

**New**

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# LATAM 7 + Argentina

## Macro Brief

September, 2016

- ✓ **Argentina:** First signs of economic recovery
- ✓ **Brazil:** Gaining momentum to exit recession
- ✓ **Chile:** Political crisis and a weak economy
- ✓ **Colombia:** Waiting for the peace agreement
- ✓ **Mexico:** On the sidelines of US elections
- ✓ **Peru:** Export-led growth as a counterpart of weak private investment
- ✓ **Uruguay:** Unemployment on the rise...again...
- ✓ **Paraguay:** Amazing GDP performance

## ARGENTINA

Good news	To be alert	Bad news
Core inflation slowed down for the second time in a row, from 1.9% in July to 1.7% in August.	A signal of recovery in the construction sector: cement consumption in the domestic market grew in August for the first time this year.	The fiscal front remains weak: the net primary deficit accumulated ARS 184.1 billion so far this year, which is equivalent to 2.3% of GDP.

### Politics

Yellow card for Macri's administration: in August, the Supreme Court ordered to suspend the increases in gas rates for residential users and reestablish the old rates. A public audience took place during the last days and tariffs are expected to increase again, but more moderately. Moreover, the recent Economic Forum that took place in the country was a big success and is likely to boost the "animal spirits" of investors.

### Economic Activity

GDP fell 2.1% in 2Q compared to the previous quarter and dropped 3.4% regarding the 2Q 2015. In the first semester, GDP accumulated a contraction of 1.7% compared to the same period of 2015. Private consumption remains weak and retail sales fell around 6.5% so far this year. On the contrary, cement consumption grew in August for the first time in the year and renews optimism in the construction sector. We expect GDP to fall around 1.9% this year, but to resume growth in 2017.

### Inflation

Headline inflation was only 0.2% in August according to the new INDEC index for Greater Buenos Aires, due to the ruling from the Supreme Court that suspended natural gas tariffs increases. However, it will record a significant upturn "all at once", as gas tariffs increases are likely to be finally approved in the next weeks. Core inflation was 1.7% and decelerated for the second consecutive month. We expect accumulated inflation to stand around 38% in December.

### Monetary Sector

The exchange rate remained volatile around ARS 15.00 with some trend towards appreciation. The CB reduced its reference rate throughout all the month and ended at 26.75% in September. The monetary base reduced its y/y growth down to 28.3%, after reaching 29.6% during July (the highest record since January 2015). The CB is likely to continue reducing the reference rates as long as inflation continues receding. The exchange rate is expected to depreciate to ARS 16.00 in December, displaying some volatility.

### Fiscal Front

Primary expenditure accelerated strongly in August and grew 38.3% compared to a year ago. The accumulated net primary deficit amounts to ARS184.9 billion, which is equivalent to 2.3% of GDP. We expect primary expenditure to grow around 30% this year, as capital expenditure is likely to recover in the next months driven by more public works. As "genuine revenues" (excluding CB and ANSES transfers) are likely to also grow around 30%, we expect a net primary deficit of 4.0% of GDP in 2016.

### What's coming next?

The national budget for 2017 will be in the centre of the debate in the Congress during the next weeks. The draft assumes an inflation rate in the 12% to 17% range, an average exchange rate close to AR\$ 18, growth at 3.5% and a primary deficit of 4.2% of GDP. On the other hand, a new tax amnesty began in August and we expect revenues from penalties to reach between 0.5% and 1% of GDP this year.

**ARGENTINA: APPENDIX**

**Dashboard**

	Aug-16	Jul-16	Jun-16	May-16	Aug-15	Dec-15
Exchange rate (ARS/USD, eop.)	14.94	15.01	15.10	13.99	9.30	12.94
Interest rate (%)	28.25%	30.25%	30.75%	34.25%	25.82%	33.00%
National inflation (y/y)	41.5%	44.2%	44.2%	42.3%	24.0%	28.4%
Economic activity (y/y)	-	-	-3.0%	-2.1%	3.8%	2.3%
Industrial activity (y/y)	-	-7.9%	-6.4%	-4.5%	3.6%	-
Automotive production (y/y)	-8.5%	-13.3%	-19.8%	-9.6%	3.9%	-22.5%

Source: EconViews based on several sources

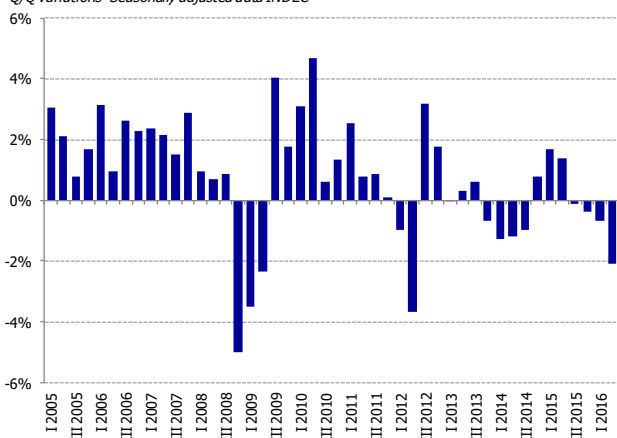
**Macroeconomic Outlook**

	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%	38.1%	22.5%
Fiscal Balance (% GDP)	-2.1%	-1.9%	-2.7%	-4.8%	-4.0%	-4.4%
Current Account (% GDP)	-0.2%	-2.0%	-1.4%	-2.5%	-2.5%	-2.7%
International reserves (USD Bn)	43.3	30.6	31.4	25.6	35.0	41.3
Exchange rate (ARS/USD)	4.92	6.52	8.56	12.94	16.00	19.00

Source: EconViews based on official figures and own estimates

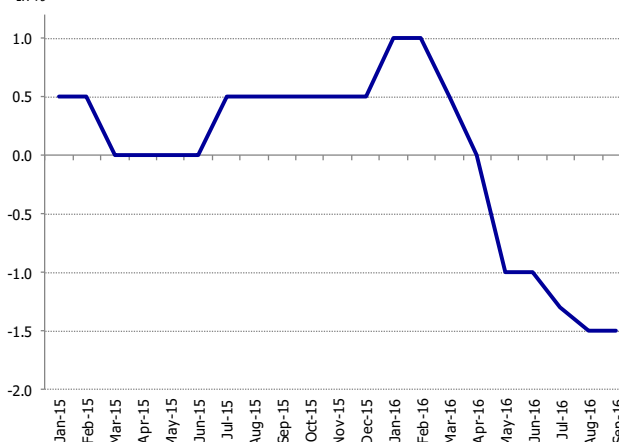
**Real GDP**

Q/Q variations - Seasonally adjusted data INDEC



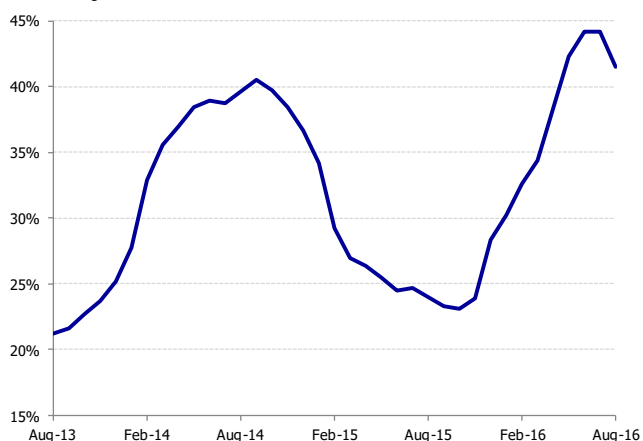
**GDP growth - rolling forecasts for 2016**

