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Latin America

Latin America Macro & Strategy Outlook

Too Much Complacency?

- **Relative calm in global financial markets after a financial crisis was averted in Europe last year, along with a fiscal crisis that was averted earlier this year in the US, has brought relief to the region.** But, in our view, the worst is not over, and growth sustainability rather than inflation is the main problem LatAm faces these days.

- **In this rarefied atmosphere, the only sure thing is quantitative monetary expansion in the advanced economies.** This should continue to stimulate capital inflows to EM generating new rounds of FX appreciation pressures. The main question becomes: how will central banks in Latin America react to this scenario?

- **Regional central banks may respond by intervening more in the FX market, while keeping interest rates either on hold or subject to cosmetic increments to avoid further pressures on appreciation.** But, in our opinion, what this would do is cause domestic credit to continue to expand fueling more inflation in the nontradables sector without a corresponding increase in overall growth.

- **The reason is that, in our opinion, we are past the level where Dutch disease is burden on tradables alone.** First-best solutions such as lower taxation, more flexible labor laws, improvements in productivity, and better infrastructure are rarely available, at least in the strong doses required to be competitive, while second-best solutions are fiscally costly (industrial policy), inflationary (devaluation) or need to be supported by export taxes and price controls.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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The Month Ahead

Too Much Complacency?

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Relative calm in global financial markets after a financial crisis was averted in Europe last year, along with a fiscal crisis that was averted earlier this year in the US, has brought relief to the region. This and the pickup in Chinese growth in the last quarter of 2012 seem to have convinced markets and some policymakers that the worst is over and that it is now time to refocus on inflation.

But, in our view, the worst is not over, and growth sustainability rather than inflation is the main problem LatAm faces these days. The "Draghi put" notwithstanding, Europe is not out of the danger zone, and new hiccups will almost surely emerge from its periphery during the current year. Our European colleagues' forecast is for the Euro Area economy to continue contracting in both 2013 and 2014. China's recovery, on the other hand, is the product of widely expansionary monetary and fiscal policies, the sustainability of which is questionable. As downside risks decline and inflation starts to edge up, it is very likely that Chinese policymakers will return to a more prudent policy stance. With it, we expect growth to level-off at sub-8% levels. Finally, in the US, a divisive political game between the government and the Republican opposition in Congress should continue to stand in the way of true GDP recovery making long-term fiscal consolidation all but impossible. We have nevertheless raised our GDP forecasts for both 2013 and 2014 and the back of somewhat weaker fiscal drag. For a summary of our global growth forecasts, please see Figure 1.

Figure 1. Global: Growth prospects have improved, but marginally so

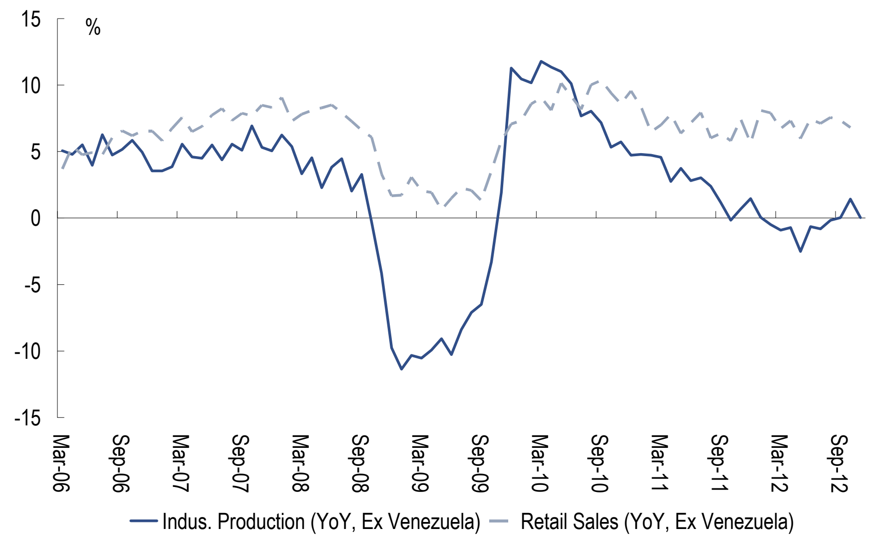
	2013 Forecast			2014 Forecast		
	Nov-12	Jan-13		Nov-12	Jan-13	
Global Growth	**2.6**	**2.6**	-	**3.1**	**3.2**	(+)
US	1.6	1.9	(+)	3.0	3.1	(+)
Euro Area	-0.7	-0.6	(+)	-0.4	-0.4	-
Emerging Markets	**5.3**	**5.2**	(-)	**5.5**	**5.5**	-
Asia	**6.6**	**6.6**	-	**6.6**	**6.6**	-
China	7.8	7.8	-	7.3	7.3	-
India	6.2	6.2	-	6.9	6.9	-
Indonesia	6.1	6.1	-	6.3	6.3	-
Latam	**3.9**	**3.4**	(-)	**4.0**	**4.0**	-
Argentina*	3.0	3.0	-	2.0	2.0	-
Brazil	3.9	3.1	(-)	4.0	4.2	(+)
Mexico	3.6	3.6	-	3.8	3.8	-
Europe	**2.8**	**2.7**	(-)	**3.5**	**3.5**	-
Poland	1.3	1.3	-	2.8	2.8	-
Russia	3.2	3.0	(-)	3.8	3.7	(-)
Turkey	4.0	4.0	-	4.3	4.3	-
Africa/Middle East	**4.9**	**5.1**	(+)	**5.6**	**5.6**	-
South Africa	2.5	2.8	(+)	3.4	3.1	(-)

Source: Citi Research

*Non-official GDP estimates.

In this rarefied atmosphere, the only sure thing is quantitative monetary expansion in the advanced economies, with the recent addition of Japan as a major player in the area. This should continue to stimulate capital inflows to EM generating new rounds of FX appreciation pressures. Regional central banks may respond by intervening more while keeping interest rates either on hold or subject to cosmetic increments to avoid further pressures on appreciation. But, in our opinion, what this would do is cause domestic credit to continue to expand fueling more inflation in the nontradables sector without a corresponding increase in overall growth.

Figure 2. Latam: The gap between production of tradables and the non-tradable sector is growing wider in Latin America*

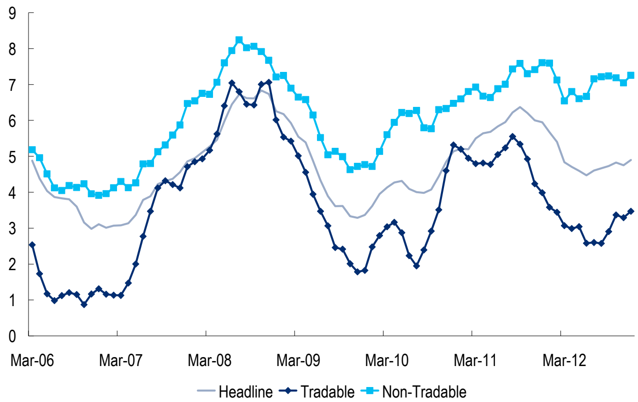


Source: Citi Research

* Figures for LatAm industrial production and retail sales are GDP weighted and exclude Venezuela.

Unlike in the 2010 recovery, when activity and prices of nontradables, such as retail and construction, expanded together, it is possible that, this time round, inflation will remain high, but nontradable production starts to decelerate adding to the drag in manufacturing, agriculture and other tradable activities. The reason is that, in our opinion, we are past the level where Dutch disease is burden on tradables alone, and are at a point where the burden is on the whole economy. Unfortunately, this is not going to change any time soon since, due to the combination of semi-pegged nominal exchange rates and consumer inflations hovering around the upper ends of the target bands, real exchange rates will continue to appreciate, except temporarily during peaks of global risk aversion.

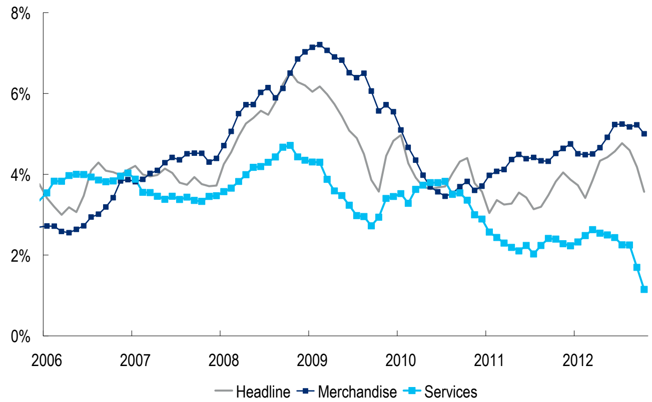
Figure 3. Latam: In Brazil, Chile, Colombia and Peru, the decline in inflation has been driven by the tradable category*…



Source: Citi Research

* Series is GDP weighted.

Figure 4. …while in Mexico, the decline has been led by non-tradables.



Source: Citi Research

When adjusted for labor productivity, taxes, and other labor costs, dollar wages in LatAm economies, with the exception of Mexico, have lost competitiveness. Furthermore, a lack of adequate infrastructure and other institutional deficiencies in the region tax tradables more heavily than nontradables leading to underinvestment in the tradables sector, which in turn generates lower growth in all sectors. In this context, first-best solutions such as lower taxation, more flexible labor laws, improvements in productivity, and better infrastructure are rarely available, at least in the strong doses required to be competitive, while second-best solutions are fiscally costly (industrial policy), inflationary (devaluation) or need to be supported by export taxes and price controls (RER undervaluation circa 2003-07 in Argentina).

We believe it is therefore unlikely that governments in LatAm, with the only possible exception of Brazil, will follow these alternative courses of action in any meaningful way, preferring instead to manage exchange rates and interest rates in a more orthodox fashion, as they have been doing so far. Namely, by intervening when the nominal exchange rate hits a low point, and by gradually increasing interest rates when inflation reaches the top end of the band. In this context, it is reasonable to expect that growth will be driven by consumption rather than by investment and exports and, as imports increase, so will current account deficits. Eventually, confidence will erode causing capital inflows to decline and exchange rates to depreciate. At this point, growth deceleration and inflation acceleration (already a reality in Brazil and Argentina) could become more generalized.

Consolidated Economic Indicators — Latam

	2011	2012					2013					2014
	Proj.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US$ bn)	5001	1267	1268	1260	1333	5006	1309	1338	1341	1414	5290	5768
GDP per capita (US$)	10,652	2,686	2,681	2,658	2,805	10,548	2,747	2,801	2,798	2,943	11,007	11,867
Unemployment Rate (%)	6.4	6.5	6.4	6.2	5.9	6.2	6.5	6.3	6.2	5.7	6.1	6.1
Population (millions)	469.4	471.5	472.8	474.0	475.3	474.6	476.6	477.9	479.2	480.5	480.6	486.0
ECONOMIC ACTIVITY												
Real GDP growth (yoy)	4.2	3.1	2.5	2.3	2.7	2.7	2.8	3.5	3.6	3.8	3.4	4.1
Real GDP growth (qoq, sa, annualized)	…	2.7	2.1	2.4	3.7	…	3.7	3.8	3.4	4.9	…	…
Domestic Demand Growth (ex-inventory, yoy)	5.7	4.7	3.6	3.1	3.1	3.6	2.6	3.4	4.2	4.2	3.6	4.4
Real Investment Growth (yoy)	7.2	6.0	3.2	-0.4	-0.4	1.8	0.7	2.9	4.6	6.2	3.6	5.3
Real Consumption Growth (yoy)	4.8	4.0	3.6	3.6	3.7	3.8	3.2	3.5	3.9	3.5	3.5	3.8
Real Private Consumption Growth (yoy)	5.3	4.3	3.9	4.1	3.9	4.1	3.0	3.6	3.6	3.7	3.5	3.9
Real Government Consumption Growth (yoy)	3.1	3.7	3.8	3.5	4.1	3.8	3.0	2.2	3.9	1.7	2.6	2.9
Real Export Growth (yoy)	6.2	5.9	0.8	-0.5	1.8	1.9	2.2	3.7	4.8	4.9	3.9	5.4
Real Import Growth (yoy)	10.7	8.4	3.7	0.5	1.9	3.3	1.8	3.8	5.6	5.7	4.3	5.5
PRICES												
Consumer Price Inflation (yoy, eop)	7.1	6.3	6.2	6.3	6.2	6.2	6.7	6.9	6.7	6.6	6.8	6.8
Core Inflation (yoy, eop)	…	…	…	…	…	…	…	…	…	…	…	…
Consumer Price Inflation (qoq, eop)	…	1.4	1.0	1.6	2.0	…	1.8	1.4	1.4	1.8	…	…
Wages (% change yoy, nominal)	10.6	11.2	10.7	10.1	10.1	11.3	10.6	10.9	10.2	9.8	10.9	10.7
MONETARY SECTOR												
Monetary Base growth (yoy)	17.7	16.9	18.1	20.3	19.8	19.2	18.7	19.1	18.4	18.8	18.5	18.9
Broad Money growth (yoy)	20.5	19.5	19.4	19.0	17.3	16.7	16.6	16.7	17.0	17.6	17.2	17.9
EXTERNAL SECTOR												
Current Account Balance (% of GDP)	-1.0	-0.6	-1.1	-1.5	-2.0	-1.3	-1.4	-1.1	-1.8	-2.1	-1.6	-1.6
Current Account Balance (in US$ bn)	-51	-7	-14	-19	-26	-67	-19	-14	-24	-29	-86	-93
Trade Balance (in US$ bn)	114	28	25	20	14	87	18	24	17	10	69	67
Exports, f.o.b. (in US$ bn)	967	236	247	244	248	975	234	252	253	260	999	1059
Imports, c.i.f. (US$ Bn)	854	209	222	223	234	888	216	228	237	250	930	992
Services (net)	-74	-18	-21	-21	-16	-76	-15	-18	-18	-16	-67	-68
Current Transfers (net)	35	8	9	8	9	35	9	10	9	9	38	38
Foreign Direct Investment (in US$ bn)	140	35	35	38	31	139	49	31	30	31	141	128
Terms of Trade (% change yoy, + improvement)	8	-3	-6	-5	-5	-4	-2	-1	0	0	1	2
International Reserves (in US$ bn)	694	719	737	746	754	754	771	783	791	801	801	835
Import Cover (in months, imports of goods & services)	9.8	10.3	10.0	10.0	9.7	10.2	10.7	10.3	10.0	9.6	10.3	10.1
International Reserves (% of external debt)	68.8	69.8	71.3	72.9	72.5	72.5	74.0	74.8	75.8	76.5	73.0	72.5
PUBLIC SECTOR												
Central Gov. Primary Budget Balance (% of GDP)*	…	…	…	…	…	…	…	…	…	…	…	…
Central Gov. Budget Balance (% of GDP)*	…	…	…	…	…	…	…	…	…	…	…	…
Consolidated Primary Balance (% of GDP)**	1.4	…	…	…	…	0.7	…	…	…	…	0.5	0.7
Consolidated Public Sector Balance (% of GDP)	-2.3	…	…	…	…	-2.3	…	…	…	…	-2.2	-2.1
Central Gov. Revenues (% of GDP)	…	…	…	…	…	…	…	…	…	…	…	…
DEBT INDICATORS												
Gross External Debt (US$ bn)	1008	1029	1033	1024	1039	1039	1042	1047	1043	1047	1097	1151
Gross External Debt (% of GDP)	20.1	20.1	20.6	20.6	20.5	20.8	20.4	19.8	19.4	19.3	20.7	19.9
Public (% of GDP)	10.5	10.9	11.2	11.4	11.3	11.3	11.3	10.8	10.7	10.7	10.9	10.5
Private (% of GDP)	9.4	9.1	9.4	9.2	9.2	9.2	9.1	9.0	8.7	8.6	8.7	8.4
Gross Government Debt (% of GDP)	44.4	…	…	…	…	44.4	…	…	…	…	43.8	43.6
Domestic (% of GDP)	34.8	…	…	…	…	33.1	…	…	…	…	32.9	33.1
External (% of GDP)	9.6	…	…	…	…	11.3	…	…	…	…	10.9	10.5
Total External Debt Amortization (US $bn)	132.6	26.6	24.3	25.7	24.6	135.6	28.0	27.7	28.2	24.4	148.4	141.3
Total External Debt Interest Payments (US $bn)	19.5	2.9	3.6	2.0	1.5	17.5	3.2	3.5	4.1	3.5	25.2	30.5
Total External Debt Service (% exports of goods & svcs)	15.7	12.5	11.3	11.4	10.5	15.7	13.3	12.4	12.7	10.7	17.4	16.2
SAVINGS - INVESTMENT BALANCE												
Savings (% of GDP)	23.7	23.3	24.4	23.7	22.1	23.5	22.7	24.0	23.5	22.4	23.3	23.9
Investment (% of GDP)	24.8	23.9	25.5	25.2	24.1	24.8	24.1	25.1	25.2	24.5	24.9	25.5

*Excluding Mexico ** Excluding Colombia

Source: Citi Research

High Frequency Indicators — Latin America

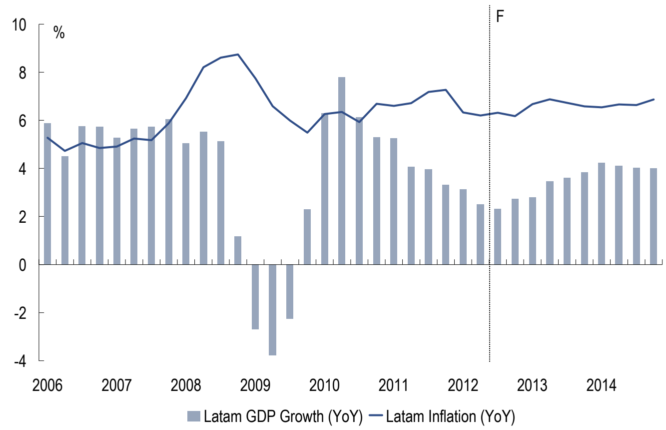
Indicator		Argentina	Brazil	Chile	Colombia	Mexico	Peru	Uruguay	Venezuela
Headline CPI Inflation (y/y)	Last	10.8 (2)	5.8 (2)	1.5 (2)	2.4 (2)	3.6 (2)	2.6 (2)	7.5 (2)	19.5 (2)
	Last - 1	10.6	5.5	2.1	2.8	4.2	2.7	9.0	18.2
	3-month MA	10.6	5.6	2.2	2.8	4.1	2.9	8.5	18.7
	12-month MA	10.0	5.4	3.0	3.2	4.1	3.7	8.1	21.3
Core CPI Inflation (y/y)	Last	…	5.9 (2)	1.8 (2)	2.4 (2)	2.9 (2)	3.3 (2)	…	21.4 (2)
	Last - 1	…	5.5	2.1	2.7	3.3	3.2	…	20.4
	3-month MA	…	5.6	2.0	2.7	3.3	3.3	…	20.6
	12-month MA	…	5.6	2.3	2.8	3.4	3.6	…	22.4
Monetary Policy Interest Rate (%)	Last	…	7.25 (1)	5.00 (1)	4.25 (2)	4.50 (1)	4.25 (1)	9.25 (2)	…
	Last - 1	…	7.25	5.00	4.50	4.50	4.25	9.00	…
	3-month MA	…	7.25	5.00	4.50	4.50	4.25	9.08	…
	12-month MA	…	8.19	5.00	4.94	4.50	4.25	8.83	…
Industrial Production (y/y)	Last	-1.4 (3)	-1.3 (3)	1.4 (3)	-4.1 (3)	3.2 (3)	4.8 (3)	18.5 (3)	5.1 (5)
	Last - 1	2.2	0.6	5.5	-1.4	2.0	4.5	18.9	3.8
	3-month MA	-1.2	-0.6	1.7	-1.4	2.9	3.6	17.2	5.3
	12-month MA	-0.6	-2.6	1.9	0.0	3.8	1.9	4.2	2.9
Retail Sales (y/y)	Last	11.9 (3)	8.2 (3)	6.5 (3)	-1.4 (3)	3.0 (4)	6.3 (3)	…	16.6 (5)
	Last - 1	15.1	9.5	0.3	-1.8	4.5	4.2	…	14.3
	3-month MA	13.6	8.8	5.3	-1.2	4.0	5.8	…	14.1
	12-month MA	14.4	8.4	5.1	0.4	4.3	6.6	…	9.1
Construction Activity Indicators (y/y)	Last	-4.7 (3)	0.6 (3)	-23.6 (3)	2.5 (4)	-1.1 (3)	16.8 (3)	…	0.6 (5)
	Last - 1	-0.9	-0.7	-7.6	-2.8	2.1	16.3	…	5.4
	3-month MA	-5.1	0.0	-20.9	-6.3	1.2	17.5	…	6.6
	12-month MA	-2.1	2.1	-20.8	-17.1	4.0	15.6	…	3.7
Unemployment Rate	Last	…	4.9 (3)	6.2 (3)	9.8 (3)	4.5 (2)	5.7 (3)	6.0 (3)	7.3 (4)
	Last - 1	…	5.3	6.6	10.2	5.1	6.0	5.7	7.3
	3-month MA	…	5.2	6.4	10.2	4.9	5.9	6.3	7.5
	12-month MA	…	5.5	6.5	11.2	5.0	7.0	6.1	7.9
Exports (y/y)	Last	-2.0 (3)	-10.7 (2)	6.9 (2)	5.8 (4)	1.3 (3)	13.4 (3)	7.9 (3)	-11.8 (3)
	Last - 1	-7.6	-6.0	-0.4	7.5	13.0	0.9	10.6	-34.0
	3-month MA	-7.3	-6.1	5.5	1.9	5.4	5.3	8.9	-25.8
	12-month MA	-0.7	-4.3	-3.0	14.6	6.8	2.7	12.1	-13.7
Imports of Capital Goods (y/y)	Last	-4.3 (3)	-11.5 (3)	21.5 (2)	3.3 (3)	1.3 (3)	14.7 (3)	-4.5 (3)	…
	Last - 1	2.2	16.8	-6.4	-5.2	13.0	15.8	17.3	…
	3-month MA	-1.8	1.4	27.0	-8.7	5.4	12.2	2.4	…
	12-month MA	-12.3	3.0	14.3	6.4	6.8	14.5	-4.5	…
Central Bank Reserves (US$ billion)	Last	43.3 (2)	373.1 (2)	41.6 (2)	37.0 (2)	163.5 (2)	64.0 (2)	7.6 (2)	29.9 (2)
	Last - 1	45.2	378.6	39.7	36.5	163.1	63.2	7.6	26.5
	3-month MA	44.6	376.5	40.1	36.5	163.0	63.0	7.6	27.4
	12-month MA	46.0	371.6	39.4	34.3	157.2	58.3	7.1	27.0
Tax Revenues* (nominal rate, y/y)	Last	27.2 (2)	6.9 (3)	2.6 (3)	1.7 (3)	2.4 (3)	10.2 (3)	7.5 (2)	83.8 (11)
	Last - 1	28.3	-8.8	24.0	-23.0	2.4	11.5	9.0	7.0
	3-month MA	27.3	1.2	9.6	-10.2	2.6	9.4	8.5	28.3
	12-month MA	26.0	5.1	6.7	10.6	-0.2	11.3	8.1	44.5
5yr CDS	Last	1442 (2)	108 (2)	72 (2)	96 (2)	98 (2)	97 (2)	…	647 (2)
	Last - 1	2239	110	77	99	101	99	…	699
	3-month MA	1805	110	77	100	100	100	…	702
	12-month MA	1230	131	96	119	120	129	…	796
Stock Exchange	Last	164,019 (2)	60,952 (2)	21,070 (2)	14,716 (2)	43,706 (2)	21,016 (2)	…	448,622 (2)
	Last - 1	146,115	57,475	20,324	14,165	41,834	20,045	…	379,836
	3-month MA	150,867	58,498	20,768	14,554	42,386	20,617	…	396,979
	12-month MA	148,689	59,324	20,958	14,386	40,037	21,276	…	262,901

Note: (1) January; (2) December, (3) November; (4) October, (5) September, (6) August, (7) July; (8) June; (9) May; (10) April; (11) March; (12) February. *Brazil, Chile, Colombia and Venezuela refer to current revenues.

Source: Citi Research

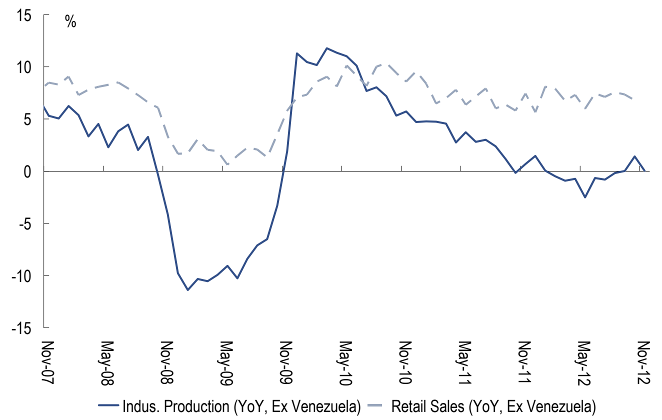
Selected Charts — Latin America

Figure 5. We expect LatAm to grow 3.4% in 2013



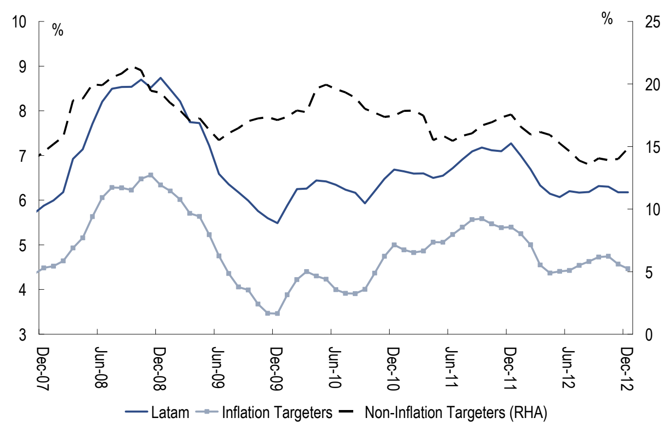
Source: National Sources and Citi Research

Figure 6. Retail sales/ Industrial production divergence continues



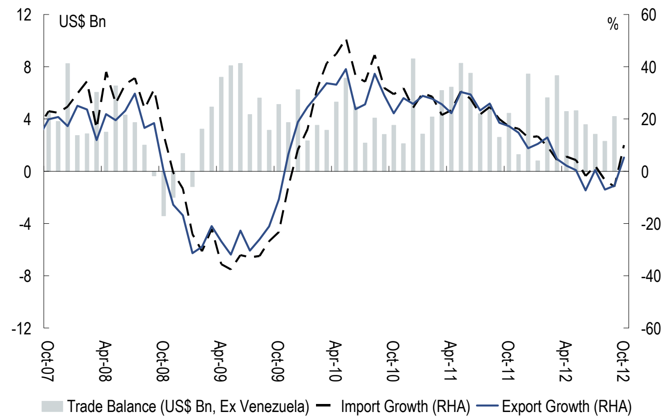
Source: National Sources and Citi Research

Figure 7. Inflation seems to be stabilizing



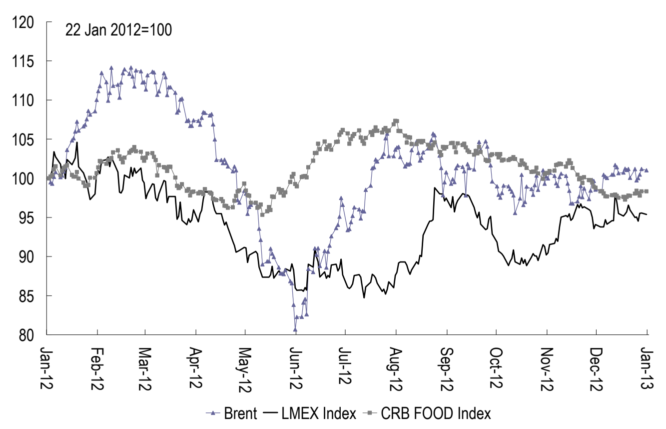
Source: National Sources and Citi Research

Figure 8. International trade is starting to pick up



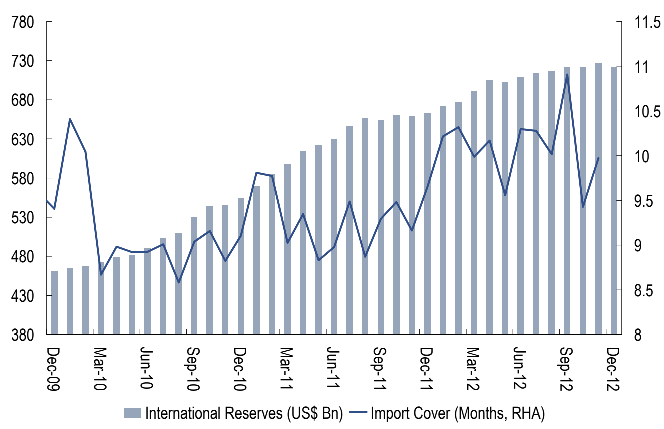
Source: Haver, National Sources and Citi Research

Figure 9. Commodity prices have traded sideways recentlyxx



Source: Bloomberg and Citi Research

Figure 10.International reserve accumulation expected to continue



Source: National Sources and Citi Research

Macro Forecasts

GDP Growth (year over year)

	Citigroup Forecasts*					Consensus Forecasts (as of Dec 20th)					
	2011	2012		2013		2012			2013		
	Est.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High
Argentina	8.9	1.9	**(0.4)**	3.0	-	-0.1	1.5	2.7	1.6	3.1	5.0
Brazil	2.7	0.9	**(0.5)**	3.1	**(0.9)**	0.8	1.1	1.7	2.8	3.4	4.1
Chile	6.0	5.6	-	4.5	-	5.1	5.5	5.8	4.5	4.7	5.4
Colombia	5.9	3.9	**(0.5)**	4.5	-	4.0	4.4	4.8	3.5	4.4	4.8
Costa Rica	4.2	5.0	-	4.0	-	-	4.7	-	-	3.9	-
Dominican Republic	4.5	3.8	-	4.0	-	-	3.9	-	-	4.1	-
El Salvador	1.5	1.2	-	1.5	-	-	1.5	-	-	2.1	-
Mexico	3.9	3.9	-	3.6	-	3.7	3.9	4.0	2.8	3.5	4.0
Panama	10.6	10.5	-	9.0	-	-	9.8	-	-	7.8	-
Peru	6.9	6.3	**0.1**	5.8	-	5.9	6.1	6.3	5.0	5.9	6.3
Venezuela	4.2	5.2	**0.2**	2.0	**(1.0)**	3.0	5.1	6.0	-2.0	1.3	3.1

CPI Inflation (year over year, eop)

