BMI Research
A FitchGroup Company

September 2018
Vol 35 Issue 9

Latin America Monitor

Andean

Venezuela: Economic Recovery Unlikely Until 2020

***BMI View:** Venezuela remains in the midst of a protracted economic decline, due to collapsing oil production, deep import cuts and hyperinflation. While we maintain our view that the economy will recover following a political transition, we now expect this to occur in 2020, given that the timetable for such a recovery in 2019 has become increasingly unrealistic. Economic changes made after a transition will see extremely high real GDP growth in the short term due to base effects, though the country's long-term outlook is less positive.*

Forecast Changes

- We have downwardly revised our forecast for real GDP growth in 2018 and 2019 to contractions of 12.6% and 10.1% respectively, from 9.1% and 4.8% contractions previously. This follows an estimated 10.6% contraction in 2017.

Venezuela remains in a deep depression. The oil sector has effectively collapsed following years of mismanagement and underinvestment. We forecast production of crude oil and natural gas to tumble to 1.49mn barrels per day (b/d) in 2018, down 28.1% from 2017 and 42.4% from 2011. Due to severe hard currency shortages, imports have plummeted, falling

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Colombia: Economic Rebound To Continue 5

Colombia's real GDP growth will accelerate in the coming quarters, as private consumption picks up. Higher oil prices and the inauguration of president-elect Iván Duque will alleviate uncertainty and bolster investment.

Peru: President Vizcarra On Firmer Footing 8

Peruvian President Martin Vizcarra will likely serve out the remainder of the current presidential term, after finding firmer ground four months into his presidency following the resignation of former President Pedro Pablo Kuczynski. Broad congressional support for Vizcarra's administration will support improved policy formation in the coming quarters.

REGIONAL INDICATORS

Andean	2016	2017e	2018f	2019f
Nominal GDP, USDbn	626.0	686.1	729.3	772.0
Population, mn	139.3	140.9	142.5	144.0
GDP per capita, USD	4,494.9	4,869.9	5,118.8	5,359.5
Real GDP growth, %	1.7	2.0	2.6	2.9
Inflation, %	5.0	3.0	2.3	3.0
Goods Exports, USDbn	122.8	144.1	153.8	168.9
Goods Imports, USDbn	119.9	123.8	131.4	145.6

Notes: e/f = BMI estimate/forecast. Andean = Bolivia, Colombia, Ecuador, Peru, Venezuela. Weighted by nominal GDP. Source: BMI

ISSN: 0265-9093

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ANDEAN RISK INDEX

BMI's Country Risk Index scores countries on a 0-100 scale, evaluating short-term and long-term political stability, short-term economic outlook, long-term economic potential and operational barriers to doing business. For a detailed methodology, visit bmiresearch.com or contact us using the details on page 1.

RISK INDEX TABLE

	Short Term		Long Term		Operational	Country
	Political	Economic	Political	Economic	Risk	Risk
Peru	58.8	70.2	62.5	67.0	50.2	59.6
Colombia	64.4	64.2	60.4	64.1	49.0	58.5
Ecuador	51.3	57.5	49.1	58.6	46.3	51.8
Bolivia	51.5	56.0	50.0	63.3	35.8	48.7
Venezuela	36.0	22.7	44.8	29.9	29.3	32.2
Regional Average	**52.1**	**54.1**	**53.4**	**56.6**	**42.1**	**50.2**
Global Average	**63.2**	**53.1**	**62.1**	**53.6**	**49.7**	**55.3**

Note: Scores out of 100; higher scores indicate lower risk. Source: BMI

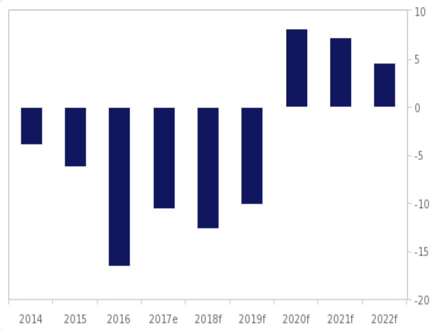
VENEZUELA – ECONOMIC OUTLOOK

...continued from front page

80.0% since 2012. In addition to an extremely challenging regulatory environment, this has hollowed out the non-oil sector, with most major industries effectively paralysed. Driven by shortages of goods and the accelerating expansion of the money supply, hyperinflation has decimated household purchasing power and rendered the banking system unable to function (*see 'Banking Sector: Reforms Desperately Needed', December 6 2017*). We estimate that the US dollar value of all cash in circulation fell to USD0.36/capita in July 2018, illustrating the depth of the challenge to commerce.

Deep Contractions Will Be Followed By Economic Rebound

Venezuela – Real GDP Growth, % y-o-y



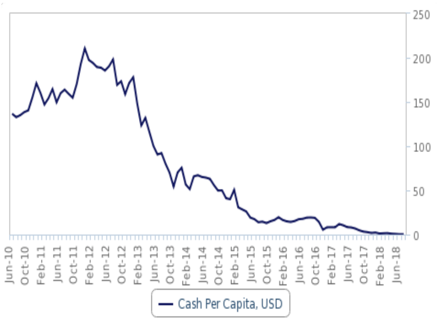
e/f = BMI estimate/forecast. Source: BCV, UN, BMI

We expect these dynamics to intensify over the second half of 2018. Oil production will continue to fall, further reducing hard currency inflows and perpetuating the decline. National oil company **PdVSA** is largely unable to invest in rapidly deteriorating infrastructure or pay oil field services providers or much of its workforce, which has been hit by mass resignations in recent months. Recently announced investments from China will offer some support to the sector, but we do not believe that these will be sufficient to stem the decline over the near term (*see 'Quick View: China's Cash Boost Insufficient To Halt Venezuela's Crude Woes', July 5*). While the non-oil sector has benefited from a slight uptick in imports following the government's decision to default on some of its debts in November 2017 (*see 'Quick View: Officially In Default, Creditor Action Not Yet Imminent', November 14 2017*), this is unlikely to be maintained as oil revenues continue to fall.

