

Latin America Economics Analyst

Colombia: Presidential Race Taking Shape

A Changing Political Landscape

Historically in Colombia, a dual-party system has prevailed in which politicians from the traditional liberal (center) and conservative (right-wing) parties have alternated in the presidency since the end of the military *junta* in the 1950s. But the political landscape has changed considerably in recent elections, with the composition of congress now dispersed across five major parties and competitive presidential candidates coming from outside the liberal-conservative axis.

Presidential Election Potentially Offers a More Market-friendly Outcome

Boosted by his convincing victory in the March 11 primaries, center-right candidate Iván Duque has surged in the polls and now holds a considerable lead over leftist candidate Gustavo Petro. If Mr. Duque continues to consolidate his position as the preferred candidate on the center-right and Mr. Petro fails to attract more votes from the center and moderate left, the once-unlikely scenario of a first-round decision will become a concrete possibility.

Right and Center-Right Parties Gained Power in the Congressional Elections

The strong presence in congress of parties aligned with orthodox economic policies is a favorable development irrespective of who wins the presidential race. Should the next president favor a market-friendly policy agenda, congress will likely help implement the government's proposals, further advancing the long ongoing stabilization process after the severe terms of trade shock of 2015. On the other hand, should the next president seek to implement a more populist program, congress would be likely to act as a balancing force that could prevent the implementation of negative reforms that could steer the economy away from its current track of gradually reducing macroeconomic imbalances.

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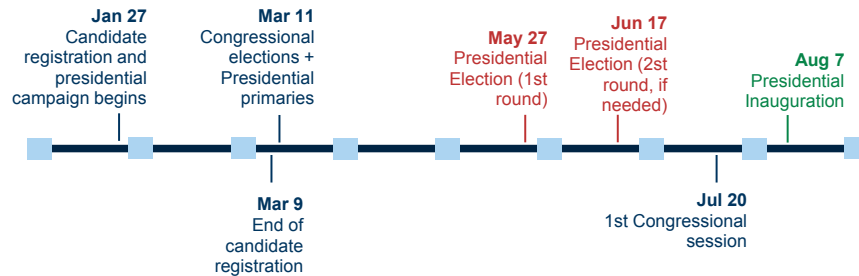
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Market-Friendly Election Outcome Is Becoming More Likely

Colombia has kick-started a busy election year in Latin America. After the market-friendly results from the Argentine legislative election of October 2017 and the Chilean presidential election last December, investors are now focused on the **Colombian electoral cycle, which began on March 11 with congressional elections that will be followed by the first round of the presidential race on May 27. If no candidate secures a majority, a second and final round will be held on June 17.**

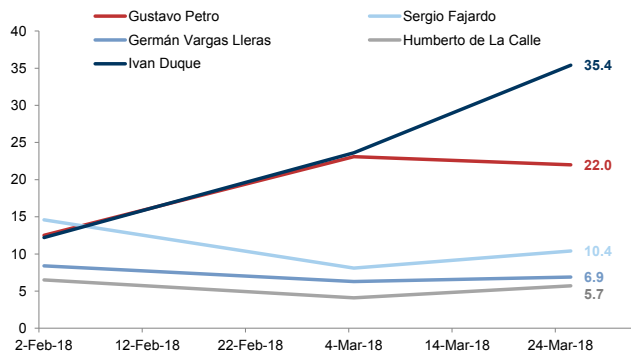
Exhibit 1: Election timeline



Source: National Civil Registry

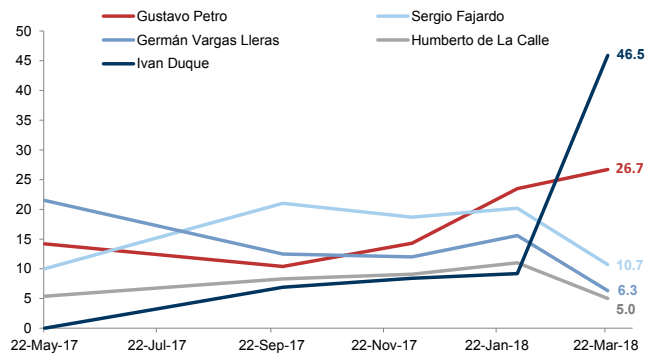
The presidential election is shaping up as a less uncertain, more market-friendly outcome than anticipated just a few months ago. **Iván Duque (of the center-right *Centro Democrático*)** has surged in the polls in recent weeks, boosted by a convincing victory in the center-right primaries over former presidential candidate Marta Lucía Ramirez (right-wing *Partido Conservador*) (Exhibits 2-5). With the result, Ms. Ramirez will run alongside Mr. Duque as his vice-presidential candidate, carrying with her an important share of the conservative vote.

Exhibit 2: First round voting intention (Guarumo)



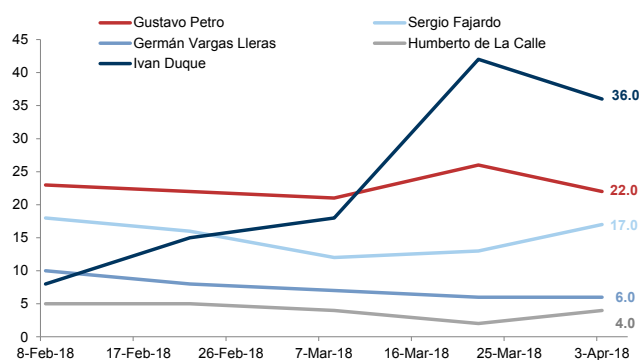
Source: Guarumo

Exhibit 3: First round voting intention (Invamer)



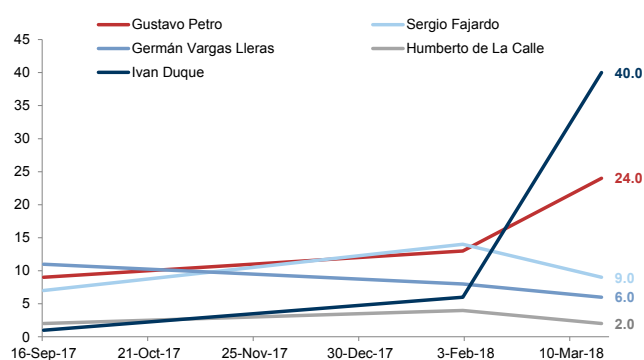
Source: Invamer

Exhibit 4: First round voting intention (Centro Nacional de Consultoria)



Source: Centro Nacional de Consultoria

Exhibit 5: First round voting intention (YanHaas)



Source: YanHaas

Gustavo Petro (of the left-wing *Movimiento Progresistas*) also scored a landslide victory in the left-wing primaries over Carlos Caicedo (of the left-wing *Fuerza Ciudadana*), though the result was widely expected. Importantly, the center-right primary counted 6.14 million votes, considerably more than the 3.53 million in the primary for the left-wing coalition, with Mr. Duque well ahead of Mr. Petro with 4.04 million vs 2.85 million votes. Unlike Mr. Duque, Mr. Petro did not see his poll numbers rise by a significant amount, having remained close to his pre-primaries figures likely owing to his high rejection rates (Exhibit 6).

Exhibit 6: Poll: What is your opinion on of the following candidates?

Poll: What is your opinion on the following candidates? (%)

	Ivan Duque	Gustavo Petro	Sergio Fajardo	Germán Vargas Lleras	Humberto de La Calle
Approve	47.0	28.4	31.8	19.3	25.0
Disapprove	40.6	60.0	49.8	65.1	55.6
N/A	12.4	11.6	18.4	15.6	19.4
Net Favorability (+/-)	+6.4	-31.6	-18.0	-45.8	-30.6

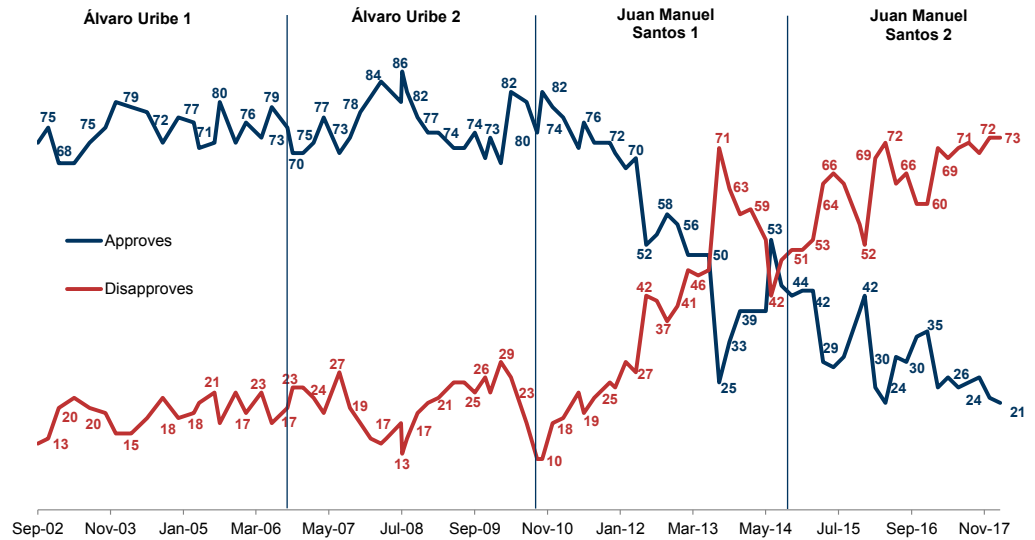
Source: Guarumo

Source: Guarumo

After leading some polls for a brief period, **Sergio Fajardo (of the center-left *Coalición Colombia*)** has lost momentum recently and is currently polling in a distant third place. The remaining candidates backed by major parties, **German Vargas Lleras (formerly with the center-right *Cambio Radical*)** and **Humberto de la Calle (of the center *Partido Liberal*)**, have so far failed to gather much voter support. Their disappointing poll numbers can be partly explained by their association with current President Juan Manuel Santos, whose disapproval ratings just reached their highest levels since his inauguration in 2010 at a high 73% (Exhibit 7). Mr. Vargas Lleras was President Santos’s vice-president during most of his second term, while Mr. de la Calle was the chief

