

# LATAM 7 + Argentina

## MACRO BRIEF

**ECONVIEWS**  
ECONOMÍA Y FINANZAS

December, 2020



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Economy rebounds, but with many challenges ahead

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Due for a good recovery in 2021, vaccine permitting

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A new Constitution will mean significant changes

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Low inflation and dovish monetary policy for a while

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A deep political crisis in the run-up to the 2021 elections

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Covid cases rise and will affect the recovery

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# ARGENTINA

| Good news  | To be alert  | Bad news  |
|--|--|---|
| Soybean prices are at their highest levels since 2014. This could represent an increase in revenues from export taxes. | Agricultural exports are being jammed by a two-week oil and port workers' strike over wage-related demands. If the conflict extends, it could put strain on the FX market. | Inflation is getting higher and we expect it to reach 57% at the end of 2021. |

**POLITICS**

Although the current calm in the FX market allowed for some oxygen, one year into office Alberto Fernandez's government is rife with tensions. A more technical wing led by Minister of Economy Guzman is trying to close a new deal with the IMF and shyly opening up to more orthodox reforms, but clashes with the political wing embodied in VP Cristina Kirchner, with its own institutional agenda and worried about deepening the fiscal adjustment ahead of the 2021 midterms. Although Covid cases fell for two months after peaking in late October, authorities are on alert due to a resurgence in Buenos Aires, right before the summer holidays. The Sputnik V vaccine is expected to arrive in Q1-2021.

**ECONOMIC ACTIVITY**

On Q3 the GDP rebounded 12.8% q/q s.a. after the record contraction in Q2 of 16.0% q/q (and -19.0% y/y), leading to a reduction of the y/y fall to 10.2%. As isolation measures eased, private consumption rebounded 10.2% q/q and investment jumped 42.9% -driven by the construction sector- but will end the year with the smallest ratio to GDP since the start of the new series in 2004. Economic activity grew 1.9% m/m s.a. in October and is expected to keep on recovering in the last two months of the year. We expect the year to end with a contraction of activity of 10.7% and a rebound of 6.0% in 2021.

**INFLATION**

Inflation started to accelerate in the second half of the year and was 3.8% monthly in October and 3.2% November, helped by lower seasonal prices, but core inflation was the highest of the year (3.9%). The greater relaxation of the quarantine, the greater level of consumption common at the end of the year, the announced rise in pensions, the increase in gasoline and the high levels that wholesale inflation has been reaching will fuel up inflation in the last month of the year. We expect the year to close with an accumulated inflation of 36%. As significant pressures persist, we forecast inflation to accelerate and end 2021 at an annual rate of 57%.

**MONETARY SECTOR**

The Central Bank continues to be the main source of financing for the Treasury through profit transfers. The increase in Leliq and Repos demonstrates the attempt to absorb the excess pesos, which adjusted for activity are still 10% above the historical average, despite the higher seasonal demand for pesos. After the free variants of the dollar reached record levels in October, and with a FX spread widely exceeding 100%, some calm arrived and the Blue Chip Swap has been stable for several weeks. Intense intervention from the Government was behind the decrease, along with some signs of fiscal moderation and an appreciation of emerging currencies.

**FISCAL ACCOUNTS**

As fiscal accounts kept deteriorating, the Government announced that it would discontinue the Emergency Family Income transfers and would only support critically affected sectors through the ATP program. As of October, the accumulated primary deficit reached 5.5% of GDP and the fiscal deficit was 7.2%. We expect the year to end with a primary deficit of 6.5% and a fiscal deficit of 8.2% of GDP. Although the Budget Law approved by Congress estimates a primary deficit of 4.5% for 2021, we expect it to be lower (3.5%). The modification of the new formula for pensions and an extended freeze on energy tariffs could add some extra pressure on fiscal accounts, though.

**WHAT'S COMING NEXT?**

- In the coming months, all eyes are on the agreement with the IMF. This point represents an opportunity for the government to formulate a consistent monetary and fiscal plan that allows to rebuild credibility and improve expectations.
- The first batch of the Russian vaccine is expected to arrive in the coming days and, although still not confirmed, Pfizer's should arrive some time in Q1-2021. Containing the second wave of infections will be essential for the recovery in 2021.



# APPENDIX

## Dashboard

|                               | Dec-20 | Nov-20 | Oct-20 | Sep-20 | 2019   |
|-------------------------------|--------|--------|--------|--------|--------|
| Exchange rate (ARS/USD, eop.) | 83.26  | 81.32  | 78.34  | 76.18  | 59.88  |
| Interest rate (%)             | 38.00% | 38.00% | 36.00% | 38.00% | 55.00% |
| National inflation (y/y)      | -      | 35.80% | 37.24% | 36.62% | 53.83% |
| Economic activity (y/y)       | -      | -      | -7.4%  | -6.3%  | -2.2%  |
| Industrial activity (y/y)     | -      | -      | -2.9%  | 3.7%   | -6.3%  |
| Automotive production (y/y)   | -      | 20.2%  | -9.8%  | 16.1%  | -32.4% |

Source: EconViews based on several sources

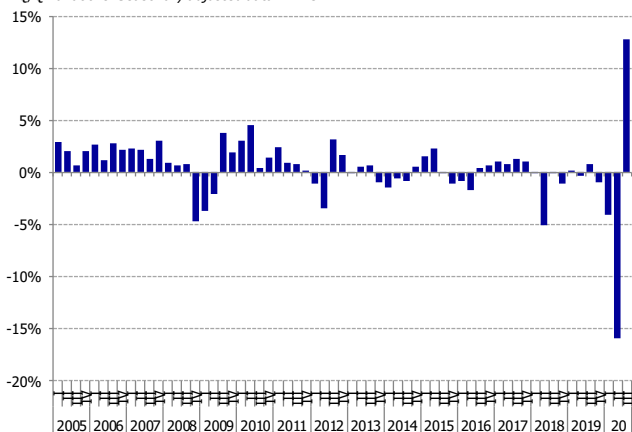
## Macroeconomic Outlook

|                                 | 2017  | 2018  | 2019  | 2020F  | 2021F |
|---------------------------------|-------|-------|-------|--------|-------|
| GDP growth (%)                  | 2.8%  | -2.6% | -2.1% | -10.7% | 6.0%  |
| National inflation (Dec-Dec)    | 24.8% | 47.6% | 53.8% | 36.0%  | 57.0% |
| Fiscal Balance (% GDP)          | -5.9% | -5.3% | -3.8% | -8.2%  | -5.0% |
| Current Account (% GDP)         | -4.9% | -5.3% | -0.8% | 1.4%   | 0.8%  |
| International reserves (USD Bn) | 55.1  | 65.8  | 44.8  | 39.0   | 39.5  |
| Exchange rate (ARS/USD)         | 18.8  | 37.8  | 59.9  | 84.0   | 132.0 |

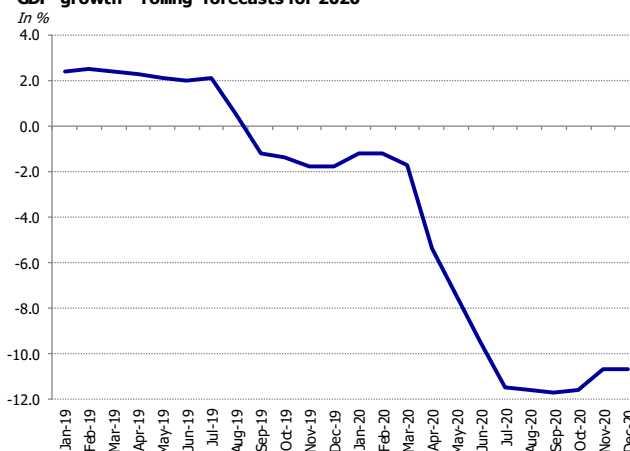
Source: EconViews based on official figures and own estimates

