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Economic Outlook

Uruguay

First Half 2012
Economic Analysis

- **Global growth will recovery steadily,** but risks are tilted strongly to the downside
- **Uruguay recovers investment grade due to lower external vulnerability,** raising potential growth
- **Economic activity is slowing gradually,** in line with a lower external demand, to 4.2% growth in 2012
- **Slight deterioration in the fiscal balance,** reflecting the impact of high energy prices and a slowing economy: the primary budget surplus will be 1.4% of GDP
- **Small deterioration in the current account due to import restrictions in partners and unfavorable prices:** the deficit will rise to 2% of GDP, to be financed by foreign direct investment.
- **The strength of domestic prices and a stronger currency will condition the Central Bank of Uruguay;** we expect the monetary policy rate to remain at 8.75% until the end of the year

Index

Closing date: May 18, 2012

1. Summary: global recovery, but risks reignite

Global economic activity will gradually recover, with wider growth differentials across the main areas. But the risks to growth are tilted to the downside

After a gradual deceleration during 2011, especially in the last quarter, the global economy is starting to show signs of increased dynamism. Global growth in 2012Q1 is expected to have been higher than in Q4, given stronger growth in Asia ex China (including Japan) and Latin America and sustained –but modest– dynamism in the US. We estimate that global growth will continue increasing and surpass 1% quarter-on-quarter at the end of 2012 (0.6% in 2011Q4). This recovery will also be quite heterogeneous, increasing the divergence in growth rates between the main economic areas. The increase in growth in 2012 will be more evident in Asia, given the rebound from natural disasters in Thailand and Japan (affecting regional supply chains) and the partial turnaround of policy tightening measures implemented until mid-2011. Also, growth in Latin America is likely to pick up, as Brazilian growth rates increase on the back of easier monetary policy and Mexico maintains growth over 3.5% helped by US demand, improved competitiveness and supportive funding conditions. On the other hand, the US will continue sustaining quarterly growth rates of around 0.6% in 2012 and 2013, significantly lower than in previous recoveries. Still, this will be better than a basically stagnant activity in the euro-area in 2012, dragged in peripheral countries by aggressive fiscal consolidation and persistently high financial stress, after tensions eased temporarily in the first quarter.

Therefore, emerging economies will recover their growth differential vis-à-vis developed economies, of around 4 percentage points, for the whole of 2012 and 2013. In turn, Europe and the US also will continue to increase their growth gaps in the next two years, even as we expect European authorities to continue taking decisive actions which will slowly lower financial tensions.

All in all, our growth projections are not very different from those of our previous Global Economic Outlook (published in February). We expect global growth of 3.6% in 2012 and 4% in 2013, with emerging economies contributing around 80% of that increase in global activity (Chart 1). But, as mentioned before, this scenario is conditioned on the evolution of the crisis in Europe, and thus risks to these projections are still strongly tilted to the downside.

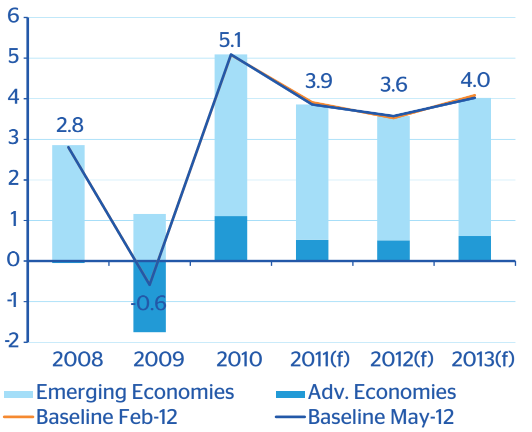
In this context, monetary policies in advanced economies will continue to be very accommodative for an extended period, fulfilling the role of bridging the slump in activity towards the medium and long-run. However, the effectiveness of further intervention (conventional or not) is decreasing, while at the same time the costs increase –including the risk of reduced central bank independence and the collateral damage from unconventional measures–. Thus, it is time for other policymakers and institutions in the US and Europe to decisively take up part of the burden of reviving growth from central banks, implementing economic and institutional reforms and managing fiscal risks. While these measures take effect, central banks should continue supporting an adequate functioning of the monetary transmission mechanism.

