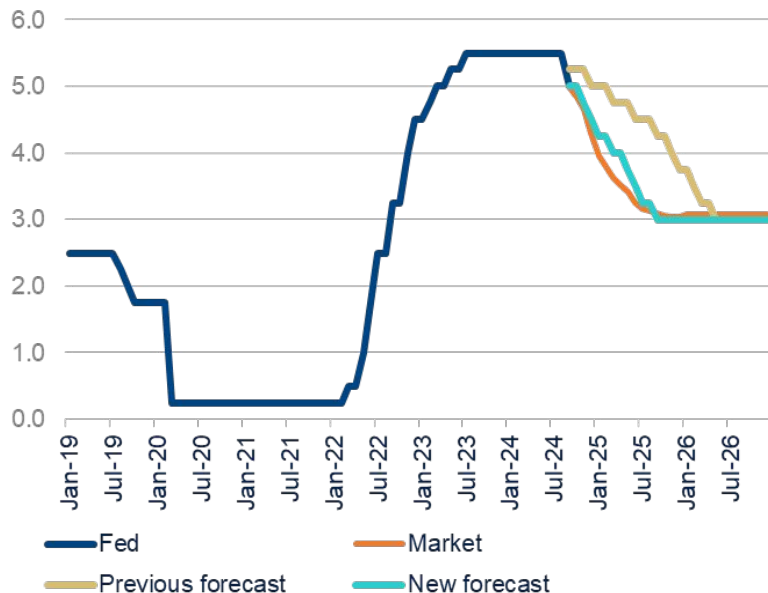
More details about forecasts: [here](#) and [here](#)

Source: BBVA Research

Annex 02: Details on Monetary Policy

US: the Fed starts big but points to smaller rate cuts ahead; it is now in a pre-emptive mode, committed “to not get behind [in cutting rates]”

FED FUNDS RATE OUTLOOK (UPPER LIMIT OF THE TARGET RANGE, %)

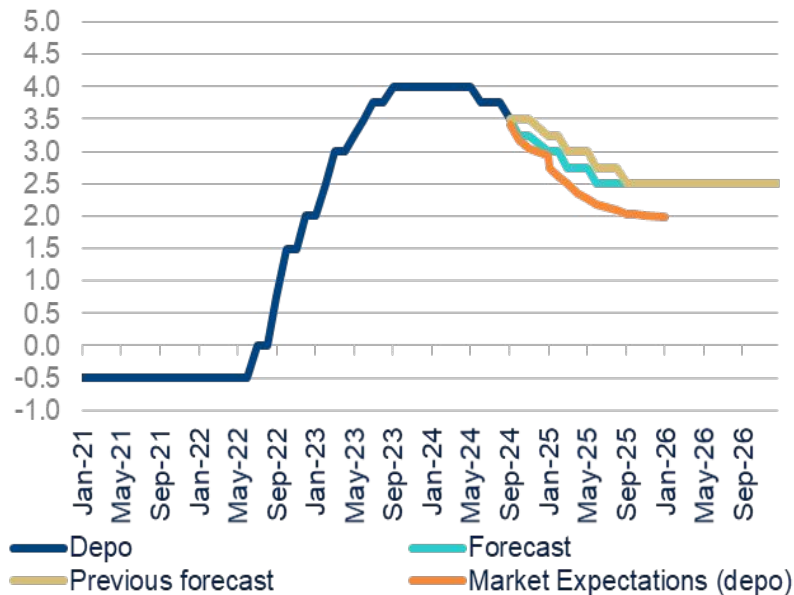


Source: BBVA Research/Haver/FED.

- The Fed's quest to preserve the soft landing has begun
- “No one should look at [today's big 50 bps rate cut] and think this is the new pace”; it rather signals Fed's commitment “not to get behind [in cutting rates].”
- Slower rate cut cycle ahead
- We now expect two 25bp rate cuts this year, which will bring down rates to 4.50% (from 5.0% before) and six more by next Sep, to 3.00%. (vs. 3.75% by year-end 2025 before)
- QT: the reduction of the monthly pace of Treasuries runoff to a \$25bn cap (vs \$60bn) since Jun/24

ECB: we now expect 25 bps rate cuts in Oct/24 and Dec/24, followed by two more next year, with rates thus converging to 2.5%

ECB: DEPO RATE FORECASTS (%)



Recent developments:

- The decline in headline inflation in September, which fell below the ECB's 2% target, has strengthened the case for a rate cut. Along with weak PMIs, this drop in inflation led ECB President Lagarde to signal during her late September speech at the European Parliament that the next rate cut could potentially happen as early as October. Several other Governing Council members, including Isabel Schnabel, have also indicated that an October cut is likely.

Baseline scenario: CHANGES in our call for the ECB.

- Rates:** one 25 bp of rate cut in Oct. and another one in Dec. Additional two rate cuts in 2025 instead of three
- Same terminal rate:** depo rate to 2.5% (June 2025)
- Gradual QT:** for APP to continue, for PEPP stated in June (50% roll-off in 2H24), reinvestment until Dec/24.
- Euribor 12M forecasts:** 2.58% average for 2025 (vs. 2.68%), 2.5% at the end of 2025

Global Outlook and Impact on LatAm

AMCHAM

October 16th, 2024