LAECO Report

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The economy faces a fork in the road

The first month of the year brought encouraging news on the financial front: a calmer international scene and a stabilizing domestic situation aided in lowering Argentina's country risk by 140 basis points in January, seeing the end of the month at around 675 points. This helped strengthen the calmness on the foreign exchange front, a crucial factor to consolidate inflation reduction (price rises continued dropping but did not go below a monthly 2%).

Unfortunately, the disinflation trend will be ground to a halt after the first months of the year. In the first place, because the increases in utility rates for public services (electricity, gas and transport) will affect February's figures, putting pressure on inflation and reverting the decreasing process observed in the last quarter of 2018.

In the pursuit of reaching the ambitious target of a 0% primary fiscal deficit agreed upon with the IMF, subsidy cuts are intensifying, so utility rates have been increasing visibly above Headline Inflation. Consequently, spending on public services is gaining more prominence in households' budgets and as a result, the salary rises obtained in collective bargaining negotiations are not leading to higher spending on consumption. Therefore, despite it being an electoral year, domestic demand will not improve.

The anaemic evolution of demand will weaken support for Cambiemos' government —and, most importantly, will hinder its re-election chances—, unleashing turbulence on the foreign exchange front. The National Treasury has already announced that, in April, it will start pouring into the market the USD 10.0 billion that the IMF will transfer due to the country having met last year's fiscal target but despite this, and in spite of the outflow of the coarse-grain harvest that will begin at that moment, the lack of certainties about the outcome of the presidential elections will lead to a dollarization of portfolios (and also of small savings) that will depreciate the peso.

The second agreement signed jointly with the IMF stipulates that the Central Bank cannot directly intervene on the foreign exchange market as long as the exchange rate remains within the Non-Intervention Zone (NIZ). Since the bands are excessively broad (30% gap) and they are updated symmetrically, the closer the exchange rate moves to the lower band during the electoral period, the higher the depreciation expectations will be and, consequently, there will be higher pressures on this front. Therefore, it is not good news that the exchange rate continues bordering the lower band and that the Central Bank's interventions are unable to move it: not only is the exchange rate losing the competitiveness it gained last year, it is also increasing potential pressures.

In this set of circumstances, we forecast that the exchange rate will move close to the upper band of the NIZ towards the middle of the year and that the band will be tested after the lists for presidential candidacies are defined at the end of June (provided that the expected electoral schedule is maintained). Nevertheless, even though exchange rate pressure will be intense at that moment, the exchange rate will not permanently climb above the upper band of the NIZ, mainly due to two reasons. In the first place because

the Central Bank has given signals that it is being sufficiently averse to a new depreciation, so it will not hesitate to maintain interest rates at high levels. In the second place, because adding to the Central Bank's firepower in the upper band (selling USD 150 million a day, almost 1% of the monetary base) are the aforementioned dollars that the Treasury will receive from the IMF in April.

Stated above are the certainties. However, the electoral process reduces the visibility of the economic scenario. Like Borges's story, Argentina's economy is facing a "garden of forking paths": the elected government can either continue the agreement with the IMF and maintain the stabilization plan, or the next elected president can seek to change (at a greater or lesser extent) what its predecessor has agreed. In the short term, the exchange rate will likely return to the NIZ in the first scenario; whereas in the second scenario, it will definitely climb above the upper band of the NIZ.

Main projections for 2019 and 2020

Argentina	2017	2018	2019	2020
GDP (%)	2.9	-2.4	-0.8	2.5
Consumption (%)	5.3	-2.6	-2.3	1.9
Investment (%)	11.0	-4.7	-8.0	7.5
Annual average unemployment rate (%)	8.3	9.3	10.0	10.1
Inflation - CPI (%)	25.6	47.9	33.4	24.3
Interest rate BADLAR private banks (%) Dec	23.3	48.6	32.6	24.6
Exchange rate AR$/US$ (end of period)	17.7	37.8	49.7	59.4
Current Account (% del GDP)	-5.0	-5.1	-2.6	-3.0
National Primary Result* (% GDP)	-3.8	-2.6	-0.4	0.2

Source: Ecolatina

* It excludes Central Bank transfers and public FGS profits.

A key return in the ministry of economy (CEBEC)

One of the peculiarities of the Bolivian economic administration has been that, despite its political orientation, it has maintained for several years the macroeconomic stability recovered after the hyperinflation observed between 1982 and 1985. In effect, Bolivia was the first country in the world that had an acute inflationary phenomenon without internal or external armed conflict.

