

Miguel A. Kiguel

Director

mkiguel@econviews.com

Twitter: @kiguel

Miguel Zielonka, CFA

Associate Director

mzielonka@econviews.com

Twitter: @miguelzielonka

Eric Ritondale

Senior Economist

eritondale@econviews.com

Twitter: @ericritondale

Lorena Giorgio

Semi Senior Economist

lgiorgio@econviews.com

Mariela Diaz Romero

Economist

mdiazromero@econviews.com

Renata Barlaro

Analyst

rbarlaro@econviews.com

(+54 11) 5252-1035

Carlos Pellegrini 1149 Floor 8
Buenos Aires

www.econviews.com

www.facebook.com/econviews

Twitter: @econviews

LATAM 7 + Argentina

Macro Brief

January, 2017

- ✓ **Argentina:** Waiting for economic growth
- ✓ **Brazil:** A weaker-than-expected economic performance
- ✓ **Chile:** The monetary easing began
- ✓ **Colombia:** Awaiting for fiscal improvement due to tax-reform
- ✓ **Mexico:** Impaired 2017 prospects after Trump's shock
- ✓ **Peru:** Investment is needed to sustain growth
- ✓ **Uruguay:** Unemployment finally on decline
- ✓ **Paraguay:** Potential constitution amendment...again

ARGENTINA

Good news	To be alert	Bad news
Around US\$ 100 billion had been declared in 2016 in the context of Fiscal Amnesty	Headline inflation moderated in December and was 1.2% m/m. However, core inflation recorded 1.7% m/m.	Retail sales continued weak in Dec-16: they fell 5.4% y/y, accumulating 12 consecutive reductions

Politics

Confidence in the Government slightly deteriorated in the last months according to the UTDI index, and was at 50% levels in Dec-16, below the peak of 63% of Jan-16. The main driver is that economic recovery is taking longer than expected. There were changes in the government team, being the most relevant the exit of the Minister of Economy Alfonso Prat Gay, who was replaced by Nicolás Dujovne. Regarding wage agreements, the government aims to anchor inflation expectations by offering 18%, as in the case of the Province of Buenos Aires (with an automatic indexation clause).

Economic Activity

In the 3Q16, the economic activity accumulated its 4th consecutive q/q drop and failed to emerge from the recession. Moreover, in November sales continued to fall in all its items except for new cars, while industrial activity accumulated a slump of 4.9% during the first eleven months of last year. We expect GDP to have grown slightly in the 4Q16 and to have dropped 2.2% in the whole year, having expanded 2.6% in 2015 (revised from 2.5%). We also expect a consolidation of the economic recovery towards 2017, with GDP growing around 2.5%.

Inflation

According to the City of Buenos Aires and Greater Buenos Aires' CPI, inflation closed 2016 with a pronounced moderation, as the average m/m inflation for the second semester was 1.4%, way below the 4.2% from the first half of the year. Monthly inflation decelerated from 1.6% to 1.2% in December, while core inflation was 1.7%, in line with the record of the previous month. The City of Buenos Aires' CPI showed a rise of 41.0% y/y in December, well over the 26.9% from the previous year. We expect y/y inflation to stand around 20.5% in December 2017, above the Central Bank's target (17%).

Monetary Sector

The Central Bank changed its policy rate from 35-day Lebac to the center of 7-day repo's corridor. In the last meeting, the rate was left unchanged at 24.75%, as 12-month inflation expectations are still above the upper limit of 17% for 2017. The Argentine Peso stressed with Trump's victory but as there are capital inflows coming from Tax Amnesty and issue of debt, it still has a trend to real appreciation. Now it stands around ARS 15.86.

Fiscal Front

Around USD 100 billion had been declared last year as part of the government's amnesty. Thus, in December, tax revenues grew 90% y/y, due to the accounting of around ARS 93 billion resulting from the payment of penalties derived from the tax amnesty. The primary deficit -without including transfers from the CB and ANSES- in cash basis amounted to 3.7% of GDP in November and stood in line with the official target (4.8%) in the whole year, compared to a deficit of 5.1% in 2015.

What's coming next?

The Central Bank will maintain its policy rate as inflation expectations are still above the 17% target and there are some one-time price increases expected in the short term. Wage agreements will be a key variable in the upcoming months. The Peso is likely to continue appreciating due to the Tax Amnesty (it ends on Mar-17) and the issue of debt to meet financial needs. New financing required for this year amounts US\$ 37.4 billion.

ARGENTINA: APPENDIX

Dashboard

	Dec-16	Nov-16	Oct-16	Sep-16	Dec-15
Exchange rate (ARS/USD, eop.)	15.88	15.88	15.19	15.37	12.94
Interest rate (%)	24.75%	24.75%	26.75%	30.25%	28.93%
National inflation (y/y)	36.8%	41.5%	42.5%	41.1%	28.4%
Economic activity (y/y)	-	-	-2.6%	-6.0%	2.0%
Industrial activity (y/y)	-	-7.3%	-5.7%	-7.9%	-2.6%
Automotive production (y/y)	-16.4%	-19.6%	-8.5%	-13.3%	-25.6%

Source: EconViews based on several sources

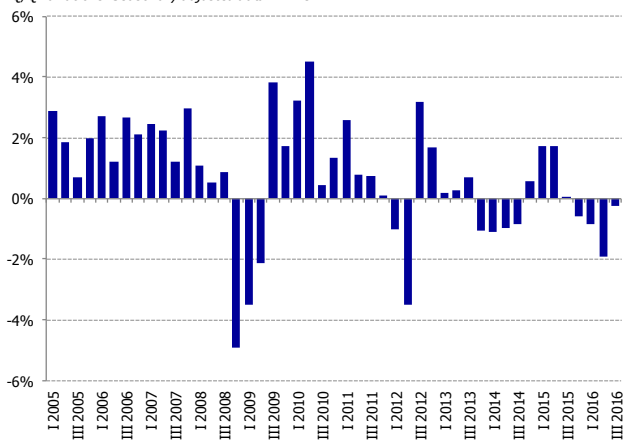
Macroeconomic Outlook

	2012	2013	2014	2015	2016F	2017F
GDP growth (%)	-1.0%	2.4%	-2.5%	2.5%	-2.2%	2.5%
National inflation (Dec-Dec)	25.2%	27.9%	36.7%	28.4%	36.8%	20.5%
Fiscal Balance (% GDP)	-2.1%	-1.9%	-2.7%	-4.8%	-4.5%	-4.8%
Current Account (% GDP)	-0.2%	-2.0%	-1.4%	-2.5%	-2.9%	-3.4%
International reserves (USD Bn)	43.3	30.6	31.4	25.6	38.8	42.8
Exchange rate (ARS/USD)	4.92	6.52	8.56	12.94	15.85	18.70

