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LATAM 7 + Argentina

Macro Brief

January, 2018

- ✓ **Argentina:** An intense December that brought many changes
- ✓ **Brazil:** Increasing uncertainty regarding the reform agenda
- ✓ **Chile:** A new political cycle starts in March
- ✓ **Colombia:** Credit rating downgraded to BBB-
- ✓ **Mexico:** One eye on elections and the other on NAFTA
- ✓ **Paraguay:** The names running for President are on the table
- ✓ **Peru:** President PPK avoided impeachment
- ✓ **Uruguay:** Better 2018 due to good neighbors

ARGENTINA

Good news	To be alert	Bad news
The primary fiscal deficit in 2017 was lower than the official target. This year inflation is likely to lower and GDP to grow again, which mean two years in a row for the first time since 2010-11.	In Dec-17 the confidence in the Government recorded its largest fall since Macri is President. This may affect the tactical alliance with sectors of the opposition to pass important laws this year.	Higher inflation targets were announced for 2018-19. Inflation in December accelerated to 3.1% and reached 24.8% in annual terms, well above the target of 17%. Exports grew only 1% in 2017.

Politics

The year ended with bells and whistles, as the Congress had a heated debate due to the pension and tax reforms, while the government in a controversial move changed the inflation targets. The Government succeeded in passing the 2018 Budget, the tax reform and the pension reform. Although the approval of reforms was key to improve the fiscal consolidation, the confidence in the Government recorded its largest fall (-20.3%) during Macri's Administration, doubling the drop of April 2016 (10%).

Economic Activity

GDP grew for the fifth consecutive quarter in Q3. In yearly terms, GDP recorded a 4.2% increase, driven by investment, which grew 13.9%, both thanks to capital goods and construction. Moreover, in October it recorded a monthly increase of 0.2%, while the yearly variation reached 5.2%, the highest since June 2015. All in all, GDP is likely to grow 2.8% in 2017. For 2018 we expect GDP to expand 3.3%, driven again by a growth of investment of 10%. Consumption is likely to lag behind with a growth of 2.4%, as real wages will suffer from hike in utilities rates and tougher wage negotiations.

Inflation

Monthly inflation in December accelerated significantly to 3.1%, mainly due to hikes in utility rates, and reached 24.8% in annual terms, well above the official target (17%). We expect inflation will go down slowly to 19% in Dec-18, in light of the postponement of the 5% target from 2019 to 2020 and the subsequent marginal monetary easing. While it is above the 15% target, would mean a new deceleration relative to last year, this time of 6 points, the half than the previous year (37% in Dec-16 vs. 25% in Dec-17).

Monetary Sector

The last week of 2017 surprised with a press conference by the full economic team, with announcements regarding fiscal targets and changes in the monetary policy. New inflation targets were announced: the 2018 inflation target was modified to 15% and the bands were discarded, while the 5% inflation target for 2019 was deferred for one year to 2020. The Central Bank reacted to the new targets by reducing interest rates by 200 bps for the 35 days Lebacs, and by 400 bps for the 270 days one. We adjusted our inflation forecast for 2018 to 19% from 18% before the announcement.

Fiscal Front

The primary deficit in 2017 was lower than the official target. It reached 3.9% of GDP, 0.4% below 2016 and 0.3% lower than the official target of 4.2%. The next targets are a primary deficit of 3.2% of GDP this year and of 2.2% in 2019. Despite there will be no revenues from the tax amnesty this year, the market consensus consider the target will be meet, thanks to the recent changes in the way to adjust pensions, new hikes in utility rates, extraordinary revenues from Banco Nación and "accounting revaluation" and higher tax revenues thanks to economic growth.

What's coming next?

The MSCI will announce soon if Argentina is upgraded to an emerging market. It is important to watch whether the government will be able to keep its tactical alliance with parts of the opposition to pass important laws this year (as the labor reform, new capital markets law, new election law and changes in the judiciary system, among others). The opposition remains divided and the key to monitor is whether the Peronist party can reorganize itself in the face of the next year Presidential election.

ARGENTINA: APPENDIX

Dashboard

	Dec-17	Nov-17	Oct-17	Dec-16	2016
Exchange rate (ARS/USD, eop.)	18.77	17.38	17.67	15.85	15.85
Interest rate (%)	28.75%	28.75%	27.75%	24.75%	24.75%
National inflation (y/y)	24.8%	22.7%	22.9%	36.6%	36.6%
Economic activity (y/y)	-	-	5.2%	0.2%	-2.2%
Industrial activity (y/y)	-	3.5%	4.4%	-2.3%	-4.6%
Automotive production (y/y)	-17.0%	-3.7%	15.9%	27.3%	-10.2%

Source: EconViews based on several sources

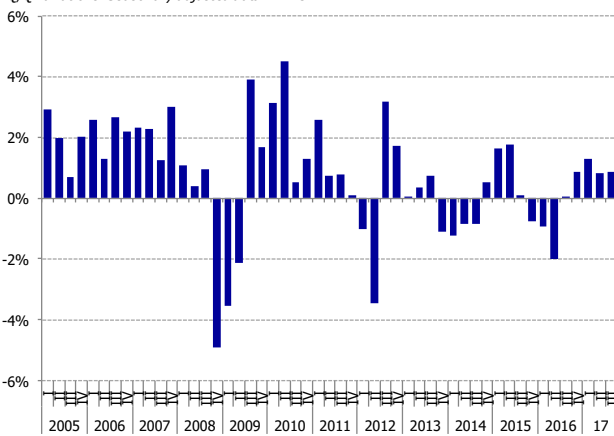
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	-2.5%	2.6%	-2.2%	3.0%	3.3%
National inflation (Dec-Dec)	36.7%	28.4%	36.6%	24.8%	19.0%
Fiscal Balance (% GDP)	-4.5%	-5.6%	-5.9%	-5.7%	-5.1%
Current Account (% GDP)	-1.5%	-2.7%	-2.7%	-5.0%	-5.1%
International reserves (USD Bn)	31.4	25.6	39.3	55.1	64.3
Exchange rate (ARS/USD)	8.55	13.01	15.85	18.77	21.00

