

Economic Outlook

Brazil

Second Quarter 2011
Economic Analysis

- **In spite of the adoption of countercyclical measures, growth remains robust**, supported by buoyant labor and credit markets. GDP should have grown 1.1% q/q in the first quarter of the year, accelerating with respect to the second half of 2010.
- **We expect the government to deliver the fiscal adjustment promised some months ago, the Central Bank to continue tightening the monetary policy, and public banks to contribute to counter-cyclical efforts by slowing credit growth down.** In this environment GDP should grow 4.0% in 2011.
- **The sharp rise of inflation triggered concerns that prices could be running out of control.** This put inflation on top of the overheating concerns, outweighing the worries with the current account. The acceleration of inflation seems to have made the government more tolerant with respect to the exchange rate.
- **We expect inflationary pressures to gradually ease and inflation to converge to the target only by 2012, but there is risk of the economy drifting towards a “bad equilibrium”,** if second round effects and a major increase in the minimum wage next year cause inflation to remain high, forcing high interest rates, and a very appreciated exchange rate.

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Closing date: May 6, 2011

1. Global outlook: recovery, global shocks and vulnerabilities

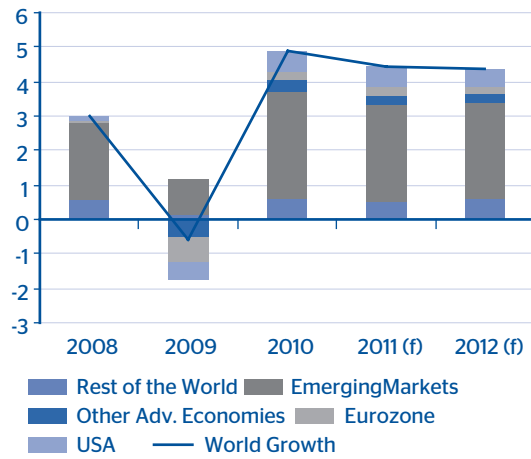
The global economy continues to grow at a robust pace, and is still expected to expand 4.4% both in 2011 and 2012, supported primarily by emerging economies (Chart 1). However, the threat coming from high commodity prices (especially oil) increases the uncertainty and introduces a risk to growth and inflation in most regions, even to some of those that might benefit directly from high commodity export prices. At the same time as this global shock develops, local risks identified in the previous issue of the Global Economic Outlook continue more or less unchanged. Financial stress in Europe is likely to continue, especially for Greece, Portugal and Ireland. The political noise around proposals to finally start the process of fiscal consolidation in the US will only add to uncertainty in the markets, even as we think that some form of fiscal adjustment will take place in the end. Finally, overheating pressures in emerging markets continue, although going forward probably they will be more of a concern in South America, given tailwinds from commodity prices.

The greatest global risk stems from the rise in oil prices, caused, since the beginning of the year, mostly by political instability in the Middle East and North Africa (MENA). Although uncertainty is high and protests in the region are still unfolding, in our view, contagion to the point of disrupting oil production in other important oil producers beyond Libya will not occur. Thus, the geopolitical risk premia incorporated in oil prices will slowly but gradually be reduced, given still ample OPEC spare production capacity and OECD inventories, both above historical means. Nonetheless, oil prices would remain high at around 110-120 dollars per barrel during most of 2011, to slowly flex down to around 100 dollars in 2012.

In this context, in which the price of other commodities such as food and metals has also increased, the main (negatively) affected regions will be the major developed countries and most of emerging Asia, the main importers of raw materials. On the other hand, the main beneficiaries of improved terms of trade would be the Middle East and Latin America, which will recycle part of this windfall revenue. However, a shock of this magnitude will be absorbed by the global economy without significantly affecting economic activity. This, together with relatively strong data in the first quarter of 2011, justifies relatively unchanged growth forecasts in most areas, as compared to our February Global Economic Outlook. The main exception is Mexico and South America, where strong data in the first three months of 2011 and better terms of trade imply a moderate upward revision of our growth forecasts for 2011. Europe will continue to grow mostly in core countries rather than the periphery, while risks to the U.S. growth forecast shift from being biased upwards three months ago to be more balanced by higher oil prices.