We have pushed back our forecasted recovery in the Venezuelan economy until 2020, from 2019 previously. Our forecast had been based on our view that creditor action in 2018 would cut Venezuela off from its ability to export oil, fracturing the patronage networks that have kept the PSUV in power thus far. This would then lead to a political transition and, likely after several quarters, sufficient economic policy changes to see growth recover (*see 'Venezuela's Political Crisis: Four Scenarios', May 22*). However, creditors have been slower to act than we anticipated, allowing the Maduro regime to continue to entrench itself in power following May's presidential election (*see 'Maduro Wins, Pushing Political Crisis Into A New Phase', May 21*). As a result, a recovery in 2019 has become unrealistic and we have pushed back our forecasts by one year.

Purchasing Power Plummets As Hyperinflation Takes Hold

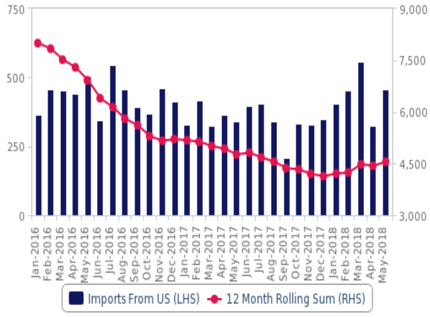
Venezuela – Cash Per Capita, USD



Source: BCV, UN, DolarToday, BMI

Creditor action remains the most likely path to regime change, and thus economic recovery. While we will address Venezuela's debt situation in greater depth in the coming weeks, we maintain our view that creditors are likely to move to seize Venezuela's oil shipments and overseas assets, including US-based subsidiary **Citgo**, in the quarters ahead. Given the disruption in PdVSA's operations caused by **ConocoPhillips'** recent attempts to seize assets in the Caribbean (*see 'Risk Of Asset Seizures Will Weigh On Oil Exports', May 11*), a full-scale effort from multiple creditors would effectively cut Venezuela off from hard currency inflows. Without hard currency, imports would come to a standstill and the resulting political unrest will most likely culminate in a political transition, though we note a high degree of risk around this view (*see 'Alternate Scenario: How Does Maduro Remain In Power For The Long-Term?', April 26*).

Short-Term Import Boost Unlikely To Last
Venezuela – Imports From The US, USDmn



Note: US accounts for roughly 40% of Venezuela's imports.
Source: US Census Bureau, Trade Map, BMI

Economic policy changes made in the wake of a political transition will lead to rapid real GDP growth in the short term. Given the extent of the decline in Venezuela's economy in recent years, orthodox macroeconomic reforms would likely see a sharp jump in real GDP growth within several quarters of a transition (*see 'Next Government Will Implement Drastic Reforms', June 1*). However, the long-term outlook for the country remains relatively poor. Numerous structural weaknesses, particularly in the oil sector, present significant headwinds to the economy (*see 'Structural Weaknesses Underpin Poor Long-Term Growth Outlook', May 30*), which will likely keep the total size of the economy below its 2013 peak in real terms at the end of our 10-year forecast period. From a high of USD380.8bn in 2012, we currently forecast the economy to equal USD175.0bn in 2027.

VENEZUELA – ECONOMIC OUTLOOK

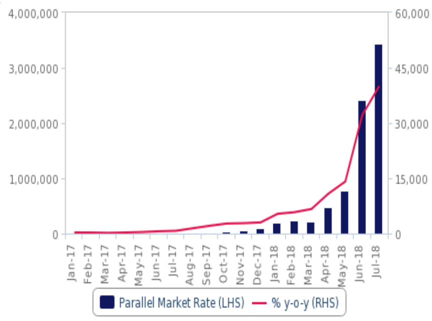
Venezuelan Bolívar To Continue Depreciating

***BMI View:** The Venezuelan bolívar will continue to depreciate in 2018 and 2019, due to collapsing confidence driven by money supply growth and currency controls. The ruling PSUV will maintain an overvalued official exchange rate and will not be able to halt depreciatory pressures. In the long term, an economic recovery and changes to exchange rate policies will likely see the unit regain some of its value. We cannot rule out eventual dollarisation or a currency board, though for the time being we are not factoring this into our forecasts.*

Forecast Changes

- We forecast Venezuela's exchange rate to average VEF60,839,482/USD in 2018 and VEF164,266,606/USD in 2019, from VEF21,311/USD in 2017. We use a weighted exchange rate which incorporates both the official and parallel market rates.

Parallel Dollar In Free Fall
Venezuela – Parallel Market Exchange Rate, VEF/USD



Source: DolarToday, Monitor Dolar Ve, BMI

Little has changed in our outlook for the bolívar in the short term. Confidence in the unit has been shattered by runaway money supply growth and restrictive currency controls, causing it to depreciate at a rapid pace. While the black market value of the unit varies depending on the source, all show a massive depreciation beginning in April. For example, the site DolarToday has the unit falling from VEF235,998/USD on April 1, to VEF3,418,605/USD on July 16, a 93.1% devaluation. Our forecasts assume that the unit continues to rapidly depreciate over the remainder of the year, given our view that Venezuela is firmly in the grip of hyperinflation (*see 'Price Growth Shows No Sign Of Slowing', May 1*).

The PSUV will not act to alleviate the downward pressures on the unit. The official Dicom rate stood at VEF119,938/USD as of July 13, compared to black market rates in excess of VEF3,000,000/USD. While the Dicom rate has steadily depreciated over recent months, it is far from reflecting market supply and demand from the currency. This is unlikely to change given that the party has long underpinned its control on power via providing privileged access to the subsidised rate. The PSUV continues to rapidly expand the money supply, while falling oil production cuts into dollar inflows, suggesting that the bolívar will continue to devalue rapidly.

