TRANSCRIPT

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MS. BHATT: All right, good afternoon everyone and thank you for attending this press conference where we're launching the Regional Economic Outlook for Latin American and the Caribbean. We have with us today, the director of the IMF's Western Hemisphere Department, Mr. Alejandro Werner. We also have four IMF Deputy Directors. From my far left is Robert Rennhack, Nigel Chalk, Krishna Srinivasan, and Patricia Alonso-Gamo.

Before we take your questions, I would like to invite you, Alejandro, to give a few introductory remarks and then we will be able to turn to your questions. Just to remind everyone that this is live and on the record and we also have colleagues following us online and you can send us your questions via online too.

MR. WERNER: Thank you, Gita. Good morning, good afternoon. First of all, we would like to offer our condolences to the victims of the recent earthquake. We're extremely thankful for the Indonesian authorities for their for being great hosts of these annual meetings that are turning out to be an extremely successful and on top of that, an extremely nice venue. So with that, let me give you a quick summary of our recently published Fall 2018 Regional Economic Outlook.

As we highlight there, the recovery in Latin America and Caribbean has lost some momentum, vis-a-vis what we publish in our Spring Meetings update of the Regional Economic Outlook. With tighter financial conditions, volatile commodity prices and domestic vulnerabilities, economic recovery in Latin America and the Caribbean has both moderated and become more uneven. We have marked down growth forecast for the region to 1.2 percent in 2018 and 2.2 percent in 2019. The moderating recovery is underpinned by divergent growth outcomes across the region. The recovery has slowed in some of the region's largest economy and turned into negative growth in the case of Argentina as the impact of external headwinds has been amplified by domestic vulnerabilities and characteristics.

In Brazil, short-term growth prospects are weighed down by the effects of the truckers' strike in May and the recent tightening of financial conditions and the uncertainties surrounding the October elections in that country.In Mexico, lingering uncertainty on the final trade agreement in North America and tight financial conditions suggest that the economic recovery will be more gradual than originally expected. In a similar vein, higher oil prices coupled with increased political uncertainty have dampened the near-term outlook in several Central American countries and there's still no end in sight to the economic and humanitarian crisis in Venezuela.

Meanwhile, better terms of trade over the past year and improvements in consumer and business confidence have boosted the growth prospects in some Andean economies. And activities recovering the Caribbean reflecting the important uptake in tourism all into robust U.S. growth. A positive development is that despite the slowdown in regional economic activity, private investment is showing signs of life. Having contracted for three years in a row, private investment is estimated to have stopped being a major drive on growth in 2017 and is gaining further strength in 2018 and expected to accelerate in 2019.

However, prospects for longer term growth in Latin America, the Caribbean remain weak. Over the medium term, the region is estimated to grow at about 1.9 percent in per capita terms. This is well below the rates observed in emerging and developing economies. And essentially equal to that of advanced economies suggesting that the region is not converging on average to the income levels of those advanced economies. As we have said before, against these backdrop is extremely important to the region to boost productivity growth in investment by increasing savings; by reducing the misallocation of resources; by making labor markets more flexible in reducing informality; liberalizing trade fostering regional trade integration; improving the business climate; and, continue strengthening anti-corruption frameworks.

In terms of risks, we highlight in the document, the potential effects of faster tightening of international financial conditions, obviously, of the strengthening of trade tensions that we have seen among nations and this in the context of countries with weaker fundamentals has the potential of generating important economic volatility in some of the economies in the region.

Let me just conclude by highlighting two important program operations that have been concluded recently. On the one hand, last week, the Board of the IMF approved a program for Barbados that it's underpinned by significant strengthening of the policy framework in that country. And an important debt restructuring that is taking place in Barbados recently. On the other hand, also some days ago, the managing director with Minister Dujovne from Argentina announced that we have reached a staff level agreement with respect tothe first review of the Argentina program that includes significant revisions to this program that will strengthen the financial aspects of the program and on the other hand significantly strengthens the policy framework that supports the financial arrangement. So, with that, we will open the floor to your questions and we are all the deputy directors of the department are here to answer your questions.

MS. BHATT: Thank you very much, Alejandro. Please state your name and affiliation when I take the question. Yes, gentleman there.