	2011	2012		2013		2012			2013		
	Act.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High
Argentina †	24.2	25.2	**0.2**	30.0	-	9.5	10.3	12.0	9.4	10.8	13.8
Brazil	6.5	5.8	**0.4**	5.6	**0.4**	5.3	5.5	5.7	4.5	5.4	5.7
Chile	4.4	1.5	**(0.9)**	2.8	**(0.2)**	1.5	1.9	2.6	2.7	3.1	3.4
Colombia	3.7	2.4	**(0.5)**	3.0	-	2.5	2.9	3.5	2.7	3.1	3.4
Costa Rica	4.7	4.6	**0.2**	4.5	-	-	4.5	-	-	5.2	-
Dominican Republic	7.8	3.6	-	4.5	-	-	3.6	-	-	5.0	-
El Salvador	5.1	1.2	-	2.0	-	-	1.5	-	-	2.8	-
Mexico	3.8	3.6	**(0.5)**	3.8	**0.2**	3.7	4.0	4.2	3.3	3.7	4.2
Panama	6.3	4.6	**(0.1)**	4.6	-	-	5.1	-	-	4.4	-
Peru	4.7	2.6	**(0.5)**	2.8	**(0.2)**	2.5	2.9	3.3	2.5	2.9	3.5
Venezuela	29.0	19.5	**1.5**	25.0	-	17.1	19.3	25.6	22.5	27.7	35.0

Policy Rate (%, eop)

	2011	In 3 Months		In 12 Months		In 3 Months			In 12 Months		
	Act.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High
Argentina	-	-	-	-	-	-	-	-	-	-	-
Brazil	11.00	7.25	-	7.25	**(1.00)**	6.25	7.14	7.30	6.25	7.22	8.25
Chile	5.25	4.75	**(0.25)**	4.75	**0.25**	5.00	5.04	5.50	4.75	5.15	5.75
Colombia	4.75	4.00	**(0.50)**	4.75	**(0.25)**	-	-	-	-	-	-
Costa Rica	5.00	5.00	-	4.75	**(0.25)**	-	-	-	-	-	-
Dominican Republic	6.75	5.00	-	5.50	**0.50**	-	-	-	-	-	-
El Salvador	-	-	-	-	-	-	-	-	-	-	-
Mexico	4.50	4.50	-	4.50	-	4.20	4.40	4.66	4.20	4.47	5.19
Panama	-	-	-	-	-	-	-	-	-	-	-
Peru	4.25	4.25	-	4.25	-	-	-	-	-	-	-
Venezuela	-	-	-	-	-	-	-	-	-	-	-

Exchange Rate (with respect to USD, eop)

	2011	In 3 Months		In 12 Months		In 3 Months			In 12 Months		
	Act.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High
Argentina	4.30	5.20	**0.10**	6.10	**0.10**	-	5.12	-	-	5.83	-
Brazil	1.88	2.03	-	2.10	-	-	2.10	-	-	2.12	-
Chile	520	479	**(1.00)**	490	-	-	482	-	-	491	-
Colombia	1943	1748	**(63.00)**	1777	**(72.90)**	-	1772	-	-	1768	-
Costa Rica	511	505	-	510	**5.00**	-	505	-	-	511	-
Dominican Republic	38.55	41.0	**0.50**	42.0	**0.50**	-	40.0	-	-	40.4	-
El Salvador	1.00	0.0	-	0.0	-	-	1.0	-	-	1.0	-
Mexico	13.94	12.40	**(0.40)**	12.50	**(0.10)**	-	12.82	-	-	12.63	-
Panama	1.00	1.0	-	0.0	**(1.00)**	-	1.0	-	-	1.0	-
Peru	2.70	2.52	**(0.06)**	2.44	**(0.10)**	-	2.59	-	-	2.58	-
*Venezuela***	4.30	4.30	**(2.20)**	6.50	-	-	5.24	-	-	6.16	-

*Bold indicates change from the previous Economic Outlook and Strategy - Latin America publication. **Central Government only. † Non-official inflation estimate

Source: Latin American Consensus Forecasts and Citi Research

Macro Forecasts (Continued)

Fiscal Balance (percent of GDP)

	Citigroup Forecasts*					Consensus Forecasts (as of Dec 20th)					
	2011	2012		2013		2012			2013		
	Act.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High
Argentina	-1.7	-2.4	-	-2.7	-	-3.0	-2.3	-1.2	-3.1	-2.2	-0.9
Brazil	-2.6	-2.6	-	-2.4	-	-3.1	-2.5	-1.8	-3.2	-2.2	-1.1
Chile	1.4	0.4	-	-0.3	-	-0.2	0.3	0.8	-1.0	-0.4	0.4
Colombia	-2.9	-1.4	-	-1.2	-	-	-	-	-	-	-
Costa Rica	-5.6	-5.7	-	-6.0	-	-	-	-	-	-	-
Dominican Republic	-3.8	-7.4	-	-5.2	-	-	-	-	-	-	-
El Salvador	-4.0	-3.5	-	-3.2	-	-	-	-	-	-	-
Mexico	-2.4	-2.2	-	-2.1	-	-3.0	-2.5	-2.2	-2.5	-2.2	-2.0
Panama	-2.3	-2.8	-	-3.0	-	-	-	-	-	-	-
Peru	1.8	0.5	-	-0.6	-	-	-	-	-	-	-
*Venezuela***	-5.0	-5.0	-	-4.0	-	-10.0	-7.5	-3.5	-9.4	-5.7	-2.0

Trade Balance (US$ Billion)

	2011	2012		2013		2012			2013		
	Act.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High
Argentina	13.2	16.0	-	15.7	-	10.6	13.2	16.2	7.6	12.7	16.9
Brazil	29.8	19.5	**(3.7)**	16.5	**(1.5)**	17.5	20.0	28.7	10.0	18.1	31.8
Chile	10.8	4.1	**1.8**	5.6	-	2.2	4.6	10.5	-0.4	3.5	9.0
Colombia	5.6	4.8	**(0.8)**	4.6	**(1.0)**	0.5	3.2	5.6	0.0	2.9	5.6
Costa Rica	-4.7	-4.5	-	-4.5	-	-	-	-	-	-	-
Dominican Republic	-8.9	-9.5	-	-9.4	-	-	-	-	-	-	-
El Salvador	-4.2	-4.5	-	-4.6	-	-	-	-	-	-	-
Mexico	-1.5	-2.5	**(2.1)**	-13.2	**(2.9)**	-11.9	-2.1	0.3	-15.1	-6.5	-1.0
Panama	-6.0	-6.6	**(0.6)**	-6.2	-	-	-	-	-	-	-
Peru	9.3	4.1	**0.2**	6.2	**0.2**	3.9	5.3	7.2	3.3	5.7	8.2
Venezuela	46.4	41.2	**0.4**	33.8	**0.2**	20.0	39.8	44.9	21.1	41.0	53.8

Current Account Balance (US$ Billion)

	2011	2012		2013		2012			2013		
	Est.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High
Argentina	-0.3	3.5	**(0.4)**	2.0	-	-2.0	1.8	7.2	-4.6	2.3	10.5
Brazil	-52.5	-52.3	**(5.8)**	-58.0	**(1.5)**	-56.0	-51.6	-41.6	-73.0	-59.8	-47.1
Chile	-3.2	-8.0	**1.8**	-6.7	-	-10.3	-8.2	-4.5	-15.6	-10.3	-4.5
Colombia	-10.0	-11.5	**(0.9)**	-12.8	**(1.0)**	-13.7	-11.2	-8.5	-16.1	-12.3	-8.0
Costa Rica	-2.2	-2.3	-	-2.7	-	-	-2.3	-	-	-2.4	-
Dominican Republic	-4.5	-4.4	-	-4.0	-	-	-4.0	-	-	-3.7	-
El Salvador	-1.1	-1.2	-	-1.3	-	-	-1.2	-	-	-1.2	-
Mexico	-9.2	-10.0	**(5.1)**	-21.6	**(9.3)**	-17.0	-7.3	-1.4	-19.7	-11.8	-3.7
Panama	-3.9	-4.2	**(1.2)**	-3.8	**(0.5)**	-	-3.8	-	-	-4.3	-
Peru	-3.3	-7.0	**(0.4)**	-5.9	**(0.2)**	-7.6	-5.5	-3.4	-8.1	-6.0	-3.5
Venezuela	27.3	18.7	**(1.4)**	17.3	**0.9**	5.6	19.0	28.0	5.2	21.2	38.7

International Reserves (US$ Billion)

	2011	2012		2013		2012			2013		
	Act.	Proj.	Chg.	Proj.	Chg.	Low	Mean	High	Low	Mean	High
Argentina	46.4	42.3	**(2.2)**	45.8	**(1.2)**	35.0	39.9	44.5	34.5	40.9	47.0
Brazil	352	378.4	-	384.4	-	393.5	379.6	368.0	424.8	392.1	370.0
Chile	42.0	41.6	**(0.4)**	42.4	-	38.0	40.5	44.0	38.1	42.9	51.7
Colombia	32.3	37.0	**(0.1)**	41.8	**(0.1)**	32.7	36.1	39.0	32.0	39.5	48.0
Costa Rica	4.8	5.4	-	5.8	-	-	-	-	-	-	-
Dominican Republic	3.6	3.0	-	3.2	-	-	-	-	-	-	-
El Salvador	2.5	2.5	-	2.6	-	-	-	-	-	-	-
Mexico	142.5	163.5	**(2.3)**	184.7	-	151.2	162.5	170.0	156.8	175.7	200.0
Panama	2.3	2.2	-	2.3	-	-	-	-	-	-	-
Peru	48.8	65.4	**(0.3)**	76.9	**2.0**	52.6	61.3	65.7	51.0	66.3	74.9
*Venezuela***	29.9	25.4	-	25.0	-	2.4	13.7	26.0	3.9	15.5	28.8

*Bold indicates change from the previous Economic Outlook and Strategy - Latin America publication. **Central Government only.

Source: Latin American Consensus Forecasts and Citi Research

FX and Interest Rate Forecasts

Foreign Currency and Forwards

		Spot	3 Months		6 Months		12 Months		Quarterly Forecast			
Country	**Local Currency**	*22 Jan 13*	*Forecast*	*Forward*	*Forecast*	*Forward*	*Forecast*	*Forward*	**Mar-13**	**Jun-13**	**Sep-13**	**Dec-13**
Argentina	Peso	4.96	5.20	5.29	5.50	5.67	6.10	6.53	5.10	5.40	5.70	6.00
Brazil	Reais	2.05	2.03	2.07	2.10	2.10	2.10	2.15	2.03	2.07	2.10	2.10
Chile	Peso	471	479	476	489	481	490	492	470	488	490	490
Colombia	Peso	1776	1748	1794	1748	1809	1777	1842	1751	1747	1755	1775
Mexico	Peso	12.68	12.40	12.80	12.43	12.91	12.50	13.13	12.40	12.40	12.50	12.50
Peru	Nuevo Sol	2.56	2.52	2.55	2.49	2.56	2.44	2.56	2.53	2.50	2.47	2.45
Venezuela	Bolivar Fuerte (official)*	4.29	4.30	…	6.50	…	6.50	…	4.30	6.50	6.50	6.50

Starting January 2008, the new currency is Bolivar Fuerte (VEF), which dropped three zeros from the former currency, Bolivar (VEB). Sources: Bloomberg and Citi Research

Exchange Rate Trading Ranges (Latin America Versus US Dollar)

		Spot	*1 Month*		*3 Months*		*6 Months*		*12 Months*	
Country	***Local Currency***	***22 Jan 13***	***Low***	***High***	***Low***	***High***	***Low***	***High***	***Low***	***High***
Argentina	***Peso***	4.96								
	Citi		4.88	5.18	4.66	5.78	4.47	6.69	4.26	8.47
	Implied Market		4.85	5.28	4.75	5.87	4.59	6.92	4.43	9.28
Brazil	***Reais***	2.05								
	Citi		1.95	2.15	1.89	2.21	1.89	2.31	1.85	2.26
	Implied Market		1.88	2.25	1.76	2.42	1.65	2.64	1.49	3.01
Chile	***Peso***	471								
	Citi		450	500	450	520	430	550	400	600
	Implied Market		438	511	411	548	389	589	358	659
Colombia	***Peso***	1776								
	Citi		1750	1850	1795	1935	1726	1896	1730	1920
	Implied Market		1664	1908	1576	2032	1495	2168	1388	2397
Mexico	***Peso***	12.68								
	Citi		11.89	13.71	11.77	13.83	11.55	13.91	11.30	13.96
	Implied Market		11.81	13.69	11.12	14.65	10.42	15.80	9.49	17.71
Peru	***Nuevo Sol***	2.56								
	Citi		2.53	2.57	2.45	2.60	2.40	2.70	2.30	2.80
	Implied Market		2.49	2.62	2.40	2.71	2.32	2.81	2.19	2.99

Note: Ranges delimit a 95% confidence interval, using the CAPM implied volatility on FX options at different tenors. The model assumes a log normal distribution for the underlying FX. Sources: Bloomberg and Citi Research

Interest Rate Forecasts

		Spot				Quarterly Forecasts			
Country	**Interest Rate**	*24 Jan 13*	**3 Months**	**6 Months**	**12 Months**	**Mar-13**	**Jun-13**	**Sep-13**	**Dec-13**
Argentina	BADLAR Private Banks	15.31	16.66	17.91	20.00	16.25	17.50	18.75	20.00
	Bonar V June 2012	13.46	…	…	…	…	…	…	…
Brazil	SELIC	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25
	Swap Pre-DI 900 Days	8.16	8.00	8.00	8.50	8.00	8.00	8.00	8.00
Chile	CAMARA (Overnight)	5.00	4.75	4.50	4.75	5.00	4.50	4.50	4.50
	Chile BCP 5 Yr.	5.58	5.42	5.39	5.50	5.43	5.40	5.38	5.35
Colombia	Central Bank Repo Rate	4.25	4.00	4.00	4.75	4.00	4.00	4.00	4.50
	TES July 2020	4.95	5.32	5.32	5.82	5.32	5.32	5.32	5.82
Mexico	Official Overnight Rate	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
	10-year TIIE	4.71	5.74	6.00	6.50	5.65	5.92	6.18	6.45
Peru	Reference Rate	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
	Soberano Aug 26	4.12	4.20	4.50	5.20	4.20	4.50	4.50	4.50
Venezuela	Average Deposit Rate	14.50	14.83	14.30	14.33	15.00	14.50	13.90	14.00
	TIF Mar 11	…	15.33	14.80	14.83	15.50	15.00	14.40	14.50

Source: Bloomberg and Citi Research

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Country Monitor

Argentina

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- **Summary view** — Real GDP shrank 0.2% in 2012, but inflation accelerated to 25.2%. For 2013, we expect official and non-official GDP growth of 3%, and non-official inflation to accelerate to 30%. Fiscal dominance of monetary policy was rampant in 2012, and we expect it to continue being so for the foreseeable future.
- **Things to watch** — The pari passu case continues. Despite the recent orders from the Appeals Court, the Republic's chances do not seem to have improved markedly. Oral arguments are to be heard on February 27.
- **Strategy** — We do not expect GDP warrant payments in 2014. We do not like peso rates, as trapped liquidity keeps them lower than the expected ARS depreciation.

Activity growth, or the lack thereof

According to our preliminary estimates, real GDP (measured by our Argentina Activity Indicator, hereinafter CAAI) grew 1.2% QoQ seasonally-adjusted during 4Q12. As a result, the CAAI improved 0.3% YoY during 4Q12. These results imply that non-official (i.e., true) real GDP growth stood at -0.2% in 2012 (preliminary estimates). The marked deceleration in growth during 2012 was also verified by official figures, as official real GDP grew only 0.7% YoY in 3Q12, and 1.8% YoY during the first three quarters of 2012. We have therefore reduced our forecast for official real GDP growth to 1.9% in 2012.

We continue to expect growth to pickup in 2013, and non-official growth to be close to 3%. It is worth noting that while our Brazilian colleagues have reduced their forecast for Brazil's real GDP growth for this year to 3.1% (down from 3.4%), we expect lower Brazilian growth to be offset by Argentina's higher statistical carryover, consequence of higher-than-expected growth in 4Q12. We are also keeping unchanged our call for official growth at 3% in 2013, below the 3.22% threshold that would trigger a payment from GDP warrants in December 2014. We believe that since growth will likely hover close to the thresholds that would trigger GDP warrants payments during the next few years, the government will eventually abandon its "optimistic" growth accounting practices.

Fiscal accounts deteriorated in November

The Ministry of Finance (MECON) reported that the federal government's primary fiscal deficit stood at ARS732mn in November, compared to an ARS449mn surplus a year before. Meanwhile, the overall fiscal deficit soared and came in at ARS2.3bn, up from ARS1.9bn in November 2011. During November, primary expenditure rose 24.4% YoY, while revenues increased 30.9%. It is worth noting that the deterioration that took place in November came after 4 consecutive months of (very marginal) improvements. Due to these results, the 12-months primary and overall deficits stood at ARS1.4bn and ARS44.8bn, respectively. We expect a primary deficit of 0.2% of GDP for 2012, compared to a 0.3% of GDP surplus in 2011, and the overall deficit to widen to 2.4% of GDP from 1.7% of GDP in 2011. .

In 2013, we expect fiscal policy to turn more expansionary due to the October's midterm election. We see the primary and the overall deficit at 1.4% and 2.7% of GDP, respectively. As a matter of fact, the government has recently announced an ARS4.9bn (0.2% of GDP) modernization program for two metropolitan train lines.

Fiscal dominance of monetary policy was rampant in 2012

During 2012, the monetary base grew 38.4% or ARS85.6bn, and 55.9% of the increase is explained by the public sector. In other words, the Central Bank (BCRA) transferred pesos to the Treasury worth 21.5% of the 2011 year-end monetary base. As a result, and also due to the use of BCRA's reserves to service the public debt denominated in foreign currency, the stock of public debt in hands of the BCRA rose USD19.6bn in 2012 to USD64.8bn (or 55.8% of the bank's assets). The public debt held by the BCRA has increased 182% during the last three years.

Naturally, the current levels of monetary expansion pose a risk for inflation, which has not receded despite the slowdown in growth. According to the local consultancy firm MyS, consumer inflation stood at 25.2% in 2012, up from 24.2% in 2011. Additionally, Universidad Torcuato Di Tella informed that average and median twelve months ahead inflation expectations stood at 30% and 35.3% in January. Given the excessively loose monetary stance, together with high inflation expectations and the growing divergences between the government and the labor unions, we expect non-official consumer inflation to accelerate to 30% in 2013.

Higher inflation means faster ARS depreciation

We expect the rise in inflation to push the BCRA to continue depreciating the ARS at a rate close to 20%, or even slightly higher. In our view, Argentina's multilateral real exchange rate is at the stronger end of the range consistent with fundamentals, and therefore we do not see much room for the government to use the exchange rate as a nominal anchor to try to contain inflation (as in the past).

The pari passu litigation

Risks for Argentina remain. Despite the recent orders from the 2nd Circuit Appeals Court (AC) extending the stay that had been lifted by District Judge Griesa and also rejecting the holdouts' request that Argentina be required to post security as a condition for the stay, the primary source giving insight into the thoughts of the AC continues to be their October 26 ruling, in the view of Citi´s EM strategists. The 2nd Circuit has effectively already decided the question of pari passu in their October 26 decision, and now should be focused on the questions remanded to the district court (DC).

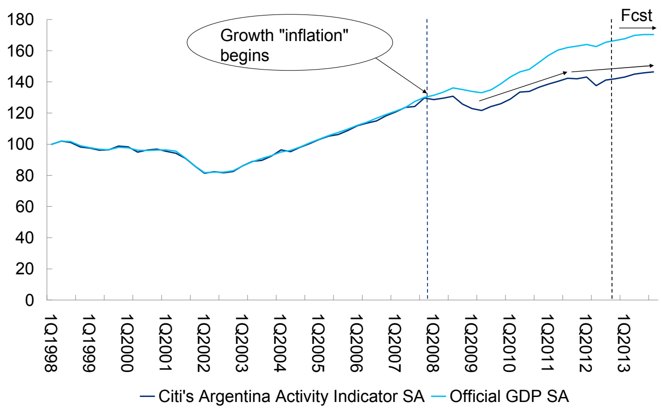
Of the two issues remanded to the DC, the payment formula seems the less likely to be amended in the current proceedings. The court remanded the question to the DC for clarification and Judge Griesa affirmed the original intent of the formula –holdout creditors are due 100% of the past due principal and interest at the same time that any coupon payment is made on the exchange bonds. Our EM strategists believe that unless the formula is modified drastically, Argentina is unlikely to try to reach a settlement with the holdouts.

Our strategists believe that Argentina's greatest chance of success is in limiting the third parties that are bound to the injunction. For instance, if all of the currently listed parties, including the Trustee, were determined not to be subject to the injunction, it would represent a large victory for Argentina, enabling them to continue paying the exchange bonds. Another possibility is the Trustee being left as the only party subject to the injunction, and in this case Argentina could transfer the funds directly to the depository, something allowed in the indenture but that would represent a departure from the current payment mechanism.

For further details on these issues, please refer to our strategists research note Argentina: AC/DC, Are We On the Highway to Hell?

