Goldman Sachs | Economics Research

8 February 2019 | 12:59PM EST

Latin America Economics Analyst

Peru: Postponing Rate Hikes despite Solid Economic Growth

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Economy Back on a Stronger Growth Path

The Peruvian economy has successfully navigated the challenging external environment of the past year. Despite the steep decline in prices of metal commodities, domestic activity has quickly recovered from a disappointing performance in 2017. Recent activity data has been encouraging, suggesting that the 3Q2018 slowdown was temporary and that the economy is back on track to a stronger growth path. Overall, we expect Peru to reclaim its position as the fastest growing economy among Latin America's major countries.

Inflation Outlook Remains Favorable

Despite stronger real GDP growth, improving labor market and accommodative financial conditions, inflationary pressures have remained contained through 2018. Looking forward, we believe risks to the inflation outlook are roughly balanced. Demand pressures are likely to remain contained on the back of a negative output gap that we expect will extend through 2019. Also, a mild *El Niño* phenomenon has so far had little impact on food prices. As a result of the favorable current and expected inflation dynamics, we are downgrading our 2019 inflation forecast to 2.5%.

Conditions in Place for Policy Rate on Hold for Longer

Rising concerns about the global growth outlook have led to a considerable repricing of market expectations for the policy rate path in both EM and developed markets. In parallel, the central bank governor has highlighted that deteriorating external conditions are the greatest risk to the domestic outlook. Overall, the central bank seems comfortable with the inflation outlook but increasingly concerned with the potential negative impact of slower global growth on the domestic economy. Accordingly, we are revising our policy rate forecast. We now expect the MPC to hike the policy rate for the first time during 4Q2019, followed by additional quarterly hikes towards a 3.50% terminal rate by 2Q2020.

Peru: Postponing Rate Hikes despite Solid Economic Growth

Solid Economic Recovery despite Bump in 3Q2018

The Peruvian economy has successfully navigated the challenging external environment of the past year. Despite the steep decline in prices of metal commodities — which amount to nearly 60% of the country's export value — domestic activity has quickly recovered from a disappointing performance in 2017, fueled by new public and private investments and stronger private consumption. Importantly, the business cycle recovery has been accompanied by modest inflationary pressures and the inflation outlook remains benign. We believe the favorable inflation dynamics will allow the central bank to continue to focus on consolidating the economic recovery by maintaining the current monetary stimulus for an extended period, considering downside risks to growth from a potentially more adverse external setting. Overall, we expect Peru to reclaim its position as the fastest growing economy among Latin America's major countries.

Certainly, the economic recovery has not been without its bumps. Real GDP slowed considerably during 3Q2018, printing at 2.3% yoy, down from a solid 4.4% yoy expansion in 1H2018. Importantly, domestic demand decelerated even more to just 2.2% yoy in 3Q2018 from a strong 4.9% yoy expansion in the first half of the year. The slowdown was mainly driven by the public sector, given large contractions in public consumption and investment. However, both consumption and investment in the private sector also decelerated considerably from previous periods (Exhibit 1). The weak activity figures have raised questions regarding the sustainability of the incipient business cycle recovery.

Exhibit 1: Domestic Demand Slowed in 3Q2018

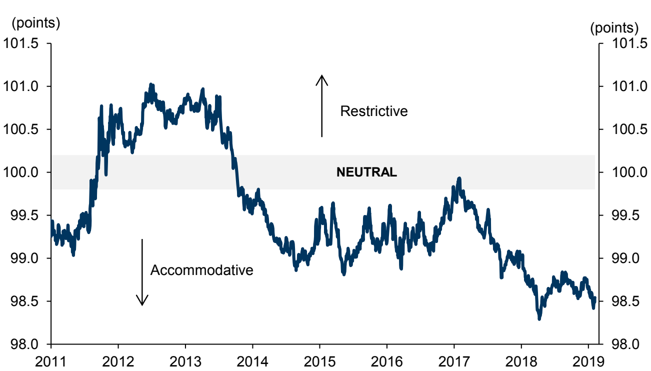
	2017				2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
% YoY, nsa							
GDP	2.2	2.5	2.9	2.4	3.2	5.5	2.3
Domestic Demand	-0.7	0.4	1.9	4.1	4.4	6.1	2.7
Priv. Consumption	2.2	2.5	2.7	2.6	3.2	4.5	3.3
Govt Consumption	-8.9	-2.5	2.0	6.7	3.8	0.4	-1.8
Investment (ex-inventories)	-7.1	-3.2	5.5	2.8	5.4	8.5	0.8
Private	-5.3	-2.6	5.5	3.1	5.4	8.5	1.4
Public	-17.4	-5.7	5.5	1.6	5.5	8.4	-1.6
Exports	12.1	13.2	7.0	0.6	2.8	4.2	-0.6
Imports	0.4	4.5	4.2	7.2	7.7	6.6	0.7
% QoQ, sa							
GDP	0.1	0.6	1.2	0.7	0.8	1.4	0.0
Domestic Demand	-0.9	0.9	2.1	1.6	-0.2	2.8	-1.5
Priv. Consumption	-0.4	0.8	1.3	1.1	-0.3	2.9	0.1
Govt Consumption	7.6	2.7	0.6	1.3	0.6	0.7	-1.2
Investment (ex-inventories)	-0.5	0.5	5.6	-2.7	2.1	3.5	-2.3
Private	-1.0	-0.4	5.4	-0.8	1.2	1.7	1.0
Public	1.9	4.5	6.2	-10.0	6.2	8.0	1.0
Exports	-4.2	4.3	-1.1	3.4	-1.5	3.2	0.5
Imports	0.7	1.9	4.1	2.0	0.5	-0.3	0.3

Source: INEI, BCRP, Haver Analytics

More recently, however, activity data has been encouraging, suggesting that the 3Q2018 slowdown was temporary and that the economy is back on track to a stronger growth path. Real GDP growth averaged 4.7% yoy during Oct-Nov, on the back of a recovery in construction and manufacturing activities. Moreover, leading indicators suggest GDP growth approached 5.0% yoy in December, which would be consistent with 3.9% real GDP growth in 2018.

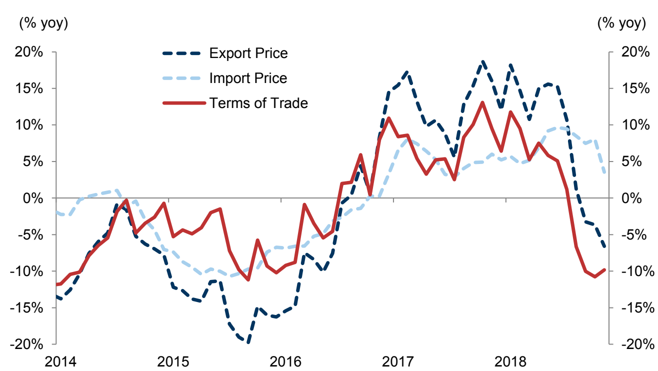
We remain comfortable with our 4.0% growth forecast for 2019. Accommodative financial conditions have helped accelerate credit growth, which we believe will continue to support stronger domestic activity in the near term (Exhibit 2). Moreover, we expect that the recovery in metal commodity prices will partially offset the recent decline in terms of trade, hence the external sector drag on growth will likely reverse to some extent going forward (Exhibit 3). Finally, the recent fragmentation in Congress has weakened the opposition to the government, which, combined with the surge in the President's approval rating, should help reduce political risks and policy uncertainty (see box on page 9).

Exhibit 2: Financial Conditions Remain Accommodative



Source: Goldman Sachs Global Investment Research

Exhibit 3: Sharp Decline in Terms of Trade



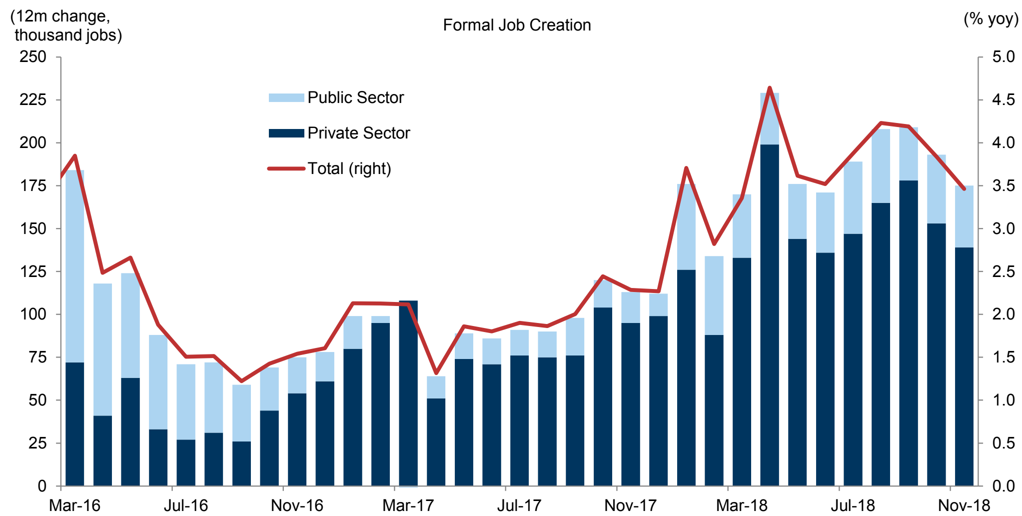
Source: BCRP, Goldman Sachs Global Investment Research

We believe the main risk to the growth outlook lies on a less favorable external environment with a sharper slowdown in the global economy than expected. However, we note that our baseline scenario is consistent with only a modest deceleration to 3.5% global growth in 2019 from 3.8% in 2018, which we believe would not present a major challenge to domestic activity.

