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Political Risk in Latin America: Back to the future?

Latin America has experienced a difficult period since 2014. The slump in commodity prices has impacted activity via several channels (such as lower investments, export revenues, and a tighter public budget). After two years of recession, the region's GDP growth finally rebounded in 2017 by an estimated 1.1% year-on-year, and is expected to gain further traction in 2018 (growth forecast: +2.4% YOY). However, this optimistic outlook is linked to favourable global trends than domestic merits. Although a still-gradual tightening monetary cycle in advanced economies (especially in the United States), as well as a soft deceleration in China and the resulting improvement in commodity prices, has aided Latin America, the poor political environment has stained the region's image in the eyes of much-needed foreign investors – particularly with the multiple political and governmental corruption scandals since 2014.

Political risk has always weighed negatively on Latin America's economic prospects. The region has a notable track record of being led by dictatorial political systems and populist governments, which has led countries in the region to experience repeated episodes of hyperinflation and public debt crisis, to the detriment of long-term sustainable economic development.

Although terrorism is not a main concern for Latin America, and (with the exception of Mexico) the largest economies in the region are generally less at risk of conflict, the political risk associated with social tensions is much higher. Poor social fundamentals, weak corruption perception outcomes, and a relatively high homicide rate – consequences of decades of both weak growth and inefficient social and economic policies that have created high levels of inequality – undermine the region's perspectives.

In this context, political risk will continue to represent a major concern for Latin America in 2018. Amid the general dissatisfaction with the traditional political class, several countries will elect their next president this year, including Colombia (May), Mexico (July), and Brazil (October). Hence, the risk of political uncertainties affecting the economic environment is increasing, especially in Brazil and Mexico.