Latin America
Regional Outlook

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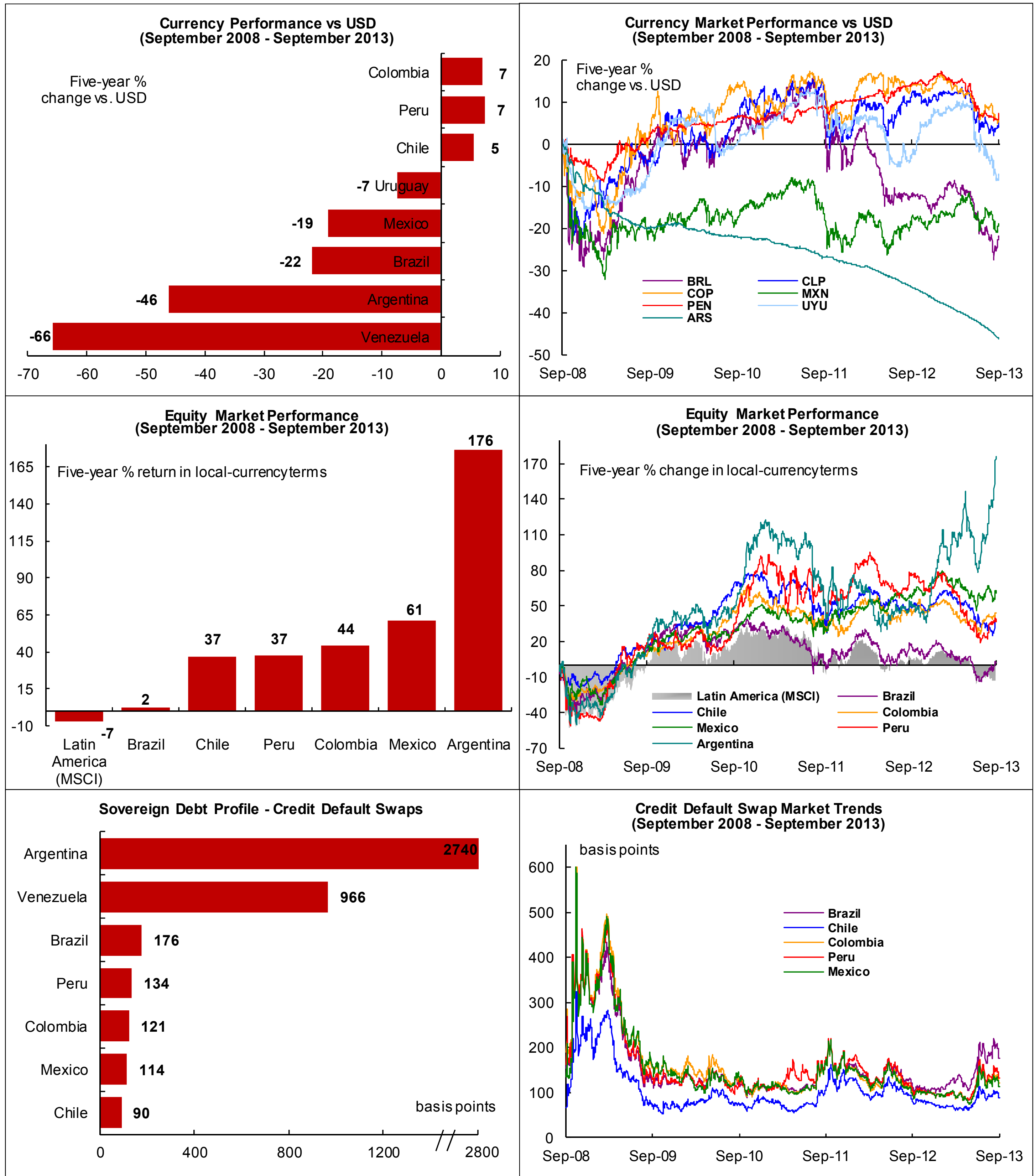
Latin America Regional Outlook is available on: www.scotiabank.com and Bloomberg at SCOT

Latin America

Financial Market Metrics – September 2013



Source: Bloomberg.

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Challenging, Yet Improving, External Context

The Latin American region will benefit from the ongoing process of global economic rebalancing. The improving economic performance in the United States - the most relevant economy for the region - in the context of a more systemically sound financial sector combined with persistent high growth in China (yet at a somewhat milder rate of expansion), recuperating activity in Japan and the United Kingdom, and a nascent, yet timid, economic recovery in Europe are all factors that bode well for the region's growth prospects. Nevertheless, the process of interest rate normalization in the advanced economies, coupled with a shift in investors' preference for assets in more established securities markets, has instilled a higher dose of financial market volatility in most countries in the developing Americas that has yet to run its course. Overall, the core countries in Latin America are adequately prepared to weather an external financial shock caused by the inevitable unwinding of stimulus measures in developed countries.

Uneven Growth Dynamics

Economic activity across Latin America will remain uneven over the next 18 months after moderating in the first half of 2013. Peru and Chile will continue to outperform on the back of strong local demand, while Venezuela and Argentina will lag the regional average pace as a result of unconventional economic policies and high inflation. Brazil´s recovery remains dependent on fiscal stimulus amid growing social discontent and persistent devaluation pressures. In Mexico, after a year of mild economic activity due to the change in government, the economy will benefit from improving US conditions and ongoing domestic structural reforms. We expect the region overall output to expand by 3.0% in 2013 with growth accelerating to close to 4% in 2014.

Divergent Inflation And Monetary Outlook

There is no uniform trend in place with respect to monetary policy. Monetary conditions will remain loose in order to support growth in economies where inflation is well contained, including Chile, Colombia and Peru. Nevertheless, the region's two largest economies are heading in opposite directions. The Brazilian central bank will maintain an aggressive tightening bias, as inflation exacerbated by currency depreciation continues to threaten the economic recovery. Mexico's central bank recently resumed an easing cycle, which may continue in the coming months. This reflects concerns over the country's economic performance. Peruvian authorities are using reserve requirements to modify monetary conditions, while in Chile and Colombia the policy stance remains roughly neutral. Overall, credible monetary regimes will lead to a sustained improvement in inflation control over the next two years.

Disruptive Global Asset Allocation

Asset re-allocation away from emerging markets will continue as the US Federal Reserve normalizes its monetary conditions, paving the way for higher long-term interest rates. Shifts in regional currencies will reflect a stronger US dollar (USD). However, solid macroeconomic fundamentals and central bank intervention through multiple mechanisms will shape the process of exchange rate adjustment. The Argentine peso and the Venezuelan bolivar will remain as the region's weakest currencies in the coming years, responding to foreign-currency shortages and disrupting capital controls. The Brazilian real will continue to weaken as a result of economic slowing and lower policy credibility. The Mexican peso will be shaped by structural reform achievements, developments in US financial markets and capital flows normalization.

Deteriorating Current Account Balance

The region remains highly dependent on commodity prices. Mexico, Colombia and Venezuela are dependent on oil-related exports; therefore, they are more exposed to the US. Meanwhile, the economies of Peru and Chile, that rely heavily on metal prices and particularly on copper, are more connected with Chinese activity. Regional integration is supported by large-scale investment projects in key sectors that transcend political boundaries. Intra-regional trade has gained importance, particularly in the southern nations of the region. Current account deficits are expected to widen in the coming years, as a result of lower exports due to a still subdued–albeit recovering–external demand. Meanwhile, import growth will remain solid as domestic demand in many economies continues to be strong.

Improved Sovereign Credit Profile

Debt sustainability is not an area of concern in Latin America. Most countries in the region–with the exception of Venezuela and Argentina–continue to enjoy a manageable fiscal position with controlled external debts. Additionally, structural advances in domestic banking sectors through regulatory frameworks and competitive business environments have mitigated potential systemic risks allowing a healthy expansion of credit. These factors have prompted sovereign credit rating upgrades by the major rating agencies. Foreign direct investment remains solid, representing a significant source of inflows and job creation. The unwinding of global liquidity may trigger sudden and temporary financial market volatility. However, this will not neutralize the structural reforms implemented by selected countries. With US$800 billion in FX reserves and systemically sound domestic banking sectors, Latin America is well equipped to manage temporary shocks and market stress.

Persistent Governance Challenges, Elections In Sight

Latin America continues to strengthen its institutional and regulatory framework. However, structural reforms and the fight against organized crime in Mexico; the peace process in Colombia, mining industry unrest in Peru, massive demonstrations and corruption scandals in Brazil, political uncertainty in Venezuela, and erratic policies in Argentina remain challenges for the corresponding administrations. Additionally, presidential elections in Chile (November 2013), Colombia (May 2014) and Brazil (October 2014) will also shape the policy environment over the next 12 months.

