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ECONVIEWS
ECONOMÍA Y FINANZAS

# LATAM 7 + Argentina Macro Brief

*July, 2018*

- **Argentina:** The currency crisis receded in the last weeks
- **Brazil:** Truckers strike paralyzed much of the economy in May
- **Chile:** GDP forecast for 2018 was revised up
- **Colombia:** Ivan Duque won the presidential election
- **Mexico:** Lopez Obrador won Mexico's presidency in a landslide victory
- **Paraguay:** Solid economic activity and sound fiscal performance
- **Peru:** The economy is growing above the expectations
- **Uruguay:** A challenging fiscal balance target, still

## ARGENTINA

| Good news | To be alert | Bad news |
|---|---|---|
| The currency run receded, Lebac rate lowered and peso appreciated slightly in July. Despite the run, Argentina issued debt by USD 10 billion. MSCI upgraded Argentina to emerging market. | The evolution of the country risk and financial conditions. The risk is currently at 583 pbs, the highest since early 2016. Interest rates still are at high levels and need to continue decreasing. | The recent turbulence will have an effect on inflation and growth. We expect GDP growth around zero this year, with significant quarterly falls in Q2 and Q3, and year end inflation at 31%. |

### Politics

The peso continued depreciating in June after the Central Bank withdrew the USD 5 billion offer at 25 ARS/USD in FX market and forced the resignation of Sturzenegger. Luis Caputo became the new president of the CB, a move to restore credibility. He has reputation as a great trader with skills to deal with financial stress. The positive image of the government is below 40%. While it still has over a year to comeback, the perception that the re-election of Macri was almost ensured is now very questioned.

### Economic Activity

In the first quarter GDP expanded 1.1% relative to previous quarter. However, in April economic activity began to be affected by the drought, recording a monthly fall of 2.7%. On the other hand, the currency crisis and the subsequent monetary squeeze will have an impact in the following months. We revised downward our GDP estimate for this year further, from 0.9% down to 0.0% now (from 1.8% previously), as we consider activity will fall in the second and third quarter of this year. We now expect GDP to grow 1.5% in 2019 (from 2.2% previously), due to a smaller statistical carry-over effect.

### Inflation

While inflation decelerated in May to 2.1%, after 2.7% in April, the depreciation of the exchange rate accelerated inflation to 3.7% in June. Core inflation accelerated as well to 4.1%. The government is likely to moderate the hikes in regulated prices in the last months of the year. We increased our expectation for annual inflation at year end to 31.0%, but we keep unchanged the 20% for late 2019. These figures are below the upper limits for inflation of the IMF program, of 32% at year end and 21% for 2019.

### Monetary Sector

During June the currency crisis continued escalating and the exchange rate reached almost 29 pesos per USD, after the Central Bank withdrew its offer of USD 5.0 billion at 25 pesos in the second week of June. The IMF Executive Board approved the loan on June 20th and disbursed USD 15 billion, while the Treasury began to sell USD 100 million daily to the market through auctions to cover financial needs in pesos. Since then the financial stress receded and the exchange rate slightly appreciated so far in July. The 30d Lebac rate reached a peak of 65% in June, to fall to around 45% in recent weeks.

### Fiscal Front

The program with the IMF implies a faster reduction of the fiscal deficit in the following years. Once the primary deficit is eliminated, in year 2020 according to the program, the public debt to GDP will stabilize and begin to fall. The new target for the primary deficit is 2.7% this year, 1.3% for 2019 and 0.0% for 2020. The fiscal accounts remain on the right track, as the last figures continued improving in recent months. While the government is on a good position to overachieve the fiscal targets in 2018 and 2019, the challenges in the political and social fronts cannot be underestimated.

### What´s coming next?

While the currency crisis seems to be receding in July, still the game hasn't finished. It's critical that the calm on the FX market continues in the following weeks once interest rates continue decreasing. Activity figures in 2Q and 3Q will be much worse than in 1Q-18. The depreciation of the FX will have a further impact on inflation and begin to affect consumption, as nominal wages are lagging behind inflation. As most wage increases were closed at 15% plus a renegotiation if inflation is higher, in the following months there will be discussions and reopening of negotiations with many unions.

## ARGENTINA: APPENDIX

### Dashboard

| | Jun-18 | May-18 | Apr-18 | Jun-17 | 2017 |
|---|---|---|---|---|---|
| Exchange rate *(ARS/USD, eop.)* | 28.86 | 24.95 | 20.69 | 16.60 | 18.77 |
| Interest rate *(%)* | 40.00% | 40.00% | 30.25% | 26.25% | 28.75% |
| National inflation *(y/y)* | 29.5% | 26.3% | 25.5% | 22.1% | 24.8% |
| Economic activity *(y/y)* | - | - | -0.9% | 4.8% | 2.9% |
| Industrial activity *(y/y)* | - | -1.2% | 3.4% | 6.6% | 1.8% |
| Automotive production *(y/y)* | -13.4% | 3.5% | 21.4% | 9.2% | 0.1% |

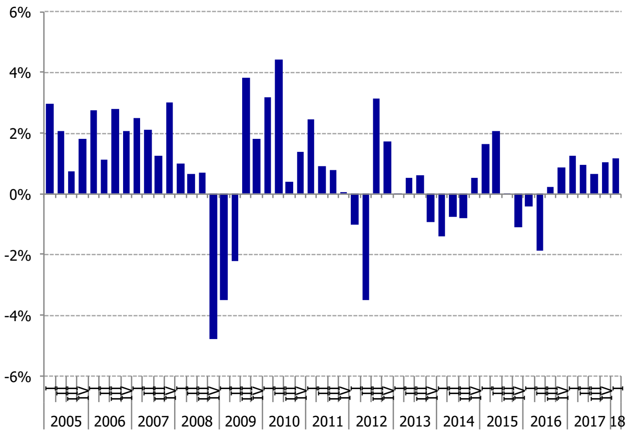
Source: EconViews based on several sources

### Macroeconomic Outlook

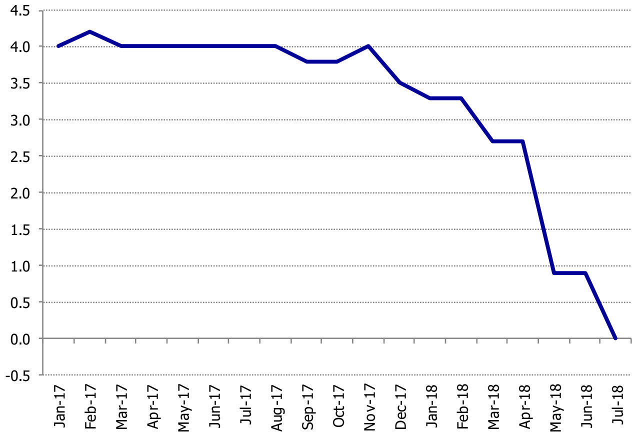
| | 2015 | 2016 | 2017 | 2018F | 2019F |
|---|---|---|---|---|---|
| GDP growth *(%)* | 2.7% | -1.8% | 2.9% | 0.0% | 1.5% |
| National inflation *(Dec-Dec)* | 28.4% | 36.6% | 24.8% | 31.0% | 20.0% |
| Fiscal Balance *(% GDP)* | -5.5% | -5.8% | -6.0% | -5.8% | -4.3% |
| Current Account *(% GDP)* | -2.6% | -2.6% | -4.9% | -4.7% | -3.3% |
| International reserves *(USD Bn)* | 25.6 | 39.3 | 55.1 | 62.2 | 70.4 |
| Exchange rate *(ARS/USD)* | 13.01 | 15.85 | 18.77 | 31.00 | 35.21 |

Source: EconViews based on official figures and own estimates

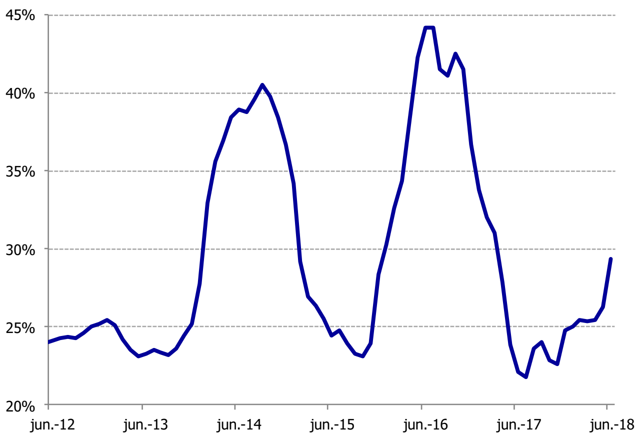
**Real GDP**
*Q/Q variations- Seasonally adjusted data INDEC*