Labor Market Conditions Improving despite Temporary Activity Slowdown

As the business cycle recovery firmed, labor market conditions improved considerably. Formal job creation accelerated steadily through 2018 to the fastest pace since the series began in January 2016. During Jan-Nov, formal employment increased 3.8% yoy in 2018, considerably higher than in previous years. Importantly, most new formal jobs have been created in the private sector: formal private employment expanded 4.2% yoy during Jan-Nov in 2018, nearly twice as fast as in 2017 (Exhibit 4).

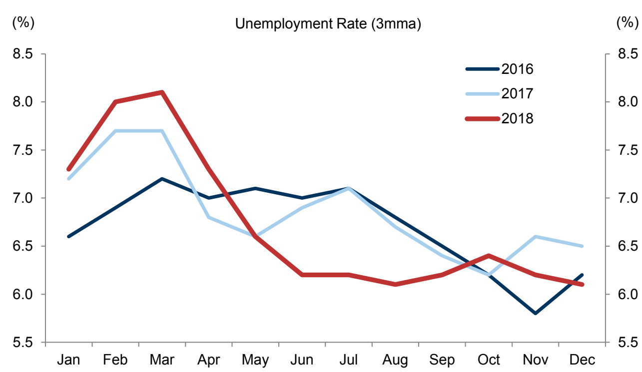
Exhibit 4: Accelerating Formal Job Creation



Source: BCRP, Goldman Sachs Global Investment Research

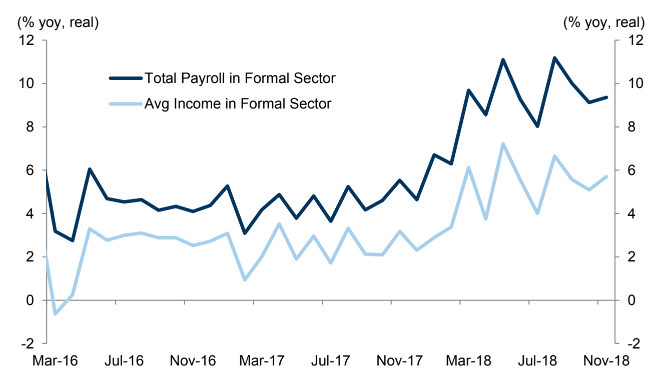
As a result, the unemployment rate has declined over the past year. Besides a brief increase in October amid the temporary slowdown in economic activity, the unemployment rate was lower in every month during the second half of 2018 compared to the previous year (Exhibit 5). In addition, average income in the formal sector has increased consistently over the past several months, which, combined with the expansion in formal employment, has led to a significant double-digit real expansion in total payroll in the formal sector (Exhibit 6).

Exhibit 5: Declining Unemployment Rate



Source: INEI, Goldman Sachs Global Investment Research

Exhibit 6: Rising Payroll in Formal Sector



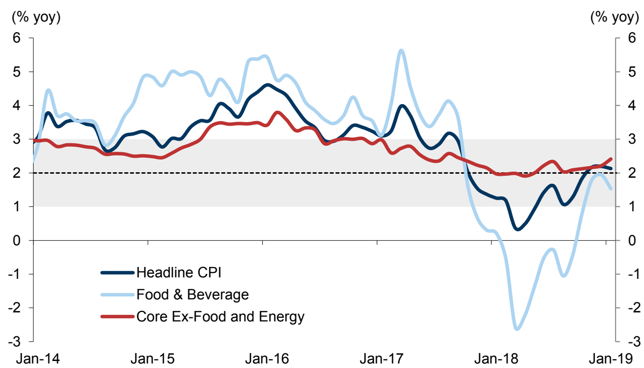
Source: BCRP, Goldman Sachs Global Investment Research

Though the strength of the economic recovery was put into question after the considerable slowdown in 3Q2018, we believe the strength of the labor market is encouraging. As a lagging indicator, improving labor market conditions reinforce the view that the economy went through an inflection point during 1H2018 and that the business cycle recovery is well under way.

Inflation Outlook Remains Favorable

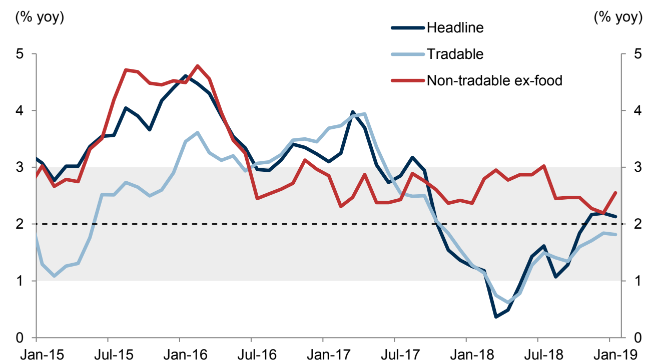
Despite stronger real GDP growth, improving labor market and accommodative financial conditions, inflationary pressures have remained contained through 2018. Headline inflation reached 0.36% yoy in March 2018, its lowest level in over eight years, given base effects from the food supply shock one year before: amid a severe coastal *El Niño*, food prices increased significantly in March 2017, driving headline inflation to its highest mom print in nearly two decades. In turn, annual food inflation declined significantly through the following year to a low -2.6% yoy in March 2018. Given its large 38% weight in the CPI basket, low food inflation has helped keeping headline inflation low and within the 1%-3% target range over the past year (Exhibit 7).

Exhibit 7: Headline Inflation Converged Back to Target



Source: INEI, Goldman Sachs Global Investment Research

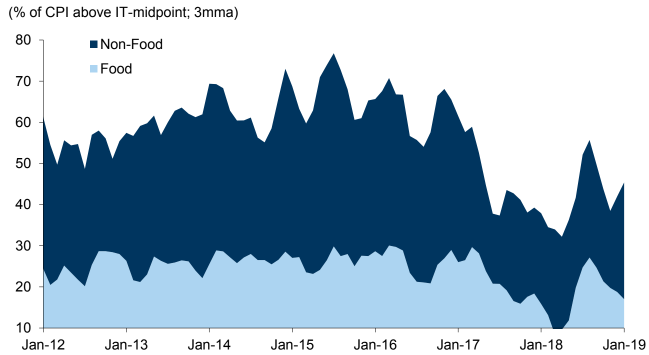
Exhibit 8: Moderating Non-tradable Inflation



Source: INEI, Goldman Sachs Global Investment Research

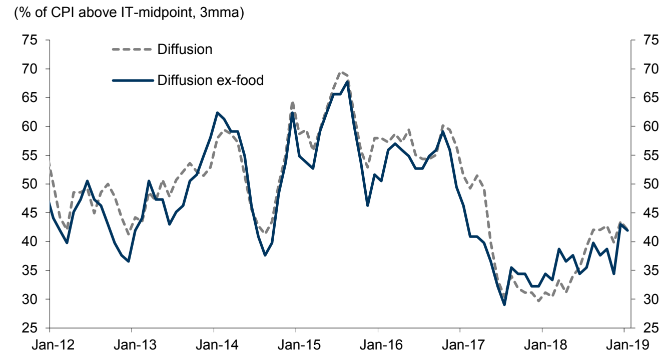
Indeed, inflation excluding food items averaged 2.5% yoy during 2018, well above the -0.4% yoy average rate of food inflation, though still below the target upper limit. Since the March cyclical low, food inflation has accelerated consistently, driving headline inflation slightly past the target midpoint in January. More importantly, however, despite the improving business cycle dynamics, inflation in prices that are more sensitive to monetary policy and the business cycle has actually moderated considerably. Non-tradable inflation excluding food items reached 3.0% yoy in July 2018, but has since moderated somewhat to 2.5% yoy in January 2019, following the dissipation of a large increase in water supply tariffs (Exhibit 8). Moreover, inflation dispersion has remained low and below historical average in both headline and non-food CPI (Exhibits 9 and 10). Indeed, annual inflation in 5 out of 8 CPI groups is currently tracking below the 2% target, and only one group is above the 3% upper limit (Exhibit 11).

