LATAM 7 + Argentina

MACRO BRIEF

ECONVIEWS

ECONOMÍA Y FINANZAS

December, 2019

ARGENTINA

Good news	To be alert	Bad news
The Government announced a harder than expected tax plan to face the fiscal and debt challenges. The country risk lowered to around 1,900 bps, from 2,500 bps just weeks ago.	Short term dollar bills will be reprofiled again and critical definitions about negotiations with bondholders and the IMF are expected to be released in the months to come.	The parallel dollar jumped 10% after the Government announced a 30% tax on dollar purchases. The spread with the official dollar has been widening and approaching to 30%.

POLITICS

Alberto Fernández assumed the presidency on December 10th with Cristina Fernández de Kirchner as his vice-president. The key positions at the Central Bank (Miguel Ángel Pesce), the Ministry of Foreign Affairs (Felipe Solá) and the Ministry of Economy (Martín Guzmán) carry Alberto's seal rather than Cristina's. The first package of economic measures from the new Administration was sent to the Congress this week. It includes a freeze in utilities rates, an increase in wealth and export taxes, a new 30% tax on dollar purchases and a freeze in the mobility pension's law, among other measures.

ECONOMIC ACTIVITY

GDP grew 0.9% q/q in 3Q-19 and displayed its first rise since 4Q-17. Private consumption grew 0.3% q/q, while investment remained stagnant and exports rose 2%. In y/y terms, economic activity fell 1.7% and accumulated a 2.5% contraction during the first nine months of the year. The first figures released for 4Q-19 showed dissimilar behaviors. As a whole, we expect GDP to contract 3.0% in 2019, which would leave a negative carry-over effect of 2.0 percentage points for 2020. For next year we expect GDP to end up falling 1.5%, which means a modest yearly recovery at the end of 2020.

INFLATION

After a peak record of 5.9% this year in September, monthly inflation in October decelerated faster than expected to 3.3%, favored both by the lower increases in foods and beverages and by the utilities rates freeze on several public services. However, the significant rises in food and beverages, fuels, mobile services and prepaid medicine, among others, propelled another acceleration of inflation, that reached 4.3% in November. We expect annual inflation at year end of around 55%, while for 2020 we expect inflation to remain relatively stable.

MONETARY SECTOR

The new Central Bank Board decided to lower the Leliqs reference rate to 58%, from 63% previously. The stock of Leliqs has been falling recently and reached the lowest level in a year. It was replaced by other instruments as repos. Since November the Central Bank issued AR$ 190 billion in temporary advances to finance the seasonally higher deficit of the Treasury at year end. Passive rates keep on falling, the Badlar reached 41.9%. While the Central Bank is buying back reserves helped by the FX controls, the FX spread with the parallel dollar awakened with the introduction of the 30% tax on FX purchases. The blue chip stands at around 74 pesos per dollar, similar than the informal dollar.

FISCAL ACCOUNTS

The recently announced tax package was harder than expected and will provide to the National Government additional revenues by at least 1.5 points of GDP next year. Around 0.8 points from the export taxes, around 0.3 points from the wealth tax and around 0.5 points from the tax on dollar purchases. While the tax package provides new resources, the Government most likely will increase expenditures on pensions, social subsidies and public works. As a whole, we expect a small primary deficit of around 0.5% of GDP next year. Primary deficit this year will be close to 1.0% of GDP.

WHAT'S COMING NEXT?

- The bill sent to the Congress authorizes the Ministry to renegotiate debt and the Executive power to hold negotiation with bondholders.
- More definitions about the financial program and the short term amortizations of Treasury bills in pesos and dollars, the fiscal plan and the discussion with the IMF and the bondholders.
- Advancing in the drafting of a new program with the IMF is a focal point, since the IMF is the main and privileged creditor, and its expert opinion on fiscal issues is key for the rest of creditors.

APPENDIX

Dashboard

	Dec-19	Nov-19	Oct-19	Dec-18	2018
Exchange rate *(ARS/USD, eop.)*	59.79	59.86	59.73	37.81	37.81
Interest rate *(%)*	58.00%	63.00%	68.00%	59.25%	59.25%
National inflation *(y/y)*	-	52.09%	50.49%	47.65%	47.65%
Economic activity *(y/y)*	-	-	-	-7.0%	-2.5%
Industrial activity *(y/y)*	-	-	-2.3%	-14.8%	-5.0%
Automotive production *(y/y)*	-	-26.4%	-17.7%	-38.5%	-1.4%

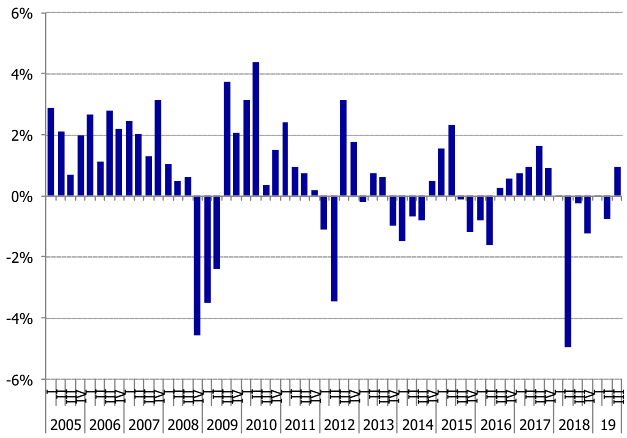
Source: EconViews based on several sources

Macroeconomic Outlook

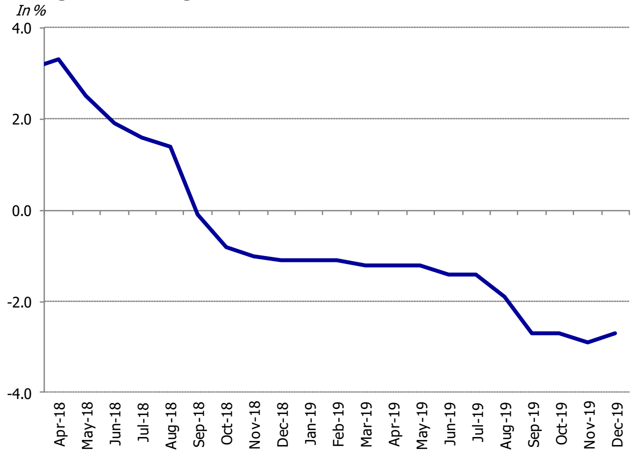
	2016	2017	2018	2019F	2020F
GDP growth *(%)*	-2.1%	2.7%	-2.5%	-3.0%	-1.5%
National inflation *(Dec-Dec)*	36.6%	24.8%	47.6%	55.0%	50.0%
Fiscal Balance *(% GDP)*	-5.8%	-5.9%	-5.0%	-4.1%	-1.2%
Current Account *(% GDP)*	-2.7%	-4.9%	-5.3%	-1.0%	1.0%
International reserves *(USD Bn)*	39.3	55.1	65.8	40.0	44.0
Exchange rate *(ARS/USD)*	15.9	18.8	37.8	60.0	87.0

Source: EconViews based on official figures and own estimates

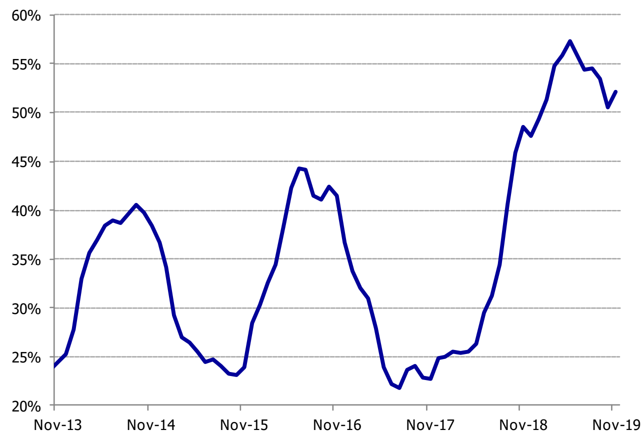
Real GDP
Q/Q variations- Seasonally adjusted data INDEC



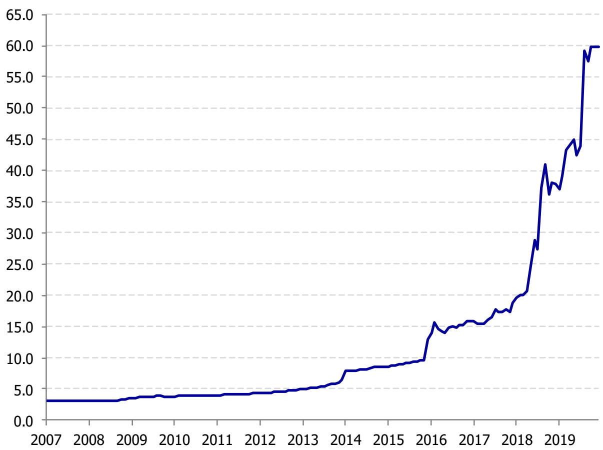
GDP growth - rolling forecasts for 2019
In %



Inflation - General CPI
Annual changes



Argentinian Peso / Dollar



BRAZIL

Good news	To be alert	Bad news
Economic activity is gradually accelerating and we expect GDP to grow 1.1% this year.	The Central Bank announced dollar auctions on the spot market after the exchange rate had surged to a record high of 4.27 BRL per USD.	The "transfer of rights" oil auction in November sharply deteriorated market confidence and put pressure on the Brazilian Real.

