

REPORT



LAECCO

APRIL, 2019

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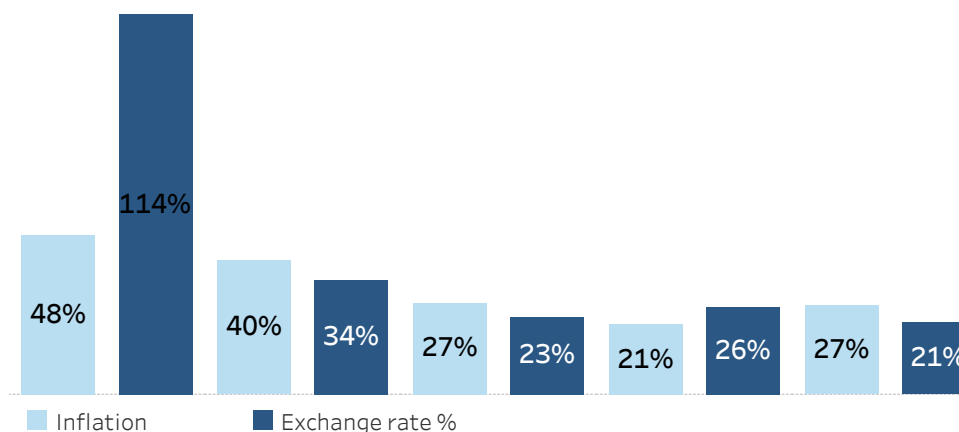
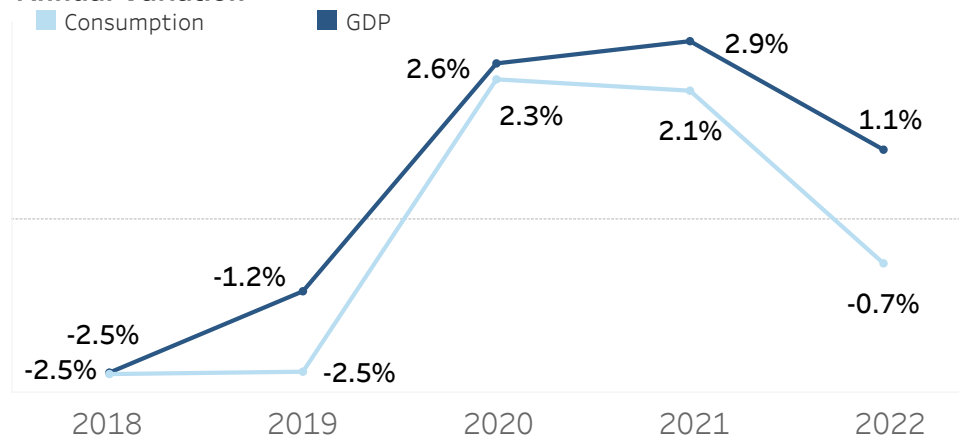
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Economy: The Government has risen Public Services prices at the beginning of the year so to pay the political cost of doing it as far away from elections as it was possible. This way, the primary fiscal balance improved, but inflation speed up. This acceleration in the first four months put off the real wages recomposition, difficulting an economic activity recovery. Moreover, it happened in the joint negotiations season, lifting up the claims. Nor public sector not firms can give significant increases, so the augments will end passing to prices, speeding up nominality. Every economic measure are disposed to calm down the exchange rate for the elections. The Non- Intervention Zones were frozzed until the end of the year to appreciate the real exchange rate. The contractive monetary policy will hardly be enough to avoid asset dollarization. For this reason, the Treasury will sell USD 60 Million daily between April and November. Anyway, this amount could be short for a stress day. Additionally, the BC could sell USD 150 Million daily if the exchange rate were above Non-Intervention Zone, but, in that case, the exchange rate jump would be already significant.

Politics: At the beginning of the year, we were holding that the Government was heading towards re-election for two reasons: Cristina Kirchner was going to be a candidate, increasing Macri's chances, and in the second half of the year there would be an economic recovery. However, inflation did not surrender and monetary policy tightened, raising doubts about the second assumption. The complex economic situation limits the competitiveness of the ruling party in a possible second round. This weakening sooner or later could affect their competitiveness for the General Election: if the Government began to have difficulties in defeating Cristina Kirchner in the second round, some voters could be pushed to look for another alternative to defend them from an eventual return of CFK. There lies the true potential of a third alternative embodied by Roberto Lavagna, alternative Peronism and the Socialism of Miguel Lifshitz. This reconfiguration of the scenario could, if the economic crisis deepens, deposit us in a ballot between two opposing options.

