



International Monetary Fund
October 2017

Global, Regional, and Peru Outlook

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Western Hemisphere Department



Presentation Outline

I. Global Outlook

II. LAC Outlook

III. Peru

Growth Projections: Advanced Economies

(Percent change from a year earlier)



World



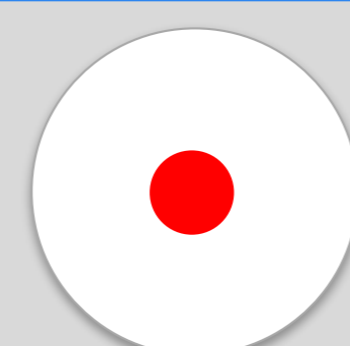
Advanced Economies



U.S.



U.K.



Japan



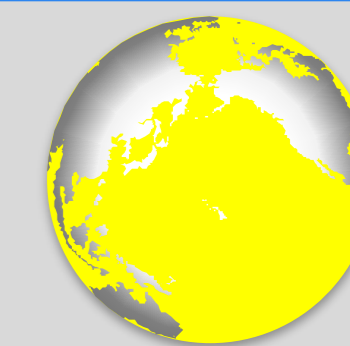
Euro Area



Germany



Canada



Other
Advanced
Asia

2016

3.2

1.7

1.5

1.8

1.0

1.8

1.9

1.5

2.3

2017

3.6

2.2

2.2

1.7

1.5

2.1

2.0

3.0

2.6

Revision
from Jul.
2017

0.1

0.2

0.1

0.0

0.2

0.2

0.2

0.5

0.1

2018

3.7

2.0

2.3

1.5

0.7

1.9

1.8

2.1

2.7

Revision
from Jul.
2017

0.1

0.1

0.2

0.0

0.1

0.2



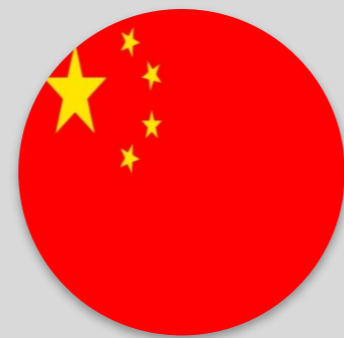





0.2

0.2

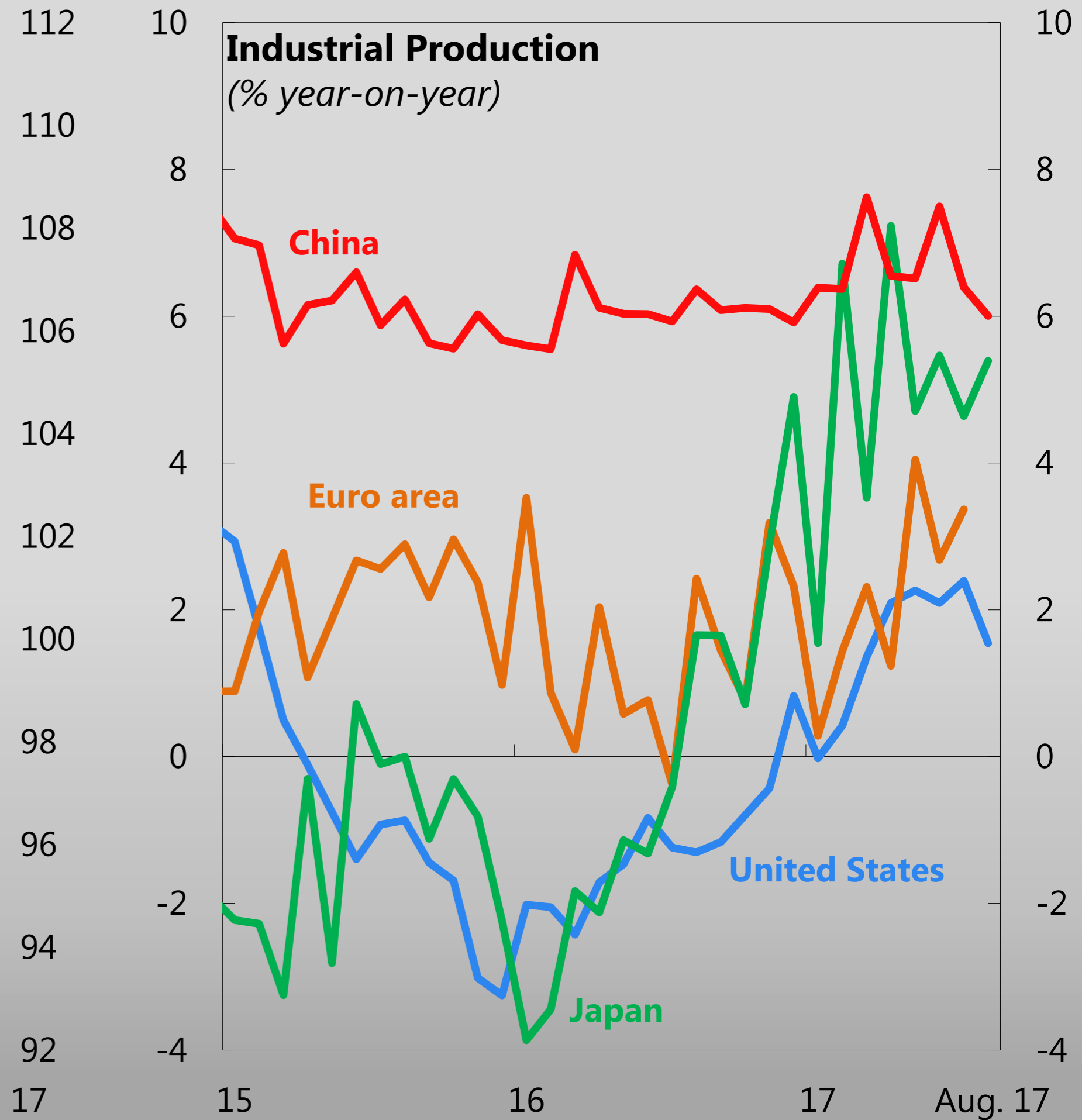
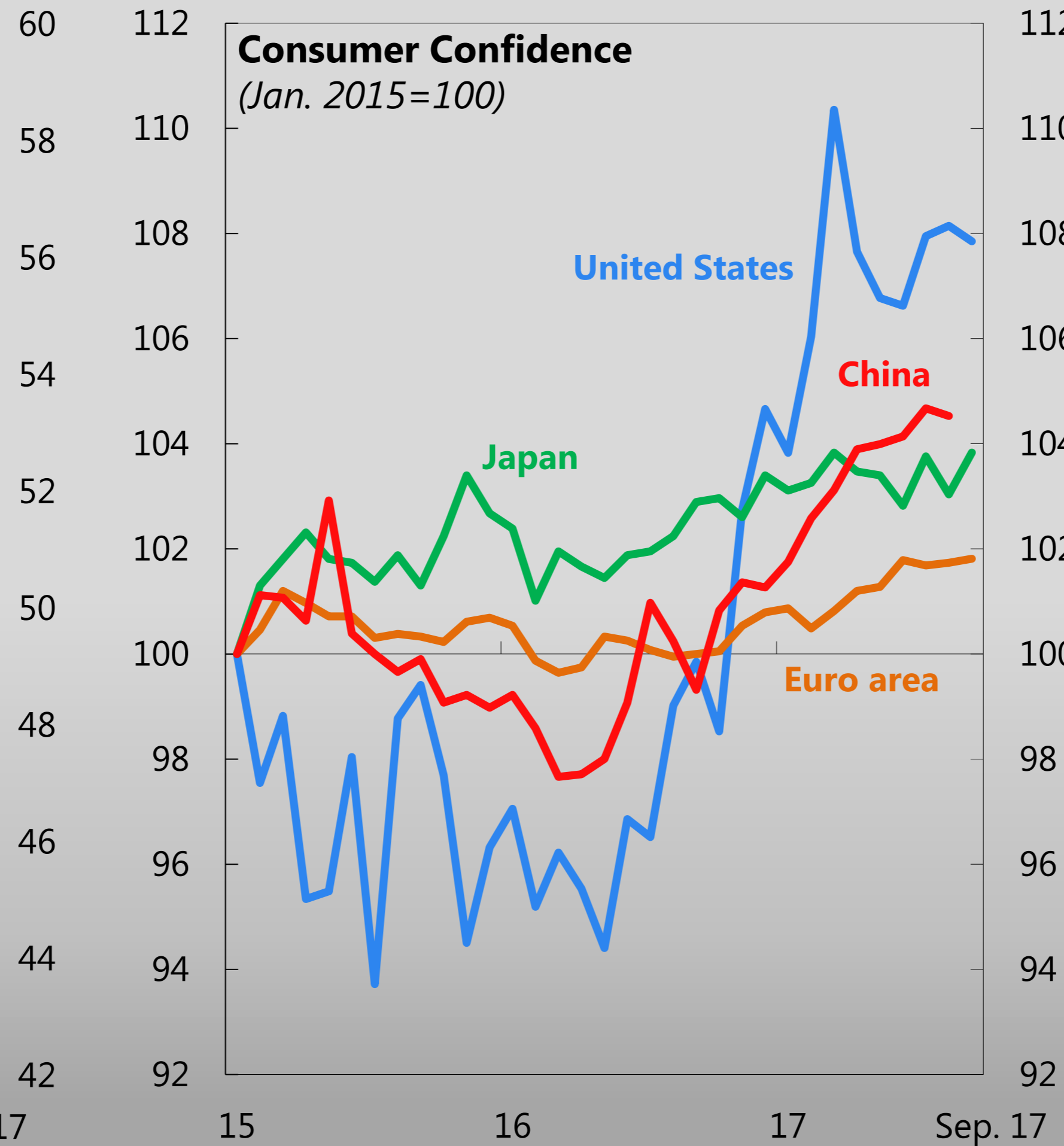
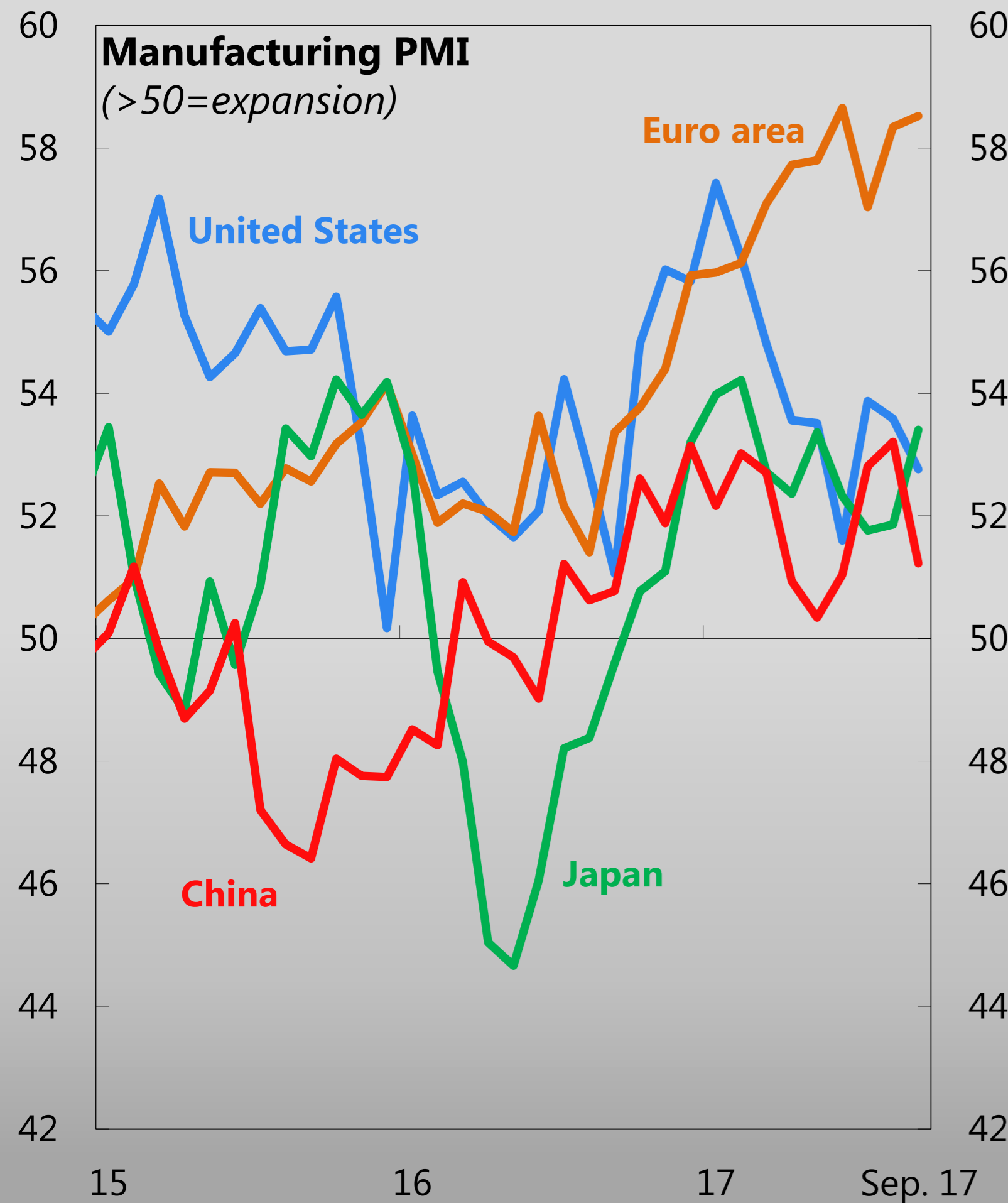
0.0

Growth Projections: Emerging Markets and LIDCs

(Percent change from a year earlier)

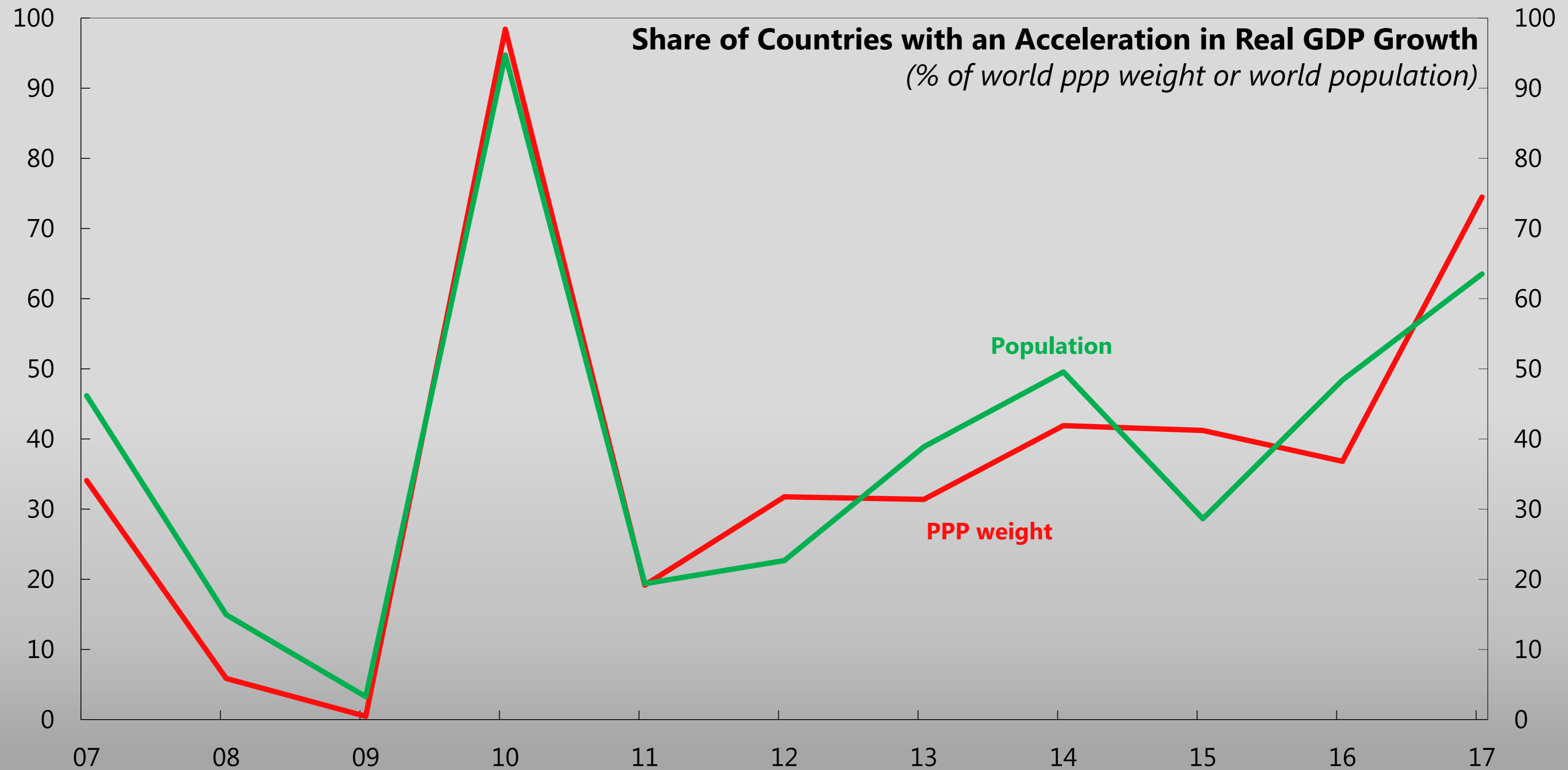
	 World	 Emerging Market and Developing Economies	 China	 India	 Brazil	 Russia	 Commodity Exporting Economies	 Sub-Saharan Africa
2016	3.2	4.3	6.7	7.1	-3.6	-0.2	1.5	1.4
2017	3.6	4.6	6.8	6.7	0.7	1.8	2.3	2.6
Revision from July 2017	0.1	0.0	0.1	-0.5	0.4	0.4	0.1	-0.1
2018	3.7	4.9	6.5	7.4	1.5	1.6	2.9	3.4
Revision from July 2017	0.1	0.1	0.1	-0.3	0.2	0.2	0.1	-0.1

