

LATAM 7 + Argentina

MACRO BRIEF

ECONVIEWS
ECONOMÍA Y FINANZAS

December, 2021



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ARGENTINA

Good news	To be alert	Bad news
Unemployment fell to 8.2% in the third quarter, which is 3.5 p.p. and 1.4 p.p. less than 3Q-2020 and 2Q-2021 respectively.	Net international reserves are very low and will drop even more with the upcoming interest and capital payments.	Although more than 70% of population is fully vaccinated, daily Covid cases have been growing significantly during last weeks.

POLITICS

After the defeat of the ruling party coalition in the mid-term elections, there is now a more balanced Congress in terms of political power. This fact was confirmed last week when the Peronism could not approve the Budget Law. The end of the election campaign also triggered an acceleration in negotiations with the IMF. During first days of December, a team of the BCRA and the Ministry of Economy met with IMF authorities in Washington to start defining the key aspects of a program. But despite this and previous meetings, there is still a long way before finally reaching an agreement.

ECONOMIC ACTIVITY

In the third quarter of the year, GDP grew 11.9% y/y and 4.1% compared with the previous quarter. The most dynamic sectors during that period were "social services" (cinemas, theatres, cultural and sport venues) and hotels and restaurants, both highly affected by the lockdowns. Construction and Industry also had good performances. A slight recovery of real wages combined with the reopening were key factors of the activity rebound. For 2021 we expect a GDP growth of 10%. Next year the economy will moderate its path expanding 3% despite the strong statistical carryover, as there will likely be some adjustments under the program with the IMF.

INFLATION

November brought some oxygen with a monthly increase of 2.5% in headline inflation, after the 3.5% of September and October. However, there is nothing to celebrate with this figure as the deceleration in the general level responded to the lower incidence of regulated and seasonal prices. On this point, the freezing of roughly 1,400 prices imposed by the Secretary of Commerce was decisive. Interannual inflation stands above 50% despite all heterodox methods carried out by the government and our forecast is that it will end the year at 50.4%. In 2022 it would be even higher (58%) as there will be needed corrections on the exchange rate and utility rates.

MONETARY SECTOR

After buying USD 207 million in October, the Central Bank sold USD 897 million in November and USD 361 million so far in December. Alerted by the scarcity of reserves, the CB stopped intervening in the bonds market to control the Blue Chip Swap and also accelerated the crawling peg, although it still continues depreciating the exchange rate well below inflation. During the last days there have been talks about an interest rate increase, something that was asked by the IMF. Monetary assistance to the Treasury will be one of the most expansionary factors of the monetary base this year (only surpassed by interest payments) with accumulated transfers throughout the year for more than ARS 1,000 billion.

FISCAL ACCOUNTS

Up to November the primary deficit was 2.1% of GDP while fiscal deficit reached 3.7% excluding SDRs, helped by the extraordinary revenues given by the export duties and the tax on large fortunes, but also the faster-than-expected economic rebound. With these numbers we expect primary deficit ending the year at about 3.2%, which is exactly the half of last year's print. Moving ahead to next year, the program with the IMF would require some adjustments in public spending (economic subsidies will probably be the most affected) to reduce the fiscal deficit. We expect a primary deficit of 2.5% of GDP for 2022.

WHAT'S COMING NEXT?

- March 2021 will be the deadline to reach an agreement with the IMF so the government's efforts will be focused on that.
- The agreement with the IMF will be necessary to restore confidence and clarify next year's economic path.



APPENDIX

Dashboard

	Dec-21	Nov-21	Oct-21	Sep-21	2020
Exchange rate (ARS/USD, eop.)	102.12	100.93	99.62	98.73	84.15
Interest rate (%)	38.00%	38.00%	38.00%	38.00%	38.00%
National inflation (y/y)	-	51.18%	52.11%	50.20%	36.14%
Economic activity (y/y)	-	-	-	11.6%	-9.9%
Industrial activity (y/y)	-	-	4.3%	10.0%	-7.6%
Automotive production (y/y)	-	42.7%	42.8%	35.4%	-18.5%

Source: EconViews based on several sources

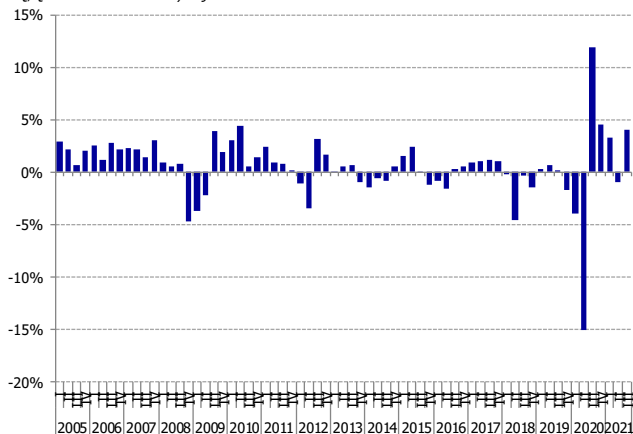
Macroeconomic Outlook

	2018	2019	2020	2021F	2022F
GDP growth (%)	-2.6%	-2.1%	-9.9%	10.0%	3.0%
National inflation (Dec-Dec)	47.6%	53.8%	36.1%	50.4%	58.0%
Fiscal Balance (% GDP)	-5.0%	-3.8%	-8.5%	-4.7%	-4.0%
Current Account (% GDP)	-5.2%	-0.8%	0.9%	0.6%	0.7%
International reserves (USD Bn)	65.8	44.8	39.4	40.6	46.6
Exchange rate (ARS/USD)	37.81	59.90	84.15	104.75	178.11

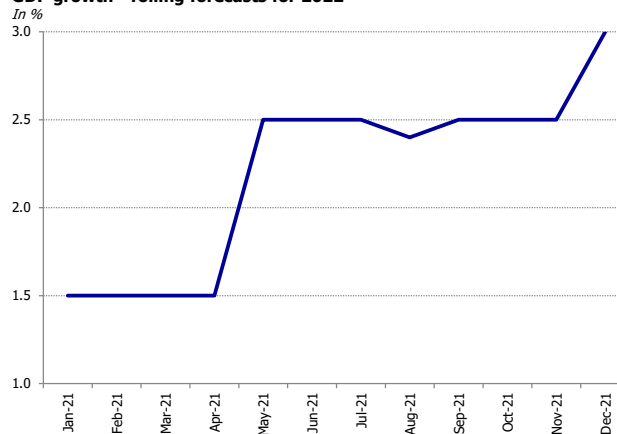
Source: EconViews based on official figures and own estimates

Real GDP

Q/Q variations - Seasonally adjusted data INDEC



GDP growth - rolling forecasts for 2022



Inflation - General CPI

Annual changes



Argentinean Peso / Dollar





BRAZIL

Good news	To be alert	Bad news
The fiscal numbers surprised on the upside and Brazil will enjoy a primary surplus for the first time since 2013.	Some areas of Brazil continue to be very dry, impacting on crops and electricity generation. Crops could be partially offset with better yields in other areas, but forecasts are not encouraging.	Brazil has submerged into recession in Q3 and the prospect is that activity remains weak throughout 2022 with election uncertainty.