Source: EconViews based on official figures and own estimates

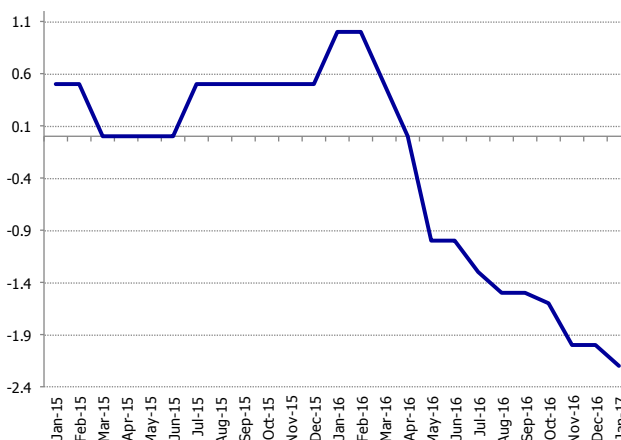
Real GDP

Q/Q variations - Seasonally adjusted data INDEC



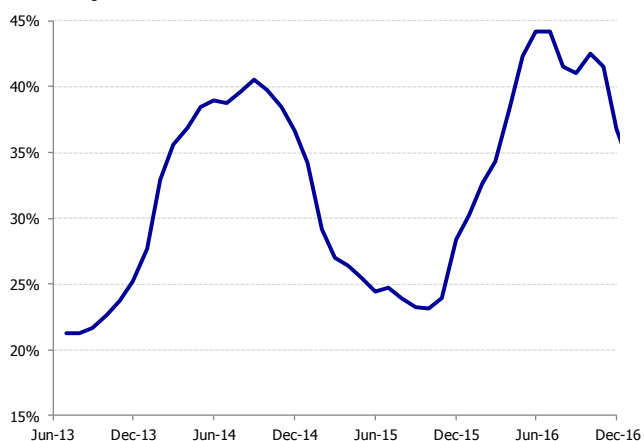
GDP growth - rolling forecasts for 2016

In %

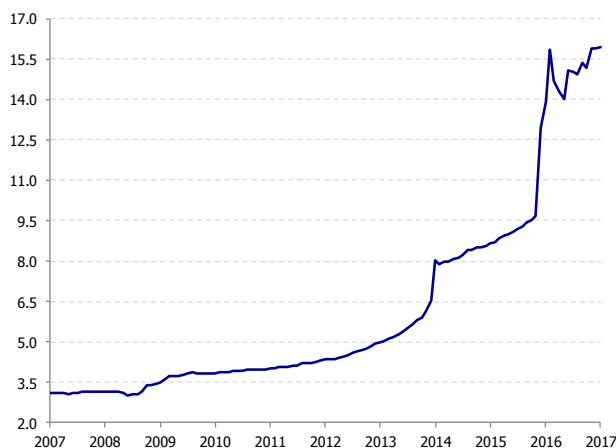


Inflation - General CPI

Annual changes



Argentinian Peso / Dollar



BRAZIL

Good news	To be alert	Bad news
Inflation reached 6.3% in 2016, within the tolerance range for the Central Bank's target (4.5% ± 2%)	No signs of improvement in the labor market: the unemployment rate rose to 12.3% in November	The activity has been disappointing expectations and the economic recovery tends to take longer and be more gradual than previously anticipated

Politics

Last December, Brazil's Congress approved a bill allowing the renegotiation of conditions for states' debts with the federal government. As lawmakers removed some austerity measures that the central government wanted to impose on states accepting the deal, Michel Temer vetoed part of the bill. The government will negotiate this year a proposal that would include some of the austerity measures that were cut.

Economic Activity

The BCB's monthly GDP proxy fell 0.15% m/m in October and slightly recovered 0.2% in November. It remains 2.1% below the records from a year ago. Moreover, industrial production expanded 0.2% m/m in November and core retail sales increased more than expected in November (2.0% m/m) due to the anticipation in year-end purchase. We expect GDP to have remained stable in 4Q16 and have fallen 3.4% in the whole year. Economic activity is expected to grow 0.7% in 2017.

Inflation

The IPCA increased 0.3% m/m in December while core inflation measures were virtually stable from the previous month. Thus, accumulated headline inflation was 6.29% in 2016, significantly below the 10.67% reported in 2015 and within the central bank's target range for the period (tolerance range of 2 p.p. around the 4.5% midpoint). Weaker-than-expected economic activity is likely to continue to contribute to falling inflation, which is expected to reach 4.9% in 2017.

Monetary Sector

The BRL depreciated strongly after Trump's victory and reached 3.476 BRL/USD in early December. However, it closed 2016 at 3.256 BRL/USD and appreciated 17.8% compared to 2015. We expect the Real to close 2017 at 3.50 BRL/USD. Moreover, the Central Bank has intensified its monetary easing and cut the policy rate by 75 bps, leading the Selic rate to 13.0%, assessing that domestic activity has been weaker than expected. We expect the SELIC to stand around 9.75% in December.

Fiscal Front

The spending cap bill has been approved by Congress and is likely to gradually reverse the structural fiscal imbalance that stood around 9.4% of GDP in 2016. The consolidated public sector's primary deficit for the last 12 months amounted to 2.5% of GDP in November and the fiscal deficit to 9.3% of GDP. We expect the fiscal deficit to moderate to 8.6% of GDP this year. Moreover, the gross public debt rose to 70.5% of GDP.

What's coming next?

We expect the Copom to continue cutting the Selic rate in the next meetings, as the economic weakness persists and inflation continues to decline.

In February the Congress will continue to analyze the Social Security reform, which proposes the introduction of requirements for retirement that include a minimum age of 65 and a minimum contribution period of 25 years, with transitional rules for men over 50 and women over 45.

BRAZIL: APPENDIX

Dashboard

	Dec-16	Nov-16	Oct-16	Sep-16	Dec-15
Exchange rate (<i>BRL/USD, eop.</i>)	3.26	3.39	3.19	3.26	3.96
SELIC (%)	13.75%	14.00%	14.00%	14.25%	14.25%
Inflation (<i>y/y</i>)	6.3%	7.0%	7.9%	8.5%	10.7%
Economic activity (<i>y/y</i>)		-2.1%	-3.8%	-3.2%	-6.6%
Industrial activity (<i>y/y</i>)		-1.1%	-7.3%	-4.6%	-12.0%
Automotive production (<i>y/y</i>)	20.8%	23.5%	-14.3%	-2.5%	-30.0%

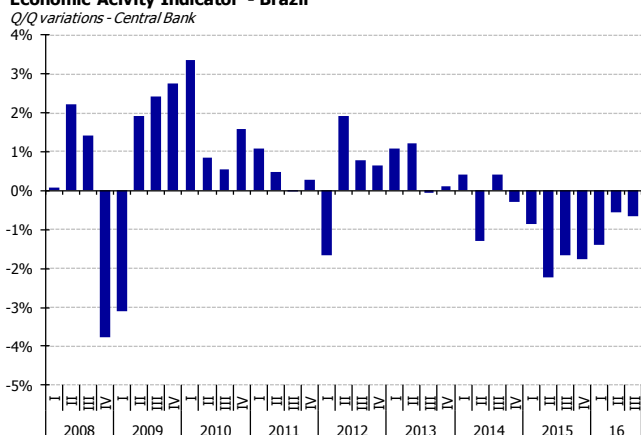
Source: EconViews based on several sources

