

LATAM 7 + Argentina

MACRO BRIEF

ECONVIEWS
ECONOMÍA Y FINANZAS

December, 2022



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ARGENTINA

Good news	To be alert	Bad news
Economic activity resists and GDP growth will be higher than expected.	Local debt maturities are highly concentrated during the electoral period. The roll-over rate will be critical to avoid too much monetary emission.	Reserves continue to be at critical levels. The drought threatens to make it worse.

POLITICS

The last month the center of the stage was taken by the FIFA World Cup. The victory of the national team brought some happiness, and this is good news for the government at the end of a difficult year. The most relevant event during this time was that VP Cristina Fernandez was found guilty of fraud. After the sentence, she announced that will not compete in the 2023 elections. In this sense, it is still a mystery who will be the officialism's candidate. Minister De Pedro, the Buenos Aires governor Kicillof or even Maximo Kirchner are possible names. In the opposition, the mayor of BA, Rodriguez Larreta, and the former security minister Bullrich seem to be with the most chances in the race for the presidency.

ECONOMIC ACTIVITY

GDP grew 1.7% in the third quarter s.a. related to Q2 and 5.9% year-on-year. From the demand side, investment showed an increase of 14% (Q3 2022 vs Q3 2021), followed by private consumption with 10.2%. Exports contracted by 4.6%. Considering the supply side, Hotels and restaurants (+37.3%) and Mining (+14.4%) were the sectors with higher increases. However, for their share, the most relevant sectors were Industry (+6.4%) and Commerce (+7.3%). In the last quarter of the year, economic activity has cooled down and we think that 2022 will end with a GDP growth of 5.5%, most of it explained by the statistical carryover. For 2023 we expect that economic activity will stay stagnant.

INFLATION

Inflation decelerated in November with a monthly print of 4.9%, the lowest figure since February. Inflation YTD reached 85.3% and 92.4% year-on-year. The slowdown in seasonal prices (+4.1%) drove this downside surprise. Food and beverages prices grew only 3.5%, down from October's 6.2%. Inside this category, there were some products with price reductions such as tomatoes, onions, and beef. On the other hand, regulated prices increased by 6.2% with utilities (+8.7%) and communication (+6.2%) at the top. For December we expect inflation to be around 5.8%, ending the year at 96%. In our base scenario, the government will not manage to reduce it in 2023. It should jump to 110%.

MONETARY SECTOR

After losing reserves in October and November, the government put in place a new edition of the "soybean dollar". It allowed the Central Bank to buy USD 789 million so far in December. Net reserves now stand at USD 3.7 billion but they will increase after the IMF disbursement. Since last week the BCRA is depreciating the official exchange rate at a slower pace. Now the annualized rate of depreciation is 91.1% while it was above 120% in the first week of the month. The BCS is trading at ARS 333 and the FX spread stands at 91%. The monetary policy interest rate kept unchanged at 75% and will probably continue at this level through most of 2023.

FISCAL ACCOUNTS

Up to November, the primary balance accumulated a deficit of 2.0% of GDP excluding non-cash rents from CER bond issuance. In November revenues contracted 6.8% y/y in real terms, mainly due to a sharp contraction of export duties (-64.7% y/y real) after the advancement of exports caused by the first soybean dollar scheme. Primary expenditures (-7.5% y/y real) accumulated five consecutive months of real drops. The largest drops were registered by economic subsidies (-29.9%) and transfers to provinces (-27.1%). Pensions also fell 9.1% in real terms. We expect December's deficit to reach 0.8% of GDP, with which 2022 will close at 2.8%, reaching the IMF goal (2.5% + 0.3% CER bond issuance rents).

WHAT'S COMING NEXT?

- 2023 will be a year marked by the election calendar. Some provinces start voting in April and in June the candidates for the national primaries must be announced.
- Another important issue for next year is the local debt. In normal conditions, it should not be a huge problem, but the uncertainty will complicate the roll-over. We expect that the Central Bank will have an important role.



APPENDIX

Dashboard

	Dec-22	Nov-22	Oct-22	Sep-22	2021
Exchange rate (ARS/USD, eop.)	174.26	167.28	156.89	147.31	102.75
Interest rate (%)	75.00%	75.00%	75.00%	75.00%	38.00%
National inflation (y/y)	-	92.4%	88.0%	83.0%	50.9%
Economic activity (y/y)	-	-	4.5%	4.6%	10.4%
Industrial activity (y/y)	-	-	3.5%	4.3%	15.8%
Automotive production (y/y)	-	14.8%	27.8%	19.9%	69.0%

Source: EconViews based on several sources

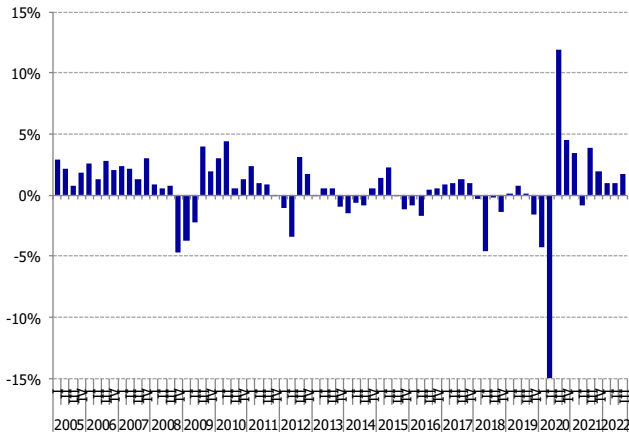
Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	-2.0%	-9.9%	10.4%	5.5%	0.0%
National inflation (Dec-Dec)	53.8%	36.1%	50.9%	96.0%	110.0%
Fiscal Balance (% GDP)	-3.6%	-8.4%	-4.8%	-4.1%	-4.1%
Current Account (% GDP)	-0.8%	0.8%	1.4%	-1.2%	-0.5%
International reserves (USD Bn)	44.8	39.4	39.7	42.7	40.5
Exchange rate (ARS/USD)	59.90	84.15	102.75	178.29	374.46

