Global Economy

Latam: the recovery is being held back

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Latin America has not been spared from the onslaught of the process of monetary normalisation in the developed countries in recent months (especially by the Fed). Worldwide risk aversion is on the increase and capital flows which had earlier cheerfully sought out returns in the emerging economies are being re-routed.

Even so, the impact in Latin America has been quite mixed, with the most vulnerable countries being worse affected and reinforcing the impact of the global shock. The external deficit in Argentina and the feeling that there is less-than-perfect synchronisation between the country’s fiscal and monetary adjustment have led to a currency crisis, which is being fended off. On the other hand, Brazil has been badly hit, not so much because of its external exposure (low) but due to its fiscal vulnerability and the uncertainty surrounding the October general election there. By way of contrast to these two cases, in Mexico markets have been more marked by watchfulness over the course of the NAFTA negotiations and the Andean countries (Colombia, Peru and Chile) have held out reasonably well, buoyed by continuing high prices for their chief export commodities.

What implications does this extremely awkward environment have for our growth forecasts? The impact has been very varied. The growth prospects for Argentina and Brazil have been trimmed considerably compared to what was being entertained three months ago, this being due to the fall-out from the financial volatility and other, local factors, such as economic policies with a more restrictive hue in Argentina or the effect of the transport strike and political uncertainty in Brazil. Obviously the considerable weight of these two countries is pulling down on growth forecasts for the region as a whole, even though we now foresee higher growth in countries such as Peru, Colombia or Mexico on the back of good activity figures over the first half of the year. BBVA Research therefore estimates that 2018 growth, which we predict will come in at 1.3%, ought not to be a whole lot different from the level we saw in 2017 (1.2%). Recovery in Latin America will thus be delayed until 2019, for which we envisage growth of 2.1%, hitting 2.3% in 2020.

In short these are growth rates which extricate the region from the bad patch it went through in 2015 and 2016, during which Latin America’s GDP slumped (particularly on account of the recession in Brazil), although they are still on the low side when held against those for the other emerging economies. The boost to growth from productivity via structural reforms therefore still remains pending.

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