BBVA Research

Latin American Economic Outlook 4Q18

October 2018

Creating Opportunities

Summary (I)

- The global environment remains positive, although growth is moderating in emerging economies and in the euro zone. The impact of protectionism is limited at the moment, but remains the main risk, along with the Fed's normalisation and political uncertainty in Europe. Diverse outlooks for raw material prices which are driven by supply factors: oil on the rise; copper and soy adjust downwards.

- 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 received interest rate hikes in the US relatively well.

- Average growth in Latin America has been hindered in 2018 (0.9%) by the recession in Argentina, although it will recover in 2019 (1.8%) and 2020 (2.6%). The region presents highly diverse economic perspectives, with crisis in Argentina, uncertainty in Brazil and resilience in the Pacific Alliance. Downward revision of growth expectations for Argentina in 2018 and 2019, due to the exchange-rate crisis and tightening monetary and fiscal policy. Downward revision for Brazil, Mexico and Uruguay in 2018, mainly due to poor growth figures for the first half of the year. Brazil has also been 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 (USMCA). Growth forecasts for Chile and Paraguay improve, given the positive outturns for the first half of the year, while growth forecasts for Colombia and Peru remain unchanged.

Summary (II)

- Inflation expectations remain anchored in Latin America, except in Argentina and Uruguay, despite recent exchange rate depreciations. Inflation in Argentina will increase significantly, due to recent sharp exchange rate depreciation. In Mexico, the convergence of inflation on the Central Bank's target will be slightly delayed, given the temporary upturn in recent months.

- The central bank of Chile has already begun the cycle of interest rate hikes and will be followed by the other countries in 2019 (except Mexico and Argentina), in a context of withdrawal of monetary stimulus in the US and recovery of growth. In Argentina, interest rates will begin to fall as inflation decreases at the beginning of 2019 after the monetary restriction. In Mexico, the interest rate cuts would resume at the beginning of 2019

- There would be scope for a slight appreciation of exchange rates in some countries, following recent sharp depreciations. The resumption of growth and the onset of a monetary tightening cycle in many countries will support the region's currencies, especially those that are most undervalued. However, the rise in US interest rates will moderate those gains.

- Risks associated with protectionism and the tightening of international financial conditions, are increasing. As for domestic risks, the main ones are political noise and social and financial tensions in Argentina, fiscal policies of the new government in Brazil and the possible delay in public and private investment in several countries.

Contents

01

Still supportive global environment

Positive global inertia continues, although the risks are intensifying

Robust global growth, albeit more moderate and less synchronised

The strength of the US economy contrasts with moderation in China and Europe

Divergent monetary policy between the US and Europe from 2019

The Fed ends its cycle of increases, while the ECB initiates its own increases and prepares the withdrawal of liquidity

More accentuated financial tensions in emerging markets

With clear differentiation between countries, the most financially vulnerable of them will face abrupt adjustments in their economies

Intensification of the trade war between the USA and China

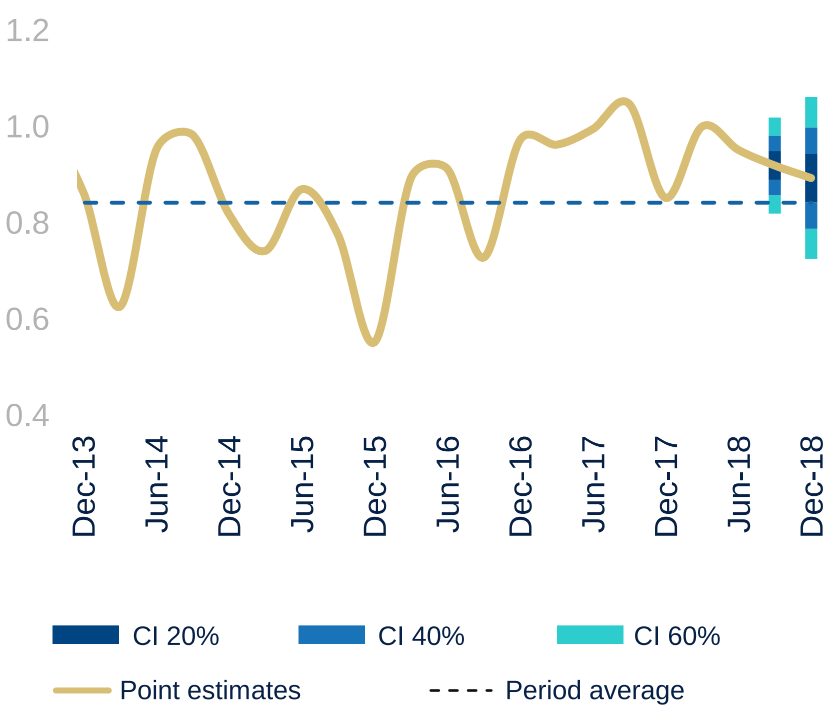
Impact still limited, but could increase if new measures are taken. The conflict between the U.S. and other areas is decreasing for now

Global risks are intensifying

In addition to protectionism and the normalisation by the Fed, tensions are rising in emerging countries, and there is greater uncertainty in Europe

More moderate global growth

World GDP growth
(Forecasts based on BBVA-GAIN, % QoQ)

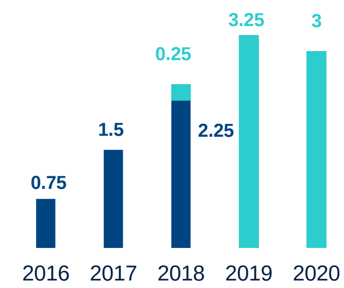


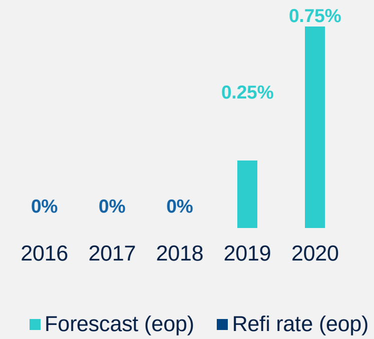
Source: BBVA Research

- Slight moderation of global growth towards rates slightly below 1% QoQ in 2H18
- Activity data remains strong, but has lost momentum as protectionism weighs down on confidence, trade and investment
- Apart from this volatility, world trade has improved and stabilised after the slowdown at the beginning of the year

Monetary policy continues to normalise and will diverge between the Fed and the ECB from 2019 onwards

Assessment	Interest rates
Balance sheet reduction continues (US$450 billion in 2018)	**More rate hikes in 2019, but the cycle is ending** (natural interest rate)
End of QE in Dec-2018 **Total reinvestment** at least until Dec-2020 **Repayment of TLTROs** as from June 2020	Anchored expectations of low rates for an extended period of time. **No interest rate increases expected before September 2019**

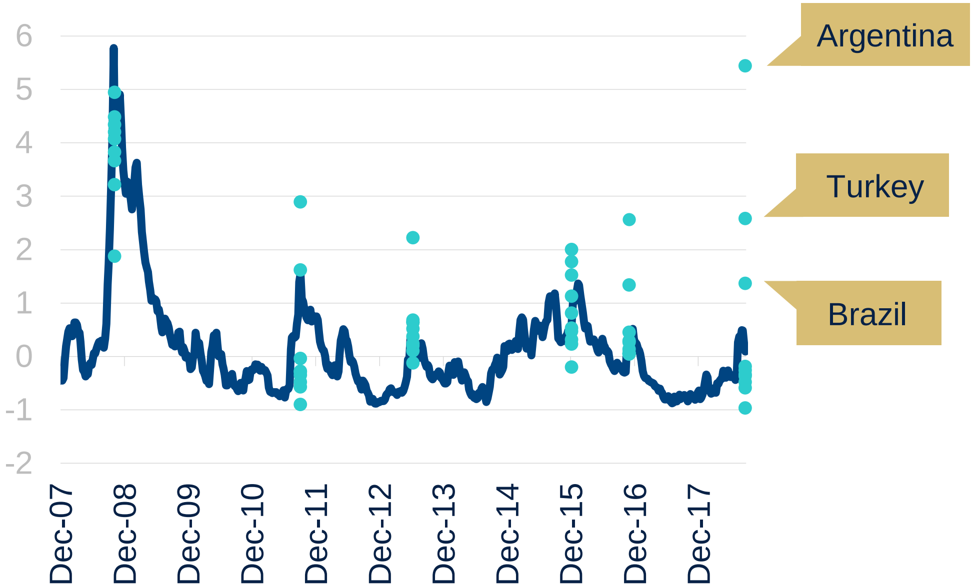




Source: BBVA Research

Financial tensions have rebounded in emerging markets, but have been less synchronised than in previous episodes

BBVA index of financial tensions for emerging economies
(Index)

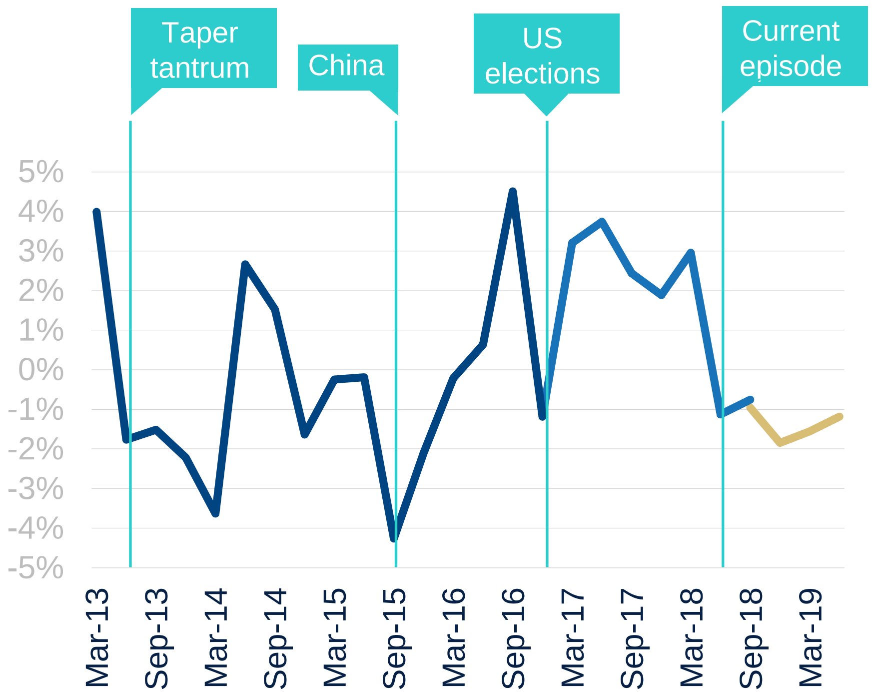


- The emerging markets are under greater stress which translates into a currency depreciation and an in risk premium
- There is differentiation: tensions have been concentrated in particular in the most vulnerable economies. We are not looking at a systemic crisis in emerging markets
- The adoption of economic policy measures (monetary and fiscal) is allowing for some stabilisation

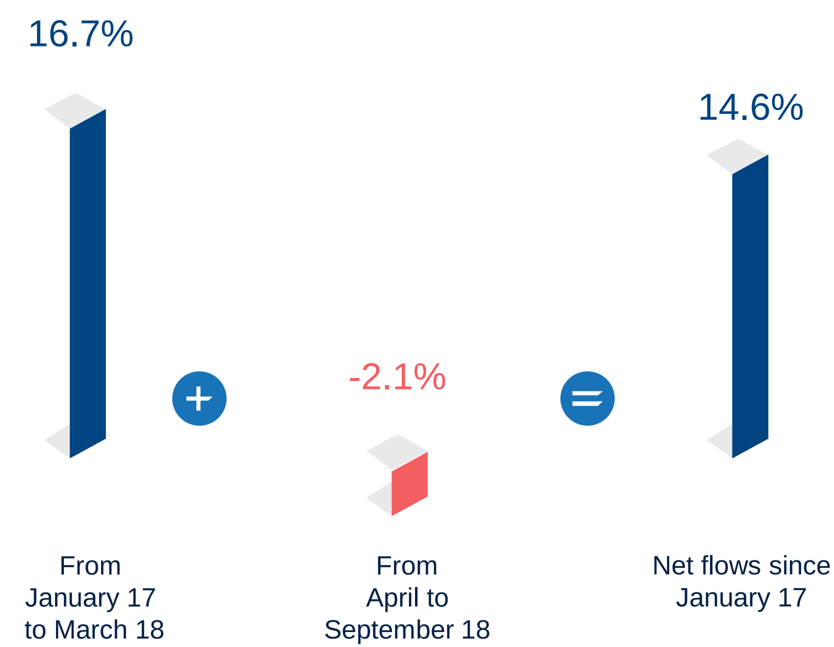
Source: BBVA Research

Persistent outflows from emerging economies but we are a long way from a typical sudden-stop episode

