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# LATAM 7 + Argentina

## Macro Brief

March, 2018

- ✓ **Argentina:** Positive surprises despite a severe drought
- ✓ **Brazil:** Will Lula be a candidate finally?
- ✓ **Chile:** Fiscal consolidation ahead
- ✓ **Colombia:** Ivan Duque and Gustavo Preto made a good election
- ✓ **Mexico:** Coming elections and the NAFTA renegotiation, two big sources of concern
- ✓ **Paraguay:** Looming Presidential elections
- ✓ **Peru:** President PPK resigned amid a corruption scandal
- ✓ **Uruguay:** Nice GDP growth but higher unemployment

**ARGENTINA**

Good news	To be alert	Bad news
Last economic figures surprised on the upside. Job creation has been higher than expected, while industrial activity, construction and investment performed better than expected.	Depreciation of the peso has been significant in the last two months, while the Central Bank in the last month has been selling reserves to anchor the currency and inflation expectations.	The harvest this year has been affected by a severe drought. Total harvest would be 20% lower than last year according to last estimates. This means around half point of lower GDP growth this year.

**Politics**

The last few months were difficult for Macri administration. Its popularity dropped to the pre-October election levels of around 46% after surging in late Oct-Nov, consumer confidence suffered the overall mood among investors and the business community clearly took a bearish turn. The government still has the advantage that the Peronist party is divided between "Kirchneristas" and orthodox and there is little chance they can get together and unified to the presidential elections.

**Economic Activity**

Economic activity accumulated a 2.9% growth in 2017 after dropping 1.8% in 2016. The sectors that grew most were construction (10.0%), financial intermediation (5.0%), and agriculture, livestock, hunting and forestry (4.5%). Economic activity started the year better than expected. Industrial activity accelerated and grew 2.6% in January compared to one year ago, while construction grew 19%. Job creation was higher than expected in the last months, while investment continued growing and exports showed an expansion in volumes so far this year for the first time in more than a year.

**Inflation**

Monthly inflation was 2.4% m/m in February, in line with expectations, since regulated prices increased 4.8%, driven by the second wave of increases in electricity and gas bills and the first one in public transportation. Core inflation was 2.1% and remains at high levels. Still, the pass through from recent depreciation has been very small so far, as core inflation only shown a modest acceleration. New hikes in utility rates are expected in April. Inflation expectation for the end of this year stands at around 20%.

**Monetary Sector**

After the government changed the inflation targets last December 28th the overall monetary framework came into question. Main concerns were whether the Central Bank would be able to keep the inflation targeting framework and its independence to use interest rates actively to affect inflation expectations. We believe concerns are not justified. From now on there will be other disinflationary tools in addition to interest rates. There have been government efforts to avoid large increases in nominal wages and the Central Bank has been selling reserves to anchor the exchange rate.

**Fiscal Front**

The primary deficit in 2017 was lower than the official target. It reached 3.8% of GDP, 0.5% below 2016 and 0.4% lower than the official target of 4.2%. This year the targets are a primary deficit of 3.2% of GDP and of 2.2% in 2019. In January a primary surplus of ARS 3,929 million was recorded, slightly improving compared to a year ago. Revenues grew 19.3% in yearly terms, more or less in line with primary expenditures (19.5%). Fiscal accounts are on the right track and we believe the government is on a very good position to overachieve the fiscal targets again this year.

**What's coming next?**

The MSCI will announce probably in June if Argentina is upgraded to an emerging market. For the government is important to keep its tactical alliance with parts of the opposition to pass important laws this year (as the labor reform, capital markets law -almost approved-, new election law, changes in the judiciary system, among others). While many wage negotiations were closed at 15% plus a renegotiation if inflation is higher, discussions with tougher unions of teachers, banks and truckers remain open.

## ARGENTINA: APPENDIX

### Dashboard

	Mar-18	Feb-18	Jan-18	Mar-17	2017
Exchange rate ( <i>ARS/USD, eop.</i> )	20.21	20.12	19.65	15.38	18.77
Interest rate (%)	27.25%	27.25%	27.25%	24.75%	28.75%
National inflation ( <i>y/y</i> )	-	25.4%	25.0%	31.0%	24.8%
Economic activity ( <i>y/y</i> )	-	-	-	1.5%	2.9%
Industrial activity ( <i>y/y</i> )	-	-	2.6%	-0.4%	1.8%
Automotive production ( <i>y/y</i> )	-17.0%	-3.7%	15.9%	27.3%	-10.2%

Source: EconViews based on several sources

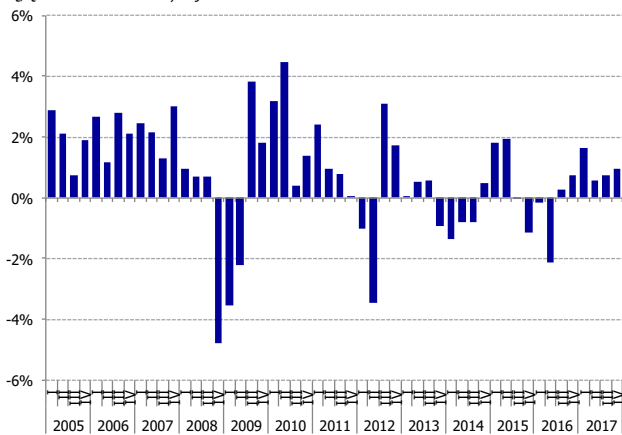
### Macroeconomic Outlook

	2015	2016	2017	2018F	2019F
GDP growth (%)	2.7%	-1.8%	2.9%	2.7%	3.6%
National inflation ( <i>Dec-Dec</i> )	28.4%	36.6%	24.8%	20.0%	15.0%
Fiscal Balance (% GDP)	-5.5%	-5.8%	-6.0%	-5.6%	-4.8%
Current Account (% GDP)	-2.6%	-2.6%	-4.9%	-5.7%	-5.4%
International reserves ( <i>USD Bn</i> )	25.6	39.3	55.1	64.7	72.8
Exchange rate ( <i>ARS/USD</i> )	13.01	15.85	18.77	22.50	25.50

Source: EconViews based on official figures and own estimates

#### Real GDP

Q/Q variations- Seasonally adjusted data INDEC



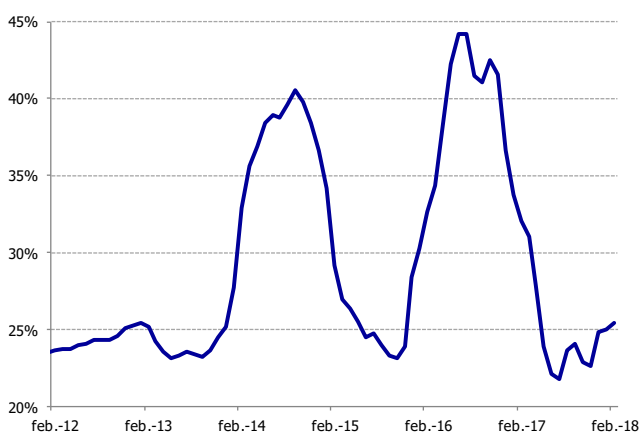
#### GDP growth - rolling forecasts for 2018

