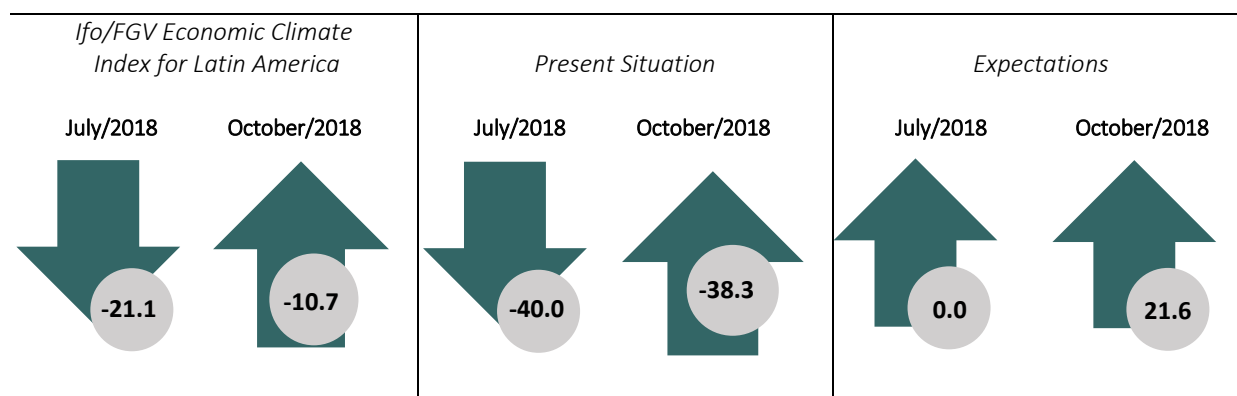


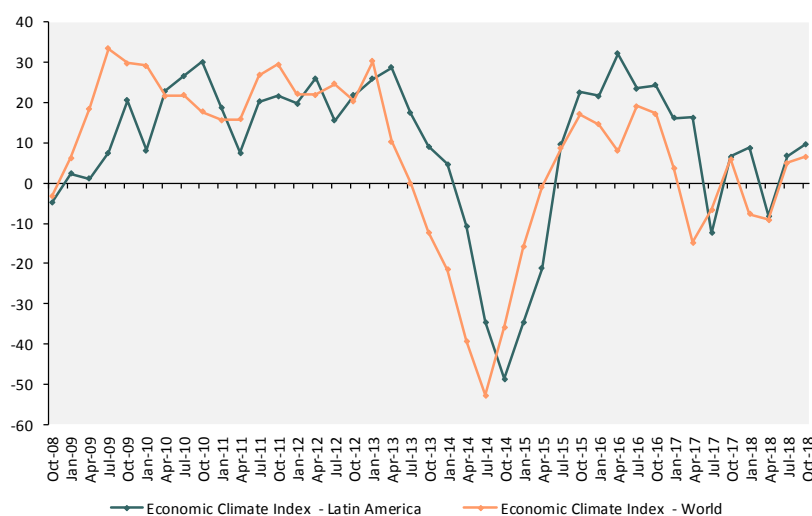
Improves the economic climate in Latin America's largest economies



The Ifo/FGV Economic Climate Index (ECI) in Latin America - developed in partnership between the German Ifo Institute and the FGV — increased between July and October, although it keeps reporting unfavorable climate with a negative balance of 10.7 points. The improvement was driven by the Expectations Indicator (EI), which went to a positive balance of 21.6 points from a zero balance. The Present Situation Index (PSI) also recorded an improvement, but it was only 1.7 points, remaining negative with a balance of 38.3 points.

