

**Miguel A. Kiguel**

*Director*

[mkiguel@econviews.com](mailto:mkiguel@econviews.com)

Twitter: @kiguel

**Miguel Zielonka, CFA**

*Associate Director*

[mzielonka@econviews.com](mailto:mzielonka@econviews.com)

Twitter: @miguelzielonka

**Eric Ritondale**

*Chief Economist*

[eritondale@econviews.com](mailto:eritondale@econviews.com)

Twitter: @ericritondale

**Lorena Giorgio**

*Senior Economist*

[lgiorgio@econviews.com](mailto:lgiorgio@econviews.com)

**Mariela Diaz Romero**

*Semi Senior Economist*

[mdiazromero@econviews.com](mailto:mdiazromero@econviews.com)

**Rafael Aguilar**

*Analyst*

[raguilar@econviews.com](mailto:raguilar@econviews.com)

(+54 11) 5252-1035

Carlos Pellegrini 1149 Floor 8  
Buenos Aires

[www.econviews.com](http://www.econviews.com)

[www.facebook.com/econviews](https://www.facebook.com/econviews)

Twitter: @econviews

# LATAM 7 + Argentina

## Macro Brief

March, 2019

- ✓ **Argentina:** The FX stability is the key for elections
- ✓ **Brazil:** Waiting for the pension reform
- ✓ **Chile:** The current account deficit has widened last year
- ✓ **Colombia:** Pressure on external accounts
- ✓ **Mexico:** AMLO enjoys high popularity
- ✓ **Paraguay:** Keep calm and carry on with strong fundamentals
- ✓ **Peru:** Economic activity grew strongly in 2018
- ✓ **Uruguay:** Fiscal challenges in an election year

## ARGENTINA

Good news	To be alert	Bad news
The recession in 4Q-2018 was lower than expected. Last figures may be pointing that economic activity is reaching a turning point in Q1-2019, while GDP would grow in Q2.	The country risk premium remains high at the 750 basis points area. Pessimism has been growing among population and Cristina Kirchner is growing in the polls.	Inflation remains higher than expected and is delaying the economic recovery. BCRA in March had to tight again its monetary policy in response to exchange rate instability.

### Politics

The IMF staff and local authorities reached an agreement on the 3rd review of the program. Still subject to the approval of the Executive Board, Argentina will access to US\$10.87 billion in the coming weeks. The image of the Government is 23% lower than a year ago and close to the lowest since Macri took office. First polls show a close tie between Macri and CFK each with around 30% of vote intention, while former Minister of Economy Lavagna appears with serious chances in case CFK decides not to run.

### Economic Activity

Economic activity fell 2.5% in 2018. While recent data suggests that recession may be reaching a bottom in Q1, as cement dispatches, consumer confidence and financial conditions improved recently, it is too early to conclude that the recession has already ended. Still, agriculture will support GDP in Q2 by around 1 p.p. We expect GDP to fall 1.8% in 2019, explained by a negative carry-over of 3 p.p. from previous year, since we expect GDP to be growing at around 2% per annum in Q4-2019.

### Inflation

Inflation is a big headache. It accelerated in January to 2.9% m/m, and in February further to 3.8% m/m. This way, inflation speeded up to 51.3% y/y. Core inflation was 3.9% m/m, while regulated prices increased 4.2% m/m. March's figures also look ugly, as preliminary estimates are closer to 4%, while for April and May inflation is estimated to remain at levels around 3%. After hitting 47.6% y/y in 2018, inflation is likely to round 34% at year end, helped by a more stable FX and lower increases in regulated prices.

### Monetary Sector

During March the FX market faced pressure due to external and domestic factors and depreciated 7%, re-entering in the Non-Intervention Zone. The BCRA reduced in ARS 40 billion the monetary target to be effective until December. The interest rate increased rapidly and stands at Nov-18 levels, close to 67%. With the approval of the IMF, the Treasury announced that is allowed to sell USD 9,600 million (USD 60 million per day) in the FX market to cover financial needs in Pesos, from April December of 2019.

### Fiscal Front

In February and for the 19th month in a row, resources grew over primary expenditure and the growth differential between the two reached 6 percentage points. The fiscal target for Q1 will be met; but reaching primary equilibrium throughout the year will depend on GDP growth, exports, inflation and the exchange rate. In the recent revision the IMF favored the mitigation of the social impact of the stabilization policies through an increase in the adjustor for social spending from 0.2 to 0.3 p.p. of GDP.

### What's coming next?

- Further tightening to stabilize the FX rate and anchor inflation expectations. As a result, interest rates will stay higher for a longer period of time.
- The Presidential race is about to start and the volatility in FX and interest rates is expected to continue at least until elections.
- Elections in many provinces for Governor and provincial congressmen.

## ARGENTINA: APPENDIX

### Dashboard

	Mar-19	Feb-19	Jan-19	Mar-18	2018
Exchange rate (ARS/USD, eop.)	41.74	39.00	37.04	20.14	37.81
Interest rate (%)	66.66%	50.13%	53.69%	27.25%	59.25%
National inflation (y/y)	-	51.3%	49.3%	25.4%	47.6%
Economic activity (y/y)	-	-	-	2.2%	-7.0%
Industrial activity (y/y)	-	-	-10.8%	1.5%	-14.7%
Automotive production (y/y)	-	-16.4%	-32.3%	25.2%	-38.5%

Source: EconViews based on several sources

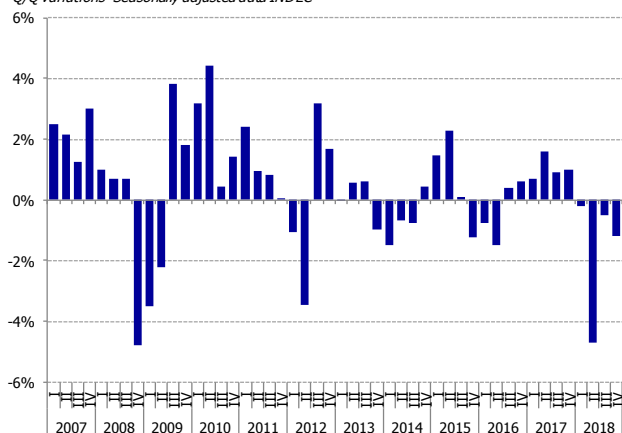
### Macroeconomic Outlook

	2016	2017	2018	2019F	2020F
GDP growth (%)	-1.8%	2.9%	-2.5%	-1.8%	3.5%
National inflation (Dec-Dec)	36.6%	24.8%	47.6%	34.0%	27.0%
Fiscal Balance (% GDP)	-5.8%	-6.0%	-5.2%	-3.0%	-2.0%
Current Account (% GDP)	-2.6%	-4.9%	-4.4%	-1.5%	-2.2%
International reserves (USD Bn)	39.3	55.1	65.8	67.3	62.5
Exchange rate (ARS/USD)	15.9	18.8	37.8	48.0	54.7

