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Brazil: Two Lost Decades in Forty Years — Could it Lose Half a Century?

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Two Lost Decades Since the 1980s and at Risk of Missing Half a Century

The growth performance of the Brazilian economy has been an unqualified disappointment, and this is not a recent phenomenon. It is not only that real GDP growth disappointed during last two years, that the 2015-16 contraction was the deepest for any two consecutive years in over 100 years (including 1930-31) or that the economy has stagnated so far this decade. It is the striking and uncomfortable reality that real income per capita growth has disappointed during the last four decades (or for two generations now). In fact, in two of the most recent four decades, Brazil will likely see declining real GDP growth per capita: the 1980s, and likely the 2010s. That is, in forty years Brazil will have witnessed two lost decades.

***This Ain't Your Older Brother's Up-Cycle*: Weakest Cyclical Recovery on Record**

The weak recovery likely reflects structural damage to the economy's main engines of growth. While the 1980s economic crisis and growth letdown was in part related to, and amplified by, external factors/shocks, the lost decade of the 2010s chiefly reflects policy missteps and lack of reforms, because the external backdrop remained, on balance, fairly supportive both in terms of global liquidity conditions and of commodity prices. In fact, relative to peers, Brazil's growth underperformed by a larger extent during the current decade (2011-18) than during the 1980s.

The Issues Hampering the Economy Are More Structural Than Cyclical

More than a short-term cyclical issue, the Brazilian economy's growth underperformance is profoundly connected to deep-rooted structural issues, and the aging demographic profile will just compound the challenges the country will face. In fact, over the next decade Brazil will have to grow and invest while the public sector continues to gradually adjust/deleverage and the population ages. In our assessment, if the country fails to address growing medium-term fiscal solvency issues and complement that with far-reaching structural reforms to open the economy, increase the low stock of physical capital, and improve overall efficiency/productivity, the next decade could become a lost one as well. In that case, Brazil would then not just lose another decade but would forego half a century.

Brazil: Two Lost Decades in Forty Years — Could it Lose Half a Century?

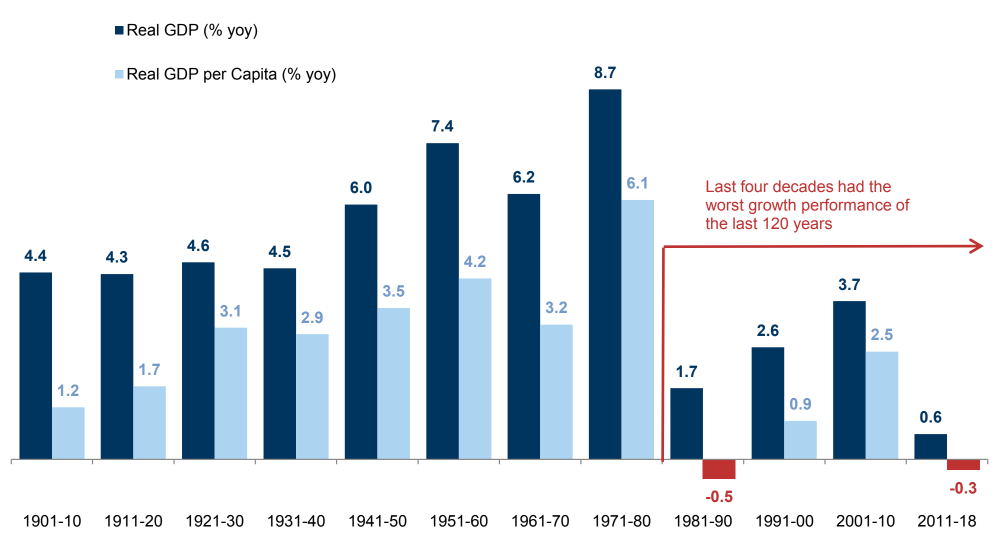
"How did it get so late so soon? Its night before its afternoon [...] My goodness how the time has flewn. How did it get so late so soon?"

Dr. Seuss (1904-1991), American children's author, political cartoonist, and animator.

Two Lost Decades Since the 1980s and at Risk of Missing Half a Century

The growth performance of the Brazilian economy has been an unqualified disappointment, and, unfortunately, this is not a recent phenomenon. It is not only that real GDP growth disappointed significantly during last two years, that the 2015-2016 contraction of real GDP was the deepest for any two consecutive years in over 100 years (including 1930-31) or that the economy has virtually stagnated so far this decade. It is the striking and uncomfortable reality that real income per capita growth has been deeply disappointing during the last four decades (or for two generations now), both in absolute terms and relative to Brazil's EM peer group (Exhibits 1-3). Tellingly, in terms of real GDP per capita growth, the four most recent decades (1981-2020) are set to rank at the bottom of the distribution of the last 100 years (i.e., the bottom two quintiles of the 10 decades starting in 1921).

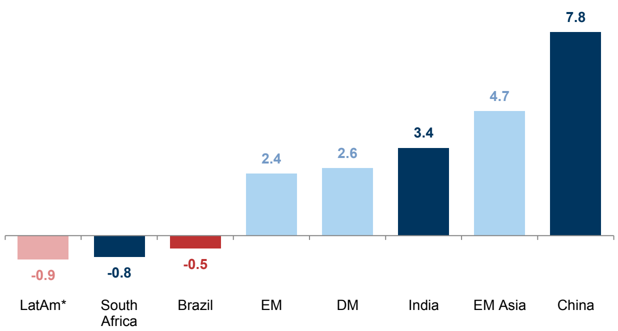
Exhibit 1: Two Lost Decades Since the 1980s
Real GDP and Real GDP per-capita growth average by decade since 1901



Source: Ipeadata, IBGE, Goldman Sachs Global Investment Research

In the four decades between 1981 and 2020, real GDP per capita growth will almost certainly average less than 0.8% a year - at this pace it takes 87 years, or four generations, to double real per capita income. Furthermore, in two of the last four decades Brazil witnessed declining real GDP growth per capita: the 1980s, and likely the 2010s as well. That is, in forty years Brazil will have experienced ***two lost decades*** (i.e., declining real per-capita GDP growth).

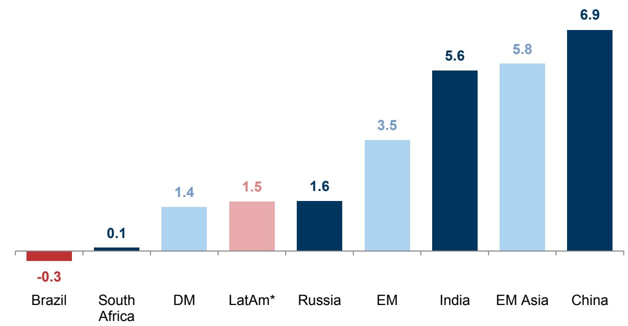
Exhibit 2: Brazil's Growth Underperformed Severely in Absolute and Relative terms
Real GDP per Capita (1981-90 average)



*Argentina, Chile, Colombia, Mexico, Peru

Source: IMF, Goldman Sachs Global Investment Research

Exhibit 3: Brazil's Recent Relative Growth Underperformance More Severe than in the 1980s
Real GDP per Capita Growth (2011-18 average)

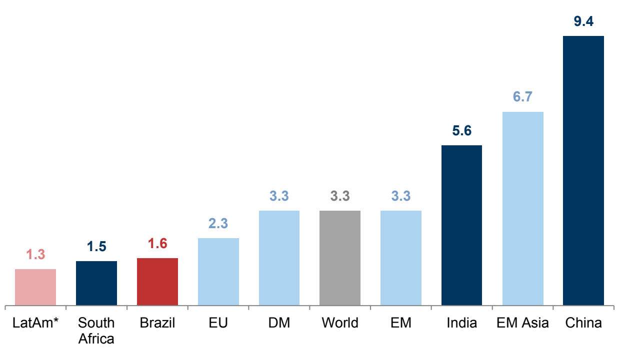


*Argentina, Chile, Colombia, Mexico, Peru

Source: IMF, Goldman Sachs Global Investment Research

Finally, we highlight that while the 1980s economic crisis and growth letdown may have been related to, and amplified by external factors/shocks, the most recent recession and the ***lost decade of the 2010s chiefly reflects a combination of domestic policy missteps and lack of reforms***, because the external backdrop remained, on balance, fairly supportive both in terms of global liquidity conditions and of commodity prices. In fact, benchmarked against a group of LatAm economies and/or global peers, Brazil's growth has underperformed by a larger extent during the current decade (2011-18) than during the 1980s (Exhibits 4 and 5).

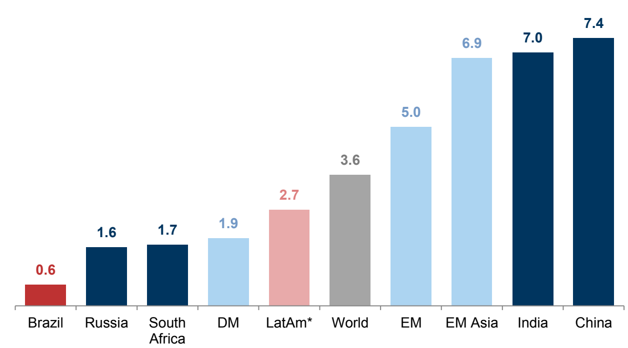
Exhibit 4: Brazil's Relative Growth Underperformance in the 1980s Less Severe than in the Most Recent Decade
Real GDP Growth (1981-90 average)



*Argentina, Chile, Colombia, Mexico, Peru

Source: IMF, Goldman Sachs Global Investment Research

Exhibit 5: Recent Growth Slump Driven by Domestic Policy Missteps
Real GDP Growth (2011-18 average)



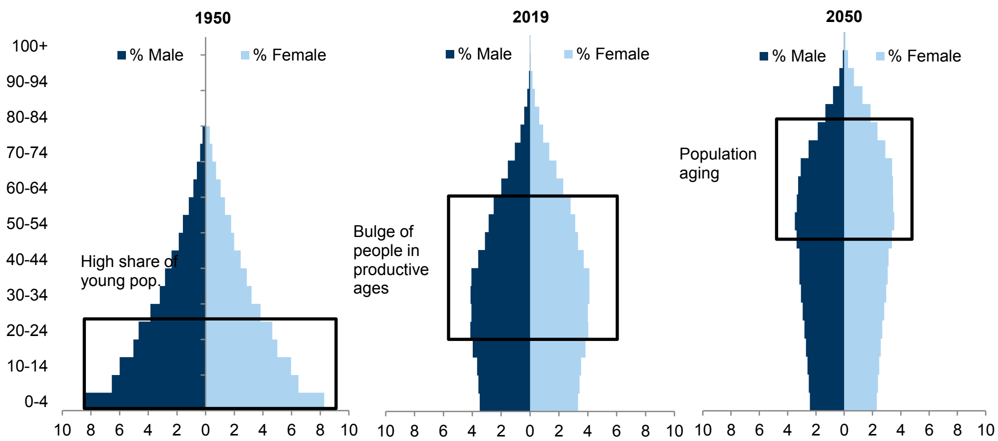
*Argentina, Chile, Colombia, Mexico, Peru

Source: IMF, Goldman Sachs Global Investment Research

The Issues Hampering the Economy Are More Structural Than Cyclical

The dismal growth and real per capita income record since the 1980s highlighted above strongly suggests that, more than a short-term cyclical issue, the Brazilian economy's **growth underperformance is profoundly connected to deep-rooted structural issues**, and the aging demographic profile will just compound the challenges the country will face. In fact, over the next decade Brazil will have to grow and invest while the public sector continues to gradually adjust/deleverage and the population pyramid ages, as we are leaving behind the optimal demographic window.

