Latin America
Regional Outlook

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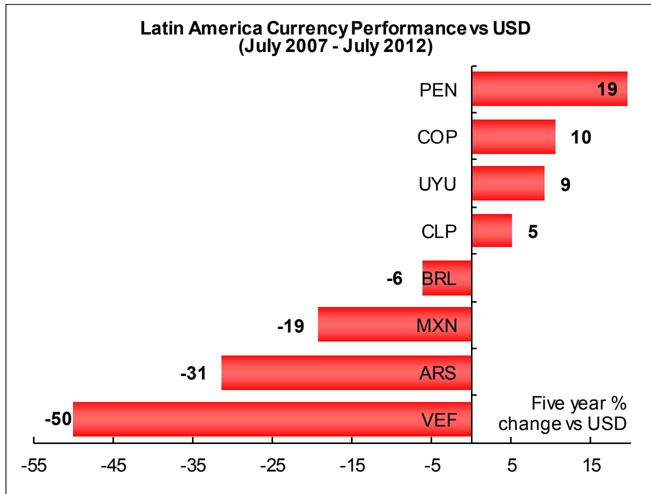
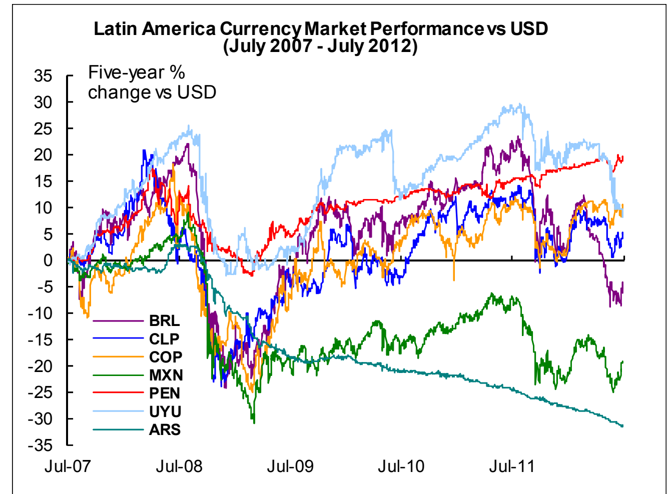
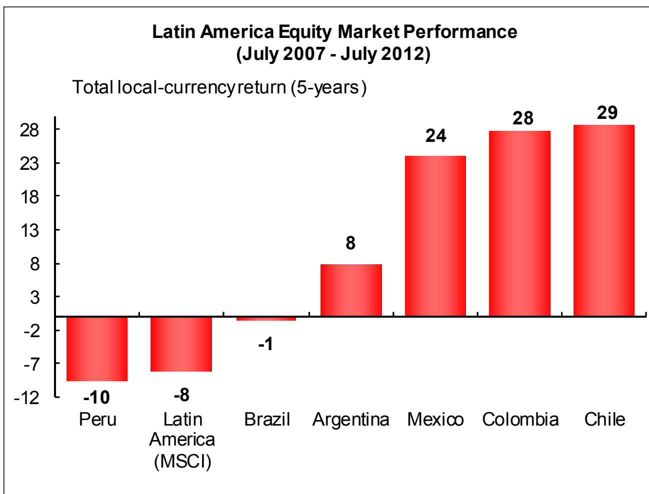
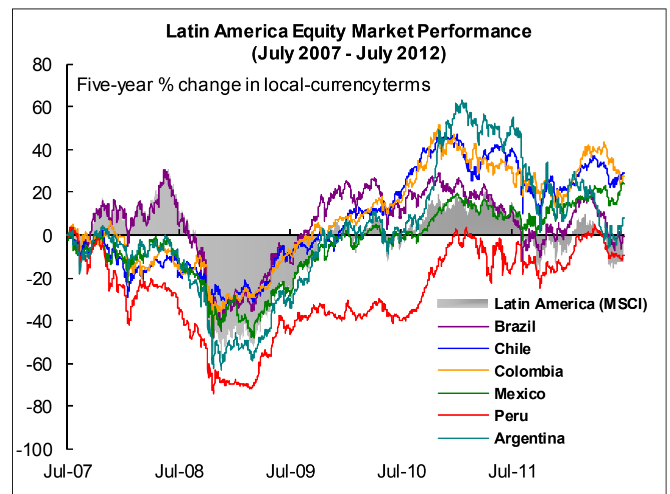
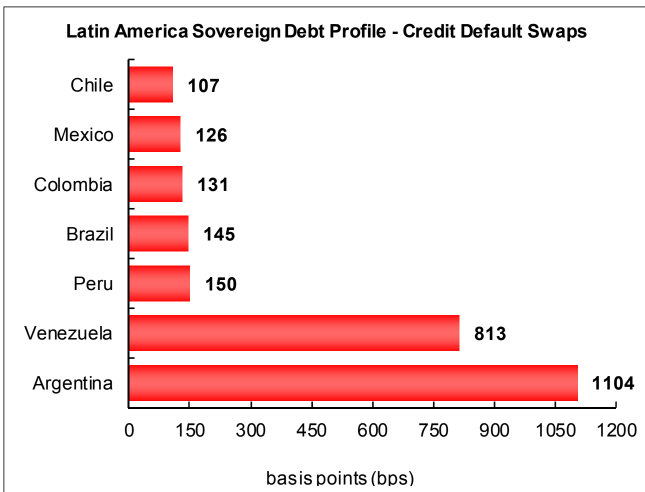
Latin America – Regional Outlook
Financial Market Metrics – July 2012

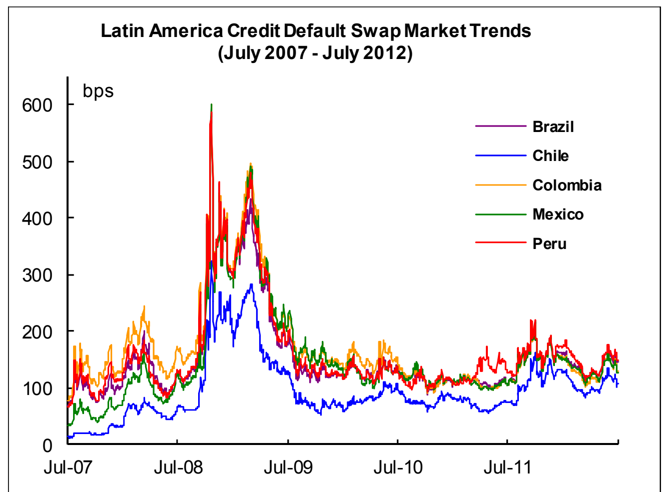












Source: Bloomberg.

Decelerating, yet continuous growth momentum

The world economy is in a constant state of turmoil driven by the major structural shifts occurring in advanced high-income nations. The core group of countries in the developing Americas is not immune to the heightened financial turmoil present in Europe, decelerating growth dynamics in Asia and the sluggish recovery in North America. Latin America continues to grow despite signs of moderation in some economies. The pace of growth is uneven, with marked differences between the US-linked countries in North and Central America and the more Asia-influenced, domestic-driven economies in the South. Brazil, the world's seventh-largest economy, will initiate a new phase of sustained economic growth following a marked slowdown in industrial activity during the second half of 2011. Mexico remains on a solid economic growth path due to its close link to the US industrial and monetary cycles and growing domestic demand in an electoral year. Colombia, Peru and Chile also enjoy similar rates of economic expansion strongly influenced by commodity export markets and steady access to domestic credit. Meanwhile, both Venezuela and Argentina are poised for steep economic contraction, courtesy of ill-defined and erratic policy implementation.

Uneven monetary and inflation dynamics; floating-currency regimes face market-induced stress test

Inflation is not an issue of material concern in the majority of Latin American economies. Those countries which embraced inflation-targeting schemes are reaping the benefits of manageable price pressures which help offset adverse movements in global currency markets. Argentina and Venezuela are flirting with the danger of hyperinflation, fuelling expectations of intensifying social stress as wage-adjustment demands escalate and purchasing power is severely impaired. Painful policy adjustments, unlikely to be implemented in the short run, will only exacerbate capital flight in these economies. Meanwhile, Brazil has opted to test the limits of monetary stimulus by reducing its administered policy interest rates to historically low levels. The US monetary environment, driven by a pro-growth interventionist bias, will continue to influence policy decisions in both Mexico and Colombia, whereas the trade-intensive economies in South America will gauge the impact from decelerating global trade and commodity price adjustments before shifting monetary conditions.

Manageable fiscal position alongside widening current account deficits

Latin America is in relatively better fiscal shape than the US and Europe. Most countries in the region, even those which are adopting inconsistent policy options like Argentina or Venezuela, enjoy a manageable fiscal deficit position, prompting the state to play a more dominant role in adopting pro-growth stimulus strategies. The region's overall debt profile has steadily improved, raising the prospects for credit rating upgrades. The steady development of local sources of finance through enhanced banking sectors and well-regulated local-currency bond markets has sharply diminished the need to access external (private or multilateral) sources of financing. Long-term equity investors continue to see enormous potential in thriving sectors connected either to infrastructure the development of vast energy and mineral resources. Brazil alone has received US$60 billion in foreign direct investment (FDI) flows over the past 12 months. Colombia's energy sector, Mexico's industrial sector, Peru's mining sector and even Uruguay's forestry sector are notable FDI targets. Nevertheless, most economies are now experiencing widening current account deficits due to terms of trade erosion triggered by commodity price adjustments.

Regional financial sectors count on adequate systemic preparedness to manage external shocks

Well-capitalized and adequately regulated banking sectors are becoming the norm in most countries in the region. Domestic credit has been steadily expanding at double-digit rates; in fact, financial sector strength in the context of credible monetary regimes has allowed the development of manageable leverage dynamics. Private pension funds are playing an increasingly relevant role as institutional investors not only in Chile but also in Peru, Mexico and increasingly Brazil and Colombia. Non-financial private sector borrowers are tapping domestic sources of finance in developing local-currency fixed-income markets in Mexico, Colombia, Chile and Peru. Vast foreign exchange reserves also reinforce the region's preparedness to face adverse global financial market shocks. Indeed, central bank reserves in the region total almost US$800 billion. Brazil, accounting for half of the region's international reserves, has become a systemically relevant global creditor and one of the world's largest holders of US Treasury debt securities.