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BRAZIL

Capital Market Dynamics

- **Foreign Exchange ►** The Brazilian real (BRL) remains vulnerable to further weakness following a 16% depreciation versus the US dollar (USD) between March and August. The combined effect of softer domestic economic growth, higher long-term interest rates in the US, moderating economic activity in China and a synchronized emerging-market sell-off has placed the BRL on the defensive. The real has been the worst-performer within the core group of world currencies since early March. Fragile investor sentiment in the emerging-market asset class fuelled by US monetary policy shifts coupled with deteriorating growth and inflation conditions at home has intensified official intervention by the Brazilian authorities to restore exchange rate stability and contain inflationary expectations. The central bank introduced a US$60 billion FX auction swap program for the Sep-Dec 2013 period. The BRL will trade in a 2.30-2.40 per USD range over the next 18 months with the potential for further downside risk.

- **Sovereign Debt & Credit Ratings ►** Brazil's sovereign credit position has deteriorated as reflected in credit metrics and rating actions, with the credit-default spread widening by 100 basis points (bps) to 215 bps between May and July, before recovering some lost ground in August. In early June, Standard and Poor's downgraded the outlook on the country's "BBB" rating from "stable" to "negative" emphasizing a weaker fiscal outlook and negative credit-quality consequences of increased state intervention in the banking sector. Conversely, Moody's has maintained a "positive" outlook on Brazil's credit ratings since June 2011. Sell-off pressure on emerging-market asset classes driven by the "Fed forward-guidance shock" is poised to continue. Despite the adverse effects of global risk aversion on the country's creditworthiness, Brazil remains a major external creditor and the world's third largest individual country holder of marketable US Treasury debt assets (US$255 billion).

Economic Outlook

- **Growth ►** Economic activity continues to weaken prompting downward revisions to our growth forecast for the next 18 months. Real GDP will expand by 2.3 % this year before modestly accelerating to 2.8% in 2014. Consumer, manufacturing and construction confidence metrics point to a decline that has yet to be reversed. Employment conditions and household consumption, however, remain positive due to steady real-wage gains and an unemployment rate below 6%. At the core of such fragile economic performance is the absence of a well-executed public sector investment program together with the adverse effect of a strong-currency policy and lower commodity prices.

- **Inflation & Monetary Context ►** Inflation has emerged as an issue of concern. Currency devaluation, increased food and energy costs and still-tight labour markets have boosted headline inflation above the central bank target of 4.5% +/- 2% over the past five months. The Brazilian authorities are focused on combatting inflation. Further monetary tightening is in prospect; the central bank has increased its policy-setting SELIC rate by 175 bps to 9% since April. The sharp currency devaluation and ensuing volatility has eroded the government's inflation containment strategy. Despite nascent moderating signs, we expect the IPCA-based inflation rate to average 6% y/y over the next 18 months.

- **Fiscal & Current Account Balance ►** Brazil's widening twin deficits may erode investor perception of credit risk. The fiscal front will adopt an expansionary bias as the government increases its stimulus ahead of the 2014 presidential elections and the FIFA World Cup event. The primary fiscal surplus reached 1.9% of GDP in the 12 months to July while the consolidated public sector deficit continued to increase to 3% of GDP. The widening of the current account deficit, currently at US$78 billion (3.4% of GDP), is a negative macroeconomic development that will continue to weigh on the Brazilian currency and credit risk. Foreign direct investment cover around 80% of the external gap.

Institutional Framework & Political Environment

- **Governance ►** The October 2014 presidential elections will dominate the political landscape in the near term. The business environment has sharply deteriorated on the back of unexpected waves of violence and large scale street protests throughout the country. The popularity and political backing of President Dilma Rousseff (and the PT party) has sharply declined, increasing the chances of victory for opposition candidates during the upcoming presidential election. The people of Brazil are fiercely demanding a concerted fight against corruption and increased government spending in public transport infrastructure, health care and education. Meanwhile, the country's infrastructure seems at present to be inadequate to host the 2014 World FIFA Cup and the 2016 Olympic Games.

- **Financial Sector ►** The Brazilian banking sector remains well capitalized and fully compliant with Basel III requirements. Asset quality is solid as reflected in the 3.4% non-performing loan ratio. Public-sector financial institutions (with 50% of total credit outstanding) have increased their dominance of the Brazilian banking sector during the administration of President Rousseff. Total financial system assets, accounting now for 55% of GDP, continue to grow at double-digit rates (up 16% in the 12 months ending in June). Lending activity in the real estate sector, a key component of the government's credit-driven growth strategy, expanded by 34% over the past 12 months.

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MEXICO

Capital Market Dynamics

- **Foreign Exchange ►** The Mexican peso (MXN) remains sensitive to shifting expectations regarding the US Federal Reserve's monetary policy, in line with other emerging-market currencies. Since reaching its strongest level below the 12 mark against the US dollar (USD) in early May, the MXN has depreciated by 10%. Improving local economic fundamentals, the ongoing recovery in the US, and an improved political scenario will support the MXN in the short-term. Although other central banks in the region have been intervening more actively in the FX market, we do not expect any changes to Mexico's exchange rate policy. Nonetheless, the central bank maintains a significant amount of international reserves, currently valued at US$170 billion.

- **Sovereign Debt & Credit Ratings ►** Mexico's creditworthiness continues to improve. In early May, Fitch upgraded Mexico's long-term sovereign credit rating from "BBB" to "BBB+" stressing that structural reforms will improve growth potential by enhancing confidence and investment activity. Additionally, Standard & Poor's (S&P) revised Mexico's long-term credit rating outlook from "stable" to "positive", leaving the rating unchanged at "BBB". S&P highlighted that the government's potential to achieve deep economic reforms will stimulate medium-term growth. Moody's maintains a sovereign credit rating of "Baa1" with a "stable" outlook. As a result of the shift in market expectations over US Federal Reserve policy, which has led to increases in Treasury bond yield and the USD, both the five-year credit default swaps (CDS) in Mexico and the local 10-year bond yield increased recently, in line with other Latin American and emerging-market economies. The CDS rose from the 80 basis points (bps) mark in early May to 118 bps in early September, while the 10-year bond yield increased by 150 bps in the same period. Foreign holdings of Mexican government securities account for 35% of the total.

Economic Outlook

- **Growth ►** The country's economic activity will accelerate in the coming 18-months after a soft performance in the first half of 2013. Real GDP expanded by 1.0% y/y in the January-June period, its lowest rate since 2009. Slower momentum in the industrial sector (particularly construction) weighed more heavily on GDP performance, while the services sector growth rate also moderated (with calendar effects weighing on the data). Public expenditure has been lower and some projects have been delayed as a result of the change in government; however, we expect outlays to accelerate in the second half of the year. Additionally, the automotive segment (which accounts for 30% of non-oil exports) will continue to be solid with new investment plans already underway. As a result of the weaker-than-anticipated performance in the first half of the year we expect the economy to expand by 1.9% in 2013. Nonetheless, in line with stronger US growth in 2014 and an accelerating local economy, we anticipate that output will grow by 3.7% in 2014.

- **Inflation & Monetary Context ►** The inflation outlook has improved in recent months. After surpassing the central bank's tolerance range (2-4%) in the March-June period, headline inflation decelerated to 3.5% y/y in August. We maintain our view that headline inflation will remain above the 3% mark in the coming months. Recently, the central bank loosened monetary conditions, reducing the reference rate by 25 bps to 3.75%, as a result of weaker economic performance, lower inflation and contained inflation expectations. We anticipate that accommodative monetary conditions will remain in place in the coming months.

- **Fiscal & Current Account Balance ►** Both the current and fiscal accounts will remain at manageable levels over the forecast horizon. Recently, the government sent a fiscal reform proposal to Congress which aims to increase tax collection to close to 1.4% of GDP in 2014. Under this proposal, the fiscal deficit (excluding PEMEX, the state-owned oil and gas producer, investment) is expected to increase from 0.4% of GDP in 2013 to 1.5% next year. The trade balance closed 2012 in positive territory for the first time in 15 years, bringing the current account deficit close to 1% of GDP. We expect the external account to present larger deficits in the 2013-14 period, as a result of increasing local demand. The current account shortfall remains adequately financed by foreign capital inflows.

Institutional Framework & Political Environment

- **Governance ►** President Enrique Peña's first months in office have generated significant structural changes. So far, telecommunications, education and labour sector reforms have been approved while the financial and energy sector proposals have been sent to Congress. On the energy sector, the government is proposing changes to the Constitution to remove restrictions to private participation in the industry, while maintaining the ban on concessions. Drug trafficking, closer relations with the US (particularly on immigration and trade issues), new trade agreements, and business-friendly policies to promote foreign investment will remain key focus areas for the government.

- **Financial Sector ►** The Mexican banking sector, with substantial participation by foreign institutions, remains well capitalized. The new Basel III rules, which establish a minimum capital ratio of 10.5% for banking institutions (and a Tier 1 ratio of 7%), took effect in January 2013, and all major Mexican institutions have fulfilled the requirements. The non-performing loan ratio increased to 3.1% in July, slightly above the 2012 average of 2.4%.

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ARGENTINA

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. The existing exchange rate regime is characterized by a crawling peg and tight restrictions on buying and selling foreign exchange. During the last 12 months, the "official" peso depreciated by 18% (versus a 30% devaluation in the unofficial market). Futures markets, inflation differentials and the "blue-chip" implied exchange 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, impairing its ability to avoid a high-inflation economic context.