POLITICS

The alliance between Lula and former governor of Sao Paulo Geraldo Alckmin is the highlight of these days. Former rivals are now partnering with the view of beating president Bolsonaro. By approaching Alckmin, Lula kills two birds with one stone. Not only does he broaden his outreach but also provides a signal of moving away from the left. Still Lula has not confirmed he would run for president, although most bet that he would go for a third term in office. Bolsonaro has joined the Liberal party (a requirement to run for president) and some argue that this may mean a move towards the center.

ECONOMIC ACTIVITY

After a year where economic growth is expected to end at around 4.5%, the outlook looks much less promising. The Central Bank has forecast 1% growth in its last inflation report, the market is at just 0.5% with a few distinguished members such as the largest bank already in negative territory. Given that forecasts in Brazil tend to disappoint (until three months ago growth was north of 5% this year), it is not unthinkable that the recently declared recession drags on in 2022. Drought is a problem in some states for agriculture, it also makes electricity more expensive and then there is electoral noise.

INFLATION

Inflation has been running above 10% for a few months now, but November came with a positive surprise of just 0.95% monthly, 30 bps below October's tally and 14 bps below market expectations. The market expects to finish the year with a slight slowdown in inflation to close at 10% to move back to 5% by the end of 2022. Global inflation and a weaker currency have been some of the culprits as well as regulated prices (+19.2% y/y). Food prices, which stood at over 14% by September have since slowed down to less than 10%.

MONETARY SECTOR

The Central Bank has been raising interest rates since March. It increased from 2% to 9.25%. The market expects the SELIC to reach 11.5% in 2022 and then revert to 8% in 2023 and 7% in 2024. Brazil has a long-standing tradition of positive real interest rates. This year it could not achieve that, but it is very likely to move back to its tradition. Changes of guard in the administration would not threaten the policy. Lula has a track-record of appointing orthodox central bankers. The exchange rate is likely to remain weak, as uncertainty regarding the forthcoming elections dominates the scene.

FISCAL ACCOUNTS

The government is expected to post a primary surplus of around BRL 38 billion, the first surplus since 2013. This compares with a Covid-led primary deficit of BRL 700 billion. However, the deficit is bound to return in 2022. In 2021 the big surprise came from tax revenues, which will end nearly at 18% of GDP while in the 2014-18 they were 0.5 points less. Covid-related spending was less than expected. Additionally, subnational governments ran a much higher surplus than expected configuring a solid fiscal stance for 2021.

WHAT'S COMING NEXT?

- Analysts in Brazil expect an important increase in public investment in 2022, especially in states and municipalities. Two factors converge: they ran surpluses of around USD 100 billion in 2021 and the election year. This could yield an increase in 0.5% of GDP. Their cash position is well over USD 24 billion. Since 2002, every four years we see an increase in government investments, coinciding with presidential election years.



APPENDIX

Dashboard

	Dec-21	Nov-21	Oct-21	Sep-21	2020
Exchange rate (BRL/USD, eop.)	5.75	5.62	5.64	5.44	5.19
SELIC (%)	9.25%	7.75%	7.75%	6.25%	2.00%
Inflation (y/y)	-	10.7%	10.7%	10.3%	4.5%
Economic activity (y/y)	-	-	-1.5%	0.7%	-4.1%
Industrial activity (y/y)	-	-	-7.8%	-4.1%	-4.5%
Automotive production (y/y)	-	-	-14.6%	-8.3%	-27.9%

Source: EconViews based on several sources

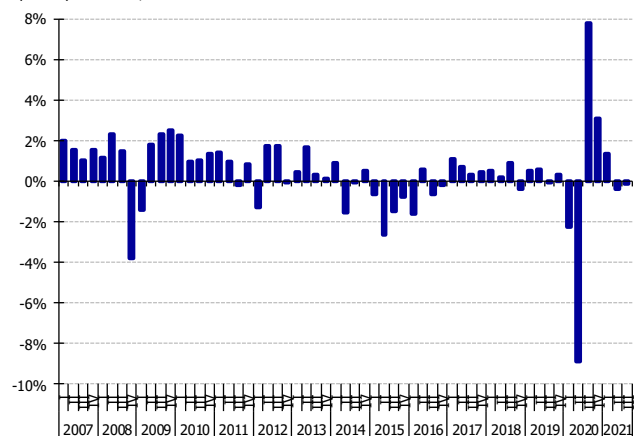
Macroeconomic Outlook

	2018	2019	2020	2021F	2022F
GDP growth (%)	1.8%	1.4%	-4.1%	4.5%	0.5%
Inflation (Dec-Dec)	3.7%	4.3%	4.5%	9.9%	5.0%
Fiscal Balance (% GDP)	-7.0%	-5.8%	-13.6%	-5.5%	-7.2%
Current Account (% GDP)	-2.7%	-3.5%	-1.7%	-0.8%	-1.3%
International reserves (USD Bn)	365.5	346.5	342.7	358.6	358.7
Exchange rate (BRL/USD)	3.88	4.02	5.19	5.70	5.60

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

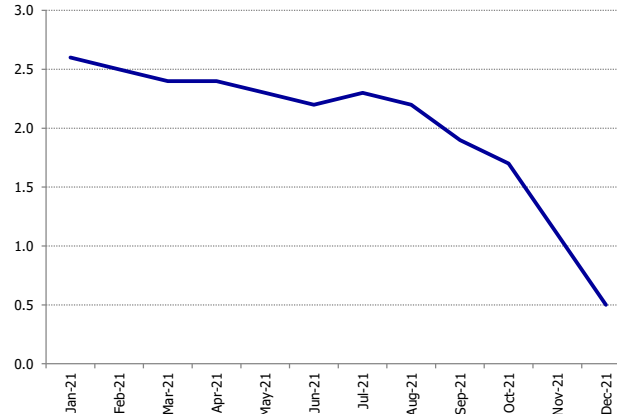
Real GDP

quarterly variations, in %



GDP growth - rolling forecasts for 2022

In %



Inflation (IPCA)

Annual changes



Brazilian Real / Dollar





CHILE

Good news	To be alert	Bad news
Chile ranks first in the region with the share of people who have received a booster shot, and comes only second in the world	Inflation persists and further rate hikes could erode GDP growth in 2022	Markets reacted negatively to the election results and political uncertainty cloud tue outlook

POLITICS

Gabriel Boric has been elected as the new president of Chile after a second run-off last weekend, in which the leftist candidate defeated the right-wing candidate Antonio Kast with 55.9% of votes vs 44.1%. Markets reacted negatively to the news, with the stock market falling 6.3% the day after the elections and the FX rate rising from 842 to 870 CLP per USD. The incoming president has bowed to raise taxes, eliminate private pensions and has opposed mining activities. But very radical reforms are rather unlikely as the winning party does not hold the majority in a split Congress and will need to build consensus.

ECONOMIC ACTIVITY

Economic activity posted a strong growth in the third quarter, fueled by a combination of fiscal stimulus, the lifting of Covid-related restrictions and the pensions withdrawals. GDP registered a growth of 17.2% Y/y and 4.9% q/q, seasonally adjusted. On the demand side, private consumption stood out, with an impressive jump of 11.1% Q/q s.a. after growing 2.7% in the second quarter. Fixed investment was also firm, with a 12.0% growth Q/q, led by the machinery and equipment division, while exports disappointed with a drop of 2.4%. GDP growth should moderate in the last quarter as the effect of the fewer restrictions eases, and we expect it to close the year at 11.5% and at 2.6% in 2022.

