BBVA Research

Global and Uruguay Outlook

1Q19

February 2019

Creando Oportunidades

Main messages

- Global slowdown will limit recovery in Latin America. A weaker growth of developed countries, an increase in global financial volatility and worse prospects for commodity prices, in addition to idiosyncratic factors, will negatively affect the region.

- After growing 1.6% in 2018, the region will expand 2.1% in 2019 and 2.4% in 2020, respectively 0.3 pp and 0.2 pp less than previously expected. Growth will remain higher, around 3.5%, in Peru, Chile, Colombia and Paraguay, and will be close to 2% in Mexico, Brazil and Uruguay. In Argentina, GDP will fall again in 2019 as a whole, although positive quarterly growth is expected to begin in 1Q19 and possibly 2020 will recover.

- We have revised growth in Uruguay downwards in 2020, in a context of slower global growth and downward revision of growth in Argentina and Brazil. We maintain our growth forecast of 1.3% for 2019 but we are now estimating 1.9% (previously 2.2%) for 2020, not only due to the global scenario but also due to lack of definition on the initiation of construction of the third pulp mill. External demand will contribute negatively to growth in 2019 as a result of the drop in tourism from Argentina. A transitory fiscal consolidation took place in 2018, but the need for structural reforms will resurface in 2019. Lastly, inflation will stay above the target range of the Central Bank over the next 2 years.

Contents

01

Global Environment: Moving towards a soft-landing of global growth, amid high uncertainty

Moving towards a soft-landing of global growth, amid high uncertainty

Slowdown in global growth, but still robust

Strong adjustment of trade and the industrial sector, while investment and consumption resist the deterioration of confidence

Lower inflation after the fall in oil prices

Less pressure for central banks and more support for oil-importing economies

Increased financial tensions in developed countries

Strong adjustment in capital outflows in developed markets, but not in emerging economies

More cautious and patient central banks

The normalization of monetary policy will depend on the evolution of the economy and is key to containing market concerns

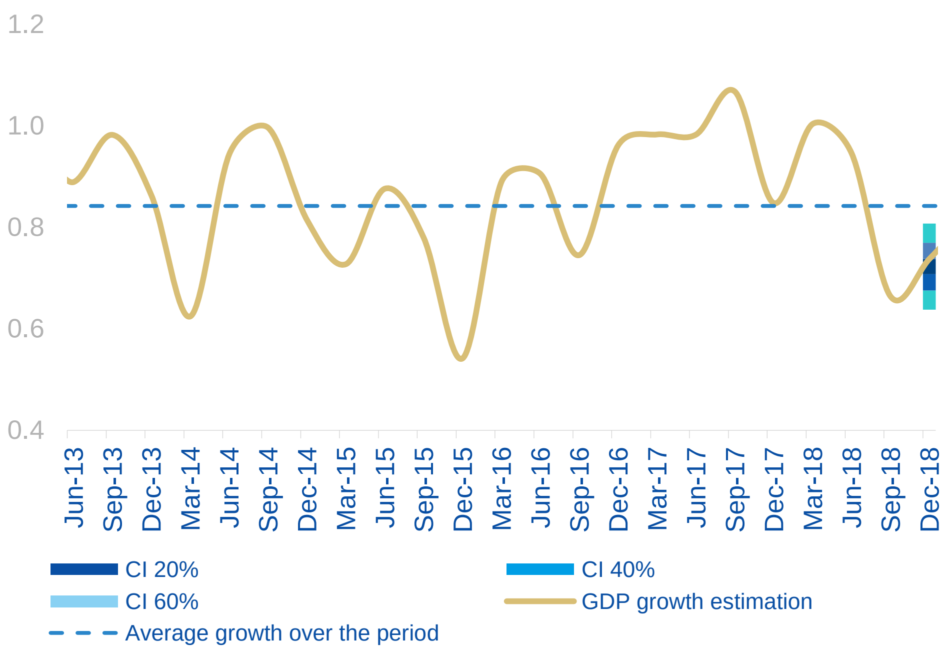
Global risks intensify

The normalization of monetary policy will depend on the evolution of the economy and is key to containing markets concerns

Clear downward trend in world growth, but with signs of some stabilization

World GDP growth

(Forecast based on BBVA-GAIN, % QoQ)



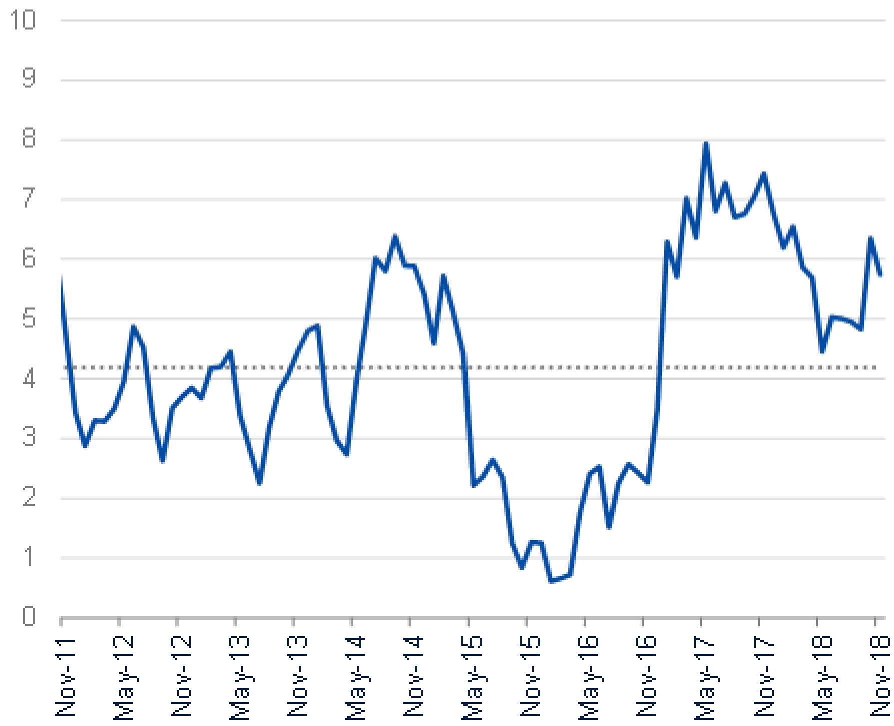
- Global growth has entered the deceleration phase, but is still strong
- The widespread deterioration of industrial production and trade suggests a more evident impact of protectionism
- Strong moderation in industrial confidence extends to other sectors, but growth in private spending remains
- High uncertainty continues at the beginning of the year and will continue to hinder growth

Source: National sources and BBVA Research

Global trade: more evident effect of higher tariffs and uncertainty on trade negotiations

BBVA-Goods Exports

(% YoY, 3-period moving average)

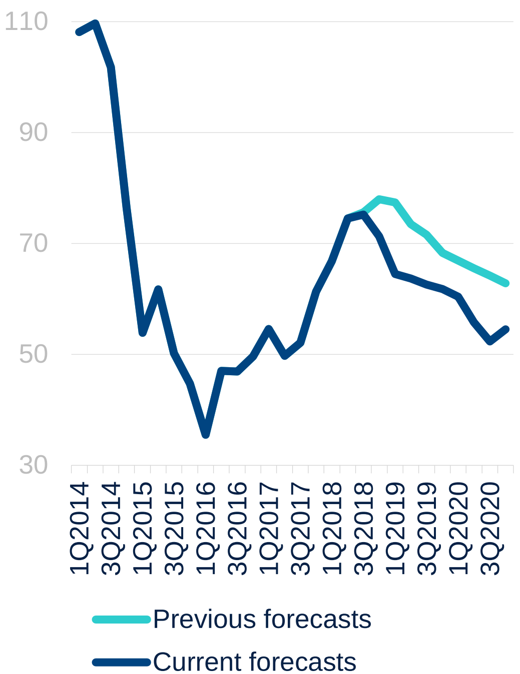


- World trade has shown strong volatility due to uncertainty about trade disputes
- China's recent poor export performance is partly due to the upturn in trade related to the possibility of further tariff increases, but its downward trend is a cause for concern.
- The worst export performance has also been observed in the rest of Asia and Germany.

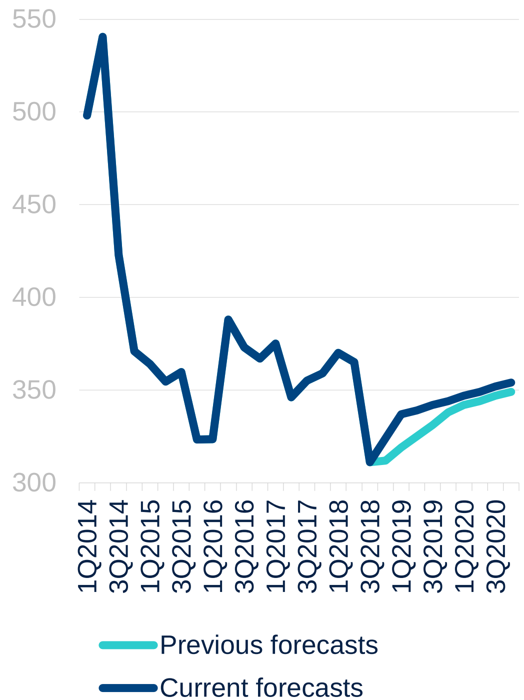
Source: National sources and BBVA Research

Heterogeneous outlook for commodities: downward revisions in oil and copper, upward revisions in soybeans

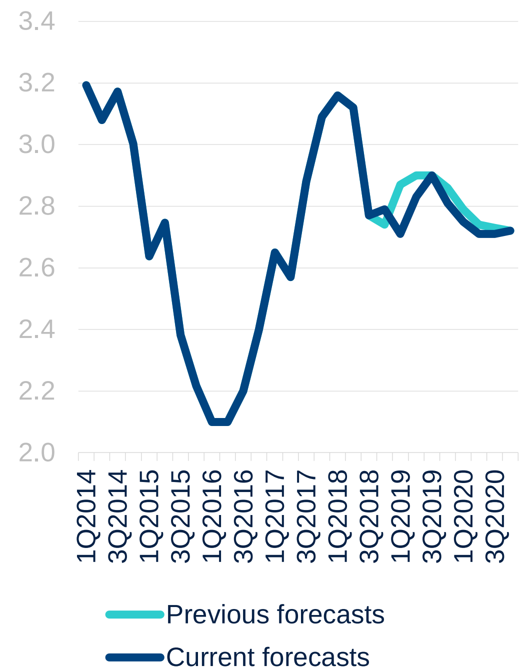
Brent Crude
(USD$ per barrel)



Soybeans
(USD$ per metric tonne)



Copper
(USD$ per lb.)

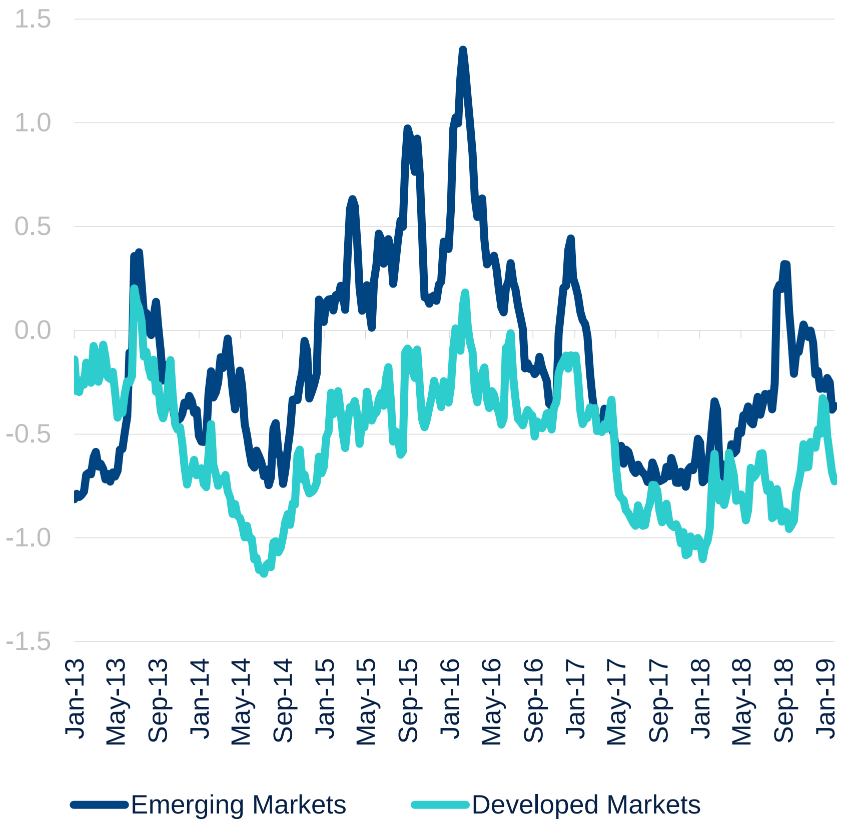


- Oil prices may recover in the short term due the announced production cuts
- However, the growing production in the US and lower global demand will push prices downwards more than expected throughout 2019-20
- The fall in prices will benefit world growth, but the effect on some Latam countries will be negative
- Copper forecasts were revised downwards, due to lower world growth, while soybean forecasts were adjusted upwards, due to the prospects for relaxation in the China - US trade relationship

Source: National sources and BBVA Research

Recent turmoil in the financial markets due to a risk of a sudden adjustment of global growth

BBVA's Financial Tensions Index
(Index)



01

Developed markets (US) are at the center of the episode

02

EM remained relatively resilient despite the global mood and the fall in oil prices

03

Investors have withdrawn **sizeable outflows from DM**, but EMs have failed to attract new flows