In %

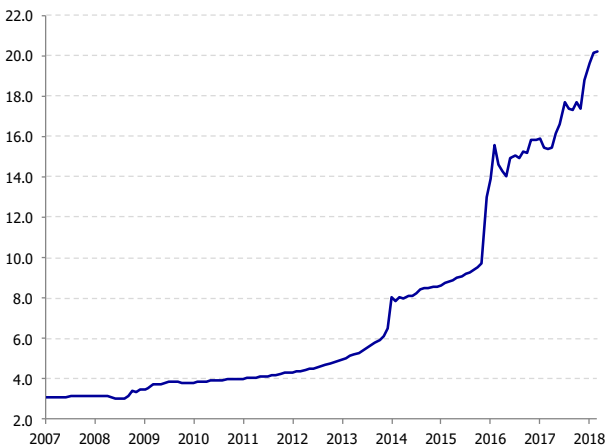


#### Inflation - General CPI

Annual changes



#### Argentinian Peso / Dollar



## BRAZIL

Good news	To be alert	Bad news
Short-term fiscal results continue to improve and the government is expected to easily meet its target for this year	Without reforms, the fiscal results are expected to deteriorate from 2019 onward	Both Fitch and S&P downgraded Brazil's credit rating from BB to BB- and changed its outlook to stable from negative

### Politics

While the deadline for presidential candidates to join political parties looms in early April, Lula still leads voting intentions. In a scenario that considers Lula in the race, he would get over 30% of votes in the first round, followed by Bolsonaro (15%) and Silva (10%). On the other hand, President Temer declared a military intervention in public safety in Rio de Janeiro and as it is established in the Constitution, voting the pension reform is now not feasible. Thus, the Government announced that it will not try to push the pension reform through Congress in the short term.

### Economic Activity

After shrinking 3.5% in 2016, economic activity grew 1.0% last year. In particular, the agricultural sector displayed an excellent performance and grew 13%. On the other hand, the first figures for economic activity in 2018 were not so good, as the estimator calculated by the Central Bank recorded a monthly drop of 0.56% in January. However, we expect economic activity to improve its performance in the 2Q, and grow 2.7% in 2018. There is downside risk linked to the interruption of reforms.

### Inflation

Monthly inflation was 0.32% in February, driven by the increases in education and transportation prices. The official indicator stood 2.84% above the record from a year ago, still below the lower target band (3.0%). We expect inflation to stand around 3.7% in next December, between the central (4.5%) and the lower target bands, due to a relatively stable exchange rate, low inertia from past inflation and anchored inflation expectations.

### Monetary Sector

Despite the volatility in international markets, the Brazilian Real remains quite stable, between 3.20 and 3.30 BRL per USD. So far this year, the Real has appreciated 1.1% and we expect it to reach 3.30 BRL/USD in December. However, uncertainty regarding the approval of fiscal reforms remains high and a setback could weaken the exchange rate. On the other hand, on March 21st, the Central Bank's Monetary Policy Committee reduced the benchmark Selic rate to a new all-time low of 6.50%.

### Fiscal Front

Short-term fiscal results continue to improve and the government is expected to easily meet its target for this year (primary deficit of 2.2% of GDP). Primary deficit is expected to moderate to 2.0% of GDP in 2018, helped by larger extraordinary revenues from tax amnesty programs and lower subsidies. However, due to the uncertainty regarding fiscal reforms, S&P and Fitch downgraded Brazil's sovereign credit rating to BB- from BB and changed its outlook to stable from negative

### What's coming next?

- Brazil's Supreme Court granted yesterday an injunction suspending former President Luiz Inacio Lula da Silva's prison sentence for corruption and money-laundering. By a 6-5 vote, the court granted da Silva a safe-conduct that lasts until the end of the trial hearing his petition for habeas corpus.
- That session on the merits of the case is scheduled for April 4<sup>th</sup>, while coming presidential elections are on October 7<sup>th</sup>.

**BRAZIL: APPENDIX**

**Dashboard**

	Mar-18	Feb-18	Jan-18	Mar-17	2017
Exchange rate (BRL/USD, eop.)	3.31	3.25	3.19	3.12	3.31
SELIC (%)	6.50%	6.75%	7.00%	12.25%	7.00%
Inflation (y/y)	-	2.8%	2.9%	4.6%	2.9%
Economic activity (y/y)	-	-	3.0%	1.6%	1.0%
Industrial activity (y/y)	-	-	5.7%	1.9%	2.4%
Automotive production (y/y)	-	-	27.4%	11.2%	17.2%

Source: EconViews based on several sources

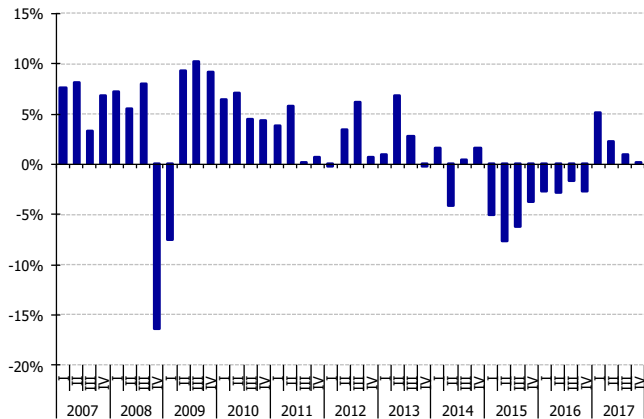
**Macroeconomic Outlook**

	2015	2016	2017	2018F	2019F
GDP growth (%)	-3.5%	-3.5%	1.0%	2.7%	2.9%
Inflation (Dec-Dec)	10.7%	6.3%	2.9%	3.7%	4.2%
Fiscal Balance (% GDP)	-10.2%	-9.0%	-7.8%	-6.9%	-6.4%
Current Account (% GDP)	-3.3%	-1.3%	-1.4%	-1.8%	-1.8%
International reserves (USD Bn)	348.9	356.8	365.4	378.3	383.2
Exchange rate (BRL/USD)	3.96	3.26	3.31	3.33	3.38

Source: EconViews based on Consensus Forecast & IMF

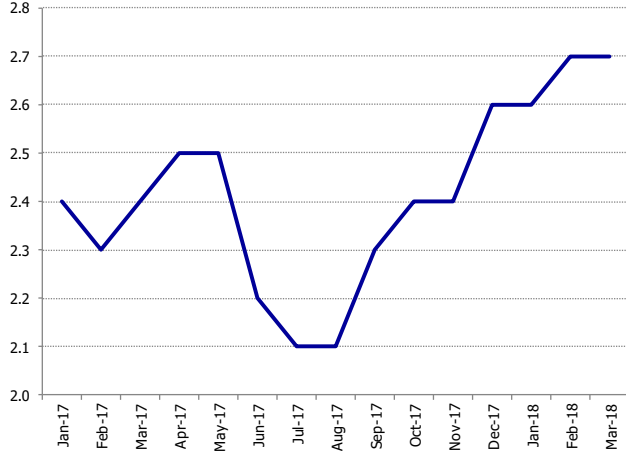
**Real GDP - Brazil**

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
Up to Feb-18 new cars sales went up 26.7% y/y compared with the same period last year.	In 2017 structural deficit was higher than expected: it was revised from 1.7% to 2.1%.	Chilean stock market lost earnings and YTD is at the same level of Dec-17.

### Politics

Mr. Piñera (Chile Vamos) took office as President of Chile. His compromise is to reduce fiscal deficit as last year reached 2.8%, the highest level since 2009. Also, structural deficit was 2.1% last year vs the 1.7% announced previously, equivalent to a deterioration of US\$ 1.1 bn. This way, the new government will embrace more austerity in fiscal expenditure. As Chile Vamos is the first minority in both chambers, it will need to make alliances in the Congress to pass reforms.

