New

ECONVIEWS
ECONOMÍA Y FINANZAS

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LATAM 7 + Argentina
Macro Brief

November, 2016

- **Argentina:** Waiting for the green shoots
- **Brazil:** Getting closer to the spending cap
- **Chile:** Inflation surprised with good news
- **Colombia:** Discussing an expected tax reform
- **Mexico:** Concerns after Trump's victory
- **Peru:** In search of new investment
- **Uruguay:** Weak activity, solid unemployment
- **Paraguay:** Fiscal consolidation back on track

ARGENTINA

Good news	To be alert	Bad news
In October, consumer credit grew in real terms for the third consecutive time on a monthly basis	Core inflation accelerated again in October after three months of deceleration	Consumption remains weak: retail sales fell 8.2% y/y in October and accumulated ten consecutive falls

Politics

After a tough year of stagflation the government maintains a positive image. The UTDT index of confidence in the goverment is at 53%, still a reasonable figure though lower than the 63% record-high it enjoyed early this year. The government has been successful in passing laws in Congress, we no expect approval of several core laws such as an Income Tax amendment andCapital Markets reform. In preparation for the mid-term elections, the opposition and the unions are likely to take a tougher stance.

Economic Activity

There were a few green shoots in August, when activity increased by 0.2%, but in September and October the figures deteriorated again. Official figures showed a contraction of 2.6% y/y, the fifth in a row. Industrial activity fell 7.3% y/y in September and experienced its eighth consecutive fall, while construction showed a decrease of 13.1% y/y which is primarily explained by the dropped in public capital expenditures. In this context, we expect GDP to fall 1.9% in 2016 and to recover in 2017 by growing 3.5%.

Inflation

Core inflation accelerated from 1.5% to 1.8% in October, after three months of deceleration. According to the INDEC's index, headline inflation rose up to 2.4% in October, after barely reaching 0.2% in August and 1.1% in September. The index reflected the change in the natural gas tariffs chart for the residential sector, which rose again after the public audiences. We expect core inflation to stand around 1.5% m/m in the next months while headline inflation will end 2016 at around 38% y/y.

Monetary Sector

The exchange rate closed at ARS 15.18 in October and appreciated 0.6% nominally, while in November it depreciated to ARS 15.39 due to the Trump effect. The reference interest rate remained at 26.75% during October but in the last two auctions, the Central Bank decided to cut it 50 bps and now stands at 25.75%. The monetary base slowed its y/y growth from 27.8% to 27.4%. The main expansionary factor was the Purchase of FX for US$ 2.0 billion, contracted by a similar amount of Lebacs.

Fiscal Front

Primary expenditures grew strongly again in September (36.7% y/y), way above the rate of the first months of the year. Revenues improved slightly in September as they increased 30.8%, which is less than inflation. In this context, the net primary deficit reached 2.7% of GDP. We now expect the figures to deteriorate in coming months as expenditure increase and to end the year with a primary deficit of 4.3% of GDP

What´s coming next?

We expect the CB to continue to lower the reference rate, though there could be a pause in the summer awaiting the firs result of the wage negotiations. The peso is likely to continue to be under pressure due to the tax amnesty and the high interest rates, though there could be more volatility mainly due to the results of the USA elections. The government has already completed the financial program for this year. For 2017, we expect a total GAP of USD 57.7 billion, which will be largely financed with USD 39 billion from the bonds market.

ARGENTINA: APPENDIX

Dashboard

	Oct-16	Sep-16	Aug-16	Jul-16	Oct-15	Dec-15
Exchange rate *(ARS/USD, eop.)*	15.19	15.37	14.94	15.01	9.52	12.94
Interest rate *(%)*	26.75%	26.75%	28.25%	30.25%	28.93%	33.00%
National inflation *(y/y)*	42.4%	41.0%	41.5%	44.2%	23.1%	28.4%
Economic activity *(y/y)*	-	-	-2.6%	-6.0%	2.0%	1.8%
Industrial activity *(y/y)*	-	-7.3%	-5.7%	-7.9%	-2.6%	-
Automotive production *(y/y)*	-16.4%	-19.6%	-8.5%	-13.3%	-25.6%	-22.5%

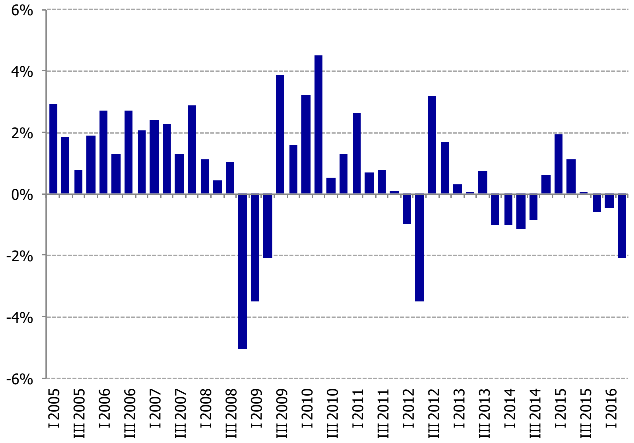
Source: EconViews based on several sources

Macroeconomic Outlook

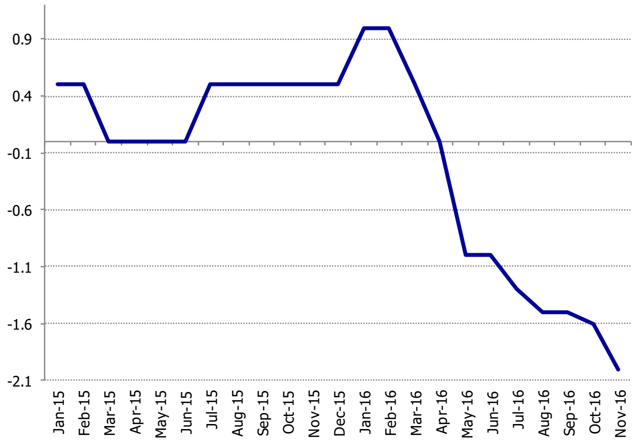
	2012	2013	2014	2015	2016F	2017F
GDP growth *(%)*	-1.0%	2.4%	-2.5%	2.5%	-1.9%	3.5%
National inflation *(Dec-Dec)*	25.2%	27.9%	36.7%	28.4%	38.0%	21.5%
Fiscal Balance *(% GDP)*	-2.1%	-1.9%	-2.7%	-4.8%	-4.2%	-4.4%
Current Account *(% GDP)*	-0.2%	-2.0%	-1.4%	-2.5%	-3.0%	-3.4%
International reserves *(USD Bn)*	43.3	30.6	31.4	25.6	37.0	40.8
Exchange rate *(ARS/USD)*	4.92	6.52	8.56	12.94	15.70	18.60

Source: EconViews based on official figures and own estimates

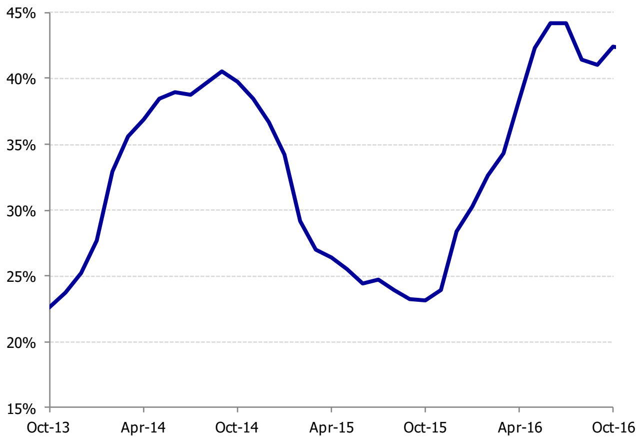
Real GDP
Q/Q variations- Seasonally adjusted data INDEC