04

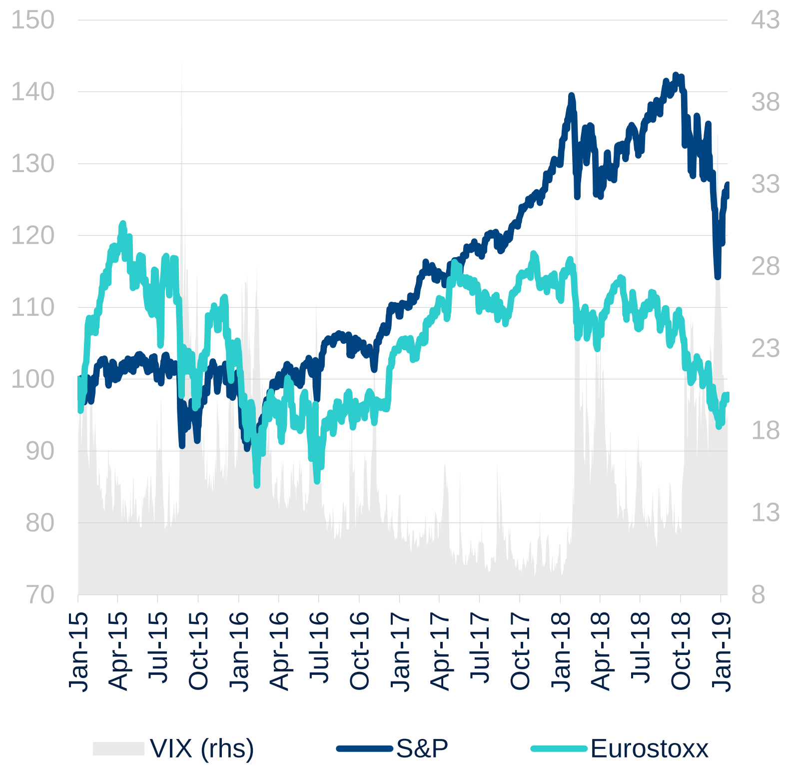
The response of central banks, particularly the Fed, has been key to halt tensions

Source: BBVA Research

Financial tensions hit mainly developed markets; interest rates return to very low levels

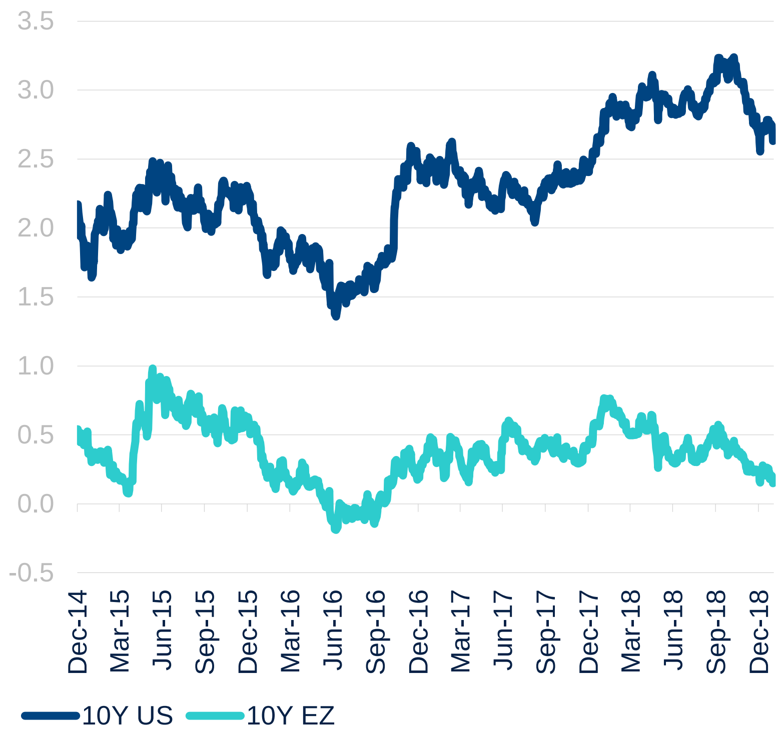
Developed equity indexes and VIX

(Base 100: January 2015 and %)



Sovereign debt yields

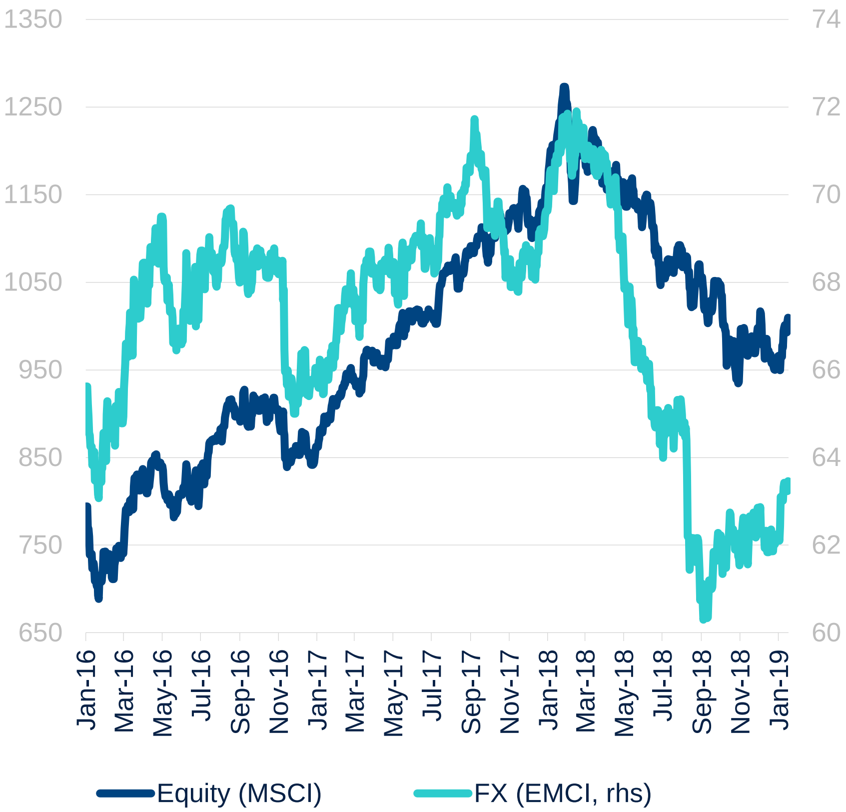
(%)



Source: BBVA Research

Emerging markets, after a strong adjustment in 2018, stay out of the most-recent volatility episode

Emerging markets FX and equity
(indices)



Fuente: BBVA Research a partir de EPFR

Economic policy reaction at more vulnerable countries (Argentina, Turkey)

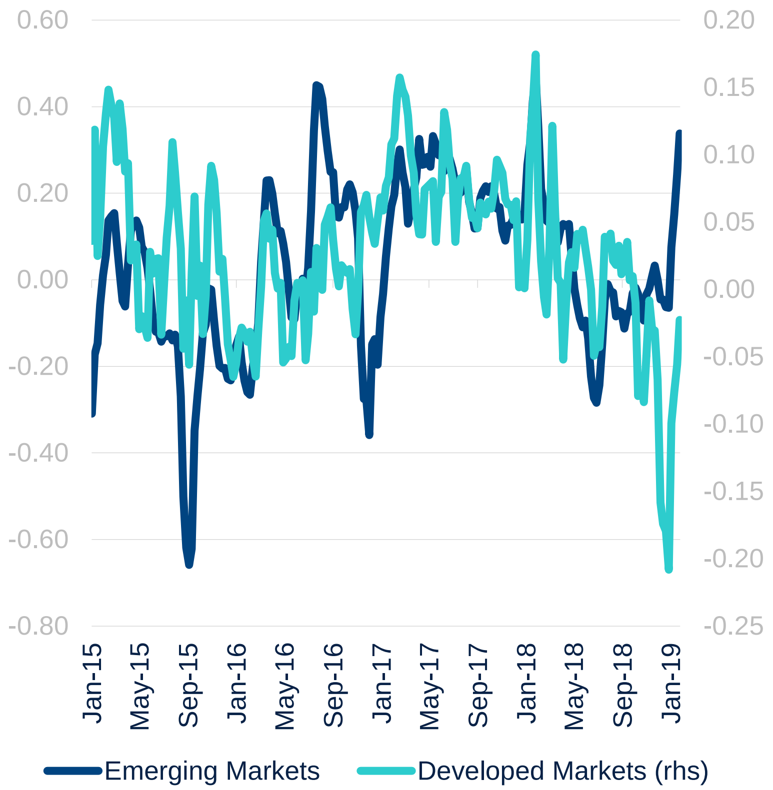
Economic stimulus (China)

Asymmetric effects of the fall in oil prices (exporters vs importers)

The risk aversion environment is being seen in the recomposition of capital flows, refuge in debt and liquidity

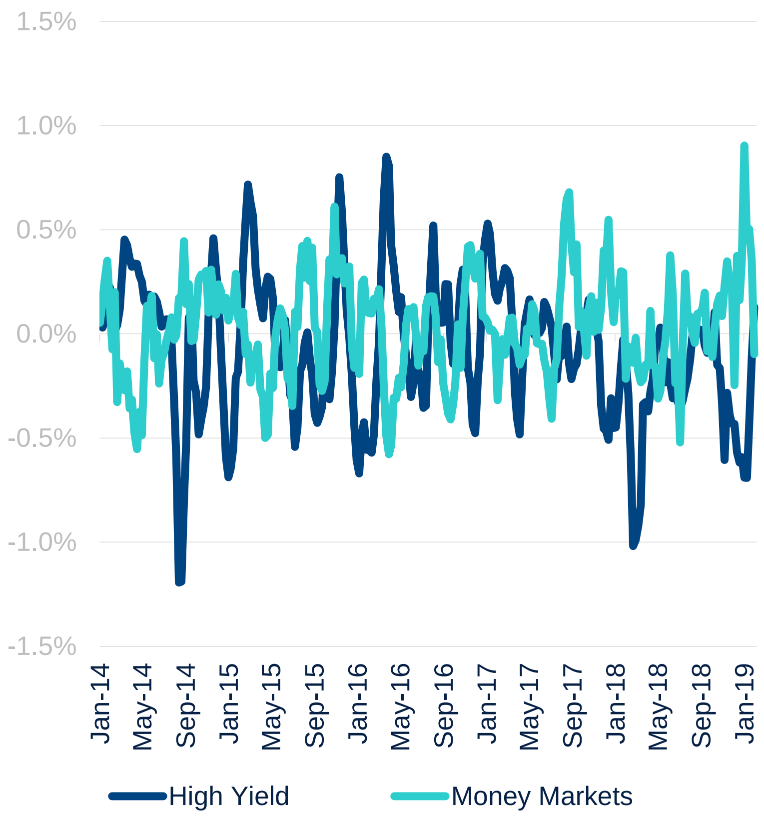
Portfolio flows: regions

(%, assets under management, 4 weeks moving average)



Portfolio flows: assets

(%, assets under management, 4 weeks moving average)



Source: BBVA Research

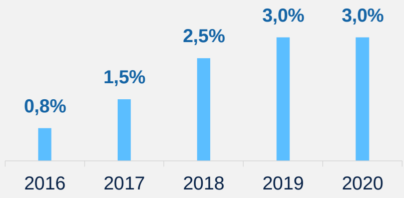
Central banks are sensitive to growing risk scenarios, and the process of monetary normalization is slowing down

Balance

Interest rates

- **Ongoing reduction of the size of the balance sheet** (USD500bn in 2019)

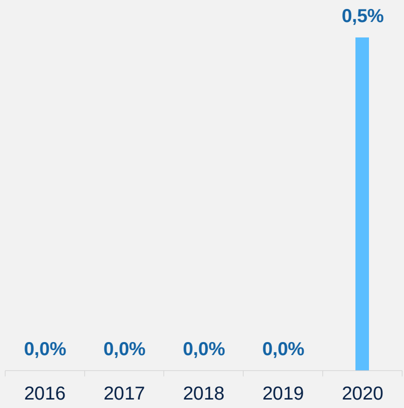
- **The end of the hiking cycle is near** (two 25pbs in 2019)



EUROPEAN CENTRAL BANK
EUROSYSTEM

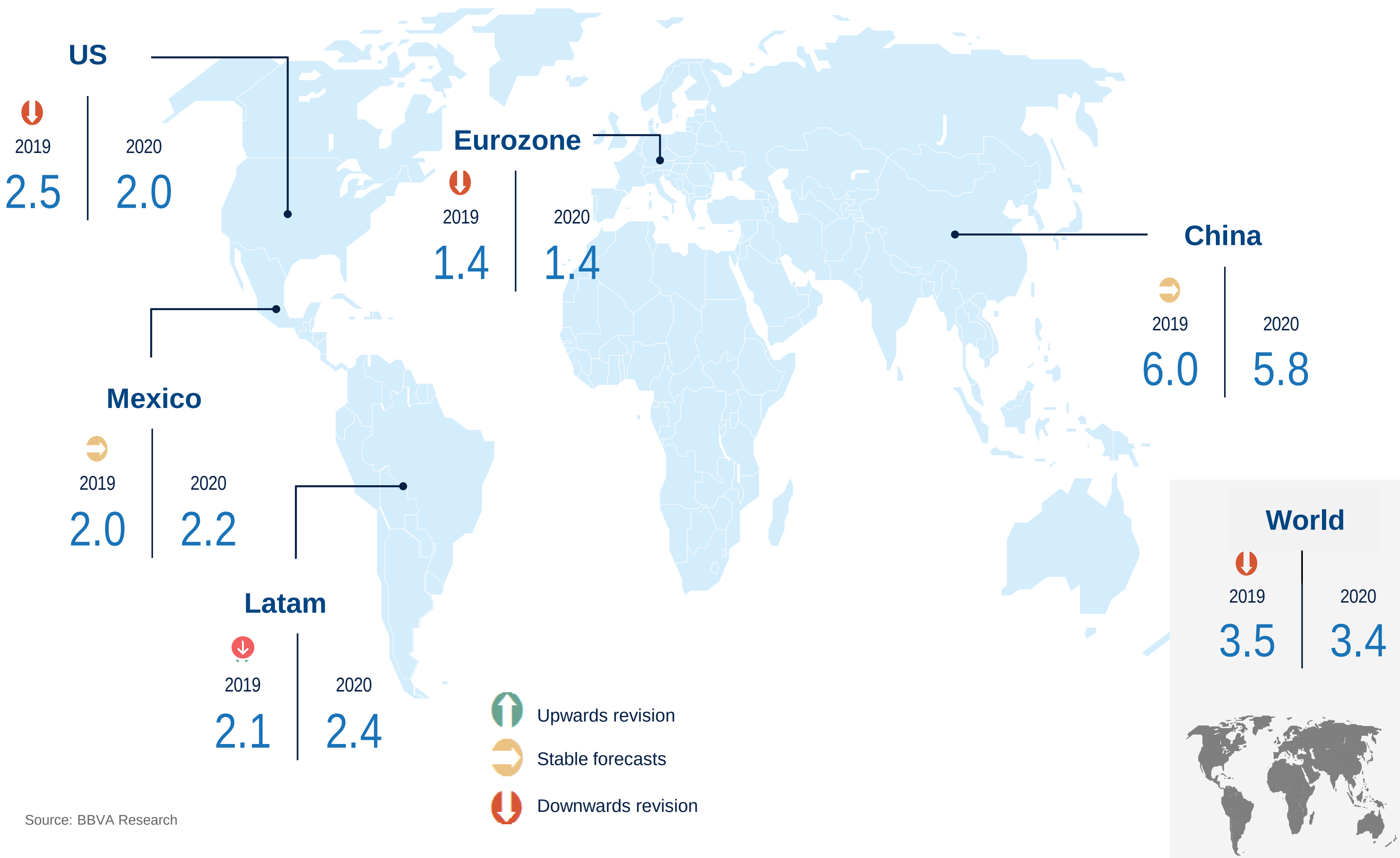
- **The QE ended** (December 2018)
- **QE total reinvestment** to continue well beyond the start of interest rate hikes
- **Another TLTRO** before June 2019 is very likely

