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# THE LATIN AMERICAN ECONOMIES IN H1 2017

ANDRES ABADIA, SENIOR ECONOMIST

## Bracing For Trump's Hurricane... External Risks Will Dominate in 2017

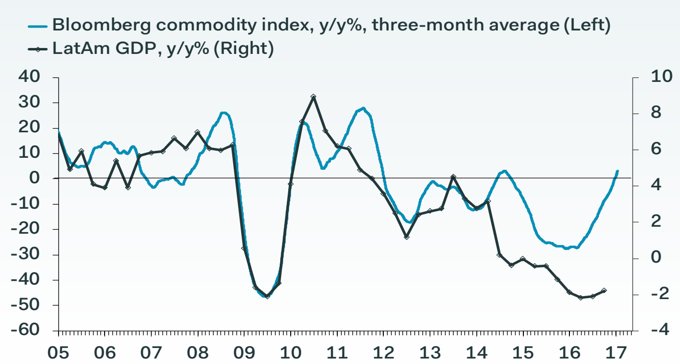
* We expect growth in Latin America—except Mexico—to improve in 2017, especially during the second half. Rising commodity prices and stronger growth in the U.S. and China will be the key drivers. Easier monetary policy will also help LatAm, as inflation has surprised largely to the downside for the major countries. But increasing uncertainty on the external front will limit policymakers' scope for action. **We look for regional GDP growth of 1½% in 2017 as a whole, much better than the 1.1% *drop* in 2016.** This positive scenario assumes commodity prices will recover further, and that U.S. trade policies under President Trump's administration will not be seriously adverse. If we are right, the pressures on LatAm currencies will ease, but aggressive U.S. tightening will limit the upside.

* **Peru, Colombia, Chile and Argentina are in a relatively benign position.** Brazil will grow marginally as it escapes from the worst recession in decades; falling inflation, interest rate cuts, and improving confidence will help. Mexico, however, likely will slow due to the confidence hit following the result of the U.S. presidential election. We expect relatively constructive U.S. trade policy, but risks to the downside are significant if protectionism is enforced. At the other extreme, Venezuela is a failed state; it will have another grim year.

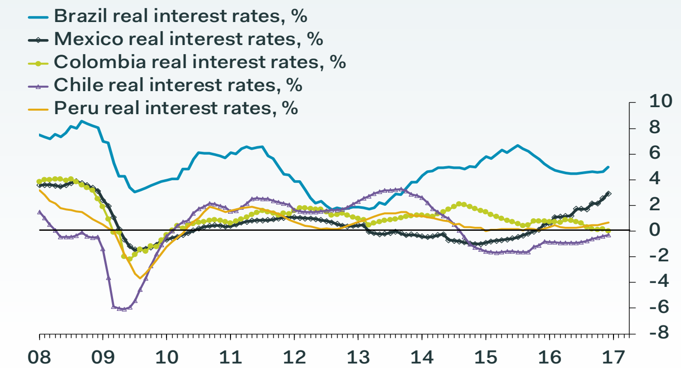
* We expect **Brazil's** 2017 GDP to grow by 1.0%, constrained in part by unfavourable base effects. The country still faces structural challenges, but monetary policy easing, falling inflation and improving external trade will help the economy return to growth. Inflation will continue to fall, hovering around the top of the BCB's inflation target range, 2.5%-to-6.5%. **We expect the Copom to cut rates by a total 300bp during the year, to 10.0%.** Policymakers will ease by 75bp per meeting up to July, and then remain on hold. Rates could even go lower, ending the year at perhaps 9%, provided that the BRL remains relatively stable.

