

Global Economy

Latin America: Uncertainty grips large countries

G de Gestión (Perú)

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20 November 2018

The recovery of growth in Latin America continues to be very uneven. We are simultaneously dealing with the impact of the Argentine exchange rate crisis, the uncertainty generated by the reforms of the new government in Brazil and the mixed news coming out of Mexico. By contrast, the Andean countries are accelerating thanks to the recovery of internal demand.

Starting with Argentina, the currency crisis and the need to contain it with restrictive fiscal and monetary policy will lead to a sharp recession this year (-2.4%). Even so, if the programme now in place succeeds in stabilising the exchange rate and quickly bringing inflationary expectations down – and, although these are still early days, the first few weeks are pointing in that direction – the external sector should start to stimulate growth, turning it slightly positive from the first half of 2019 onwards.

In Brazil, the economic panorama depends crucially on how deep the tax and pensions reform embarked upon by the new government turns out to be. However, the political polarisation and the fragmentation of Congress, among other factors, point to these reforms not being very ambitious, and the high level of public debt will continue to act as a drag on growth, which is unlikely to exceed 2% in the medium term.

Mexico has received mixed news. The trade agreement with the US and Canada was positive, especially considering the alternatives that had been on the negotiating table at one time or another, starting with the possibility of no deal. Even so, we also have to weigh against this the damage that may be caused to investor confidence by the cancellation of the construction of Mexico City airport. In this context it will be difficult to exceed sustained growth of 2% going forward.

The bright side is presented by the Andean countries: Colombia, Peru and Chile. In all three cases growth has recovered –albeit a bit sluggishly in Colombia’s case– thanks to internal demand. With growth prospects of between 3.5% and 4% for the next few years, they will no doubt be the most dynamic economies among the larger countries in the region. In Peru’s case, specifically, our forecasts point to growth of 3.6% in 2018, and we expect it to rise to 3.9% due to the stimulus provided by the new mining projects.

Of course, this varying growth is clearly correlated to the demand for credit in the different countries of the region. In Argentina’s case, the recession and a tightened monetary policy presage a strong credit contraction in real terms, both in 2018 and 2019. The credit market will also languish in Brazil and Mexico in a highly uncertain climate, especially for investment. On the other hand, in the Andean countries credit will grow faster than GDP, continuing the process of deepening financial development. In Peru’s case, specifically, after modest growth of 5.2% in 2017, this year credit should grow by over 11%, whilst in 2019 it should rise by over 13%, stimulating stronger demand to finance the heightened investment and interest rates that, although they are rising, will remain quite moderate in real terms.

Latin America thus continues to present a very uneven panorama, with great uncertainty in the three biggest economies, but favourable prospects in the three main Andean economies.

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