BBVA | Research

Economic Outlook Latin America

2nd QUARTER 2017 | SOUTH AMERICA UNIT

Contents

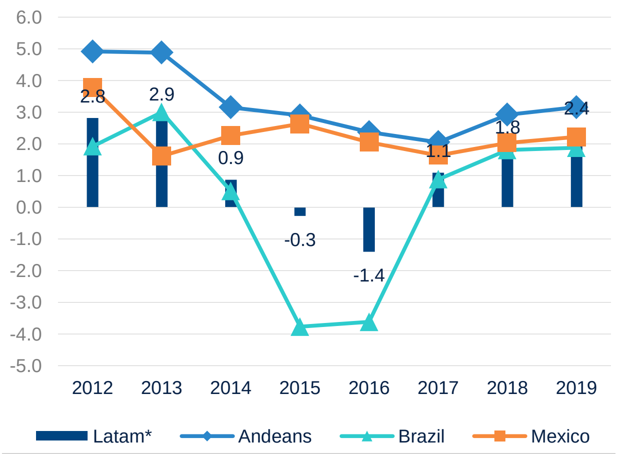
Closing date: **17 April 2017**

1. Summary

Financial markets in Latin America continued to show significant gains in the past few months. Contributory factors included reduced concerns about US economic policies and the perception that the US Federal Reserve's interest rate hikes will be gradual. Looking ahead, we foresee moderate currency depreciation in the region, even leaving some space for slight appreciation in Chile and Colombia in 2018.

Growth in Latin America will recover to 1.1% in 2017 and 1.8% in 2018. This will bring an end to four years of slowdown and a return to growth, following the contraction of 1.4% in 2016 (Figure 1.1), although growth will still be slow. The recovery in Argentina, which has already shown initial signs of growth, is firming up, while Brazil seems to be coming out of its period of adjustment and activity is at last stabilising before it starts to grow this year. In Mexico, the economic panorama looks less gloomy than it did three months ago, given that less aggressive measures are now expected from the new US administration. In Peru and Colombia the weak growth data of the past few months and the pessimism of the private sector have combined with delays in infrastructure projects and in the case of Peru the adverse effects of the weather phenomenon referred to as the "coastal El Niño".

Figure 1.1 Latin America: GDP growth (%)



* Weighted average of Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Mexico, Uruguay and Venezuela.
Source: BBVA Research

Inflation will continue to fall in South America, but will increase in Mexico. The weakness of domestic demand and the relative strength of currencies have favoured a reduction in inflation in South America, except for the recent upticks in Peru and Argentina, which we expect to prove temporary. In this context, we expect further cuts in interest rates in South American countries (likely to be more aggressive in Brazil) as inflation continues to converge with central bank targets, a process that has proven somewhat more reluctant than expected in Argentina. In Mexico, inflation continues to increase, although the recent recovery in the exchange rate has moderated forecasts of further increases. These less adverse prospects for inflation will also allow a less intense cycle of monetary tightening in Mexico than was expected three months ago.

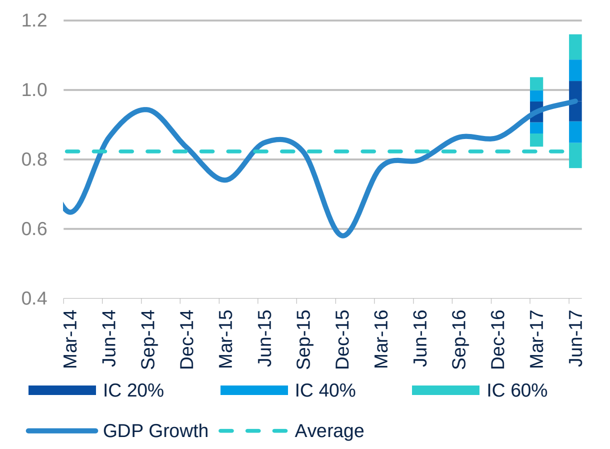
The risks around this growth forecast are biased downwards. On the external side, the short-term risks associated with China and US trade policies are easing, although in the former case the medium-term risks are increasing as the Chinese authorities delay tackling structural imbalances. Within the region there remain a number of risks associated with political noise and delays to infrastructure projects in several countries.

2. Latin America: an uneven recovery

Global environment: global growth consolidates but there are still risks

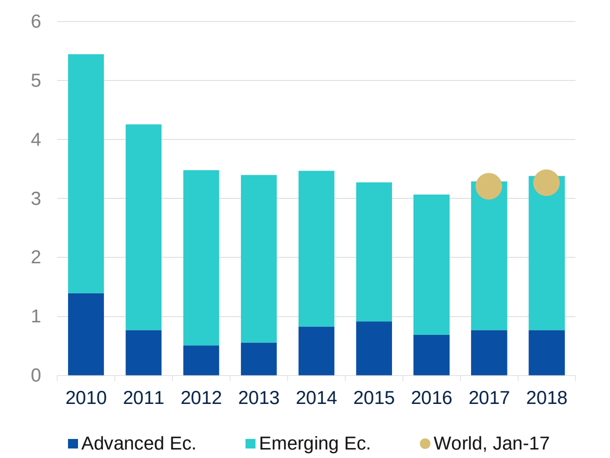
GDP growth continued to increase worldwide, to rates of around 1% per quarter, exceeding the 0.8% average since 2011. This acceleration has been driven by a generalised improvement in confidence levels, coupled with advances in world trade, stimulated above all by monetary and fiscal stimulus measures in China. The performance of developed countries continues to be especially strong, with the consolidation of recovery in the US and with Europe growing above its potential.