Visible advances in regional governance, yet new challenges emerge on the institutional front

Latin America continues to show progress in developing democratic institutions and a more predictable policy environment. Brazil's growing regional leadership, Mexico's enhanced party-based political system, improved bilateral relations between Colombia and Venezuela, regional integration amongst economies in the Pacific and the increased professionalism of regional central banks are some of the structural advances that will transcend the still-fragile global market context. Nevertheless, new issues of concern have emerged which require decisive consensus-based action by national governments. Labour market rigidities, persistent violent crime in Mexico, Colombia and Central America, increasing trade protectionism and corruption allegations in Brazil, student social unrest in Chile, erratic government policy decisions in Argentina, and leadership succession uncertainties in Venezuela are some of the challenges faced by regional leaders as they translate this period of economic growth into sustainable social development.

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Capital Market Dynamics

- **Foreign Exchange** ► The Brazilian real (BRL) is consolidating itself as a core emerging-market currency and a driving force shaping investor sentiment within the group of financially integrated economies in the Americas. Despite escalating rhetoric against the negative economic impact of an appreciating currency, official support for a strong-real policy remains in place. Following a three-month period of currency weakness (due to intensified global risk aversion and steady rate cuts in Brazil), excess global liquidity and the ongoing quest for high yield will help reintroduce an appreciating bias into the real which will stabilize at or slightly below BRL 2 per USD over the next 12 months.

- **Sovereign Debt & Credit Ratings** ► Improved creditworthiness makes Brazil a favourite amongst global fixed-income investors. The country's investment-grade rating may soon be upgraded; Moody's has maintained a "positive outlook" on Brazil's "Baa2" long-term foreign-currency rating since June 2011. Emerging-market economies continue to benefit from excess global liquidity and interest rate differentials despite slowing growth dynamics. Brazil's attractiveness is further compounded by its net global creditor status and a strong external liquidity position. International reserves reached US$375 billion in July. Nevertheless, Brazil remains vulnerable to a sudden and material change in external market conditions.

- **Equity Market** ► Brazil offers the most diversified equity securities market within the developing Americas. The market capitalization of the Bovespa index is currently valued at BRL 55 billion. The state-owned firm Petrobras and the mining giant Vale are the dominant stocks which account for one-quarter of the market capitalization. The Bovespa index gained 40% between October 2011 and March 2012, and have been correcting since then in alignment with trends in other top-tier emerging-market countries. In the near term, Brazilian stocks may be influenced by the direction of Chinese markets as well as by heightened global risk aversion linked to the euro zone debt crisis.

Economic Outlook

- **Growth** ► The Brazilian economy is in a phase of gradual acceleration, following the very modest (and disappointing) 0.8% y/y expansion rate recorded in the first quarter of the year. The policy mix is clearly focused on fostering economic growth in the context of falling inflation. Domestic demand will remain a primary driver of the economic recovery which will become more evident during the second half of the year. Additionally, the government recognizes the need for infrastructure investment. The positive combination of record-low unemployment, steady access to consumer credit, persistent real-wage gains and coordinated fiscal and monetary stimulus will boost consumption and sales activity, while industrial production and exports remain laggards in the recovery phase. We expect that the economy will grow by 2.4% this year and 4% in 2013.

- **Inflation & Monetary Context** ► The inflation outlook continues to improve (the IPCA headline rate will reach 5.5% y/y in the next 12 months), which should motivate the monetary authorities to deepen the easing cycle and cut the benchmark SELIC rate further to 7.5-8.0% by the end of the year. Following 400 basis points in rate cuts since August 2011, real interest rates are now at historically low levels. Notwithstanding the current pro-growth monetary policy stance, our view is that the central bank will resume a tightening cycle in 2013 (of at least 100 basis points), as demand-side price pressures emerge in the context of tight labour markets and accelerating economic and credit growth. In the near term, we expect the relatively wide inflation target to remain unchanged at 4.5% +/- 2.0%.

- **Fiscal & Current Account Balance** ► The current account deficit (US$74 billion by the end of 2013) remains the weak link in the country outlook, courtesy of a narrowing trade surplus, a relatively strong real exchange rate and less favourable commodity prices. Nevertheless, high-quality equity flows are fully financing the external gap; net foreign direct investment totaled US$63 billion (equivalent to 2.5% of GDP) in the 12 months to April 2012. The fiscal outlook remains promising. A sustainable primary fiscal surplus (3.1% of GDP at present) has been a key factor contributing to the country's improved creditworthiness. In nominal terms, we project a consolidated public sector fiscal deficit of 2.4% of GDP for 2012 as a whole. On the negative side, a heavy tax burden continues to present a structural impediment to gross fixed investment.

Institutional Framework & Political Environment

- **Governance** ► Brazil offers a stable political environment. The administration of President Dilma Rousseff counts on strong popular and corporate support to advance its policy agenda. The government addressed a series of corruption scandals through prompt and decisive cabinet reshuffling. The credibility of the policy mix and political institutions remains high at home and abroad, yet the current institutional framework is not free of challenges. Brazil is a heavily taxed economy; reform of the tax structure is needed to address the competitiveness challenges faced by the manufacturing sector, which are exacerbated by inadequate infrastructure. Meanwhile, voices against Brazilian protectionism have emerged in international trade circles.

- **Financial Sector** ► The financial sector is well capitalized and amply prepared to face an extreme macroeconomic scenario. Liquidity, provisioning and capitalization levels remain high. Total domestic credit, approaching 50% of GDP, is growing at a manageable rate despite emerging concerns about the quality of household indebtedness. Further interest rate reductions will support the development of a local bond market and boost mortgage financing. State-owned financial institutions maintain a dominant position in the local banking sector, and selected banks may begin to expand in Latin America.

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Capital Market Dynamics

- **Foreign Exchange** ► The Mexican peso (MXN) remains highly sensitive to events in global financial markets, primarily shifting conditions in European credit markets, oil price movements and economic developments in the United States. As a result of financial market volatility due to European sovereign debt problems and increasing risk aversion, the MXN surpassed the 14.30 per US dollar (USD) mark in early June, the weakest level in six months. We anticipate that the MXN will regain value over the next few months and close the year at 13.1 per USD.
- **Sovereign Debt & Credit Ratings** ► Mexican assets remain vulnerable to external factors shaping investor confidence in core emerging markets. The Mexico/US 10-year Treasury bond yield spread of around 400 basis points (bps) remains a powerful magnet for foreign portfolio investors seeking a high-yield alternative within North America. Mexico's creditworthiness continues to improve: credit default swaps (CDS) valued at 130 bps are in line with other peers in the region such as Colombia, Brazil and Peru. Long-term sovereign credit ratings have remained unchanged over the past 20 months and are among the highest in the developing Americas. Current ratings stand at: Standard & Poor's "BBB", Moody's "Baa1" and Fitch "BBB" with a "stable" outlook.
- **Equity Market** ► Mexican equity market performance remains in line with the rest of the core emerging markets group. Measured by the IPC index, the benchmark stock exchange gained 4.6% in MXN terms during the first half of the year (6.2% in USD terms). Looking ahead, developments in both US and Chinese securities markets, together with shifting conditions in the local currency market and global risk aversion dynamics, will influence capital flows.

Economic Outlook

- **Growth** ► The macroeconomic landscape is improving: economic activity is accelerating and inflation remains well contained. We have revised our GDP growth forecast for 2012 upward to 3.7% as local economic conditions have recovered in recent months. The manufacturing sector has been driven by US industrial output, construction activity has been reactivated by the electoral year and job creation has evolved at a solid pace through the first five months of the year. We anticipate a slight deceleration to 3.6% in 2013. Following the results of the election, it seems more likely that some of the needed structural reforms (to smooth labour market rigidities, foster formal employment and private-sector deregulation) could be achieved in the coming six-year presidential term, leading to faster economic growth.
- **Inflation & Monetary Context** ► A steady inflation outlook has reinforced our view that Banco de Mexico will not adjust the overnight interest rate, currently set at 4.5%, in the near future. Showing sharp swings (from 3.1% y/y in September to 4.1% in January and then back to 3.4% in April), headline inflation will remain above the upper limit of the central bank's tolerance range (2-4%) in the coming months; however, we anticipate that it will return to below 4.0% y/y by year-end. Monetary policy will be guided by domestic investors' inflationary expectations, the pass-through effect from the currency depreciation, the evolution of the output gap and, of utmost relevance, shifts in the US monetary environment.
- **Fiscal & Current Account Balance** ► Both the current and fiscal accounts are expected to remain at manageable levels over the forecast horizon. The fiscal deficit, expected to remain at 2.6% of GDP throughout 2012, is relatively healthy compared to budget shortfalls in other top-tier emerging-market economies. The lack of structural reforms to diversify fiscal revenue sources away from oil-linked exports and a weak tax collection hinders the improvement of the country's fiscal position. Energy prices, which continue to trade at high levels, remain a major factor affecting the fiscal outlook. With the US accounting for almost 80% of total Mexican exports, the US economic cycle represents a key factor influencing the country's trade dynamics. We estimate that the foreign trade position will deteriorate, marginally, leading to a widening, though still moderate, current account deficit of less than 1% of GDP by the end of 2012.

Institutional Framework & Political Environment

- **Governance** ► Mexico continues to solidify a pluralistic party-based system. After 12 years of a Partido Acción Nacional (PAN) administration, the Partido Revolucionario Institucional (PRI) will take the presidential office. In the recent presidential elections, the PRI candidate Enrique Peña Nieto was elected for a six-year mandate with 38% of the vote, six percentage points above Andrés Manuel López Obrador from the Partido Revolucionario Institucional (PRD). Although the PRI will have more representatives in both houses of congress (and thus a strong political force), it will have to negotiate with opposition parties in order to advance the reform agenda. The new Congress will take office in September and the president in December; however, some reform proposals could start to be implemented as early as this year.
- **Financial Sector** ► The Mexican banking sector, with substantial participation by foreign private sector institutions, remains well capitalized and prepared to support a new economic cycle by increasing lending activity. The growing relevance of domestic institutional investors, such as pension and mutual funds, continues to strengthen the systemic position of the country's financial sector. Consumer credit continues to recover; growing by 20% y/y in April, while loans to firms (accounting for 38% of the total credit) and housing expanded at more stable rates of 7.7% y/y and 6.7%, respectively.