In the long term, we expect that a recovery in the Venezuelan economy and major policy changes will allow the bolívar to regain some purchasing power. In particular, this means lifting currency controls and slowing the pace of money printing, which will combine with a gradual recovery in economic productivity to see the bolívar appreciate. We currently forecast this recovery to begin in 2020, though we note that this is contingent on highly uncertain political developments (*see 'Venezuela's Political Crisis: Four Scenarios', May 22*). That said, dollarisation is also a potential outcome of a political transition. Leading opposition economists and political leaders have embraced dollarisation as a means of halting hyperinflation.

VENEZUELA – DATA & FORECASTS

	2014	2015	2016	2017e	2018f	2019f	2020f
Population, mn	30.74	31.16	31.57	31.98	32.38	32.78	33.17
Nominal GDP, USDbn	481.7	957.6	19.0	31.2	17.7	17.1	15.2
GDP per capita, USD	15,672	30,736	600.0	975.0	546.0	520.0	459.0
Real GDP growth, % y-o-y	-3.9	-6.2	-16.5	-10.6	-12.6	-10.1	8.2
Consumer price inflation, % y-o-y, ave	61.8	116.2	219.5	1,243	105,809	200.0	35.0
Consumer price inflation, % y-o-y, eop	68.5	180.9	376.0	3,979	539,800	50.0	20.0
Exchange rate VEF/USD, ave	6.29	6.29	1,252	21,311	60,839,481.60	164,266,606	147,839,945
Exchange rate VEF/USD, eop	6.29	6.29	11,281	30,430,396	112,553,043	156,053,276	140,447,948
Budget balance, VEFbn	-373.7	-853.9	-3,336	-69,254	-137,896,569	-261,359,114	-170,270,671
Budget balance, % of GDP	-12.3	-13.1	-17.1	-15.8	-14.5	-10.1	-7.8
Goods and services exports, USDbn	76.6	38.8	29.2	33.3	31.7	36.4	37.7
Goods and services imports, USDbn	64.4	50.8	24.8	20.1	18.9	24	30.7
Current account balance, USDbn	3.6	-20.4	1.2	4.3	1.5	1.6	1.0
Current account balance, % of GDP	0.7	-2	7.7	20.8	9.8	10.3	9.6
Foreign reserves ex gold, USDbn	22.1	16.4	11.0	5.0	8.0	11.0	14.0
Import cover, months	4.1	3.9	5.3	3.0	5.1	5.5	5.5
Total external debt stock, USDbn	161.2	175.1	184.7	116.4	105.2	87.2	76.8
Total external debt stock, % of GDP	33.5	16.9	1,182.70	566.1	689.4	571.1	764.8
Crude, NGPL & other liquids prod, 000b/d	2,548	2,536	2,337	2,074	1,491	1,377	1,313
Total net oil exports (crude & products), 000b/d	1,894	1,951	1,836	1,659	1,157	1,067	1,009
Dry natural gas production, bcm	21.1	22.1	22.6	23.3	23.7	24.6	25.3
Dry natural gas consumption, bcm	14.3	16.7	14.5	13.3	12.5	12.3	12.6

e/f = BMI estimate/forecast. Source: National sources, BMI

COLOMBIA – ECONOMIC OUTLOOK

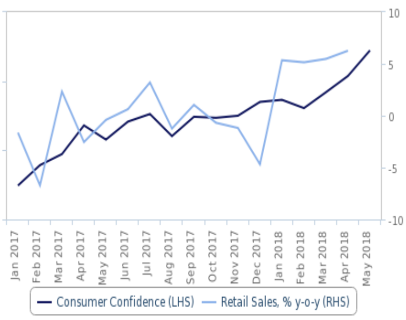
Colombian Economic Rebound To Continue

***BMI View:** Colombia's real GDP growth will accelerate in the coming quarters, as private consumption picks up. Higher oil prices and the inauguration of president-elect Iván Duque will alleviate uncertainty and bolster investment.*

- Private consumption will be the main driver of economic growth in the coming quarters as borrowing costs and inflation remain low.
- The incoming administration of president-elect Iván Duque of the centre-right Centro Democrático party will support investment and business activity.
- We forecast real GDP growth of 2.6% in 2018 and 3.2% in 2019, up from 1.8% in 2017.

Consumption Recovering From 2017 Downturn

Colombia – Consumer Confidence & Retail Sales



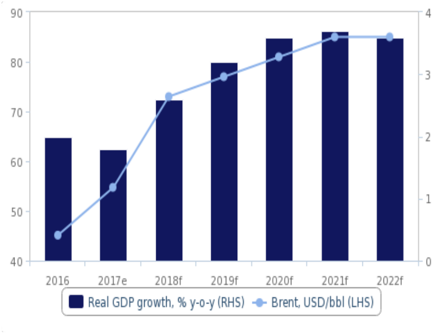
Source: Fedesarrollo, Bloomberg, BMI

Private consumption will pace economic activity. A combination of low interest rates and inflation underpins our view that private consumption will rebound throughout 2018. Private consumption accounted for 62.7% of GDP in 2017. The Banco de la República (BanRep) has lowered its policy interest rate to 4.25% – the lowest since July 2014 – in an attempt to stimulate the economy (*see 'BanRep To Extend Rate Cuts In 2018', March 27*). In addition, we forecast inflation to average 3.4% in 2018, increasing real earnings and supporting household purchases. After retail sales declined throughout much of 2017, high-frequency data indicate that sales growth averaged 5.6% in January-April 2018, with significant increases in automobile and motorcycle sales.