### Economic Activity

The economy grew 1.5% in 2017 and according to the GDP proxy (IMACEC), it started 2018 with a 0.1% m/m fall driven by non-mining activity (-0.2%). In i.a. terms, it accelerated and went up 3.5% helped by mining activity (7.9%). In Feb-18, consumer confidence (Adimark) remained in positive territory for the 3<sup>rd</sup> consecutive month. GDP is expected to grow at a faster pace in 2018 (3.4%) helped by better copper prices and the low base of comparison of 2017, where the mining strike took place.

### Inflation

In Feb-18 inflation was 2.0% y/y. It decelerated for the 3<sup>rd</sup> consecutive month and was in the lower band. Non-tradable goods went up 2.9% y/y while tradable goods prices increased 1.3% y/y. On a monthly basis, inflation showed no variation. This way, annual inflation was below the target of 3.0% for the 17<sup>th</sup> consecutive month. For 2018 inflation will accelerate from 2.3% to 2.6% due to a looser monetary policy and the normalization of US monetary policy, which impacts on the CLP.

### Monetary Sector

The Chilean Peso continued to appreciate and nowadays it stands near 604. Higher copper prices are influencing this performance. We expect the currency to be at 610 CLP/USD. In Mar-18, the CB maintained the policy rate in 2.5% for the 11<sup>th</sup> consecutive month. A better economic outlook will help to converge to the target of a 3% inflation in the medium term but the appreciation of the CLP will affect it in the short term.

### Fiscal Front

Government revenues grew 5.6% y/y in real terms in Jan-18. The main driver was the increase on tax revenues from mining companies. Expenditure went up 1.3%, driven by less capital expenditure (-9.3%): investment reduced 70.3% y/y. Under this scenario, fiscal deficit is expected to narrow to 2.1% of GDP this year and to 1.6% for 2019. Recently, Fitch Ratings maintained sovereign rating at A. Debt ratio should grow at a slower pace due to better economic prospects.

### What's coming next?

One of the main goals of the new administration is to reduce the tax burden, in particular, to cut corporate tax from 27% to 25% (OECD average). The tax reform would include the integration of personal taxes with corporate tax. The reduction in government income is estimated in US\$ 2.7 bn but it would be compensated with more growth. According to F. Larraín, the new Minister of Economy, the effect of 1 p.p. of growth on tax revenues is equivalent to US\$ 7.0 bn.

**CHILE: APPENDIX**

**Dashboard**

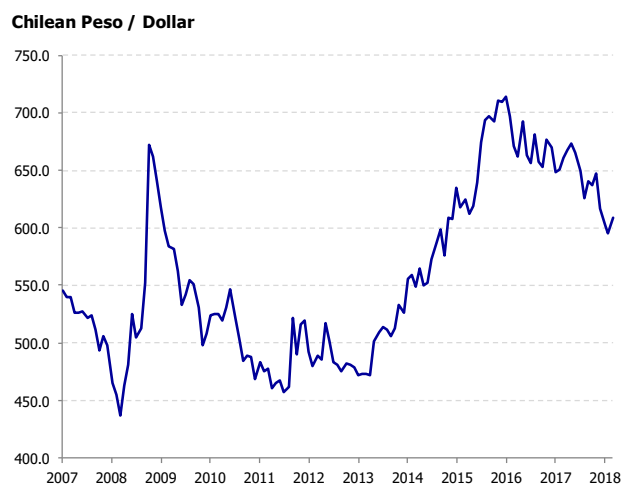
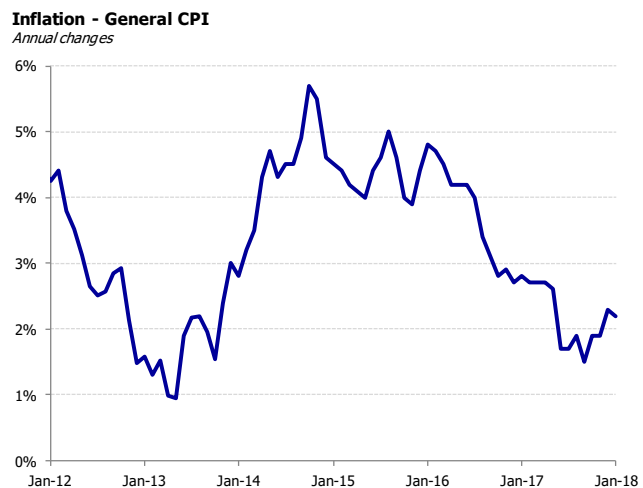
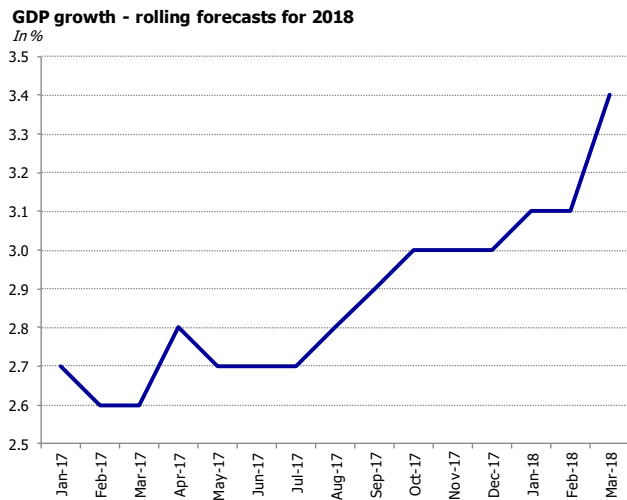
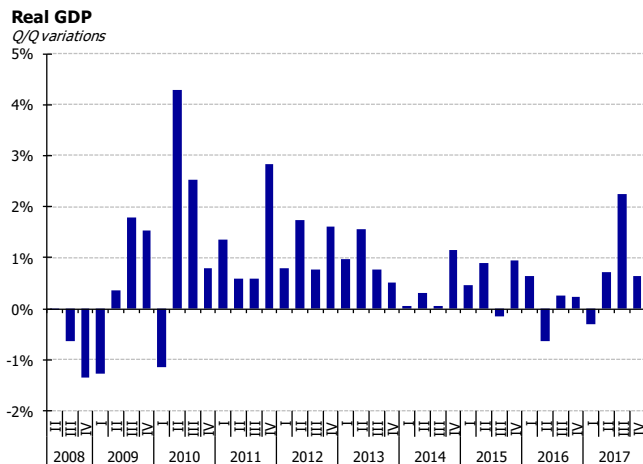
	Mar-18	Feb-18	Jan-18	Mar-17	2017
Exchange rate (CLP/USD, eop.)	607.90	595.10	602.45	660.54	616.15
Interest rate (%)	2.50%	2.50%	2.50%	3.00%	2.50%
Inflation (y/y)	-	2.0%	2.2%	2.7%	2.3%
Economic activity (y/y)	-	-	3.5%	0.0%	1.5%
Industrial activity (y/y)	-	-	5.7%	0.2%	-1.0%
Mining production (y/y)	-	-	5.9%	-21.8%	-1.7%

Source: EconViews based on several sources

**Macroeconomic Outlook**

	2015	2016	2017	2018F	2019F
GDP growth (%)	2.3%	1.3%	1.5%	3.4%	3.5%
Inflation (Dec-Dec)	4.4%	2.7%	2.3%	2.6%	3.1%
Fiscal Balance (% GDP)	-2.1%	-2.7%	-2.8%	-2.1%	-1.6%
Current Account (% GDP)	-1.9%	-1.4%	-2.3%	-2.8%	-3.0%
International reserves (USD Bn)	37.2	39.5	38.4	38.5	38.9
Exchange rate (CLP/USD)	709.35	670.30	616.15	610.00	618.00

Source: EconViews based on Consensus Forecast & IMF



**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.	Outcome of legislative elections increased fears that execution of the peace process agreed between President Santos and the FARC may be delayed. Presidential elections will be held on May 27th.	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.

