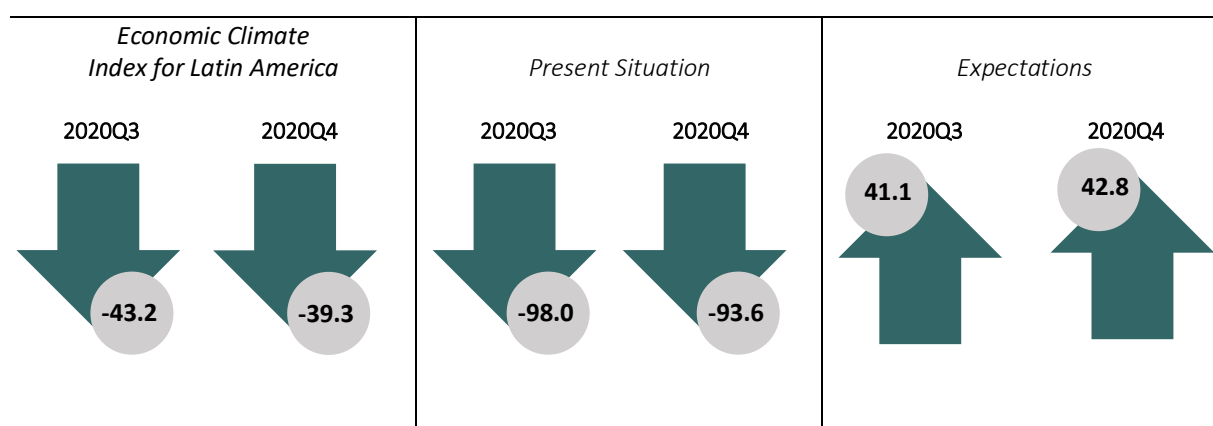


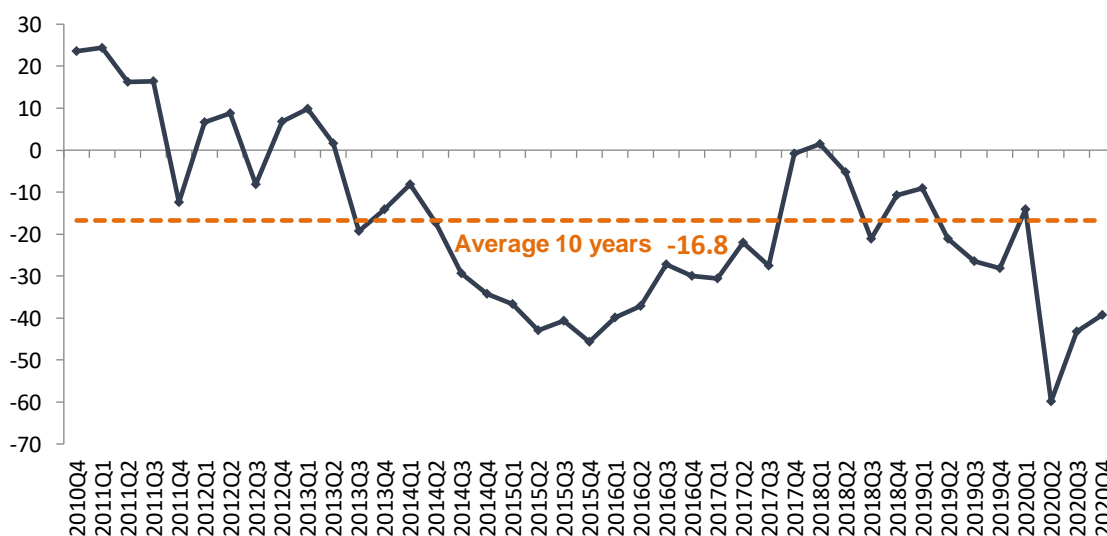
## The economic climate in Latin America improves but remains unfavorable

*Specialist GDP projections for the individual countries in the region indicate that losses resulting from the pandemic will not be recovered in 2021*



The Economic Climate Index (ECI) for Latin America by the Getulio Vargas Foundation (FGV)<sup>1</sup> recorded a slight increase from the third to the fourth quarter of 2020, advancing from -43.2 points to -39.3 points. Despite the 3.9-point improvement, the index remains in the unfavorable zone of the economic cycle.