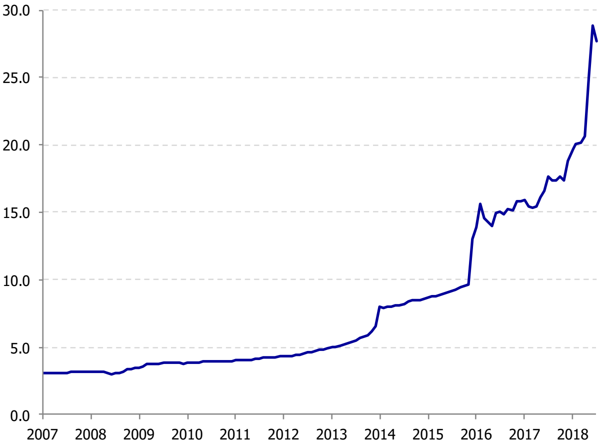

**GDP growth - rolling forecasts for 2018**
*In %*




**Inflation - General CPI**
*Annual changes*




**Argentinian Peso / Dollar**



## BRAZIL

| Good news | To be alert | Bad news |
|---|---|---|
| The consolidated primary deficit continues improving and the Government is likely to meet its primary deficit target of 2.2% of GDP in 2018. | International and domestic uncertainties continue to pressure the BRL. | A week-long strike has paralyzed much of the country during the end of May and sharply affected economic activity. |

### Politics

Truckers blocked major roads across Brazil during the last week of May in response to rising fuel prices. After a week-long strike that has paralyzed much of the country, Temer announced his government would subsidize the cost of diesel for the next 60 days, exempt empty trucks from tolls and introduce a minimum freight fare for truckers. On another hand, Lula da Silva almost got out of jail in early July, but a judge blocked the order. In polling scenarios including Lula in the presidential race, he wins more than twice the support of his nearest challenger.

### Economic Activity

The truckers' stoppage had a strong impact on economic activity and retail sales in May. The monthly economic activity estimator calculated by the Central Bank dropped 3.3% m/m, while it fell 2.9% compared with a year ago. Additionally, retail sales fell 0.6% m/m and they plummeted 4.9% if vehicles and construction material sales are included. Due to the tighter financial conditions and the negative impact from protests, GDP growth estimates for this year and the next one were reduced. Thus, we expect GDP to grow 1.7% this year, and to accelerate to 2.6% in 2019.

### Inflation

A weaker currency, rising international oil prices and higher electricity bills, boosted monthly inflation in June, which rose strongly from 0.40% in May to 1.26%. Moreover, y/y inflation stood at 4.39% and remained slightly below the center of the target bands (4.5%). We anticipate inflation to record a 4.1% y/y rise in December, while for 2019 we expect it to reach 4.2%. Headline inflation is likely to remain below the target, as it will continue to be positively affected by the lower inertia from past inflation, anchored inflation expectations and a negative output gap.

### Monetary Sector

The Brazilian Real accumulates a 15.6% rise so far this year and stands between BRL 3.80 and BRL 3.90 per USD. During June, the currency depreciated 4.1% affected by the higher risk aversion and the growing trade tensions between the U.S. and China that impacted on many emerging markets currencies. On the other hand, the SELIC reference rate remains at 6.5%. In this context, we expect the exchange rate to further depreciate this year and stand at around BRL 3.80 per USD in December. Moreover, the SELIC reference rate is likely to close the year at its current level.

### Fiscal Front

During May, the consolidated primary deficit accumulated over 12 months improved to 1.4% of GDP from 1.8% in April. Thus, we expect the government to meet its primary deficit target of 2.2% of GDP in 2018, while the fiscal deficit is likely to stand around 7.3% of GDP and to improve regarding the deficit from 2017 (7.8% of GDP). In 2019, the new Government is expected to also be able to meet the spending cap and the primary deficit target of 1.8% of GDP. However, without the pension reform, fiscal results are likely to return to their deteriorating trend.

### What´s coming next?

The persistent tightening of financial conditions is a threat for growth during the second half of the year. On another hand, the approval of the pension reform is indispensable to deepen the improvement in public accounts and continue reducing public expenditures, as set by the spending cap.

There are extra pressures on the exchange rate coming from uncertainties surrounding fiscal reforms, further increases in U.S. interest rates and a stronger trade war between the U.S. and China.

## BRAZIL: APPENDIX

### Dashboard

| | Jun-18 | May-18 | Apr-18 | Jun-17 | 2017 |
|---|---|---|---|---|---|
| Exchange rate *(BRL/USD, eop.)* | 3.88 | 3.72 | 3.51 | 3.31 | 3.31 |
| SELIC *(%)* | 6.50% | 6.50% | 6.50% | 10.25% | 7.00% |
| Inflation *(y/y)* | 4.4% | 2.9% | 2.8% | 3.0% | 2.9% |
| Economic activity *(y/y)* | - | -2.9% | 3.7% | -0.4% | 1.0% |
| Industrial activity *(y/y)* | - | -6.7% | 8.9% | 0.8% | 2.5% |
| Automotive production *(y/y)* | - | -12.8% | 41.9% | 6.8% | 17.4% |

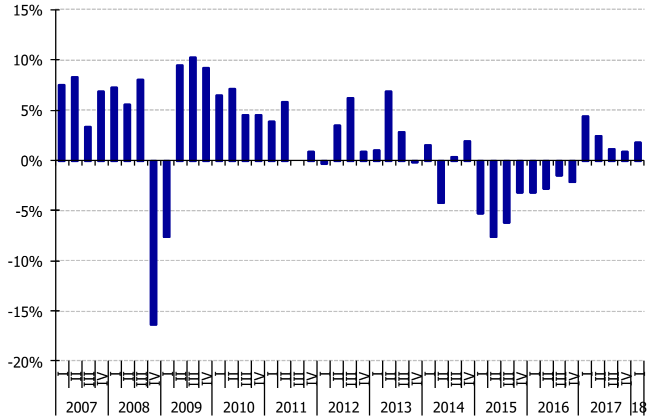
Source: EconViews based on several sources

### Macroeconomic Outlook

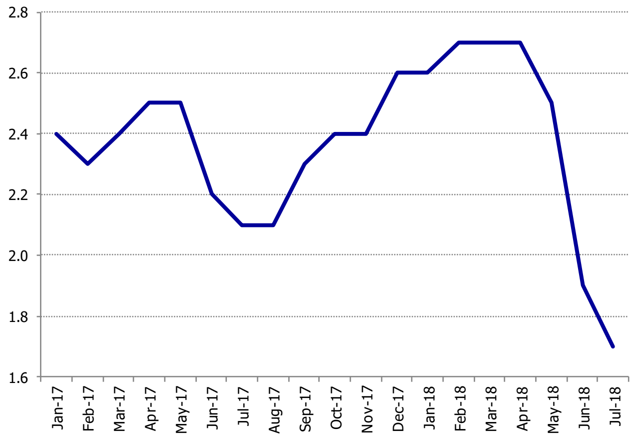
| | 2015 | 2016 | 2017 | 2018F | 2019F |
|---|---|---|---|---|---|
| GDP growth *(%)* | -3.5% | -3.5% | 1.0% | 1.7% | 2.6% |
| Inflation *(Dec-Dec)* | 10.7% | 6.3% | 2.9% | 4.1% | 4.2% |
| Fiscal Balance *(% GDP)* | -10.2% | -9.0% | -7.8% | -7.3% | -6.5% |
| Current Account *(% GDP)* | -3.3% | -1.3% | -0.5% | -1.2% | -1.4% |
| International reserves *(USD Bn)* | 348.9 | 356.8 | 365.4 | 377.3 | 380.4 |
| Exchange rate *(BRL/USD)* | 3.96 | 3.26 | 3.31 | 3.80 | 4.00 |

Source: EconViews based on Consensus Forecast & IMF

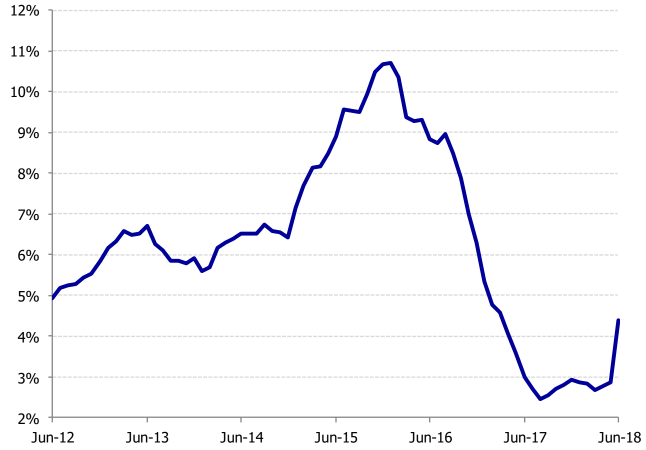
**Real GDP- Brazil**
*quarterly variations annualized, in %*