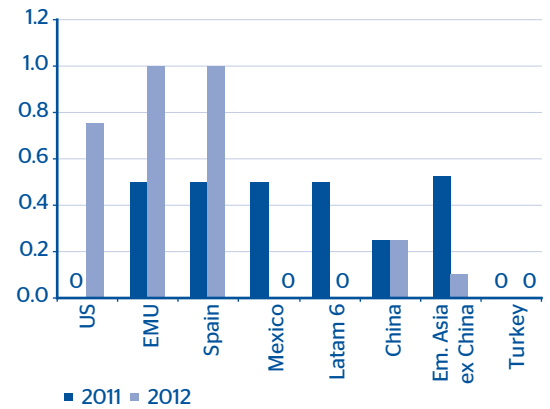
The main effect of the oil shock will be felt on prices. Higher inflation in most economies in 2011 and 2012 will prompt monetary authorities to bring forward and in some cases push for more aggressive paths of interest rate increases (Chart 2). Nevertheless, there is still a wide heterogeneity in central bank approaches to the risks stemming from high oil and other commodity prices. In particular, in the US and euro zone, central banks are shifting -at different degrees- their focus from supporting growth or preventing a tail risk scenario of very low growth and deflation, toward maintaining inflation expectations anchored, particularly considering that the monetary policy stance is very accommodative. As a consequence, the balance of risks has tilted towards a higher probability of earlier hikes. The timing of the first hike depends on the perceived need to react to potential risks of second-round effects. The ECB hawkish approach is to avoid any risk by being pre-emptive (and thus its first hike in April), and is not willing to look through the current oil price related rise in inflation. On the other hand, the Fed, focusing more on the lack of sustainability in the recovery, prefers to wait and act only if risks materialise. Between these two approaches, emerging economies seem open to more front-loaded hikes if needed, but with an eye also on not excessively encouraging capital inflows and exchange rate appreciation.

Chart 1
Global GDP growth and contributions (%)



Source: BBVA Research and IMF

Chart 2
Changes in year-end expected official interest rates relative to February 2011 forecasts



Source: BBVA Research

In Europe the agreements reached during the March summits are useful for the medium term both in terms of economic reforms and to help prevent future crisis. In addition, the changes introduced to the EFSF/ESM are positive to address liquidity concerns. However, financial market tensions in the three peripheral countries with international support (Greece, Ireland and Portugal) will continue as long as doubts persist about the solvency of some countries and thus the risk of debt restructurings that include private investors. These lingering doubts will continue hindering the funding to these economies and sustaining high sovereign spreads and could spread to other countries, even those with high solvency credentials. Thus, a comprehensive approach to debt resolution in case of insolvency is urgently needed, but one that takes into account that undergoing a hard debt restructuring that includes haircuts to private investors has a very high risk of contagion to the rest of Europe, so it will have to be designed carefully.

For its part, Spain has been able to differentiate itself from these three peripheral countries given advances in fiscal consolidation and economic reform including, in particular, those aimed at the financial sector and the labour market. However, continued decoupling and a meaningful reduction in spreads will depend crucially on the satisfactory completion of the recapitalization of the financial system -with a prompt entry of private capital-, on continued fulfilment of fiscal consolidation targets -including in the regional governments- and continuing advancing reforms, especially in the labour market.

In the U.S., the political process to reach a sustainable path for public debt involves difficult negotiations between two opposite approaches to deficit reduction. In the end, fiscal consolidation will have to come either from a reduction of entitlements or from higher tax revenues. In our opinion, both parties will reach an agreement that translates into lower deficits and a sustainable debt path, but the political noise until that agreement is reached will only add more uncertainty into the markets, especially as the discussion on the debt ceiling brings opportunities to harden the negotiations.

Emerging economies continue to show risks of overheating, but with marked heterogeneity. Some countries are beginning to confront these risks through more restrictive monetary policy and, in some cases, also fiscal tightening, for example, in the important cases of China and Brazil. We think overheating risks are manageable but, going forward, they will become more pronounced in South America, to the extent that a commodity price increase represents a tailwind for South America but cooling headwinds for emerging Asia. In addition, doubts about the true extent of the slowdown in Japan could slow down economic activity in most of Asia, given extensive trade links and integrated production chains. Furthermore, current account surpluses in much of Asia are a more comfortable buffer for countries in the region, as compared to South America.

2. Dilma Rousseff's first days: economic policy twists

Although the government of Dilma Rousseff has been broadly following the same set of macroeconomic policies in place since the end of the government of Cardoso, there are some twists in the new government's economic policy that are worth mentioning.

There is now more communication between the Ministry of Economy and the Central Bank (CB) resulting in better coordination of fiscal and monetary policy. The announcement of expenditure cuts, accompanied by an official recognition by the Minister of Economy that this would ease the job of the CB, was the first sign. On the other side, the CB has been relying not only on SELIC hikes, but also on macro-prudential measures to control credit expansion and slow the economy down while appeasing fears of appreciation. This twist on the implementation of monetary policy relates to the CB's new emphasis on guaranteeing the stability of the financial system, in addition to keeping inflation under control. This adjusted monetary policy also seems to be consistent with the goal of bringing domestic interest rates down to international levels in the medium/long-term, which is certainly aligned with the interests of the Ministry of Economy.