- **Delay in the rate hike path** due to a less supportive global outlook and higher risks. **Not expected before June 2020**



Fuente: BBVA Research

A general downward revision of growth, with a more evident moderation in developed countries and in emerging Asia



Source: BBVA Research

Still soft landing, but more uncertain due to dependence on politics and policies

Worse macro outcomes

Faster slowdown than expected (Protectionism+China)

Evidence that impact from **US fiscal stimulus** will fade earlier than expected

Higher financial stress

Risks of **global growth hard landing**

Tougher financial conditions

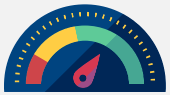
Three key assumptions in our projections:

01

Easing US-China trade tensions: Unchanged tariffs, but structural issues remain

02

Tail risks in Europe are eventually resolved (orderly Brexit)

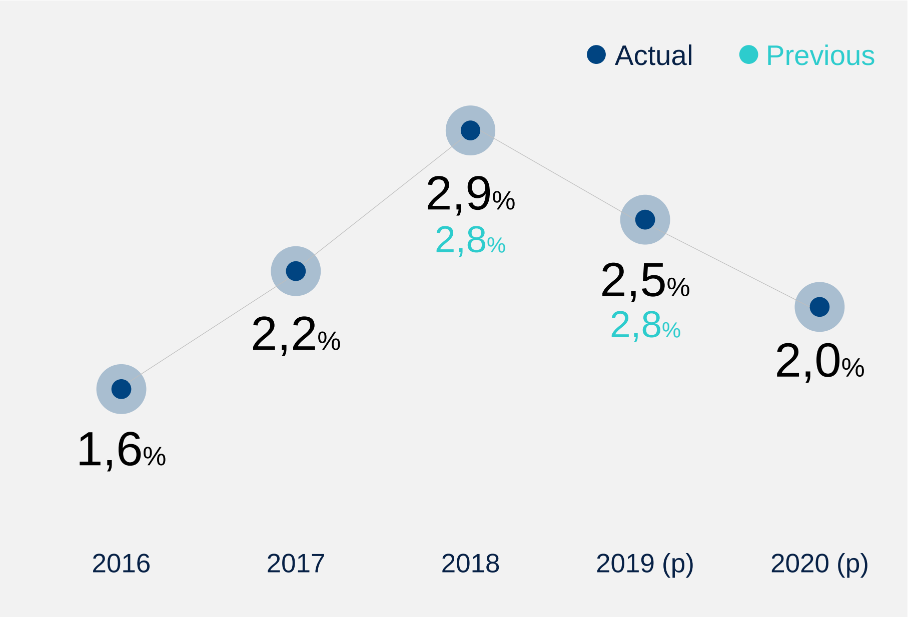


03

More dovish Fed and ECB, further room for EM central banks

U.S.: further slowdown in growth due to the fading of fiscal stimulus and financial volatility

USA.: GDP growth
(% y/y)

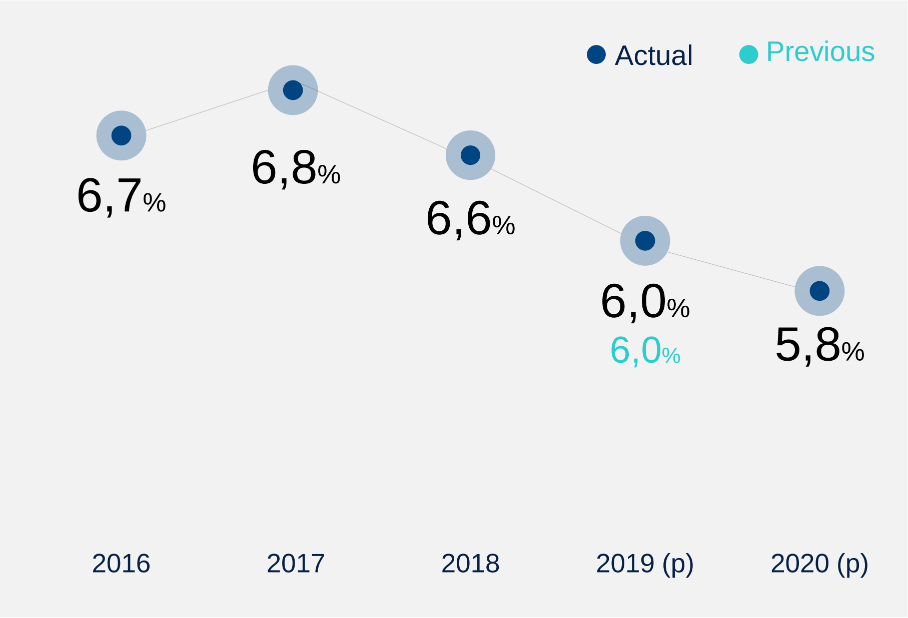


- GDP downward revision due to less optimistic outlook for private investment and public expenditure
- Private consumption will moderate as the impulse of the tax cut disappears, despite the strength of the labor market
- Inflation remains above target, but will be gradually reduced to somewhat below target in 2020
- Downward risks have increased due to the deterioration of the global environment, but there is also a greater risk of recession over the two-year horizon

(p) Forecast.
Source: BBVA Research and BEA

China: authorities' priority is to avoid abrupt adjustment of growth

China: GDP growth
(% y/y)

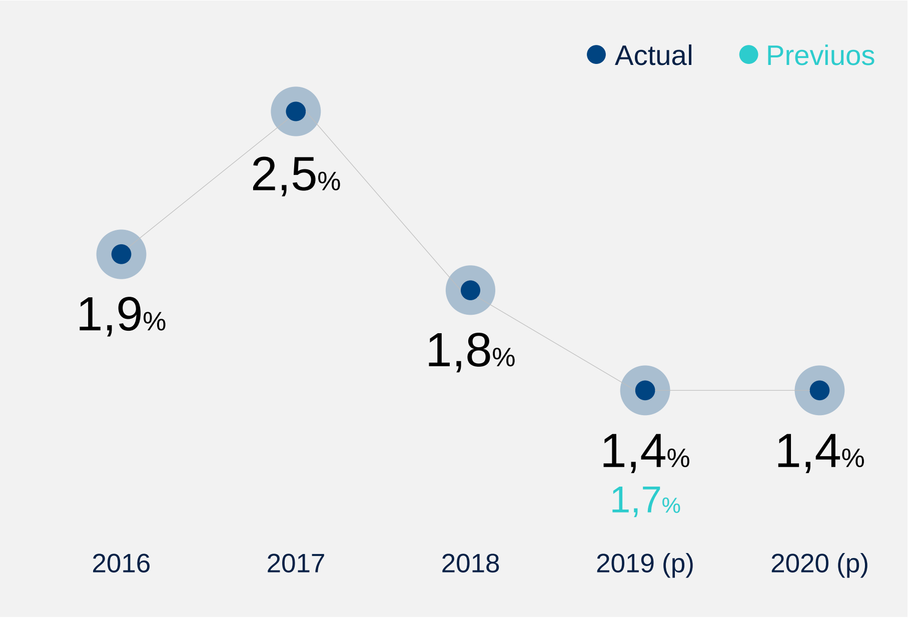


- Growth forecasts remain unchanged, due to the implementation of greater incentives to halt the intensification of the slowdown.
- Support measures, both fiscal and monetary, are spreading, but attempts are being made not to worsen existing financial vulnerabilities.
- Protectionism remains the main risk. If it has to be compensated with more stimuli, the necessary deleveraging is stopped and can lead to a sharp depreciation of the exchange rate.

(p) Forecast.
Source: BBVA Research and CEIC

Eurozone: rapid deceleration towards potential growth due to less support from the global environment

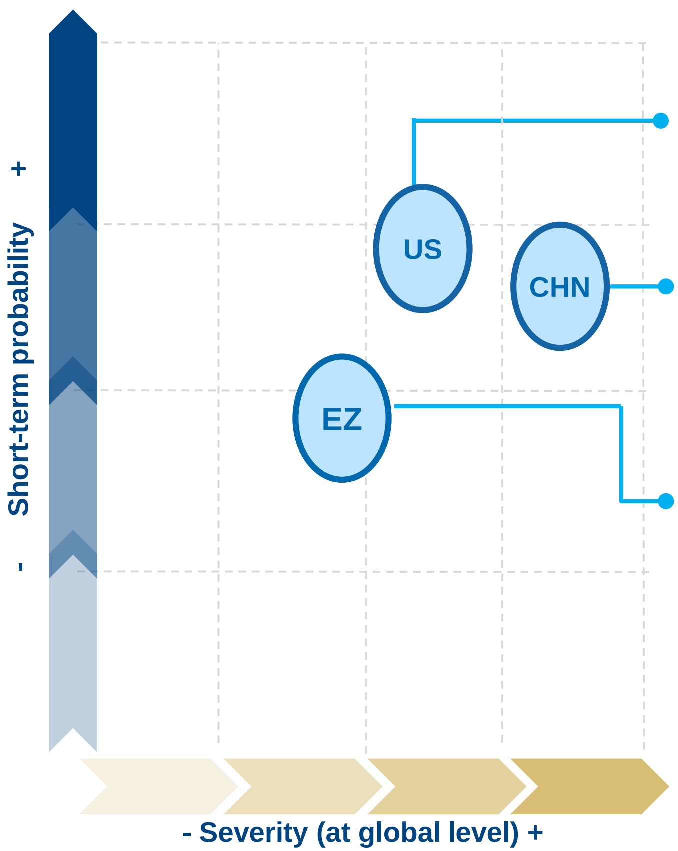
Eurozona: GDP growth
(% y/y)



- The fall in oil prices reinforces the strength of domestic factors, but not enough to compensate for lower global demand.
- A somewhat more accommodative monetary and fiscal policy could offset the effect of worsening confidence on private spending.
- Rapid fall in inflation, but core inflation should gradually rise
- Political risk has increased (Brexit, and more uncertainty in several countries)

(p) Forecast.
Source: BBVA Research a partir and Eurostat

Global risks tilted to the downside: US recession fears, China's debt as key concerns and trade war



- **Economic recession: increasing** (trade concerns, political controversy -shutdown-, geopolitical issues, credit risk / corporate leverage)
- **Protectionism: high.** Negative spillovers on growth (investment, impact on certain sectors / states) and cost pressures
- **Fed's exit: falling.** Lower risk of overshooting (rates above neutral levels)

- **Disorderly deleveraging: relatively higher.** Growing debt overhang amidst further stimulus and flagging growth (also visible in household expenditure). Monitoring: RMB, corporate defaults, local government debt
- **Protectionism: high.** Big differences remain despite a potential trade deal in March19. Lack of advances in structural issues (intellectual property, FDI, WTO reform)

- **Political concerns: relatively higher. Lack of advances in integration process on the eve of European Parliament elections**
  - **Brexit:** risk of a cliff-edge Brexit in March19
  - **Italy:** political and policy uncertainty remains. Banking concerns rising
  - **Spain:** growing political instability. Parliament fragmentation, deficit deviations, structural reforms and Catalonia tensions
- **Protectionism:** contained but it could be not discarded (autos)
- **ECB's exit risk:** low. Pending on changes in the Board

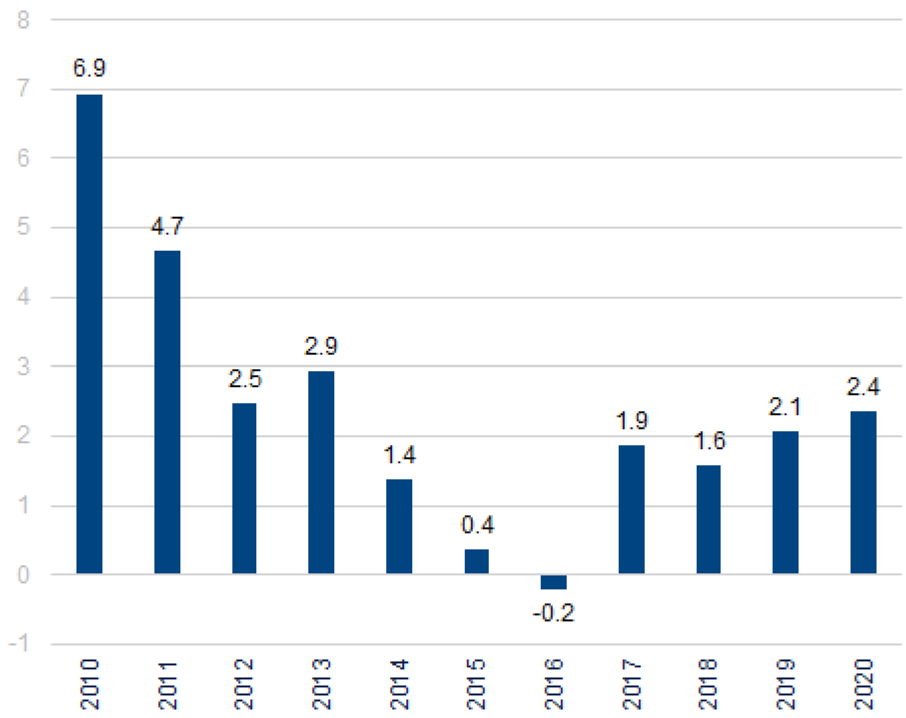
Fuente: BBVA Research

02

Latin America:
The global slowdown will limit the regional recovery

Latin America will grow 2.1% in 2019 and 2.4% in 2020, respectively 0.3 pp and 0.2 pp lower than previously expected