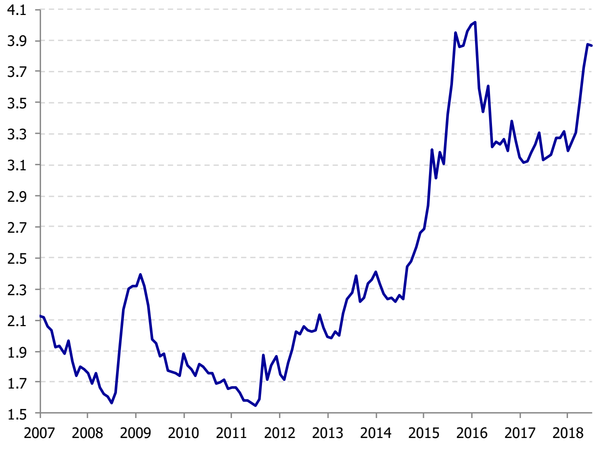

**GDP growth - rolling forecasts for 2018**
*In %*




**Inflation - General CPI**
*Annual changes*




**Brazilian Real / Dollar**



## CHILE

| Good news | To be alert | Bad news |
|---|---|---|
| Chile will be one of the Latam economies with the best GDP performance in 2018, according to the macroeconomic forecasts. | Public employment (6.7% yoy) is supporting total job creation (2.1%), while the private sector remains stagnant (0.6%). | Copper price has decreased 18% in one month, from US$ 3.3 to US$ 2.69 per pound. |

### Politics

President Piñera accused the opposition (PS) of obstructing the legislative agenda in the Congress. The Government announced that will send 25 bills to be treated urgently. Between them, the most important are changes on the anticorruption law to facilitate the proof of bribery and a migration law that grants the access to social security to migrants with a minimum residence of 2 years. Approval of President Piñera was 52% in Jun-18, increasing 2 p.p. in comparison to the previous month.

### Economic Activity

According to the GDP proxy (IMACEC), in May-18 economic activity improved 0.7% on a monthly basis while it went up 4.9% yoy, slightly down from the previous 5.9%. Mining activity grew 3.3% (6.9% yoy, above the previous 4.6%) while non-mining activity went up 0.5% m/m (4.7% yoy, below the previous 6.2%). In Jun-18, consumer confidence (Adimark) increased and remained optimistic for the 7th month in a row. This way, GDP is expected to grow 3.9% in 2018, well above the mild 1.5% of 2017.

### Inflation

In Jun-18 inflation rebounded from the previous 2.0% to 2.5% yoy and was below the target of 3.0% for the 21$^{st}$ consecutive month. This interannual acceleration was explained by gas and rentals. Non-tradable goods inflation was 3.2% yoy while tradable goods prices increased 2.0% yoy. On a monthly basis, inflation was only 0.1%, helped by the decrease in clothing prices. For 2018 inflation will slightly accelerate to 2.8% as a consequence of a weaker currency.

### Monetary Sector

As other emerging-market currencies, the Chilean Peso began to depreciate in mid-April, from 593 to the current 662 CLP/USD, a maximum level for this year. YTD, it weakened 7.6%. We expect the Chilean Peso to be close to 640 CLP/USD by year-end, affected by a lower copper price. In Jun-18, the CB maintained the policy rate in 2.5% for the 14$^{th}$ consecutive time and affirmed that the risks of not converging to the target of 3% have reduced, consistent with a future monetary normalization.

### Fiscal Front

Up to May-18, government revenues grew 6.1% yoy in real terms, below the 8.1% from the previous month, affected by tax refunds. Total expenditure grew 5.9% and decelerated in comparison to the 6.6% from April. It showed more dynamism from capital expenditure (2.6% y/y). The tax reform is expected to be discussed in September. This way, fiscal deficit is expected to narrow to 2.1% of GDP this year (2.8% last year, the highest since 2009).

### What´s coming next?

Although the output gap is still negative, the economy is growing at a good pace and inflation is coming close to the target. As a result, the monetary normalization could be on its way in the next months.

As Chile is an open economy, the trade war is a source of concern. Higher tariffs implies less trade and this will have a negative impact on global growth. This way, copper price will be affected, and could deteriorate Chile's terms of trade.

## CHILE: APPENDIX

### Dashboard

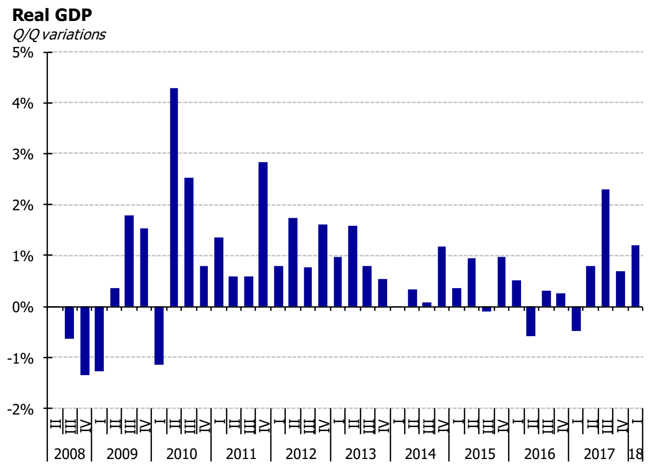
| | Jun-18 | May-18 | Apr-18 | Jun-17 | 2017 |
|---|---|---|---|---|---|
| Exchange rate *(CLP/USD, eop.)* | 654.17 | 630.79 | 613.54 | 665.36 | 616.15 |
| Interest rate *(%)* | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| Inflation *(y/y)* | 2.5% | 2.0% | 1.9% | 1.7% | 2.3% |
| Economic activity *(y/y)* | - | 4.9% | 5.9% | 1.0% | 1.5% |
| Industrial activity *(y/y)* | - | 1.8% | 12.0% | -0.3% | -1.0% |
| Mining production *(y/y)* | - | 6.4% | 4.0% | -3.0% | -1.7% |

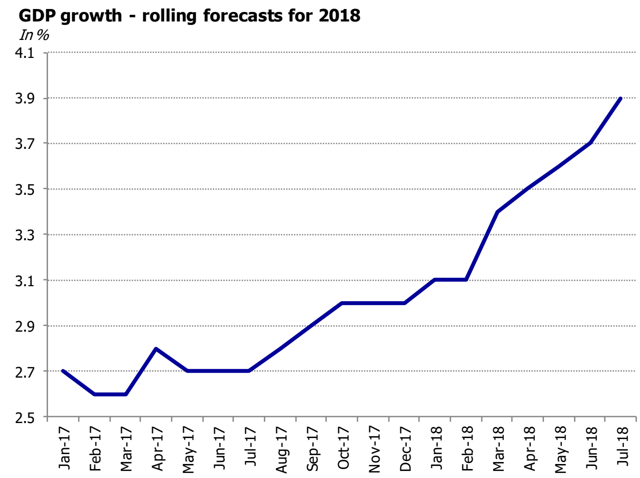
Source: EconViews based on several sources

