

Growth in Latin America: the glass half full

Diario El País (Spain)

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31 Jul 2017

Latin America will grow this year. This is good news for the region following two consecutive years of contraction, 2015 and 2016, which followed three of slowdown due to the fall in commodity prices. BBVA Research expects the region as a whole to grow by 0.8% this year and 1.7% in 2018. Are prospects good? Three caveats have to be made regarding this inflection point for Latin America in 2017.

Firstly resumption of growth this year is highly dependent on Argentina and Brazil coming out of recession; as the biggest and third biggest economies in the region they weigh heavily in the average growth of Latin America. All the same, in the majority of the rest of the countries there will be a slowdown in 2017 relative to last year, due to external factors such as the uncertainty surrounding US trade policy, but also domestic shocks such as intense political noise and delays in crucial infrastructure projects in some countries.

The second caveat also has to do with the two countries that are recovering in 2017. Although Argentina's exit from recession looks solid, in Brazil the recovery is subject to significant risks of a relapse, depending on the intensification of the political turmoil affecting the government and the shackling of reforms under way that this represents. This turmoil not only puts Brazil's recovery at risk but may have a negative effect on others, particularly its Mercosur partners.

The third caveat is the acknowledgement of the fact that the expected growth for Latin America this year and next is still low when compared not only with the region's potential (which should be closer to 3%) but also with the growth of developed economies (around 2%). Latin America should aspire to narrow the gap in income per capita with the advanced economies, as it did until 2012.

Fourthly, although the risks emanating from China have not diminished, as is reflected by the continued build-up of debt, the risk associated with US economic policies seems to have eased, so the external environment looks a little less adverse than it did at the beginning of the year. Nevertheless domestic risks have increased, with more political noise in the region (associated partly with the multitude of electoral process in the next year and a half) and the negative effects of the corruption scandals on public and private investment.

These caveats mean that for now the glass of growth for Latin America is only half full.

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