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REPORT ON THE LATIN AMERICAN ECONOMY. SECOND HALF OF 2020

ABSTRACT

Economic activity in Latin America has been drastically affected by the COVID-19 global health crisis, although this has been partly mitigated by economic policy actions taken by national authorities and multilateral institutions. As in other parts of the world, these actions have, in many cases, included new measures, with respect to previous crises, such as, for the first time in the region, the widespread use of unconventional monetary policy instruments. Despite these actions, Latin America may record a drop in GDP of close to 8% in 2020, the largest in recent decades and notably larger than those in other emerging regions. In recent months, despite less support from international capital flows than in previous recoveries, activity has started to recover. This is expected to continue in the short term, although the recovery will be uneven across economies, gradual and subject to a high degree of uncertainty. In the medium term, the region's growth outlook is also subject to considerable uncertainty, mainly linked to the doubts regarding the future course of the pandemic. Generally, downside risks predominate, given that the region's pre-existing vulnerabilities may be amplified by the persistence of the crisis. The area's banking systems have also been hit by the economic deterioration, but have displayed notable resilience in this first phase of the crisis. From the economic policy viewpoint, this scenario should lead to the design and implementation of a broad medium-term reform agenda, to increase the region's resilience and raise its potential growth capacity, while being conducive to the correction of the main macroeconomic and social imbalances.

Keywords: epidemiological developments, mobility and activity restrictions, economic vulnerabilities, financial asset purchase programmes, government debt restructuring, monetary and fiscal space, financial system, labour informality, uncertainty in economic forecasts.

JEL classification: F01, F24, F30, F47.

Introduction

Economic activity in Latin America has been drastically affected by the COVID-19 global health crisis, although this has been partly mitigated by economic policy actions taken by national authorities and multilateral institutions. As in other parts of the world, these actions have, in many cases, included new measures, with respect to previous crises, such as, for the first time in the region, the widespread use of unconventional monetary policy instruments. In spite of these actions, activity contracted sharply in the first half of the year, especially in Q2, such that the GDP of Latin America may fall in 2020 by around 8%. This would be a larger decline than in previous crises, such as the debt crisis in the 1980s and the great financial crisis of 2008-09, and notably larger than those in other emerging regions. In recent months, despite little support from international capital flows, activity has begun to recover. This is expected to continue in the short term, although the recovery will be uneven across economies, gradual and subject to a high degree of uncertainty. In the medium term, the outlook for the region's growth is subject to considerable uncertainty, mainly linked to the doubts regarding the future course of the pandemic, and downside risks predominate, given that the region's pre-existing vulnerabilities may be amplified by the persistence of the crisis. The region's banking systems have also been hit by the economic deterioration, but have displayed a high degree of resilience in this first phase of the crisis. From the economic policy viewpoint, this scenario should lead to the design and implementation of a broad medium-term reform agenda, to increase the region's resilience and raise its potential growth capacity, while being conducive to the correction of the macroeconomic and social imbalances.

The rest of the report elaborates on these aspects. The second section describes the economic effects of the pandemic on the region observed to date, mainly as a consequence of the restrictions on activity imposed by the authorities to contain it. The third section sets out the medium-term outlook and different risk scenarios. Lastly, the report concludes with reflections on the main challenges facing the Latin American economies.

The report has four boxes. The first box analyses the financial asset purchase programmes initiated by the central banks of emerging economies, in general, and the Latin American economies, in particular, as part of the response to the economic and financial effects of the pandemic. The second box analyses the developments in recent months in those of the region's banking systems that are most relevant to the

Spanish economy, considering the potential adverse consequences of the health crisis on the industry. The third box describes the technical assumptions and tools considered to perform the macroeconomic risk scenario simulation exercises presented in this report. Lastly, the fourth box briefly summarises the effects of the recent restructuring of Argentina's government debt on its public sector funding needs in the years ahead.

Economic activity in the first half of 2020 has been constrained by the spread and containment of the pandemic

As in the rest of the world, the course of the COVID-19 pandemic and the containment measures to curb its spread have been the main factors behind Latin America's adverse economic performance in the first half of the year. The region is currently one of the global epicentres of the virus, in number of infections and deaths (see Chart 1.1), despite being, within the group of the emerging economies, where, broadly speaking, the most restrictive measures on individual activity and on the ordinary pursuit of business activity have been adopted. This has led to a greater reduction in movement than in other areas (see Charts 1.2 and 1.3). Some structural vulnerabilities, including lower institutional quality, the high rate of informal employment and the high rate of urbanisation, appear to have contributed to this greater impact of the health crisis compared with other emerging areas (see Banco de España, 2020a and 2020b).

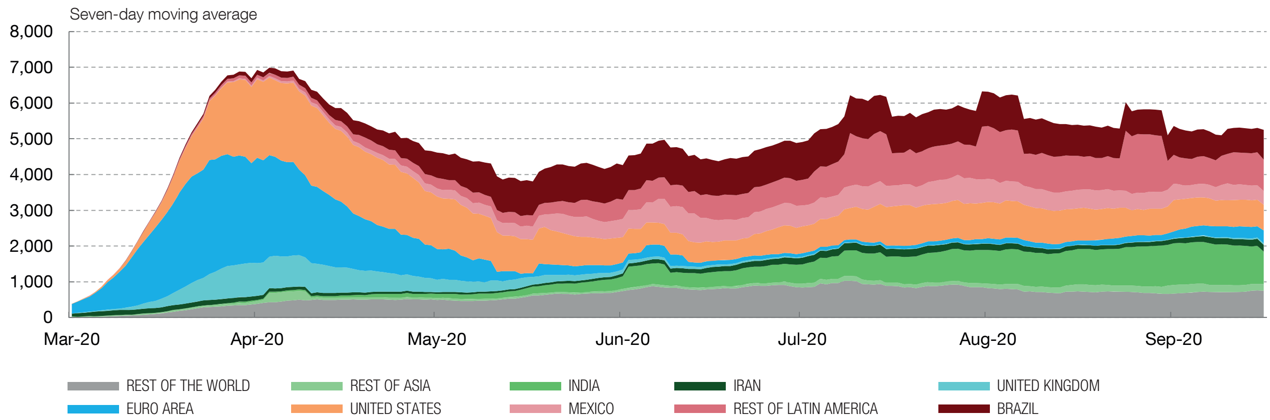
Economic activity dropped sharply between March and April or May, depending on the country (see Chart 2.1). In Q2 the region's aggregate activity fell by more than 14% in quarter-on-quarter terms. This exceeded the decline in other emerging regions of reference. Nonetheless, the adverse economic effects of the pandemic are uneven across the region's main economies, depending primarily on the stringency of the national lockdown measures (see Chart 2.2). At opposite ends of the scale are Brazil and Peru with the smallest (-9.7%) and the largest (-27.2%), respectively, quarter-on-quarter falls in Q2. On the supply side, the poorest performance was recorded by the services sectors (retail worst of all) and by construction (see Chart 2.3), although mention should also be made of the collapse of manufacturing in Mexico. In aggregate terms, the drop in private investment and, especially, private consumption, which was only partially offset by external demand's positive contribution, stands out on the demand side (see Chart 2.4). Although external demand's contribution was negative in Mexico and Peru, in the other larger countries it was positive. The main factor behind this was imports collapsing further than exports. From the standpoint of nominal current account flows, it bears highlighting that the current account balances improved, mainly due to the trade balance (see Chart 2.5). In addition, remittances — of particular importance to Mexico specifically — have resisted better than expected at the outbreak of the

Chart 1

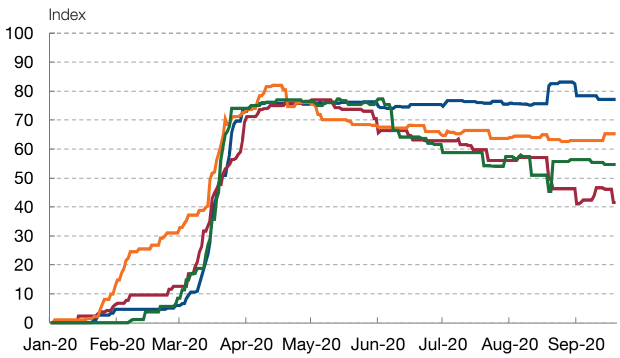
EPIDEMIOLOGICAL DEVELOPMENTS AND MEASURES ADOPTED BY THE AUTHORITIES TO CURB THE COVID-19 PANDEMIC IN LATIN AMERICA

Latin America is currently one of the areas hardest hit by the pandemic, recording almost half of the world's daily deaths, despite the restrictions on activity and movement in the region's main economies having been more stringent than those observed in other emerging countries.

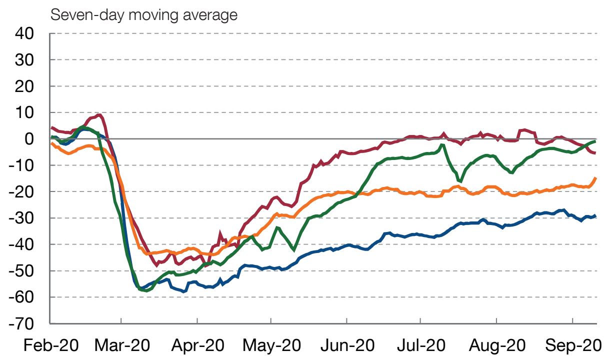
1 DAILY DEATHS OF PATIENTS DIAGNOSED WITH CORONAVIRUS



2 STRINGENCY INDEX BY REGION (a)



3 MOBILITY DATA. CONSUMPTION (b)



SOURCES: Johns Hopkins, University of Oxford, Google (Global Mobility Report) and Banco de España.

a A composite index developed by the University of Oxford. It assesses the strictness of the lockdown measures adopted by each country in response to the COVID-19 pandemic.
b Mobility data on consumption-related activities. "Consumption" is the average of "retail and recreation" and "food and pharmaceutical products" activities.

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pandemic,[1] in light of the decline in employment in the United States, the main remittance-sending country, and they reached a peak 12-month cumulative flow in August (see Chart 2.6). This illustrates the countercyclical function of remittances in recipient countries.

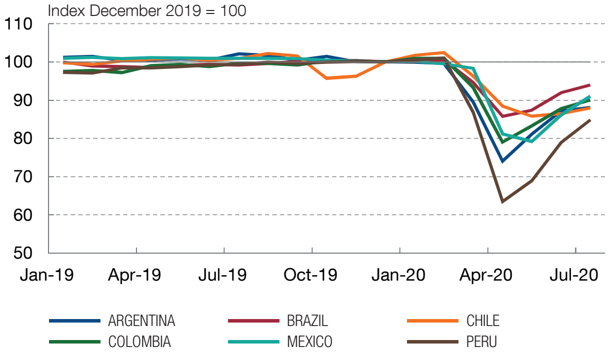
1 In April the World Bank estimated that remittances would fall by 20% in a middle-income country such as Mexico. This was estimated by applying the elasticity of remittances to growth during the 2008 global financial crisis (1.9 in the case of the United States) to the growth forecasts for that economy.

Chart 2

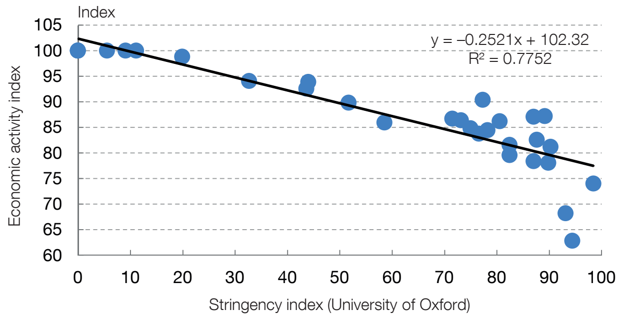
ECONOMIC ACTIVITY

The fall in activity was steeper in the region than in other emerging regions, although significant cross-country differences can be observed on the basis of the lockdown measures adopted. On the supply side, the sectors most affected were the services sector and construction, although the collapse of manufacturing in Mexico is notable. On the demand side, of note are the declines in private investment and consumption, offset partially by the positive contribution of external demand (explained by imports collapsing more than exports). In the external sector, current account balances improved, mainly due to the performance of the trade balance. Remittances, of particular importance in Mexico, resisted somewhat better than expected.

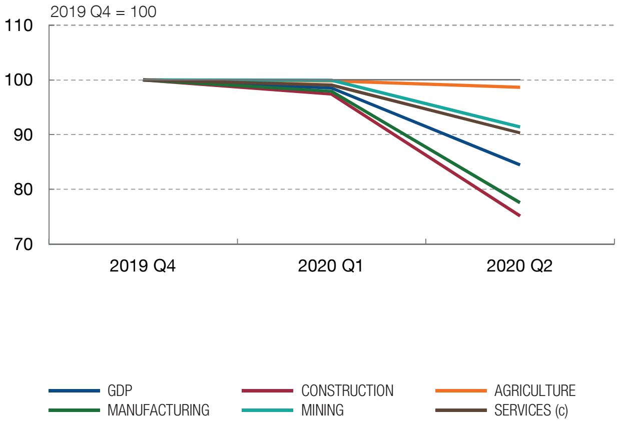
1 ECONOMIC ACTIVITY INDICES



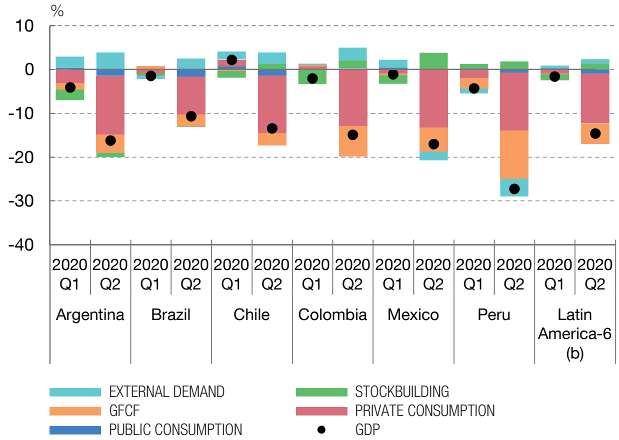
2 ECONOMIC ACTVITIY AND STRINGENCY INDEX (a)



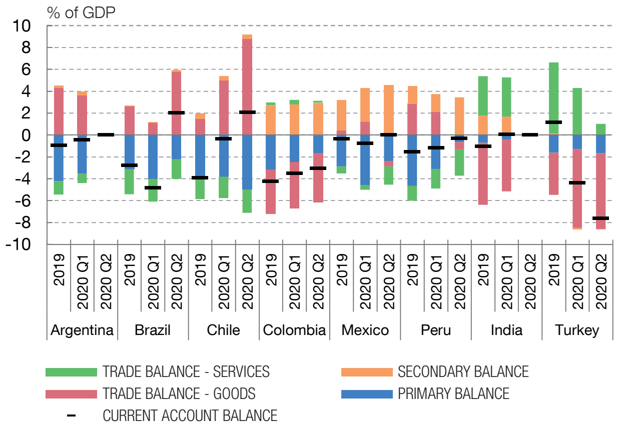
3 SUPPLY-SIDE CONTRIBUTIONS TO Q-O-Q GDP GROWTH (b)



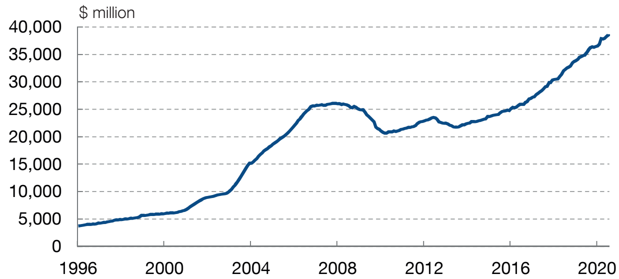
4 DEMAND-SIDE CONTRIBUTIONS TO Q-O-Q GDP GROWTH



5 CURRENT ACCOUNT BALANCE



6 MEXICO. INFLOW OF REMITTANCES (d)



SOURCES: Thomson Reuters, University of Oxford and national statistics.

a Data on Argentina, Brazil, Chile, Colombia, Mexico and Peru for February to June 2020.
b Argentina, Brazil, Chile, Colombia, Mexico and Peru.
c The services sector does not include exactly the same sub-sectors across countries.
d Twelve-month cumulative flow.