Source: EconViews based on official figures and own estimates

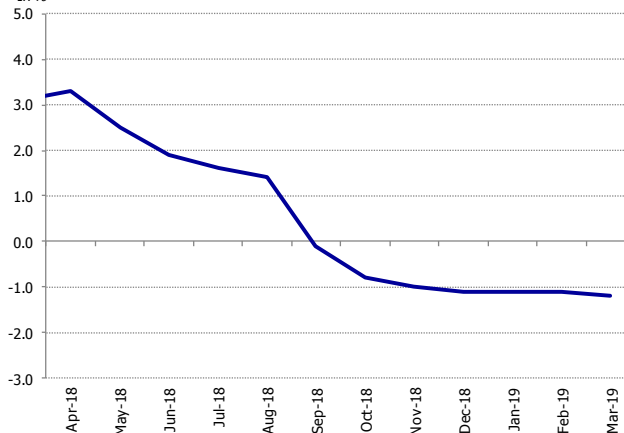
#### Real GDP

Q/Q variations- Seasonally adjusted data INDEC



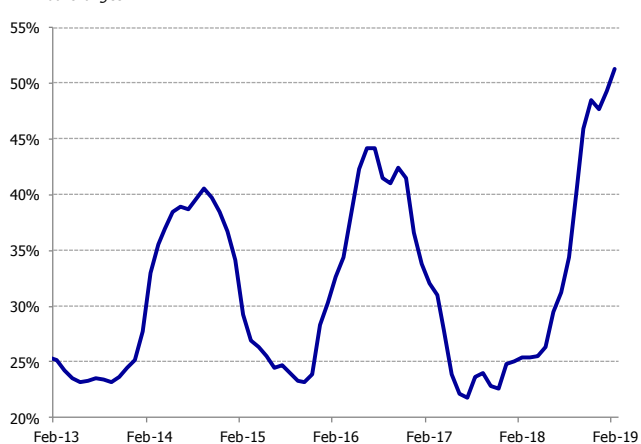
#### GDP growth - rolling forecasts for 2019

In %



#### Inflation - General CPI

Annual changes



#### Argentinian Peso / Dollar



## BRAZIL

Good news	To be alert	Bad news
The newly sworn-in government is committed to introduce pro market structural reforms and is struggling to build the necessary political alliances	The pace of economic recovery started on a weak note and a new round of Lava Jato ramifications could bring in heightened FX volatility	The detention of Michel Temer might potentially delay the approval of the pension reform and complicate the fiscal and debt paths going ahead

### Politics

Jair Bolsonaro is trying to advance with the promised agenda, assigning a top priority to the reform of the pension system. The initiative is critical to reinforce the economic recovery and depends on the Congress approval that requires 3/5 of lawmaker votes. Thus, Bolsonaro is struggling to build an alliance with other political parties. Rio de Janeiro federal judge Marcelo Bretas has just ordered the detention of former president Michel Temer in allegations related to the Lava Jato.

### Economic Activity

Economic activity grew 1.1% in FY 2018, matching the performance of 2017 even with the trucker's strikes that impaired economic activity last year. The start to the year 2019 was weaker than expected with the January monthly leading indicator recording a 0.4% m/m s.a. drop, and industrial production sliding 0.8%. January unemployment stands at 12.3%, in line with a sluggish recovery. We estimate FY 2019 GDP growth at 2.1%.

### Inflation

The consumer price index (IPCA) climbed 0.4% in February, boosted by education (+3.5%), food and beverages (+0.8%) and health and personal care (+0.5%). The 12-month cumulative headline IPCA reached 3.9% y/y which is below the 4.25% inflation target (+/- 1.50% tolerance). As there is no evidence of inflationary pressures and expectations seem to be well contained we estimate FY 2019 to approach 3.9% assuming the pension reform is approved and the FX remains tamed.

### Monetary Sector

The BRL remains barely flat so far this year to currently trade at 3.89 per USD. The detention of ex President Michel Temer reversed the previous BRL rally and will probably increase FX volatility. In its March meeting, the first one chaired by Roberto Campos Neto, the Copom announced its decision to leave the SELIC interest rate unchanged at 6.5% with risks to inflation symmetrically balanced, as expected by the market. We expect the SELIC rate to remain unchanged for the coming months.

### Fiscal Front

The consolidated primary balance in FY 2018 printed a 1.6% deficit to GDP. The compliance of the spending cap rule in 2019 (1.8% GDP primary deficit) looks achievable, but meeting the rule in 2020 relies on the pension system reform approval. When and if approved, the gradual implementation of spending cuts would improve the deficit in the range of 1.4 to 2.7 p.p. of GDP by 2027. For 2019, we estimate a total fiscal balance deficit of 7.1% of GDP.

### What's coming next?

- Any setbacks in the approval of the reforms may put additional pressure on risk premiums and the exchange rate, affecting both inflation expectations and its actual path.
- The fiscal outlook for 2020 is largely linked to the approval of reforms, especially the pension one, which is essential for achieving a gradual convergence to primary surpluses that are compatible with public debt stabilization.

## BRAZIL: APPENDIX

### Dashboard

	Mar-19	Feb-19	Jan-19	Mar-18	2018
Exchange rate ( <i>BRL/USD, eop.</i> )	3.90	3.75	3.64	3.31	3.88
SELIC (%)	6.50%	6.50%	6.50%	6.50%	6.50%
Inflation ( <i>y/y</i> )	-	3.9%	3.8%	2.7%	3.7%
Economic activity ( <i>y/y</i> )	-	-	0.8%	-1.4%	0.6%
Industrial activity ( <i>y/y</i> )	-	-	-2.6%	1.2%	1.2%
Automotive production ( <i>y/y</i> )	-	20.5%	-9.4%	13.6%	6.7%