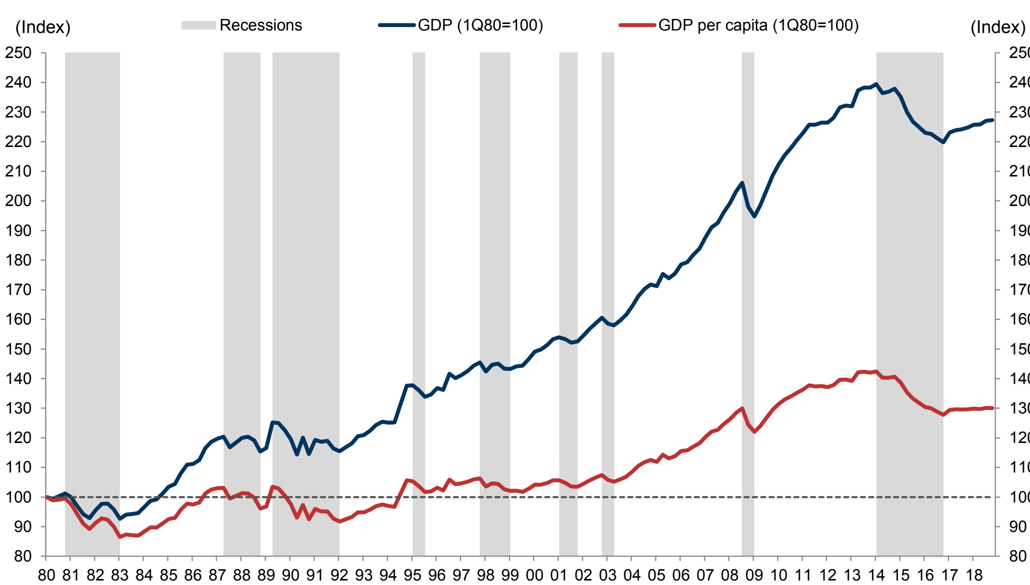
Exhibit 6: Rapidly Aging Demographic Profile



Source: United Nations, Goldman Sachs Global Investment Research

In our assessment, **if the country fails to address growing medium-term fiscal solvency issues and complement that with far-reaching structural reforms to open the economy, increase the low stock of physical capital, and improve overall efficiency/productivity, the next decade could become a lost one as well. In that case, Brazil would then not just lose another decade but would *forego half a century.***

Exhibit 7: Uninspiring Real GDP Growth Between 1980 and 2018
Index, 1Q80=100



Source: Ipeadata, IBGE, Goldman Sachs Global Investment Research

Topics for future research, among others, include an analysis of the structural impediments to growth and an examination of whether the current weak cyclical *recovery may in part reflect structural damage to the economy's main engines of growth. That is, among other factors, the significant increase in financial leverage over the last 15 years (government, first and foremost, but also households, and to some extent corporates), high tax burden, regulatory complexity and overreach, large share of long-term unemployment, and a low capital-labor ratio due to low investment for a large number of years, have together curtailed the capacity of the economy to respond to policy stimuli and marshal the large amount of spare capacity in the economy in the manner observed in previous business cycle recoveries.*

The Weakest Cyclical Recovery on Record

The most recent recession (economic depression) tied as the longest on record (11 consecutive quarters: 2Q14-4Q16) and was the second-deepest in terms of total loss of output. In the 2Q2014-4Q2016 recession there was a cumulative loss of 8.2% of GDP, which rivals the 8.5% loss in the 1Q81-1Q83 recession and exceeds the 7.7% loss in the also 11-quarter long 3Q89-1Q92 recession (Exhibit 8).

Exhibit 8: Current Cyclical Recovery is the Weakest on Record

Recessions				Expansions (Total)				Expansions (after 8 quarters)	
Period	Duration (quarters)	Cumulative Decline from Peak to Trough	Cumulative Growth/Capita	Period	Duration (quarters)	Cumulative Growth from Trough to Peak	Cumulative Growth/Capita	Cumulative Growth after 8 quarters	Cumulative Growth/Capita
1Q81 - 1Q83	9	-8.5%	-12.9%	2Q83 - 2Q87	17	30.0%	19.5%	11.7%	7.1%
3Q87 -4Q88	6	-4.2%	-6.7%	1Q89 - 2Q89	2	8.5%	7.6%	-	-
3Q89 -1Q92	11	-7.7%	-11.3%	2Q92 - 1Q95	12	19.2%	14.9%	8.4%	5.8%
2Q95 - 3Q95	2	-2.8%	-3.5%	4Q95 - 4Q97	9	8.7%	4.6%	7.9%	4.3%
1Q98 - 1Q99	5	-1.5%	-3.9%	2Q99 - 1Q01	8	7.5%	3.6%	7.5%	3.6%
2Q01 - 4Q01	3	-0.9%	-2.1%	1Q02 - 4Q02	4	5.2%	3.9%	-	-
1Q03 - 2Q03	2	-1.6%	-2.1%	3Q03 - 3Q08	21	30.5%	23.7%	11.0%	8.7%
4Q08 - 1Q09	2	-5.5%	-6.1%	2Q09 - 1Q14	20	22.9%	16.9%	14.5%	11.8%
2Q14 - 4Q16	11	-8.2%	-10.3%	1Q17 - present	8	3.4%	1.8%	3.4%	1.8%

Source: Ipeadata, IBGE, FGV, Goldman Sachs Global Investment Research

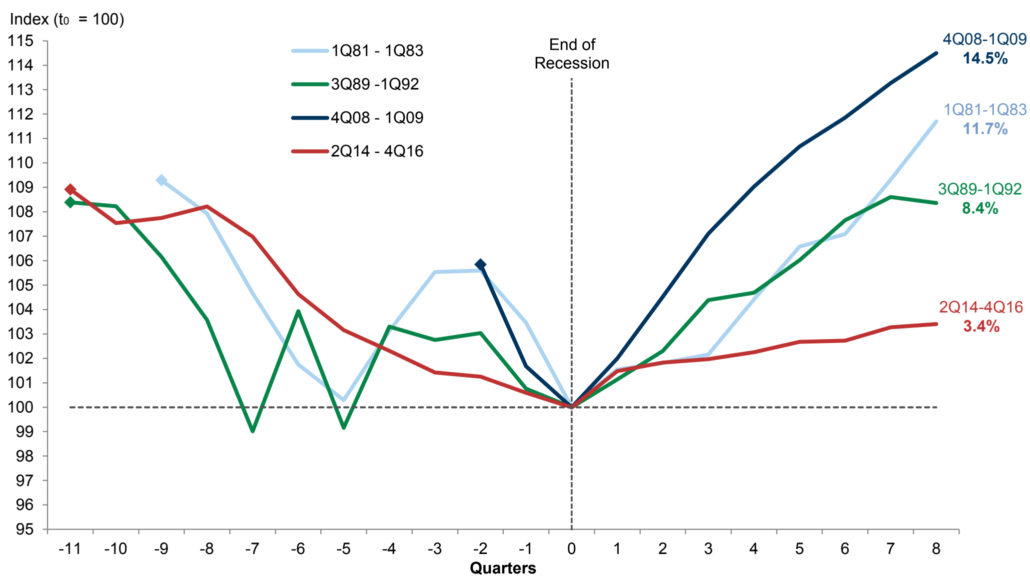
From Past *Vigorous-V* Shaped Rebounds to the Current *Uninspiring-U* Shaped Recovery

Large contractions of real activity have usually been followed by robust recoveries (driven in part by the large amount of slack in the economy created by the contraction). In fact, following a large contraction, the ensuing recoveries used to be V-shaped, but the current cyclical recovery stands out for its shallowness and U-shaped pattern.

The early and late 1980s' long and deep recessions were followed by vigorous recoveries. In the most recent one,_two years into the cyclical recovery (8 quarters), the performance of the economy has been notably sluggish despite the presence of massive slack in terms of resource utilization, a strong external balance sheet, low inflation, and accommodative monetary and financial conditions.

In the 8 quarters that followed the large 1Q81-1Q83 and 3Q89-1Q92 recessions, real GDP grew 11.7% and 8.4%, respectively, but in the current recovery real GDP has grown only 3.4% (Exhibits 9 and 10). That is, in the previous deep recessions, two years into the recovery the economy had already surpassed the pre-recession peak, while in the current business cycle real GDP is still about 60% below the pre-crisis level. Furthermore, in the short but deep 4Q08-1Q09 contraction that preceded the most recent recession, real GDP declined 5.5%, but 8 quarters later it was up a large 14.5% (Exhibits 9 and 10). In fact, in the 9 recessions since 1981 dated by *CODACE* (Brazil's Business Cycle Dating Committee), the cyclical expansion that followed was in all cases significantly more vigorous than the current recovery (even in the two expansions that ended up lasting fewer than 8 quarters; see Exhibit 8).

Exhibit 9: 2017-2018: The Weakest Recovery Following Large Recessions
T=0 marks the last quarter of a recession

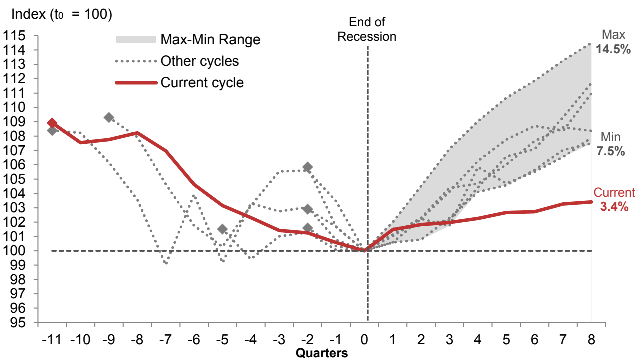


Source: IBGE, Goldman Sachs Global Investment Research

In per-capita terms, the stylized business cycle facts are similar. The recoveries that followed the long and deep 1Q81-1Q83 and 3Q89-1Q92 recessions were previously the worst on record: GDP per capita declined by 12.9% and 11.3%, respectively, and two years after the end of the recessions real GDP per capita was still more than 6% below the cyclical peaks (Exhibit 8). In the current recovery, by 4Q2018 real GDP per capita was still close to 9% below the peak, making it the weakest recovery since at least the early 1980s.

