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THE RECOVERY GATHERED SPEED IN Q4... ...BUT EXTERNAL CHAOS HAS HIT DOMESTIC MARKETS

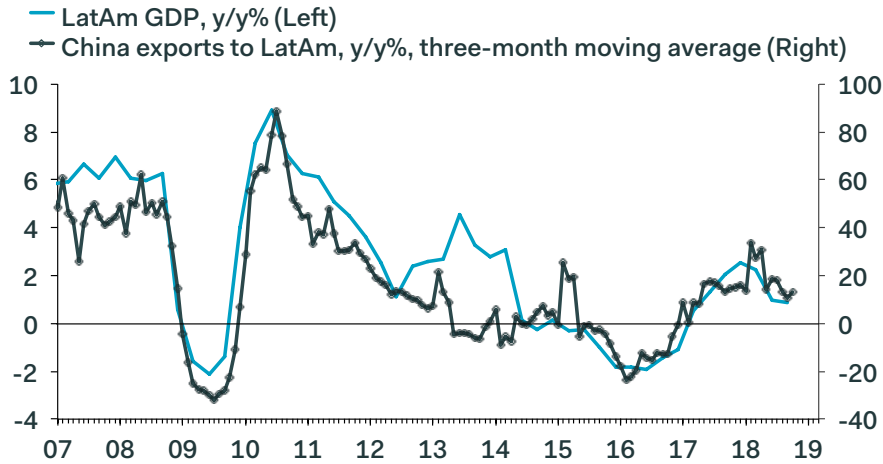
LATIN AMERICA ECONOMIC CHARTBOOK, JANUARY 2019

DATA AS AT DECEMBER 21 | ANDRES ABADIA, SENIOR ECONOMIST
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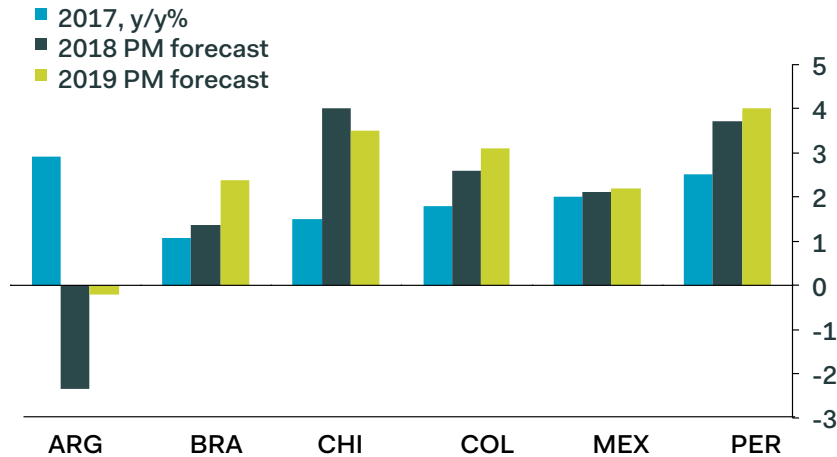
Summary

- Risk perception in **Mexico** is starting to ease following the release of a fiscally responsible 2019 budget bill. This has been seen by markets as an explicit effort to ease fears related to AMLO's administration. **Brazil's** financial markets, meanwhile, continue to perform well, as investors price-in a better chance of key reforms under Mr. Bolsonaro. In the **Andes**, the data point to a gradual rebound at the start of Q4, with political risks under control. LatAm markets, meanwhile, have been hit in recent days by ongoing concerns over the global economy. Plunging oil prices are providing support for oil-importing countries but are adding to pressures facing oil exporters. But the fall in crude prices is helping to ease inflation pressures in the region, allowing central banks to stand pat.
- In **Brazil**, recent data confirm that the recovery has continued over the second half of the year, supported by steady household consumption growth and rebounding capex; both strengthened at the start of the fourth quarter. Low inflation, the gradual recovery of the labour market and better credit conditions are helping consumers. Risks remain, though. The key factor over the coming months is progress on the reform front, with the new president's economic policy agenda sure to command investors' attention. But we reiterate our bullish view for growth in Brazil, as we continue to expect a sustained recovery next year, and a business-friendly Bolsonaro presidency.
- **Mexico's** economy is not accelerating, but it is holding up very well in difficult circumstances, with rising domestic political risk and stifling interest rates. Growth is reasonably healthy, inflation is under control, at least for now, and the labour market is resilient. Recent data show that unemployment remained at historic lows in October, with strong job creation. We expect the jobless rate to remain steady over the next three-to-six months as the economy continues growing at a decent pace. In short, Mexico has been a success story this year, given the backdrop of plunging oil prices, NAFTA-related risks, and the prolonged uncertainty created by the presidential election. We expect the economy to remain resilient next year, but downside risks still remain.
- The hard data in **Colombia** point to a solid end to the year, but recent surveys, particularly falling consumers' confidence, warn of downside risks in the coming months. President Duque's attempt to implement meaningful fiscal reform has triggered clashes in Congress and popular discontent, forcing the government to implement diluted tax reforms. Mr. Duque will cut spending, but it will continue to put pressures on deficit targets. Markets will keep a close eye on the fiscal accounts next year and, especially, in 2020 when the dilution of the original plans will have a damaging effect. BanRep wants steady rates in the near term.
- Recent data highlight that **Argentina's** near-term economic outlook remains murky, hit by tighter financial conditions. Economic activity is plunging and inflation remains extremely high, but *medium-term* prospects are gradually improving. High interest rates and the severity of the recession will bring inflation down next year, and we expect the economy to bottom in Q1. Risks remain, particularly on the political front, as the presidential election approaches next October.
- **Chile's** economy had a decent start to Q4; we expect a gradual rebound in 2019, if the trade war ends. The BCCCh held its reference rate unchanged at 2.75% this month. In our view, the decision to hold rates reflects the Board's cautious approach in the face of a struggling economy in Q3 and inflation data which have surprised to the downside, thanks to falling oil prices. This has given policymakers some room for manoeuvre, at least in the near term.
- **Peru's** economy is doing relatively well, and we expect further good news next year. The monthly GDP index accelerated to 4.0% year-over-year in October, the fastest pace since May, and well above the 2.3% average in Q3, though slightly below the average growth in the first half of the year.
- The economic deterioration in **Venezuela** is accelerating. The government will continue to face binding constraints, including falling oil prices and sanctions.

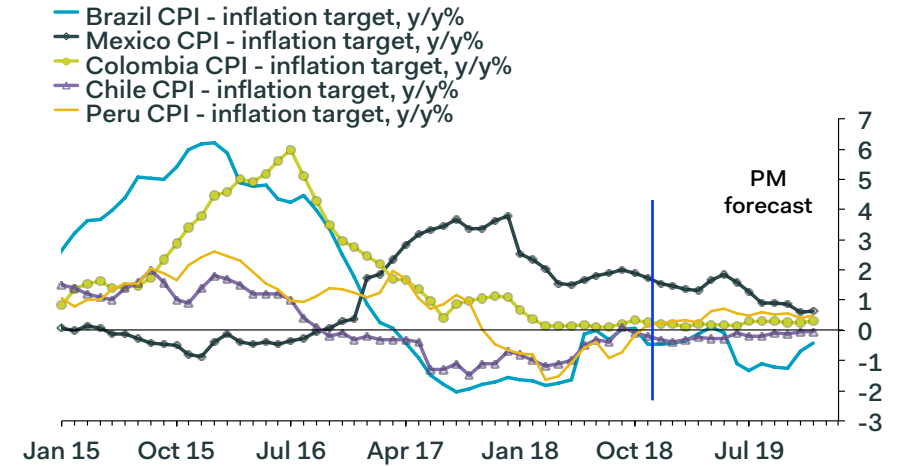
1. GLOBAL HEADWINDS ARE CONSTRAINING LATAM'S RECOVERY



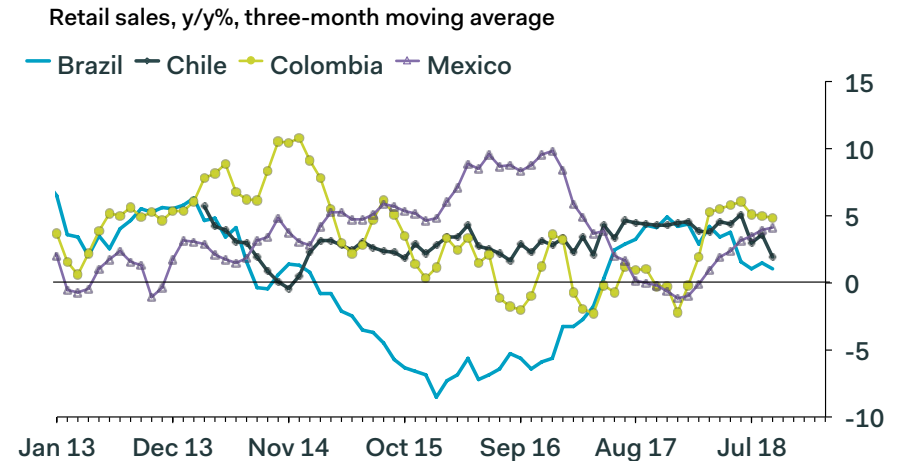
2. MOST ECONOMIES WILL PERFORM BETTER NEXT YEAR