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Table 1
LATIN AMERICA: MAIN ECONOMIC INDICATORS

	2007-2018 Average	2019	2019				2020		IMF Projections (WEO April 2020)	
			Q1	Q2	Q3	Q4	Q1	Q2	2020	2021
GDP (year-on-year rate)										
Latin America-6 (a) (b)	2.4	0.6	0.1	0.9	0.8	0.6	-1.3	-15.9	-5.4	3.4
Argentina	1.9	-2.1	-5.9	0.4	-1.8	-1.1	-5.2	-19.1	-5.7	4.4
Brazil	1.9	1.1	0.6	1.1	1.2	1.7	-0.3	-11.4	-5.3	2.9
Mexico (c)	2.1	-0.3	0.1	0.0	-0.5	-0.8	-2.1	-18.7	-6.6	3.0
Chile	3.3	1.1	1.4	1.8	3.4	-2.1	0.2	-14.1	-4.5	5.3
Colombia (c)	3.8	3.3	2.4	3.6	3.4	3.6	1.0	-15.5	-2.4	3.7
Peru	5.1	2.2	2.5	1.2	3.2	1.9	-3.5	-30.2	-4.5	5.2
CPI (year-on-year rate)										
Latin America-5 (d)	4.8	3.5	3.7	3.9	3.2	3.1	3.5	2.4	3.1	3.0
Brazil	5.7	3.7	4.1	4.3	3.2	3.4	3.8	2.1	3.6	3.3
Mexico	4.2	3.6	4.1	4.2	3.3	2.9	3.4	2.8	2.7	2.8
Chile	3.4	2.3	1.8	2.2	2.2	2.8	3.7	2.9	3.4	2.9
Colombia	4.2	3.5	3.1	3.3	3.8	3.8	3.7	2.9	3.5	3.2
Peru	3.0	2.1	2.1	2.5	2.0	1.9	1.9	1.7	1.7	1.8
Budget balance (% of GDP) (e)										
Latin America-6 (a) (b)	-3.1	-3.8	-4.2	-3.9	-3.9	-3.8	-4.0	-7.0		
Argentina	-2.1	-3.8	-4.7	-4.4	-4.1	-3.8	-4.4	-7.2	n/d	n/d
Brazil	-4.8	-5.9	-7.0	-6.5	-6.3	-5.9	-6.2	-11.4	-9.3	-6.1
Mexico	-2.3	-2.1	-1.7	-1.6	-2.0	-2.1	-1.9	-2.7	-4.2	-2.2
Chile	-0.1	-2.8	-1.8	-1.8	-2.2	-2.8	-2.8	-5.0	-6.3	-3.5
Colombia	-2.8	-2.2	-2.6	-1.8	-1.1	-2.2	-1.7	-4.1	-2.5	-1.3
Peru	-0.4	-2.1	-1.9	-2.0	-2.1	-2.1	-2.8	-4.8	-7.1	-2.6
Public debt (% of GDP)										
Latin America-6 (a) (b)	46.3	60.4	60.3	59.0	60.5	59.2	62.7	—		
Argentina	47.9	90.2	81.0	68.4	80.4	76.8	84.0	—		
Brazil	60.3	75.8	78.1	78.0	78.0	75.8	78.5	85.5		
Mexico	37.8	47.1	46.6	46.5	47.3	47.1	51.8	55.3		
Chile	13.4	27.9	26.2	26.7	27.2	27.9	28.3	31.8		
Colombia	37.4	45.5	47.2	47.2	47.3	45.5	50.2	—		
Peru	23.8	26.8	25.3	25.8	25.7	26.8	26.3	30.2		
Current account balance (% of GDP) (e)										
Latin America-6 (a) (b)	-2.0	-2.0	-2.7	-2.4	-2.2	-2.0	-1.7	-1.4		
Argentina	-1.3	-0.9	-4.3	-3.2	-1.8	-0.9	0.0	1.1	n/d	n/d
Brazil	-2.2	-2.8	-2.3	-2.4	-2.6	-2.8	-3.1	-2.7	-1.8	-2.3
Mexico	-1.6	-0.3	-2.1	-1.4	-0.9	-0.3	0.4	0.0	-0.3	-0.4
Chile	-1.2	-3.9	-4.0	-4.3	-4.4	-3.9	-3.4	-1.9	-0.9	-1.8
Colombia	-3.6	-4.3	-4.2	-4.1	-4.4	-4.3	-4.0	-3.9	-4.7	-4.2
Peru	-2.6	-1.5	-1.8	-1.8	-1.6	-1.5	-1.1	-0.8	-0.9	-1.0
External debt (% of GDP)										
Latin America-6 (a) (b)	27.5	39.2	38.0	39.4	38.7	39.1	39.2	—		
Argentina	36.1	62.7	56.0	61.3	61.0	62.3	62.9	66.9		
Brazil	26.3	36.7	36.9	38.2	36.4	36.7	35.8	37.9		
Mexico	20.8	28.2	27.9	28.2	28.0	28.2	28.7	—		
Chile	49.9	70.2	63.5	66.9	67.5	70.1	72.1	80.9		
Colombia	28.5	42.7	40.3	41.3	42.2	42.7	44.1	49.7		
Peru	32.4	34.7	35.8	36.7	35.8	34.7	35.3	39.1		
MEMORANDUM ITEMS: Aggregate of Latin America and the Caribbean (International Monetary Fund)										
GDP (year-on-year rate)	2.3	0.1								
CPI (year-on-year rate)	5.2	7.1								
Budget balance (% of GDP)	-3.7	-4.0								
Public debt (% of GDP)	51.4									
Current account balance (% of GDP)	-1.8	-1.7								
External debt (% of GDP)	34.1									
Weight in world GDP, in PPP (%)	8.4	7.2								

SOURCES: IMF, Thomson Reuters and national statistics.

a The six economies shown represent 85.2% of the total of Latin America and the Caribbean (IMF).
b GDP of Latin America-6 weighted using the purchasing power parity (PPP) method. The weightings for 2019 are: Brazil, 39.7%; Mexico, 29.8%; Argentina, 10.4%; Colombia, 9.0%; Chile, 5.6%, and Peru, 5.4%.
c Seasonally adjusted.
d Latin America-5: Brazil, Chile, Colombia, Mexico and Peru. Argentina is not included because its central bank does not have inflation targets.
e Four-quarter moving average.

As in other regions of the world, activity would have collapsed further had the economic authorities not adopted measures swiftly and forcefully.[2] For instance, some governments — such as the Brazilian, Chilean and Peruvian governments — adopted fiscal stimulus packages that are among the largest within the emerging economies (see Chart 3.1) and focused mainly on supporting firms and households, expanding healthcare capacities and issuing public guarantees for lending and capitalisation.[3] Furthermore, in some countries — such as Chile and Peru — the authorities allowed savers to withdraw a fraction of their savings from their private pension plans. This had significant effects on the domestic financial markets and on short and long-term private consumption and investment.[4]

In turn, most central banks cut their policy interest rates (see Chart 3.2) to record lows (except for Mexico) so that in real terms they stood notably below what is considered the equilibrium real interest rate (see Chart 3.3), gave forward guidance on future changes to monetary policy, increased system liquidity (e.g. by lowering reserve ratios) and launched financial asset purchase programmes (see Box 1). These measures could be adopted because, for the time being, the COVID-19 pandemic has had, despite rising inflation in some components due to sporadic restrictions on supply, a net deflationary impact, such that in May inflation fell to a record low in many of the region's countries with an inflation target (see Chart 3.4). Mexico is the exception to this widespread trend, particularly since core inflation has persistently remained above levels compatible with the inflation target. Furthermore, some central banks, such as those of Colombia and Mexico, have stressed in their press releases and in the published minutes of their monetary policy meetings the importance of taking financial stability into consideration when adopting their decisions.

The measures more directly geared towards supporting the financial system, such as the credit support programmes, moratoria on loan payments by vulnerable borrowers and public guarantees, have been underpinned by the release of capital buffers by the macroprudential authorities. Against this background, although the region's banking systems have felt the economic downturn, they have displayed a high level of resilience in this initial phase of crisis (see Box 2).

The adverse effects of the pandemic on activity have not had a similar scale impact on the Latin American financial markets' performance, once they overcame the initial

2 A detailed description of the measures adopted in the various countries can be found on the IMF (https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-Covid-19) and CEPAL (https://www.cepal.org/en/topics/covid-19) websites.

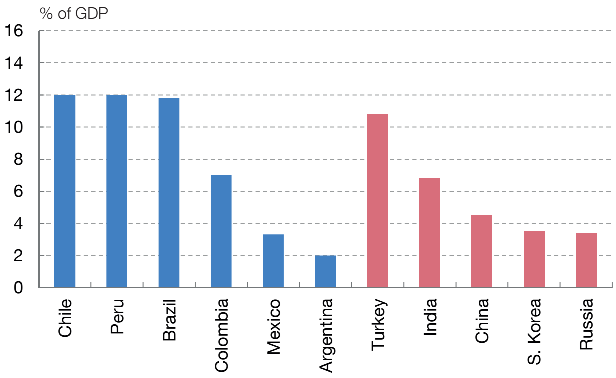
3 However, comparing the various governments' packages is highly difficult given that the numbers presented refer to a mix of direct public spending measures (such as healthcare programmes) and others consisting mainly of guarantees that do not have an immediate budgetary impact. Furthermore, the varying importance of the automatic stabilisers in the different countries means that simply comparing the new discretionary measures does not capture the welfare systems' response, although these systems are more limited in the region than in other emerging and, above all, advanced economies.

4 See Central Bank of Chile (2020).

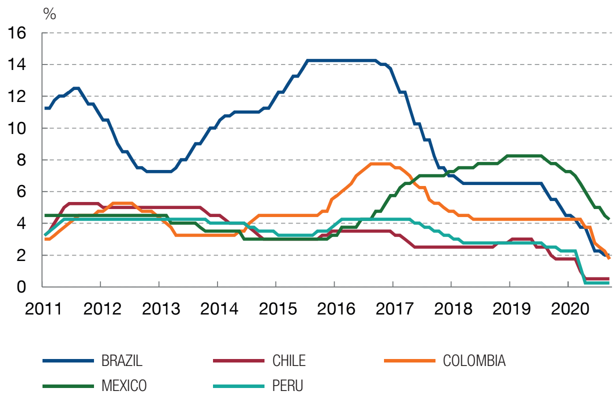
Chart 3
MONETARY AND FISCAL POLICY

All the region's authorities took forceful measures to mitigate the collapse of economic activity. Some of the region's economies' fiscal stimuli were greater than those of other emerging market regions, the central banks cut nominal policy interest rates to all-time lows, except for Mexico, and real interest rates were below what is considered the equilibrium real interest rate. All these measures could be adopted due to the deflationary process triggered by the pandemic that took the inflation rate in several countries to record lows in May. Mexico was the exception, where core inflation remained high.

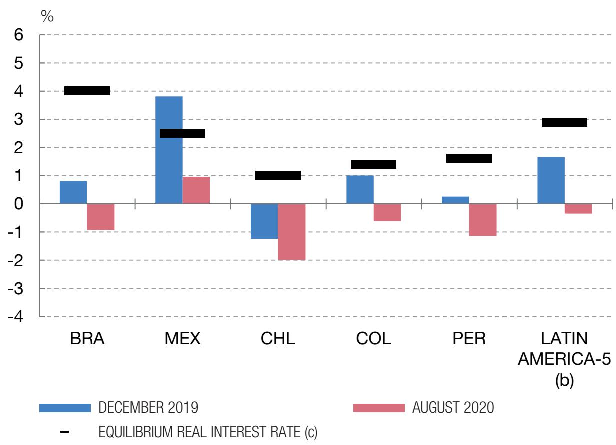
1 FISCAL STIMULUS SIZE



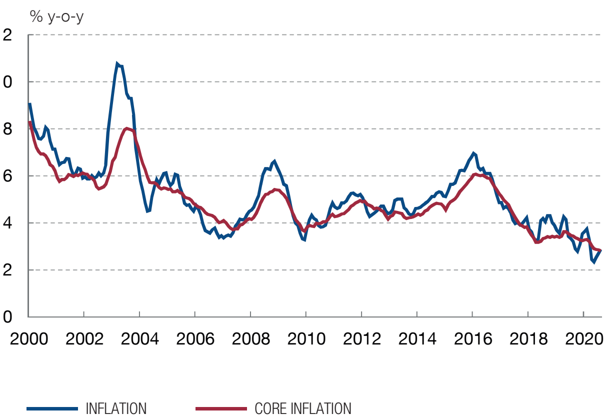
2 POLICY INTEREST RATES IN THE MAIN LATIN AMERICAN ECONOMIES



3 REAL INTEREST RATES IN THE MAIN LATIN AMERICAN ECONOMIES (a)



4 INFLATION. LATIN AMERICA- 5 (b)



SOURCES: Thomson Reuters, IMF and central banks.

a Real interest rates calculated as the difference between the nominal interest rates and 1-year expected inflation.
b Aggregate of the five countries with inflation targets: Brazil, Chile, Colombia, Mexico and Peru, weighted by PPP.
c Based on the estimates of the region's various central banks.

