ECONVIEWS
ECONOMÍA Y FINANZAS

LATAM 7 + Argentina

Macro Brief

May, 2018

- **Argentina:** After the turmoil, waiting for the IMF
- **Brazil:** Looming elections with lower economic activity
- **Chile:** GDP growth is consolidating
- **Colombia:** Ivan Duque and Gustavo Preto disputing Presidency
- **Mexico:** Elections and NAFTA are increasing the uncertainty
- **Paraguay:** The political horizon has been cleared
- **Peru:** A more stable political outlook
- **Uruguay:** A challenging fiscal balance target

Miguel A. Kiguel
Director
mkiguel@econviews.com
Twitter: @kiguel

Miguel Zielonka, CFA
Associate Director
mzielonka@econviews.com
Twitter: @miguelzielonka

Eric Ritondale
Senior Economist
eritondale@econviews.com
Twitter: @ericritondale

Lorena Giorgio
Semi Senior Economist
lgiorgio@econviews.com

Mariela Diaz Romero
Economist
mdiazromero@econviews.com

Joaquin Waldman
Analyst
jwaldman@econviews.com

(+54 11) 5252-1035
Carlos Pellegrini 1149 Floor 8
Buenos Aires

www.econviews.com
www.facebook.com/econviews
Twitter: @econviews

ARGENTINA

Good news	To be alert	Bad news
The currency run ended after the announcement to look for a SBA's with the IMF, the issuance of peso bonds abroad and the Central Bank's decision to defend the peso at 25 per dollar.	The evolution of financial variables in emerging markets and the deal with the IMF. There is a good chance to leave this episode behind if the program represents USD 30 billion or more.	The recent turbulence will have an effect on inflation and growth. Now we expect a GDP growth of only 0.9% this year, with quarterly falls in Q2 and Q3, and inflation at 26.5% at year end.

Politics

The currency run that depreciated the peso 30% so far this year is having an impact. The government's image dropped to the lowest levels since Macri took office in late 2015, as its positive image is now below 40%. While it still has over a year to make a comeback, the perception that many political analysts had that his re-election was almost ensured is now questioned. Macri is still the frontrunner, but he may lose in a second round if the economy does not recover by the middle of the next year.

Economic Activity

March showed a mild deceleration. Although it is still growing at a good rate in yearly terms, it showed its first monthly fall since July 2017, as the economic activity recorded a 0.1% monthly fall in March, and February was revised negative to minus 0.2%. In yearly terms, it grew 3.5% in March. We revised downward our GDP estimate for this year, from 1.8% down to 0.9% now, as the real depreciation and the tighter fiscal and financial conditions will affect activity in the second and third quarters, when we are assuming activity will fall on quarterly basis. We now expect GDP to grow 2.2% in 2019.

Inflation

Inflation was 2.7% in April, affected by the increase in regulated prices, while core inflation decelerated to 2.1% from the previous 2.6%, but remained still too high. On a yearly basis, inflation reached 25.5% in April. While inflation in May is expected to lower to 2.0%, the recent jump of the exchange rate will have an effect on inflation in the following months. We increased our expectation for annual inflation at year end to 26.5%, although we had remained unchanged the 20% expected for 2019.

Monetary Sector

The Peso depreciated strongly during April and May due to a worsening in local and external conditions, as the tax on Lebacs, the higher interest rates in US, the discussion around the utility rates and the outflows from emerging markets, among others. The reaction of the CB was slow. First, it intervened by selling reserves. Then it increased the policy rate by 1,275 bps to 40% in two stages. After that the FX interventions lost effect. On May 14th the CB offered USD 5.0 billion at 25.00 ARS/USD and sold futures. The calmness finally came, helped by an external issuance of a peso bond.

Fiscal Front

In the middle of the currency turmoil, the Government announced a reduction in the primary target from 3.2% to 2.7%. Further slight reduction for 2018-19 fiscal targets are likely to be established on the IMF's deal. Up to Apr-18, the YTD accumulated primary deficit reached 0.3% of GDP. Primary expenditure decelerated to 14% in yearly terms, bell below inflation, while tax revenues grew 25.7%. So far this year, the fiscal deficit amounted ARS 135 billion, 12.8% higher than year ago. Fiscal accounts are on the right track. The government is on a good position to overachieve the new target.

What´s coming next?

The announcement of the program with the IMF will be critical for the Government to bring stability to the market. The deal will imply some changes for monetary and fiscal policies. Interest rates will remain high for some time to stabilize the FX and contain inflation. In June MSCI will announce if Argentina is upgraded to an emerging market. Many wage negotiations were closed at 15% plus a renegotiation if inflation is higher, but still discussions with tougher unions of teachers, banks and truckers remain open.

ARGENTINA: APPENDIX

Dashboard

	May-18	Apr-18	Mar-18	May-17	2017
Exchange rate *(ARS/USD, eop.)*	24.56	20.69	20.14	16.14	18.77
Interest rate *(%)*	40.00%	30.25%	27.25%	26.25%	28.75%
National inflation *(y/y)*	-	25.5%	25.4%	23.9%	24.8%
Economic activity *(y/y)*	-	-	1.4%	3.8%	2.9%
Industrial activity *(y/y)*	-	-	1.2%	-0.4%	1.8%
Automotive production *(y/y)*	-	21.4%	25.2%	13.8%	0.1%

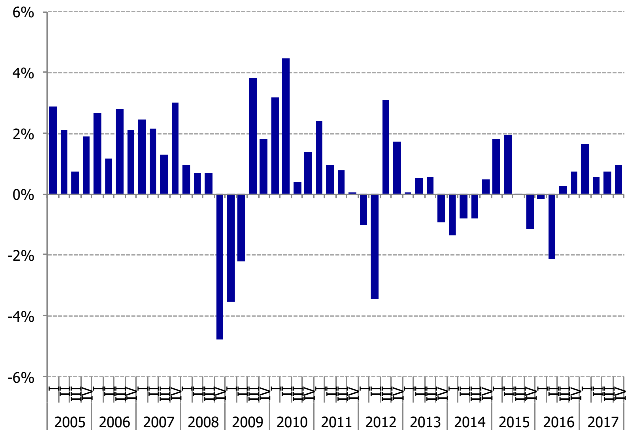
Source: EconViews based on several sources

Macroeconomic Outlook

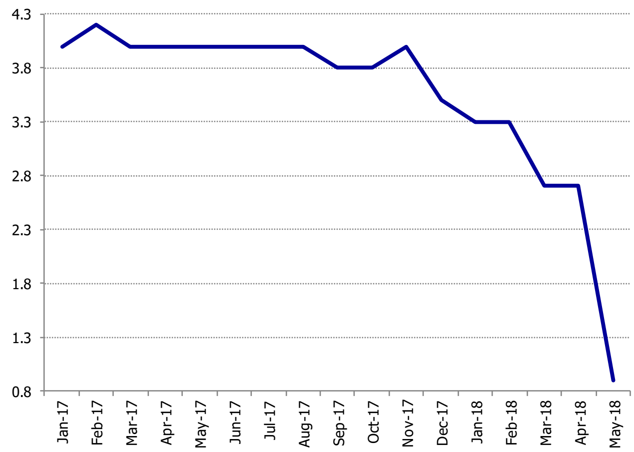
	2015	2016	2017	2018F	2019F
GDP growth *(%)*	2.7%	-1.8%	2.9%	0.9%	2.2%
National inflation *(Dec-Dec)*	28.4%	36.6%	24.8%	26.5%	20.0%
Fiscal Balance *(% GDP)*	-5.5%	-5.8%	-6.0%	-5.0%	-4.2%
Current Account *(% GDP)*	-2.6%	-2.6%	-4.9%	-4.8%	-4.2%
International reserves *(USD Bn)*	25.6	39.3	55.1	56.1	65.2
Exchange rate *(ARS/USD)*	13.01	15.85	18.77	27.00	31.67