POLITICS

President Jair Bolsonaro finally decided to send Vice-President Hamilton Mourão to Alberto Fernández's presidential inauguration ceremony in Argentina. This was a good sign for bilateral relations between the two countries, considering that in recent months Fernández and Bolsonaro have traded barbs in the press stemming from their ideological differences. On another hand, former Brazilian president Lula da Silva has been released from prison, but he could find himself back in prison if his appeals don't go his way. Political analysts believe the release could rally the opposition.

ECONOMIC ACTIVITY

Brazil's economy seems to be in better conditions than expected, after the growth in the third quarter exceeded forecasts: GDP expanded 0.6% q/q in 3Q-19, driven by the strong growth in household spending and investment. On the contrary, exports and government spending declined. On the supply side, the agriculture sector and the industry displayed very good performances. Moreover, growth for the 2Q-19 was revised to show a q/q expansion of 0.5% instead of 0.4% and data showed that the economy remained stable in the 1Q, instead of contracting 0.2%. In this scenario, we expect GDP to grow 1.1% this year and to accelerate to 2.2% in 2020.

INFLATION

Monthly inflation in November accelerated to 0.5% according to the IPCA (from 0.1% in October), affected by the recent shock in beef prices. It was the highest m/m record since April (0.57%). In this context, y/y inflation accelerated from 2.54% in October to 3.27% in November.

We expect the inflation rate to end 2019 at around 3.7%, in line with our projection for 2020.

MONETARY SECTOR

The strong deterioration of market confidence after the "transfer of rights" oil auction in November, together with the social turmoil that affected some countries in the region, put pressure on the Brazilian Real. Thus, the BRL reached its weakest levels on record in November, with the exchange rate topping 4.26 BRL/USD. Helped by the Central Bank dollar auctions, we expect the Real to close the year at 4.05 and to further depreciate to 4.11 BRL per USD in 2020. Moreover, the Copom cut the Selic rate by 50 bps to 4.50% during last week meeting, as they see no risk of excessive inflation in the short term. We expect even lower interest rates ahead, with the Selic rate at around 4.0% in 2020.

FISCAL ACCOUNTS

The pension reform was finally approved by the Congress and will yield around BRL 740 billion in savings during the next ten years. This does not mean that the ongoing fiscal adjustment can be interrupted, as a structural stabilization of the gross debt requires a better primary result.
As current data has shown some improvements, particularly due to the moderation of pension expenses and lower subsidies, we expect a primary deficit of 1.0% of GDP for 2019, in line with 2020 expected figures.

WHAT'S COMING NEXT?

- Regarding the pension reform, we anticipate no political consensus yet for the inclusion of states and municipalities in the reform.
- We expect the public sector to display primary surpluses from 2022 onwards, with the gross debt at around 80% of GDP, only if expenditure moderation, quasi-fiscal adjustments and asset sales agendas are continued.
- The unemployment rate is expected to decline, but the real wage bill is likely to continue increasing due to the higher formalization in the labor market and thus, it will sustain credit expansion.

APPENDIX

Dashboard

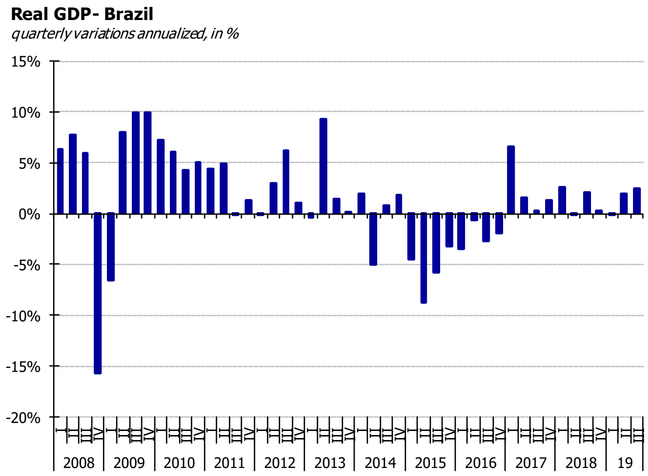
	Dec-19	Nov-19	Oct-19	Dec-18	2018
Exchange rate *(BRL/USD, eop.)*	4.10	4.24	4.02	3.88	3.88
SELIC *(%)*	4.50%	5.00%	5.00%	6.50%	6.50%
Inflation *(y/y)*	-	3.27%	2.54%	3.75%	3.75%
Economic activity *(y/y)*	-	-	2.1%	0.3%	1.2%
Industrial activity *(y/y)*	-	-	1.0%	-3.7%	1.0%
Automotive production *(y/y)*	-	-7.1%	9.6%	-16.8%	6.7%

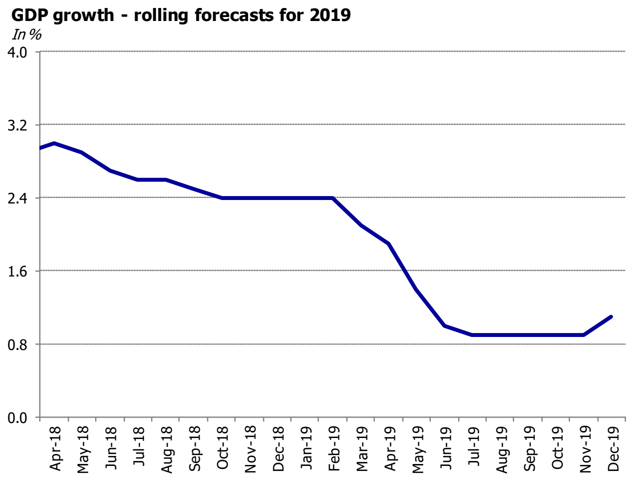
Source: EconViews based on several sources