On the fiscal side, in addition to announcing cuts on public expenditures, the government limited the 2011 minimum wage adjustment to 1% in real terms, a much less generous rise than those implemented during the government of Lula, when minimum wage adjustments averaged 6% in real terms. The same law, however, set up a floor for future adjustments of the minimum wage linked to inflation in the previous year plus the average GDP growth of the previous two years. For 2012, this should imply a 13% nominal expansion (around 6% in real terms) of the minimum wage with a significant impact on fiscal accounts (as 1/3 of expenditures are linked to the minimum wage), domestic demand, and inflation expectations¹. Although some analysts see room for changing this law to avoid those negative effects, the political cost of doing so would be very high, and we, therefore, do not expect the government to change it. What we do expect is the announcement of other measures to offset the fiscal impact of this adjustment (such as more expenditure cuts or even tax increases).

The adoption of a fiscal rule to reduce the uncertainty regarding future fiscal policy, which was rumoured during Dilma's campaign, seems to have been discarded for now. This is certainly a drawback, as defining a permanent goal (for example, the generation of a primary surplus equal to at least 3% of GDP or the reduction of the net public debt from 39.9% of GDP to 30% by the end of Dilma's government in 2014) would be very helpful to take some pressure off of interest rates and to reduce uncertainties related to future minimum wage adjustments, as well as concerns with the overspending on infrastructure needed for the 2014 World Cup and 2016 Olympics.

Regarding the exchange rate, it seems that there exists a consensus within the government (including the CB) that the exchange rate is excessively appreciated and that measures should continue to be implemented to take some steam off the real. Another dominant view within the government is that appreciatory pressures will ease after developed economies start to recover more solidly in 2012. Although this could end up being the case, the appreciatory pressures on the exchange rate could prove to be a more permanent than temporary effect, which would challenge Brazilian economic policies.

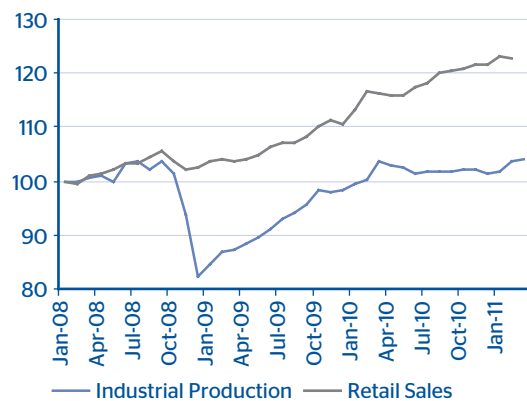
Finally, the government has been studying political and tax reforms projects for presentation to the Congress. Although, at least at this point, they do not seem very ambitious (especially the latter), they go into the right direction, meaning the strengthening and consolidation of political parties in the first case, and the reduction of the distortions (but not of the total burden) of the current tax system. In addition to these reforms, there has been some positive discussion about measures that could reduce the social security deficit (1.2% of GDP in 2010) including the end of the link between the minimum wage and social security benefit payments as well as the increase of the retirement age.

1: For the next couple of years the minimum wage adjustments should average 9% in nominal terms (4.5% in real terms).

3. Struggling to slow demand down

After seeing the economy grow by 7.5% in 2010, policy makers have been taking a series of measures to moderate domestic demand: the SELIC rate has been adjusted up by 125bps to 12.0% since January, reserve and capital requirements were raised, taxes on consumption credit and on short-term (less than two years) foreign capital were introduced, and public expenditure cuts were announced. However, the impact of these measures on the economy up to now has been timid.

Chart 3
Industrial Production and Retail Sales (Index Jan08=100; SA)



Source: IBGE

Chart 4
Corporate Credit (y/y %)