MR. VARGAS: Good afternoon. I'm Antonio Vargas. I come from Medellin. Dr. Werner knows that everything that we had to do to be able to get to this paradisiacal place. I have a couple of considerations. One, you mentioned was about Argentina, but in Colombia as well, we're going to have to revise our quota which is around $1 billion. Today, the Colombian Central Bank is saying that it needs to collect dollars for this purpose. I'd like to know what elements lead you to say the IMF is going to have to revise downward the available quota which means there will be consequences. We have seen that the Colombian economy has managed this well over the last years. Many thanks.

MR. WERNER: Robert Rennhack will answer this question, but let me just say quite rapidly that the IMF is not revising anything downward. The Central Bank, I think is very prudently within its strategy of acquiring reserves as basically considering in the medium term, these reserves could be used as a partial substitute if the flexible line of credit were to have its amount reduced, but at no point has the Fund said that we are going to have an intermediate revision of Colombia's credit line and obviously, the government is present on the Board of the Fund and if I personally see the Colombian economy being economy as one with very solid fundamentals and is a clear candidate for that line. But I would also have to see that what I understand and what I read in the announcement of the Central Bank because this is simply a prudential movement to the extent that numbers are indicating to them that reserves could be a bit higher. So, as to be able to follow the levels of trust, safety that the Colombian economy needs with full margins of liquidity and to have a possibility in the future of those reserves being used as a substitute in case the line, as we've seen in the past were to go down or to go up by an order of magnitude.

We've seen in the past that there were both upward and downward movements and then at the request of the Colmbian authorities and so that type thing what is at the basis of that decision made, but perhaps my colleague, Robert, wants to add something.

MR. RENNHACK: The Colombian Central Bank, over a longer-term period, needs to maintain an adequate level of reserves. Right now, the reserves are very strong, the economy is extremely well run, but you look at a long term horizon, they'll need to find the time to continue accumulating reserves. So, they're looking with a very long horizon. It's, as Alejandro said it, it's a good prudential move. At the same time, as they see risks of the global economy gradually winding down, they feel that there may be less use for the need for the credit line on the flexible credit line. So, it's a couple of things working together. But it means, it's prudential move; it's good management to make sure you have plenty of reserves but thinking of a longer-term horizon.

QUESTIONER: Not on the political side, but what is your take on the next Mexican administration, on the learning curve. I mean, we have been managed by several teams from the same group for about two decades and the next administration is going to go through -- it's going to pass to different hands. So, what's your take on the learning curve of the next administration on macroeconomic management in some of the most challenging issues? For example, the interest rate in the United States, energy policy and things like that.

MR. RENNHACK: I think that right now, the incoming economic team is working very closely with the current authorities. There's a legal requirement to do that, so that on the side of the Ministry of Finance, there's a very close collaboration with the new government on how to design the budget. So, there's a lot of learning going on right now, but the economic team being proposed by the new government is a group of very strong economists. The proposed Minister of Finance and the Undersecretary of Finance worked as secretaries of finance in the city -- government of the City of Mexico when President elect Andres Manuel Lopez Obrador was the mayor, so they have experience in running government.

And the Central Bank will continue to be independent. Mr. Lopez-Obrador has said he will respect the autonomy of the Central Bank. And also, the new economic team on the side of Hacienda has come out and said that they do value fiscal prudence; that they think it is important to continue to reduce public debt in relation to GDP. They mentioned as overarching goals the need for fiscal prudence, so I think that so far, I think that they're working with the outgoing government very closely and their stated objectives have been fairly sound. So, I think the prospects are reasonably good.

MS. BHATT: Okay, thanks. I have one online question and then I'll go to you, sir, if that's okay. The question is, the IMF estimates a deeper contraction for the Argentine economy for than the government for this year and next. Given this divergence, will the government have to make additional spending cuts to those foreseen in the budget presented to Congress to meet the fiscal goal of zero primary deficit.

MR. CHALK: So, you may recall that the Argentine budget was actually prepared in advance of when we prepared the program with Argentina and as you can tell, the situation there has moved quite quickly. So, we've agreed a framework with the Argentine government which is aligned with the forecast we produced this week. It's on the growth; it's moderately weaker than was the assumptions put in the budget; but also, our inflation forecasts were different, a different level; there are a number of different parameters in the forecast. The program will be based upon this agreed framework. For the budget, it doesn't make a great deal of difference because in the end, our growth is a little different; the inflation is a little different than nominal GDP number is pretty similar and what really matters for the budget will actually be the nominal GDP number because that determines what revenues will be and so forth. So, in the end, it doesn't require with the somewhat different framework, it doesn't require more fiscal measures. We're confident that the measures that are being proposed in the budget will be sufficient to achieve a zero balance is a little bit of a different in the composition of the macro numbers. And that will become evident when we publish the staff report that will show all of the underpinnings of the program.