In %

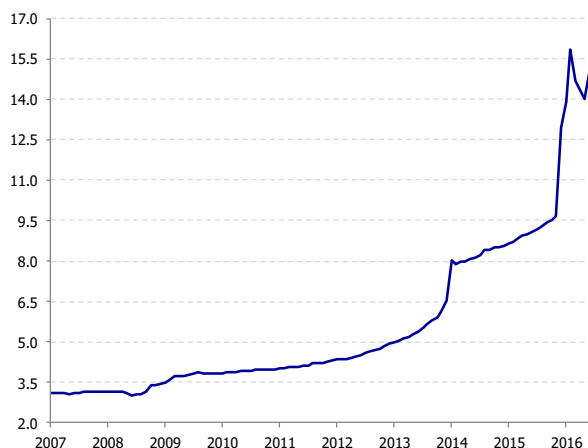


**Inflation - General CPI**

Annual changes



**Argentinian Peso / Dollar**



## BRAZIL

Good news	To be alert	Bad news
GDP is expected to display positive growth and exit recession in the last quarter of the year, boosted by the upturn in investment.	Fiscal accounts continue to deteriorate and the announced social security reform is essential to avoid deep expenditure cuts in other areas.	Unemployment remains high (11.6% in July) and is delaying the recovery of private consumption.

### Politics

Brazil's Senate has voted to remove Dilma Rousseff from office for manipulating the budget. Sixty-one senators voted in favor of her dismissal and 20 against, meeting the two-thirds majority needed to remove her from the presidency. Michel Temer was confirmed as new president until January 2019 and has recently announced the first part of an infrastructure concession program (entitled Investment Partnership Program), which includes airports, railways and energy projects, among others.

### Economic Activity

GDP is expected to shrink further in the third quarter but to display positive growth and exit recession in the last quarter of the year. On the demand side, growth is likely to be driven by investment that has risen (0.4% in II-Q) after ten quarterly drops, while private consumption is likely to take longer to recover, in line with the weakness of the labor market. Unemployment rate remains high and rose to 11.6% in July. In this context, GDP is expected to fell 3.2% this year but to grow 1.1% in 2017.

### Inflation

According to the IPCA, y/y inflation accelerated from 8.74% in July to 8.97% in August, still standing well above the upper target band (6.5%). Thus, y/y inflation is expected to stand around 7.3% in December and to decelerate to 5.3% in 2017, driven by the end of relative price adjustment (regulated prices and exchange rate), less inflationary inertia and lower inflation expectations.

### Monetary Sector

The BRL remained stable in the last weeks and stands at around 3.21 BRL per USD, appreciating 19% so far this year. A cycle of monetary-policy easing is expected to start in the next weeks and the SELIC benchmark rate is likely to end the year at around 13.50% and to reach levels around 10% next year. However, fiscal rebalancing is necessary to ensure economic predictability, stability in financial markets and room for monetary easing.

### Fiscal Front

Fiscal accounts continued to deteriorate in July, as the 12-month cumulative primary deficit reached 2.5% of GDP and the fiscal deficit was 9.6% of GDP. Thus, gross debt reached 69.5% of GDP, well above the ratio at the end of 2015 (66%). For this year, the target for the consolidated primary result stands at -2.6% of GDP. Moreover, the government has announced its proposal to limit public spending growth, together with its intention to implement deep social security reforms.

### What's coming next?

The 2017 budget submitted to congress does not contemplate tax increases. The government assumes it would get financing from extraordinary revenues linked to asset sales and concessions, and from cuts in discretionary spending. As social security expenditure represents 45% of the federal government's total spending and is expected to continue to increase in real terms in the next years, a social security reform is essential to mitigate the need to make significant cuts in other areas.

**BRAZIL: APPENDIX**

**Dashboard**

	Aug-16	Jul-16	Jun-16	May-16	Aug-15	Dec-15
Exchange rate ( <i>BRL/USD, eop.</i> )	3.23	3.25	3.21	3.61	3.62	3.96
SELIC (%)	14.25%	14.25%	14.25%	14.25%	14.25%	14.25%
Inflation (y/y)	9.0%	8.7%	8.8%	9.3%	9.5%	10.7%
Economic activity (y/y)	-	-4.6%	-4.6%	-5.8%	-5.0%	-6.2%
Industrial activity (y/y)	-	-6.6%	-5.7%	-7.5%	-8.2%	-12.0%
Automotive production (y/y)	-18.4%	-15.3%	-3.6%	-18.0%	-17.7%	-30.0%

Source: EconViews based on several sources

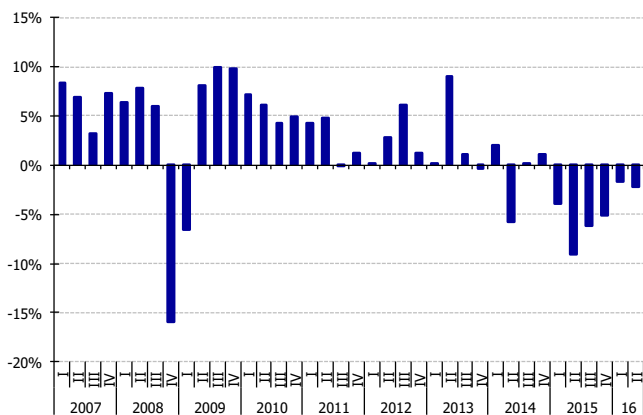
**Macroeconomic Outlook**

	2012	2013	2014	2015	2016F	2017F
GDP growth (%)	1.8%	2.7%	0.1%	-3.8%	-3.2%	1.1%
Inflation ( <i>Dec-Dec</i> )	5.8%	5.9%	6.4%	10.7%	7.3%	5.3%
Fiscal Balance (% GDP)	-2.3%	-3.0%	-6.1%	-10.3%	-9.2%	-8.6%
Current Account (% GDP)	-3.0%	-3.0%	-4.3%	-3.3%	-2.0%	-1.5%
International reserves ( <i>USD Bn</i> )	362.1	349.0	354.8	348.9	361.8	365.6
Exchange rate ( <i>BRL/USD</i> )	2.05	2.36	2.66	3.96	3.35	3.55

Source: EconViews based on Consensus Forecast & IMF

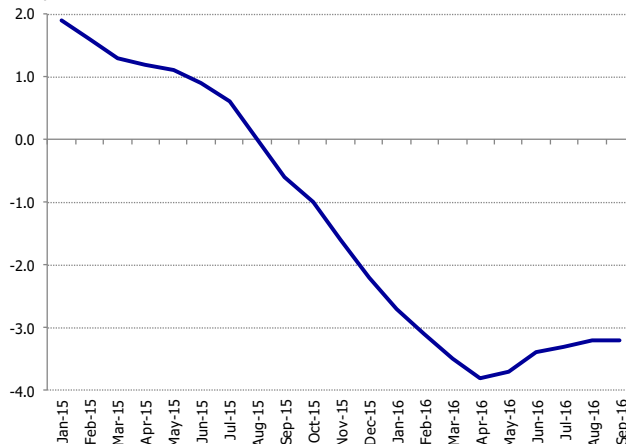
**Real GDP - Brazil**

*quarterly variations annualized, in %*



**GDP growth - rolling forecasts for 2016**

*In %*



**Inflation (IPCA)**

*Annual changes*



**Brazilian Real / Dollar**



## CHILE

Good news	To be alert	Bad news
Inflation decelerated in August and returned close to the CB target.	Citizenship frustration with the political class is increasing. Bachelet's image is printing a record low.	Economic activity contracted 0.4% q/q in Q2 for the first time since 1Q-2010.