Portfolio flows to emerging economies
(% over total assets, monthly data)



Cumulative flows in the last 5 quarters
(% of cumulative amount since January 2017)

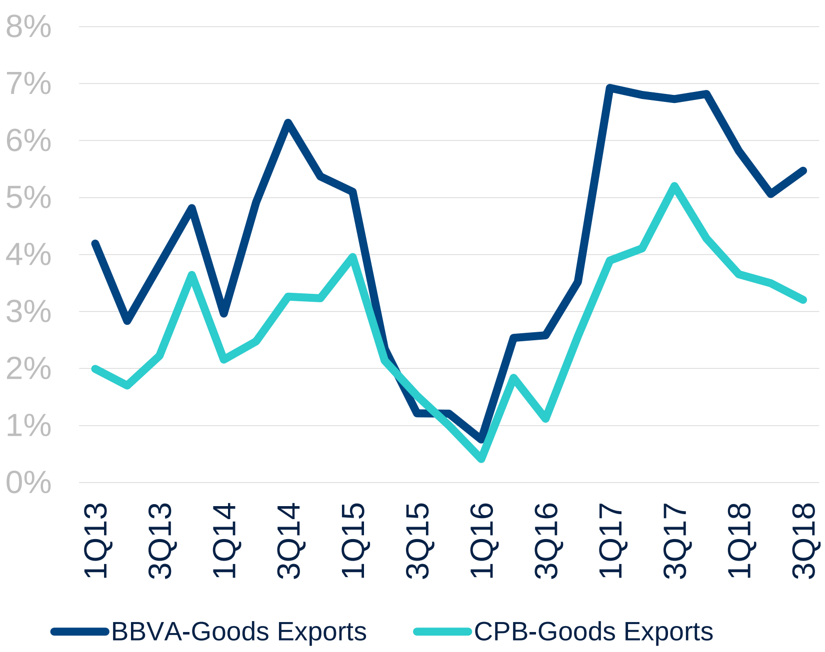


Source: BBVA Research

Trade loses momentum after the strength of 2017, but will continue to support global growth

World export of goods

(YoY, constant prices)



- The trade war has so far had a limited impact but it may be reflecting the frontloading of international transactions
- Increased volatility of trade flows as a result of uncertainty in some countries..
- ...especially because of trade tensions, the political situation and the depreciation of currencies in emerging economies

Source: CPB World Trade Monitor and BBVA Research

U.S. and China have announced higher tariffs, but with an estimated limited effect on global GDP for now

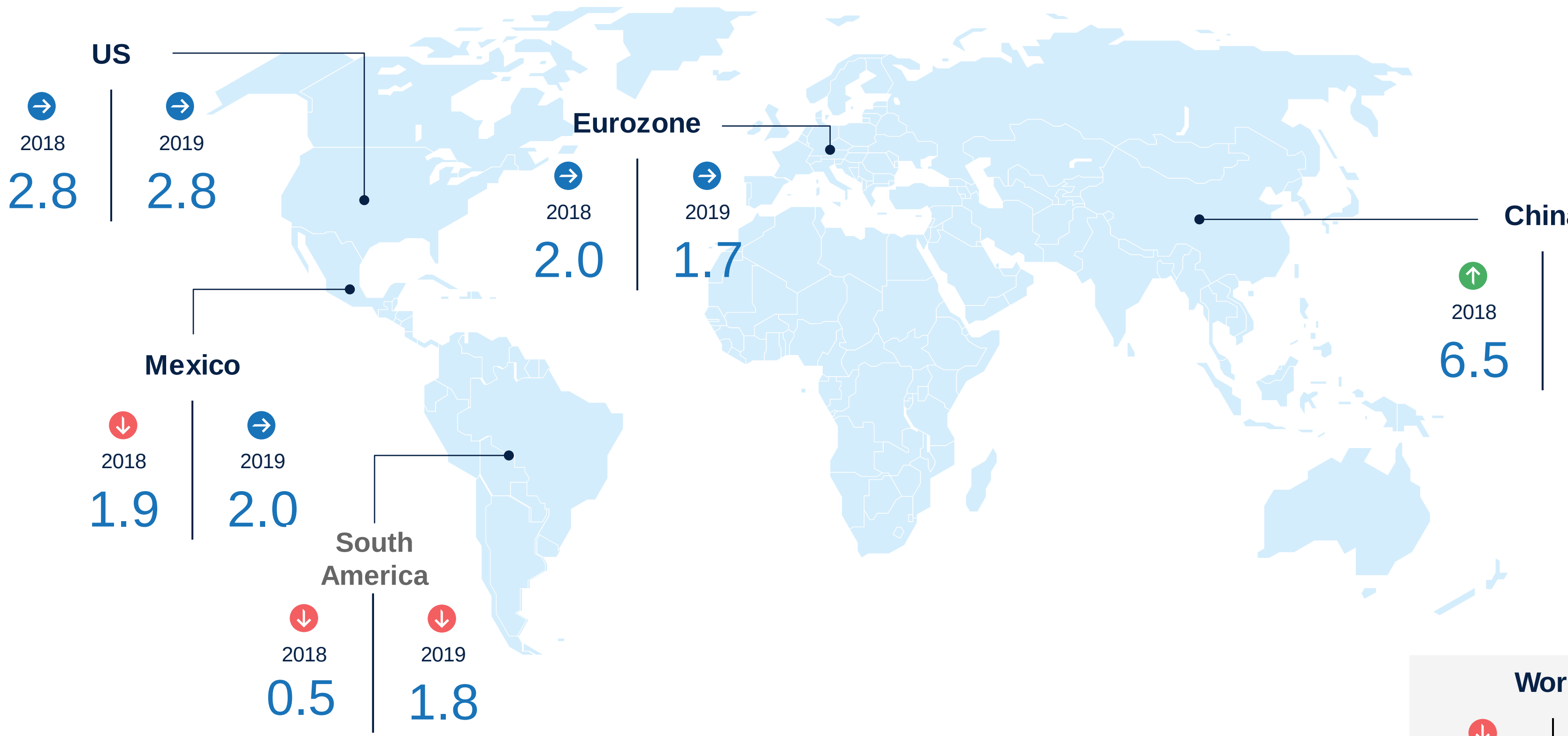
Effect on GDP growth of US tariff increases and the response by other countries

(2018-20, pp)

- The impact on growth of measures adopted so far could be limited through the trade channel. But the indirect effects could be considerable especially for China and emerging economies
- The signing of the USMCA reduces uncertainty with Mexico and Canada, pending its approval
- In Europe the increase in tariffs on automobiles is currently stalled, although it will be renegotiated from November onwards

Approved increase of tariffs: US (25% on steel, 10% on aluminium, 25% on Chinese imports for the value of US$50 billion and 10% on imports for the value of US$200 billion); China (25% on US imports for the value of US$50 billion and 10% on imports for the value of US$60 billion)
Source: BBVA Research

The downward revision of growth in emerging economies explains the expected moderation of global growth in 2019



Upward revision

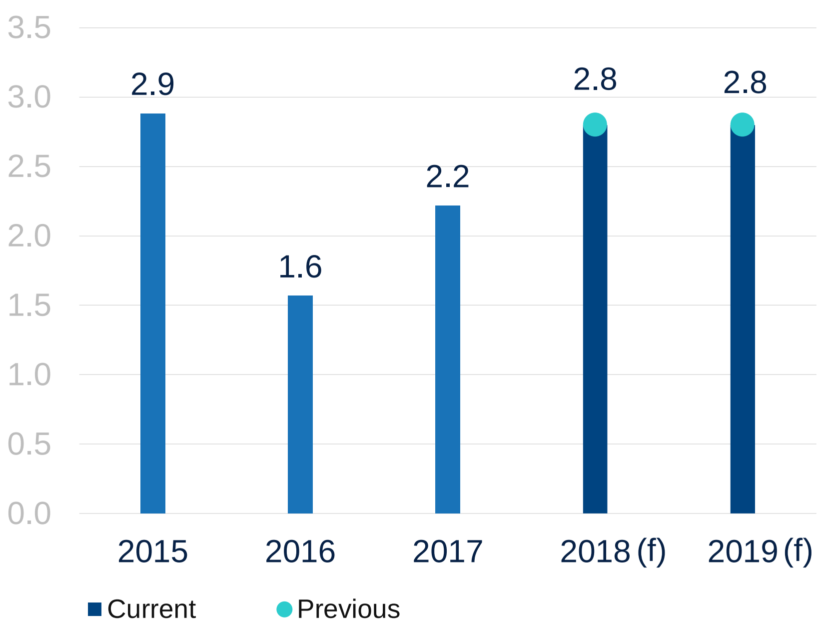
Unchanged forecast

Downward revision

Fuente: BBVA Research

US: Increased consumption and strong investment support higher growth, but with signs of stabilisation

US: GDP growth
(% YoY)

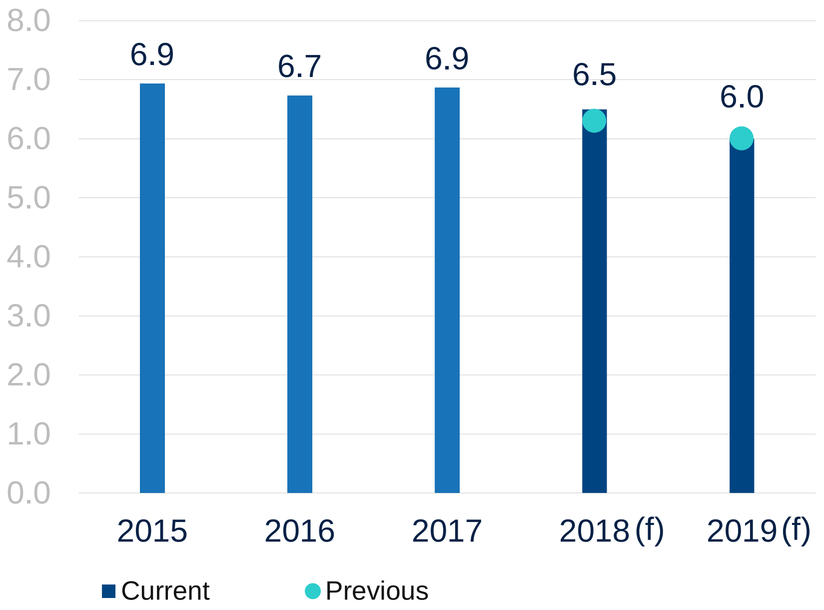


- The acceleration of activity in 2Q18 seems temporary after a strong boost from the external sector. Some moderation is expected in the coming quarters
- Headline inflation is moderating and core inflation remains stable at around 2%, which reduces the probability of a high inflation scenario
- Imbalances are increasing although the downside risks remain contained

(f) Forecast
Source: BBVA Research based on BEA (Bureau of Economic Analysis) figures

China: More accommodative policies to mitigate headwinds

China: GDP growth
(% YoY)