Source: EconViews based on official figures and own estimates

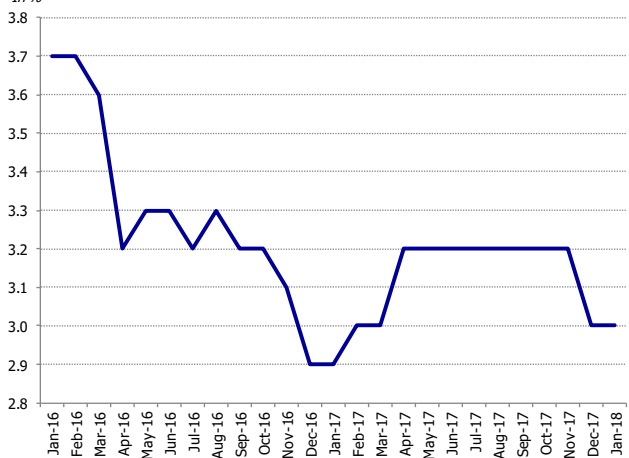
Real GDP

Q/Q variations - Seasonally adjusted data INDEC



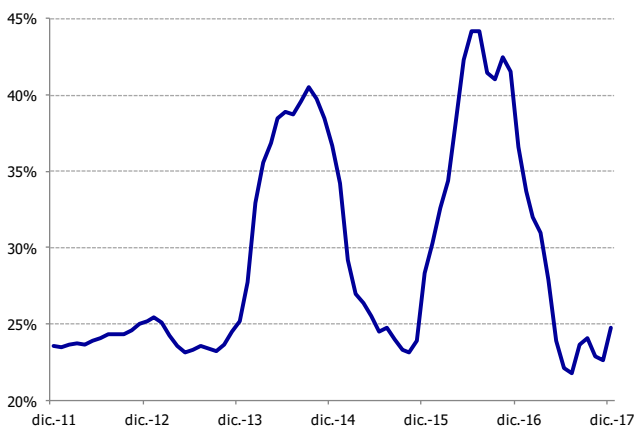
GDP growth - rolling forecasts for 2017

In %

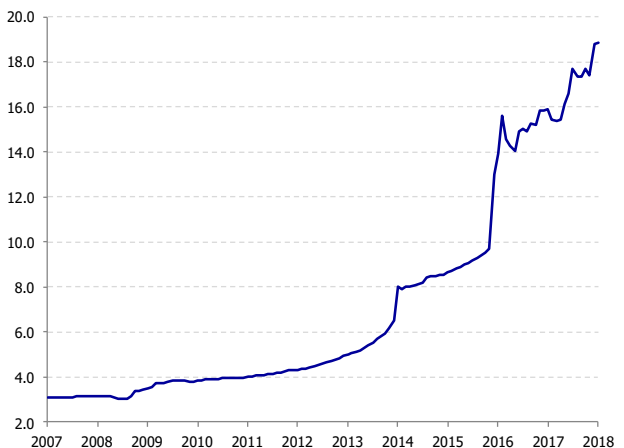


Inflation - General CPI

Annual changes



Argentinian Peso / Dollar



BRAZIL

Good news	To be alert	Bad news
All-time high trade surplus in 2017: USD 67.1 billion.	Fiscal deficit was lower than expected in 2017, but the approval of the pension reform is essential for fiscal consolidation	S&P's cut Brazil's sovereign credit rating from BB to BB- and changed the outlook to stable.

Politics

Brazil's presidential race remains wide open. The electorate is deeply divided with former President Luiz Inacio Lula da Silva of the leftist Workers' Party (34%) extending his lead while far-right congressman Jair Bolsonaro (17%) consolidates in second place, followed by Marina Silva (9%). The São Paulo State Governor Gerardo Alckmin is tied with Ciro Gomes, both with 6%. However, Lula Da Silva may not be able to run, if a higher court upholds a corruption sentence against him.

Economic Activity

Economic activity grew for the third consecutive month in November (0.5% m/m s.a.) and accumulated a 1.0% growth compared to the same period of 2016. We expect GDP to display a 1.0% growth for 2017, while it is likely to grow 2.6% this year. This forecast assumes that the reform agenda will continue going forward. Moreover, unemployment declined to around 12.5% last year (from 12.6%), and is expected to stand around 11.8% at the end of this year.

Inflation

Monthly inflation was 0.44% in December, and ended last year at 2.95%, well below the 6.29% recorded in 2016 and the lower-bound of the target range (3.0%). In particular, services inflation was 4.5%, while inflation in regulated prices was 8.0%. For 2018, inflation is expected to stand at 4.1%, helped by the lower inertia from past inflation, anchored expectations and the negative output gap, but affected by less favorable weather conditions impacting on food prices, and a weaker Real.

Monetary Sector

The exchange rate ended 2017 at 3.31 BRL per USD, which implied an annual depreciation of 1.7%. We expect a weaker exchange rate in 2018, standing around 3.50 BRL/USD. Moreover, in December the Monetary Policy Committee cut the SELIC by 50 bps, taking it to 7.0%. Unless the economy surprisingly grows faster than expected, the Committee will reduce the SELIC by 25 bps, to 6.75% in its next meeting, on February. We expect the SELIC to reach 6.5% at the end of this year.

Fiscal Front

The fiscal result in 2017 was better than expected: the deficit reached 8.3% of GDP (9.0% in 2016). This performance was favored by the accounting of extraordinary revenues from the REFIS tax amnesty program and better results from states and municipalities. We expect the fiscal deficit to moderate to 7.3% of GDP in 2018. On another note, S&P's cut Brazil's sovereign credit rating from BB to BB- and changed the outlook to stable (from negative) as doubts grew about the result of the presidential election in October and the approval of the pension system.

What's coming next?

- The pension reform is scheduled to be debated in late February by the Congress, but the political consensus for its approval is still not guaranteed. This reform is essential for the government in order to comply with the constitutional spending cap after 2019.
- The outcome of the debate in the Congress will have its consequences on the exchange rate. A quicker approval than expected might appreciate slightly the exchange rate, while a reversal may trigger a depreciating trend.

BRAZIL: APPENDIX

Dashboard

	Dec-17	Nov-17	Oct-17	Dec-16	2016
Exchange rate (BRL/USD, eop.)	3.31	3.27	3.27	3.26	3.26
SELIC (%)	7.00%	7.50%	7.50%	13.75%	13.75%
Inflation (y/y)	2.9%	2.8%	2.7%	6.3%	6.3%
Economic activity (y/y)	-	2.8%	3.1%	-2.4%	-3.6%
Industrial activity (y/y)	-	4.7%	5.5%	0.1%	-6.4%
Automotive production (y/y)	-	18.8%	27.6%	18.1%	-12.1%

Source: EconViews based on several sources

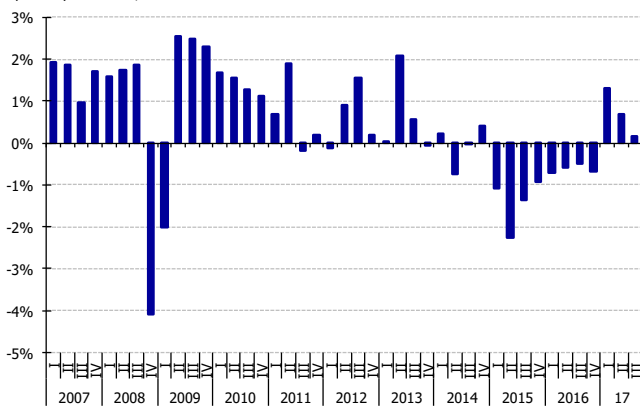
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	0.5%	-3.8%	-3.6%	1.0%	2.6%
Inflation (Dec-Dec)	6.4%	10.7%	6.3%	2.9%	4.1%
Fiscal Balance (% GDP)	-6.1%	-10.2%	-9.0%	-8.3%	-7.3%
Current Account (% GDP)	-4.2%	-3.3%	-1.3%	-1.4%	-1.8%
International reserves (USD Bn)	354.8	348.9	356.8	373.8	379.2
Exchange rate (BRL/USD)	2.66	3.96	3.26	3.31	3.50