Latam: GDP growth (*)
(%)



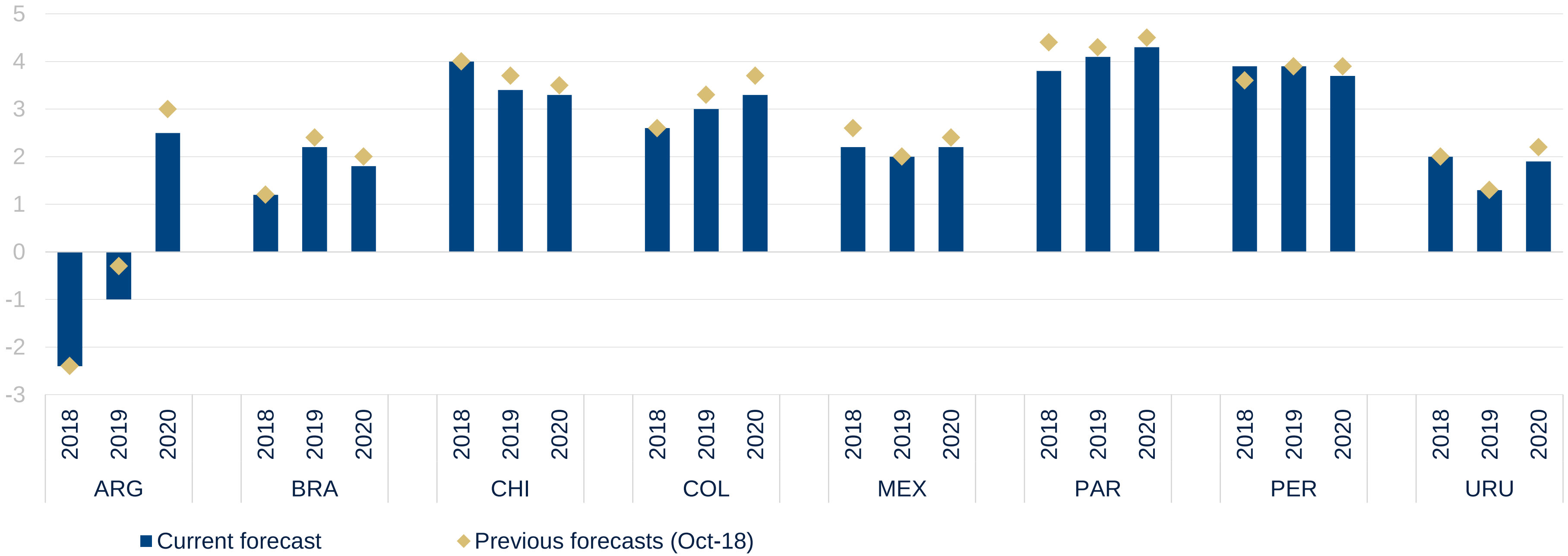
(*) Weighted average of Argentina, Brasil, Chile, Colombia, Mexico, Paraguay, Peru and Uruguay.
Source: BBVA Research

- Growth in Latin America will continue to recover, although more gradually than expected
- The region will have to face a less favorable global environment, marked by lower growth, greater volatility (at least in the short term) and lower prices of commodities, as well as some idiosyncratic factors
- Despite the recovery, the region will not exhibit in the near future growth rates as robust as those recorded few years ago: reforms to stimulate productivity have been relatively scarce and insufficient to counteract the effects of lower commodity prices

The growth forecasts of all the countries in the region have been revised downwards

Latam: GDP growth

(%)



Source: BBVA Research

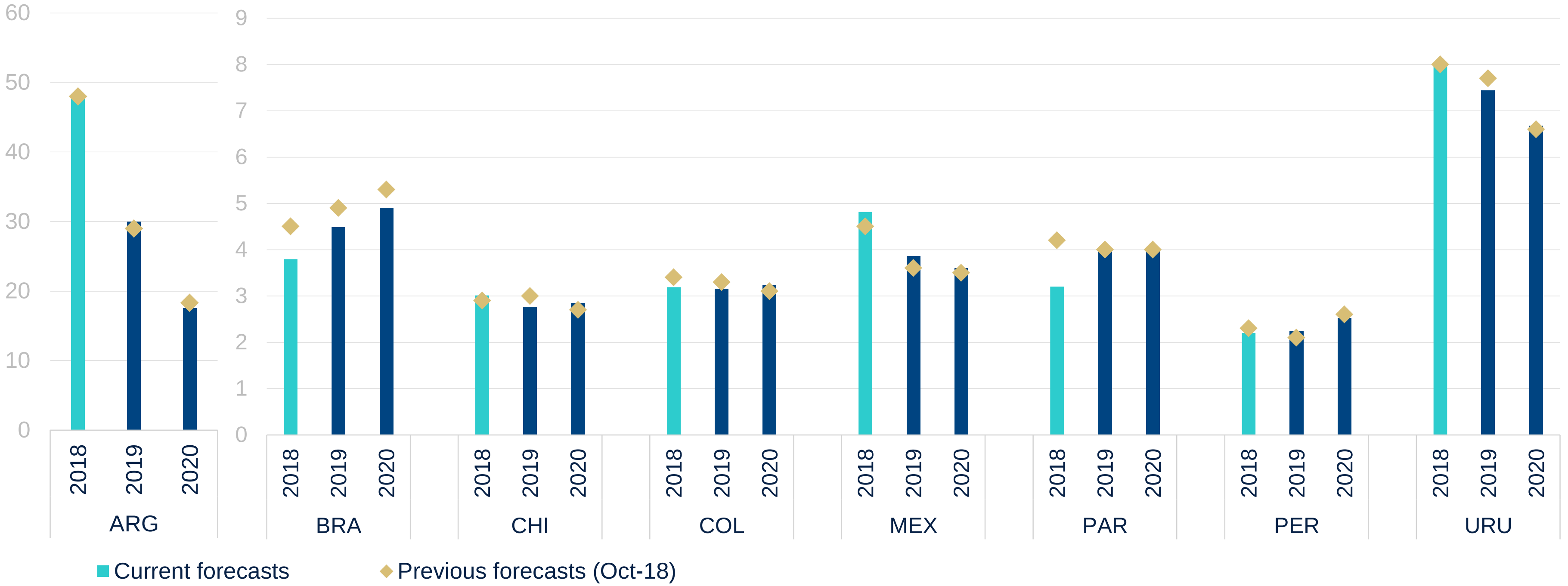
Beyond global drivers, some local factors contribute to less optimism with respect to growth: worse-than-expected incoming data (ARG, CHI, COL, PAR), a more costly adjustment after the currency crisis (ARG) and lower investment and fiscal noise (COL)

Growth will be higher, around 3.5%, in Paraguay, Peru, Chile and Colombia, and will be close to 2% in Brazil, Mexico and Uruguay. In Argentina the GDP will fall again in 2019 and will recover in 2020 (for more on the prospects for each country, see Session 3)

Inflation: under control in most of the region and still high in Argentina, Mexico and Uruguay, where there are already signs of moderation

Latam: Inflation

(y/y %; end of period)



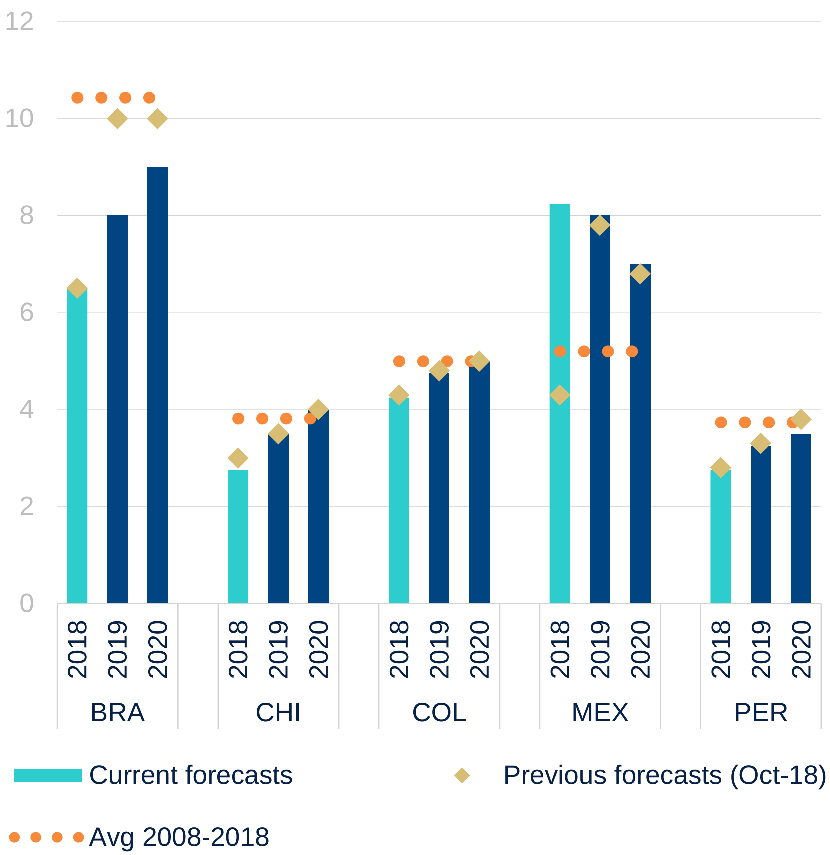
Source: BBVA Research

In most countries, inflation will tend to rise, but will remain contained, close to inflation targets. In Mexico and Argentina, there are already signs of moderation after the recent strong rebounds, which supports the vision of lower inflationary pressures in the coming years

In general, the adjustments in the forecasts reflect, on the one hand, more depreciated currencies, and on the other hand, the lower oil prices and the smaller demand pressures

The monetary stimulus will gradually be withdrawn in most of the region, with the exceptions of Argentina and Mexico

Latam: Monetary-policy interest rates
(y/y %; end of period)



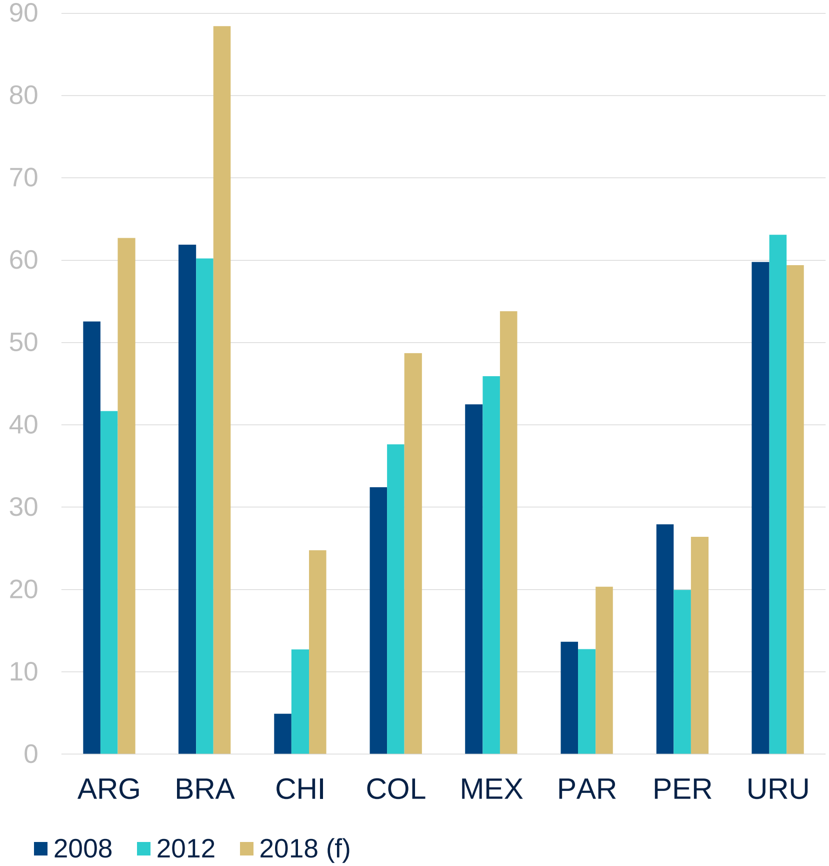
- The recovery of activity and the gradual increase in inflation will determine a reduction in monetary stimuli
- The monetary normalization in the US will also contribute to the increase in interest rates in the region, although less than previously expected since we now expect two instead of three increases in interest rates by the Fed
- The lower inflation in Chile, where the upward adjustment of interest rates has already begun, and in Brazil and Peru will result in a more tightening of monetary conditions
- We maintain the outlook for adjustment in Colombia and Paraguay
- In Mexico and Argentina the restrictive tone will be maintained for longer: in the first case, we expect interest rate stability until 4Q19, and in the second, growth of 0% m/m of the monetary base in the first half of the year and of 1% m/m in the second

Source: BBVA Research

There exists scarce room for expansive fiscal policies in the region

Latam: Gross public debt

(% of GDP)