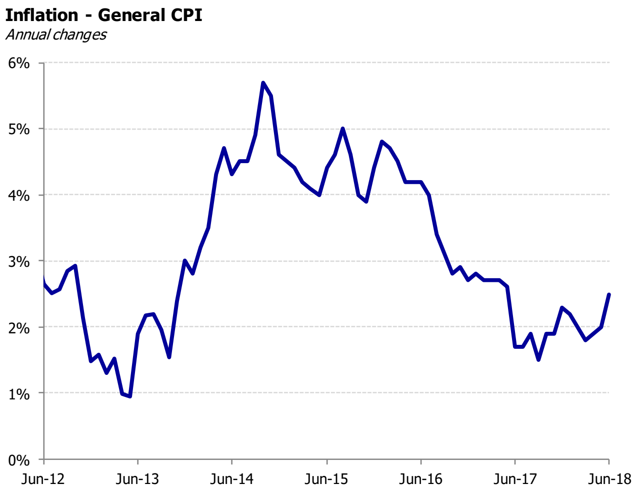
### Macroeconomic Outlook

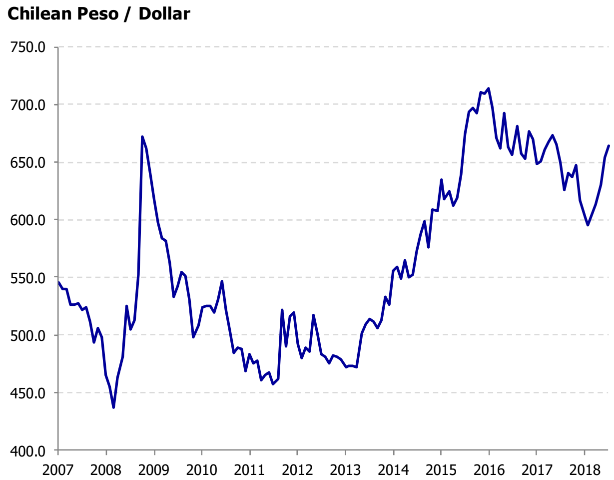
| | 2015 | 2016 | 2017 | 2018F | 2019F |
|---|---|---|---|---|---|
| GDP growth *(%)* | 2.3% | 1.3% | 1.5% | 3.9% | 3.6% |
| Inflation *(Dec-Dec)* | 4.4% | 2.7% | 2.3% | 2.8% | 3.1% |
| Fiscal Balance *(% GDP)* | -2.1% | -2.7% | -2.8% | -2.1% | -1.6% |
| Current Account *(% GDP)* | -2.3% | -1.4% | -1.5% | -1.8% | -1.9% |
| International reserves *(USD Bn)* | 37.2 | 39.5 | 38.0 | 38.7 | 39.3 |
| Exchange rate *(CLP/USD)* | 709.35 | 670.30 | 616.15 | 640.00 | 630.00 |

Source: EconViews based on Consensus Forecast & IMF



## COLOMBIA

| Good news | To be alert | Bad news |
|---|---|---|
| Colombia resisted well the turmoil faced by emerging markets. Higher oil prices benefited the currency and the fiscal accounts. GDP likely to pickup to 2.5% this year and 3.2% in 2019. | The new administration will face fiscal and peace-agreement-related challenges. Recovering economic activity reduce the appeal for further monetary easing. | Colombia may lose the investment grade status, after S&P reduced credit rating from BBB to BBB-. Further reforms are needed to comply the fiscal targets in the medium term. |

### Politics

Ivan Duque, backed by former President Uribe, won the presidential runoff election with 54% of the votes, while Gustavo Petro received 41.8%. Participation remained high at 53%. Duque will take office on August 7th to deal with many challenges, as the fiscal consolidation, the implementation of the peace agreement with former FARC's and returning Colombia to higher growth. In the campaign Duque mention cutting corporate taxes. Petro will remain as a relevant political figure at the Senate.

### Economic Activity

Activity indicators improved. Retail sales accelerated and advanced 6.3% yoy, sales of vehicles and motorcycles highlighted. Industrial activity, boosted by oil refining, improved to 6.5% yoy. Also consumer confidence continued improving and in May reached the highest value since July 2015. Low inflation, lower interest rates, higher oil prices and real wages would support a GDP growth of 2.5% this year, from 1.8% in 2017. The recovery would consolidate further in 2019, with GDP growing 3.2%.

### Inflation

Inflation in May reached 3.16% and remained near the 3% target. Tradable inflation is less than 2.0%, and non-tradable hovers at 4.5%. While inflation expectations remain anchored contributing to the disinflation process, there are uncertainties ahead due to upside risks over food prices and exchange rate given the sell off across emerging markets. The Central Bank announced the end of the easing cycle, but emphasized that more easing is at the table if disinflation continues and goes beyond expected. The market consensus expects yearly inflation close to 3.3% by the end of the year.

### Monetary Sector

As expected, the Central Bank kept the monetary policy rate unchanged at 4.25%. Room for additional cuts is limited by the improvements on activity and consumer confidence, while inflation is hovering near the target. While many emerging market currencies have been depreciating significantly relative to the USD so far this year, the Colombian peso in contrast has gained some cents, benefited by the higher oil prices. The consensus expects FX rate at 2,890 pesos per USD at the end of 2018.

### Fiscal Front

There is no room for an expansionary fiscal policy. The Government maintained the fiscal deficit target for this year, but loosened the targets for the following years, mainly due to a larger than expected output gap. While the fiscal deficit target for 2018 now looks achievable thanks to higher oil prices, the medium term challenges remain and will require additional measures. This year the nominal deficit would be 3.1% of GDP, while the next year it may narrow to 2.7% of GDP, above the target.

### What´s coming next?

Whether Duque has or not the appetite for tough fiscal reforms, putting fiscal policy on a more sustainable track on the medium term should be top at the agenda. The new administration will face a tradeoff between keeping the roadmap set by present fiscal authorities and following the main campaign promises of reducing taxes. Also, Duque will inherit a fragile peace deal with FARC's and decide whether to follow Santos' agreement. Many of these issues still need to be passed through congress.

## COLOMBIA: APPENDIX

### Dashboard

| | Jun-18 | May-18 | Apr-18 | Jun-17 | 2017 |
|---|---|---|---|---|---|
| Exchange rate *(COP/USD, eop.)* | 2,933 | 2,891 | 2,813 | 3,053 | 2,987 |
| Interest rate *(%)* | 4.25% | 4.26% | 4.26% | 6.25% | 4.69% |
| Inflation *(y/y)* | 3.2% | 3.2% | 3.1% | 4.0% | 4.1% |
| Economic activity *(y/y)* | - | - | 3.5% | 1.7% | 1.8% |
| Industrial activity *(y/y)* | - | 2.9% | 10.5% | -0.9% | -0.4% |

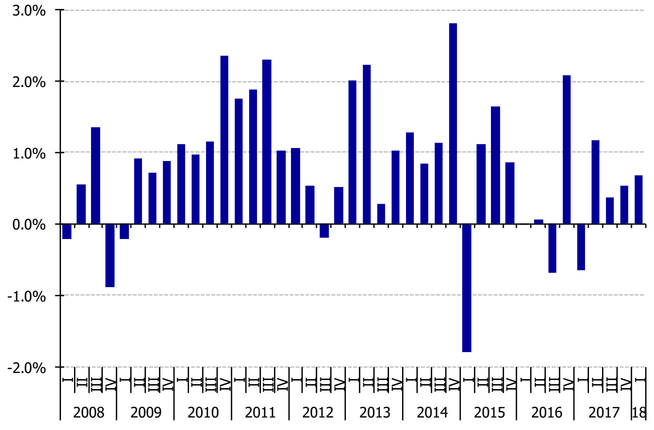
Source: EconViews based on several sources

### Macroeconomic Outlook

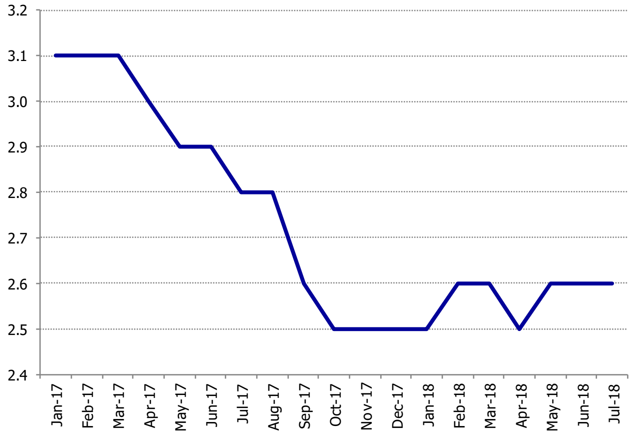
| | 2015 | 2016 | 2017 | 2018F | 2019F |
|---|---|---|---|---|---|
| GDP growth *(%)* | 3.0% | 2.0% | 1.8% | 2.5% | 3.2% |
| Inflation *(Dec-Dec)* | 6.8% | 5.7% | 4.1% | 3.3% | 3.2% |
| Fiscal Balance *(% GDP)* | -3.0% | -4.0% | -3.6% | -3.0% | -2.6% |
| Current Account *(% GDP)* | -6.4% | -4.3% | -3.4% | -2.6% | -2.6% |
| International reserves *(USD Bn)* | 44.8 | 45.0 | 45.4 | 47.0 | 47.6 |
| Exchange rate *(COP/USD)* | 3,180 | 3,003 | 2,987 | 2,890 | 2,930 |