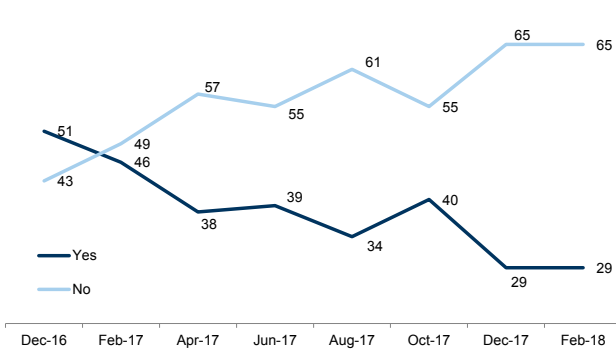
negotiator of Santos’s controversial peace deal with the FARC whose implementation is currently rejected by nearly two-thirds of voters amid rising concerns over guerrilla-related violence, and has been criticized by both Mr. Duque and Mr. Vargas Lleras (Exhibits 8-9).

Exhibit 7: Presidential approval rating



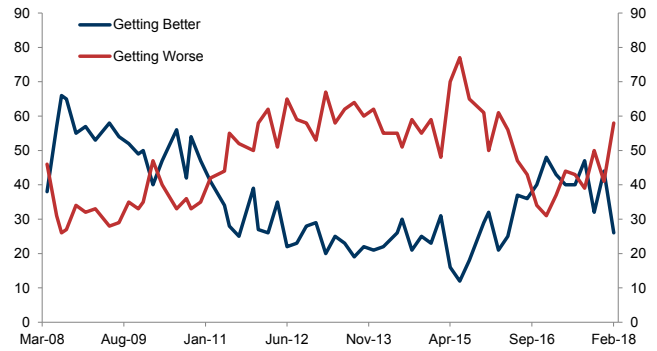
Source: Gallup

Exhibit 8: Poll: Is the implementation of the Peace Deal on the right track?



Source: Gallup

Exhibit 9: Poll: Is guerrilla-related violence getting better or worse?



Source: Gallup

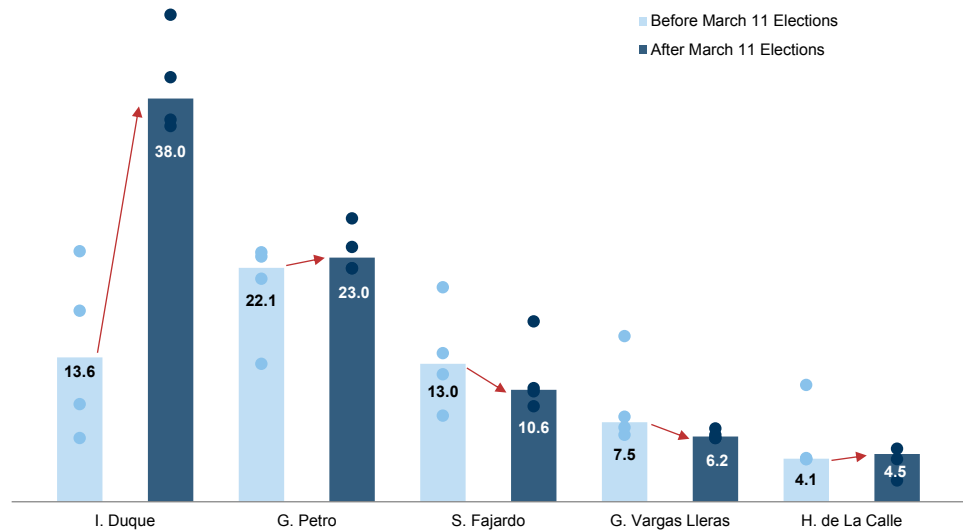
Presidential Election Likely Heading to Runoff Vote, but a First-Round Victory Is No Longer Implausible

According to the latest polls, Mr. Duque now enjoys a sizeable lead with a voter preference of around 38.0% against Mr. Petro’s 23.0% (median figures between *Invamer*, *YanHaas*, *Guarumo*, and *Centro Nacional de Consultoría* polls). Mr. Petro’s support has remained virtually unchanged from the 22.1% support just before the March 11 elections, while Mr. Duque’s voting intention soared from the 13.6% level in

the same period, which suggests Mr. Duque has gained votes from the other major candidates as well as undecided/blank votes (Exhibit 10).

All other candidates have either lost or maintained their voting intention after the congressional elections, with Mr. Fajardo currently polling at 10.6% from 13.0%, Mr. Vargas Lleras at 6.2% from 7.5%, and Mr. de la Calle at 4.5% from 4.1%. Curiously, despite Mr. Petro’s promise to develop the agricultural sector, a recent poll by *Invamer* shows that he could count on only 22.1% of votes from rural areas, compared with 63.5% for Mr. Duque.

Exhibit 10: Iván Duque surged in polls after the March 11 Congressional elections



Note: Dots represent individual polls, bars represent median of individual polls.

Source: Invamer, YanHaas, Guarumo, Centro Nacional de Consultoria

Second-round simulations also show Mr. Duque well ahead of other candidates. According to *Guarumo*, Mr. Duque would have 43.3% of votes against 29.4% for Mr. Petro, 41.1% against 24.2% of Mr. Fajardo, 43.6% against 15.3% for Mr. Vargas Lleras, and 44.1% against 18.8% for Mr. de la Calle. Considering only valid votes and excluding undecided voters, the latest poll by *Invamer* shows that Mr. Duque would gain 60.2% of the votes against 36.6% for Mr. Petro, 63.6% against 32.2% for Mr. Fajardo, 68.8% against 19.2% for Mr. Vargas Lleras, and 67.7% against 25.2% for Mr. de la Calle (Exhibit 11).

Exhibit 11: Iván Duque is also well ahead in runoff simulations

	Duque vs. Petro		Duque vs. Fajardo		Petro vs. Fajardo	
	Duque	Petro	Duque	Fajardo	Petro	Fajardo
Invamer	60.2	36.6	63.6	32.2	44.6	48.4
Guarumo*	43.3	29.4	41.1	24.2	27.0	27.7

*The Guarumo poll includes interviewees who are undecided or who will not vote in the election when calculating the share of votes for each candidate.

Source: Invamer, Guarumo

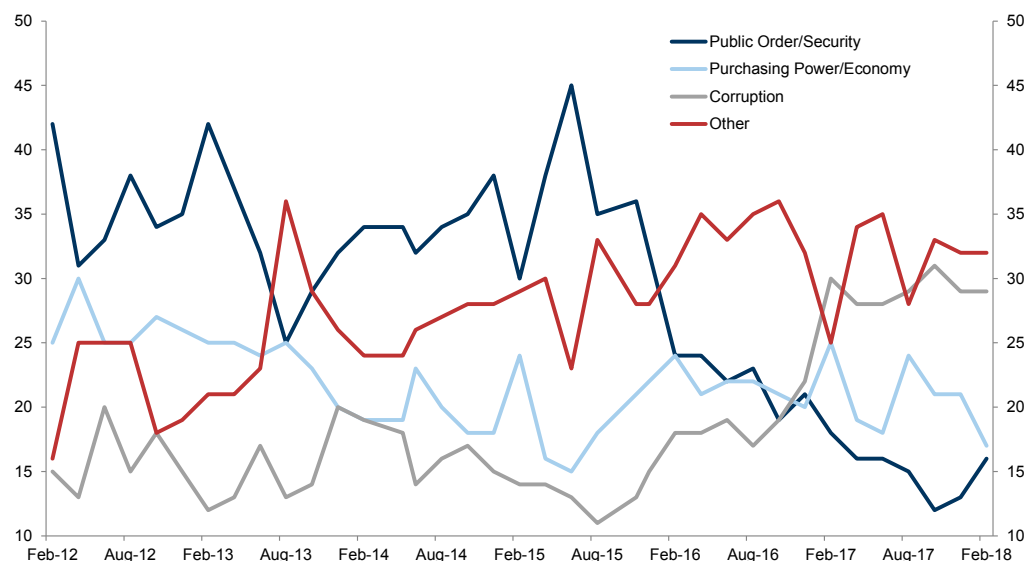
If Mr. Duque continues to consolidate his position as the preferred candidate on the center-right and Mr. Petro fails to attract more votes from the center and moderate left, the once-unlikely scenario of a first round decision will become a concrete possibility. However, we note that the latest polls likely reflect the increased exposure that Mr. Duque and Mr. Petro received from winning their respective primaries, therefore their poll numbers could be temporarily overstated.