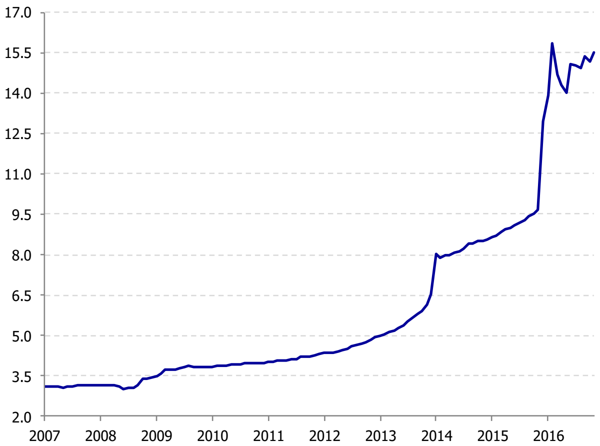
GDP growth - rolling forecasts for 2016
In %



Inflation - General CPI
Annual changes



Argentinian Peso / Dollar



BRAZIL

Good news	To be alert	Bad news
Recession is coming to an end: leading indicators suggest an improvement in economic activity during the next months	The higher uncertainty after Trump's victory is likely to lead the CB to moderate the easing cycle and will also put additional pressure over the Real	Brazilian structural fiscal imbalance remains at very high levels and is expected to reach 9.6% of GDP this year

Politics

President Temer secured an important congressional victory as the lower house overwhelmingly supported a constitutional amendment (366 votes in favor, while a minimum of 308 votes were needed) that will cap growth in public spending as part of the government's efforts to tackle a near-record budget deficit. The spending cap, along with a proposal to reform Brazil's pension system, is the cornerstone of the administration's plans to tackle a budget deficit of around 10 percent of GDP.

Economic Activity

The BCB's monthly GDP proxy increased 0.15% m/m in September though it accumulates a contraction of 0.8% q/q in the third quarter. Despite economic activity displayed a poor performance in Q3, leading indicators and fundamentals continue to suggest an improvement in economic activity in the next months, led by the upturn of the industry. In this context, GDP is expected to fall 3.3% this year and to recover in 2017 by growing 1.2%.

Inflation

The moderation in inflation is consolidating: according to the IPCA, y/y inflation decelerated from 8.5% in September to 7.9% in October. However, it still stands well above the upper target band (6.5%). Wholesale prices have been decelerating in the past months as a result of the BRL's appreciation, but this moderation has only been passed on to consumers more recently. Inflation is expected to reach 6.9% in December and to stand around 5.1% in 2017.

Monetary Sector

The BRL depreciated strongly after Trump's victory and reached 3.44 BRL/USD in mid-November. However, the Real stands now at BRL 3.35 and appreciated 15.5% so far this year. Moreover, the Central Bank cut the Selic benchmark interest rate by 25 bps in October. However, the higher uncertainty after Trump's victory will likely lead the CB to moderate the easing cycle. We expect the Brazilian Real to end the year at around 3.40 BRL/USD and the Selic rate to end 2016 at 13.75%.

Fiscal Front

The spending cap advances through Congress and if it is also approved in the Senate, it will represent a big structural change in Brazil's fiscal policy management. Under the cap, if any expenditure rises in real terms, it will have to be offset by a real-term reduction in other expenditures. This is likely to gradually reverse the structural fiscal imbalance that is expected to reach 9.6% of GDP this year, moderating compared to the deficit of 10.3% of GDP recorded in 2015.

What´s coming next?

Prospects for higher interest rates in the U.S. may put additional pressure over the Brazilian Real, and so we expect more volatility ahead.

If the Senate approves the constitutional amendment that creates a spending cap, it will represent a structural change in Brazil's fiscal policy management. Moreover, the government will send a Social Security reform bill to Congress by the end of the year to ensure the spending cap remains feasible in the next years.

BRAZIL: APPENDIX

Dashboard

	Oct-16	Sep-16	Aug-16	Jul-16	Oct-15	Dec-15
Exchange rate *(BRL/USD, eop.)*	3.19	3.26	3.23	3.25	3.86	3.96
SELIC *(%)*	14.00%	14.25%	14.25%	14.25%	14.25%	14.25%
Inflation *(y/y)*	7.9%	8.5%	9.0%	8.7%	9.9%	10.7%
Economic activity *(y/y)*	-	-3.8%	-4.5%	-4.6%	-6.2%	-6.2%
Industrial activity *(y/y)*	-	-4.9%	-5.0%	-6.5%	-11.1%	-12.0%
Automotive production *(y/y)*	-15.1%	-2.5%	-17.9%	-15.0%	-30.1%	-30.0%

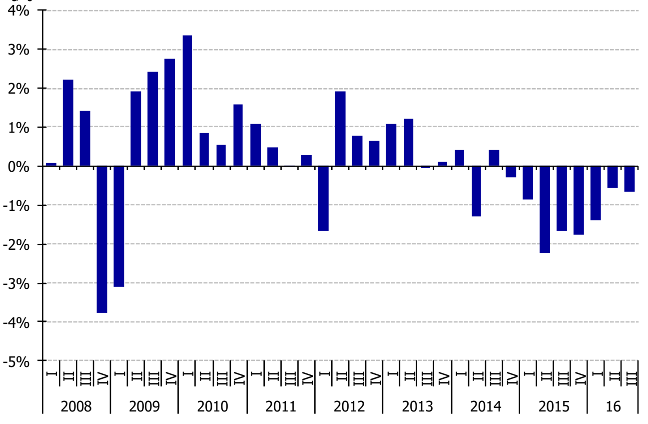
Source: EconViews based on several sources

Macroeconomic Outlook

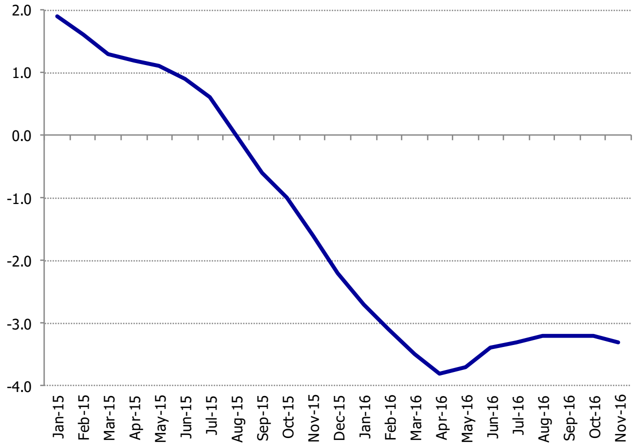
	2012	2013	2014	2015	2016F	2017F
GDP growth *(%)*	1.8%	2.7%	0.1%	-3.8%	-3.3%	1.2%
Inflation *(Dec-Dec)*	5.8%	5.9%	6.4%	10.7%	6.9%	5.1%
Fiscal Balance *(% GDP)*	-2.3%	-3.0%	-6.1%	-10.3%	-9.6%	-8.9%
Current Account *(% GDP)*	-3.0%	-3.0%	-4.3%	-3.3%	-2.0%	-1.5%
International reserves *(USD Bn)*	362.1	349.0	354.8	348.9	365.5	369.4
Exchange rate *(BRL/USD)*	2.05	2.36	2.66	3.96	3.40	3.45

Source: EconViews based on Consensus Forecast & IMF

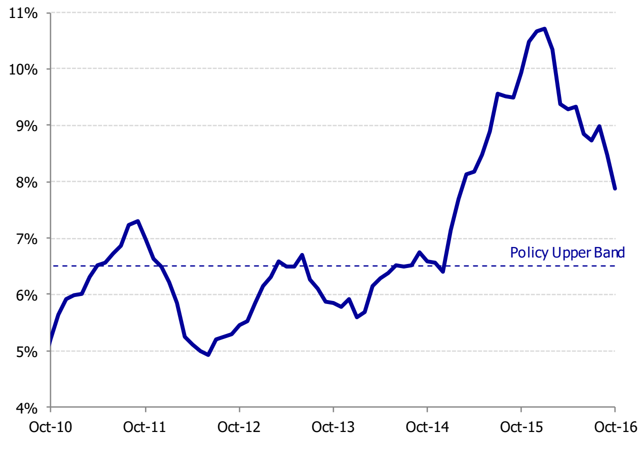
Economic Acivity Indicator - Brazil
Q/Q variations - Central Bank



GDP growth - rolling forecasts for 2016
In %



Inflation (IPCA)
Annual changes



Brazilian Real / Dollar

CHILE

Good news	To be alert	Bad news
In October inflation was below the CB's target of 3.0% for the first time since Jan-14. After contracting 0.4% q/q in the 2Q, economy recovered and grew 0.6%.	In the 3Q, manufacturing's contribution to i.a. GDP growth was -0.2%, the worst among all sectors. Food & beverages explained this bad performance.	Unemployment rate reached 6.8%, the highest record for a 3Q since 2011.