INFLATION

Inflation continues to reach new highs in y/y terms: November's reading was 6.7%, the highest value since the crisis of 2008, but on a monthly comparison it moderated to 0.5% after registering a 1.34% variation in October. In the yearly comparison, the items that were most affected by the pandemic continue to post higher-than-average readings, with transport, recreation and hotels & restaurants among them. The Central Bank has acknowledged that consumption growth explains 50% of observed inflation between the 3rd and 4th quarter, with the peso depreciation coming in second place (20%).

MONETARY SECTOR

With inflation over double its 3% target, Chile's Central Bank has adopted a hawkish stance and hiked the monetary policy rate to 4.0% from 0.5% at the beginning of the year. It also recognized that local inflation is mainly due to domestic factors, in particular consumption growth, rather than "imported inflation"; given this, the CB estimates that it will continue to increase the rate in the short term and take it above its nominal neutral level through most of the monetary policy horizon, as risks for convergence of inflation to its target have increased in recent months.

FISCAL ACCOUNTS

A rise in copper prices alleviated fiscal accounts in October: revenues of the Central Government rose 56.3%, fuelled by a 923.3% increase in copper royalties. Expenditures moderated their y/y growth to 31.5% from an average of 43.5% during the previous quarter. But risks for fiscal consolidation loom ahead. The Government has presented a bill for a Universal Guaranteed Pension for all people 65 and older who are not in the top 10% of income distribution. The new administration, on the other hand, will most likely increase both taxes and expenditures, but it is not yet clear on what scale. We expect the fiscal deficit of the General Government to end 2021 at 8.1% of GDP.

WHAT'S COMING NEXT?

- On January 6th will finish the 60-day period for the reception of popular initiatives to be later discussed by the Convention. The first proposal, in mid-November, seeks to include the right to decent housing in the Constitution.
- Legislative gridlock seems likely during 2022 as the Congress is split between extremely opposing views, which could complicate governability but also reduce investors' worries over a sharp turn to the left.



APPENDIX

Dashboard

	Dec-21	Nov-21	Oct-21	Sep-21	2020
Exchange rate (CLP/USD, eop.)	870.43	826.70	813.20	810.53	711.25
Interest rate (%)	4.00%	2.75%	2.75%	1.50%	0.50%
Inflation (y/y)	-	6.7%	6.0%	5.3%	3.0%
Economic activity (y/y)	-	-	15.0%	14.8%	-5.8%
Industrial activity (y/y)	-	-	1.3%	-0.5%	-0.9%
Mining production (y/y)	-	-	0.3%	-7.3%	0.5%

Source: EconViews based on several sources

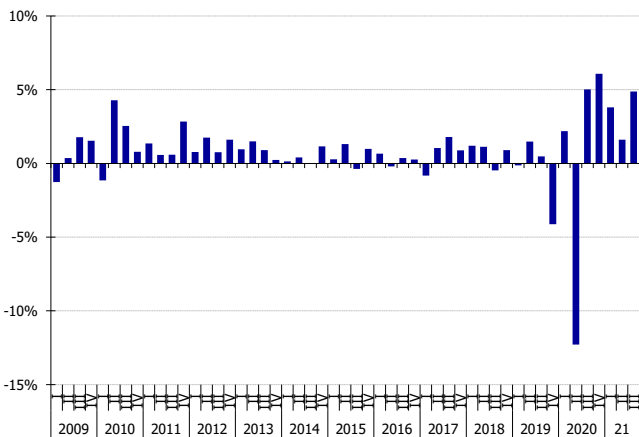
Macroeconomic Outlook

	2018	2019	2020	2021F	2022F
GDP growth (%)	3.7%	0.9%	-5.8%	11.5%	2.6%
Inflation (Dec-Dec)	2.6%	3.0%	3.0%	6.6%	4.4%
Fiscal Balance (% GDP)	-1.5%	-2.7%	-7.1%	-8.1%	-4.3%
Current Account (% GDP)	-3.9%	-3.8%	1.3%	-3.1%	-2.5%
International reserves (USD Bn)	39.9	40.7	29.2	51.2	53.1
Exchange rate (CLP/USD)	694.0	752.0	711.2	870.0	800.0

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

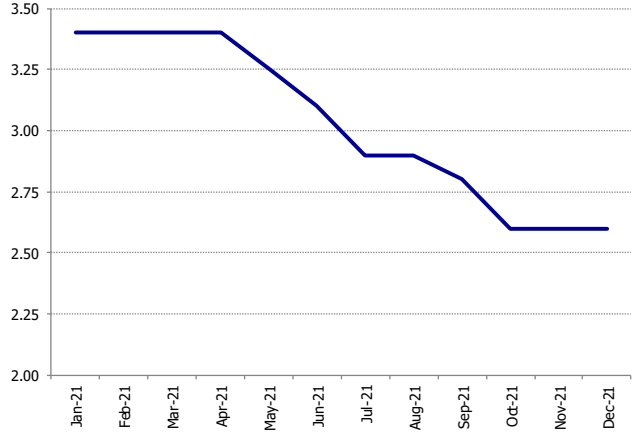
Real GDP

Q/Q variations



GDP growth - rolling forecasts for 2022

In %



Inflation - General CPI

Annual changes



Chilean Peso / Dollar





COLOMBIA

Good news	To be alert	Bad news
The Economist ranked Colombia first in its Global Normality Indicator, as one of the countries with the best economic recovery after Covid-19.	Inflation keeps on rising and expectations that it will go down could be affected.	The three first cases of the Omicron variant were detected in the country this week.

POLITICS

President Iván Duque signed the decree that formalizes the 10.7% increase to the minimum wage for 2022. The current increase is the highest in the last 50 years in real terms; the value was discussed and agreed between the permanent commission for the Agreement on Wage and Labor Policies and received the support of the production syndicates. Last week, possible candidates have presented signatures to enter the race for the presidential election that is to take place in May 2022. It will define Duque's successor and the next president of the country for the period of 2022-2026.

ECONOMIC ACTIVITY

Despite significant negative shocks in the second quarter, such as the third wave of the coronavirus and the disruptions to public order, economic growth in the first half of the year was significantly higher than projected (9.1% vs 7.1%), a sign of a more dynamic economy that could recover more quickly than previously forecasted. The better-than-expected recovery in international demand, export commodity prices, and remittances from workers abroad determined that the economy could return to 2019 production levels by late 2021, that is earlier than previously estimated. We expect GDP to grow 9.3% this year and 4.2% in 2022.

INFLATION

In November monthly inflation was 0.47%, resulting in a YoY inflation of 5.26%, moving further away from the Central Bank's target range of 2.0%-4.0% per annum. In line with this variation in inflation, the economic authorities were led to revise upwardly their forecast, but still expect it to go down within range next year. But the recent announcement of the salary increases will add pressure to prices. Still, we expect 2021 to close with a yearly inflation of 5.1% and 3.8% for the end of 2022.