**Graph 1: Economic Climate Index for Latin America**

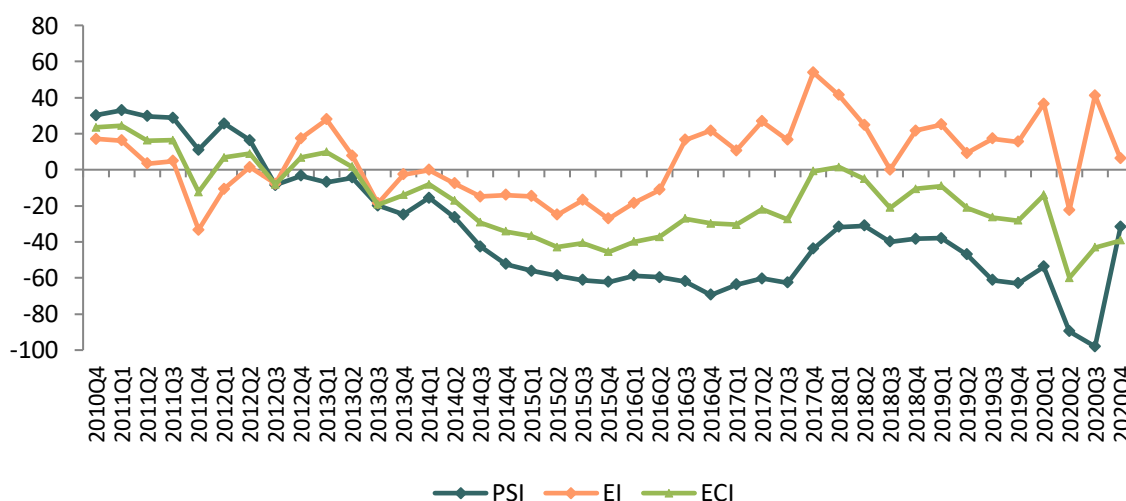


<sup>1</sup> Until October 2019, the Latin America Survey was produced by FGV in partnership with the German Ifo Institute. Since January 2020, the survey has been produced exclusively by FGV.

The ECI is the geometric mean between the Present Situation Index (PSI) and the Expectations Index (EI). The improvement in the ECI was influenced primarily by the advance in the PSI, which rose 4.4 points in Q4 compared to Q3. Despite recovering from -98.0 to -93.6 points, the result remains extremely poor. However, the EI increased from 41.1 points to 42.8 points, a rise of 1.7 points.

The previous survey highlighted that the improvement in the economic climate between the second and third quarter was explained by the reversal in expectations from pessimistic to optimistic, although assessment of the present situation continued to worsen. The crisis would have reached its lowest point with the possibility of the region entering a period of recovery from the third quarter onwards. The fourth quarter survey confirms this scenario, showing advances in both the PSI and the EI. Nevertheless, the increase has been relatively small and the PSI remains in the unfavorable zone of the cycle.

