

# LATAM 7 + Argentina

## MACRO BRIEF

**ECONVIEWS**  
ECONOMÍA Y FINANZAS

June, 2020



### Argentina

The eternal debt restructuring saga

Page 2



### Brazil

Economic activity may have reached its lowest point

Page 4



### Chile

All weapons on the table to offset the crisis

Page 6



### Colombia

Fiscal rule suspended until 2022

Page 8



### Mexico

Little fiscal stimulus to fight the covid-19 crisis

Page 10



### Paraguay

Loose fiscal policy could last longer than expected

Page 12



### Peru

The health crisis will fully impact on the economy

Page 14



### Uruguay

On board to a reformist agenda

Page 16



# ARGENTINA

Good news	To be alert	Bad news
So far, the outbreak of Covid-19 was relatively mild in Argentina with just 30k infections and less than 1,000 deaths. This compares to a much worse fate in most neighboring countries.	The latest of the debt negotiation showed amber lights about a process that most thought would be finished by now. The next hurdle will be finding a new agreement with the IMF.	The expropriation of oilseed crusher Vicentín, a potential wealth tax and Latam's exit from the domestic air market show that Argentina's business climate has made a turn for the worse.

**POLITICS**

There is tension among the members of the ruling coalition. While Cristina Kirchner and her aides are pushing for policies that are more state-centric, there a moderate wing that seems to be more interested in solving the debt restructuring and working more constructively with business. This divide, coupled with the Covid-19 shock, has meant a complete paralysis in terms of economic policy. Argentina still lacks a plan to reduce inflation and recover growth after a decade of stagnation.

**ECONOMIC ACTIVITY**

The economy seems to have touched bottom in April, but the recovery is not looking like a V-shaped one. Firstly, the lockdown continues in the Buenos Aires area and is likely to do so through July. Secondly, the government is limiting in the second half the size of the stimulus programs. Thirdly, the payment chain faces a very difficult situation with a huge stock of bounced cheques and part of the middle class' finances severely wounded. By June still one third of the workers cannot work at national level, but that number goes to almost 50% in the Buenos Aires area, according to an official report.

**INFLATION**

The pandemic situation helped to tame inflation despite an increase of the money supply, as velocity of money circulation seems to have slowed down. However, with the FX appreciating in real terms and economic fundamentals deteriorating we see a high probability to a more rapid nominal depreciation in the second half of the year, which will lead to higher monthly inflation. In Q2 inflation was 1.5% in April and May and June may be around 2%. We project FY inflation near 45%, down from our previous forecast of 50%.

**MONETARY SECTOR**

The Central Bank is trying to fulfil multiple objectives at the same time. While trying to keep inflation at bay, it also wants to limit the Peso's pace of depreciation and at the same time it is the only source of finance to a treasury that has swollen the deficit. In this context it printed 1 trillion pesos, but to avoid the depreciation-inflation loop, it has strengthened financial restrictions, forced banks to pay more for deposits to retain money onshore and sterilized part of the monetary emission taking advantage that deposits grow faster than loans and commercial banks have plenty of liquidity. But the monetary overhang is a threat that the CB will need to deal with in the second half of the year.

**FISCAL ACCOUNTS**

The combination of lower economic activity, worsening tax compliance and important packages to stimulate the economy in the context of Covid-19 means that primary deficit will climb from 0.4% of GDP in 2019 to at least 5% this year. To avoid increasing the deficit even more, the government is setting limitations to its programs. For instance, salaries of employees working in firms with over 800 people will no longer be subsidized. In the first wave, the program subsidized 2.34 million of salaries and 43% of the companies that applied for the subsidy qualified for it. The emergency income program reached 8.4 million people. In addition, there were 340,000 loans at zero rate.

**WHAT'S COMING NEXT?**

- A new plan to regularize tax-related debts is going to Congress soon. It will enable companies to pay debts incurred before 30 May in instalments with below-market interest rates.
- The implementation (or any change) to the Vicentín expropriation will be closely followed by the business community.
- The leadership in the opposition for next year's midterm elections is something that will start to be discussed in the next few months.



# APPENDIX

## Dashboard

	Jun-20	May-20	Apr-20	Mar-20	2019
Exchange rate (ARS/USD, eop.)	69.80	68.55	66.79	64.42	59.88
Interest rate (%)	38.00%	38.00%	38.00%	38.00%	55.00%
National inflation (y/y)	-	43.42%	45.56%	48.36%	53.83%
Economic activity (y/y)	-	-	-	-11.5%	-2.2%
Industrial activity (y/y)	-	-	-33.5%	-16.5%	-6.3%
Automotive production (y/y)	-	-84.1%	-100.0%	-34.4%	-32.4%

Source: EconViews based on several sources

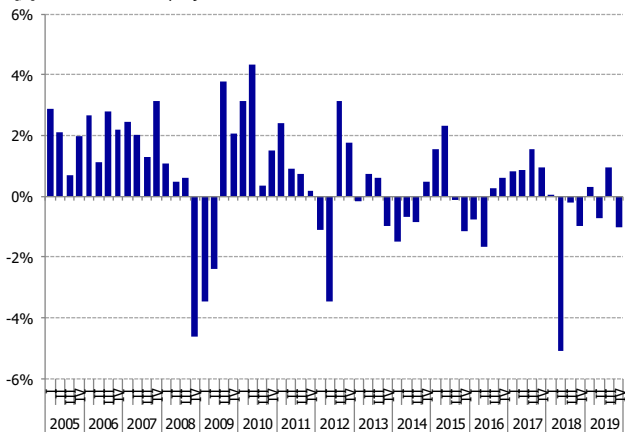
## Macroeconomic Outlook

	2017	2018	2019	2020F	2021F
GDP growth (%)	2.7%	-2.5%	-2.2%	-10.0%	7.5%
National inflation (Dec-Dec)	24.8%	47.6%	53.8%	45.0%	48.0%
Fiscal Balance (% GDP)	-5.9%	-5.3%	-3.8%	-6.7%	-4.0%
Current Account (% GDP)	-4.9%	-5.2%	-0.8%	0.5%	0.8%
International reserves (USD Bn)	55.1	65.8	44.8	43.0	50.0
Exchange rate (ARS/USD)	18.8	37.8	59.9	100.0	141.0

Source: EconViews based on official figures and own estimates

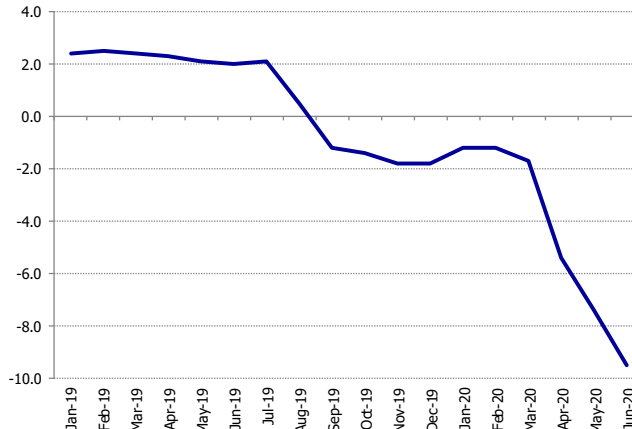
### Real GDP

Q/Q variations - Seasonally adjusted data INDEC



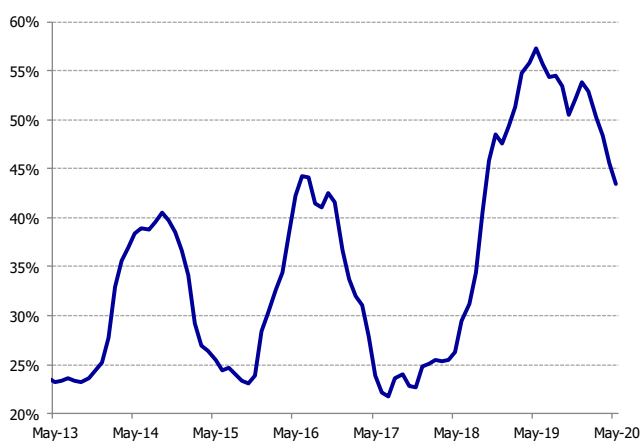
### GDP growth - rolling forecasts for 2020