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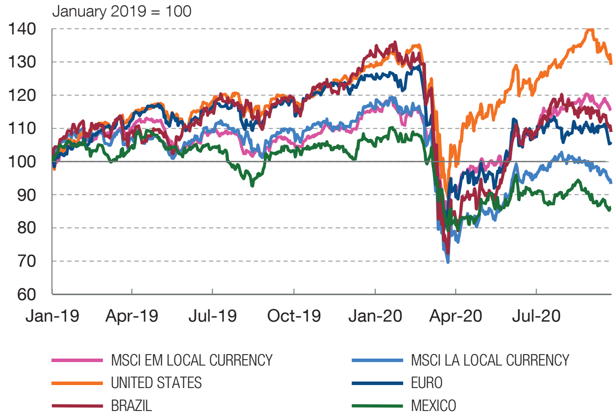
highly stressed phase between mid-February and mid-March. The initial adverse momentum in stock market indices, sovereign spreads and exchange rates reverted partially thanks to the launch of accommodative policies by governments and central banks in both Latin American countries and in developed economies (see Charts 4.1, 4.2 and 4.3).[5] Thus, financial stress indicators decreased considerably (see Chart 4.4)

5 The importance of the swap lines and the FIMA Repo Facility offered by the Federal Reserve to increase the supply of dollars in the region's economies is noteworthy.

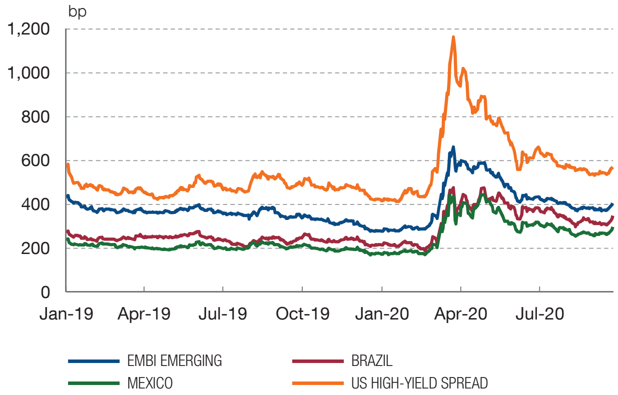
Chart 4
LATIN AMERICAN FINANCIAL MARKETS

Emerging financial markets recovered after falling to lows at end-March, although the Latin American markets trailed behind the others, partially due to the greater weight in the indices of commodities and energy-related firms. The financial stress indices returned to pre-pandemic levels and although financial conditions loosened by historical standards, all countries continue to record tighter conditions than in the months preceding the pandemic. Capital flows stabilised and recovered slightly in June and July, with Latin America once again recording a weaker recovery.

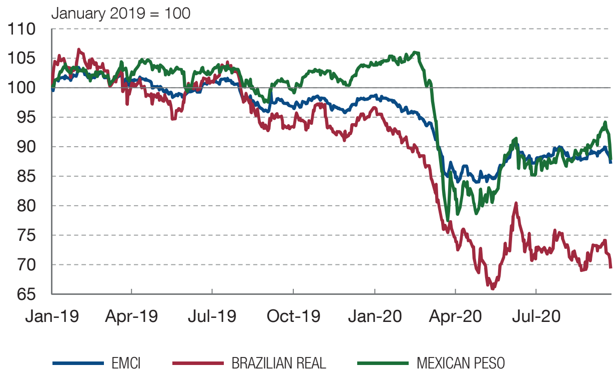
1 STOCK EXCHANGE INDICES



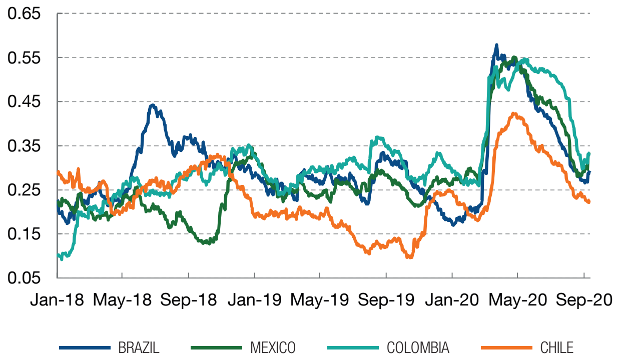
2 SPREADS



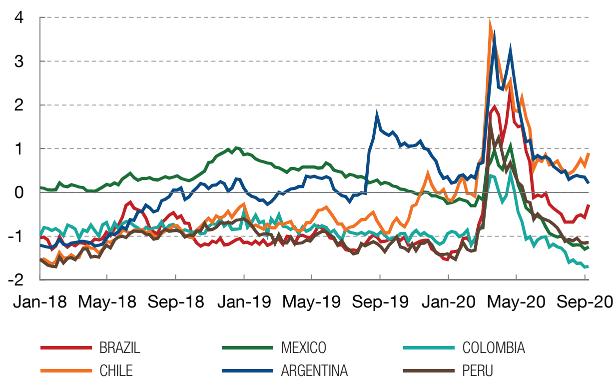
3 EXCHANGE RATES AGAINST THE DOLLAR



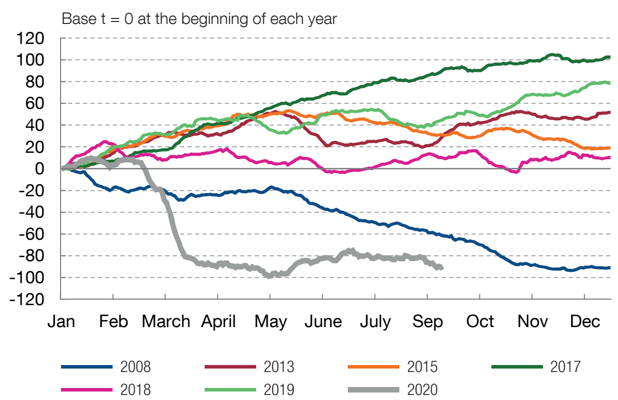
4 FINANCIAL STRESS INDICES



5 FINANCIAL CONDITIONS INDICES (a)



6 CAPITAL FLOWS TO EMERGING MARKETS ($bn)



SOURCES: Thomson Reuters, Institute of International Finance and JP Morgan.

a An increase denotes a contraction in financial conditions.

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and although financial conditions are loose by historical standards (see Chart 4.5), in all countries they remain tighter than in the months preceding the pandemic. In turn, following the rapid outflows recorded in the emerging market economies from end-February to end-March, portfolio capital flows have only recovered very slightly (see Chart 4.6), performing relatively worse in Latin America than in other regions. Inflows of foreign direct investment decreased sizeably in Q2, especially in Brazil, although without turning negative.

Despite multilateral institutions providing what may be considered less support than during the great financial crisis of 2008-2009,[6] such support has likewise contributed towards the relatively benign behaviour of the financial markets. Thus, in May the IMF[7] approved Chile's and Peru's requests for Flexible Credit Line (FCL) arrangements and increased the amount under the arrangement with Colombia in September. Mexico also has access to a two-year Flexible Credit Line, having renewed it in November 2019.[8] In terms of the role played by the development banks, the World Bank has increased its loans to the region, although they remain below those granted during the 2008 global financial crisis; the Inter-American Development Bank (IDB) decided to expand the risks covered under the Contingent Credit Facility for Natural Disaster Emergencies (CCF) to include public health risks and COVID-19; and the CAF-Development Bank of Latin America supplied almost $5 billion in the first six months of the year to contend with the effects of the pandemic, via non-reimbursable funds and credit lines to strengthen healthcare and countercyclical policies.[9]

The economic outlook for the region

The latest data confirm a recovery in global activity, after bottoming out between April and May, in part because, despite the fresh outbreaks, measures as restrictive as those implemented at the onset of the pandemic have not been reintroduced. Moreover, the economic outlook for the economies where the region has its strongest trade links (primarily the United States and China) have been revised upwards in recent months (see Chart 5.1). Prices for commodities, which account for a large share of the region's exports, have also improved somewhat, essentially supported by the revival of investment in China (see Chart 5.2). This improvement in external

6 See Ocampo (2020).

7 The IMF has a Stand-By Arrangement with Argentina for $55.7 billion (almost 13 times its quota), which was approved prior to the current crisis, around $43.7 billion of which has been drawn down (see Serra et al. (2018)).

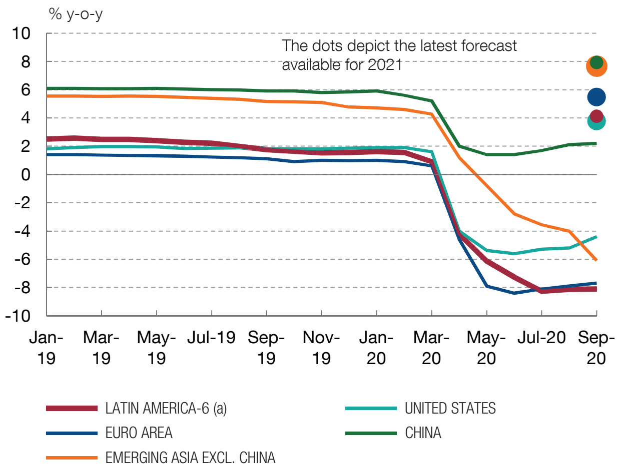
8 The amounts of Chile's and Peru's FCLs are equal to ten and six times their respective quotas. The amount of Colombia's FCL was increased in September to six times its quota and Mexico's FCL is equal to five times its quota. The Colombian authorities have expressed their intention of drawing down 30% of the amount of the FCL (around $5.2 billion) to tackle the pandemic. It would be the first country to make use of this precautionary credit line.

9 As regards the Latin American Reserve Fund (FLAR by its Spanish initials), of which Colombia and Peru are members, although there is no conditionality attached to its facilities, it has fewer resources and therefore its support may be deemed supplementary to the IMF's or a bridge to an IMF loan since it is swifter when approving financing.

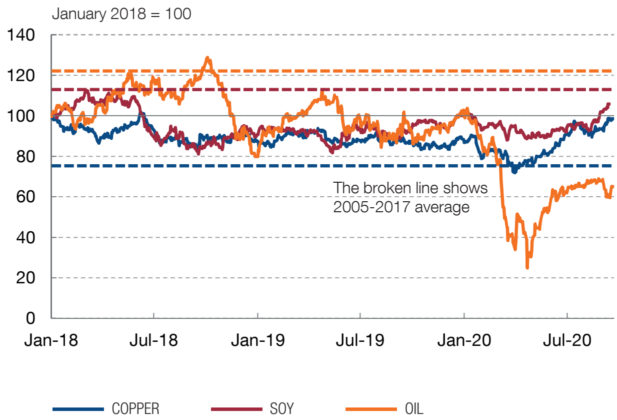
Chart 5
ECONOMIC OUTLOOK FOR THE REGION IN THE GLOBAL ENVIRONMENT

More buoyant activity is expected in Latin America over the coming months, owing, among other factors, to the improved economic outlook for areas that have strong trade links with the region (United States and China, mainly) and to the moderate price rises for the more important commodities in Latin America, provided that the course of the pandemic allows further easing of the containment measures and the continuation of expansionary policies.

1 GROWTH FORECASTS FOR 2020



2 COMMODITIES PRICES



SOURCES: Consensus Forecasts and Thomson Reuters.

a Latin America-6: Argentina, Brazil, Chile, Colombia, Mexico and Peru. Weighted by PPP.

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demand and the expectations that restrictions on movement will be eased further, along with the persistence of expansionary economic policies, indicate a scenario of greater buoyancy for Latin American activity in the months ahead.

However, this recovery in the coming quarters will be uneven across the economies, gradual and possibly slower than in other emerging regions. This owes in particular to the less favourable epidemiological developments, which may cause the current, comparatively more stringent containment measures to remain in place for longer.

Aside from the main uncertainty, the course of the pandemic, certain structural factors could also act as a brake on the recovery and influence the various countries' exit speed. Notable among these are the importance of tourism in the GDP of certain Latin American economies (in particular, among the largest, Mexico), their high dependence on commodities prices (which are recovering, albeit very gradually) and the lower degree of trade openness. Regarding the latter factor, those countries that are less open to trade and less integrated into global value chains (in particular Argentina and Brazil) will benefit to a lesser extent from the global recovery, should it take hold, than other more open economies in the region (such as Chile and Peru, with close ties to China, and Mexico, closely tied to the United States). In addition, assuming a similar monetary impulse across the various economies, those where the fiscal impulse has been largest (Brazil, Chile and Peru) could experience a more vibrant recovery, at least in the short term, provided that the risks to fiscal sustainability do not generate adverse dynamics - against the background of numerous stimulus programmes being extended over time - which will depend crucially on the available fiscal space.[10] Lastly, the factors in play for the region's recovery will be the path of income improvement for numerous households in the informal sector, having plunged on account of the confinement measures, and the greater proportion of SMEs relative to other emerging regions,[11] which have a higher probability of failure should the economy not rebound strongly. Likewise, despite being eclipsed by the current global health crisis, the demonstrations and social protests in various countries across the region in the second half of 2019 could re-emerge and generate economic costs both in the near term (given the economic impact of conflicts and their resolution) and medium term (owing to potential institutional reforms).[12]

Taking all these factors into account, the latest consensus forecasts indicate that in 2020 Latin America will record its worst contraction (-8.1%) in recent decades. It will also be notably larger than in other emerging regions (see Chart 6.1). Further, these forecasts are subject to far greater uncertainty than in previous years, as evidenced by the width of the range of analyst forecasts.[13] Also noteworthy is the dispersion in the projected contractions for the region's various economies, which vary from -5.7% in Brazil to -12.6% in Peru. This unevenness can largely be explained by the varying degrees of severity of the restrictions on movement. The consensus forecasts for 2021 indicate GDP growth of 4.1% in the region, again with a high degree of uncertainty and notable heterogeneity, envisaging the recovery weighed down by all of the above-mentioned factors. The gradual and incomplete nature of the recovery is evidenced by several of the region's economies, specifically the three largest, failing to recoup pre-health crisis levels by 2022, in contrast with other benchmark regions (see Chart 6.2).

Against this background of heightened uncertainty, the available macroeconomic projections must be regarded with greater caution than under normal economic conditions.[14] To quantify the hypothetical impact of the main risk factors identified on the shape of the recovery projected by the analysts' consensus, a set of scenarios

10 Chile and Peru have fiscal space, while this is more limited for Mexico and Colombia (see Espitia and Román, 2020). For Brazil, the levels of debt (over 95%) and the pre-pandemic primary deficit (close to 2.5% of GDP owing to the social security imbalance) indicate very limited fiscal space to maintain the stimuli. The recent discussions regarding the suspension of the expenditure ceiling rule in 2021 point in the same direction.

