# LATAM 7 + Argentina

# MACRO BRIEF

ECONVIEWS

ECONOMÍA Y FINANZAS

April, 2021

# ARGENTINA

| Good news | To be alert | Bad news |
|---|---|---|
| Central Bank is buying reserves since December and the parallel dollars seem to be under control. | During last few weeks, Country Risk reached the highest levels since debt restructuring and the country continues outside international debt markets. | Covid-19 cases are increasing, with around 10% of the population vaccinated and the second wave beginning. |

## POLITICS

The electoral calendar is gaining relevance and all efforts are focused on succeeding in October, while there is chance of suspending or delaying the August primaries due to the sanitary situation. The judicial agenda is also gaining territory among government´s objectives. On the economic front, there are hawks and doves. The latter represented by Minister Guzman who would prefer a quick agreement with the IMF. The former represented by Kirchnernists, who would resort to less market-friendly policies and delay an agreement with the Fund. The second wave of Covid-19 has arrived, with new daily cases above 20,000, while close to 10% of the population has been vaccinated so far.

## ECONOMIC ACTIVITY

In 2020 the GDP fell 9.9% recording one of the highest contractions in history. Both private consumption and investment plummeted 13.1% and 13% respectively. According to January data, the recovery is being led by Manufacturing (+4.6% y/y, Construction (+10.2% y/y), and Commercial activity (2.6%). Another sector with a good performance is the one related to exports, boosted by high international prices. For 2021 we have raised our forecast of GDP growth to 7%, but most of this figure will be a statistical effect. FX calm and a controlled number of COVID contagions will be critical to keep the economy on this path.

## INFLATION

The CPI closed 2020 with an increase of 36.1%. After December, January, and February with high records (4%, 4%, and 3.6% respectively) we expect a slight reduction over the next months. The lower depreciation of the exchange rate, the insignificant increases in utility prices, and price controls over a basket of goods are being the main anchors. Additionally, we consider that the seigniorage will be a little bit lower. Even though we assign a low probability to Guzman's objective of 29%, we have lowered our estimate for 2021 to 46%.

## MONETARY SECTOR

In the first quarter of the year, the Central Bank accumulated reserves purchases for USD 2.3 billion. The monetary expansion generated by this operation was mainly sterilized with Leliqs and Repos. Sales of reserves to the public sector complete the instruments that made it possible to keep constant the monetary base. In the last couple of weeks, the Central Bank reduced the rate of depreciation. Also, the CB is operating in bond markets to keep under control the Blue-Chip Swap. This relative calm in FX markets helped time deposits in ARS and particularly those ones adjustable by inflation that are growing 74.6% since the start of the year.

## FISCAL ACCOUNTS

In 2020 fiscal deficit went through a deterioration process, ending with a negative result of 8.5% of GDP. The main drivers of this result were the lower tax revenues and the increase in expenditures to face the pandemic. In our base scenario for 2021 we expect a reduction in fiscal deficit to -4.5% of GDP, while the primary balance would go from 6.5% to 3% of GDP (including the disbursement of SDRs). This figure depends on the evolution of the sanitary situation. If the pandemic goes out of control, there could be needed more assistance to the private sector. Also, 2021 is an electoral year and in Argentina this generally means an increase in public spending.

## WHAT'S COMING NEXT?

- The Government must affront an USD 2.4 billion maturity with the Paris Club in May, but is negotiating to defer payments until a new arrangement with the IMF is reached.
- During these days there have been meetings between health officials to analyze the increase in contagions and the implementation of new restrictions to stop the second wave.

# APPENDIX

## Dashboard

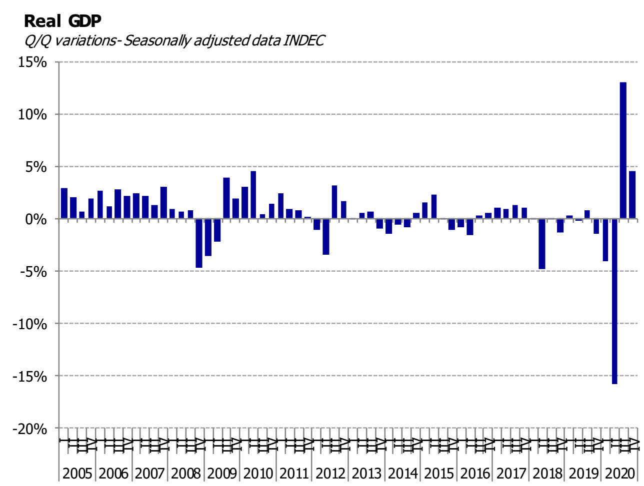
| | Mar-21 | Feb-21 | Jan-21 | Dec-20 | 2020 |
|---|---|---|---|---|---|
| Exchange rate *(ARS/USD, eop.)* | 91.99 | 89.83 | 87.32 | 84.15 | 84.15 |
| Interest rate *(%)* | 38.00% | 38.00% | 38.00% | 38.00% | 38.00% |
| National inflation *(y/y)* | - | 40.65% | 38.53% | 36.14% | 36.14% |
| Economic activity *(y/y)* | - | - | -2.0% | -2.0% | -9.9% |
| Industrial activity *(y/y)* | - | - | 4.4% | 5.0% | -7.6% |
| Automotive production *(y/y)* | 125.2% | -16.5% | 17.5% | 107.7% | -18.5% |

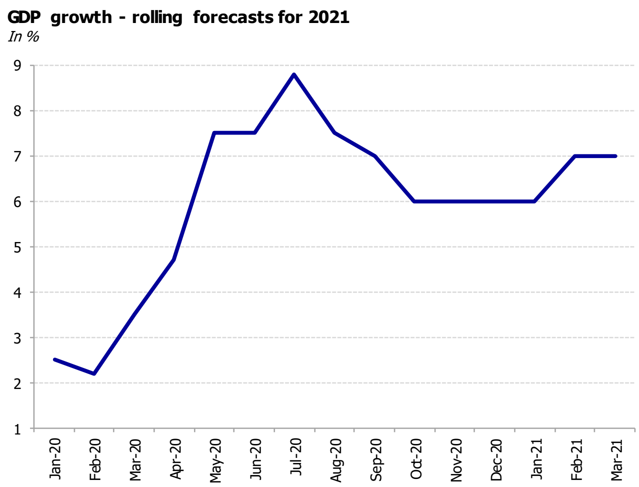
Source: EconViews based on several sources

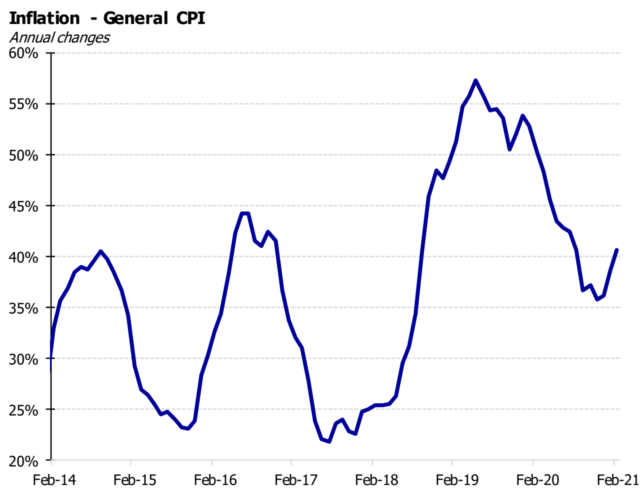
## Macroeconomic Outlook

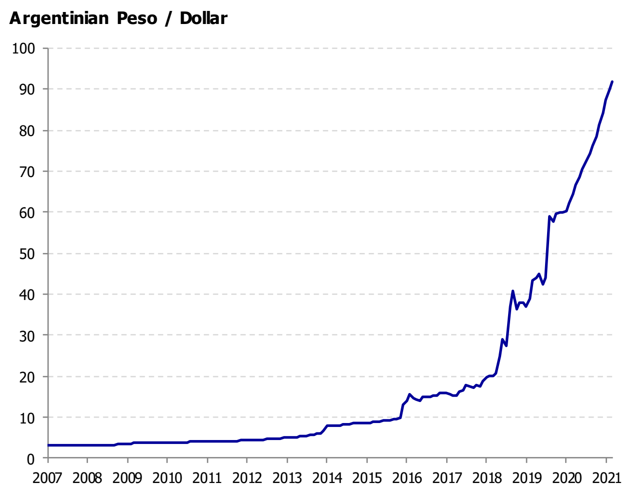
| | 2017 | 2018 | 2019 | 2020 | 2021F |
|---|---|---|---|---|---|
| GDP growth *(%)* | 2.8% | -2.6% | -2.1% | -9.9% | 7.0% |
| National inflation *(Dec-Dec)* | 24.8% | 47.6% | 53.8% | 36.1% | 46.0% |
| Fiscal Balance *(% GDP)* | -5.9% | -5.0% | -3.6% | -8.5% | -4.5% |
| Current Account *(% GDP)* | -4.9% | -5.3% | -0.8% | 0.8% | 0.7% |
| International reserves *(USD Bn)* | 55.1 | 65.8 | 44.8 | 39.4 | 41.9 |
| Exchange rate *(ARS/USD)* | 18.77 | 37.81 | 59.90 | 84.15 | 116.52 |

Source: EconViews based on official figures and own estimates




ECONVIEWS
ECONOMÍA Y FINANZAS

# BRAZIL

| Good news | To be alert | Bad news |
|---|---|---|
| Despite the record deaths, in Brazil the financial market does not stop. Around 20 companies are analyzing their IPOs in the local market in 2021. | A recent poll by XP/Ipespe had President Bolsonaro at a 48% dissaproval rate. He is in a technical tie with Lula for the 2022 elections. | According to FGV the number of people living in poverty jumped from 9.5 million in August 2020 to 27 million in February 2021, due to Covid-19 and food prices. |

## POLITICS

Jair Bolsonaro went through his first important crisis in which he had to reshuffle the cabinet, letting go one of his strong allies, foreign minister Araujo. The Armed Forces, another key ally, have also departed from blanket support. One of Bolsonaro's weakest links has been his denial of the impact of Covid-19 when deaths have mounted in the last few weeks. In addition, former president Lula was released from prison and is now trying to get support, challenging his re-election ambition. The reform agenda may well be shelved in this critical political environment.