Easy monetary policies in advanced economies will mean favourable financing conditions in emerging countries. Here central banks will have to weigh the pressure from capital inflows and an uncertain external demand against inflationary risks (in part from oil prices) and strong domestic demand. The difference in inflation projections in Asia and Latin America –declining in the former but stable in the latter- will condition a different outlook for monetary policies. We expect the easing cycle to have ended in much of emerging Asia (except, notably, in China and India), and a cautious tightening bias in most of Latin America, except in Brazil.

There have been some advances towards the solution to the European crisis, but crucial steps are still to be taken. Europe needs a clear roadmap to end the crisis

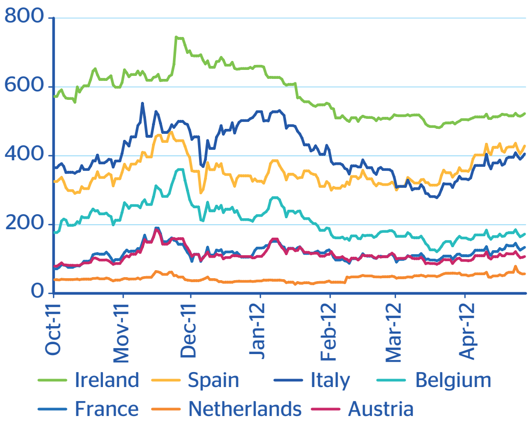
In the last months, there have been some advances towards the solution to the European crisis, but there are still many important pending issues. First, Greek sovereign debt held by the private sector was restructured, although substantial doubts about its long-run sustainability persist, including reform fatigue and a possible deeper recession than projected. Second, the European Stabilization mechanism (ESM) was provided with a fresh lending capacity of 500bn EUR (on top of 200bn already committed by the EFSF). However, that has not been enough to quell market anxiety, given its falling short of Spain and Italy's financing needs for the next 3 years and the presumption that ESM loans would be senior to existing private bondholders, thus seriously impairing its catalytic effect on further financing from the private sector. Further, it was not clear to what extent the increase in IMF resources by 430bn USD (approximately 330 bn EUR) could be targeted to European countries. Also, the fiscal compact was sanctioned (pending national approval), committing governments to structural deficits not bigger than 0.5% of GDP. This is a significant change towards controlling member's budgets, but the allowance for deviations to the rule under "exceptional circumstances" may depict it as not strong enough to justify a more forceful action by hardliners at the ECB of core countries in Europe. In addition, there have been no advances towards a fiscal union or Eurobonds. All in all, a clear roadmap to where Europe is heading continues to be missing.

Chart 1
Global GDP growth (%qoq)



Source: BBVA Research

Chart 2
European sovereign risk premia (10yr bond spreads to Germany, bps)



Source: Datastream abd BBVA Research

A new flare-up of the European crisis is still the main global risk

Undoubtedly, one of the most important actions in the last four months was the provision of long-term liquidity by the ECB. This allowed, at least until March, a significant reduction in liquidity risk in European banks, a timid opening of wholesale funding markets and a compression of sovereign spreads in peripheral countries (Chart 2). But these positive effects proved temporary, as markets (i) detected some complacency on the part of policymakers as risk premia decreased in the first quarter of 2012, and (ii) they both doubted the ability of many peripheral countries to reach their fiscal targets and feared the fallout on growth of actually achieving them. Thus, since March, risk premia increased rapidly in Italy and Spain, in the latter to levels similar to the high tensions reached back in November (Chart 2).

The short-lived effect of the long-term liquidity injections and the conundrum between fiscal consolidation and restoring growth highlight two conclusions. First, ECB actions can only bridge the short-run while the underlying economic and institutional problems are tackled. This means that talk of exit strategies for the ECB should not come too soon, but it also implies that economic reforms should be pushed forward, at the same time as demand is rebalanced within the Euro zone, with core countries stimulating it. Second, it is imperative to reconsider fiscal consolidation paths in a coordinated way (or risk being singled out by markets), targeting structural deficits –consistent with the spirit of the fiscal compact– in a more gradual trajectory. In exchange for more gradualism, member states must produce explicit, comprehensive, detailed and multi-annual consolidation plans. This way, sound public finances could be achieved without big damage to short-term growth. At the same time, this will allow to reap the benefits of long-term structural reforms that are being implemented in peripheral countries.