Figure 2.1 Global GDP Growth. Forecasts based on BBVA-GAIN (%, QoQ)



Source: BBVA Research

Figure 2.2 Global growth and contributions by region (%, YoY)



Source: BBVA Research

We have revised global growth upwards to 3.1% in 2016, 3.3% in 2017 and 3.4% in 2018.

Improved performance worldwide is accompanied by some clarification regarding the US economy, where expectations both of rapid recovery in inflation underpinned by fiscal boost and of a rapid drift towards protectionism have lessened, or at least been delayed. Nevertheless, the difficulty of carrying out a reform of the healthcare system also revealed problems in getting other measures approved, such as those associated with tax cuts or the infrastructure spending plan, effectively eliminating the probability of strong impetus in the short term.

As regards the financial markets, over the last few months they have remained calm, recording low volatility in spite of the high uncertainty. In this context, the central banks are making gradual progress in the process of normalising monetary policy. The US Federal Reserve, which is leading this process, is maintaining its message of gradual withdrawal, so we predict that there will be two further interest rate hikes this year and another two in 2018, up to 2%. At the same time, there are already plans to undertake the third phase of the exit strategy, in other words, the reduction of the balance sheet, something which probably will not happen until next year and will be put in place passively. The ECB also appears more optimistic about growth, but is not yet confident about inflation and is lagging behind the Federal Reserve's speed of withdrawal. Given this process of monetary policy normalisation, a rise in the cost of financing at the global level is to be expected.

Overall, our forecasts for growth in 2017-18 have been revised only marginally. We have raised them in view of the good start to the year in the case of the euro zone, and above all for China, where we expect growth of 6.3% and 5.8% in 2017 and 2018 respectively, about 0.5 pp more than three months ago. In the US, we continue to predict growth of 2.3% this year and 2.4% in 2018, supported by a boost in investment. As a result, expected worldwide growth is 3.3% for 2017 and 3.4% for 2018, which, in both cases, is one tenth of a percentage point higher than our previous forecasts.

The risks continue to be weighted to the downside. Apart from the lingering uncertainty about the measures that will eventually be approved in the USA, above all as regards trade, doubts are focused on the election results in France and Italy, due to the highly negative impact they could have on euro zone stability in the (unlikely) event of a victory for the fiercely anti-European parties. There is also the risk associated with the Chinese economy, where the recent strength of investment may slow the process of reducing imbalances. Other significant risk factors are the Brexit negotiations (which have not got off to a good start), the multiple geopolitical risks and the risks associated with the normalisation of monetary policy, especially in the US.

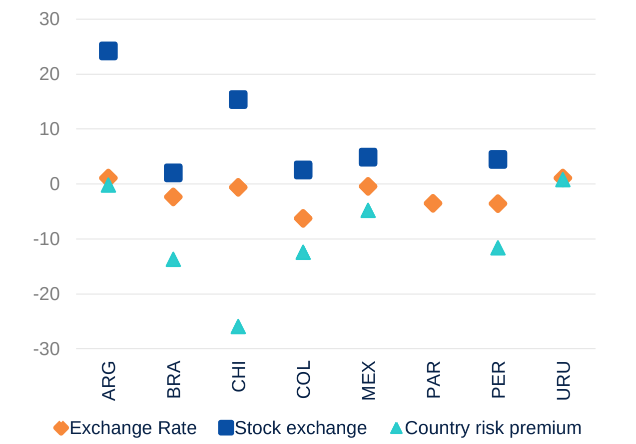
Calm and recovery in Latin America's financial markets

Latin America's financial markets have posted significant gains so far this year. Contributory factors included reduced concerns about the effects of the new US administration's policies, the growing perception that the process of monetary policy normalisation in the US will be gradual, increased growth of the world economy, increases in commodity prices and, at least in some cases, prospects of recovery in economic activity.

We would highlight the strong recovery in prices of Mexican assets, practically since the beginning of the year, in line with the perception that in the end the policies of the new US administration will not affect the country as much as previously feared. This recovery is offsetting the losses posted in November and December, following Donald Trump's victory in the presidential elections.

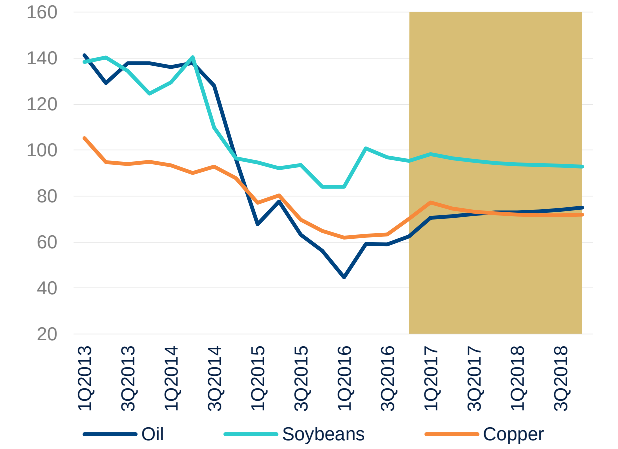
In South America, where worries about new US policies lasted only a few weeks, the markets continued to post good results in the first quarter of the year.

Figure 2.3 Financial markets: percentage change since the US elections*



* Changes between 7 November and 14 April. Exchange rate: domestic currency/US dollar. In this case, an increase indicates depreciation. Country risk premium: EMBI.
Source: Haver Analytics, Datastream and BBVA Research

Figure 2.4 Prices of major commodities (average index 2010 = 100)*



* Lines represent quarterly averages.
Source: Bloomberg and BBVA Research

In the case of country risk premiums, the falls have been significant and across the board. In the past three months they have fallen by between 15% and 25% depending on the country. Taking the day before the US presidential elections as a reference, risk premiums have fallen across the board, as can be seen in Figure 2.3. Even in Mexico, country risk is now lower than it was on 7 November. Compared with the same period last year, the EMBI index shows significant improvement in practically all countries, between 32% and 42% in the cases of Brazil, Chile, Colombia and Peru, and approximately 15% in Mexico. In contrast with the other countries in the region, in Argentina the risk premium has held relatively steady since the beginning of 2016. In this case, the significant improvements in terms of country risk started earlier, in the second half of 2015, when prospects of change in economic policies consolidated with the change of government.