## ECONOMIC ACTIVITY

The economy is set to recover more than 3% this year after falling by 4.1% in 2020. In the last few weekly surveys carried out by the Central Bank, economists have been reducing their expectations to reach 3.18% as of March 31st. In February, economic activity is pointing south with industrial production at -0.7% m/m. Mobility has been going down as the pandemic intensified in the last month, but in the last few days, numbers of infections and deaths have marginally started to go down, shedding some light. Also, vaccination is increasing and the ratio of doses to population is approaching 10%, being the third in the Latin American ranking after Chile and Uruguay, but ahead of Argentina.

## INFLATION

Inflation is on the rise. The last print was 5.2% as of February, having been as low as 1.88% at the peak of the lockdown in May 2020. The Focus report puts inflation at 4.81% for the end of the year, well above the mid-point of the Central Bank range of 3.75%. However, the best 5 forecasters say that inflation is going to remain over 5%. For 2022 Brazilian economists expect prices to increase only by 3.5%. One of the features of this downward trajectory is that agents in Brazil expect a nominal appreciation of the BRL to end the year towards 5.35 per dollar and even lower in 2022.

## MONETARY SECTOR

In its March meeting, the monetary policy committee raised rates by 75 bps to 2.75%, a bit more than the market consensus. From now on, interest rates should move upwards to end the year above 5%. One of the sources of concern for the COPOM will be the fiscal stance, which has more room to worsen than to improve in the current political framework. In addition, further weakening of the BRL may lead the Central Bank to be more aggressive in its interest rate trajectory.

## FISCAL ACCOUNTS

In 2020 Brazil's primary deficit topped 10% of GDP amid a real increase of 31% in spending before interest. This was almost entirely due to Covid-19 related programs. Other spending such as infrastructure has not been growing for several months. For 2021 and 2022 it is expected that primary deficit shrinks by half and by 70% compared to 2020. But the persistence and the breadth of the pandemic coupled with political needs may look those assumptions as overly optimistic. One of the problems for fiscal policy is that Guedes' reform agenda does not seem to be a priority as it was at the beginning of Bolsonaro's government.

## WHAT'S COMING NEXT?

- The discussions over the budget are the next battle. The government cannot exceed the spending ceiling, which would be damaging for the market. But the government cannot spot spending in essential items. So, the budget needs fixing.
- Another point which is highly political is over letting the private sector manage the vaccines and therefore puncture the health strategy of the government with its prioritization.

# APPENDIX

## Dashboard

| | Mar-21 | Feb-21 | Jan-21 | Dec-20 | 2020 |
|---|---|---|---|---|---|
| Exchange rate *(BRL/USD, eop.)* | 5.64 | 5.60 | 5.46 | 5.19 | 5.19 |
| SELIC *(%)* | 2.75% | 2.00% | 2.00% | 2.00% | 2.00% |
| Inflation *(y/y)* | - | 5.2% | 4.6% | 4.5% | 4.5% |
| Economic activity *(y/y)* | - | - | -0.5% | 1.6% | -4.1% |
| Industrial activity *(y/y)* | - | 0.3% | 2.3% | 8.3% | -4.5% |
| Automotive production *(y/y)* | - | -6.6% | 4.1% | 21.8% | -28.2% |

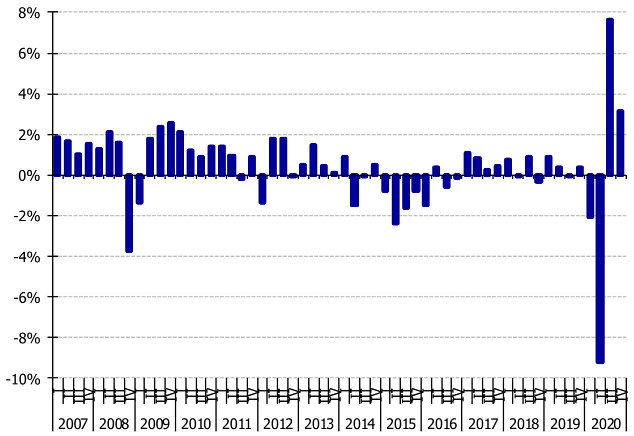
Source: EconViews based on several sources

## Macroeconomic Outlook

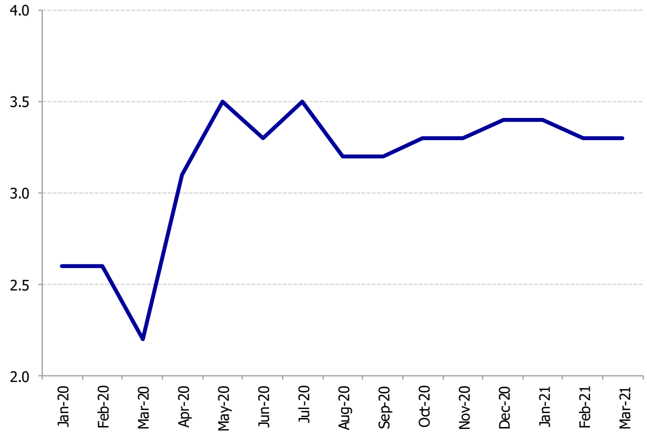
| | 2017 | 2018 | 2019 | 2020 | 2021F |
|---|---|---|---|---|---|
| GDP growth *(%)* | 1.3% | 1.8% | 1.4% | -4.1% | 3.2% |
| Inflation *(Dec-Dec)* | 2.9% | 3.7% | 4.3% | 4.5% | 4.8% |
| Fiscal Balance *(% GDP)* | -7.8% | -7.0% | -5.8% | -13.7% | -7.6% |
| Current Account *(% GDP)* | -0.7% | -2.2% | -2.7% | -0.9% | -1.0% |
| International reserves *(USD Bn)* | 365.4 | 365.5 | 346.5 | 348.1 | 353.4 |
| Exchange rate *(BRL/USD)* | 3.31 | 3.88 | 4.02 | 5.19 | 5.22 |

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

**Real GDP**
*quarterly variations, in %*




**GDP growth - rolling forecasts for 2021**
*In %*




**Inflation (IPCA)**
*Annual changes*


**Brazilian Real / Dollar**


ECONVIEWS
ECONOMÍA Y FINANZAS

# CHILE

| Good news | To be alert | Bad news |
|---|---|---|
| An impressive vaccine rollout bodes well for the recovery and improvement of the health crisis in coming months | Fiscal accounts are set to improve but continued mobility restrictions can take a toll on revenues | Despite vaccination efforts, Covid-19 cases are the highest since the start of the pandemic |

## POLITICS

In the last weeks Chile has displayed a vaccine rollout that no other Latin American country has matched. It is one of the fastest in the world, surpassing many European countries as well: as of April 5th, 36.7% of its population has received at least one shot. Yet despite continued efforts to immunize the population, authorities are facing the highest number of daily cases since the onset of the pandemic, forcing a return to strict quarantine for many jurisdictions. The situation has made Chile a sort of case-study of the challenges that countries around the world will still face in coming months.

## ECONOMIC ACTIVITY

Economic activity dropped by 5.8% in 2020 as a result of the pandemic and lockdown measures, a slightly smaller contraction than expected as the easing of restrictions during 4Q-2020 softened the crash. On the expenditures side, private consumption fell 7.5% and investment fell 11.5%, but exports contracted only 1.0%, aided by rising copper prices. The government has announced plans to boost pension coverage provided by the state and measures aimed to improve disposable income of middle-class households, which would lead to a recovery in consumption. We expect GDP to rebound 5.7%.