Source: EconViews based on several sources

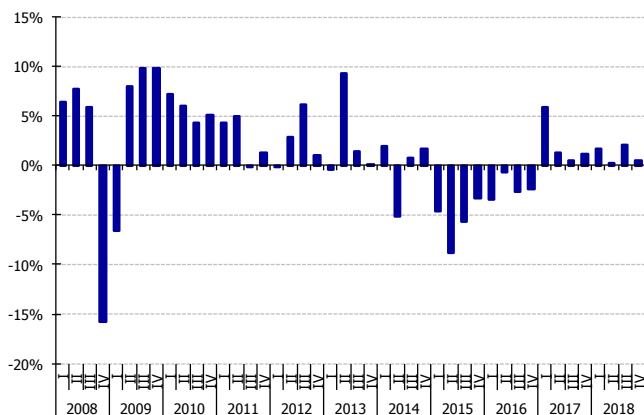
### Macroeconomic Outlook

	2016	2017	2018	2019F	2020F
GDP growth (%)	-3.3%	1.1%	1.1%	2.1%	2.6%
Inflation ( <i>Dec-Dec</i> )	6.3%	2.9%	3.7%	3.9%	4.0%
Fiscal Balance (% GDP)	-9.0%	-7.8%	-7.1%	-7.1%	-7.3%
Current Account (% GDP)	-1.3%	-0.3%	-0.8%	-1.6%	-1.7%
International reserves ( <i>USD Bn</i> )	356.8	365.4	365.5	380.2	381.0
Exchange rate ( <i>BRL/USD</i> )	3.26	3.31	3.88	3.90	3.90

Source: EconViews based on Consensus Forecast & IMF

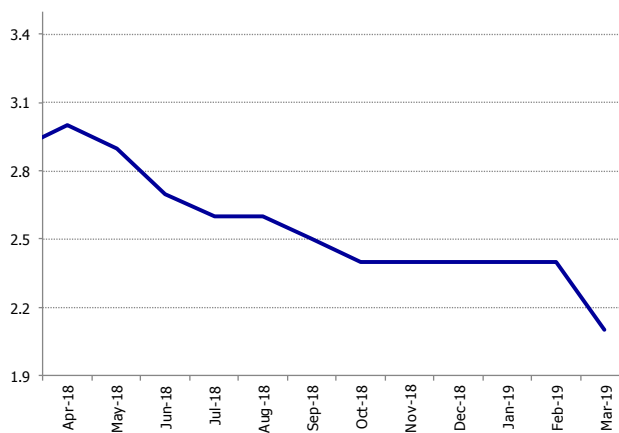
#### Real GDP - Brazil

*quarterly variations annualized, in %*



#### GDP growth - rolling forecasts for 2019

*In %*



#### Inflation - General CPI

*Annual changes*



#### Brazilian Real / Dollar



## CHILE

Good news	To be alert	Bad news
The Chilean economy showed a really good performance last year. In the Q4-2018 the expansion was widespread among all sectors.	The current account deficit reached 3.1% of GDP in 2018, increasing 1 p.p. in comparison to the revised data of 2017 (2.1% vs. the previous 1.5%).	The trade surplus is deteriorating: in February 2019 it fell in y/y terms for the 8 <sup>th</sup> consecutive month; mining exports fell for the 4 <sup>th</sup> month in a row.

### Politics

The tax reform proposed by the ruling party may need some changes. This reform aims to integrate the actual system and allows shareholders to discount taxes paid by companies. The opposition in the Congress say this would imply a reduction in tax revenue, so the original project will need modifications. Approval of President Piñera has been falling and this month reached the lowest level since he took office (37.0%), according to a survey conducted by Cadem.

### Economic Activity

In 2018 the economy grew 4.0%, recording one of the best performances of the region. In the Q4-2018 activity grew 1.3%, the fastest pace since the Q3-2017, driven by domestic demand, especially investment. In comparison to one year ago, the economy went up 3.6% y/y. In terms of economic sectors, the good performance was widespread between services, mining, manufacturing and commerce. In January 2019 activity seems to have moderated its pace of growth.

### Inflation

In February 2019, inflation was 1.7% y/y (2018=100, 2.2% in the long-time series), well below the BCC target of 3%. In monthly terms, consumer prices were flat influenced by "Food and beverages" and "Transport", which both recorded a monthly variation of -0.3%. Inflation excluding food and energy was 0.3% m/m. A significant increase in clothing prices (2.5% m/m) was recorded, which had an incidence of 0.08 p.p. in the monthly figure. For 2019 inflation is expected to accelerate to 2.7%.

### Monetary Sector

The CLP has strengthened 2.2% so far 2019 and reached 679.3, after ending last year at 695.15. This performance was explained by a recovery in the price of copper of more than 10%. In the last monetary policy meeting, the BCC maintained the rate at 3.0% for the 2<sup>nd</sup> consecutive month. The entity still aims to reduce the monetary stimulus but slowly and keeping an eye on the external front. This way, the BCC will likely increase the policy rate only one time this year.

### Fiscal Front

In January 2019 the Central Government recorded a surplus of 0.3% of GDP. Income reduced 0.8% y/y in real terms explained by less revenues from Codelco, the national mining firm. Total expenditure grew 1.0% in real terms, driven by both current and capital expenditure (3.6% and 3.5% respectively). For 2019 fiscal deficit is expected to remain stable in 1.7% of GDP. With regard to debt, Fitch Ratings confirmed sovereign rating of "A" with a stable outlook.

### What's coming next?

- The changes made by the opposition in the tax reform, which include an increase in taxation of higher-earning individuals and to allow more SMEs to enter in the simplified category of taxes.
- Trade war between the USA and China, which is the main importer of copper.

**CHILE: APPENDIX**

**Dashboard**

	Mar-19	Feb-19	Jan-19	Mar-18	2018
Exchange rate (CLP/USD, eop.)	679.53	656.15	656.19	604.40	695.15
Interest rate (%)	-	3.00%	3.00%	2.50%	2.75%
Inflation (y/y)	-	2.2%	2.2%	1.8%	2.6%
Economic activity (y/y)	-	-	2.1%	4.7%	4.2%
Industrial activity (y/y)	-	-	2.7%	-3.2%	2.3%
Mining production (y/y)	-	-	-4.8%	25.9%	3.6%

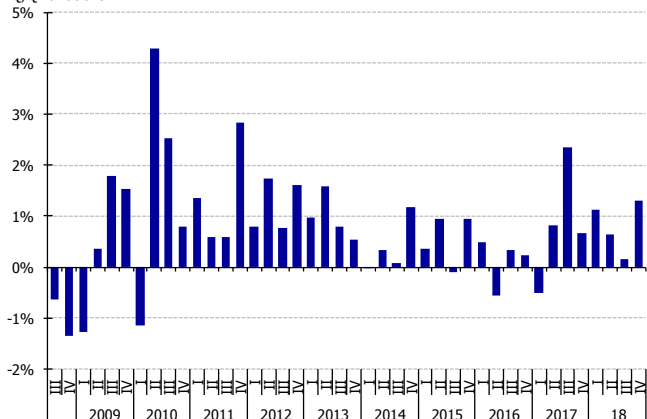
Source: EconViews based on several sources