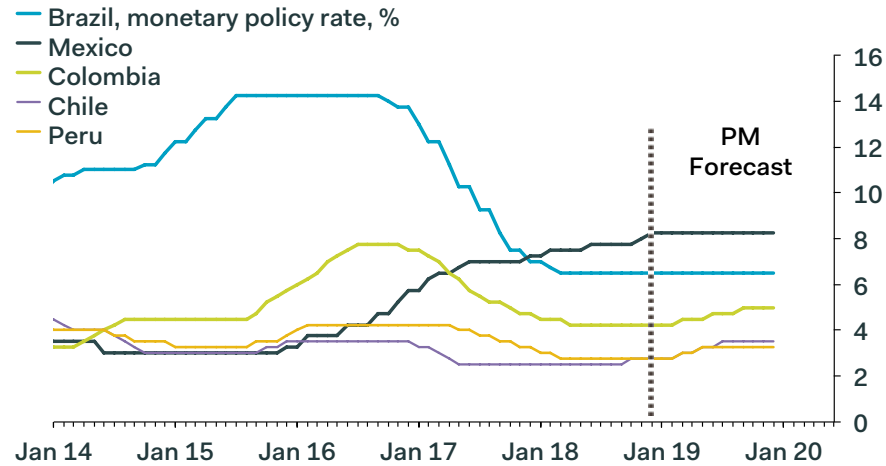
3. INFLATION IS WELL UNDER CONTROL, BUT THREATS REMAIN



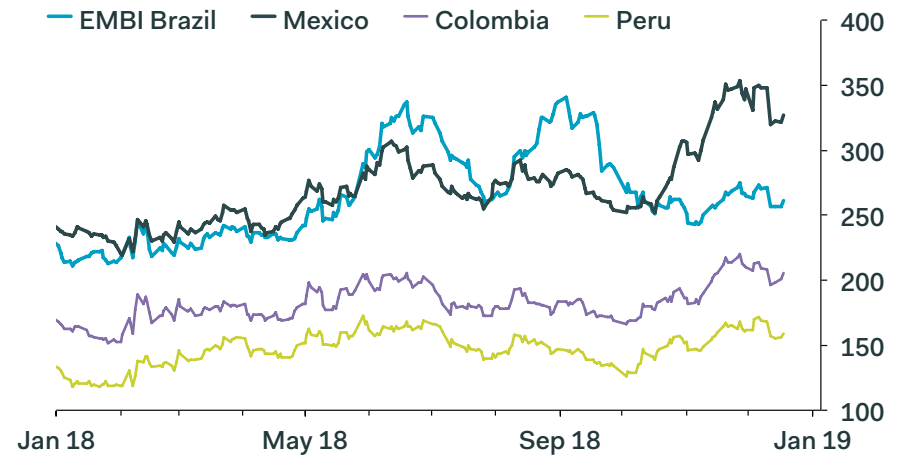
4. DOMESTIC DEMAND WILL IMPROVE, THANKS TO STABLE INFLATION



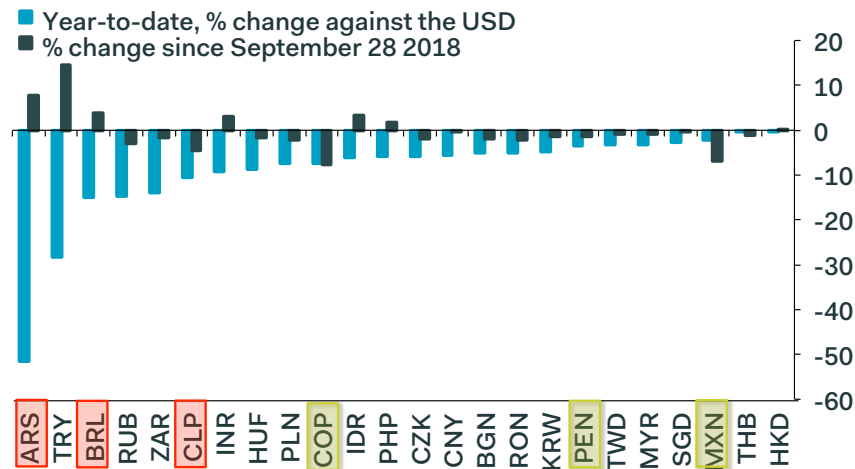
5. MOST CENTRAL BANKS HAVE TURNED SLIGHTLY HAWKISH



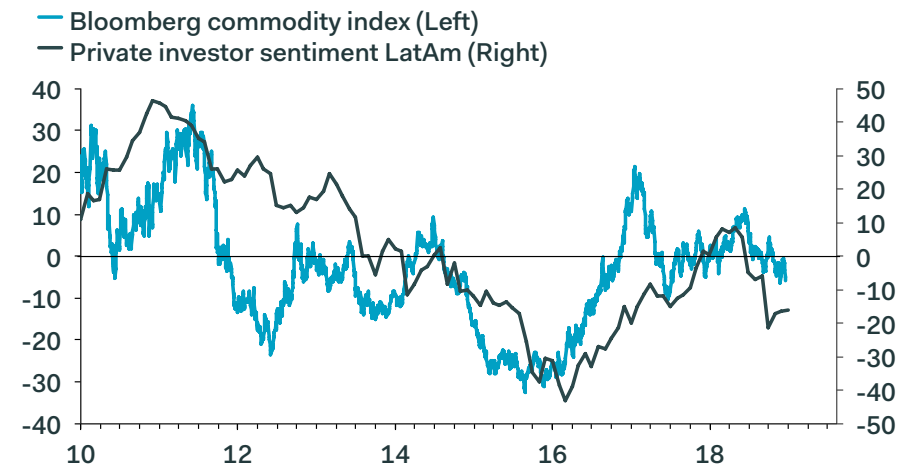
7. THE EFFECT OF POLITICAL UNCERTAINTY



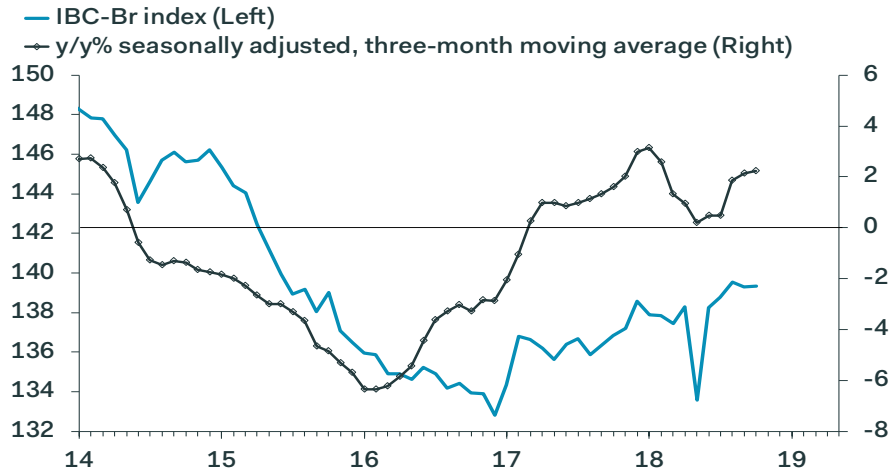
6. LATAM CURRENCIES PERFORMED BADLY THIS YEAR



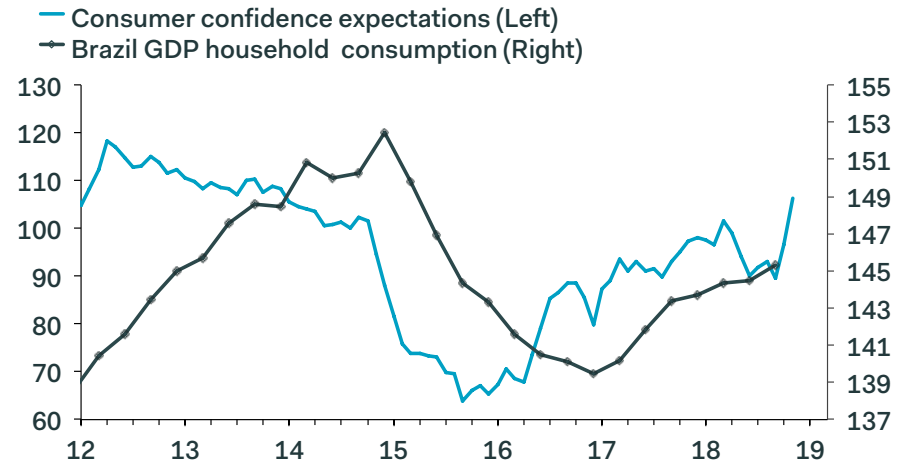
8. THE DECLINE IN COMMODITY PRICES IS A BIG RISK