Stock markets show gains of nearly 20% so far this year in Argentina and Chile, of around 8% in Brazil and Mexico and remain practically unchanged in Colombia and Peru. In general, these gains are more significant than the losses accumulated in November and December of last year, even in the case of Mexico, so that stock market indices are currently above the levels observed before the US elections (Figure 2.3).

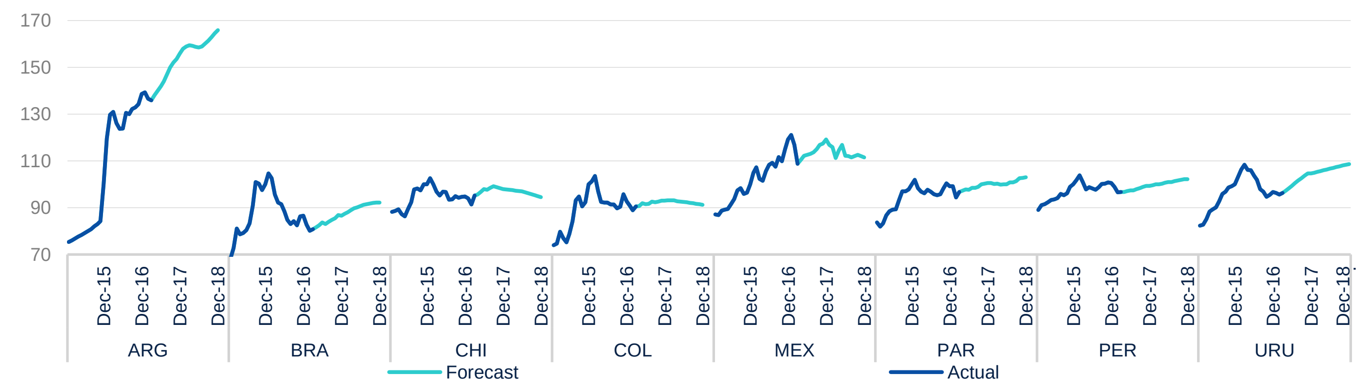
As regards the currency markets, the Mexican peso has appreciated 9% so far this year, while with the exception of Uruguay, currencies of the remaining countries have appreciated by between 1% and 4%. Following these gains, exchange rates are now very close to the levels observed before the US presidential elections in the majority of countries, although in some cases such as Colombia, Peru and Brazil, appreciation has been observed (Figure 2.3).

Looking ahead, the most likely outcome is that prospects of economic recovery, both domestically and externally, will consolidate and so contribute to generating further gains on Latin American financial markets. In this regard we would highlight the importance of the upward revision of growth forecasts for China in the next few years, and in particular its impact on commodity prices. In fact, the prices of most of the primary products that are most significant in the region increased in the last three months (copper: +5%, iron ore: +10%, soybeans: +6%), although the price of oil fell by around 2% due to greater optimism about US production. All the same, we expect the price of crude to gradually converge to $60 a barrel in the next few years, in line with the gradual increase in world demand and, at least in the short term, underpinned by curbs on supply by OPEC countries (Figure 2.4). As regards prices of copper and soybeans, they should moderate slightly, converging to levels considered equilibrium as supply strengthens. In any case, our current predictions for soybeans and copper have been adjusted slightly upwards (by approximately 1% and 5% respectively) in view of the improved growth prospects in China for the next few years.

We expect to see moderate depreciation of regional currencies

Despite the possible improvement in global growth, the US Federal Reserve's increases in interest rates and the expected further easing of monetary conditions in the majority of South America countries should contribute to moderate nominal depreciation of Latin American currencies going forward (Figure 2.5 and forecast tables in section 3). All the same, this depreciation will partly reverse in Chile and Colombia in 2018, when the impact of recovery in activity in both these countries is expected to be felt more strongly.

Figure 2.5 Nominal exchange rate: actual and forecast (local currency/US dollar) (December 2015 = 100)*



* Increases indicate depreciation.
Source: BBVA Research

In the case of the Mexican peso, we see some margin for continued appreciation in the next few months if the risks associated with the new US administration's policies continue to diminish. The more aggressive tone of Mexico's monetary policy should contribute to the peso's further appreciating towards its equilibrium level. In any case, the performance of the Mexican peso in particular and Latin American financial markets in general will be strongly influenced by whatever policies the Trump administration eventually adopts and by the monetary decisions of the Federal Reserve. Uncertainty regarding these issues still remains high, so further bouts of volatility cannot be ruled out.

