

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:
 - Mexican crisis of 1994-95, the Ecuador crisis of 1999, Argentina in 2001-02.
 - New crises: Argentina and Venezuela.

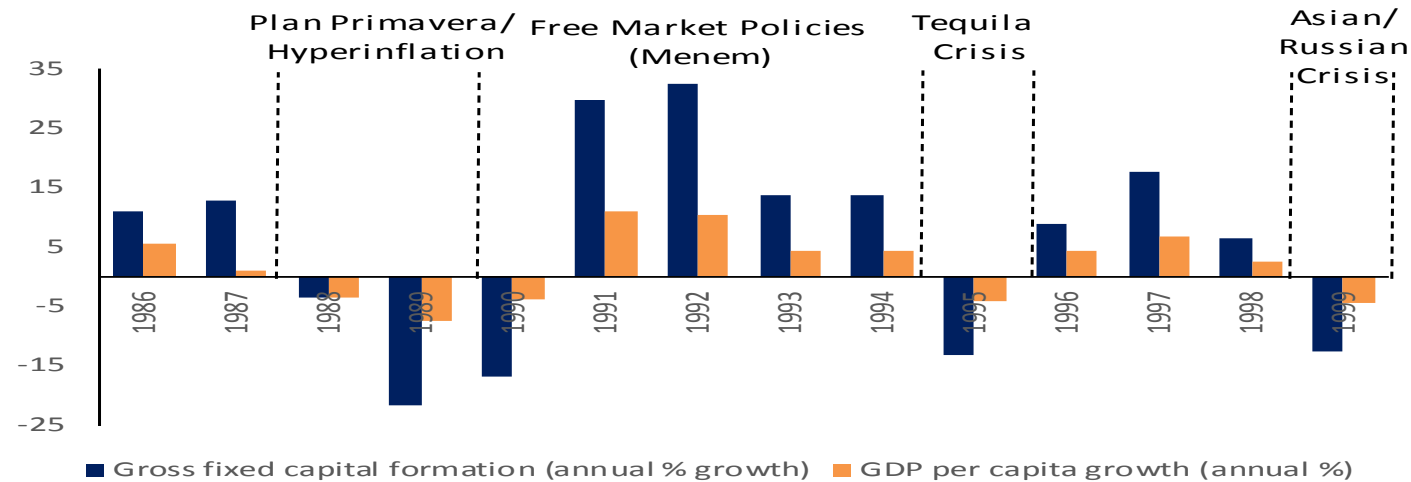
Macroeconomic Crises in Latin America: A Typology.

- **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):**
- Argentina 2018 and 2001-2002, Ecuador 1999, Mexico 1994-95.
- **Crisis in the banking system**
- Chile 1982-83, Ecuador 1999, Argentina 2001-02.
- **Hyperinflationary crises**
- Venezuela 2017-2018, Argentina 1989-90, Peru 1988-90.
- Adverse effects on economic growth, employment and living standards.