Exhibit 9: Modest Inflation Generalization



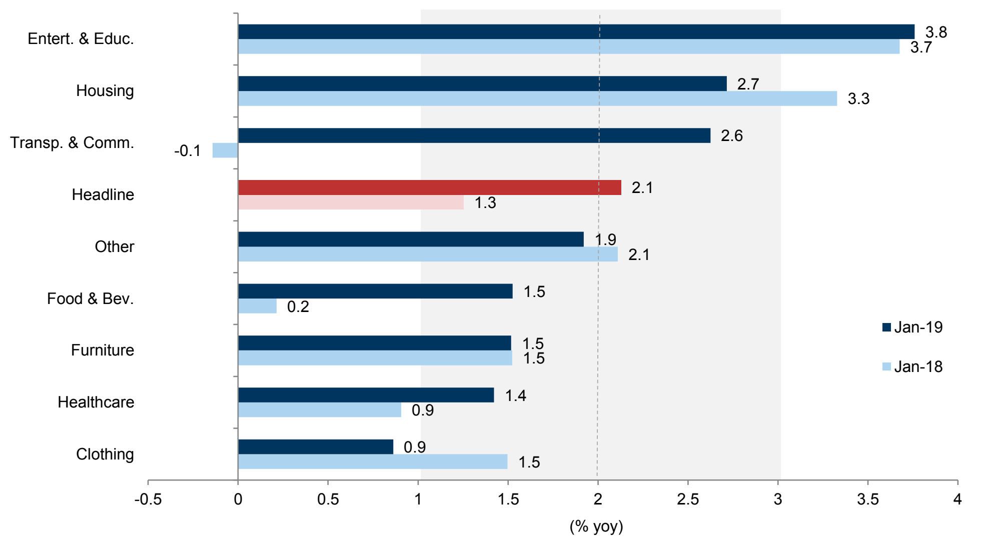
Source: Goldman Sachs Global Investment Research

Exhibit 10: Inflation Diffusion at Historically Low Level



Source: Goldman Sachs Global Investment Research

Exhibit 11: Most CPI Components Tracking Below 2% Target



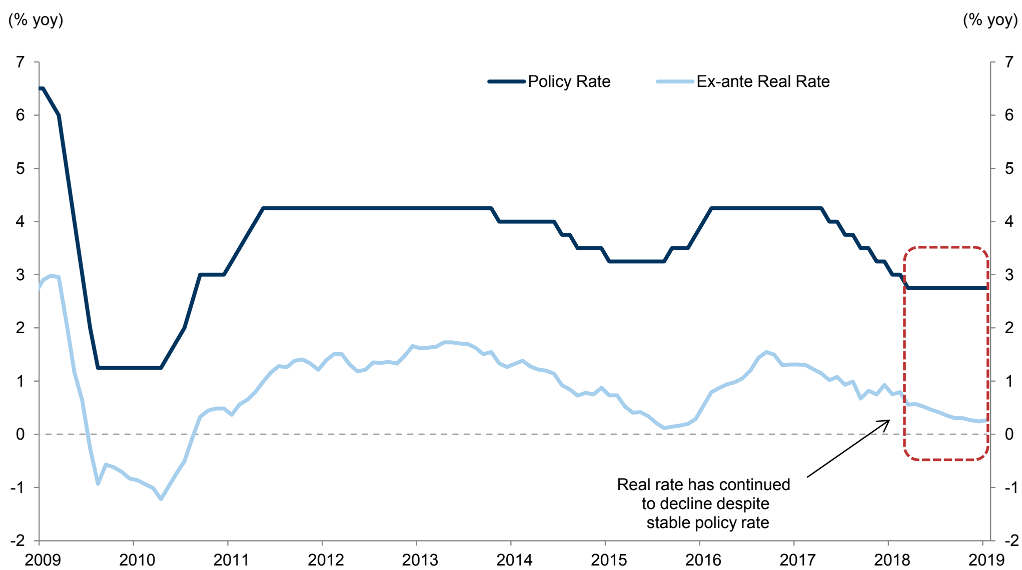
Source: INEI, Goldman Sachs Global Investment Research

Looking forward, we believe risks to the inflation outlook are roughly balanced. Demand pressures are likely to remain contained on the back of a negative output gap that we expect will extend through 2019. The current *El Niño* phenomenon has so far been mild (food prices actually declined in January) and is not expected to present substantially adverse weather in the near term that could significantly damage crops. The PEN is only slightly weaker than the average of the previous year, and we see room for further currency appreciation in the medium term, thus we expect no significant upside FX pass-through to domestic prices. **As a result of the favorable current and expected inflation dynamics, we are downgrading our 2019 inflation forecast to 2.5% from 3.0% previously.**

Conditions in Place for Policy Rate on Hold for Longer

On the back of a very favorable inflation dynamics, the central bank's Monetary Policy Committee (MPC) has kept the policy rate unchanged at the accommodative 2.75% level since March 2018. At its February meeting, the MPC reiterated the same forward guidance introduced in November, stating that it considered "*appropriate to keep the current accommodative monetary policy stance as long as inflation expectations remain anchored and the level of economic activity remains below its potential*." Hence, the MPC has signaled its intention of leaving the policy rate on hold as long as inflation expectations remain within the 1-3% target range and the (modestly) negative output gap persists. Since its last policy rate cut in March 2018, the ex-ante real rate has declined further toward its lowest level since the Global Financial Crisis as inflation expectations have climbed.

Exhibit 12: Real Policy Rate near Post-Crisis Low



Source: BCRP, Goldman Sachs Global Investment Research

According to its baseline scenario outlined in the December Quarterly Inflation Report, the central bank expects the output gap to persist through 2019 and close fully only by 2020 (Exhibit 13). Therefore, unless inflation and/or inflation expectations diverge from the target range, the MPC seems committed to maintaining the current monetary stimulus for an extended period.

Exhibit 13: Central Bank Expects Benign Inflation and Slow Narrowing of Output Gap

BCRP Forecasts (% yoy)	2017	2018F	2019F	2020F
Real GDP	2.5	4.0	4.0	4.0
Domestic Demand	1.4	4.4	3.9	4.0
CPI Inflation	1.4	2.1	2.1	2.0
Output Gap	[-1.4,-0.8]	[-0.9,-0.2]	[-0.6,+0.2]	[-0.5,+0.5]

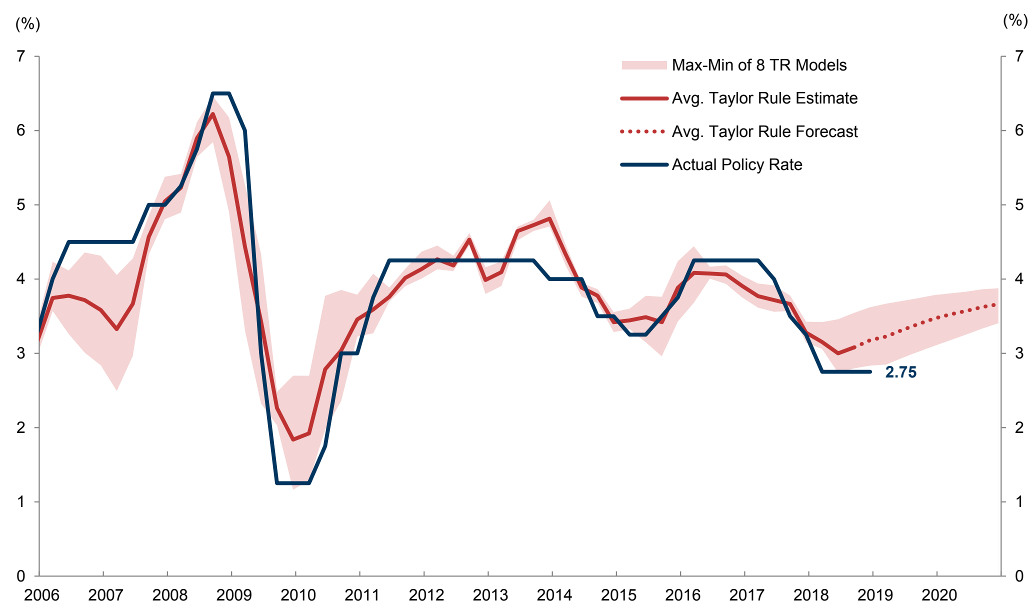
Source: BCRP

Over the past few months, rising concerns about the global growth outlook have led to a considerable repricing of market expectations for the policy rate path in both EM and developed markets, and the Federal Reserve has removed its hiking bias entirely. In parallel, the central bank governor has highlighted recently that deteriorating external conditions are the greatest risk to the domestic outlook. According to Bloomberg, the central bank governor also stated that the MPC would only raise the policy rate if it saw inflationary pressures as a result of an important demand shock, which was not the case at the moment. In addition, the governor said he did not rule out keeping the policy rate unchanged through 2019.

Overall, the central bank seems comfortable with the inflation outlook but increasingly concerned with the potential negative impact of slower global growth on the domestic economy. Given the favorable inflation outlook, downside risks to growth, and the latest communication from the central bank, we are revising our policy rate forecast.

We now believe the MPC will keep the current monetary stimulus through most of 2019, and start normalizing the policy stance toward the end of the year. We expect the MPC to hike the policy rate for the first time during 4Q2019, followed by additional quarterly hikes towards a 3.50% terminal rate by 2Q2020 for a total 75bp tightening, down from our previous expectation of a 4.00% terminal rate, which would be broadly consistent with different Taylor rule specifications (Exhibit 14). Certainly, our forecast is contingent on both inflation and inflation expectations remaining within the target range and further narrowing of the output gap, thus different paths for the inflation/growth balance would lead to adjustments in the policy normalization process.