Source: EconViews based on official figures and own estimates

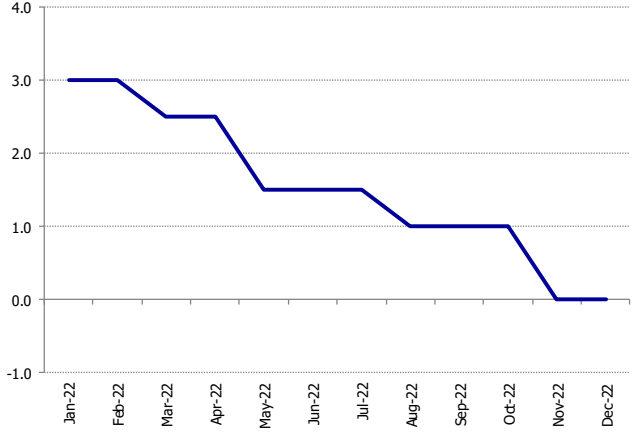
Real GDP

Q/Q variations - Seasonally adjusted data INDEC



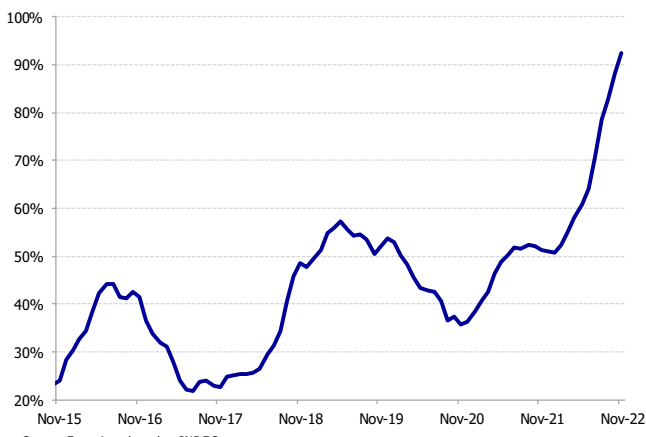
GDP growth - rolling forecasts for 2023

In %



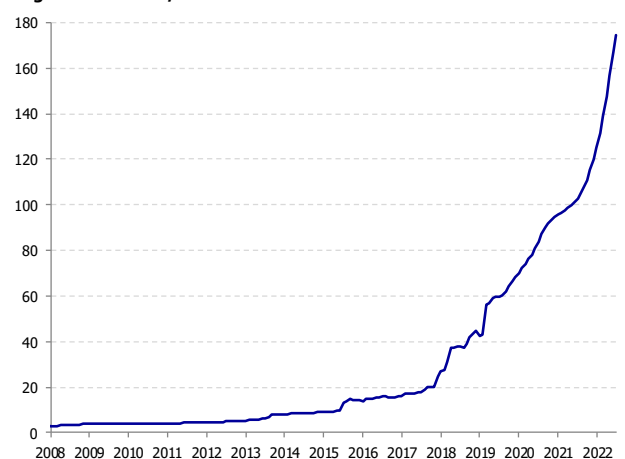
Inflation - General CPI

Annual changes



Source: Econviews based on INDEC

Argentinian Peso / Dollar





BRAZIL

Good news	To be alert	Bad news
SELIC rate was left on hold at 13.75% since August amid a slowdown in inflation.	The new government is taking office in January with multiple challenges ahead. Times of change are coming and this will inevitably impact the region.	2023 comes with many concerns about the Brazilian economy. The fiscal front seems to take all looks but activity and inflation should not be ignored.

POLITICS

On October 30th, the second round of the presidential elections took place. Lula da Silva (Labor Party) beat Jair Bolsonaro with 50.83% of the votes. On January 1st, the former president will take office in what will be his third presidency. After an election that left a country hyper polarized, Lula has the challenge of governing with a large part of the population against him. Today, Da Silva announced 17 Ministers that will accompany him. Fernando Haddad will be his Finance Minister, similar to Lula's vision, whereby the State must play the role of stimulating the economy and social programs should be priority. In line with this goes Aloizio Mercadante's appointment, who will preside the development bank BNDES.

ECONOMIC ACTIVITY

In October, the Brazilian economy contracted 0.05% m/m s.a. It grew 3.7% YoY and +3.4% for the accumulated of the year vs. the same period of 2021. Even if it surprised the market on the downside, this goes in line with the expected slowdown in growth during the second semester as a result of the increases in the interest rate. GDP grew 0.4% QoQ s.a. in the third quarter of 2022, and 3.6% YoY, when compared to the three first quarters of 2021 it presents an accumulated growth of 3.2%. Retail sales grew 0.4% QoQ s.a. (+2.7% YoY) in October and Industry grew 1.7% YoY and 0.3% m/m s.a. after two consecutive monthly falls. We project an average growth of 2.9% of GDP for 2022, and a slowdown to 1% in 2023.

INFLATION

In November, CPI surprised downwards by registering a 0.41% monthly variation, less than in October (0.59% m/m), and the year-on-year variation fell to 5.9%, although core inflation remains in 9.8% YoY. In terms of the monthly performance, 0.18 point of the variation is explained by the 3% rise in the price of gasoline. Of the nine main items, two registered monthly deflation: Household items (-0.68%) and Communication (-0.14%). So far this year, the sectors with the highest inflation compared to the 11 first months of 2021 are Clothing (16.25%), Food and beverages (10.91%) and Health and personal care (9.67%). With these numbers we expect 2022 to finish with an inflation close to 5.8% y/y.

MONETARY SECTOR

In August, Brazil's Central Bank hiked its Selic policy rate by 50 points taking it to 13.75%, being the fifth rise this year. Lower than expected inflation prevented new hikes. The year will close with that rate and the market believes that the Central Bank will cut rates next year, which are expected to be in 11.1% by the end of 2023. The Central Bank has its inflation target at 3.5%, with a tolerance interval close of 1.5%, which will probably be exceeded but not by a large margin. After experiencing some variability during the electoral process, the exchange rate recently fell from 5.28 to 5.17, and will probably close the year trading at 5.20.

FISCAL ACCOUNTS

Fiscal uncertainties are one of Brazil's major concerns right now as a considerable increase in public spending is expected. The elected president aims to increase spending by U\$S 28 billion above the fiscal cap in the next year in order to finance social programs. This week, the Congress approved a constitutional amendment that increases the government's spending limit. Even if at first markets reacted negatively, they calm down when the Congress changed the project's duration from 2 to 1 year. Public debt, which is likely to finish the year in 76.9% of GDP, is also a great concern as it will most certainly increase next year. Fiscal deficit is expected to close the year in 5.6% of GDP and in 8.3% in 2023.

WHAT'S COMING NEXT?

- In a very polarized context, the new government will take office on January 1st, with lot of work ahead which includes challenges like the tense social situation with Bolsonarism, economic pressures, poverty, among others.
- The new administration has a new international view that is mainly focus in Latin America. This includes restoring relations with Venezuela, being USA's government link with the region and others. It will be interesting to see what will happen with the Mercosur and the neighboring countries.



APPENDIX

Dashboard

	Dec-22	Nov-22	Oct-22	Sep-22	2021
Exchange rate (BRL/USD, eop.)	5.20	5.19	5.18	5.42	5.57
SELIC (%)	13.75%	13.75%	13.75%	13.75%	9.25%
Inflation (y/y)	-	5.9%	6.5%	7.2%	10.1%
Economic activity (y/y)	-	-	3.7%	4.5%	4.6%
Industrial activity (y/y)	-	-	1.7%	0.4%	3.9%
Automotive production (y/y)	-	4.9%	15.1%	19.3%	11.6%

Source: EconViews based on several sources

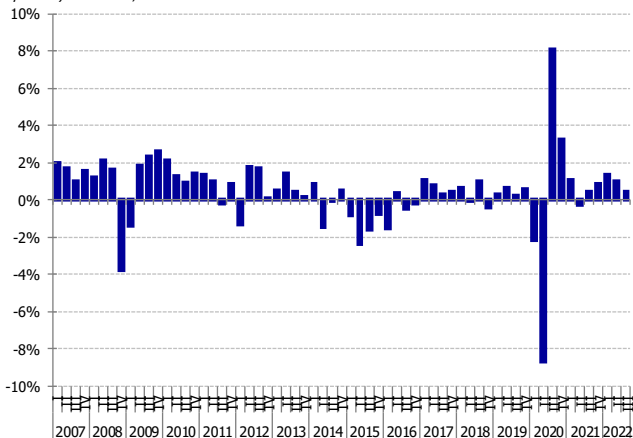
Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	1.2%	-3.9%	4.6%	2.9%	1.0%
Inflation (Dec-Dec)	4.3%	4.5%	10.1%	5.8%	4.8%
Fiscal Balance (% GDP)	-5.8%	-13.6%	-4.4%	-5.6%	-8.3%
Current Account (% GDP)	-3.6%	-1.9%	-2.8%	-2.0%	-1.9%
International reserves (USD Bn)	346.5	342.7	330.9	339.8	341.5
Exchange rate (BRL/USD)	4.02	5.19	5.57	5.20	5.25

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

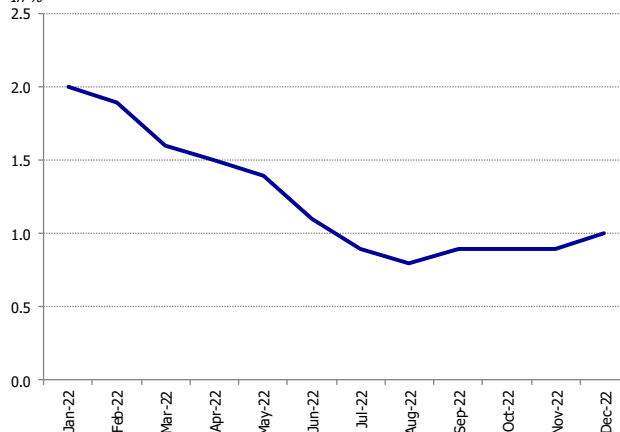
Real GDP

quarterly variations, in %



GDP growth - rolling forecasts for 2023

In %



Inflation (IPCA)

Annual changes



Brazilian Real / Dollar





CHILE

Good news	To be alert	Bad news
Copper output rose in October for the first time in 15 months.	The new Constitutional process could add (more) uncertainty.	Lower copper prices and slowing activity will take a toll on the fiscal deficit in 2023.

