BBVA | RESEARCH

# Economic Outlook

## Paraguay

Second Quarter 2011
Economic Analysis

- **Paraguay recorded extraordinary growth of 14.5% in 2010,** driven by the recovery in agriculture following a long dry spell.
- **Inflation rose, going over 10% in annual terms, partly due to temporary increases in imports prices.** The Central Bank is reacting strongly, and so we expect inflation to drop to around 7% in the medium term.
- **Paraguay could record growth of around 6% in 2011,** driven by a good agricultural season and large public and private investments.
- **In the future, the dependence on agriculture is a source of instability linked to climate.** The country should therefore find fiscal mechanisms to neutralize it.

# Index



Closing date: May 10, 2011

# 1. Recovery, global shocks and vulnerabilities

## The global economy will continue growing strongly, but risks are tilted to the downside

The global economy continues to grow at a robust pace, and is still expected to expand by 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, local risks identified in the previous issue of the Global Economic Outlook continue more or less unchanged. In particular, 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 they will be more of a concern in South America, given tailwinds from commodity prices.

## While high commodity prices pose risks they are unlikely to dent growth

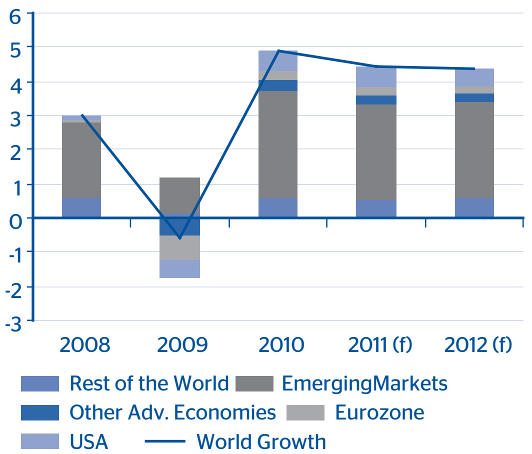
The greatest global risk stems from the rise in oil prices since the beginning of the year, caused mainly by political instability in the Middle East and North Africa (MENA). Although uncertainty is high and protests in the region are still unfolding, in our view, contagion to the point of disrupting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

Given a rise in the price of other commodities such as food and metals as well, 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 exceptions are Mexico and South America, where strong data in the first quarter of 2011 and better terms of trade warrant a moderate upward revision of our growth forecasts for 2011. Core countries in Europe, as opposed to those in the periphery, will continue to grow, while risks to the U.S. forecasts shift from being biased upwards three months ago to be more balanced now because of higher oil prices.

## High oil prices will push up headline inflation, necessitating earlier central bank interest rate increases in most regions

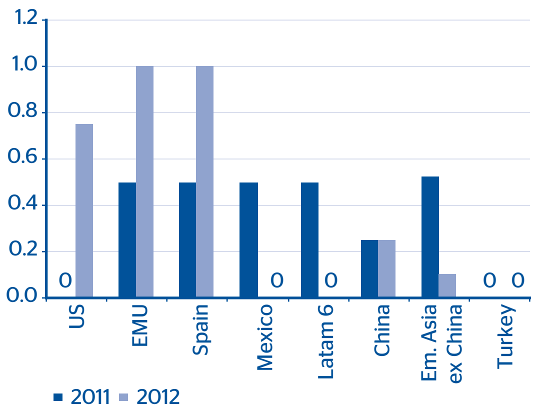
The main effect of the oil shock will be felt on prices. Higher inflation in most economies in 2011-12 will prompt monetary authorities to bring forward, and in some cases push for more aggressive, paths of interest rate increases (Chart 2). Nevertheless, there is still a wide heterogeneity in central 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—to varying degrees—their focus from supporting growth or preventing a tail risk scenario of very low growth and deflation, toward keeping inflation expectations well-anchored, particularly considering that the monetary policy stances are very accommodative. As a consequence, the balance of risks has tilted towards a higher probability of early hikes. The timing of the first hike depends on the perceived need to react to potential risks of second-round effects. The ECB's hawkish approach is to avoid any risk by being pre-emptive (and thus its first hike in April). On the other hand, the Fed, focusing more on the lack of sustainability in the recovery, prefers to wait and act only if risks materialize. Between these two approaches, emerging economies seem open to more front-loaded hikes if needed, but with an eye also on avoiding excessive 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




Source: BBVA Research

## Financial tensions in the periphery of Europe will remain high

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 fulfillment of fiscal consolidation targets –including in the regional governments– and continuing advancing reforms, especially in the labor market.