Exhibit 10: Current Cyclical Recovery Significantly Below Norm of Previous Recoveries

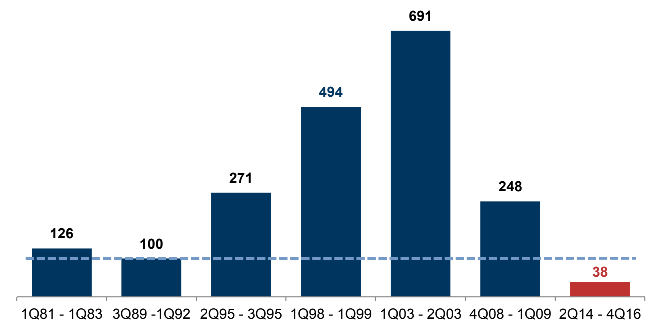
T=0 marks the last quarter of a recession



Source: Ipeadata, IBGE, Goldman Sachs Global Investment Research

Exhibit 11: Share of peak-to-trough real GDP decline during recession stage recovered after 8 quarters of expansion (%)

(x-axis label refers to recession period)



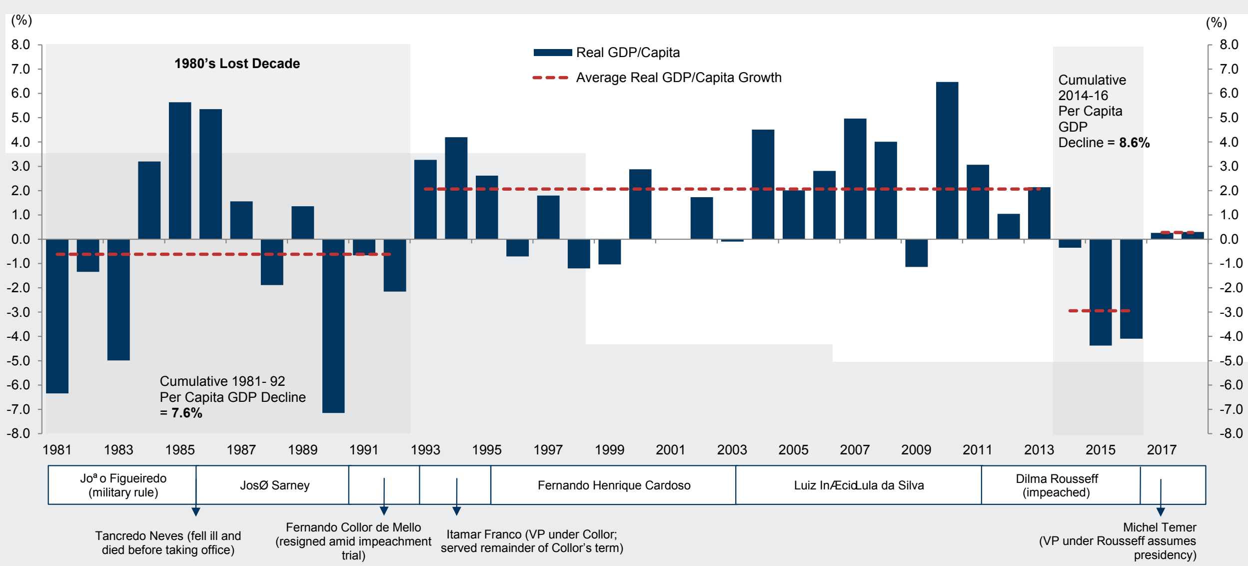
Source: Goldman Sachs Global Investment Research

Box: Three Dreadful Years (2014-2016) that Lost a Decade

What took place in 2014-16 was truly remarkable. The 2014-16 economic depression was triggered by an external shock. It followed the ill-fated adoption of heterodox, interventionist, inward-looking policies— the so-called *New Economic Matrix*. This left behind large domestic and external macroeconomic imbalances, widespread microeconomic distortions, and a severe misallocation of resources in the economy driven, among other things, by distorted incentives and misallocated and mispriced official credit. Consequently, during those three years real per-capita GDP contracted by a large 8.6%, exceeding the 7.6% GDP per-capita loss in the so-called ***lost decade of the 1980s*** (in fact, a 12-year period between 1981 and 1992) (Exhibit 12). Notably, during the 11-quarter long 2Q14-4Q16 recession, real GDP per capita declined 10.3%.

Exhibit 12: A Lost Decade in Just Three Years (2014-2016)

Bottom panel shows presidential administrations; Brazil's military government ceded power to civilian authority and free elections were held in 1985



Source: IBGE, BCB, Goldman Sachs Global Investment Research

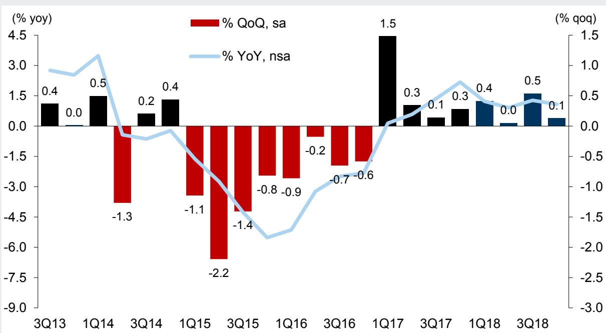
An Investment Recession of Epic Proportions ….

The contraction of investment was particularly severe: between 3Q2013 and 4Q2016, gross fixed investment declined by a cumulative 31.6%. Private consumption was also hard hit: declined by 8.5% between 1Q2015 and 4Q2016 (or about 10.5% per capita).

… Followed by a Feeble Recovery

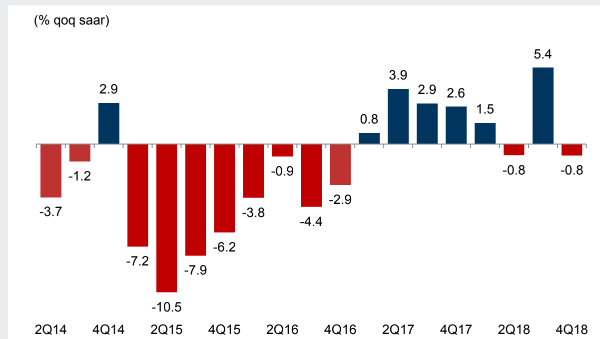
The sharp recession was followed by a very anemic recovery. Excluding 1Q2017, when real GDP was driven by surging agricultural production (+10.8% qoq sa), real GDP grew an unimpressive 0.27% qoq sa on average during the last seven quarters (2Q2017-4Q2018). This implies that per-capita GDP barely moved in almost two years.

Exhibit 13: Mediocre Real GDP Growth During 2Q2017 and 4Q2018 (barely above population growth))



Source: IBGE, Goldman Sachs Global Investment Research

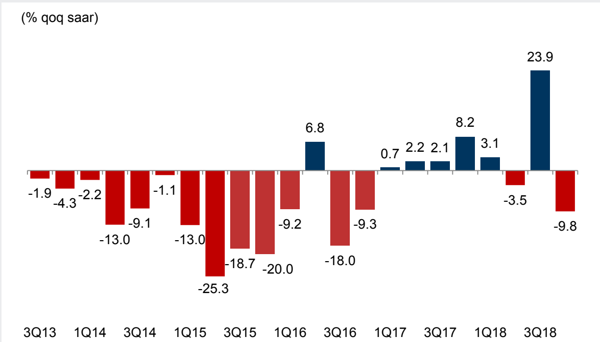
Exhibit 14: Soft Final Domestic Demand



Source: IBGE, Goldman Sachs Global Investment Research

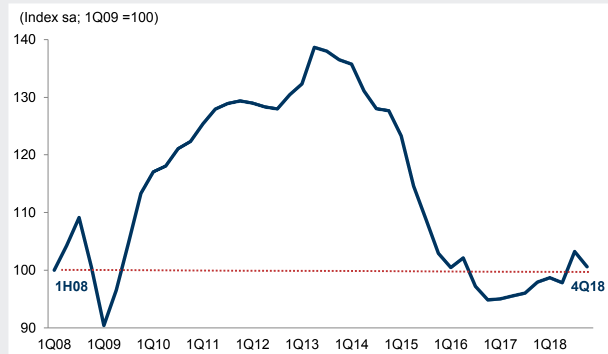
In fact, by 4Q2018, two years after the end of the recession, real GDP per capita was still down a disheartening 9% from the 1Q2014 cyclical peak (and at the same level of 4Q2009; i.e., exactly a decade ago), with private consumption per capita 7.5% below the 4Q2014 cyclical high. Furthermore, by 4Q2018 gross fixed investment was still 27.5% below the 2Q2013 peak (and tracking at the same level of mid-2008) (Exhibit 16).

Exhibit 15: Very Weak Gross Fixed Investment Dynamics During Last 5 Years
GFI; qoq sa annualized (5)



Source: IBGE, Goldman Sachs Global Investment Research

Exhibit 16: Gross Fixed Investment Currently Tracking at Mid-2008 Level

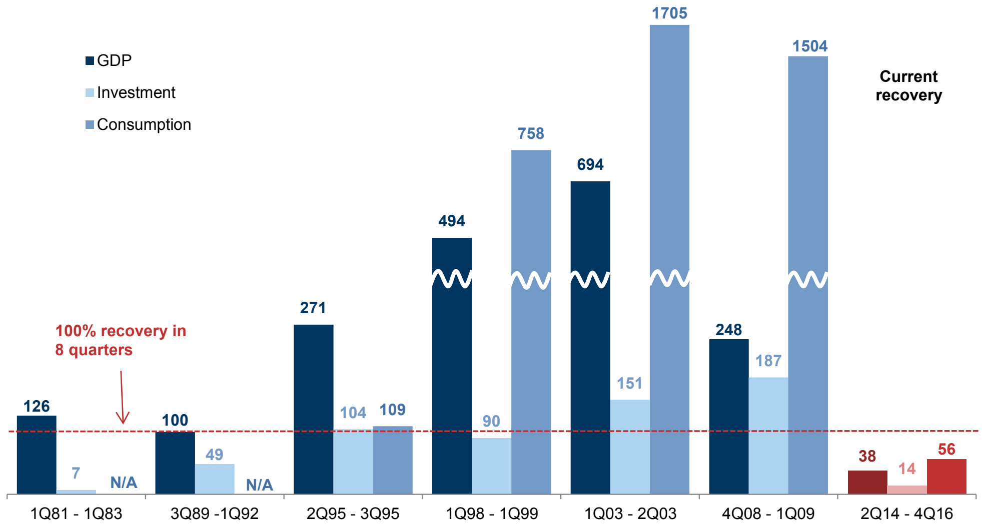


Source: IBGE, Goldman Sachs Global Investment Research

This *Ain't Your Older Brother's Recovery*: All Domestic Demand Components Have Been Soft

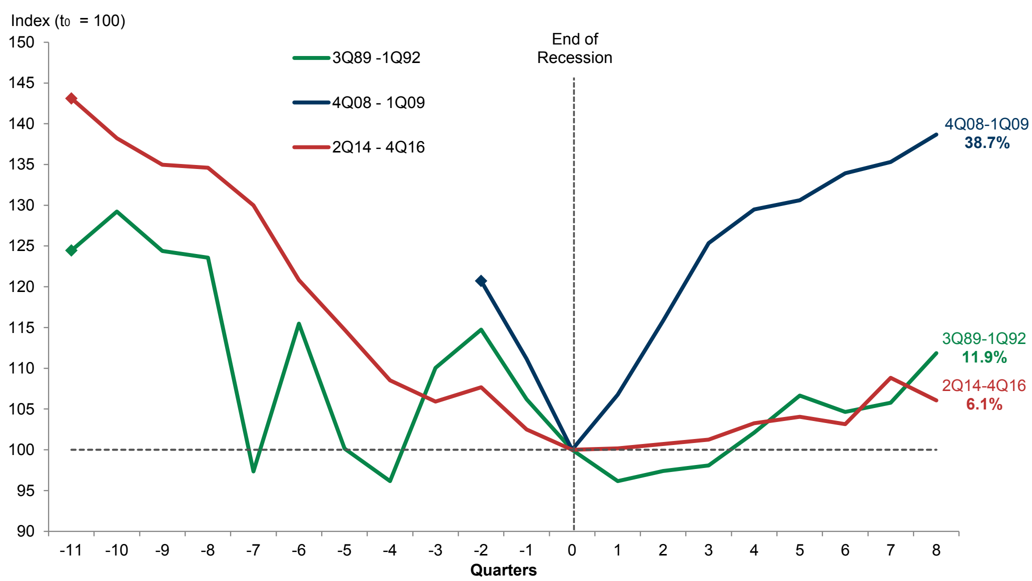
Compared with previous cyclical recoveries the current ***response of investment spending has been remarkably weak,*** followed by private consumption. The weakness of investment spending is even more notable when taking into account that during the most recent business cycle downturn, GFI declined by a cumulative 31.6%, and two years into the recovery it has recovered only about one-eighth of the loss witnessed during the recession. Overall, during the last 8 quarters, GFI grew just 6.1%, contributing just 1ppt to the overall 3.4% increase in real GDP during the period; a much smaller contribution in absolute and relative terms than that observed in previous business cycle recoveries (Exhibits 17-20).