Source: EconViews based on official figures and own estimates

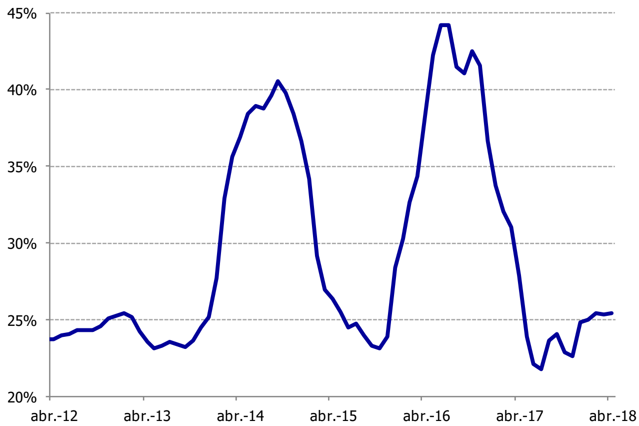
Real GDP
Q/Q variations- Seasonally adjusted data INDEC



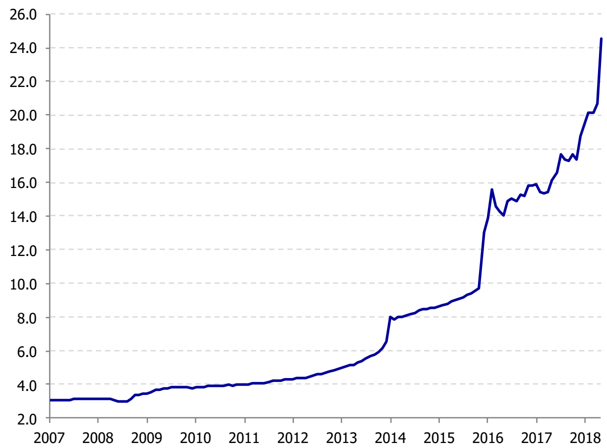
GDP growth - rolling forecasts for 2018
In %



Inflation - General CPI
Annual changes



Argentinian Peso / Dollar



BRAZIL

Good news	To be alert	Bad news
Despite the rout in emerging markets, the Brazilian external accounts and its international reserves position are very sound, providing a buffer to the turmoil.	Lower GDP and higher inflation will reduce job creation by the private sector. The evolution of the global markets should also be contemplated.	Fiscal consolidation relies heavily on a pension system reform that will have to wait until next administration to be defined.

Politics

While the Justice has barred Lula from running as candidate in the next Presidential election, recent polls conducted by Datafolha still assign him a 31% intention of vote, putting him on a lead to confront with Jair Bolsonaro (15%) a potential runoff. Marina Silva is placed third with 10% intention of vote. Assuming no candidacy from Lula, Jair and Marina would pass to a second round and Ciro Gomes would came in third place. Temer has just announced he will not run for re election and is nominating Henrique Meirelles as candidate instead.

Economic Activity

Industrial activity dropped 0.1% in March and there are signs of lower formal job creation during the first quarter. Also on the down side, confidence readings during April point to a weak performance. Lastly, the recent depreciation of the Real will make imports of capital goods more expensive and will reduce the space of maneuver from the Central Bank to conduct monetary policy. The boost to exports will take time. We estimate 2018 GDP growth to be 2.5%.

Inflation

Monthly inflation was 0.22% in April, bringing the yoy variance to 2.76% which is still below the Central Bank lower target band (3.0%). A weaker currency and higher oil prices will presumably accelerate inflation in the second half of the year, especially through food prices. We expect inflation to stand around 3.5% in next December, between the central (4.5%) and the lower target bands. Lower GDP growth will be factored into a higher output gap which will bring inflation pressures well contained.

Monetary Sector

In its May meeting, the COPOM decided to leave the Selic rate unchanged at 6.50% in a move that surprised the market. The decision was triggered in a context of a weaker Real that dropped from 3.30 to 3.70 BRL per USD in line with the rout of emerging market assets and currencies. The COPOM considers that the risk of inflation remaining below the CB band is now smaller. We expect the currency to reach 3.60 BRL/USD in December but the uncertainty regarding the approval of fiscal reforms and the upcoming Presidential elections remains high.

Fiscal Front

Fiscal results will be affected by lower tax revenues derived from a reduction in GDP growth. Nonetheless, extraordinary revenues associated to oil fields auctions during the year will compensate for that hit. All in all, the fiscal deficit would reach 7.1% in 2018. In light of the upcoming Presidential elections next October, any progress on the fiscal reform will have to wait until next year. Addressing the pension expenditure is paramount to achieve fiscal consolidation.

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.
Presidential elections are on October 7th.

BRAZIL: APPENDIX

Dashboard

	May-18	Apr-18	Mar-18	May-17	2017
Exchange rate *(BRL/USD, eop.)*	3.65	3.51	3.31	3.23	3.31
SELIC *(%)*	6.50%	6.50%	6.50%	11.25%	7.00%
Inflation *(y/y)*	-	2.8%	2.7%	3.6%	2.9%
Economic activity *(y/y)*	-	-	-0.7%	1.9%	1.0%
Industrial activity *(y/y)*	-	-	1.3%	4.5%	2.4%
Automotive production *(y/y)*	-	-	17.6%	28.0%	17.2%

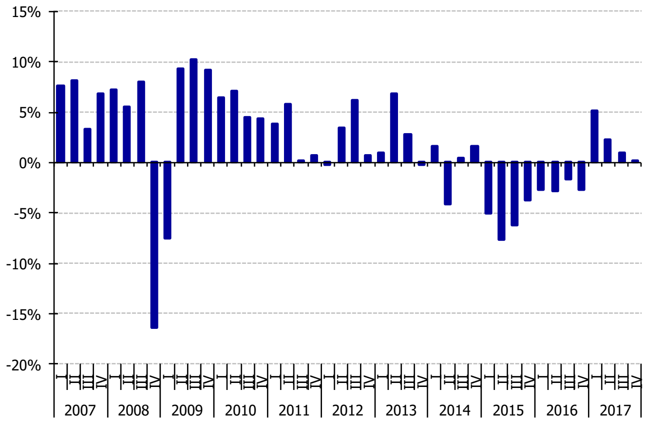
Source: EconViews based on several sources

Macroeconomic Outlook

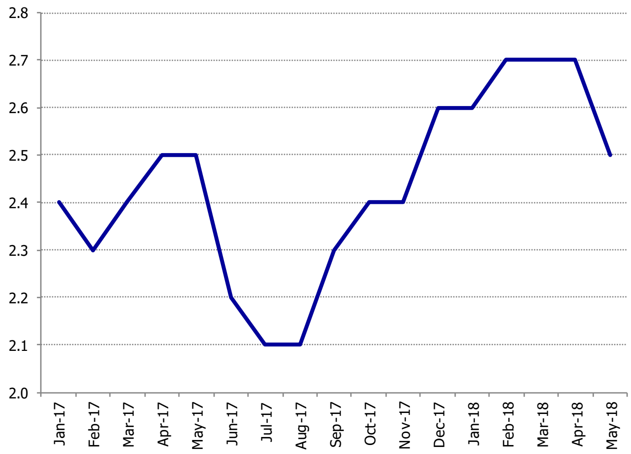
	2015	2016	2017	2018F	2019F
GDP growth *(%)*	-3.5%	-3.5%	1.0%	2.5%	2.9%
Inflation *(Dec-Dec)*	10.7%	6.3%	2.9%	3.5%	4.2%
Fiscal Balance *(% GDP)*	-10.2%	-9.0%	-7.8%	-7.1%	-6.6%
Current Account *(% GDP)*	-3.3%	-1.3%	-0.5%	-1.6%	-1.8%
International reserves *(USD Bn)*	348.9	356.8	365.4	380.6	384.8
Exchange rate *(BRL/USD)*	3.96	3.26	3.31	3.60	3.78