Continuing improvement in soft and hard indicators



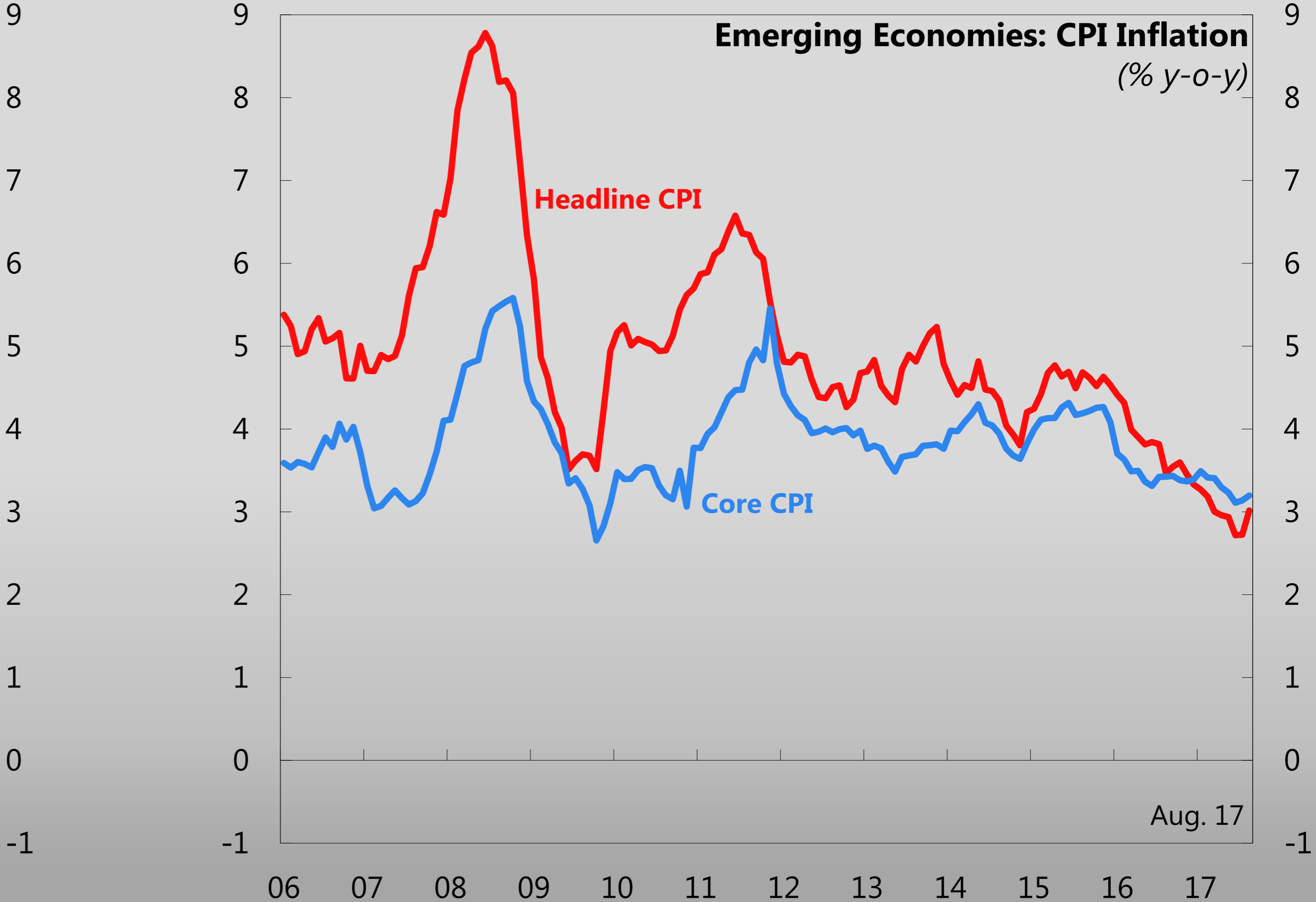
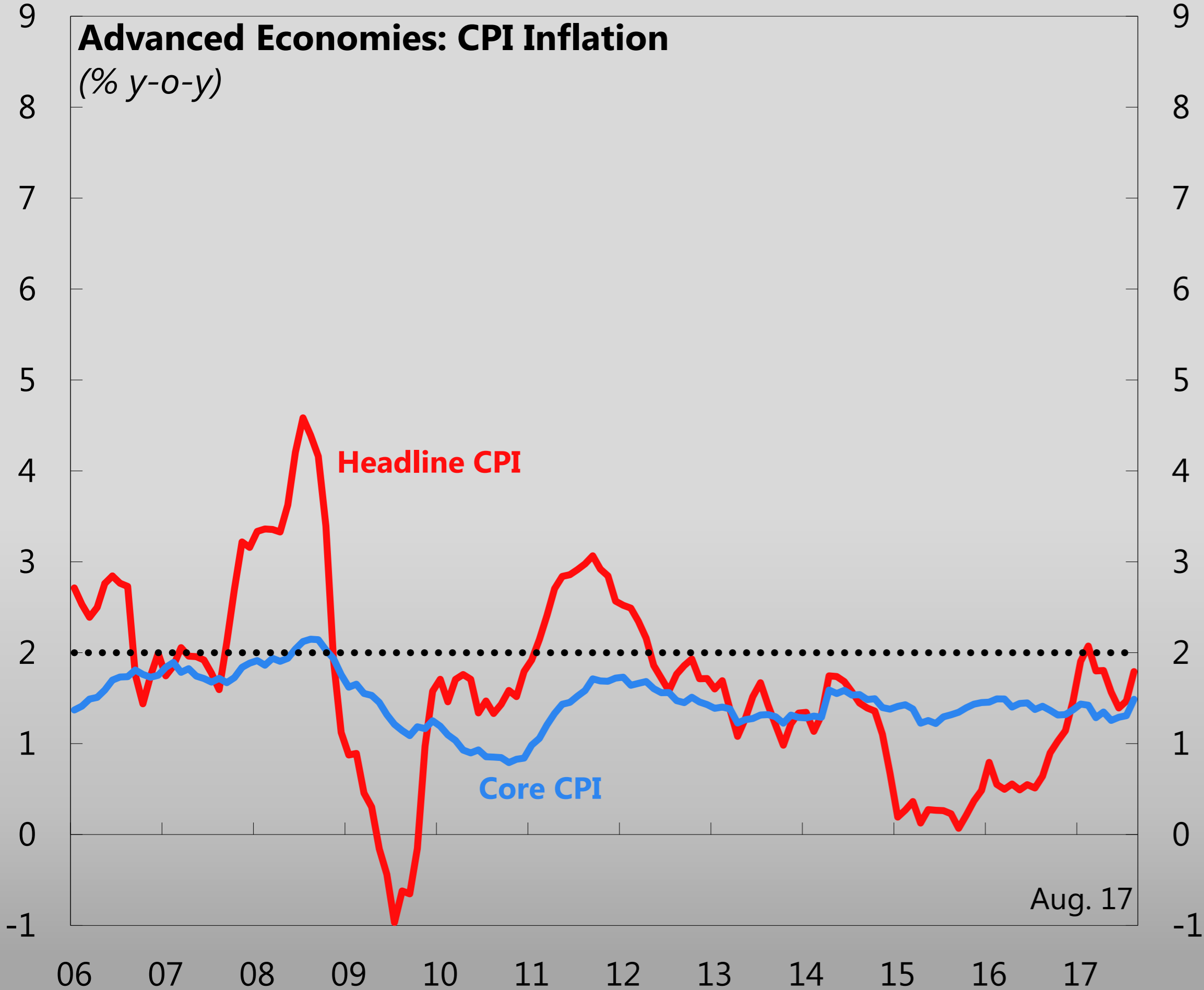
Sources: IMF, Global Data Source database; and IMF staff calculations.

Broad-based upswing



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

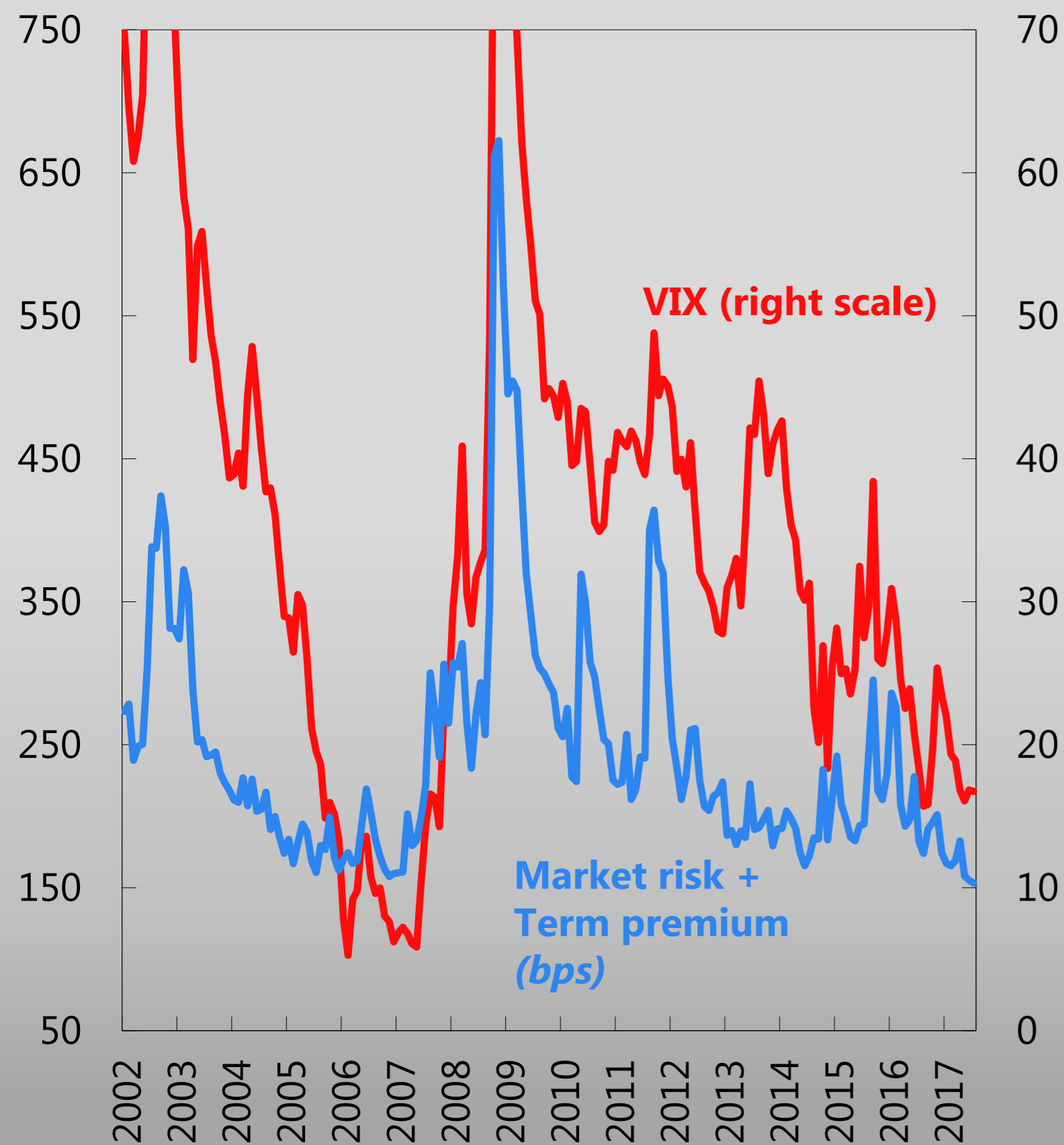
But low inflation in both AEs and EMs



Source: IMF, Global Data Source database.

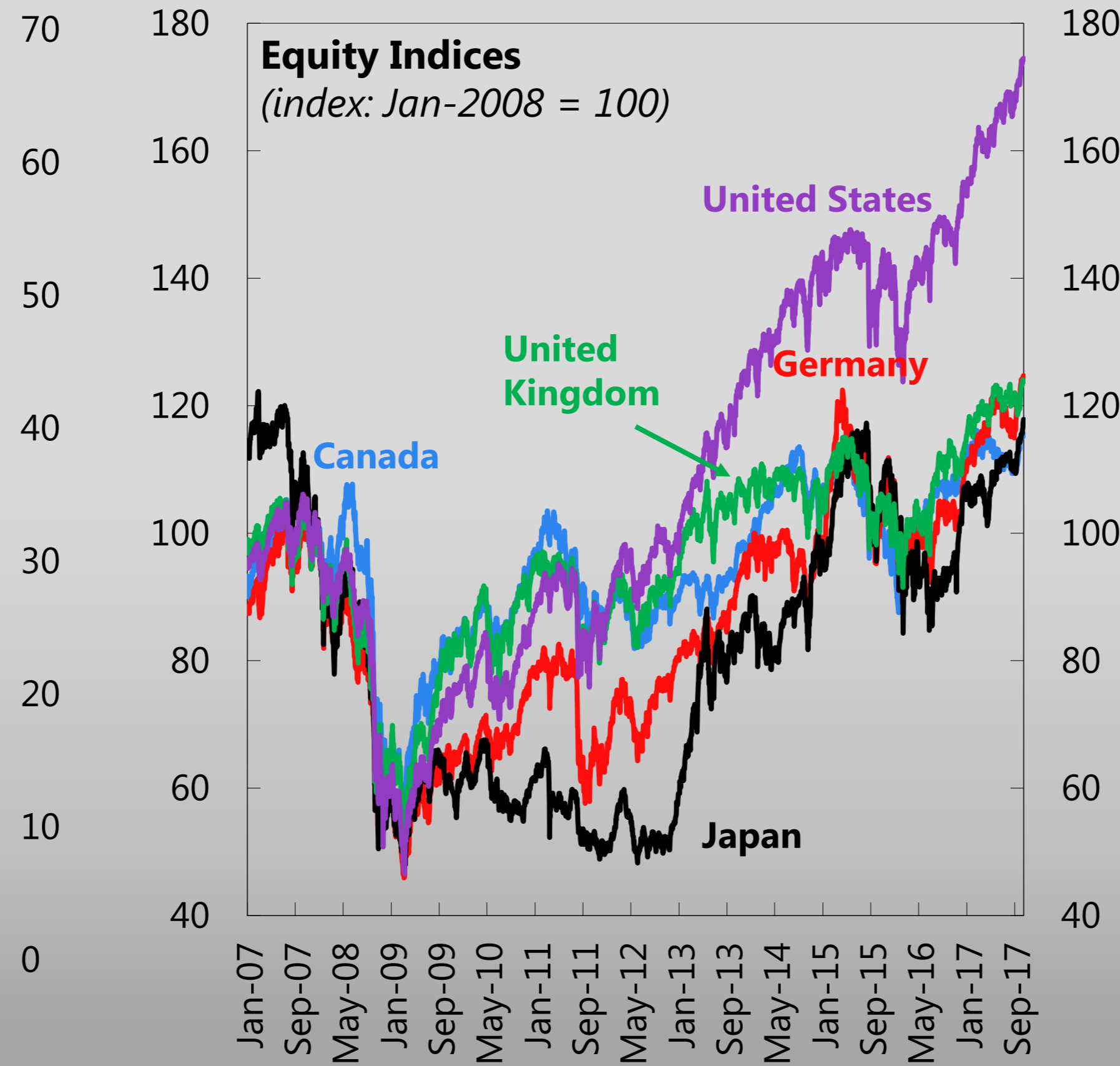
Easy global financial conditions, but EM vulnerabilities remain