A Changing Political Landscape

Historically in Colombia, a dual-party system has prevailed in which politicians from the traditional liberal (center) and conservative (right-wing) parties have alternated in the presidency since the end of the military *junta* in the 1950s. But the political landscape has changed considerably in recent elections, with the composition of congress now dispersed across five major parties and competitive presidential candidates coming from outside the liberal-conservative axis.

Part of the reason behind the shift in political power can be attributed to changing voter preferences. Amid decades of armed conflict with the guerrillas, security fears traditionally ranked high among voters' main concerns. Currently, however, other issues have moved up higher in voters' lists, such as economic matters and corruption concerns (Exhibit 12). **These changing preferences have opened room for candidates who appeal to issues outside the historical norm.**

Exhibit 12: Poll: What is the main problem that Colombia faces at the moment?



Source: Gallup

Among those candidates, **Gustavo Petro** has gathered considerable attention given his high poll numbers and interventionist policy proposals. For example, Mr. Petro vows to push for land reform through higher property taxes on “unproductive rural land;” establish a state-owned agricultural bank to fund an industrialization process, reduce oil dependence by repurposing state-owned oil company Ecopetrol to become a solar

power generator within five years, and strengthen the state presence in the health, pension, and education systems.

Focusing on agriculture and greater industrialization may not foster stronger sustainable economic growth, given the relatively small share of those sectors in total GDP. Moreover, reducing oil production within a short time frame would have negative macroeconomic implications, such as wider current account and fiscal deficits given oil's important role as the country's top export product and a source of government revenues, which could eventually threaten the country's prized investment grade rating. Hence, we believe a victory by Mr. Petro would likely be received by markets as the least favorable outcome as interventionist policies would increase political uncertainty and likely slow the necessary investment recovery in order to pull the economy from the recent disappointing growth figures.

On the opposing side of the political spectrum, **Iván Duque** proposes an orthodox policy mix, promising to reduce corporate taxes while cutting government spending and preserving fiscal austerity. Mr. Duque plans on "adjusting the fiscal rule" in order to promote a more countercyclical public spending profile, though he provides little detail on what such adjustment would entail.

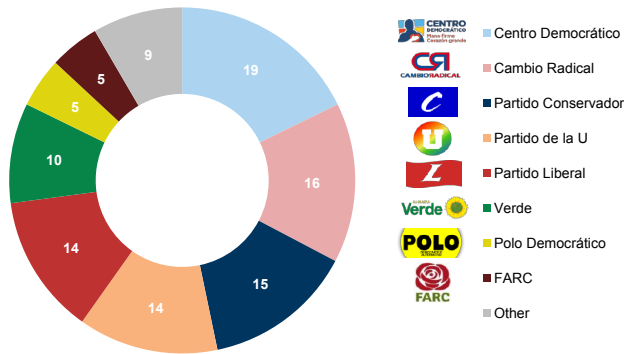
Although relatively young with a short political career (he won his first election running for senator in 2014), Mr. Duque has quickly garnered voter support with the backing of former president Álvaro Uribe, who left the presidency with an 80% approval rating and helped elect President Juan Manuel Santos (Mr. Uribe's former Minister of Defense) for his first term in 2010, and was recently reelected as the country's most voted senator. We believe a victory by Mr. Duque would be well received by markets given his business-friendly policy agenda, though some of the eventual market impact is likely already priced in given his recent rise in the polls.

Though not aligned with the traditional parties, **Sergio Fajardo** also advocates a rather orthodox economic policy agenda that seeks higher productivity and increased competitiveness, lower corporate taxes, maintaining the current fiscal rule and preserving fiscal sustainability (but without explicitly mentioning cuts to public spending). Hence, though likely not the most favorable outcome for markets given the policy positions of parties within his coalition, we see little risk of major changes in the current policy orientation should Mr. Fajardo win the presidency.

Right and Center-Right Parties Gained Power in the Congressional Elections

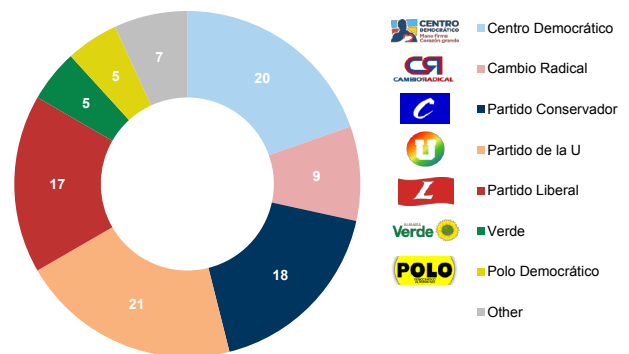
Right and center-right parties *Centro Democrático*, *Cambio Radical*, and the *Partido Conservador* won 50 of the 100 seats available in the senate in the March 11 congressional elections, increasing their representation from 47 seats in the previous legislature. In the lower house, the group gained 83 out of the 163 seats elected by popular vote, compared with 63 seats in the previous legislature.

Exhibit 13: 2018 Senate composition



Source: National Civil Registry

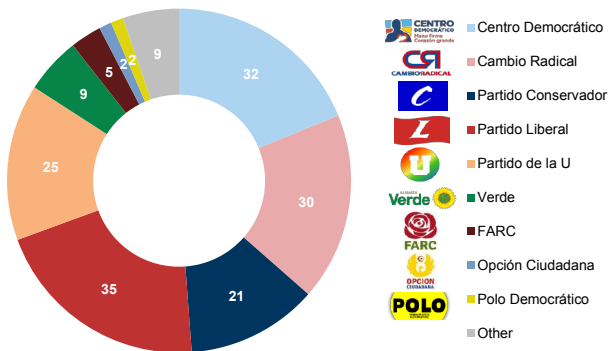
Exhibit 14: 2014 Senate composition



Source: National Civil Registry

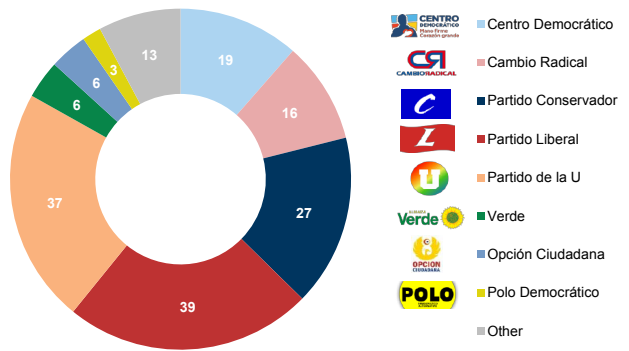
In the senate, *Centro Democrático* maintained its position as the largest bloc with 19 seats (down from 20 previously), *Cambio Radical* was second with 16 seats (up from 9 previously) and *Partido Conservador* was third with 15 seats (down from 18) (Exhibits 13-14). In the lower house, the center *Liberal Party* maintained the largest representation with 35 seats (down from 39 previously), *Centro Democrático* increased its bloc significantly to 32 seats (up from 19), and *Cambio Radical* also added a considerable number of seats to become the third-largest bloc with 30 seats (up from 16) (Exhibits 15-16). President Juan Manuel Santos’s *Partido de la U* lost a large number of seats in both the senate (from 21 to 14 seats) and the lower house (from 37 to 25 seats).

Exhibit 15: 2018 Lower House composition



Source: National Civil Registry

Exhibit 16: 2014 Lower House composition



Source: National Civil Registry

The strong presence in congress of parties aligned with orthodox economic policies is a favorable development irrespective of who wins the presidential race. Should the next president favor a market-friendly policy agenda, congress will likely help implement the government’s proposals, further advancing the long ongoing stabilization process after the severe terms of trade shock of 2015 with narrowing current account and fiscal deficits and declining inflation and interest rates.

On the other hand, should the next president seek to implement a more populist program, congress would be likely to act as a balancing force that could prevent the

implementation of negative reforms that could steer the economy away from its current track of gradually reducing macroeconomic imbalances. However, this scenario of political gridlock would still be adverse as it would be unlikely that the necessary measures to address the large fiscal deficit and slow economic growth would be implemented.