## INFLATION

Inflation slowed down in February to 2.85% YoY and 0.19% m/m after a strong start in January, which posted an annual inflation of 3.12% and 0.70% monthly, the highest readout since October 2019. Although slightly falling in February, prices of food and non-alcoholic beverages continued to display the highest year-on-year record (6.46%). Despite rising cases and renewed restrictions can temporarily cool down the economy, a faster recovery expected in coming months and a loose monetary policy will keep prices stable. We have increased our forecast for 2021 from 3 to 3.3%, slightly above the CB's target of 3%.

## MONETARY SECTOR

In line with other currencies in emerging markets, the Chilean peso has lost some ground in recent weeks due to the rise in US Treasury rates, but the impact has been relatively limited. As of April 5th, the CLP was trading at 721.63 per USD, implying a depreciation of 1.4% YTD. In its last meeting in March, the Monetary Policy Committee maintained the policy rate at 0.5% and, though it projected it would stay at that level for several quarters, it implied it would not last for as long as thought a few months ago and rather depend on the economic recovery.

## FISCAL ACCOUNTS

Fiscal accounts took a strong hit in 2020, posting a fiscal deficit of 7.4% of GDP, but will improve in 2021 as economic activity recovers, leading to higher revenues, and also thanks to revenues derived from higher copper prices. However, the continued health crisis could hurt revenues and thus erode efforts to bring down the deficit, which the Budget aims to close at 3.3% of GDP by the end of the year. Given this, we expect the fiscal deficit to reach 4.1% of GDP this year and public debt to rise from 33.0% of GDP to 37.1%.

## WHAT'S COMING NEXT?

- Rising volatility is expected in coming months in the run-up to the Presidential and Parliamentary election set for next November.
- Municipal and regional elections as well elections for the Constitutional Convention members, set for April 11th, have been postponed until May due to rising Covid-19 cases.
- Copper prices continued to grow but are expected to fall markedly as global supply-chains normalize, but could be cushioned by higher demand.

# APPENDIX

## Dashboard

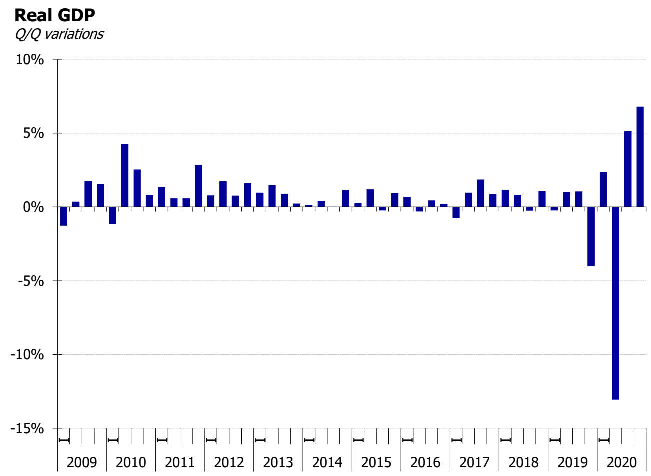
| | Mar-21 | Feb-21 | Jan-21 | Dec-20 | 2020 |
|---|---|---|---|---|---|
| Exchange rate *(CLP/USD, eop.)* | 720.70 | 724.26 | 735.04 | 711.25 | 711.25 |
| Interest rate *(%)* | 0.50% | 0.50% | 0.50% | 0.50% | 1.75% |
| Inflation *(y/y)* | - | 2.9% | 3.1% | 3.0% | 3.0% |
| Economic activity *(y/y)* | - | -2.8% | -3.1% | -0.4% | -5.8% |
| Industrial activity *(y/y)* | - | -3.4% | -2.4% | -4.0% | -0.9% |
| Mining production *(y/y)* | - | -6.2% | -0.2% | -9.1% | 0.5% |

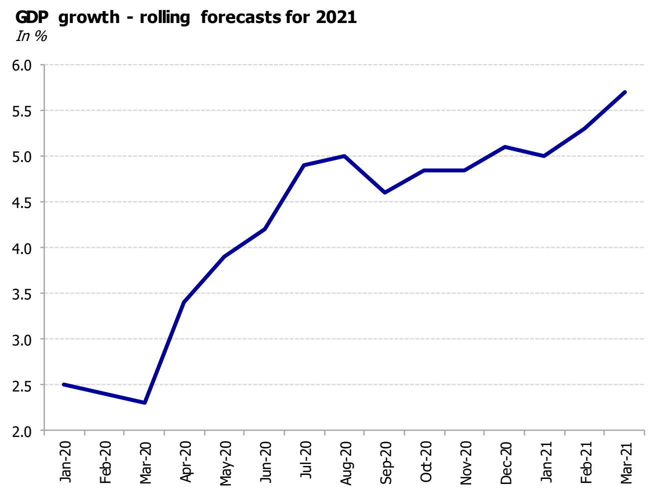
Source: EconViews based on several sources

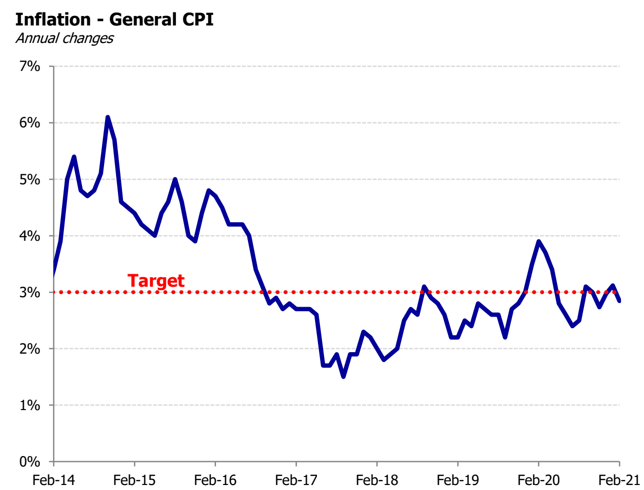
## Macroeconomic Outlook

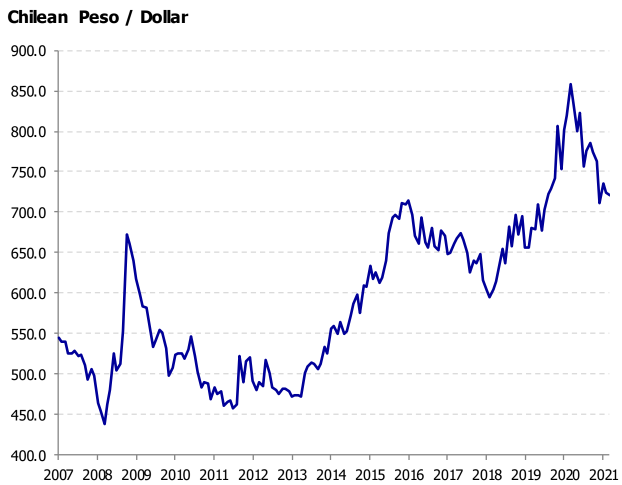
| | 2017 | 2018 | 2019 | 2020 | 2021F |
|---|---|---|---|---|---|
| GDP growth *(%)* | 1.2% | 3.9% | 1.1% | -5.8% | 5.7% |
| Inflation *(Dec-Dec)* | 2.3% | 2.6% | 3.0% | 2.8% | 3.3% |
| Fiscal Balance *(% GDP)* | -2.6% | -1.5% | -2.7% | -7.4% | -4.1% |
| Current Account *(% GDP)* | -2.3% | -3.6% | -3.9% | 0.1% | -1.3% |
| International reserves *(USD Bn)* | 38.0 | 38.7 | 39.5 | 38.7 | 43.3 |
| Exchange rate *(CLP/USD)* | 616.2 | 695.2 | 752.0 | 711.2 | 729.0 |

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF




ECONVIEWS
ECONOMÍA Y FINANZAS

# COLOMBIA

| Good news | To be alert | Bad news |
|---|---|---|
| Consumer confidence rose to 33.6 points in February, up from 31.9 in January. 44% expected a similar situation one year from now, while 39% see improvements. | Income tax would reach an extra million people in the new tax bill to be submitted to Congress shortly. | Foreign direct investment declined by 37.6% y/y in February. |

## POLITICS

Movements towards the 2022 elections have started. There is political infighting following the charges pressed over former governor of Antioquia, Sergio Fajardo, who was said to be one of the leading presidential candidates. Fajardo is accused of wrongdoing over a loan for USD 77 million. Oscar Ivan Zuluaga and Tomás Uribe are also said to be considering their presidential aspirations. Colombia is a laggard in vaccination. The ratio of doses to population is not yet 5% when Argentina and Brazil are twice that mark and Chile and Uruguay are several orders of magnitude ahead.

## ECONOMIC ACTIVITY

Economic activity recovered by 9.4% q/q in the third quarter and then 6% in the 4th quarter of 2020 to close 2020 at -6.8%. For 2021 the economy is expected to recover north of 5% and a further 3.9% in 2022. So, by next year Colombia will have surpassed the line of 2019, as many other countries in the region. One of problems left by the Covid-19 pandemic is that unemployment jumped to 15.9% at national level. This year consumption would grow less than GDP at 4.7% while investment would soar by 8.8%.