Macroeconomic Outlook

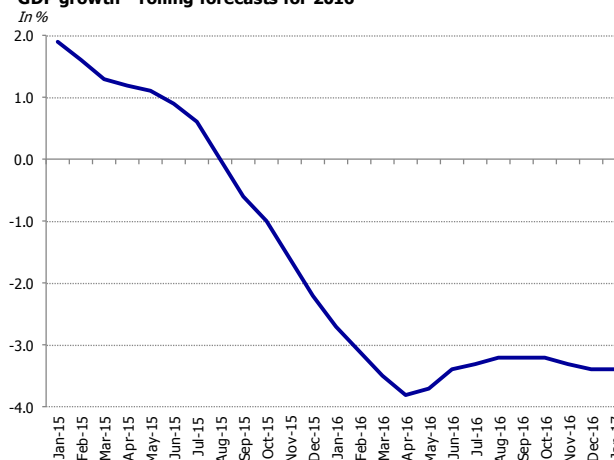
	2012	2013	2014	2015	2016F	2017F
GDP growth (%)	1.8%	2.7%	0.1%	-3.8%	-3.4%	0.7%
Inflation (<i>Dec-Dec</i>)	5.8%	5.9%	6.4%	10.7%	6.3%	4.9%
Fiscal Balance (% GDP)	-2.3%	-3.0%	-6.1%	-10.3%	-9.4%	-8.6%
Current Account (% GDP)	-3.0%	-3.0%	-4.3%	-3.3%	-2.0%	-1.5%
International reserves (<i>USD Bn</i>)	362.1	349.0	354.8	348.9	362.1	369.1
Exchange rate (<i>BRL/USD</i>)	2.05	2.36	2.66	3.96	3.26	3.50

Source: EconViews based on Consensus Forecast & IMF

Economic Activity Indicator - Brazil



GDP growth - rolling forecasts for 2016



Inflation (IPCA)



Brazilian Real / Dollar



CHILE

Good news	To be alert	Bad news
Unemployment reached its lowest level since Dec-15/Jan-16 and was 6.2% in Sep/Nov-16, driven mainly by Self-workers, while Formal Employment is weak.	Copper price volatility may affect the performance of the Chilean Peso.	Economic activity is not recovering in the 4Q-16 and remains sluggish: The data for November showed a bare growth of 0.7% m/m, after falling 1.2%.

Politics

Sebastián Piñera (not confirmed yet) and Alejandro Guillier (announced its decision recently) are likely to be the two main candidates for the presidential election in Nov-17 according to a survey (Adimark). The former is leading voting intentions (29%) but the latter remains very close (26%). Also, Ricardo Lagos (5%) announced that will be a candidate too. There is still a 23% of undecided voters.

Economic Activity

The recovery for the 3Q was temporary: the advanced indicators for activity are disappointing for the 4Q: the IMACEC contracted 1.4% m/m in October while in November it grew barely 0.7%. The production index contracted 4.6% m/m while in Nov-16 it grew 3.8%. Retail sales decelerated their y/y growth for the third consecutive month to 5%. This way, we expect GDP to grow 2.1% in 2017.

Inflation

Inflation was 2.7% y/y in December, the lowest record since Nov-13, and below the CB target of 3.0%. Compared to the previous month, inflation receded 0.2%, helped by the appreciation of the CLP in the case of tradable goods (-0.8% m/m, 1.7% y/y). However, there is still inertia in non-tradable goods: 0.5% m/m (4.0% y/y), but is lowering slowly. The market forecast for 2017 stands at 3.0%, but the Central Bank thinks it will be 2.9%.

Monetary Sector

The Chilean Peso appreciated 0.9% in Dec-16, after depreciating 3.7% in Nov-16. Now it continues this trend due to higher copper price and is around to 660.6 CLP/USD. In January, the Central Bank reduced the policy rate 25 pbs at 3.25%, as inflation in the upcoming months is near the lower band and activity remains weak. In the last meeting, the CB confirmed the monetary easing needs to be expanded.

Fiscal Front

In November, income of Total Central Government increased 1.3% in real terms below the 1.6% from the previous month, while expenditure grew 5.0%, below the previous 5.1%. Public investment shows dynamism as investment from the private sector is weak. For 2017, the fiscal deficit is likely to stand around 3.0% of GDP. Recently, Fitch Ratings revised the outlook for Chile's long term debt in local and foreign currency from stable to negative, as economic activity is weak.

What's coming next?

The Chilean Peso is exposed to the fluctuation of copper price, which went up due to speculation about the fiscal expansion in the USA. However, with a strengthening of the Dollar, all commodities and emerging currencies in general will be affected. With regard to economic activity, the monetary easing is expected to help. This way, it is expected that the Central Bank will lower again its monetary policy rate, as long as inflation is be target.

CHILE: APPENDIX

Dashboard

	Dec-16	Nov-16	Oct-16	Sep-16	Dec-15
Exchange rate (CLP/USD, eop.)	670.30	676.50	652.60	657.70	709.35
Interest rate (%)	3.5	3.5	3.5	3.5	3.5
Inflation (y/y)	2.7%	2.9%	2.8%	3.1%	4.4%
Economic activity (y/y)	-	0.8%	-0.4%	1.5%	2.1%
Industrial activity (y/y)	-	-1.6%	-7.4%	-0.2%	-3.3%
Mining production (y/y)	-	-1.9%	-9.3%	-1.6%	-3.9%

Source: EconViews based on several sources

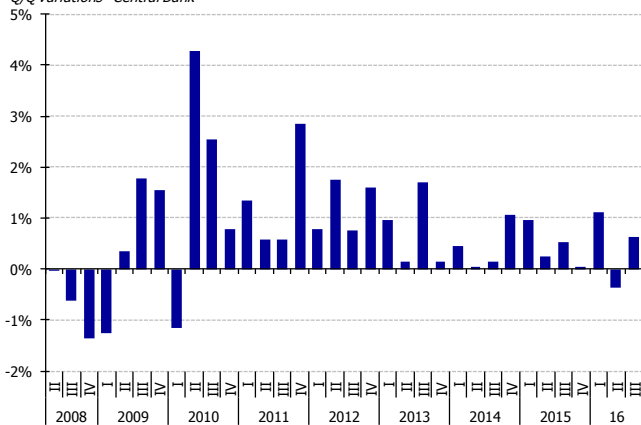
Macroeconomic Outlook

	2012	2013	2014	2015	2016F	2017F
GDP growth (%)	5.5%	4.0%	1.9%	2.3%	1.6%	2.1%
Inflation (Dec-Dec)	1.5%	3.0%	4.6%	4.4%	2.7%	3.0%
Fiscal Balance (% GDP)	0.6%	-0.7%	-1.6%	-2.2%	-3.0%	-2.7%
Current Account (% GDP)	-3.5%	-3.7%	-1.3%	-2.0%	-1.9%	-2.4%
International reserves (USD Bn)	39.7	39.3	38.9	37.2	38.9	39.1
Exchange rate (CLP/USD)	479.2	525.6	607.4	709.4	670.3	679.8

