

Latam Economic Outlook

4Q18

LATIN AMERICA: RECESSION IN ARGENTINA, UNCERTAINTY IN BRAZIL, RESILIENCE IN THE PACIFIC ALLIANCE.



Downward revision of growth expectations for Argentina in 2018 and 2019, due to the exchange-rate crisis, monetary policy and fiscal constraints.

Downward revision for Brazil, Mexico and Uruguay in 2018, mainly due to poor growth figures for the first half of the year.

Brazil's growth is hampered by financial volatility.

Meanwhile, **uncertainty in Mexico has lessened** on announcement of the pre-agreement of a trade deal with the US and Canada.

Growth forecasts improve for Chile and Paraguay on the back of positive results from the first half of the year.

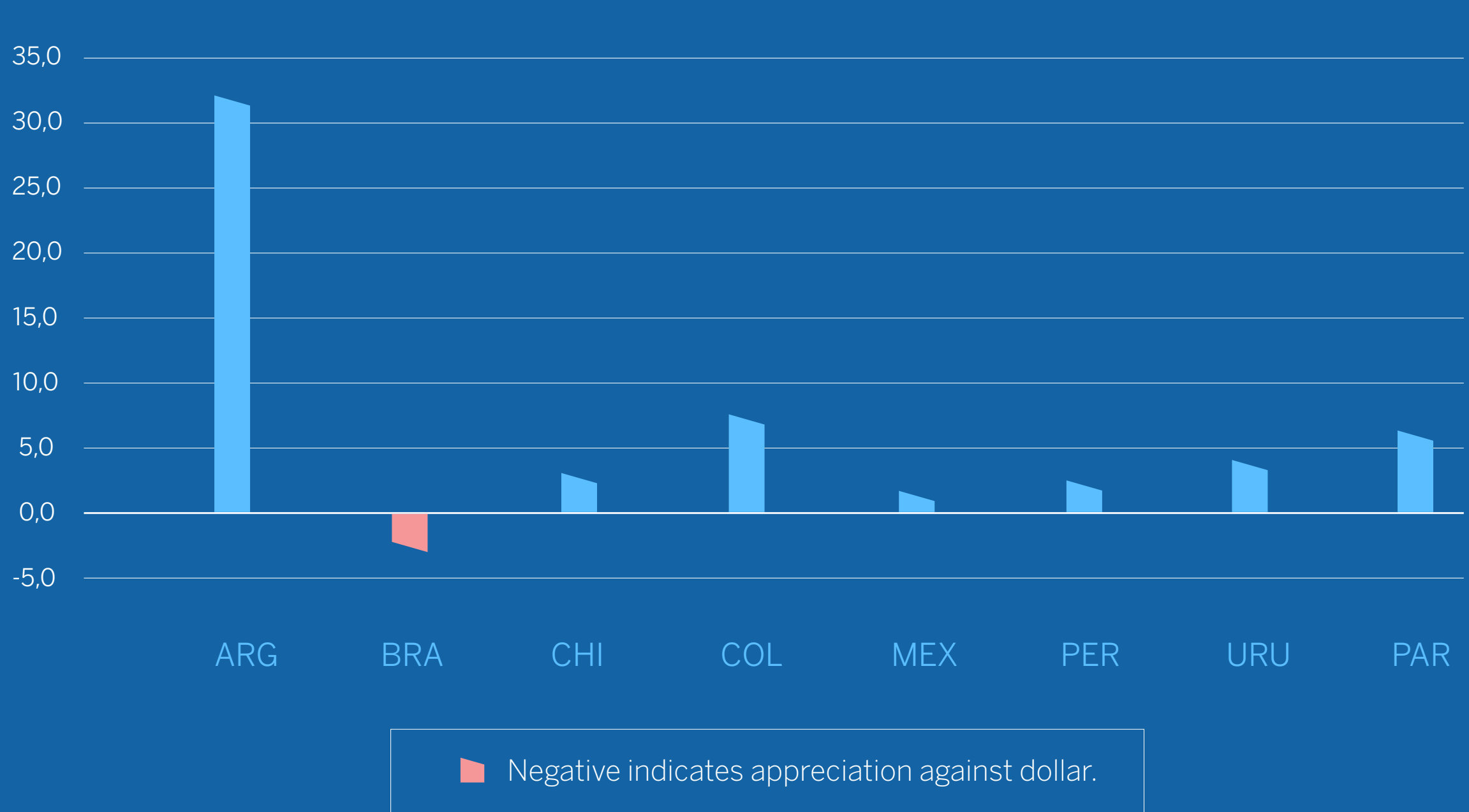
Growth forecasts for **Colombia and Peru** remain unchanged.

Average growth in Latin America has been **hindered in 2018 by the recession in Argentina**, although it will recover in **2019 and 2020**.

VOLATILITY IN INTERNATIONAL MARKETS MAINLY AFFECTED ARGENTINA, DUE TO ITS EXTERNAL VULNERABILITY

- Market pressure has relaxed somewhat in Brazil**, although uncertainty continues, as the country awaits necessary fiscal adjustment.
- Markets in Mexico** have responded positively to new trade agreement proposals with the US and Canada (**USMCA**)
- With the **exception of Argentina**, countries in the region have resisted the interest rate hike in the US relatively well.