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Capital Market Dynamics

- **Foreign Exchange** ► The Argentine peso (ARS) is under escalating devaluation pressure against the US dollar (USD). The government is actively intervening in the currency market in response to capital flight pressures, yet the gap between the official and the unregulated exchange rate has been steadily widening since January. The existing exchange-rate regime is characterized by a crawling peg and tight restrictions on buying and selling foreign exchange. During the first half of the year, the "official" peso depreciated by 5% (in contrast with the 32% devaluation in the unofficial market). Futures markets, inflation differentials and the "blue-chip" implied rate anticipate continuous sell-off risk. The central bank, acting as the "intervention" arm of the Executive branch, has undermined its autonomy and credibility in the conduct of monetary policy.

- **Sovereign Debt & Credit Ratings** ► The country's creditworthiness is rapidly deteriorating. The insurance cost of sovereign bonds as measured by credit default swaps, which reached a high of 1,500 basis points in June, implies a high probability of an adverse credit event. Holders of inflation-indexed government bonds continue to be negatively affected by the official manipulation of inflation, growth and foreign exchange reserves data. Argentina's sovereign debt rating will likely be downgraded; S&P placed its single-B country rating on review for a possible downgrade last April.

- **Equity Market** ► Argentina lacks a well-developed equity securities market. The ongoing nationalization spree (in pension fund management, airlines, and recently oil and gas sectors), coupled with the erosion in corporate and public governance practices has deterred the creation of a deep, diversified and transparent capital market environment. Few firms dominate the publicly listed local equity market. The benchmark MERVAL index, with a shallow market capitalization, has been in steady declining mode since January (down 30% in four months). Following the government's expropriation of the Repsol share of the largest oil company, YPF, the company's value in the Argentine market declined by 65%.

Economic Outlook

- **Growth** ► The Argentine economy is in a deepening contraction phase. The abrupt unwinding of multiple subsidy schemes (which were instrumented to create an artificial sense of stability ahead of the presidential elections), disruptive exchange rate controls and the widespread imposition of import restrictions will all continue to constrain growth in the months to come. Additionally, business confidence remains very low while persistent labour market rigidities, ongoing leveraged consumption and high inflation prevent formal employment growth. Stagflation risk has increased: we estimate that the economy will sharply decelerate and barely expand in 2012. The economic outlook is negative: absent corrective measures and policy adjustments to the current exchange rate and import restrictions, a recession may develop by the end of the year.

- **Inflation & Monetary Context** ► The Argentine economy is suffering from an acute high-inflation phase: consumer price inflation is expected to reach 34% in the next 12 months. Deeper and distortive price controls are in store. Domestic investors firmly believe that the ruling government manipulates economic data to underestimate inflation for political and debt management purposes. Over the past five years, the officially reported inflation varied significantly from the rate calculated by the National Congress, by prestigious universities, provincial statistics agencies and well-reputed economic think tanks. *The Economist* magazine ceased reporting the official Argentine data, which they consider inaccurate and unreliable. The International Monetary Fund has already issued an official warning to the authorities on data manipulation allegations. Renewed confidence in official economic data will not materialize in the near term; therefore, we are of the view that relative-price distortions and social tensions will escalate as union leaders demand inflation-linked wage adjustments.

- **Fiscal & Current Account Balance** ► The fiscal outlook is negative, with the budget shortfall expected to close the year at 2.5% of GDP. Declining economic activity will adversely affect public sector revenue in the coming years, exacerbated by a high tax burden on formal economic activity and increasing tax evasion and informality. The expropriation of the foreign-controlled share of YPF, the largest Argentine firm, may provide discretionary and ill-controlled access to fiscal funds, yet it will erode governance through increasing corruption risk. On the external front, the deteriorating value of the Argentine currency may force a change in the currency regime to avoid a further deterioration of the current account balance, which would close the year with a shortfall equivalent to 1% of GDP.

Institutional Framework & Political Environment

- **Governance** ► The administration of President Cristina Fernandez is well entrenched in power. At present, there is no well-organized official opposition to challenge the current policy environment. The ruling party exerts a dominant influence on the judiciary and controls both houses of Congress following the October 2011 election. In stark contrast with Brazil, legal discipline of acts of corruption is impaired by a weak judiciary. The risk of deeper nationalization in sectors beyond oil and gas has materially increased. The business climate for foreign and local investment will remain clouded by poor respect for legal contracts, unreliable national accounts data and steady attempts to undermine the independence of the local media.

- **Financial Sector** ► The Argentine financial sector does not pose any immediate systemic risks. Lending activity is confined to consumer credit segments aligned to incentives created by a pro-consumption policy mix. Mortgage financing is virtually non-existent. Of systemic relevance, banking sector dollarization is no longer an issue of material concern given that the share of foreign-currency liabilities has sharply decreased following the imposition of tight capital and currency controls.

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Capital Market Dynamics

- **Foreign Exchange** ► The Colombian peso (COP), which ranked at the top of Latin American currency performance charts over the past six months, has benefited from an accelerating US economy, a stable domestic growth outlook and high, yet declining, crude oil prices. Large foreign capital inflows, positive terms of trade and attractive interest rate differentials will support demand for Colombian assets and consolidate exchange rate stability throughout 2012. During the most recent episode of global foreign exchange volatility and low risk appetite, the reaction of the COP vis-à-vis the US dollar (USD) was less aggressive than other currencies in the region and its subsequent recovery has been faster. We estimate that the COP will be subject to official intervention and will close the year at 1,800 per USD. The central bank, which has at its disposal US$34 billion in international reserves, extended the daily USD purchase program until November.
- **Sovereign Debt & Credit Ratings** ► Colombia continues to benefit from high demand for investment-grade high-yielding sovereign debt assets. Colombia's sovereign credit ratings achieved "full" investment grade status by all major rating agencies a year ago. The outlook for the ratings is stable, supported by a strong macroeconomic performance, an improved external debt profile and high international reserves. Colombia's credit default swaps, at around 130 basis points (bps), remain among the lowest in Latin America. The nation also has access to a two-year IMF Flexible Credit Line of US$6 billion approved in May 2011, which the authorities treat as a precautionary financing vehicle.
- **Equity Market** ► In line with other equity markets in the region, the Colombian stock market has been subject to swings in risk appetite. After gaining 23% (USD terms) in the first three months of the year, the benchmark index has reduced its gains to only 7.8% during the first semester. The local equity market is highly concentrated (six stocks account for two-thirds of the total market capitalization), wherein the energy sector plays a dominant role with a 45% share of the benchmark index.

Economic Outlook

- **Growth** ► The economic outlook remains favourable; however, the first quarter GDP growth rate confirmed a moderate deceleration. After the 5.9% expansion registered in 2011, the Colombian economy grew by 4.7% y/y in the first three months of the year, slightly below the 5.0% gain recorded a year ago. Domestic demand, the main contributor to growth, advanced by 6% y/y supported by improving job conditions (unemployment rate at 10.9%) and strong credit activity. Exports were negatively impacted by slower global demand, decelerating to 6.3% y/y in the first quarter of the year. The mining and energy sectors remain key drivers of the economy; while, construction has been decelerating in recent months. We expect that real GDP will expand by 5.0% in 2012/13.
- **Inflation & Monetary Context** ► The Colombian central bank maintains a firm commitment to its inflation target of 3% +/- 1%. In response to strong local consumption and sensitive to ongoing credit growth, the authorities withdrew monetary stimulus by increasing the administered interest rate by 50 bps at the beginning of the year to the current level of 5.25%. In recent months, headline inflation has stabilized at around 3.5% y/y. With commodity prices decreasing, and persistent European debt stress, and in response to recent measures adopted by the Ministry of Finance to increase reserve requirements to curve consumption loans, we expect the reference rate to be maintained at its current level for the rest of the year.
- **Fiscal & Current Account Balance** ► The external sector remains vibrant due to strong demand for Colombian goods (such as crude oil, coffee and coal); however, recent data suggest a moderation in the growth rate of exports. Additionally, strong local demand implies a solid outlook for imports, which should narrow the trade balance surplus compared to 2011 levels. As a result, the current account deficit will widen in 2012 to a still manageable 3% of GDP. Foreign direct equity inflows mainly directed at the mining and energy sectors will easily cover the external financial gap. The government remains committed to fiscal consolidation. Recently, the authorities revised the expected fiscal deficit from an initial 2.8% of GDP to 2.4%, more than a percentage point below the 2011 deficit.

Institutional Framework & Political Environment

- **Governance** ► President Juan Manuel Santos enjoys enough political capital to advance his agenda of structural reforms. Relations with Venezuela will improve following the bilateral trade pact and the pursuit of energy integration initiatives. The US outlook remains a decisive growth factor: Colombia is a key military ally and economic partner of the United States. As such, the preferential trade agreement is a positive development that will boost bilateral trade and investment. Security remains an issue of concern. Although narco-terrorist activity and rebel attacks on oil sector infrastructure remain in rural areas, the Santos administration favours a peaceful political solution to four decades of a violent civil conflict.
- **Financial Sector** ► The financial sector remains well supervised and adequately capitalized. A prolonged period of low interest rates and domestic recovery has contributed to a steady increase in credit activity and household indebtedness. Total lending has been decelerating, mainly driven by a slowdown in commercial loans. Meanwhile, credit to households expanded by close to 20% y/y in April; showing only a very modest deceleration. Additionally, there has been a slight deterioration in asset quality, with the growth in non-performing loans accelerating from -19% y/y a year ago to 12.0% in April.

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Capital Market Dynamics

- **Foreign Exchange** ► A fixed exchange-rate regime with tight capital controls has been in place since 2003. At the end of 2010, the authorities devalued the exchange rate to 4.30 per US dollar (USD); additionally, the exchange rate applied to certain imported goods and other operations of 2.6 bolivars per USD, remains in force. Also, legislation was approved that allows all foreign exchange transactions to be supervised and/or controlled by the central bank. An informal exchange rate system has emerged as a result of these regulatory changes. External financial shocks, adverse oil price shifts, and policy uncertainties related to October's presidential election could prompt further currency adjustments in the near term. We expect the authorities to devalue the currency by 20% to 5.15 per USD next year.
- **Sovereign Debt & Credit Ratings** ► Sovereign credit ratings for Venezuela will remain below investment grade status for a long time. The insurance cost of government bonds measured by the credit default swaps, at around 820 basis points (bps), remains among the highest in the region. This year's presidential election coupled with further crude oil price decline may prompt rating agencies to adjust the country's risk ratings; in fact, Fitch revised Venezuela's rating to "negative" last April. Sovereign credit ratings currently stand at: Standard & Poor's "B+", Fitch "B+" and Moody's "B2".
- **Equity Market** ► Venezuela's equity market is relatively small, with the market capitalization of the General Index at US$5.10 billion and only 12 stocks active. The government's unfriendly market policies keep capital markets subdued and illiquid.