- **Sovereign Debt & Credit Ratings ►** The country's creditworthiness is rapidly deteriorating, as highlighted by market metrics and default ratings. The insurance cost of sovereign bonds as measured by credit default swaps, which averaged 2,600 basis points over the past six months, implies a high probability of a distressed credit event. Holders of inflation-indexed government bonds continue to be negatively affected by the alleged underreporting of inflation, growth and foreign exchange reserves data. Argentina's sovereign debt rating will be subject to multiple downgrade actions over the coming months as reflected by the "negative" outlook established by all major rating agencies. In early September, Standard and Poor's downgraded the country's sovereign credit rating to "CCC+" maintaining a "negative outlook".

Economic Outlook

- **Growth ►** The Argentine economic growth is decelerating. The abrupt unwinding of multiple subsidy schemes, 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 gains. Stagflation risk has increased: we estimate that the economy will continue to record relatively low rates of expansion of around 2.5-3% in 2013-14. 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 average 32% y/y over the next 12 months. Domestic investors firmly believe that the government manipulates growth and inflation data for political and debt management purposes. Over the past five years, the officially reported inflation measure (at 10.6% y/y in July) varied significantly from the rate calculated by the National Congress, by prestigious universities, provincial statistics agencies and well-reputed economic think tanks. The International Monetary Fund (IMF) has already issued a "declaration of censure" in this regard. Renewed confidence in official economic data will not materialize in the near term; therefore, relative-price distortions and social tensions will escalate as union leaders demand inflation-linked wage adjustments ahead of the congressional elections.

- **Fiscal & Current Account Balance ►** The fiscal outlook is negative, with the budget shortfall expected to close the year at 2.7% of GDP. Declining economic activity will adversely affect public sector revenue in the coming years, exacerbated by a high tax burden, increasing tax evasion and a sizable informal economy. 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 devaluation of the Argentine peso may force a change in the currency regime to avoid a further deterioration of the current account balance, which we expect to average ½% of GDP in 2013-14. Intensifying conflicts between the government and the export-driven agricultural sector can be expected.

Institutional Framework & Political Environment

- **Governance ►** The October congressional elections are the dominant event affecting the political landscape with increasing evidence of rising intra-party infighting. However, the administration of President Cristina Fernandez is well entrenched in power and exerts a dominant influence on the judiciary. 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. It is worth noting that the advent of shale oil and gas technologies has placed Argentina in a strategically relevant position amongst multinational integrated oil companies. Given Argentina's vast shale resources, a more clear energy development and integration policy in this field will undoubtedly outlive the current administration.

- **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. According to the IMF, the Tier-1 capital ratio stood at 12.7% in the first quarter, suggesting sufficient capital adequacy, while the non-performing loan ratio was 1.8%.

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COLOMBIA

Capital Market Dynamics

- **Foreign Exchange ►** The Colombian peso (COP) has been subject to intensive central bank intervention combined with modest economic growth, loose monetary policy and more recently, US dollar (USD) strength caused by the shift in US Federal Reserve policy expectations. Under these conditions, the currency has lost 8.6% vis-à-vis the USD year-to-date, reaching by the end of August its weakest level in 20 months. Authorities adopted a more aggressive intervention policy this year, purchasing US$4.7 billion in the first seven months of the year, which represent 97% of the total amount accumulated in 2012. The central bank is well positioned to support the currency, in the case of heightened volatility in global financial markets. Foreign reserves are currently valued at US$41.9 billion, which are complemented by a new precautionary flexible credit line from the International Monetary Fund worth US$5.8 billion.

- **Sovereign Debt & Credit Ratings ►** Colombia's sovereign credit profile continues to improve and could be revised upward in the coming 6-12 months. In April, Standard & Poor's upgraded Colombia from "BBB-" to "BBB", leaving a "stable" outlook. The move was a response to the economy's increased resilience in the face of external vulnerabilities, combined with a stronger fiscal framework to contain the negative effect from a fall in oil prices. Previously, Fitch revised the country's rating outlook from "stable" to "positive", leaving the long-term sovereign credit rating at "BBB-". Moody's rates the country at "Baa3" with a recently upgraded "positive" outlook. The debt-to-GDP ratio has been gradually decreasing from 36% of GDP in 2009 to 32% in 2012 and a fiscal reform approved last year aims to further reduce the government debt burden. Colombia's credit default swaps increased from 76 basis points (bps) in May to 173 bps in June in response to global risk re-pricing activity, but have gained some ground over the past two months.

Economic Outlook

- **Growth ►** The Colombian economy is on a recovery track following the weaker growth performance observed since mid-2012; however, signs have been mixed and uneven across economic sectors. The country's output expanded by 2.8% y/y in the first quarter of the year, with the construction sector leading the recovery while manufacturing continued to lag - particularly the oil and mining industry as a result of strikes at the beginning of the year. In our view, and based on trade balance results for the second quarter, local demand will continue to improve in the remainder of the year. We expect the Colombian economy to expand by close to 4% in 2013, with government stimulus and the central bank's loose monetary policy contributing to a pick-up in the second half of the year, followed by an acceleration to 4⅔% in 2014. Recently, the government cut its growth forecast for this year from 4.8% to 4.5% (versus the central bank's 4.0% forecast).

- **Inflation & Monetary Context ►** Price dynamics in Colombia have improved significantly, with inflation averaging around 3% y/y in the last four years (against a previous average of over 5%). Headline inflation is currently within the central bank's target range (2-4%) but remains closer to the lower limit, leaving the central bank ample room to maneuver if need be. We anticipate that inflation will accelerate to around 2.6% y/y by year-end, as a result of the economic recovery. After cutting the reference rate by 200 bps over a 12-month period, the central bank has maintained the monetary rate at 3.25% since last March. We do not foresee any changes on the monetary stance in the coming quarters.

- **Fiscal & Current Account Balance ►** The government remains committed to fiscal consolidation, although it is already anticipating a slightly higher consolidated public deficit, as spending—particularly on the regional level—will restart after the slowdown in 2012. The central government shortfall is expected to be around 2.4% of GDP in the 2013-14 period. The fiscal reform approved in 2012 and relatively high commodity prices will provide a positive outlook for the country's fiscal balance. We anticipate a mild widening of the current account deficit to 3⅓% of GDP in the 2013-14 period; however, the trade balance will likely remain in surplus. Export growth decelerated in the first half of the year as a result of lower commodity prices and supply shocks that affected the mining sector, while import gains moderated as local demand growth decelerated. In our view, both export and import growth will accelerate in the second half of the year. Additionally, profit repatriation of foreign companies will exacerbate the income deficit. Foreign direct investment inflows will remain strong, easily covering the external financing gap.

Institutional Framework & Political Environment

- **Governance ►** Presidential elections are scheduled for May 2014 and President Juan Manuel Santos will likely run again for a second term. Over his final months in office, peace negotiations with the Fuerzas Armadas Revolucionarias de Colombia (FARC), structural reforms, and intraregional relations will continue to be key issues. We anticipate controlled market volatility stemming form the electoral process.

- **Financial Sector ►** The financial sector remains well-supervised and adequately capitalized. Credit growth (in both local and foreign currency) has stabilized around the 14-16% y/y rate in the past 10 months, after running above the 20% mark in the previous 18 months. The non-performing loan ratio has been gradually increasing from 1.8% in January to 2.1% in July.

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VENEZUELA

Capital Market Dynamics

- **Foreign Exchange ►** A fixed exchange rate regime with tight capital controls will remain in place over the forecast horizon. At the beginning of 2013, the authorities devalued the exchange rate from 4.30 per US dollar (USD) to 6.30; however, the currency remains overvalued. A new trading system was created, the Complementary Currency System (SICAD), which is based on USD auctions; however, so far, the new mechanism has failed to inject significant liquidity into the market and to solve USD shortages. Additionally, foreign reserves have been decreasing since the beginning of the year, reaching US$22.3 billion at the beginning of September, 25% less than in January. Venezuela's economic imbalances could prompt further currency adjustments in the coming years. We expect the authorities to devalue the currency by 20-30% in early 2014.
- **Sovereign Debt & Credit Ratings ►** Sovereign credit ratings for Venezuela will remain below investment grade for the foreseeable future. Rating agencies have highlighted that political instability and unconventional economic measures could trigger rating downgrades. Recently, Standard & Poor's lowered the country's long-term sovereign credit rating from "B+" to "B", arguing that growing political uncertainty and decelerating economic activity are compromising governability. Venezuela's fiscal dependence on oil prices, weak institutional framework, low external liquidity and mounting inflationary pressures will continue to weigh on risk ratings. Fitch and Moody's maintain a "B+" and "B2" rating, respectively, and all agencies hold a "negative" outlook. The insurance cost of government bonds measured by credit default swaps remains among the highest in the region and has increased significantly since the beginning of the year from around 600 basis points (bps) to slightly over 1,000 bps.

