

LatAm Economic Outlook

3Q18

LATIN AMERICA: BUMPY ROAD TO RECOVERY



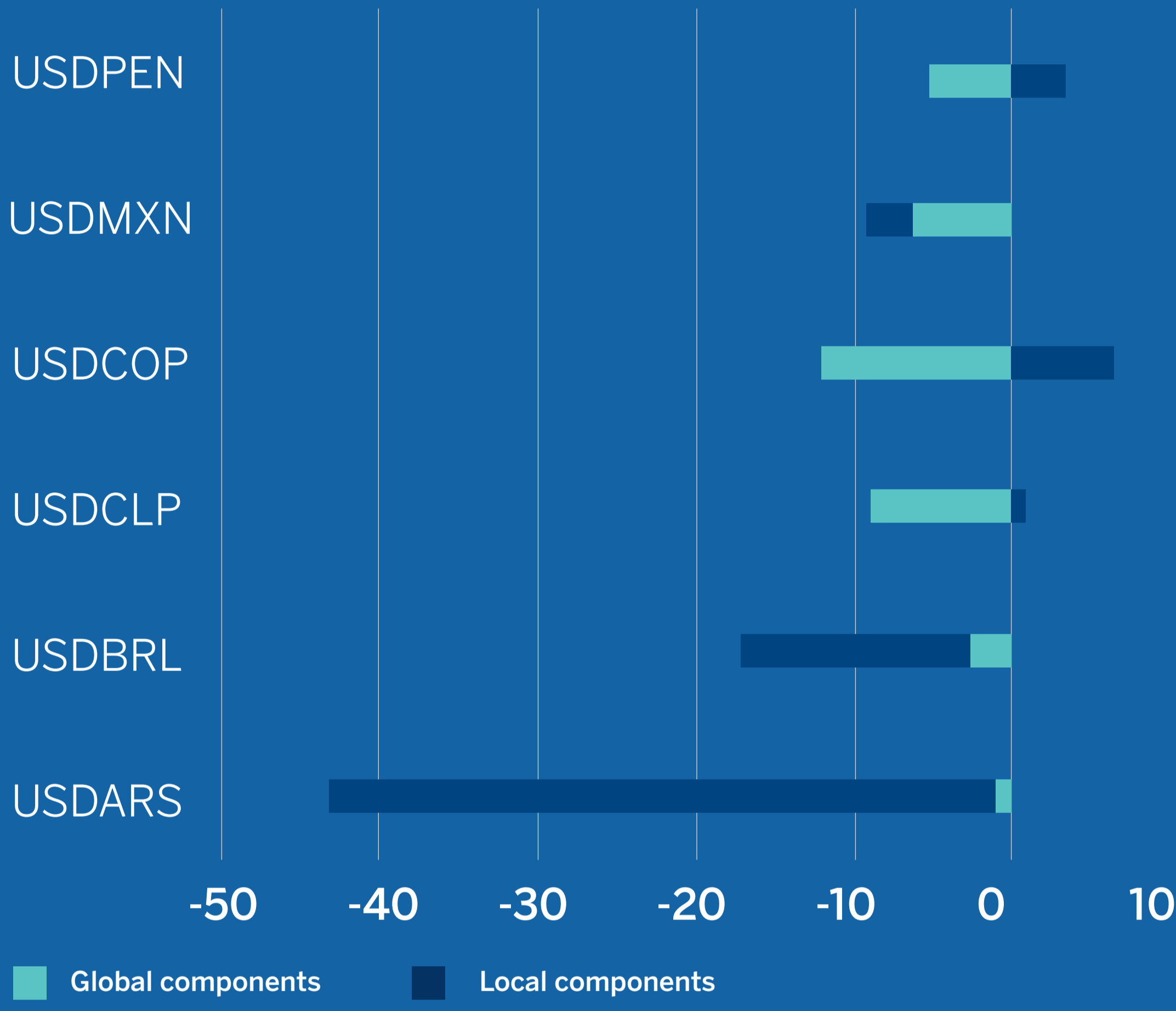
Latin America's average growth will be similar in 2018 to 2017, but is set to rise in 2019 and 2020.

We're **moderating our growth forecast for Argentina and Brazil**, which are being affected by financial volatility and other local factors...

... but the forecasts for **Mexico, Colombia and Peru have improved** given the positive data observed at the beginning of the year.

VOLATILITY HAS UNEVEN IMPACT ON INTERNATIONAL MARKETS

1 Global volatility in financial markets affects especially Argentina and Brazil, with sharp depreciations of their exchange rates.



Percentage variation of the exchange rate in the second quarter: global and local determinants.

