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THE DIGITAL LIFESTYLE

# Long term macro- economics assessment of Latin America

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We believe in better. We believe in **tigo**

# Methodology

Macroeconomic analysis was completed in three stages, with each stage leveraging quantitative tools built by the Oxford Economics team



# Market Influencers

Growth has slowed in most Latam countries as the region has been buffeted by weak commodity prices, with many countries having limited scope for policy response

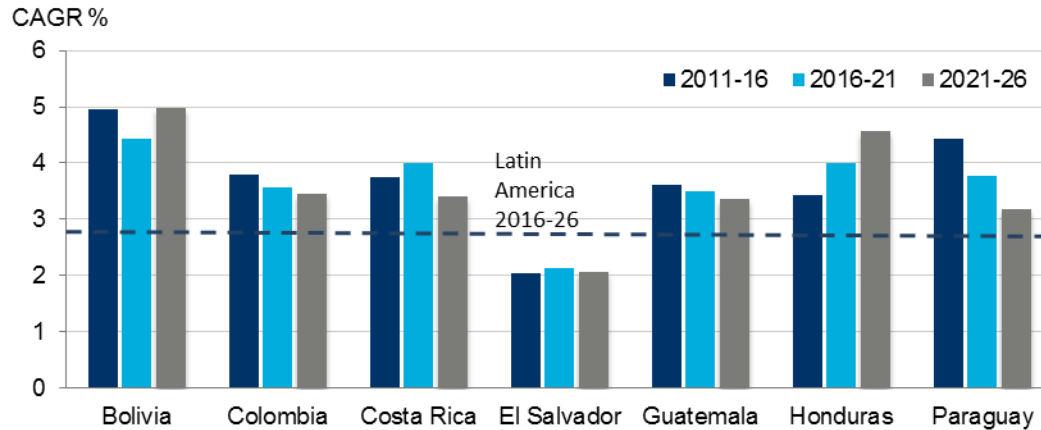
	External Factors				Domestic factors			
	Exports (% of GDP)	Commodities (% of exports)	Current account (% of GDP)	Workers remittances (% GDP)	Inflation	Interest rate (lending)	Government balance (% of GDP)	Population (16-26 CAGR)
Bolivia	20.5%	82%	-8.3%	3.6%	4.5%	8.4%	-6.3%	1.4%
Colombia	11.6%	73%	-6.0%	1.1%	7.6%	14.3%	-3.9%	0.7%
Costa Rica	19.1%	26%	-3.5%	1.2%	1.3%	14.2%	-6.2%	0.9%
El Salvador	16.8%	18%	-3.1%	16.8%	1.6%	6.2%	-2.3%	0.3%
Guatemala	18.1%	49%	0.1%	9.9%	4.5%	13.2%	-1.3%	1.9%
Honduras	28.3%	28%	-6.9%	17.4%	2.9%	20.7%	-3.2%	1.3%
Paraguay	42.6%	62%	-1.2%	1.6%	4.7%	18.5%	-2.5%	1.2%

- Key drivers of the near-term economic growth prospect are:
  - **Commodity prices** – countries such as Bolivia, Colombia, Guatemala and Paraguay have been hit by weak commodity prices. However, there has been a boost to commodity importers such as El Salvador and Honduras;
  - **US growth** – the US is important for trade and remittances for Costa Rica, El Salvador and Honduras and these countries will benefit as the US recovery strengthens;
  - **Inflation and deficits** – these are critical for determining the amount of policy support an economy can expect. Fiscal policy in Bolivia and Costa Rica is constrained while inflation has pushed up interest rates in Colombia.

# Macro Outlook

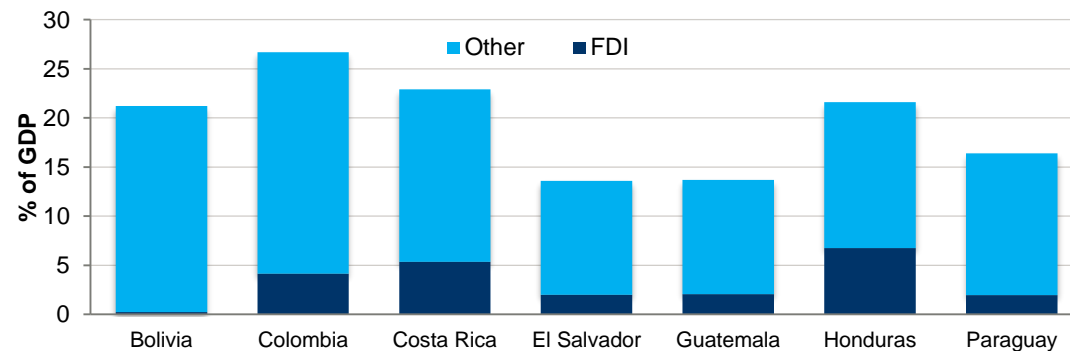
**Bolivia and Honduras have the most favorable medium-term growth outlooks, whereas El Salvador has weaker underlying fundamentals that limits growth**

## GDP



Source: Oxford Economics

## Investment



Source: Oxford Economics

## Macroeconomic Outlook

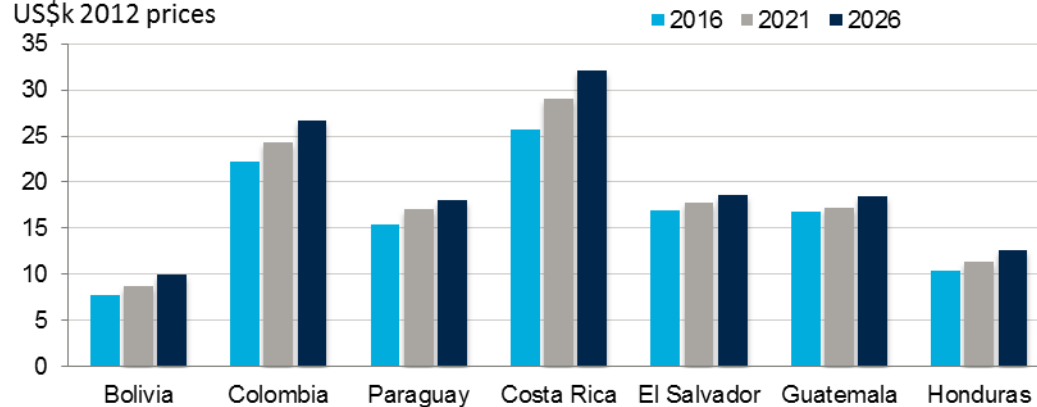
- Domestic and institutional factors are more important in determining outlook for investment and productivity, which are key to explaining long run growth. In particular:
  - Business environment** – challenging across all countries, although Costa Rica and Paraguay have relatively business friendly policies that should be more supportive of investment;
  - Political stability/corruption** – these factors increase the cost of doing business across Latam;
  - Security** – security is a major concern in El Salvador, Guatemala, and Honduras and this severely hampers private enterprise.