Source: EconViews based on Consensus Forecast & IMF

Real GDP

quarterly variations, in %



GDP growth - rolling forecasts for 2017

In %



Inflation - General CPI

Annual changes



Brazilian Real / Dollar



CHILE

Good news	To be alert	Bad news
Chilean stock market ended 2017 with its best performance since 2010.	In 2017 total factor productivity fell 0.7% due to the performance in the mining, industry, electricity and trade sectors.	In the quarter ending in Nov-17, unemployment increased and reached 6.5% (6.2% last year).

Politics

Piñera was elected in Dec-17 as the new president in a ballotage with 54.6% of the votes, beating Guillier (the officialist candidate), who obtained 45.4% and could not fully capture the votes from Beatriz Sánchez (20% in the first round). Participation increased compared to general elections from 46.7% to 49%. The previous results had been 36.6% of the votes for Piñera and 22.7% for Guillier. The new president will take office on Mar-18.

Economic Activity

Economic activity (IMACEC) accelerated and grew 3.2% in Nov-17 while on a monthly basis it went up 0.7% after falling 0.2%. This performance was not balanced: non-mining activity grew 0.9% m/m (3.2% y/y) while mining activity recorded its 3rd consecutive m/m fall and decelerated its y/y growth. Good news was the recovery of consumer confidence, which was optimistic for the first time on 43 months. GDP is expected to grow at a faster pace in 2018 (3.1%), after the mild 1.5% of 2017.

Inflation

In Dec-17 inflation rebounded from the previous 1.9% y/y and reached 2.3%, the highest level since May-16 and surpassed the lower target bound of 2.0%. On a monthly basis, it went up 0.1% m/m. Again, the main driver were non-tradable goods (3% y/y) while tradable goods prices went up 1.7% y/y. This way, inflation was below the target of 3.0% for the 15th consecutive month. For 2018, is likely to be 2.6%.

Monetary Sector

After peaking at CLP/USD 655 before the ballotage in Dec-17, the currency appreciated 8% and reached 605, where it stands nowadays. Higher copper prices are influencing this performance. However, monetary normalization in the US will affect the currency, which could depreciate to 635. In Dec-17, the CB maintained the policy rate in 2.5% for the 8th consecutive month. Monetary easing ahead could be implemented as inflation is still low.

Fiscal Front

Government revenues accumulated a growth of 5.3% in real terms up to Nov-17. The main driver was the increase on tax revenue from mining companies. Expenditure decelerated and grew 4.5%, mainly driven by the payment of interests and subsidies while capital expenditure decreased 6.5%. In this scenario, fiscal deficit is expected to reach 2.7% of GDP this year and to narrow to 2.2% for 2018.

What's coming next?

A tax and pension reform is expected but Piñera will have to make alliances as his party does not have a majority in Congress. Regarding the pension reform, the project presented by Bachelet includes an extra 5% employer contribution shared between private pension system and a collective savings fund. Piñera said the contribution would be 4% and only to the private system.

CHILE: APPENDIX

Dashboard

	Dec-17	Nov-17	Oct-17	Dec-16	2016
Exchange rate (CLP/USD, eop.)	616.15	647.70	636.95	670.30	670.30
Interest rate (%)	2.5%	2.5%	2.5%	3.5%	3.5%
Inflation (y/y)	2.3%	1.9%	1.9%	2.7%	2.7%
Economic activity (y/y)	-	3.2%	2.9%	0.6%	1.6%
Industrial activity (y/y)	-	1.9%	0.4%	0.5%	-0.5%
Mining production (y/y)	-	4.2%	10.2%	1.2%	-3.5%

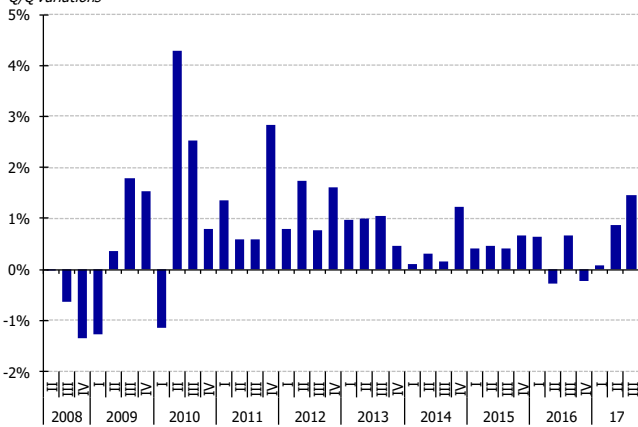
Source: EconViews based on several sources

Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	1.9%	2.3%	1.6%	1.5%	3.1%
Inflation (Dec-Dec)	4.6%	4.4%	2.7%	2.3%	2.6%
Fiscal Balance (% GDP)	-1.5%	-2.1%	-2.7%	-2.7%	-2.2%
Current Account (% GDP)	-1.7%	-1.9%	-1.4%	-2.3%	-2.8%
International reserves (USD Bn)	38.9	37.2	39.5	38.6	38.9
Exchange rate (CLP/USD)	607.4	709.4	670.3	616.2	635.0

Source: EconViews based on Consensus Forecast & IMF

Real GDP
Q/Q variations



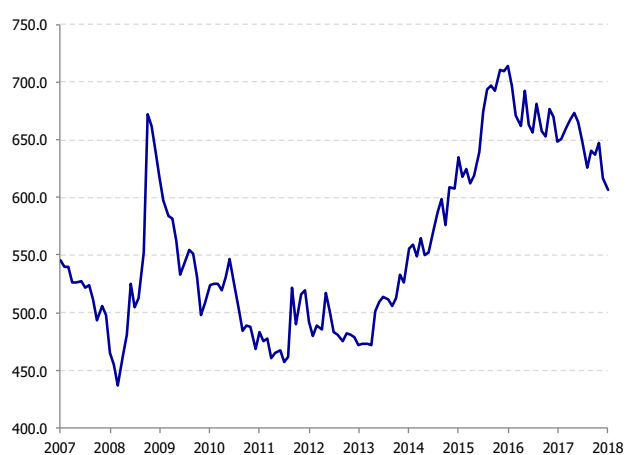
GDP growth - rolling forecasts for 2017



Inflation - General CPI
Annual changes



Chilean Peso / Dollar



COLOMBIA

Good news	To be alert	Bad news
Stronger global growth and favorable financial conditions will enable GDP to pickup to 2.5% this year. Inflation ended at 4.1%, slightly above 2-4% target, but below 5.8% of 2016 and 6.8% of 2015.	The first semester will be defining. On March 11th will be held the legislative elections and on May 27th the presidential elections. Second round, if necessary, would be on June 17th.	Colombia came close to losing the investment grade. S&P reduced the credit rating from 'BBB' to 'BBB-'. Slower growth and poor results of the tax reform make difficult to comply the fiscal rule.