QUESTIONER: So first of all, one of the big concerns is a monetary policy normalization and how that is going to affect emerging markets. I'm wondering what volatility you see in Latin America specifically, which countries you think are most vulnerable. And secondly, I wonder if any of you were in the meeting today about Venezuela and if so, what was discussed and specifically, was some sort of military action proposed because this is something that Trump himself is sort of saying and what came out of that meeting?

MR. SRINIVASAN: Yeah. On the first question, this is an issue we have been raising in the last few quarters in terms of tightening financial conditions being a risk for many countries in Latin America. It’s more about the abrupt tightening. Because if it’s not abrupt tightening financial conditions, that could affect countries which have weak fundamentals and countries in particular which have large financing needs, especially in foreign currency. So there are many countries there, and you saw one was Argentina which had its impact , but there are other countries which are also vulnerable in the region. And this is one risk we have been highlighting for some time for the whole region.

MR. WERNER: With respect to Venezuela, we have been participating with various groups, basically laying out for them the work we have been doing following the Venezuelan economy, although we haven’t done an Article IV consultation in that country since 2004. The team lead by Robert has been trying to piece together whatever information we can basically to make a macroeconomic analysis of what’s going on in that country following the significant collapse in economic activity and the humanitarian crisis that is going on in that country. And thinking how, if a Venezuelan government that reaches out to the international community could be helped by thinking on how to design an economic policy program to basically restore that economy to an inclusive growth path in the future.

That’s the work we have been doing. That’s the work we have been sharing in different forms in this meeting and in other meetings. That’s the kind of meetings in which we participate. That's basically the work we have been doing in the case of Venezuela. On top of that, Venezuela has been sanctioned by our board for not providing economic statistics in a timely manner, and that process continues at the Fund and we continue to pursue that process.

QUESTIONER: Just two very brief questions. One, just following up on that Venezuelan, for example, the specifics of possible strategy for Venezuela in the event that we're the government that reached out. Does it involve for example dollarization? Could you just give us a quick idea what might be done? Secondly, I wanted to ask a question about Brazil. The very positive market reaction to the results of the first round of the elections seems to have to do with an economic program that's being put out by the leading candidate for the second round in which his top economic advisor puts forward a very radical privatization program as a means to tackle Brazil's debt sustainability crisis. I was at the fiscal monitor meeting in which public sector balances were discussed, assets and liabilities. I wondered if you might just comment on the extent of which that policy that's being pushed out in the elections and which the market reaction is giving quite a lot of credibility to that candidate is actually sound economics? Thanks very much.

MR. RENNHACK: On Venezuela, it's a tough question to answer. A, because we don't get any information from the Venezuelan government, we haven't been there in many, many years. And also with hyperinflation, it's just a totally chaotic situation. So it would be hard to define a precise strategy at this stage. There's just too much uncertainty. It would require some fiscal measures. How much really depends on what the situation is and if they decide to stabilize. The choice of monitoring exchange rate regime, I think you have to decide when the act should begin to stabilize, because it's premature to make these decisions right now. So unfortunately, the answer is we don't really know. There's a lot of confusion and is a complete lack of information.

MR. SRINIVASAN: On the issue of Brazil, any election provides an opportunity to embark on ambitious reforms. And as you know, Brazil is trapped in low growth, high debt fiscal sustainability problem. And as we've been talking for many months now, there are key areas where they need to work on. And one of the areas is on restoring fiscal discipline, which involves many aspects of that. One is of course pension reform. We can think of the public wage will. And in that context, privatization is also one of the elements. So many reform issues need to be addressed and need to be undertaken and one would hope that whoever comes to par has the resolve and leadership to help undertake these reforms which can help this country on the path of strong growth and sustainability.

QUESTIONER: The IMF itself has released a paper in which it warns against the belief that the privatization of pubic assets is actually a means to government a sustainable path for debt, right? That's the point I was trying to get at. Is it coherent to state that the privatization of Brazil's significant public assets would be a means to tackle its rising debt burden?