### Politics

There is no clear candidate for the presidential elections in 2017. Bachelet's popularity has fallen to a minimum since the return to democracy (15%). Guillier could be the best option for the ruling party: he has the best image among all politicians (56%) according to a recent poll. In the opposition, Piñera is a competitive candidate with an approval of 42%, while Lagos' image suffered from 34% to 27%. Also, there is social discontent with the private pension system.

### Economic Activity

Economy contracted 0.4% q/q in Q2 for the first time since 1Q-2010. The mining sector had a worse performance than the previous quarter while the rest did not registered major changes. In July, activity grew only 0.5% y/y, the lowest record since Aug-14 but the good news is that production in the mining sector contracted 0.4%, less than the months before. Consumer and business expectations remain deteriorated. GDP is expected to grow 1.6% this year, after growing 2.3% in 2015.

### Inflation

Inflation decelerated in August and was 3.4% y/y, the lowest record of the series and within the CB limits, but still above the 3.0% target, driven by lower inflation in goods and a stable exchange rate. With regards to services, inflation is 4.5%, resulting in a core inflation level of 3.9%. The convergence to the target will be achieved earlier if the FX remains stable and the actual GDP is below its potential.

### Monetary Sector

The exchange rate depreciated in August and ended at 681.1 CLP/USD. FX volatility is still high and a reduction in competitiveness can be seen due to a real FX appreciation, which affects copper exports. In August, the Central Bank left the policy rate unchanged at 3.5%. If inflation keeps on receding, the probabilities of future rate cuts are on the upside as the tightening bias was eliminated in the CB's last communication.

### Fiscal Front

In July, income was improving in real terms (4.9%) due to the payment of an exceptional tax for repatriated foreign assets but expenditure also grew (4.1%). The effective deficit is likely to stand around 3.1% of GDP and public debt will increase this year as a result. Also, it is being discussed if the pension system should be private or public and this decision could affect the budget balance.

### What's coming next?

The Central Bank will probably reduce its policy rate in the upcoming months if inflation continues to decelerate and remains near the target of 3.0%. Renewed volatility in the exchange rate should be expected, driven by external factors (such as an increase in the FED rate). There is a political crisis not resolved yet: as a result there is no clear leader for the 2017 election. Social unrest is a variable to monitor.

**CHILE: APPENDIX**

**Dashboard**

	Aug-16	Jul-16	Jun-16	May-16	Aug-15	Dec-15
Exchange rate (CLP/USD, eop.)	681.10	656.04	662.50	692.98	693.17	709.35
Interest rate (%)	3.5	3.5	3.5	3.5	3.0	3.5
Inflation (y/y)	3.4%	4.0%	4.2%	4.2%	5.0%	4.4%
Economic activity (y/y)	-	0.5%	1.0%	2.2%	1.6%	2.1%
Industrial activity (y/y)	-	-1.8%	-3.6%	-2.0%	-5.0%	-3.3%
Mining production (y/y)	-	-0.4%	-5.7%	-5.7%	-8.2%	-3.9%

Source: EconViews based on several sources

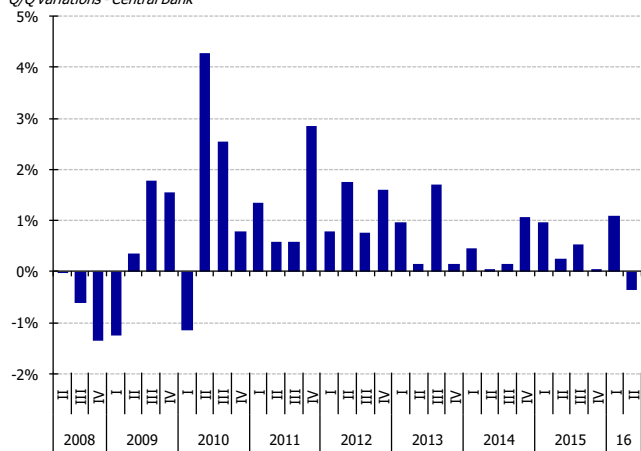
**Macroeconomic Outlook**

	2012	2013	2014	2015	2016F	2017F
GDP growth (%)	5.5%	4.0%	1.9%	2.3%	1.6%	2.2%
Inflation (Dec-Dec)	1.5%	3.0%	4.6%	4.4%	3.4%	3.0%
Fiscal Balance (% GDP)	0.6%	-0.7%	-1.6%	-2.2%	-3.1%	-2.8%
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	39.1	39.4
Exchange rate (CLP/USD)	479.2	525.6	607.4	709.4	675.4	670.0

Source: EconViews based on Consensus Forecast & IMF

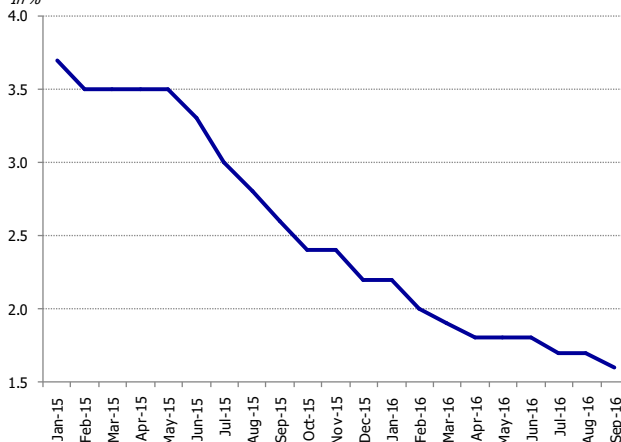
**Real GDP**

Q/Q variations - Central Bank



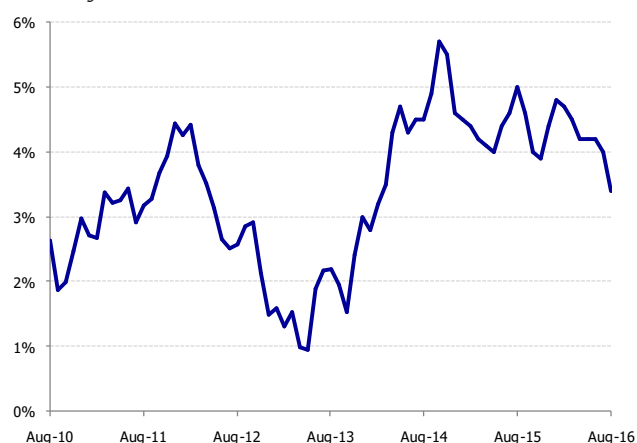
**GDP growth - rolling forecasts for 2016**

In %



**Inflation - General CPI**

Annual changes



**Chilean Peso / Dollar**



## COLOMBIA

Good news	To be alert	Bad news
The peace agreement is closed to be signed and submitted to referendum. The end of the armed conflict is expected to push up economic growth.	Despite its recent slowdown (from 9.0% to 8.1%), inflation remains at high levels.	Real GDP growth is decelerating: in 2Q-16 economic activity registered its minor increase (1.9%) in the last six years.