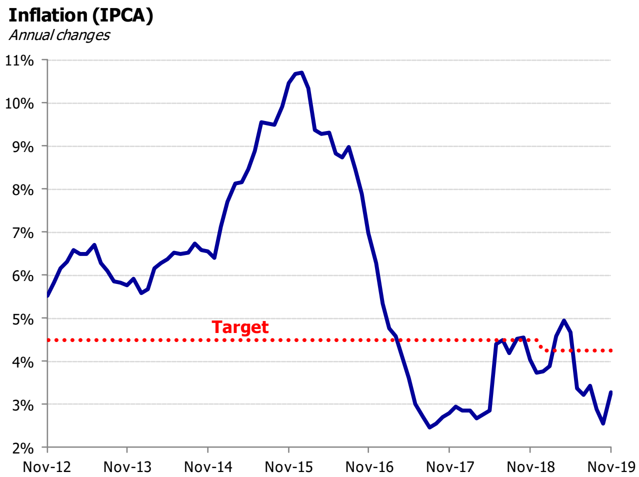
Macroeconomic Outlook

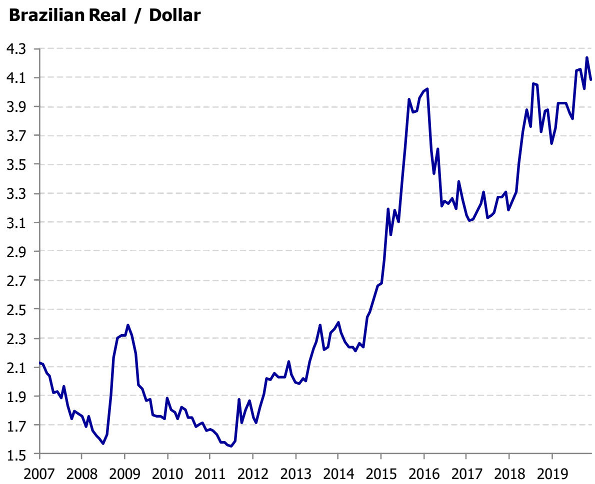
	2016	2017	2018	2019F	2020F
GDP growth *(%)*	-3.3%	1.1%	1.1%	1.1%	2.2%
Inflation *(Dec-Dec)*	6.3%	2.9%	3.7%	3.7%	3.7%
Fiscal Balance *(% GDP)*	-9.0%	-7.8%	-7.1%	-6.0%	-5.3%
Current Account *(% GDP)*	-1.3%	-0.7%	-2.2%	-2.5%	-2.5%
International reserves *(USD Bn)*	356.8	365.4	365.5	363.8	356.9
Exchange rate *(BRL/USD)*	3.26	3.31	3.88	4.05	4.11

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF









CHILE

Good news	To be alert	Bad news
The fiscal stimulus package aims to improve pensions and unemployment insurance, reduce tax burden to SMEs and reconstruct infrastructure.	Politics will rule over economics in the coming months; reaching a new social agreement is the key to achieve stability and economic recovery.	Activity was severely damaged in October: it suffered the worst m/m fall since 1996; the outlook for November is no better as riots continued on that month.

POLITICS

October and November were signaled by massive demonstrations, social unrest and great destruction of public goods. In addition, President Piñera was about to be impeached but the Congress opposed. Amid the chaos, politicians agreed to reform the Constitution, a polemic issue as the actual one was approved by Pinochet and reformed only partially under democracy. The plebiscite will take place in April 2020 and citizens will have to answer 2 questions: if they want or not to change the Constitution and if they want a constitutional convention composed exclusively for that purpose or a 50% mix between current parliamentarians and 50% new members elected.

ECONOMIC ACTIVITY

Activity was severely affected as the country was virtually paralyzed by the massive protests. The GDP proxy indicator for October recorded a 5.4% m/m collapse, the worst fall since at least 1996. This slump was driven mainly by non-mining activity, which contracted 6.1% while mining increased 0.9%. In comparison to last year, activity fell 3.4%, the worst figure since 2009. Until October activity accumulated a 1.7% growth (previous 2.3%), while for November it will be reduced even more. This way, expected GDP growth for 2019 was revised down to 1.3% and to 1.5% for 2020.

INFLATION

In November headline inflation was 0.1% m/m while in y/y terms it accelerated slightly 0.1 p.p. to 2.7%, below the CB's target of 3%. Core inflation (excl. food and energy) was -0.2% m/m (+1.9% y/y). In monthly terms, headline inflation was driven by food and non-alcoholic drinks (0.25 p.p.). In particular, fruits showed an increase of 10.0% and meat 1.2%. On the other hand, housing expenditure registered a monthly fall of 0.8% in prices and had an incidence of -0.12 p.p. For 2019 inflation is expected to increase to 3.0% y/y, and to 3.1% for 2020, still near the 3% target.

MONETARY SECTOR

The CLP was under much pressure during November, when it reached an all-time low at 838. The Central Bank announced that it will sell up to USD 10 billion in the spot market and up to USD 10 billion in the NDF market from Dec 2nd until May 29th, 2020. Every Friday it will announce the auction conditions for next week. Policy rate was left unchanged at 1.75% in December. In the statement, the entity said that this decision was consistent with inflation below the target and more fiscal boost for next year, while the exchange rate will be contained by the FX intervention. The CB said the rate will be at this level for some time but a rise seems probable in case of more stress on the currency.

FISCAL ACCOUNTS

In October the Central Government recorded a deficit of 0.3% of GDP while so far 2019 it was 1.3%. Revenues fell 7.3% y/y in real terms (+0.2% this year) affected by mining related taxes. On the other side, total expenditure grew 4.4% in real terms (+4.4% in 2019). Regarding total expenditure, payment of interests and pensions stood out (12% and 6.8% y/y respectively). For 2020 it was announced a 2% of GDP stimulus plan and will be financed partly by fiscal savings. This way, the projection for fiscal deficit has widened to 2.5% this year and worsened to 4.1% for next year.

WHAT'S COMING NEXT?

- The fiscal measures taken recently will help the economy to recover as long as the social crisis stabilizes; however, business and consumer confidence will take some time to improve.
- The recent depreciation of the Chilean Peso will probably trigger inflation near the target but it will be contained as the Central Bank will actively intervene in the FX market in case of another run on the currency.

APPENDIX

Dashboard

	Dec-19	Nov-19	Oct-19	Dec-18	2018
Exchange rate *(CLP/USD, eop.)*	749.49	806.37	742.55	695.15	695.15
Interest rate *(%)*	1.75%	1.75%	2.00%	2.75%	2.75%
Inflation *(y/y)*	-	2.8%	2.7%	2.6%	2.6%
Economic activity *(y/y)*	-	-	-3.4%	3.1%	4.0%
Industrial activity *(y/y)*	-	-	-3.4%	4.5%	1.3%
Mining production *(y/y)*	-	-	-1.7%	0.8%	3.6%

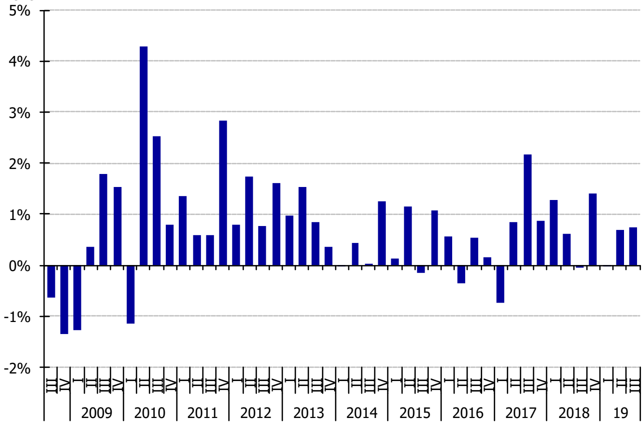
Source: EconViews based on several sources

Macroeconomic Outlook

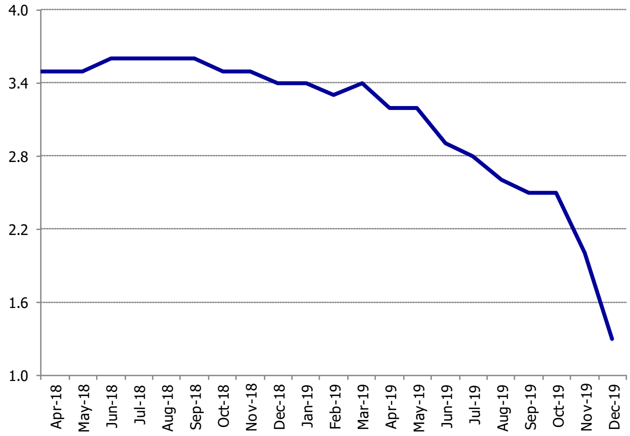
	2016	2017	2018	2019F	2020F
GDP growth *(%)*	1.7%	1.3%	4.0%	1.3%	1.5%
Inflation *(Dec-Dec)*	2.7%	2.3%	2.6%	3.0%	3.1%
Fiscal Balance *(% GDP)*	-2.7%	-2.6%	-1.7%	-2.5%	-4.1%
Current Account *(% GDP)*	-1.6%	-2.1%	-3.1%	-3.2%	-2.8%
International reserves *(USD Bn)*	39.5	38.0	38.9	37.5	35.8
Exchange rate *(CLP/USD)*	670.3	616.2	695.2	759.0	749.0

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

Real GDP
Q/Q variations

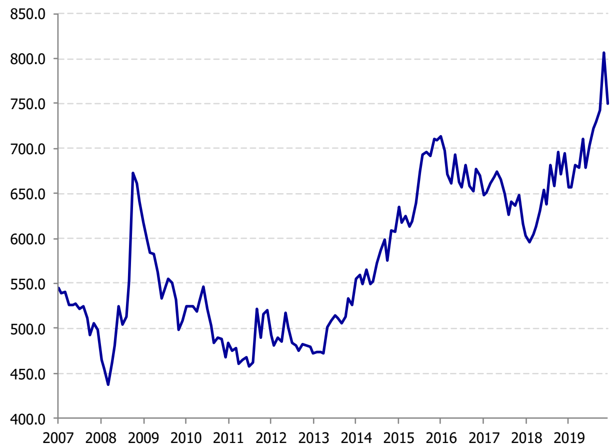


GDP growth - rolling forecasts for 2019
In %



Inflation - General CPI
Annual changes

Chilean Peso / Dollar



COLOMBIA

Good news	To be alert	Bad news
The Colombian peso recovered significantly after its recent losses, as protests have been relatively peaceful and political talks are moving on.	Downside risks for fiscal accounts are increasing, as Duque rating approval has been falling and the government responds to protests with policy easing.	Colombia joined the regional wave of demonstrations as there were massive mobilizations to voice their discontent about different issues.