Annual Variation

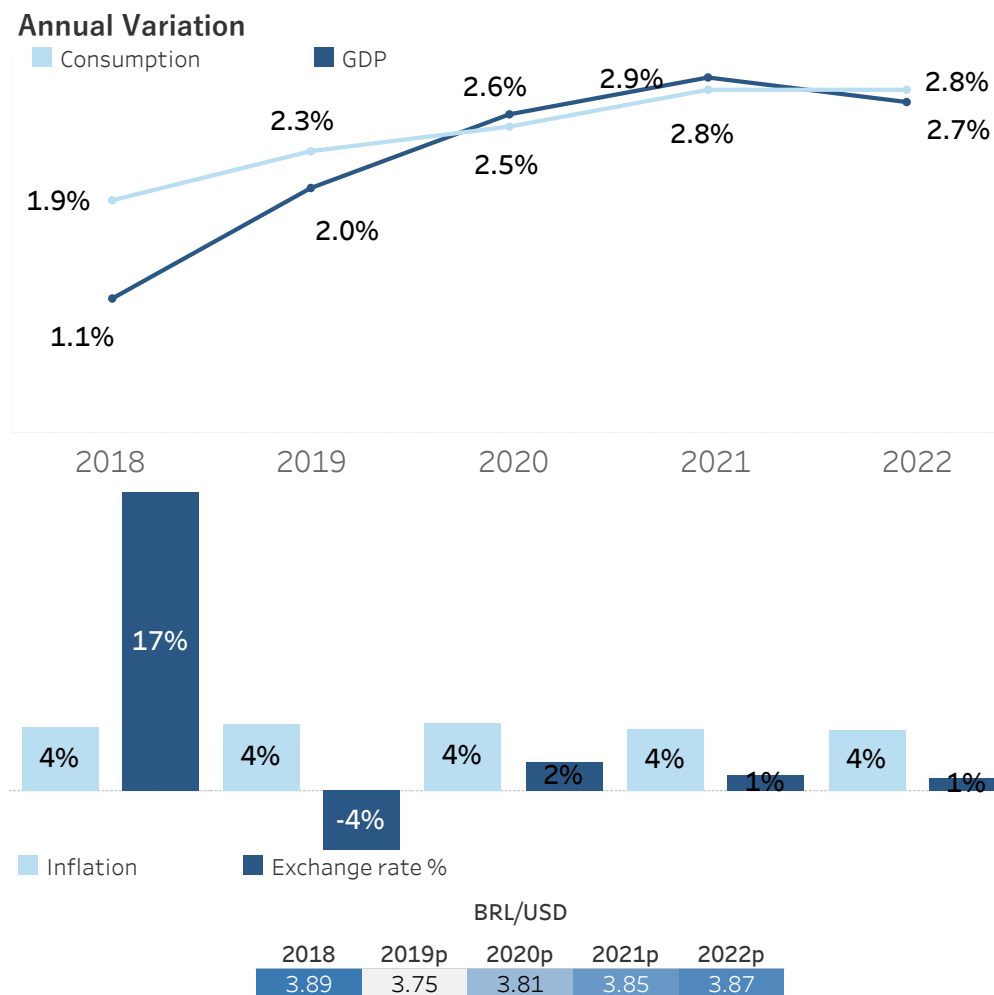


ARS/USD

2018	2019p	2020p	2021p	2022p
38	51	62	79	96

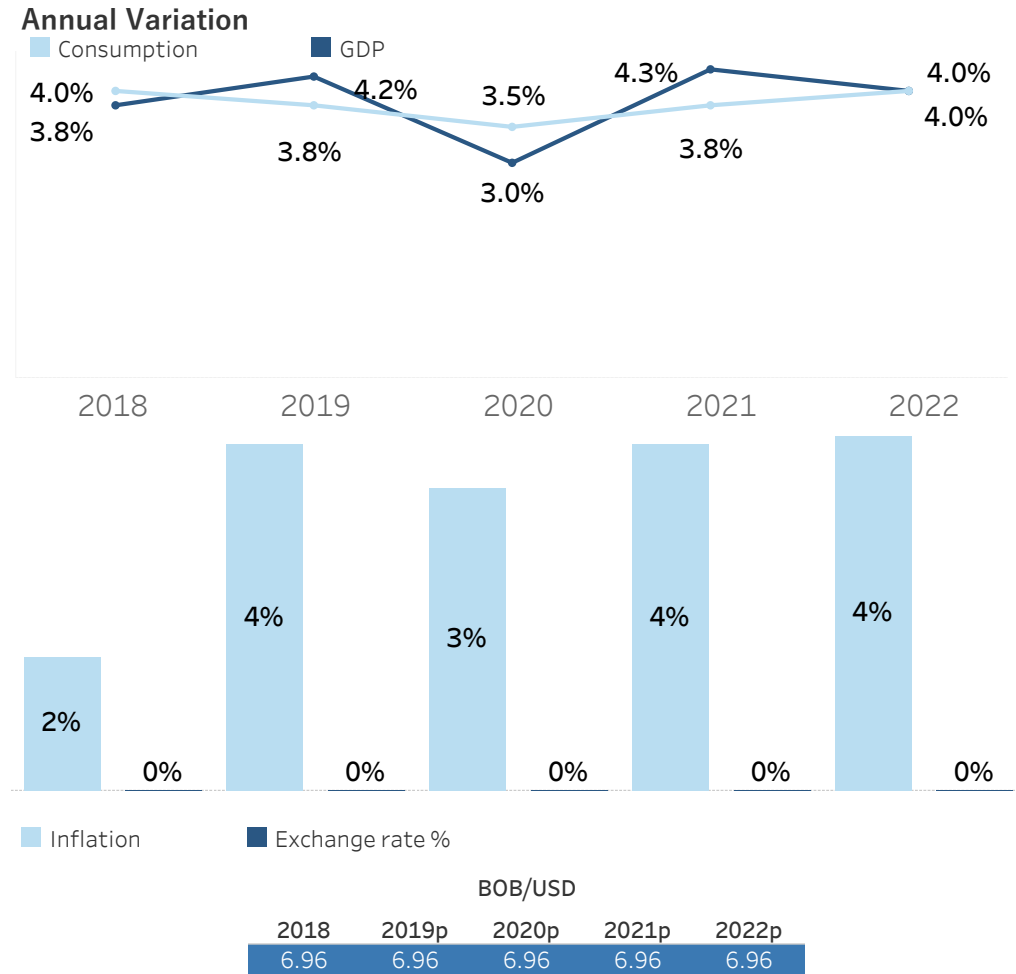
Economy: The economic activity is still quite moderate, reinforcing the little expressive results of the year so far. The acceleration of activity is limited, above all, by industry, but it gains clearer contours by observing the smooth pace of reaction of the services sector and the labor market. There is a downside to the 2% growth rate designed by Tendências. The more pressured inflation rate in March can be explained to a large extent by the short-term dynamics of food prices and fuel prices. The expectation is that such short-term pressures will dissipate throughout the year. Inflation data, in fact, suggests a possible loosening of monetary policy. This bias, however, is limited by the political scenario. The political problem affected the exchange rate, making it difficult to appreciate the Brazilian currency. Economic agents are more pessimistic about the recovery of the Brazilian economy. Confidence indices record consecutive declines and projections for economic growth are continuously reduced.

Politics: The evaluation of the first 100 days of the Bolsonaro administration confirms a framework marked by fragility of the political base to implement the government-designed economic agenda. Thus, the feasibility of the basic scenario for the Brazilian depend on shocks in the "traditional politics" and the markets, avoiding that the absence of party coalition results in the lack of governability. The option for a minority government results in the absence of long-term party commitments to the government. Thus, regardless of the public discourse, there is no commitment of the parties to vote the content of the project desired by the government. The president does not want to use his political capital to approve the pension reform. Not by chance, polls point to declining presidential popularity. The political instability will persist in the coming months.