**Macroeconomic Outlook**

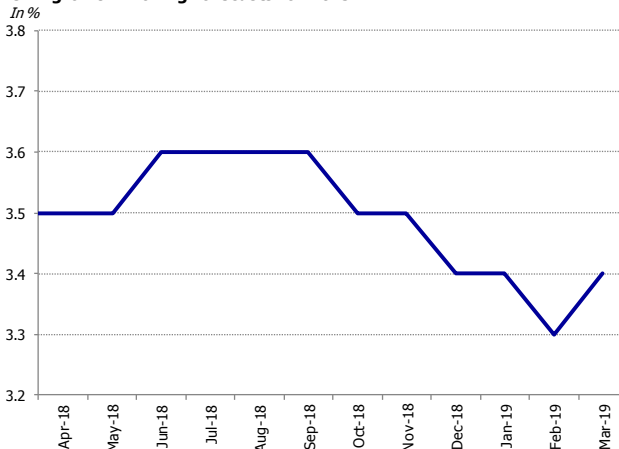
	2016	2017	2018	2019F	2020F
GDP growth (%)	1.7%	1.3%	4.0%	3.4%	3.4%
Inflation (Dec-Dec)	2.7%	2.3%	2.6%	2.7%	2.9%
Fiscal Balance (% GDP)	-1.1%	-2.0%	-1.8%	-1.7%	-1.4%
Current Account (% GDP)	-1.4%	-1.5%	-2.5%	-2.7%	-2.5%
International reserves (USD Bn)	39.5	38.0	38.9	39.3	39.8
Exchange rate (CLP/USD)	670.30	616.15	660.00	650.00	650.00

Source: EconViews based on Consensus Forecast & IMF

**Real GDP**  
Q/Q variations



**GDP growth - rolling forecasts for 2019**



**Inflation - General CPI**  
Annual changes



**Chilean Peso / Dollar**



## COLOMBIA

Good news	To be alert	Bad news
GDP growth would accelerate to 3.3% this year, aided by low inflation, expansionary monetary policy and a robust private consumption, after small changes to VAT in tax reform bill.	The decline of oil prices and a new deterioration of the financial conditions for emerging markets led to a weakening of the Colombian peso and a mild increase on the country risk.	The tax reform was politically costly for Duque and fell short to collect the tax resources needed to match the fiscal targets. Further reforms are still needed to comply the fiscal targets.

### Politics

President Iván Duque regained some popularity after his tough stand on Venezuela, recovering part of the support lost with after the approval of the financing law. With regional elections next October, it remains uncertain if Duque will be able to pass the reforms needed to meet the ambitious fiscal targets, including cuts on gas and energy subsidies which may end up affecting the poorest. ELN rebels claimed the responsibility for the bombing of a police academy in Bogota that killed 21 people.

### Economic Activity

Activity is ready to gain momentum, thanks to stronger exports and a solid domestic demand, supported by an acceleration of investment, while consumption is likely to remain robust. Uncertainties remain over the pace of fiscal reform and the ability of the Government to deal with the Congress. Further risks may come from a decline in oil prices or tighter external financing conditions. We expect GDP to grow 3.3% in 2019.

### Inflation

Inflation moderated to 3.0% y/y in February, from 3.2% y/y in January, largely thanks to a stronger COP. We expect inflation to end 2019 at 3.4% y/y. In its last meeting, BRC maintained a neutral tone and kept its benchmark interest rate unchanged at 4.25%, given the stable inflation and well anchored expectations. Still, the outlook points to upside risks due to El Niño and some VAT changes. As a result, some mild policy tightening is expected before year end.

### Monetary Sector

Despite the possibility of a monetary policy tightening, in the medium term we see a weaker COP as the current account deficit is foreseen to increase due to lower oil prices and the recovery of domestic demand, reaching 4.0% of GDP this year, from 3.5% previously, and 3.8% in 2020, from 3.2% previously. As a result, medium term risks are more biased to a weaker COP, given still wide twin deficits and the recent fall of oil prices.

### Fiscal Front

The financing law was finally approved by the Congress in December and came into effect early this year. One late addition was a surcharge on profits for the financial sector. The law in the end didn't include the controversial provision that would have increased VAT for food products. Overall, the law would raise revenues by 0.7% of GDP, but still less than the 1.3% of GDP needed for covering the 2019 budget shortfall. Nominal deficit would be 2.7% of GDP this year, higher than the target of 2.4%

### What's coming next?

- Duque inherited a fragile peace deal with the FARC's and has to decide to follow or not Santos' agreement. So far the direction remains unclear.
- Regional elections in October, which will be the first electoral test for Duque.
- Uncertainties remain over the pace of fiscal reform. Progress on the fiscal front is very important, given that the wide current account deficit is partly due to a still hard-to-correct fiscal deficit.



**COLOMBIA: APPENDIX**

**Dashboard**

	Mar-19	Feb-19	Jan-19	Mar-18	2018
Exchange rate (COP/USD, eop.)	3,134	3,083	3,107	2,795	3,250
Interest rate (%)	-	4.26%	4.26%	4.43%	4.26%
Inflation (y/y)	-	3.0%	3.2%	3.1%	3.2%
Economic activity (y/y)	-	-	2.2%	2.4%	2.7%
Industrial activity (y/y)	-	-	-	-1.2%	2.9%

Source: EconViews based on several sources

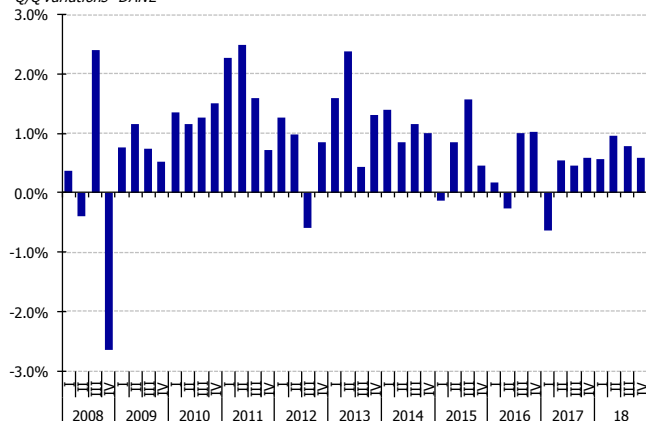
**Macroeconomic Outlook**

	2016	2017	2018	2019F	2020F
GDP growth (%)	2.1%	1.4%	2.7%	3.0%	3.2%
Inflation (Dec-Dec)	5.7%	4.1%	3.2%	3.4%	3.2%
Fiscal Balance (% GDP)	-4.0%	-3.6%	-3.1%	-2.7%	-2.3%
Current Account (% GDP)	-4.3%	-3.3%	-3.8%	-4.0%	-3.8%
International reserves (USD Bn)	46.7	47.6	48.4	49.9	51.3
Exchange rate (COP/USD)	3,003	2,987	3,050	3,120	3,135

