Latam Economic Outlook

4th QUARTER 2016 | SOUTH AMERICA UNIT

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Volatility in financial markets in the wake of the US election and the Federal Reserve's rate hike.

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Closing date: 15 December 2016

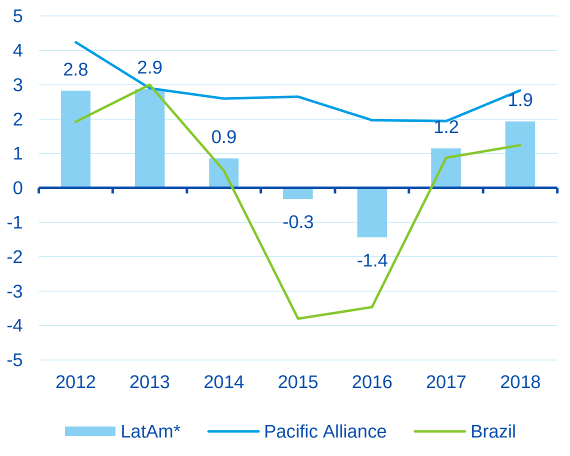
1. Summary

External conditions slightly favoured Latin America, but started to go into reverse from November on. Volatility in international financial markets, which had remained low up until November, started to rise from the time of the US presidential election, and this had a negative effect on asset prices in the region as well as exchange rates and capital inflows, partly undoing the gains since the beginning of the year.

Activity data observed in these past four months were not as positive as we had expected, but those that most anticipate future activity are starting to show signs of an inflection point. Confidence started to pick up in some countries, notably Peru and Brazil, in tune with easing political uncertainty (albeit with some recent flare-ups), and also with lower inflation. In this context, we are holding to our view that the region will leave the 2016 slowdown behind and that 2017 will be a year of recovery (Figure 1.1), albeit still at a very gradual pace relative to the region's growth potential (3%). In particular, Latin America's GDP will contract in 2016 by 1.3% before growing by 1.3% in 2017, with many differences from one country to another. These forecasts represent downward corrections of 0.4 pp in 2016 and 0.5 pp in 2017 relative to the August figures. The adjustment has been made in view of certain worse-than-expected data in the first half of the year, and also of the fact that public spending in 2017 will necessarily be more restrictive in many countries, in order to maintain the credibility of fiscal policy frameworks. Also, uncertainty about US economic policies is already having a significant negative effect on investment and activity in countries with close links such as Mexico.

Figure 1.1

Latin America: GDP growth (%)



Source: BBVA Research

Inflation will continue to decline in South America, while gradually increasing in Mexico. In accordance with this dynamic, South American central banks have adopted a more accommodative stance to monetary policy, and in the next few months interest rate cuts will continue in the majority of countries, with the exception of Peru. In contrast, the depreciation of Mexico's currency forced it to tighten monetary policy, and this tightening will continue in 2017 at a faster rate than that expected of the US Federal Reserve.

The risks around this forecast continue to be tilted to the downside. On the external front, the short-term risks are centred on the uncertainty about the economic policies of the incoming US administration and the markets' reaction to the Federal Reserve's monetary normalisation process. In the medium term, the risks are centred on China and its ability to undertake the reforms needed to contain private sector indebtedness and the over-capacity of state-owned enterprises. On the home front, the region continues to face the risk of renewed flare-ups of political unrest, flagging confidence and delays in infrastructure projects.

2. Latin America: inflection point

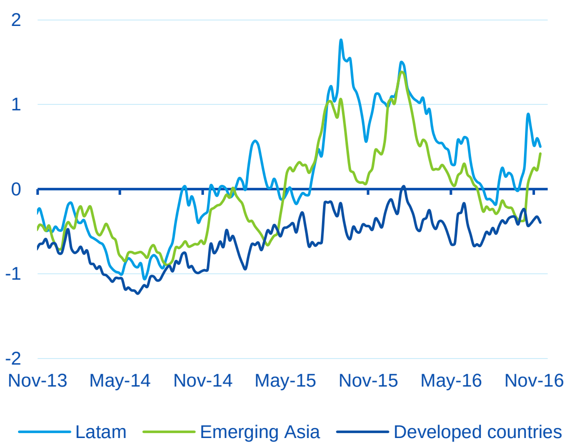
Global environment: slow recovery with uncertainty about US economic policy

In the past few months there has been some improvement in global activity, with the growth rate increasing slightly to more than 3% on an annualised basis, positive confidence indicators in the majority of regions and apparent improvement in some of the indicators of world trade and manufacturing.

However, uncertainties relating to the US election result and to doubts about the new US administration's economic policy have increased. Uncertainty is concentrated mainly on emerging markets, which may well be hit most directly if the protectionist policies announced during the campaign are implemented. This is why financial stresses in emerging markets have increased significantly, especially in Latin America and more recently in Asia. In developed markets on the other hand, not only do financial stresses remain contained (Figure 2.1), but we have also seen a significant shift in sentiment among investors, favouring the inflow of capital to equities, especially in the US.

