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We expect real GDP in emerging markets to grow 5.0% this year, and sustain a similar pace in 2019. That should be supported by strong demand growth in developed economies. Latin American growth still looks set to strengthen this year, offsetting some moderation in Asia and EEMEA. Against a backdrop of strong, steady growth, political risks are likely to be a key focus of investors in coming quarters. Aside from the possibility of escalating trade tensions from the US, elections in several Latin American economies - most notably Mexico - pose the risk of less market friendly administrations.

Table of Contents

All the estimates and projections in this publication are based on information available through 12 March 2018.

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Latin America

Latin America: Growth still to be expected

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We project regional real GDP growth of 2.3% in 2018, up from an estimated 1.4% last year. Most of the acceleration will come from Brazil, given its weight in the regional aggregate. We project a better economic performance in 2018 compared to the previous year in six out of the eight countries we cover (Argentina and Ecuador are the exceptions). We continue to expect the region to benefit from higher global trade flows, higher commodity prices and notable global risk appetite. However, we reiterate that the presidential elections in Colombia, Mexico and Brazil pose downside risks to growth given the possibilities of new administrations not viewed positively by market participants.

Excluding Venezuela, we project Latam regional annual inflation to close 2018 at 5.7%, down from 6.7% last year. Venezuela's descent into hyperinflation skews the data. We also note that inflation has been trending downwards in Argentina, but at a slower pace than President Mauricio Macri's administration originally anticipated. Inflation should be largely contained in the other six countries we cover, ending this year between 1.5% and 4.1%.

Figure 1: Latin America – Credit Suisse 2017-18 real GDP growth and inflation forecasts

	2017 real GDP growth		2018 real GDP growth		2017 inflation*		2018 inflation*	
	Dec-17	Mar-18	Dec-17	Mar-18	Dec-17	Mar-18	Dec-17	Mar-18
Argentina	2.9	2.8	3.2	2.7	24.2	24.8	17.5	19.5
Brazil	1.0	1.0	2.5	2.5	2.8	2.9	4.5	3.9
Chile	1.6	1.6	3.0	2.9	1.9	2.3	3.0	2.8
Colombia	1.6	1.8	2.5	2.5	4.1	4.1	3.5	3.3
Ecuador	2.2	2.7	1.6	2.2	-0.7	-0.2	1.2	1.5
Mexico	1.9	2.0	2.3	2.3	6.5	6.8	4.2	4.1
Peru	2.7	2.5	4.2	3.9	1.5	1.4	2.3	2.3
Venezuela	-12.0	-12.5	-5.5	-10.0	1,598.2	2,578.6	3,610.1	16,252.2
Latin America	**1.4**	**1.4**	**2.5**	**2.3**	**6.4**	**6.7**	**6.0**	**5.7**

IMF PPP weights are used to compute regional aggregate figures.

*Regional estimate excludes Venezuela.

Source: National Statistical Offices, Credit Suisse

In regional terms, the external imbalance should remain modest in 2018, while the fiscal deficit remains high as some governments struggle to curb spending. We forecast a regional current account deficit of 2.3% of GDP compared to an estimated deficit of 1.6% of GDP in 2017. Argentina will likely post the largest current account deficit at 5.9% of GDP, due to stronger internal demand. Meanwhile, we project the regional fiscal deficit to stand at 4.9% of GDP in 2018, down from a 5.3% of GDP deficit last year. The size of the fiscal deficit stands out in Argentina, Brazil, Ecuador and Venezuela due to enduring structural constraints and complicated political backdrops to enact reforms. The fiscal deficits of the other four countries under coverage (Chile, Colombia, Mexico and Peru) are much more contained at an average of 2.4% of GDP.

Public sector debt levels continue to vary greatly by country. Government debt remains modest in Peru and Chile, despite the recent fiscal slippage; at the other extreme, Venezuela and Brazil continue to post the highest debt ratios in the region.

Figure 2: Latin America – Credit Suisse 2018 current account, fiscal balance, government debt and foreign debt forecasts

% of GDP

	2018 current account		2018 fiscal balance		2018 government debt		2018 foreign debt	
	Dec-17	**Mar-18**	**Dec-17**	**Mar-18**	**Dec-17**	**Mar-18**	**Dec-17**	**Mar-18**
Argentina	-4.6	-5.9	-6.0	-6.0	59.5	61.5	33.8	38.1
Brazil	-1.8	-1.8	-7.2	-7.0	74.3	74.7	26.9	26.3
Chile	-1.9	-2.3	-2.5	-2.5	25.3	25.4	60.1	62.5
Colombia	-3.2	-3.3	-2.8	-2.8	52.2	52.4	39.4	37.9
Ecuador	-0.5	-0.5	-5.7	-4.7	55.6	54.8	40.5	42.6
Mexico	-1.7	-1.3	-2.0	-1.5	47.0	47.0	27.6	28.1
Peru	-2.1	-1.1	-2.9	-2.9	27.3	26.3	34.4	35.1
Venezuela	3.4	-2.4	-15.5	-13.0	101.8	102.1	171.5	177.9
Latin America	**-2.2**	**-2.3**	**-5.1**	**-4.9**	**59.4**	**59.8**	**33.8**	**34.3**

IMF PPP weights are used to compute regional aggregate figures.

Source: National Statistical Offices, Credit Suisse

At the country level, in Argentina our list of concerns about the near-term outlook has grown longer. Support for President Mauricio Macri's administration has softened since it used a substantial amount of political capital to secure approval of several noteworthy reforms late last year. Growth prospects for 2018 have weakened, largely due to the impact of drought on this year's agricultural harvest; we now project 2.7% real GDP growth this year versus 3.2% previously. Meanwhile, the central bank continues to send mixed signals as it attempts to use monetary and exchange rate policy tools to balance the government's growth objectives with revised, yet still ambitious, inflation targets. We currently expect 19.5% yoy inflation in December compared with the 15% objective. There is also renewed apprehension among investors regarding the viability of the government's gradual fiscal consolidation strategy and its heavy reliance on debt issuance in the context of rising international interest rates.

In Brazil, we project real GDP growth of 2.5% in 2018 and 2.3% in 2019. This year we expect acceleration in household consumption and expansion of investment, mainly due to the monetary easing cycle that began in late 2016. We project annual IPCA inflation to rise to 3.9% in 2018 from 2.9% in 2017, partly due to the end of last year's positive food supply shock. However, high inflation inertia, low capacity utilization and anchored inflation expectations suggest that it will remain close to the lower limit of the inflation target range in 1H18. This environment will likely allow the central bank to cut the Selic basic interest rate by an additional 25bps, to 6.50%, at its March 2018 monetary policy meeting. After that potential cut, we expect the policy rate to remain unchanged throughout the rest of 2018, before the central bank begins a tightening cycle in 1Q19, when the closing of the output gap and rising inflation will lead the central bank to normalize the Selic interest rate to 9.0%. The fiscal imbalance remains Brazil's main vulnerability in 2018 and 2019. We expect the consolidated public sector primary deficit to increase to -1.8% of GDP in 2018 and 2019 from -1.7% of GDP in 2017, resulting in higher gross debt. Brazil's improved outlook is at risk given the October presidential elections. Uncertainty around this event remains high, especially with respect to who will be the PT candidate, if former President Lula (who currently leads in the polls) is not allowed to seek the election, and whether President Michel Temer's MDB party will have its own candidate.

In Chile, we remain upbeat regarding the economic outlook for 2018. We think that the combination of the change in government, stronger global growth and higher copper prices will lead to the strongest real GDP growth rate since 2013. In our central scenario, annual consumer price inflation will converge towards the 3.0% target by year-end, which will prompt the central bank to start removing some of the monetary stimulus in late 2018. We also anticipate a modest widening in the external imbalances due to stronger growth, but at the same time a small reduction in the fiscal deficit. We do not foresee changes in Chile's sovereign debt ratings in 2018.

In Colombia, a new President will be elected on 27 May. Available polls continue to show inconsistent results, which makes it very difficult to determine the electoral outcome at this stage. We think investors will pay close attention to this election and could become uneasy if there is an increase in the probability of a winning candidate who represents a departure from the current macroeconomic status quo. Regardless of who wins the election, though, we think that challenging fiscal times await Colombia, given the combination of a strong imposed fiscal consolidation path with the reality of low economic growth.

In Ecuador, the current macroeconomic conundrum looks as if it was defined by the powerful forces of inertia and gravity. Inertia appears to be reigning over debt dynamics, as the current public debt service profile and fiscal trajectory suggest that Ecuador's debt ratios will continue deteriorating over the medium term. Gravity, on the other hand, continues to torment the balance of payments, where international reserves maintain an underlying depletion trend given aggregate spending and liquidity levels that remain inconsistent with the income shock the economy suffered when oil prices fell. Both dynamics are highly related, as the only net source of dollars into the economy continues to be external debt, according to central bank data, which finances both the balance of payments and the fiscal sector. Absent reforms, these forces are unlikely to change, and may eventually force a sharp and potentially disorderly economic adjustment.

In Mexico, the second quarter of 2018 promises to be an intense one for Mexico, with the ongoing NAFTA negotiations and the start of the presidential campaigns. Regarding NAFTA we have become more optimistic about the prospects of a deal materializing in the next couple of quarters. Regarding the elections we think that the parallels between today's race and the 2006 presidential campaign, in which AMLO held a clear lead over Calderón, may not be too valid given the ongoing fight between the PRI and the PAN, as well as the changes in voter profiles and electoral laws. At present, AMLO is the favorite to win as per all polls available. Finally, on the macro side we remain constructive on the economy, as we are projecting a slight acceleration in real GDP growth from 2.0% last year to 2.3% in 2018. We are also optimistic about the current disinflation trends and project annual inflation at just over 4.0% by year-end, versus 6.8% in December 2017. On the monetary policy front we are penciling in one more increase of 25bps in the overnight rate to 7.75% by June, on likely financial market jitters ahead of the elections; for the second half of the year the path for the overnight rate will likely be very dependent on the exchange rate and the potential pass-through to inflation.

In Peru, analysts are concerned that the ongoing political noise will hurt economic performance. In fact, there is a second impeachment process in motion against President Kuczynski, which again threatens political stability given the latent possibility that a prospective political transition could result in early elections. We recognize that political uncertainty will likely affect the economy, but continue to expect stronger growth in 2018 thanks to the joint impact of fiscal stimulus and private investment. Higher copper prices could be a source of upside surprise, especially in the fiscal and external sectors.

Finally, in Venezuela, the 20 May presidential election and associated fallout will likely be the main focus during the second quarter. A victory by President Nicolas Maduro, under non-competitive circumstances, implies, in our view, that the policy framework will not improve in the near-term, that sanctions on Venezuela could be ratcheted up and that the humanitarian crisis could worsen. We expect another dismal year on the macroeconomic front, with GDP contracting an additional 10% and annual inflation over 16,000% at year-end, even in the event of a surprise opposition victory, since the next presidential term is not set to begin until January 2019. We also think that the default situation is unlikely to be resolved in the absence of political regime change accompanied by improvements in democratic practices, easing of sanctions and a more coherent policy mix.

Argentina: Losing some luster

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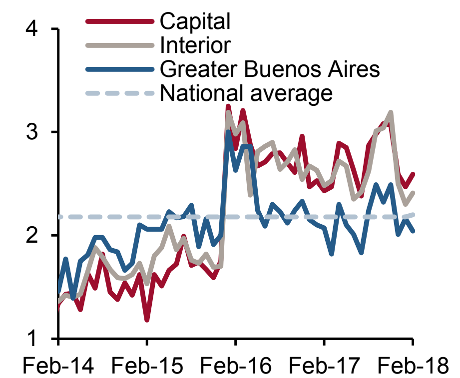
- **Argentina's near-term outlook has become more challenging.** We have not turned outright bearish, but our list of concerns has grown longer. President Mauricio Macri's administration burned through a substantial amount of political capital in order to secure approval of several important reforms late last year. Growth prospects for 2018 have weakened, largely driven by the impact of drought conditions on this year's agricultural harvest, and the second quarter could be particularly affected. Meanwhile, the central bank continues sending mixed signals as it attempts to use monetary and exchange rate policy tools to balance the government's growth objectives with revised, yet still ambitious inflation targets. There is also renewed apprehension about the viability of the government's gradual fiscal consolidation strategy and its heavy reliance on debt issuance in the context of rising international interest rates.
- **A less favorable political backdrop may condition elements of the Macri administration's legislative agenda in the coming months.** Di Tella University's survey suggests that confidence in the government has not recovered from the social and political fallout associated with the changes to the formula for adjusting pension payments approved in December, among other factors. We would not expect this to inhibit passage of the Capital Markets Law, which has already cleared the Lower House. The more controversial Labor Reform is a different story, though. Local press reports suggest that its scope has been scaled back and that it could be split into three separate initiatives. The fact that these bills may be discussed in parallel with contentious annual wage negotiations could further complicate matters on both fronts.
- **The ruling Cambiemos coalition remains the strongest political force in the country, though.** It must negotiate with opposition governors, legislators and union leaders, but it benefits from divisions within those groups. It also has larger minorities in both houses of Congress since last November's midterm legislative elections and some pragmatic opposition leaders broadly support its agenda. Among those who do not, former President Cristina Fernandez de Kirchner remains sufficiently influential to prevent the Peronist party's reunification in the near-term, yet not enough to alter the direction of policy. Macri or another Cambiemos candidate, such as Buenos Aires I cagovernor Maria Eugenia Vidal, still stands a good chance of winning next year's presidential election should these conditions endure and the economy perform.
- **We have lowered our 2018 real GDP growth projection to 2.7% from 3.2%.** This would compare with an estimated 2.8% expansion in 2017. The adverse effect of a severe drought on the agricultural sector, an important contributor to Argentina's economic recovery, is the main impetus for the revision. The latest estimates from the Buenos Aires Grains exchange point to 27% yoy lower soy output from the 2017/18 harvest, potentially marking the lowest yield since 2011/12, along with 13% yoy less corn production. Boosting investment remains critical to sustaining growth from the demand side. Foreign direct investment has yet to pick up meaningfully while high domestic interest rates could keep diverting funds from the real sector. The government aims to help alter this dynamic with plans to concession $26bn worth of infrastructure projects under a public-private partnership (PPP) framework this year.
- **Our year-end 2018 inflation forecast has also deteriorated.** We currently expect annual inflation of 19.5% in December, up from 17.5% when we wrote our last *Emerging Markets Quarterly*. Since then, the authorities revised both the 2018 and 2019 inflation targets up by 5 percentage points to 15% and 10%, respectively. Year-end inflation expectations have risen to nearly 20%, complicating efforts to anchor wage negotiations. Additionally, the peso has weakened continuously since December. These dynamics have taken a toll on core inflation, whose three-month moving average rate of change troughed at 1.4% in November, but then increased to 1.8% in February. This measure, which the central bank monitors, suggests that inflationary inertia remains difficult to break.

- **Multiple objectives complicate the central bank's credibility challenges.** Market participants have struggled to make sense of the economic authorities' communications and actions since the inflation targets were increased in late December. We interpreted that decision to signal that they were prioritizing supporting economic activity over reducing inflation, and that they were willing to tolerate a weaker peso in the process. However, the central bank has adopted a more hawkish tone recently, while also noting the impact of peso depreciation on inflation and intervening in the spot market. Higher inflation expectations and core inflation could potentially justify raising the monetary policy interest rate, in our view. However, we think that the central bank is more likely to leave the policy rate unchanged at 27.25% in the near term before gradually lowering it to 23.0% by year-end 2018.
- **Agricultural export proceeds may still help ease pressure on the peso during the second quarter despite the smaller harvest.** Higher soft commodity prices, as well as sales of grains in storage, could help mitigate the impact of the drought on foreign exchange inflows. The real effective exchange rate (REER) is now about 7% stronger than its 10-year average level after weakening sharply since early December. This is a welcome development, although the authorities have downplayed the risks associated with the widening of the current account deficit. They counter that external imbalances are common during an economic recovery and that import growth has been partly driven by investment. We believe that these trends must be monitored closely, though, as should whether FDI eventually covers a larger share of the external shortfall.
- **The magnitude of both the primary and the overall fiscal deficits will likely remain a key concern.** We continue expecting the federal government to comply with its 3.2% of GDP primary fiscal deficit target for this year. This would represent consolidation from 3.9% of GDP in 2017, an outperformance relative to the 4.2% of GDP objective. Last year's execution of expenditure budgeted for 2018, as well as subsidy cuts, should help keep things on track despite the softer economic growth outlook. The Macri administration's gradual approach may still be justified in the domestic context, as evidenced by the uproar around the pension formula changes in late 2017. However, analysts and investors rightly question its sustainability, particularly in light of still high inflation, rising global interest rates and a growing interest burden.
- **The government has already issued more than half of the debt required to meet its 2018 funding needs, according to our estimates.** It sold $9.0bn worth of dollar-denominated bonds in January, followed by the equivalent of $6.5bn of peso-denominated bonds last month. Finance Minister Luis Caputo recently told investors that the government will not place any more bonds abroad this year, but we think that an additional $3.0bn could materialize during the second half of 2018 if market conditions permit. We have also penciled in another $8.5bn of local debt sales. Other potential financing sources include multilateral borrowing, repos from foreign banks, treasury notes and intra-public sector roll-over. Transfers from the central bank are capped at 1.0% of our 2018 GDP projection, down from 1.3% of GDP in 2017.
- **The market appears to have come around to our view that Argentina's progress up the sovereign ratings scale will be rather slow.** We believe that upgrades are possible over the next 12 to 24 months, particularly from Fitch and Moody's, which rate Argentina at 'B' and 'B2,' respectively; S&P currently places the sovereign one notch higher at 'B+.' These ratings agencies have indicated that policy continuity, progress on reforms, sustained economic growth, lower inflation and fiscal consolidation could justify upgrades. Our central scenario still assumes that all of these elements materialize, albeit perhaps less rapidly than some investors once expected. Speaking of potential upgrades, MSCI will announce in June whether Argentina will be reclassified to Emerging Markets from Frontier for the purposes of its equity indices. We were surprised when this did not occur last year and think the case is stronger now.

Figure 3: Confidence in the government

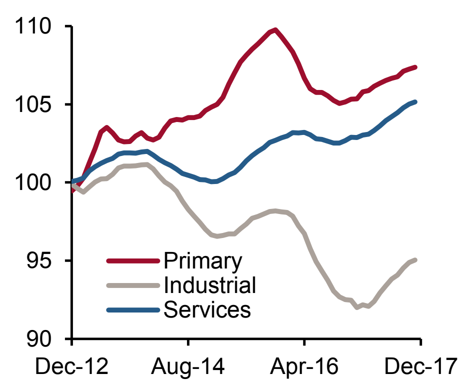
Indices range from 0 to 5



Source: UTDT, Credit Suisse

Figure 4: Economic activity by sector

Seasonally adjusted, index levels, Dec 2012 = 100



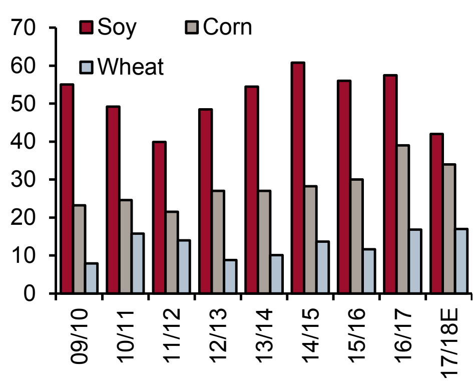
Source: INDEC, Credit Suisse

Confidence in the government has deteriorated since last October's midterm elections despite broad-based economic expansion.

The official monthly economic activity index suggests that all of the main sectors continued growing at year-end.

Figure 5: Agricultural production

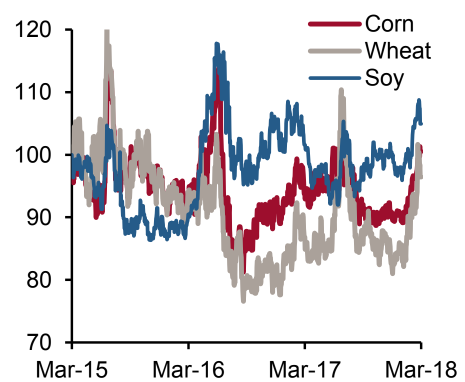
Millions of metric tons



Source: Buenos Aires Grains Exchange, Credit Suisse

Figure 6: Agricultural prices

Indices, 12 Mar 2015 = 100



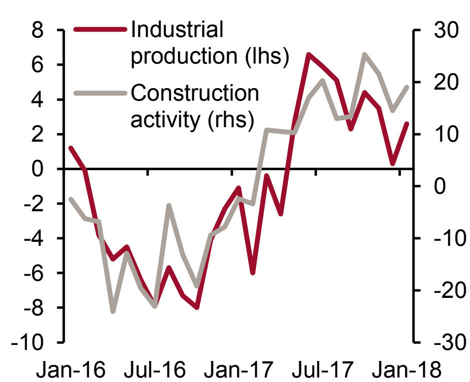
Source: The BLOOMBERG PROFESSIONAL™ service, Credit Suisse

The drought has taken a major toll on expected agricultural yields, and on soy in particular.

This is a blow to the outlook for growth; somewhat higher prices and sales of grains in storage may help mitigate the impact on export-revenues.

Figure 7: Industrial production and construction activity

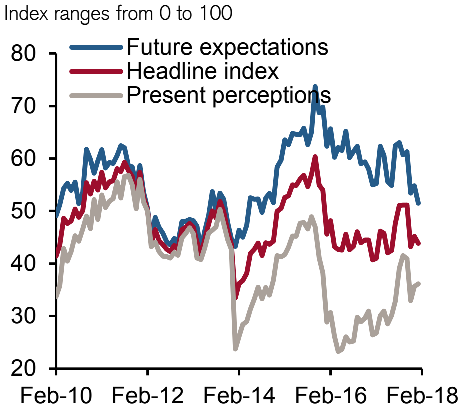
% yoy



Source: INDEC, Credit Suisse

Figure 8: Consumer confidence

Index ranges from 0 to 100



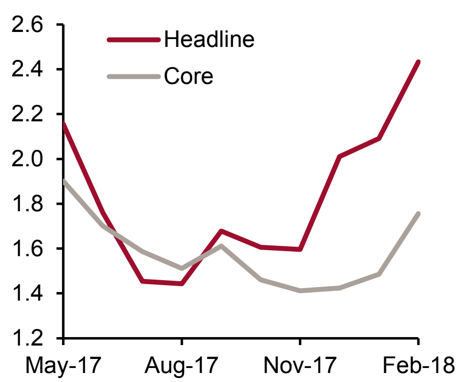
Source: UTDT, Credit Suisse

The strong expansion in construction activity has been a key driver of the recovery in industrial production and employment levels.

Consumer confidence has also worsened in recent months and now sits below the average since President Macri took office in December 2015 as well as the average during former President Cristina Fernandez de Kirchner's second term.

Figure 9: Consumer price inflation

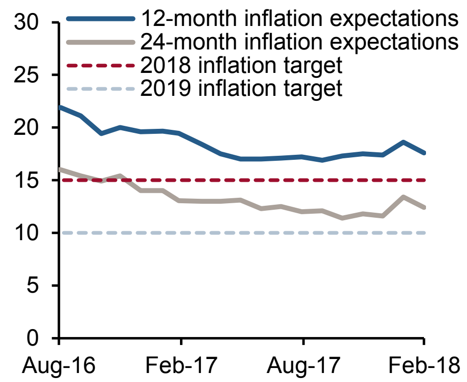
% mom, 3 month moving average, national CPI



Source: Central bank, Credit Suisse

Figure 10: Median inflation expectations and inflation targets

%



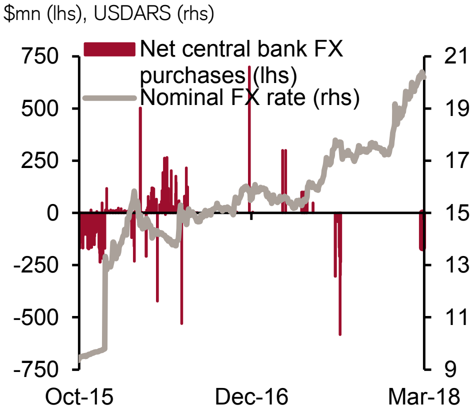
Source: Central bank, Credit Suisse

Meaningful regulated price increases will continue to be implemented in 2018, while reducing core inflation remains an important challenge.

The central bank faces a large credibility gap as indicated by inflation expectations, possibly constraining the pace of monetary easing.

Figure 11: Nominal exchange rate and net foreign exchange purchases

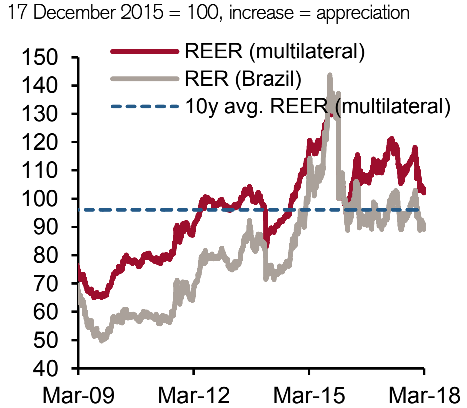
$mn (lhs), USDARS (rhs)



Source: Central bank, Credit Suisse

Figure 12: Real effective exchange rate

17 December 2015 = 100, increase = appreciation



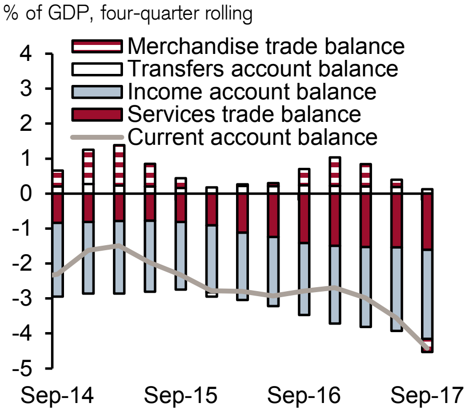
Source: Central bank, Credit Suisse

The central bank recently began intervening in the spot market after tolerating steady nominal exchange rate depreciation for some time.

The multilateral real effective exchange rate has moved much closer to its long-term average.

Figure 13: Current account balance

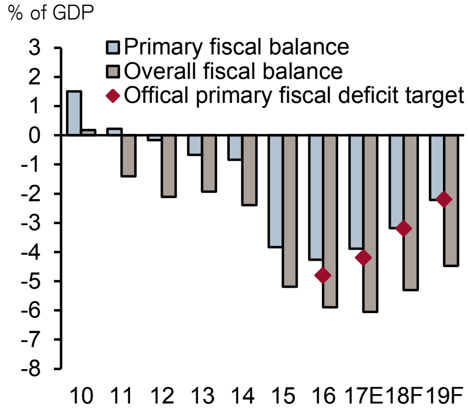
% of GDP, four-quarter rolling



Source: INDEC bank, Credit Suisse

Figure 14: Non-financial public sector fiscal balance

% of GDP



Source: INDEC, Treasury Ministry, Credit Suisse

We will remain watchful of widening external imbalances, and whether foreign direct investment will eventually cover a larger share of the shortfall.

Concerns about the Macri administration's gradual fiscal strategy have also intensified in light of a growing interest burden and external risks, albeit despite outperformance of primary deficit targets so far.

Argentina: Selected economic indicators

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
National accounts, population and unemployment									
Real GDP growth (%)	6.0	-1.0	2.4	-2.5	2.6	-2.2	2.8	2.7	3.0
Growth in real private consumption (%)	9.4	1.1	3.6	-4.4	3.5	-1.4	3.4	4.0	4.0
Growth in real fixed investment (%)	17.4	-7.1	2.3	-6.8	3.8	-5.1	9.8	12.5	11.5
Fixed investment (% of GDP)	21.6	20.3	20.3	19.4	19.6	19.0	20.4	22.3	24.1
Nominal GDP ($bn)	527.6	579.6	611.2	562.6	633.0	541.3	626.3	637.0	688.0
Population (mn)	41.3	41.7	42.2	42.7	43.1	43.6	44.1	44.5	45.0
GDP per capita ($)	12,787	13,888	14,482	13,186	14,677	12,418	14,217	14,307	15,290
Unemployment (% of labor force, end-year)	6.7	6.9	6.4	6.9	7.5	7.6	7.5	7.2	7.0
Prices, interest rates and exchange rates									
CPI inflation (%, December to December)	9.5	10.8	10.9	23.9	20.6	36.2	24.8	19.5	14.4
CPI inflation (%, average)	9.8	10.0	10.6	29.9	16.3	36.7	25.5	23.1	16.1
Exchange rate (ARS per USD, end-year)	4.30	4.92	6.52	8.47	12.93	15.88	18.62	22.50	25.10
Exchange rate (ARS per USD, average)	4.13	4.55	5.48	8.14	9.25	14.87	16.61	20.97	23.72
REER (% change, December to December) (1)	2.3	-5.5	-13.6	-3.4	-21.1	9.6	4.3	-3.4	0.3
Nominal wage growth (% year-on-year change, average) (2)	27.7	26.9	25.0	32.7	30.2	32.9	27.5	20.0	15.0
Central bank's 7 day repo rate (%, end-year) (3)	11.5	11.5	11.5	17.0	33.0	24.8	28.8	23.0	18.0
Fiscal data									
General government fiscal balance (% of GDP)	-2.2	-2.6	-2.2	-2.5	-6.1	-6.7	-6.7	-6.0	-5.1
General government primary fiscal balance (% of GDP)	-0.3	-0.5	-0.7	-0.7	-4.5	-4.8	-4.2	-3.4	-2.3
General government expenditure (% of GDP)	35.4	37.4	38.3	39.7	42.1	42.4	41.6	40.6	40.0
Federal government fiscal balance (% of GDP)	-1.4	-2.1	-1.9	-2.4	-5.2	-5.9	-6.0	-5.3	-4.5
Federal government primary fiscal balance (% of GDP)	0.2	-0.2	-0.7	-0.8	-3.8	-4.3	-3.9	-3.2	-2.2
Gross general government debt (% of GDP, end-year) (4)	40.5	40.3	38.7	45.6	43.4	58.6	60.0	61.5	61.9
Net general government debt (% of GDP, end-year) (4) (5)	24.1	23.9	22.3	26.2	25.3	37.4	38.5	39.8	41.5
Money supply and credit									
Broad money supply (M2, % of GDP)	14.1	16.5	17.0	17.0	17.6	15.2	15.4	15.0	14.8
Broad money supply (M2, % year-on-year change)	28.9	40.1	27.1	29.8	37.0	19.1	31.0	25.0	20.0
Domestic credit (% of GDP)	20.1	21.4	22.0	23.1	23.5	23.0	25.4	26.7	27.4
Domestic credit (% year-on-year)	27.5	27.4	26.7	36.4	34.6	34.6	42.6	35.0	25.0
Domestic credit to private sector (% of GDP)	13.2	14.5	15.5	14.3	14.7	14.0	16.4	17.8	19.0
Domestic credit to private sector (% year-on-year)	44.8	31.5	31.2	20.2	35.6	31.0	51.3	40.0	30.0
Balance of payments									
Exports (goods and non-factor services, % of GDP)	18.5	16.3	14.7	14.5	11.1	13.1	11.6	12.0	11.7
Imports (goods and non-factor services, % of GDP)	16.8	14.4	14.8	14.4	12.1	13.8	14.2	15.8	15.6
Exports (goods and non-factor services, % change in $ value)	20.3	-3.4	-5.0	-8.7	-14.4	1.0	2.4	5.8	5.4
Imports (goods and non-factor services, % change in $ value)	28.6	-5.7	8.3	-10.4	-5.3	-2.8	19.5	12.8	6.7
Net balance of factor income ($bn)	-15.1	-13.8	-13.2	-11.6	-12.1	-12.1	-15.4	-15.5	-15.7
Current account balance ($bn)	-5.3	-2.1	-13.1	-9.2	-17.6	-14.7	-31.0	-37.3	-40.0
Current account (% of GDP)	-1.0	-0.4	-2.1	-1.6	-2.8	-2.7	-4.9	-5.9	-5.8
Net FDI ($bn)	9.4	14.3	8.9	3.1	10.8	4.9	7.7	12.3	16.1
Scheduled debt amortization ($bn)	16.1	13.1	11.8	9.3	16.0	23.3	26.0	24.6	24.5
Foreign debt and reserves									
Foreign debt ($bn, end-year)	156.3	156.5	155.5	158.7	167.4	188.2	218.5	243.0	262.5
Public ($bn)	92.6	91.9	91.4	98.2	101.7	127.5	154.1	176.3	192.7
Private ($bn)	63.7	64.6	64.0	60.5	65.8	60.7	64.4	66.7	69.7
Foreign debt (% of GDP, end-year)	29.6	27.0	25.4	28.2	26.4	34.8	34.9	38.1	38.2
Foreign debt (% of exports of goods and services)	160.1	165.9	173.5	194.0	239.1	266.1	301.8	317.3	325.2
Central bank gross FX reserves ($bn)	46.4	43.3	30.6	31.4	25.6	38.8	55.1	67.3	76.0
Central bank net FX reserves ($bn) (6)	35.3	30.5	17.7	17.8	4.3	11.3	30.7	45.9	57.6
Central bank gross non-gold FX reserves ($bn)	43.2	40.0	28.2	29.1	23.5	36.7	52.7	64.8	73.4

(1) Increase indicates appreciation. (2) Weighted average of wages in the formal and informal private sector and the public sector. (3) Central bank's 7-day repo rate until 2014, 35-day Lebac rate for 2015 and 2016, 7-day interbank rate starting in 2017. (4) Includes compensatory interest and residual value of GDP warrants starting in 2015. (5) Net of intra-public sector debt holdings. (6) Net of borrowing from the BIS and other bilateral lenders and reserve requirements on dollar deposits

Source: INDEC, Central Bank, Ministry of Economy, Credit Suisse

Brazil: Short-term economic results better than expected

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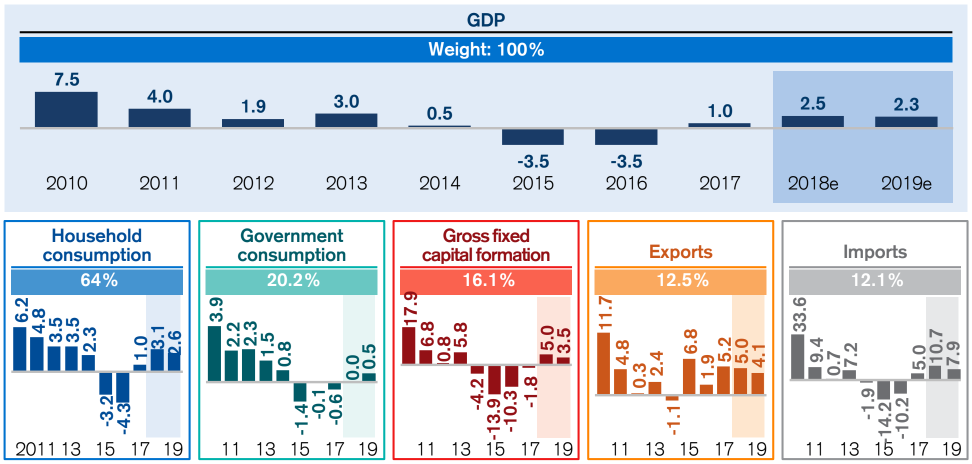
- **After the recession of 2015-2016, GDP grew 1.0% in 2017.** GDP grew 0.1% qoq and 2.1% yoy in 4Q17. The moderate increase in economic activity in 2017 was mostly driven by very strong expansion of the harvest, which led to a 13.0% increase in agricultural output last year. The impact of the withdrawal of amounts held in inactive Severance Pay Fund (FGTS) accounts, totaling BRL43bn, allowed for a decline in household debt and an increase in household consumption. Household consumption grew 1.0% in 2017, after falling 3.2% in 2015 and 4.3% in 2016. Investments declined 1.8% in 2017, with a contraction of 27.4% since 2013.
- **Economic recovery should accelerate in the first quarters of this year.** The cyclical recovery in 2017 was strongly associated with (i) the stronger-than-expected decline in consumer inflation, which increased real wages quite significantly and led to a stronger rebound in household consumption; (ii) the more prolonged and stronger-than-expected monetary easing cycle from 14.25% in September 2016 to 7.00% in December 2017, which bode well for an economic rebound last year; and (iii) very favorable global conditions, which resulted in higher exports and a lesser contraction in investments in 2017. We expect economic activity to accelerate in the next few quarters to an average of 0.7% qoq, leading to GDP growth of 2.5% in 2018. Although we see some upside risks to our growth forecast, GDP growth much higher than 3.0%, for instance, would require a significant quarter-on-quarter expansion that, in our opinion, is not yet supported by the data available today.
- **Unemployment rate likely to continue to decline slowly.** The average unemployment rate increased from 11.5% in 2016 to 12.7% in 2017. The seasonally adjusted unemployment rate reached 12.5% in January 2018 and has been dropping from the 13.1% of March 2017. We expect this decline to continue, with the average unemployment rate declining to 12.0% in 2018. After increasing 2.4% in 2017, we expect real wages growth to decelerate to 1.5% in 2018. Despite this lesser expansion, growth in real wage bill should accelerate from 2.4% yoy in 2017 to 3.9% yoy in 2018, as a result of a sharper increase in the working population.
- **We reduced our forecast for consumer inflation to 3.9% in 2018.** IPCA consumer inflation fell from 6.3% in 2016 to 2.9% in 2017, the lowest level since 1998. The inflation decline was mostly due to the stronger-than-expected drop in food inflation. Food inflation fell from 16.1% yoy in September 2016 to deflation of 4.9% yoy in December 2017. The revision in 2018 IPCA inflation, from 4.3% to 3.9%, was a consequence of the more benign behavior of food inflation at the beginning of this year and a more favorable scenario for electricity and services prices.
- **We now expect a Selic interest rate of 6.50% at year-end 2018.** The more benign inflation dynamics has increased the probability that the Selic basic interest rate will be cut by an additional 25 basis points (bps) at the Monetary Policy Committee (Copom) meeting of March 21, to 6.50%. Besides, the higher probability of IPCA inflation remaining below 4.5% – the center of the inflation target range – now leads us to expect no monetary tightening cycle this year, as we had anticipated previously, with the Selic rate remaining at 6.50% until the end of this year. We still think that inflation will reach 4.5% in 2019, and we therefore continue to expect the central bank to tighten monetary policy in 2019. This increase would be in line with our assessment that (i) the output gap will close at the beginning of 2019, (ii) it will be necessary to eliminate the expansionist effect of interest rates in effect since mid-2017, and (iii) the fiscal imbalance expected for the next few years will have an unfavorable impact on inflation dynamics. Thus, we expect the Selic rate to reach 9.00% at year-end 2019, lower than in our previous scenario of 9.50%. We think the tightening cycle would be implemented through interest rate increases of 50bps, starting as early as 1Q19.

- **Higher tax revenues should lead to lower primary deficit in 2018 than previously expected.** Fiscal revenues were much higher than expected in December and January, as a result of higher tax collections and non-recurrent revenues. Additionally, the government was able to implement a sharp cut in discretionary expenditures, mainly in investments. This path leads us to revise upwards our forecast for the main fiscal figures. We now expect a primary deficit as a percentage of GDP of -1.8% this year, compared to our previous forecast of -2.1% and the deficits of -2.5% in 2016 and -1.7% in 2017. There is still some uncertainty regarding tax revenues for this year in view of the high dependence on non-recurring revenues, in particular revenues from the privatization of government-owned enterprises (i.e., Eletrobras). We also expect the nominal deficit to decline from -7.8% of GDP in 2017 to -7.0% of GDP, due to a lower primary deficit and lower interest rates. In 2018, the government will likely be able to comply with the rule that prohibits real growth in federal expenditures and the golden rule, which prohibits current expenditures from being financed by the issuance of debt. Nevertheless, unless the Congress representatives to be elected for the 2019-2022 term approve significant cuts in mandatory expenditures before the end of their first year in office, these rules run the risk of no longer being met. The gross public debt as a percentage of GDP should remain relatively stable this year at around 75% of GDP, owing to the repayment of BRL130bn in the year related to the loan granted by the Treasury to the BNDES. However, gross public debt should resume an upward path in the following years, given the strong rise in expenditures, particularly in social security ones.
- **Discussions in Congress on the social security reform interrupted due to federal intervention in Rio de Janeiro.** Brazil's Constitution does not allow the approval of constitutional amendments during a federal intervention in any state. Despite this official explanation, we think the government's coalition base did not have enough votes to approve the proposal. The government to be elected this year will need to propose a tougher social security reform at the beginning of next year to avoid that its deficit becomes unbearable in the next few years. The need for a social security reform is even more urgent in view of the imbalances in social security accounts that several states should face in the next few years.
- **Current-account deficit to increase in 2018.** We expect the current-account deficit to increase from 0.5% of GDP in 2017 to 1.8% of GDP in 2018, due to a decline in the trade surplus and in net expenditures for services and income. Inward direct investments (IDI) declined from USD78bn in 2016 to USD70bn in 2017. We expect IDI to increase to USD80bn in 2018, more than enough to finance the current-account deficit. International reserves should remain high at around USD380bn.
- **Two risk rating agencies downgraded Brazil's credit rating in 2018.** S&P and Fitch downgraded Brazil from BB to BB-, three notches below investment grade, and now hold a stable outlook. The negative dynamics of the fiscal accounts and the non-approval of the social security reform were mentioned by both rating agencies as the causes for the downgrade.
- **Uncertainty regarding the 2018 election remains high.** The most recent poll from Datafolha showed that the candidates with highest voter intentions were: former President Lula (PT), who is still well ahead on the polls, with 34% of voter intentions; followed by federal deputy Jair Bolsonaro (PSL), with 15% of voter intentions; former senator Marina Silva (REDE), with 7%; current governor of São Paulo Geraldo Alckmin (PSDB), with 6%; former governor of Ceará, Ciro Gomes (PDT) with 6%; and senator Álvaro Dias (PODE), with 3%. In addition to them, there are at least six other candidates. The main uncertainty regarding the presidential election is who the PT candidate will be if former president Lula is not allowed to run for the election – the most likely replacements would be former mayor of São Paulo Fernando Haddad or former governor of Bahia Jacques Wagner. The other uncertainty refers to whether MDB – President Michel Temer's political party – will have its own candidate or will support a candidate from another party. The decision will mostly depend on the dynamics of Temer's approval rating, which is still below 5%. The large number of candidates suggests that the center-right candidates will need to garner as much support as possible from MDB and other center-right parties to raise their share of publicly funded election advertising time on TV and secure strong support at the municipal level.

Figure 15: Breakdown of GDP growth on demand side

%, p.a.



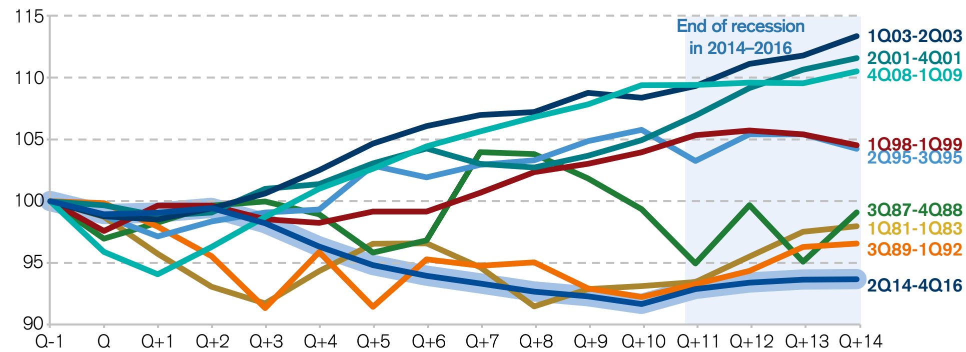
Source: Brazilian Statistics Bureau (IBGE), Credit Suisse

Domestic demand should continue to drive the rebound in economic activity in 2018. Household consumption and investments will accelerate in comparison to last years.