Source: Central Bank of Brazil

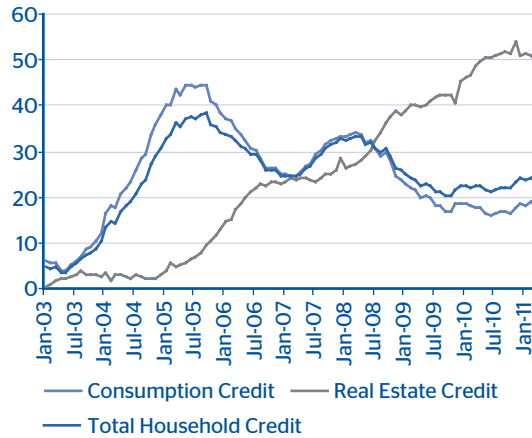
Supply-side indicators, such as industrial production, suggest that the economy is moderating (see Chart 3). This moderation, however, seems more related to factors such as the appreciation of the exchange rate and cost pressures (especially wages) than to the recently implemented counter-cyclical policies. The worsening of credit conditions implied by the tightening of monetary policy has not been enough, at least up to now, to have a significant impact on corporate credit. More precisely, although the average lending rate to the corporate sector increased from 27.9% in December to 31.3% in March, and the average loans maturity declined to 388 days from 399 days in the same period, loans concessions to the corporate segment reached a record level in March, and the stock of corporate credit expanded more than 19%/y/y in March in comparison to 15% in the same month last year and 18.7%/y/y by the end of 2010 (see Chart 4).

Demand-side indicators, such as retail sales, have shown weaker signs of moderation (see Chart 3). Robust credit and labour markets, especially, are behind the domestic demand strength. With respect to the former, concerns with excessive lending to some consumption segments (especially longer-term consumption credit, such as car loans) triggered the adoption of macro-prudential measures². These measures, together with the SELIC rising, generated a deterioration of credit conditions to households (since the end of 2010, lending rates for households increased by 440bps to 45%) and a slight moderation in loan concessions to this segment (consumption credit growth declined slightly from 18.8%/y/y at the end of 2010 to 18.0%/y/y in March, and real estate credit growth declined to 49.6%/y/y from 51.1% by the end of 2010, as can be seen in Chart 5)³. With respect to labour markets, unemployment remains at historically low levels, wages continue growing at a strong pace, and there is generalized evidence of a labour force shortage (see Chart 6).

2: Despite excessive lending to some segments, there is little evidence of a credit bubble in Brazil. This view is supported by indicators of financial burden such as debt service and total indebtedness of households as a share of disposable income released by the CB. This should not rule out risks that a moderation of economic activity could impact the banking system, especially smaller banks which are known to have structural problems related to a low deposit base and expensive funding.

3: In spite of the clear downward trend observed in the last years (and expected for coming years), interest rates in Brazil remain very high, which increases the concerns about the negative impact a deterioration of labour market conditions could have on credit markets.

Chart 5
Credit to Households (y/y %)



Source: Central Bank of Brazil

Chart 6
Labour Market - Unemployment and Wages

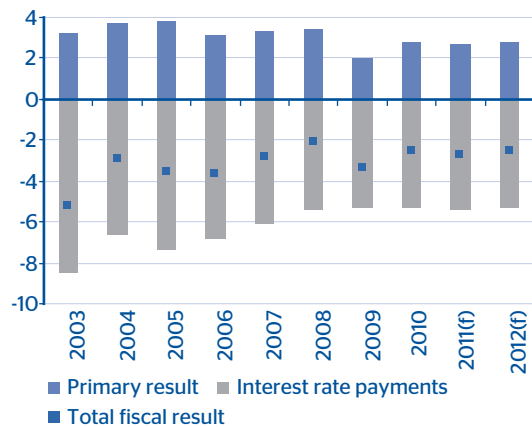


Source: IPEADATA

All in all, taking into account supply and demand indicators, we expect GDP to grow 1.1%q/q in the first quarter of the year. This is less than the average growth observed in the first half of 2010 (1.9%q/q) but more than the average of the second half of 2010 (0.6%q/q).

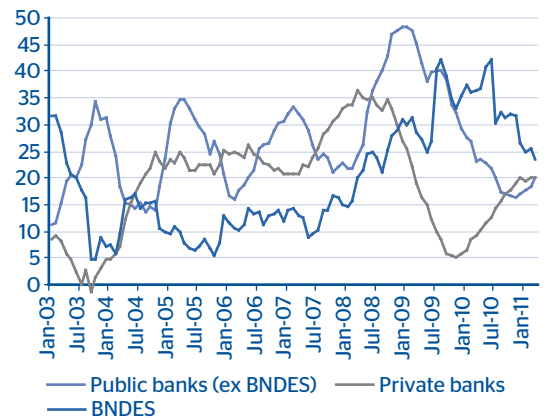
We expect the already implemented countercyclical measures to be complemented by more policy actions in the remainder of the year. More precisely, we expect the SELIC rate to be adjusted up by one or maybe two more 25bps hikes and more macro-prudential measures to be implemented to help total credit growth slow down from 21%/y/y to around 13%/y/y by the end of the year.