POLITICS

The Chilean Congress has proposed a new path towards a new Constitution proposal, after the population widely rejected the previous draft in September. Rather than a Constitutional Convention, the drafting organ will now be a Constitutional Counsel made up of 50 persons voted by the people and other 24 experts chosen by both the Lower House and the Senate. These experts will start in January with the previous works that will set the base for the new draft. It is now expected that the project will be subject to vote in November 23, 2023. Though it could add some uncertainty, the new draft is very unlikely to be as radical as the rejected proposal.

ECONOMIC ACTIVITY

Economic activity shrank 1.2% QoQ in the third quarter (seasonally adjusted), after a marginally positive second quarter, ending up barely 0.3% above its level a year ago. Private consumption fell by 0.8% QoQ, a slower pace than 2Q-22. Government consumption posted a sharp drop of 4.2% QoQ, while exports stalled, and investment managed to grow (4.7% QoQ) for the second quarter in a row. Economic activity is expected to further shrink in the last quarter, particularly private consumption, due to rising interest rates and persistently high inflation, but in October the GDP index grew 0.5% m/m s.a. owing to a 6.4% m/m jump in mining production. We expect GDP to close at 2.4% and -1.1% in 2023.

INFLATION

Inflation accelerated again in November after three consecutive months on decline. With a monthly print of 1.0%, the year-on-year measure reached 13.3%, still lower than August's peak of 14.1%. Food and non-alcoholic alcoholic beverages continued displaying increases above headline inflation, and in November they reached a record-breaking 24% YoY, closely followed by Transportation (22%), but generally well above other divisions. As the economy cools and financial conditions tightens, we expect inflation to return to a downward path in 2023. We expect 2022 to close at 12.7% and down to 4.8% next year.

MONETARY SECTOR

On its last monetary policy meeting on December 6th the Central Bank decided to maintain its monetary policy rate unchanged at 11.25%, after October's last rise -and seventh of the year- of 50 bps. Chile's Central Bank has signalled there will be no further tightening, as inflation is seen to have peaked in the third quarter (but November's figures came afterwards). In 2023, rate cuts are expected. The CLP is currently trading at 871, appreciating 8.1% from a month ago owing to higher copper prices and expectations of less FED tightening. We expect it to close the year at 870 and 895 in 2023.

FISCAL ACCOUNTS

Fiscal accounts deteriorated on the third quarter. Adjusting for inflation, revenues of the Total General Government managed to grow 1.1% y/y, despite net tax revenues ending flat but with property rents growing 635.4% y/y. Expenditures actually contracted 28.7% y/y in real terms. But the drop was not sufficient, and the quarter posted a deficit of 0.6% of GDP, which was partially offset in October. Thanks to the good results from the second quarter, fiscal accounts are expected to achieve a surplus of 0.8% of GDP. But in 2023, expenditures are bound to rise to sustain demand and incomes could be affected by a drop on copper prices, and we expect a deficit of 2.7% of GDP.

WHAT'S COMING NEXT?

- Despite good news from the rejection of the new Constitution, a bill is currently sitting in Congress which aims to increase copper companies' tax burdens and could threaten investment.
- Despite November's rise in copper prices (thanks to China's change of stance regarding its zero-covid policy), they are expected to fall to USD 7,682 on average in 2023 as global demand lessens.



APPENDIX

Dashboard

	Dec-22	Nov-22	Oct-22	Sep-22	2021
Exchange rate (CLP/USD, eop.)	870.80	888.85	943.05	966.63	851.10
Interest rate (%)	11.25%	11.25%	11.25%	10.75%	4.00%
Inflation (y/y)	-	13.3%	12.8%	13.7%	7.2%
Economic activity (y/y)	-	-	-1.2%	-0.3%	11.7%
Industrial activity (y/y)	-	-	-4.2%	-1.5%	2.3%
Mining production (y/y)	-	-	0.7%	0.0%	-1.3%

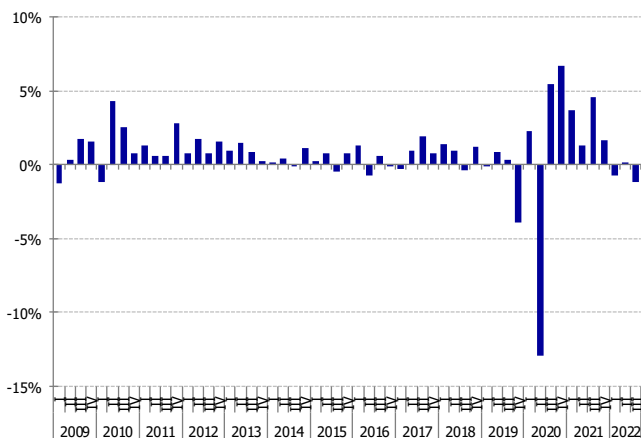
Source: EconViews based on several sources

Macroeconomic Outlook

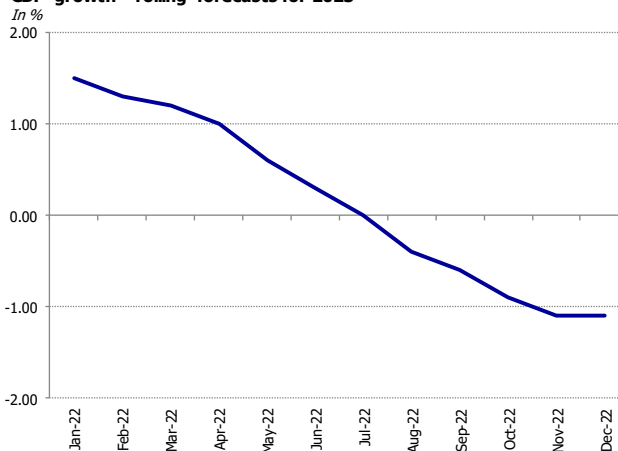
	2019	2020	2021	2022F	2023F
GDP growth (%)	0.9%	-6.0%	11.7%	2.4%	-1.1%
Inflation (Dec-Dec)	3.0%	3.0%	7.2%	12.7%	4.8%
Fiscal Balance (% GDP)	-2.7%	-7.1%	-7.5%	0.8%	-2.7%
Current Account (% GDP)	-5.2%	-1.7%	-6.4%	-7.8%	-4.9%
International reserves (USD Bn)	39.5	37.8	47.1	39.8	41.8
Exchange rate (CLP/USD)	751.5	709.8	851.1	870.0	895.0

