

The slowdown in LatAm is coming to an end

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The slowdown in Latin America that began in 2012 will come to an end this year. After a difficult start of the year, foreign and domestic conditions seem to be improving in most Latin American countries. Decreasing doubts about China have brought greater calm to financial markets in the region. Latin America managed to cope well with Brexit and the ensuing increase in global risk aversion, no doubt thanks to the reaction of the central banks of developed economies, which made it clear that they would do everything necessary to put a stop to that volatility, in the case of the Federal Reserve by delaying interest rate hikes.

Against this backdrop, and despite the fact that activity in the region is still weak, a certain recovery of growth can be perceived, particularly in the second half of this year. 2016 will still be a year of adjustment, with a decline in activity of -0.9%, after 5 years of slowdown and three years of growth below OECD countries, something not seen since the start of this century. Even so, the second half of this year could show strong activity, and the slowdown in the region should bottom out this year. Growth would be 1.8% in 2017, even lower than in OECD countries and than the region's potential -closer to 3%-, but it will be a turning point, supported by the foreign sector and, in countries like Argentina, Peru and Colombia, by public and private investment. These three countries will precisely be the fastest-growing economies next year in Latin America.

Of course, there will be much disparity, with the Pacific Alliance countries (Mexico, Colombia, Peru and Chile) posting average growth of around 2.7%, compared to the recession in Brazil and Argentina this year. On the inflation side, the news has been positive in most countries. Even though it is still above the targets set by the central banks (except for Mexico and Peru) it has decreased in recent months, due to lower exchange-rate pressure. The exceptions are Colombia, Argentina and Uruguay, although it should start to decline in the first two countries in the coming months. This will enable many central banks to adopt a laxer stance in their monetary policy in the future, with the notable exception of Colombia and Mexico: the former still with major inflation concerns and the latter following closely the rate hikes announced by the Fed.

The risks surrounding this forecast continue to be tilted to the downside, although they are now less intense than three months ago, due in part to fewer (but still relevant) concerns about the Chinese economy and to the gradual approach adopted by the Federal Reserve. But the region is also facing internal risks derived from the political process in many countries, low confidence or possible delays in investment in infrastructures. And of course, there is still the major risk of not tackling the reforms needed to boost growth in the medium and long term.

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