MONETARY SECTOR

The Colombian Central Bank raised the benchmark interest rate for the third time in a row by 50 basis points, taking it from 2.50% to 3%, in line with the forecast established by the consensus of analysts. The decision was based on certain considerations that result from a context of economic growth, inflation higher than the CB's target of 3% YoY and a current account deficit bigger than 5% of GDP. Hikes are expected to continue in 2022, and the rate is expected to reach 4.5% or more by the end of next year. During 2021, the Colombian peso has been positioned as one of the most devaluated coins of the region with depreciation of over 13%.

FISCAL ACCOUNTS

The Ministry of Economy lowered the expectations of the fiscal deficit target for this year to thanks to strong domestic demand and higher than expected economic growth that positively impacted tax revenues. We expect the year to close with a deficit of 8.0% but could be lower thanks to the windfall of stronger activity growth and higher oil prices. Fiscal consolidation remains challenging as deep spending cuts seem unlikely, but the next administration will be forced to end the temporary cash transfers. We expect that fiscal deficit could lower to 6.7% next year.

WHAT'S COMING NEXT?

- People over 18 years have just been allowed to be vaccinated with a third Covid vaccine dose, as the vaccination campaign expands
- On January 19th the voting registration authority will define if pre-candidates meet the criteria to become the official contenders in the upcoming presidential elections



APPENDIX

Dashboard

	Dec-21	Nov-21	Oct-21	Sep-21	2020
Exchange rate (COP/USD, eop.)	3,995	3,992	3,758	3,805	3,430
Interest rate (%)	2.5%	2.5%	2.0%	1.7%	1.7%
Inflation (y/y)	-	5.3%	4.6%	4.5%	1.6%
Economic activity (y/y)	-	-	9.3%	12.9%	-6.8%
Industrial activity (y/y)	-	-	10.1%	15.5%	-7.9%

Source: EconViews based on several sources

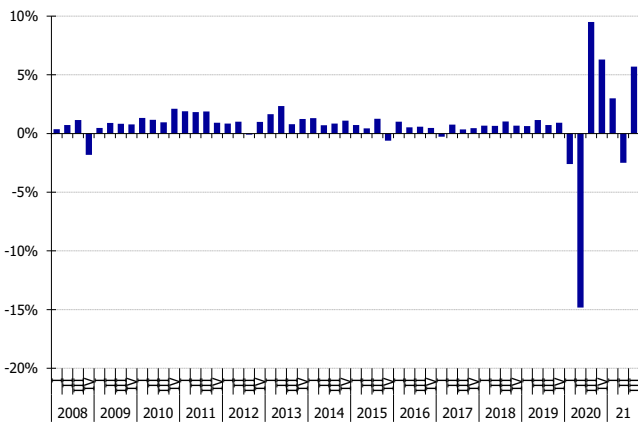
Macroeconomic Outlook

	2018	2019	2020	2021F	2022F
GDP growth (%)	2.6%	3.3%	-6.8%	9.3%	4.2%
Inflation (Dec-Dec)	3.2%	3.8%	1.6%	5.1%	3.8%
Fiscal Balance (% GDP)	-3.1%	-2.5%	-7.8%	-8.0%	-6.4%
Current Account (% GDP)	-4.2%	-4.6%	-3.5%	-5.1%	-4.4%
International reserves (USD Bn)	46.1	50.5	56.6	58.3	59.4
Exchange rate (COP/USD)	3,250	3,287	3,430	3,950	3,800

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

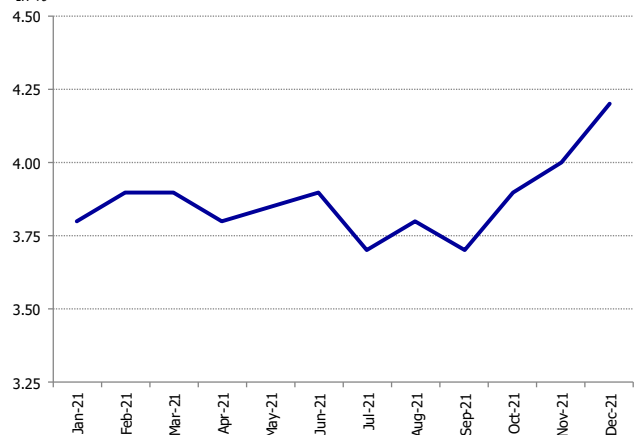
Real GDP

Q/Q variations - DANE



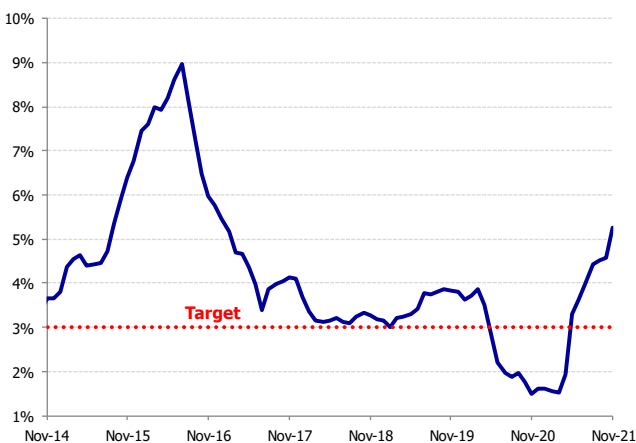
GDP growth - rolling forecasts for 2022

In %



Inflation - General CPI

Annual changes



Colombian Peso / Dollar



Good news	To be alert	Bad news
Mexico is among the five biggest markets for tech stars and growing	Mexico's amended outsourcing rules will have a significant impact on companies that hire subcontractors	Mexico's economy contracted and inflation runs at its highest level in two decades: that is stagflation

POLITICS

President AMLO wants to self-submit to a revocatory referendum process to confirm that he continues to have the people's respect. With the mid-term elections to be held in 2022, this show of power seeks to shape itself as a political leader with broad support. In the middle of the referendum process, the body in charge of carrying it out (INE) began to receive political pressure that shows how difficult it will be to carry out the electoral process during 2022. Meanwhile, the opposition will run in coalition in four of the six states that will elect governor in the next year.

ECONOMIC ACTIVITY

Mexico's economy contracted 0.4% quarterly in the July – September period. And even though we can expect a little rebound in the fourth quarter after both October and November growth figures were positive (1.6% and 1.2% monthly growth, respectively), it is a fact that the recovery from the impact of the coronavirus pandemic loses pace. The Bank of Mexico lowered its forecast for economic growth in 2021 to 5.4% from 6.2%. The services sector was a major contributor to the downward revision to the preliminary third-quarter data (it shrank 0.9%), while the slower-than-expected industrial production, reflected the ongoing supply-chain issues, that also contributed to the poor economic performance.

INFLATION

Inflation accelerated faster than expected in November, to 7.37% y/y while the core rate of inflation reached 5.67% y/y, both the highest level since early 2001. The CB's forecast for headline and core inflation for the end of the year now is 7.1% and 5.6%, 1 and 0.3 p.p. above the September projection, respectively. Banxico established that the balance of risks with respect to projected trajectory for inflation in the forecast horizon has deteriorated again and remains upward. This is due to, i) external inflationary pressures; ii) cost pressures; iii) persistence of core inflation at high levels; iv) exchange rate depreciation; and v) increases in agricultural and energy prices.