The hyperinflation´s aftermath resulted into a general consensus on the importance of keeping economic stability. In that sense, one of the challenges of the current government when it took office in 2006 was to balance stability with redistribution, given that the hyperinflation of the 1980s occurred in a government with similar orientation.

Thus, keeping a healthy macroeconomic environment was produced both by political will as the subject was key to maintain social stability as well as by the growing leadership of the finance minister, Luis Arce, an economist with previous experience in the central bank with knowledge on fiscal administration.

In fact, Minister Arce drew the main lines of national economic management, translating them into a particular narrative. The form of administration was denominated "Productive Community Social Economic Model", which in essence has a strong state orientation for production and emphasis on the redistribution of income.

The results in terms of economic growth have been good compared to other countries in South America, although it could not engage with the productive apparatus to generate greater dynamism, due to many microeconomic and regulatory distortions that were introduced, that restricted higher rates and promotion of productive diversification.

The government had a setback when Arce left the ministry for health reasons in June 2017, leaving his responsibilities in charge of his supporting team, headed by the deputy minister of pensions and financial services, Mario Guillen. During the year and a half of absence, the management of the economy remained in general status quo.

In January of this year, Arce returned to the ministry. His return was expected in the government as the economic situation of the country has gradually deteriorated due to a less dynamic world economy and unfavorable terms of trade.

In fact, the fiscal deficit has been around 8% of GDP during the last four years, which has generated a deficit in current account in the balance of payments average of 6%. This deficit was financed with external debt and the fall of external assets.

Arce´s main challenge for this year is marked by the presidential elections and the pressure to immediately restore fiscal and external macroeconomic equilibrium, while the medium term is focused on improving productivity and economic growth in an unfavorable context at the regional level.

Bolivia	2015	2016	2017	2018e	2019f	2020f
GDP growth (%, oya) [1]	4,8	4,3	4,2	3,8	4,2	3,8
Private consumption (%, oya) [1]	5,1	3,5	4,7	4,0	3,8	3,7
Global investment, both private and public (%, oya) [1]	5,0	3,4	11,8	2,0	4,0	3,0
Urban unemployment rate (%) [2] [e]	4,4	4,5	4,5	5,0	5,5	6,0
Inflation (end of period, %) [1]	3,0	4,0	2,7	1,5	4,0	5,0
Real state mortgage interes rate [3]	7,26	7,21	7,51	9,54	10,00	12,00
Exchange rate against USD (end of period) [3]	7,0	7,0	6,96	6,96	6,96	7,10
Current account of BoP* (% of GDP) [3]	-5,7	-5,6	-6,3	-5,7	-6,0	-4,0
Public sector balance (% of GDP) [4]	-6,9	-7,2	-7,8	-7,0	-6,5	-5,5

Notes: (e) estimaded and (p) forcasted by the Bolivian Center of Economic Studies at CAINCO (cebec@CAINCO)

(*) Since 2016 Bolivian central bank changed Balance of Payments methodology to the 6th Manual of the IMF

Sources: (1) National Institute of Statistics (INE)

(2) Division of Economic and Social Policies Analysis (UDAPE) and Finance Ministry (MEFP)

(3) Central Bank of Bolivia (BCB). Since 2013 government sets on a direct way the interest rate to the real state mortgage and productive sector

(4) MEFP

Evaluating the new government

The economy was not the main driver of President Bolsonaro's electoral victory. To a large extent, the application is not a minimally important economic program to accelerate the presentation of the agenda for the new term.

In many ways, “bolsonarismo” is not prepared for the vote on the pension reform. The new mandate was not built based on the history of the president and the political core around the economic discussion. To a large extent, the political scenario needs to be analyzed in the light of the preparation for Social Security, a task composed basically of three moments: 1) communication with the market, 2) coordination in the executive branch and 3) relationship with the Congress. Another point of potential risk concerns the competition of the economic agenda vis-à-vis other important points for the bolsonarismo, in particular, the agenda originating from the Ministry of Justice. Of course, anti-corruption measures create risks to the political status quo. The government needs to focus on the economic agenda.

The inexperience in the governmental treatment of the Minister of Economy is another factor that hinders the construction of a clear strategy in the eyes of the market. Let us take the discussion of the possible labor reform linked to the Social Security project. Of course, the measure goes in the direction of reinforce the capacity of adaptation of the Brazilian economy to the natural cycles, reducing its stiffening. Strengthening market instruments contributes to productivity. The possible introduction of the measure in the Social Security project would certainly hinder the processing of the matter, generating stress in the market.