# Outlook for Households

Costa Rica, Colombia, El Salvador, Guatemala, and Paraguay are all expected to have average incomes approaching or above US\$20,000 by 2026

## Average household disposable income

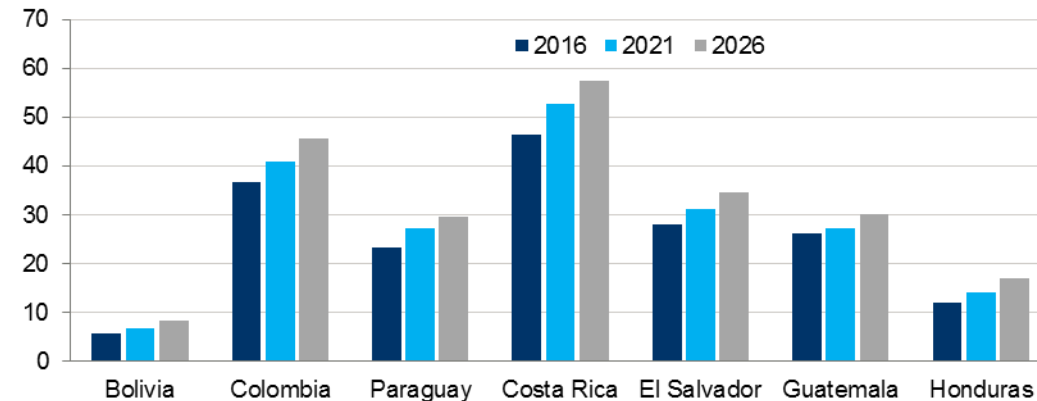
US\$k 2012 prices



Source: Oxford Economics

## Households with income > \$20k

% of total



Source: Oxford Economics / Control Risk

## Consumer spending

- The outlook for **average incomes** is largely determined by overall economic growth and therefore we expect to see the strongest income growth in Bolivia and Honduras.
- The **poorest households in the study are Bolivia and Honduras**. Average incomes are only over US\$20,000 in Costa Rica and Colombia suggesting limited discretionary spending across the countries in this study.
- **“Middle class” households** – countries with relatively high starting income levels and those likely to see robust economic growth should see the largest rise in the number of households with income >US\$20,000. These are Costa Rica and Colombia. The smallest increases occur in Bolivia and Guatemala.

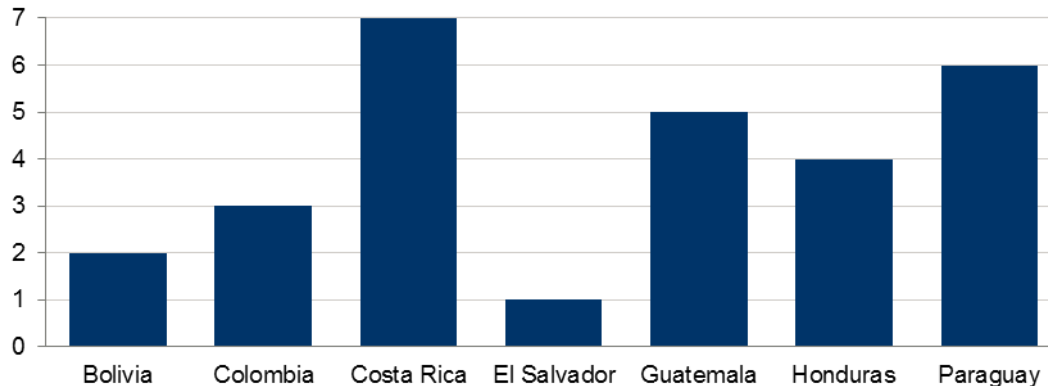
# Exchange Rate

We expect to see a gradual depreciation in the currencies of Bolivia, Colombia, Costa Rica, Guatemala, Honduras, and Paraguay against the US\$

Exchange rate					
	2015	2021	Depreciation (CAGR 2015-21)	2026	Depreciation (CAGR 2021-26)
Bolivia	6.9	7.2	0.6%	7.7	1.4%
Colombia	2741	2900	0.9%	2956	0.4%
Costa Rica	535	642	3.1%	723	2.4%
El Salvador					
Guatemala	7.7	8.5	1.7%	9.3	1.8%
Honduras	22.0	25.3	2.4%	29.7	3.3%
Paraguay	5205	5859	2.0%	6362	1.7%

