BBVA Research

Global Economy

A challenging environment for Latin America

El País

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The return to strong growth in Latin America has been set back yet again, this time due to a combination of global and local factors.

Three factors make the international environment in Latin America less favorable. Firstly, we have seen a global growth slowdown, especially in the developed economies, owing in part to the significant adjustment of international trade. Secondly, tensions in international financial markets have increased, and this has been only partly compensated by the more cautious and patient central banks in developed countries, especially the Federal Reserve and the European Central Bank. Finally, the prospect of somewhat lower commodity prices ‐ especially oil ‐ is also a headwind for the region.

This is joined by internal factors that have contributed to the delayed recovery in Latin America: lower growth than expected in recent months in Argentina, Chile and Paraguay; the greater impact of the economic policy adjustment in Argentina; and the impact of lower investment and greater uncertainty over tax reform in Colombia.

BBVA Research therefore expects that, after a modest 1.6% GDP growth in 2018, Latin America as a whole will grow by 2.1% in 2019 and 2.4% in 2020. This means a downward revision by 0.3 and 0.2 percentage points respectively, compared to three months ago. Furthermore, the downward adjustment affects growth in all of the Latin American countries. More significant yet, despite the recovery, these figures indicate that the region will not experience such robust growth as that seen some years ago, in large part because reforms to stimulate productivity have been scarce and insufficient to compensate for lower commodity prices.

Can economic policies contribute to the increase in demand? The scope for expansionary fiscal policies is limited, in some cases due to high debt levels and, in other cases, due to the need to comply with fiscal rules, or otherwise undermine their credibility. That is why in many cases it is inevitable that fiscal policy will be a drag on domestic demand. However, Latin America will continue to benefit from lax monetary policies, except in Argentina and Mexico. The increase in activity closer to its potential will nevertheless lead central banks in Latin America to gradually eliminate monetary stimulus over the coming years.

In short, although we have seen a glimpse of higher growth in the region, it is still too low to think about renewing convergence of per capita income with developed economies.

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