Latin America Economic Outlook

4Q19

October 2019

Creating Opportunities

Key messages

The prospects for a slowdown of world economic growth have been reinforced, in a context of rising uncertainty. The lower global growth, risk aversion and lower commodity prices will weigh negatively on Latin America.

Latin American GDP will grow 0.7% in 2019, less than expected three months ago and below the rate observed in the previous two years. In addition to the less favorable global context, the higher uncertainty on both the political environment and economic policies in most countries of the region will affect economic activity. Growth will rebound moderately in 2020, but will remain below world growth.

Growth will slow down this year in all the economies of the region, with the exception of Colombia where GDP expansion will converge to 3% from 2.8% in 2018. The recession will be more intense than expected in Argentina and GDP will grow less than 1% in Mexico, Brazil and Uruguay. Despite the expected moderation and downward revisions, Peru and Chile show some resilience; in both growth will reach 2.5% in 2019. In 2020 we expect a recovery of growth in practically all the countries of the region, but this rebound will be smaller than expected three months ago.

The lack of demand pressures and low global inflation keep inflation in general under control, with Uruguay and mainly Argentina being the exceptions. Although regional currencies show some weakness in an environment of higher risk aversion, additional cuts in interest rates in the US create room for a more accommodative monetary policy in countries such as Mexico, Brazil, Chile and Peru. In Colombia, where the high current account deficit continues to concern, interest rates are most likely to remain at the current level for a long period of time.

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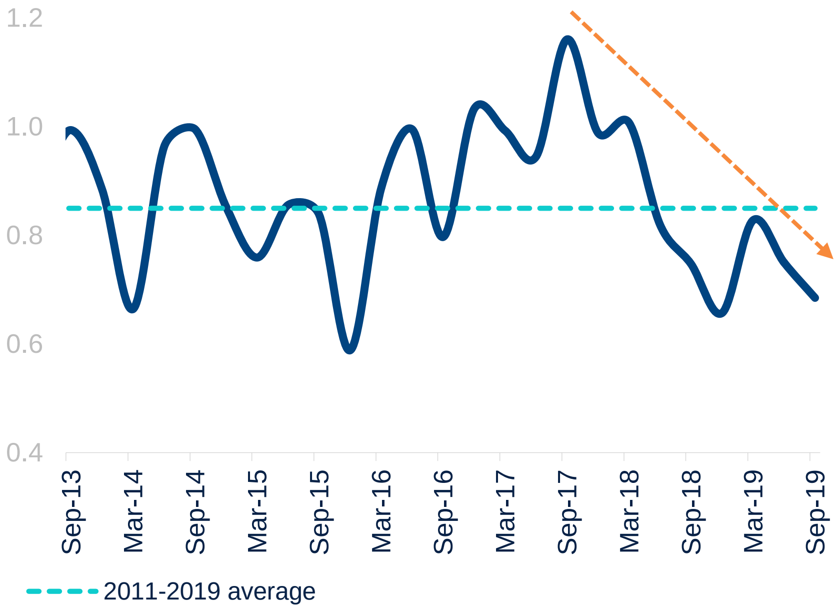
01

Global environment: slowdown and uncertainty

Global growth continued to weaken

WORLD GDP GROWTH
(FORECASTS BASED ON BBVA-GAIN % QOQ)



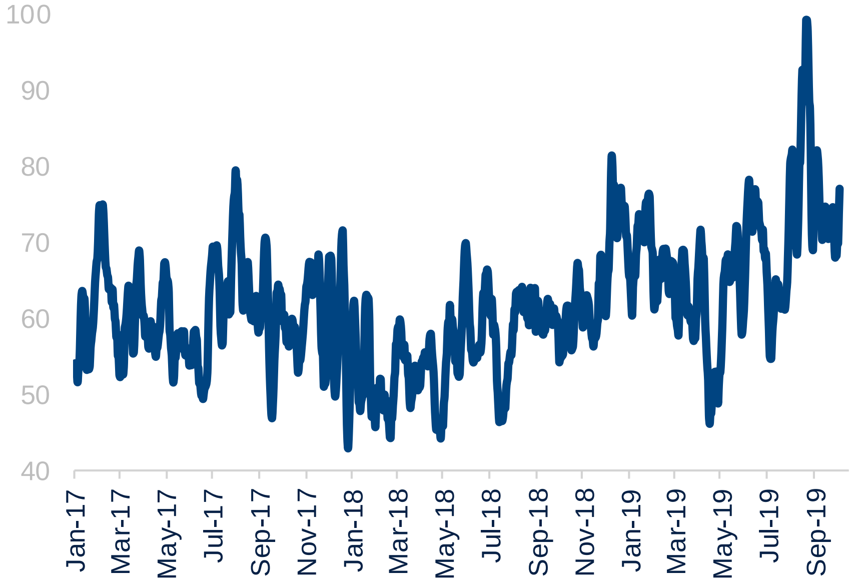
Source: BBVA Research

- Recent evidence confirms that uncertainty and protectionism are negatively affecting growth.
- The ongoing growth slowdown has been sharper than expected, especially in China and Europe.
- Exports and the manufacturing sector remain particularly weak…
- ... and there are signs that this weakness is beginning to affect the service sector.

Uncertainty has increased sharply in August and remains high despite the recent moderation

ECONOMIC UNCERTAINTY INDEX

(TONE OF THE NEWS ON ECONOMIC UNCERTAINTY WEIGHTED BY COVERAGE, 15-DAY MOVING AVERAGE)



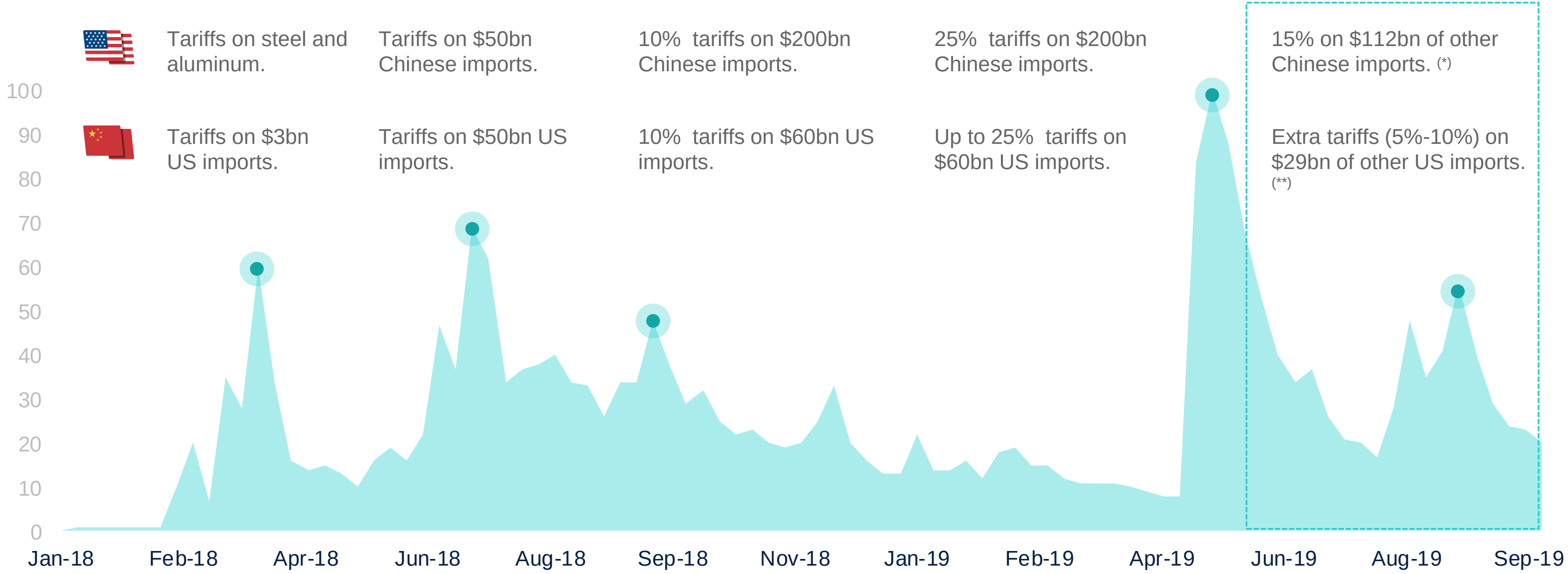
Source: BBVA Research and GDELT

- High uncertainty due to:
  - trade and technological tensions
  - Brexit
  - Political and geopolitical turbulences
- The impact on confidence adds to the effects of the structural slowdown in China and the cyclical moderation of the US economy.