Source: EconViews based on Consensus Forecast & IMF

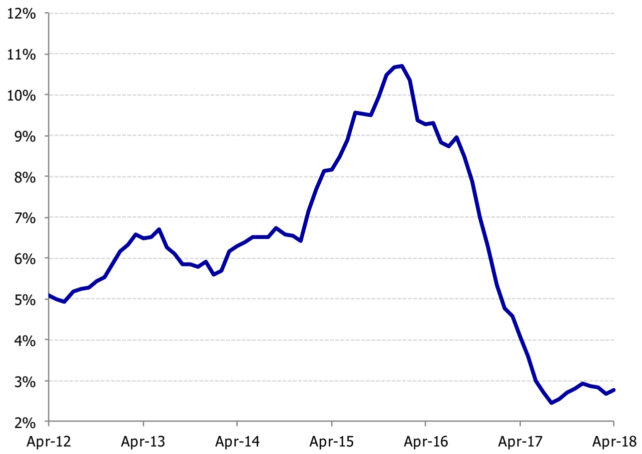
Real GDP- Brazil
quarterly variations annualized, in %



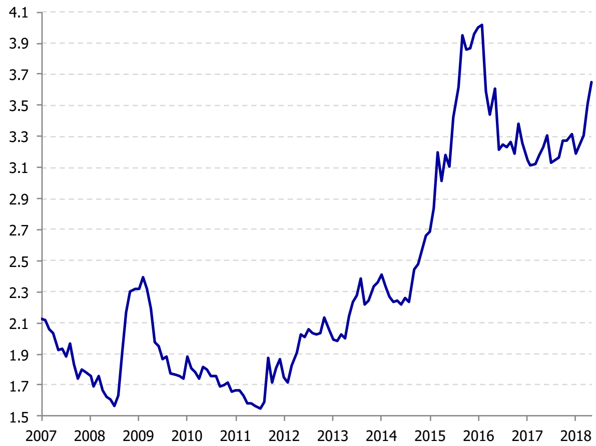
GDP growth - rolling forecasts for 2018
In %



Inflation - General CPI
Annual changes



Brazilian Real / Dollar



CHILE

Good news	To be alert	Bad news
In Apr-18 the positive image of Piñera reached 54%, the maximum level for a president since 2014.	In spite of economic recovery, the construction sector is lagging behind: building permits fell 16.9% y/y in Mar-18 and grew barely 1.2% YTD.	In the Jan/Mar-18 rolling quarter unemployment reached 6.9%, the highest rate since May/Jul-17.

Politics

The Government aims to present in Jun-18 a project to reform the pension system. This project includes a rise in minimum pensions, a 4% increase in the contributions that will allow the creation of a dependency insurance and the payment of a permanent bonus for retirees who are paid less than CLP 810th. In addition, the reform aims to make the system more competitive: the funds could be managed by other entities (apart from AFP).

Economic Activity

Activity improved in the 1Q18 according to the GDP proxy (IMACEC): it went up 1.2 q/q and accelerated to 4.2% yoy. On a monthly basis, it accumulated 3 consecutive increases while in i.a. terms it accelerated and went up 4.5% helped by the low comparison of mining activity (32.2%). In Apr-18, consumer confidence (Adimark) returned to optimistic territory after being neutral. GDP is expected to grow 3.6% in 2018, above the mild 1.5% of 2017.

Inflation

In Apr-18 inflation was 1.9% yoy and was below the lower band for the 2nd consecutive month. Non-tradable goods went up 1.7% yoy while tradable goods prices increased 0.5% yoy. On a monthly basis, inflation was 0.3%. This way, interannual inflation was below the target of 3.0% for the 19th consecutive month.
For 2018 inflation will accelerate from 2.3% to 2.5% due to a looser monetary policy and the normalization of US monetary policy, which impacts on the CLP.

Monetary Sector

The Chilean Peso depreciated 7% in Apr-18 as other emerging-market currencies and reached 637 CLP/USD. Nowadays it stabilized at around 624 CLP/USD. We expect the currency to be at 630 CLP/USD by year-end. In May-18, the CB maintained the policy rate in 2.5% for the 13th consecutive month as inflation is still not converging to the target of 3%. Inflation will remain weak as economic activity is still growing below its capacity.

Fiscal Front

Government revenues grew 6.9% yoy in real terms in Mar-18. The main driver was again the increase in tax revenues from the mining sector. Expenditure went up 5.9%, boosted by current expenditure (6.2% yoy). The Government announced a reduction in expenditure equivalent to USD 4.6 bn between 2018-21. Under this scenario, fiscal deficit is expected to narrow to 2.1% of GDP this year (2.8% last year).

What´s coming next?

The Government will keep an eye on fiscal accounts in order to improve sovereign rating, which was downgraded last year. The expected fiscal cost of the pension system reform is between USD 800 and USD 900 million per year. Fiscal consolidation will be achieved mainly by more austerity in current expenditure and more economic growth. The fiscal red reaches USD 5 billion according to Minister of Economy F. Larraín.

CHILE: APPENDIX

Dashboard

	May-18	Apr-18	Mar-18	May-17	2017
Exchange rate *(CLP/USD, eop.)*	626.60	613.54	604.40	673.49	616.15
Interest rate *(%)*	2.50%	2.50%	2.50%	2.50%	2.50%
Inflation *(y/y)*	-	1.9%	1.8%	2.6%	2.3%
Economic activity *(y/y)*	-	-	4.5%	1.2%	1.5%
Industrial activity *(y/y)*	-	-	-2.4%	2.9%	-1.0%
Mining production *(y/y)*	-	-	27.0%	-6.1%	-1.7%

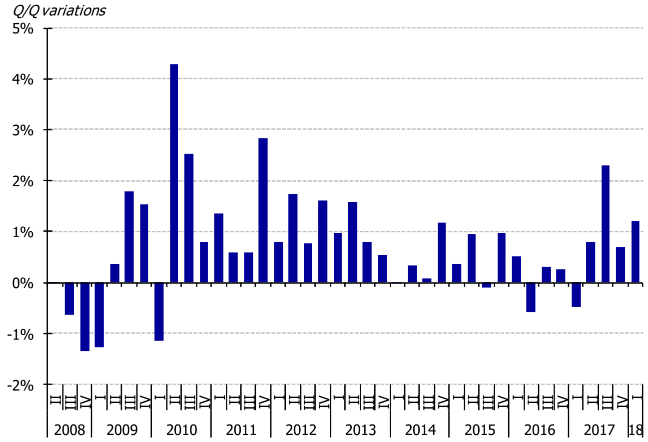
Source: EconViews based on several sources