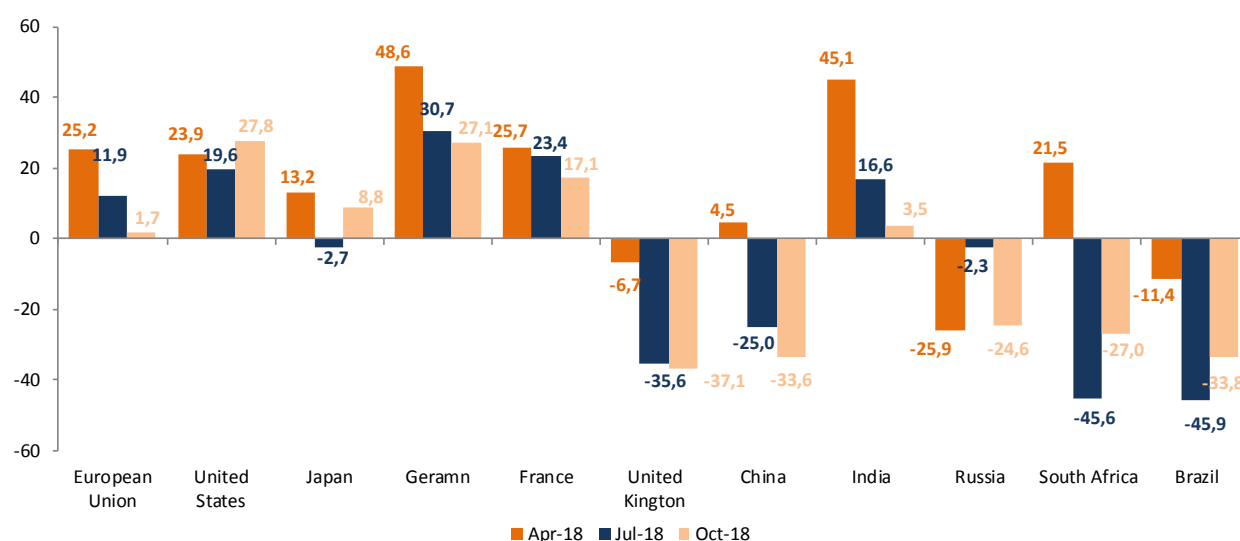
The behavior of the economic climate in Latin America did not coincide with that of the world, which has worsened, to a negative balance (-2.2 points) from an indicator with a positive balance. It is noteworthy that after July 2013, Latin America's ECI has been negative except on January 2018. On the other hand, the world's ECI has been positive in the same period, except between October 2015 and October 2016 and now in October Survey. The distancing from ECI results in Latin America and the World indicates that domestic factors in the Latin region have increased their weight in determining the region's economic climate.

Economic Climate Index - World and Latin America



The worsening ECI of the world was not uniform among the world's largest economies. While in the European Union the ECI decreases by 10.2 points in the comparison of balances between July and October, in the United States it increases by 8.2 points and in Japan by 11.5 points. It can be observed that all the aforementioned economies report a favorable economic climate. In the case of the BRICS countries, all have an unfavorable economic climate, except India with the largest negative balance, Brazil (-33.8) followed by South Africa (-27.0). In October, only Brazil and South Africa improved their economic climate.

Economic Climate Index for selected countries/regions
(in points)



Results from selected Latin American countries

The ECI results for the selected countries in Latin America lead to the identification of two groups. The first one is comprised of the largest economies in the region - Brazil, Mexico, Argentina, Colombia, Chile and Peru - in which all reported an improvement in the economic climate, except Colombia. In addition, the three largest economies (Brazil, Mexico and Argentina) show unfavorable economic climate and the other three, a positive climate. In October, the highest ECI was Chile (44.4 points).

In Brazil, ECI has remained negative since July 2013, with a brief interval in January 2018, when the main research institutes projected GDP growth around 3% and possible approval of Social Security Reform. Over the following months, the recognition of low probability of approval of the Reform considered fundamental to improve the fiscal deficit and the announcement of results of the level of activity that signaled a lower than expected growth at the beginning of the year explain the worsening of the economic climate in April and August. In addition, the uncertainties surrounding the presidential election contributed to an

unfavorable economic climate. As of September, however, it was becoming clear that it was almost certain the victory of the candidate with a program more in tune with economic reforms such as social security, privatization, and trade liberalization. In October, with the election of a new president, the positive Expectations Indicator improved and PSI continued negative, but fell 10.2 points.

In Argentina, during the year 2017 and until April 2018, the ECI remained positive, although with a downward trend since October 2017. It was expected that the measures taken by Macri government could reverse the inflationary process so the country could grow again. However, the collapse of the agricultural crop along with the strong devaluation of the country's currency led to a reversal in the ECI signal, which went to a negative balance of 51.3 points in July from 10.7 points in April. In June the country secured a US\$ 50 billion loan from the IMF, but it was not enough to reverse the negative scenario of the economy. A new loan was negotiated at the end of September, which helps explain the improvement in expectations that went to a positive balance of 28.6 points from a negative balance of 30 points, which led to an ECI decrease of 17.9 points, but remaining negative. The assessment of the current situation has worsened and, given the conditionalities of the agreement with the IMF, such as to zero the fiscal deficit until 2020, the return to positive rates of economic growth should not occur next year.