The presidential leadership is another factor that justifies the lack of preparation of the governors to approve the economic reforms. Before the surgery, signs of absence of conflict arbitration were already present. To a large extent, the task of the president was more to keep his electorate mobilized and less to set priorities for government.Of course, under exceptional circumstances (resulting from the surgical process) the lack of presidential coordination is not a definite feature of the current government. Thus, our assessment is that the normality of the scenario should bring positive news for the approval of the reforms.

The idea that President Bolsonaro's victory expressed the triumph of economic liberalism is wrong. The rise of the president was the result of a political process combined with crisis of legitimacy of political parties. Nor does the composition of the Congress suggest a basis for "ultraliberalism." In recent days, the minister has been very active in the communication around the Pension Fund. We must avoid the risk of overexposure of the head of the economy to the political dilemmas.

Brazil	2016	2017	2018	2019
GDP Growth (%)	-3,5	1,0	1,2	2,0
Consumption (%)	-3,2	1,0	1,8	2,5
Investments (%)	-13,9	-1,8	4,8	5,5
Unemployment Rate (%)	8,5	12,7	12,3	11,9
Inflation (%)	10,7	2,9	3,7	4,1
Nominal Interest Rate (%)	13,4	10,1	6,5	6,5
Exchange Rate BRLUSD (end of period)	3,90	3,31	3,89	3,75
Current Account (% GDP)	-3,0	-0,5	-0,7	-1,3
Public Sector Nominal Result (% GDP)	-10,2	-7,8	7,1	6,7

Better than expected

The growth rate the economic activity of the month of December (IMACEC), was 2.6% year over year, allowing to close 2018 with an expansion of 4.0 percent, a figure consistent with the last projection made by the Central Bank in its December monetary policy report. It is interesting to note that there is a certain recovery in non-mining production, which would reflect a relative better performance of domestic demand in the last quarter of the year. Part of the explanation would come from the recovery observed in public sector spending, which after having a real decline of 3.7 percent in the third quarter (against the same period of 2017), in the fourth quarter recorded a real growth rate of 5.1 percent compared to the same period of 2017.

The strength shown by the investment spending, which would have grown 6.5 percent last year, and that we project could grow tat least seven percent this year, is central for being relatively optimistic in relation to the economic growth of the current year. It is not only relevant the high dynamism expected for the total investment but also its composition. Indeed, the first signs of recovery in investment came from the strong growth in imports of capital goods, which reflects an important rebound in the Machinery and Equipment component, however, several indicators allow us to project that this year we will see an important growth in the Construction component. The multiplier effect of construction on other sectors, such as transport, trade and industry, as well as the contribution to employment, will be relevant this year, and should be increasing throughout the period as the projects progress to more advanced stages.

On the consumption side, it is relevant that there is an improvement in the labor market and in the expectations of households. The financial conditions will remain attractive, the exchange rate could adjust somewhat lower, and access to credit will be relatively less restrictive. With this, maintaining private consumption growth somewhat above three percent seems feasible. On the other hand, government spending would grow below the GDP rate, so it would not be a dynamic element for the evolution of economic activity, while the net external sector would have a marginal impact.

Given the scenario described above, the growth for the year should be between 3.5 and 4.0 percent. An improvement in the external scenario, particularly if it is triggered by the end of the incipient trade war between China and the United States, would lead to a growth rate in the top of that range, while the maintenance of the current situation, would bring us closer to the floor . The positive conductive channel of the term of the commercial war threat would be through a rise in the price of copper, an improvement in exports revenues, a positive impact on expectations, and greater growth of investment. In turn, this scenario favors an appreciation of the peso, which in turn drives the non-tradable sector, particularly contributing to more household consumption and higher retail sales.

Inflation will remain contained throughout the year, with the help of an exchange rate with a downward bias and internal capacity gaps that will remain open until the end of the period. In this scenario, the Central Bank would maintain its normalization process in the Monetary Policy Rate, contemplating at least 3 increases in the current year in the baseline scenario. Obviously, an external deterioration, which, among other impacts, leads to curb new increases in the interest rate in the United States, could delay this timing of increases by our monetary authority. However, total inflation measured in twelve months will remain below three percent, the center of the authority's target range, over the course of the year, to close the period in a range between 2.5 and 3.0 percent.