* Economic activity in **Mexico** likely will slow this year due in part to impact of the Trump storm—via reduced private investment and FDI—and tighter monetary and fiscal policies. But the economy will not collapse. Rising exports over the first half of the year, and improving oil prices, will help to offset the hit from the MXN's sell-off and tighter economic policy. Services, which have been the heart of the business cycle, will slow, and industrial output will muddle through. We expect 1.8% GDP growth. Inflation will edge higher in the first half of the year, due to currency pass-through effects and higher regulated prices. **Banxico likely will raise rates by 50bp in February and then in tandem with the Fed, ending the year at 5.75%.**

REBOUND IN COMMODITY PRICES WILL EASE LATAM'S HEADACHES




LOWER INFLATION WILL HELP *SOME* LATAM CENTRAL BANKS



# THE **LATIN AMERICAN ECONOMIES** IN H1 2017

* **Argentina's** economy will turn the corner this year following a self-inflicted recession, the legacy of the Kirchner era. The Macri government has addressed an array of complex economic problems, including high inflation, and has returned the country to international capital markets. But the recovery will be modest, with growth close to 2½%, driven mainly by goods sector, and increased public works. The country's prospects will gradually improve as investor and consumer confidence strengthen, on the back of better data. Expect tight monetary policy, partially offset by more stimulative fiscal policy. Popular support for Macri will soften in H1.

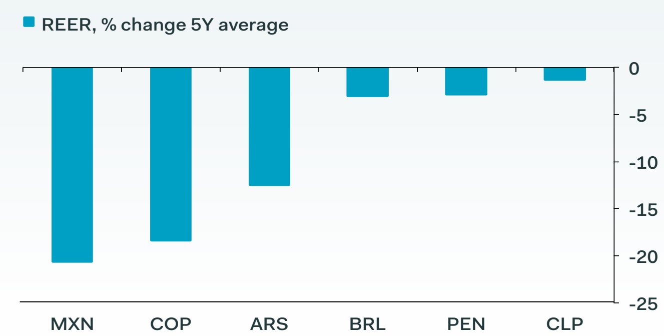
* Economic activity in **Colombia** will improve modestly this year, thanks to falling inflation, easier monetary and fiscal policy, and the rebound in oil prices. These factors will offset the drag from fiscal reform, which has increased the VAT rate to 19% from 16%. The execution of part of the 4G infrastructure program will also help. Inflation will continue to fall rapidly in H1, but it will stabilize during H2, reflecting the hit from higher taxes. GDP should rise close 2% this year. **BanRep likely will ease gradually, by 175bp to 5.75% by September.**

* 2017 will be a transition year for **Chile** as the presidential election will be the key driver. We expect confidence and investment to improve if former President Piñera, on the centre-right, wins the race, as we expect. The economy likely will improve marginally on the back of rising copper prices, interest rate cuts, and stabilizing private investment, after significant declines in the past few years. The Bachelet administration has been billed as reform-focused but has made few real changes. GDP growth should reach 2%; still weak by previous standards, but Chile will start to gather momentum in 2018. Inflation will continue to slow, especially during H1. **This will allow the central bank to cut interest rates by 50bp to 3.0% in Q1.**

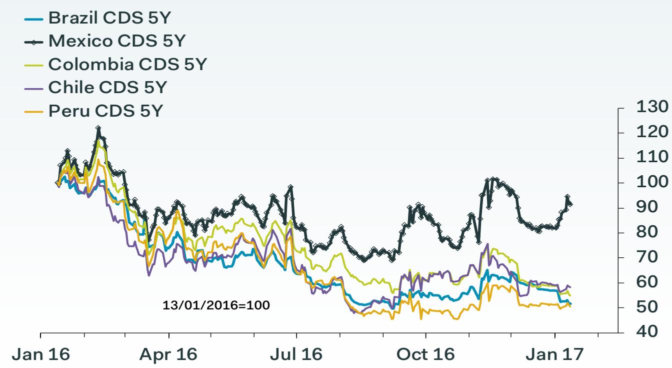
* **Peru's** economy will continue to grow at a solid pace in 2017. GDP should rise 4.2%, thanks mainly to the mining sector, which has benefited from the exceptional investment spurt in recent years. Faster execution of infrastructure projects and rising business and consumer confidence will also help. This positive trend will be hampered at the margin, though, by a tightening of fiscal policy; the government is trying to meet conservative budget deficit targets for 2017-to-18. Inflation, meanwhile, will remain high, above the 2% target, over the coming quarters. Food price pressures, financial volatility and modest pressure on the PEN will be mainly to blame. **We expect interest rates to rise by 50bp in the second half, to 4.75%.**

* Finally, **Venezuela's** outlook is still a mess as long as President Maduro remains in power. **The economy will contract for a fourth consecutive year, due to FX rationing, import controls and other irresponsible economic policies.** Improving oil prices will help the economy over the second half of the year, but only marginally, as production cannot rise much. International reserves are still plunging and the country is flirting with hyperinflation. Social instability will remain a serious problem. 2018 will be the key year for Venezuela due to presidential elections, while the state oil company, PDVSA, and the Government will face tough debt payment calendars. The country will teeter on the edge of default.