POLITICS

Colombians took the streets in widespread anti-government protests. There were meetings between President Duque and protest leaders, and Duque promised to keep a permanent national dialogue. Unlike other countries in the region, protests were mostly peaceful, with only some isolated incidents in a few cities. There was not a massive disruption of economic activity. Still, with President Duque's approval rating at very low levels, the government softened the tax proposal to relief the poorest segments with VAT rebates, which will represent foregone revenues by around 0.3% of GDP.

ECONOMIC ACTIVITY

GDP growth accelerated to a four-year high in the Q3, improving after the Q2's slowdown. Robust domestic demand drove Q3's expansion, as household spending accelerated relative to Q2 pushed by the credit growth and higher real wages. Investment growth also accelerated thanks to business sentiment. Lastly, the external sector dragged on GDP growth, as exports are losing pace. After the recent protests, consumer confidence deteriorated in November, after two months of recovery, as consumers are more pessimistic about future expectations.

INFLATION

Colombia's Central Bank held the benchmark interest rate unchanged at 4.25% at its latest Board of Directors meeting. The Bank kept rates the rate unchanged amid within-target inflation and solid growth expectations for the second half of the year. Going forward, policymakers remarked that the most likely scenario is the policy rate to remain "unchanged over the coming months". With food disinflation underway, we now expect inflation to end the year at 3.8%, from 4.0% previously, and for 2020 we expect inflation to lower down to 3.4%.

MONETARY SECTOR

An additional interest rate cut is unlikely this year. While there was no monetary policy meeting in November, recent press comments from board members focused on how to react to exchange rate volatility. At the end of November, the Colombian peso weakened temporarily, to COP 3,546 per USD, the weakest nominal historical level, given uncertainty over whether the social protest would escalate to the levels seen in Chile weeks before. We expect the COP at 3,370 per USD by the end of 2020.

FISCAL ACCOUNTS

In an effort to deal with social unrest, Duque modified the tax proposal, that needs to be approved before year-end, to help finance a 2020 expenditures budget already approved. The forgone revenues from that change are estimated at around 0.3% of GDP. In the years ahead, the fiscal consolidation looks challenging and will depend on non-tax revenues, as the higher central bank dividends expected the next year. The government has set a fiscal deficit target of 2.2% of GDP for 2020, from 2.4% of GDP expected for this year.

WHAT'S COMING NEXT?

- The implementation of the working plan (transparency, education, the peace deal, environment, institutions and growth) recently presented by the government to deal the social protests.
- More news on the credit rating. Fitch recently reaffirmed Colombia's long-term foreign currency debt rating at BBB -the second-lowest IG rating- and kept the negative outlook.
- The evolution of events around the peace deal and the reaction of the former FARC's members that months ago announced the decision to come back to fight.

APPENDIX

Dashboard

	Dec-19	Nov-19	Oct-19	Dec-18	2018
Exchange rate *(COP/USD, eop.)*	3,325	3,521	3,383	3,250	3,250
Interest rate *(%)*	4.11%	4.11%	4.11%	4.26%	4.26%
Inflation *(y/y)*	-	3.8%	3.9%	3.2%	3.2%
Economic activity *(y/y)*	-	-	-	1.3%	2.6%
Industrial activity *(y/y)*	-	-	2.1%	-0.8%	2.9%

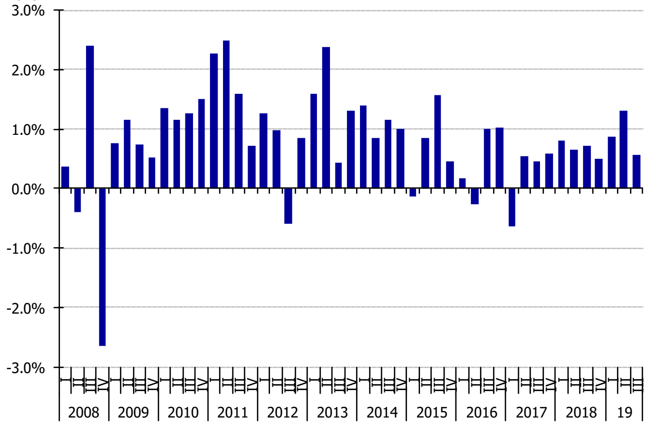
Source: EconViews based on several sources

Macroeconomic Outlook

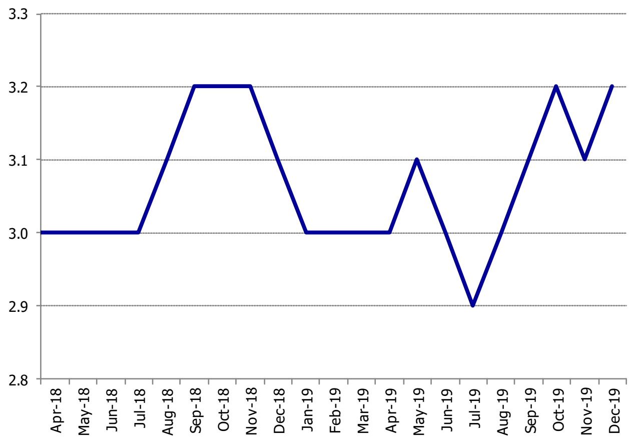
	2016	2017	2018	2019F	2020F
GDP growth *(%)*	2.1%	1.4%	2.6%	3.2%	3.2%
Inflation *(Dec-Dec)*	5.7%	4.1%	3.2%	3.8%	3.4%
Fiscal Balance *(% GDP)*	-4.0%	-3.6%	-3.1%	-2.5%	-2.4%
Current Account *(% GDP)*	-4.3%	-3.3%	-3.9%	-4.3%	-4.2%
International reserves *(USD Bn)*	45.0	45.4	46.1	51.2	52.2
Exchange rate *(COP/USD)*	3,003	2,987	3,248	3,369	3,376

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

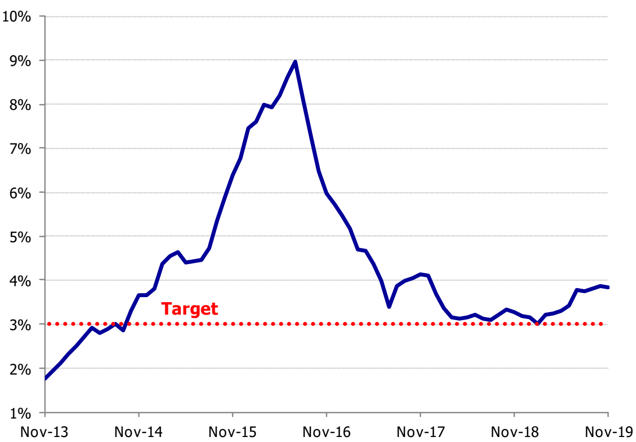
Real GDP
Q/Q variations - DANE



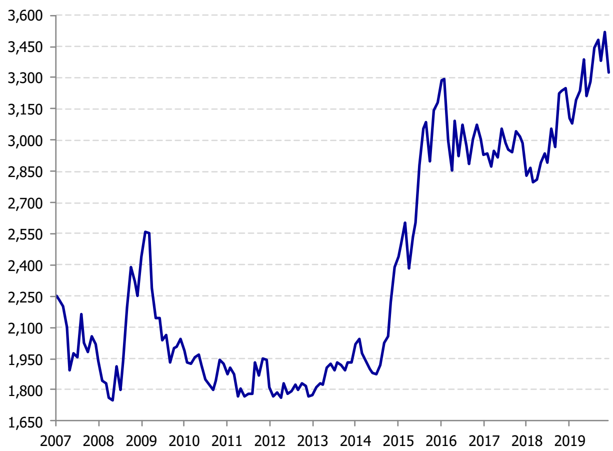
GDP growth - rolling forecasts for 2019
In %

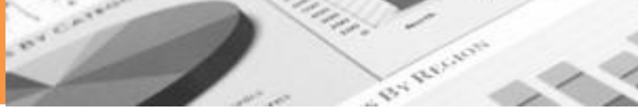


Inflation - General CPI
Annual changes



Colombian Peso / Dollar





MEXICO

Good news	To be alert	Bad news
Inflation fell to over 3-year low in November (2.97%) and stands below the CB target for the first time this year.	Fitch reaffirmed "BBB" rating for Mexico with stable outlook, but said global trade tensions could worsen perspectives.	Economic activity remains weak and will display null growth this year.