An end to slowdown in Latin America, but recovery will be slow

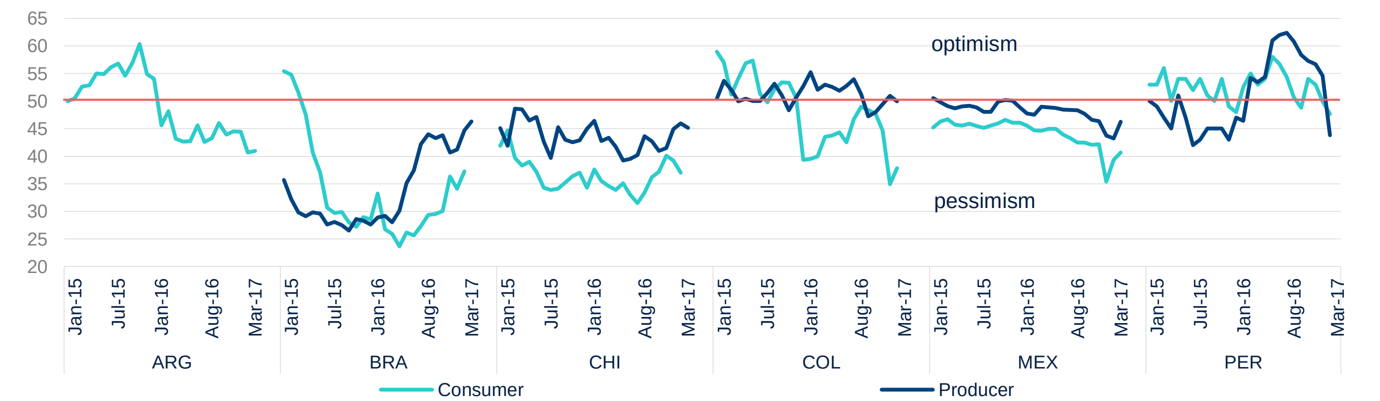
Despite the relatively positive tone of the international financial markets and of the recovery in global activity, indicators of household and business sentiment remain in pessimistic territory in the majority of countries, but with great disparities in their recent behaviour (Figure 2.6). On the one hand for example the recent dynamic of confidence in the private sector continues positive in Brazil —underpinned by tax reform and falling inflation— and is improving in the case of Mexico —encouraged by the aforementioned tempering of US economic policy measures—. On the other hand, country-specific factors have had a significant negative effect recently on the confidence dynamic in Colombia and Peru, in the former case due to the impact on households of the increases in VAT and income tax, and in the latter due to the decisive influence of the corruption scandals on infrastructure projects and the uncertainty about the economic impact of the rains and floods attributed to the "coastal El Niño" weather phenomenon.

The recovery in Argentina is taking hold. Brazil is leaving recession behind. Mexico is slowing less than anticipated.

These contrasting dynamics are also reflected in our growth forecasts for 2017 and 2018. On the one hand in the two biggest countries of South America, Brazil and Argentina, the economic panorama continues to point to recovery in 2017. In fact, in Argentina the activity indicators already show recovery underway, confirming our growth forecasts for this year and next. And in Brazil the activity indicators seem to have come to the end of their period of adjustment and to have stabilised in preparation for the recovery we expect to see starting this year. In Mexico the economic panorama looks less gloomy than it did three months ago, in that the new US administration seems to be indicating less aggressive economic policies, particularly as regards trading relations with its southern neighbour.

In contrast, in Colombia and Peru data on recent activity were weaker than expected, while investment now looks like being weaker than expected this year, due to the delays in infrastructure works and the pessimism shown by the business sector. On top of this, in the case of Peru, is the impact on the agricultural, and fisheries sectors and transport infrastructure of the "coastal El Niño" phenomenon which ravaged the country's north coast at the end of March. For Chile, we are maintaining our outlook for very moderate growth this year, similar to that of 2016.

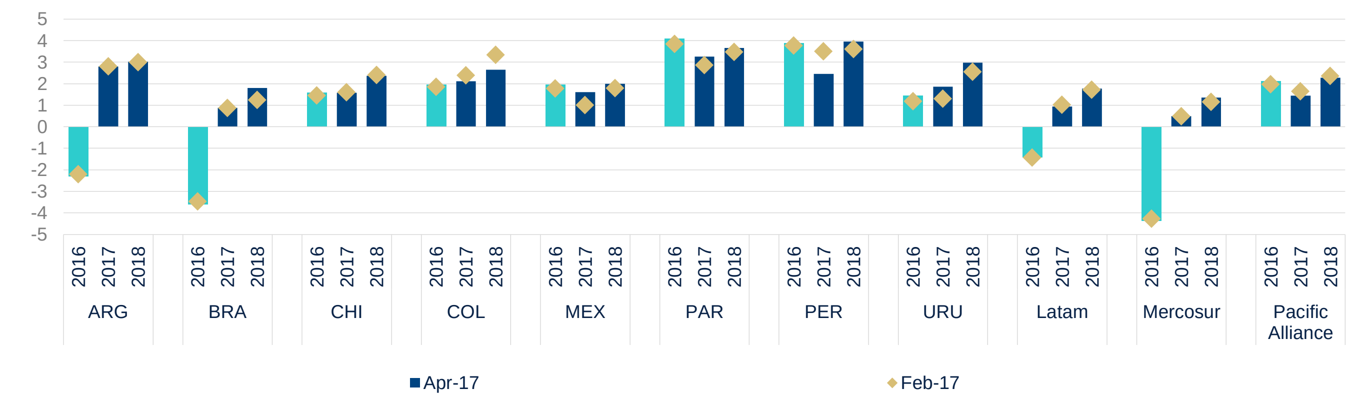
Figure 2.6 Consumer and manufacturing confidence (values over 50 points indicate optimism)



Source: BBVA Research

This means that as a whole Latin America should grow by 1.1% this year and 1.8% in 2018 (Figure 1.1), which represents a break with four years of slowdown in the region and a return to growth after the contraction of 1.4% in 2016. These forecasts are slightly higher (0.1 pp in each year) than those of three months ago, mainly due to the less pessimistic panorama in Mexico (which more than offsets the downward revisions to growth forecasts in Peru and Colombia for 2017), plus the upward revision of growth forecasts for Brazil in 2018. Regional growth over these two years will be driven mainly by the recovery of Brazil and Argentina following the recent sharp recession. In regional terms, growth will continue to rely on the external sector given global growth and the gradual recovery in commodity prices. Investment in infrastructure will also continue to be an important source of growth in Colombia and Argentina.