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

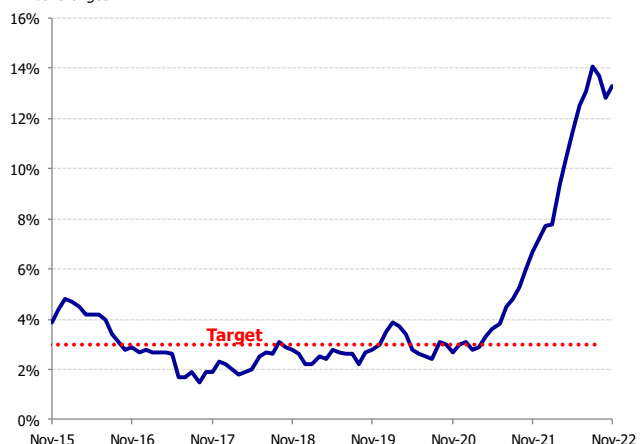
Real GDP
Q/Q variations



GDP growth - rolling forecasts for 2023



Inflation - General CPI
Annual changes



Chilean Peso / Dollar





COLOMBIA

Good news	To be alert	Bad news
Despite some initial controversy, the new government is advancing in important topics of its agenda, such as the tax reform, the national budget, among others.	Petro's government is planning to implement more reforms in various fronts.	Inflation continues to break two-decade records and it does not seem to give up in the near future

POLITICS

On December 7th, Gustavo Petro celebrated 4 months as president of Colombia, and thought he did not have an easy start, some advances can be identified in his ambitious agenda. This administration aims for deep changes in sensible topics that are difficult to achieve without majority in Congress. This is why Petro opted for the path of parliamentary negotiations that allowed him to forge a majority. Thanks to these alliances, the government achieved progress on fundamental issues such as the approval of the national budget, the tax reform, the social peace law, to give some examples. In addition, the debates on the political reform that is sought to be sanctioned are already underway.

ECONOMIC ACTIVITY

In October, the monthly GDP contracted by 0.61% m/m s.a., but was still 4.63% above October 2021, while the manufacturing index grew 5.3% y/y. Oil production increased 2.25% y/y in October, the highest production since December 2020, although gas dropped 15.96% a/a. GDP growth in the third quarter exceeded market expectations by registering a growth of 7% vs. 3Q-2021, and +1.6% q/q seasonally adjusted. Consumption slowed down in 3Q-2022, but many indicators related to it remain strong which might explain why Colombia's economy is expected to grow 7.5% this year. For 2023, Petro expects a recession and GDP is expected to grow just 1.3%.

INFLATION

Inflation was 12.53% y/y in November, and for the fifth month in a row it continued to break two-decade records. For the accumulated figure of the year it registered an 11.72% variation compared to the eleven first months of 2021, so far, the highest of the century. The monthly variation was of 0.77% compared to October, with 7 out of 12 sectors exceeding the national average, with highest rises being Food and non-alcoholic beverages (1.5% m/m), Transport (1.35% m/m) and Restaurants and hotels (1.18% m/m). The greatest contributions to the inflation so far have come from Food and non-alcoholic beverages. We expect inflation to finish the year at 12.5% y/y and to decelerate to 6.8% in 2023.

MONETARY SECTOR

Inflation keeps on being way over the Central Bank's target of 3%, and it seems as if Banrep is running from behind. However, as it has been happening since the beginning of the year, on December 19th, the Central Bank authorities announced an increase in the monetary policy rate by 100 bps, taking it to 12%. This implies an increase in 900 bps since the beginning of the year. In the face of an out-of control inflation, which will clearly be one of the great economic challenges, additional hikes for next year are not ruled out next year. The Colombian peso currently trades at COP 4,769 per USD, almost 20% more than one year ago. We expect the COP to remain relatively stable during next year.

FISCAL ACCOUNTS

The new administration managed to pass the tax reform that will be implemented on January 1st. It expects to collect near USD 4 billion more in its first year, which aims to narrow the fiscal deficit that is expected to close in -5.5% this year and in -4.4% in 2023. A new fiscal pressure on hydrocarbons was implemented, and some say that this might affect investment in an important sector for exports. In line with what was said during the campaign, new taxes will be implemented highlighting the one on the richest, part of this income will be destined, by law, to assistance plans for the poorest. This reform also aims to help with the debt situation, the country is facing with significant foreign debt commitments in the coming years.

WHAT'S COMING NEXT?

- New reforms are underway. The political reform project is advancing steadily in Congress, which has already completed 4 of the 8 debates that are expected. Pension and health reforms talks have already started.
- The World Bank recently approved a US\$1 billion loan to speed up the energy transition and to mitigate the impact of environmental change on the agricultural sector. This goes side by side with the government objective of developing renewable energies.



APPENDIX

Dashboard

	Dec-22	Nov-22	Oct-22	Sep-22	2021
Exchange rate (COP/USD, eop.)	4,765	4,827	4,929	4,604	4,065
Interest rate (%)	12.0%	11.0%	10.0%	9.0%	2.9%
Inflation (y/y)	-	12.5%	12.2%	11.4%	5.6%
Economic activity (y/y)	-	-	4.6%	4.2%	10.4%
Industrial activity (y/y)	-	-	5.3%	6.8%	10.2%

Source: EconViews based on several sources

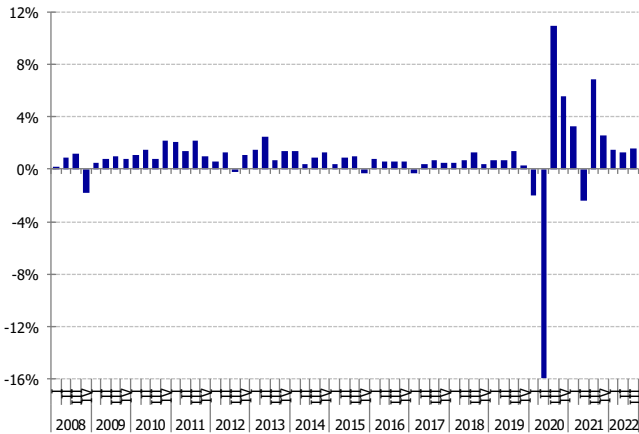
Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	3.2%	-7.0%	10.7%	7.5%	1.3%
Inflation (Dec-Dec)	3.8%	1.6%	5.6%	12.5%	6.8%
Fiscal Balance (% GDP)	-2.5%	-7.8%	-7.1%	-5.5%	-4.4%
Current Account (% GDP)	-4.6%	-3.5%	-5.6%	-5.5%	-4.5%
International reserves (USD Bn)	50.5	56.6	53.5	57.2	57.6
Exchange rate (COP/USD)	3,282	3,421	4,065	4,760	4,785

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

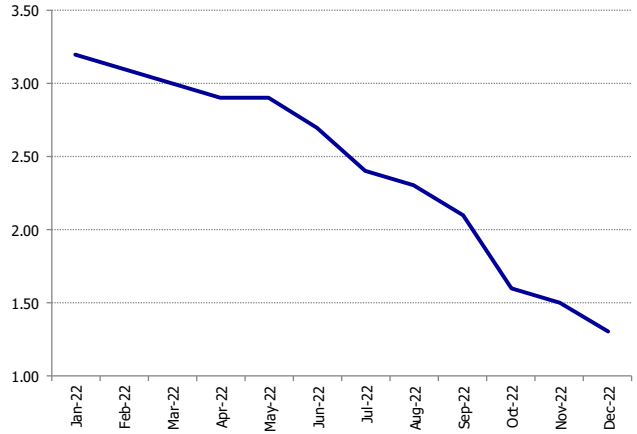
Real GDP

Q/Q variations - DANE



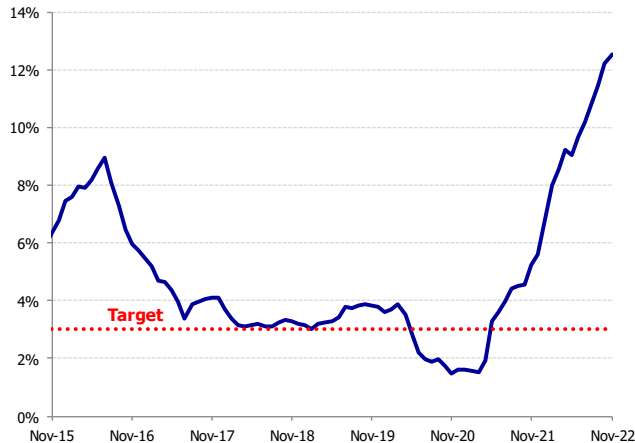
GDP growth - rolling forecasts for 2023

In %



Inflation - General CPI

Annual changes



Colombian Peso / Dollar



Good news	To be alert	Bad news
Fitch ratified Mexico's BBB- investment grade rating and noted its strong fiscal standing compared to similar countries.	The US's new semiconductor laws and the trend of nearshoring could become an unexpected boom for Mexico's auto industry.	Despite the decrease in general inflation to 7.8%, the core index is stubbornly high at 8.5% year-on-year.