Despite the more favorable scenario for economic activity, the current pace of recovery of economic activity is very gradual in comparison to other episodes of economic recovery.

Figure 16: GDP growth in episodes of recession

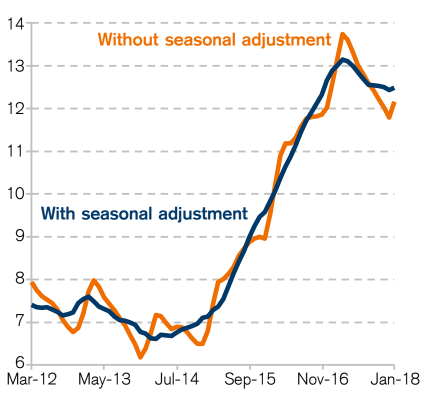
Seasonally adjusted index number



Source: Brazilian Statistics Bureau (IBGE), Credit Suisse

Figure 17: Unemployment rate

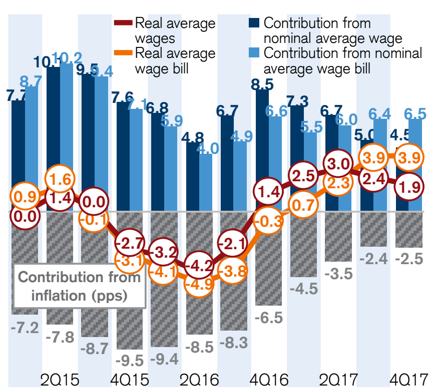
%



Source: Brazilian Statistics Bureau (IBGE), Credit Suisse

Figure 18: Breakdown of real wage bill

%, yoy



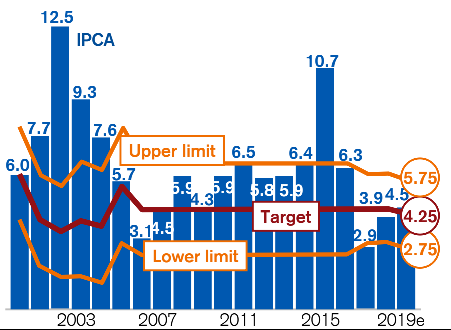
Source: Brazilian Statistics Bureau (IBGE), Credit Suisse

Higher GDP growth in 2017 and 2018 is compatible with a recovery in labor market conditions in the next quarters. We expect the average unemployment rate to decline from 12.7% in 2017 to 12.0% in 2018 and 11.6% in 2019.

Despite the deceleration in real wages, real wage bill growth should remain solid as a result of the increase in employed population

Figure 19: IPCA inflation

%



Source: Brazilian Statistics Bureau (IBGE), Credit Suisse

Figure 20: Breakdown of IPCA inflation

%, yoy

	2015	2016	2017	2018e	2019e
IPCA	10.7	6.3	2.9	3.9	4.5
Administered	18.1	5.5	8.0	6.2	4.8
Market prices	8.5	6.6	1.3	3.2	4.5
Food	12.9	9.4	-4.9	3.5	5.1
Services	8.1	6.5	4.5	3.8	4.5
Industrial goods	6.2	4.8	1.0	2.1	4.0

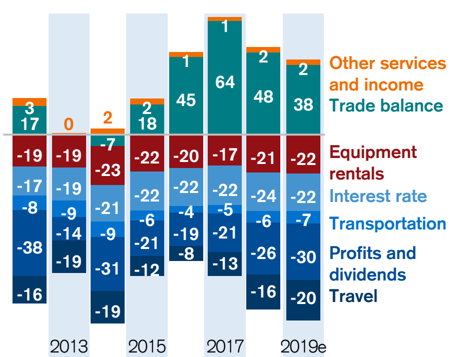
Source: Brazilian Statistics Bureau (IBGE), Credit Suisse

IPCA inflation should remain below the center of the target range until the end of 2018.

Low food inflation, well behaved inflation expectations and negative output gap are the main drivers of the low consumer inflation in 2018.

Figure 21: Current account

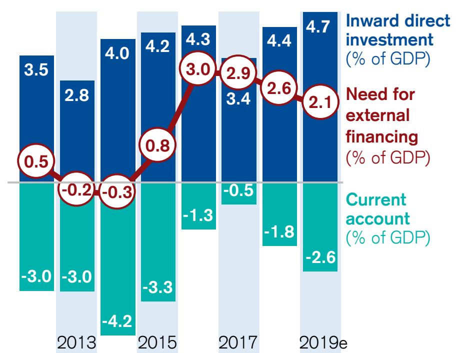
USD billion



Source: Central Bank of Brazil, Credit Suisse

Figure 22: Need for external financing

% of GDP



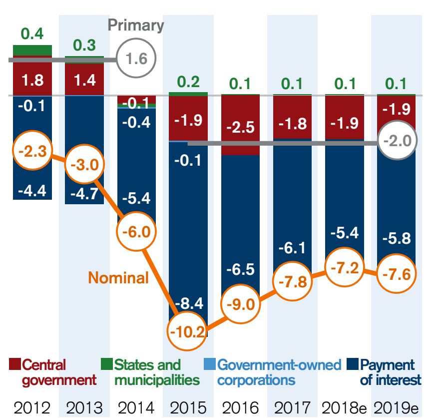
Source: Central Bank of Brazil, Credit Suisse

The current-account deficit as percentage of GDP will increase in the coming quarters, after a strong reduction in the recession period. The higher growth in domestic demand will reduce the trade balance and increase net expenditures for services and income.

The vulnerability of external accounts should be very low in the short term. Despite the increase in the current-account deficit as a percentage of GDP, net IDI inflow should remain strong.

Figure 23: Primary and nominal results of the consolidated public sector

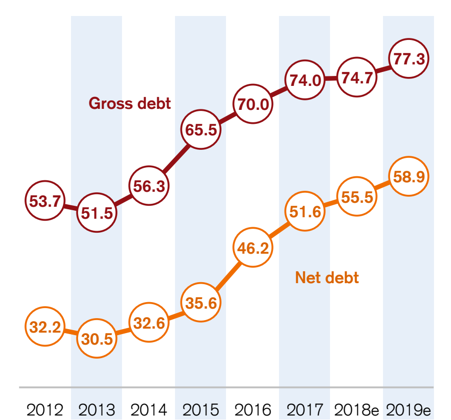
% of GDP



Source: Central Bank of Brazil, Credit Suisse

Figure 24: Dynamics of gross and net debt

% of GDP



Source: Central Bank of Brazil, Credit Suisse

Fiscal accounts will remain deteriorated, despite the more favorable scenario for tax collections. The primary deficit of the consolidated public sector is expected to increase from -1.7% of GDP in 2017 to -1.8% of GDP in 2018 and remain relatively stable at this level in 2019.

The gross debt will likely increase in the next few years as a result of the expectation that the primary deficits will remain high.

Brazil: Selected economic indicators

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
National accounts, population and unemployment									
Real GDP growth (%)	4.0	1.9	3.0	0.5	-3.5	-3.5	1.0	2.5	2.3
Growth in real private consumption (%)	4.8	3.5	3.5	2.3	-3.2	-4.3	1.0	3.1	2.6
Growth in real fixed investment (%)	6.8	0.8	5.8	-4.2	-13.9	-10.3	-1.8	5.0	3.5
Fixed investment (% of GDP)	21.8	21.4	21.7	20.5	17.4	15.4	15.5	15.9	16.1
Nominal GDP ($bn)	2614.5	2463.5	2468.5	2454.8	1797.6	1799.4	2056.4	2155.6	2249.3
Population (mn)	198.2	200.1	201.8	203.6	205.2	206.8	208.4	209.9	211.3
GDP per capita, $	13,188	12,313	12,229	12,059	8,759	8,700	9,868	10,270	10,644
Unemployment (% of labor force, end-year)	na	6.9	6.2	6.5	9.0	12.0	11.8	11.1	10.8
Prices, interest rates and exchange rates									
CPI inflation (%, December to December)	6.5	5.8	5.9	6.4	10.7	6.3	2.9	3.9	4.5
CPI inflation (%, average)	6.6	5.4	6.2	6.3	9.0	8.8	3.5	3.4	4.3
Exchange rate (BRL per USD, end-year)	1.88	2.04	2.34	2.66	3.90	3.26	3.31	3.30	3.40
Nominal wage growth (% year-on-year change)	na	na	9.7	7.5	8.7	5.8	5.0	5.4	6.5
Exchange rate (BRL per USD, average)	1.67	1.95	2.16	2.35	3.33	3.49	3.19	3.26	3.35
REER (% change, December to December)	-7.7	-11.5	-8.3	-0.9	-24.8	12.3	-2.2	-1.4	-5.4
Selic interest rate (%, end-year)	11.00	7.25	10.00	11.75	14.25	13.75	7.00	6.50	9.00
Fiscal data									
General government fiscal balance (% of GDP)	-2.5	-2.3	-3.0	-6.0	-10.2	-9.0	-7.8	-7.0	-7.6
General government primary balance (% of GDP)	2.9	2.2	1.7	-0.6	-1.9	-2.5	-1.7	-1.8	-1.8
General government expenditure (% of GDP)	35.9	35.0	35.7	38.4	42.3	41.7	38.2	37.1	37.6
Gross general government debt (% of GDP, end-year)	51.3	53.8	51.7	57.2	66.5	69.9	74.0	74.7	77.3
Net general government debt (% of GDP, end-year)	34.5	32.3	30.6	33.1	36.2	46.2	51.6	55.5	58.9
Money supply and credit									
Broad money supply (M2, % of GDP)	37.0	36.7	36.8	37.2	38.1	38.0	37.8	37.8	37.8
Broad money supply (M2, % year-on-year change)	18.7	9.1	10.9	9.9	6.3	3.8	4.6	6.4	6.8
Domestic credit (% of GDP)	98.4	103.4	102.6	107.9	117.5	120.5	121.9	122.5	125.7
Domestic credit (% year-on-year)	14.9	15.6	9.9	14.0	13.0	7.0	6.0	7.3	10.2
Domestic credit to private sector (% of GDP)	55.0	58.6	60.6	62.0	63.2	59.9	56.7	56.6	57.1
Domestic credit to private sector (% year-on-year)	18.7	17.1	14.5	11.0	5.8	-1.1	-0.9	6.7	8.2
Balance of payments									
Exports (goods and non-factor services, % of GDP)	11.2	11.4	11.3	10.8	12.4	12.1	12.2	12.2	12.2
Imports (goods and non-factor services, % of GDP)	11.5	12.3	13.2	13.0	13.5	11.3	10.8	11.8	12.6
Exports (goods and non-factor services, % change in $ value)	26.1	-3.9	-0.5	-5.6	-15.2	-2.7	15.6	4.5	4.2
Imports (goods and non-factor services, % change in $ value)	24.0	0.6	7.1	-2.1	-23.7	-16.4	9.0	15.0	11.0
Current account balance ($bn)	-77.0	-74.2	-74.8	-104.2	-59.4	-23.5	-9.8	-39.1	-57.1
Current account (% of GDP)	-2.9	-3.0	-3.0	-4.2	-3.3	-1.3	-0.5	-1.8	-2.5
Net FDI ($bn)	85.1	81.4	54.2	70.9	61.2	65.4	64.1	75.0	76.0
FDI ($bn)	101.2	86.6	69.2	96.9	74.7	78.2	70.3	80.0	90.0
Scheduled debt amortization ($bn)	34.5	37.6	58.0	49.6	76.5	70.8	63.9	60.0	71.0
Foreign debt and reserves									
Foreign debt ($bn, end-year)	415.6	455.4	486.8	560.6	540.5	548.6	557.9	567.9	582.9
Public ($bn)	110.0	121.1	119.7	135.9	127.8	127.9	127.9	127.9	127.9
Private ($bn)	305.5	334.3	367.1	424.7	412.7	420.7	430.0	440.0	455.0
Foreign debt (% of GDP, end-year)	15.9	18.5	19.7	22.8	30.0	30.5	27.1	26.3	25.9
Foreign debt (% of exports of goods and services)	142.1	162.0	174.1	212.3	241.4	252.0	221.6	215.9	212.7
Central bank gross FX reserves ($bn)	352.0	378.6	375.8	374.1	368.7	372.2	382.0	387.0	392.0
Central bank gross FX reserves, including FX swaps ($bn)	353.6	376.5	300.7	264.5	260.6	345.7	358.2	363.2	368.2

(1) Average annual growth in nominal wages. (2) Real effective exchange rate. Deflator: CPIs. Increase indicates appreciation. (3) Total government expenditures; includes interest payments. (4) Figures related to the Central Bank's new methodology. (5) Net of international reserves, Worker's Fund (FAT) assets, Central Bank holdings of government securities, social security system holdings of government securities. (6) Includes bank lending to individuals and private corporate debt (debentures and bank loans to the sector). (7) Net FDI inflow minus Brazilian investments abroad. (8) Net inflow of foreign-owned companies. (9) Scheduled amortizations for public and private sectors. (10) Included intercompany loans. (11) Data prior to 2014 follow previous balance-of-payments methodology.

Source: IBGE, Central Bank of Brazil, Credit Suisse

Chile: A new pilot enjoying favorable tailwinds

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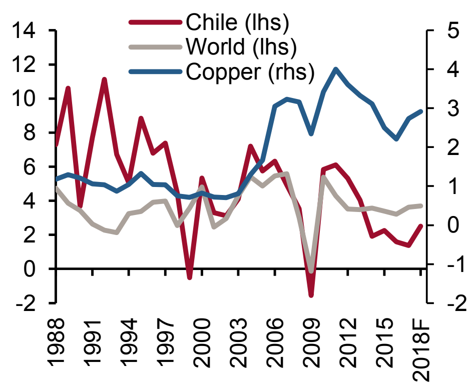
- **We remain upbeat about Chile's economic outlook for 2018.** We think that the combination of the change in government, stronger global growth and higher copper prices will lead to the strongest real GDP growth rate since 2013. In our central scenario, annual consumer price inflation will converge towards the 3.0% target by year-end, which will prompt the central bank to start removing some of the monetary stimulus in late 2018. We also anticipate a modest widening in the external imbalances due to stronger growth, but at the same time a small reduction in the fiscal deficit. We do not foresee changes in Chile's sovereign debt ratings in 2018.
- **We forecast an acceleration in real GDP growth to 2.9% in 2018 from an average growth rate of 1.9% in the past four years.** Several variables are behind the ongoing recovery, including higher confidence among firms and households (partly on the back of Piñera's election), stronger global and regional growth, and higher real wage gains. Others have been less supportive, however, including relatively stagnant credit growth to the private sector and a strong peso. We project an across-the-board recovery in 2018, which should be particularly evident in gross fixed investment (we project growth of 2.5%), after a cumulative contraction of 8.2% in real terms in the past four years. Risks to our forecast are to the upside, particularly if animal spirits prove stronger than expected.
- **We maintain our view that annual consumer price inflation will rise gradually towards the 3.0% target by year-end from 2.0% at present.** Our central scenario is that annual inflation will remain near 2.0% until May and that a clear upward trend will be evident by the third quarter. In this context, we do not anticipate an additional interest rate cut (or cuts) by the central bank, even though this possibility is still a matter of discussion in the bank's board. Instead, we think that as the domestic economy gathers momentum, the US Fed increases the fed funds rate and inflation is rising, the central bank will likely start removing the current monetary stimulus, increasing the monetary policy rate by a cumulative 50bps in late 2018.
- **In our central scenario, the current account will widen slightly in 2018 to 2.3% of GDP from a deficit of 2.0% last year.** In dollar terms, this deficit would be equivalent to $6.9bn, of which roughly one-half would be financed by net FDI inflows, with the rest coming from net portfolio investments and/or debt issuance abroad. The economic recovery that we project, along with a more moderate external indebtedness, should result in a decline in the foreign debt-to-GDP ratio this year (from 66.4% in 2017 to 62.5%), a variable that has been rising steadily in the past ten years.
- **On the fiscal front we project a slight moderation in the deficit to 2.5% of GDP from an estimated 2.7% of GDP last year.** Despite the improvement, this would be the sixth consecutive year in which Chile posts a fiscal deficit. This is best reflected in the country's net debt position, which has increased from -5.7% of GDP (net creditor) in 2013 to an estimated +3.7% of GDP in 2018. This metric will remain key when assessing Chile's sovereign debt rating, particularly the one granted by Moody's (Aa3 with a negative outlook), as this ratings agency has warned that a downgrade could be prompted by a potential policy response that fails "to arrest the continued rise in the debt burden over the medium-term". Given the upswing in confidence and the positive momentum in the economy, we think that Moody's is currently more likely to move the outlook back to neutral than to announce a one-notch downgrade to the sovereign debt rating.

Figure 25: GDP growth in Chile and in the world vs. average copper prices

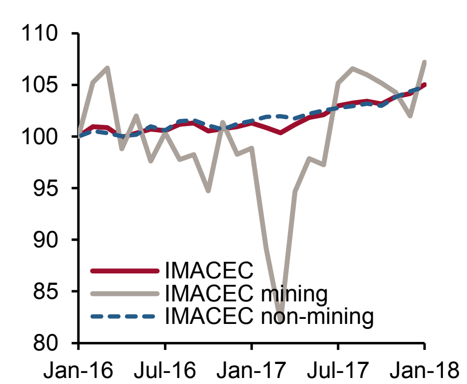
Growth in % in real terms (lhs); price per pound in $ (rhs)



Source: IMF, Credit Suisse

Figure 26: Monthly GDP proxy (IMACEC)

Seasonally adjusted, January 2016 = 100

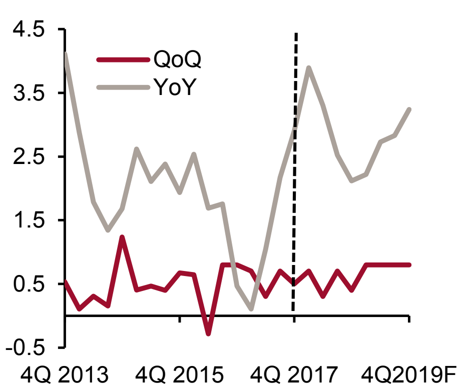


Source: Central bank, Credit Suisse

Our central scenario continues to be that real GDP growth in Chile will accelerate towards 3.0% in 2018, fueled by exports, a more vibrant mining sector, a recovery in investment and stronger growth in private consumption.

Figure 27: Real GDP growth

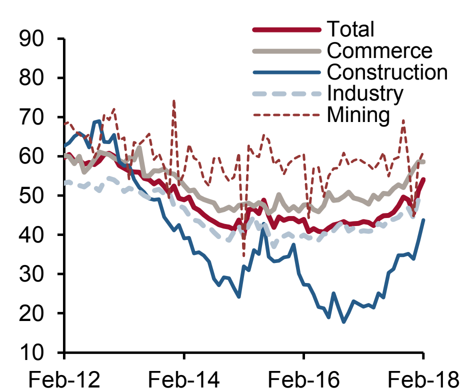
%, seasonally adjusted series, CS estimates after the dotted line



Source: Central bank, Credit Suisse

Figure 28: Business confidence by sectors

Indices, seasonally adjusted



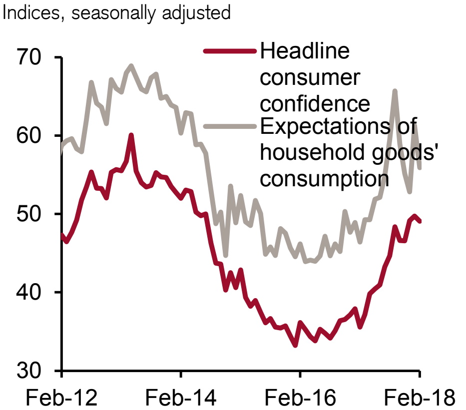
Source: Central bank, Credit Suisse

A favorable base effect will lead to rather high year-over-year real GDP growth prints, in the first half of 2018 (3.5% on average).

The recovery in business sentiment is evident across sectors, particularly construction, which had been notably depressed since 2014.

Figure 29: Consumer confidence

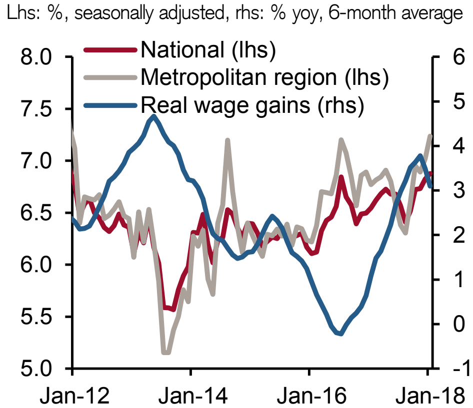
Indices, seasonally adjusted



Source: Adimark, Credit Suisse

Figure 30: Unemployment rate and real wage gains

Lhs: %, seasonally adjusted, rhs: % yoy, 6-month average

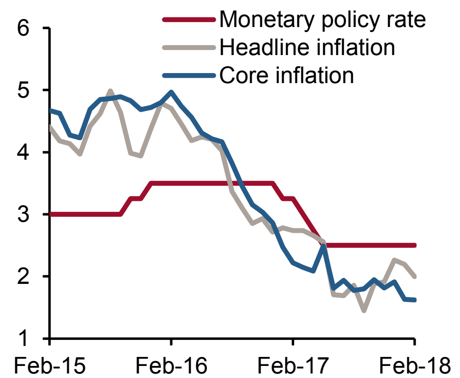


Source: INE, Credit Suisse

The upswing in consumer confidence is also quite clear, and it may be partially associated with the steady recovery in real wages, courtesy of abnormally low inflation in the past year.

Figure 31: Annual consumer price inflation and monetary policy rate

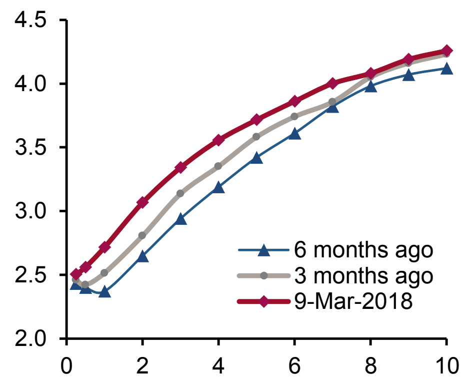
%



Source: INE, Central bank, Credit Suisse

Figure 32: Swaps curve

%, x-axis denotes tenor in years



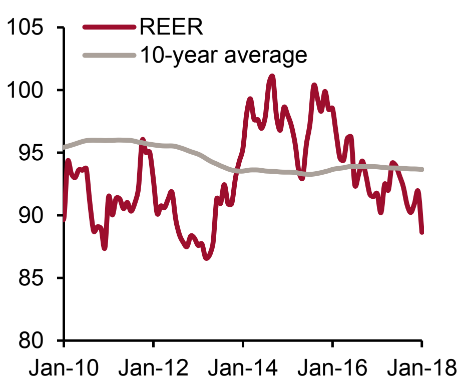
Source: The BLOOMBERG PROFESSIONAL service™, Credit Suisse

Our central scenario is that annual consumer price inflation will converge slowly toward the target 3.0%, likely reaching it by year-end 2018, even if it stays stuck near 2.0% in the next quarter.

In this context, we do not anticipate cuts to the monetary policy rate in the near term; we think that by the end of 2018, the central bank will have hiked 50bps to 3.0%.

Figure 33: Real exchange rate

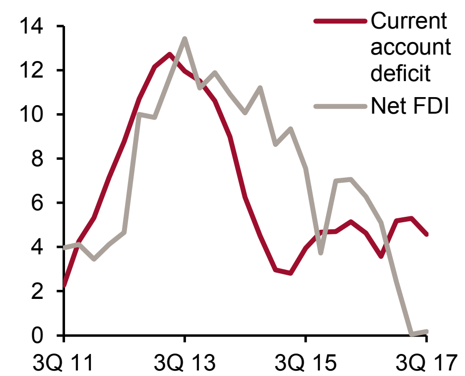
1986 = 100; increase denotes depreciation



Source: Central bank, Credit Suisse

Figure 34: Current account deficit and net FDI

$bn, 4-quarter rolling

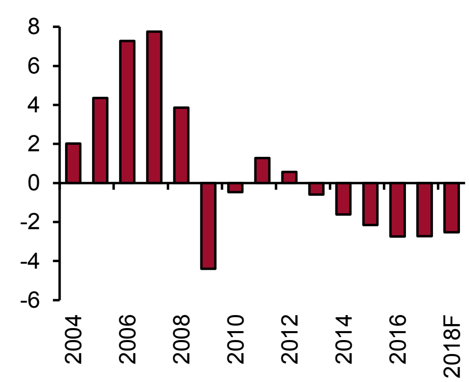


Source: Central bank, Credit Suisse

The real effective exchange rate will likely remain expensive to its 10-year average, given the favorable tailwinds for the economy and the upswing in confidence. This will likely lead to a modest widening in the external imbalances, but to still manageable levels.

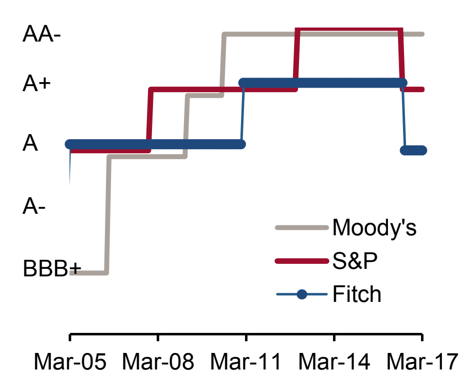
Figure 35: Fiscal balance

% of GDP



Source: Ministry of Finance, Credit Suisse

Figure 36: Long-term foreign-currency sovereign credit rating



Source: Rating agencies, Credit Suisse

The risk to Chile's sovereign ratings is still to the downside, particularly in the case of Moody's, but the recent improvement in sentiment and the reduction in the fiscal deficit will likely keep the ratings unchanged.

Chile: Selected economic indicators

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
National accounts, population and unemployment									
Real GDP growth (%)	6.1	5.3	4.0	1.9	2.3	1.6	1.6	2.9	2.8
Growth in real private consumption (%)	8.2	6.1	4.6	2.7	2.0	2.4	2.4	3.2	3.0
Growth in real fixed investment (%)	16.1	11.3	3.3	-4.8	-0.8	-0.8	-2.0	2.5	2.8
Fixed investment (% of GDP)	23.6	25.0	24.8	23.2	22.5	21.9	21.2	21.1	21.1
Nominal GDP ($bn)	252.2	267.2	278.3	260.7	242.2	247.4	269.2	297.4	312.2
Population (mn)	17.3	17.4	17.6	17.8	18.0	18.2	18.4	18.6	18.7
GDP per capita ($)	14,617	15,317	15,787	14,631	13,450	13,598	14,650	16,029	16,673
Unemployment (% of urban labor force, average year) (1)	7.2	6.5	6.0	6.3	6.3	6.5	6.6	6.5	6.3
Prices, interest rates and exchange rates									
CPI inflation (%, December to December)	4.4	1.5	3.0	4.6	4.4	2.7	2.3	2.8	3.0
CPI inflation (%, average)	3.3	3.0	1.8	4.4	4.3	3.8	2.2	2.5	3.0
Exchange rate (CLP per USD, end-year)	521.5	479.2	525.5	606.5	710.0	670.0	615.4	622.0	630.0
Exchange rate (CLP per USD, average)	483.7	486.3	495.3	571.0	655.0	676.0	649.0	620.0	625.0
REER (% year-on-year change, annual average) (2)	-0.5	2.3	0.2	-9.0	1.0	2.9	2.6	4.5	0.0
Nominal wage growth (% year-on-year change, average) (3)	5.9	6.4	5.7	6.6	6.2	5.2	5.3	4.7	4.3
Monetary policy rate (%, end-year)	5.25	5.00	4.50	3.00	3.50	3.50	2.50	3.00	3.50
Fiscal data									
General government fiscal balance (% of GDP)	1.3	0.6	-0.6	-1.6	-2.1	-2.7	-2.7	-2.5	-2.5
Central government primary fiscal balance (% of GDP)	1.8	1.1	0.0	-1.0	-1.5	-2.0	-1.9	-1.6	-1.6
Central government expenditure (% of GDP)	21.3	21.6	21.5	22.2	23.3	23.8	24.4	24.7	24.8
Gross central government debt (% of GDP, end-year) (4)	11.1	11.9	12.7	14.9	17.4	21.3	23.4	25.4	26.1
Net central government debt (% of GDP)	-8.6	-6.8	-5.7	-4.3	-3.5	0.9	2.2	3.7	3.8
Money supply and credit									
Broad money supply (M2, % of GDP)	61.1	63.7	66.7	67.3	70.7	71.8	71.8	72.8	72.9
Broad money supply (M2, % year-on-year change)	21.8	10.9	11.1	8.9	12.0	7.0	4.5	7.0	6.0
Domestic credit (% of GDP)	61.8	66.1	69.4	70.8	73.3	75.8	76.1	77.9	78.8
Domestic credit (% year-on-year)	13.2	13.9	11.3	10.2	10.2	9.0	5.0	8.0	7.0
Domestic credit to private sector (% of GDP)	58.3	61.6	63.6	65.0	67.3	69.0	70.5	72.1	72.9
Domestic credit to private sector (% year-on-year)	12.7	12.6	9.5	10.3	10.4	7.9	6.8	8.0	7.0
Balance of payments									
Exports (goods and non-factor services, % of GDP)	37.4	33.8	31.9	32.9	29.7	28.3	29.2	28.0	28.3
Imports (goods and non-factor services, % of GDP)	34.1	33.8	32.4	31.8	29.6	27.5	28.0	27.7	28.2
Exports (goods and non-factor services, % change in $ value)	15.1	-4.3	-1.6	-3.5	-16.3	-2.4	12.0	6.0	6.0
Imports (goods and non-factor services, % change in $ value)	26.9	4.9	0.0	-8.1	-13.5	-5.3	11.0	9.0	7.0
Current account balance ($bn)	-4.3	-10.7	-11.5	-4.5	-4.7	-3.6	-5.4	-6.9	-8.7
Current account (% of GDP)	-1.7	-4.0	-4.1	-1.7	-1.9	-1.4	-2.0	-2.3	-2.8
Net FDI ($bn)	4.1	10.0	11.2	11.2	3.7	5.1	1.0	3.3	3.1
Scheduled debt amortization ($bn) (5)	21.3	17.4	18.1	17.6	18.3	20.3	35.0	35.1	30.0
Foreign debt and reserves									
Foreign debt ($bn, end-year)	122.7	136.4	152.1	157.8	163.8	163.8	178.9	186.0	194.0
Public ($bn)	22.3	27.8	28.0	31.3	31.8	35.3	47.3	52.0	57.0
Private ($bn)	78.7	94.9	108.4	120.8	126.0	128.5	131.5	134.0	137.0
Foreign debt (% of GDP, end-year)	48.6	51.0	54.7	60.5	67.6	66.2	66.4	62.5	62.1
Foreign debt (% of exports of goods and services)	130.0	150.9	171.2	183.9	228.1	233.7	227.8	223.5	219.9
Central bank gross non-gold FX reserves ($bn)	42.0	41.7	41.1	40.4	38.6	40.5	38.4	39.1	39.8

(1) Adjusted for seasonality (2) Real effective exchange rate, increase indicates appreciation (3) General compensation index (includes fringe benefits) (4) Excludes debt of the central bank (5) Scheduled amortizations for public and private sectors

Source: Central Bank, INE, Budget Office, Ministry of Finance, Credit Suisse

Colombia: An election that matters

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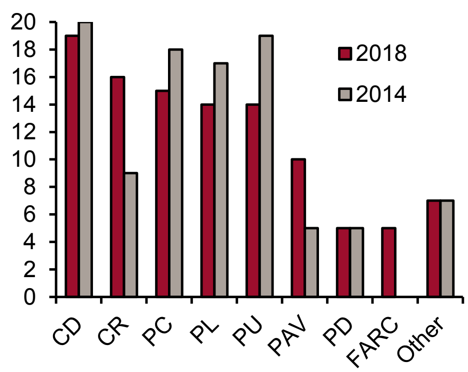
- **Colombia will vote to elect a new president on 27 May.** Available polls continue to show inconsistent results, which makes it very difficult at this stage to make a valid prediction of the electoral outcome. We think investors will play close attention to this election and could become uneasy if there is an increase in the probability of a winning candidate who represents a departure from the current macroeconomic status quo. Regardless of who wins the election, though, we think that challenging fiscal times await Colombia, given the combination of a strong imposed fiscal consolidation path with the reality of low economic growth.
- **Available polls continue to show Mr. Gustavo Petro as one of the strongest presidential candidates.** In our view, his proposals could be concerning for international investors, as they would represent reshaping the country's design of economic policy and macroeconomic fundamentals. However, volatility in poll results tells us that it is still very difficult to predict the outcome of the election. While candidates like Petro or Sergio Fajardo have consistently held the lead in polls, Ivan Duque, from former President Alvaro Uribe's party Centro Democratico, has surged to a leading position just recently. We think markets will be less concerned with a victory of Duque or former Vice President Vargas Lleras, who more clearly represent continuity in the management of the economy relative to the Santos administration.
- **Macroeconomic dynamics for the next administration will be challenging for whoever wins the election, we think.** As we have written before, we think that Colombia's real GDP growth potential is probably around 3.0%, which is considerably lower than what some authorities and members of the central bank's board have stated. According to our calculations, Colombia will fail to reach potential growth rates at least in our forecast horizon through 2019, with real GDP growth reaching 2.5% and 2.8% in 2018 and 2019, respectively. Real GDP growth was slightly stronger than we expected for 2017 by virtue of historic data revisions, but momentum actually weakened at the end of the year more than we expected, representing a downside risk to our 2018 forecast.
- **We think that conditions for stronger growth in private consumption are present, although these same conditions were already becoming the norm in 2017.** Namely, we have been expecting that the combination of a relatively stable labor market, lower inflation, and lower interest rates, should lead to stronger household consumption. Consumer confidence, however, was weak throughout 2017 and could be the reason behind the disappointment in household consumption growth last year. Interestingly, the Fedesarrollo Consumer Confidence Index has improved over the past few months, suggesting that household consumption could pick up in the short term. The real driver of stronger economic activity, however, will likely be investment, which we expect will recover after falling 3.3% in 2016 and remaining flat in 2017. A stronger investment plan by Ecopetrol should play a role in these dynamics, as should the continued investment on the 4G projects.
- **These real GDP growth dynamics may not be enough to allow the next government to meet its fiscal targets without implementing new reforms.** The Santos administration will leave behind a fiscal consolidation path that requires a 0.5% of GDP adjustment in 2018 and a 0.9% of GDP adjustment in 2019. While we expect the government to meet its 2018 deficit target of 3.1% of GDP, we struggle to see how the next administration will meet the current deficit target of 2.2% of GDP in 2019, which compares to our forecast of a 2.5% of GDP deficit. Most candidates have talked about the need to present a new fiscal reform, but key proposals seem to be focused on reducing the corporate tax burden and improving collection efficiencies, rather than on presenting a structural expenditure reform. We think that the inability to meet the current convergence path, relaxing the fiscal rule, or failing to present a structural expenditures reform, could be the catalysts for Moody's and Fitch to finally downgrade Colombia's sovereign debt rating one notch to BBB- in the next 12 to 18 months.

- **The monetary policy framework remains unclear to us.** We continue to believe that, barring some exogenous shock, inflation will fail to converge to the 3.0% target over our forecast horizon. Annual headline inflation fell more than we expected during the first two months of the year, largely due to food prices. This was a risk that we underlined in our previous EM Quarterly report. However, core inflation indices and, importantly, non-tradeable goods inflation have evolved marginally worse than what we expected. Annual headline inflation will likely reach a bottom in the second quarter, after which we continue to expect it to accelerate and stabilize at 3.4%.
- **We cannot rule out the possibility that the central bank will want to deliver one last 25bps interest rate cut to take advantage of low inflation momentum, taking the policy rate to 4.25%.** However, this is not our baseline at this point, and we expect the policy rate to be left unchanged for the remainder of the year. If inflation follows our expected path, we believe that the central bank will need to fine tune its policy stance 50bps higher in early 2019 in order to keep the policy stance at a neutral level. Implied expectations drawn from the price of Colombian assets suggests that market participants anticipate a much stronger reversal of monetary policy, currently pricing around 150bps in rate hikes for 2019. At this point, we fail to see the macroeconomic or market forces that would trigger such a move.
- **The external adjustment is likely done, and we expect the current account deficit to stabilize at current levels.** The current account deficit reached 3.4% of GDP in 2017, and we expect it to remain around this level in 2018 and 2019. We struggle to find the catalysts for more compression, even at the current level of oil prices. Oil production will likely stabilize at levels slightly below the current ones, while non-traditional exports continue to grow only at a moderate pace. We do not see the drivers for further import compression either, as we do not expect either another sharp depreciation of the exchange rate nor another shock to domestic demand.
- **In this context, we expect the Colombian peso to remain range-bound, with a marginal bias to strengthen this year and weaken in 2019.** While global factors should be conducive to a weaker US dollar versus many other DM currencies, we think the Colombian electoral cycle and concerns on the fiscal sector thereon could cap the gains in the peso and mitigate appreciation pressures. We expect the peso to strengthen to 2,800 pesos per dollar from levels closer to 2,850 pesos per dollar currently, and weaken to 2,900 pesos per dollar by the end of 2019. Volatility, however, will likely remain high particularly in the short term, given the election cycle. In our view, the strengthening of any market friendly presidential candidate will play favorably for asset prices in Colombia in the short term, although we continue to see weakening fundamentals over the next few years.

Figure 37: Composition of the Senate

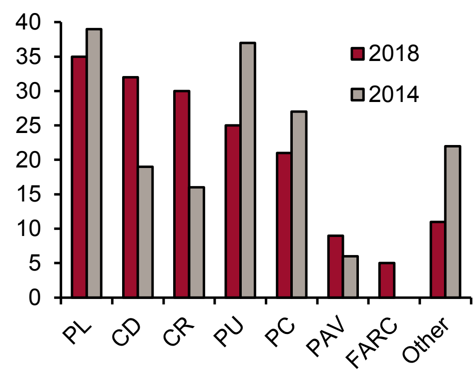
\# of seats



Source: Registraduria, Credit Suisse

Figure 38: Composition of Congress

\# of seats



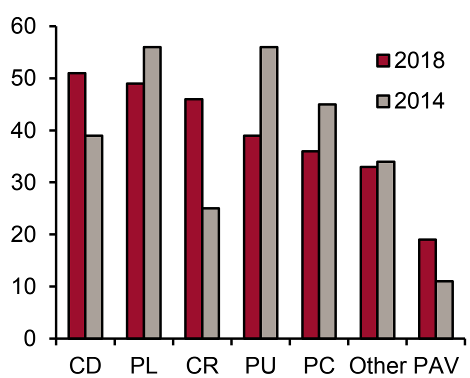
Source: Registraduria, Credit Suisse

The composition of both chambers of the legislature will remain split between established parties, with a predominance of center-right parties.

Cambio Radical party, from former vice president and now presidential candidate German Vargas Lleras, gained the most seats compared to 2014.

Figure 39: Total legislative representation

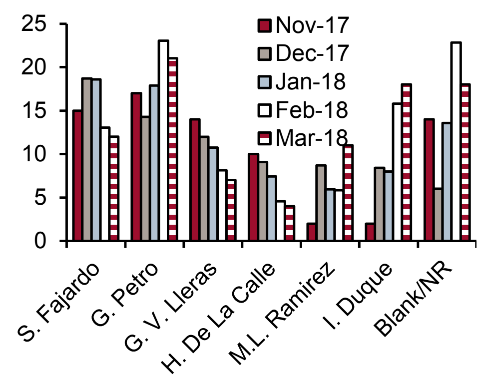
\# of seats



Source: Registraduria, Credit Suisse

Figure 40: Vote intentions

%



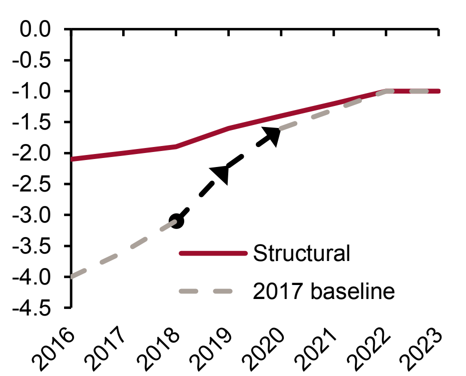
Source: Local polls, Credit Suisse

Former President Alvaro Uribe's Party, Centro Democratico, became the largest force in the legislature, which should bode well if its presidential candidate, Ivan Duque, wins the presidential election.

Duque's vote intentions have surged in recent polls, although we insist that it is still early to predict an electoral outcome.

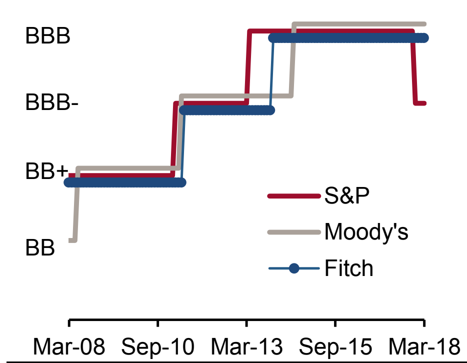
Figure 41: Expected convergence path to structural fiscal deficit

% of GDP



Source: Finance Ministry, Credit Suisse

Figure 42: Sovereign debt ratings

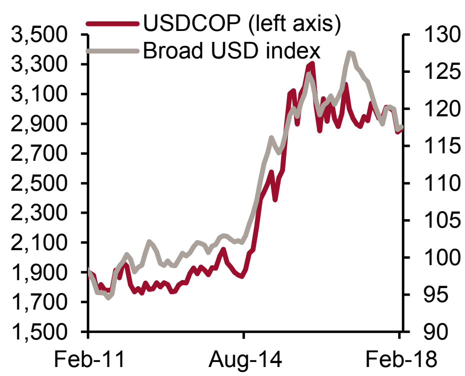


Source: Rating agencies, Credit Suisse

The next administration will inherit a strong fiscal adjustment requirement, particularly in 2019, to meet the current targets of the fiscal rule.

We think that relaxing fiscal conditions, including modifications to the fiscal rule or the expected fiscal convergence path, could be catalysts for sovereign debt downgrades by Fitch and Moody's.