Exhibit 14: Taylor Rule Suggests Gradual Hiking Cycle Ahead

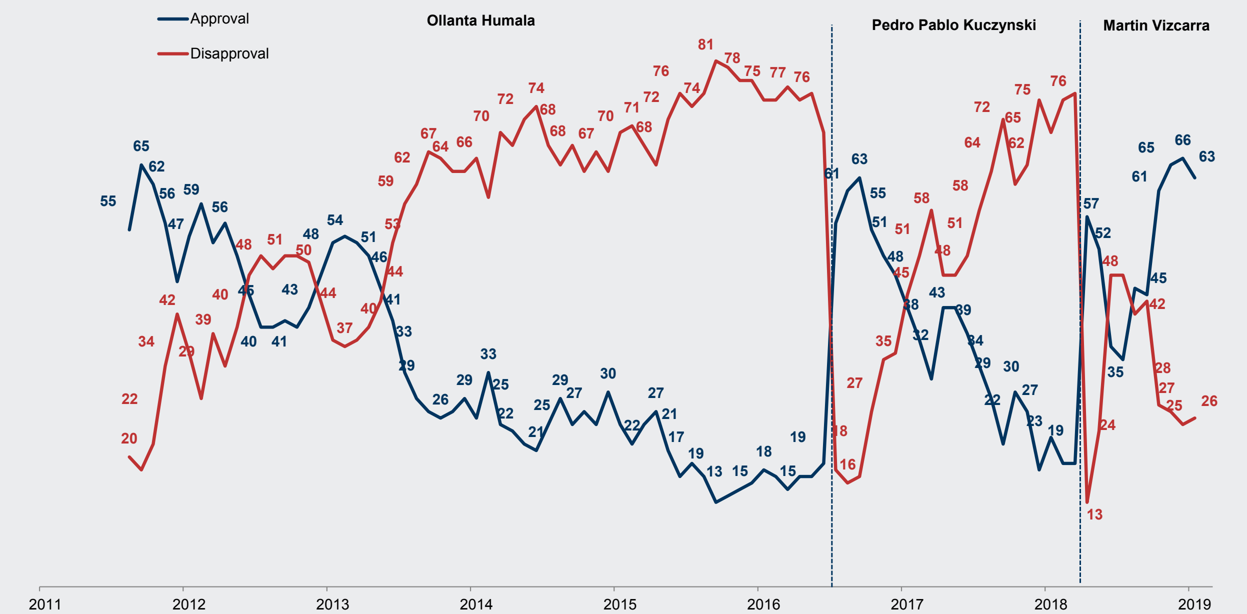


Source: Goldman Sachs Global Investment Research

Power Shift in Congress Likely to Reduce Political Gridlock

After an unsuccessful impeachment attempt in December 2017, President Pedro Pablo Kuczynski resigned on March 2018 before a second impeachment vote that was expected to remove him from office. At that point, first Vice President Martín Vizcarra took office amidst a divisive political climate, facing a strong opposition that held the broad majority in Congress. Since then, however, Mr. Vizcarra's approval has soared on the back of his anti-corruption platform launched as a response to a widely publicized bribery scandal involving Peru's senior magistrates.

President Vizcarra Experiencing Rare Surge in Popularity

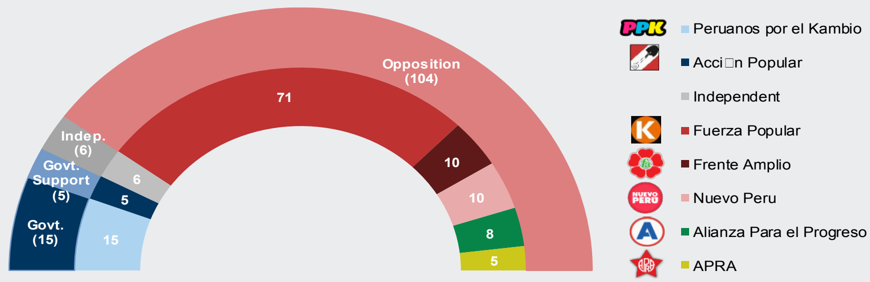


Source: Ipsos, Goldman Sachs Global Investment Research

In a referendum held on December 2018, the government proposed four Constitutional Reform measures to address the mounting anti-corruption popular sentiment: 1) banning congressional re-election, 2) stricter regulation of party finances, 3) a new formula to appoint and remove judges, and 4) expanding the legislature to a bi-cameral system. All but the latter measure were approved by a substantial 86% majority of votes.

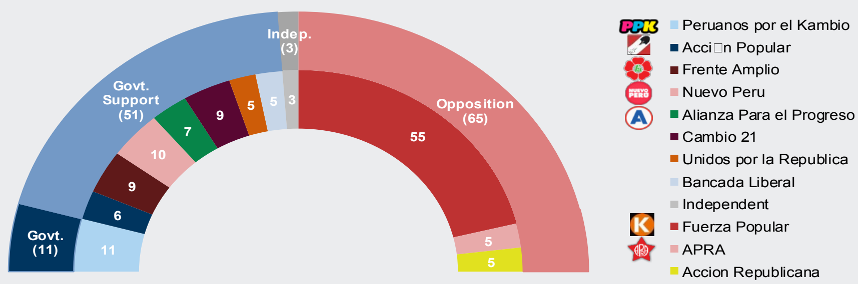
Meanwhile, investigations by the prosecutor have implicated members of the opposition in corruption schemes, which led to the arrest of Keiko Fujimori, leader of Fuerza Popular, the party with the largest number of seats in Congress. As a result, several legislators have left the party — including the current President of the Congress — and Fuerza Popular lost its absolute majority as its popularity declined, while other smaller parties previously in the opposition turned their support towards the government. Although the Vizcarra administration is still far from holding an official majority and the alignment of smaller parties remains fluid, the weakening and further fragmentation of the opposition has tilted the congressional balance of power in the government's favor.

Congress Composition during First Impeachment Vote in December 2017



Source: Goldman Sachs Global Investment Research

Congress Composition as of February 2019



*Government support by smaller parties is not official and remains fluid.

Source: Goldman Sachs Global Investment Research

The rise in Mr. Vizcarra's popularity coupled with additional congressional support has put the government in its strongest position since Mr. Kuczynski's inauguration in 2016. Such an improvement in governability conditions is likely to lower political and policy uncertainty, supporting the business cycle recovery (see "Talk the Talk and Walk the Walk", *Latin America Economics Analyst*, Dec. 10, 2018).

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Gabriel Fritsch

LatAm and Global Macroeconomic Outlook

Consolidated Latin America Selected Economic Indicators

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F	2021F	2022F
I. Economic Activity and Prices												
Nominal GDP (US$bn)	5,083	5,078	5,223	5,182	4,366	4,168	4,648	4,436	4,711	5,175	5,612	5,983
Real GDP growth (% yoy)	4.6	2.6	2.8	1.3	0.3	-0.2	1.7	1.5	2.2	2.7	3.0	3.1
CPI Inflation (% yoy)	7.3	6.6	7.1	8.7	9.0	8.8	6.5	8.8	6.5	4.8	4.2	3.8
Domestic Demand (% yoy)	6.0	2.7	3.0	1.0	-0.7	-1.0	1.9	2.2	1.8	2.8	3.2	3.2
II. External Sector (US$bn)												
Current Account Balance	-111.0	-131.8	-157.2	-168.2	-135.6	-83.9	-75.0	-82.4	-87.5	-109.6	-133.0	-156.3
Trade Balance	64.9	46.7	9.8	-3.6	-10.7	34.6	57.5	50.9	50.9	39.3	27.8	14.2
Gross International Reserves	663.6	722.6	715.9	737.9	705.2	729.3	751.7	760.0	781.2	801.1	816.3	831.8
Change in Reserves	109.2	59.0	-6.8	22.0	-32.7	24.1	22.4	8.3	21.2	19.9	15.2	15.6
Net Capital Inflows	220.2	190.9	150.4	190.2	102.9	108.0	97.3	90.7	108.7	129.5	148.2	171.9
Foreign Direct Investment	148.2	155.4	168.1	167.3	149.8	145.6	142.6	163.7	170.4	177.1	187.1	197.1
III. Public Finance and Indebtness (% GDP)												
Primary Fiscal Balance	1.3	0.8	0.4	-0.9	-1.7	-1.8	-0.9	-0.8	-0.2	0.1	0.4	0.5
Overall Fiscal Balance	-2.1	-2.1	-2.5	-4.3	-6.3	-5.6	-4.7	-4.4	-4.0	-3.8	-3.5	-3.3
Total Public Sector Debt	41.4	42.0	42.1	46.2	51.3	55.1	56.0	57.9	60.2	60.8	60.8	61.0
Total External Debt	22.2	24.7	26.1	29.1	34.4	36.8	34.8	37.7	38.7	38.2	37.7	37.6