Exhibit 17: Weak Cyclical Response of both Consumption and Investment
Share (%) of peak-to-trough decline recovered after 8 quarters of expansion



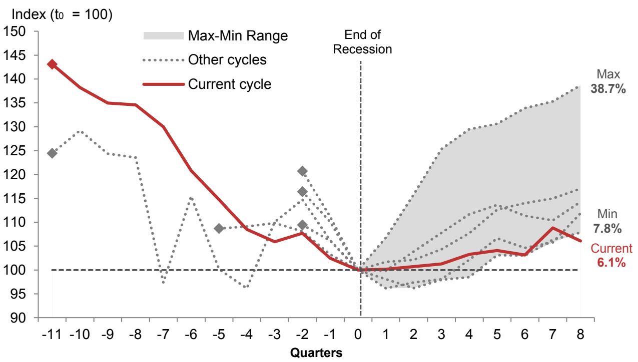
Source: IBGE, Goldman Sachs Global Investment Research

Exhibit 18: Very Weak Cyclical Recovery of Investment Spending
T=0 marks the last quarter of a recession



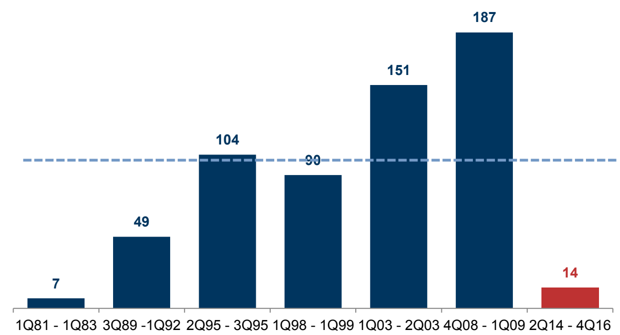
Source: IBGE, Goldman Sachs Global Investment Research

Exhibit 19: The Weakest Post-Recession Response of Investment After 8-Quarters on Record
T=0 marks the last quarter of a recession



Source: IBGE, Goldman Sachs Global Investment Research

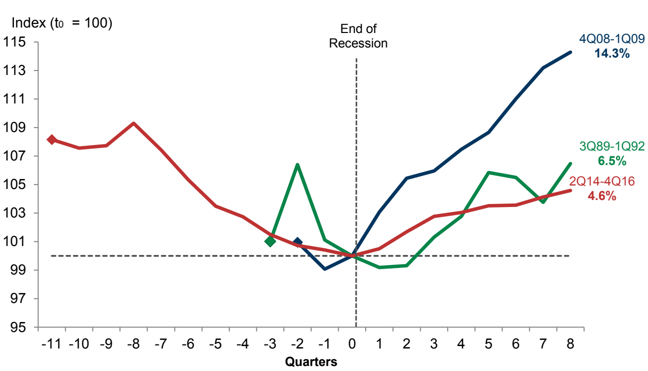
Exhibit 20: Investment: Share (%) of peak-to-trough decline recovered after 8 quarters of expansion
(x-axis label refers to recession period)



Source: Goldman Sachs Global Investment Research

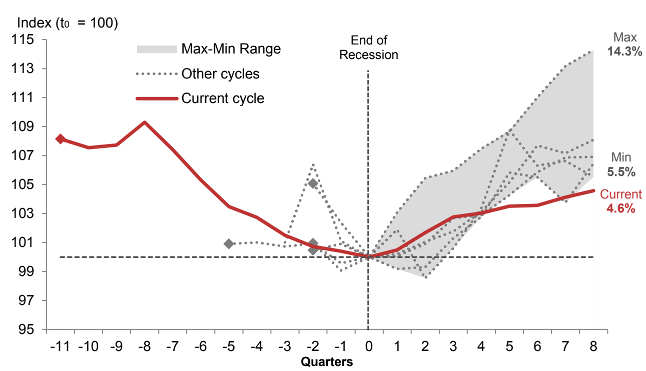
The cyclical response of ***private consumption*** has also been clearly below-par: private consumption grew only 4.6% during the last 8 quarters, recovering only slightly more than half of the loss sustained during the recession (in fact, real per-capita consumption is still 9% below the cyclical peak). The credit/debt overhang, double-digit unemployment rate (with a significant share of long-term unemployment), and low level of consumer confidence, explain the sluggish cyclical recovery of private consumption.

Exhibit 21: Lagging Cyclical Response of Private Consumption
T=0 marks the last quarter of a recession



Source: IBGE, Goldman Sachs Global Investment Research

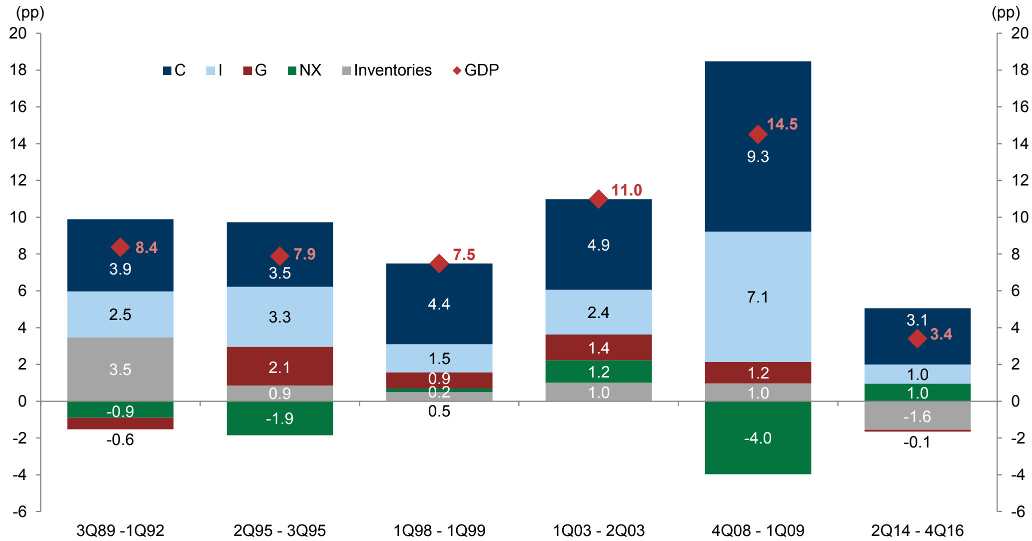
Exhibit 22: The Weakest Post-Recession Response of Private Consumption After 8-Quarters on Record
T=0 marks the last quarter of a recession



Source: IBGE, Goldman Sachs Global Investment Research

Overall, during the current underwhelming shallow recovery investment spending contributed a meager 1ppt to the overall growth in the last 8 quarters and private consumption added just 3.1ppt (Exhibit 23). This contribution pales with that observed in previous business cycle recoveries: for instance, in the previous three recoveries, 2 years after the end of the recession, private consumption had contributed 6.2pts on average to growth [min=4.4ppt; max=9.3ppt].

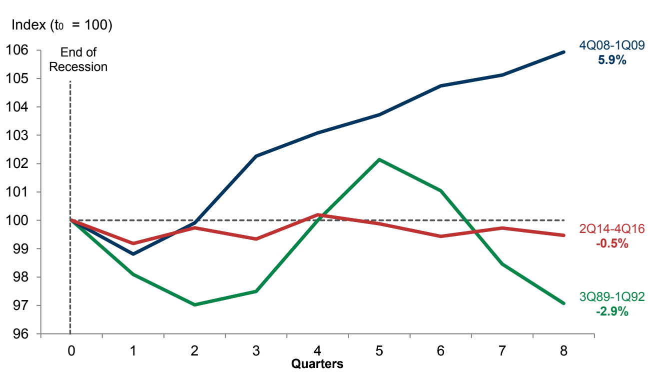
Exhibit 23: Cumulative Contribution of Individual GDP Demand Side Components to GDP Growth 8-Quarters After End of Recession
(x-axis label refers to recession period)



Source: IBGE, Goldman Sachs Global Investment Research

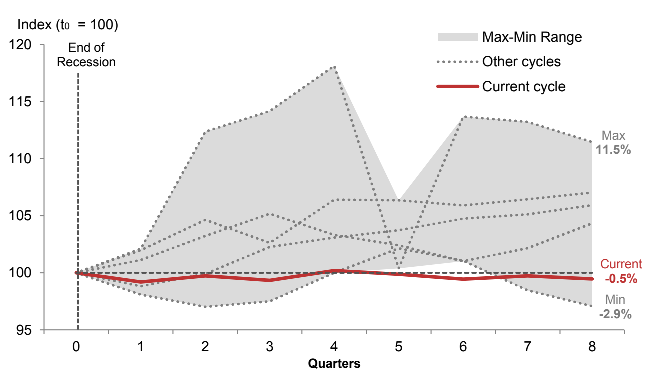
Government consumption/spending is not providing much traction to the recovery either. But this is less surprising. Government consumption was a major driver of the sharp V-shaped recovery that followed the short-lived recession during the 2008-09 GFC; but this time around given the large budgetary deficits and urgent fiscal consolidation needs, government consumption actually declined 0.5% cumulatively during the last 8 quarters (Exhibit 24). Hence, current government primary spending actually reduced overall growth during the period by -0.1ppt (compared with more than +1.0ppt on average in previous business cycle recoveries) (Exhibits 24-25).

Exhibit 24: Government Consumption Not Providing Any Traction to the Cyclical Recovery
T=0 marks the last quarter of a recession



Source: IBGE, Goldman Sachs Global Investment Research

Exhibit 25: Government Consumption Tracking Significantly Below Historical Cyclical Recovery Norm
T=0 marks the last quarter of a recession

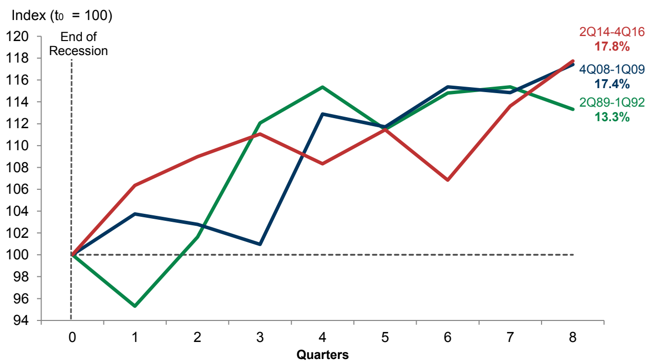


Source: IBGE, Goldman Sachs Global Investment Research

Overall, **all three final domestic demand components (C, I, G) have underperformed the norm of previous cyclical recoveries.**

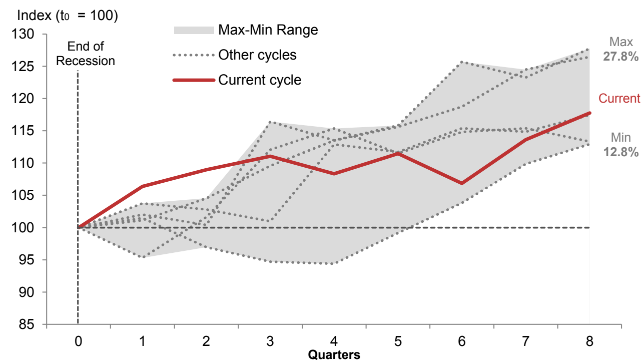
On the positive side, net exports have been supporting the recovery. Export growth has been solid (+17.8% since 4Q2016; Exhibit 26); broadly in line with the norm of past recoveries (Exhibit 27). Import growth was more subdued (+10.6% cumulative during the last 8 quarters), an unsurprising finding given sluggish domestic demand conditions and a weaker real effective exchange rate. Overall, net exports added a full 1ppt to headline real GDP growth during the last 8 quarters, which was above the norm of previous business cycles (Exhibit 28). That is, were it not for the recovery of exports the current cyclical recovery would have been even weaker and therefore more anomalous. In fact, despite the fact that Brazil remains an economy that is extraordinarily closed to trade, in the ongoing cyclical recovery the contribution of net exports to growth was similar to that of investment, a clear departure from past recoveries (Exhibit 23).