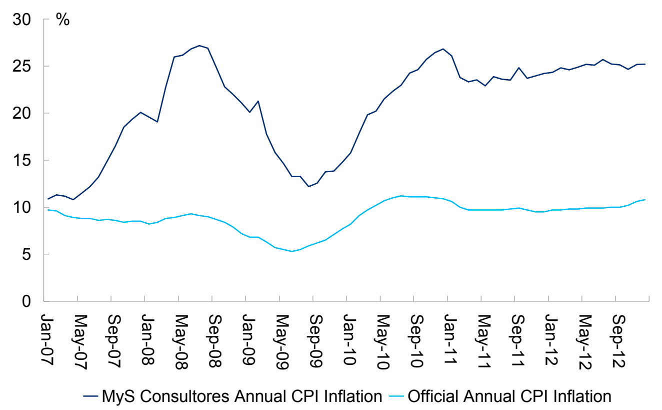
Selected Charts — Argentina

Figure 11. Growth has decelerated, and we see sluggish growth ahead



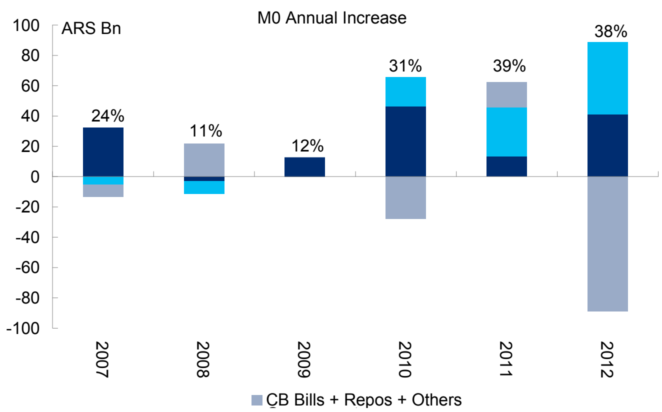
Source: INDEC and Citi Research

Figure 12. Yet, despite the slowdown in growth, inflation did not fall



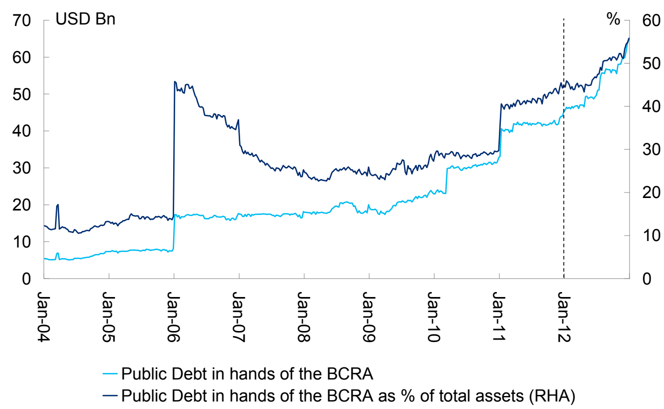
Source: MyS Consultores and INDEC

Figure 13. Fiscal dominance of monetary policy has been rampant…



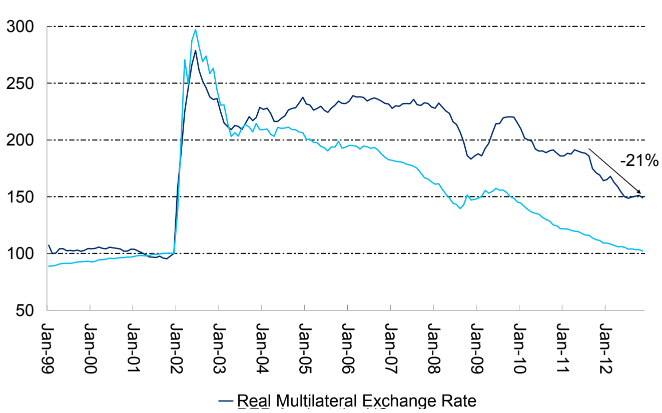
Source: BCRA and Citi Research

Figure 14. … leading to a deterioration of the BCRA's balance sheet



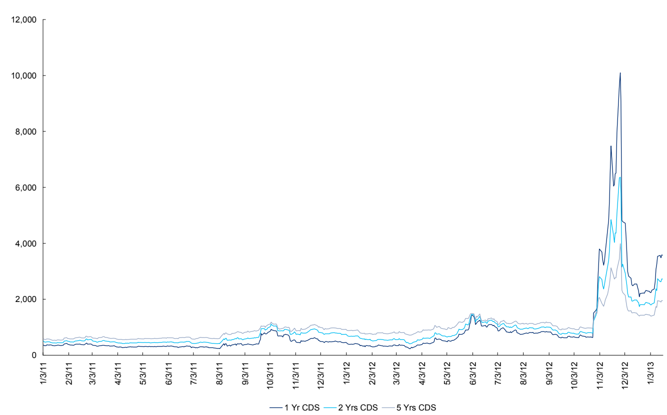
Source: BCRA and Citi Research

Figure 15. The RMER has dropped 21% in the last 18 months



Source: BCRA, MyS Consultores and Citi Research

Figure 16. CDS have been increasing recently



Source: Bloomberg and Citi Research

Macroeconomic Indicators — Argentina

	2011	2012					2013					2014
	Est.	Q1	Q2	Q3	Q4	**Proj.**	Q1	Q2	Q3	Q4	**Proj.**	**Est.**
Nominal GDP (US$ bn)	**448**	108	128	119	119	**474**	113	133	119	120	**485**	**494**
Nominal GDP (ARS Bn)	**1842**	469	568	546	575	**2158**	568	705	668	707	**2647**	**3329**
GDP per capita (US$)	**10,948**	10,567	12,468	11,525	11,505	**11,476**	10,885	12,825	11,471	11,495	**11,629**	**11,738**
Unemployment Rate (%)	**7.2**	7.1	7.2	7.6	7.5	**7.4**	7.6	7.7	7.7	7.5	**7.6**	**7.8**
Population (millions)	**40.9**	41.0	41.1	41.2	41.3	**41.3**	41.4	41.5	41.6	41.7	**41.7**	**42.1**
ECONOMIC ACTIVITY												
Real GDP growth (yoy)	**8.9**	5.2	0.0	0.7	2.1	**1.9**	4.4	5.1	2.0	0.8	**3.0**	**3.0**
Citi's Argentina Activity Indicator (CAAI, y/y)	**5.7**	3.1	-2.2	-1.4	0.3	**-0.2**	0.0	5.1	3.7	3.1	**3.0**	**2.0**
Real GDP growth (qoq, sa, annualized)	**…**	2.5	-3.7	2.5	7.3	**…**	12.1	-0.8	-9.2	2.2	**…**	**…**
Domestic Demand Growth (ex-inventory, yoy)	**12.0**	6.4	-0.2	1.2	1.7	**2.1**	4.3	5.3	2.3	1.4	**3.3**	**2.8**
Real Investment Growth (yoy)	**10.7**	-4.0	-17.0	-5.8	-3.5	**-8.0**	0.5	3.1	2.2	1.0	**1.7**	**2.0**
Real Consumption Growth (yoy)	**10.7**	7.3	4.6	2.7	3.2	**4.4**	5.3	5.9	2.4	1.5	**3.8**	**3.1**
Real Private Consumption Growth (yoy)	**10.7**	7.0	4.2	2.1	2.9	**4.0**	5.2	5.6	2.0	1.3	**3.5**	**3.2**
Real Government Consumption Growth (yoy)	**10.9**	9.0	6.8	5.6	4.8	**6.4**	5.9	7.5	4.0	2.5	**5.0**	**2.8**
Real Export Growth (yoy)	**4.3**	4.2	-9.5	-7.1	-3.7	**-4.5**	-1.9	5.1	4.2	1.1	**2.2**	**-1.9**
Real Import Growth (yoy)	**17.8**	1.5	-14.0	-5.8	-4.7	**-5.9**	-0.9	6.6	6.2	5.5	**4.4**	**-2.3**
PRICES												
Consumer Price Inflation (yoy, eop)	**9.5**	9.8	9.9	10.0	10.8	**10.8**	11.6	12.6	13.3	13.8	**13.8**	**15.0**
Consumer Price Inflation (yoy, average)	**9.8**	9.7	9.9	10.0	10.6	**10.0**	11.3	12.2	13.1	13.7	**12.6**	**14.5**
CPI - Citi Estimate (yoy, eop)	**24.2**	24.7	25.1	25.1	25.2	**25.2**	25.9	27.8	28.7	30.0	**30.0**	**30.0**
Consumer Price Inflation (qoq, eop)	**…**	2.6	2.4	2.6	2.8	**…**	3.3	3.3	3.3	3.3	**…**	**…**
CPI - Citi Estimate (qoq, eop)	**…**	6.2	5.2	6.0	5.7	**…**	6.8	6.8	6.8	6.8	**…**	**…**
Wages (% change yoy, nominal)	**27.5**	28.6	28.8	25.1	25.2	**27.1**	27.0	28.0	28.0	28.0	**27.6**	**28.0**
Exchange Rate (local currency to USD, eop)	**4.3**	4.4	4.5	4.7	4.9	**4.9**	5.1	5.4	5.7	6.0	**6.0**	**7.5**
Exchange Rate (local currency to USD, average)	**4.1**	4.4	4.5	4.6	4.8	**4.6**	5.0	5.3	5.6	5.9	**5.5**	**6.7**
Exchange Rate (% change yoy, + dep.)	**8.1**	8.1	10.2	11.7	14.3	**14.3**	16.5	19.3	21.4	22.1	**22.1**	**25.0**
MONETARY SECTOR												
Monetary Base growth (yoy)	**34.6**	31.6	33.9	37.3	39.0	**39.0**	38.0	38.0	36.0	35.0	**35.0**	**32.0**
Broad Money growth (yoy)	**24.7**	24.5	22.8	24.6	32.0	**32.0**	25.5	27.0	29.0	30.0	**30.0**	**30.0**
Credit Growth (yoy)	**44.8**	41.5	34.7	27.8	25.0	**25.0**	25.5	27.0	28.0	30.0	**30.0**	**30.0**
Central Bank Rate (Reference, eop)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**…**
Central Bank Rate (average)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**…**
Interbank Rate (eop)	**17.2**	12.3	13.6	14.9	15.4	**15.4**	16.3	17.5	18.8	20.0	**20.0**	**22.0**
Interbank Rate (average)	**13.5**	13.6	12.4	14.3	15.3	**13.9**	16.0	17.1	18.3	19.6	**17.7**	**20.8**
Short-term Rate (eop)	**17.2**	12.3	13.6	14.9	15.4	**15.4**	16.3	17.5	18.8	20.0	**20.0**	**22.0**
Short-term Rate (average)	**13.5**	13.6	12.4	14.3	15.3	**13.9**	16.0	17.1	18.3	19.6	**17.7**	**20.8**
Long-term Rate (eop)	**22.9**	20.7	38.8	27.8	32.2	**32.2**	…	…	…	…	**…**	**0.0**
Long-term Rate (average)	**17.5**	19.8	38.8	27.8	32.2	**32.2**	…	…	…	…	**…**	**0.0**
EXTERNAL SECTOR												
Current Account Balance (% of GDP)	**-0.1**	-0.3	1.5	1.0	0.6	**0.7**	-0.4	1.2	0.9	-0.3	**0.4**	**0.2**
Current Account Balance (in US$ bn)	**-0.3**	-0.3	2.0	1.1	0.7	**3.5**	-0.4	1.6	1.1	-0.3	**2.0**	**1.0**
Trade Balance (in US$ bn)	**13.2**	3.6	5.1	4.4	2.9	**16.0**	3.5	5.1	4.3	2.7	**15.7**	**14.8**
Exports, f.o.b. (in US$ bn)	**84.0**	18.3	21.4	22.2	19.7	**81.6**	19.5	22.8	23.6	21.0	**86.9**	**86.6**
Commodities	**52.0**	11.2	14.1	14.1	10.4	**49.8**	13.3	16.6	15.4	12.6	**57.8**	**55.9**
Non-commodities	**32.0**	7.1	7.3	8.1	9.3	**31.8**	6.2	6.2	8.3	8.5	**29.1**	**30.8**
Imports, f.o.b. (US$ Bn)	**70.7**	14.7	16.2	17.8	16.9	**65.6**	15.9	17.6	19.3	18.3	**71.2**	**71.9**
Services (net)	**-2.3**	-1.1	-0.8	-1.1	1.2	**-1.8**	-0.9	-0.3	0.0	0.4	**-0.7**	**-0.7**
Credit	**15.5**	4.1	3.6	3.6	4.4	**15.7**	3.6	3.6	3.7	4.2	**15.1**	**15.1**
Debit	**17.8**	5.1	4.4	4.7	3.2	**17.4**	4.5	3.9	3.6	3.8	**15.8**	**15.8**
Income (net)	**-10.7**	-2.7	-2.2	-2.2	-3.3	**-10.3**	-2.9	-3.1	-3.1	-3.3	**-12.3**	**-12.3**
Current Transfers (net)	**-0.5**	-0.1	-0.1	-0.1	-0.1	**-0.4**	-0.2	-0.2	-0.2	-0.2	**-0.7**	**-0.7**
Foreign Direct Investment (in US$ bn)	**8.7**	3.7	2.5	2.1	0.7	**9.0**	1.1	1.1	1.1	1.1	**4.4**	**4.4**
Terms of Trade (% change yoy, + improvement)	**6.2**	-5.3	-11.1	5.4	-8.0	**-4.8**	-8.0	-8.0	-8.0	-8.0	**-8.0**	**-3.6**
International Reserves (in US$ bn)	**46.4**	47.3	46.3	45.0	42.3	**42.3**	45.0	45.6	44.8	45.8	**45.8**	**45.8**
PUBLIC SECTOR												
Central Gov. Primary Budget Balance (% of GDP)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**…**
Central Gov. Budget Balance (% of GDP)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**…**
Consolidated Primary Balance (% of GDP)	**0.3**	0.1	-0.1	0.0	-0.2	**-0.2**	-0.3	-0.4	-0.8	-1.4	**-1.4**	**-1.6**
Consolidated Public Sector Balance (% of GDP)	**-1.7**	-1.8	-2.0	-2.0	-2.4	**-2.4**	-2.3	-2.2	-2.4	-2.7	**-2.7**	**-2.9**
Central Gov. Revenues (% of GDP)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**…**
DEBT INDICATORS												
Gross External Debt (US$ bn)	**140.7**	141.7	146.2	141.3	143.9	**143.9**	145.2	147.3	147.5	148.5	**148.5**	**155.2**
Gross External Debt (% of GDP)	**31.4**	30.9	31.5	30.0	30.4	**30.4**	30.4	30.5	30.5	30.6	**30.6**	**31.4**
Public (% of GDP)	**16.3**	16.1	16.1	15.0	15.3	**15.3**	15.3	15.4	15.4	15.6	**15.6**	**16.4**
Private (% of GDP)	**15.1**	14.8	15.3	15.0	15.0	**15.0**	15.0	15.1	15.0	15.1	**15.1**	**15.1**
Gross Government Debt (% of GDP)	**40.0**	39.6	40.0	38.7	39.0	**39.0**	39.1	39.2	39.5	39.9	**39.9**	**42.0**
Domestic (% of GDP)	**23.6**	23.4	23.9	23.7	23.7	**23.7**	23.8	23.9	24.1	24.4	**24.4**	**25.6**
External (% of GDP)	**16.3**	16.1	16.1	15.0	15.3	**15.3**	15.3	15.4	15.4	15.6	**15.6**	**16.4**
External Debt (% of exports of goods and services)	**167.5**	193.7	171.1	159.1	182.1	**176.3**	186.4	161.8	155.9	176.5	**170.9**	**179.1**
Total External Debt Amortization (US $bn)	**12.0**	…	…	…	…	**12.2**	…	…	…	…	**12.6**	**12.6**
Total External Debt Interest Payments (US $bn)	**3.6**	…	…	…	…	**3.6**	…	…	…	…	**3.8**	**3.8**
Total External Debt Service (% exports of goods & svcs)	**15.6**	…	…	…	…	**16.3**	…	…	…	…	**16.1**	**16.1**
Public-external Debt Service (% exports of goods & svcs)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**…**
Public-external Debt Service (% of GDP)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**…**
SAVINGS - INVESTMENT BALANCE												
Savings (% of GDP)	**23.8**	20.8	22.8	23.0	22.2	**22.3**	19.9	22.1	23.0	21.4	**21.6**	**21.2**
Investment (% of GDP)	**23.8**	21.1	21.3	22.1	21.6	**21.5**	20.3	20.9	22.1	21.7	**21.2**	**21.0**

Source: Citi Research

Brazil

- **Summary view** — In 2012, CPI inflation surprised on the upside reaching 5.8% by year end, while GDP performance disappointed, expanding around 0.9%. The frustrating economic recovery has led us to cut our 2013 GDP forecast to 3.1%. Regarding inflation, the end of the tax rebate for automobiles and the pressure on food prices encouraged us to raise our 2013 year end CPI inflation estimate to 5.6%. Potential power rationing led us to set upward bias to our 2013 inflation estimate. From the point of view of monetary policy, we believe the worse trade off (lower growth and higher inflation) will likely motivate Copom to remain on hold for a prolonged period, keeping the Selic rate at 7.25%. In terms of fiscal policy, given recent indications, we are even more convinced that primary surplus will not return to its full target of 3.1% of GDP.

- **Things to watch** — Aside from the risks associated to the global economy, markets analysts will focus their attention on the possibility of facing power rationing. Therefore, the level of water reservoirs will be closely followed. Moreover, further evidence of softer growth acceleration may lead market analysts to price in additional monetary easing. Finally, the persistence of high inflation figure will be crucial to evaluate the next steps of monetary policy.

- **Strategy** — Our call of Selic rate stablization for a prolonged period suggests a premium in receiving rates, especially in Jan14PreDI. Although fundamentals continue pointing toward BRL appreciation, government intervention in the FX market will likely keep USD/BRL in the range 2.0 to 2.10.

Growth-inflation trade-off worsened

Softer-than-expected growth acceleration reduces our 2013 GDP growth forecast to 3.1% (from 3.9%). After disappointing 3Q12 GDP growth, we expect the 4Q12 figure to show a similar pace, expanding around 0.6% q/q (data to be released on March 1). If our forecast proves correct, it will consolidate a scenario of a softer recovery, likely reflecting several constrains operating on the economy linked to global (growth and terms of trade) and domestic (delinquency rate, credit supply, investments, industrial unit labor costs) factors. Overall, after the likely expansion of around 0.9% seen in 2012, we estimate 2013 GDP growth to accelerate to 3.1% and reach 4.2% in 2014. Given our outlook for steady growth acceleration (albeit at slower pace than previously thought), the labor market will likely remain extremely tight, with the unemployment rate hovering around its lowest level ever and rising upward pressures on wages. Under an alternative scenario where the economy faces a power rationing, economic growth would tend to be negatively affected.

We raised our 2013 CPI inflation forecast to 5.6% (from 5.2%), reflecting the end of tax cuts and higher food inflation in 1Q13. The government already announced that IPI taxes on automobiles and home appliances will increase gradually, returning to previous levels by July. This tax normalization will imply an inflationary impact of about 30bp. In addition, December's CPI figure and information from our own price survey suggest higher food inflation in 1Q13, raising our forecast further by 10bps. Therefore, we expect CPI inflation to reach 5.6% in 2013, above the mid-point target of 4.5%, but still inside the upper bound of the target band at 6.5%. Our forecast assumes that consumer energy fees will drop 16% as result of the government package anticipating the renewal of some concessions. Under an alternative scenario of power shortages, the higher costs of thermoelectric power generation may offset part of the decrease in energy prices, leading us to set an upward bias to our inflation forecasts.

We expect the central bank to remain on hold for a prolonged period, keeping the Selic rate at 7.25%. In the last minutes, Copom recognized the worse trade off, represented by the lower growth and higher inflation. Apart from that, the minutes clearly indicate that the frustrating economic recovery reflects supply side constrains, an issue that could not be addressed with monetary policy instrument. Under this statement, there is no reason to expect Selic rate cuts ahead. On the other hand, as the Copom evaluates that recent high inflation figures mostly reflect temporary pressures (tax increase, seasonality, on-off transportation prices hikes) we do not see policymakers tightening monetary policy in the near future. This being the case, we believe Copom will remain on hold for a prolonged period, maintaining the Selic rate at 7.25%.

Intervention will likely keep BRL between 2.0 to 2.1

USD/BRL will likely continue hovering inside the range 2.0–2.10. Although fundamentals (terms of trade, net foreign assets, risk aversion) still point to BRL appreciation, the government will likely keep USD/BRL at 2.0 as an informal lower bound for the exchange rate. On the other hand, the challenging inflation outlook does not provide much room for BRL depreciation beyond the USD/BRL2.10 level. This exchange rate level should drive just a slight deterioration in the current account, keeping the external account financing needs out of investors' concerns this year.

Government would pursue looser fiscal policy

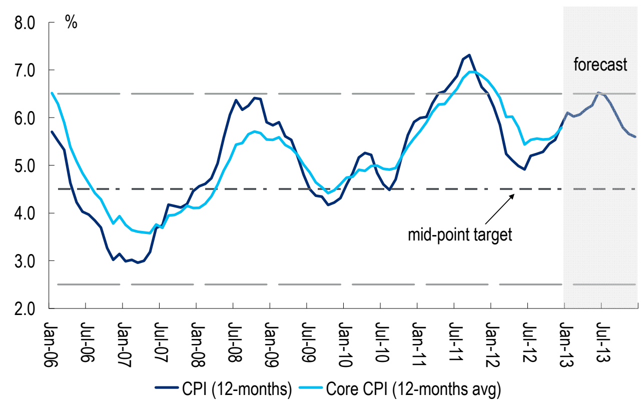
The primary surplus is unlikely to return to 3.1% of GDP. Even though December's fiscal data has not been released yet, we already know that the government has taken several measures (such as anticipating public company dividends, withdrawing sovereign fund resources and deducing investment expenditures) to boost 2012 primary fiscal results. This strategy and recent speeches by government officials reinforce the view that fiscal policy will likely be looser in the coming years, although it is not yet clear whether the new objective will be announced explicitly. Overall, we believe the government will pursue a new primary fiscal target of about 2% of GDP, lower than the current target of 3.1%. If our fiscal evaluation proves right, there would not be great concerns about public debt sustainability as a primary surplus of 2.0% of GDP should continue to pressure the net public debt/GDP ratio (currently at 35%) downward.

Disappointing recovery suggests receiving rates

Our call of Selic rate stablization for a prolonged period suggests premium in receiving rates. As our base case scenario assumes the central bank will remain on hold throughout this year, the yield curve embeds a premium of around 30bp in receiving PreDI Jan14. On the FX front, we believe the central bank/government will likely intensify intervention when USD/BRL breaches the range between 2.0 to 2.10.

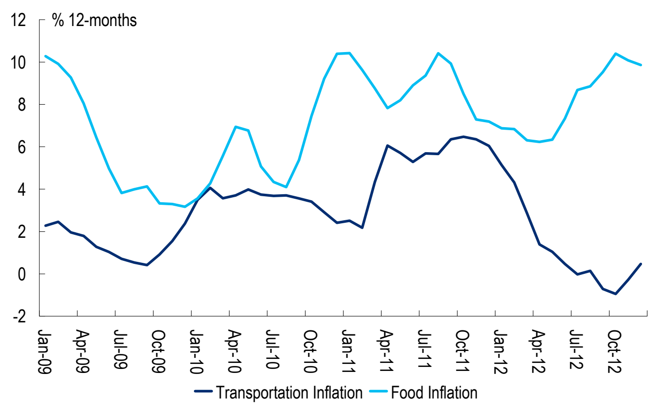
Selected Charts — Brazil

Figure 17. CPI inflation will likely stabilize above the mid point target



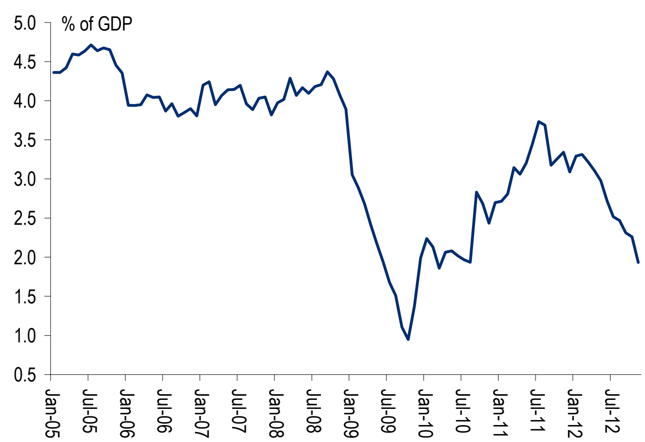
Sources: Citi Research and IBGE

Figure 18. Food exerted the main upward pressures on CPI in 2012



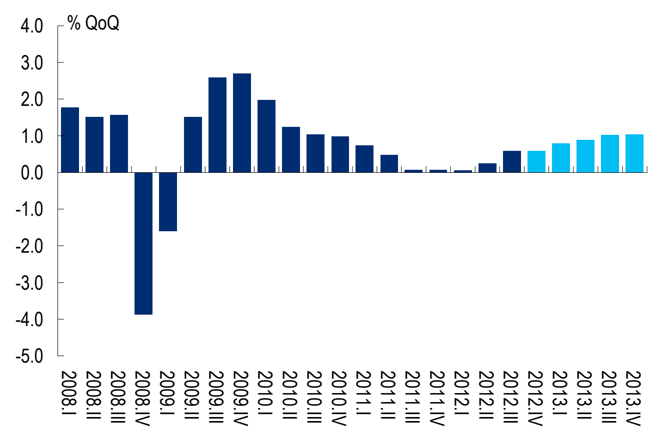
Sources: Citi Research and IBGE

Figure 19. We expect primary surplus to stabilize around 2% thereafter



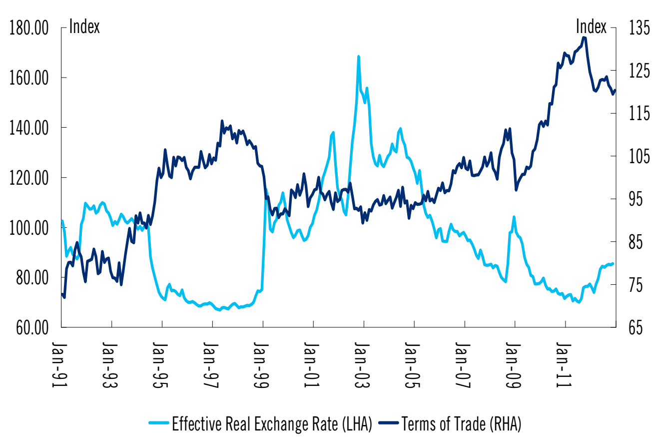
Sources: Citi Research and Central Bank of Brazil

Figure 20. GDP growth acceleration continues to disappoint



Sources: Citi Research and IBGE

Figure 21. Terms of trade continue to suggest BRL appreciation



Sources: Citi Research and Central Bank of Brazil

Figure 22. Real interest rate remains at lowest level ever

Sources: Citi Research, Central Bank of Brazil and Bloomberg

Macroeconomic Indicators — Brazil

	2011	2012					2013					2014
	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US$ bn)	**2343**	585	561	545	574	**2144**	549	579	585	616	**2217**	**2435**
Nominal GDP (Real Bn)	**3923**	1033	1102	1106	1160	**4170**	1106	1187	1199	1262	**4525**	**4967**
GDP per capita (US$)	**12,125**	3,017	2,889	2,802	2,943	**10,991**	2,810	2,956	2,979	3,127	**11,266**	**12,260**
Unemployment Rate (%)	**6.0**	5.8	5.9	5.4	5.0	**5.5**	5.7	5.8	5.5	5.0	**5.5**	**5.4**
Population (millions)	**193.2**	193.8	194.2	194.6	195.1	**195.1**	195.5	196.0	196.4	196.8	**196.8**	**198.6**
ECONOMIC ACTIVITY												
Real GDP growth (yoy)	**2.7**	0.8	0.5	0.9	1.5	**0.9**	2.2	2.8	3.4	3.8	**3.1**	**4.2**
Citi's Brazil Activity Indicator (BAI, y/y)	**...**	...	...	...	...	**...**	...	...	...	...	**...**	**...**
Real GDP growth (qoq, sa, annualized)	**...**	0.2	1.0	2.4	2.4	**...**	3.2	3.6	4.2	4.2	**...**	**...**
Domestic Demand Growth (ex-inventory, yoy)	**3.8**	1.8	1.3	1.5	1.5	**1.6**	2.0	2.6	4.7	4.7	**3.5**	**5.0**
Real Investment Growth (yoy)	**4.0**	-6.2	-4.5	-11.7	-5.8	**-7.0**	-3.4	-0.5	5.0	8.0	**2.3**	**8.8**
Real Consumption Growth (yoy)	**3.6**	2.7	2.6	3.3	3.3	**3.0**	3.3	3.3	4.6	3.9	**3.8**	**4.1**
Real Private Consumption Growth (yoy)	**4.1**	2.5	2.4	3.4	3.4	**2.9**	3.4	3.9	4.5	4.6	**4.1**	**4.3**
Real Government Consumption Growth (yoy)	**1.9**	3.4	3.1	3.2	3.0	**3.2**	3.0	1.7	5.0	1.5	**2.8**	**3.5**
Real Export Growth (yoy)	**4.5**	6.6	-2.5	-3.2	-4.0	**-1.1**	-2.0	3.5	5.0	5.0	**3.0**	**5.6**
Real Import Growth (yoy)	**9.7**	6.3	1.6	-6.4	-1.9	**-0.4**	-1.5	2.0	11.5	9.4	**5.4**	**9.6**
PRICES												
Consumer Price Inflation (yoy, eop)	**6.5**	5.2	4.9	5.3	5.8	**5.8**	6.1	6.5	6.0	5.6	**5.6**	**5.8**
Consumer Price Inflation (yoy, average)	**6.6**	6.5	6.1	5.7	5.4	**5.4**	5.5	5.8	6.1	6.1	**6.1**	**5.5**
Core Inflation (yoy, eop)	**6.7**	5.6	5.1	5.3	5.9	**5.9**	5.9	6.4	6.0	5.6	**5.6**	**5.8**
Consumer Price Inflation (qoq, eop)	**...**	1.2	1.1	1.4	2.0	**...**	1.4	1.5	1.0	1.6	**...**	**...**
Core Inflation (qoq, eop)	**...**	1.4	1.1	1.3	1.9	**...**	1.4	1.5	1.0	1.6	**...**	**...**
Wages (% change yoy, nominal)	**8.9**	11.0	10.1	10.2	10.7	**10.7**	11.0	11.4	10.9	10.5	**10.5**	**10.2**
Exchange Rate (local currency to USD, eop)	**1.88**	1.82	2.02	2.03	2.04	**2.04**	2.03	2.07	2.10	2.10	**2.10**	**2.05**
Exchange Rate (local currency to USD, average)	**1.67**	1.76	1.98	2.04	2.06	**1.96**	2.03	2.05	2.10	2.10	**2.07**	**2.06**
Exchange Rate (% change yoy, + dep.)	**-4.9**	-1.2	8.1	14.9	17.3	**17.0**	19.5	13.8	8.9	5.6	**5.6**	**-0.6**
MONETARY SECTOR												
Monetary Base growth (yoy)	**17.5**	16.0	17.0	18.0	19.0	**17.5**	16.0	17.0	18.0	19.0	**17.5**	**19.3**
Credit Growth (yoy)	**19.0**	18.3	18.2	15.9	17.1	**17.1**	18.0	19.1	19.2	19.1	**19.1**	**19.8**
Broad Money growth (yoy)	**17.5**	16.0	17.0	18.0	19.0	**17.5**	16.0	17.0	18.0	19.0	**17.5**	**19.3**
Central Bank Rate (SELIC, eop)	**11.00**	9.75	8.50	7.50	7.25	**7.25**	7.25	7.25	7.25	7.25	**7.25**	**7.25**
Central Bank Rate (SELIC, average)	**11.71**	10.25	8.67	7.67	7.25	**8.46**	7.25	7.25	7.25	7.25	**7.25**	**7.25**
Interbank Rate (eop)	**...**	...	...	...	...	**...**	...	...	...	...	**...**	**...**
Interbank Rate (average)	**...**	...	...	...	...	**...**	...	...	...	...	**...**	**...**
Short-term Rate (eop)	**10.9**	9.7	8.4	7.4	6.6	**6.6**	7.3	7.3	7.3	7.3	**7.3**	**7.2**
Short-term Rate (average)	**11.6**	10.2	8.8	7.7	7.0	**8.4**	7.2	7.2	7.3	7.3	**7.3**	**7.3**
Long-term Rate (eop)	**10.7**	10.0	8.5	8.4	8.0	**8.0**	8.0	8.0	8.0	8.0	**8.0**	**10.5**
Long-term Rate (average)	**11.4**	10.2	8.9	8.4	8.0	**9.3**	8.0	8.0	8.0	8.0	**8.0**	**9.3**
EXTERNAL SECTOR												
Current Account Balance (% of GDP)	**-2.2**	-2.1	-2.4	-1.6	-3.2	**-2.4**	-2.5	-2.0	-2.6	-2.9	**-2.6**	**-2.7**
Current Account Balance (in US$ bn)	**-52.5**	-12.0	-13.2	-8.9	-18.2	**-52.3**	-13.7	-11.5	-15.2	-17.6	**-58.0**	**-65.2**
Trade Balance (in US$ bn)	**29.8**	2.4	4.6	8.7	3.7	**19.5**	3.2	7.6	4.6	1.2	**16.5**	**10.5**
Exports, f.o.b. (in US$ bn)	**256.0**	55.1	62.1	63.4	62.0	**242.6**	52.5	61.5	64.6	65.4	**244.1**	**250.1**
Manufactured (in US$ bn)	**92.3**	21.5	21.5	21.9	22.6	**87.6**	20.5	21.4	22.3	23.9	**88.1**	**90.3**
Other	**163.7**	33.6	40.6	41.5	39.4	**155.0**	32.0	40.1	42.3	41.5	**156.0**	**159.8**
Imports, f.o.b. (US$ Bn)	**226.2**	52.6	57.5	54.7	58.3	**223.1**	49.3	54.0	60.0	64.3	**227.6**	**239.6**
Services (net)	**-38.0**	-9.4	-10.2	-9.9	-9.6	**-39.0**	-7.2	-9.4	-10.1	-9.1	**-35.8**	**-35.8**
Credit	**38.2**	10.0	10.0	9.7	11.8	**41.4**	11.3	10.6	11.9	13.4	**47.2**	**48.4**
Debit	**76.2**	19.4	20.2	19.6	21.3	**80.5**	18.5	20.0	22.0	22.5	**83.0**	**84.2**
Income (net)	**-47.3**	-5.8	-8.4	-8.3	-13.2	**-35.7**	-10.6	-10.6	-10.6	-10.6	**-42.4**	**-43.6**
Current Transfers (net)	**3.0**	0.7	0.8	0.7	0.9	**3.0**	0.9	0.9	0.9	0.9	**3.6**	**3.6**
Foreign Direct Investment (in US$ bn)	**66.7**	15.0	13.1	20.1	13.8	**62.0**	13.8	13.8	13.8	13.8	**55.0**	**60.0**
Terms of Trade (% change yoy, + improvement)	**7.8**	-8.1	-8.7	-10.7	-8.7	**-9.1**	0.0	0.0	0.3	0.0	**0.1**	**0.6**
International Reserves (in US$ bn)	**352**	365	373	376	378	**378**	380	383	384	384	**384**	**384**
PUBLIC SECTOR												
Central Gov. Primary Budget Balance (% of GDP)	**2.2**	2.4	2.0	1.7	1.8	**1.8**	1.9	1.6	1.3	1.8	**1.8**	**1.8**
Central Gov. Budget Balance (% of GDP)	**...**	...	...	...	...	**...**	...	...	...	...	**...**	**...**
Consolidated Primary Balance (% of GDP)	**3.1**	3.2	2.7	2.3	2.3	**2.3**	2.2	2.1	2.1	2.0	**2.0**	**2.5**
Consolidated Public Sector Balance (% of GDP)	**-2.6**	-2.4	-2.6	-2.8	-2.6	**-2.6**	-2.5	-2.5	-2.5	-2.4	**-2.4**	**-2.2**
Central Gov. Revenues (% of GDP)	**19.7**	20.1	19.9	19.9	19.6	**20**	19.7	19.8	19.8	20.0	**20.0**	**20.0**
DEBT INDICATORS												
Gross External Debt (US$ bn)	**257.6**	246.7	237.6	220.4	212.7	**212.7**	201.5	190.0	178.0	169.0	**218.7**	**224.7**
Gross External Debt (% of GDP)	**11.0**	9.9	9.9	9.6	9.4	**9.9**	9.0	8.5	7.8	7.3	**9.9**	**9.2**
Public (% of GDP)	**4.3**	4.2	4.4	4.5	4.6	**4.6**	4.6	4.4	4.1	4.0	**4.0**	**3.7**
Private (% of GDP)	**6.1**	5.7	5.6	5.1	4.8	**4.8**	4.5	4.1	3.6	3.2	**3.2**	**3.0**
Gross Government Debt (% of GDP)	**54.2**	56.2	56.9	56.9	56.9	**56.9**	56.9	56.9	56.9	56.9	**56.9**	**56.9**
Domestic (% of GDP)	**51.5**	53.7	54.1	54.1	52.3	**52.3**	52.3	52.5	52.8	52.9	**52.9**	**53.2**
External (% of GDP)	**2.6**	2.5	2.8	2.9	4.6	**4.6**	4.6	4.4	4.1	4.0	**4.0**	**3.7**
External Debt (% of exports of goods and services)	**87.5**	82.5	80.6	76.9	74.9	**74.9**	71.3	67.2	62.2	58.0	**75.1**	**75.3**
Total External Debt Amortization (US $bn)	**29.8**	9.5	7.7	9.2	9.4	**35.8**	12.8	12.4	11.0	7.5	**43.7**	**38.0**
Total External Debt Interest Payments (US $bn)	**-9.7**	-2.4	-2.0	-3.1	-2.9	**-10.4**	-2.9	-2.6	-1.7	-1.7	**-8.9**	**-7.0**
Total External Debt Service (% exports of goods & svcs)	**6.8**	10.8	7.8	8.4	8.8	**8.9**	15.5	13.6	12.1	7.3	**11.9**	**10.4**
Public-external Debt Service (% exports of goods & svcs)	**...**	10.7	3.5	5.1	2.8	**...**	10.3	9.8	9.9	4.5	**...**	**...**
Public-external Debt Service (% of GDP)	**...**	1.2	0.4	0.7	0.4	**...**	1.2	1.2	1.3	0.6	**...**	**...**
SAVINGS - INVESTMENT BALANCE												
Savings (% of GDP)	**19.3**	17.2	18.8	18.0	15.1	**17.3**	15.7	18.5	17.3	16.3	**17.0**	**17.8**
Investment (% of GDP)	**21.6**	19.3	21.2	19.6	18.3	**19.8**	18.2	20.5	19.9	19.1	**19.6**	**20.5**

Source: Citi Research

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- **Summary view** — The government sent Congress the bill with the Law to Discourage the Arrival of Foreign Capital.
- **Things to watch** — In Panama, the flood damage assessment might be ready next month. If the flood damage is worth at least 0.5% of GDP, the government may draw funds from the sovereign wealth fund by that same amount to cover the costs of reconstruction.
- **Strategy** — In Costa Rica, the government is unlikely to tolerate the Colón from contributing to any potential upside on local market securities.

Capital controls bill arrives to Congress

The government sent Congress the bill with the Law to Discourage the Arrival of Foreign Capital. The bill proposes higher taxes and reserve requirements on portfolio inflows. We expect this bill to be approved by the local congress, as we find a strong consensus among the political parties about this topic. The bill entitles the Board of the Central Bank of Costa Rica (BCCR) to decide the tax rate on interest and profits associated with portfolio inflows. This tax rate can go as high as 38% for non-residents (currently at 8%) for a period of up to 24 months. The bill exempts securities issued overseas (external debt) from this tax rate. Our view is that when the law becomes effective, the BCCR would push the tax rate to at least 30%. The bill also entitles the BCCR to put reserve requirements on portfolio inflows. The reserve requirement would be of at most 25% of the amount invested in local securities. This money would be deposited in a non-interest bearing account at the central bank.

In a previous comment we said that the portfolio inflows were contributing to the local currency's strength, but were not the only source of this behavior. Foreign direct investment (FDI) and the current account deficit are roughly balanced (see Costa Rica Macro View - This Smell is so Familiar, January 10, 2013). In turn, we would not expect that this law by itself would definitively push the USDCRC away from the floor of the FX band. In fact, the calm behavior of local markets after this announcement strengthens our view. There are also a couple of things that should contribute to the local currency strength. The first one is the expected issuance of US$1 billion in external debt this year (see below). The BCCR will likely accumulate some, but not all, of the dollar inflow. In addition, this bill fails to put capital controls on local residents who are bringing their money back from overseas.

Issuance on the pipeline

Costa Rica is expected to continue with its reshuffling of financing sources. Finance Minister Edgar Ayales was quoted by Bloomberg (January 17) saying that Costa Rica would issue US$1 billion sometime during May-June. Last year's external debt issuance of US$ 1 billion was the first step to balance the mix between domestic and external financing. The widening of the fiscal deficit during the past few years had been mostly financed by domestic sources. In our view, the government realized that they were flooding the market with local paper and that its relatively low external indebtedness gave them room to seek other financing sources. Last year, the local Congress approved a bill that allows the government to issue as much as US$4 billion in external debt over the next 10 years.