Economic Outlook

- **Growth ►** The Venezuelan economic outlook has been deteriorating throughout 2013. After expanding by 5.6% in 2012 on the back of government spending ahead of the last presidential elections, real GDP grew by only 1.5% y/y in the first half of this year, the lowest rate since 2010. Household consumption has been deterred by high inflation caused by goods scarcity and low job creation. Additionally, government spending has moderated significantly, particularly in the wake of the post-Chávez election process. Exports have been decelerating, particularly oil shipments. Based on the most recent Organization of the Petroleum Exporting Countries (OPEC) monthly report, Venezuelan oil production (2.77 million barrels per day in August) accelerated in the second quarter of the year; however, it remained below the 2011-12 average levels. Furthermore, investment will continue to be restrained, as the government will maintain less business friendly policies. We expect all of these trends to remain in place for the 2013-14 period, limiting real GDP growth to a mild 0.8% in 2013 and 1½% in 2014.
- **Inflation & Monetary Context ►** The inflation outlook continues to worsen, a trend that we expect to persist for the foreseeable future. Supply shortages, low access to foreign goods and a limited domestic production capacity have boosted the annual inflation rate from 22% y/y in January to 42% in July. Overall inflation may be higher than that reported by official statistics, as an informal market has developed through which scare goods are sold at higher prices. We anticipate that price distortions will remain high, with the annual inflation rate soaring around 30-40% in the 2013-14 period. US dollar shortages together with ongoing devaluation will continue to put pressure on consumer prices.
- **Fiscal & Current Account Balance ►** Both the fiscal and current account balances continue to deteriorate. A significant increase in public spending (due to the two presidential elections that took place within a six month period), lower oil revenue—which accounts for half of the country's total revenue—and off-budget expenditures have complicated the fiscal situation in Venezuela. We anticipate that the fiscal shortfall will remain high, with the non-financial public sector deficit remaining close to double digits in the coming years. The current account surplus will continue to shrink over the forecast horizon, on account of limited foreign investment (joint-venture projects with China will remain a key factor for external accounts), decreasing export growth and accelerating imports (to meet internal demand for basic goods).

Institutional Framework & Political Environment

- **Governance ►** The political environment in Venezuela will remain of high concern for investors and business. Increasing social discontent as a result of the government response to goods scarcity, electricity insufficiency and other public problems, strengthening support for the opposition ahead of the municipal elections in December (particularly the ex-candidate and Governor of Miranda, Henrique Capriles), and lower support from some of the Chavistas leaders, are some of the major challenges President Nicolás Maduro is facing. Additionally, unconventional economic policies will weigh on public approval ratings, as poverty and crime have increased significantly in recent months.
- **Financial Sector ►** The local credit context remains stable in Venezuela. Official data show a slight acceleration in credit growth (only in the banking system), which reached its fastest pace in ten months (52% y/y) in July. Consumer and commercial lending, which account for 57% of total private lending, expanded by 45% y/y. The non-performing loans ratio decreased to 0.88% in July from 1.2% a year before.

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PERU

Capital Market Dynamics

- **Foreign Exchange ►** Central bank intervention coupled with recent US dollar (USD) strength due to the shift in US monetary policy expectations have weighed on the Peruvian sol (PEN), weakening the currency by around 10% against the USD year-to-date. After purchasing around US$5.2 billion in the January-April period, the central bank sold close to US$3.0 billion of reserves in the last two months, in order to moderate currency volatility. Active central bank intervention in the FX market will remain the norm, particularly, if local pension funds maintain their high demand for the USD. We expect the USDPEN rate to trade at around 2.65-2.75 through the rest of the year, and to then resume an appreciation bias in 2014, as the authorities foster the process of structural de-dollarization of the economy. Foreign reserves, currently valued at US$67.6 billion, will provide support to policy management when need be.

- **Sovereign Debt & Credit Ratings ►** Peru enjoys a stable sovereign credit profile. In mid-August, Standard & Poor's (S&P) upgraded the nation's long-term foreign-currency credit rating from "BBB" to "BBB+", due to better local conditions to face external shocks and solid long-term growth prospects. S&P left a "stable" credit outlook, assessing that future moves will depend on a stronger institutional framework and the government's ability to improve infrastructure and social needs. Fitch and Moody's maintain a sovereign debt rating of "BBB" and "Baa2", respectively, both with a "stable" outlook. The International Monetary Fund estimates that the gross public debt ratio will decrease from an average of around 24% of GDP in the last five years to around 16% over the next five. The cost of insurance against sovereign default measured by the five-year credit default swap rate increased from 90 basis points (bps) to 140 bps in the last four months, in line with the trend in other Latin American and emerging economies.

Economic Outlook

- **Growth ►** The Peruvian economic profile remains robust; we expect output to expand by an average rate of 5¾% y/y in the 2013-14 period. Real GDP in the first half of the year advanced by 5.1% y/y, the slowest pace since 2009; however, recent indicators suggest that the Peruvian activity is picking up in the third-quarter. The construction sector, particularly infrastructure and housing, together with retail sales have fuelled Peruvian activity in recent months, suggesting that local consumption maintains a solid pace of growth. Investment, particularly in the mining sector, will decelerate in the coming years as many projects are nearing completion with fewer replacements on the horizon. Peru will remain vulnerable to China's economic performance and shifts in commodity prices; however, the country's expanded growth base and available fiscal resources may mitigate external shocks to some extent.

- **Inflation & Monetary Context ►** Price pressures will remain well contained over the forecast horizon; however, we anticipate that inflation will hover around the upper limit of the central bank's tolerance range of 1-3% y/y. Headline inflation accelerated once again from 2.3% in April to 3.2% y/y in July. Nonetheless, we do not expect any changes to the central bank's monetary policy rate, which has remained unchanged at 4.25% since mid-2011. Nevertheless, the central bank has been using reserve requirement rates as another tool to adjust monetary conditions. Recently, authorities reduced the reserve requirements for banks in both local and foreign currency, a trend that we expect to continue in the remainder of the year.

- **Fiscal & Current Account Balance ►** We maintain our view that the trade balance will remain in surplus over the next two years, though it will narrow significantly. Recent data reflected a faster rate of growth in imports against a slowdown in exports. We expect imports to remain robust as local demand continues to be relatively strong. Exports are vulnerable to commodity prices; however, increasing Peruvian shipments to the US (around 17% of total exports) may offset the negative effect coming from China's moderating demand. Growing profits of foreign firms will lead to strong outflows, maintaining the deficit in the income account. The overall current account deficit will remain around 4% of GDP in the 2013-14 period, to be mainly financed by sizable foreign direct investment inflows. The fiscal outlook is stable over the medium term. The fiscal surplus will likely shrink from 2.1% of GDP in 2012 to less than 1.0% in 2013 and close to zero in 2014, as a result of higher government spending and lower than expected mining-related tax revenues.

Institutional Framework & Political Environment

- **Governance ►** The administration of President Ollanta Humala remains committed to maintaining a business-friendly environment as highlighted by an improving trend in investment and consumer confidence. However, social problems surrounding the mining sector, the implementation of infrastructure projects and violent resistance in confronting informal mining and illegal activities are some of the challenges that the current administration will continue to face. Relations with key neighbouring countries will favour regional integration.

- **Financial Sector ►** The Peruvian financial sector is well-equipped to face adverse external shocks. Growth in credit to the private sector in both local and foreign currency has resumed its upward trend since mid-year, after many months of contractions. The deposits dollarization ratio has increased slowly in recent months, reaching 39% in July, confirming the region's preference for USD as the economy recovers and interest rates gradually increase.

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CHILE

Capital Market Dynamics

- **Foreign Exchange ►** The Chilean peso (CLP), which suffered deeply from the emerging market sell-off in May-June, is showing signs of consolidation during the final months of the year. The outlook for Chinese economic growth (vulnerable to downside risks due to ongoing de-leveraging) is a major factor of CLP weakness given its direct influence on metal prices. The country's terms of trade (influenced by persistently high energy costs and declining copper prices) have been deteriorating as the global growth outlook has been subject to increasingly adverse headwinds. Moreover, the steady profit-taking activity affecting the core universe of emerging-market economies (as a result of the expected unwinding of monetary stimulus by the US Federal Reserve) has also exacerbated the negative market sentiment in Chilean equity securities.

- **Sovereign Debt & Credit Ratings ►** Investor perceptions of Chile's sovereign creditworthiness remain solid. All international rating agencies maintain a "stable" outlook for Chile's credit ratings, currently set at: "AA-" (Standard and Poor's), "A+" (Fitch) and "Aa3" (Moody's). The process of interest rate normalization and risk re-pricing underway led to a steady widening of sovereign credit (and default swap) spreads since early May. Chile's CDS, which averaged 83 basis points over the past six months, still implies the best sovereign credit within the developing Americas. However, access to corporate external debt financing will be affected by the increase in long-term US interest rates.