Figure 2.1

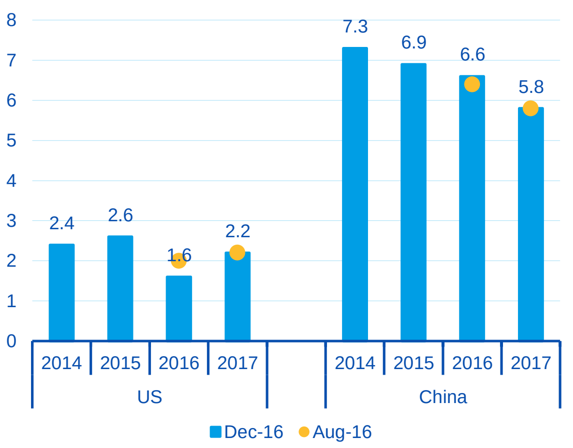
BBVA financial stress index



Source: BBVA Research

Figure 2.2

GDP growth in the US and China (%)



Source: BBVA Research

In the US, as expected, activity picked up notably in 3Q16 following a very weak first half-year. We expect growth to remain dynamic in 4Q16, although for the year as a whole the US economy will grow by just 1.6%, less than our previous forecast. Performance in 2017 will depend on the policies implemented in the fiscal, trade and regulatory areas. In principle, we assume that the new administration's fiscal plans (more spending on infrastructure and big tax cuts) will be partly constrained by Congress and will have a certain positive effect on growth in the short and medium term, whereas we do not expect the promises of more protectionist measures and curbs on immigration to be fully implemented, although they may have a negative effect on confidence. As for the Federal Reserve, following December's widely anticipated rate hike, we expect it to remain on a gradually rising path, with two 25 bps increases in 2017, one fewer than projected by the Federal Reserve. However, the increased emphasis on fiscal policy gives rise to a change in inflationary expectations, and with it a significant change in the outlook for long-term interest rates (higher) and for the dollar (stronger).

Turning to China, the economy with the second biggest influence on Latin America, the fiscal and monetary stimulus measures put in place at the beginning of the year to stabilise growth have borne fruit and will allow the short-term growth target set by the authorities to be met, at the expense of accumulating growing imbalances. We are therefore revising our growth forecast for 2016 upwards to 6.6% (Figure 2.2). Nonetheless, the outlook is still for gradual slowdown to 5.8% in 2017. Moreover, medium-term risks are increasing, especially those of overheating in the real estate sector, financial instability, depreciation of the yuan and capital flight, as well as companies' indebtedness. In the long term, doubts about growth prospects persist given the slow progress of structural reforms in certain key areas, particularly state-owned companies.

World growth will increase slowly in 2017 relative to 2016

In this context, we have revised our global growth forecast slightly downwards, partly in view of the worse-than-expected results of the first half of the year in certain areas, and also in the light of the lower growth foreseen in the USA. In any case, growth will hold at around 3% in 2016, with a slight increase to 3.2% in 2017.

Volatility returns to Latin American markets in the wake of the US elections

Latin American financial assets evolved favourably in recent months, up until the beginning of November, in line with the cautious stance adopted by the monetary authorities in the main developed regions, the stabilisation of China's growth and the positive trends in commodity markets. However, calm once again gave way to volatility in the wake of the US presidential elections on 8 November, when uncertainty about the newly elected government's policies started to affect markets.

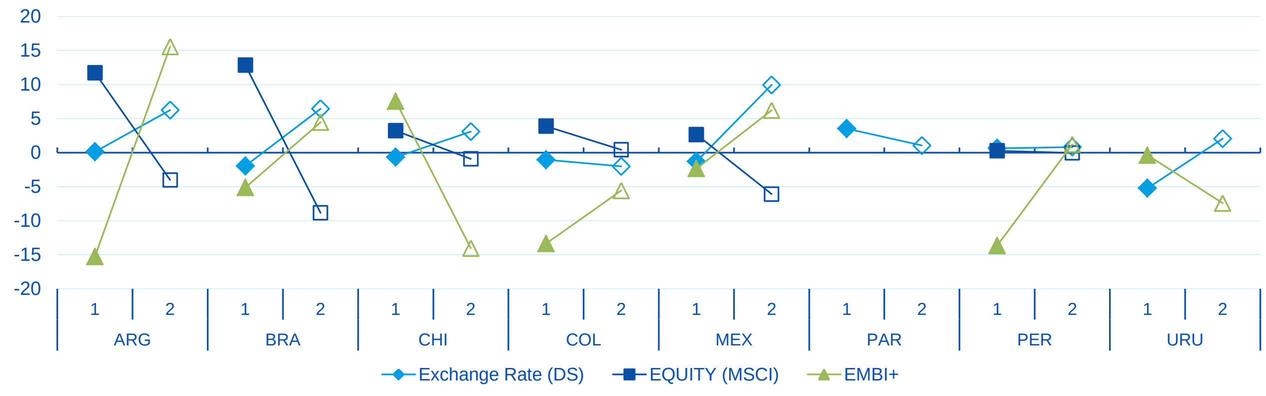
From the beginning of August up until the date of the US elections, the region's stock markets rose by 9.1% (MSCI Latam indicator), spreads on sovereign debt narrowed by 7.3% (EMBI Latam) and currencies appreciated by 0.7% on average. While there were gains across the board during this period, those in Argentina's and Brazil's stock markets stood out in particular, influenced also by optimism regarding adjustments to their respective economies, as did the decline in sovereign spreads for Argentina, Colombia and Peru (Figure 2.3).