The new protectionist measures have fueled trade tensions

TRADE WAR INDEX: WORLDWIDE GOOGLE SEARCHES ABOUT THE TOPIC "TRADE WAR"

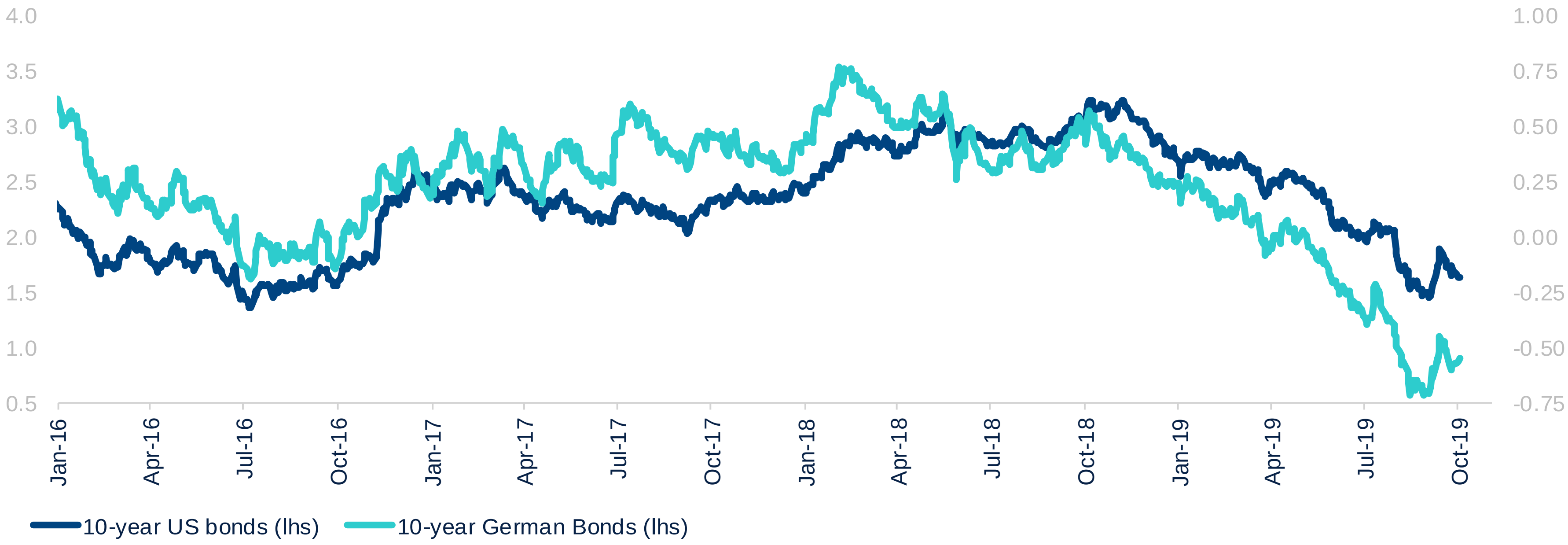
(INDEX: 0 TO 100)



(*) And till Dec-19: a further 5% tariff (to 30% from 25%) on USD250bn and 15% on the rest of Chinese imports. (**) And till Dec-19: extra tariffs (5%-10%) on $46bn of other US imports.
Source: BBVA Research and GDELT

In financial markets, the flight-to-safety mood continues to prevail

SOVEREIGN DEBT YIELDS
(%)



Source: BBVA Research, Bloomberg

Counter-cyclical policies will help to keep financial tensions under control, but will not prevent a global slowdown

COUNTERCYCLICAL POLICIES

Monetary policy:

- Will continue to lead countercyclical actions…
- … despite its lower effectiveness in the actual context.
- More measures will be announced moving forward.

Fiscal policy:

- Should play a bigger role…
- … but political issues and high debt will limit its use.
- More measures in Europe and mainly in China.

A global coordination of policies is now less likely.

GLOBAL UNCERTAINTY

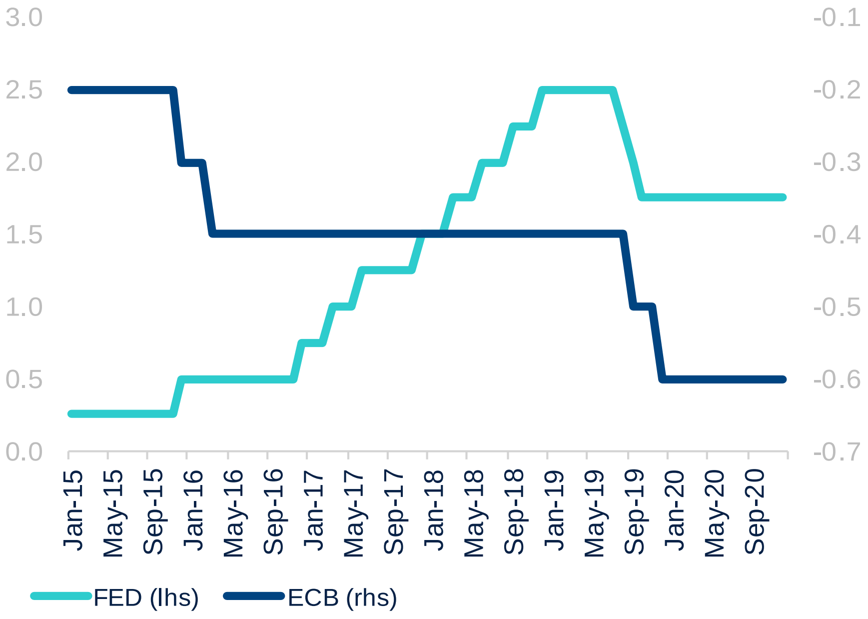
US – China tensions will remain in place:

- A partial trade agreement between both countries is likely.
- Tariffs will hardly return to the levels exhibited a few months ago.
- Structural and technological issues will continue to generate turbulence.

The Brexit issue, as well as political and geopolitical tensions in certain regions, will continue to fuel uncertainty.

The central banks have announced further monetary stimuli in the last few months

FED AND ECB: INTEREST RATES (*)
(%, END OF PERIOD)



(*) In the case of the ECB, deposits interest rates.
Source: BBVA Research

- Fed: a 50bps reduction in rates in recent months and at least an additional 25bps cut in October.
- ECB: an aggressive monetary package
  - a 10bps cut in deposit rates
  - a two-tiered system for bank deposits
  - a new quantitative easing program
  - a more favorable TLTRO-III
- In Europe, another 10bps cut in deposit rates is likely.
- China and other emerging countries: more aggressive reduction in interest rates.

A sharper slowdown of the world economy

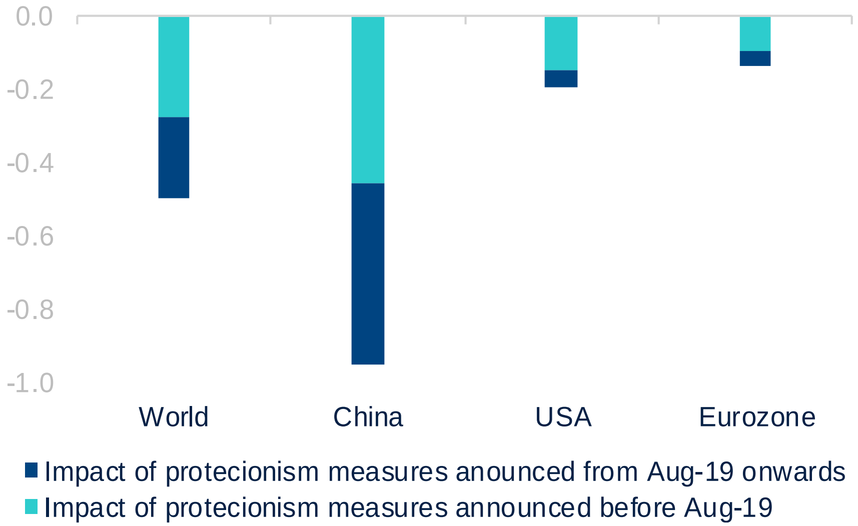
	USA	Latam	Eurozone	China	World
2019	2.3	0.7	1.1	6.0	3.2
2020	1.8	N.A.(*)	0.8	5.6	3.1

- Upward revision
- Unchanged forecast
- Downward revision

(*) Non available as there is not yet a definitive forecast for Argentina.
Source: BBVA Research

This sharper slowdown is to some extent related to persistent protectionist tensions

IMPACT ON GDP OF THE PROTECTIONISM
(IMPACT ACCUMLATED IN TWO YEARS, PP)