## Exchange Rate

Rank within focus countries



Source: Oxford Economics / Control Risk

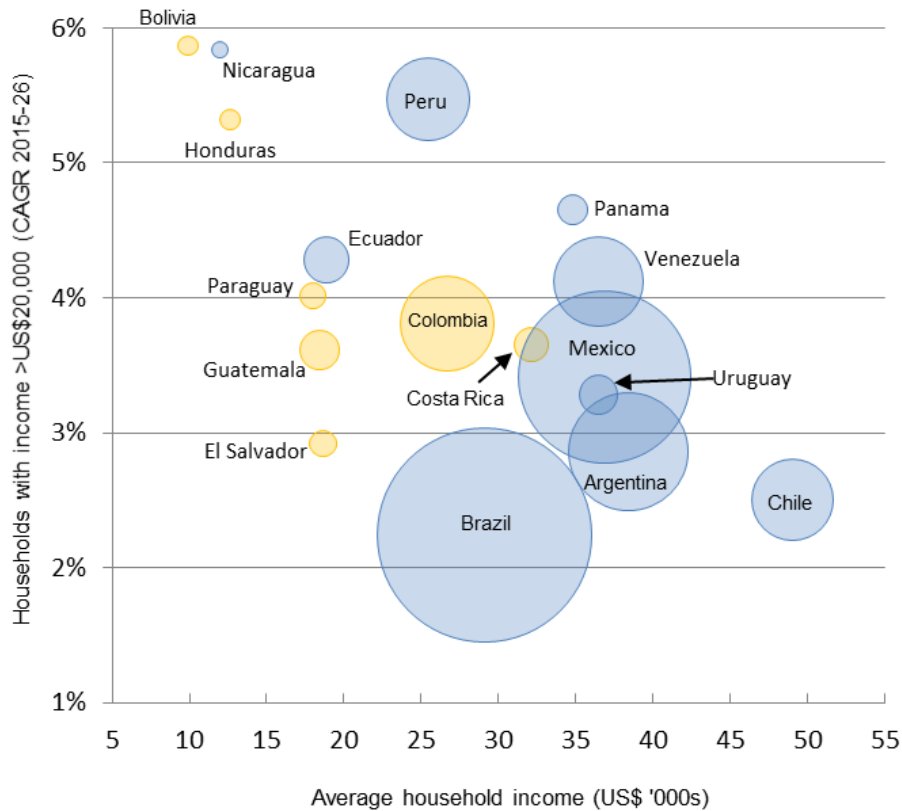
## Exchange Rate

- **Volatility can be managed with some form of exchange rates control** and El Salvador is dollarized.
- The **robustness of pegs** depend largely on a country's reserves (relative to size of imports and short-term debt). **Bolivia has a significant buffer while Costa Rica and Honduras are more vulnerable should the markets turn against them.**
- Most countries will see a **real appreciation** of the exchange rate over the forecast period.
- **Colombia (Oil), Guatemala (Agriculture) and Paraguay (Soya) are exposed to commodities** and uncertainty over the outlook for commodity prices means that volatility over the next few years may be higher than normal.

# Latam Market Potential

Honduras and Bolivia offer strong growth potential, while Colombia and Guatemala are the largest markets

## Latin America: Market potential



	GDP growth (%)		
	2011-16	2016-21	2021-26
Bolivia	4.9	4.4	5.0
Colombia	3.8	3.6	3.5
Costa Rica	3.8	4.0	3.4
El Salvador	2.0	2.1	2.1
Guatemala	3.6	3.5	3.4
Honduras	3.4	4.0	4.6
Paraguay	4.4	3.8	3.2

Source: Oxford Economics/Haver Analytics

Source: Oxford Economics

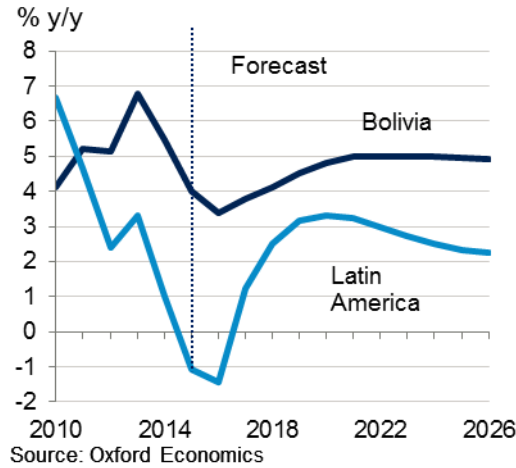
Note: The size of the bubble indicates number of households with income >US\$20,000

# Bolivia Macro Outlook

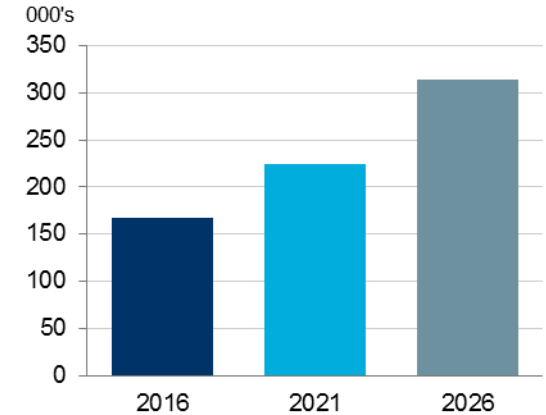
Bolivia has been hit by the slump in commodity prices but the economy should benefit from the recovery in oil and gas prices. While growth should outperform Latam as whole, income levels are relatively low