Source: EconViews based on Consensus Forecast & IMF

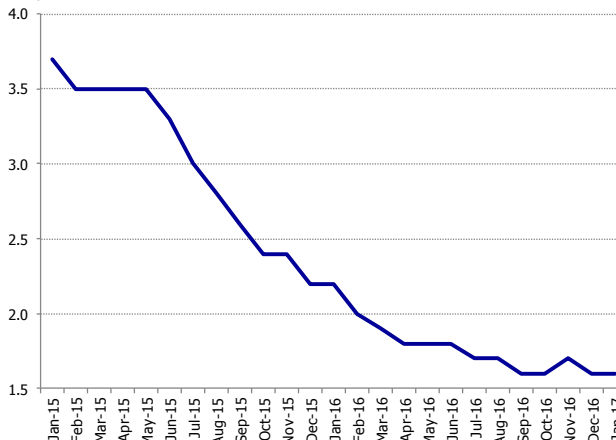
Real GDP

Q/Q variations - Central Bank



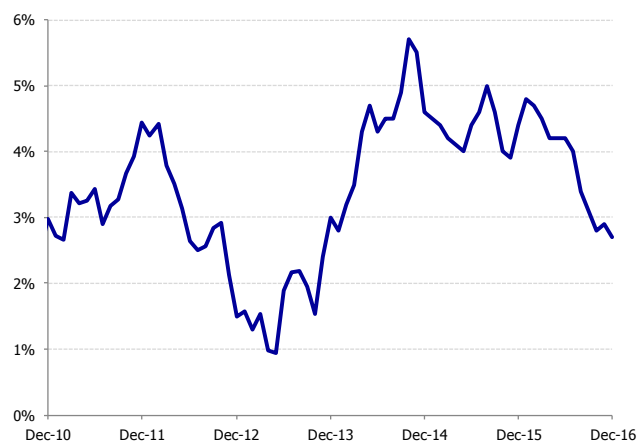
GDP growth - rolling forecasts for 2016

In %



Inflation - General CPI

Annual changes



Chilean Peso / Dollar



COLOMBIA

Good news	To be alert	Bad news
Improvements in the fiscal front are expected this year due to the approval of the tax-reform	Although we expect the disinflationary process to continue, inflation is likely to stand above the target range also this year	Activity continues to disappoint as the terms of trade are still deteriorating

Politics

Despite the rejection of the peace agreement, the end of 2016 was positive for the Santos administration that achieved approval of the tax reform and gained authority to pass legislation related to a new peace deal. Moreover, Santos has recently announced his new vice-president: Óscar Naranjo, former director of the National Police and participant in the peace negotiation. Moreover, Juan José Echavarría has taken over as General Manager of Colombia's Central Bank.

Economic Activity

Activity indicators surprised us to the upside in November, but continued weak in the 4Q16. Consumption has also showed some recovery, boosted by durable goods consumption, while non-durable sales are still falling. We expect GDP to have increased 2.0% last year, from 3.1% in 2015, largely due to the deterioration in terms-of-trade. The economy is expected to grow 2.5% this year, due to higher oil prices and lower interest rates.

Inflation

Despite inflation ends 2016 on a downward trajectory, it has been above the central bank's target range (3%). Annual inflation reached 5.75% in last December, largely due to food price inflation (7.22%) that is still affected by the El Niño weather phenomenon, which took place at the beginning of the year. The Central Bank fixed a target of 3% for 2017, but we expect inflation to stand around 4.4%. The approval of the tax reform will likely have a temporary impact on consumer prices.

Monetary Sector

The Colombian Peso ended 2016 in 3,003 COP/USD and appreciated around 6% compared to 2015. So far this year, it has appreciated slightly, due to the surge in oil prices and a moderation of domestic risks given the approval of the tax-reform, and is expected to close 2017 at around 3,025 COP/USD. In December, the Central Bank decided to cut the policy rate in 25 bps to 7.5%, due to deceleration of inflation and economic activity weakness. We expect the policy rate to end this year at 5.5%.

Fiscal Front

Finally, the Colombian Congress approved the tax reform, which is expected to improve the fiscal front after the downturn in oil prices and oil revenues. One of the main modifications was the centre of the debate in Congress: the raise of VAT rate from 16% to 19%. It also contemplates penalties of 4 to 9 years of prison for cases of tax evasion. In this scenario, we expect fiscal deficit to have reached 3.8% of GDP in 2016 and to moderate to 3.3% of GDP this year.

What's coming next?

In December, the Congress approved an Amnesty law, which would benefit people both from FARC (Revolutionary Armed Forces of Colombia) and Colombian Armed Forces who had committed minor offences. More advances to reach a peace agreement are expected. Additionally, the tax reform begins to rule this year, so results in the fiscal front are expected as well. It will likely ease the rating-downgrade risk in the short term.

COLOMBIA: APPENDIX

Dashboard

	Dec-16	Nov-16	Sep-16	Aug-16	Dec-15
Exchange rate (COP/USD, eop.)	3,002.5	3,076.0	2,884.4	2,973.5	3,179.5
Interest rate (%)	7.50	7.75	7.75	7.75	5.79
Inflation (y/y)	5.8%	6.0%	7,27%	8.1%	6.8%
Economic activity (y/y)	-	-	1.2%	2.3%	3.6%
Industrial activity (y/y)	-	-	4.2%	9.6%	3.8%

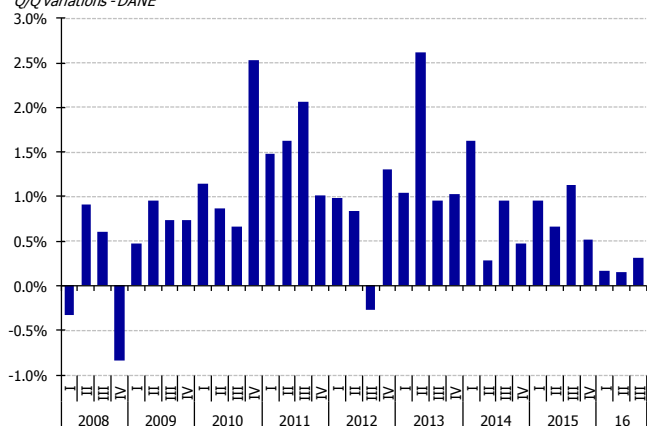
Source: EconViews based on several sources