Source: EconViews based on Consensus Forecast & IMF

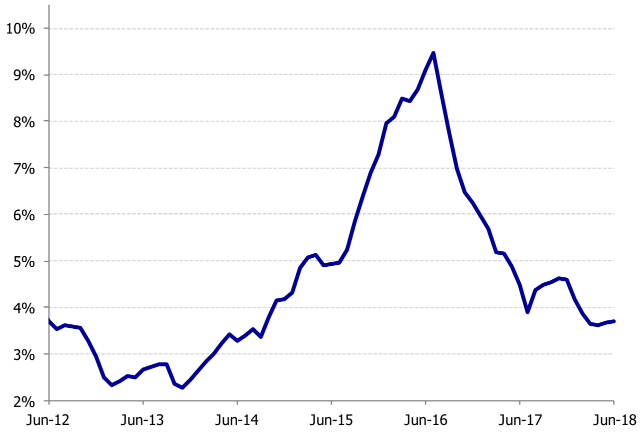
**Real GDP**
*Q/Q variations - DANE*



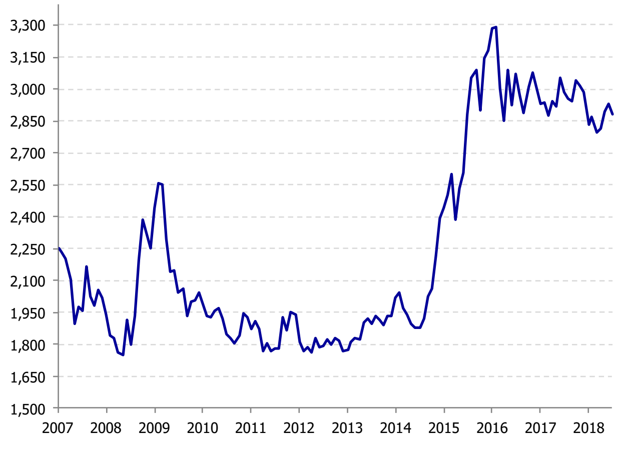

**GDP growth - rolling forecasts for 2018**
*In %*




**Inflation - General CPI**
*Annual changes*




**Colombian Peso / Dollar**



## MEXICO

| Good news | To be alert | Bad news |
|---|---|---|
| Domestic demand grew 7.9% qoq/saar during Q1-18 and displayed the highest variation in more than eight years. | Investment is likely to continue weak due to growing uncertainties regarding trade policy but a good performance of the U.S. economy can dissipate doubts about growth | An agreement on NAFTA wasn't reached, and risks for trade relations with the U.S. are growing, with the treat of tariffs on U.S. automobile imports. |

### Politics

Andres Manuel Lopez Obrador won Mexico's presidency in a landslide victory (around 53% of total votes), setting the stage for the most left-wing government in the country's democratic history at a time of tense relations with the Trump administration. His government is expected to have a less accommodating approach to the United States and thus, trade relations are a growing risk for Mexico. There was no agreement on NAFTA before the Mexican presidential elections, although Mexico and Canada were offering concessions on many fronts.

### Economic Activity

Economic activity showed a weak performance in April and fell 0.6% m/m according to the seasonally adjusted series. However, it is still well above the level of 2017 and grew 4.5% y/y. In particular, industrial activity fell 0.4% m/m in April but grew 0.1% in May, while in the y/y comparison it grew 3.7% and 0.3%, respectively. Although investment is likely to continue to be limited by uncertainties over trade and domestic economic policies, the good performance of the U.S. economy will be a key to sustain growth. We expect GDP to grow 2.3% in 2018 and 2.1% in 2019.

### Inflation

Consumer prices raised 0.39% m/m in June, contrasting their 0.16% fall recorded in May. This rise was driven by a sharp increase in non-core energy prices, while prices for food and services rose more moderately and core consumer prices rose 0.23%. Even though headline inflation slightly accelerated to 4.6% y/y affected by the weaker Peso previous to last presidential elections, it remained below 5% for the third consecutive month. We expect inflation to continue to fall gradually and reach 4.2% in next December and 3.7% at the end of 2019.

### Monetary Sector

The Mexican Peso appreciated 2.9% so far this year and currently stands around MXN 19.10 per USD. However, the currency was traded at MXN 20.90 during the 2nd week of June, previous to the last presidential elections. We expect the exchange rate to stand at MXN 19.50 per USD in December and to appreciate to 18.50 by the end of 2019, as uncertainties gradually dissipate. On the other hand, in June the CB increased the policy rate by 25 bps, to 7.75%. We expect the interest rate to reach 8.0% by the end of this year and to decrease to 6.75% by the end of 2019.

### Fiscal Front

At the end of 2018, revenues and expenses are expected to be greater than those approved in the Budget. On the side of revenues, higher oil revenues are anticipated. Thus, the fiscal deficit is expected to reach 2.2% of GDP, while the primary balance is expected to display a surplus of 0.8% of GDP. In this context, the fiscal consolidation targets are likely to be met again. For 2019, we expect a fiscal deficit equivalent to 2.3% of GDP.

### What´s coming next?

Andres Manuel Lopez Obrador could like to bring "new blood" to the central bank's plank. Thus, the replacement (or reappointment) of Manuel Ramos Francia on the board of the central bank by the end of this year is a relevant event to be followed closely.
On another hand, trade relations with the U.S. and the agreement on NAFTA are a growing risk for Mexico and also need to be monitored in coming months.

## MEXICO: APPENDIX

### Dashboard

| | Jun-18 | May-18 | Apr-18 | Jun-17 | 2017 |
|---|---|---|---|---|---|
| Exchange rate *(MXN/USD, eop.)* | 19.93 | 19.92 | 18.72 | 18.13 | 19.66 |
| Interest rate *(%)* | 7.75% | 7.50% | 7.50% | 7.00% | 7.25% |
| Inflation *(y/y)* | 4.6% | 4.5% | 4.6% | 6.3% | 6.8% |
| Economic activity *(y/y)* | - | - | 4.5% | 2.4% | 2.0% |
| Industrial activity *(y/y)* | - | 0.3% | 3.7% | -0.4% | -0.6% |
| Automotive production *(y/y)* | - | 3.5% | 8.4% | 4.7% | 10.1% |

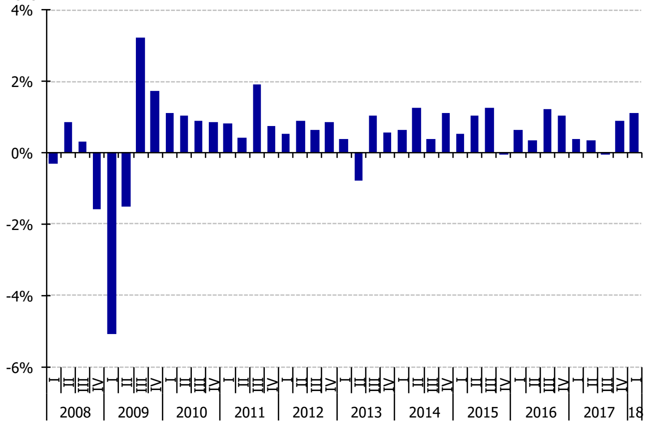
Source: EconViews based on several sources

### Macroeconomic Outlook

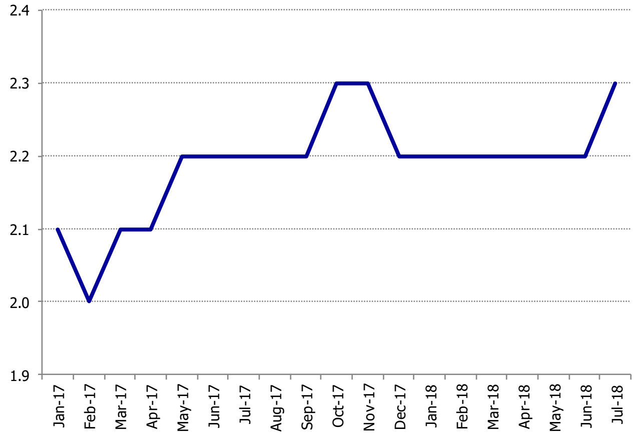
| | 2015 | 2016 | 2017 | 2018F | 2019F |
|---|---|---|---|---|---|
| GDP growth *(%)* | 3.3% | 2.9% | 2.0% | 2.3% | 2.1% |
| Inflation *(Dec-Dec)* | 2.1% | 3.4% | 6.8% | 4.2% | 3.7% |
| Fiscal Balance *(% GDP)* | -3.4% | -2.5% | -1.1% | -2.1% | -2.3% |
| Current Account *(% GDP)* | -2.5% | -2.1% | -1.6% | -1.9% | -2.2% |
| International reserves *(USD Bn)* | 168.4 | 168.7 | 164.9 | 172.4 | 175.1 |
| Exchange rate *(MXN/USD)* | 17.19 | 20.74 | 19.66 | 19.50 | 18.50 |