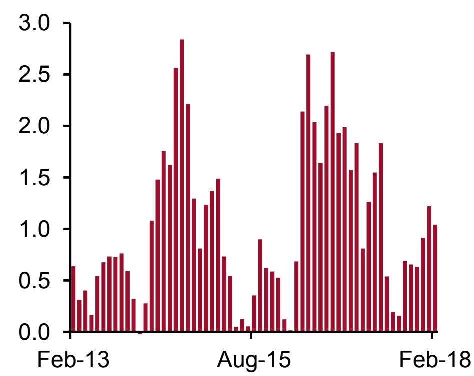
Figure 43: Colombian peso and broad dollar



Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

Figure 44: Foreign flows into local TES

3-month average, COP tn



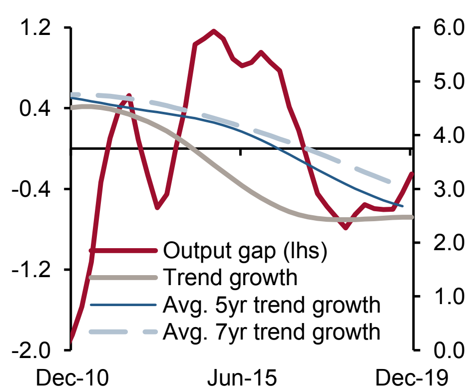
Source: Finance Ministry, Credit Suisse

Volatility in the peso could increase in the short term given the electoral cycle.

For the medium term, we think that weakening fundamentals on the fiscal side could lead to lower appetite for Colombian assets and prevent a strong appreciation of the peso.

Figure 45: Estimated output gap and average trend growth

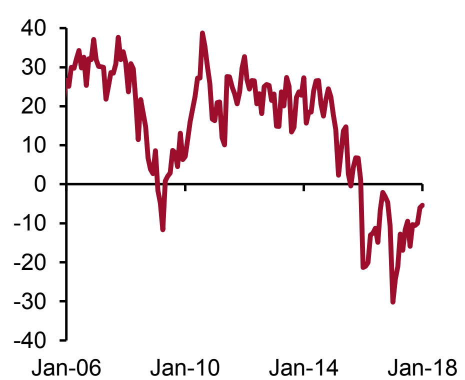
%



Source: DANE, Credit Suisse

Figure 46: Fedesarrollo's consumer confidence index

Balance of opinion



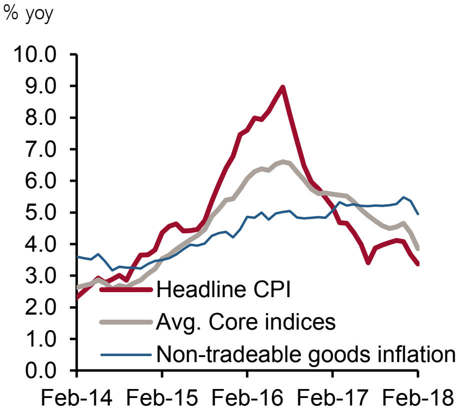
Source: Fedesarrollo, Credit Suisse

Growth potential in Colombia has likely fallen to around 3.0%, and we expect annual growth rates to remain below this level over our forecast horizon.

Improving consumer confidence could help sustain household consumption in 2018.

Figure 47: Headline and core inflation

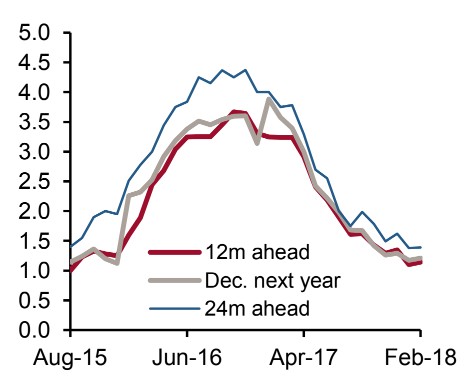
% yoy



Source: DANE, Central bank, Credit Suisse

Figure 48: Real ex-ante interest rate

% yoy



Source: DANE, Central bank, Credit Suisse

Annual headline inflation has decelerated faster than expected in the first few months of 2018, although core indices have done so slower than expected.

We expect the central bank to leave the policy rate unchanged for the remainder of the year but fine tune its policy stance in 2019 to keep inflation expectations anchored.

Colombia: Selected economic indicators

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
National accounts, population and unemployment									
Real GDP growth (%)	6.6	4.0	4.9	4.4	3.1	2.0	1.8	2.5	2.8
Growth in real private consumption (%)	6.0	4.4	3.8	4.2	3.2	2.1	1.7	2.0	2.1
Growth in real fixed investment (%)	18.9	4.3	5.6	11.6	1.2	-4.5	0.1	2.6	4.8
Fixed investment (% of GDP)	27.4	27.4	27.6	29.7	29.2	27.3	27.2	27.2	27.8
Nominal GDP ($bn)	335.5	369.5	380.0	378.6	291.5	282.4	309.2	342.5	364.1
Population (mn)	46.0	46.6	47.2	47.7	48.2	48.8	49.3	49.9	50.2
GDP per capita ($)	7,287	7,929	8,060	7,938	6,048	5,786	6,272	6,865	7,253
Unemployment (% of labor force, average) (1)	10.8	10.4	9.6	9.1	8.9	9.8	9.9	10.0	10.5
Prices, interest rates and exchange rates									
CPI inflation (%, December to December)	3.7	2.4	1.9	3.7	6.8	5.7	4.1	3.3	3.4
CPI inflation (%, average)	3.4	3.2	2.0	2.9	5.0	7.5	4.3	3.3	3.4
Exchange rate (COP per USD, end-year)	1,943	1,770	1,927	2,392	3,149	3,001	2,984	2,800	2,900
Exchange rate (COP per USD, average)	1,848	1,798	1,869	2,001	2,742	3,055	2,951	2,837	2,850
REER (% change, December to December) (2)	0.3	6.4	-6.3	-15.0	-22.4	11.6	-1.5	6.4	-3.3
Nominal wage growth (% year-on-year change, average) (3)	4.0	5.8	4.0	4.5	4.6	7.0	7.0	5.9	4.0
Reference rate (%, end-year)	4.75	4.25	3.25	4.50	5.75	7.50	4.75	4.50	5.00
Fiscal data									
Central government's fiscal balance (% of GDP)	-2.8	-2.3	-2.3	-2.4	-3.0	-4.0	-3.6	-3.1	-2.5
Central government primary fiscal balance (% of GDP)	-0.1	0.2	0.0	-0.2	-0.5	-0.9	-0.6	-0.2	0.4
Central government expenditure (% of GDP)	17.2	18.0	19.0	18.9	19.1	18.8	19.1	18.5	17.9
General government fiscal balance (% of GDP)	-1.8	0.5	-0.9	-1.7	-3.4	-2.7	-3.2	-2.8	-2.2
Consolidated public sector overall balance (% of GDP)	-2.0	0.3	-0.9	-1.8	-3.4	-2.4	-3.0	-2.5	-2.0
Gross general government debt (% of GDP, end-year)	43.1	40.6	43.1	46.0	50.2	52.0	53.1	52.4	52.9
Net general government debt (% of GDP, end-year) (4)	34.1	32.6	34.6	38.4	42.1	44.6	46.6	46.1	46.8
Money supply and credit									
Broad money supply (M2, % of GDP)	37.6	40.9	43.8	44.8	47.8	47.3	49.3	50.2	51.8
Broad money supply (M2, % year-on-year change)	18.9	16.5	14.7	9.1	12.5	6.9	10.1	8.5	10.2
Domestic credit (% of GDP)	41.1	44.0	45.1	47.6	52.7	53.2	55.9	59.0	60.3
Domestic credit (% year-on-year)	17.5	14.8	9.6	12.4	16.9	9.0	10.8	12.4	9.2
Domestic credit to private sector (% of GDP)	35.9	38.8	40.5	43.5	48.6	49.2	51.7	53.6	54.8
Domestic credit to private sector (% year-on-year)	21.5	16.0	11.6	14.6	18.1	9.2	10.9	10.4	9.2
Balance of payments									
Exports (goods and non-factor services, % of GDP)	19.1	18.4	17.8	16.9	15.7	14.5	15.5	14.7	14.9
Imports (goods and non-factor services, % of GDP)	18.8	18.7	18.5	19.9	22.1	19.1	18.4	17.6	18.3
Exports (goods and non-factor services, % change in $ value)	39.3	6.5	-1.3	-5.0	-28.7	-9.7	14.5	5.8	1.8
Imports (goods and non-factor services, % change in $ value)	31.8	9.4	1.5	7.6	-15.4	-15.4	4.0	7.0	4.1
Current account balance ($bn)	-9.7	-11.2	-12.3	-19.4	-18.6	-12.1	-10.4	-11.3	-11.9
Current account (% of GDP)	-2.9	-3.1	-3.3	-5.2	-6.4	-4.3	-3.4	-3.3	-3.5
Net transfers ($bn)	4.8	4.6	4.6	4.5	5.4	5.8	6.7	6.4	6.6
Net FDI ($bn)(5)	6.2	15.6	8.6	12.4	7.4	9.2	10.8	11.0	11.0
Scheduled debt amortization ($bn) (6)	1.2	1.9	1.5	2.4	2.4	1.1	2.7	1.0	3.3
Foreign debt and reserves									
Foreign debt ($bn, end-year)	75.6	78.7	92.0	101.3	110.4	120.2	124.4	129.9	133.9
Public ($bn)	42.4	46.1	52.1	59.6	66.2	71.3	71.8	73.4	75.4
Private ($bn)	33.1	32.7	39.9	41.6	44.3	48.9	52.6	56.5	58.5
Foreign debt (% of GDP, end-year)	22.8	21.3	24.2	26.8	37.9	42.6	40.2	37.9	36.8
Foreign debt (% of exports of goods and services)	118.3	115.7	137.0	158.8	241.7	290.4	260.2	257.0	260.1
Central bank gross FX reserves ($bn)	32.3	37.5	43.6	47.3	46.7	46.7	47.6	47.6	47.7
Central bank gross non-gold FX reserves ($bn)	31.9	36.9	43.1	46.7	46.6	46.6	47.4	47.4	47.5

(1) Average for the year (2) Increase indicates appreciation (3) Minimum wage (4) Non-financial public sector debt net of intergovernmental loans and holdings of public sector bonds by public sector entities (5) Net FDI measured on an accrued basis (flows reported on a cash-basis may be significantly different; for example, in 2010, net FDI on a cash basis was $9.1bn) (6) Scheduled amortizations for public sector

Source: DANE, Central Bank, Ministry of Finance and Public Credit, Credit Suisse

Ecuador: Fighting inertia and gravity

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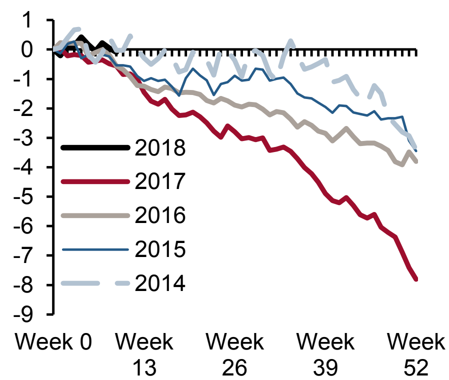
- **Ecuador's current macroeconomic conundrum looks as if it was defined by the powerful forces of inertia and gravity.** Inertia appears to be reigning over Ecuador's debt dynamics, as the current public debt service profile and fiscal dynamics suggest that Ecuador's debt ratios will continue to deteriorate over the medium term. Gravity, on the other hand, continues to torment the balance of payments, where international reserves maintain an underlying depletion trend given aggregate spending and liquidity levels that remain inconsistent with the income shock the economy suffered when oil prices fell. Both dynamics are highly related, as the only net source of dollars into the economy continues to be external debt, according to central bank data, which finances both the balance of payments and the fiscal sector. Absent reforms, these forces are unlikely to change, and may eventually impose the need for a sharp and potentially disorderly economic adjustment.
- **Debt service requirements for the 2017-2026 decade have increased by around \$18bn, or 18% of GDP, since July 2016, according to official data.** Yet, it is unlikely that Ecuador will be able to stabilize its debt ratios any time soon. According to our calculations, the debt-stabilizing primary surplus to keep public debt at 55% of GDP could range between 1% and 2% of GDP, depending on inflation and real growth rates. This implies a fiscal adjustment of 4.5% to 5.5% of GDP relative to 2017. Hence, public debt ratios are likely to continue deteriorating for the next four years, even if the fiscal consolidation path drafted in the 2018 budget materializes. The government could try to carry out debt liability operations in order to improve its debt profile, extend maturities, and ease the fiscal cost of servicing outstanding debt. The success of these operations, in our view, will depend on the ability of the government to convince market participants that its medium term fiscal and balance of payments dynamics are sustainable.
- **We expect the central government's deficit to remain high in 2018 and 2019, although narrower than in 2017.** Official data showed that the deficit reached 6.1% of GDP in 2017, wider than 5.6% of GDP in 2016 and that the government's 4.7% of GDP target. Our forecasts are that the central government's deficit will reach 5.1% of GDP and 3.9% of GDP in 2018 and 2019 respectively, with associated financing needs of 10.5% of GDP and 8.7% of GDP. The good news on the fiscal front is that the non-financial public sector deficit narrowed to 5.5% of GDP in 2017 from 7.4% of GDP in 2016, thanks to stronger results in public companies' and the rest of the public sector's balances. We think this result was possible as higher oil prices allowed the government to assign more resources to public sector companies.
- **The absence of a developed internal market for public sector financing forces the government to rely on international financial markets.** As we have stated in the past, we think these will remain open for Ecuador in 2018 as long as the government shows initiative for reform. However, almost a year into the current administration's period, international investors remain expectant of a directional change in economic policy that mimics the changes that have happened in the political arena. We believe these expectations will eventually converge to our long-held view that the design of economic policy is unlikely to undergo a drastic directional change.
- **Our main concern, however, continues to be the reigning unsustainable balance of payments dynamics.** Aggregate spending levels remain inconsistent with balance of payments sustainability, in our view. In fact, we revised our real annual GDP growth estimate for 2017 and our 2018 forecast to 2.7% and 2.2%, from 2.2% and 1.6%, respectively. Real GDP growth has been driven by consumption and government spending, leading to surging imports, while real exports and investment remain depressed. Meanwhile, rising debt service costs increasingly weigh on the current account, while the capital account deficit, ex-bond issuance, remains unaddressed. In the absence of an endogenous source of dollars, the government may have no choice but to continue to rely on external debt to finance the balance of payments.

- **Higher oil prices and a weaker dollar should continue to aid the balance of payments over our forecast horizon.** Still, we do not see either at levels that will reverse current deterioration dynamics. Our oil price assumption is for WTI to average $57 in 2018 and $57.5 in 2019, which should generate a boost to oil exports particularly on 2018 relative to 2017. Meanwhile, CS' house view is that the dollar will weaken versus other DM currencies such as the Euro over the next 12 months. Our forecast of $1.30 per euro for the next 12 months, however, may not translate into a proportional depreciation of the dollar versus peers such as the Colombian peso and the Peruvian sol. This means that the improvement of Ecuador's multilateral real exchange rate will likely lag our expected depreciation versus the Euro, while the bilateral measures against competitors like Colombia and Peru may remain around 30% and 10% stronger, respectively, than before the oil price shock, according to our calculations. With this in mind, we expect the current account deficit to widen to 0.5% of GDP in 2018 and 0.8% of GDP in 2019. We expect trade measures (taxes, tariffs, or regulations) to be implemented in the short term in order to curb import growth.
- **On the domestic front, the debate on deflation has continued to grab our attention.** Ecuador accumulated through February six months of negative annual headline inflation, although monthly prints have been positive the last three months. Thus, we believe Ecuador's annual inflation prints will turn positive in the very short term. We do not think these were driven by collapsing domestic demand, but rather to the combination of specific supply side shocks (a free trade agreement with Europe, the dismantling of import tariffs, and the reduction of the VAT tax) in the context of weak economic activity. As the impact on the annual print of these shocks dissipates, we think inflation will accelerate to more realistic levels. Our forecast is that annual headline inflation will end 2018 at 1.5% and 2019 at 1.7%.
- **We maintain our view that the government is committed to the dollarization regime and that willingness to service its international obligations is strong.** We do not think the Moreno administration will proactively seek IMF support, but that it will remain a last resort option if debt service becomes compromised in the future. We expect one last downgrade to B- by Fitch over the next 12 months, in line with S&P and Moody's.
- **In sum, we think that fiscal policy could be instrumental to create a more sustainable short term equilibrium.** To do so, a fiscal consolidation strategy should be conceived from an expenditure standpoint. For the medium term, however, we think that a mix of structural reforms are needed to generate an endogenous source of dollars strong enough to engineer a reserve accumulation strategy, so that the government can delink the role of external debt to finance the balance of payments. Alternatively, we think reigning dynamics can become worrisome in the short term, given a hefty external bond debt amortization schedule that Ecuador faces starting in 2020. The binding constraint in order for the government to be able to service these maturities, as we understand it, is the level of international reserves of the central bank rather than the deposits held by the government at the central bank. If current dynamics remain unresolved by then, Ecuador will need to guarantee its market access to be able to continue servicing bond payments.

Figure 49: Cumulative international reserve loss per year

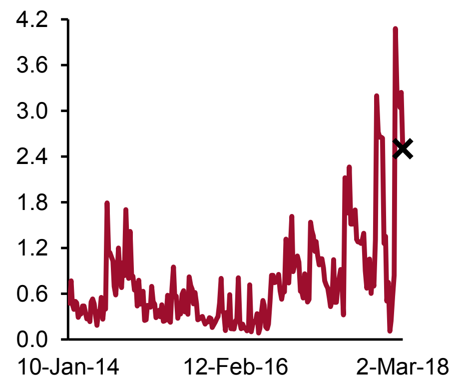
$bn, international reserves net of international bond issuance, oil-field financing, and Chinese loans linked to oil purchase-sell agreements



Source: Central bank, Credit Suisse

Figure 50: Treasury deposits at the central bank

$bn



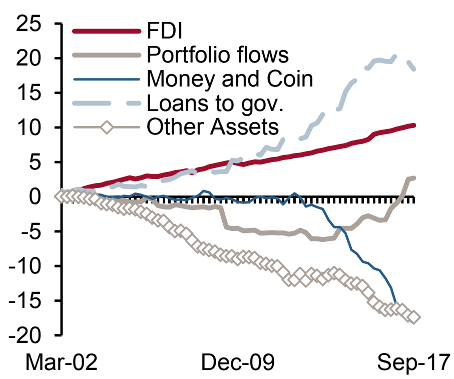
Source: Central bank, Credit Suisse

We think that the speed at which the government deploys its resources could impact the pace at which international reserves decline.

Fiscal policy could be instrumental in creating short-term equilibriums with activity and liquidity levels which are compatible with balance of payments sustainability.

Figure 51: Cumulative flows in the capital account

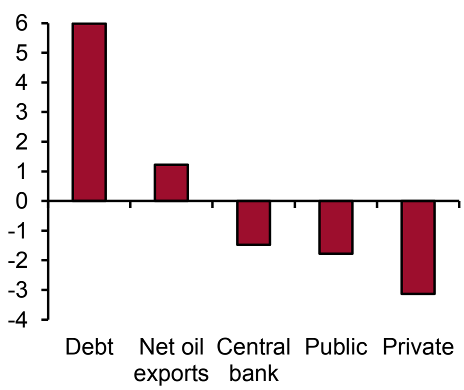
$bn, accumulated since Q1 2002



Source: Central bank, Credit Suisse

Figure 52: Net contributions to international reserves

$bn, 12-month accumulated through January 2018

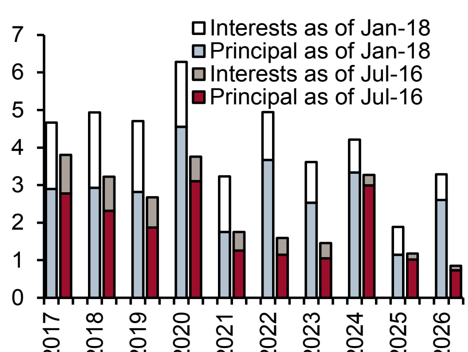


Source: Central bank, Credit Suisse

The 'money and coin' segment of the capital account has been a key driver of balance of payments outflows, while public external debt remains as the only source of dollars into the economy.

Figure 53: Projected external debt service of the public sector

$bn



Source: Prospectus of international bonds, Credit Suisse

Figure 54: Debt stabilizing primary balances

Assumes average financing cost of 6% and public debt stock of 55%

Annual inflation \ Real annual GDP growth	0%	1%	2%	3%	4%
0%	3.3%	2.7%	2.2%	1.6%	1.1%
1%	2.7%	2.2%	1.6%	1.0%	0.5%
2%	2.2%	1.6%	1.0%	0.5%	0.0%
3%	1.6%	1.0%	0.5%	0.0%	-0.6%
4%	1.1%	0.5%	0.0%	-0.6%	-1.1%

Source: Finance Ministry, Central bank, Credit Suisse

The increase in the debt service requirements for coming years illustrates the true scope of public sector indebtedness of the past few years.

Yet, current fiscal and growth dynamics will make it very difficult for debt ratios to stabilize even in the medium term.

Figure 55: Estimated 2018 financing needs and sources of the CG

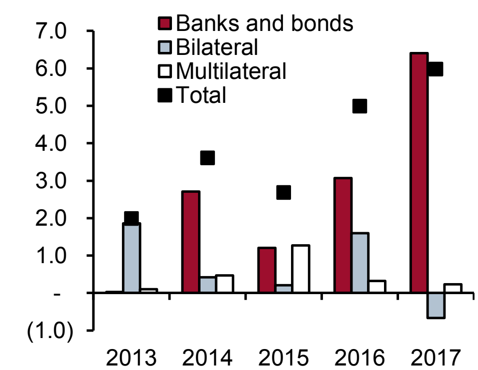
$bn

Total financing needs	**-10.5**
Deficit	-5.3
Oil pre-sale amortizations	-1.0
Domestic market	-1.8
External debt amortizations	-2.4
Total financing sources	**10.5**
Domestic market	3.0
External market	7.2
Bilateral	0.6
Multilateral	0.8
Oil presales	0.4
Bonds	5.5
Other	0.3
Financing gap	**0.0**

Source: Central bank, Finance Ministry, Credit Suisse

Figure 56: Net external lending by source

$bn

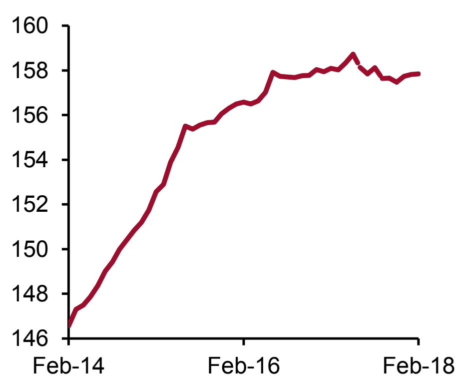


Source: Finance Ministry, Credit Suisse

We expect the government to successfully meet its financing needs next year as long as external conditions remain favorable for emerging markets.

Figure 57: Consumer price index

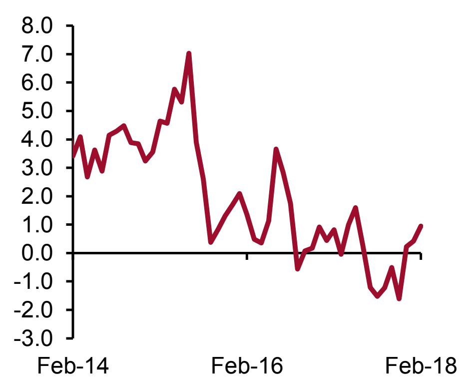
Headline index, seasonally adjusted



Source: Central bank, Credit Suisse

Figure 58: Inflation momentum

% annualized, seasonally adjusted 3mma

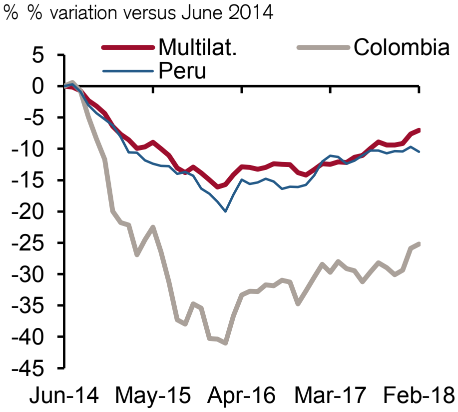


Source: Central bank, Credit Suisse

Annual headline inflation should start to accelerate as base effects from transitory shocks in 2017 dissipate and as momentum in monthly inflation remain positive.

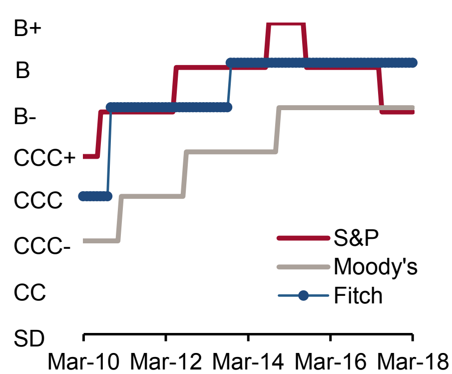
Figure 59: Real exchange rate

% % variation versus June 2014



Source: Central bank, Credit Suisse

Figure 60: Sovereign debt ratings



Source: Rating agencies, Credit Suisse

The appreciation of the real exchange rate at bilateral and multilateral levels remains one of the main vulnerabilities that Ecuador will need to address over the medium term.

Fitch could downgrade Ecuador's B rating to B- in the next 12 months, in line with S&P and Moody's.

Ecuador: Selected economic indicators

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
National accounts, population and unemployment									
Real GDP growth (%)	7.9	5.6	4.9	4.0	0.2	-1.6	2.7	2.2	0.9
Growth in real private consumption (%)	5.1	2.9	3.9	3.4	-0.1	-3.6	3.9	2.9	2.0
Growth in real fixed investment (%)	14.3	10.6	10.4	3.8	-5.9	-8.1	-1.9	-2.3	-2.1
Fixed investment (% of GDP)	23.1	24.5	25.6	27.0	26.9	24.9	23.2	22.2	21.2
Nominal GDP ($bn)	79.3	87.9	94.8	100.9	100.2	98.6	102.5	105.5	107.6
Population (mn)	15.3	15.5	15.8	16.0	16.3	16.5	16.8	17.0	17.3
GDP per capita ($)	5192.9	5664.9	6008.1	6296.5	6153.8	5966.2	6111.8	6197.7	6224.8
Unemployment (% of labor force, average) (1)	6.0	4.9	4.7	5.1	5.4	6.9	5.7	6.5	6.5
Prices, interest rates and exchange rates									
CPI inflation (%, December to December)	5.4	4.2	2.7	3.7	3.4	1.1	-0.2	1.5	1.7
CPI inflation (%, average)	4.5	5.1	2.7	3.6	4.0	1.7	0.4	0.6	1.7
REER (% year-on-year change, annual average) (2)	0.8	-2.6	-4.1	-2.0	-9.2	-2.7	3.1	6.6	2.6
Nominal wage growth (% year-on-year change, average) (3)	10.0	10.6	8.9	6.9	4.1	3.4	2.3	2.5	2.0
Interest rate (%, end-year) (4)	8.3	8.2	8.2	8.1	8.3	8.7	7.9	7.5	7.5
Fiscal data									
Non-financial public sector fiscal balance (% of GDP)	-0.1	-0.9	-4.6	-5.2	-5.1	-7.4	-5.5	-4.7	-3.6
Non-financial public sector primary fiscal balance (% of GDP)	0.5	-0.2	-3.5	-4.2	-3.7	-5.8	-3.5	-2.3	-1.0
Non-financial public sector expenditure (% of GDP)	39.5	40.3	43.7	43.6	39.0	38.2	37.5	38.4	36.9
Central government's fiscal balance (% of GDP)	-1.6	-2.0	-5.7	-6.3	-3.8	-5.6	-6.1	-5.1	-3.9
Central government primary fiscal balance (% of GDP)	-0.7	-1.0	-4.5	-4.9	-2.1	-3.7	-3.6	-2.5	-1.0
Central government expenditure (% of GDP)	23.3	24.2	27.2	26.3	24.3	24.4	23.7	23.6	22.7
Gross non-financial public sector debt (% of GDP, end-year) (5)	18.4	21.2	24.0	29.6	37.3	47.2	51.0	54.8	58.4
Money supply and credit									
Broad money supply (M2, % of GDP)	33.5	35.2	36.8	39.4	39.9	46.8	49.0	49.4	49.3
Broad money supply (M2, % year-on-year change)	19.7	16.4	13.4	14.4	-1.1	16.5	8.8	3.7	1.6
Domestic credit (% of GDP)	18.6	19.6	19.5	20.8	19.6	21.1	24.0	24.1	25.0
Domestic credit (% year-on-year)	26.2	17.1	7.6	14.3	-8.0	7.0	18.2	3.4	5.6
Domestic credit to private sector (% of GDP)	18.5	19.1	19.2	20.0	19.2	20.6	23.3	23.4	24.3
Domestic credit to private sector (% year-on-year)	22.2	14.9	9.0	10.9	-6.3	6.5	17.9	3.4	5.6
Balance of payments									
Exports (goods and non-factor services, % of GDP)	31.1	30.0	29.1	28.7	21.4	19.8	21.2	22.8	23.3
Imports (goods and non-factor services, % of GDP)	33.5	31.5	31.2	29.9	23.9	19.3	21.8	22.9	23.4
Exports (goods and non-factor services, % change in $ value)	25.8	6.9	4.7	4.8	-25.8	-8.9	11.3	10.5	3.9
Imports (goods and non-factor services, % change in $ value)	17.2	4.5	6.7	2.0	-20.8	-20.3	17.3	8.3	4.1
Net balance of factor income ($bn)	-1.3	-1.3	-1.4	-1.6	-1.7	-1.9	-2.5	-3.0	-3.3
Current account balance ($bn)	-0.4	-0.2	-0.9	-0.5	-2.1	1.4	-0.4	-0.5	-0.8
Current account (% of GDP)	-0.5	-0.2	-1.0	-0.5	-2.1	1.5	-0.4	-0.5	-0.8
Net transfers ($bn)	2.7	2.5	2.4	2.3	2.1	2.8	2.6	2.6	2.6
Net FDI ($bn)	0.6	0.6	0.7	0.8	1.3	0.8	0.8	1.0	1.2
Scheduled debt amortization ($bn) (6)	1.0	1.1	1.2	1.7	2.2	2.7	2.5	2.4	2.4
Foreign debt and reserves									
Foreign debt ($bn, end-year)	15.3	16.0	18.8	24.1	27.7	33.0	39.0	45.0	49.3
Public ($bn)	10.1	10.9	12.9	17.6	20.2	24.8	31.1	37.0	41.1
Private ($bn)	5.3	5.2	5.9	6.5	7.5	8.2	7.9	8.0	8.2
Foreign debt (% of GDP, end-year)	19.3	18.2	19.8	23.9	27.7	33.5	38.1	42.6	45.8
Foreign debt (% of exports of goods and services)	49.2	53.4	64.5	84.1	129.3	166.4	183.8	197.2	211.9
Central bank gross FX reserves ($bn)	3.0	2.5	4.4	3.9	2.5	4.3	2.5	2.7	2.9
Central bank gross non-gold FX reserves ($bn)	1.7	1.1	3.3	3.0	2.1	3.8	1.7	2.1	2.3

(1) Average for the year (2) Real effective exchange rate, increase indicates appreciation (3) Minimum wage (4) Reference rate for corporate loan operations (5) Includes intra-government debt. Starting in 2015, debt stock includes arrears with private sector, debt held at the central bank, and oil-company disbursements. In 2016, assumes Petroamazonas arrears with oil sector of $3.5bn. Excludes short term debt of under one year in maturity. (6) Scheduled amortizations for public sector only.

Source: Central Bank, INEC, Ministry of Finance, Credit Suisse

Mexico: It's crunch time!

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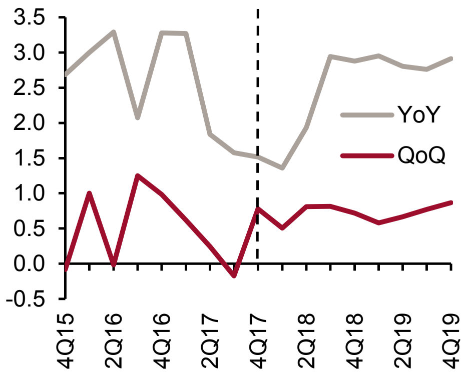
- **The second quarter of 2018 promises to be an intense one in Mexico.** On one hand, the government will likely remain fully involved in the renegotiation of the North American Free Trade Agreement (NAFTA) with the US and Canada, hoping to wrap it up by mid-year. On the other hand, presidential candidates will be in full campaign mode, fighting to gain voters' preferences ahead of the 1 July presidential election, along with thousands of others who will compete in concurring state, municipal and congressional elections. It will be crunch time for NAFTA negotiators and for those seeking a public post.
- **We have become more optimistic that a NAFTA deal may be within reach in the next few months.** We have noted the more constructive tone from President Trump regarding NAFTA, including his decision to exclude Canada and Mexico from his recent imposition of steel and aluminum tariffs, as well as his call earlier this week with Canada's Prime Minister Trudeau emphasizing the importance of quickly concluding the NAFTA negotiations. We also feel there is a lesser need for President Trump to score a political victory by pulling out of NAFTA, having achieved a successful fiscal reform recently. We are aware, however, that the most contentious points of the negotiation are still on the table and include the "sunset" clause, the elimination of Chapter 19 on dispute resolution mechanisms, and rules of origin in the auto industry. We currently assign an 85% probability to a successful conclusion of the negotiations within the next two quarters and a 15% probability of a break-up.
- **On the electoral front, with just over three months to go before the presidential elections, it is unclear whether the favorite's lead will widen or narrow from current levels.** All public polls continue to put Andrés Manuel López Obrador (AMLO) in first place of vote intentions. Most of them have candidate Ricardo Anaya from the PAN-PRD-MC alliance in second place, ahead of José Antonio Meade of the PRI-led alliance. Meanwhile, the number of independent candidates participating in the presidential elections will be public by 29 March, once the National Electoral Institute (INE) announces whether these candidates complied with the registration requirements. Based on preliminary information, the highest possible number of independent candidates will be three. Combined, these three have approximately 10% of effective voter preferences, according to the latest polls.
- **Poll aggregator "Oraculus" shows AMLO with an average lead of 9.5 percentage points of effective voter preferences from the thirteen polls published year-to-date.** According to this source, AMLO has 39%, on average, of voter preferences, ahead of Anaya's 29% and Meade's 24%. Twelve years ago, the fifteen public polls that were published between January and mid-March 2006 gave AMLO an average lead of 7.6 points over Calderón (39.1% to 31.4%), while the actual election result was a narrow Calderón victory over AMLO (35.9% to 35.3%).
- **The anti-AMLO camp, particularly in Mexico, points to the 2006 experience to note that an AMLO victory is not a foregone conclusion.** While the official race has not even started we note, however, that in 2018 there are various elements that will make it difficult for AMLO to lose his current lead. These include: (1) his more casual and measured stance, particularly when under attack; (2) the ongoing battle for second place between the PRI and PAN, with each party trying to discredit the other largely on corruption grounds; (3) the potential for a tactical PRI vote to migrate to AMLO as opposed to Anaya, if Meade stays in third place; (4) the apparent relative lack of resonance among voters that AMLO is a danger for Mexico; (5) the shorter duration of the presidential campaign in 2018—just three months as opposed to six in 2006; and, (6) the 2014 electoral reform that limits negative campaigns.

- **Official electoral campaigns will start on 31 March, with the first of three mandatory debates set for 22 April, and the other two taking place on 20 May and 12 June.** In the next few weeks it will be key to assess the impact on voter sentiment from the current PRI-PAN struggle. Early indications suggest that these attacks have hurt them both, while benefitting AMLO. Will this trend hold, making AMLO's lead wider? Or will the race get tighter? Will Meade be able to unseat Anaya from the second place in the polls? Or will it be a two-horse (AMLO vs. Anaya) race?
- **On the macro front, we remain somewhat constructive on the growth outlook for 2018.** We continue to forecast real GDP growth of 2.3% in 2018, a slight acceleration from 2.0% last year, and barely above the average of 2.1% in the past ten years. We continue to note, however, that real GDP growth excluding oil and gas extraction has been roughly 0.4 percentage points higher per year, on average, in the past five and ten years (0.6 pp higher in 2017), which the central bank has noted as a possible explanation for the apparent lack of slack in the economy. For 2018, we project that external demand and election-related spending will be important sources of growth that will help offset the softer growth in consumer spending and, to a lesser extent, the potential delays in investment projects.
- **We remain optimistic that annual consumer price inflation will continue to fall materially in 2018.** Our point forecast for year-end 2018 inflation is 4.1%, compared to 6.8% at the end of 2017 and 5.3% at present. Though gasoline prices have continued to rise in early 2018 (by a cumulative 7.5% in January and February), they have done so at a much moderate pace than in early 2017. At the same time, prices of liquefied gas have fallen (1.1%), along with key agricultural prices, most notably red tomatoes and onions (50% and 35%, respectively year-to-date). As we noted in our previous EM Quarterly, the main risks to inflation in 2018 include: 1) the uncertainty about gasoline prices, which remain subject to government control; 2) the volatility in agricultural prices; and 3) the change in the CPI in the Summer of 2018.
- **The outlook for monetary policy remains uncertain.** For the first half of the year we think that the central bank's options are to increase the overnight rate or to remain on hold. Since we project a weakening of the peso as the election approaches, we have penciled-in one more interest rate increase of 25bps to 7.75% in May or June. For the second half of the year, however, we think that the central bank will face the three options (hike, cut, or stay on hold) and that its eventual decisions will be based largely on how the exchange rate market responds to the elections. In a favorable scenario (40% chance) we think that the bank could cut the overnight rate by 125bps to 6.5%; in an unfavorable scenario (60% chance) the bank would stay on hold. This yields an expected value for the overnight rate of 7.25% at year-end 2018.
- **External and fiscal imbalances will likely remain modest.** We now project a current account deficit of 1.3% of GDP in 2018, equivalent to $15.9bn, which should be fully financed by net FDI flows. Our previous forecast called for a wider deficit (1.7% of GDP) but we now anticipate stronger exports and remittances. Meanwhile, on the fiscal front, we project the consolidated public sector deficit at 2.0% of GDP. Neither of these variables will likely be of concern to investors this year, we think.
- **Finally, the main ratings agencies will likely be on hold for now.** The clearer trigger for a downgrade to Mexico's sovereign rating would be a NAFTA break-up, which we do not anticipate. Meanwhile, the electoral process *per se* is unlikely to trigger ratings changes, as no candidate will likely campaign on a worrisome macro platform. Assuming that a NAFTA deal happens relatively soon, we think that rating agencies will shift their attention fully to the electoral process and a potential change in government, before taking any ratings action, if needed.

Figure 61: Real GDP growth

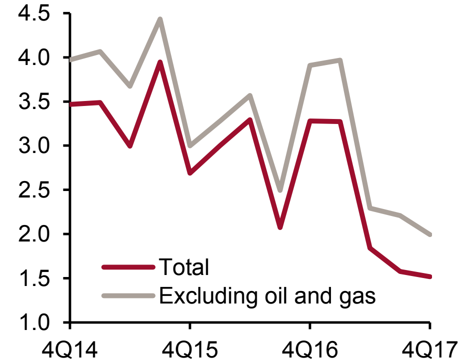
%, CS estimates after dotted line; QoQ is seasonally adjusted and non-annualized



Source: INEGI, Credit Suisse

Figure 62: Real GDP growth with and without oil and gas extraction

% yoy



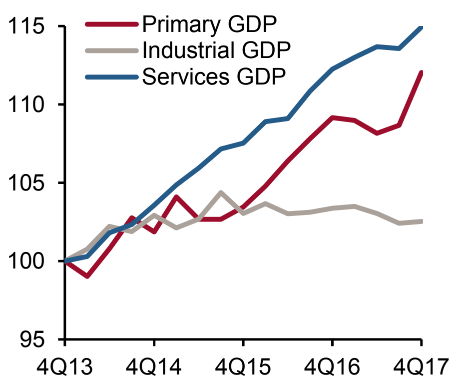
Source: INEGI, Credit Suisse

We anticipate continued quarterly real GDP growth in 2018 and 2019 (seasonally-adjusted), with a base effect benefitting year-on-year readings starting in 2H18.

Real GDP growth when excluding oil and gas extraction is consistently higher than the headline figures by an average of 0.4 percentage points per year in the past several years.

Figure 63: Real GDP by sectors

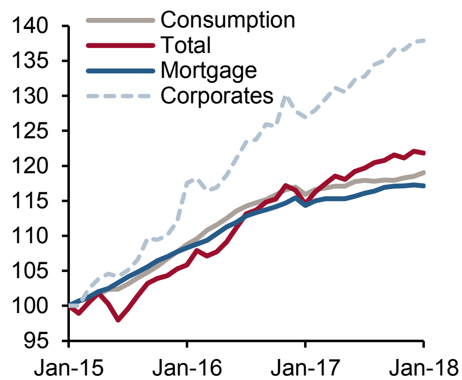
Seasonally adjusted, 4Q 2013 = 100



Source: INEGI, Credit Suisse

Figure 64: Commercial bank lending by sector

Indices, Jan-15=100, seasonally- and inflation-adjusted



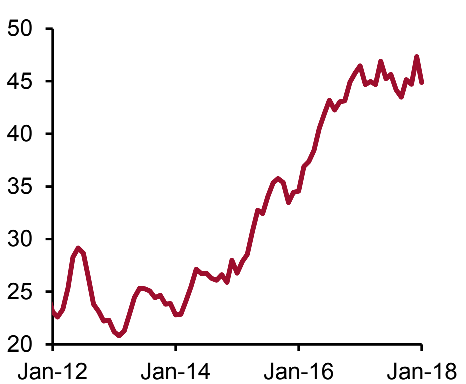
Source: Central bank, INEGI, Credit Suisse

From the supply side, most of the growth is coming from the primary and services sectors; the stagnation in industrial GDP reflects how falling mining output and a weak construction sector offset the dynamism in manufacturing.

Commercial bank lending has continued to grow, despite the prevailing risks.

Figure 65: Remittances in peso terms

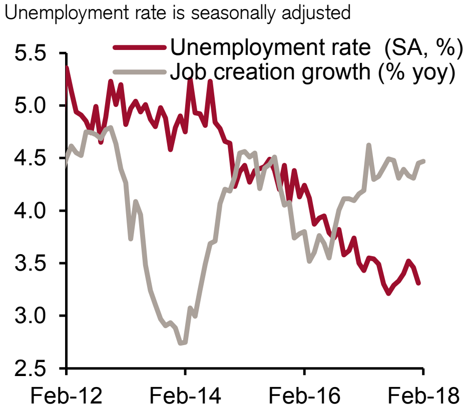
Billions of pesos, 3-month moving average



Source: Central bank, Credit Suisse

Figure 66: Job creation and unemployment rate

Unemployment rate is seasonally adjusted



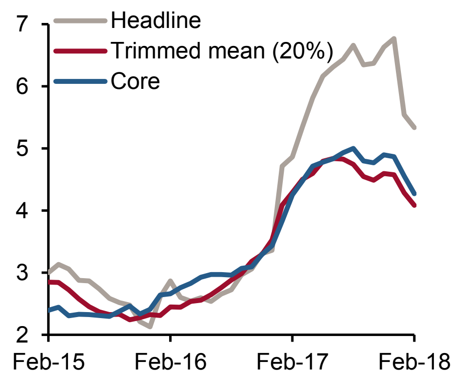
Source: INEGI, Credit Suisse

Remittances in peso terms have held generally steady, despite the appreciation of the peso, and thanks to the generosity of Mexicans living abroad.