POLITICS

Despite several open fronts, President AMLO continues to hold a 55% approval rating, a year and a half away from the 2024 presidential elections where his successor will be chosen. He recently scored a win after Congress approved a second draft of his proposed electoral reform aimed at reducing corruption, although the opposition has criticized it for downsizing INE, the organ in charge of organizing elections. AMLO's involvement in the Peruvian political crisis, strongly backing deposed President Pedro Castillo, has also raised tensions with the US again. The bilateral relationship had improved in previous months after AMLO and US Secretary of State Blinken met to talk about treatment of US energy firms.

ECONOMIC ACTIVITY

The economy overcame a 0.2% slump in June and expanded 1.6% over Q3-2022, so the accumulated growth in 9 months reaches 2.6%. Mexico will grow around 2.8% in 2022, beating forecasts which had it closer to 2%. This is partly thanks to manufacturing, which has expanded 3.2% year-on-year from January to October. By November the auto industry had boomed 10% against 2021, though average production of 295,000 vehicles per month is still 14% below 2019 levels. State oil giant Pemex failed to benefit enough from higher international prices, with output growing only 0.8% against 2021 as of September, 12% under 2017's figures. Expectations for GDP growth in 2023 have worsened from 2% in June to 1.1% now.

INFLATION

Year-on-year inflation eased from a peak of 8.7% in August to 7.8% in November, with the monthly rhythm slowing from 0.76% between June and August to a still high 0.58% last month. The decrease was mainly due to phasing out of November 2021's 1.14% record and falls in fruit and vegetable prices (-0.85%). But core inflation is running at 0.45% monthly and accelerated to 8.5% year-on-year, a worrying trend. Food prices shot up 14% in the last year. Energy tariffs were up 2.11% between October and November after the summer subsidies phased out, but have only risen 3.2% in the last year, compared with 11% in 2021. We expect CPI to close 2022 at 8.2% year-on-year and fall to 4.8% in 2023, still 2 points above target.

MONETARY SECTOR

The Banxico stepped up its hiking pace with 75 basis points in November and 50 basis points this month, taking its policy rate to 10.50%. The last time it had reached two digits was in 2005. In its brief the Banxico showed worry over core inflation and said it did not expect convergence to the 3% target until Q3-2024. However, 5 to 8-year inflation expectations are still anchored around 3.6%, although with more upside dispersion than in January 2021. The Mexican Peso is trading around 19.64 per dollar. We expect a slight depreciation to 20.70 MXN/USD next year. We see little room for loosening monetary policy in 2023 and believe the Banxico rate may continue in double digits for some while.

FISCAL ACCOUNTS

In the 10 months up to October, total revenues grew 9.4% in real terms against 2021, after accounting for the subsidy on gasoline and other fuels. Oil-related taxes soared 36% year-on-year, while income tax grew by 14%. Total spending increased by 4.9% in real terms compared to last year, 44 billion pesos above estimates. The accumulated fiscal deficit in January-October equals MXN 456 billion, below the Budget's 624 billion projection. We expect the fiscal deficit to close 2022 around 3.2% of GDP, expanding to 3.5% in 2023 on higher Capex and social spending, as well as less revenues from oil assuming prices adjust downwards to around USD 70 per barrel.

WHAT'S COMING NEXT?

- Pemex is in conversations with the Government to obtain financing for its debt maturities in Q1-2023, which round USD 4 billion and 7.5 billion for the full year.
- A T-MEC (NAFTA) panel ruled in favor of Mexico in a dispute with the US and Canada on auto industry rules of origin. This is also relevant for the energy sector, as it is likely a new panel will be established for the dispute surrounding Pemex, the Mexican Energy Commission and its treatment of US firms.



APPENDIX

Dashboard

	Dec-22	Nov-22	Oct-22	Sep-22	2021
Exchange rate (MXN/USD, eop.)	19.64	19.25	19.79	20.14	20.49
Interest rate (%)	10.50%	10.00%	9.25%	9.25%	5.50%
Inflation (y/y)	-	7.80%	8.41%	8.70%	7.36%
Economic activity (y/y)	-	-	0.0%	5.2%	4.9%
Industrial activity (y/y)	-	-	3.1%	3.8%	4.9%
Automotive production (y/y)	-	9.8%	9.0%	32.6%	0.6%

Source: EconViews based on several sources

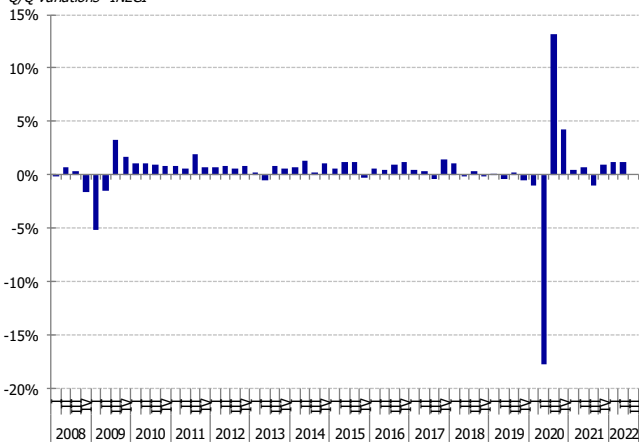
Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	-0.2%	-8.1%	4.8%	2.8%	1.1%
Inflation (Dec-Dec)	2.8%	3.2%	7.4%	8.2%	4.8%
Fiscal Balance (% GDP)	-1.6%	-2.9%	-2.9%	-3.2%	-3.5%
Current Account (% GDP)	-0.3%	2.5%	-0.4%	-1.1%	-1.0%
International reserves (USD Bn)	170.6	184.2	179.5	196.6	200.6
Exchange rate (MXN/USD)	18.93	19.91	20.49	19.70	20.70