Politics

The Peace Agreement and corruption are pivotal in the campaign. The Presidency is likely to be contested by three large groups. The right created a coalition that unites Pastrana's and Uribe's parties and the candidates are Iván Duque, Marta Ramírez and Alejandro Ordoñez. The center and the left are grouped on Coalition Colombia, with Sergio Fajardo as the candidate and corruption as the central axis, and another left wing coalition with Gustavo Petro and Clara López as references.

Economic Activity

Last figures were disappointing. Industrial output showed another contraction, while retail sales in 4Q fell 0.1% yoy, much weaker than in 3Q (+1.2% yoy), as labor market remains weak and is becoming a drag for consumption, as urban employment is 1% lower than year ago. This slowdown is probably linked to the lagged effects of the contractionary monetary policy of 2016. As a result, there was a downward revision of the GDP forecast for 2017 from 1.8% to 1.7%. For 2018 the consensus expects 2.5%.

Inflation

Annual inflation ended year 2017 at 4.1%. For third year in a row, it finished above the Central Bank target of 2-4%, although significantly below the 5.8% of 2016 and 6.8% of 2015. With a still negative output gap, a stronger Colombian peso and lower inflationary pressures, everything is pointing out to a new deceleration of inflation throughout this year. The market consensus expects annual inflation to end year 2018 at 3.3%, down from 4.1% in 2017.

Monetary Sector

The Central Bank become more cautious after inflation in November was higher than expected. As a result, the board decided to hold the policy rate at 4.75%, after two cuts of 25 bps in October and November. While there seems to be still some room for further easing, it is clear that easing is about to end, probably at 4%. Also, the current account deficit is lowering, while the currency is performing favorably. The consensus expects the FX rate at 3,050 Pesos per US at the end of 2018.

Fiscal Front

Colombia's rating was lowered by a notch to BBB-, as there are concerns about the ability to meet fiscal targets. The fiscal rule has a deficit target of 1.0% of GDP to be gradually reached by 2024, from the current deficit of 3.6% of GDP in 2017. After the downgrade was known, the Government made adjustments to its expenditures to ensure alignment with the fiscal rule target for 2018 of 3.1% of GDP. The chance that at some moment the Congress will discuss the need to ease the fiscal rule diminished.

What's coming next?

Checklist of issues to monitor in the domestic front:

- Whether abstention lowers or not in next elections (it averaged 60% in the last two)
- The tensions with Venezuela and the transition of FARC to politics
- The behavior of economic activity, which is still far from remain solid
- The statements from credit agencies and new possible changes in credit ratings
- The evolution of fiscal accounts and the stance of monetary policy

COLOMBIA: APPENDIX

Dashboard

	Dec-17	Nov-17	Oct-17	Dec-16	2016
Exchange rate (COP/USD, eop.)	2,987	3,019	3,042	3,003	3,003
Interest rate (%)	4.69%	4.75%	5.02%	7.50%	7.50%
Inflation (y/y)	4.1%	4.1%	4.1%	5.7%	5.7%
Economic activity (y/y)	-	-	1.5%	1.8%	2.0%
Industrial activity (y/y)	-	-	-0.3%	2.9%	3.7%

Source: EconViews based on several sources

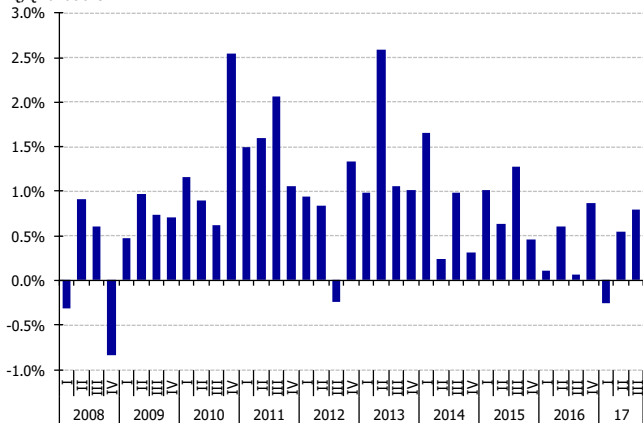
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	4.4%	3.1%	2.0%	1.7%	2.5%
Inflation (Dec-Dec)	3.7%	6.8%	5.7%	4.1%	3.3%
Fiscal Balance (% GDP)	-2.4%	-3.0%	-4.0%	-3.7%	-3.3%
Current Account (% GDP)	-5.2%	-6.4%	-4.3%	-3.8%	-3.6%
International reserves (USD Bn)	44.9	44.8	45.0	47.1	47.8
Exchange rate (COP/USD)	2,389	3,180	3,003	2,987	3,050

Source: EconViews based on Consensus Forecast & IMF

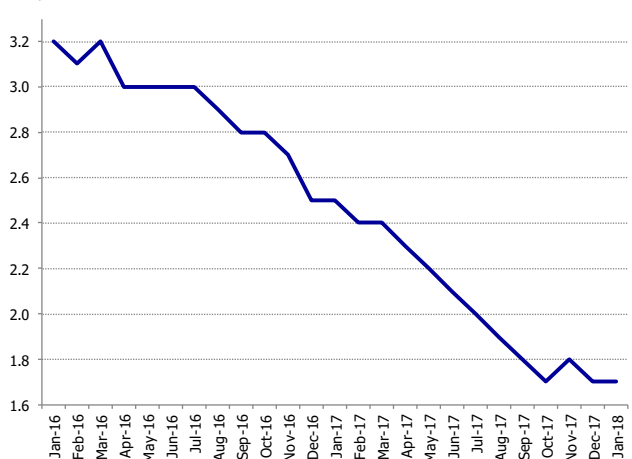
Real GDP

Q/Q variations - DANE



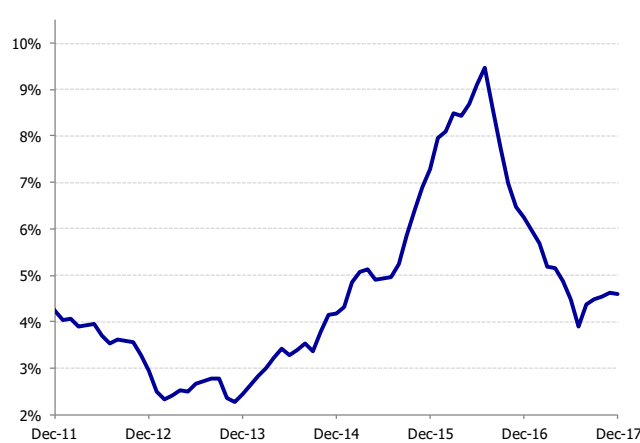
GDP growth - rolling forecasts for 2017

In %



Inflation - General CPI

Annual changes



Colombian Peso / Dollar



MEXICO

Good news	To be alert	Bad news
The fiscal deficit reduced strongly in 2017 amid both, larger revenues and lower expenditure: 1.5% of GDP vs 2.5% in 2016	NAFTA renegotiation talks will be continued during late January and there are concerns regarding the position of the United States	Inflation in 2017 was higher than expected: 6.8% vs. 3.4% in 2016