Economic Outlook

- **Growth** ► After expanding by 4.2% in 2011, we anticipate that the Venezuelan economy will grow by 4.4% this year and by a sluggish 2.5% in 2013. Based on official data GDP advanced by 5.6% y/y in the first quarter of the year, supported by high (yet declining) oil prices and persistent public sector spending. Consequently, local consumption has reactivated; however, high inflation and slow job creation (the new labour law benefits existing employees, but discourages new hires) will dampen consumer spending. The youth unemployment rate reached 17%. Current imbalances, less friendly private investment policies, an elevated debt burden, and high exposure to a drop in oil prices will weigh on the growth outlook.
- **Inflation & Monetary Context** ► Venezuela's inflation rate is one of the highest in the region and we expect it to remain elevated. Based on the central bank's official numbers, national inflation rate has been decelerating, from close to 28% y/y in November to 22.6% in June, as a result of the maximum prices set by the government. As a result of supply shortages, an informal market has developed whereby goods are sold at higher rates, even suggesting that overall inflation may be higher than that reported by official statistics. We anticipate that price distortions will remain high, with the annual inflation rate soaring between 25% and 30% in the 2012/13 period.
- **Fiscal & Current Account Balance** ► The nation's central government deficit will widen to around 6.0% of GDP with increased spending leading up to October's election. With oil profits accounting for half of the country's total revenue and about 95% of total exports, the nation remains vulnerable to energy market swings. In the first quarter of the year, exports increased by 24% y/y, a more moderate pace compared with the last four quarters, with oil sales expanding by only 25% y/y (30% in the previous quarter). However, imports expanded by 48% y/y in the same period (17% in the previous), reflecting the strength in both public and private consumption. We expect the current account surplus in the 2012/13 period to narrow from the 6.7% of GDP in 2011, as oil prices stabilize and production remains stable. However, we anticipate that imports will keep increasing in the coming quarters as a result of government spending. Additionally, private investment will remain subdued (due to capital controls and foreign currency restrictions). Joint-venture projects between Venezuela's oil company and China's National Petroleum Corporation will keep oil production active in the coming years.

Institutional Framework & Political Environment

- **Governance** ► Political uncertainty remains high in Venezuela. The severity of President Hugo Chávez' medical condition remains unknown, fueling uncertainties over his campaign for the October elections. So far, he has maintained that he will seek re-election; however, the chances for a change in government –either through Chavez's successor or the opposition's triumph– have increased. Even if the opposition's candidate Henrique Capriles wins the presidential election, friendlier-investment policies and fiscal consolidation will take time to be implemented. Additionally, Chávez's party, Partido Socialista Unido de Venezuela (PSUV) has a majority in the National Assembly until 2016, which will complicate a reform agenda.
- **Financial Sector** ► The local credit context remains stable in Venezuela. Official data shows stable growth in the net credit portfolio with the non-performing loan ratio steady at 1.42%. Consumption and commercial loans (accounting for 54% of total credit) increased by 54% y/y in May, while deposits expanded close to 60% y/y in the same period. Additionally, the capitalization rate has remained stable at around 10.4% in recent months, slightly above the minimum regulatory requirement rate of 8.0%.

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Capital Market Dynamics

- **Foreign Exchange** ► The foreign exchange environment is stabilizing following the spike in volatility during May and June as a result of European financial contagion waves. Exchange rate stability remains a key priority of the monetary authorities in order to contain price pressures, solidify the use of the domestic currency in local transactions and speed up the process of structural de-dollarization of the economy. The central bank, with US$58 billion in international reserves, has intensified its intervention in the currency market and will not hesitate to further inject liquidity in response to unexpected external shocks. We expect the Peruvian sol (PEN) to regain an appreciating tone and close 2012 at 2.65 per US dollar.
- **Sovereign Debt & Credit Ratings** ► Peru enjoys a favourable sovereign credit profile and it is a candidate to receive a rating upgrade. Moody's has maintained a "positive" outlook on the country's long-term foreign-currency "Baa3" rating since March 2011. Both Standard & Poor's and Fitch rate Peru as a "BBB" sovereign credit with a "stable" outlook. As a result of heightened global financial stress and risk re-pricing activity, the Peruvian credit default swap (CDS) increased to a still manageable level of 180 basis points (bps) in early June, before recovering some value in the past month.
- **Equity Market** ► Peru has not been immune to the asset-price correction phase in emerging market jurisdictions around the world. Peruvian stocks, as measured by the benchmark IGBVL index, declined by 16% in the past three months (in local-currency terms), mirroring the regional pattern in China and other Latin American bourses. Looking ahead, Chinese economic and financial developments, global risk aversion dynamics and the direction of metals prices will be key drivers of capital flows to Peru.

Economic Outlook

- **Growth** ► The Peruvian economy remains in excellent shape in spite of the volatile and adverse external scenario. The country enjoys the best output performance within the core group of Latin American economies, with growth slightly below the 7% y/y mark during the first quarter for the year. Private consumption, aided by ample liquidity, strong credit easing and improved household finances, remains an important driver of growth while sizable planned investments of US$50 billion for 2012-14 (63% of which target the energy and mining sectors) provide an additional boost to economic growth prospects. Business and consumer confidence indicators also point towards an improving scenario over the next two years; construction (up 13% in the first four months of the year) and services sectors will further fuel growth in 2012. Accordingly, the central bank recently revised the GDP forecast, and now projects growth of 5.8% and 6.2% in 2012 and 2013, respectively, relatively in line with our current view.
- **Inflation & Monetary Context** ► Price pressures continue to build with the headline inflation rate slightly above 4% y/y. Commodity price adjustments, softening external demand and lower terms of trade will guide the headline rate towards the official target by the end of next year. The central bank, which projects overall inflation at 2.0 – 3.0% for 2012, has maintained its reference rate at 4.25% for a year, convinced that the temporary supply-side shocks are reversing. In line with the expectation of improved inflation prospects and a decelerating global growth scenario, we anticipate that the central bank will maintain a bias towards steady monetary accommodation and keep its reference rate unchanged for the remainder of the year. Nevertheless, the monetary authorities will remain vigilant to exogenous factors such as, global appetite for developing-market assets, metal prices and US central bank monetary policy to reshape monetary policy if need be.
- **Fiscal & Current Account Balance** ► Peru's external sector is showing signs of moderate deterioration. Declining terms of trade, decelerating export growth and still robust import demand will widen the current account deficit to a range between 2.7 and 3.0% of GDP over the next 12 months, yet we project that the trade balance will remain in surplus over the next two years. Massive foreign direct investment flows will amply cover the widening external shortfall through the year 2014. Global trade and commodity market dynamics point towards persistent import growth and slight deterioration in the country's terms of trade. Meanwhile, the fiscal and debt situation offers a promising outlook over the medium term, with a budgetary surplus of around 1% of GDP estimated to remain in place through the end of 2013.

Institutional Framework & Political Environment

- **Governance** ► The administration of President Ollanta Humala remains committed to maintaining a business-friendly policy mix as highlighted by improving investment and consumer confidence trends and the announcement of sizable foreign direct investment projects through the end of 2014. Relations with key neighbouring countries such as Brazil, and to some extent Chile, may also lead to improved regional economic integration initiatives. However, some social problems have recently emerged and the president's popularity has evidently decreased.
- **Financial Sector** ► The Peruvian financial sector is well equipped to face adverse external events. Local banks are adequately capitalized with low non-performing asset ratios. Domestic credit growth continues to moderate, measuring 14.7% y/y in May 2012. Increased confidence and monetary stability is boosting non-bank financing activity through local capital markets. Consumer and mortgage finance – advancing by 19% y/y and 25% y/y in May, respectively – are the leading segments. The credit dollarization ratio reached 44% (sharply down from 76% a decade ago), assisted by improved reserve requirements, local bond market development and an effective inflation-targeting regime.

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Capital Market Dynamics

- **Foreign Exchange** ► The Chilean peso (CLP) remains subject to heightened volatility in external financial markets. Global trade dynamics, energy and copper market trends and the outlook for China (and other regional economies such as Japan and Korea) are the main drivers of capital flows in Chilean financial markets. Unexpected shifts in copper prices remain key risks weighing on our view on the peso which will remain trading at or slightly below the 500 per USD mark. Absent an adverse commodity price shock, in the coming months we expect the CLP to regain and maintain a moderate appreciating tone. The central bank has ruled out any pre-determined intervention mechanism to influence currency market activity.
- **Sovereign Debt & Credit Ratings** ► Chile remains the best-rated sovereign credit within the developing Americas. International credit rating agencies have affirmed its full investment-grade rating for many years now. Moreover, Standard & Poor's has maintained a "positive" outlook on the country's long-term foreign-currency "A+" rating since December 2010. In addition, Moody's and Fitch maintain a "stable" outlook on their "Aa3" and "A+" ratings, respectively. The country's sovereign credit default swaps (CDS), which reached 83 basis points (bps) last March have worsened somewhat averaging 100 bps over the past six months, primarily influenced by exogenous risk factors (i.e., European debt and funding stress).
- **Equity Market** ► The Chilean equity securities market is rebounding from a temporary bearish phase triggered by external financial market stress during the second quarter of the year. Chilean stocks have been immersed in a generally bullish phase over the past several months, accumulating a 20% gain in USD-adjusted terms since October 2011. The moderation of financial tensions in Europe, coupled with the end of asset-price corrections in the BRIC group, led to higher demand for emerging-market assets. Meanwhile, domestic private pension funds, with US$142 billion in total assets under management (37% of which are allocated to foreign securities), continue to occupy a dominant role in local-currency trading dynamics.