MONETARY SECTOR

In the last meeting of the year the board of Banxico increased the policy rate by 50 basis points. It was the fifth consecutive meeting resulting in a hike, in line with an inflation that runs at its highest level in two decades. The market consensus previously forecasted a raise of 25 basis points that was outpaced. Furthermore, for 2022 the expectation is at least another 200 basis points, taking the rate to 7.50%, well above a previous forecast of 6.00%. This was the last CB meeting presided by Governor Alejandro Diaz de Leon, who will be replaced by newcomer Victoria Rodriguez. The first female governor must manage an inflation rate well above the 3% - +/-1 p.p. tolerance - target.

FISCAL ACCOUNTS

The Ministry of Finance and Public Credit lowered its estimate for debt, in its broadest measure, for the end of this year, at 50.3% of GDP. This new estimate is a little lower than the one forecasted in September (51% of GDP), when the agency delivered the 2022. Also, it established that even though the pandemic generated a change in the debt trajectory (at the end of 2020 stood at 52.4% of GDP, the highest level recorded for the end of any year), it remains sustainable in the medium term. The relatively more moderate recovery expected for 2022 and 2023 will put the last assumption in tension.

WHAT'S COMING NEXT?

- 63% of the population has been fully vaccinated. In the midst of a new Covid-19 "wave" and a slowdown of economic activity the expectation related to the epidemiology response of the government is high.
- Mexico's revocatory referendum process is waiting for the Electoral National Institute (INE) to approve it, but it already established the lack of funds to carry it over, provoking political pressure from the government.



APPENDIX

Dashboard

	Dec-21	Nov-21	Oct-21	Sep-21	2020
Exchange rate (MXN/USD, eop.)	20.80	21.44	20.55	20.63	19.91
Interest rate (%)	5.50%	5.00%	4.75%	4.50%	4.25%
Inflation (y/y)	-	7.37%	6.24%	6.00%	3.15%
Economic activity (y/y)	-	-	-	0.9%	-8.5%
Industrial activity (y/y)	-	-	0.7%	1.5%	-10.0%
Automotive production (y/y)	-	-19.7%	-25.1%	-32.3%	-20.8%

Source: EconViews based on several sources

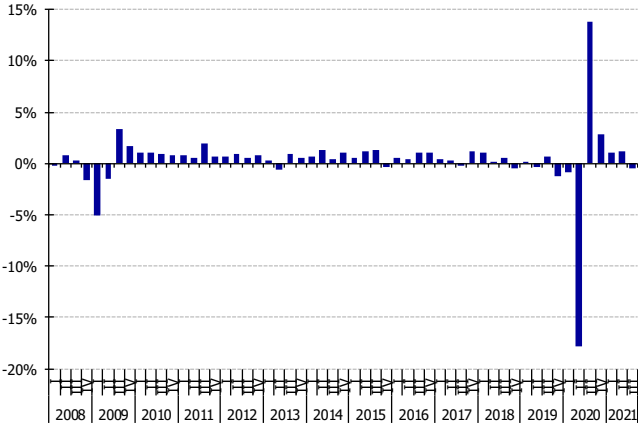
Macroeconomic Outlook

	2018	2019	2020	2021F	2022F
GDP growth (%)	2.2%	-0.2%	-8.3%	5.4%	2.8%
Inflation (Dec-Dec)	4.8%	2.8%	3.2%	7.1%	4.0%
Fiscal Balance (% GDP)	-2.1%	-1.6%	-2.9%	-3.2%	-3.2%
Current Account (% GDP)	-2.1%	-0.3%	2.4%	0.5%	0.0%
International reserves (USD Bn)	165.2	170.5	186.2	199.3	202.9
Exchange rate (MXN/USD)	19.65	18.93	19.89	20.80	21.11

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

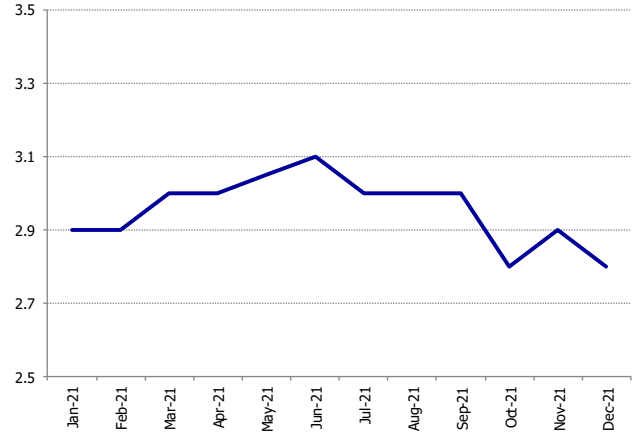
Real GDP

Q/Q variations - INEGI



GDP growth - rolling forecasts for 2022

In %

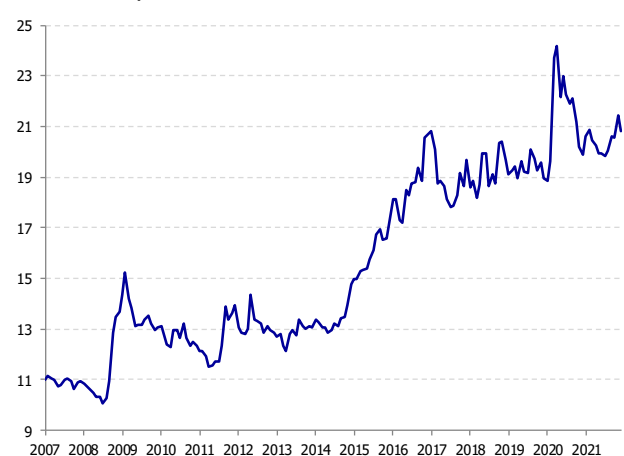


Inflation - General CPI

Annual changes



Mexican Peso / Dollar





PARAGUAY

Good news	To be alert	Bad news
Due to high international commodity prices, exports have grown 26.6% so far this year.	A large part of the population remains unvaccinated and the Omicron variant could be a problem.	In October inflation reached its highest value in last 10 years.

POLITICS

Before the end of the year, Paraguay and Brazil have to define the new prices on Itaipú binational hydroelectric power station energy. While the Brazilian position aims for an agreement with lower prices, the president of Paraguay Mario Abdo Benitez wants to keep unchanged the price of energy sold to the neighboring country. The result of this negotiation is of relevance because it has an impact on tax revenues. In response to the new variant of COVID, the government modified its vaccination strategy, reducing the time lapse between the second dose and the booster, and will try to persuade citizens who are reluctant to get vaccinated.

ECONOMIC ACTIVITY

In October the economy fell 1.9% m/m s.a. and grew 1.8% year-on-year, which is the lowest mark since March 2021. So far this year GDP has grown 5.3% but this number is affected by the low comparison base. Among the most dynamic activities we found services such as restaurants or hotels, commerce, and manufacturing, all of them benefited by the easing of sanitary restrictions. Construction also showed a good performance, boosted by public and private investment. On the other hand, there were reductions in agriculture and energy production. We expect 2021 to close with a growth of 4.9%, moderating to 3.4% in 2022 with the weather and the pandemic among the main risks.