In contrast, from the day of the US elections to the closing date of this report, asset prices in the region have fallen in general, wiping out part of the gains posted previously. In aggregate, the region's stock markets have fallen by 13.1%, sovereign spreads have increased by 4.1% and currencies have depreciated by 5.3% in this period. It is worth noting that volatility in the region's markets shot up in the first few days following the elections and has since started to moderate gradually. However, this process of moderation was interrupted by the US Federal Reserve's rate hike of 14 December, and more particularly by its statement that there could be three rate increases in 2017 as opposed to two.

In any case, losses accumulated since the beginning of November have been heaviest in Argentina, Brazil and above all Mexico. In the case of Brazil the change of tone in global markets coincided with a decline in optimism about activity recovery and with a fresh wave of political tensions associated with the possible involvement of members of the Temer government in a corruption scandal. Meanwhile in Argentina, approval by Congress of an opposition bill to reduce income tax exacerbated doubts about fiscal solvency. Mexico's markets have clearly been the most affected, reflecting the fact that it would be the country most exposed to any protectionist measures and curbs on immigration adopted by its neighbour to the north.

Figure 2.3

Financial markets - Percentage change: (1) up until the US elections (from 1 August to 7 November) and (2) since the elections (from 7 November to 16 December)



* Exchange rate: domestic currency/dollar. In this case, an increase indicates depreciation. Country risk premium: EMBI.
Source: Haver Analytics, Datastream and BBVA Research

While uncertainty about the policies to be adopted by the new US administration has had a significant impact on Mexico, its effect on the other members of the Pacific Alliance, Chile, Colombia and Peru, has been relatively limited. As well as being less dependent on the US economy, these countries have benefited from some idiosyncratic factors, such as the conclusion of peace negotiations with the FARC in Colombia and the increase in commodity prices.

With regard to this last factor, the price of oil, which had already been showing a clear tendency to rise since the beginning of 2016, has been driven by the producing countries' recent decision to curtail supply, which seems to have had greater influence than the prospect of relaxed legal and environmental demands for new productive investment in the US energy sector. Thus the price of oil reached US$55 per barrel in mid-December, 19% more than at the beginning of November and 48% more than at the end of 2015. Looking ahead, we continue to expect the price of crude to move towards US$60 per barrel (see table of forecasts at the end of this report). As for copper, its price increased by 8% after the result of the US elections was announced, in view of the prospects for increased investment in infrastructure and also partly due to increased speculation; it is currently 17% higher than it was at the end of 2015. Given the sharp increase in transitory speculative activity, we think that this increase will partly reverse, bringing the price down to around

2.30 USD/lb on average for 2017, with room to continue adjusting slightly from that level in the next few years. Lastly, the price of soybeans is currently very close to that seen before the US election, and 15% higher than at the end of 2015. In this case, the positive outlook for production makes it likely that the price will moderate in the short term.

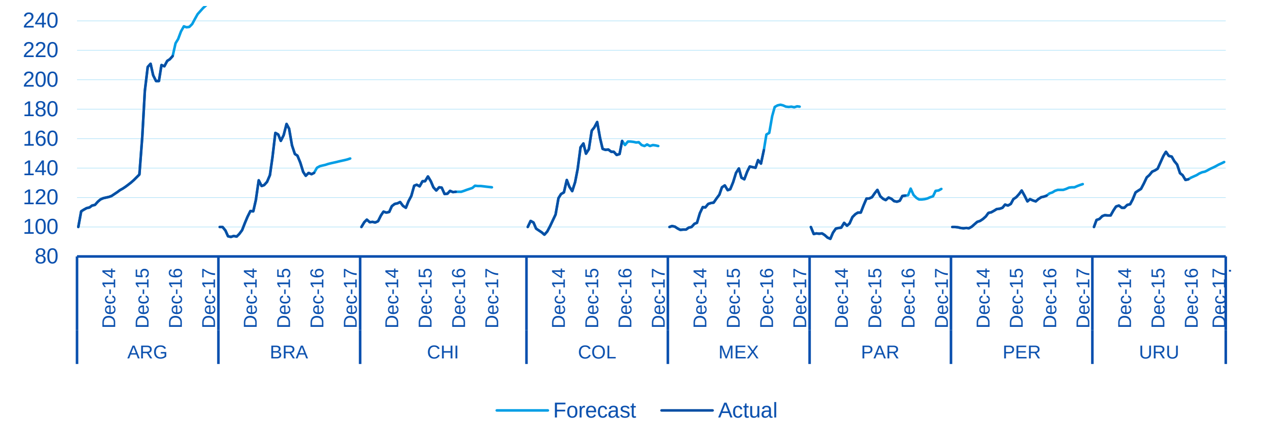
The Federal Reserve's recent decision to raise interest rates has contributed to keeping asset prices under pressure

Looking ahead, three factors make it unlikely that the recent losses will be sustained: (i) the prospect of gradual increases in commodity prices; (ii) our baseline scenarios for the US and Chinese economies, including our view that the Federal Reserve's monetary adjustment will be gradual; and (iii) our forecast that economic activity in Latin America will recover in the next few months. In particular, with regard to the currency markets, we anticipate relative stability or limited depreciation in the next few months (Figure 2.4 and tables in Section 3), so in real terms currencies should appreciate in the next few months in the majority of countries. However, the recent turbulence associated with the result of the US elections and the less accommodative tone employed by the Federal Reserve have contributed to some adjustment in our forecasts: we now expect currencies to remain weaker than previously foreseen, especially in the case of Mexico.