In the Dominican Republic, the government is seeking congressional approval for issuing external debt. According to Bloomberg and Listín Diario (both on January 18), President Danilo Medina sent Congress a bill that would allow the government to issue US$1 billion in external debt. The country still has high external financing requirements even though mining exports are reducing the current account deficit. The government is trying to reengage with the International Monetary Fund (IMF) but, in the meantime, it has to look for market financing.

Pulling down short-term debt

El Salvador lowered the stock of Letes (short-term debt) but is looking for further reductions. It is worth remembering that half of last year's US$800 million debt issuance was saved in case the El Salvador 23s put option was exercised. The other half had the purpose of reducing the stock of Letes. According to La Prensa Gráfica (January 18), the government already used US$400 million to reduce the stock of Letes. Since the put option expired unexercised, the government needs congressional approval to spend the remaining US$400 million on other items. In our view, the government will try to seek congressional approval to lower the stock of Letes further.

Panama may withdraw money from the FAP

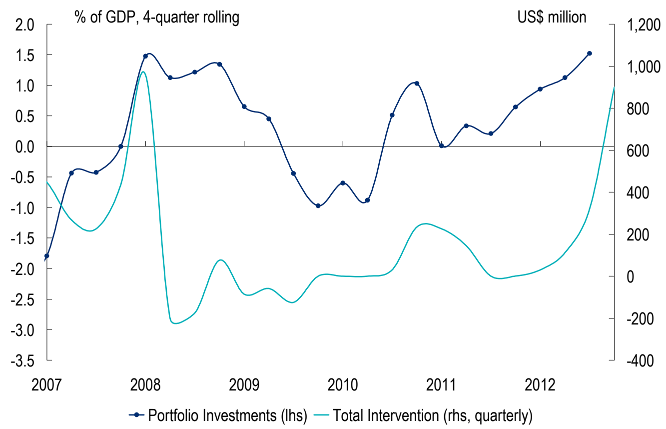
The government might use part of the sovereign wealth fund to face the costs associated with November's floods. In November, heavy rainfall caused floods in some parts of the country. In turn, the government pushed for a modification of the law associated with the *Fondo de Ahorro Panamá* (FAP)—namely, the sovereign wealth fund. With that modification, not only was the FAP launched earlier, but also its funds became available. If the flood damage is of at least 0.5% of GDP, the government may withdraw funds by that same amount to cover the costs of reconstruction. The National Assembly approved the modifications and the government is waiting for the damage assessment. Our understanding is that the ceiling and the target for the nonfinancial public sector (NFPS) deficit would also be modified as a result of the floods.

Investment implications

In Costa Rica, the government is unlikely to tolerate the *Colón* from contributing to any potential upside on local market securities. We are not expecting the government to lower the floor of the band, since the government does not want to negatively affect the exporting sector. In addition, the government is seeking the approval of a bill aimed at discouraging portfolio investments.

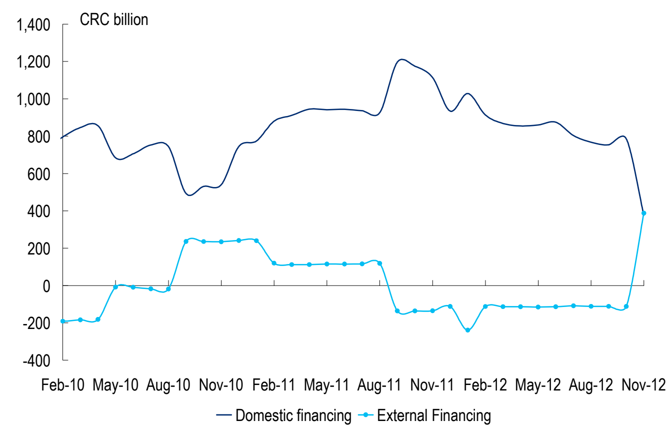
Selected Charts — CCA

Figure 23. Portfolio investments and FX intervention in Costa Rica



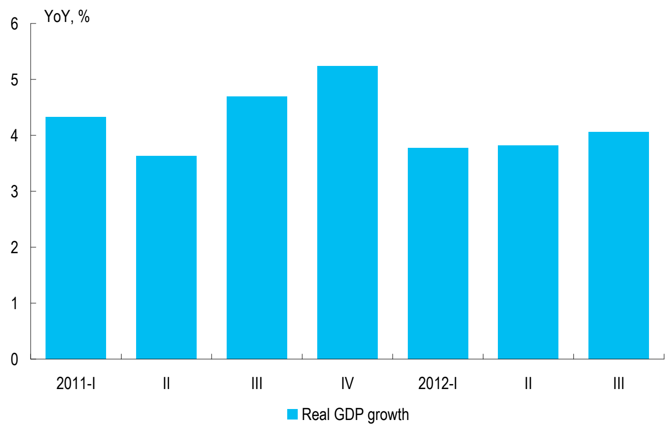
Source: BCCR and Citi Research

Figure 24. Costa Rica is reshuffling its financing sources



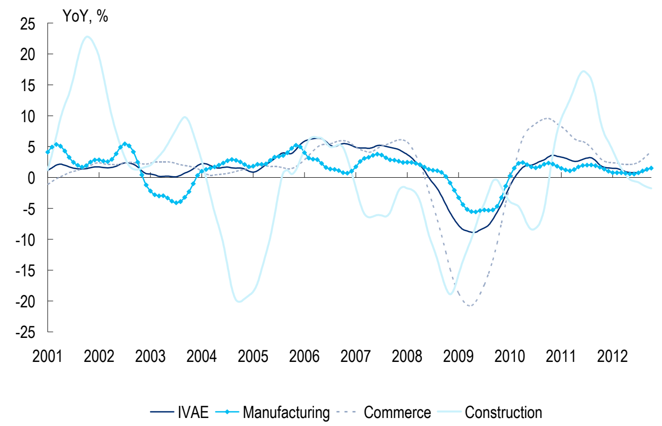
Source: BCCR, Hacienda and Citi Research

Figure 25. Real GDP increased 4.1% YoY in 3Q12 in Domrep



Source: BCRD and Citi Research

Figure 26. Growth is moderately picking up in El Salvador

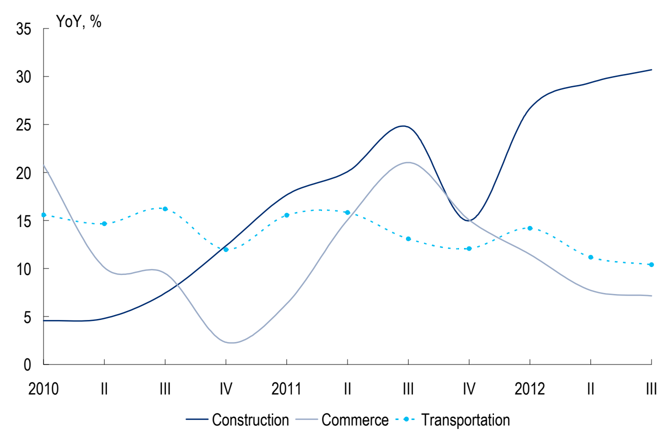


Source: BCRES and Citi Research

Figure 27. Real GDP increased 10.6% YoY on 3Q12 in Panama

Source: Contraloria, Haver and Citi Research

Figure 28. Infrastructure is behind the construction boom in Panama



Source: Contraloria and Citi Research

Macroeconomic Indicators — CCA

	Costa Rica			Dominican Republic			El Salvador			Panama		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
Nominal GDP (US$ bn)	45	49	53	58	61	65	24	24	25	36	41	46
Nominal GDP (local currency Bn)	22683	24643	27172	2280	2486	2738	24	24	25	36	41	46
GDP per capita (US$)	9,601	10,383	11,100	5,681	5,888	6,274	3,995	4,081	4,248	9,954	11,143	12,411
Unemployment Rate (%)	7.5	7.3	7.0	14.2	14.0	14.0	5.7	5.7	5.6	4.0	3.8	3.7
Population (millions)	4.7	4.7	4.8	10.2	10.3	10.3	5.9	6.0	6.0	3.6	3.7	3.7
ECONOMIC ACTIVITY												
Real GDP growth (yoy)	5.0	4.0	5.5	3.8	4.0	5.5	1.2	1.5	2.0	10.5	9.0	8.0
Citi's Activity Indicator (CRAI, y/y)	...	...	...	...	...	...	...	...	...	...	...	...
Real GDP growth (qoq, sa, annualized)	...	...	...	...	...	...	...	...	...	...	...	...
Domestic Demand Growth (ex-inventory, yoy)	5.6	5.1	6.1	5.0	3.3	5.3	3.8	4.3	5.0	...	...	...
Real Investment Growth (yoy)	8.2	8.5	8.1	3.0	3.5	4.5	2.0	4.0	5.5	...	...	...
Real Consumption Growth (yoy)	4.7	3.9	5.3	5.3	3.3	5.5	4.1	4.4	4.9	...	...	...
Real Private Consumption Growth (yoy)	5.0	4.0	5.5	5.0	3.3	5.5	4.2	4.5	5.0	...	...	...
Real Government Spending Growth (yoy)	2.0	3.0	4.0	15.0	2.0	4.5	3.0	3.0	3.5	...	...	...
Real Export Growth (yoy)	8.0	6.5	9.0	4.0	8.0	6.0	5.5	7.0	8.3	...	...	...
Real Import Growth (yoy)	9.0	8.5	10.0	7.0	5.0	5.3	9.0	10.2	11.0	...	...	...
PRICES												
Consumer Price Inflation (yoy, eop)	4.6	4.5	4.3	3.6	4.5	5.0	1.2	2.0	2.5	4.6	4.6	4.5
Consumer Price Inflation (yoy, average)	4.5	4.5	4.5	3.7	4.8	4.4	1.8	1.6	2.0	5.7	4.3	4.4
Core Inflation (yoy, eop)	4.0	3.8	3.7	...	...	...	...	...	...	...	...	...
Consumer Price Inflation (qoq, eop)	...	...	...	...	...	...	...	...	...	...	...	...
Core Inflation (qoq, eop)	...	...	...	...	...	...	...	...	...	...	...	...
Wages (% change yoy, nominal)	6.3	6.0	6.0	...	...	...	...	...	...	...	...	...
Exchange Rate (local currency to USD, eop)	502.0	505.0	510.0	40.0	41.5	43.0	1.0	1.0	1.0	1.0	1.0	1.0
Exchange Rate (local currency to USD, average)	502.7	505.0	510.0	39.2	41.0	42.4	1.0	1.0	1.0	1.0	1.0	1.0
Exchange Rate (% change yoy, + dep.)	-1.8	0.6	1.0	3.8	3.8	3.6	...	...	...	...	...	...
MONETARY SECTOR												
Monetary Base growth (yoy)	11.7	11.0	10.5	9.8	9.0	8.5	...	...	...	...	...	...
Credit Growth (yoy)	14.8	13.0	12.0	9.0	10.0	9.5	6.0	7.0	7.5	...	...	...
Broad Money growth (yoy)	...	...	...	15.6	15.0	14.5	...	...	...	...	...	...
Central Bank Rate (eop)	5.0	5.0	4.5	5.0	5.0	5.5	...	...	...	...	...	...
Central Bank Rate (average)	5.0	5.0	4.6	5.7	5.0	5.5	...	...	...	...	...	...
Interbank rate (yoy)	...	...	...	...	...	...	...	...	...	...	...	...
Interbank rate (average)	...	...	...	...	...	...	...	...	...	...	...	...
Short-term Rate (eop)	...	...	...	...	...	...	...	...	...	...	...	...
Short-term Rate (average)	...	...	...	...	...	...	...	...	...	...	...	...
Long-term Rate (eop)	...	...	...	...	...	...	...	...	...	...	...	...
Long-term Rate (average)	...	...	...	...	...	...	...	...	...	...	...	...
EXTERNAL SECTOR												
Current Account Balance (% of GDP)	-5.2	-5.5	-5.0	-7.5	-6.5	-6.0	-5.1	-5.3	-5.1	-11.7	-9.3	-8.7
Current Account Balance (in US$ bn)	-2.3	-2.7	-2.7	-4.4	-4.0	-3.9	-1.2	-1.3	-1.3	-4.2	-3.8	-4.0
Trade Balance (in US$ bn)	-4.5	-4.5	-4.7	-9.5	-9.4	-9.4	-4.5	-4.6	-4.7	-6.6	-6.2	-6.4
Exports, f.o.b. (in US$ bn)	11.7	12.3	12.8	9.6	10.6	11.2	5.5	6.0	6.6	18.0	19.3	20.0
Main Exports	...	...	...	...	...	...	...	...	...	...	...	...
Other	...	...	...	...	...	...	...	...	...	...	...	...
Imports, f.o.b. (US$ Bn)	16.1	16.8	17.5	19.0	20.0	20.6	10.0	10.6	11.3	24.6	25.5	26.4
Services (net)	3.1	2.7	2.9	3.2	3.5	3.5	0.1	0.1	0.1	4.2	4.2	4.2
Credit	5.0	5.0	5.2	5.5	5.8	6.0	1.2	1.3	1.4	8.0	8.2	8.4
Debit	1.9	2.3	2.3	2.3	2.3	2.5	1.1	1.2	1.3	3.8	4.0	4.2
Income (net)	-1.4	-1.4	-1.4	-1.6	-1.7	-1.8	-0.7	-0.8	-0.8	-1.9	-2.0	-2.0
Current Transfers (net)	0.5	0.6	0.6	3.5	3.6	3.8	3.9	4.0	4.1	0.1	0.2	0.2
Foreign Direct Investment (in US$ bn)	2.4	2.5	2.5	3.7	2.8	2.8	0.3	0.4	0.4	3.9	3.7	3.9
Terms of Trade (% change yoy, + improvement)	...	...	...	...	...	...	...	...	...	-1.0	-1.0	-1.0
International Reserves (in US$ bn)	5.4	5.8	6.2	3.0	3.2	3.3	2.5	2.6	2.7	2.2	2.3	2.3
PUBLIC SECTOR												
Central Gov. Primary Budget Balance (% of GDP)	-2.5	-3.0	-3.5	-4.2	-2.0	-1.5	-1.0	-0.8	-0.6	-0.7	-0.9	-0.9
Central Gov. Budget Balance (% of GDP)	-4.5	-5.0	-5.5	-6.2	-4.0	-3.5	-3.2	-3.0	-2.8	-2.8	-3.0	-3.0
Consolidated Primary Balance (% of GDP)	...	...	...	...	...	...	-1.2	-1.0	-0.8	-0.7	-0.9	-0.9
Consolidated Public Sector Balance (% of GDP)	-5.7	-6.0	-6.5	-7.4	-5.2	-4.7	-3.5	-3.2	-3.0	-2.8	-3.0	-3.0
Central Gov. Revenues (% of GDP)	13.3	13.4	13.4	13.5	15.0	15.5	14.6	14.6	14.8	25.0	25.0	25.0
DEBT INDICATORS												
Gross External Debt (US$ bn)	...	...	...	...	...	...	...	...	...	...	...	...
Gross External Debt (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...
Public (% of GDP)	13.0	14.0	16.0	22.0	24.0	24.5	32.5	33.0	33.5	32.0	31.0	30.0
Private (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...
Gross Government Debt (% of GDP)	41.0	44.0	46.0	33.0	35.0	36.0	56.5	57.0	57.5	41.0	41.0	40.0
Domestic (% of GDP)	28.0	30.0	30.0	11.0	11.0	11.5	24.0	24.0	24.0	9.0	10.0	10.0
External (% of GDP)	13.0	14.0	16.0	22.0	24.0	24.5	32.5	33.0	33.5	32.0	31.0	30.0
External Debt (% of exports of goods and services)	35.2	39.5	47.4	84.8	88.6	92.0	116.1	110.7	106.7	44.1	45.9	48.5
Total External Debt Amortization (US $bn)	...	...	...	...	...	...	...	...	...	...	...	...
Total External Debt Interest Payments (US $bn)	...	...	...	...	...	...	...	...	...	...	...	...
Total External Debt Service (% exports of goods & svcs)	...	...	...	...	...	...	...	...	...	...	...	...
Public-external Debt Service (% exports of goods & svcs)	...	...	...	...	...	...	...	...	...	...	...	...
Public-external Debt Service (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...
SAVINGS - INVESTMENT BALANCE												
Savings (% of GDP)	19.7	20.5	21.7	10.5	11.3	11.6	12.4	12.6	13.4	20.3	23.7	24.3
Investment (% of GDP)	24.9	26.0	26.6	18.0	17.8	17.6	17.4	17.9	18.5	32.0	33.0	33.0
Memorandum items												
Workers' Remittances (US$ Bn)	0.7	0.8	0.8	3.3	3.4	3.5	3.7	3.8	3.9	0.2	0.2	0.2

Note: All data 2010, 2011, and 2012 is projected. Source: Citi Research

Chile

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- **Summary view** — We maintain our call that the economy will slow down slightly in 2013, despite recent activity prints confirming high YoY activity growth. We have revised our current account deficit estimate for 2012 to 3% of GDP, on the back of the sizeable improvement in the trade balance.

- **Things to watch** — Investors have directed their attention to the FX market. As the USD/CLP approaches to 470, fears of potential intervention measures have risen. We do not expect the BCCh to undertake FX intervention unless the USD/CLP breaks through 460.

- **Strategy** — In the months to come, we believe the BCCh will remain comfortable with the policy rate on hold. But, with inflation tamed and a slight deceleration in activity, our call remains for 50bp worth of cuts in 2013.

Slower activity growth still in our book

Annual GDP growth surprised on the upside once again, but YoY figures can be somewhat misleading at this point. According to the central bank's GDP proxy, the IMACEC, the economy expanded 5.5% YoY in November, following a 6.7% YoY print in October. At first glance, these figures could suggest that the economy is growing above potential and risks overheating. However, recent annual prints have been heavily influenced by the strong carry-over from 1H12 and also by the shift in working days. The alternative is looking at the seasonally adjusted MoM growth rates, but this has the inconvenient of a highly volatile series that is usually subject to large revisions. Looking at the moving QoQ SAAR rate shows that the economy grew 3.7% QoQ in the quarter up to November 2012, down from 5% in September and 7.6% in June. To us, this is in fact a sign that the economy is slowing down, albeit very moderately. Against this backdrop, we stick to our call that the economy will grow 4.5% in 2013 from 5.6% in 2012.

Credit is slowing down, and banks are tightening credit standards, particularly for consumer credit. Even though annual credit growth remains in the double digit range, it is worthy to highlight that it has come down to 12% YoY in December 2012 from 16% at the end of 2011. The 4Q12 bank lending survey from the central bank shows that institutions have not only tightened standards for construction and real estate companies, but also for consumer and mortgage loans. This becomes particularly relevant considering that a lot of attention has been focused on the real estate market lately. We expect slower credit growth to be one of the contributors to slowing domestic demand, and hence slower GDP growth, in 2013.

Current account: Can we breathe a little easier now?

Recent trade balance data suggests that the current account is unlikely to spiral out of control. According to the BCCh, the 4Q12 saw a sizeable recovery in the trade balance, which posted a US$1.65 bn surplus up from a US$1.77 bn deficit in 3Q12. This result was driven by a strong jump in exports (thanks to a rebound in copper prices) and more moderate increases in imports. In light of this event, we have lowered our estimate for the 2012 current account deficit (CAD) to 3% of GDP from 3.7%, but keep our 2013 CAD estimate at 2.4%. This is consistent with our view that the economy is not overheating and that domestic demand will slow down this year.

Inflation reaching a trough, but spike not imminent

At 1.5% YoY in December 2012, inflation reached its lowest point in over two and a half years. As in previous months, the decline in inflation was led by the tradable price category, reflecting the CLP's strengthening against the USD, the significant decline in energy prices and the reversal of pressure on food prices. It is therefore no surprise to see that annual tradable inflation is running at -0.4%. On the other hand, sticky non-tradable inflation remains relatively high at 4% YoY, although strongly below the 5.5% peak registered in February 2012. This is the main reason why the central bank sees abnormally low inflation as temporary, a view with which we agree.

We expect inflation to increase throughout 2013, but believe the rise will be very gradual and inflation will remain low for some time. Given our views on activity, we see little demand pressures on the inflation outlook although we expect non-tradable inflation to continue cooling in the months to come. As such, the main driver behind our inflation call will be the normalization of the tradable component from unusually low levels. For starters, at current levels we see limited room for the CLP to continue strengthening against the dollar (more on this below). In addition, our commodity strategists see flattish commodity prices ahead, which mean that it will be difficult for energy and food prices to continue trending down. We therefore expect inflation to end the year at 2.8%, but with a more balanced relative price mix.

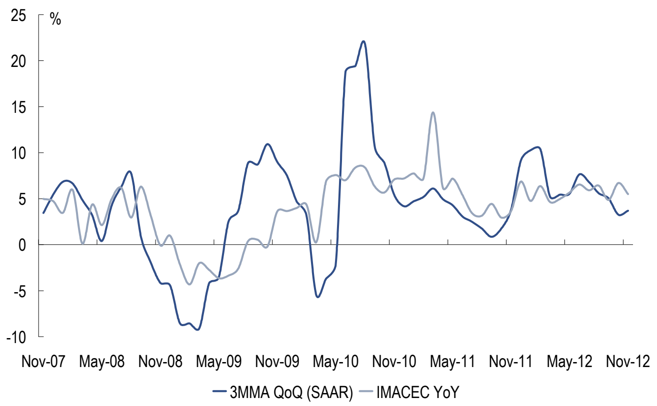
Monetary policy: Investors focus on FX

The central bank remains comfortable keeping rates unchanged. The 4Q12 IPOM laid stable rates as the BCCh's base case scenario and the statement from latest policy meeting seems to confirm that the central bank is comfortable with the current interest rate stance. The BCCh mentioned that activity has performed in line with its latest set of forecasts and that inflation is below the 2% mark, although expectations are anchored around the target. On the other hand, the central bank also highlighted that the labor market is still tight amid rising wages. But overall, we feel that as long as inflation and expectations are under control, and we expect that to be the case, the central bank will not feel the need to raise interest rates. Our call remains for 50bp worth of interest rate cuts in 2013, reflecting a mild deceleration in growth and the maintenance of low inflation, amid strong downward pressure on the USD/CLP.

The question for investors right now is whether the BCCh is considering intervention in the FX market. The USD/CLP has been hovering around the 470 mark, only slightly above the level that triggered the BCCh's reserve accumulation program in early 2011. In recent months, the central bank has repeatedly highlighted that although the CLP has strengthened, it is still within the range of what can be explained by fundamentals albeit in the lower range of its estimates. We maintain our view that the BCCh will try to refrain from FX intervention for as long as possible, but if push comes to shove, it will eventually do so. For this to happen, we believe the currency will need to forcefully break the 470 mark, which will in turn require a boost to global risk appetite. So, in the short-term, we think FX intervention announcements from the central bank are highly unlikely. If the currency pair manages to break the 460 level, the likelihood of intervention measures would rise significantly in our view.