Source: EconViews based on Consensus Forecast & IMF

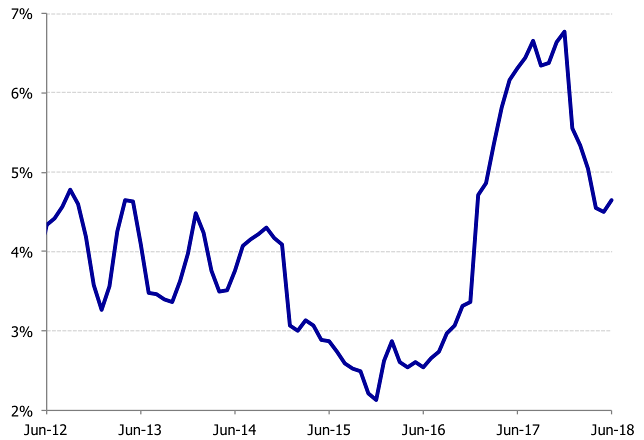
**Real GDP**
*Q/Q variations - INEGI*



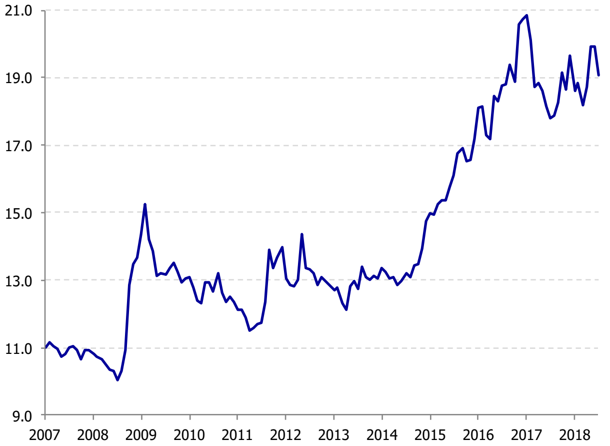

**GDP growth - rolling forecasts for 2018**
*In %*




**Inflation - General CPI**
*Annual changes*




**Mexican Peso / Dollar**



## PARAGUAY

| Good news | To be alert | Bad news |
|---|---|---|
| Economic activity remains solid and fiscal performance outperforms the countries within the region. | The country has been barely shielded from the rout in the emerging market asset class but the situation should be closely followed. | Unlike improvements in the macroenomic or institutional stability, addressing the issue of personal security is still pending in the country. |

### Politics

After the victory in the Presidential elections, Mario Abdo Benitez has already announced 9 ministers of his cabinet. Foreign Relations, Health, Childhood, Defense, Interior, Security, Labor, Justice and Seprelad ministers have already been appointed. Ministers for Economy, Education, Agriculture and Cattle, Industry and Commerce, Mining and Energy, Public Works and Woman have not been chosen yet. Nonetheless, a continuation of current policies is massively expected.

### Economic Activity

GDP grew 4.1% in Q1. Electricity and Water increased 7.7% yoy, the service sector was up 5.8% yoy, manufacturing expanded 5.4% yoy and agricultural production recorded a 1.4% yoy growth. The main demand side driver was consumption with a 5.6% yoy growth, followed by growth capital formation up 2.0%.
As indicators published for the months of April and May point to a healthy performance of economic activity, we rise our 2018 GDP growth forecast to4.0%.

### Inflation

As of June headline consumer prices came in higher at 0.7% mom, spiking the yoy inflation to 4.4% from 3.5% in May. With this result, inflation is slightly above the center of the BCP target range (4% +- 2%). Fuel and food prices drove the jump in CPI following the PGY depreciation during May. Core inflation printed a 0.5% monthly increase to total 2.9% on an annual basis. We foresee 2018 inflation to approach 4.2%.

### Monetary Sector

The selloff in emerging markets currencies during June triggered a 3.6% depreciation of the PYG that was followed by a strengthening in June and July. In the meantime, the BCP sold international reserves to stabilize the FX market. In its June meeting, the Central Bank decided to keep the policy rate at 5.25%. The statement highlights good economic performance and stable CPI evolution but stresses that global conditions will be monitored. We forecast the policy rate to remain at 5.25%.

### Fiscal Front

As of June, the cumulative 12-month deficit at the national treasury reached 1.3% of GDP in line with the Fiscal Responsibility Law target and stable as compared to previous month. Total revenues gained 9.2% yoy driven by customs duties while primary expenditures were up 11.7% yoy. Paraguay continues to outperform other countries in the region for its fiscal soundness and stability.
We forecast total deficit to GDP to over achieve the 1.5% official target in 2018.

### What´s coming next?

Market friendly policies should go on after new President takes over next August. Sound economic fundamentals are intact.
The trade war between China and the US should be closely monitored.
The emerging markets selloff had no material impact on Paraguayan economy. Nonetheless, the evolution of global markets should remain on the radar screen.

## PARAGUAY: APPENDIX

### Dashboard

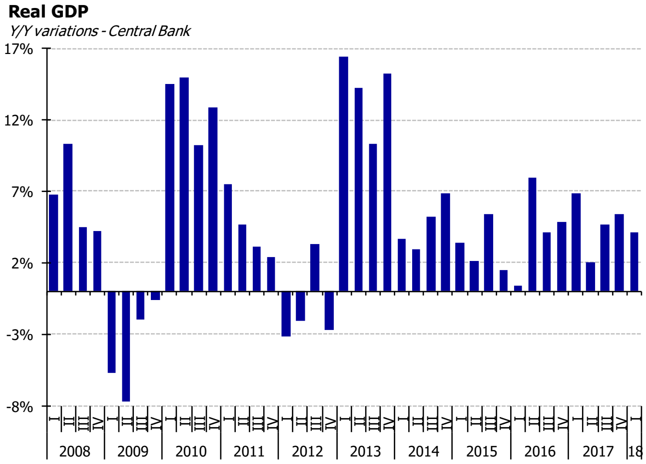
| | Jun-18 | May-18 | Apr-18 | Jun-17 | 2017 |
|---|---|---|---|---|---|
| Exchange rate *(PYG/USD, eop.)* | 5,715 | 5,740 | 5,559 | 5,604 | 5,602 |
| Interest rate *(%)* | 5.25% | 5.25% | 5.25% | 5.50% | 5.25% |
| Inflation *(y/y)* | 4.4% | 3.5% | 3.6% | 2.9% | 4.3% |
| Economic activity *(y/y)* | - | 5.3% | 12.2% | 2.6% | 4.5% |

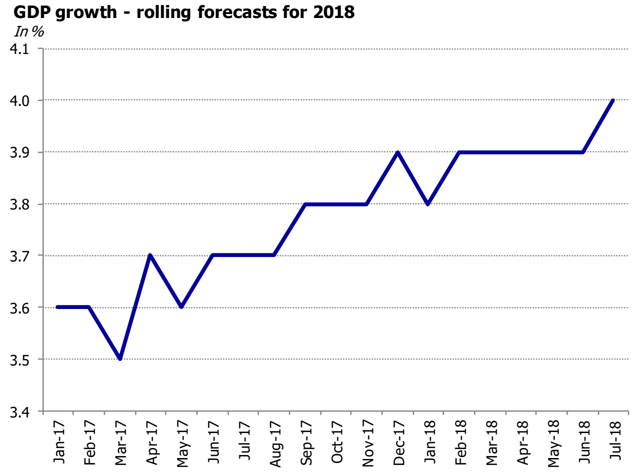
Source: EconViews based on several sources