Economic Outlook

- **Growth ►** The pace of economic growth has decelerated modestly, influenced by lower investment activity in the mining sector during the first half of the year. Nevertheless, domestic consumption fuelled by still robust labour market conditions (with a record low unemployment rate of 5.7%) and strong retail and construction activity is offsetting the negative implications from a less dynamic external sector and eroding terms of trade. The Chilean economy expanded by 4.1% y/y in the second quarter of the year on the back of strong domestic demand; however, the maturity of the mining investment cycle points to a deceleration in gross fixed capital investment in this industry. Consumer confidence metrics and auto industry activity still portray an expansionary phase. Monthly indicators of economic activity have confirmed a slightly lower growth trajectory prompting the central bank to lower its growth forecast range to 4-4.5% for this year and 4-5% for 2014. We expect the economy to expand by 4.5% in the 2013-14 period.

- **Inflation & Monetary Context ►** The monetary context is rapidly changing, as indicated by forward market re-pricing and recent official rhetoric. The central bank maintained its policy-setting reference rate unchanged at 5% since January 2012, stressing the generalized impact of US dollar (USD) strength, more restrictive external financial market conditions and downward adjustments to Chinese growth expectations. At the same time, the central bank in its latest monetary policy report stated that the base case scenario for the interest rate outlook is in line with survey results showing modest tightening in late 2014, as the labour market remains tight and consumption is quite dynamic. Inflation will resume an upward trend but will remain within the central bank tolerance range in the near term. Inflationary expectations are in line with the ongoing convergence to the official target of 3% in 2014-15.

- **Fiscal & Current Account Balance ►** The external sector remains strongly influenced by mixed economic performance in the Asia/Pacific region as well as the direction of commodity prices. The deceleration in Chinese economic growth is having an adverse impact on bilateral trade flows as well as on copper prices which will continue to trend downwards in the 2013-14 period, leading to a widening of the current account deficit to 4.5% of GDP. However, improved economic activity in Japan and the United States may help improve the external picture in 2014. Meanwhile, terms of trade erosion may also be a negative issue for the Chilean external sector. The fiscal position remains favourable, as the consolidated public sector balance will maintain a small surplus position in 2013-14.

Institutional Framework & Political Environment

- **Governance ►** The political landscape will be dominated by the presidential and congressional elections scheduled for mid-November 2013. Income inequality is at the core of demands from society. Former President Michelle Bachelet (from the Nueva Mayoria coalition) is the favourite candidate to win the elections. Constitutional, tax, education and energy sector reforms will be part of the government's policy agenda. A redefinition of the energy matrix to optimize the benefits of the country's hydroelectricity potential has become a key issue to be addressed by the new government. Meanwhile, increasing strike activity fuelled by environmental protection groups coupled with more stringent regulatory framework continues to affect activity in the mining sector.

- **Financial Sector ►** Financial market conditions remain systemically sound, yet there are increasing signs of tighter credit restrictions by deposit-taking financial institutions (driven by more adverse external market conditions), in particular in loan adjudication to the real estate and commercial credit segments. Lending activity is growing at an annual 10% rate while non-performing loan ratios hover around 2% according to the International Monetary Fund. The banking sector remains well capitalized, above the minimum requirements.

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URUGUAY

Capital Market Dynamics

- **Foreign Exchange ►** The Uruguayan peso (UYU) is vulnerable to depreciation pressures underpinned by the sell-off momentum affecting emerging-market currencies, the synchronized move in favour of US dollar (USD) holdings, deteriorating terms of trade and increasingly fragile political, economic and currency market conditions in both Brazil and Argentina. The UYU lost 14% versus the USD over the past four months, prompting upward revisions to our forecast for the peso to 22 per USD by the end of this year.

- **Sovereign Debt & Credit Ratings ►** Uruguay's sovereign credit profile continues to improve, with gross public sector debt estimated at 53% of GDP in 2013 and declining. In anticipation of increasing long-term costs of external funding and as an integral part of its external liability management program, the government of Uruguay tapped global debt markets in early August by issuing US$2 billion in sovereign bonds maturing in 2024 at a launch yield of 4.5% or 188 basis points (bps) over equivalent US Treasury debt. Uruguay enjoys an investment-grade sovereign debt rating by all major credit agencies, and it is a candidate for upward revisions over the next 12 months.

Economic Outlook

- **Growth ►** The growth outlook remains relatively positive on the grounds of still robust local consumption trends. However, Uruguay is not immune to the decelerating trend observed in most countries in the Latin American region as shown in the recent spike in the unemployment rate above the 7% mark. We estimate that the Uruguayan economy will post an average growth rate of 3.5% in the coming two years. However, domestic demand gains will be somewhat offset by deteriorating export sector dynamics. Softer growth in Brazil and persistent capital controls in Argentina will continue to undermine the contribution of the tourism sector to growth. The investment outlook remains promising as the government earmarks infrastructure development as a key priority in its fiscal stimulus program. The unemployment rate is currently at a manageable level of 6.6%.

- **Inflation & Monetary Context ►** Inflation remains an area of concern for the economic outlook. Consumer price inflation remains elevated at 8.9% y/y in August. At the core of such deepening price pressures reside the well-entrenched practices of wage indexation, as well as the country's dependence on foreign sources of energy and intensifying exchange rate pressures. The central bank is executing a tight monetary policy to control inflationary expectations, stopping from using a reference interest rate and focusing on the management of monetary aggregates; in fact, the central bank targets an expansion of M1 of 12.5%. Earlier this year, the authorities changed the inflation target range to 3-7% from 4-6%, acknowledging the structural forces present in the inflation context. Containing inflation is paramount to reducing the structural dollarization of the domestic banking sector and broadening the sources of local capital market financing.

- **Fiscal & Current Account Balance ►** The fiscal situation remains manageable with a general government deficit estimated at 2.3% of GDP in 2013-14. The government will increase its public sector investment program to meet the rising demands for basic infrastructure without jeopardizing a comfortable government finance position. There are official plans to increase the tax burden of high-income citizens as part of a broad reform initiative. The external sector continues to show a deficit position. Weakening trade flows reflect the softening growth conditions and competitive currency realignments in the nation's main trading partners (Brazil and Argentina) which will widen the current account deficit to 3-3.5% of GDP over the next 18 months.

Institutional Framework & Political Environment

- **Governance ►** Presidential elections are scheduled for October 2014. Former president Tabaré Vázquez will seek to run as the candidate for the ruling Frente Amplio coalition. Infrastructure development and trade diversification (including a potential trade/investment pact with the European Union) are priorities for the current administration of President José Mujica. The government recently decided to legalize production, distribution and sale of marijuana (consumption was already legal) against the will of two thirds of the population. Accordingly, the risk of illegal trafficking to/from neighbouring countries may increase. The bill, already approved by the lower house of congress, will likely be effective by the beginning of next year.

- **Financial Sector ►** The country's banking sector remains well capitalized (1.8 times over the minimum regulatory requirement) and asset quality metrics are sound (non-performing loan ratio at 2.3%). Lending activity remains strong according to central bank data which showed that overall loans (both in local currency and US dollars) increased by 19% in the 12 months to March 2013. The central bank imposed a 50% reserve requirement on non-resident purchases of treasury bills in order to discourage speculative-driven capital inflows. The major challenge affecting the banking sector is to reduce the still-high degree of dollarization of assets and liabilities (in excess of 70% of the total) that exposes the sector to external shocks and capital flight. The high participation of state-owned deposit-taking financial institutions in the context of a virtually absent domestic capital market is another structural factor impairing an adequate degree of competition in the sector.