Domestically, job creation has remained strong, which explains the steady decline in the open unemployment rate, and the central bank's growing concerns about the (limited) degree lack of slack in the economy.

Figure 67: Consumer price inflation

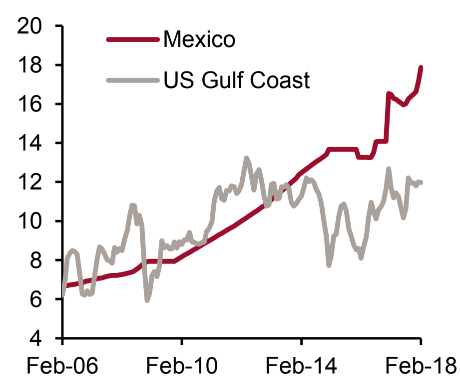
% yoy



Source: INEGI, Credit Suisse

Figure 68: Gasoline prices – Mexico vs. US

Pesos per liter



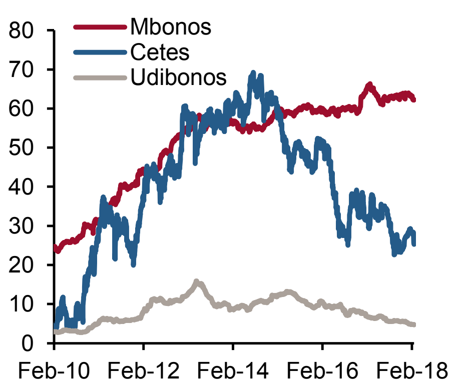
Source: INEGI, Pemex, EIA, Credit Suisse

The inflection point in inflation since early 2018 is not in question; what remains to be seen is the speed at which annual inflation reaches the central bank's 3.0% (point) inflation target.

The path of gasoline prices in Mexico remains a key source of uncertainty. They are currently about 50% higher than in the US Gulf Coast.

Figure 69: Foreign holdings of government securities

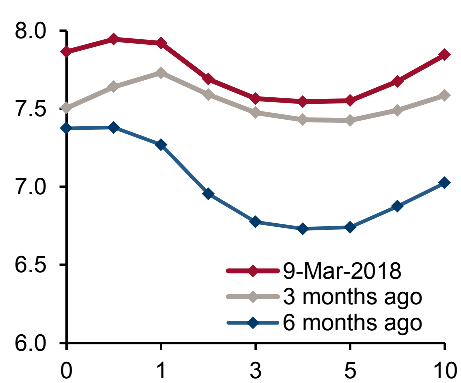
% of total outstanding



Source: Central bank, Credit Suisse

Figure 70: Swaps curve

%, tenor (in years) in the x-axis



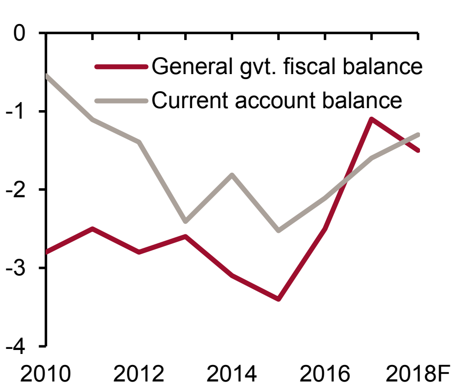
Source: The BLOOMBERG PROFESSIONAL™ service, Credit Suisse

Foreign holdings of MBonos have remained resilient to prevailing risks, but currency (un)hedging is ongoing.

The swaps curve continues to have a U-shape between the one- and ten-year tenors as investors continue to assess the timing and magnitude of an eventual interest rate cutting cycle by the central bank.

Figure 71: External and fiscal indicators

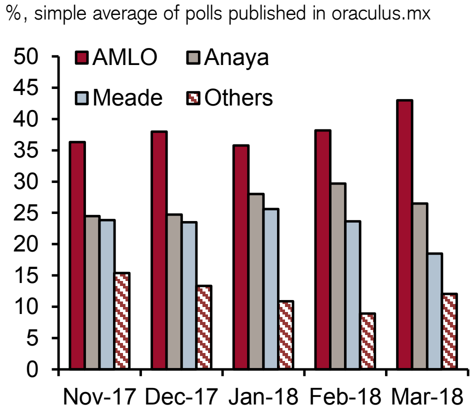
% of GDP



Source: Ministry of Finance, IMF, Credit Suisse

Figure 72: Voting intentions for President

%, simple average of polls published in oraculus.mx



Source: Pollsters, Credit Suisse

Fiscal and external imbalances will likely remain contained in 2018 and do not represent a source of concern to investors.

Andrés Manuel López Obrador leads in all public polls and his lead over his main rivals (Anaya and Meade) has widened slightly in recent months.

Mexico: Selected economic indicators

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
National accounts, population and unemployment									
Real GDP growth (%)	3.7	3.6	1.4	2.8	3.3	2.9	2.0	2.3	2.9
Growth in real private consumption (%)	3.4	2.3	1.8	2.1	3.4	3.7	3.1	2.1	2.8
Growth in real fixed investment (%)	7.8	4.9	-3.4	3.1	5.0	1.1	-1.0	3.5	2.8
Fixed investment (% of GDP)	22.0	22.3	21.3	21.3	21.7	21.3	20.6	20.9	20.9
Nominal GDP ($bn)	1,179	1,202	1,274	1,313	1,168	1,075	1,153	1,217	1,266
Population (mn)	115.7	117.1	118.4	119.7	121.0	122.3	123.6	124.8	126.2
GDP per capita ($)	10,191	10,269	10,764	10,967	9,651	8,794	9,331	9,744	10,036
Unemployment (% of labor force, end-year)	5.2	4.9	4.9	4.8	4.4	3.9	3.4	3.5	3.6
Prices, interest rates and exchange rates									
CPI inflation (%, December to December)	3.8	3.6	4.0	4.1	2.1	3.4	6.8	4.1	3.5
CPI inflation (%, average)	3.4	4.1	3.8	4.0	2.7	2.8	6.0	4.5	3.5
Exchange rate (MXN per USD, end-year)	13.97	12.87	13.09	14.75	17.21	20.64	19.70	19.75	19.50
Exchange rate (MXN per USD, average)	12.44	13.16	12.77	13.31	15.87	18.69	18.88	19.00	19.50
REER (% change, December to December) (1)	-9.7	8.3	2.1	-4.5	-10.5	-14.9	8.7	-1.0	1.0
Nominal wage growth (% year-on-year change, average) (2)	4.5	4.6	4.3	4.2	4.3	4.2	4.7	5.3	4.7
Reference rate (%, end-year)	4.50	4.50	3.50	3.00	3.25	5.50	7.25	7.25	6.50
Fiscal data									
General government fiscal balance (% of GDP) (3)	-2.5	-2.8	-2.6	-3.1	-3.4	-2.5	-1.1	-1.5	-2.0
General government primary fiscal balance (% of GDP)	-0.6	-0.7	-0.4	-1.1	-1.2	-0.2	1.2	0.9	0.5
General government expenditure (% of GDP)	24.8	24.8	25.7	25.9	26.4	26.6	23.8	24.0	24.2
Oil-related revenues (% of total public sector revenues)	38.0	39.4	35.4	30.7	19.8	16.3	16.7	16.0	17.0
Gross general government debt (% of GDP, end-year) (4)	38.7	38.2	41.3	41.3	45.5	49.4	47.2	47.0	46.5
Money supply and credit									
Broad money supply (M2, % of GDP)	55.0	55.3	58.4	60.3	61.0	62.2	62.8	64.5	65.8
Broad money supply (M2, % year-on-year change)	12.0	8.4	8.8	10.9	7.2	10.6	9.4	9.0	9.0
Domestic credit (% of GDP)	34.3	33.4	34.7	35.3	37.2	38.4	38.7	39.7	40.9
Domestic credit (% year-on-year)	8.8	5.0	7.0	9.0	12.0	12.0	9.0	9.0	10.0
Domestic credit to private sector (% of GDP)	24.6	25.0	26.5	26.6	28.8	30.7	31.5	33.1	34.7
Domestic credit to private sector (% year-on-year)	13.9	9.7	9.1	7.8	14.8	15.7	11.1	11.5	12.0
Balance of payments									
Exports (goods and non-factor services, % of GDP)	31.0	32.3	31.3	31.9	34.6	37.1	37.9	39.0	40.9
Oil exports (% of GDP)	4.8	4.4	3.9	3.2	2.0	1.8	2.0	2.0	2.1
Imports (goods and non-factor services, % of GDP)	32.3	33.4	32.4	33.0	36.6	39.0	39.6	40.3	42.5
Exports (goods and non-factor services, % change in $ value)	16.4	6.0	2.8	5.0	-3.6	-1.2	9.5	8.6	9.1
Imports (goods and non-factor services, % change in $ value)	16.5	5.2	2.9	5.1	-1.5	-1.8	8.7	7.4	9.8
Current account balance ($bn)	-12.4	-18.4	-30.9	-23.7	-29.3	-22.8	-18.8	-15.9	-19.7
Current account (% of GDP)	-1.0	-1.5	-2.4	-1.8	-2.5	-2.1	-1.6	-1.3	-1.6
Net transfers ($bn)	22.9	22.4	21.5	22.8	24.1	26.5	28.1	30.1	32.0
Net FDI ($bn)	11.9	-1.2	33.8	23.3	24.2	28.2	24.6	25.0	27.0
Scheduled debt amortization ($bn) (5)	29.5	17.7	19.3	10.8	12.3	15.5	15.0	16.0	16.0
Foreign debt and reserves									
Foreign debt ($bn, end-year)	210.5	226.5	260.0	286.6	298.0	316.2	333.0	342.0	348.0
Public ($bn) (6)	116.4	125.7	134.4	147.7	162.2	181.0	193.7	200.0	205.0
Private ($bn)	94.1	100.8	125.5	139.0	135.8	135.2	139.3	142.0	143.0
Foreign debt (% of GDP, end-year)	17.9	18.8	20.4	21.8	25.5	29.4	28.9	28.1	27.5
Foreign debt (% of exports of goods and services)	57.5	58.4	65.2	68.4	73.8	79.3	76.2	72.1	67.2
Central government gross FX reserves ($bn)	142.5	163.5	176.5	193.2	176.7	176.5	172.8	175.0	177.0
Central bank gross non-gold FX reserves ($bn)	137.3	156.9	171.8	188.5	172.4	172.1	167.8	170.1	172.1

(1) Real effective exchange rate, increase indicates appreciation. (2) Contractual wage increases at a national level in the public and private sectors (excludes fringe benefits). (3) Narrow definition that excludes off-balance expenditures. (4) Includes all contingent liabilities associated with IPAB, Pidiregas, FARAC, financial intermediation and other debtor support programs. (5) Scheduled short- and long-term market and non-market amortizations for public and private sectors. (6) Includes the total stock of Pidiregas debt.

Source: INEGI (Government's statistics agency), Banco de Mexico, Ministry of Finance, Credit Suisse

Peru: Can the economy beat political noise?

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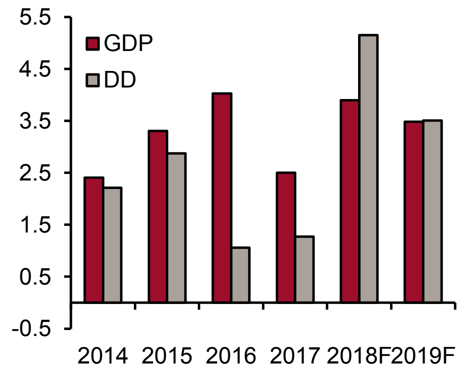
- **There seems to be a concern among Peru observers that the ongoing political noise will hurt economic performance.** In fact, there is a second impeachment process in motion against President Kuczynski, which again threatens political stability given the latent possibility that a prospective political transition could end up in early elections. We recognize that political uncertainty will likely have an impact on the economy, but continue to expect strong growth in 2018 thanks to the joint impact of fiscal stimulus and private investment. Higher copper prices should be a source of upside surprises, especially in the fiscal and external sectors.
- **We have revised our real GDP growth forecast for 2018 to 3.9% from 4.2% in our previous EM Quarterly.** This revision incorporates both the positive impulse of higher growth carryover than we expected with less impetus from domestic demand stemming from political uncertainty. Private sector investment will likely have its first year of positive growth since 2013. According to public officials we have consulted, there is a wide range of medium-sized projects that will be assigned this year under public-private partnerships, as well as renewed mining sector investment that could keep private investment supported in 2018. Public sector investment, on the other hand, should continue supported by construction activity related to the Panamerican Games and the fiscal stimulus deployed for the reconstruction efforts following last year's floods.
- **The fiscal resources associated with higher copper prices could be used to present better fiscal results or deploy more stimulus into the economy.** We forecast a general government deficit of 2.9% of GDP in 2018 and 2.3% of GDP in 2019, which are lower than the government's estimates of 3.2% of GDP and 2.6% of GDP, respectively. Consequently, we foresee gross and net public sector debt reaching 27.5% of GDP and 12.5% of GDP respectively in 2019, from 24.8% of GDP and 9.5% of GDP last year. We still think Moody's can lower its sovereign debt rating one notch to Baa1 from A3, which would place Moody's at the same level as S&P and Fitch. Still, Peru's fiscal snapshot should continue to be characterized by managed deficits and a fiscal consolidation path.
- **We have made material revisions to our current account forecasts given the persistence of high copper prices.** We now expect the current account deficit to stabilize at 1.1% of GDP in 2018 and 1.2% of GDP in 2019, only marginally down from 1.3% of GDP in 2017. Our old forecasts of deficits of 2.1% of GDP in 2018 and 2.4% of GDP in 2019 are not compatible with copper price dynamics anymore. In this context, we expect the Peruvian sol to strengthen to 3.20 soles per dollar in 2018 from levels closer to 3.25 soles per dollar currently. We expect the central bank to continue to intervene actively in the spot market on both directions to avoid sharp volatility in the currency.
- **Finally, the monetary policy strategy from the central bank has continued to defy our expectations.** The central bank has already lowered the policy rate 150bps over the last 12 months, following an aggressive disinflation process which will likely bottom-out in March with an annual print of 0.6%. While we cannot rule out one last rate cut in the short term, we maintain our base-case view that the central bank will increase the policy rate towards the end of the year as inflation accelerates (starting in April) and as economic activity starts to show strong results. Our baseline scenario is that the policy rate will reach 3.5% by the end of 2018, as the policy stance normalizes. Higher interest rates in 2019 may not be warranted if inflation remains stable and economic activity decelerates as we anticipate.

Figure 73: Real GDP and domestic demand growth

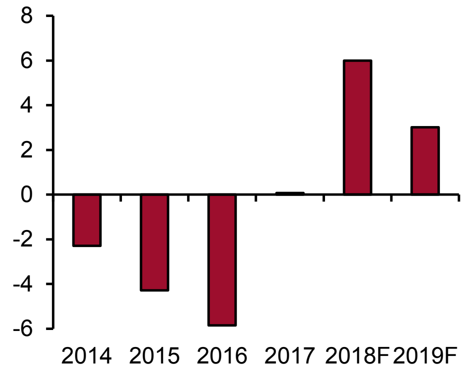
%



Source: Central bank, Credit Suisse

Figure 74: Private sector real gross fixed investment

%

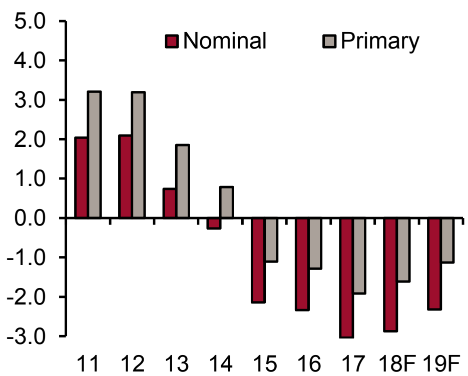


Source: Central bank, Credit Suisse

Domestic demand should rebound in 2018 thanks to both private and public sector investment, although political noise remains a key concern which would derail both.

Figure 75: Nominal and primary fiscal balance

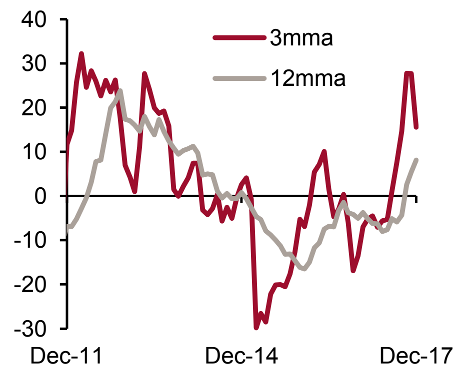
% of GDP



Source: Central bank, Credit Suisse

Figure 76: Public sector capital spending

% yoy, moving averages



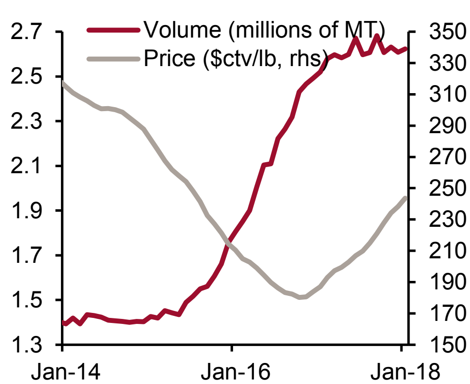
Source: Central bank, Credit Suisse

Fiscal stimulus will likely continue to be an important growth driver in coming years, although at a diminishing rate.

Government's execution of public works surged in the fourth quarter of 2017, and should remain supported throughout the year.

Figure 77: Copper export volumes and prices

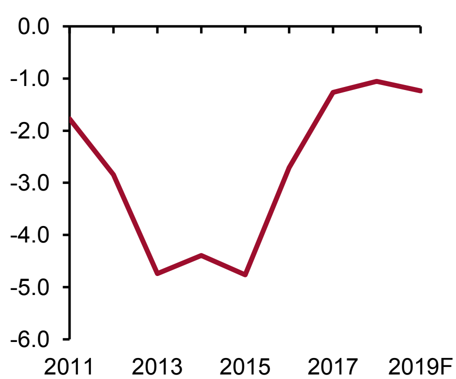
Price is 12-month average, volume is 12-month accumulated volume



Source: Central bank, Credit Suisse

Figure 78: Current account balance

% of GDP



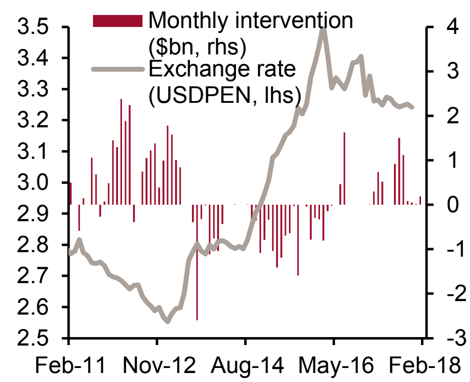
Source: Central bank, Credit Suisse

Higher copper prices have aided in the rapid narrowing of the current account deficit as production has peaked.

The current account deficit could stabilize at current levels if copper prices do the same.

Figure 79: Nominal exchange rate and CB dollar sales and purchases

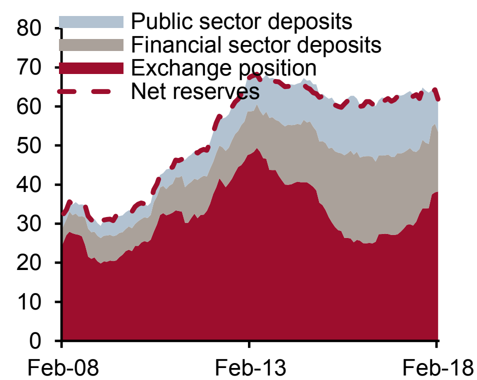
$bn



Source: the BLOOMBERG PROFESSIONAL™ service, Central bank, Credit Suisse

Figure 80: International reserves

$bn

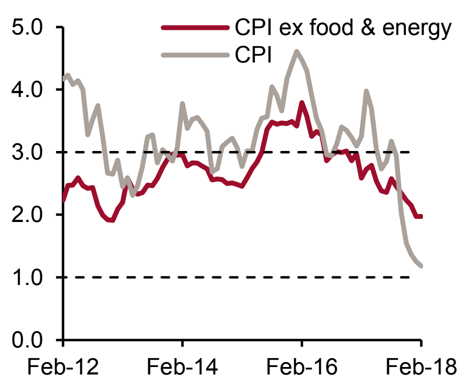


Source: Central bank, Credit Suisse

Given the central bank's strong reserve position, we expect continued intervention on both sides of the currency market to avoid excessive volatility, which could also mitigate appreciation pressures in the short term.

Figure 81: Consumer price inflation

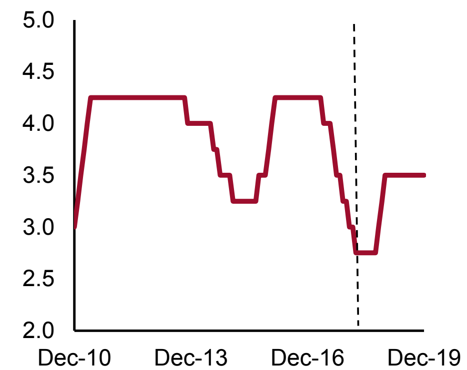
% yoy



Source: Central bank, Credit Suisse

Figure 82: Monetary policy rate

Annual rate, CS forecast after dotted line



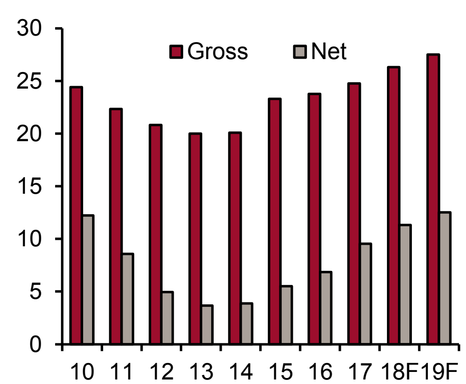
Source: Central bank, Credit Suisse

Headline and core inflation indices have fallen dramatically, leading to an aggressive easing cycle by the central bank.

While we cannot rule out further policy rate cuts in the short term, we keep our view that the central bank will likely increase interest rates towards the end of the year.

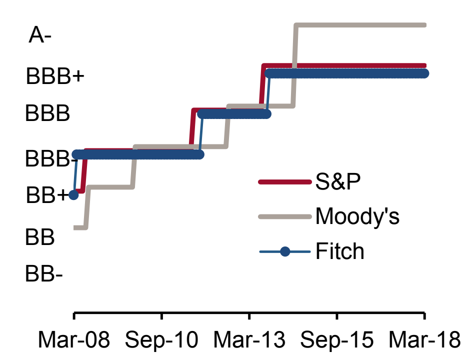
Figure 83: Public sector debt

% of GDP



Source: Central bank, Finance Ministry, Credit Suisse

Figure 84: Sovereign debt ratings



Source: Rating agencies, Credit Suisse

Despite increasing debt levels, we think Peru will continue to show very healthy debt metrics thanks to low overall levels of indebtedness and large asset holdings by the government.

Still, Moody's may downgrade Peru's sovereign debt rating to Baa1, in line with S&P and Fitch.

Peru: Selected economic indicators

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
National accounts, population and unemployment									
Real GDP growth (%)	6.5	6.0	5.9	2.4	3.3	4.0	2.5	3.9	3.5
Growth in real private consumption (%)	6.0	6.1	5.3	3.9	4.0	3.3	2.5	3.5	3.4
Growth in real fixed investment (%)	5.8	16.3	7.3	-2.2	-5.3	-4.6	0.0	6.0	3.2
Fixed investment (% of GDP)	25.4	27.9	28.3	27.1	24.9	22.8	22.3	22.7	22.7
Nominal GDP ($bn)	170.8	193.0	202.0	203.1	192.3	195.6	215.2	228.7	244.2
Population (mn)	29.8	30.1	30.5	30.8	31.1	31.5	31.8	32.2	32.5
GDP per capita ($)	5,731	6,412	6,623	6,593	6,185	6,209	6,766	7,102	7,514
Unemployment (% of urban labor force, average year) (1)	7.7	6.8	5.9	5.9	6.9	7.0	7.2	7.0	7.0
Prices, interest rates and exchange rates									
CPI inflation (%, December to December)	4.7	2.6	2.9	3.2	4.4	3.2	1.4	2.3	2.1
CPI inflation (%, average)	3.4	3.7	2.8	3.2	3.5	3.6	2.8	1.6	2.2
Exchange rate (PEN per USD, end-year)	2.70	2.57	2.79	2.96	3.39	3.40	3.25	3.20	3.22
Exchange rate (PEN per USD, average)	2.75	2.64	2.70	2.84	3.19	3.38	3.26	3.23	3.21
REER (% change, December to December) (2)	5.4	4.6	-6.4	0.3	-2.4	2.5	-0.5	1.5	-0.8
Nominal wage growth (% year-on-year change, average) (3)	13.4	14.7	4.3	0.0	0.0	8.9	4.1	5.9	0.0
Reference rate (%, end-year)	4.25	4.25	4.00	3.50	3.75	4.25	3.25	3.50	3.50
Fiscal data									
General government fiscal balance (% of GDP)	2.0	2.1	0.7	-0.3	-2.1	-2.3	-3.0	-2.9	-2.3
General government primary fiscal balance (% of GDP)	3.2	3.1	1.8	0.8	-1.1	-1.3	-1.9	-1.6	-1.1
General government expenditure (% of GDP)	19.8	20.3	21.6	22.5	22.3	21.0	21.2	22.3	22.0
Gross public sector debt (% of GDP, end-year)	22.1	20.4	19.6	20.1	23.3	23.8	24.8	26.3	27.5
Net public sector debt (% of GDP, end-year) (4)	8.6	5.0	3.7	3.9	5.5	6.9	9.5	11.3	12.5
Money supply and credit									
Broad money supply (M2, % of GDP)	34.7	36.7	40.2	40.1	42.6	40.3	40.8	43.0	44.5
Broad money supply (M2, % year-on-year change)	11.9	14.4	17.6	5.3	13.0	1.7	7.9	11.1	9.6
Domestic credit (% of GDP)	21.8	22.7	22.2	25.3	25.8	27.0	29.4	29.1	29.3
Domestic credit (% year-on-year)	8.5	12.3	5.1	20.4	8.4	12.6	15.8	4.6	6.3
Domestic credit to private sector (% of GDP)	31.5	33.0	36.3	38.9	41.7	40.7	40.2	41.7	42.3
Domestic credit to private sector (% year-on-year)	21.6	13.3	18.4	13.2	13.9	5.2	5.1	9.5	7.2
Balance of payments									
Exports (goods and non-factor services, % of GDP)	30.0	27.6	24.6	22.4	21.1	22.1	24.0	24.0	23.5
Imports (goods and non-factor services, % of GDP)	25.8	25.5	25.3	24.0	23.7	22.2	21.8	21.5	20.6
Exports (goods and non-factor services, % change in $ value)	28.2	3.3	-7.0	-6.6	-10.6	6.6	19.3	6.6	4.0
Imports (goods and non-factor services, % change in $ value)	25.2	10.8	3.3	-2.5	-6.7	-4.8	8.4	5.0	1.8
Net balance of factor income ($bn)	-13.2	-12.6	-11.2	-9.9	-7.5	-9.2	-11.3	-12.6	-14.0
Current account balance ($bn)	-3.0	-5.4	-9.4	-8.9	-9.2	-5.3	-2.7	-2.4	-3.0
Current account (% of GDP)	-1.8	-2.8	-4.7	-4.4	-4.8	-2.7	-1.3	-1.1	-1.2
Net transfers ($bn)	3.2	3.3	3.3	4.4	3.3	4.0	3.7	4.5	4.0
Net FDI ($bn)	7.2	11.7	9.7	3.6	8.1	6.6	6.5	5.6	5.2
Scheduled debt amortization ($bn) (5)	0.8	1.2	2.4	1.5	1.2	1.6	2.0	0.5	1.1
Foreign debt and reserves									
Foreign debt ($bn, end-year)	48.1	59.4	60.6	69.2	73.3	74.7	76.9	80.2	83.1
Public ($bn)	24.3	26.5	24.1	24.0	26.8	29.7	33.1	34.4	35.2
Private ($bn)	23.8	32.9	36.5	45.2	46.5	45.0	43.8	45.8	47.8
Foreign debt (% of GDP, end-year)	28.5	31.4	30.6	34.1	38.1	38.2	35.7	35.1	34.0
Foreign debt (% of exports of goods and services)	95.0	113.5	124.5	152.2	180.3	172.3	148.9	146.0	144.7
Central bank gross FX reserves ($bn)	48.9	64.0	65.7	62.4	61.5	61.7	63.7	64.0	66.5
Central bank gross non-gold FX reserves ($bn)	47.1	62.2	64.4	61.0	60.4	60.2	62.1	62.4	64.8

(1) Average for the year (2) Real effective exchange rate, increase indicates appreciation (3) Minimum wage (4) Public sector debt net of public sector deposits in the financial system (5) Scheduled amortizations for public sector only

Source: Central Bank, INEI, Ministry of Finance, Credit Suisse

Venezuela: Tightening the screws

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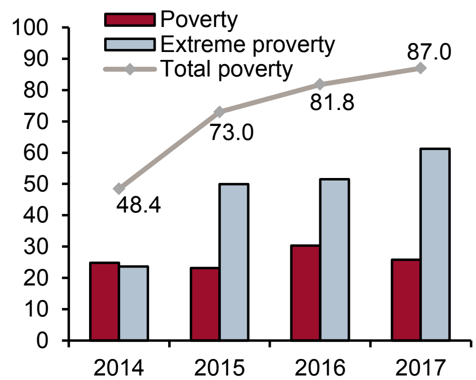
- **The 20 May presidential election and associated fallout will likely be the main focus of the second quarter.** Our base caseis that President Nicolas Maduro will be declared the victor under non-competitive conditions. This implies, in our view, that the policy framework will not improve in the near-term, that sanctions on Venezuela could be ratcheted up and that the humanitarian crisis could worsen. We expect another dismal year on the macroeconomic front even in the event of a surprise opposition victory since the next presidential term is not set to begin until January 2019. Additionally, we think that the default situation is unlikely to be resolved in the absence of political regime change accompanied by improvements in democratic practices, easing of sanctions and a more coherent policy mix.
- **Chavista leaders, their allies and their military backers appear unwilling to risk losing the presidency.** Chavismo controls the domestic institutions needed to determine the outcome on 20 May, including the Constituent Assembly, the National Electoral Council, the Supreme Court and the armed forces. Chavismo's reluctance to cede power has been evident in the circumstances of recent elections, which have been fraught with unusual requirements, last minute logistical changes, restrictions on who can participate, etc. We also base our view on the failure of talks in the Dominican Republic with opposition leaders who were demanding assurances that upcoming elections would be free and fair, as well as the restoration of the National Assembly's powers, the release of political prisoners and access to humanitarian relief.
- **A negotiated transition based on a Henri Falcon presidency is a lower probability scenario, in our view.** The once Chavista, former Lara governor represents the most viable option for voters who oppose Maduro and wish to participate in this election despite large opposition parties' calls to abstain. Additionally, Chavismo may be more comfortable with Falcon as a potential negotiating partner than with opposition leaders who appear less willing to compromise. This may be why Falcon has not been barred from running for office. Still, President Maduro's previously stated desire for Falcon to run could be an aspect of a strategy to boost the perceived competitiveness of this contest and further divide the opposition. We also note that Falcon did not manage to win reelection in last year's gubernatorial elections, which were also held under challenging conditions.
- **Additional sanctions may be rolled out before and after the elections.** The agreement signed by government officials and three small opposition political parties, including Falcon's, which resulted in the postponement of the election from its original date of 22 April, failed to provide sufficient electoral guarantees to convince the largest opposition parties to take part. Based on U.S. government officials' expressed concern about non-democratic practices and press reports by Reuters and others, we think that the U.S. could respond with more individual and financial sanctions as well as restrictions on U.S. oil exports to Venezuela between now and 20 May. Measures targeting U.S. imports of Venezuelan oil could be implemented following a Maduro victory. The next step for others, such as Canada and the EU, could be more individual sanctions, while many governments could refuse to recognize the election results.
- **Social conditions could remain dire for the time being.** The 2017 survey by three major universities contained more jarring statistics, including that the income poverty level rose to 87% and that over 64% of respondents lost an average of 11.4 kilograms in the past year. Chavismo continues rejecting much needed humanitarian assistance rather than recognize the extent to which it is needed. The domestic environment will probably stay ripe for discontent due to rapidly diminishing purchasing power and shortages. Widespread protests could erupt again, especially if Maduro secures another term, but we remain unconvinced that they would be the main catalyst for regime change given strategic disagreements within the opposition leadership that undermine its effectiveness and the government's demonstrated inclination to stifle dissent.

- **Venezuela faces another year of deep economic contraction.** We currently project that real GDP will drop by an additional 10.0% in 2018, following an estimated -12.5% in 2017 and marking a fifth consecutive year of lower output. Our expectation for 2018 incorporates the assumption that last year's roughly 30% oil production decline will be repeated, in part due to the adverse effect of new U.S. sanctions. We also foresee a further reduction in imports required to support the supply chain as foreign exchange remains scarce. Chavismo's economic policies, which are generating out-of-control inflation, will probably continue depressing private consumption and investment as well.
- **We expect hyperinflation to persist throughout much of 2018.** It officially began late last year when prices rose sharply as the government accelerated monetization of the public sector fiscal deficit and the unofficial exchange rate weakened dramatically. Opposition lawmakers' figures, which are based on previous central bank methodology, indicate that monthly inflation averaged over 47% during the second half of 2017 and was 80% in February. The reopening of the DICOM exchange rate mechanism is the main gesture the authorities have made toward implementing policies that could help curb hyperinflation, in this case by potentially reining in the parallel exchange rate and allowing PDVSA to generate more bolivar-denominated fiscal revenues via access to a much weaker official exchange rate. Yet, they have also continued fueling domestic liquidity by hiking the minimum wage and increasing social transfers.
- **The latest iteration of DICOM is a step in the right direction, but probably too little, too late.** We view the elimination of the highly preferential DIPRO exchange rate (10 bolivares per dollar) and the devaluation of the DICOM exchange rate (roughly 36,500 bolivares per dollar in the most recent auction) favorably. However, the private sector is currently the sole supplier of foreign exchange in DICOM and the volumes sold so far have been very low, at $2.0mn in the best case. The unofficial exchange rate has generally appreciated since early February, but is still substantially weaker (at around 216,000 bolivares per dollar). We would expect its recent directional tendency to reverse sooner than later if access to foreign exchange remains constrained and domestic liquidity continues expanding. As for the Petro, we believe that serious doubts about its credibility, as well as U.S. sanctions, will likely limit its usefulness.
- **The foreign exchange financing gap looks set to widen to $11.5bn in 2018 despite higher oil prices and additional import compression**. Continuation of the swift fall in oil production and extremely limited access to external financing, both of which are exacerbated by US sanctions, are factors driving the expected decline in foreign exchange generation this year. Moreover, the Venezuelan oil mix's price discount to Brent could increase should the U.S. impose oil sector sanctions that force PDVSA to seek to divert a larger share of its production to Asian markets and displace their existing suppliers. These challenges underpin the consensus expectation that the public sector external debt default will likely broaden in the coming months. Nearly $2.0bn worth of interest payments are currently overdue.
- **Political regime change is most likely required for a sustainable debt restructuring to take place.** There have been few updates from government officials since they announced their intention to renegotiate public sector external debt last November. U.S. sanctions represent a major obstacle in that they currently forbid U.S. persons from transactions and dealings in new sovereign and PDVSA debt and equity, and sanctioned individuals remain involved with the restructuring. As suggested earlier, we believe that the ruling Chavistas remain averse to facing the political survival risks associated with making the democratic concessions needed to ensure that sanctions are lifted as well as with implementing the policy changes that would help secure multilateral assistance and bolster the credibility of any proposed workout.

Figure 85: Poverty by income level

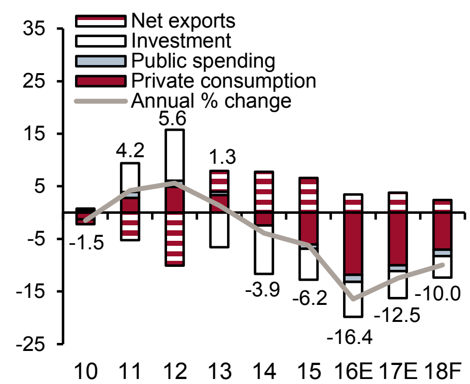
% of population



Source: UCAB-USB-UCV, Credit Suisse

Figure 86: Contribution to real GDP

p.p.



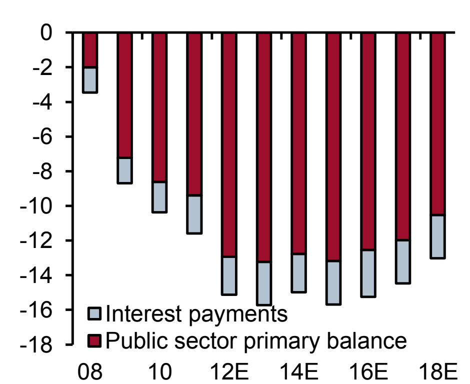
Source: Central bank, IMF, Credit Suisse

The latest data compiled by three Venezuelan universities shows an additional deterioration in total and extreme poverty levels in 2017.

We project that the Venezuelan economy will contract further this year in the context of broad policy continuity and an escalation of sanctions.

Figure 87: Consolidated public sector fiscal balance

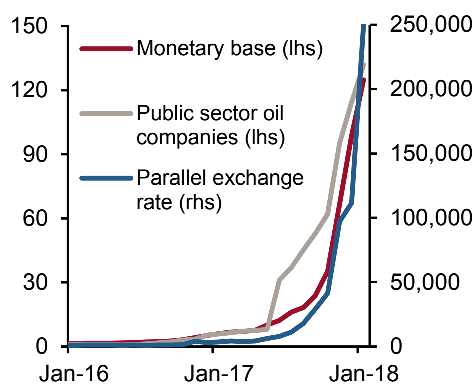
% of GDP



Source: Ministry of Finance, central bank, IMF, Credit Suisse

Figure 88: Monetary aggregates and parallel exchange rate

VEFtn (lhs), USDVEF (rhs)



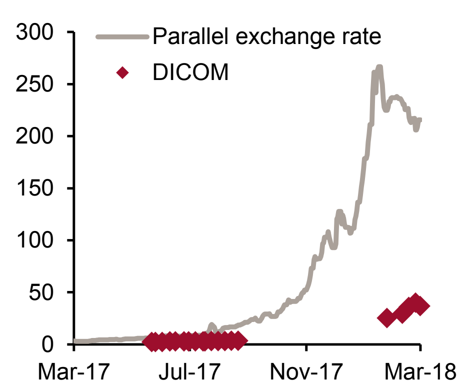
Source: Central bank, dolartoday.com, Credit Suisse

Sustained monetization of a double-digit public sector fiscal deficit drives swiftly-expanding domestic liquidity.

In fact, annual growth in the monetary base was over 1,900% in January, contributing to the sharp weakening of the unofficial exchange rate.

Figure 89: Official and parallel exchange rates

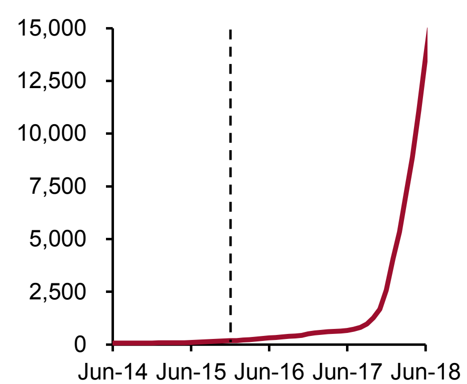
Thousands of bolivares per dollar



Source: Central bank, dolartoday.com, Credit Suisse

Figure 90: Headline inflation

% yoy, national CPI, CS estimate after the dotted line



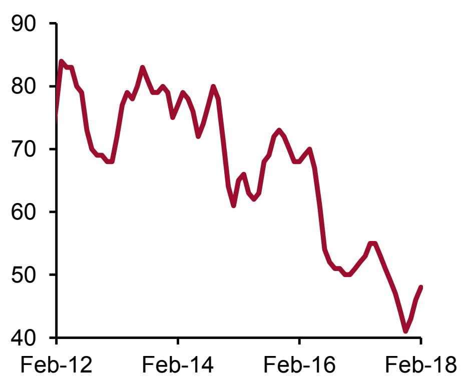
Source: Central bank, IMF, Credit Suisse

The parallel exchange rate has appreciated somewhat since the DICOM auction mechanism was revamped, although a massive gap between the official and unofficial exchange rates persists.

Hyperinflationary conditions will likely continue in the near-term, in our view, as the government fans the flames with minimum wage increases and other social outlays.

Figure 91: Total rig count

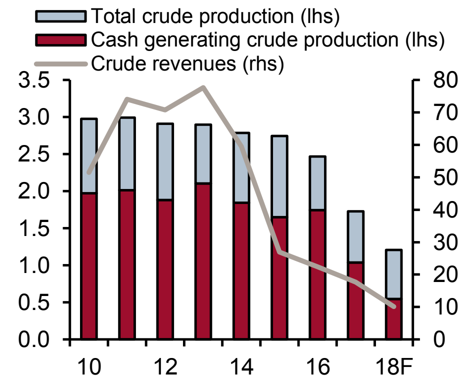
Number of rigs, 3mma



Source: Baker Hughes, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

Figure 92: Crude production and revenues

Mn bpd (lhs), $bn (rhs)



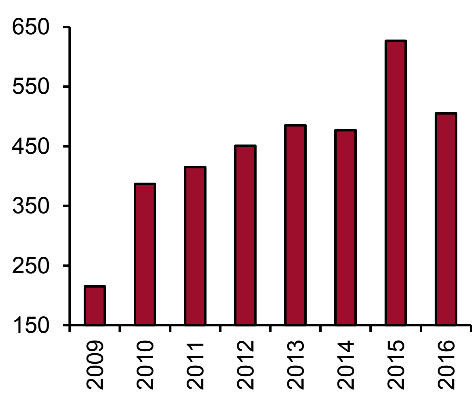
Source: PDVSA, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

We expect oil production to keep dropping at a rapid clip in 2018 amidst multiple significant challenges, including potential oil sector sanctions by the U.S.

Higher oil prices will probably be insufficient to compensate for lower cash-generating crude production levels, according to our projections.

Figure 93: Deliveries to China

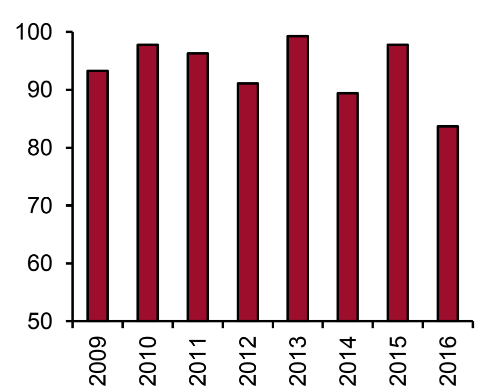
Kbpd



Source: PDVSA, Credit Suisse

Figure 94: Deliveries to Cuba

Kbpd



Source: PDVSA, Credit Suisse

PDVSA's liquidity could remain further constrained by domestic market subsidies, deliveries for debt-repayment and petro-diplomacy efforts.

