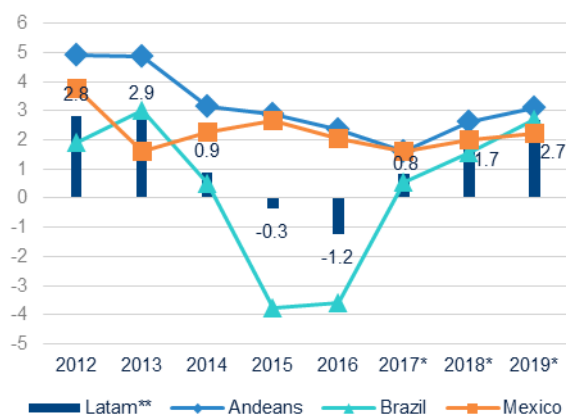


# 1. Summary

**Financial markets in Latin America continued in an uneasy calm phase.** The prices of Latin American assets continued to show gains, in a context of very low volatility (and even a sense of market complacency) and despite some correction in commodity prices. Going forward, we anticipate moderate depreciation in exchange rates in the region, but without ruling out a rapid reversal of the low volatility that the region has enjoyed in recent months.

**Growth in Latin America will increase to 0.8% in 2017 and 1.7% in 2018.** The recovery after the -1.2% contraction in 2016 will be helped by the coming out of the recession by two of the main regional economies (Brazil and Argentina), as in most other countries there will be a growth slowdown in 2017 compared to 2016, hobbled by external shocks and weak domestic demand. Going forward, we anticipate that the main impetus to growth in South America will come from both the external sector (with better terms of trade and rising global demand) as well as the momentum of public and private investment in countries such as Argentina and Colombia, which will be joined by Peru in 2018. However, it is still low growth, both in relation to the region's potential (closer to 3%) as well as in relation to developed economies (around 2%).

**Figure 1.1** Latin America: GDP growth (%)



Source: BBVA Research. \*Forecasts. \*\* Weighted average of Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Mexico, Uruguay and Venezuela.

**Inflation continues to decline in South America, and has peaked in Mexico.** Inflation records in the region have been surprisingly low in most countries, conditioned by the stability of exchange rate, as well as weak domestic demand and moderation in the price of oil and food. Given this scenario of lower inflation and weak activity, we anticipate central banks in the region will have an even more accommodative stance, with interest rate cuts continuing in South America and the end of increases in Mexico. In any event, it is clear that monetary policy is bearing the greater weight of the counter-cyclical adjustment, given the lack of fiscal space, with the exception of Peru.

**The risks around the growth forecast increase on the domestic front, but are somewhat lower on the external side.** On the domestic side, political tensions are heightened in many countries, at the same time as the risk of delays in investment persist. On the external side, while the medium term risk associated with the financial vulnerabilities of China's economy increases, the risk linked to the economic policies in the US is slightly reduced, as is that of a hurried departure of its monetary stimuli.

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