Chile	2016	2017	2018	2019	2020
GDP Growth (%)	1,3	1,5	4,0	3,7	3,5
Private Consumption(%)	2,2	2,4	3,7	3,5	3,3
Investment (%)	-0,7	-1,1	6,5	6,8	5,1
Unemployment Rate (%)	6,5	6,7	7,0	6,6	6,3
CPI Inflation (%)	2,7	2,3	2,6	2,6	3,1
Monetary Policy Rate - MPR (%)	3,50	2,50	2,75	3,50	4,25
Exchange Rate CL$/US$ (eop)	667,0	637,0	682,0	650,0	670,0
Current Account (% GDP)	-1,4	-1,5	-2,3	-2,5	-2,0
Central Government Balance (%GDP)	-2,8	-2,8	-1,7	-1,6	-1,5

Unemployment rate close to 10%

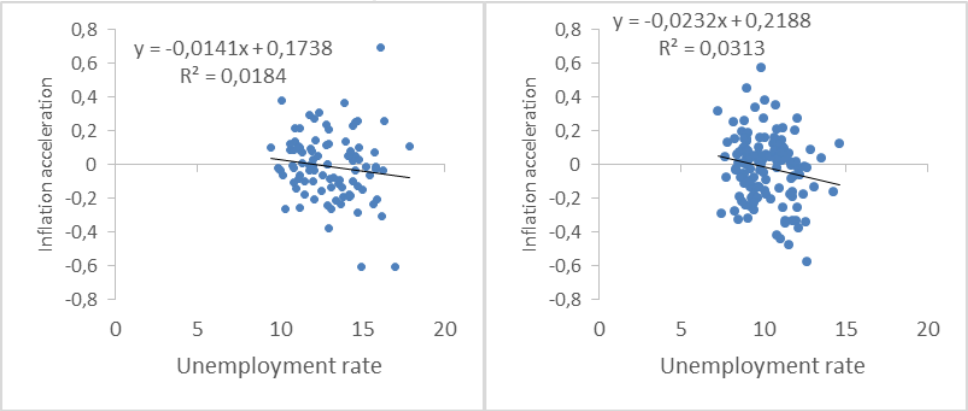
The national unemployment rate in 2018 was 9.7%. Compared to other Latin American countries, the Colombian unemployment rate is too high. However, it is one of the lowest records in the history of the country's economy in the present century. In fact, the Colombian economy has completed five consecutive years with an unemployment rate below two digits. However, there is a reversal of the declining trend that the unemployment rate has had in recent years, which had its minimum in 2015 with 8.9%.

The reasons behind the increase in the unemployment rate are varied. First, the fall in oil prices in 2014 generated a slowdown in the economy, making it grow below its potential. Besides, the energy mining sector leads the economic recovery but is not a labor-intensive sector. Thus, the relationship between economic growth and the behavior of the labor market is neither strong nor immediate, which is why it seems that the recovery foreseen for the year 2018, will have lagged effects over the labor market nor its impact will be lower than expected. Finally, the situation in Venezuela has generated significant migratory flows that have increased the unemployment rate in Colombia. For instance, the unemployment rate in Cúcuta (border city) amounted to 14.4% in 2018.

A relevant macroeconomic concept is the unemployment rate that does not accelerate inflation or NAIRU, which is an indicator of the structural unemployment rate on which the economy tends to gravitate. Graphs 1 and 2 show simple estimates of this indicator. From 2001 to 2007, the estimated NAIRU was 12.3% (0.1738 / 0.0141), while in the period from 2008 to the present, the estimate is of 9.4% (0.2188 / 0.0232). In this sense, although there have been significant decreases in the unemployment rate (even in the structural rate), this rate is quite high when compared to the rest of the Latin American countries.

The unemployment rate in Colombia has decreased in recent years and even the structural unemployment rate has declined. However, the Colombian unemployment rate is very persistent and, therefore, its increase is worrisome, given that it will take time for it to decrease. That is why it is necessary to mitigate the factors that make the unemployment rate so high, such as low levels of professionalization of work. Similarly, the debate on how to reform the pension system and generate measures to promote formal work is essential.

Graph 1: NAIRU estimates



Source: Own calculations with Banco de la República and DANE data

Main forecasts

Colombia	2013	2014	2015	2016	2017	2018e	2019e
GDP Growth (%)[1]	4.9	4.4	3.1	2	1.8	2.6	3.5
Consumption (%)[1]	4.6	4.4	3.6	2	2.2	3.9	4.3
Investment (%)[1]	6.3	11.6	1.2	-4.5	0.1	1.5	10.4
National unemployment rate (%, average)[1]	9.6	9.1	8.9	9.2	9.4	9.2	8.8
Inflation- CPI (%, average)[1]	2	2.9	5	7.5	4.3	3.18	4.4
Exchange rate($/US$, average)[2]	1869	2001	2742	3055	2950	2956	3169
Current account (% GDP)[2]	-3.3	-5.2	-6.4	-4.3	-3.4	-3.3	-3.4
Fiscal balance (% GDP)[2]	-2.3	-2.4	-3	-4	-3.6	-3.6	-3.5

Data sources:

(1) Departamento Administrativo Nacional de Estadística – DANE.