Politics

The presidential candidates running in July’s elections are already defined: Lopez Obrador (Morena), José Antonio Meade (PRI), Ricardo Anaya (PAN-PRD right-center-left alliance), and Margarita Zavala (independent). The most recent polls indicate that Lopez Obrador is leading the presidential race by a significant margin, with 31% of vote intentions, followed by Ricardo Anaya (23%), José Antonio Meade (16%) and Margarita Zavala (10%).

Economic Activity

Economic activity decelerated in the 3Q17, affected by the hurricanes and earthquakes suffered by the country. Thus, GDP grew 0.9% q/q after growing 1.9% in the 2Q17. Private consumption also moderated its growth, from 3.4% to 1.9%, while fixed investment fell 1.0% q/q, after dropping 1.3% in the 2Q. However, the economy began to recover in the 4Q17, and grew 0.1% m/m and 1.5% y/y in October. We expect GDP to display a 2.1% growth in 2017, and to grow 2.2% this year, as the improvement in the labor market and lower inflation will boost consumption.

Inflation

Annual headline inflation jumped to 6.8% in 2017, considerably above the record for 2016 (3.4%). Moreover, core inflation stood at 4.90%. The higher than expected figures for 2017 were driven by the increase in the liquefied petroleum gas price and the relatively weaker Peso during the last two months of the year. We expect inflation to decelerate this year, to levels around 4.0%. Moreover, Mexico will introduce a new inflation methodology in the second half of 2018 that will include measures from more cities and small towns as well as a greater range of products.

Monetary Sector

The Mexican Peso ended last year at 19.66 MXN per USD, which implied an appreciation of 10.4% compared to 2016. We expect the exchange rate to stand around MXN 18.50 per Dollar at the end of 2018, appreciating 5.9%. On another note, the Central Bank increased its policy rate by 25 bps, from 7.0% to 7.25%, during December, after three meeting without changes. Due to the higher than expected inflation, we expect a 25 bps rate hike in February (to 7.5%). However, if risks reduce, the interest rate is likely to close the year at 7.0%.

Fiscal Front

The fiscal deficit narrowed last year due to larger revenues, favored by the increase in oil prices, and lower expenditures, particularly capital expenditure. Excluding the dividends transferred by the Central Bank, the 12-months rolling primary balance reached 0.6% of GDP in November, while the 12-months nominal fiscal deficit narrowed to 1.7% of GDP. We expect the fiscal balance to display a deficit of around 1.5% of GDP for 2017 that is likely to slightly increase to 2.1% of GDP this year. In this context, net public debt stood around 43.5% of GDP during last November.

What’s coming next?

NAFTA renegotiation talks will be continued during January 23-28 in Montreal. The last NAFTA meetings of 2017 did not address the more controversial issues. Mexico and Canada fear Trump will follow through on a promise to pull out of NAFTA, causing disruption and economic damage. Trump believes the NAFTA has reshaped the continent's automotive sector, and he wants major changes to be made in order to return manufacturing jobs to the United States.

MEXICO: APPENDIX

Dashboard

	Dec-17	Nov-17	Oct-17	Dec-16	2016
Exchange rate (MXN/USD, eop.)	19.66	18.63	19.15	20.74	20.74
Interest rate (%)	7.25%	7.00%	7.00%	5.75%	5.75%
Inflation (y/y)	6.8%	6.6%	6.4%	3.4%	3.4%
Economic activity (y/y)	-	-	1.5%	3.3%	2.9%
Industrial activity (y/y)	-	-1.5%	-1.1%	-0.3%	0.4%
Automotive production (y/y)	-	4.8%	11.8%	7.8%	0.8%

Source: EconViews based on several sources

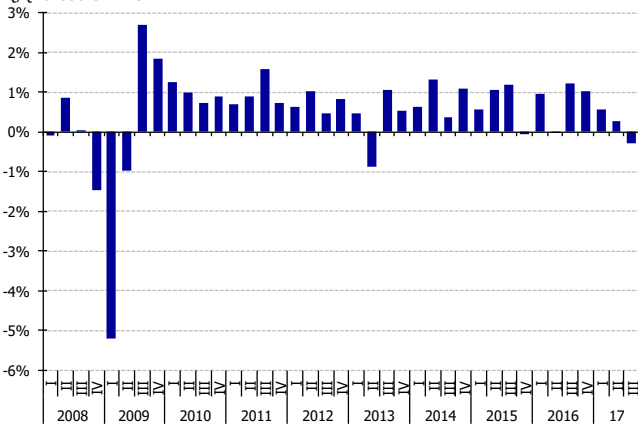
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	2.8%	3.3%	2.9%	2.1%	2.2%
Inflation (Dec-Dec)	4.1%	2.1%	3.4%	6.8%	4.0%
Fiscal Balance (% GDP)	-3.1%	-3.4%	-2.5%	-1.5%	-2.1%
Current Account (% GDP)	-1.8%	-2.5%	-2.2%	-1.7%	-2.0%
International reserves (USD Bn)	185.2	168.4	168.7	171.7	173.2
Exchange rate (MXN/USD)	14.75	17.19	20.74	19.66	18.50