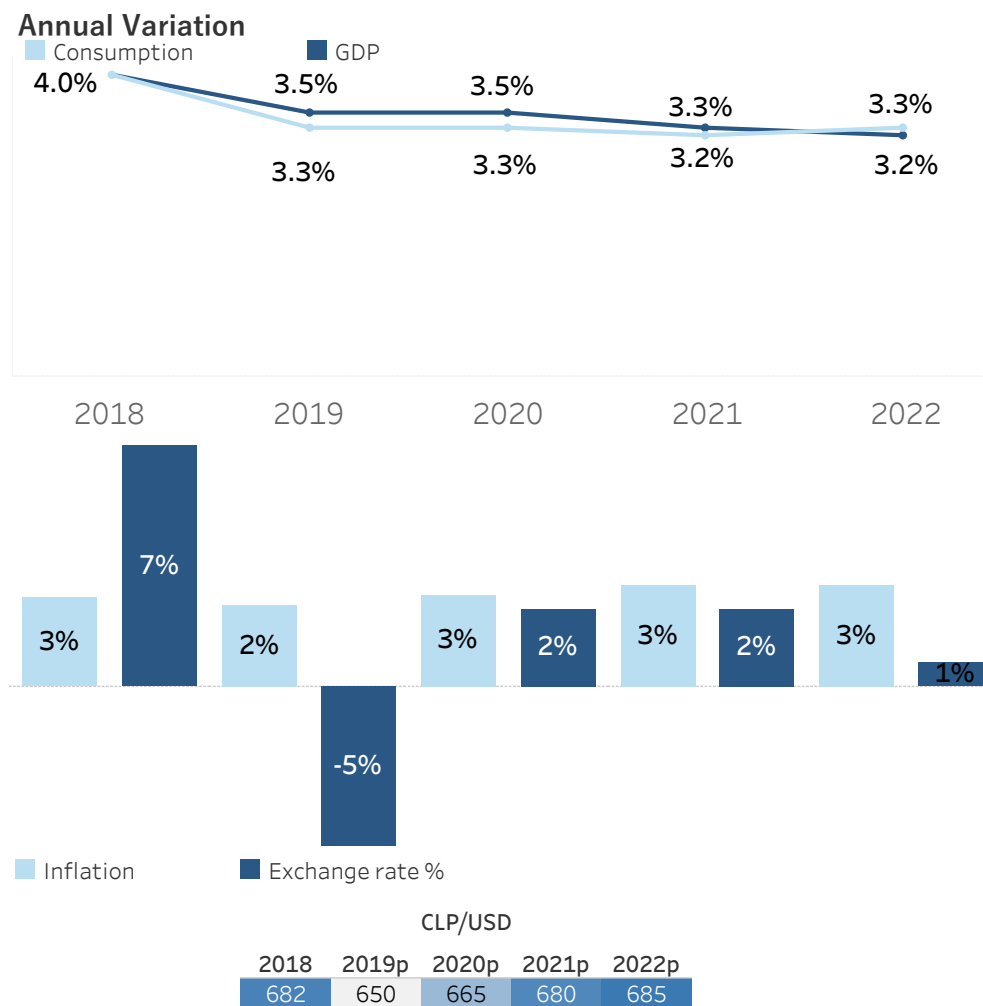
Economy: As a further sign of the consumption slowing, CPI did not change in March, so that cumulative inflation was also zero, besides a variation of 1.1%oya. Fixed exchange rate, as well as the depreciation of the currencies of the main commercial partners, also contributed to this figure. Despite low inflation, the Bolivian currency appreciated 7% in the last 12 months, further eroding competitiveness. This scenario is consistent with the fall of exports value of 5%oya in the first bimester, together with the continuous upsurge in imports of 10%oya, implying a trade deficit of 0.8% of GDP in the first two months of the year. Consistent with the previous scenario, net foreign assets fell 11% in the first quarter of the year, remaining at a level of 18% of GDP, below the 50% reached in 2014 at the end of the boom. Finally, the IMF ratified its vision of gradual deceleration in the following five years, modifying slightly the outlook for 2019 from 4.2% to 4%.

Politics: An active electoral environment for the presidential elections in October continues to set the agenda. In the case of the government, the effort to reach agreements with international partners for state-owned projects resulted in the visit to Bolivia of the president of India, as well as the visit of the president of Bolivia to Dubai and Turkey. In its effort to promote more public investment, a controversy was also generated by the start of oil exploration in the protected reserve of Tariquía (Tarija). In the case of opposition, the electoral contest has been centered between the two candidates with the greatest chances (Carlos Mesa and Óscar Ortiz). In a more general context, two facts were relevant: the inauguration of foreign trade operations with high volume containers by the Paraná Paraguay waterway as an strategy to the Atlantic and the start of the discussion about the wage increase between the government and the main Bolivian trade union, which points to a salary increase of 12%.



Economy: The external scenario registers a deterioration, which in part is transmitted negatively to the Chilean economy, which is small and very open to international trade. Growth expectations for the current year and the next have been revised downwards, both by the economic authorities and by the market. Linked to this, the economy maintains gaps in idle capacity, which helps to contain inflationary pressures. This occurs with particular intensity in the labor market, where the strong migratory current of recent years has caused a significant growth in the labor force, generating gaps that contain wage pressures. The Central Bank recently announced that it will pause for at least 6 months in its normalization process of the Monetary Policy Rate, which remains at expansionary levels. The exchange rate has shown a downward trend in recent days, partly following the global depreciation trend of the dollar, and partly due to the favorable evolution recorded by the price of copper.

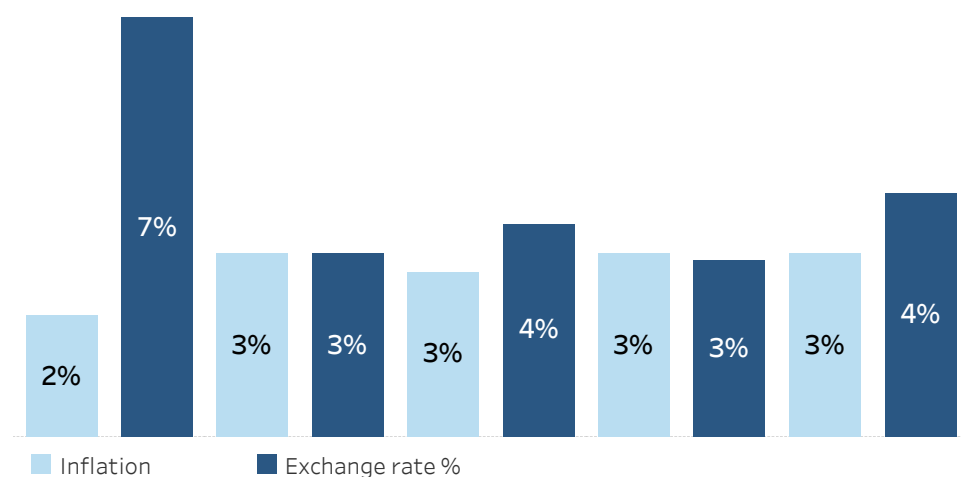
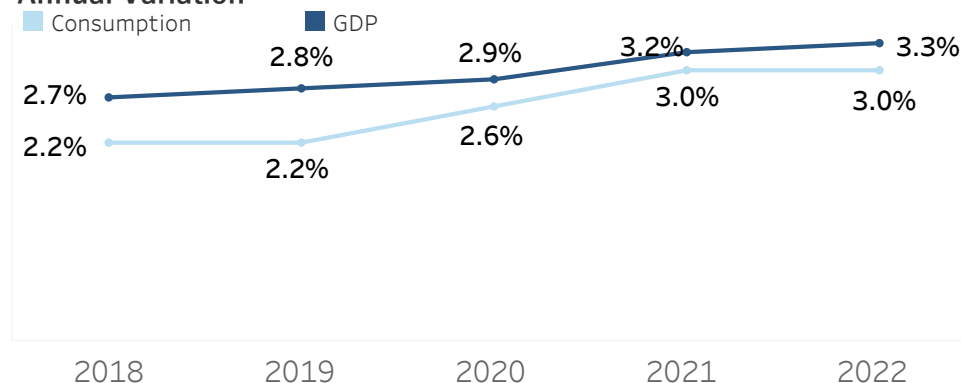
Politics: The Government of Sebastián Piñera has seen reduced its levels of support, in a scenario of deterioration in the economic expectations of households and a certain stagnation in the progress of legislative proposals. The latter is explained by a somewhat deficient political management by the Government, and by a rather obstructionist attitude of the opposition. The tax reform project surpassed the first legislative process with many difficulties, leaving the impression that, if approved, it will be at the cost of important concessions that will reduce the consistency and depth of the objectives pursued by the original project. However, they begin to narrow the margins of time to advance in several bills that, if not approved in the course of this year, will see their probability of approval complicated from next, period that will be marked by the electoral campaign associated to the municipal elections.



