What is Next for the Andean Region in 2017?
Disclaimer

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Regional Forecast
LAC will return to growth but will still underperform

2017 will end Latin America’s commodity-driven recession, but future growth will not come easily

GDP growth

-2.0% -1.0% 0.0% 1.0% 2.0% 3.0% 4.0% 5.0%

-2.0% -1.1% 1.3%

2015 2016 2017

-0.5% 1.3% 1.3%

World Industrialized countries Emerging markets LAC
The uneven commodity bounce

Metals up, energy flat: Winners – Chile, Peru, Brazil; Losers – Venezuela, Ecuador, Colombia, Mexico

Diverging commodity prices (indexed pricing)

- **Driven by a global infrastructure spend boom**
- **Driven US energy output expansion**
Throw ‘em out

Latin America’s embrace of center-right parties is a rejection of incumbents, not an embrace of neo-liberalism

Argentina President Macri ✔
Bolivia President Evo Morales ✘
Chile President Bachelet ✘
Peru President Kuczynski ✔
Venezuela President Maduro ✘
Ecuador President Correa ✘
Mexico President Peña Nieto ✘
The Trump factor

America’s economy under Trump will deliver both growth and risk. How much of each is the question.

**Positive Changes**

- Lower corporate taxes
  - Higher investment
  - Capital repatriation
- Less regulation
  - Expanded capital investment
  - Resource industry boost
- Infrastructure program
  - Much needed productivity boost
  - Short-mid-term stimulus

**Threatening Changes**

- Protectionism
  - Tax on business and consumers
  - Risks global trade war
- Building the wall & deportations
  - Will provoke populist political backlash in Mexico – end to NAFTA
- Restrict immigration & visas
  - Deprives US business of talent
  - Raises wage inflation – higher Fed
Yellen vs Trump

The Fed’s anti-inflation mandate may be the greatest threat to Trump’s fiscal & debt stimulated growth strategy
Make way for Saudi-America

US energy expansion is the greatest exogenous threat to the Andean region

- US share of global oil consumption
- US share of global oil production
- US share of LNG production

Source: EIU
Brazil and Argentina will fuel regional growth

In both 2017 and 2018, Brazil and Argentina will combine for 70% of the region’s dollarized GDP growth

Net change in LatAm GDP (billions of USD)

<table>
<thead>
<tr>
<th>Country</th>
<th>Brazil</th>
<th>Mexico</th>
<th>Argentina</th>
<th>Colombia</th>
<th>Chile</th>
<th>Peru</th>
<th>Uruguay</th>
<th>Rest. Caribbean</th>
<th>Ecuador</th>
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Country Analysis
Colombia

Resolving post-conflict challenges in Colombia may prove as difficult as negotiating with the FARC

- Fulfilling the peace requires fiscal measures that Colombia cannot afford
- A re-emerging US energy superpower directly threatens Colombia’s terms of trade and currency strength
- Two years with a weak peso has helped re-industrialize portions of Colombia’s economy
- Fulfilling FDI potential requires continued streamlining of bureaucracy and the tax code

Colombian foreign exchange rate, USD to Peso

12.7% nominal increase in USD spending power in 2017
Foreign capital began to flow again into Colombia in 2016.

Positive Drivers
- Foreign Direct Investment
- Import substitution
- Demographics

Negative Drivers
- Government austerity
- Weak Peso
- High consumer debt

2017 forecast real growth

- Professional Services - Legal & Accounting
- Professional Services - Engineering
- Industrial Manufacturing
- Financial Services
- Healthcare
- SME
- Retail
- Wholesale Distribution
- Consumer Goods
- Transportation
- High Tech
- Education

Positive Drivers:
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Negative Drivers:
- Government austerity
- Weak Peso
- High consumer debt
Peru – making peace politically

If Kuczynski can learn to share the spoils with Keiko, Peru can fulfill its growth potential

• PPK’s rocky starts reveals both his naivety and the bitter electoral resentment of Keiko Fujimori

• The “Kambio” party will have to share power with congress or face more confrontations

• Infrastructure boom should boost base metal prices and mining investment

• Bold infrastructure plans will attract new FDI growth

• Chinese investment will lead new FDI monies

FDI flows, USD billions

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<th>Year</th>
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<th>2016f</th>
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Venezuela – what comes next?

Venezuela's reserves dropped 31% in 2016. The vultures are circling.

- Gold reserves fell 31% in volume, 23% in value in 2016.

- Three scenarios:
  - PSUV hangs on till 2019, negotiates impunity and exits with election
  - Default coupled with humanitarian crisis leads to refugee crisis, some form of OAS led intervention
  - Approach of default leads to Venezuelan military intervention in with US blessing, transitions to elections.
Ecuador – a change of party would help induce more FDI

Competing in a strong USD environment will require greater FDI and productivity gains

- Lasso (opposition - CREO) holds a narrow polling lead in run-off election vs Moreno (incumbent party - PAIS).
- Alianza PAIS won a legislative majority.
- Regardless of run-off, likely shift towards pro-investor
- New government inherits over-valued dollar, stagnant growth, declining reserves
- Country needs more FDI

FDI flows, USD billions

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<th>Year</th>
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About AMI

01 AMI is Latin America’s leading independent market intelligence consultancy

02 Our founding partners helped pioneer the field of market intelligence in Latin America

03 Our consultants have advised a third of the region’s 100 largest strategic investors over a span of two decades

04 AMI consultants have conducted over 2,000 client engagements in Latin America since 1993

05 Our holistic approach to market intelligence is unique. We combine market research, competitive intelligence, political analysis and economic forecasting in our studies. Few others do the same in Latin America