POLITICS

President Trump and Democratic leaders agreed on a deal to pass a new trade agreement between the U.S., Mexico and Canada that will update NAFTA. On another hand, Mexico granted Evo Morales asylum after he suddenly announced his resignation as President of Bolivia. The move divided opinions in the country: critics worried that AMLO might follow in Morales' footsteps and try to amend the constitution to allow for multiple presidential terms, while others agreed with the federal government's choice to provide refuge for Morales and signaled Mexico's history of offering asylum to political leaders.

ECONOMIC ACTIVITY

GDP remained weak in 3Q-19 and grew only 0.1% q/q s.a. While mining and construction improved slightly, the service sector showed a moderate pace of growth. On the contrary, the industrial sector suffered the negative impact of the deceleration of the U.S. economy. This trend worsened in October: it fell 3.0% y/y and deteriorated 1.1% m/m, dragged by the manufacturing sector. In this scenario, we expect GDP to grow only 0.1% this year, and to accelerate to 1.1% in 2020. The new trade agreement with the NAFTA and the approval of the National Infrastructure Plan are likely to boost growth improvement next year.

INFLATION

Annual inflation decelerated slightly from 3.02% in October to 2.97% in November, standing below the target (3.0%) for the first time this year. It was the lowest inflation rate since September 2016, as cost of fruits and vegetables dropped and housing prices slowed. Particularly, core inflation also displayed a small moderation, from 3.68% in October to 3.65% in November. On a monthly basis, consumer prices went up 0.81%, after rising 0.54% in October. We expect inflation to end 2019 at around 2.9% and to accelerate slightly to 3.4% in 2020. However, the decreasing volatility of the exchange rate and lower energy prices are expected to downward pressure on inflation.

MONETARY SECTOR

So far this year, the Mexican Peso appreciated by 3.4% and is currently trading at around 18.98 MXN/USD. We expect the exchange rate to stand at around 19.00 MXN/USD by year-end and to depreciate to 19.90 in 2020, boosted by pressures from the U.S. economy. Moreover, the in December's policy meeting, the Bank of Mexico cut the policy rate by 25 bps, bringing it to 7.25% and arguing that the new level is consistent with the convergence of headline inflation to the central bank's target. We expect Banxico to continue easing its monetary policy rate gradually next year, reaching a level of 6.00% by the end of 2020.

FISCAL ACCOUNTS

The Minister of Finance announced that this year's goal of generating a primary surplus of 1.0% of GDP would be met. He also set a target for next year which considers a primary deficit of 0.7% of GDP and an overall budget deficit of 2.1% in 2020. Main risks are associated with a lower than expected real rise in non-oil tax revenue and a shorter decline in operational spending. In this context, we expect fiscal accounts of the Central Government to record a total deficit equivalent to 2.2% of GDP this year and 2.5% in 2020. However, total financial requirements are likely to surpass 3.0% next year.

WHAT'S COMING NEXT?

- According to the new NAFTA agreement, 40% to 45% of a vehicle's components must be made by workers earning at least US$16 per hour, which is about three times more than the average wage currently earned by Mexican auto workers. This change may lead to challenges over the enforcement of labor laws and increase the cost of cars made in all three countries.
- AMLO's administration announced the National Infrastructure Plan, showing the president's effort to organize and execute construction projects and boost economic activity.

APPENDIX

Dashboard

	Dec-19	Nov-19	Oct-19	Dec-18	2018
Exchange rate *(MXN/USD, eop.)*	18.92	19.57	19.24	19.66	19.66
Interest rate *(%)*	7.50%	7.50%	7.75%	8.25%	8.25%
Inflation *(y/y)*	-	2.97%	3.02%	4.83%	4.83%
Economic activity *(y/y)*	-	-	-	-0.3%	2.2%
Industrial activity *(y/y)*	-	-	-3.0%	-2.9%	0.5%
Automotive production *(y/y)*	-	-	-20.0%	-4.4%	1.8%

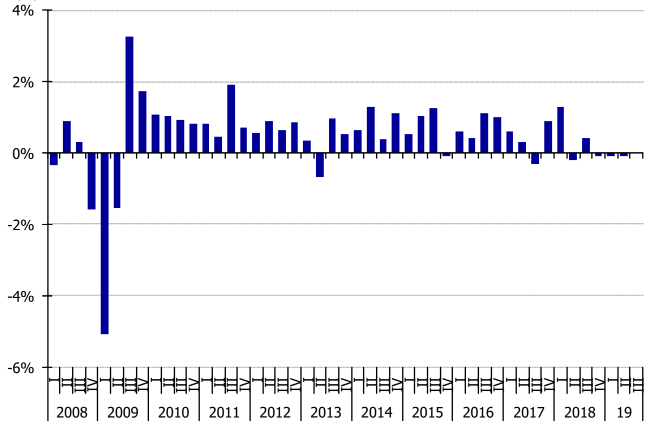
Source: EconViews based on several sources

Macroeconomic Outlook

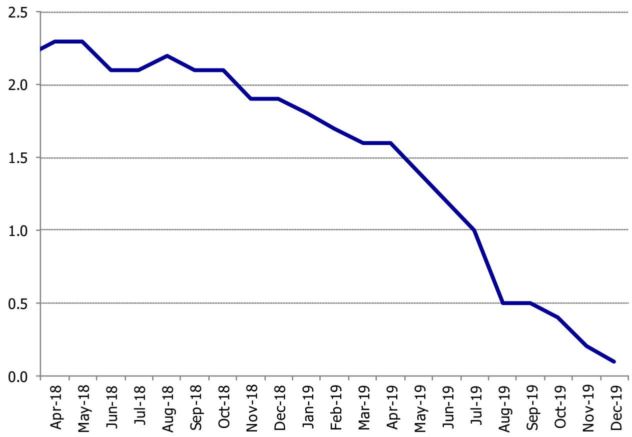
	2016	2017	2018	2019F	2020F
GDP growth *(%)*	2.9%	2.1%	2.0%	0.1%	1.1%
Inflation *(Dec-Dec)*	3.4%	6.8%	4.8%	2.9%	3.4%
Fiscal Balance *(% GDP)*	-2.5%	-1.1%	-2.1%	-2.2%	-2.5%
Current Account *(% GDP)*	-2.2%	-1.7%	-1.8%	-1.0%	-1.3%
International reserves *(USD Bn)*	176.5	172.8	176.0	177.3	179.7
Exchange rate *(MXN/USD)*	20.7	19.7	19.7	19.0	19.9