### Real GDP

Q/Q variations - Seasonally adjusted data INDEC

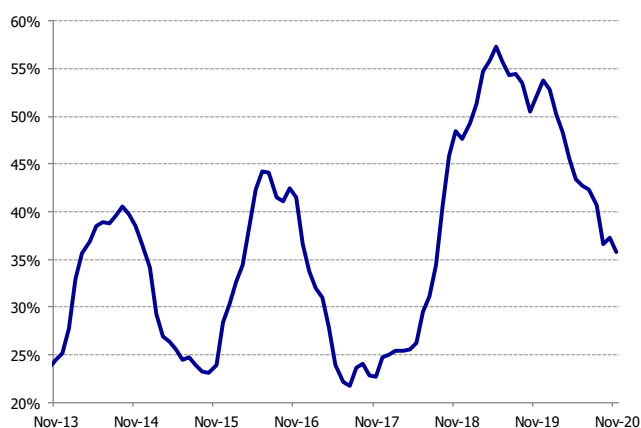


### GDP growth - rolling forecasts for 2020

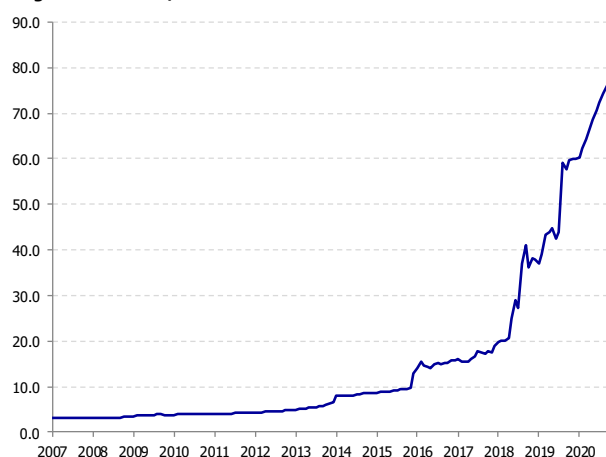


### Inflation - General CPI

Annual changes



### Argentinian Peso / Dollar





# BRAZIL

| Good news  | To be alert  | Bad news  |
|--|--|---|
| The rapid recovery of output is not only good news for Brazil, but also has a knock-on effect on tax revenues and could increase exports in neighboring countries. | Bolsonaro is lagging other Latin American leaders on the vaccination process. Same as when the pandemic kicked off, he seems to be minimizing the problem. | People are not putting too much money in revitalizing Paulo Guedes agenda of reforms once the worst of Covid is over. |

**POLITICS**

The availability of the vaccine is one of the topics of discussion in the short term as well as the scope for the lockdowns that are coming in different states. On the longer-term horizon, many observers have lost faith the chances of implementing the agenda of structural reforms that Finance Minister Paulo Guedes was after. The Supreme Court found illegal political donation from beneficiaries of social programs for BRL 1 billion.

**ECONOMIC ACTIVITY**

Activity has performed better than expected in the second half of 2020. Now the expectation is that the economy "only" shrinks by 4.4% this year with a recovery of around 3.5% in 2021. Industrial production is set to take the lead with an expected increase of 5% in 2021. In Q3 the economy recovered 7.7% q/q driven by household consumption from the demand side and the resumption of services activities from the supply side. For Q4 the recovery is expected to continue, albeit at a slower pace.

**INFLATION**

Inflation has been picking up in the last few months. Still, they will close slightly above 4% to come down to around 3.5% in the next year. Probably inflation will peak in Q2-2021 at over 5% (most of the market sees upside risk) to come down thereafter and remain above 3% beyond 2021. Lately proteins and fresh food have been the main culprits of the uptick in inflation. Regulated prices play a counter-cyclical role increasing less than the average this year and over the average in 2021.

**MONETARY SECTOR**

With interest rate at 2%, the Central Bank seems to be in no rush to move rates up. The market is expecting BCB to start raising rates in the second half of 2021 to finish next year at 3% and move back to positive real rates in 2022 once the economy starts getting closer to its potential. In the FX spectrum, the BRL has done a tremendous come back from 5.8 to the dollar to 5.1. The market is betting on more appreciation, as growth returns and commodity prices rise.

**FISCAL ACCOUNTS**

Fiscal deficit is set to close 2020 at around 15% of GDP, with a primary deficit of 11%. This is mostly COVID-19 driven. The expectation is that in 2021 the primary deficit goes back to 3% of GDP. In October and November tax revenues had an impressive growth in real terms, but still YTD tax revenues have plunged by 8% in real terms. As it is the case in most countries, the fiscal trajectory will be conditioned to the normalization of the economy, the intensity of the second wave and the vaccination process.

**WHAT'S COMING NEXT?**

- The upcoming second wave in the coronavirus may generate noise between the president and the governors, more so when the vaccine is not around the corner.
- President Bolsonaro wants to continue paying the emergency bonus of BRL 300 per month, but the funding for that program is unclear and may also bring noise within.



# APPENDIX

## Dashboard

|                               | Dec-20 | Nov-20 | Oct-20 | Sep-20 | 2019  |
|-------------------------------|--------|--------|--------|--------|-------|
| Exchange rate (BRL/USD, eop.) | 5.16   | 5.33   | 5.75   | 5.61   | 4.02  |
| SELIC (%)                     | 2.00%  | 2.00%  | 2.00%  | 2.00%  | 4.50% |
| Inflation (y/y)               | -      | 4.3%   | 3.9%   | 3.1%   | 4.3%  |
| Economic activity (y/y)       | -      | -      | -2.6%  | -1.0%  | 0.9%  |
| Industrial activity (y/y)     | -      | -      | 0.3%   | 3.7%   | -1.1% |
| Automotive production (y/y)   | -      | -      | -14.5% | -12.3% | 2.1%  |

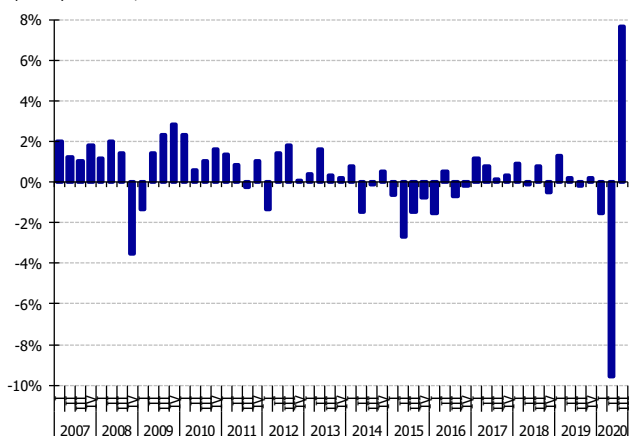
Source: EconViews based on several sources

## Macroeconomic Outlook

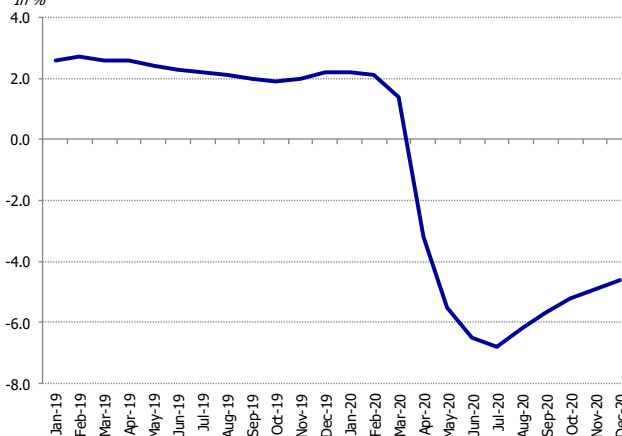
|                                 | 2017  | 2018  | 2019  | 2020F  | 2021F |
|---------------------------------|-------|-------|-------|--------|-------|
| GDP growth (%)                  | 1.3%  | 1.3%  | 1.1%  | -4.6%  | 3.4%  |
| Inflation (Dec-Dec)             | 2.9%  | 3.7%  | 4.3%  | 3.9%   | 3.6%  |
| Fiscal Balance (% GDP)          | -7.8% | -7.1% | -5.9% | -15.4% | -7.4% |
| Current Account (% GDP)         | -0.7% | -2.2% | -2.8% | -0.5%  | -1.1% |
| International reserves (USD Bn) | 365.4 | 365.5 | 346.5 | 348.1  | 351.9 |
| Exchange rate (BRL/USD)         | 3.31  | 3.88  | 4.02  | 5.15   | 5.00  |

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

**Real GDP**  
quarterly variations, in %



**GDP growth - rolling forecasts for 2020**  
In %



**Inflation (IPCA)**  
Annual changes



**Brazilian Real / Dollar**



| Good news   | To be alert  | Bad news   |
|---|--|--|
| In November, business confidence rose to the highest levels since February 2019 | Covid-19 cases have been kept under control during the past months but December has seen a slow rise | Investment failed to rebound significantly in the third quarter as uncertainty has risen over the new Constitution |

**POLITICS**

On October 25th a referendum to reform the Constitution took place, announced during November 2019 after a month of intense protests, and which had been delayed due to the COVID-19 outbreak. Almost 80% of voters opted "Yes" on the redaction of a new Constitution, and a Constitutional Convention, whose members will be directly chosen, is set to redact it. Investors are wary that the new Constitution could bring about the end of Chile's long-standing fiscal discipline and favorable business climate. Conversely, left-leaning groups see this as an opportunity to reduce the income disparities that led to the protests.