Risk premiums and market volatility are compressed



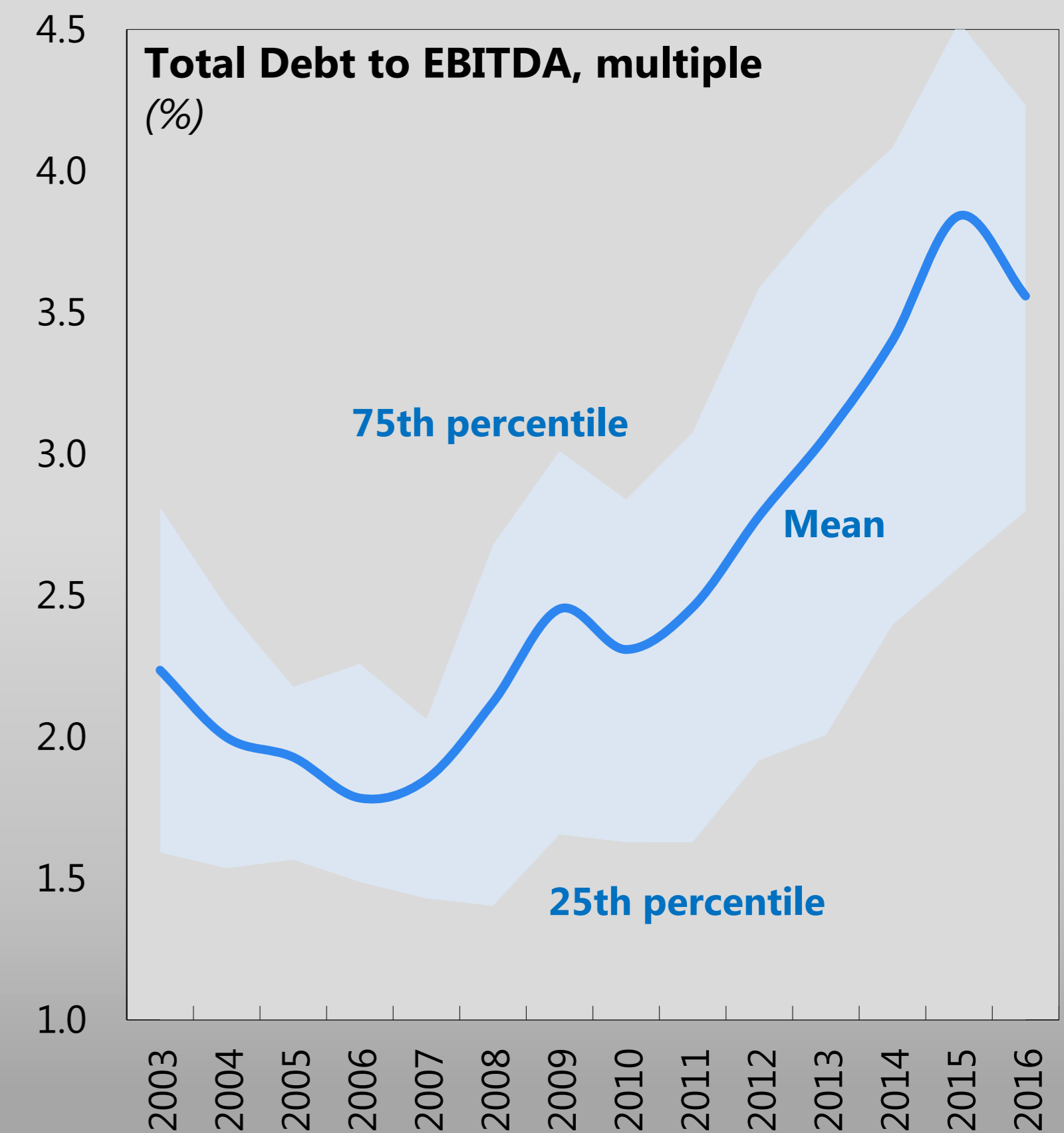
Source: Bloomberg L.P.

Equity indices are at historic highs



Source: Thomson Reuters Datastream.

Corporate leverage remains high



Source: Bloomberg L.P.

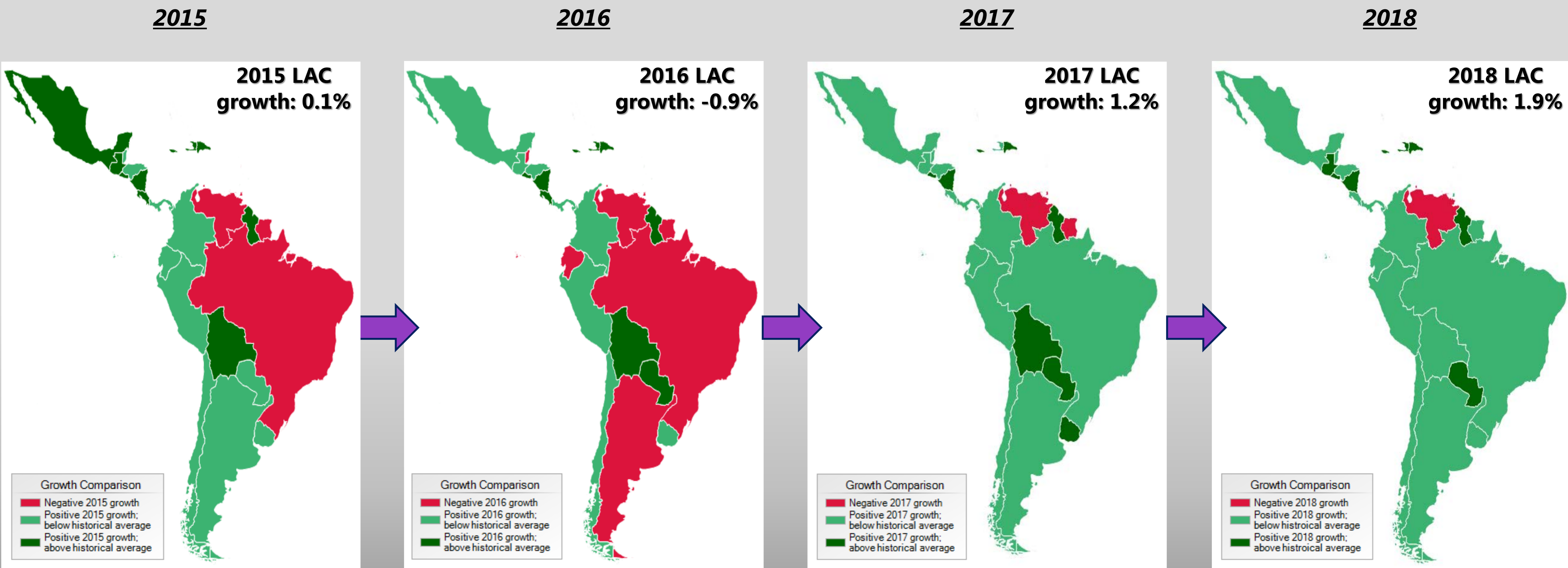
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LAC slowly emerging from a protracted recession

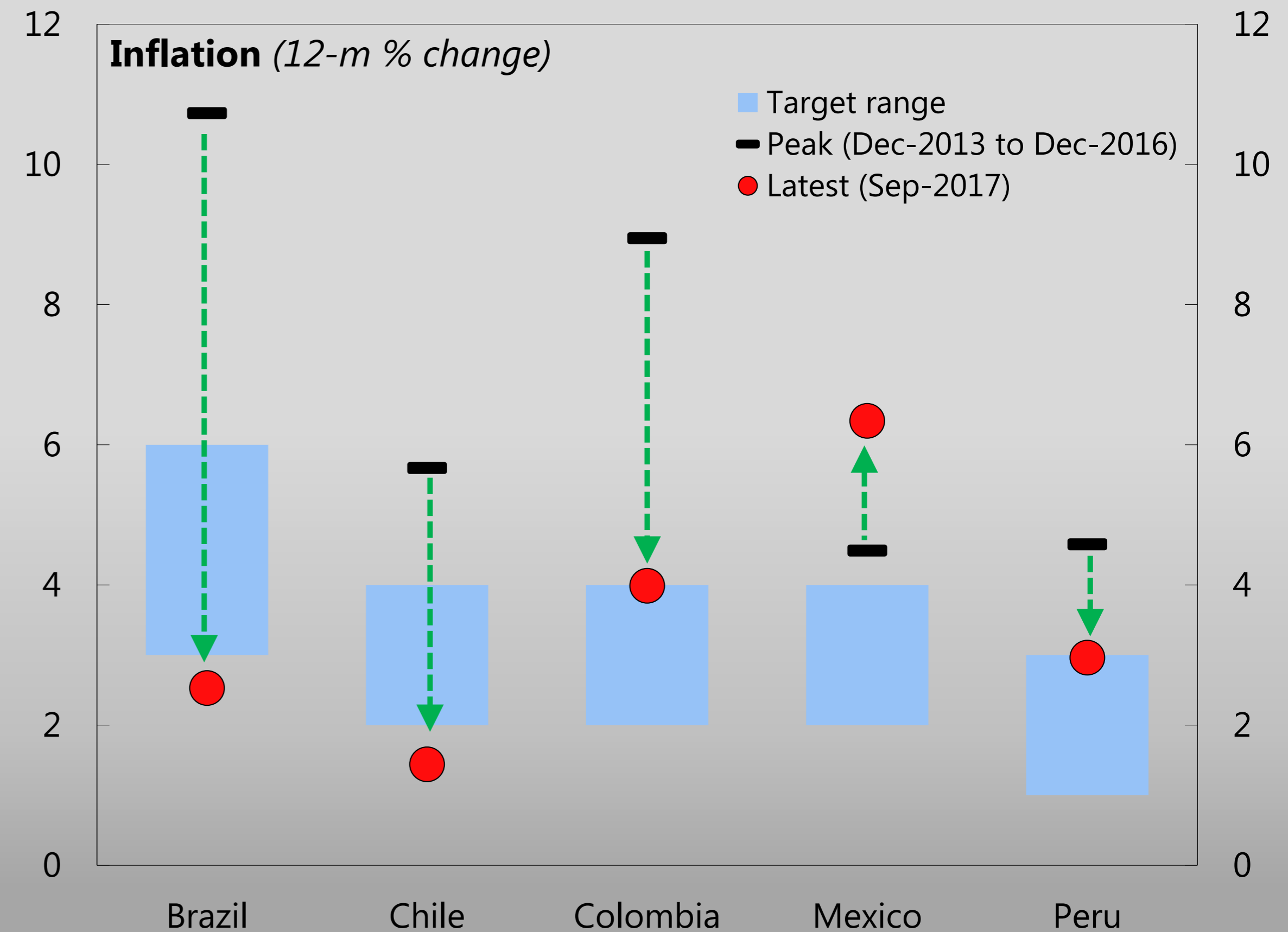
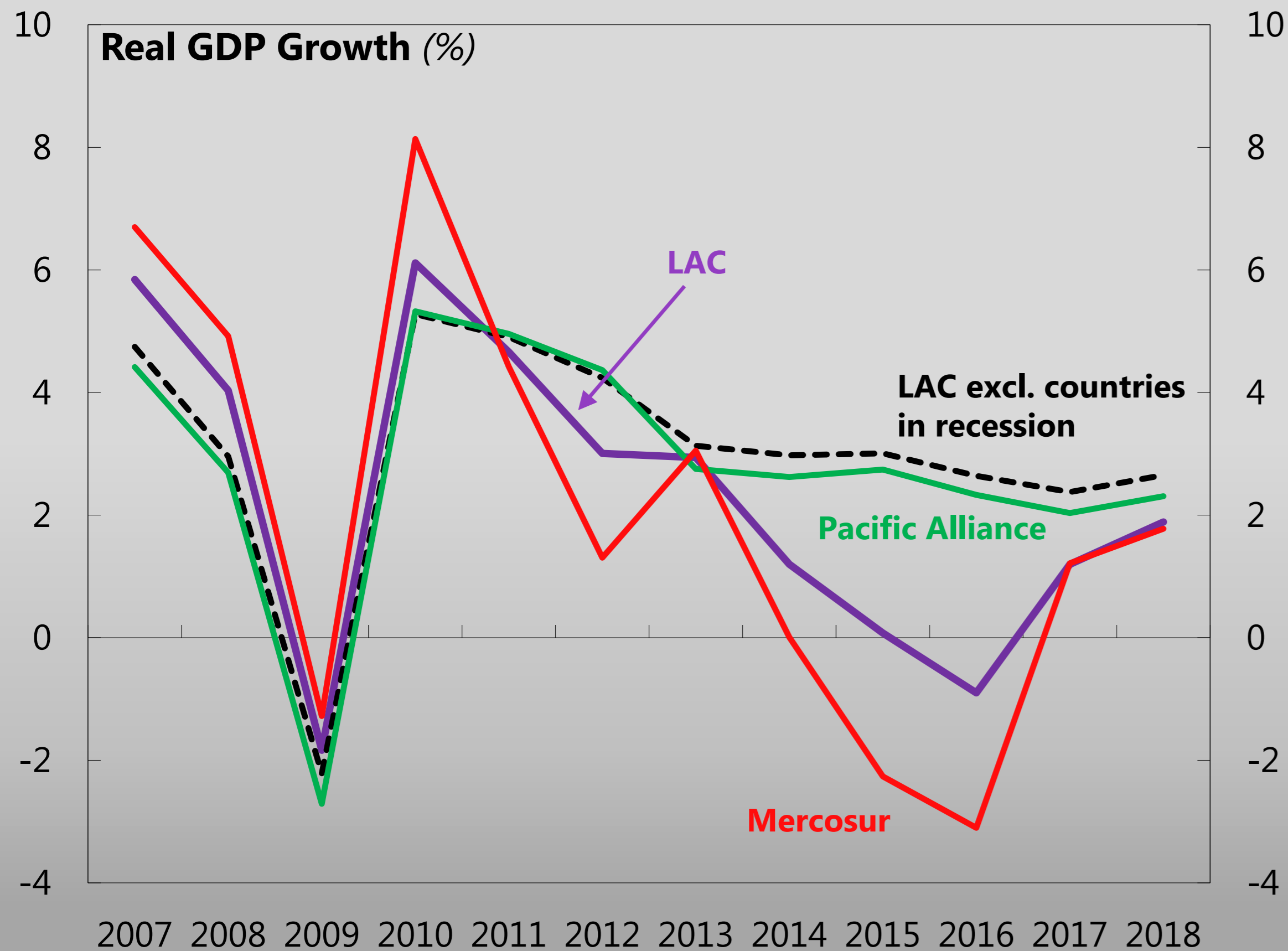


Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Historical average refers to the average growth from 2000–13.

The cyclical recovery is on track in Latin America

The economic recovery expected a year ago is now a reality...

... at the same time, inflation has been falling in most countries.



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: Recession countries are Argentina, Belize, Brazil, Ecuador, Suriname, Trinidad and Tobago, and Venezuela. Pacific Alliance includes Chile, Colombia, Mexico, and Peru. Mercosur includes Argentina, Brazil, Paraguay, and Uruguay. LAC = Latin America and the Caribbean.

Sources: Haver Analytics; and IMF staff calculations.

Note: Peak dates over the period December 2013 to December 2016 are: Brazil (January 2016); Chile (October 2014); Colombia (July 2016); and Mexico (January 2014); and Peru (January 2016).