Economic Outlook

- **Growth** ► The US$250-billion Chilean economy is in transition to a more sustainable and attractive rate of growth following a period of consumption-led deceleration. Real GDP grew by 5.6% y/y in the first quarter of the year. We remain slightly more optimistic than official forecasts, expecting the economy to expand by 5% in 2012-13 vs. the 4-5% official view. The fragile conditions affecting the high-income economies in Europe will have an adverse, yet manageable, effect on Chile, as long as China maintains a relatively robust growth path. Retail sales, investment and job data (the unemployment rate was 6.5% in May) hint at an accelerating pace of economic activity. Of relevance to Chile's growth prospects is our forecast for China's growth (currently at 8% for 2012) as well as our expectation of further weakness in the European economic outlook.
- **Inflation & Monetary Context** ► The central bank of Chile remains committed to securing price stability through a credible inflation-targeting regime. Price dynamics continue to be influenced by volatile shifts in food, energy and metal commodity prices as well as by exchange rate swings resulting from external market developments. We are of the view that inflationary pressures (higher in the services sector) may re-emerge as the economy gathers strength and that administered short-term rates may increase modestly by the end of this year. The headline inflation rate, which reached 3.1% y/y in May 2012, should remain within the 3% +/- 1% official target range through the end of 2013. The Chilean central bank, which lowered the reference policy rate by 25 bps to 5% last January, may opt to tighten monetary conditions at the end of the year on the back of increased wage demands from improving labour markets. The central bank counts on ample resources to intervene if external market conditions sharply deteriorate.
- **Fiscal & Current Account Balance** ► As a trade-intensive and financially integrated economy, Chile will continue to be adversely affected by the sluggish recovery in high-income nations, decelerating activity in emerging-market economies and their direct effects on export-sensitive commodity prices. Indeed, Chile's terms of trade will further deteriorate through the remainder of the year. The Central Bank estimates that the current account will experience a deficit equivalent to 3.1% of GDP in 2012, up from 1.3% in 2011. On the fiscal front, the government has the capacity to inject further stimulus; in fact, the budget will be in surplus through the end of next year, influenced by a relatively robust domestic economy.

Institutional Framework & Political Environment

- **Governance** ► The administration of President Sebastián Piñera is slowly recovering from a steady decline in approval ratings triggered by popular demands for public sector reform and higher spending on health and education. The combination of heightened strike activity (in search of wage gains) and public social dissatisfaction has elevated the weight of political factors in the country's total risk equation. Municipal elections in October 2012 will represent a political test for the current government ahead of the November 2013 general elections.
- **Financial Sector** ► The Chilean financial sector, with a regulatory capitalization ratio of 14%, remains systemically well prepared to renewed financial stress caused by a worsening of economic and financial market conditions in Europe. However, local firms may, at times, be affected by restricted external financing conditions. Household and commercial sector indebtedness remains manageable at present. Recently conducted stress tests highlight the financial sector's adequate preparedness to face a scenario of lower growth, higher financing costs and currency depreciation.

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Capital Market Dynamics

- **Foreign Exchange** ► Devaluation forces in both Brazil (major currency driver) and Argentina are increasingly influencing the local exchange rate environment in Uruguay. The Uruguayan peso (UYU), which has averaged 20 per US dollar (USD) over the past six months, may at times be subject to higher volatility due to regional financial contagion, energy price dynamics and eroding export sector competitiveness. Massive foreign capital inflows have allowed the central bank to accumulate foreign exchange reserves, which totaled US$12 billion in June 2012. We expect the UYU to close the year at 20-22 per USD.
- **Sovereign Debt & Credit Ratings** ► Uruguay has regained partial investment-grade status, following Standard and Poor's upgrade revision of the country's long-term foreign-currency rating to "BBB–" (stable outlook) in April 2012. The remaining rating agencies upgraded their ratings' outlook to "positive" during the first four months of the year. Common themes highlighted by the rating agency community are the following: sustained growth, economic diversification, improved external debt profile (including currency and maturity composition), proactive liability management, and sustained foreign investment flows. Market and public debt metrics amply reflect the sustained improvement in Uruguay's creditworthiness. Gross external debt declined from 91% in 2003 to 30% of GDP in 2011. Through sustained economic growth and a well-executed debt management program, the authorities are succeeding in reducing the dollarization of external liabilities (foreign currency debt now accounts for 51% of non-financial public sector gross debt, down from 75% in 2005).

Economic Outlook

- **Growth** ► The US$47-billion Uruguayan economy is in gradual re-acceleration mode after a slowdown in the fourth quarter of 2011, driven by lower electricity production caused by drought conditions and an inactive state-owned oil refinery. After expanding by (a revised) 8.9% and 5.7% in 2010 and 2011, respectively, real GDP increased by 4.2% y/y in the first quarter of the year. We project the economy to grow by 4% over the next 18 months. Uruguay has posted positive growth rates for nine consecutive years. Domestic demand is at the heart of this economic expansion: private consumption and private investment are the core drivers of growth; however, the unemployment rate increased to 6.7% in May highlighting incipient stress in labour markets. The real estate sector is also boosting investment growth, yet at a slower pace than in previous years. Uruguay is gradually becoming a relevant player in South America's pulp and paper industry. Looking ahead, the construction and investment activity related to a large-scale investment project (Montes del Plata) will be a key factor of output growth.
- **Inflation & Monetary Context** ► Monetary conditions remain influenced by the degree of banking sector dollarization and persistent inflationary pressures. Consumer prices increased by 8.1% y/y in May, a slight improvement from the 8.6% y/y rate recorded at the end of 2011. However, high energy prices, domestic growth dynamics, labour market tightness and intensifying wage adjustment pressures are preventing headline inflation from converging towards the official 4-6% target range. We expect inflation to close the year at 7.8%. Sensitive to persistent price pressures, the central bank's monetary policy committee has maintained its benchmark policy rate unchanged at 8.75% since last December.
- **Fiscal & Current Account Balance** ► The external sector is characterized by a growing current account deficit (projected to continue to widen from the 1.8% of GDP level recorded in 2011) and a negligible contribution of net exports to economic activity. Both exports and imports are expanding, yet import growth is outpacing the increase in external sales. The oil-linked component of total imports remains a growth-constraining factor due to Uruguay's net energy importer status. Nevertheless, sizable foreign direct investment inflows (averaging US$2.5 billion per annum over the past two years) more than fully cover the annualized current account gap (US$875 million in 2011). On the fiscal front, the consolidated public sector deficit, which reached 1.3% of GDP in 2011, will remain in manageable territory at slightly above the 1% of GDP mark this year and next. Public sector indebtedness is also improving, as shown by the level of gross debt, which closed last year at 55% of GDP, a remarkable decline from the 100% level posted in 2003.

Institutional Framework & Political Environment

- **Governance** ► The administration of President José Mujica from the *Frente Amplio* party enjoys a relatively high degree of political support to maintain a business-friendly policy environment. General elections will take place in October 2014, allowing the government to focus on deepening structural reforms and economic ties with Brazil. Bilateral relations with neighbouring Argentina will remain both a source of risk (mainly in the real estate and banking sectors), and investment opportunities (particularly in the energy, utilities, agriculture and tourism sectors).
- **Financial Sector** ► Dollarization in the banking sector remains one of the most relevant structural factors shaping systemic country risk and credit rating dynamics. At present, the dollarization ratio (percentage of foreign currency deposits) stands at 75%. Exposure to Argentina country risk factors (bank deposits and tourism), though decreasing, still weigh on Uruguay's outlook. Total deposits of the banking sector continue in ascendancy driven by increasing resident deposits in both local and foreign currency. Non-resident foreign-currency deposits (primarily from neighbouring Argentineans) remain stable. Capital adequacy of local banks remains sound, yet implementation of new regulatory Basel requirements has suffered delays.

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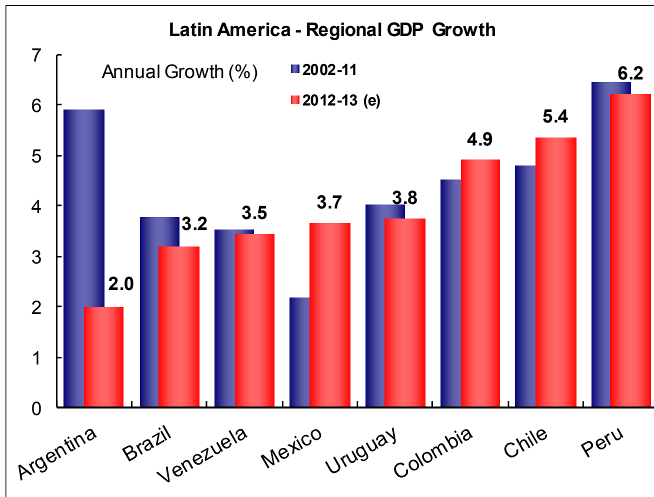
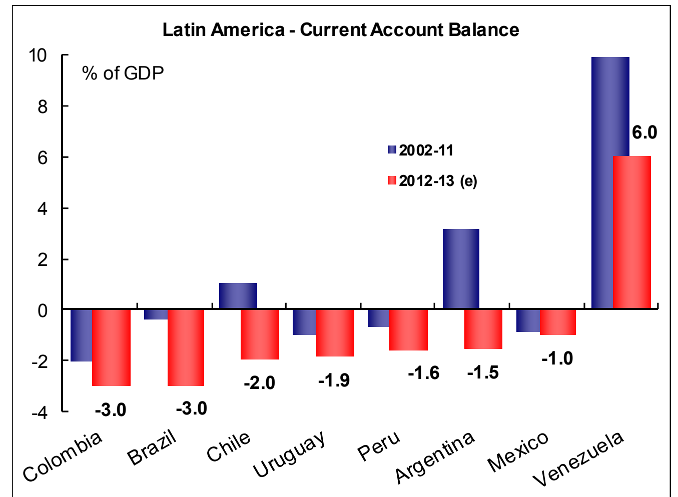
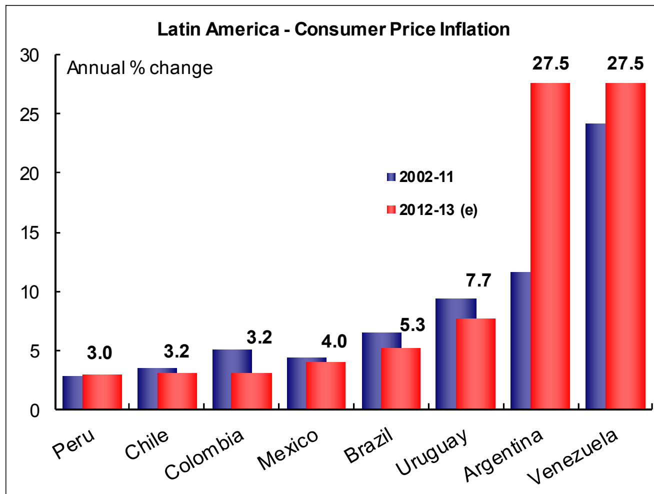
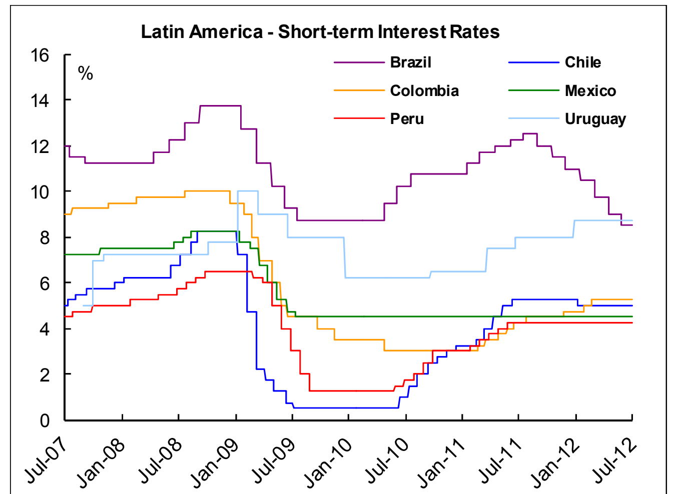
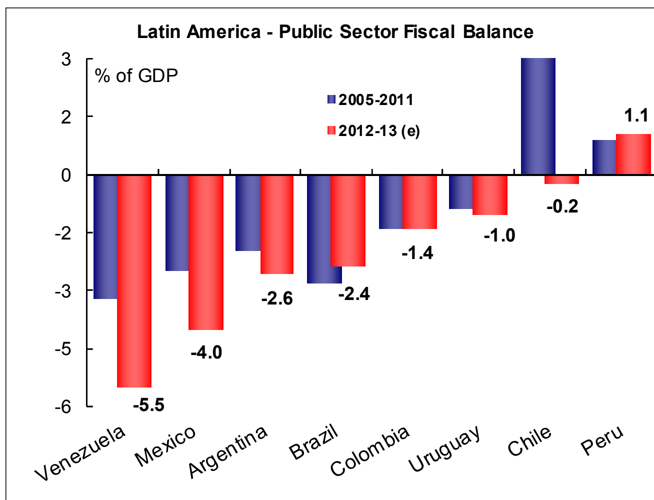
Latin America – Regional Outlook
Macroeconomic Metrics – July 2012