Macroeconomic Outlook

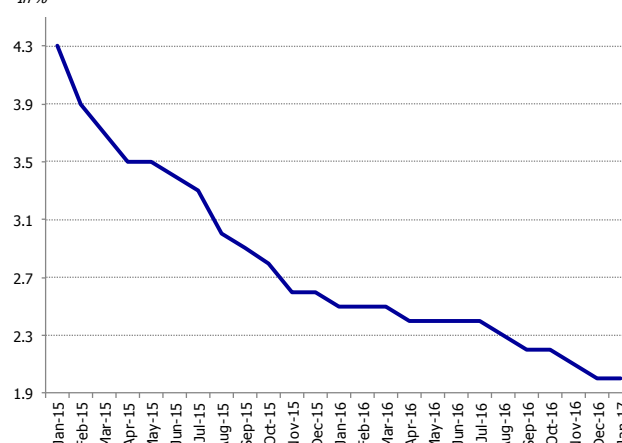
	2012	2013	2014	2015	2016F	2017F
GDP growth (%)	4.0%	4.9%	4.4%	3.1%	2.0%	2.5%
Inflation (Dec-Dec)	2.4%	1.9%	3.7%	6.8%	5.7%	4.4%
Fiscal Balance (% GDP)	-2.3%	-2.4%	-2.4%	-3.0%	-3.8%	-3.3%
Current Account (% GDP)	-3.1%	-3.3%	-5.2%	-6.5%	-5.9%	-4.3%
International reserves (USD Bn)	34.9	41.2	44.9	44.8	46.3	46.5
Exchange rate (COP/USD)	1,768.0	1,931.0	2,389.0	3,179.5	3,002	3,025

Source: EconViews based on Consensus Forecast & IMF

Real GDP
Q/Q variations - DANE



GDP growth - rolling forecasts for 2016
In %



Inflation - General CPI
Annual changes



Colombian Peso / Dollar



MEXICO

Good news	To be alert	Bad news
The government has successfully carried out the 4th set of oil field auctions of the energy reform, implying FDI for more than USD 40 bn.	After Trump's victory, Consensus' GDP forecasts for 2017 were reduced from 2.2% in October to 1.5% in January	The Mexican peso's depreciation is affecting both, tradable goods and non-tradable services prices; inflation is not expected to meet the CB's target in 2017

Politics

The Central Bank's Chief, Agustín Carstens, has recently presented a resignation letter to President Peña Nieto and will leave Banxico in July 2017 to lead the Bank for International Settlements (BIS). Thus, he leaves the country without its best-known policy maker amid new economic challenges from the Trump administration. However, this event is not expected to have negative implications for governance nor for the credibility of Mexico's monetary policy.

Economic Activity

Despite Mexico's economic activity accelerated in 3Q16, driven by the strong upturn in the services sector, it slowed down again in the beginning of 4Q16. The monthly GDP proxy (IGAE) grew 1.2% y/y in October and increased only 0.2% m/m. Mining and construction are contributing negatively to activity, while industrial production improved in November, but remains weak. We expect GDP to have grown 2.1% in 2016 and to increase 1.5% in 2017.

Inflation

Inflation was 3.36% y/y in December, meeting the Central Bank's target (2%-4%) for the second consecutive year. However, the outlook for 2017 is worsening as inflation keeps increasing on the back of a weaker peso and the liberalization of gasoline prices. Moreover, new increases in the LPG price, the minimum wage, local taxes and electricity prices, are threatening to ignite second-round effects. Thus, inflation will likely end this year around 4.9%, above the upper band of the target.

Monetary Sector

The Mexican peso closed 2016 at 20.7 MXN/USD and depreciated 20.7% throughout 2015. The outlook for 2017 depends largely on the course of U.S. policies on issues such as trade, immigration and remittances. We expect the Mexican Peso to stand around 21.45 MXN/USD in December 2017. Moreover, The Central Bank increased the policy rate by 50-bps in December, bringing it to 5.75%. We expect Banxico to deliver two 25-bps hikes in 2017 (up to 6.25%), in lockstep with the Fed.

Fiscal Front

Fiscal imbalances will likely narrow as the government has reduced its estimate for the primary deficit for 2016 from 0.4% of GDP to 0.3% of GDP, although it still expects public sector borrowing requirements of 3% of GDP. We expect fiscal deficit to moderate in 2017 and reach 2.7% of GDP. Additionally, the net debt rose significantly in 2016 due to the increase in the local currency value of foreign debt as a result of the depreciation of the MXN and the purchase of the National Electricity Company's pension liabilities.

What's coming next?

The prospects for 2017 have deteriorated, as the uncertainty over protectionism after Trump's victory is affecting investment. Moreover, tighter fiscal and monetary policies are likely to have a negative effect on consumption.

Profits from the central bank due to exchange rate gains on international reserves in 2016, could contribute to financial needs in 2017.

MEXICO: APPENDIX

Dashboard

	Dec-16	Nov-16	Oct-16	Sep-16	Dec-15	Dec-15
Exchange rate (MXN/USD, eop.)	20.74	20.58	18.87	19.40	17.19	17.19
Interest rate (%)	5.75%	5.25%	4.75%	4.75%	3.25%	3.25%
Inflation (y/y)	3.4%	3.3%	3.1%	3.0%	2.1%	2.1%
Economic activity (y/y)	-	-	1.2%	1.6%	2.6%	2.6%
Industrial activity (y/y)	-	0.0%	0.0%	-1.3%	0.2%	0.2%
Automotive production (y/y)	-	7.2%	-0.8%	1.9%	13.0%	13.0%

Source: EconViews based on several sources

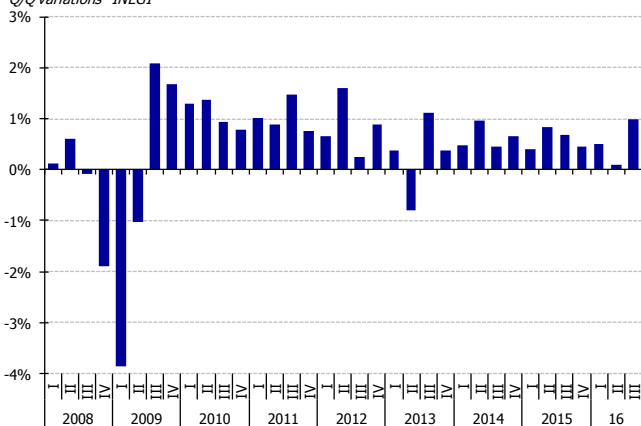
Macroeconomic Outlook

	2012	2013	2014	2015	2016F	2017F
GDP growth (%)	4.0%	1.4%	2.2%	2.5%	2.1%	1.5%
Inflation (Dec-Dec)	3.6%	4.0%	4.1%	2.1%	3.4%	4.9%
Fiscal Balance (% GDP)	-2.6%	-2.3%	-3.1%	-3.5%	-3.0%	-2.7%
Current Account (% GDP)	-1.4%	-2.4%	-1.9%	-2.8%	-2.6%	-2.6%
International reserves (USD Bn)	153.5	168.6	185.2	168.4	175.0	173.0
Exchange rate (MXN/USD)	12.87	13.04	14.75	17.19	20.70	21.45

