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Economic Outlook 2017: The Slow March back to Growth

After five years of decelerating GDP growth, Latin America entered negative territory in 2015, from which it has yet to emerge. The region is expected to end 2016 slightly in the red (GDP decrease of -0.5% to -1.0% in local currency) due to the deep and prolonged contractions in both Brazil and Venezuela who account for a combined 45% of the regional economy. Global growth has been slow to stabilize and financial markets are more volatile. The continued fall in commodity prices over 2016 hit Latin American economies, currencies and public revenues hard, particularly in South America. Brazil is joined by Argentina, Ecuador and Venezuela in posting negative GDP growth for 2016 while Mexico and Central America - who are more closely tied to the U.S. economic cycles - post modest growth between 2.3% and 6.0%. Between 2015 and 2016 the region lost over US$ 1 trillion in GDP (in dollarized terms) due to currency devaluations. Countries whose economies are more closely tied to commodity prices were the most affected, such as Brazil, Colombia and Argentina. Socioeconomic progress has stalled and in some cases reversed due to dampening real wage growth from high inflation and weak economic expansion. However, other key indicators are trending positively, possibly indicating that the worst appears to be behind. Urban unemployment is at 8.5%, well below the 8.9% average of the mid-2000s. Regional performance in 2017 will likely be flat – driven primarily by a slow turnaround and recovery period in Brazil – setting the stage for modest growth in 2018.

- **Mexican economy expands against headwinds:** In an economy driven by a robust manufacturing sector and favorable bilateral trades with the U.S., the devaluation of the