<b>Politics</b>	Legislative and primary elections held on March 11th. Ivan Duque, the center-right candidate of former President Uribe ("Centro Democrático"), had a landslide victory that increased his chances to win presidential elections in May. The center-left candidate Gustavo Petro ("Colombia Humana") also won its primary by great margin and appears as the main contender. The anti-corruption Green Alliance won seats in both houses. The losers were President Santos and its "Coalition of National Unity".
<b>Economic Activity</b>	Economic activity in the last quarter of 2017 showed a weak private consumption and only a modest rise in investment. Still, activity this year is expected to show some recovery. GDP is expected to grow 2.5%, mainly thanks to an improvement on real wages and lower inflation, an expansionary monetary policy and more favorable external conditions, including supportive oil prices. Risks are basically linked to the uncertainty around the political cycle, which may limit the growth of investment.
<b>Inflation</b>	The Central Bank announced the end of the easing cycle, but also emphasized that more easing is likely if disinflation goes faster than expected. The consensus expects yearly inflation close to 3.3% by the end of the year, from 4.1% at last December. While the downside risks may come from the persistence of a strong currency or a slower than expected recovery, the upside risks are more linked to the dynamic of food prices and the rise on the minimum wage which will be closer to 6% this year.
<b>Monetary Sector</b>	While a still negative output gap and stronger currency are contributing to disinflation towards the target, the current account deficit is narrowing faster than expected. The market continue expecting a continuation of the easing cycle with additional 25 bps rate cuts, but if there is more volatility in asset prices during the election period or a faster than expected recovery in economic activity, the central bank may end the easing cycle. The consensus expects FX rate at 3,000 Pesos per US at the end of 2018.
<b>Fiscal Front</b>	Moody's keep debt rating one notch above the minimum investment grade level, but downgraded the outlook to negative, highlighting the expectation of a slower pace of fiscal consolidation and the risk that the new government will not have an effective mandate to pass additional fiscal measures. Deficit is expected to narrow to 3.0% of GDP this year from 3.6% in 2017. However, without further fiscal measures, the long-term fiscal deficit target of 1% will be challenging to reach.
<b>What's coming next?</b>	<ul style="list-style-type: none"> <li>- The campaign and presidential election are quite likely to be followed by a second final round, where Ivan Duque and Gustavo Petro appear as the main contenders.</li> <li>- Whether any of the leading candidates have the appetite for tough fiscal reforms, putting fiscal policy on a more sustainable track should be top at the agenda.</li> <li>- The new president will inherit a fragile peace deal with FARC's and decide whether to follow Santos' agreement. Many issues still need to be passed through congress.</li> </ul>



**COLOMBIA: APPENDIX**

**Dashboard**

	Mar-18	Feb-18	Jan-18	Mar-17	2017
Exchange rate (COP/USD, eop.)	2,843	2,868	2,831	2,874	2,987
Interest rate (%)	4.48%	4.50%	4.51%	7.00%	4.69%
Inflation (y/y)	-	3.4%	3.7%	4.7%	4.1%
Economic activity (y/y)	-	-	-	2.1%	1.8%
Industrial activity (y/y)	-	-	1.0%	5.0%	-0.6%

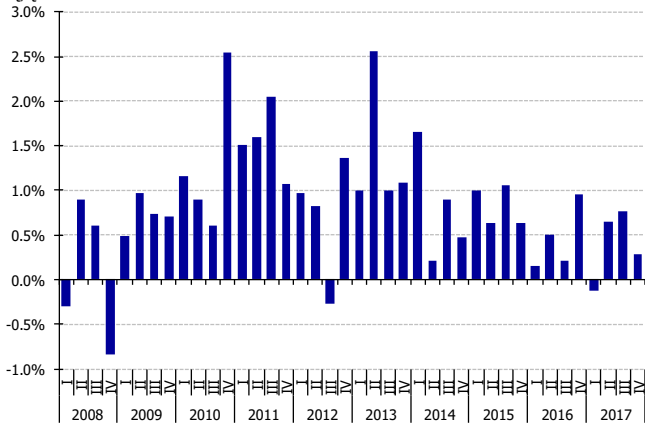
Source: EconViews based on several sources

**Macroeconomic Outlook**

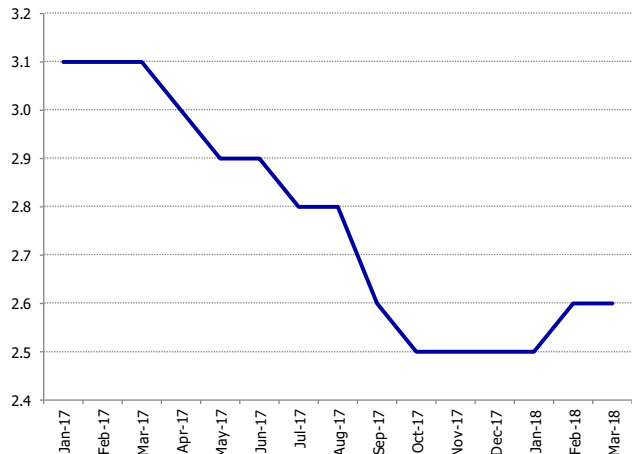
	2015	2016	2017	2018F	2019F
GDP growth (%)	3.1%	2.0%	1.8%	2.6%	3.0%
Inflation (Dec-Dec)	6.8%	5.7%	4.1%	3.3%	3.4%
Fiscal Balance (% GDP)	-3.0%	-4.0%	-3.6%	-3.0%	-2.6%
Current Account (% GDP)	-6.4%	-4.3%	-3.8%	-3.6%	-3.5%
International reserves (USD Bn)	44.8	45.0	45.4	48.2	49.4
Exchange rate (COP/USD)	3,180	3,003	2,987	3,000	3,025

Source: EconViews based on Consensus Forecast & IMF

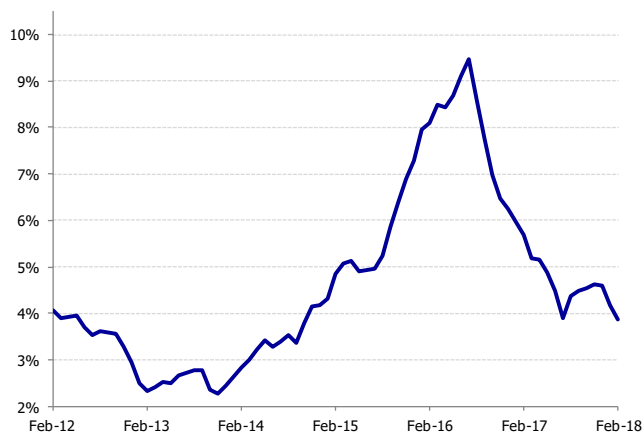
**Real GDP**  
Q/Q variations - DANE



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



**Inflation - General CPI**  
Annual changes



**Colombian Peso / Dollar**



## MEXICO

Good news	To be alert	Bad news
Fiscal consolidation deepens and the Mexican government achieved a primary surplus of 0.4% of GDP in 2017	The forthcoming presidential elections and the NAFTA renegotiation are a big source of uncertainty for the Mexican economy	Although GDP grew 2.0%, it slowed down compared to 2016 figure affected by the natural disasters that hit the country in 3Q17

### Politics

López Obrador is leading the polls with around 30% of votes, and is widening its advantage. He is being followed by Anaya (23%) and Meade (16%). On the other hand, during the 7th round of NAFTA renegotiations, the U.S. announced that it will impose tariffs on steel and aluminum on imports from the rest of the world. Nevertheless, Trump granted an exemption to Mexico and Canada, which can be permanent or revoked depending on the outcome of the NAFTA renegotiation.

