In 2018 Latin America faced a global panorama in which the flaring trade tensions between the United States and China loomed large. As well as their negative impact on global trade, financial conditions were more restrictive and there was greater volatility in raw materials, which passed through to exchange rates, triggering sharp falls in the region’s main currencies.

Against this backdrop, the economy of the region expanded by an annual 1.7%, a similar rate to the year before, with a major contribution from investment, while the share of public consumption in growth contracted because of tighter fiscal policies in the area’s most important economies.

In the footprint within which the institutions belonging to the BBVA Microfinance Foundation operate (hereinafter footprint), activity grew by 3.7%, more than double the region’s average growth rate. This was thanks particularly to more robust domestic demand, together with a significant upturn in private spending. Investment performed differently from country to country but continued to increase at a rate of 4.3%.

Slower momentum from international trade because of increasing trade tensions and their impact, both direct and indirect, on exports from the countries in the footprint were reflected in the smaller contribution to growth made by the external sector in 2018.

In the last few years, higher growth in the footprint countries has meant that their weighting in the region’s total GDP has increased by 1.5 percentage points, close to the weight of a single country such as Mexico, which makes the second biggest contribution to regional GDP after Brazil.

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1 National sources. Estimates to the end of 2018 by BBVAMF Research.
2 Excluding Venezuela, submerged in a huge economic and humanitarian crisis, and which depends on idiosyncratic factors.
3 Chile, Colombia, Panama, Peru and Dominican Republic.
4 Growth weighted by the size of each of the economies in which BBVA Microfinance Foundation institutions operate.

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**ECONOMY**

**GDP***

<table>
<thead>
<tr>
<th>Year</th>
<th>Real variation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>3.4%</td>
</tr>
<tr>
<td>2016</td>
<td>2.8%</td>
</tr>
<tr>
<td>2017</td>
<td>2.3%</td>
</tr>
<tr>
<td>2018**</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

**CONSUMPTION***

<table>
<thead>
<tr>
<th>Year</th>
<th>Real variation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>3.7%</td>
</tr>
<tr>
<td>2016</td>
<td>2.9%</td>
</tr>
<tr>
<td>2017</td>
<td>2.8%</td>
</tr>
<tr>
<td>2018**</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

**INFLATION***

<table>
<thead>
<tr>
<th>Year</th>
<th>Real variation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>5.5%</td>
</tr>
<tr>
<td>2016</td>
<td>5.6%</td>
</tr>
<tr>
<td>2017</td>
<td>6.0%</td>
</tr>
<tr>
<td>2018**</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

---

* National sources. BBVAMF Research calculations.
** BBVAMF Research estimate.
*** Excluding Venezuela.
Except in Argentina, Uruguay and Venezuela, inflation in Latin America has remained anchored, despite recent depreciations in exchange rates. During 2018, average inflation in Latin America and the Caribbean® rose by 0.1 percentage points over 2017, reaching 6.1% in 2018. The increase was mainly in South America, while in the remaining countries it fell.

Inflation in our footprint posted at 2.4%, continuing the reversal of the rises in 2015 and 2016 due to the increases in food prices in Colombia and Peru associated with climate factors.

In this environment, monetary policy rates were raised in Chile and the Dominican Republic, as a result of there being less room for maneuver in the product gap, while the Colombian and Peru central banks reduced their monetary policy rates once inflation converged with their targets.

**EMPLOYMENT, POVERTY AND WELFARE**

In Latin America as a whole the unemployment rate edged down from 8.1% in 2017 to 7.8% in 2018. However, in the footprint, despite greater economic expansion, this rate has nudged up by the same amount, 0.3 percentage points, to 6.8% in 2018. This is a product of the deterioration in the labor market in the Dominican Republic, Colombia and Chile, although the labor market has improved in Panama and Peru.

Around four million people in the region are unoccupied, 54.1% of these being women, whose unemployment rate is 8.5%. This reveals a gap of 3 percentage points with men’s unemployment, which posted at 5.5%.

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5 Excluding Venezuela.  
6 National sources. Estimates to the end of 2018 by BBVAMF Research.