**ECONOMIC ACTIVITY**

After posting the worst contraction on record in Q2-2020 (-14.5% y/y and -13.5% q/q s.a.), GDP rebounded 5.2% q/q and reduced its y/y fall to -9.1%, after the softening of restrictions placed due to the Covid-19 outbreak and especially after the approval in July of a piece of legislation that allowed individuals to withdraw 10% of their pension funds, leading to the withdrawal of some USD 18 billion. A second withdrawal bill was approved in late November. As a result, consumption jumped 17.0% q/q, led by durable goods. We estimate economic activity to shrink by 5.9% in 2020 and rebound 5.1% in 2021.

**INFLATION**

In November prices fell 0.13% m/m after growing 0.68% in October, the highest record in 12 months, and 0.64% in September. While food and non-alcoholic beverages' prices kept growing, as well as transportation prices (slightly accelerating from 0.30% m/m vs 0.32% in October), the sharpest drop was registered in clothing prices (-4.89% m/m). As a result, annual inflation stood at 2.7%, below the Central Bank's target of 3.0%. As economic activity is expected to keep recovering in the coming months, inflation too is expected to accelerate. We estimate inflation will end the year at 2.8% and we envision an inflation rate of 3.0% by the end of 2021.

**MONETARY SECTOR**

In line with other currencies in Latin America, the CLP appreciated to around 725 per US Dollar in the last days. On October 15th it stood at 804.25 per US Dollar, which implies an appreciation of 10.9% since then. In its last meeting on December 7th, the CBC maintained the policy rate at 0.5% and projected it would maintain it for the larger part of its two-year monetary policy horizon. In addition, The Central Bank announced that "non-conventional measures" would continue, meaning that it would maintain its purchased bank bonds worth around USD 8 billion and would reinvest maturing coupons.

**FISCAL ACCOUNTS**

The pandemic strained Chile's fiscal accounts, leading to the highest fiscal deficit since 1973. The Budget law for 2021 aims to continue supporting the economic recovery. In this sense, the recently approved Budget law projects a structural deficit of 4.7% of GDP, the highest in the country's history. With the intention to return to a path of fiscal responsibility, the law also aims to reduce the structural deficit to 3.9% in 2022. We expect the fiscal deficit to be 9.4% of GDP this year and to drop to -5.7% in 2021. The outlook for sovereign debt was revised down and in mid-October Fitch ratings downgraded Chile's rating from A to A-.

**WHAT'S COMING NEXT?**

- A new constitution is set to be drafted by a Constitutional Convention whose members will be directly appointed by the population. It will bring about significant changes.
- Copper prices could see a decline as supply-side disruptions ease up in 2021, especially in Latin America.



# APPENDIX

## Dashboard

|                               | Dec-20 | Nov-20 | Oct-20 | Sep-20 | 2019   |
|-------------------------------|--------|--------|--------|--------|--------|
| Exchange rate (CLP/USD, eop.) | 722.95 | 763.10 | 773.55 | 785.33 | 752.40 |
| Interest rate (%)             | -      | 0.50%  | 0.50%  | 0.50%  | 1.75%  |
| Inflation (y/y)               | -      | 2.7%   | 3.0%   | 3.1%   | 3.0%   |
| Economic activity (y/y)       | -      | -      | -      | -4.8%  | 1.1%   |
| Industrial activity (y/y)     | -      | -      | 3.5%   | 1.9%   | -0.6%  |
| Mining production (y/y)       | -      | -      | 1.9%   | -0.8%  | -2.2%  |

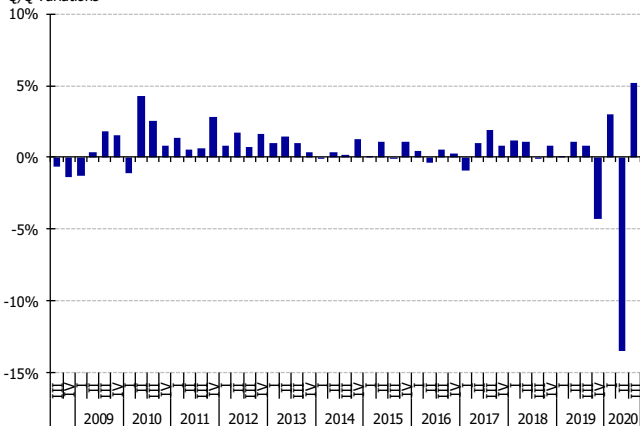
Source: EconViews based on several sources

## Macroeconomic Outlook

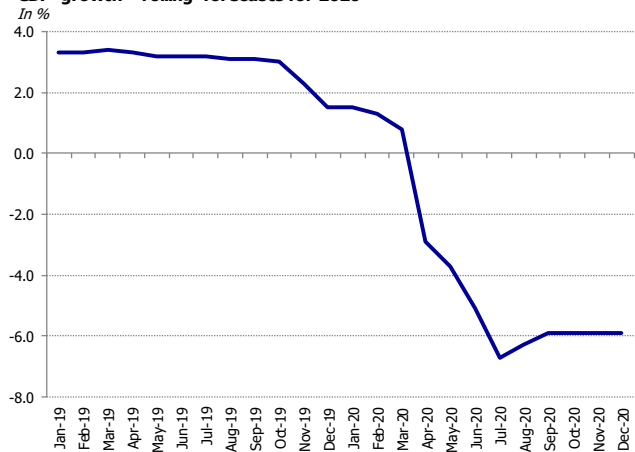
|                                 | 2017  | 2018  | 2019  | 2020F | 2021F |
|---------------------------------|-------|-------|-------|-------|-------|
| GDP growth (%)                  | 1.2%  | 3.9%  | 1.1%  | -5.9% | 5.1%  |
| Inflation (Dec-Dec)             | 2.3%  | 2.6%  | 3.0%  | 2.8%  | 3.0%  |
| Fiscal Balance (% GDP)          | -2.6% | -1.5% | -2.7% | -8.7% | -5.1% |
| Current Account (% GDP)         | -2.3% | -3.6% | -3.9% | 0.1%  | -1.3% |
| International reserves (USD Bn) | 38.0  | 38.7  | 39.5  | 38.1  | 39.2  |
| Exchange rate (CLP/USD)         | 616.2 | 695.2 | 752.0 | 725.0 | 769.0 |

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

**Real GDP**  
Q/Q variations



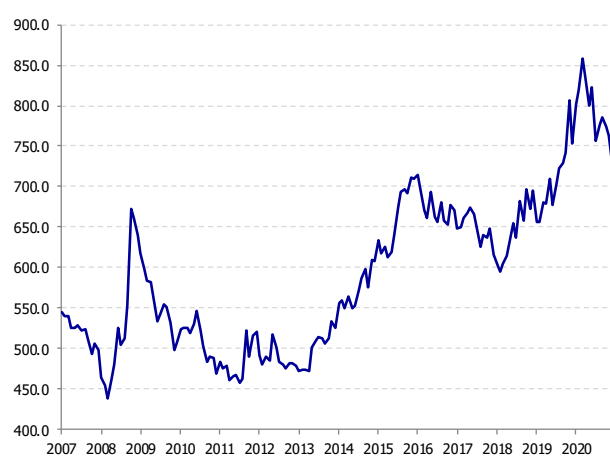
**GDP growth - rolling forecasts for 2020**



**Inflation - General CPI**  
Annual changes



**Chilean Peso / Dollar**





# COLOMBIA

| Good news   | To be alert  | Bad news   |
|---|--|--|
| A Fedesarrollo survey showed that most Colombians financiers think that the local stock market would be resilient if prices fall in the developed market. | Consumer confidence has been moving up in the last few months. But prospects are bleak. Only 26% of Colombians think that they will be better in the next 12 months. | The number of unemployed people exceeded 3.65 million in October. The jobless rate jumped to 14.7% at national level and 16.4% taking the top 13 cities. |

**POLITICS**

Ivan Duque needs to surf the Covid-19 crisis relatively well to reach the presidential elections of 2022. It is not just about the economy. It is also about building the right set of alliances with other parties to avoid a populism becoming competitive in the next presidential election. Social unrest is a factor in Colombia, but leading indicators are pointing north enabling some recovery for Duque's ratings. The role of former president Alvaro Uribe is still unclear, but he said that he wants to be a factor in the coalition for 2022.