Improving outlook for LAC in the short term

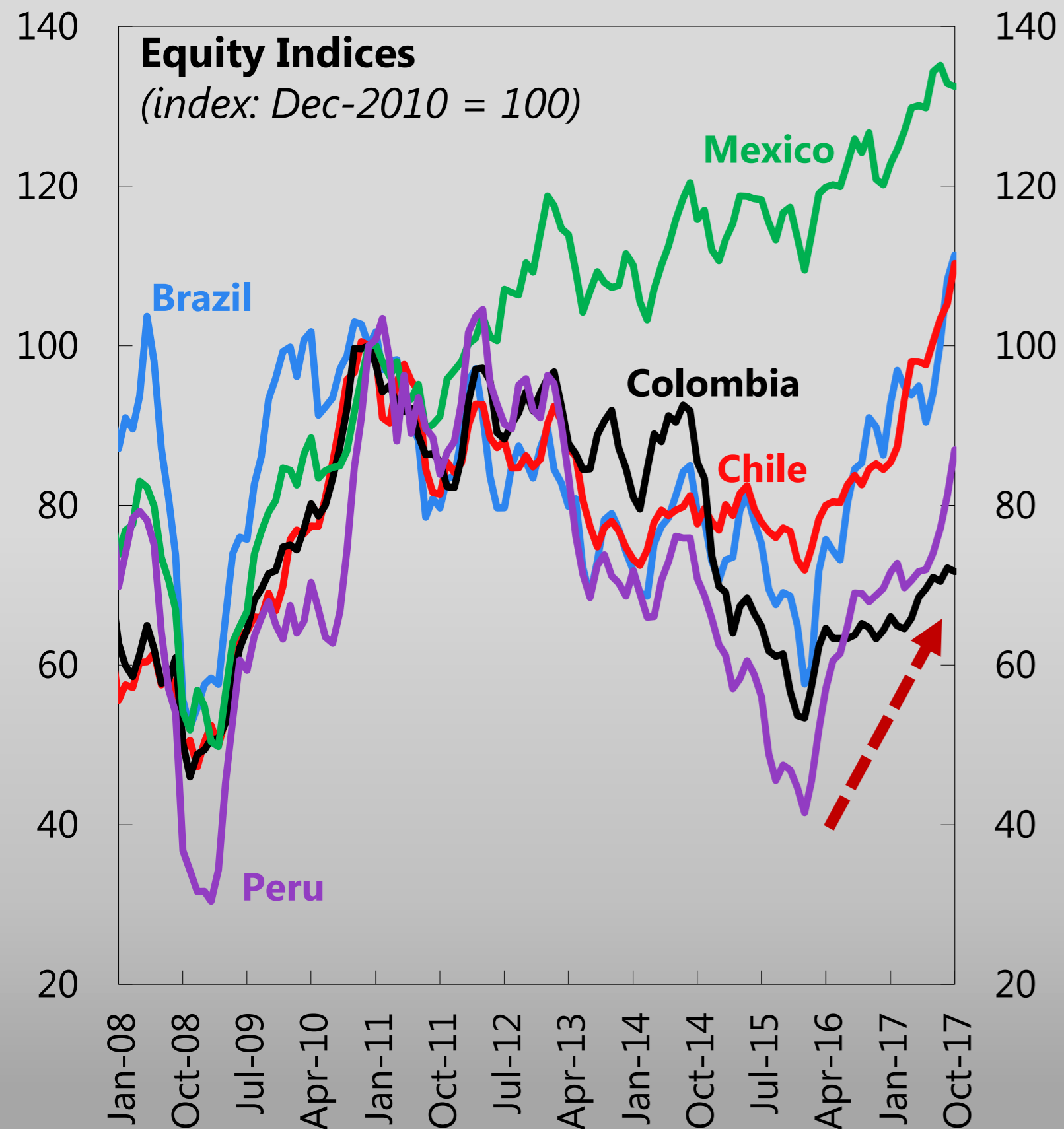
	Real GDP Growth (%)						CPI Inflation (<i>end of period</i> ; %)				
				Projections						Projections	
	2014	2015	2016	2017	2018		2014	2015	2016	2017	2018
LAC	1.2	0.1	-0.9	1.2	1.9		5.0	6.2	4.6	4.2	3.6
CAPDR	5.0	5.1	4.6	4.1	4.4		3.3	1.6	2.0	3.3	3.8
Caribbean											
Tourism-dependent	0.8	0.9	1.4	1.8	2.3		1.5	-0.3	0.5	2.9	2.2
Commodity exporters	0.2	-0.4	-4.9	-1.9	2.0		3.3	6.1	14.5	4.3	5.1
Memorandum items:											
Argentina	-2.5	2.6	-2.2	2.5	2.5		23.9	22.3	16.7
Brazil	0.5	-3.8	-3.6	0.7	1.5		6.4	10.7	6.3	3.6	4.0
Chile	1.9	2.3	1.6	1.4	2.5		4.7	4.4	2.8	2.4	2.9
Colombia	4.4	3.1	2.0	1.7	2.8		3.7	6.8	5.7	4.0	3.1
Mexico	2.3	2.6	2.3	2.1	1.9		4.1	2.1	3.4	6.1	3.5
Peru	2.4	3.3	4.0	2.7	3.8		3.2	4.4	3.2	2.7	2.5
Uruguay	3.2	0.4	1.5	3.5	3.1		8.3	9.4	8.1	6.2	6.7

Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: Real GDP growth aggregates are PPP GDP-weighted. LAC inflation is geometric average excluding Argentina and Venezuela. Other inflation regional aggregates are simple averages.

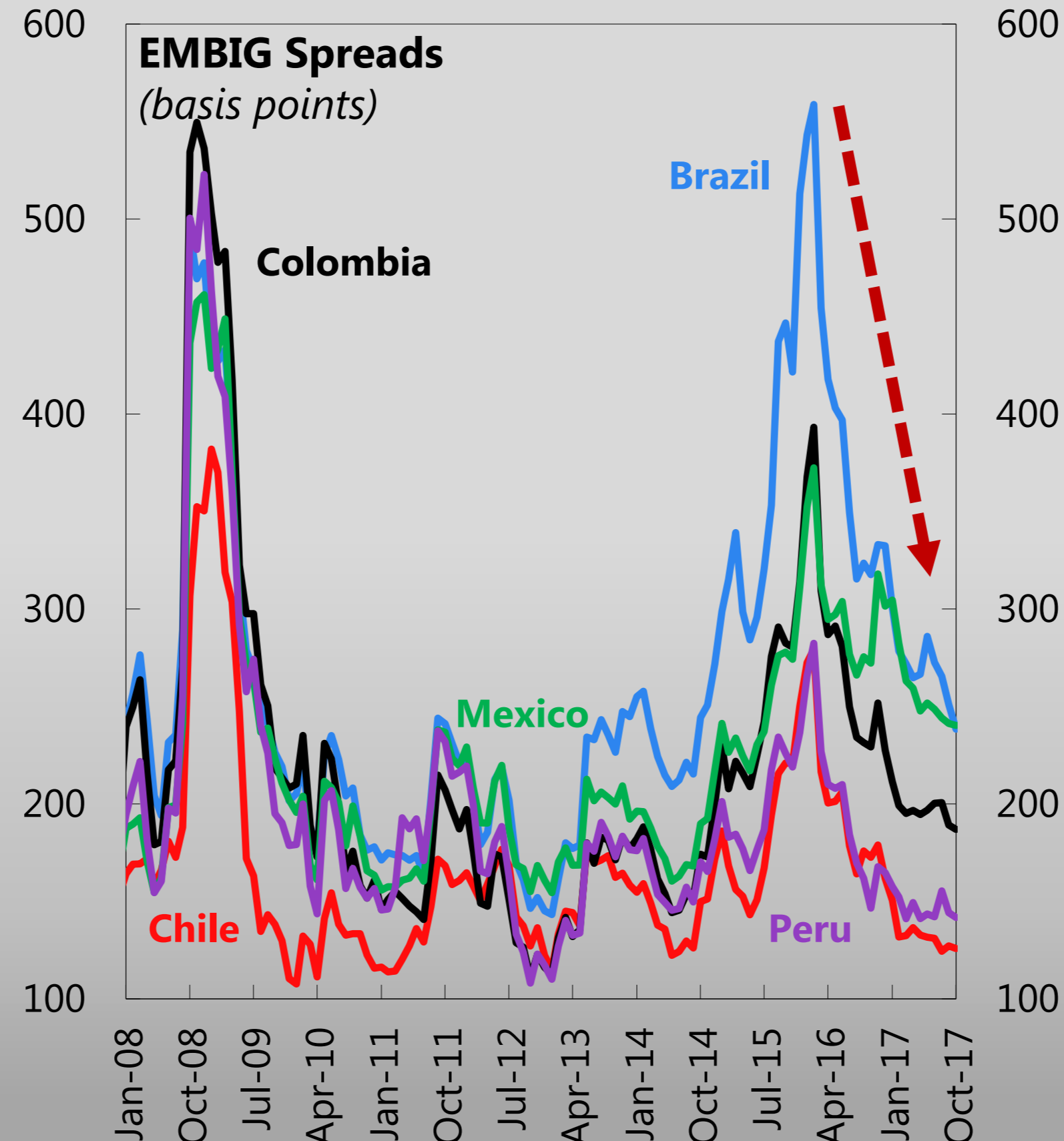
Accommodative external financial conditions feeding into domestic financial conditions in Latin America

Equity prices have rebounded from recent lows...



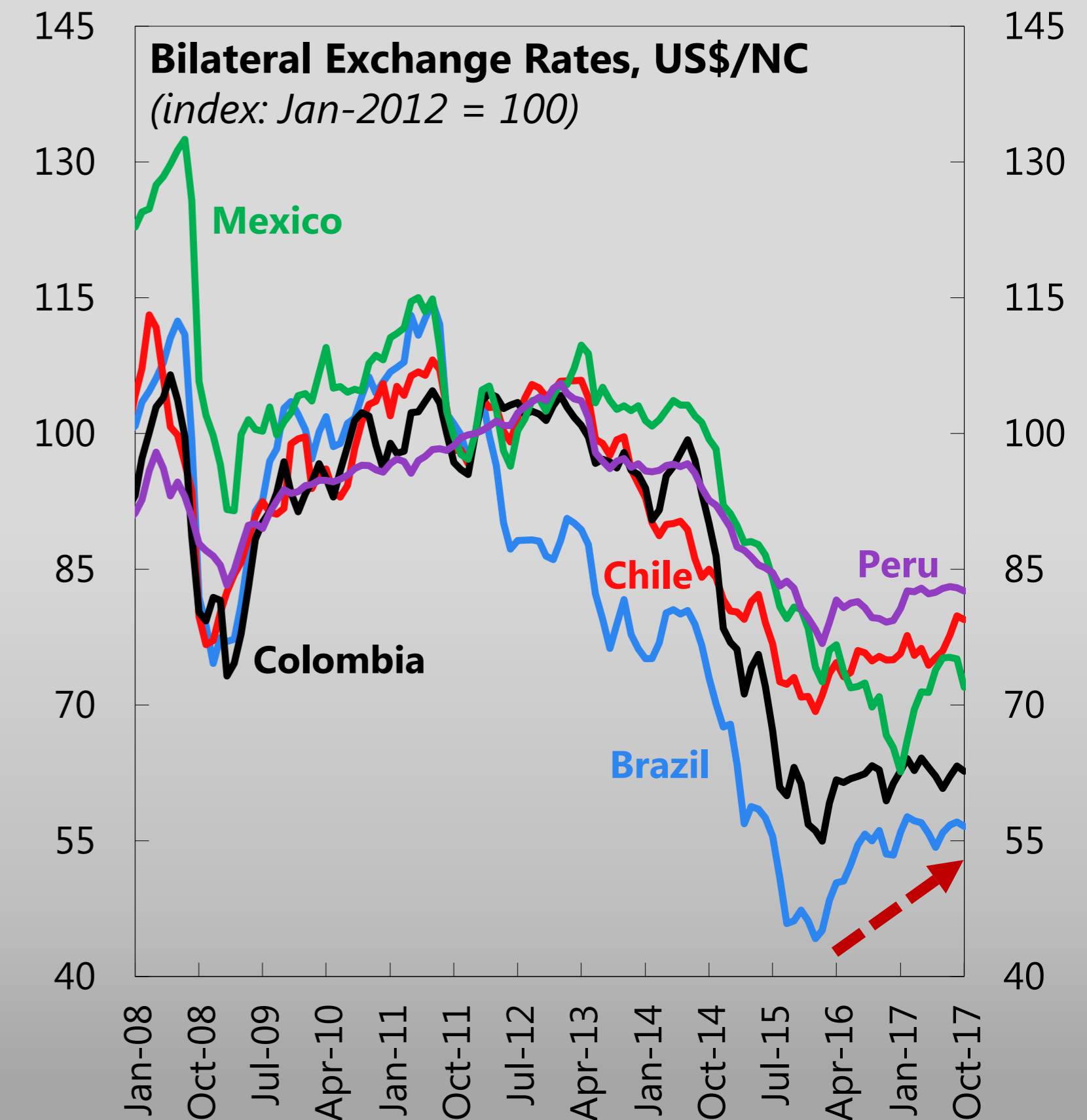
Sources: Bloomberg L.P.; and IMF staff calculations.

... while sovereign spreads have fallen sharply...



Source: Bloomberg L.P.

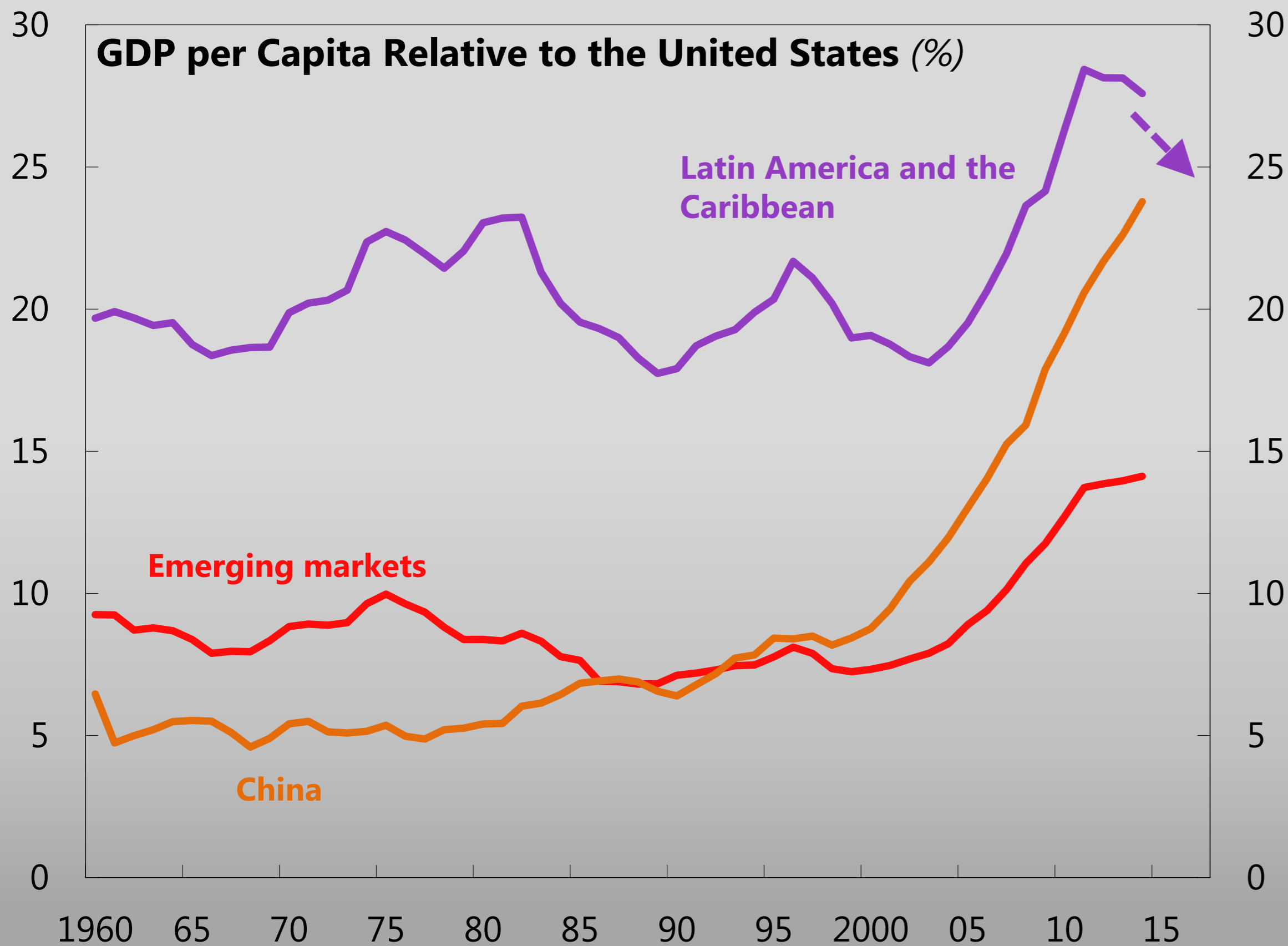
... and recent currency depreciations have partially reversed



Sources: Bloomberg L.P.; and IMF staff calculations.