In any case, uncertainty about the growth moderation process in China and about economic policy in the US suggests that the possibility of Latin American markets going through further bouts of volatility should not be ruled out.

Figure 2.4

Nominal exchange rate: observed and expected (national currency / US dollar) (January 2014 = 100)*



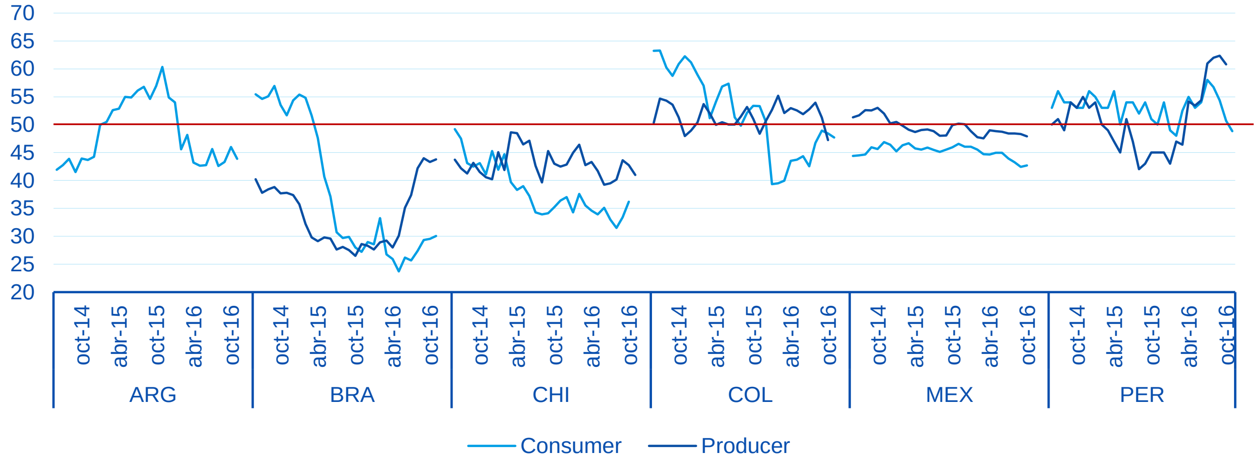
* Increases indicate depreciation.
Source: BBVA Research

First signs of inflection in activity in some countries in the region, towards a gradual recovery in 2017

The favourable trends seen in Latin America's financial markets up until November not only continued to support economic activity, but were also partly a reflection of an inflection point in activity in the region. To summarise this inflection point, confidence indicators in the majority of countries, which had been at pessimistic levels for most of the past two or three years, started to show some recovery, although still at depressed levels, except in the case of business confidence in Peru (Figure 2.6). Just as a significant part of the drag on producers' confidence in the past few quarters had its origin in the political environment, so the recovery was also more marked in those countries in which political uncertainty decreased most relative to the previous half-year, as was the case of Peru and Brazil, although in the latter tensions have recently flared up again due to possible cases of corruption involving members of the new government. As for consumers, the fall in inflation (see following section) is starting to have a positive effect on household sentiment, although the weakness of the labour markets continues to dominate.

Figure 2.5

Consumer and manufacturing confidence (values over 50 points indicate optimism)



Source: BBVA Research

This glimmer of an inflection point in confidence (and therefore in consumption and investment) is reflected in our activity forecasts. Specifically, we expect most countries in the region to show higher growth in 2017 than in 2016. This will bring the regional average growth rate to a positive 1.3% in 2017 compared with a negative 1.3% in 2016, which is still moderate relative to the region's potential but will at least bring an end to the regional slowdown that started in 2013 (Figure 1.1). We continue to see the main thrust of this increase in average growth as coming from both the external sector, with better prices for export commodities and the positive effect of the past two years' currency depreciation, and from public and private investment in countries such as Argentina, Colombia and Peru.

These regional growth rates for 2016 and 2017 are approximately 0.4 pp lower than our August forecasts. This downward revision in 2016 was particularly influenced by the negative surprises as regards activity in the last few quarters in Argentina and Colombia, and in Mexico which was in turn much influenced by the disappointing US growth. Apart from this we also foresee more restrictive fiscal policies in 2017 in order to preserve the credibility of fiscal rules in Mexico, Chile, Colombia and Peru, or to restore it in the case of Brazil. Additionally, uncertainty about the economic policies to be implemented by the new US administration has already affected investment decisions in the most closely linked economies such as that of Mexico, although the real effects on South American countries has been very limited.

