

Latin America: an uneven recovery

Juan Manuel Ruiz

Diario El País (Spain)

Financial markets in Latin American have continued to enjoy significant gains over the last few months, largely due to the reduced level of concern over US economic policies and a perception that any increase in interest rates by the Fed will be implemented gradually. While the international outlook is favourable, a number of regional confidence indicators remain pessimistic, despite the significant recovery being experienced in Brazil and, more recently, in Mexico.

Given this environment, we stand by our prediction that Latin America will return to its previous level of growth after a four-year period of slowdown. To be precise, we predict a growth rate of 1.1% this year and 1.8% for 2018, after the negative growth of -1.4% in 2016.

The good news will be concentrated in the three largest countries in the region. The recovery in Argentina, which has already shown signs of growth, will begin to firm up, while Brazil seems to be coming out of its period of adjustment and returning to growth this year. For its part, Mexico's economy is now beginning to show chinks of light, as it is now anticipated that the trade measures taken by the United States will be less aggressive than earlier feared. On the other hand, the prospects for growth look less optimistic in Peru and Colombia due to the weak economic data recorded over the last few months, pessimism in the private sector, delays in infrastructural projects and, in the case of Peru, the negative effects of the heavy rain brought by the phenomenon known as "El Niño".

Inflation will continue on its downward path in South America due to weakness in domestic demand and the relative strength of local currencies. In this context, we expect new cuts in interest rates (which are likely to be more aggressive in Brazil), while at the same time the rate of inflation will continue along the path favoured by the central banks, a process that has shown a little more resistance to change than expected in Argentina. In sharp contrast, inflation continues to increase in Mexico, although the recent recovery in the exchange rate has moderated inflationary pressures to some extent. This prospect of less unfavourable inflationary conditions will also tend to reduce the intensity of the monetary tightening cycle that was predicted for Mexico at the beginning of this year.

The risks to which the region is exposed are continuing to follow a downward trend. On the external side of the equation, the shorter-term tensions associated with China and US trade policies appear to be easing, though in the former case the medium-term risks are increasing as the Chinese authorities are putting off measures to deal with the country's structural imbalances. Within the region there remain a number of risks connected with the overall political panorama and the delays affecting infrastructure construction work going on in a number of countries. Within this scenario of slow regional growth it will be essential to keep a close eye on the very crowded electoral calendar in Latin America during the course of this year and the next.

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.