

# LATAM 7 + Argentina

## MACRO BRIEF

**ECONVIEWS**  
ECONOMÍA Y FINANZAS

June, 2021



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Imbalances accumulate ahead of elections

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Recovery prospects improve and the BRL appreciates

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A (left-wing) new constitution incoming?

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Economic recovery stumbles due to the health crisis

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# ARGENTINA

Good news	To be alert	Bad news
Minister Guzman agreed a USD 430 million payment to the Paris Club to avoid the default.	Fewer than 10% of Argentines have been fully vaccinated and therefore remain vulnerable to the delta variant. The government reduced flights by two thirds to limit exposure	Recently, MSCI recategorized the country as a "Stand-alone" market. This could reduce potential investments.

**POLITICS**

The date of the primary elections is getting close. In this sense, all economic decisions are taken thinking in electoral terms. Examples of that could be the insignificant increases in utility tariffs, the lower nominal depreciation of the exchange rate, or the delay in the agreement with the IMF. The vaccination situation will be another decisive point in the campaign. The government aims to reach primaries with a huge number of people vaccinated, but this will imply speeding up: people fully vaccinated stand at 8.8% while daily new cases remain above 20,000.

**ECONOMIC ACTIVITY**

Economic activity fell 1.2% m/m in April. This is the third consecutive fall since February. Year to date the economy has grown by 8.2% against the same period in 2020, but this is mostly explained by the low comparison base. Compared to April 2019, only four out of 15 sectors are above 2019's level, among which are Industry and Commerce. Among the hardest hit sectors we can mention Hotels and Restaurants (-52.6%) and Social and Healthcare services (-33.4%). The recovery will depend on the evolution of the pandemic and the arrival of new variants that could force even more mobility restrictions. For 2021 we expect a rebound of 6%.

**INFLATION**

After two months of high prints (March 4.8% and April 4.1%), May inflation surprised with a 3.3%, though actually, it is not good news. Inflation was 48.8% y/y, its highest value since February 2020. To control price increases the official strategy does not include the use of interest rates, conversely, it is based on unorthodox methods such as price controls. Regulated prices are also being strictly controlled: in May they increased 16.2 p.p. below headline inflation in the YoY comparison. Additionally, the depreciation rate has been greatly reduced. In this context we expect inflation to be around 2.5 – 3% during the next months, reaching December at a pace of 46% y/y.

**MONETARY SECTOR**

The official exchange rate is being depreciated at a lower rate and it stands at ARS 95.7. The BCS is also controlled by the CB through interventions in bond markets. Now it is trading at ARS 165.6. That leads to an FX spread of 73%. The Central Bank continues to buy reserves in the market but at a slower pace. While in March, April, and May it bought over USD 1,000, in June (up to the 28<sup>th</sup>) it only bought USD 628. Credit in ARS continues falling in real terms since December in all its categories except pledge loans. Total deposits stay constant with sight deposits growing at higher rates than time deposits (except the inflation-linked ones).

**FISCAL ACCOUNTS**

Fiscal results are going better than expected with a primary deficit of only 0.1% of GDP in the first 5 months of the year. There were two key factors to reach this result. On the revenues side, the tax on large fortunes and the higher export revenues due to the increase in commodities prices. On the expenditures side, the pensions bill is now the lowest level since December 2014. The risks come from economic subsidies that in May were equivalent to 15.9% of public spending while between Jan-Apr they averaged only 10.6%. This item, coupled with an increase in capital spending, more transfers to provinces and electoral expenses will take the fiscal deficit to 4.0% of GDP at the end of the year.

**WHAT'S COMING NEXT?**

- July 24<sup>th</sup> is the deadline to enroll candidates to compete in the primaries. Probably the official coalition presents a single list in Buenos Aires province. Conversely, the opposition candidate will likely be elected by the voters among 3 or 4 lists.
- Vaccination process continues but new daily cases and deaths stand high. The complete re-openness of the economy will depend on these numbers.