We assume that Venezuela continues making only interest payments on its loans from China, while it receives essentially no cash from what it sells locally and what it sends to Cuba.

Figure 95: Foreign exchange sources and uses

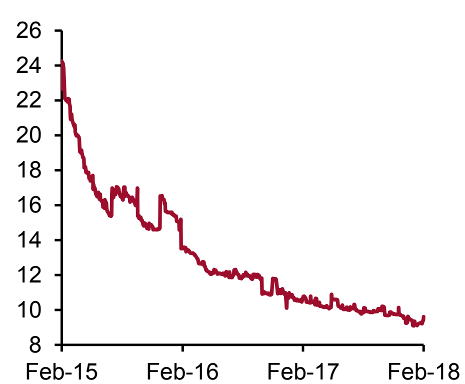
$bn

	2017E	2018F
Avg. Vzlan. oil mix price ($/barrel)	46.7	51.0
Sources	**31.4**	**16.2**
Cash generating oil production	17.6	10.2
Non-oil exports	2.5	2.5
Borrowing	3.0	0.5
Asset sales	8.3	3.0
Uses	**31.9**	**27.6**
Imports	12.0	9.9
Services deficit	4.9	3.9
Debt service	12.5	11.6
Capital flight	2.5	2.2
Balance	**-0.5**	**-11.5**

Source: Ministry of Finance, PDVSA, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

Figure 96: Gross international reserves

$bn



Source: Central bank, Credit Suisse

Our projection for this year's foreign exchange financing gap exceeds the current level of international reserves as per the central bank.

This discrepancy supports the consensus expectation that the public sector's external debt default will deepen before it is cured.

Venezuela: Selected economic indicators

	2011	2012E	2013E	2014E	2015E	2016E	2017E	2018F	2019F
National accounts, population and unemployment									
Real GDP growth (%)	4.2	5.6	1.3	-3.9	-6.2	-16.4	-12.5	-10.0	-6.5
Growth in real private consumption (%)	4.0	7.0	4.7	-3.4	-8.3	-16.5	-14.0	-10.0	-7.1
Growth in real fixed investment (%)	4.4	23.3	-9.0	-16.9	-18.8	-28.0	-25.0	-25.0	-21.1
Fixed investment (% of GDP)	30.4	35.5	31.8	27.5	23.8	20.5	17.6	14.7	12.4
Nominal GDP ($bn) (1)	315.7	380.3	279.7	145.7	95.7	88.2	86.1	81.7	75.3
Population (mn)	29.3	29.7	30.1	30.1	30.6	31.1	31.5	32.0	32.5
GDP per capita ($) (1)	10,785	12,802	9,280	4,834	3,127	2,840	2,729	2,551	2,316
Unemployment (% of labor force, end-year)	8.3	5.9	5.6	5.5	6.0	6.6	7.5	8.5	9.0
Prices, interest rates and exchange rates									
CPI inflation (%, December to December)	27.6	20.1	56.2	68.5	180.9	501.7	2,578.6	16,252.2	4,998.1
CPI inflation (%, average)	26.1	21.1	40.6	62.2	121.7	353.7	1,260.8	16,732.0	5,911.2
Nominal wage growth (% year-on-year change) (2)	31.0	28.8	31.9	45.0	97.4	495.0	750.0	5,000.0	2,500.0
Exchange rate (VEB per USD, end-year) (3)	4.30	4.30	9.95	27.94	88.48	515.44	12,667.76	702,119.4	33,666,667
Exchange rate (VEB per USD, average) (3)	4.30	4.30	8.03	20.80	62.98	269.23	3,286.36	524,613.3	320,00,000
REER (% change, December to December) (4)	25.6	16.0	-2.0	-97.0	-81.0	26.1	140.2	868.7	-88.6
90 day deposit rate (%, end-year)	14.5	14.6	14.7	14.5	15.1	14.9	15.0	14.8	15.0
Fiscal data									
Consolidated public sector overall balance (% of GDP) (5)	-11.6	-15.1	-15.7	-15.0	-15.7	-15.2	-14.5	-13.0	-13.5
Consolidated public sector primary balance (% of GDP) (5)	-9.4	-12.9	-13.2	-12.8	-13.2	-12.5	-12.0	-10.5	-11.0
Consolidated public sector expenditure (% of GDP) (5)	39.5	40.6	42.3	46.2	46.5	47.4	48.4	48.8	49.1
General government and PDVSA debt (% of GDP, end-year) (6)	36.2	38.1	47.5	75.6	99.8	101.8	96.7	102.1	110.3
Money supply and credit									
Broad money supply (M2, % of GDP)	32.9	44.0	54.3	66.0	66.6	43.8	44.9	22.5	20.4
Broad money supply (M2, % year-on-year change)	50.6	61.0	69.7	64.0	100.7	159.2	1,120.8	7,500.0	5,000.0
Domestic credit (% of GDP)	30.8	40.2	49.7	59.7	56.6	31.5	22.5	3.9	1.4
Domestic credit (% year-on-year)	49.2	57.4	69.5	62.4	88.3	119.6	750.0	2,500.0	2,000.0
Domestic credit to private sector (% of GDP)	20.4	25.1	29.7	39.5	42.1	25.5	12.8	1.8	0.5
Domestic credit to private sector (% year-on-year)	46.2	48.7	62.5	79.2	112.2	138.4	5,00.0	2,000.0	1,500.0
Balance of payments									
Exports (goods and non-factor services, % of GDP)	30.3	26.3	32.5	52.5	40.6	32.5	30.4	26.0	26.0
Imports (goods and non-factor services, % of GDP)	20.7	21.1	25.7	41.3	47.0	29.2	21.1	18.8	19.5
Exports (goods and non-factor services, % change in $ value)	39.2	4.6	-9.1	-15.9	-49.2	-26.3	-8.8	-18.8	-7.6
Imports (goods and non-factor services, % change in $ value)	24.5	22.5	-10.2	-16.4	-25.3	-42.7	-29.5	-15.5	-4.5
Current account balance ($bn)	16.3	2.6	4.6	4.9	-16.1	-3.9	0.3	-1.9	-2.8
Current account (% of GDP)	5.2	0.7	1.6	3.4	-16.8	-4.4	0.3	-2.4	-3.7
Net FDI ($bn)	-5.6	-8.3	-2.4	-5.7	-5.5	-3.1	-4.3	-3.7	-4.0
Scheduled debt amortization ($bn)	4.7	0.7	3.3	4.5	4.7	3.6	4.0	2.9	4.1
Foreign debt and reserves									
Foreign debt ($bn, end-year)	118.3	130.8	132.4	135.8	139.1	144.1	145.6	145.3	145.1
Public ($bn)	103.1	113.1	112.1	117.2	120.1	124.9	126.1	126.1	126.1
Private ($bn)	15.1	17.7	20.3	18.6	19.0	19.2	19.5	19.2	19.0
Foreign debt (% of GDP, end-year)	37.5	34.4	47.3	93.2	145.4	163.4	169.1	177.9	192.7
Foreign debt (% of exports of goods and services)	123.7	130.7	145.5	177.4	357.8	503.1	557.2	685.3	740.3
Central bank gross FX reserves ($bn)	29.9	29.9	21.5	22.1	16.4	11.0	9.6	6.6	3.8
Central bank gross non-gold FX reserves ($bn)	9.9	9.9	6.0	7.3	6.3	3.2	2.4	1.1	0.3
Gap between public sector's external assets and liabilities ($bn, end-year)	27.2	10.2	10.3	12.4	1.4	-8.1	-12.8	-13.0	-16.3
Gap between public sector's external assets and liabilities (% of GDP, end-year)	8.6	2.7	3.7	8.5	1.4	-9.2	-14.9	-16.0	-21.6

(1) Forecasts based on a projected weighted average exchange rate across official and unofficial foreign exchange markets. (2) Public and private sector wages. (3) Expressed in strong bolivares for all years; 2014-2019 estimates and forecasts represent a weighted average exchange rate across official and unofficial foreign exchange markets. (4) Increase indicates appreciation. (5) Preliminary consolidation of central government and PDVSA in 2011. (6) Central government, regional governments, PDVSA; does not include liabilities of other public institutions such as the Central bank, National Development Bank, Foreign Trade Bank, Industrial Bank of Venezuela and Andean Region Development Bank.

Source: Central Bank, IMF, INE, Ministry of Finance, PDVSA, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

Emerging Europe, Middle East and Africa

Poland: Stronger zloty delayed the first rate hike until 2019

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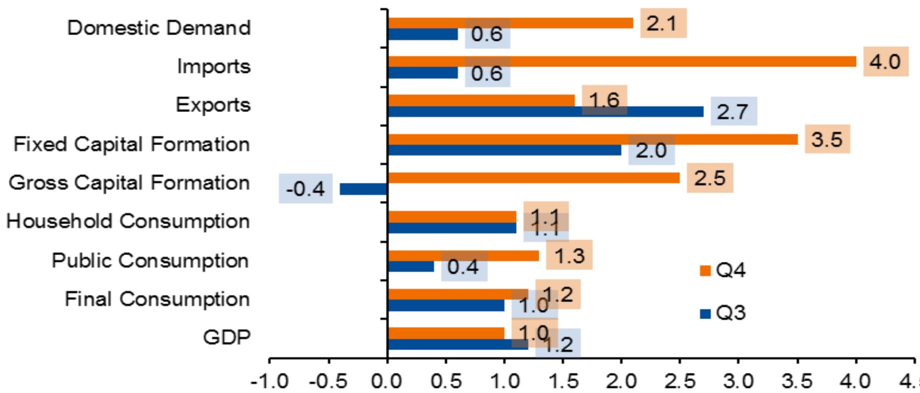
- **Despite some positive comments from EU officials the conflict over judicial reform between Polish authorities and the EU remains far from resolved.** The appointment of new Prime Minister Morawiecki brought some hope to investors that he would be a better fit for smoother negotiations with the EU over the judicial reform. However, those negotiations have not brought much progress yet, which leaves Poland vulnerable ahead and after the 20 March deadline, when it needs to present a plan to fix the judicial reform.
- **In our view, the EU does not have effective leverage against the Polish authorities.** On 1 March the European Parliament voted to support the invoking of Article 7 against Poland. The most damaging potential sanction from this procedure could be the loss of voting rights in the EU. However, in order to approve this sanction, it should be supported by all member states. At this stage the EU does not have unanimous support of all members, as at least Hungary's Prime Minister Orban already stated that he would veto any sanctions against Poland. Therefore, it's not totally surprising that over the last few weeks we started hearing positive comments from the EU officials on a potential resolution of the conflict. A benefit to both sides would be to resolve this issue without bringing it to the vote. However, we strongly believe that Poland will not change its judicial reform, so the ultimate decision on potential further actions would depend on the European Commission's willingness to accept arguments of the Polish authorities.
- **The economy keeps growing slightly above its potential level thanks to a robust investment demand recovery.** According to the Central Statistical Office's (CSO) seasonally adjusted estimates, real GDP growth was 1.0% qoq in 4Q, slightly lower than 1.2% qoq in 3Q and on par with growth in 2Q. This moderate slowdown in real GDP growth was mainly related to a drop in net exports contribution, due to much higher imports growth (4.0% qoq in 4Q vs 0.6% qoq in 3Q) and lower exports growth (1.6% qoq in 4Q vs 2.7% qoq in 3Q). On the flip side, domestic demand growth picked up to 2.1% qoq in 4Q from 0.6% qoq in 3Q, which is mainly thanks to improvement in gross (2.5% qoq in 4Q vs -0.4% qoq in 3Q) and fixed (3.5% qoq in 4Q vs 2.0% qoq in 3Q) investment growth. The latter is the result of higher utilization of EU funds, which increased in particular in 4Q judging by sharply wider capital account surplus of the balance of payments (2.6% of GDP in 4Q vs 0.9% of GDP in 3Q). The structure of real GDP growth in 4Q shows the Polish economy's emerging vulnerability to a stronger zloty. However, at this stage and in the next few years, strong consumer and investment demand growth should largely offset negative contribution from net exports. We keep our real GDP growth forecast unchanged, at 4.7% in 2018 and 4.0% in 2019.
- **Core inflation stayed at a subdued level despite higher wages growth.** According to the CSO, headline CPI inflation was at 1.9% yoy in February, coming off its recent highs of 2.5% yoy in November 2017. This drop was the result of unfavorable base effects and stronger zloty, which helped to offset an upwards pressure on inflation from higher global energy prices. That said, core inflation (net of food and energy prices) was at 0.9% yoy in December, on par with its average level since 2Q 2017 and significantly below the lower edge of the Monetary Policy Council (MPC) inflation target range (1.5%-3.5%). Core inflation failed to respond yet to the recent increase in nominal wages growth to 7.3% yoy in December, its highest growth rate since early 2010. The increase in nominal wages growth is consistent with the economy which operates slightly above its potential level (by around 0.5%) and tighter labor market. We revise downwards our 2018 CPI inflation forecast to 2.6% from 3.0% previously, allowing more time for inflation pressure to build. At the same time, we revise higher our 2019 CPI inflation forecast to 2.6% yoy from 2.4% yoy previously.

- **In its recent meeting (on 7 March) the MPC turned more dovish, almost ruling out any chance of a policy rate hike this year and probably next.** This view was expressed by Governor Glapinksi in light of new real GDP growth and CPI inflation forecast. Despite upside revisions to real GDP growth forecast in 2018-2020, CPI inflation forecast for the same period was revised slightly to the downside (compared to its November projections). The increase in real GDP growth forecasts was related to a higher "contribution of investment, together with the rebuilding of the productive potential of the Polish economy and the inflow of EU funds from the current financial framework 2014-2020". Despite higher real GDP growth forecast and wider output gap (which may reach up to 1.8% in the next three years), CPI inflation was revised marginally to the downside (compared to its November projections). According to the National Bank of Poland (NBP) March report, "inflation growth will be limited by the low import prices growth connected with an appreciation of the effective exchange rate of the zloty, low inflation abroad and expected decline in energy commodity prices." This assumption is not entirely consistent with our base case assumption (slightly weaker zloty and flat energy prices), overall making the MPC's reaction function vulnerable to developments in the external markets. Following the MPC's comments we carry over the first rate hike (from 1.5% to 1.75%) from 4Q 2018 to 2H 2019. Despite the fact that the MPC is not keen to hike the policy rate in 2019 either, it would be much more vigilant to changes in the external environment and should be on alert for a fast response to a potential increase in inflation pressure in 2019.
- **The balance of payments supports the zloty, but mainly from the capital and the financial accounts.** The current account was in a small surplus of 0.1% of GDP in 2017 after a deficit of 0.3% in 2016. This marginal improvement was mainly related to higher services trade surplus (3.9% of GDP in 2017 vs 3.3% of GDP in 2016) and helped to offset deterioration in the goods trade surplus (to 0.1% of GDP in 2017 from 0.7% of GDP in 2016). Stronger zloty and improved consumer sentiment keeps demand for imported goods at elevated level, facilitating the above mentioned deterioration in goods trade surplus. Going forward, we expect further deterioration in the current account balance, which we expect to turn negative at 0.9% of GDP in 2018 and 1.4% of GDP in 2019.
- **The stability of the Polish zloty will rest entirely on the capital and financial account balance, in our view.** The capital account surplus widened to 1.3% of GDP in 2017 from 1.0% in the previous year, mainly on the back of higher inflows of EU funds from the current financial framework (2014-2020). On the financial account side, the picture was not that bright as net FDI inflows dropped to 0.3% of GDP in 2017 from 1.2% in 2016, while net portfolio inflows were at 0.8% of GDP in 2017, on par with the previous year. We revise our zloty exchange rate forecasts weaker to 4.33 on average against the euro (from 4.18 on average previously) and to 4.47 on average in 2019 (from 4.19 previously).

Figure 97: Demand-side breakdown of real GDP growth in 3Q vs. 2Q

% qoq, seasonally adjusted

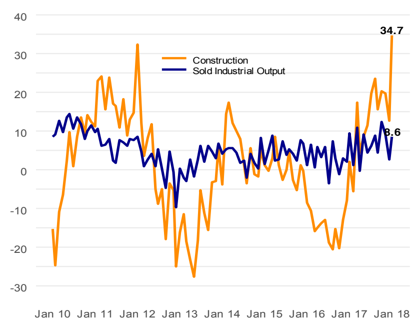


Source: Central Statistical Office, Credit Suisse

According to the Central Statistical Office's (CSO) seasonally adjusted estimates, real GDP growth slowed to 1.0% qoq in 4Q from 1.0% qoq in 2Q. This moderate slowdown in real GDP growth was mainly related to a negative contribution from net exports. We estimate the economy is growing marginally above its potential level (by 0.5%). We keep our real GDP growth forecast broadly unchanged, at 4.7% in 2018 and 4.0% in 2019.

Figure 98: IP growth momentum and new export orders

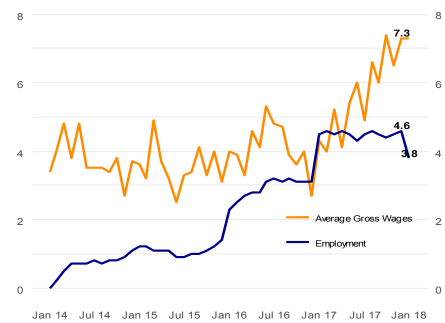
% yoy



Source: Central Statistical Office, Credit Suisse

Figure 99: Nominal wages and employment

% yoy

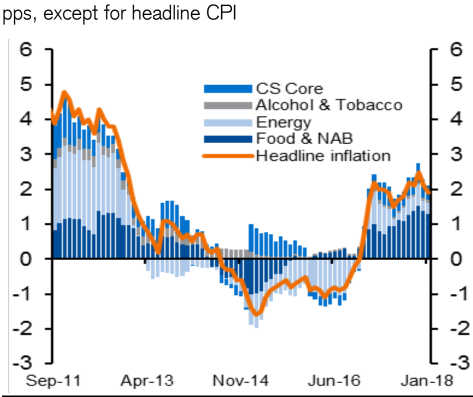


Source: Central Statistical Office, Credit Suisse

The official unemployment rate fell from 4.7% in 3Q to 4.5% in 4Q, which is a record-low level. Nominal wage growth in the enterprise sector was at around 7.3% yoy since October, its highest level since 2010. Construction and assembly production growth skyrocketed to 34.7% yoy in January from 12.7% yoy in December. On official seasonally adjusted estimates, construction and assembly production surged 8.8% mom in January, also one of its largest growth rates on record.

Figure 100: Contributions to year-on-year CPI inflation

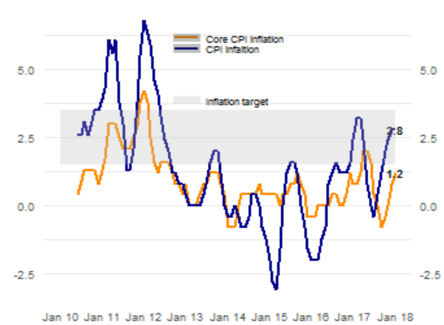
pps, except for headline CPI



Source: Central Statistical Office, Credit Suisse

Figure 101: CPI and core inflation dynamics

3mma of sa % mom change, annualized (run-rate)

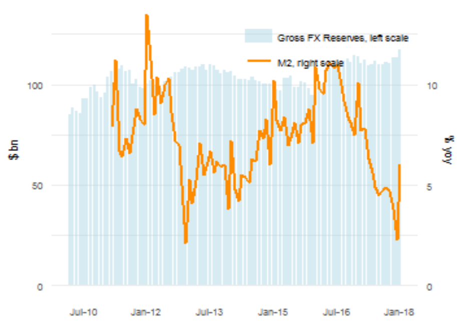


Note: The chart depicts the run-rate of CPI and core inflation. We define the run-rate as the annualized three-month moving average of the month-on-month change in the seasonally adjusted index values.

Source: Eurostat, Credit Suisse

According to the CSO, headline CPI inflation was at 1.9% yoy in February, coming off its recent highs of 2.5% yoy in November 2017. Core inflation (net of food and energy prices) was at 0.9% yoy in December, on par with its average level since 2Q 2017 and significantly below the lower edge of the Monetary Policy Council (MPC) inflation target range (1.5%-3.5%). We revise to the downside our 2018 CPI inflation forecast to 2.6% from 3.0% previously, allowing more time for inflation pressure to build. At the same time, we revise higher our 2019 CPI inflation forecast to 2.6% yoy from 2.4% yoy previously.

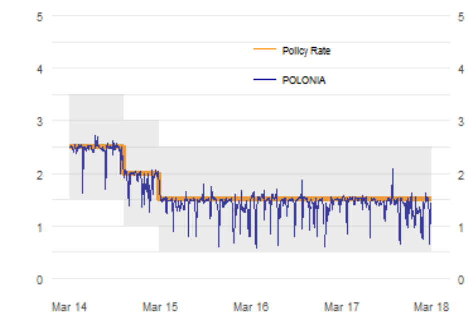
Figure 102: FX reserves and money



Source: National Bank of Poland, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

Figure 103: Interest rates

% per annum

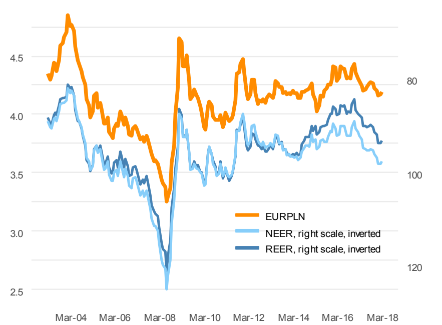


Source: National Bank of Poland, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

In its recent meeting (on 7 March) the MPC turned more dovish, almost ruling out any chance of a policy rate hike this year and probably next. Following the MPC's comments we carry over the first rate hike (from 1.5% to 1.75%) from 4Q 2018 to 2H 2019. Despite the fact that the MPC is not keen to hike the policy rate in 2019 either, it would be much more vigilant to changes in the external environment and should be on alert for a fast response to a potential increase in inflation pressure in 2019.

Figure 104: Various exchange rates for the Polish zloty

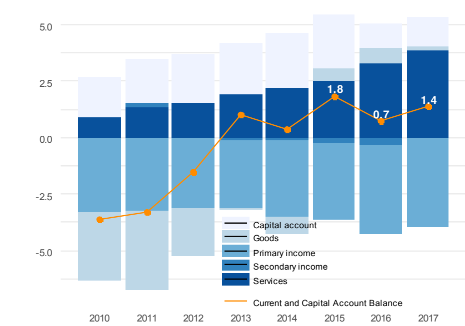
2010=100



Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

Figure 105: Current account and capital account components

% of GDP

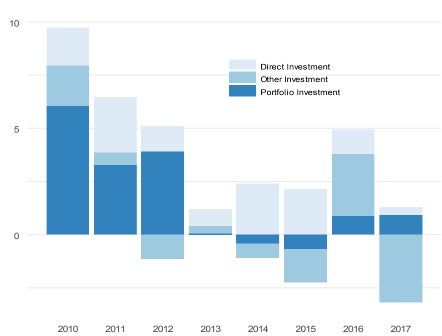


Source: National Bank of Poland, Credit Suisse

The current account was in a small surplus of 0.1% of GDP in 2017 after a deficit of 0.3% in 2016. This marginal improvement was mainly related to higher services trade surplus (3.9% of GDP in 2017 vs 3.3% of GDP in 2016) and helped to offset deterioration in the goods trade surplus (to 0.1% of GDP in 2017 from 0.7% of GDP in 2016). We revise our zloty exchange rate forecasts weaker to 4.33 on average against the euro (from 4.18 on average previously) and to 4.47 on average in 2019 (from 4.19 previously).

Figure 106: Financial account main components

% of GDP

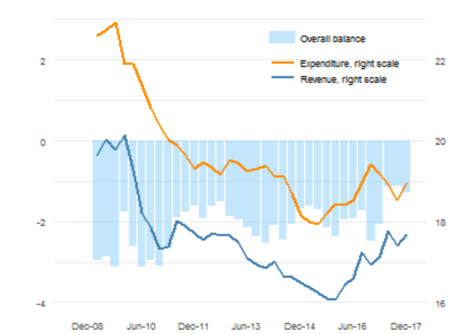


Note: Negative numbers stand for capital outflows

Source: Eurostat, Credit Suisse estimate

Figure 107: Consolidated central government operations

Four-quarter rolling, % of GDP



Source: Finance Ministry, Credit Suisse

On a four-quarter rolling basis, the central government's budget deficit narrowed to 1.3% of GDP in in 4Q 2017 from 2.5% of GDP in 4Q 2016. The improvement was registered on both the expenditures (from 19.4% of GDP in 4Q 2016 to 18.9% of GDP in 4Q 2017) and the revenues (from 16.9% of GDP in 4Q 2016 to 17.7% of GDP in 4Q 2017) on the back of stronger real GDP growth. We keep unchanged our fiscal deficit forecasts and expect the general government's budget deficit to be around 1.3% of GDP in 2018.

Poland: Selected economic indicators

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
National accounts, population and unemployment									
Real GDP growth (%)	5.0	1.6	1.4	3.3	3.8	2.9	4.6	4.7	4.0
Growth in real private consumption (%)	3.3	0.8	0.3	2.6	3.0	3.9	4.8	4.9	4.4
Growth in real fixed investment (%)	8.8	-1.8	-1.1	10.0	6.1	-7.9	5.2	7.2	6.4
Fixed investment (% of GDP)	20.7	19.8	18.8	19.7	20.1	18.1	18.0	20.5	20.3
Nominal GDP ($bn)	528.6	500.8	524.4	545.1	477.3	469.3	525.0	601.8	636.1
Population (mn)	38.1	38.1	38.1	38.0	38.0	38.0	38.0	38.0	38.0
GDP per capita, $	13,884	13,155	13,773	14,332	12,492	12,309	13,830	15,837	16,740
Unemployment (% of labor force, end-year)	9.6	10.1	10.3	9.0	7.5	6.2	4.5	4.0	3.9
Prices, interest rates and exchange rates									
CPI inflation (%, December to December)	4.6	2.4	0.7	-1.0	-0.5	0.8	2.1	2.6	2.6
CPI inflation (%, average)	4.3	3.7	0.9	0.0	-0.9	-0.6	2.0	2.4	2.8
Exchange rate (PLN per USD, average)	3.42	3.10	3.01	3.51	3.90	4.20	3.56	3.44	3.44
Nominal wage growth (% year-on-year change)	5.5	4.3	3.1	3.4	2.6	4.0	7.3	5.6	5.5
Exchange rate (PLN per EUR, end-year)	4.42	4.09	4.15	4.26	4.26	4.42	4.18	4.47	4.47
Exchange rate (PLN per EUR, average)	4.12	4.19	4.20	4.18	4.18	4.36	4.26	4.33	4.47
REER (% change, December to December) (1)	-1.4	-2.6	0.7	0.7	-3.4	-2.6	9.3	-2.2	0.0
1-week reference rate (%, end-year)	4.50	4.25	2.50	2.00	1.50	1.50	1.50	1.50	1.75
Fiscal data									
General government fiscal balance (% of GDP) (2)	-4.8	-3.7	-4.1	-3.5	-2.6	-2.4	-1.3	-1.3	-1.8
General government primary balance (% of GDP) (2)	-2.3	-1.0	-1.6	-1.6	-0.8	-0.7	0.4	0.4	0.1
General government expenditure (% of GDP)	43.6	42.6	42.6	42.3	41.6	41.3	42.9	43.5	43.3
Gross general government debt (% of GDP, end-year) (2)	54.1	53.7	55.7	50.2	51.1	54.4	53.5	52.8	52.5
Net general government debt (% of GDP, end-year) (2)	18.5	19.3	22.5	15.3	16.2	18.3	20.4	20.8	21.5
Money supply and credit									
Broad money supply (M2, % of GDP)	55.1	55.3	58.0	60.8	64.0	68.0	66.4	66.3	66.5
Broad money supply (M2, % year-on-year change)	11.5	4.2	6.7	8.8	9.7	10.0	4.5	6.0	6.0
Domestic credit (% of GDP)	65.9	64.1	67.2	71.0	73.2	75.7	78.7	82.7	85.2
Domestic credit (% year-on-year)	12.7	1.6	6.7	9.4	8.1	6.6	11.2	11.7	8.9
Domestic credit to private sector (% of GDP)	51.4	50.1	51.1	52.2	53.6	54.6	56.1	58.1	59.6
Domestic credit to private sector (% year-on-year)	14.0	1.9	3.7	5.9	7.6	4.9	9.9	10.0	8.4
Balance of payments									
Imports (goods and non-factor services, % of GDP)	44.8	45.0	44.4	46.2	46.4	48.5	49.7	47.7	49.2
Exports (goods and non-factor services, % change in $ value)	17.3	-1.3	9.1	6.9	-9.0	4.3	14.5	8.0	8.0
Imports (goods and non-factor services, % change in $ value)	17.1	-4.9	3.5	8.0	-12.0	2.7	14.7	10.0	9.0
Current account balance ($bn)	-27.4	-18.5	-6.7	-11.4	-2.7	-1.4	0.9	-5.5	-9.0
Current account (% of GDP)	-5.2	-3.7	-1.3	-2.1	-0.6	-0.3	0.2	-0.9	-1.4
Net FDI ($bn)	13.7	6.0	4.2	13.0	9.8	9.6	1.6	3.0	1.6
Scheduled debt amortization ($bn)	18.5	53.1	57.3	59.4	60.7	57.7	55.5	54.0	55.5
Foreign debt and reserves									
Foreign debt ($bn, end-year) (3)	324.3	369.0	384.1	356.7	331.1	337.6	361.6	388.6	415.6
Public ($bn)	118.7	121.7	157.4	161.7	151.5	141.8	153.8	168.8	183.8
Private ($bn)	205.6	247.2	226.7	195.0	179.6	195.8	207.8	219.8	231.8
Foreign debt (% of GDP, end-year) (3)	61.4	73.7	73.2	65.4	69.4	71.9	68.9	64.6	65.3
Foreign debt (% of exports of goods and services) (3)	143.9	166.0	158.2	137.5	140.2	137.1	128.2	127.6	126.4
Central bank non-gold FX reserves ($bn)	92.7	103.4	102.2	96.5	91.4	110.6	114.5	124.9	122.9

(1) Real effective exchange rate (CPI-deflated), increase indicates appreciation. (2) Consolidated fiscal accounts of the broadly defined general government on an accrual basis; excluding one-off transfers from pension funds to the government budget. (3) Based on the location of debt-holders.

Source: GUS, Eurostat, the BLOOMBERG PROFESSIONAL™ service, National Bank of Poland, IMF, JEDH, Credit Suisse

Russia: Time to shift policy gears

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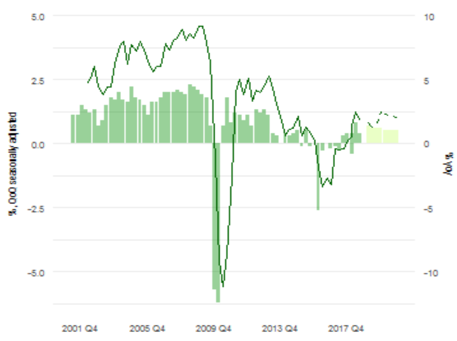
- **Russia finished last year with a mixed set of indicators.** On one hand, thanks to its prudent and orthodox monetary policy the central bank (CBR) finally reached and surpassed its self-imposed inflation target of 4%. On the other hand, we believe the government was clearly not happy with full-year real GDP growth of 1.5% in 2017, which was below the government's estimate of 2.0% and below market expectations (1.7%-1.8%). The disappointment in economy's performance may not have gone unnoticed by the government and the CBR.
- **Since Rosstat revealed the preliminary estimate of real GDP growth in 2017, the CBR announced a faster transition to a neutral monetary policy, while the government started discussion of new growth-supporting measures.** This shift in policy was de-facto confirmed in the President Putin's annual address to the Nation, where he emphasized on narrowing a technological gap with developed countries, improvement in living standards of working population and pensioners, while raising investment in infrastructure, health, education and environment. In terms of quantitative targets, Putin called for increase in GDP per capita by 50% by 2025 and boost in real GDP growth to on par with global (which implies more than double the current rate of economic growth).
- **Although these targets are ambitious, they should not be treated as ultimate goals but more like a benchmark relative to which president Putin will assess the success of his next presidential term, if he wins the election on 18 March.** More importantly, Putin was not that detailed about means of achievement of those targets, probably leaving it to the new government, which will decide on potential change in fiscal policy framework (including tax policy).
- **According to Rosstat, full-year real GDP growth was 1.5% in 2017 (after a drop of 0.2% in 2016).** On our seasonally adjusted estimate, the full-year real GDP growth of 1.5% implies 0.4% qoq drop in 4Q after 0.3% qoq growth in 3Q. The sharpest drop (on the supply side) was related to the industrial sectors, where output was down 1.0% qoq in 4Q (on official seasonally adjusted estimate), compared to 1.3% qoq drop in 3Q and 1.7% qoq growth in 2Q. Compared to the third quarter, when the drop in industrial output was offset by strong growth in other sectors (mainly wholesale and retail trade, agriculture, financial and insurance intermediation), in the fourth quarter the weakness was more broad-based. We see no obvious reason for such an acute slowdown in 4Q, apart from sanctions impact, clean-up in the banking sector and drop in defense-related expenditure of the federal budget (that traditionally provides some support to manufacturing industries, especially recently).
- **Early 2018 real sector indicators remained mixed.** Although industrial output surprised well to the upside in January (2.9% mom on official seasonally adjusted estimates) other indicators, like manufacturing PMI in February, suggest the recovery was probably short-lived. Manufacturing PMI dropped from 52.1 in January to 50.2 in February, which was also the lowest level since 2016. Manufacturing PMI indices were marginally weaker in February across all European economies, but the drop in Russia was by far the largest. We tweak slightly to the downside our real GDP growth forecast in 2018 (to 2.0% from 2.1%), but revise higher our real GDP growth forecast to 2.2% in 2019 (from 2.0% previously). In our view, the recent slowdown in economic activity (whether it was short-lived or more fundamental) already pushed the CBR's and the government's policy in favor of more accommodation, which should be supportive for real GDP growth in the future.
- **CPI inflation keeps moving away from the CBR's inflation target due to subdued economic growth and a bumper harvest.** According to Rosstat, headline CPI inflation dropped to 2.2% yoy in February from 2.5% yoy in 2017. This outcome was below the CBR and market expectations and considerably below 4% inflation target. Official core inflation dropped to 1.9% yoy in February, the lowest level on record, while our measure of core inflation (net of all food and energy prices) was

only marginally higher, at 2.1% yoy in February, but also close to its historical low level. The details of CPI inflation index does not show any signs of inflation pressure yet, which is consistent with the recent subdued economic growth data. We do not expect CPI inflation to bounce back meaningfully until after 1H 2018, when it may move closer to 4.0% inflation target mainly under the pressure of unfavorable base effects and more accommodative monetary and fiscal policy (the latter is not confirmed yet). We revise to the downside our forecast for headline inflation to 3.6% yoy in 2018, from 4.0% previously but keep unchanged our forecast for 2019 at 4.0%.

- **The CBR confirmed faster policy normalization.** As we mentioned above, a combination of weaker economic growth and subdued CPI inflation (that drifted significantly away from 4% inflation target) allowed the CBR to switch to a faster policy normalization. After a surprise 50bps cut in the policy rate in its December meeting, the CBR cut the policy rate by another 25bps, to 7.5%, in its 9 February meeting and left the door opened for more cuts (***Russia: The central bank confirmed faster policy normalization***). In its statement, the CBR acknowledged the market that the balance of risks shifted somewhat towards a slowdown in economic growth. In the CBR's view, risks that CPI inflation would exceed 4% in 2018 have diminished significantly. According to the CBR's earlier comments, the neutral level of the policy rate should be in a range of 6.0%-7.0%, and therefore we expect the CBR to cut the policy rate to 6.25% by the end of 2018. While next year, we believe the CBR may be forced to revise its neutral policy rate lower and cut the policy rate another 50bps, to 5.75%, especially if the government does not change dramatically its fiscal policy framework (with regards to the fiscal rule and expenditure growth).
- **The current account surplus widened to 2.6% of GDP in 4Q from 2.2% in 3Q.** This increase was almost entirely related to higher oil prices. However, it did not have any material impact on the rouble, which has been trading sideways in nominal effective exchange rate terms since September 2017. In early 2018, the rouble also failed to strengthen against currencies of its main trading partners, despite a favourable seasonality and higher oil prices. The latter should not have much impact on the rouble thanks to the budget rule, according to which the Ministry of Finance will sterilize almost all current account surplus in 2018 ($41.5bn, 2.6% of GDP). A combination of poor economic growth, the Ministry of Finance budget rule and front-loaded normalization of the monetary policy leaves almost no room for the rouble's strengthening this year. We expect the rouble to weaken to 58.0 against the dollar by the end of 2018 and to 61.0 against the dollar by the end 2019.
- **Fiscal policy remains one of the brightest spots in Russia.** According to the Ministry of Finance, on a 12-month rolling basis, the federal budget deficit narrowed to 1.3% of GDP in January from 1.4% in December 2017 and 3.9% a year ago (January 2017). Non-energy federal budget deficit narrowed to 7.9% of GDP in January from 9.8% a year ago. The improvement was mainly the result of the government's prudent fiscal policy, which allowed to cut expenditures by 2.0% of GDP in the past 12 months (***Russia: Fiscal policy Monitor***). The fiscal policy has the largest resources to support Putin's ambitious goals and we expect it to be revised after the presidential elections. While we do not know exactly the structure of those revisions (with regards to potential increase in expenditures), we keep our outlook in line with the existing federal budget law. Taking into account our average Brent oil price ($60/bbl) and RUB assumptions (58 against the dollar), we still expect the federal budget at a surplus of 0.6% of GDP in 2018. If the government does not change its fiscal rule, the main financing item would be borrowing in the local markets that would be used to finance the replenishing of fiscal reserves (as the federal budget is in surplus).
- **On 23 February, in recognition of all the recent achievements of the government (in the fiscal policy) and the CBR (in the monetary policy), the S&P rating agency upgraded Russia's external debt rating to investment grade BBB-, with stable outlook.** This is the second rating agency, after Fitch, which holds Russia's external debt rating at investment grade.

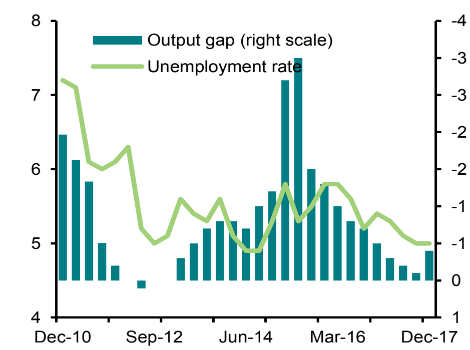
Figure 108: Real GDP growth



Source: Rosstat, Credit Suisse

Figure 109: Output gap and unemployment

Actual versus potential GDP growth (based on HP filter)

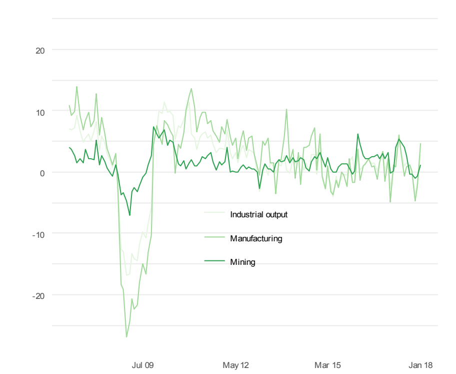


Source: Rosstat, Credit Suisse

On our seasonally adjusted estimate, the full-year real GDP growth of 1.5% implies 0.4% qoq drop in 4Q after 0.3% qoq growth in 3Q. We tweak slightly to the downside our real GDP growth forecast in 2018 (to 2.0% from 2.1%), but revise higher our real GDP growth forecast to 2.2% in 2019 (from 2.0% previously).

Figure 110: Industrial output growth momentum

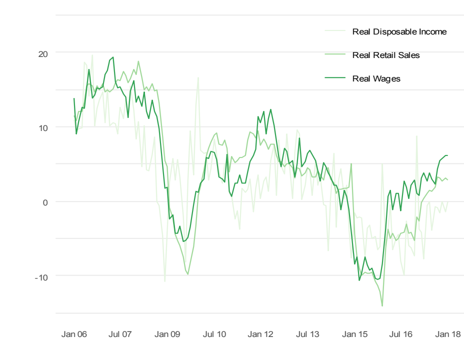
% yoy



Source: Rosstat, Credit Suisse

Figure 111: Real income indicators

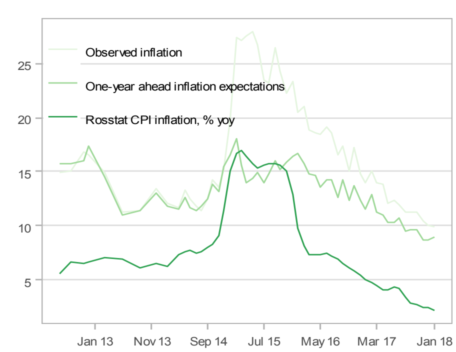
% yoy



Source: Rosstat, Credit Suisse

The sharpest drop (on the supply side) was related to the industrial sectors, where output was down 1.0% qoq in 4Q (on official seasonally adjusted estimate), compared to 1.3% qoq drop in 3Q and 1.7% qoq growth in 2Q. Compared to the third quarter, when the drop in industrial output was offset by strong growth in other sectors (mainly wholesale and retail trade, agriculture, financial and insurance intermediation), in the fourth quarter the weakness was more broad-based.

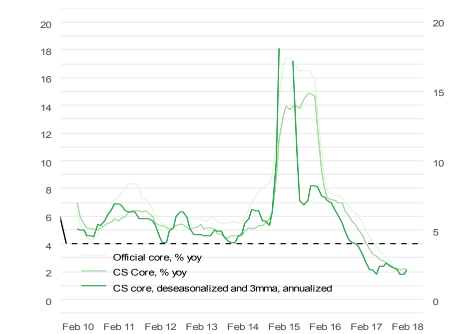
Figure 112: Households' inflation expectations



Source: Rosstat, Credit Suisse

Figure 113: Core inflation, including run-rate of CS core measure

3mma of sa % mom change, annualized (run-rate)



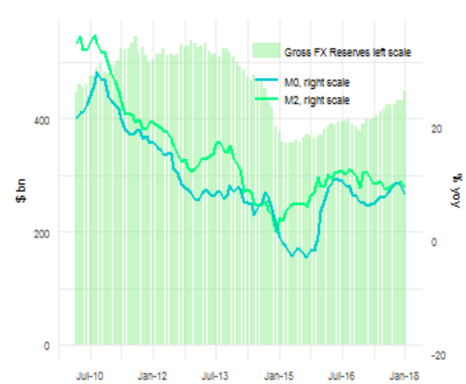
Official core CPI is net of fruit and vegetables, includes most other food items. CS core CPI is net of all food and energy items.

Source: Rosstat, Credit Suisse

Headline CPI inflation dropped to 2.2% yoy in February from 2.5% yoy in 2017. This outcome was below the CBR and market expectations and considerably below 4% inflation target. Official core inflation dropped to 1.9% yoy in February, the lowest level on record, while our measure of core inflation (net of all food and energy prices) was only marginally higher, at 2.1% yoy in February, but also close to its historical low level. We revise to the downside our forecast for headline inflation to 3.6% yoy in 2018, from 4.0% previously but keep unchanged our forecast for 2019 at 4.0%.