Exhibit 26: Export Growth Supporting Current Cyclical Recovery
T=0 marks the last quarter of a recession



Source: IBGE, Goldman Sachs Global Investment Research

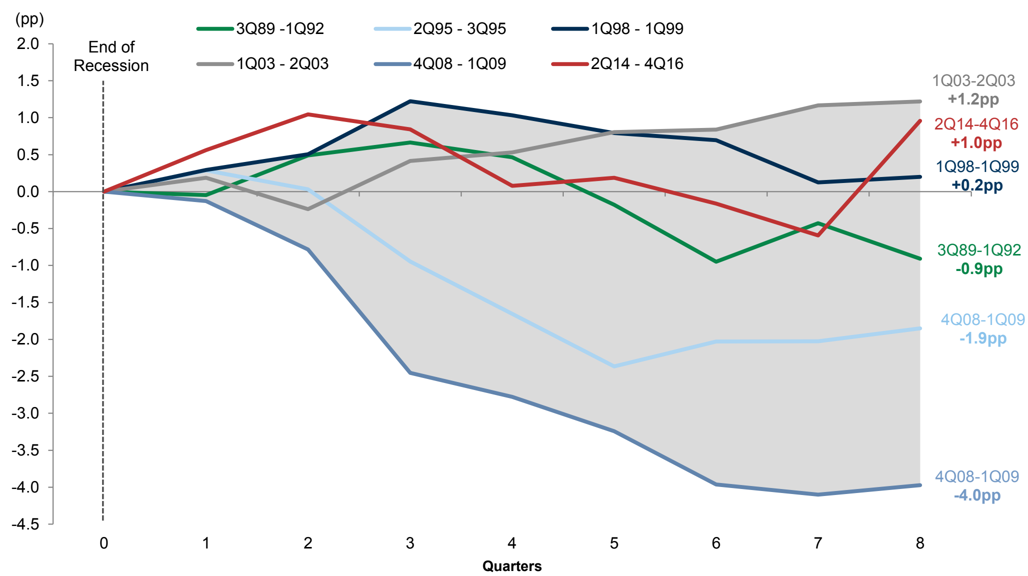
Exhibit 27: Current Export Growth Cyclical Recovery in Line With Post-Recession Historical Norm
T=0 marks the last quarter of a recession



Source: IBGE, Goldman Sachs Global Investment Research

Exhibit 28: Net Exports Are Making A Significant Contribution to GDP Cyclical Recovery (Cumulative Contribution in %pt)

T=0 marks the last quarter of a recession



Source: IBGE, Goldman Sachs Global Investment Research

An attention-grabbing stylized fact that emerges from our analysis of the composition of business cycle recoveries is the realization that the most recent recoveries have been driven more by the recovery of private consumption, than by investment spending. That is, in these cyclical recoveries the economy never benefited from a significant capital-deepening drive that would have significantly elevated the capital stock and, through that process, boost and sustain medium-term productivity growth (i.e., increase potential GDP by increasing the capital-labor ratio). In fact, because the recent recoveries were powered chiefly by types of spending with low medium-term multipliers (consumption rather than investment spending; or current rather than capital spending), the economy very quickly hit capacity constraints, eventually generating sizeable domestic (accelerating inflation) and external (widening current account deficits) imbalances that ended up limiting and/or halting the recovery.

Finally, beyond the manifest weakness of investment demand during the ongoing cyclical recovery, another peculiarity of the current up-cycle has been the path of business inventories. Strikingly, in the current recovery inventories made a negative contribution to growth (-1.6ppt cumulatively during the last 2 years), while in all past recoveries inventory build-up contributed positively to growth (about 1pt on average) (Exhibit 23). This likely reflects weak business confidence, soft demand conditions, and repeated downward revisions to the near-term growth outlook since 2016.

Conclusion

Aggregate investment remains low: 15.8% of GDP during 2018, or about 5pts below the 20%-plus seen during 2010-2013. The national gross savings rate is also low (14.5% of GDP): roughly 4pts lower than 2011-2013. These figures point to the urgency of deepening the fiscal adjustment by elevating the public sector savings rate (which should in our view ideally involve deeper cuts in public consumption).

The last five years were extraordinarily challenging. The economy has been crawling out of a very deep and long recession at a painfully slow and historically atypical pace. During the last 22 quarters (a five-year period between 3Q13 and 4Q18) sequential real GDP growth averaged -0.2% qoq sa, and quarterly growth exceeded 1% only once (1.48% qoq sa during 1Q17, driven by a bumper harvest). Hence, the economy is still operating with a high degree of slack in terms of resource utilization (negative output gap and unemployment rate still signs of significantly above the NAIRU).

A deep structural fiscal adjustment should be front-and-center on the policy agenda of the new administration. In our assessment, failure to deliver tangible and credible measures to reduce the fiscal deficit (flow) and through that stabilize the debt dynamics (stock) could hurt confidence and undermine even further what has been on many counts a very soft economic recovery following one of the deepest recessions on record. Conversely, we see upside risk to the growth outlook in case the authorities (executive and legislative) succeed in implementing an investment- and productivity-enhancing macro and micro agenda and in moving decisively on the fiscal consolidation front. Progress in these areas would help to unleash the trapped entrepreneurial and animal spirits of the economy and accelerate the recovery.

Topics for future research, among others, include an analysis of the structural impediments to growth and an examination of whether the current weak and atypical cyclical recovery may be a reflection of structural damage sustained in recent years by the Brazilian economy's main engines of growth. For instance, the significant increase in financial leverage over the past 15 years (by, first and foremost, the government and households), the very high and distortionary tax burden, and the prolonged investment slump (i.e., the reduction in the productive non-residential capital stock) have together hampered the ability of the economy to respond to policy stimuli and utilize the high levels of idle capacity in the economy in the manner observed in previous cyclical recoveries.

Alberto M Ramos

Gabriel Fritsch

LatAm and Global Macroeconomic Outlook

Consolidated Latin America Selected Economic Indicators

	2012	2013	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F
I. Economic Activity and Prices											
Nominal GDP (US$bn)	5,078	5,223	5,182	4,366	4,171	4,650	4,498	4,598	5,001	5,423	5,780
Real GDP growth (% yoy)	2.6	2.8	1.3	0.3	-0.2	1.7	1.4	1.7	2.6	2.9	3.0
CPI Inflation (% yoy)	6.6	7.1	8.7	9.0	8.8	6.5	8.8	7.4	5.3	4.4	3.9
Domestic Demand (% yoy)	2.8	3.0	1.0	-0.7	-1.0	1.9	1.7	1.4	2.6	3.0	3.2
II. External Sector (US$bn)											
Current Account Balance	-131.8	-157.8	-168.4	-136.0	-84.6	-77.0	-89.9	-86.8	-103.5	-123.6	-145.0
Trade Balance	46.7	9.8	-3.6	-10.7	34.1	56.9	45.2	50.7	42.6	34.1	22.2
Gross International Reserves	722.6	715.9	737.9	705.2	729.3	751.7	763.2	788.2	808.1	823.3	838.9
Change in Reserves	59.0	-6.8	22.0	-32.7	24.1	22.4	11.6	25.0	19.9	15.2	15.6
Net Capital Inflows	190.9	151.1	190.4	103.3	108.7	99.4	101.4	111.8	123.4	138.8	160.6
Foreign Direct Investment	155.4	167.9	167.8	150.1	146.2	143.2	161.2	162.3	175.3	185.3	195.3
III. Public Finance and Indebtness (% GDP)											
Primary Fiscal Balance	0.8	0.4	-0.9	-1.7	-1.8	-0.9	-0.8	-0.4	-0.3	0.0	0.1
Overall Fiscal Balance	-2.1	-2.5	-4.3	-6.3	-5.6	-4.7	-4.4	-4.2	-4.1	-3.8	-3.6
Total Public Sector Debt	42.0	42.1	46.2	51.3	55.1	55.9	58.1	60.1	61.1	61.5	62.1
Total External Debt	24.7	26.1	29.1	34.4	36.8	34.8	37.8	39.2	39.1	38.6	38.5

Note: Aggregates weighted by nominal GDP in US$ at PPP exchange rates.

Source: Goldman Sachs Global Investment Research

Global Macroeconomic Framework

						2018				2019F			
	2016	2017	2018	2019F	2020F	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F
Real GDP Growth (%, yoy)													
United States	1.6	2.2	2.9	2.8	2.3	2.6	2.9	3.0	3.0	3.2	2.7	2.5	2.6
Euro Area	1.9	2.5	1.8	1.1	1.4	2.4	2.2	1.6	1.2	1.0	0.8	1.0	1.1
Japan	0.6	1.9	0.8	0.5	0.7	1.3	1.5	0.1	0.3	0.4	0.2	1.1	0.2
World Economy	3.1	3.7	3.8	3.5	3.6	4.0	4.0	3.6	3.6	3.5	3.4	3.6	3.6
CPI Inflation (%, yoy)													
United States	0.9	2.1	2.2	2.0	2.2	2.2	2.7	2.6	2.2	1.6	2.0	2.2	2.3
Euro Area	0.2	1.5	1.8	1.3	1.2	1.3	1.7	2.1	2.0	1.7	1.4	1.1	1.0
Japan	-0.1	0.5	1.0	0.7	0.8	1.3	0.6	1.1	0.9	0.8	0.7	0.5	0.6
Interest rates (%, e.o.p)													
Fed Funds	0.54	1.30	2.27	2.38	2.63	1.51	1.82	1.95	2.27	2.41	2.38	2.38	2.38
UST 10-Year	2.44	2.41	2.68	2.80	3.00	2.74	2.86	3.06	2.68	2.41	2.55	2.65	2.80

Source: Goldman Sachs Global Investment Research

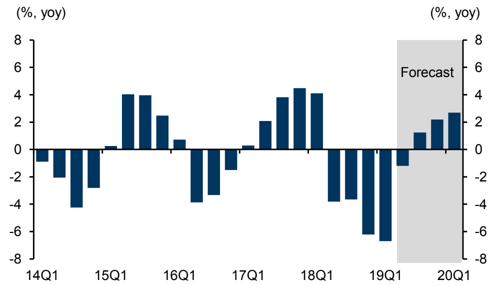
LatAm Country Data Tables

Argentina

	2017	2018	2019F	2020F
Activity and Prices				
Real GDP Growth (% yoy)	2.7	-2.5	-1.2	2.5
Nominal GDP (US$bn)	642	537	457	462
Consumer Prices, IPC (yoy, e.o.p.)*	24.8	47.6	36.5	20.3
Consumer Prices, IPCBA (yoy, e.o.p.)*	26.1	45.5	35.3	15.8
External Sector				
Current Account (% GDP)	-4.9	-5.2	-2.0	-2.9
Trade Balance (% GDP)	-0.9	-0.2	2.9	2.0
Exports (% yoy)	1.2	5.1	7.2	3.6
Imports (% yoy)	19.7	-2.5	-15.7	12.1
Exchange Rate ($/ARS, e.o.p.)	18.6	37.6	52.8	57.0
Gross International Reserves (US$bn)	55.1	65.8	68.8	69.8
Monetary Sector				
Monetary Base (% yoy)	24.7	36.0	18.0	20.0
Credit to the Private Sector (% GDP)	16.0	16.0	12.8	12.2
Reference Interest Rate	28.75	57.00	35.00	-
Fiscal Sector **				
Federal Govt Primary Balance (% GDP)	-3.8	-2.4	-0.5	0.6
Federal Govt Overall Balance (% GDP)	-6.0	-5.2	-4.0	-3.2

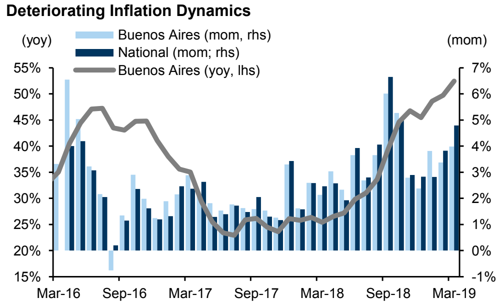
*IPC computed by INDEC, IPCBA by Statistical Institute City of Buenos Aires. **Before Rents from CB and Anses. Accumulated 4Q. *** Including non-performing debt.