## In the US, fiscal consolidation will likely be achieved

In the U.S., the political process to reach a sustainable path for public debt involves difficult negotiations between two opposing 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 process will be protracted.

## Overheating concerns continue in emerging economies

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, for example, in the important cases of China and Brazil. We think overheating risks are manageable but, going forward, they may become more pronounced in South America, to the extent that commodity price increases are a tailwind, but act as a headwind for emerging Asia. In addition, doubts about the extent of the slowdown in Japan could weigh on economic activity in most of Asia, given extensive trade links and integrated production chains. Furthermore, current account surpluses in much of Asia provide a buffer for the region, as compared to South America.

# 2. Paraguay keeps growing fast

## Paraguay recorded 14.2% growth in 2010, based on the recovery in agriculture

Growth in Paraguay reached 14.5% yoy in 2010, the highest rate on record and only behind Qatar on a worldwide level. This growth reflected an exceptional year in terms of climate, causing the agricultural sector to grow 47% yoy, following the heavy drought in 2009. This is added to the economic recovery in emerging economies, especially Brazil, which provided support for foreign demand and high international prices regarding the country's main export products, i.e. soybeans and meat.

The agricultural sector is the backbone of economic activity in Paraguay, accounting for around 30% of the country's total output. Heavy growth in 2010 was largely due to the boom in the sector, which with 47% yoy growth contributed to 50% of total GDP growth. The main crop is still soybeans, with a 7.5 M toe harvest in 2010, raising output by 95% compared to 2009. In 2010 the country exported around 4.7 M toe of soybean, in other words 120% more than in 2009 and even 30% extra on the amount it exported in 2008, a year marked by favorable climate conditions. This export represents 44% of the country's total exports, reporting $1,600 million.

## Alongside agriculture, construction and livestock contributed to Paraguay's expansion, with growth rates of 13.2% and 8.5% respectively

Construction experienced strong growth in 2010, recording a 13.2% yoy increase. Following the growth recorded in soybean exports, many Paraguayans considered investment in construction to be a good way to save. This combined with the strong backing from banks for long-term finance for housing and loans granted by the Financial Agency for Development (AFD) meant that the construction sector was a strong driving force for growth last year.

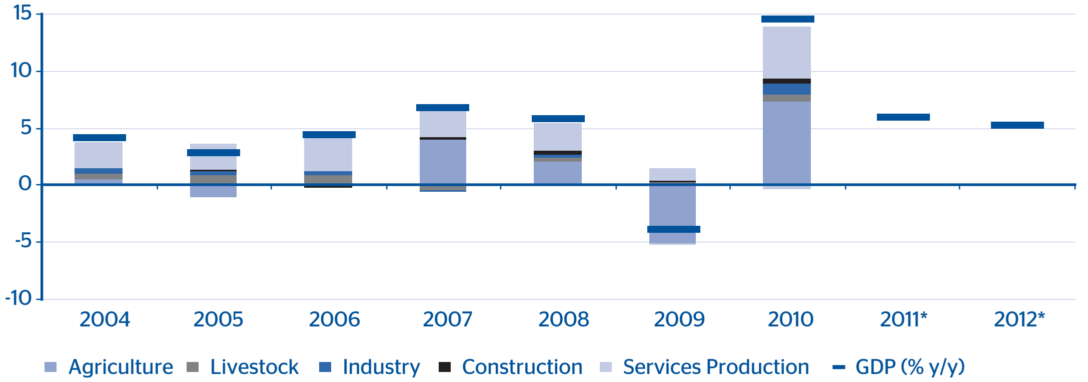
The real estate sector is on the rise following accumulated unmet demand over the years, especially in the middle-upper class segments. The increase in competition between financial agents and the cut in interest rates are generating a favorable climate to apply for longer-term loans (up to 30 years, never seen before in Paraguay), even compared to other countries in the region like Brazil and Argentina. This is attracting foreign investments to the sector. This unprecedented growth resulted in a major cement deficit for the country. In the past, such deficits were offset by importing this material from Brazil, Argentina and Uruguay, but currently this is not possible due to the increase in construction that those countries also experienced and which reduced supply. The solution is underway in the form of approved construction projects for cement plants.