### Politics

Finally, the peace agreement between the Colombian government and the FARC (Revolutionary Armed Forces of Colombia) has a signature day. By early October, both sides will be present in Cartagena to put an end to a large conflict, together with many Latin America's presidents and other institutions such as the UN. The peace agreement is expected to boost economic activity.

### Economic Activity

Real GDP growth decelerated to 1.9% in the 2Q-16 (with an important drop in investment), from the 2.5% registered in the 1Q-16, and showing its smaller y/y variation since 2009. The primary sector continued with its bad performance, in part explained by the effects of the climate phenomenon "El Niño". Retail sales decreased 3.3% in July, displaying the biggest fall in the last two years. In this context, GDP is expected to grow 2.2% this year, after growing 3.1% in 2015.

### Inflation

In August, headline y/y inflation slowed down from 9.0% to 8.1%, helped by the deceleration of food prices (from 15.7% in July to 13.1% in August). Excluding food, headline y/y inflation showed a slight slowdown, from 6.3% to 6.1%. However, it remains well above the inflation target (3%).  
In this context, inflation is expected to stand at 6.5% at the end of 2016.

### Monetary Sector

The Colombian Peso appreciated around 8% so far this year and is expected to end 2016 at 2,998 COP/USD, broadly stable from the current levels. In August, Colombia's Central Bank increased the policy rate in 25 bps to 7.75%, in response to the acceleration of inflation. However, the board decided to maintain unchanged the rate in September, due to the deterioration of the economic activity. Next year, the reference rate is expected to be reduced to 6.6%.

### Fiscal Front

Colombian Congress' approved the budget for 2017, which targets a fiscal deficit reduction from 3.9% in 2016 to 3.3% in 2017. Nearly one quarter of the budget will be spent in debt payments, while investment represents around 15%. This total amount would also cover expenditures associated to the peace agreement.

### What's coming next?

The final step in the resolution of the armed conflict in Colombia is coming: next October 2<sup>nd</sup>, Colombia's population will vote a peace referendum, in order to accept or reject the peace agreement. According to last surveys, 55.4% of Colombians would support the agreement. After this, the government will send to Congress a fiscal reform.



## COLOMBIA: APPENDIX

### Dashboard

	Aug-16	Jul-16	Jun-16	May-16	Aug-15	Dec-15
Exchange rate (COP/USD, eop.)	2,973.50	3,073.21	2,921.15	3,090.45	3,055.00	3,179.50
Interest rate (%)	7.75	7.43	7.50	7.25	4.52	5.79
Inflation (y/y)	8.1%	9.0%	8.6%	8.2%	4.7%	6.8%
Economic activity (y/y)	-	-	1.2%	1.1%	3.0%	3.6%
Industrial activity (y/y)	-	-	6.6%	4.4%	3.2%	3.8%
Agriculture & cattle raising activity (y/y)	-	-	-0.6%	-1.3%	2.9%	5.6%

Source: EconViews based on several sources

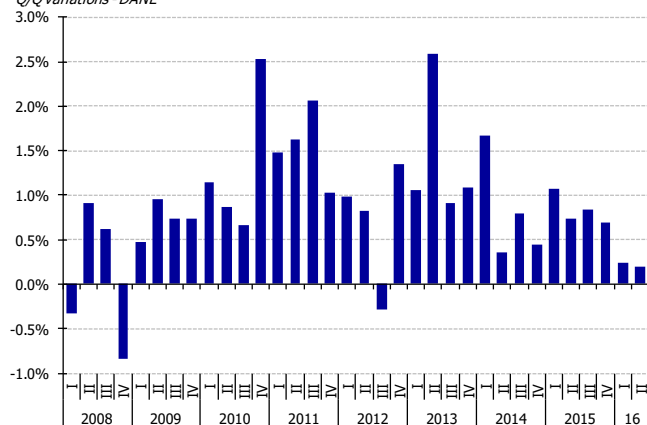
### Macroeconomic Outlook

	2012	2013	2014	2015	2016F	2017F
GDP growth (%)	4.0%	4.9%	4.4%	3.1%	2.2%	2.8%
Inflation (Dec-Dec)	2.4%	1.9%	3.7%	6.8%	6.5%	4.1%
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	45.5	45.7
Exchange rate (COP/USD)	1,768.0	1,931.0	2,389.0	3,179.5	2,998	2,960

Source: EconViews based on Consensus Forecast & IMF

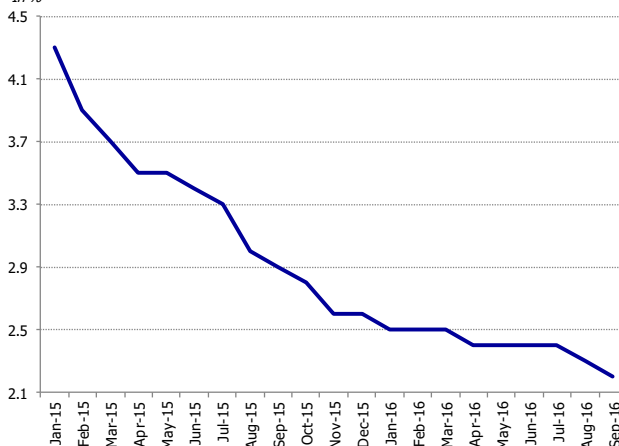
#### Real GDP

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
Automotive production grew for the second consecutive month in July, after recording five consecutive y/y falls.	The Mexican peso's plunge so far this year is a reflection of investors' fears that the relationship between Mexico and the U.S. could be ruptured if Trump wins Presidential elections.	The Mexican economy contracted 0.2% q/q in the second quarter, for the first time in three years.