Source: EconViews based on Consensus Forecast & IMF

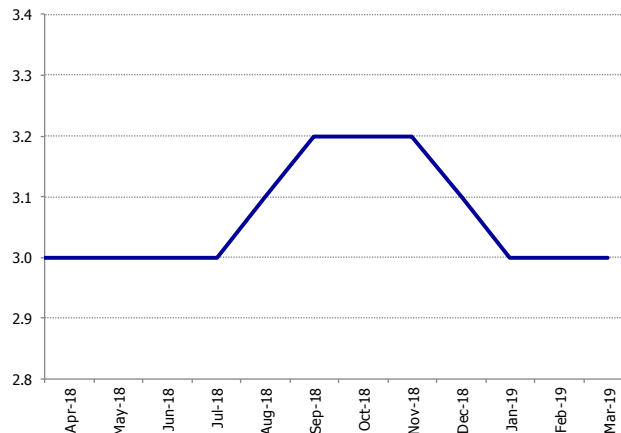
**Real GDP**

Q/Q variations - DANE



**GDP growth - rolling forecasts for 2019**

In %



**Inflation - General CPI**

Annual changes



**Colombian Peso / Dollar**



**MEXICO**

Good news	To be alert	Bad news
Despite some difficulties, AMLO is receiving a strong support from the population. Backup from the Congress is growing and facilitating the implementation of his policy agenda.	S&P cut its outlook on Mexico's investment grade credit rating by fears of exacerbated fiscal policy, as government aims to hike spending on heavily indebted oil company Pemex.	GDP will grow less this year, as uncertainty over local policy and the new trade deal with US and Canada is slowing down investment, while exports are affected by the US deceleration.

Politics	<p>AMLO enjoys high support from the population despite his initial troubles, as gasoline shortages, strikes, etc.. According to polls, AMLO's approval rating stands at 78% in March. Support also comes from a solid performance of the consumer confidence, despite the moderation in the growth of private consumption, since expectations remain positive. AMLO's support in the lower house strengthened, after 9 deputies resigned from the left party PRD and said they want to support the President.</p>
Economic Activity	<p>GDP decelerated in Q4-2018, as it grew 1.7% y/y, from 2.5% y/y in Q3-2018. As a result, GDP grew 2.0% in 2018. The industrial sector was the main drag on activity, contracting 0.9% y/y in Q4-2018, due to the slower growth in the US and the sharp fall in mining due to lower oil output. The construction sector also decreased. We revised GDP forecast for 2019 downward to 1.4%, since policy uncertainty remains and in the short term GDP will be affected by recent gasoline shortages and strikes.</p>
Inflation	<p>Inflation decelerated in February to 3.9% y/y, with core measures and food staples also moderating, after reaching 4.4% y/y in January. As a result, inflation entered within BANXICO's target range of 3.0% +/- 1.0 p.p. for the first time in more than two years. Core inflation is also falling, although at a slower pace than headline inflation. Expectations points to a modest deceleration over the short term, this way at year end headline inflation is expected to reach 3.6% y/y.</p>
Monetary Sector	<p>BANXICO's board members voted unanimously to leave the policy rate unchanged at 8.25% in February. While the board's statement remains caution on the inflation outlook, it stated that the policy rate is consistent with meeting the inflation target, since there are positive developments on the local front, as the renegotiation with airport bondholders and the 2019 Budget, and a more helpful external environment for the inflation outlook, as weaker growth and a looser monetary policy by the Fed.</p>
Fiscal Front	<p>The 2019 Budget included estimates of 1.9% of GDP in savings, of which 1.4% of GDP would come from lower expenditures. Since savings assumption looks optimistic, as AMLO is likely to use social spending programs to shield his popularity and to hike spending on heavily-indebted Pemex, the chances of missing the fiscal target are high this year. For 2019, we expect a fiscal deficit equivalent to 2.5% of GDP, from a deficit of 2.1% in 2018.</p>
What's coming next?	<ul style="list-style-type: none"> <li>• The approval of the new NAFTA -the so called USMCA- by the U.S. Congress, and also its ratification by Mexico, which still could face headwinds despite most analysts see it as a done deal.</li> <li>• Consumer spending will struggle to offset a weaker investment, since firms are on a "wait and see" mode due to policy uncertainty.</li> <li>• Possible new tensions around the border wall.</li> </ul>

**MEXICO: APPENDIX**

**Dashboard**

	Mar-19	Feb-19	Jan-19	Mar-18	2018
Exchange rate (MXN/USD, eop.)	19.11	19.29	19.11	18.17	19.66
Interest rate (%)	-	8.25%	8.25%	7.50%	8.25%
Inflation (y/y)	-	3.9%	4.4%	5.0%	4.8%
Economic activity (y/y)	-	-	-	-0.5%	2.0%
Industrial activity (y/y)	-	-	-0.9%	-3.3%	0.5%
Automotive production (y/y)	-	-	10.9%	-9.8%	1.3%

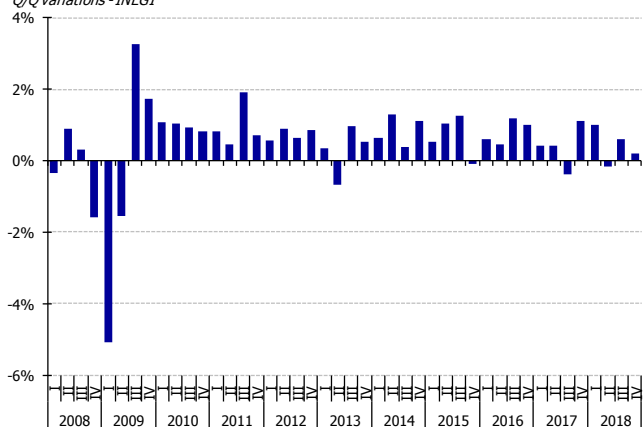
Source: EconViews based on several sources

**Macroeconomic Outlook**

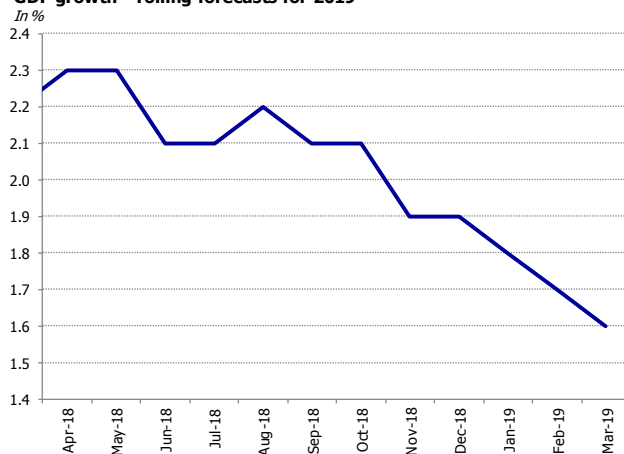
	2016	2017	2018	2019F	2020F
GDP growth (%)	2.9%	2.1%	2.0%	1.6%	1.7%
Inflation (Dec-Dec)	3.4%	6.8%	4.8%	3.6%	3.4%
Fiscal Balance (% GDP)	-2.5%	-1.1%	-2.1%	-2.5%	-2.8%
Current Account (% GDP)	-2.3%	-1.7%	-1.8%	-1.5%	-1.7%
International reserves (USD Bn)	176.5	172.8	176.0	177.0	180.0
Exchange rate (MXN/USD)	20.7	19.7	19.7	20.0	19.8