## The livestock sector, especially meat exports, is playing an increasingly important role in Paraguay's economic development, with 8.5% yoy growth in 2010

The sector's share of total exports has increased in recent years, representing 20% in 2010 compared to 3.5% for the last decade. As well as growing in terms of importance, Paraguayan meat exports are starting to be considered a recurrent export product following increases in exported tons of more than 10% in recent years, and which last year reached 17% in relation to the previous year. Beef exports generated $1,140 million in 2010, way above the $622 million in 2008 (a record figure at that time).

Other sectors noteworthy for strong growth are the manufacturing sector (7% yoy) and trade (10.9% yoy). These were both boosted by the quick recovery following the 2008-2009 crisis, which was mainly based on strong domestic demand, especially in Brazil, an important bordering country for Paraguay (Brazil's domestic demand grew by 8.5% yoy in 2010).

Chart 3
GDP and contribution (%)




* Forecast
Source: Central Bank of Paraguay and BBVA Research

## Hydroelectric trade with Brazil and Argentina

In terms of foreign trade, the main transaction between Paraguay and other countries is related to hydroelectric trade.

The Itaipú Dam, on the Paraná River, is shared in equal halves between Paraguay and Brazil, by virtue of a treaty which both countries signed in 1973. The dam is the largest operating hydroelectric facility in terms of annual generating capacity in the world. Although Paraguay has a 50% share, the country only consumes 10% of the total energy generated, selling the excess to Brazil at a special price of US$3/MWh. Under a new agreement which was started in July 2009, approved by both Congresses and awaiting final signing, the price at which Paraguay sells non-consumed energy to Brazil should be US$9/MWh, raising the US$120 million that it currently receives (0.8% of the GDP) to US$360 million (2.3% of the GDP). As well as the negotiated energy price, the agreement includes major changes for Paraguay which will come into force gradually. One of them is the option of selling this surplus energy to Argentina or Uruguay at the market price (US$45/MWh).

The Yacyretá Dam is on the Paraná River and forms a border between Paraguay and Argentina. The dam was officially finalized on February 25 this year, 38 years after construction commenced. Once the dam is complete it will be able to operate at 100% capacity, generating income of around $400 million for Paraguay. One of the project challenges is reaching an agreement with Argentina and payment of the debt that Paraguay currently owes Argentina, which totals $6200M.

## Strong growth has gone hand-in-hand with a rise in inflation, meaning that the Central Bank will continue to restrict liquidity.

Inflation in Paraguay ended 2010 at 7.2% yoy on average for the year, and has since continued rising to the current level of 10%. There are several reasons for this rise in prices. One of them is linked to the increase in international food and oil prices, especially meat, which has a direct impact on the Paraguayan consumer basket. Another reason is related to high food export levels in Paraguay, which causes a supply shortage in the country and pushes the price up. Last but not least is the important relationship between Paraguay and Brazil, the main source of the country's imports. Brazilian inflation is running at about a 6% rate and the effect on Paraguay is exacerbated by the relative appreciation of the BRL with respect to the PYG, causing "imported inflation" for Paraguay.

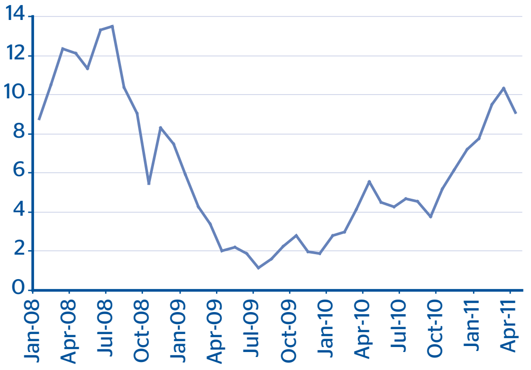
Regarding food, international prices have returned to 2008 maximum levels, according to the FAO food price index. The price of soybean in February was 48.6% higher than the same month in 2010. The situation was similar regarding the price of corn and wheat, with increases in the same period of 90% and 70%, respectively.