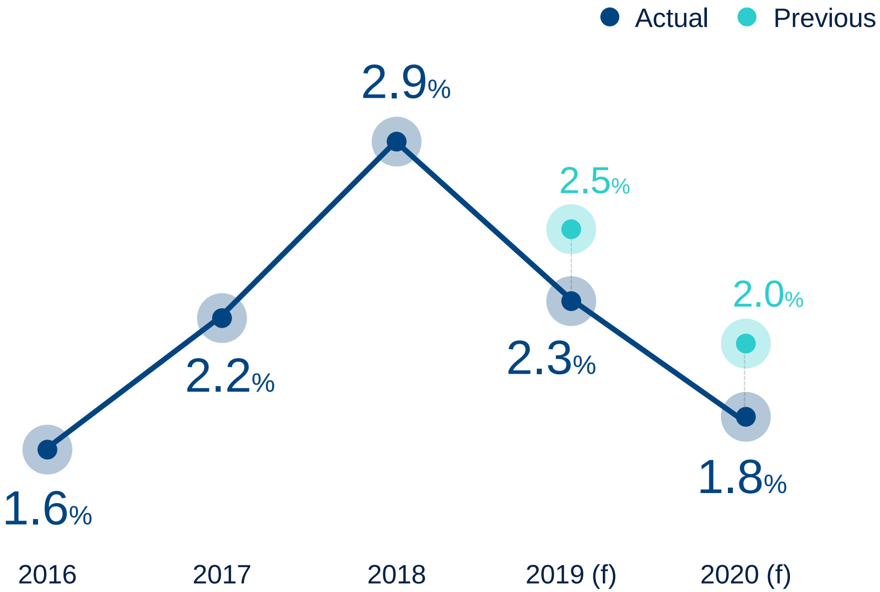


(*) Direct and indirect impact. **Protectionism measures announced before Aug-19**: US: 25% tariff increase on steel, 10% on aluminum, 25% on $250bn China imports. China: 25% on USD110bn US imports **Protectionism measures announced from Aug-19 on** (to be implemented, in case of no trade agreement, till Dec-19): US: a 5% extra tariff on $250bn and 15% on $300bn China imports. China: extra tariffs (5%-10%) on $75bn US imports.
Source: BBVA Research

- The revisions in GDP forecasts are broadly in line with the estimated impact of adopted protectionism measures.
- Specially in China, the impact has been smoothed by countercyclical policies.
- In the Eurozone the deterioration has been even larger thanks to lower export to the United Kingdom (Brexit) and problems in the automobile sector.
- Risks: if the US and China don't reach a trade agreement and the protectionist escalation continues, there would be an additional negative effect on the global economy.

USA: lower growth due to the global slowdown and uncertainty about domestic policies

GDP GROWTH
(%)

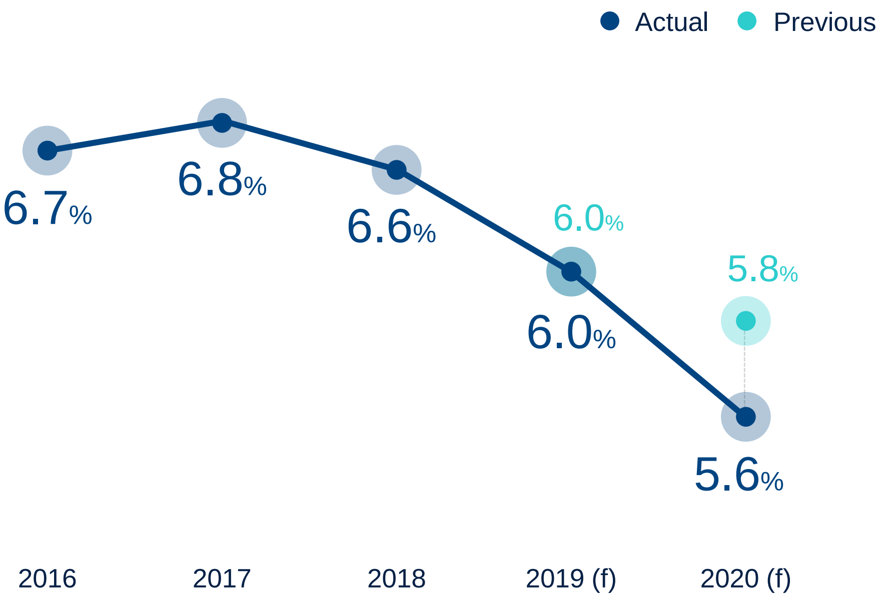


(f) Forecast.
Source: BBVA Research

- Growth will converge to the potential rate faster than expected.
- Inflation will remain close to the 2% target.
- The probability of a recession has increased.
- Trump's impeachment process increases uncertainty and reduces the likelihood of additional fiscal stimuli.

China: trade tensions add to the downward structural trend

GDP GROWTH
(%)

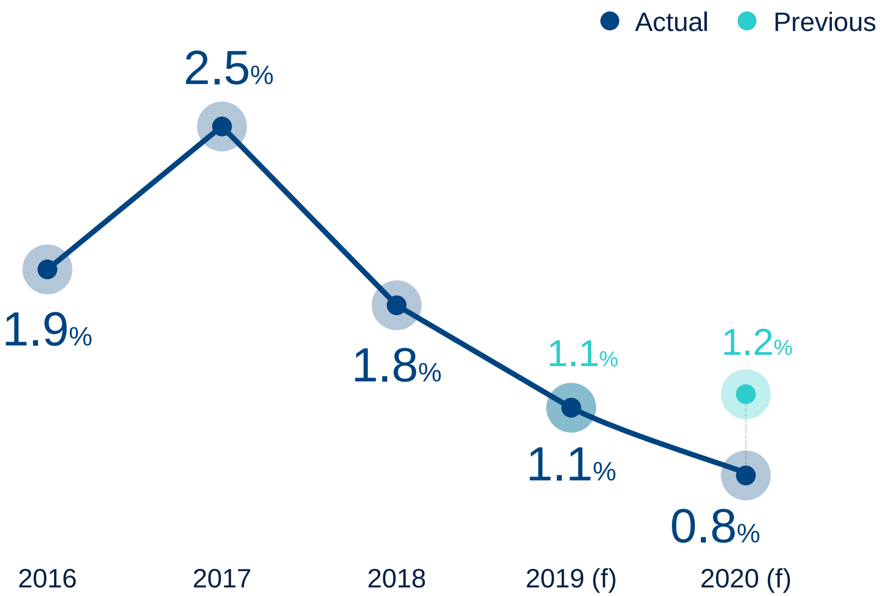


(f) Forecast.
Source: BBVA Research

- There are increasing signs of widespread moderation of the economy.
- Fiscal and monetary stimulus measures will prevent a sharp slowdown, but may increase financial vulnerabilities.
- The exchange rate will remain at a more depreciated level, to partially to offset the effects of higher protectionism.

Eurozone: worse growth prospects due to the most negative global environment and high uncertainty

GDP GROWTH
(%)

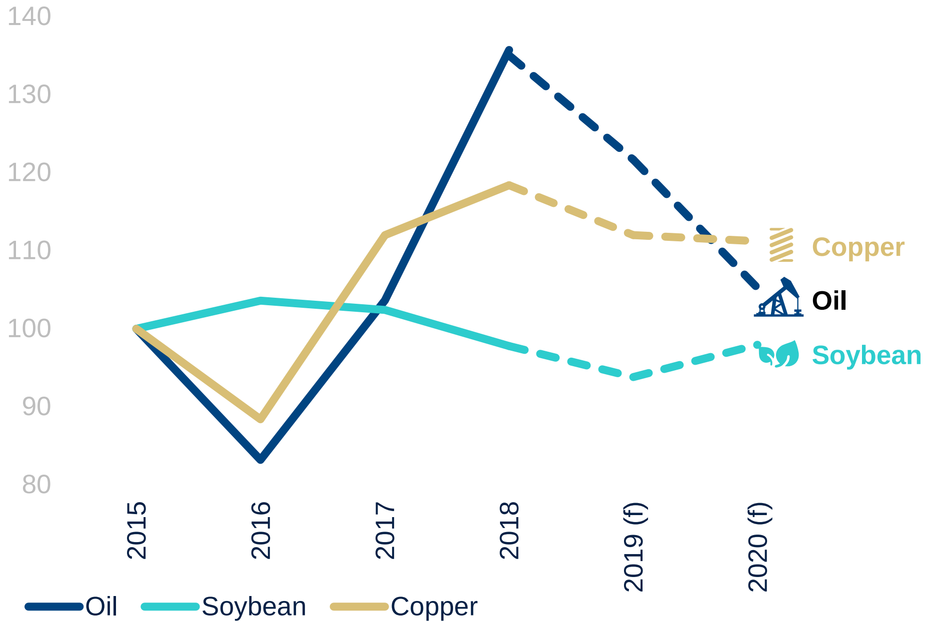


(f) Forecast.
Source: BBVA Research

- The Brexit and the problems in the auto sector, on top of trade tensions, have affected economic activity…
- … and have contributed to a particularly large fall of exports to the rest of Europe and UK.
- Increasing divergence in growth performance across countries depending on their exposure to the external sector.
- Inflation will remain low (1.2% in 2019; 1.1% in 2020).
- The risk of recession has increased.