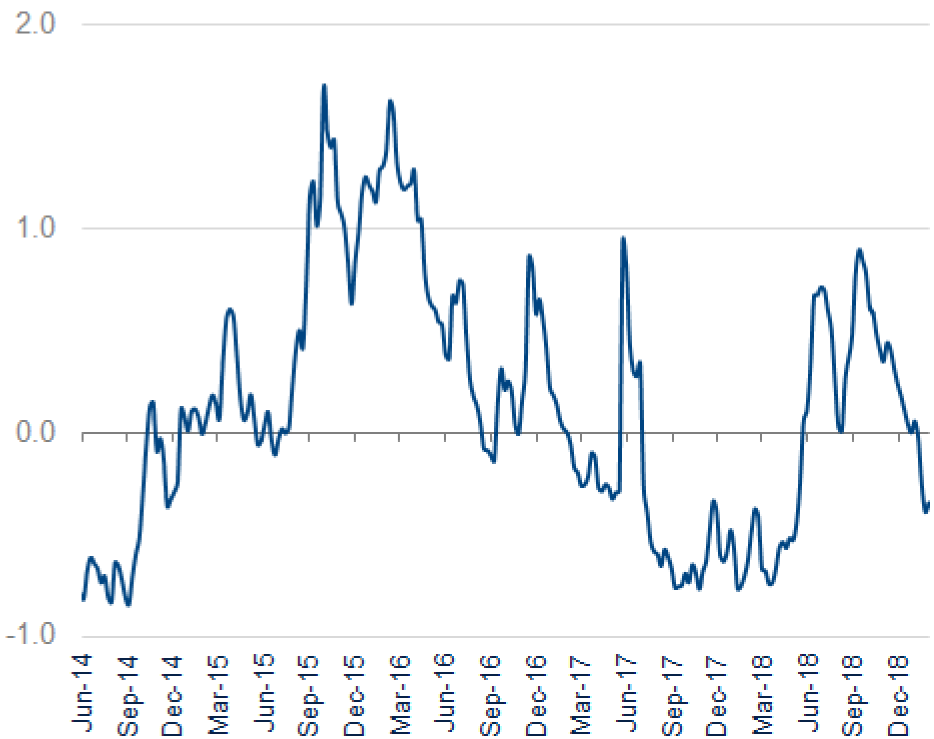


(f) = forecast
Source: FMI

- In a context of increasing public debt and taking into account the need that many countries have to comply with certain fiscal rules and objectives, we foresee that they will continue taking measures to reduce fiscal deficits (see forecasts in Session 4)
- In the case of Argentina, the primary deficit will possibly be cut to zero, in line with what was agreed with the IMF
- In Brazil, public spending will continue to be contained and a social security reform is likely to be approved (at least a non-ambitious one), but high public debt will continue to be a source of concerns
- In Colombia, compliance with the fiscal rule will require cuts and additional measures, mainly in 2020
- In Mexico, the new government has presented a relatively conservative budget for 2019, we expect stability in public debt

Local assets will continue to reflect global financial volatility, as well as local factors

Latam: BBVA's Financial Tensions Index
(Average since January 2006 = 0)



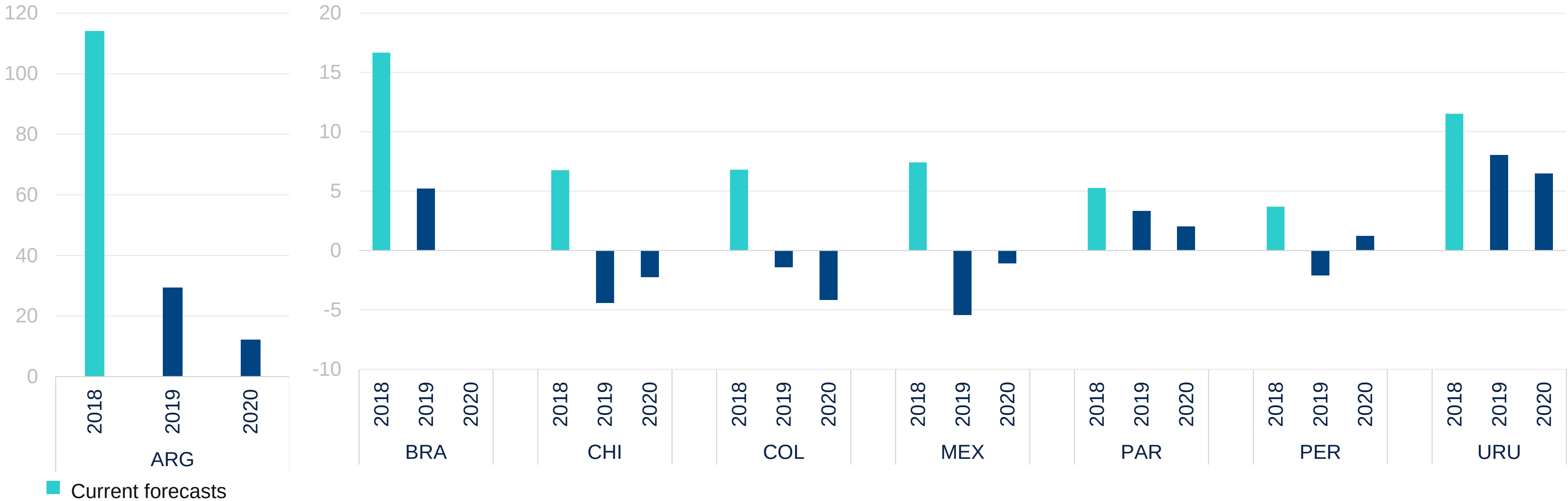
Source: BBVA Research

- After rebounding significantly in the middle of 2018, financial tensions in Latin America have moderated despite the global markets volatility
- The reduction of financial tensions has been especially important in Argentina, where the measures announced after the new agreement with the IMF ended up easing markets' fears
- Also in Brazil, the other country in the region where tensions had risen strongly before, the mood of financial markets has improved, due to greater optimism with the new government
- In Mexico, tensions also went down, partly due to the approval of a conservative budget for 2019
- In the last three months tensions increased somewhat in Colombia and declined further in Peru

After depreciating in 2018, there is room for currencies to appreciate somewhat moving forward, at least in real terms

Latam: Nominal exchange rates (*)

(%; local currency / US dollar)



(*) Positive values indicate depreciations and negative ones indicate appreciations
Source: BBVA Research

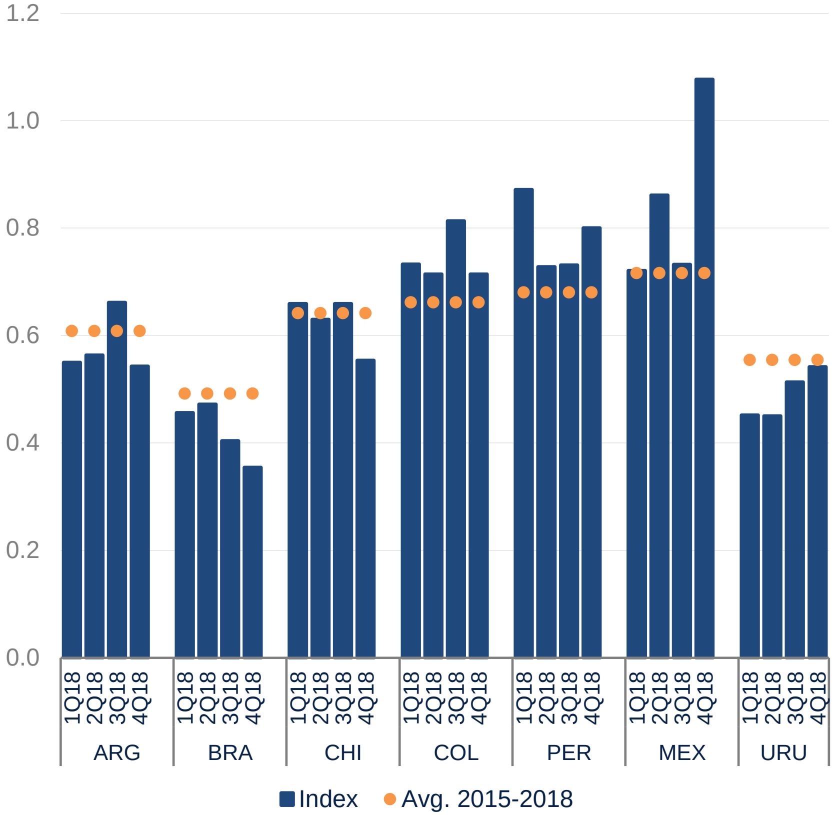
Global financial volatility will continue to pressure foreign exchange markets in the coming months, but there is room for currencies to recover part of their recent losses throughout 2019 and in 2020, at least in Chile, Colombia, Mexico and Peru

In Argentina, the peso will continue to depreciate, but at a lower rate than inflation. In Brazil, the real could depreciate if the (high) expectations of the markets with respect to the new administration are not met

The balance of risks to our base scenario for Latin America has increased due to external and local risks

Latam: BBVA's Political Tensions Index

(Media tone on politics weighted by media coverage)



Source: GDELT, BBVA Research

- External and local risks are now higher than before
- Political risk remains an issue in virtually all countries, but mainly in Brazil and Mexico, where there is still uncertainty regarding the policies of the new governments, and in Argentina and Uruguay where there will be presidential elections this year
- Fiscal risk is relevant mainly in Brazil and Argentina, but also in Colombia and Mexico
- The risk of delay in investment projects hovers around Peru, Paraguay and Uruguay

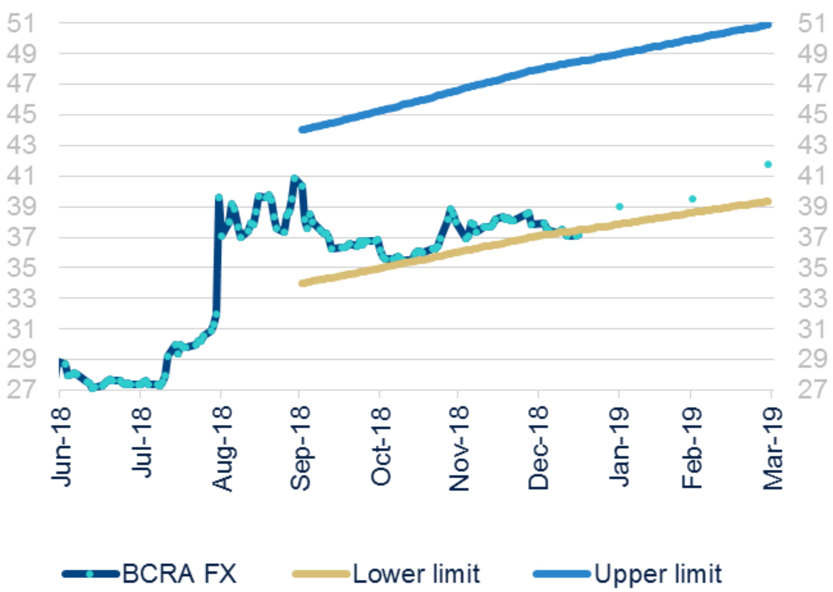
03

Argentina and Brazil Outlooks

Argentina: The new monetary-FX rate programme stabilised the currency market after a difficult end to 2018

Peso/dollar exchange rates and ranges in non-intervention zone

(ARS/USD)



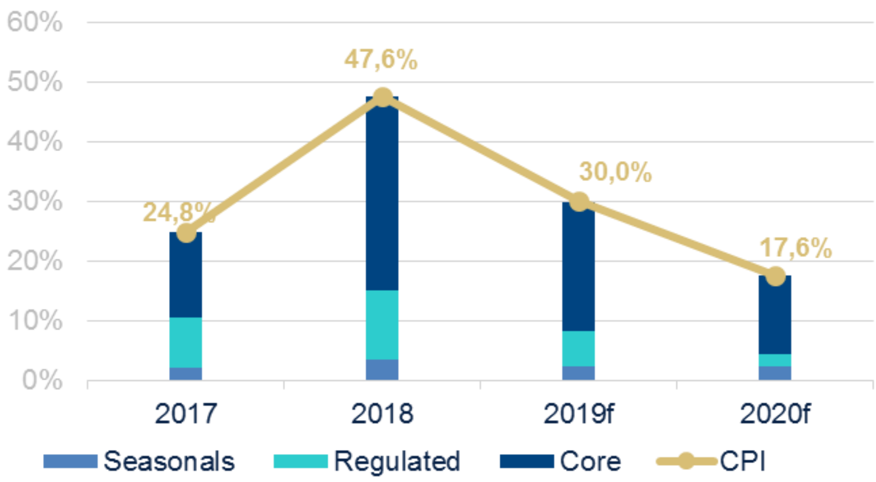
Source: BCRA and BBVA Research.

- The ‘double zero’ programme (primary deficit and growth of monetary base) including an extension and frontloading of the IMF stand-by agreement managed to stabilise forex market and reduce dollarisation.
- In January, the peso pierced the lower bound and BCRA again bought currency. The “currency *truce*” will continue into 1H19 owing to dollars from the harvest and the Treasury, but volatility will return in May-June period due to pre-election dollarisation.
- The exchange rate will depreciate to offset inflation and close at 49 ARS/USD (29% YoY).

Following the inflationary shock of 2018 caused by the steep depreciation of the peso, inflation will fall steadily in 2019 due to the contractionary monetary policy

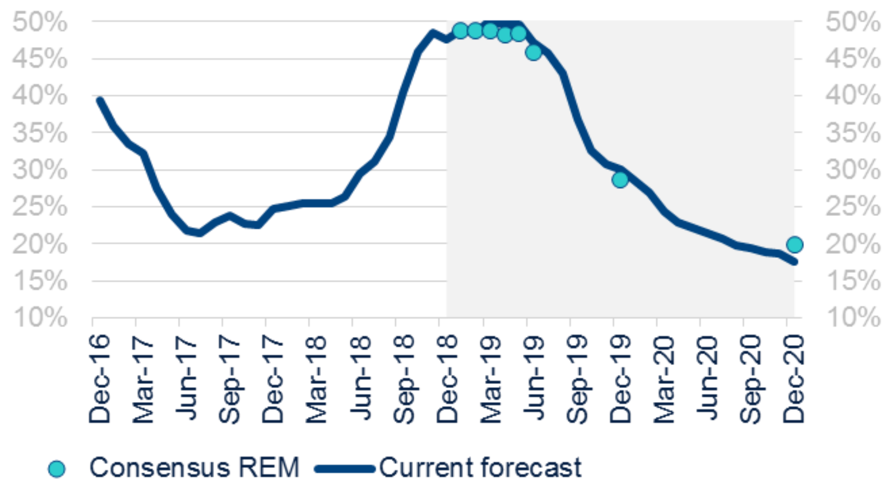
National CPI and contributions of regulated, seasonal and core prices

(% YoY change, EOP)



National inflation: Research Forecast and REM-BCRA Consensus

(% YoY change)



Source: Indec, BCRA and BBVA Research.