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	2018F	2019F	2020F	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F
Real GDP Growth (%, yoy)													
United States	1.6	2.2	2.9	2.4	2.0	2.6	2.9	3.0	3.0	2.9	2.5	2.1	2.0
Euro Area	1.9	2.5	1.8	1.4	1.6	2.4	2.2	1.6	1.2	1.2	1.2	1.5	1.7
Japan	0.6	1.9	0.7	0.8	0.7	1.2	1.4	0.0	0.1	0.8	0.4	1.3	0.6
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	1.8	2.2	2.3	2.6	2.6	2.2	1.7	1.8	1.9	1.9
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	0.5	1.2	1.3	0.6	1.1	0.9	0.6	0.4	0.2	0.9
Interest rates (%, e.o.p)													
Fed Funds	0.54	1.30	2.27	2.63	2.63	1.51	1.82	1.95	2.27	2.38	2.38	2.38	2.63
UST 10-Year	2.44	2.41	2.68	3.00	2.85	2.74	2.86	3.06	2.68	2.75	2.90	3.00	3.00

Source: Goldman Sachs Global Investment Research

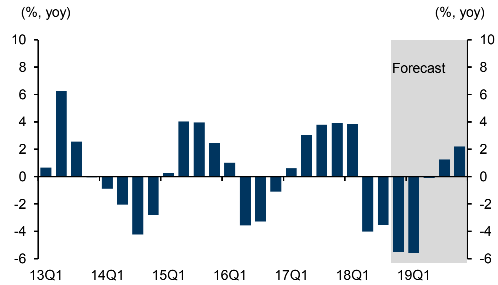
LatAm Country Data Tables

Argentina

	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	-1.8	2.9	-2.4	-0.6
Nominal GDP (US$bn)	554	637	528	447
Consumer Prices, IPC (yoy, e.o.p.)*	N.A	24.8	47.6	28.7
Consumer Prices, IPCBA (yoy, e.o.p.)*	41.0	26.1	45.5	28.7
External Sector				
Current Account (% GDP)	-2.7	-5.0	-5.3	-1.7
Trade Balance (% GDP)	0.8	-0.9	-0.2	3.3
Exports (% yoy)	2.0	1.2	5.1	11.5
Imports (% yoy)	-7.0	19.7	-2.6	-13.5
Exchange Rate ($/ARS, e.o.p.)	15.9	18.6	37.6	47.6
Gross International Reserves (US$bn)	39.3	55.1	65.8	68.8
Monetary Sector				
Monetary Base (% yoy)	26.6	24.7	33.0	18.0
Credit to the Private Sector (% GDP)	13.7	16.1	15.3	13.2
Reference Interest Rate	24.75	28.75	57.00	35.00
Fiscal Sector **				
Federal Govt Primary Balance (% GDP)	-4.3	-3.8	-2.4	0.0
Federal Govt Overall Balance (% GDP)	-5.9	-6.0	-5.2	-3.5

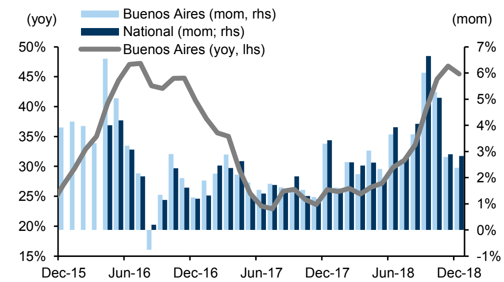
*IPC computed by INDEC, IPCBA by Statistical Institute City of Buenos Aires. **Before Rents from CB and Anses. Accumulated 4Q. *** Including non-performing debt.

Sharp Contraction in 2Q18 and 3Q18



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

Deteriorating Inflation Dynamics



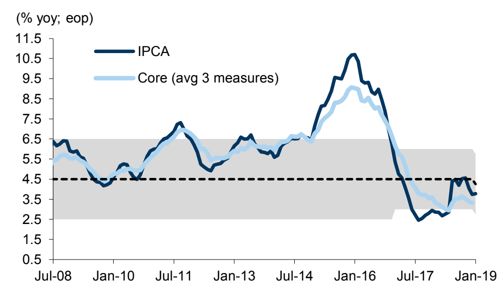
Source: INDEC, Statistical Inst. City of Buenos Aires, Goldman Sachs Global Investment Research

Brazil

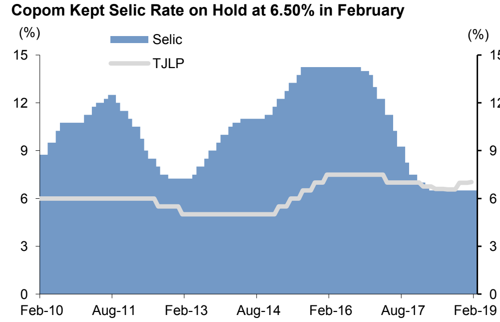
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	-3.3	1.1	1.2	2.6
Nominal GDP (US$bn)	1,808	2,053	1,819	1,992
IPCA Inflation (yoy e.o.p)	6.3	2.9	3.7	4.2
External Sector				
Current account (% GDP)	-1.3	-0.4	-0.8	-1.8
Trade balance (% GDP)	2.5	3.1	2.9	2.0
Exports of goods (% yoy)	-3.0	17.8	10.0	5.5
Imports of goods (% yoy)	-19.1	9.9	21.0	14.0
Nominal Exchange Rate ($/BRL e.o.p.)	3.26	3.31	3.87	3.60
Net International Reserves (US$bn)	365	374	375	390
Monetary Sector				
Monetary base (% yoy)	5.9	9.8	7.0	8.0
Credit to the Private Sector (%GDP)	45.8	43.8	44.0	46.1
SELIC rate (e.o.p)	13.75	7.00	6.50	7.25
Fiscal Sector				
Public Sector Primary Balance (% GDP)	-2.5	-1.7	-1.6	-0.7
Public Sector Nominal Balance (% GDP)	-9.0	-7.8	-7.1	-6.4
Debt Indicators				
Gross general govt debt (% GDP)	69.9	74.1	76.7	79.0
Domestic public debt (%GDP)	66.2	70.6	72.8	75.4
External public debt (%GDP)	3.6	3.5	3.9	3.6
Total external debt (% GDP)	30.3	26.7	29.7	29.8

Source: Goldman Sachs Global Investment Research

Headline/Core Inflation Back to Target Range



Copom Kept Selic Rate on Hold at 6.50% in February



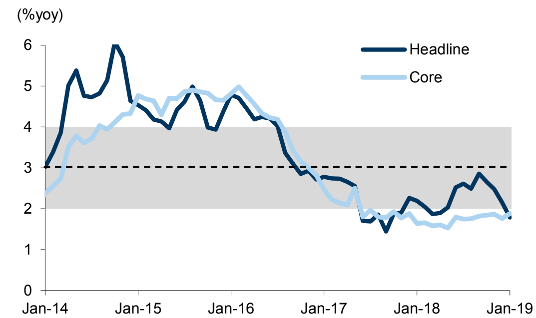
Sources: Bloomberg, Goldman Sachs Global Investment Research, Haver Analytics, IBGE

Chile

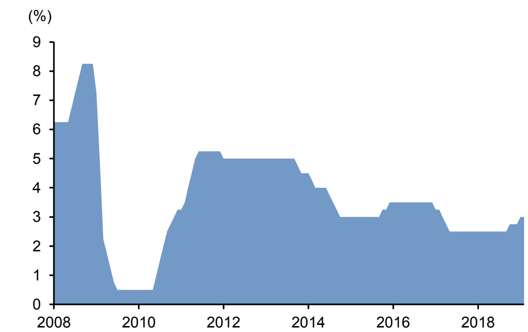
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	1.3	1.5	4.0	3.6
Nominal GDP (US$bn)	250	277	297	318
Consumer Prices (% yoy, e.o.p.)	2.7	2.3	2.6	3.0
External Sector				
Current Account (% GDP)	-1.4	-1.5	-2.1	-1.7
Trade Balance (% GDP)	2.2	2.9	2.5	2.6
Exports (% yoy)	-2.1	14.0	11.7	5.7
Imports (% yoy)	-5.7	10.9	14.0	5.2
Exchange Rate ($/CLP, e.o.p.)	667	615	696	630
Gross International Reserves (US$bn)	40.5	39.0	37.3	37.6
Monetary Sector				
Broad Money (M3, % yoy)	8.2	4.8	9.0	9.0
Credit to the Private Sector (% GDP)	81.3	80.2	81.7	82.7
Policy Rate (e.o.p.)	3.50	2.50	2.75	3.75
Fiscal Sector				
Central Gov't Primary Balance (% GDP)	-2.0	-2.0	-0.8	-0.6
Central Gov't Overall Balance (% GDP)	-2.7	-2.8	-1.7	-1.5
Debt Indicators				
Central Govt Debt (% GDP)	21.0	23.6	24.0	24.3
Domestic (% GDP)	17.0	19.2	18.9	18.8
External (% GDP)	4.0	4.4	5.1	5.5
Total External Debt (% GDP)	66.7	65.4	62.9	60.7

Source: Goldman Sachs Global Investment Research

Headline Inflation Below Target Range



Central Bank Hiked Policy Rate by 25bp in January



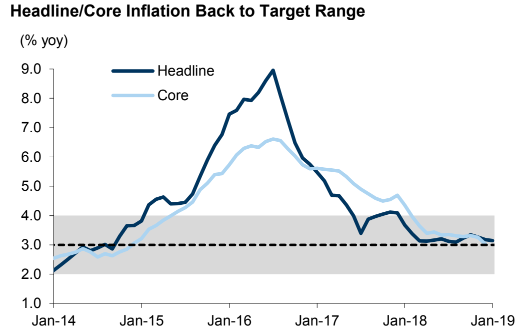
Source: Haver Analytics, INE, Central Bank of Chile