Figure 2.7 Latin America countries: GDP growth (%)



Source: BBVA Research

On a country-by-country basis we continue to see marked disparities in growth this year and next (Figure 2.7), as already mentioned previously:

- In **Brazil**, we are maintaining our growth forecast for 2017 at 0.9%, despite the fact that economic activity was surprisingly low in the last quarter of 2016. Increased global growth, higher commodity prices and a more accommodative monetary policy (made possible in part by the tax reform under way) offset this disappointing starting point and also support an upward revision of growth for 2018 to 1.8% (0.6 pp more than three months ago). All the same, the risks of an increase in political tensions mean that these forecasts are subject to a downside risk.
- In **México**, the reduced risk of highly aggressive economic policies on the part of the new US administration is starting to be reflected in the improved performance of the external sector, which leads us to revise our growth forecasts upwards to 1.6% in 2017 and 2% in 2018 (0.6 pp and 0.2 pp more than three months ago). The revision is also supported by a monetary policy which will not be contractive as we anticipated three months ago as downward pressure on the currency abates. Even so, the risks are biased downwards if in the US highly restrictive measures are introduced after all, especially in the area of trade.

- In **Argentina**, we are maintaining our growth forecasts for 2017 and 2018 at 2.8% and 3% respectively in view of the latest indicators, which are already showing the first signs of recovery under way, underpinned by investment.
- For **Colombia**, growth forecasts are adjusted downwards to 2.1% in 2017 and 2.7% in 2018 (from 2.4% and 3.3% three months ago) in view of the slow pace of recovery in investment and delays to public works on infrastructure. Even so, public and private investment will continue to be the main engine of growth, offsetting the slight slowdown in consumption in 2017.
- In **Peru**, we are revising this year's growth sharply downwards, from the 3.5% estimated three months ago to 2.5% now, in the light of weaker-than-expected data in the first three months of the year, the impact of the "coastal El Niño" on the agricultural and fisheries sectors and infrastructure, and the sharp deterioration in business confidence. However, the increase in activity in 2018 when weather conditions have returned to normal, helped by reconstruction works and greater fiscal impulse, should take growth to 3.9% next year (as opposed to the 3.6% estimated three months ago).
- In **Chile**, we are maintaining our growth forecast at 1.6% and 2.4% for 2017 and 2018 respectively. However, we now expect investment to be less dynamic than we thought three months ago, especially in the construction sector, though this should be offset by improved export performance thanks to global growth.
- In **Uruguay**, we have upgraded our growth forecasts following the surprisingly positive figures for the fourth quarter of 2016. We now foresee GDP growth of 1.9% in 2017 and 3% in 2018, compared with the 1.3% and 2.6% we estimated three months ago. The revision is also partly based on prospects of more robust consumption, given the moderation of inflation, while the boost to growth from investment should continue in 2018, largely in connection with the construction of a third cellulose plant.
- In **Paraguay** too we have increase our forecasts for growth in 2017 and 2018, to 3.3% and 3.7% (from 2.9% and 3.5% previously) in view of the good performance of the agricultural sector and improving recovery of Brazil, the country's main trading partner. Growth will continue to be underpinned by domestic demand, while in terms of sectors the dynamism of construction and services will stand out.

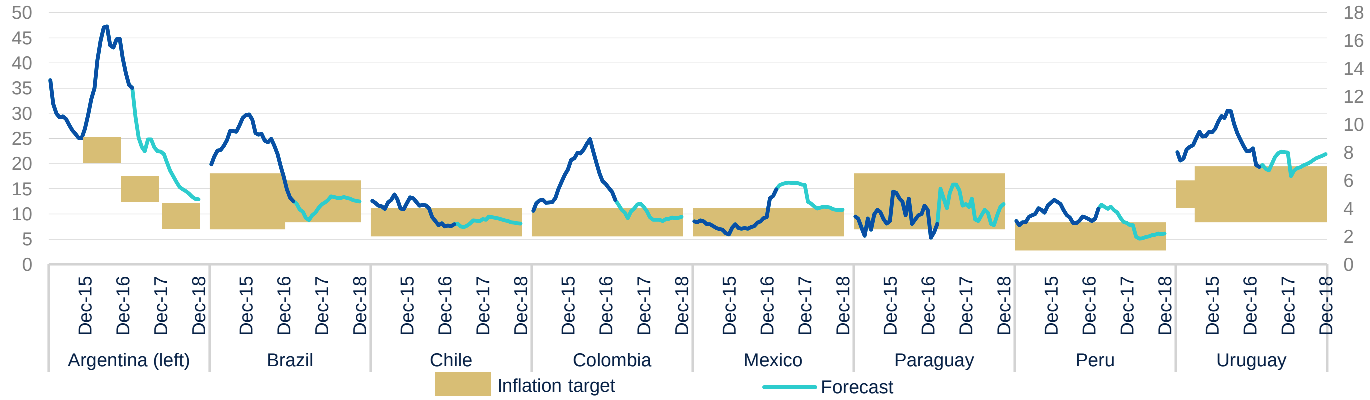
Inflation continues to converge with targets set by South America's central banks

The weakness of domestic demand and the relative strength of currencies in the past few months have led to a favourable environment for inflation in South America. Furthermore, in some countries such as Brazil and Colombia, improved supply conditions have led to a significant moderation in food prices. Upward pressures on prices have generally continued to moderate in the past few months, with the important exceptions of Argentina and Peru. However the prospects point to inflation continuing to moderate generally and starting to moderate once again in these two countries too (Figure 2.8).