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

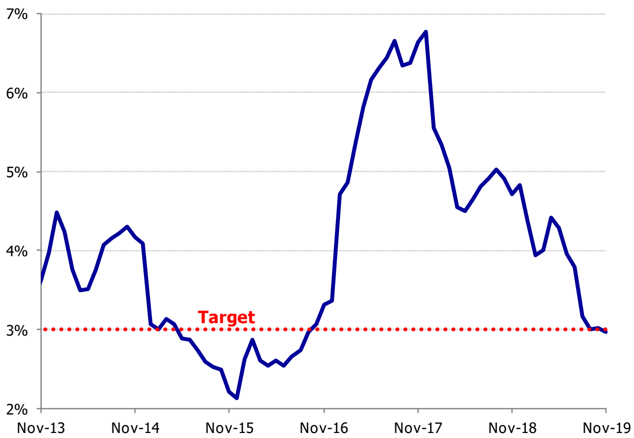
Real GDP
Q/Q variations - INEGI



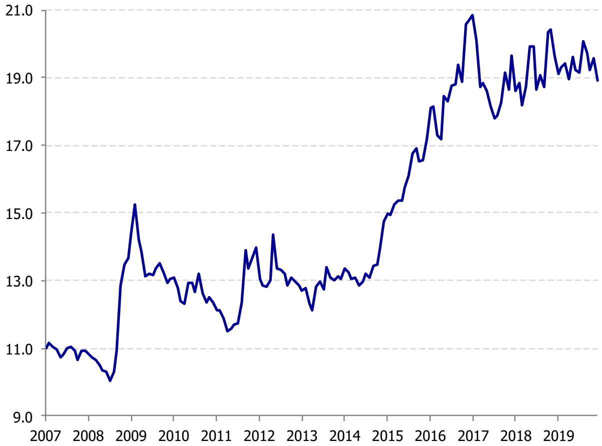
GDP growth - rolling forecasts for 2019
In %

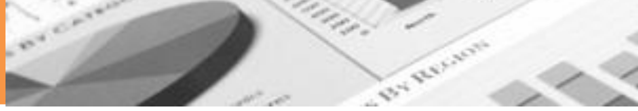


Inflation - General CPI
Annual changes



Mexican Peso / Dollar





PARAGUAY

Good news	To be alert	Bad news
The government took quick fiscal measures to avoid a recession. The focus is on financial inclusion, healthcare and education to ensure social peace.	The hit to activity was severe in both the primary and the secondary sectors. Services and the public sector have mitigated the impact.	The country is still heavilly affected by weather or global trade conditions. The future of Mercosur is worth monitoring.

POLITICS

The social frictions in Chile, Bolivia, Ecuador and Colombia are spreading to other neighboring countries.
The government has started big efforts to ensure that the improvements in the macroeconomic foundations do spill over to the well being of the population.
Spending in financial inclusion, education, and healthcare are the bright spots where the government targets to stimulate activity, avoid a stronger recession and preserve social peace.

ECONOMIC ACTIVITY

The BCP is expecting a GDP growth of 0.2% in 2019 due to a sharp contraction in both the primary and the secondary sectors (-4.7 and -2.4% respectively) that is expected to be mitigated with an increase of 3.3% in the services sector. A severe drought in early 2019 affected both soybean and energy productions, and the government is pushing infrastructure spending and easing financial conditions to mitigate the hit in activity. Unlike the BCP, we foresee the country with nil growth in 2019 and a rebound to 3.7% in 2020.

INFLATION

As of November, headline consumer prices came in at 0.2% m/m, driving the y/y inflation to 1.9%, which is down 0.5 p.p. as compared to October figures. Core inflation printed a 0.1% m/m variance, to total 2.2% on a y/y basis.
Food, durable consumer goods and some services have triggered the monthly increase but CPI is still below the center of the BCP target range (4% +- 2%). We forecast 2019 FY inflation to print 2.9% and 2020 should mildly jump to 3.5% still short of the floor of the target range.

MONETARY SECTOR

The PYG trades at 6,500 to the USD, depreciating nearly 14% since the beginning of the year. In its November meeting the BCP decided to keep unchanged the policy rate at 4.00%, citing tensions in the trade front that softened global GDP projections. On the domestic side, all measures of price trends remain in the lower range of the goal. Thus, the decision to keep the accommodative stance is consistent with the long term goal of 4% CPI. We forecast the policy rate to remain at 4.00% in the coming months.

FISCAL ACCOUNTS

The Senate approved the increase of the limit set on the fiscal deficit by the Fiscal Responsibility Law. The original 1.5% ceiling was revised upwards to 3.0% of GDP using a clause that allows for exceptions to compliance in case of economic emergency.
As of November the cumulative fiscal deficit reached 2.6% of GDP with revenues falling 0.9% y/y and primary spending growing 20.3% y/y. We forecast the full year deficit to reach 2.8% in 2019 and 2.3% in 2020.

WHAT'S COMING NEXT?

- The drop in activity was very hard in 2019 but the country manages its way out of the woods with fiscal flexibility.
- Weather conditions and the dependence on global trade trends are the main threats the country faces.
- The government has taken quick measures to contain social climate and avoid the replication of social disorders lived in neighboring countries.

APPENDIX

Dashboard

	Dec-19	Nov-19	Oct-19	Dec-18	2018
Exchange rate *(PYG/USD, eop.)*	6,450.27	6,460.87	6,479.00	5,974.00	5,974.00
Interest rate *(%)*	4.00%	4.00%	4.00%	5.25%	5.25%
Inflation *(y/y)*	-	1.9%	2.4%	3.2%	3.2%
Economic activity *(y/y)*	-	-	4.7%	-0.1%	2.8%

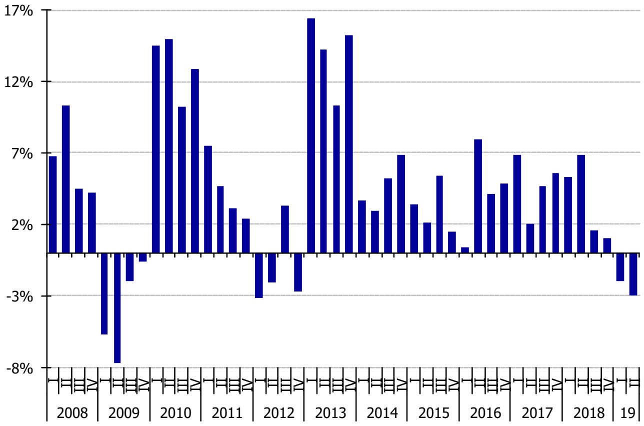
Source: EconViews based on several sources

Macroeconomic Outlook

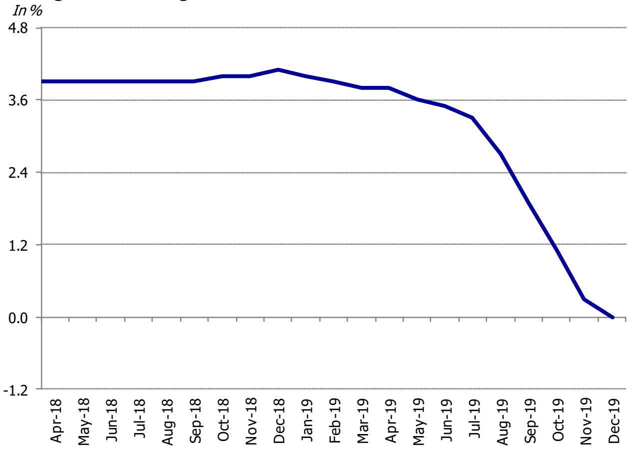
	2016	2017	2018	2019F	2020F
GDP growth *(%)*	4.3%	5.0%	3.4%	0.0%	3.1%
Inflation *(Dec-Dec)*	3.9%	4.5%	3.2%	2.9%	3.5%
Fiscal Balance *(NFPS - % GDP)*	-1.1%	-1.1%	-1.3%	-2.8%	-2.3%
Current Account *(% GDP)*	3.6%	3.1%	0.0%	-0.1%	0.6%
International reserves *(USD Bn)*	7.1	8.1	8.0	8.0	8.4
Exchange rate *(PYG/USD)*	5,848	5,588	5,961	6,360	6,439