Source: EconViews based on Consensus Forecast & IMF

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



**GDP growth - rolling forecasts for 2019**



**Inflation - General CPI**  
Annual changes



**Mexican Peso / Dollar**



## PARAGUAY

Good news	To be alert	Bad news
In early February the country issued a USD 500 million 30-year global bond at 5.4% in international markets to fund public works and service external debt	The external front, especially the evolution of macroeconomic factors in Brazil and Argentina should be closely monitored.	An impeachment process for two public servants is underway. The Comptroller general is accused of money laundering, negligence and other charges.

### Politics

The Senate is sponsoring an impeachment process for two officials. On late March the Comptroller general Enrique Garcia and in late April Supreme Court judge Cesar Garay will have a chance to defend themselves. The former is accused of money laundering, negligence and breach of duty of public official, while the latter faces charges of minor offences and breach of duty of public official. These cases are having a lot of media coverage.

### Economic Activity

Preliminary estimates of GDP in FY 2018 point to 3.9%. The primary sector growth is foreseen to reach 2.2% despite the drop in cattle (-5.0%). Secondary production is estimated to go up by 3.4% driven by manufacturing (+5.0%) and service production will increase by 4.8%, pushed by retail and wholesale trade and the public sector. For 2019 we forecast a 3.8% growth with lower momentum from the primary sector (+0.5%) and a marginally higher increase in the secondary one.

### Inflation

As of February headline consumer prices came in at 0.6% m/m, driving the y/y inflation to 2.7%, up 0.3 p.p. as compared to January figures. Core inflation printed a 0.2% m/m variance, to total 2.7% on a y/y basis. While food, education and housing pressed the CPI up due to seasonal factors, it is good that still inflation remains well below the center of the BCP target range (4% +/- 2%). In this context, we forecast 2018 FY inflation to hit 4.0%.

### Monetary Sector

The PYG trades at 6,159 to the USD, depreciating 3% YTD. In its February meeting the BCP cut the policy rate by 25 bps to 5.00%, citing uncertainty in international scenario that softened global GDP projections. On the domestic side, a weaker economic expansion and a declining trend in inflation provide the rationale behind the accommodative stance. We forecast the policy rate to remain at 5.00% in the coming months.

### Fiscal Front

As of February, the cumulative 12-month primary balance represents a surplus of 0.9 p.p. of GDP. Total revenues are going up by 21.9% y/y led by an increase in energy royalties at bi-national companies while expenses are running at 7.6% during the same period. In early February the country issued a USD 500 million 30-year global bond with a 5.4% interest rate in international markets to fund public works and to service outstanding external debt that stands at USD 6.9 billion (only 17% of GDP).

### What's coming next?

- The country keeps on outperforming peers with very sound macroeconomic fundamentals.
- The trade war between China and the US should be monitored, due to direct and indirect implications.
- The political situation in both Argentina and Brazil is critical for the country.

**PARAGUAY: APPENDIX**

**Dashboard**

	Mar-19	Feb-19	Jan-19	Mar-18	2018
Exchange rate (PYG/USD, eop.)	6,195	6,099	6,060	5,594	5,974
Interest rate (%)	-	5.00%	5.25%	5.25%	5.25%
Inflation (y/y)	-	2.7%	2.4%	4.1%	3.2%
Economic activity (y/y)	-	-	-0.1%	2.4%	3.2%

Source: EconViews based on several sources

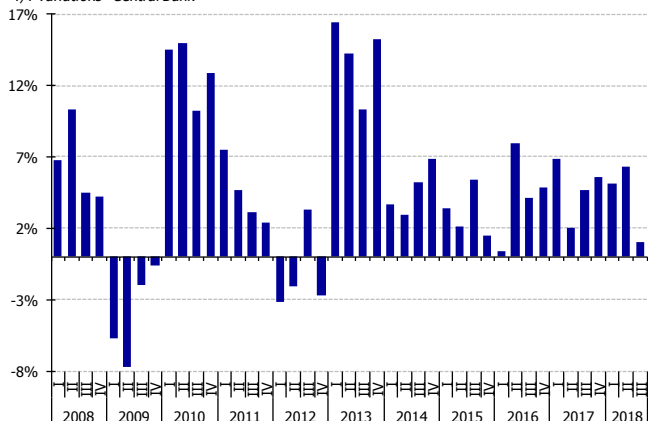
**Macroeconomic Outlook**

	2016	2017	2018	2019F	2020F
GDP growth (%)	4.0%	4.3%	3.9%	3.8%	3.8%
Inflation (Dec-Dec)	3.9%	4.5%	3.2%	4.0%	3.7%
Fiscal Balance (NFPS - % GDP)	-0.3%	-1.1%	-1.3%	-1.1%	-1.2%
Current Account (% GDP)	1.2%	-0.8%	-1.3%	-0.9%	-0.6%
International reserves (USD Bn)	7.1	8.3	8.0	8.1	8.2
Exchange rate (PYG/USD)	5,866	5,602	5,974	6,250	6,300

Source: EconViews based on Consensus Forecast & IMF

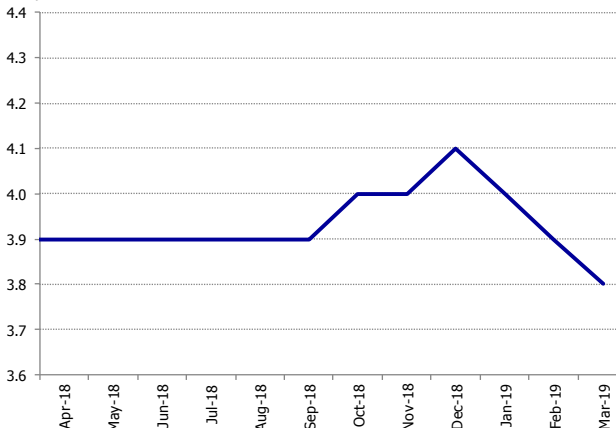
**Real GDP**

YY variations - Central Bank



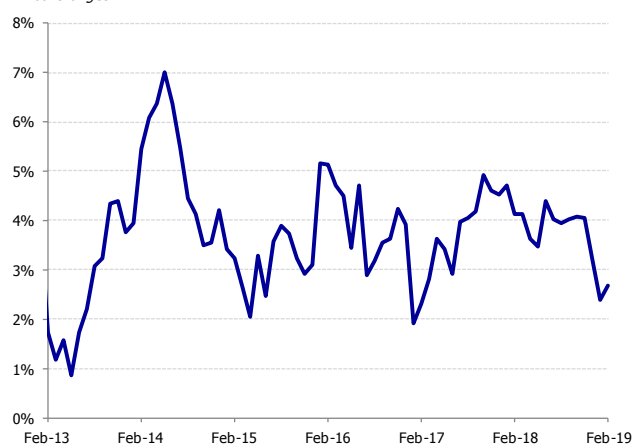
**GDP growth - rolling forecasts for 2019**