Source: BBVA Research

2 Markets in Mexico are influenced more by the prospects about the NAFTA than by global volatility.

3 The rest of the countries in the region are tolerating better the US interest rate hike.

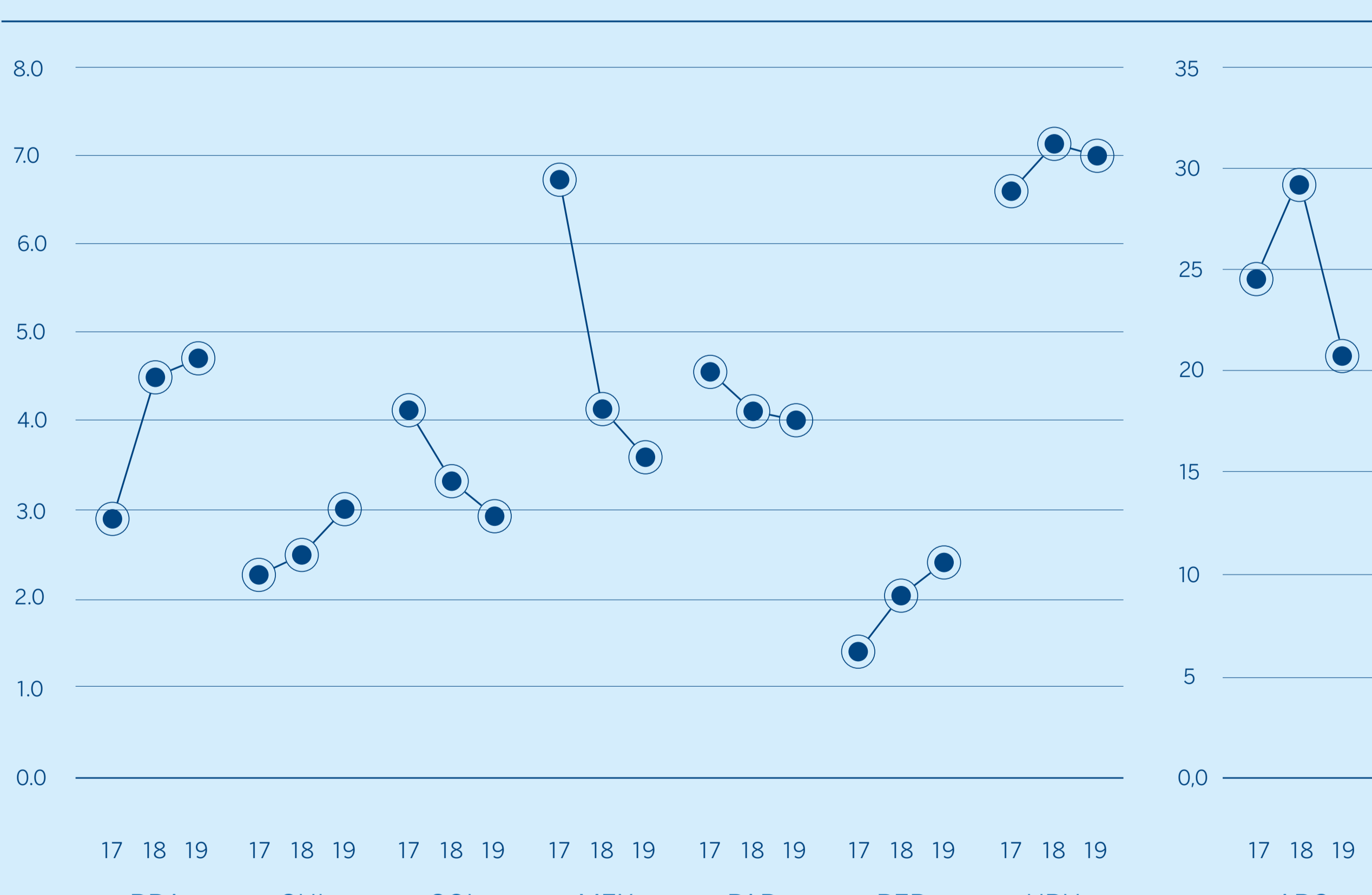
INFLATION HITS TARGETS IN SOUTH AMERICA, EXCEPT IN ARGENTINA

Inflation in Argentina has risen substantially due to the effect of the exchange rate depreciation. In Mexico it is down, but not as much as anticipated.

South American central banks (except Argentina) will enter an interest rate hike phase in 2019.

Argentina and Mexico will resume the policy of lowering interest rates in the short term as inflationary pressures subside.

Latam Inflation (y/y%, end of period)



Source: BBVA Research

EXTERNAL AND INTERNAL RISKS

INTERNAL

Political noise:

- ↑ Brazil
- ↓ Colombia, Chile y Mexico
- Private and public investment delays
- Inability to pursue reforms and promote productivity

EXTERNAL

- ↑ Tougher conditions for international financing
- ↑ Protectionism
- Sudden slowdown in China