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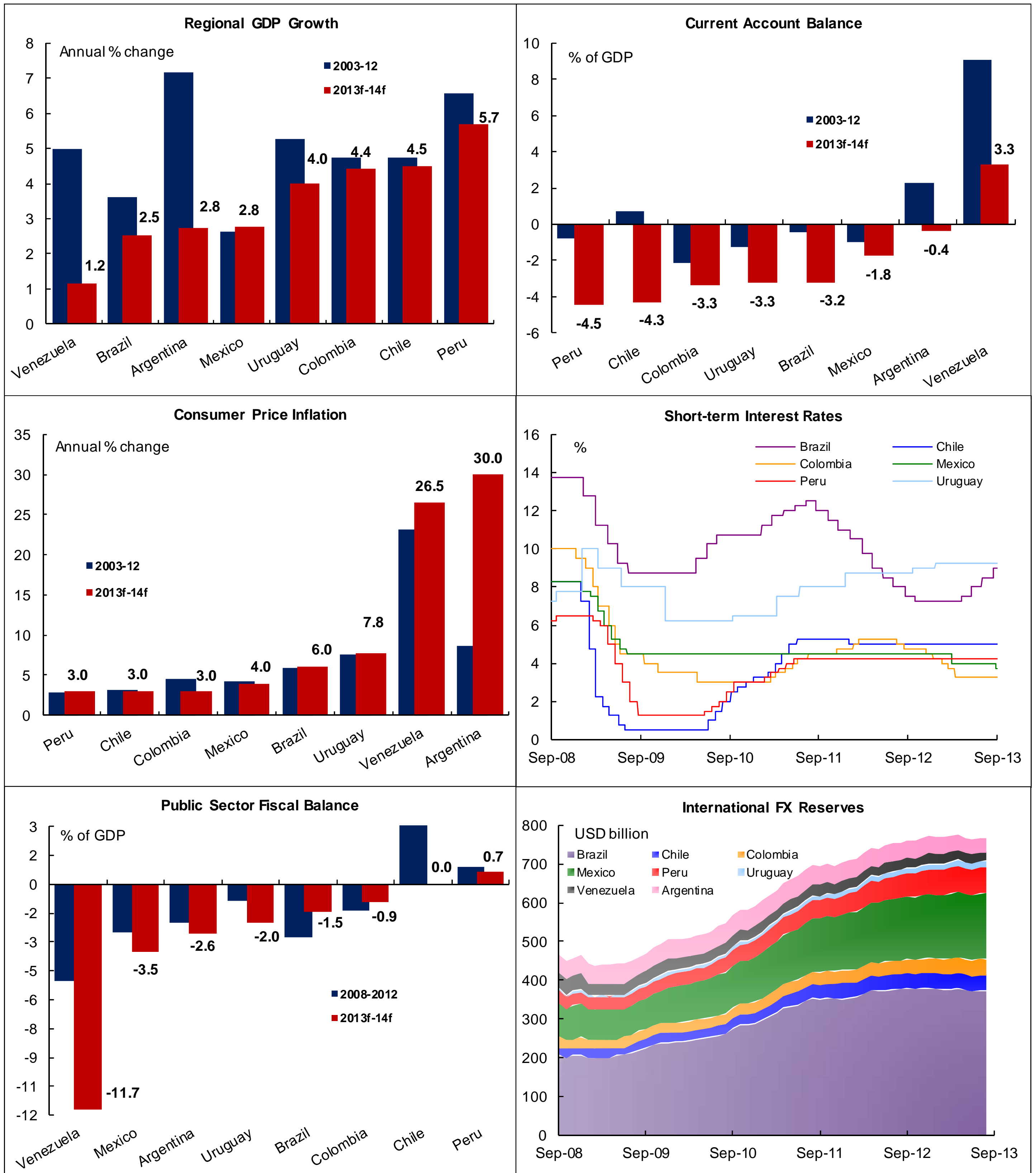
Latin America

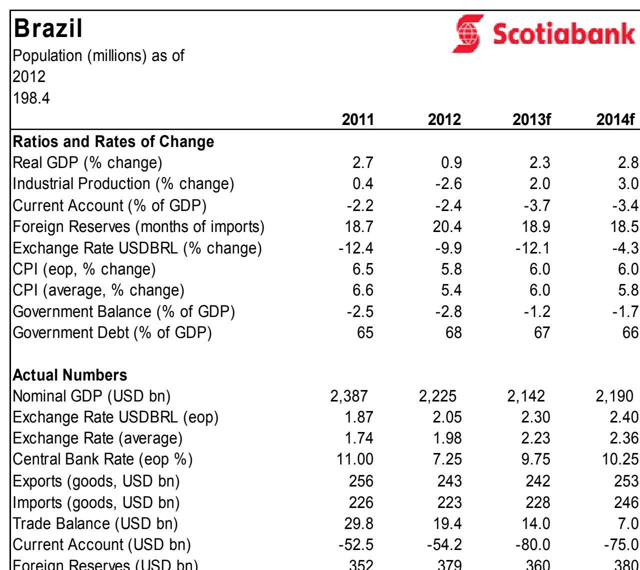
Macroeconomic Metrics – September 2013



Source: National authorities, IMF, OECD, Bloomberg and Scotiabank Economics.

Latin America

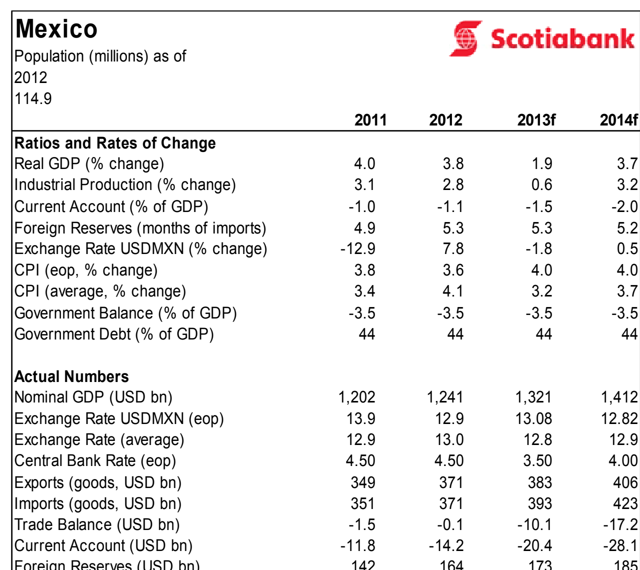
Key Economic Indicators – September 2013



Brazil

Population (millions) as of 2012
198.4

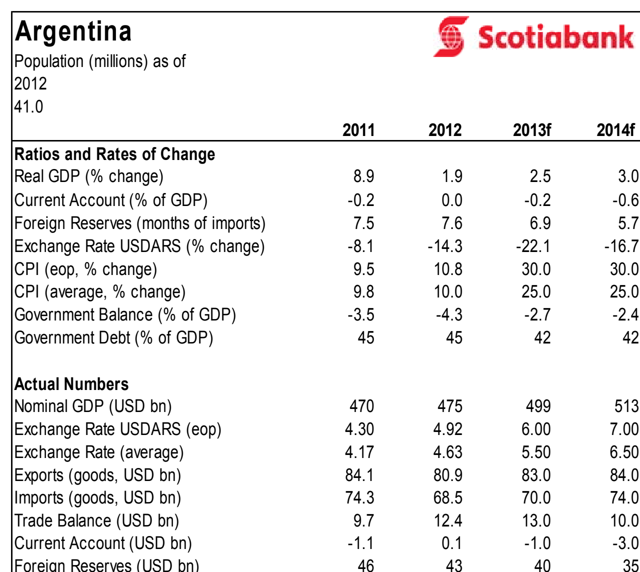
	2011	2012	2013f	2014f
Ratios and Rates of Change				
Real GDP (% change)	2.7	0.9	2.3	2.8
Industrial Production (% change)	0.4	-2.6	2.0	3.0
Current Account (% of GDP)	-2.2	-2.4	-3.7	-3.4
Foreign Reserves (months of imports)	18.7	20.4	18.9	18.5
Exchange Rate USDBRL (% change)	-12.4	-9.9	-12.1	-4.3
CPI (eop, % change)	6.5	5.8	6.0	6.0
CPI (average, % change)	6.6	5.4	6.0	5.8
Government Balance (% of GDP)	-2.5	-2.8	-1.2	-1.7
Government Debt (% of GDP)	65	68	67	66
Actual Numbers				
Nominal GDP (USD bn)	2,387	2,225	2,142	2,190
Exchange Rate USDBRL (eop)	1.87	2.05	2.30	2.40
Exchange Rate (average)	1.74	1.98	2.23	2.36
Central Bank Rate (eop %)	11.00	7.25	9.75	10.25
Exports (goods, USD bn)	256	243	242	253
Imports (goods, USD bn)	226	223	228	246
Trade Balance (USD bn)	29.8	19.4	14.0	7.0
Current Account (USD bn)	-52.5	-54.2	-80.0	-75.0
Foreign Reserves (USD bn)	352	379	360	380



Mexico

Population (millions) as of 2012
114.9

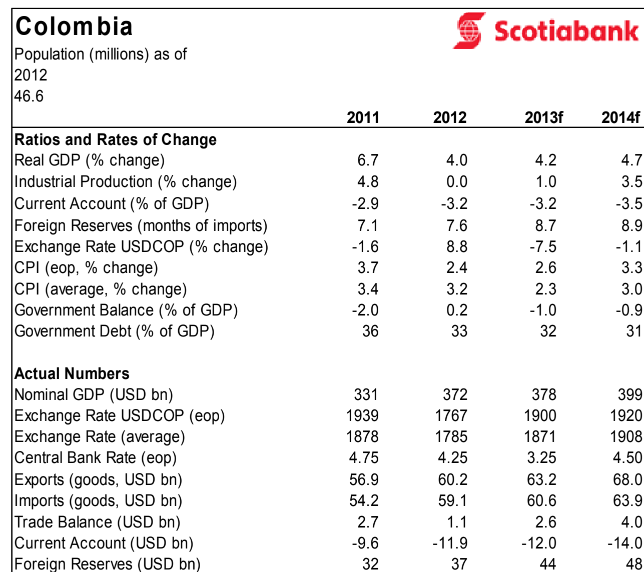
	2011	2012	2013f	2014f
Ratios and Rates of Change				
Real GDP (% change)	4.0	3.8	1.9	3.7
Industrial Production (% change)	3.1	2.8	0.6	3.2
Current Account (% of GDP)	-1.0	-1.1	-1.5	-2.0
Foreign Reserves (months of imports)	4.9	5.3	5.3	5.2
Exchange Rate USDMXN (% change)	-12.9	7.8	-1.8	0.5
CPI (eop, % change)	3.8	3.6	4.0	4.0
CPI (average, % change)	3.4	4.1	3.2	3.7
Government Balance (% of GDP)	-3.5	-3.5	-3.5	-3.5
Government Debt (% of GDP)	44	44	44	44
Actual Numbers				
Nominal GDP (USD bn)	1,202	1,241	1,321	1,412
Exchange Rate USDMXN (eop)	13.9	12.9	13.08	12.82
Exchange Rate (average)	12.9	13.0	12.8	12.9
Central Bank Rate (eop)	4.50	4.50	3.50	4.00
Exports (goods, USD bn)	349	371	383	406
Imports (goods, USD bn)	351	371	393	423
Trade Balance (USD bn)	-1.5	-0.1	-10.1	-17.2
Current Account (USD bn)	-11.8	-14.2	-20.4	-28.1
Foreign Reserves (USD bn)	142	164	173	185