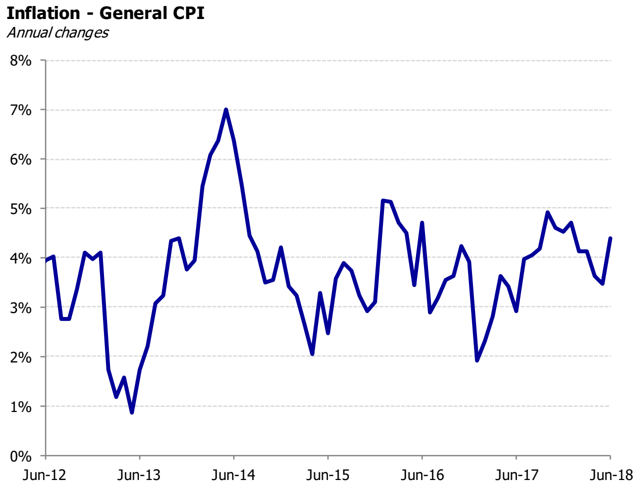
### Macroeconomic Outlook

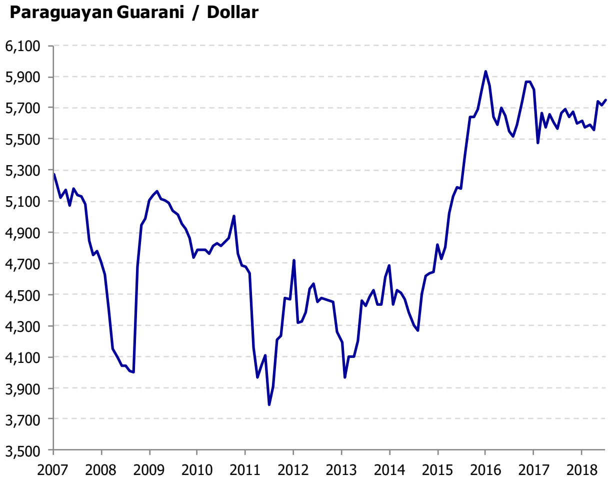
| | 2015 | 2016 | 2017 | 2018F | 2019F |
|---|---|---|---|---|---|
| GDP growth *(%)* | 3.0% | 4.0% | 4.3% | 4.0% | 3.9% |
| Inflation *(Dec-Dec)* | 3.1% | 3.9% | 4.5% | 4.2% | 4.0% |
| Fiscal Balance *(% GDP)* | -2.4% | -0.5% | -0.7% | -0.8% | -4.8% |
| Current Account *(% GDP)* | -1.1% | 1.5% | -1.8% | -2.0% | -1.2% |
| International reserves *(USD Bn)* | 6.2 | 7.1 | 8.3 | n.a. | n.a. |
| Exchange rate *(PYG/USD)* | 5,814 | 5,866 | 5,602 | 5,850 | 6,050 |

Source: EconViews based on Consensus Forecast & IMF



## PERU

| Good news | To be alert | Bad news |
|---|---|---|
| Fiscal consolidation is being achieved faster than expected due to economic growth and an improvement in tax revenues. | The trade war between China and the USA, Peru's top trading partners, needs to be monitored closely. | New corruption scandals take place in a country that has recently impeached a president. |

**Politics**

The Judicial power is losing credibility amid a corruption scandal. There was a leakage of some audio recordings that jeopardize judges, politicians and members of the magistracy. This scandal ended with the resignation of the Minister of Justice S. Heresi. Also, the government has increased taxes on some potentially harmful goods in May and citizens are dissatisfied with the measure. President Vizcarra's positive image went down from 57% in Apr-18 (when he took office) to 35% in Jul-18.

**Economic Activity**

In May-18 economic activity mildly decelerated and grew 6.4% yoy, below the previous 7.8% (one of the best records of the series). The most dynamic sector was fishing (26.7% yoy), agriculture (14.8%) and manufacturing (10.5%). YTD, the economy went up 4.8% boosted by primary activities but also by manufacturing and construction. On the other hand, mining lagged behind and barely increased 1%. For 2018, the economy is expected to grow 3.6%.

**Inflation**

In Jun-18 inflation rebounded and was 1.4% yoy. The main driver was the increase in "Food and Beverages" and "Transport and Communication" due to the rise in the Selective Tax on Consumption that took place in May. However, inflation continued to be below CB's target of 2.0% for the 8th consecutive month. On a monthly basis it was 0.33%, accelerating in comparison to the two previous months. For 2018 inflation is expected to be 2.3%.

**Monetary Sector**

The Peruvian Sol was less affected than other EM currencies and moved to 3.27 from 3.23 by the beginning of the year. We expect it to remain at the current level by year end. In Jul-18, the CB maintained its policy rate at 2.75% for the 5th time in a row as the economy grew but below its potential, inflation expectations were close to the target and the external conditions remained favorable but with more uncertainty in the external front.

**Fiscal Front**

The government increased the Selective Tax on Consumption in May-18, a measure that aims to reduce the consumption of potentially harmful goods such as sugary or alcoholic beverages, cigarettes, fuels and vehicles. Accumulated fiscal deficit in 12 months reduced for the 4th time in a row to 2.2% of GDP. Government revenues increased from 18.8% to 18.9% of GDP while fiscal expenditure increased from 19.9% to 20%. For this year, fiscal deficit is expected to be 3.2% of GDP.

**What´s coming next?**

To sustain economic growth, political stability is key. In this matter, the Government will need to regain the confidence from the citizens.
The CB will hold the policy rate at the current level for some more time as the economy is growing but still below its potential and inflation expectations are near the target. The trade war between the US and China, which are Peru's main trading partners, will need to be monitored closely.

## PERU: APPENDIX

### Dashboard

| | Jun-18 | May-18 | Apr-18 | Jun-17 | 2017 |
|---|---|---|---|---|---|
| Exchange rate *(PEN/USD, eop.)* | 3.29 | 3.27 | 3.25 | 3.26 | 3.24 |
| Interest rate *(%)* | 2.75% | 2.75% | 2.75% | 4.00% | 3.25% |
| Inflation *(y/y)* | 1.4% | 0.9% | 0.5% | 2.7% | 1.4% |
| Economic activity *(y/y)* | - | 6.4% | 7.8% | 3.9% | 2.5% |
| Manufacturing activity *(y/y)* | - | 10.5% | 20.3% | 3.2% | -0.3% |
| Mining production *(y/y)* | - | 1.9% | 1.1% | 6.3% | 3.2% |

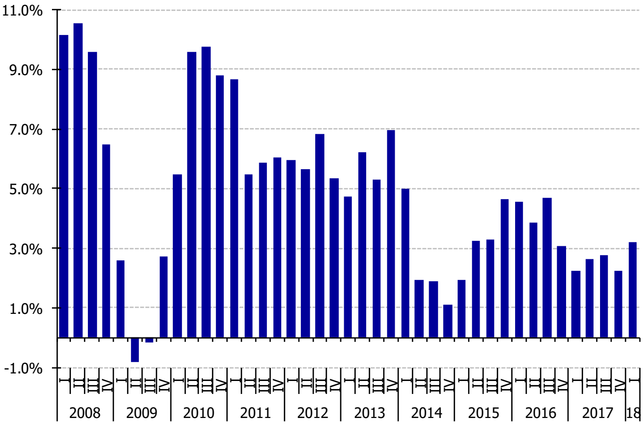
Source: EconViews based on several sources

### Macroeconomic Outlook

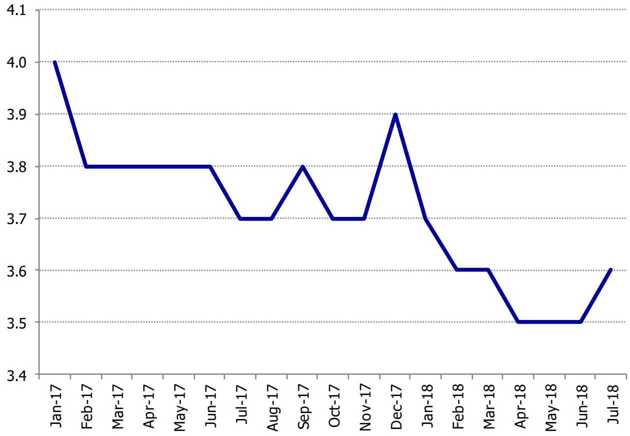
| | 2015 | 2016 | 2017 | 2018F | 2019F |
|---|---|---|---|---|---|
| GDP growth *(%)* | 3.3% | 4.0% | 2.5% | 3.6% | 3.8% |
| Inflation *(Dec-Dec)* | 4.4% | 3.2% | 1.4% | 2.3% | 2.4% |
| Fiscal Balance *(% GDP)* | -2.1% | -2.6% | -3.2% | -3.2% | -2.9% |
| Current Account *(% GDP)* | -4.8% | -2.7% | -1.3% | -0.7% | -1.1% |
| International reserves *(USD Bn)* | 59.4 | 59.8 | 61.4 | 65.5 | 68.3 |
| Exchange rate *(PEN/USD)* | 3.42 | 3.36 | 3.24 | 3.27 | 3.30 |

Source: EconViews based on Consensus Forecast & IMF

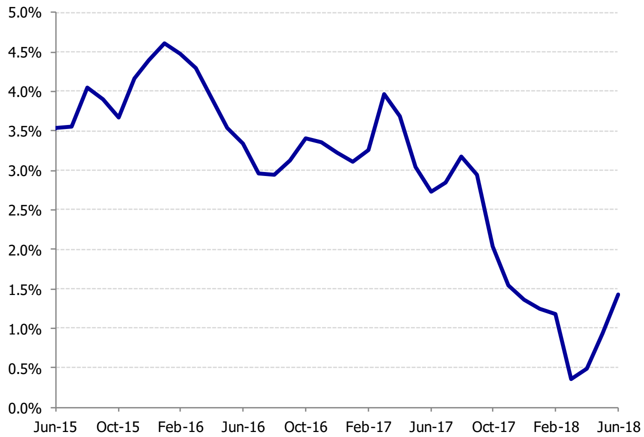
**Real GDP**
*Y/Y variations - Central Bank*