Source: EconViews based on Consensus Forecast & IMF

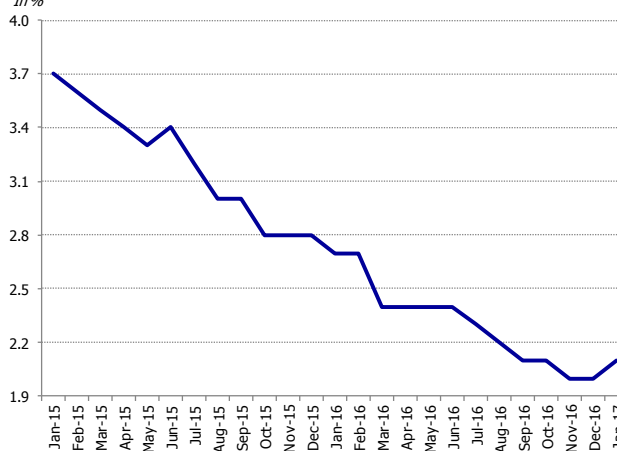
Real GDP

Q/Q variations - INEGI



GDP growth - rolling forecasts for 2016

In %



Inflation - General CPI

Annual changes



Mexican Peso / Dollar



PARAGUAY

Good news	To be alert	Bad news
Broad-based massive GDP growth and solid fiscal performance ensure locally-driven momentum for economic activity in the country.	President Trump has pledged to an ultra-protectionist view. Implications for trade flows, interest rates, emerging currencies and commodities prices could be overwhelming.	Political uncertainty stemming from a potential amendment to the Constitution could impair the positive trend the country has been recently experiencing

Politics	<p>President Cartes has resumed his ambitions to amend the Constitution and run for re-election. Although he had dropped the initiative a few months ago, the Official party is now back into the game and is presenting to the Superior Electoral Justice Court a 200.000-signature petition asking for the amendment. The outcome of the move is still uncertain, as allegations of irregularities behind the signatures collections may impair the initiative and spread political noise.</p>
Economic Activity	<p>GDP has expanded by 5% yoy in Q316. Although this figure represent a subtle slowdown as compared to Q216 performance, the improvement was still massive and across the board in several sectors like manufacturing (+7.1%), construction (+33%), livestock (+5.6%) and agriculture (+2.4%). The drivers of growth as seen from the demand side were net exports (+78%) and investment (+9.7%), while consumption remained barely unchanged. We foresee 2016 GDP to print a 3.7% yoy variance, while our 2017 forecast points to another 3.6% yoy growth.</p>
Inflation	<p>As of December, headline consumer prices grew 3.9% y/y and remained below the center of the central bank target range of 4.5% (+- 2%). The upward inflationary pressure in food prices was reinforced in December for the fifth month in a row as prices for meat and dairy products headed north in tandem with other seasonal Christmas meals. We expect inflation to stand around 4.3% in 2017.</p>
Monetary Sector	<p>By the end of December the Guaraní was trading at 5.830 to the dollar, barely unchanged during 2016, but weakening nearly 18% compared to the Brazilian real as the latter currency appreciated in nominal terms. In its December meeting, the central bank left the policy rate unchanged at 5.5%. Economic growth and inflation path are both evolving according to the BCP planned view. The decision was in line with market expectations</p>
Fiscal Front	<p>The 2017 national budget has been decreed on January 10 by taking the 2016 budget as reference. The Executive branch had sent a draft bill with salaries freezes (in line with the fiscal responsibility law) and a request to issue USD 600 million but the Senate rejected the draft and proposed salaries hikes in health and education and sliced the issuance of foreign debt to USD 350 million. The President vetoed the amendment by the Senate, putting automatically in place for 2017 the prior year budget as stated by the Constitution. Thus, fiscal consolidation will go on this year.</p>
What's coming next?	<p>Some top issues to watch for in Paraguay:</p> <ul style="list-style-type: none"> • The global markets implications of Trump being elected as US president • The US interest rates business cycle and its impact into commodities prices • The speed and strength of economic recovery in both Argentina and Brazil • The evolution of oil prices that may drag part of the trade surplus

PARAGUAY: APPENDIX

Dashboard

	Dec-16	Nov-16	Oct-16	Sep-16	Dec-15
Exchange rate (PYG/USD, eop.)	5,866.0	5,865.0	5,738.0	5,589.0	5,813.9
Interest rate (%)	5.50%	5.50%	5.50%	5.50%	5.75%
Inflation (y/y)	3.9%	4.2%	3.6%	3.5%	3.1%
Economic activity (y/y)	-	0.0%	-0.8%	6.5%	0.6%

Source: EconViews based on several sources

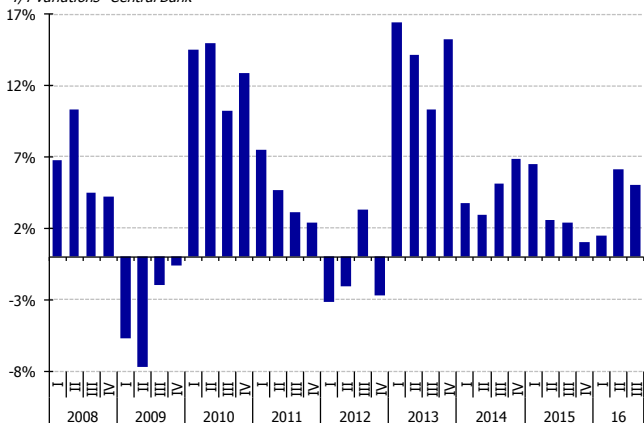
Macroeconomic Outlook

	2012	2013	2014	2015	2016F	2017F
GDP growth (%)	-1.2%	14.0%	4.7%	3.0%	3.7%	3.6%
Inflation (Dec-Dec)	4.0%	3.7%	4.2%	3.1%	3.9%	4.3%
Fiscal Balance (% GDP)	-1.6%	-1.4%	-0.7%	-2.5%	-2.5%	-2.7%
Current Account (% GDP)	-2.0%	1.7%	-0.4%	-1.8%	-1.2%	-1.1%
International reserves (USD Bn)	5.0	5.9	6.9	6.2	n.a.	n.a.
Exchange rate (PYG/USD)	4,260.0	4,610.9	4,642.2	5,813.9	5,768.0	6,000.0