(2) Banco de la República.

The government approaches multilaterals

At the end of January, Ecuador returned once more to international markets. This time Ecuador issued bonds for $1 billion maturing in 2029 with a 10,75% annual rate. This rate is two times higher than the ones that other countries in the region, as Colombia, payed in recent issuances. This operation, that raised several critics within the country due to its high cost, revealed the problems that Ecuador faces to access financing when it goes to international markets. Indeed, international funding is not only important to cover fiscal necessities but also to feed the Central Bank's international reserves that before the issuance were close to an operating minimum level.

It is worth mentioning that although within the Ecuadorian economy, that is dollarized since 2000, international reserves do not accomplish the same role as in countries with their own currency, they do fulfill an important role. This is associated with the fact that the Central Bank is the agent of payments abroad not only for the public sector but also for the private one. Therefore, if the Central Bank's international reserves (liquid assets) are not adequate, the country could enter a situation of default of foreign payments. The low level of international reserves, which has been pointed out as one of the reasons behind the reduction in credit outlook by international agencies, has two main explanations. First, the real exchange rate appreciation recorded since 2014, which has generated a significant pressure over the balance of payments. This implies a reduction in competitiveness for the productive sector that undermines exports and dynamizes imports. The current account deficit, meanwhile, has not been compensated with higher resources, for instance, from Foreign Direct Investment (FDI), but only with external debt acquired mainly by the public sector. The second explanation has relation to the Central Bank's management, especially under former president Correa. In the beginning of dollarization, the Central Bank was compelled to underwrite liquid backups to all its demandable liabilities. The latter are mainly bank reserves and deposits from the public sector, but also a fractional amount of coins issued in Ecuador. However, since the issuance of the Código Orgánico Monetario y Financiero (2014), Rafael Correa's government started to finance part of its deficit with loans from the Central Bank that did not have redeemable dollars. Hence, the Central Banks significantly inflated its balance, that in addition registered an increase in the participation of illiquid assets.

In that context, the Government announced on Tuesday February 12 a formal approach to the IMF with the goal of working toward a possible agreement. This advance was almost an unavoidable measure for Ecuador, not only to help financing part of the remaining fiscal gap which is still important, but also to allow the country to access foreign resources that amend the level of international reserves, reassuring agents. Therefore, an eventual agreement with the IMF, that may facilitate agreements with other multilaterals, should also consider disbursements with the only purpose of reconstituting international reserves levels and not fiscal endeavors. In the medium term, nonetheless, the international reserves situation needs to be fixed with measures that allow to recover

competitiveness amid a possible scenario of dollar appreciation. There is a consensus among analysts that these measures should mainly focus on the job market that needs flexibilization, yet this is rejected by syndicates and left-wing movements.

If Ecuador finally signs an agreement with the IMF, which will necessarily require more intent measures of fiscal adjustment, we expect the government to accomplish the acquired commitments. Unfortunately, Ecuador presents a large history with letters of intent that in the long-term have not been completed.

Main projections for 2018 & 2019

Ecuador	2016	2017	2018	2019
GDP (%)	-1,6	2,4	1,0	0,5
Consumption (%)	-3,6	3,7	2,7	0,9
Investment (%)	-8,1	5,3	3,1	1,8
Urban Unemployment Rate (%)	6,5	5,8	4,8	6,0
Urban "Inadequate Employment" Rate (%)	45,6	43,6	45,3	45,4
Urban Inflation - CPI (%)	1,1	-0,2	0,3	0,4
Reference Lending Rate - BCE (%)	8,1	7,8	8,7	6,2
Current Account (% GDP)	1,5	-0,3	-0,6	-0,8
Central Government Primary Result (% GDP)	-3,7	-3,6	-0,7	-0,9

Source: CORDES.

A stormy start with little growth and a peso avoiding obstacles

During the first weeks of the year, several elements have affected the economic growth estimates for Mexico, both internally and externally. However, the consumers‘ confidence, the behavior of the peso as a currency, inflation and employment, have been positive.