Macroeconomic Outlook

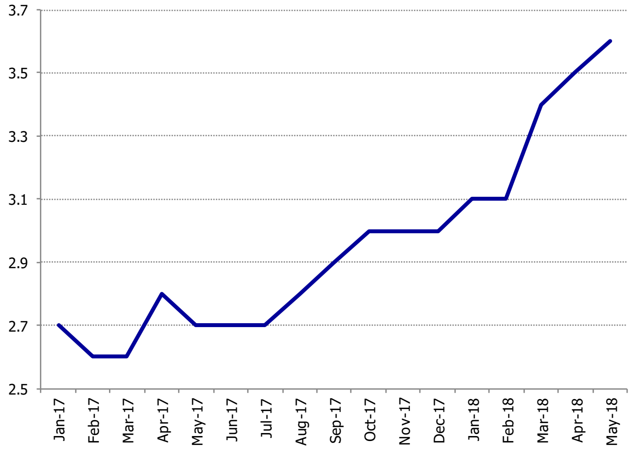
	2015	2016	2017	2018F	2019F
GDP growth *(%)*	2.3%	1.3%	1.5%	3.6%	3.5%
Inflation *(Dec-Dec)*	4.4%	2.7%	2.3%	2.5%	3.1%
Fiscal Balance *(% GDP)*	-2.1%	-2.7%	-2.8%	-2.1%	-1.5%
Current Account *(% GDP)*	-2.3%	-1.4%	-1.5%	-1.8%	-1.9%
International reserves *(USD Bn)*	37.2	39.5	38.4	38.1	38.4
Exchange rate *(CLP/USD)*	709.35	670.30	616.15	630.00	640.00

Source: EconViews based on Consensus Forecast & IMF

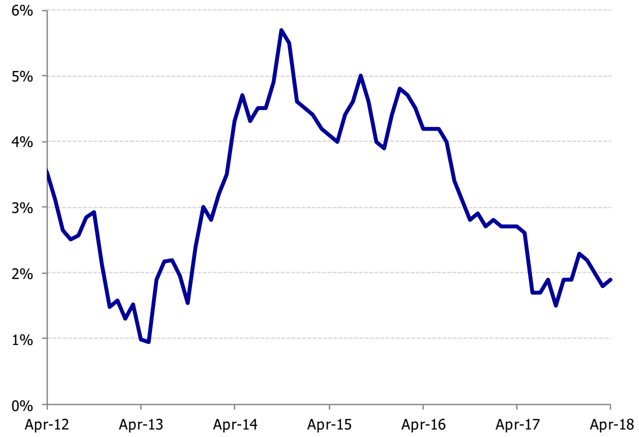
Real GDP
Q/Q variations



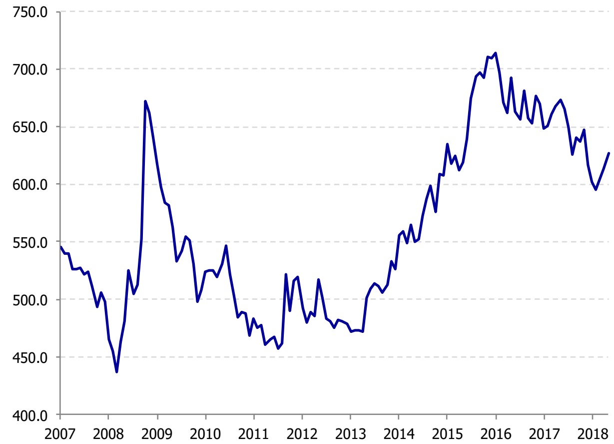
GDP growth - rolling forecasts for 2018
In %



Inflation - General CPI
Annual changes



Chilean Peso / Dollar



COLOMBIA

Good news	To be alert	Bad news
Colombia resisted well the recent turmoil faced by the emerging markets, with only a very modest depreciation and increase in country risk. GDP likely to pickup to 2.5% this year.	Presidential elections to be held on May 27th. Polls state that the election is becoming a two-horse race between conservative front-runner Ivan Duque and leftist contender Gustavo Petro.	Colombia may lose the investment grade status, after S&P reduced credit rating from BBB to BBB-. Slower growth and poor results of tax reform complicate to comply the fiscal rule next years.

Politics

Opinion polls confirm that the presidential election is becoming a two-horse race. The poll average of April shows conservative senator Ivan Duque, backed by former President Uribe, is leading voter intentions ahead of the May 27 presidential election, with 38% of the preference (from 34% in March). He is followed by Bogota's former mayor, leftist Gustavo Petro, with 29% (from 23% in March). Markets would welcome a Duque victory, but his administration face important challenges.

Economic Activity

Activity indicators gave mixed signals. Retail sales expanded 5.0% yoy, slightly down from 5.2%. Industrial production increased only 1.5%, while the labor market remains a source of concern, as unemployment rate for 1Q-18 was 10.7%, almost same than year ago (10.6%). Still, the general activity indicator accelerated to 2.4% yoy (from 2.2%). We expect a gradual recovery, as GDP would grow 2.5% this year, from 1.8% in 2017, due to higher oil prices, monetary easing and faster global growth.

Inflation

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.

Monetary Sector

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. In April the Central Bank reduced the monetary policy rate by 25bps, as expected, and stated that more easing is still likely, given the still strong peso and negative output gap. While one more cut is possible, the end of the easing cycle is around the corner. The consensus expects FX rate at around 2,9000 pesos per US at the end of 2018.

Fiscal Front

Deficit is expected to narrow to 3.0% of GDP this year from 3.6% in 2017. However, without further fiscal measures, the medium-term fiscal deficit target of 1% will be challenging to reach. The next President will have to deal with this. Mr. Duque aims to reduce deficit by lowering tax evasion and cutting some spending, while lowering corporate taxes to boost investment. Mr. Petro will try to do it by imposing new taxes and terminating some exemptions. There is no room for an expansionary fiscal policy.

What´s coming next?

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. 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. 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.

COLOMBIA: APPENDIX

Dashboard

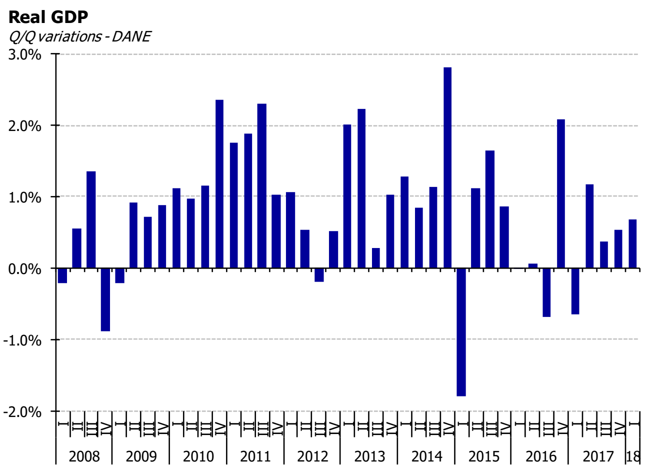
	May-18	Apr-18	Mar-18	May-17	2017
Exchange rate *(COP/USD, eop.)*	2,858	2,813	2,795	2,917	2,987
Interest rate *(%)*	4.24%	4.26%	4.43%	6.26%	4.69%
Inflation *(y/y)*	-	3.1%	3.1%	4.4%	4.1%
Economic activity *(y/y)*	-	-	0.6%	1.8%	1.8%
Industrial activity *(y/y)*	-	-	-1.4%	-0.5%	-0.6%