Figure 114: FX reserves and money

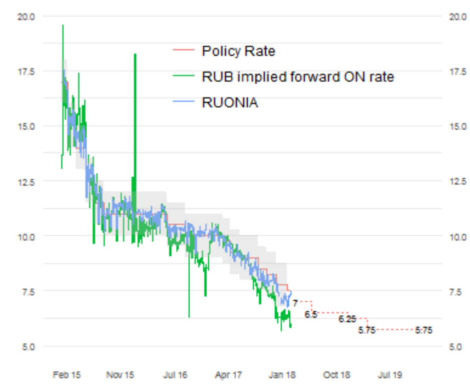
% yoy $bn



Source: Central Bank of Russia, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

Figure 115: Interest rates

% per annum



Source: Central Bank of Russia, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

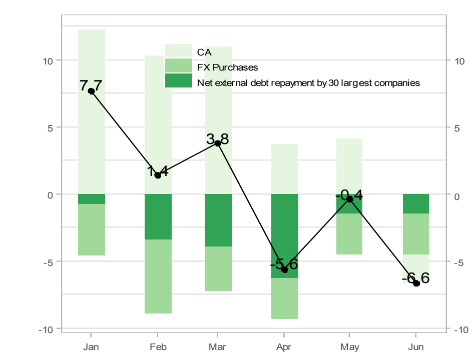
A combination of weaker economic growth and subdued CPI inflation (that drifted significantly away from 4% inflation target) allowed the CBR to switch to a faster policy normalization. According to the CBR's earlier comments, the neutral level of the policy rate should be in a range of 6.0%-7.0%, and therefore we expect the CBR to cut the policy rate to 6.25% by the end of 2018.

Figure 116: Rouble and the Brent oil price

Source: the BLOOMBERG PROFESSIONAL™ service, CBR, Credit Suisse

Figure 117: Balance of payments main components forecast

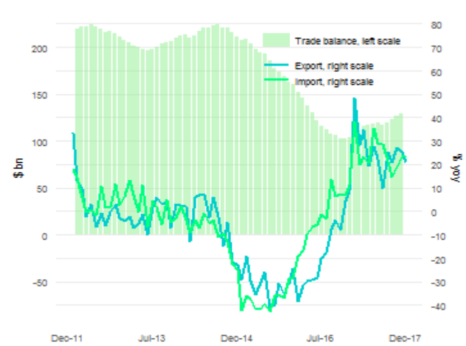
$ bn



Source: CBR, Credit Suisse

Since September 2017 and in early 2018, the rouble also failed to strengthen against currencies of its main trading partners, despite a favorable seasonality and higher oil prices. A combination of poor economic growth, the Ministry of Finance budget rule and front-loaded normalization of the monetary policy leaves almost no room for the rouble's strengthening this year. We expect the rouble to weaken to 58.0 against the dollar by the end of 2018 and to 61.0 against the dollar by the end 2019.

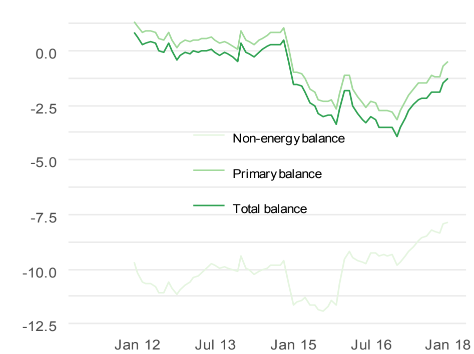
Figure 118: Merchandise trade



Source: Central Bank of Russia, Credit Suisse

Figure 119: Federal budget operations

12-month rolling, % of GDP



Source: Finance Ministry, Credit Suisse

According to the Ministry of Finance, on a 12-month rolling basis, the federal budget deficit narrowed to 1.3% of GDP in January from 1.4% in December 2017 and 3.9% a year ago (January 2017). Non-energy federal budget deficit narrowed to 7.9% of GDP in January from 9.8% a year ago. Taking into account our average Brent oil price ($60/bbl) and RUB assumptions (58 against the dollar), we still expect the federal budget in a surplus of 0.6% of GDP in 2018.

Russia: Selected economic indicators

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
National accounts, population and unemployment									
Real GDP growth (%)	5.1	3.7	1.8	0.7	-2.5	-0.2	1.5	2.0	2.2
Growth in real private consumption (%)	4.8	7.9	5.2	2.0	-9.4	-2.8	3.4	3.7	3.5
Growth in real fixed investment (%)	12.3	4.4	-5.6	-6.1	-12.3	-1.9	5.1	3.0	3.0
Fixed investment (% of GDP)	21.5	21.5	21.8	21.2	20.3	21.4	21.7	23.0	23.0
Nominal GDP ($bn)	2,050	2,191	2,294	2,080	1,371	1,296	1,578	1,676	1,711
Population (mn)	143.0	143.3	143.7	146.3	146.5	146.8	146.9	146.5	146.5
GDP per capita, $	14,348	15,302	15,985	14,106	9,341	8,728	10,744	11,441	11,678
Unemployment (% of labor force, end-year)	6.0	5.1	5.6	5.3	5.8	5.3	5.1	5.0	4.9
Prices, interest rates and exchange rates									
CPI inflation (%, December to December)	6.1	6.6	6.5	11.4	12.9	5.4	2.5	3.6	4.0
CPI inflation (%, average)	8.4	5.1	6.8	7.8	15.5	7.0	3.7	2.8	3.8
Exchange rate (RUB per USD, end-year)	32.20	30.37	32.73	56.26	72.88	60.66	57.60	58.00	61.00
Exchange rate (RUB per USD, average)	29.38	31.09	31.84	38.38	60.94	67.06	58.34	58.00	59.50
Nominal wage growth (% year-on-year change)	18.2	11.9	9.3	6.9	3.4	8.3	8.9	7.8	8.0
REER (% change, December to December) (1)	3.8	5.2	-2.9	-27.4	1.0	20.8	-0.8	-2.1	-3.0
Overnight deposit rate (%, end-year)	4.00	4.50	4.50	16.00	10.00	9.00	6.75	5.25	4.75
1-week repo rate (%, end-year)	5.25	5.50	5.50	17.00	11.00	10.00	7.75	6.25	5.75
Fiscal data									
General government fiscal balance (% of GDP) (2)	1.4	0.4	-1.2	-1.1	-3.4	-3.7	-1.7	0.4	1.2
Federal government primary fiscal balance (% of GDP)	1.2	0.4	0.1	0.1	-1.7	-2.7	-0.7	1.4	2.2
General government expenditure (% of GDP) (2)	33.2	34.0	34.6	34.9	35.7	36.5	34.0	32.3	30.7
Gross general government debt (% of GDP, end-year)	7.6	9.6	8.8	9.4	9.1	10.0	11.4	14.7	15.3
Federal government fiscal balance (% of GDP)(2)	0.7	-0.1	-0.4	-0.4	-2.4	-3.4	-1.4	0.6	1.4
Net general government debt (% of GDP, end-year) (3)	3.3	2.9	2.4	1.2	2.5	6.7	9.5	11.2	11.5
Money supply and credit									
Broad money supply (M2, % of GDP)	40.2	39.9	42.6	39.9	42.3	44.7	44.9	45.0	46.0
Broad money supply (M2, % year-on-year change)	21.0	12.2	14.7	1.5	11.3	12.0	7.5	6.0	7.0
Domestic credit (% of GDP)	54.2	57.0	61.7	69.3	71.1	74.4	76.4	79.6	82.1
Domestic credit (% year-on-year)	23.5	19.0	16.1	21.7	7.8	8.0	10.0	10.0	8.0
Domestic credit to private sector (% of GDP)	44.2	46.1	51.3	56.9	57.4	60.1	62.5	66.3	70.9
Domestic credit to private sector (% year-on-year)	28.1	24.5	16.0	11.5	6.0	8.0	11.5	12.0	12.0
Balance of payments									
Exports (goods and non-factor services, % of GDP)	28.0	26.9	25.8	27.0	28.7	25.7	26.1	24.5	24.1
Imports (goods and non-factor services, % of GDP)	20.0	20.3	20.5	20.6	20.5	20.5	20.7	19.3	19.6
Exports (goods and non-factor services, % change in $ value)	29.8	2.8	0.4	-5.0	-30.1	-15.4	23.9	-0.2	0.5
Imports (goods and non-factor services, % change in $ value)	27.8	8.4	5.6	-8.7	-34.3	-5.6	22.6	-1.0	3.9
Current account balance ($bn)	97.3	71.3	33.4	57.5	68.8	25.5	40.2	41.5	30.2
Current account (% of GDP)	4.7	3.3	1.5	2.8	5.0	2.0	2.6	2.5	1.8
Net FDI ($bn)	-11.8	1.8	-17.3	-35.1	-13.8	10.2	-2.5	10.0	10.0
Scheduled debt amortization ($bn) (4)	45.6	56.7	53.1	125.0	113.0	72.0	66.0	78.2	70.0
Foreign debt and reserves									
Foreign debt ($bn, end-year) (5)	538.9	636.4	728.9	599.9	519.1	514.1	529.1	515.0	514.0
Public ($bn) (6)	46.3	70.1	77.7	52.2	42.3	51.5	70.6	70.0	74.0
Private ($bn)	492.6	566.4	651.2	547.7	476.8	462.6	458.5	445.0	440.0
Foreign debt (% of GDP, end-year)	26.3	29.0	31.8	28.8	37.9	39.7	33.5	30.7	30.0
Foreign debt (% of exports of goods and services)	94.0	107.9	123.1	106.6	132.0	154.7	128.5	125.3	124.5
Central bank gross non-gold FX reserves ($bn)	454.0	486.6	469.6	339.4	319.8	317.5	356.1	401.1	441.1

(1) Real effective exchange rate (deflator: CPI), increase indicates appreciation. (2) Net of bank recapitalization costs. (3) Net of official fiscal reserves (Stabilization Fund assets through 2007, thereafter the sum of the Reserve Fund and the National Welfare Fund). (4) Long-term and medium-term amortization of both the private and public sectors. (5) Based on the location of the creditor (6) Liabilities of the central and regional governments and the central bank.

Source: Rosstat, Central Bank of Russia, Finance Ministry of the Russian Federation, Credit Suisse

Turkey: Macro imbalances under the spotlight

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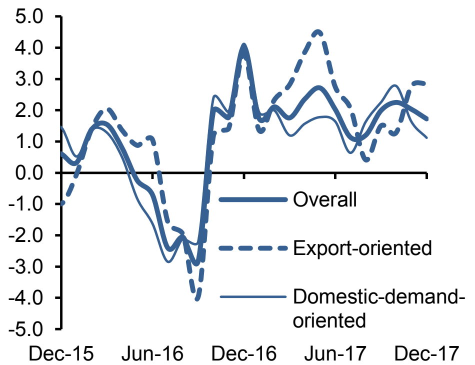
- **The developments since the previous issue of the *Emerging Markets Quarterly* have not led us to change our baseline macro scenario for Turkey in 2018.** Fiscal stimulus measures and the boost to credit extension from the credit guarantee fund offset the impact of more than 400bps increase in the central bank's effective funding rate last year, leading to overall loose domestic financial conditions throughout 2017. Consequently, the economy showed signs of overheating, with full-year real GDP growth probably around an unsustainable 7.0%, headline inflation higher by 340bps and the current account deficit wider by about 1.8pps of GDP. Corrective fiscal measures in the amount of TRY28bn (0.8% of GDP) and the policy decision not to extend the credit guarantee fund further, along with a higher real policy rate, will lead to a modestly tighter policy mix this year compared to last year. Against this backdrop, our baseline 'muddle-through' scenario envisages slower real GDP growth, modestly lower inflation and a broadly unchanged current account deficit in 2018 compared to 2017.
- **This year's policy mix will reduce the size of the positive output gap and lead to a modest improvement in the macro imbalances, in our view, but it will remain broadly accommodative.** Overall, we believe the re-election of President Erdogan in 2019 (or earlier) and support for economic activity will remain the ultimate objective of economic policy in the coming period, with inadequate focus on the macro imbalances. In fact, Turkey's lack of progress with addressing its inflation problem through more effective monetary policy and its high susceptibility to external shocks due to its wide current account deficit and high external funding needs came under the spotlight once again after Moody's downgraded the sovereign's rating by one notch to Ba2 (two notches below investment grade) on 7 March. This backdrop will keep Turkey vulnerable to the familiar scenario of further lira depreciation (which might be driven by a deterioration in global risk sentiment and/or Turkey's idiosyncratic risks) and a belated monetary policy response, in our view.
- **Along with the risk of faster-than-expected tightening of global financial conditions, the domestic political and geopolitical risks to our baseline scenario require heightened attention in 2Q, in our view.**
  - **We maintain our baseline view that the elections will be held on time in 2019, but the risk of early elections has increased somewhat, following Erdogan's decision to start a military operation in Afrin/Syria on 24 January.** This operation has broad-based support in Turkey. However, in the event that it leads to further support for the AKP (above the 42-43% support it enjoys at this stage, according to various opinion polls), Erdogan might consider early elections. According to Turkey's Foreign Minister Cavusoglu, Afrin operation might be completed by May, suggesting to us that Erdogan might reassess the timing of elections in late 2Q or 3Q. Additionally, the formal announcement of an election alliance between the AKP and the nationalist MHP and the government's ongoing populist rhetoric (recently accompanied by some fiscally-neutral measures) make it difficult to completely rule out early elections in 2018.
  - **Turkey's international relations also constitute a key risk to our baseline scenario.** Turkey's relations with the US remain tense due to various issues, including the US cooperation with the Syrian-Kurdish organizations PYD/YPG (which Turkey sees as an extension of the PKK) and lack of progress on the extradition of Gulen. These issues, along with the possibility of a financial penalty on some Turkish banks (although the state-owned Halkbank is now cooperating with OFAC), will continue to pose risks for Turkish assets and the availability of external financing for Turkey, in our view. Although both the US and Turkey have been refraining from escalating the conflict further since mid-February, the possibility of a confrontation in the Syrian city of Manbij continues to concern the markets (especially after the change at the helm of the US State Department on 13 March). We expect Turkey's ties with Russia and Iran to continue to

strengthen given US cooperation with the Syrian Kurds, although these ties will continue to raise eyebrows in the West. Meanwhile, the EU and Turkey are preparing to hold a summit on 26 March in an effort to repair the ties that have been damaged seriously throughout 2017.

- **Economic activity has been slowing on a sequential basis – albeit modestly – since mid-2017.** The economy seems to have operated above capacity in 2Q-3Q 2017, despite a slowdown in real GDP growth to 1.2% qoq in 3Q from 2.2% qoq in 2Q. (4Q 2017 GDP data will be released on 29 March.) Based on the available industrial output and credit growth momentum data, we think that economic activity slowed further in 4Q, but that economic activity indicators remained on track for a full-year real GDP growth of 7.0% in 2017. As we expect tighter domestic financial conditions in 2018, we forecast a consequent slowdown in real GDP growth to 4.4%. (We estimate that the carry-over into 2018 growth from 2017 will be close to 2.0pps.) Since growth remains a priority for the government, we think the risks to our 2018 real GDP growth forecast are to the upside, provided that global financial conditions remain supportive of Turkey.
- **Headline inflation will decline through April but remain on an elevated and volatile path through end-2018, barring another sizable exchange rate shock.** Since its recent peak of 13.0% in November (following an exchange rate shock of about 12% against the basket in August-November), headline inflation has declined to 11.9% in December and further to 10.3% in January-February. About 1.2pps of the decline since November was driven by the slowdown in food price inflation to 9.9% in February from 15.8%. Our estimate of the run-rate of core inflation (based on the core index C) was still elevated at about 11.0% in February, albeit down from 13.5% in November, owing to the broadly stable nominal basket exchange rate during this period. If the lira's nominal basket exchange rate remains broadly well-behaved, headline inflation will decline through April, in our view. However, it will likely edge higher again in May-July due to base effects, before declining again in 4Q 2018. We revised our end-2018 headline inflation forecast to 9.4% from 9.0%, following the release of the worse-than-expected February inflation print on 5 March. We maintain our end-2019 forecast at 8.7%. Both forecasts remain subject to upside risks given the lira's vulnerability to the global risk sentiment and Turkey's idiosyncratic risks.
- **We maintain our baseline view that the MPC will not want to tighten monetary policy further in 2018 due to the expected decline in inflation and an overall tighter policy mix, but the lira might pose a challenge to the MPC.** The MPC has become more cautious about the inflation outlook on 7 March when it said that the "underlying trend indicators display inertia and the core inflation remains elevated", but kept the short-term interest rates, its monetary policy outlook and hawkish bias unchanged since the 50bps hike in the late liquidity window rate to 12.75% on 14 December. In its post-meeting statements on 18 January and 7 March, the MPC ruled out the possibility of monetary policy easing in the near term, when it said that "the tight stance in monetary policy will be maintained decisively until inflation outlook displays a significant improvement, independent of base effects and temporary factors, and becomes consistent with the targets". The MPC has also maintained its hawkish bias (and kept the door open for further tightening in the event of a sizable exchange rate shock) when it repeated on 18 January and 7 March that "…, if needed, further monetary tightening will be delivered."
- **Although domestic demand growth will likely slow this year, higher oil prices will probably keep Turkey's current account deficit elevated.** We forecast that the current account deficit will be about $51.6bn (5.5% of GDP) in 2018, compared to $47.2bn (5.6% of GDP) in 2017. (This is under our average Brent oil price assumption of $60.0/bbl in 2018, compared to $54.4/bbl in 2017.) More than half of the current account deficit of $51.6bn (6.0% of GDP) in the 12 months to January was financed by net portfolio inflows which amounted to $27.6bn. This financing structure leaves the lira exposed to a potential reversal of high risk appetite towards EM assets.

Figure 120: Industrial output growth momentum

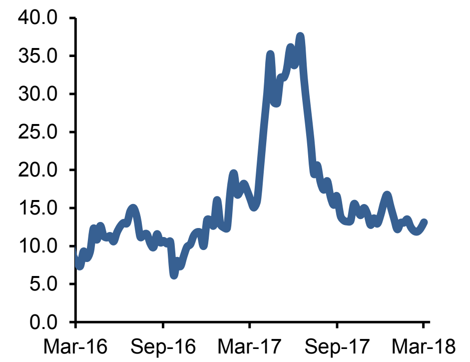
%, 3m/3m, seasonally and workday adjusted



Source: Statistics Office, Credit Suisse

Figure 121: Overall loan growth

%, annualized, 13-week moving average, week-on-week change in loan stock*

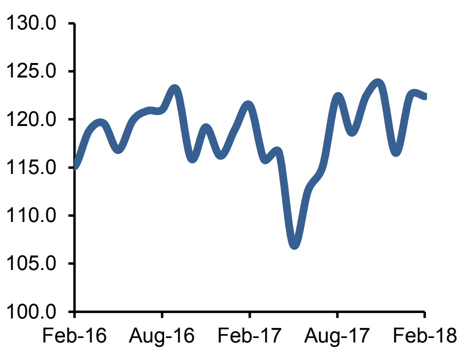


*Adjusted for exchange rate movements.
Source: Central Bank, Credit Suisse

Industrial output growth momentum slowed in 4Q 2017 but remained robust, while credit growth momentum has been slowing visibly, following the sharp increase in 2Q 2017 driven by the government's credit guarantee fund. These data suggest to us that economic activity has been slowing on a sequential basis – albeit modestly – since mid-2017. (Full-year GDP data for 2017 will be released on 29 March.)

Figure 122: Three-month ahead export orders

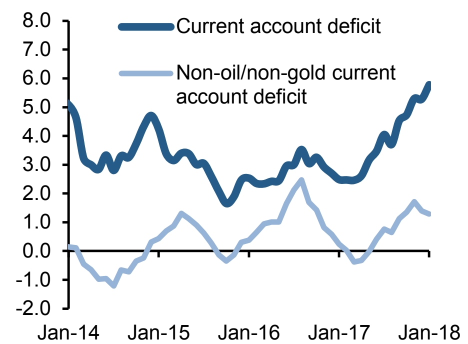
Index, seasonally adjusted



Source: Central Bank

Figure 123: Current account deficit

$bn, 3mma, seasonally adjusted

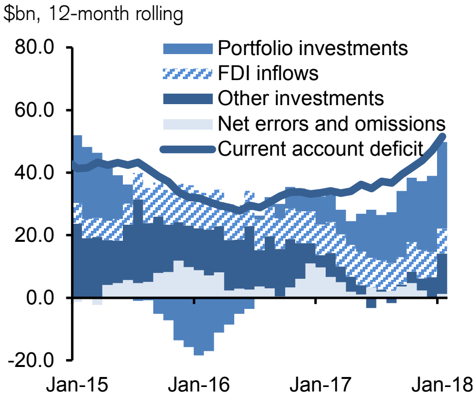


Source: Central Bank, Credit Suisse

Three-month-ahead export orders also suggest a more volatile pace of export growth in the coming months, following a strong performance in 2017 driven by demand from the euro area. Although domestic demand growth will likely slow in 2018 (driven by a modestly tighter policy mix), higher oil prices will probably keep Turkey's current account deficit elevated.

Figure 124: Balance of payments

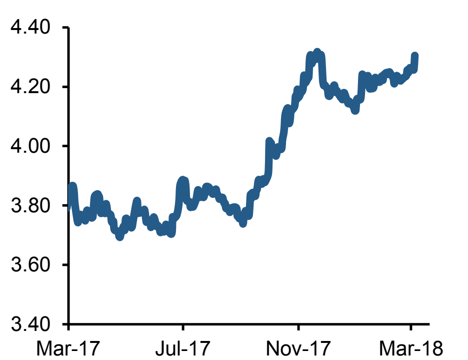
$bn, 12-month rolling



Source: Central Bank, Credit Suisse

Figure 125: Lira's nominal basket exchange rate

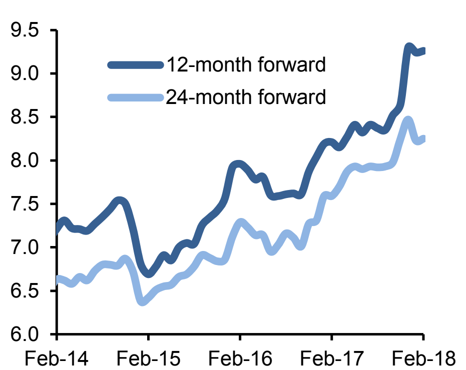
Average of USDTRY and EURTRY



Source: Central Bank, Credit Suisse

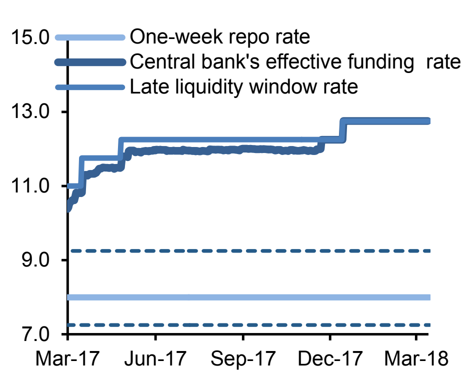
Portfolio inflows have been the main source of financing for the current account deficit in the 12 months to January, leaving the lira vulnerable to changes in global risk sentiment and Turkey's idiosyncratic risks (as the August-November 2017 episode and the more recent weakening of the lira following the Moody's downgrade on 7 March and the release of the January balance of payments data on 12 March reminded the markets).

Figure 126: Inflation expectations



Source: Central Bank

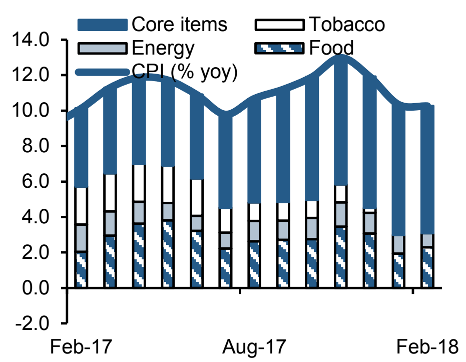
Figure 127: Short-term interest rates



Source: Central Bank

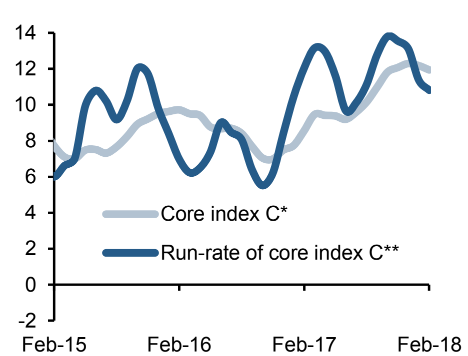
The deterioration in forward-looking inflation expectations that was driven by the exchange rate shock in August-November 2017 came to a halt after the MPC hiked the late liquidity window rate modestly by 50bps to 12.75% on 14 December. The MPC has kept the short-term interest rates unchanged since then, although it turned more cautious on the inflation outlook on 7 March.

Figure 128: Contributions to headline year-on-year inflation



Source: Statistics Office, Credit Suisse

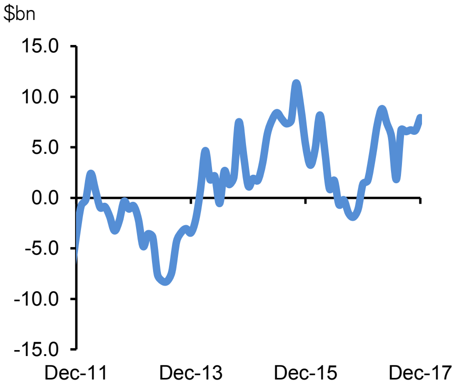
Figure 129: Core prices



*Core index C excludes food, energy, tobacco products, alcoholic beverages and gold from the CPI basket.
** Calculated as the annualized three-month moving average of the month-on-month changes in the seasonally adjusted core index C.
Source: Statistics Office, Credit Suisse

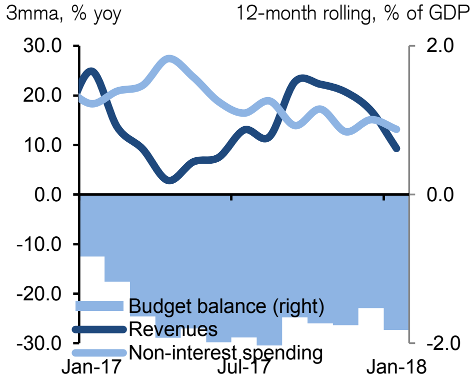
Since its recent peak of 13.0% in November, headline inflation has declined to 11.9% in December and further to 10.3% in January-February. About 1.2pps of the decline since November was driven by the slowdown in food price inflation to 9.9% in February from 15.8%. Our estimate of the run-rate of core inflation was still elevated at about 11.0% in February, albeit down from 13.5% in November, owing to the broadly stable nominal basket exchange rate during this period.

Figure 130: Non-bank corporate sector's short-term short FX position*



*Difference between the non-bank corporate sector's FX liabilities that are due to mature in the next 12 months and its short-term FX assets, not including financial or natural hedges.
Source: Central Bank

Figure 131: Fiscal performance (based on national methodology)



Source: Ministry of Finance, Statistics Office, Credit Suisse

The non-bank corporate sector's short FX position is a key vulnerability, but we think this is a manageable risk for now. The central government's full-year budget deficit (according to the national methodology) was 1.5% of GDP in 2017. The 12-month rolling budget deficit widened to 1.8% of GDP in January, but the cash budget figures for February offset that deterioration.

Turkey: Selected economic indicators

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
National accounts, population and unemployment									
Real GDP growth (%)	11.1	4.8	8.5	5.2	6.1	3.2	7.0	4.4	3.5
Growth in real private consumption (%)	12.3	3.2	7.9	3.0	5.4	3.7	6.0	4.5	3.4
Growth in real fixed investment (%)	23.8	2.7	13.8	5.1	9.3	2.2	7.0	7.0	4.0
Fixed investment (% of GDP)	28.1	27.3	28.5	28.9	29.7	29.3	30.0	30.0	29.6
Nominal GDP ($bn)	835.0	875.7	951.8	934.5	859.8	863.4	846.3	935.1	1,013
Population (mn)	72.2	72.6	73.0	73.4	73.8	74.3	74.7	75.1	75.5
GDP per capita, $	11,564	12,060	13,035	12,725	11,643	11,626	11,332	12,450	13,418
Unemployment (% of labor force, end-year)	9.3	8.5	9.1	9.9	10.3	10.9	11.1	10.7	10.9
Prices, interest rates and exchange rates									
CPI inflation (%, December to December)	10.4	6.2	7.4	8.2	8.8	8.5	11.9	9.4	8.7
CPI inflation (%, average)	6.5	8.9	7.5	8.9	7.7	7.8	11.1	9.9	9.3
Exchange rate (TRY per USD, end-year)	1.91	1.78	2.13	2.32	2.91	3.53	3.81	3.81	4.09
Exchange rate (TRY per USD, average)	1.67	1.79	1.90	2.19	2.72	3.02	3.65	3.79	3.95
Nominal wage growth (% year-on-year change) (1)	9.3	11.6	12.9	11.5	13.3	20.2	12.0	10.0	10.0
Exchange rate (TRY against the basket, end-year) (2)	2.18	2.07	2.54	2.57	3.04	3.61	4.18	4.35	4.70
REER (% change, December to December) (3)	-13.8	7.3	-9.1	4.1	-6.9	-5.9	-7.7	3.6	-0.8
Policy rate (%, end-year) (4)	5.75	5.50	7.75	11.25	10.75	8.50	12.75	12.75	12.75
Fiscal data									
Central government's fiscal balance (% of GDP) (5)	-1.6	-2.5	-1.8	-1.8	-1.7	-2.1	-1.9	-1.6	-1.8
General government fiscal balance (% of GDP) (5)	-0.8	-1.7	-1.4	-1.4	-1.0	-1.4	-1.2	-0.9	-1.1
Central government primary fiscal balance (% of GDP)	1.2	0.3	0.8	0.4	0.4	-0.5	-0.5	-0.2	-0.4
General government primary balance (% of GDP) (5)	1.9	1.1	1.2	0.9	0.8	-0.1	0.0	0.2	0.0
Central government expenditure (% of GDP)	22.5	23.0	22.5	21.9	21.6	22.4	21.8	21.8	22.2
General government expenditure (% of GDP) (5)	30.5	31.0	30.5	29.9	29.6	30.4	29.8	29.8	30.2
Gross central government debt (% of GDP, end-year)	37.3	33.9	32.4	29.9	29.0	29.2	28.4	26.6	25.9
Net general government debt (% of GDP, end-year) (6)	36.4	32.6	31.3	28.8	27.6	28.3	27.4	25.6	24.9
Money supply and credit									
Broad money supply (M2, % of GDP)	48.4	47.3	50.2	49.7	50.9	53.9	52.7	53.7	55.7
Broad money supply (M2, % year-on-year change)	14.8	10.2	22.2	11.9	17.1	18.3	15.7	17.0	17.0
Domestic credit (% of GDP)	62.0	62.7	68.1	70.2	72.4	74.2	74.7	75.9	76.1
Domestic credit (% year-on-year)	15.7	13.8	25.3	16.5	17.9	14.4	19.0	16.8	13.0
Domestic credit to private sector (% of GDP)	45.9	48.8	56.5	59.4	62.3	64.7	65.6	66.3	65.6
Domestic credit to private sector (% year-on-year)	32.8	19.8	33.5	18.7	19.9	15.8	20.1	16.0	11.7
Balance of payments									
Exports (goods and non-factor services, % of GDP)	21.9	23.4	22.0	23.6	23.1	21.7	24.8	24.2	23.3
Imports (goods and non-factor services, % of GDP)	30.2	28.3	27.9	27.6	25.9	24.7	29.3	28.8	27.9
Exports (goods and non-factor services, % change in $ value)	16.6	12.0	2.1	5.4	-10.0	-5.6	11.7	8.1	4.4
Imports (goods and non-factor services, % change in $ value)	28.1	-1.7	7.2	-3.1	-13.6	-4.2	16.5	8.6	4.8
Current account balance ($bn)	-74.4	-48.0	-63.6	-43.6	-32.1	-33.1	-47.2	-51.6	-54.6
Current account (% of GDP)	-8.9	-5.5	-6.7	-4.7	-3.7	-3.8	-5.6	-5.5	-5.4
Net FDI ($bn)	13.8	9.5	9.3	6.1	12.9	10.2	8.1	8.0	8.0
Scheduled debt amortization ($bn) (7)	40.6	42.6	44.6	38.0	36.5	58.7	62.5	63.9	65.0
Foreign debt and reserves									
Foreign debt ($bn, end-year) (8)	303.7	339.6	389.8	401.9	396.4	405.1	436.4	462.3	485.4
Public ($bn)	103.6	111.1	121.2	120.2	114.5	120.7	125.1	124.7	123.2
Private ($bn)	200.1	228.5	268.6	281.8	281.9	284.5	311.3	337.6	362.2
Foreign debt (% of GDP, end-year) (8)	36.4	38.8	40.9	43.0	46.1	46.9	51.6	49.4	47.9
Foreign debt (% of exports of goods and services)	165.7	165.5	186.1	182.1	199.6	216.0	208.2	204.0	205.2
Central bank gross FX reserves ($bn)	88.3	119.2	131.0	127.3	110.5	106.3	107.7	114.0	114.0
Central bank gross non-gold FX reserves ($bn)	78.5	99.9	110.9	106.9	92.9	92.2	84.1	89.0	89.0

(1) Based on the hourly labor cost index (2010=100) for the overall economy. (2) The basket exchange rate is the average of USDTRY and EURTRY exchange rates. Our forecasts for USDTRY are derived from our basket exchange rate and EURUSD forecasts. (3) Real effective exchange rate, increase indicates appreciation. (4) One-week repo rate was declared as the central bank's policy rate on 18 May 2010. However, it has lost relevance under the central bank's unconventional monetary policy framework. Accordingly, the data for 2013-2016 are for the level of the central bank's overnight lending rate and the data for 2017 is for the central bank's late liquidity window rate which has become the relevant short-term interest rate since early 2017. Our forecast for 2018 reflects what we think will be the marginal rate at which the central bank will provide funding - whether it is the late liquidity window rate or the central bank's overnight lending rate. (5) The central government's budget balance data are calculated using the IMF-defined primary balance and net interest spending data. The general government's budget balance data are from the IMF for the period before 2014 and are based on the IMF's definition of the non-financial public sector. The government releases consolidated public sector data using its own definition on an annual basis. The data for government spending and gross debt are for the central government. (6) Based on the EU definition. (7) Of medium- and long-term debt, including repayments to the IMF. (8) Based on the location of debt issuance, not the location of creditor. As of end-2016, non-residents' holdings of local currency government debt amounted to about 3.6% of GDP while the residents' holdings of hard currency government debt amounted to about 3.3% of GDP, broadly offsetting each other.

Source: Statistics Office, Central Bank, Treasury, IMF, Credit Suisse

Long-term sovereign FX debt ratings

(pos) Outlook positive (neg) Outlook negative No sign indicates stable outlook

	Moody's	S&P	Fitch
LATIN AMERICA			
Argentina	B2	B+	B (pos)
Brazil	Ba2 (neg)	BB–	BB–
Chile	Aa3 (neg)	A+	A
Colombia	Baa2 (neg)	BBB–	BBB
Ecuador	B3	B–	B (neg)
Mexico	A3 (neg)	BBB+	BBB+
Panama	Baa2 (pos)	BBB	BBB
Peru	A3	BBB+	BBB+
Venezuela	C	SD	RD
EASTERN EUROPE, MIDDLE EAST & AFRICA			
Kazakhstan	Baa3	BBB–	BBB
Poland	A2	BBB+	A–
Russia	Ba1 (pos)	BBB-	BBB– (pos)
Turkey	Ba2	BB(u) (neg) (1)	BB+
Ukraine	Caa2 (pos)	B–	B–

Moody's rating scale		S&P rating scale		Fitch rating scale	
Investment grade	Sub-investment grade	Investment grade	Sub-investment grade	Investment grade	Sub-investment grade
Aa1	Ba1	AAA	BB+	AAA	BB+
Aa2	Ba2	AA	BB	AA	BB
Aa3	Ba3	AA–	BB–	AA–	BB–
A1	B1	A+	B+	A+	B+
A2	B2	A	B	A	B
A3	B3	A–	B–	A–	B–
Baa1	Caa1	BBB+	CCC+	BBB+	CCC+
Baa2		BBB		BBB	
Baa3		BBB–		BBB–	

(1) “u” denotes “unsolicited”.

Source: Standard & Poor’s, Moody’s and Fitch

Long-term sovereign FX debt ratings

Investment Grade								
	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Moody's	Hong Kong Korea Kuwait UAE	Chile – Qatar – Taiwan	China Czech Republic Estonia Israel Saudi Arabia	Botswana Poland Slovakia +	Latvia Lithuania Malaysia Mexico – Peru	Slovenia Thailand	Bulgaria Colombia – India Oman – Panama + Philippines Uruguay	Hungary Indonesia + Kazakhstan Romania South Africa
	AA	AA–	A+	A	A–	BBB+	BBB	BBB–
S&P	Korea Kuwait	Czech Republic Estonia Qatar – Taiwan	Chile China Israel + Slovakia Slovenia	Lithuania	Botswana Latvia + Malaysia Saudi Arabia	Mexico Peru Poland Thailand	Panama Philippines Uruguay	Bulgaria Colombia Hungary + India Indonesia Kazakhstan Morocco Portugal Romania Russia
Fitch	Kuwait	Korea Qatar – Taiwan	China Czech Republic + Estonia + Israel Saudi Arabia Slovakia	Chile	Latvia Lithuania Malaysia Poland Slovenia	Mexico Peru Thailand	Bulgaria Colombia Indonesia Kazakhstan Panama Philippines Portugal	Hungary + India Morocco Oman – Romania Russia + Uruguay
Sub-Investment Grade								
	Ba1	Ba2	Ba3	B1	B2	B3	Caa1 and below	
Moody's	Morocco + Portugal + Russia +	Azerbaijan Brazil – Croatia Turkey	Cyprus + Serbia	Bahrain – Sri Lanka – Tunisia – Vietnam +	Argentina Nigeria	Ecuador Egypt El Salvador Gabon – Ghana Greece + Lebanon Pakistan	Belarus Ukraine + Venezuela	
	BB+	BB	BB–	B+	B	B–	CCC+ and below	
S&P	Azerbaijan Cyprus +	Croatia + Oman Serbia South Africa Turkey –	Brazil Vietnam	Argentina Bahrain Sri Lanka	Belarus Greece + Nigeria Pakistan	Ecuador Egypt + Ghana + Lebanon Ukraine	El Salvador + Venezuela	
Fitch	Azerbaijan Croatia South Africa Turkey	Cyprus + Serbia	Bahrain Brazil Vietnam +	Nigeria – Sri Lanka Tunisia	Argentina + Belarus Ecuador – Egypt + Gabon – Ghana Greece + Pakistan –	El Salvador Lebanon Ukraine	Venezuela	

Source: Standard & Poor's, Moody's & Fitch   + Outlook positive   – Outlook negative   No sign indicates stable outlook

Key dates

LATIN AMERICA

ARGENTINA	
Monetary policy decision	27 March 2018
Monetary policy decision	10 April 2018
Monetary policy decision	24 April 2018
Monetary policy decision	8 May 2018
Monetary policy decision	22 May 2018
Monetary policy decision	12 June 2018
Monetary policy decision	26 June 2018
Monetary policy decision	10 July 2018
Monetary policy decision	24 July 2018
Monetary policy decision	7 August 2018
Monetary policy decision	21 August 2018
Monetary policy decision	11 September 2018
Monetary policy decision	25 September 2018
Monetary policy decision	9 October 2018
Monetary policy decision	25 October 2018
Monetary policy decision	13 November 2018
Monetary policy decision	27 November 2018
End of ordinary session in Congress	30 November 2018
Monetary policy decision	11 December 2018
Monetary policy decision	25 December 2018
BRAZIL	
Monetary policy decision	21 March 2018
Monetary policy decision	16 May 2018
Monetary policy decision	20 June 2018
Monetary policy decision	1 August 2018
Monetary policy decision	19 September 2018
General elections - First round	07 October 2018
General elections - Second round	28 October 2018
Monetary policy decision	31 October 2018
Monetary policy decision	12 December 2018
CHILE	
Monetary policy decision	20 March 2018
Quarterly monetary policy report	21 March 2018
Monetary policy minutes	5 April 2018
Monetary policy decision	3 May 2018
Monetary policy minutes	18 May 2018
Beginning of ordinary session in Congress	21 May 2018
Monetary policy decision	13 June 2018
Quarterly monetary policy report	14 June 2018
Monetary policy minutes	28 June 2018
Monetary policy decision	24 July 2018
Monetary policy minutes	8 August 2018
Monetary policy decision	4 September 2018
Quarterly monetary policy report	5 September 2018
End of ordinary session in Congress	18 September 2018
Monetary policy minutes	21 September 2018
Monetary policy decision	18 October 2018
Monetary policy minutes	6 November 2018
Monetary policy decision	4 December 2018
Quarterly monetary policy report	5 December 2018
Monetary policy minutes	19 December 2018

Source: Credit Suisse

Key dates

COLOMBIA	
Beginning of second ordinary session in Congress	16 March 2018
Monetary policy decision	20 March 2018
Monetary policy minutes	6 April 2018
Monetary policy decision	27 April 2018
Monetary policy minutes	11 May 2018
Presidential elections	27 May 2018
Monetary policy decision	31 May 2018
Presidential runoff election (if needed)	17 June 2018
End of second ordinary session in Congress	20 June 2018
Monetary policy decision	29 June 2018
Monetary policy minutes	13 July 2018
Beginning of first ordinary session in Congress	20 July 2018
Monetary policy decision	27 July 2018
Elected President takes office	7 August 2018
Monetary policy minutes	10 August 2018
Monetary policy decision	31 August 2018
Monetary policy decision	28 September 2018
Monetary policy minutes	12 October 2018
Monetary policy decision	26 October 2018
Monetary policy minutes	9 November 2018
Monetary policy decision	30 November 2018
End of first ordinary session in Congress	16 December 2018
Monetary policy decision	21 December 2018
MEXICO	
Start of ordinary session in Congress	15 March 2018
Monetary policy decision	12 April 2018
First debate among presidential candidates	22 April 2018
Monetary policy minutes	26 April 2018
End of second ordinary session in Congress	30 April 2018
Monetary policy decision	17 May 2018
Second debate among presidential candidates	20 May 2018
Quarterly inflation report	30 May 2018
Monetary policy minutes	31 May 2018
Third debate among presidential candidates	12 June 2018
Monetary policy decision	21 June 2018
Presidential, congressional and state gubernatorial elections	1 July 2018
Monetary policy minutes	5 July 2018
Monetary policy decision	2 August 2018
Monetary policy minutes	16 August 2018
Quarterly inflation report	29 August 2018
Beginning of first ordinary session in Congress	1 September 2018
Monetary policy decision	4 October 2018
Monetary policy minutes	18 October 2018
Monetary policy decision	15 November 2018
Quarterly inflation report	28 November 2018
Monetary policy minutes	29 November 2018
Elected President takes office	1 December 2018
End of first ordinary session in Congress	15 December 2018
Monetary policy decision	20 December 2018