11 See World Bank (2014).

12 See Banco de España (2020b) and Ghirelli, Pérez and Urtasun (2020).

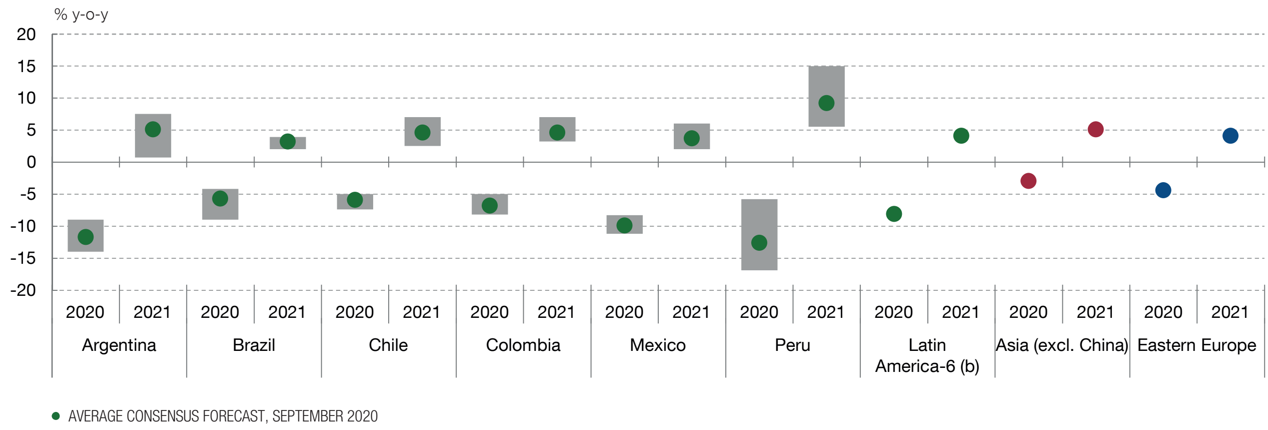
13 For example, the September growth projections for Brazil's 2019 GDP had a standard deviation of 0.2, compared with 1.1 for the 2020 GDP growth projections of September of this year. The standard deviations for Peru are 0.5 in 2019 and 2.6 in 2020.

14 For example, breaking with usual practice, the *Quarterly report on the Spanish economy* of March 2020 (Banco de España, 2020c) does not contain medium-term macroeconomic projections for the Spanish economy, while the subsequent reports published in May and September include several scenarios, in contrast to the normal practice of presenting a single baseline scenario for the projections.

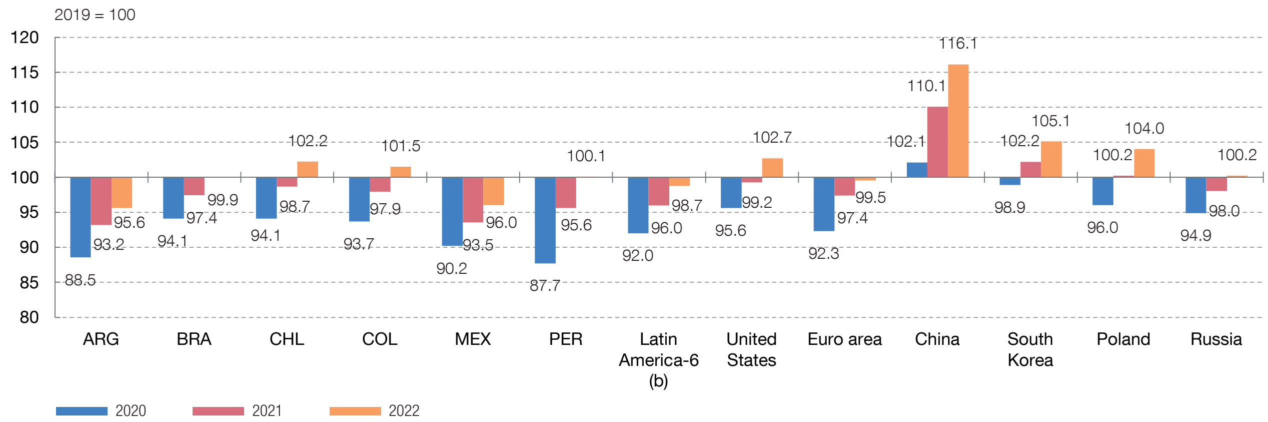
Chart 6
CONSENSUS GROWTH FORECASTS

On the latest consensus forecasts, in 2020 Latin America will register the sharpest contraction in recent decades (–8.1%), and larger than other emerging regions. The degree of uncertainty in the current scenario is reflected by the width of the range of analyst forecasts in each country. Further, there is marked heterogeneity in the growth rates among the different countries, partly explained by the greater or lesser stringency of the restriction measures implemented. In 2021 growth of 4.1% is expected. According to the forecasts, the gradual recovery means many countries in the region will remain short of pre-crisis levels in 2022, in contrast with other emerging regions.

1 GROWTH FORECASTS IN LATIN AMERICA FOR 2020 AND 2021 (a)



2 GDP LEVEL RELATIVE TO 2019. AUGUST 2020 CONSENSUS FORECASTS



SOURCE: Consensus Forecasts.

a The shaded areas correspond to the range between the highest and lowest analyst forecast in September 2020.
b Latin America-6: Argentina, Brazil, Chile, Colombia, Mexico and Peru. Weighted by PPP.

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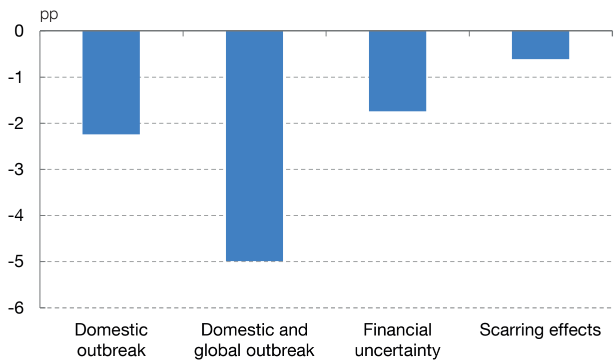
has been simulated, in which various risk scenarios are considered using a baseline scenario similar to that envisaged by the consensus. The exercises are confined to Brazil and Mexico, the two largest economies[15] and where the Spanish banking system has its largest exposures in the region. The risk scenarios concern, first, the

15 Brazil and Mexico together account for 70% of the aggregate LATAM-6 GDP and 59% of the Latin America and Caribbean region.

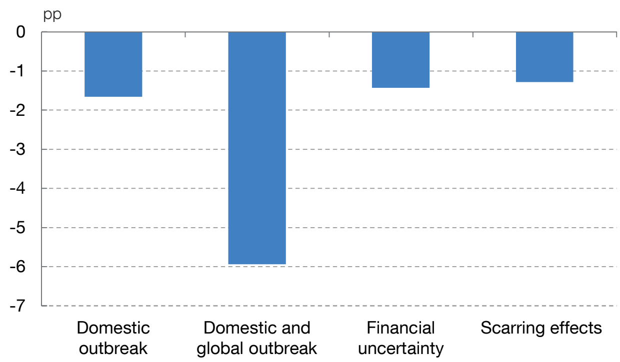
Chart 7
RISK SCENARIOS FOR THE MACROECONOMIC PERFORMANCE OF BRAZIL AND MEXICO

The economic outlook for Latin America in the short and medium-term is highly conditional on future epidemiological developments. The heightened uncertainty in this connection makes it advisable to formulate alternative scenarios that illustrate the possible impact of the main risk factors identified regarding the shape of the recovery. This chart shows three alternative scenarios relative to a baseline scenario for the performance of the Brazilian and Mexican economy in the final stages of 2020 and in 2021. The scenarios refer to the duration of the pandemic, the materialisation of tensions in financial markets, and the emergence of potential permanent downside effects on long-term growth.

1 EFFECTS OF THE SCENARIOS ON ANNUAL GDP GROWTH FOR BRAZIL IN 2020-2021 (a)



2 EFFECTS OF THE SCENARIOS ON ANNUAL GDP GROWTH FOR MEXICO IN 2020-2021 (a)



SOURCE: Banco de España.

a Deviations from the baseline scenario projections.

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duration of the pandemic, assuming a hypothetical second wave of the virus in 2020 Q4 similar in intensity to that observed in March and April, and a recovery beginning in 2021 Q1 similar to that currently expected as of the latter stages of this year. Second, a scenario is simulated in which, given the context of heightened uncertainty, stresses arise in the key financial markets for the financing of the Brazilian and Mexican economies. Lastly, it is assumed that the pandemic has permanent downside effects on long-term growth,[16] caused, among other factors, by the damage to the economy, lower rates of investment and the loss of sectors with higher than average rates of productivity growth. Box 3 details these simulations and their specific underlying assumptions.

The main results of these exercises are set out in Charts 7.1 and 7.2. A global second wave of the pandemic would have significant economic effects. A second wave occurring solely at the domestic level would lead to cumulative output losses in 2020-2021 of 2 pp in the two countries analysed. However, assuming that it is global (also affecting Latin America's main trading partners, with the exception of China), the effect would be more protracted and prompt a further decline in GDP in 2021, owing primarily to the additional impact on the region's exports. In this scenario of combined domestic and external fresh outbreaks, the cumulative GDP loss in 2020

16 See Box 3 of ECB staff macroeconomic projections for the euro area (2020), which considers a severe scenario in which the pandemic has adverse effects on economic activity throughout the projection horizon.

and 2021 relative to the baseline scenario would be 5 pp for Brazil and 5.9 pp for Mexico. The impact for Mexico is larger owing to its greater openness and its exposure to the United States, while a larger portion of Brazil's exports go to China, a country that in this scenario is assumed not to be exposed to a second wave. In the scenario of increased financial uncertainty, which assumes a temporary period (in 2020 Q4) of somewhat tighter financial conditions than those observed in March-April, the negative GDP variation in 2020 and 2021 relative to the baseline scenario would be 1.7 pp for Brazil and 1.4 pp for Mexico. Lastly, in the scenario that assumes scarring effects of the pandemic, which is calibrated using historical evidence for the impact of past recessions on emerging countries' potential output, the growth of Brazil and Mexico would stand 0.7 pp and 1.4 pp, respectively, lower than in the baseline scenario in 2021.

The simulations presented illustrate that the risk scenarios, were they to materialise, would have a significant impact on both of the economies examined. However, more adverse scenarios, where several of the aforementioned shocks occur at once, cannot be ruled out. Specifically, should the three alternative scenarios materialise simultaneously, the cumulative output loss in 2020 and 2021 would amount to around 7.5 pp and 8.5 pp for Brazil and Mexico, respectively, relative to the baseline scenario. Nevertheless, events in the opposite direction to the above scenarios cannot be ruled out. For example, actual headway towards a medical solution to the pandemic, capable of containing the disease globally, could give rise to more buoyant recovery scenarios. Likewise, the scenarios envisaged in Box 3 do not factor in any possible economic policy response that might mitigate the impact of the shocks considered in this analysis.

Main challenges for Latin America

Latin America entered the crisis triggered by the pandemic with reduced medium-term growth prospects (poorer than in other reference emerging regions), following five years (2015-2019) of very limited GDP growth. Low productivity has been weighing on potential growth (see Chart 8.1). A number of structural obstacles lie behind this problem, including, notably, the dependence of economic performance on commodity price cycles,[17] low public spending on infrastructure, the poor quality of institutions, the limited returns on public spending on education and limited regional integration. Other factors will also tend to hinder GDP growth in the not-so-distant future, including the end of the "demographic dividend",[18] a phenomenon that could, moreover, be exacerbated by the permanent effects of this crisis on long-term growth.

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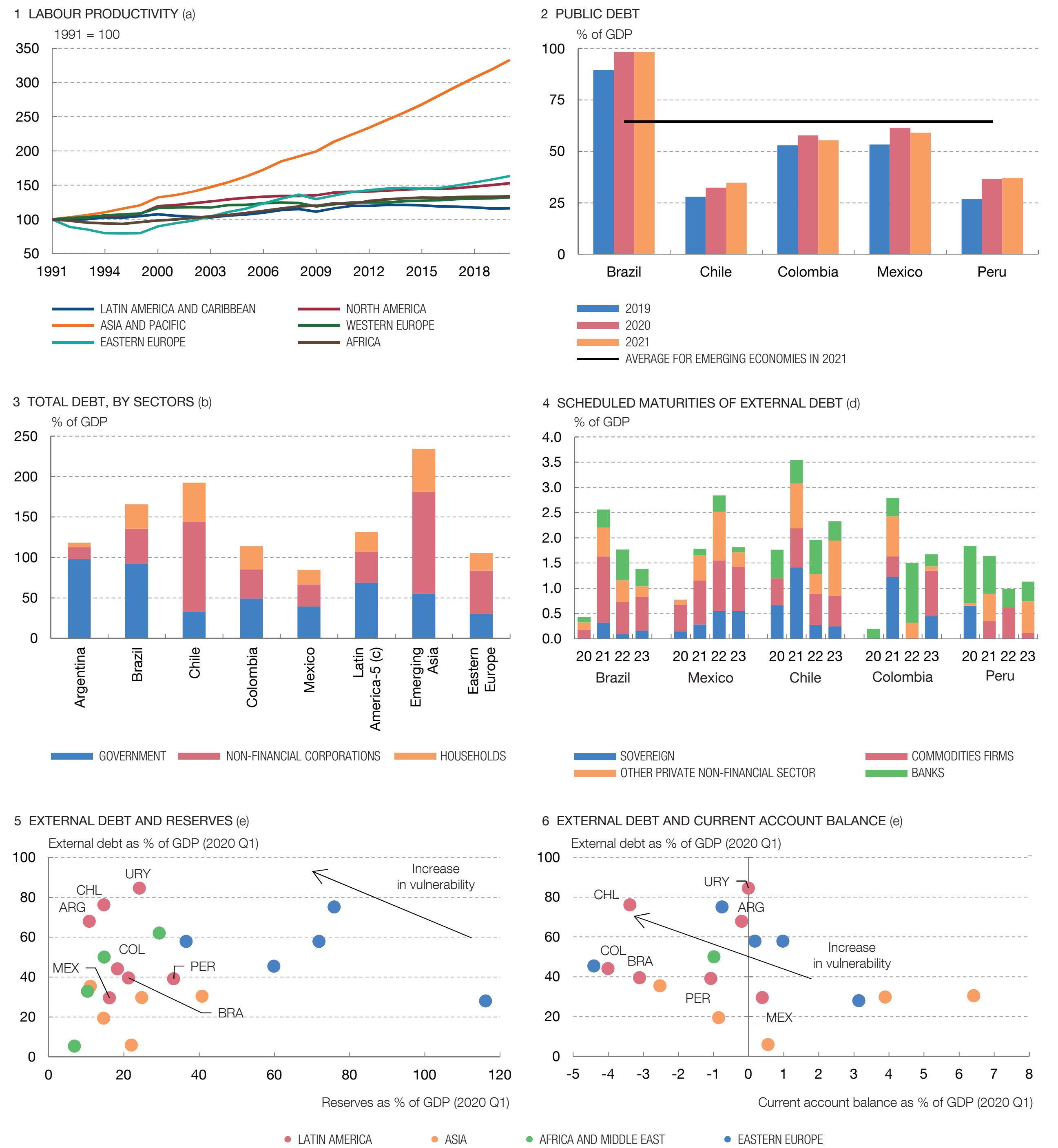
17 See Kataryniuk and Martínez-Martín (2019).

