BBVA Research

Latin

Economic Outlook

Second Quarter of 2010

Economic Analysis

- Latin America is growing faster than expected (4.6%) in 2010 due to a quicker recovery in domestic demand. We expect growth to remain at about potential rates in coming years
- Inflation is in check in most of the region, and in some cases it is even below Central Bank's targets. We expect inflation to converge towards official targets in the coming years
- Fiscal and Current Account balances turned negative, but small (about 2% of GDP in 2010-12) due to expansive policies adopted during the crisis, and the expected fall in commodity prices. They do not entail solvency risks and are making a positive contribution to the restoration of global balances. Brazil and Peru already began raising interest rates to prevent a build up of inflationary pressures. Chile is expected to follow up soon. Currencies stabilized, after the appreciation in previous months, partially thanks to the turmoil originated in Europe, but also due to h heavy intervention by central banks, that accumulated international reserves
- A worsening of the international climate could affect the region, but moderately because the underlying strengths persist. However, this could still bring about adjustments, especially in the fiscal policy of more vulnerable countries

Index

Closing date: 20 May 2010

Challenges for a global recovery

In recent quarters, the cyclical situation has improved considerably due to the upturn in emerging economies and in the US. World trade is growing at a rate of 7% and our forecasts points towards 4.2% growth of the world economy in 2010. However, over the past few months doubts arose regarding the EMU's capacity to tackle the problem of high debt levels in some countries. These doubts have led to an increase in sovereign spreads and a new period of financial instability. The severe fiscal adjustments in European countries will have an impact on the region's growth in 2010 and could have repercussions in the rest of the world, especially if there is contagion in financial systems. The timing and the scope of these adverse impacts will crucially depend on the effectiveness of the announcements that the European Council made on 9 May regarding the agreed rescue packages and the ECB's special measures. In spite of these measures, uncertainties still lurk on three fronts: i) the rescue package implementation process over the coming months; ii) the credibility of the additional fiscal consolidation in some EMU countries; and iii) the medium-term commitments of key central EMU countries regarding the rescue packages.

While economic recovery was widespread at the start of 2010, its intensity varies widely between countries. This is due to the varying degrees of use of fiscal and monetary policies, as well as underlying structural differences. These policies have been particularly effective in driving the economic cycle in China and the US. At the same time, emerging economies are benefiting from stronger domestic demand and the recovery in this region seems to be much more consolidated. On the other hand, in developed economies, as the expansionary policies ease, questions arise regarding the sustainability of the recovery beyond 2010.

The Fed is expected to push interest rates up gradually, starting in 2011, with rates slightly above 1% by the end of that year. The differences in the economic fundamentals in the US and the EMU will lead to different monetary policy exit strategies in the two regions. Although economic growth could be slow from 2010 onwards, the risk of a reversal of the current trend is limited in the US and inflationary pressures are still at a very early stage. In contrast, in the EMU, while the financial situation remains much more fragile, the cyclical improvement seems to be uncertain and there are no indications of inflationary pressure. As regards monetary policies in emerging economies, there is no doubt that they need to be toughened. Given the cyclical discrepancies in this region, the exit strategies will vary from country to country. But If monetary policy is not restrained and other measures are not implemented in time, imbalances could rise over the medium term.

In times of greater risk aversion, financial markets tend to be more forward-looking and become very sensitive to real or apparent inconsistencies in macroeconomic policies that usually go unnoticed in times of economic boom. In spite of the large rescue package agreed in Europe, significant risk premiums will persist on the sovereign debt market in some European countries in the midst of uncertainties regarding fiscal consolidation processes. The growing contagion we have witnessed in recent weeks has been clear proof of the fragility of the current situation. Economic history is full of examples of "unfounded contagions" from country to country in times of crisis. In these cases, geographical proximity or cyclical similarities are more important than differences in terms of fundamentals. In fact, the current contagion situation is not completely justified by either the financial channel spurred by the breakout of the crisis in Greece or by any similarity in terms of fundamentals. Even though this may be cause for debate, there is a compelling need for some countries to increase their credibility in order to face the pressure from international investors.