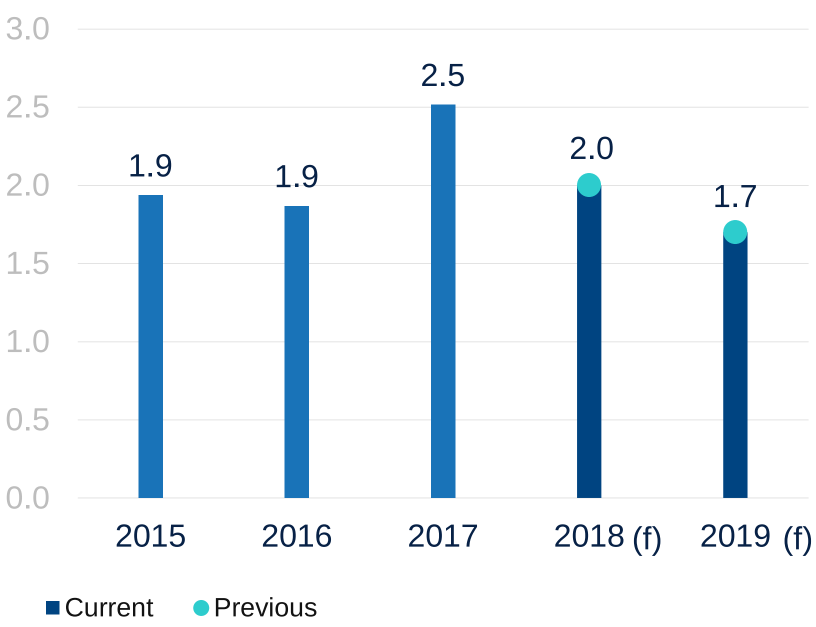
- Upward revision of growth in 2018 (+0.2 pp) due to better performance in 1H18, but clearer signs of moderation going forward
- Fiscal and monetary stimulus are being implemented to support growth, but they are moderate measures for now, so as not to worsen financial vulnerabilities
- Protectionism remains the main risk, especially if it slows down the deleveraging of the economy or induces a sharp depreciation of the exchange rate

(f) Forecast
Source: BBVA Research based on CEIC data

Euro zone: The strength of domestic demand is offsetting the increased uncertainty and the moderation of global demand

Eurozone: GDP growth

(% YoY)

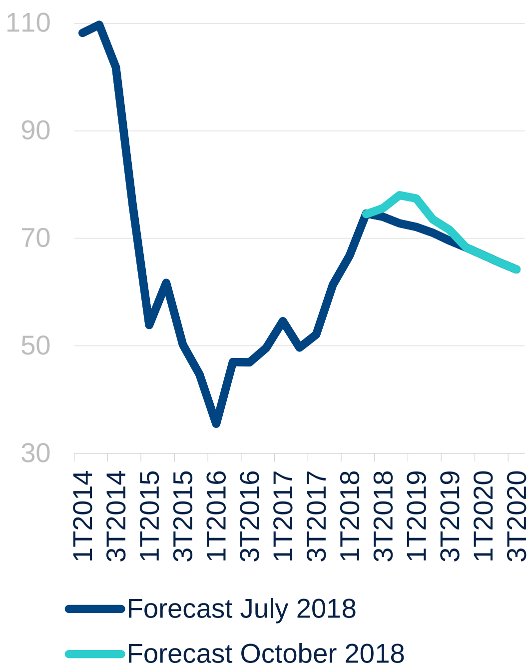


- Growth forecast maintained but with increased support for private consumption and investment
- Monetary and fiscal policy continue to be accommodative in a context of increased political uncertainty
- Trade tensions with the U.S. have eased for now but may weigh on trust and investment
- Despite the recent rebound in inflation, the underlying rate will only increase gradually especially in 2019
- Political risks have increased (Italy)

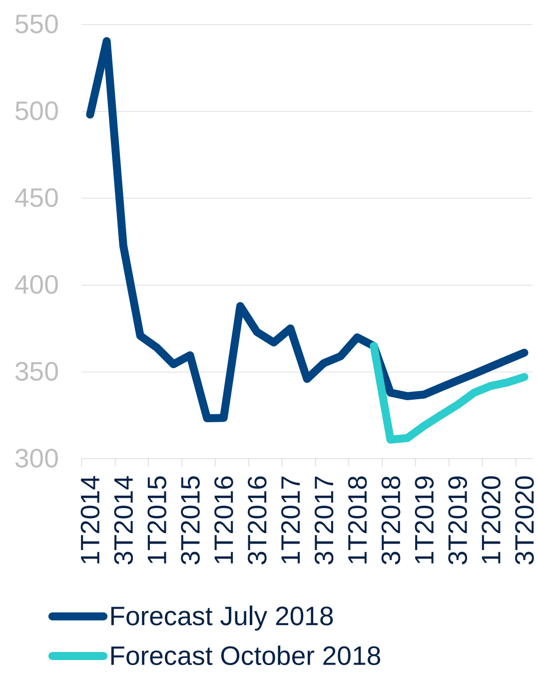
(f) Forecast
Source: BBVA Research based on Eurostat

Diverse outlook for raw material prices, driven by supply factors: oil on the rise; copper and soy adjust downwards

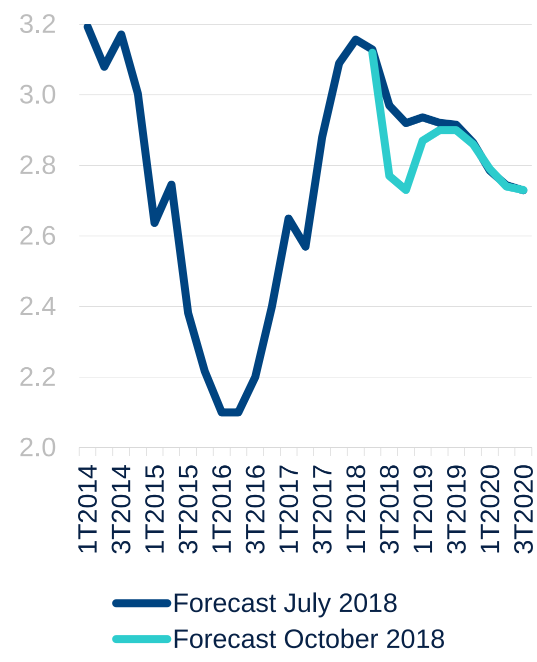
Brent Crude
(US$ per barrel)



Soybeans
(US$ per metric tonne)



Copper
(US$ per lb.)

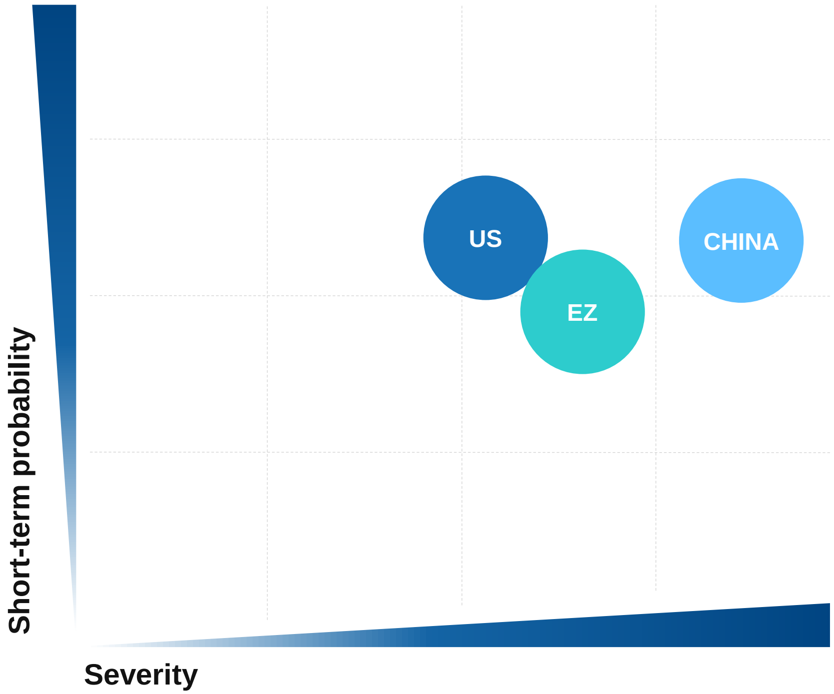


Source: BBVA Research and Bloomberg

Oil prices revised up due to geopolitical concerns (Iran and Venezuela) Will start to trend downwards as the US recovers its oil export capacity and demand stabilizes.

Copper prices revised down as financial investors reduce their positions. Soybean prices drop sharply due to good US harvest. In addition, copper and soybeans negatively affected by trade tensions between US and China.

Global risks: protectionism and the Fed's exit strategy remain the most relevant risks but political uncertainty is increasing in Europe



Source: BBVA Research

CHINA

- Protectionism: on the upside (new tariffs and reprisals) with an impact on domestic policies (financial stability, reforms)
- High indebtedness: more contained in the short-term but higher in the medium-term (private debt continues to rise)

USA

- The Fed's exit strategy: high. Higher-than-expected rate hikes
  - Differential impact on emerging markets
- Protectionism: on the rise and concentrated on China
- Economic recession: low probability but rising
- Signs of financial instability in some assets

EURO ZONE

- Political risk: on the rise, led by tensions in Italy and B*rexit*
- Protectionism: more contained. Focus on the automotive sector
- The ECB's exit strategy: low

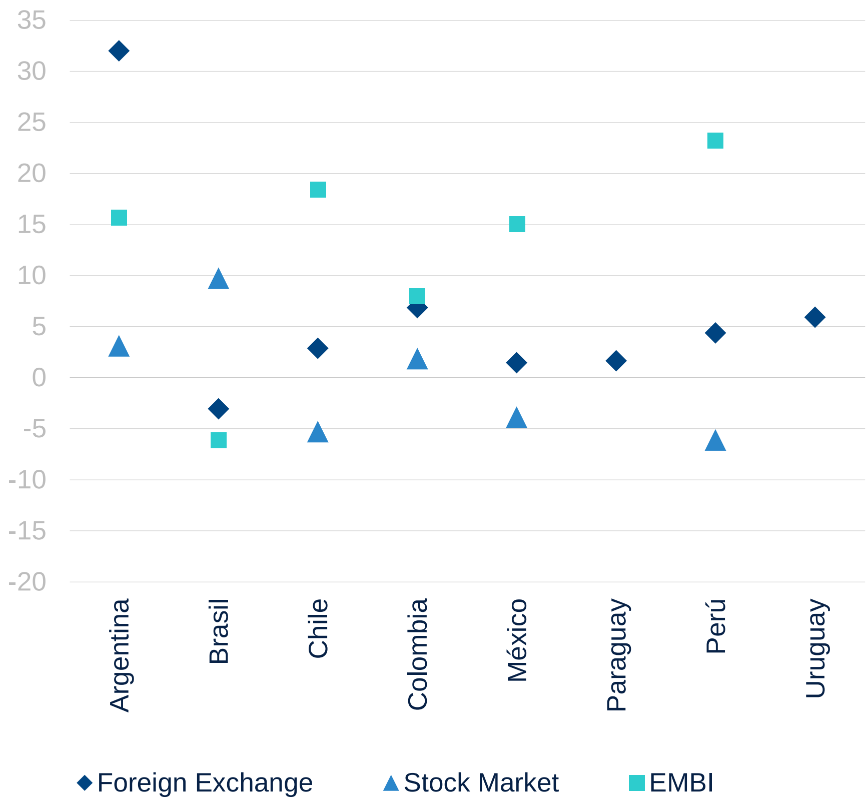
Tensions in Emerging Economies may amplify the impacts of the global risks mentioned above
("second round" effects on world growth)

02

Latin America: Recession in Argentina, uncertainty in Brazil, resilience in the Pacific Alliance.