The oil and gas sector will be a major pillar of growth. Higher oil prices, which we forecast to average USD75.0/bbl in 2018, will stoke investment into the Colombian upstream business. Ending two years of investment cutbacks, state oil company **Ecopetrol** and its foreign partners announced they would invest USD8.5bn in upstream operations in 2018 (*see 'Crude Production Will Remain In Decline In 2018', May 22*). This will boost oil production, which has declined by 14.8% since 2015. Higher oil prices have also helped strengthen the Colombian peso and boosted purchasing power in recent months, which will funnel through to private consumption.

Real GDP Growth Will Continue Its Upwards Trend

Colombia – Real GDP Growth, % y-o-y



f = BMI forecast. Source: National sources, BMI

Investment will pick up in Colombia with the conclusion of the presidential election, as Duque pursues pro-business policies and policy uncertainty dissipates. Duque emerged as the most investor-friendly candidate during the campaign as he promised to lower corporate taxes and ease regulations. Our Oil & Gas and Mining teams forecast that Duque's support for offshore drilling and mining sector reform will bolster foreign investment into Colombia's extractive sector (*see 'Duque Win Will Support Heavy Industry', May 18*).

However, we are less bullish on Colombia's infrastructure sector following weak investment data from Q118. Our Infrastructure team lowered the 2018 growth forecast for the construction sector to 0.4% y-o-y as construction contracted in Q118. The downturn can likely be attributed to uncertainty brought on by the presidential candidacy of leftist Gustavo Petro, who vowed to increase the government's involvement in infrastructure development and raise taxes on land and real estate holdings (*see 'Colombia Infrastructure: Uncertainty To Delay Recovery', June 25*). However, Petro's defeat and the likely continuation of orthodox economic policies under Duque will help unlock private funding for infrastructure investment.

COLOMBIA – ECONOMIC OUTLOOK

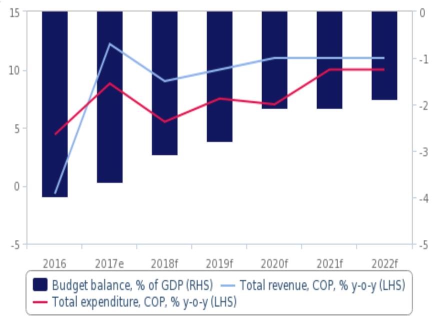
Colombia's Fiscal Deficit Will Narrow Following Presidential Transition

BMI View: *Colombia's fiscal deficit will narrow in the coming quarters as stronger economic growth filters through to support government revenues. The incoming government of Iván Duque will likely maintain fiscal consolidation measures that fall in line with the country's fiscal rule.*

- Higher oil prices and stronger real GDP growth will generate higher government revenues in the coming quarters, narrowing Colombia's fiscal deficit.
- President-elect Iván Duque of the centre-right Centro Democrático will broadly maintain the fiscal policies of his predecessor, Juan Manuel Santos.
- In the longer term, Duque's proposed corporate tax cuts and continued spending on Venezuelan refugees could put strain on the fiscal account.

Deficits To Persist Even As Revenues Pick Up

Colombia – Fiscal Balance, % Of GDP



e/f = BMI estimate/forecast. Source: BanRep, BMI

Forecast Changes

- We have revised down our fiscal deficit forecast for 2019 to 2.8% of GDP, from 2.7% previously, as we expect expenditures will modestly exceed those in our previous forecast.
- We maintain our current fiscal deficit forecast for 2018 of 3.1% of GDP.

The fiscal deficit will narrow in the coming quarters as revenues pick up. Stronger private consumption and higher oil prices will both contribute to significant revenue gains. Low inflation and borrowing costs will spur consumption, which will offer greater government tax receipts as the 2017 implementation of tax reform increased the value added tax from 16% to 19% (*see 'Colombian Economic Rebound To Continue', June 27*). Furthermore, higher oil prices will offer a fiscal windfall. Oil royalties had consisted of approximately one-fifth of government revenues prior to the 2016 collapse in prices. Our Oil & Gas team forecasts that Brent oil prices will average USD75.0/bbl in 2018 and USD80.0/bbl in 2019.

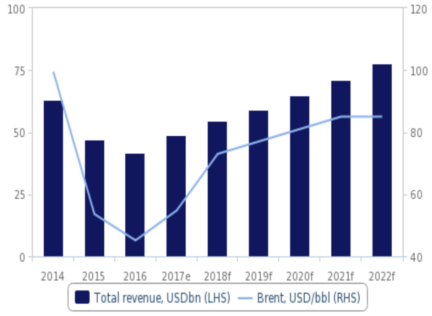
We expect that Duque's administration will maintain the fiscal consolidation measures implemented by the Santos government. Duque will likely keep fiscal spending modest, adhering to the fiscal rule and looking to the private sector to drive investment (*see 'Election Preview: Duque Likely To Win Presidency After Run-Off', May 11*). The fiscal rule offers targets for narrowing Colombia's structural deficit to 1.0% of GDP by 2022, while allowing for some cyclical flexibility. Duque, who has been a vocal critic of the 2016 peace deal with the Fuerzas Armadas Revolucionarias de Colombia (FARC) insurgent group, may cut spending further if he chooses not to fully implement the government-funded provisions of the peace deal, which include education programmes, vocational training and stipends for former FARC members.

However, Duque has proposed cutting Colombia's corporate tax rates, from the current 33.0% rate to one closer to the OECD average of 21.9%. Duque has not offered a comprehensive plan to replace the lost revenues aside from improving tax collection and cracking down on tax evasion. However, we do not believe that these gains will be enough to offset the lost corporate tax revenues. This poses a downside risk to our revenue forecasts if the next Colombian government is able to pass tax cuts.

Elevated spending on social services for Venezuelan immigrants will put downside pressure on Colombia's fiscal account. According to some estimates, Colombia has received over one million Venezuelans fleeing their country's economic collapse (*see 'Migrant Crisis Raising Risks Across Latin America', May 17*). Should Venezuela's downward spiral continue, we expect a greater inflow of migrants, which will add additional strain to Colombia's hospitals, schools and shelters. While we expect that Colombia will appeal for additional humanitarian aid from multilateral organisations, the migrant crisis will constrain Colombia's fiscal flexibility as it must spend state resources to house and feed the migrants, increase border security, or both.