## Market Outlook

**Bolivia: GDP**

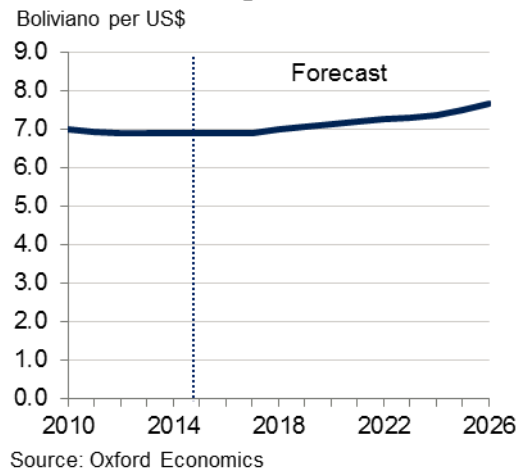


**Bolivia: Households > \$20k**

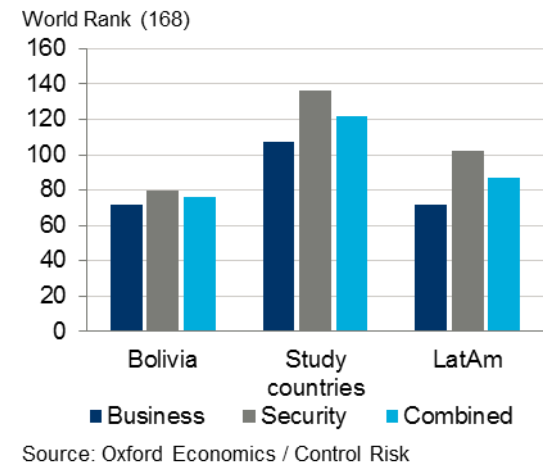


## Risk

**Bolivia: Exchange rate**



**Bolivia: Risk**



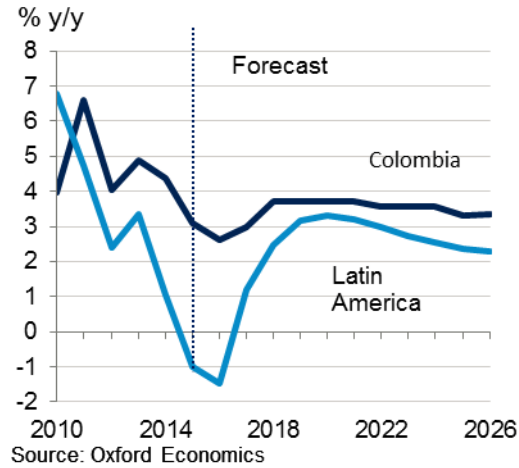


# Colombia Macro Outlook

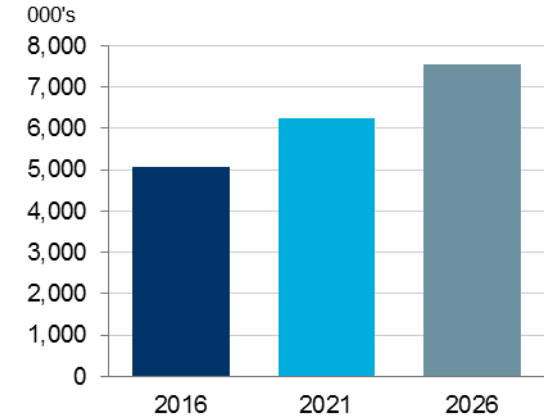
The largest and second highest income market out of Millicom's countries, but FX hit by commodity prices and policy backdrop to remain tight. The situation with FARC and ELN has improved but remains a risk

## Market Outlook

Colombia: GDP

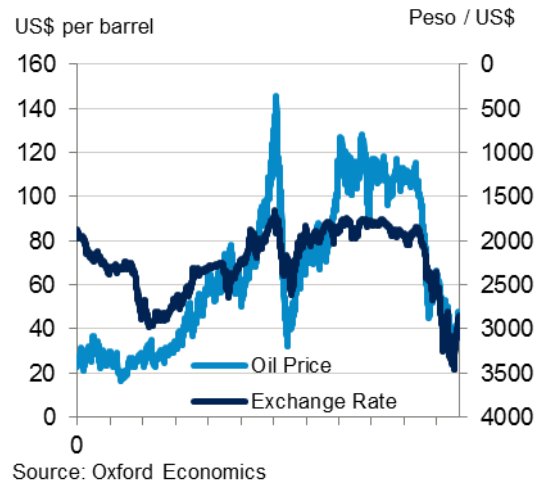


Colombia: Households > \$20k

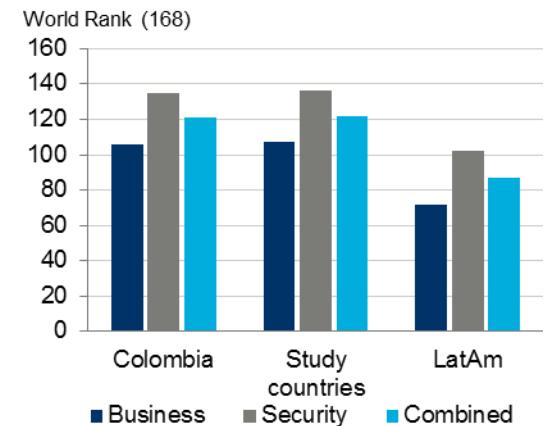


## Risk

Colombia: Exchange rate volatility



Colombia: Risk



# Costa Rica Macro Outlook

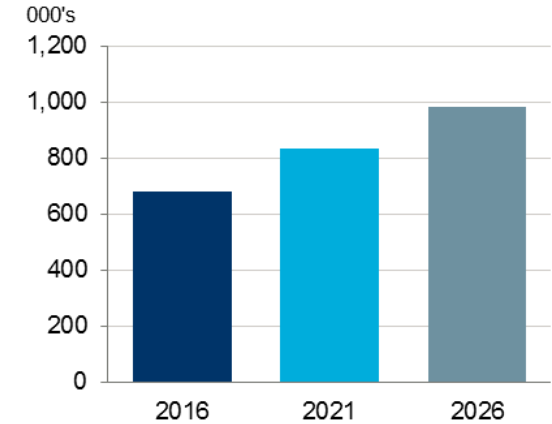
Most developed country economically and insitutionally in Millicom's markets, offering a lower risk environment. Budget déficit is a concern and could be a drag on the economy