Economy: Costa Rican economy breathes a new stability air. Inflation is controlled. In March, the consumer's price index had a variation of 1.42% over the last 12 months, reaching the third consecutive month with inflation below the target. Credit and government expenditure expansions have been modest; therefore, aggregate demand does not push prices, so there will be no bad news for the next 12 months. However, according to the Central Bank's last report, "the output gap tended to locate around zero in the last quarter of 2018", which means there is no much space for an expansive monetary policy. After reaching a maximum value of ₡628 per \$1, induced by the fiscal uncertainty during the last quarter of last year; the exchange rate is starting a new stability period, currently it locates around ₡600 and net international reserves have almost recovered. Nonetheless, the economy has slowed down, unemployment locates at 12% and the IMF, estimates 2.9% growth rate during 2019, differing from the 3.2% projected by the Central Bank.

Politics: 2018 had two tense political events that polarized the people. The presidential elections, that went to second round, had the unpopular official party against an evangelical pastor, caused economic uncertainty. Afterwards, between September and December a 90 days strike had place in the public sector due to the tax reform driven by the Central Government. In May, Carlos Alvarado, that has a strong Congress minority, will conclude his first year in office; which has been characterized by the tax reform approval that affects both expenses and income. This reform has been costly for the president, especially with a permanent unpopularity rate near 50%. Additionally, in May, the Congress' directory will be changed and it is not expected that the Government's party will have any participation in the directory. So, the approval of more necessary structural reforms (such as employment and dual education system) happens to be very complicated due to electoral fatigue.

Annual Variation

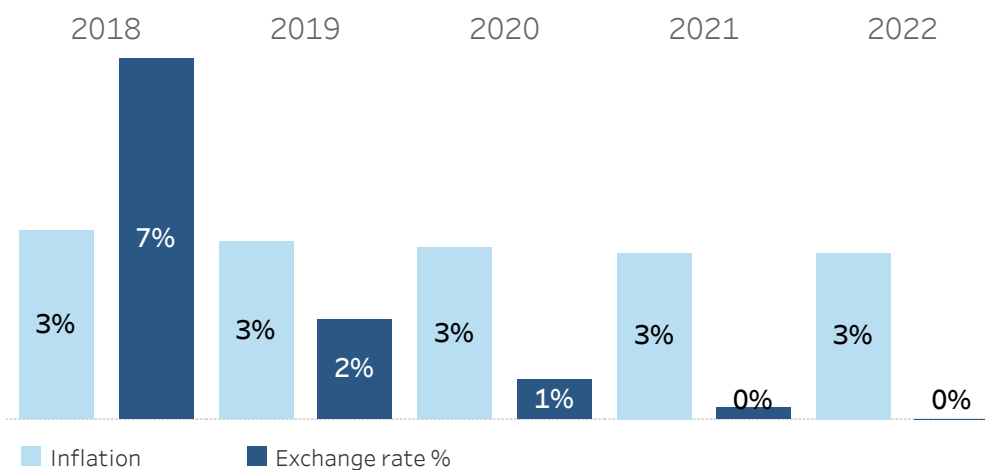
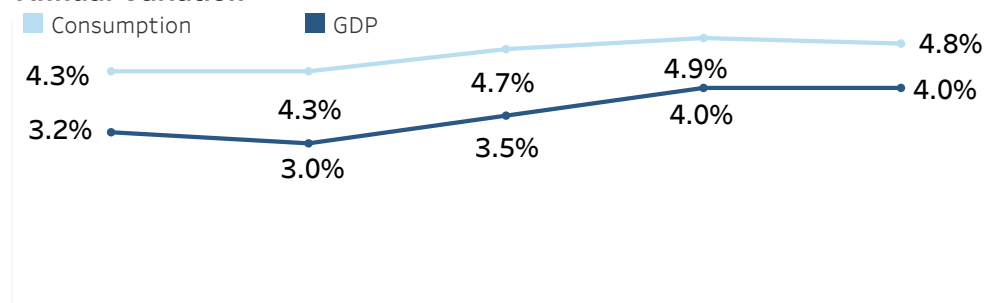


CRC/USD				
2018	2019p	2020p	2021p	2022p
609	627	649	668	695

Economy: The IMF reduced the growth forecasts for Colombia, for the year 2019 from 3.6% to 3.5%, the forecast of the unemployment rate of 9.1% increased to 9.7% and increased the forecast of current account deficit from 2.4% to 3.9% of GDP in the last version of the World Economic Outlook. These updates are in line with the forecasts made by Econometría Consultores. For 2019, we expect that GDP growth will be around 3.2%, the unemployment rate will have an average value of around 10.7%, and the current account deficit will be about -3.5% of GDP. This month the inflation forecast was updated 3.6% to 3.4% due to the appreciation of Colombian currency so far this year, marked by the increase in the price of oil during 2019, hindering the export dynamics.

Politics: Banco de la República has kept the intervention rate constant since inflation because inflation is close to the inflation target and the latest indicators of economic growth and the unemployment rate show no signs of overheating in the economy. On the other hand, the National Development Plan was approved, which has an important commitment to increase entrepreneurship, the formalization of the economy and productivity. This plan assumes a price of the price of oil around 70 dollars per barrel for the period 2020-2022 and 65 dollars per barrel for the current year, which is consistent with nowadays prices. However, considering the dependence of public spending on oil revenues, there is no decisive action in this Development Plan to diversify the risk and reduce the effects of this dependence, which are derived from the volatility of oil prices.