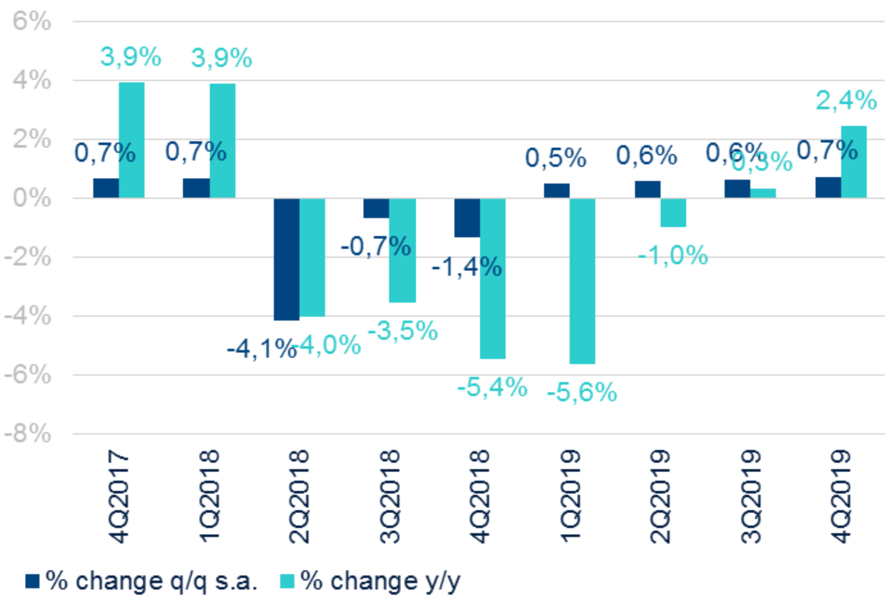
Inflation continued to process the great exchange rate leap and closed 2018 at 47.6%, but with a month-on-month slowdown from the peak of 6.5% in September to 2.6% in December

The restrictive monetary policy will bring inflation down to 30% by Dec-19 (prior: 29%), with average MoM inflation of 2.5% in 1H19 and 2% in 2H19

GDP will grow QoQ in 2019, but the yearly average will decrease by 1% due to strong negative carry-forward from 2018 (-2.4%)

QoQ GDP

(seasonally adjusted % QoQ change and original series YoY change)

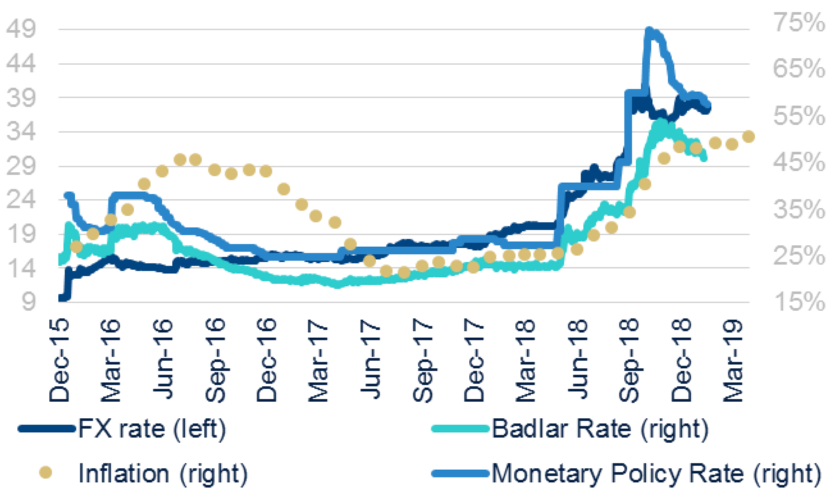


Source: INDEC and BBVA Research

- GDP fell by 0.7% QoQ in 3Q18, which was less than expected given the depth of the crisis and the acceleration of Fx volatility during the quarter, but falling real incomes and further fiscal and monetary adjustment in 4Q18 will lead the economy to fall by 2.4% in 2018
- GDP will begin to grow QoQ in 1Q19 due to the agricultural recovery, the impact of the real depreciation on export and import substitution sectors, and the partial recovery of real incomes
- However, the pace of growth will be weak (0.6% QoQ on average) and will not offset the strong negative statistical drag from 2018 (-2.4%); accordingly, GDP will fall by 1% on average in 2019, with a broad impact across sectors

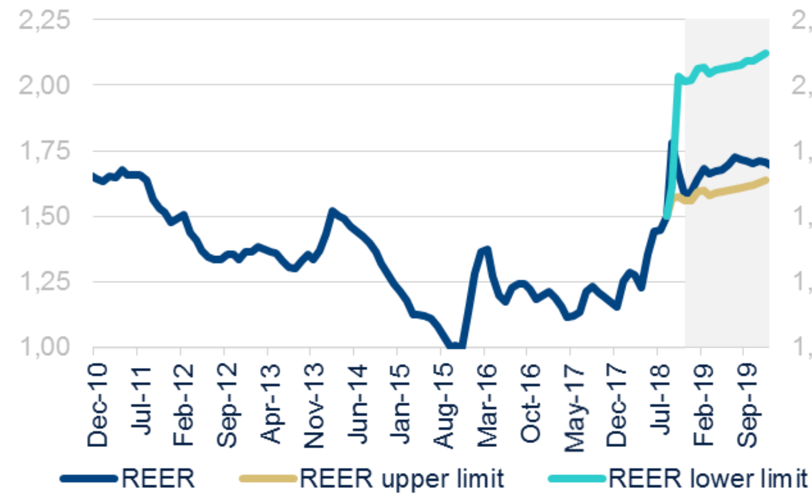
The exchange rate will remain in the low range of the non-intervention zone

Exchange rate, inflation and interest rates
(ARS/USD)



Source: BCRA, Indec and BBVA Research

Multilateral real exchange rate
(Nov. 2015 = 1)



Source: INDEC, Haver, BCRA and BBVA Research

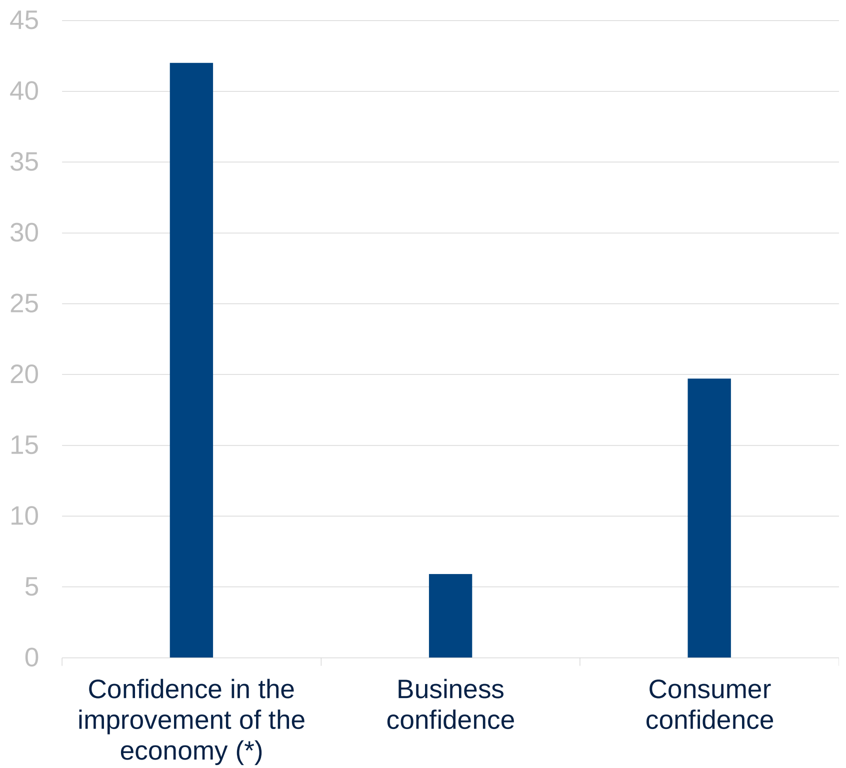
Monetary tightening will help to maintain the "currency truce" of 4Q18, with its reduction in portfolio dollarization, into 1H19, assisted by the dollars from agricultural exports and eventually Treasury sales, but volatility is likely to return owing to the usual pre-election dollarisation

At any rate, the exchange rate will depreciate at an average rate of 2% MoM, in line with inflation and with the change in the "bands" of the BCRA, and end 2019 at 49 ARS/USD (29.3% YoY)

Brazil: The government of Jair Bolsonaro begins, with optimism regarding the evolution of the economy

Confidence indicators: cumulative increase between September and December 2018

(Base-points change)



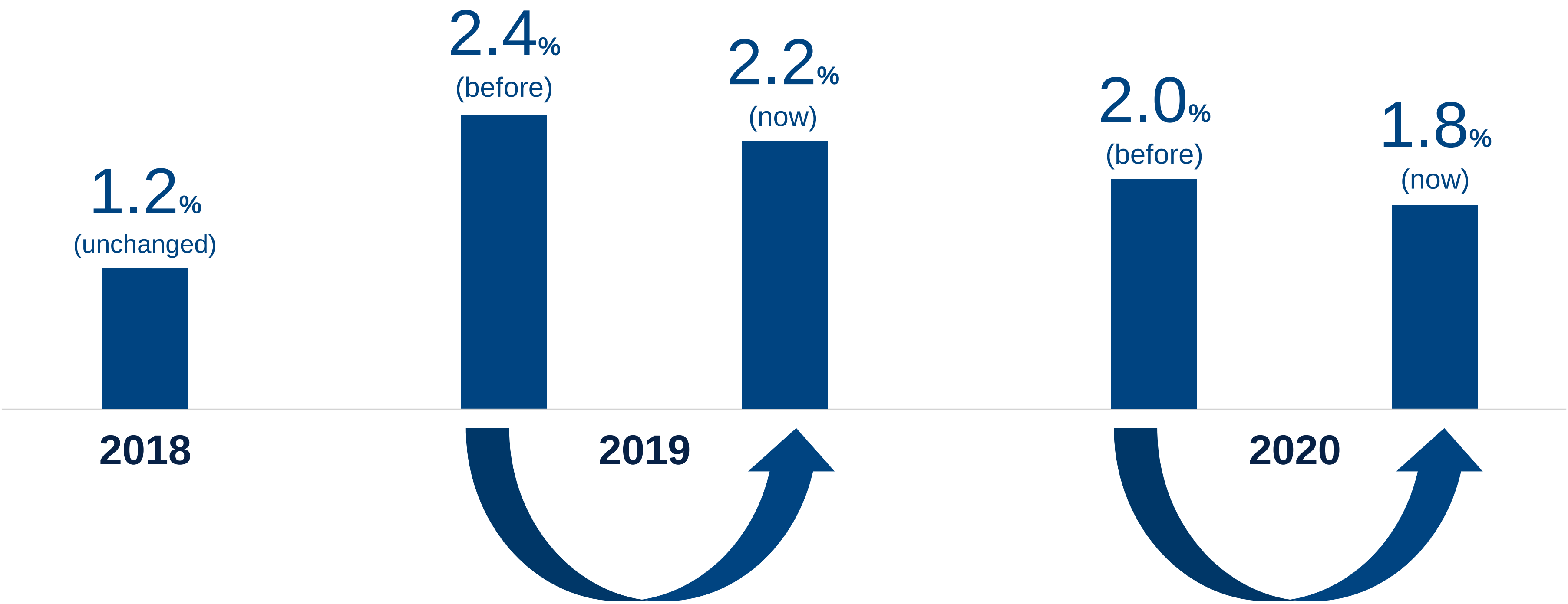
(*) Increase in the proportion of the population that expects the economy to improve in the coming months, according to Datafolha surveys.
Source: Datafolha, FGV, Fecomercio, BBVA Research

- Confidence in the economy has increased significantly
- Financial markets are also more optimistic, mainly due to the liberal agenda introduced by the new administration, which includes proposals for trade liberalization, fiscal adjustment, economic reforms, privatizations, etc.
- Since September, the Sao Paulo Stock Exchange index increased 20% and the exchange rate appreciated around 10%
- Greater confidence will continue to favor recovery
- However, optimism with the new government will hardly remain at such high levels, among other reasons because difficulties to approve reforms, with a fragmented and polarized congress, could be higher than anticipated

The most likely is that a social security reform will be approved, reducing, but not eliminating, fiscal problems

	Base scenario	Positive alternative scenario	Negative alternative scenario
Social security reform	A not very ambitious social security reform is approved	An ambitious social security reform is approved	A reform of social security is not approved
Fiscal outlook	Public debt continues to rise, although less than in recent years; new significant fiscal adjustments will become necessary	The conditions for public debt to trend down in the medium term are given	Public debt continues to increase significantly
Macroeconomic outlook	GDP growth converges to 2%	GDP growth converges to 3% or even more if other economic reforms are approved	Stagnation or even a new recession, in a context of growing doubts about the debt sustainability
Probability	60%	25%	15%

We maintain our view on the local drivers of growth, but we revise GDP forecasts downwards due to a less favorable global environment