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LatAm and Global Macroeconomic Outlook

Consolidated Latin America Selected Economic Indicators

	2011	2012	2013	2014	2015	2016	2017F	2018F	2019F	2020F	2021F
I. Economic Activity and Prices											
Nominal GDP (US\$b)	5,081	5,073	5,218	5,180	4,364	4,163	4,644	4,861	5,233	5,609	5,958
Real GDP growth (% yoy)	4.5	2.6	2.8	1.3	0.3	-0.3	1.7	2.6	3.2	3.4	3.3
CPI Inflation (% yoy)	7.3	6.6	7.0	8.6	9.0	8.8	6.6	5.5	4.7	3.9	3.6
Domestic Demand (% yoy)	5.9	2.8	3.0	1.0	-0.6	-1.2	1.8	3.0	3.6	3.7	3.7
II. External Sector (US\$b)											
Current Account Balance	-111.6	-122.0	-152.0	-170.1	-139.6	-82.0	-76.6	-102.6	-123.4	-134.6	-149.0
Trade Balance	53.8	46.7	9.8	-3.6	-10.7	34.6	57.0	51.4	43.7	40.3	35.7
Gross International Reserves	673.8	722.6	715.9	737.9	705.2	729.3	753.2	786.1	811.8	838.7	864.3
Change in Reserves	109.5	48.8	-6.8	22.0	-32.7	24.1	23.9	32.8	25.7	26.9	25.6
Net Capital Inflows	221.1	170.9	145.2	192.0	107.0	106.1	100.5	135.4	149.1	161.5	174.6
Foreign Direct Investment	153.4	155.2	167.7	176.0	163.9	150.0	144.6	167.2	179.2	188.5	203.7
III. Public Finance and Indebtness (% GDP)											
Primary Fiscal Balance	1.3	0.9	0.5	-1.0	-1.7	-1.8	-1.0	-1.1	-0.5	0.0	0.5
Overall Fiscal Balance	-2.0	-2.1	-2.5	-4.3	-6.3	-5.6	-4.7	-5.0	-4.6	-4.1	-3.6
Total Public Sector Debt	41.4	42.1	42.2	46.2	51.3	55.1	56.3	58.9	60.3	60.8	61.3
Total External Debt	22.2	24.7	26.2	29.1	34.4	36.8	35.4	36.4	37.2	37.7	37.8

Note: Aggregates weighted by nominal GDP in US\$ at PPP exchange rates.

Source: Goldman Sachs Global Investment Research

Global Macroeconomic Framework

	2016	2017F	2018F	2019F	2020F	2017F				2018F			
						Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F
Real GDP Growth (% yoy)													
United States	1.5	2.3	2.8	2.2	1.5	2.0	2.2	2.3	2.6	2.8	2.8	2.8	2.7
Euro Area	1.8	2.5	2.6	2.1	1.6	2.1	2.4	2.8	2.7	2.7	2.6	2.5	2.5
Japan	0.9	1.7	1.5	1.3	0.5	1.4	1.5	1.9	2.0	1.7	1.5	1.4	1.4
World Economy	3.1	3.8	4.1	4.0	3.8	3.5	3.7	4.0	4.1	4.1	4.1	4.1	4.1
CPI Inflation (% yoy)													
United States	0.9	2.1	2.5	2.0	2.0	2.6	1.9	2.0	2.1	2.3	2.8	2.7	2.4
Euro Area	0.2	1.5	1.3	1.1	1.5	1.8	1.5	1.4	1.4	1.4	1.4	1.4	1.2
Japan	-0.1	0.5	0.9	1.0	1.5	0.3	0.4	0.6	0.6	0.8	0.9	1.0	1.0
Interest rates (% e.o.p)													
Fed Funds	0.54	1.30	2.38	3.38	3.38	0.79	1.04	1.15	1.30	1.63	1.88	2.13	2.38
UST 10-Years	2.40	2.90	3.25	3.60	3.60	2.50	2.65	2.75	2.90	2.99	3.08	3.16	3.25

Source: Goldman Sachs Global Investment Research

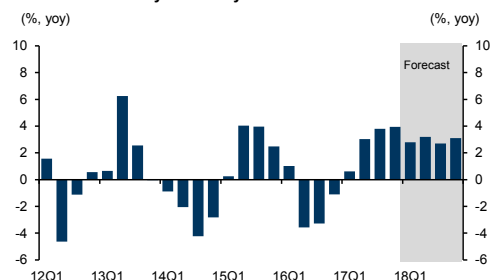
LatAm Country Data Tables

Argentina

	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	-1.8	2.9	3.0	3.3
Nominal GDP (US\$b)	554	637	642	689
Consumer Prices, IPC (yoy, e.o.p.)*	N.A	25.0	19.5	13.4
Consumer Prices, IPCBA (yoy, e.o.p.)*	41.0	26.1	20.3	13.6
External Sector				
Current Account (% GDP)	-2.7	-4.8	-6.2	-6.0
Trade Balance (% GDP)	0.8	-0.9	-1.6	-1.6
Exports (% yoy)	2.0	0.9	4.6	3.9
Imports (% yoy)	-7.1	19.6	11.3	5.2
Exchange Rate (\$/ARS, e.o.p.)	15.9	18.6	21.5	23.2
Gross International Reserves (US\$b)	39.3	55.1	68.0	72.0
Monetary Sector				
Monetary Base (% yoy)	26.6	24.7	22.0	17.0
Credit to the Private Sector (% GDP)	13.7	16.0	17.1	17.8
Policy Interest Rate	24.75	28.75	22.50	14.00
Fiscal Sector **				
Federal Govt Primary Balance (% GDP)	-4.3	-3.9	-3.1	-2.4
Federal Govt Overall Balance (% GDP)	-5.9	-6.1	-5.6	-5.0
Debt Indicators ***				
Gross Non-fin. Public Sector Debt (% GDP)	49.7	52.3	62.8	64.3
Domestic (% GDP)	27.6	36.1	44.4	45.0
External (% GDP)	13.6	16.2	18.4	19.3
Total External Debt (%GDP)	36.3	33.7	36.5	36.4

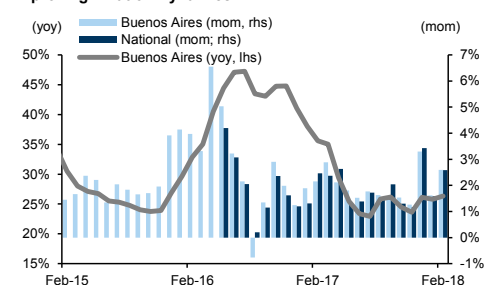
*IPC computed by INDEC, IPCBA by Statistical Institute City of Buenos Aires. **Before Rents from CB and Anses. Accumulated 4Q. *** Including non-performing debt. Source: Goldman Sachs Global Investment Research.

Economic Recovery Underway



Source: INDEC, Statistical Inst. City of Buenos Aires, Goldman Sachs Global Investment Research.

Improving Inflation Dynamics



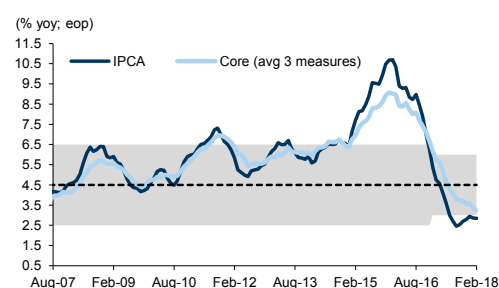
Source: INDEC, Statistical Inst. City of Buenos Aires, Goldman Sachs Global Investment Research.

Brazil

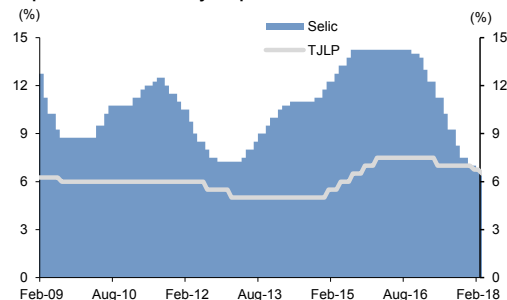
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	-3.5	1.0	2.5	3.1
Nominal GDP (US\$b)	1,806	2,055	2,088	2,202
IPCA Inflation (yoy e.o.p)	6.3	2.9	3.9	4.3
External Sector				
Current account (% GDP)	-1.3	-0.5	-1.2	-1.8
Trade balance (% GDP)	2.5	3.1	2.8	2.4
Exports of goods (% yoy)	-3.0	17.8	5.9	5.2
Imports of goods (% yoy)	-19.1	9.9	12.1	10.4
Nominal Exchange Rate (\$/BRL e.o.p.)	3.26	3.31	3.37	3.43
Net International Reserves (US\$b)	365	374	385	395
Monetary Sector				
Monetary base (% yoy)	5.9	9.8	7.0	8.0
Credit to the Private Sector (%GDP)	45.9	43.7	44.1	45.9
SELIC rate (e.o.p)	13.75	7.00	6.25	8.00
Fiscal Sector				
Public Sector Primary Balance (% GDP)	-2.5	-1.7	-1.9	-0.8
Public Sector Nominal Balance (% GDP)	-9.0	-7.8	-7.7	-7.3
Debt Indicators				
Gross general govt debt (% GDP)	70.0	74.0	76.0	79.0
Domestic public debt (%GDP)	66.3	0.0	72.5	75.4
External public debt (%GDP)	3.6	0.0	3.5	3.6
Total external debt (% GDP)	30.4	26.7	28.7	29.5

Source: Goldman Sachs Global Investment Research.

Headline/Core Inflation Continue to Moderate



Copom Cuts Selic Rate by 25bp to 6.50%



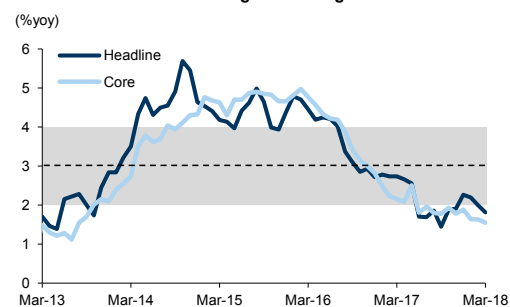
Sources: Bloomberg; Goldman Sachs Global Investment Research; Haver Analytics; IBGE.