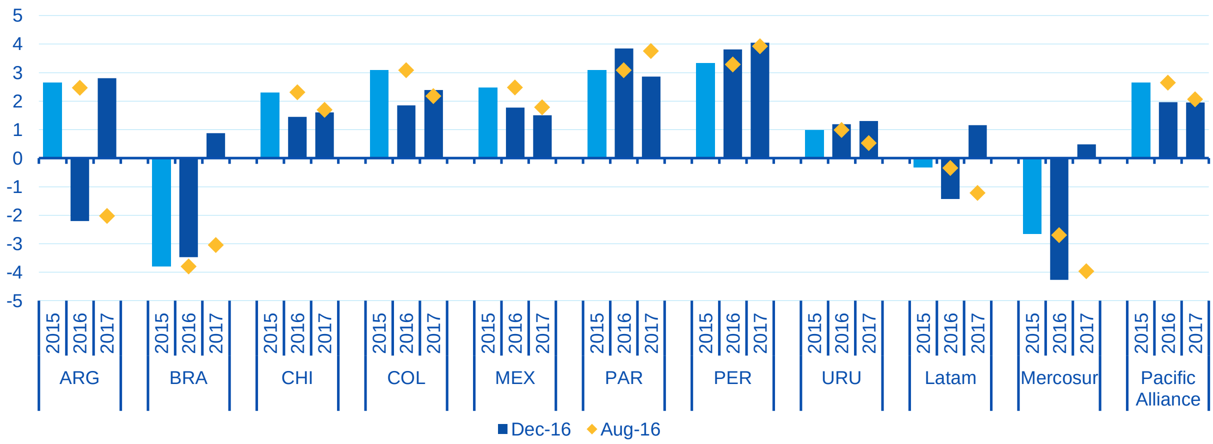
Latin America's growth will go from -1.3% in 2016 to +1.3% in 2017

The region continues to show wide disparities around these averages (Figure 2.6), with the economies of the Pacific Alliance apart from Mexico (Peru, Colombia and Chile) maintaining growth rates above the regional average, doubtless reaping the rewards of prudent economic policies put in place prior to the fall in commodity prices.

- For **Brazil**, we are holding our growth forecast at a negative 3.0% for 2016, with a strong downward bias following the negative surprises in activity in the past few months, and with a slow recovery of 0.9% in 2017.
- For **Mexico**, we have adjusted our forecasts downwards to 1.8% for 2016 and 1.5% for 2017 in view of weak US growth, uncertainty about the economic policies to be implemented by the new US administration and adjustments to public spending, as well as the increase in interest rates in 2016 (250 bps) and the further increase forecast for 2017.
- For **Argentina**, we have revised 2016 contraction from 1.0% to 2.0% in view of the sharp recession seen in the second quarter and lower-than-expected growth in the second half of the year. For 2017, we still anticipate an uptick in growth to 3.2%, driven by investment.
- For **Colombia**, we have revised 2016 growth down from 2.4% to 2.0% in view of the weak activity data for the second and third quarters. Growth will be higher in 2017 than in 2016, driven by investment in infrastructure. All the same, less dynamic investment and the short-term effects of whatever tax reform is finally approved imply an adjustment of growth in 2017 of 0.6 pp, to 2.4%.
- In the case of **Peru**, we have revised the growth forecast for 2016 slightly upwards (by 0.3 pp) to 3.9% in view of the data observed and the slight easing of fiscal policy. This is offset by a similar downward revision in 2017 (to 4.1%) reflecting some delay in infrastructure projects and a slightly more restrictive fiscal policy than anticipated.
- As for **Chile**, we have revised our 2016 growth forecast down to 1.5% while holding the 2017 forecast at 1.8% in view of the weak labour market (given the composition of employment) and low level of investment, especially in the mining sector. Fiscal expansion in 2017 will be greatly constrained by the "Fiscal Rule" (based on structural balance).
- For **Uruguay**, we have made a significant upward revision to our growth forecast for 2016 (by 0.8 pp to 0.5%), in view of the surprise growth in the second quarter (mainly due to electricity generation). All the same, growth will remain low in 2017 (0.9%, 0.4 pp more than forecast three months ago), driven mainly by the external sector and to a lesser extent by consumption.
- For **Paraguay**, we have revised our 2016 growth forecast upwards, also in view of increased electricity production in the first half of the year. For 2017 we are still projecting growth of 2.9%, underpinned by the positive performances of the services and construction sectors.

Figure 2.6

Latin America countries: GDP growth (%)



Source: BBVA Research

Inflation is easing in South America, but rising in Mexico

Inflation continued to ease in the past three months in most economies in the region. The main exceptions to this general trend were Mexico and Paraguay, and even here inflation was kept under control, within the ranges established by the respective monetary authorities (Figure 2.7). In Peru too, inflation has increased in recent months, but it should resume its downward trend in the next few months.

The downward trend in inflation in the majority of Latin American countries is in line with the appreciation of their currencies seen up until the recent US elections, and with the relative weakness of demand. Additionally, inflation in some countries, such as Colombia and Brazil has benefited in the past few months from the moderation in food prices following the sharp mid-year uptick caused by meteorological factors.