Argentina was the most affected by turmoil on emerging economies financial markets

Financial asset prices: Percent change in the last three months until 22 October*



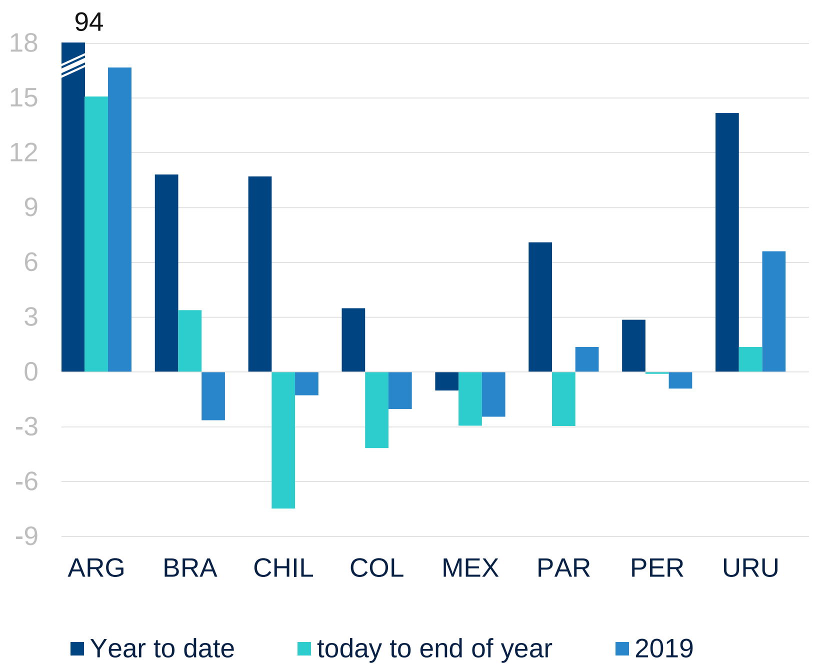
* Changes between 16 July and 15 October. Exchange rate: domestic currency/dollar. In this case, an increase indicates depreciation. Country risk premium: EMBI.
Source: BBVA Research, Haver Analytics and DataStream

- Outstanding doubts about Argentina's external financing capacity caused new tensions in August. The new agreement with the IMF in September increased and brought forward the expected funds while monetary and fiscal policy tightened, stabilizing the exchange rate
- In Mexico markets responded positively to the new proposed trade agreement with US and Canada (USMCA)
- Recently the tone in Brazil has also been more positive, due to the lesser concern of the markets with the political scenario after the elections
- Other countries resist relatively well to the rise in US interest rates and to the increase in risk aversion

Exchange rates: margin for small appreciations in most of the region, following recent sharp depreciations

Exchange rate: changes year-to-date and expected to occur until year end 2018 and for 2019

(%, nominal exchange rates)



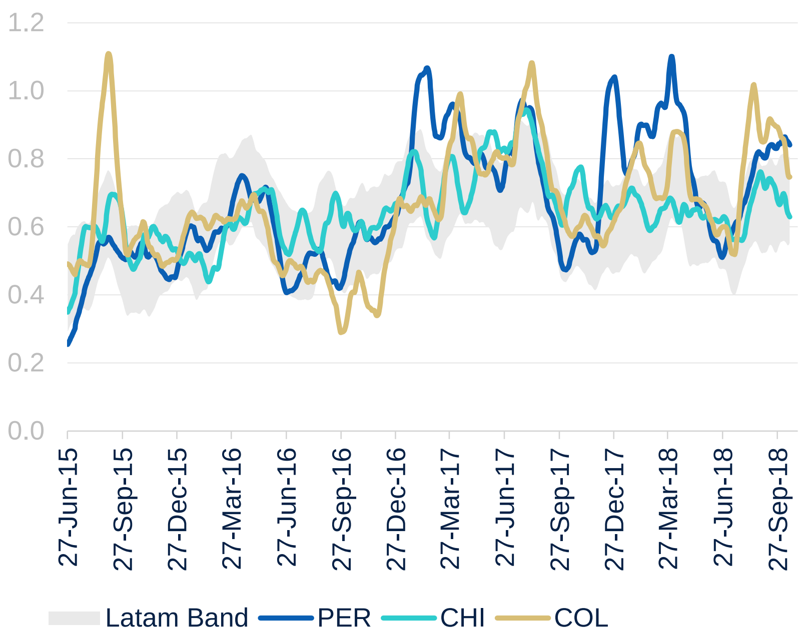
* Increases indicate depreciation. Changes observed YTD are cumulative to 15 October. Those expected for the rest of the year are cumulative from that same date.
Source: BBVA Research, Haver Analytics and DataStream

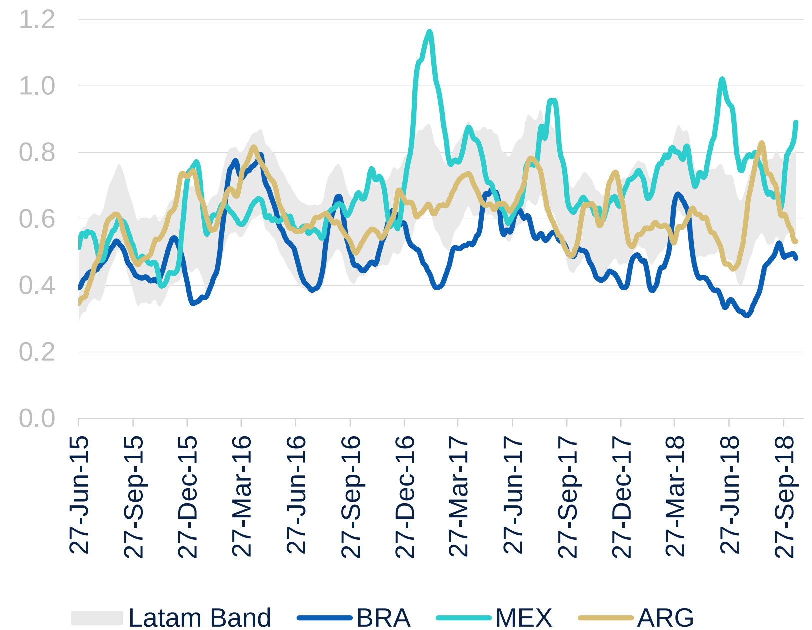
- Almost all regional currencies have depreciated throughout 2018. The adjustment has been higher in Argentina, Uruguay and Brazil and lower in Colombia and Peru. The exception has been the Mexican peso which has appreciated in light of the reduction in the risks associated with the trade treaty with the US and Canada
- In most the countries there is margin for exchange rate appreciations
- The resumption of growth and the onset of a monetary tightening cycle in many countries will support currencies.
- However, the increase of interest rates in US and the moderation or commodity prices should continue pressing in the opposite direction
- In Argentina and Uruguay, although the nominal exchange rate will depreciate, an appreciation in real terms is expected

Political tension resurged since August, with different intensities, in most countries

Latin America: Political stress index

(Media tone on politics weighted by media coverage. 30-day moving average)





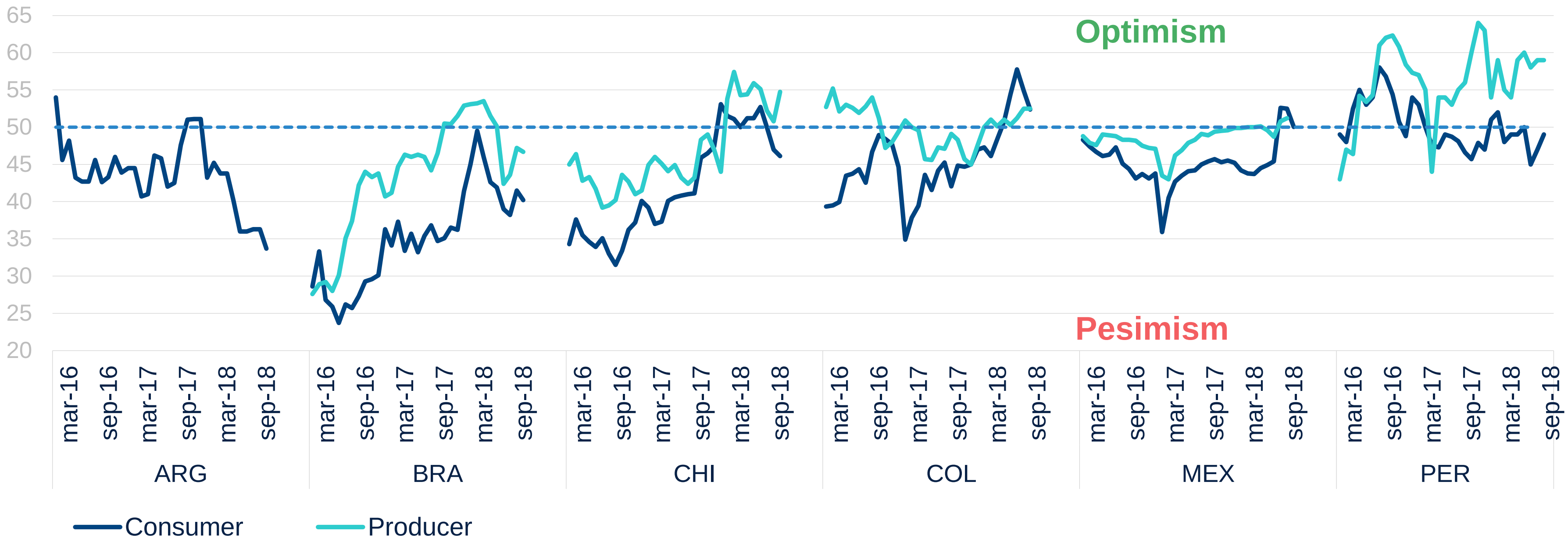
The political tension index measures the tone of political reporting in the media, weighted by media coverage of political matters
Source: BBVA Research and Gdelt

Political tension increased in Colombia and Chile in a context of discussion of significant tax reforms. Political tension in Peru was fuelled by the dispute between the executive and legislative branches and corruption scandals

Greater political tension in Argentina also driven by the exchange rate crisis. In Brazil, uncertainty surrounding the electoral process also influences an increases political tension

Confidence indicators in the region continue to improve. Exception: Argentina owing to the exchange crisis

Latin America: Household and business confidence indicators
(values over 50 pts indicate optimism)



Source: BBVA Research and Haver

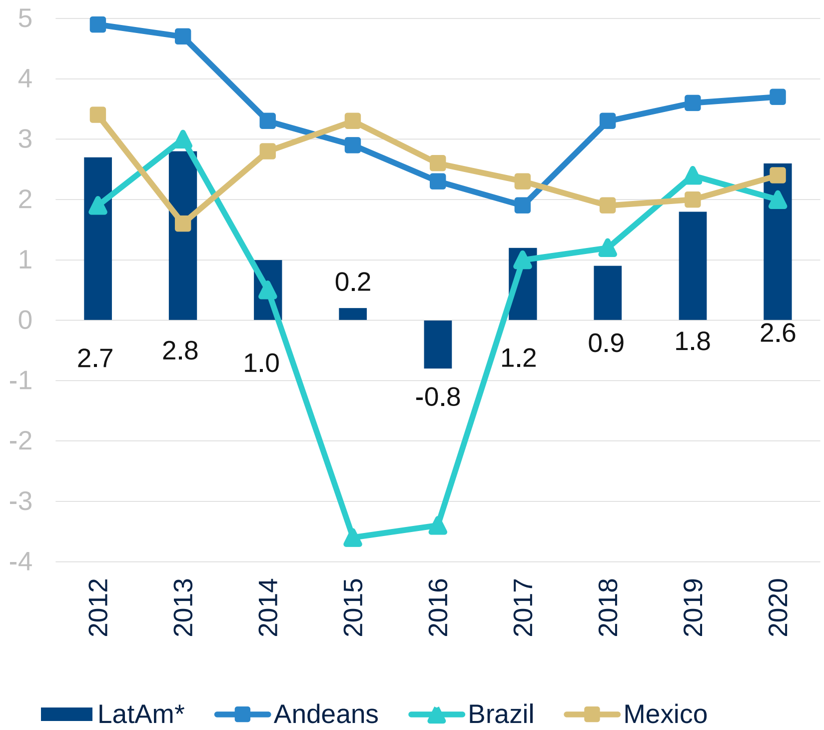
Confidence falls sharply in Argentina and Brazil. In Argentina, due to the depreciation of the exchange rate and the increase in regulated prices and the negative impact on households