Source: Credit Suisse

Key dates

PERU	
Monetary policy decision	12 April 2018
Monetary policy decision	10 May 2018
Monetary policy decision	7 June 2018
End of second ordinary session in Congress	15 June 2018
Monetary policy decision	12 July 2018
Beginning of first ordinary session in Congress	27 July 2018
Monetary policy decision	9 August 2018
Monetary policy decision	13 September 2018
Monetary policy decision	11 October 2018
Monetary policy decision	8 November 2018
Monetary policy decision	13 December 2018
End of first ordinary session in Congress	15 December 2018
VENEZUELA	
Presidential election, state and municipal legislative elections	20 May 2018
End of first ordinary session in Congress	15 August 2018
Beginning of second ordinary session in Congress	15 September 2018
End of second ordinary session in Congress	15 December 2018
Beginning of new presidential term	10 January 2019

Source: Credit Suisse

Key dates

EASTERN EUROPE, MIDDLE EAST & AFRICA

POLAND	
Monetary policy decision	11 April 2018
Monetary policy decision	16 May 2018
Monetary policy decision	6 June 2018
RUSSIA	
Presidential elections	18 March 2018
Central bank policy meeting	23 March 2018
Publication of the central bank's monetary policy report	23 March 2018
Central bank's press conference	23 March 2018
Central bank policy meeting	27 April 2018
President's inauguration	7 May 2018
President fires the government	7 May 2018
President presents a new government	until 21 May 2018
TURKEY	
Monetary policy committee meeting	25 April 2018
Release of the quarterly inflation report	30 April 2018
Monetary policy committee meeting	7 June 2018
Monetary policy committee meeting	24 July 2018
Release of the quarterly inflation report	31 July 2018
Monetary policy committee meeting	13 September 2018
Release of the three-year fiscal plan	October 2018
Submission of the draft 2019 budget to parliament	17 October 2018
Monetary policy committee meeting	25 October 2018
Release of the quarterly inflation report	31 October 2018
Release of the monetary policy and exchange rate framework for 2019	5 December 2018
Monetary policy committee meeting	13 December 2018

Source: Credit Suisse

Gross financing needs for 2018

	Balance of payments financing needs for 2018 (% of GDP)		Government financing needs for 2018 (% of GDP)
	inc. short-term debt amortization	exc. short-term debt amortization	
LATIN AMERICA	**8.3**	**6.1**	**11.0**
Argentina	13.0	9.8	8.7
Brazil	8.1	5.6	16.3
Chile	23.4	17.0	2.7
Colombia	8.6	6.6	7.4
Ecuador	8.1	4.3	9.8
Mexico	3.0	2.8	6.8
Peru	7.0	3.5	3.5
Venezuela	8.1	8.1	16.6
EEMEA	**11.9**	**6.2**	**2.9**
Poland	18.4	9.8	9.1
Russia	4.2	2.4	0.4
Turkey	25.3	12.7	4.4
Emerging Markets	**10.1**	**6.4**	**8.0**

Source: Credit Suisse forecasts

Balance of payments financing needs

LATIN AMERICA

ARGENTINA

$bn	2013	2014	2015	2016	2017	2018F
Funding need (including short-term debt amortization)	**43.3**	**46.8**	**60.1**	**65.6**	**78.7**	**82.6**
Funding need (excluding short-term debt amortization)	**25.8**	**20.4**	**34.5**	**38.9**	**57.8**	**62.6**
Current account deficit	13.1	9.2	17.6	14.7	31.0	37.3
FDI outflows	0.9	1.9	0.9	0.9	0.9	0.7
Medium- and long-term debt amortization	11.8	9.3	16.0	23.3	26.0	24.6
Public	6.1	3.2	11.7	15.9	23.3	20.8
Private	5.7	6.1	4.3	7.4	2.7	3.8
Short-term debt	17.5	26.4	25.6	26.7	20.9	20.0
Funding sources (including gross short-term borrowing)	**43.3**	**46.8**	**60.1**	**65.6**	**78.7**	**82.6**
FDI inflows	9.8	5.1	11.8	5.7	8.6	12.9
Net portfolio investments	-0.3	6.4	-0.3	44.3	40.0	40.0
Government borrowing from IFIs, excluding the BIS	2.8	2.3	1.7	2.3	3.9	4.0
Central bank borrowing from BIS and bilateral lenders	-2.0	3.2	7.6	-0.6	-1.5	-3.0
Medium-term private sector borrowing	-2.8	-3.3	4.7	-3.8	5.0	2.5
Short-term private sector borrowing	26.4	25.6	26.7	20.9	20.0	20.0
Other capital flows, including capital flight	-3.4	7.6	-5.5	3.8	22.1	21.4
Change in FX reserves net of borrowing from the BIS and bilateral lenders (- indicates increase)	12.8	-0.1	13.5	-7.1	-19.3	-15.2

Source: Central Bank, INDEC, Credit Suisse

BRAZIL

$bn	2013	2014	2015	2016	2017	2018F
Funding need (including short-term debt amortization)	**180.4**	**237.6**	**200.6**	**163.4**	**132.5**	**173.6**
Funding need (excluding short-term debt amortization)	**147.8**	**179.8**	**149.4**	**107.1**	**79.9**	**120.6**
Current account deficit	74.8	104.2	59.4	23.5	9.8	39.1
FDI outflows	14.9	26.0	13.5	12.8	6.3	5.0
Medium- and long-term debt amortization	58.0	49.6	76.5	70.8	63.9	76.5
Public	6.2	4.5	4.8	2.7	8.5	8.5
Private	51.8	45.1	71.7	68.0	55.3	68.0
Short-term debt amortization	32.6	57.8	51.1	56.3	52.6	53.0
Funding sources (including gross short-term borrowing)	**180.4**	**237.6**	**200.6**	**163.4**	**132.5**	**173.6**
FDI inflows	69.7	97.2	74.7	78.2	70.3	80.0
Portfolio investments	46.1	44.5	26.6	-13.0	4.7	15.0
Stocks	11.1	11.5	9.8	10.6	5.7	7.0
Fixed income	31.0	27.1	16.7	-26.7	-5.1	5.0
Government bonds	4.1	6.0	0.1	3.1	4.1	3.0
Borrowing by the government (from other sources than the IMF)	6.9	5.7	2.2	2.4	2.6	2.5
Medium- and long-term borrowing by the private sector	49.6	59.5	70.7	49.8	52.4	54.3
Short-term debt contracted from abroad (gross)	57.8	51.1	56.3	52.6	53.0	58.0
Other capital inflows and errors and omissions	-55.6	-9.6	-28.3	2.7	-45.4	-31.2
Change in international net reserves (- indicates increase)	5.9	-10.8	-1.6	-9.2	-5.1	-5.0

Source: Central Bank, Ministry of Finance, Credit Suisse

Balance of payments financing needs

CHILE

$bn	2013	2014	2015	2016	2017	2018F
Funding need (including short-term debt amortization)	**58.8**	**57.0**	**62.3**	**41.7**	**60.0**	**69.5**
Funding need (excluding short-term debt amortization)	**39.5**	**37.8**	**39.9**	**27.7**	**43.6**	**50.7**
Current account deficit	11.5	4.5	4.7	3.6	5.4	6.9
FDI outflows	9.9	12.8	16.7	7.1	7.2	10.3
Medium- and long-term debt amortization	18.1	20.5	18.5	17.0	31.0	33.5
Short-term debt amortization	19.3	19.2	22.5	14.0	16.4	18.8
Funding sources (including gross short-term borrowing)	**58.8**	**57.0**	**62.3**	**41.7**	**60.0**	**69.5**
FDI inflows	21.1	24.0	20.5	12.2	8.2	13.6
Net portfolio flows	4.7	3.8	1.4	1.1	-7.1	-0.2
Portfolio outflows	10.7	9.0	1.5	1.9	10.8	5.8
Portfolio inflows	15.4	12.8	2.9	3.0	3.7	5.6
External debt issuance	14.9	15.0	16.0	10.0	31.0	31.1
Other loans	16.0	12.0	18.0	12.1	15.3	15.0
Residual	1.5	1.5	4.6	8.2	10.5	10.7
Change in gross reserves (- indicates increase)	0.6	0.6	1.8	-1.9	2.1	-0.7
Memo items:						
Nominal GDP ($ bn)	278	261	242	247	269	297

Source: Central Bank, Credit Suisse

COLOMBIA

$bn	2013	2014	2015	2016	2017	2018F
Funding need (including short-term debt amortization)	**32.0**	**51.4**	**39.4**	**28.9**	**31.1**	**29.6**
Funding need (excluding short-term debt amortization)	**25.0**	**32.2**	**31.2**	**22.6**	**24.9**	**22.6**
Current account deficit	12.3	19.8	18.6	12.1	10.4	11.3
FDI outflows	7.7	3.9	4.2	4.5	3.7	4.7
Medium- and long-term debt amortization	5.0	8.5	8.4	6.0	10.9	6.7
Public sector	1.5	2.4	2.4	1.1	2.7	1.0
IFIs	0.9	1.4	1.2	1.0	1.1	1.0
Non-IFIs	0.6	1.0	1.2	0.1	1.7	0.0
Private sector	3.5	6.1	6.0	4.9	8.2	5.7
Non-financial private sector	2.9	5.0	5.3	3.8	6.4	4.7
Financial private sector	0.6	1.1	0.7	1.2	1.8	0.9
Short-term debt amortization	7.0	19.2	8.2	6.2	6.2	6.9
Funding sources (including gross short-term borrowing)	**32.0**	**51.4**	**39.4**	**28.9**	**31.1**	**29.6**
FDI inflows	16.2	16.2	11.7	13.8	14.5	15.7
IFI lending	1.4	2.1	2.9	3.2	2.8	2.6
Public sector borrowing (excluding IFI lending)(1)	3.5	3.0	4.0	1.5	2.9	0.0
Net portfolio investments	7.4	11.6	10.3	3.7	1.6	3.9
Medium-term private sector borrowing	8.7	5.5	7.8	9.7	6.4	6.4
Short-term financing	8.8	21.3	8.5	6.4	10.0	10.1
Other capital flows/errors and omissions	-7.9	-4.5	-6.4	-9.5	-6.2	-9.1
Change in FX reserves (- indicates increase)	-6.2	-3.7	0.6	0.0	-1.0	0.0

(1) Includes pre-financing operations done in 2013, 2014, and 2015.

Source: Central Bank, Ministry of Finance, Credit Suisse

Balance of payments financing needs

ECUADOR

$bn	2013	2014	2015	2016	2017	2018F
Funding need (including short-term debt amortization)	**6.9**	**7.2**	**9.2**	**7.0**	**8.5**	**8.5**
Funding need (excluding short-term debt amortization)	**3.1**	**4.2**	**6.2**	**2.6**	**4.4**	**4.5**
Current account deficit	0.9	0.5	2.1	-1.4	0.4	0.5
FDI outflows	0.0	0.0	0.0	0.0	0.0	0.0
Medium- and long-term debt amortization	2.2	3.7	4.1	4.0	3.9	3.9
Public sector	1.2	1.7	2.2	2.7	2.5	2.4
External market debt amortization	0.0	0.0	0.7	0.0	0.0	0.0
Other external loans' amortization	1.2	1.7	1.6	2.7	2.5	2.4
Private sector	1.0	2.0	1.9	1.3	1.4	1.5
Short-term debt amortization	3.8	2.9	3.0	4.4	4.2	4.0
Funding sources (including gross short-term borrowing)	**6.9**	**7.2**	**9.2**	**7.0**	**8.5**	**8.5**
FDI inflows	0.7	0.8	1.3	0.8	0.8	1.0
Net portfolio investments	-0.9	-0.5	0.0	-0.5	-0.1	-0.2
Public sector external bond issuance	0.0	2.0	1.5	2.8	6.5	6.0
Other external loans	3.3	4.4	3.3	4.5	2.4	2.3
Medium-term private-sector borrowing	1.9	2.8	0.7	2.1	0.9	1.1
Short-term financing	4.2	3.2	3.7	4.8	3.0	3.9
Money and coin	-1.9	-4.3	-3.4	-5.5	-4.8	-4.0
Other	1.5	-1.6	0.7	-0.2	-2.0	-1.3
Change in FX reserves (- indicates increase)	-1.9	0.4	1.5	-1.8	1.8	-0.3

Source: Central Bank, Ministry of Finance, Credit Suisse

MEXICO

$bn	2013	2014	2015	2016	2017	2018F
Funding need (including short-term debt amortization)	**61.9**	**42.8**	**60.4**	**39.9**	**32.7**	**36.5**
Funding need (excluding non-market debt amortization)	**57.6**	**39.0**	**56.4**	**37.9**	**30.7**	**34.5**
Current account deficit	30.9	23.7	29.3	22.8	18.8	15.9
FDI outflows	14.7	5.4	10.7	1.6	5.1	5.0
Medium- and long-term market debt amortization	4.1	5.4	7.1	7.4	5.3	10.5
Public	3.7	3.7	2.7	3.3	3.0	4.9
Private	0.4	1.7	4.4	4.1	2.3	5.6
Public sector non-market debt payments	7.9	4.5	9.3	6.1	1.5	3.1
Private sector non-market debt amortization(1)	4.3	3.7	4.0	2.0	2.0	2.0
Funding sources (including gross short-term borrowing)	**61.9**	**42.8**	**60.4**	**39.9**	**32.7**	**36.5**
FDI inflows	48.5	28.7	34.9	29.8	29.7	30.0
Net portfolio investments	41.9	47.8	29.7	31.6	4.2	10.0
Medium- and long-term borrowing	5.8	6.2	8.2	8.0	8.0	6.0
Short-term loans	9.6	3.1	-5.3	-4.4	4.0	3.0
Other	-14.3	-12.2	-12.7	-15.0	-9.3	0.0
Error and omissions	-16.6	-14.0	-10.9	-10.2	-8.0	-10.0
Change in net international reserves (- indicates increase)	-13.0	-16.7	16.5	0.2	4.1	-2.5
Memo items:						
Nominal GDP ($ bn)	1,274	1,313	1,168	1,075	1,153	1,217

(1) Reflects credit lines from suppliers, commercial bank loans and external trade loans. We do not have data on the exact original maturity of these loans, but we assume that they were typically less than one year, so that it fits with the "short-term" debt definition.

Source: Central Bank, Ministry of Finance, Credit Suisse

Balance of payments financing needs

PERU

$bn	2013	2014	2015	2016	2017	2018F
Funding need (including short-term debt amortization)	**24.3**	**21.1**	**20.6**	**18.6**	**20.0**	**16.0**
Funding need (excluding short-term debt amortization)	**15.4**	**14.9**	**14.2**	**11.8**	**12.8**	**7.9**
Current account deficit	9.4	8.9	9.2	5.3	2.7	2.4
FDI outflows	0.1	0.8	0.1	0.3	0.3	0.4
Medium- and long-term debt amortization	5.8	5.2	4.9	6.2	9.8	5.1
Public sector	2.4	1.5	1.2	1.6	2.0	0.5
IFIs	2.2	0.4	0.4	0.5	1.8	0.3
Paris Club	0.2	0.2	0.2	0.2	0.2	0.1
External market debt amortization	0.0	0.9	0.6	0.9	0.0	0.0
Private sector	3.4	3.7	3.7	4.6	7.8	4.6
Short-term debt amortization	8.9	6.2	6.4	6.8	7.2	8.1
Funding sources (including gross short-term borrowing)	**24.3**	**21.1**	**20.6**	**18.6**	**20.0**	**16.0**
FDI inflows	9.8	4.4	8.3	6.9	6.8	6.0
Net portfolio investments	4.7	-1.8	-0.7	-1.2	-0.9	-1.4
IFI lending (excluding IMF)	0.4	0.2	1.3	0.8	1.1	0.0
Paris Club lending to Peru's government sector	0.0	0.3	0.0	0.0	0.5	0.8
Public sector external bond issuance(1)	0.0	0.5	3.1	1.2	0.0	1.0
Medium-term private-sector borrowing	4.3	9.4	5.1	2.9	3.9	4.6
Short-term financing	6.2	6.4	6.8	7.2	8.1	7.4
Other	0.4	-1.7	-4.0	1.0	2.6	-2.2
Change in FX reserves (- indicates increase)	-1.7	3.4	0.8	-0.2	-2.0	-0.2

(1) Includes prefinancing operations done in 2014, 2015, and 2016.

Source: Central Bank, Ministry of Finance, Credit Suisse"

VENEZUELA

$bn	2013	2014	2015E	2016	2017	2018F
Funding need (excluding short-term debt amortization)	**-1.0**	**4.1**	**23.4**	**9.1**	**5.8**	**6.6**
Current account deficit	-4.6	-4.9	16.1	3.9	-0.3	1.9
FDI outflows	0.2	4.5	2.6	1.6	2.1	1.8
Medium- and long-term debt amortization	3.3	4.5	4.7	3.6	4.0	2.9
Funding sources (including net short-term borrowing)	**-1.0**	**4.1**	**23.4**	**9.1**	**5.8**	**6.6**
FDI inflows	-2.1	-1.1	-3.0	-1.6	-2.3	-1.9
Net portfolio investments	3.3	2.2	4.0	2.5	-0.3	0.2
Other investment	-7.1	-3.1	16.4	9.9	4.2	5.1
Trade credits	0.0	3.4	1.8	4.6	3.2	3.9
Loans	0.8	0.2	3.6	1.9	2.8	2.3
Currency and deposits	-1.3	-3.4	7.9	3.4	-3.3	-2.0
Other assets	-6.7	-3.2	3.2	0.0	1.6	0.8
Other, including errors and omissions	-3.5	6.7	0.2	-7.2	2.9	0.2
Change in gross reserves (- indicates increase)	8.4	-0.6	5.7	5.4	1.3	3.0

Source: Central Bank, Credit Suisse

Balance of payments financing needs

EASTERN EUROPE, MIDDLE EAST AND AFRICA

POLAND

$bn	2013	2014	2015	2016	2017	2018F
Funding need (including short-term debt amortization)	**130.4**	**131.1**	**107.7**	**110.2**	**103.3**	**111.0**
Funding need (excluding short-term debt amortization)	**60.6**	**73.6**	**51.3**	**57.4**	**52.7**	**58.9**
Current account deficit	6.7	11.4	2.7	1.4	-0.9	5.5
FDI outflows	-3.4	6.9	4.3	9.2	5.3	5.4
Medium- and long-term external debt amortization	57.3	55.3	44.3	46.8	48.3	48.0
Short-term external debt amortization	69.8	57.5	56.4	52.8	50.6	52.1
Funding sources (including gross short-term borrowing)	**130.4**	**131.1**	**107.7**	**110.2**	**103.3**	**111.0**
Net EU transfers (capital account)	12.4	13.3	11.3	4.9	6.7	7.8
FDI inflows	0.8	19.8	14.6	14.6	5.6	15.1
Net portfolio equity inflows	1.5	0.5	-5.8	-1.3	1.5	2.5
Medium- and long-term borrowing (incl. bonds)	66.1	55.8	49.1	50.4	52.0	52.0
Short-term borrowing (incl. bills)	62.9	50.4	52.8	50.6	50.0	50.0
Financial derivatives	0.7	0.0	0.0	0.0	0.0	0.0
Other items (incl. net errors and omissions)	-18.9	-6.5	-6.7	-3.2	-8.5	-6.0
Change in reserves (- indicates increase)	-0.8	-0.3	-1.2	-22.6	-4.0	-10.4
Roll-over ratios:						**Assumptions**
Medium- and long-term debt	1.2	1.0	1.1	1.1	1.1	1.1
Short-term debt	0.9	0.9	0.9	1.0	1.0	1.0

Note: These data are based on the location of debt-holders.

Source: National Bank of Poland, Ministry of Finance, IMF, JEDH, Credit Suisse

RUSSIA

$bn	2013	2014	2015	2016	2017	2018F
Funding need (including short-term debt amortization)	**188.1**	**185.4**	**101.3**	**86.5**	**84.9**	**69.9**
Funding need (excluding short-term debt amortization)	**106.6**	**125.4**	**66.3**	**56.5**	**54.9**	**39.9**
Current account deficit	-33.0	-56.7	-68.8	-25.5	-40.2	-41.5
FDI outflows	86.5	57.1	22.1	10.0	25.0	2.0
Medium- and long-term debt amortization	53.1	125.0	113.0	72.0	70.1	79.4
Public	3.0	2.2	3.0	3.0	4.1	1.2
Private	50.1	122.8	110.0	69.0	66.0	78.2
Short-term debt amortization	81.5	60.0	35.0	30.0	30.0	30.0
Funding sources (including gross short-term borrowing)	**188.1**	**185.4**	**101.3**	**86.5**	**84.9**	**69.9**
FDI inflows	69.2	22.0	6.5	20.0	15.0	12.0
Portfolio investments	-11.0	-39.9	-26.4	5.0	15.0	10.0
Medium- and long-term borrowing	26.8	96.8	105.9	56.8	103.4	87.9
Short-term loans	90.1	63.0	48.0	35.0	30.0	30.0
Other flows, including errors and omissions	-9.0	-64.0	-31.0	-22.0	-40.0	-25.0
Change in net international reserves (- indicates increase)	22.1	107.5	-1.7	-8.3	-38.5	-45.0
Memo items:						
Nominal GDP ($ bn)	2,294	2,080	1,371	1,296	1,578	1,676

Source: IMF, IIF, Central Bank of Russia, Credit Suisse

Balance of payments financing needs

TURKEY

$bn	2013	2014	2015	2016	2017	2018F
Funding need (including short-term debt amortization)	**214.1**	**222.0**	**208.8**	**200.4**	**213.8**	**236.2**
Funding need (excluding short-term debt amortization)	**111.7**	**88.7**	**73.7**	**95.0**	**112.3**	**118.5**
Current account deficit	63.6	43.6	32.1	33.1	47.2	51.6
External debt amortization	44.4	38.0	36.5	58.7	62.5	63.9
Public (excluding scheduled payments to the IMF)	4.5	6.2	5.6	5.4	7.6	8.9
Of which: Eurobonds	1.5	3.1	2.8	2.8	3.8	5.0
Of which: Medium-term loans	3.0	3.1	2.8	2.6	3.7	3.9
Private	40.0	31.8	30.9	53.3	54.9	55.0
Banks	9.0	9.2	11.4	34.0	36.4	35.0
Non-bank corporates	31.0	22.6	19.4	19.3	18.5	20.0
FDI outflows	3.6	7.1	5.1	3.1	2.7	3.0
Short-term debt amortization(1)	102.4	133.3	135.1	105.4	101.5	117.7
Funding sources (including gross short-term borrowing)	**214.1**	**222.0**	**208.8**	**200.4**	**213.8**	**236.2**
FDI inflows	13.6	13.1	18.0	13.3	10.8	11.0
Portfolio investments	22.9	24.0	-6.8	10.6	27.9	21.0
Equity	0.8	2.6	-2.4	0.8	3.2	2.0
Local bonds	4.1	0.4	-7.7	0.8	7.3	4.0
Eurobonds (government)	6.1	7.3	3.0	5.5	9.7	6.5
Eurobonds (banks and non-bank corporates)	11.8	13.8	0.3	3.5	7.8	8.5
Loans to public sector (non-IMF)	3.0	2.2	1.7	1.7	2.4	2.0
Medium- and long-term borrowing by private sector	47.8	44.7	66.8	64.6	57.8	57.0
Banks	17.8	17.1	38.0	36.7	37.0	35.0
Non-bank corporates	29.9	27.5	28.8	27.9	20.8	22.0
Short-term loans	133.3	135.1	105.4	101.5	117.7	133.5
Other(2)	4.4	2.4	12.0	9.5	-10.9	8.0
Change in net reserves (- indicates increase)	-10.8	0.5	11.8	-0.8	8.2	3.7
Change in gross reserves (- indicates increase)	-9.9	0.5	11.8	-0.8	8.2	3.7
IMF (net)	-0.9	0.0	0.0	0.0	0.0	0.0
Principal payments to the IMF	-0.9	0.0	0.0	0.0	0.0	0.0
Loans from the IMF	0.0	0.0	0.0	0.0	0.0	0.0
Roll-over ratios:						**Assumptions**
Medium- and long-term debt – Banks	1.98	1.86	3.32	1.08	1.02	1.00
Medium- and long-term debt – Non-bank corporates	0.97	1.22	1.48	1.44	1.13	1.10
Short-term debt	1.30	1.01	0.78	0.96	1.16	1.13

(1) Short-term debt amortizations are based on the debt stock figures from a year ago; they include the non-residents' deposits. (2) All flows that are not specified above, including residents' portfolio and other investments abroad, and net errors/omissions.

Source: Central Bank, Credit Suisse

Government funding needs

LATIN AMERICA

ARGENTINA	2015		2016		2017		2018F	
	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP
Total borrowing requirements	**43.8**	**6.9**	**45.1**	**8.3**	**57.4**	**9.2**	**55.5**	**8.7**
Overall fiscal deficit[(1)]	32.8	5.2	31.9	5.9	37.9	6.0	33.8	5.3
Primary fiscal deficit	24.3	3.8	23.1	4.3	24.3	3.9	20.2	3.2
Interest payments	8.6	1.4	8.8	1.6	13.5	2.2	13.5	2.1
Total amortization payments on medium- and long-term debt	10.9	1.7	13.2	2.4	19.5	3.1	21.7	3.4
Domestic debt	2.5	0.4	7.7	1.4	9.5	1.5	8.1	1.3
External debt	8.4	1.3	5.5	1.0	9.9	1.6	13.6	2.1
Funding sources	**43.8**	**6.9**	**45.1**	**8.3**	**57.4**	**9.2**	**55.5**	**8.7**
Central bank FX reserves	7.3	1.2	0.0	0.0	0.0	0.0	0.0	0.0
IFIs	2.3	0.4	3.0	0.6	3.9	0.6	4.0	0.6
Repo with foreign banks	0.0	0.0	0.0	0.0	7.0	1.1	2.0	0.3
External bonds	0.0	0.0	10.0	1.8	13.3	2.1	12.0	1.9
Domestic bonds	10.9	1.7	15.8	2.9	16.5	2.6	15.0	2.4
Treasury notes	0.0	0.0	7.6	1.4	4.5	0.7	5.0	0.8
Central bank	25.7	4.1	10.1	1.9	8.1	1.3	6.2	1.0
Other domestic financing (incl. treasury notes, intra-public sector)	-2.4	-0.4	-1.4	-0.3	4.1	0.7	11.3	1.8

(1) Federal government.

Source: Ministry of Finance, Ministry of Treasury, INDEC, Credit Suisse

BRAZIL	2015		2016		2017		2018F	
	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP
Total borrowing requirements	**401.0**	**22.3**	**371.5**	**20.6**	**366.8**	**17.6**	**353.3**	**16.3**
Overall fiscal deficit	184.0	10.2	161.3	9.0	165.5	7.8	153.0	7.0
Primary fiscal deficit	33.4	1.9	44.6	2.5	46.3	1.7	38.8	1.8
Interest payments	150.6	8.4	116.6	6.5	119.3	6.1	114.2	5.3
Debt amortization	217.0	12.1	209.9	11.7	201.3	9.8	200.3	9.3
Domestic debt	212.1	11.8	205.5	11.4	200.4	9.7	198.9	9.2
External debt	4.90	0.27	4.40	0.26	0.94	0.05	1.39	0.06
Funding sources	**401.0**	**22.3**	**371.5**	**20.6**	**366.8**	**17.6**	**353.3**	**16.3**
New privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer of privatization proceeds from previous year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External bonds	0.3	0.0	3.7	0.2	4.7	0.2	0.0	0.0
IFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project finance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt issuance	400.7	22.3	367.8	20.4	362.1	17.4	353.3	16.3

Source: IMF, Central Bank, Credit Suisse

CHILE	2015		2016		2017		2018F	
	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP
Total borrowing requirements	**6.8**	**2.8**	**7.4**	**3.0**	**8.1**	**3.0**	**8.1**	**2.7**
Overall fiscal deficit	5.1	2.1	6.7	2.7	7.3	2.7	7.5	2.5
Primary fiscal deficit	3.6	1.5	4.9	2.0	5.1	1.9	4.8	1.6
Interest payments	1.5	0.6	1.7	0.7	2.2	0.8	2.7	0.9
Debt amortization	1.5	0.6	0.7	0.3	0.8	0.3	0.2	0.2
Domestic debt	1.5	0.6	0.7	0.3	0.8	0.3	0.5	0.2
External debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Funding sources	**6.8**	**2.8**	**7.4**	**3.0**	**8.1**	**3.0**	**8.1**	**2.7**
Domestic	4.8	2.0	5.9	2.4	7.3	2.7	8.1	2.7
External	1.5	0.6	1.0	0.4	0.8	0.3	0.0	0.0
Repatriation from stabilization funds	0.5	0.2	0.5	0.2	0.0	0.0	0.0	0.0

Source: IMF, Central Bank, Credit Suisse

Government funding needs

COLOMBIA	2015		2016		2017		2018F	
	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP
Total borrowing requirements	**23.7**	**8.1**	**23.8**	**8.5**	**25.2**	**8.1**	**25.3**	**7.4**
Overall fiscal deficit(1)	8.8	3.0	11.3	4.0	11.3	3.6	10.6	3.1
Primary fiscal deficit	1.3	0.5	3.1	1.1	2.0	0.6	0.6	0.2
Interest payments	7.5	2.6	8.2	2.9	9.2	3.0	10.1	2.9
Quasi fiscal deficit	0.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0
FEPC debt(2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt amortization	9.6	3.3	5.3	1.9	7.5	2.4	5.8	1.7
Domestic debt	7.2	2.5	4.2	1.5	4.8	1.6	4.8	1.4
External debt	2.4	0.8	1.1	0.4	2.7	0.9	1.0	0.3
Treasury operations	0.0	0.0	2.4	0.9	2.3	0.7	3.6	1.1
Final availability	4.4	1.5	4.9	1.7	4.1	1.3	5.3	1.5
Funding sources	**23.7**	**8.1**	**23.8**	**8.5**	**25.2**	**8.1**	**25.3**	**7.4**
IFIs	2.9	1.0	3.2	1.1	2.8	0.9	2.6	0.8
External bonds(3)	2.5	0.9	1.5	0.5	2.9	1.0	0.0	0.0
Domestic financing	11.2	3.8	13.0	4.6	13.6	4.4	15.0	4.4
Initial availability(3)	2.2	0.7	5.3	1.9	5.0	1.6	5.6	1.6
Treasury operations	4.6	1.6	0.0	0.0	0.0	0.0	1.3	0.4
Privatizations and other	0.3	0.1	0.8	0.3	0.9	0.3	0.7	0.2

(1) Central government. (2) Fuel Price Stabilization Fund. (3) Assumes award paid by telecom companies reduces expected external bond issuance.

Source: Central Bank, Credit Suisse

ECUADOR	2015		2016		2017		2018F	
	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP
Total borrowing requirements	**10.5**	**10.6**	**15.9**	**16.1**	**12.0**	**11.7**	**10.3**	**9.8**
Overall fiscal deficit(1)	5.1	5.1	7.3	7.4	5.6	5.5	4.9	4.7
Primary fiscal deficit	3.7	3.7	5.8	5.8	3.6	3.5	2.5	2.3
Interest payments	1.4	1.4	1.6	1.6	2.0	2.0	2.5	2.4
Debt amortization	5.4	5.4	8.6	8.7	6.4	6.3	5.3	5.1
Domestic debt(2)	3.2	3.2	5.9	5.9	3.9	3.8	2.9	2.8
External debt(3)	2.2	2.2	2.7	2.8	2.5	2.4	2.4	2.3
Funding sources	**10.5**	**10.6**	**15.9**	**16.1**	**12.0**	**11.7**	**10.3**	**9.8**
Domestic financing(4)	4.6	4.6	7.6	7.7	4.9	4.8	4.5	4.3
External bond issuance(5)	1.5	1.5	2.8	2.8	6.5	6.3	6.0	5.7
External loans	3.3	3.3	4.5	4.6	2.4	2.3	2.3	2.1
Net oil-presale financing	0.4	0.4	0.5	0.5	-0.9	-0.9	-0.6	-0.6
Floating debt and discrepancies(6)	0.7	0.7	0.5	0.5	-0.8	-0.8	-1.9	-1.8

(1) Non-financial public sector. (2) In 2017 includes Petroamazonas arrears with private sector for $3.5bn, and an estimate of remaining arrears of $1bn in 2018. (3) Includes $1.1bn payments of international arbitrations in 2016. (4) Includes net financing with Central Bank. (5) In 2017 includes bond issuances by Petroamazonas. (6) Central bank publishes accrued data that must be consistent above and below the line. Arrears with private sector are likely included in discrepancies.

Source: Central Bank, Credit Suisse

Government funding needs

MEXICO	2015		2016		2017		2018F	
	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP
Total borrowing requirements	**104.0**	**8.9**	**112.9**	**10.5**	**74.9**	**6.5**	**82.8**	**6.8**
Overall fiscal deficit	33.9	2.9	32.3	3.0	12.7	1.1	18.3	1.5
Primary fiscal deficit	14.0	1.2	12.9	1.2	-13.8	-1.2	-11.0	-0.9
Interest payments	19.9	1.7	19.4	1.8	26.5	2.3	31.6	2.6
Debt amortization	70.1	6.0	80.6	7.5	62.3	5.4	64.5	5.3
Domestic debt	65.4	5.6	74.2	6.9	60.0	5.2	63.3	5.2
External debt	4.7	0.4	6.5	0.6	2.3	0.2	1.2	0.1
Funding sources	**105.1**	**9.0**	**112.9**	**10.5**	**74.9**	**6.5**	**82.8**	**6.8**
Domestic	85.3	7.3	94.6	8.8	63.4	5.5	73.0	6.0
External	18.7	1.6	18.3	1.7	11.5	1.0	9.7	0.8

Source: IMF, Central Bank, Credit Suisse

PERU	2015		2016		2017		2018F	
	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP
Total borrowing requirement	**6.4**	**3.3**	**8.7**	**4.4**	**9.4**	**4.4**	**8.1**	**3.5**
Overall fiscal deficit(1)	4.1	2.1	4.6	2.3	6.5	3.0	6.6	2.9
Primary fiscal deficit	2.1	1.1	2.5	1.3	4.1	1.9	3.7	1.6
Interest payments	2.0	1.0	2.0	1.0	2.4	1.1	2.9	1.3
Debt amortization	2.3	1.2	4.1	2.1	2.9	1.3	1.5	0.7
Domestic	1.1	0.6	2.5	1.3	0.9	0.4	1.0	0.5
External	1.2	0.6	1.6	0.8	2.0	0.9	0.5	0.2
Funding sources	**6.4**	**3.3**	**8.7**	**4.4**	**9.4**	**4.4**	**8.1**	**3.5**
Domestic financing	4.6	2.4	4.7	2.4	6.7	3.1	6.3	2.8
External bonds	0.5	0.3	3.1	1.6	1.2	0.5	1.0	0.4
IFIs & Paris Club	1.3	0.7	0.9	0.4	1.6	0.7	0.8	0.3

(1) General government.

Source: National authorities, Credit Suisse

VENEZUELA	2015E		2016E		2017		2018F	
	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP
Total borrowing requirement	**20.0**	**20.9**	**17.3**	**19.6**	**16.5**	**19.2**	**13.5**	**16.6**
Overall fiscal deficit(1)	15.0	15.7	13.5	15.2	12.5	14.5	10.6	13.0
Primary fiscal deficit	12.6	13.2	11.1	12.5	10.3	12.0	8.6	10.5
Interest payments	2.4	2.5	2.4	2.7	2.2	2.5	2.0	2.5
Debt amortization	5.0	5.2	3.8	4.3	4.0	4.7	2.9	3.5
External	4.7	4.9	3.6	4.1	4.0	4.7	2.9	3.5
Domestic	0.3	0.3	0.2	0.2	0.0	0.0	0.0	0.0
Funding sources	**20.0**	**20.9**	**17.3**	**19.6**	**16.5**	**19.2**	**13.5**	**16.6**
Dollar denominated debt-placements	1.5	1.6	5.6	6.3	0.0	0.0	0.0	0.0
Bolivar denominated debt placements	0.8	0.8	0.2	0.2	0.5	0.6	0.5	0.6
Central bank	8.3	8.6	6.7	7.6	10.0	11.6	8.5	10.4
Public sector external assets	9.5	9.9	4.8	5.5	6.0	7.0	4.5	5.5

(1) Consolidation of Central Government, PDVSA, Non-Financial Public Enterprises, Venezuelan Social Security Institute and Deposit and Guarantee Fund.

Source: Ministry of Finance, Central Bank, PDVSA, Credit Suisse

Government funding needs

EASTERN EUROPE, MIDDLE EAST & AFRICA

POLAND	2015		2016		2017		2018F	
	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP
Total borrowing requirements[1]	**39.2**	**8.4**	**54.0**	**11.5**	**46.7**	**8.9**	**54.8**	**9.1**
General government budget deficit[2]	12.6	2.7	11.7	2.5	6.8	1.3	7.8	1.3
Primary deficit	3.2	0.7	4.2	0.9	-2.1	-0.4	-2.5	-0.4
Interest payments	9.3	2.0	8.0	1.7	9.0	1.7	10.3	1.7
Debt amortization	26.6	5.7	42.2	9.0	39.9	7.6	46.9	7.8
PLN-denominated bonds	22.3	4.8	35.7	7.6	34.1	6.5	39.1	6.5
FX-denominated debt (incl. IFI loan repayments)	4.4	0.9	6.6	1.4	5.8	1.1	6.6	1.1
Stock of T-bills at the beginning of the period	0.0	0.0	0.0	0.0	0.0	0.0	0	0.0
Additional debt reduction due to pension reform	na	na	na	na	na	na	na	na
Funding sources	**39.2**	**8.4**	**54.0**	**11.5**	**46.7**	**8.9**	**54.8**	**9.1**
Bond issuance	41.1	8.8	53.5	11.4	44.6	8.5	48.7	8.1
PLN-denominated bonds	30.4	6.5	40.8	8.7	35.2	6.7	37.9	6.3
FX-denominated bonds	10.7	2.3	12.7	2.7	9.4	1.8	10.8	1.8
Stock of T-bills at the end of the period	0.0	0.0	0.0	0.0	0.0	0.0	0	0.0
Other international financing (incl. IFI loans)	1.0	0.2	0.9	0.2	1.6	0.3	0.6	0.1
Change in government cash reserves (- indicates increase)	0.0	0.0	-2.3	-0.5	1.6	0.3	1.8	0.3
Other sources / change in public assets (- indicates increase)	-2.9	-0.6	1.9	0.4	-1.0	-0.2	3.6	0.6
Transfers from private pension funds	na	na	na	na	na	na	na	na
Memo item:								
GDP ($bn)	477.3		469.3		525.0		601.8	

(1) Excluding additional debt reduction due to pension reform. (2) Excluding one-off transfers from pension funds to the government.

Source: IMF, Central Bank, Credit Suisse

RUSSIA	2015		2016		2017		2018F	
	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP
Total borrowing requirement	**49.6**	**3.6**	**54.1**	**4.2**	**39.6**	**2.5**	**6.0**	**0.4**
Overall fiscal deficit[1]	32.2	2.3	44.1	3.4	21.8	1.4	-9.3	-0.6
Primary fiscal deficit	23.7	1.7	34.8	2.7	9.4	0.6	-23.5	-1.4
Interest payments	8.5	0.6	9.3	0.7	12.3	0.8	14.2	0.8
Debt amortization	17.4	1.3	10.0	0.8	17.8	1.1	15.3	0.9
Domestic	13.5	1.0	8.4	0.6	14.3	0.9	11.4	0.7
External	3.9	0.3	1.6	0.1	3.5	0.2	3.9	0.2
Funding sources	**49.6**	**3.6**	**54.1**	**4.2**	**39.6**	**2.5**	**6.0**	**0.4**
Bond issuance	13.8	1.0	18.7	1.4	35.8	2.3	43.7	2.6
Domestic	13.7	1.0	15.7	1.2	32.4	2.1	36.7	2.2
External	0.1	0.0	3.0	0.2	3.4	0.2	7.0	0.4
Privatization	0.1	0.0	6.1	0.5	2.4	0.2	0.2	0.0
Other domestic financing	-9.1	-0.7	-3.5	-0.3	-0.4	0.0	2.6	0.2
Other international financing	-1.0	-0.1	-0.7	-0.1	-5.8	-0.4	-5.2	-0.3
Change in cash reserves	45.8	3.3	33.6	2.6	7.5	0.5	-35.2	-2.1
Memo item:								
GDP ($bn)	1,371		1,296		1,578		1,676	

(1) Excluding bank recapitalization.

Source: IMF, Central Bank, Credit Suisse

Government funding needs

TURKEY	2015		2016		2017		2018F	
	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP	$ bn	% of GDP
Total borrowing requirement	**45.6**	**5.3**	**46.9**	**5.4**	**43.2**	**5.1**	**41.2**	**4.4**
Overall fiscal deficit(1)	15.9	1.8	21.1	2.4	19.8	2.3	17.4	1.8
Primary fiscal deficit	-3.5	-0.4	4.5	0.5	4.0	0.5	2.2	0.2
Interest payments	19.4	2.3	16.6	1.9	15.8	1.9	15.2	1.6
Debt amortization	29.7	3.5	25.8	3.0	23.4	2.8	23.8	2.5
Government bonds	24.8	2.9	20.9	2.4	16.4	1.9	17.6	1.9
External debt	5.0	0.6	4.9	0.6	7.0	0.8	6.3	0.7
Stock of T-bills at the beginning of the period	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Funding sources	**45.6**	**5.3**	**46.9**	**5.4**	**43.2**	**5.1**	**41.2**	**4.4**
Bond issuance	36.2	4.2	35.7	4.1	44.3	5.2	39.4	4.2
Domestic	33.2	3.9	30.2	3.5	35.2	4.2	32.9	3.5
External	3.0	0.3	5.5	0.6	9.1	1.1	6.5	0.7
T-bill issuance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other domestic financing	11.2	1.3	15.1	1.7	4.8	0.6	0.4	0.0
Other international financing	-0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Change in cash reserves (- indicates increase)	-1.6	-0.2	-3.6	-0.4	-5.9	-0.7	1.4	0.1
Memo item:								
GDP ($bn)	859.8		863.4		846.3		935.1	

(1) The difference between the overall fiscal deficit figures here and the central government budget deficit figures presented in the Selected Economic Indicators table for Turkey is due to interest revenues. The government's interest revenues are included in other financing in this presentation.