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

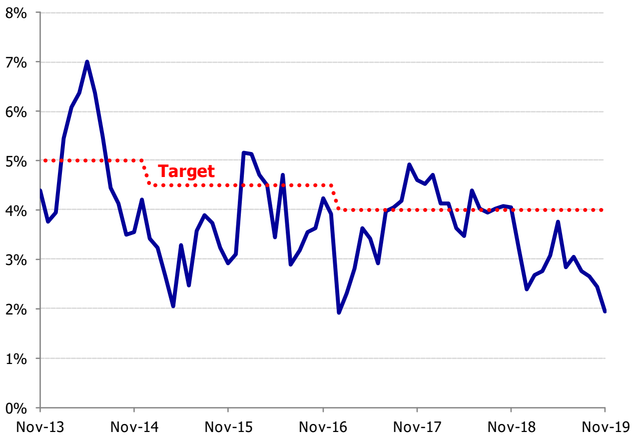
Real GDP
Y/Y variations - Central Bank



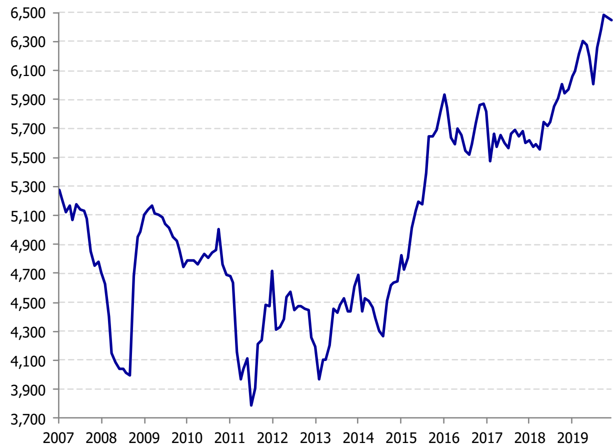
GDP growth - rolling forecasts for 2019
In %



Inflation - General CPI
Annual changes



Paraguayan Guarani / Dollar



PERU

Good news	To be alert	Bad news
The improvement in the formal labor market had an impact on fiscal accounts; the Peruvian economy has still a high rate of labor informality.	Political turmoil did not affect the economic performance; leading indicators showed no significant impact yet.	Citizens are skeptical about traditional political parties, which show low voting intention for next elections (Ipsos).

POLITICS

The Congress was dissolved on September by the President. The Constitutional Court has yet to rule on the dissolution but for now legislative elections will take place on January 26th. Re-election of current parliamentarians was banned last year but will be allowed only for this election. Percentage of undecided voters is high (Ipsos): it reached 32% in November and additionally, 74% of citizens disagree with the fact that current parliamentarians can be candidates. In this context, approval of Vizcarra reached 60% in November, falling from an all-time peak of 79% on October.

ECONOMIC ACTIVITY

Activity grew 2.1% y/y in October according to the GDP proxy, practically in line with the previous month but below the maximum of August (3.4%). "Accommodation and restaurants" was the sector that stood out: it grew 6% y/y. The performance of "Public administration" also was significant (4.9%), pointing to an acceleration in fiscal expenditure. On the other side, "Manufacturing" was a drag and fell 1.1% y/y, affected by less production of both non-durable and durable goods. So far 2019, the GDP proxy increased 2.2%. For 2019-20, GDP growth was revised down to 2.4% and 3.1% respectively.

INFLATION

Inflation is still low. In November it was 0.11% m/m, in line with the previous month. This performance was influenced by the increase in "Housing Expenditures", which rose 0.94% driven by the rise in electricity utilities rates. In y/y terms, inflation was 1.9% and remained stable in comparison to the previous months, slightly below the 2% CB's target. Core inflation was 0.03% and 2.3% y/y while inflation expectations for the next 12 months were 2.2%. Inflation is expected to close 2019 near the target of 2.0% and to accelerate slightly to 2.2% for next year, due to widening of the output gap.

MONETARY SECTOR

At the beginning of December the PEN reached 3.40, affected by the contagion effect of other Latam currencies. Nowadays it receded to 3.33. However, the PEN remained relatively stable in comparison to the performance of other peers. In December, the policy rate was left unchanged at 2.25%, the same level of the previous month. In the policy statement it was mentioned that external risks have receded and that the primary sector and government investment have been lagging behind, compensated by the non-primary sector. Last data for November showed an improvement for activity and confidence.

FISCAL ACCOUNTS

In November 2019, 12-month accumulated fiscal deficit remained stable in 1.6% of GDP. Revenues increased in comparison to the previous month by 0.1 p.p. to 19.7% of GDP, while non-financial expenditure was stable at 20%. Regarding revenues, income tax increased 17.8% y/y and VAT, 3.5%. There was an improvement in non-tax revenues explained by an increase in social contributions, showing a stronger formal labor market. With regard to non-financial expenditure, investment contracted 14.8% y/y (especially local governments). Fiscal deficit is expected to be 2.0% of GDP for 2019-20.

WHAT'S COMING NEXT?

- The Central Bank will probably maintain the current expansive bias on monetary policy next year as inflation is low and economic activity is under its potential growth.
- Although the Constitutional Court still has to rule on Congress' dissolution, legislative elections are still taking place on January 2020.

APPENDIX

Dashboard

	Dec-19	Nov-19	Oct-19	Dec-18	2018
Exchange rate *(PEN/USD, eop.)*	3.33	3.41	3.36	3.35	3.37
Interest rate *(%)*	2.25%	2.25%	2.50%	2.75%	2.75%
Inflation *(y/y)*	-	1.87%	1.88%	2.19%	2.19%
Economic activity *(y/y)*	-	-	-	4.8%	4.0%
Manufacturing activity *(y/y)*	-	-	-	12.3%	5.9%
Mining production *(y/y)*	-	-	-	-0.5%	-0.5%

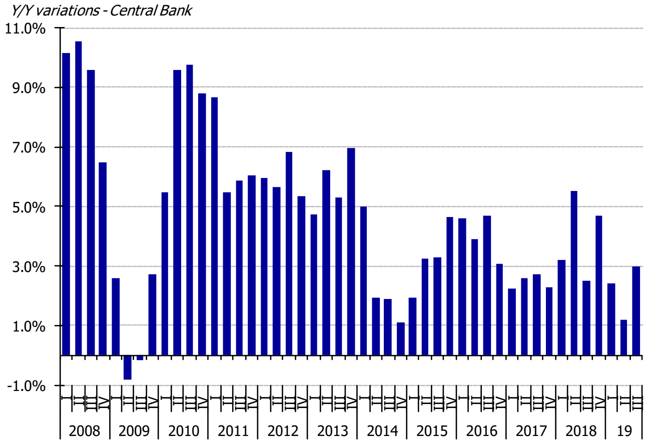
Source: EconViews based on several sources

Macroeconomic Outlook

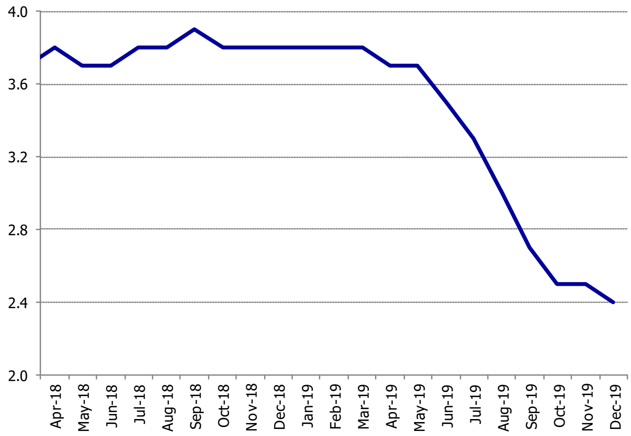
	2016	2017	2018F	2019F	2020F
GDP growth *(%)*	4.0%	2.5%	4.0%	2.4%	3.1%
Inflation *(Dec-Dec)*	3.2%	1.4%	2.2%	2.0%	2.2%
Fiscal Balance *(% GDP)*	-2.5%	-3.1%	-2.5%	-2.0%	-2.0%
Current Account *(% GDP)*	-2.7%	-1.2%	-1.6%	-2.0%	-2.0%
International reserves *(USD Bn)*	59.8	61.4	59.1	65.2	66.4
Exchange rate *(PEN/USD)*	3.36	3.24	3.37	3.37	3.39