MR. SRINIVASAN: It is one element, right? There are many aspects of this.

QUESTIONER: I'm sorry, why is it an element given the fact that in the presentation of the fiscal monitor, emphasis was given to the importance of public sector assets and not just focusing on that but on the relationship between public sector assets and public sector liabilities?

MR. WERNER: Obviously you have to take many of these things on a case by case basis, both case meaning countries and case meaning state owned enterprises. Obviously in the balance sheet of a country, suppose you have on the liability side you have your debt, on the asset side you have your assets. And when we do our debt sustainability analysis, you have to pay the debt. You have to pay the debt service. And on the other hand, you have some assets that hopefully produce net income for the government. Some cases, these assets do not provide net income. They actually provide net losses for the government.

So that's a very key example in which obviously getting rid of those assets, if somebody is willing to pay for them because they can actually use them to generate net income, it would be positive for the net worth of the government or the state. In many cases, you do have those cases in which you have net assets. You have assets that are worth much more on the hands of the private sector than in the public sector. And in that case, it makes sense basically to have those assets being managed by the private sector from a perspective of the net worth of the government. I think if you look in depth to the fiscal monitor issues, you cannot give a blanket response, but it is true that in my cases, a strategy of privatization of public sector assets might pay with respect to having a better net worth position for the government without sacrificing the welfare of the population. There are other cases in which maybe having those assets being managed by the government is actually welfare-enhancing. Because those assets managed in a given way provide positive externalities for society that maybe the private sector will not try to maximize those. I think the way the fiscal monitor deals with these questions is basically saying we have to be careful and we have to study them on a case by case basis. But I think in the case of Brazil in which they are facing a significant fiscal crisis, there are a lot of opportunities in which managing the wealth, you have deployed in a state owned enterprise might pay off as part of the strategy to stabilize your debt to GDP and go back to a fiscal sustainable position.

QUESTIONER: First one on Argentina. Do we have a date for the formal approval by the Executive Voard of this new agreement? And the second one, on Nicaragua and Central America, you're forecasting a contraction in Nicaragua due to the political turmoil. Do you expect some economic contagion in the region this year or the next one? Thank you.

MR. CHALK: Argentina, as you know, we have announced a staff-level agreement. As always, there is some short interval between when we announce the staff-level agreement, we prepare the documents, that underpin the standby arrangement, submit them to the Executive Board and then the Board is given some time to consider those documents before they meet. Our expectation is the Board will meet before the end of this month. And then once they've met, those documents will be published and people can see what's in the staff report.

MS. ALONSO-GAMO: On Nicaragua, yes we expect a decline this year of about four percent in GDP and continued contraction next year of about one percent. Basically, we have seen a decline in private consumption, in exports and in investment. On the basis of data from August, we estimate the loss of jobs at about 110.000 so far. There has been a complete decline in tourism, transportation and trade. In terms of contagion, there are some links for instance, in trade there are relative exports of neighboring countries to and from Nicaragua are not very high. But of course, there could be migration spillovers, there could be some banking spillovers. It depends how the situation evolves.

QUESTIONER: I'd like to ask when there have been changes in countries' governments. You've said that we should take advantage of the political capital in order to bring about structural reforms. And as you know, in Mexico we've just had an election and the president who won with a significant majority and with strong support from Congress. So my question is, do you think this would be a good time to apply structural reforms in Mexico and what kind of reforms would have to be made? And what happens if the president elect decides not to do that? I also would like to ask, you've been recommending rather for a few years that in Mexico, an independent fiscal council be set up as other countries in Latin America have, namely Colombia. And I'd like to ask if this would be a good time taking advantage of the political capital. Would this be a good time to do it in Mexico?