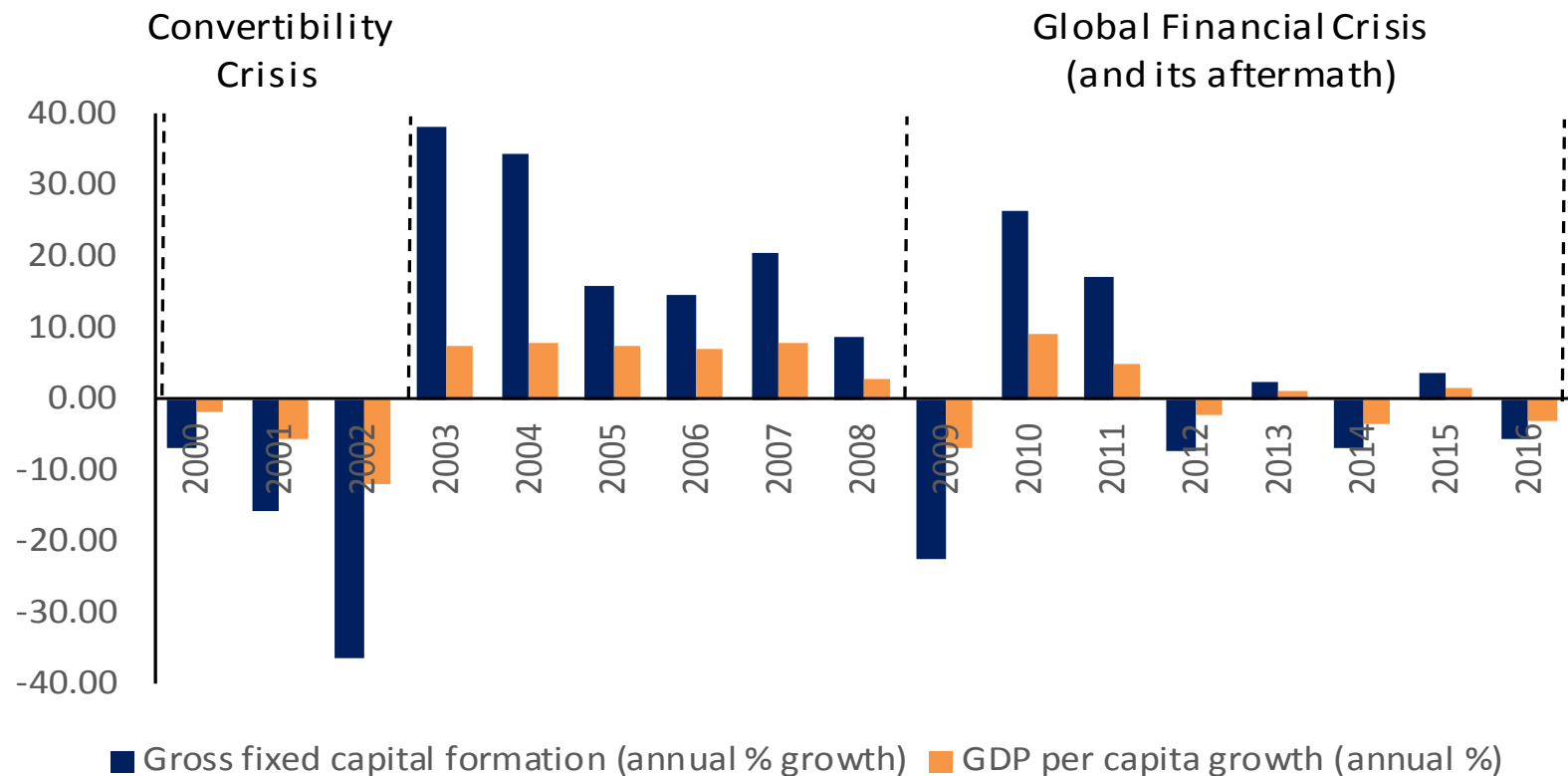
The Argentina (2018) and Venezuela Crises (2014-onwards).

- **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....