Chile

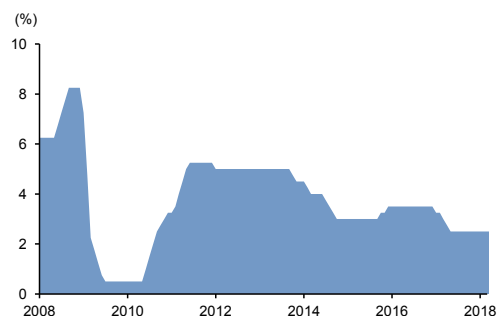
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	1.3	1.5	3.8	3.6
Nominal GDP (US\$bn)	250	277	326	360
Consumer Prices (% yoy, e.o.p.)	2.7	2.3	2.6	3.0
External Sector				
Current Account (% GDP)	-1.4	-1.5	-1.6	-1.7
Trade Balance (% GDP)	2.2	2.9	2.5	2.2
Exports (% yoy)	-2.1	14.0	7.6	4.5
Imports (% yoy)	-5.7	10.9	8.0	5.4
Exchange Rate (\$/CLP, e.o.p.)	667	615	570	570
Gross International Reserves (US\$bn)	40.5	40.5	42.9	43.2
Monetary Sector				
Broad Money (M3, % yoy)	8.2	7.0	9.0	9.0
Credit to the Private Sector (% GDP)	81.3	80.8	81.5	82.5
Policy Rate (e.o.p.)	3.50	2.50	3.00	4.00
Fiscal Sector				
Central Gov't Primary Balance (% GDP)	-2.0	-2.0	-1.2	-0.9
Central Gov't Overall Balance (% GDP)	-2.7	-2.8	-2.1	-1.8
Debt Indicators				
Central Gov't Debt (% GDP)	21.3	23.7	24.5	25.1
Domestic (% GDP)	17.3	19.1	19.3	19.6
External (% GDP)	4.0	4.6	5.3	5.5
Total External Debt (% GDP)	65.5	63.1	57.2	54.8

Source: Goldman Sachs Global Investment Research.

Headline/Core Inflation Tracking Below Target



Central Bank on Hold at 2.50% in March



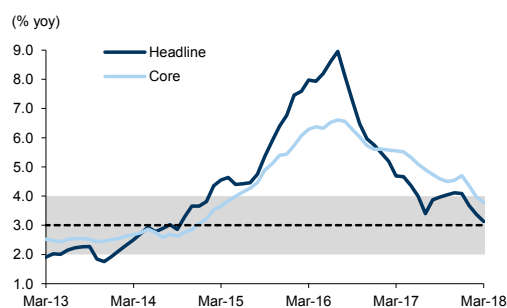
Source: Haver Analytics; INE; Central Bank of Chile.

Colombia

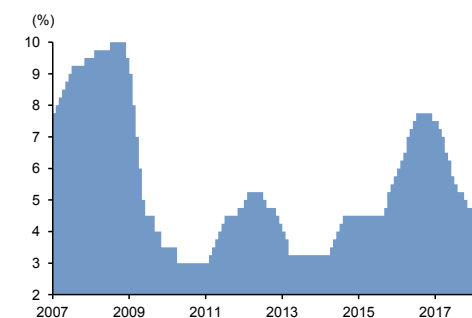
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	2.0	1.8	2.5	3.3
Nominal GDP (US\$bn)	281	309	345	368
Consumer Prices (% yoy, e.o.p.)	5.7	4.1	3.1	3.0
External Sector				
Current Account (% GDP)	-4.3	-3.4	-2.8	-3.1
Trade Balance (% GDP)	-3.3	-1.5	-1.7	-1.6
Exports (% yoy)	-11.7	15.8	1.4	3.5
Imports (% yoy)	-16.9	2.3	3.7	2.8
Exchange Rate (\$/COP, e.o.p.)	3001	2984	2800	2800
Gross International Reserves (US\$bn)	46.2	47.1	47.4	47.4
Monetary Sector				
Monetary Base (% yoy)	2.5	5.0	7.0	9.0
Credit to the Private Sector (% GDP)	49.6	51.2	53.1	54.4
Policy Rate (% e.o.p.)	7.50	4.75	4.00	4.50
Fiscal Sector				
Central Government Primary Balance (% GDP)	-1.3	-0.9	-0.5	0.3
Central Government Overall Balance (% GDP)	-3.8	-3.6	-3.2	-2.5
Debt Indicators				
Gross Non-fin. Public Sector Debt (% GDP)	54.9	54.2	55.6	56.1
Domestic (% GDP)	31.1	32.2	34.6	35.1
External (% GDP)	23.7	22.0	21.0	21.0
Total External Debt (% GDP)	42.5	43.0	43.0	44.0

Source: Goldman Sachs Global Investment Research.

Inflation Back to Target Range



Central Bank Kept Policy Rate On Hold at 4.50% in March



Source: Banco de la República.

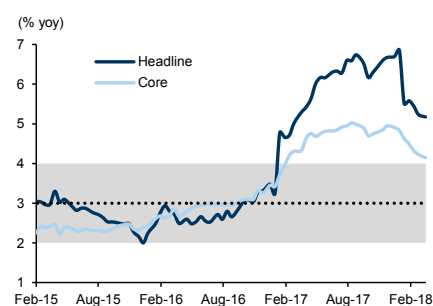
Mexico

	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	2.9	2.0	2.1	3.0
Nominal GDP (US\$ bn)	1077	1150	1225	1356
Consumer Prices (yoy, e.o.p.)	3.4	6.8	4.0	3.0
External Sector				
Current Account (% GDP)	-2.1	-1.6	-1.6	-1.6
Trade Balance (% GDP)	-1.2	-0.9	-0.8	-0.8
Exports (% yoy)	-1.7	9.5	4.8	4.9
Imports (% yoy)	-2.1	8.6	4.2	5.0
Exchange Rate (\$/MXN, e.o.p.)	20.73	19.79	18.50	18.04
Net International Reserves (US\$ bn)	176.5	172.8	178.0	188.0
Monetary Sector				
Monetary Base (% yoy)	14.4	9.0	12.0	12.0
Credit to the Private Sector (% GDP)	18.0	18.6	19.0	19.3
Tasa de Fondo Rate (e.o.p.)	5.75	7.25	7.50	6.00
Fiscal Sector				
Public Sector Primary Balance (% GDP)	-0.1	1.4	0.9	0.9
Public Sector Overall Balance (% GDP)	-2.5	-1.1	-2.0	-2.0
Debt Indicators				
Gross Federal Govt Debt (% GDP)	48.7	46.1	45.7	45.1
Domestic (% GDP)	30.9	29.1	29.0	28.6
External (% GDP)	17.8	17.0	16.7	16.5
Total External Debt (% GDP)	38.5	39.6	40.6	42.8

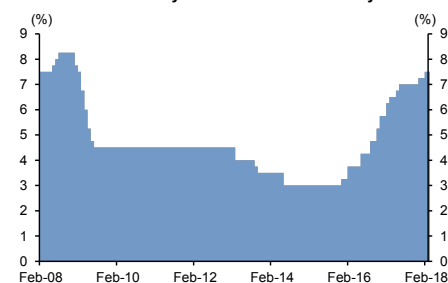
Note: *Public Sector Borrowing Requirements

Source: Goldman Sachs Global Investment Research.

Headline Inflation Has Likely Peaked



Banxico Raised Policy Rate to 7.50% in February



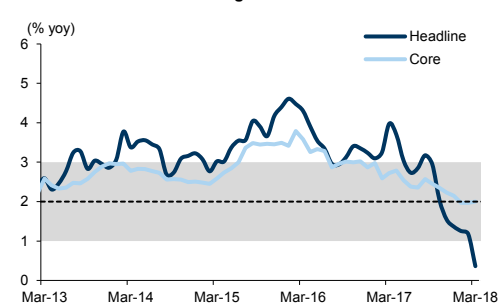
Source: Haver Analytics; INEGI; Goldman Sachs Global Investment Research.