Revenues Closely Track Brent Prices

Government Revenues & Brent Price, USD



e/f = BMI estimate/forecast. Source: National sources, BMI

COLOMBIA – DATA & FORECASTS

	2014	2015	2016	2017e	2018f	2019f	2020f
Population, mn	47.79	48.23	48.65	49.07	49.46	49.85	50.22
Nominal GDP, USDbn	378.3	291.1	282.5	311.1	339.5	356.0	376.1
GDP per capita, USD	7,914	6,035	5,806	6,340	6,864	7,141	7,489
Real GDP growth, % y-o-y	4.4	3.1	2.0	1.8	2.6	3.2	3.6
Industrial production, % y-o-y, ave	1.5	-25.3	3.3	5.3	5.5	5.3	5.0
Consumer price inflation, % y-o-y, ave	2.9	5.0	7.5	4.3	3.4	3.5	3.3
Consumer price inflation, % y-o-y, eop	3.2	6.8	5.7	4.1	3.7	3.3	3.5
Central bank policy rate, % eop	4.50	5.75	7.50	4.75	4.25	5.00	5.50
Exchange rate COP/USD, ave	2,002	2,745	3,053	2,952	2,870	2,924	2,959
Exchange rate COP/USD, eop	2,376	3,174	3,002	2,937	2,910	2,939	2,980
Budget balance, COPbn	-19,844	-27,079	-34,925	-33,636	-30,443	-28,801	-23,908
Budget balance, % of GDP	-2.6	-3.4	-4.0	-3.7	-3.1	-2.8	-2.1
Goods and services exports, USDbn	63.8	45.7	41.4	47.8	51.3	54.1	58.0
Goods and services imports, USDbn	75.1	64.2	54.4	56.7	58.9	62.2	65.4
Current account balance, USDbn	-19.6	-18.6	-12.2	-10.4	-8.9	-8.4	-6.7
Current account balance, % of GDP	-5.2	-6.4	-4.3	-3.3	-2.6	-2.4	-1.8
Foreign reserves ex gold, USDbn	47.3	46.7	46.7	47.6	49.1	50.5	52.1
Import cover, months	7.6	8.7	10.3	10.1	10.0	9.8	9.5
Total external debt stock, USDbn	101.4	110.9	120.3	123.8	126.7	127.9	130.3
Total external debt stock, % of GDP	26.8	38.1	42.6	39.8	37.3	35.9	34.6
Crude, NGPL & other liquids prod, 000b/d	1,008.0	1,026.0	906.3	874.1	867.0	857.5	853.1
Total net oil exports (crude & products), 000b/d	681.7	692.7	569.1	530.6	514.2	494.1	479.5
Dry natural gas production, bcm	9.6	9.8	9.9	9.6	9.5	9.5	9.5
Dry natural gas consumption, bcm	10.9	10.5	10.9	11.1	11.2	11.4	11.6

e/f = BMI estimate/forecast. Source: National sources, BMI

PERU – POLITICAL OUTLOOK

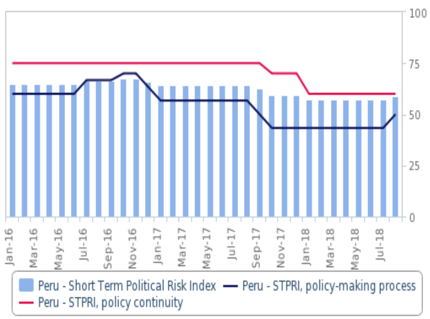
Peruvian President Vizcarra On Firmer Footing

***BMI View:** Peruvian President Martin Vizcarra will likely serve out the remainder of the current presidential term, after finding firmer ground four months into his presidency following the resignation of former President Pedro Pablo Kuczynski. Broad congressional support for Vizcarra's administration will support improved policy formation in the coming quarters. However, the Fujimori siblings, especially Keiko at the head of the Fuerza Popular, will continue to play a key role in politics, as a shift in their support for Vizcarra would potentially destabilise his administration.*

Forecast Changes

- We have moderately lifted Peru's score in our Short-Term Political Risk Index to 58.8, from 57.1 previously, reflecting an improving assessment of the policymaking process.

Political Risks Dissipating Somewhat
Peru – Short-Term Political Risk Index

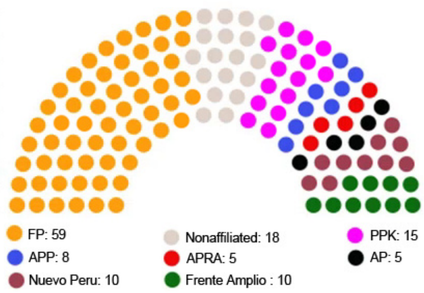


Note: Scores out of 100; higher score = lower risk. Source: BMI

Vizcarra will likely serve out the remainder of the current presidential term through to 2021. Following the resignation of his predecessor Pedro Pablo Kuczynski amid allegations of corruption and vote-buying (*see 'Quick View: Kuczynski Resignation Opens Door For Early Elections', March 22*), Vizcarra took office on March 23. In the turmoil following the resignation, it seemed that the Fuerza Popular (FP) might push for new presidential elections, as they had previously forced Vizcarra from his position as Minister of Transportation.

However, political infighting within the FP likely precluded any serious effort towards snap elections, and four months into his presidency, Vizcarra is on firmer footing. Vizcarra has begun his term by jump-starting reconstruction efforts in areas hit by last year's flooding and by combatting corruption. However, the latter of these endeavours was dealt a blow by the resignation of Justice Minister Salvador Heresi on July 13 after he was implicated in the corruption scandal surrounding Supreme Court Judge Cesar Hinostroza that prompted Vizcarra's promise for sweeping judicial reform the week prior.