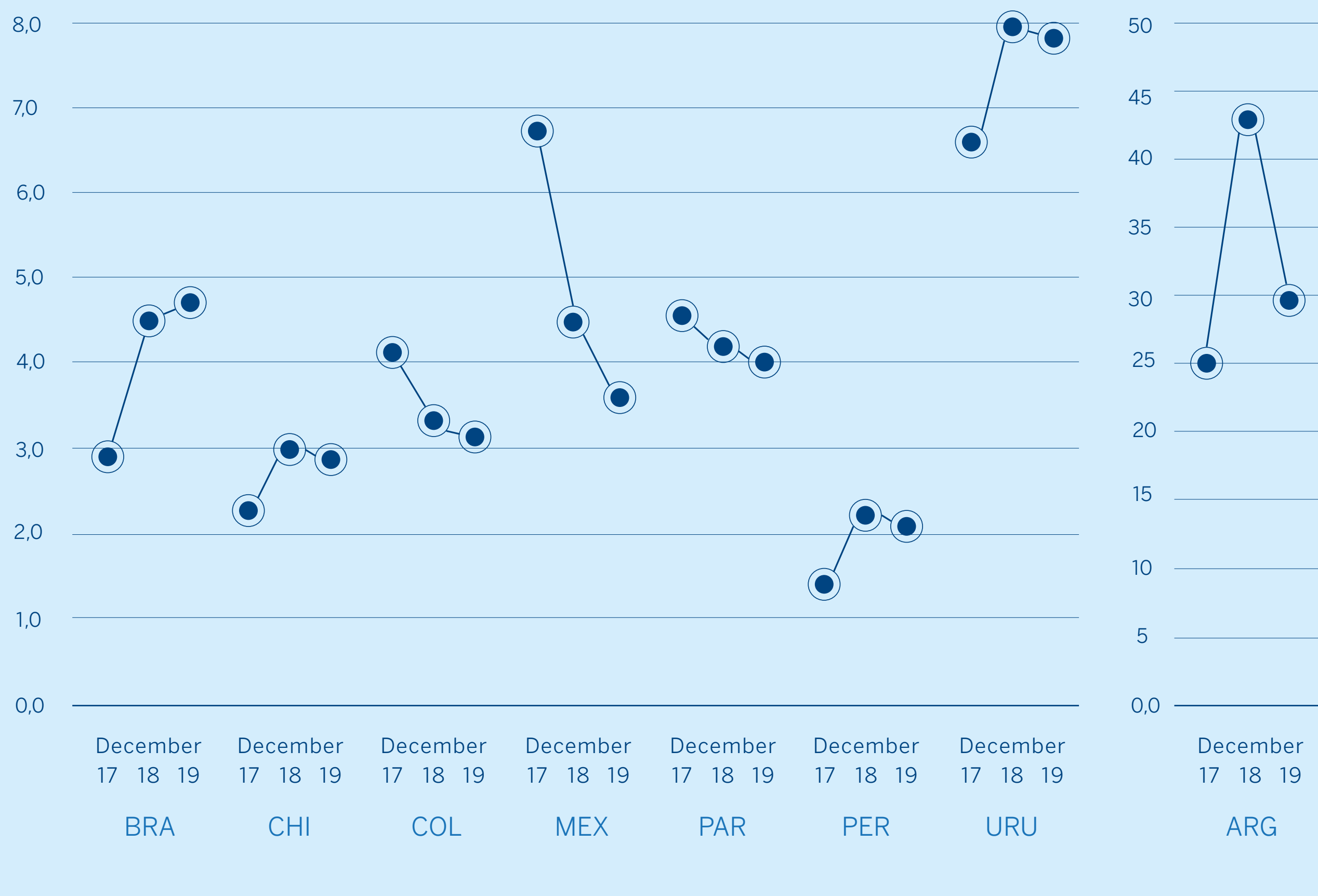
Depreciation against USD (% change in the three months to October 22)



WELL-ANCHORED INFLATION FORECASTS FOR SOUTH AMERICA, EXCEPT IN ARGENTINA AND URUGUAY

- Inflation in Argentina will increase significantly**, due to depreciation of the currency. In Mexico, target is set to be slightly delayed.
- Central banks** in South America (except Argentina) will start a cycle of interest rate rises in 2019.
- Argentina and Mexico will go back to cutting interest rates** in the short term as inflationary risk lessens.

Inflation (yoy %)



Source: BBVA Research

RISKS

INTERNAL FACTORS

- Political noise:**
 - Brazil, Mexico and Chile.
 - ↑ Peru, Colombia and Argentina.
- **Delays in private** and public investment.
- **Failure to push ahead with reforms** and boost productivity.

EXTERNAL FACTORS

- ↑ **A tightening of international credit conditions.**
- ↑ **Protectionism.**
- **Abrupt deceleration** in China.