The international price of oil is already over $US100/barrel versus 75 $US/barrel in February 2010, based on demand that will increase as advanced and emerging economies keep growing. In addition, prices are also being affected by uncertainty about the supply of crude from countries in the Middle East and North Africa resulting from social and political unrest in some countries; this premium will continue for some time.

The sharp rise in prices has turned inflation into the Central Bank's main goal, which set the monetary policy inflation target range to 5%, +/- 2.5 pp. Against this background, the Central Bank raised interest rates by more than 400 bps since July 2010, and they currently stand at around 29%.

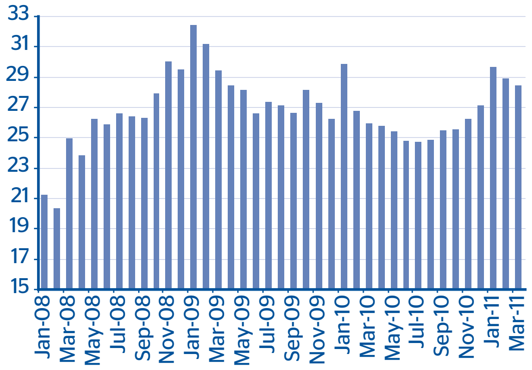
However, the Central Bank has also intervened by purchasing dollars to reduce the appreciation of the PYG, which in 2010 rose 8% in relation to the dollar.

Chart 4
**Inflation (% yoy)**




* Forecast
Source: BCP and BBVA Research

Chart 5
**Effective lending rates in national currency**



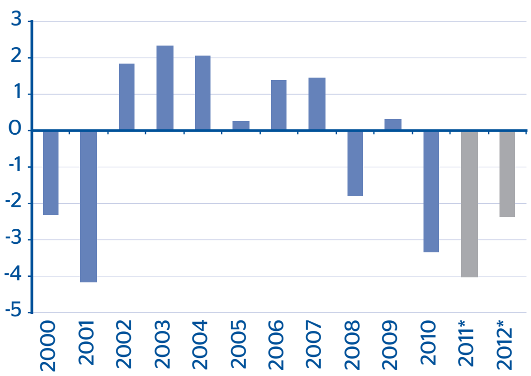

* Forecast
Source: Datastream and BBVA Research

## Fiscal situation and foreign accounts

The Central Government surplus amounted to 1.4% of GDP in 2010, improving upon last year outcome (0.1% of GDP surplus). Tax collection (24% yoy) was driven by the rapid growth in domestic demand, whilst public spending (both current and, in particular, capital) spending slowed in line with the gradual ending of the Economic Reactivation Plan introduced in 2009 to offset the effects of the global economic crisis.

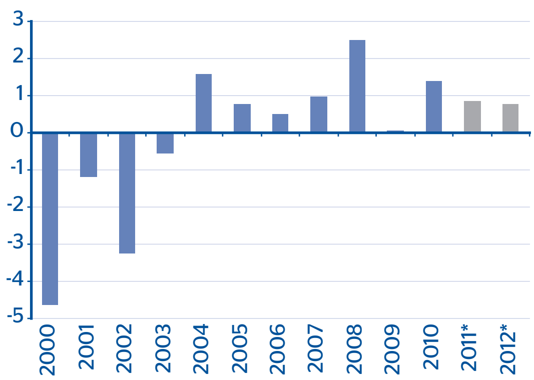
The current account deteriorated slightly in 2010 (deficit of 3.3% of GDP) compared to the previous year (deficit of 0.3% of GDP). Although exports increased substantially (43% yoy) due to the recovery in agricultural harvests and higher prices for exports, the strength of domestic demand led to a larger increase in imports (44% yoy).