Annual Variation



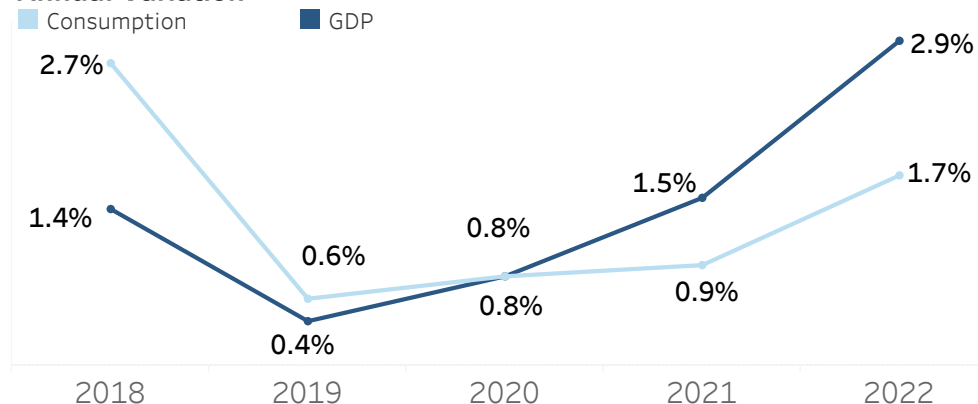
COP/USD

2018	2019p	2020p	2021p	2022p
3,145	3,200	3,223	3,230	3,230

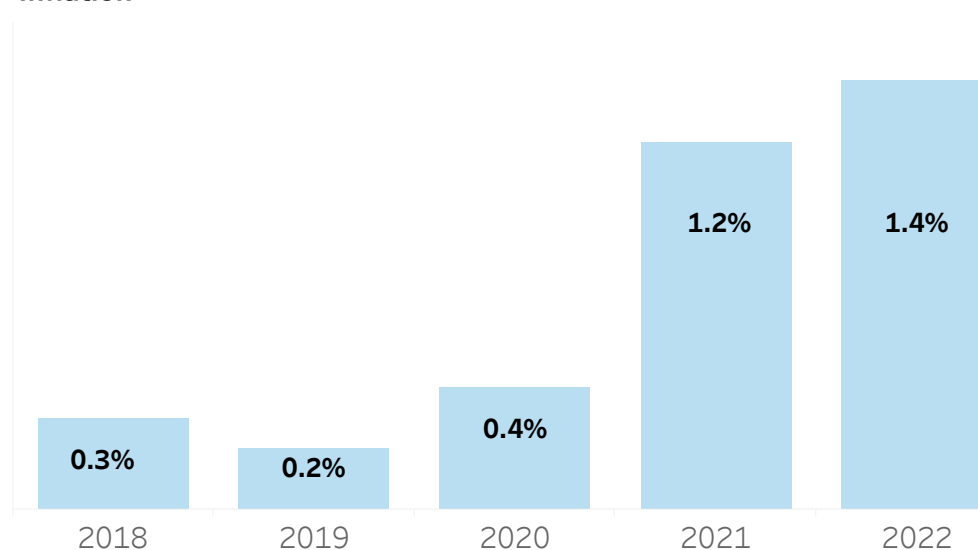
Economy: The Central Bank of Ecuador (BCE) released its provisional information for national accounts and balance of payments that correspond to 2018. According to the BCE, the Ecuadorian economy grew by 1.4 percent last year, which implies a reduction of one percentage point in relation to 2017. All the GDP components from the expenditure method, except for exports that only augmented by 0,9 percent, revealed a worst performance in 2018 than a year ago. In the last quarter of 2018, moreover, GDP increased year-on-year only by 0,8 percent, which already represents a sharp deceleration with respect to the last quarter of 2017 (2.8 percent) and anticipates what could happen in 2019. Regarding the balance of payments, the most important result was the rise in the current account deficit that reached US\$1.4 billion, which is three times larger than the one observed in 2017 and reflects the external disequilibrium that Ecuador faces, due to the real exchange rate appreciation. Finally, in March the annual inflation rate was again negative (-0.1 percent).

Politics: On April 11th the Ecuadorian Government decided to withdraw asylum to Julian Assange, who was a refugee within the Ecuadorian Embassy at London since June 2012. The arguments were that Assange violated norms established within the Inter-American conventions on diplomatic asylum, broke the especial protocol of cohabitation and intervened in domestic affairs of other states while being at the embassy. Similarly, the Ecuadorian nationality was retired due to irregularities in the procedure of naturalization. On the domestic front, the greater critics to this decision, that signals another break in the country's international politics that recently distanced from the Maduro regime in Venezuela, came from supporters of former President Correa ("Correistas"), who granted the asylum in 2012. In March, meanwhile, also an important political event were local elections that took place on the 24th. The results show that the "Correísmo" obtained 20 percent of the votes at the national level and the Partido Social Cristiano won comfortably in Guayaquil and Guayas.

Annual Variation



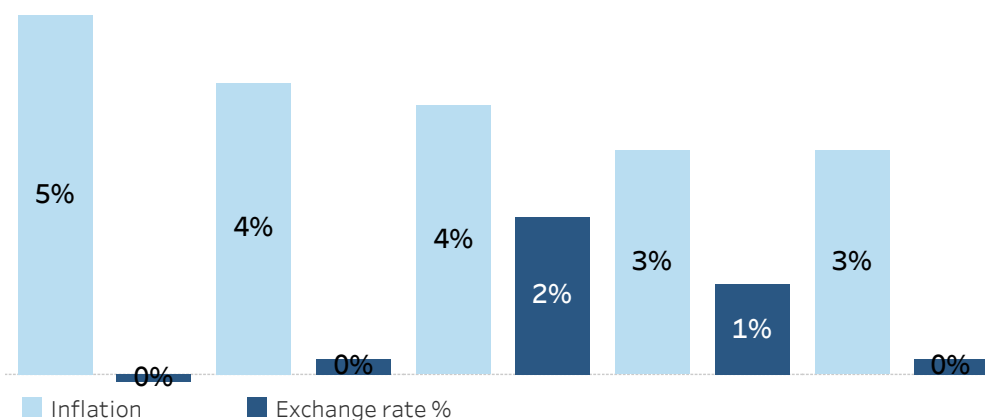
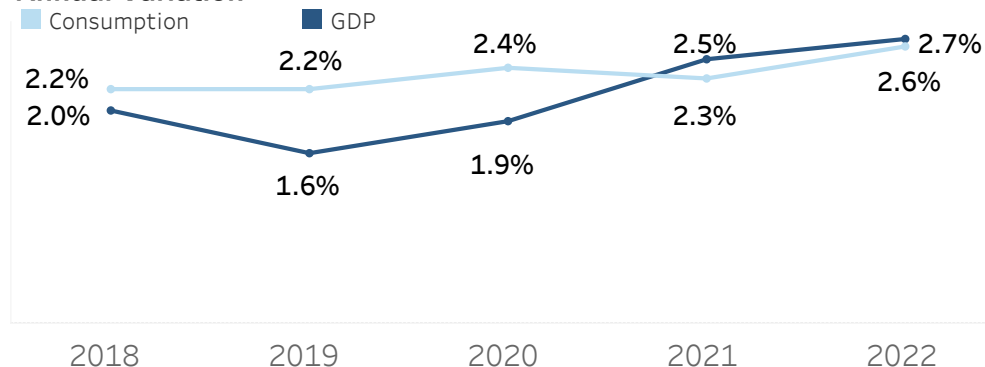
Inflation