In this context, we still see a new flare-up of the European crisis as the main risk, with potentially very negative consequences for global growth. Increased tensions can come about from reform fatigue in peripheral countries coupled with bailout fatigue in core countries, in the context of electoral processes –and a referendum– in many European countries: France, Greece, Germany –two states–, Ireland and the Netherlands are holding them in the first half of this year.

Current oil prices will have only a moderate impact on global growth. However, a big oil price spike constitutes a significant risk to growth.

A second threat to the global economy is a further increase in oil prices. The recent spike at the beginning of 2012 can be traced back in part to tightening fundamentals (demand and supply) but also to an increase in the geopolitical risk premium to around 10-15 USD per barrel, given tensions around Iran and very reduced market buffers (oil inventories and producer's spare capacity). In our baseline scenario, we consider prices around 120 USD per barrel of Brent oil for much of 2012, around 15% higher than in our February forecasts. In our view, this will only have a moderate negative impact on global growth, as central banks in advanced countries will view this as a temporary shock and their weak cyclical positions will prevent them from tightening monetary policy, one of the traditional channels of transmission to lower growth. Nevertheless, should the conflict in the Gulf escalates, there could be a very large spike in oil prices, and even if central banks still do not react, growth could be damaged through the associated increase in global risk aversion. We consider that the probability of an escalation in the Gulf is relatively reduced, but it is a scenario that would have a significant impact on global growth should it materialize.

2. Uruguay recovers investment grade, raising growth potential

Prudent debt handling, export diversification and opening up to FDI have reduced sovereign vulnerability to external shocks

The major improvements achieved by Uruguay on the economic and institutional fronts thanks to orthodox and orderly economic management and a consolidation of democracy based on respect for the law and institutions have been the qualities highlighted by Standard & Poor's in upgrading Uruguay to BBB- and thus returning it to the Investment Grade status it lost in the 2002 crisis. The rating agency emphasizes the improved fiscal and external indicators resulting from sustained growth; prudent administration of sovereign debt (see Section 4) and a increasing capacity to resists external shocks.

Uruguay has one of the top positions in the international rankings in terms of the reputation and quality of its institutions, as can be seen in Table 1, where it stands out in comparison with other South American countries.

Table 1
International Indicators, Uruguay's ranking

Indicator	Uruguay ranking in South America	Uruguay ranking in the world
Corruption Perception Index	2	25
(Transparency International 2011)		
Democracy Index	1	21
(Economist Intelligence Unit 2010)		
Index of Economic Freedom	2	33
(Heritage Foundation 2011)		
Prosperity Index	1	29
(Legatum Institute 2011)		
Political Stability Index	1	44
(World Bank 2010)		
Globlal Competitiviness Index	3	63
(World Economic Forum 2011-2012		
Ease of Doing Business Rank	4	90
(Doing Business 2012)		

Source: Uruguayan Ministry of Economy

Beyond institutional soundness, Uruguay has made major efforts in economic development, and will culminate a decade of uninterrupted growth this year. It was able to overcome the limitations inherent to its relatively small scale thanks to trade openness and policies aimed at attracting foreign direct investment. In fact, Uruguay has special laws that give a favorable treatment to foreign investors, by giving them equivalent status to domestic companies.

In 2007, Uruguay passed the Investment Promotion and Protection law, and more recently with the approval of the law on "Public-Private Participation Contracts for Infrastructure and Provision of Related Services" in mid-2011 a new boost was given to investment, this time focused on infrastructure, particularly highways, ports, airports and energy infrastructure. The improvement in infrastructure will be an incentive to attracting new companies and increasing investments by existing ones.

The effects of Investment Grade rating on potential output growth will be crucial in the medium and long term. Undoubtedly, it will have a positive a priori impact in reducing the cost of capital and boosting investment, although it might pose a challenge in terms of designing a strategy that prevents an excessive inflow of short-term capital that could exacerbate appreciation pressures on an already strong currency. It will be crucial for capital to flow into productivity enhancing investments, basically infrastructure and energy, where some bottlenecks are already evident.

