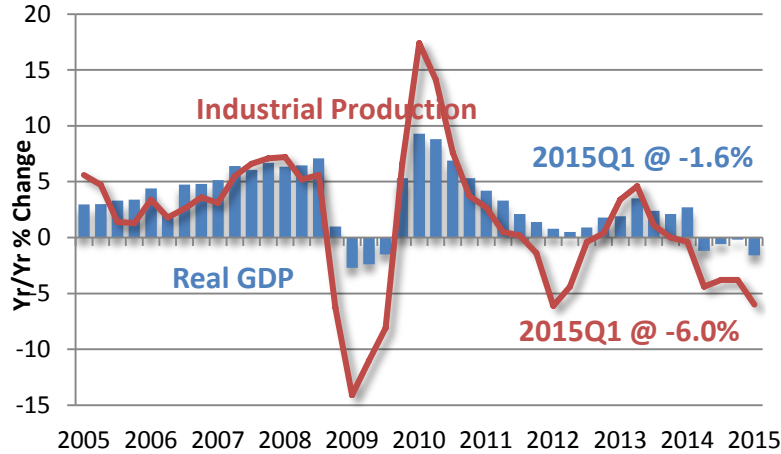




Brazilian Growth is Struggling

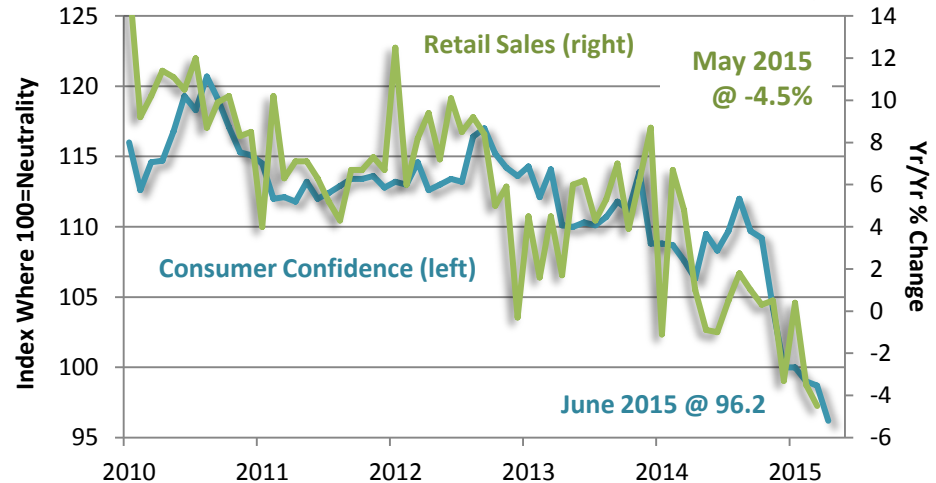


Source: IBGE, Rockport Analytics

- **Technical recession with growth hovering just below zero over past 4 qtrs**
- **While inflation bursts through 8.9% in June**
- **Households & businesses are hunkering down**

Brazil Enters a Period of "Stagflation"

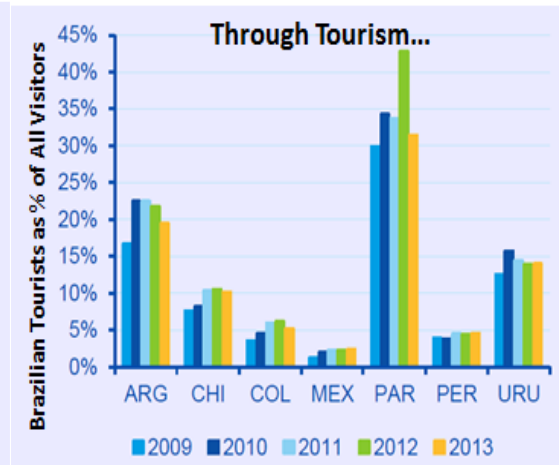
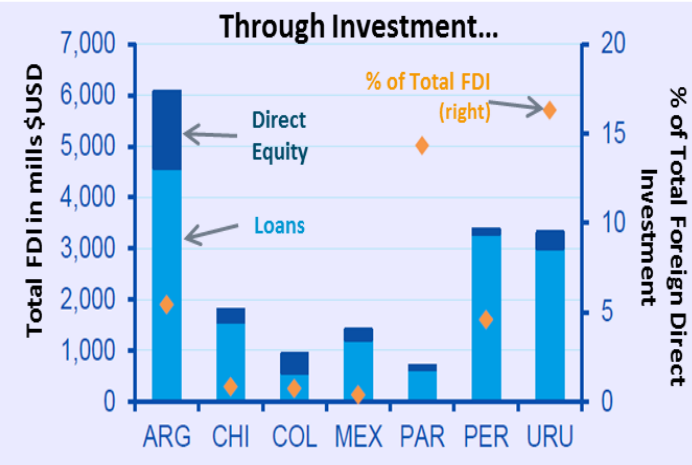
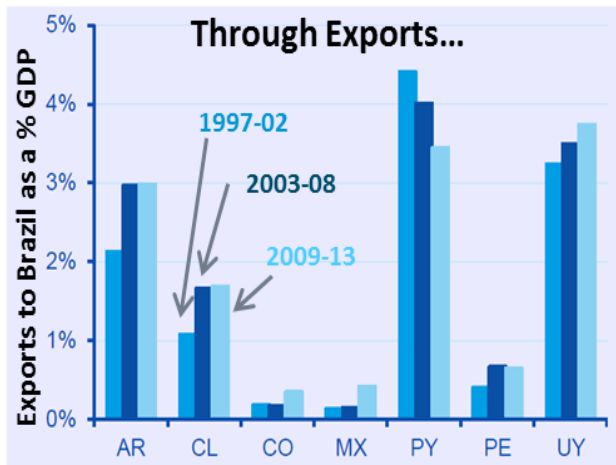
Consumer Confidence and Retail Sales Falling...



