Sectoral Risks in Latin America

December 2016

Latin America: Sectoral Challenges

- The plunging commodity price cycle hit Latin America quite hard. Impacts have been varied, with Peru and Chile buffered due to cyclical shock absorbers, Brazil enduring a deep recession, and Colombia and Ecuador struggling with major shocks. Unemployment is a concern across the region.

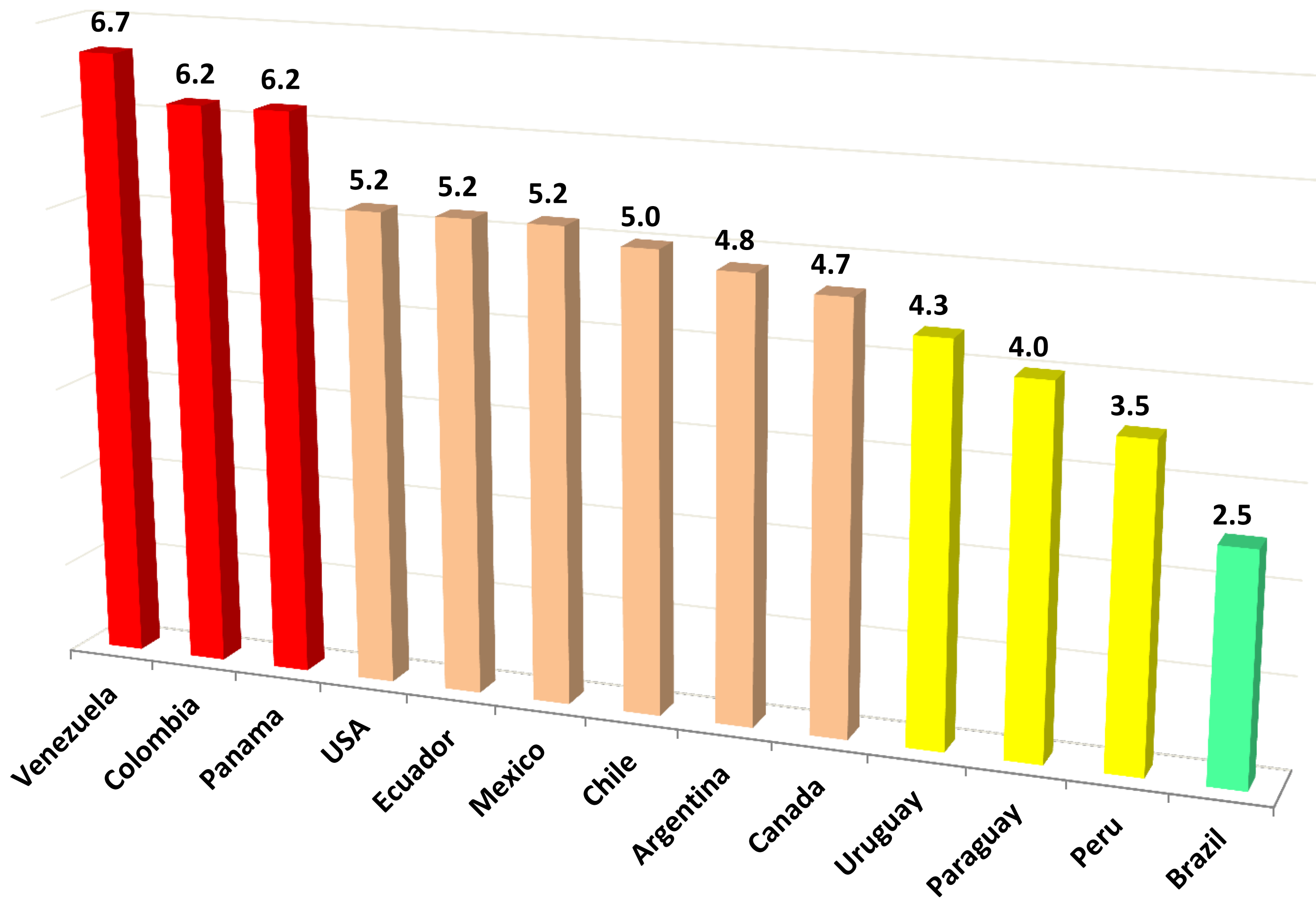
- Export growth rebounded by 4-6% in 2016, after double digit declines in 2015. Current accounts are largely under control, although Colombia and Panama record fairly high deficits. Large fx reserves protect most countries from external debt roll-over problems, esp. Brazil, Chile, Mexico, Peru and Uruguay.