Chart 7
Fiscal Accounts (% GDP)



Source: Central Bank of Brazil and BBVA Research

Chart 8
Credit (y/y %)



Source: Central Bank of Brazil

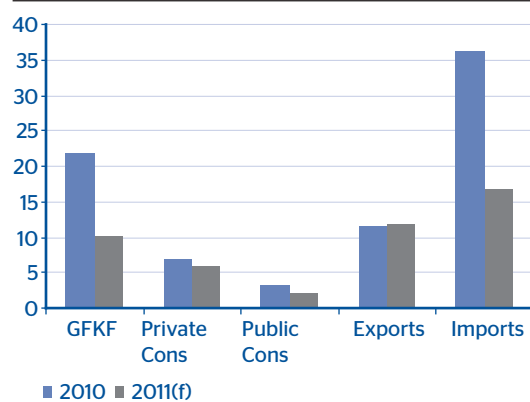
Regarding fiscal measures, we expect the R\$ 50 billion expenditure cut to be delivered and the public sector's primary surplus to be close enough to the R\$118 billion (around 2.9% of GDP) target. This fiscal performance will be less expansive, therefore, than in 2009, when the primary surplus was equal to 2.0% of GDP, and less expansive than in 2010, when the primary result excluding the extraordinary results related to Petrobras' IPO was 2.1% of GDP⁴ (see Chart 7).

One additional instrument to slow down credit is a moderation, or even a reduction, in credit by public banks, especially the BNDES. Recent data show that BNDES credit is already weakening, but further reductions are required as the current growth rate is still too high (see Chart 8).

4. This fiscal effort will, however, be offset by higher interest rates payments (due to a higher average SELIC rate), and the total fiscal result (by definition equal to primary surplus plus net interest rates payments) should be around -2.7% by the end of this year, slightly worse than in 2010 when the total fiscal result was -2.6% of GDP. In spite of this slight deterioration, the net debt of the public sector as share of GDP should drop from 40.1% in 2010 to 39.0% in 2011 due to GDP growth. Our larger-term forecasts show this ratio will continue trending down in the next years and reach around 35% by the end of 2015.

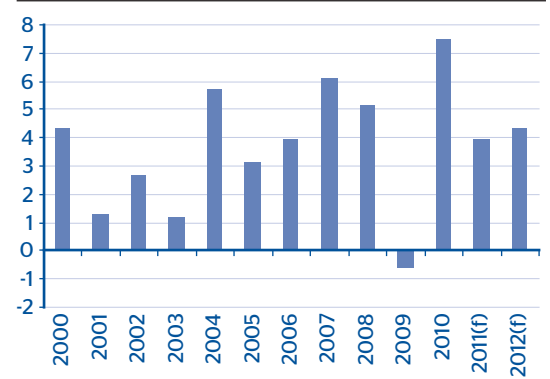
During the coming quarters, we expect domestic demand to finally show clearer signs of moderation. We expect this moderation to be more evident in private consumption than in investment, as total investments have already moderated, at least partially, and private consumption has not (the most recent GDP data show that total investment expanded only 0.7%q/q in Q4 10, while private consumption grew 2.5%q/q in that quarter), and also because countercyclical policies are targeting the former and not the latter. For 2011, we expect private consumption to grow 4.8% and total investments 10.0% (see Chart 9). Regarding external demand, exports are expected to grow 11.7% this year driven by very benign terms of trade and in spite of the appreciation of the exchange rate and the negative impact of higher oil prices on global growth. On the other hand, imports are forecasted to expand 16.7% in 2011, which is less than half the speed observed in 2010, but still more than the growth of exports, driven by the continued dynamism of domestic demand. All in all, GDP should grow 4.0% this year (see Chart 10).

Chart 9
GDP by Demand Component (%)



Source: IBGE and BBVA Research

Chart 10
GDP Growth (%)



Source: IBGE and BBVA Research

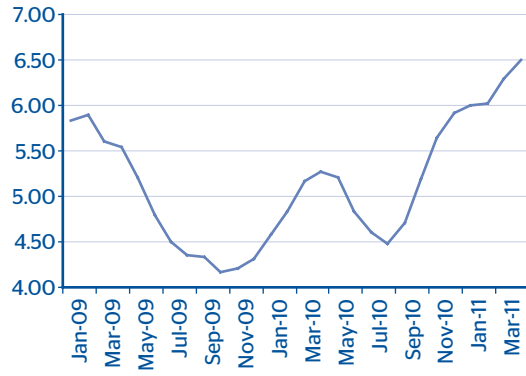
4. The focus is now on inflation but the external accounts should remain on the radar

Headline inflation reached 6.51%/y/y in April, surpassing the upper-bound of the inflation target system (6.5%/y/y) for the first time in six years. On top of that, the Central Bank's survey of analysts shows inflation expectations for the end of this year rising steadily to 6.4%/y/y (see Charts 11 and 12). For the end of 2012, inflation expectations are at 5.0%/y/y, already higher than the 4.5% inflation target.