**Graph 2: Present Situation Index (PSI), Expectations (EI) and Economic Climate Index (ECI) for Latin America**

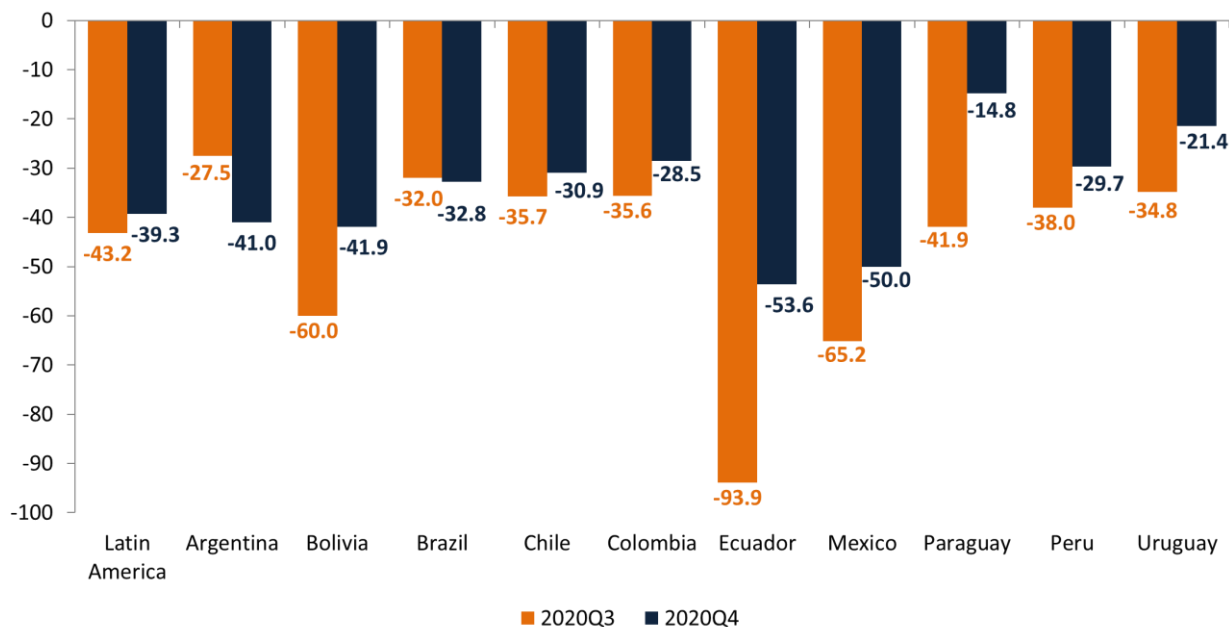


## Economic climate: Results by country

In addition to information on the economic climate, the current edition of the Latin American Economic Survey provides the results of specialist GDP projections for each country in 2020 and 2021.

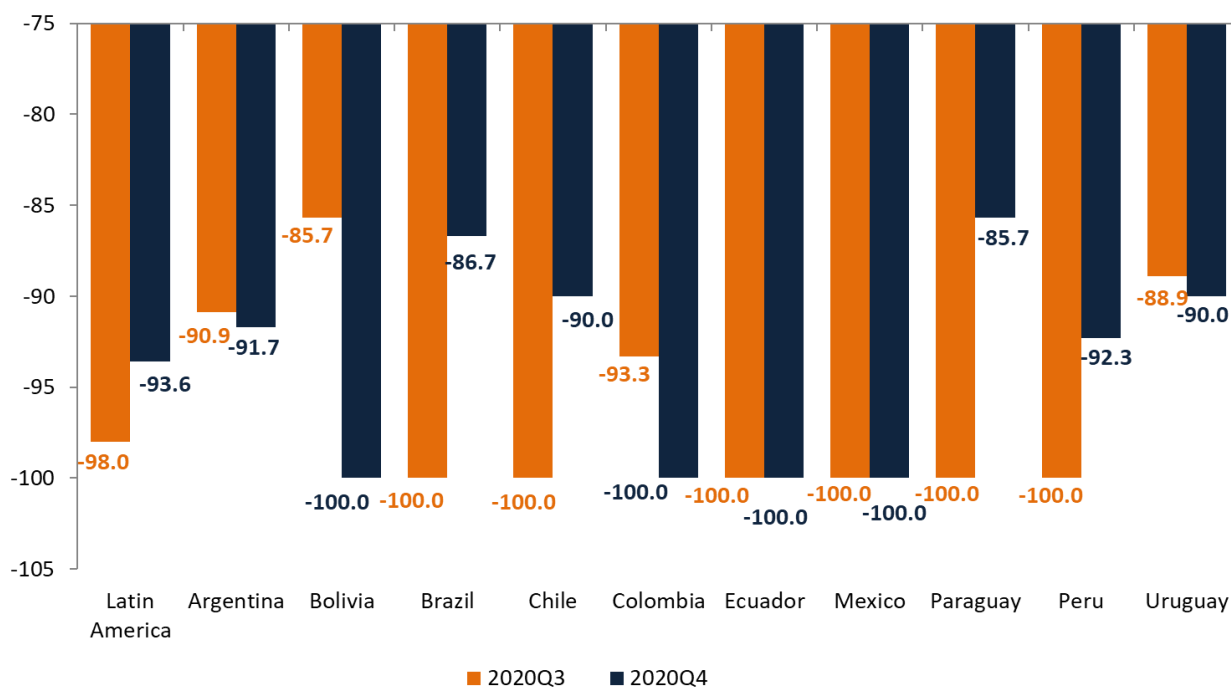
The ECI advanced in all the countries, with the exception of Argentina and Brazil, although the indicators of all the analyzed countries remain at unfavorable levels. In Argentina, the ECI decreased by 13.5 points to -41.0 in the fourth quarter. In Brazil, there was a slight decrease, worsening from -32.0 to -32.8 points between the third and fourth quarters. The country with the best ECI is Paraguay (-14.8 points) followed by Uruguay (-21.4 points) and Colombia (-28.5 points).