Politics	<p>José Antonio Meade (the former Finance Minister during the Calderón administration between 2006 and 2012) is the new Finance Minister, taking the place of Luis Videgaray. His main commitment is to successfully implement the announced fiscal consolidation program. Additionally, Peña Nieto's approval rating is the lowest ever of any Mexican president since polling began in 1995.</p>
Economic Activity	<p>The Mexican economy contracted in the second quarter (-0.2%) for the first time in three years, mainly affected by the relative low price of oil, its chief commodity. However, automotive production is recovering quickly and grew for the second consecutive month in July (11.5% y/y), after recording five consecutive falls. Mexico's GDP growth is expected to slow from 2.5% in 2015 to 1.8% in 2016, but to accelerate again in 2017 (3.1%).</p>
Inflation	<p>Headline inflation increased from 2.5% y/y in June to 2.7% in July and August, but remained below the Central Bank's target (3%) for the 16th consecutive month. The poor performance of the Mexican peso and the recent hike in oil prices are putting upward pressure on consumer prices. Core inflation remained at 3% during August, and continues around the center of the target. Annual headline inflation is expected to stand around 3.2% in 2016 and to slightly accelerate to 3.4% in 2017.</p>
Monetary Sector	<p>After the publication of some U.S. election polls that show Trump is likely to defeat Hillary Clinton, the Mexican Peso declined to an all-time low (19.6) and is one of the worst-performing currencies in the region so far this year (it depreciated 12%). The stance of Mexico's monetary policy is likely to remain unchanged and interest rates are expected to rise around 25 bps in December, in line with the Federal Reserve's plans to raise interest rates.</p>
Fiscal Front	<p>The government is disappointing in reaching fiscal consolidation, in a context in which revenues are affected by low oil prices and weak oil production. The primary balance is expected to be around 1% of GDP in 2016 and to display the first surplus since 2008 in 2017 (0.2%). Furthermore, Standard and Poor's has recently revised the outlook for Mexico's sovereign credit rating (BBB+) from stable to negative, due to the rising debt to GDP ratio and the weakness of economic activity.</p>
What's coming next?	<p>The government is expected to increase its fiscal consolidation efforts in order to preserve fiscal sustainability and avoid further drops in the sovereign rating. Moreover, the country is watching with warily eyes the U.S. Presidential election as Trump threatened to put a 35% tariff on some goods made in Mexico and he said he would entirely renegotiate the NAFTA,</p>

**MEXICO: APPENDIX**

**Dashboard**

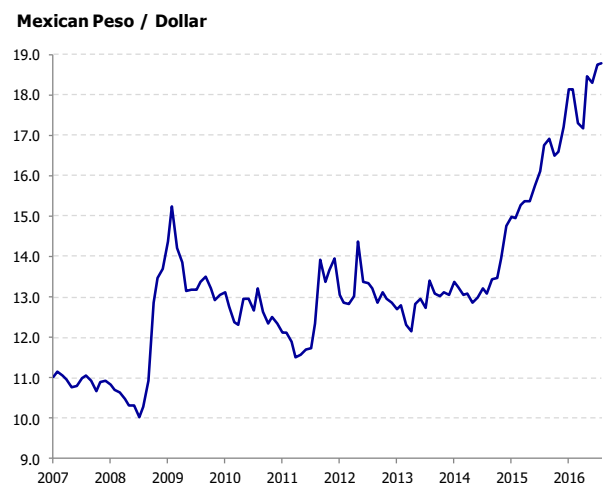
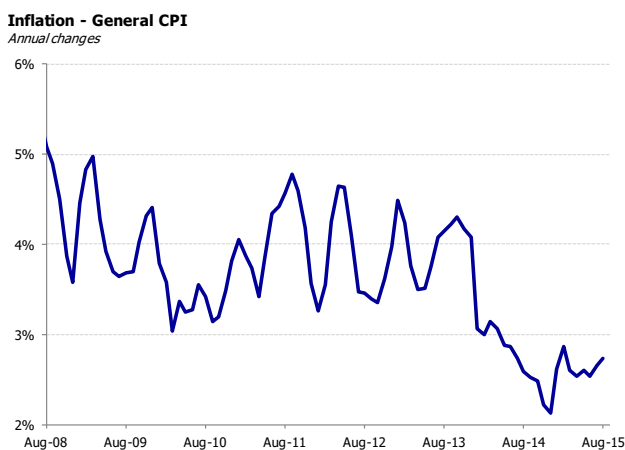
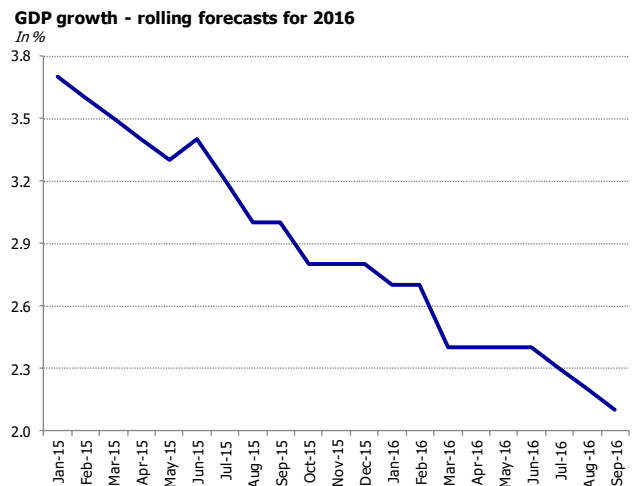
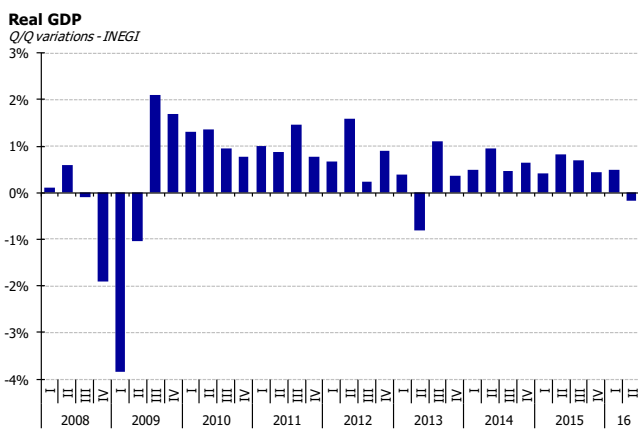
	Aug-16	Jul-16	Jun-16	May-16	Aug-15	Dec-15
Exchange rate (MXN/USD, eop.)	18.79	18.76	18.29	18.47	16.75	17.19
Interest rate (%)	4.25%	4.25%	4.25%	3.75%	3.00%	3.25%
Inflation (y/y)	2.7%	2.7%	2.5%	2.6%	2.6%	2.1%
Economic activity (y/y)	-	-	2.2%	2.1%	2.7%	2.4%
Industrial activity (y/y)	-	-1.0%	0.5%	0.5%	1.2%	-0.1%
Automotive production (y/y)	-	11.5%	2.7%	-4.0%	6.8%	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%	2.1%	2.4%
Inflation (Dec-Dec)	3.6%	4.0%	4.1%	2.1%	3.2%	3.4%
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	171.7	177.3
Exchange rate (MXN/USD)	12.87	13.04	14.75	17.19	18.54	18.30

Source: EconViews based on Consensus Forecast & IMF



## PARAGUAY

Good news	To be alert	Bad news
Favorable weather conditions and strong fundamentals are fueling a rebound of GDP. Economic activity in 2016 will beat previous estimates.	The progress of the initiative to amend the constitution in preparation of the 2018 Presidential election is a key development to monitor	Collection of non-tax revenues has been hit by a drop in energy royalties. Fiscal consolidation to reach the 1.5% government's deficit target delayed into 2017/2018

### Politics

There are no material news regarding the initiative to amend the Constitution before the 2018 Presidential elections. According to the Supreme Tribunal of Justice, the proposal should be sent before August 2017 in order to call the National Assembly prior to the elections. Personal security is still a pending issue in the country and some lawmakers are sponsoring the removal of Minister De Vargas (Interior) alleging a breach of duties related to the lack of progress in this aspect.

### Economic Activity

Favorable weather conditions and strong fundamentals are fueling a rebound of GDP to grow 6.2% y/y in Q2 (2.5% seasonally adjusted). The uptick is reaching broad sectors like agriculture (nice soybean crop), livestock (new export markets), construction and water and electricity (optimal hydraulic conditions resulted in record-high electricity production). On a demand component approach, investment (11.6% y/y) and the external sector (63% y/y) are the driving forces of a GDP performance that will exceed previous estimates.