Source: EconViews based on Consensus Forecast & IMF

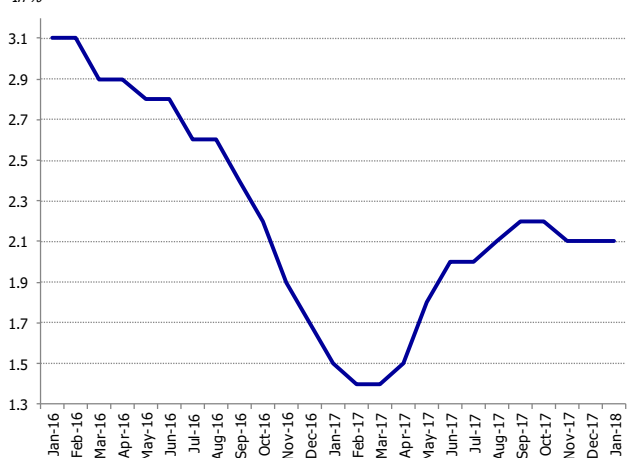
Real GDP

Q/Q variations - INEGI



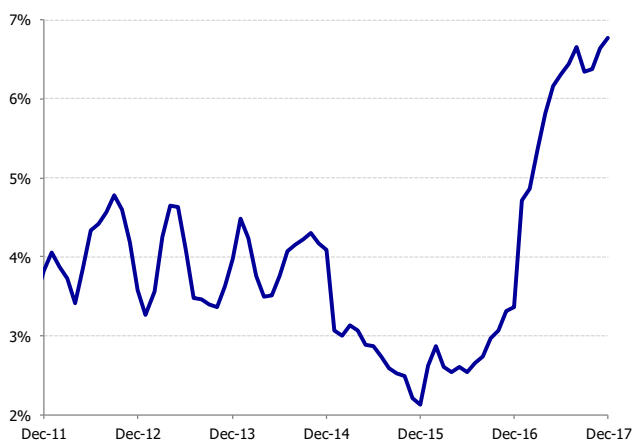
GDP growth - rolling forecasts for 2017

In %



Inflation - General CPI

Annual changes



Mexican Peso / Dollar



PARAGUAY

Good news	To be alert	Bad news
Activity index is growing above GDP projections, achieving more than 6% yoy in last two months an accumulating a 4.6% growth up to Nov-17	Food prices are increasing more than general inflation, especially fruits, vegetables and meat.	The budget 2018 considers salaries hikes for civil servants that may lead to a fiscal deficit beyond the 1.5% Fiscal Responsibility Law threshold

Politics

The internal and simultaneous elections to define candidates for the 2018 presidential elections took place on December 17. Senator Mario Abdo Benitez defeated pre candidate Santiago Peña in the Partido Colorado internal election. The result was a hit to President Cartes' plans as he was supporting Peña. In the Liberal party, the second political force in the country, Mr Alegre won the ballots as expected.

Economic Activity

Activity rebounded in Q3 as GDP expanded 3.0% yoy following a revised 1.1% yoy increase in Q2. All sectors but electricity recorded yoy increases with Industry and mining (+8.3%), services (+5.7%) and agriculture (3.7%) outperforming the average behavior. On the demand side, consumption was up 4%, gross capital formation increased by 5.2% and net exports went marginally south to print a 1.4% drop. BCP growth forecast for 2017 is 4.2% compared with the 3.9% from our own projections. We foresee 2018 GDP growth at 3.8%

Inflation

As of December, headline consumer prices rose by 0.5% on a monthly basis and 4.5% y/y variance. Again, food prices have pressured the reading marginally upwards. Core inflation remains tamed at 0.2% and 2.8% mom and yoy variances respectively. CPI expectations according to the Central Bank are strongly anchored at 4.0% for 2018, in line with BCP target (4% +2%). We estimate 2018 inflation at 4.2%.

Monetary Sector

By the end of December 2017 the PYG closed at nearly 5,600 to the dollar, gaining 4% in nominal terms versus the USD during the year. In its December meeting, the Central Bank decided to keep the policy rate at 5.25% for the fourth month in a row. In the press release, the monetary authority stated that actual and expected inflation as well as GDP growth are evolving according to the monetary plan. We forecast the policy rate to remain at 5.25% in the coming quarter.

Fiscal Front

As of December, the cumulative 12 month deficit at the national treasury reached 1.5% of GDP in line with the Fiscal Responsibility Law target. Total revenues increased 9.2% y/y while primary expenditures are growing 9.3% yoy. The evolution of 2018 deficit is subject to the approval of the Budget by Congress. Proposed salaries hikes for civil servants are above the guidelines of the Fiscal Responsibility Law. The President vetoed the draft bill but the Congress rejected the veto. If there is no agreement, the prior year budget will be automatically in place.

What's coming next?

- Some top issues to watch in Paraguay:
- The speed and magnitude of the Brazilian GDP rebound
 - The road to the 2018 Presidential elections
 - US interest rates and its impact into commodities prices
 - US trade policy and its membership in the NAFTA may be followed up given the direct and indirect reverberations a withdrawal may have in the region.

PARAGUAY: APPENDIX

Dashboard

	Dec-17	Nov-17	Oct-17	Dec-16	2016
Exchange rate (PYG/USD, eop.)	5,602	5,677	5,643	5,866	5,866
Interest rate (%)	5.25%	5.25%	5.25%	5.50%	5.50%
Inflation (y/y)	4.5%	4.6%	4.9%	3.9%	3.9%
Economic activity (y/y)	-	6.0%	6.3%	1.4%	4.0%

Source: EconViews based on several sources

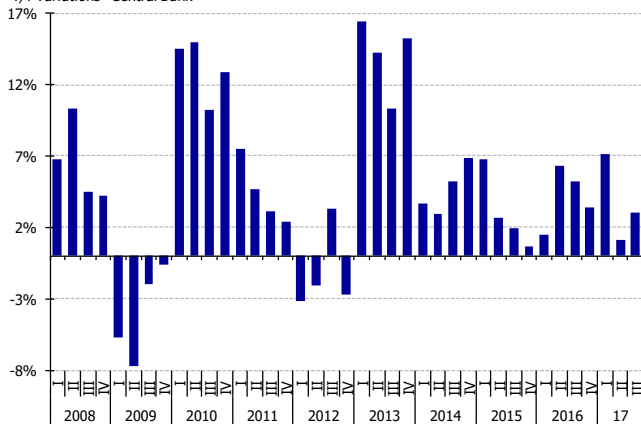
Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	4.7%	3.0%	4.0%	3.9%	3.8%
Inflation (Dec-Dec)	4.2%	3.1%	3.9%	4.5%	4.2%
Fiscal Balance (% GDP)	-0.7%	-1.3%	-1.1%	-1.4%	-1.4%
Current Account (% GDP)	-0.4%	-1.1%	1.7%	1.1%	0.4%
International reserves (USD Bn)	6.9	6.2	7.1	8.3	n.a.
Exchange rate (PYG/USD)	4,642.2	5,813.9	5,866.0	5,602.0	5,850.0