In %

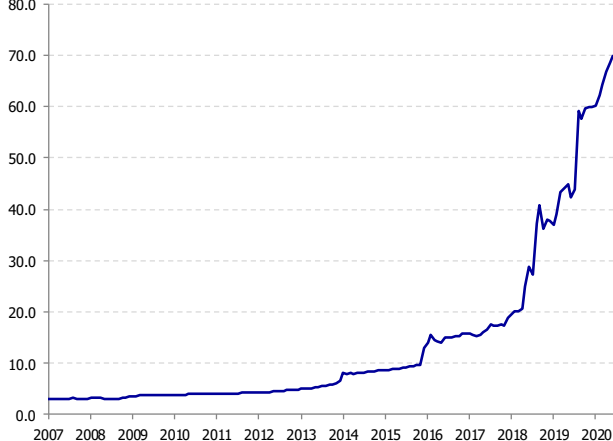


### Inflation - General CPI

Annual changes



### Argentinian Peso / Dollar





# BRAZIL

Good news	To be alert	Bad news
Economic activity may have reached its lowest point in April; in May, confidence indicators suggest a slight recovery.	The actual inflation rate (1.88% y/y) is incompatible with the Central Bank's inflation target (4%±1.5%).	Formal employment destruction amounted to 860 thousand jobs in April; the unemployment rate reached 12.6%.

**POLITICS**

Brazil continued to be the global epicenter in absolute numbers of new cases and new deaths and has the second highest number of total COVID-19 cases in the world, just behind the U.S. However, the contagion ratio continues to fall and new cases and deaths have been broadly flat over the last weeks. A recent opinion poll has shown President Bolsonaro's support lies at 33% as disgruntlement increases over his response to the pandemic.

**ECONOMIC ACTIVITY**

Economic activity recorded in Q1-20 its largest fall since Q2-15, while the contraction in Q2-20 is expected to be even larger. GDP fell 1.5% in Q1-20, reflecting the effects of social distancing measures that started in mid-March. The agricultural sector was the only one showing q/q growth (0.6%), while the industrial and service sectors declined 1.4% and 1.6% respectively. On the demand side, consumption dropped 2.0% q/q and investment climbed 3.1%, boosted by imports of machinery and equipment. GDP is likely to fall around 10% q/q in Q2-20, picking up from Q3-20 onwards. Thus, we expect the economy to fall 6.5% this year and grow 3.3% in 2021.

**INFLATION**

The IPCA recorded a 0.38% negative monthly variation in May, while it stood 1.88% over its record of a year ago, below the CB target (4%±1.5%). Inflation in the transportation sector displayed a 1.9% negative m/m variation, providing the largest negative contribution to the headline indicator. On the contrary, the biggest positive contribution came from food consumed at home that rose 0.33%. We expect inflation to accelerate slightly in June boosted by the already announced fuel increases, while other raises in regulated prices such as medicines and electricity will also put some pressure on inflation during coming months. Thus, we expect inflation to reach 1.9% in December.

**MONETARY SECTOR**

The strong deterioration of global financial conditions, especially the lower inflows to emerging markets, put pressure on the Brazilian Real. Thus, the BRL reached its weakest level on record in May, with the exchange rate topping 5.89 BRL/USD, and is currently trading at around 5.35 BRL/USD. Despite this depreciation of the BRL, the COPOM cut the SELIC rate to an all-time low of 2.25% in June's meeting. Due to the limited fiscal room, monetary policy has become the main tool for stimulating the economy. We expect the exchange rate to close 2020 at around 5.50 BRL per USD.

**FISCAL ACCOUNTS**

Due to the deterioration of economic activity and the implementation of fiscal measures to fight the coronavirus crisis -which are expected to have a fiscal impact of around 7.0% of GDP during the whole year-, the consolidated primary deficit over the last 12 months widened to 2.3% from 0.9% of GDP in April. Thus, the general government's gross debt climbed from 78.5% of GDP in March to 79.7% in April, while net debt increased to 52.7% of GDP from 51.7%. In this scenario, we expect a primary deficit slightly above 10% of GDP this year, which is expected to moderate to around 2.5% of GDP in 2021.

**WHAT'S COMING NEXT?**

- In the short term, the focus will remain on the evolution of new Covid-19 cases, as well as government actions regarding the duration of social distancing measures and plans to reopen their economies, as this has an impact on capital inflows to emerging markets.
- Although the contraction in economic activity together with the fiscal measures implemented to cushion the impact of the coronavirus crisis will deteriorate the fiscal accounts this year, the Government should try not to create new permanent expenses in order to resume the gradual fiscal adjustment enabled by the "spending cap" from 2021 onwards.



# APPENDIX

## Dashboard

	Jun-20	May-20	Apr-20	Mar-20	2019
Exchange rate (BRL/USD, eop.)	5.35	5.34	5.49	5.21	4.02
SELIC (%)	2.25%	3.00%	3.75%	3.75%	4.50%
Inflation (y/y)	-	1.9%	2.4%	3.3%	4.3%
Economic activity (y/y)	-	-	-15.1%	-1.8%	0.9%
Industrial activity (y/y)	-	-	-27.2%	-3.7%	-1.1%
Automotive production (y/y)	-	-84.4%	-99.3%	-21.1%	2.2%

Source: EconViews based on several sources

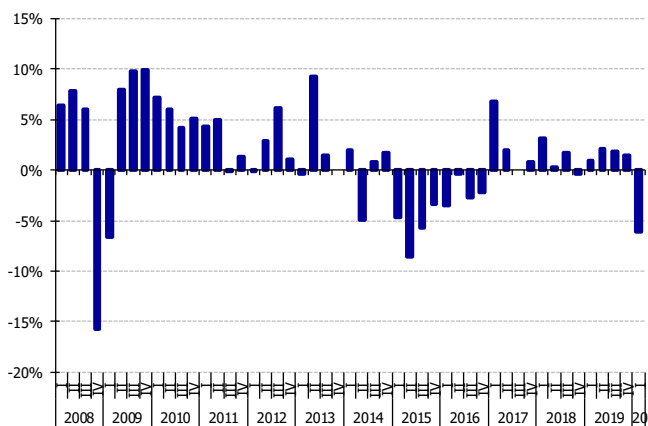
## Macroeconomic Outlook

	2017	2018	2019	2020F	2021F
GDP growth (%)	1.3%	1.3%	1.1%	-6.5%	3.3%
Inflation (Dec-Dec)	2.9%	3.7%	4.3%	1.9%	3.2%
Fiscal Balance (% GDP)	-7.8%	-7.1%	-5.9%	-14.2%	-7.1%
Current Account (% GDP)	-0.7%	-2.2%	-2.7%	-1.7%	-2.1%
International reserves (USD Bn)	365.4	365.5	346.5	329.3	336.5
Exchange rate (BRL/USD)	3.31	3.88	4.02	5.50	4.75

