

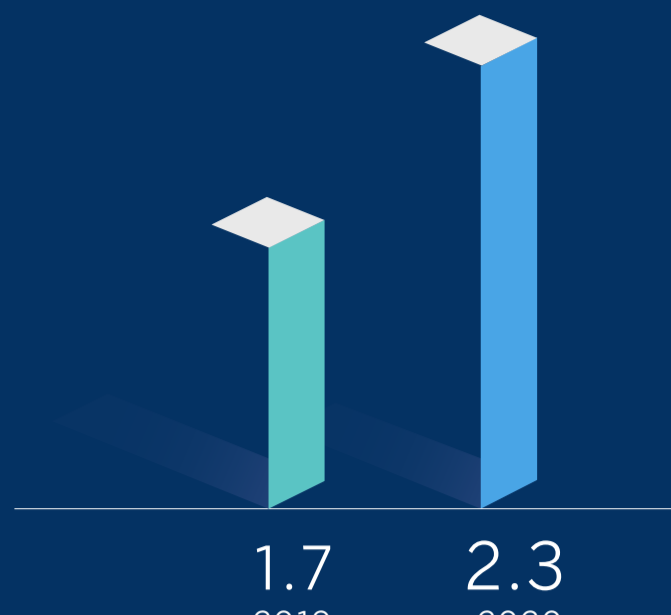
LatAm Economic Outlook 2Q19

Latin America:

growth will remain below 2% in 2019 and recovery has been postponed to 2020

2019 2020

Latam GDP (yoy%)



Regional growth is revised downwards, from 2.1% to 1.7% in 2019 and from 2.4% to 2.3% in 2020



Still scarce and insufficient reforms to underpin productivity in the coming years



The downward revision is concentrated in Argentina, Brazil and Mexico, although there are also adjustments in Uruguay and Paraguay. Reduced reformist momentum in a majority of countries has limited productivity gains and thus helps explain the lack of dynamism in economic activity



The three Andean countries maintain their outlook unchanged, with growth supported mainly by the dynamism of domestic demand

In the face of still weak demand pressures, inflation expectations are generally reduced, except in Argentina

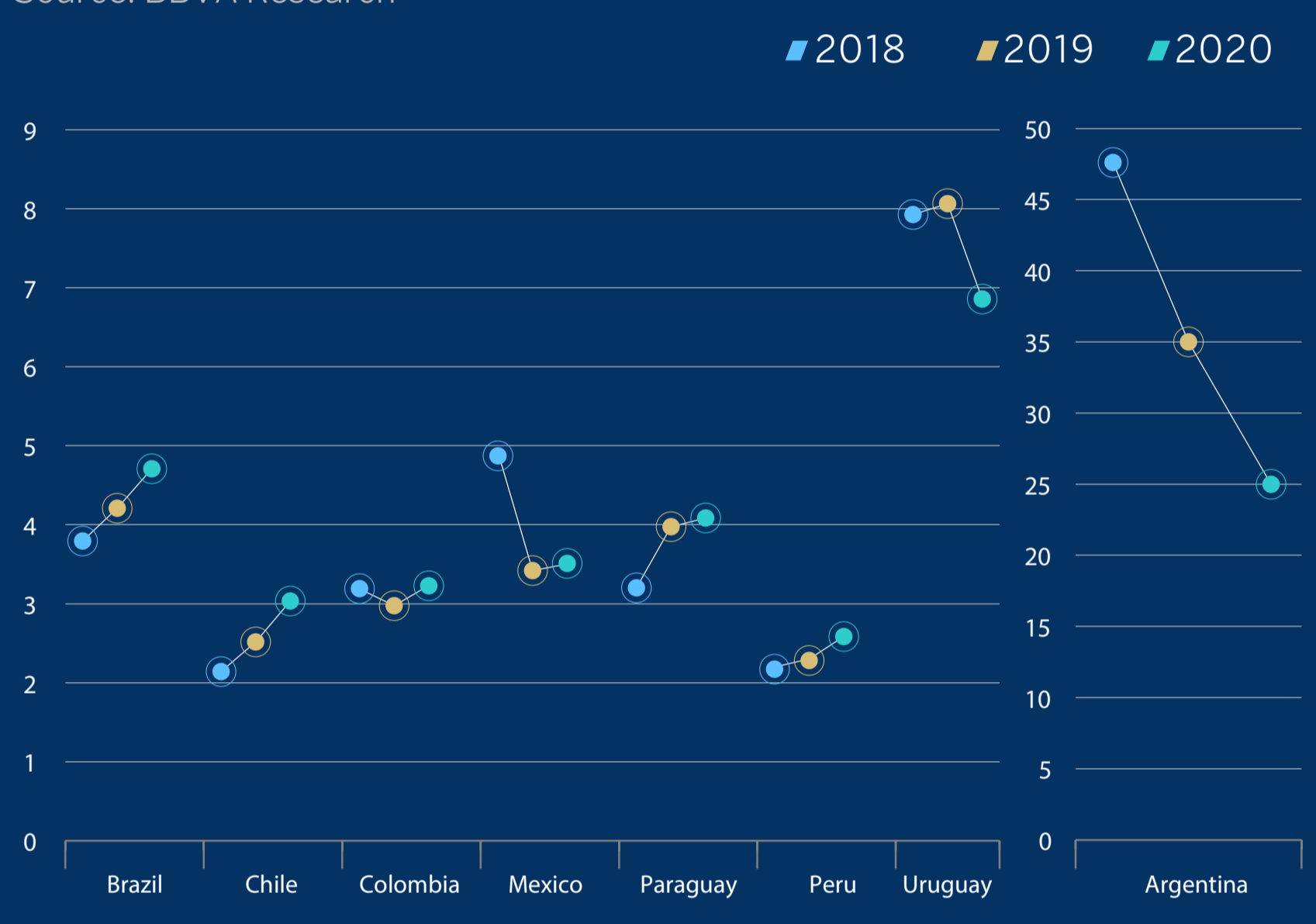
A global backdrop marked by modest growth and low inflation as well as a lack of strong demand pressures in the region's economies will help keep inflation under control and close to central bank targets, except in Argentina and Uruguay

