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Latin America and the Caribbean in 2018: An Economic Recovery in the Making

By Alejandro Werner

January 25, 2018

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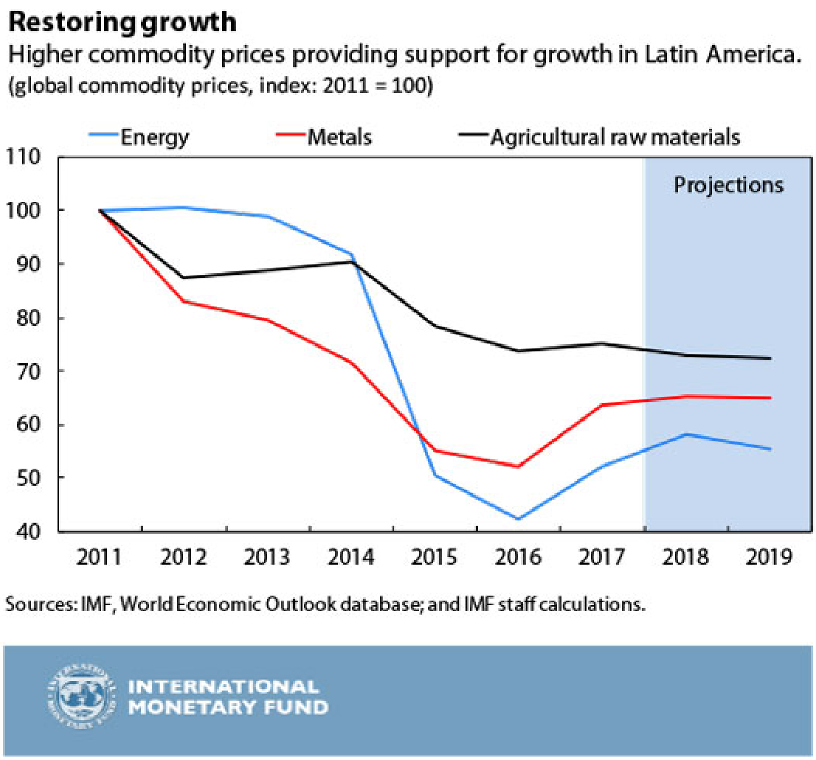
The views

Latin America's economic recovery is expected to benefit from higher commodity prices (photo: iStock by Getty Images)

Recent trends in the world economy and financial markets are good news for Latin America. Global growth and trade are on an upswing, and we expect the momentum to continue in 2018. Stronger commodity prices have also helped the region rebound.



Benefiting from these better global conditions, Latin America's economic recovery is gaining momentum too, as recessions in a few countries come to an end (Brazil, Argentina, and Ecuador). We now estimate regional growth at 1.3 percent in 2017, up from 1.2 percent in our October projections, and we project activity to accelerate

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	2016	Est. 2017	Projections 2018	2019
Latin America and the Caribbean	-0.7	1.3	1.9	2.6
Excluding Venezuela	0.1	1.9	2.5	2.8
South America	-2.5	0.8	1.5	2.2
Excluding Venezuela	-1.5	1.7	2.4	2.6
Central America	3.7	3.9	3.9	4.1
Caribbean	3.4	2.1	3.9	4.2
Latin America				
Argentina	-2.2	2.8	2.5	2.8
Brazil	-3.5	1.1	1.9	2.1
Chile	1.6	1.7	3.0	3.2
Colombia	2.0	1.7	3.0	3.6
Ecuador	-1.6	2.7	2.2	1.7
Mexico	2.9	2.0	2.3	3.0
Peru	4.0	2.7	4.0	4.0
Venezuela	-16.5	-14.0	-15.0	-6.0

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Regional aggregates are purchasing-power-parity GDP-weighted averages.

INTERNATIONAL MONETARY FUND

Consumption and exports were the main growth drivers last year. Encouragingly, investment is no longer a drag, and is expected to be an important factor behind the acceleration in output this year and next. Inflation came down significantly in 2017 in many countries, providing some scope for easing monetary policy.