In Brazil, although still dragged by political uncertainty, confidence recovered slightly after the end of the truckers' strike. In Andean countries, confidence is recovering in line with growth recovery. In Mexico confidence recovers as political uncertainty decreases

Regional growth in 2018 hampered by recession in Argentina. Recovery postponed until 2019

Latin America: GDP growth

(% YoY)

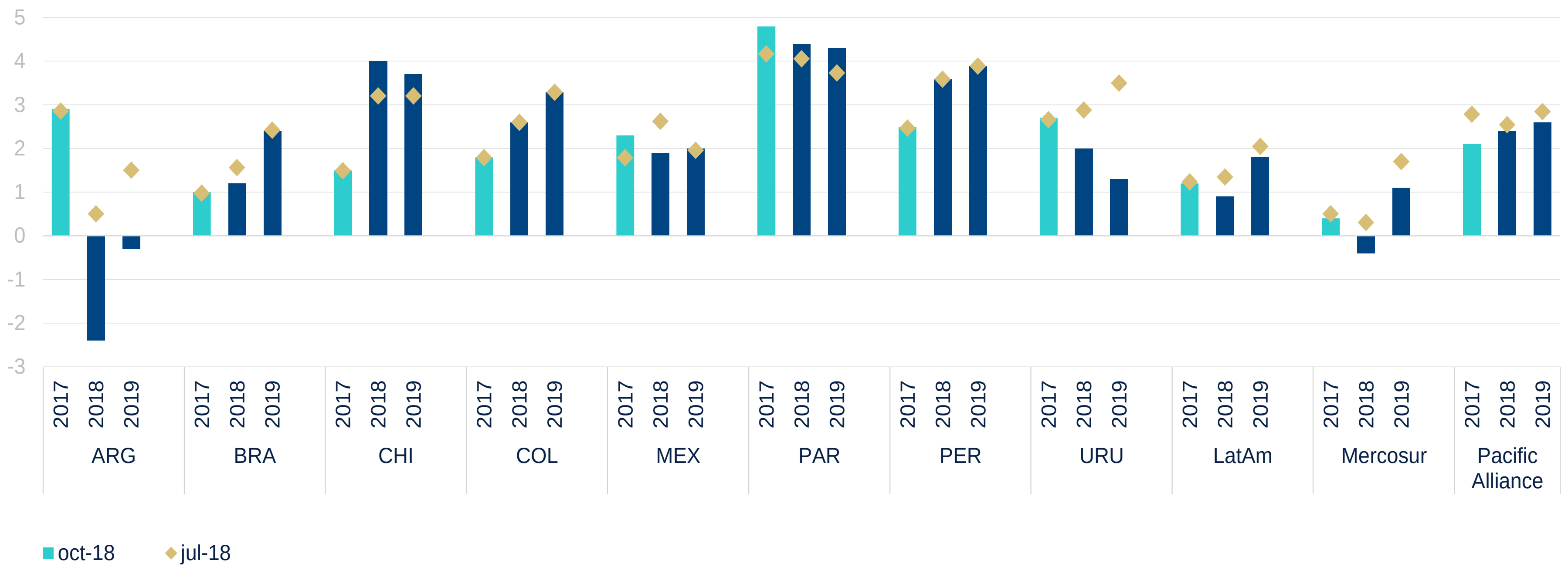


- Growth continues increasing in recent months, especially in the Andean countries showing stronger domestic demand
- Growth in 2018 and 2019, supported mainly by the external sector, with global growth still robust and favourable prices of some raw materials such as oil and copper
- Growth will reach the potential (between 2.5% and 3%) as of 2020

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

Chile, Peru and Paraguay will be the most dynamic economies in 2018-19

Latam countries: GDP Growth (%)



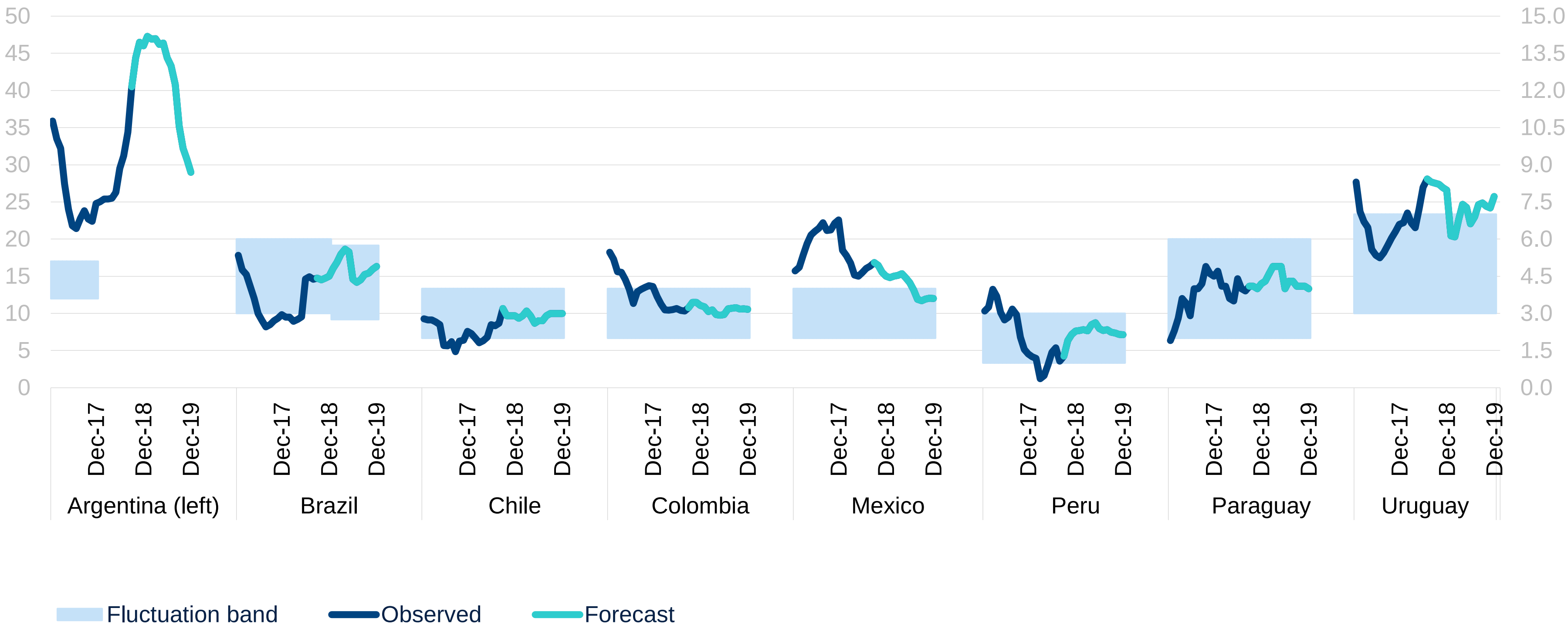
Source: BBVA Research

Growth forecasts for Argentina revised down in 2018-19, due to the FX crisis and fiscal and monetary tightening. Downward revision in Brazil, Mexico and Uruguay in 2018 due to negative outturns in the first half of 2018

Brazil has also been hampered by financial volatility. Uncertainty in Mexico has decreased on the trade deal with the US and Canada (USMCA). Growth forecasts for Chile and Paraguay improve, given the positive outturns for the first half of the year, while growth forecasts for Colombia and Peru remain unchanged.

Inflationary pressures contained except in Argentina and, to a lesser extent, Uruguay. Delays in the reduction of inflation in Mexico

Latin America: Inflation and Central Bank target ranges (%)



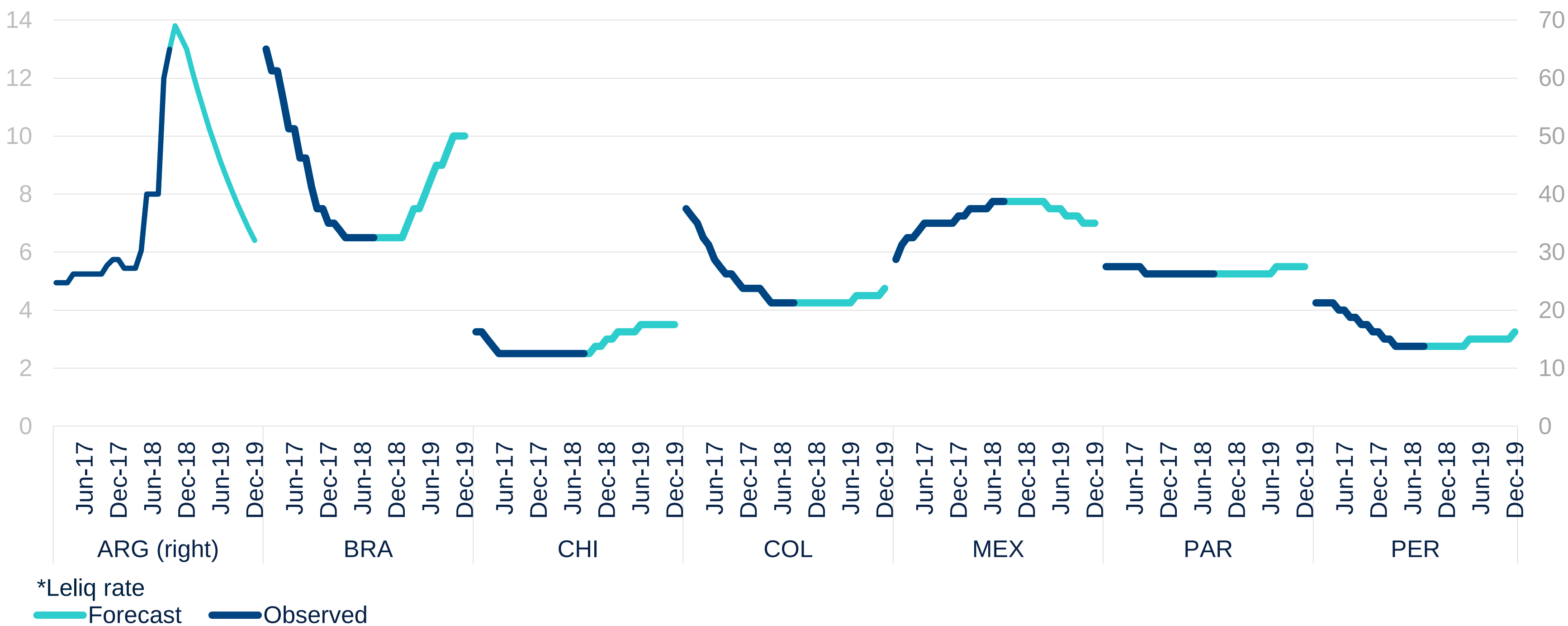
Source: BBVA Research

Inflationary pressures in the region remain limited despite slight upward revisions of inflation forecasts in line with the recent depreciation of exchange rates and some recovery of domestic demand

On the other hand, inflation in Argentina will increase significantly, due to the sharp depreciation of the exchange rate.
In Mexico inflation will converge to the target, but slower than projected three months ago

Chile started cycle of interest rate hikes and rest of countries will follow in 2019 (except in Mexico and Argentina)

Latin America: Official Interest rates (%)