### Economic Activity

After the natural disasters that hit the country in 3Q17, the economy recovered in the 4Q and grew 0.8% q/q. However, GDP grew 2.0% and slowed down compared to 2016 figure (2.9%). Moreover, economic activity contracted 0.7% m/m in January, but grew 2.1% relative to a year ago. We expect economic activity to grow 2.2% in 2018, but there are risks to the downside linked to the forthcoming presidential elections and the NAFTA renegotiation.

### Inflation

Inflation moderated again in February, from 5.55% in January to 5.34%. Additionally, core inflation decreased from 4.56% to 4.27% during the same period. In this context, we expect headline inflation to reach 4.1% in December 2018, in line with market expectations and below the figure of 2016 (6.8%). This moderation will be the result of a stronger currency and lower inflation expectations.

### Monetary Sector

After closing 2017 at 19.66 MXN per USD, the Mexican Peso has appreciated 5.9% so far this year. We expect the currency to reach 19.20 MXN/USD at the end of 2018, which means an appreciation of 2.3% relative to a year ago. On the other hand, the Central Bank of Mexico hiked the reference rate by 25 bps, to 7.50%, at its first meeting of the year. Although the significant risks linked to elections, the NAFTA renegotiations and monetary policy in the U.S., we do not expect further changes in the interest rate during the first half of the year.

### Fiscal Front

The fiscal consolidation continues deepening and the Mexican government achieved a primary surplus in 2017: the 12-month rolling primary balance reached a surplus of MXN 85 billion (0.4% of GDP) in 2017. Moreover, the fiscal deficit reached MXN 20.4 billion in January, well below the MXN 68.2 billion projected for the first month of the year. The official target for this year contemplates a primary surplus of 0.9% of GDP. We expect the fiscal deficit to stand around 2.1% of GDP this year, and the net public debt to decrease from 46.5% to 46% of GDP.

### What's coming next?

- We expect a NAFTA deal to be reached during the first half of this year. The Senate's special commissions will operate until the end of August 2018, before the new Congress starts on September 1st.
- The result of coming presidential elections can derail or postpone talks on NAFTA, which is significant for the macro outlook.

**MEXICO: APPENDIX**

**Dashboard**

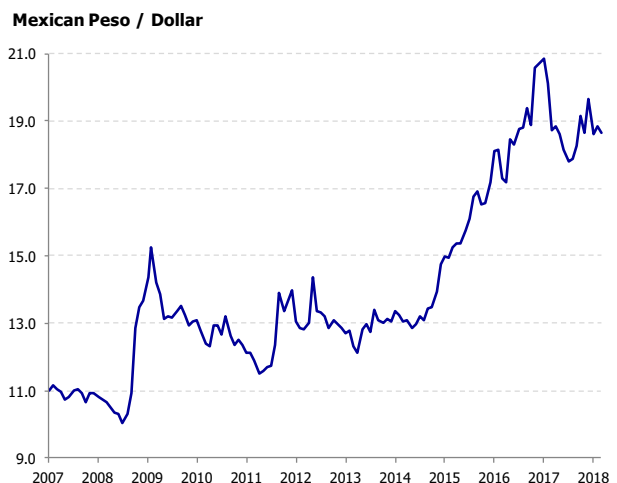
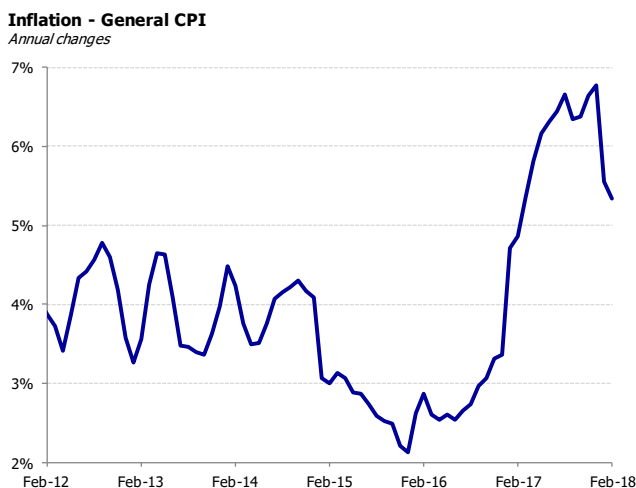
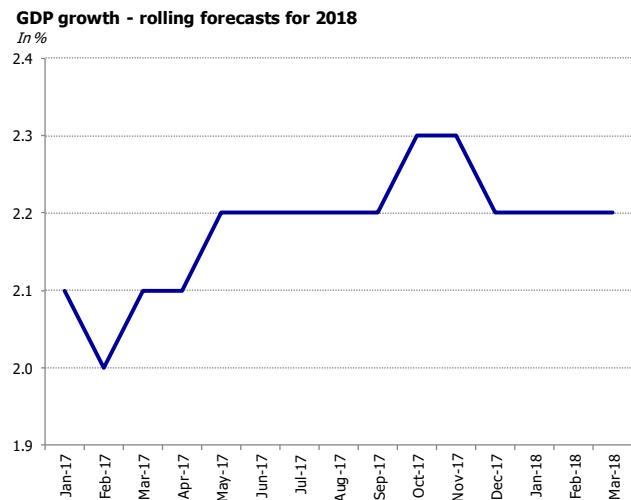
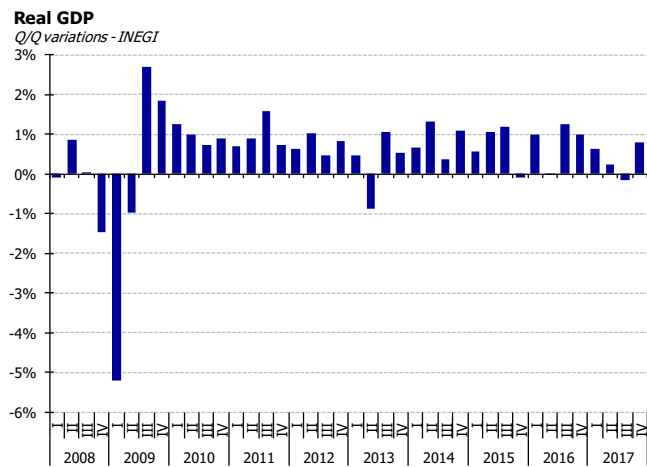
	Mar-18	Feb-18	Jan-18	Mar-17	2017
Exchange rate (MXN/USD, eop.)	18.50	18.85	18.61	18.73	19.66
Interest rate (%)	7.50%	7.50%	7.25%	6.50%	7.25%
Inflation (y/y)	-	5.3%	5.5%	5.4%	6.8%
Economic activity (y/y)	-	-	2.1%	5.4%	2.0%
Industrial activity (y/y)	-	-	0.9%	3.9%	-0.6%
Automotive production (y/y)	-	-	4.8%	34.0%	9.0%