There is growing concern over the long-term consequences of increases in public debt. This will inevitably lead to upward pressure on real interest rates and high risk premiums for a long time. Even if the recent contagion gradually fades, there will be growing discrimination between countries depending on the credibility of their fiscal situation. Given that higher economic growth is critical to achieve debt sustainability, it is not surprising that after tough fiscal adjustment measures have been announced are in the process of implementation, the focus is shifting towards additional reforms to improve the growth outlook of highly indebted countries in Europe.

There are two main types of uncertainty arising from the financial sector. First, the slow restructuring of the financial industry, especially in Europe could result in a creditless recovery. This is an increasing concern, because past experience and empirical evidence show the importance of credit in the early stages of economic recovery. There is also uncertainty over the regulatory reform that is already underway. The most likely result is a significant increase in capital and liquidity requirements, which could limit banks' capacity to grant credit over the coming years.

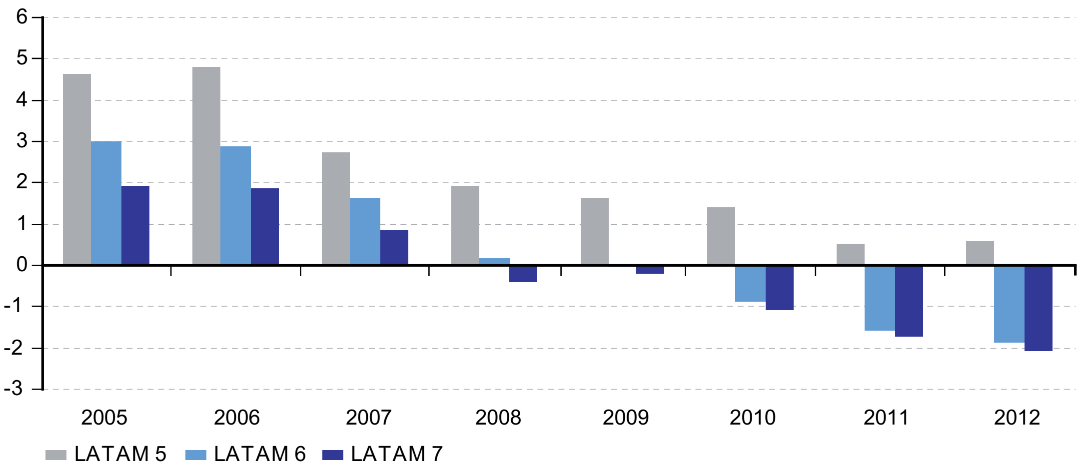
Latin America steps up the pace

The region's economic recovery, which started in the second half of last year, has consolidated and sped up, spreading to almost every country in the region. The initial boost came from the fiscal and monetary stimulus packages applied in 2009, which were quickly joined by the upturn in commodities prices and a gradual improvement in access to external financing They were later accompanied by a generalized increase in business and consumer confidence, which resulted in a faster than expected recovery in domestic demand by the private sector, in terms of both consumption and investment. If we take the region's seven largest economies (LATAM 7) as the reference, our GDP growth forecast for 2010 rose from 4.0% in January to 4.6% at the moment, in spite of the downward revisions in Chile (earthquake) and Venezuela (devaluation and energy crisis). In the coming years, growth will stabilize around 4% a year for the region as a whole, with several countries recording growth rates of around 5% (Brazil, Chile and Peru).

Stronger growth in domestic demand, together with a downturn in commodity prices in the second half of 2010 and in 2011, will bring significant change in the foreign accounts trend, with a considerable decline during the projection period, as shown in Graph 1. Although the change in position is important, it is worth mentioning that the balances as a proportion of GDP are at sensible levels (-2% of GDP on average) and in keeping with the heavy capital flows towards the region that we expect in the coming years, with a high proportion of Foreign Direct Investment. These flows have already started to come out strong and have contributed to a generalized appreciation in the region's currencies.