## INFLATION

Prices are well under control and expectations anchored. As of March, last-twelve-month inflation was at 1.51%, below Central Bank's lower bound of 2%. Still, March's CPI at 0.51% was the highest in 5 years with food prices growing north of 1% in one month while leisure related prices have gone down. Inflation is expected to go back to the Central Bank range reaching 2.8% by the end of this year and around 3% by the end of 2022.

## MONETARY SECTOR

Central Bank has kept interest rates at 1.75% and the market expect that monetary authorities remain on hold for a long period of time. People in the market discussed the possibility of the Central Bank engaging in a reserve accumulation program following IMF's recommendation to increase its level by USD 3 billion but authorities did not bite the bullet and the likely issuance of SDRs will do the job without disturbing the monetary program.

## FISCAL ACCOUNTS

The primary deficit reached 4.9% of GDP in 2020 and 7.8% considering interest payments. Interestingly, the Government is expecting more deficit despite the economic recovery. Authorities believe the total deficit will climb to 8.6% in 2021, while the market consensus is at 7.2%. This is due to an increase in infrastructure spending as well as emergency aid for as much as 3% in both items combined.

## WHAT'S COMING NEXT?

- There are new restrictions in place that will go at least until April 19th. It will be important to see the economic impact arising from these measures. President Duque says it is anticipating the third wave of coronavirus. Municipalities with over 50% of usage in intensive care units will ban nightlife activities.
- The government will release the details of its tax reform bill in the next few days named "Sustainable solidarity." Colombia is famous for the frequency of its tax reforms.

# APPENDIX

## Dashboard

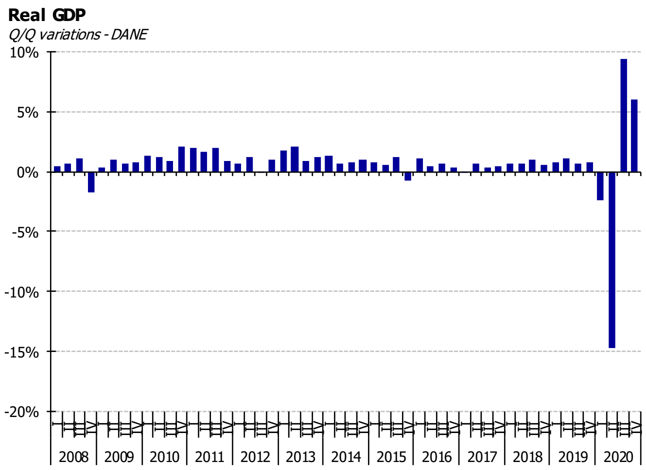
| | Mar-21 | Feb-21 | Jan-21 | Dec-20 | 2020 |
|---|---|---|---|---|---|
| Exchange rate *(COP/USD, eop.)* | 3,664 | 3,650 | 3,570 | 3,430 | 3,430 |
| Interest rate *(%)* | 1.7% | 1.7% | 1.7% | 1.7% | 1.7% |
| Inflation *(y/y)* | 1.5% | 1.6% | 1.6% | 1.6% | 1.6% |
| Economic activity *(y/y)* | - | - | -4.6% | -2.5% | -6.8% |
| Industrial activity *(y/y)* | - | - | -1.6% | 1.6% | -7.9% |

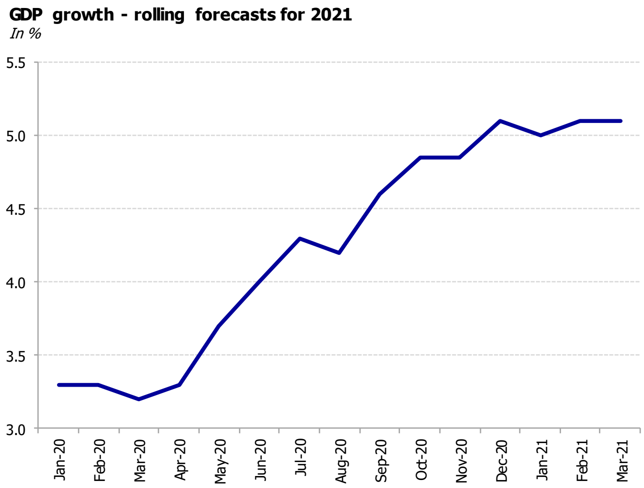
Source: EconViews based on several sources

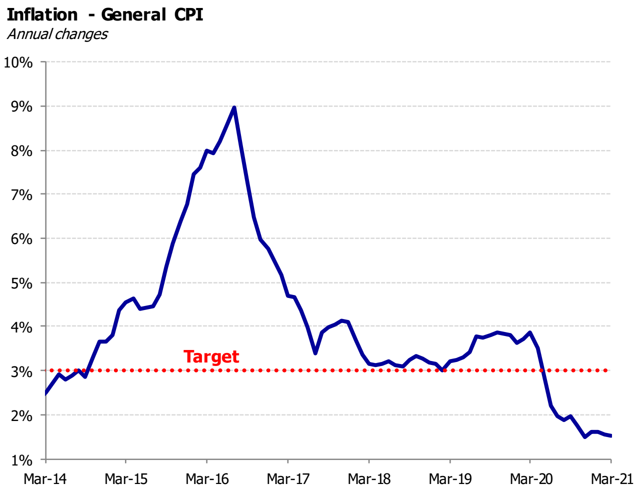
## Macroeconomic Outlook

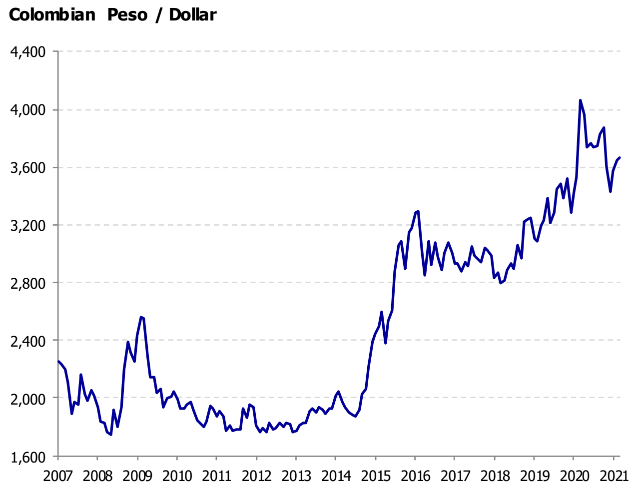
| | 2017 | 2018 | 2019 | 2020 | 2021F |
|---|---|---|---|---|---|
| GDP growth *(%)* | 1.4% | 2.6% | 3.3% | -6.8% | 5.1% |
| Inflation *(Dec-Dec)* | 4.1% | 3.2% | 3.8% | 1.6% | 2.8% |
| Fiscal Balance *(% GDP)* | -3.6% | -3.1% | -2.5% | -7.8% | -7.2% |
| Current Account *(% GDP)* | -3.4% | -4.1% | -4.4% | -3.3% | -3.6% |
| International reserves *(USD Bn)* | 45.4 | 46.1 | 50.5 | 56.6 | 57.6 |
| Exchange rate *(COP/USD)* | 2,987 | 3,250 | 3,287 | 3,430 | 3,499 |

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF



# MEXICO

| Good news | To be alert | Bad news |
| --- | --- | --- |
| INEGI reported consumer confidence rose to 40.4 points in March and is gradually recovering pre-pandemic levels. | Analysts expect the corporate debt market to pick up in April and May, as companies seek to rollover maturities. | AMLO is clashing with courts over the suspension of an electricity reform which seeks to restore power to state-owned companies. |

## POLITICS

The US Department of State's alert about infringement on human rights in Mexico further tensioned the relationship between AMLO and Biden, already strained due to the migration crisis. Meanwhile, the country is gearing up for the June 6th midterms, which will pitch AMLO's Morena against a coalition of the historical PRI, PAN and PRD parties. After peaking in January, new Covid-19 cases are falling, although a recent Secretary of Health report warned that excess deaths far exceeded those directly attributed to the virus. Mexico secured contracts with Pfizer, AstraZeneca, Sputnik V and two Chinese laboratories, and so far 6.3% of the population has received at least one shot.

## ECONOMIC ACTIVITY

Mexican GDP sunk by 8.5% in 2020, one of the harshest contractions in the region. Of the main economic sectors, only agriculture (2%) was spared last year, and was growing by 5.4% y/y in Q4-2020. The January outbreak took its toll on activity, which fell 4.1% m/m in the beginning of the year and remains 5.4% below in y/y terms. Manufacturing advanced 0.2% m/m in January, although it was unable to keep at October or November's pace. Weak numbers in the auto industry suggest February was also lackluster although sales picked up in March. We expect Mexico to grow 4.4% in 2021 and 3% the following year, meaning that Mexico will have a slower recovery than its neighbors.