In %



**Inflation - General CPI**

Annual changes



**Paraguayan Guarani / Dollar**



## PERU

Good news	To be alert	Bad news
Inflation in February 2019 went back to the central target of 2.0% y/y after 3 months of being above. In addition, 12-month inflation receded to 2.4%.	The gross debt ratio has increased last year from 24.9% to 25.7%. The figure is below the maximum level allowed, which is 30% according to the fiscal rule.	Formal job creation decelerated: in January 2019 it was 4.2% y/y, the lowest record since June 2018 according to the data published by the BCP.

### Politics

President Vizcarra's positive image was 56% in Mar-19 and receded somewhat in comparison to the levels of the Q4-2018 (Ipsos). Back in December 2018 there was a referendum in order to reform the Constitution. The citizens widely supported the changes proposed by the ruling party: to forbid the re-election of Congressmen, to control the financing of political parties, a judiciary reform which creates an organism that designates judges while the a bi-cameral Congress was rejected.

### Economic Activity

In the Q4-2018 economic activity accelerated and grew 4.8%. This expansion was supported by private consumption, investment and net exports. All in all, the economy grew 4.0% in 2018, one of the best performances of Latam next to Chile. In January 2019 the economy lost some momentum and went up 1.6% y/y as fishing, manufacturing and mining fell in y/y terms. For 2019 the rate of growth is expected to be 3.8%, slightly below the 4.0% for 2018.

### Inflation

In February 2019 inflation was 0.13% m/m, slightly above the previous 0.07%. The main incidence in the CPI index was "Households costs, Gasoline and Electricity" for 0.07 p.p. followed by "Leisure and other services" for 0.06 p.p. "Transport and Communications" had a negative incidence of 0.06. This way, inflation reached the CB's target of 2.0% after being above during the 3 previous months. For 2019 inflation is expected to be 2.4%, above the previous 2.2% in 2018.

### Monetary Sector

The PEN moved to 3.30 nowadays and has been appreciating since last year, when it reached 3.37. In February 2019, the BCP maintained the policy rate at 2.75% for the 12<sup>th</sup> time in a row, with inflation slightly above the target of 2.0% but below the upper limit of 3.0%. The main reasons to keep it unchanged were that growth remained below potential, 12-month inflation expectations reduced and risks coming from the external sector persisted. For 2019 no increases are expected.

### Fiscal Front

In February 2019, 12-months accumulated fiscal deficit improved and was 2.1% of GDP. This result was driven by less government expenditure, which decreased 0.4% y/y. This performance was driven by capital expenditure (-14.5% y/y). On the other hand, revenues went up 9.9% helped by General Tax on Sales (IGV), which increased 7.6% y/y, and Selective Tax on Consumption. For 2019 fiscal deficit is expected to narrow slightly to 2.4% from the previous 2.5% in 2018.

### What's coming next?

- There was a national truckers strike in mid-February to protest for the road tolls fees. This measure may have some impact on activity figures, as it affected the transport of minerals to ports and fuel distribution.
- The current account deficit last year amounted 1.5% of GDP and was mainly financed by FDI. The evolution of the external front is relevant.

**PERU: APPENDIX**

**Dashboard**

	Mar-19	Feb-19	Jan-19	Mar-18	2018
Exchange rate (PEN/USD, eop.)	3.30	3.31	3.34	3.23	3.37
Interest rate (%)	2.75%	2.75%	2.75%	2.75%	2.75%
Inflation (y/y)	-	2.0%	2.1%	0.4%	2.2%
Economic activity (y/y)	-	-	1.6%	3.9%	4.0%
Manufacturing activity (y/y)	-	-	-	1.8%	6.2%
Mining production (y/y)	-	-	-	5.1%	-1.3%

Source: EconViews based on several sources

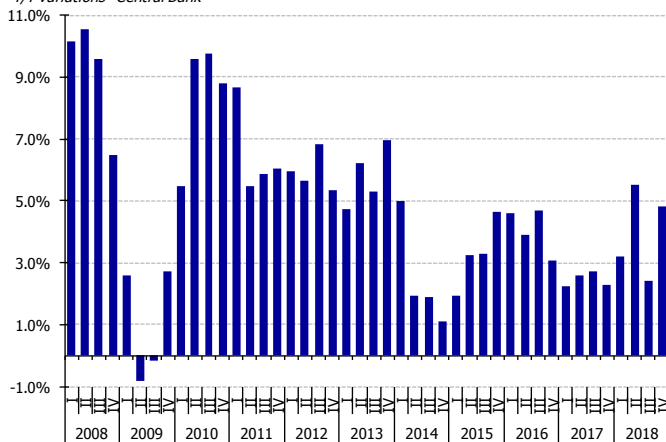
**Macroeconomic Outlook**

	2016	2017	2018F	2019F	2020F
GDP growth (%)	4.0%	2.5%	4.0%	3.8%	3.8%
Inflation (Dec-Dec)	3.2%	1.4%	2.2%	2.4%	2.4%
Fiscal Balance (% GDP)	-2.5%	-3.1%	-2.5%	-2.4%	-2.2%
Current Account (% GDP)	-2.7%	-1.2%	-1.5%	-2.2%	-2.4%
International reserves (USD Bn)	59.8	61.4	59.1	60.8	61.7
Exchange rate (PEN/USD)	3.36	3.24	3.30	3.35	3.30

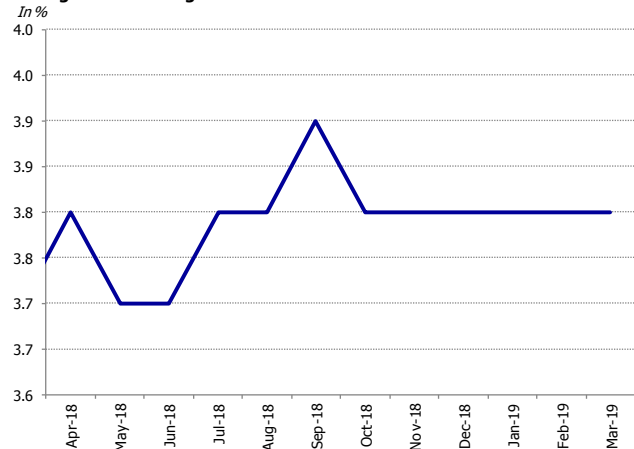
Source: EconViews based on Consensus Forecast & IMF