**ECONOMIC ACTIVITY**

Colombia's GDP is poised to decline over 7% this year. But it should recover by around 5% in 2021 paving the way to recover 2019's output level in 2022, assuming a normalization of the economy between Q1 and Q2. There is little volatility among Colombian economists about the trajectory. Consumption is the relative winner in this match with an expected decline of no more than 6% and a recovery in line with the rest of GDP. Investment will be the ugly duckling with 2021's level almost 10 points below that of 2019, so unlikely to recover its previous level in 2022.

**INFLATION**

Inflation has traded below the lower bound of the Central Bank's target with the expectation to end 2020 around 1.6%. In 2021 CPI will go back to the center of Central Bank's target of 3% (plus/minus 1%) driven by the recovery in output. But nobody is talking about price pressures in Bogota. The latest figure is 1.49% with a few sectors such as clothing and education in deflation.

**MONETARY SECTOR**

Interest rates are at 1.75%, a place of where the Central Bank seems to be comfortable. Some interlocutors think that policy rate will remain in that level throughout the next year while others are talking about a meagre quarter-point hike. Given that in the last meeting some members voted for another interest rate reduction, we cannot rule out the possibility of rates moving south for a brief period to 1.5% early in 2021.

**FISCAL ACCOUNTS**

Fiscal accounts have long been Colombia's weakest link. More so in this peculiar year with Covid-19 related spending. The deficit is expected to escalate to 8-9% of GDP to come down only mildly to 6.4% next year. Colombia took the Flexible Credit Line from the IMF in a precautionary way, so no pressures on the debt front should be expected.

**WHAT'S COMING NEXT?**

- President Ivan Duque said that he expects some 20 million Colombian get their vaccine shots in 2021. This is around 40% of the population of Colombia.
- Some services are coming back. Bogota is reopening its entertainment complex Arena and airlines have begun to schedule again some of the routes that had to be cancelled due to the Covid-19 outbreak.





# APPENDIX

## Dashboard

|                               | Dec-20 | Nov-20 | Oct-20 | Sep-20 | 2019  |
|-------------------------------|--------|--------|--------|--------|-------|
| Exchange rate (COP/USD, eop.) | 3,467  | 3,598  | 3,872  | 3,829  | 3,289 |
| Interest rate (%)             | 1.7%   | 1.7%   | 1.7%   | 1.7%   | 4.1%  |
| Inflation (y/y)               | -      | 1.5%   | 1.8%   | 2.0%   | 3.8%  |
| Economic activity (y/y)       | -      | -      | -      | -7.3%  | 3.1%  |
| Industrial activity (y/y)     | -      | -      | -2.7%  | -2.9%  | 1.4%  |

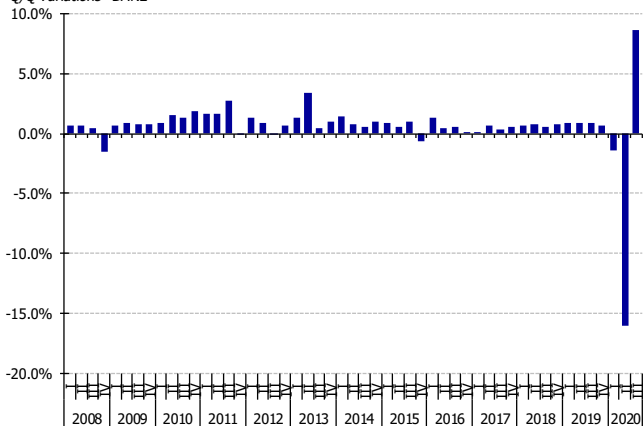
Source: EconViews based on several sources

## Macroeconomic Outlook

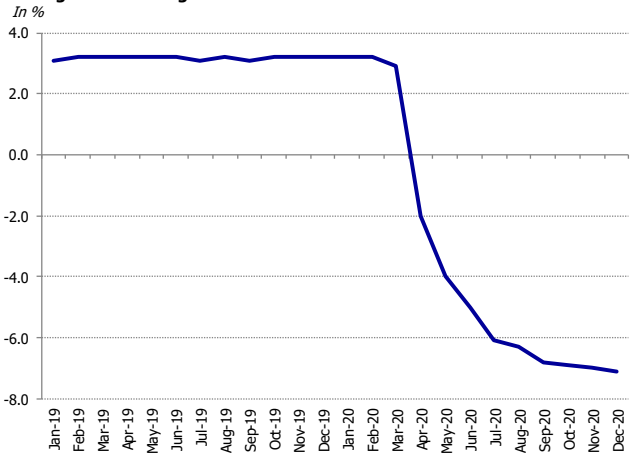
|                                 | 2017  | 2018  | 2019  | 2020F | 2021F |
|---------------------------------|-------|-------|-------|-------|-------|
| GDP growth (%)                  | 1.4%  | 2.5%  | 3.3%  | -7.1% | 5.1%  |
| Inflation (Dec-Dec)             | 4.1%  | 3.2%  | 3.8%  | 1.6%  | 2.9%  |
| Fiscal Balance (% GDP)          | -3.6% | -3.1% | -2.5% | -8.5% | -6.4% |
| Current Account (% GDP)         | -3.3% | -3.9% | -4.3% | -3.7% | -3.8% |
| International reserves (USD Bn) | 45.4  | 46.1  | 50.5  | 55.8  | 56.6  |
| Exchange rate (COP/USD)         | 2,987 | 3,250 | 3,289 | 3,500 | 3,612 |

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

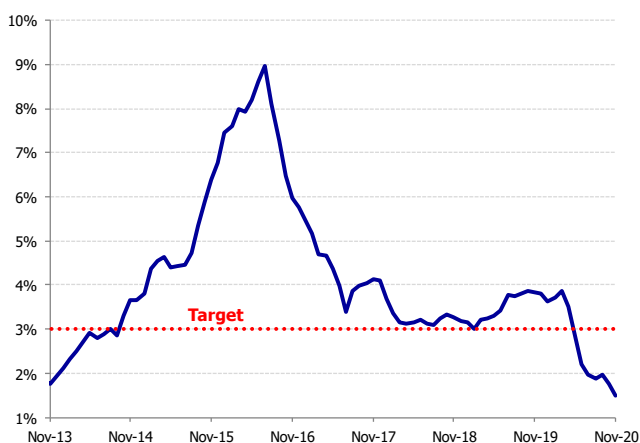
**Real GDP**  
Q/Q variations - DANE



**GDP growth - rolling forecasts for 2020**



**Inflation - General CPI**  
Annual changes



**Colombian Peso / Dollar**



| Good news   | To be alert   | Bad news   |
|---|---|--|
| Due to the pandemic, the "Buen Fin" shopping holiday in November was extended from 4 to 12 days, allowing retail sales to reach 239 billion MXN | Congress debates reforming the Banxico's laws to allow it to purchase cash dollars. Critics warn this may reduce the CB's autonomy and ease money laundering. | Mexico City and two other states went into a red alert in mid-December after a rise in Covid cases and hospitalizations. Activity will be limited to essentials. |

**POLITICS**

AMLO refrained from congratulating Joe Biden until the Electoral College certified his victory, a delay diplomats had feared could put strain on Mexico's most important bilateral relationship. Anyhow, both sides have ratified their compromise with the USMCA, although enforcement of its environmental and labor regulations could gain relevance under the new administration. The trade deal, which also includes Canada and expands on many of NAFTA's provisions, became effective as of July 1<sup>st</sup>. On the sanitary front, a rise in cases placed Mexico City and two other states back under red alert, which restricts activity to essential businesses. Application of Pfizer's vaccine is scheduled to begin this year.