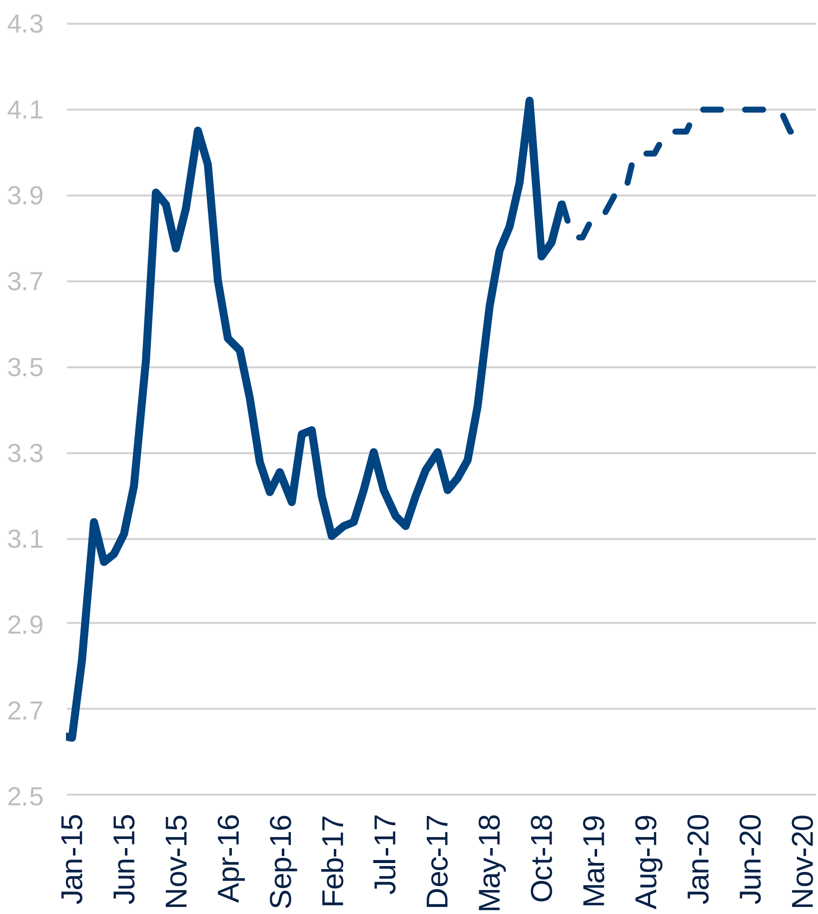
We keep our estimate for 2018 GDP growth unchanged at 1.2%, which would follow an expansion of 1.1% in 2017 and the 7% GDP contraction accumulated between 2015 and 2016

The 0.2 pp downward adjustments in our forecasts for 2019 and 2020 are due to global factors: lower global growth, higher financial volatility (mainly in the first half of 2019) and lower commodity prices

The exchange rate will remain slightly more appreciated during the next few months, but by the middle of the year it will start to depreciate again

Nominal exchange rate (*)

(Brazilian real/ US dollar)



(*) Forecasts from January 2019 on.
SourceBBVA Research

- After depreciating strongly between April and September, the exchange rate appreciated around 10% in line with global markets and greater optimism with the Bolsonaro government
- The honeymoon of the financial markets with the new government will help to maintain the exchange rate relatively appreciated in the coming months, despite the fact that in this period global volatility will remain high
- However, starting in the middle of the year, the exchange rate will possibly begin to depreciate, as the difficulties in the approval of the reforms (especially the social security one) become more evident and in line with the expected moderation in commodity prices

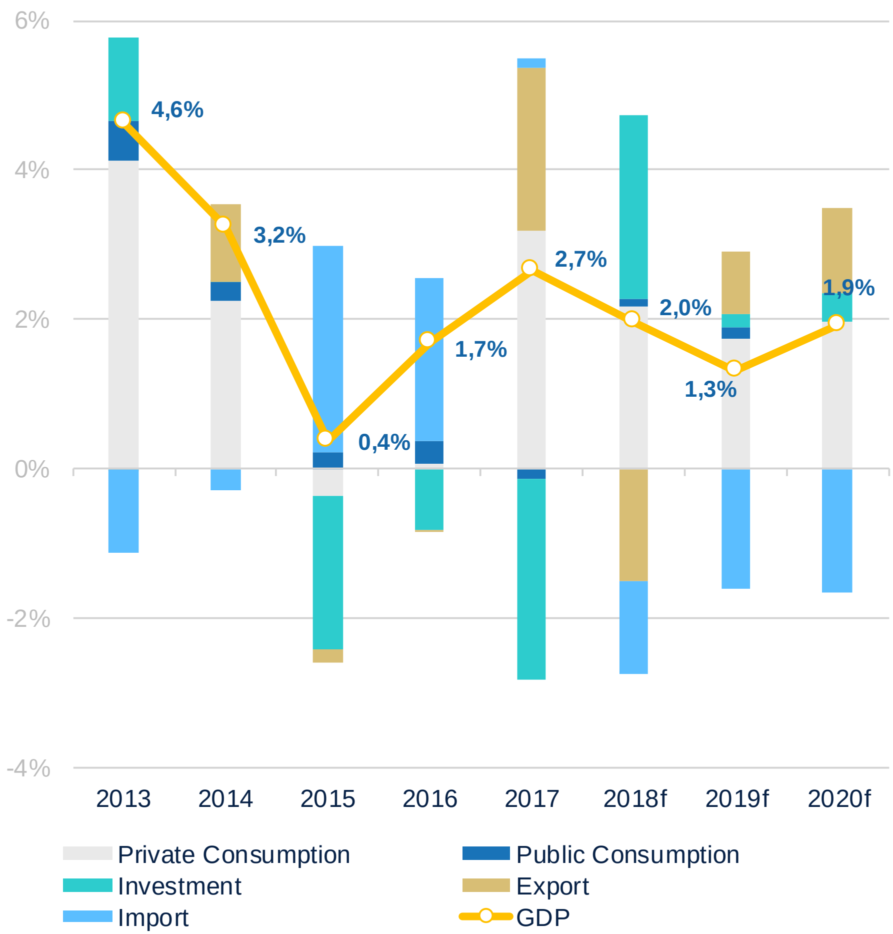
04

Uruguay:
stronger growth postponed to 2020

We maintain our growth forecast of 1.3% for 2019 and revise 2020 downwards to 1.9% (previously 2.2%)

Contributions to economic growth

(In %)



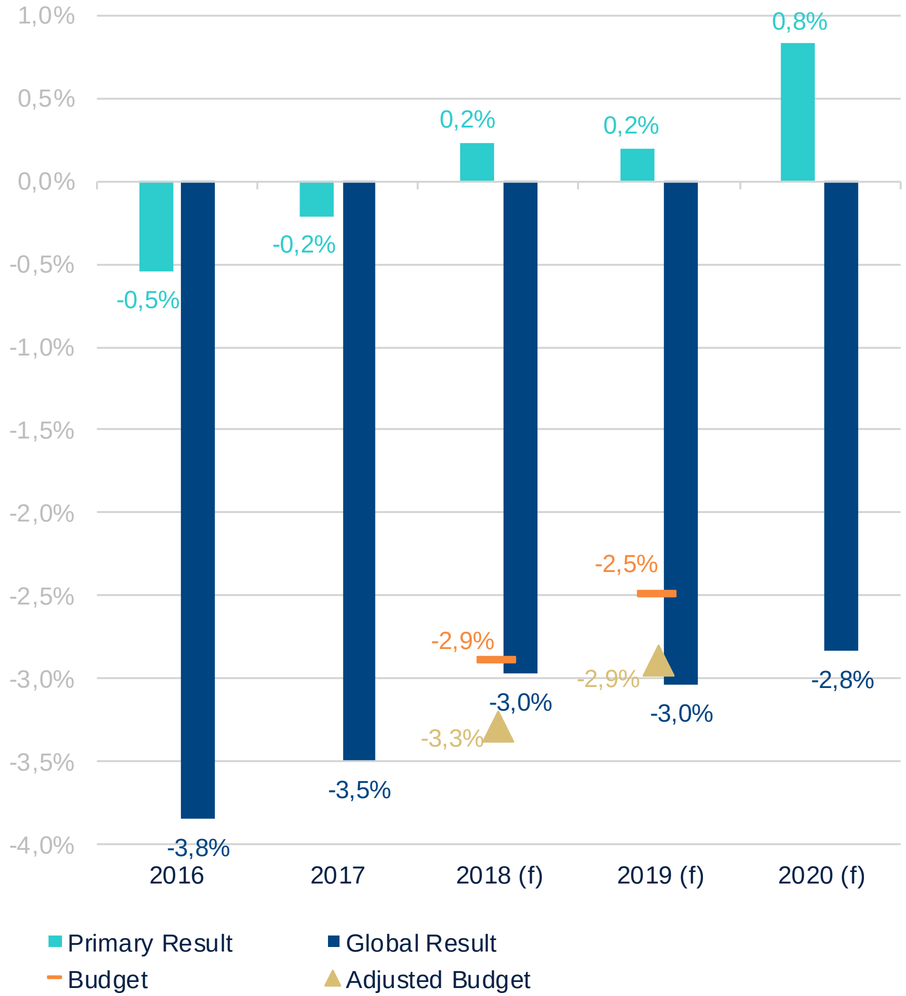
Source: BBVA Research & BCU

- Downward revision of growth for 2020 was 0.3 pp, due to the deterioration of the global scenario and the lack of definition as to the start of construction of the third pulp mill.
- In 2019, we expect a slowdown in consumption and a marginal contribution of public sector investment.
- External demand is expected to have a negative contribution in 2018 due to the drought and in 2019 as a result of the drop in tourism from Argentina.

(Transitory) fiscal consolidation in 2018, but the need for structural reforms will re-emerge in 2019

BBVA Research official goals and forecasts

(% of GDP)

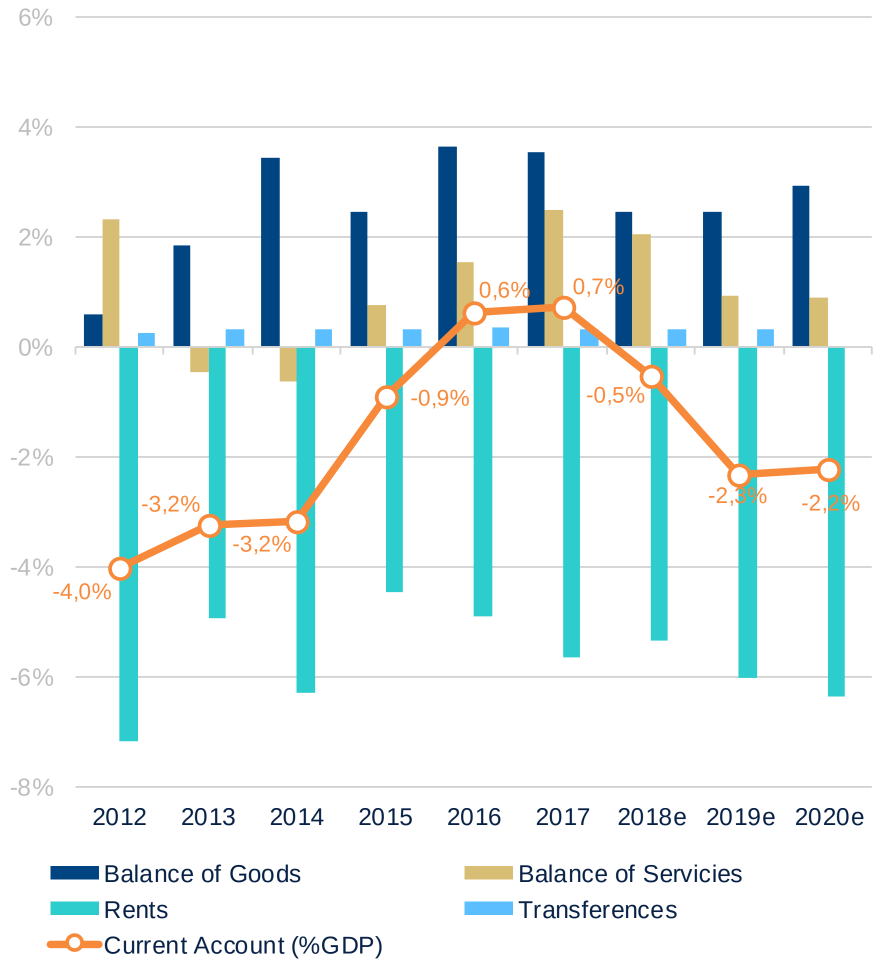


Source: BBVA Research & MEF

- The 2018 fiscal result showed a 2.7% of GDP deficit (against a budgeted 3.3%), but the improvement was due to the so-called "Fifty-somethings" effect, consisting of the transfer of funds from the Social Security trust (1.3% of GDP) from the private capitalization system to the state-owned system
- Reducing spending requires structural reforms designed to improve efficiency, particularly in social security, although this would exceed the current administration. For this reason, fiscal consolidation to date has been based on revenue increases in the form of higher taxes, although it has not proven to be sufficient.
- The pre-financing policy enables the Treasury to protect itself against unexpected shocks in terms of covering its financial needs but also generates costs that accumulate interest.

The current account will close 2018 with a 0.5% deficit of GDP, which will worsen to -2.3% of GDP in 2019

Current account and main components
(as a % of GDP)

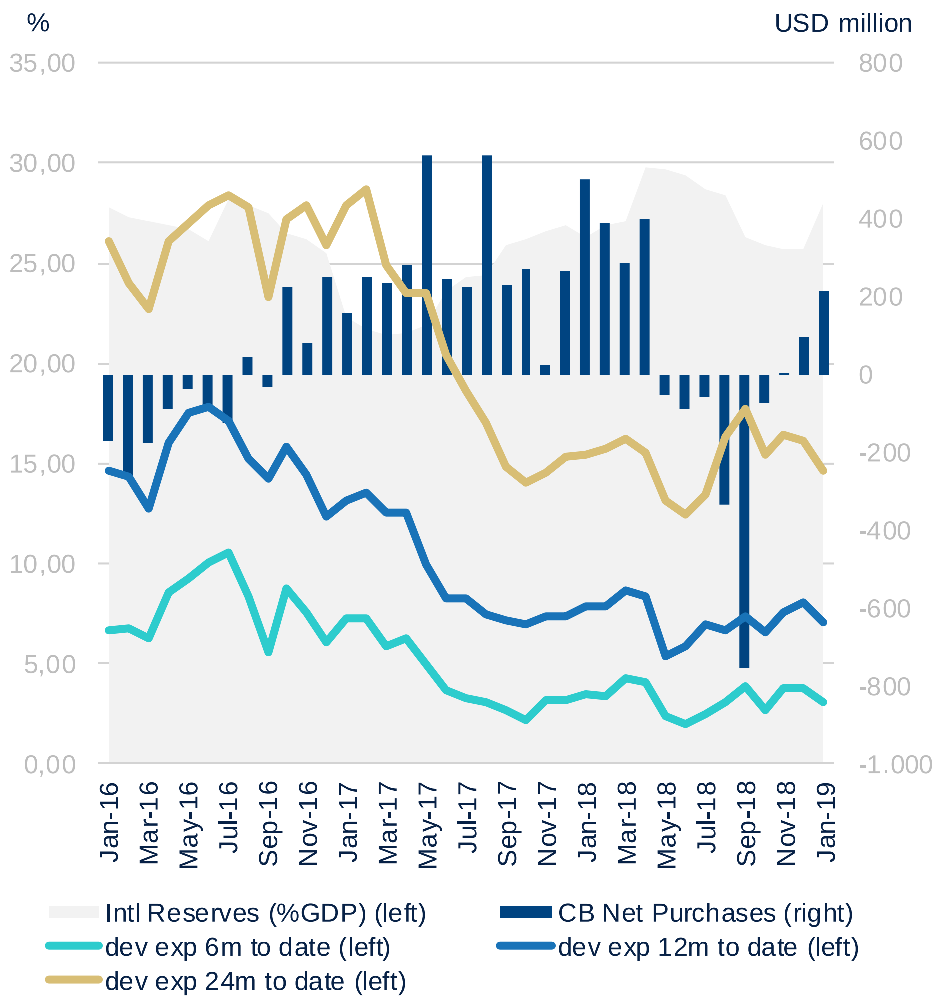


Source: BBVA Research & BCU

- The deterioration of the current account during 2018 is basically due to the reduction of the trade surplus and the increase of the primary revenue negative balance, in this case due to interest payments.
- The current account will continue to worsen in 2019, although it will not reach the ratios recorded between 2012 and 2014. The balance of trade will once again deteriorate, but what will cause a greater deficit this year will be the reduction in the balance of real services, with a significant drop in the Tourism account.
- Interest will also experience marginal growth in 2019 due to higher rates in international markets