INFLATION

All over 2021 prices increased significantly, reaching year-on-year rates not seen since 2011. In November inflation was 7.4% y/y after the 7.6% of October, ending a strike of 7 consecutive increases month over month. In the accumulated of the year headline inflation stands at 6.8%. Regarding the sectors with higher increases, we can mention Transport (12.8% YTD), Food and beverages (11.5%), Restaurants & Hotels (5.5%) and Energy (4.4%). In this way, we raised our inflation forecast for 2021 to 6.3% and for 2022 to 4.1%, both figures above the Central Bank's target of 4%.

MONETARY SECTOR

For the fifth time in a row, the Central Bank increased the monetary policy interest rate in its last meeting held last Tuesday. Thus, the reference rate went from 0.75% in July to 5.25% in December. These increases aim to bring down inflation as it continues well above the target (4%). Credit to households had a good performance during third quarter contributing in a positive way to private consumption. After depreciating 11.5% between April and August, the Guaraní has stabilized and even it has appreciated 1.9%. Now it stands at 6,810 per dollar. For 2022 we expect it to end at about 6,946.

FISCAL ACCOUNTS

Tax revenues grew 15.7% up to November, driven by Income Tax, VAT and foreign trade taxes. On the expenditures side, public investment has increased during second half of the year. At the same time, there was an important reduction in social spendings, most of them related to the pandemic. All of this allowed to reduce fiscal deficit from 4.4% in the period Jan-Nov of 2020 to 2.1% in the same period this year. For next year we expect the deficit reduction to continue, ending with a fiscal deficit of 3.2%.

WHAT'S COMING NEXT?

- With less than 50% of population vaccinated at least with one dose, the government will seek to increase this number to avoid future outbreaks.
- President Mario Abdo, who has recently assumed as pro tempore president of MERCOSUR, said that the common external tariff will be revised.



APPENDIX

Dashboard

	Dec-21	Nov-21	Oct-21	Sep-21	2020
Exchange rate (PYG/USD, eop.)	6,810	6,827	6,894	6,896	6,948
Interest rate (%)	5.25%	4.00%	2.75%	1.50%	0.75%
Inflation (y/y)	-	7.4%	7.6%	6.4%	2.2%
Economic activity (y/y)	-	-	1.8%	5.7%	-0.6%

Source: EconViews based on several sources

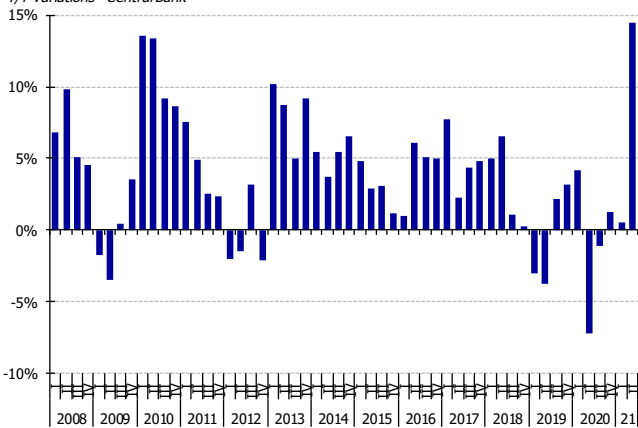
Macroeconomic Outlook

	2018	2019	2020	2021F	2022F
GDP growth (%)	3.2%	-0.4%	-1.0%	4.9%	3.4%
Inflation (Dec-Dec)	3.2%	2.8%	2.2%	6.3%	4.1%
Fiscal Balance (NFPS - % GDP)	-1.3%	-2.8%	-6.2%	-4.1%	-3.2%
Current Account (% GDP)	-0.2%	-0.6%	2.5%	2.9%	2.0%
International reserves (USD Bn)	6.9	6.8	8.5	9.5	10.1
Exchange rate (PYG/USD)	5,961	6,453	6,907	6,810	6,946

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

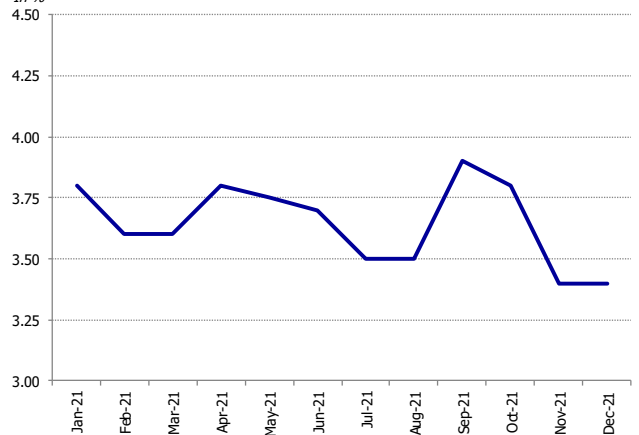
Real GDP

Y/Y variations - Central Bank



GDP growth - rolling forecasts for 2022

In %

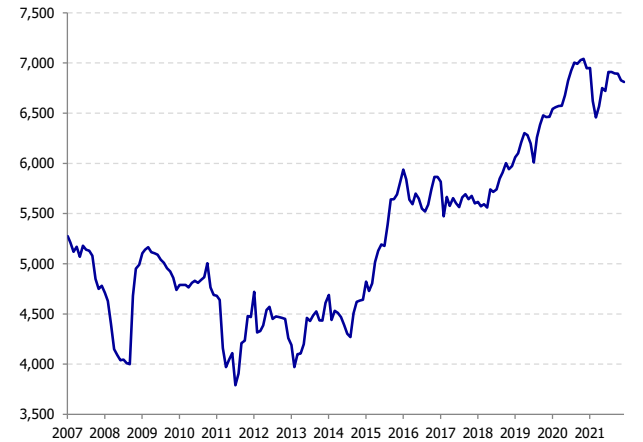


Inflation - General CPI

Annual changes



Paraguayan Guarani / Dollar



Good news	To be alert	Bad news
Terms of trade were up 7.4% year-on-year in October, thanks to an increase in copper, zinc, coffee bean and natural gas prices.	Rising environmental protests are affecting mining operations in Southern Peru, where President Castillo's voter base resides.	In Q3-2021, labor informality hit a decade high at 78.2% of the workforce, up 3.7 points against 2020 and 5.4 points above pre-pandemic levels.

POLITICS

In early December, President Castillo survived an impeachment attempt as right-wing legislators were unable to reach a majority. However, the irregularities in military designations which led to the motion have hammered his image, only 5 months into office. Corruption allegations over a state oil company tender have also hit his popularity. Economy Minister Francke is trying to advance with his mining reform agenda, which includes higher taxes and counts with the IMF's support, although Congress blocked a first attempt. Anti-mining protests have brought operations to a halt in some regions. Covid cases have shown a slight uptick to in the last weeks, with 72% of the population having received at least one dose.

ECONOMIC ACTIVITY

By September, the economy was growing 3% above the same period of 2019. GDP closed Q3-2021 up 1.6% against the same quarter from two years ago, and 11.4% in year-on-year terms. Restaurants and hotels (99.4% y/y) posted the strongest comeback, but remain well below pre-Covid levels. Retail, on the other hand, grew 10% but already matches 2019's records. Construction boomed 23.2% against Q3-2020, helped by the public works program. After a weak first semester, Agriculture picked up 9.7% y/y. Unemployment is down to 5.3% from last year's 9.5%, although with a sharp rise (3.7 points) in labor informality. GDP will expand 12.6% this year, recovering 2020's slump, and we expect 3% growth in 2022.