**ECONOMIC ACTIVITY**

After contracting 17% q/q in Q2-2020, the economy recovered 12.2% in Q3 and stood 8.6% below Q3-2019's levels. Agriculture was the only activity spared from the crisis, growing 7.7% in y/y terms after having fallen slightly in Q2 (-1.5%). Industrial production averaged a 7.1% y/y drop between July and September, although by October it had cut its yearly fall to 3.3%. Automobile production surged during October (+7.4% y/y) and remained positive in November (0.8%), after a year of setbacks. Retail sat 8.5% below last year's figures, although it is expected to bounce back in Q4. The market consensus is that Mexico's GDP will fall a harsh 9% in 2020, although the forecast has improved in the last months.

**INFLATION**

After 6 months of acceleration, monthly inflation let down in November (0.08%), allowing for headline CPI to drop from 4.1% to 3.3% y/y, closer to the Banxico's 3% target. The "Buen Fin" shopping holiday's discounts may have distorted the month's record: non-food goods fell 0.78% m/m, helping compensate the 1.9% monthly rise in energy prices caused by the suspension of electricity subsidies after the warm season. INEGI technicians have warned that changes in consumption due to the pandemic could also lead to underestimating inflation: fruit and vegetable prices grew 9.5% y/y, a variation that has a higher impact on low-income families. Analysts predict 2020 will end with y/y headline CPI variation of 3.5%.

**MONETARY SECTOR**

Although the Mexican Peso has tended to appreciate since May and suffered less volatility than other currencies in the region, at 20.15 MXN/USD it has still weakened 6.4% YTD, and market analysts see room for further depreciation next year. During Q4 the Banxico has kept its reference rate at 4.25%, after having lowered it from 7% since the offset of the crisis in March. Although new social distancing measures will hammer activity, the CB considers that upside inflation risks from the recovery of demand, currency depreciation and heightened costs for businesses merit caution on further cuts in the policy rate.

**FISCAL ACCOUNTS**

Although the Coronavirus crisis will cost Mexico its largest fiscal deficit since 1990, the response package was modest compared to the region, with 0.7% of GDP destined to health spending, households and firms and 1.3% in below-the-line measures such as loans. The Government's commitment to austerity, one of the pillars of official discourse, could allow it to end 2020 with a slight primary surplus and a fiscal deficit around 4.1% of GDP. So far this year, operative expenditures have fallen 3.3% in real terms, counterweighing the rise in health and social expenditures. Mexico's net debt-to-GDP ratio has risen from 45.5% in 2019 to 53.2% in 2020, partly due to the depreciation of the MXN.

**WHAT'S COMING NEXT?**

- Moody's strongly disapproved the proposed reform of the Banxico's laws, alerting that the Lower House's approval of the bill could "impact negatively on the country's credit rating and investor sentiment". The Association of Mexican Banks (ABM) has also spoken against the initiative.
- The Mexican economy is expected to grow around 3.9% in 2021, although the new rise in Covid cases could delay an already sluggish recovery.



# APPENDIX

## Dashboard

|                               | Dec-20 | Nov-20 | Oct-20 | Sep-20 | 2019  |
|-------------------------------|--------|--------|--------|--------|-------|
| Exchange rate (MXN/USD, eop.) | 20.15  | 20.20  | 21.19  | 22.11  | 18.94 |
| Interest rate (%)             | 4.25%  | 4.25%  | 4.25%  | 4.50%  | 7.50% |
| Inflation (y/y)               | -      | 3.33%  | 4.09%  | 4.01%  | 2.83% |
| Economic activity (y/y)       | -      | -      | -5.3%  | -5.4%  | -0.3% |
| Industrial activity (y/y)     | -      | -      | -3.3%  | -6.1%  | -1.7% |
| Automotive production (y/y)   | -      | 0.8%   | 7.4%   | -4.8%  | -3.4% |

Source: EconViews based on several sources

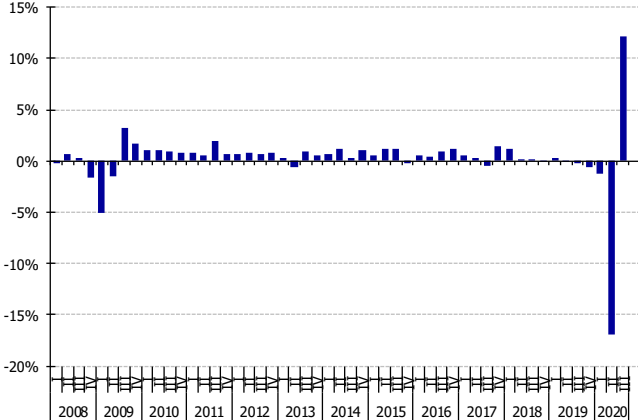
## Macroeconomic Outlook

|                                 | 2017  | 2018  | 2019  | 2020F | 2021F |
|---------------------------------|-------|-------|-------|-------|-------|
| GDP growth (%)                  | 2.1%  | 2.2%  | -0.3% | -9.0% | 3.9%  |
| Inflation (Dec-Dec)             | 6.8%  | 4.8%  | 2.8%  | 3.5%  | 3.5%  |
| Fiscal Balance (% GDP)          | -1.1% | -2.1% | -1.6% | -4.1% | -3.4% |
| Current Account (% GDP)         | -1.8% | -2.1% | -0.3% | 1.3%  | -0.1% |
| International reserves (USD Bn) | 164.9 | 165.2 | 170.6 | 189.2 | 192.7 |
| Exchange rate (MXN/USD)         | 19.7  | 19.7  | 18.9  | 20.2  | 21.3  |

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

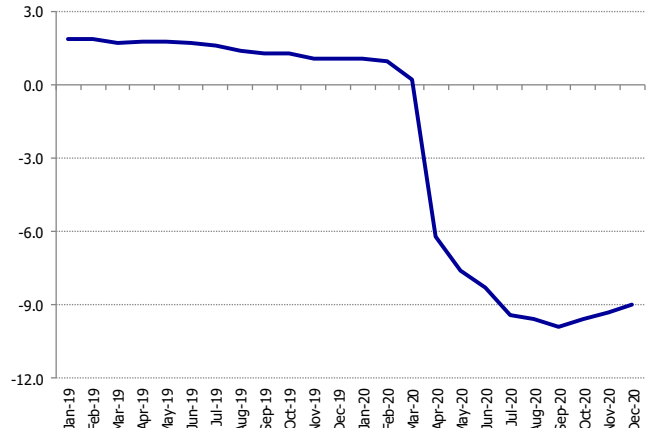
### Real GDP

Q/Q variations - INEGI



### GDP growth - rolling forecasts for 2020

In %

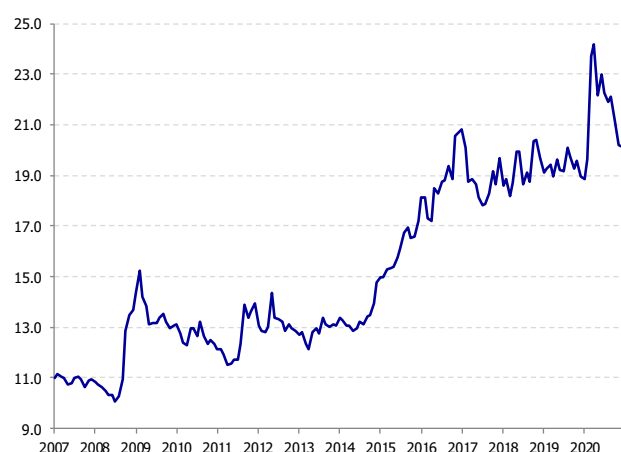


### Inflation - General CPI

Annual changes



### Mexican Peso / Dollar





# PARAGUAY

| Good news  | To be alert   | Bad news   |
|--|---|--|
| Although GDP will fall 2.5%, the contraction will be smaller than most Latin American countries. | It will take about four years to return to the fiscal deficit allowed by the Fiscal Responsibility Law. | New Covid cases are increasing. New restrictions could imply a slower economic recovery. |

**POLITICS**

At the end of October, the Minister of Finance Benigno Lopez resigned and was replaced by Oscar Llamosas, until then Vice Minister of Financial Administration. Significant shifts in policy are not expected. Congress recently approved the extension of the Emergency Law. The bill's extension had been demanded by businesses to avoid job losses in the sectors most affected by the pandemic. COVID-19 contagions recently surpassed the 100,000 line. The increase in new cases in recent weeks coupled with the high level of occupation of intensive care units, led the government to strengthen sanitary measures.