Source: EconViews based on Consensus Forecast & IMF

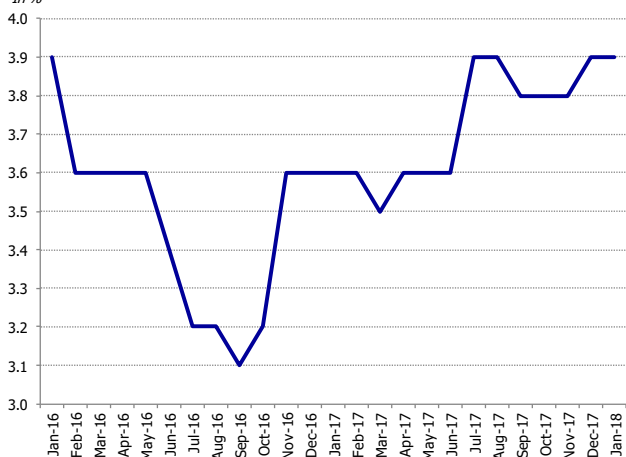
Real GDP

Y/Y variations - Central Bank



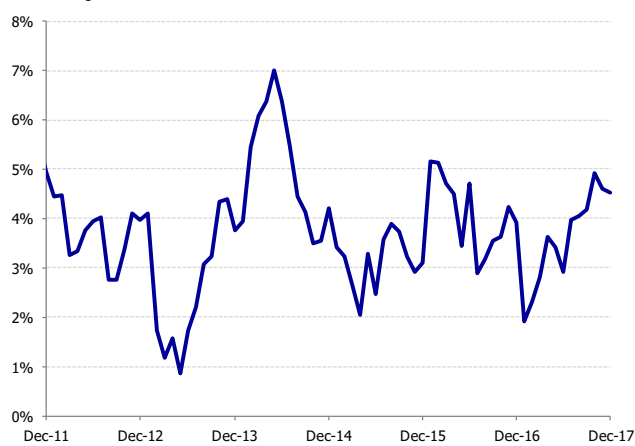
GDP growth - rolling forecasts for 2017

In %

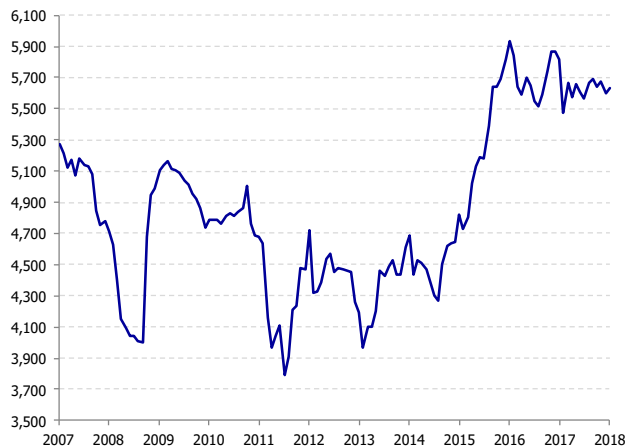


Inflation - General CPI

Annual changes



Paraguayan Guarani / Dollar



PERU

Good news	To be alert	Bad news
Copper price is increasing and reached its highest level since 2014.	As economic activity decelerated in Nov-17, Ministry of Economy's forecast of 2.7% GDP growth in 2017 will be hard to achieve.	Fiscal deficit reached 3.2% in 2017, the highest record in 17 years.

Politics

President PPK avoided impeachment for the Lava Jato: out of the 130 congressional leaders 79 voted in favor of his removal (87 were needed). In the midst of social discontent, A. Fujimori was granted a humanitarian pardon by PPK, a decision which polarized citizens. Political image of PPK is very damaged: according to a survey made by Ipsos in Jan-18, 70% of people disapprove of him. The opposition led by Kenji Fujimori increased its political support (38% of approval).

Economic Activity

In Nov-17 economic activity grew 1.8% y/y, decelerating in comparison to the previous months. Up to that month economic activity grew 2.4% compared to 2016. Investment continued to recover: construction and telecommunications were the most dynamic sectors. Industry and fishing were a drag: they fell 6.6% y/y and 45.6% respectively. Mining activity recovered and grew 3.6%. For 2018, the economy is expected to grow 3.7%.

Inflation

After 3 consecutive months of falls, CPI went up 0.16% m/m in Dec-17. In interannual terms, it decelerated for the 4th consecutive time to 1.36%, the lowest record in almost 8 years and well below the CB's target of 2.0%. The main reasons of this performance were the reversion of supply shocks and activity growing below its potential. 12-month expectations lowered and stood at 2.3% in Dec-17. For 2018 inflation forecast was revised down to 2.3%.

Monetary Sector

After peaking at PEN/USD 3.29 on mid December, The Peruvian Nuevo Sol strengthened and nowadays stands near 3.21. By year end, it could depreciate due to monetary normalization in the US but will be helped by better commodities prices. In Jan-18, the CB lowered its policy rate 25 bps to 3.0% as the economy is growing but below its potential, inflation expectations are near the target range but reducing and global economy is recovering.

Fiscal Front

Fiscal deficit was 3.2% of GDP in 2017, the highest in 17 years. It increased 0.6% compared to 2016. The driver of this performance was more financial expenditure (+0.2% of GDP) and less government income (-0.5% of GDP). Government investment increased 6.0% compared to last year but decelerated in the last months. This way, it was 7.8% in Dec-17, after reaching 36% in Oct-17. For 2018, fiscal deficit is expected to stand around 3.3% of GDP.

What's coming next?

The deterioration of politics could affect the performance of economic activity, specially private investment. Fiscal consolidation will be a challenge as tax burden is high and expenditure cannot be cut easily, as the country needs infrastructure. Peru's debt to GDP stands around 26% and increasing it fast could affect sovereign rating. Fiscal deficit should reduce to 1% of GDP by 2021.

PERU: APPENDIX

Dashboard

	Dec-17	Nov-17	Oct-17	Dec-16	2016
Exchange rate (PEN/USD, eop.)	3.24	3.24	3.25	3.36	3.36
Interest rate (%)	3.25%	3.25%	3.50%	4.25%	4.25%
Inflation (y/y)	1.4%	1.5%	2.0%	3.2%	3.2%
Economic activity (y/y)	-	1.8%	4.0%	3.4%	3.9%
Manufacturing activity (y/y)	-	-6.6%	1.6%	7.2%	-1.4%
Mining production (y/y)	-	3.6%	-1.5%	5.4%	16.3%

Source: EconViews based on several sources

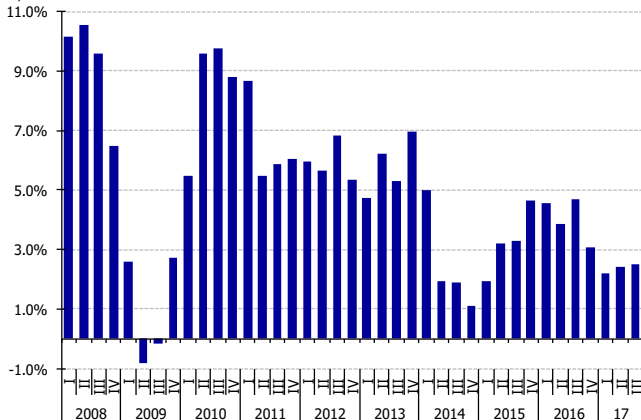
Macroeconomic Outlook

	2014	2015	2016	2017F	2018E
GDP growth (%)	2.4%	3.3%	3.9%	2.6%	3.7%
Inflation (Dec-Dec)	3.2%	4.4%	3.2%	1.4%	2.3%
Fiscal Balance (% GDP)	-0.3%	-2.1%	-2.6%	-2.9%	-3.3%
Current Account (% GDP)	-4.4%	-4.8%	-2.7%	-1.5%	-1.6%
International reserves (USD Bn)	60.1	59.4	59.8	64.3	68.0
Exchange rate (PEN/USD)	3.00	3.42	3.36	3.24	3.30