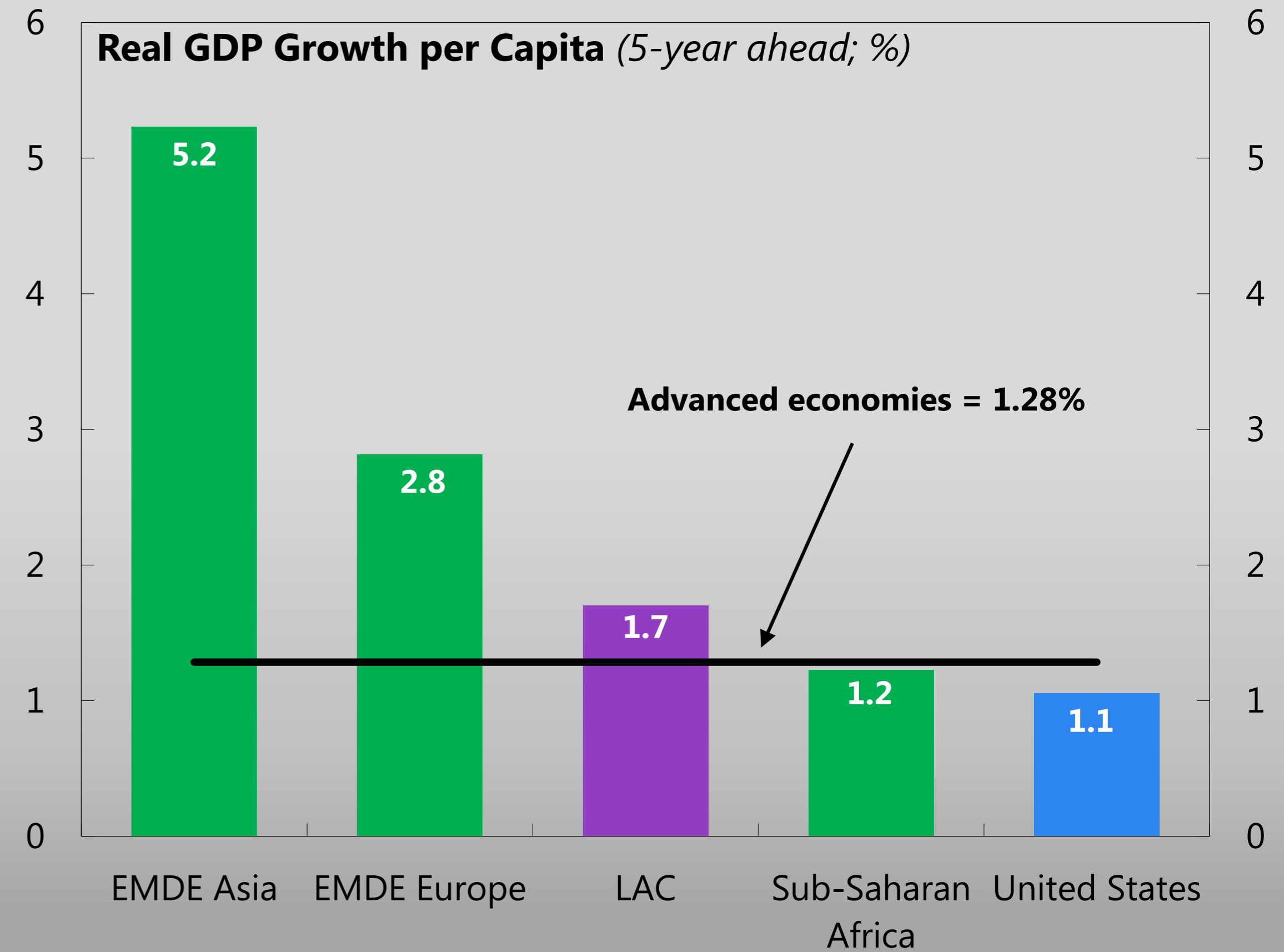
But subdued convergence prospects...

The end of the commodity super-cycle has brought a reversal in recent relative income gains...



Sources: Penn World Tables 9.0; and IMF staff calculations.
 Note: Emerging markets exclude China and Latin America and the Caribbean countries.

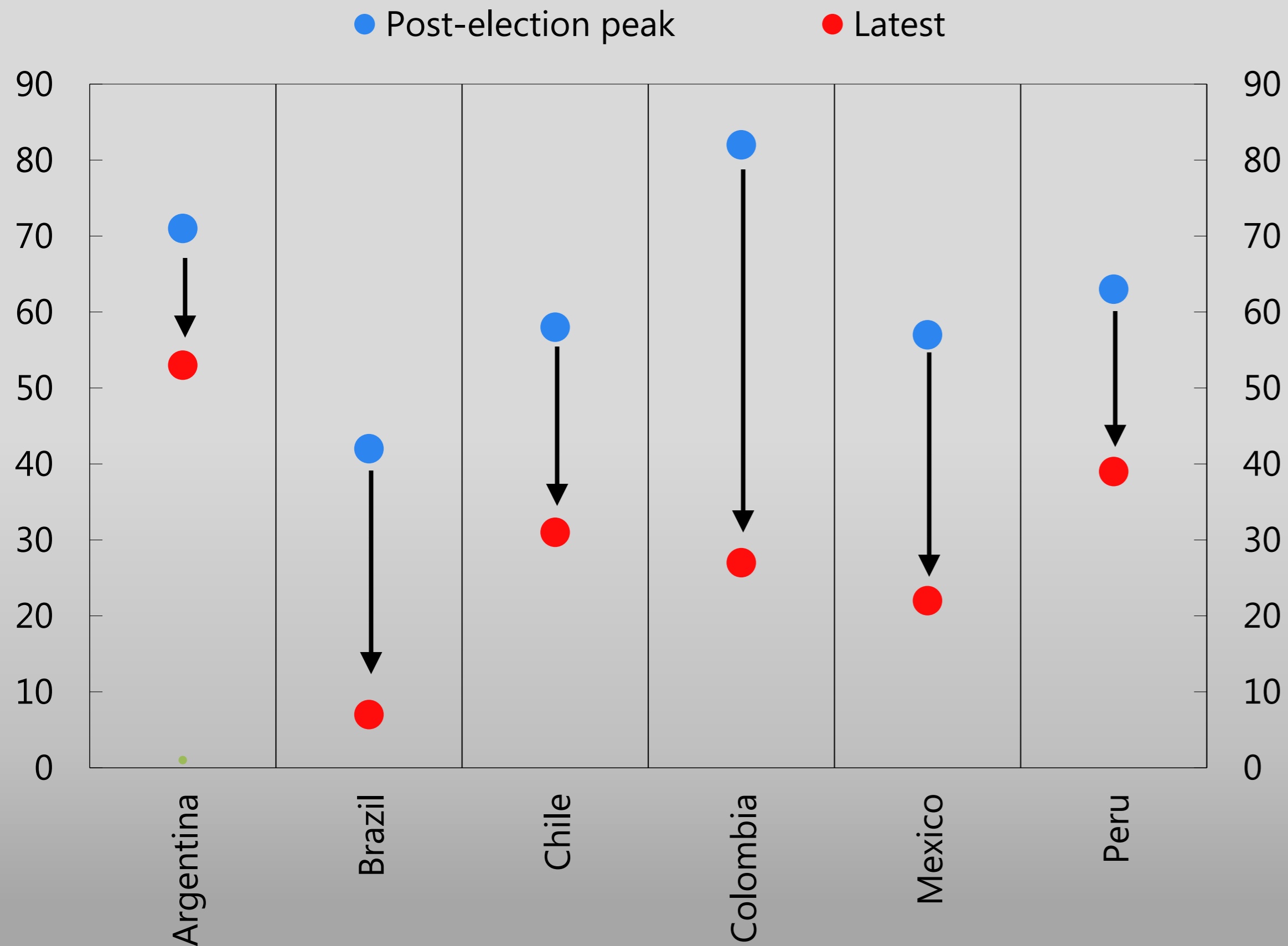
... and long-term growth prospects remain dim



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
 Note: Corresponds to WEO's projections for 2022.

... and a heavy electoral calendar

Presidential approval ratings have fallen to low levels



Elections are scheduled to take place in many countries during 2017–18

October 2017	Argentina	Mid-term legislative
November 2017	Chile	Presidential and parliamentary
April 2018	Paraguay	General
May 2018	Colombia	Presidential and parliamentary
July 2018	Mexico	General
October 2018	Brazil	General
2018-H2	Venezuela	Presidential (?)

Sources: La Nación-Poliarquia (Argentina), Datafolha (Brazil), Adimark (Chile), Gallup (Colombia), Consulta Mitofsky (Mexico), and El Comercio-Ipsos (Peru).

Presentation Outline

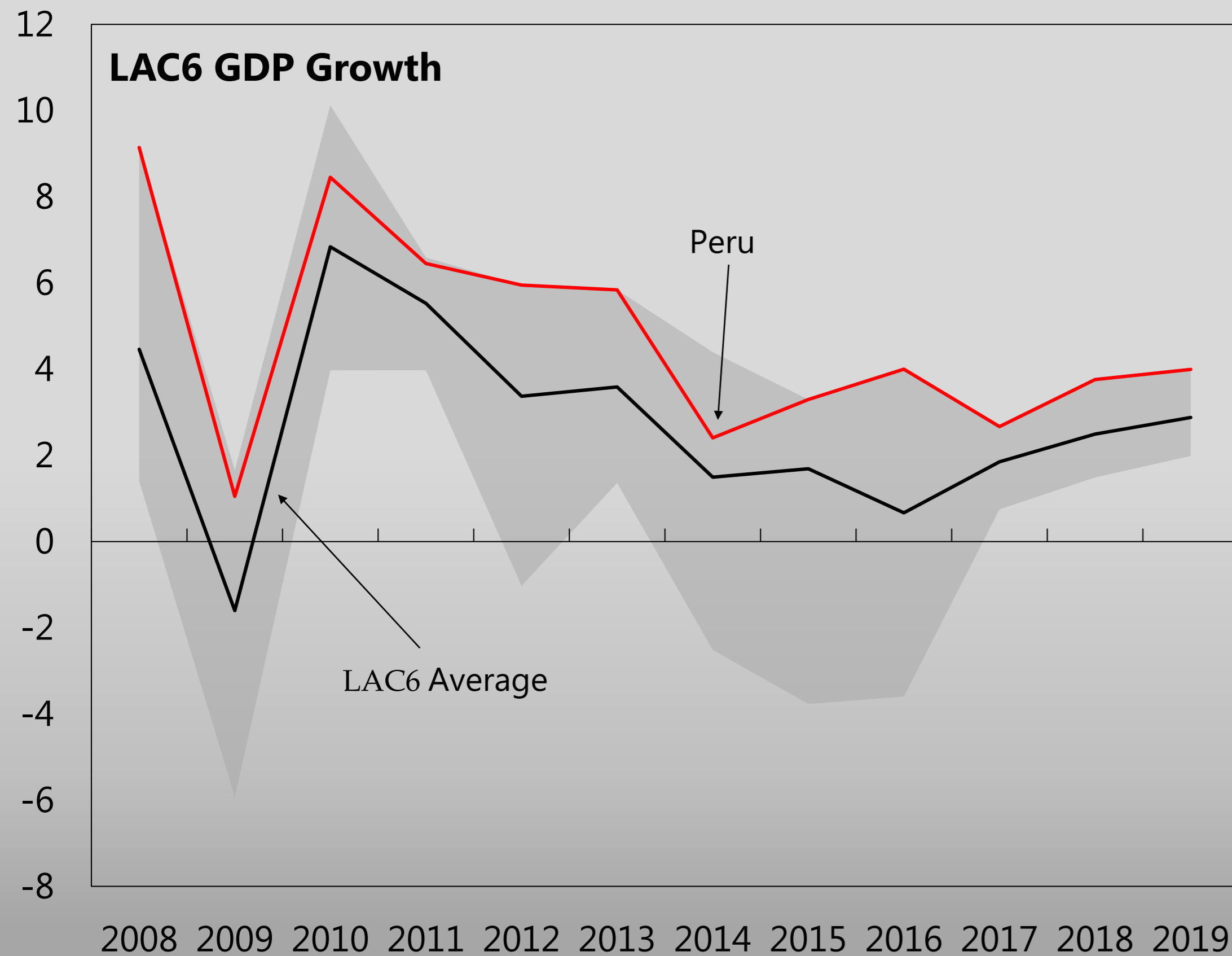
I. Global Outlook

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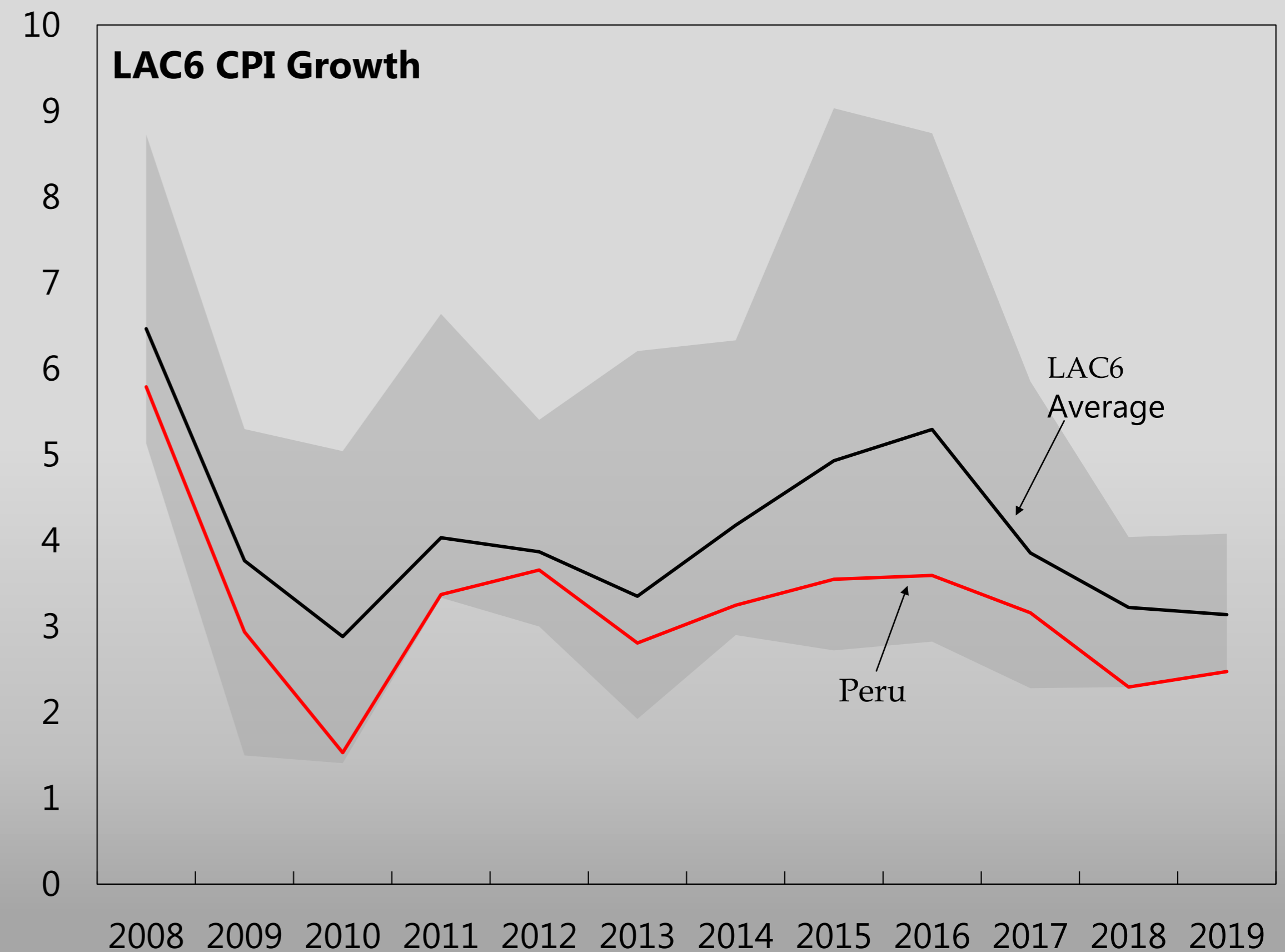
Peru is performing very well relative to the region

Growth fell somewhat following the end of commodity boom but it has been consistently above peers...



Source: IMF, World Economic Outlook database; and IMF staff calculations.