3. Moderate slowdown in economic activity due to lower external demand

One of the most important factors leading to the improvement in the credit rating was Uruguay's sustained growth starting in 2006. In fact, it was one of the few countries in the world that did not suffer a recession in 2009. Although in 2011 GDP grew less than expected (5.7% compared with 6.2%), this was caused by exceptional factors[1] that affected power generation and the manufacturing sector in 4Q11, leading to a 1.9% q/q fall in GDP. There was an overall slowdown, though moderate, in the rest of the sectors, as forecast in the previous report.

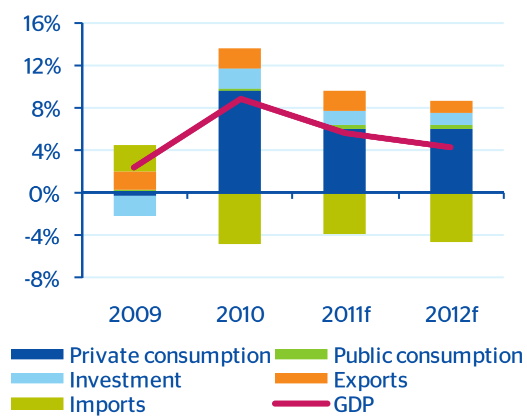
1: Basically, the contraction in GDP in 4Q11 stems from Electricity, gas and water supply sectors and manufacturing industry. In the former, a drought reduced hydro electrical power generation, while manufacturing industry was negatively affected by retooling in the ANCAP refinery

For 2012, we maintain our growth forecast practically unchanged, as our previous estimate already included a marked slowdown this year, coming mostly from a more moderate external demand, dominated by uncertainty in Europe, and in particularly lower expected growth figures in Argentina and Brazil. The external sector will also suffer the erosion of competitiveness due to the greater relative depreciations of the main partners (while the Uruguayan peso remains relatively stable) and the recent trade barriers imposed by other MERCOSUR members.

In 2013 we expect a slight slowdown of GDP growth (3.9%), basically due to flagging domestic consumption as the total wage bill reduces its rate of increase (lower wage growth in real terms) and the major investment stages of the Montes del Plata project are concluded.

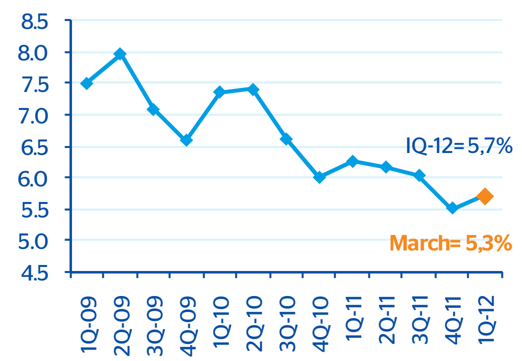
The labor market is one of the main factors behind improved consumer confidence in 1Q12, after deteriorating in the second half of 2011. This factor as well as some preliminary indicators, such as the leading CERES index and the leading industrial output indicator from the Chamber of Industry, suggest that the economy continued to grow in the initial months of the year, though at a slower pace. Among the reasons was a weaker real estate sector, the closure of the oil refinery in January (in fact, October through January), the impact of the drought on electricity generation and the protectionist measures imposed by Argentina and Brazil which affected some industrial branches and the logistical sector.

Chart 3
Uruguay: Contribution to growth



Source: B.C.U.

Chart 4
Total unemployment rate, quarterly average



Source: I.N.E

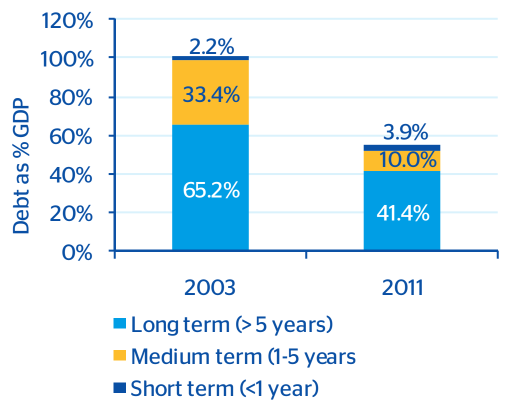
However, the slowdown in Uruguay's growth is limited by the strength of domestic demand. In a context of moderate optimism, private consumption will continue to be one of the most important supports of economic activity this year thanks to unemployment at all-time lows (see Chart 4) and wage increases of around 4% in real terms. No new huge investment projects such as Montes del Plata (to enter into service in 2013) or Botnia (2008) are planned for this year. However, investment will be boosted by infrastructure works needed to optimize the normal operation of the cellulose plants, starting with ancillary work such as the port and the construction of Route 55.