Prospects for weaker growth pressure commodity prices downwards

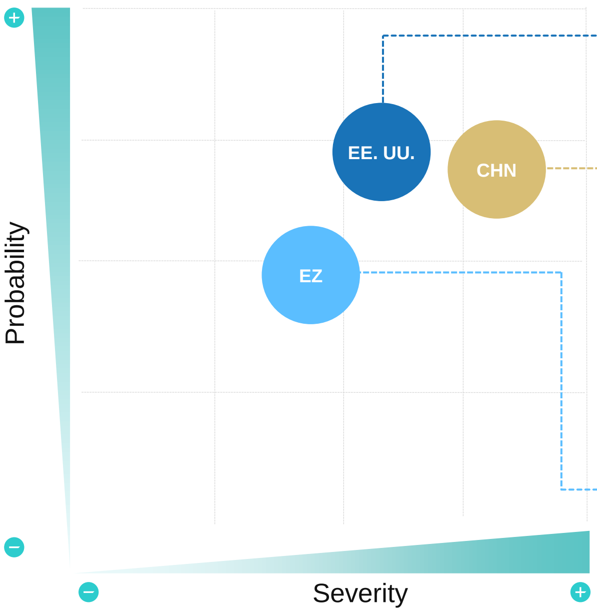
COMMODITY PRICES: AVERAGE ANNUAL PRICES
(INDEX: 2015 AVERAGE = 100)



(f) Forecast.
Source: BBVA Research

- Oil: Slight upward revision of short-term forecasts and risk that an escalation of tensions in the Middle East will end up driving oil prices up.
- In any case, prospects for price moderation going forward are maintained, given the relative strength of supply in an environment of lower demand.
- Soybean and copper: price forecasts revised downwards.

Global risks continue to increase, mainly due to tensions between China and the US



Source: BBVA Research

US
Economic recession: higher
Protectionism: high

China
Protectionism: high
Disorderly deleveraging: higher
Geopolitical tensions

Eurozone
Recession: higher
- *Brexit,* Italy

Protectionism: still contained but increasing

Latin America would be significantly affected by an increase in financial tensions, a recession in the US and, mainly, a hard-landing of the Chinese economy.

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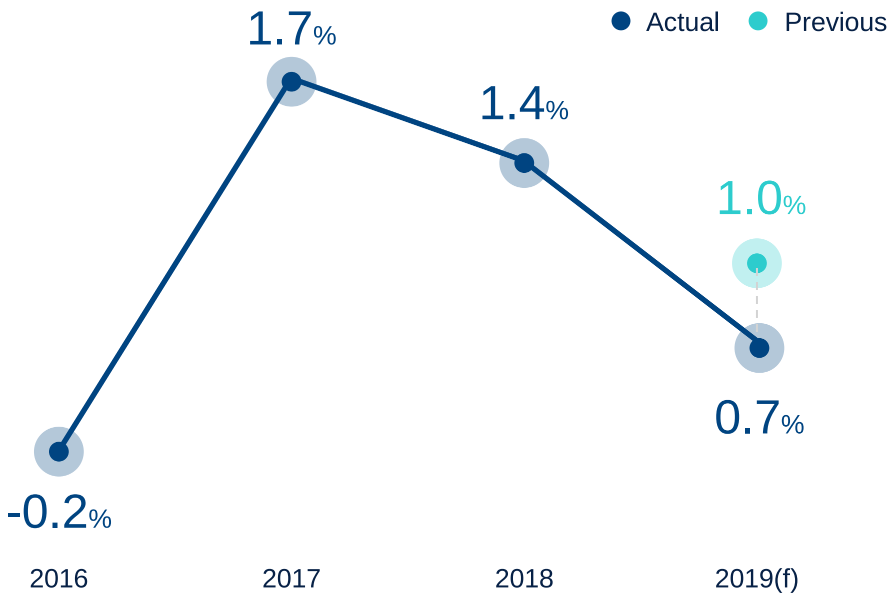
02

Latin America: growth slows down

Latin America will grow 0.7% in 2019, less than expected and than recorded in the last two years

GDP GROWTH IN LATIN AMERICA (*)
(YOY %)

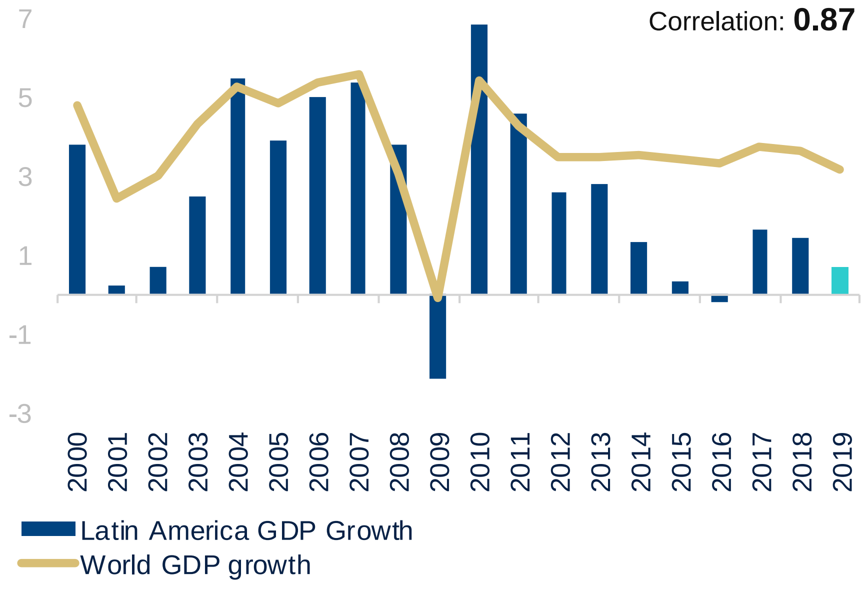


(*) Weighted average of Argentina, Brazil, Chile, Colombia, México, Peru and Uruguay.
Source: BBVA Research

- The GDP growth forecast in 2019 is revised down by 0.3pp from 1.0%.
- The economic expansion will be weak, lower than in 2017-18 and than the potential growth rate.
- Growth in the region will rebound moderately in 2020, but will remain relatively weak, below potential growth.

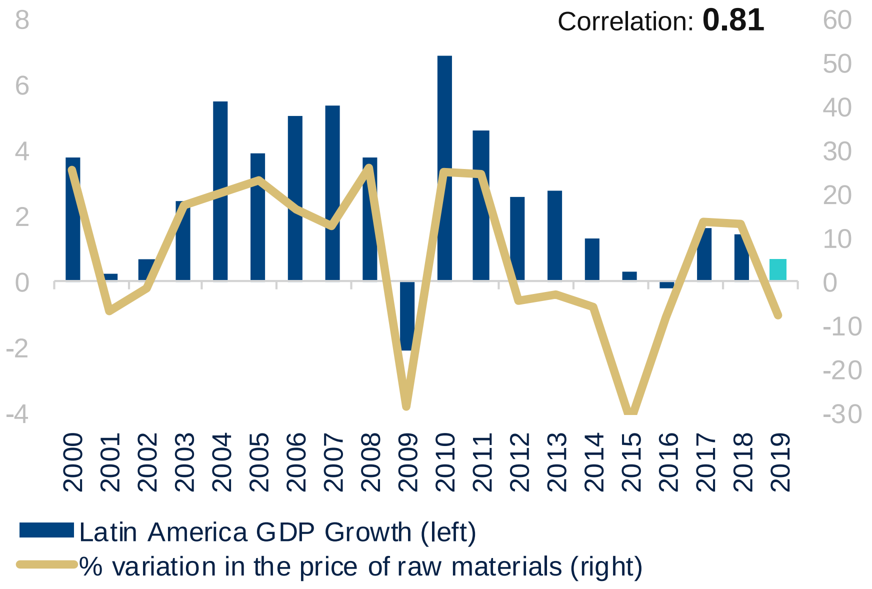
The low growth and the downward revision of the forecasts is due, to some extent, to the less favorable global environment

GDP GROWTH: LATIN AMERICA AND WORLD (*)
(% A/A)



(*) Weighted average of Argentina, Brazil, Chile, Colombia, México, Peru and Uruguay.
Source: BBVA Research

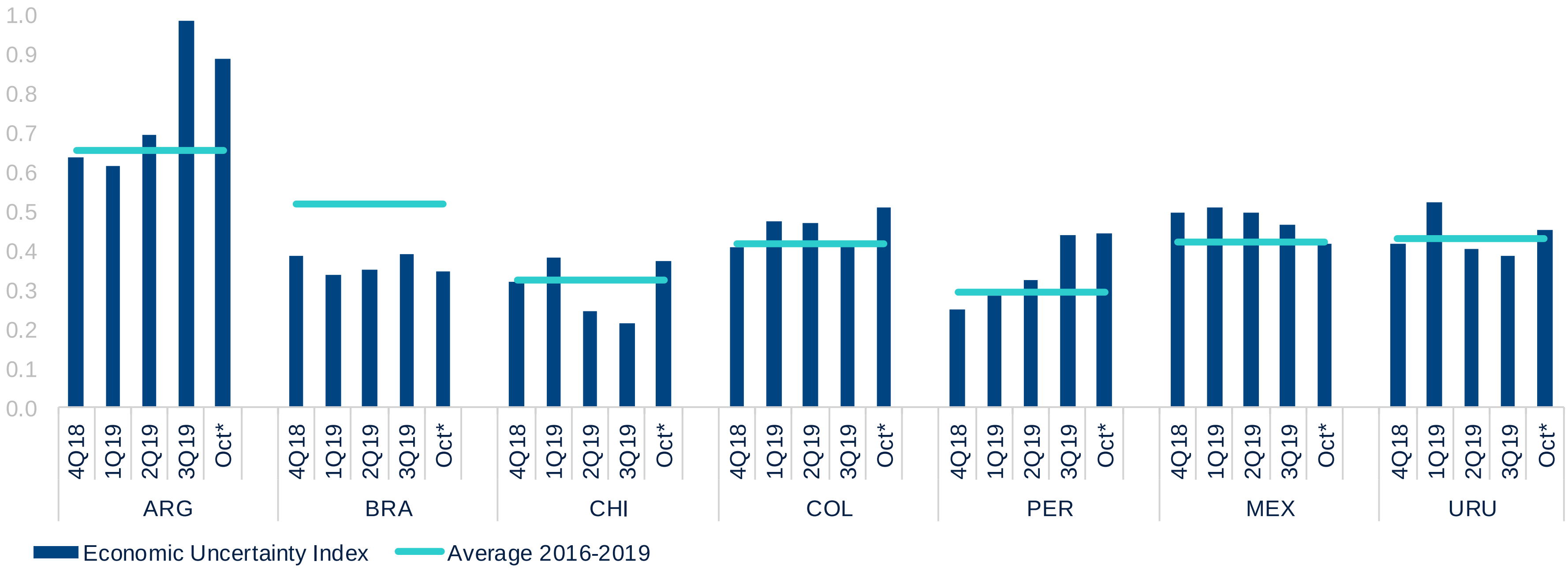
GDP GROWTH IN LATIN AMERICA AND CHANGE IN AVERAGE COMMODITY PRICES (*)
(% A/A)