Graph 3: Economic Climate Index of selected countries



Following the tendency observed for the ECI, the PSI has remained at an unfavorable level in all the analyzed countries since the second quarter of 2020. Four countries recorded a rise in the PSI in the fourth quarter (Brazil, Chile, Paraguay and Peru), with the biggest gain coming in Paraguay, where the indicator rose 14.3 points to -85.7 points in the fourth quarter. Ecuador and Mexico had maintained the indicator at the minimum level of -100 points for the previous two quarters. In Argentina, Bolivia, Colombia and Uruguay there was a fall in the PSI. In addition to Paraguay, only Brazil reported a PSI between -80 and -90 points; all the other countries have a PSI between -90 and -100 points. When evaluating the present scenario, the majority of the specialists consider the situation to be extremely unfavorable in all the countries.

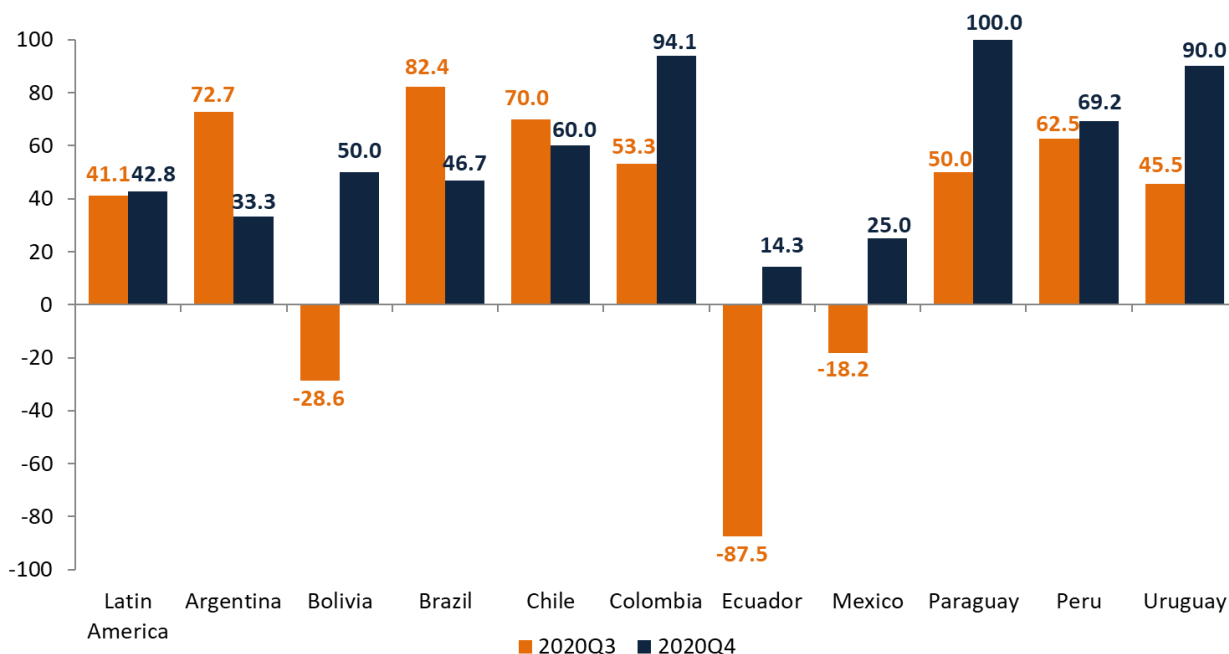
Graph 4: Present Situation Index of the selected countries



The expectations indexes for the region are at a favorable level in all the countries in the fourth quarter of 2020. In the current edition, Bolivia, Ecuador and Mexico stand out for moving from a negative EI in the third quarter to a positive situation in the fourth quarter. In addition to these three countries, all the others recorded an increase in the EI, with the exception of Argentina (fall of 39.4 points); Brazil (fall of 35.7 points); and Chile (fall of 10 points).