## Market Outlook

Costa Rica: GDP

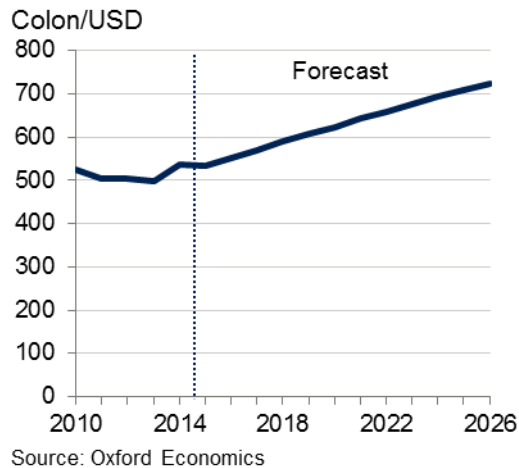


Costa Rica: Households > \$20k

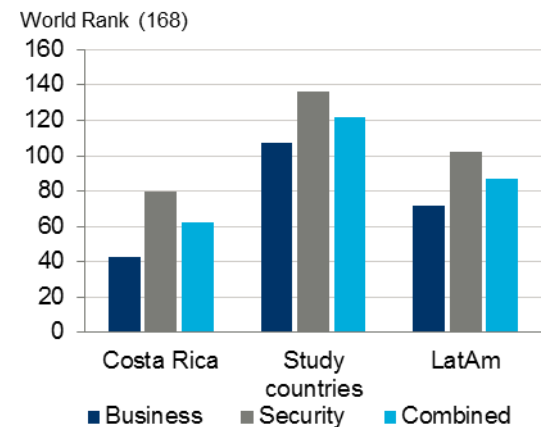


## Risk

Costa Rica: Exchange rate



Costa Rica: Risk

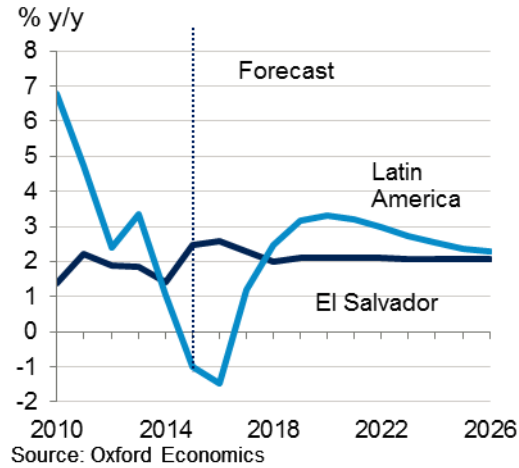


# El Salvador Macro Outlook

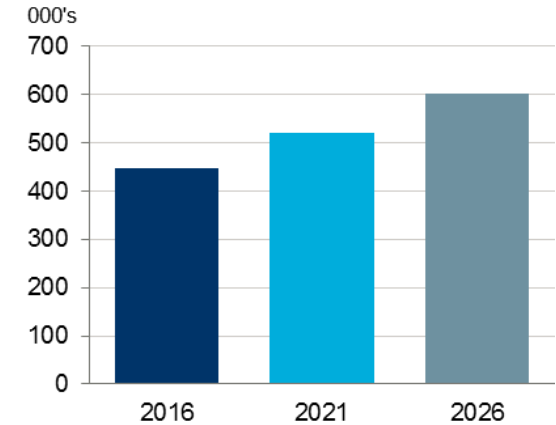
Security threat and criminality clouds the outlook and the weak political backdrop means progress to creating a more business-friendly environment is likely to be slow

## Market Outlook

El Salvador: GDP

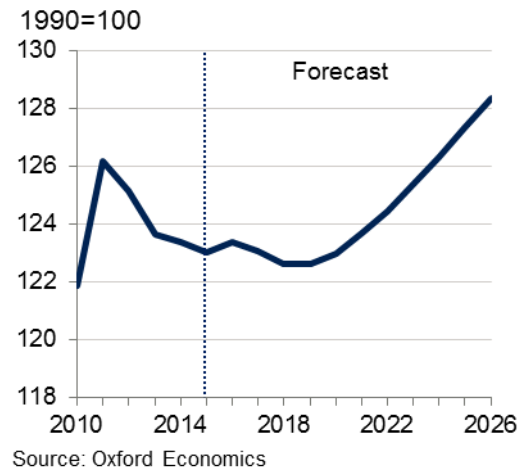


El Salvador: Households > \$20k

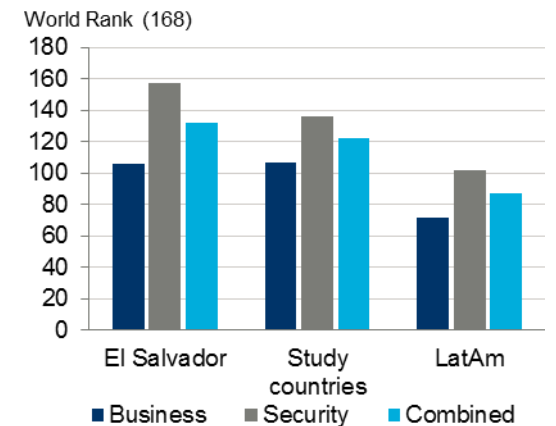


## Risk

El Salvador: Real FX rate



El Salvador: Risk

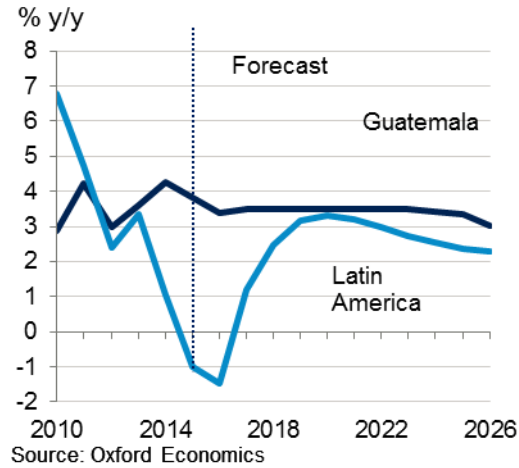


# Guatemala Macro Outlook

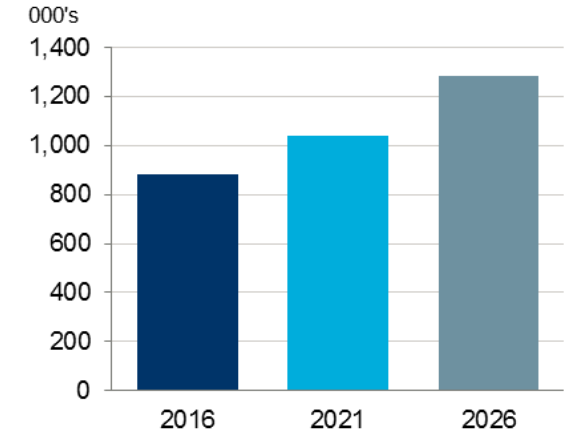
Dependent on the US, especially for remittances, which should help growth over the next couple of years, while rapid population growth should help medium term prospects. Security remains a risk to business, however