Chart 1

Forecasts: Current Account balances as a proportion of GDP (%)

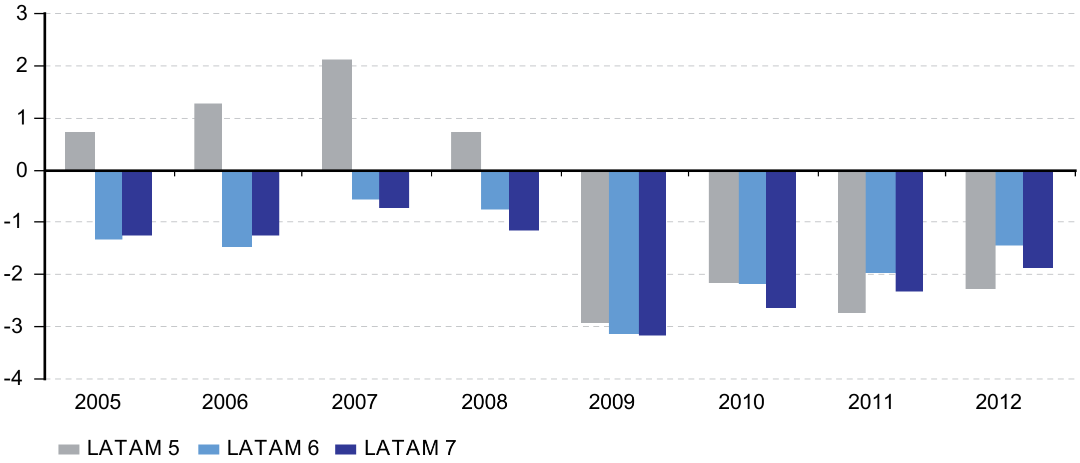


LATAM5: Arg, Chi, Col, Per and Ven; LATAM6: LATAM5 + Bra; LATAM7: LATAM6 + Mex
Source: BBVA Research, IMF and IIF

Furthermore, the recovery cycle is also joined by a decline in fiscal accounts, partly caused by the fall in raw material prices, although the upturn in GDP and domestic demand are already showing in higher tax receipts, which should become stronger during the projection period. Consequently, the rise in public deficit, which can be seen in Chart 2, is mainly due to the boost to fiscal spending in response to the 2008-09 crisis. This is gradually but slowly being scaled back in the region.

Chart 2

Forecasts: Fiscal balances as a proportion of GDP (%)



LATAM5: Arg, Chi, Col, Per and Ven; LATAM6: LATAM5 + Bra; LATAM7: LATAM6 + Mex
Source: BBVA Research, IMF and IIF

In the case of Argentina a considerable effort is being made to bring relations in the international financial community back to normal through a new debt swap offer. The results will be announced after this reports closes. If this is successful, it will allow Argentina to try to come back to financial markets, once the fears over sovereign debt in Europe pass.

This year is very important from a political point of view in the region, with recent presidential elections in Uruguay, Bolivia and Chile, one to come in Columbia, which coincide with the publication of this report, and others due in the coming months in Brazil, and those next year in Peru and Argentina. Then there are the very important parliamentary elections in Venezuela in September this year. Although the remaining contests will be highly competitive, no significant impacts on the risk premiums of the respective countries are expected, because in both Brazil, Colombia and Peru there most likely winners, as well as their closests contenders are committed to maintain the prevailing economic approaches. Also, the elections in the other countries provide an opportunity for a greater balance between the political groups, which should reduce room for discretion, making the introduction of economic management adjustments more likely.