# APPENDIX

## Dashboard

	Jun-21	May-21	Apr-21	Mar-21	2020
Exchange rate (ARS/USD, eop.)	95.69	94.49	93.36	91.99	84.15
Interest rate (%)	38.00%	38.00%	38.00%	38.00%	38.00%
National inflation (y/y)	-	48.84%	46.28%	42.65%	36.14%
Economic activity (y/y)	-	-	28.3%	11.9%	-9.9%
Industrial activity (y/y)	-	-	55.9%	33.0%	-7.6%
Automotive production (y/y)	-	627.9%	-	125.2%	-18.5%

Source: EconViews based on several sources

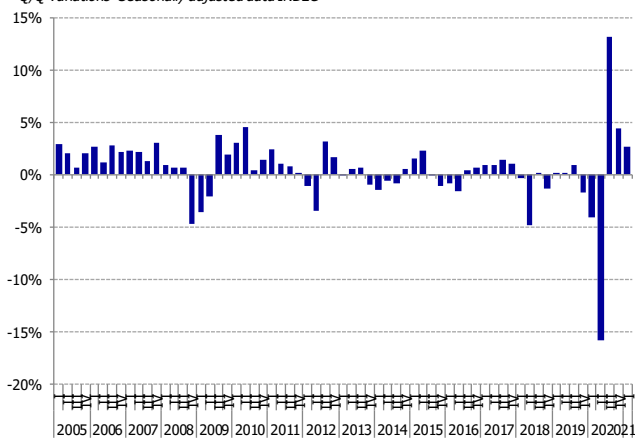
## Macroeconomic Outlook

	2017	2018	2019	2020	2021F
GDP growth (%)	2.8%	-2.6%	-2.1%	-9.9%	6.0%
National inflation (Dec-Dec)	24.8%	47.6%	53.8%	36.1%	46.0%
Fiscal Balance (% GDP)	-5.9%	-5.0%	-3.8%	-8.5%	-4.0%
Current Account (% GDP)	-4.9%	-5.2%	-0.8%	0.9%	1.2%
International reserves (USD Bn)	55.1	65.8	44.8	39.4	41.9
Exchange rate (ARS/USD)	18.77	37.81	59.90	84.15	108.10

Source: EconViews based on official figures and own estimates

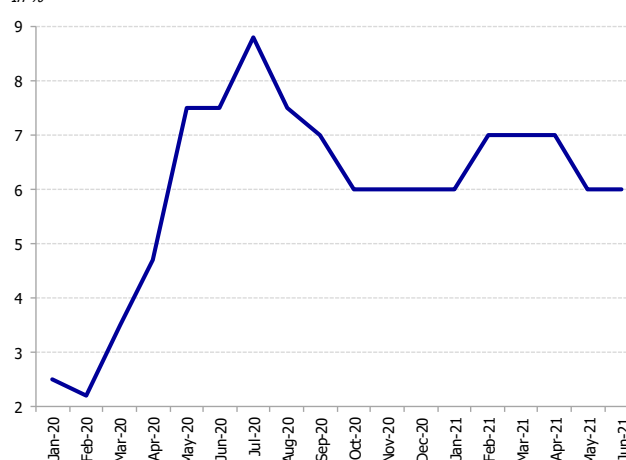
### Real GDP

Q/Q variations - Seasonally adjusted data INDEC



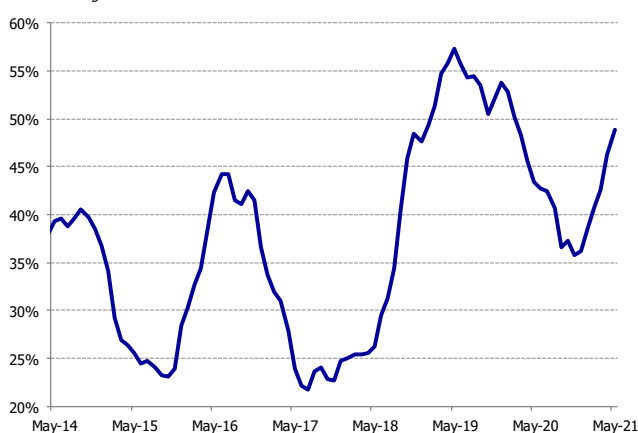
### GDP growth - rolling forecasts for 2021