Source: IMF, Central Bank, Credit Suisse

Summary macroeconomic data: GDP growth

	Nominal GDP ($bn)			Real GDP growth (% year on year)								
	2017	2018F	2019F	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
LATIN AMERICA	**4,817.4**	**5,064.2**	**5,305.9**	**4.5**	**2.7**	**2.8**	**1.1**	**0.1**	**-1.0**	**1.4**	**2.3**	**2.5**
Argentina	**626.3**	**637.0**	**688.0**	6.0	-1.0	2.4	-2.5	2.6	-2.2	2.8	2.7	3.0
Brazil	**2,056.4**	**2,155.6**	**2,249.3**	4.0	1.9	3.0	0.5	-3.5	-3.5	1.0	2.5	2.3
Chile	**269.2**	**297.4**	**312.2**	6.1	5.3	4.0	1.9	2.3	1.6	1.6	2.9	2.8
Colombia	**309.2**	**342.5**	**364.1**	6.6	4.0	4.9	4.4	3.1	2.0	1.8	2.5	2.8
Ecuador	**102.1**	**104.8**	**106.9**	7.9	5.6	4.9	4.0	0.2	-1.6	2.7	2.2	0.9
Mexico	**1,152.9**	**1,216.5**	**1,266.1**	3.7	3.6	1.4	2.8	3.3	2.9	2.0	2.3	2.9
Peru	**215.2**	**228.7**	**244.2**	6.5	6.0	5.9	2.4	3.3	4.0	2.5	3.9	3.5
Venezuela	**86.1**	**81.7**	**75.3**	4.2	5.6	1.3	-3.9	-6.2	-16.4	-12.5	-10.0	-6.5
EEMEA	**3,217.9**	**3,499.7**	**3,662.1**	**6.6**	**3.6**	**3.4**	**2.1**	**1.0**	**1.5**	**3.6**	**3.2**	**2.9**
Kazakhstan	**161.6**	**170.8**	**177.2**	7.5	5.0	6.0	4.3	1.2	1.1	3.3	2.8	2.8
Poland	**525.0**	**601.8**	**636.1**	5.0	1.6	1.4	3.3	3.8	2.9	4.6	4.7	4.0
Russia	**1578.2**	**1676.1**	**1710.9**	5.1	3.7	1.8	0.7	-2.5	-0.2	1.5	2.0	2.2
Turkey	**846.3**	**935.1**	**1013.4**	11.1	4.8	8.5	5.2	6.1	3.2	7.0	4.4	3.5
Ukraine	**106.9**	**115.9**	**124.5**	5.5	0.2	0.0	-6.6	-9.8	2.3	2.0	3.2	3.5
Emerging Markets	**8035.3**	**8563.8**	**8968.1**	**5.2**	**3.0**	**3.0**	**1.6**	**0.5**	**0.1**	**2.3**	**2.7**	**2.7**
US	**19,362.1**	**20,200.0**	**21,024.4**	1.6	2.2	1.7	2.6	2.9	1.5	2.3	2.9	2.4
Euro area	**12,237.1**	**13,173.4**	**13,653.0**	1.6	-0.8	-0.2	1.4	2.0	1.8	2.5	2.6	2.2
Japan	**4,884.5**	**5,063.1**	**5,205.3**	-0.1	1.5	2.0	0.4	1.4	0.9	1.7	1.3	0.9
Developed markets	**47,977.2**	**50,560.9**	**52,482.1**	1.5	1.2	1.2	2.0	2.3	1.6	2.2	2.5	2.1
Global	**79,280.9**	**84,374.8**	**88,848.8**	3.3	2.6	2.7	3.0	3.1	2.6	3.3	3.4	3.1
EM nominal GDP according to the IMF ($bn) (1)				**24,076.7**	**28,277.8**	**29,837.8**	**31,640.9**	**32,660.1**	**30,930.5**	**30,843.7**	**33,072.7**	**35,663.4**
EM nominal GDP as a share of global nominal GDP (%)(1)				36.5	38.7	40.1	41.3	41.6	41.6	40.9	41.7	42.3
EM PPP GDP according to the IMF ($bn) (1)				**47,912.7**	**51,926.5**	**55,440.6**	**59,158.8**	**62,958.7**	**66,249.3**	**69,897.0**	**74,350.3**	**79,426.6**
EM PPP GDP as a share of global PPP GDP (%)(1)				53.7	54.7	55.6	56.5	57.1	57.6	58.2	58.7	59.4

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

(1) Based on GDP data (historical and forecast) from the IMF's latest World Economic Outlook. We have amended the group of countries that the IMF classifies as emerging markets to include the Czech Republic, Hong Kong, Israel, Korea, Singapore and Taiwan; note that the IMF's group of emerging markets countries includes many (typically small) economies that are not included in the table above.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, IMF World Economic Outlook, Credit Suisse

Summary macroeconomic data: GDP growth

	Nominal GDP ($bn)			Real GDP growth (% quarter on quarter, seasonally adjusted annual rate)								
	2017	2018F	2019F	2Q 17	3Q 17	4Q 17	1Q 18E	2Q 18F	3Q 18F	4Q 18F	1Q 19F	2Q 19F
LATIN AMERICA	**4,817.4**	**5,064.2**	**5,305.9**	**2.0**	**1.2**	**1.2**	**2.3**	**3.0**	**3.4**	**1.8**	**1.4**	**3.4**
Argentina	626.3	637.0	688.0	3.4	3.6	2.2	1.6	2.6	5.3	2.9	2.0	3.9
Brazil	2,056.4	2,155.6	2,249.3	2.4	0.8	0.4	2.8	3.2	4.1	0.4	1.6	3.6
Chile	269.2	297.4	312.2	3.5	6.0	2.0	3.2	1.6	2.8	1.6	3.2	3.2
Colombia	309.2	342.5	364.1	2.6	3.1	1.1	1.5	4.5	1.4	5.6	0.5	3.8
Ecuador	102.1	104.8	106.9	7.0	3.6	-0.8	-0.7	5.5	5.0	-0.4	-5.1	5.4
Mexico	1,152.9	1,216.5	1,266.1	1.0	-0.7	3.2	2.0	3.3	3.3	2.9	2.3	2.7
Peru	215.2	228.7	244.2	3.8	4.7	-1.4	7.6	4.9	2.7	6.8	0.5	4.2
Venezuela	86.1	81.7	75.3	-15.1	-12.2	-6.6	-8.5	-10.7	-11.5	-10.7	-7.8	-1.2
EEMEA	**2,949.5**	**3,213.0**	**3,360.4**	**5.5**	**3.0**	**1.2**	**4.0**	**3.5**	**3.4**	**3.3**	**2.8**	**2.7**
Poland	525.0	601.8	636.1	4.1	4.9	4.1	4.9	5.3	4.9	4.1	4.1	3.6
Russia	1,578.2	1,676.1	1,710.9	3.6	1.2	-1.6	3.6	2.4	2.4	2.4	2.0	2.0
Turkey	846.3	935.1	1,013.4	9.1	4.8	4.1	4.1	4.1	4.1	4.1	3.2	3.2
Emerging Markets	**7,766.8**	**8,277.1**	**8,666.4**	**3.3**	**1.9**	**1.2**	**2.9**	**3.2**	**3.4**	**2.3**	**1.9**	**3.1**
US	**19,362.1**	**20,200.0**	**21,024.4**	3.1	3.2	2.5	2.7	3.5	3.1	2.4	2.3	2.2
Euro area	**12,237.1**	**13,173.4**	**13,653.0**	3.0	2.8	2.3	2.8	2.7	2.5	2.5	2.0	2.0
Japan	**4,884.5**	**5,063.1**	**5,205.3**	2.4	2.4	1.6	0.7	0.7	0.8	1.3	0.1	0.9
Global	**79,280.9**	**84,374.8**	**88,848.8**	3.8	3.8	2.8	3.4	3.6	3.5	3.2	3.0	3.0

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

Summary macroeconomic data: Inflation

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
				CPI inflation (%, December to December)					
LATIN AMERICA	**7.1**	**6.3**	**8.0**	**8.9**	**12.5**	**18.9**	**52.6**	**267.7**	**76.0**
LATIN AMERICA ex-Venezuela	**5.8**	**5.2**	**5.4**	**7.2**	**8.8**	**8.9**	**6.7**	**5.7**	**5.2**
Argentina	9.5	10.8	10.9	23.9	20.6	36.2	24.8	19.5	14.4
Brazil	6.5	5.8	5.9	6.4	10.7	6.3	2.9	3.9	4.5
Chile	4.4	1.5	3.0	4.6	4.4	2.7	2.3	2.8	3.0
Colombia	3.7	2.4	1.9	3.7	6.8	5.7	4.1	3.3	3.4
Ecuador	5.4	4.2	2.7	3.7	3.4	1.1	-0.2	1.5	1.7
Mexico	3.8	3.6	4.0	4.1	2.1	3.4	6.8	4.1	3.5
Peru	4.7	2.6	2.9	3.2	4.4	3.2	1.4	2.3	2.1
Venezuela	27.6	20.1	56.2	68.5	180.9	501.7	2,579	16,252	4,998
EEMEA	**6.9**	**5.6**	**5.6**	**9.1**	**10.5**	**6.0**	**5.5**	**5.2**	**5.2**
Kazakhstan	7.4	6.0	4.8	7.4	13.6	8.5	7.0	6.2	5.3
Poland	4.6	2.4	0.7	-1.0	-0.5	0.8	2.1	2.6	2.6
Russia	6.1	6.6	6.5	11.4	12.9	5.4	2.5	3.6	4.0
Turkey	10.4	6.2	7.4	8.2	8.8	8.5	11.9	9.4	8.7
Ukraine	4.6	-0.2	0.5	24.9	43.3	12.4	13.7	7.0	6.5
Emerging Markets	**7.0**	**6.0**	**7.0**	**9.0**	**11.7**	**13.8**	**33.7**	**160.4**	**47.1**
Emerging Markets ex-Venezuela	**6.3**	**5.4**	**5.5**	**8.0**	**9.5**	**7.7**	**6.2**	**5.5**	**5.2**
US	3.1	2.1	1.5	1.6	0.1	1.3	2.1	2.3	2.0
Euro area	2.7	2.5	1.4	0.4	0.0	0.2	1.5	1.5	1.6
Japan	-0.3	-0.1	0.4	2.6	0.6	-0.3	0.5	0.5	0.5
Global ex-Venezuela	3.6	2.7	2.4	2.5	1.7	2.1	2.4	2.6	2.4

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

Summary macroeconomic data: Wage inflation

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
					Nominal wage (%, December to December)				
LATIN AMERICA	**12.5**	**12.9**	**10.5**	**9.8**	**11.6**	**18.9**	**21.2**	**87.7**	**41.9**
Argentina (1)	27.7	26.9	25.0	32.7	30.2	32.9	27.5	20.0	15.0
Brazil (2)(3)	na	na	9.7	7.5	8.7	5.8	5.0	5.4	6.5
Chile (4)	5.9	6.4	5.7	6.6	6.2	5.2	5.3	4.7	4.3
Colombia (5)	4.0	5.8	4.0	4.5	4.6	7.0	7.0	5.9	4.0
Ecuador (5)	10.0	10.6	8.9	6.9	4.1	3.4	2.3	2.5	2.0
Mexico (6)	4.5	4.6	4.3	4.2	4.3	4.2	4.7	5.3	4.7
Peru (5)	13.4	14.7	4.3	0.0	0.0	8.9	4.1	5.9	0.0
Venezuela (7)	31.0	28.8	31.9	45.0	97.4	495.0	750.0	5,000	2,500
EEMEA	**14.2**	**10.9**	**9.1**	**7.7**	**6.7**	**11.9**	**10.2**	**8.1**	**8.2**
Kazakhstan (8)	15.9	13.5	6.8	10.7	4.4	13.6	5.9	8.0	8.0
Poland	5.5	4.3	3.1	3.4	2.6	4.0	7.3	5.6	5.5
Russia	18.2	11.9	9.3	6.9	3.4	8.3	8.9	7.8	8.0
Turkey (9)	9.3	11.6	12.9	11.5	13.3	20.2	12.0	10.0	10.0
Ukraine	16.2	10.6	7.2	6.1	21.1	23.3	35.6	12.0	10.0
Emerging Markets	**13.5**	**11.8**	**9.9**	**8.9**	**9.6**	**16.1**	**16.8**	**55.2**	**28.1**

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

(1) Weighted average of wages in the formal and informal private sector and the public sector. (2) Average annual growth in nominal wages. (3) Measured by the National Household Sample Survey (PNADC). (4) General compensation index (includes fringe benefits). (5) Minimum wage. (6) Contractual wage increases at a national level in the public and private sectors (excludes fringe benefits). (7) Public and private sector wages. (8) Annual average of monthly average wages in the economy. (9) Based on the hourly labor cost index (2010=100) for the overall economy.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, IMF World Economic Outlook, Credit Suisse

Summary macroeconomic data: Current account balance

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
					Current account balance (% of GDP)				
LATIN AMERICA	**-1.8**	**-2.2**	**-2.7**	**-3.1**	**-3.5**	**-2.0**	**-1.6**	**-2.3**	**-2.7**
Argentina	-1.0	-0.4	-2.1	-1.6	-2.8	-2.7	-4.9	-5.9	-5.8
Brazil	-2.9	-3.0	-3.0	-4.2	-3.3	-1.3	-0.5	-1.8	-2.5
Chile	-1.7	-4.0	-4.1	-1.7	-1.9	-1.4	-2.0	-2.3	-2.8
Colombia	-2.9	-3.1	-3.3	-5.2	-6.4	-4.3	-3.4	-3.3	-3.5
Ecuador	-0.5	-0.2	-1.0	-0.5	-2.1	1.5	-0.4	-0.5	-0.8
Mexico	-1.0	-1.5	-2.4	-1.8	-2.5	-2.1	-1.6	-1.3	-1.6
Peru	-1.8	-2.8	-4.7	-4.4	-4.8	-2.7	-1.3	-1.1	-1.2
Venezuela	5.2	0.7	1.6	3.4	-16.8	-4.4	0.3	-2.4	-3.7
EEMEA	**-0.2**	**-0.3**	**-1.3**	**0.1**	**0.9**	**-0.7**	**-0.4**	**-0.7**	**-1.1**
Kazakhstan	5.3	0.5	0.5	2.8	-2.8	-6.4	-2.8	-3.8	-2.6
Poland	-5.2	-3.7	-1.3	-2.1	-0.6	-0.3	0.2	-0.9	-1.4
Russia	4.7	3.3	1.5	2.8	5.0	2.0	2.6	2.5	1.8
Turkey	-8.9	-5.5	-6.7	-4.7	-3.7	-3.8	-5.6	-5.5	-5.4
Ukraine	-7.2	-10.0	-11.5	-3.4	-0.3	-3.9	-3.5	-2.6	-3.6
Emerging Markets	**-1.1**	**-1.4**	**-2.1**	**-1.7**	**-1.7**	**-1.5**	**-1.1**	**-1.6**	**-2.1**
US	-2.9	-2.6	-2.1	-2.1	-2.4	-2.4	-2.7	-2.8	-2.8
Euro area	0.1	1.9	2.2	2.5	3.2	3.3	3.5	3.0	2.9
Japan	2.1	1.1	0.7	0.8	3.0	3.7	4.0	3.1	2.7

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

Summary macroeconomic data: Exports

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
	Exports of goods and services (% of GDP)								
LATIN AMERICA	**19.8**	**19.9**	**19.5**	**19.7**	**20.3**	**20.6**	**20.5**	**20.7**	**21.0**
Argentina	18.5	16.3	14.7	14.5	11.1	13.1	11.6	12.0	11.7
Brazil	11.2	11.4	11.3	10.8	12.4	12.1	12.2	12.2	12.2
Chile	37.4	33.8	31.9	32.9	29.7	28.3	29.2	28.0	28.3
Colombia	19.1	18.4	17.8	16.9	15.7	14.5	15.5	14.7	14.9
Ecuador	31.1	30.0	29.1	28.7	21.4	19.8	21.2	22.8	23.3
Mexico	31.0	32.3	31.3	31.9	34.6	37.1	37.9	39.0	40.9
Peru	30.0	27.6	24.6	22.4	21.1	22.1	24.0	24.0	23.5
Venezuela	30.3	26.3	32.5	52.5	40.6	32.5	30.4	26.0	26.0
EEMEA	**30.7**	**30.2**	**29.1**	**30.5**	**31.1**	**30.0**	**31.2**	**30.2**	**30.0**
Kazakhstan	46.5	44.1	38.4	39.3	28.7	32.6	32.6	39.0	37.6
Poland	42.6	44.4	46.3	47.6	49.5	52.5	53.7	50.6	51.7
Russia	28.0	26.9	25.8	27.0	28.7	25.7	26.1	24.5	24.1
Turkey	21.9	23.4	22.0	23.6	23.1	21.7	24.8	24.2	23.3
Ukraine	51.3	49.3	45.5	49.7	52.8	49.2	44.9	43.1	44.2
Emerging Markets	**24.2**	**24.2**	**23.6**	**24.2**	**24.6**	**24.3**	**24.8**	**24.6**	**24.7**

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

Summary macroeconomic data: Fiscal balance

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
	General government fiscal balance (% of GDP)								
LATIN AMERICA	**-2.6**	**-2.8**	**-3.1**	**-4.5**	**-6.7**	**-6.1**	**-5.3**	**-4.9**	**-5.0**
Argentina	-2.2	-2.6	-2.2	-2.5	-6.1	-6.7	-6.7	-6.0	-5.1
Brazil	-2.5	-2.3	-3.0	-6.0	-10.2	-9.0	-7.8	-7.0	-7.6
Chile	1.3	0.6	-0.6	-1.6	-2.1	-2.7	-2.7	-2.5	-2.5
Colombia	-1.8	0.5	-0.9	-1.7	-3.4	-2.7	-3.2	-2.8	-2.2
Ecuador	-0.1	-0.9	-4.6	-5.2	-5.1	-7.4	-5.5	-4.7	-3.6
Mexico (1)	-2.5	-2.8	-2.6	-3.1	-3.4	-2.5	-1.1	-1.5	-2.0
Peru	2.0	2.1	0.7	-0.3	-2.1	-2.3	-3.0	-2.9	-2.3
Venezuela (2)	-11.6	-15.1	-15.7	-15.0	-15.7	-15.2	-14.5	-13.0	-13.5
EEMEA	**-0.3**	**-0.9**	**-1.0**	**-1.0**	**-2.2**	**-2.6**	**-1.6**	**-0.4**	**-0.1**
Kazakhstan (3)	5.8	4.4	4.9	2.5	-6.3	-4.1	-6.5	-2.0	-1.7
Poland (4)	-4.8	-3.7	-4.1	-3.5	-2.6	-2.4	-1.3	-1.3	-1.8
Russia (5)	0.7	-0.1	-0.4	-0.4	-2.4	-3.4	-1.4	0.6	1.4
Turkey (6)	-0.8	-1.7	-1.4	-1.4	-1.0	-1.4	-1.2	-0.9	-1.1
Ukraine (7)	-2.8	-4.3	-4.8	-4.5	-1.2	-2.2	-2.9	-2.5	-2.3
Emerging Markets	**-1.6**	**-2.0**	**-2.2**	**-3.0**	**-4.9**	**-4.7**	**-3.9**	**-3.0**	**-3.0**
US (8)	-8.5	-6.8	-4.1	-2.8	-2.4	-3.2	-3.6	-3.7	-5.5
Euro area	-4.1	-3.7	-3.0	-2.6	-2.1	-1.5	-1.1	-0.9	-0.8
Japan (8)	-8.9	-8.3	-7.2	-5.2	-3.3	-3.4	-2.5	-2.8	-2.5

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

(1) Narrow definition that excludes off-balance expenditures. (2) Preliminary consolidation of central government and PDVSA in 2011. (3) Consists of the state budget and the National Oil Fund. (4) Consolidated fiscal accounts of the broadly defined general government on an accrual basis; excluding one-off transfers from pension funds to the government budget. (5) Net of bank recapitalization costs. (6) The central government's budget balance data are calculated using the IMF-defined primary balance and net interest spending data. The general government's budget balance data are from the IMF for the period before 2014 and are based on the IMF's definition of the non-financial public sector. The government releases consolidated public sector data using its own definition on an annual basis. The data for government spending and gross debt are for the central government. (7) Excluding impact of bank recapitalization and transfers to Naftogaz. Estimate for 2011 expenditure includes 0.8% of GDP of additional allocations for settlement of VAT arrears accumulated in 2010. (8) Fiscal year in Japan lasts from April to March, e.g. FY2019 is from April 2019 to March 2020. In the US, fiscal year is October 1 of the prior year through September 30. For example, FY 2018 began on October 1, 2017.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

Summary macroeconomic data: Government expenditure

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
	General government expenditure (% of GDP)								
LATIN AMERICA	**32.4**	**32.3**	**32.9**	**34.3**	**35.9**	**35.7**	**33.5**	**32.9**	**32.9**
Argentina	35.4	37.4	38.3	39.7	42.1	42.4	41.6	40.6	40.0
Brazil (1)	35.9	35.0	35.7	38.4	42.3	41.7	38.2	37.1	37.6
Chile	21.3	21.6	21.5	22.2	23.3	23.8	24.4	24.7	24.8
Colombia	33.3	33.5	35.5	36.6	35.4	35.0	33.1	32.4	30.9
Ecuador	39.5	40.3	43.9	43.9	38.6	38.2	37.5	38.4	36.9
Mexico	24.8	24.8	25.7	25.9	26.4	26.6	23.8	24.0	24.2
Peru	19.8	20.3	21.6	22.5	22.3	21.0	21.2	22.3	22.0
Venezuela (2)	39.5	40.6	42.3	46.2	46.5	47.4	48.4	48.8	49.1
EEMEA	**34.0**	**34.4**	**34.4**	**34.3**	**34.3**	**34.9**	**34.3**	**33.4**	**32.8**
Kazakhstan (3)	21.2	21.9	19.8	21.3	22.9	22.1	25.9	21.7	21.7
Poland	43.6	42.6	42.6	42.3	41.6	41.3	42.9	43.5	43.3
Russia (4)	33.2	34.0	34.6	34.9	35.7	36.5	34.0	32.3	30.7
Turkey (5)	30.5	31.0	30.5	29.9	29.6	30.4	29.8	29.8	30.2
Ukraine	45.7	49.0	48.1	44.8	43.0	40.6	43.6	43.9	44.5
Emerging Markets	**33.0**	**33.2**	**33.6**	**34.3**	**35.2**	**35.4**	**33.8**	**33.1**	**32.9**

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

(1) Total government expenditures; includes interest payments. (2) Preliminary consolidation of central government and PDVSA in 2011. (3) Consists of the state budget and the National Oil Fund. (4) Net of bank recapitalization costs. (5) The central government's budget balance data are calculated using the IMF-defined primary balance and net interest spending data. The general government's budget balance data are from the IMF for the period before 2014 and are based on the IMF's definition of the non-financial public sector. The government releases consolidated public sector data using its own definition on an annual basis. The data for government spending and gross debt are for the central government.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

Summary macroeconomic data: Government debt

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
	Consolidated gross government debt (% of GDP)								
LATIN AMERICA	**42.9**	**43.3**	**43.5**	**47.9**	**52.4**	**57.5**	**59.3**	**59.8**	**61.1**
Argentina (1)	40.5	40.3	38.7	45.6	43.4	58.6	60.0	61.5	61.9
Brazil (2)	51.3	53.8	51.7	57.2	66.5	69.9	74.0	74.7	77.3
Chile (3)	11.1	11.9	12.7	14.9	17.4	21.3	23.4	25.4	26.1
Colombia	43.1	40.6	43.1	46.0	50.2	52.0	53.1	52.4	52.9
Ecuador (4)	18.4	21.3	24.2	29.9	37.0	47.2	51.0	54.8	58.4
Mexico (5)	38.7	38.2	41.3	41.3	45.5	49.4	47.2	47.0	46.5
Peru	22.1	20.4	19.6	20.1	23.3	23.8	24.8	26.3	27.5
Venezuela (6)	36.2	38.1	47.5	75.6	99.8	101.8	96.7	102.1	110.3
EEMEA	**22.1**	**21.9**	**21.6**	**22.3**	**24.5**	**25.3**	**24.6**	**25.9**	**26.2**
Kazakhstan	10.2	12.1	12.6	14.5	21.9	21.0	17.4	17.7	18.3
Poland (7)	54.1	53.7	55.7	50.2	51.1	54.4	53.5	52.8	52.5
Russia	7.6	9.6	8.8	9.4	9.1	10.0	11.4	14.7	15.3
Turkey	37.3	33.9	32.4	29.9	29.0	29.2	28.4	26.6	25.9
Ukraine	36.4	36.8	39.9	69.4	79.4	61.9	58.2	56.0	54.0
Emerging Markets	**34.4**	**34.4**	**34.1**	**37.2**	**41.3**	**44.7**	**45.4**	**46.0**	**46.8**
US (8)	65.9	70.4	72.6	74.1	72.9	76.7	76.4	77.3	78.5
Euro area	86.8	91.4	93.7	94.2	92.1	91.1	89.3	87.2	85.2
Japan (8)	224.1	233.6	234.4	239.3	239.5	237.1	238.8	241.5	241.9

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

(1) Includes compensatory interest and residual value of GDP warrants starting in 2015. (2) Figures related to the Central Bank's new methodology. (3) Excludes debt of the central bank. (4) Includes intra-government debt. Starting in 2015, debt stock includes arrears with private sector, debt held at the central bank, and oil-company disbursements. In 2016, incorporates Petroamazonas arrears with oil sector of $3.5bn. Excludes short term debt of under one year in maturity (5) Includes all contingent liabilities associated with IPAB, Pidiregas, FARAC, financial intermediation and other debtor support programs. (6) Central government, regional governments, PDVSA; does not include liabilities of other public institutions such as the Central bank, National Development Bank, Foreign Trade Bank, Industrial Bank of Venezuela and Andean Region Development Bank. (7) Consolidated fiscal accounts of the broadly defined general government on an accrual basis; excluding one-off transfers from pension funds to the government budget.(8) Fiscal year in Japan lasts from April to March, e.g. FY2019 is from April 2019 to March 2020. In the US, fiscal year is October 1 of the prior year through September 30. For example, FY 2018 began on October 1, 2017.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

Summary macroeconomic data: Foreign debt

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
	Total foreign debt (% of GDP)								
LATIN AMERICA	**21.3**	**22.7**	**24.3**	**27.6**	**33.6**	**36.7**	**34.8**	**34.3**	**33.9**
Argentina	29.6	27.0	25.4	28.2	26.4	34.8	34.9	38.1	38.2
Brazil (1)	15.9	18.5	19.7	22.8	30.0	30.5	27.1	26.3	25.9
Chile	48.6	51.0	54.7	60.5	67.6	66.2	66.4	62.5	62.1
Colombia	22.8	21.3	24.2	26.8	37.9	42.6	40.2	37.9	36.8
Ecuador	19.3	18.2	19.8	23.9	27.7	33.5	38.1	42.6	45.8
Mexico	17.9	18.8	20.4	21.8	25.5	29.4	28.9	28.1	27.5
Peru	28.5	31.4	30.6	34.1	38.1	38.2	35.7	35.1	34.0
Venezuela	37.5	34.4	47.3	93.2	145.4	163.4	169.1	177.9	192.7
EEMEA	**37.4**	**40.6**	**42.6**	**41.7**	**50.9**	**53.8**	**50.7**	**48.0**	**47.1**
Kazakhstan	65.1	65.8	63.4	71.2	83.2	122.5	103.4	100.7	98.7
Poland (2)	61.4	73.7	73.2	65.4	69.4	71.9	68.9	64.6	65.3
Russia	26.3	29.0	31.8	28.8	37.9	39.7	33.5	30.7	30.0
Turkey (3)	36.4	38.8	40.9	43.0	46.1	46.9	51.6	49.4	47.9
Ukraine	72.3	70.7	71.4	87.8	130.0	123.8	127.4	123.1	110.0
Emerging Markets	**27.9**	**30.2**	**32.1**	**33.5**	**40.5**	**43.5**	**41.1**	**39.9**	**39.3**

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

(1) Included intercompany loans. (2) Based on the location of debt-holders. (3) Based on the location of debt issuance, not the location of creditor. As of end-2016, non-residents' holdings of local currency government debt amounted to about 3.6% of GDP while the residents' holdings of hard currency government debt amounted to about 3.3% of GDP, broadly offsetting each other.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

Summary macroeconomic data: Exchange rates

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
					Exchange rate (end-year)				
LATIN AMERICA									
Argentina (per USD)	4.30	4.92	6.52	8.47	12.93	15.88	18.62	22.50	25.10
Brazil (per USD)	1.88	2.04	2.34	2.66	3.90	3.26	3.31	3.30	3.40
Chile (per USD)	521.46	479.20	525.45	606.45	710.00	670.00	615.43	622.00	630.00
Colombia (per USD)	1,943	1,770	1,927	2,392	3,149	3,001	2,984	2,800	2,900
Mexico (per USD)	13.97	12.87	13.09	14.75	17.21	20.64	19.70	19.75	19.50
Peru (per USD)	2.70	2.57	2.79	2.96	3.39	3.40	3.25	3.20	3.22
Venezuela (per USD) (1)	4.30	4.30	9.95	27.94	88.48	515.44	12,668	702,119	33,666,668
EEMEA									
Kazakhstan (per USD)	148.04	150.27	153.61	182.35	339.47	333.28	335.00	330.00	350.00
Poland (per EUR)	4.42	4.09	4.15	4.26	4.26	4.42	4.18	4.47	4.47
Russia (per USD)	32.20	30.37	32.73	56.26	72.88	60.66	57.60	58.00	61.00
Turkey (per USD)	1.91	1.78	2.13	2.32	2.91	3.53	3.81	3.81	4.09
Ukraine (per USD)	7.99	7.99	7.99	15.77	24.00	25.50	28.20	28.00	29.00

(1) Expressed in strong bolivares for all years; 2014-2019 estimates and forecasts represent a weighted average exchange rate across official and unofficial foreign exchange markets.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

Summary macroeconomic data: Interest rates

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
	Interest rate (end-year, %)								
LATIN AMERICA	**8.95**	**7.20**	**7.94**	**8.94**	**12.35**	**11.56**	**9.49**	**8.43**	**8.77**
Argentina - Reference rate (1)	11.50	11.50	11.50	17.00	33.00	24.75	28.75	23.00	18.00
Brazil - Selic interest rate	11.00	7.25	10.00	11.75	14.25	13.75	7.00	6.50	9.00
Chile - Monetary policy rate	5.25	5.00	4.50	3.00	3.50	3.50	2.50	3.00	3.50
Colombia - Reference rate	4.75	4.25	3.25	4.50	5.75	7.50	4.75	4.50	5.00
Ecuador - Interest rate (2)	8.35	8.17	8.17	8.12	8.33	8.69	7.93	7.50	7.50
Mexico - Reference rate	4.50	4.50	3.50	3.00	3.25	5.50	7.25	7.25	6.50
Peru - Reference rate	4.25	4.25	4.00	3.50	3.75	4.25	3.25	3.50	3.50
Venezuela - 90 day deposit rate	14.50	14.55	14.73	14.52	15.07	14.92	15.00	14.80	15.00
EEMEA	**5.48**	**5.43**	**5.68**	**12.79**	**10.05**	**8.37**	**8.40**	**7.52**	**7.31**
Kazakhstan - Refinancing rate (3)	7.50	5.50	5.50	5.50	16.00	12.00	10.25	9.50	9.00
Poland - 1-week reference rate	4.50	4.25	2.50	2.00	1.50	1.50	1.50	1.50	1.75
Russia - 1-week repo rate	5.25	5.50	5.50	17.00	11.00	10.00	7.75	6.25	5.75
Turkey - Policy rate (4)	5.75	5.50	7.75	11.25	10.75	8.50	12.75	12.75	12.75
Ukraine - Discount rate	7.75	7.50	6.50	14.00	22.00	14.00	14.50	12.00	10.50
Emerging Markets	**7.54**	**6.46**	**6.97**	**10.56**	**11.44**	**10.30**	**9.05**	**8.07**	**8.18**

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

(1) Central bank's 7-day repo rate until 2014, 35-day Lebac rate for 2015 and 2016, 7-day interbank rate starting in 2017. (2) Reference rate for corporate loan operations. (3) The central bank 1-month deposit rate equals half of the refinancing rate and until the banking crisis in the summer of 2007 represented a more effective policy instrument. (4) One-week repo rate was declared as the central bank's policy rate on 18 May 2010. However, it has lost relevance under the central bank's unconventional monetary policy framework. Accordingly, the data for 2013-2016 are for the level of the central bank's overnight lending rate and the data for 2017 is for the central bank's late liquidity window rate which has become the relevant short-term interest rate since early 2017. Our forecast for 2018 reflects what we think will be the marginal rate at which the central bank will provide funding - whether it is the late liquidity window rate or the central bank's overnight lending rate.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

Summary macroeconomic data: Interest rates

	2Q 17	3Q 17	4Q 17	1Q 18E	2Q 18F	3Q 18F	4Q 18F	1Q 19F	2Q 19F
	Interest rate (end-quarter, %)								
LATIN AMERICA	**10.58**	**9.68**	**9.48**	**9.09**	**8.99**	**8.78**	**8.54**	**8.82**	**9.07**
Argentina - Reference rate	26.25	26.25	28.75	27.25	26.00	24.75	23.00	22.00	21.00
Brazil - Selic interest rate	10.25	8.25	7.00	6.50	6.50	6.50	6.50	7.50	8.50
Chile - Monetary policy rate	2.50	2.50	2.50	2.50	2.50	2.75	3.00	3.25	3.50
Colombia - Reference rate	5.75	5.25	4.75	4.50	4.50	4.50	4.50	5.00	5.00
Ecuador - Interest rate	7.72	8.19	7.90	7.50	7.50	7.50	7.50	7.50	7.50
Mexico - Reference rate	7.00	7.00	7.25	7.50	7.75	7.50	7.25	7.00	6.75
Peru - Reference rate	4.00	3.50	3.25	2.75	2.75	2.75	3.50	3.50	3.50
Venezuela - 90 day deposit rate	14.62	14.64	14.51	14.75	14.90	14.75	14.80	15.00	15.00
EEMEA	**7.88**	**7.64**	**7.40**	**7.03**	**6.91**	**6.79**	**6.66**	**6.66**	**6.58**
Poland - 1-week reference rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75
Russia - 1-week repo rate	9.00	8.50	7.75	7.00	6.75	6.50	6.25	6.25	6.00
Turkey - Policy rate	12.25	12.25	12.75	12.75	12.75	12.75	12.75	12.75	12.75
Emerging Markets	**9.82**	**9.17**	**8.94**	**8.55**	**8.44**	**8.25**	**8.06**	**8.23**	**8.35**

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

Summary macroeconomic data: Domestic credit

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
					Domestic credit (% of GDP)				
LATIN AMERICA	**64.4**	**65.4**	**65.8**	**69.5**	**69.7**	**72.7**	**74.7**	**75.5**	**77.2**
Argentina	20.1	21.4	22.0	23.1	23.5	23.0	25.4	26.7	27.4
Brazil	98.4	103.4	102.6	107.9	117.5	120.5	121.9	122.5	125.7
Chile	61.8	66.1	69.4	70.8	73.3	75.8	76.1	77.9	78.8
Colombia	41.1	44.0	45.1	47.6	52.7	53.2	55.9	59.0	60.3
Ecuador	18.6	19.6	19.6	21.0	19.5	21.1	24.0	24.1	25.0
Mexico	34.3	33.4	34.7	35.3	37.2	38.4	38.7	39.7	40.9
Peru	21.8	22.7	22.2	25.3	25.8	27.0	29.4	29.1	29.3
Venezuela	30.8	40.2	49.7	59.7	56.6	31.5	22.5	3.9	1.4
EEMEA	**57.9**	**59.3**	**63.7**	**68.7**	**70.5**	**72.6**	**73.9**	**76.5**	**78.1**
Kazakhstan	43.8	44.7	43.7	41.5	50.1	42.0	43.0	43.4	44.0
Poland	65.9	64.1	67.2	71.0	73.2	75.7	78.7	82.7	85.2
Russia	54.2	57.0	61.7	69.3	71.1	74.4	76.4	79.6	82.1
Turkey	62.0	62.7	68.1	70.2	72.4	74.2	74.7	75.9	76.1
Ukraine	74.4	73.7	82.3	85.1	69.6	59.2	54.6	52.4	51.4
Emerging Markets	**61.8**	**62.9**	**64.9**	**69.2**	**70.0**	**72.6**	**74.4**	**75.9**	**77.6**

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

Source: IMF International Financial Statistics, the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

Summary macroeconomic data: Domestic credit to the private sector

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
	Domestic credit to the private sector (% of GDP)								
LATIN AMERICA	**40.2**	**41.7**	**43.5**	**45.1**	**44.5**	**44.3**	**43.7**	**44.5**	**45.4**
Argentina	13.2	14.5	15.5	14.3	14.7	14.0	16.4	17.8	19.0
Brazil (1)	55.0	58.6	60.6	62.0	63.2	59.9	56.7	56.6	57.1
Chile	58.3	61.6	63.6	65.0	67.3	69.0	70.5	72.1	72.9
Colombia	35.9	38.8	40.5	43.5	48.6	49.2	51.7	53.6	54.8
Ecuador	18.5	19.1	19.3	20.1	19.0	20.6	23.3	23.4	24.3
Mexico	24.6	25.0	26.5	26.6	28.8	30.7	31.5	33.1	34.7
Peru	31.5	33.0	36.3	38.9	41.7	40.7	40.2	41.7	42.3
Venezuela	20.4	25.1	29.7	39.5	42.1	25.5	12.8	1.8	0.5
EEMEA	**45.8**	**47.2**	**51.9**	**55.7**	**57.0**	**58.9**	**60.2**	**62.4**	**64.6**
Kazakhstan	38.5	39.1	38.3	35.9	44.3	38.6	39.0	38.6	38.8
Poland	51.4	50.1	51.1	52.2	53.6	54.6	56.1	58.1	59.6
Russia	44.2	46.1	51.3	56.9	57.4	60.1	62.5	66.3	70.9
Turkey	45.9	48.8	56.5	59.4	62.3	64.7	65.6	66.3	65.6
Ukraine	56.6	54.7	56.2	58.3	46.1	38.0	34.6	33.3	32.4
Emerging Markets	**42.5**	**44.0**	**47.1**	**49.5**	**49.5**	**50.1**	**50.3**	**51.9**	**53.3**

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

(1) Includes bank lending to individuals and private corporate debt (debentures and bank loans to the sector).

Source: IMF International Financial Statistics, the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

Summary macroeconomic data: Fixed investment

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
					Fixed investment (% of GDP)				
LATIN AMERICA	**22.9**	**23.3**	**22.8**	**21.9**	**20.5**	**19.1**	**18.9**	**19.4**	**19.7**
Argentina	21.6	20.3	20.3	19.4	19.6	19.0	20.4	22.3	24.1
Brazil (1)	21.8	21.4	21.7	20.5	17.4	15.4	15.5	15.9	16.1
Chile	23.6	25.0	24.8	23.2	22.5	21.9	21.2	21.1	21.1
Colombia	27.4	27.4	27.6	29.7	29.2	27.3	27.2	27.2	27.8
Ecuador	23.1	24.5	25.6	27.0	26.9	24.9	23.2	22.2	21.2
Mexico	22.0	22.3	21.3	21.3	21.7	21.3	20.6	20.9	20.9
Peru	25.4	27.9	28.3	27.1	24.9	22.8	22.3	22.7	22.7
Venezuela	30.4	35.5	31.8	27.5	23.8	20.5	17.6	14.7	12.4
EEMEA	**23.0**	**22.8**	**23.0**	**22.8**	**23.4**	**23.6**	**23.6**	**24.7**	**24.7**
Kazakhstan	23.0	25.2	24.6	25.8	29.3	28.7	28.1	28.1	28.1
Poland	20.7	19.8	18.8	19.7	20.1	18.1	18.0	20.5	20.3
Russia	21.5	21.5	21.8	21.2	20.3	21.4	21.7	23.0	23.0
Turkey	28.1	27.3	28.5	28.9	29.7	29.3	30.0	30.0	29.6
Ukraine	22.4	21.7	18.5	13.4	15.9	21.5	21.0	23.2	25.1
Emerging Markets	**22.9**	**23.1**	**22.9**	**22.3**	**21.7**	**20.9**	**20.8**	**21.6**	**21.7**

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

(1) Gross fixed capital formation plus change in inventories.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

Summary macroeconomic data: FX reserves

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
				Central bank gross non-gold FX reserves ($bn)					
LATIN AMERICA	**663.5**	**723.6**	**731.1**	**747.5**	**716.4**	**732.7**	**751.6**	**771.9**	**790.1**
Argentina	43.2	40.0	28.2	29.1	23.5	36.7	52.7	64.8	73.4
Brazil	350.4	375.0	373.2	371.5	366.4	369.7	379.2	385.0	390.0
Chile	42.0	41.7	41.1	40.4	38.6	40.5	38.4	39.1	39.8
Colombia	31.9	36.9	43.1	46.7	46.6	46.6	47.4	47.4	47.5
Ecuador	1.7	1.1	3.3	3.0	2.1	3.8	1.7	2.1	2.3
Mexico	137.3	156.9	171.8	188.5	172.4	172.1	167.8	170.1	172.1
Peru	47.1	62.2	64.4	61.0	60.4	60.2	62.1	62.4	64.8
Venezuela	9.9	9.9	6.0	7.3	6.3	3.2	2.4	1.1	0.3
EEMEA	**680.7**	**734.7**	**720.7**	**571.2**	**536.8**	**556.5**	**590.8**	**666.0**	**706.0**
Kazakhstan	25.2	22.1	19.2	21.8	20.3	19.9	18.3	23.0	25.0
Poland	92.7	103.4	102.2	96.5	91.4	110.6	114.5	124.9	122.9
Russia	454.0	486.6	469.6	339.4	319.8	317.5	356.1	401.1	441.1
Turkey	78.5	99.9	110.9	106.9	92.9	92.2	84.1	89.0	89.0
Ukraine	30.4	22.7	18.8	6.6	12.4	16.3	17.8	28.0	28.0
Emerging Markets	**1,344**	**1,458**	**1,452**	**1,319**	**1,253**	**1,289**	**1,342**	**1,438**	**1,496**

Aggregates for regions and total emerging markets represent the sums of individual country data.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

Summary macroeconomic data: FX reserves

	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
	Central bank gross non-gold FX reserves (% of GDP)								
LATIN AMERICA	**12.1**	**13.1**	**13.1**	**13.8**	**15.8**	**16.9**	**15.6**	**15.2**	**14.9**
Argentina	8.2	6.9	4.6	5.2	3.7	6.8	8.4	10.2	10.7
Brazil	13.4	15.2	15.1	15.1	20.4	20.5	18.4	17.9	17.3
Chile	16.6	15.6	14.8	15.5	16.0	16.4	14.3	13.1	12.7
Colombia	9.5	10.0	11.3	12.3	16.0	16.5	15.3	13.8	13.0
Ecuador	2.1	1.2	3.5	2.9	2.1	3.9	1.6	2.0	2.1
Mexico	11.6	13.1	13.5	14.4	14.8	16.0	14.6	14.0	13.6
Peru	27.6	32.2	31.9	30.1	31.4	30.8	28.9	27.3	26.6
Venezuela	3.1	2.6	2.2	5.0	6.6	3.7	2.7	1.4	0.3
EEMEA	**18.1**	**18.6**	**17.2**	**14.6**	**18.0**	**19.5**	**18.4**	**19.0**	**19.3**
Kazakhstan	13.1	10.6	8.1	9.9	11.0	14.9	11.3	13.5	14.1
Poland	17.5	20.6	19.5	17.7	19.1	23.6	21.8	20.8	19.3
Russia	22.1	22.2	20.5	16.3	23.3	24.5	22.6	23.9	25.8
Turkey	9.4	11.4	11.7	11.4	10.8	10.7	9.9	9.5	8.8
Ukraine	18.6	12.9	10.5	5.0	13.6	17.5	16.2	24.2	22.5
Emerging Markets	**14.5**	**15.4**	**14.9**	**14.1**	**16.7**	**17.9**	**16.7**	**16.8**	**16.7**

Aggregates for regions and total emerging markets are weighted by nominal GDP figures in US dollars.

Source: the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

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