Global, Regional, and Peru Outlook

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Director
Western Hemisphere Department
I. Global Outlook
II. LAC Outlook
III. Peru
## Growth Projections: Advanced Economies

(Percent change from a year earlier)

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>Advanced Economies</th>
<th>U.S.</th>
<th>U.K.</th>
<th>Japan</th>
<th>Euro Area</th>
<th>Germany</th>
<th>Canada</th>
<th>Other Advanced Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>3.2</td>
<td>1.7</td>
<td>1.5</td>
<td>1.8</td>
<td>1.0</td>
<td>1.8</td>
<td>1.9</td>
<td>1.5</td>
<td>2.3</td>
</tr>
<tr>
<td>2017</td>
<td>3.6</td>
<td>2.2</td>
<td>2.2</td>
<td>1.7</td>
<td>1.5</td>
<td>2.1</td>
<td>2.0</td>
<td>3.0</td>
<td>2.6</td>
</tr>
<tr>
<td></td>
<td>Revision from Jul. 2017</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
<td>0.0</td>
<td>0.2</td>
<td>0.2</td>
<td>0.5</td>
<td>0.1</td>
</tr>
<tr>
<td>2018</td>
<td>3.7</td>
<td>2.0</td>
<td>2.3</td>
<td>1.5</td>
<td>0.7</td>
<td>1.9</td>
<td>1.8</td>
<td>2.1</td>
<td>2.7</td>
</tr>
<tr>
<td></td>
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<td>0.1</td>
<td>0.2</td>
<td>0.0</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: IMF, World Economic Outlook database.
## Growth Projections: Emerging Markets and LIDCs

*(Percent change from a year earlier)*

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

*Source: IMF, World Economic Outlook database.*
Continuing improvement in soft and hard indicators

Manufacturing PMI
(>50=expansion)

United States
Euro area
China
Japan

Consumer Confidence
(Jan. 2015=100)

United States
Japan
China

Industrial Production
(%) year-on-year

China
Euro area
Japan
United States

Sources: IMF, Global Data Source database; and IMF staff calculations.
Broad-based upswing

Share of Countries with an Acceleration in Real GDP Growth
(% of world ppp weight or world population)

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**

**Equity indices are at historic highs**

**Corporate leverage remains high**

Source: Bloomberg L.P.

Source: Thompson Reuters Datastream.

Source: Bloomberg L.P.
I. Global Outlook
II. LAC Outlook
III. Peru
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

<table>
<thead>
<tr>
<th></th>
<th>Real GDP Growth (%)</th>
<th>CPI Inflation (end of period; %)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LAC</strong></td>
<td>1.2</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>CAPDR</strong></td>
<td>5.0</td>
<td>5.1</td>
</tr>
<tr>
<td><strong>Caribbean</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism-dependent</td>
<td>0.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Commodity exporters</td>
<td>0.2</td>
<td>–0.4</td>
</tr>
<tr>
<td><strong>Memorandum items:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>–2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.5</td>
<td>–3.8</td>
</tr>
<tr>
<td>Chile</td>
<td>1.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Colombia</td>
<td>4.4</td>
<td>3.1</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.3</td>
<td>2.6</td>
</tr>
<tr>
<td>Peru</td>
<td>2.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Uruguay</td>
<td>3.2</td>
<td>0.4</td>
</tr>
</tbody>
</table>

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…

… while sovereign spreads have fallen sharply…

… 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...

... and long-term growth prospects remain dim

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

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Corresponds to WEO’s projections for 2022.
Presidential approval ratings have fallen to low levels

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Country</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2017</td>
<td>Argentina</td>
<td>Mid-term legislative</td>
</tr>
<tr>
<td>November 2017</td>
<td>Chile</td>
<td>Presidential and parliamentary</td>
</tr>
<tr>
<td>April 2018</td>
<td>Paraguay</td>
<td>General</td>
</tr>
<tr>
<td>May 2018</td>
<td>Colombia</td>
<td>Presidential and parliamentary</td>
</tr>
<tr>
<td>July 2018</td>
<td>Mexico</td>
<td>General</td>
</tr>
<tr>
<td>October 2018</td>
<td>Brazil</td>
<td>General</td>
</tr>
<tr>
<td>2018-H2</td>
<td>Venezuela</td>
<td>Presidential (?)</td>
</tr>
</tbody>
</table>

Sources: La Nación-Polarquía (Argentina), Datafolha (Brazil), Adimark (Chile), Gallup (Colombia), Consulta Mitofsky (Mexico), and El Comercio-Ipsos (Peru).
I. Global Outlook
II. LAC Outlook
III. Peru
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... …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

Peru: Real GDP Decomposition
(3-month rolling growth rate)

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...

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

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

**Nominal GDP per capita since reaching Peru’s 2016 level of income (In US$)**

- Taiwan
- Korea
- Chile
- Malaysia
- Mexico

MIC-HIC Threshold

**Years since reaching Peru’s 2016 level of income per capita**

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Key structural policy challenges include infrastructure gaps and high informality

Large infrastructure gaps...

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

**LAC6 and Trade Rivals’ Infrastructure Comparison**
(Quality of infrastructure, 2007-15, Index: worst=0, best=7)

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

**Informality and PIB per Capita** (percentage of employment)

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.
Control of Corruption, 2015

2015 Worldwide Governance Indicators: Control of Corruption in Latin America

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


Source: Worldwide Governance Indicators database.

...as well as improving governance
Going forward, complex structural reform agenda needs to tackle inter-related constraints
Global, Regional, and Peru Outlook

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