FP Remains Largest Bloc In Congress
Peru – Congressional Seats By Party, Out Of 130



Source: Local sources, Congreso del Peru, BMI

Relatively strong congressional support for Vizcarra will improve policy formation. Political gridlock plagued Kuczynski's presidency as Keiko Fujimori's FP, whom he narrowly defeated in the 2016 presidential race, used its majority in the legislature to obstruct his agenda. However, we expect a moderate improvement in policy formation in the coming quarters, as the party-less Vizcarra benefits from explicit support from a wide range of Peruvian political parities, including the FP. On June 20, the legislature granted Vizcarra 60-day temporary legislative powers to combat corruption and boost the economy, a clear gauge of broad Congressional support for the new president.

FP infighting will likely benefit Vizcarra. While the FP still controls the largest bloc in Congress with 59 of 130 seats, it lost its absolute majority following a rift between the party's sibling leaders Keiko and Kenji who led to a number of expulsions and resignations in late 2017 and early 2018. This diminished position, and continued political infighting, will likely limit attacks and political intransigence towards the Vizcarra administration.

However, the political climate remains volatile. A shift in support from the FP away from Vizcarra could usher in a return to political gridlock. While the diminished FP does not have the votes to pursue Vizcarra's ouster, it could effectively hold up the president's agenda with a just a few additional outside votes. We note that the FP has previously clashed with

Vizcarra, driving him to resign from his position of Transport Minister in 2017. Falling public approval for Vizcarra, which has dropped to 29% in July, may precipitate Congressional opposition.

PERU – DATA & FORECASTS

	2014	2015	2016	2017e	2018f	2019f	2020f
Population, mn	30.97	31.38	31.77	32.17	32.55	32.93	33.31
Nominal GDP, USDbn	203.1	192.4	195.4	215.2	230.5	251.1	277.7
GDP per capita, USD	6,556	6,131	6,150	6,690	7,080	7,623	8,335
Real GDP growth, % y-o-y	2.4	3.3	4.0	2.5	3.9	3.7	3.8
Industrial production, % y-o-y, ave	3.8	3.6	3.5	2.4	2.6	2.8	2.8
Consumer price inflation, % y-o-y, ave	3.2	3.5	3.6	2.8	1.5	2.8	3.4
Consumer price inflation, % y-o-y, eop	3.2	4.4	3.2	1.4	2.2	3.2	3.5
Central bank policy rate, % eop	3.50	3.75	4.25	3.25	2.75	3.50	4.25
Exchange rate PEN/USD, ave	2.84	3.18	3.38	3.26	3.23	3.19	3.12
Exchange rate PEN/USD, eop	2.98	3.41	3.36	3.24	3.20	3.18	3.06
Budget balance, PENbn	-1.9	-12.6	-16.9	-22.8	-25.3	-24.2	-22.7
Budget balance, % of GDP	-0.3	-2.1	-2.6	-3.2	-3.4	-3.0	-2.6
Goods and services exports, USDbn	45.5	40.7	43.3	52.3	58.4	64.1	69.9
Goods and services imports, USDbn	48.9	45.6	43.4	47.5	52.1	56.6	61.1
Current account balance, USDbn	-8.4	-9.2	-5.3	-2.7	-2.4	-2.2	-1.7
Current account balance, % of GDP	-4.1	-4.8	-2.7	-1.3	-1.0	-0.9	-0.6
Foreign reserves ex gold, USDbn	62.3	61.5	61.7	62.4	65.0	69.0	73.0
Import cover, months	15.3	16.2	17.0	15.8	15.0	14.6	14.3
Total external debt stock, USDbn	61.3	65.9	69.5	69.9	78.6	83.1	85.5
Total external debt stock, % of GDP	30.2	34.3	35.6	32.5	34.1	33.1	30.8
Crude, NGPL & other liquids prod, 000b/d	175.0	151.9	136.3	136.6	138.2	139.7	141.4
Total net oil exports (crude & products), 000b/d	-38.2	-77.5	-106.9	-114.6	-125.7	-133.6	-139.9
Dry natural gas production, bcm	12.9	12.5	13.8	12.8	13.2	13.7	14.2
Dry natural gas consumption, bcm	5.5	5.5	6.0	6.2	6.5	6.7	7.3

e/f = BMI estimate/forecast. Source: National Sources, BMI

ECUADOR – ECONOMIC OUTLOOK

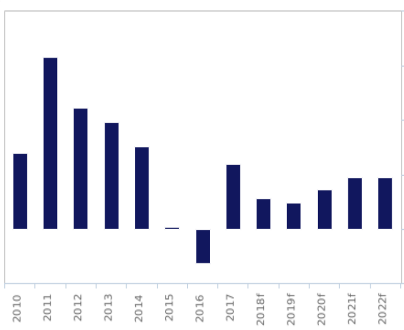
Ecuadorian Economy Undermined By Spending Cuts

***BMI View:** Ecuadorian real GDP growth will decelerate in 2018 and 2019 amid public sector spending cuts. Import duties and weakening sentiment will weigh on private consumption and investment. Over the longer term we expect a gradual acceleration in growth from 2020, as rising oil prices support exports.*

Forecasts Changes

- We maintain our forecast for real GDP growth in 2018 at 1.4%.
- We have revised down our forecast for 2019 and 2020 to 1.2% and 1.8%, from 1.5% and 2.1% previously, due to anticipated austerity measures.