4. Prudent debt management and a primary budget surplus consolidate fiscal solvency

Savvy debt management was crucial to earning investment grade, and there have been substantial improvements in this area. Uruguay managed not only to reduce its levels of public debt from 100.8% of GDP in 2003 to 55.4% of GDP in 2011 (see Chart 5) but it has also reduced the weight of dollarization, thus lowering risks emerging from potential exchange rate volatility (see Chart 6). Taking advantage of the period of extraordinarily low international rates, Uruguay also increased the share of fixed-rate debt to 84% by December 2011, compared with 54% in 2003.

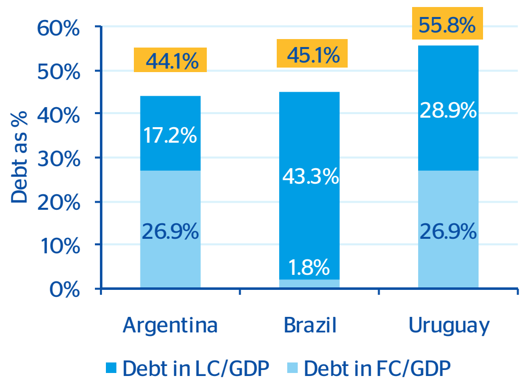
Uruguay managed to improve its debt profile without resorting to a default, as Argentina did during the 2002 crisis. Although the progress made in reducing the debt burden has been slower (in Argentina, the public debt now stands at 44.1% of GDP), it is obvious that in the end the strategy of market-friendly renegotiation and respect for existing contracts has enabled Uruguay to reduce its risk premium and debt yield more permanently. Although its level of public debt is still higher than that of its main Mercosur partners (see Chart 6), and the level of dollarization higher than Brazil's, the structure of maturities and the composition by rates is more favorable in Uruguay, as the variable rate debt/GDP ratio is only 8.8%.

Chart 5
Public Debt by Maturities (% GDP)



Source: Uruguay Debt Management Unit, BBVA Research

Chart 6
Foreign-currency Debt (% GDP)



Source: Economy Ministry Argentina, Brazil, and Uruguay, BBVA Research

A context of sound growth and a conservative public spending policy allowed Uruguay 9 consecutive years of primary budget surpluses, following the crisis of 2002. In 2012, it will once more post a positive result, which we estimate will be in the order of 1.4% of GDP, below the 2% of GDP recorded last year. Revenue levels will be affected not only by the economic slowdown but also by high oil prices during the year. In addition, lower hydro power generation will lead to losses for state-owned companies, as the government will probably not adjust energy rates in order to prevent them from having an effect on inflation.

The government will not have any problems in covering its financing needs, as it has a program of proactive debt issuance in the markets, as well as positive relations with international organizations. The financing needs for 2012 include amortizations for USD 637 million, as well as interest payments of USD 1,213 million. These needs will be covered by the primary budget surplus, as well as loans from multilateral organizations for USD 200 million and debt placement of USD 1,200 million, according to the Economy Ministry (see Table 2).

Table 2
Central Government Fund Flows

	2011	2012
Uses	3976	2019
Interest Payment	1170	1213
Amortization	2737	637
Loans	457	192
Bonds	2280	445
Others	69	168
Sources	3976	2019
Primary Surplus	800	700
Multilateral disbursements	237	192
Issues	4673	1200
Others	119	96
Assets (+ accumulation / - used)	-1853	-169

Source: Uruguayan Ministry of Economy and Finance

From a reputational point of view, the Tax Information Exchange Agreement with Argentina responds to requests by the OECD to provide greater transparency to international financial markets and thus helps reduce the cost of financing sovereign debt. The agreement is not retroactive in nature and each request for information has to be carefully individualized, thus avoiding massive inspections that could trigger fears among foreign investors (mainly Argentineans). In this way, the negative impact on financial flows into Uruguay is limited, while the elimination of double taxation will improve the competitiveness of Uruguayan service exporters.