In the previous survey, we highlighted that the consulted specialists considered the present situation unfavorable and the expectations favorable for almost all the countries. Furthermore, the difference between the EI and the PSI was over 100 points in all the countries, except Mexico and Bolivia. Now all countries are included and the difference in Brazil, which was 182.4 points, fell to 133.4 points with the drop in the EI, indicating a reduction in optimism in the country.

Graph 5: Expectations Index of the selected countries



## GDP forecasts for 2020 and 2021

The specialist evaluations are reflected in the projections carried out in relation to the GDP of their respective countries. Table 1 shows the projections in relation to the GDP growth of 2020 and 2021. In all the countries, a fall in Gross Domestic Product is projected for 2020, the largest drop being in Argentina (22%) and the smallest in Paraguay (1.9%). When comparing the 2020 results collected in Q4 with the Latin American Survey Q3 results, all the other countries revised their predictions downward, except Brazil and Chile. In Brazil, the forecast was a decrease of -6.5%, which was revised to -5.5%, and in Chile it was -7.3% and revised to -6.1%. It should be noted that Brazil and Chile are among the countries that also improved their evaluation of the present situation. For 2021, all the countries forecast an increase in GDP, except Ecuador. For Brazil, GDP growth is projected at 3.2%.

Table 1 – GDP growth forecasts of the countries for 2020 and 2021

<i>Country</i>	<i>What is your current forecast for your country's GDP growth rate in 2020? (%)</i>	<i>What is your current forecast for your country's GDP growth rate in 2021? (%)</i>
Argentina	-22.0	4.3
Bolivia	-8.4	1.1
Brazil	-5.5	3.2
Chile	-6.1	4.4
Colombia	-6.6	4.4
Ecuador	-10.2	-1.2
Mexico	-9.7	3.2
Paraguay	-1.9	4.2
Peru	-13.5	7.4
Uruguay	-4.1	3.1
<b>Latin America</b>	<b>-9.0</b>	<b>3.5</b>

In Table 2, the first question is “Compared to the level observed just before the coronavirus crisis, at the end of 2021 your country's GDP will be: higher; the same or lower.” Excluding Paraguay, in all the countries, percentages above 50% predominate for the “below” option. Therefore, even with GDP growth in 2021, most of the specialists consider that the countries will be poorer in terms of GDP size and that the impact of the crisis will not be totally recovered in 2021.

The second question in Table 2 is “Considering the growth rates, at the end of 2021 your country's GDP will be: accelerating; stabilized; or decelerating.” According to the responses, 53.2% consider that the GDP will be accelerating, 33.8% believe it will be stabilized, and 13% said it would be decelerating. The percentages are above 50% for “accelerating” in Brazil, Chile, Colombia and Paraguay. Brazil stands out with the highest percentage of 69.2%.

**Table 2 – Perspectives on GDP by country for the end of 2021**

Country	Comparing with the level observed right before the covid-19 crisis, at the end of 2021 your country's GDP will be:			Regarding rates of growth, at the end of 2021 your country's GDP will be:		
	Higher	About the same	Lower	Accelerating	Stabilized	Decelerating
Argentina	8.3	0.0	91.7	36.4	45.4	18.2
Bolivia	12.5	0.0	87.5	14.3	57.1	28.6
Brazil	20.0	26.7	53.3	69.2	15.4	15.4
Chile	10.0	40.0	50.0	60.0	40.0	0.0
Colombia	11.8	17.6	70.6	58.8	35.3	5.9
Ecuador	0.0	42.9	57.1	14.3	57.1	28.6
Mexico	6.3	6.3	87.4	50.0	37.5	12.5
Paraguay	42.9	57.1	0.0	57.1	42.9	0.0
Peru	16.7	8.3	75.0	46.1	38.5	15.4
Uruguay	0.0	40.0	60.0	50.0	20.0	30.0
<b>Latin America</b>	<b>13.4</b>	<b>16.6</b>	<b>70.0</b>	<b>53.2</b>	<b>33.8</b>	<b>13.0</b>

There is relative optimism for growth in 2021 associated with favorable expectations in all the countries. However, the effect of the crisis on GDP in each country still will not have been totally mitigated.