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

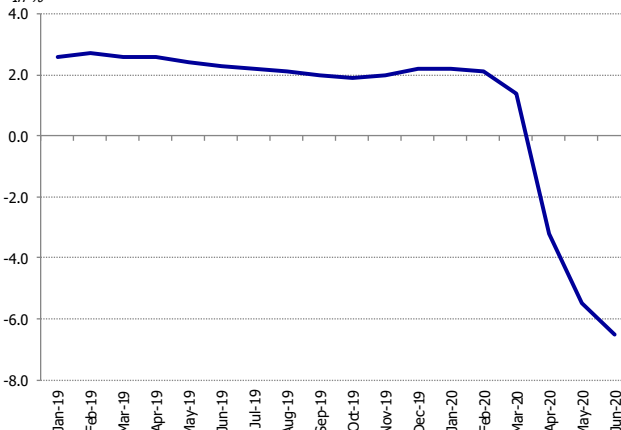
### Real GDP- Brazil

quarterly variations annualized, in %



### GDP growth - rolling forecasts for 2020

In %



### Inflation (IPCA)

Annual changes



### Brazilian Real / Dollar





# CHILE

Good news	To be alert	Bad news
Copper price has rebounded 22% since March 23 <sup>rd</sup> , when it had reached the lowest record since 2016. Expectations for a "V" shape recovery explain this performance.	The Adimark GfK consumer confidence index contracted to 21.2 points in May, from 21.6 points in April, marking a new all-time low in the survey's history.	External trade, the main sources for Chilean growth, will be one of the main victims from COVID-19, but assuming a transitory shock, it should recover next year.

**POLITICS**

Health Chief Jaime Mañalich has quitted last Saturday. The country is facing problems to contain the expansion of COVID-19, which has already taken 3,841 lives and contagions have reached a record, especially taken into account contagions per capita, where Chile stands 3<sup>rd</sup> in the world, behind Qatar and Bahrein. After Mañalich left his charge, the Government and the opposition started negotiations to launch a new fiscal package for USD 12 billion, in addition to the existing one. Furthermore, the national plebiscite for a constitutional reform will take place on October 25<sup>th</sup>.

**ECONOMIC ACTIVITY**

After falling 4.1% q/q in Q4-2019 as a result of massive social conflicts, economic activity had managed to recover partially in Q1-2020 (3.0%), helped by the performance of exports. Consumption and investment were a drag and fell 7.8% and 22.2% respectively, affected by the impact of COVID-19 and social distancing measures. According to preliminary data for April, activity contracted 8.7% m/m and 14.4% y/y, the biggest falls on record. On a global ranking of COVID-19 contagions, Chile is the 9<sup>th</sup> place. The economy is expected to decline 5.1% this year (downside risk).

**INFLATION**

In May prices declined 0.1% m/m, explained by transportation and hotels and restaurants prices. In y/y terms, inflation decelerated for the 4<sup>th</sup> time in a row, from 3.4% to 2.8% (below CB's target of 3%). Core inflation (excl. food and energy) was 2.1% y/y, the lowest record in almost a year. On the other hand, home maintenance and health recorded price increases of 0.5% and 0.4% respectively, while food and beverages prices remained stable. Similar to other countries, depressed economic activity will impact on prices in the short term, and they should recover when the economy is normalized.

**MONETARY SECTOR**

After reaching 867.80 per US Dollar in March (an all-time record), the CLP appreciated to 766.08 at the beginning of June. However, nowadays it depreciated to 817 levels, in line with the performance of other EM currencies. The Central Bank is still able to intervene in the FX market for USD 10 bn via spot sales and NDF. In the policy meeting of May, the entity kept the rate at 0.5%. Liquidity in CLP is being boosted: commercial banks made use of USD 12 billion of a credit facility (FCIC) to help SME's. Additionally, a new stage was announced (FCIC2); the two programs are equivalent to 15% of GDP.

**FISCAL ACCOUNTS**

The emergency plan announced in March consisted of US\$ 11,750 million, equivalent to 4.7% of GDP. It is aimed to support employment and firm's liquidity. Some of the measures announced were an increase in health expenditure, subsidies and unemployment benefits, tax deferrals, liquidity for SMEs and accelerated disbursements for public works. In addition, an Emergency Family Income for 4.9 million citizens will be implemented for 3 months. This program aims to help the most vulnerable. In this way, until April fiscal deficit recorded 0.1% of GDP and is expected to widen to 8.7% of GDP.

- WHAT'S COMING NEXT?**
- On May 29<sup>th</sup>, the IMF board approved a 2-year USD 23.9 billion Flexible Credit Line (FCL) arrangement for Chile. The FCL is designed for crisis prevention purposes as it provides the flexibility to draw on the credit line at any time during the period of the arrangement (2 years).
  - The Government seeks to enable the CB to buy bonds issued by the Treasury in the secondary market.



# APPENDIX

## Dashboard

	Jun-20	May-20	Apr-20	Mar-20	2019
Exchange rate (CLP/USD, eop.)	817.76	799.70	836.00	857.48	752.40
Interest rate (%)	-	0.50%	0.50%	1.00%	1.75%
Inflation (y/y)	-	2.8%	3.4%	3.7%	3.0%
Economic activity (y/y)	-	-	-14.1%	-3.1%	1.1%
Industrial activity (y/y)	-	-	-3.8%	0.8%	-0.6%
Mining production (y/y)	-	-	-0.5%	2.3%	-2.2%

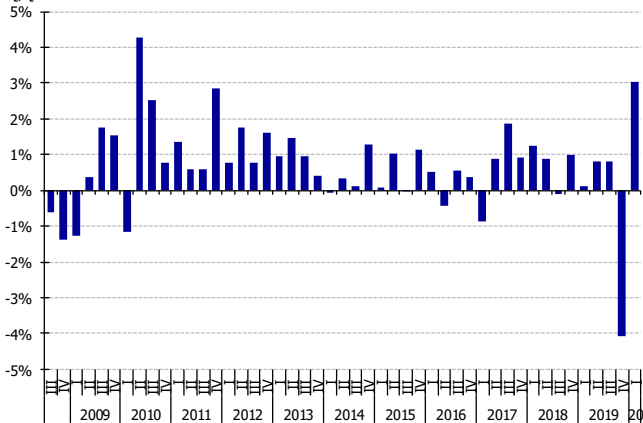
Source: EconViews based on several sources

## Macroeconomic Outlook

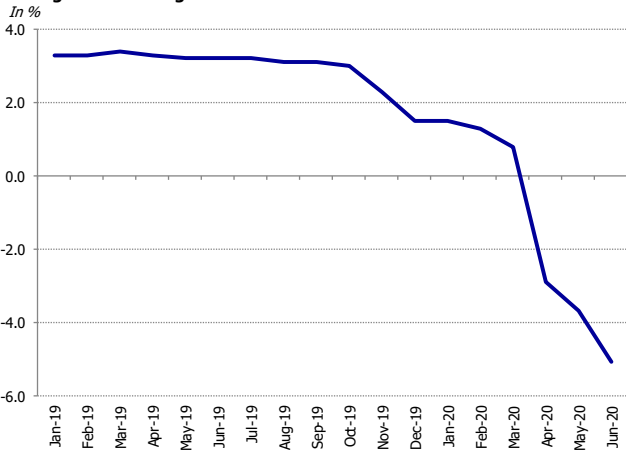
	2017	2018	2019	2020F	2021F
GDP growth (%)	1.2%	3.9%	1.1%	-5.1%	4.2%
Inflation (Dec-Dec)	2.3%	2.6%	3.0%	2.5%	2.6%
Fiscal Balance (% GDP)	-2.6%	-1.5%	-2.7%	-8.7%	-5.5%
Current Account (% GDP)	-2.3%	-3.6%	-3.9%	-1.3%	-1.8%
International reserves (USD Bn)	38.0	38.7	39.5	37.7	39.3
Exchange rate (CLP/USD)	616.2	695.2	752.0	803.0	768.0

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

**Real GDP**  
Q/Q variations



**GDP growth - rolling forecasts for 2020**



**Inflation - General CPI**



**Chilean Peso / Dollar**





# COLOMBIA

## Good news

The government has launched the “3 days without VAT” program in order to lower prices and boost sales: press reported a recovery in business confidence.