Inflation is not dead

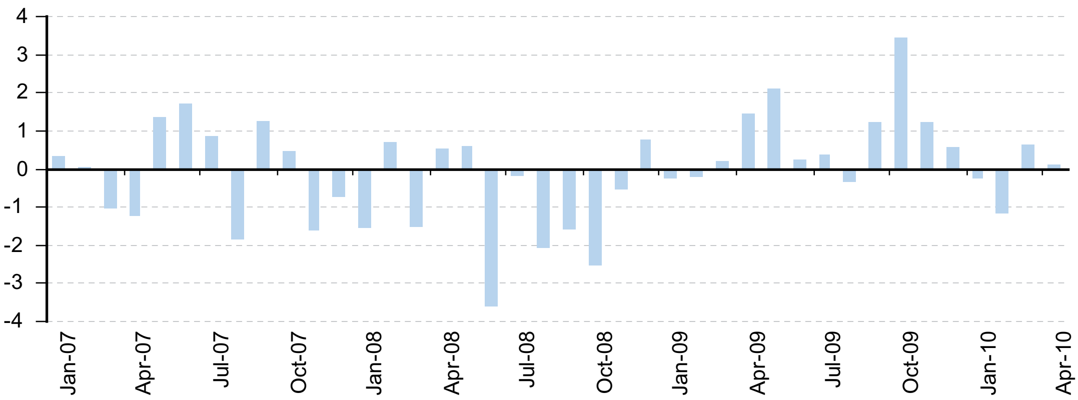
One of the sources of concern for the region's authorities, especially for central banks which have earned themselves a strong reputation by imposing and fulfilling strict inflation targets, is the risk that a quick recovery in domestic demand, in a climate of very low international interest rates, could cause an outbreak of inflation. In fact, in recent months we have witnessed rises in inflation, although of a very diverse nature: in Chile and Peru there seems to be a return to acceptable ranges for the authorities, after being below these ranges for most of 2009, although in both cases the central banks have hinted that they will start to raise interest rates (actually this already happened in Peru). In this group of countries, only in Brazil is inflation threatening to go above Central Bank's targets, in the midst of a heavy increase in aggregate demand (public and private). The authorities' has been strong, pushing up rates by 75 bps (more than markets expected) and hinting that they will continue to aggressively withdraw the monetary stimulus in the coming months. In Mexico inflation has dropped to levels between 4 and 5% a year, within the range that the Central Bank has defined as acceptable, at a time when domestic demand is still not gaining momentum. Although there may be specific increases in food prices at the end of the year which will take inflation temporarily above the target range, we do not think that it will justify a monetary policy adjustment. In Colombia, inflation has consistently being below expected rates, allowing the country's central bank to lower its policy rates again, to the markets' surprise, but which is in keeping with the observed inflation trend, the expectations that the new government will introduce some fiscal adjustment measures, and the fact that domestic demand is growing, albeit at a moderate rate.

In Argentina, inflation has experienced a rise, a reflection of some supply restrictions in food producing sectors against a background of a strong upturn in domestic demand. This has led authorities to restrict the exports of these products. In Venezuela, the devaluation of the Bolivar at the start in January took a while to come out in bigger price increases, but in March, and especially April, inflation rose significantly. Other factors that influenced these increases are climate factors, which affected local food production, as well as supply problems due to restrictions to get access to foreign currencies to import both end products and intermediate goods. Power cuts, which affected industrial output capacity, also played an important part in these problems.

Monetary policy under pressure regarding currencies

Concern over inflation in countries such as Brazil, Chile and Peru, and to a lesser extent Colombia and Mexico, where the risk of price increases is lower, represents a challenge for central banks which have started to raise interest rates or are about to do so in the coming months. These countries have benefited from significant reductions in their risk premiums and are absorbing large capital flows, meaning that their currencies are on a revaluation trend, which if persists could threaten competitiveness. Brazil, Colombia and Peru have opted to intervene in the FX market by accumulating reserves. Argentina, which unlike the above countries is not applying an inflation target monetary policy, has also intervened heavily in the FX market, in response to pressures for appreciation of the peso in view of lower capital outflows due to the reduction in risk premiums.

Chart 3
Capital Flows to Latin America* (USD bn)



*Bonds + Equity. Latin America: Arg, Bra, Chi, Col, Mex, Per and Ven
Source: EPFR

In spite of the foregoing, there is still a certain level of uncertainty and volatility on markets, which has allowed the appreciation to be relatively limited so far, even in Chile where the central bank has not intervened in the FX market. The recent fall in raw material prices and the increases (moderate) in risk premiums should ease the pressure and make the central banks' job easier.

There is no doubt that the central banks' decision to act relatively early to limit the monetary stimulus is welcome, because it again proves their commitment to meet inflation targets and economic stability in general. However, the increases in the monetary base due to interventions on the FX market represent a significant challenge for sterilization, and in some cases such as Brazil and perhaps Peru, this could lead, sooner rather than later, to the use of quantitative control measures, such as the rise in legal reserve rates for bank deposits.