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

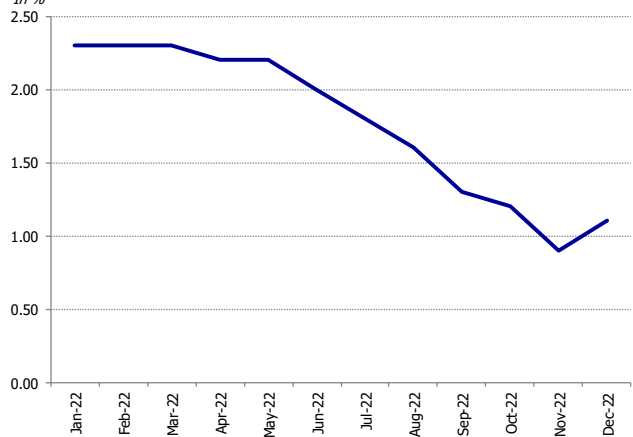
Real GDP

Q/Q variations - INEGI



GDP growth - rolling forecasts for 2023

In %

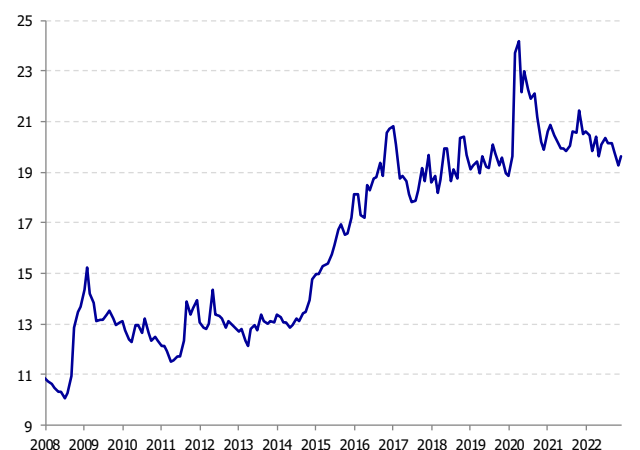


Inflation - General CPI

Annual changes



Mexican Peso / Dollar





PARAGUAY

Good news	To be alert	Bad news
The fiscal deficit will probably be smaller than in 2021 in line with the convergence plan.	The drought is a threat to economic activity, as the agriculture sector represents an important share of GDP.	After the expansion of 2021, the economy contracted in 2022.

POLITICS

Last Sunday there have been held the primary elections to define presidential candidates for next year's elections. From the ruling party (Partido Colorado), there were two candidates. Santiago Peña (the winner), supported by former president Cartes, and Arnoldo Weins, an ally of the current president. The opposition coalition is called "Concertación" and is integrated by several parties with a wide range of ideologies. Its candidate will be Efraín Alegre who is close to Fernando Lugo. Other candidates, with fewer chances, will be Euclides Acevedo, Payo Cubas (a libertarian with ideas like Trump and Bolsonaro), and Jose Luis Chilavert, a former goalkeeper from the right wing.

ECONOMIC ACTIVITY

After falling for 6 consecutive months, economic activity grew 5.5% year-on-year in August, 3.9% in September, and 1.2% in October. The growth of October is mostly explained by the agriculture and livestock and energy sectors. In the first case, greater soybean production and more bovine slaughter were key. Regarding energy production, the improvement in the water flow of the Paraná River allowed bi-national hydroelectric companies to produce more. Services and manufacturing showed mixed results, and construction decreased due to fewer private and public projects. Despite this improvement, the bad first half of the year will impact, and the GDP will contract by 0.1% in 2022. For 2023 we think that the economy will grow by 4.3%.

INFLATION

Inflation was 0.4% m/m in October and 0.7% in November. The annual inflation stands at 8.3% which implies a reduction from the two-digit prints of previous months. In November, higher increases were seen in Transport (16% y/y), Food and beverages (11%), and Restaurants and Hotels (9.5%). Inside the Food category, Vegetables (28.7%) and Cereals (18.4%) were at the top. At the same time, the increase in Fuels (25.2%) pushed up Transport costs. In the last month, the depreciation of the exchange rate affected the price of petrol and some durable goods. We expect that inflation will end 2022 at 8.4%, which is 1.5 percentage points above the 2021 print and 4.4 p.p. above Central Bank Target. Our forecast for 2023 is 4.7%.

MONETARY SECTOR

In line with the reduction in inflation, the Central Bank kept unchanged the interest rate at 8.5%. This is a positive rate compared to current inflation as well as projected. The PYG is now trading at 7281 per dollar. Last month, it increased by 1.3% and since August the depreciation rate has reached 5.8%. As we mentioned before, this devaluation had an impact on some prices. For 2023 we expect a moderation, ending at 7,121. Credit to the private sector in local currency grew 0.8% m/m in October and 3.7% year-on-year. Credit in foreign currency, which represents 46% of total stock, increased by 25.9% during the last year. At the same time, total deposits from the private sector had a monthly increase of 1.1% and 0.6% y/y.

FISCAL ACCOUNTS

Up to November fiscal balance accumulates a deficit of 2.2% of GDP, while the primary balance was positive by 0.3% of GDP. Revenues grew 9.5% in the accumulated of the year. Tax revenues increased by 14.5% and other revenues by 0.5% due to higher incomes in Yacyretá hydroelectric. Expenditures increased 8% in the same period, driven by an increase in wages (9.9%) and in social assistance (13.8%). Interest payments also had an important increase (18.9%). The government target for the 2022 fiscal deficit is 3% of GDP, so in December it can not be higher than 0.8%. This is not impossible to be met. For 2023 we expect that the reduction will continue with a deficit of 2.4% of GDP.

WHAT'S COMING NEXT?

- On April 30, 2023, presidential and legislative elections will be held.
- The candidates with the most chances to win the elections are Peña from the Colorado party and Alegre from the Concertación.



APPENDIX

Dashboard

	Dec-22	Nov-22	Oct-22	Sep-22	2021
Exchange rate (PYG/USD, eop.)	7,281	7,207	7,238	7,079	6,857
Interest rate (%)	8.50%	8.50%	8.50%	8.50%	5.25%
Inflation (y/y)	9.3%	8.3%	8.1%	9.3%	6.8%
Economic activity (y/y)	-	-	1.2%	3.9%	4.3%

Source: EconViews based on several sources

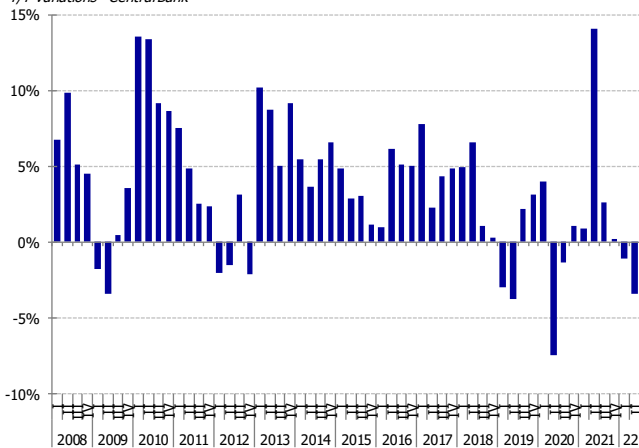
Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	-0.4%	-0.6%	5.0%	-0.1%	4.3%
Inflation (Dec-Dec)	2.8%	2.2%	6.8%	8.4%	4.7%
Fiscal Balance (NFPS - % GDP)	-2.8%	-6.1%	-3.7%	-3.0%	-2.4%
Current Account (% GDP)	-0.5%	2.7%	0.7%	-3.4%	-0.6%
International reserves (USD Bn)	7.7	9.5	9.9	9.6	10.3
Exchange rate (PYG/USD)	6,453	6,907	6,857	7,190	7,121