## To be alert

Fitch says that there is a 50% chance that Colombia loses its investment grade status if it does not start saving in the coming years.

## Bad news

Covid-19 cases have been accelerating lately reaching 55k with over 1,800 deaths. The increase has not been exponential but the situation is far from stabilized.

### POLITICS

Most political infighting has been suspended in the context of the Coronavirus. Still, the fact that the harvest of coca fell by 9% last year made front pages. The data came from a UN report but was quickly capitalized by President Uribe who stated that the number of acres in production was the lowest in six years, adding that 2019 was a record year for drug seizures.

### ECONOMIC ACTIVITY

April's data was not only weak but also worse than expected. Manufacturing sunk 35.8% y/y with 33 out of 39 sectors contracting. Retail sales, heavily affected by the lockdown, declined by almost 43% y/y and 42.5% m/m seasonally adjusted. The expectation is now that the economy will decline by around 5% in 2020, with a negative bias. Consumer confidence rebounded somewhat in May from the low of April, but May's print not only remained in negative territory but also was the second lowest in at least 25 years.

### INFLATION

Inflation stood at 2.85% y/y in May reaching a 5-year low after prices declined by 0.32% that month. Price pressures remained subdued, as core inflation is at an even lower point than CPI. Against this background it seems quite likely that inflation remains within the Central Bank's target of 1-3% with expectations well anchored in that band.

### MONETARY SECTOR

The Central Bank cut rates by 50 bps to 2.75% in the last meeting of late May. The tone of the press release was a bit more hawkish than the market was expecting with 2 of the seven members voting for just a 0.25% cut. Having said that, inflation in May was on the low end of expectations paving the way for another cut in June or early in Q3. The final rate would be around 2.25%, or close to zero in real terms.

### FISCAL ACCOUNTS

In June, the government suspended the fiscal rule after having included some soft patches to allow for counter cyclical spending in the context of the outbreak. The expectation is that the government deficit escalates to around 7% of GDP compared to 6% before the suspension of the fiscal rule.

### WHAT'S COMING NEXT?

- The inauguration of the “Tunel de la Linea” expected for the first week of September will be a milestone, as it is probably the biggest infrastructure investment in a generation. It took over 11 years and will link Bogotá with Buenaventura, Colombia's main port.
- The government is analyzing to allow people to withdraw money from their retirement accounts to smooth the impact of the Covid-19.





# APPENDIX

## Dashboard

	Jun-20	May-20	Apr-20	Mar-20	2019
Exchange rate (COP/USD, eop.)	3,747	3,734	3,968	4,061	3,289
Interest rate (%)	2.7%	3.2%	3.6%	3.6%	4.1%
Inflation (y/y)	-	2.9%	3.5%	3.9%	3.8%
Economic activity (y/y)	-	-	-	-4.9%	3.1%
Industrial activity (y/y)	-	-	-35.8%	-8.7%	1.4%

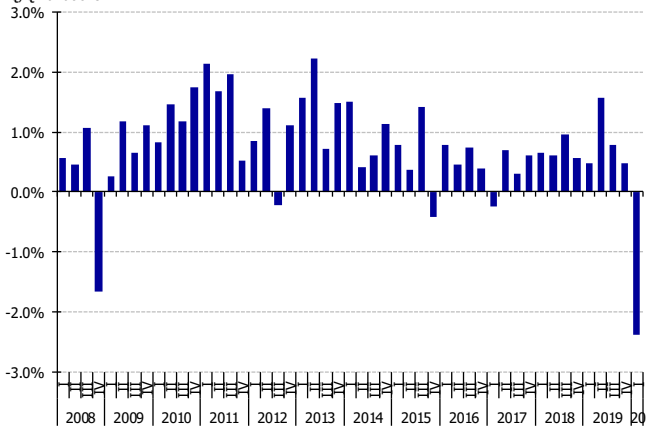
Source: EconViews based on several sources

## Macroeconomic Outlook

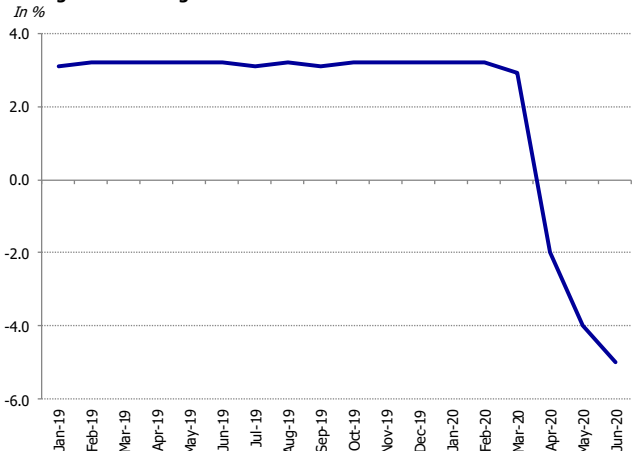
	2017	2018	2019	2020F	2021F
GDP growth (%)	1.4%	2.5%	3.3%	-5.0%	4.0%
Inflation (Dec-Dec)	4.1%	3.2%	3.8%	2.5%	3.0%
Fiscal Balance (% GDP)	-3.6%	-3.1%	-2.5%	-6.3%	-4.0%
Current Account (% GDP)	-3.3%	-3.9%	-4.2%	-4.2%	-3.9%
International reserves (USD Bn)	45.4	46.1	50.5	51.9	52.5
Exchange rate (COP/USD)	2,987	3,250	3,289	3,822	3,671

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

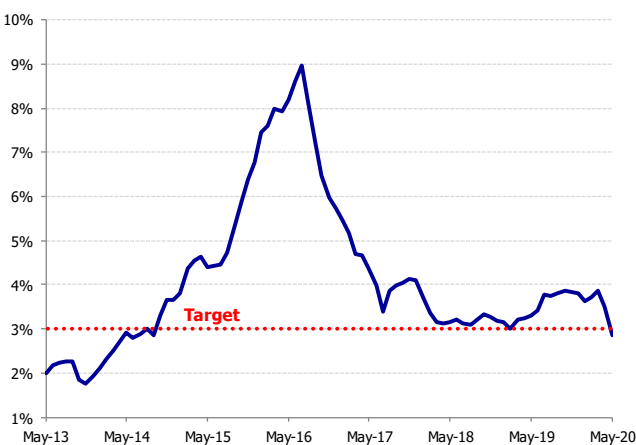
**Real GDP**  
Q/Q variations - DANE



**GDP growth - rolling forecasts for 2020**



**Inflation - General CPI**  
Annual changes



**Colombian Peso / Dollar**



Good news	To be alert	Bad news
Despite higher short-term inflation forecasts, the indicator is likely to remain in line with the CB target.	With little fiscal stimulus and uncertainties over the direction of domestic policy, GDP upturn could be slower than expected.	More jobs were lost in April than were created in all of 2019 .

**POLITICS**

Unlike what happens in most countries in the region, president Andrés Manuel López Obrador rejects huge stimulus packages, even as millions of Mexicans risk falling into poverty. Moreover, a recent report by a government agency said as many as 10 million people could fall into poverty this year. Generalized social distancing measures ended on June 1st, transitioning into a selective lockdown, and disagreements between local authorities and the federal government over the reopening plan are rising.