Different but bearable risks

The risks that the region is facing on the global scene vary widely from country to country. Firstly, in the short term we have witnessed a limited rise in risk premiums influenced by the trend on sovereign debt markets in some countries in Southern Europe. These should have a small effect on the region, although overall they could cause some problems for governments looking to place bonds in the present conditions. We think that following the setting up of the European Union's support fund and the fiscal adjustments announced in Greece, Spain and Portugal, among others, confidence should return slowly to markets, which will probably be linked to specific progress regarding the implementation of those adjustment plans. However, if these are thwarted for any reason, volatility would return to the market with a risk of contagion which could slow down the global credit recovery, especially in Europe. Even against this background we think that Latin America is in good standing to face such a situation, because most countries have large foreign currency liquidity reserves, whether in central bank reserves or in sovereign funds held abroad, in order to keep FX markets well supplied. Therefore, we do not think that this contagion is likely to result in a fall in credit in the region, and without a considerable impact on the credit channel it is unlikely that the events in recent weeks will have a significant effect on confidence and private demand in those countries.

A second risk factor to be taken into consideration is whether the Asian authorities, especially in China, decide to take stronger action to avoid inflationary pressures, something that some markets seem to be including in their current appraisals, especially in the raw material markets (mainly metal and oil). Further prices falls could have a negative impact on the region, because there would be a simultaneous decline in fiscal and foreign accounts, just when markets are reluctant to accept greater risks. It is worth pointing out, though, that our macroeconomic projections already include greater price falls than those we are observing at the moment, especially in the case of copper. A much bigger fall would be necessary for this to lead to a decline in foreign and fiscal accounts which jeopardize access to financing the region's deficits.

Mexico is a special case in the region. To start, its fiscal results are highly dependent on the oil price trend and this opens a window of vulnerability regarding growth in Asia. Also, its special trade relationship with the US means that its production sectors are linked to that country's performance, especially as far as the industrial sector is concerned. So far both factors have had a positive effect on Mexico, showing in the dramatic recovery in its exports. However, a combination of increased monetary restrictions in Asia and the end of the growth drive in the US - a result of a reduction in bank lending, for example- could hurt Mexico.

Finally, we must mention the risk that the fast growth in domestic demand will start to cause inflationary pressures, If so,we can expect a greater fiscal adjustment, currency appreciation and increased monetary restrictions, especially in South American countries with inflation targets (Brazil, Chile, Colombia and Peru) which could reduce GDP growth somewhat in 2011 and 2012.

Good medium-term outlook

To sum up, we are looking at a region that is recovering well, where domestic demand is starting to play a central role in this recovery. The region is therefore beginning to make a positive contribution to reducing global imbalances, due to the growth – within limits – of its current account deficit. Although there are some inflation risks, central banks have already started the monetary stimulus reduction cycle, or there are signs that they will start it shortly.

Pressure on currency appreciation has been restrained through the application of the central banks' usual measures, and the increase in global risk aversion could offset these threats, as long as it remains at a moderate level.

In the medium term the region seems to be leaving behind its chronic volatility due to the weakness of its fiscal accounts and its heavy dependency on external borrowing, with limited capacity to control monetary variables. Progress on all of these fronts is currently evident. They have passed the tough test to which the 2008-09 economic and financial emergency subjected them and the markets have acknowledged this through falls in risk premiums (absolute and relative) and improvements in the risk rating for some of them. In the coming years, these countries face the challenge of proving that these improvements will last, so to be able to capitalize their progress in greater potential growth.