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

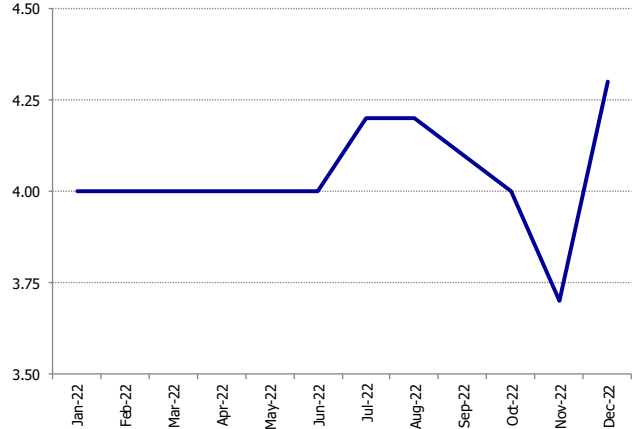
Real GDP

Y/Y variations - Central Bank



GDP growth - rolling forecasts for 2023

In %

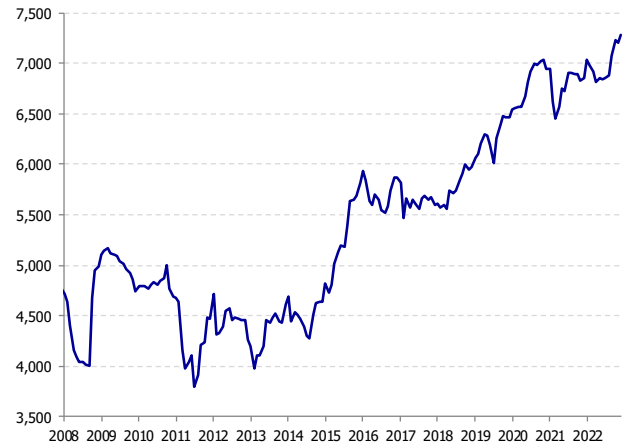


Inflation - General CPI

Annual changes



Paraguayan Guarani / Dollar



Good news	To be alert	Bad news
So far markets have been insulated from the political crisis, with the PEN/USD stable at 3.78 and the EMBI spread around 210 bps.	SMEs are warning that their Christmas sales could fall by around 50% due to the protests, at an estimated PEN 3-4.5 billion cost.	Although Peru is used to political volatility, with six presidents in the last six years, the current wave of protests has been much more violent than in 2020.

POLITICS

On December 7th, now ex-President Pedro Castillo tried to get ahead of an impeachment attempt by dissolving Congress. Without military support, he was removed from office and arrested. VP Dina Boluarte was sworn in as President. Widespread protests have left 21 dead so far. Roadblocks across the country are severely affecting economic activity. On December 14th Boluarte declared a State of Emergency, a curfew, and deployed troops. She also tried to bring forward the 2026 presidential election to late 2023 but Congress decided on April 2024, challenging Boluarte's power. The new Government is struggling to form a Cabinet. The political situation is very unstable and evolving minute by minute.

ECONOMIC ACTIVITY

Year-on-year growth had slowed from 3.3% in Q2 to 1.6% in Q3, running up to 2% last October, although base effects were more important in the first half of the year. In 10 months of 2022, accumulated growth reaches 2.8%. Manufacturing (+1.5%) has fared the best this year despite lagging in recent months with year-on-year contractions from August to October (-0.6%). Mining shrunk 1.2% over 10 months with lower commodity prices and many protests in the sector. Fishing slumped 16% this year. Our forecast for 2022 remains at 2.7%, but we have lowered expected GDP growth for 2023 from 2.4 to 2.1% in light of higher interest rates, an uncertain political outlook as well as global headwinds.

INFLATION

Year-on-year, Lima's Metropolitan CPI eased from 8.8% in June to 8.5% in November, but the monthly print came in hot at 0.52%. Housing costs rose 0.83% against October driven by the adjustment in gas (+1.8%) and electricity (+3.7%) bills. Food and beverage prices (+0.77%) leapt up after recording a slight deflation the previous month, and indirectly pressured on restaurants and hotels (+0.68%). Core inflation was 0.23% in the month and 5.7% year-on-year, still away from the BCRP's 1-3% target range. We expect inflation to close 2022 around 8%, although the ongoing protests and roadblocks could add some noise to December's print and fall sharply to 3.6% by the end of 2023.

MONETARY SECTOR

Following 13 consecutive 50 basis point hikes between August 2021-2022, the BCRP's policy rate inched up to 7.50% with 4 smaller 25 basis point hikes from September to December. This means rates are now positive in *ex post* terms. Markets believe they will plateau at this level and monetary policy will begin easing in March, with rates lowering to a still restrictive 5.25% by late 2023. The Peruvian Sol has remained insulated from the political crisis, trading at 3.78 per dollar. The PEN has appreciated 5.3% YTD. This has come at a cost of USD 4.1 billion in FX reserves for the Central Bank, though at 31% of GDP their level is nothing to worry about. Our forecast for the exchange rate is 3.90 PEN/USD by December 2023.

FISCAL ACCOUNTS

The 12-month rolling fiscal deficit stabilized around 1.6% of GDP by November, well below 2021's 2.5% figure. Revenues from taxes on income (+32%) and VAT (+16%) have soared in 2022, helping the fiscal consolidation. Royalties from mining and oil and gas grew 14% during the year, although they flagged by 10% in November. Current expenditures (+0.7%) have remained practically constant this year, with the National Government cutting its spending by 2% after Covid measures were removed. Public works expanded 19% in 2022, although it partly reflects transfers to state oil company Petroperú to import fuel and not real Capex. We see the fiscal deficit around 2% of GDP this year and increasing to 2.4% in 2023.

WHAT'S COMING NEXT?

- The latest development in the political crisis was that Congress decided to bring elections forward to April 2024, but harsh repression of protests has already eroded President Boluarte's popularity and it is uncertain how long her government will last.
- Apart from its internal problems, in 2023 Peru also has to deal with falling copper prices and China's slowdown.



APPENDIX

Dashboard

	Dec-22	Nov-22	Oct-22	Sep-22	2021
Exchange rate (PEN/USD, eop.)	3.78	3.82	3.96	3.97	3.99
Interest rate (%)	7.50%	7.25%	7.00%	6.75%	2.50%
Inflation (y/y)	-	8.4%	8.3%	8.5%	6.4%
Economic activity (y/y)	-	-	2.0%	1.7%	13.5%
Manufacturing activity (y/y)	-	-	-0.6%	-0.9%	18.7%
Mining production (y/y)	-	-	1.7%	-2.1%	7.5%

Source: EconViews based on several sources

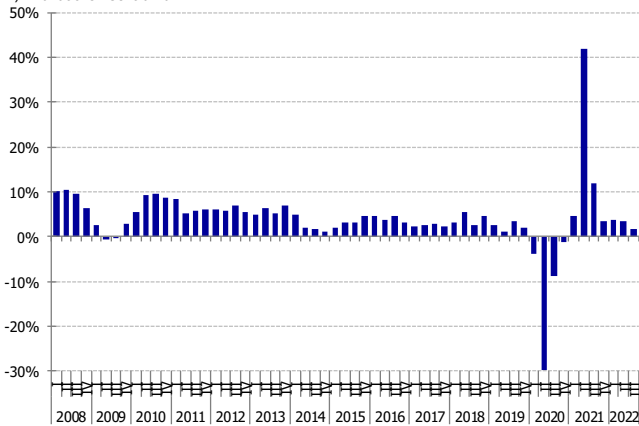
Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	2.2%	-11.0%	13.3%	2.7%	2.1%
Inflation (Dec-Dec)	1.9%	2.0%	6.4%	8.0%	3.6%
Fiscal Balance (% GDP)	-1.6%	-8.9%	-2.6%	-2.0%	-2.4%
Current Account (% GDP)	-0.7%	1.2%	-2.3%	-3.6%	-2.4%
International reserves (USD Bn)	68.3	74.7	78.5	75.2	76.4
Exchange rate (PEN/USD)	3.31	3.62	3.99	3.85	3.90

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

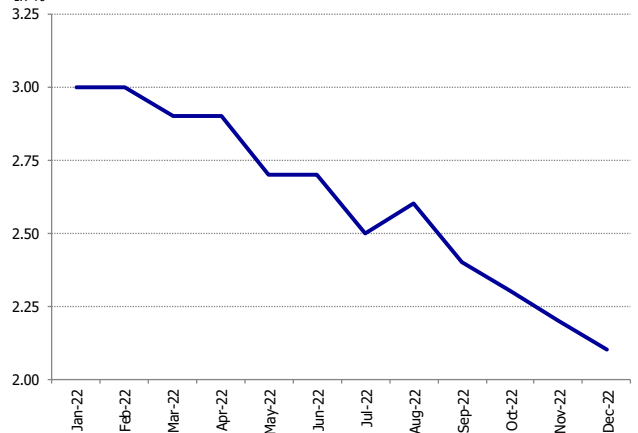
Real GDP

YY variations - Central Bank



GDP growth - rolling forecasts for 2023

In %



Inflation - General CPI

Annual changes



Peruvian Sol / Dollar



Good news	To be alert	Bad news
Inflation has started to fall amid financial tightening.	The proposal to reform social security will likely be rejected from opposition legislators.	Tensions between Uruguay and other Mercosur member increase over the country's intention to arrange unilateral trade agreements.