Source: EconViews based on Consensus Forecast & IMF

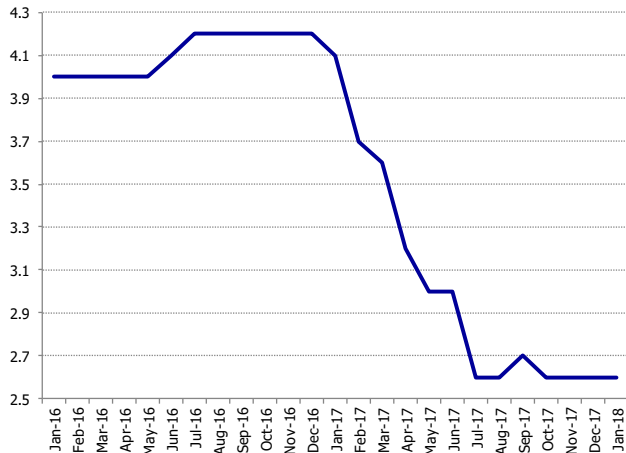
Real GDP

Y/Y Variations - Central Bank



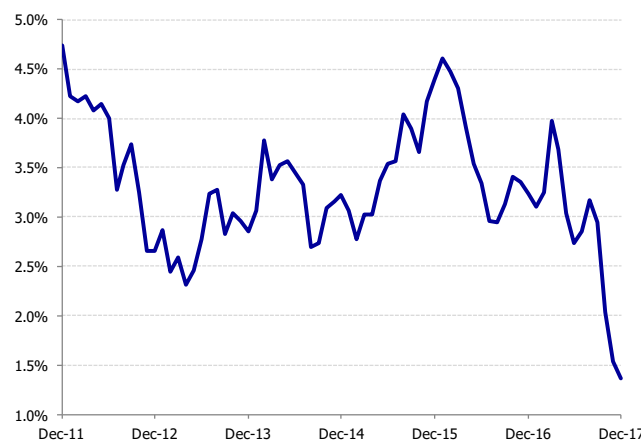
GDP growth - rolling forecasts for 2017

In %



Inflation - General CPI

Annual changes



Peruvian Sol / Dollar



URUGUAY

Good news	To be alert	Bad news
In 2017 inflation (6.55%) ended between the target range (3%-7%) for the first time since 2010.	People over 50 years of age will be allowed to change from a mixed pension regime to a public one.	Unemployment reached 7.7% in Oct-17, above the 7.1% registered last year.

Politics

According to another round of polls conducted in December, if the elections were held today the incumbent Frente Amplio would be ahead on the intention of vote for President. The results should be taken with caution as the Presidential elections will be held in two years time and the candidates are not decided yet. In addition, undecided voters explain a significant share of the respondents.

Economic Activity

Activity in neighboring Argentina and Brazil is improving and this will probably benefit Uruguay. Q3 GDP figures show a growth of 2.2% on a yoy basis with services leading the way up (retail +8.8%, transport and telecom + 8.9%) and industry (-7%) and construction (-4%) lagging behind. On the demand side, private consumption went up 3.8% yoy fueled by a recovery in real wages, exports jumped 9.3% yoy and fixed investment dropped 6.3%. By October, unemployment stays at 7.7%. Our GDP estimate is 3.0% for both 2017 and 2018.

Inflation

Inflation in December printed a monthly variance of -0.3% to reach an annual increase of 6.55%, within BCU 3-7% target range. It is worth mentioning the decline of housing costs by 5.4% due to a retrenchment of electricity prices by 18.8% in light of a discount price for low consumption introduced by UTE company. We expect a subtle acceleration in inflation to 6.7% for 2018 in tandem with a weaker Peso and a stronger economic activity in neighboring countries.

Monetary Sector

In a context of stronger Latam currencies, the UYU has strengthened 2% in 2017 despite the cumulative intervention efforts from the BCU that amounted to USD 3.5 billion. The BCU monetary policy remains tight but in consideration of growing money demand the annual M1 growth target for Q1 2018 was revised higher to 14-16%. We forecast the UYU to trade nearly at 30.70 by year end

Fiscal Front

The fiscal deficit narrowed marginally in November to 3.3% of GDP. Revenues were up 12.2% yoy while expenses remained barely unchanged as compared to 2016. We estimate the 2017 total fiscal deficit to reach 3.0%, in line with the 3% target established in the fiscal consolidation plan. The enactment of the over 50s bill (the option for +50 yrs individuals to move out from private pension administrators to the public pension system) may add risks to the fiscal consolidation.

What's coming next?

- GDP rebound might keep momentum if activity in Argentina and Brazil recovers.
- The fiscal deficit and the credit rating should remain in the radar screen
- US monetary policy should be closely tracked.
- US trade policy and its membership in the NAFTA may be followed up given the direct and indirect reverberations a withdrawal may have in the region.

URUGUAY: APPENDIX

Dashboard

	Dec-17	Nov-17	Oct-17	Dec-16	2016
Exchange rate (UYU/USD, eop.)	28.85	29.02	29.27	29.35	29.35
Interest rate (%)	8.6%	8.0%	7.8%	11.5%	11.5%
Inflation (y/y)	6.6%	6.3%	6.0%	8.1%	8.1%
Economic activity (y/y)	-	-	3.9%	3.6%	1.5%
Manufacturing activity (y/y)	-	0.3%	-13.8%	5.6%	0.3%

Source: EconViews based on several sources

Macroeconomic Outlook

	2014	2015	2016	2017F	2018F
GDP growth (%)	3.2%	0.4%	1.5%	3.0%	3.0%
Inflation (Dec-Dec)	8.3%	9.4%	8.1%	6.6%	6.7%
Fiscal Balance (% GDP)	-3.5%	-3.6%	-4.0%	-3.0%	-2.7%
Current Account (% GDP)	-4.5%	-2.1%	-0.1%	-0.4%	-0.8%
International reserves (USD Bn)	17.8	15.6	13.4	16.0	n.a.
Exchange rate (UYU/USD)	24.42	29.94	29.35	28.85	30.70

Source: EconViews based on Consensus Forecast & IMF