18 See Berganza et al. (2020d).

Chart 8

STRUCTURAL VULNERABILITIES

At the onset of the pandemic, the medium-term growth outlook for Latin America was weaker than for other emerging regions, with potential growth hindered by low productivity. Certain structural imbalances, such as the high public debt of some countries and the poverty rate, may be amplified by the current health crisis. On the positive side, private debt is lower (with the exception of Chile) than in other emerging regions, and the countries more dependent on external financing and those with lower reserves face manageable debt maturities over the coming years if there are no significant tensions on the financial markets.



SOURCES: IMF (April 2020 Fiscal Monitor), International Labour Organization, Institute of International Finance and Dealogic.

a GDP per worker in constant terms, 2011, in PPP.
b 2020 Q1.
c Argentina, Brazil, Chile, Colombia and Mexico.
d On Dealogic data for fixed-income issuances on international markets.
e Moving average for the four previous quarters.

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Despite the notable improvements made in recent decades to monetary policy frameworks,[19] and, to a lesser extent, fiscal ones (with the adoption of fiscal rule frameworks that are, in many cases, comparable to those in the advanced economies), numerous macroeconomic and social imbalances persist, which may be amplified by the current health crisis; in particular, the high levels of government debt in some countries (see Chart 8.2), rising poverty rates,[20] which put the lower middle classes at risk of falling into poverty, and the high levels of inequality.[21] On a more positive note, with the odd exception, such as Chile, the region's private sector debt (that of both firms and households) is lower than in other emerging regions (see Chart 8.3). Also, those countries most dependent on external funding (with high external debt and current account deficits) and those with lower international reserves (see Charts 8.5 and 8.6), have debt maturities over the next few years that should, in principle, be easily manageable, as long as financial markets remain free of significant tensions (see Chart 8.4).

In this context, moreover, several countries in the region have been facing significant political and social tensions,[22] partly as a result of the limited economic growth of recent years, which have led to increases in uncertainty regarding the direction of economic policies (see Chart 9.1). Peru has had a fresh political crisis and Chile is in the process of preparing a new constitution in the midst of severe social tension. In other countries, such as Bolivia (where the October 2019 presidential elections have still not been repeated following the controversy over their results), Ecuador (where a tighter fiscal policy has been introduced as part of an agreement with the IMF) and Colombia (with cases of political corruption), social mobilisations have continued in recent months, albeit on a smaller scale due to the pandemic. In Argentina, although an agreement has been reached with private creditors for a restructuring of a significant part of government debt (see Box 4), there are important macroeconomic imbalances, such as high inflation, partly as a consequence of monetary deficit financing.

Hence, most of the main countries in the region would benefit from the implementation of a broad structural reform programme to boost potential growth, by building more competitive and productive economies, and not reversing the income distribution improvements made since the beginning of the century. There is some consensus regarding the problems the region must address to achieve higher growth rates. Thus, infrastructure spending needs to be increased in order to significantly increase this component of physical capital.[23] With regard to education, the challenge for countries such as Argentina, Brazil and Mexico is more qualitative than quantitative

19 See Carrière-Swallow et al. (2016).

20 See CEPAL (2020).

21 See Chapter 3 "Inequality in times of crisis: Lessons for COVID-19", Busso and Messina (2020).

22 See Banco de España (2020b).

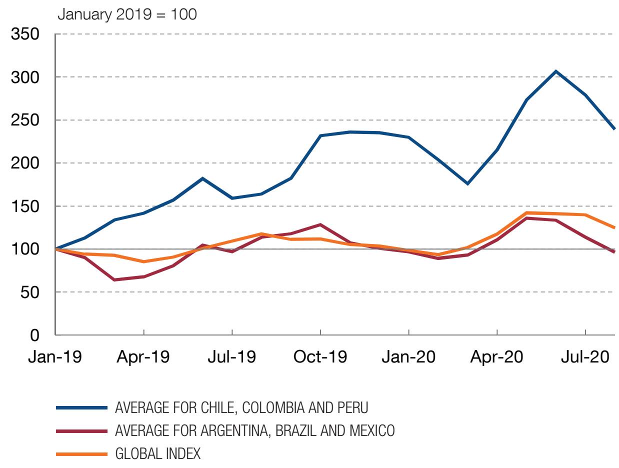
23 See, for example, Serebrisky and Suárez Alemán (2019).

Chart 9

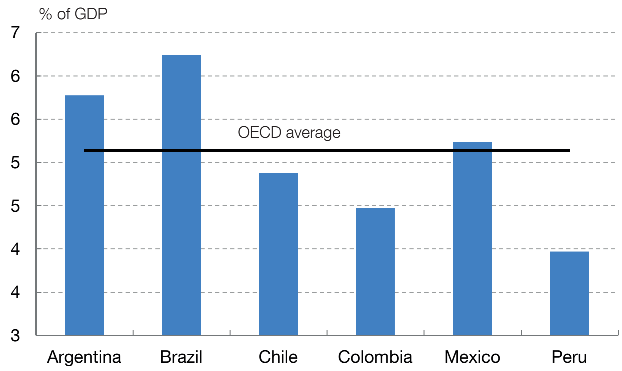
UNCERTAINTY INDICES AND PUBLIC EXPENDITURE ON EDUCATION

The uncertainty indices have risen in recent months, particularly in those countries where political and social tensions are highest (Chile, Colombia and Peru), against a backdrop of low economic growth in the last few years. The structural reforms that would make the region's economies more competitive and help to drive their potential growth include greater infrastructure expenditure, support for entrepreneurs, reducing the informal economy and improving the quality of teaching to obtain better returns on public expenditure on education.

1 ECONOMIC POLICY UNCERTAINTY INDEX (a)



2 PUBLIC EXPENDITURE ON EDUCATION (2015)



SOURCES: World Bank and Banco de España.

a Three-month moving averages.

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in nature since, although their spending on education as a proportion of GDP is no lower than in OECD countries (see Chart 9.2), their education systems still lag in terms of quality.[24] Further, Latin American countries, in general, do not facilitate entrepreneurship, partly as a result of the high regulatory burden, while their informal sectors are pervasive, a phenomenon that is associated with the lower revenue raising capacity of their tax systems. Such a reform agenda requires strong leadership, capable of building long-term consensus and driving through change. However, such leadership is not apparent in most countries.

Cut-off date: 2.10.2020.
Publication date: 8.10.2020.

24 See Chapter 6, "Making spending count in education", Inter-American Development Bank (2018).

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Box 1

ASSET PURCHASE PROGRAMMES OF LATIN AMERICAN CENTRAL BANKS

This early-release box was published on 6 October

To address the fallout of the COVID-19 pandemic on activity and employment, most emerging economies adopted highly expansionary monetary and fiscal policies, mainly between March and May, in line with those of advanced economies. As for monetary policies, central banks substantially cut their policy interest rates to what in many cases were record lows (see Chart 1.1), increased banking system liquidity (e.g. by reducing reserve ratios) and launched credit support programmes. In addition, macroprudential authorities adopted measures such as releasing capital buffers to sustain credit. However, the main change in these economies' policy responses was the announcement and implementation by their respective central banks of asset purchase programmes, in most cases for the first time ever.[1] This box describes the purchase programmes announced or adopted by the main emerging economies, focusing especially on Latin America. It points out the relevant differences between these programmes and those of the developed economies, and briefly analyses their effectiveness along with their main risks.

The main features of the asset purchase programmes of the relevant economies are shown in Table 1. In Latin America, the central bank of Chile started to repurchase own-debt issues and purchase bank bonds, and the Chilean government passed a constitutional reform and a bill giving the central bank the power to buy government bonds in the secondary market under exceptional and temporary circumstances.[2] In March, for the first time in its history, the central bank of Colombia began purchasing private as well as public debt securities in the secondary market. In the case of the latter instruments, the operation was renewed in April and reinforced with the possibility of intervening in forward markets. Meanwhile, the central banks of Mexico and Peru announced repo transactions with public debt securities with longer tenors than are customary in open market operations. In the case of Peru, its central bank included pension fund administrators among the institutions that can carry out these types of operations. Lastly, the Brazilian Congress passed a constitutional amendment in May authorising the central bank to purchase public and private debt securities in both the domestic and international secondary markets.

These Latin American and emerging-economy central bank asset purchase programmes generally differ from those of advanced economies in several respects. First, the scale of these programmes: those of the former are much smaller (see Chart 1.2), although the size of these countries' debt securities markets limits the universe of possible purchases. Second, central banks' balance sheets in emerging economies have a larger share of external assets (international reserves) (see Chart 1.3). This means that, where these programmes have been pursued at the same time as foreign exchange market interventions — to rein in currency depreciation by selling reserves — the central bank's balance sheet may not have increased.[3] Another significant difference is that, in some cases, financial asset purchases were announced or conducted before having reached the policy interest rates at which advanced economies' expansionary programmes were launched (see Chart 1.4).

However, the crucial difference between the asset purchase programmes of these two groups of economies has to do with their goals. In the case of the developed economies, they are unconventional monetary policy measures that are used regularly, especially in the wake of the crisis that broke in 2008, with the aim of loosening financial conditions by reducing longer-term interest rates once the policy interest rate has reached levels close to its effective lower bound. Only Croatia and Poland, among the emerging economies, have explicitly declared that this is their objective (see Table 1). With the exception of Indonesia, Guatemala and Ghana, who have also expressed their aim of financing the public deficit, the remaining emerging-economy central banks — particularly, those of Latin America — have adopted asset purchase programmes mainly to curb the rising volatility of longer-term interest rates, i.e. to avoid the potential adverse effects on financial stability and the deterioration of monetary policy transmission channels.[4] Purchases are

1 See D. Hofman and G. Kamber (2020), "Unconventional monetary policy in emerging market and developing economies", Special Series on Covid-19, IMF, for a more general discussion of unconventional monetary policies in the emerging economies.

2 The exercise of this power calls for the favourable vote of four of the five directors of the central bank.

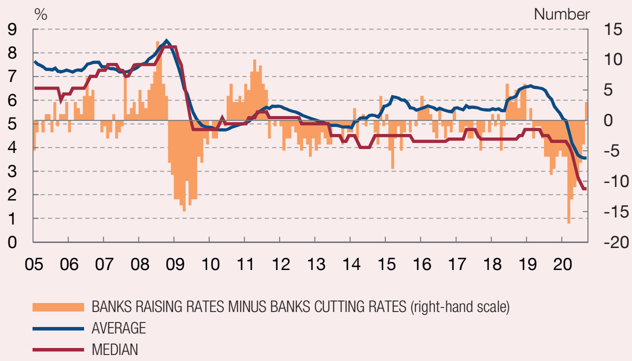
3 Assuming reserve sales have not been sterilised.

4 The Report submitted by the Board of Directors of the central bank of Colombia to the Congress of the Republic in July 2020 stated the following: "[…] Purchases of public and private sector securities. The aim was to stabilise key markets for the transmission of monetary policy and to provide ample and stable liquidity which would contribute to the preservation of the payment system and credit supply". The minutes of the monetary policy meeting of the central bank of Chile held on June 2020 state that: "[…] the financial asset purchase programme would allow, in principle, to reduce certain risk premiums in the capital market, facilitate portfolio rebalancing towards riskier assets, and directly provide liquidity to non-banking institutions, which nevertheless are important mobilizers of private savings".

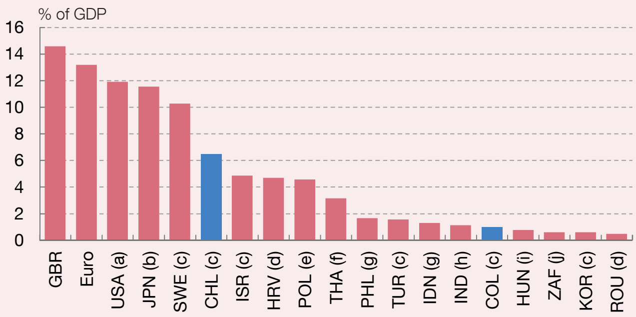
Chart 1
POLICY INTEREST RATES AND CENTRAL BANKS' BALANCE SHEETS, ASSET PURCHASE PROGRAMMES, MARKET REACTIONS TO THE ANNOUNCEMENTS OF THE PROGRAMMES

In addition to further policy interest rate cuts, the central banks of some emerging economies announced asset purchase programmes to address the fallout from the pandemic. These programmes are, for the time being, smaller than those of the advanced economies, in a context where central banks' balance sheets have a high proportion of reserves, and were launched without exhausting the room for manoeuvre afforded by conventional policies. Market reactions were generally favourable.