Peru

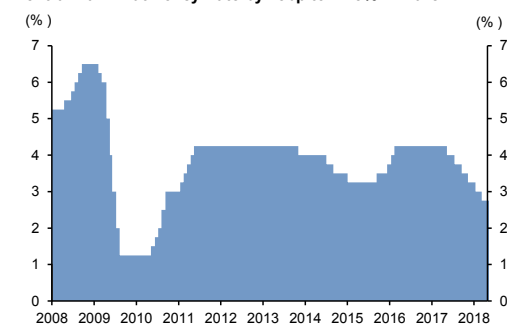
	2016	2017	2018F	2019F
Activity and Prices				
Real GDP Growth (% yoy)	4.0	2.5	3.7	4.0
Nominal GDP (US\$bn)	195	215	236	258
Consumer Prices (% yoy, eop)	3.2	1.4	2.3	3.0
External Sector				
Current Account (% GDP)	-2.7	-1.3	-1.5	-1.6
Trade Balance (% GDP)	1.0	2.9	4.3	4.1
Exports (% yoy)	7.6	21.3	16.3	7.8
Imports (% yoy)	-5.9	10.0	9.1	8.4
Gross International Reserves (US\$bn)	61.7	63.7	64.7	66.1
Exchange Rate (\$/PEN, e.o.p.)	3.36	3.24	3.15	3.10
Monetary Sector				
Monetary Base (% yoy)	4.1	7.2	19.9	10.5
Credit to the Private Sector (% GDP)	24.3	23.6	27.0	29.0
Reference Interest Rate (e.o.p.)	4.25	3.25	2.75	4.00
Fiscal Sector				
Non-fin Pub. Sector Primary Balance (% GDP)	-1.5	-2.1	-2.3	-1.6
Non-fin Pub. Sector Overall Balance (% GDP)	-2.6	-3.2	-3.5	-2.8
Debt Indicators				
Total Federal Govt Debt (% GDP)	23.8	25.5	27.4	28.9
Domestic Public Debt (% GDP)	13.5	14.6	15.9	17.0
External Public Debt (% GDP)	10.3	10.9	11.5	12.0
Total External Debt (% GDP)	38.2	38.7	39.5	40.1

Source: Goldman Sachs Global Investment Research.

Headline Inflation Below Target Lower Bound



Central Bank Cut Policy Rate by 25bp to 2.75% in March



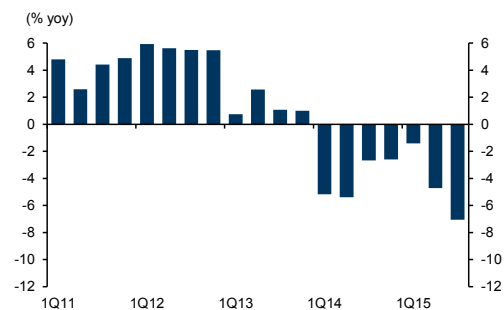
Source: BCRP; INEI; Goldman Sachs Global Investment Research.

Venezuela

	2015F	2016F	2017F	2018F
Activity and Prices				
Real GDP Growth (% yoy)	-6.2	-16.5	-12.1	-6.0
Nominal GDP (US\$bn)*	243	236	215	208
Consumer Prices (yoy, e.o.p.)	180.9	294.4	920.4	841.1
External Sector				
Current Account (% GDP)*	-7.5	-3.7	-0.7	0.6
Trade Balance (% GDP)*	0.2	2.8	5.8	7.0
Exports (% yoy)	-50.0	-33.0	22.2	11.3
Imports (% yoy)	-26.9	-46.8	-1.8	7.3
Exchange Rate (\$/VEF, e.o.p.)	6.3	10.0	10.0	25.0
Gross International Reserves (US\$bn)	16.4	11.0	8.7	7.0
Monetary Sector				
Monetary Base (% yoy)	111	160	180	150
Credit to the Private Sector (% GDP)	17.1	8.8	3.0	0.7
90-day Deposit Rate (e.o.p.)	15.1	15.5	17.0	21.0
Fiscal Sector**				
Public Sector Primary Balance (% GDP)	-15.6	-15.6	-16.4	-16.6
Public Sector Overall Balance (% GDP)	-17.7	-17.8	-18.5	-18.7
Debt Indicators				
Total Public Sector Debt (% GDP)*	87.8	100.2	132.2	112.4
Domestic (% GDP)*	37.5	43.1	66.3	41.2
External (% GDP)*	50.3	57.1	66.0	71.2
Total External Debt (%GDP)*	57.7	64.5	73.8	79.6

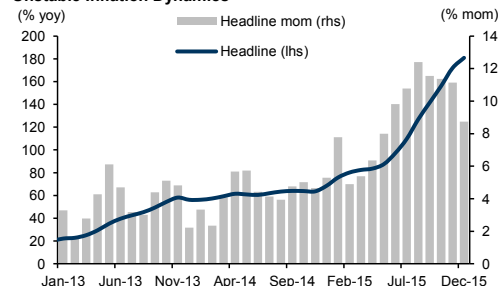
Source: Goldman Sachs Global Investment Research. *Based on IMF Nominal US\$ GDP due to FX distortions** Restricted Public Sector

From Recession to Depression (GDP yoy)



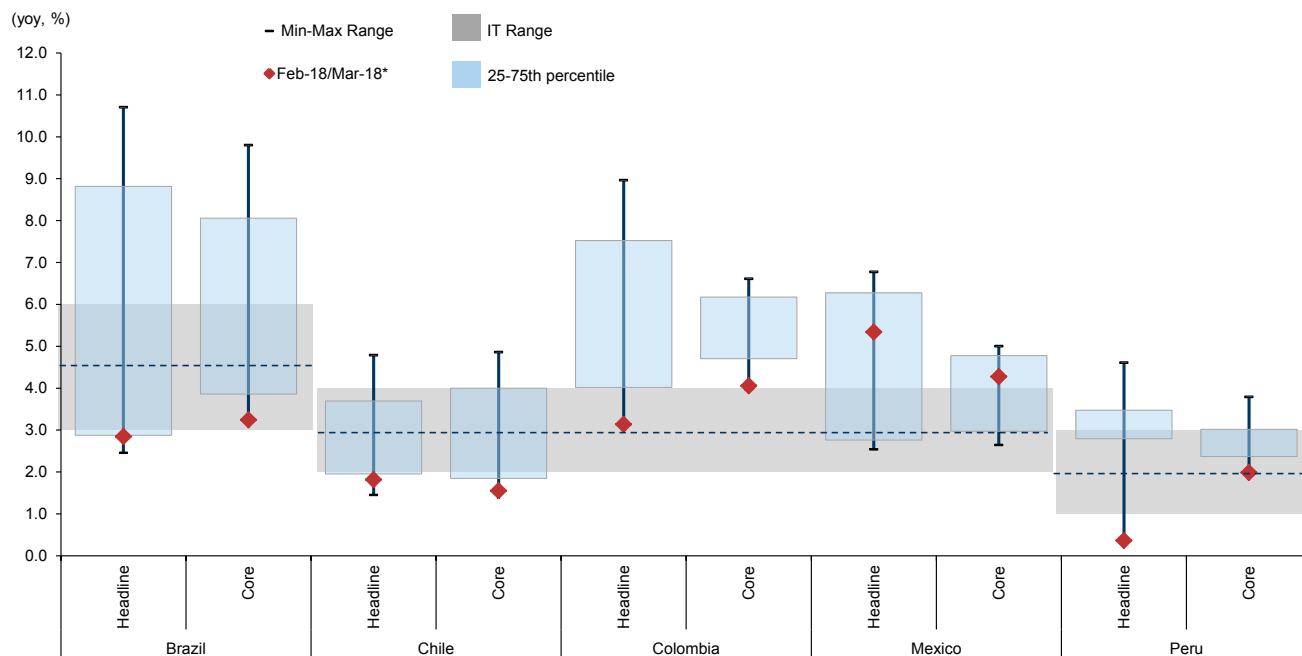
Source: BCV; Goldman Sachs Global Investment Research.

Unstable Inflation Dynamics



Source: BCV; Goldman Sachs Global Investment Research.

LAIT-5 Annual Headline and Core Inflation Dynamics Since January 2016

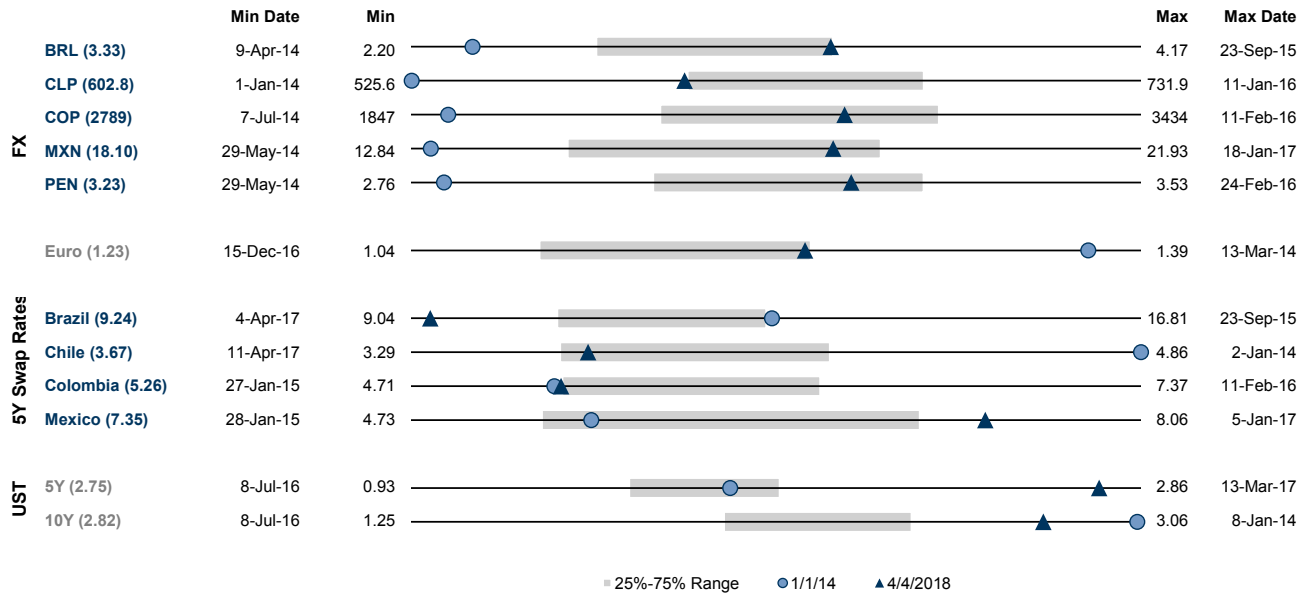


*March inflation numbers for Chile, Colombia, and Peru; February inflation numbers for Brazil and Mexico.