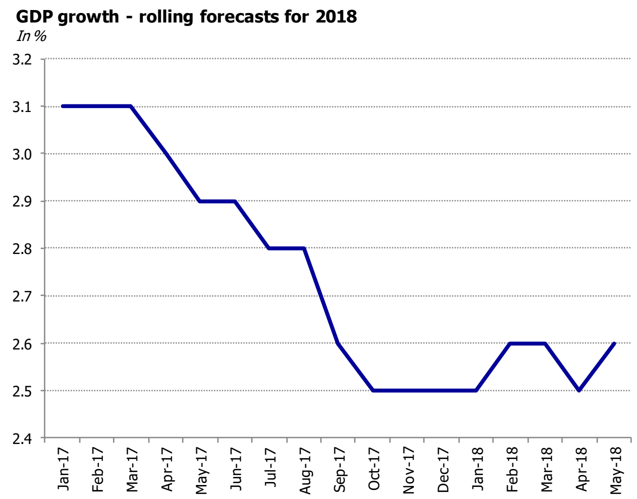
Source: EconViews based on several sources

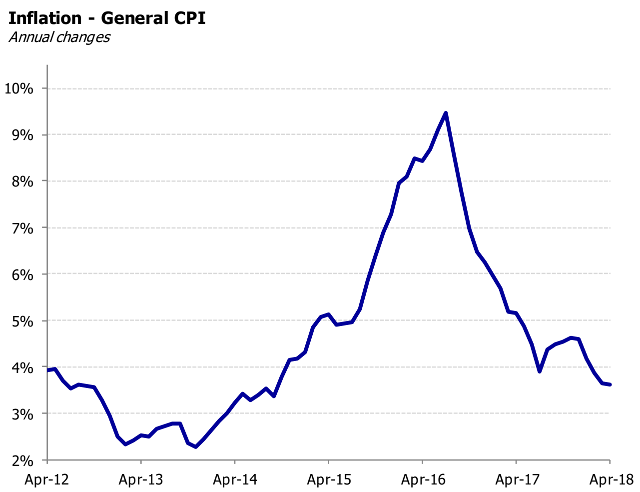
Macroeconomic Outlook

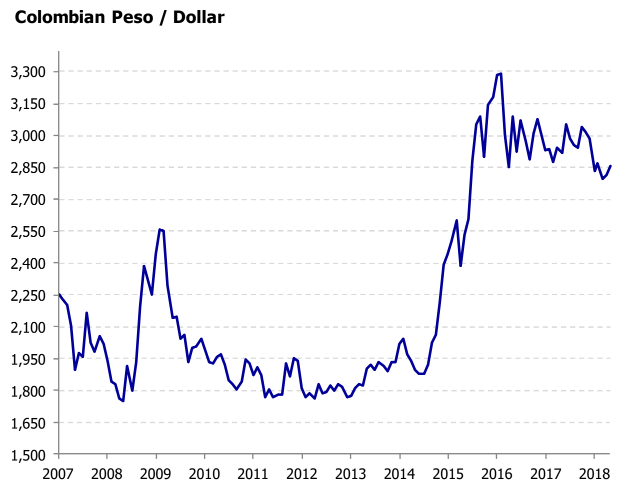
	2015	2016	2017	2018F	2019F
GDP growth *(%)*	3.0%	2.0%	1.8%	2.6%	3.0%
Inflation *(Dec-Dec)*	6.8%	5.7%	4.1%	3.2%	3.2%
Fiscal Balance *(% GDP)*	-3.0%	-4.0%	-3.6%	-3.0%	-2.6%
Current Account *(% GDP)*	-6.4%	-4.3%	-3.4%	-2.6%	-2.6%
International reserves *(USD Bn)*	44.8	45.0	45.4	47.7	48.9
Exchange rate *(COP/USD)*	3,180	3,003	2,987	2,890	2,930

Source: EconViews based on Consensus Forecast & IMF









MEXICO

Good news	To be alert	Bad news
Fiscal consolidation deepens and the Mexican government outperformed the primary fiscal goal for Q1 2018.	The rout on emerging markets as the US normalizes its monetary policy may reinforce the local uncertainties stemming from the political cycle and NAFTA negotiations.	The forthcoming presidential elections and the NAFTA renegotiation are a big source of uncertainty for the Mexican economy.

Politics

López Obrador keeps on leading the polls with a 15 percentage point advantage. The presidential elections will take place on July 1 and there are few doubts that anti-establishment AMLO will win the elections. The question is now turning to the probable composition of both houses of Congress and the market is betting on AMLO lacking majorities there. Meanwhile, NAFTA members are expected to release a framework deal during May but there are chances of a postponement.

Economic Activity

Preliminary estimates released by Statistic Institute INEGI point to accelerated growth in GDP during Q1. Figures for the y/y comparison indicate a 2.4% variance as compared to 1.5% in Q4 2018. The improvement is broad based as the primary sector, services and even the industry sector is rebounding. 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

The downward trend in inflation is still intact. CPI reflected a 0.34% deflation in April as a seasonal drop in electricity prices was factored into the basket. Headline yoy inflation is running at 4.55% while core inflation slowed down to 3.71%. In this context, we expect headline inflation to reach 3.9% in December 2018, in line with market expectations and below the figure of 2017 (6.8%). This moderation will be the result of a tight monetary policy and lower inflation expectations.

Monetary Sector

After closing 2017 at 19.66 MXN per USD, the Mexican Peso has weakened 1% so far this year. The currency had been strengthening nearly 6% during the year before the emerging markets rout and then slumped from 18 MXN per USD in April to 19.70 MXN per USD recently. Meanwhile, the Central Bank of Mexico left the policy rate unchanged at 7.50% during its April meeting. In light of the high level of uncertainty linked to elections, the NAFTA renegotiations and monetary policy in the U.S. we do not expect further changes in the interest rate in the coming months.

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, 1Q18 actual execution resulted in a primary surplus of MXN 41.8 billion, compared with a MXN 36.3 billion deficit in the budget. The improvement is the result of outperformance in collections that more than compensated an increase in expenditures. We expect the fiscal deficit to stand around 2.2% of GDP this year.

What´s coming next?

We expect a NAFTA deal to be reached during the first half of this year. Any accord should be approved by each member´s Congress. 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

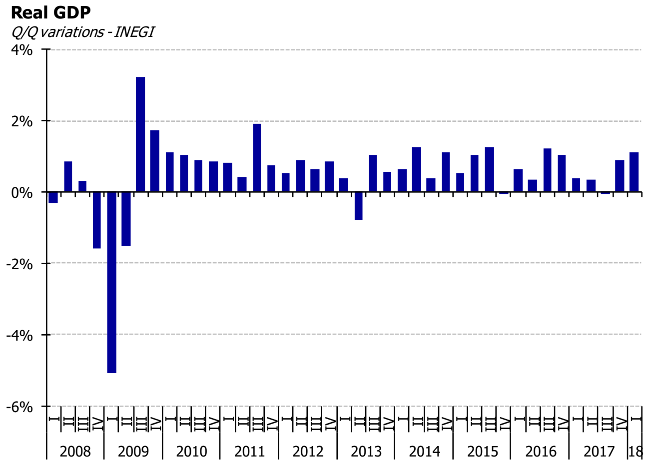
	May-18	Apr-18	Mar-18	May-17	2017
Exchange rate *(MXN/USD, eop.)*	19.69	18.72	18.17	18.62	19.66
Interest rate *(%)*	7.50%	7.50%	7.50%	6.75%	7.25%
Inflation *(y/y)*	-	4.6%	5.0%	6.2%	6.8%
Economic activity *(y/y)*	-	-	-0.8%	3.2%	2.0%
Industrial activity *(y/y)*	-	-	-3.7%	0.6%	-0.6%
Automotive production *(y/y)*	-	-	-10.6%	16.4%	9.4%