### Main problems faced by the countries

In the second and fourth quarters, the Latin American Survey researched the main problems each country faces in relation to their respective growth (Table 3). Percentages above 50% are identified as relevant issues (important). In the fourth quarter, in decreasing order of importance based on the weighted mean of Latin America specialists' answers, the main results are: lack of innovation (90,7); inadequate infrastructure (89,3); corruption (88,3); increase in income inequalities (85,6) and; insufficient demand (80,9). Of the 15 problems cited, 10 are considered relevant.

Some of the cited problems are structural issues and are always present on surveys, such as the presence of an international side, income inequalities and innovation. Other issues depend on the economic cycle (insufficient demand), and on the current government (lack of confidence in economic policy or corruption). With the pandemic, government performance is a crucial reference, and in this case Chile, Colombia, Paraguay and Uruguay present scores below 50 points in terms of “lack of confidence in economic policy”, which means that this is not a relevant problem in the opinion of the specialists consulted in these countries.

The case of Peru stands out with the indicator of 100 for political instability in October, confirming the political turbulence in the country. In Bolivia, the reversal in expectations to a favorable level may indicate a positive bet on the new government. However, Bolivia, Argentina and Ecuador recorded the highest



percentages in almost all of the aspects in the table. Legal and administrative barriers to investors, for example, are high in these countries.

In Brazil, only lack of capital; insufficient debt management; and lack of credibility in central bank policy have results below 50 points. All other issues score over 50 points and some have worsened in comparisons between the second and fourth quarters. The largest differences are in corruption (increase of 21.5 points) and lack of innovation (26.6 points). The emergency assistance program helped reduce the scores in increase in income inequalities (-10.5 points) and insufficient demand (-17.2 points). The score for Political instability also retreated from 81 points to 60 points.

**Table 3 – Main problems of the selected countries**

Problems	Latin America	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay
Corruption	88.3	83.3	100.0	92.9	40.0	76.5	100.0	93.8	100.0	100.0	10.0
Inadequate infrastructure	89.3	91.7	87.5	100.0	30.0	88.2	57.1	87.5	85.7	100.0	50.0
Lack of innovation	90.7	75.0	100.0	93.3	80.0	100.0	100.0	93.8	100.0	100.0	90.0
Lack of confidence in economic policy	80.3	100.0	100.0	80.0	50.0	47.1	100.0	93.8	42.9	75.0	20.0
Increase income inequalities	85.6	91.7	62.5	80.0	80.0	94.1	100.0	87.5	85.7	84.6	100.0
Lack of international competitiveness	72.4	66.7	87.5	80.0	50.0	93.8	100.0	56.3	71.4	84.6	80.0
Legal and adm barriers for investors	70.9	90.9	87.5	73.3	30.0	70.6	71.4	75.0	28.6	75.0	10.0
Lack of skilled labor	56.3	33.3	75.0	78.6	60.0	64.7	85.7	25.0	100.0	76.9	70.0
Insufficient demand	80.9	100.0	100.0	73.3	90.0	94.1	100.0	68.8	100.0	100.0	90.0
Political instability	47.7	25.0	85.7	60.0	88.9	29.4	71.4	31.3	42.9	100.0	0.0
Unfavorable climate for foreign investors	61.0	91.7	100.0	60.0	40.0	29.4	85.7	68.8	28.6	33.3	0.0
Lack of capital	48.6	100.0	75.0	40.0	50.0	29.4	85.7	40.0	57.1	38.5	30.0
Export Barriers	35.0	54.5	25.0	53.3	20.0	41.2	71.4	12.5	0.0	0.0	70.0
Inefficient Debt management	23.3	33.3	37.5	20.0	20.0	11.8	100.0	20.0	0.0	7.7	0.0
Lack of credibility in central bank policy	16.6	100.0	25.0	0.0	0.0	6.3	85.7	6.3	14.3	0.0	11.1



## Trade war between China and the United States

When consulted on the tendency in positioning of the country's foreign policy regarding the trade war between the United States and China, the option of neutrality is well defined in Chile, Peru and Uruguay, where at least 70% of the specialists believe that their respective country's government will follow this guideline. Chile is 100% neutral. In Peru, after neutrality, the most chosen option was a pro-China bias, while in Uruguay it was for the United States.