On January 30, 2018, the National Institute of Statistics and Geography (INEGI) presented the results of the Gross Domestic Product (GDP) growth rate in 2018, estimating a 2.0% annual rate. This record is the second lowest so far this decade, just above the 1.4% registered in 2014.

By 2019, Consultores Internacionales, S.C ® estimates a GDP growth of around 1.9%, which coincides with estimates from other institutions in the international arena. This deceleration is consistent with elements such as: the cancellation of the Mexico City's New International Airport (NAICM), the shortage of gasoline in January, the economic losses along the productive chains due to the railways blockades in the State of Michoacán, the strikes in the manufacturing industry in the state of Tamaulipas, among others.

The industrial sector has also noticed a significant slowdown. The industrial activity index published by INEGI shows a fall of 2.5% for December 2018, compared to the same month in the previous year. Added to this, the Gross Fixed Investment report indicates that as of November 2018 we see a downward movement of 2.1% compared to the same month of 2017; the latter is correlated with the upward trend of interest rates in Mexico since the end of 2015.

One factor to take into account is the slowdown shown by the new purchase orders for manufacturing products in the United States. The report published by the U.S. Census Bureau in February 2019, notes that last November this variable decreased for the second consecutive month, in this case 3,067 million dollars, same situation with the value of shipments that decreased 3,164 million dollars.

We must add the effect of the cancellation of the fourth electricity auction. In the opinion of the credit rating agency Moody's, this measure is an endorsement of the new administration's tendency to increase its dependence on conventional generation, which could have effects on energy prices.

On the other hand, the exchange rate has had positive results in the month of January. On average, during that month it stood at 19.19 pesos per dollar, 94 cents per dollar less than the figure for December 2018. In general, the last few weeks have been notoriously well received by the markets. Only Fitch's announcement, about lowering the credit rating to Petroleos Mexicanos, Mexico´s oil company, broke the Mexican currency's positive run on January 29. The events that could well affect the currency are: if the FED increases the interest rates; that the trade negotiations between the United States and China do not prosper; that it becomes an international refuge currency due to risk issues such as Brexit; and, of course, the possible imposition of tariffs on Mexico by the United States, in case of non-compliance with labor and environmental provisions, under the T-MEC.

In other positive areas, it is important to highlight that in the case of consumers, expectations have been positive. Data from INEGI reveal that in January 2019, the Consumer Confidence Index increased 1.1% with respect to the same month in 2018. The automotive industry reported sales of 111,212 units (considering automobiles and private vehicles), that is 1,948 units more than the same month of the previous year.

During January, inflation showed an increase of just 0.09% compared to the month of December and 4.37% at the annual rate, considering that in 2018 the variations were 0.53% monthly and 5.55% respectively. In fact, monthly inflation was lower than the biweekly inflation reported two weeks earlier.

Finally (February 11), the Mexican Social Security Institute reported the creation of 94,646 jobs, only in January 2019. On average, 49,316 jobs were generated each January during the last 10 years. In the last 12 months, said source indicates the creation of 641,834 jobs. Of course, we would have to net this figure and compare it with what happened last December.

Main projections

Mexico	2015	2016	2017	2018	2019
Real GDP (growth %)	3.3	2.9	2.1	2.0	1.9
Private consumption (var %)	2.7	3.8	3.0	2.9	2.3
Private investment (var %)	8.9	2.0	-0.5	1.7	1.7
Unemployment rate (Annual average, % of labor force)	4.4	3.9	3.42	3.33	3.40
Inflation (Annual percentage variation %)	2.13	3.36	6.77	4.83	4.24
Treasury bonds (Cetes) 28 days (period average, %)	2.98	4.2	6.68	7.62	8.23
Exchange rate (Year end)	17.07	20.52	19.66	19.65	20.75
Current account balance (% GDP)	-2.5	-2.2	-1.8	-1.9	-2.2
General government structural balance (% GDP)	-3.5	-2.6	-1.1	-2.0	-2.0

Source: C**onsultores Internacionales, S.C. ®**

Economic projections 2019-2020

We project that during the years 2019-2020 Peruvian economy would grow at an annual average of 3.9%, around its potential growth (4%).

Assumptions

Although we expect the world economy to remain favorable, it would show less dynamism than expected three months ago. As indicated by the International Monetary Fund (IMF), world growth would be around 3.6%, with a slowdown in the United States by 2020 (1.8%). China, on the other hand, would maintain a growth of 6.2% in 2019 and 2020, which would allow the copper price to remain at an annual average of US $ 2.80 per pound.