Muted Growth Ahead
Ecuador – Real GDP, % y-o-y



f = BMI estimate. Source: BCE, BMI

Economic growth will decelerate in the coming quarters, as a fragile economic recovery is undermined by public spending cuts. Average monthly expenditures contracted 6.3% y-o-y in Q417 and Q118, as the government of President Lenín Moreno cut public spending in an effort to narrow a large fiscal deficit (*see 'Economic Plan Unlikely To Cure Fiscal Woes', April 25*). Capital expenditure cuts were the most heavily impacted, falling 31.9%. In the coming months, we expect further cuts to public spending, as the government struggles to rein in a deficit of 5.3% of GDP in 2017 and rising yields on government debt make additional borrowing increasingly expensive. We also note the possibility for a financing agreement with the IMF in the coming months, which would likely invoke additional austerity measures.

Import duties will weigh on the service sector. In 2017, commerce was a key driver of overall economic growth, expanding by 5.5% in real terms after the government removed a number of 'safeguard' duties on imports (*see 'Import Restrictions Will Safeguard*

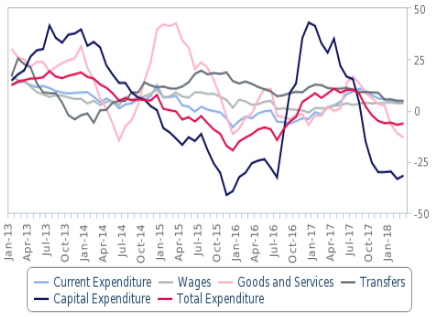
External Balance', December 21 2017). However, this pace of growth will be short-lived, as modest wage growth and new import restrictions have weakened demand. While a 'customs fee' in place since November 2017 will likely be removed in the coming weeks in accordance with a ruling by the Andean Community, other tariffs remain elevated and we expect the Moreno government will likely raise additional tariffs to WTO ceilings should Ecuador's current account begin to slip into deficit (*see 'Rising Oil Prices Will Support Current Account', June 20*).

Investment will likely remain weak. While the government's new economic plan will provide tailwinds via new tax breaks, we expect that investment growth will only reach 1.0% and 1.5% in 2018 and 2019 in real terms. Investor sentiment towards Ecuador remains weak after a decade of leftist-nationalist economic policies under Moreno's predecessor Rafael Correa. Concerns over security and the rule of law also add to operational risks. As such, foreign direct investment will remain modest, at around 1.0% of GDP in the coming years, limited mainly to the primary sector. Additionally, in June, the central bank reportedly siphoned USD450mn from state-owned utilities **Celec** and **CNEL** to cover near-term obligations, which will likely erode those firms' capital expenditures in the coming quarters.

A recovering oil sector will underpin modest growth over the longer term. Our Oil & Gas team forecasts WTI benchmark oil prices to average 34.7% higher in 2018, and average 6.4% annual increases from 2019 to 2021. This will support exports and production growth over the medium term as the government returns to production-sharing contracts with international oil field service providers (*see 'OFS Return Will Revive Mature Field Development', August 2 2017*). The rise in exports will support hard currency inflows and government receipts, helping to limit the depth of government cuts and import-restricting 'safeguards' over the medium-to-long term. However, we note that production will be capped in the near term by OPEC agreements.

Spending Cuts Will Weigh On Growth

Ecuador – Government Expenditures, % y-o-y 6mma



Source: BCE, BMI

ECUADOR – DATA & FORECASTS

	2014	2015	2016	2017e	2018f	2019f	2020f
Population, mn	15.90	16.14	16.39	16.62	16.86	17.10	17.34
Nominal GDP, USDbn	101.7	99.3	98.6	103.1	106.9	111.5	118.1
GDP per capita, USD	6,396	6,150	6,018	6,198	6,341	6,520	6,813
Real GDP growth, % y-o-y	3.8	0.1	-1.6	3.0	1.4	1.2	1.8
Consumer price inflation, % y-o-y, ave	3.6	4.0	1.7	0.4	0.7	2.3	3.5
Consumer price inflation, % y-o-y, eop	3.7	3.4	1.1	-0.1	1.5	3.0	3.9
Exchange rate USD/USD, ave	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Exchange rate USD/USD, eop	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Budget balance, USDbn	-5.3	-5.1	-7.3	-5.5	-4.5	-4.3	-4.4
Budget balance, % of GDP	-5.2	-5.1	-7.4	-5.3	-4.2	-3.9	-3.7
Goods and services exports, USDbn	28.9	21.4	19.6	21.9	24.5	26.9	28.4
Goods and services imports, USDbn	30.2	23.9	19.1	22.6	24.8	27.1	28.9
Current account balance, USDbn	-0.5	-2.1	1.4	-0.3	0.1	0.3	-0.1
Current account balance, % of GDP	-0.5	-2.1	1.5	-0.2	0.1	0.2	-0.1
Foreign reserves ex gold, USDbn	3.9	2.5	4.3	2.5	2.2	3.0	3.0
Import cover, months	1.6	1.3	2.7	1.3	1.1	1.3	1.2
Total external debt stock, USDbn	24.2	27.3	34.1	37.4	40.8	44.4	48.4
Total external debt stock, % of GDP	23.7	27.5	34.6	36.3	38.2	39.9	41.0
Crude, NGPL & other liquids prod, 000b/d	557.1	544.1	549.1	532.1	521.0	530.3	540.9
Total net oil exports (crude & products), 000b/d	271.8	297.3	313.9	299.7	284.9	289.5	294.1
Dry natural gas production, bcm	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Dry natural gas consumption, bcm	0.6	0.5	0.5	0.5	0.5	0.5	0.5

e/f = BMI estimate/forecast. Source: National sources, BMI

BOLIVIA – ECONOMIC OUTLOOK

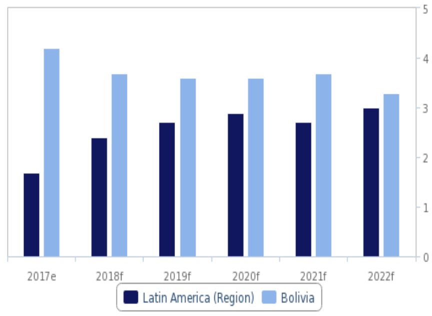
Foreign Investment To Spur Growth In Bolivia

***BMI View:** Bolivia will see real GDP growth remain robust in the coming quarters as private consumption strengthens amid low inflation and rising remittances. Sustained high energy prices will support foreign investment in the natural gas sector. Public spending will also support economic activity as President Evo Morales looks to boost his political support ahead of the 2019 elections.*

Forecast Changes

- We have revised up our 2019 real GDP growth forecast to 3.6%, from 3.4% previously, as we expect structurally higher energy prices to support investment and consumption in the coming quarters. Our 2018 real GDP forecast of 3.7% remains unchanged.