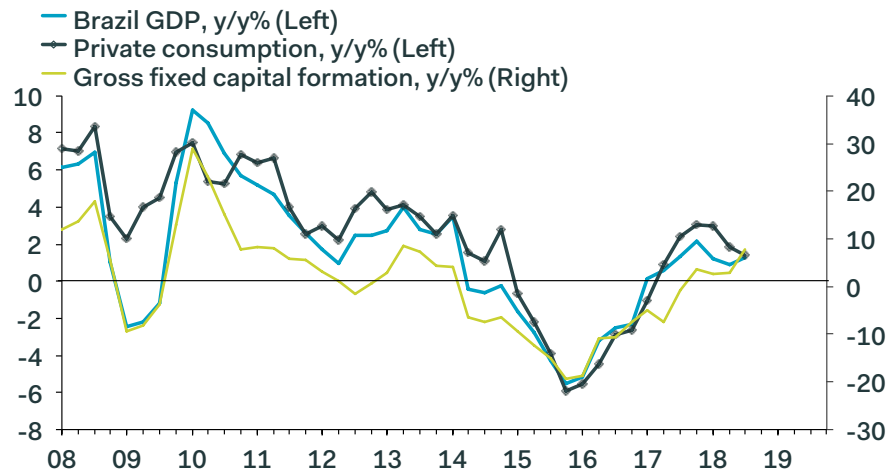
9. BRAZIL: A GOOD START TO Q4, EASING DOWNSIDE RISKS



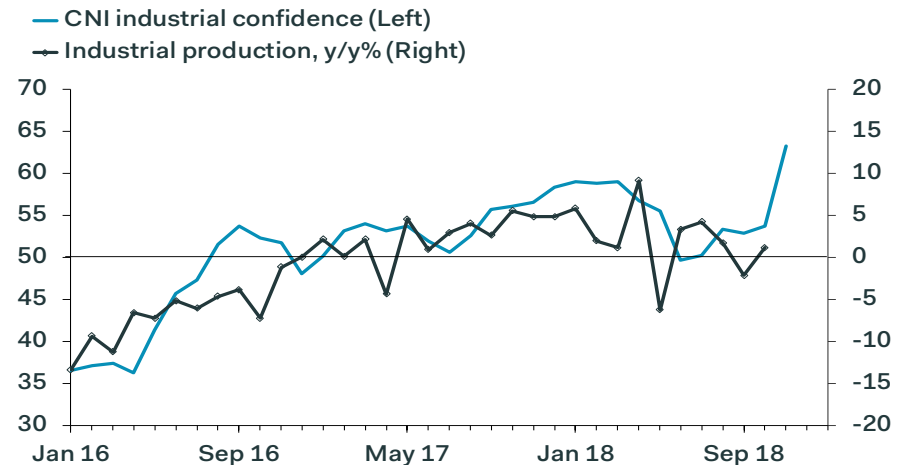
11. A LONG WAY TO FULL RECOVERY; BUT PROSPECTS ARE POSITIVE



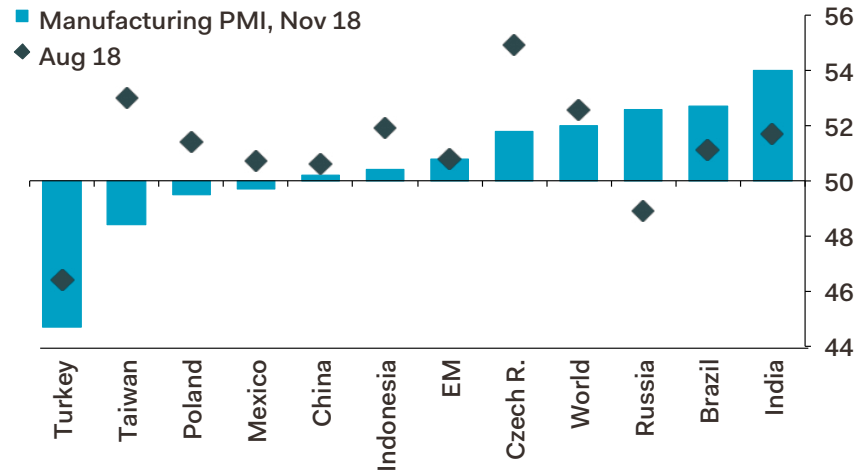
10. THE RECOVERY IS NOW BROAD-BASED



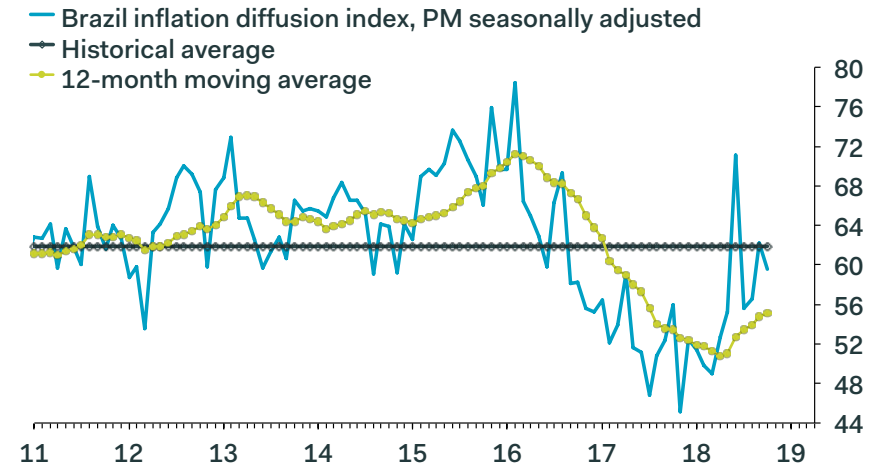
12. LEADING INDICATORS POINT TO A STRONG INDUSTRIAL SECTOR



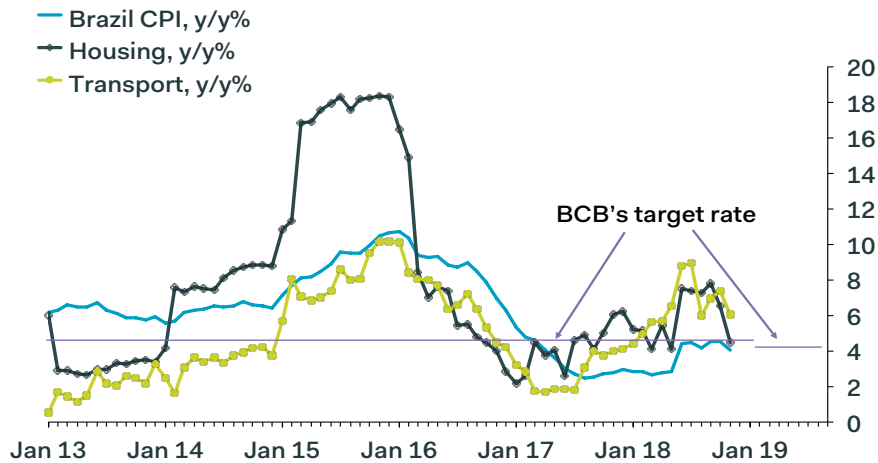
13. BRAZIL IS DOING WELL IN THE WORLD CONTEXT



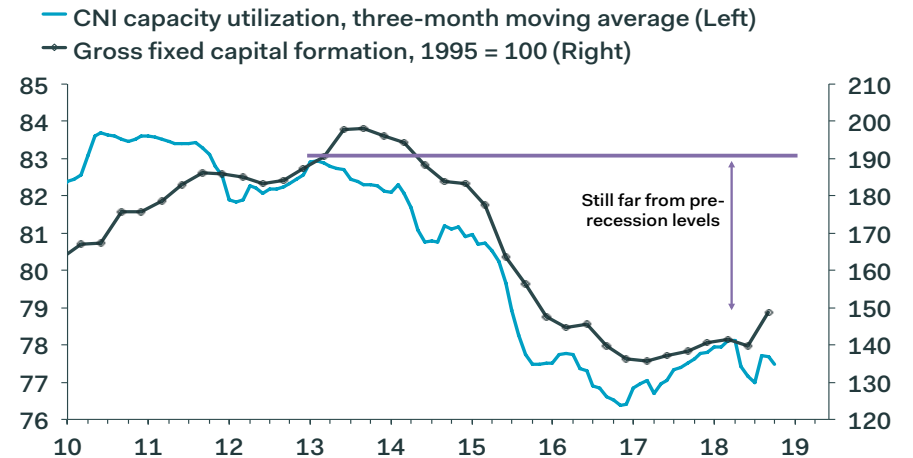
15. UNDERLYING PRESSURES ARE UNDER CONTROL