In these countries **strong inflation inertia has led to a deterioration in the perspectives for inflation**, which should nevertheless trend gradually downwards going forward

Most central banks in Latin America will postpone raising their interest rates, while in Mexico the cycle of monetary policy easing will begin earlier than anticipated. In Argentina the stance of monetary policy will be tighter than expected three months ago due to the increased persistence of inflation

Inflation (yoy%, eop)

Source: BBVA Research



Financial tensions in the region have moderated



Fed and ECB expansionary turn will limit volatility and favour local assets



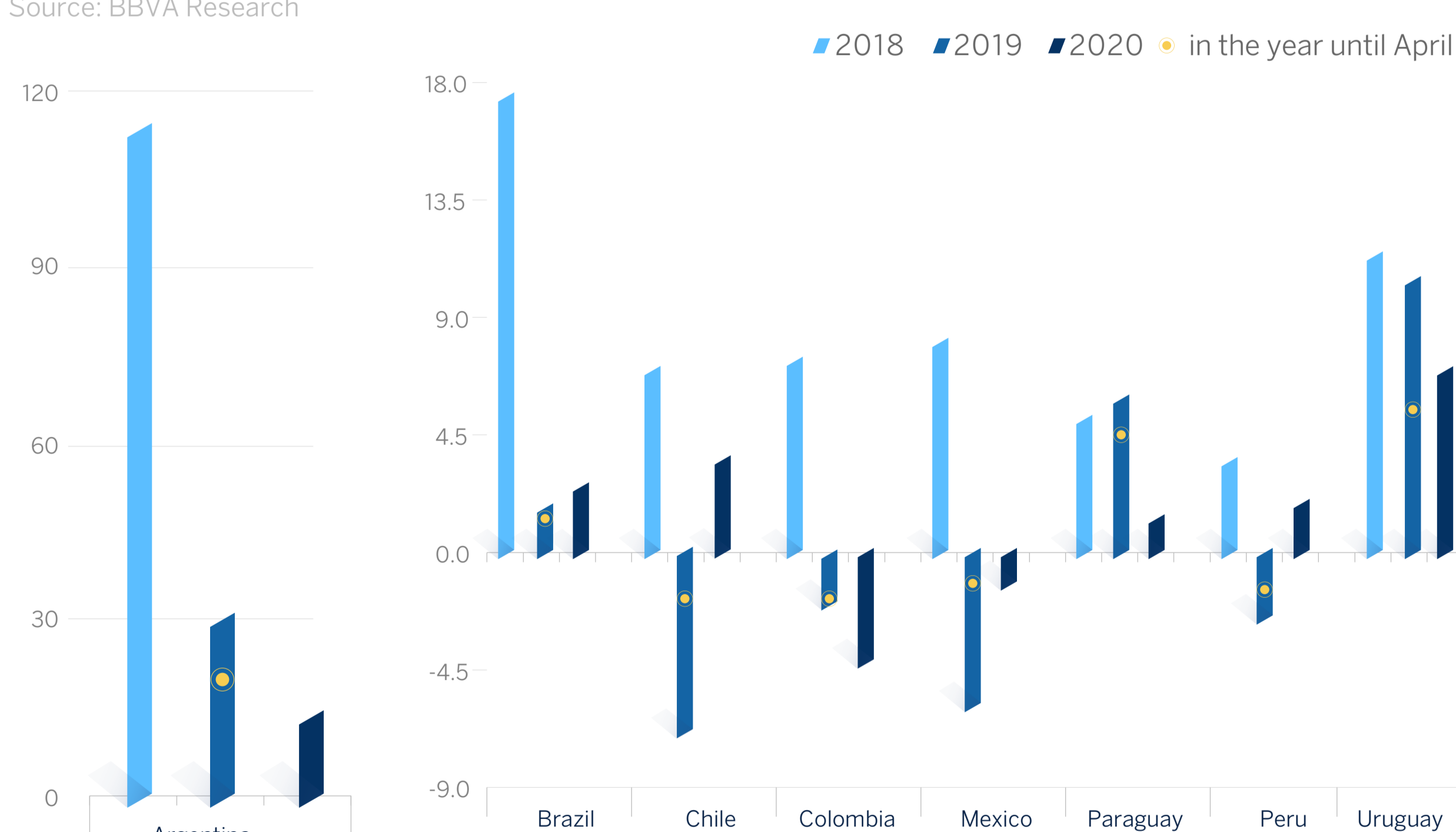
Higher liquidity in developed economies will support emerging economies, although concerns about the sharp slowdown in growth will remain



The change in the global environment supports a view of stronger currencies after the strong correction in 2018

Latam: Exchange rate variation (%)

Source: BBVA Research



Risks

INTERNAL

- Political noise mainly in Argentina and Uruguay due to elections in 4Q19
- Political noise in Brazil and Mexico due to uncertainty about the actions of the new government
- Increasing public debt in Brazil and Argentina
- Pemex's financial situation in Mexico
- Compliance with the fiscal rule in Colombia
- Disruptions in copper production

EXTERNAL

- Protectionism
- Risk of further deceleration in China and the U.S., uncertainty in the U.S.
- Rising interest rates in the U.S.