In spite of its recent easing, inflation still remains above central bank targets in most cases. This is not the case of Chile, where inflation has been within the target range since July. As previously remarked, it is also not the case of Mexico or Paraguay, where inflation has for quite some time been well anchored within the ranges established by the respective central banks. In any case, in these two countries where inflation has not declined in the past few months, prices have benefited less than in other economies in the region from the dynamic of their currencies, especially in the case of Mexico.

In South America, inflation will gradually move towards central banks' target ranges

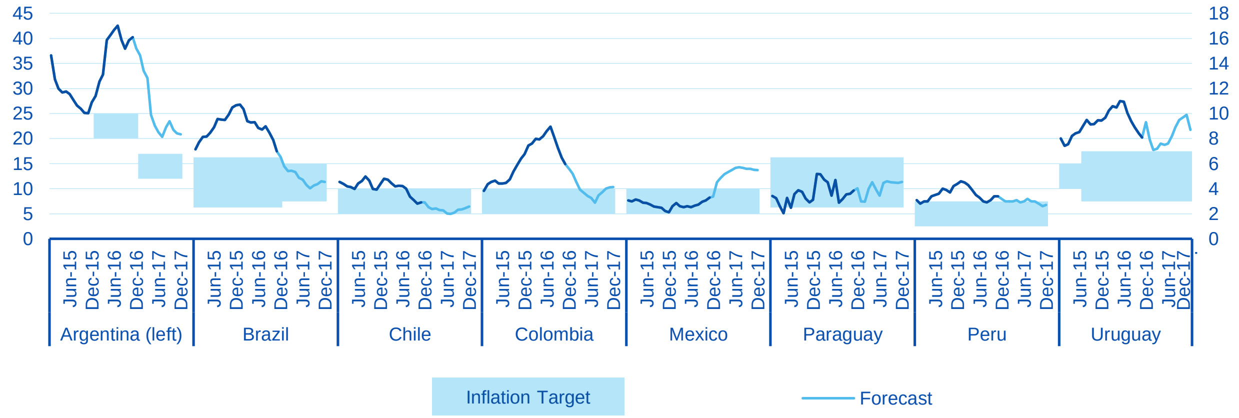
Inflation should continue to moderate in the next few months, since we do not expect any significant currency depreciation and the recovery in economic activity will in most cases be gradual. However, it should be noted that the volatility seen in the wake of the US elections could have a negative effect on prices in the region, particularly if it persists.

Despite the good progress seen in Argentina and Uruguay, we foresee inflation remaining above the target ranges of their respective central banks at least until the end of 2017. In contrast, in Colombia and Brazil inflation should be within the target range by early 2017 (although in Colombia we expect a temporary uptick at year-end) and in Peru it will remain around the upper limit of the target range until the end of 2017 when it will move more clearly towards 2%. In Chile and Paraguay inflation will remain close to target, but in Chile pressures on prices will continue to diminish, whereas in Paraguay they will probably increase. Lastly, in the case of Mexico, the sharp depreciation of the currency in the past few months, accentuated since the US elections, will lead to higher inflation in 2017, briefly exceeding the central bank's target range before ending the year at around 4% (Figure 2.7 and forecast tables in Section 3).

In general terms, our forecasts for inflation in 2016 have been adjusted slightly downwards, in line with the downward surprises seen in many countries, the main exceptions being Peru and Mexico. However, for 2017 the outlook for inflation incorporates greater pressures than those anticipated four months ago (though these pressures are still contained), driven above all by increased depreciation of most countries' currencies, especially that of Mexico.

Figure 2.7

Inflation: observed and forecast* (YoY %)



Source: BBVA Research

Lower inflation opens the way to interest rate cuts in South America

The consolidation of the downward trend in inflation and the persistent weakness of economic activity have recently allowed the monetary authorities of some countries in the region to embark upon a cycle of relaxation of monetary conditions, despite the uncertainty about the economic policy that will be implemented by the new administration in the US and the Federal Reserve's process of interest rate hikes. Specifically, in Brazil the SELIC rate (central bank overnight rate) was cut by 25 bps in each of the last two monetary policy meetings, while Colombia's central bank cut its reference rate by 25 bps in December. In both cases the cycle of monetary easing started several months earlier than expected. Argentina's central bank also cut its monetary policy rate in the past few months in line with the improved outlook for inflation (Figure 2.9). In Chile, Peru and Paraguay on the other hand, central banks have preferred to hold interest rates unchanged in the past few months.

Lastly, in Mexico the monetary authority took preventive action in September and in the two meetings since the US elections, raising the base rate to 5.75%, 275 bps more than just over twelve months ago, largely in view of the risk that the depreciation of the peso could affect domestic prices and cause inflationary expectations to slip their anchor.