**ECONOMIC ACTIVITY**

In the third quarter the economy printed a y/y fall of 1.2% and according to the latest data from the monthly indicator of economic activity (IMAEP), in October activity contracted 0.7% in year-on-year terms, although there was some growth in comparison with the previous month. We estimate that the year will close with a 2.5% drop in GDP, mainly explained by the poor performance of the services sector. On the supply side, the primary sector and construction sector kept on growing throughout the year, helping to mitigate the fall in GDP. By 2021 the economy is expected to rebound 4%.

**INFLATION**

In November, the Consumer Price Index increased 0.7% m/m, above the records of October and September, that were 0.5% and 0.3% respectively. The largest increases were seen in food, durable goods, health, and home maintenance and repair items. Despite this, the accumulated inflation up to November reached 1.6% and we estimate that it will close the year at 2.2%, near the lower bound of the Central Bank's target (4% +/- 2%). For 2021 we envision it will close the year at 2.6% as activity recovers.

**MONETARY SECTOR**

The Guaraní has remained rather stable on average in the last months but has seen an appreciation in the last days, trading now at 6,804 PYG per dollar. Still, the PYG took a hit due to the pandemic and we expect to end 2020 with a yearly depreciation of around 8%. In its last monetary policy meeting, the Central Bank decided to maintain for the sixth consecutive month its monetary policy rate at 0.75%. This decision seeks to bring inflation close to its medium-term target of 4% and contribute to economic recovery.

**FISCAL ACCOUNTS**

Throughout January-November period, fiscal deficit stood at 4.5% of GDP, a number much higher than that reached in the same period of 2019 (-1.8%). The increase in spending aimed at alleviating the situation of the most vulnerable sectors (such as monetary transfers or utilities subsidies) is one of the main reasons for this result. Furthermore, the continuity in public investment works and the drop in income caused by lower tax revenues, end up explaining the greater deficit. For 2021 we expect a fiscal deficit at around -6.4%.

- WHAT'S COMING NEXT?**
- Austerity is to return in 2021, as the government is willing to bring the deficit back to the ceiling set in the fiscal responsibility law by 2024.
  - The government advances in the acquisition of vaccines to prevent COVID-19 and it will be available in the first semester of 2021. In a first stage, the aim is to vaccinate 30% of the population.



# APPENDIX

## Dashboard

|                               | Dec-20 | Nov-20 | Oct-20 | Sep-20 | 2019  |
|-------------------------------|--------|--------|--------|--------|-------|
| Exchange rate (PYG/USD, eop.) | 6,805  | 7,041  | 7,028  | 6,990  | 6,464 |
| Interest rate (%)             | 0.75%  | 0.75%  | 0.75%  | 0.75%  | 4.00% |
| Inflation (y/y)               | -      | 2.2%   | 1.7%   | 1.6%   | 2.8%  |
| Economic activity (y/y)       | -      | -      | -0.7%  | -2.2%  | 0.0%  |

Source: EconViews based on several sources

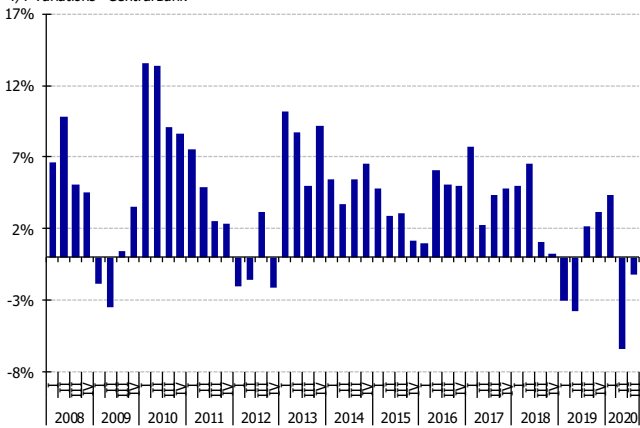
## Macroeconomic Outlook

|                                 | 2017  | 2018  | 2019  | 2020F | 2021F |
|---------------------------------|-------|-------|-------|-------|-------|
| GDP growth (%)                  | 5.0%  | 3.4%  | 0.2%  | -2.5% | 3.7%  |
| Inflation (Dec-Dec)             | 4.5%  | 3.2%  | 2.8%  | 1.7%  | 2.6%  |
| Fiscal Balance (NFPS - % GDP)   | -1.1% | -1.3% | -2.8% | -6.4% | -4.5% |
| Current Account (% GDP)         | 3.1%  | -0.2% | -1.0% | 0.4%  | 0.3%  |
| International reserves (USD Bn) | 8.1   | 8.0   | 7.7   | 8.4   | 8.8   |
| Exchange rate (PYG/USD)         | 5,602 | 5,974 | 6,464 | 6,805 | 7,091 |

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

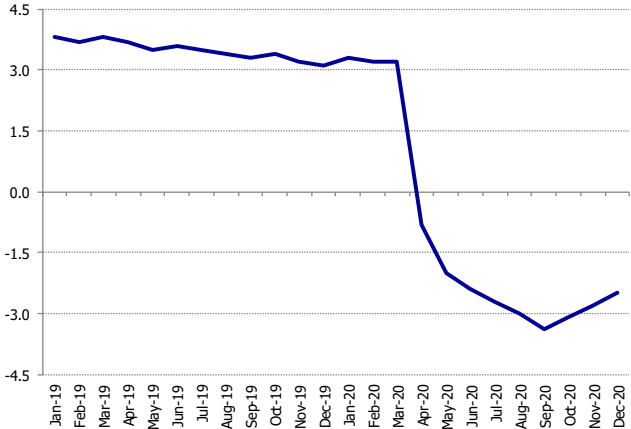
### Real GDP

Y/Y variations - Central Bank



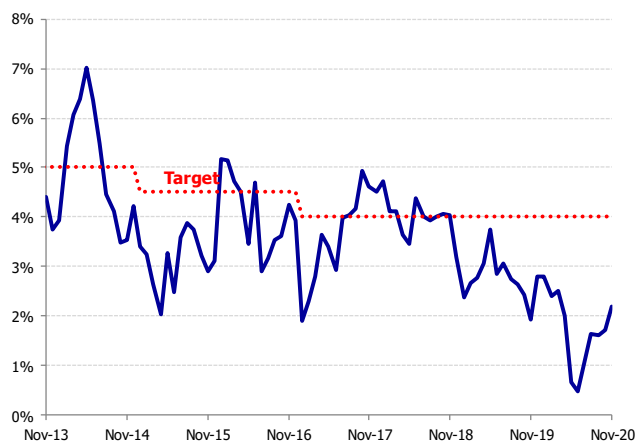
### GDP growth - rolling forecasts for 2020

In %

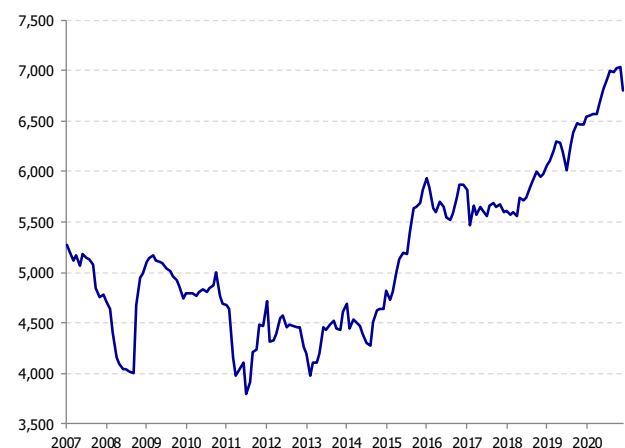


### Inflation - General CPI

Annual changes



### Paraguayan Guarani / Dollar



| Good news  | To be alert  | Bad news  |
|--|--|---|
| After plunging in March, the price of copper recovered to 3.57 USD per pound, its highest level since 2013. The metal represented 30% of Peru's exports in 2019. | Four months from the elections, no candidate polls above 20% and a fifth of voters could cast blank ballots according to Ipsos, raising chances of a surprise. | Fitch Ratings revised Peru's outlook from Stable to Negative due to its enlarged fiscal deficit and political turmoil; the country's debt maintains a BBB+ grade. |

**POLITICS**

The country underwent a chaotic November: after Congress impeached President Vizcarra, widespread protests forced his appointed successor, Mr. Merino, to resign only five days into office. Centrist Francisco Sagasti, a conciliatory figure, was sworn in his place and is tasked with leading the country peacefully to the April 2021 presidential elections. Primaries concluded in early December. Amidst a loaded political climate and ongoing corruption scandals, there are still no clear frontrunners. Peru ranks among the countries worst hit by the pandemic, but daily cases have dropped in the last months and the Ministry of Health plans to begin vaccinating in Q1-2021.