## Market Outlook

**Guatemala: GDP**

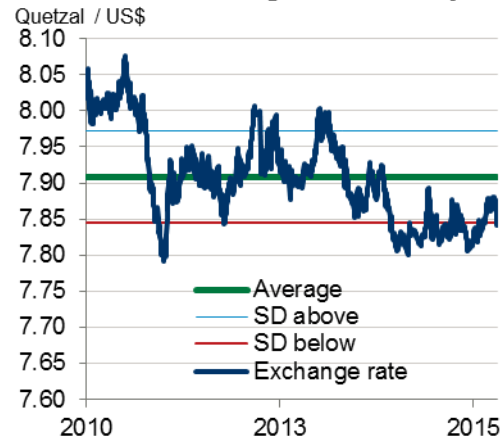


**Guatemala: Households > \$20k**

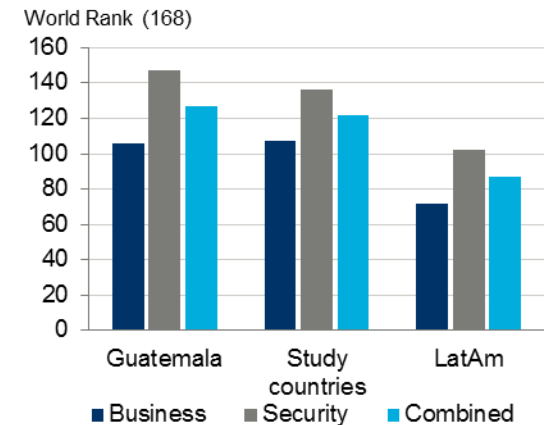


## Risk

**Guatemala: Exchange rate volatility**



**Guatemala: Risk**

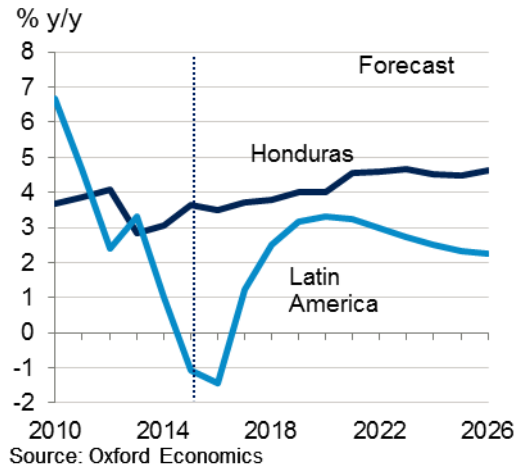


# Honduras Macro Outlook

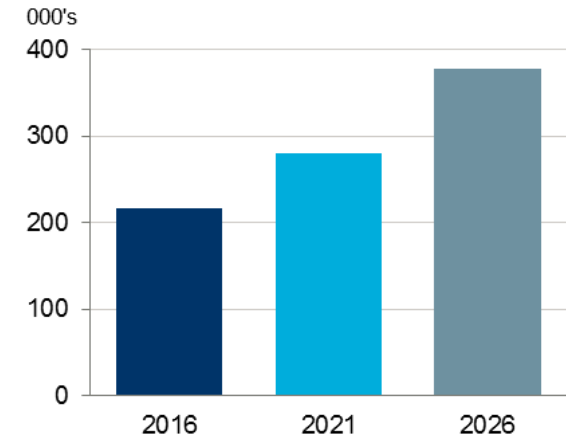
Growth set to accelerate, underpinned by recovery in US and solid fundamentals. Progress on reforms to promote the business environment are needed

## Market Outlook

Honduras: GDP

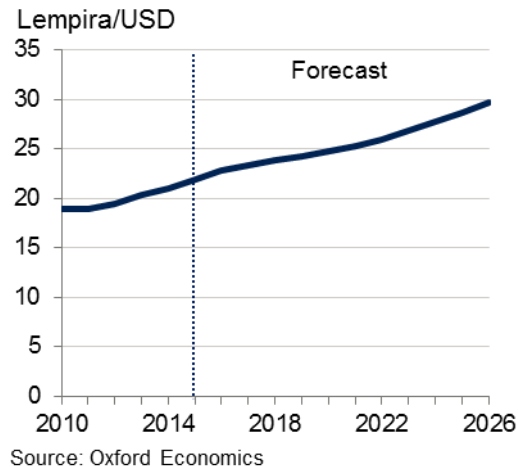


Honduras: Households > \$20k

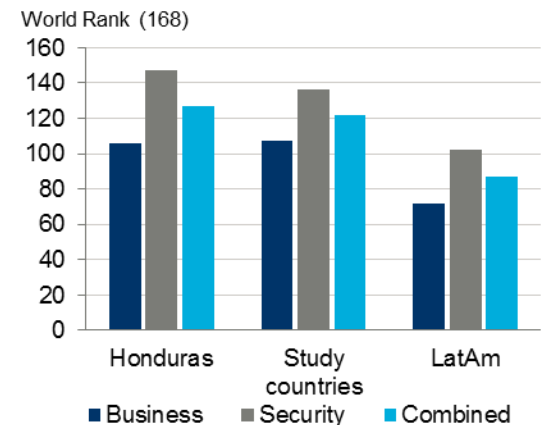


## Risk

Honduras: Exchange rate



Honduras: Risk

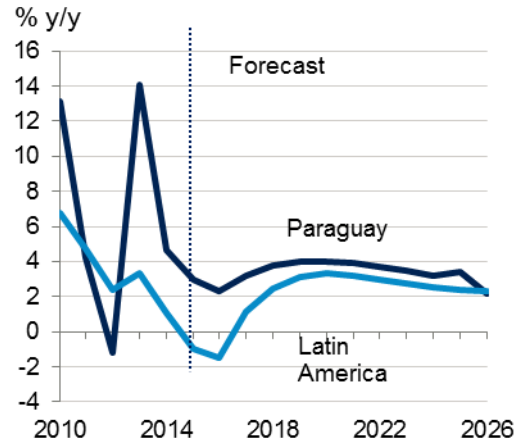


# Paraguay Macro Outlook

Growth and FX have been volatile due to its dependence on soya bean exports. Growth expected to exceed the rest of Latam but the catch-up in income levels is expected to be slow