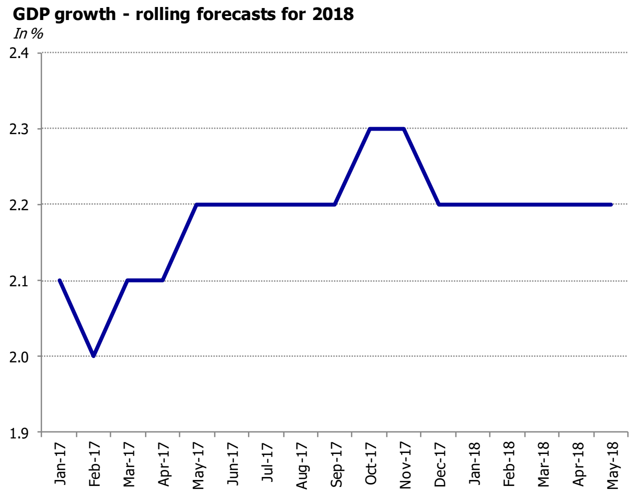
Source: EconViews based on several sources

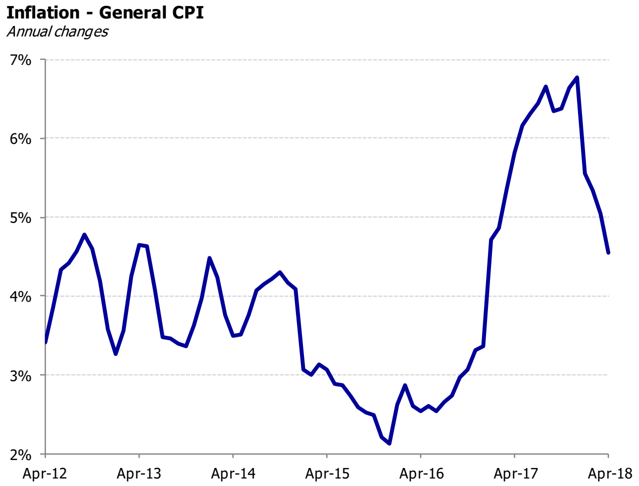
Macroeconomic Outlook

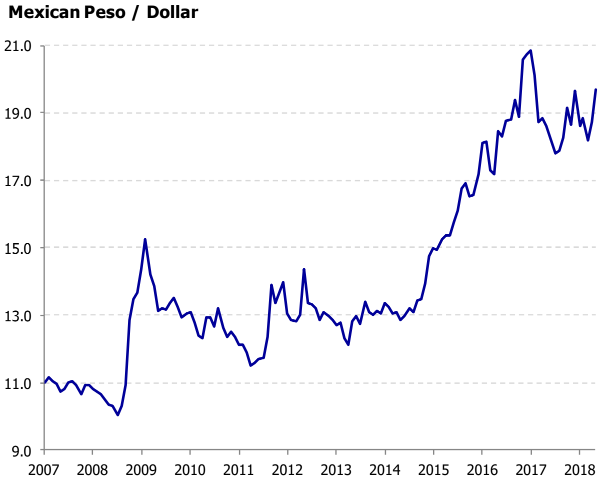
	2015	2016	2017	2018F	2019F
GDP growth *(%)*	3.3%	2.9%	2.0%	2.2%	2.3%
Inflation *(Dec-Dec)*	2.1%	3.4%	6.8%	3.9%	3.6%
Fiscal Balance *(% GDP)*	-3.4%	-2.5%	-1.1%	-2.2%	-2.2%
Current Account *(% GDP)*	-2.5%	-2.1%	-1.6%	-1.9%	-2.2%
International reserves *(USD Bn)*	168.4	168.7	164.9	171.7	174.5
Exchange rate *(MXN/USD)*	17.19	20.74	19.66	19.50	19.20

Source: EconViews based on Consensus Forecast & IMF









PARAGUAY

Good news	To be alert	Bad news
Partido Colorado officialist candidate won last April´s election and the consensus is for a continuation of market friendly economic policies.	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

The Officialist candidate Mario Abdo Benitez won the presidential election last April and will take office next August for a five year tenor. The Partido Colorado garnered 46% of the votes and kept the majority in both houses of Congress. The cabinet has not been announced yet but the market consensus is that the government will continue with its market friendly policies and that no material changes are expected for set of economic policies.

Economic Activity

Preliminary BCP estimates for 2017 GDP were revised to 4.3% but the final figures will be available later this year as the BCP has changed the base year for national accounts calculations to 2014 (the previous year base was 1994). Activity during Q1 kept on growing at decent growth rates as the service sector, manufacturing and electricity are driving the push. We remain our 2018 GDP growth forecast unchanged at 3.9% due to the recovery in Brazil provided that the situation in emerging markets stabilizes.

Inflation

As of April, headline consumer prices came in flat at 0.0% monthly and dragging the yoy inflation down to 3.6% below the center of the target range (4% +- 2%). Core inflation printed a 0.1% monthly increase to total 2.6% on an annual basis. CPI expectations according to the Central Bank survey remain strongly anchored to the center of the 2018 inflation target (4% +-2%). We estimate 2018 inflation at 4.2%.

Monetary Sector

The recent selloff in emerging markets currencies has affected the PYG only by a small fraction as compared to other peer nations. The Paraguay currency depreciated 2.6% during May to trade at 5.700 to the USD. In its April meeting, the Central Bank decided to keep the policy rate at 5.25% for the seventh month in a row. We forecast the policy rate to remain at 5.25% in the coming quarter.

Fiscal Front

As of April, the cumulative 12-month deficit at the national treasury reached 1.3% of GDP in line with the Fiscal Responsibility Law target and down from 1.5% in March. Total revenues gained 43% yoy driven by a recovery from energy royalties from Itaipu. Primary expenditures were up 27% yoy explained by higher investment outlays. Assuming a continuation of current economic policies by the new administration we forecast total deficit to GDP to meet the 1.5% official target in 2018.

What´s coming next?

Market friendly policies should go on after new President steps in next August. Sound economic fundamentals are intact.
The trade war between China and the US appears to be winding down.
The emerging markets selloff had no material impact on Paraguayan economy. Nonetheless, this situation should be closely monitored.