We highlight the cases of Brazil and Argentina, where it is clear the influence of domestic factors to explain the improvement of ECI.

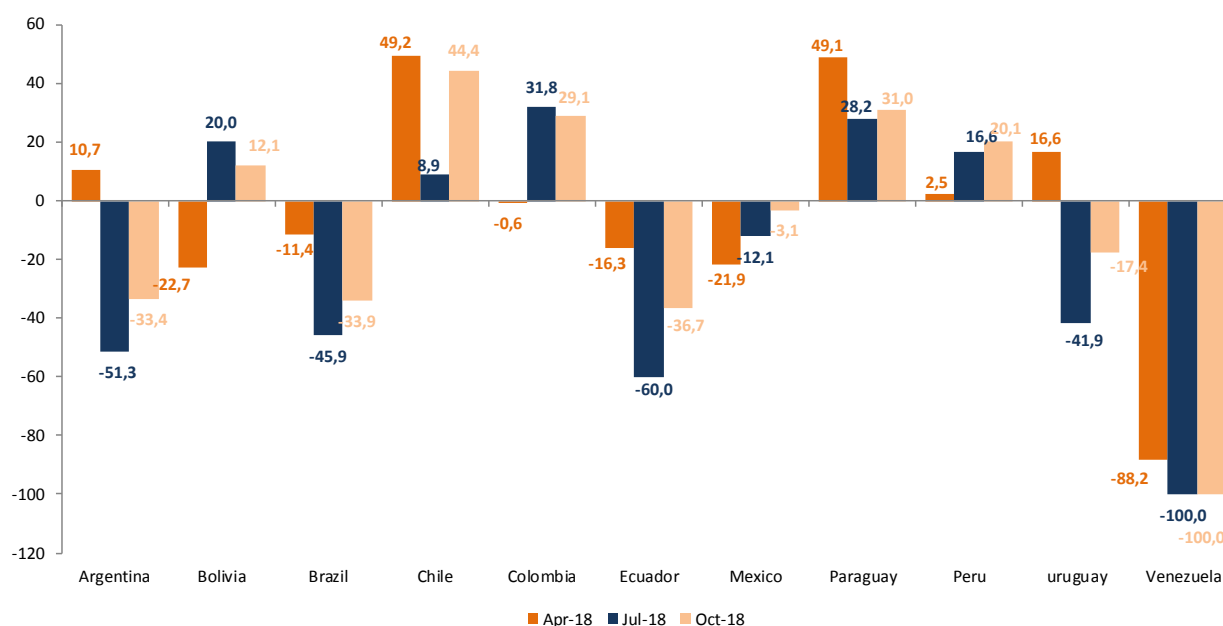
For the second largest economy in Latin America, it is highlighted the conclusion of the *North American Free Trade Agreement* (NAFTA) negotiations, which was renamed to *United States-Mexico-Canada Agreement* (USMCA), at the end of September. This result should have contributed to the reversal in the sign of Expectations Indicator, which went to positive (5.9 points) from negative (23.5 points), leading to the improvement of ECI, which continues in the unfavorable zone.

The improvement in the economic climate in Chile and Peru was led by positive expectations. It is observed that the improvement in Chile has been translated into an increase in the projection of GDP growth for the next 3 to 5 years, according to experts consulted by the Ifo Institute. In October 2017, this projection was 3.2% and now it has moved to 3.6%. In the case of Peru it was kept at 3.9%. In Colombia, the ECI worsening was 2.7 points and led by expectations that continue with an increased positive balance (62.5 points), but decreased in relation to the July Survey. Regarding the projection of GDP growth, it changed to 3.3% from 3.4%.

For the group of smaller economies, ECI has improved in Ecuador, Paraguay and Uruguay, but only Paraguay has a positive balance. The improvement in Paraguay and Uruguay is influenced by the results of Brazil and Argentina, which are important markets for these countries. In Bolivia, the economic climate worsened, but remained favorable.