Source: EconViews based on several sources

**Macroeconomic Outlook**

	2015	2016	2017	2018F	2019F
GDP growth (%)	3.3%	2.9%	2.0%	2.2%	2.2%
Inflation (Dec-Dec)	2.1%	3.4%	6.8%	4.1%	3.6%
Fiscal Balance (% GDP)	-3.4%	-2.5%	-1.1%	-2.1%	-2.2%
Current Account (% GDP)	-2.5%	-2.2%	-1.7%	-2.0%	-2.4%
International reserves (USD Bn)	168.4	168.7	164.9	170.8	173.0
Exchange rate (MXN/USD)	17.19	20.74	19.66	19.20	19.00

Source: EconViews based on Consensus Forecast & IMF



## PARAGUAY

Good news	To be alert	Bad news
The country issued a USD 530 million 30 year bond at 5.60% to fund infrastructure projects	Looming Presidential elections will shape the future of the country. There are no public polls available.	The 2018 Budget was approved with nominal hikes for civil servant salaries that may threaten the compliance with the Fiscal Responsibility Law

### Politics

The 2018 presidential elections will take place next April 22. Senator Benitez will run as Partido Colorado's (incumbent party) candidate and will contend with Mr Alegre from the Partido Liberal. President Cartes is constitutionally barred from seeking re-election. There are no public polls but Mr Benitez claims an internally sponsored poll gives him a 30 percentage points lead while Mr Alegre forecasts a technical tie.

### Economic Activity

According to BCP projections the economy expanded by 4.5% in 2017. On a supply side approach, the primary sector activity increased 4.8%, secondary production (manufacturing, construction and energy) went up by 2.0% and services grew 5.3%. On a demand side analysis, private consumption advanced 5.0% while the growth in capital formation reached 11.5%. BCP growth forecast for 2018 is 4.5% and preliminary figures in January are consistent with that projection. We foresee 2018 GDP growth at 3.9% in tandem with stronger activity in Brazil and Argentina.

### Inflation

As of February, headline consumer prices rose by 0.3% monthly and grew 4.1% on a y/y basis. After several months of food price increases, this sub index cooled down in February to drive a monthly CPI variance below expectations. Core inflation was 0.2% for the month and 2.9% for the last 12 months. CPI expectations according to the Central Bank remain strongly anchored to the center of the 2018 inflation target (4% +/-2%). We estimate 2018 inflation at 4.2%.

### Monetary Sector

The PYG is trading barely unchanged in nominal terms since the beginning of the year with the last price in the 5.550 PYG to USD area. In its March meeting, the Central Bank decided to keep the policy rate at 5.25% for the sixth month in a row. The decision was widely expected and the monetary authority stated that actual and expected inflation as well as GDP growth are evolving according to the plan. We forecast the policy rate to remain at 5.25% in the coming quarter.

### Fiscal Front

As of February, the cumulative 12-month deficit at the national treasury reached 1.3% of GDP in line with the Fiscal Responsibility Law target. Total revenues dropped 10.1% due to a slide in energy royalties from Itaipu. The final version of the 2018 Budget was approved by Congress with nominal hikes for civil servants which are above the guidelines of the Fiscal Responsibility Law. The draft had been vetoed by the Executive Power but was finally enacted by Congress. The Treasury estimates a 1.7% total deficit this year compared to a 1.5% guideline.

### What's coming next?

Some top issues to watch in Paraguay:

- Successful issuance of USD 530 million in 30 yr bonds at 5.6%
- The road to the 2018 Presidential elections is in its final stage
- Public expenditures should be contained to counter the hike in salaries
- US interest rates and the impact of import duties on international trade

**PARAGUAY: APPENDIX**

**Dashboard**

	Mar-18	Feb-18	Jan-18	Mar-17	2017
Exchange rate (PYG/USD, eop.)	5,572	5,572	5,615	5,666	5,602
Interest rate (%)	5.25%	5.25%	5.25%	5.50%	5.25%
Inflation (y/y)	-	4.1%	4.7%	2.8%	4.5%
Economic activity (y/y)	-	-	3.4%	10.6%	4.5%

Source: EconViews based on several sources

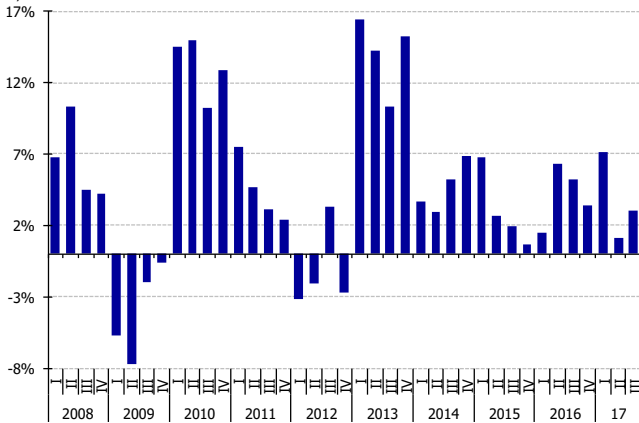
**Macroeconomic Outlook**

	2015	2016	2017	2018F	2019F
GDP growth (%)	3.0%	4.0%	4.0%	3.9%	3.9%
Inflation (Dec-Dec)	3.1%	3.9%	4.5%	4.2%	4.0%
Fiscal Balance (% GDP)	-1.3%	-1.1%	-1.4%	-1.4%	-1.2%
Current Account (% GDP)	-1.1%	1.7%	1.1%	0.4%	0.3%
International reserves (USD Bn)	6.2	7.1	8.3	n.a.	n.a.
Exchange rate (PYG/USD)	5,814	5,866	5,602	5,760	5,920

Source: EconViews based on Consensus Forecast & IMF

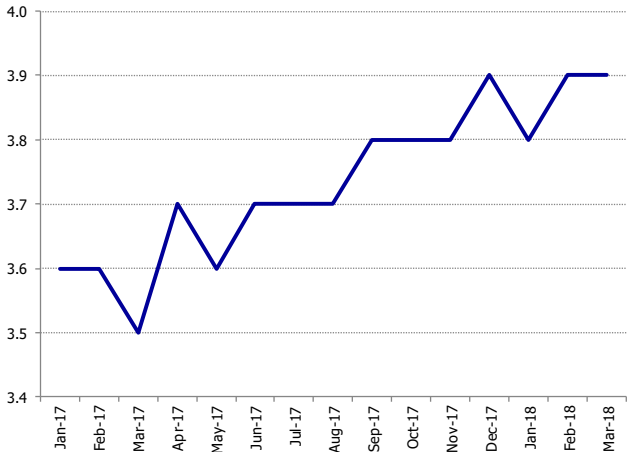
**Real GDP**

Y/Y variations - Central Bank



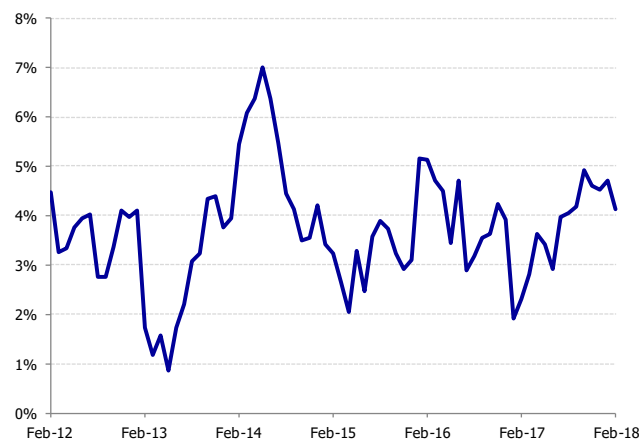
**GDP growth - rolling forecasts for 2018**