Politics

Bachelet's image went up 1 p.p in October to 24%, above the critical 19% from August, although the disapproval rate is still very high (71%). Piñera (center-right) is gaining support for the presidential elections in Nov-17, followed by Guillier (center-right). The discomfort with the private pension system (AFP) persists, as pensions are 50% of the minimum wage. The Government is willing to create a public system and increase the employer's contributions from 10% to 15%.

Economic Activity

The data for the 3Q showed good news: the economy grew 0.6% q/q, after falling 0.4% in the preceding quarter for the first time since 2010. Also, the economy maintained its y/y growth in 1.6%. "Services" was the main contributor while industry had the worst performance. On the demand side, total consumption (public & private) was the driver while investment continued weak.
GDP growth for 2016 was revised up 0.1 p.p. to 1.7%.

Inflation

Inflation was 2.8% in October, below the CB target of 3.0% for the first time since Jan-14. The dynamics of prices are dissimilar: for tradable goods inflation was 1.9% (helped by the appreciation of the Chilean Peso in October) while for non-tradable there is still inertia: 4.1%.
If inflation continues to recede, it is probable a cut in the monetary policy rate for next year. Nowadays, it stands at 3.5%.

Monetary Sector

The Chilean Peso appreciated 0.8% in October, the second reduction in a row but now is depreciating close to 674 CLP/USD, in line with the recent performance of other emerging currencies.
In November, the Central Bank left the policy rate unchanged at 3.5%, mainly due to more volatility in the external front. Also, inflation expectations reduced for the short term but they are still close to the target in the long term.

Fiscal Front

In September, income of Total Central Government increased 3.0% in real terms below the 3.6% for the previous month, while expenditure accelerated and grew 5.2%, above the former 4.0%.
The fiscal deficit is likely to stand around 3.1% of GDP for this year and recently Senators approved the preliminary project for 2017 Budget with an estimated deficit of 3.3%. In this context, public debt will increase from 21.7% to 25.2%.

What´s coming next?

Renewed external volatility may affect the performance of the economy in the short term. It is important to monitor inflation related to tradable goods as a depreciation of the Chilean Peso could raise it.
There was a rally in the copper price with the announcement of an ambitious infrastructure plan in the USA. The external sector could benefit from this plan in the long term.

CHILE: APPENDIX

Dashboard

	Oct-16	Sep-16	Aug-16	Jul-16	Oct-15	Dec-15
Exchange rate *(CLP/USD, eop.)*	652.60	657.70	681.10	656.04	692.20	709.35
Interest rate *(%)*	3.5	3.5	3.5	3.5	3.3	3.5
Inflation *(y/y)*	2.8%	3.1%	3.4%	4.0%	4.0%	4.4%
Economic activity *(y/y)*	-	1.4%	2.5%	0.5%	1.1%	2.1%
Industrial activity *(y/y)*	-	-0.1%	2.9%	-1.9%	-0.5%	-3.3%
Mining production *(y/y)*	-	-1.6%	3.4%	-0.4%	-0.4%	-3.9%

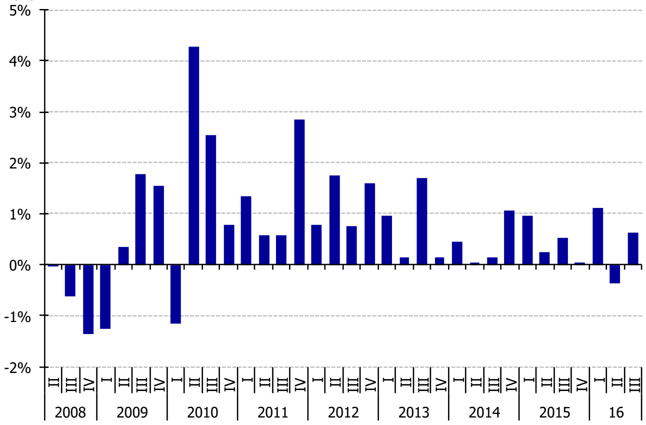
Source: EconViews based on several sources

Macroeconomic Outlook

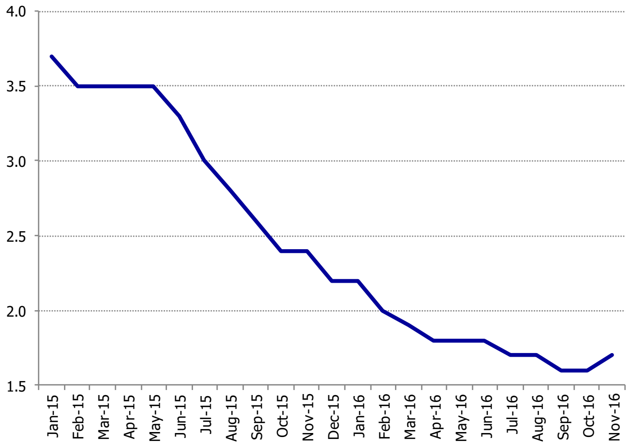
	2012	2013	2014	2015	2016F	2017F
GDP growth *(%)*	5.5%	4.0%	1.9%	2.3%	1.7%	2.1%
Inflation *(Dec-Dec)*	1.5%	3.0%	4.6%	4.4%	2.9%	2.9%
Fiscal Balance *(% GDP)*	0.6%	-0.7%	-1.6%	-2.2%	-3.1%	-2.9%
Current Account *(% GDP)*	-3.5%	-3.7%	-1.3%	-2.0%	-2.1%	-2.7%
International reserves *(USD Bn)*	39.7	39.3	38.9	37.2	38.6	38.7
Exchange rate *(CLP/USD)*	479.2	525.6	607.4	709.4	676.0	674.0

Source: EconViews based on Consensus Forecast & IMF

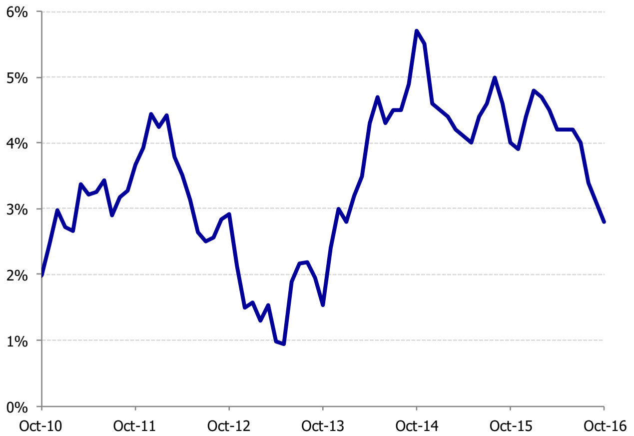
Real GDP
Q/Q variations - Central Bank



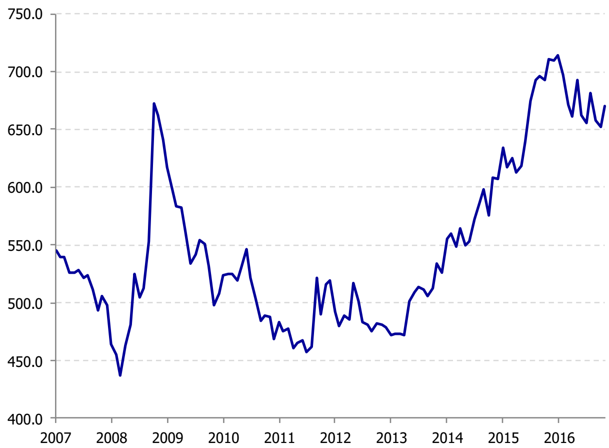
GDP growth - rolling forecasts for 2016
In %



Inflation - General CPI
Annual changes



Chilean Peso / Dollar



COLOMBIA

Good news	To be alert	Bad news
Inflation kept slowing down (from 7.27% to 6.48%), mainly explained by the behavior of food prices.	Economic activity grew 2.5% y/y in August, reconvering from the drop of July, but retail sales continued showing a weak performance.	Against expected, the peace referendum turned out negative by a scarce majority (50.2%).