In the other countries where the percentage of specialists opting for neutrality was greater than or equal to 50%, the options are divided in relation to the second choice. Neutrality was the choice of 53.3% of the specialists in Brazil, while the remaining 46.7% opted for a pro-United States bias. Argentina has a greater preference than Brazil for neutrality (66.7%), but the remainder opt for China. Bolivia is equally divided between neutrality and China.

Over 50% opt for the United States in Colombia, Ecuador, Mexico and Paraguay. No country recorded a proportion of responses above 50% for China.

China is the main destination market for the exports of many of these countries, such as Brazil. However, in the "war", the characteristics of which go way beyond trade, neutrality does not always appear to be the choice of the governments.

**Table 4 – Diplomatic questions of the selected countries**

Country	<i>What diplomatic guideline do you think your country will adopt in case tensions between United States and China continue to rise? (%)</i>		
	Alignment with USA	Alignment with China	Remain neutral
Argentina	0.0	33.3	66.7
Bolivia	0.0	50.0	50.0
Brazil	46.7	0.0	53.3
Chile	0.0	0.0	100.0
Colombia	64.7	0.0	35.3
Ecuador	85.7	0.0	14.3
Mexico	60.0	0.0	40.0
Paraguay	83.3	16.7	0.0
Peru	0.0	16.7	83.3
Uruguay	30.0	0.0	70.0
<b>Latin America</b>	<b>42.7</b>	<b>5.2</b>	<b>52.1</b>

## Appendices

### Appendix 1 – Mean ECI of the selected countries for the last four quarters

<i>País</i>	<i>2020Q3</i>	<i>2020Q4</i>
Paraguay	-20.1	-24.8
Colombia	-22.4	-27.1
Uruguay	-26.7	-27.3
Brazil	-30.0	-31.9
Peru	-29.4	-32.1
Chile	-30.2	-36.7
Argentina	-48.3	-44.7
Bolivia	-44.6	-48.4
Mexico	-49.4	-51.6
Ecuador	-75.6	-76.5
<b>Latin America</b>	<b>-36.4</b>	<b>-39.1</b>

## Appendix 2 – Historical series of the indicators of the selected countries

### PRESENT SITUATION INDEX

PSI	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	Average 10 years
Latin America	-40.0	-38.3	-38.0	-47.0	-61.3	-63.0	-53.8	-89.6	-98.0	-93.6	-35.0
Argentina	-70.0	-78.6	-78.6	-92.3	-84.6	-100.0	-88.9	-77.8	-90.9	-91.7	-40.3
Bolivia	20.0	25.0	42.9	0.0	12.5	0.0	-28.6	-75.0	-85.7	-100.0	10.4
Brazil	-88.0	-77.8	-56.0	-75.0	-75.0	-75.0	-52.2	-90.9	-100.0	-86.7	-49.6
Chile	18.2	44.4	18.2	10.0	-10.0	-10.0	-80.0	-100.0	-100.0	-90.0	-8.2
Colombia	-7.1	0.0	-6.3	6.7	-16.7	-33.3	23.1	-86.7	-93.3	-100.0	5.3
Ecuador	-60.0	-66.7	-75.0	-75.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-30.1
Mexico	0.0	-11.8	-33.3	-33.3	-60.0	-60.0	-69.2	-90.9	-100.0	-100.0	-29.4
Paraguay	42.9	66.7	50.0	20.0	-28.6	-40.0	0.0	-80.0	-100.0	-85.7	18.7
Peru	13.3	-6.3	-5.9	13.3	-46.2	-35.7	-42.9	-92.3	-100.0	-92.3	6.5
Uruguay	-33.3	0.0	-12.5	-50.0	-62.5	-62.5	-33.3	-100.0	-88.9	-90.0	9.2