PARAGUAY: APPENDIX

Dashboard

	May-18	Apr-18	Mar-18	May-17	2017
Exchange rate *(PYG/USD, eop.)*	5,703	5,559	5,594	5,654	5,602
Interest rate *(%)*	5.25%	5.25%	5.25%	5.50%	5.25%
Inflation *(y/y)*	-	3.6%	4.1%	3.4%	4.3%
Economic activity *(y/y)*	-	-	-0.1%	10.6%	4.5%

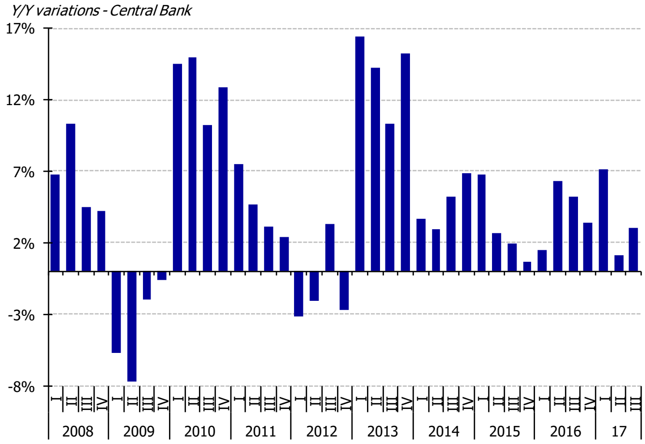
Source: EconViews based on several sources

Macroeconomic Outlook

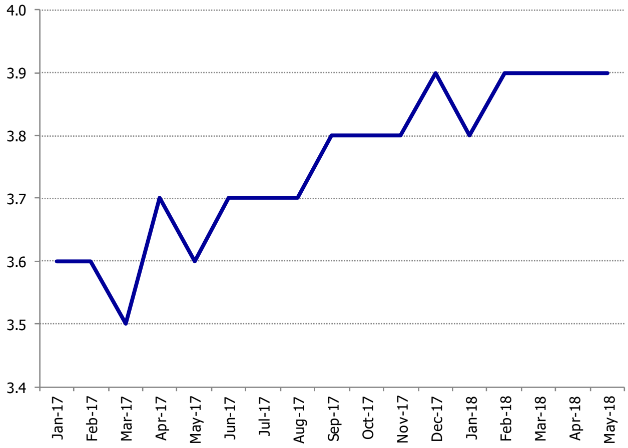
	2015	2016	2017	2018F	2019F
GDP growth *(%)*	3.0%	4.0%	4.3%	3.9%	3.9%
Inflation *(Dec-Dec)*	3.1%	3.9%	4.5%	4.2%	4.0%
Fiscal Balance *(% GDP)*	-2.4%	-0.5%	-0.7%	-0.8%	-4.8%
Current Account *(% GDP)*	-1.1%	1.5%	-1.8%	-2.0%	-1.2%
International reserves *(USD Bn)*	6.2	7.1	8.3	n.a.	n.a.
Exchange rate *(PYG/USD)*	5,814	5,866	5,602	5,850	6,000

Source: EconViews based on Consensus Forecast & IMF

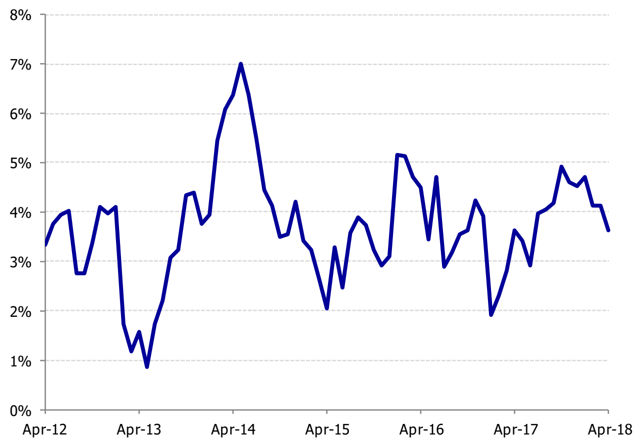
Real GDP
Y/Y variations - Central Bank



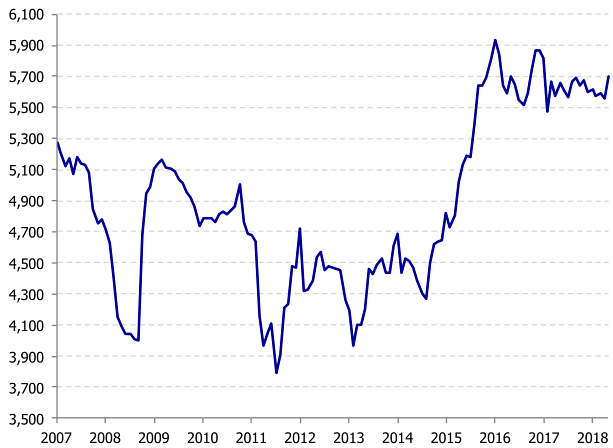
GDP growth - rolling forecasts for 2018
In %



Inflation - General CPI
Annual changes



Paraguayan Guarani / Dollar



PERU

Good news	To be alert	Bad news
Unemployment reduced to 7.3% in the Feb/Apr-18 moving quarter after peaking 8.1%, the highest record of the last 6 years.	Mining and oil grew barely 0.6% in the 1Q18, well below overall activity (3.2%).	As the US Dollar is getting stronger, copper price fell 6% YTD.

Politics

After the resignation of PPK the political context improved. The new president Martín Vizcarra has a positive image: it was 52% in May-18 (Ipsos). Also, the Congress gave Prime Minister César Villanueva a vote of confidence. Although the fiscal stimulus will continue with more public investment, the Government also seeks to increase the tax burden from 12.9% of GDP to 15.3% in 2021. Some tax detractions will be revised.

Economic Activity

In Mar-18 economic activity accelerated and grew 3.9% yoy. The most dynamic sector was agriculture (8.3% yoy). YTD, the economy grew 3.2% boosted by the latter while investment also performed well: construction and communication expanded 5%. For 2018, the economy is expected to improve 3.5% as a more stable political context will help to consolidate growth.

Inflation

In Apr-18 inflation was 0.5% yoy and continued to be well below CB's target of 2.0% for the 6th consecutive month and below the lower band of 1% for the second time in a row. On a monthly basis it contracted 0.14%. The main driver was the reduction in Food and Beverages and Transport and Communication prices. Core inflation (excluding food and energy) was 1.91%, close to the target range. For 2018 inflation forecast is expected to be 2.3%.

Monetary Sector

The Peruvian Sol was less affected than other EM currencies and depreciated 2.5% from 3.21 to 3.29 while nowadays it strengthened to 3.27. In May-18, the CB maintained its policy rate at 2.75% for the 3rd 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 financial markets.

Fiscal Front

Fiscal deficit improved 0.4% p.p. in Apr-18 and reached 2.6% of GDP. The driver of this performance was the regularization of Income Tax and the improvement of external and internal VAT revenues. Total expenditure accelerated and was 7.7% yoy driven by current expenditure. For 2018 fiscal deficit is expected to be 3.4% of GDP as more fiscal stimulus is expected.

What´s coming next?

The monetary easing cycle may have come to an end as inflation is sluggish. The IMF recently approved the Peruvian fiscal stimulus and tax reform. A better political outlook will help to improve business and consumer confidence. Congressmen from Fuerza Popular K. Fujimori, Bocángel and Ramírez could be dismissed in the following days as they are accused of bribery and traffic of influence.