**ECONOMIC ACTIVITY**

Economic activity indicators are showing the impact of social-distancing measures, with almost no assistance from the Government to fight the Coronavirus crisis: in the Q1-20 GDP contracted 1.4% y/y, while economic figures from April are recording a sharp deterioration, as they reflect a full month of lockdown. However, economic activity is likely to reach a floor in the 2Q-20. Moreover, formal jobs contracted 2.2% y/y in April, registering the first annual contraction since 2009. In this scenario, we expect GDP to contract 8.3% this year but to recover and grow 3.1% in 2021.

**INFLATION**

Inflation rebounded in May, to 2.8% y/y, from 2.1% in April, boosted by the depreciation of the exchange rate, the rise in core food prices, likely due to supply disruptions, and the recovery in gasoline prices. Thus, the indicator stood very close to the target of the CB (3.0%). Despite the recent appreciation of the Mexican Peso and the widening of the output gap are likely to moderate inflation in the next months, we expect inflation to remain in line with the Banxico's target at the end of 2020, and to accelerate to 3.3% in 2021.

**MONETARY SECTOR**

In line with other currencies of the region, the Mexican Peso continues depreciating and is currently trading at around 22.60 MXN/USD. Thus, it has weakened 16% so far this year and we expect it to close the year at around 22.90 MXN/USD. Moreover, despite the recent acceleration in inflation, the Central Bank of Mexico continued with its easing cycle in May and cut its policy rate by 50 bps, to 5.50%. We expect Banxico to continue its easing cycle with 50-bp cuts, reaching a policy rate of 4.00% before the end of 2020.

**FISCAL ACCOUNTS**

Mexico is the only large country in the region that has not announced a huge economic stimulus package to counter the economic fallout from the pandemic. Thus, the government announced it will reshuffle previously planned spending, and so, public expenditure will only increase by less than 1% of GDP this year. However, as revenues are hit hard by slowing growth and oil prices are plunging, we expect fiscal deficit to increase to 4.7% of GDP this year. Fiscal accounts are likely to improve in 2021 and show a deficit of around 3.7% of GDP.

**WHAT'S COMING NEXT?**

- The little fiscal stimulus and growing uncertainties over the direction of domestic policy will be a drag on the expected economic recovery after social-distancing measures are lifted.
- The Inter-American Development Bank predicts that by year's end another 2 million people may be out of work.
- The National Council for the Evaluation of Social Development Policy predicts the crisis could push as many as 10.7 million people (about 8.5% of the population) into extreme poverty.



# APPENDIX

## Dashboard

	Jun-20	May-20	Apr-20	Mar-20	2019
Exchange rate (MXN/USD, eop.)	22.62	22.18	24.19	23.72	18.94
Interest rate (%)	5.50%	5.50%	6.00%	6.50%	7.50%
Inflation (y/y)	-	2.84%	2.15%	3.25%	2.83%
Economic activity (y/y)	-	-	-	-2.3%	-0.3%
Industrial activity (y/y)	-	-	-29.3%	-4.9%	-1.7%
Automotive production (y/y)	-	-	-98.8%	-24.9%	-3.4%

Source: EconViews based on several sources

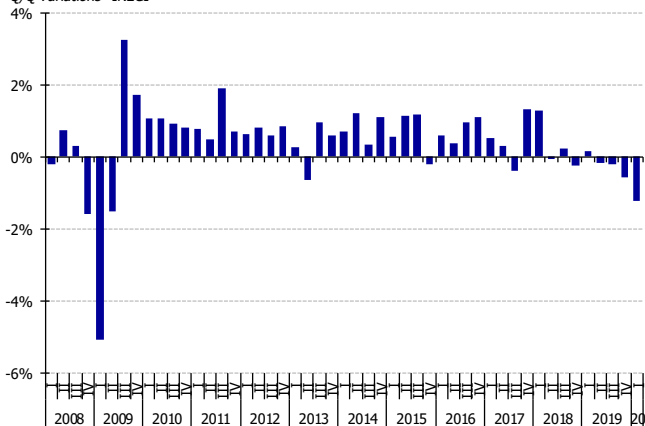
## Macroeconomic Outlook

	2017	2018	2019	2020F	2021F
GDP growth (%)	2.1%	2.2%	-0.3%	-8.3%	3.1%
Inflation (Dec-Dec)	6.8%	4.8%	2.8%	3.0%	3.3%
Fiscal Balance (% GDP)	-1.1%	-2.1%	-1.6%	-4.7%	-3.7%
Current Account (% GDP)	-1.8%	-2.1%	-0.3%	-0.6%	-0.8%
International reserves (USD Bn)	164.9	165.2	170.6	181.9	184.0
Exchange rate (MXN/USD)	19.7	19.7	18.9	22.9	22.1

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

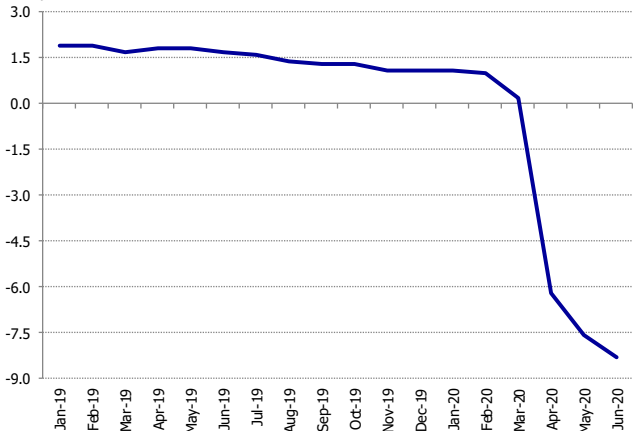
### Real GDP

Q/Q variations - INEGI



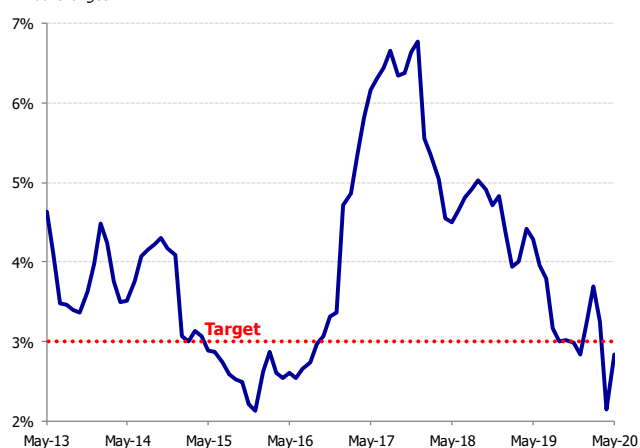
### GDP growth - rolling forecasts for 2020

In %

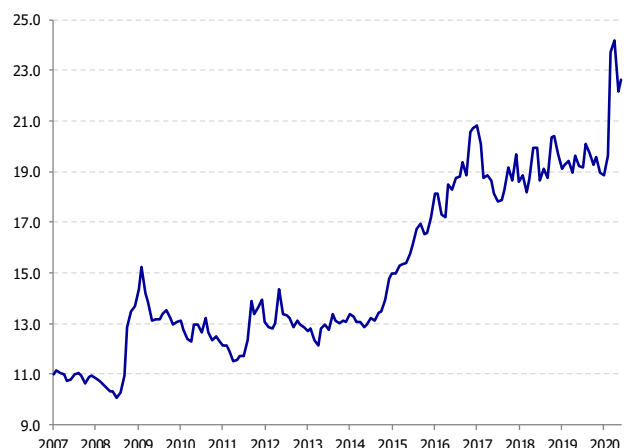


### Inflation - General CPI

Annual changes



### Mexican Peso / Dollar





# PARAGUAY

Good news	To be alert	Bad news
On June 15 <sup>th</sup> , the country progressed to the third stage of reopening, with most restrictions now lifted	Monetary policy is increasingly loose as the inflation rate stands below its long-term target	Shrinking global trade will take a toll on external accounts and the GDP's growth

**POLITICS**

The Supreme Court ruled that the high-rank executives of the Government will have to make public their statements of assets, increasing transparency in a country mired by corruption. The Court's decision was hailed by the local Embassy of the United States. Public support of the government has been increased, as its swift handling of the Coronavirus outbreak has proven successful, with few contagions in comparison to its neighboring countries, and restrictions on commercial and productive activity already being lifted.