In short, Latin America's ECI improvement is strongly related to the results from the 3 largest economies, which together account for 72% of the region's GDP.

Economic Climate Index for Latin American Countries



Lastly, the October Survey brings the ranking of the main problems that experts point out as obstacles to economic growth. Relevant problems are those with value above 50 points and the higher the score, the more relevant is the problem. It stands out according to the number of countries that consider the problems relevant: lack of innovation (in all 11 countries selected); inadequate infrastructure (9 countries); corruption (9); lack of international competitiveness (9); lack of skilled labor (8); lack of confidence in government policy (7); insufficient demand (7); barriers to investment (7); income inequality (6); lack of capital (5); unfavorable climate for foreigners (4); political instability (5); debt management (3); barriers to exports (2); and policy of the Central Bank (2). The main obstacles in almost all countries, besides corruption, are issues associated to development/economic growth policies such as lack of innovation, infrastructure and skilled labor, reflected in the lack of international competitiveness.

Latin America Economic Survey



BRAZILIAN INSTITUTE
OF ECONOMICS

ifo INSTITUTE
Leibniz Institute for Economic Research
at the University of Munich

October 2018

Problems	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay	Venezuela
Lack of confidence in government's econ. policy	100,0	62,5	96,3	0,0	31,3	83,3	76,5	20,0	60,0	25,0	100,0
Insufficient demand	85,7	50,0	81,5	22,2	37,5	83,3	56,3	60,0	25,0	75,0	66,7
Lack of innovation	53,8	75,0	88,5	66,7	100,0	83,3	87,5	100,0	100,0	100,0	66,7
Inadequate Infrastructure	83,3	75,0	100,0	33,3	100,0	16,7	81,3	100,0	100,0	88,9	100,0
Lack of international competitiveness	53,8	100,0	92,6	44,4	93,8	83,3	47,1	80,0	68,8	88,9	100,0
Trade barriers to exports	33,3	62,5	50,0	22,2	50,0	33,3	0,0	0,0	0,0	50,0	66,7
Lack of skilled labour	8,3	75,0	65,4	55,6	50,0	66,7	43,8	100,0	86,7	88,9	100,0
Legal and administrative barriers for business	66,7	87,5	81,5	44,4	81,3	66,7	29,4	40,0	75,0	44,4	100,0
Unfavourable climate for foreign investors	50,0	87,5	63,0	0,0	6,3	66,7	41,2	0,0	13,3	37,5	100,0
Capital shortage	90,9	37,5	60,0	22,2	37,5	66,7	35,3	60,0	20,0	28,6	100,0
Lack of credible central bank policy	92,9	50,0	3,8	0,0	0,0	50,0	6,3	0,0	0,0	25,0	100,0
Inefficient debt management	57,1	25,0	55,6	22,2	12,5	50,0	25,0	0,0	6,3	0,0	100,0
Widening income inequality	64,3	25,0	84,6	55,6	87,5	33,3	87,5	40,0	50,0	25,0	100,0
Political instability	41,7	71,4	85,2	0,0	6,3	33,3	58,8	40,0	93,8	0,0	100,0
Corruption	58,3	75,0	96,3	22,2	93,8	66,7	100,0	100,0	100,0	12,5	100,0

RANKING OF ECONOMIC CLIMATE FOR LATIN AMERICAN COUNTRIES

Previous Position	Current Position	Country	Average ECI for the last 4 quarters	
			Jul/18	Oct/18
1	1	Paraguay	33.9	36.3
2	2	Chile	20.6	32.2
5	3	Colombia	7.6	16.4
3	4	Peru	14.7	13.2
7	5	Bolivia	-10.3	-2.0
6	6	Uruguay	2.0	-6.5
4	7	Argentina	8.2	-11.5
9	8	Mexico	-18.8	-16.0
8	9	Brazil	-15.3	-21.7
10	10	Ecuador	-37.0	-35.8
11	11	Venezuela	-93.2	-97.0

Latin America Economic Survey



BRAZILIAN INSTITUTE
OF ECONOMICS

ifo INSTITUTE
Leibniz Institute for Economic Research
at the University of Munich