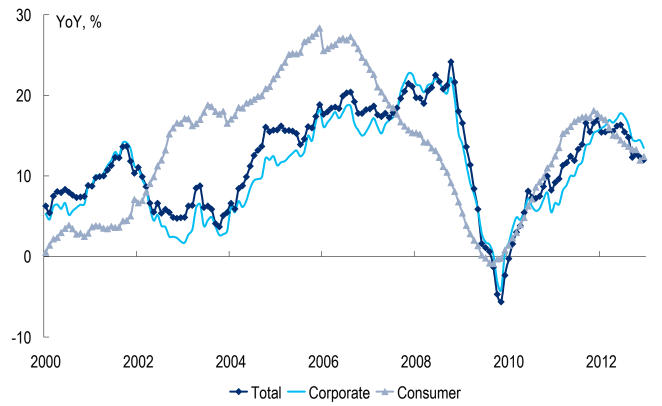
Selected Charts — Chile

Figure 29. We do not think the economy is overheating



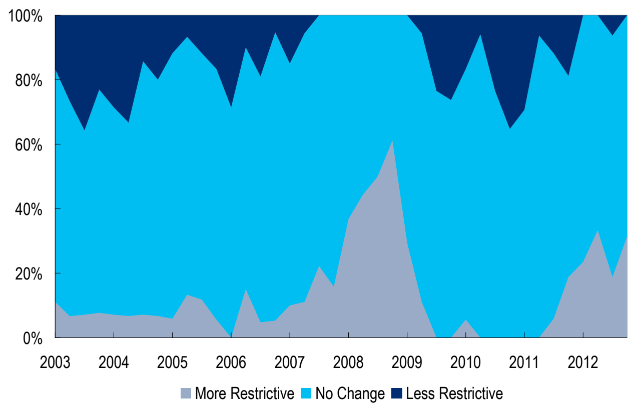
Source: BCCh and Citi Research

Figure 30. Credit growth is slowing down



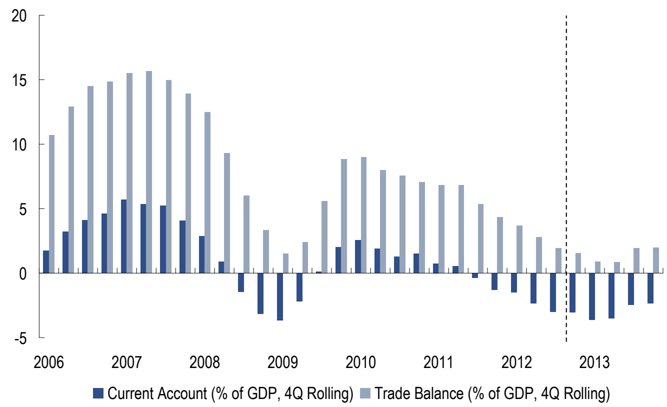
Source: INE and Citi Research

Figure 31. Consumer credit standards are turning more restrictive



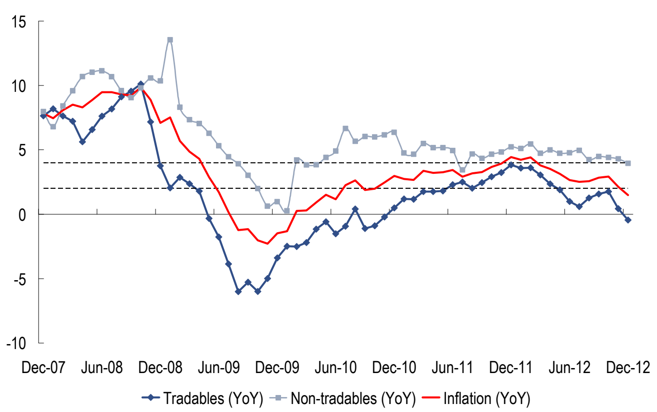
Source: BCCh

Figure 32. Improvements in trade balance underpin CAD revision



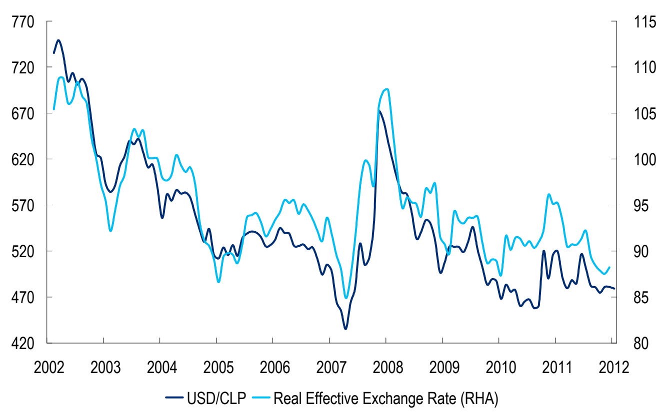
Source: BCCh and Citi Research

Figure 33. Tradable inflation leading the way down



Source: INE and Citi Research

Figure 34. All eyes on the FX market



Source: BCCh and Bloomberg

Macroeconomic Indicators — Chile

	2011	2012					2013					2014
	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US$ bn)	**249**	64	64	65	73	**266**	71	70	69	77	**286**	**307**
Nominal GDP (Pesos Tn)	**120**	31	32	31	35	**129**	34	34	34	38	**139**	**151**
GDP per capita (US$)	**14,500**	14,936	14,796	15,009	16,827	**15,337**	16,266	15,998	15,768	17,541	**15,594**	**15,915**
Unemployment Rate (%)	**7.1**	6.6	6.6	6.5	7.2	**6.7**	7.7	7.7	7.7	7.7	**7.7**	**7.0**
Population (millions)	**17.1**	17.2	17.2	17.3	17.3	**17.3**	17.4	17.4	17.4	17.5	**18.3**	**19.3**
ECONOMIC ACTIVITY												
Real GDP growth (yoy)	**6.0**	5.2	5.7	5.7	5.7	**5.6**	4.5	4.0	4.5	5.1	**4.5**	**5.3**
Citi's Chile Activity Indicator (CHAI, y/y)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**…**
Real GDP growth (qoq, sa, annualized)	**…**	6.5	8.2	5.7	2.5	**…**	1.6	6.1	8.2	4.8	**…**	**…**
Domestic Demand Growth (ex-inventory, yoy)	**9.4**	4.6	6.8	8.0	6.9	**6.6**	3.8	3.8	3.9	5.9	**4.4**	**6.3**
Real Investment Growth (yoy)	**13.0**	3.2	11.6	14.6	9.9	**9.8**	5.0	5.6	5.2	7.1	**5.7**	**9.4**
Real Consumption Growth (yoy)	**7.9**	4.4	5.2	5.9	5.7	**5.3**	4.8	4.8	5.4	5.4	**5.1**	**5.2**
Real Private Consumption Growth (yoy)	**8.6**	4.9	5.5	6.4	6.1	**5.7**	5.0	4.8	5.5	5.7	**5.3**	**5.6**
Real Government Consumption Growth (yoy)	**3.9**	1.1	3.6	2.9	4.0	**3.1**	3.9	4.4	4.4	4.2	**4.3**	**3.0**
Real Export Growth (yoy)	**4.6**	5.7	0.9	-3.4	1.5	**1.2**	3.6	3.1	5.0	4.3	**3.9**	**3.8**
Real Import Growth (yoy)	**14.4**	4.1	3.2	2.5	5.5	**3.8**	5.6	7.1	6.5	6.0	**6.3**	**6.3**
PRICES												
Consumer Price Inflation (yoy, eop)	**4.4**	3.8	2.6	2.8	1.5	**1.5**	1.8	2.5	2.3	2.8	**2.8**	**3.0**
Consumer Price Inflation (yoy, average)	**3.3**	4.1	3.1	2.6	2.2	**3.0**	1.6	2.1	2.6	2.4	**2.2**	**2.8**
Core Inflation (yoy, eop)	**2.5**	2.6	2.3	2.1	1.8	**1.8**	2.0	2.4	2.6	2.7	**2.7**	**3.3**
Consumer Price Inflation (qoq, eop)	**…**	0.6	-0.2	1.0	0.1	**…**	0.9	0.5	0.8	0.5	**…**	**…**
Core Inflation (qoq, eop)	**…**	0.7	0.2	0.4	0.5	**…**	0.9	0.6	0.6	0.5	**…**	**…**
Wages (% change yoy, nominal)	**5.8**	6.5	6.2	6.4	5.5	**6.3**	4.5	4.5	4.5	4.5	**4.5**	**4.5**
Exchange Rate (local currency to USD, eop)	**520**	488	501	475	479	**479**	470	488	490	490	**490**	**490**
Exchange Rate (local currency to USD, average)	**483**	486	501	479	480	**487**	472	485	490	490	**484**	**490**
Exchange Rate (% change yoy, + dep.)	**11.0**	2.3	7.2	-8.7	-7.8	**-7.8**	-3.8	-2.6	3.2	2.3	**2.3**	**0.0**
MONETARY SECTOR												
Monetary Base growth (yoy)	**20.1**	14.8	15.2	18.2	11.7	**11.7**	17.5	16.1	13.3	13.0	**13.0**	**13.2**
Broad Money growth (yoy)	**18.9**	19.7	17.3	16.5	12.5	**12.5**	11.2	10.4	7.4	7.6	**7.6**	**8.3**
Credit Growth (yoy)	**16.9**	15.7	16.0	12.2	9.7	**9.7**	8.8	6.3	7.2	8.7	**8.7**	**7.3**
Central Bank Rate (CAMARA Overnight, eop)	**5.25**	5.00	5.00	5.00	5.00	**5.00**	5.00	4.50	4.50	4.50	**4.50**	**5.25**
Central Bank Rate (CAMARA Overnight, average)	**4.75**	5.00	5.00	5.00	5.00	**5.00**	5.00	4.58	4.50	4.50	**4.65**	**5.19**
Interbank Rate (eop)	**5.2**	5.0	5.0	5.0	5.0	**5.0**	5.0	4.5	4.5	4.5	**4.5**	**5.3**
Interbank Rate (average)	**4.7**	5.0	5.0	5.0	5.0	**5.0**	5.0	4.8	4.5	4.5	**4.7**	**5.1**
Short-term Rate (eop)	**5.3**	5.0	5.0	5.0	5.0	**5.0**	5.0	4.5	4.5	4.5	**4.5**	**5.3**
Short-term Rate (average)	**4.8**	5.0	5.0	5.0	5.0	**5.0**	5.0	4.6	4.5	4.5	**4.6**	**5.2**
Long-term Rate (eop)	**4.9**	5.8	5.1	5.3	5.5	**5.5**	5.4	5.4	5.4	5.4	**5.4**	**6.1**
Long-term Rate (average)	**5.8**	5.3	5.3	5.2	5.4	**5.3**	5.4	5.4	5.4	5.4	**5.4**	**5.9**
EXTERNAL SECTOR												
Current Account Balance (% of GDP)	**-1.3**	0.2	-2.7	-7.4	-2.3	**-3.0**	-2.3	-2.5	-2.8	-1.9	**-2.4**	**-2.5**
Current Account Balance (in US$ bn)	**-3.2**	0.2	-1.7	-4.8	-1.7	**-8.0**	-1.6	-1.7	-1.9	-1.5	**-6.7**	**-7.8**
Trade Balance (in US$ bn)	**10.8**	2.6	1.7	-1.8	1.6	**4.1**	1.0	1.5	1.3	1.7	**5.6**	**8.0**
Exports, f.o.b. (in US$ bn)	**81.4**	19.9	19.8	17.5	22.3	**79.4**	20.8	20.3	20.0	22.8	**84.1**	**89.8**
Commodity Exports	**53.9**	13.3	12.8	11.5	14.2	**51.7**	13.7	13.2	13.1	14.9	**54.9**	**57.3**
Other	**27.5**	6.6	7.0	6.0	8.1	**27.7**	7.1	7.1	7.0	7.9	**29.1**	**32.5**
Imports, c.i.f. (US$ Bn)	**70.6**	17.2	18.1	19.2	20.7	**75.3**	19.8	18.8	18.7	21.1	**78.4**	**81.8**
Services (net)	**-2.4**	0.1	-0.6	-0.6	-0.5	**-1.5**	-0.4	-0.6	-0.6	-0.6	**-2.2**	**-2.6**
Credit	**12.4**	3.5	2.9	3.1	4.0	**13.6**	4.2	3.8	3.7	4.4	**16.1**	**10.3**
Debit	**14.8**	3.4	3.5	3.7	4.5	**15.1**	4.6	4.4	4.3	5.0	**18.3**	**12.9**
Income (net)	**-14.0**	-2.9	-3.3	-2.7	-3.6	**-12.6**	-3.0	-3.5	-3.4	-3.5	**-13.4**	**-15.0**
Current Transfers (net)	**2.4**	0.3	0.4	0.3	0.9	**2.0**	0.8	0.8	0.8	0.8	**3.3**	**1.7**
Foreign Direct Investment (in US$ bn)	**17.3**	4.5	7.6	5.6	5.0	**22.8**	4.9	4.8	4.8	5.3	**19.8**	**18.8**
Terms of Trade (% change yoy, + improvement)	**0.7**	-9.7	-8.0	-4.6	-8.0	**-7.6**	3.4	1.3	-3.2	1.3	**0.6**	**0.3**
International Reserves (in US$ bn)	**42.0**	39.6	40.3	40.1	41.6	**41.6**	45.2	44.4	43.4	42.4	**42.4**	**45.7**
PUBLIC SECTOR												
Central Gov. Primary Budget Balance (% of GDP)	**1.9**	2.1	1.7	1.0	0.9	**0.9**	1.2	1.0	0.7	0.2	**0.2**	**0.0**
Central Gov. Budget Balance (% of GDP)	**1.5**	1.6	1.2	0.5	0.4	**0.4**	0.6	0.5	0.3	-0.3	**-0.3**	**-0.4**
Consolidated Primary Balance (% of GDP)	**2.0**	…	…	…	…	**0.9**	…	…	…	…	**0.2**	**0.0**
Consolidated Public Sector Balance (% of GDP)	**1.4**	…	…	…	…	**0.4**	…	…	…	…	**-0.3**	**-0.4**
Central Gov. Revenues (% of GDP)	**22.3**	22.9	22.6	22.1	21.9	**21.9**	21.7	21.5	21.2	20.7	**20.7**	**20.5**
DEBT INDICATORS												
Gross External Debt (US$ bn)	**98.6**	99.9	103.1	105.5	116.1	**116.1**	118.7	121.2	122.7	124.3	**124.3**	**133.6**
Gross External Debt (% of GDP)	**39.7**	39.8	40.9	41.4	43.7	**43.7**	43.7	43.6	43.6	43.5	**43.5**	**43.5**
Public (% of GDP)	**2.9**	2.6	2.6	2.3	1.7	**1.7**	1.7	1.6	1.6	1.5	**1.5**	**1.5**
Private (% of GDP)	**36.8**	37.2	38.4	39.1	42.0	**42.0**	42.0	42.0	42.0	42.0	**42.0**	**42.0**
Gross Government Debt (% of GDP)	**11.1**	…	…	…	…	**8.0**	…	…	…	…	**7.1**	**6.9**
Domestic (% of GDP)	**8.2**	…	…	…	…	**6.3**	…	…	…	…	**5.5**	**5.4**
External (% of GDP)	**2.9**	…	…	…	…	**1.7**	…	…	…	…	**1.5**	**1.5**
External Debt (% of exports of goods and services)	**121.1**	125.6	130.2	151.1	130.2	**146.2**	142.5	148.8	153.2	136.0	**147.8**	**148.8**
Total External Debt Amortization (US $bn)	**18.7**	…	…	…	…	**22.1**	…	…	…	…	**22.6**	**23.0**
Total External Debt Interest Payments (US $bn)	**2.3**	…	…	…	…	**2.7**	…	…	…	…	**2.8**	**2.8**
Total External Debt Service (% exports of goods & svcs)	**22.4**	…	…	…	…	**26.7**	…	…	…	…	**25.3**	**25.9**
Public-external Debt Service (% exports of goods & svcs)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**…**
Public-external Debt Service (% of GDP)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**…**
SAVINGS - INVESTMENT BALANCE												
Savings (% of GDP)	**26.1**	29.3	25.1	23.3	24.1	**25.4**	26.9	25.8	28.1	24.9	**26.4**	**27.3**
Investment (% of GDP)	**27.4**	29.1	27.8	30.7	26.3	**28.4**	29.2	28.2	30.9	26.8	**28.7**	**29.9**

Source: Citi Research

Colombia

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- **Summary view** — Since the writing of our prospects we have observed a deterioration in the macroeconomic outlook and better-than-expected inflation. This has led Banrep to further reduce its repo rate in an effort to revamp economic activity. We expect Banrep to continue loosening the monetary policy stance by reducing the repo rate to 4.0% and keeping it at this level for most of the year. On the FX front, the COP ended the year under appreciation pressures that will continue in the months to come, as we forecast strong inflows of foreign direct investment and portfolio investment. Under these circumstances, the new support level for the USDCOP seems to be 1,750.
- **Things to watch** — Watch for Banrep's meeting and January's inflation, which could be the lowest print for the first month of the year in the last decade. In addition, two new central bank Board members should be appointed by President Santos in February. Also watch for the continuation of peace talks in Cuba and Norway.
- **Strategy** — A dovish central bank, low inflation, and the entry of several new foreign players will continue to provide support for the local curve in the coming weeks. On the FX front, the COP will continue to appreciate, although it could have short lived episodes of depreciation as a result of verbal intervention and increases in outright purchases by MoF and Banrep. We see these episodes as an opportunity to go long COP as the expected USD inflows will be higher than USD demand.

Macroeconomic outlook for 2013

In 2013 we expect economic activity to pick-up compared to 2012. In particular, and in contrast to 2012, 2013 will mark the end of the economic deceleration and the beginning of a new expansion phase of the business cycle. Colombia was able to sustain GDP growth levels that would imply a mild deceleration in 2012 thanks to the performance of the construction and the oil and mining sectors. The aforementioned sectors have more than compensated for the weak results observed in manufacturing and retail. That being said, our new GDP growth forecast for 2012 stands at 3.9% for the year as a whole, which implies a 4.4% annual growth in consumption and 4.1% increase in governments spending. In 2013 GDP growth should pick-up, particularly in 2H13, as a result of higher fiscal spending in civil works. In general, we think that both national and regional governments would be more willing to spend as a result of the political cycle. In the regions, it is usual for governors and mayors to spend more during their second year in office, while at the national level the proximity of the presidential elections should prove useful to boost the incumbent government's popularity.

In terms of inflation, for 2013 we do not expect any major deviation from Banrep's inflation target of 3% by yearend. We do not expect a change in that respect during 2013, although we acknowledge that there is still a small chance of a supply shock in 1H13 if the dry season affects some foodstuff prices, something that we see with a small probability for the time being. On the other hand, the impact of the tax reform on prices is yet to be seen. On the one hand, the reduction of retail gas prices, lower VAT taxes for some foodstuffs and meals outside the household should help control inflationary pressures, there are some risk on core inflation, since other goods on this classification should be affected by higher tax rates. Our calculations indicate that the overall effect from tax adjustments should be favorable for prices and we do not foresee major surprises on the inflation front. Nonetheless, we recognize that the final effect of the tax reform on CPI cannot not be assessed with certainty until the end of 1Q13.

Favorable inflation results along with lower-than-expected results in some leading indicators (IP and retail) should allow for another 25bp interest rate reduction in 1Q13. A benign inflation outlook, coupled with the recently observed weakness in the latest economic activity prints will pave the way for the CB Board to continue with its dovish stance, leading Banrep to reduce its repo rate by 25bp in 1Q13. It is important to note that two CB board members will be appointed by president Santos, and it will be important to assess how dovish or hawkish these new member will be.

The FX factor. With inflation under control and economic activity picking up in 2H13, the CB's Board remaining concern would be the COP's behavior. This could be the case as we expect important inflows in both foreign direct and portfolio investment, which would continue taking a toll on the USD/COP. In that sense, we anticipate a U-shape pattern for the COP during the year, and the 1750 mark could be broken at some point. By the end of 2013, we expect the COP to fluctuate within the 1750-1800 channel. Nonetheless, and despite the political pressure COP appreciation could create, we do not think the CB Board will do anything different than what it has done so far. Namely, continue with its program of USD daily purchases. Thus, the burden of intervention would need to be carried by the Ministry of Finance, which we think will focus on discretionary intervention as the main FX intervention policy tool. Under these circumstances, the new support level for the USDCOP seems to be 1,750 and we expect the Ministry of Finance and Banrep to continue their verbal intervention and direct purchases in the spot market in order to prevent the FX from going below this level.

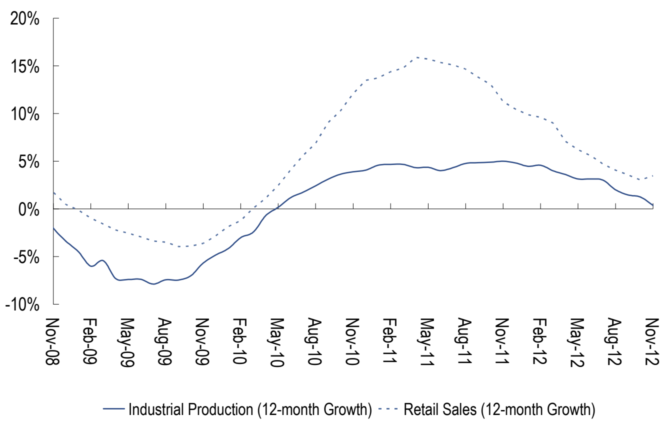
Investment implications

On the FX front, we expect an increase in the USD inflows relative to 2012, as oil and mining exploration, combined with monetizations from local oil companies, continue. In our view, the behavior of the USD/COP has had to do with important inflows from FDI and local oil companies. On this regard, we do not expect a change in 2013 unless there is an unexpected international risk aversion shock. In that sense we foresee the USDCOP will oscillate around the 1750 figure this year. We think the market will experience short lived episodes of depreciation as a result of verbal intervention and increases in outright purchases by MoF and Banrep. We see these episodes as an opportunity to go long COP as the expected USD inflows will be higher than USD demand.

Investment implications for the local TES curve. In our view, the weak economic results expected for 4Q12 and 1Q13 should be supportive of the local curve. According to our estimates, during the 2009 episode in which Banrep reduced rates, the transmission of this repo rate cuts to the local TES curve was 95% for the 6-month generic bond, 88% for the 1-year generic bond, 74% for the 3-year bond, and 67% for the 10-year generic bond. This supports the assumption that any repo rate cut would most benefit short and mid tenors of the curve. Nonetheless, we think that in this occasion we would not see a pronounced steepening of the curve, since the recently approved tax reduction for offshore investors should also benefit the longer tenors of the fixed rate curve. In general, we see value in the curve during the 1H13, but it is possible to see some TES fundamentals deteriorating in 2H13 due to a less accommodative monetary policy stance and eventual sterilization needs by the CB (which should be made through short-tenor monetary control TES).

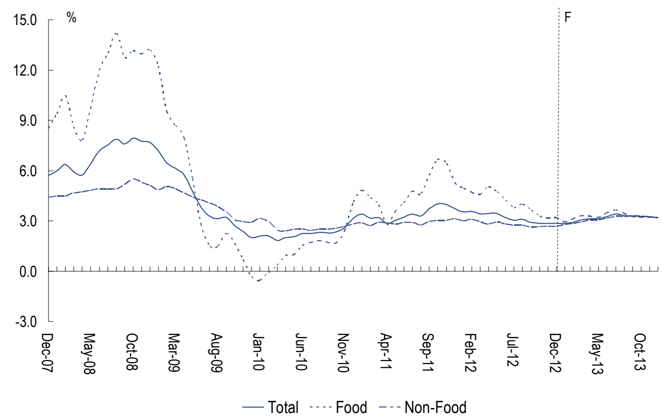
Selected Charts — Colombia

Figure 35. Retail sales and industrial production continue decelerating…



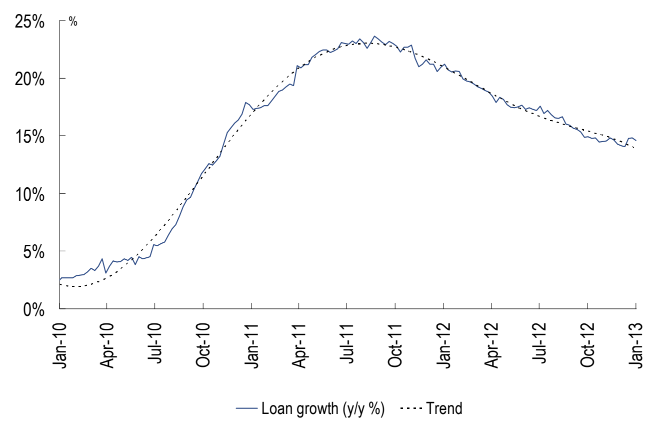
Source: DANE and Citi Research

Figure 36. … and inflation pressures should remain at bay.



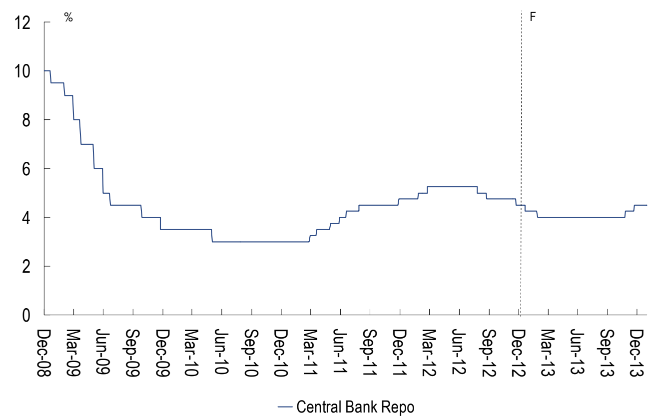
Source: Banrep and Citi Research

Figure 37. Loan growth concern are receding



Source: Banrep and Citi Research

Figure 38. Which could lead the CB to reduce the repo rate

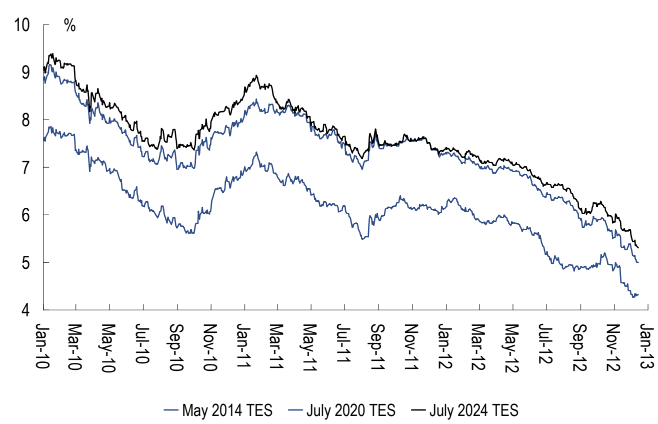


Source: Banrep and Citi Research

Figure 39. USDCOP dynamics would remain driven by FDI inflows

Source: Bloomberg and Citi Research

Figure 40. The TES market would behave favorably throughout 1H13



Source: Bloomberg and Citi Research

Macroeconomic Indicators — Colombia

	2011	2012					2013					2014
	Est.	Q1	Q2	Q3	Q4	**Proj.**	Q1	Q2	Q3	Q4	**Proj.**	**Proj**
Nominal GDP (US$ bn)	**332**	90	92	89	93	**364**	96	99	98	103	**397**	**423**
Nominal GDP (Pesos Tn)	**616**	161	165	161	168	**655**	169	174	172	181	**697**	**757**
GDP per capita (US$)	**7,220**	7,809	7,962	7,665	7,995	**7,827**	8,267	8,495	8,384	8,715	**8,425**	**8,906**
Unemployment Rate (%)	**11.5**	12.2	11.5	10.9	9.9	**11.1**	11.7	10.6	10.5	9.7	**10.6**	**10.7**
Population (millions)	**46.0**	46.1	46.3	46.4	46.5	**46.5**	46.7	46.8	47.0	47.1	**47.1**	**47.6**
ECONOMIC ACTIVITY												
Real GDP growth (yoy)	**5.9**	4.8	4.9	2.1	4.1	**3.9**	4.0	4.2	4.8	5.0	**4.5**	**5.5**
Citi's Colombia Activity Indicator (CAI, y/y)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**…**
Real GDP growth (qoq, annualized)	**…**	0.8	5.3	-2.6	13.7	**…**	0.3	6.2	-0.4	14.4	**…**	**…**
Domestic Demand Growth (ex-inventory, yoy)	**8.4**	5.8	6.3	2.3	5.9	**5.1**	5.2	4.2	5.5	4.2	**4.7**	**5.4**
Real Investment Growth (yoy)	**17.2**	7.8	12.8	-3.0	8.3	**6.4**	6.2	4.5	7.0	8.3	**6.5**	**4.5**
Real Consumption Growth (yoy)	**5.7**	5.1	4.1	4.2	4.1	**4.4**	4.8	4.1	5.0	3.8	**4.4**	**5.8**
Real Private Consumption Growth (yoy)	**6.5**	5.6	4.0	4.0	4.1	**4.4**	4.8	4.0	5.0	4.0	**4.4**	**5.8**
Real Government Consumption Growth (yoy)	**2.6**	3.3	4.5	4.8	4.0	**4.1**	5.0	4.5	5.0	3.1	**4.4**	**5.7**
Real Export Growth (yoy)	**11.4**	6.9	3.6	2.5	4.0	**4.2**	9.2	8.4	7.6	8.0	**8.3**	**10.5**
Real Import Growth (yoy)	**21.5**	11.5	10.0	8.8	5.5	**8.9**	8.0	9.0	6.2	7.0	**7.5**	**8.4**
PRICES												
Consumer Price Inflation (yoy, eop)	**3.7**	3.4	3.2	3.1	2.4	**2.4**	2.1	2.3	2.5	3.0	**3.0**	**3.2**
Consumer Price Inflation (yoy, average)	**3.4**	3.5	3.4	3.1	2.8	**3.2**	2.0	2.2	2.5	2.7	**2.4**	**3.3**
Core Inflation (yoy, eop)	**3.1**	2.9	2.8	2.9	2.4	**2.4**	2.0	2.1	2.4	2.9	**2.9**	**3.2**
Consumer Price Inflation (qoq, eop)	**…**	1.5	0.5	0.3	0.1	**…**	1.1	0.8	0.5	0.6	**…**	**…**
Core Inflation (qoq, eop)	**…**	1.4	0.4	0.4	0.2	**…**	1.0	0.5	0.7	0.6	**…**	**…**
Wages (% change yoy, nominal)	**4.2**	4.2	4.3	4.3	4.3	**4.3**	4.3	4.4	4.4	4.4	**4.4**	**4.5**
Exchange Rate (local currency to USD, eop)	**1,943**	1,792	1,785	1,801	1,768	**1,768**	1,751	1,747	1,755	1,775	**1,775**	**1,800**
Exchange Rate (local currency to USD, average)	**1,854**	1,792	1,791	1,807	1,805	**1,799**	1,756	1,748	1,752	1,767	**1,755**	**1,789**
Exchange Rate (% change yoy, + dep.)	**-2.4**	-4.7	0.2	-6.0	-9.0	**-9.0**	-2.3	-2.1	-2.5	0.4	**0.4**	**1.4**
MONETARY SECTOR												
Monetary Base growth (yoy)	**18.3**	10.5	18.8	11.5	10.0	**10.0**	12.0	12.0	12.5	12.8	**12.8**	**14.0**
Broad Money growth (yoy)	**19.0**	17.2	16.4	13.7	15.3	**15.3**	14.5	14.6	14.8	15.0	**15.0**	**15.3**
Credit Growth (yoy)	**22.4**	20.0	17.9	15.2	15.8	**15.8**	17.0	17.0	17.5	17.5	**17.5**	**17.5**
Central Bank Rate (REPO, eop)	**4.75**	5.25	5.25	4.75	4.25	**4.25**	4.00	4.00	4.00	4.50	**4.50**	**5.25**
Central Bank Rate (REPO, average)	**4.10**	5.17	5.25	4.83	4.50	**4.94**	4.00	4.00	4.00	4.42	**4.10**	**5.13**
Interbank Rate (eop)	**4.8**	5.3	5.3	4.8	4.3	**4.3**	4.1	4.1	4.1	4.6	**4.6**	**5.3**
Interbank Rate (average)	**4.1**	5.2	5.3	4.9	4.5	**5.0**	4.1	4.1	4.1	4.3	**4.1**	**5.1**
Short-term Rate (eop)	**5.2**	5.3	5.4	5.2	5.2	**5.2**	4.5	4.4	4.4	4.9	**4.9**	**5.7**
Short-term Rate (average)	**4.2**	5.2	5.4	5.4	5.3	**5.3**	4.7	4.5	4.4	4.7	**4.6**	**5.5**
Long-term Rate (eop)	**7.6**	7.3	7.0	6.1	5.6	**5.6**	5.3	5.3	5.3	5.8	**5.8**	**6.6**
Long-term Rate (average)	**8.0**	7.3	7.1	6.5	5.9	**6.7**	5.3	5.3	5.3	5.6	**5.4**	**6.4**
EXTERNAL SECTOR												
Current Account Balance (% of GDP)	**-3.0**	-1.7	-3.6	-4.1	-3.3	**-3.2**	-3.3	-3.1	-3.4	-3.0	**-3.2**	**-3.0**
Current Account Balance (in US$ bn)	**-10.0**	-1.5	-3.3	-3.6	-3.1	**-11.5**	-3.2	-3.1	-3.4	-3.1	**-12.8**	**-12.7**
Trade Balance (in US$ bn)	**5.6**	2.4	0.9	0.4	1.0	**4.8**	1.1	1.2	1.0	1.3	**4.6**	**5.1**
Exports, f.o.b. (in US$ bn)	**57.7**	15.5	15.2	14.7	16.0	**61.4**	16.6	16.9	17.0	17.4	**67.9**	**73.5**
Main exports (oil, coffee, coal)	**39.8**	11.1	10.4	9.5	11.5	**42.5**	12.2	12.5	12.5	12.8	**50.0**	**55.7**
Other	**18.0**	4.5	4.7	5.1	4.5	**18.8**	4.4	4.4	4.5	4.6	**17.9**	**17.8**
Imports, c.i.f. (US$ Bn)	**52.2**	13.1	14.2	14.2	15.0	**56.6**	15.5	15.7	16.0	16.1	**63.3**	**68.4**
Services (net)	**-4.6**	-1.1	-1.4	-1.4	-0.9	**-4.7**	-0.9	-0.9	-0.9	-1.0	**-3.8**	**-3.8**
Credit	**4.9**	1.3	1.3	1.4	1.1	**5.1**	1.1	1.2	1.2	1.2	**4.6**	**4.7**
Debit	**9.5**	2.4	2.6	2.8	2.0	**9.9**	2.1	2.1	2.1	2.1	**8.4**	**8.5**
Income (net)	**-15.8**	-4.0	-4.0	-3.8	-4.4	**-16.2**	-4.6	-4.6	-4.7	-4.7	**-18.5**	**-18.9**
Current Transfers (net)	**4.9**	1.1	1.2	1.1	1.2	**4.6**	1.2	1.2	1.2	1.2	**4.9**	**4.9**
Foreign Direct Investment (in US$ bn)	**13.6**	3.6	4.3	4.0	4.2	**16.0**	4.2	4.3	4.2	4.5	**17.2**	**16.7**
Terms of Trade (% change yoy, + improvement)	**13.6**	5.1	-1.2	0.5	-6.3	**-6.3**	-2.5	0.0	0.8	1.0	**1.0**	**2.3**
International Reserves (in US$ bn)	**32.3**	33.1	34.3	35.8	37.0	**37.0**	38.2	39.4	40.6	41.8	**41.8**	**46.6**
PUBLIC SECTOR												
Central Gov. Primary Budget Balance (% of GDP)	**-0.4**	-0.3	-0.2	0.0	0.1	**0.1**	0.1	0.2	0.3	0.2	**0.2**	**0.4**
Central Gov. Budget Balance (% of GDP)	**-2.8**	-2.7	-2.6	-2.5	-2.4	**-2.4**	-2.4	-2.4	-2.4	-2.4	**-2.4**	**-1.9**
Consolidated Primary Balance (% of GDP)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**0.0**
Consolidated Public Sector Balance (% of GDP)	**-2.9**	-2.5	-2.2	-1.8	-1.4	**-1.4**	-1.4	-1.3	-1.3	-1.2	**-1.2**	**-0.7**
Central Gov. Revenues (% of GDP)	**15.5**	15.6	15.8	15.9	16.0	**16.0**	16.1	16.1	16.2	16.2	**16.2**	**16.4**
DEBT INDICATORS												
Gross External Debt (US$ bn)	**75.9**	76.9	76.3	79.9	82.6	**82.6**	84.4	86.3	86.3	86.6	**86.6**	**86.4**
Gross External Debt (% of GDP)	**22.4**	21.9	21.3	22.2	22.7	**22.7**	22.8	22.8	22.3	21.8	**21.8**	**20.3**
Public (% of GDP)	**12.6**	12.6	12.3	12.6	13.1	**13.1**	13.2	13.4	12.9	12.6	**12.6**	**11.6**
Private (% of GDP)	**9.8**	9.3	9.0	9.6	9.6	**9.6**	9.5	9.5	9.3	9.2	**9.2**	**8.7**
Gross Government Debt (% of GDP)	**34.9**	33.6	32.9	32.7	36.9	**36.9**	36.6	36.4	35.6	34.9	**34.9**	**31.8**
Domestic (% of GDP)	**24.5**	24.2	23.7	23.4	24.1	**24.1**	23.7	23.2	22.7	22.2	**22.2**	**20.1**
External (% of GDP)	**10.4**	9.4	9.3	9.3	12.9	**12.9**	13.0	13.2	12.9	12.8	**12.8**	**11.7**
External Debt (% of exports of goods and services)	**121.2**	114.0	116.2	124.3	120.6	**124.3**	118.9	119.5	118.7	116.8	**119.4**	**110.4**
Total External Debt Amortization (US $bn)	**6.3**	2.6	2.5	1.9	2.5	**9.6**	2.3	2.2	2.4	2.3	**9.2**	**9.1**
Total External Debt Interest Payments (US $bn)	**3.1**	0.8	0.8	0.9	0.9	**3.5**	1.0	1.0	1.0	0.9	**3.8**	**3.7**
Total External Debt Service (% exports of goods & svcs)	**15.0**	5.1	5.1	4.4	5.0	**19.7**	4.6	4.4	4.6	4.4	**18.0**	**16.3**
Public-external Debt Service (% exports of goods & svcs)	**2.4**	1.3	1.2	1.4	1.3	**2.4**	1.4	1.3	1.3	1.3	**1.9**	**1.7**
Public-external Debt Service (% of GDP)	**1.3**	2.5	1.8	1.0	1.7	**1.8**	1.4	1.3	1.4	1.3	**1.4**	**1.3**
SAVINGS - INVESTMENT BALANCE												
Savings (% of GDP)	**24.1**	25.2	25.8	22.5	24.7	**24.6**	24.2	26.3	23.7	25.9	**25.0**	**25.0**
Investment (% of GDP)	**27.1**	26.9	29.4	26.6	28.0	**27.7**	27.5	29.4	27.2	28.9	**28.3**	**28.0**

Source: Citi Research

Mexico

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- **Summary view** — Economic activity in October grew strongly, but a mild deceleration is expected for the months ahead, consistent with our 4Q12 GDP forecast of 3.1%YoY. We are holding our 2012 and 2013 GDP growth forecast at 3.9% and 3.6%, respectively. Headline inflation ended 2012 within Banxico´s forecast range, and we see no reasons for rate changes this year.