5. Unfavorable relative prices deteriorate the current account in 2012

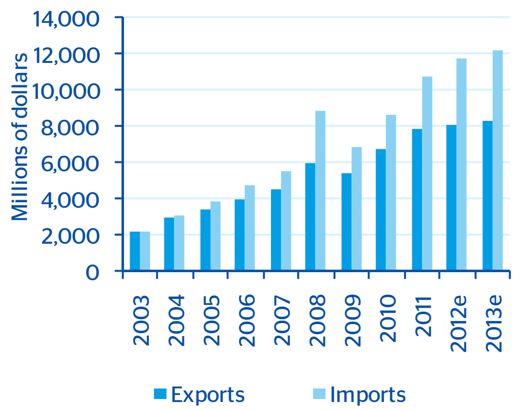
In 2011, Uruguay's foreign trade deficit was USD 2,800 million, with exports growing at 18% and imports at 24%. However, growth in exports was dominated by prices (up 23%), since volumes fell by 5%; import prices increased by 13% and volumes by 9%. Favorable terms of trade were not sufficient for Uruguay to close the external gap, given the strength of domestic demand, so the current account deficit grew to 1.9% of GDP in 2011.

Given the composition of Uruguayan exports and imports, we expect a deterioration in the terms of trade of around 4.7% in 2012, given the weight of agricultural commodities, whose prices will fall in the second half of the year; while the price of oil, which accounts for a major proportion of imports, will remain firm for the rest of the year.

Export volumes will decelerate, mainly due to weak global demand and recent non-tariff barriers to imports imposed by Argentina, although the recovery of growth in Brazil in the second half of 2012 and 2013 will partially offset this effect. Imports will grow by 9% y/y, with half of this growth coming from price increases. As a result, the trade balance will run up a deficit of some USD 3,600 million in 2012.

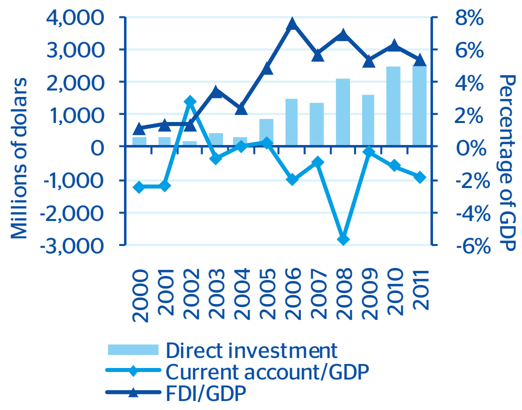
From January through April, total exports grew by 10.7% y/y. However, exports to Argentina fell by nearly 6% y/y, reflecting the difficulties which these import restrictions create and reducing the share of Argentina as a destination for Uruguayan exports. According to information published by Uruguay XXI, the sectors most affected by trade limitations in the first quarter of the year were automobiles and auto parts, paper and cardboard.

Chart 7
Balance of Trade (in millions of dollars)



Source: BBVA Research based on BCU

Chart 8
Balance of Payments:
Current Account and FDI (in millions of dollars)



Source: BBVA Research based on BCU

This will result in a slight deterioration of the current account (2% of GDP), basically due to the increased trade deficit. Real services will not be able to fully offset this result, given that the tourist season has not met the expectations generated the previous year. In fact, in the first quarter of 2012 revenues from tourism were USD 999 million, 7% below the figure for the same period in 2011. Both the number of tourists entering the country and the spending per person fell, mainly due to the drop in numbers of Brazilian and European tourists. In contrast, the entry of Argentinean tourists and their spending grew without being affected by Argentine foreign-exchange restrictions.

However, the increased current account deficit can be easily financed through foreign direct investment (FDI), which in 2011 hit a record of USD 2,527 million, or 5.4% of GDP. In the future we expect this trend will become consolidated and Uruguay will once more record stable revenues from FDI, as the recently recovered investment grade status provides an extra incentive to FDI increases.