**ECONOMIC ACTIVITY**

The economy rebounded 29.9% q/q in Q3-2020 after recording a 26.8% collapse the previous quarter. However, in Q3 activity remained 9.4% below levels from the same period of 2019. Gross fixed investment, which fared the worst in Q2, recovered 117.8% in the third quarter and now stands 10.2% under last year's marks. Government consumption was the only item to grow in y/y terms, with a 3.5% rise, while private consumption is still 9.3% down. By sector, construction (128.8%), retail (68.4%) and oil, gas & mining (36.3%) had strong q/q comebacks, while agriculture shrunk by 4.4%. GDP's expected fall in 2020 was revised from 12.6% to 12.2%, but will still be one of the region's worst.

**INFLATION**

Monthly inflation in the Lima Metropolitan Area reached 0.52% in November, its highest mark since March, pushed by a 2.8% rise in residential electricity tariffs. Water and propane gas bills also rose 1.1% and 0.7%, respectively. Seasonal factors and an agricultural workers' strike reduced the supply of fruits and vegetables, causing a 0.9% spike in food prices. The cost of medicine and healthcare increased by 0.25%. Annual inflation was 2.14%, breaching the Central Bank's 2% target for the first time in 15 months. The market consensus is that 2020 will close with a yearly variation near 1.8%. In 2021, annual inflation is expected to accelerate to 2%, in line with the rebound in activity.

**MONETARY SECTOR**

The political crisis in mid-November sunk the Peruvian Sol to a historical minimum of 3.67 per US Dollar. The currency recovered slightly in the last weeks and now trades at 3.61, although it has depreciated 9% YTD. The market remains confident of slight appreciation in the next years. Expecting internal demand to remain weak despite recovery, the Central Bank kept the interest rate at the 0.25% mark which renders it negative in real terms since March. The BCRP has also responded to the pandemic shock with liquidity injections totaling 65.1 billion PEN, spurring credit to the private sector to grow 13.1% y/y in October. This expansive monetary policy is set to remain throughout 2021.

**FISCAL ACCOUNTS**

As of October, Peru's response package to the Covid crisis added up to nearly 20% of GDP. As part of the "Arranca Peru" reactivation program, public works are gearing up, while 8.4 million families were reached by a second 760 PEN emergency income during Q4-2020. Due to these measures, along with tax rebates, assistance to businesses and the fall in revenues (still 19.5% down in real terms during Q3), authorities expect a fiscal deficit around 10.7% of GDP in 2020 (the market estimate is at 9.5%), which should compact to 6.2% next year. The 2021 budget contemplates the emission of around 30 billion PEN in sovereign debt to finance new expenditures. Current debt-to-GDP levels sit at 32.2%.

**WHAT'S COMING NEXT?**

- The Peruvian Treasury expects to release an Exchange Trust Fund of its sovereign debt in the local market by early 2021. The project, undertaken with the World Bank's supervision, was initially planned for 2020 but postponed due to the pandemic.
- The economy is expected to undergo an important recovery next year with GDP growing 9.4%, although it will take until 2022 to recover 2019's levels of activity.



# APPENDIX

## Dashboard

|                               | Dec-20 | Nov-20 | Oct-20 | Sep-20 | 2019  |
|-------------------------------|--------|--------|--------|--------|-------|
| Exchange rate (PEN/USD, eop.) | 3.61   | 3.61   | 3.62   | 3.61   | 3.32  |
| Interest rate (%)             | 0.25%  | 0.25%  | 0.25%  | 0.25%  | 2.25% |
| Inflation (y/y)               | -      | 2.1%   | 1.7%   | 1.8%   | 1.9%  |
| Economic activity (y/y)       | -      | -      | -      | -6.9%  | 2.2%  |
| Manufacturing activity (y/y)  | -      | -      | -      | -6.3%  | -1.7% |
| Mining production (y/y)       | -      | -      | -      | -12.2% | 0.0%  |

Source: EconViews based on several sources

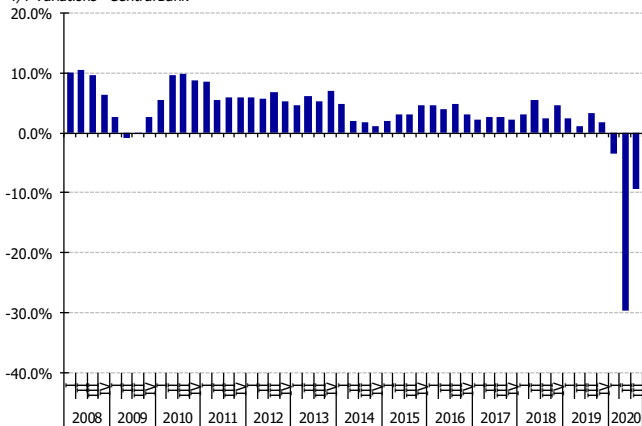
## Macroeconomic Outlook

|                                 | 2017  | 2018  | 2019  | 2020F  | 2021F |
|---------------------------------|-------|-------|-------|--------|-------|
| GDP growth (%)                  | 2.5%  | 4.0%  | 2.2%  | -12.2% | 9.4%  |
| Inflation (Dec-Dec)             | 1.4%  | 2.2%  | 1.9%  | 1.8%   | 2.0%  |
| Fiscal Balance (% GDP)          | -3.0% | -2.3% | -1.6% | -9.5%  | -6.0% |
| Current Account (% GDP)         | -1.3% | -1.7% | -1.5% | -0.7%  | -1.3% |
| International reserves (USD Bn) | 61.4  | 57.9  | 64.9  | 71.4   | 73.7  |
| Exchange rate (PEN/USD)         | 3.24  | 3.37  | 3.32  | 3.60   | 3.49  |

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

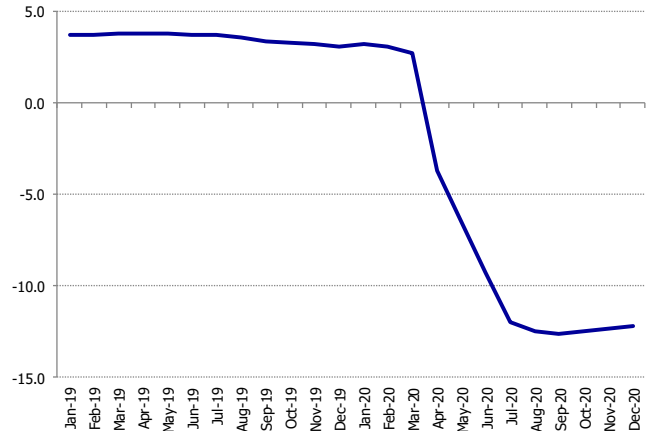
### Real GDP

Y/Y variations - Central Bank



### GDP growth - rolling forecasts for 2020

In %



### Inflation - General CPI

Annual changes



### Peruvian Sol / Dollar





# URUGUAY

| Good news   | To be alert  | Bad news   |
|---|--|--|
| The IADB approved a loan of USD 100 million to counter Covid-19 and the drought | Unemployment stands at historic highs and could pose a risk to the economic recovery | Covid-19 cases have seen a marked increase in the last weeks, leading to widespread restrictions |

**POLITICS**

After Covid-19 cases started to rise sharply since mid-November, the Government has put in place a number of restrictions that will severely restrict mobility. They started in early December with the banning of tourism and the limitation of opening hours of bars and restaurants and the cancellation of cultural events and have now extended to the limitation of the right of assembly for up to 60 days. The measures were met with frustration by Argentinian residents who own properties in the country and will not be allowed in.