Economy: Expectations of economic growth for Mexico are moving downwards. The issue is not only conjunctural, that is, it is not about changes in the Government Administration or about a lower external demand, but rather of a structural problem that affects the national economy and requires immediate attention. During the months of March and April, both the Mexican Government and the International Monetary Fund lowered their GDP growth estimates for 2019 and 2020 to 1.6% for 2019 (from 2.1%) and 1.9% for 2020 (from 2.2%), respectively. In Consultores Internacionales S.C.®, we have also made a minimum downward adjustment of our GDP growth estimates for 2019, from 1.7% to 1.6%. Some of the variables that we have identified as relevant in the moderate economic growth of Mexico over the last few years are: 1) the dependence on imports, 2) low labor productivity, 3) insufficient private investment and public spending and little effectiveness, 4) private and development banking with minimal participation in industrial development and, therefore, in the national economy. There is also an environment of uncertainty regarding economic policy. It is necessary to implement public policies associated with reversing the slowdown in economic growth.

Politics: One of the most important arguments against the policies implemented by the current administration has been on energy and climate change. Although Mexico signed the UN Sustainable Development Goals 2030, some actions that have been announced appear to be against them, such as: the construction of a refinery in the municipality of Dos Bocas, Tabasco, with the objective of increasing production of diesel and gasoline; the cancellation of the fourth clean energy auction, with the argument of high costs; the announcement of the reactivation of 60 thermoelectric plants and the construction of the Tren Maya, in the southern region of the country. Another issue has been in the threat of members of the National Coordinator of Education Workers (CNTE) for making a national strike before the New Educational Agreement, claiming a larger budget, as well as the abrogation of the General Law of Professional Teaching Service.

Annual Variation



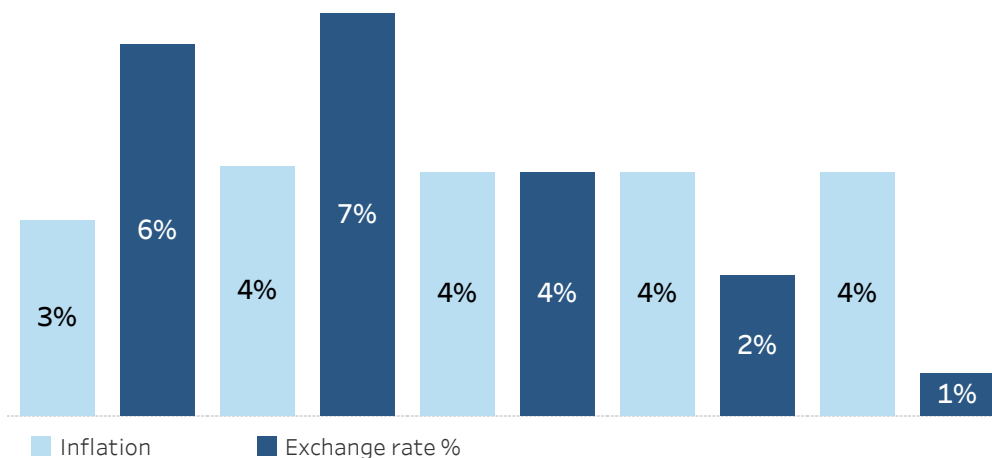
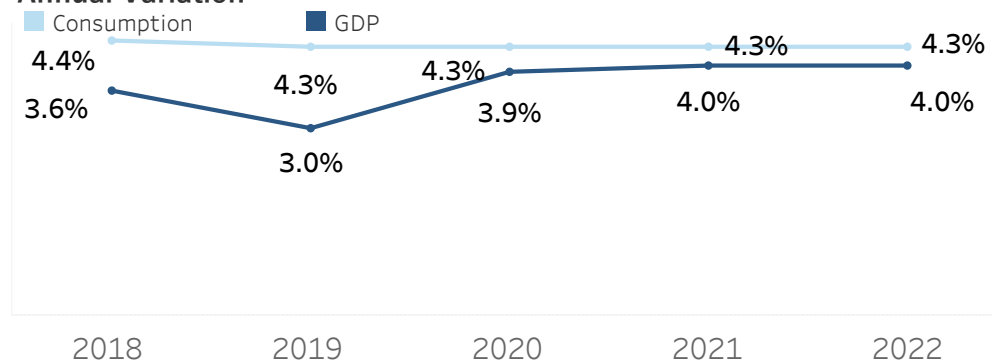
MXN/USD

2018	2019p	2020p	2021p	2022p
19.7	19.7	20.1	20.4	20.4

Economy: Paraguay's GDP growth has averaged 4.5% over the past decade, anchored in stable macroeconomic policies, low inflation and limited fiscal deficit. Vulnerabilities have decreased, with a significant reduction in both external and internal debt. The key challenge going forward will be to sustain growth rates, since drivers of the past, which include the boom in the prices of agricultural commodities, will provide less support in the future. Lower economic activity observed since the end of last year, resulted in approximately 3.6% growth in 2018. In 2018 growth was unequal, with the stronger economic activity in the first half of the year followed by a weaker second semester. On the other hand, the drought at the beginning of 2019 will have a negative impact on economic activity and downstream industries the agricultural sector, around 1% of GDP, approximately USD 660 million, if not more. Nevertheless, the impact is expected to be lower than in the past, due to the lower weight of the primary sector in the national accounts.

Politics: Faced with economic slowdown, the new government has not yet managed to reach a consensus with the private sector on the scope of the tax reform. Tax reforms have mostly been "fiscal pacts", not unilateral impositions. Negotiations surrounding tax modifications have coincided with two events; the beginning of a new government and/or some kind of crisis, be it political or economic, or both. Among concrete examples are; the reform of 1991 after the fall of the dictatorship, the one coinciding with the stand-by agreement with the IMF and the country's default in 2004, in 2012 following the political trial of Fernando Lugo and the suspension of Paraguay in the Mercosur and in 2013 after an attempt to impose taxes on grain exports. Attempts to modify the tax legislation at other moments of the government cycle, however, did not prosper. The fiscal agreements that generated higher levels of consensus and legitimacy over time were those that allowed significant reductions in public spending, forcing a greater rationality to fiscal performance.