In general, inflation in South American countries is currently below that of twelve months ago and also below the average for 2016. Indeed, in Brazil and Uruguay inflation is now at its lowest point in the last six years. Also, despite the downward trend, in Argentina both headline and core inflation have proven somewhat more resistant than expected in the past few months, while in Peru inflation has picked up a little and is now slightly above the levels observed at year-end 2016.

From this point of view, inflation in Brazil, Chile and Paraguay is now within the target ranges set by the respective central banks. In contrast, in Colombia, Peru and especially Argentina, inflation is still above the monetary policy reference ranges.

Figure 2.8 Inflation: actual and forecast (YoY %)



Source: BBVA Research

Looking ahead to the next few months, although we expect temporary pressures on some economies such as that of Peru, where the “coastal El Niño” weather phenomenon will push up food prices, we continue to expect a gradual convergence with inflation targets in the majority of South American countries over the course of this year and next. Of all South American countries, it is only in Uruguay and Argentina that inflation is expected to remain above target ranges practically throughout the forecast period, although in the case of Argentina the process of moderation of prices will continue.

Compared with our previous estimates, we have adjusted our forecast for 2017 inflation upwards by 0.3 pp, to 3% in 2017 in Peru and by 1.6 pp in Argentina. In the case of Peru this is due to the pressures caused by the “coastal El Niño” weather phenomenon already referred to, which although mainly temporary will affect the whole-year figures to some extent. In the case of Argentina, we were influenced by the disappointing figures for February and March this year for both headline and core inflation. As for Brazil, we have adjusted inflation for 2017 downwards by 0.2 pp to 4.3%, in line with the sharp surprise falls in inflation of the past few months. We have also reduced Paraguay’s forecast inflation for 2017 and 2018 in view of the reduced downward pressures on its currency. For Colombia, we have reduced the inflation forecast only in 2018, in response to lower demand pressure. For the remaining countries we are leaving our forecasts unchanged for the period 2017-18. (For further details, see the forecast tables in section 3).

In Mexico, inflation will continue to increase in 2017, although less than previously forecast.

In contrast with the trends seen in South America, in Mexico inflation has continued to increase in the past few months. Specifically, inflation reached 5.3% in March, significantly above the 4% ceiling of the target range and practically two percentage points above the 2016 year-end figure. The sharp uptick in inflation reflects the lagged effect of the peso's depreciation in the second half of last year and the significant adjustments to fuel prices. In our opinion, inflation in Mexico will continue to increase in the next few months and only start to fall significantly in 2018. Specifically, we expect inflation to rise to 5.6% in the remainder of the year before easing to 3.9% over the course of 2018. This means a maximum level of inflation which is 0.4 pp lower than we were expecting three months ago. This downward revision of Mexican inflation is due both to the increased appreciation of the Mexican peso in the past few months and the lower-than-expected adjustments to fuel prices at the beginning of the year.

Interest rate cuts in South America will mark the divergence vis-à-vis the US Federal Reserve

The moderation of inflation has eased constraints on the ability of South America's central banks to relax monetary conditions and so stimulate their economies, with the exception of Argentina. In Brazil, the process of reducing key interest rates which started in October has gathered pace in the past few months, with two cuts, each of 75 bps, in the latest monetary policy meetings. In Colombia, since the quantitative easing cycle started in December, official interest rates have been cut by 75 bps, from 7.75% to 7.0%. In Chile, the cycle of monetary easing started in January with a cut of 25 bps, and continued in March and April with two more cuts of the same size. There have been no adjustments to Peru's monetary policy interest rates in the past few months, given the delicate balance between an inflation rate still above the target range (and expectations of its remaining around the ceiling) on the one hand, and weak activity on the other. Paraguay has also kept its monetary policy unchanged, in view of an inflation rate within the target range and in line with expectations.

By contrast, in Argentina the central bank's concerns about the relative downward resistance of inflation in the past few months, even showing an uptick in March, led it to increase interest rates in April, after several months without change.

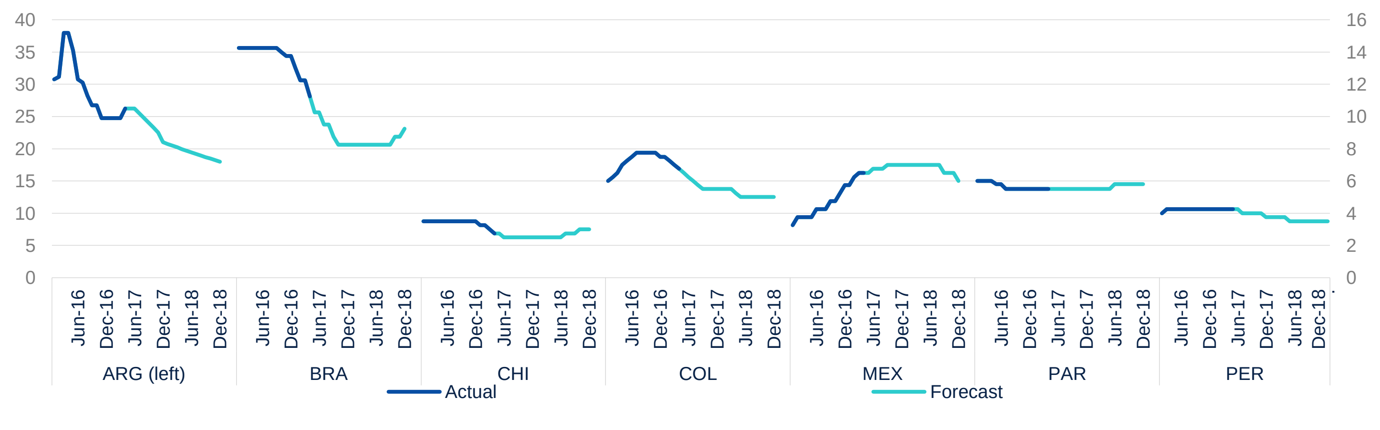
Shorter-than-expected cycle of monetary tightening in Mexico