(*) Weighted average of Argentina, Brazil, Chile, Colombia, México, Peru and Uruguay.
Source: BBVA Research, IMF

In addition to the global context, uncertainty about economic policy and political tensions are weighing negatively in some countries

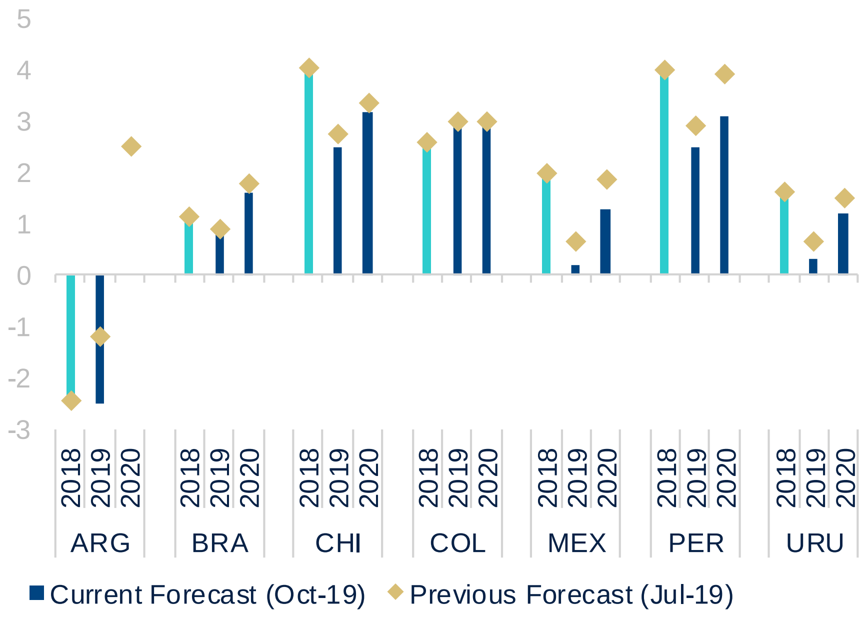
LATAM: ECONOMIC UNCERTAINTY INDEX (*)



(*) Tone of the news on economic uncertainty in the local press, weighted by media coverage. Data for Oct-19 refers to the average in the month till October 22nd
Source: BBVA Research, GDELT

Growth is expected to slow down this year in all countries, with the exception of Colombia; limited recovery in 2020

GDP GROWTH IN LATIN AMERICA (*)
(YOY %)

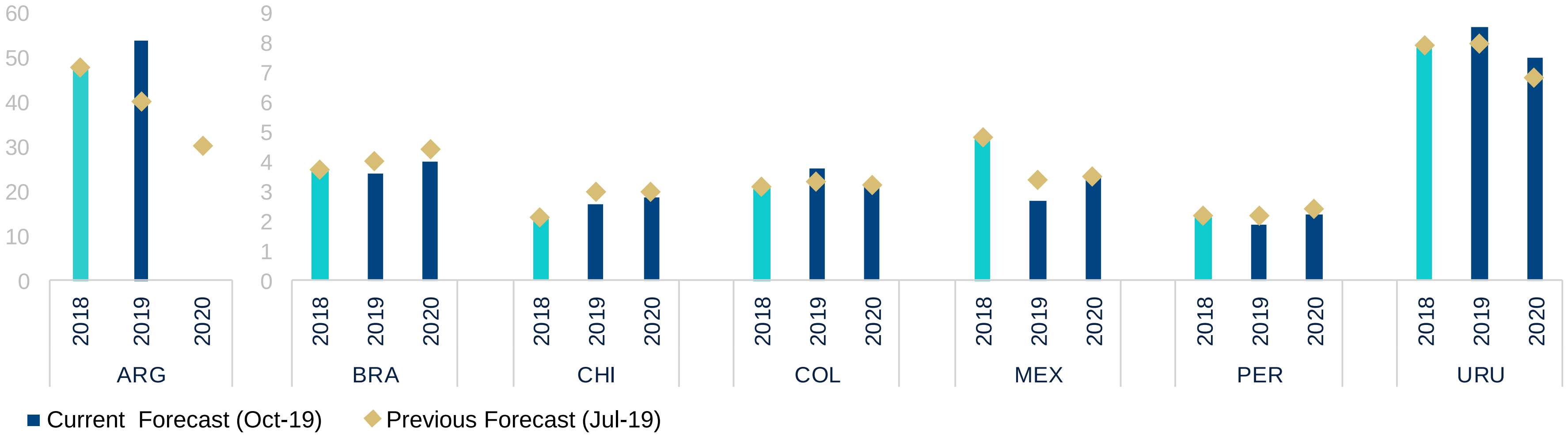


(*) Forecasts for 2019 and 2020. A definitive 2020 forecast for Argentina is not available.
Source: BBVA Research

- Growth expectations worsen, in line with global deterioration.
- In Argentina, Mexico and Peru, local factors, such as uncertainty on both political uncertainty and economic policies also weigh negatively, mainly on investment prospects.
- Colombia shows some resilience: growth to converge to 3%.
- Monetary policy will support the recovery of domestic demand in 2020 and the depreciation of currencies will give some support to net exports.

Inflationary pressures are mostly contained, mostly due to the weakness of domestic demand and low global inflation

LATAM: ANNUAL INFLATION (*)
(%, END OF PERIOD)

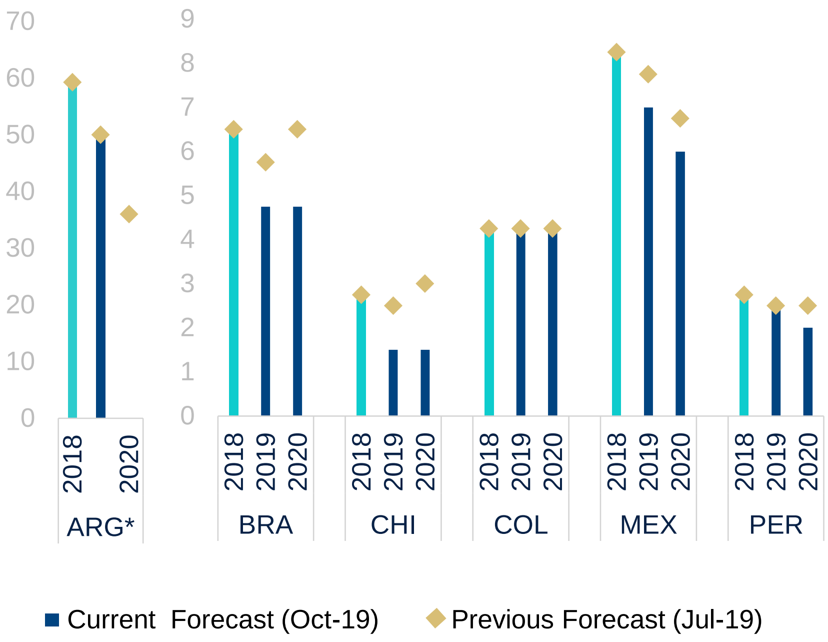


(*) Forecasts for 2019 and 2020. A definitive 2020 forecast for Argentina is not available.
Source: BBVA Research

Inflation remains close to central banks' targets in Mexico, Chile, Peru and Brazil. In these four countries, inflation forecasts have been revised downwards, in line with the evolution of global and internal contexts. In Colombia, Uruguay and especially in Argentina, the higher exchange rate pressures determined an upward revision of inflation forecasts.