14. FALLING INFLATION WILL ALLOW THE BCB TO REMAIN ON HOLD

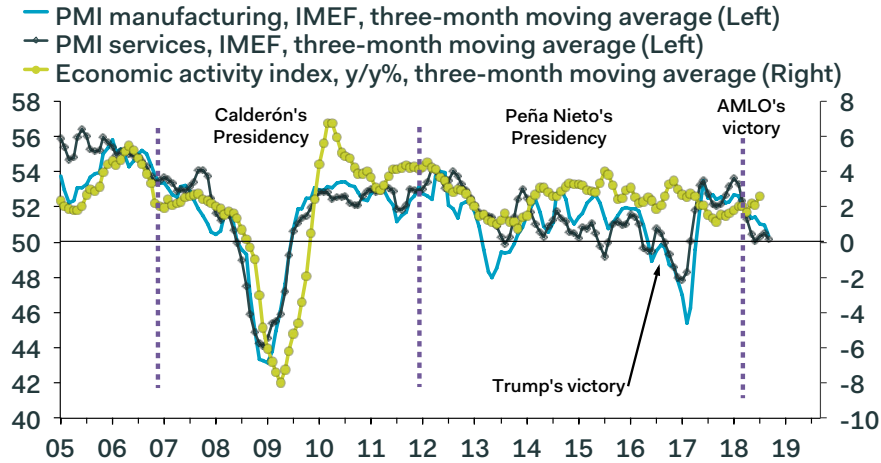


16. STRUCTURAL REFORMS ARE NEEDED TO DRIVE A PICK-UP IN CAPEX

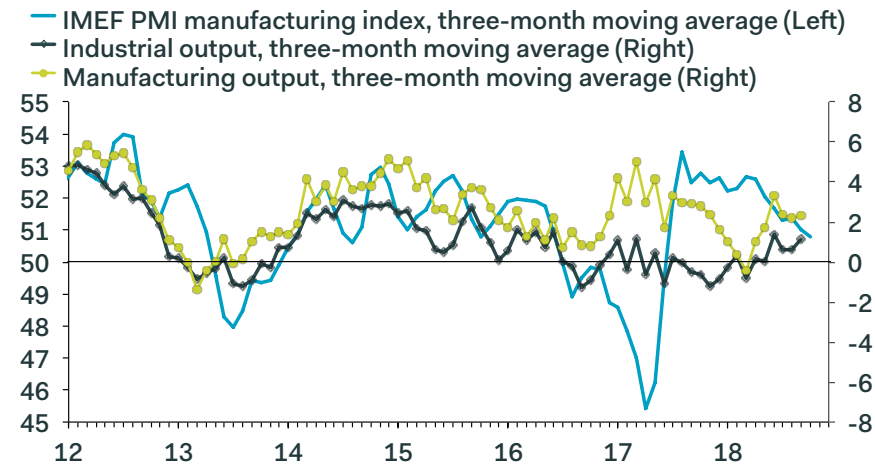




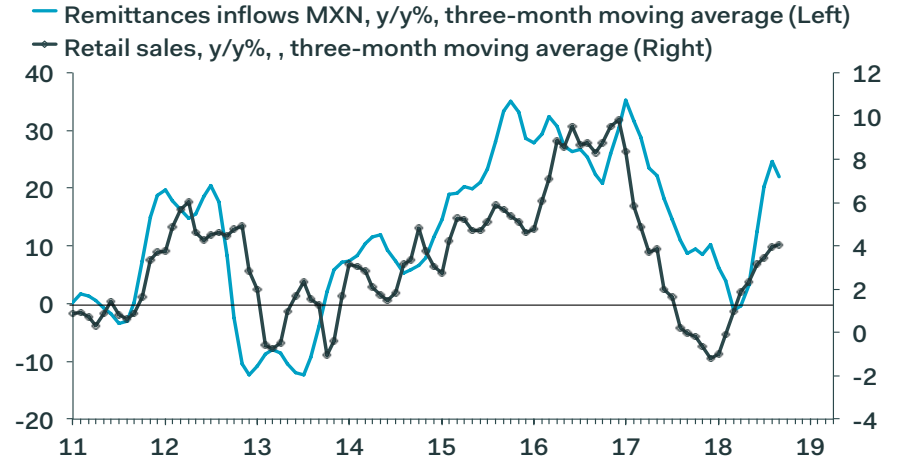
17. MEXICO: A POLITICS-DRIVEN TEMPORARY SLOWDOWN?



18. THE INDUSTRIAL SECTOR IS IMPROVING, BUT RISKS AROUND



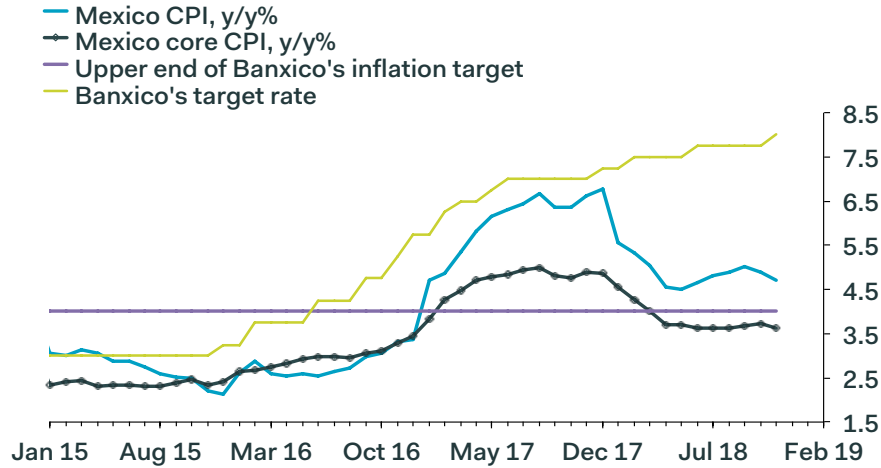
19. THE UNDERLYING TREND IN RETAIL SALES GROWTH IS SOLID...



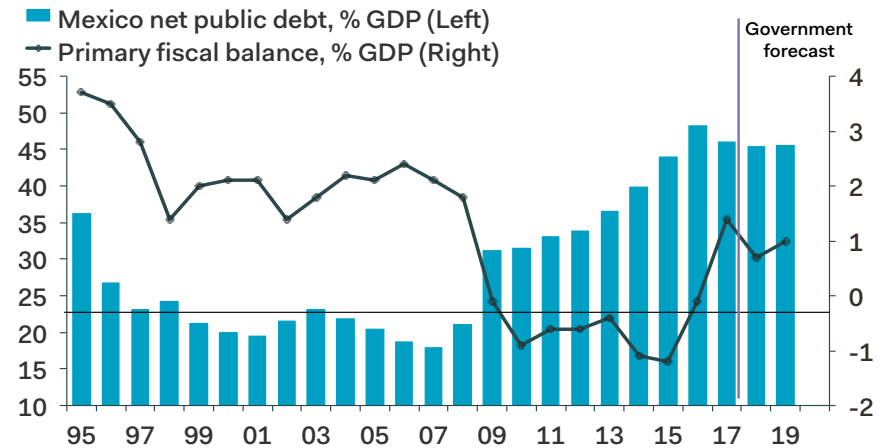
20. UPSIDE RISKS FOR GROSS FIXED INVESTMENT IN Q4 AND Q1