We expect interest rate reduction cycles to continue in the next few months in the countries that have already embarked upon them, and easing inflation to eventually pave the way for cuts in Argentina and Peru too. Specifically, in Brazil rate cuts should gather pace in the next few months, with the central banks' key SELIC rate reaching 8.25% in the last quarter of the year, 100 bps less than we were expecting three months ago. In Colombia we see successive cuts of 25 bps taking official interest rates to 5.50% in the second half of the year, with further moderation in inflation next year making room for rates to fall to 5.0% in 2018. In Chile, we foresee an additional cut of 25 bps before the end of the first half-year, in an environment in which inflation is under control and demand weak. In Argentina, we expect the cuts to start in mid-year subject to evidence of further reduction in inflation; in this case, the risk is that the downward resistance of inflation will delay the expected cuts in interest rates. In Peru, we anticipate two cuts of 25 bps in the monetary policy rate during this year (the first one at the end of the first half-year) and another one in early 2018. In contrast with the other countries of South America, interest rates should remain unchanged for some considerable time in Paraguay, where domestic demand is growing more strongly than in other countries in the region and inflation is still under control (Figure 2.9).

The interest rate cuts in South America will probably coincide with rate hikes in the US, leading to a decoupling of monetary policy in South America from that of the US Federal Reserve. Apart from the downward pressure on currencies, this decoupling may possible lead to stresses in the region's markets, especially if the US Federal Reserve decides to be more aggressive in raising interest rates. Monetary authorities of South American countries will no doubt be very attentive to this.

In a different environment from that of the rest of the region, the tone of Mexico's monetary policy contrasts with that of the other Latin American countries. In line with the sharp rise in inflation of the past few months and the associated risks, Mexico's monetary authorities have adjusted the base rate upwards by 75 bps since the beginning of the year (and by 275 bps in the past 12 months). Key monetary policy rates are now at 6.50%, above the equilibrium level which we estimate at approximately 5.50%. It is also likely that Mexico's central bank will adjust its key rate in the remainder of the year in line with the US Federal Reserve's moves. Specifically, we expect that after two hikes, interest rates will reach 7.0% in the third quarter of this year. Cuts seem unlikely before the second half of 2018, by which time we expect inflation to be much closer to the target range. Lastly, it is important to note that previously we were expecting interest rates to reach 7.50% in 2017, as opposed to 7.0%. The downward adjustment to our forecast is the result of the improvement in the balance of risks for inflation and appreciation of the Mexican peso in the past few months.

Figure 2.9 Monetary policy rate in countries with inflation target systems (%)



Source: BBVA Research

External risks abate in the short term, but political noise persists in the region

The risks to our forecasts for Latin America remain biased downwards due both to factors related to the external environment and to factors of a domestic nature.

As regards the external environment, two factors stand out, one related to the resolution of the imbalances in China and the other linked to US economic policies and the Federal Reserve's process of withdrawal of monetary stimulus measures. In the former case, the imbalances in China's economy show no signs of diminishing. Beyond the improved expectations of growth in the short term based on the resumption of stimulus measures, especially fiscal ones, medium-term risks increase, since the process of adjusting the growth model has come to a halt, and the financial weaknesses deriving from a recovery based on an increase in economic agents' indebtedness could become more pronounced. As we have repeatedly pointed out, a sharp adjustment of the Chinese economy would especially affect the economies of South America through the fall in exports to China and in commodity prices, as well as volatility in international markets.

Delays in infrastructure works join political noise as domestic risk factors for Latin America

Conversely, the risks associated with US economic (especially trade) policies are decreasing as the new administration seems to be looking at more moderate options for renegotiating NAFTA, while continuing to encounter obstacles to carrying out some of its policies on restricting immigration. However, we also mentioned at the beginning of this report the difficulty of passing measures on tax cuts or the plan for spending on infrastructure, which reduces the probability of a strong boost in the short term.

On the monetary side, we are already in a process of normalisation of monetary policy in the US, so we can expect an increase in the cost of financing globally. Communications policy will be the key to this process, to prevent mistakes like the famous "taper tantrum" (overreaction in 2013 by the bond market to the withdrawal of stimulus measures) in the USA. The tightening of financing terms will depend not only on the intervention rates set by the central banks but also, and in particular, on long-term interest rates. In this case, there are factors that continue to anchor the long section of the interest rate curve, such as the high degree of uncertainty, the scarcity of safe-haven assets and certain regulatory aspects.

As for domestic factors in Latin America, political noise continues to stand out in the majority of countries in the region, in several cases combined with possible cases of corruption involving members of the political class. As already remarked in previous reports, the increase in political noise may lead to instability or even political crisis in some countries in the region, undermining governability and holding up reform processes that are under way. Also, in a context in which several important elections coincide in numerous countries in the region, the political noise and the discrediting of the traditional political classes may lead to the rise of populist movements without coherent economic programmes, holding up the reform process need to restart long-term growth in the region.

Moreover, the possible delays to infrastructure projects in countries such as Argentina, Peru and Colombia also represent a significant risk to growth at the forecast horizon. It must not be forgotten that these countries rely on investment in infrastructure as one of the pillars of growth in domestic demand over the next two years. But moving ahead with these projects (and their financing, when they rely on private sector concessions) may become difficult amid suspicions of corruption, in view of the recent region-wide investigations.