As everywhere, inflationary pressures are being fuelled by commodity prices. Food and beverage inflation, for example, is currently running around 8.0%/y/y (after growing by more than 10%/y/y in December and January). Gasoline prices are currently expanding 11.7%/y/y, in spite of Petrobras' policy of postponing gasoline retail price adjustments to avoid an extra deterioration of inflation.

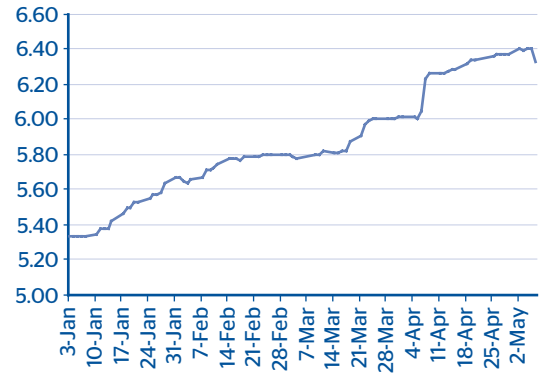
But prices are being pressured not only by commodity prices but also by the strong dynamism of domestic demand. Services inflation was at 8.0%/y/y when last measured in April. Non-tradable inflation was at 7.7%/y/y, higher than tradable prices, which were increasing 6.0%/y/y in April. Core inflation measures are currently close to 6.5%/y/y and moving upwards.

Chart 11
Inflation (IPCA; y/y %)



Source: IBGE

Chart 12
Inflation Expectations for the End of 2011

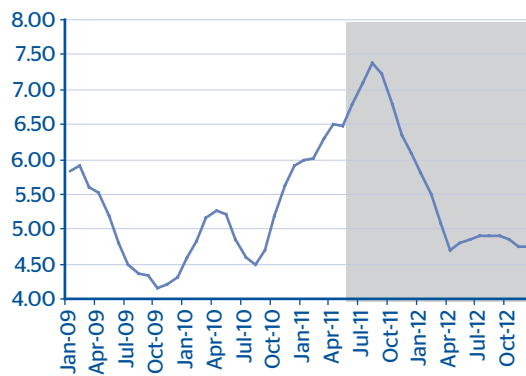


Source: Central Bank's Survey

On top of commodities and demand pressures, inflation has also been supported by second-round effects (wages are currently growing around 10.0%/y/y) and by multiple indexation mechanisms that continue present in the Brazilian economy.

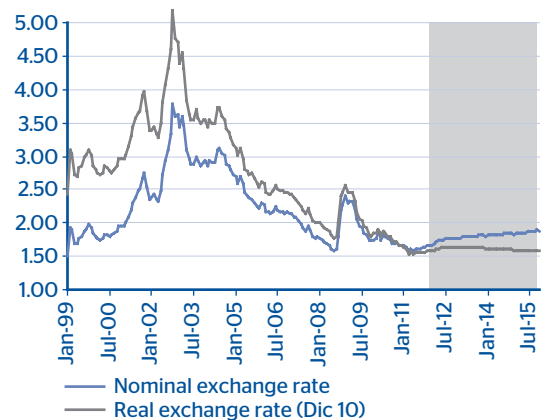
We expect domestic demand to gradually moderate during the coming months. That should take some pressure off inflation, and if commodity prices stop moving up, there is some room for inflation to come down. In monthly terms, this moderation could start in the second quarter. In yearly terms, however, inflation should continue moving up at least until August due to a low comparison base effect (inflation was 0.0%/m/m in June, July, and August of 2011). More precisely, yearly inflation will most likely rise to near 7.0% by the middle of the year before receding gradually to around 6.0%/y/y by the end of this year (CB forecast: 5.6%/y/y; market forecast: 6.3%/y/y) and to around 4.8%/y/y by the end of 2012 (CB forecast: 4.6%/y/y; market forecast: 5.0%/y/y).

