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IMF Spring Meeting: Emerging Markets – What's next?

Felix Dornaus



[IMF hosts numerous events for emerging markets investors](#) as part of its annual meetings. Opinion leaders, decisionmakers, pollsters, and analysts from politics, think tanks, business, and academia hold presentations and/or discussions with investors. The meeting also provides a good opportunity of exchanging ideas with colleagues in finance.

My key takeaways:

While the sentiment of investors in the emerging markets remains positive, it does so with an increasingly cautious bias. [Clear opportunities to take risky positions are becoming rarer, and selectivity is on the rise.](#)

The macroeconomic data from China are improving. The majority of observers expect a US-China trade deal for the coming weeks or months. Both sides want an agreement, with the wording of the execution mechanisms representing the biggest hurdle. We do not yet expect the deal to be fully comprehensive though.

Argentina:

Despite the existing uncertainties, experts opine that incumbent President Macri has the best chances in the presidential elections in October – probably in a run-off ballot against Christina Kirchner. The achievement of objectives of the current IMPF programme is encouraging. The drought and its negative impact on the current account have been overcome. The roll-over rate of maturities in the sovereign segment is 100%. By the end of 2020, Argentina should not need any issues on the international bond markets anymore. The country is broadly supported by the IMF and other creditors.

Brazil:

Brazil is the investors' darling. Experts put the probability of the country implementing its pension reform in the second half of 2019 at 50%. The economic team around the new Minister of Finance, Paulo Guedes, enjoys high levels of trust ("Brazilian Avengers").

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Brazil is an investor's darling (c. iStock)

Mexico:

The country's economy is expected to grow by about 1-1.5% in 2019, which puts it in the bottom segment of the emerging markets universe. While there is confidence in a cautious fiscal policy by the government of the left president, Andrés Manuel López Obrador, some fear the weakening of institutions, which would increase the risk of a rating downgrade. The governmental promises made so far in support of the highly indebted state-owned oil company PEMEX have been deemed insufficiently detailed. USMCA, the successor of the trilateral trade agreement NAFTA, should be signed in 2019, but is not high up on the risk of priorities, neither in the US nor the Mexican Congress.

Russia:

The discussion focused on the possibility of further US economic sanctions. Two new austerity packages are ready to be passed by Congress. This may happen at any time, with President Trump acting as perceived chock block. We cannot rule out the expansion of the sanctions on the issue of new Russian bonds. Since the USA does not depend on oil imports anymore due to sufficient domestic production, oil could also be used as strategic tool. There is apparently no dialogue between Russia and the USA at the moment.

Turkey:

The Minister of Finance and the central bank president were trying hard to come across relaxed while portraying their plans of significant structural reforms. The double-act was not convincing. There was little clarity on the sources of funds for servicing the significant level of short-term debt in foreign currency (especially in the private sector). However, Minister Albayrak surmised that the liabilities of the private sector were largely in the form of inter-company loans, as a result of which the refinancing risk was much lower than assumed. We did not

see any rapprochement to the IMF.

Venezuela:

Government debt was estimated at 920% in terms of GDP for 2019. While the shadow government under Guaido is taking shape, its statements regarding the imminent overthrow of President Maduro seem more like wishful thinking than reality. So far, the attempts made to convince the military to turn against Maduro have been unsuccessful. [Under his cabinet, the GDP has suffered to an extent that is almost unseen in economic history](#). The unavoidable restructuring of foreign debt will be the “mother of all restructurings” and will involve a massive haircut to be borne by the creditors. The US sanctions are likely to be stepped up.

US President Trump: in an ad-hoc survey among the 800 attending investors, his re-election in 2020 was seen as 70% likely.

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