**ECONOMIC ACTIVITY**

Economic activity plunged 12.5% y/y and 10.4% q/q s.a. in the second quarter but saw a rebound of 7.8% q/q in Q3-2020 as mobility restrictions were eased, leading to a reduction of the y/y fall to -5.9%. The rebound was led by investment, which managed to grow 13.3% y/y, being the only component on the expenditure side that posted y/y growth. On another note, unemployment reached the highest level in more than 14 years (11.0%) in September. We project a contraction of GDP of 4.4% this year, followed by a rebound of 4.0% in 2021 but risks loom as Covid-19 cases are quickly rising.

**INFLATION**

Consumer prices grew 0.28% monthly in November, a smaller increase than was posted in October (0.58%). As a result, year-on-year inflation stood at 9.6% last month, the smallest figure since last March. The reduction of house prices as moderating increases in utilities led to the reduction. Despite this, inflation still stands above the upper bound of the Central Bank's 3-7% target range. We estimate that inflation will end the year at 9.2% and maintain our forecast for 2021 at 7.3%, since the economic recovery should also be met with a more austere fiscal policy.

**MONETARY SECTOR**

The Uruguay peso has gained some ground as investors have turned to emerging markets in search for higher yields, but the appreciation has been much smaller than in other Latin American countries. As of December 21<sup>st</sup>, the UYU stood at 42.16 per US dollar, implying an appreciation of 2.1% since the end of October. Despite this, the peso is expected to lose some ground due to weak economic activity and relatively high inflation. In its last meeting in early November, the Central Bank decided to keep the 4.5% target interest rate set in September, thus maintaining an accommodative stance on monetary policy.

**FISCAL ACCOUNTS**

Fiscal accounts eroded due to the pandemic but have seen a mild improvement in the last months. In the 12 months up to October the fiscal balance of the Non-Monetary Public Sector resulted in 5.4% of GDP, while in July that figure was 5.9%. Accumulated revenues amounted to 30.6% of GDP (0.2 p.p. less than the previous month) while primary expenditures totaled 32.6% (0.3 p.p. less than September). The Government estimates that the Solidary Fund for Covid-9 had an impact 0.9% of GDP in the last 12 months. The right-leaning government has said it would turn more austere in 2021, but the latest restrictions could put further pressure on already weakened accounts.

**WHAT'S COMING NEXT?**

- Coronavirus cases continue to increase and could lead to an extension of restrictions.
- The limitation of the right to assembly could erode the President's broad support, as Uruguay maintained a soft stance to face the pandemic in the previous months.





# APPENDIX

## Dashboard

|                               | Dec-20 | Nov-20 | Oct-20 | Sep-20 | 2019  |
|-------------------------------|--------|--------|--------|--------|-------|
| Exchange rate (UYU/USD, eop.) | 42.23  | 42.66  | 43.04  | 42.57  | 37.34 |
| Interest rate (%)             | -      | -      | 4.21%  | 4.33%  | 6.53% |
| Inflation (y/y)               | -      | 9.6%   | 9.7%   | 9.9%   | 8.8%  |
| Manufacturing activity (y/y)  | -      | -      | 4.8%   | -1.9%  | -1.5% |

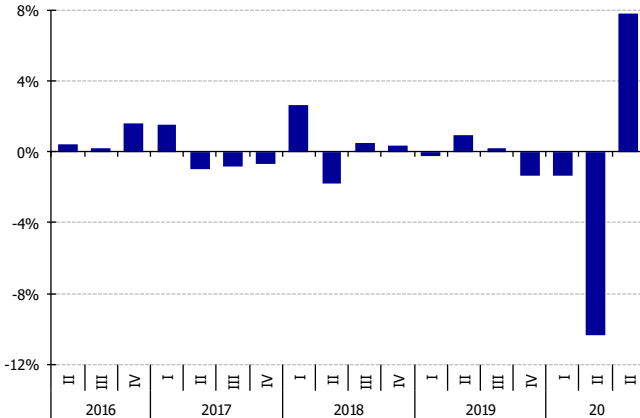
Source: EconViews based on several sources

## Macroeconomic Outlook

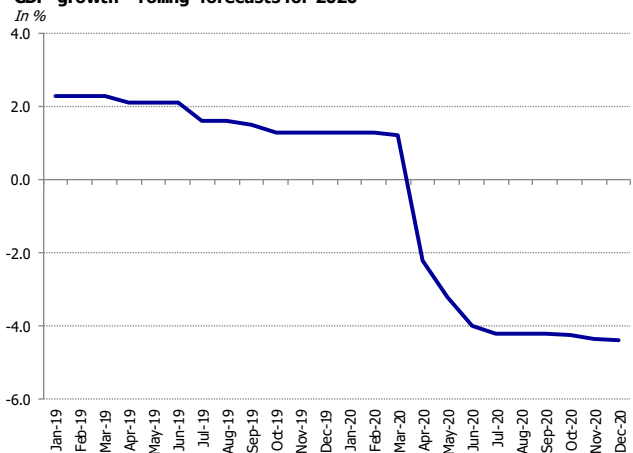
|                                 | 2017  | 2018  | 2019  | 2020F | 2021F |
|---------------------------------|-------|-------|-------|-------|-------|
| GDP growth (%)                  | 2.6%  | 1.6%  | 0.2%  | -4.4% | 4.0%  |
| Inflation (Dec-Dec)             | 6.6%  | 8.0%  | 8.8%  | 9.2%  | 7.3%  |
| Fiscal Balance (% GDP)          | -3.5% | -2.9% | -3.5% | -6.6% | -4.1% |
| Current Account (% GDP)         | 0.7%  | -0.1% | 1.3%  | -0.3% | -1.1% |
| International reserves (USD Bn) | 16.0  | 15.6  | 14.5  | 15.8  | 16.1  |
| Exchange rate (UYU/USD)         | 28.85 | 32.45 | 37.34 | 42.30 | 45.40 |

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

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



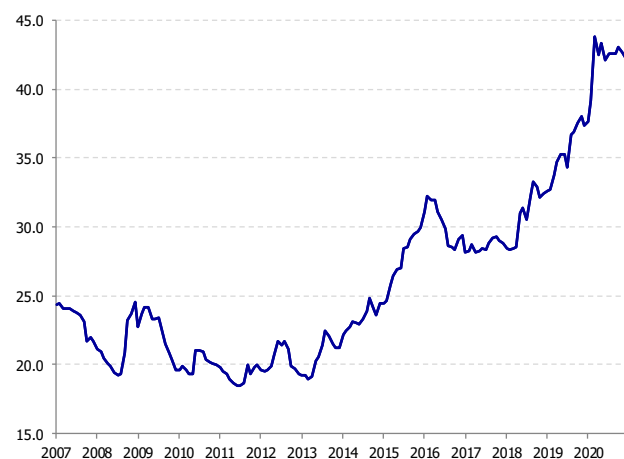
**GDP growth - rolling forecasts for 2020**











**Inflation - General CPI**  
Annual changes



**Uruguayan Peso / Dollar**



|   | GDP    |      | Inflation |       |
|---|--------|------|-----------|-------|
|   | 2020   | 2021 | 2020      | 2021  |
|    | -10.7% | 6.0% | 36.0%     | 57.0% |
|    | -4.6%  | 3.4% | 3.9%      | 3.6%  |
|    | -5.9%  | 5.1% | 2.8%      | 3.0%  |
|    | -7.1%  | 5.1% | 1.6%      | 2.9%  |
|    | -9.0%  | 3.9% | 3.5%      | 3.5%  |
|    | -2.5%  | 3.7% | 1.7%      | 2.6%  |
|  | -12.2% | 9.4% | 1.8%      | 2.0%  |
|  | -4.4%  | 4.0% | 9.2%      | 7.3%  |

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