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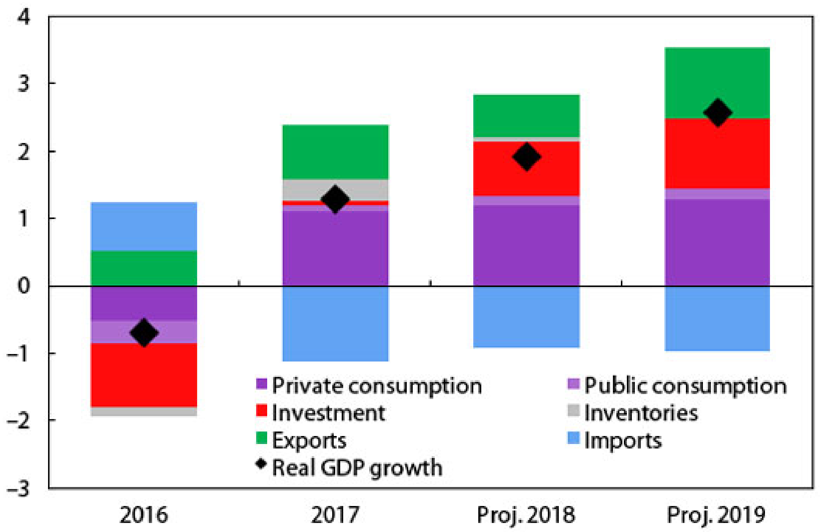
projected acceleration in growth in Latin America and the Caribbean.
(contributions to real GDP growth, year-over-year percent change)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Purchasing-power-parity GDP-weighted averages. Excludes Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines due to data limitations. Inventories include statistical discrepancies.

INTERNATIONAL MONETARY FUND

The recovery is broad based across the region. While Mexico, Central America, and parts of the Caribbean are benefitting from stronger growth in the United States, growth in South America is mainly driven by the end of recessions in Brazil, Argentina, and Ecuador, as well as higher commodity prices.

North America

In the ***United States,*** reforms to U.S. corporate and personal income taxes passed in December 2017 will likely raise private investment and private consumption over the short term, lifting growth to 2.7 percent for 2018 and 2.5 percent for 2019, from the estimated 2.3 percent in 2017.

This has led to an improvement in ***Canada***'s growth prospects for 2018–19, with the growth estimate for 2017 unchanged at 3 percent. Even with the boost from the United States, growth is expected to slow to 2.3 percent in 2018 and 2 percent in 2019, as higher interest

Mexico's outlook is projected to benefit from higher growth in the United States, although uncertainty about the outcome of the North American Free Trade Agreement renegotiation, and Mexico's July presidential election will weigh on growth in the near term. To this end, output growth is projected to accelerate from an estimated 2 percent in 2017 to 2.3 percent in 2018. Inflation is expected to fall sharply in 2018 as the effect of last year's increase in administered domestic fuel prices fades. Continuation of prudent fiscal policy aimed at a reduction of the public debt ratio is key to maintain macroeconomic and financial stability.

Central America and the Caribbean

In ***Central America*** and the ***Dominican Republic,*** output growth remains robust, helped by stronger than anticipated remittances flows, improved financial conditions, and good harvests.

Economic prospects for ***the Caribbean*** are generally improv pe both 2018 and 2019, supported by higher U.S. growth following the recent U.S. tax reform. However, some of the islands that were hit hard during the 2017 hurricane season face a protracted recovery. In Dominica, GDP is projected to decline by 16 percent in 2018, before rebounding in 2019 as reconstruction gathers pace.