- **Things to watch** — Watch out for Banxico´s quarterly inflation report, scheduled for release on February 13. We expect President Peña Nieto to send Congress two bills in February, one on reforming the telecom sector and the other on improving public debt management and transparency at the local level.

- **Strategy** — A reduction in global risk aversion should provide room for further peso strengthening, notwithstanding temporary market jitters. We now see the USD/MXN at 12.4 in a 0-3m horizon, with forecast risks tilted to the downside. Potential triggers for further FX strength include progress in structural reforms and country rating upgrades.

Mexico’s activity ended 2012 with good momentum

Economic activity in October improved significantly. The most recent release of the Global Economic Indicator – IGAE-(a monthly proxy for GDP) – showed a strong rebound. It increased 0.2%MoM and 4.3%YoY, after a decline of 0.1%MoM and a sluggish 1.2%YoY in September. However, the latest data point to slower external demand, which remains a concern, as we believe that local manufacturing activity is already reflecting the slowdown in US manufacturing. In November, foreign demand for Mexican manufacturing exports was relatively weak, increasing only 4.6%YoY. This figure is way below the one observed in October (16.8%YoY) and below the average for the year (January to October: 8.5%YoY), but not as bad as the average registered in August-September (1.1%YoY). Therefore, manufacturing production slowed down in November to 3.9%YoY from 4.8%YoY in October, despite the solid increase in auto production (in units) reported for that month (14.7%YoY). Moreover, we estimate a lower growth rate for December, as in that month, auto industry output (in unit terms) has already been reported to have posted negative annual growth.

Signs of gradual expansion in the internal market are unchanged: we choose to hold our GDP growth forecast unchanged for the time being. The weak spot within industrial activity is construction: in November, it posted a 1.1%YoY decline, a lackluster performance. But imported capital goods showed an impressive recovery in October and November, pointing to a rebound in the annual growth rate of investment in 4Q12 compared with the rate reported for 3Q. Meanwhile, we estimate that private consumption's pace of growth accelerated in 4Q12 to 2.7%YoY from 2.2%YoY in 3Q, supported by good employment figures – formal sector employment posted 4.7%YoY growth in 4Q, in line with the growth rate observed for 2012 as a whole – and consumer credit continued to grow at a double-digit rate. For 2013, we foresee internal demand will continue its upward trend, with private consumption and investment growing at 3.5%YoY and 6.8%YoY, respectively. Therefore, while manufacturing performance increases the downside risk to our GDP growth forecast, local demand is still offsetting this. We are therefore sticking to our view of a mild GDP growth slowdown during 4Q12, to 3.1%YoY from 3.3%YoY in 3Q and we reiterate our 2012 and 2013 GDP growth forecasts of 3.9% and 3.6%, respectively.

Inflation surprisingly ended 2012 below the 4% threshold

Inflation ended 2012 within Banxico´s forecast range, and we still call for an all quiet on the monetary policy front. Headline inflation closed 2012 at 3.6%, driven by a surprising drop in the price of mobile phone services. This positive shift in relative prices, along with fewer price pressures from non-core items and well-behaved trajectories for other core components (services in particular) should result in headline inflation closing this year at 3.8% YoY, within Banxico´s variability range. Regarding our monetary policy prospect, Banxico has recently modified its tone from hawkish towards a clear dovish terrain by stating in its January's communiqué that a rate cut "could be advisable". Under these circumstances, we now see a significant increase in the probabilities of Banxico opting for a rate cut, associating a 40% probability to such outcome. Hence, we do not think a rate cut is imminent and maintain our central scenario of no policy rate change during 2013.The next policy announcement is going to be held on March 8. We see the USD/MXN at 12.4 and 12.5 for the three-month horizon and year-end, respectively.

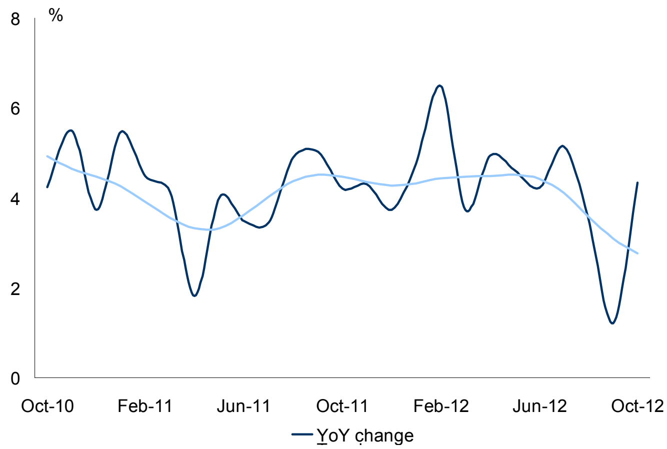
2013 could be the year of structural reforms

So far, the 62nd legislature has been remarkably productive: political decision making in Mexico compares favorably with the situation elsewhere. The case of budget negotiations is not an exception. The budgetary assumption for the average price of the Mexican oil mix during 2013 was increased to USD 86 per barrel from USD 84.9 originally, which along with some changes in terms of tax collection estimates, suggests total revenues will reach MXN 3.6 trillion, a 0.7% increase vs. the original proposal. As a proportion of GDP, the fiscal balance (net of investment by PEMEX) and Public Sector Borrowing Requirements will reach 0% and 2.4% respectively while the debt to GDP ratio is projected at 37%, all in line with the original proposal.

This year, the "Pact for Mexico" should provide a roadmap for reform, even though precise timing will be determined by political circumstances. Said pact features an unusually detailed description of reforms to be implemented and their approximate timing. It is evident that a lot of political work is behind this document. In the case of energy reform, the most relevant item from the point of view of the market, the pact suggests related bills could reach Congress in1H13. However, in our reading, political negotiations and consensus building (particularly within each party) will take some time and thus we think energy reform will materialize in 2H13. Meanwhile, we think that the Peña Nieto administration will work in other reforms that are also relevant and would help to create "political goodwill" to undertake the energy reform. Accordingly, we expect President Peña Nieto will send Congress two bills in February, one on telecom and the other about public debt management and accountability at the local level. We do not underestimate the political challenges the reform program involves and assume a scenario of gradual progress. That said, we are cautiously optimistic and expect that 2013 will witness meaningful progress on fiscal and energy reform, among others.

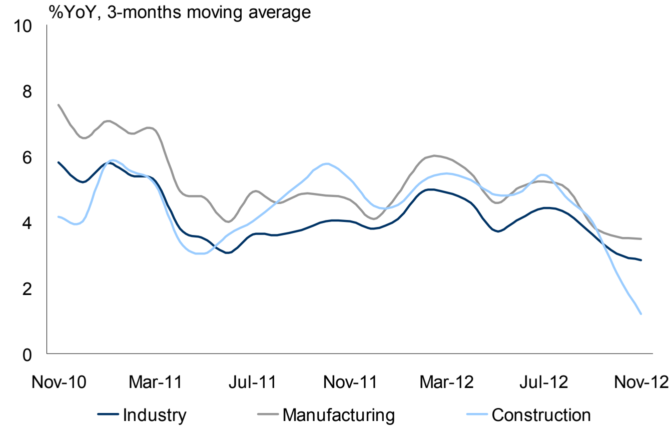
Selected Charts — Mexico

Figure 41. Activity rebounded strongly in October but …



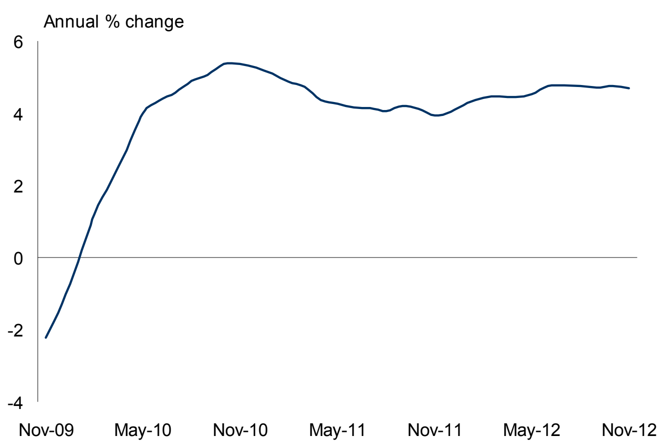
Sources: INEGI and Banamex

Figure 42. … Industrial production kept slowing



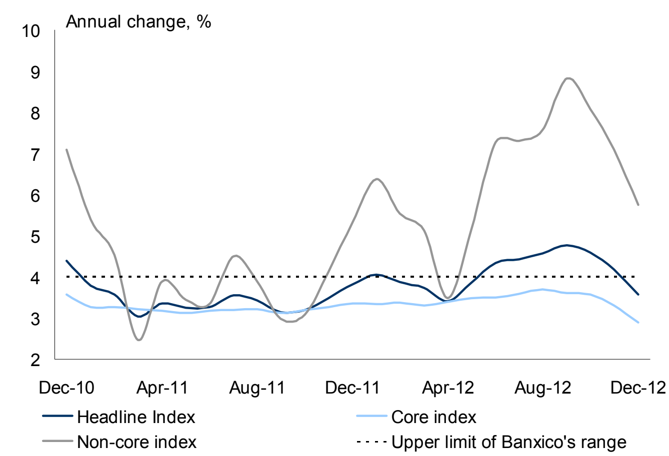
Sources: INEGI and Banamex

Figure 43. Formal sector job growth still goes forth



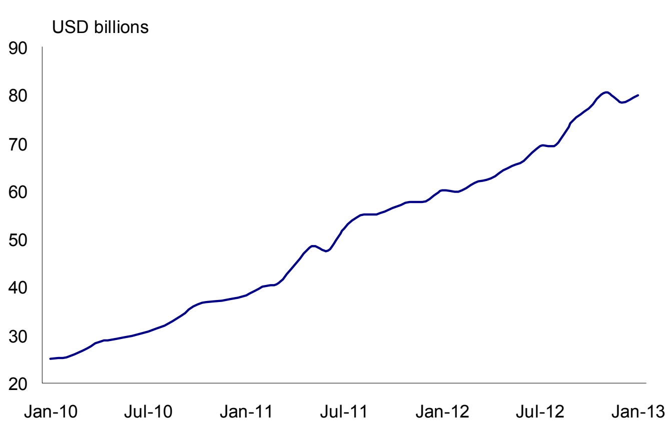
Sources: IMSS and Banamex

Figure 44. Inflation is now within Banxico's variability range



Sources: Banxico and Banamex

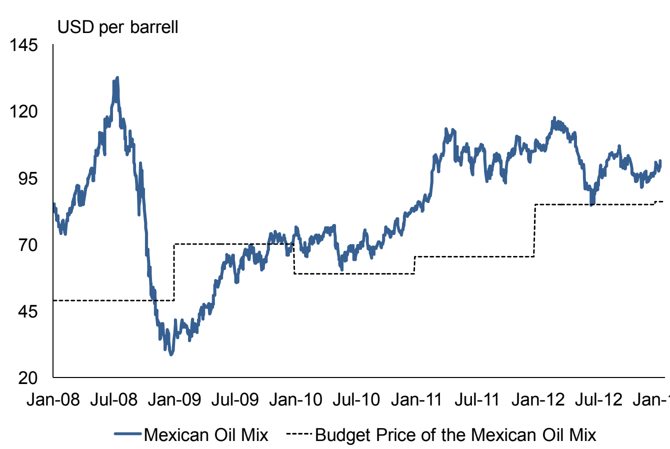
Figure 45. Holdings of M Bono by Foreign Investors keep rising



Note: For January '13, data spans first eight days.

Sources: Banxico and Banamex

Figure 46. Oil prices in line with budgetary projections



Note: For January '13, data spans seventeen days.

Sources: Finance Ministry, Pemex and Banamex

Macroeconomic Indicators — Mexico

	2011	2012					2013					2014
	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj
Nominal GDP (US$ bn)	1155	287	280	297	320	1185	317	320	330	352	1318	1443
Nominal GDP (Pesos Bn)	14342	3729	3803	3912	4142	15586	3991	4109	4232	4502	16834	18171
GDP per capita (US$)	10,155	10,006	9,744	10,296	11,070	10,295	10,917	11,002	11,300	12,020	11,327	12,255
Unemployment Rate (%)	5.2	5.0	4.8	5.1	5.0	5.0	4.5	4.4	4.6	4.1	4.4	4.5
Population (millions)	113.7	114.7	115.1	115.4	115.7	115.1	116.1	116.4	116.7	117.1	116.4	117.7
ECONOMIC ACTIVITY												
Real GDP growth (yoy)	3.9	4.9	4.4	3.3	3.1	3.9	2.5	3.6	3.8	4.4	3.6	3.8
Citi's Mexico Activity Indicator (MAI, sa, y/y)	4.1	4.4	4.6	3.6	3.4	4.0	3.0	3.0	3.7	4.2	3.5	3.8
Real GDP growth (qoq, sa, annualized)	…	5.4	3.3	1.8	2.4	…	3.1	4.2	6.1	4.8	…	…
Domestic Demand Growth (ex-inventory, yoy)	4.9	5.0	3.9	2.6	3.0	3.6	2.9	3.9	4.1	4.8	3.9	4.5
Real Investment Growth (yoy)	2.7	10.4	6.4	5.2	0.5	5.5	1.5	5.9	4.0	5.2	4.2	1.7
Real Consumption Growth (yoy)	4.0	4.1	3.2	2.0	2.3	2.9	2.1	3.1	3.3	3.9	3.1	3.6
Real Private Consumption Growth (yoy)	4.4	4.2	3.4	2.2	2.7	3.1	2.3	3.5	3.7	4.4	3.5	4.0
Real Government Consumption Growth	2.1	3.2	2.2	0.6	0.1	1.5	0.6	0.6	0.8	0.7	0.7	1.0
Real Export Growth (yoy)	7.5	5.1	6.4	2.4	5.9	5.0	4.2	2.9	4.0	4.9	4.0	6.5
Real Import Growth (yoy)	7.1	6.7	4.8	0.5	2.2	3.4	2.6	3.2	2.9	4.2	3.2	4.5
PRICES												
Consumer Price Inflation (yoy, eop)	3.8	3.7	4.3	4.8	3.6	3.6	3.9	4.0	3.6	3.8	3.8	3.7
Consumer Price Inflation (yoy, average)	3.4	3.9	3.9	4.6	4.1	4.1	3.6	4.1	3.7	3.7	3.8	3.7
Core Inflation (yoy, eop)	3.4	3.3	3.5	3.6	2.9	2.9	2.8	2.9	3.1	3.5	3.5	3.5
Consumer Price Inflation (qoq, eop)	…	1.0	-0.2	1.3	1.4	…	1.3	-0.1	0.9	1.6	…	…
Core Inflation (qoq, eop)	…	1.1	0.6	0.7	0.4	…	1.0	0.7	0.9	0.8	…	…
Wages (% change yoy, nominal)	5.4	4.3	4.2	4.5	4.5	4.4	4.6	5.0	4.5	4.2	4.6	4.2
Exchange Rate (local currency to USD, eop)	13.9	12.8	13.4	12.9	12.9	12.9	12.4	12.4	12.5	12.5	12.5	12.5
Exchange Rate (local currency to USD, average)	12.5	12.9	13.6	13.1	13.0	13.1	12.6	12.4	12.5	12.5	12.5	12.5
Exchange Rate (% change yoy, + dep.)	12.9	7.6	14.0	-7.6	-7.8	-7.8	-3.2	-7.2	-2.8	-2.7	-2.7	0.0
MONETARY SECTOR												
Monetary Base growth (yoy)	6.1	9.9	13.0	10.3	8.4	8.4	6.7	7.3	7.1	7.5	7.5	7.2
Credit growth (yoy)	7.5	7.2	6.7	6.8	7.4	7.4	7.7	7.6	7.2	7.1	7.1	6.9
Broad Money growth (yoy)	11.8	10.5	8.5	8.4	7.9	7.9	8.4	8.6	8.3	8.3	8.3	8.8
Central Bank Rate (Official Overnight, eop)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	5.00
Central Bank Rate (Official Overnight, average)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.65
Interbank Rate (eop)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	5.0
Interbank Rate (average)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.6
Short-term Rate (eop)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	5.0
Short-term Rate (average)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.6
Long-term Rate (eop)	6.5	6.2	5.4	5.3	5.4	5.4	5.6	5.9	6.2	6.5	6.5	7.0
Long-term Rate (average)	6.8	6.1	5.8	5.3	5.5	5.7	5.6	5.8	6.1	6.4	6.0	6.8
EXTERNAL SECTOR												
Current Account Balance (% of GDP)	-0.8	0.1	0.3	-1.2	-2.3	-0.8	-0.5	-0.6	-2.3	-2.9	-1.6	-1.8
Current Account Balance (in US$ bn)	-9.2	0.2	0.9	-3.7	-7.4	-10.0	-1.7	-2.0	-7.6	-10.3	-21.6	-26.2
Trade Balance (in US$ bn)	-1.5	1.8	1.5	-1.2	-4.6	-2.5	0.6	-0.7	-5.2	-7.9	-13.2	-18.4
Exports, f.o.b. (in US$ bn)	349.4	89.7	94.5	91.2	95.1	370.5	93.1	98.5	94.4	99.1	385.1	421.3
Main export (oil)	49.3	12.5	11.2	11.6	12.0	47.4	10.7	10.1	9.4	9.8	40.0	37.9
Other	300.1	77.2	83.2	79.6	83.1	323.1	82.5	88.4	85.0	89.3	345.1	383.5
Imports, f.o.b. (US$ Bn)	350.8	87.9	92.9	92.4	99.6	372.9	92.6	99.2	99.6	106.9	398.3	439.8
Services (net)	-13.5	-2.0	-3.2	-3.9	-4.0	-13.1	-2.6	-4.0	-4.0	-3.6	-14.3	-14.1
Credit	15.9	4.7	4.1	3.7	4.3	16.7	4.9	4.4	3.9	4.7	17.9	19.3
Debit	29.3	6.7	7.2	7.6	8.3	29.8	7.6	8.4	8.0	8.3	32.2	33.4
Income (net)	-17.2	-4.9	-4.0	-4.1	-4.1	-17.1	-5.0	-4.0	-4.0	-4.1	-17.2	-17.5
Current Transfers (net)	23.0	5.4	6.6	5.5	5.2	22.6	5.4	6.7	5.7	5.3	23.0	23.7
Foreign Direct Investment (in US$ bn)	20.4	5.0	4.6	4.9	5.6	20.1	23.7	5.6	4.4	5.0	38.7	22.1
Terms of Trade (% change yoy, + improvement)	7.5	0.7	-2.3	0.6	1.7	0.2	1.6	2.6	3.2	3.1	2.6	0.0
International Reserves (in US$ bn)	142.5	150.3	157.3	161.9	163.5	163.5	170.7	175.4	179.9	184.7	184.7	201.0
PUBLIC SECTOR												
Central Gov. Primary Budget Balance (% of GDP)	…	…	…	…	…	…	0.0	0.0	0.0	0.0	…	…
Central Gov. Budget Balance (% of GDP)	…	…	…	…	…	…	0.0	0.0	0.0	0.0	…	…
Consolidated Primary Balance (% of GDP)	-0.5	0.0	0.2	-0.2	-0.5	-0.5	0.2	-0.1	-0.1	-0.3	-0.4	-0.2
Consolidated Public Sector Balance (% of GDP)	-2.4	-0.3	-0.6	-0.2	-1.1	-2.2	0.0	-0.8	-0.3	-1.0	-2.1	-2.0
Central Gov. Revenues (% of GDP)	21.7	23.1	21.5	20.8	23.2	22.2	23.3	21.4	22.2	22.9	22.5	21.9
DEBT INDICATORS												
Gross External Debt (US$ bn)	281.0	304.3	309.6	311.8	314.9	314.9	321.0	327.3	330.7	333.9	333.9	354.1
Gross External Debt (% of GDP)	24.3	26.2	27.1	27.2	26.6	26.6	26.4	26.1	25.7	25.3	25.3	24.5
Public (% of GDP)	15.8	17.9	18.4	18.5	18.1	18.1	18.0	17.7	17.4	17.2	17.2	16.7
Private (% of GDP)	8.5	8.4	8.8	8.8	8.5	8.5	8.4	8.4	8.3	8.1	8.1	7.8
Gross Government Debt (% of GDP)	39.6	39.2	39.1	38.9	39.5	39.5	39.0	38.3	37.7	38.2	38.2	38.1
Domestic (% of GDP)	23.8	21.3	20.7	20.4	21.4	21.4	20.9	20.6	20.3	21.0	21.0	21.4
External (% of GDP)	15.8	17.9	18.4	18.5	18.1	18.1	18.0	17.7	17.4	17.2	17.2	16.7
External Debt (% of exports of goods and services)	77.0	81.6	82.0	82.3	82.6	82.6	83.4	84.1	84.2	83.8	83.8	82.0
Total External Debt Amortization (US $bn)	51.5	12.1	12.5	12.8	12.8	50.2	12.9	13.1	13.3	13.4	52.7	51.6
Total External Debt Interest Payments (US $bn)	12.9	3.3	3.5	3.0	3.4	13.1	3.4	3.7	3.2	3.5	13.7	13.3
Total External Debt Service (% exports of goods & svcs)	14.1	14.7	14.4	11.5	11.6	13.0	12.5	12.1	12.2	12.6	12.3	12.0
Public-external Debt Service (% exports of goods & svcs)	5.5	5.9	6.8	4.0	4.5	5.3	5.5	5.7	4.2	4.9	5.1	4.8
Public-external Debt Service (% of GDP)	1.7	1.9	2.2	1.3	1.4	1.6	1.7	1.8	1.3	1.5	1.6	1.6
SAVINGS - INVESTMENT BALANCE												
Savings (% of GDP)	25.0	25.7	26.7	25.4	25.4	25.8	25.7	26.1	24.9	25.1	25.4	25.8
Investment (% of GDP)	25.8	25.6	26.3	26.7	27.7	26.6	26.2	26.7	27.2	28.0	27.0	27.6

Source: Citi Research

Peru

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- **Summary view** — Inflation has finally returned to the central bank's 2% ± 1% target for the first time since June 2011, as the price shocks that led inflation higher in 2011 dissipated. We expect fairly stable inflation in 2013, ending the year at 2.8%, reflecting a stable output gap and little pressure from food or energy prices.
- **Things to watch** — In our view, credit growth remains too high for comfort at around 17% YoY. Mortgages are leading the way, growing over 20% YoY, even though they still represent a relatively small share of bank's loan portfolio. Still, real estate market performance is starting to raise some eyebrows.
- **Strategy** — We have lowered our year-end forecast for the USD/PEN to 2.45, reflecting the fact that fundamentals remain supportive of further currency strengthening. We also maintain our call that the BCRP will continue to rely on macroprudential measures instead of interest rate moves.

At last, inflation returns to the target

After standing above 3% for most of 2012, inflation has finally returned to the target, ending the year at 2.7%. In November, inflation came down to 2.7%, from 3.3% the month before. This represented the first time since June 2011 that inflation was within the central bank's 2% ±1% target. The decline in inflation has been mostly explained by a reversal of the price shocks that led inflation higher toward the end of 2011. By late 2012, annual food inflation, representing 37.8% of the CPI basket, decelerated to a manageable 4.1% from 8% in December 2011. Similarly, by December 2012 annual inflation in the Transportation and Communications category was running at -0.1% from 2.8% the year before, thanks to the large decline in fuel prices which has helped keep public transportation prices in check. In the meantime, inflation excluding food, electricity and fuels stood at 1.7%, its lowest point since early 2011.

The same reasons that led inflation lower in late 2012 make it difficult to foresee further declines in 2013, which is why our call is for inflation to remain fairly stable. For starters, reports by the National Weather Service (SENAMHI) suggest that weather conditions will be neutral during the next couple of months and that a harsh El Niño phenomenon is not to be expected, providing further support for food price stability. Our commodity strategists' 2013 call is for energy prices to hover around current levels, or even come down a bit. In our forecasts, we do not foresee fuel prices to continue trending significantly lower and hence, expect transportation prices to normalize throughout the year. This would take place amid a pace of activity growth that, while strong, remains consistent with the economy's potential output. All in all, we forecast inflation to end the year at 2.8% only slightly above the 2012 print.

How low can the USD/PEN go?

Despite the authorities' efforts, the USD/PEN just keeps grinding lower. The USD/PEN closed the year at 2.55, the lowest level in over 16 years. In the first days of 2013, the USD/PEN has traded as low as 2.5375. This, despite measures from both the Ministry of Finance and the central bank to stem currency appreciation. In the late stages of 2012, the Ministry of Finance announced that it would prepay up to US$1.5 billion in external debt to help put a brake on the USD/PEN's slide. Shortly after, the central bank announced a new round of reserve requirement increases on local and foreign currency deposits (by 25bp on local currency deposits and 75bp on foreign currency ones).

We have revised our FX outlook to reflect recent developments and now expect the currency to close the year at USD/PEN 2.45. Overall, fundamentals remain supportive of PEN appreciation against the USD. The economy is growing at a robust pace, commodity prices remain high by historical standards and FDI continues pouring into the country. Furthermore, the de-dollarization process for deposits continues unabated and the private sector's access to cheap external financing is yet to dry out. However, it is safe to say that the authorities will not remain idle and that further measures to stem FX appreciation are in the books. In fact, during the first few weeks of 2013, the BCRP has stepped up its intervention in the FX market, buying US$1.1 billion up to January 15. Further increases in reserve requirements and tighter regulation on bank's FX position are not to be ruled out, along with potential increases in pension funds' foreign investment limits. In fact, the BCRP recently raised the limit on pension funds' foreign investments to 32% of assets under management. Although we believe the measure should not revert the trend in the USD/PEN, it would help slow the pace of currency appreciation.

Credit growth remains too high for comfort

Given the situation with the FX, we believe the central bank will continue to keep the policy rate unaltered at 4.25% for the foreseeable future. We stick to our view that the central bank will avoid putting further pressure on the exchange rate. It is nonetheless worthy to highlight that credit continues growing at an accelerated pace.

Bank credit grew 17.4% YoY in November, led by mortgages. According to data from the BCRP, credit growth remains well into double digit territory for the 34th consecutive month. As has been the case in previous months, growth was led by mortgages, which expanded by 25.9% YoY. In the meantime, corporate and consumer credit have been growing at annual rates closer to 16%. In terms of the currency composition of credit, credit in foreign currency is growing at a slightly faster rate (18.4% YoY) than credit denominated in PEN (16.6% YoY). Not surprisingly, the gap between dollarization for deposits and credit keeps growing wider, implying additional currency mismatches in the private sector's balance sheet.

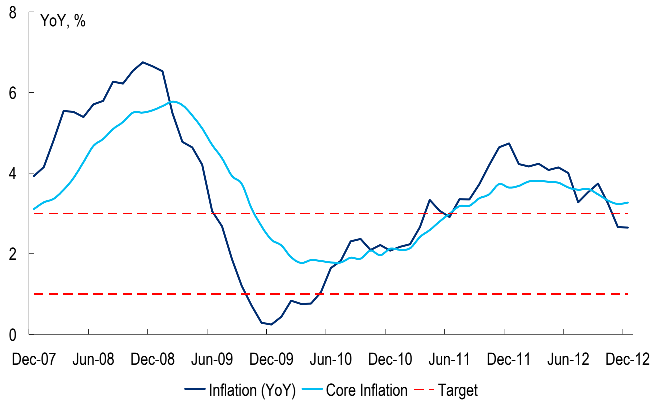
Consistent with growth in credit, especially in mortgages, housing market performance is starting to raise some eyebrows. According to a report by the central bank[1], despite the substantial increase in home prices over the past few years, the price-to-rent ratio[2] does not suggests that Lima's housing market is currently experiencing an unsustainable bubble. The report estimates that on average, the price-to-rent ratio for high and middle income apartments in Lima stands at 15.3 years, which is still within the range of values considered normal (between 12.5 and 25 years). Furthermore, according to the report, the rise in real estate prices also reflects fundamentals factors such as the improvement in household finances, higher availability of mortgages and the decline in interest rates. Despite evidence against a bubble in housing prices, we believe this is a subject that policymakers will keep monitoring closely and would not rule out measures to cool the real estate market in 2013.

[1] See http://www.bcrp.gob.pe/docs/Publicaciones/Notas-Estudios/2012/nota-de-estudios-76-2012.pdf

[2] The price-to-rent ratio compares the cost of owning and renting a property. It is equivalent to the price-to-earnings ratio for stocks.

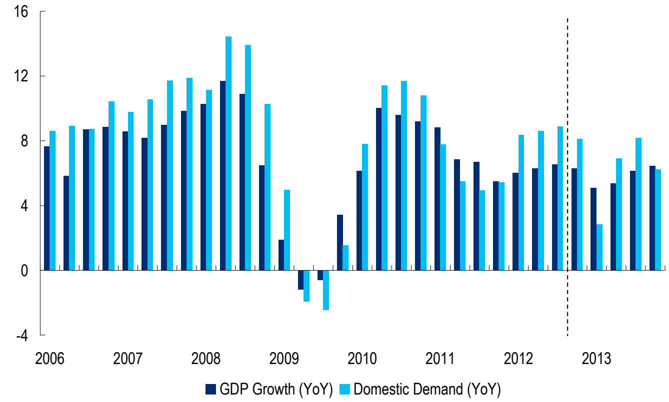
Selected Charts — Peru

Figure 47. Inflation returns to the target



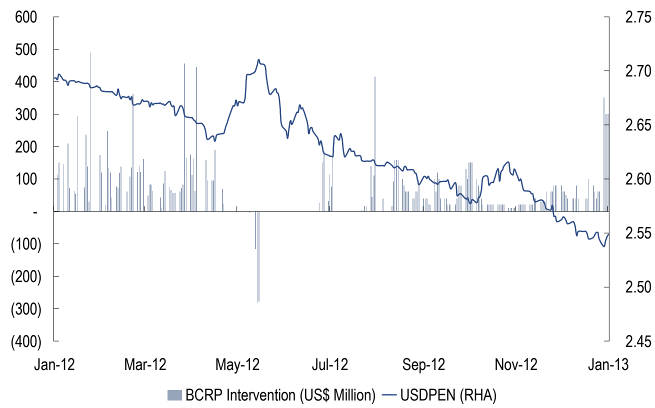
Source: INEI and Citi Research

Figure 48. We expect growth of 5.8% in 2013



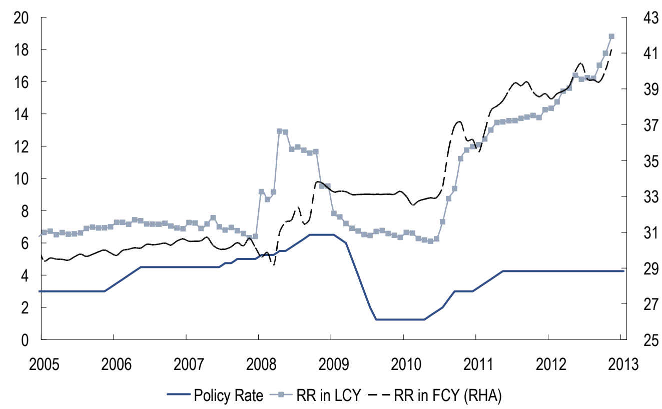
Source: BCRP and Citi Research

Figure 49. The USD/PEN keeps grinding lower



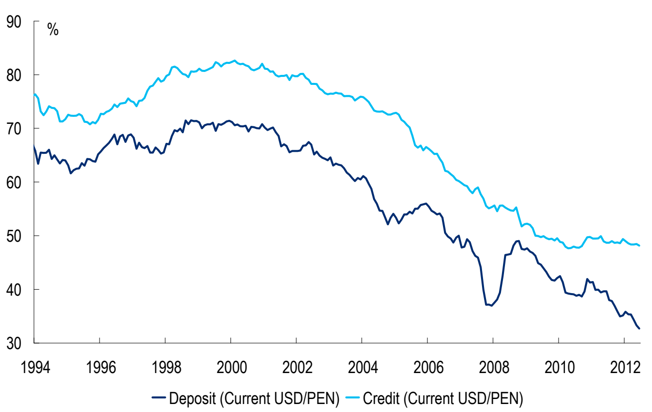
Source: Bloomberg

Figure 50. Changes in rates unlikely in our view



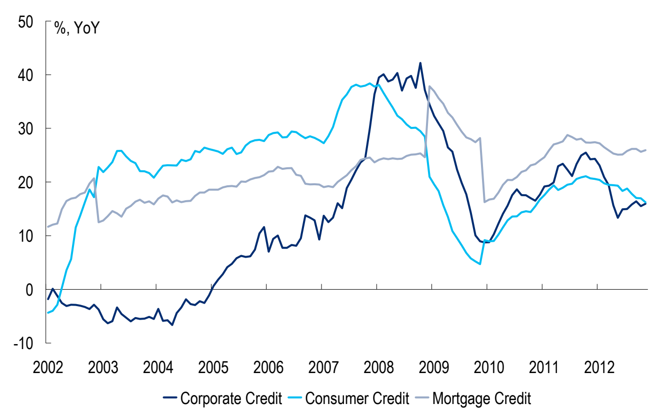
Source: BCRP and Citi Research

Figure 51. De-dollarization of deposits continues.