Colombia

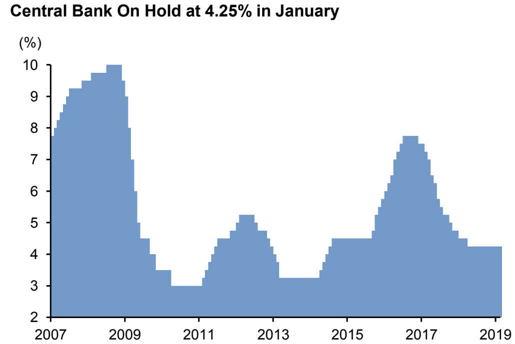
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	2.0	1.8	2.6	3.2
Nominal GDP (US$bn)	283	314	334	350
Consumer Prices (% yoy, e.o.p.)	5.7	4.1	3.2	3.3
External Sector				
Current Account (% GDP)	-4.2	-3.3	-3.3	-3.5
Trade Balance (% GDP)	-3.2	-1.5	-1.1	-1.1
Exports (% yoy)	-11.6	16.4	12.6	4.8
Imports (% yoy)	-16.9	2.3	9.4	4.8
Exchange Rate ($/COP, e.o.p.)	3001	2984	3202	2950
Gross International Reserves (US$bn)	46.2	47.1	47.3	49.0
Monetary Sector				
Monetary Base (% yoy)	2.5	5.0	7.0	9.0
Credit to the Private Sector (% GDP)	48.8	50.8	52.4	53.8
Policy Rate (% e.o.p.)	7.50	4.75	4.25	5.00
Fiscal Sector				
Central Government Primary Balance (% GDP)	-1.1	-0.8	-0.2	0.4
Central Government Overall Balance (% GDP)	-4.0	-3.6	-3.1	-2.4
Debt Indicators				
Gross Non-fin. Public Sector Debt (% GDP)	54.9	55.9	57.4	57.8
Domestic (% GDP)	31.1	33.0	34.9	35.3
External (% GDP)	23.7	22.8	22.5	22.5
Total External Debt (% GDP)	42.5	39.6	37.5	38.0

Source: Goldman Sachs Global Investment Research

Headline/Core Inflation Back to Target Range



Central Bank On Hold at 4.25% in January



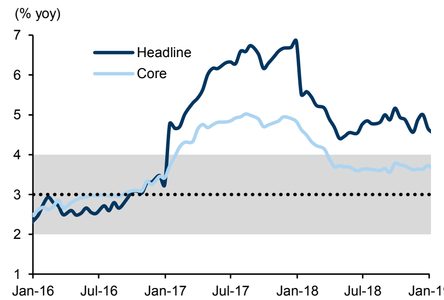
Source: Banco de la Repœblica

Mexico

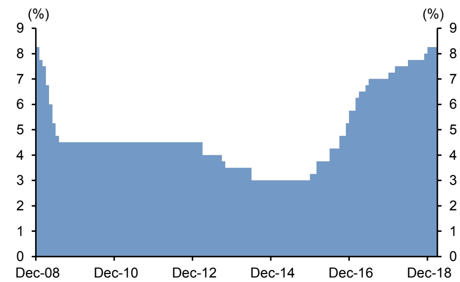
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	2.9	2.1	2.0	1.7
Nominal GDP (US$ bn)	1078	1158	1220	1272
Consumer Prices (yoy, e.o.p.)	3.4	6.8	4.8	3.5
External Sector				
Current Account (% GDP)	-2.2	-1.6	-1.5	-1.6
Trade Balance (% GDP)	-1.2	-0.9	-1.0	-1.1
Exports (% yoy)	-1.7	9.5	10.2	4.9
Imports (% yoy)	-2.1	8.6	10.2	5.1
Exchange Rate ($/MXN, e.o.p.)	20.73	19.79	19.68	19.30
Net International Reserves (US$ bn)	176.5	172.8	174.8	174.0
Monetary Sector				
Monetary Base (% yoy)	14.4	8.8	8.3	10.3
Credit to the Private Sector (% GDP)	18.0	18.5	19.0	19.3
Tasa de Fondeo Rate (e.o.p.)	5.75	7.25	8.25	8.25
Fiscal Sector				
Public Sector Primary Balance (% GDP)	-0.1	1.4	0.9	0.5
Public Sector Overall Balance (% GDP)	-2.5	-1.1	-2.0	-2.4
Debt Indicators				
Gross Federal Govt Debt (% GDP)	48.7	45.8	44.9	45.3
Domestic (% GDP)	30.9	28.9	28.5	29.1
External (% GDP)	17.8	16.9	16.4	16.2
Total External Debt (% GDP)	38.3	37.7	37.3	37.6

Note: *Public Sector Borrowing Requirements
Source: Goldman Sachs Global Investment Research

Headline Inflation Has Likely Peaked



Banxico On Hold at 8.25% in February



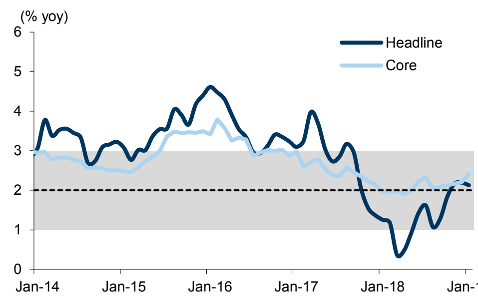
Source: Haver Analytics, INEGI, Goldman Sachs Global Investment Research

Peru

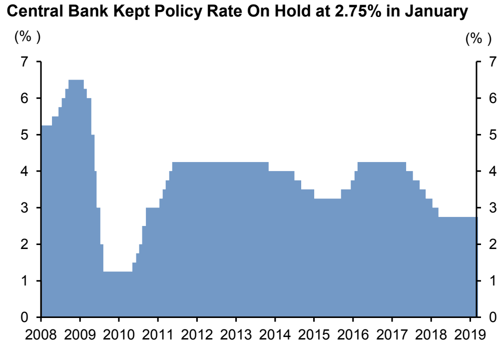
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	4.0	2.5	3.9	4.0
Nominal GDP (US$bn)	195	215	227	243
Consumer Prices (% yoy, eop)	3.2	1.4	2.2	2.5
External Sector				
Current Account (% GDP)	-2.7	-1.1	-1.7	-2.1
Trade Balance (% GDP)	1.0	3.1	3.0	2.1
Exports (% yoy)	7.7	22.1	8.3	3.5
Imports (% yoy)	-5.9	10.2	9.4	8.0
Gross International Reserves (US$bn)	61.7	63.7	60.0	61.7
Exchange Rate ($/PEN, e.o.p.)	3.36	3.24	3.36	3.25
Monetary Sector				
Monetary Base (% yoy)	4.1	7.2	4.2	9.6
Credit to the Private Sector (% GDP)	29.0	28.7	27.0	29.0
Reference Interest Rate (e.o.p.)	4.25	3.25	2.75	3.00
Fiscal Sector				
Non-fin Pub. Sector Primary Balance (% GDP)	-1.4	-1.9	-1.8	-1.5
Non-fin Pub. Sector Overall Balance (% GDP)	-2.5	-3.1	-2.8	-2.6
Debt Indicators				
Total Federal Govt Debt (% GDP)	23.8	24.9	25.7	26.4
Domestic Public Debt (% GDP)	13.5	16.1	16.4	16.6
External Public Debt (% GDP)	10.4	8.7	9.3	9.8
Total External Debt (% GDP)	38.3	35.8	36.8	37.5