Sharp Contraction since 2Q18



Source: INDEC, Statistical Inst. City of Buenos Aires, Goldman Sachs Global Investment Research

Deteriorating Inflation Dynamics



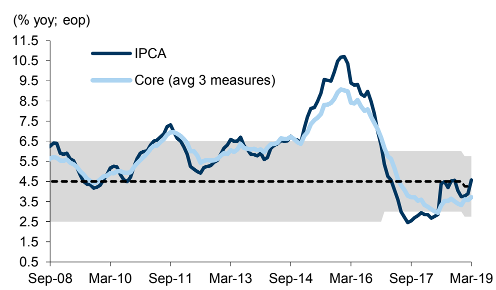
Source: INDEC, Statistical Inst. City of Buenos Aires, Goldman Sachs Global Investment Research

Brazil

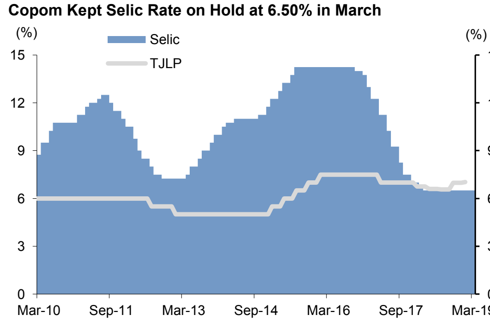
	2017	2018	2019F	2020F
Activity and Prices				
Real GDP Growth (% yoy)	1.1	1.1	1.7	2.8
Nominal GDP (US$bn)	2053.4	1875.9	1884.8	2027.1
IPCA Inflation (yoy e.o.p.)	2.9	3.7	4.2	4.0
External Sector				
Current account (% GDP)	-0.4	-0.8	-1.3	-1.7
Trade balance (% GDP)	3.1	2.9	2.5	2.2
Exports of goods (% yoy)	17.8	10.0	3.5	5.0
Imports of goods (% yoy)	9.9	21.0	7.8	8.0
Nominal Exchange Rate ($/BRL e.o.p.)	3.3	3.9	3.8	3.8
Net International Reserves (US$bn)	374	375	390	405
Monetary Sector				
Monetary base (% yoy)	9.8	1.8	8.0	6.0
Credit to the Private Sector (%GDP)	43.9	44.5	47.3	50.4
SELIC rate (e.o.p)	7.00	6.50	6.50	8.00
Fiscal Sector				
Public Sector Primary Balance (% GDP)	-1.7	-1.6	-1.0	-0.8
Public Sector Nominal Balance (% GDP)	-7.8	-7.1	-6.6	-6.4
Debt Indicators				
Gross general govt debt (% GDP)	74.1	77.2	79.0	81.0
Domestic public debt (%GDP)	70.6	73.3	75.4	77.3
External public debt (%GDP)	3.5	3.9	3.6	3.7
Total external debt (% GDP)	26.7	29.8	31.6	31.8

Source: Goldman Sachs Global Investment Research

Headline/Core Inflation Back to Target Range



Copom Kept Selic Rate on Hold at 6.50% in March



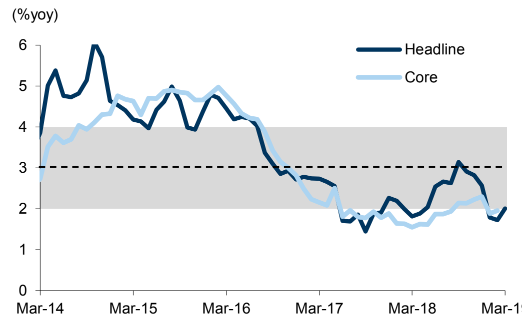
Sources: Bloomberg, Goldman Sachs Global Investment Research, Haver Analytics, IBGE

Chile

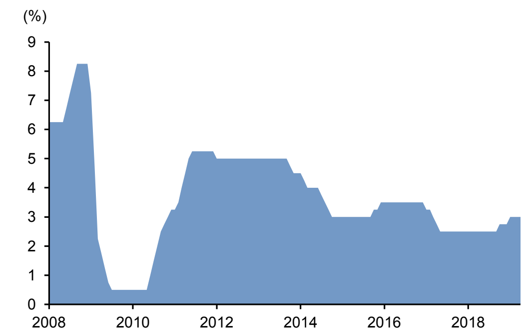
	2017	2018	2019F	2020F
Activity and Prices				
Real GDP Growth (% yoy)	1.3	4.0	3.4	3.3
Nominal GDP (US$bn)	277	298	316	351
Consumer Prices (% yoy, e.o.p.)	2.3	2.6	2.8	3.0
External Sector				
Current Account (% GDP)	-2.2	-3.1	-3.4	-3.2
Trade Balance (% GDP)	2.7	1.6	1.5	1.2
Exports (% yoy)	13.4	9.6	4.5	3.3
Imports (% yoy)	10.1	15.1	4.8	4.1
Exchange Rate ($/CLP, e.o.p.)	615	696	630	600
Gross International Reserves (US$bn)	39.0	39.9	42.6	42.6
Monetary Sector				
Broad Money (M3, % yoy)	4.8	9.0	9.0	9.0
Credit to the Private Sector (% GDP)	80.0	81.5	83.1	84.4
Policy Rate (e.o.p.)	2.50	2.75	3.25	3.50
Fiscal Sector				
Central Gov't Primary Balance (% GDP)	-2.0	-0.8	-0.6	-0.4
Central Gov't Overall Balance (% GDP)	-2.8	-1.7	-1.5	-1.3
Debt Indicators				
Central Govt Debt (% GDP)	23.5	25.6	25.9	26.0
Domestic (% GDP)	19.1	20.3	20.4	20.0
External (% GDP)	4.4	5.3	5.5	6.0
Total External Debt (% GDP)	65.4	62.8	61.0	56.6

Source: Goldman Sachs Global Investment Research

Headline/Core Inflation Below Target Range



Central Bank Kept Policy Rate on Hold in March



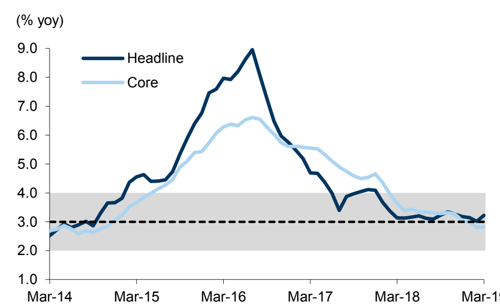
Source: Haver Analytics, INE, Central Bank of Chile

Colombia

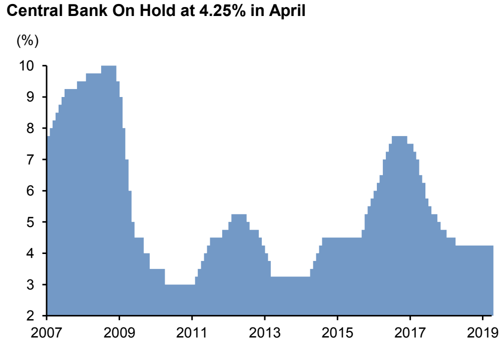
	2017	2018	2019F	2020F
Activity and Prices				
Real GDP Growth (% yoy)	1.4	2.7	3.3	3.3
Nominal GDP (US$bn)	312	331	340	381
Consumer Prices (% yoy, e.o.p.)	4.1	3.2	3.1	3.0
External Sector				
Current Account (% GDP)	-3.3	-3.8	-4.4	-3.6
Trade Balance (% GDP)	-1.5	-1.6	-1.7	-1.2
Exports (% yoy)	16.4	11.7	4.8	5.5
Imports (% yoy)	2.3	12.2	5.4	2.6
Exchange Rate ($/COP, e.o.p.)	2984	3250	2950	2800
Gross International Reserves (US$bn)	47.1	47.7	50.1	52.1
Monetary Sector				
Monetary Base (% yoy)	5.0	7.0	9.0	9.0
Credit to the Private Sector (% GDP)	51.3	53.2	54.6	55.9
Policy Rate (% e.o.p.)	4.75	4.25	4.25	5.00
Fiscal Sector				
Central Government Primary Balance (% GDP)	-0.8	-0.2	0.2	0.4
Central Government Overall Balance (% GDP)	-3.7	-3.1	-2.7	-2.3
Debt Indicators				
Gross Non-fin. Public Sector Debt (% GDP)	54.4	57.6	59.0	59.7
Domestic (% GDP)	32.2	34.5	36.5	37.7
External (% GDP)	22.3	23.1	22.5	22.0
Total External Debt (% GDP)	40.0	39.6	38.0	38.0

Source: Goldman Sachs Global Investment Research

Headline/Core Inflation Converged to 3% Target



Central Bank On Hold at 4.25% in April



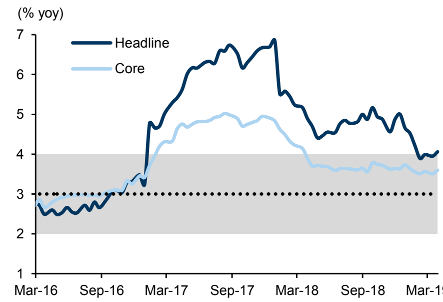
Source: Banco de la Repœblica

Mexico

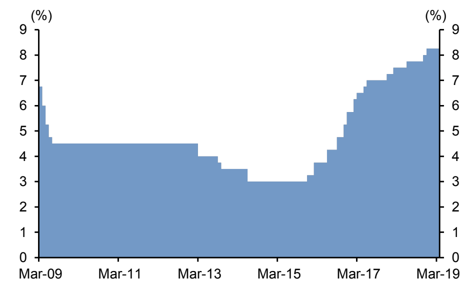
	2017	2018	2019F	2020F
Activity and Prices				
Real GDP Growth (% yoy)	2.1	2.0	1.5	1.7
Nominal GDP (US$ bn)	1158	1223	1285	1364
Consumer Prices (yoy, e.o.p.)	6.8	4.8	3.8	3.2
External Sector				
Current Account (% GDP)	-1.7	-1.8	-1.9	-1.9
Trade Balance (% GDP)	-0.9	-1.1	-1.2	-1.2
Exports (% yoy)	9.5	10.1	4.9	6.1
Imports (% yoy)	8.6	10.4	5.1	6.1
Exchange Rate ($/MXN, e.o.p.)	19.79	19.68	19.30	19.00
Net International Reserves (US$ bn)	172.8	174.8	174.0	175.0
Monetary Sector				
Monetary Base (% yoy)	8.8	8.3	10.3	10.0
Credit to the Private Sector (% GDP)	18.5	18.9	19.2	19.3
Tasa de Fondeo Rate (e.o.p.)	7.25	8.25	7.50	6.75
Fiscal Sector				
Public Sector Primary Balance (% GDP)	1.4	0.9	0.5	-0.1
Public Sector Overall Balance (% GDP)	-1.1	-2.0	-2.4	-3.0
Debt Indicators				
Gross Federal Govt Debt (% GDP)	45.8	44.8	45.0	45.6
Domestic (% GDP)	28.9	28.4	28.9	29.6
External (% GDP)	16.9	16.4	16.1	15.9
Total External Debt (% GDP)	37.7	37.2	37.2	37.7