6. The Central Bank of Uruguay has little room for maneuver

The abundant supply of foreign currency due to significant FDI inflows and to a lesser extent government and central bank debt issued continues to sustain the strength of the Uruguayan peso against the dollar. We estimate the rate to close 2012 at UYU 19.9 per USD, close to its current level.

Given that the multilateral real exchange rate has already appreciated by 10.5% against the long-term average, the Central Bank of Uruguay avoided further strengthening of the peso by intervening on the foreign-exchange market and purchasing USD 440 million in the first four months of the year, substantially more than the figure for the whole of 2011 (USD 339 million).

The Uruguayan peso has been considerably less volatile than the rest of the currencies in the region so far this year, in particular compared with the Brazilian real, probably reflecting the reduced importance of short-term capital in the case of Uruguay. However, we believe that this is temporary, and that in 2013 the peso will begin a trend of gradual depreciation more in line with the Brazilian real, reaching UYU 20.4/USD by year end. The multilateral real exchange rate will thus remain practically unchanged and prevent a sustained loss in competitiveness.

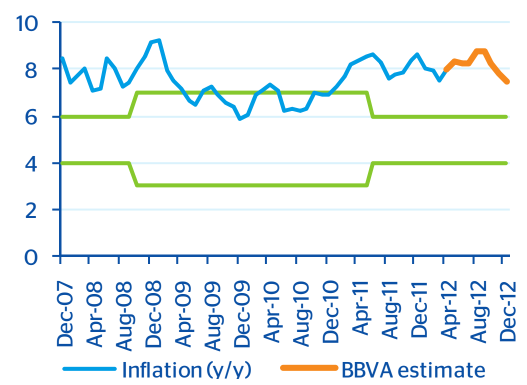
The monetization created by the central bank's exchange-rate intervention has only been partially sterilized by the monetary authority. This has added some pressure on prices, which in 2011 increased by 8.6%, widely exceeding the ceiling of the central bank's target range of 4% to 6%. The strength of domestic demand will be key for inflation this year, which will reach 7.5% in 2012 (see Chart 6), given the inflationary inertia reflected in core inflation which remains stubbornly higher than headline inflation.

An estimate of the Taylor Rule for Uruguay suggests the monetary policy rate should decline to 8.40% in the last quarter of 2012 (see Chart 7), taking into account the reduction of the output gap and the expected slowdown in inflation. However, we believe that the Monetary Policy Committee (COPOM) will continue to be concerned about overheating and oil price risks which are considerable for Uruguay. In this scenario, we estimate that the Monetary Policy Rate (MPR) will remain at the current level of 8.75%, a slightly positive real rate, which together with reduced economic activity will take the steam out of consumption and slow down prices towards the end of the year. We expect the MPR to fall by 50 bps in 2013, with inflation dropping to 6.9%, leaving the real rate practically unchanged.

As explained in our previous report, the monetary policy dilemma is becoming more acute, given that the currency continues to stengthen. However, as inflation is still above the target range and the economy and employment are not showing strong signs of weakness, the central bank has little room for maneuver to reduce the monetary policy rate. In this scenario there are increasing possibilities of using a range of macroprudential measures or controlling the prices of public services.

Chart 9

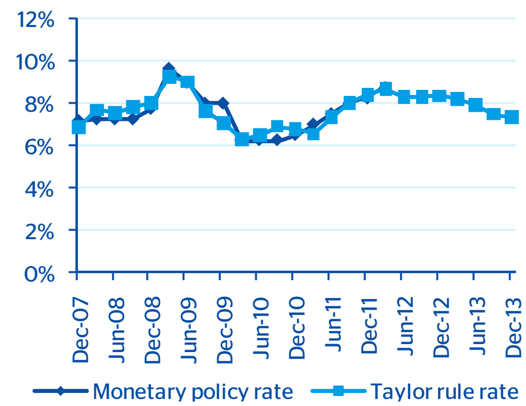
Inflation and Expectations



Source: INE, BCU and BBVA Research

Chart 10

The Taylor Rule in Uruguay



Source: BBVA Research

7. Limited vulnerability to a global risk scenario, though some idiosyncratic weaknesses remain

A risk scenario in Europe would affect Uruguay to a lesser extent than other economies in the region through foreign trade since a generalized collapse in commodity prices would have a positive impact on the terms of trade. Given the significant weight of oil in imports, this could even result in an improvement of the current account (through the trade balance), as agricultural export prices would be affected less than oil prices due to the low income elasticity of global demand for food. A serious problem caused by a "sudden stop" in financial inflows is also unlikely, as most capital enters Uruguay in the form of FDI, which is more stable than short-term flows.

