

Global Economy**LATAM: recovery delayed again**

El País (Spain)

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The recovery of growth in Latin America has not materialized for several quarters and the return to average growth rates above 2% has been consistently delayed.

The second quarter of 2019 was no exception.

On the external front, uncertainty about the future of US-China trade relations is already having a significant impact on the delay in investment decisions. The shift of the central banks in the US and Europe, and the stimulus policies in China, could counter—in part and temporarily—the impact that the trade war is having on growth in these regions. But, without a doubt, we are in a more uncertain world and one with limited risk appetite (especially for long-term investments), which means an unfavorable environment for Latin America.

However, there have also been domestic factors that have slowed growth in many countries in the region during the first half of this year. Uncertainty surrounding domestic economic policies made an impact on growth in Brazil and Mexico in the first half of the year. In Peru and Paraguay, temporary events have affected primary activities, with a significant impact on GDP. Although our forecasts suggest that many of these causes should fade out in the second half of the year, the outcome will be growth of just 1% for Latin America in 2019, below even the 1.5% in 2018, marking six consecutive years below 2%.

The recovery of growth in the region is thus delayed again until 2020, when we expect to see growth of 2.2%. This will be supported by domestic demand and aided by a monetary policy with more space to prolong its accommodative stance, now that the Federal Reserve seems set to cut its interest rates in the coming months.

However, Latin America needs even higher growth rates—above 2.5%—to reduce the per capita income gap with developed economies. In 2020, it will have been seven years since this gap began to widen following a significant drop in the prices of raw materials, after a decade of sustained growth. This makes it urgent to build the necessary political consensus to promote structural reforms in the region. Such agreements would enable productivity growth and restart the process of reducing the income gap with developed economies, now without the tailwinds provided by raw materials.

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