### EXPECTATIONS INDEX

EI	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	Average 10 years
Latin America	0.0	21.6	25.0	9.2	17.2	15.5	36.5	-22.3	41.1	42.8	6.6
Argentina	-30.0	28.6	35.7	0.0	76.9	9.1	22.2	-55.6	72.7	33.3	9.1
Bolivia	20.0	0.0	-14.3	-28.6	-25.0	-50.0	-16.7	-62.5	-28.6	50.0	-22.7
Brazil	12.0	25.9	88.0	56.3	50.0	45.0	65.2	-22.7	82.4	46.7	22.4
Chile	0.0	44.4	9.1	0.0	40.0	0.0	30.0	36.4	70.0	60.0	10.0
Colombia	78.6	62.5	25.0	26.7	33.3	16.7	-15.4	6.7	53.3	94.1	13.4
Ecuador	-60.0	0.0	0.0	0.0	-50.0	25.0	0.0	-100.0	-87.5	14.3	-26.3
Mexico	-23.5	5.9	-50.0	-53.3	-50.0	-20.0	25.0	-27.3	-18.2	25.0	-7.2
Paraguay	14.3	0.0	0.0	0.0	57.1	60.0	60.0	-60.0	50.0	100.0	23.1
Peru	20.0	50.0	17.6	60.0	38.5	0.0	50.0	-15.4	62.5	69.2	29.8
Uruguay	-50.0	-33.3	-25.0	0.0	0.0	37.5	33.3	25.0	45.5	90.0	-0.5

### ECONOMIC CLIMATE INDEX

ECI	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	Average 10 years
Latin America	-21.1	-10.7	-9.1	-21.1	-26.4	-28.2	-14.1	-59.9	-43.2	-39.3	-16.8
Argentina	-51.3	-33.4	-30.8	-53.2	-21.2	-55.4	-42.9	-67.2	-27.5	-41.0	-20.6
Bolivia	20.0	12.1	12.4	-14.9	-7.2	-26.8	-22.7	-68.9	-60.0	-41.9	-8.4
Brazil	-45.9	-33.9	3.6	-21.0	-23.2	-25.0	-2.0	-60.9	-32.0	-32.8	-20.5
Chile	8.9	44.4	13.6	4.9	13.5	-5.1	-33.9	-46.2	-35.7	-30.9	-4.0
Colombia	31.8	29.1	8.8	16.5	6.8	-9.9	2.9	-47.0	-35.6	-28.5	6.3
Ecuador	-60.0	-36.7	-41.9	-41.9	-77.5	-50.0	-58.6	-100.0	-93.9	-53.6	-31.2
Mexico	-12.1	-3.1	-41.9	-43.6	-55.1	-41.3	-28.4	-62.7	-65.2	-50.0	-19.6
Paraguay	28.2	31.0	23.6	9.8	9.9	4.0	28.0	-70.4	-41.9	-14.8	18.9
Peru	16.6	20.1	5.5	35.5	-8.5	-18.7	-1.8	-59.0	-38.0	-29.7	15.2
Uruguay	-41.9	-17.4	-18.9	-26.8	-34.2	-19.3	-2.8	-50.0	-34.8	-21.4	1.6

## METHODOLOGICAL ASPECTS OF THE SURVEY

The Latin America Economic Survey aims to monitor and forecast economic trends, based on quarterly information supplied by specialists in the economy of their respective countries. The survey is simultaneously applied with the same methodology in all the countries in the region, which is a method that enables the construction of an agile and comprehensive picture of the economic situation in countries and economic blocks. In the fourth quarter of 2020, 137 economy specialists were consulted in 15 Latin American countries.

The survey generates information of both a qualitative and a quantitative nature. The Economic Climate Index (ECI), is the synthesis indicator, comprised of two items of a qualitative nature, the Present Situation Index (PSI) and the Expectations Index (EI), which deal, respectively, with the general economic situation in the country at the moment and for the upcoming six months.

Since January 2018, the Present Situation (PSI) and Expectations (EI) indexes for each country have been expressed as the balance of responses of the respective qualitative items, according to the formula presented below:

$$PSI = (( \text{[option]}_{+} - \text{[option]}_{-} ) * 100) / n,$$

option+ = Favorable option;

option- = Unfavorable option; and

n = number of specialists who answered this question.

The EI formula is analogous.

The Economic Climate Index is constructed as the geometric mean of the response balances of the present situation and expectations items minus 100 (-100), according to the formula described below:

$$ECI = \sqrt{(PSI + 200) * (EI + 200)} - 200,$$

ECI = Economic Climate Index.

As such, the index scale varies from minus 100 (-100) to plus 100 (+100). Zero is the point of inflection.

To reach the figures of any cluster of countries, such as the total for Latin America, the indexes are aggregated by GDP corrected for Purchasing Power Parity (GDP, PPP, according to IMF data). The weights are modified annually.