



Insigneo Weekly Dispatch

# The IMF's WEO and Latam: is this a bump in the road?

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## The IMF's WEO and Latam: is this a bump in the road?

As is customary, the IMF and the World Bank held their spring meetings in Washington last week. Subsequently, they issued the Spring edition of the World Economic Outlook (WEO), a publication that provides the most recent perspectives on global growth, inflation, and the risks ahead. This edition also included the Fund's outlook for Latin America and the Caribbean, a section that has sparked our interest and one that we will delve into further here.

First, the IMF highlighted the resilience of global economic activity in 2023. Headline inflation approached pre-pandemic levels in most economies. In advanced economies, it was closer to the target, while in emerging markets and developing economies, it continued to trend downward, though it has not yet reached desired levels. Furthermore, this resilient economic growth unfolded amid what the Fund described as “robust employment growth” and households’ ability to draw on their accumulated savings to underpin consumption. However, the IMF forecasts that tighter fiscal policies, including higher taxes and reduced government spending, are likely to dampen future growth.

The Fund expects the global economy to grow by 3.2% in 2024 and 2025, which is below trend levels. It states that growth is being dampened by a combination of short-term and long-term factors, such as high borrowing costs, the COVID pandemic, and Russia’s invasion of Ukraine, as well

as increasing geoeconomic fragmentation. It expects global headline inflation to continue to fall in 2024 and 2025, with advanced economies projected to reach their inflation targets sooner than their developing counterparts. Furthermore, the IMF considers that the risks to its global outlook are broadly balanced. It recognized that geopolitical risks and a divergence in the pace of disinflation could exacerbate currency moves, and stress financial sectors. Conversely, looser fiscal policy, a faster fall in inflation, and the productivity gains generated by artificial intelligence and structural reforms were highlighted as upside risks.

Turning our attention to Latin America and the Caribbean, it is worth mentioning that the IMF expects the region to grow by 2.0% in 2024, a 0.1% upward revision to its previous January estimate, and 2.5% in 2025. Even if these figures imply slower growth versus 2023, we would note that this is occurring amidst normalizing monetary policy and more balanced global risks. More specifically, the IMF expects South America to grow 1.4% in 2024 and maintain positive growth trend in 2025. Furthermore, the Fund was optimistic on the inflation outlook for the region. It lauded the actions taken by Latam's central banks. The monetary policy easing that started last year should continue, although the pace of cuts would be dependent on the delicate balance of taming inflation and avoiding unnecessary economic contraction. Lastly, regarding the fiscal outlook, the IMF noted how most countries had removed the stimulus related to the pandemic, although higher debt levels could jeopardize their consolidation plans. Consequently, it recommended that a faster fiscal consolidation

was needed to put public debt on a stronger footing and expected a timely fiscal tightening to allow for faster monetary policy normalization.

### Western Hemisphere: Real GDP growth

(year-over-year percent change)

	2022	2023	Py	
			2024	2025
<b>North America</b>	<b>2.3</b>	<b>2.5</b>	<b>2.6</b>	<b>1.9</b>
Canada	3.8	1.1	1.2	2.3
Mexico	3.9	3.2	2.4	1.4
United States	1.9	2.5	2.7	1.9
Puerto Rico	3.2	-0.7	-0.2	0.0
<b>South America</b>	<b>4.0</b>	<b>1.5</b>	<b>1.4</b>	<b>2.7</b>
Argentina	5.0	-1.6	-2.8	5.0
Bolivia	3.6	2.5	1.6	2.2
Brazil	3.0	2.9	2.2	2.1
Chile	2.1	0.2	2.0	2.5
Colombia	7.3	0.6	1.1	2.5
Ecuador	6.2	2.3	0.1	0.8
Paraguay	0.2	4.5	3.8	3.8
Peru	2.7	-0.6	2.5	2.7
Uruguay	4.7	0.4	3.7	2.9
Venezuela	8.0	4.0	4.0	3.0

Source: IMF – Regional Economic Outlook – Western Hemisphere, April 2024

Regarding the different countries in the region, the IMF notably held a constructive view on Argentina. It noted that the Stabilization Plan yielded better results than anticipated during the last review of the program. It highlighted the observed fiscal surplus, the strengthening of the central bank's balance sheet, and the observed decrease in inflation. The key program targets through the end of March were met with "important margins," according to preliminary information. Nonetheless, current discussions are centered on policies to

improve the durability and quality of the fiscal adjustment. With respect to the removal of FX controls, the report noted that it was a process that needed careful consideration and that active discussions were being held around alternative and potentially better options.

Furthermore, for the IMF to commit to a new program with Argentina, it would first like to see two things come together: i) fiscal adjustments done in a sustainable fashion and ii) a more considerable devaluation and higher interest rates. The latter is especially challenging, considering the latest statements from the Milei administration that show a government planning on cutting rates the next time it sees a lower inflation print, hoping to put the central bank's balance sheet back on a sound footing. Moreover, the removal of capital controls is expected to happen as fast as possible, although avoiding FX volatility is crucial.

In the case of Mexico, the Fund highlighted the forecasted increase in the country's public debt-to-GDP ratio, which is expected to exceed 50% despite projected decreases in its fiscal deficit. This predicted increase in the public debt stems from projected public spending from the last tail of the AMLO administration on promised infrastructure projects, and it is casting doubts on Mexico's fiscal consolidation in 2025. Here, it is worth stressing that Gabriel Yorio, Mexico's deputy minister of finance, stated his disagreement with the IMF's growth forecast for the country, stating that the government is more optimistic than the

Fund in terms of expected growth, especially with the expected arrival of additional FDI because of the nearshoring phenomenon.

In all, the main message from the WEO and its subsequent Regional Economic Outlook is that Latam's growth resilience is no small feat given the challenging current macroeconomic environment. The downward trend observed in inflation should continue to bring positive news to the region in 2024. However, the IMF pointed out that central banks should remain cautious and independent when implementing an easier monetary policy, especially considering that, for most economies, rates are still restrictive. Finally, the differentiated tone of caution should be considered when deciding where to invest in the region. In the coming years, the independence of central banks, each country's capacity to achieve a sustained macroeconomic recovery, together with a sound fiscal consolidation will be crucial in determining which countries will thrive and which ones will fall further behind.



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