- Deep political divisions and wide-spread corruption pose serious risks across the region. All but two countries fail the World Bank “control of corruption” scales.   Divisive politics prevents action on fiscal shortfalls in Brazil, and Argentina, though debt levels are still at tolerable levels. Venezuela is a policy disaster with massive fiscal deficits, rationing, and emerging hyperinflation.

- Most Latin American banking markets have strong capital ratios and reserves that cover more than 100% of NPLs. High deposit/loan rations and large liquid assets should prevent crises, even though recession erodes balance sheets.

External Risk in the Americas

December 2016



**** One half of the "twin crisis" risks – balance of payments and fiscal.***

Fiscal Risk in the Americas*

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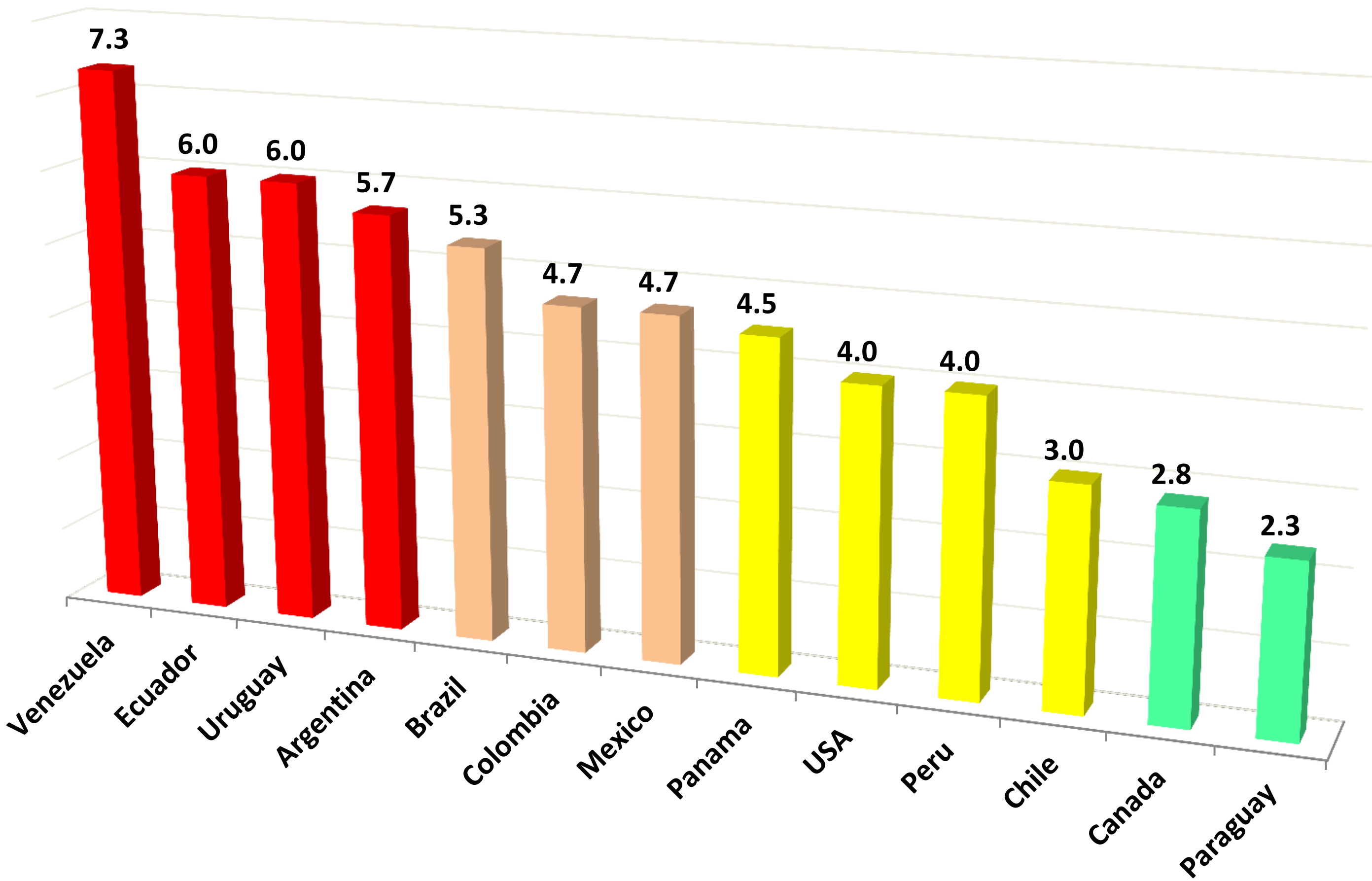

**** The other half of the "twin crises" – fiscal and balance of payments***