Source: EconViews based on Consensus Forecast & IMF

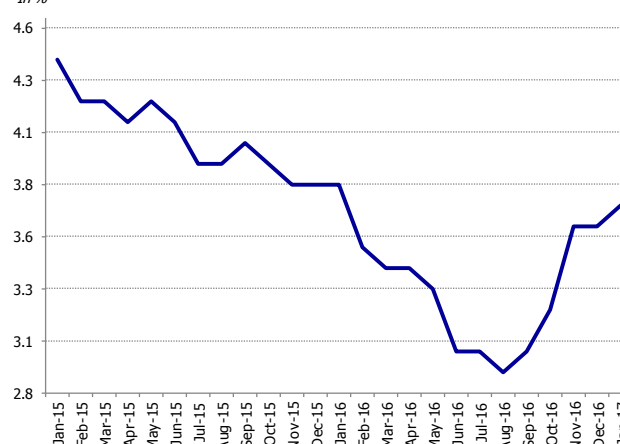
Real GDP

Y/Y variations - Central Bank



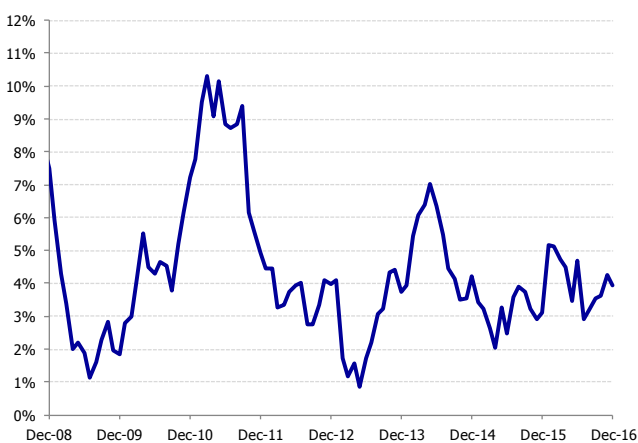
GDP growth - rolling forecasts for 2016

In %



Inflation - General CPI

Annual changes



Paraguayan Guarani / Dollar



PERU

Good news	To be alert	Bad news
Fiscal deficit was lower than expected in 2016: 2.7% of GDP, as government put a brake on expenditure.	Inflation decelerated in December to 3.2% but is still above the Central Bank's upper limit of 3.0%	Construction plunged 16.5% in Oct-16 and 8.7% in Nov-16, driven by less public works.

Politics

The government had recently approved some structural reforms in order to boost investment. Amongst this measures, the most important is the option for firms to pay taxes by investing and the deregulation of Proinversión, an agency that promotes national investment.

The concession for the Peruvian Southern Pipeline Project (GSP) is about to end, as Odebrecht is one of the participants and the license will be given back to the state.

Economic Activity

Economic activity slowed down its pace of growth in the 4Q-16: In November it grew 3.2% y/y, after growing at a very fast pace in the previous quarters. The driver was the cut of public expenditure in order to reach the fiscal target for 2016, which had a negative impact on investment. Construction fell 16.5% y/y in Oct-16.

For 2017, the forecast for GDP remains at 4.1% and the key to sustain this growth is investment, in particular, public works.

Inflation

Headline inflation decelerated in December and was 3.2%, still above the Central Bank's upper band of 3.0%, while core inflation (excludes food & energy) reduced from 3.0% to 2.87%. On a monthly basis, headline inflation was 0.33%, mainly due to the increase in the price of food and energy. Also, inflation expectations for 12 months are showing a decreasing path.

For 2017, inflation is expected to be at 2.9%, still above the target of 2.0%.

Monetary Sector

The PEN appreciated 1.9% in December, and nowadays the trend continues and stands around PEN 3.33. The increase in the price of copper is influencing this currency.

The Central Bank decided to maintain its policy rate at 4.25% as headline inflation is still above the upper band. Moreover, a context with more volatility in the exchange rate could have an inflationary impact.

Fiscal Front

In order to achieve the fiscal target of 3.0% of GDP, government reduced expenditure in the 4Q-16 and ended at 2.7%. With this decision, it is expected that in 2017 will have more space to spend. VAT reduction from 18% to 17% will take place on Jul-17 only if VAT net from devolutions reach 7.2% of GDP in May-17. On the contrary, VAT will remain the same. It is believed that this goal is difficult to achieve. For 2017, fiscal balance is expected to reduce 0.1 p.p. to 2.6%.

What's coming next?

As long as climate conditions and a more stable exchange rate allows it, inflation could slow down in the upcoming months. To achieve this, the Central Bank will probably maintain its policy rate along 2017.

Better terms of trade will favor growth, but investment needs to be boosted to sustain it. Also, the economy needs to improve its imbalances, as domestic demand is not growing so fast as the external sector.

PERU: APPENDIX

Dashboard

	Dec-16	Nov-16	Oct-16	Sep-16	Dec-15
Exchange rate (<i>PEN/USD, eop.</i>)	3.36	3.42	3.36	3.38	3.42
Interest rate (%)	4.25	4.25	4.25	4.25	3.75
Inflation (<i>y/y</i>)	3.2%	3.4%	3.4%	3.1%	4.4%
Economic activity (<i>y/y</i>)	-	3.2%	2.1%	4.1%	6.6%
Manufacturing activity (<i>y/y</i>)	-	-	-3.3%	2.6%	5.3%
Mining production (<i>y/y</i>)	-	-	15.6%	14.2%	23.1%

Source: EconViews based on several sources

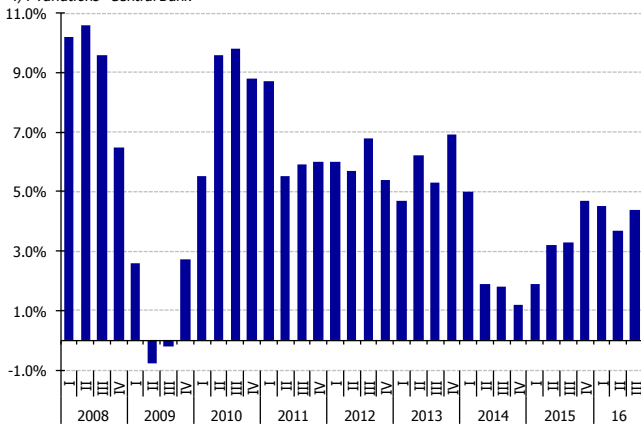
Macroeconomic Outlook

	2012	2013	2014	2015	2016F	2017F
GDP growth (%)	6.0%	5.9%	2.4%	3.3%	3.9%	4.1%
Inflation (<i>Dec-Dec</i>)	2.6%	2.9%	3.2%	4.4%	3.2%	2.9%
Fiscal Balance (% GDP)	2.3%	0.9%	-0.3%	-2.1%	-2.7%	-2.6%
Current Account (% GDP)	-2.7%	-4.3%	-4.0%	-4.4%	-3.8%	-3.1%
International reserves (<i>USD Bn</i>)	61.2	63.2	60.1	59.4	61.1	62.9
Exchange rate (<i>PEN/USD</i>)	2.56	2.80	3.00	3.42	3.36	3.47

Source: EconViews based on Consensus Forecast & IMF

Real GDP

Y/Y variations - Central Bank



GDP growth - rolling forecasts for 2016

In %

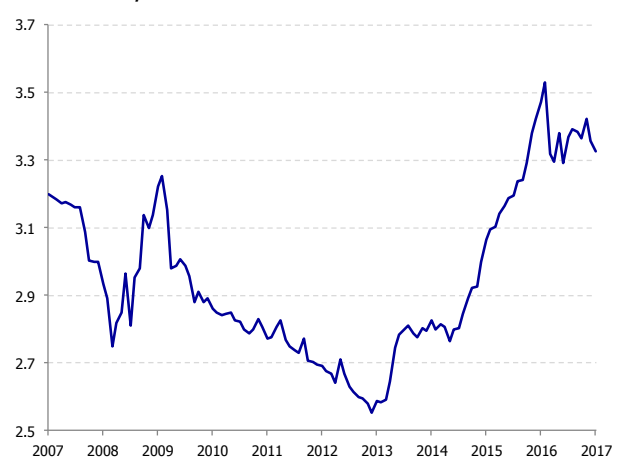


Inflation - General CPI

Annual changes



Peruvian Sol / Dollar



URUGUAY

Good news	To be alert	Bad news
After a period of job destruction that lasted nearly two years, the unemployment rate is trending down and reached 7.7% in November.	Like other countries in the region, Uruguay is heavily dependent on the results of the US elections, its stance in monetary policy cycle and commodities prices	The delay of economic recovery in neighboring Argentina and Brazil is affecting the performance of sectors like manufacturing and services (ex tourism).