Risks to the fiscal sector are also fairly limited, as a drop in the price of oil would improve the fiscal result of government-owned companies and partly offset the fall in revenues due to lower activity. The fact that the financing needs of the public sector are already covered for this year and next reduces the vulnerability of sovereign debt to a sudden rise in global risk aversion.

The biggest impact on the growth of the Uruguayan economy would probably come from the effect of a European crisis on Brazil and Argentina. In both cases there would be a significant slowdown in activity, which would result in lower Uruguayan exports of goods and real services (tourism). However, the biggest risk for Uruguay would probably come from increased exchange-rate volatility (spurred by depreciation in the neighboring countries). These episodes would tend to generate uncertainty on the domestic front due to the dollarization of savings and financial liabilities, which could reduce confidence significantly. This in turn would have a negative effect on the level of economic activity, although a substantial slowdown is unlikely.

The major advances in economic and institutional soundness made by Uruguay, however, have not completely dissipated idiosyncratic risks that are particularly relevant in a context of geopolitical tension in the Middle East. One of these risks is the strong dependence of Uruguay's energy system on oil imports. This situation is made worse at times of low hydro-electrical generation and high oil prices, as is the case at present.

This vulnerability is reinforced by inflation that is persistently above the central bank's target range, as it adds pressure on the fiscal result. Faced with a dilemma of allowing a higher pass-through from oil to domestic prices or reducing the earnings of state-owned companies, the government will probably choose to sacrifice fiscal solvency, as more inflation could not only have negative effects on the economy, but also other second-round effects on the fiscal result itself, due to the increase in wage and benefit payments.

The negative flip-side of growing capital inflows is a stronger currency and thus a loss in competitiveness. Uruguay must keep careful watch on this point, as its real multilateral exchange rate is already relatively strong. Although still at manageable levels, the situation could become more complicated if strong capital inflows continue. With unemployment levels at record lows and a weak population growth rates, rigidities in the labor supply could increase. The main challenge in this respect would be to improve labor productivity, allowing the expected increase in capital stock to sustain an expansionary economic cycle in the medium term.

8. Tables

Table 3

Macroeconomic Forecast Annual

	2009	2010	2011	2012	2013
GDP (% y/y)	2.4	8.9	5.7	4.2	3.9
Inflation (% y/y, average)	7.1	6.7	8.1	8.1	7.1
Exchange Rate (vs. USD, average)	22.5	20.0	19.3	19.7	20.2
Interest Rate (%, average)	8.7	6.3	7.0	8.8	8.3
Private Consumption (% y/y)	-0.3	13.7	8.2	8.0	3.0
Government Consumption (% y/y)	3.1	0.8	3.0	3.0	2.5
Investment (% y/y)	-8.5	10.1	7.0	4.0	4.0
Fiscal Balance (% GDP)	-1.7	-1.1	-0.9	-1.5	-1.3
Current Account (% GDP)	-0.3	-1.1	-1.9	-2.0	-1.6

Source: BBVA Research

Table 4

Macroeconomic Forecast Quarterlyl

	GDP (% y/y)	Inflation (% y/y, average)	Exchange Rate (vs. USD, average)	Interest Rate (%, average)
Q1 11	6.7	7.7	19.6	7.00
Q2 11	5.1	8.5	18.7	7.50
Q3 11	7.7	7.9	18.8	8.00
Q4 11	3.5	8.3	19.9	8.25
Q1 12	2.4	7.8	19.5	8.75
Q2 12	4.2	8.2	19.7	8.75
Q3 12	3.2	8.6	19.8	8.75
Q4 12	7.0	7.8	19.8	8.75
Q1 13	7.9	7.5	19.9	8.50
Q2 13	6.0	7.0	20.1	8.25
Q3 13	4.4	7.0	20.2	8.25
Q4 13	3.3	6.9	20.4	8.25

Source: BBVA Research

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