Source: BCRP and Citi Research

Figure 52. Credit growth remains too high for comfort



Source: BCRP and Citi Research

Macroeconomic Indicators — Peru

	2011	2012					2013					2014
	Est.	Q1	Q2	Q3	Q4	**Proj.**	Q1	Q2	Q3	Q4	**Proj.**	**Proj**
Nominal GDP (US$ bn)	**176**	47	50	49	53	**199**	53	58	57	61	**229**	**257**
Nominal GDP (Soles Bn)	**487**	125	134	130	137	**526**	135	145	142	149	**571**	**620**
GDP per capita (US$)	**6,036**	6,369	6,814	6,694	7,164	**6,721**	7,163	7,718	7,605	8,063	**7,593**	**8,408**
Unemployment Rate (%)	**7.7**	8.6	6.3	7.5	7.3	**7.4**	9.3	7.3	7.5	7.2	**7.8**	**7.8**
Population (millions)	**29.2**	29.3	29.4	29.5	29.7	**29.7**	29.8	29.9	30.0	30.1	**30.1**	**30.6**
ECONOMIC ACTIVITY												
Real GDP growth (yoy)	**6.9**	6.0	6.3	6.5	6.3	**6.3**	5.1	5.4	6.1	6.5	**5.8**	**6.0**
Citi's Peru Activity Indicator (PEAI, y/y)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**…**
Real GDP growth (qoq, sa, annualized)	**…**	8.5	6.6	6.6	3.5	**…**	3.8	7.7	9.7	4.8	**…**	**…**
Domestic Demand Growth (ex-inventory, yoy)	**5.9**	8.4	8.6	8.9	8.1	**8.5**	2.8	6.9	8.2	6.2	**6.1**	**6.4**
Real Investment Growth (yoy)	**10.0**	4.2	10.2	20.2	15.0	**12.6**	6.9	7.9	8.3	7.9	**7.8**	**7.1**
Real Consumption Growth (yoy)	**6.2**	5.2	6.3	5.9	5.9	**5.9**	5.2	4.9	5.4	5.7	**5.3**	**5.7**
Real Private Consumption Growth (yoy)	**6.4**	6.0	5.8	5.8	5.4	**5.7**	5.0	5.0	5.5	5.7	**5.3**	**5.7**
Real Government Consumption Growth (yoy)	**4.8**	-0.7	10.5	6.7	9.0	**6.6**	6.4	4.2	4.8	5.9	**5.3**	**5.3**
Real Export Growth (yoy)	**8.8**	19.3	-0.7	-0.9	2.0	**4.4**	4.0	4.9	7.1	7.8	**6.0**	**6.7**
Real Import Growth (yoy)	**9.8**	11.4	6.1	15.0	13.0	**11.4**	6.5	7.0	7.3	7.1	**7.0**	**6.9**
PRICES												
Consumer Price Inflation (yoy, eop)	**4.7**	4.2	4.0	3.7	2.6	**2.6**	2.4	2.6	2.6	2.8	**2.8**	**2.2**
Consumer Price Inflation (yoy, average)	**3.4**	4.2	4.1	3.5	2.9	**3.7**	2.6	2.4	2.8	2.7	**2.6**	**2.5**
Core Inflation (yoy, eop)	**3.6**	3.8	3.6	3.5	3.3	**3.3**	2.9	2.8	2.8	3.0	**3.0**	**2.4**
Consumer Price Inflation (qoq, eop)	**…**	1.0	0.5	1.1	0.0	**…**	0.8	0.7	1.1	0.1	**…**	**…**
Core Inflation (qoq, eop)	**…**	1.2	0.9	0.7	0.5	**…**	0.8	0.8	0.7	0.8	**…**	**…**
Wages (% change yoy, nominal)	**15.1**	18.5	9.1	9.0	9.0	**9.0**	8.0	7.0	6.0	6.0	**6.0**	**6.0**
Exchange Rate (local currency to USD, eop)	**2.70**	2.67	2.67	2.60	2.55	**2.55**	2.53	2.50	2.47	2.45	**2.45**	**2.38**
Exchange Rate (local currency to USD, average)	**2.75**	2.68	2.67	2.61	2.58	**2.63**	2.53	2.51	2.48	2.46	**2.50**	**2.41**
Exchange Rate (% change yoy, + dep.)	**-3.9**	-4.9	-3.1	-6.3	-5.4	**-5.4**	-5.3	-6.2	-4.7	-4.0	**-4.0**	**-3.0**
MONETARY SECTOR												
Monetary Base growth (yoy)	**16.8**	32.3	25.0	38.4	43.9	**43.9**	37.8	42.4	29.8	31.0	**31.0**	**31.7**
Broad Money growth (yoy)	**11.8**	12.9	14.6	15.4	17.5	**17.5**	16.5	15.9	13.7	13.0	**13.0**	**12.2**
Credit Growth (yoy)	**14.2**	15.1	14.4	14.8	16.4	**16.4**	12.5	12.1	9.7	8.1	**8.1**	**6.5**
Central Bank Rate (Reference, eop)	**4.25**	4.25	4.25	4.25	4.25	**4.25**	4.25	4.25	4.25	4.25	**4.25**	**4.25**
Central Bank Rate (average)	**4.04**	4.25	4.25	4.25	4.25	**4.25**	4.25	4.25	4.25	4.25	**4.25**	**4.25**
Interbank Rate (eop)	**4.2**	4.2	4.2	4.3	4.3	**4.3**	4.3	4.3	4.3	4.3	**4.3**	**4.3**
Interbank Rate (average)	**4.2**	4.2	4.3	4.3	4.3	**4.3**	4.3	4.3	4.3	4.3	**4.3**	**4.3**
Short-term Rate (eop)	**4.3**	4.3	4.3	4.3	4.3	**4.3**	4.3	4.3	4.3	4.3	**4.3**	**4.3**
Short-term Rate (average)	**4.0**	4.3	4.3	4.3	4.3	**4.3**	4.3	4.3	4.3	4.3	**4.3**	**4.3**
Long-term Rate (eop)	**6.2**	5.9	5.4	4.7	4.2	**4.2**	4.2	4.5	4.5	4.5	**4.5**	**5.5**
Long-term Rate (average)	**6.5**	6.0	5.5	4.9	4.4	**5.2**	4.2	4.3	4.5	4.5	**4.4**	**5.5**
EXTERNAL SECTOR												
Current Account Balance (% of GDP)	**-1.9**	-1.5	-3.9	-5.6	-3.0	**-3.5**	-3.5	-3.1	-1.8	-2.0	**-2.6**	**-2.7**
Current Account Balance (in US$ bn)	**-3.3**	-0.7	-1.9	-2.8	-1.6	**-7.0**	-1.9	-1.8	-1.0	-1.2	**-5.9**	**-6.9**
Trade Balance (in US$ bn)	**9.3**	2.4	0.6	0.3	0.9	**4.1**	1.1	1.2	2.0	1.9	**6.2**	**6.1**
Exports, f.o.b. (in US$ bn)	**46.3**	12.0	10.6	11.3	11.1	**44.9**	10.7	11.1	12.6	12.8	**47.2**	**51.7**
Commodities	**35.8**	9.3	7.8	8.5	8.2	**33.8**	8.1	8.5	9.7	9.6	**36.0**	**39.2**
Non-commodities	**10.1**	2.6	2.7	2.7	2.9	**10.9**	2.6	2.6	2.8	3.2	**11.2**	**12.5**
Imports, c.i.f. (US$ Bn)	**37.0**	9.6	10.0	11.0	10.2	**40.8**	9.7	9.9	10.5	10.9	**41.0**	**45.6**
Services (net)	**-2.1**	-0.4	-0.5	-0.6	-0.6	**-2.2**	-0.6	-0.6	-0.5	-0.7	**-2.4**	**-3.0**
Credit	**4.4**	1.3	1.2	1.3	1.5	**5.3**	1.4	1.4	1.7	1.6	**6.1**	**6.8**
Debit	**6.5**	1.7	1.8	1.9	2.1	**7.5**	2.0	2.0	2.2	2.3	**8.5**	**9.8**
Income (net)	**-13.7**	-3.5	-2.8	-3.3	-2.9	**-12.4**	-3.4	-3.5	-3.6	-3.6	**-14.1**	**-14.9**
Current Transfers (net)	**3.2**	0.8	0.8	0.9	1.1	**3.5**	1.0	1.0	1.1	1.2	**4.4**	**4.9**
Foreign Direct Investment (in US$ bn)	**8.2**	3.6	1.9	2.8	2.2	**10.5**	2.2	2.3	2.3	2.4	**9.1**	**9.7**
Terms of Trade (% change yoy, + improvement)	**5.5**	-3.6	-7.9	-6.5	1.0	**-4.3**	-1.0	5.7	2.8	-1.4	**1.5**	**-0.8**
International Reserves (in US$ bn)	**48.8**	55.8	57.2	61.2	65.4	**65.4**	66.0	69.2	73.1	76.9	**76.9**	**87.5**
PUBLIC SECTOR												
Central Gov. Primary Budget Balance (% of GDP)	**1.9**	2.3	3.3	2.3	2.4	**2.4**	2.1	1.8	1.6	1.4	**1.4**	**0.1**
Central Gov. Budget Balance (% of GDP)	**0.8**	1.3	2.3	1.2	1.3	**1.3**	1.0	0.8	0.5	0.4	**0.4**	**-0.9**
Consolidated Primary Balance (% of GDP)	**2.9**	3.2	3.5	2.9	1.6	**1.6**	1.7	0.7	0.6	0.3	**0.3**	**-1.2**
Consolidated Public Sector Balance (% of GDP)	**1.8**	2.1	2.4	1.9	0.5	**0.5**	0.7	-0.2	-0.3	-0.6	**-0.6**	**-2.0**
Central Gov. Revenues (% of GDP)	**18.1**	18.2	18.3	19.0	19.1	**19.1**	18.9	18.7	18.5	18.3	**18.3**	**17.4**
DEBT INDICATORS												
Gross External Debt (US$ bn)	**43.5**	48.2	49.4	49.3	51.0	**51.0**	52.2	54.5	57.2	62.5	**62.5**	**70.3**
Gross External Debt (% of GDP)	**24.7**	26.5	26.3	25.6	25.6	**25.6**	25.4	25.5	25.9	27.3	**27.3**	**27.3**
Public (% of GDP)	**12.9**	12.1	11.8	11.5	11.1	**11.1**	10.6	10.4	10.5	10.3	**10.3**	**10.3**
Private (% of GDP)	**13.2**	13.5	13.8	14.1	14.5	**14.5**	14.8	15.1	15.4	17.0	**17.0**	**17.0**
Gross Government Debt (% of GDP)	**21.7**	20.4	19.8	19.3	18.7	**18.7**	17.8	17.5	17.6	17.4	**17.4**	**17.4**
Domestic (% of GDP)	**8.8**	8.3	8.0	7.8	7.6	**7.6**	7.2	7.1	7.1	7.0	**7.0**	**7.0**
External (% of GDP)	**12.9**	12.1	11.8	11.5	11.1	**11.1**	10.6	10.4	10.5	10.3	**10.3**	**10.3**
External Debt (% of exports of goods and services)	**94.0**	100.7	117.1	108.9	115.4	**113.6**	121.7	122.5	113.9	121.9	**132.3**	**136.1**
Total External Debt Amortization (US $bn)	**3.4**	…	…	…	…	**3.9**	…	…	…	…	**4.8**	**5.4**
Total External Debt Interest Payments (US $bn)	**3.1**	…	…	…	…	**3.7**	…	…	…	…	**4.5**	**5.0**
Total External Debt Service (% exports of goods & svcs)	**12.8**	…	…	…	…	**15.2**	…	…	…	…	**17.5**	**17.9**
Public-external Debt Service (% exports of goods & svcs)	**4.1**	6.1	5.0	9.1	9.3	**7.4**	5.1	4.9	4.4	4.3	**4.6**	**4.3**
Public-external Debt Service (% of GDP)	**1.1**	1.6	1.0	2.1	1.9	**1.7**	1.0	1.0	1.0	0.9	**1.0**	**0.9**
SAVINGS - INVESTMENT BALANCE												
Savings (% of GDP)	**26.8**	25.8	25.8	26.9	28.8	**26.9**	24.2	27.3	31.4	30.2	**28.4**	**28.6**
Investment (% of GDP)	**28.7**	27.3	29.7	32.5	31.8	**30.4**	27.7	30.4	33.2	32.2	**31.0**	**31.3**

Source: Citi Research

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- **Summary view** — While we recognize the uncertainty and difficult nature of all matters surrounding President Chávez's health, we maintain our view that Venezuela will experience a macroeconomic deterioration this year and that required economic measures will not take place until this uncertainty is resolved. In that sense, we anticipate GDP to expand at a 2% annual rate in 2013 after expanding 5.2% GDP in 2012, while inflation will return to the 25% mark.
- **Things to watch** — Watch for the evolution of Mr. Chávez's health condition. Also watch for the dynamics of the recently created secondary market for Bolívar-denominated debt.
- **Strategy** — The deterioration in the macroeconomic outlook will be directly related with the length of the ongoing political uncertainty, and should take its toll on this credit.

Political outlook

How long it will take for President Chávez to come back to Venezuela and in what health condition will he return in will remain the main issue in the weeks to come. In our view, the health condition of President Chávez will continue to be the main uncertainty factor in Venezuela's political and economical outlook. In addition, all the economic measures that the country needs in the very short run will not take place until this uncertainty is resolved (i.e. devaluation and USD-denominated debt issuance). Hence, now that the announcement of these measures has been postponed indefinitely, the only economic measure that could be announced will be a private placement of PDVSA bonds to the central bank in order to provide the BCV with bonds to trade in SITME.

In the event of a presidential election taking place, we will see two forces eventually colliding. First, Chavismo without President Chávez as his natural leader, and second, the opposition represented by the MUD. We see three possible scenarios if President Chávez is no longer able to continue in his post due to his health condition.

Scenario #1: New Chavista government + moderate socialist policies. One possible scenario is a transition to a *New-Chavista* government with moderate socialist policies. This scenario could arise as a result of an organized transition, with president Chávez reaffirming his political heir and giving him his blessing. Also, it is possible to think that in this scenario, President Chávez would remain a power in the shadows conditional on his health. The sympathy created by Mr. Chávez's health condition should favor the PSUV. This scenario implies no further radicalization and the adoption of measures that could be interpreted as market friendly such as the end of nationalizations. Nonetheless, we should continue seeing a secular deterioration of the private components of the economy, internal and external macroeconomic imbalances, and high dependence on oil revenues. Under this scenario, the country risk should continue to be linked to the evolution of oil prices and revenues.

Scenario #2: New Chavista government + extreme socialist government. An alternative – but in our view less likely scenario – would be a transition to a more radical and market unfriendly government. This scenario could arise from an unorganized transition. In our view, it should imply an even further deterioration of the macroeconomic outlook and stressed fiscal and balance of payments figures. In

this scenario, we should see an extreme deterioration of the credit, even with supportive oil prices.

Scenario #3: Opposition government. If the opposition manages to sell the idea of a change and the PSUV fails to remain united, this scenario could materialize. If that is the case, we could see a couple of years of weak macroeconomic performance until a clearer and more market friendly policies are adopted, having a positive impact on the medium term macroeconomic outlook and credit.

The Cuban connection

One of the main factors that have to be analyzed going forward is the role that Cuba will play in Venezuelan politics. In our view, Cuba has been one of the major beneficiaries of President Chávez's unorthodox external policy. The view within Chavismo is that Mr. Maduro is closer to Havana's government than Mr. Cabello. In that sense, the appointment of Elías Jaua as chancellor also helps Cuba as Mr. Jaua is also an ally of the Cuban government. So far in this relation, both governments have mutually benefitted, but Cuba is a net winner as it receives close to USD4 billion a year in oil and direct investment while Venezuela obtains support in the form of Cuban health professionals which work all over the country in several social programs. We do not expect for this situation to change in the short run as any new government will also need international support, and Cuba will play an important role providing it, as it is in its best interest to guarantee continuity.

Macroeconomic outlook

While we recognize the uncertainty and difficult nature of all matters surrounding President Chávez health, we keep our view that Venezuela will experience a macroeconomic deterioration this year independently of the political swings. Given the ongoing uncertainty, we are now more pessimistic about macroeconomic performance going forward. Our new GDP projection for 2013 now stands at 2.0%, which implies domestic demand expanding by a timid 0.4%, government spending almost flat at 0.1% and consumption contracting 0.68%. The most important drivers of growth would be the contraction in imports and some lagged impact of previous investment in housing.

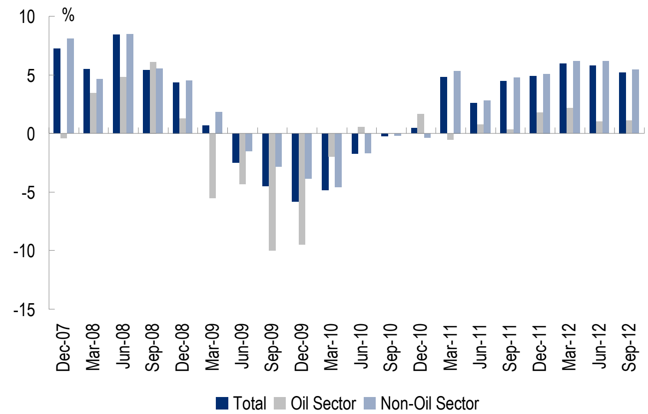
Venezuelan inflation will accelerate. The better-than-expected performance that we observed in inflation until October of last year was driven by improvements in the availability of foodstuffs, medicines and raw materials, thanks to direct imports by the government. However, throughout last quarter of last year we saw deterioration in good availability which led to an acceleration of inflation. The monthly inflation of December, at 3.3%, serves as a predictor of how lower government imports, along with an economy that has come to a stop due to the low availability of USD, will take inflation from 20.1% in 2012 up to 25% in December 2013.

Investment implications

Considering the likely outcome, further upside in the credit seems limited. Venezuela spreads remain near their lowest levels since the onset of the financial crisis. This tightening has occurred despite the continued deterioration of the economy, a rising debt burden, little improvement in the oil sector, and increasing political uncertainty. Given the uncertainty in the political outlook, we continue seeing a deterioration of macro conditions, which lead us to maintain our slight underweight recommendation on Venezuela relative to the index.

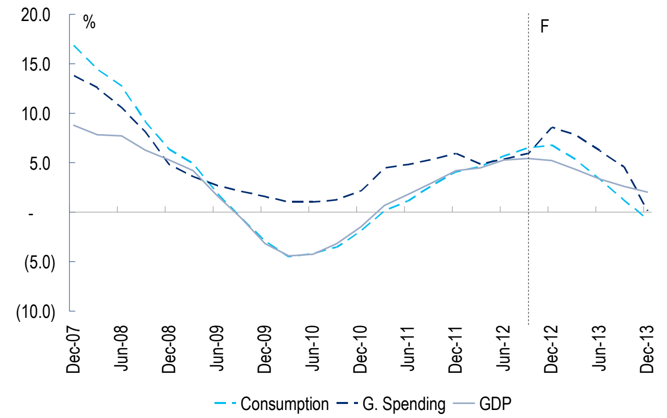
Selected Charts — Venezuela

Figure 53. GDP Growth has started to decelerate



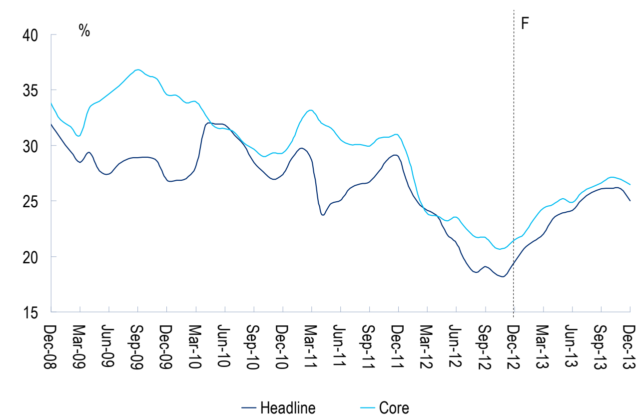
Source: Datanálisis Hinterlaces, Consultores 21, Varianzas, Citi Research