At the political level we expect less noise. President Martin Vizcarra would maintain his approval above 60% and carry out the political and judicial reforms he has offered.

The projections

Regarding the external sector, exports are expected to surpass US$ 50 billion in 2020 thanks to higher copper production, mainly due to the extensions of projects that currently exist, and the high dynamism of exports not traditional, particularly agroexports. Imports, on the other hand, would grow at the rate of domestic demand and would amount to around US$ 47 billion at the end of 2020. Thus, there would be a trade surplus of US$ 4 billion that year.

It is expected that during 2019 the economy will receive a positive flow of capital, so sol will appreciate slightly. Thus, the exchange rate would go from S/ 3.37 at the end of last year to S/ 3.35 at the close of this. Inflation would remain around the center of the target range of the Central Reserve Bank of Peru (BCRP, 2%) for the years 2019-2020.

At the fiscal level, tax revenues would soften their dynamism in the years 2019-2020 with respect to those that occurred in 2018. Something similar would occur with expenditures, especially in 2019, due to the entry of the new subnational authorities. With this, the fiscal deficit would be 2.2% at the end of 2020. Although this number would not make the growth of the public debt explosive, it implies that the government would not achieve its objective of fiscal deficit of 1% of the Gross Domestic Product (GDP) to 2021.

The GDP would grow 3.9% on average in 2019 and 2020. On the expenditure side, this would be explained by the good performance of private investment, which would grow 5.8% on average in that period, mainly due to investment in mining projects. Private consumption, on the other hand, would show an average expansion of 3.8%. Therefore, domestic demand (internal sales indicator) would grow 4.2% annual average, above the GDP.

On the side of the sectors, it would be the non-primary sectors that would stimulate the economy, with an average annual growth of 4.2%. The sectors of construction and services would be the ones that would show the highest dynamism. The first was driven by the construction of large mining projects such as Quellaveco and Mina Justa. The second due to the strong impulse of domestic demand. Within this, the telecommunications and financial subsectors would stand out.

Risks

The main risks facing the Peruvian economy come from the world economy: a deterioration of the world economy could affect both the demand for the main export products and international prices, particularly copper.

At the local level, an increase in political noise or social conflict could affect the good performance of the investment climate. In addition, there is still the risk that the coastal El Niño will suddenly appear as it did in 2017. Some scientific studies indicate that climate change would make this phenomenon more frequent and more intense.

Main projections for 2018 y 2019

	2017	2018	2019	2020
Gross Domestic product (GDP) growth (%)	2.5	4.0	3.9	3.9
Private consumption (%)	2.5	3.7	3.8	3.8
Private investment (%)	0.2	5.0	6.4	5.1
Lima Metropolitana inflation (%)	1.4	2.2	2.0	2.0
Exchange rate S/US$ (end of the period)	3.24	3.37	3.35	
Current Account (% GDP)	-1.1	-1.9	-2.1	-2.2
Economic result of the public sector (% GDP)	-3.1	-2.4	-2.3	-2.2

Sources: BCRP, INEI.

Activity of the retail sector

The trade and repairs sector, which comprise all retail activities, accompanied the economic growth of Uruguay in the past decade with an annual expansion of 4.1% in real terms. For its part, the sector had greater volatility in relation to GDP and showed declines in 2009 (international crisis) and 2015-2016 (adverse regional situation) followed by more dynamic recoveries of its level of activity. In 2017, the retail activity grew by 7.8%, supported by the favorable performance of some indicators relevant to the sector, such as the increase in real wages, the depreciation of the US dollar and a record level of tourists. From the demand side, private consumption showed a real growth of 4.4% in 2017, which is partly explained by the positive evolution of the aforementioned variables. Between January and September 2018, according to the latest quarterly data from the Central Bank of Uruguay (BCU), the commerce sector, which appears together with the activity of restaurants and hotels in statistics, grew by 2%, thus representing a moderation with respect to the expansion pace in 2017. This is partly explained by the lower dynamism of household income and the strong appreciation of the US dollar as of May 2018, which pushed up the prices of imported goods. According to projections by Oikos C.E.F. an increase of around 1.5% is expected, consolidating 16 years of uninterrupted economic growth in the country. Meanwhile, for 2019 the economy is expected to continue growing at levels similar to 2018 (1.4%). In this context, real wages and household income were strongly moderated, which, together with the increase in the exchange rate, will have an impact on consumption levels. In the mean time, after a record season in 2018, tourist activity is expected to decline in the coming year. In this scenario, the sector is projected to stagnate or fall slightly in 2019.