Source: Haver Analytics, Goldman Sachs Global Investment Research

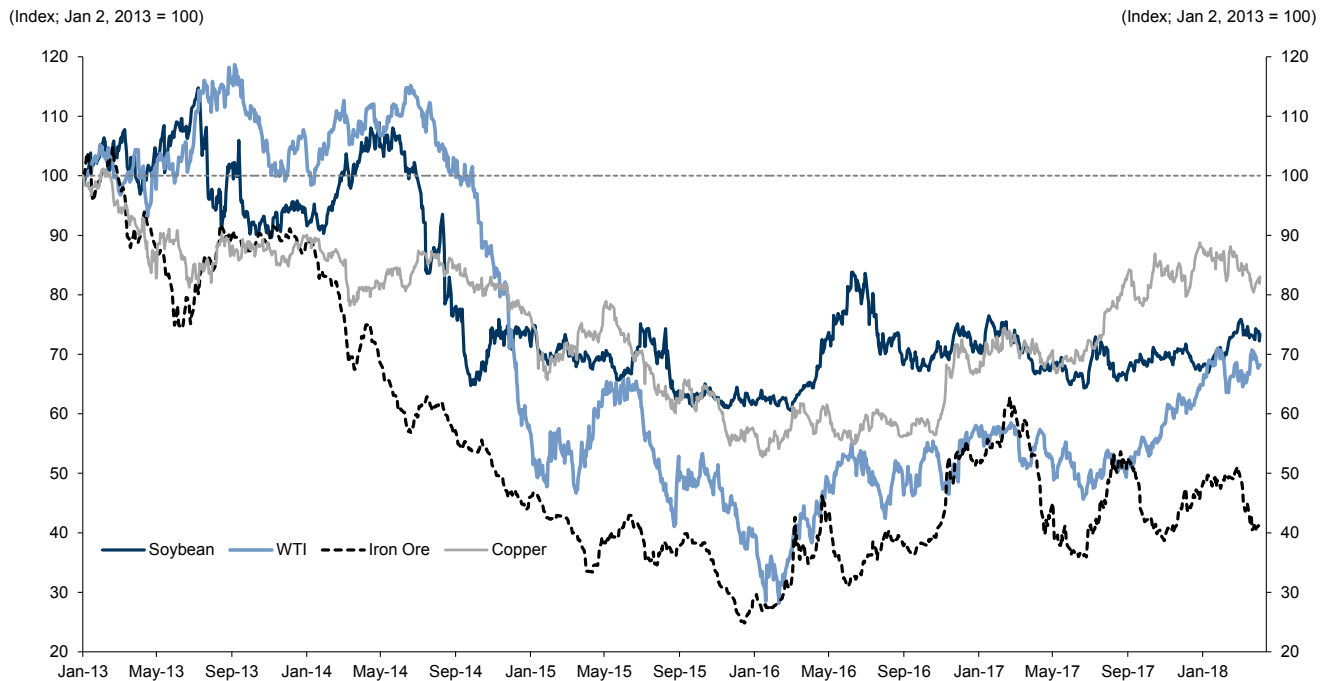
LatAm Financial Markets Outlook

LatAm Financial Markets Indicators (2014-2017)



Source: Goldman Sachs Global Investment Research

Key Commodities Prices



Source: Goldman Sachs Global Investment Research

Latin America Swap Rates

					Change Since (bps)	
		End-2016	End-2017	Current (04/04/2018)	End-2016	End-2017
Swap Rates (%)	Brazil					
	2y	11.05	8.06	7.42	-362	-64
	10y	11.66	10.78	10.09	-157	-68
	Chile					
	2y	3.06	2.84	3.00	-6	16
	10y	4.16	4.25	4.21	5	-4
	Colombia					
	2y	5.62	4.44	4.56	-106	12
	10y	6.58	6.10	6.07	-51	-2
	Mexico					
	2y	7.28	8.02	7.56	28	-47
	10y	8.01	7.98	7.61	-40	-37
United States						
2y	1.48	2.08	2.58	111	50	
10y	2.38	2.42	2.79	41	37	

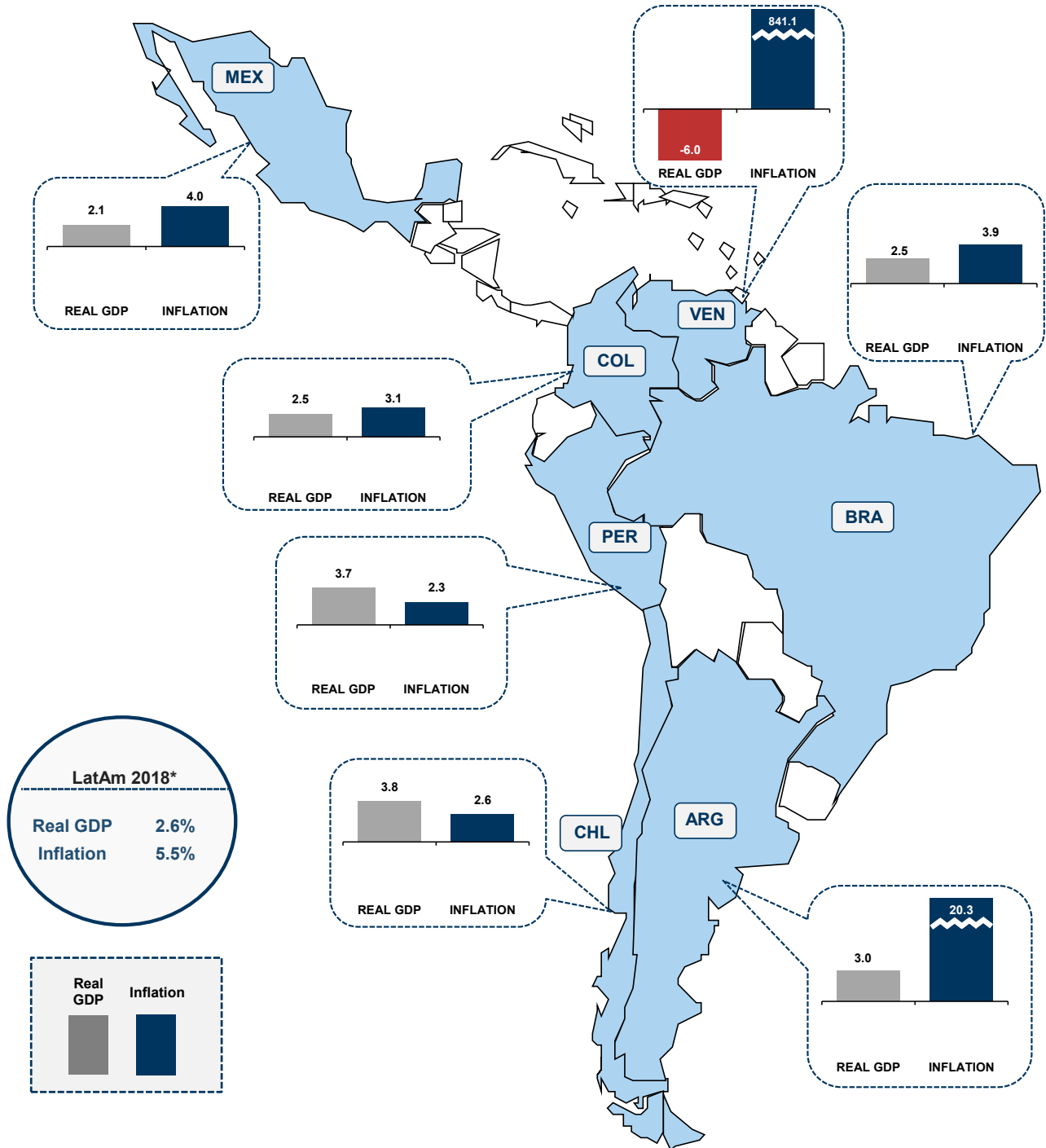
Source: Goldman Sachs Global Investment Research