*Leliq rate

Source: BBVA Research and Haver

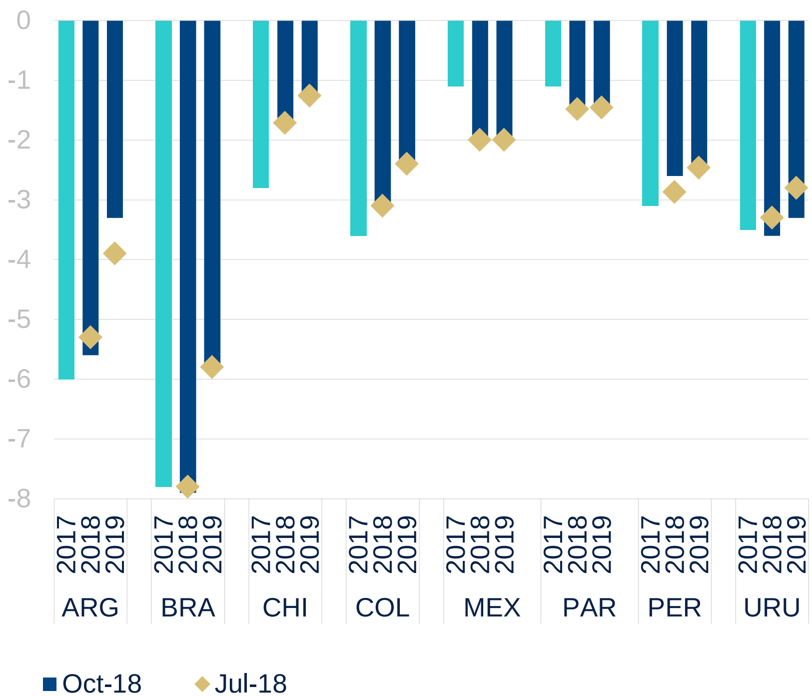
With inflation within the targets of central banks, in addition to the recovery of growth and Fed interest rate increases, central banks in South America will start raising interest rates in 2019 (Chile started the process in October)

The exceptions to this scenario are Argentina and Mexico. In Argentina interest rates will begin to fall as inflation decreases at the beginning of 2019 with monetary restrictions. In Mexico, interest rate cuts will resume at the beginning of 2019

Improved growth and tax adjustments in a number of countries should allow public deficits to diminish

Latin America: Fiscal balances

(% GDP)

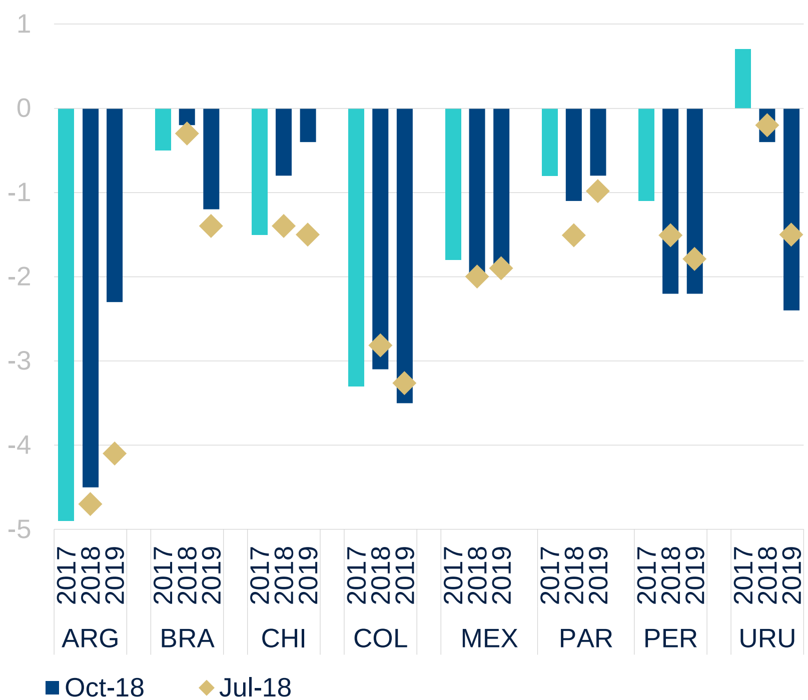


Source: BBVA Research and Haver

- In countries where fiscal deficit is higher, an improvement over the next few years is expected. Thus, in Argentina measures have been announced to close the primary deficit in 2019 and the next government in Brazil is expected to implement a fiscal adjustment, although not very ambitious. Interest payments will continue to weigh negatively on both of them
- The recovery of growth and compliance with fiscal rules will reduce deficits in countries such as Chile and Colombia
- Public deficits may increase slightly, but remain at relatively low levels in Mexico and Paraguay
- As a general rule, fiscal vulnerabilities will most likely be reduced in the next few years

External accounts: faster improvement in Argentina and gradual deterioration in most other countries over the next few years

Latin America: Current account balance
(% GDP)



- The current account deficit will shrink faster in Argentina due to a greater exchange rate depreciation and a greater slowdown expected in domestic demand
- In any case, external deficits will expand in most countries, mainly due to a gradual recovery of growth
- Also, keeping exchange rates at more depreciated levels than in the past will help keep external deficits under control, even in an environment of moderation of commodity prices

Source: BBVA Research and Haver

Greater external risks, except for China…

01 Protectionism and impact on global trade flows and raw material prices

02 A tightening of international credit conditions

03 Leveraging and sharp slowdown in China

…while domestic risks remain, with considerable disparities among countries

04 Political noise: upward risk in Argentina, Colombia and Peru; stable in Brazil, Chile and Mexico

05 Delays in private and public investment

06 Failure to push ahead with reforms and boost productivity

Summary (I)

- The global environment remains positive, although growth is moderating in emerging economies and in the euro zone The impact of protectionism is limited at the moment, but remains the main risk, along with the Fed’s normalisation and political uncertainty in Europe Diverse outlooks for raw material prices which are driven by supply factors: oil on the rise; copper and soy adjust downwards

- 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

- Average growth in Latin America has been hindered in 2018 (0.9%) by the recession in Argentina, although it will recover in (1.8%) 2019 and 2020 (2.6%). The region presents highly diverse economic perspectives, with crisis in Argentina, uncertainty in Brazil and 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 has also been 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 for Chile and Paraguay improve, given the positive facts for the first half of the year, while the growth forecasts for Colombia and Peru remain unchanged

Summary (II)

- Inflation expectations remain anchored in Latin America, except in Argentina and Uruguay, despite recent exchange rate depreciations. Inflation in Argentina will increase significantly, due to exchange rate depreciation. In Mexico, the convergence of inflation on the Central Bank's target will be slightly delayed, given the temporary upturn in recent months

- The central bank of Chile has already begun the cycle of interest rate hikes and will be followed by the other countries in 2019 (except Mexico and Argentina), in a context of withdrawal of monetary stimulus in the US and recovery of growth. In Argentina, interest rates will begin to fall as inflation decreases at the beginning of 2019 after the monetary restriction. In Mexico, the interest rate cuts would resume at the beginning of 2019

- There would be scope for a slight appreciation of exchange rates in some countries, following recent sharp depreciations. The resumption of growth and the onset of a monetary tightening cycle in many countries will support the region's currencies, especially those that are most undervalued. However, the rise in US interest rates will moderate those gains

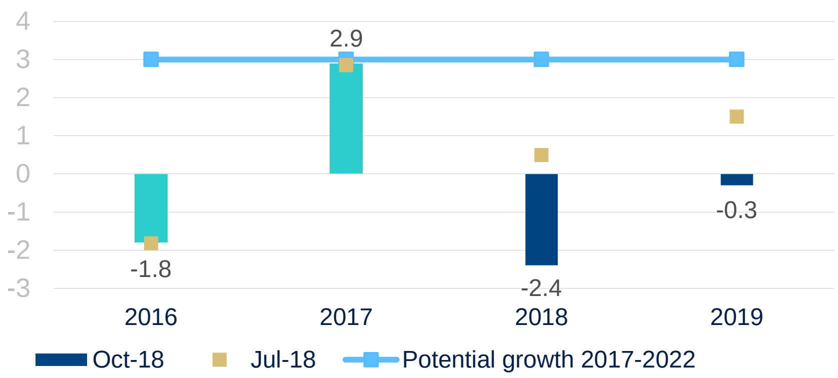
- Risks associated with protectionism and the tightening of international financial conditions, are increasing. As for domestic risks, the main ones are political noise and social and financial tensions in Argentina, tax policies of the new government in Brazil and the possible delay in public and private investment in several countries

Appendix 1

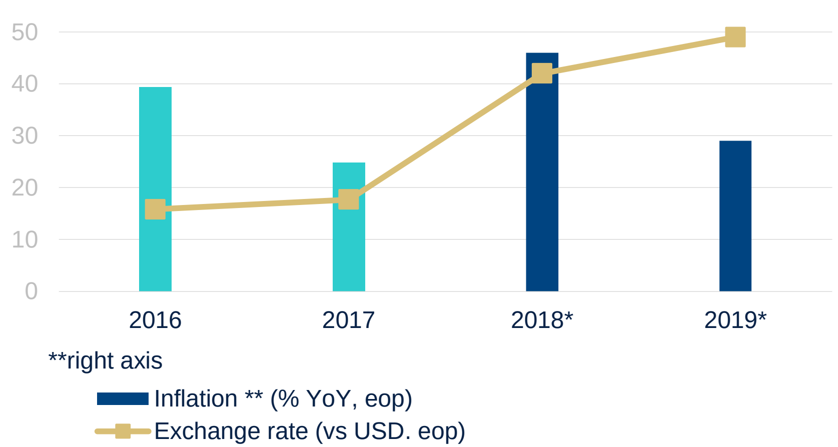
Outlook by country

Argentina: strong monetary and fiscal adjustment to tackle exchange rate crisis will have a significant negative impact on growth

Argentina: GDP growth and potential
(% YoY)



Argentina: Inflation and exchange rate
(% and pesos per dollar, year end)

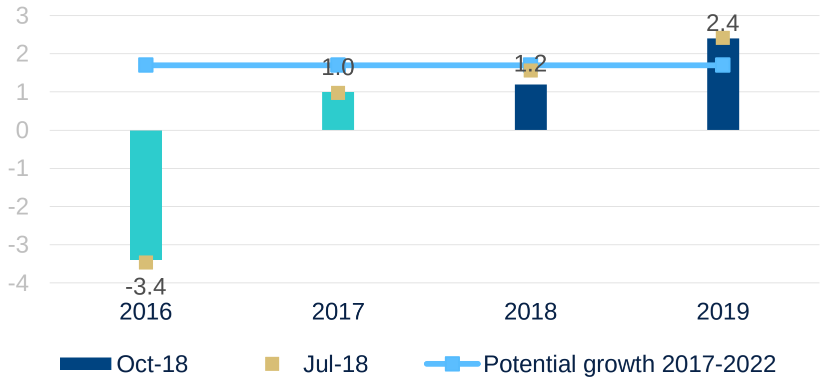


- Sharp recession in 2018 due to the exchange rate crisis and the necessary restrictive fiscal and monetary policies
- Growth will recover slowly in the first quarters of 2019 driven by the external sector
- Inflation forecasts increase in 2018 and 2019 due to the FX depreciation, despite a low *pass-through*
- The exchange rate will maintain much of the real depreciation suffered throughout 2018. As confidence in the program increases, the exchange rate would correct some of its current undervaluation
- External vulnerability will be corrected quickly: the current account deficit will quickly drop to 2.3% of GDP in 2019

Brazil: gradual recovery of growth

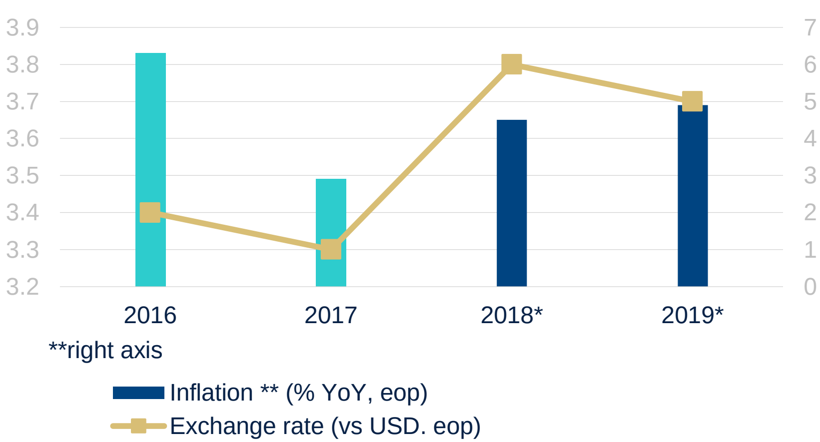
Brazil: GDP growth

(% YoY)