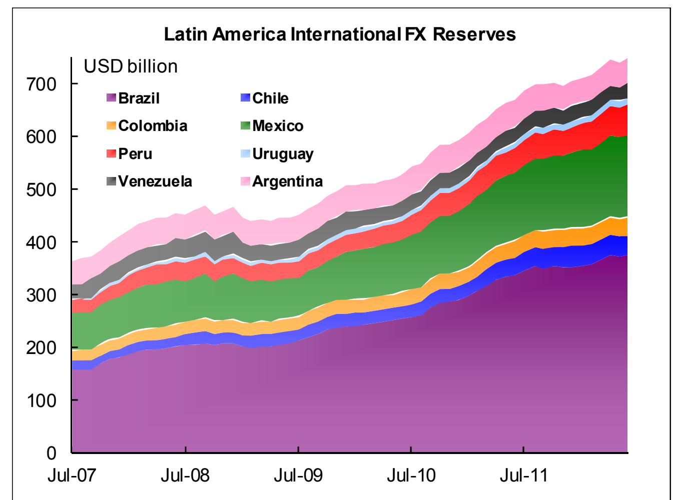






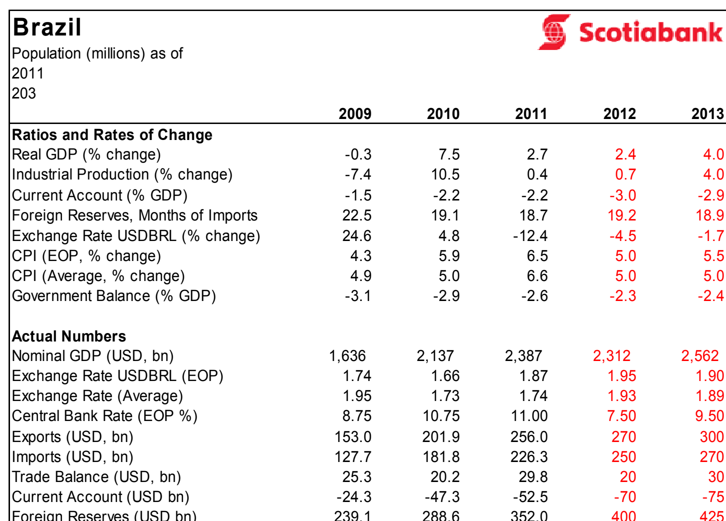






Sources: IMF, WEO April 2012, National Statistics office and Ministry of Finance of each country, Bloomberg and Scotiabank.

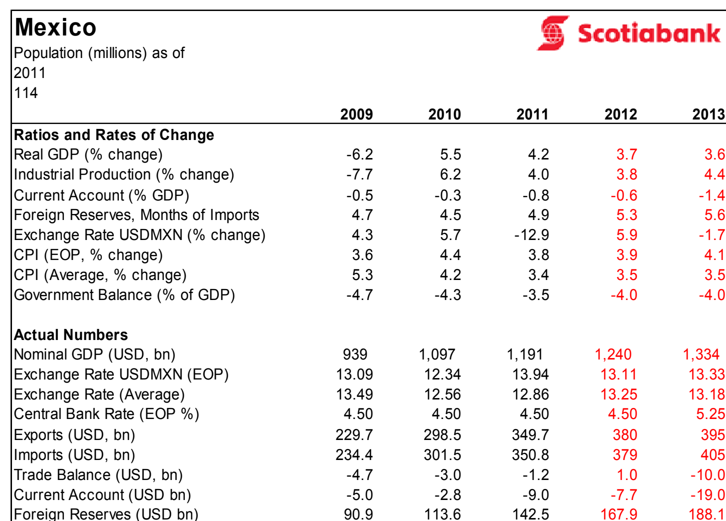
Latin America – Regional Outlook
Key Economic Indicators – July 2012



Brazil — Scotiabank

Population (millions) as of 2011: 203

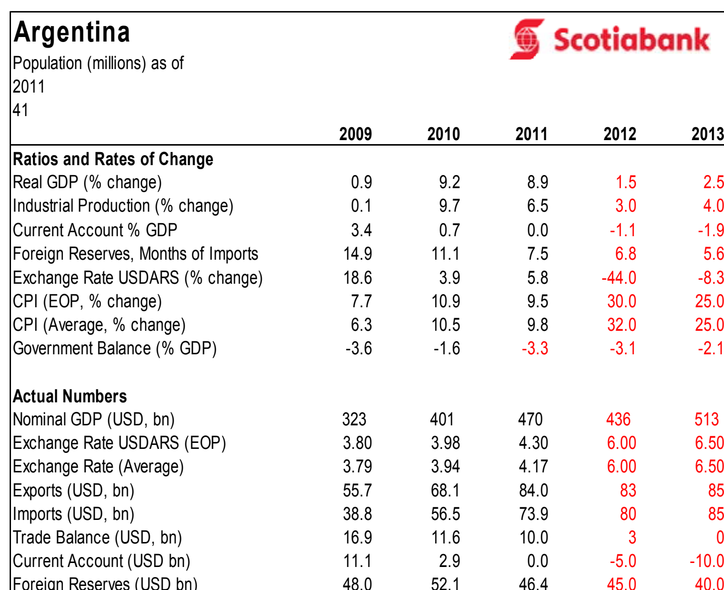
	2009	2010	2011	2012	2013
Ratios and Rates of Change					
Real GDP (% change)	-0.3	7.5	2.7	2.4	4.0
Industrial Production (% change)	-7.4	10.5	0.4	0.7	4.0
Current Account (% GDP)	-1.5	-2.2	-2.2	-3.0	-2.9
Foreign Reserves, Months of Imports	22.5	19.1	18.7	19.2	18.9
Exchange Rate USDBRL (% change)	24.6	4.8	-12.4	-4.5	-1.7
CPI (EOP, % change)	4.3	5.9	6.5	5.0	5.5
CPI (Average, % change)	4.9	5.0	6.6	5.0	5.0
Government Balance (% GDP)	-3.1	-2.9	-2.6	-2.3	-2.4
Actual Numbers					
Nominal GDP (USD, bn)	1,636	2,137	2,387	2,312	2,562
Exchange Rate USDBRL (EOP)	1.74	1.66	1.87	1.95	1.90
Exchange Rate (Average)	1.95	1.73	1.74	1.93	1.89
Central Bank Rate (EOP %)	8.75	10.75	11.00	7.50	9.50
Exports (USD, bn)	153.0	201.9	256.0	270	300
Imports (USD, bn)	127.7	181.8	226.3	250	270
Trade Balance (USD, bn)	25.3	20.2	29.8	20	30
Current Account (USD bn)	-24.3	-47.3	-52.5	-70	-75
Foreign Reserves (USD bn)	239.1	288.6	352.0	400	425



Mexico — Scotiabank

Population (millions) as of 2011: 114

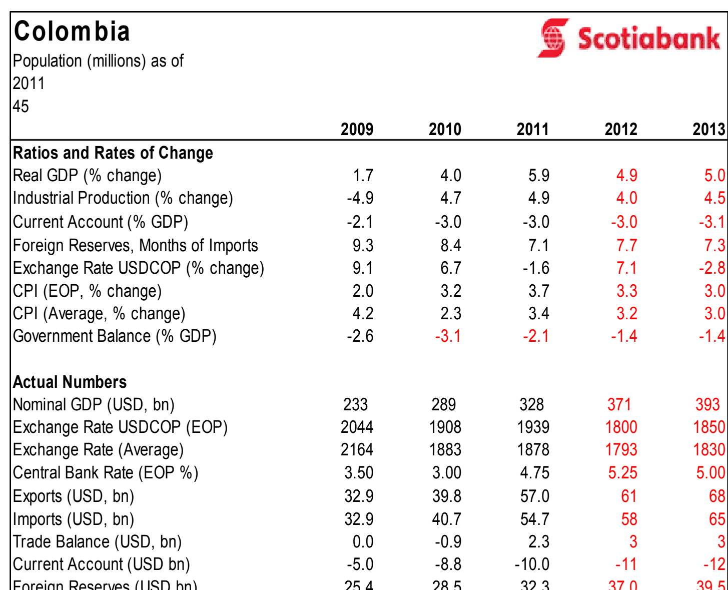
	2009	2010	2011	2012	2013
Ratios and Rates of Change					
Real GDP (% change)	-6.2	5.5	4.2	3.7	3.6
Industrial Production (% change)	-7.7	6.2	4.0	3.8	4.4
Current Account (% GDP)	-0.5	-0.3	-0.8	-0.6	-1.4
Foreign Reserves, Months of Imports	4.7	4.5	4.9	5.3	5.6
Exchange Rate USDMXN (% change)	4.3	5.7	-12.9	5.9	-1.7
CPI (EOP, % change)	3.6	4.4	3.8	3.9	4.1
CPI (Average, % change)	5.3	4.2	3.4	3.5	3.5
Government Balance (% of GDP)	-4.7	-4.3	-3.5	-4.0	-4.0
Actual Numbers					
Nominal GDP (USD, bn)	939	1,097	1,191	1,240	1,334
Exchange Rate USDMXN (EOP)	13.09	12.34	13.94	13.11	13.33
Exchange Rate (Average)	13.49	12.56	12.86	13.25	13.18
Central Bank Rate (EOP %)	4.50	4.50	4.50	4.50	5.25
Exports (USD, bn)	229.7	298.5	349.7	380	395
Imports (USD, bn)	234.4	301.5	350.8	379	405
Trade Balance (USD, bn)	-4.7	-3.0	-1.2	1.0	-10.0
Current Account (USD bn)	-5.0	-2.8	-9.0	-7.7	-19.0
Foreign Reserves (USD bn)	90.9	113.6	142.5	167.9	188.1