Annual Variation

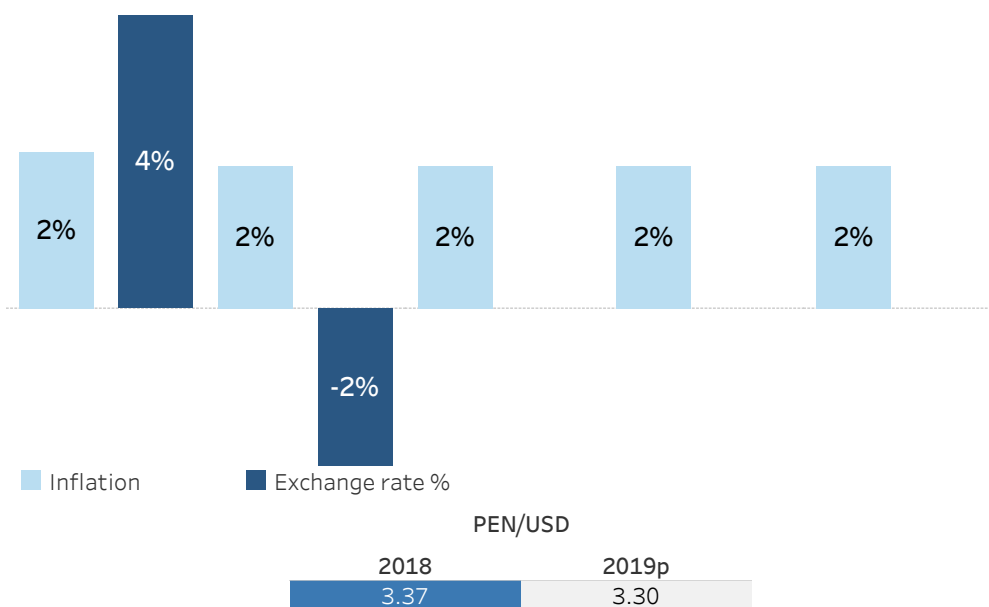
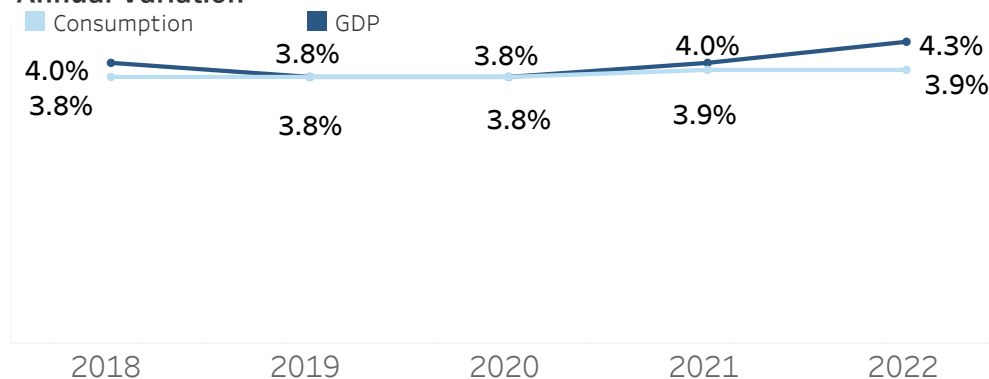


PRY/USD				
2018	2019p	2020p	2021p	2022p
5,910	6,300	6,550	6,700	6,750

Economy: In January, the Peruvian economy grew by just 1.6%, mainly due to the poor performance of primary activities (fishing and mining). Since mining continues to show a poor performance and public investment is weak in the first quarter of the year (with the consequent negative impact on the construction sector), the growth of that period has been revised downwards to 3%, from an initial 3.7%. For the second quarter, growth was expected around 3.2%. However, this number would also be revised downwards due Las Bambas mining project is paralyzed. It produces more than 400 thousand tons of copper per year and represents just over 1% of GDP. Thus, the economic outlook for 2019 has been deteriorating for the Peruvian economy.

Politics: The approval of President Martín Vizcarra, the only political capital he has, follows his downward trend. After the approval peak reached in December 2018 (61%), it fell to 44% in March of this year. In order to refresh his government, President Vizcarra appointed Salvador del Solar as president of the Council of Ministers, a first-class professional, charismatic and with the intention of being president of the Republic. However, a few days after his inauguration, del Solar had to face the conflict in Las Bambas mining project, one of the main copper mines in the world. The population had been blocking the exit routes of Las Bambas production for more than 50 days. The communities have a set of demands, some legitimate, that the Peruvian State has recognized, but most of them are the result of blackmail, incited by lawyers with serious accusations of corruption. Now the president of the Council of Ministers has advanced in the negotiation and the road has been unblocked. However, the problems could continue as new communities could join the claims and negotiation.

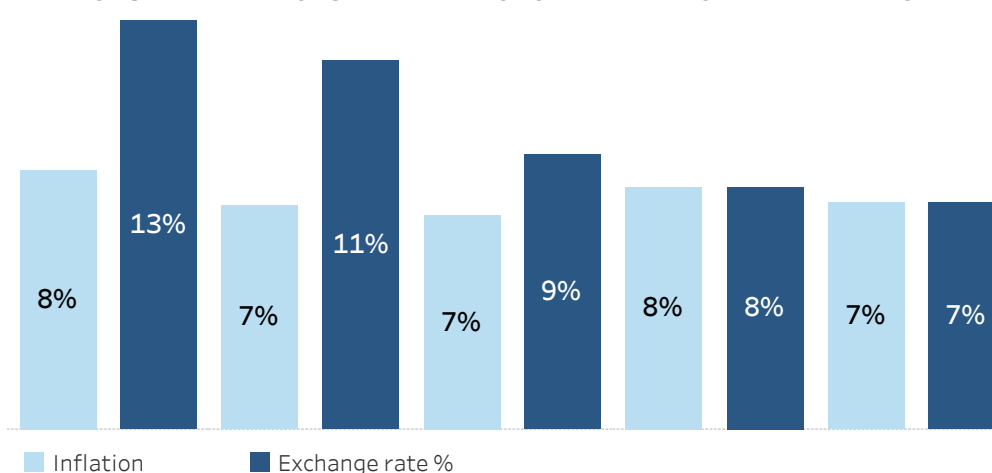
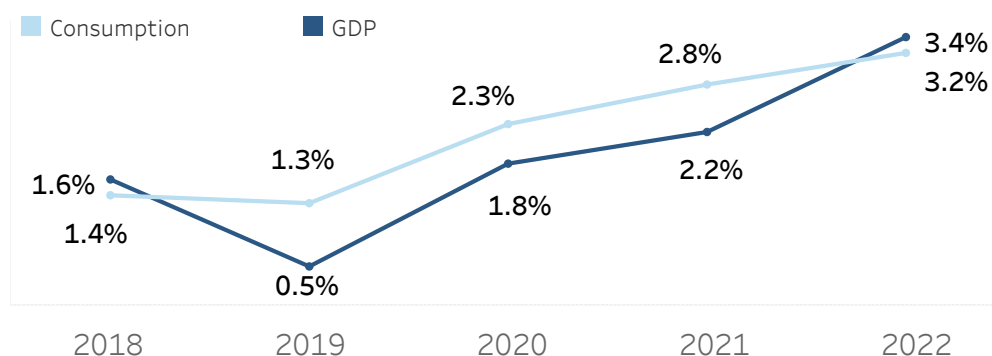
Annual Variation



