

The new normal in Latam

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Latin America is consolidating the renewal of a growth cycle that began 2017. In the past few months activity figures have been pleasantly surprising in most countries. At the same time, prices of key export commodities have risen substantially, to a great extent boosted by lively demand (in line with higher world growth), although other factors have been influential on the supply side in the case of oil (the maintenance of the OPEC agreement or an increase in geo-political risks in certain production zones), and greater financial investment in the case of copper, to name some examples.

In this scenario, having grown by 1.1% in 2017, regional GDP will advance by 1.7% this year, and 2.5% in 2019. The new trend in the region, in the wake of the slowdown in the five years leading up to 2016, is thus genuinely taking hold.

The increased in growth both this year the next will rest on two factors in particular. The external sector will benefit from now well-established and widespread world growth, and from higher commodity prices. Meanwhile, the other factor will be investment, both by the private sector (Argentina and Brazil) and the public sector (Colombia, Peru and Argentina).

Turning to risks, the news has also been marginally positive. Particularly since the risks associated with a hard landing for China's economy have abated somewhat, given the apparent greater willingness of the authorities to address its financial imbalances. All in all, the risks arising from the Asian giant remain significant, as are those associated with the future course of US trade policy, and the impact of the Fed's process of removing monetary stimuli (as we have seen in the past few days).

But what is the big challenge for the region in the long term? The growth forecast of 2.5% for 2019 should now be approaching Latin America's growth potential, which feeds imbalances such as inflation or the external deficit. This new growth potential, which is below the level exhibited by the region in the decade of surging commodity price increases (up to 2013), points to a new normal, where growth should be not unlike the level posted by developed regions, so it will be very hard to begin to close up the per capita income gap with the latter as Latin America did between 2000 and 2013. This highlights the importance of returning to the path of structural reform to restore productivity growth, which is the big task left for the region going forward.

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