In 2018, the Uruguayan peso depreciated like the average of emerging currencies, with little impact from the Argentine peso

BCU intervention and expected devaluation
(USD M and $/USD)



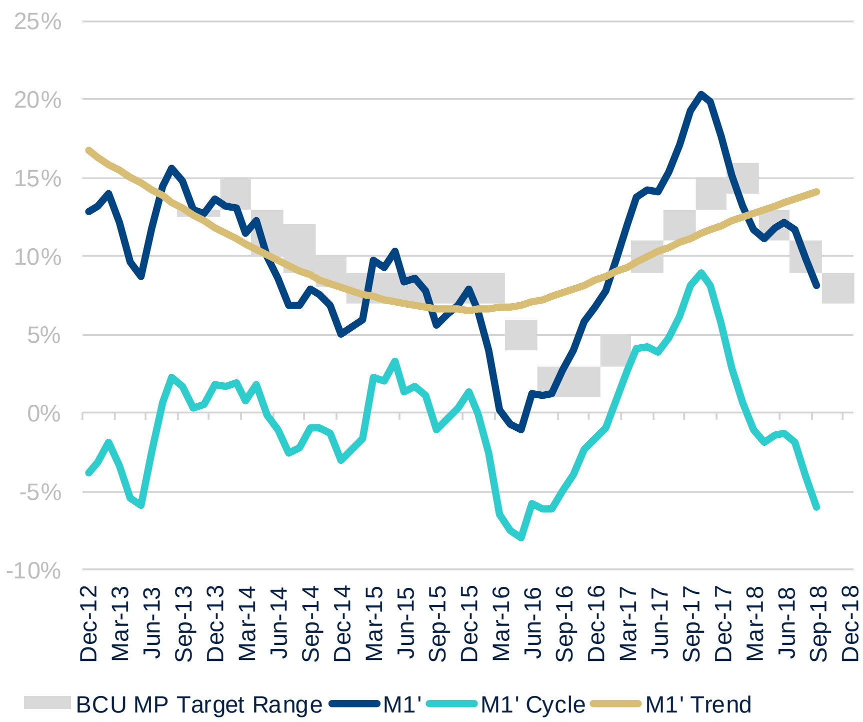
Source: BBVA Research & BCU

- The Uruguayan peso followed the average for the region throughout 2018 but was largely isolated from the effect of the Argentine peso and the Turkish lira.
- Through interventions and repos under the dollar integration mechanism, the Central Bank (BCU) is attempting to contain volatility and prevent the peso from falling out of line with macro fundamentals.
- The BCU sold USD 1.4 billion from May to November 2018 and then, since December 2018 until mid February ‘19, the BCU purchased USD 368 million.
- The electoral calendar will add moderate volatility to the currency market.
- For the end of 2019, we expect the exchange rate to reach 34.8 pesos/USD and 37.1 by December 2020.

Tight monetary policy and limited wage bargaining increases are not enough to anchor inflation expectations

Monetary policy, aggregate performance M1’

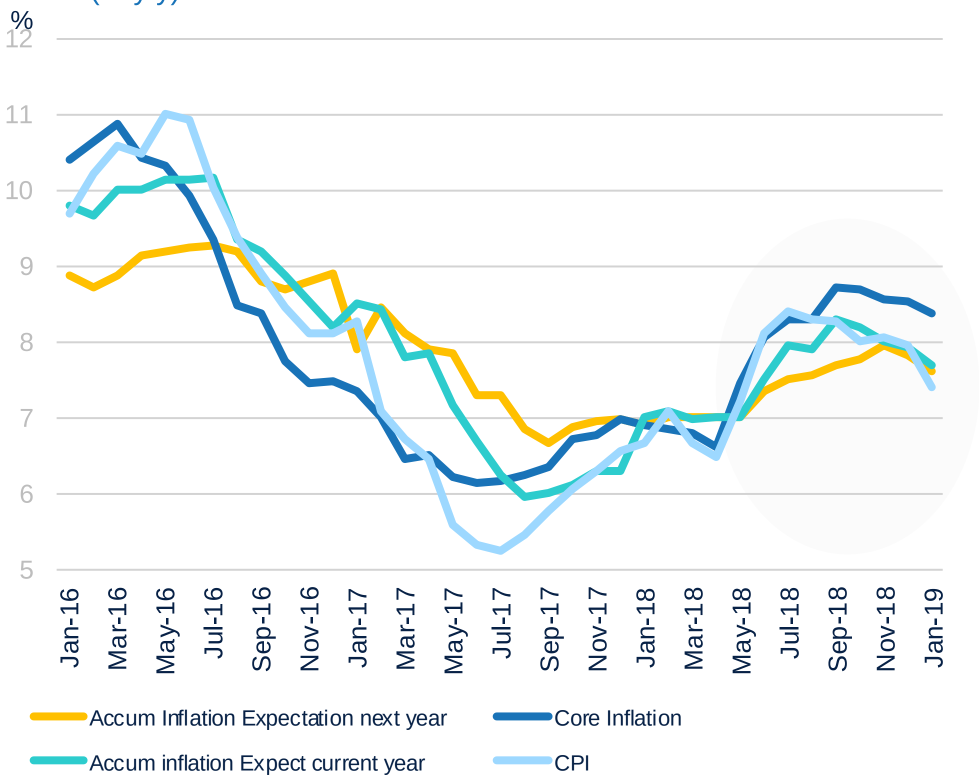
(Var%)



Source: BBVA Research & BCU

Actual CPI, core inflation and expectations

(% y/y)



Source: BBVA Research & BCU

Despite the BCU meeting its monetary targets and nominal salary raises remaining within the Government guidelines, the depreciation of the Uruguayan peso unanchored inflation expectations during Q2 and Q3 of 2018.

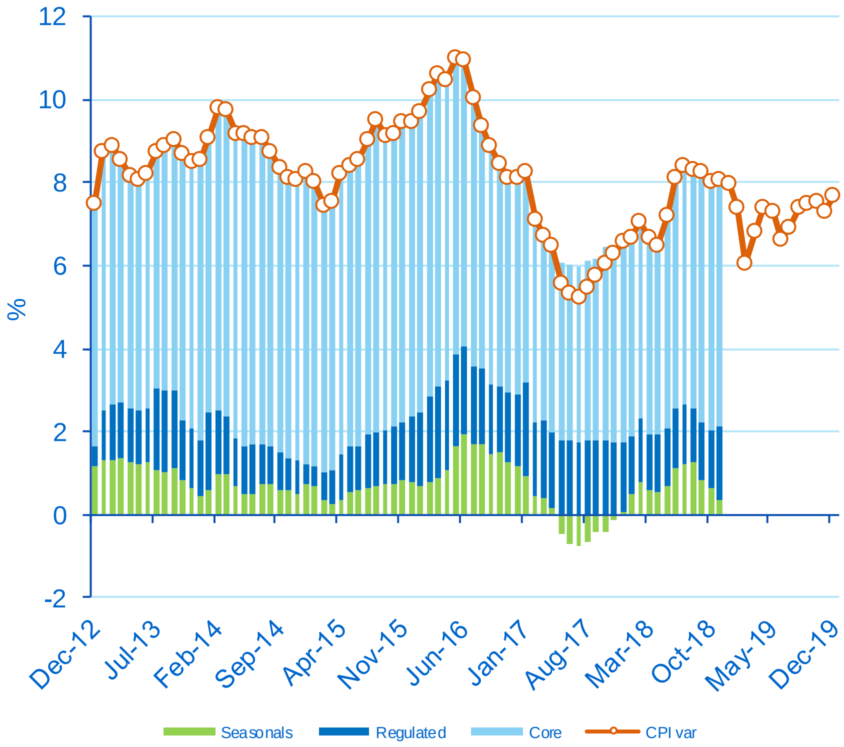
The tight monetary policy was reinforced in 2018 and Q1 2019.

Underlying inflation accelerated as of May due to the effect of the devaluation to a maximum of 8.72% y/y in September, subsequently dropping to 8.37% y/y in January.

Since November 2018, inflation expectations have experienced a marginal decline for the subsequent 12 and 24 months.

Inflation will stay outside the range in 2019

CPI, contributions and forecast
(USD M and $/USD)



- Inflation will remain above the upper level of the BCU target range of 3%-7%.
- In the December 2018 report, the COPOM ratified the 3%-7% range for the next 24 months.
- We maintain our inflation forecast of 7.7% for 2019 and of 6.6% for 2020.

Source: BBVA Research & BCU

Uruguay forecasts

	2016	2017	2018f	2019f	2020f
GDP (% y/y)	1,7	2,7	2,0	1,3	1,9
Inflation (% y/y, eop)	8,1	6,6	8,0	7,7	6,6
Inflation (% y/y, average)	9,6	6,2	7,6	7,0	7,0
Exchange Rate (vs. USD, eop)	28,8	28,9	32,2	34,8	37,1
Exchange Rate (vs. USD, average)	30,1	28,6	30,7	33,7	36,0
Loan Interest Rate (%, average)	22,3	21,2	21,8	22,2	20,6
Private Consumption (% y/y)	0,1	4,4	2,9	2,3	2,6
Government Consumption (% y/y)	2,9	-1,3	1,0	1,5	1,0
Investment (% y/y)	-3,9	-13,8	15,0	1,0	2,0
Fiscal Balance (% GDP)	-3,8	-3,5	-3,0	-3,0	-2,8
Current Account (% GDP)	0,6	0,7	-0,4	-2,4	-3,6

Fuente: BBVA Research

04

Latin America: Forecast tables

Forecasts: GDP, inflation, exchange and interest rates

	GDP (% yoy)					Inflation (% yoy, eop)				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Argentina	-1.8	2.9	-2.4	-1.0	2,5	39,3	24,8	47,6	30,0	17,6
Brazil	-3.3	1.1	1.2	2.2	1,8	6,3	2,9	3,8	4,5	4,9
Chile	1.3	1.5	4.0	3,4	3,3	2,8	1,9	3,0	2,8	2,8
Colombia	2.0	1.8	2.6	3	3,3	5,7	4,1	3,2	3,2	3,2
Mexico	2.7	2.3	2.2	2	2,2	3,2	6,6	4,8	3,7	3,5
Paraguay	4.3	5.2	3.8	4,1	4,3	3,9	4,5	3,2	4,0	4,0
Peru	4.0	2.5	3.9	3,9	3,7	3,3	1,4	2,2	2,3	2,5
Uruguay	1.7	2.7	2.0	1,3	1,9	8,2	6,3	8,0	7,4	6,7

	Exchange rate (vs. USD, eop)					Interest rate (%, eop)				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Argentina	15,8	17,7	37,9	49,0	55,0	24,80	28,80	59,30	35,00	20,00
Brasil	3,35	3,30	3,85	4,05	4,05	13,75	7,00	6,50	8,00	9,00
Chile	667	637	680	650	635	3,50	2,50	2,75	3,50	4,00
Colombia	3010	2991	3195	3150	3020	7,50	4,75	4,25	4,75	5,00
México	20,7	18,7	20,1	19,0	18,8	5,75	7,25	8,25	8,00	7,00
Paraguay	5787	5631	5928	6125	6250	5,50	5,25	5,25	5,50	5,50
Perú	3,40	3,25	3,37	3,30	3,34	4,37	3,26	2,75	3,25	3,50
Uruguay	28,8	28,9	32,2	34,8	37,1	**	**	**	**	**

Source: BBVA Research

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

Forecasts: fiscal balance, current account and commodities

	Current Account (% of GDP)					Fiscal Balance (% of GDP)				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Argentina	-2,7	-4,9	-5,2	-3,3	-2,3	-5,8	-6,0	-5,6	-3,3	-2,3
Brazil	-1,3	-0,3	-0,3	-0,8	-1,5	-9,0	-7,8	-5,6	-5,3	-6,4
Chile	-1,4	-1,5	-2,2	-2,6	-1,5	-2,7	-2,8	-1,7	-1,3	-1,3
Colombia	-4,3	-3,3	-3,5	-4,1	-3,8	-4,0	-3,6	-3,1	-2,4	-2,2
Mexico	-2,2	-1,6	-2,0	-2,0	-1,9	-2,5	-1,1	-2,0	-2,0	-2,0
Paraguay	3,5	3,1	0,3	1,2	1,8	-1,1	-1,1	-1,3	-1,5	-1,5
Peru	-2,7	-1,1	-2,2	-2,2	-2,2	-2,5	-3,1	-2,7	-2,3	-2,2
Uruguay	0,6	0,7	-0,5	-2,3	-2,2	-3,8	-3,5	-2,9	-3,1	-2,5

	Commodities (yearly average)				
	2016	2017	2018	2019	2020
Brent Crude (USD$ /Barrel)	44,75	54,43	71,95	63,15	55,75
Soybeans (USD$/ton)	362,88	358,75	342,50	340,50	350,50
Copper (USD$/lb)	2,20	2,80	2,96	2,81	2,72

Source: BBVA Research