Politics

The approval rating of President Vázquez headed south by the end of 2016 to read 35% in December, materially lower than the 50% support the garnered in April 2015, a month after stepping in. The top concerns within the population's agenda are very stable month after month: personal security, the economic situation, employment, salaries, inflation and education.

Economic Activity

After a period job destruction that spanned nearly two years, the unemployment rate went down to 7.7% in November (down from 7.9% a year earlier). The recovery is in line with a 2% yoy GDP growth during Q3, driven by the primary sector and transport and telecommunications. By demand component, investment by the private sector was the best performer with a 5.3% yoy variance. We foresee a 0.7% full year growth in 2016 followed by a 1.3% GDP expansion in 2017.

Inflation

Inflation slowed again in December to print a monthly deflation of 0.5% and a 8.1% y/y CPI variance after peaking at 11.0% last May. Although still above the target range set by the Central Bank (3%-7%), the slowdown can be explained mostly by the nominal appreciation of the Peso (the exemption was the depreciation during November) coupled with weak economic activity earlier in 2016. Full 2017 inflation figures will remain at the current levels, slightly above the Central Bank target.

Monetary Sector

In a context of stronger Latam currencies, the UYU has gained nearly 1.9% against the US dollar throughout 2016 to end last year at 29.35 but lost significant ground against the BRL, weakening nearly 20%. The BCU monetary policy remains tight with the policy rate at 11% and a target of M2 yoy growth in the 3-5% range. In light of a tougher global environment, we foresee a smooth devaluation of the UYU in the months ahead.

Fiscal Front

A stable fiscal deficit of 3.5% of GDP was recorded as of October, with revenues growing 11.3% y/y compared to a 10% y/y performance for primary expenditures. Interests on debt amount to 3.2% of GDP. 2017 will probably come with fiscal deficit reduction of 1 percentage point of GDP as the government delivers the fiscal consolidation and the economy jumpstarts.

What's coming next?

Lower inflation and a pick-up in Brazilian and Argentinean activity (although tepid) should help GDP. The good news is that the bottom in economic activity apparently formed in Q3 might be factored into a lower unemployment. The election of Trump as US President will have implications in monetary and fiscal policies, along with commodities prices and interest rates that should be closely monitored.

URUGUAY: APPENDIX

Dashboard

	Dec-16	Nov-16	Oct-16	Sep-16	Dec-15
Exchange rate (UYU/USD, eop.)	29.35	29.10	28.35	28.52	29.94
Interest rate (%)	11.50%	11.00%	12.00%	12.00%	12.27%
Inflation (y/y)	8.1%	8.1%	8.5%	8.9%	9.4%
Economic activity (y/y)	-	-	3.1%	2.6%	-1.4%
Manufacturing activity (y/y)	-	0.0%	-3.0%	6.0%	-0.2%

Source: EconViews based on several sources

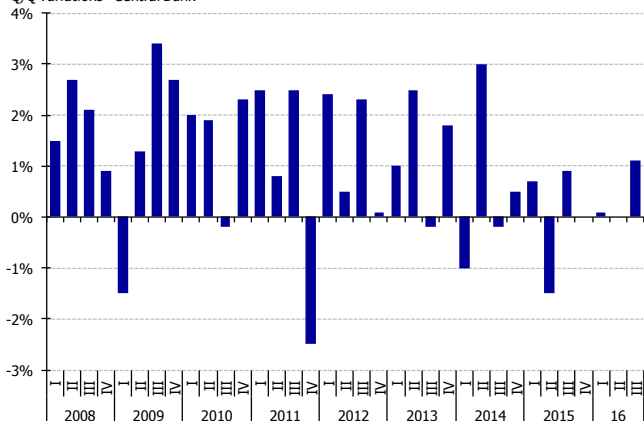
Macroeconomic Outlook

	2012	2013	2014	2015	2016F	2017F
GDP growth (%)	3.5%	4.6%	3.2%	1.0%	0.7%	1.3%
Inflation (Dec-Dec)	7.5%	8.5%	8.3%	9.4%	8.1%	8.3%
Fiscal Balance (% GDP)	-2.7%	-2.3%	-3.5%	-3.5%	-3.7%	-3.3%
Current Account (% GDP)	-5.0%	-4.9%	-4.3%	-3.9%	-3.9%	-3.7%
International reserves (USD Bn)	13.6	16.3	17.8	15.6	n.a.	n.a.
Exchange rate (UYU/USD)	19.28	21.18	24.42	29.94	29.35	32.00

Source: EconViews based on Consensus Forecast & IMF

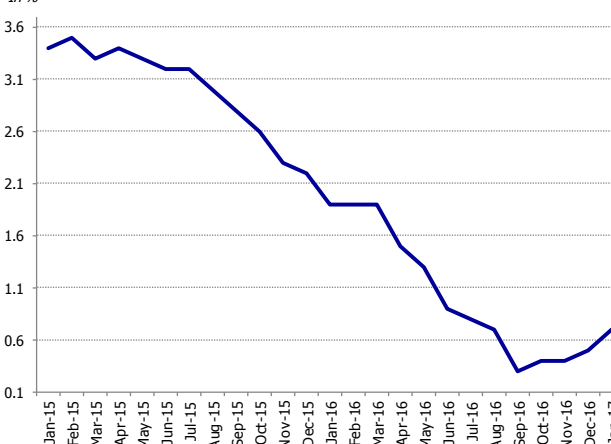
Real GDP

Q/Q variations - Central Bank



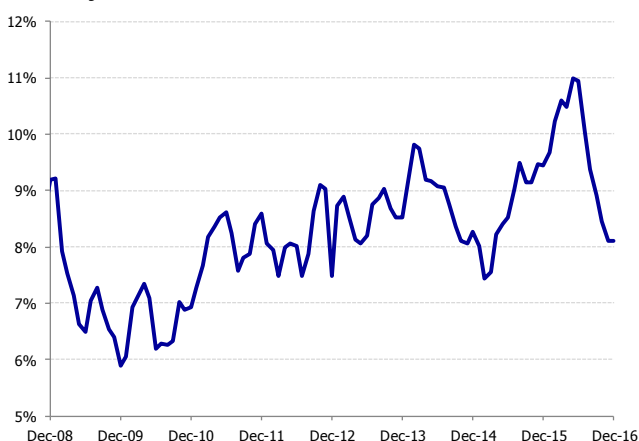
GDP growth - rolling forecasts for 2016

In %



Inflation - General CPI

Annual changes



Uruguayan Peso / Dollar