## INFLATION

Monthly inflation gained steam in the beginning of the year, marking 0.88% in January and 0.63% in February. As seen in other countries, food and beverages (up 0.42% m/m) and energy prices (3.47%, mainly because of gasoline and natural gas) are pushing the general CPI, while inflation in services remains subdued. At 0.39%, monthly core inflation was in line with previous registers. In y/y terms, headline inflation rose to 3.8%, straying further away from the Banxico's 3% target. The core measure stood 3.9% above February 2020. After closing 2020 at 3.2%, we expect annual inflation to reach 3.7% in 2021.

## MONETARY SECTOR

Rising inflation is interfering with the Banxico's intention to keep lowering its reference rate, which stands at 4% since mid-February, after a 3-point cut over the last year. A controversial reform which allowed the Banxico to receive cash dollar deposits was put on hold after Treasury officials warned the law could jeopardize the Central Bank's autonomy. The Mexican Peso has depreciated slightly so far this year, and currently trades at 20.3 MXN per US Dollar, weakening 2% YTD. The market expects the MXN to keep moving in that range, ending 2021 around 20.5.

## FISCAL ACCOUNTS

Mexico took on the Coronavirus crisis with a relatively modest emergency package, though it could not avoid slipping into a primary deficit above MXN 400 billion, the largest in 5 years. The first draft of the 2022 budget presented by the Treasury shows this stance could change in the coming years. The document aims at a 2.4% fiscal deficit for next year which would include a 3.7% growth in real expenditures compared to 2021. Authorities argued the expansionary policy is necessary to combat the after-effects of the pandemic, and estimated growth for this year at 5.3%, a figure above the market consensus that would allow for increased expenditures.

## WHAT'S COMING NEXT?

- Congress is debating a law to ban or limit outsourcing, in order to improve labor regulation and increase tax revenues.
- AMLO's law to reform the electricity industry was overturned by several courts on grounds of "unconstitutionality". Investors have also shown disapproval of the initiative, which seeks to strengthen state-controlled CFE and Pemex.

# APPENDIX

## Dashboard

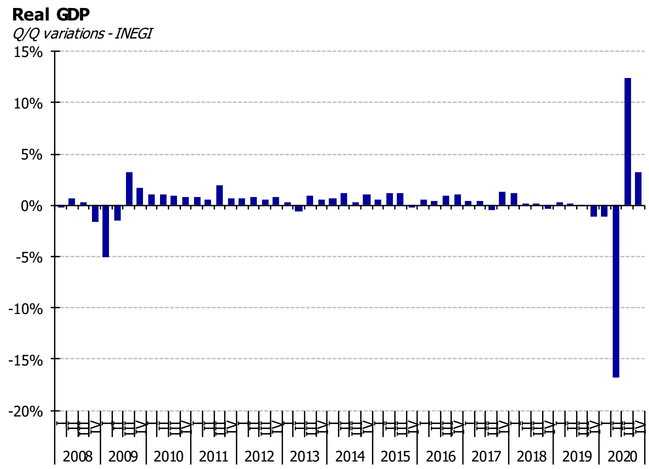
| | Mar-21 | Feb-21 | Jan-21 | Dec-20 | 2020 |
|---|---|---|---|---|---|
| Exchange rate *(MXN/USD, eop.)* | 20.46 | 20.86 | 20.60 | 19.91 | 19.91 |
| Interest rate *(%)* | 4.00% | 4.00% | 4.25% | 4.25% | 4.25% |
| Inflation *(y/y)* | - | 3.76% | 3.54% | 3.15% | 3.15% |
| Economic activity *(y/y)* | - | - | -5.4% | -2.7% | -8.5% |
| Industrial activity *(y/y)* | - | - | -4.9% | -2.1% | -10.0% |
| Automotive production *(y/y)* | - | -28.5% | -14.8% | 18.5% | -20.8% |

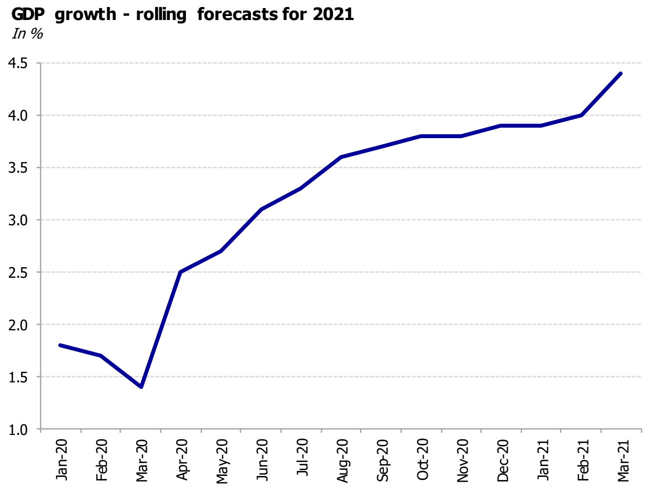
Source: EconViews based on several sources

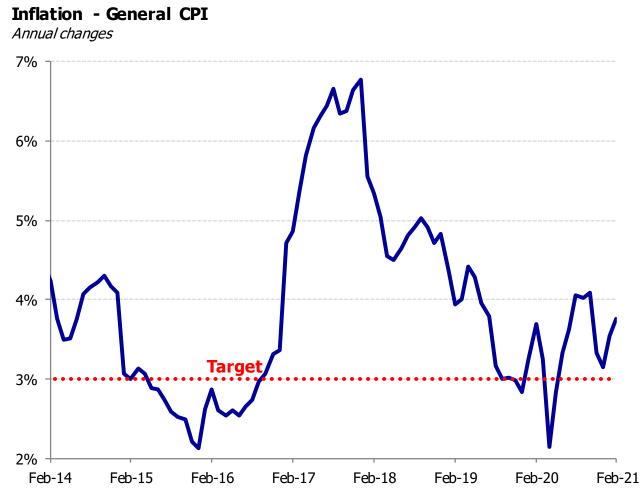
## Macroeconomic Outlook

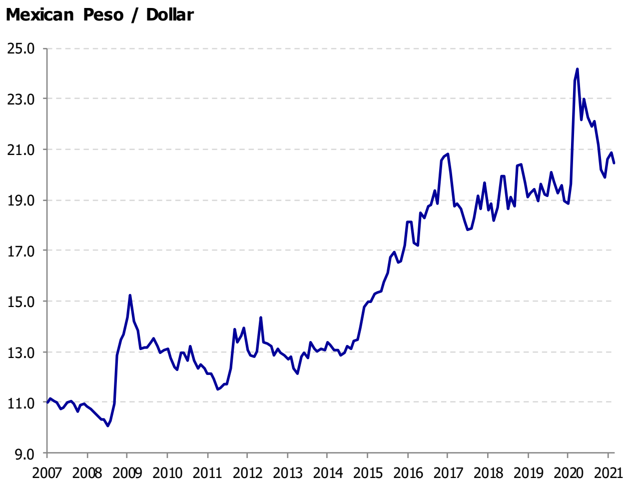
| | 2017 | 2018 | 2019 | 2020 | 2021F |
|---|---|---|---|---|---|
| GDP growth *(%)* | 2.1% | 2.2% | -0.1% | -8.5% | 4.4% |
| Inflation *(Dec-Dec)* | 6.8% | 4.8% | 2.8% | 3.2% | 3.7% |
| Fiscal Balance *(% GDP)* | -1.1% | -2.1% | -1.6% | -2.9% | -3.3% |
| Current Account *(% GDP)* | -1.8% | -2.1% | -0.3% | 2.5% | 0.9% |
| International reserves *(USD Bn)* | 164.9 | 165.2 | 170.5 | 186.2 | 200.2 |
| Exchange rate *(MXN/USD)* | 19.66 | 19.70 | 18.93 | 19.91 | 20.50 |

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF




ECONVIEWS
ECONOMÍA Y FINANZAS

# PARAGUAY

| Good news | To be alert | Bad news |
|---|---|---|
| GDP declined less than expected in 2020 and 2021 will be a positive year. | Widespread social protests showed that people are not satisfied with the course of the government. | Hospitals are collapsed, and the vaccination process is going too slow. |

## POLITICS

The country is going through its hardest moment of the pandemic. New daily cases are increasing every day and deaths are going in the same direction. Hospitals are collapsed and there are only 6,100 people vaccinated per million. The wrong management of the pandemic and suspicions of corruption led to massive protests against the government, which that after several days ended with riots and clashes with the police. In response, the president has replaced four members of his cabinet, including the Health Minister. Additionally, the opposition called for an impeachment of the president, eventually rejected by congress.

## ECONOMIC ACTIVITY

The global crisis caused by the pandemic was not too harmful for activity. Although the health situation is overwhelmed, the initial good management of the pandemic was a key driver of the only 0.6% decrease of GDP in 2020. This figure positions the country as the less damaged in the region. Construction and Agriculture were the most dynamic sectors with growths of 0.8% and 0.7% y/y respectively. In Paraguay agriculture is a bigger share of GDP than in any other country in the region. For 2021 we expect a recovery of 3.7%, but it will depend on the evolution of the COVID crisis. If it is needed to impose new lockdowns, that this number could be reduced.