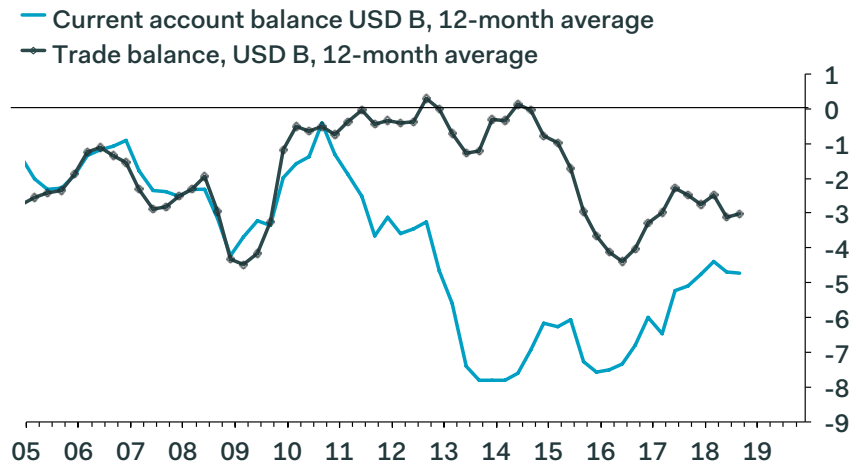
21. INFLATION PRESSURES REMAIN TAME; NO IMMEDIATE THREATS



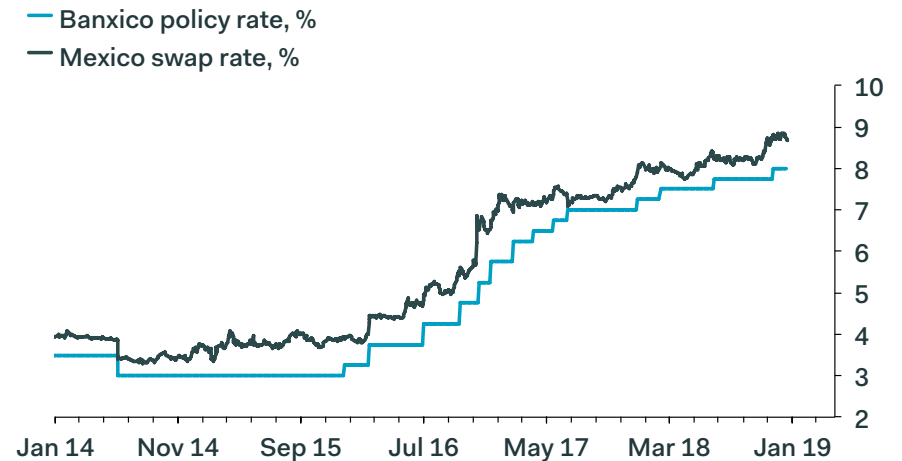
23. A FISCALLY RESPONSIBLE GOVERNMENT WILL EASE MARKET'S FEARS



22. THE CURRENT ACCOUNT DEFICIT IS UNDER CONTROL

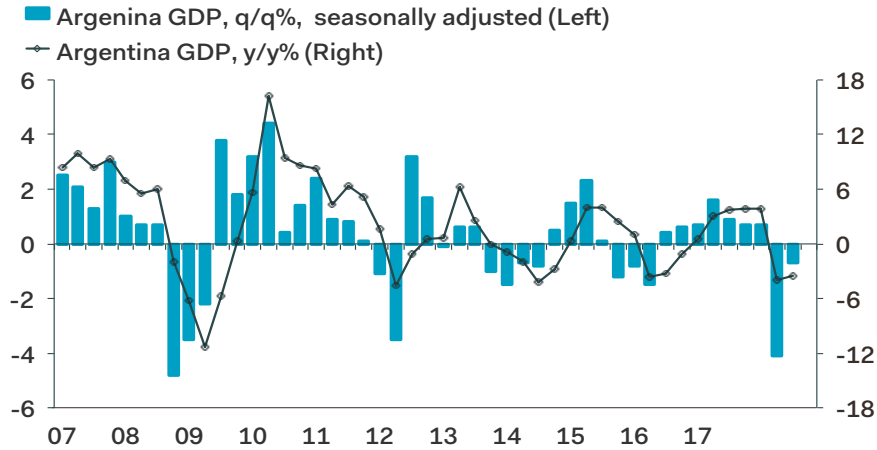


24. MARKETS, HOWEVER, ARE STILL EXPECTING A MODEST RATE HIKE

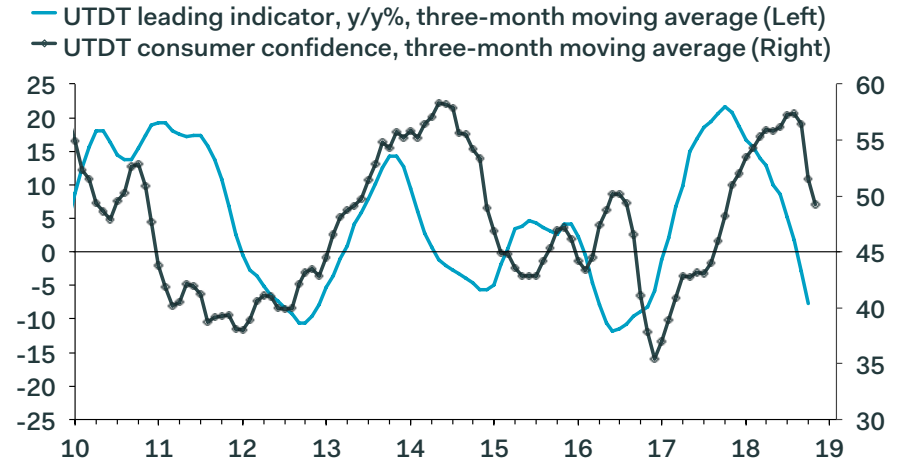




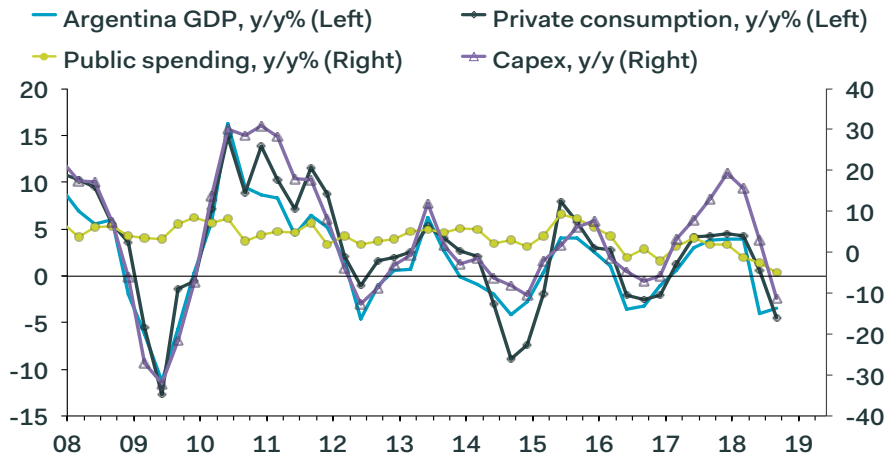
25. ARGENTINA: THE RECESSION EASED IN THE SECOND HALF