Table 1

GDP (% y/y)

	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	2009	2010	2011
Argentina	-1.8	-2.3	-4.3	0.2	4.4	5.6	4.6	3.4	2.6	2.3	3.9	5.5	-2.1	4.5	3.6
Brazil	-1.9	-1.7	-1.4	4.3	6.8	6.6	5.7	4.4	3.9	4.2	4.8	5.5	-0.2	5.9	4.6
Chile	-2.1	-4.5	-1.4	2.1	1.0	2.7	6.2	6.0	6.9	6.6	4.8	4.0	-1.5	4.0	5.6
Colombia	-0.5	-0.3	-0.2	2.4	2.5	2.4	3.6	3.3	4.1	4.5	4.5	4.4	0.4	3.0	4.4
Mexico	-9.1	-8.5	-6.1	-2.4	5.8	6.6	4.7	2.9	2.9	3.2	4.0	5.0	-6.6	5.0	3.8
Peru	1.9	-1.2	-0.6	3.4	4.6	6.1	6.3	5.7	5.6	5.1	4.7	4.5	0.9	5.7	5.0
Venezuela	0.5	-2.6	-4.6	-5.8	-5,8	-3.3	-2.1	0.1	1.1	0.8	0.2	0.4	-3.3	-2.5	0.6
Latin America 5	**-0.7**	**-2.1**	**-2.7**	**0.1**	**1.7**	**2.8**	**3.5**	**3.4**	**3.6**	**3.4**	**3.5**	**3.9**	**-1.4**	**2.9**	**3.6**
Latin America 6	**-1.3**	**-1.9**	**-2.0**	**2.4**	**4.5**	**4.9**	**4.7**	**3.9**	**3.7**	**3.8**	**4.2**	**4.8**	**-0.7**	**4.5**	**4.1**
Latin America 7	**-3.6**	**-3.8**	**-3.2**	**0.9**	**4.9**	**5.4**	**4.7**	**3.6**	**3.5**	**3.6**	**4.1**	**4.8**	**-2.5**	**4.7**	**4.0**

Latin America 5: Arg, Chi, Col, Per and Ven. Latin America 6: Latin America 5 + Bra. Latin America 7: Latin America 6 + Mex
Source: BBVA Research

Table 2

Inflation (% y/y, average)

	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	2009	2010	2011
Argentina	19.7	16.7	14.5	15.8	19.3	22.6	26.4	27.0	27.4	26.9	26.8	28.5	16.6	24.0	27.4
Brazil	5.8	5.2	4.4	4.2	4.9	5.1	5.3	5.3	5.1	4.9	5.0	4.8	4.9	5.1	5.0
Chile	5.6	3.1	-0.6	-1.9	-0.3	1.3	2.2	2.8	2.9	2.8	2.8	2.9	1.6	1.5	2.9
Colombia	6.1	3.8	3.2	2.0	1.8	2.4	2.8	3.4	3.3	3.1	2.8	3.2	3.8	2.6	3.1
Mexico	6.2	6.0	5.1	4.0	4.8	4.9	5.1	5.6	4.8	4.5	4.2	4.2	5.3	5.1	4.4
Peru	5.6	4.0	1.9	0.4	0.7	1.2	1.9	2.3	2.4	2.4	2.4	2.4	2.9	1.5	2.4
Venezuela	28.5	27.4	28.9	26.9	31.9	29.9	30.2	32.8	31.9	30.6	29.2	28.1	26.9	32.8	28.1
Latin America 5	**15.1**	**12.8**	**11.5**	**10.9**	**13.3**	**14.4**	**16.0**	**17.0**	**17.0**	**16.5**	**16.1**	**16.5**	**12.3**	**15.6**	**16.2**
Latin America 6	**10.0**	**8.6**	**7.6**	**7.2**	**8.7**	**9.3**	**10.1**	**10.6**	**10.5**	**10.2**	**10.0**	**10.1**	**8.3**	**9.8**	**10.0**
Latin America 7	**8.8**	**7.8**	**6.9**	**6.3**	**7.5**	**8.0**	**8.6**	**9.1**	**8.8**	**8.5**	**8.3**	**8.3**	**7.4**	**8.4**	**8.3**

Latin America 5: Arg, Chi, Col, Per and Ven. Latin America 6: Latin America 5 + Bra. Latin America 7: Latin America 6 + Mex
Source: BBVA Research

Table 3

Exchange Rate (vs. USD, average)