INFLATION

The Lima Metropolitan CPI hit 5.7% year-on-year in November, remaining at the highest since 2009. In monthly terms, inflation decreased slightly to 0.36%, after October's 0.58% mark. As in other countries, energy is pushing prices. Housing costs shot up 2.21% monthly, mainly due to an increase in propane gas (10%) and natural gas (6.4%) prices. Despite gasoline rising 3%, transport as a whole grew only 0.21% between October and November. After some hot months, food prices increased by a moderate 0.1% monthly, due to a seasonal lull in fresh products. The core index grew by 0.23% monthly, excluding food and energy costs year-on-year inflation is 2.9%. We believe general inflation will fall to 3.3% in 2022.

MONETARY SECTOR

After increased FX volatility during the elections, the Peruvian Sol has stabilized around 4.05 per dollar, the same value it reached on July 29th, when Castillo took office. It is still down 10.5% YTD. International reserves have recovered by USD 7.7 billion since June and sit at 78.8 billion, the third largest in LATAM behind Brazil and Mexico. However, net FX intervention has cost the BCRP USD 11.6 billion in 2021. Julio Velarde's continuity as head of the Central Bank helped stabilization, but Fed hikes pose a risk in 2022. Due to higher inflation and as a safeguard against capital flight, the policy rate was raised by 225 basis points this year to 2.5%, while reserve requirements were increased in October.

FISCAL ACCOUNTS

The fiscal scenario continues to improve as pandemic expenditures dissipate. By Q3-2021, Peru has accumulated a 0.9% of GDP primary surplus, which translates into a 0.9% fiscal deficit after interests. In the rolling 12-month average, fiscal deficit stands at 4.8% of GDP, down from Q2's 6.4%. Revenues grew 63.9% year-on-year in real terms, thanks to VAT (43.6% y/y) and export duties (328% y/y), after a significant rebound in oil and copper prices. Spending rose 8.2% in real terms, with capital expenditures (20.1% y/y) taking the lead. Fiscal accounts are within the emergency limits contemplated in the 2021-2024 macro framework, and we expect further correction towards a 3.6% of GDP fiscal deficit in 2022.

WHAT'S COMING NEXT?

- With electricity prices up 9.6% year-on-year in Lima, President Castillo has presented a Bill to lower utility bills by 15% for low-income households.
- On the sidelines of Congress's debate on nationalization, the Government updated rulings for gas & oil companies and the sector is expected to grow around 13.4% in 2022, after a weak 2021.



APPENDIX

Dashboard

	Dec-21	Nov-21	Oct-21	Sep-21	2020
Exchange rate (PEN/USD, eop.)	4.04	4.05	3.99	4.12	3.62
Interest rate (%)	2.50%	2.00%	1.50%	1.00%	0.25%
Inflation (y/y)	-	5.7%	5.8%	5.2%	2.0%
Economic activity (y/y)	-	-	-	9.7%	-11.1%
Manufacturing activity (y/y)	-	-	-	7.0%	-13.4%
Mining production (y/y)	-	-	-	11.1%	-13.2%

Source: EconViews based on several sources

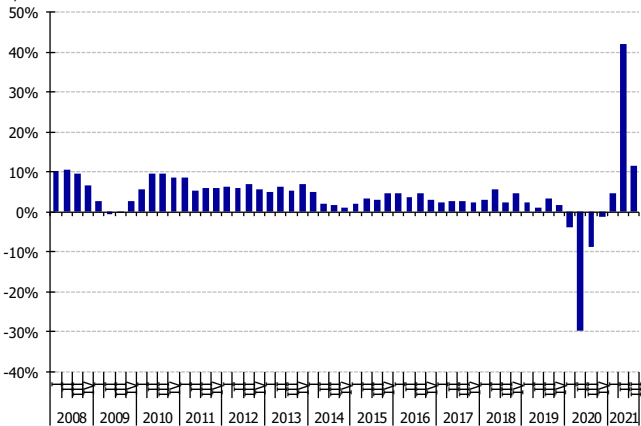
Macroeconomic Outlook

	2018	2019	2020	2021F	2022F
GDP growth (%)	4.0%	2.2%	-11.1%	12.6%	3.0%
Inflation (Dec-Dec)	2.2%	1.9%	2.0%	5.9%	3.3%
Fiscal Balance (% GDP)	-2.3%	-1.6%	-8.9%	-4.7%	3.6%
Current Account (% GDP)	-1.7%	-0.9%	0.8%	-1.5%	-0.8%
International reserves (USD Bn)	60.3	68.4	74.9	75.7	76.8
Exchange rate (PEN/USD)	3.37	3.31	3.62	4.05	4.06

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

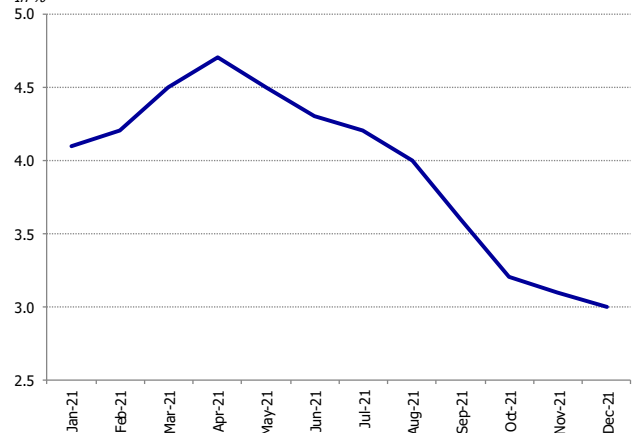
Real GDP

Y/Y variations - Central Bank



GDP growth - rolling forecasts for 2022

In %



Inflation - General CPI

Annual changes



Peruvian Sol / Dollar





URUGUAY

Good news	To be alert	Bad news
Uruguay's debt outlook has turned to "stable" after 3 years being negative	Coronavirus cases remain low but are steadily growing and have reached July's levels	The country has blocked the reduction of Mercosur's import tariffs

POLITICS

In the 59th meeting of the Mercosur last week, Uruguay's president Luis Lacalle Pou decided not to sign a joint declaration in which a 10% reduction of import tariffs was included, thus blocking the measure. The decision was not due an opposition to a tariff reduction, but rather because the country is looking for a further flexibilization of the regional bloc, which is opposed by the Argentine government. Brazil decided nonetheless to reduce the tariff temporarily, which could greenlight Uruguay to reach agreements outside Mercosur despite a lack of consensus.

ECONOMIC ACTIVITY

Economic activity likely moderated its rebound in the third quarter, but the lowering of restrictions amid a sharp drop of Coronavirus cases has helped recover household consumption, which in 2Q was still 6.76% below its level during 2Q-2019. Fixed investment likely also moderated its yearly growth, which in 2Q reached an impressive 31.7% and as well above pre-pandemic levels; both machinery and automotive production moderated in 3Q. Industrial activity decelerated in October, with a yearly growth of 6.9% vs 12.12% in September, and 5.9% vs 12.4% excluding the refinery sector. We expect GDP to end 2021 with a rebound of 3.4% and we forecast a 3.2% growth in 2022.