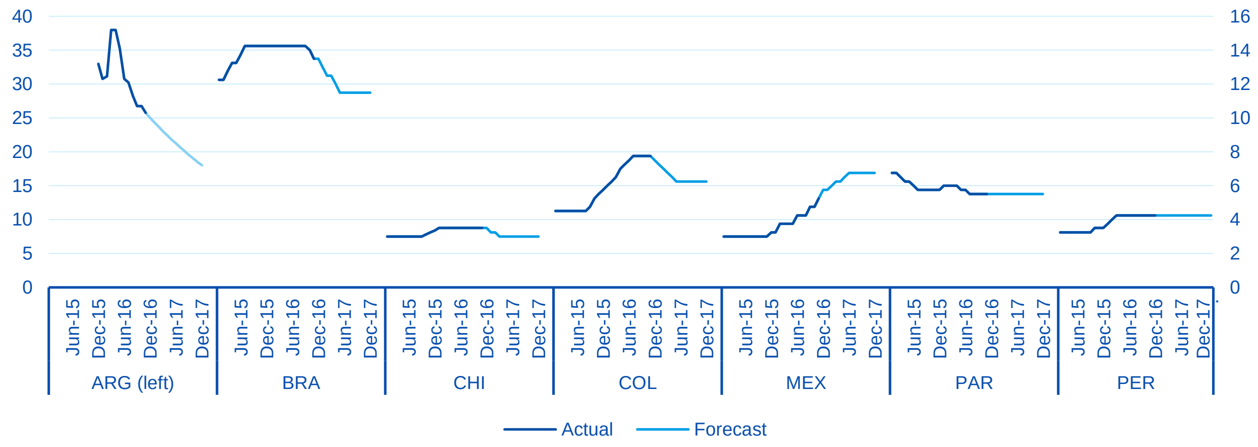
Mexico's central bank will raise interest rates by more than the US Federal Reserve in 2017

In the next few months we are likely to see further cuts in Brazil's monetary policy rate, and bigger ones, of 50 bps, in line with falling inflation, progress on the adoption of a cap on public spending and faltering activity. Colombia will probably continue with cuts of 25 bps in the next few months, and we expect the Chilean monetary authority to announce two cuts of 25 bps in the reference rate in the first quarter of 2017.

In the case of Argentina, monetary policy should continue to ease, while keeping real interest rates positive, as inflationary pressures gradually diminish. For Peru and Paraguay the forecast is for stability in monetary policy rates at least until the end of 2017. Lastly, in Mexico, monetary policy will no doubt continue to harden in the next few months, to prevent inflationary expectations from slipping their anchor. We expect the Mexican central bank to increase its base rate by 100 bps to 6.75%, 50 bps more than the Federal Reserve and an already clearly restrictive level given our estimate of the neutral interest rate as 5.5%.

Figure 2.8

Monetary policy rate in countries with inflation target systems (%)*



Source: BBVA Research

External risks are centred on the US and the Federal Reserve in the short term, and on China in the medium term

The risks to our forecasts for Latin America retain a downward bias due to both external and domestic factors.

Prominent among the external factors is the fact that despite the stabilisation of world growth commented before, growth is still very weak and there is a risk that it could fall even further. Monetary policy in the developed countries is already near its limits, and doubts have increased as to the marginal effectiveness of the new measures and the negative impact they could have on financial stability. As a result there have been increasing calls for monetary policy to be complemented in a coordinated manner by other policies, both fiscal and structural, so as to ensure the sustainability of the recovery and at the same time buttress potential growth. Some countries, such as the USA and Germany, have some leeway to implement expansionary fiscal measures, while many others could take action on the composition of public spending, to make it more growth-oriented without involving fiscal expansion.

In the US, we shall have to wait for an end to the uncertainty regarding the economic policies that will eventually be implemented by the new administration to see whether the risks of lower potential long-term growth will be addressed by appropriate measures. Beyond this, it is important that the Federal Reserve's strategy of interest rate hikes should continue to be carried out in a calibrated manner so as not to cause collateral effects for emerging economies, and Latin America in particular. So it was that December's US rate hike produced only relative volatility, which will continue to be contained if there is a clear statement that a gradual strategy will be pursued going forward.

More in the medium and long term, the biggest risk to the global economy and to Latin America in particular continues to be linked to the imbalances in the Chinese economy (commented on at the beginning of this section), which show no signs of abating, but rather the contrary, which could lead to abrupt adjustments later. The main medium- and long-term risks derive from the over-indebtedness of private sector companies and the lack of reforms in the public ones. A sharp adjustment to China's economy would have very negative consequences for economies in the region (especially in South America) through the fall in exports to China and the fall in commodity prices as well as the increase in volatility in the markets.

On the region's domestic front, risks are centred on political noise and trends in confidence

On the domestic front, the risks are various, depending on which Latin American economy we place in the spotlight. There is a factor - political noise - that continues to hover in the majority of countries in the region, accentuated recently by the possible cases of corruption of members of Brazil's new government but at the same time mitigated in Peru by the lifting of uncertainty about the election result and in Colombia by the signing of a new peace agreement and its political ratification by Congress. An increase in this political noise in several Latin American countries could undermine governability and delay several reform processes that are under way in the region. At the same time, the inflection point in the region to which we have called attention in this edition of Latin America Economic Outlook is heavily dependent on the recovery of household and business confidence which is already being seen in Peru on the corporate side and to a lesser extent in Brazil. However, recovery of confidence is still fragile and may go into reverse if the recovery in activity and in the labour markets is not confirmed and consolidated. Lastly, the possible delay in public works projects in countries such as Argentina, Peru and Colombia also represents a significant risk to growth in 2017, which is partly based on the development of infrastructure.