Politics

Bad news for Santos' government: surprisingly, the rejection of the peace agreement won in Colombia's referendum, with a tight majority of 50.2% of votes. Facing this fact, both Santos and the FARC (Revolutionary Armed Forces of Colombia) reviewed the original agreement and reached a new one, trying to contemplate the demands of the groups that didn't support the first one. A potential peace agreement is expected to boost the economy.

Economic Activity

Economic activity grew 2.5% y/y in August, after a drop of 0.5% y/y the previous month. The industrial sector also recovered from the fall of July, mainly because of oil refining activity. Despite this good performances, retail sales fell 1.3% in September and registered its fifth consecutive downturn (-3.3% y/y in July and -1.9% in August), principally due to vehicles and motorcycles sales. In this context, GDP is expected to grow 2.1% this year, decelerating regarding the 3.1% growth of 2015.

Inflation

In October, consumer prices fell 0.06% and headline y/y inflation continued decelerating from previous records (from 7.27% in September to 6.48%). The main cause of this result was the downturn in food prices, which decreased 0.53% from the previous month. If we exclude food, the disinflation was softer: from 5.92% to 5.64%. Nevertheless, it remains above the inflation target (3%). In this context, it is expected an inflation of 6.2% at the end of 2016.

Monetary Sector

The Colombian Peso appreciated around 2% up to November and is expected to end 2016 at 3,000 COP/USD, broadly stable from the current levels. In October, Colombia's Central Bank decided to maintain the policy rate in 7.75%, after the increase of 25 bp. in August. The board argued that although inflation is slowing down, economic growth will be lower than the registered during the first semester. Next year, it is expected to be reduced to 6.3%.

Fiscal Front

After the increase of the expected fiscal deficit for this year from 3.6% to 3.9% of GDP (because of the poor performance of oil revenues), Colombian government finally sent to Congress a tax reform. Among many changes, it contemplates a raise of VAT rate from 16% to 19%, modifications in income tax structure (including a decrease in minimum threshold) and measures to avoid tax evasion.

What´s coming next?

The tax reform will have a short debate in Congress, as it is supposed to be implemented in 2017. Although there are several voices against the bill, the government expects to have political support enough to approve it by mid-December. The tax reform will reduce the fiscal deficit in 2017. However, it will also have impact in other fronts, rising inflation and slowing down private consumption.

COLOMBIA: APPENDIX

Dashboard

	Oct-16	Sep-16	Aug-16	Jul-16	Oct-15	Dec-15
Exchange rate *(COP/USD, eop.)*	3,007.00	2,884.35	2,973.50	3,073.21	2,897.86	3,179.50
Interest rate *(%)*	7.75	7.75	7.75	7.43	4.73	5.79
Inflation *(y/y)*	6,48%	7,27%	8.1%	9.0%	5.9%	6.8%
Economic activity *(y/y)*	-	-	2.1%	-0.5%	3.2%	3.6%
Industrial activity *(y/y)*	-	-	9.9%	-5.8%	2.1%	3.8%

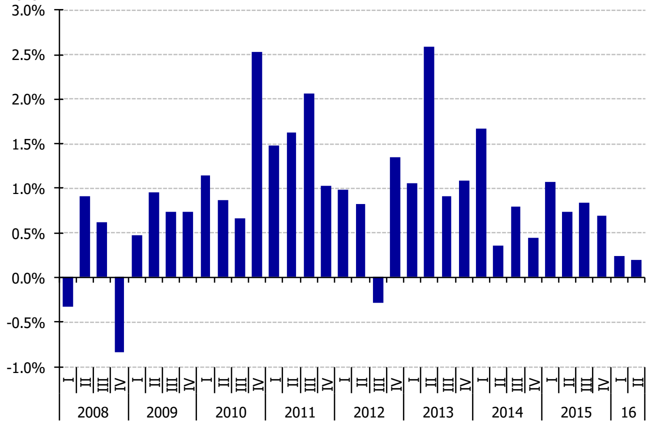
Source: EconViews based on several sources

Macroeconomic Outlook

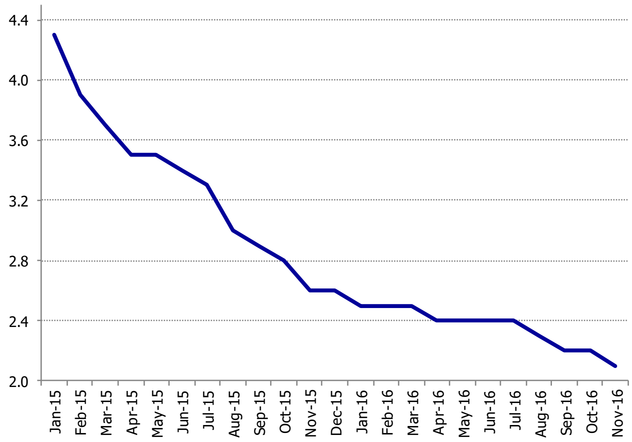
	2012	2013	2014	2015	2016F	2017F
GDP growth *(%)*	4.0%	4.9%	4.4%	3.1%	2.1%	2.7%
Inflation *(Dec-Dec)*	2.4%	1.9%	3.7%	6.8%	6.2%	4.2%
Fiscal Balance *(% GDP)*	-2.3%	-2.4%	-2.4%	-3.0%	-3.9%	-3.4%
Current Account *(% GDP)*	-3.1%	-3.3%	-5.2%	-6.5%	-5.9%	-4.3%
International reserves *(USD Bn)*	34.9	41.2	44.9	44.8	46.1	46.1
Exchange rate *(COP/USD)*	1,768.0	1,931.0	2,389.0	3,179.5	3,000	2,930

Source: EconViews based on Consensus Forecast & IMF

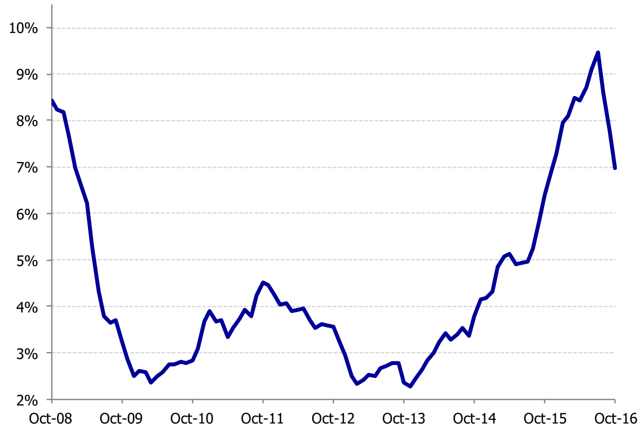
Real GDP
Q/Q variations - DANE



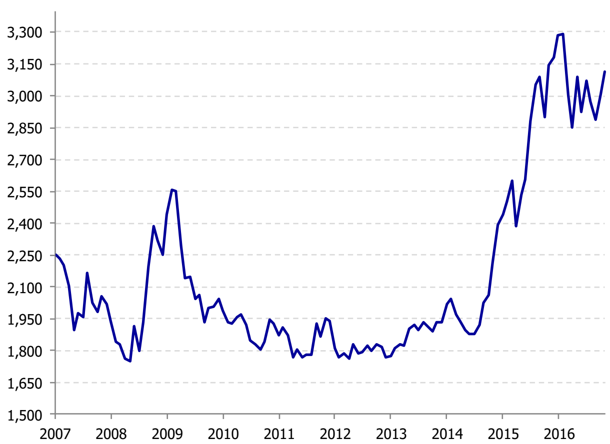
GDP growth - rolling forecasts for 2016
In %



Inflation - General CPI
Annual changes



Colombian Peso / Dollar



MEXICO

Good news	To be alert	Bad news
GDP is expected to grow 2.0% y/y in the 3Q16 and 2% in the whole year	The outcome of the U.S. presidential election has deteriorated the short term outlook for the Mexican economy	In October, headline inflation (3.1%) stood above the Central Bank's target (3%) for the first time since April 2015.