### Inflation

As of August, consumer prices grew 3.2% y/y with core inflation running at 3.5%, slightly below the center of the target range set by the central bank (4.5%). Given the stability of the Guaraní and the short term evolution of macroeconomic variables we expect inflation to tap 4% in December, and to finally drafts towards the center of the inflation target of 4.5% in the long run.

### Monetary Sector

The Guaraní keeps a mild strengthening path over the last months, gaining 4.2% against the USD in the first half of the year, but losing 17% compared to the Brazilian real. The central bank left the policy rate unchanged at 5.5% in August after a 25 cut in July. In its minutes the BCP noted that inflation remains in line with the medium term target. Thus, the interest rate policy should remain unchanged at the current 5.5% level until year-end.

### Fiscal Front

The fiscal deficit for the first seven months of the year was nearly twice as big as the negative result recorded in the same period of 2015. Tax collections were up 5.2% for the same period, compared with an increase in spending of 4.8%. The gap is explained by a fall of 0.9% in non-tax revenues (energy royalties). Fiscal deficit is expected to reach 2% of GDP this year, deteriorating slightly from the deficit of 2015 (1.8%). Consolidation to the long term government target of -1.5% should wait until 2017 or even 2018.

### What's coming next?

The top 5 issues to watch in Paraguay:  
 The evolution of the economic rebound in Brazil  
 The prospects of the initiative to amend the Constitution,  
 The efforts undertaken by the government to improve personal security  
 The US interest rates business cycle  
 The implications on US monetary policy into commodities prices.

**PARAGUAY: APPENDIX**

**Dashboard**

	Aug-16	Jul-16	Jun-16	May-16	Aug-15	Dec-15
Exchange rate (PYG/USD, eop.)	5,519.5	5,549.0	5,650.0	5,699.0	5,388.5	5,813.9
Interest rate (%)	5.00%	5.50%	5.75%	5.75%	5.75%	5.75%
Inflation (y/y)	3.2%	2.9%	4.7%	3.5%	3.9%	3.1%
Economic activity (y/y)	-	5.2%	6.8%	6.0%	1.4%	0.6%

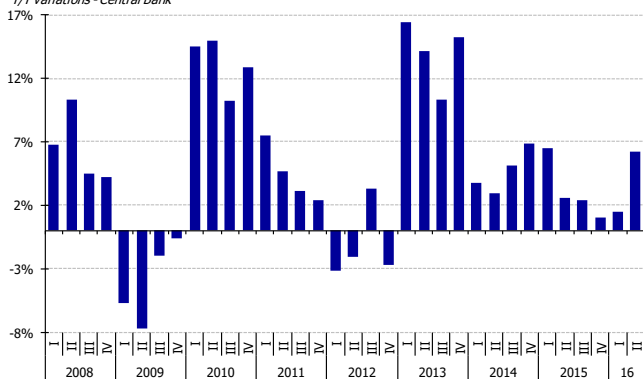
Source: EconViews based on several sources

**Macroeconomic Outlook**

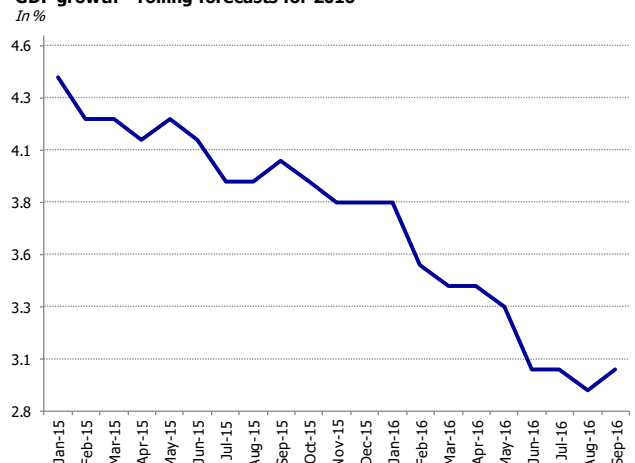
	2012	2013	2014	2015	2016F	2017F
GDP growth (%)	-1.2%	14.0%	4.7%	3.0%	3.0%	3.1%
Inflation (Dec-Dec)	4.0%	3.7%	4.2%	3.1%	4.0%	4.5%
Fiscal Balance (% GDP)	-1.6%	-1.4%	-0.7%	-2.5%	-2.6%	-2.7%
Current Account (% GDP)	-2.0%	1.7%	-0.4%	-1.8%	-1.2%	-1.1%
International reserves (USD Bn)	5.0	5.9	6.9	6.2	n.a.	n.a.
Exchange rate (PYG/USD)	4,260.0	4,610.9	4,642.2	5,813.9	5,750.0	5,900.0

Source: EconViews based on Consensus Forecast & IMF

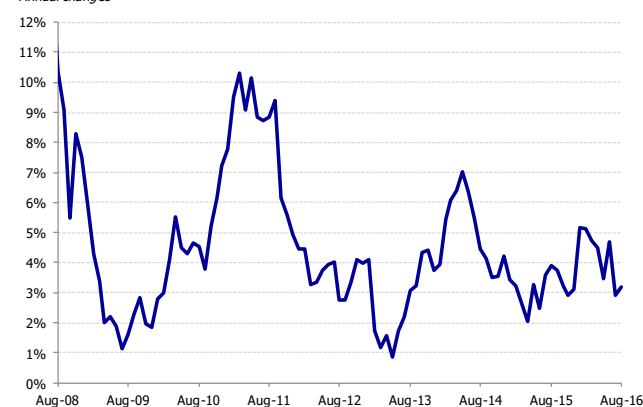
**Real GDP**  
YY variations - Central Bank



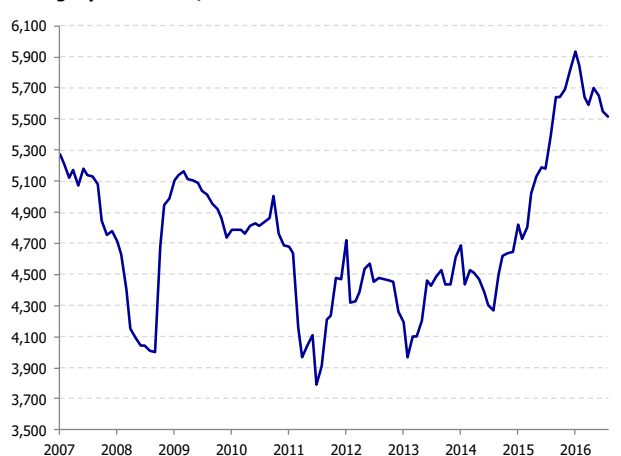
**GDP growth - rolling forecasts for 2016**



**Inflation - General CPI**  
Annual changes



**Paraguayan Guarani / Dollar**



## PERU

Good news	To be alert	Bad news
The mining exports are showing a good performance and grew 7.8% y/y in Q2.	Fiscal deficit deteriorated slightly to 3.3% and the target for 2016 was revised up to 2.4% from 2.0%.	Private investment is still deteriorating: 4.0% y/y.