Growth Likely To Outpace Regional Average
Bolivia & Latin America (Region) – Real GDP Growth, % y-o-y



e/f = BMI estimate/forecast. Source: National sources, BMI

Private consumption will drive growth over the coming quarters. Private consumption will continue to benefit from low inflation and strong remittance inflows, boosting purchasing power. We forecast that inflation will remain historically low in 2018, averaging 3.0% y-o-y before picking up slightly in 2019. In addition, incoming remittances increased by 10.6% in the year through April 2018, with noted growth from Bolivians working in Spain and the US. With robust growth expected in both Spain and the US in the coming quarters, remittance inflows will spur additional consumption and economic activity.

Higher global energy prices will drive an increase in foreign direct investment (FDI). Overall investment is closely tied to energy prices, which affect the attractiveness of Bolivia's natural gas sector. Boosted by higher prices, FDI increased by 70.8% y-o-y in Q118. Russian energy firm **Gazprom** announced a USD1.2bn investment into exploration and production, while **Shell** and several other energy firms have also signalled plans to ramp up investment. Our Oil & Gas team forecasts that WTI oil prices – from which Bolivia benchmarks its gas contracts – will average USD75.0 per barrel (/bbl) in 2018 and USD80.0/bbl in 2019. Sustained price strength will support investment and boost revenues for Bolivia's state energy company **Yacimientos Petrolíferos Fiscales Bolivianos** in the coming quarters.

BOLIVIA – DATA & FORECASTS

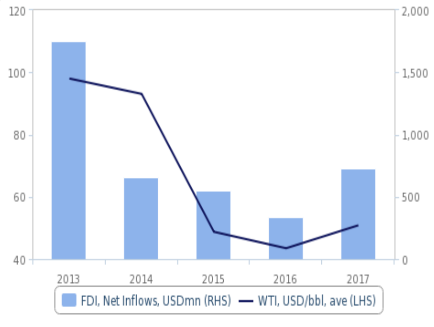
	2014	2015	2016	2017e	2018f	2019f	2020f
Population, mn	10.56	10.72	10.89	11.05	11.22	11.38	11.54
Nominal GDP, USDbn	33.0	33.0	33.8	37.5	38.4	39.5	40.5
GDP per capita, USD	3,123	3,079	3,106	3,392	3,423	3,474	3,512
Real GDP growth, % y-o-y	5.5	4.9	4.3	4.2	3.7	3.6	3.6
Consumer price inflation, % y-o-y, ave	5.8	4.1	3.6	2.8	3.0	3.1	3.1
Consumer price inflation, % y-o-y, eop	5.3	3.0	4.0	2.7	2.9	3.2	3.0
Exchange rate BOB/USD, ave	6.91	6.90	6.91	6.91	7.20	7.50	7.80
Exchange rate BOB/USD, eop	6.91	6.90	6.93	6.91	7.20	7.50	7.80
Budget balance, BOBbn	-7.7	-15.7	-15.4	-16.5	-16.4	-13.9	-11.5
Budget balance, % of GDP	-3.4	-6.9	-6.6	-6.4	-5.9	-4.7	-3.6
Goods and services exports, USDbn	14.0	9.9	8.2	9.1	10.1	11.2	12.3
Goods and services imports, USDbn	12.9	11.9	10.7	11.6	12.6	13.4	14.6
Current account balance, USDbn	0.6	-1.9	-1.9	-2.4	-1.9	-1.6	-1.6
Current account balance, % of GDP	1.7	-5.9	-5.7	-6.3	-5.0	-4.2	-3.9
Foreign reserves ex gold, USDbn	13.5	11.6	8.5	8.5	8.7	9.0	9.3
Import cover, months	16.4	15.3	12.9	11.8	11.1	10.5	10.0
Total external debt stock, USDbn	8.9	9.9	11.0	12.0	12.4	14.2	15.0
Total external debt stock, % of GDP	27.0	30.0	32.6	32.0	32.4	35.9	37.1
Crude, NGPL & other liquids prod, 000b/d	66.0	72.9	67.2	71.2	73.1	74.8	75.7
Total net oil exports (crude & products), 000b/d	-14.9	-9.1	-15.9	-13.0	-12.4	-11.8	-12.4
Dry natural gas production, bcm	21.8	22.2	21.4	20.8	20.6	20.9	21.3
Dry natural gas consumption, bcm	4.2	4.3	4.8	5.1	5.4	5.6	5.8

e/f = BMI estimate/forecast. Source: National sources, BMI

Government spending will offer tailwinds to consumption and investment. We expect government spending on education, public infrastructure and health care – a pillar of President Evo Morales's political agenda – will pick up in H218 (*see 'Elevated Spending To Keep Fiscal Deficit Wide', May 24*). In recent quarters the Morales government has rolled back many of the austerity measures imposed after the 2015-2016 collapse in government revenues, aiding growth in the infrastructure and services sector. The government will keep spending elevated in the next 12 months prior to the 2019 presidential election, in which Morales will likely face a more challenging contest after a favourable court ruling will allow him to disregard a previous law that set a two-term limit (*see 'Morales Will Struggle To Win Re-Election In 2019', April 20*).

Investment Will Continue To Follow Energy Prices

Bolivia – Inbound FDI & WTI



Source: World Bank, BMI