	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	2009	2010	2011
Argentina	3.5	3.7	3.8	3.8	3.8	3.9	4.0	4.1	4.3	4.5	4.7	4.9	3.7	4.0	4.6
Brazil	2.3	2.0	1.8	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	2.0	1.8	1.8
Chile	607	567	545	519	519	520	505	510	514	515	522	530	551	513	520
Colombia	2,477	2,090	1,987	2,016	1,909	1,998	2,016	1,973	1,953	1,921	1,859	1,903	2,142	1,974	1,909
Mexico	14.4	13.3	13.3	13.1	12.8	12.2	12.2	12.0	12.2	12.4	12.4	12.4	13.5	12.3	12.4
Peru	3.2	3.0	3.0	2.9	2.8	2.8	2.8	2.8	2.8	2.9	2.8	2.7	3.0	2.8	2.8
Venezuela	2.2	2.2	2.2	2.2	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	2.15	4.3	4.3

Source: BBVA Research

Table 4

Interest Rate (%, average)

	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	2009	2010	2011
Argentina	13.3	12.8	12.6	10.7	9.6	9.9	12.2	15.0	16.0	16.0	16.0	16.0	12.4	11.7	16.0
Brazil	11.3	9.3	8.8	8.8	8.8	10.3	11.5	11.5	11.5	11.5	11.0	11.0	9.5	10.5	11.3
Chile	4.8	1.3	0.5	0.5	0.5	0.6	1.3	2.5	3.8	4.5	5.3	5.9	1.8	1.2	4.9
Colombia	7.0	4.5	4.0	3.5	3.5	3.0	3.0	3.5	4.0	4.5	5.0	5.5	4.75	3.25	4.75
Mexico	7.5	5.1	4.5	4.5	4.5	4.5	4.5	5.0	5.5	6.3	6.5	6.5	5.4	4.6	6.2
Peru	6.3	4.0	1.5	1.3	1.3	1.3	1.8	2.3	2.9	3.4	3.9	4.3	3.3	1.6	3.6
Venezuela	17.7	14.6	14.5	14.5	14.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	14.5	13.5	13.5

Source: BBVA Research

Table 5

Private Consumption, Government Consumption and Investment (% y/y)

	Private Consumption (% y/y)			Government Consumption (% y/y)			Investment (% y/y)		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Argentina	-4.1	3.8	2.7	7.3	8.9	5.0	-10.1	6.0	5.9
Brazil	4.1	6.7	4.8	3.7	1.9	2.3	-10.0	17.7	10.1
Chile	0.9	2.6	4.6	6.8	4.3	4.2	-15.3	11.2	13.9
Colombia	0.0	3.7	4.1	2.7	1.7	1.1	-5.0	6.7	8.1
Mexico	-6.2	1.5	2.3	2.3	0.2	1.8	-9.9	0.9	7.1
Peru	2.4	3.2	3.9	16.5	6.2	3.7	-8.6	9.8	6.2
Venezuela	-3.2	-1.1	1.0	2.3	5.3	4.1	-8.2	-1.3	1.0
Latin America 5	**-1.6**	**2.5**	**3.1**	**6.4**	**5.8**	**3.8**	**-9.2**	**5.9**	**6.5**
Latin America 6	**1.5**	**4.8**	**4.0**	**4.9**	**3.7**	**3.0**	**-9.6**	**12.4**	**8.5**
Latin America 7	**-0.8**	**3.8**	**3.5**	**4.1**	**2.6**	**2.6**	**-9.7**	**9.0**	**8.1**

Latin America 5: Arg, Chi, Col, Per and Ven. Latin America 6: Latin America 5 + Bra. Latin America 7: Latin America 6 + Mex
Source: BBVA Research

Table 6

Fiscal Balance and Current Account (% GDP)