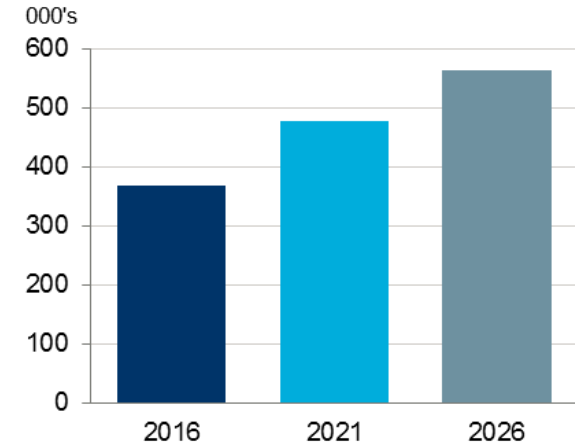
## Market Outlook

Paraguay: GDP



Source: Oxford Economics

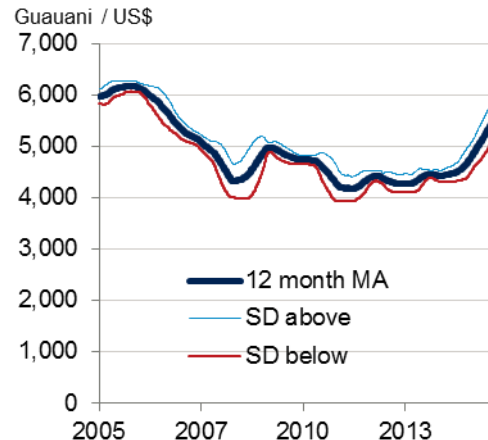
Paraguay: Households > \$20k



Source: Oxford Economics

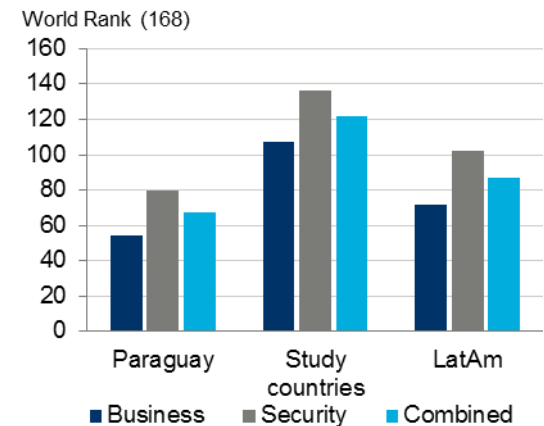
## Risk

Paraguay: Exchange rate volatility



Source: Oxford Economics

Paraguay: Risk



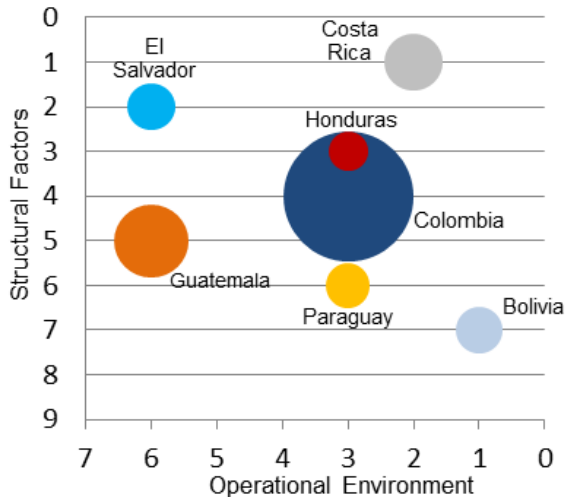
Source: Oxford Economics / Control Risk

# Market Attractiveness

Costa Rica is least risky but biggest returns could be in Bolivia and Honduras

## Market attractiveness

### Market attractiveness



Source: Oxford Economics / Control Risk

Note: The size of the bubble indicates total consumption in a market

	Bolivia	Colombia	Costa Rica	El Salvador	Guatemala	Honduras	Paraguay
Economic Growth	1	4	3	7	5	2	6
Exchange Rate	2	3	7	1	5	4	6
Business environment	3	4	1	4	4	4	2
Security	1	4	1	7	5	5	1
Operational Environment	1	3	2	6	6	3	3
Infrastructure	6	4	2	1	3	5	7
Health and Education	6	4	1	3	5	2	7
Political	7	1	1	3	3	3	6
Social Cohesion	5	6	2	2	6	2	1
Structural Factors	7	4	1	2	5	3	6

Note: Countries ranked by their score with a low rank meaning a country performs well. Economic growth is drawn from Oxford Economics' forecasts, exchange rate risk, security risk, political stability and social cohesion are taken from the Economic and Political Risk Evaluator, and business environment, infrastructure and health & education are sourced from the World Competitiveness Report from the World Economic Forum.

- **Costa Rica** offers the least risky returns, although it is not the fastest growing nor largest market in the study.
- **Bolivia and Honduras** are attractive from growth but risks are higher with infrastructure poor in both countries and security a concern in Honduras.
- **Colombia and Guatemala** are larger, more mature markets with some structural challenges and operational risks
- **Paraguay** is relatively unattractive as a small market with very under developed infrastructure, a poor growth outlook and volatile exchange rate. Poor security dominates the outlook in **El Salvador**.



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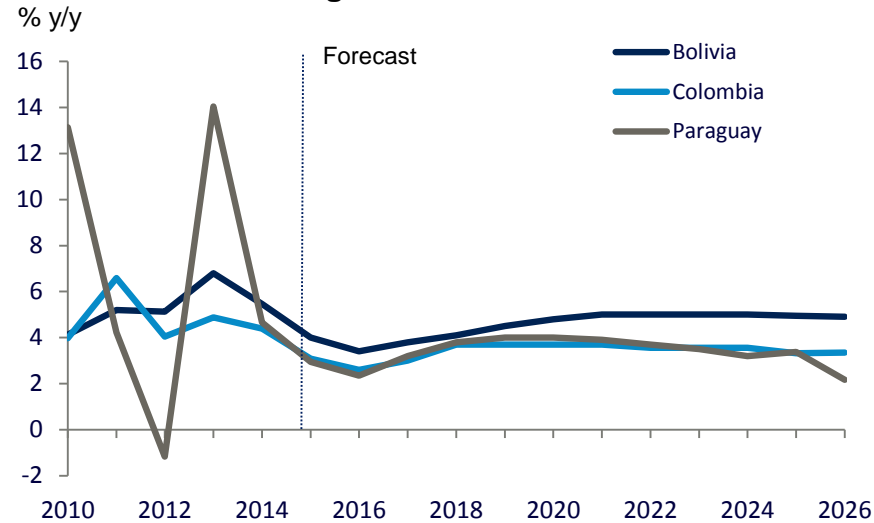
# Appendix