**ECONOMIC ACTIVITY**

After closing 2019 with null growth, economic activity was showing signs of improvement in January and February, led by the services, agricultural and construction sectors. However, exports shrank in March and especially in April, while domestic activity was affected by the impact of the Coronavirus outbreak, and in particular driven down by negative performances of the services and manufacturing sectors. We expect GDP to contract this year by 2.4% as consumer spending and investment are affected amid an uncertain context, while exports will shrink due to falling demand.

**INFLATION**

Consumer prices recorded a 0.7 % y/y increase in May, after April's 2.0% record. This downturn was explained due to falling prices of both food and oil, but also due to an elevated base of comparison. Meanwhile, the CB's target rate has remained unchanged at 4.0%. However, inflation is expected to lower this year as economic activity falls and oil prices remain low, closing at 2.3% in 2020, while 2019's record was 2.8%. We envision inflation to accelerate in 2021, reaching 3.0%.

**MONETARY SECTOR**

The PYG is trading at levels of 6,740 to the USD, depreciating around 4.3% YTD. In May the BCP announced it would maintain its accommodative stance on monetary policy, as forecasts show no pressure on inflation in the coming months, with depressed economic activity and low oil prices. Meanwhile, the BCP expects its different programs of liquidity support will provide the domestic demand with a necessary impulse, and at the same time lead inflation to its long-term goal of 4.0%. Our forecast for Paraguay's inflation stands at 2.3% by the end of 2020.

**FISCAL ACCOUNTS**

In April, the government decided to suspend the Fiscal Responsibility Law, which originally set a deficit limit of 1.5% GDP, so as to give more flexibility to fiscal policy to counter the negative impact of the Coronavirus crisis. In fact, the emergency fiscal package is estimated to reach 6% of GDP, mainly centered in public health expenditures as well as social assistance. As primary expenditure rises and revenues have been affected due to poor economic activity, we forecast the FY deficit to reach 5.2% of GDP in 2020 and 3.4% of GDP in 2021.

**WHAT'S COMING NEXT?**

- Coronavirus containment measures have been successful, and the country is progressively lifting restrictions
- The suspension of the Fiscal Responsibility Law could prove to be longer than expected
- Shrinking global trade is one of the main threats the country is facing



# APPENDIX

## Dashboard

	Jun-20	May-20	Apr-20	Mar-20	2019
Exchange rate (PYG/USD, eop.)	6,741	6,677	6,573	6,572	6,464
Interest rate (%)	1.25%	1.25%	1.25%	2.25%	4.00%
Inflation (y/y)	-	0.7%	2.0%	2.5%	2.8%
Economic activity (y/y)	-	-	-12.2%	0.0%	0.0%

Source: EconViews based on several sources

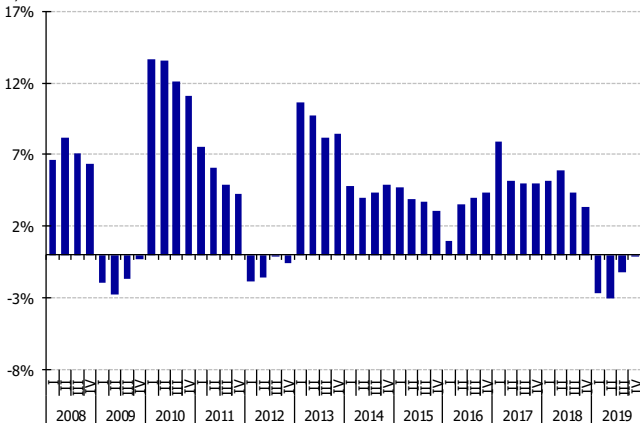
## Macroeconomic Outlook

	2017	2018	2019	2020F	2021F
GDP growth (%)	5.0%	3.4%	0.2%	-2.4%	4.6%
Inflation (Dec-Dec)	4.5%	3.2%	2.8%	2.3%	3.0%
Fiscal Balance (NFPS - % GDP)	-1.1%	-1.3%	-2.8%	-5.2%	-3.4%
Current Account (% GDP)	3.1%	-0.2%	-1.2%	-0.8%	-0.8%
International reserves (USD Bn)	8.1	8.0	8.0	7.8	8.0
Exchange rate (PYG/USD)	5,602	5,974	6,464	6,565	6,664

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

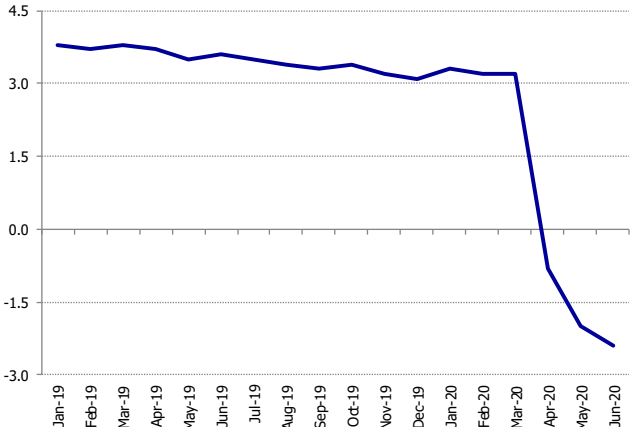
### Real GDP

Y/Y variations - Central Bank



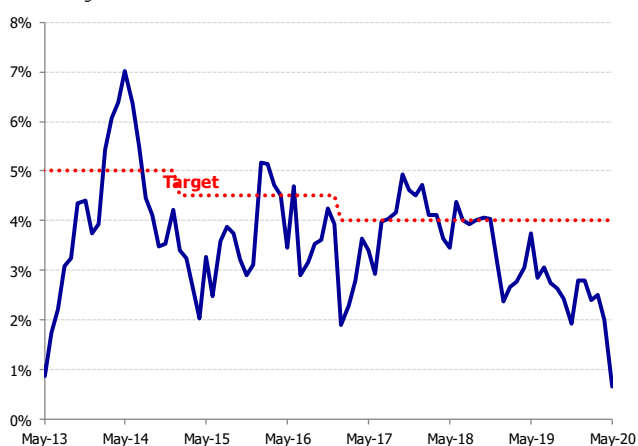
### GDP growth - rolling forecasts for 2020

In %

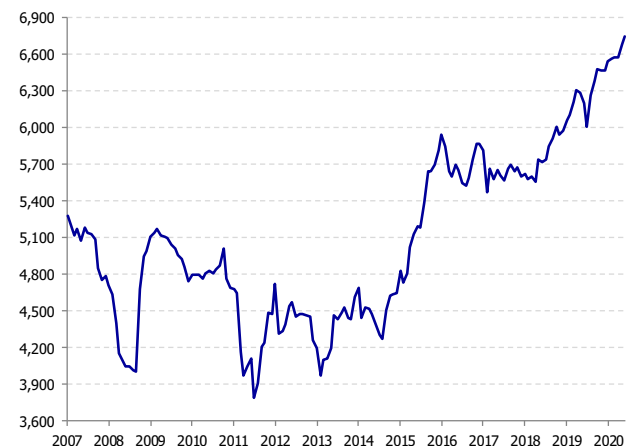


### Inflation - General CPI

Annual changes



### Paraguayan Guarani / Dollar



Good news	To be alert	Bad news
Peru is a highly open economy, which relies on the performance of exports. This way, a global "V" shaped recovery is good news.	COVID-19 rate of contagion remains high in spite of being the first LATAM country that imposed social distancing measures.	Activity will contract 9.3% this year, one of the worst LATAM performances, preceded only by Argentina (-10%) and Venezuela (-21.6%).