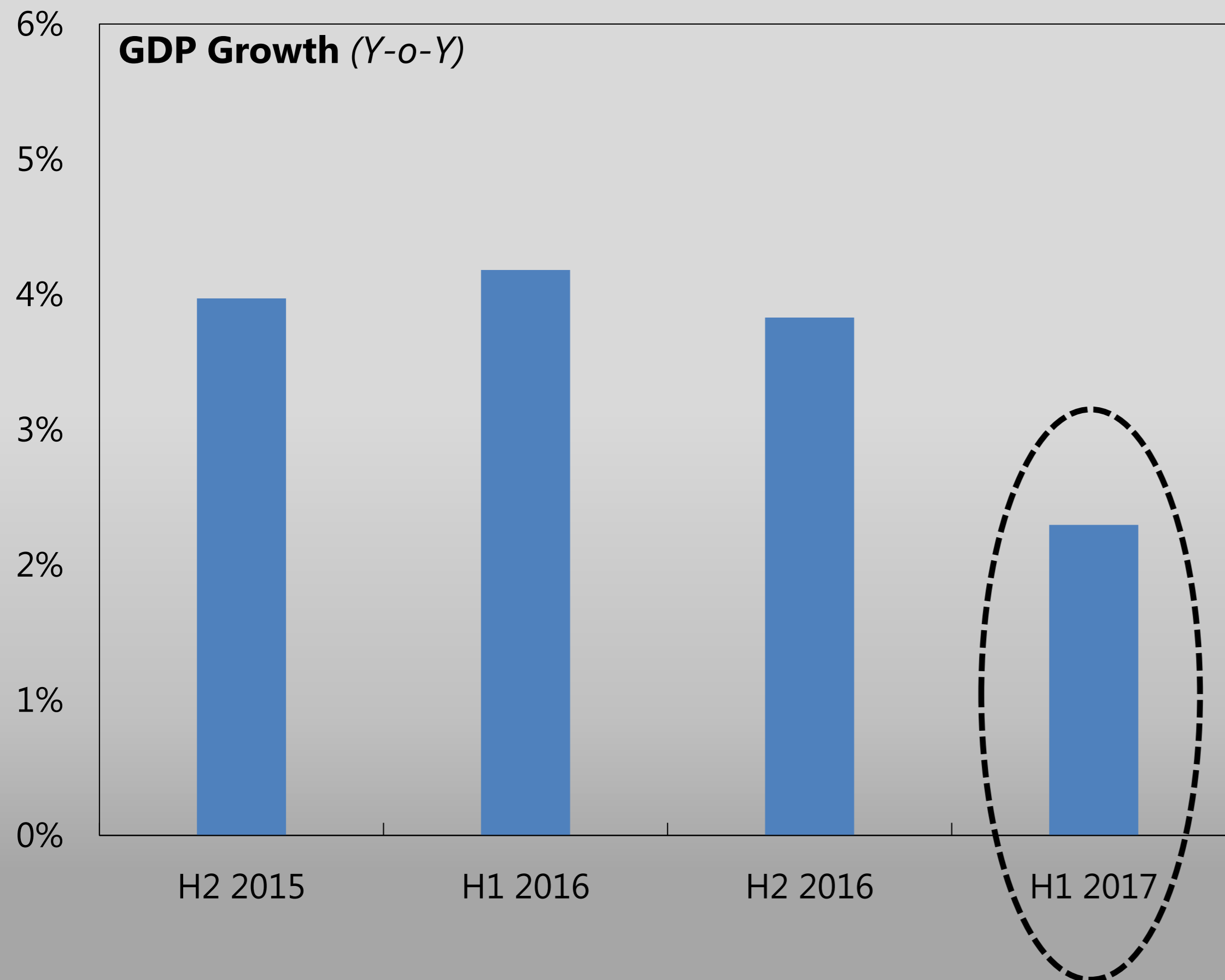
... with inflation consistently being below other LA6 countries



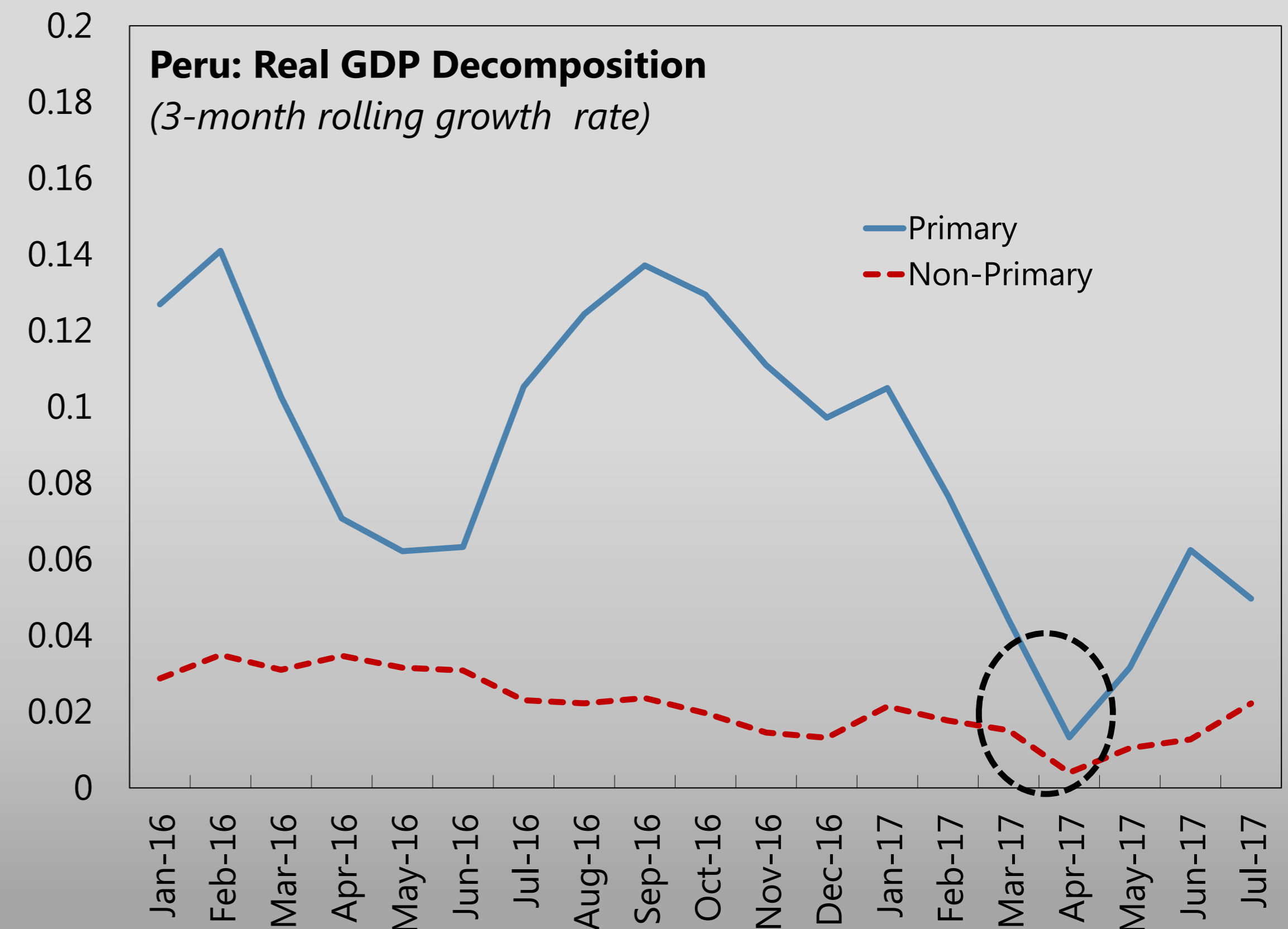
Source: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Does not include Argentina.

Domestic shocks led to a slowdown in growth in 2017H1

El Niño-related flooding and landslides and fallout from the Odebrecht corruption investigation impacted growth



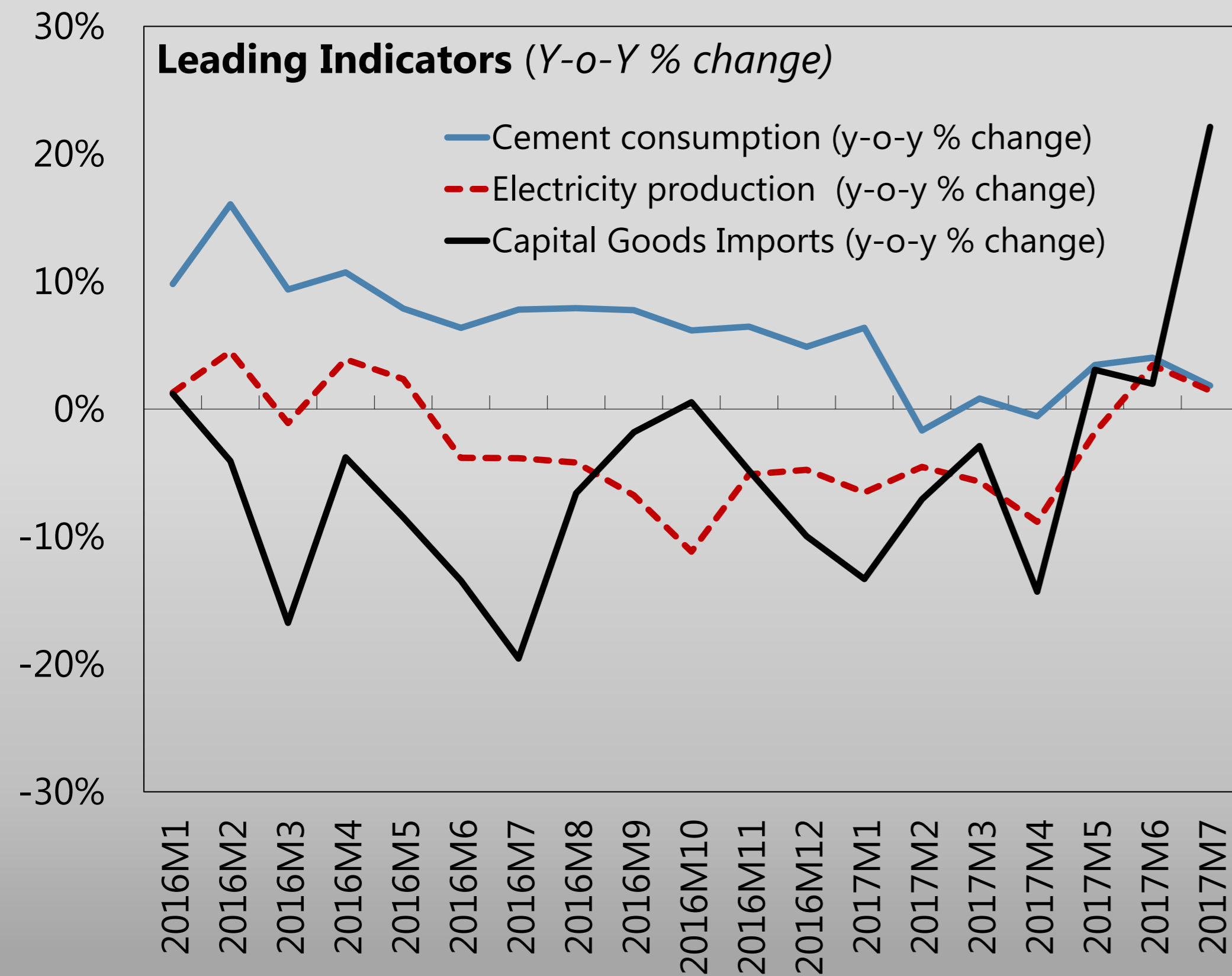
Agriculture and mining output was temporarily affected by the extreme weather



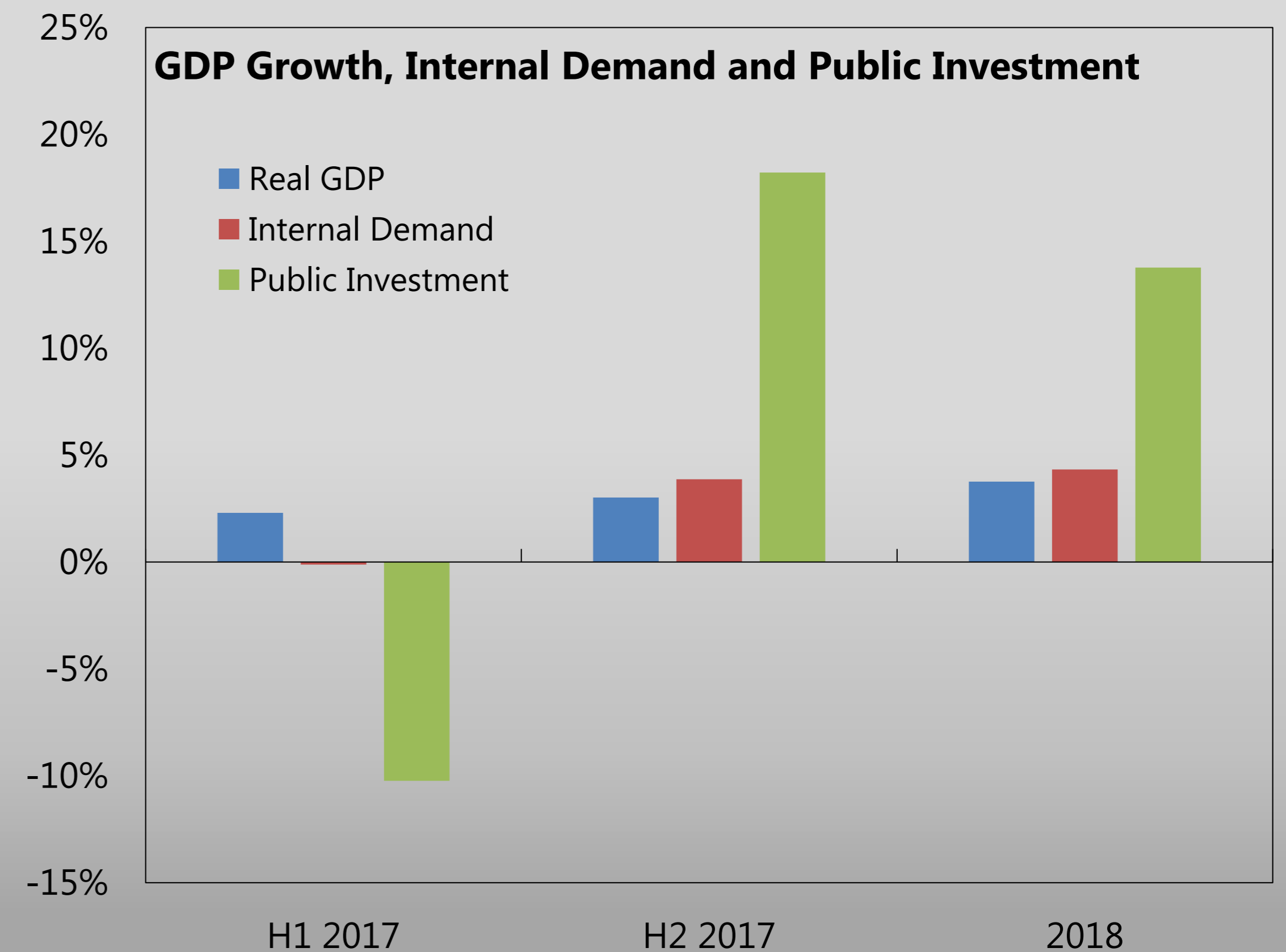
Sources: National authorities; and IMF staff calculations.
1/ Primary GDP includes Agriculture, fishing, mining and hydrocarbons, and manufacturing process for primary resources.

... but a rebound is expected for 2017H2 and 2018.