Politics

Mexican President Enrique Pena Nieto spoke to the new U.S. President-Elect Trump to congratulate him on his election win and the two agreed to meet before he takes office. Pena Nieto was lambasted in the local press for hosting a pre-election meeting with Trump, who has made disparaging remarks about Mexicans. Moreover, his positive image is faltering and key components of his political agenda, particularly his economic reform, are decidedly unpopular.

Economic Activity

The outcome of the U.S. presidential election has deteriorated the short term outlook for the Mexican economy. Growth continues to be led by the service sector, while industrial production is still weak. The flash estimate of GDP growth for 3Q16 registered a 2.0% y/y upturn, but industrial activity fell 1.3% y/y in September after August's rise (0.2% y/y). In this context, we expect GDP to grow 2% this year and 1.9% in 2017.

Inflation

Headline inflation increased from 2.7% in July and August to 3.0% in September and 3.1% in October, and is now above the Central Bank's target (3%) for the first time since April 2015. The strong depreciation of the Mexican peso is putting upward pressure on consumer prices. Annual headline inflation is expected to stand around 3.4% in 2016 and to slightly accelerate to 3.7% in 2017.

Monetary Sector

Mexico's Central Bank has regularly raised interest rates over the past year in an attempt to contain the peso's losses and tamp down inflation. The Mexican peso, which was trading around 18 MXN/USD, dropped to more than 20 MXN/USD after Trump's victory. Moreover, The Central Bank of Mexico has recently increased its policy rate by 50bps, taking it to 5.25%, in line with the market consensus. We expect the Mexican policy rate to end 2016 at 5.5% and to increase 50bps in 2017, to 6%.

Fiscal Front

Mexico's fiscal accounts deteriorated in 3Q16 and reached a deficit of 2.4% of GDP. However, the numbers are still consistent with the fiscal consolidation plan that considers a public sector deficit of 2.9% of GDP. Moreover, the net debt of the public sector as a percentage of GDP increased from 45.7% in 2Q16 to 47.6% in 3Q16. In this context, we expect a fiscal deficit of 3.1% of GDP this year, which is likely to moderate to 2.7% in 2017.

What´s coming next?

The Mexican government is working out what Donald Trump's election victory will mean for its economy. Around 80% of its exports go to the US and Trump has threatened to tear up the NAFTA, blocking much of that trade. Risks of rising US protectionism and higher interest rates are important to Mexico, but the implications from the specter of rising US protectionism aren't just economic, as it could also play into the hand of populists at home.

MEXICO: APPENDIX

Dashboard

	Oct-16	Sep-16	Aug-16	Jul-16	Oct-15	Dec-15
Exchange rate *(MXN/USD, eop.)*	18.87	19.40	18.79	18.76	16.51	17.19
Interest rate *(%)*	4.75%	4.75%	4.25%	4.25%	3.00%	3.25%
Inflation *(y/y)*	3.1%	3.0%	2.7%	2.7%	2.5%	2.1%
Economic activity *(y/y)*	-	-	2.9%	1.2%	2.2%	2.4%
Industrial activity *(y/y)*	-	-1.3%	0.2%	-1.3%	0.1%	0.2%
Automotive production *(y/y)*	-	-3.4%	13.6%	8.6%	4.2%	13.0%

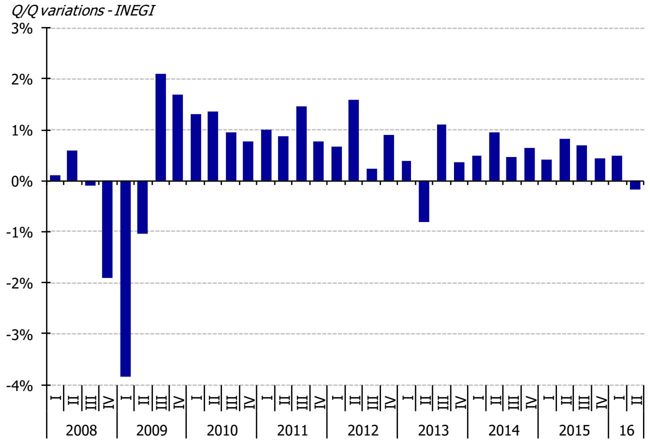
Source: EconViews based on several sources

Macroeconomic Outlook

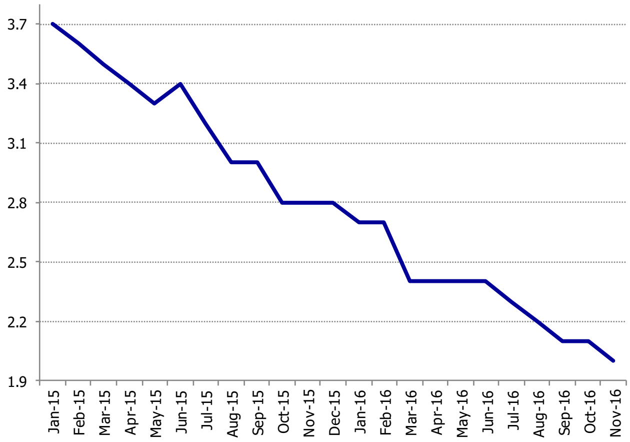
	2012	2013	2014	2015	2016F	2017F
GDP growth *(%)*	4.0%	1.4%	2.2%	2.5%	2.0%	1.9%
Inflation *(Dec-Dec)*	3.6%	4.0%	4.1%	2.1%	3.4%	3.7%
Fiscal Balance *(% GDP)*	-2.6%	-2.3%	-3.1%	-3.5%	-3.1%	-2.7%
Current Account *(% GDP)*	-1.4%	-2.4%	-1.9%	-2.8%	-2.6%	-2.6%
International reserves *(USD Bn)*	153.5	168.6	185.2	168.4	172.3	174.6
Exchange rate *(MXN/USD)*	12.87	13.04	14.75	17.19	20.00	21.00

Source: EconViews based on Consensus Forecast & IMF

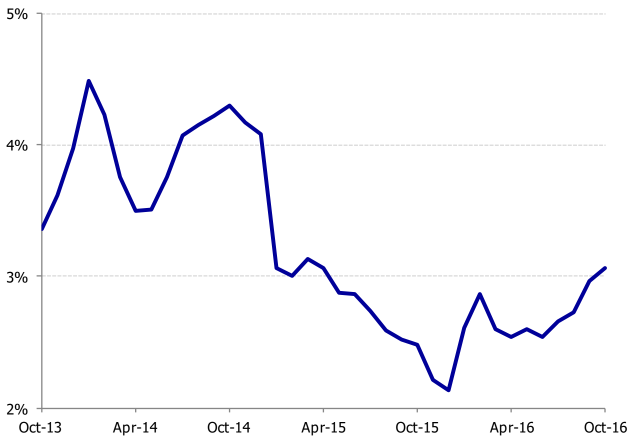
Real GDP
Q/Q variations - INEGI



GDP growth - rolling forecasts for 2016
In %



Inflation - General CPI
Annual changes



Mexican Peso / Dollar

PARAGUAY

Good news	To be alert	Bad news
Amazing improvement in fiscal figures. Primary expenditures are well contained as salaries were frozen and the savings are allowing higher capital expenditures.	President Trump has pledged to an ultra-protectionist view. Implications for trade flows, interest rates, emerging currencies and commodities prices could be overwhelming.	Personal security is still a key issue to be solved in the country. Mr Martinez has been recently appointed as Political Affairs Vice Ministry in order to improve the situation.