3. Tables

Table 3.1

GDP (YoY%)

	2014	2015	2016*	2017*
Argentina	-2.5	2.5	-2.0	3.2
Brazil	0.1	-3.8	-3.0	0.9
Chile	1.9	2.3	1.5	1.9
Colombia	4.4	3.1	2.0	2.4
Mexico	2.2	2.5	1.8	1.5
Paraguay	4.7	3.1	3.8	2.9
Peru	2.4	3.3	3.9	4.1
Uruguay	3.2	1.0	0.5	0.8
Mercosur	-0.7	-2.7	-4.0	0.8
Pacific Alliance	2.6	2.6	2.0	2.0
Latin America	0.7	-0.3	-1.3	1.3

* Forecasts.
Source: BBVA Research

Table 3.1

Inflation (average % YoY)

	2014	2015	2016*	2017*
Argentina[1]	38.0	26.7	41.2	25.5
Brazil	6.3	9.0	8.8	4.8
Chile	4.4	4.4	3.8	2.3
Colombia	2.9	5.0	7.5	3.9
Mexico	4.0	2.7	2.8	4.1
Paraguay	5.0	3.1	4.1	4.1
Peru	3.2	3.5	3.6	2.9
Uruguay	8.9	8.7	9.7	8.3

* Forecasts.
Source: BBVA Research

Table 3.2

Exchange rate (vs. USD, average)

	2014	2015	2016*	2017*
Argentina	8.13	9.27	14.79	17.10
Brazil	2.35	3.33	3.49	3.43
Chile	570.4	654.1	676.8	679.8
Colombia	2000	2741	3058	3066
Mexico	13.37	15.98	18.69	19.89
Paraguay	4514	5226	5624	5703
Peru	2.84	3.19	3.38	3.55
Uruguay	23.20	27.28	30.10	29.63

* Forecasts.
Source: BBVA Research

Table 3.4

Interest rate (%, average)

	2014	2015	2016*	2017*
Argentina	22.5	21.5	25.88	17.06
Brazil	11.0	13.6	14.10	11.83
Chile	3.69	3.08	3.50	3.04
Colombia	3.98	4.77	7.23	6.46
Mexico	3.21	3.02	4.29	6.50
Paraguay	6.73	6.08	5.71	5.50
Peru	3.79	3.35	4.23	4.25
Uruguay	21.52	21.45	22.52	23.32

* Forecasts.
Source: BBVA Research

Table 3.5

Current account (% GDP at end of period)

	2014	2015	2016*	2017*
Argentina	-1.4	-2.5	-2.4	-2.5
Brazil	-4.3	-3.3	-1.1	-1.0
Chile	-1.3	-2.0	-1.6	-1.8
Colombia	-5.2	-6.5	-4.4	-3.8
Mexico	-2.0	-2.9	-3.0	-3.0
Paraguay	-0.4	-1.7	0.6	-0.2
Peru	-4.0	-4.8	-3.3	-3.1
Uruguay	-4.5	-2.3	-1.8	-1.4

* Forecasts.
Source: BBVA Research

Table 3.6

Fiscal balance (% GDP at end of period)

	2014	2015	2016*	2017*
Argentina	-2.7	-4.8	-4.9	-4.7
Brazil	-6.7	-10.2	-9.7	-8.7
Chile	-1.6	-2.2	-2.9	-3.2
Colombia	-2.4	-3.0	-3.9	-3.3
Mexico	-3.2	-3.5	-2.9	-2.4
Paraguay	-1.1	-1.7	-2.0	-1.9
Peru	-0.3	-2.1	-3.2	-2.4
Uruguay	-3.5	-3.5	-3.8	-3.4

* Forecasts.
Source: BBVA Research

Table 3.7

Commodities forecast

	2014	2015	2016*	2017*
Oil (Brent, USD/barrel) (average)	99.02	52.62	44.75	53.74
Soya (USD/ton) (average)	458.11	350.33	359.88	344.50
Copper (USD/pound) (average)	3.11	2.50	2.21	2.30

* Forecasts.
Source: BBVA Research

DISCLAIMER

This report has been produced by the South America Unit:

Chief Economist for South America
Juan Manuel Ruiz
juan.ruiz@bbva.com

Enestor Dos Santos
enestor.dossantos@bbva.com

Cecilia Posadas
c.posadas@bbva.com

Lorena Lechuga
lorena.lechuga.cuesta@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive
jselaive@bbva.com

Colombia
Juana Téllez
luana.tellez@bbva.com

Mexico
Carlos Serrano
carlos.serranoh@bbva.com

Peru
Hugo Perea
hperea@bbva.com

With the contribution of:
Global Modelling & Long Term Analysis
Julián Cubero
juan.cubero@bbva.com

BBVA Research

CONTACT DETAILS: BBVA Research: Azul Street, 4. La Vela Building - 4 and 5 floor. 28050 Madrid (Spain). Tel.:+34 91 374 60 00 y +34 91 537 70 00 / Fax:+34 91 374 30 25 - bbvaresearch@bbva.com www.bbvaresearch.com