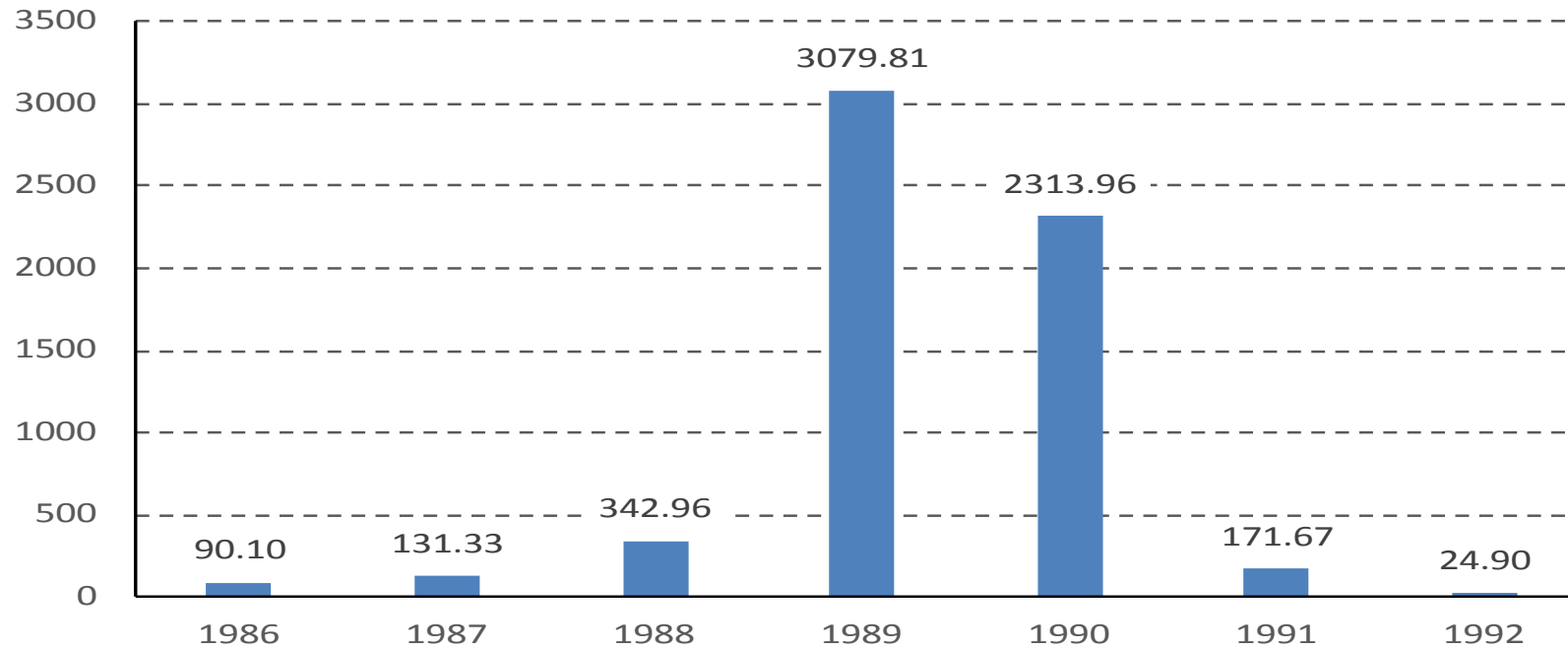
Previous Crises in Argentina I: hyperinflation in the late 1980s and confidence shocks in the 1990s (hit by the Mexican