Chart 6
**Trade Balance (% GDP)**




* Forecast
Source: BCP and BBVA Research

Chart 7
**Fiscal Balance (% GDP)**




* Forecast
Source: BCP and BBVA Research

# 3. Outlook and Risks

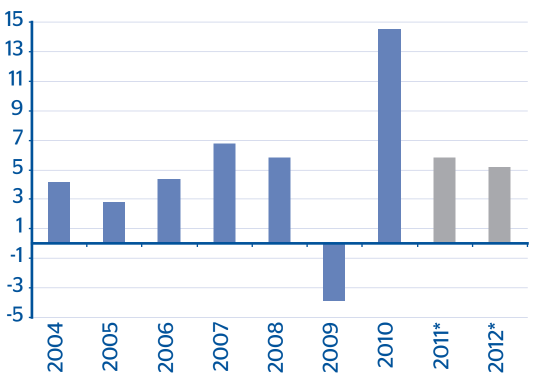
## Following the strong increase in 2010, Paraguay could record around 6% growth in 2011

After ending 2010 with record growth rates, high-frequency indicators for the first few months in 2011 continue to show positive growth trends, although recording more moderate rates than in previous months. The Monthly Economic Activity Index in Paraguay (IMAEP) recorded an average annual growth rate of 5% in the first two months in 2011. Although there was some concern over possible climate-related problems, in the end rain fell in the right amount and at the right time. More record soybean yield is therefore expected, which, combined with a 5% increase in farmed land, guarantees a higher growth level than the trend. This should give a new boost so that domestic demand keeps up these good activity levels and allows Paraguay to end 2011 with growth around 6% yoy, similar to levels prior to the exceptional period in 2010 and still above its potential, closer to 4-5%. The construction sector will also remain a key driving force for growth this year.

## Inflation is gathering speed due to the increase in domestic demand

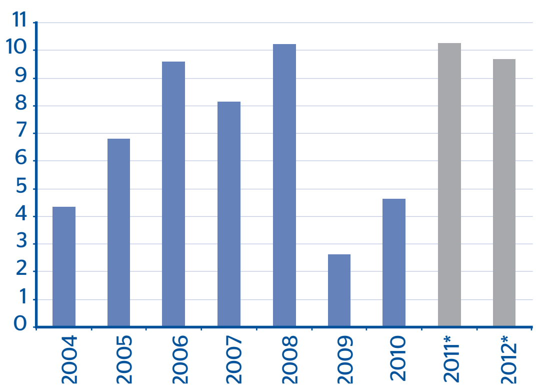
During the first four months of the year, the inflation average in annual terms stood at 9.2%, doubling last year average of 4.6%. Based on these signs, our average forecast for 2011 will be into double figures, around 10%, putting heavy pressure on the Central Bank's goal. We therefore expect the restrictive policy to continue throughout the year.

Chart 8
Growth forecasts




* Forecast
Source: BBVA Research

Chart 9
Inflation forecasts




*Forecast
Source: Datastream and BBVA Research

## The positive trend in public accounts should remain unchanged in 2011

A new fiscal stimulus will be generated through spending due to infrastructure and highway investments that the Paraguay has planned for 2011. By way of compensation, government revenues will grow steadily, linked to expanding activity, through the consumption tax. The public surplus should reach 0.9% of the GDP this year. By 2012, we expect a further positive impact on non-tax income of around 1% of the GDP, caused by the increased compensation paid for surplus electricity at the Itaipú Dam, allowing the budget deficit to be kept below 1% of GDP.

It is worth mentioning that the tax burden in Paraguay (13% of GDP) is low compared to other countries in the region This makes it difficult to invest in the infrastructure required to increase the productive capacity of the economy and sustain higher growth rates for a prolonged period. Against such a background, initiatives such as the introduction of a Personal Income Tax are of vital importance and it is to be hoped that the authorities will no further delay in bringing these into effect (at the end of 2010 they were once again pushed back to 2013) in order to generate additional resources to undertake the capital expenditure required without damaging the public sector accounts.

## Economic growth will work against foreign accounts

The downside of Paraguay's current growth situation will be seen in its foreign accounts. From an export point of view, the growth situation in Brazil, Paraguay's main trade partner, and high international food prices, especially soybean, will result in an increase in 2011 in terms of export trade of slightly over 20% compared to 2010, to the benefit of Paraguay's foreign coffers.

The downside will be related to imports. High oil prices and strong consumption in Paraguay will result in a dramatic increase in imports, which will exceed exports in terms of volume and value. This will translate into current account deficits of 4% of GDP in 2011, continuing the trend which began in 2010 (-3.3% of GDP).