Most central banks will cut interest rates beyond previous expectations

LATAM: MONETARY POLICY INTEREST RATES (*)
(% A/A)

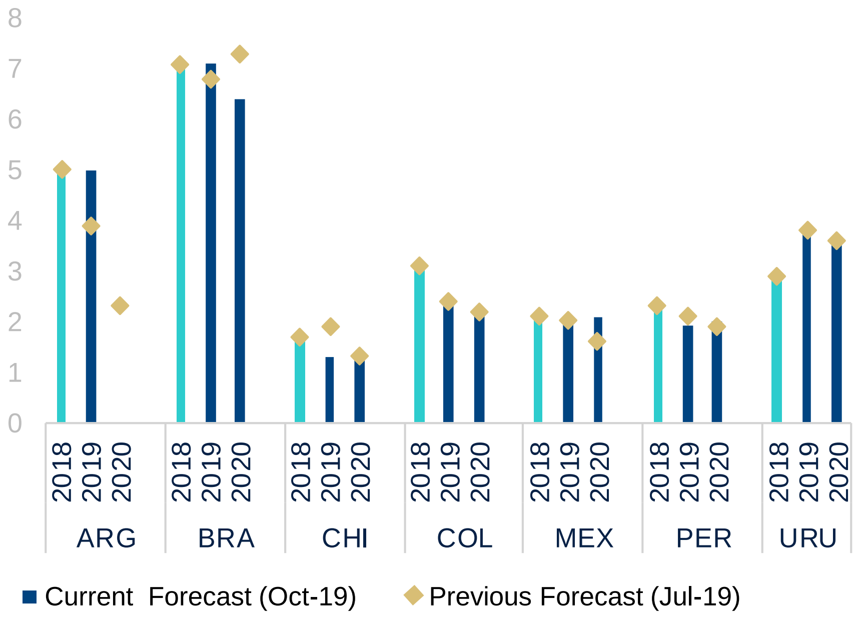


(*) Forecasts for 2019 and 2020. A definitive 2020 forecast for Argentina is not available.
Source: BBVA Research

- Interest rate cuts in the US have created room for new monetary stimuli, without adding significantly higher pressure on regional currencies.
- In Mexico, Brazil and Peru and Chile interest rate will be cut ahead, by more than expected.
- In Colombia, the current account deficit and inflation running above the target reduce the likelihood of rate cuts.
- In Chile, interest rates reached 2% and will likely remain at this level for a long period of time.

Fiscal policy will be more focused on keeping public accounts under control than on supporting growth

LATAM: FISCAL DEFICITS
(% OF GDP)

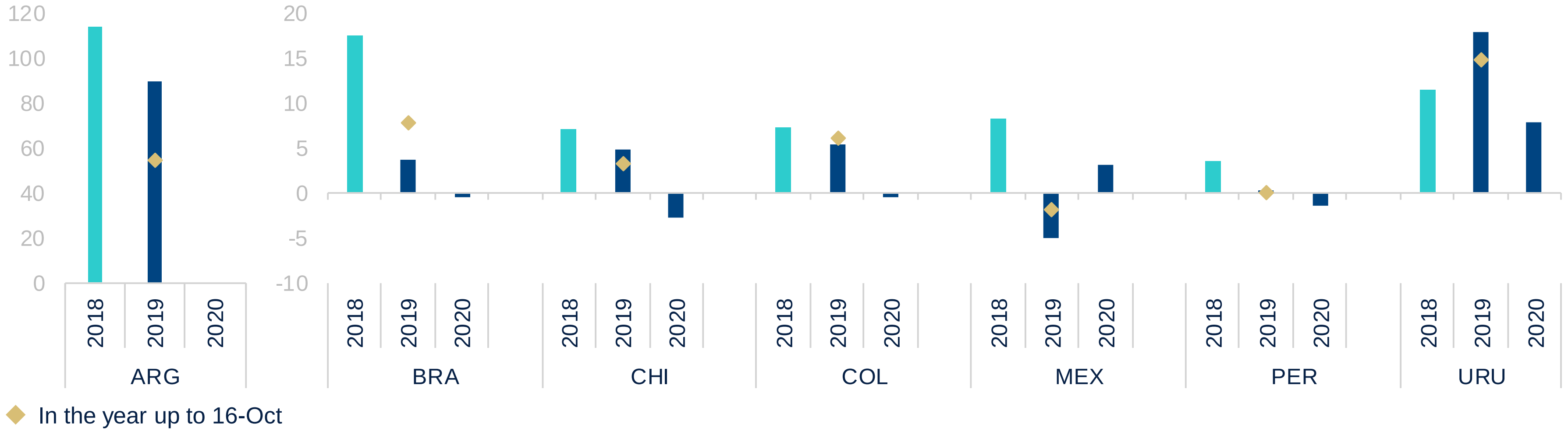


(*) Forecasts for 2019 and 2020. A definitive 2020 forecast for Argentina is not available.
Source: BBVA Research

- Weaker growth and lower commodity prices will negatively affect the fiscal balance of most countries.
- High public debt leaves fiscal policy with virtually no room of maneuver in Argentina and Brazil, despite the likely approval of the social security reform in the second.
- The fulfillment of the goals in Colombia and the desire to prevent an increase in debt in Mexico will also leave no space for a significantly-expansive fiscal policy in these two countries.

Global uncertainty has weighed on regional currencies, which will likely remain at more depreciated levels than expected

LATAM: CHANGE IN NOMIANL EXCHANGE RATES (*)
(%; LOCAL CURRENCY PER US DOLLAR)

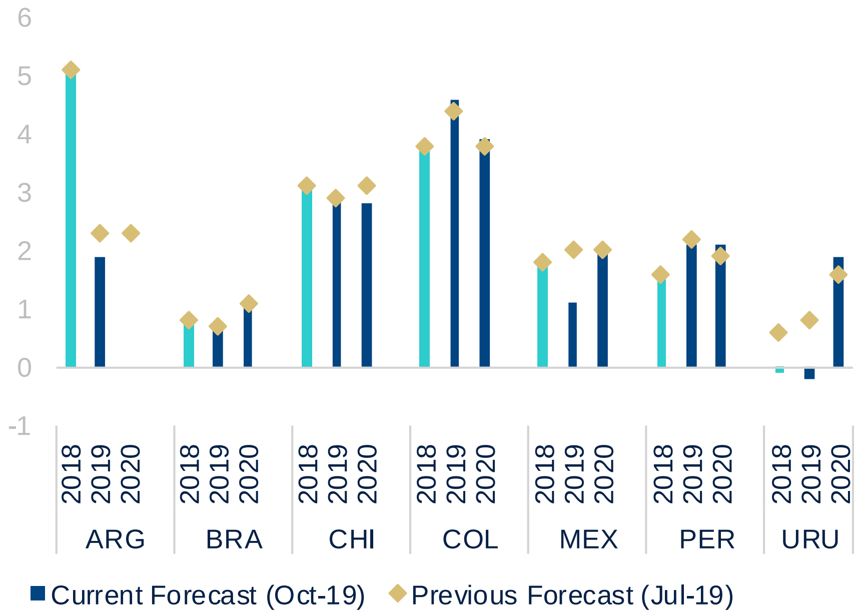


(*) Positive values indicate depreciations and negative values represent appreciations. (*) Forecasts for 2019 and 2020. A definitive 2020 forecast for Argentina is not available.
Source: BBVA Research

La incertidumbre global, los menores precios de las materias primas y las tensiones políticas en países como Perú y Argentina afectaron a las las divisas de la región últimamente y generaron un deterioro de las perspectivas de evolución hacia delante. Así, las previsiones para todos los países analizados apuntan a divisas más depreciadas que lo esperado hace tres meses.

The current account deficit remains under control in most countries, but there are some warning signs in Colombia

LATAM: CURRENT ACCOUNT DEFICITS
(% OF GDP)

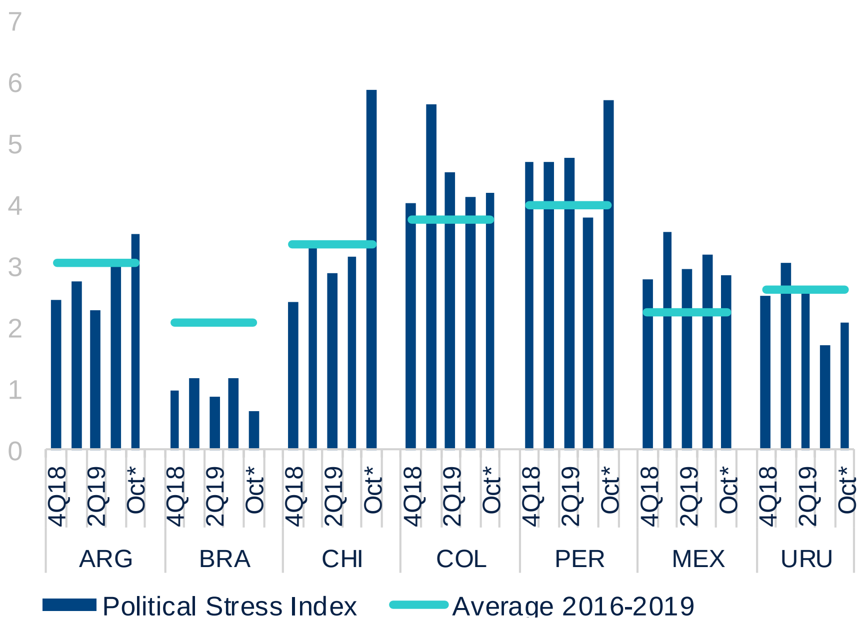


(*) Forecasts for 2019 and 2020. A definitive 2020 forecast for Argentina is not available.
Source: BBVA Research

- The lack of pressures from domestic demand and relatively depreciated exchange rates help to keep the current account under control.
- In Argentina, the recession and the depreciation of the peso have allowed a sharp adjustment of the external deficit.
- In Colombia, the high deficit pressures the exchange rate and limits the margin of action of monetary policy ...
- ... in any case, FDI continues to fund a large part of the deficit.