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

Real GDP
Y/Y variations - Central Bank

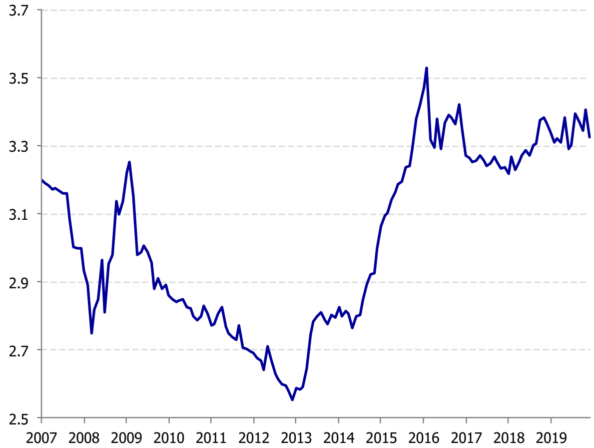


GDP growth - rolling forecasts for 2019
In %



Inflation - General CPI
Annual changes

Peruvian Sol / Dollar



URUGUAY

Good news	To be alert	Bad news
Luis Lacalle Pou won the elections, defeating Daniel Martínez of the Frente Amplio after 15 years government and ensuring a peaceful alternancy	Inflation remains above the target range and unemployment is resilient to pierce the 8% level. Social conditions are worth monitoring to avoid social unrest	The fiscal deficit remains within the 3.5% target set by the Fiscal Responsibility Law but this was the result of extraordinary revenues

POLITICS

Luis Lacalle Pou (candidate of the National Party) won the elections in the second round, defeating Daniel Martínez of the Frente Amplio.
Lacalle Pou will take office in March 2020, after 15 years government by the Frente Amplio.
Elections for deputies and senators were held on October 27.
As a result, Frente Amplio will remain the first minority in both chambers (13 senators out of a total of 30, and 42 deputies out of a total of 99).

ECONOMIC ACTIVITY

GDP in Q3-2019 increased 0.9% y/y, with a sharp decline in agriculture, cattle and fisheries (-8.0%) as well as construction (-3.6%).
The other sectors avoided a contraction and the best performers were transport, warehouse and communications (+3.5%) and manufacturing (+2.7%). Private consumption (+1.3%), and net exports (+9.3%) are the drivers from the demand perspective.
We forecast GDP to growth 0.6% in 2019 and economic activity to expand 1.5% in 2020.

INFLATION

Inflation in November came in at a 0.4% monthly increase to result in an annual reading of 8.4%, still out of bounds of the BCU 3-7% target range. Food (+1.5% m/m) and restaurants and hotels (+0.9% m/m), were the main drivers pushing the CPI up, while lodging (-1.9%) eased the pressure with the drop in electricity prices. Within food, the spike in meats was material (5.3% m/m on average). The persistence of inflation is leading us to forecast inflation to reach 7.7% for 2019, while we envision a slow disinflation towards 6.8% in 2020.

MONETARY SECTOR

The UYU is trading in the area of 37.80 to the USD with a cumulative YTD depreciation of nearly 23%. In its last meeting, the BCU COPOM decided to marginally ease the monetary policy and calibrated the annual M1 growth target for Q4-2019 in the range of 7-9%. The previous target effective in Q3-2019 was in the 8-10% range.
The approach is consistent with downward inflation expectations and actual inflation converging to the 3-7% inflation target.

FISCAL ACCOUNTS

As of October, the fiscal balance recorded a 2.9% deficit to GDP on a y/y basis, within the 3.5% target established in the fiscal responsibility law. Government revenues are growing at a 7% rate since the beginning of the year (-0.7% in real terms) while primary spending is up 10.4% y/y (2.4% adjusted by inflation).
Revenues are affected by the migration of some pensioners from the private to the public sector, who have to transfer their savings. We estimate FY 2019 fiscal deficit at 3.3 %, and the same level for

WHAT'S COMING NEXT?

- The new government will not bring in material changes in macroeconomic policies with the exemption of a faster fiscal consolidation down the road.
- The global environment, especially interest rates in the US, is a critical factor to monitor.
- The member countries of the Mercosur may discuss the future of the trade bloc and Uruguay will surely redefine its foreign affairs standpoint

APPENDIX

Dashboard

	Dec-19	Nov-19	Oct-19	Dec-18	2018
Exchange rate *(UYU/USD, eop.)*	37.64	38.04	37.51	32.45	32.45
Interest rate *(%)*	-	-	6.28%	5.28%	5.28%
Inflation *(y/y)*	-	8.4%	8.3%	8.0%	8.0%
Economic activity *(y/y)*	-	1.2%	0.9%	-1.1%	2.4%
Manufacturing activity *(y/y)*	-	-	-7.8%	-8.8%	11.5%

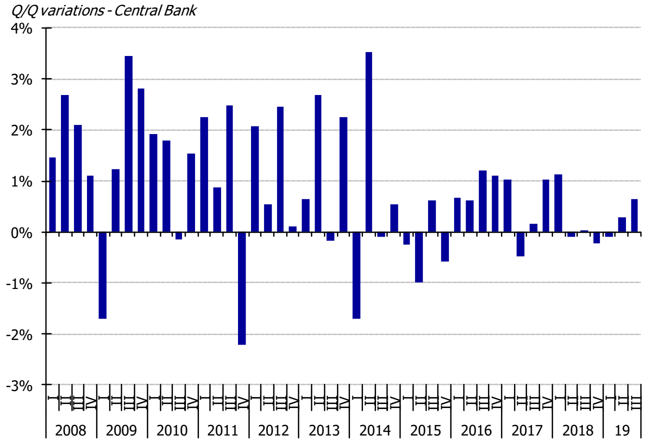
Source: EconViews based on several sources

Macroeconomic Outlook

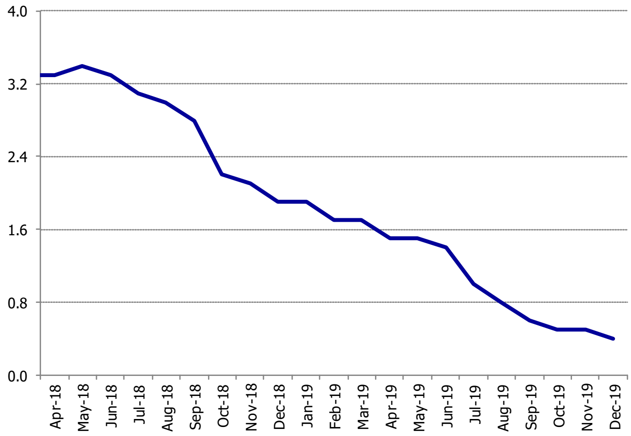
	2016	2017	2018	2019F	2020F
GDP growth *(%)*	1.7%	2.6%	1.6%	0.4%	1.3%
Inflation *(Dec-Dec)*	8.1%	6.6%	8.0%	7.8%	7.0%
Fiscal Balance *(% GDP)*	-3.8%	-3.5%	-2.9%	-3.3%	-3.3%
Current Account *(% GDP)*	-0.1%	0.7%	0.1%	0.2%	-0.7%
International reserves *(USD Bn)*	13.4	16.0	15.6	15.6	16.3
Exchange rate *(UYU/USD)*	29.35	28.85	32.40	37.90	39.80

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

Real GDP
Q/Q variations - Central Bank

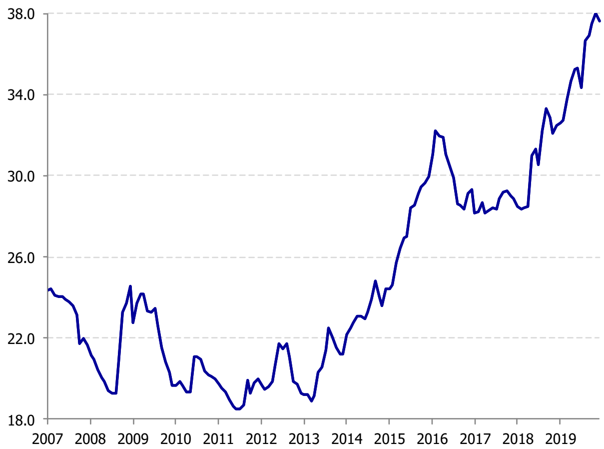


GDP growth - rolling forecasts for 2019
In %



Inflation - General CPI
Annual changes

Uruguayan Peso / Dollar



	GDP		Inflation	
	2019	2020	2019	2020
	-3.0%	-1.5%	55.0%	50.0%
	1.1%	2.2%	3.7%	3.7%
	1.3%	1.5%	3.0%	3.1%
	3.2%	3.2%	3.8%	3.4%
	0.1%	1.1%	2.9%	3.4%
	0.0%	3.1%	2.9%	3.5%
	2.4%	3.1%	2.0%	2.2%
	0.4%	1.3%	7.8%	7.0%

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