**Real GDP**

Y/Y variations - Central Bank



**GDP growth - rolling forecasts for 2019**



**Inflation - General CPI**

Annual changes



**Peruvian Sol / Dollar**



## URUGUAY

Good news	To be alert	Bad news
GDP slowdown has been very smooth and economic activity has been resilient. Private consumption is performing well despite persistent inflation	The external front and the global conditions should be closely followed. The macro performance of Argentina and Brazil is key.	The fiscal situation is challenging and Sovereign credit implications may surface. The road to the next elections is worth monitoring

### Politics

The first round national elections for President will be held on October 27, while the second round will take place on November 24. A recent poll conducted in late February by consulting firm Equipos shows a technical tie between incumbent Frente Amplio (33% support) and the Partido Nacional (31%). The Partido Colorado runs third with 12% vote intention. These results should be taken carefully as the time until the election is very long.

### Economic Activity

Economic activity measured by the GDP in Q3-2018 expanded 2.1% on y/y, fueled by primary activities (+6.1% y/y), transportation, storage and communications (+6.1% y/y) and manufacturing (+4.6% y/y). Private consumption was up by 2.1% y/y and investment increased by 4.2% y/y. Unemployment as of January stands at 8.4% (down from 8.5% a year ago). Future performance is dependent on the pace of recovery in Argentina and Brazil. We estimate GDP to grow 1.7 % in 2019.

### Inflation

Inflation in February came in at a 1.0% monthly increase to result in an annual reading of 7.5%, still out of bounds of the BCU 3-7% target range. Education (+4.7% m/m), alcoholic beverages and tobacco (+2.1% m/m) and Food and beverages (+1.7% m/m) were the drivers of the spike in consumer prices, but the incidence of this latter component is the highest (0.45% out of the 1.0% total CPI variance). The persistence of inflation is leading us to forecast inflation to reach 7.4% for 2019.

### Monetary Sector

The UYU is hovering around 33.40 to the USD with a cumulative YTD depreciation of nearly 3%. In its December meeting, the BCU COPOM reinforced its tight monetary policy and reduced the annual M1 growth target for Q1-2019 to 6-8% from 9-11% the previous quarter, stating this stance is consistent with inflation converging to the 3-7% inflation target given the current local and external situations. We forecast the UYU to trade at 35.40 by year end.

### Fiscal Front

The fiscal balance for FY 2018 recorded a 2.7% deficit to GDP, within the 3.5% target established in the fiscal responsibility law. The primary deficit of 0.7% was offset by an interest expense bill of 3.4 p.p. to GDP. With fiscal figures as of January 2019, the cumulative 12-month balance reached a deficit of 2.9% of GDP. We estimate FY 2019 fiscal deficit at 2.5 % and the persistence of this variable should be monitored.

### What's coming next?

- The evolution of the fiscal deficit and its possible impact on the sovereign credit risk rating.
- The road to the next elections in October.
- The global environment, especially interest rates in the US.
- The FX crisis in Argentina.



**URUGUAY: APPENDIX**

**Dashboard**

	Mar-19	Feb-19	Jan-19	Mar-18	2018
Exchange rate (UYU/USD, eop.)	33.41	32.71	32.61	28.40	32.45
Interest rate (%)	-	7.99%	9.30%	8.00%	9.30%
Inflation (y/y)	-	7.49%	7.39%	6.70%	8.0%
Economic activity (y/y)	-	-	-	4.30%	2.1%
Manufacturing activity (y/y)	-	-	1.3%	12.3%	11.5%

Source: EconViews based on several sources

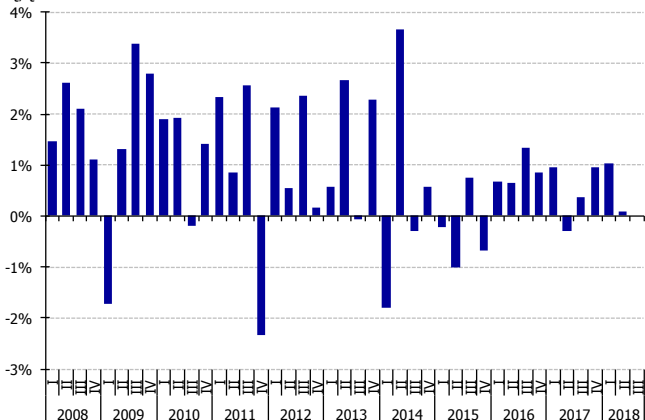
**Macroeconomic Outlook**

	2016	2017	2018	2019F	2020F
GDP growth (%)	1.7%	2.7%	2.1%	1.7%	2.3%
Inflation (Dec-Dec)	8.1%	6.6%	8.0%	7.4%	6.8%
Fiscal Balance (% GDP)	-3.6%	-3.2%	-2.8%	-2.5%	-2.7%
Current Account (% GDP)	0.4%	0.9%	-0.5%	-0.9%	-1.0%
International reserves (USD Bn)	13.4	16.0	15.6	15.80	16.00
Exchange rate (UYU/USD)	29.35	28.85	32.45	35.40	35.40

Source: EconViews based on Consensus Forecast & IMF

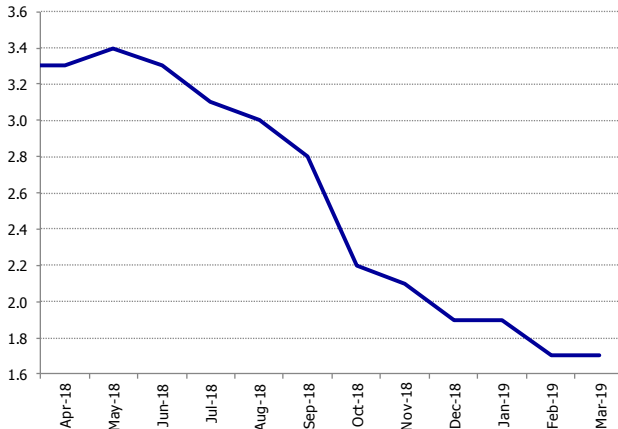
**Real GDP**

Q/Q variations - Central Bank



**GDP growth - rolling forecasts for 2019**

In %



**Inflation - General CPI**

Annual changes



**Uruguayan Peso / Dollar**