In %

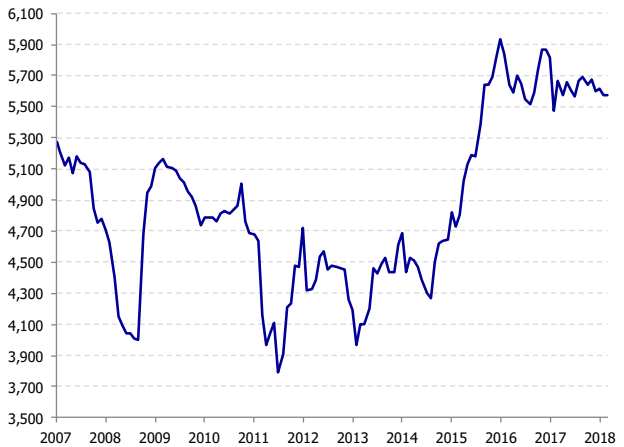


**Inflation - General CPI**

Annual changes



**Paraguayan Guarani / Dollar**



## PERU

Good news	To be alert	Bad news
Sovereign rating (BBB+) was not affected by the renounce of PPK according to Moody's and Fitch Ratings.	Minimum wage was increased to 930 PEN. This measure could lead to more informal work, which is 2/3 of total employment.	Unemployment went up and reached 8.0% in the moving quarter ending in Jan-18, the highest record of the last 6 years.

### Politics

After 20 months of government, President PPK quitted amid a corruption scandal involving Odebrecht and other issues. The next step is that the Congress accepts the renounce on Friday. According to the Constitution, the vice-president M. Vizcarra should take office, followed by second vice-president M. Aráoz. If both of them reject to take office, L. Galarreta (president of the Congress) will be in charge of the country and should call for elections in less than 1 year.

### Economic Activity

In Jan-18 economic activity accelerated and grew 2.8% y/y. The most dynamic sector was fishing (12.4% y/y). Investment continued to recover: construction and telecommunications grew 7.8% and 5.3% respectively. Meanwhile, mining was a drag and fell 1.5%. For 2018, the economy is expected to grow 3.6% but this figure could be revised down due to the political crisis.

### Inflation

In Jan-18 inflation decelerated and was 1.18% y/y, below the CB's target of 2.0% for the 4th consecutive time while on a monthly basis it was 0.25%. The main driver were the reversion of external shocks and the economic activity that grew below its potential. Core inflation (excluding food and energy) was 1.97%, between the target range while 12-month expectations lowered to 2.19%. For 2018 inflation forecast was revised down to 2.3%.

### Monetary Sector

The Peruvian Nuevo Sol strengthened after the renounce of PPK and nowadays stands near 3.24. In Mar-18, the CB lowered its policy rate 25 bps to 2.75% as the economy grew but below its potential, inflation expectations were close to the target range but continued to reduce and the external conditions remained favorable but with more uncertainty in the financial markets.

### Fiscal Front

Fiscal deficit deteriorated 0.1% p.p. in Feb-18 and reached 3.3% of GDP. The driver of this performance was more capital expenditure (24.9% y/y), especially public investment (45.8% y/y). Overall, public expenditure grew 17.1% y/y, well above current revenues (8.7%). For 2018 fiscal deficit is expected to increase to 3.4% of GDP as more fiscal stimulus is expected.

### What's coming next?

The political crisis will subsist in spite of the renounce of PPK, as the opposition is also involved in corruption scandals. Recently, PPK said he could retire his renouncement if the Congress accuses him of treachery. This uncertainty will affect the performance of economic activity, especially regarding private investment. This way, some GDP forecasts were revised down lately. However, the economy will grow more than in 2017 helped by fiscal stimulus and tailwinds from the external

## PERU: APPENDIX

### Dashboard

	Mar-18	Feb-18	Jan-18	Mar-17	2017
Exchange rate ( <i>PEN/USD, eop.</i> )	3.23	3.27	3.22	3.25	3.24
Interest rate (%)	2.75%	3.00%	3.00%	4.25%	3.25%
Inflation ( <i>y/y</i> )	-	1.2%	1.3%	4.0%	1.4%
Economic activity ( <i>y/y</i> )	-	-	2.8%	1.1%	2.5%
Manufacturing activity ( <i>y/y</i> )	-	-	0.2%	2.6%	-0.3%
Mining production ( <i>y/y</i> )	-	-	-1.5%	-2.7%	3.2%

Source: EconViews based on several sources

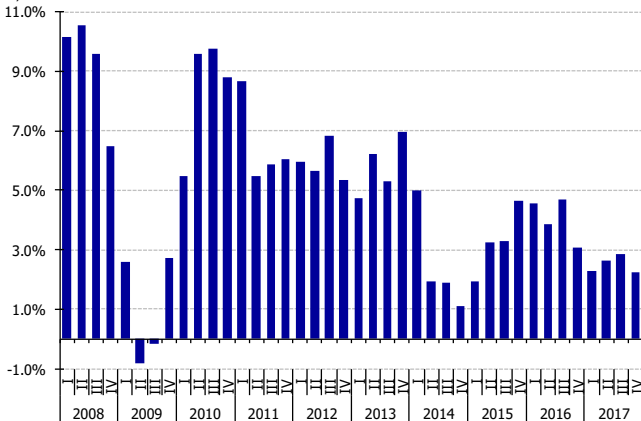
### Macroeconomic Outlook

	2015	2016	2017	2018F	2019F
GDP growth (%)	3.3%	4.0%	2.5%	3.6%	3.7%
Inflation ( <i>Dec-Dec</i> )	4.4%	3.2%	1.4%	2.3%	2.5%
Fiscal Balance (% GDP)	-2.1%	-2.6%	-3.2%	-3.4%	-2.9%
Current Account (% GDP)	-4.8%	-2.7%	-1.5%	-1.6%	-1.9%
International reserves ( <i>USD Bn</i> )	59.4	59.8	60.9	67.1	70.0
Exchange rate ( <i>PEN/USD</i> )	3.42	3.36	3.24	3.27	3.29