Chart 13
Inflation Forecast (y/y %)



Source: BBVA Research

Chart 14
Exchange Rate Forecast (Real per Dollar)



Source: BBVA Research

The sharp and sudden deterioration of inflation figures together with some concerns with the CB, which adopted a less aggressive tone than in the past by focusing on macro-prudential pressures at the beginning of the year, triggered concerns that prices could be running out of control. This put inflation on top of the overheating concerns, outweighing the worries with the current account deficit as well as concerns about an excessive appreciation of the currency.

The acceleration of inflation seems to have made the government more tolerant to a stronger real, at least temporarily. The very recent change in the tone of the Central Bank and the lack of action to take some steam off the exchange rate, in spite of the fact the real is now under the 1.60 mark, support this perception. In our view, the higher tolerance with respect to the appreciation of the exchange rate is a temporary strategy to help bring inflation down and not a permanent one. Therefore, once inflation starts coming down (by the end of this year or beginning of 2012), we expect the adoption of actions to avoid an over-appreciation of the real.

Regarding monetary policy, after showing a more benign view on inflation and a more accommodative tone in the first quarter of the year, the Central Bank has recently readjusted its strategy. SELIC interest rates were put again on center stage and macro-prudential measures were left in as a secondary tool. According to recent communications, the Central Bank will prolong interest rate adjustments until inflation forecasts for the end of 2012 ease. In practice, we expect the CB to start fine-tuning monetary policy from now on: after slowing down the pace of SELIC hikes from 50bps to 25bps in the last monetary policy meeting in April, the CB should adjust rates up by 25bps again in June. Although we think that this should be the last hike, extra 25bps adjustments in the second half of the year cannot be ruled out.

This reading of recent economic policy action shapes our exchange rate forecasts: we expect the real to remain under pressure in the next few months and then to depreciate gradually in nominal terms (see Chart 14). This gradual and limited depreciation of the real should also be supported by developed economies' recovery and related exit-strategies (which could take some steam off capital inflows) and by some reduction of commodity prices (which would imply a drop in Brazil's terms of trade).

Although a small correction of the exchange rate is likely, we do not expect it to depreciate back to historical levels. In other words, although terms of trade are exceptionally high (39% higher than historical average as it is illustrated on Chart 15) and capital inflows are increasingly significant (Brazil's external liabilities increased strongly, to USD 1.237 billion in 2010 from USD 343 billion in 2002; see also Chart 17 and Table 1 below for more evidence on this issue), their expected correction is more a pace adjustment than a trend change. Therefore, the real, which is currently 25% appreciated in comparison to its long-term average as suggested by the analysis of the real effective exchange rate (see Chart 16), should continue more appreciated than in the past in spite of the likely correction.

In this environment a sharp depreciation of the exchange rate seems unlikely, but its strong reliance on volatile variables as commodity prices and capital inflows, instead of productivity gains, could be a source of problems in the future.

Chart 15
Terms of Trade (Index 2006=100)



Source: FUNCEX, IPEADATA

Chart 16
Real Effective Exchange Rate (Index Jun 94=100)



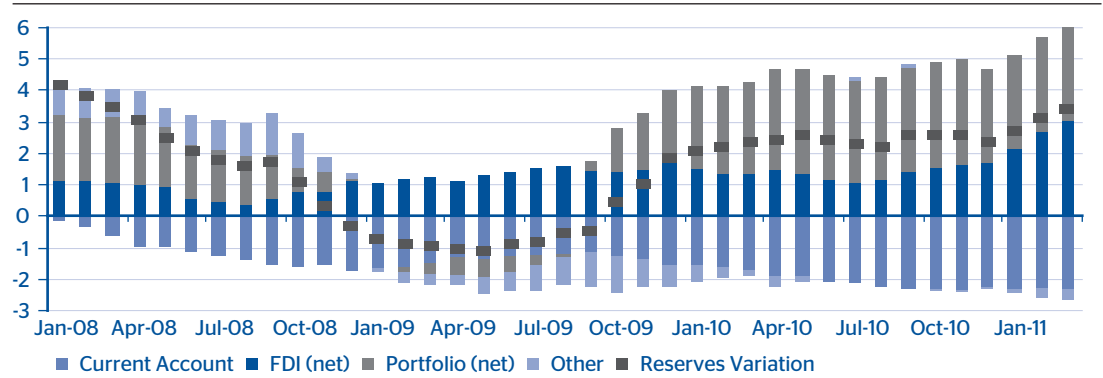
Source: Central Bank of Brazil

Although current account concerns are being partially hidden by the worries with inflation and also by exceptionally high terms of trade (which are currently 15% higher than observed right before the global crisis started and 40% higher than the historical average), the continuous increase of the current account deficit carries some risks.