Argentina — Scotiabank

Population (millions) as of 2011: 41

	2009	2010	2011	2012	2013
Ratios and Rates of Change					
Real GDP (% change)	0.9	9.2	8.9	1.5	2.5
Industrial Production (% change)	0.1	9.7	6.5	3.0	4.0
Current Account % GDP	3.4	0.7	0.0	-1.1	-1.9
Foreign Reserves, Months of Imports	14.9	11.1	7.5	6.8	5.6
Exchange Rate USDARS (% change)	18.6	3.9	5.8	-44.0	-8.3
CPI (EOP, % change)	7.7	10.9	9.5	30.0	25.0
CPI (Average, % change)	6.3	10.5	9.8	32.0	25.0
Government Balance (% GDP)	-3.6	-1.6	-3.3	-3.1	-2.1
Actual Numbers					
Nominal GDP (USD, bn)	323	401	470	436	513
Exchange Rate USDARS (EOP)	3.80	3.98	4.30	6.00	6.50
Exchange Rate (Average)	3.79	3.94	4.17	6.00	6.50
Exports (USD, bn)	55.7	68.1	84.0	83	85
Imports (USD, bn)	38.8	56.5	73.9	80	85
Trade Balance (USD, bn)	16.9	11.6	10.0	3	0
Current Account (USD bn)	11.1	2.9	0.0	-5.0	-10.0
Foreign Reserves (USD bn)	48.0	52.1	46.4	45.0	40.0



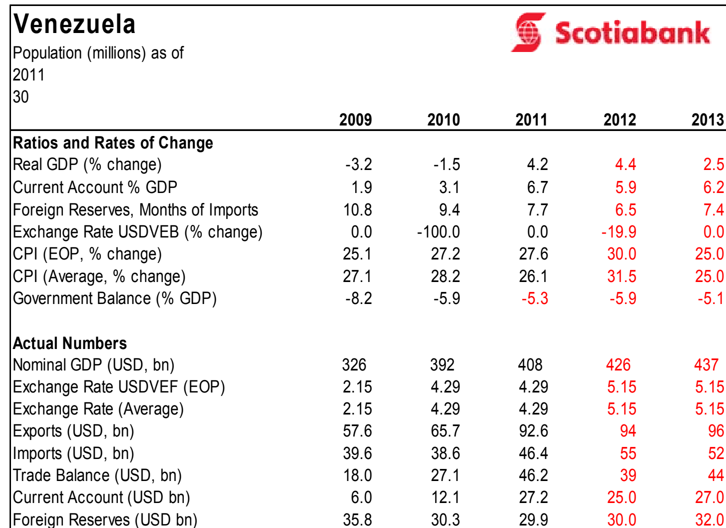
Colombia — Scotiabank

Population (millions) as of 2011: 45

	2009	2010	2011	2012	2013
Ratios and Rates of Change					
Real GDP (% change)	1.7	4.0	5.9	4.9	5.0
Industrial Production (% change)	-4.9	4.7	4.9	4.0	4.5
Current Account (% GDP)	-2.1	-3.0	-3.0	-3.0	-3.1
Foreign Reserves, Months of Imports	9.3	8.4	7.1	7.7	7.3
Exchange Rate USDCOP (% change)	9.1	6.7	-1.6	7.1	-2.8
CPI (EOP, % change)	2.0	3.2	3.7	3.3	3.0
CPI (Average, % change)	4.2	2.3	3.4	3.2	3.0
Government Balance (% GDP)	-2.6	-3.1	-2.1	-1.4	-1.4
Actual Numbers					
Nominal GDP (USD, bn)	233	289	328	371	393
Exchange Rate USDCOP (EOP)	2044	1908	1939	1800	1850
Exchange Rate (Average)	2164	1883	1878	1793	1830
Central Bank Rate (EOP %)	3.50	3.00	4.75	5.25	5.00
Exports (USD, bn)	32.9	39.8	57.0	61	68
Imports (USD, bn)	32.9	40.7	54.7	58	65
Trade Balance (USD, bn)	0.0	-0.9	2.3	3	3
Current Account (USD bn)	-5.0	-8.8	-10.0	-11	-12
Foreign Reserves (USD bn)	25.4	28.5	32.3	37.0	39.5

Sources: IMF, WEO April 2012, National Statistics office and Ministry of Finance of each country, Bloomberg and Scotiabank.

Latin America – Regional Outlook
Key Economic Indicators – July 2012

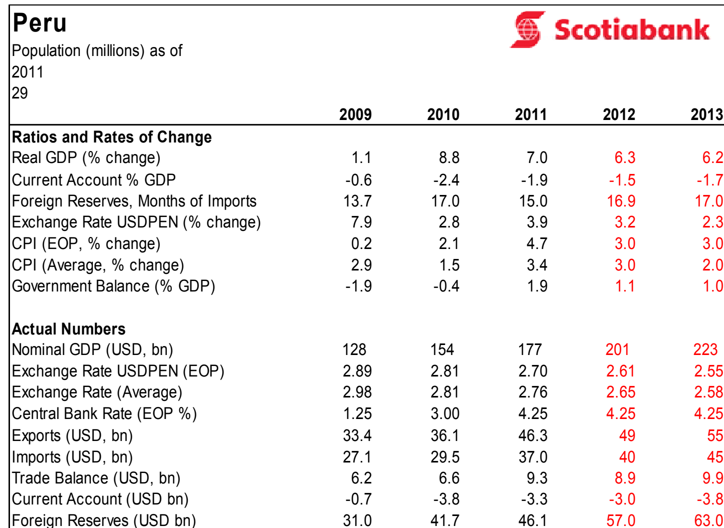


Venezuela

Scotiabank

Population (millions) as of
2011
30

	2009	2010	2011	2012	2013
Ratios and Rates of Change					
Real GDP (% change)	-3.2	-1.5	4.2	4.4	2.5
Current Account % GDP	1.9	3.1	6.7	5.9	6.2
Foreign Reserves, Months of Imports	10.8	9.4	7.7	6.5	7.4
Exchange Rate USDVEB (% change)	0.0	-100.0	0.0	-19.9	0.0
CPI (EOP, % change)	25.1	27.2	27.6	30.0	25.0
CPI (Average, % change)	27.1	28.2	26.1	31.5	25.0
Government Balance (% GDP)	-8.2	-5.9	-5.3	-5.9	-5.1
Actual Numbers					
Nominal GDP (USD, bn)	326	392	408	426	437
Exchange Rate USDVEF (EOP)	2.15	4.29	4.29	5.15	5.15
Exchange Rate (Average)	2.15	4.29	4.29	5.15	5.15
Exports (USD, bn)	57.6	65.7	92.6	94	96
Imports (USD, bn)	39.6	38.6	46.4	55	52
Trade Balance (USD, bn)	18.0	27.1	46.2	39	44
Current Account (USD bn)	6.0	12.1	27.2	25.0	27.0
Foreign Reserves (USD bn)	35.8	30.3	29.9	30.0	32.0

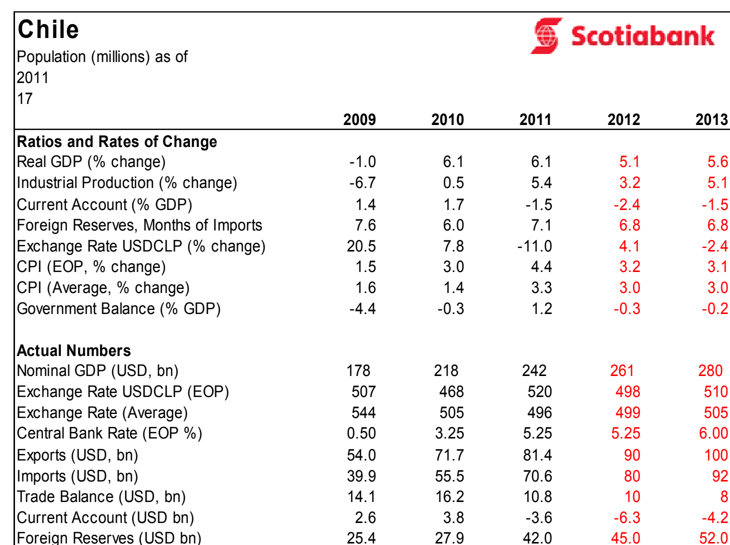


Peru

Scotiabank

Population (millions) as of
2011
29

	2009	2010	2011	2012	2013
Ratios and Rates of Change					
Real GDP (% change)	1.1	8.8	7.0	6.3	6.2
Current Account % GDP	-0.6	-2.4	-1.9	-1.5	-1.7
Foreign Reserves, Months of Imports	13.7	17.0	15.0	16.9	17.0
Exchange Rate USDPEN (% change)	7.9	2.8	3.9	3.2	2.3
CPI (EOP, % change)	0.2	2.1	4.7	3.0	3.0
CPI (Average, % change)	2.9	1.5	3.4	3.0	2.0
Government Balance (% GDP)	-1.9	-0.4	1.9	1.1	1.0
Actual Numbers					
Nominal GDP (USD, bn)	128	154	177	201	223
Exchange Rate USDPEN (EOP)	2.89	2.81	2.70	2.61	2.55
Exchange Rate (Average)	2.98	2.81	2.76	2.65	2.58
Central Bank Rate (EOP %)	1.25	3.00	4.25	4.25	4.25
Exports (USD, bn)	33.4	36.1	46.3	49	55
Imports (USD, bn)	27.1	29.5	37.0	40	45
Trade Balance (USD, bn)	6.2	6.6	9.3	8.9	9.9
Current Account (USD bn)	-0.7	-3.8	-3.3	-3.0	-3.8
Foreign Reserves (USD bn)	31.0	41.7	46.1	57.0	63.0