Note: *Public Sector Borrowing Requirements

Headline Inflation Has Likely Peaked



Banxico On Hold at 8.25% in March

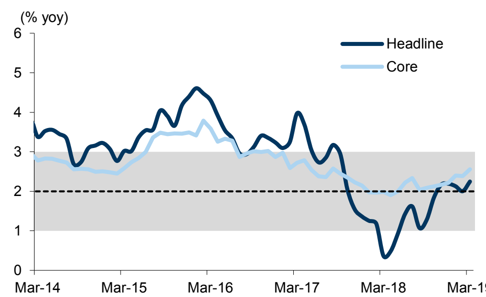


Peru

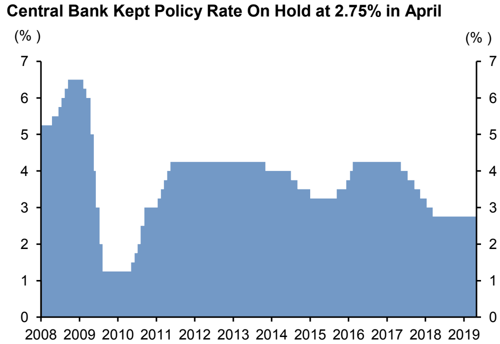
	2017	2018	2019F	2020F
Activity and Prices				
Real GDP Growth (% yoy)	2.5	4.0	4.1	4.0
Nominal GDP (US$bn)	214	225	239	262
Consumer Prices (% yoy, eop)	1.4	2.2	2.5	2.5
External Sector				
Current Account (% GDP)	-1.2	-1.5	-1.7	-1.6
Trade Balance (% GDP)	3.1	3.1	2.6	2.2
Exports (% yoy)	22.1	8.1	2.9	4.9
Imports (% yoy)	10.2	8.2	5.2	6.6
Gross International Reserves (US$bn)	63.7	60.3	62.7	63.6
Exchange Rate ($/PEN, e.o.p.)	3.24	3.37	3.26	3.15
Monetary Sector				
Monetary Base (% yoy)	7.2	3.5	9.0	9.7
Credit to the Private Sector (% GDP)	28.8	27.0	29.0	30.0
Reference Interest Rate (e.o.p.)	3.25	2.75	3.00	3.50
Fiscal Sector				
Non-fin Pub. Sector Primary Balance (% GDP)	-1.9	-1.8	-1.5	-0.7
Non-fin Pub. Sector Overall Balance (% GDP)	-3.1	-2.8	-2.6	-1.9
Debt Indicators				
Total Federal Govt Debt (% GDP)	24.9	25.7	26.4	26.8
Domestic Public Debt (% GDP)	16.1	16.4	16.6	16.6
External Public Debt (% GDP)	8.8	9.3	9.8	10.2
Total External Debt (% GDP)	35.9	37.0	38.0	38.1

Source: Goldman Sachs Global Investment Research

Headline Inflation Back to Target Range

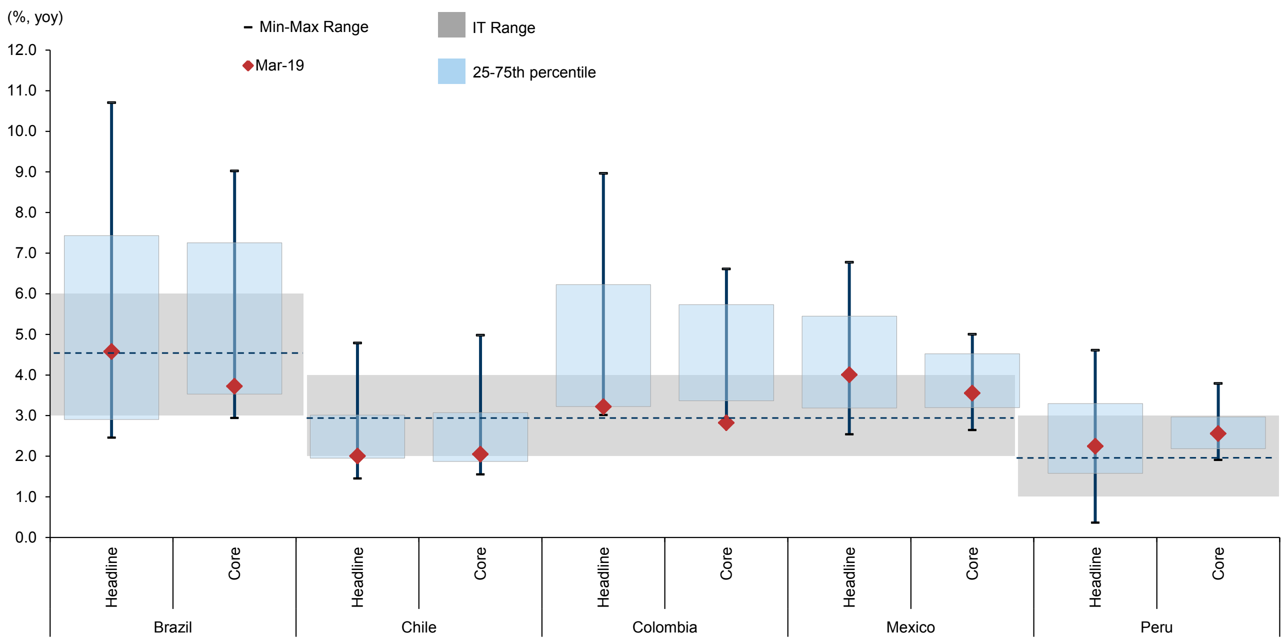


Central Bank Kept Policy Rate On Hold at 2.75% in April



Source: BCRP, INEI, Goldman Sachs Global Investment Research

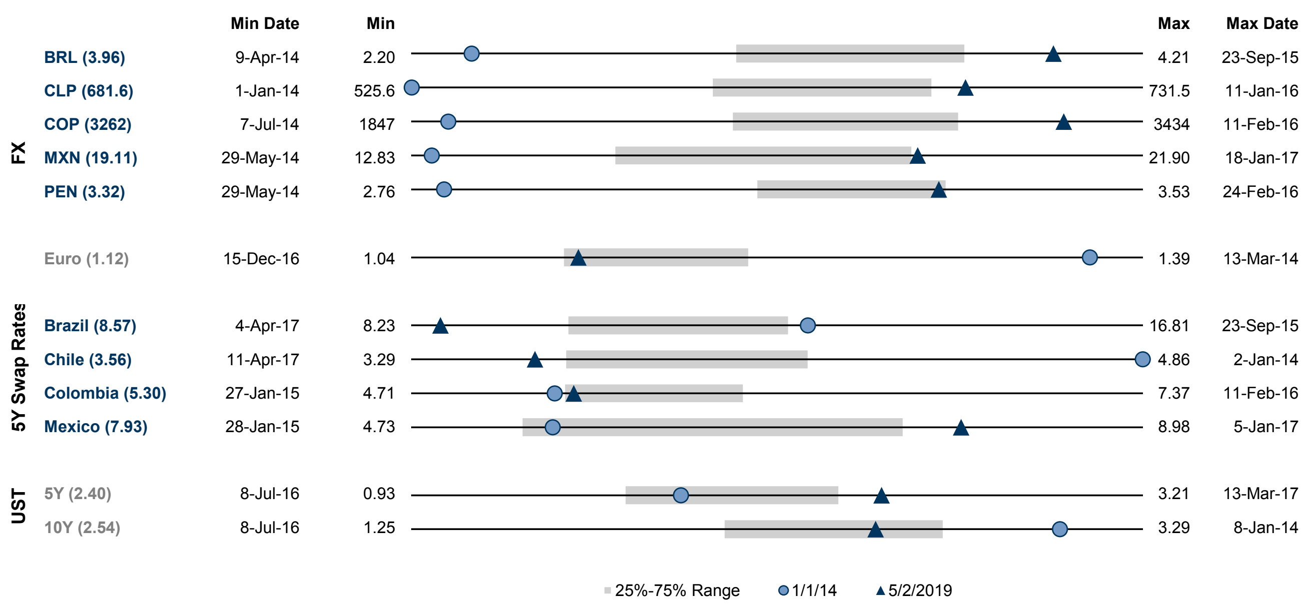
LAIT-5 Annual Headline and Core Inflation Dynamics Since January 2016



Source: Haver Analytics, Goldman Sachs Global Investment Research

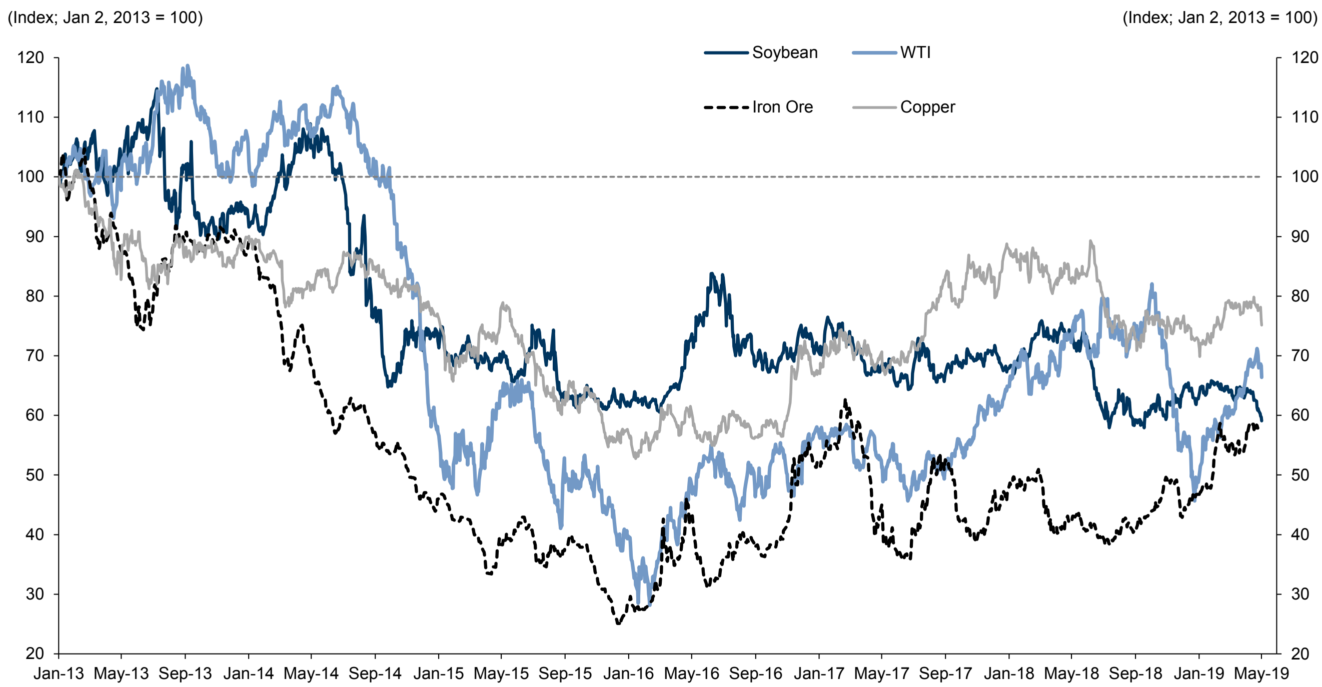
LatAm Financial Markets Outlook

LatAm Financial Markets Indicators (2014-2019)