Like in the public sector accounts, the extra royalties that Paraguay will receive from selling energy to Brazil will boost exports of services, reducing its current account deficit to 2.4% of GDP in 2012.

## Major investment projects planned for coming years

The outlook beyond 2011 is sunny for Paraguay. Strong growth, the country's high potential and borders with Argentina and especially Brazil are attracting international investors, mainly from Brazilian. To this we must add the considerable tax benefits and exemptions offered for companies[1].

In the next few years Paraguay expects major investments, both public and private. In the years to come and until 2020 the public sector plans on investing around US$6,252 million in infrastructure and US$1,406 million on highways. This would generate an annual investment flow of around US$850 million, some 4.8% of the GDP in 2010. Other projects include the US$300 million investment by the Ministry of Public Works to restore the coastal strip and improve the old quarters and transport infrastructure, the Concepción-Vallemí route, amounting to US$100 million, and the installation of two new 500 kv lines to take hydroelectric power from the Yacyretá Dam to Asunción, costing US$550 million, and the connection of Paraguay's two main dams, Itaipú and Yacyretá.

The private sector, for its part, plans on investing around US$8,500 million in the same time frame. The biggest project, currently in the approval phase, is the construction of an aluminum production plant by the company Río Tinto Alcan worth US$3,500 million. According to the project, the plant will be in the south-east of the country, between the two main hydroelectric power plants. If the agreement is signed with the Paraguayan Government, the multinational would start production in 2016. In the construction stage alone the plant will require 3,800 people, and in the operating stage would directly hire more than 14,000 workers.

As well as the Río Tinto project, there are others under study. Some of them are related to concessions. Following the approval of the congress of the concession that the country awarded to a private company for an airport, Paraguay has other projects in the pipeline, including the awarding of roads, ports and waterway dredging projects. Other projects focus on the installation of industrial plants, including titanium extraction, the construction of a polyduct worth US$1,000 million, soybean oil refineries, cement and steel plants and river transportation, which will be installed in the country with a US$500 million investment from Hindu companies in the next 5 years.

## In the short term the greatest risk is the economy overheating

With a domestic demand that will continue to record strong growth in 2011, large investment projects and bottlenecks in some basic supplies, there is a risk of inflation persisting at very high levels, forcing the Central Bank to restrict liquidity with a heavier hand, even though interest rates are already very high.

Furthermore, the current account represents 4% of the GDP (baseline scenario), which leaves the country vulnerable, either to a greater-than-expected increase in domestic demand or a further rise in the international price of oil (such as the one considered in our global risk scenario), or a combination of both.

In this context, the government would be wise to dose the fiscal stimulus, thereby making it easier to adjust domestic demand to avoid entering another expansion and recession cycle, so common in the past.

1: http://www.rediex.gov.py/ajax-datos?t=inv&id=4. Tax benefits and exemptions. Approved investment projects can be exempt from the following payments, depending on the nature of each project: 1- Value-Added Tax on purchasing imported capital goods (and capital goods produced in Paraguay) used in the facility for industrial or agricultural output. 2- Any tax levied on the setting up or registration of companies. 3- Fees and taxes on importing capital goods, commodities and supplies to be used in investment projects to manufacture capital goods. 4- Taxes and other charges on foreign remittances and payments as interest, commission and capital, when the investment is financed from abroad and is at least US$ 5,000,000 (five million dollars), over a 10-year period.

### The heavy weight of agriculture makes the economy dependent on the climate

Because the agricultural sector has direct and indirect impacts that add up to around 50% of Paraguay's activity, the country's main domestic structural risk is related to the possibility of adverse climate conditions affecting soybean and other seed production in the coming years, causing significant losses for Paraguay's exports. If we add this to lower prices, income could take a heavy tumble in the private sector and by extension in tax collection. Against this background, the monetary authorities would not have much leeway to implement counter- cyclical policies.

Since the climate cannot be controlled, the key to alleviating Paraguay's economic cycles is for authorities to build up fiscal savings and international reserves during boom periods like the current one, in order to be able to strengthen public investment programs during years when agricultural conditions are not so good.

Another important aspect of this preventive policy should be the opening up of international financial markets, so that when agriculture hits a bad year, there are sources of finance other than government savings and international reserves to fund countercyclical investment programs. This needs to be done now, because it will be difficult to implement in a hostile economic environment.