PERU: APPENDIX

Dashboard

	May-18	Apr-18	Mar-18	May-17	2017
Exchange rate *(PEN/USD, eop.)*	3.27	3.25	3.23	3.27	3.24
Interest rate *(%)*	2.75%	2.75%	2.75%	4.00%	3.25%
Inflation *(y/y)*	-	0.5%	0.4%	3.0%	1.4%
Economic activity *(y/y)*	-	-	3.9%	3.6%	2.5%
Manufacturing activity *(y/y)*	-	-	2.3%	12.5%	-0.3%
Mining production *(y/y)*	-	-	5.2%	-0.6%	3.2%

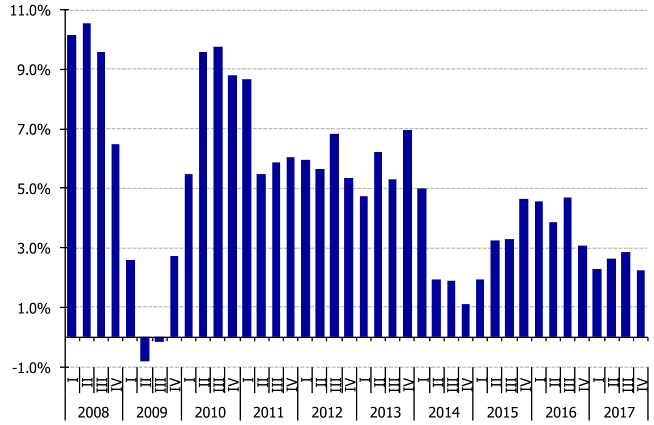
Source: EconViews based on several sources

Macroeconomic Outlook

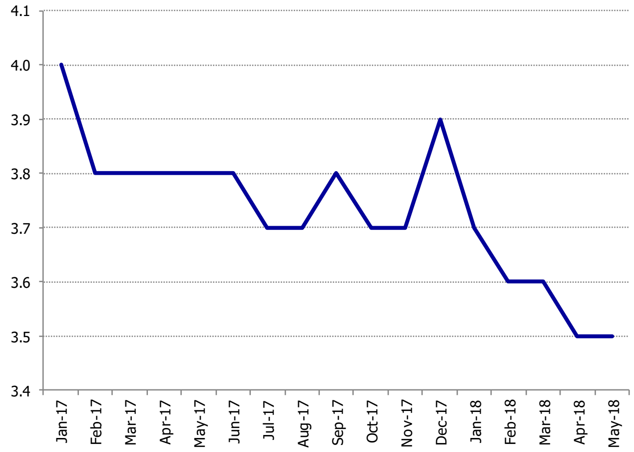
	2015	2016	2017	2018F	2019F
GDP growth *(%)*	3.3%	4.0%	2.5%	3.5%	3.7%
Inflation *(Dec-Dec)*	4.4%	3.2%	1.4%	2.3%	2.4%
Fiscal Balance *(% GDP)*	-2.1%	-2.6%	-3.2%	-3.4%	-3.0%
Current Account *(% GDP)*	-4.8%	-2.7%	-1.3%	-0.7%	-1.1%
International reserves *(USD Bn)*	59.4	59.8	60.9	66.1	68.4
Exchange rate *(PEN/USD)*	3.42	3.36	3.24	3.27	3.29

Source: EconViews based on Consensus Forecast & IMF

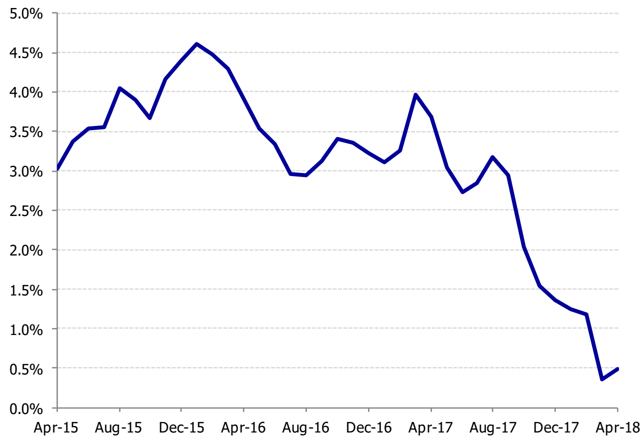
Real GDP
Y/Y variations - Central Bank



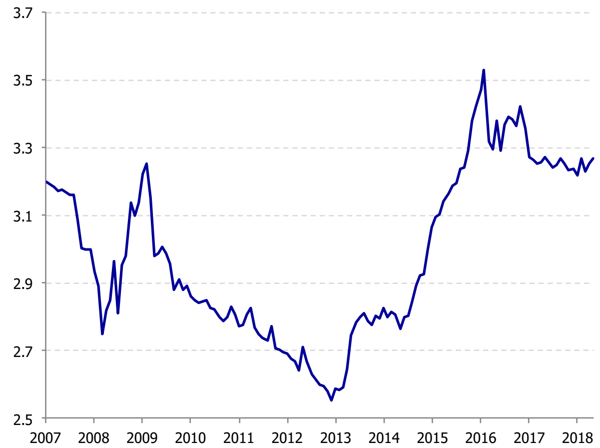
GDP growth - rolling forecasts for 2018
In %



Inflation - General CPI
Annual changes



Peruvian Sol / Dollar



URUGUAY

Good news	To be alert	Bad news
Activity has been resilient and inflation remains tamed in spite of increased Uruguayan Peso weakness.	Vulnerability to external shocks is lower but a potential emerging markets crisis should be on the radar screen.	Unemployment remains high and the fiscal balance target will be very challenging to meet this year.

Politics

A recent poll released by the firm Opcion Consultores is showing a mild rebound the support of Frente Amplio by the citizenship. Although is still premature to assign relevance to the survey as pre candidates are not even defined, the intention of vote for the FA is 29%, compared to 27% for the Partido Colorado and 25% for undecided voters, leaving the remaining 19% to smaller parties. The results should be taken with caution as the Presidential elections will be held in two years time.

Economic Activity

Economic activity so far this year is showing signs of mild growth at annual rates consistent with the 2-3% area. The CERES leading index has recorded two positive monthly variances in a row (January and February). The flight to quality to US treasurys is driving international investors to withdraw funds from emerging economies, which in turn will slowdown growth prospects in Argentina and Brazil. Unemployment in March came in at 8.5%, down from 9.0% a year ago. Our GDP estimate for 2018 is 3.2%.

Inflation

Inflation in April came in lower than expected at a 0.07% monthly increase and trimming down the annual reading to 6.49% which is within the bounds of the BCU 3-7% target range. Clothing prices moved up but were offset by a drop in food and entertainment prices. A faster depreciation path will accelerate inflation in the second half of the year. We forecast inflation to reach 6.9% for 2018 in tandem with weaker currencies in neighboring countries.

Monetary Sector

After four months of nominal appreciation to 28.15, the UYU slumped to 31.40 to the dollar in line with the selloff of emerging currencies, but especially affected by the weakness in the Argentine peso. Cumulative YTD FX purchases by the BCU have reached 1.6 billion USD. In its April meeting, the BCU COPOM remained its stance of a tight monetary policy and set the annual M1 growth target for Q2 2018 at 11-13%. We revised the forecast of UYU to trade nearly at 31 by year end

Fiscal Front

The fiscal balance remained barely unchanged at a 3.4% deficit in March. Total revenues retreated 1.1% due to lower collections. Primary expenditures were sliced 8.3% yoy. As the fiscal deficit target is 2.5% and the interest bill is nearly 3.5% of GDP, meeting the goal calls for a primary surplus which will be difficult to achieve in light of sticky expenditures: salaries and pension payments. 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

	May-18	Apr-18	Mar-18	May-17	2017
Exchange rate *(UYU/USD, eop.)*	31.26	28.49	28.40	28.28	28.85
Interest rate *(%)*	7.40%	7.95%	8.00%	9.29%	8.56%
Inflation *(y/y)*	-	6.5%	6.7%	5.6%	6.6%
Economic activity *(y/y)*	-	-	-	4.5%	2.7%
Manufacturing activity *(y/y)*	-	-	12.3%	-16.0%	-11.1%

Source: EconViews based on several sources

Macroeconomic Outlook

	2015	2016	2017	2018F	2019F
GDP growth *(%)*	0.4%	1.7%	2.7%	3.2%	3.4%
Inflation *(Dec-Dec)*	9.4%	8.1%	6.6%	6.9%	6.8%
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	31.00	32.50

Source: EconViews based on Consensus Forecast & IMF