Source: Confederacao Nacional Da Industria (CNI), Instituto Brasileiro de Geografia e Estatistica (IBGE)



LatAm Exposure to Brazil's Weakness is Palpable

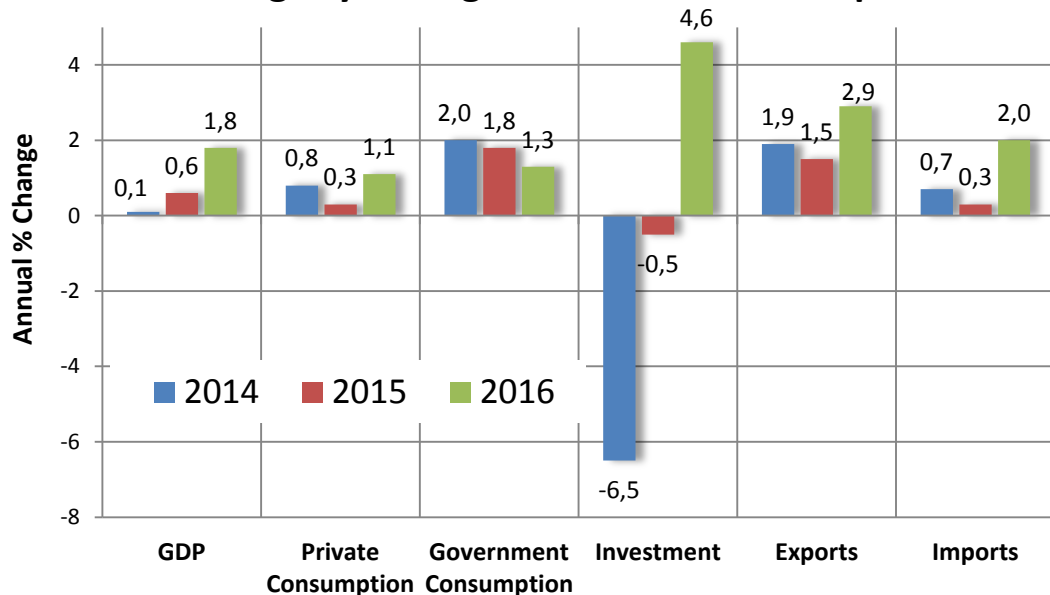


- Argentina (3% of GDP), Chile (2.8%), Paraguay (3.5%), Uruguay (3.8%) have strongest trade links with Brazil
- Argentina, Peru, and Uruguay rely heavily on foreign investment from Brazil
- While tourism is a relatively small portion of their overall economies (0.2-0.5%), the sector would suffer significantly if Brazil experiences a protracted period of weakness



Brazilian Economy in for a Difficult Time

**Growth Flat in 2015. Marginally Better in 2016
on Slightly Stronger Investment and Exports**



In addition to slower growth, Brazil must contend with (phew!):