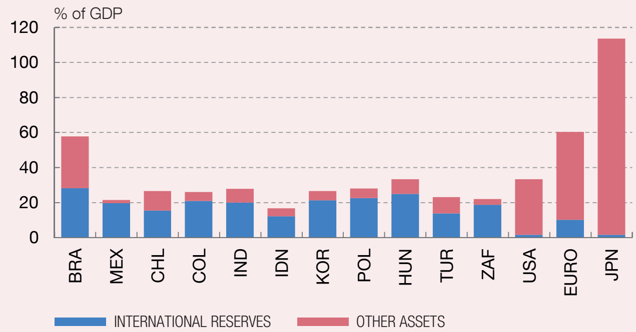
1 POLICY INTEREST RATES IN EMERGING ECONOMIES



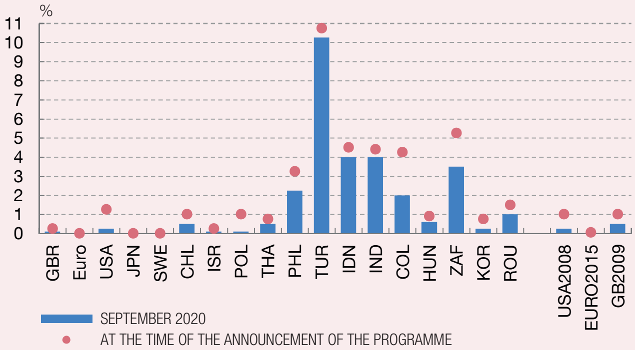
2 SIZE OF THE FINANCIAL ASSET PURCHASE PROGRAMMES SINCE THE ONSET OF THE PANDEMIC



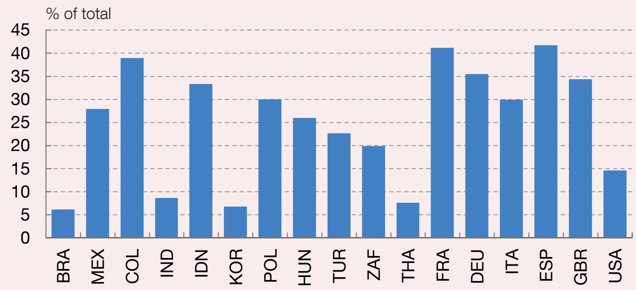
3 CENTRAL BANK ASSETS (% OF GDP) (2020)



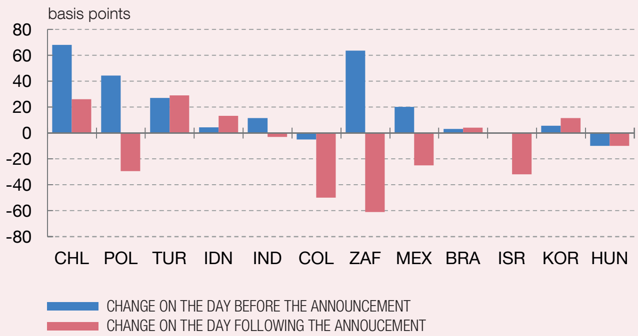
4 OFFICIAL INTEREST RATES



5 PARTICIPATION OF NON-RESIDENTS IN DEBT MARKETS (k)



6 CHANGES IN LONG-TERM INTEREST RATES IN LOCAL CURRENCY



SOURCES: Banco de España, national central banks, IIF, Refinitiv.

a MBS and Treasury bond purchases from 16 May to 20 August 2020.
b Sum of the increase in government bond holdings and the JPY 20 trillion announced for corporate bonds.
c Amounts announced.
d Interventions until 30 July.
e Purchases until 19 August.
f Increase in government bond holdings in central bank balance sheet since March and announced of corporate bond purchase programme.
g Public debt purchases.
h Debt purchases in open market operations plus announced sovereign bond purchases.
i Public debt and MBS purchases until 23 August.
j Increase in public debt holdings in the central bank's balance sheet.
k Debt liability holdings of non-residents (International Monetary Fund's Coordinated Portfolio Investment Survey) divided by the size of the debt securities markets (Bank for International Settlements).

Table 1
MAIN CHARACTERISTICS OF EMERGING ECONOMIES' ASSET PURCHASE PROGRAMMES (a)

Country	Announcement	Objective	Size (% of GDP) (b)	Purpose	Targeted assets	Market
Croatia	13 March	Not specified	4.7	Maintaining stability in the public debt market	Public debt	Secondary
Poland	17 March	Not specified	4.6	Changing the long-term liquidity structure of the banking sector, guaranteeing liquidity in the secondary securities market and strengthening the monetary policy transmission mechanism	Public debt	Secondary
Chile	19 March	Quantified	6.5	Containing the effects of high-volatility-generating events in the debt securities market	Repurchases of own-debt issues, bank debt (and subsequently, corporate debt)	Secondary
Korea	19 March	Quantified	0.6	Stabilising the bond market and supporting public debt supply and demand to increase banks' purchasing power	Public debt (extended on 22 April to commercial paper and corporate bonds)	Secondary
Thailand	19 March	Quantified	3.1	Providing liquidity and ensuring the normal functioning of debt securities markets	Public / private debt	Secondary
India	20 March	Not specified	1.1	Ensuring all market segments have sufficient liquidity and remain stable, with an appropriate trading volume	Public debt	Secondary
Romania	20 March	Not specified	0.5	Consolidating the structural liquidity of the banking system to contribute to the financing of the real and the public sectors	Public debt	Secondary
Colombia	23 March	Quantified	1.0	Providing permanent liquidity to ensure the smooth operation of financial markets	Public debt, bank debt	Secondary
Israel	23 March	Quantified	4.8	Loosening credit conditions and supporting economic activity	Public debt	Secondary
Philippines	24 March	Quantified	1.6	Providing support to government bond market participants in the event they need to liquidate their holdings, thereby promoting participation in bond auctions	Public debt	Primary / Secondary
South Africa	25 March	Not specified	0.6	Increasing market liquidity, promoting the smooth operation of local bond markets and improving its own balance sheet composition	Public debt	Secondary
Turkey	31 March	Quantified	1.6	Reinforcing the monetary policy transmission mechanism by increasing government bond market liquidity	Public debt	Secondary
Indonesia	1 April	Not specified	1.3	Helping the government finance actions for offsetting the impact of COVID-19 in the event the market is unable to absorb all the government debt issues	Public debt	Primary / Secondary
Hungary	7 April	Not specified	0.8	Restoring the stability of government bond market liquidity and improving the supply of long-term funding by the banking sector	Public debt / bank MBS	Primary / Secondary (public debt) Only primary (MBS)
Guatemala	24 April	Quantified	Up to 2.5	Congress used the derogation provided for in Article 133 of the Constitution, which exempts the Banco de Guatemala from the ban on lending money to the State in the event of a catastrophe or public disaster	Public debt	Primary
Ghana	15 May	Quantified	1.8	Financing the public deficit increase in response to the rise in market financing costs	Public debt	Primary

SOURCES: IMF, IIF, national central banks, BIS.

a In addition to the countries included in the table, the Brazilian Congress passed a constitutional amendment on 7 May to address a national emergency, giving the central bank the power to purchase public and private debt in national or international secondary markets. In the Czech Republic, an amendment to the Central Bank Law expands the types of securities and counterparties with which it can participate in secondary markets, in the event of disorderly market conditions. In both cases, the new powers have not yet been used. In Malaysia, the central bank announced an extension of open market operations, including those with public debt. The Central Bank of Mexico announced a 100-billion-peso increase in open market operations with public debt (0.4% of GDP).

b In the case of non-quantified programmes, purchases to date (see chart notes).

made mostly in secondary markets (only those explicitly aiming to finance deficits make purchases in primary markets). In addition, these asset purchases may have consequences for exchange rates. Purchasing debt securities with longer-dated maturities increases their price and reduces their volatility, thereby reducing incentives for non-residents to exit. That in turn lowers selling pressures on the national currency, especially in economies with a significant share of non-residents in the debt market (see Chart 1.5).

As for the effectiveness of these programmes in emerging economies, their announcement generally coincided with a reduction in long-term local-currency-denominated government bond yields (see Chart 1.6). Arslan et al. (2020)[5] show that bond purchases by the central banks of emerging economies had a significant negative effect, on average, on the yields of these bonds for a number of countries, but that its effect on exchange rates was much more limited. Meanwhile, Hartley and Rebucci (2020)[6] show that the local-currency-related effect on long-term interest rates is greater for programmes announced by emerging as opposed to advanced economies. In any case, the bulk of the purchases was made in March and April, before the ensuing recovery of financial markets as from May.

The main risk of implementing asset purchase programmes in emerging economies is a possible rise in inflation and inflation expectations. That would be a particular concern in Latin America, considering the past bouts of high inflation and hyperinflation arising from the monetary financing of public deficits.[7] For now, however, COVID-19 has had net disinflationary effects, chiefly owing to the opening of wide negative output gaps. In Mexico and Brazil, inflation expectations over the medium term hovered around pre-announcement levels across the entire maturity spectrum (with declines of 0.1 percentage points for 2023 and 2024 in the case of Brazil); in Colombia they fell nearly half a percentage point; and in Chile they remained anchored at 3%, which is the inflation target of its central bank.

Another potentially relevant risk of these programmes could arise were agents to perceive that the central bank has become a major player in these markets. That could undermine the correct functioning of these markets along with that of the derivatives markets and lead to a sub-optimal allocation of financial resources. Taking communication actions which emphasise the temporary nature of the asset purchase programmes — and thereby limiting their contingency to the current exceptional circumstances, in line with the approach of the central banks of some advanced economies — could contribute to averting the materialisation of this risk. This is reflected in the bill approved by the Chilean Congress in August, conferring power on the Chilean central bank to purchase debt securities on the secondary market.[8]

5 Yavuz Arslan, Mathias Drehmann and Boris Hofmann (2020), "Central bank bond purchases in emerging market economies", *BIS Bulletin,* no. 20 (June 2020).

6 Jonathan S. Hartley and Alessandro Rebucci (2020), *An Event Study of COVID-19 Central Bank Quantitative Easing in advanced and emerging economies,* NBER Working Paper, no. 27339 (June 2020).

7 The future continuity of these programmes might ultimately limit the independence of central banks in these countries.

8 In accordance with this bill, once these extraordinary circumstances abate, the securities will be sold by the central bank on the secondary market at the time and under the terms and conditions set by its Board.

Box 2

RECENT DEVELOPMENTS IN THE MOST IMPORTANT LATIN AMERICAN BANKING SYSTEMS FOR SPANISH BANKS

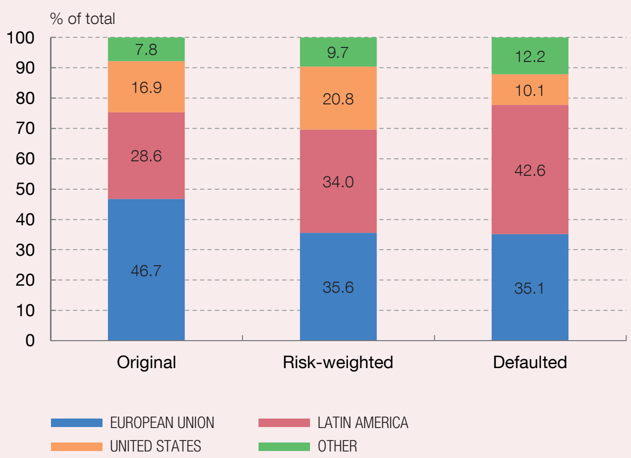
Since the early nineties, the internationalisation of Spanish banks has been focused both on advanced economies — mainly the United Kingdom and the United States — and on emerging countries, most notably those in Latin America at first and subsequently Turkey. As a result, in 2019, Spanish banks' exposures to Latin America (defined as loans and other claims on households and non-financial corporations in the respective country, excluding public sector entities and financial institutions) represented nearly one-fifth of the system's total exposures, close to 30% of exposures located outside Spain (up to one-third of the total, when risk-weighted), and approximately 40% when considering non-performing loans (NPLs) (see Chart 1). On the basis of these exposures, and following European Systemic Risk Board (ESRB) recommendations, in 2020 the Banco de España identified five Latin American countries (Brazil, Mexico, Chile, Peru and Colombia) as "material",[1] i.e. they could represent a greater risk owing to the proportion of the Spanish banking system's international exposures.[2] This box briefly analyses recent developments in the main indicators of the aforementioned countries' banking systems.

The five most important Latin American countries for the Spanish banking system are among the hardest hit in the world by the COVID-19 pandemic; they recorded some of the largest contractions in activity in Q2 2020; and their growth prospects for 2021 are in general relatively unfavourable, all of which influence banking sector indicators. As with other major economies, all these countries have put in place wide-ranging economic policy measures to address the fallout of the pandemic.[3] These

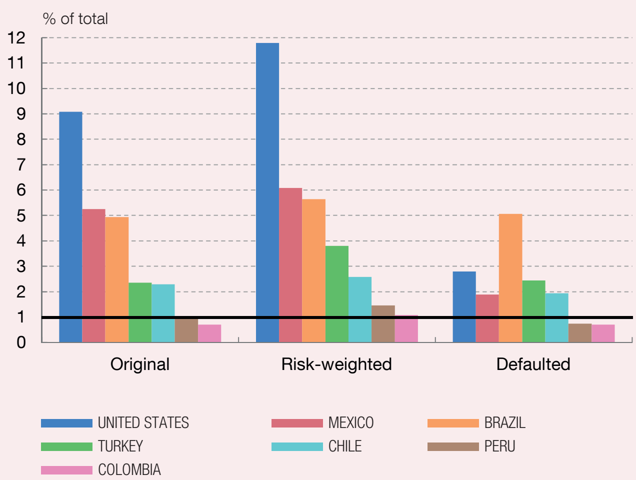
Chart 1
SPANISH BANKS' FOREIGN EXPOSURES AND EXPOSURES TO MATERIAL THIRD COUNTRIES

Latin America (especially Mexico and Brazil) accounts for close to 30% of Spanish banks' foreign exposures; this percentage rises when assets are risk-weighted or when defaulted exposures are considered.

1 SPANISH BANKS' FOREIGN EXPOSURES (2019) (a)



2 SPANISH BANKS' EXPOSURES TO MATERIAL THIRD COUNTRIES (2019) (b)



SOURCE: Banco de España.

a Loans and claims on firms and households in each country or region held by Spanish banks, excluding financial corporations and public sector entities.
b The solid line represents the threshold for defining materiality (1% of exposures in any of the categories).

---

1 In Decision ESRB/2015/3, the ESRB stipulates that a third country is defined as material if the exposures of a Member State's banking system exceed 1% of total exposures in at least one of the following three categories: i) original exposures, ii) risk-weighted exposures, iii) defaulted exposures. In particular, this threshold has to be exceeded in each of the last two quarters of the previous year and in the average in the eight quarters preceding the reference date, defined as December in the year immediately prior to the tax year of identification.

2 The other material third countries are the United States, Turkey and, following the Brexit transition period, the United Kingdom.

3 Details of the main measures taken by these countries' governments and central banks can be found in Banco de España (2020), "Report on the Latin American economy. First half of 2020", Analytical Article, *Economic Bulletin,* 2/2020; in the main text of this report; and on the International Monetary Fund's website (https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19).

include fiscal and monetary policy measures to support activity and employment, which have beneficial effects on the banking sector, together with interventions in foreign exchange markets and monetary policy asset purchase programmes which, by reducing interest rate and exchange rate volatility, affect financial system profitability. Moreover, a series of measures has focused more directly on supporting the banking system. Included here are credit support programmes, moratoria on payments by the most vulnerable borrowers, government guarantees and macroprudential and supervisory policy measures (see Table 1).[4] Despite some differences, the policies in the banking area have been similar in all the countries and pursue three aims: to foster the flow of credit; provide liquidity to the system; and mitigate the adverse impact of the crisis on financial institutions' capital.

Against this backdrop, credit maintained its pre-pandemic upward trend, with the pace of growth even increasing in most of the countries in the early months of the year (see Chart 2.1). This credit expansion was primarily attributable to business loans, initially on account of drawdowns on credit lines already granted and, subsequently, the public support schemes established. Conversely, as a result of the decline in private consumption, credit to households decelerated, particularly in shorter-term and riskier credit, such as credit cards in Brazil. In Mexico, where no credit support programmes have been approved, the rate of change in lending slowed, owing above all to the contraction in loans to households, and the share of dollar lending rose. In Chile, Peru and Colombia, the same trends were seen, i.e. an increase in credit derived from lending to businesses, including small and medium-sized enterprises (SMEs), backed by government guarantee schemes. Lastly, the performance of public banks in Brazil (whose market share exceeds 45%) was also significant, with lending quickening notably during 2020 H1, breaking with the contractionary trend recorded during 2019. At the same time, there was a sharp increase in deposits in the banking sector, leading loan-to-deposit ratios to remain unchanged or decline, except in Brazil, where deposits grew at a slower rate than credit (see Chart 2.2).