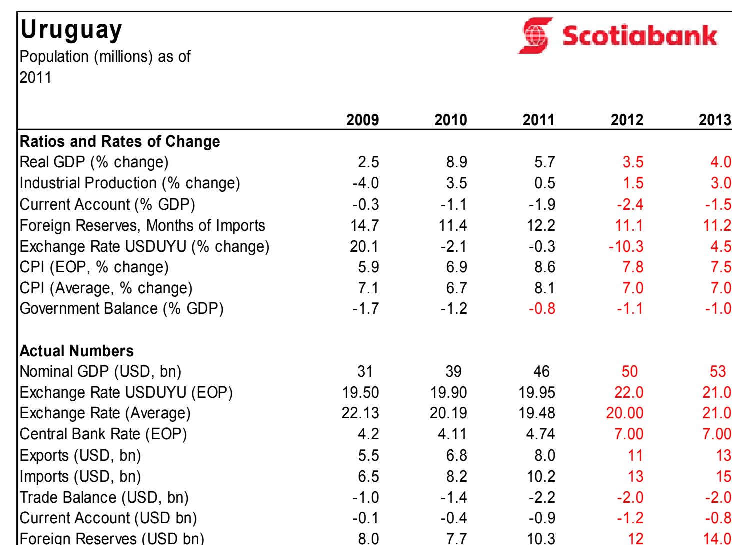


Chile

Scotiabank

Population (millions) as of
2011
17

	2009	2010	2011	2012	2013
Ratios and Rates of Change					
Real GDP (% change)	-1.0	6.1	6.1	5.1	5.6
Industrial Production (% change)	-6.7	0.5	5.4	3.2	5.1
Current Account (% GDP)	1.4	1.7	-1.5	-2.4	-1.5
Foreign Reserves, Months of Imports	7.6	6.0	7.1	6.8	6.8
Exchange Rate USDCLP (% change)	20.5	7.8	-11.0	4.1	-2.4
CPI (EOP, % change)	1.5	3.0	4.4	3.2	3.1
CPI (Average, % change)	1.6	1.4	3.3	3.0	3.0
Government Balance (% GDP)	-4.4	-0.3	1.2	-0.3	-0.2
Actual Numbers					
Nominal GDP (USD, bn)	178	218	242	261	280
Exchange Rate USDCLP (EOP)	507	468	520	498	510
Exchange Rate (Average)	544	505	496	499	505
Central Bank Rate (EOP %)	0.50	3.25	5.25	5.25	6.00
Exports (USD, bn)	54.0	71.7	81.4	90	100
Imports (USD, bn)	39.9	55.5	70.6	80	92
Trade Balance (USD, bn)	14.1	16.2	10.8	10	8
Current Account (USD bn)	2.6	3.8	-3.6	-6.3	-4.2
Foreign Reserves (USD bn)	25.4	27.9	42.0	45.0	52.0



Uruguay

Scotiabank

Population (millions) as of
2011

	2009	2010	2011	2012	2013
Ratios and Rates of Change					
Real GDP (% change)	2.5	8.9	5.7	3.5	4.0
Industrial Production (% change)	-4.0	3.5	0.5	1.5	3.0
Current Account (% GDP)	-0.3	-1.1	-1.9	-2.4	-1.5
Foreign Reserves, Months of Imports	14.7	11.4	12.2	11.1	11.2
Exchange Rate USDUYU (% change)	20.1	-2.1	-0.3	-10.3	4.5
CPI (EOP, % change)	5.9	6.9	8.6	7.8	7.5
CPI (Average, % change)	7.1	6.7	8.1	7.0	7.0
Government Balance (% GDP)	-1.7	-1.2	-0.8	-1.1	-1.0
Actual Numbers					
Nominal GDP (USD, bn)	31	39	46	50	53
Exchange Rate USDUYU (EOP)	19.50	19.90	19.95	22.0	21.0
Exchange Rate (Average)	22.13	20.19	19.48	20.00	21.0
Central Bank Rate (EOP)	4.2	4.11	4.74	7.00	7.00
Exports (USD, bn)	5.5	6.8	8.0	11	13
Imports (USD, bn)	6.5	8.2	10.2	13	15
Trade Balance (USD, bn)	-1.0	-1.4	-2.2	-2.0	-2.0
Current Account (USD bn)	-0.1	-0.4	-0.9	-1.2	-0.8
Foreign Reserves (USD bn)	8.0	7.7	10.3	12	14.0

Sources: IMF, WEO April 2012, National Statistics office and Ministry of Finance of each country, Bloomberg and Scotiabank.

Global Country Ratings

Foreign Currency Long Term Sovereign Credit Ratings – July 2012

INVESTMENT GRADE														
Moody's					Standard & Poor's					Fitch				
RATING	AMERICAS	EUROPE	ASIA & OCEANIA	MIDDLE EAST & AFRICA	RATING	AMERICAS	EUROPE	ASIA & OCEANIA	MIDDLE EAST & AFRICA	RATING	AMERICAS	EUROPE	ASIA & OCEANIA	MIDDLE EAST & AFRICA
Aaa	Canada United States (-)	Austria (-) Denmark Finland France (-) Germany Luxembourg Netherlands Norway Sweden Switzerland United Kingdom (-)	Australia New Zealand Singapore		AAA	Canada	Denmark Finland (-) Germany Luxembourg (-) Netherlands (-) Norway Sweden Switzerland United Kingdom	Australia Hong Kong Singapore		AAA	Canada United States (-)	Austria Denmark Finland France (-) Germany Luxembourg Netherlands Norway Sweden Switzerland United Kingdom (-)	Australia Singapore	
Aa1			Hong Kong (+)		AA+	United States (-)	Austria (-) France (-)			AA+			Hong Kong	
Aa2	Bermuda			Kuwait Qatar United Arab Emirates	AA		Belgium (-)	New Zealand	Kuwait Qatar	AA	Bermuda	Belgium (-)	New Zealand	Kuwait
Aa3	Cayman Islands Chile	Belgium (-)	China (+) Japan Macau Taiwan	Saudi Arabia	AA-	Bermuda	Czech Republic	China Japan (-) Taiwan	Saudi Arabia	AA-				Saudi Arabia
A1		Czech Republic	South Korea (+)	Israel Oman	A+	Chile (+)	Slovenia (-)		Israel	A+	Chile	Czech Republic Malta Slovakia	China Japan (-) South Korea (+) Taiwan	
A2		Poland Slovakia (-) Slovenia (-)			A	Trinidad and Tobago	Slovakia	South Korea	Oman	A		Slovenia (-)		Israel
A3	Bahamas (-)	Italy (-) Malta (-)	Malaysia	South Africa (-)	A-	Aruba	Malta (-) Poland	Malaysia		A-		Italy (-) Poland	Malaysia	
Baa1	Mexico Trinidad and Tobago	Russia	Thailand	Bahrain (-)	BBB+		Ireland (-) Italy (-) Spain (-)	Kazakhstan Thailand	South Africa (-)	BBB+		Ireland (-)		South Africa (-)
Baa2	Brazil (+)		Kazakhstan		BBB	Bahamas Brazil Mexico Panama Peru	Russia		Bahrain (-)	BBB	Aruba Brazil Mexico Panama Peru	Russia Spain (-)	Kazakhstan (+) Thailand	Bahrain
Baa3	Barbados (-) Colombia Costa Rica Panama (+) Peru (+)	Croatia (-) Iceland (-) Romania (-) Spain *-	India Indonesia	Tunisia (-)	BBB-	Barbados (-) Colombia Uruguay	Croatia (-) Iceland	India (-)	Morocco	BBB-	Colombia	Croatia (-) Iceland Romania	India (-) Indonesia	Morocco Tunisia (-)

SPECULATIVE GRADE														
Moody's					Standard & Poor's					Fitch				
RATING	AMERICAS	EUROPE	ASIA & OCEANIA	MIDDLE EAST & AFRICA	RATING	AMERICAS	EUROPE	ASIA & OCEANIA	MIDDLE EAST & AFRICA	RATING	AMERICAS	EUROPE	ASIA & OCEANIA	MIDDLE EAST & AFRICA
Ba1	Guatemala Uruguay (+)	Hungary (-) Ireland (-) Turkey (+)		Morocco	BB+	Costa Rica	Cyprus (-) Hungary (-) Romania	Indonesia (+) Philippines		BB+	Costa Rica Guatemala Uruguay (+)	Cyprus (-) Hungary (-) Turkey	Philippines	
Ba2	El Salvador		Philippines (+)	Jordan (-)	BB	Guatemala (-)	Portugal (-) Turkey		Jordan (-) Tunisia	BB	El Salvador			
Ba3		Cyprus *- Portugal (-)	Bangladesh		BB-	El Salvador		Bangladesh Mongolia (+) Vietnam		BB-			Sri Lanka	
B1	Dominican Republic St. Vincent and the Grenadines		Mongolia Papua New Guinea Sri Lanka (+) Vietnam (-)	Lebanon	B+	Dominican Republic Venezuela		Papua New Guinea (-) Sri Lanka		B+	Venezuela (-)		Mongolia Vietnam	Egypt (-)
B2	Venezuela		Cambodia	Egypt *-	B	Argentina (-) Ecuador		Cambodia	Egypt *- Lebanon (-)	B	Argentina Dominican Republic (+)			Lebanon
B3	Argentina Jamaica Nicaragua		Pakistan		B-	Grenada Jamaica (-)		Pakistan		B-	Ecuador Jamaica			
Caa1	Cuba				CCC+					CCC+				
Caa2	Ecuador				CCC		Greece			CCC		Greece		
Caa3					CCC-	Belize (-)				CCC-				
-					CC					CC				
-					C					C				
Ca	Belize				SD					RD				

Note : (+) positive outlook (-) negative outlook N.R. - Not Rated.

When Moody's places a rating on watch in the short-term *+ denotes possible upgrade, *- denotes possible downgrade & * denotes developing. A credit is removed from the Watchlist when the rating is upgraded, downgraded or confirmed.

Ratings as at July 2012

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