### Politics

The Executive Power presented a draft bill to gain some legislative attributions. The law project consists of an economic reform that includes the reduction of the VAT and a reformation in the National System of Public Investment (SNIP), among other measures. Fujimorism, that has an absolute majority in Congress, opposes to this project.

### Economic Activity

Economic activity increased 3.7% y/y in Q2, above the 3.2% of Q2-15 but below the previous 4.5%. It was boosted by the good performance of the mining sector as in Q1. Meanwhile, non-primary sectors remained stagnant and government consumption returned to cruise speed (3.6%) after the elections took place in Q1 (15.3%). Exports did very well (7.8%) driven by mining production while private investment fell again: 4.0%. GDP is expected to grow 3.7% in 2016.

### Inflation

Headline inflation showed its seventh consecutive slowdown in August: it reached 3.0%, and entered in the range of the Central Bank policy (1-3%). There has been a reduction in the price of food due to the reversion of El Niño effect and a more stable currency.

The forecast for inflation is to finish 2016 in 3.0%, the upper limit of CB.

### Monetary Sector

The PEN depreciated 0.8% in August due to the maturity of instruments in dollars but market expectations point to a stabilization of the PEN going forward. The currency appreciated 0.8% so far the year. The CB decided to maintain its policy rate at 4.25% due to lower inflation, well-anchored expectations and appreciation pressure on the FX. It is probable to maintain the tightening bias as inflation is expected in the following months to be at the upper limit.

### Fiscal Front

Fiscal accounts are slightly deteriorating from 2.9% of GDP in Q1-16 to 3.1% in Q2-16 and 3.3% in July. The consolidated public sector deficit is expected to widen to 2.8% of GDP, up from 2.1% of GDP in 2015. A possible VAT reduction from 18% to 17% and an increase in Income Tax are being analyzed. Also, Congress approved the broadening of the fiscal target from 2.0% to 2.4% in 2016, from 1.5% to 2.2% in 2017 and to gradually converge to 1.0% only in 2021.

### What's coming next?

Inflation is on a declining path. However, further interest rate reductions are unlikely as it is still close to the upper limit of the band. If Kuczynski cannot get the support from the Congress in backing his economic reform, he will implement minor changes but will suffer a hit in his political image. As long as commodities prices do not show extreme volatility, terms of trade will continue favoring exports.

**PERU: APPENDIX**

**Dashboard**

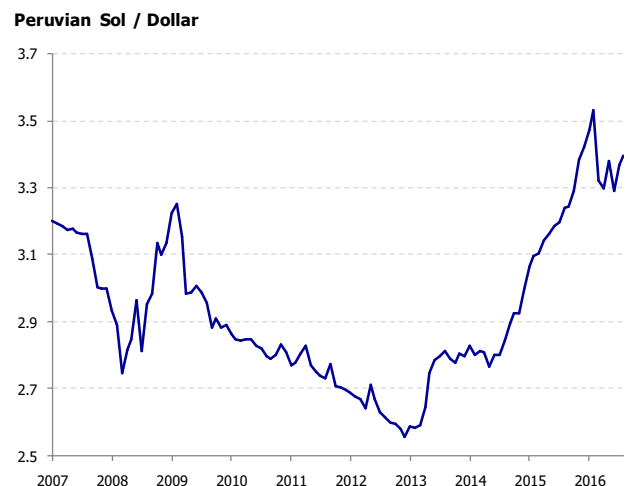
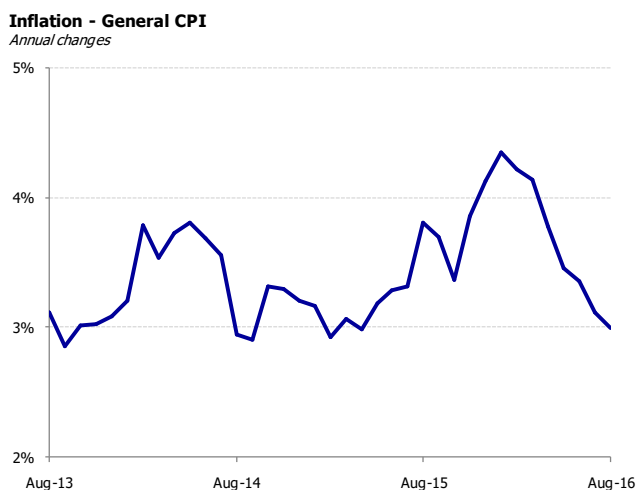
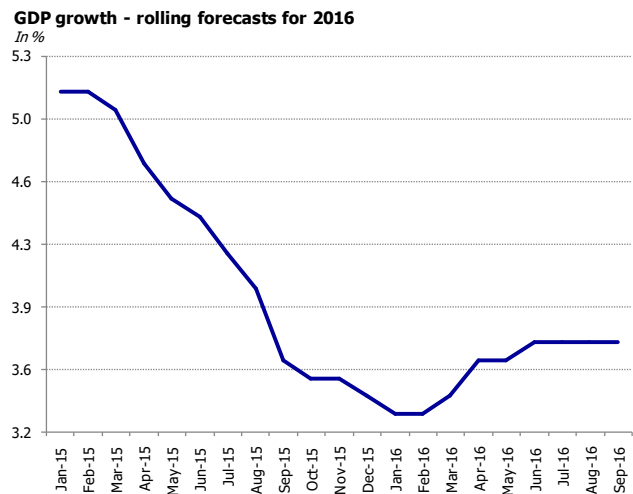
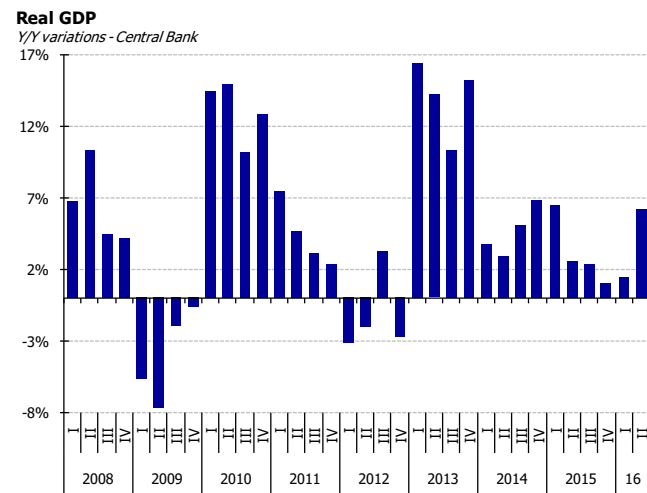
	Aug-16	Jul-16	Jun-16	May-16	Aug-15	Dec-15
Exchange rate (PEN/USD, eop.)	3.39	3.37	3.29	3.38	3.24	3.42
Interest rate (%)	4.25	4.25	4.25	4.25	3.25	3.75
Inflation (y/y)	3.0%	3.1%	3.4%	3.5%	3.8%	4.1%
Economic activity (y/y)	-	5.6%	3.6%	4.8%	2.8%	6.5%
Manufacturing activity (y/y)	-	-	-0.9%	-8.9%	-2.1%	5.1%
Mining production (y/y)	-	-	22.3%	36.7%	13.6%	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%	3.7%	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%	-2.8%	-2.8%
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	60.4	61.7
Exchange rate (PEN/USD)	2.56	2.80	3.00	3.42	3.39	3.50

Source: EconViews based on Consensus Forecast & IMF



## URUGUAY

Good news	To be alert	Bad news
Consistent slowdown in inflation was recorded over the last months, trimming yoy variance to 9.4% as of August, compared with a peak of 11.1% in April	Like other countries in the region, Uruguay is heavily dependent of the US monetary policy cycle and commodities prices	July unemployment reading touched 8.6%, the highest measurement since April 2009. Unemployment is higher in Montevideo and among women

### Politics

The approval rating of President Vázquez remained stable as of August, with a support of nearly 45% of the population, while the reject rating stands at 43%. The top concerns for the population are personal security, the economic situation, employment, salaries, inflation and education. Breaking the figures down by socio-economic segment, the top layers shows higher reject rates while the base of the pyramid is impelling higher support for the government action.