In addition to the (increasing) external risks, Latin America faces relevant idiosyncratic risks

LATAM: INDEX OF POLITICAL TENSIONS



(*) Tone of the news on politics in the local press, weighted by media coverage. Data for Oct-19 refers to the average in the month till October 22nd
Source: BBVA Research, GDELT

- Among domestic risks, higher political tensions in countries such as Argentina, Peru and Chile stand out.
- The risk related to domestic economic policies remains important in countries such as Argentina, Brazil and Mexico.
- The sustainability of public debt after exchange rate depreciation raises concerns in Argentina.
- In Colombia, risks are centered on high external deficit and the fulfillment of fiscal objectives.
- In Brazil, the social security reform reduces, without eliminating, fiscal risk.

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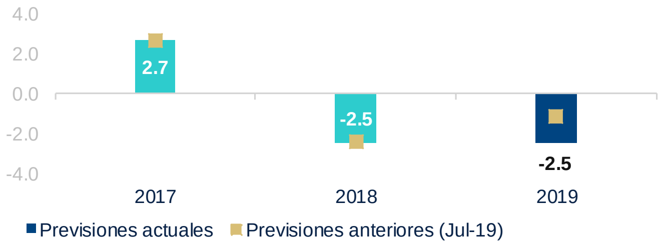
03

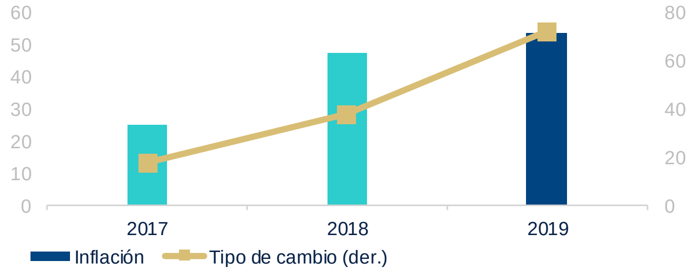
Latin America: prospects by country

Argentina: uncertainty about economic policies generates financial turbulence and accentuates the recession

ARGENTINA: GDP GROWTH
(YOY %)



ARGENTINA: INFLATION AND EXCHANGE RATE
(%, END OF PERIOD)

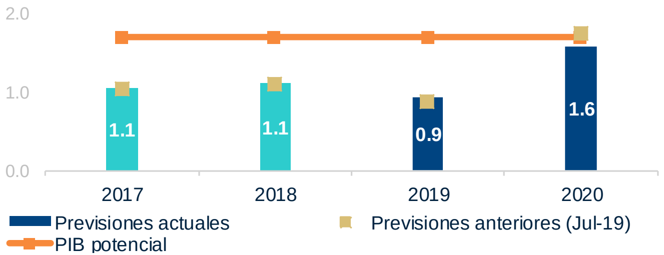


(*) A definitive 2020 forecast for Argentina is not available.
Source: BBVA Research

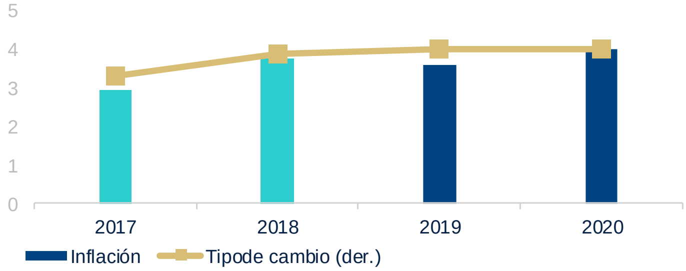
- After the primary elections (PASO), uncertainty about future economic policies has increased.
- Markets reacted very negatively. The closing of the local sovereign debt market, the dollarization of portfolios and the fall of dollar deposits maintained at local banks triggered the adoption of exchange rate controls and the reprogramming of public debt.
- In this context, GDP will fall this year more than expected and inflation will accelerate.

Brazil: recent data support the growth forecast for 2019, but the global environment worsens growth expectations for 2020

BRAZIL: EXPECTED AND POTENTIAL GDP GROWTH
(YOY %)



BRAZIL: INFLATION AND EXCHANGE RATE
(%, END OF PERIOD)

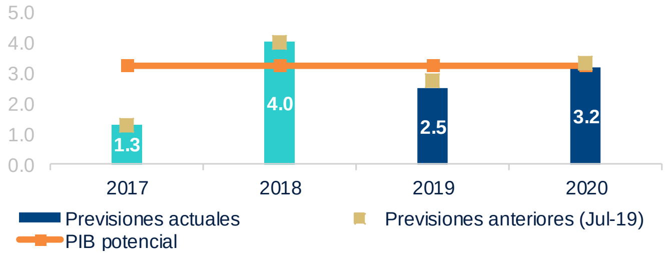


- 2Q19 GDP has surprised upwards and the most recent data are relatively positive.
- The imminent approval of the social security reform and advances in other structural issues favor growth prospects.
- But the worsening of the global environment will weigh negatively.
- We expect GDP to grow 0.9% in 2019 and 1.6% in 2020, with inflation under control and lower interest rates.

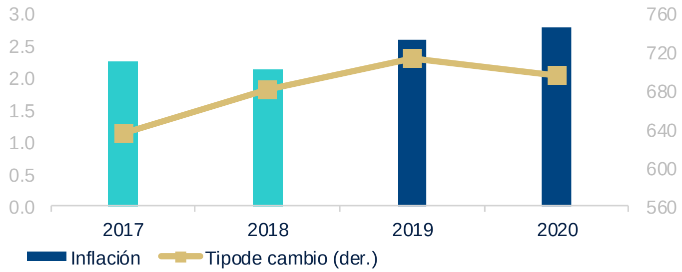
Source: BBVA Research

Chile: downward revision of growth forecast, mainly due to a less dynamic private consumption

CHILE: EXPECTED AND POTENTIAL GDP GROWTH
(YOY %)



CHILE: INFLATION AND EXCHANGE RATE
(%, END OF PERIOD)

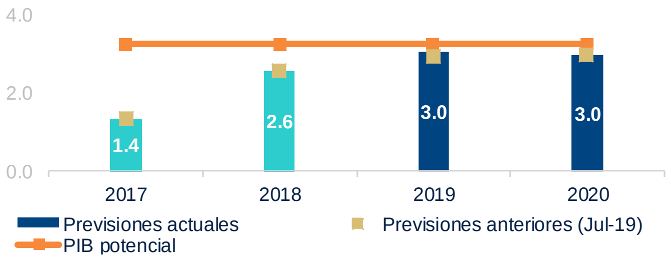


- Q2 GDP surprised on the downside, particularly by domestic demand. Possible effect on growth related to protests. We adjusted the year's growth forecast from 2.7% to 2.5% by 2019 and 3.2% by 2020 albeit with a downward bias.
- Downward revision in inflation from 3.0% to 2.8% for 2019.
- After the decreases of the last months of September and October, the CB will maintain the expansive bias in the monetary policy rate.

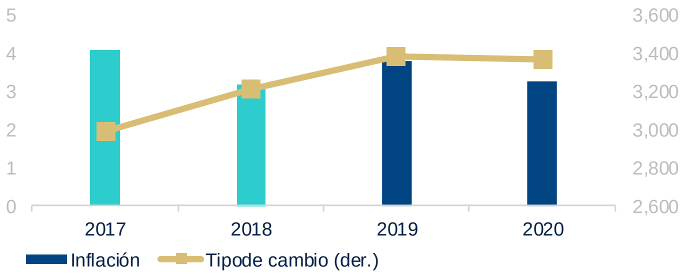
Source: BBVA Research

Colombia: prospects for GDP growth stabilizing at 3% remain in place

COLOMBIA: EXPECTED AND POTENTIAL GDP GROWTH
(YOY %)



COLOMBIA: INFLATION AND EXCHANGE RATE
(%, END OF PERIOD)

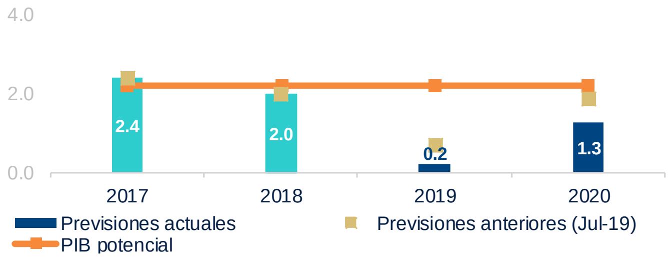


Source: BBVA Research

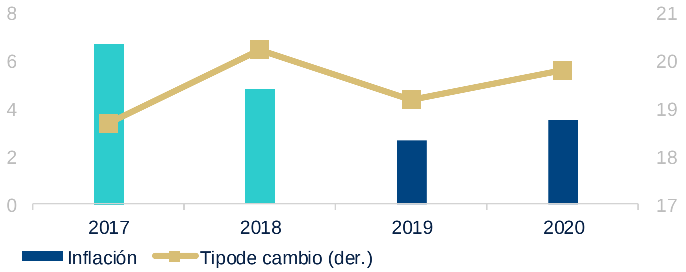
- GDP grew 3% in the first half of 2019 and will maintain a similar expansion pace going forward.
- Upward revision of inflation forecasts, due to supply shocks and higher exchange depreciation in recent months.
- Interest rates will be maintained at 4.25% until the end of 2020.
- In terms of risks, the current account deficit and the fulfillment of fiscal objectives concentrate the attention.