Brazil: Inflation and exchange rate

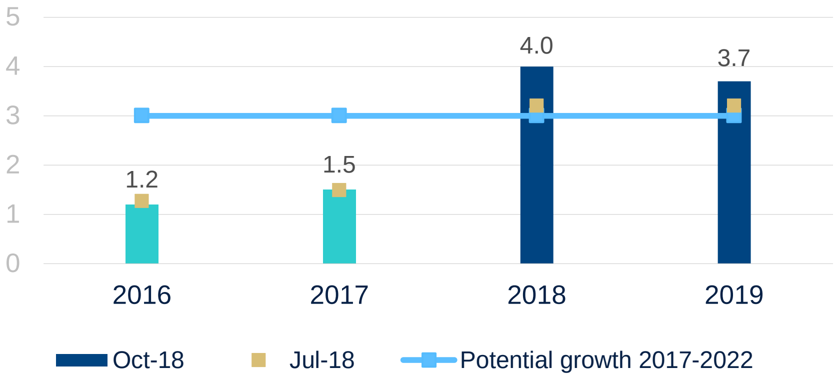
(% and reais per dollar, year end)



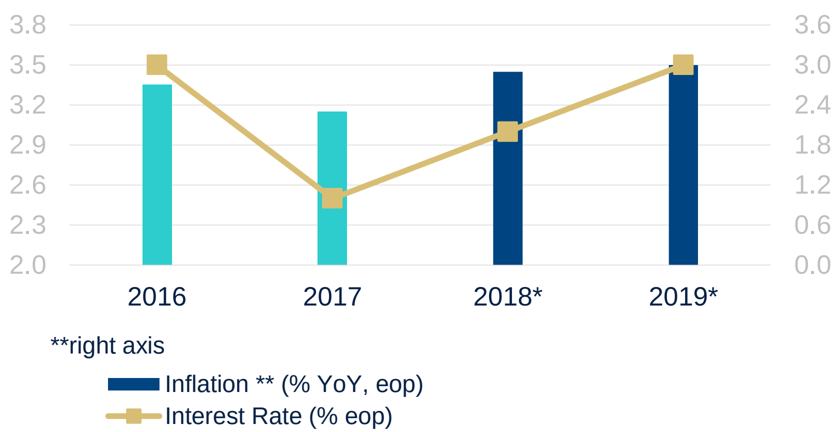
- The economy must continue to slowly recover. After growing 1.2% in 2018, the GDP would increase 2.4% in 2019 and approximately 2% in the following years
- While an ambitious social security reform seems unlikely, the next president will be forced to take steps to reduce fiscal vulnerability
- Stronger demand will push inflation upwards. The Central Bank will have to raise SELIC interest rates from 6.5% to 10% throughout 2019
- The political environment would remain polarized after the elections, but markets would leave little room to adopt non-pragmatic policies

Chile: strong growth recovery in 2018 led by internal demand

Chile: GDP growth
(% YoY)



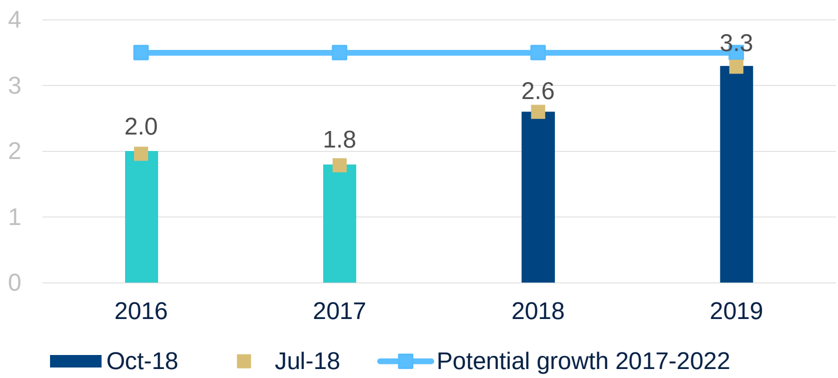
Chile Inflation and official interest rate
(%, end of period)



- Upward revision of growth forecasts in light of positive figures observed in the first half of 2018
- Inflation shows a slight upward trend driven by exchange rate depreciation. All in all, inflation expectations remain anchored at 3%
- The cycle of interest rate hikes begins in October, and will continue through 2019. Despite the weakness that is still observed in the labor market, indicators of output gap and inflation point to the need to withdraw stimuli.

Colombia: growth in 2018 and 2019 led by consumption and investment, respectively

Colombia GDP growth
(% YoY)



Colombia Inflation and official interest rate
(%, end of period)

- Growth forecast for 2018 and 2019 remains unchanged. Positive surprises in public and private consumption, as well as investment (not including construction) in the first half
- Inflation will remain close to the Central Bank's target (3%). The depreciation of the exchange rate is compensated by the moderation of food prices
- Central Bank to start raising interest rates by mid-2019 in a context of withdrawal of the monetary stimulus by the Fed, weakness of the external balance and upturn in local economic activity

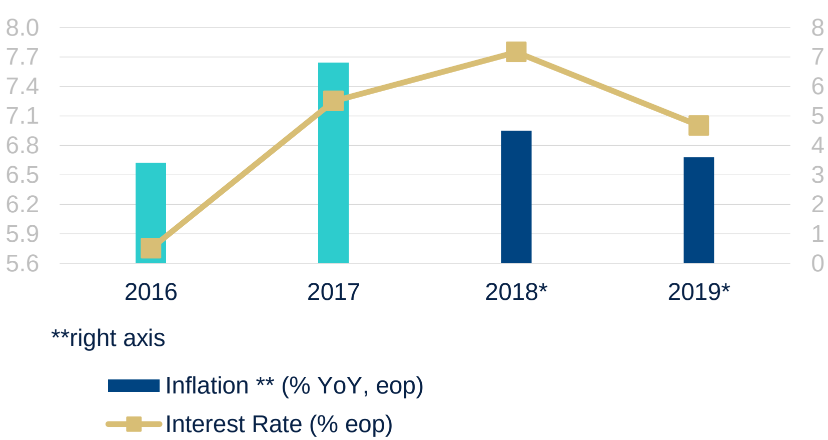
Mexico: moderate but stable growth; inflation in process of convergence to Central Bank target

Mexico: GDP growth

(% YoY)

Mexico: Inflation and official interest rate

(%, end of period)

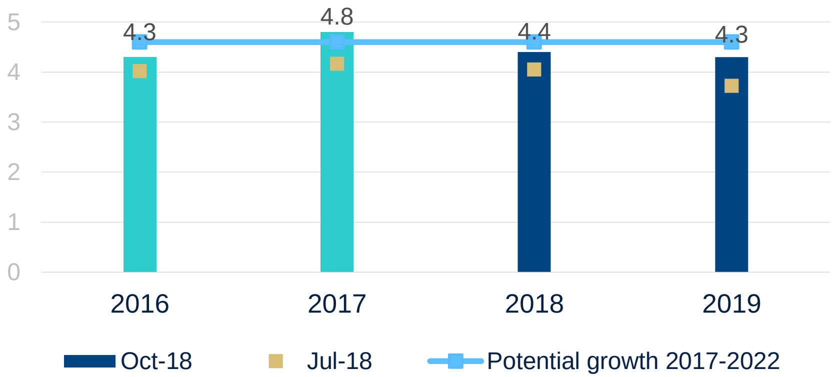


- Downward revision of the growth forecast for 2018 owing to worse figures than anticipated in the second quarter
- The recent trade agreement with US and Canada (USMCA) reduces uncertainty and it is not negative for Mexico, especially considering the alternatives on the negotiating table
- Recent rebound in inflation would be transitory but will delay convergence to the 3% target beyond 2019
- Current interest rates, with a restrictive tone, would begin to decline as of 2019 onwards

Paraguay: growth supported by domestic demand, especially consumption. Inflation and expectations are within the target range

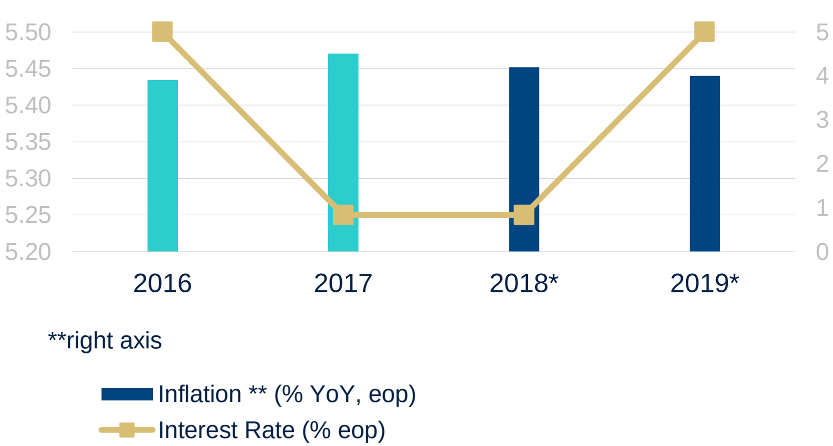
Paraguay: GDP growth

(% YoY)



Paraguay Inflation and official interest rate

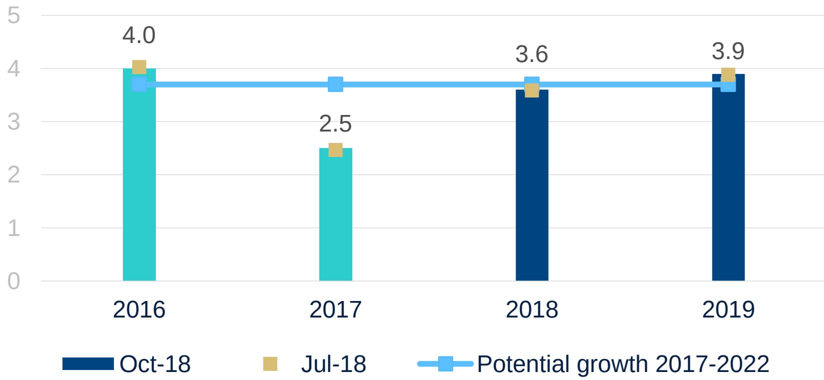
(%, end of period)



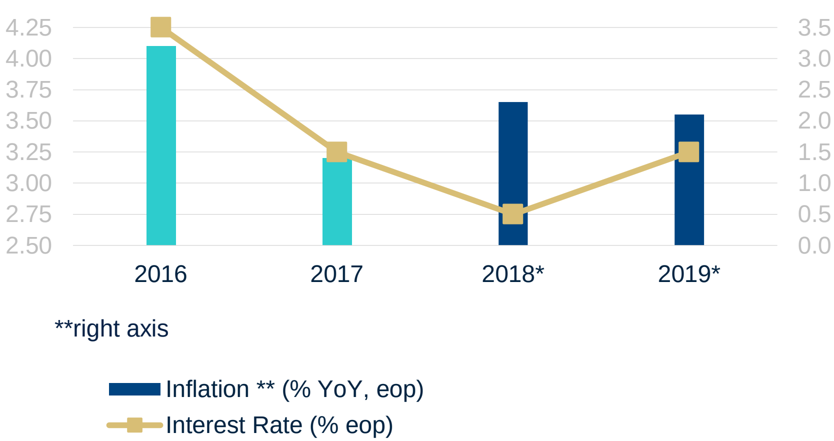
- **Growth revised upwards in 2018 and 2019** by improved figures for the second quarter and revision of the historical series of GDP, with greater weight of dynamic sectors such as industry and services
- **Domestic demand will be the main support for growth,** especially consumption
- **Inflation will remain close to the centre of the target range (2%-6%),** despite an upward correction of food inflation and exchange rate depreciation
- **We do not anticipate changes to official interest rates,** in a context of inflation expectations in line with the target and growth somewhat below potential