Latin America Forecasts

		Policy Rates and FX Levels (End of Period)					Implied Change by (Rates in bp; FX in %)			
		Current	1Q2018	2Q2018	3Q2018	4Q2018	1Q2018	2Q2018	3Q2018	4Q2018
Policy Rates (%)	Brazil	6.50	6.50	6.25	6.25	6.25	0	-25	-25	-25
	Chile	2.50	2.50	2.50	2.50	3.00	0	0	0	50
	Colombia	4.50	4.50	4.00	4.00	4.00	0	-50	-50	-50
	Mexico	7.50	7.50	7.50	7.50	7.50	0	0	0	0
	Peru	2.75	2.75	2.75	2.75	2.75	0	0	0	0
FX (Local / USD)	Argentina	20.19	20.00	20.50	21.00	21.50	-1.0%	1.5%	4.0%	6.5%
	Brazil	3.35	3.32	3.34	3.36	3.37	-0.7%	-0.2%	0.3%	0.8%
	Chile	603.70	601.5	593.3	583.3	570.0	-0.4%	-1.7%	-3.4%	-5.6%
	Colombia	2791.57	2815	2800	2800	2800	0.8%	0.3%	0.3%	0.3%
	Mexico	18.21	18.33	19.50	19.00	18.50	0.7%	7.1%	4.4%	1.6%
	Peru	3.23	3.24	3.18	3.17	3.15	0.4%	-1.3%	-1.9%	-2.4%
	Venezuela	49650.00	10.00	10.00	25.00	25.00	-100.0%	-100.0%	-99.9%	-99.9%

Source: Goldman Sachs Global Investment Research

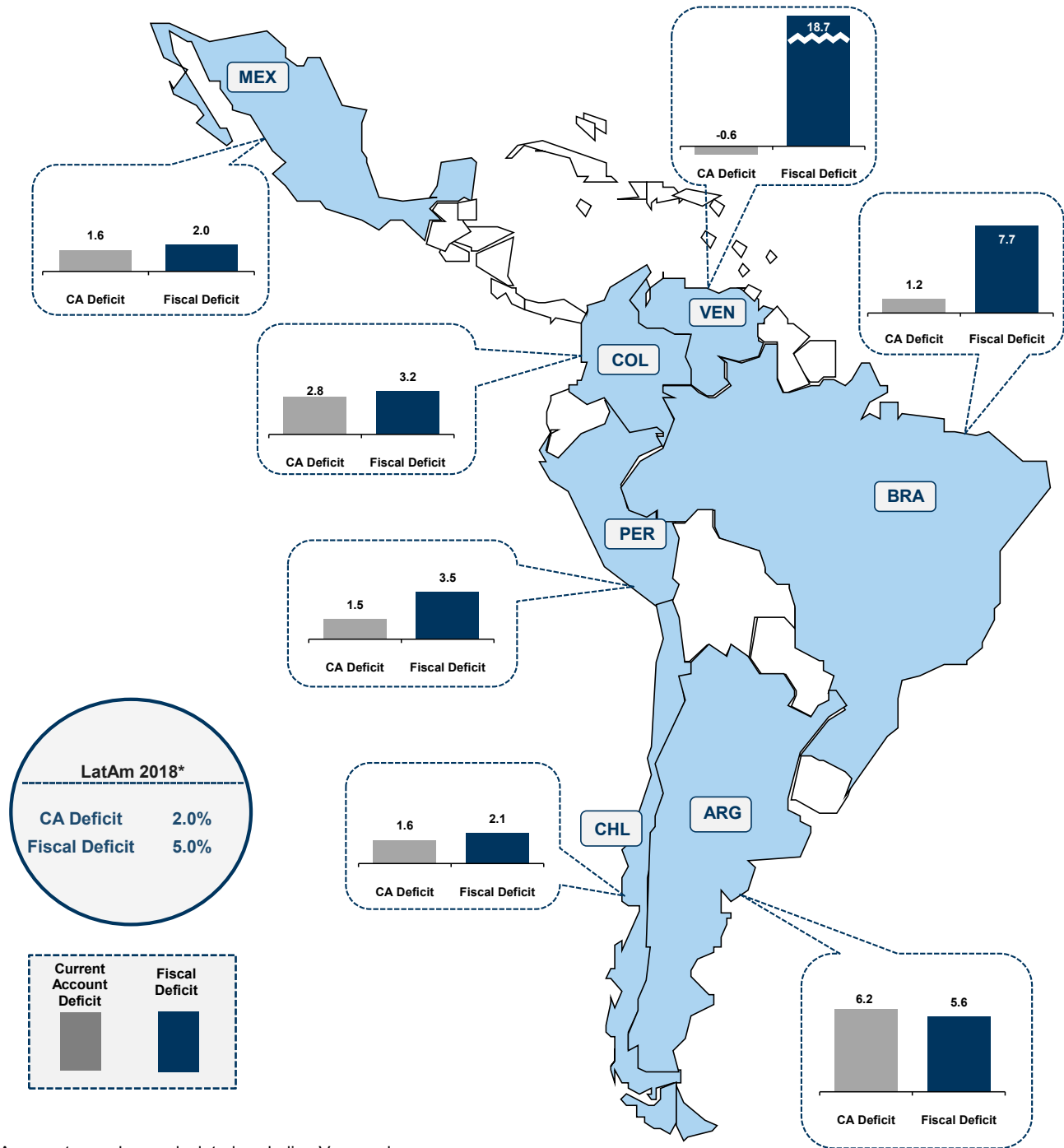
LatAm Outlook for 2017: Real GDP Growth and Inflation (YoY, %)



*Aggregate numbers calculated excluding Venezuela

Source: Goldman Sachs Global Investment Research

LatAm Outlook for 2017: Current Account and Fiscal Deficit (% of GDP)



*Aggregate numbers calculated excluding Venezuela

Source: Goldman Sachs Global Investment Research

Forthcoming Data Releases

Date	Time	Economic Indicator	Period	Forecast		Previous	
				mom/qq	yoy	mom/qq	yoy
Argentina							
10-Apr	9:30	Monetary Policy Meeting	Apr	27.25%		27.25%	
12-Apr	16:00	Consumer Price Index	Mar	2.20%	25.20%	2.40%	25.40%
Brazil							
09-Apr	9:00	IGP-DI Inflation	Mar	0.60%	0.79%	0.15%	-0.19%
10-Apr	9:00	IPCA Inflation	Mar	0.13%	2.72%	0.32%	2.84%
12-Apr	9:00	Core Retail Sales	Feb	0.80%		0.90%	3.20%
12-Apr	9:00	Broad Retail Sales	Feb	0.70%		-0.10%	6.50%
16-Apr	8:00	IGP-10 Inflation	Apr			0.45%	-0.02%
16-Apr	8:30	Economic Activity Index (yoy nsa)	Feb	0.40%		-0.56%	2.97%
19-Apr	9:30	Business Confidence	Apr			59.0	
Colombia							
16-Apr	12:00	Industrial Production	Feb		2.00%		1.00%
16-Apr	12:00	Retail Sales	Feb		6.80%		6.20%
Mexico							
09-Apr	8:00	INPC Headline Inflation	Mar	0.42%	5.13%	0.38%	5.34%
09-Apr	8:00	INPC Core Inflation	Mar	0.32%	4.05%	0.49%	4.27%
11-Apr	8:00	Industrial Production	Feb		1.20%	0.00%	0.90%
12-Apr	13:00	Monetary Policy Meeting	Apr	7.50%		7.50%	
Peru							
12-Apr	18:00	Monetary Policy Meeting	Apr	2.75%		2.75%	
16-Apr	9:30	Economic Activity Index (yoy nsa)	Feb		3.20%		2.80%
16-Apr	9:30	Unemployment Rate	Mar	7.90%		8.00%	

Source: Goldman Sachs Global Investment Research

Calendar of Economic and Political Events

Date	Forthcoming Events	Comment
Argentina		
10-Apr	MPC Meeting	Given unanchored inflation expectations and still intense inflationary pressures, the central bank is likely to hold again, leaving the policy rate (7-day repo rate) unchanged at 27.25%.
Brazil		
16-May	COPOM Meeting	The forward guidance suggests the Copom is very likely to cut the Selic policy rate by another 25bp to a new record low 6.25%.
Chile		
3-May	MPC Meeting	We expect BCCh to hold the policy rate at 2.50% through 3Q2018 and start normalizing monetary policy in 4Q2018.
Colombia		
27-Apr	MPC Meeting	We expect Banrep to cut the policy rate by 25bp to 4.25%.
27-May	Presidential Elections	After a strong showing from right and center-right parties in the March 11 Congressional elections, market-friendly candidate Iván Duque is now leading the polls, ahead of leftist candidate and former mayor of Bogotá Gustavo Petro.
Mexico		
12-Apr	MPC Meeting	We expect the MPC to leave the policy rate unchanged at 7.50% given the recent well-anchored MXN dynamics, moderating inflation trend, and easing NAFTA related risk.
1-Jul	Presidential and Congressional Elections	On July 1, voters will elect a new president and Congress (500 Lower House representatives and 128 senators). A number of state and local elections will also take place (gubernatorial, mayoral, and state legislations). Andrés Manuel López Obrador (AMLO) of the Morena-PT-PES coalition is enjoying a solid lead in the polls for the presidential race, followed by Ricardo Anaya (PAN-PRD-MC) and José Antonio Meade (PRI-PVEM-PANAL).
Peru		
12-Apr	MPC meeting	We expect BCRP to keep the policy rate at 2.75%.

Source: Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

We, Alberto Ramos, Paulo Mateus and Gabriel Fritsch, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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