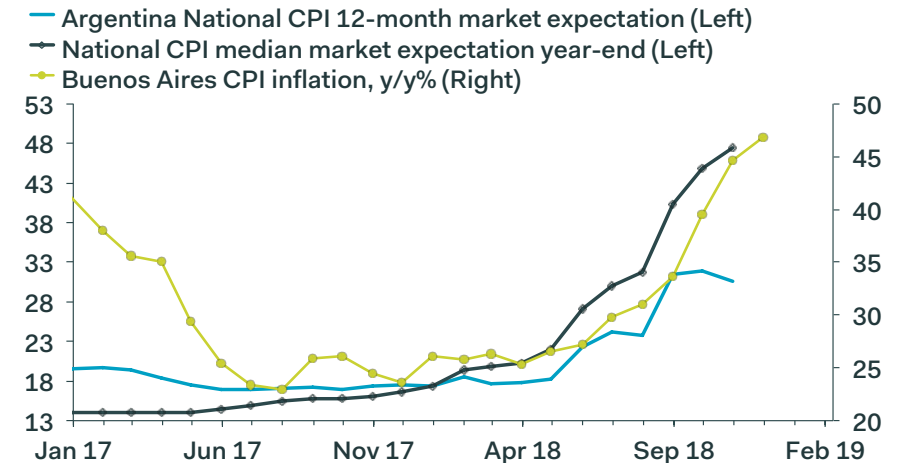
27. LEADING INDICATORS SIGNAL A CHALLENGING NEAR TERM OUTLOOK



26. A BROAD-BASED COLLAPSE, PARTICULARLY IN CONSUMPTION

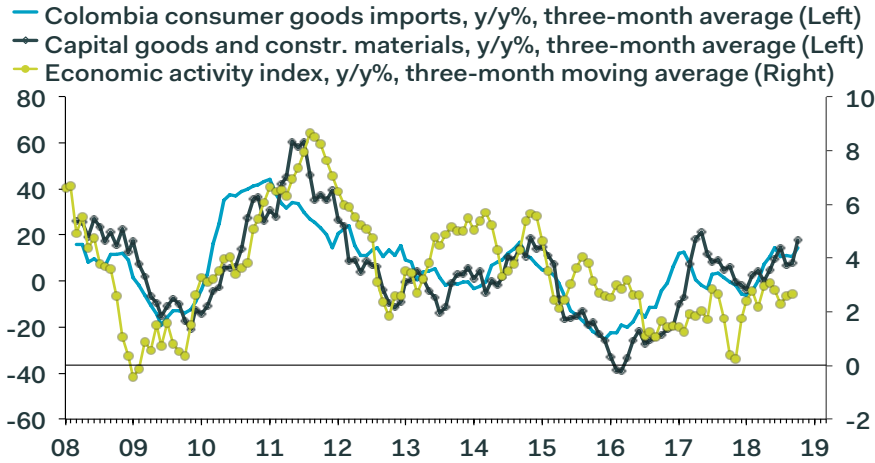


28. INFLATION LIKELY WILL START TO FALL SOON

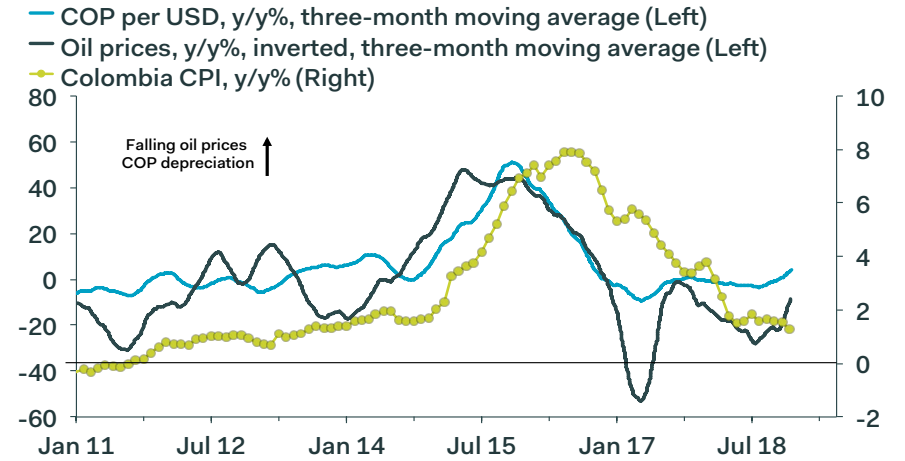




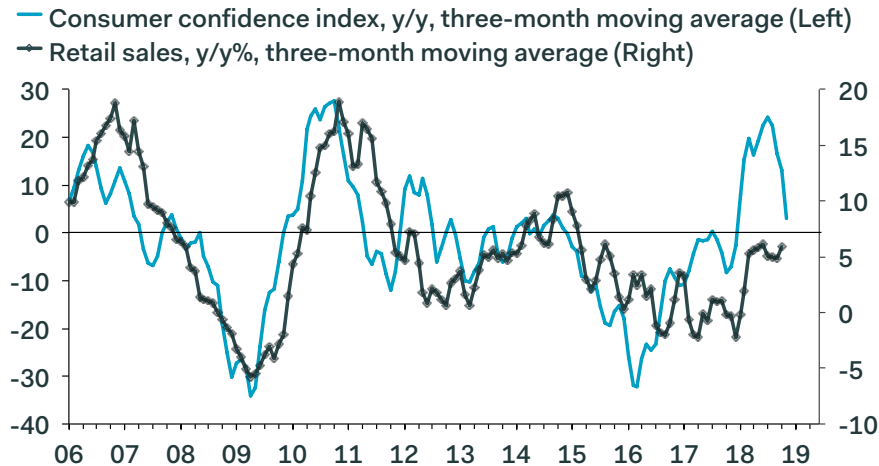
29. COLOMBIA: THE RECOVERY CONTINUES, BUT CHALLENGES REMAIN



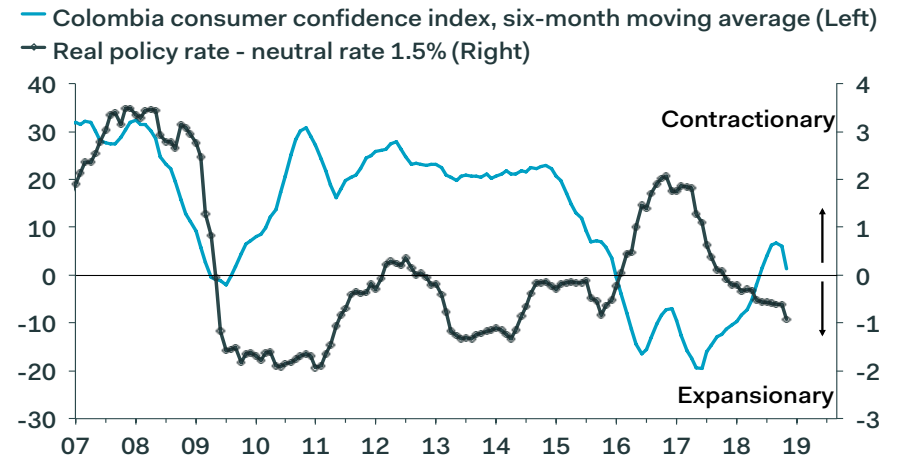
31. FALLING OIL PRICES ARE BAD NEWS FOR COLOMBIA'S INFLATION



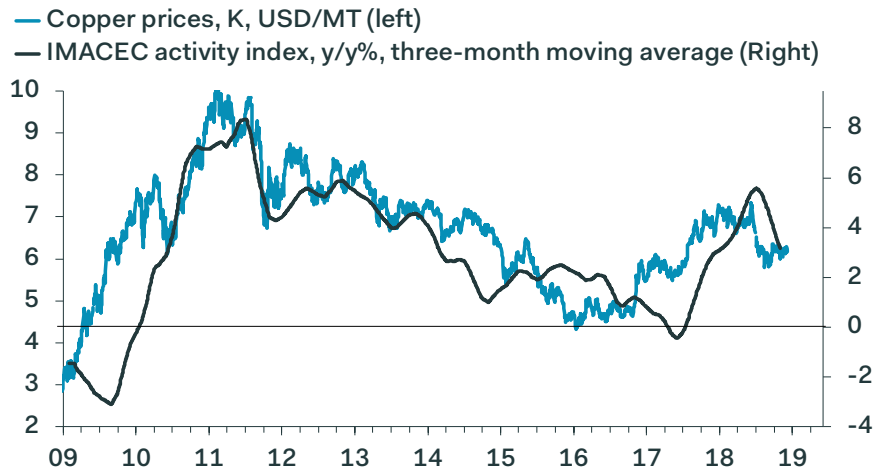
30. THE FISCAL FIASCO HAS HURT CONFIDENCE



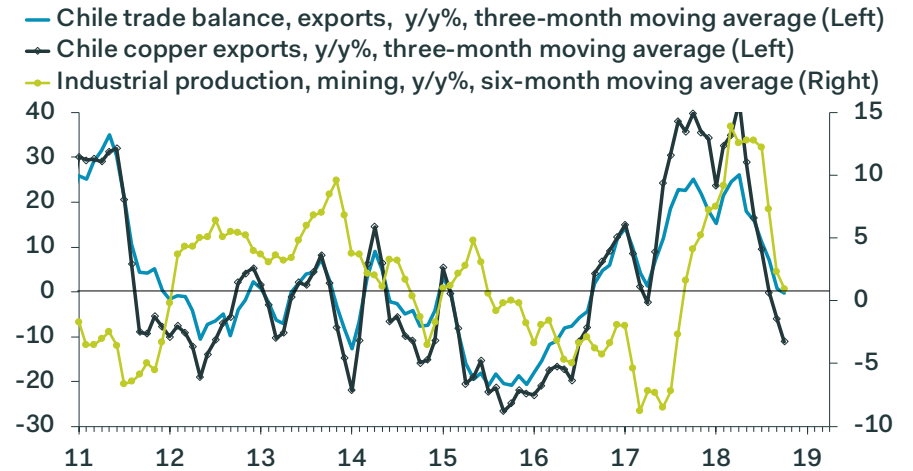
32. INTEREST RATES WILL BE HIKE NEXT YEAR BUT GRADUALLY