Mexico: GDP is revised downwards in a context of uncertainty about economic policies and the ratification of the USMCA trade agreement

MEXICO: EXPECTED AND POTENTIAL GDP GROWTH (YOY %)



MEXICO: INFLATION AND EXCHANGE RATE (%, END OF PERIOD)

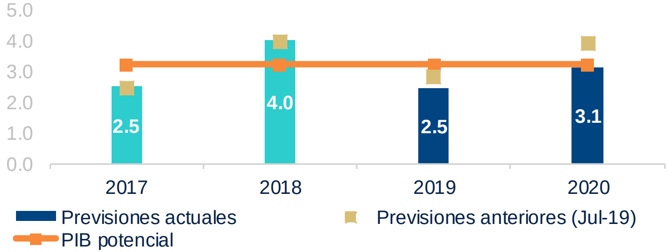


- The delay in the approval of the USMCA deal, the new trade agreement between Mexico, USA and Canada, and uncertainty are affecting investment, the pace of job creation and private consumption.
- Risks have eased, but remain centered on the situation of PEMEX and on the delay in the approval of the USMCA.
- Better prospects for inflation and exchange rate stability increase the margin for cuts in interest rate, which is expected to converge to 6% in 2020.

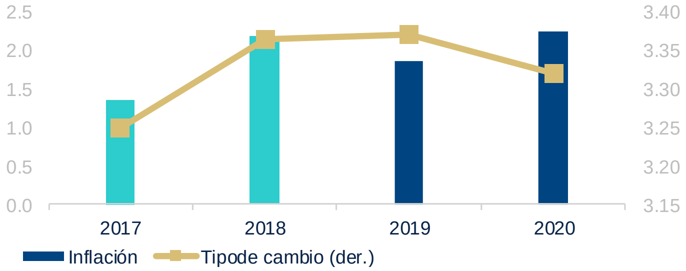
Source: BBVA Research

Peru: a more gradual recovery ahead

PERU: EXPECTED AND POTENTIAL GDP GROWTH
(YOY %)



PERU: INFLATION AND EXCHANGE RATE
(%, END OF PERIOD)

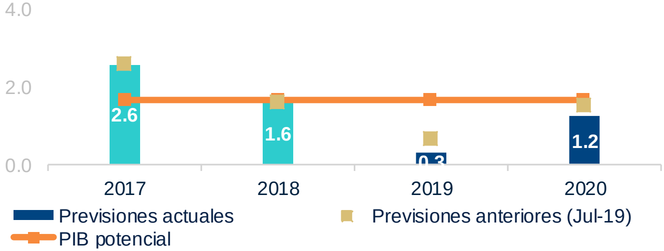


Source: BBVA Research

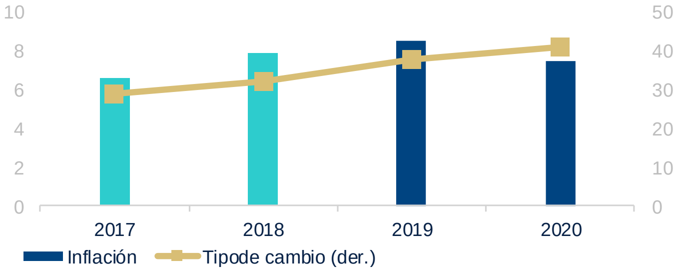
- After the shocks that affected the primary sector at the beginning of the year, a moderate acceleration of growth is expected, favored by an increase in public spending.
- The growth forecast for 2020 is revised downwards due to global uncertainty and local political tensions.
- A benign scenario for inflation will allow interest rates to reach 2.0% in 2Q20.

Uruguay: lower growth due to a less favorable external environment and limited margin for countercyclical policies

URUGUAY: EXPECTED AND POTENTIAL GDP GROWTH
(YOY %)



URUGUAY: INFLATION AND EXCHANGE RATE
(%, END OF PERIOD)



Source: BBVA Research

- Downward revision of growth due to a more negative regional environment (Brazil and mainly Argentina).
- Following the recent exchange rate depreciation, inflation forecasts are revised up to 8.5% in 2019 and 7.0% in 2020.
- High inflation and fiscal deterioration limit the room for maneuver of economic policies.

BBVA Research

04

Latin America: forecast tables

Forecasts for growth, inflation, exchange rates and interest rates

	GDP (% yoy)					**Inflation** (% yoy, eop)				
	2016	2017	2018	2019 (f)	2020 (f)	2016	2017	2018	2019 (f)	2020 (f)
Argentina	-1.8	2.9	-2.5	-2.5		39.3	24.8	47.6	54.0	
Brazil	-3.3	1.1	1.1	0.9	1.6	6.3	2.9	3.7	3.6	4.0
Chile	1.3	1.5	4.0	2.5	3.2	2.8	1.9	2.1	2.6	2.8
Colombia	2.0	1.8	2.6	3.0	3.0	5.7	4.1	3.2	3.8	3.3
Mexico	2.7	2.3	2.0	0.2	1.3	3.2	6.6	4.8	2.7	3.5
Peru	4.0	2.5	4.0	2.5	3.1	3.3	1.6	2.2	1.9	2.2
Uruguay	1.7	2.7	1.6	0.3	1.2	8.2	6.3	7.9	8.5	7.5

	Exchange Rate (vs. USD, eop)					**Interest Rates** (%, eop)				
	2016	2017	2018	2019 (f)	2020 (f)	2016	2017	2018	2019 (f)	2020 (f)
Argentina	15.8	17.7	37.9	72.0		24.80	28.80	59.30	65.00	
Brazil	3.35	3.30	3.88	4.02	4.00	13.75	7.00	6.50	4.75	4.75
Chile	667	637	682	715	696	3.50	2.50	2.75	1.50	1.50
Colombia	3010	2991	3213	3388	3370	7.50	4.75	4.30	4.30	4.30
Mexico	20.7	18.7	20.2	19.2	19.8	5.75	7.25	8.25	7.00	6.00
Peru	3.40	3.25	3.37	3.37	3.32	4.37	3.26	2.80	2.50	2.00
Uruguay	28.8	28.9	32.2	38.0	41.0	**	**	**	**	**

(f) Forecast.
(*) Non available as there is not yet a definitive forecast for Argentina.
(**) In Argentina and Uruguay, monetary policy is implemented according to monetary aggregates and not through a system of objectives. The data from Argentina refers to the Leliq rate.
Source: BBVA Research

Forecasts for fiscal balance, current account balance and commodity prices

	Current Account (% of GDP)					**Fiscal Balance** (% of GDP)				
	2016	2017	2018	2019 (f)	2020 (f)	2016	2017	2018	2019 (f)	2020 (f)
Argentina	-2.7	-4.9	-5.1	-1.9		-5.8	-6.0	-5.0	-5.0	
Brazil	-1.3	-0.3	-0.8	-0.7	-1.1	-9.0	-7.8	-7.1	-7.1	-6.4
Chile	-1.4	-1.5	-3.1	-2.9	-2.8	-2.7	-2.8	-1.7	-1.3	-1.3
Colombia	-4.3	-3.3	-3.8	-4.6	-3.9	-4.0	-3.6	-3.1	-2.4	-2.2
Mexico	-2.2	-1.6	-1.8	-1.1	-2.0	-2.5	-1.1	-2.1	-2.1	-2.1
Peru	-2.7	-1.1	-1.6	-2.1	-2.1	-2.5	-3.1	-2.3	-1.9	-2.0
Uruguay	0.6	0.7	0.1	0.2	-1.9	-3.8	-3.5	-2.9	-3.8	-3.6

	Precio Materias Primas (Promedio anual)				
	2016	2017	2018	2019 (f)	2020 (f)
Oil (Brent USD/Barrel)	44.8	54.4	71.1	64.0	56.9
Soja (USD/metric tonne)	363	359	342	325	343
Copper (USD/lb)	2.20	2.80	2.96	2.71	2.62

(f) Forecast.
Source: BBVA Research