Peru: growth fuelled by private consumption which compensates for the slowdown in public spending

Peru GDP growth
(% YoY)



Peru Inflation and official interest rate
(%)

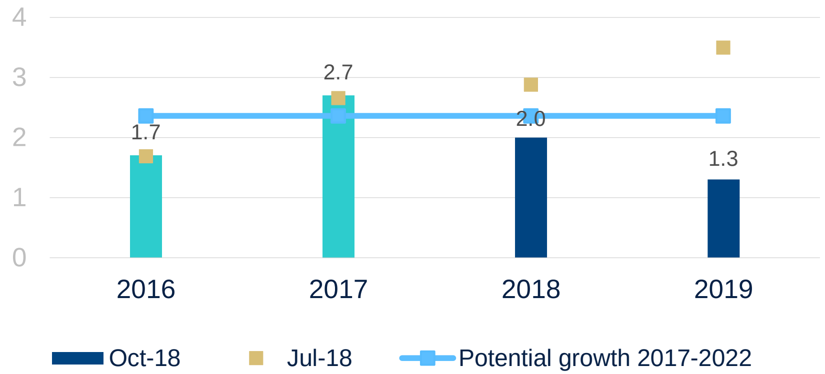


- Growth forecasts unchanged with respect to three months ago. Positive figures for the second quarter however some moderation in the third
- Private consumption is strengthened and compensates lower activity in public expenditure (including public investment)
- Inflation forecasts around Central Bank target and reflect recent exchange rate depreciation. Expectations remain anchored
- Official interest rates would start increasing in the second quarter of 2019, owing to the withdrawal of monetary stimulus in the US and the recovery of growth

Uruguay: activity slows due to weak private consumption, delays in UPM investment and the crisis in Argentina

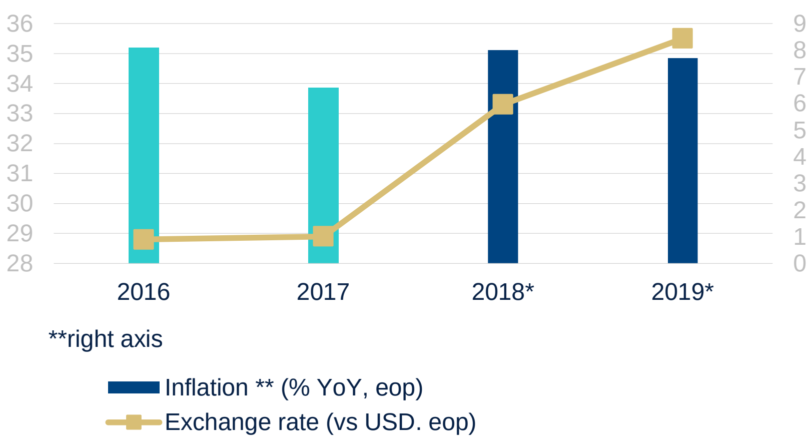
Uruguay GDP growth

(% YoY)



Uruguay Inflation and exchange rate

(% and pesos per USD, year end)



- Downward revision of growth forecasts in 2018 in light of the weakness in private consumption. In 2019, they are also revised downwards due to the likelihood of delays in UPM's investment (pulp plant) and a lower expected tourist flow from Argentina
- Upward revision of the inflation forecast, above the target band, due to the impact that the depreciation of the exchange rate will have
- Exchange rate would depreciate moderately forward although it would not recover the relative apreciation against Argentina and Brazil accumulated in 2018

APPENDIX 2

Forecast tables

Growth and inflation forecasts for Latin America

GDP (% YoY)

º	2015	2016	2017	2018*	2019*
Argentina	2.7	-1.8	2.9	-2.4	-0.3
Brasil	-3.6	-3.4	1.0	1.2	2.4
Chile	2.3	1.2	1.5	4.0	3.7
Colombia	3.0	2.0	1.8	2.6	3.3
México	3.3	2.6	2.3	1.9	2.0
Paraguay	3.1	4.3	4.8	4.4	4.3
Perú	3.3	4.0	2.5	3.6	3.9
Uruguay	0.4	1.7	2.7	2.0	1.3
Mercosur	-2.4	-3.6	0.4	-0.4	1.1
Alianza del Pacífico	3.1	2.5	2.1	2.4	2.6
Latam	0.2	-0.8	1.2	0.9	1.8

Inflation (% YoY, enf of period)

º	2015	2016	2017	2018*	2019*
Argentina	26.9	39.4	24.8	46.0	29.0
Brasil	10.7	6.3	2.9	4.5	4.9
Chile	4.4	2.7	2.3	2.9	3.0
Colombia	6.8	5.7	4.1	3.3	3.2
México	2.1	3.4	6.8	4.5	3.6
Paraguay	3.1	3.9	4.5	4.2	4.0
Perú	4.4	3.2	1.4	2.3	2.1
Uruguay	9.4	8.1	6.6	8.0	7.7

Forecasts for exchange rates and interest rates

Exchange rate (vs. USD, end of period)

	2015	2016	2017	2018*	2019*
Argentina	11.4	15.8	17.7	42.0	49.0
Brasil	3.90	3.40	3.30	3.80	3.70
Chile	709	670	615	631	626
Colombia	3,245	3,010	2,991	2,960	2,900
México	17.2	20.7	18.7	18.8	18.3
Paraguay	5,768	5,718	5,515	5,810.2	5,890.0
Perú	3.40	3.40	3.20	3.30	3.30
Uruguay	29.7	28.8	28.9	33.3	35.5

Interest rate (%, end of period)

	2015	2016	2017	2018*	2019*
Argentina	33.00	24.75	28.75	65.00	32.00
Brasil	14.25	13.75	7.00	6.50	10.00
Chile	3.35	3.50	2.50	3.00	3.50
Colombia	5.75	7.50	4.75	4.25	4.75
México	3.25	5.75	7.25	7.75	7.00
Paraguay	5.75	5.50	5.25	5.25	5.50
Perú	3.75	4.25	3.25	2.75	3.25
Uruguay**		-	-	-	-

** Monetary Policy in Uruguay is carried out according to monetary aggregates and not using a reference interest rate.

Forecasts for Fiscal and Current Account Balances

Current Account Balance (% GDP)

	2015	2016	2017	2018*	2019*
Argentina	-2.7	-2.7	-4.9	-4.5	-2.3
Brasil	-3.3	-1.3	-0.5	-0.2	-1.2
Chile	-2.3	-1.4	-1.5	-0.8	-0.4
Colombia	-6.3	-4.3	-3.3	-3.1	-3.5
México	-2.6	-2.2	-1.8	-2.0	-1.9
Paraguay	-0.8	1.1	-0.8	-1.1	-0.8
Perú	-4.8	-2.7	-1.1	-2.2	-2.2
Uruguay	-0.9	0.6	0.7	-0.4	-2.4

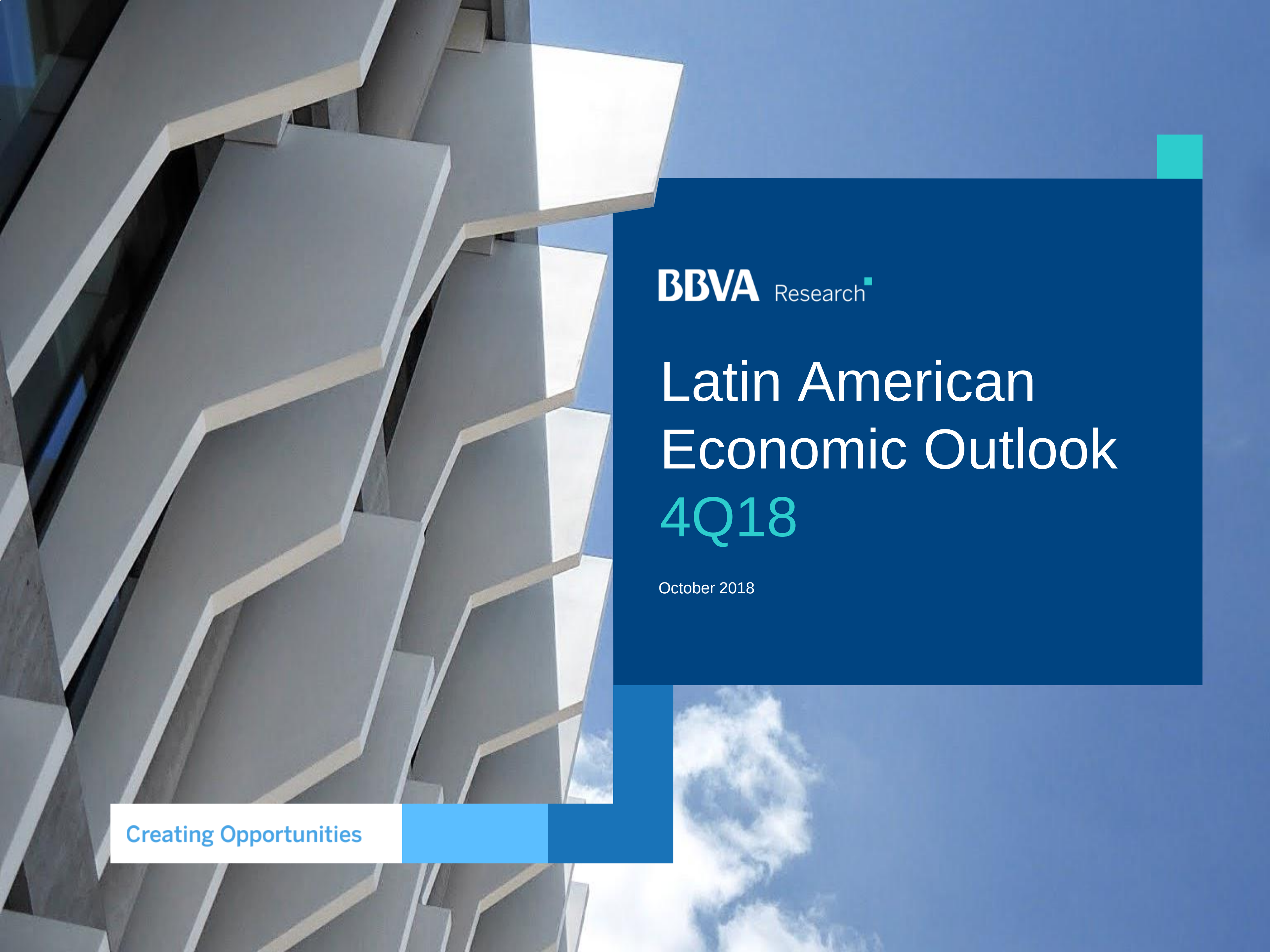
Fiscal Balance (% GDP)

	2015	2016	2017	2018*	2019*
Argentina	-5.1	-5.8	-6.0	-5.6	-3.3
Brazil	-10.2	-9.0	-7.8	-7.9	-5.8
Chile	-2.1	-2.7	-2.8	-1.7	-1.3
Colombia	-3.0	-4.0	-3.6	-3.1	-2.4
Mexico	-3.4	-2.5	-1.1	-2.0	-2.0
Paraguay	-1.7	-1.1	-1.1	-1.5	-1.5
Peru	-2.0	-2.5	-3.1	-2.6	-2.4
Uruguay	-3.5	-3.8	-3.5	-3.6	-3.3

Higher raw material prices

Commodity prices (annual average)

	2015	2016	2017	2018*	2019*
Oil (Brent USD/b)	52.6	44.8	54.4	73.7	72.7
Soybean (USD/ton)	350.3	362.9	358.8	339.5	328.3
Cooper (USD/Lb)	2.50	2.20	2.70	2.95	2.88



BBVA Research

Latin American Economic Outlook 4Q18

October 2018

Creating Opportunities