## INFLATION

Inflation ended 2020 at of 2.2%, its lowest print since 2009. In February, the CPI rose 0.1% m/m, reaching 2.5% in y/y terms. Sectors with higher increases were Education (0.6%), transport (0.4%) and alcoholic beverages and tobacco (0.4%) while Food and Beverages, Communication and Recreation showed a 0.1% decrease. Based on the activity recovery, for 2021 we expect that CPI will close the year at 3.1%. This figure will put inflation closer to the Central Bank’s target of 4%.

## MONETARY SECTOR

The Guaraní has appreciated 7.4% so far this year, and currently is trading at 6,433 PYG per dollar. This value has not changed much compared to a year ago, just before the pandemic started. We expect that it will end the year at 6910, which means a depreciation of 7% in the remainder of the year. Recently, the Monetary Policy Committee decided to maintain interest rate at 0.75%. It is the ninth consecutive month without changes. The main goal behind this decision is contribute to economic recovery and lead inflation to its medium-term target of 4%.

## FISCAL ACCOUNTS

As in most countries, last year, fiscal accounts have been rather deteriorated due to the pandemic. Fiscal deficit was 6.2% of GDP mainly explained by the increase in social spending to soothe the effects of the crisis. So far this year, fiscal balance has accumulated a positive result of 0.1% of GDP. The drivers of the result are fewer expenditures (excluding investment, an item that the government decided to keep at high levels to boost economic recovery) combined with an increase in public revenues due to a higher level of private consumption. Despite this preliminary result, we expect a deterioration during 2021 and a negative result at the end of the year of 4.4% of GDP.

## WHAT’S COMING NEXT?

- In June there will be internal elections in the “Colorado” party. The result could be determinant to decide the next presidential candidate in 2023.
- The Government keeps negotiating to obtain more vaccines and hopes to complete the immunization of the population this year.

# APPENDIX

## Dashboard

| | Mar-21 | Feb-21 | Jan-21 | Dec-20 | 2020 |
|---|---|---|---|---|---|
| Exchange rate *(PYG/USD, eop.)* | 6,457 | 6,622 | 6,949 | 6,948 | 6,948 |
| Interest rate *(%)* | 0.75% | 0.75% | 0.75% | 0.75% | 0.75% |
| Inflation *(y/y)* | - | 2.5% | 2.6% | 2.2% | 2.2% |
| Economic activity *(y/y)* | - | - | -5.6% | 2.0% | -0.6% |

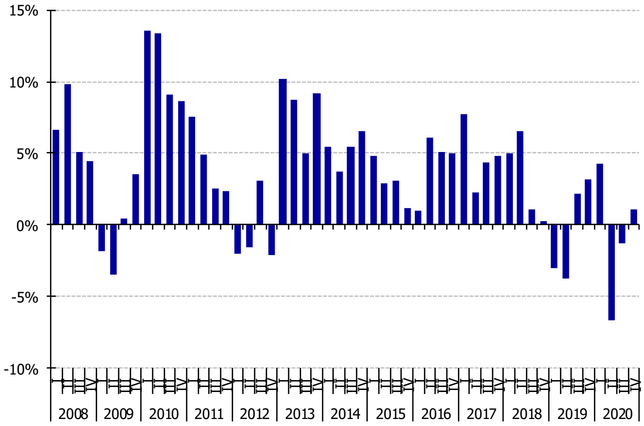
Source: EconViews based on several sources

## Macroeconomic Outlook

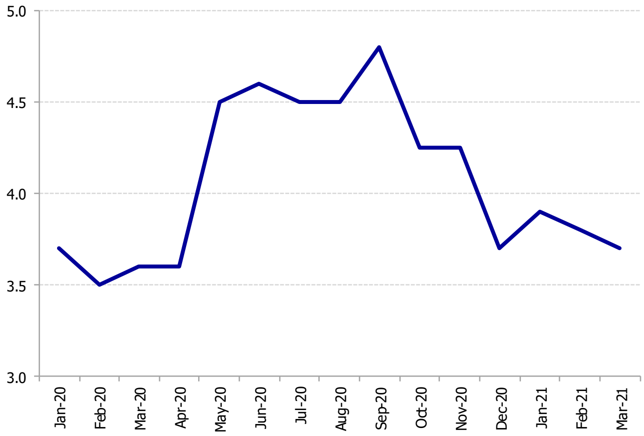
| | 2017 | 2018 | 2019 | 2020 | 2021F |
|---|---|---|---|---|---|
| GDP growth *(%)* | 5.0% | 3.4% | 0.2% | -0.6% | 3.7% |
| Inflation *(Dec-Dec)* | 4.5% | 3.2% | 2.8% | 2.2% | 3.1% |
| Fiscal Balance *(NFPS - % GDP)* | -1.1% | -1.3% | -2.8% | -6.2% | -4.4% |
| Current Account *(% GDP)* | 3.9% | -0.2% | -0.6% | 1.4% | 1.1% |
| International reserves *(USD Bn)* | 8.1 | 8.0 | 7.7 | 9.5 | 9.1 |
| Exchange rate *(PYG/USD)* | 5,602 | 5,974 | 6,464 | 6,948 | 6,910 |

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

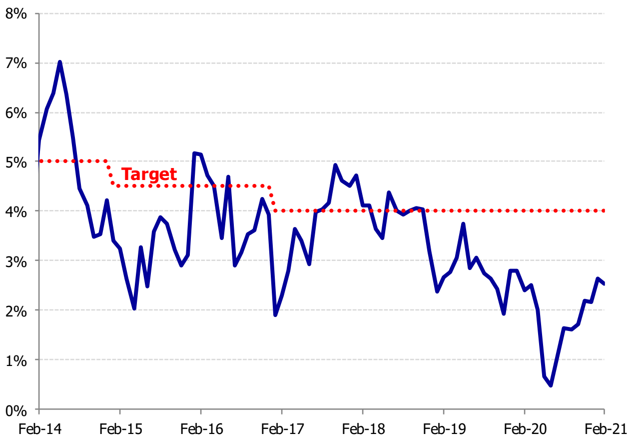
**Real GDP**
*Y/Y variations - Central Bank*



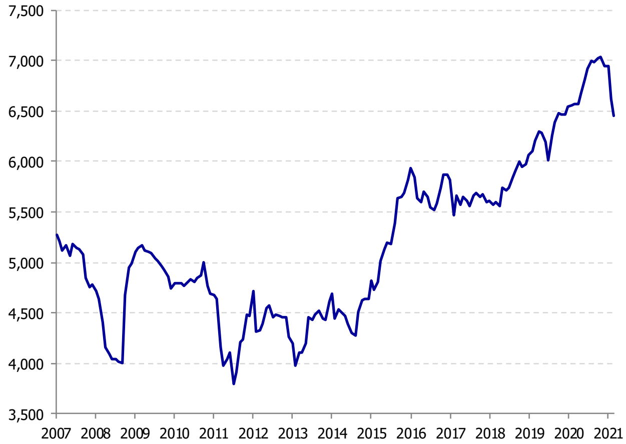

**GDP growth - rolling forecasts for 2021**
*In %*




**Inflation - General CPI**
*Annual changes*




**Paraguayan Guarani / Dollar**




ECONVIEWS
ECONOMÍA Y FINANZAS

# PERU

| Good news | To be alert | Bad news |
|---|---|---|
| In the first bimester, exports totalled USD 7.4 billion, a 3.5% y/y rise comparing against pre-pandemic months. Fish and fruit products were the best performing. | Only days from the presidential elections, no candidate polls above 10%. The race is wide open with nominees across the ideological spectrum. | With issues to secure contracts, only 2% of the population has been vaccinated. The Minister of Health resigned in February following a scandal. |

## POLITICS

Two resignations and one impeachment later, and with the November protests still fresh in the memory, Peruvians will elect a new president this Sunday. A week from the ballot an IEP poll showed nearly half of voters were still undecided. Centrist Yonhy Lescano, fujimorists Hernando de Soto and Keiko Fujimori (with high rejection) and left-wing Veronika Mendoza, among others, will all vie for place in an almost certain run-off on June 6th, supposing no candidate reaches the 50% threshold. The new government will take office on July 28th. Meanwhile, Covid-19 cases are rising and a curfew is in place since March. Vaccine rollout is slow, with under 2% of population having received at least one dose.

## ECONOMIC ACTIVITY

With an 11.1% GDP contraction in 2020, Peru suffered one of the toughest blows in the region last year. By December, the economy was already growing in y/y terms (0.5%), although that figure went negative again in January (-1%). In the first month of 2021 fishing activity was up 74.9% y/y thanks to export dynamism, while construction (15.2%) and manufacturing (6.9%) also experienced strong rebounds. However, mining (which accounts for 14% of the product) is still 8.5% below pre-pandemic levels, while service sectors such as hotels and restaurants (-26.6%) and transport and communication (-18.8%) are slow to recover. Overall, the economy is expected to bounce back 9.4% in 2021.