and Asian/Russian crises).



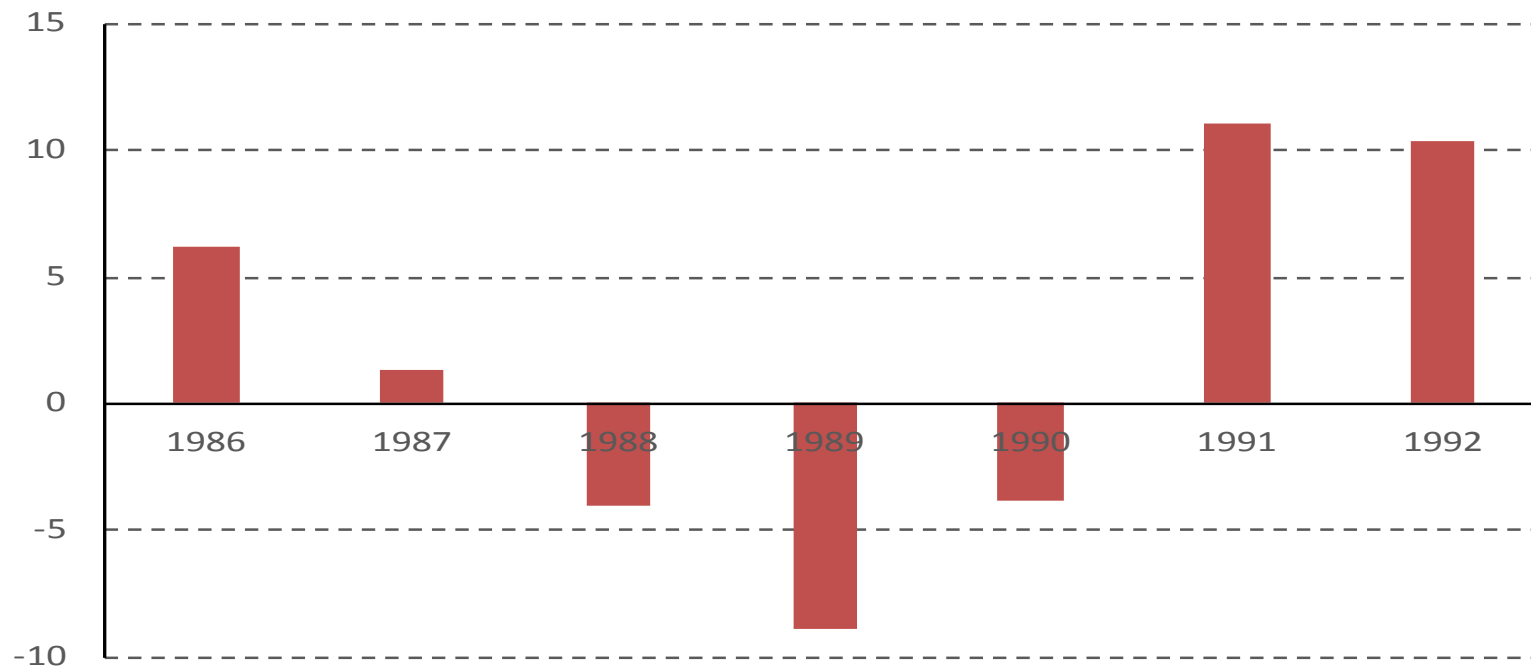
Previous crisis II: convertibility crisis (2001-02), and Macri's crisis (2018).