October 2018

APPENDIX

ECONOMIC CLIMATE INDEX

ECI	apr/16	jul/16	oct/16	jan/17	apr/17	jul/17	oct/17	jan/18	apr/18	jul/18	oct/18	Average 10 years
Latin America	-37.2	-27.2	-29.9	-30.6	-22.1	-27.5	-0.9	1.5	-5.2	-21.1	-10.7	-12.2
Argentina	-11.0	-10.4	7.8	0.2	1.0	1.6	45.2	28.2	10.7	-51.3	-33.4	-18.0
Bolivia	-1.6	-6.4	-34.0	-16.5	-37.5	-17.4	-21.1	-17.4	-22.7	20.0	12.1	-8.6
Brazil	-63.1	-40.7	-34.2	-37.9	-21.0	-41.0	-8.3	4.3	-11.4	-45.9	-33.9	-11.0
Chile	-67.7	-43.5	-43.7	-28.5	-48.8	-53.6	-2.0	26.3	49.2	8.9	44.4	1.2
Colombia	-9.3	0.0	-18.5	-4.6	-1.6	-16.3	-6.4	5.3	-0.6	31.8	29.1	6.2
Ecuador	-70.4	-53.0	-41.9	-32.3	-41.9	-58.6	-41.3	-30.3	-16.3	-60.0	-36.7	-25.7
Mexico	-13.7	-33.3	-54.7	-59.4	-28.4	-9.9	-14.4	-26.8	-21.9	-12.1	-3.1	-16.6
Paraguay	5.4	32.8	16.7	18.7	32.8	21.3	21.3	37.2	49.1	28.2	31.0	18.8
Peru	3.8	38.6	45.7	30.0	-22.7	-28.7	26.1	13.8	2.5	16.6	20.1	24.0
Uruguay	-18.9	-30.1	-14.2	21.1	30.5	18.7	16.6	16.6	16.6	-41.9	-17.4	10.1
Venezuela	-100.0	-90.5	-88.2	-88.2	-100.0	-100.0	-84.5	-100.0	-88.2	-100.0	-100.0	-79.8

PRESENT SITUATION INDEX

ISA	apr/16	jul/16	oct/16	jan/17	apr/17	jul/17	oct/17	jan/18	apr/18	jul/18	oct/18	Average 10 years
Latin America	-59,7	-62,0	-69,4	-63,8	-60,4	-62,6	-43,8	-31,8	-31,1	-40,0	-38,3	-24,9
Argentina	-57,1	-63,6	-47,1	-53,3	-42,9	-37,5	20,0	8,3	-7,7	-70,0	-78,6	-29,3
Bolivia	25,0	50,0	14,3	14,3	20,0	0,0	0,0	0,0	0,0	20,0	25,0	13,6
Brazil	-100,0	-100,0	-100,0	-96,4	-89,3	-92,3	-73,9	-53,6	-56,5	-88,0	-77,8	-28,3
Chile	-100,0	-57,1	-77,8	-71,4	-85,7	-100,0	-60,0	-18,2	30,0	18,2	44,4	-0,1
Colombia	0,0	0,0	-28,6	-16,7	-25,0	-50,0	-50,0	-29,4	-44,4	-7,1	0,0	7,7
Ecuador	-80,0	-80,0	-75,0	-75,0	-75,0	-50,0	-60,0	-40,0	-50,0	-60,0	-66,7	-21,4
Mexico	-20,0	-35,7	-69,2	-56,3	-37,5	-33,3	-33,3	-33,3	-18,8	0,0	-11,8	-28,8
Paraguay	-12,5	16,7	16,7	12,5	50,0	28,6	28,6	50,0	71,4	42,9	66,7	21,6
Peru	-8,3	0,0	30,8	26,7	-42,9	-76,9	-15,4	-12,5	-38,5	13,3	-6,3	24,2
Uruguay	-25,0	-55,6	-37,5	0,0	12,5	25,0	11,1	22,2	22,2	-33,3	0,0	29,2
Venezuela	-100,0	-100,0	-100,0	-100,0	-100,0	-100,0	-100,0	-100,0	-100,0	-100,0	-100,0	-87,7