Leading indicators pointing to a pick up



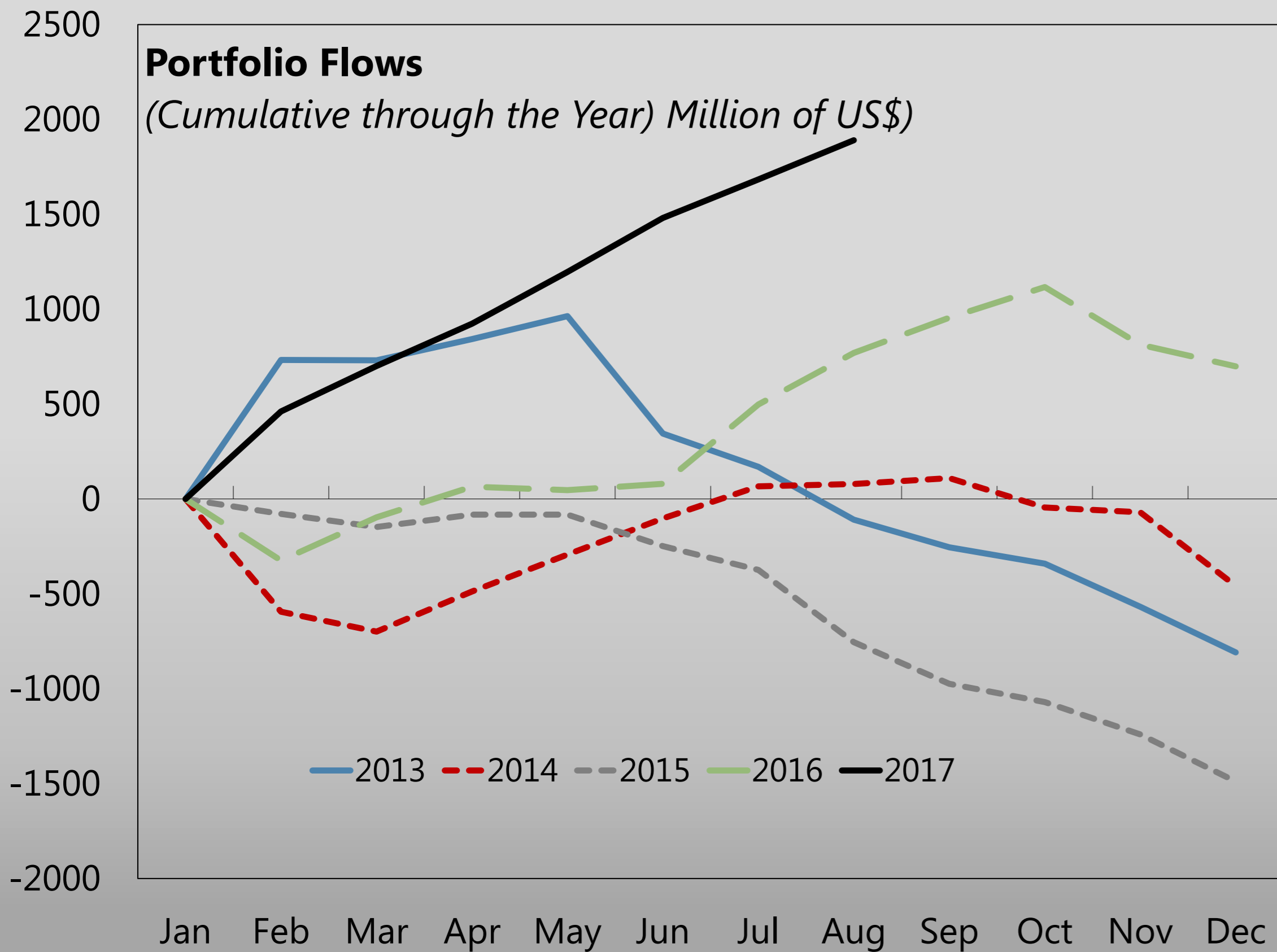
Public investment tied to the el Nino reconstruction efforts will drive rebound



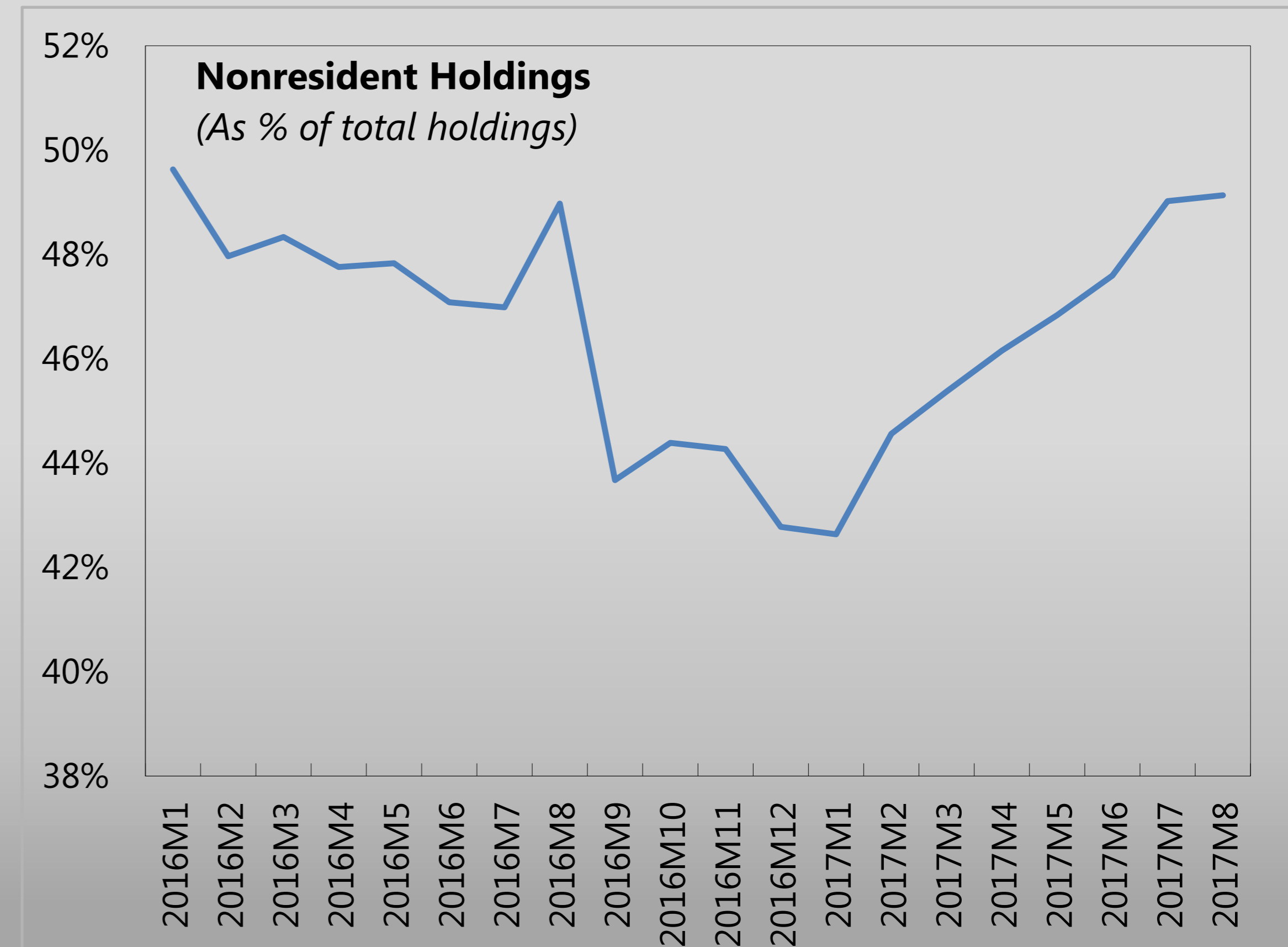
Sources: Haver Analytics; and IMF staff calculations.

Investors continue to view Peru favorably, leading to large capital inflows

Capital flows have been strong throughout 2017...

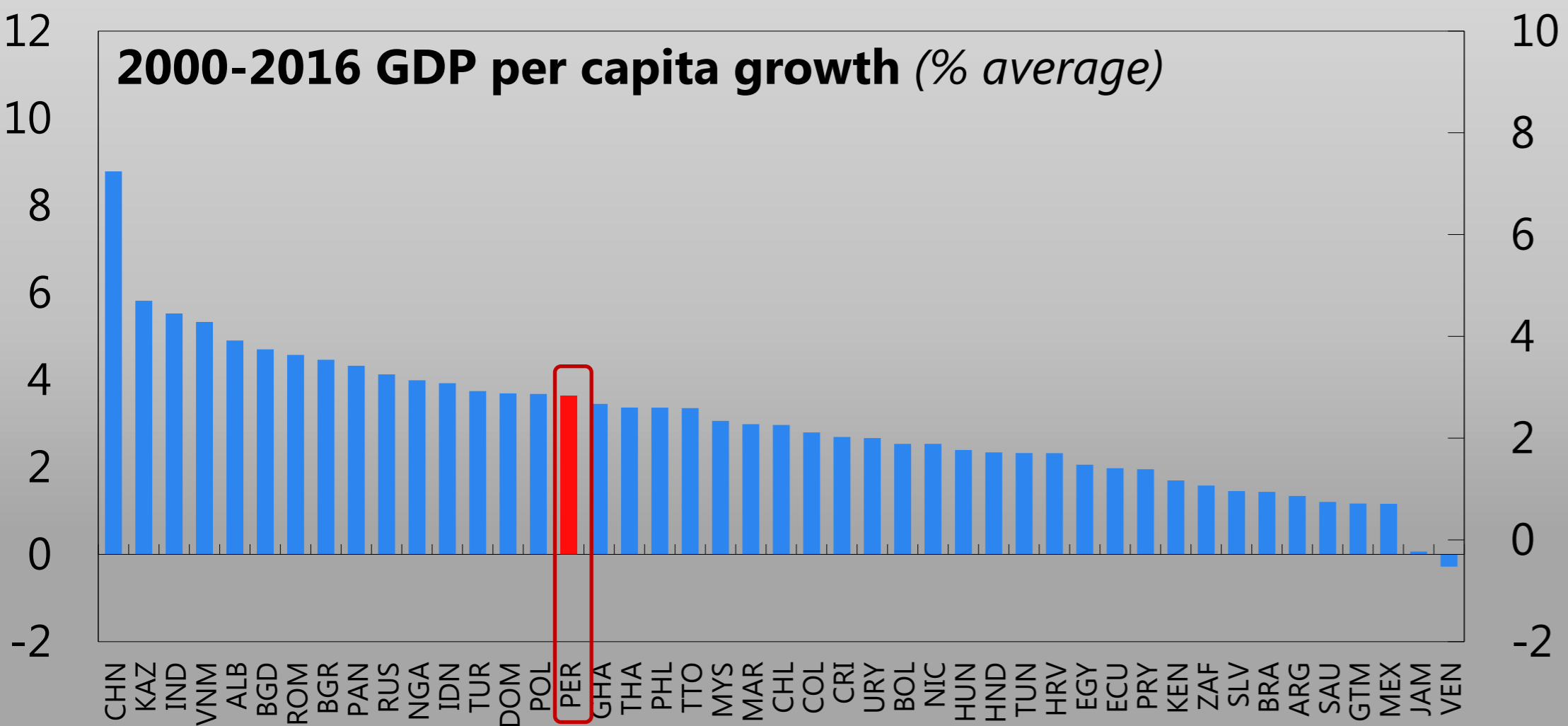
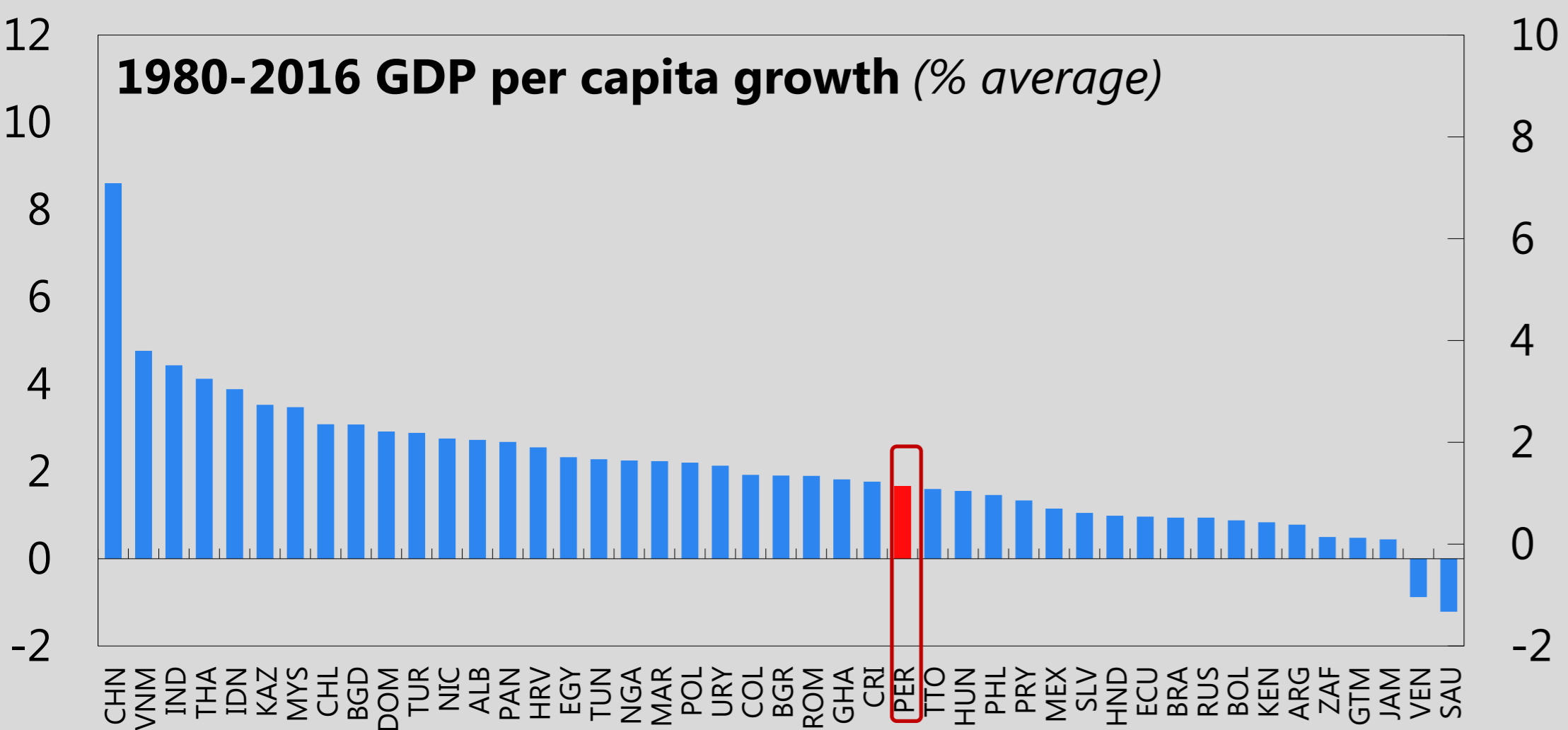


... leading to an increase in the share of government debt held by nonresidents

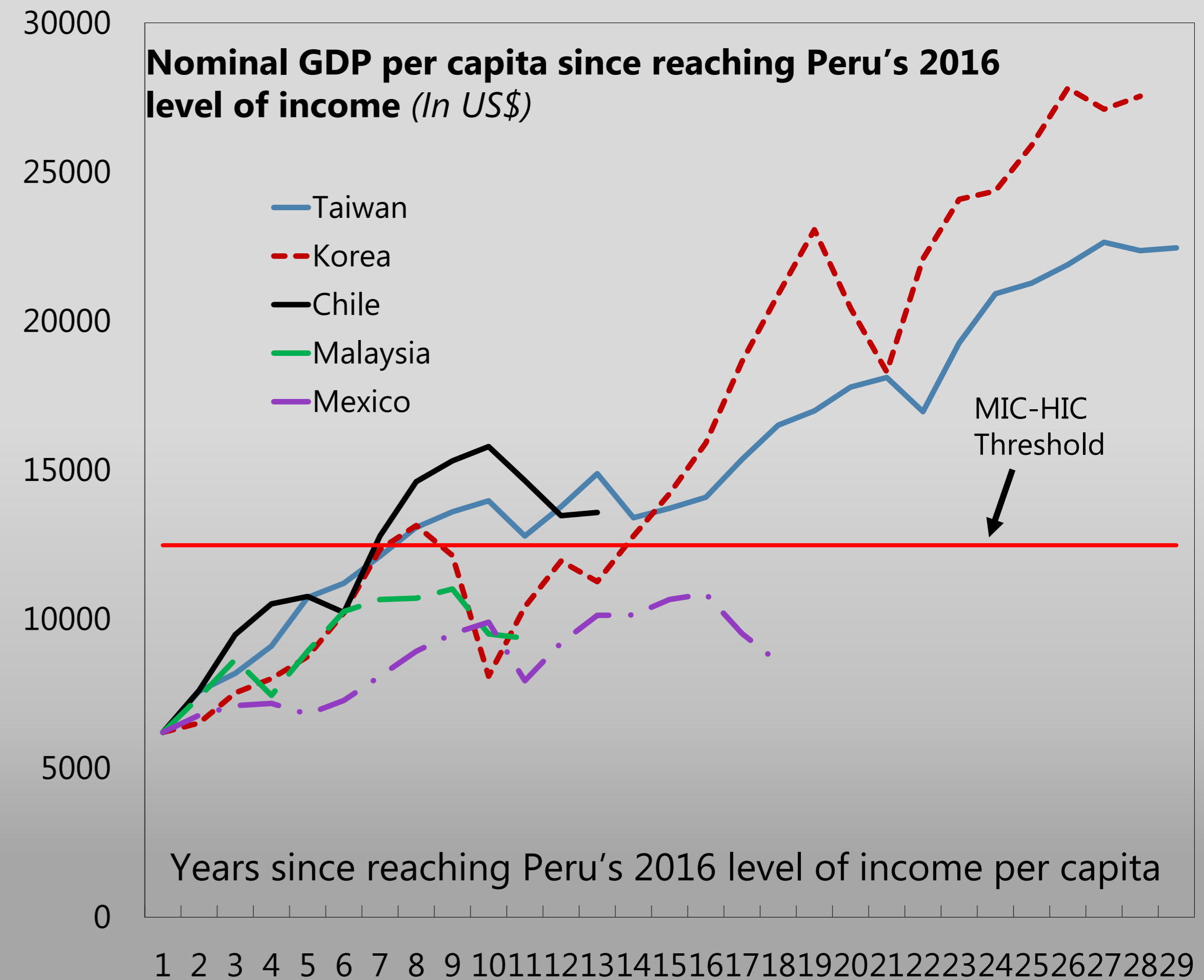


Sources: Haver Analytics; and IMF staff calculations.