Hyperinflation in Argentina 1989-90 (percent change in CPI)



Argentina: Output collapsing during hyperinflation (percent change in GDP)

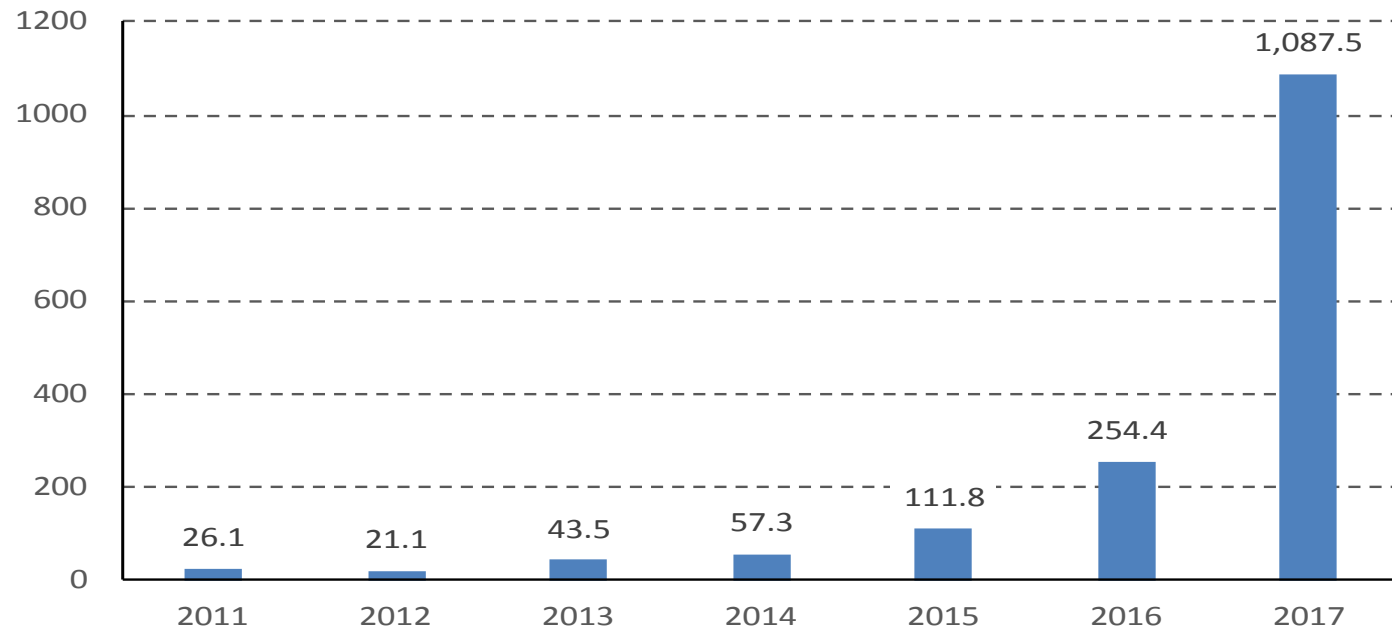


Venezuela

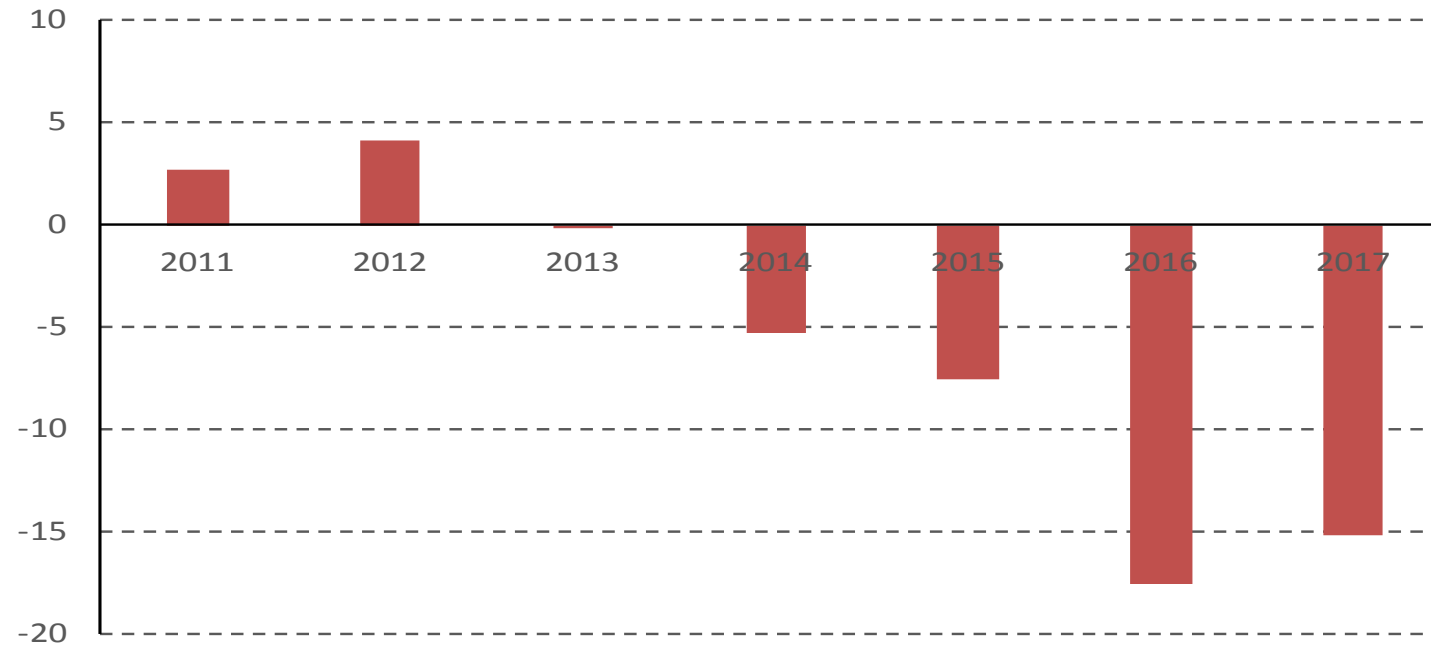
- Hyperinflation (similar to Zimbabwe's hyperinflation of 2008).
- Output has contracted by more than 35 percent since 2014.
- Monetary reform in August (sovereign bolivar anchored to the petro, a crypto-currency)
- No IMF program to support stabilization.
- Economic crisis leading to massive emigration (2.3 million) and humanitarian crisis.

