Macroeconomic Crises in Latin America: Lessons for Africa

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Motivation and Historical Background

• Most Latin America economies (LAE) are dependent (like in Africa) on commodities as a source of foreign exchange and fiscal revenues.

• Historical episodes of regional debt crisis include:
  • 1890 Baring bank’s crisis affecting Argentina, LAE and the UK.
  • The debt defaults in the early 1930s (Great Depression).
  • The debt crisis of the 1980s.

• More recent cases:
  • New crises: Argentina and Venezuela.
Macroeconomic Crises in Latin America: A Typology.

- Sovereign debt crisis.
  - Argentina 2001-02, Mexico 1994-95, Chile 1982-83, the 1980s and 1930s.
- Exchange rate crisis (Argentina now, many others).
- Twin Crises (debt plus exchange rate):
- Crisis in the banking system
- Hyperinflationary crises
- Adverse effects on economic growth, employment and living standards.

• **Argentina**: No debt- default (yet) but exchange rate jumped from 17.6 pesos per US dollar in July 2017 to 24 pesos in May 2018 to 40 pesos in September 2018.

• Over-issuing of central bank debt (LEBACS).

• **IMF to the rescue of Argentina**: the largest Stand-by loan in the IMF’s history: USD 57 billion (October, 2018).

• **Venezuela**: hyperinflation and massive output contraction. No IMF program.

• Fall in oil prices with large fiscal deficit financed by money creation. The IMF expects inflation rate of 1,000,000 percent for 2018....
Previous Crises in Argentina I: hyperinflation in the late 1980s and confidence shocks in the 1990s (hit by the Mexican and Asian/Russian crises).
Previous crisis II: convertibility crisis (2001-02), and Macri’s crisis (2018).
Hyperinflation in Argentina 1989-90 (percent change in CPI)
Argentina: Output collapsing during hyper-inflation (percent change in GDP)
Venezuela

- Hyperinflation (similar to Zimbabwe’s hyperinflation of 2008).
- Output has contracted by more than 35 percent since 2014.
- Monetary monetary reform in August (sovereign bolivar anchored to the petro, a crypto-currency)
- No IMF program to support stabilization.
- Economic crisis leading to massive emigration (2.3 million) and humanitarian crisis.
Inflation in Venezuela
(2016-2017, percent change in CPI, IMF data)
Output Contraction in Venezuela (2014 onwards, percent change in GDP)
Venezuela’s growth volatility: GDP per capita, 1970-2016
What have we learned?

- Commodity price booms, domestic over-spending, external imbalances can lead to macro crises (Venezuela now, the debt crisis of the early 1980s).
- When banking/financial crisis were present output and fiscal costs were larger and recoveries more complicated.
- Macroeconomic populism.
Outlook

- **Strengths**
  - More flexible exchange rates regimes than in the past.
  - Better fiscal conditions though not in all LA countries.
  - Use of stabilization funds: Chile, Colombia, Mexico.
  - Higher levels of international reserves (exceptions exist).

- **Vulnerabilities**
  - Internal and external debt levels.
  - Higher interest rates in the USA and reversal of capital flows.
  - Terms of trade volatility.
  - Political business cycle.