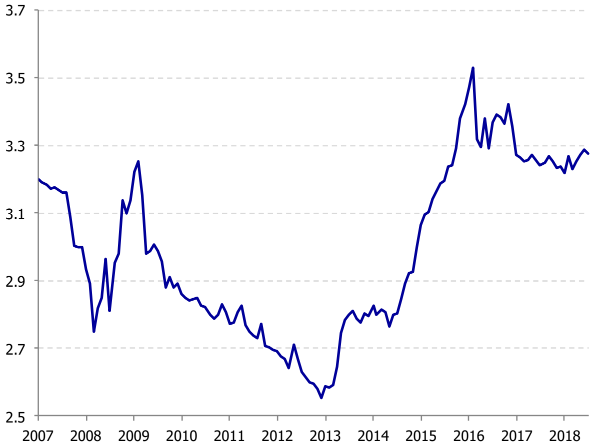

**GDP growth - rolling forecasts for 2018**
*In %*




**Inflation - General CPI**
*Annual changes*




**Peruvian Sol / Dollar**



## URUGUAY

| Good news | To be alert | Bad news |
|---|---|---|
| Although slowing down, activity has been resilient to the downturn in neighboring Argentina and Brazil. | Vulnerability to external shocks is lower but a potential emerging markets crisis should be on the radar screen. | The country will probably miss the fiscal balance target this year. Sovereign credit implications may surface. |

### Politics

A recent poll released by the firm Cifra is showing that the Frente Amplio leads vote intention for a 2019 election with a 30% support of citizenship, followed by 23% from the Partido Nacional. Nonetheless, if individuals are questioned which candidate (not party) they may vote, the leader is Mr Lacalle Pou (partido Nacional, 18%) and Mr Mujica comes in in second place (FA, 8%).
It is worth clarifying that the percentage of undecided voters is high: 34%.

### Economic Activity

Economic activity in Q1 2018 evidenced a continuous growth and recorded a 2.2% yoy expansion. Private consumption was the main driver as a strong Peso and higher real salaries pushed private demand 2.8% yoy. Focusing on the supply side, Transportation, Storage and Communications (+6.7%) and Trade, Restaurants and Hotels (4.0%) were the main contributors. Unemployment in May came in at 8.1%, down from 8.2% a year ago. We revise downward the GDP estimate for 2018 to 3.0% as a slowdown in neighboring Argentina and Brazil will drag down into Uruguay.

### Inflation

Inflation in June came in higher than expected at a 0.99% monthly increase and trimming up the annual reading to 8.11% which is beyond the bounds of the BCU 3-7% target range. The depreciation of the local currency impacted on food and transportation.
We forecast inflation to reach 7.3% for 2018 in tandem with weaker currencies in neighboring countries.

### Monetary Sector

The UYU weakened to 31.50 after the emerging markets rout, sending the cumulative YTD depreciation to nearly 10%. The BCU intervened in the FX market by selling international reserves to stabilize the local currency, utilizing a minor part of the USD 1.60 billion it previously bought earlier in the year. In its July meeting, the BCU COPOM remained its stance of a tight monetary policy and set the annual M1 growth target for Q3 2018 at 9-11%. We forecast the UYU to trade at 31.6 by year end.

### Fiscal Front

The fiscal balance worsened to reach a 4.0% deficit in May driven by slower growth and sticky expenditures. Total revenues increased marginally by 1.5% yoy while salaries went up by 9.4% yoy and pensions saw a jump of 7.5% yoy. We consider the country will probably miss its 2.5% fiscal deficit target this year as the interest bill is nearly 3.5% of GDP and we do not foresee a primary fiscal surplus a likely scenario. We foresee the 2018 total fiscal deficit to reach 2.9%

### What´s coming next?

Activity will probably slow down in tandem with a downward risk in Argentina and Brazil. The fiscal deficit target will be challenging and the credit rating should remain in the radar screen. The vulnerability to external shocks has been reduced but the US monetary policy and the recent selloff in emerging markets should be closely tracked.

## URUGUAY: APPENDIX

### Dashboard

| | Jun-18 | May-18 | Apr-18 | Jun-17 | 2017 |
|---|---|---|---|---|---|
| Exchange rate *(UYU/USD, eop.)* | 31.34 | 31.01 | 28.49 | 28.45 | 28.85 |
| Interest rate *(%)* | 8.08% | 7.40% | 7.95% | 8.05% | 8.56% |
| Inflation *(y/y)* | 8.1% | 7.2% | 6.5% | 5.3% | 6.6% |
| Economic activity *(y/y)* | - | - | 4.1% | 4.4% | 2.7% |
| Manufacturing activity *(y/y)* | - | 23.1% | 22.7% | -11.7% | -11.1% |

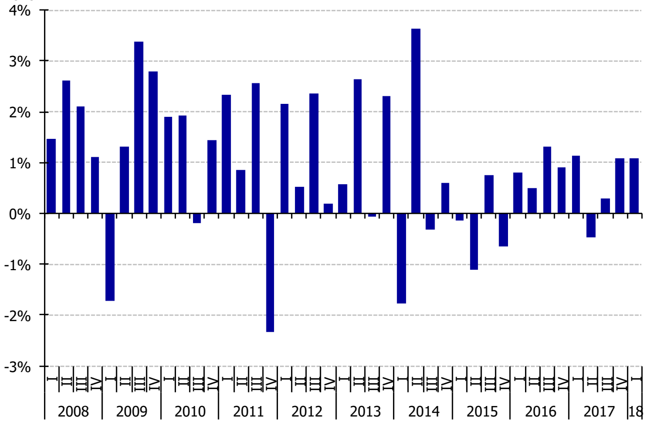
Source: EconViews based on several sources

### Macroeconomic Outlook

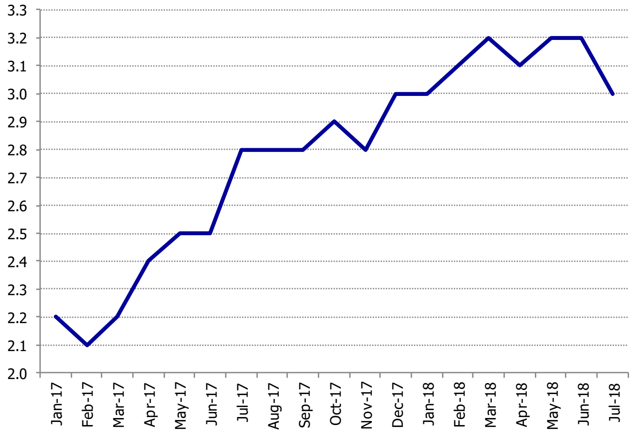
| | 2015 | 2016 | 2017 | 2018F | 2019F |
|---|---|---|---|---|---|
| GDP growth *(%)* | 0.4% | 1.7% | 2.7% | 3.0% | 3.1% |
| Inflation *(Dec-Dec)* | 9.4% | 8.1% | 6.6% | 7.3% | 7.0% |
| Fiscal Balance *(% GDP)* | -3.6% | -3.9% | -3.5% | -2.9% | -2.5% |
| Current Account *(% GDP)* | -0.7% | 1.6% | 1.6% | 0.6% | -0.6% |
| International reserves *(USD Bn)* | 15.6 | 13.4 | 16.0 | n.a. | n.a. |
| Exchange rate *(UYU/USD)* | 29.94 | 29.35 | 28.85 | 31.60 | 33.00 |

Source: EconViews based on Consensus Forecast & IMF

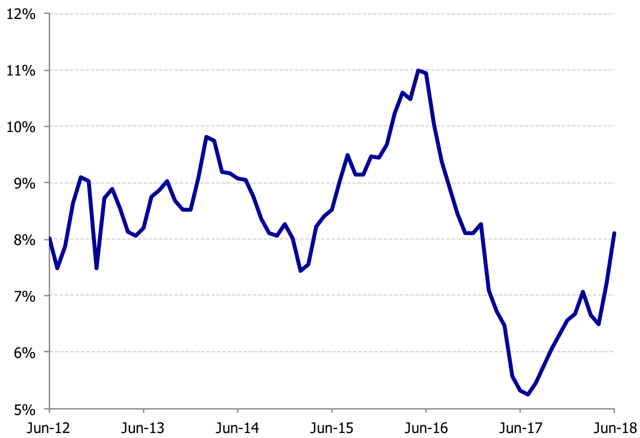
**Real GDP**
*Q/Q variations - Central Bank*




**GDP growth - rolling forecasts for 2018**
*In %*




**Inflation - General CPI**
*Annual changes*




**Uruguayan Peso / Dollar**