	Fiscal Balance (% GDP)			Current Account (% GDP)		
	2009	2010	2011	2009	2010	2011
Argentina	-0.6	-1.1	-2.0	3.6	2.2	1.4
Brazil	-3.5	-2.6	-2.1	-1.6	-2.8	-3.4
Chile	-4.5	-2.7	-3.8	2.5	1.3	-3.8
Colombia*	-4.2	-4.3	-3.6	-2.3	-2.5	-2.3
Mexico	-3.2	-3.6	-3.3	-0.6	-0.7	-1.7
Peru	-2.1	-1.4	-1.0	0.2	-0.5	-2.1
Venezuela	-8.7	-4.1	-5.7	2.4	4.4	5.1
Latin America 5	**-3.7**	**-2.6**	**-3.2**	**1.6**	**1.2**	**0.3**
Latin America 6	**-3.6**	**-2.6**	**-2.6**	**-0.1**	**-1.0**	**-1.7**
Latin America 7	**-3.5**	**-2.9**	**-2.8**	**-0.3**	**-0.9**	**-1.7**

* Central Government
Latin America 5: Arg, Chi, Col, Per and Ven. Latin America 6: Latin America 5 + Bra. Latin America 7: Latin America 6 + Mex
Source: BBVA Research

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

This document is provided in the United Kingdom solely to those persons to whom it may be addressed according to the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and it is not to be directly or indirectly delivered to or distributed among any other type of persons or entities. In particular, this document is only aimed at and can be delivered to the following persons or entities (i) those outside the United Kingdom (ii) those with expertise regarding investments as mentioned under Section 19(5) of Order 2001, (iii) high net worth entities and any other person or entity under Section 49(1) of Order 2001 to whom the contents hereof can be legally revealed.

The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA and the rest of entities in the BBVA Group which are not members of the New York Stock Exchange or the National Association of Securities Dealers, Inc., are not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

This report has been produced by

Chief Economist
Joaquín Vial
+(562) 351 1200
jvial@bbvaprovida.cl

Myriam Montañez
+(562) 679 1354
miriam.montanez@grupobbva.com

BBVA Research

Group Chief Economist
José Luis Escrivá

Chief Economists & Chief Strategists:

Regulatory Affairs, Financial and Economic Scenarios:
Mayte Ledo
teresa.ledo@grupobbva.com

Financial Scenarios
Daniel Navia
daniel.navia@grupobbva.com

Financial Systems
Ana Rubio
arubiog@grupobbva.com

Economic Scenarios
Juan Ruiz
juan.ruiz2@grupobbva.com

Regulatory Affairs

Market & Client Strategy:
Antonio Pulido
ant.pulido@grupobbva.com

Equity and Credit
Ana Munera
ana.munera@grupobbva.com

Interest Rates, Currencies and Commodities
Luis Enrique Rodríguez
luisen.rodriguez@grupobbva.com

Asset Management
Henrik Lumholdt
henrik.lumholdt@grupobbva.com

Spain and Europe:
Rafael Doménech
r.domenech@grupobbva.com

Spain
Miguel Cardoso
miguel.cardoso@grupobbva.com

Europe
Miguel Jiménez
mjimenezg@grupobbva.com

United States and Mexico:
Jorge Sicilia
j.sicilia@bbva.bancomer.com

United States
Nathaniel Karp
nathaniel.karp@compassbank.com

Mexico
Adolfo Albo
a.albo@bbva.bancomer.com

Macro Analysis Mexico
Julián Cubero
juan.cubero@bbva.bancomer.com

Emerging Markets:
Alicia García-Herrero
alicia.garcia-herrero@bbva.com.hk

Cross-Country *Emerging Markets* Analysis
Sonsoles Castillo
s.castillo@grupobbva.com

Pensions
David Tuesta
david.tuesta@grupobbva.com

Asia
Stephen Schwartz
stephen.schwartz@bbva.com.hk

South America
Joaquín Vial
jvial@bbvaprovida.cl

Argentina
Gloria Sorensen
gsorensen@bancofrances.com.ar

Chile
Alejandro Puente
apuente@grupobbva.cl

Colombia
Juana Téllez
juana.tellez@bbva.com.co

Peru
Hugo Perea
hperea@grupobbva.com.pe

Venezuela
Oswaldo López
oswaldo_lopez@provincial.com

Contact details

BBVA Research LATAM
Pedro de Valdivia 100
Providencia
97120 Santiago de Chile
Teléfono: + 56 26791000
E-mail: bbvaresearch@grupobbva.com