<table>
<thead>
<tr>
<th>LABOR MARKET* (%)</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female unemployment</td>
<td>77%</td>
<td>8.0%</td>
<td>8.9%</td>
<td></td>
</tr>
<tr>
<td>Male unemployment</td>
<td>4.9%</td>
<td>5.3%</td>
<td>5.4%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Total unemployment</td>
<td>6.1%</td>
<td>6.5%</td>
<td>6.5%</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INFORMAL SECTOR* (%)</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women</td>
<td>56.4%</td>
<td>53.7%</td>
<td>53.5%</td>
<td>53.3%</td>
</tr>
<tr>
<td>Men</td>
<td>51.8%</td>
<td>55.4%</td>
<td>55.5%</td>
<td>55.0%</td>
</tr>
<tr>
<td>Total</td>
<td>51.4%</td>
<td>55.0%</td>
<td>55.0%</td>
<td>52.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MONETARY POVERTY* Population (%)</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>23.5%</td>
<td>22.9%</td>
<td>22.1%</td>
<td>21.4%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Latam macroeconomic environment

The global participation rate slipped by 0.3% from 65.9% to 65.6%, with a 20.4% gap in participation between men and women, bringing the rates to 76% and 55.6% respectively.

This difference in participation is a sign of the difficulties faced by women in accessing the labor market, particularly among the most vulnerable segments. But on the other hand, it also shows the growing number of women signing up for formal education in these countries, a factor which delays their joining the labor market.

Women may also face economic disincentives –low wages in particular– when they participate in the job market. These disincentives can be especially onerous, if theirs is the secondary source of household income, because of the high direct costs faced by women with family commitments.

However, although the gender gaps in unemployment, occupation and participation remained high, they continued to narrow in most countries throughout 2018, in a slow but sustained process.

By type, self-employment expanded as a proportion of total employment, while waged employment shrank. However, the number of new waged workers is higher than that of new self-employed workers. This was reflected in the 0.4p.p. fall in the rate of informal employment. Even so, around 28.3 million workers, 53 of every 100 jobs in the footprint, work in informal conditions, with the rate by gender standing at 51% for men, and 55% for women.

In 2018, monetary poverty stood at 21.4%, which means that around 24.4 million people were in poverty. This last year, around 523,000 people have escaped poverty. The gender gap persists.

Nevertheless, even though income distribution has improved, shown by a reduction in the Gini ratio –this takes values between 0 (perfect equality) and 1 (maximum inequality)– the indicator for the footprint was 0.48. Although current levels of inequality are considerably lower than in the past, in the last three years the indicator average has not changed significantly.

FINANCIAL INCLUSION

According to World Bank data\(^8\), in the footprint, 49.2% of adults are financially excluded, inasmuch as they possess no account or other financial product. 98% of those with an account have it with a regulated financial institution.

Financial inclusion faces a number of factors that generate significant gaps, among which the most important are: education, income, labor status and gender. 63% of adults with primary education at best are excluded and do not have an account with any financial institution. For those with more education, the percentage falls to 43%, demonstrating that unbanked adults are more likely to have a lower level of education, with the numbers showing a gap of 14 percentage points for this factor.

The poorest people make up the biggest proportion of the unbanked. 61% of unbanked adults belong to the poorest 40% of households, while of those in the richest 60% of households 41% are unbanked, so this factor accounts for a gap of 20 percentage points.

\(7\) BBVAMF Research calculations.
\(8\) Global Findex 2017, World Bank.
Calculations for the footprint by BBVAMF Research.
A higher proportion of the active members of the workforce tend to be banked. In the footprint, 34% of all adults are outside the labor market, and 65% of these are unbanked, while the proportion of those in the labor market who are unbanked drops to 42%. The gap, by this segmentation, is 23p.p., with the principal differentiating factor being financial inclusion.

Lastly, the gender gap in financial inclusion is very clear. Men beat women by 10 percentage points, with inclusion among the latter standing at 46%. In other words, nearly 6 in every 10 adult women does not have a bank account.

Digging down into the reasons why adults do not have an account in a financial institution, we see that 58% state that they have too little money to open an account, while 55% say that financial services are very expensive. Distance from a bank was a determining factor for 24% of adults, while the lack of the necessary paperwork to open an account was cited by around 27%.

41% of adults have made some kind of saving in the last year, but only 11% have done so in a financial institution. 31% of the adults with the lowest incomes have managed to save some money in the last twelvemonth.

As to loans, 41% have taken one out, but only 22% have done so through a financial institution. 18% have taken a loan from family or friends. Among the lowest-income adults, 31% have received a loan, and only 13% of adults in this segment have done so through financial institutions.