Despite the unfavourable economic situation, the NPL ratio did not notably increase (see Chart 2.3), even decreasing slightly in most of the countries.[5] This was in part thanks to the greater lending activity and also because, for some of the loans extended during the health crisis, the 90-day period following the first default, after which a loan is recognised as non-performing, had not yet elapsed. Furthermore, as shown in Table 1, public moratoria schemes for borrowers were generally implemented in all the countries reviewed, except in Brazil, where each bank applies discretionary measures when classifying loans as non-performing, as part of the temporary flexibility provided by the central bank. The maturities of these deferrals are in general concentrated in 2020 H2, and any potential deterioration of credit quality would therefore be observed from 2020 Q4 and early 2021. This would result in an increase in provisions for non-performance and forbearance, which could be curbed by the use of government guarantee schemes. In Colombia, the NPL ratio is higher than in the rest of the region, although it has decreased from over 4% of the

Table 1
MEASURES ADOPTED TO ADDRESS THE CONSEQUENCES OF THE PANDEMIC FOR THE BANKING SECTOR

Country	Loan moratoria	Restructuring of loans	Government guarantees	Credit support programmes	Reduction of liquidity or reserve requirements	Change in loan reclassification rules	Macroprudential measures	Supervisory measures
Mexico	X	X			X		X	X
Brazil	X	X	X	X	X	X	X	X
Chile	X	X	X	X	X		X	X
Colombia		X	X		X		X	X
Peru		X	X		X	X	X	X

SOURCES: CGD-IDB Working Group (2020), "Sound Banks for Healthy Economies" and IMF (2020), "Policy Responses to COVID-19" (https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19).

4 For further details of the measures, see CGD-IDB Working Group (2020), "Sound Banks for Healthy Economies".

5 The only exception being the increases in defaults on credit cards in Brazil.

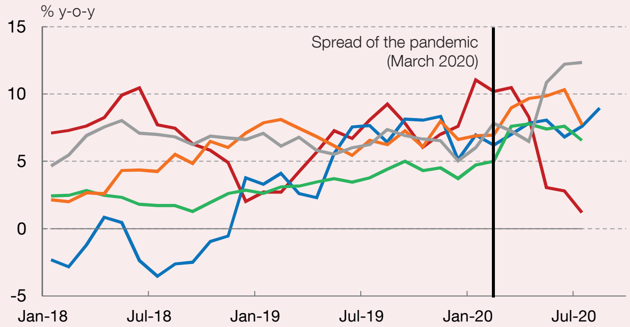
Box 2

RECENT DEVELOPMENTS IN THE MOST IMPORTANT LATIN AMERICAN BANKING SYSTEMS FOR SPANISH BANKS (cont'd)

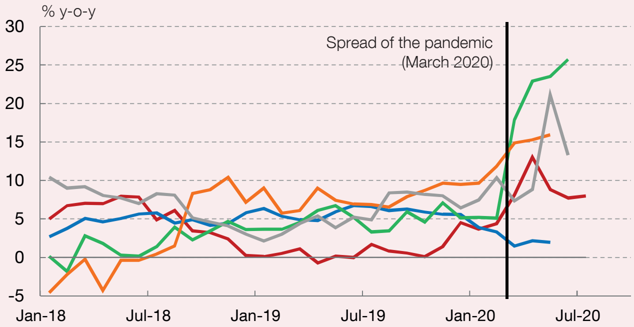
Chart 2
MAIN BANKING SECTOR INDICATORS

Credit expansion maintained its pre-pandemic growth rate or accelerated, supported by the public programmes put in place to guarantee access to credit, especially for firms. Moreover, the moratoria schemes have, for the time being, prevented an increase in NPL ratios. Capital levels remain above minimum regulatory requirements. Profitability fell sharply. Future risks include rating downgrades of the firms of these countries, and the financial fragility characterising them.

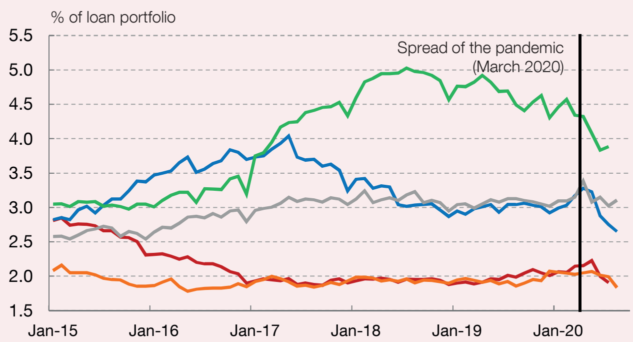
1 CREDIT TO THE PRIVATE SECTOR (a)



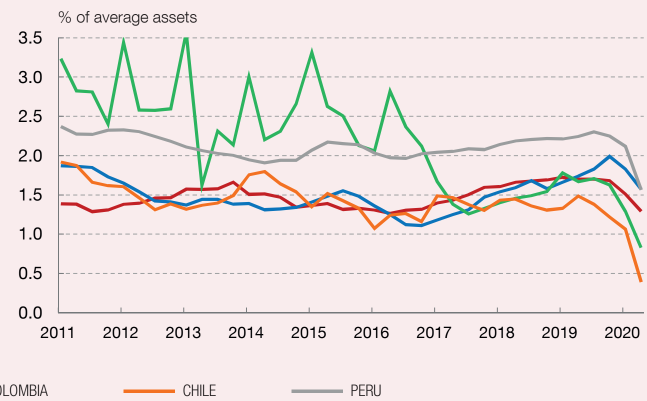
2 DEPOSITS (a)



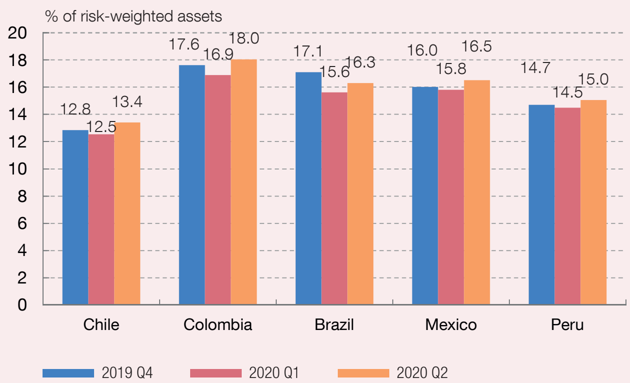
3 NON-PERFORMING LOANS



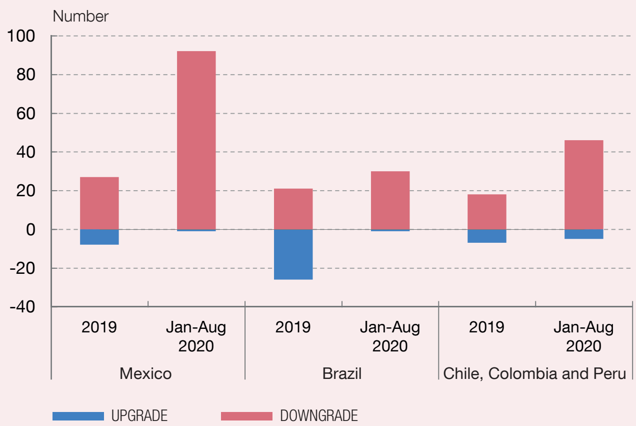
4 PROFITABILITY (b)



5 REGULATORY CAPITAL



6 FIRMS' RATINGS: EMERGING ECONOMIES



SOURCES: National statistics, Refinitiv, IHS Markit and IMF.

a In real terms.
b Return on average assets (ROA).

portfolio at the beginning of the year to close to 3.8% (see Chart 2.3).

The profitability of the different banking systems began to be affected during 2020 H1 (see Chart 2.4). In general, the first impacts of the pandemic were chiefly reflected in banks' income statements through a decrease in revenues, owing to policy interest rate cuts, to all-time lows in the majority of cases, by most central banks; lower fees derived from the decline in business activity; and, above all, the higher provisions recorded by banks to address the new macroeconomic scenario. Profitability, measured as the return on average assets (ROA), fell to record lows in Chile, Colombia and Peru, but saw a lesser decline in Brazil and Mexico, remaining at relatively high levels during 2020 H1.

As regards liquidity, the situation of the banking system remains comfortable in most of the countries, with ratios exceeding the minimum regulatory requirements (and even higher than at the onset of the crisis and those recorded in 2008). This is thanks to the central banks' liquidity provision programmes, enabling banks to build up funds in anticipation of possible future needs which have not, as yet, materialised. As an exception, some small banks focused on retail business in Mexico experienced some liquidity stress during March and April, although this has since been overcome.

Lastly, as regards banks' solvency, there has been no significant impact on capital ratios, which continue to be relatively stable and above the minimum regulatory requirement in all countries (see Chart 2.5). This is attributable to the implementation of various provisions adopted by the authorities, in particular the general recommendation not to distribute dividends (see Table 1). As in the European Union, another series of measures has also been approved aimed at minimising the impact from the financial markets, temporarily reducing capital requirements and releasing part of this capital for lending.

In short, despite the adverse impacts of the COVID-19 pandemic on activity (which have been greater than in other emerging economies), the main indicators of the most important Latin American banking systems for Spanish banks have not deteriorated significantly for the time being. This largely owes to the swift adoption of support measures by the authorities in those countries. Nevertheless, the outlook is not free of risk, due to the possibility of an even more adverse course of the pandemic, its macroeconomic impact (which has been among the most marked in the world) and the likely associated credit impairment, as pointed to by the significant rating downgrades of these countries' firms (see Chart 2.6). These elements are also exacerbated by these economies' greater macrofinancial vulnerability as reflected, inter alia, by an unfavourable net external position (except in the case of Mexico) which, depending on the composition of their domestic assets in foreign currency, could result in losses in the event of exchange rate turmoil. Lastly, some of the authorities' measures would also entail certain risks that need to be taken into account. These include a possible market segmentation due to the increasing relevance of public banks[6] and the assumption of significant fiscal costs by the public sector in the event that the guarantees of the credit support programmes are enforced.

6 Should they achieve a significant market share and grant loans at below-market rates, which would be the case in Brazil.

Box 3

TECHNICAL ASSUMPTIONS FOR DEVELOPING THE BASELINE SCENARIO AND RISK SCENARIOS OF THE MACROECONOMIC PERFORMANCE OF BRAZIL AND MEXICO IN 2020-2021

As for most countries and regions, the economic outlook for Latin America in the short and medium term is greatly affected by future epidemiological developments which are surrounded by high uncertainty. Available projections should therefore be regarded with particular caution and alternative hypothetical scenarios used to assess the impact of possible risks to the recovery that is expected by most economic forecasters. This box constructs a baseline scenario for growth in the second half of 2020 and 2021 and describes three alternative scenarios that focus on the uncertain duration of the pandemic, possible bouts of tension in financial markets and the potential permanent downside effects on long-term growth. The exercises focus on Brazil and Mexico. These two countries have the two largest economies in the region, and are also those where the Spanish banking system has its largest exposures.

The baseline scenario uses the available short-term economic data on financial indicators and economic activity up to August. It assumes that mobility indicators will continue to improve, as they did between the peak of the pandemic and September, in step with the gradual lifting of restrictions on people's movement and on the ordinary pursuit of economic activity. Thus, the only containment measures that will foreseeably be required to contain the spread of the virus, including new outbreaks, would be restricted to specific areas, causing relatively limited additional disruptions to the economy. The baseline projections employ a series of technical assumptions, shown in Table 1,[1] about future developments in foreign demand in Brazil and Mexico, oil prices, financial market volatility, interest rates, exchange rates and sovereign spreads.[2]

The results of this exercise, in terms of real GDP growth in Brazil and Mexico, are shown in Chart 1. In our baseline projections, Brazil's GDP falls by 6% in 2020, a similar rate to that expected by the analysts' consensus, and recovers by 4.5% in 2021. We expect Mexico's GDP to contract by somewhat more than 10.3% in 2020 and to rebound by 3.6% in 2021. The projected cumulative GDP loss in 2020-2021 resulting from the current crisis and the slow subsequent recovery amounts to 1.8% in Brazil and 7.1% in Mexico. Because the quarantine measures imposed by Mexico in the first half of the year were more restrictive than those in Brazil, Mexico's GDP is projected to experience a relatively greater decline in 2020. Moreover, the slightly more robust recovery in Brazil in 2020 and 2021 is explained in part by its more favourable foreign demand outlook, given its stronger trade links with China (a country that is expected to recover more vigorously than other major economies in our baseline scenario), by contrast with Mexico, which has closer ties to the United States. In our baseline projections, Brazil's GDP would return to its pre-crisis level at end-2022, whereas in Mexico it would remain below the level of 2019 Q4 throughout the forecast horizon.

We derive the assumptions for the risk scenarios from the baseline scenario. In each risk scenario, we modify the baseline scenario by changing one or more of the technical assumptions.

The first alternative scenario assumes a further outbreak of COVID-19 in 2020 Q4 of a similar intensity to that observed in 2020 Q2. We assume that countries adopt containment measures that resemble those approved in 2020 Q2, with similar effects on the mobility of economic agents. Following this outbreak, as in the baseline scenario, the alternative scenario assumes a gradual recovery of the health situation starting in 2021 Q1. We consider two situations: one in which the outbreak occurs only in the respective country (Brazil or Mexico), and another in which the new outbreak is global in nature, that is, occurring in these two countries and in all other major countries, except for China, given its currently favourable epidemiological situation. If the second wave were to be contained at the domestic level, the cumulative GDP loss in 2020-2021, relative to the baseline scenario, would amount to 2.2 percentage points (pp) in Brazil and 1.7 pp in Mexico, whereas in a scenario of synchronised global outbreaks, these figures would rise to 5 pp and 5.9 pp, respectively. As in the baseline scenario, the lower relative

1 We primarily use the technical assumptions of the ECB's September macroeconomic projections exercise *(ECB staff macroeconomic projections exercise for the euro area).*

2 The projection scenario is based on econometric models (Bayesian vector autoregression models). The baseline econometric model comprises ten macro-financial variables. A distinction is drawn between global variables, such as foreign demand, oil prices, financial market uncertainty and US policy rates, and domestic variables affecting Brazil and Mexico, such as real GDP growth, inflation, the bilateral exchange rate of the Brazilian real and the Mexican peso against the US dollar, dollar-denominated sovereign spreads of each country vis-à-vis US government debt, public consumption and policy interest rates.

fall in GDP in Brazil bears relation to its strong trade links with China. As mentioned earlier, the latter country is not assumed to be at risk of a second wave of the pandemic and therefore would not suffer the economic costs and containment measures associated with it.