Politics

Personal security is still a key issue to be solved in the country. Mr Martinez has been recently appointed as Political Affairs Vice Ministry in an effort to improve the situation. In the meantime, President Cartes has dropped his ambitions to amend the Constitution and run for re-election as evidenced by the lack of support and consensus of the initiative among Partido Colorado partners.

Economic Activity

Economic activity is gaining 4% y/y as measured by BCP's IMAEP indicator. This broad recovery is the result of the growth in electricity generation (benefited by extraordinary weather conditions) a solid private construction performance and an increase in meat production. The dependence on Argentina and Brazil cannot be overstated. Thus, the short term evolution of GDP in both countries should be monitored, as the much awaited rebound could be delayed in the wake of the uncertainty around the US elections.

Inflation

As of September, consumer prices grew 3.5% y/y with core inflation running at the same annual speed and slightly below the center of the central bank target range of 4.5%. The upward inflationary pressure generated in food prices (like beef, grains, fruits) has been mitigated by weak fuel prices. We expect inflation to stand around 3.6% in December 2016 and 4.3% in 2017.

Monetary Sector

By the end of October the Guaraní was trading close to 5.700 to the dollar, gaining marginally 1.3% on an YTD basis, but weakening 11% compared to the Brazilian real. The central bank left the policy rate unchanged at 5.5% in October. According to the BCP minutes, inflation remains in line with the medium term target and the economic activity is jumpstarting. Thus, the interest rate policy was left unchanged at the current 5.5% level until year-end.

Fiscal Front

Recent months brought in excellent news on the fiscal front as the deficit was cut nearly 20% YTD as of September. Expenditures are being controlled through the freezing of salaries, which allowed for increased capital expenditures (circa 30%) with total expense growing only 1.7%. Also on a positive note, tax collections were up 6.5% y/y and Itaipú royalties grew nearly 10%. As a result, fiscal deficit projections were revised downwards and the likelihood of convergence to the fiscal responsibility law next year are significant.

What´s coming next?

Some top issues to watch for in Paraguay:

- The global markets implications of Trump being elected as US president
- The US interest rates business cycle and its impact into commodities prices
- The speed and strength of economic recovery in both Argentina and Brazil
- The prospects of the initiative to amend the Constitution,
- The efforts undertaken by the government to improve personal security

PARAGUAY: APPENDIX

Dashboard

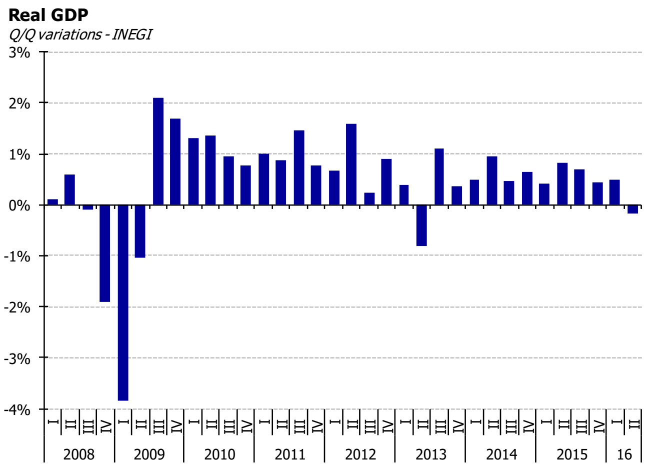
	Oct-16	Sep-16	Aug-16	Jul-16	Oct-15	Dec-15
Exchange rate *(PYG/USD, eop.)*	5,738.0	5,589.0	5,519.5	5,549.0	5,643.0	5,813.9
Interest rate *(%)*	5.50%	5.50%	5.50%	5.50%	5.75%	5.75%
Inflation *(y/y)*	3.6%	3.5%	3.2%	2.9%	3.2%	3.1%
Economic activity *(y/y)*	-	6.2%	4.5%	5.2%	-0.2%	0.6%

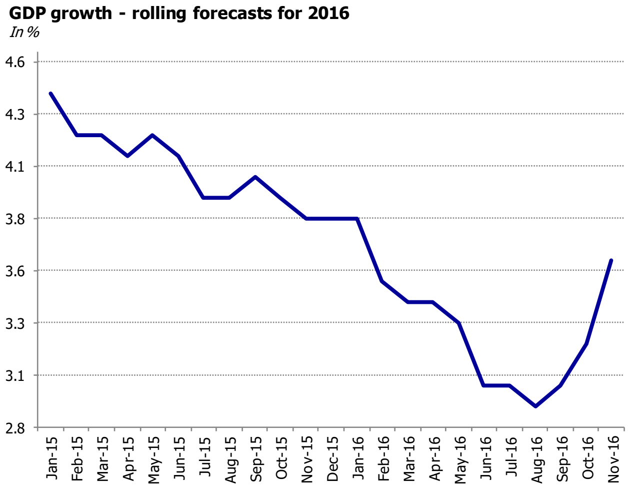
Source: EconViews based on several sources

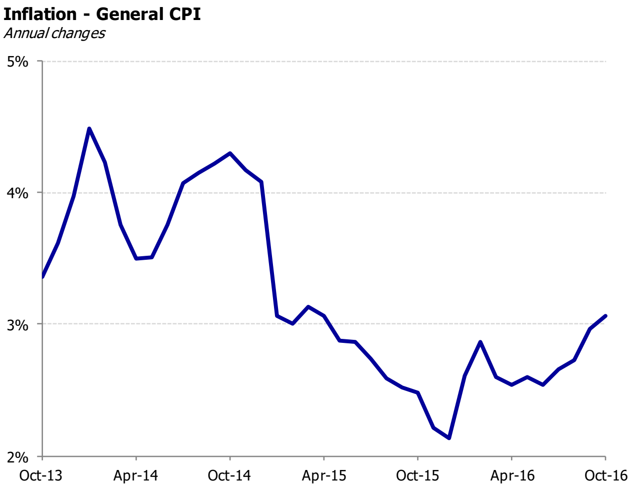
Macroeconomic Outlook

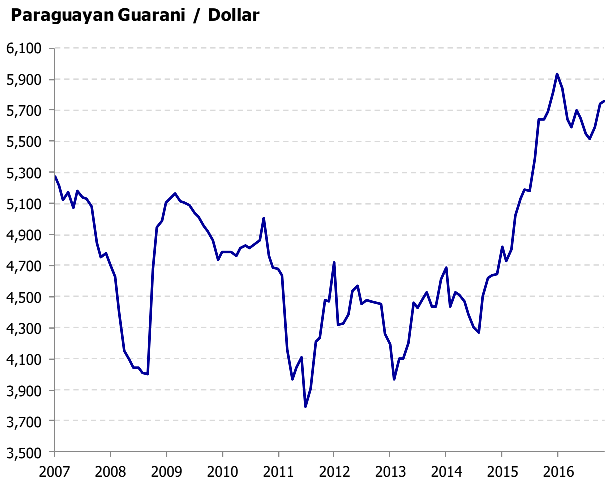
	2012	2013	2014	2015	2016F	2017F
GDP growth *(%)*	-1.2%	14.0%	4.7%	3.0%	3.6%	3.6%
Inflation *(Dec-Dec)*	4.0%	3.7%	4.2%	3.1%	3.6%	4.3%
Fiscal Balance *(% GDP)*	-1.6%	-1.4%	-0.7%	-2.5%	-2.5%	-2.7%
Current Account *(% GDP)*	-2.0%	1.7%	-0.4%	-1.8%	-1.2%	-1.1%
International reserves *(USD Bn)*	5.0	5.9	6.9	6.2	n.a.	n.a.
Exchange rate *(PYG/USD)*	4,260.0	4,610.9	4,642.2	5,813.9	5,760.0	5,920.0

Source: EconViews based on Consensus Forecast & IMF









PERU

Good news	To be alert	Bad news
Mining exports continue to boost the economy and are helping to narrow the current account deficit.	Fiscal consolidation will be achieved more slowly but the low ratio of public debt to GDP will help.	After being between the bands in August, inflation has accelerated for two consecutive months and now surpassed the upper band of 3.0%.