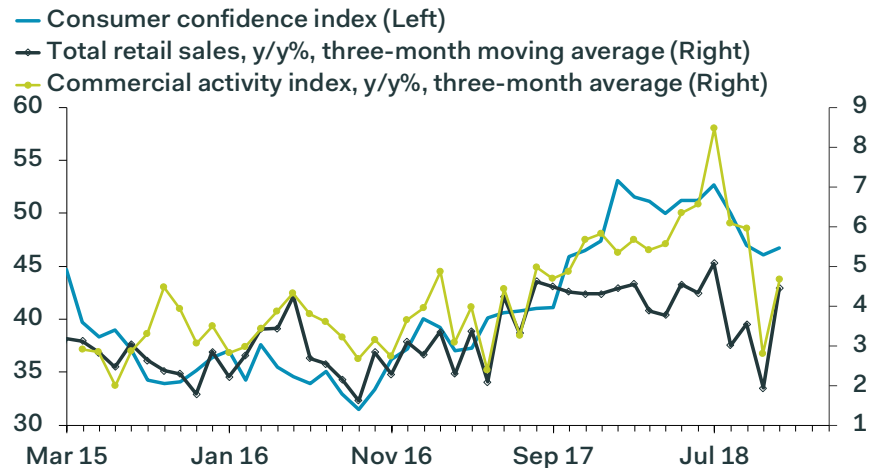
33. CHILE: AN END TO THE TRADE WAR IS BADLY NEEDED



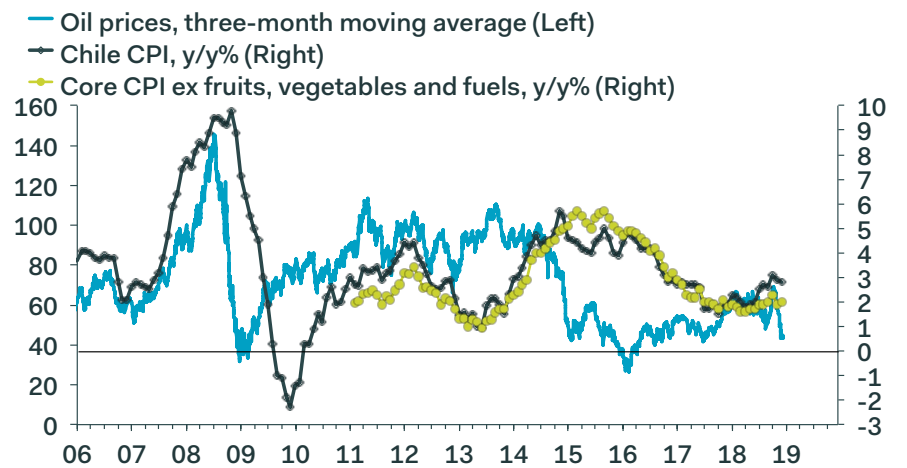
35. A U.S.-CHINA TRADE TRUCE LIKELY WILL HELP CHILE IN Q1



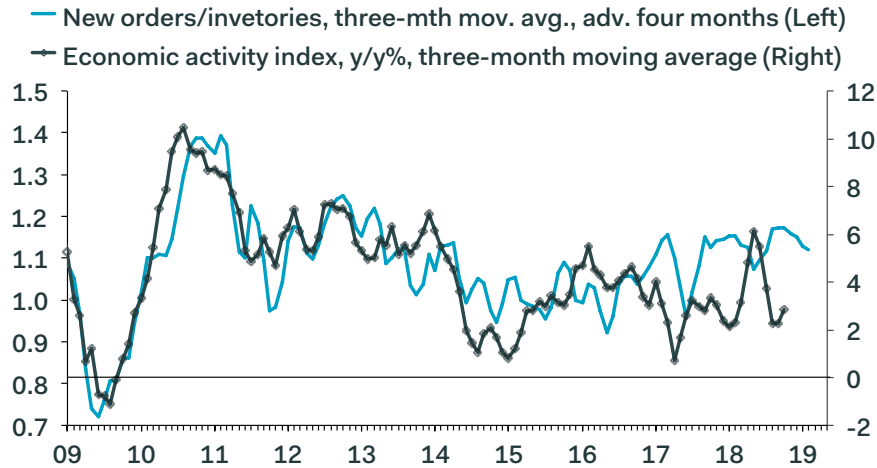
34. PRIVATE CONSUMPTION IS ON THE MEND



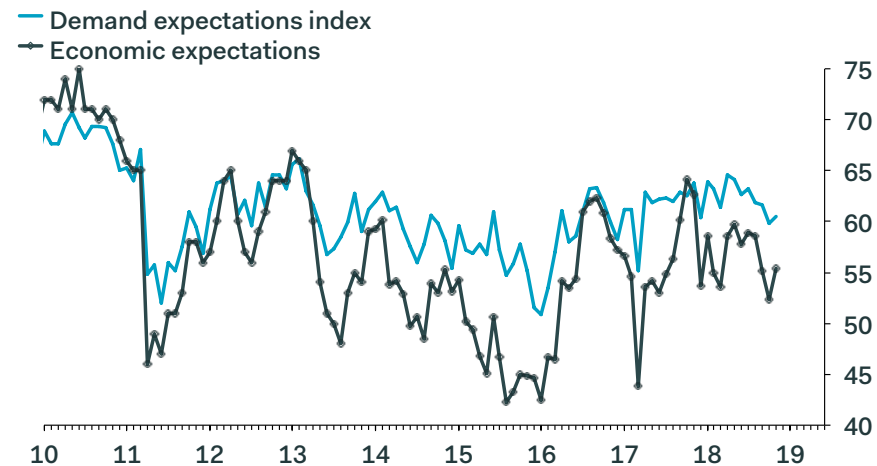
36. LOWER OIL PRICES WILL HELP CHILE'S CENTRAL BANK IN Q1



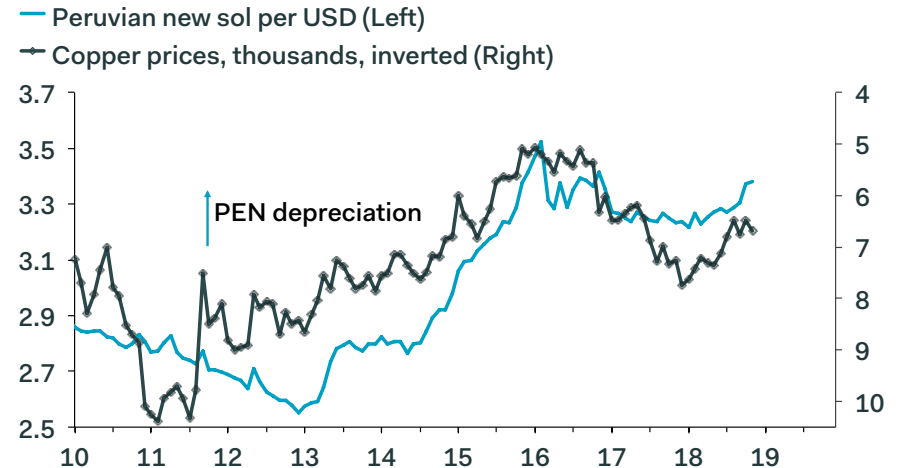
37. PERU: THE RECOVERY WILL GATHER STRENGTH NEXT YEAR



38. A GOOD START TO Q4, CONFIDENCE WILL REBOUND NEXT YEAR



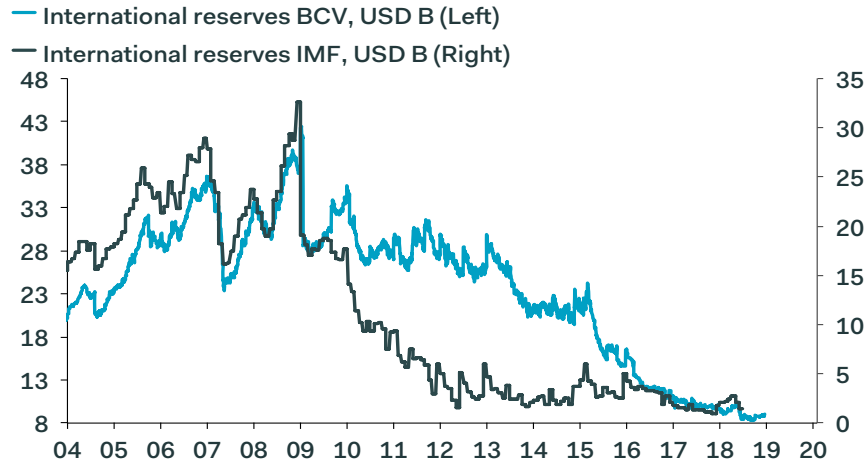
39. WE EXPECT METALS PRICES TO RISE, EASING FX PRESSURES