<b>POLITICS</b>	In spite of being the first Latam country that imposed restrictions in mid-March, COVID-19 infection rates are still high in June, mainly due to the existence a large informal workforce. In this context, approval of President Vizcarra lowered 10 p.p. in June and reached 70%, falling from the peak of 87% in March 21 <sup>st</sup> , right after the imposition of the social distancing measures. The disapproval rate of the Congress remained high in 51%, but has also lowered from the 78% reached in September of last year, when there was a political crisis and the Congress was dissolved by the President until January.
<b>ECONOMIC ACTIVITY</b>	Peru started with social distance measures on March 16 <sup>th</sup> . In a global ranking of COVID-19 contagions the country is on the 7 <sup>th</sup> place, and on the 2 <sup>nd</sup> place in Latam (after Brazil). As a result, in 1Q-2020 GDP contracted 3.4% y/y, the first reduction in 42 quarters. Preliminary data for April showed that activity collapsed 40.5% y/y, after a 16.3% fall in March. At the margin, according to s.a. data reported by the BCRP, the economy sank 59.6% q/q (annualized) in April. The perspective for Peru is very pessimistic: GDP contraction is expected to be 9.3% this year, one of the worst drops in Latam.
<b>INFLATION</b>	On a monthly basis, inflation was 0.2% m/m in May. Food prices increased 0.6% while energy prices went down 0.7% (propane gas price decreased 4.9%). Inflation in May was 1.78% y/y, slightly above the previous record and below the 2% CB's target. Moreover, core inflation remained stable (0.1% m/m and 1.9% y/y). There is downside risk pressure for prices in the medium term as inflation expectations for the next 12 months have decreased significantly, from 2.2% at the end of last year to 1.5% in May. Inflation is expected to decelerate to 1.3% this year and to recover to 2.0% next year.
<b>MONETARY SECTOR</b>	After reaching a maximum at 3.57 in March, the PEN has appreciated to 3.36 per US Dollar in April. However, nowadays has moved to 3.50 levels. There was some FX intervention in March-April, but reserves to GDP are high (30%). To face the crisis, the BCRP has reduced the policy rate in April to 0.25% (from 2.25%). In the last meeting in June, the entity kept the rate unchanged. A program of repos for financial entities with the BCRP was implemented, seeking to reduce interest rates for credits and an extension of maturities. The BCRP has provided liquidity for PEN 44.3 bn (USD 12.4 bn).
<b>FISCAL ACCOUNTS</b>	To face COVID-19 crisis, the Government announced one of the biggest fiscal packages in Latam, equivalent to more than 7% of GDP. Direct transfers to vulnerable households are equivalent to 1.3% of GDP. In addition, it was approved a 3-month extension for the income tax declaration for SMEs and granted flexibility to enterprises and households to pay taxes. These tax measures will provide a temporary relief close to 1.4% of GDP. In addition, the Government guarantees soft credits via the program "Reactiva Peru". In this way, fiscal deficit is expected to widen to 9.3% of GDP for this year.
<b>WHAT'S COMING NEXT?</b>	<ul style="list-style-type: none"> <li>• The IMF approved a USD 11.0 billion Flexible Credit Line (FCL) for Peru on May, 28<sup>th</sup>. The FCL is designed for crisis prevention purposes as it provides the flexibility to draw on the credit line at any time during the period of the arrangement (2 years).</li> <li>• In spite of restarting some economic activities, the health crisis will continue to inflict severe damage in the second quarter: infection rates remained high through mid-June.</li> </ul>



# APPENDIX

## Dashboard

	Jun-20	May-20	Apr-20	Mar-20	2019
Exchange rate ( <i>PEN/USD, eop.</i> )	3.51	3.43	3.38	3.43	3.32
Interest rate (%)	0.3%	0.3%	0.3%	2.3%	2.3%
Inflation ( <i>y/y</i> )	-	1.8%	1.7%	1.8%	1.9%
Economic activity ( <i>y/y</i> )	-	-	-40.5%	-16.3%	2.2%
Manufacturing activity ( <i>y/y</i> )	-	-	-	-32.2%	-1.7%
Mining production ( <i>y/y</i> )	-	-	-	-21.8%	0.0%

Source: EconViews based on several sources

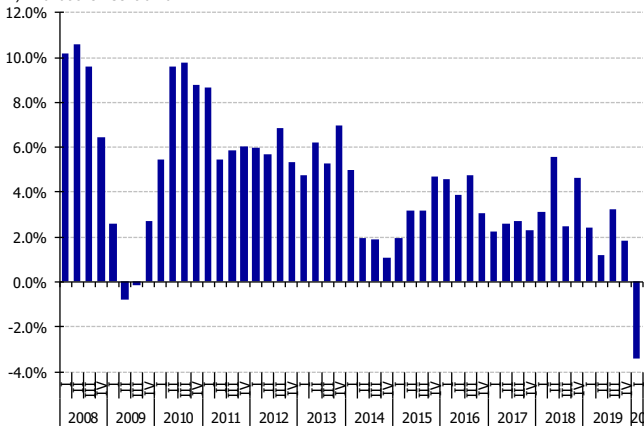
## Macroeconomic Outlook

	2017	2018	2019	2020F	2021F
GDP growth (%)	2.5%	4.0%	2.2%	-9.3%	7.1%
Inflation ( <i>Dec-Dec</i> )	1.4%	2.2%	1.9%	1.3%	2.0%
Fiscal Balance (% GDP)	-3.0%	-2.3%	-1.6%	-9.3%	-4.8%
Current Account (% GDP)	-1.3%	-1.7%	-1.5%	-1.1%	-1.3%
International reserves ( <i>USD Bn</i> )	61.4	57.9	64.9	68.7	71.0
Exchange rate ( <i>PEN/USD</i> )	3.24	3.37	3.32	3.42	3.40

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

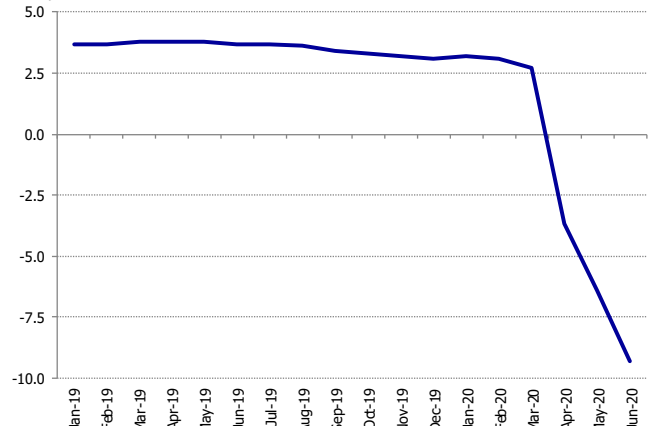
### Real GDP

Y/Y variations - Central Bank



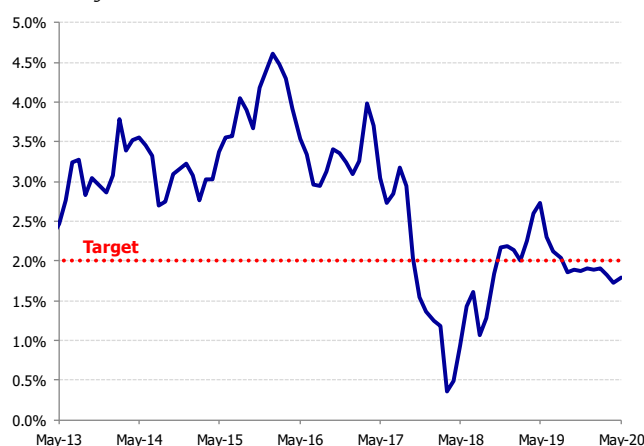
### GDP growth - rolling forecasts for 2020