Source: Goldman Sachs Global Investment Research

Headline Inflation Back to Target Range

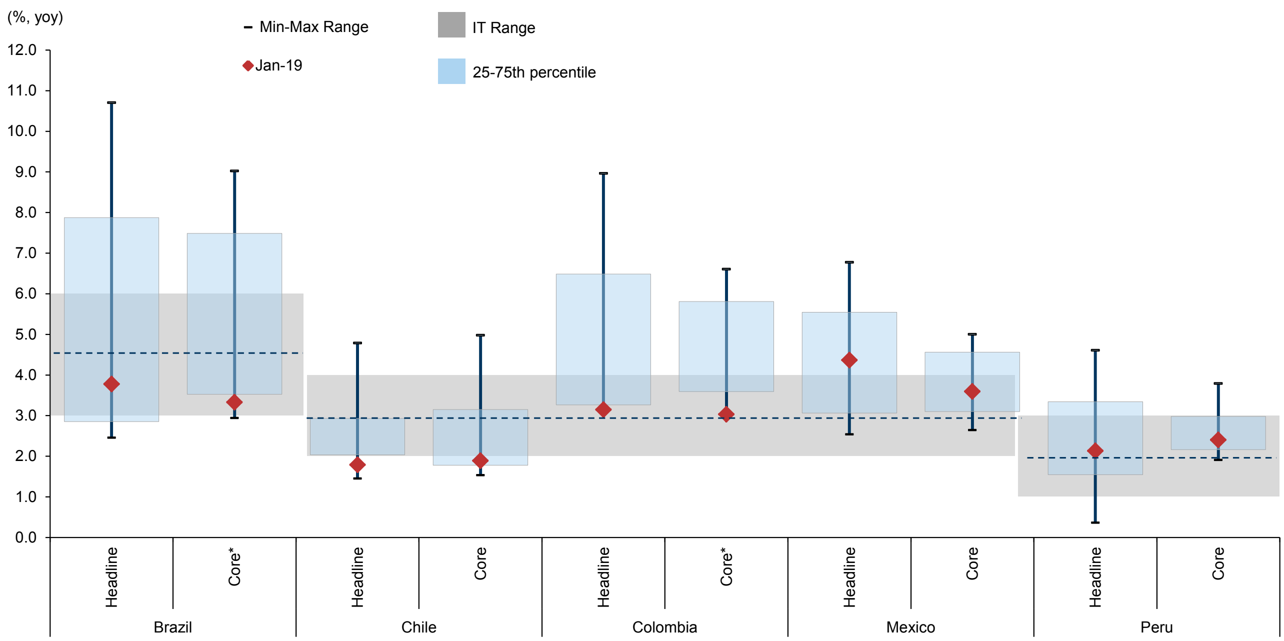


Central Bank Kept Policy Rate On Hold at 2.75% in January



Source: BCRP, INEI, Goldman Sachs Global Investment Research

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

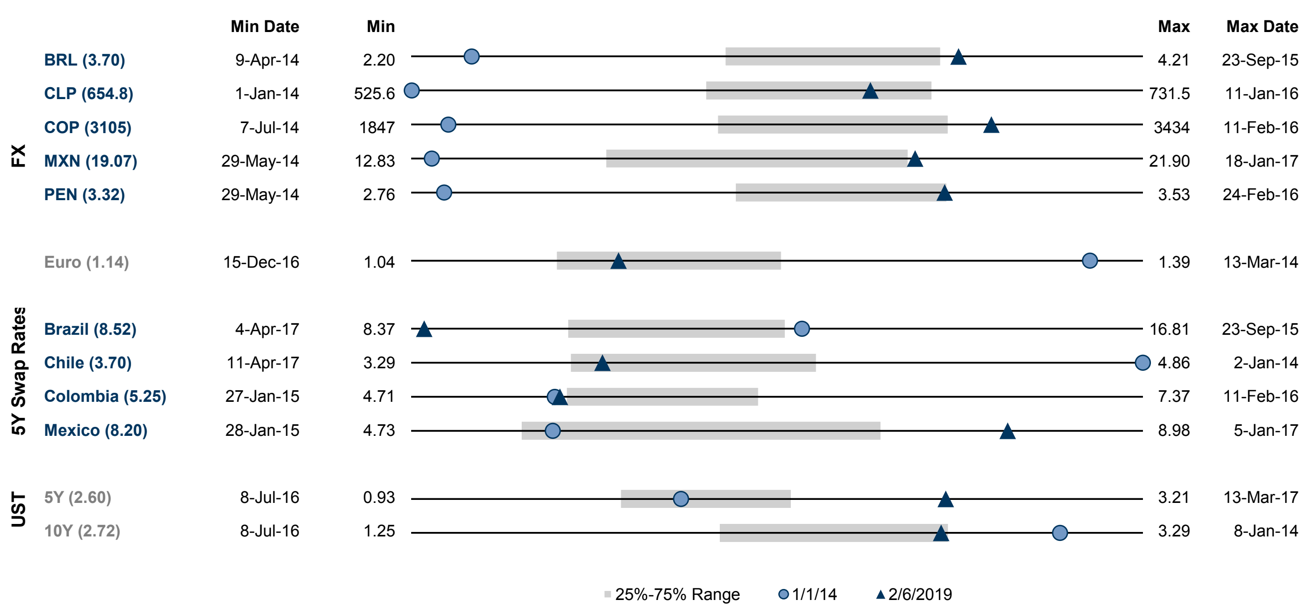


*Core Inflation for Brazil and Colombia show values for December 2018 as the range of values January 2019 have not been released.

Source: Haver Analytics, Goldman Sachs Global Investment Research

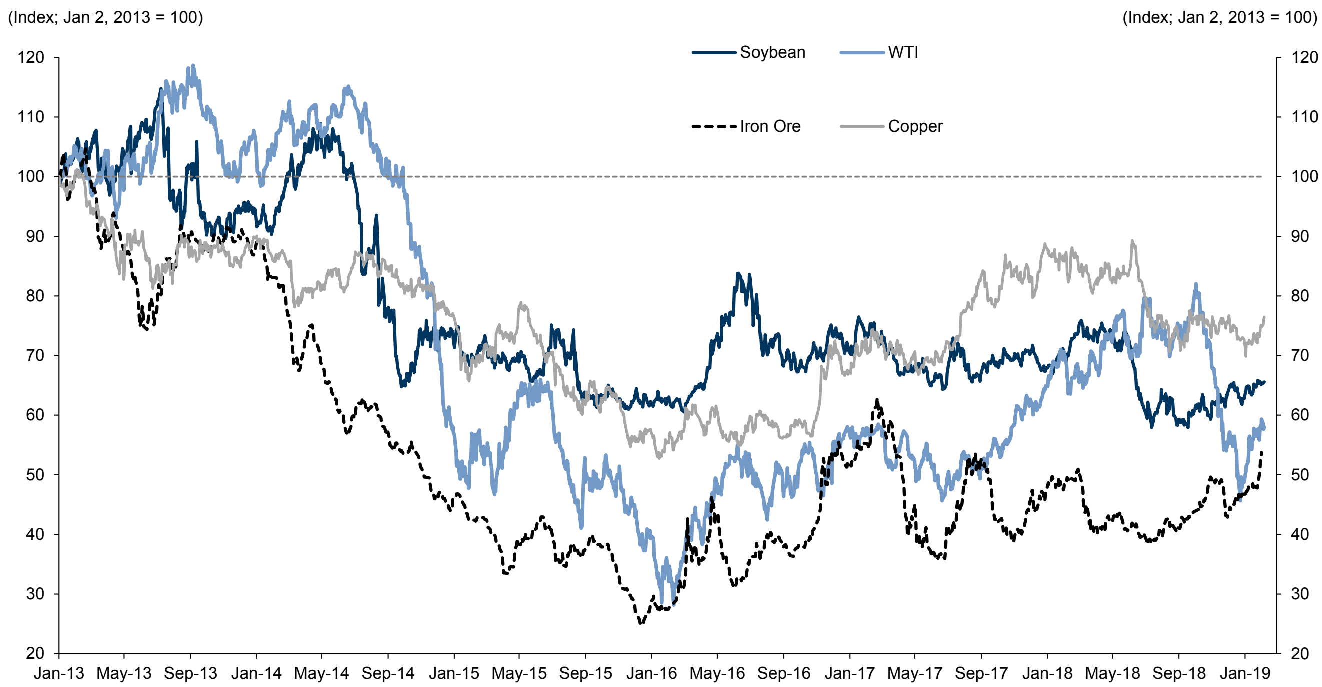
LatAm Financial Markets Outlook

LatAm Financial Markets Indicators (2014-2017)



Source: Goldman Sachs Global Investment Research

Key Commodities Prices



Source: Goldman Sachs Global Investment Research

Latin America Swap Rates

		End-2017	End-2018	Current (02/06/2019)	Change Since (bps) End-2017	Change Since (bps) End-2018
Swap Rates (%)	**Brazil**					
	2y	8.06	7.36	7.07	-99	-29
	10y	10.78	9.57	9.20	-157	-37
	Chile					
	2y	2.84	3.29	3.34	50	5
	10y	4.24	4.06	4.08	-17	1
	Colombia					
	2y	4.46	4.62	4.60	15	-2
	10y	6.10	6.11	5.93	-17	-18
	Mexico					
	2y	8.02	8.61	8.29	27	-32
	10y	7.98	8.84	8.52	54	-32
	United States					
	2y	2.07	2.66	2.67	60	1
	10y	2.42	2.74	2.72	30	-2