Economy: The country's GDP of 2018 showed an increase of 1.6% over 2017, which marks 16 years of continuous growth. However, the economy has shown signs of stagnation in the last four years - even technically falling into recession during the past year -. Good weather conditions in 2018 enabled the good performance of Primary Activities (+ 5.7%), mainly agriculture (+ 25.3%) and cattle farming to a lesser extent (+ 1.3%). Although the manufacturing industry in aggregate had a positive variation (+ 1.9%), if we exclude the oil refining activity - from a public monopoly - all sectors experienced a drop; Commerce (-1%), Construction (-2.8%), Restaurants and Hotels (-3.1%) and Transport and Storage (-3.3%). Finally, Communications showed an important increase (+ 9.5%), especially related to telecommunications. From the point of view of the final expenditure, Private Consumption grew 1.5% and public expenditure 0.8%, while imports, investments and exports fell (-2%, -2.7% and -4.8% , respectively). During 2019 GDP would grow only 0.5%.

Politics: In just over a month the President of the Republic was compelled to dismiss the Commanders-in-Chief of the Army on two occasions and demanded the resignation of the Minister of National Defense and his Deputy-Secretary. The first dismissal was based on General Manini's strong criticism of justice in relation to the trials of military officers. His successor, General Garcia, was dismissed together with two other senior officers and was received jointly with the request for the resignation of the ministerial authorities, for their participation in the Court of Honor of a military officer convicted of the violation of Human Rights. This court did not find that "the institution ´s honor had been affected" despite the fact that the accused acknowledged his involvement in the disappearance of a political prisoner. The finding of the Court of Honor was ratified by the President of the Republic, who then rectified and passed the case on to justice, arguing the non-reading of the file.

Annual Variation

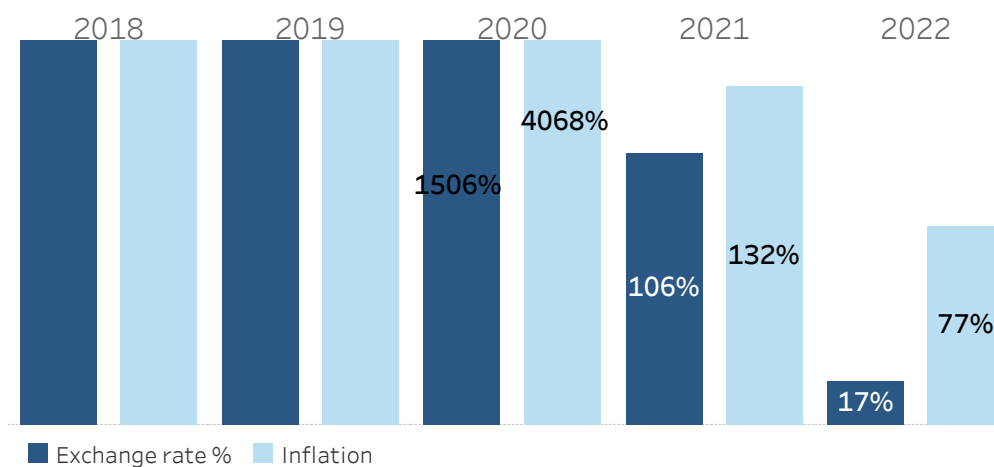
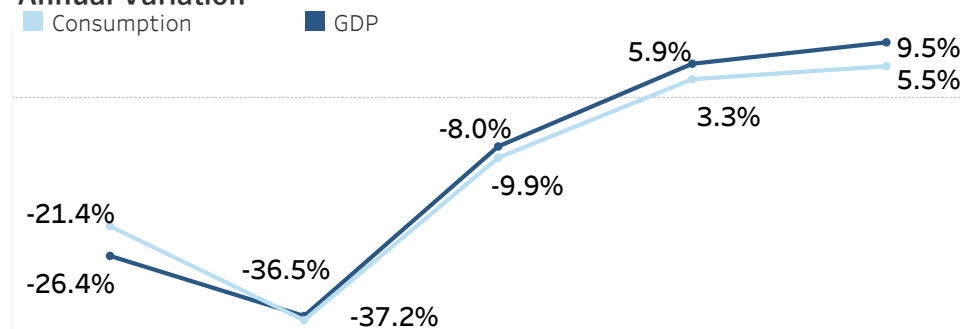


UYU/USD				
2018	2019p	2020p	2021p	2022p
32	36	39	42	45

Economy: March was signed by a deeply national-wide collapse on local public services, particularly, for a period of almost 15 non-continuous days. Curiously, during these events local prices did not show remarkable changes on a weekly basis, although it was showed a more common use of foreign liquid assets as payment method. On the other hand, the effects of US' sanctions over local oil industry began to appear. For March, 29th, US oil import from Venezuela were dropped to zero (from a level of 208 kb/d on February). Moreover, last OPEC report showed a notorious decrease on domestic oil production near to 472 kb/d, just between February and March, revealing (along with previous finding) the truly scope of such foreign prohibitions. Our recent estimations aim to a projected fall on local real GDP close to 36.5% on annual basis. We also estimate local monthly inflation will keep near to 100.0% (on average), although with a less aggressive pace respect with previous year.

Politics: During the last weeks, political sector was signed by newly designations (backed by interim president Juan Guaidó) of IADB Venezuela's economic official, as well as an ad hoc PDVSA's board of directors. Besides to gain more multilateral support to an eventual "alternative" Venezuela's administration, it would keep on save any further public assets' negotiations potentially exposed to more US sanctions. Local political conflict seems with no short run solution. This fact constitutes a new challenge for current regulator, increasing not only uncertainty for the private sector's decision-taking process, but also aggravating the radicalization and unwise decisions of those policymakers linked to Maduro's administration. Although international support for a potential political transition is undeniable, much of its impact could be mitigated by the options available to the Nicolás Maduro administration for dealing with an ever decreasing legitimacy and declining fiscal resources.

Annual Variation



VES/USD				
2018	2019p	2020p	2021p	2022p
740	121,692	1,954,512	4,023,849	4,699,829