In a scenario of deceleration of activity, the number of families with the intention to adjust their spending increases. However, this will not affect all retail items homogeneously. Family decisions to postpone expenses are mainly focused on durable and tradable goods.

Main projections for 2018 and 2019.

Uruguay	2015	2016	2017	2018	2019
GDP (%)	1,0	1,5	2,7	1,2	2,3
Consumption (%)	-0,5	0,1	4,4	1,9	2,0
Investment (%)	-9,2	-1,6	-15,5	3,0	2,4
Unemployment rate (%)	7,5	7,8	7,9	7,9	7,8
Inflation - CPI (%)	9,4	8,1	6,6	8,0	6,7
Exchange Rate $/US$	29,9	29,3	28,8	32,4	35,6
Current Account (% GDP)	-2,1	-0,2	1,6	0,2	-0,4
National Global Result (%GDP)	-3,5	-3,9	-3,6	-3,5	-3,6

Source: Oikos C.E.F.

February: K.O?

First month of 2019 was particularly complicated for local economy. Even though some of recent tighter restrictions over foreign resources were anticipated by the end of 2018, political and diplomatic tensions (both inner and foreign) currently facing for Maduro's Government could imply newly and profound economic consequences, forcing us to change up our projections for upcoming months.

Perhaps, local oil activity is the most critical issue. At January, 28th, US Government imposed several sanctions over Pdvsa's oil export to this market, cutting off crude oil flow and imports of diluents from the former marketplace. With these restrictions, financial resources obtained by Venezuela's main export might be shortly affected.

These isolation from its main oil-trade partner brought up just sad news for local economy, in a context where, according with OPEC's secondary sources, reported an overall daily oil output near to 1.5 million barrels by the end of 2018, and exhibited an average reduction of 0.45 million over these crude daily production.

Here at **Ecoanalitica**, we estimated that US sanctions would affect public foreign currency entries by around USD 3.2 million, linked to oil sales between February and April. These effects would depend on Pdvsa's ability to redirect former oil exports to US towards alternative markets, although it could be unlikely given the several operative and logistical restrictions it might face. Under the US sanctions continuances, a larger fraction of short-run Venezuela's foreign resources inflows could be compromised.

Respect to domestic prices, January was the 15th month in a row under "official" hyperinflation, where accumulated local prices growth reached almost 22.3 million per cent since November 2017, where such hyperinflation began. This month also reported the higher weekly inflation reported so far (67.7%), once Maduro's announcement regarding minimum wage and banking reserve requirement were applied.

Local central bank (CBV) has been using reserve requirement more aggressively as a monetary tool for FX rate purposes. In that sense, monetary authority employs reserve requirement to bound credit activity and, therefore, secondary money creation. This contractions would impact local agents' ability to demand foreign currency, forcing reductions on non-official exchange rate.

Over a three-weeks' time window, marginal reserve requirements were increased until 60.0% of banking debt growth, along with the elimination of the special reserve requirement based on surplus bank reserves. In the same period, marginal reserve was increased again, this time until 100% of deposit growth (respect to a base value). According to official central bank's statement, these measures were taken to "defend" a local prices' nominal anchor, where official exchange rate was recently targeted at Bs.S 3,300, above non-official parity.

Former measures seemed to force a less extended rise on nominal exchange rate, which reported a higher pace on its growth rate during the initial weeks of this year.

Nevertheless, this frequent and intensive use of reserve requirement apparently left CBV with few options to bail out any new pressures over local FX market.

At **Ecoanalítica**, we considered a baseline scenario marked by an adverse macroeconomic environment, with absences of official responses to tackle such context. These premises still remain for forthcoming predictions, although recent US' sanctions to local oil industry introduce new elements that will bring more uncertainty and new challenges into an already complex economic dynamic.

Main macroeconomic forecasts 2018 – 2019.

Venezuela	2016	2017	2018	2019
GDP (%)	-16.5	-14.7	-25.9	-29.6
Consumption (%)	-19.7	-11.9	-19.6	-24.5
Investment (%)	-38.4	-39.3	-43.7	-41.1
Unemployment rate (%)	6.7	9.4	14.9	23.1
Inflation - INPC (%)	525.1	2,873.6	2,106,601	1,493,819,380
Overnight rate (%)	4.6	0.7	10.7	NA
Exchange Rate VES/US$	0.0	0.03	638.2	9,667,957,906
Current Account (% GDP)	-4.3	4.9	NA	NA
Restricted Public Sector Result (%GDP)	-16.3	-17.4	-11.0	NA