Politics

The Asia-Pacific Economic Cooperation (APEC) Forum is taking place in the country. The main perspectives are to boost new investment and to lay the ground of a free-trade zone between the participants.
After the short honeymoon, Kuczynski's image has reduced from mid 60's to high 50's. As his political party holds only 18/130 seats in congress, he depends a lot on public support.

Economic Activity

Economic activity accelerated its pace of growth in August up to 5.5%, the highest record since Feb-16. The driver is still the good performance of the primary sector, specially mining exports, while industry & construction have receded in the last months due to weak investment. However, in September economic expectations for the short term were in its highest level since Apr-13, with a little reduction on October.

Inflation

Headline inflation accelerated again in October due to the increase in the price of food and was 3.4%, above the Central Bank's upper band of 3.0% while core inflation (excludes food & energy) remained stable at 3.0%. For 2016, it is expected to be in the upper limit, while in 2017 it will reduce to 2.8%, still above the target of 2.0%. Inflation expectations for next year will help as they are well-anchored.

Monetary Sector

The PEN had appreciated for two consecutive months up to October while recently it depreciated 1.7% up to PEN 3.42.
The CB decided to maintain its policy rate at 4.25% as headline inflation surged in October. Moreover, a context with more volatility in the exchange rate could have an inflationary impact.

Fiscal Front

Fiscal deficit reduced a little in September from 3.5% to 3.4%, after increasing for 13 months in a row but is still above the target of 3.0%. The forecast for 2016 is 2.9% so the Government has put a limit to expenditure in order to achieve it. During the year, less income due to VAT devolution and the arrival of the new administration worsened fiscal accounts.

What´s coming next?

The growth of Peru continues being boosted by the external sector and shows imbalance in the domestic demand. The evidence is the lack of impulse in construction & industry. Investment is a key factor to maintain the pace of growth and make it sustainable in the long term.
As well as Chile, Peru's perspective in the mining sector is very positive if there is a surge in the demand of copper.

PERU: APPENDIX

Dashboard

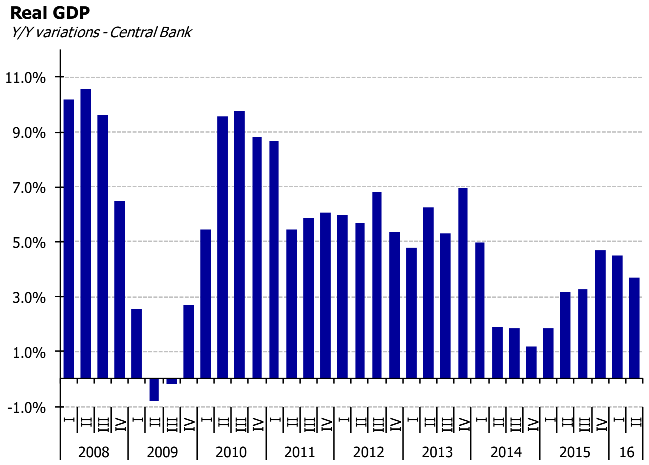
	Oct-16	Sep-16	Aug-16	Jul-16	Oct-15	Dec-15
Exchange rate *(PEN/USD, eop.)*	3.36	3.38	3.39	3.37	3.29	3.42
Interest rate *(%)*	4.25	4.25	4.25	4.25	3.50	3.75
Inflation *(y/y)*	3.4%	3.1%	2.9%	3.0%	3.7%	4.4%
Economic activity *(y/y)*	-	4.1%	5.5%	3.8%	3.4%	6.5%
Manufacturing activity *(y/y)*	-	-	2.0%	1.2%	-3.3%	5.1%
Mining production *(y/y)*	-	-	20.0%	16.2%	17.3%	30.7%

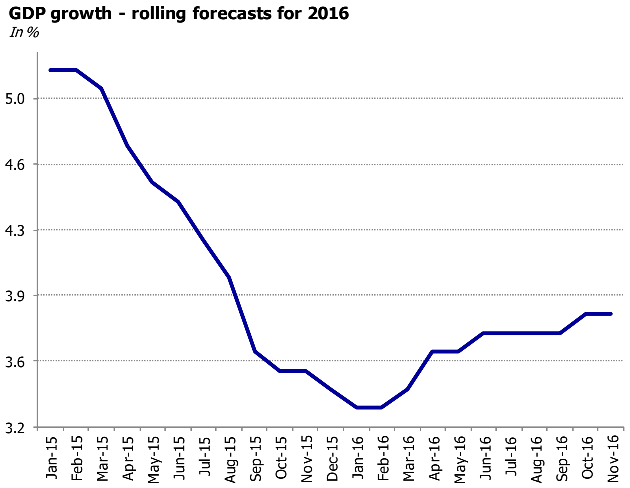
Source: EconViews based on several sources

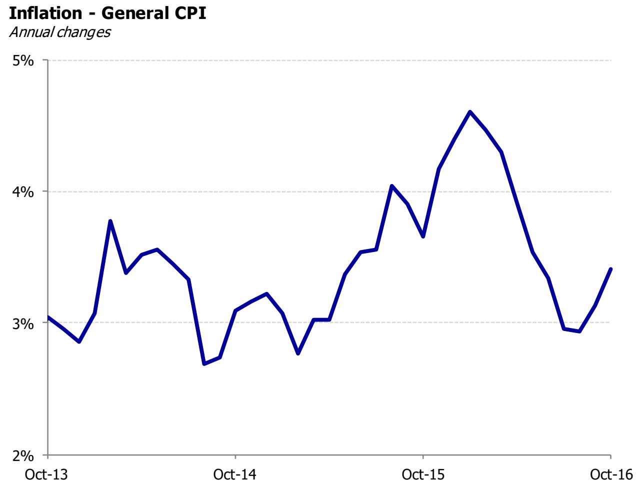
Macroeconomic Outlook

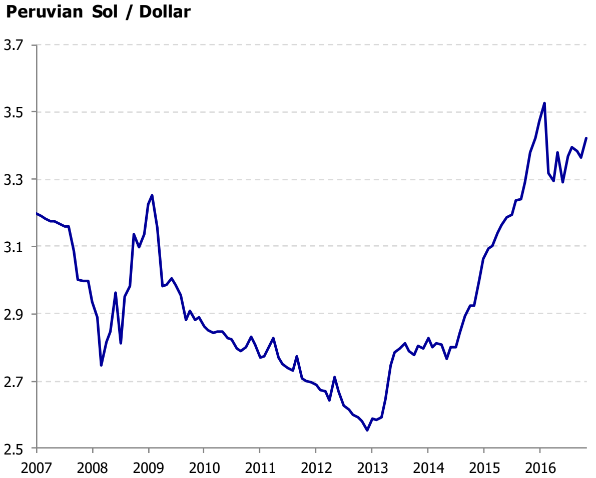
	2012	2013	2014	2015	2016F	2017F
GDP growth *(%)*	6.0%	5.9%	2.4%	3.3%	3.8%	4.2%
Inflation *(Dec-Dec)*	2.6%	2.9%	3.2%	4.4%	3.0%	2.8%
Fiscal Balance *(% GDP)*	2.3%	0.9%	-0.3%	-2.1%	-2.9%	-2.7%
Current Account *(% GDP)*	-2.7%	-4.3%	-4.0%	-4.4%	-3.9%	-3.3%
International reserves *(USD Bn)*	61.2	63.2	60.1	59.4	60.5	62.0
Exchange rate *(PEN/USD)*	2.56	2.80	3.00	3.42	3.42	3.48