In %



### Inflation - General CPI

Annual changes



### Peruvian Sol / Dollar





# URUGUAY

Good news	To be alert	Bad news
Luis Lacalle Pou has is enjoying broad support of the public, signaling a higher chance of implementing his reformist agenda	Inflation remains above the target and peaked in May; a further depreciation of the UYU could add pressure on it	Despite a maringal improvement in April, fiscal accounts are likely to deteriorate and the fiscal deficit could reach 6.5% of GDP this year

**POLITICS**

After ending with 15 years of rule by the Frente Amplio, Luis Lacalle Pou (candidate of the National Party) assumed the presidency in March on a market-friendly platform and a reformist agenda. After three months of rule, his public image is enjoying an approval rate of 63% of the population, as the impact of the pandemic has been moderate while the lockdown has not been compulsory, although some restrictions have indeed been put in place. Press reports indicate the government is planning to push ahead with boosting market competition once the health crisis is over.

**ECONOMIC ACTIVITY**

After closing 2019 with little growth (0.2%), Uruguay's GDP is expected to contract as much as 4% this year, as the Coronavirus outbreak and the measures to contain it will take a toll on both domestic activity and its trading partner's economies. Preliminary data shows the first quarter already recorded a 1.6% q/q fall in GDP (s.a. series), the steepest since 2014. As exports sank in April and May due to shrinking demand from Argentina and Brazil, while real wages already contracted 2.9% y/y in March, impacting domestic demand, we expect a further fall of real GDP in the second quarter.

**INFLATION**

Consumer prices recorded a yearly increase of 10.9% in April and 11.1% in May, marking the highest record since October 2003, and way above the upper bound of the Central Bank's 3.0%–7.0% target range. In April, the Central Bank decided to maintain its target range for the next two years, or even lower it. As rising food prices and FX pass-through have put pressure on prices recently, and the Uruguayan peso is projected to weaken, we expect inflation to end the year at 8.8%, though we envision it will decelerate in 2021 and close at 7.3%.

**MONETARY SECTOR**

The UYU is trading in the area of 42.7 to the USD with a cumulative YTD depreciation of about 14.5%, after reaching a peak of 46.0 in March amid fears of the impact of the Coronavirus outbreak, but is expected to weaken due to higher-than-expected inflation and low economic activity, closing the year at around 44.7. In April the BCU decided to lower its target for the M1 growth rate in Q2-2020 to 3.0%-5.0% from Q1-2020's target of 6.0%-8.0%, but due to the increased demand for liquidity, in May 21<sup>st</sup> it admitted it would keep an accommodative stance for the remainder of 2020-Q2.

**FISCAL ACCOUNTS**

Fiscal accounts improved slightly in April over March's results. The primary balance recorded an accumulated deficit of 2.9% of GDP in the last 12 months, an improvement of 0.2 p.p over the previous record. While revenues stood at 30.3% of GDP, current expenditure decreased in 0.2 p.p., reaching 31.0% of GDP, due to a reduction in transfers, while capital expenditure kept at 2.2% of GDP. Despite this, we expect the economy's contraction to take a toll on fiscal accounts, leading to a fiscal deficit of 6.4% of GDP by the end of the year.

**WHAT'S COMING NEXT?**

- Non-resident foreign currency deposits have soared in the last months and the trend will probably continue, as Argentina deepens its recession
- The national government has approved measures to attract foreign residents interested in obtaining fiscal residency in Uruguay, looking especially at Argentinians
- External accounts could be deeply affected by trading partners' shrinking economies





# APPENDIX

## Dashboard

	Jun-20	May-20	Apr-20	Mar-20	2019
Exchange rate (UYU/USD, eop.)	42.74	43.45	42.47	43.78	37.34
Interest rate (%)	-	-	5.43%	6.27%	6.53%
Inflation (y/y)	-	11.1%	10.9%	9.2%	8.8%
Manufacturing activity (y/y)	-	-	-19.3%	4.7%	-1.5%

Source: EconViews based on several sources

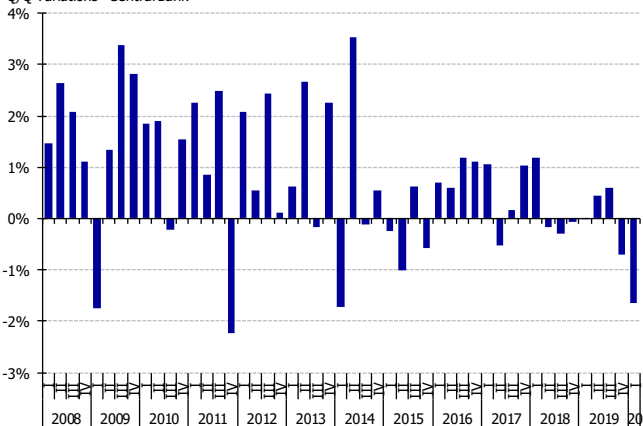
## Macroeconomic Outlook

	2017	2018	2019	2020F	2021F
GDP growth (%)	2.6%	1.6%	0.2%	-4.0%	3.6%
Inflation (Dec-Dec)	6.6%	8.0%	8.8%	8.8%	7.3%
Fiscal Balance (% GDP)	-3.5%	-2.9%	-3.4%	-6.4%	-4.2%
Current Account (% GDP)	0.7%	0.1%	0.7%	-0.1%	-0.6%
International reserves (USD Bn)	16.0	15.6	14.5	14.6	14.5
Exchange rate (UYU/USD)	28.85	32.45	37.34	44.20	45.90

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

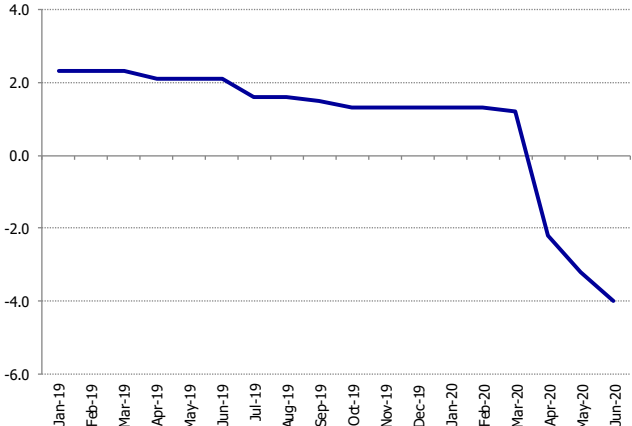
### Real GDP

Q/Q variations - Central Bank



### GDP growth - rolling forecasts for 2020

In %











### Inflation - General CPI

Annual changes



### Uruguayan Peso / Dollar



	GDP		Inflation	
	2020	2021	2020	2021
	-10.0%	7.5%	45.0%	48.0%
	-6.5%	3.3%	1.9%	3.2%
	-5.1%	4.2%	2.5%	2.6%
	-5.0%	4.0%	2.5%	3.0%
	-8.3%	3.1%	3.0%	3.3%
	-2.4%	4.6%	2.3%	3.0%
	-9.3%	7.1%	1.3%	2.0%
	-4.0%	3.6%	8.8%	7.3%

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