Source: EconViews based on Consensus Forecast & IMF

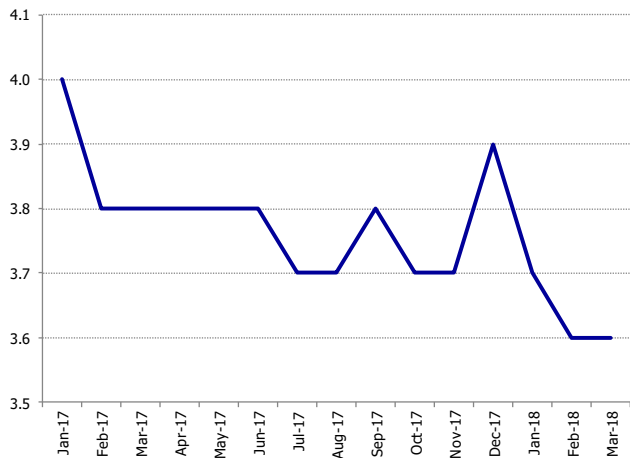
#### Real GDP

*Y/Y variations - Central Bank*



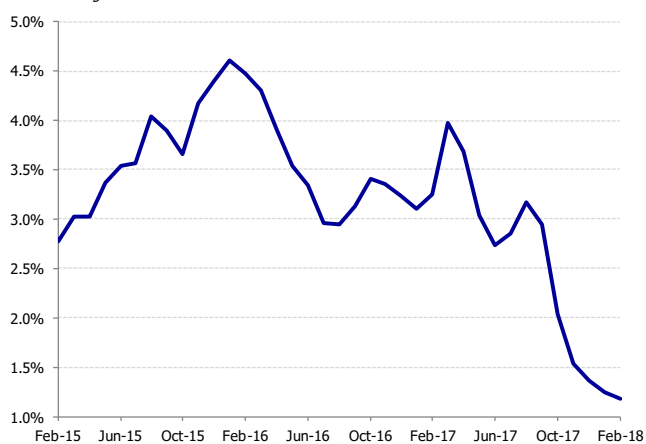
#### GDP growth - rolling forecasts for 2018

*In %*



#### Inflation - General CPI

*Annual changes*



#### Peruvian Sol / Dollar



## URUGUAY

Good news	To be alert	Bad news
Activity has been supported by private consumption as taming inflation was factored in higher real wages	The dynamics of the pension system is pivotal to ensure that the fiscal consolidation is successful in the medium run	Unemployment remains high and investment is lagging behind

### Politics

Several polls released over the last days point to deterioration in President Vazquez's image. The hike in utilities rates, complaints in the economic front and concerns on personal security are hitting the Presidential image to record low figures. Cifra's poll indicates a drop of support to 38% in March from 51% in December. 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.

### Economic Activity

Full year 2017 growth came in at 2.7%. From a supply side perspective, transport, storage and communications (+8.6%) and internal trade, restaurants and lodging (+7.5%) were the drivers behind that performance as the primary sector, manufacturing and construction printed red variances. From the demand side, private consumption was up 4.4%, exports increased 7.6%, imports retreated 0.4% and capital formation was down 13.8%. The unemployment reading for January 2018 came in at 8.5% with a 0.4% yoy increase. Our GDP estimate for 2018 is 3.2%.

### Inflation

Inflation in February came in higher than expected at a 0.9% monthly increase. The annual reading is currently at 7.1%, slightly out of bounds of the BCU 3-7% target range. Higher food prices and a seasonal peak in schooling expenses are driving the variance. We expect a subtle acceleration in inflation to 6.9% for 2018 in tandem with a weaker Peso and a stronger economic activity in neighboring countries.

### Monetary Sector

Despite the FX interventions by the BCU, the UYU has strengthened 1.3% nominally throughout 2018. Cumulative FX purchases by the BCU have reached 1 billion USD. If the global context remains unscathed, international reserves will rise from the current USD 16 billion level. The BCU monetary policy remains tight since the last COPOM meeting in December. The annual M1 growth target for Q1 2018 was set at 14-16%.

### Fiscal Front

The fiscal balance weakened marginally in January as the deficit reached 3.7% of GDP, compared to 3.5% last December. Revenues were up 14% yoy while expenses increased 21% due to higher expenses at ANCAP and UTE. Although we estimate the 2018 total fiscal deficit to reach 3.0%, in line with target established in the fiscal consolidation plan, the challenge going forward to meet the goal lies in the pension system dynamics.

### What's coming next?

- GDP rebound might keep momentum if activity in Argentina and Brazil recovers but the unemployment rate is still high
- The fiscal deficit and the credit rating should remain in the radar screen
- US monetary policy should be closely tracked.
- US trade policy and potential retaliation by China are worth monitoring.



**URUGUAY: APPENDIX**

**Dashboard**

	Mar-18	Feb-18	Jan-18	Mar-17	2017
Exchange rate (UYU/USD, eop.)	28.32	28.38	28.48	28.68	28.85
Interest rate (%)	8.00%	8.49%	8.70%	12.30%	8.56%
Inflation (y/y)	-	7.1%	6.7%	6.7%	6.6%
Economic activity (y/y)	-	-	-	4.4%	2.7%
Manufacturing activity (y/y)	-	-	-1.1%	-11.6%	-11.1%

Source: EconViews based on several sources

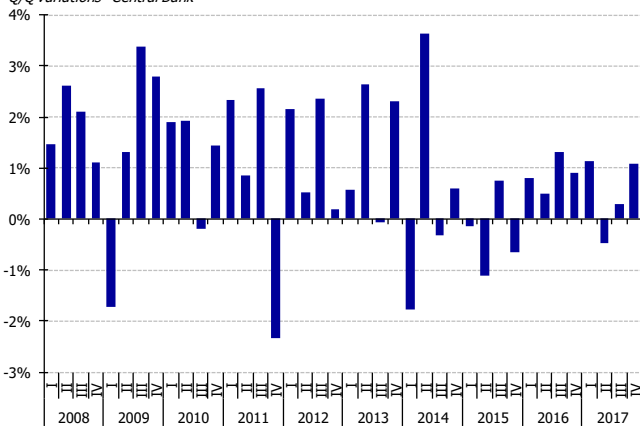
**Macroeconomic Outlook**

	2015	2016	2017	2018F	2019F
GDP growth (%)	0.4%	1.5%	2.7%	3.2%	3.3%
Inflation (Dec-Dec)	9.4%	8.1%	6.6%	6.9%	6.8%
Fiscal Balance (% GDP)	-3.6%	-4.0%	-3.0%	-2.7%	-2.5%
Current Account (% GDP)	-2.1%	-0.1%	-0.4%	-0.8%	-0.9%
International reserves (USD Bn)	15.6	13.4	16.0	n.a.	n.a.
Exchange rate (UYU/USD)	29.94	29.35	28.85	30.40	32.20

Source: EconViews based on Consensus Forecast & IMF

**Real GDP**

Q/Q variations - Central Bank



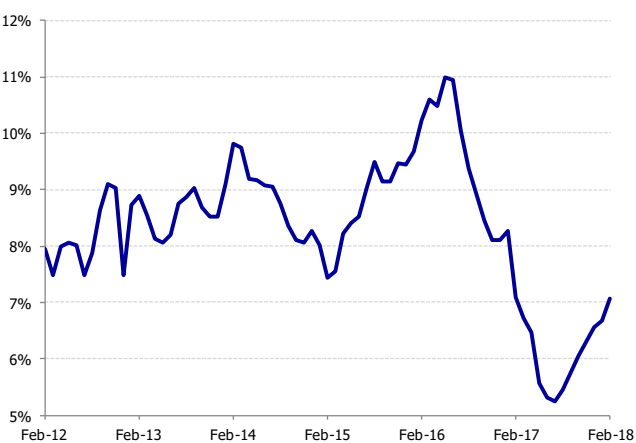
**GDP growth - rolling forecasts for 2018**

In %



**Inflation - General CPI**

Annual changes



**Uruguayan Peso / Dollar**