The current account deficit reached 2.3% of GDP recently, and we expect it to be around 2.6% by the end of the year, especially due to a large deficit in the incomes and services balance which should reach 3.3% of GDP this year⁵ (see Table 1). The good news that also helps to ease the concerns with external accounts is that FDI inflows have been surprising positively recently. FDI inflows as share of GDP moved up from 1.3% in the middle of 2010 to 2.8% in March, which is more than enough to fund the current account deficit.

Chart 17

Balance of Payments (yearly; % GDP)



Source: Central Bank of Brazil

Table 1

Balance of Payments (% GDP)

	2010	2011	2012
1) Current Account	-2.3	-2.6	-3.4
1.1) Trade Balance	1.0	0.5	-0.1
1.2) Income and Services Balance	-3.4	-3.3	-3.5
1.2.1) Services	-1.5	-1.4	-1.4
1.2.2) Income	-1.9	-1.9	-2.0
1.3) International Transfers	0.1	0.2	0.2
2) Capital and Financial Account	4.8	4.3	3.9
2.1) Capital Account	0.1	0.1	0.1
2.2) Financial Account	4.7	4.2	3.7
2.2.1) FDI (net)	1.8	2.2	1.8
2.2.2) Portfolio Investment (net)	3.1	1.8	2.0
2.2.3) Other (includes errors and discrepancies)	-0.3	0.2	0.0
5) Reserves Variation (-1)+(-2) (- = increase)	-2.3	-1.7	-0.5

Source: BBVA Research

Other factors such as the size of international reserves (that amount to 14.7% of GDP) and incoming oil exports also contribute for a more benign view on the current account. However, if commodity prices revert back to historical levels or if the external optimism with respect to Brazil fades away, a sudden correction of the current account will take place with potentially very negative impact on the economy.

5: The government has been taking measures to keep the income and services balance deficit under control. In the end of March, the government announced that credit card purchases abroad would have the IOF tax increased to 6.38% from 2.38%. The deficit in the tourism account was equal to 0.4% of GDP in 2010.

5. There is a risk of a “bad equilibrium” if inflation does not come down soon

Although there is a good chance for a benign scenario in which inflation converges gradually to the target by 2012, we also believe that there is a significant probability that the Brazilian economy might drift into a “bad equilibrium” characterized by high inflation, high interest rates and moderate growth fuelled by public investment.

This is a scenario with a very appreciated exchange rate, supported by favourable terms of trade at the beginning and oil exports afterwards, making it very vulnerable to a sudden drop in commodity prices. Under this scenario, inflation remains high throughout the year and goes further up after a large increase in the minimum wage at the beginning of next year, when public and private expenditure in infrastructure begin picking up as the World Cup approaches.

Over the long term, the evolution of the current account will become the main constraint for economic growth. It also involves a significant risk of Brazil becoming more protectionist, as the appreciation of the Real further erodes competitiveness of non-commodity exports and imports make significant gains in the Brazilian markets, at the expense of local manufacturers.

In this scenario, the country will have many problems to cut interest rates down to international levels over the coming years as the monetary policy will have to compensate for an expansive fiscal policy.

6. Forecast tables

Table 2
Macro Forecasts Yearly

	2010	2011	2012
GDP (% y/y)	7.5	4.0	4.4
Inflation (% y/y, average)	5.0	6.6	5.0
Exchange Rate (vs. USD, average)	1.75	1.63	1.73
Interest Rate (% , average)	10.00	12.00	12.00
Private Consumption (% y/y)	7.0	5.6	4.6
Government Consumption (% y/y)	3.3	2.0	3.5
Investment (% y/y)	22.0	10.0	10.4
Fiscal Balance (% GDP)	-2.5	-2.7	-2.6
Current Account (% GDP)	-2.3	-2.6	-3.4

Source: BBVA Research

Table 3
Macro Forecasts Quarterly

	GDP (% y/y)	Inflation (% y/y)	Exchange Rate (vs. USD)	Interest Rate (%)
Q1 10	9.3	4.9	1.80	8.75
Q2 10	9.2	5.1	1.80	9.75
Q3 10	6.8	4.6	1.74	10.75
Q4 10	5.0	5.6	1.69	10.75
Q1 11	3.9	6.1	1.66	11.42
Q2 11	3.3	6.6	1.58	12.10
Q3 11	4.0	7.2	1.61	12.25
Q4 11	4.7	6.4	1.64	12.25
Q1 12	4.6	5.5	1.67	12.25
Q2 12	4.6	4.8	1.73	12.25
Q3 12	4.4	4.9	1.76	12.25
Q4 12	3.9	4.8	1.78	11.42

Source: BBVA Research

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