MR. RENNHACK: There are probably a couple of messages. One is to continue with the reforms that are already in place, that were adopted in 2013. We know that the growth affects have been a lot less than what we've expected. That's sort of disappointing for everyone. But at the same time, all of those reforms are in the right direction. So it is important to continue with those, and over time, over a long horizon, the benefits will certainly be felt. The energy reform is key. Pemex doesn't have the budget to do all the investment in the oil sector that's needed, so the private sector will need to participate. So certainly, maintaining the energy reform I think is very important for the productive capacity of the oil sector but also the country as well. Education reform, the competition reform, all those things are extremely important. In terms of reforms going forward, I think one issue that the President elect touched on is the issue of governance and minimizing corruption. I think that's a very important issue. That's something that would sort of help make the economy work much more efficiently, and it would have a lot of other benefits for society. And informality continues to be a major issue in Mexico, a complex problem. There's no single solution but I think working on reforms that address that and scale back informality would be very important. And on the fiscal council, let me get to that. We've been mentioning that as an issue for a while. I think that with a new government perhaps it might be a good moment to introduce something new. We still think it would provide important benefits to increase the transparency of fiscal policy, you know, any more analysis that the country can do, the legislative branch versus the executive branch I think would all be to lead to a stronger fiscal policy. Mexico's fiscal policy is well run. We're not being critical of the direction but certainly it would be better, it would be stronger, more credible with a fiscal council.

MS. BHATT: All right. Any further questions? Okay. I'll give last two and then I think we need to wrap up.

QUESTIONER: Very short, what about the trade war, what would the spill over to Latin America would you expect to be in the case none of the most extreme scenario but just things going the way they are with tariffs right now? We learned that Canada has imposed some tariffs on Mexico, some specific steel exports so what do you expect that will be the impact to the region of the ongoing trade war?

MR. WERNER: I think maybe I think the numbers that we have run both in the world economic outlook and in the regional economic outlook show that I mean this, I mean, the country most affected by uncertainty regarding trade policies in Latin America was Mexico. I mean, to the extent that the uncertainty associated with the free trade agreement between the U.S., Mexico, and Canada has been weighing down on investment in Mexico for a long time, I mean, for let's say, the last 18 months. So, in that sense the agreement that has been reached and has to be ratified by Congresses in the three countries is very positive news for the region. Going beyond that, I think that all the simulations we have run point towards the result that even countries that might be beneficiaries from some kind of trade diversion that takes place between a trade war between other two countries might end up seeing those benefits eroded by the significant increase in uncertainty that takes place in the world economy. The effect through uncertainty has been estimated to be rather large and having an important impact and this effect eroding in most of the cases the -- let's say, the trade diversion effects that can actually materialize in some countries. That's a little bit the result that we have gotten.

QUESTIONER: In the case of the U.S. MCA trade, the new NAFTA, could you compensate about the (inaudible) of the trade war -- NAFTA would be compensated by this.

MR. WERNER: Look, it depends how you model these things, but I think at this point, what we have been analyzing in the past that, I mean, an economy so open such as Mexico having such an important trade relationship with a much larger economy. Obviously, was one economy that had a lot to lose from this uncertainty. And therefore, achieving an agreement at the executive level, it's a very positive step to reduce this uncertainty. So, vis a vis where we were four months ago, I mean, these three countries are in a much better position than if there will be another shock, that will be another discussion that we can have. But I think from a first order analysis, the effects that we saw, especially in the case of Mexico through investment in the last 18 months that were also reflected on a trade movement, I mean, throughout this period, I mean, actually, are not going to be there in the future to the extent that this uncertainty is going to disappear and a new free trade agreement will take place that all the analysts that have looked into it say that to the first approximation maintain a pretty fluid trade relationship between these three countries. And therefore, we will continue to see the kind of engagement in terms trade and services that we saw before.

QUESTIONER: If the world grows at 3.7 percent, then why is the region growing only at half that rate?

MR. SRINIVASAN: So, if you look at our forecast there is in addition to the fact that in some big countries like Brazil, Argentina, Venezuela, Mexico things have slowed compared to what we'd expect in April, there are other parts which -- where things are getting better for example, in Columbia, Chile, and Peru. So, we have both a slowing recovery and an uneven recovery. And a lot of those because some of the risks which we had underscored in April in terms of tightening financing conditions, in terms of trade tensions, in terms of financial markets, all these have had an impact on the countries where growth has slowed down significantly. So, if you take that into account, that explains why. If you put everything together, that explains why our numbers are significantly below what we had in April. So the risks which we had underscored have materialized in full or part and it has affected some countries more than others. And that's why if you put these things together, you see a more significant slow down in Latin America compared to the world.

MS. BHATT: All right. Thank you so much. Thank you for joining. And thank you to Alejandro and the team. Thank you.

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