South America

In ***Argentina***, economic activity in 2017 is projected to be 2.8 percent, up from 2.4 percent in the October 2017 WEO. While consumption benefited from rising real wages, investment also accelerated including in the private sector. Growth is expected to weaken slightly to 2½ percent in 2018, owing to fiscal and monetary restraint. Inflation is expected to continue to fall, assuming wage moderation. The reduction of the primary consumption and investment. Inflation in 2017 fell to 3 percent, driven by a sharp decline in food prices due to an exceptional harvest. Our forecast for Brazil's growth in 2018 has been revised up significantly relative to the October 2017 WEO . However, the uncertain outcome of the 2018 general elections may weigh down economic growth. To ensure fiscal sustainability, the Brazilian authorities plan to undertake a prolonged fiscal consolidation, which includes an ambitious reform of social security.

In ***Chile***, after a slow start in 2017, growth picked up in the second half of the year, and the momentum is expected to carry over into 2018, where growth is projected at 3 percent. Higher copper prices and improving business sentiment—especially after the resolution of political uncertainty related to the 2017 presidential elections—have been supporting growth.

In ***Colombia***, growth has picked up gradually as the negative effects of the large fall in oil prices of 2014–16 fade. Falling inflation has made room for growth-supporting monetary easing. Against a background of improving global growth and rising oil prices, the outlook is for a strengthening of the recovery and continued convergence of inflation to the target. Medium-term growth prospects are favorable, helped by export growth and infrastructure investment.

Ecuador's economy had a speedier-than-anticipated recovery in 2017, with growth estimated at 2.7 percent. The recovery was supported by the partial rise in oil prices, and increased access to international financial markets. The new administration is making efforts to engage with the private sector and tackle corruption, which could benefit the economy in the longer term. However, in the short term, the economy remains vulnerable to external shocks, calling for reducing the fiscal deficit and regaining competitiveness through structural reforms.

domestic demand is expected to drive growth up to around 4 percent. Exports should remain robust, but their contribution would be more modest than in the last two years given that new mining projects reached nearly production capacity in 2017. On the policy side, the authorities remain focused on implementing countercyclical fiscal and monetary policy and structural reforms. The planned fiscal impulse in 2018 will be key to achieving a growth rebound.

In ***Venezuela***, the crisis continues. Real GDP is projected to fall by about 15 percent in 2018—a cumulative GDP decline of almost 50 percent since 2013. This trend is the result of significant micro-level distortions and macroeconomic imbalances compounded by the collapse in oil exports—initially from the sharp fall in oil prices in mid-2014 and, more recently, from the collapse in domestic oil production. Inflation is projected to have exceeded 2,400 percent in 2017 and to rise to about 13,000 percent in 2018, fueled by monetary financing of large fiscal deficits and the loss of confidence in the nation's currency.

Risks to the economic recovery

Several risks could hurt the region's recovery. Upcoming elections in many countries creates economic and policy uncertainties in the next year. Pressures for inward-looking policies in advanced economies—including through a retreat from cross-border integration—and factors such as global geopolitical tensions and extreme weather events could compound these uncertainties.

In addition, financial market conditions could tighten if inflation increases more than expected in the United States, or if global financial vulnerabilities build up due to excessive risk taking during the long period of very low interest rates and low asset price volatility.

Good time to rebuild buffers and raise medium-term

despite the current economic acceleration, Latin America's output growth is returning to an underwhelming mean. Subdued potential growth and downside medium-term risks call for further efforts to rebuild buffers and implement structural policies to address growth bottlenecks and improve resilience.

In countries that need to lower fiscal deficits, attention should be given to the fine balance between preserving inclusive growth and stabilizing high public debt, which has been rising. To better withstand future shocks, maintaining exchange rate flexibility, and further improving central bank communication and transparency would increase the resilience and effectiveness of monetary policy.

By IMFBlog | January 25th, 2018 | Caribbean, commodities, Economic outlook, Employment, exports, Financial Crisis, Fiscal policy, Globalization, Government, housing, imports, income, inflation, International Monetary Fund, Latin America, monetary policy, Politics, South America, trade, U.S., Uncategorized, wages

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