Lastly, both the intensification of political noise and negative surprises regarding growth have the potential to continue undermining business confidence, acting as a drag on private investment and delaying the onset of the growth we anticipate for this year.

3. Tables

Table 3.1 Macroeconomic forecasts

GDP (% YoY)

	2015	2016	2017*	2018*
Argentina	2.6	-2.3	2.8	3.0
Brazil	-3.8	-3.6	0.9	1.8
Chile	2.3	1.6	1.6	2.4
Colombia	3.1	2.0	2.1	2.7
Mexico	2.6	2.1	1.6	2.0
Paraguay	3.0	4.1	3.3	3.7
Peru	3.3	3.9	2.5	3.9
Uruguay	0.4	1.4	1.9	3.0
Mercosur	-2.6	-4.4	0.5	1.4
Pacific Alliance	2.7	2.2	1.8	2.4
Latin America	-0.3	-1.4	1.1	1.8

Inflation (% YoY, average)

	2015	2016	2017*	2018*
Argentina	26.7	41.2	27.2	16.1
Brazil	9.0	8.8	4.1	4.7
Chile	4.4	3.8	2.9	3.2
Colombia	5.0	7.5	4.2	3.3
Mexico	2.7	2.8	5.6	4.1
Paraguay	3.1	4.1	4.3	3.7
Peru	3.5	3.6	3.6	2.2
Uruguay	8.7	9.6	7.1	8.1

Exchange rate (per US$, average)

	2015	2016	2017*	2018*
Argentina	9.3	14.8	16.5	18.3
Brazil	3.33	3.49	3.23	3.50
Chile	654	677	681	679
Colombia	2,742	3,054	2,972	2,995
Mexico	16.0	18.7	19.7	19.5
Paraguay	5,226	5,633	5,669	5,825
Peru	3.19	3.38	3.31	3.41
Uruguay	27.3	30.1	30.3	32.6

Interest rate (%, average)

	2015	2016	2017*	2018*
Argentina	33.0	30.4	24.5	19.3
Brazil	13.6	14.1	10.1	8.4
Chile	3.1	3.5	2.7	2.7
Colombia	4.8	7.2	6.3	5.1
Mexico	3.0	4.3	6.6	6.8
Paraguay	6.1	5.7	5.5	5.6
Peru	3.4	4.2	4.1	3.6
Uruguay	21.4	22.2	21.7	22.7

Current account (% of GDP)

	2015	2016	2017*	2018*
Argentina	-2.7	-2.8	-3.0	-3.0
Brazil	-3.3	-1.1	-0.5	-1.0
Chile	-2.0	-1.4	-1.4	-1.6
Colombia	-6.4	-4.4	-3.6	-3.2
Mexico	-2.9	-2.7	-3.0	-3.1
Paraguay	-1.0	2.0	0.3	0.0
Peru	-4.8	-2.7	-2.0	-2.1
Uruguay	-2.3	-0.9	-1.0	-2.3

Fiscal balance (% of GDP)

	2015	2016	2017*	2018*
Argentina	-4.8	-4.5	-4.9	-4.3
Brazil	-10.2	-9.2	-6.7	-5.7
Chile	-2.1	-2.7	-3.1	-3.0
Colombia	-3.0	-4.0	-3.6	-2.9
Mexico	-3.5	-2.6	-2.4	-2.0
Paraguay	-1.7	-1.4	-1.7	-1.7
Peru	-2.1	-2.6	-2.9	-2.9
Uruguay	-3.5	-3.9	-3.6	-3.2

Commodity forecasts

	2015	2016	2017*	2018*
Oil (Brent crude US$ per barrel) (average)	53	45	57	59
Soybeans (US$ per metric ton) (average)	350	363	370	359
Copper (US$ per lb.) (average)	2.50	2.21	2.54	2.46

Fuente: BBVA Research. *Previsiones

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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

Roberto Maeso
roberto.maeso@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 collaboration of:

Global Economic Situations
Miguel Jiménez
mjimenezg@bbva.com

BBVA Research

Chief Economist BBVA group
Jorge Sicilia Serrano

Macroeconomic analysis
Rafael Doménech
r.domenech@bbva.com

Global Economic Situations
Miguel Jiménez
mjimenezg@bbva.com

Global Financial Markets
Sonsoles Castillo
s.castillo@bbva.com

Long-Term Global Modelling and Analysis
Julián Cubero
juan.cubero@bbva.com

Innovation and Processes
Oscar de las Peñas
oscar.delaspenas@bbva.com

Financial Systems and Regulation
Santiago Fernández de Lis
sfernandezdelis@bbva.com

International Coordination
Olga Cerqueira
olga.gouveia@bbva.com

Digital Regulation
Álvaro Martín
alvaro.martin@bbva.com

Regulation
María Abascal
maria.abascal@bbva.com

Financial Systems
Ana Rubio
arubiog@bbva.com

Financial Inclusion
David Tuesta
david.tuesta@bbva.com

Spain and Portugal
Miguel Cardoso
miguel.cardoso@bbva.com

United States
Nathaniel Karp
Nathaniel.Karp@bbva.com

Mexico
Carlos Serrano
carlos.serranoh@bbva.com

Middle East, Asia and Geopolitical
Álvaro Ortiz
alvaro.ortiz@bbva.com

Turkey
Álvaro Ortiz
alvaro.ortiz@bbva.com

Asia
Le Xia
le.xia@bbva.com

South America
Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive
jselaive@bbva.com

Colombia
Juana Téllez
juana.tellez@bbva.com

Peru
Hugo Perea
hperea@bbva.com

Venezuela
Julio Pineda
juliocesar.pineda@bbva.com

ENQUIRIES TO: BBVA Research: Calle Azul, 4. Edificio de la Vela - 4ª y 5ª plantas. 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