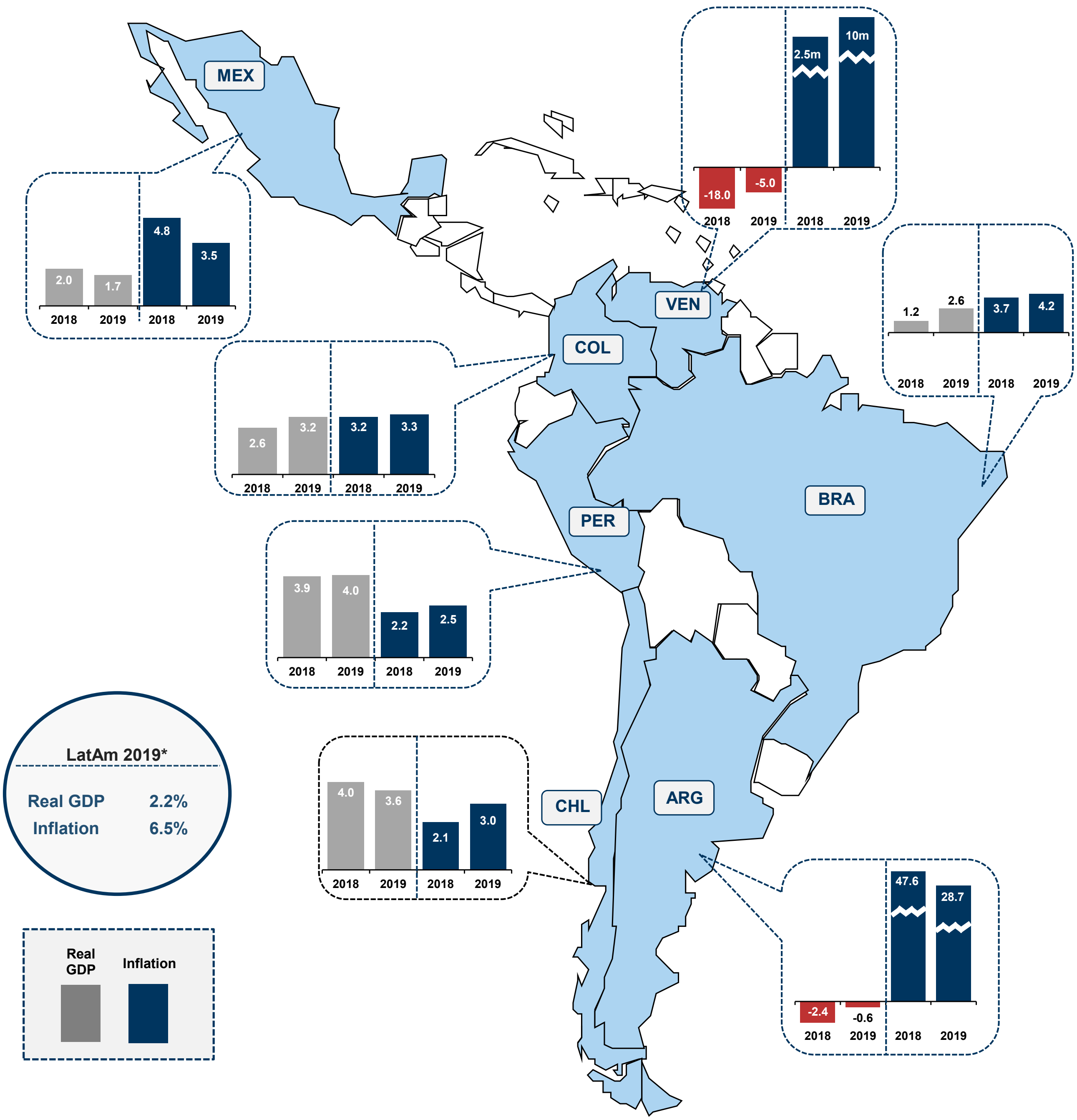
Source: Goldman Sachs Global Investment Research

Latin America Forecasts

Policy Rates and FX Levels (End of Period)								Implied Change (Policy Rate in bps; FX in %)		
		Current	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019	1Q2019	2Q2019	3Q2019
Policy Rate (%)	**Brazil**	6.50	6.50	6.50	6.50	6.75	7.25	0	0	25
	Chile	3.00	2.75	3.00	3.25	3.50	3.75	0	25	50
	Colombia	4.25	4.25	4.25	4.75	5.00	5.00	0	50	75
	Mexico	8.25	8.25	8.25	8.25	8.25	8.25	0	0	0
	Peru	2.75	2.75	2.75	2.75	2.75	3.00	0	0	0
FX (Local / USD)	**Argentina**	37.52	37.65	39.93	42.34	44.90	47.62	6.4%	12.8%	19.7%
	Brazil	3.70	3.87	3.75	3.60	3.60	3.60	1.4%	-2.7%	-2.7%
	Chile	654.8	695.7	646.7	638.3	633.3	630.0	-1.2%	-2.5%	-3.3%
	Colombia	3094	3202	3033	2992	2967	2950	-2.0%	-3.3%	-4.1%
	Mexico	19.11	19.68	19.70	19.50	19.50	19.30	3.1%	2.0%	2.0%
	Peru	3.33	3.36	3.29	3.27	3.26	3.25	-1.1%	-1.8%	-2.1%

Source: Goldman Sachs Global Investment Research

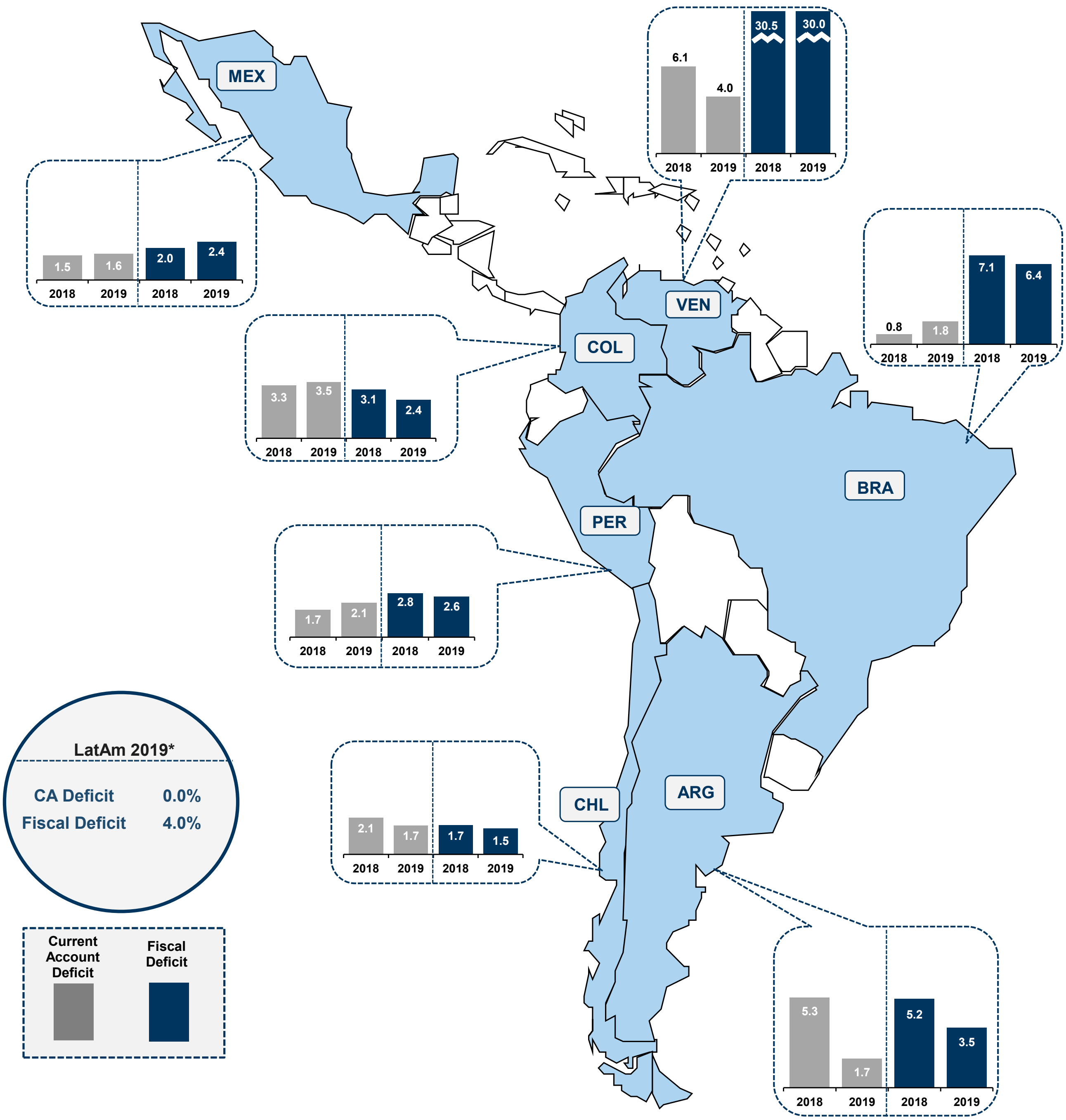
LatAm Outlook for 2018-19: Real GDP Growth and Inflation (YoY, %)



*Aggregate numbers calculated excluding Venezuela

Source: Goldman Sachs Global Investment Research

LatAm Outlook for 2018-19: Current Account and Fiscal Deficit (% of GDP)



*Aggregate numbers calculated excluding Venezuela

page 1 of 1

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		
20-Mar	COPOM Meeting	We expect the Copom to leave the Selic policy rate unchanged at 6.50%.
Chile		
31-Mar	MPC Meeting	Following the hike in January, we expect the BCCh to leave the policy rate unchanged at 3.00%.
Colombia		
29-Mar	MPC Meeting	We expect Banrep to keep the policy rate at 4.25% in the near future.
Mexico		
28-Mar	MPC Meeting	We expect the Banxico to keep the policy rate at 8.25%. In the last meeting, the forward guidance pivoted from hawkish to a vigilant but neutral short-term bias, with risks to inflation still skewed to the upside.
Peru		
7-Mar	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

We, Alberto Ramos, Paulo Mateus and Gabriel Fritsch, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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