Argentina

Population (millions) as of 2012
41.0

	2011	2012	2013f	2014f
Ratios and Rates of Change				
Real GDP (% change)	8.9	1.9	2.5	3.0
Current Account (% of GDP)	-0.2	0.0	-0.2	-0.6
Foreign Reserves (months of imports)	7.5	7.6	6.9	5.7
Exchange Rate USDARS (% change)	-8.1	-14.3	-22.1	-16.7
CPI (eop, % change)	9.5	10.8	30.0	30.0
CPI (average, % change)	9.8	10.0	25.0	25.0
Government Balance (% of GDP)	-3.5	-4.3	-2.7	-2.4
Government Debt (% of GDP)	45	45	42	42
Actual Numbers				
Nominal GDP (USD bn)	470	475	499	513
Exchange Rate USDARS (eop)	4.30	4.92	6.00	7.00
Exchange Rate (average)	4.17	4.63	5.50	6.50
Exports (goods, USD bn)	84.1	80.9	83.0	84.0
Imports (goods, USD bn)	74.3	68.5	70.0	74.0
Trade Balance (USD bn)	9.7	12.4	13.0	10.0
Current Account (USD bn)	-1.1	0.1	-1.0	-3.0
Foreign Reserves (USD bn)	46	43	40	35



Colombia

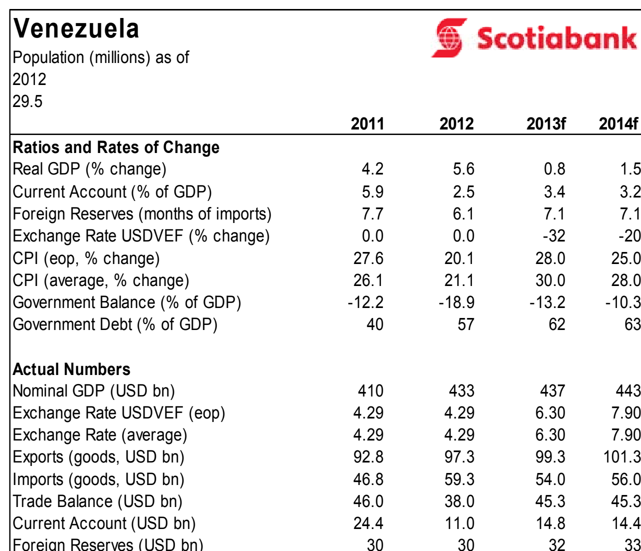
Population (millions) as of 2012
46.6

	2011	2012	2013f	2014f
Ratios and Rates of Change				
Real GDP (% change)	6.7	4.0	4.2	4.7
Industrial Production (% change)	4.8	0.0	1.0	3.5
Current Account (% of GDP)	-2.9	-3.2	-3.2	-3.5
Foreign Reserves (months of imports)	7.1	7.6	8.7	8.9
Exchange Rate USDCOP (% change)	-1.6	8.8	-7.5	-1.1
CPI (eop, % change)	3.7	2.4	2.6	3.3
CPI (average, % change)	3.4	3.2	2.3	3.0
Government Balance (% of GDP)	-2.0	0.2	-1.0	-0.9
Government Debt (% of GDP)	36	33	32	31
Actual Numbers				
Nominal GDP (USD bn)	331	372	378	399
Exchange Rate USDCOP (eop)	1939	1767	1900	1920
Exchange Rate (average)	1878	1785	1871	1908
Central Bank Rate (eop)	4.75	4.25	3.25	4.50
Exports (goods, USD bn)	56.9	60.2	63.2	68.0
Imports (goods, USD bn)	54.2	59.1	60.6	63.9
Trade Balance (USD bn)	2.7	1.1	2.6	4.0
Current Account (USD bn)	-9.6	-11.9	-12.0	-14.0
Foreign Reserves (USD bn)	32	37	44	48

Source: National authorities, IMF, OECD, Bloomberg and Scotiabank Economics.

Latin America

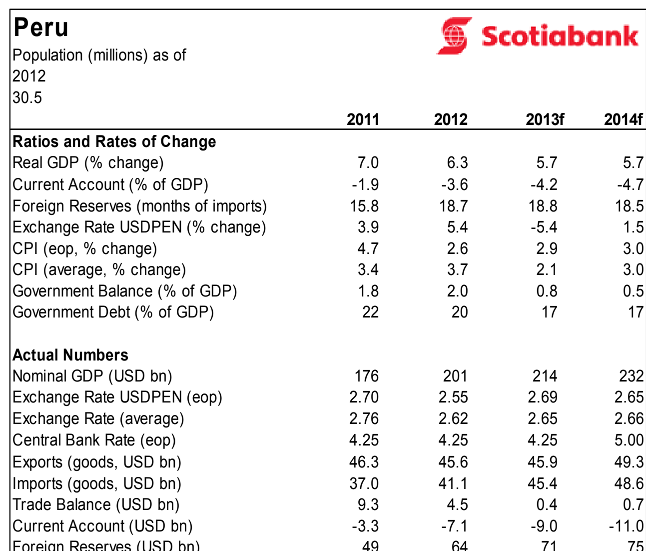
Key Economic Indicators – September 2013



Venezuela

Population (millions) as of 2012: 29.5

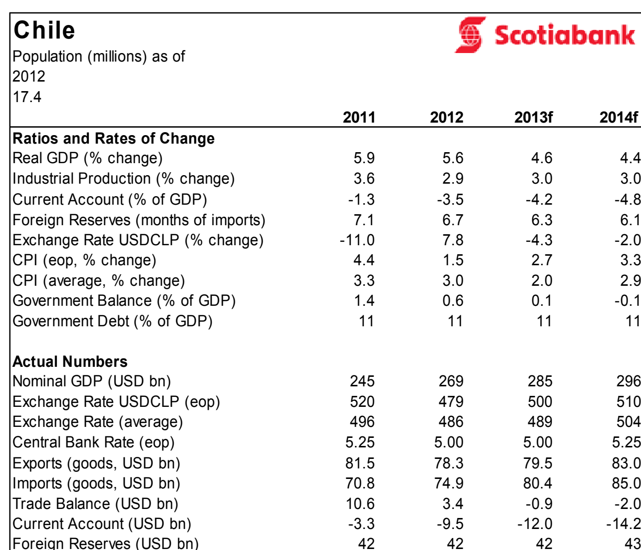
	2011	2012	2013f	2014f
Ratios and Rates of Change				
Real GDP (% change)	4.2	5.6	0.8	1.5
Current Account (% of GDP)	5.9	2.5	3.4	3.2
Foreign Reserves (months of imports)	7.7	6.1	7.1	7.1
Exchange Rate USDVEF (% change)	0.0	0.0	-32	-20
CPI (eop, % change)	27.6	20.1	28.0	25.0
CPI (average, % change)	26.1	21.1	30.0	28.0
Government Balance (% of GDP)	-12.2	-18.9	-13.2	-10.3
Government Debt (% of GDP)	40	57	62	63
Actual Numbers				
Nominal GDP (USD bn)	410	433	437	443
Exchange Rate USDVEF (eop)	4.29	4.29	6.30	7.90
Exchange Rate (average)	4.29	4.29	6.30	7.90
Exports (goods, USD bn)	92.8	97.3	99.3	101.3
Imports (goods, USD bn)	46.8	59.3	54.0	56.0
Trade Balance (USD bn)	46.0	38.0	45.3	45.3
Current Account (USD bn)	24.4	11.0	14.8	14.4
Foreign Reserves (USD bn)	30	30	32	33