40. NO NEED TO HIKE RATES IN THE NEAR TERM



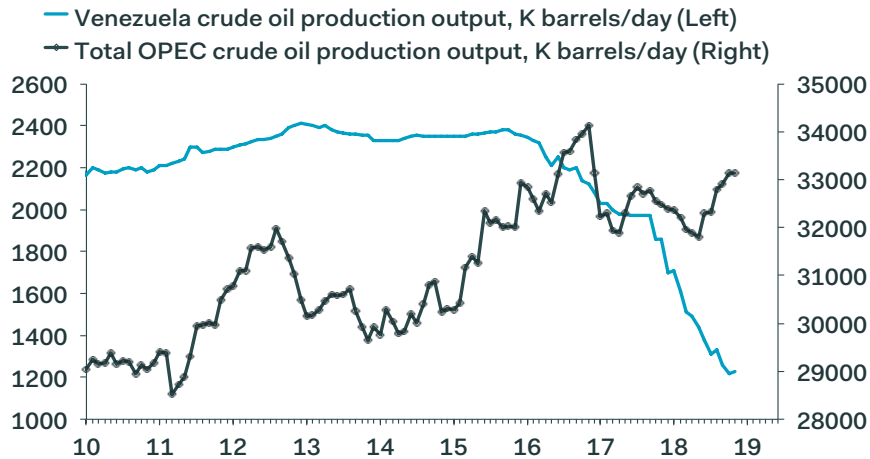
41. VENEZUELA: THE ECONOMIC CRISIS CONTINUES



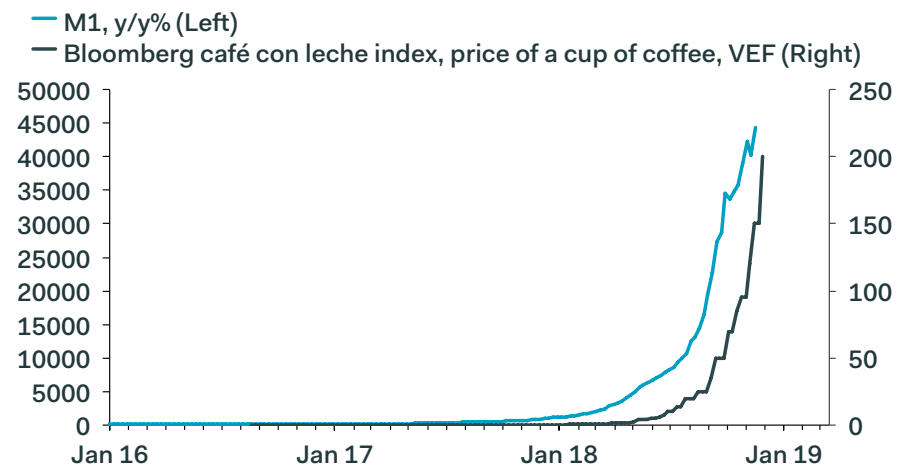
43. IMPORTS HAVE DWINDLED TO THEIR LOWEST LEVELS



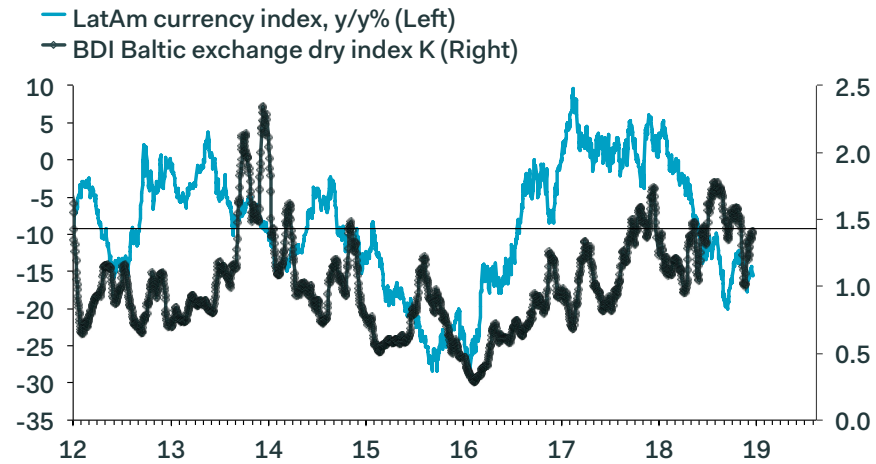
42. THE OIL INDUSTRY IS COLLAPSING



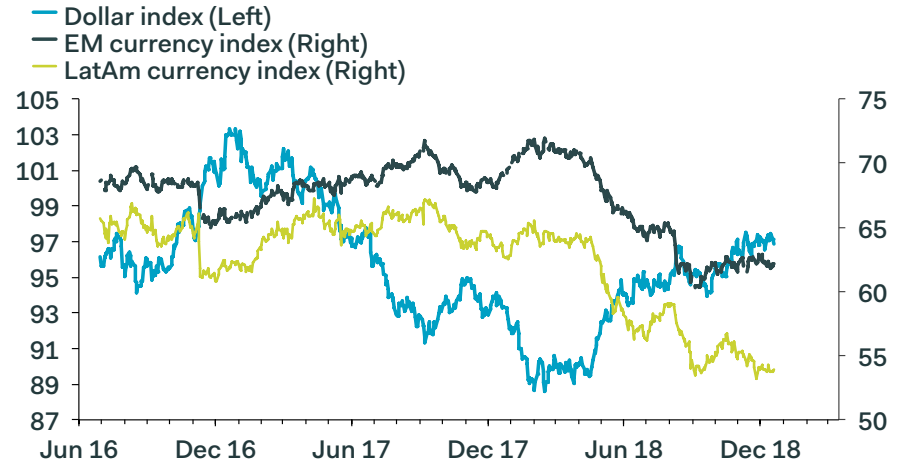
44. FROM BAD TO WORSE; INFLATION WILL CONTINUE TO OVERSHOOT



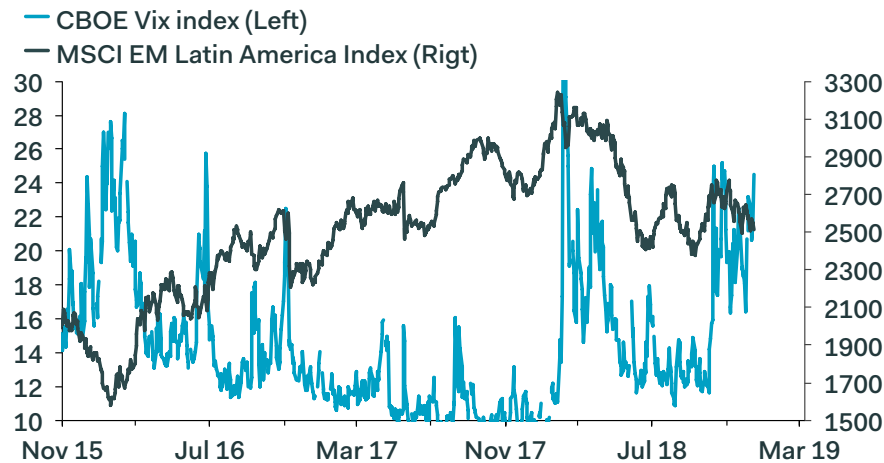
45. CURRENCIES AND MARKETS ARE FEELING COMMODITIES' PAIN



47. POLITICS HURT IN 2018; WE THINK 2019 WILL BE BETTER



46. A BAD YEAR FOR LATAM, AND VOLATILITY REMAINS HIGH



48. RISK PERCEPTION WILL CONTINUE TO EASE IN MEXICO





GDP (year-over-year, %)	2016	2017	2018	2019	2020
Argentina	-1.8	2.9	-2.4	-0.4	2.2
Brazil	-3.4	1.0	1.4	2.4	3.0
Chile	1.3	1.5	4.0	3.5	4.2
Colombia	2.0	1.8	2.6	3.1	3.5
Mexico	2.9	2.0	2.1	2.1	1.9
Peru	4.0	2.5	3.7	4.0	4.2
Venezuela	-16.5	-14.0	-15.0	-8.0	-6.0
<i>Latin America</i>	-1.1	1.5	1.2	2.0	2.7

Inflation, CPI (year-over-year, %, average)

Argentina	36.0	25.7	33.0	25.0	15.4
Brazil	8.7	3.4	3.7	3.7	4.1
Chile	3.8	2.2	2.4	2.8	3.0
Colombia	7.5	4.3	3.3	3.2	3.3
Mexico	2.8	6.0	4.9	4.2	3.6
Peru	3.6	2.8	1.3	2.5	2.4
Venezuela	254.4	1087.5	1.3M	10M	10M
<i>Latin America ex-Venezuela and Argentina</i>	5.5	2.8	2.7	2.7	2.9

Central Bank Rate (end of year)

Argentina	--	28.75	57.00	30.00	20.00
Brazil	13.75	7.00	6.50	6.50	8.00
Chile	3.50	2.50	2.75	3.50	4.25
Colombia	7.50	4.75	4.25	5.00	5.00
Mexico	5.75	7.25	8.25	8.25	6.00
Peru	4.25	3.25	2.75	3.25	3.50