INFLATION

Inflation posted its lowest monthly record in November (0.25%) since December 2020, thus maintain the yearly variation at 7.9%, 1.9 p.p. above the upper bound of the Central Bank's 3-6% range. Transport continues to lead inflation with an annual registry of 12.7% but should moderate thanks to lower gasoline prices. Despite the monthly moderation, the Central Bank has tightened its hawkish stance and will likely continue with interest rate hikes in 2022. We expect inflation to end the year with at 7.7% y/y and we forecast it will moderate to 6.9% by 2022's end.

MONETARY SECTOR

The Central Bank announced an additional increase of 50 bps in its monetary policy rate in the last meeting of the Monetary Policy Committee in Novembre, taking it to 5.75%. Inflationary risks persist, and the first wage agreements for the next months have deviated from the Executive Branch's proposal, both in nominal adjustments and in frequency, and the CB expects to maintain its more hawkish stance if the health situation allows it. Despite the rate increase, the UYU has lost some ground in recent weeks and the UYU is trading at 44.34 per USD, up from 42.93 at the end of 3Q-2021. We expect the UYU to further devalue next year to end 2022 trading at 45.7 per USD.

FISCAL ACCOUNTS

Fiscal accounts eroded slightly through 3Q-2021 as revenues of the non-monetary public sector grew only 3.1% QoQ in nominal terms vs a 15.9% rise in expenditures, led by a 19.3% increase in transfers. But October's fiscal data has showed some improvement, and the 12-month global fiscal deficit of the public sector went down from 4.5% of GDP in September to 4.3% in October -excluding the effect of the Social Security Fund. In this context, Fitch Ratings announced it is maintaining Uruguay's BBB- rating and changed its debt outlook to stable, after 3 years deemed negative, thanks to a structural improvement in public finances. We expect the fiscal deficit to shrink next year to 3.9% of GDP.

WHAT'S COMING NEXT?

- The European Commission has just announced it will accept Uruguay's "Covid passport" within the European Union, and they will have the same validity as the European Union's certificate.
- Uruguay has provided booster shots to 42.1% of its population, only behind Chile in the region, which could strongly reduce the impact of further Coronavirus waves.



APPENDIX

Dashboard

	Dec-21	Nov-21	Oct-21	Sep-21	2020
Exchange rate (UYU/USD, eop.)	44.34	44.00	43.95	42.93	42.37
Interest rate (%)	5.75%	5.75%	5.25%	5.00%	4.22%
Inflation (y/y)	-	7.9%	7.9%	7.4%	9.4%
Manufacturing activity (y/y)	-	-	6.9%	12.2%	-5.0%

Source: EconViews based on several sources

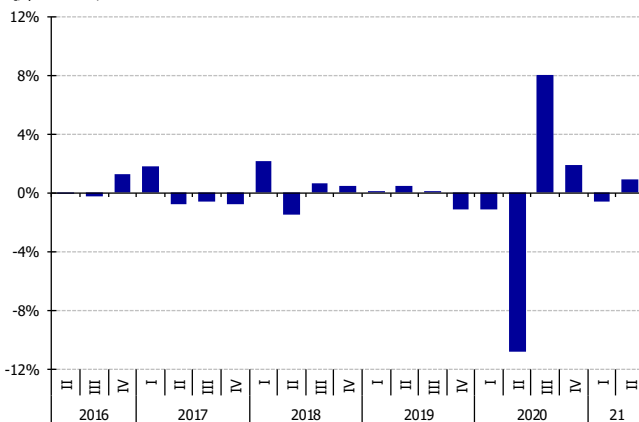
Macroeconomic Outlook

	2018	2019	2020	2021F	2022F
GDP growth (%)	1.6%	0.2%	-5.9%	3.4%	3.2%
Inflation (Dec-Dec)	8.0%	8.8%	9.4%	7.7%	6.9%
Fiscal Balance (% GDP)	-2.7%	-3.2%	-5.2%	-4.8%	-3.9%
Current Account (% GDP)	-0.5%	1.6%	-0.6%	-0.9%	-0.2%
International reserves (USD Bn)	15.6	14.5	16.2	16.8	16.8
Exchange rate (UYU/USD)	32.45	37.34	42.37	44.36	45.70

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

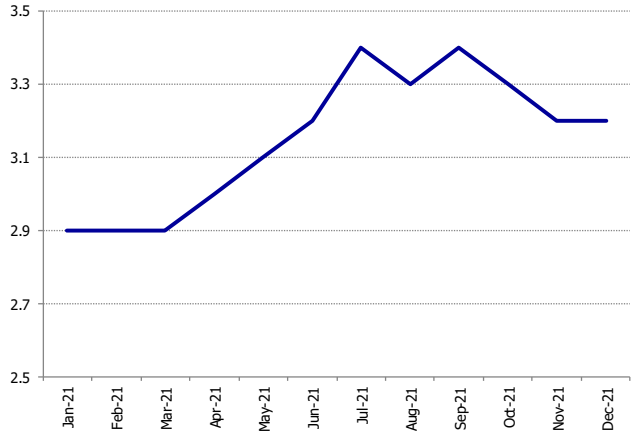
Real GDP

Q/q variations, s.a. - BCU



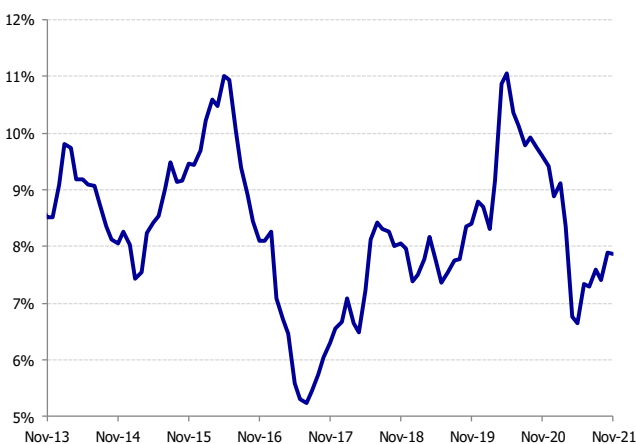
GDP growth - rolling forecasts for 2022

In %











Inflation - General CPI

Annual changes



Uruguayan Peso / Dollar



	GDP		Inflation	
	2021	2022	2021	2022
	10.0%	3.0%	50.4%	58.0%
	4.5%	0.5%	9.9%	5.0%
	11.5%	2.6%	6.6%	4.4%
	9.3%	4.2%	5.1%	3.8%
	5.4%	2.8%	7.1%	4.0%
	4.9%	3.4%	6.3%	4.1%
	12.6%	3.0%	5.9%	3.3%
	3.4%	3.2%	7.7%	6.9%

(+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

Andrés Borenstein
 Chief Economist
aborenstein@econviews.com

Víctor Ruilova
 Guest Economist
vruilova@econviews.com

Isaías Marini
 Economist
imarini@econviews.com

Alejandro Giacoia
 Economist
agiacoia@econviews.com

Melina Sommer
 Economist
msommer@econviews.com

Rafael Aguilar
 Analyst
raguilar@econviews.com