### Economic Activity

Soft economic activity in Uruguay is pushing the unemployment rate to 8.6% in July, a level not seen since April 2009. Weak production figures in automobiles and other manufacturing activities is the result of dampened demand from neighboring countries, especially Brazil. Record-high (wind) energy production is mitigating the drop in manufacturing and has driven GDP to grow 1.4% y/y in Q2. Consumer confidence is showing a mild bounce in July due to the better consumption prospects fueled by a stronger UYU and slower inflation.

### Inflation

Monthly inflation in August was 0.6%, and the disinflation process continues with annual inflation falling to 9.4% y/y after peaking at 11.1% as recently as April. Although still above the target range set by the Central Bank (3%-7%), the slowdown can be explained by lower food prices but especially by the nominal appreciation of the Peso. Full 2016 inflation figures will approach the 9.70% area, above the upper policy band.

### Monetary Sector

In a context of stronger Latam currencies, the UYU has gained nearly 2% against the US dollar since the beginning of the year but lost significant ground against the BRL, weakening 18%. The BCU monetary policy currently in place is 11% to trim inflation back to its policy band. Assuming a mild tightening of in US monetary policy in late 2016 and early 2017, a smooth devaluation of the UYU is expected for the months ahead.

### Fiscal Front

A stable fiscal deficit of 3.4% of GDP was recorded in July, with revenues growing 12% y/y compared to a 10.2% y/y performance for expenditures. Spending cuts, especially in investment outlays (-5.3 y/y) are the forces behind the fiscal deficit consolidation as they more than mitigate higher salaries and social transfer payments. Going forward, the fiscal efforts will result in a slight improvement in fiscal deficit figures with a balance of -3.7% for 2016.

### What's coming next?

Tamed inflation, a stronger real UYU and a pick-up in Brazilian activity should help GDP in both the consumption and the investment spaces. With fiscal deficit also improving, the question mark is whether this improvement in economic activity will be positively factored into a lower unemployment rate, which tends to be higher in the Montevideo area, and especially among women. The US monetary policy cycle and its impact on commodities prices should be closely monitored.



## URUGUAY: APPENDIX

### Dashboard

	Aug-16	Jul-16	Jun-16	May-16	Aug-15	Dec-15
Exchange rate ( <i>UYU/USD, eop.</i> )	28.60	29.90	30.51	31.06	28.52	29.94
Interest rate (%)	11.00%	10.54%	11.19%	11.38%	13.50%	12.27%
Inflation ( <i>y/y</i> )	9.4%	10.0%	10.9%	11.0%	9.5%	9.4%
Economic activity ( <i>y/y</i> )	-	-	-5.0%	-4.6%	-2.2%	-2.5%
Manufacturing activity ( <i>y/y</i> )	-	-5.4%	-3.4%	-0.1%	-1.2%	-0.2%

Source: EconViews based on several sources

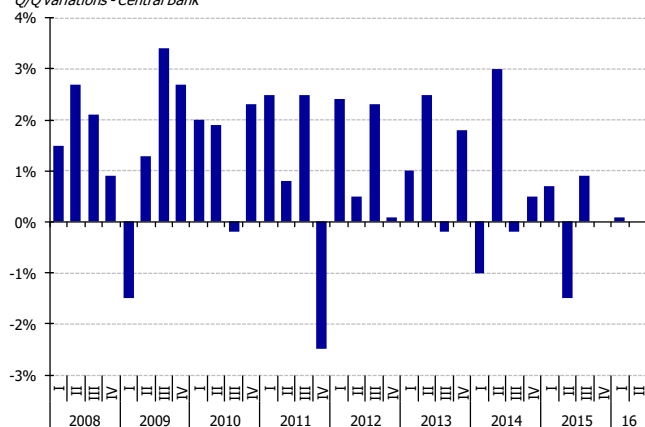
### Macroeconomic Outlook

	2012	2013	2014	2015	2016F	2017F
GDP growth (%)	3.5%	4.6%	3.2%	1.0%	0.3%	1.2%
Inflation ( <i>Dec-Dec</i> )	7.5%	8.5%	8.3%	9.4%	9.7%	8.6%
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 ( <i>USD Bn</i> )	13.6	16.3	17.8	15.6	n.a.	n.a.
Exchange rate ( <i>UYU/USD</i> )	19.28	21.18	24.42	29.94	31.26	32.00

Source: EconViews based on Consensus Forecast & IMF

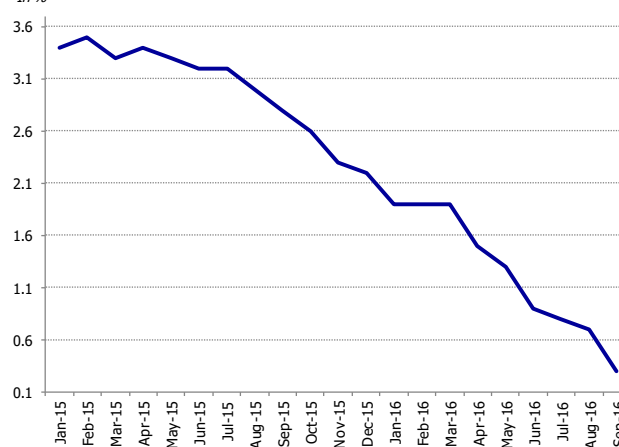
#### Real GDP

Q/Q variations - Central Bank



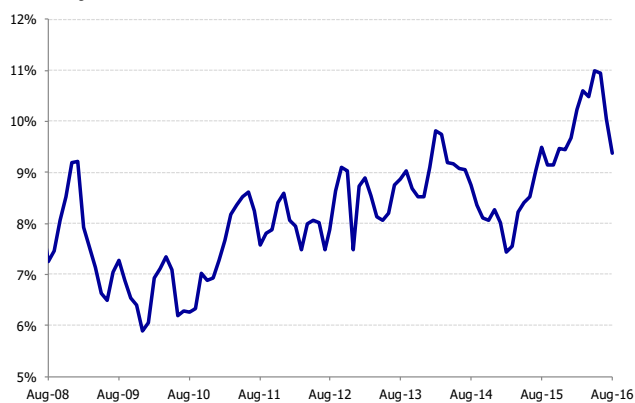
#### GDP growth - rolling forecasts for 2016

In %



#### Inflation - General CPI

Annual changes



#### Uruguayan Peso / Dollar