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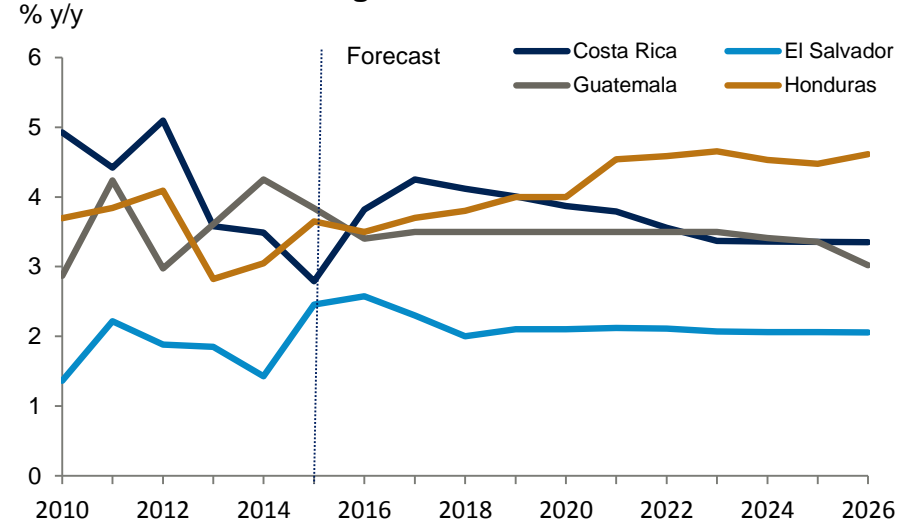
# GDP growth

## South America GDP growth



Source: Oxford Economics

## Central America GDP growth



Source: Oxford Economics

% y/y	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
<b>Bolivia</b>	4.4	4.8	4.6	6.1	3.4	4.1	5.2	5.1	6.8	5.5	4.0	3.4	3.8	4.1	4.5	4.8	5.0	5.0	5.0	5.0	4.9	4.9
<b>Colombia</b>	4.7	6.7	6.9	3.5	1.7	4.0	6.6	4.0	4.9	4.4	3.1	2.6	3.0	3.7	3.7	3.7	3.7	3.5	3.5	3.5	3.3	3.3
<b>Paraguay</b>	2.3	4.7	5.5	6.2	-3.9	13.1	4.2	-1.2	14.0	4.7	2.9	2.3	3.2	3.8	4.0	4.0	3.9	3.7	3.5	3.2	3.4	2.2
<b>Costa Rica</b>	5.9	8.8	8.0	2.6	-0.9	4.9	4.4	5.1	3.6	3.5	2.8	3.8	4.2	4.1	4.0	3.9	3.8	3.6	3.4	3.4	3.4	3.4
<b>El Salvador</b>	3.6	3.9	3.8	1.3	-3.1	1.4	2.2	1.9	1.8	1.4	2.5	2.6	2.3	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
<b>Guatemala</b>	3.3	5.4	6.3	3.3	0.5	2.9	4.2	3.0	3.6	4.3	3.8	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.4	3.4	3.0
<b>Honduras</b>	6.0	6.6	6.2	4.2	-2.4	3.7	3.8	4.1	2.8	3.0	3.7	3.5	3.7	3.8	4.0	4.0	4.5	4.6	4.7	4.5	4.5	4.6

Source: Oxford Economics

# Households and household income

## Total households

(millions)	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
Bolivia	2.6	2.6	2.7	2.8	2.8	2.9	3.0	3.0	3.1	3.2	3.3	3.3	3.4	3.5	3.6	3.7	3.7
Colombia	12.2	12.5	12.7	13.0	13.3	13.6	13.9	14.2	14.4	14.7	15.0	15.3	15.5	15.8	16.1	16.3	16.6
Paraguay	1.4	1.4	1.5	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.9	1.9
Costa Rica	1.3	1.3	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.7	1.7	1.7
El Salvador	1.5	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Guatemala	2.9	2.9	3.0	3.1	3.2	3.3	3.4	3.5	3.5	3.6	3.7	3.8	3.9	4.0	4.1	4.2	4.3
Honduras	1.6	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.9	1.9	1.9	2.0	2.0	2.1	2.1	2.2	2.2

Source: Oxford Economics

## Average household personal disposable income (\$US at 2012 prices)

(\$ '000)	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
Bolivia	6.6	6.8	7.0	7.3	7.5	7.7	7.8	8.0	8.2	8.4	8.6	8.8	9.0	9.2	9.4	9.7	9.9
Colombia	19.9	20.6	21.0	21.4	21.8	22.0	22.2	22.5	22.9	23.3	23.8	24.3	24.8	25.2	25.7	26.2	26.7
Paraguay	13.7	13.9	14.6	14.9	15.2	15.3	15.4	15.7	16.1	16.4	16.8	17.1	17.3	17.5	17.7	17.9	18.0
Costa Rica	23.3	23.7	24.2	24.5	24.8	25.1	25.7	26.4	27.1	27.8	28.4	29.1	29.7	30.4	31.0	31.7	32.1
El Salvador	16.6	16.8	16.9	16.8	16.8	16.8	17.0	17.1	17.3	17.5	17.6	17.8	18.0	18.2	18.4	18.5	18.7
Guatemala	16.3	16.4	16.4	16.5	16.6	16.8	16.8	16.9	17.0	17.1	17.3	17.3	17.4	17.7	18.0	18.2	18.4
Honduras	9.8	9.9	10.0	10.1	10.2	10.2	10.3	10.5	10.7	10.9	11.1	11.3	11.6	11.8	12.1	12.4	12.6

Source: Oxford Economics

# Exchange rates

## Exchange rates (vs. US \$)

		2010	2011	2012	2013	2014	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
<b>Bolivia</b>	Bolivianos	7.02	6.94	6.91	6.91	6.91	6.91	6.91	6.91	7.01	7.08	7.15	7.21	7.26	7.32	7.37	7.52	7.66
<b>Colombia</b>	Pesos	1,899	1,848	1,797	1,869	2,002	2,742	3,300	3,200	3,100	3,000	2,950	2,900	2,903	2,902	2,900	2,928	2,956
<b>Paraguay</b>	Guaranies	4,735	4,191	4,425	4,321	4,462	5,205	5,658	5,670	5,698	5,732	5,784	5,859	5,947	6,042	6,145	6,253	6,362
<b>Costa Rica</b>	Colones	526	506	503	500	538	535	552	571	590	608	624	642	660	677	696	709	723
<b>Guatemala</b>	Quetzales	8.06	7.79	7.83	7.86	7.73	7.65	7.82	7.98	8.10	8.23	8.36	8.49	8.63	8.77	8.93	9.10	9.28
<b>Honduras</b>	Lempiras	18.90	18.92	19.50	20.36	21.02	21.98	22.90	23.36	23.83	24.31	24.79	25.34	26.00	26.83	27.74	28.70	29.69

Source: Oxford Economics