SOME CURRENCIES HAVE BEEN BADLY HIT BY TRUMP AND OIL HIT




MEXICO'S RISK PROFILE HAS DETERIORATED SIGNIFICANTLY



# THE **LATIN AMERICAN ECONOMIES** IN H1 2017

| GDP (year-over-year, %) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Argentina | -2.5 | 2.5 | -2.4 | 2.6 | 3.4 |
| Brazil | 0.1 | -3.8 | -3.3 | 1.1 | 2.5 |
| Chile | 1.9 | 2.3 | 1.7 | 2.0 | 2.6 |
| Colombia | 4.4 | 3.1 | 1.8 | 2.2 | 3.2 |
| Mexico | 2.2 | 2.5 | 2.1 | 1.8 | 2.1 |
| Peru | 2.4 | 3.3 | 3.9 | 4.2 | 4.3 |
| Venezuela | -3.9 | -5.7 | -10.0 | -2.5 | -1.0 |
| *Latin America* | *0.5* | *-0.6* | *-1.2* | *1.6* | *2.3* |

| Inflation, CPI (year-over-year, %, average) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Argentina | 37.2 | 28.3 | 40.0 | 25.0 | 16.2 |
| Brazil | 6.4 | 9.0 | 8.8 | 5.0 | 4.7 |
| Chile | 4.4 | 4.3 | 3.8 | 2.9 | 3.1 |
| Colombia | 2.9 | 5.0 | 7.5 | 4.2 | 3.9 |
| Mexico | 4.0 | 2.7 | 2.8 | 4.0 | 3.5 |
| Peru | 3.3 | 3.5 | 3.5 | 3.2 | 2.8 |
| Venezuela | 61.8 | 120 | 340 | 500 | 400 |
| *Latin America ex-Venezuela and Argentina* | *4.1* | *5.4* | *5.6* | *3.5* | *3.2* |

| Central Bank Rate (end of year) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Argentina | 29.50 | -- | -- | -- | -- |
| Brazil | 11.75 | 14.25 | 13.75 | 10.75 | 6.00 |
| Chile | 3.00 | 3.50 | 3.50 | 3.00 | 4.00 |
| Colombia | 4.50 | 5.75 | 7.50 | 5.75 | 4.50 |
| Mexico | 3.00 | 3.25 | 5.75 | 6.75 | 5.00 |
| Peru | 3.50 | 3.75 | 4.25 | 4.75 | 4.75 |
| Venezuela | 18.73 | -- | -- | -- | -- |

| Current Account Balance (% GDP) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Argentina | -0.4 | -2.5 | -2.6 | -2.7 | -2.9 |
| Brazil | -4.3 | -3.3 | -1.1 | -1.8 | -2.3 |
| Chile | -1.3 | -2.0 | -1.7 | -1.6 | -1.4 |
| Colombia | -5.1 | -6.4 | -4.7 | -3.8 | -3.0 |
| Mexico | -1.9 | -2.9 | -3.1 | -3.0 | -2.8 |
| Peru | -4.0 | -4.8 | -3.7 | -3.4 | -3.3 |
| Venezuela | 1.7 | -7.8 | -3.4 | -1.2 | -0.5 |

| Currency /USD (end of year) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Argentina | 8.5 | 12.9 | 15.89 | 18.2 | 20.2 |
| Brazil | 2.7 | 3.96 | 3.26 | 3.25 | 3.30 |
| Chile | 606.5 | 708.6 | 670.4 | 682.0 | 680.0 |
| Colombia | 2,377 | 3,175 | 3,002 | 3,070 | 3,000 |
| Mexico | 14.8 | 17.2 | 20.7 | 21.5 | 20.5 |
| Peru | 2.98 | 3.41 | 3.36 | 3.35 | 3.40 |
| Venezuela | 6.29 | 6.29 | 10.0 | 15.0 | 30.0 |