Taking a step back, Peru has come a long way but still faces challenges to converge to higher income country levels...



Reaching high income status is possible, but care will be needed to avoid being stuck in a middle-income trap

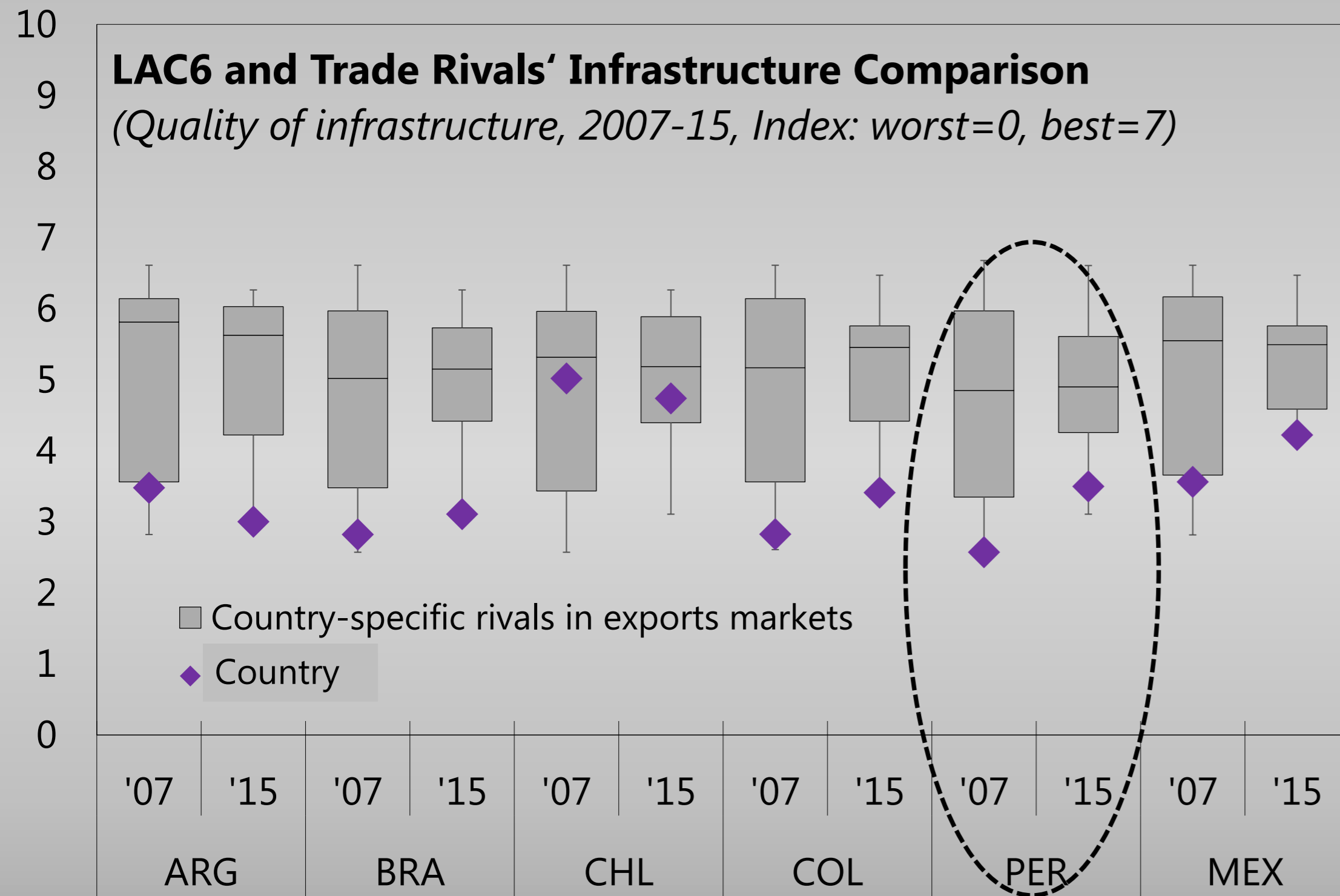


Sources: IMF, World Economic Outlook database; and IMF staff calculations.

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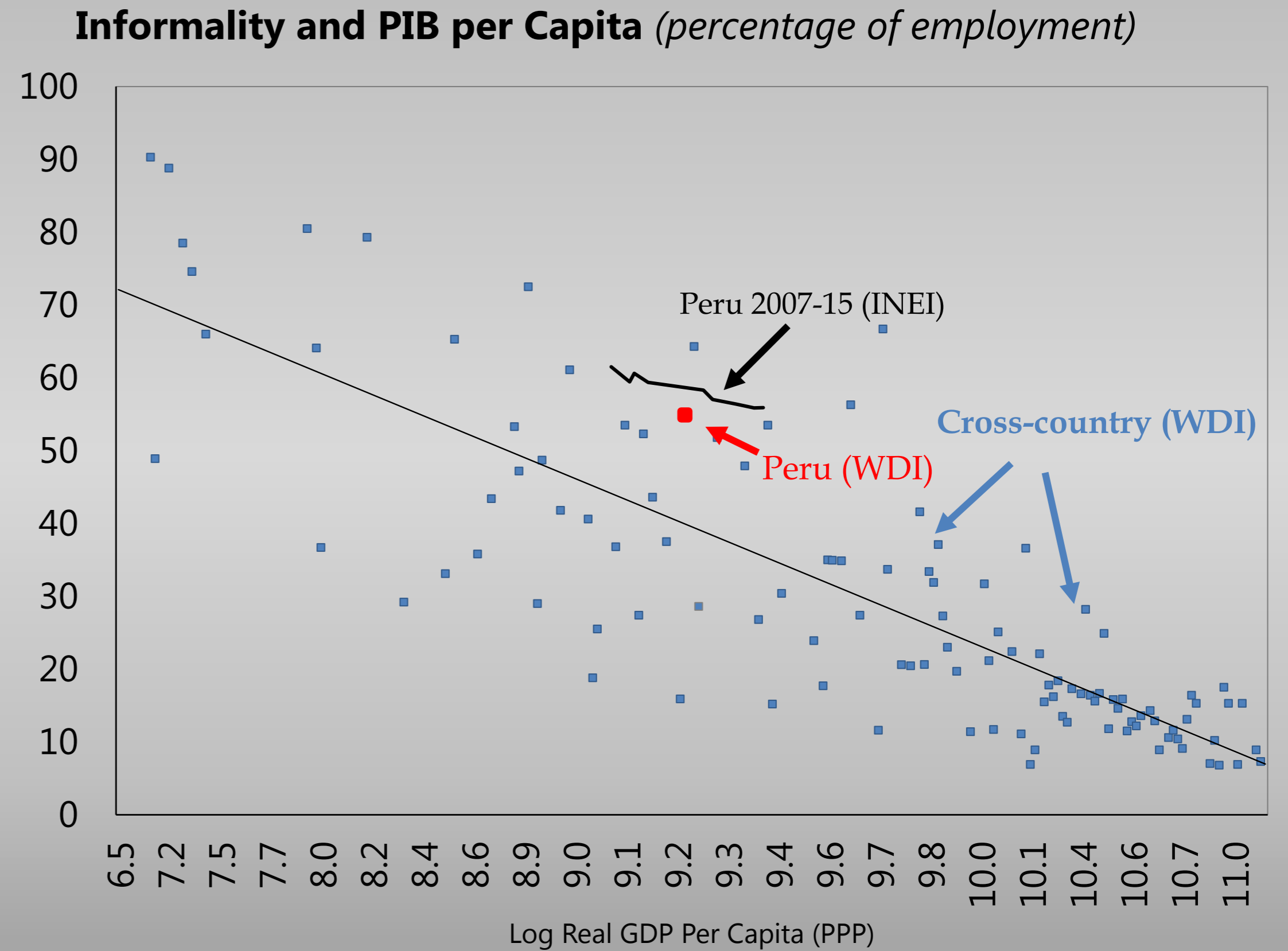
Key structural policy challenges include infrastructure gaps and high informality

Large infrastructure gaps...



Source: April 2016 IMF Regional Economic Outlook, Western Hemisphere.

... and high informality are key structural constraints to growth

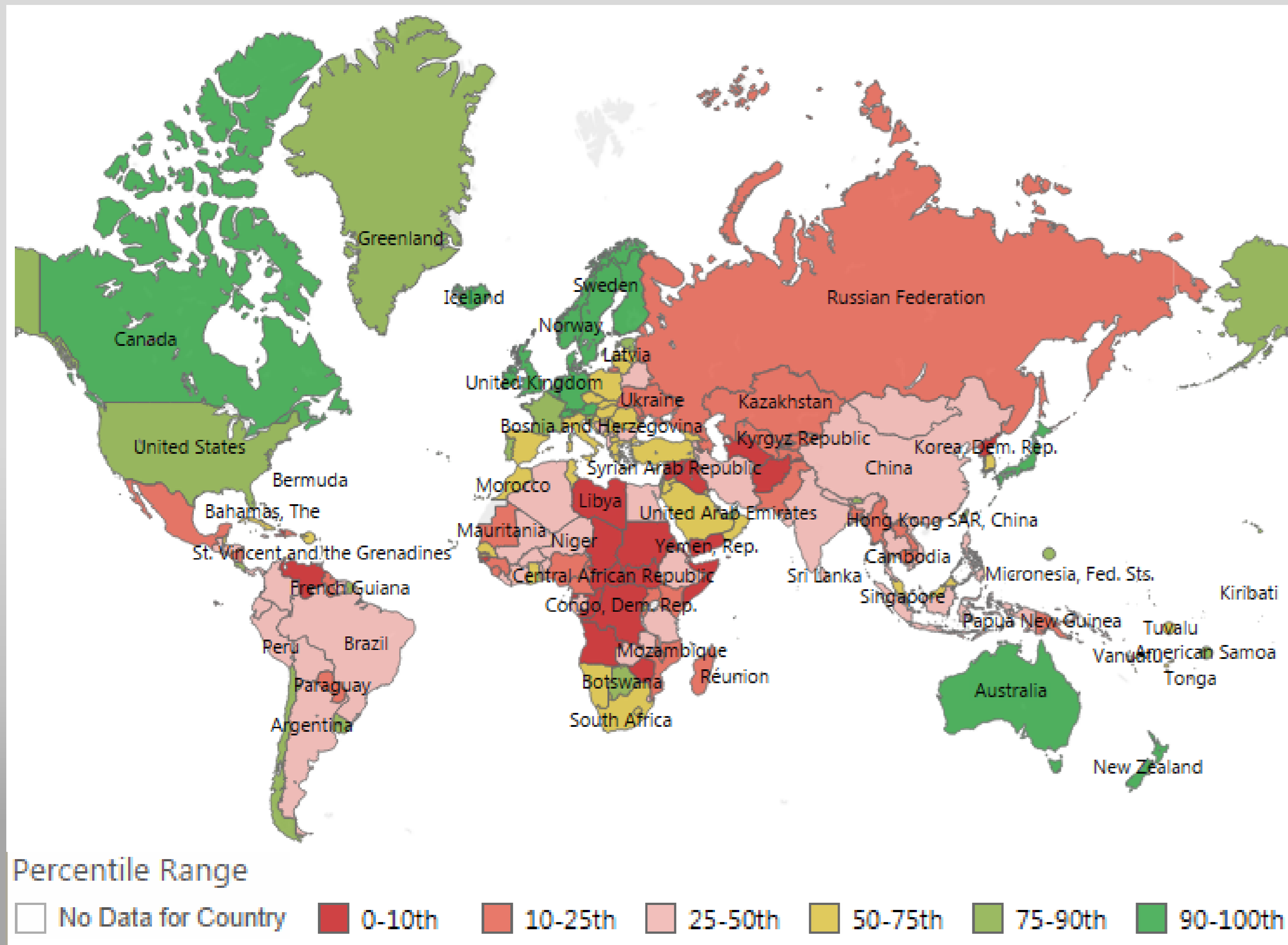


Source: WDI, INEI, and from IMF staff estimations.

Note: Data from WDI is for 2012 and reflects the proportion of self employment and total employment. Data from INEI reflects informality as defined by this agency.

...as well as improving governance

Control of Corruption, 2015



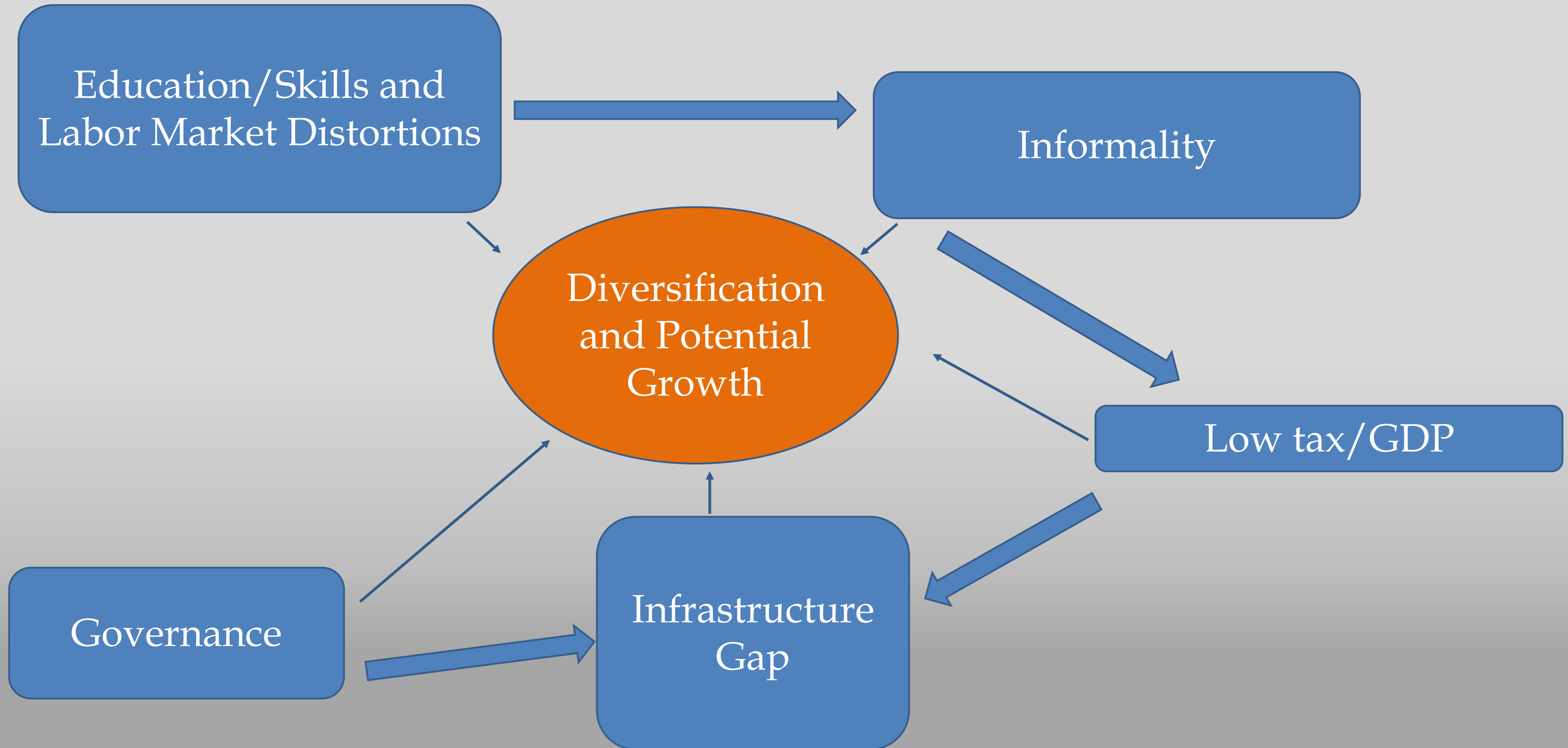
2015 Worldwide Governance Indicators:
Control of Corruption in Latin America

Order Rank (out of 209)	Country	Percentile Rank (0-100)
24	Uruguay	88.94
27	Chile	87.50
107	Colombia	49.04
123	Brazil	41.35
124	El Salvador	40.87
141	Argentina	32.69
142	Peru	32.21
148	Ecuador	29.33
151	Bolivia	27.88
154	Guatemala	26.44
157	Mexico	25.00
162	Guyana	22.60
176	Paraguay	15.87
197	Venezuela	5.77

Source: Kaufmann, Kraay, and Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues.

Source: Worldwide Governance Indicators database.

Going forward, complex structural reform agenda needs to tackle inter-related constraints





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