LATIN AMERICA: WINTER WAS MARKED BY VIOLENT UNREST, AND MORE TURMOIL IS EXPECTED TO RESULT INTO A "HOT" UPCOMING SPRING

13/10/2022

Filed under Region news

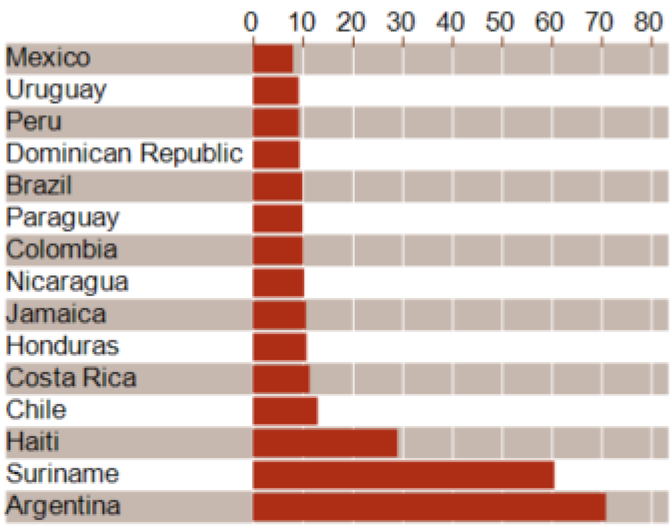
Highlights

- Over the past months, Latin America has experienced violent protests, labour strikes and road blockades amid soaring prices.
- Subsidies and state aid are hurting public finances in a region where public debt is already elevated and debt service is on the rise.
- Some governments are resorting to price controls as subsidies are too costly given elevated public debt and rising interest rates.
- Climate change and environmental concerns have increasingly become a focus of protests in Latin America.
- Rising inflation and recurring, unresolved unrest across the region are building pressure for further turmoil.

Unrest is back

Unrest has clearly returned to Latin America, after a hiatus of almost two years due to the Covid-19 pandemic and the consequent lockdown measures. Over the past months, several countries have experienced violent protests, labour strikes and road blockades in countries such as **Panama**, Peru, **Haiti**, Argentina and Ecuador. It's clear that the region experienced a "hot" winter. The jump in prices, with inflation reaching double digits in many countries (see graph 1) and often hitting a 15-year high, has sparked unrest. The soaring prices for energy and food (which are the most onerous form of inflation for the general public) have been a notable cause of unrest in Latin America as well as other emerging markets worldwide. This isn't surprising. In emerging markets, where food and energy easily make up 40% of average household expenditure (compared to 15% in advanced economies), the higher prices are being felt. Another factor is the recent Covid-19 pandemic. Scientific research suggests that political unrest tends to peak two years after a typical epidemic starts, which matches up with the onset of Covid-19 in 2020. For Latin America specifically, these elements are adding to pre-existing grievances such as high wealth inequality, elevated crime rates and high levels of perceived corruption. Moreover, **climate change** and environmental concerns have increasingly become a focus for protests in Latin America.

Graph 1: annual inflation (in %)



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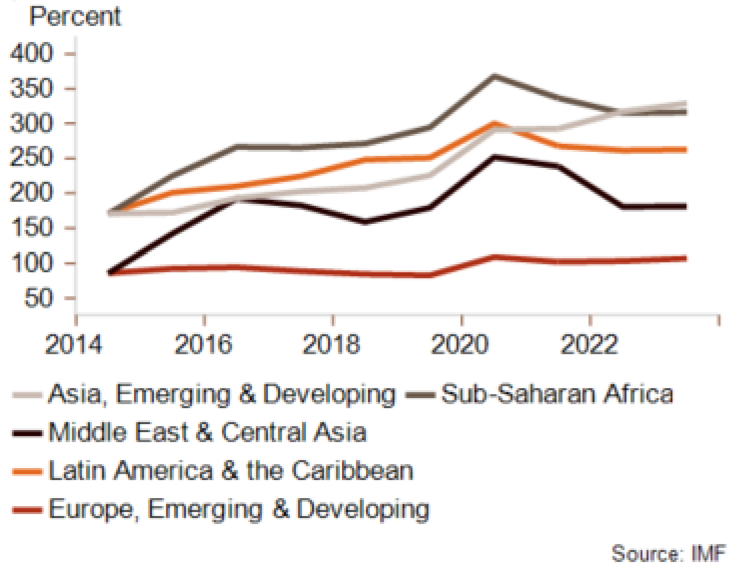
Governments face a difficult choice between unrest and high levels of debt

Many governments in Latin America are under pressure to limit social discontent through food and fuel subsidies, and state aid. On the upside, most governments have received higher tax revenues through the return of tourist arrivals since the start of 2022 and the economic rebound following the lifting of lockdown restrictions. Additionally, most countries are large food exporters, accounting for a fifth of current account revenues on average. The higher food prices in the past year have brought some scope for financing fuel and food subsidies, though this may be short-lived with food prices weakening since July.

Moreover, the region has a relatively elevated public debt to public revenue ratio, as illustrated in graph 2. Government debt increased significantly in 2020, with most countries (excluding Mexico) offering social protection schemes during the Covid-19 pandemic, whilst experiencing a fall in public revenue. Rising interest rates present an additional concern, given the ongoing global trend of monetary tightening. As a result, access to external financing is becoming more restrictive and more costly. At the same time, with many countries having experienced unrest or greater policy uncertainties (a swing to more anti-establishment presidents has been witnessed, for example), many investors have become spooked. It is therefore becoming more difficult to attract new foreign investments. Additionally, many economies have suffered from capital outflows. All these factors taken together are worsening the ability of some countries to finance their public and external financing needs, with some also suffering from limited domestic financing resources.

Graph 2: General Government Gross Debt to public revenue ratio



Elevated government debt and unrest results in further state interventions

A visible trend in Latin America is the population demanding a larger state role in the economy. As a result, governments are increasingly turning to price controls (e.g. Panama, Bolivia, Argentina) and barriers to exports to reduce domestic price pressures (Argentina regularly implements temporary ad-hoc export bans and quotas on agricultural products). However, price controls can damage corporate profitability and hurt the business environment. If such controls remain in place for a long period or become permanent, shortages can appear as loss-making firms cease or curtail production. As a result, shortages can lead to new unrest. In the same context, resource nationalism is on the rise (e.g. lithium in Bolivia and Mexico), as well as changes to public contracts (e.g. Honduras, Colombia and Mexico) and project cancellations following protests (especially where environmental issues are a concern).

Further unrest likely to come

Forecasting where and when the next uprising will occur is extremely difficult as many different socio-economic factors are at play. According to research, the strongest predictor of future instability is past instability. The risk of unrest is four times greater if a country has experienced a social unrest event within the previous six months. On top of this, unrest seems to be susceptible to spillover effects. Econometric analysis shows that the risk of unrest doubles if a neighbouring country has recently experienced unrest. As inflation is still increasing, unrest events are popping up across the region and if the grounds for unrest are not addressed, further such events are highly likely to occur in Latin America, and across the rest of the world

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