## INFLATION

In March, monthly inflation in the Lima Metropolitan Area stood at 0.84%, its highest mark in 4 years. A 2.24% adjustment in education costs was the main culprit. Meats and vegetables were behind the 1.24% jump in the food and drinks item, while a 6.6% hike in gasoline prices led to a 0.81% rise in the transport item. Finally, recreation and culture costs grew 0.52%, mainly driven by school textbooks (1.9% up). Annual inflation hit 2.6% and remains above the Central Bank's 2% target. Partly due to the rebound in activity, the Lima CPI has averaged 2.56% y/y in the first trimester of 2021, after closing last year at 1.97%. The market consensus expects inflation to end up around 2.1% this year.

## MONETARY SECTOR

Like other emerging market currencies, the Peruvian Sol has kept depreciating in 2021, weakening 2.2% YTD. Last week it hit an all-time minimum of 3.77 per US Dollar, although it has since moderated to 3.69. The market expects some appreciation in 2021, although without returning to pre-pandemic levels. In its last meeting, the Central Bank resolved to keep the interest rate at 0.25%, considering the spike in inflation was due to transitory pressures on food and energy prices. Loans to the private sector grew 10% y/y in February, owing in part to the Government's "Reactiva Peru" credit scheme. The expansive monetary policy is set to remain throughout the year.

## FISCAL ACCOUNTS

The pandemic brought Peru's fiscal deficit to 8.9% of GDP last year, the highest figure since 1990, although below authorities and the market's estimates. Revenues fell 17.4% in real terms across the year, and by the Q4-2020 they were still 5% down y/y despite the reopening. Taxes on sales were nearly at pre-pandemic levels in Q4 (-0.5% y/y), while income taxes fell 12.8% in the same period. On the side of expenditures, which rose 33.5% in real terms, 40.8% was due to emergency transfers to family and reinforcement of the health system. Analysts expect the fiscal deficit to shrink to 5.6% of GDP this year and 3.8% in 2022, although the election's outcome and the second wave of Covid-19 may affect this.

## WHAT'S COMING NEXT?

- Outgoing President Sagasti emphasized that Pfizer would provide 200,000 vaccines per week starting in April, and she said the country was in negotiations with Sinopharm to speed up the delivery of the 38 million acquired doses.
- After poverty grew 6 percentage points during 2020, the IMF is suggesting the Government should enact a PEN 2,760 transfer to vulnerable families. The measure would cost around 2.3% of GDP.

# APPENDIX

## Dashboard

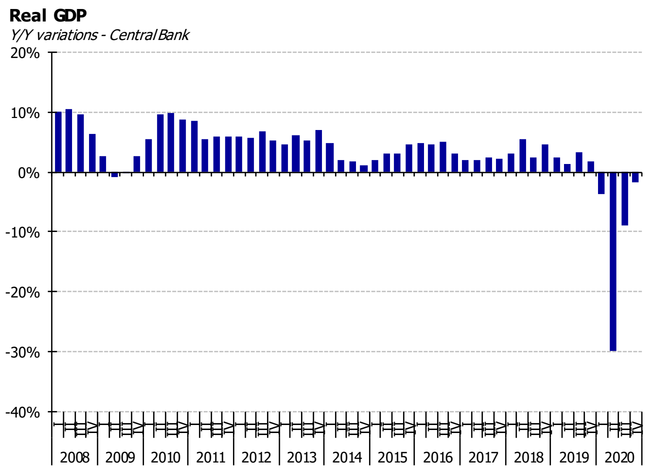
| | Mar-21 | Feb-21 | Jan-21 | Dec-20 | 2020 |
|---|---|---|---|---|---|
| Exchange rate *(PEN/USD, eop.)* | 3.74 | 3.65 | 3.64 | 3.62 | 3.62 |
| Interest rate *(%)* | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% |
| Inflation *(y/y)* | 2.6% | 2.4% | 2.7% | 2.0% | 2.0% |
| Economic activity *(y/y)* | - | - | -1.0% | 0.5% | -11.1% |
| Manufacturing activity *(y/y)* | - | - | 7.0% | 9.2% | -13.4% |
| Mining production *(y/y)* | - | - | -8.5% | -3.7% | -13.2% |

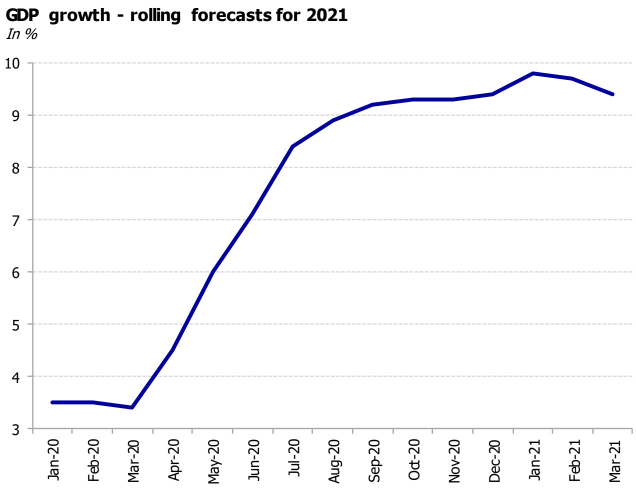
Source: EconViews based on several sources

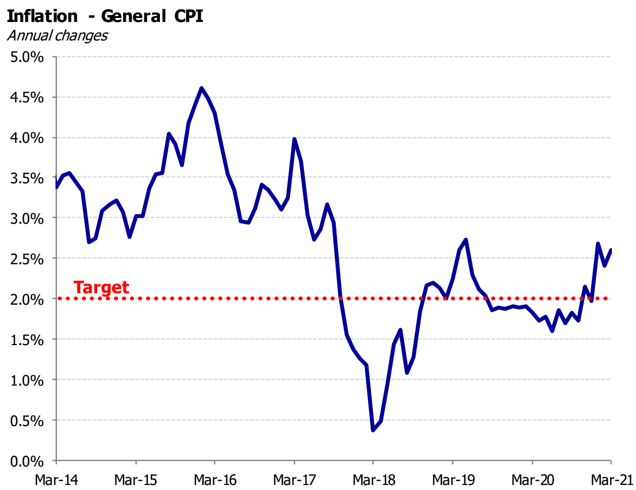
## Macroeconomic Outlook

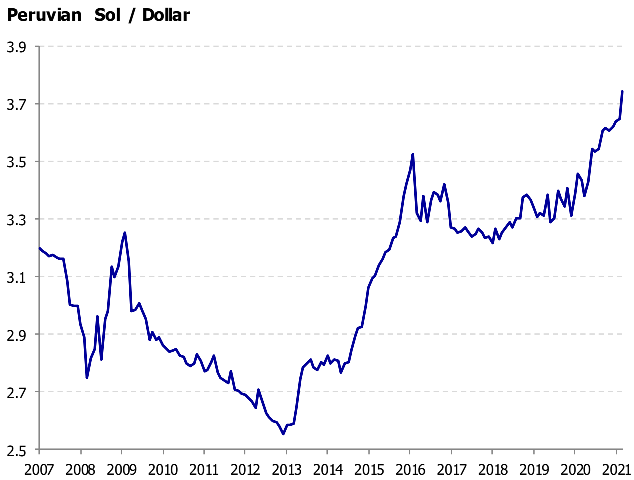
| | 2017 | 2018 | 2019 | 2020 | 2021F |
|---|---|---|---|---|---|
| GDP growth *(%)* | 2.5% | 4.0% | 2.2% | -11.1% | 9.4% |
| Inflation *(Dec-Dec)* | 1.4% | 2.2% | 1.9% | 2.0% | 2.1% |
| Fiscal Balance *(% GDP)* | -3.0% | -2.3% | -1.6% | -8.9% | -5.6% |
| Current Account *(% GDP)* | -1.3% | -1.7% | -1.5% | 0.5% | -0.2% |
| International reserves *(USD Bn)* | 61.4 | 57.9 | 64.9 | 72.7 | 74.8 |
| Exchange rate *(PEN/USD)* | 3.24 | 3.37 | 3.32 | 3.62 | 3.56 |

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF



# URUGUAY

| Good news | To be alert | Bad news |
|---|---|---|
| Exports have been recovering in recent months and in March grew for the third month in a row | Renewed restrictions could take a toll on activity | Daily Covid-19 cases per million people are now the highest in the world |

## POLITICS

With the emergence of new Covid-19 variants, the sanitary situation has significantly worsened and now the country is registering the highest number of cases per million people in the world (around 837). National authorities are resisting further restrictions despite calls from the opposition to do so, given the toll such measures would take on economic activity. Given this, widespread vaccination will be key to reducing pressure on the sanitary system and avoid further mobility restrictions: Uruguay has now vaccinated with at least one shot about 21% of its population, only behind Chile in Latin America.