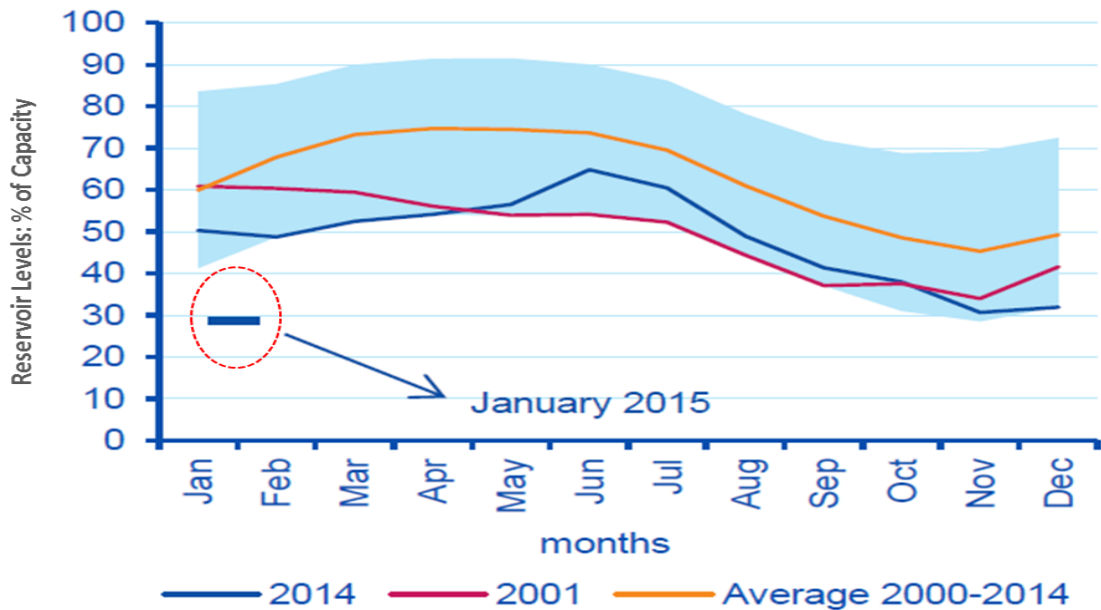
- rising inflation,
- fiscal & monetary policy headwinds
- ongoing water shortage
- lower oil prices (net oil producer)
- losses in the ranks of the middle class

Source: IMF, World Bank, Moodys Analytics, BBVA Research, Rockport Analytics



Historic Water Shortage Also Driving Inflation

Electricity Shortages: Extremely Low Water Levels Have Reduced Hydro production



- Brasil is experiencing an historic water shortage.
- Reservoirs were at 30% of capacity in January 2015.
- This will continue to drive up electricity prices.

Source: ONS, BBVA Research

Difficult 2015 Followed by Slow Improvement

Stronger global growth, lower oil prices, more aggressive monetary policy, & improving public investment get LatAm slowly back on track...

Economic Driver	GDP				Inflation			Exports			Fiscal Balance		
% Y/Y	2014	2015	2016	17-19	2014	2015	2016	2014	2015	2016	2014	2015	2016
Argentina	0.5	-0.3	0.1	0.3	14.6	18.6	23.2	-10.0	-8.9	-4.9	-2.7	-4.1	-4.0
Bolivia	5.4	4.3	4.3	4.0	5.8	5.1	5.0	5.2	6.9	5.4	-3.2	-4.5	-5.5
Brazil	0.1	-1.0	2.0	2.3	6.3	7.8	5.9	-1.9	6.9	5.2	-6.2	-5.3	-4.7
Chile	1.8	2.7	3.3	3.7	4.4	3.0	3.0	0.7	5.0	8.6	-1.4	-2.1	-1.9
Colombia	4.6	3.4	3.7	4.2	2.9	3.4	3.0	-0.1	5.0	6.8	-1.4	-3.2	-2.6
Costa Rica	3.5	3.8	4.4	4.4	3.2	4.6	4.0	-2.2	2.9	4.8	-6.0	-5.8	-5.2
Ecuador	3.6	1.9	3.6	4.2	3.6	3.2	3.0	10.2	1.3	6.8	-5.2	-5.4	-4.8
Mexico	2.1	3.0	3.3	3.7	4.0	3.2	3.0	7.3	7.1	7.6	-4.6	-4.1	-3.5
Paraguay	4.4	4.0	4.0	4.0	5.0	3.6	4.5	-2.3	5.7	4.2	-0.5	-1.1	-0.9
Peru	2.4	3.8	5.0	4.9	3.2	2.5	2.0	-0.3	2.7	7.0	-0.1	-1.7	-1.4
Uruguay	3.3	2.8	2.9	3.2	8.9	7.9	7.5	2.0	2.3	3.1	-3.4	-2.8	-2.9
Venezuela	-4.0	-7.0	-4.0	-1.5	62.2	96.8	83.7	-5.2	-11.3	0.4	-14.8	-19.9	-20.4
LatAm	1.3	0.9	2.0	2.8	n/a	n/a	n/a	1.6	3.8	5.7	-4.9	-4.8	-4.3

Source: IMF, World Bank, IHS Global Insight, Moodys Analytics, BBVA Research, Rockport Analytics