## 4. Tables

Table 1
Annual macroeconomic forecasts

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| GDP (% y/y) | 5.8 | -3.8 | 14.5 | 5.9 | 5.2 |
| Inflation (% y/y, average) | 10.2 | 2.6 | 4.6 | 10.3 | 9.7 |
| Exchange Rate (vs. USD, average) | 4363 | 4967 | 4739 | 4146 | 4072 |
| Official Rate* (%, average) | 25.8 | 28.3 | 26.0 | 29.0 | |
| Private Consumption (% y/y) | 6.8 | -3.4 | 9.9 | 10.1 | 7.1 |
| Public Consumption (% y/y) | 3.5 | 13.7 | 14.7 | 7.5 | 6.5 |
| Investment (% y/y) | 12.6 | -11.9 | 21.4 | 16.1 | 6.3 |
| Fiscal Balance (% GDP) | 2.5 | 0.1 | 1.4 | 0.9 | 0.8 |
| Current Account (% GDP) | -1.8 | 0.3 | -3.3 | -4.0 | -2.4 |

* Weigh average active efective rate in local currency
Source: BBVA Research

## DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report.** Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

**The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.**

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

**"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".**

**BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.**

## This report has been produced by Latin America Unit:

*Chief Economist*
**Joaquín Vial**
+(562) 351 1200
jvial@bbvaprovida.cl

**Myriam Montañez**
+(562) 939 1052
miriam.montanez@grupobbva.com

## BBVA Research

*Group Chief Economist*
**Jorge Sicilia**

*Chief Economists & Chief Strategists:*

*Finantial Systems and Regulatory Affairs::*
**Santiago Fernández de Lis**
santiago.fernandez.delis@grupobbva.com

Financial Systems
**Ana Rubio**
arubiog@grupobbva.com

Regulatory Affairs
**María Abascal**
maria.abascal@grupobbva.com

Pensions
**David Tuesta**
david.tuesta@grupobbva.com

*Financial and Economic Scenarios :*

Financial Scenarios
**Sonsoles Castillo**
s.castillo@grupobbva.com

Economic Scenarios
**Juan Ruiz**
juan.ruiz@grupobbva.com

*Spain and Europe:*
**Rafael Doménech**
r.domenech@grupobbva.com

Spain
**Miguel Cardoso**
miguel.cardoso@grupobbva.com

Europe
**Miguel Jiménez**
mjimenezg@grupobbva.com

*Market & Client Strategy:*
**Antonio Pulido**
ant.pulido@grupobbva.com

Global Equity
**Ana Munera**
ana.munera@grupobbva.com

Global Credit
**Javier Serna**
Javier.Serna@bbvauk.com

Interest Rates, Currencies and Commodities
**Luis Enrique Rodríguez**
luisen.rodriguez@grupobbva.com

*United States and Mexico:*

United States
**Nathaniel Karp**
nathaniel.karp@bbvacompass.com

Mexico
**Adolfo Albo**
a.albo@bbva.bancomer.com

Macro Analysis Mexico
**Julián Cubero**
juan.cubero@bbva.bancomer.com

*Emerging Markets:*
**Alicia García-Herrero**
alicia.garcia-herrero@bbva.com.hk

Análisis Transversal Economías Emergentes

Asia
**Stephen Schwartz**
stephen.schwartz@bbva.com.hk

China
**Daxue Wang**
daxue.wang@bbva.com.hk

India
**Sumedh Deorukhkar**
deorukhkar@grupobbva.com

South America
**Joaquín Vial**
jvial@bbvaprovida.cl

Argentina
**Gloria Sorensen**
gsorensen@bbvafrances.com.ar

Chile
**Alejandro Puente**
apuente@grupobbva.cl

Colombia
**Juana Téllez**
juana.tellez@bbva.com.co

Peru
**Hugo Perea**
hperea@grupobbva.com.pe

Venezuela
**Oswaldo López**
oswaldo_lopez@provincial.com

## Contact details

**BBVA Research Latam**
Pedro de Valdivia 100
Providencia
97120 Santiago de Chile
Teléfono: + 56 26791000
E-mail: bbvaresearch@grupobbva.com