Inflation in Venezuela

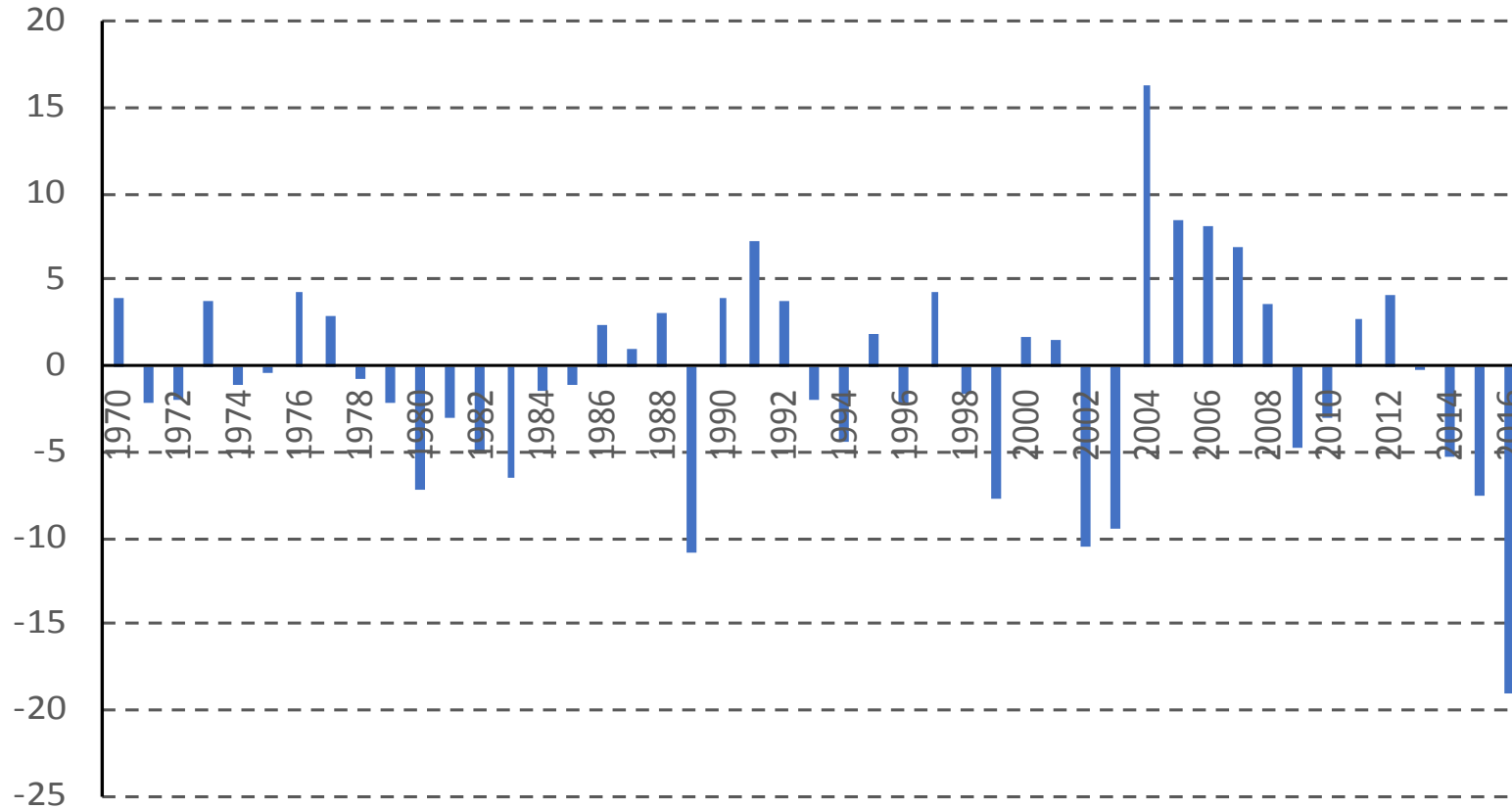
(2016-2017, percent change in CPI, IMF data)



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).
- **Currency overvaluation** (Chile 1979-82, Argentina, 1999-2001).
- 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.