

Latam: recovery in progress

Juan Manuel Ruiz
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Growth in Latin America continues to recover. It is still a slow recovery, but it is spreading to more countries and is based on a better external environment and greater internal optimism. But although the risks have moderated slightly, they remain significant.

Starting with the external environment, global growth has stabilised at a robust pace of around 1% quarterly, with prospects of continuing. Financial markets continue showing very low volatility, and the broad global liquidity has favoured the entry of capital flows into the region. Finally, we have also seen gains in commodity prices, especially in the case of copper.

On the domestic side, confidence indicators have gradually improved. In the case of companies, because of the favourable external environment itself and also because of less political uncertainty in countries such as Argentina (which currently is in the midst of parliamentary elections), and to a certain extent in Brazil and Chile. The confidence of families has also improved, certainly boosted by the reduction of inflation, and despite the still weak job creation.

In this context, the recovery of activity remains robust in Argentina, and is beginning to consolidate in countries such as Brazil, Chile and Peru. At BBVA Research, we estimate that the region as a whole should grow 1.1% this year and 1.6% in 2018. Yes, this is slow growth, but a clear turning point after a slowdown lasting 5 years.

However, this relatively benign scenario is not without risk. On the external side, there is concern about the risk of an abrupt slowdown in China in the medium term, following on from the accumulation of financial vulnerabilities, and the growing leverage and overcapacity in some sectors, especially public companies. Also worrying is the possibility of a certain complacency of international financial markets towards the risks, while monetary stimuli are beginning to be withdrawn by the Fed. The low volatility and reduced perception of risk, which have so favoured financial assets in Latin America, could quickly be reversed. Finally, there is also concern about the new protectionist drift in the USA, reflected in the fourth round of NAFTA negotiations, and which stands out against the moderation shown in the first three. On the domestic side, in Latin America, noise and political uncertainty remain high, although they have declined recently in some countries, and there is still a possibility of delays in infrastructure projects in the region, which will support growth in countries such as Colombia and Peru.

In short, recovery in Latin America is still on track, but still with significant risks to be monitored.

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