POLITICS

Uruguay's main, left-wing opposition party "Frente Amplio" has expressed rejection over the social security bill put forward by sitting president Lacalle Pou, as they deem it an adjustment over future retirees. Among other things, the proposal includes the extension of the minimum retirement age, from 60 to 65. However, the opposition expressed their agreement with some articles that could benefit retirees and workers. The bill is expected to be put to vote on the Senate on December 27th. If approved, it should be voted in the Lower House at some point in the first half of 2023.

ECONOMIC ACTIVITY

Economic activity stalled in the third quarter (-0.1% QoQ seasonally adjusted), but activity in the second quarter was revised upwardly (from 1.1% to 1.4%), and GDP ended 3.7% above its level a year ago. Despite rising interest rates, private consumption accelerated its yearly growth (7%) but government consumption slumped 3.5%. Investment dropped 3.9% YoY, but it was the effect of a reduction in stocks rather than capital formation, which actually grew 10.1% YoY. Higher frequency data indicate a further slowdown in activity. The Ceres index grew barely 0.1% m/m s.a. in October and dropped 0.2% in November. We expect GDP to grow 5% this year but slow to 2.3% in 2023.

INFLATION

Uruguay's national consumer price index registered a drop of 0.28% m/m that was explained mainly by a drop of food prices (with an incidence of -0.18 p.p.) and transport (with an incidence of -0.13 p.p.). Conversely, restaurants and hotels positively contributed to inflation (with an incidence of 0.06 p.p.). As a result, annual inflation ended at 8.46%, the lowest print since January. The CPI will likely fall again in December due to the seasonal electricity bill refunds, and we expect annual inflation to close at 8.5%. Higher rates and a slowing activity will likely reduce inflation next year, which we expect to end at 7.1%.

MONETARY SECTOR

On its last meeting in November, the Monetary Policy Committee increased the monetary policy rate by 50 bps, taking it to 11.25%, completing a total tightening of 550 basis points in 2022. While two-year expectations remain stable at 7%, they are well above the target range of 3-6%, but the Central Bank expressed that these increases should suffice to take expectations back to the desired level. The Uruguayan peso is currently trading at 38.41 per USD, implying an appreciation of 3.6% vs one month ago and of 16.4% YTD, further cementing the UYU as one of the best performing currencies in the region this year.

FISCAL ACCOUNTS

Revenues of Central Government amounted to 26.4% of GDP in the 12 months accumulated to October, some 0.2 p.p. lower than September's record. Cumulative primary expenditures amounted to 26.6% of GDP, and interests summed 2.3% of GDP. Including the results of public companies, the Central Bank and the total non-monetary public sector, the cumulative fiscal balance of the General Public Sector reached 2.5% of GDP. We expect 2022 to end with a fiscal balance of -3% of GDP, and the fiscal consolidation should continue in 2023 bringing the deficit down to 2.6% of GDP.

WHAT'S COMING NEXT?

- The Uruguayan peso has had one of the best performances this year in the region but is likely to somewhat depreciate in 2023 amid slowing economic activity and higher FED rates.
- The proposal to modify the pensions system will be voted before the month ends, but rejection from the opposition could mean further changes to the bill.



APPENDIX

Dashboard

	Dec-22	Nov-22	Oct-22	Sep-22	2021
Exchange rate (UYU/USD, eop.)	38.41	39.52	40.57	41.68	44.70
Interest rate (%)	11.25%	11.25%	10.75%	10.25%	4.22%
Inflation (y/y)	-	8.5%	9.0%	9.9%	8.0%
Manufacturing activity (y/y)	-	-	-4.2%	2.7%	12.3%

Source: EconViews based on several sources

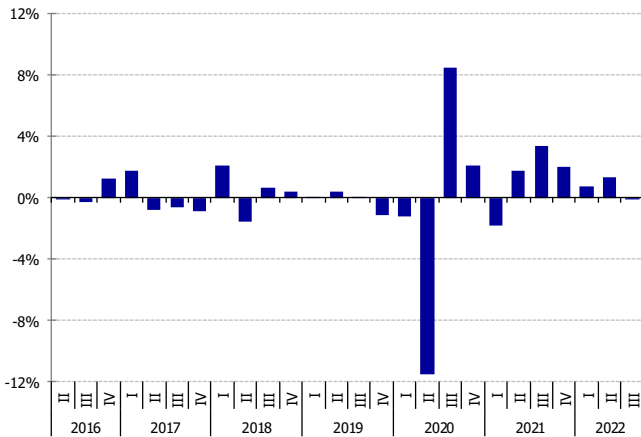
Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	0.2%	-5.9%	4.4%	5.0%	2.3%
Inflation (Dec-Dec)	8.8%	9.4%	8.0%	8.5%	7.1%
Fiscal Balance (% GDP)	-3.2%	-5.2%	-3.6%	-3.0%	-2.6%
Current Account (% GDP)	1.6%	-0.8%	-1.8%	-1.2%	-0.9%
International reserves (USD Bn)	14.5	16.2	17.0	16.3	16.2
Exchange rate (UYU/USD)	37.34	42.37	44.70	38.80	44.50

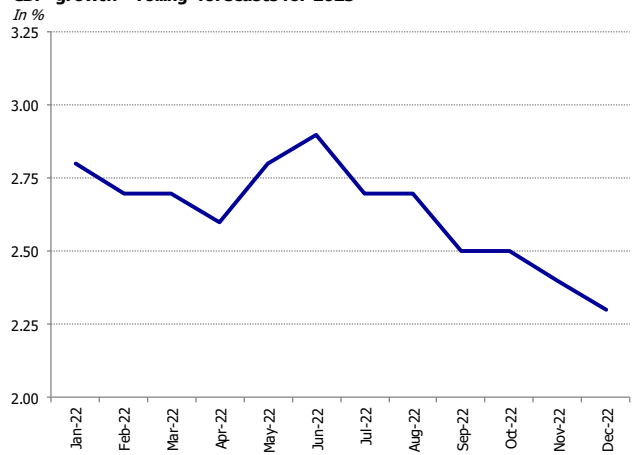
Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

Real GDP

Q/q variations, s.a. -BCU



GDP growth - rolling forecasts for 2023











Inflation - General CPI

Annual changes



Uruguayan Peso / Dollar



	GDP		Inflation	
	2022	2023	2022	2023
	5.5%	0.0%	96.0%	110.0%
	2.9%	1.0%	5.8%	4.8%
	2.4%	-1.1%	12.7%	4.8%
	7.5%	1.3%	12.5%	6.8%
	2.8%	1.1%	8.2%	4.8%
	-0.1%	4.3%	8.4%	4.7%
	2.7%	2.1%	8.0%	3.6%
	5.0%	2.3%	8.5%	7.1%

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