Figure 54. GDP, consumption and government spending



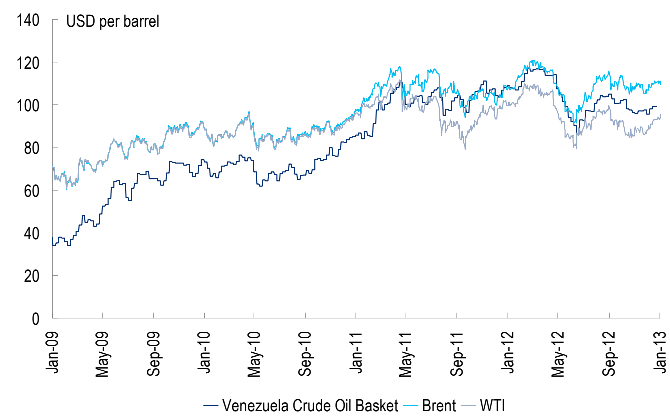
Source: Datanálisis and Citi Research

Figure 55. Inflation will pick up in 2013



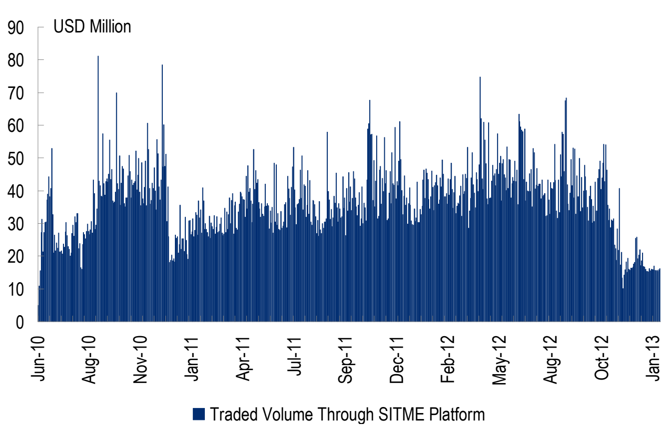
Source: BCV and Citi Research

Figure 56. Oil price dynamics



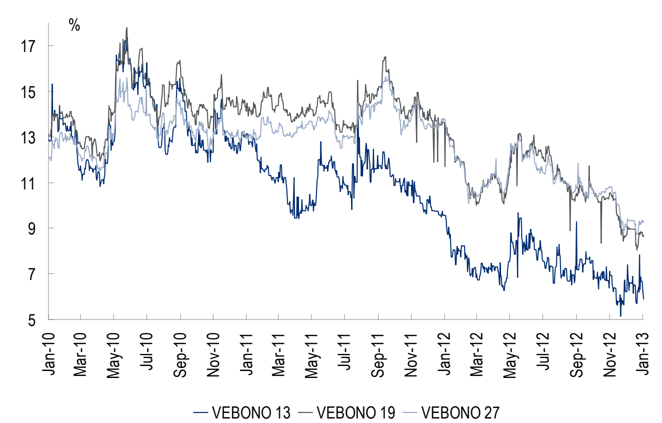
Source: BCV and Citi Research

Figure 57. Low USD supply continues



Source: BCV and Citi Research

Figure 58. Oil prices are once again the main driver of the credit



Source: Bloomberg and Citi Research

Macroeconomic Indicators — Venezuela

	2011	2012					2013					2014
	Est.	Q1	Q2	Q3	Q4	Proj.	Q1	Q2	Q3	Q4	Proj.	Proj.
Nominal GDP (US$ bn)**	**298**	86	92	96	101	**375**	110	79	82	87	**358**	**408**
Nominal GDP (Bolívares Fuertes, Bn)*	**1357**	391	420	435	460	**1707**	500	535	557	585	**2177**	**2753**
GDP per capita (US$)	**10,188**	10,765	11,378	11,996	12,623	**12,623**	13,377	12,892	12,405	11,880	**11,880**	**13,527**
Unemployment Rate (%)	**6.5**	7.9	7.4	7.3	6.4	**6.4**	8.2	7.8	7.8	6.9	**6.9**	**7.3**
Population (millions)	**29.3**	29.4	29.5	29.6	29.7	**29.7**	29.8	29.9	30.0	30.2	**30.2**	**30.2**
ECONOMIC ACTIVITY												
Real GDP growth (yoy)	**4.2**	6.0	5.8	5.2	4.0	**5.2**	2.2	1.9	2.3	1.7	**2.0**	**2.0**
Citi's Venezuela Activity Indicator (VAI, y/y)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**…**
Real GDP growth (qoq, sa, annualized)	**…**	6.9	3.2	3.8	2.6	**…**	3.4	3.0	2.1	2.6	**…**	**…**
Domestic Demand Growth (ex-inventory, yoy)	**7.6**	15.6	11.3	8.2	4.7	**9.6**	0.7	0.5	0.5	0.1	**0.4**	**0.7**
Real Investment Growth (yoy)	**15.2**	42.3	21.0	9.4	-2.8	**14.9**	1.9	2.4	2.7	2.5	**2.4**	**2.1**
Real Consumption Growth (yoy)	**4.4**	5.7	6.8	7.6	8.2	**7.1**	0.1	-0.6	-0.6	-0.9	**-0.5**	**0.0**
Real Private Consumption Growth (yoy)	**4.0**	5.9	7.0	7.8	6.3	**6.7**	-0.2	-0.6	-0.8	-1.1	**-0.7**	**0.0**
Real Government Consumption Growth (yoy)	**5.9**	4.9	5.7	7.0	14.5	**8.6**	1.5	-0.8	0.3	-0.3	**0.1**	**0.0**
Real Export Growth (yoy)	**4.7**	2.0	-5.0	2.1	3.3	**0.6**	2.6	3.2	4.4	5.5	**3.9**	**4.8**
Real Import Growth (yoy)	**15.4**	35.8	18.8	12.9	5.8	**16.9**	-1.9	-1.9	-1.9	-2.0	**-1.9**	**-1.0**
PRICES												
Caracas Consumer Price Inflation (yoy, eop)	**29.0**	24.2	21.2	19.1	19.5	**19.5**	22.0	24.2	26.1	25.0	**25.0**	**24.0**
Caracas Consumer Price Inflation (yoy, average)	**27.1**	25.1	22.3	19.0	18.7	**21.1**	21.4	23.8	25.7	25.7	**24.2**	**24.3**
Caracas Core Inflation (yoy, eop)	**30.9**	23.9	23.5	21.7	21.5	**28.9**	24.3	24.9	26.6	26.5	**25.6**	**23.9**
Caracas Consumer Price Inflation (qoq, eop)	**0.0**	3.5	4.0	3.9	6.8	**0.0**	5.7	5.9	5.5	5.9	**0.0**	**0.0**
Caracas Core Inflation (qoq, eop)	**0.0**	4.4	5.7	3.5	6.4	**0.0**	6.8	6.1	5.0	6.3	**0.0**	**0.0**
Wages (% change yoy, nominal)	**27.0**	20.6	18.9	17.3	15.7	**28.0**	20.6	18.9	17.3	15.7	**29.0**	**30.0**
Exchange Rate (local currency to USD, eop)*	**4.3**	4.3	4.3	4.3	4.3	**4.3**	4.3	6.5	6.5	6.5	**6.5**	**6.5**
Exchange Rate (local currency to USD, average)*	**4.3**	4.3	4.3	4.3	4.3	**4.3**	4.3	5.0	6.5	6.5	**5.6**	**6.5**
Exchange Rate (% change yoy, + dep.)	**13.2**	0.0	0.0	0.0	0.0	**0.0**	0.0	51.2	51.2	51.2	**51.2**	**0.0**
MONETARY SECTOR												
Monetary Base growth (yoy)	**36.8**	27.2	16.7	43.3	39.5	**39.5**	45.0	45.0	45.0	45.0	**45.0**	**44.0**
Credit Growth (yoy)	**42.4**	48.3	59.4	54.4	50.3	**50.3**	42.8	42.4	42.9	42.1	**42.1**	**41.8**
Broad Money growth (yoy)	**50.6**	53.9	53.1	57.4	35.7	**35.7**	41.1	41.4	41.9	42.5	**42.5**	**41.5**
Central Bank Rate (eop)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**…**
Central Bank Rate (average)	**…**	…	…	…	…	**…**	…	…	…	…	**…**	**…**
Interbank Rate (eop)	**14.5**	14.5	14.5	14.0	14.5	**14.5**	15.0	14.5	13.9	14.0	**14.7**	**14.8**
Interbank Rate (average)	**13.3**	…	…	…	…	**14.4**	…	…	…	…	**14.4**	**14.4**
Short-term Rate (90-day Deposit Rate, eop)	**14.5**	14.5	14.5	14.0	14.5	**14.5**	15.0	14.5	13.9	14.0	**14.7**	**14.8**
Short-term Rate (90-Day Deposit Rate, average)	**14.6**	14.5	14.5	14.2	14.3	**14.4**	14.8	14.7	14.1	14.0	**14.4**	**14.4**
Long-term Rate (eop)	**13.9**	10.6	12.3	10.8	11.0	**11.0**	15.5	15.0	14.4	14.5	**15.2**	**15.3**
Long-term Rate (average)	**13.7**	11.9	11.8	11.2	10.7	**11.4**	15.3	15.2	14.6	14.5	**11.6**	**11.9**
EXTERNAL SECTOR												
Current Account Balance (% of GDP)	**9.1**	7.8	3.9	3.7	4.8	**5.0**	3.5	5.3	5.4	5.5	**4.8**	**6.0**
Current Account Balance (in US$ bn)	**27.3**	6.7	3.6	3.6	4.9	**18.7**	3.9	4.2	4.4	4.8	**17.3**	**24.6**
Trade Balance (in US$ bn)	**46.4**	12.3	10.5	9.3	9.0	**41.2**	8.0	8.4	8.5	8.9	**33.8**	**41.1**
Exports, f.o.b. (in US$ bn)	**92.7**	25.8	23.6	23.3	22.1	**94.8**	20.9	21.1	21.1	21.1	**84.2**	**85.9**
Oil	**88.1**	24.7	22.6	22.5	21.3	**91.1**	20.0	20.3	20.3	20.3	**80.9**	**82.7**
Other	**4.5**	1.1	1.0	0.8	0.8	**3.7**	0.8	0.8	0.8	0.8	**3.2**	**3.2**
Imports, c.i.f. (US$ Bn)	**46.2**	13.5	13.1	13.9	13.1	**53.6**	12.9	12.7	12.6	12.2	**50.4**	**44.8**
Services (net)	**-10.7**	-3.7	-4.1	-3.7	-1.9	**-13.5**	-1.9	-1.9	-1.9	-1.9	**-7.7**	**-7.7**
Credit	**0.7**	-1.0	-1.4	-1.0	0.9	**-1.1**	0.9	0.9	0.8	0.8	**5.7**	**5.7**
Debit	**11.4**	2.8	2.8	2.8	2.8	**12.4**	2.8	2.8	2.8	2.8	**13.4**	**13.4**
Income (net)	**-7.9**	-1.8	-2.6	-1.8	-2.1	**-8.2**	-2.1	-2.1	-2.0	-2.1	**-8.3**	**-8.3**
Current Transfers (net)	**-0.5**	-0.1	-0.2	-0.3	-0.1	**-0.7**	-0.1	-0.1	-0.1	-0.1	**-0.4**	**-0.5**
Foreign Direct Investment (in US$ bn)	**5.1**	-0.5	1.0	-1.2	-0.9	**-1.6**	-0.9	-0.9	-0.9	-0.9	**-3.5**	**-3.4**
Terms of Trade (% change yoy, + improvement)	**18.0**	23.2	-0.1	-2.8	-6.4	**19.0**	-18.3	-12.0	-8.1	-7.2	**20.0**	**21.0**
International Reserves (in US$ bn)	**29.9**	27.6	28.4	25.9	25.4	**25.4**	25.3	25.2	25.1	25.0	**25.0**	**23.5**
PUBLIC SECTOR												
Central Gov. Primary Budget Balance (% of GDP)	**-9.4**	-12.5	-9.5	-7.1	-7.2	**-9.0**	-12.2	-9.3	-6.9	-7.0	**-8.7**	**-8.7**
Central Gov. Budget Balance (% of GDP)	**-11.6**	-5.1	-7.2	-6.1	-24.3	**-11.1**	-5.5	-7.0	-5.9	-23.7	**-10.9**	**-10.8**
Consolidated Primary Balance (% of GDP)	**-3.5**	…	…	…	…	**-3.5**	…	…	…	…	**-2.5**	**-2.5**
Consolidated Public Sector Balance (% of GDP)	**-5.0**	…	…	…	…	**-5.0**	…	…	…	…	**-4.0**	**-4.0**
Central Gov. Revenues (% of GDP)	**27.9**	20.5	24.4	28.6	32.0	**26.6**	20.2	24.1	28.2	31.7	**26.3**	**26.2**
DEBT INDICATORS												
Gross External Debt (US$ bn)	**111.1**	111.4	111.2	115.9	117.9	**117.9**	119.0	120.0	121.1	122.1	**122.1**	**126.3**
Gross External Debt (% of GDP)**	**37.2**	35.2	33.1	32.6	31.4	**31.4**	29.8	31.1	32.5	34.1	**34.1**	**31.0**
Public (% of GDP)**	**32.8**	30.9	28.8	28.8	27.8	**27.8**	26.4	27.6	28.8	30.2	**30.2**	**27.5**
Private (% of GDP)**	**4.4**	4.3	4.3	3.8	3.6	**3.6**	3.4	3.5	3.7	3.8	**3.8**	**3.4**
Gross Government Debt (% of GDP)	**44.2**	43.0	41.6	42.1	41.6	**41.6**	38.9	40.7	42.5	44.3	**44.3**	**42.0**
Domestic (% of GDP)	**11.4**	12.1	12.8	13.3	13.8	**13.8**	12.5	13.1	13.7	14.1	**14.1**	**14.5**
External (% of GDP)**	**32.8**	30.9	28.8	28.8	27.8	**27.8**	26.4	27.6	28.8	30.2	**30.2**	**27.5**
External Debt (% of exports of goods and services)	**119.9**	432.1	470.4	497.8	534.0	**124.4**	570.4	568.9	574.0	579.0	**145.1**	**147.1**
Total External Debt Amortization (US $bn)	**11.0**	2.4	1.6	1.7	0.0	**1.7**	0.0	0.0	1.6	1.2	**2.8**	**1.5**
Total External Debt Interest Payments (US $bn)	**4.2**	1.2	1.4	1.1	0.1	**1.3**	1.7	1.4	1.7	0.7	**5.6**	**8.9**
Total External Debt Service (% exports of goods & svcs)	**16.4**	13.9	12.5	12.3	0.5	**3.1**	8.2	6.7	15.5	9.1	**9.9**	**12.1**
Public-external Debt Service (% exports of goods & svcs)	**16.3**	13.7	12.5	12.2	0.5	**10.0**	8.2	6.7	15.5	9.1	**9.9**	**5.6**
Public-external Debt Service (% of GDP)**	**5.1**	4.1	3.2	3.0	0.1	**2.5**	1.6	1.8	4.0	2.2	**2.3**	**1.2**
SAVINGS - INVESTMENT BALANCE												
Savings (% of GDP)	**49.5**	51.7	50.5	50.9	43.6	**49.0**	47.3	52.2	52.8	44.6	**49.0**	**50.3**
Investment (% of GDP)	**40.3**	43.9	46.6	47.2	38.8	**44.0**	43.7	46.8	47.4	39.1	**44.2**	**44.2**

Note: *All figures in Bolívares Fuertes (VEF), which started circulating in January 2008 (VEF=VEB/1000). **Figures calculated using a weighted average of the official and SITME exchange rates. Source: Citi Research

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Appendix

Medium and Long Term Trends

			Trend			*Averages*								*Averages*	
	2007	**2008**	**2009**	**2010**	**2011**	*5Y Avg.*	*10Y Avg.*	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	*2012-2017*	*2007-2017*
Latin America															
Real GDP Growth	5.7	4.2	-1.7	6.3	3.5	*3.6*	*4.2*	2.7	3.4	4.1	3.7	3.4	3.8	*3.5*	*3.6*
CPI Inflation (eop)	5.9	8.3	5.6	6.8	7.2	*6.8*	*6.4*	6.2	7.0	7.0	6.9	9.8	7.9	*7.5*	*7.1*
Nominal Fiscal Balance (% of GDP)	-0.7	-0.7	-3.0	-2.4	-2.1	*-1.8*	*-1.4*	-2.3	-2.2	-2.1	-2.0	-1.7	-1.6	*-2.0*	*-1.9*
Current Account Balance (% of GDP)	0.5	-0.5	-0.3	-1.0	-1.1	*-0.5*	*-0.2*	-1.3	-1.6	-1.6	-1.8	-1.6	-1.8	*-1.6*	*-1.1*
Gross Government Debt (% of GDP)	41.9	42.1	46.9	44.2	43.3	*43.7*	*58.1*	44.4	43.8	43.6	44.0	43.9	44.0	*43.9*	*43.8*
Gross External Debt (% of GDP)	20.7	18.5	20.6	21.0	19.1	*20.0*	*22.3*	20.8	44.1	43.9	44.2	44.1	44.1	*40.2*	*31.0*
Unemployment Rate (%)	7.0	6.5	7.8	7.0	6.3	*6.9*	*8.3*	6.2	6.1	19.9	…	…	…	*10.7*	*8.4*
Argentina															
Real GDP Growth	8.7	6.8	0.9	9.2	8.9	*6.9*	*6.8*	1.9	3.0	3.0	2.0	-2.0	3.5	*1.9*	*4.2*
CPI Inflation (eop)	8.5	7.2	7.7	10.9	9.5	*8.8*	*10.2*	10.8	13.8	15.0	15.0	50.0	30.0	*22.4*	*16.2*
Nominal Fiscal Balance (% of GDP)	1.1	1.4	-0.6	0.2	-1.7	*0.1*	*0.1*	-2.4	-2.7	-2.9	-3.8	0.0	-0.5	*-2.1*	*-1.1*
Current Account Balance (% of GDP)	2.8	2.1	3.6	0.8	-0.1	*1.8*	*1.8*	0.7	0.4	0.2	0.2	3.0	1.0	*0.9*	*1.3*
Exchange Rate (eop)	3.2	3.5	3.8	4.0	4.3	*3.7*	*4.2*	4.9	6.0	7.5	9.8	16.6	20.7	*10.9*	*7.6*
Gross Government Debt (% of GDP)	55.2	44.4	47.7	44.4	40.0	*46.3*	*57.4*	39.0	39.9	42.0	43.8	41.8	40.3	*41.1*	*43.5*
Gross External Debt (% of GDP)	47.5	38.0	37.5	35.0	31.4	*37.9*	*47.7*	30.4	30.6	31.4	...	...	...	*30.8*	*35.2*
Unemployment Rate (%)	8.5	7.9	8.7	7.8	7.2	*8.0*	*9.1*	7.4	7.6	7.8	...	...	...	*7.6*	*7.8*
Brazil															
Real GDP Growth	6.1	5.2	-0.3	7.5	2.7	*4.2*	*4.2*	0.9	3.1	4.2	3.5	3.5	3.7	*3.1*	*3.6*
CPI Inflation (eop)	4.5	5.9	4.3	5.9	6.5	*5.4*	*5.5*	5.8	5.6	5.8	5.0	4.5	4.5	*5.2*	*5.3*
Nominal Fiscal Balance (% of GDP)	-2.8	-2.0	-3.3	-2.6	-2.6	*-2.7*	*-2.8*	-2.6	-2.4	-2.2	-1.8	-2.0	-1.8	*-2.1*	*-2.4*
Current Account Balance (% of GDP)	0.1	-1.7	-1.5	-2.3	-2.2	*-1.5*	*-0.9*	-2.4	-2.6	-2.7	-2.9	-3.0	-3.2	*-2.8*	*-2.2*
Exchange Rate (eop)	1.77	2.34	1.74	1.67	1.88	*1.88*	*2.06*	2.04	2.10	2.05	2.09	2.13	2.18	*2.10*	*2.00*
Gross Government Debt (% of GDP)	55.0	55.9	60.9	53.4	54.2	*55.9*	*58.1*	56.9	56.9	56.9	57.4	57.9	58.4	*57.4*	*56.7*
Gross External Debt (% of GDP)	14.1	11.8	12.5	12.5	11.0	*12.4*	*14.1*	9.9	9.9	9.2	8.8	8.4	8.0	*9.0*	*10.6*
Unemployment Rate (%)	9.3	7.9	8.1	6.7	6.0	*7.6*	*7.8*	5.5	5.5	5.4	5.6	5.5	5.5	*5.5*	*6.5*
Monetary Policy Interest Rate (%)	11.3	13.8	8.8	10.8	11.0	*11.1*	*11.9*	7.3	7.3	7.3	9.5	9.0	8.5	*8.1*	*9.5*
Chile															
Real GDP Growth	5.2	3.3	-1.0	6.1	6.0	*3.9*	*4.9*	5.6	4.5	5.3	4.8	4.8	4.8	*4.9*	*4.5*
CPI Inflation (eop)	7.8	7.1	-1.5	3.0	4.4	*4.2*	*3.5*	1.5	2.8	3.0	3.0	3.0	3.0	*2.7*	*3.4*
Nominal Fiscal Balance (% of GDP)	8.4	4.3	-4.3	-0.3	1.4	*1.9*	*3.0*	0.4	-0.3	-0.4	0.5	0.5	0.5	*0.2*	*1.0*
Current Account Balance (% of GDP)	4.1	-3.2	2.0	1.5	-1.3	*0.6*	*0.6*	-3.0	-2.4	-2.5	-2.0	-2.0	-2.0	*-2.3*	*-1.0*
Exchange Rate (eop)	505	662	497	468	520	*530*	*526*	479	490	490	490	490	490	*488*	*507.3*
Gross Government Debt (% of GDP)	4.4	4.3	7.6	10.6	11.1	*7.6*	*7.8*	8.0	7.1	6.9	6.4	5.9	5.4	*6.6*	*7.1*
Gross External Debt (% of GDP)	30.8	34.9	41.4	38.8	39.7	*37.1*	*38.4*	43.7	43.5	43.5	...	...	...	*43.6*	*39.5*
Unemployment Rate (%)	0.0	0.0	10.8	8.2	7.1	*5.2*	*6.6*	6.7	7.7	7.0	...	...	...	*7.1*	*5.9*
Monetary Policy Interest Rate (%)	6.0	8.3	0.5	3.3	5.3	*4.7*	*4.6*	5.0	4.5	5.3	5.3	5.3	5.3	*5.1*	*4.9*
Colombia															
Real GDP Growth	6.9	3.5	1.7	4.0	5.9	*4.4*	*5.0*	3.9	4.5	5.5	5.0	4.8	4.0	*4.6*	*4.5*
CPI Inflation (eop)	5.7	7.7	2.0	3.2	3.7	*4.5*	*4.4*	2.4	3.0	3.2	3.3	3.0	2.8	*3.0*	*3.6*
Nominal Fiscal Balance (% of GDP)	-0.6	-0.1	-2.7	-3.2	-2.9	*-1.9*	*-1.1*	-1.4	-1.2	-0.7	-0.4	-0.3	-0.2	*-0.7*	*-1.3*
Current Account Balance (% of GDP)	-2.9	-2.8	-2.1	-3.1	-3.0	*-2.8*	*-2.3*	-3.2	-3.2	-3.0	-3.0	-3.2	-2.8	*-3.1*	*-2.9*
Exchange Rate (eop)	2015	2234	2046	1990	1943	*2046*	*2073*	1768	1775	1800	1800	1800	1800	*1791*	*1906.4*
Gross Government Debt (% of GDP)	32.9	34.0	36.7	37.3	34.9	*35.2*	*35.5*	36.9	34.9	31.8	31.5	31.4	31.3	*33.0*	*34.0*
Gross External Debt (% of GDP)	21.2	18.7	22.8	22.4	22.4	*21.5*	*23.3*	22.7	21.8	20.3	...	...	...	*21.6*	*21.5*
Unemployment Rate (%)	11.4	11.5	13.0	12.4	11.5	*12.0*	*12.3*	11.1	10.6	10.7	...	...	...	*10.8*	*11.5*
Monetary Policy Interest Rate (%)	9.5	9.5	3.5	3.0	4.8	*6.1*	*6.1*	4.3	4.5	5.3	5.5	5.3	4.8	*4.9*	*5.4*
Costa Rica															
Real GDP Growth	7.9	2.7	-1.0	4.7	4.2	*3.7*	*4.7*	5.0	4.0	5.5	4.5	4.0	3.0	*4.3*	*4.0*
CPI Inflation (eop)	10.8	13.9	4.0	5.8	4.7	*7.9*	*9.5*	4.6	4.5	4.3	4.5	5.0	5.0	*4.6*	*6.1*
Nominal Fiscal Balance (% of GDP)	0.8	0.5	-3.9	-6.0	-5.6	*-2.8*	*-2.6*	-5.7	-6.0	-6.5	-6.0	-6.0	-6.0	*-6.0*	*-4.6*
Current Account Balance (% of GDP)	-6.2	-9.3	-2.0	-3.6	-5.4	*-5.3*	*-5.0*	-5.2	-5.5	-5.0	-5.0	-4.5	-4.5	*-4.9*	*-5.1*
Exchange Rate (eop)	496	550	568	513	511	*528*	*513*	502	505	510	510	515	515	*510*	*517.7*
Gross Government Debt (% of GDP)	31.7	29.7	34.0	36.2	38.0	*33.9*	*37.2*	41.0	44.0	46.0	47.0	48.0	49.0	*45.8*	*40.4*
Unemployment Rate (%)	4.6	4.9	7.8	7.3	7.7	*6.5*	*6.4*	7.5	7.3	7.0	...	...	...	*7.3*	*6.8*
Monetary Policy Interest Rate (%)	5.5	10.0	9.0	6.5	5.0	*7.2*	*7.2*	5.0	5.0	4.5	5.0	5.0	5.0	*4.9*	*6.0*

Source: National Authorities and Citi Research

Medium and Long Term Trends (Continued)

	Trend					Averages								Averages	
	2007	2008	2009	2010	2011	*5Y Avg.*	*10Y Avg.*	2012	2013	2014	2015	2016	2017	*2012-2017*	*2007-2017*
Dominican Republic															
Real GDP Growth	8.5	5.3	3.5	7.8	4.5	*5.9*	*6.3*	3.8	4.0	5.5	4.5	4.5	4.0	*4.4*	*5.1*
CPI Inflation (eop)	8.9	4.5	5.8	6.2	7.8	*6.6*	*9.3*	3.6	4.5	5.0	5.0	5.0	5.0	*4.7*	*5.6*
Nominal Fiscal Balance (% of GDP)	-1.7	-4.3	-4.8	-3.7	-3.8	*-3.7*	*-4.1*	-7.4	-5.2	-4.7	-3.5	-3.5	-3.5	*-4.6*	*-4.2*
Current Account Balance (% of GDP)	-5.2	-9.9	-5.0	-8.4	-8.1	*-7.3*	*-4.6*	-7.5	-6.5	-6.0	-5.0	-5.0	-5.0	*-5.8*	*-6.5*
Exchange Rate (eop)	33.5	35.3	36.1	37.3	38.5	*36.1*	*34.5*	40.0	41.5	43.0	42.0	42.5	43.0	*42.0*	*39.3*
Gross Government Debt (% of GDP)	18.3	24.5	28.4	28.7	29.3	*25.8*	*24.9*	33.0	35.0	36.0	35.5	35.0	35.0	*34.9*	*30.8*
Gross External Debt (% of GDP)	...	...	...	...	...	*...*	*...*	...	...	...	...	...	...	*...*	*...*
Unemployment Rate (%)	15.5	14.2	14.9	14.0	14.6	*14.6*	*15.7*	14.2	14.0	14.0	...	...	...	*14.1*	*14.4*
Monetary Policy Interest Rate (%)	7.0	9.5	4.0	5.0	6.8	*6.5*	*7.2*	5.0	5.0	5.5	6.0	6.0	6.0	*5.6*	*6.0*
El Salvador															
Real GDP Growth	3.8	1.3	-3.1	1.4	1.5	*1.0*	*1.8*	1.2	1.5	2.0	2.5	2.5	2.5	*2.0*	*1.5*
CPI Inflation (eop)	4.9	5.5	0.0	2.1	5.1	*3.5*	*4.0*	1.2	2.0	2.5	2.0	2.0	2.0	*2.0*	*2.7*
Nominal Fiscal Balance (% of GDP)	-1.9	-2.8	-5.5	-4.4	-4.0	*-3.7*	*-3.3*	-3.5	-3.2	-3.0	-3.0	-3.0	-3.0	*-3.1*	*-3.4*
Current Account Balance (% of GDP)	-6.1	-7.1	-1.5	-2.7	-4.6	*-4.4*	*-4.2*	-5.1	-5.3	-5.1	-5.0	-5.0	-5.0	*-5.1*	*-4.8*
Gross Government Debt (% of GDP)	43.0	45.4	54.1	55.0	56.2	*50.7*	*48.8*	56.5	57.0	57.5	58.0	59.0	60.0	*58.0*	*54.7*
Unemployment Rate (%)	6.3	5.9	8.1	5.8	5.8	*6.4*	*6.6*	5.7	5.7	5.6	...	...	...	*5.7*	*6.1*
Mexico															
Real GDP Growth	3.3	1.2	-6.0	5.3	3.9	*1.5*	*2.7*	3.9	3.6	3.8	4.0	3.8	3.7	*3.8*	*2.8*
CPI Inflation (eop)	3.8	6.5	3.6	4.4	3.8	*4.4*	*4.2*	3.6	3.8	3.7	3.6	3.7	3.6	*3.7*	*4.0*
Nominal Fiscal Balance (% of GDP)	0.0	-0.1	-2.3	-2.8	-2.4	*-1.5*	*-0.9*	-2.2	-2.1	-2.0	-2.0	-2.0	-2.0	*-2.1*	*-1.8*
Current Account Balance (% of GDP)	-1.2	-1.6	-0.6	-0.2	-0.8	*-0.9*	*-1.2*	-0.8	-1.6	-1.8	-2.7	-2.7	-2.7	*-2.1*	*-1.5*
Exchange Rate (eop)	10.9	13.7	13.1	12.3	13.9	*12.8*	*12.2*	12.9	12.5	12.5	12.6	12.8	12.9	*12.7*	*12.7*
Gross Government Debt (% of GDP)	33.7	36.5	40.3	38.8	39.6	*37.8*	*37.6*	39.5	38.2	38.1	37.9	37.4	37.4	*38.1*	*38.0*
Gross External Debt (% of GDP)	19.0	18.6	22.0	23.9	24.3	*21.6*	*21.7*	26.6	25.3	24.5	24.0	23.7	...	*24.8*	*23.2*
Unemployment Rate (%)	3.7	4.0	5.5	5.4	5.2	*4.7*	*4.4*	5.0	4.4	4.5	4.5	4.4	4.3	*4.5*	*4.6*
Monetary Policy Interest Rate (%)	7.5	8.3	4.5	4.5	4.5	*5.9*	*6.3*	4.5	4.5	5.0	5.5	6.8	6.8	*5.5*	*5.7*
Panama															
Real GDP Growth	12.1	10.1	3.9	7.6	10.6	*8.9*	*8.3*	10.5	9.0	8.0	5.0	4.0	4.0	*6.8*	*7.7*
CPI Inflation (eop)	6.4	6.8	1.9	4.9	6.3	*5.3*	*4.1*	4.6	4.6	4.5	3.5	2.5	2.5	*3.7*	*4.4*
Nominal Fiscal Balance (% of GDP)	3.5	0.4	-1.0	-1.9	-2.3	*-0.3*	*-1.1*	-2.8	-3.0	-3.0	-3.0	-3.0	-3.0	*-3.0*	*-1.7*
Current Account Balance (% of GDP)	-7.2	-11.8	-0.7	-10.8	-12.7	*-8.6*	*-7.3*	-11.7	-9.3	-8.7	-7.0	-6.0	-5.0	*-8.0*	*-8.3*
Gross Government Debt (% of GDP)	52.9	45.4	45.6	43.4	41.8	*45.8*	*53.3*	41.0	41.0	40.0	40.0	39.0	39.0	*40.0*	*42.6*
Gross External Debt (% of GDP)	...	...	...	...	...	*...*	*...*	...	...	...	...	...	...	*...*	*...*
Unemployment Rate (%)	6.8	5.8	5.0	4.5	4.3	*5.3*	*7.3*	4.0	3.8	3.7	...	...	...	*3.8*	*4.7*
Peru															
Real GDP Growth	8.9	9.8	0.9	8.8	6.9	*7.1*	*6.6*	6.3	5.8	6.0	6.0	6.0	6.0	*6.0*	*6.5*
CPI Inflation (eop)	3.9	6.7	0.2	2.1	4.7	*3.5*	*2.8*	2.6	2.8	2.2	3.0	3.0	3.0	*2.8*	*3.1*
Nominal Fiscal Balance (% of GDP)	2.6	2.3	-1.6	-0.3	1.8	*1.0*	*0.1*	0.5	-0.6	-2.0	0.5	0.5	0.5	*-0.1*	*0.4*
Current Account Balance (% of GDP)	1.4	-4.2	-0.6	-2.5	-1.9	*-1.5*	*-0.7*	-3.5	-2.6	-2.7	-1.5	-1.5	-1.5	*-2.2*	*-1.9*
Exchange Rate (eop)	3.0	3.1	2.9	2.8	2.7	*2.9*	*2.9*	2.6	2.4	2.4	2.6	2.6	2.6	*2.5*	*2.7*
Gross Government Debt (% of GDP)	29.8	24.1	27.2	23.5	21.7	*25.3*	*27.6*	18.7	17.4	17.4	16.9	16.4	15.9	*17.1*	*20.8*
Gross External Debt (% of GDP)	29.8	26.8	28.0	26.4	24.7	*27.1*	*30.2*	25.6	27.3	27.3	...	...	...	*26.7*	*27.0*
Unemployment Rate (%)	8.4	8.4	8.4	7.9	7.7	*8.2*	*8.3*	7.4	7.8	7.8	...	...	...	*7.7*	*8.0*
Monetary Policy Interest Rate (%)	5.0	6.5	1.3	3.0	4.3	*4.0*	*3.9*	4.3	4.3	4.3	4.5	4.5	4.5	*4.4*	*4.2*
Venezuela															
Real GDP Growth	8.8	5.3	-3.2	-1.5	4.2	*2.7*	*5.7*	5.2	2.0	2.0	2.1	2.5	2.5	*2.7*	*2.7*
CPI Inflation (eop)	22.5	31.9	26.9	27.4	29.0	*27.5*	*23.6*	19.5	25.0	24.0	26.0	24.0	24.0	*23.8*	*25.5*
Nominal Fiscal Balance (% of GDP)	-2.6	-2.6	-5.8	-6.0	-5.0	*-4.4*	*-2.1*	-5.0	-4.0	-4.0	-4.8	-4.6	-4.5	*-4.5*	*-4.4*
Current Account Balance (% of GDP)	8.5	12.5	3.0	4.7	9.1	*7.6*	*9.6*	5.0	4.8	6.0	6.2	5.5	5.7	*5.5*	*6.5*
Exchange Rate (eop)	2.2	2.2	2.2	3.8	4.3	*2.9*	*3.4*	4.3	6.5	6.5	9.8	10.5	12.7	*8.4*	*5.9*
Gross Government Debt (% of GDP)	25.6	20.1	29.2	41.2	44.2	*32.1*	*34.0*	41.6	44.3	42.0	42.5	43.5	43.5	*42.9*	*38.0*
Gross External Debt (% of GDP)	26.3	20.3	26.0	36.1	37.2	*29.2*	*30.1*	31.4	34.1	31.0	...	...	...	*32.2*	*30.3*
Unemployment Rate (%)	6.2	6.1	6.6	6.5	6.5	*6.4*	*7.6*	6.4	6.9	7.3	...	...	...	*6.9*	*6.6*

Source: Citi Research

Performance Monitor

Country		22 Jan 13 Spot	1-Month	3-Months	6-Months	12-Months	YTD
Argentina	US$/ARS	4.96	1.07	4.22	7.77	12.69	0.83
	BADLAR	15.44	-2.02	4.05	13.77	-2.02	0.00
	5-year CDS	1921	490.07	964.92	744.16	1145.75	474.76
Brazil	US$/BRL	2.05	-1.49	1.10	1.33	14.33	-0.15
	Selic	7.25	0.00	0.00	-0.75	-3.25	0.00
	Swap Pre-DI 900 Days	8.11	0.06	0.12	-0.15	-2.58	0.15
	5-year CDS	109	1.21	-0.69	-34.16	-40.05	0.64
Chile	US$/CLP	471.00	-1.51	-2.26	-3.13	-3.64	-1.64
	CAMARA (Overnight)	5.00	0.00	0.00	0.00	0.07	0.10
	Chile BCP Jun 2014	5.55	0.09	0.30	0.56	0.05	0.13
	5-year CDS	68	-4.20	-13.98	-41.83	-51.73	-4.33
Colombia	US$/COP	1776	-0.03	-2.27	-0.87	-2.12	0.52
	Central Bank Repo Rate	4.25	-0.50	-0.25	0.00	1.25	0.00
	Colombia TES 20	4.96	-0.36	-0.85	-1.56	-2.39	-0.31
	5-year CDS	93	-3.12	-9.03	-34.93	-49.20	-3.35
Mexico	US$/MXN	12.68	-1.92	-2.45	-5.76	-3.82	-1.63
	Official Overnight Rate	4.50	0.00	0.00	0.00	0.00	0.00
	5-year TIIE	5.05	-0.25	-0.33	-0.01	-0.56	-0.23
	5-year CDS	92.88	-3.45	-7.80	-27.72	-53.60	-4.62
Panama	5-year CDS	92	-3.94	-8.86	-32.08	-46.87	-5.99
Peru	US$/PEN	2.56	-0.07	-1.06	-2.68	-5.27	0.20
	Reference Rate	4.25	0.00	0.00	0.00	0.00	0.00
	Soberano Aug 26	4.04	-0.21	-0.52	-1.06	-2.13	-0.19
	5-year CDS	92	-3.62	-12.88	-45.51	-78.19	-5.45
Venezuela	US$/VEF*	4.29	0.00	0.00	0.00	0.00	0.00
	5-year CDS	642	-14.32	-95.19	-286.44	-252.93	-4.31

FX Changes in %, IR Changes in bp. A positive change means currency appreciation. *VEF=VEB/1000.

Source: Bloomberg and Citi Research

Sovereign Risk Ratings

S&P		Moody's		Fitch	
AAA		Aaa		AAA	
AA+		Aa1		AA+	
AA		Aa2		AA	
AA-	Chile (neutral)	Aa3	Chile (neutral)	AA-	
A+		A1		A+	Chile (neutral)
A		A2		A	
A-		A3		A-	
BBB+		Baa1	Mexico (neutral)	BBB+	
BBB	Brazil (neutral); Mexico (neutral); Peru (positive); Panama (neutral)	Baa2	Brazil (positive); Peru (positive); Panama (neutral)	BBB	Mexico (neutral) Brazil (neutral) Panama (neutral) Peru (neutral)
BBB-	Colombia (positive);	Baa3	Costa Rica (neutral) Colombia (neutral)	BBB-	Colombia (neutral)
BB+	Costa Rica (neutral);	Ba1		BB+	Costa Rica (neutral);
BB		Ba2		BB	El Salvador (negative)
BB-	El Salvador (negative)	Ba3	El Salvador (neutral)	BB-	
B+	Venezuela (neutral); Dom. Republic (neutral)	B1	Dom. Republic (neutral)	B+	Venezuela (negative)
B		B2	Venezuela (negative)	B	Dom. Republic (positive);
B-	Argentina (negative)	B3		B-	
CCC+		Caa1	Argentina (negative)	CCC+	
CCC		Caa2		CCC	
CCC-		Caa3		CCC-	
CC		Ca		CC	Argentina (negative)
C		C		C	
SD				DDD	
				DD	
D		RD		D	

Source: Bloomberg, Standard & Poor's, Moody's, Fitch

Recent Macro View Pieces

Recent Macro Views

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Source: Citi Research

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Notes

Notes

Appendix A-1

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