EXPECTATIONS INDEX

EXI	apr/16	jul/16	oct/16	jan/17	apr/17	jul/17	oct/17	jan/18	apr/18	jul/18	oct/18	Average 10 years
Latin America	-11,1	16,5	21,6	10,6	26,8	16,5	53,9	41,3	24,7	0,0	21,6	3,8
Argentina	50,0	63,6	82,4	73,3	57,1	50,0	73,3	50,0	30,8	-30,0	28,6	-0,1
Bolivia	-25,0	-50,0	-71,4	-42,9	-80,0	-33,3	-40,0	-33,3	-42,9	20,0	0,0	-26,9
Brazil	-12,5	53,8	75,0	53,6	89,3	34,6	91,3	85,2	47,8	12,0	25,9	16,3
Chile	-25,0	-28,6	0,0	28,6	0,0	14,3	80,0	81,8	70,0	0,0	44,4	10,4
Colombia	-18,2	0,0	-7,7	8,3	25,0	25,0	50,0	47,1	55,6	78,6	62,5	10,0
Ecuador	-60,0	-20,0	0,0	25,0	0,0	-66,7	-20,0	-20,0	25,0	-60,0	0,0	-25,6
Mexico	-7,1	-30,8	-38,5	-62,5	-18,8	16,7	6,7	-20,0	-25,0	-23,5	5,9	-0,8
Paraguay	25,0	50,0	16,7	25,0	16,7	14,3	14,3	25,0	28,6	14,3	0,0	18,9
Peru	16,7	84,6	61,5	33,3	0,0	38,5	76,9	43,8	53,8	20,0	50,0	28,2
Uruguay	-12,5	0,0	12,5	44,4	50,0	12,5	22,2	11,1	11,1	-50,0	-33,3	-5,0
Venezuela	-100,0	-80,0	-75,0	-75,0	-100,0	-100,0	-66,7	-100,0	-75,0	-100,0	-100,0	-70,4

METHODOLOGICAL ASPECTS OF THE SURVEY

The Latin America Economic Survey aims for monitoring and forecasting of economic trends, based on quarterly information supplied by economy experts in their respective countries. The survey is simultaneously applied with the same methodology in all countries of the region, a method that allows the construction of an agile and comprehensive picture of the economic situation in countries and economic blocks. In July 2018, 145 economic experts were consulted in 16 countries of Latin America.

The survey generates information of both qualitative and quantitative nature. The Economic Climate Index (ECI), is the synthesis indicator, comprised of two items of qualitative nature, the Present Situation Index (PSI) and the Expectations Index (EI), which deal, respectively, with the general economic situation in the country at the moment and for the upcoming six months.

As of January 2018, the Present Situation (PSI) and Expectations (EI) indicators for each country are now expressed as the balance of responses of the respective qualitative items, according to the formula presented below:

$$PSI = ((\text{option}^+ - \text{option}^-) * 100) / n,$$

option+ = Favorable option;

option- = Unfavorable option; and

n = number of experts who answered this question.

The EI formula is analogous.

The Economic Climate Index is constructed as the geometric mean of the response balances of the current situation and expectations items minus 100 (-100), according to the formula described below:

$$ECI = \sqrt{((PSI + 200) * (EI + 200))} - 200,$$

ECI = Economic Climate Index.

Thus, the scale of indicators ranges from minus 100 (-100) to plus 100 (+100). Zero (0) is the inflection point.

In order to reach any aggregate of countries, such as the total for Latin America, the country indices are aggregate by GDP, corrected by Purchasing Power Parity (PPP GDP, according to IMF data). The new methodology modified the relative importance of the two main countries of the region in the aggregated result. Before, with the weights of countries determined by the Trade Chain (Exports + Imports), Mexico represented 45% of the countries in the region surveyed, and Brazil 21%. With the change, Brazil's weight increased to 38.0%, while Mexico's indicators contributed with 28.0% to the region's result. Argentina now moved to third place (10.6%), in place of Chile (5.3%). See below the weight structure for closing ECI, PSI and EI in Latin America for July 2018.

Countries	Weight
Brazil	38.0%
Mexico	28.0%
Argentina	10.6%
Colombia	8.3%
Chile	5.3%
Peru	4.9%
Ecuador	2.2%
Bolivia	1.0%
Uruguay	0.9%
Paraguay	0.8%

Weights weighted by PPP GDP are modified annually respecting the availability of data for each reference period.