Source: EconViews based on Consensus Forecast & IMF









URUGUAY

Good news	To be alert	Bad news
Consistent disinflation process over the last months, trimming yoy variance to 8.5% as of October, compared with a peak of 11.1% in April	Like other countries in the region, Uruguay is heavily dependent on the results of the US elections, its stance in monetary policy cycle and commodities prices	September unemployment reading declined marginally to 8.4% but remains at high levels. Unemployment is higher in Montevideo and among women

Politics

The approval rating of President Vázquez remained stable as of October, with a support of nearly 46% of the population, but lagging behind the 48% support received by former President Mr Mujica. The top concerns within the population's agenda remain barely unchanged: personal security, the economic situation, employment, salaries, inflation and education. In late October the government decreed a national mourning day after former President Batlle passed away.

Economic Activity

Tepid economic activity in Uruguay is keeping the unemployment rate at 8.4% in September, slightly better than July's high of 8.6% (a level not seen since April 2009) but worse than the 8.0% reading a year ago. The broad economy is barely stagnant, and the only bright spot is electricity production that is fueled by weather conditions. Manufacturing and construction are still declining, with consumption growing marginally 0.3% y/y. Hopefully the country will be able to avoid a recession in 2016 but it is very sensitive to the economic rebound in Brazil and Argentina.

Inflation

Monthly inflation in October was 0.2%, and the disinflation process continues with annual inflation falling to 8.5% y/y after peaking at 11.1% last April. Although still above the target range set by the Central Bank (3%-7%), the slowdown can be explained mostly by the nominal appreciation of the Peso coupled with the recessionary environment. Full 2016 inflation figures will approach the 8% area, barely above the upper policy band.

Monetary Sector

In a context of stronger Latam currencies, the UYU has gained nearly 5.5% against the US dollar since the beginning of the year but lost significant ground against the BRL, weakening nearly 8%. The BCU monetary policy remains tight with monetary aggregates to grow only 1-3% in the next quarter and the policy rate at 11%. Assuming a tougher global environment with the Trump administration a mild tightening of in US monetary policy, a smooth devaluation of the UYU is expected.

Fiscal Front

A stable fiscal deficit of 3.3% of GDP was recorded in August, with revenues growing 12% y/y compared to a 11.8% y/y performance for expenditures. Meanwhile, Fitch credit rating agency affirmed Uruguay's sovereign credit rating at BBB- with a stable outlook. According to Fitch, Uruguay's creditworthiness is supported by established external liquidity buffers, and low fiscal financing risks. These factors are balanced by persistently high inflation, high public debt, and a rigid spending profile.

What´s coming next?

Tamed inflation, a stronger real UYU and a pick-up in Brazilian activity should help GDP, but the rebound seems to be taking more time than originally expected. The question mark is whether the improvement in economic activity (when materialized) will be positively factored into a lower unemployment rate. The election of Trump as US President will have implications in monetary and fiscal policies, along with commodities prices and interest rates.

URUGUAY: APPENDIX

Dashboard

	Oct-16	Sep-16	Aug-16	Jul-16	Oct-15	Dec-15
Exchange rate *(UYU/USD, eop.)*	28.35	28.52	28.60	29.90	29.44	29.94
Interest rate *(%)*	12.00%	12.00%	11.00%	10.54%	12.25%	12.27%
Inflation *(y/y)*	8.5%	8.9%	9.4%	10.0%	9.2%	9.4%
Economic activity *(y/y)*	-	-	1.5%	1.0%	-1.6%	-1.4%
Manufacturing activity *(y/y)*	-	5.8%	2.0%	-5.4%	-0.9%	-0.2%

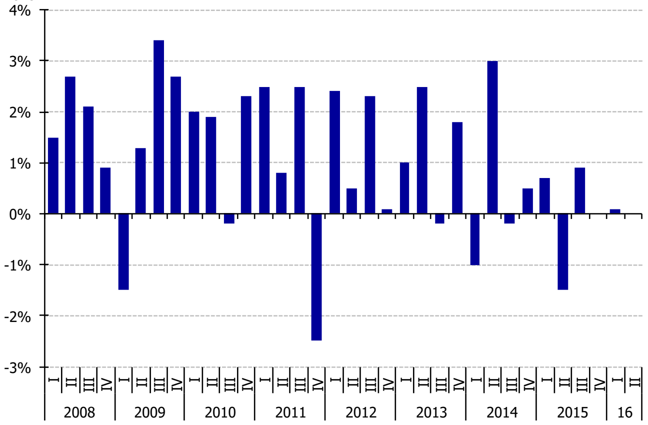
Source: EconViews based on several sources

Macroeconomic Outlook

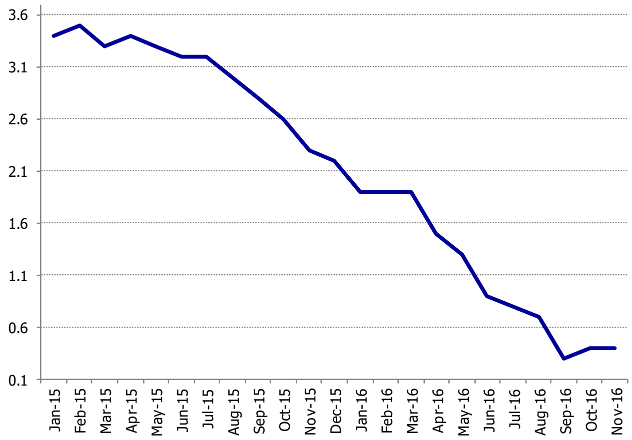
	2012	2013	2014	2015	2016F	2017F
GDP growth *(%)*	3.5%	4.6%	3.2%	1.0%	0.4%	1.2%
Inflation *(Dec-Dec)*	7.5%	8.5%	8.3%	9.4%	9.4%	8.7%
Fiscal Balance *(% GDP)*	-2.7%	-2.3%	-3.5%	-3.5%	-3.7%	-3.3%
Current Account *(% GDP)*	-5.0%	-4.9%	-4.3%	-3.9%	-3.9%	-3.7%
International reserves *(USD Bn)*	13.6	16.3	17.8	15.6	n.a.	n.a.
Exchange rate *(UYU/USD)*	19.28	21.18	24.42	29.94	30.00	32.50

Source: EconViews based on Consensus Forecast & IMF

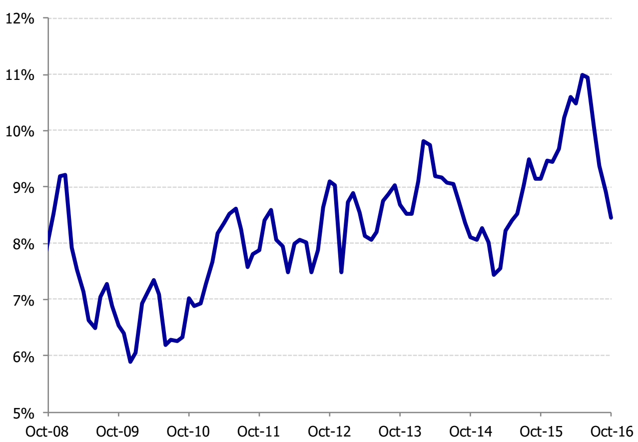
Real GDP
Q/Q variations - Central Bank



GDP growth - rolling forecasts for 2016
In %



Inflation - General CPI
Annual changes



Uruguayan Peso / Dollar