Peru

Population (millions) as of 2012: 30.5

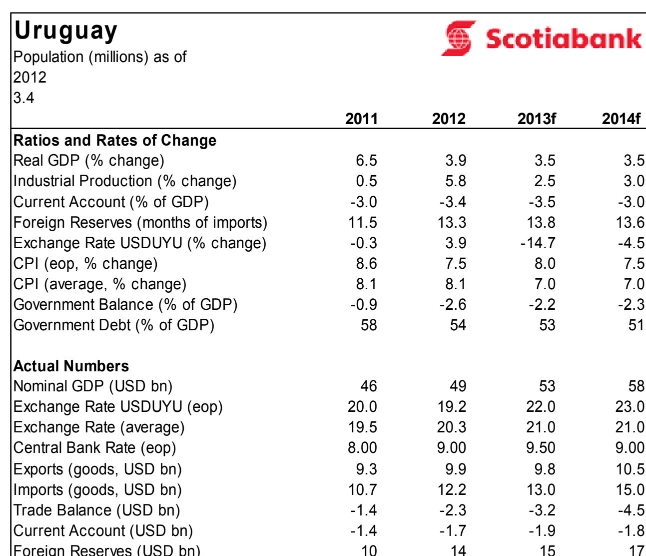
	2011	2012	2013f	2014f
Ratios and Rates of Change				
Real GDP (% change)	7.0	6.3	5.7	5.7
Current Account (% of GDP)	-1.9	-3.6	-4.2	-4.7
Foreign Reserves (months of imports)	15.8	18.7	18.8	18.5
Exchange Rate USDPEN (% change)	3.9	5.4	-5.4	1.5
CPI (eop, % change)	4.7	2.6	2.9	3.0
CPI (average, % change)	3.4	3.7	2.1	3.0
Government Balance (% of GDP)	1.8	2.0	0.8	0.5
Government Debt (% of GDP)	22	20	17	17
Actual Numbers				
Nominal GDP (USD bn)	176	201	214	232
Exchange Rate USDPEN (eop)	2.70	2.55	2.69	2.65
Exchange Rate (average)	2.76	2.62	2.65	2.66
Central Bank Rate (eop)	4.25	4.25	4.25	5.00
Exports (goods, USD bn)	46.3	45.6	45.9	49.3
Imports (goods, USD bn)	37.0	41.1	45.4	48.6
Trade Balance (USD bn)	9.3	4.5	0.4	0.7
Current Account (USD bn)	-3.3	-7.1	-9.0	-11.0
Foreign Reserves (USD bn)	49	64	71	75



Chile

Population (millions) as of 2012: 17.4

	2011	2012	2013f	2014f
Ratios and Rates of Change				
Real GDP (% change)	5.9	5.6	4.6	4.4
Industrial Production (% change)	3.6	2.9	3.0	3.0
Current Account (% of GDP)	-1.3	-3.5	-4.2	-4.8
Foreign Reserves (months of imports)	7.1	6.7	6.3	6.1
Exchange Rate USDCLP (% change)	-11.0	7.8	-4.3	-2.0
CPI (eop, % change)	4.4	1.5	2.7	3.3
CPI (average, % change)	3.3	3.0	2.0	2.9
Government Balance (% of GDP)	1.4	0.6	0.1	-0.1
Government Debt (% of GDP)	11	11	11	11
Actual Numbers				
Nominal GDP (USD bn)	245	269	285	296
Exchange Rate USDCLP (eop)	520	479	500	510
Exchange Rate (average)	496	486	489	504
Central Bank Rate (eop)	5.25	5.00	5.00	5.25
Exports (goods, USD bn)	81.5	78.3	79.5	83.0
Imports (goods, USD bn)	70.8	74.9	80.4	85.0
Trade Balance (USD bn)	10.6	3.4	-0.9	-2.0
Current Account (USD bn)	-3.3	-9.5	-12.0	-14.2
Foreign Reserves (USD bn)	42	42	42	43



Uruguay

Population (millions) as of 2012: 3.4

	2011	2012	2013f	2014f
Ratios and Rates of Change				
Real GDP (% change)	6.5	3.9	3.5	3.5
Industrial Production (% change)	0.5	5.8	2.5	3.0
Current Account (% of GDP)	-3.0	-3.4	-3.5	-3.0
Foreign Reserves (months of imports)	11.5	13.3	13.8	13.6
Exchange Rate USDUYU (% change)	-0.3	3.9	-14.7	-4.5
CPI (eop, % change)	8.6	7.5	8.0	7.5
CPI (average, % change)	8.1	8.1	7.0	7.0
Government Balance (% of GDP)	-0.9	-2.6	-2.2	-2.3
Government Debt (% of GDP)	58	54	53	51
Actual Numbers				
Nominal GDP (USD bn)	46	49	53	58
Exchange Rate USDUYU (eop)	20.0	19.2	22.0	23.0
Exchange Rate (average)	19.5	20.3	21.0	21.0
Central Bank Rate (eop)	8.00	9.00	9.50	9.00
Exports (goods, USD bn)	9.3	9.9	9.8	10.5
Imports (goods, USD bn)	10.7	12.2	13.0	15.0
Trade Balance (USD bn)	-1.4	-2.3	-3.2	-4.5
Current Account (USD bn)	-1.4	-1.7	-1.9	-1.8
Foreign Reserves (USD bn)	10	14	15	17

Source: National authorities, IMF, OECD, Bloomberg and Scotiabank Economics.

Global Sovereign Credit Ratings

Foreign Currency Long Term Ratings – September 2013

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 Germany (-) Luxembourg (-) Netherlands (-) Norway Sweden Switzerland	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 Germany Luxembourg Netherlands (-) Norway Sweden Switzerland	Australia Singapore	
Aa1		France (-) United Kingdom	Hong Kong		AA+	United States	Austria France (-)			AA+		France United Kingdom	Hong Kong	
Aa2				Kuwait Qatar United Arab Emirates	AA		Belgium (-)	New Zealand	Kuwait Qatar	AA		Belgium	New Zealand	Kuwait
Aa3	Bermuda (-) Cayman Islands Chile	Belgium (-)	China Japan Macau South Korea Taiwan	Saudi Arabia	AA-	Bermuda (-) Chile	Czech Republic	China Japan (-) Taiwan	Saudi Arabia (+)	AA-	Bermuda (-)		South Korea	Saudi Arabia (+)
A1		Czech Republic		Israel Oman	A+			South Korea	Israel	A+	Chile	Czech Republic Malta Slovakia	China Japan (-) Taiwan	
A2		Poland Slovakia (-)			A	Trinidad and Tobago	Slovakia		Oman	A				Israel
A3		Malta (-)	Malaysia		A-		Poland Slovenia	Malaysia		A-		Poland	Malaysia (-)	
Baa1	Bahamas (-) Mexico Trinidad and Tobago	Russia	Thailand	Bahrain *- South Africa (-)	BBB+	Aruba Peru	Ireland (+) Malta	Kazakhstan Thailand		BBB+	Mexico	Ireland Italy (-) Slovenia (-)	Kazakhstan Thailand	
Baa2	Brazil (+) Panama Peru (+)	Italy (-)	Kazakhstan (+)		BBB	Bahamas (-) Brazil (-) Colombia Mexico (+) Panama	Italy (-) Russia		Bahrain South Africa (-)	BBB	Aruba (-) Brazil Panama Peru	Iceland Russia Spain (-)		Bahrain South Africa
Baa3	Colombia (+) Costa Rica Uruguay (+)	Iceland Romania (-) Spain (-) Turkey	India Indonesia		BBB-	Uruguay	Iceland (-) Spain (-)	India (-) Philippines	Morocco (-)	BBB-	Colombia (+) Uruguay	Croatia (-) Romania Turkey	India Indonesia Philippines	Morocco

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	Barbados (-) Guatemala	Croatia Hungary (-) Ireland (-) Slovenia (-)	Philippines *+	Morocco (-)	BB+	Barbados (-)	Croatia (-) Romania Turkey	Indonesia		BB+	Costa Rica Guatemala (-)	Hungary		Tunisia (-)
Ba2				Tunisia (-)	BB	Costa Rica Guatemala	Hungary (-) Portugal (-)			BB				
Ba3	El Salvador	Portugal (-)	Bangladesh		BB-	El Salvador (-)		Bangladesh Mongolia (-) Vietnam	Jordan (-)	BB-	El Salvador (-)		Sri Lanka	
B1	Dominican Republic		Mongolia Papua New Guinea Sri Lanka	Jordan Lebanon (-)	B+	Dominican Republic		Papua New Guinea Sri Lanka		B+	Venezuela (-)		Mongolia Vietnam	
B2	St. Vincent and the Grenadines Venezuela (-)		Cambodia Vietnam		B	Ecuador (+) Venezuela (-)		Cambodia	Lebanon (-) Tunisia (-)	B	Dominican Republic			Lebanon
B3	Argentina (-) Nicaragua				B-	Belize	Greece	Pakistan		B-	Ecuador (+)	Cyprus (-) Greece		Egypt (-)
Caa1	Cuba Ecuador		Pakistan (-)	Egypt (-)	CCC+	Argentina (-) Jamaica	Cyprus		Egypt	CCC+				
Caa2	Belize				CCC					CCC	Jamaica			
Caa3	Jamaica	Cyprus (-)			CCC-					CCC-				
-					CC					CC	Argentina (-)			
-					C					C				
Ca					SD	Grenada				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 September 2013

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