## ECONOMIC ACTIVITY

The pandemic put an end on a 17-year uninterrupted growth streak: GDP contracted 5.9% in 2020, the first decline since 2002. Household consumption fell 6.2% and exports sank 16.2%, affected by the poor performance of key trading partners, but investment grew 8.0% due to higher accumulation of stocks. During the second half of 2020 the economy kept recovering and Q1-2021 will show some improvement as well, although border closures and restrictions on tourism will affect the services sector. The most dynamic sectors continue to be the agricultural sector, which fell only 0.4% in 2020 and construction, the only sector that grew (1.8%). We expect GDP to grow by 3.5% this year.

## INFLATION

Inflation closed 2020 at 9.41%, in line with our expectations. Inflation has since then continuously decelerated in year-on-year terms and as of March it was 8.34%, the lowest record since February 2020. Despite this, inflation continues to be above the upper bound of the Central Bank's 3–7% target range. The monetary authority expects to raise interest rates when the pandemic is under control and thus projects inflation will keep moderating in coming months as economic agents incorporate the monetary policy announcements into their expectations. We forecast inflation to end the year at 7.5%.

## MONETARY SECTOR

Rising long-term interest rates in the US have led to capital outflows from emerging markets into the US, putting pressure on their currencies, and the Uruguayan peso has not been the exception. As of April 5th, the UYU was trading at 44.22 per USD, meaning the UYU has lost 3.9% of its value against the dollar since December. In its last meeting in late March, the Central Bank decided to keep the 4.5% target interest rate set in September 2020, thus maintaining an accommodative stance on monetary policy until the health crisis is over, which the Government expects to happen during the third quarter. The CB also ascertained interest rates would start to gradually raise in the second half of the year.

## FISCAL ACCOUNTS

Fiscal accounts eroded due to the pandemic and the global balance of the Consolidated Public Sector reached a deficit of 6% of GDP, a 1.6 p.p. wider deficit than posted in 2019 (5.3% excluding the Social Security Trust). Revenues of the non-monetary public sector have not shown great dynamism in the first bimester of the year, but expenditures have contracted year-on-year in nominal terms, leading to a significant reduction in the 12-month accumulated deficit. The Government expects more austerity in 2021, but rising Covid cases could put much strain on already weakened fiscal accounts.

## WHAT'S COMING NEXT?

- Coronavirus cases are soaring, and new restrictions are highly likely.
- Uruguay's Chancellor has requested a meeting with Argentinian authorities to discuss the flexibilization of the Mercosur. Argentina has announced it is open to reducing tariffs.

# APPENDIX

## Dashboard

| | Mar-21 | Feb-21 | Jan-21 | Dec-20 | 2020 |
|---|---|---|---|---|---|
| Exchange rate *(UYU/USD, eop.)* | 44.39 | 43.19 | 42.34 | 42.37 | 42.37 |
| Interest rate *(%)* | - | 4.02% | 3.86% | 4.22% | 4.22% |
| Inflation *(y/y)* | 8.3% | 9.1% | 8.9% | 9.4% | 9.4% |
| Manufacturing activity *(y/y)* | - | - | -0.3% | 1.4% | -5.0% |

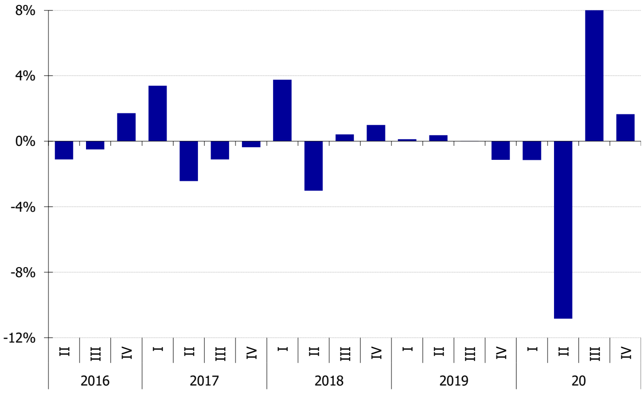
Source: EconViews based on several sources

## Macroeconomic Outlook

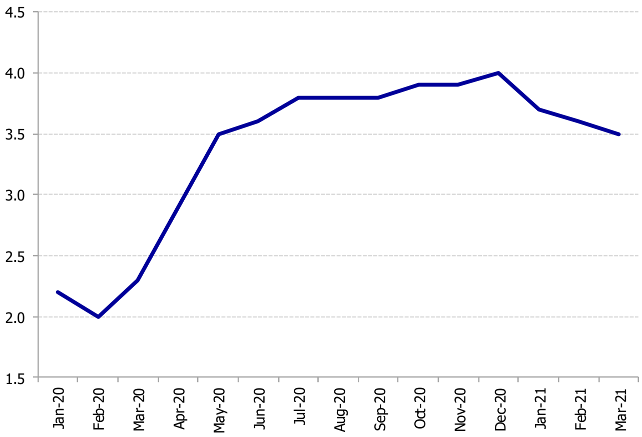
| | 2017 | 2018 | 2019 | 2020 | 2021F |
|---|---|---|---|---|---|
| GDP growth *(%)* | 2.6% | 1.6% | 0.2% | -5.9% | 3.5% |
| Inflation *(Dec-Dec)* | 6.6% | 8.0% | 8.8% | 9.4% | 7.5% |
| Fiscal Balance *(% GDP)* | -3.5% | -2.9% | -3.2% | -5.3% | -4.5% |
| Current Account *(% GDP)* | 0.7% | -0.1% | 1.3% | 0.0% | -0.7% |
| International reserves *(USD Bn)* | 16.0 | 15.6 | 14.5 | 16.2 | 16.6 |
| Exchange rate *(UYU/USD)* | 28.85 | 32.45 | 37.34 | 42.37 | 43.50 |

Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

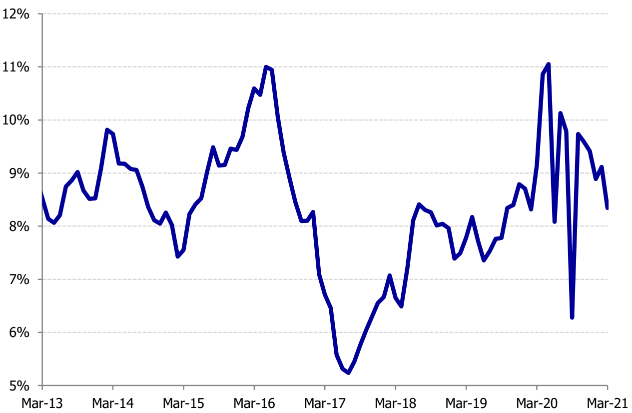
**Real GDP**
*q/q variations, s.a. - BCU*



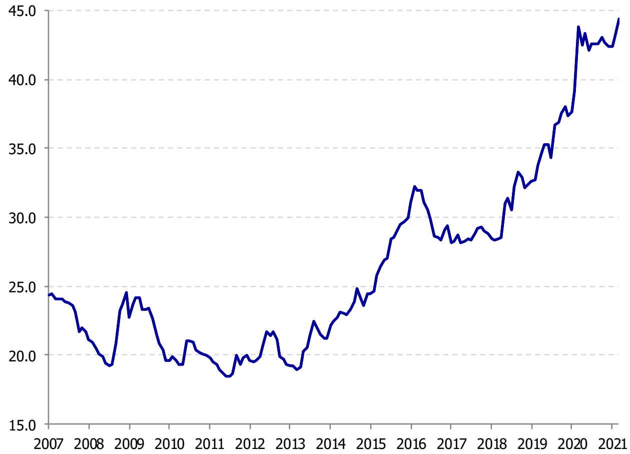

**GDP growth - rolling forecasts for 2021**
*In %*




**Inflation - General CPI**
*Annual changes*




**Uruguayan Peso / Dollar**



| | GDP | | Inflation | |
|---|---|---|---|---|
| | 2020 | 2021 | 2020 | 2021 |
|  | -9.9% | 7.0% | 36.1% | 46.0% |
|  | -4.1% | 3.2% | 4.5% | 4.8% |
|  | -5.8% | 5.7% | 2.8% | 3.3% |
|  | -6.8% | 5.1% | 1.6% | 2.8% |
|  | -8.5% | 4.4% | 3.2% | 3.7% |
|  | -0.6% | 3.7% | 2.2% | 3.1% |
|  | -11.1% | 9.4% | 2.0% | 2.1% |
|  | -5.9% | 3.5% | 9.4% | 7.5% |


(+54 11) 5252-1035
Carlos Pellegrini 1149
Buenos Aires
www.econviews.com
www.facebook.com/econviews
Twitter: @econviews

**Miguel A. Kiguel**
*Director*
mkiguel@econviews.com

**Isaías Marini**
*Economist*
imarini@econviews.com

**Andrés Borenstein**
*Chief Economist*
aborenstein@econviews.com

**Alejandro Giacoia**
*Economist*
agiacoia@econviews.com

**Lorena Giorgio**
*Principal Economist*
lgiorgio@econviews.com

**Rafael Aguilar**
*Analyst*
raguilar@econviews.com