Source: Goldman Sachs Global Investment Research

Key Commodities Prices



Source: Goldman Sachs Global Investment Research

Latin America Swap Rates

		End-2017	End-2018	Current (05/02/2019)	Change Since (bps) End-2017	Change Since (bps) End-2018
Swap Rates (%)	**Brazil**					
	2y	8.06	7.36	7.28	-79	-8
	10y	10.78	9.57	9.15	-162	-42
	Chile					
	2y	2.84	3.29	3.21	37	-9
	10y	4.24	4.06	3.99	-25	-7
	Colombia					
	2y	4.46	4.62	4.59	13	-3
	10y	6.10	6.11	6.02	-8	-9
	Mexico					
	2y	8.02	8.61	8.13	11	-48
	10y	7.98	8.84	8.21	23	-63
	United States					
	2y	2.07	2.66	2.46	38	-20
	10y	2.42	2.74	2.53	11	-21

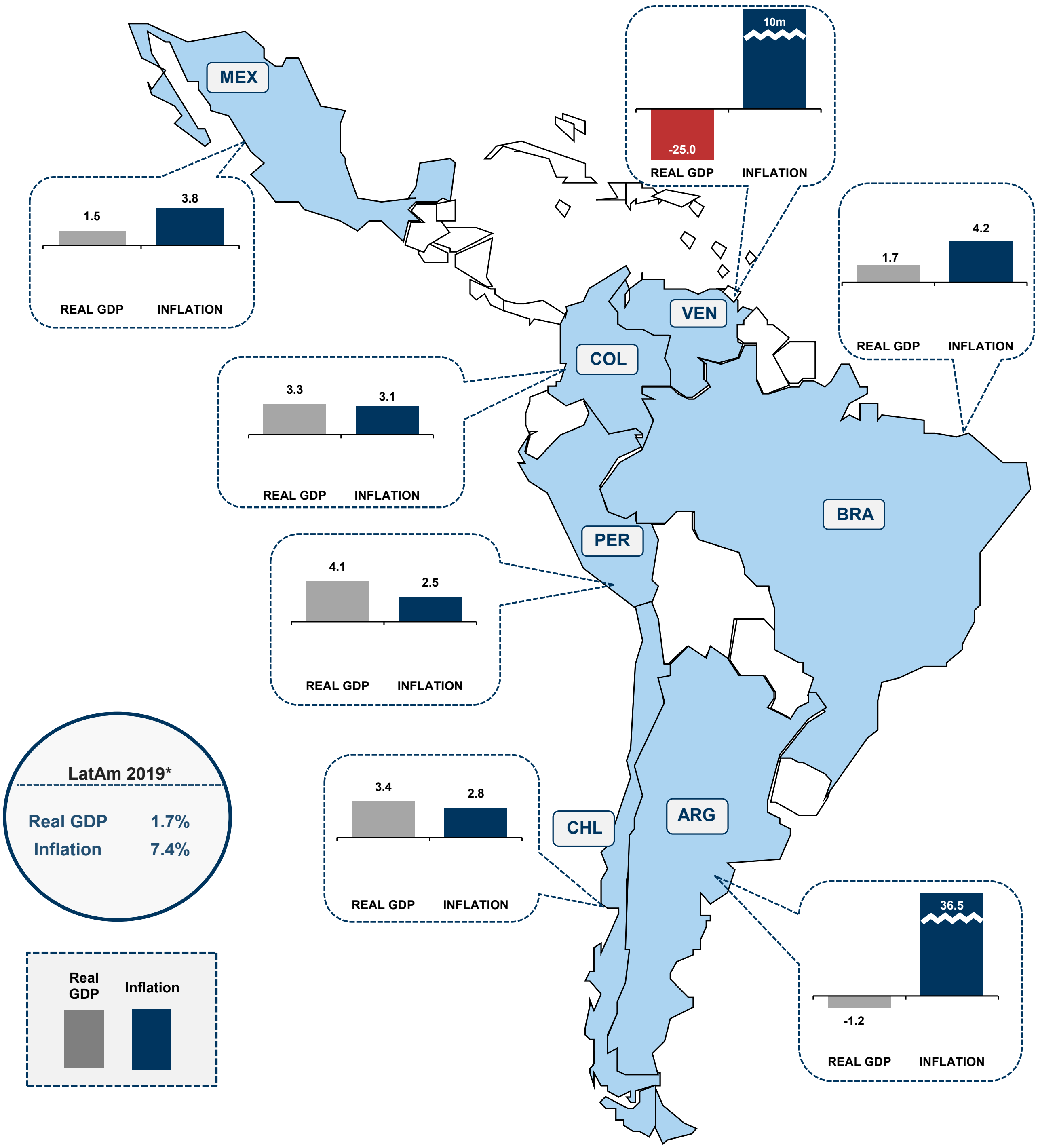
Source: Goldman Sachs Global Investment Research

Latin America Forecasts

		Policy Rates and FX Levels (End of Period)						Implied Change (Policy Rate in bps; FX in %)			
		Current	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	2Q2019	3Q2019	4Q2019	1Q2020
Policy Rate (%)	**Brazil**	6.50	6.50	6.50	6.50	6.50	7.00	0	0	0	0
	Chile	3.00	3.00	3.00	3.25	3.50	3.50	0	0	25	50
	Colombia	4.25	4.25	4.25	4.25	4.50	4.75	0	0	0	25
	Mexico	8.25	8.25	8.00	7.50	7.25	7.25	0	-25	-75	-100
	Peru	2.75	2.75	2.75	3.00	3.25	3.50	0	0	25	50
FX (Local / USD)	**Argentina**	44.34	46.30	49.44	52.79	53.82	54.86	4.4%	11.5%	19.1%	21.4%
	Brazil	3.92	3.80	3.80	3.80	3.80	3.80	-3.0%	-3.0%	-3.0%	-3.0%
	Chile	677.7	638.3	633.3	630.0	622.5	615.0	-5.8%	-6.5%	-7.0%	-8.1%
	Colombia	3248	3033	2992	2950	2937	2899	-6.6%	-7.9%	-9.2%	-9.6%
	Mexico	18.94	19.50	19.50	19.30	19.23	19.15	3.0%	3.0%	1.9%	1.5%
	Peru	3.31	3.30	3.27	3.26	3.25	3.22	-0.2%	-1.1%	-1.5%	-1.8%

Source: Goldman Sachs Global Investment Research

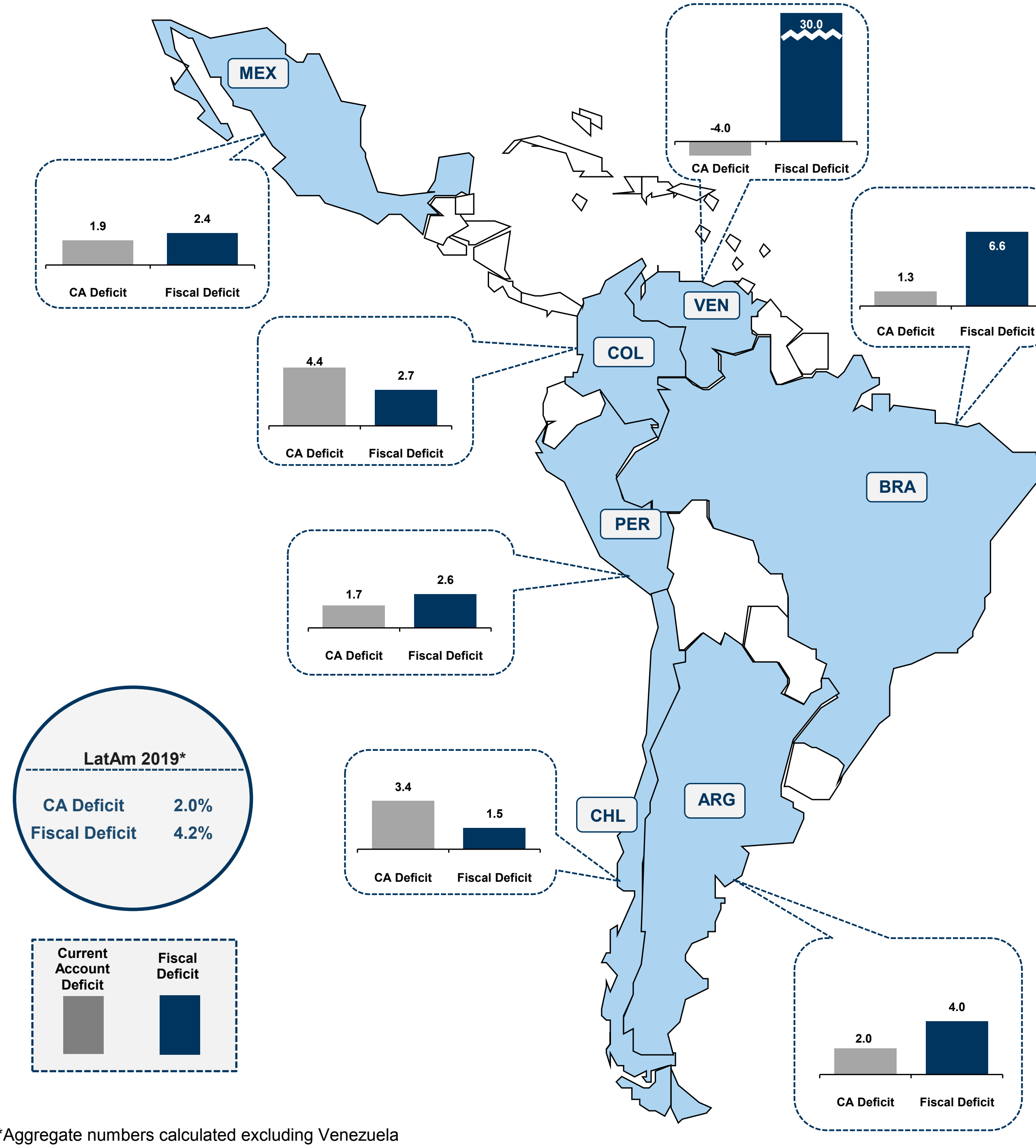
LatAm Outlook for 2019: Real GDP Growth and Inflation (YoY, %)



*Aggregate numbers calculated excluding Venezuela

Source: Goldman Sachs Global Investment Research

LatAm Outlook for 2019: Current Account and Fiscal Deficit (% of GDP)



Source: Goldman Sachs Global Investment Research

Calendar of Economic and Political Events

Date	Forthcoming Events	Comment
Argentina		
11-Aug	National Open and Mandatory Primaries (PASO)	Primary elections to define party candidates. Citizens may vote for any candidate of any party, but may only cast a single vote.
27-Oct	Presidential Election (First Round)	On October 27, Argentines will elect a new president. Mauricio Macri is expected to seek re-election.
24-Nov	Presidential Election Runoff (if needed)	The two leading candidates will face a run-off on November 24 if no candidate wins more than 45% of the vote in the first round or over 40% of the vote with a >10pp lead over the second candidate.
Brazil		
8-May	COPOM Meeting	We expect the Copom to leave the Selic policy rate unchanged at 6.50%.
Chile		
31-May	MPC Meeting	We expect the BCCh to leave the policy rate unchanged at 3.00%.
Colombia		
21-Jun	MPC Meeting	We expect Banrep to keep the policy rate at 4.25% in the near future.
Mexico		
16-May	MPC Meeting	We expect the Banxico to keep the policy rate at 8.25%.
Peru		
9-May	MPC meeting	We expect BCRP to keep the policy rate at 2.75% in the near future.

Source: Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

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