The second alternative scenario simulates a temporary increase in financial tensions, arising from heightened economic uncertainty. We assume that market volatility and the sovereign spread in Q4 rise to the levels recorded in 2020 Q2, plus one standard deviation, to represent the rise in financial tensions. From 2021 Q1, these financial variables gradually revert to the path of the technical assumptions of the baseline scenario described in Table 1. In this second scenario, Brazil and Mexico experience a cumulative loss in GDP of 1.7 pp and 1.4 pp, respectively, relative to the baseline scenario in 2020-2021. The lower relative loss of GDP in Mexico, with respect to Brazil, is due to the lesser historical sensitivity of its economy to changes in financial conditions.

Lastly, the third alternative scenario assumes that the pandemic has permanent downside effects on long-term growth[3] deriving from the destruction of the economic

Table 1
INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS (a)

The baseline scenario rests on a series of technical assumptions that are based on the available short-term economic information. The projections are likewise based on the technical assumptions described here. The alternative scenarios are based on changes to one or several of the assumptions underlying the baseline scenario.

Annual rates of change, unless otherwise indicated

		September 2020 projections (b)	
	2019	2020	2021
International environment			
Foreign demand in Brazil (c)	0.6	-11.7	5.2
Foreign demand in Mexico (c)	1.1	-14.7	5.6
Oil price in dollars/barrel (level) (d)	4.2	3.8	3.9
Monetary and financial conditions			
Volatility of global financial markets (VIX) (level) (d)	2.7	3.3	3.1
US policy interest rate (level) (e)	2.3	0.5	0.2
Brazil's policy interest rate (level) (e)	6.0	2.7	2.2
Mexico's policy interest rate (level) (e)	8.0	5.3	4.2
Brazilian real/dollar exchange rate	8.0	30.2	4.2
Mexican peso/dollar exchange rate	0.1	14.3	1.6
Brazil/US dollar-denominated sovereign spread (EMBI) (level) (f)	235.5	324.2	319.0
Mexico/US dollar-denominated sovereign spread (EMBI) (level) (f)	318.3	479.4	470.0

SOURCES: Banco de España, ECB, Thomson Reuters, JP Morgan and Chicago Board Options Exchange.

a Cut-off date for assumptions: 18 August 2020. Figures expressed as levels are annual averages. Figures expressed as rates are calculated based on the relevant annual averages.
b For the projection period, the figures in the table are technical assumptions, based on the ECB's September projections or, in their absence, the Eurosystem's methodology for joint projection exercises. The assumptions regarding commodity or financial variables are based on futures markets prices or on proxies thereof and should not be interpreted as a Eurosystem prediction as to the course of these variables.
c External demand is estimated using a synthetic measure which includes the main trading partners of each country.
d These variables are expressed in terms of logarithms.
e These variables are expressed in terms of percentages.
f These variables are expressed in terms of basis points.

3 See Box 3 of the ECB's macroeconomic projections exercise for September *(ECB staff macroeconomic projections exercise for the euro area),* which considers a severe scenario in which the pandemic has adverse effects on economic activity throughout the projection horizon.

fabric, lower rates of investment and the loss of sectors with higher than average rates of productivity growth, among other factors. We use estimates published by the World Bank on the long-term impact of past recessions on the potential output of emerging countries to calibrate the long-term impact of the recession caused by the current pandemic.[4] In this third scenario, growth in Brazil would be 0.7 pp and 1.2 pp lower than in the baseline scenario in 2021 and 2022, respectively, while in Mexico, it would be 1.4 pp and 1.2 pp lower than the baseline projections in those two years, respectively.

Our simulations show that the risk scenarios, were they to materialise, would have a significant impact on both of the economies examined. However, more adverse scenarios cannot be ruled out (for example, several of the disruptions

Chart 1
GROWTH FORECASTS

Our baseline scenario projects a fall of 6% in Brazil's GDP in 2020, followed by a recovery of 4.5% in 2021, and a drop of 10.3% in Mexico's GDP, followed by a recovery of 3.6%. These projections are similar to the most recent forecasts of international organisations and private analysts. The combined effect of the three adverse scenarios considered in this box would be significantly lower than expected growth rates in 2020 and 2021.

SOURCES: *Consensus Forecast,* IMF, OECD and Banco de España.

a The shaded areas correspond to the range between the highest and lowest forecast by private and public sector analysts in each month.

4 See World Bank (2020), *Global Economic Prospects,* June, Chapter 3.

Box 3

TECHNICAL ASSUMPTIONS FOR DEVELOPING THE BASELINE SCENARIO AND RISK SCENARIOS OF THE MACROECONOMIC PERFORMANCE OF BRAZIL AND MEXICO IN 2020-2021 (cont'd)

described could occur at once). Specifically, should the three alternative scenarios materialise simultaneously, GDP in Brazil and Mexico could contract by as much as 9.5% and 13.7% in 2020, respectively, compared with falls of 6% and 10.3% under the baseline scenario (see Chart 1). In cumulative terms, additional falls in GDP resulting from this circumstance in 2020-2021 would amount to 7.4 pp and 8.5 pp for Brazil and Mexico, respectively, relative to the baseline scenario.

Nevertheless, events in the opposite direction to the above scenarios are also possible. For example, effective headway towards a medical solution to the pandemic, capable of containing the disease globally, could give rise to more buoyant recovery scenarios. Likewise, the scenarios envisaged in this box do not factor in any possible economic policy response that might mitigate the impact of the disruptions considered in this analysis.

Box 4

THE RESTRUCTURING OF ARGENTINE PUBLIC DEBT

In September, Argentina successfully concluded the restructuring of part of its foreign-currency-denominated public debt. Restructured bonds amount to $108 billion and represent approximately one-third of Argentina's total public debt. Around two-thirds of the restructured debt are dollar-, euro- and Swiss-franc-denominated bonds issued on international markets (20.6% of the total public debt and 15.8% of GDP) and the remaining third are dollar-denominated bonds issued on the domestic market (12.4% of public debt and 9.5% of GDP) (see the debt structure in Charts 1 and 3).

The main purpose of the restructuring was to delay the principal and interest maturities of foreign currency debt. The debt restructuring changed the maturity profile by considerably reducing payments in the 2020-2024 period and concentrating them in the 2025-2035 period (see maturity profile in Chart 2). This payment rescheduling has led to a 45% debt haircut at present value.[1]

Despite the postponement of payments, debt restructuring does not in practice provide further fiscal space in the short term. In fact, the Argentine government has not been servicing its debt regularly since April, when it formally launched its external debt restructuring process, citing its inability to meet payments in the short term. The most likely alternative to a successful restructuring was an outright default on the debt, which would have eliminated debt payments in the short term as well. The benefits of the debt restructuring lie mostly in the medium term; because the restructuring prevents the filing of lawsuits by bondholders in international courts, it eases access to international bond markets. For the time being, however, Argentina's sovereign risk remains elevated and this limits the ability to issue bonds in international markets in the short term. In addition, the public deficit has a large primary component (estimated at 6.5% of GDP for this year). The national budget proposal for 2021 submitted by the executive, but not yet approved by parliament, envisages a primary deficit of 4.5% of GDP for next year, two-thirds of which will be monetised.

The Argentine authorities and the International Monetary Fund are planning on negotiating a new agreement. Owing to the large amounts already paid out by the IMF under the previous agreement[2], there is much uncertainty over whether the IMF will make further disbursements, making it difficult to anticipate whether the new agreement will help finance borrowing needs. However, under the new agreement, the Argentine government is expected to put forward an economic plan that could change the way it is addressing its fiscal deficit and high inflation challenges (see Chart 4). To date, it has tried to keep inflation in check with unorthodox tools, such as price freezes on certain items and an overvalued official exchange rate. The ongoing decline in international reserves (see Chart 6)[3] has led to the introduction of foreign exchange restrictions and their recent tightening, and a growing spread between the official and parallel exchange rates (see Chart 5). An agreement with the IMF could lead to a more orthodox economic policy stance and result in an attempt to lower inflation by lessening the fiscal deficit and, thus, a reduction in the creation of money required to finance it.

1 The net present value of Argentina's final offer was estimated at 55% of the nominal value (i.e. the 45% haircut), using a 10% annual discount rate. This present value reduction is due, almost entirely, to delays in interest payments, as the debt's face value fell by less than 2%.

2 Argentina's current debt with the IMF stands at nearly 32 billion SDRs (approximately €38 billion and 10.5% of GDP). Regarding the 2018 agreement with the IMF and the amounts disbursed and initially committed, see X. Serra, J. Timini, J. Estefanía and E. Martínez Casillas (2018), "Argentina: economic challenges in an adverse international setting", Analytical Articles, *Economic Bulletin,* 4/2018.

3 In fact, net international reserves — calculated by subtracting from official reserves several components with a balancing entry on the liabilities side of the central bank's balance sheet, such as its swap with the central bank of China and dollar-denominated bank reserves — have recently passed the $10 billion mark.

Box 4

THE RESTRUCTURING OF ARGENTINE PUBLIC DEBT (cont'd)

Chart 1
PUBLIC DEBT STRUCTURE

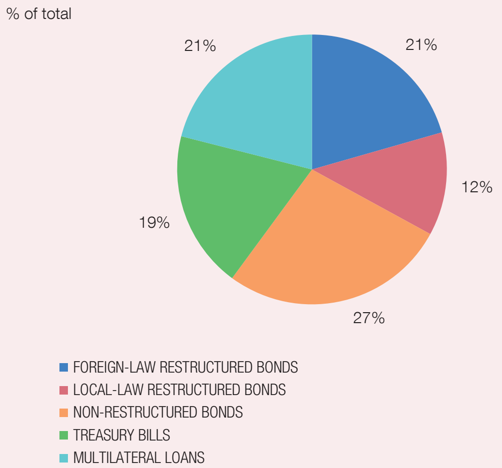


Chart 2
MATURITY PROFILE

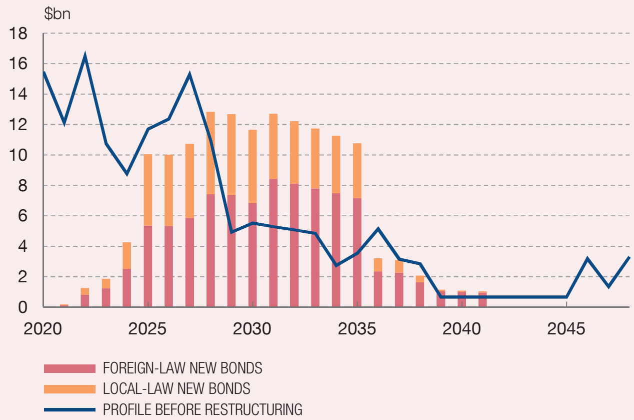


Chart 3
PUBLIC DEBT AND PUBLIC DEFICIT

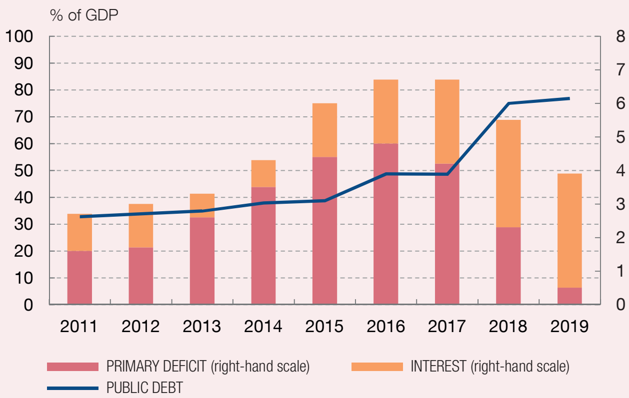


Chart 4
INFLATION AND INFLATION EXPECTATIONS

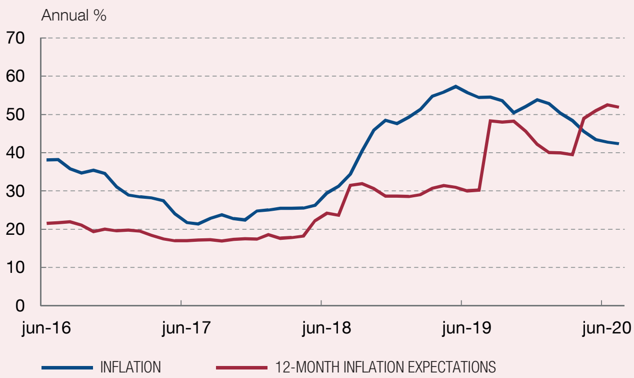


Chart 5
OFFICIAL AND PARALLEL EXCHANGE RATES

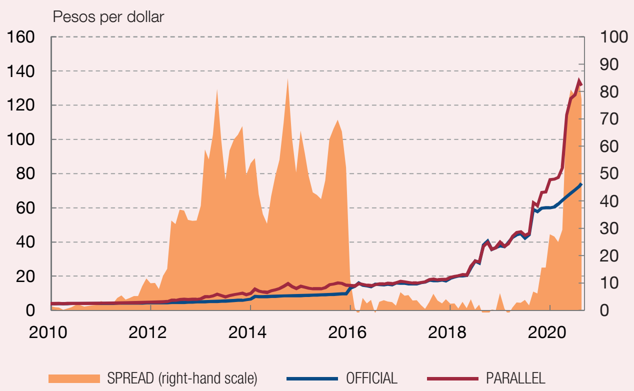
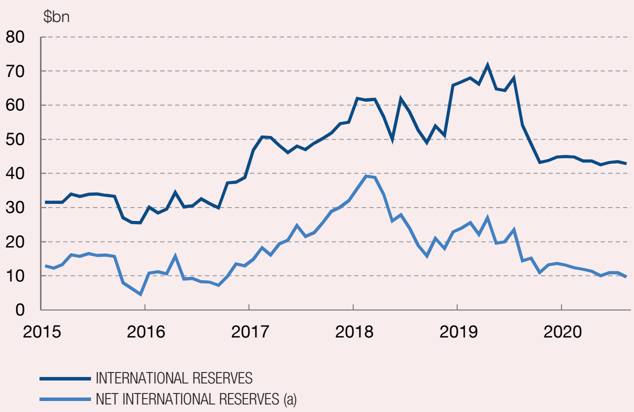


Chart 6
INTERNATIONAL RESERVES



SOURCES: Central Bank of Argentina, International Monetary Fund, National Institute of Statistics and Censuses of Argentina, Ministry of the Economy, Refinitiv and own calculations.

a Net international reserves were calculated by subtracting from total international reserves dollar-denominated private-bank reserves, the swap with the central bank of China, debt owed to international organisations (Bank for International Settlements and others) and the IMF agreement's "deposits for the strengthening of the central bank of Argentina's international reserves".