In %

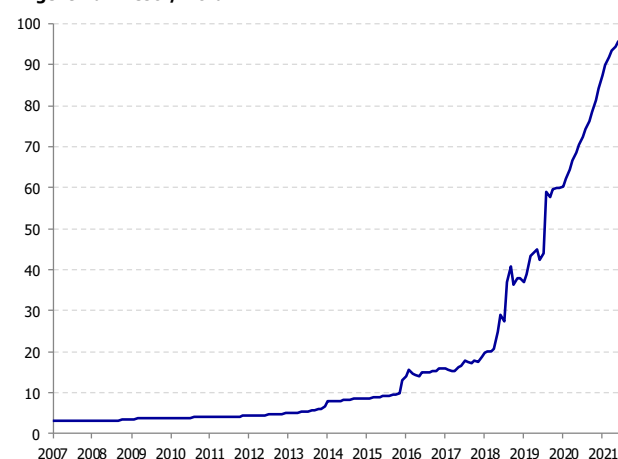


### Inflation - General CPI

Annual changes



### Argentinian Peso / Dollar





# BRAZIL

Good news	To be alert	Bad news
The Brazilian financial market is thriving with an important number of IPOs and follow on. JP Morgan recently acquired 40% of digital bank C6.	The lack of rains has threatened the electricity system. Ministers say there is no risk of blackout despite reservoirs being at the lowest level in decades	Brazil has surpassed 500,000 Covid-19 deaths and 18.4 million cases. It has the highest mortality rate with the exception of Mexico, where data is less reliable.

**POLITICS**

Former president Fernando Henrique Cardoso is supporting Lula to be Bolsonaro's successor in 2022's election. Bolsonaro will run for re-election. It promises to be a tough battle. In the short run while Bolsonaro is moving forward with some reforms he is facing criticism for his handling of the pandemic. Senators are filing a lawsuit in the Supreme Court in a scandal linked to the vaccination process that could lead to impeachment, although it looks unlikely. Bolsonaro's popularity remains way above Dilma's.

**ECONOMIC ACTIVITY**

The economy is set to recover over 5% in 2021, according to the latest survey carried out by the Central Bank. This would mean recovering everything that was lost in 2020 (-4.1%). However, going forward the market expects Brazil to revert to its long-term growth of around 2%. Investment with a growth rate of 11-12% is due to lead the pack and exports are also expected to do better than GDP. Government and private consumption will both grow, but less than other components. Brazil has benefited by the increase in commodity prices and. PMI at 53.7 also points to economic expansion.

**INFLATION**

Inflation is running at over 8%, well above the Central Bank's target and the record since 2016. The expectation is that inflation moves down to around 6% towards the end of the year to move below 4% by the end of next. The Central Bank's survey indicates that inflation should revert to 3.25% by 2023. The recent appreciation of the exchange rate coupled with higher interest rates should be the engines of the deceleration of price increases. There are base effects as well.

**MONETARY SECTOR**

The Central Bank has raised interest rates three times this year, 75 basis points each time to reach 4.25%. The market is expecting more increases in the next few months to finish the increasing cycle at 6.5%. So, if the Central Bank continues in its 75bp tranches, there are three more hikes in 2021. The longer-term expectations indicate that 6.5% would be the level for the coming years. Loan growth has been positive in every single month in 2021 with household borrowing outgrowing corporate loans. In May household credit jumped by 37.5% y/y, so around 27% in real terms. Corporate loans are up by 19%.

**FISCAL ACCOUNTS**

Fiscal balance is set to improve sharply from 2020's -13.6% but would still remain at a jaw-dropping -7.3%. There are more emergency spending measures on the way for 39 million Brazilians and an increasing interest burden because of the hike in the monetary policy rate. The change in income tax is a controversial measure that would increase the burden for companies, but at the same time is a relief to households with a higher minimum taxable income.

- WHAT'S COMING NEXT?**
- The bill that will lead to the privatization of Eletrobras is in Bolsonaro's office after being approved by both houses. Now the discussion is whether the president will veto some parts of the bill such as the one that guarantees jobs for current employees after the privatization. The easy passing of the bill in Congress is a victory for Minister Paulo Guedes.
  - The government pushed an administrative reform in the Lower House that would change the rules of the civil service, but the new rules would only apply for new employees.



# APPENDIX

## Dashboard

	Jun-21	May-21	Apr-21	Mar-21	2020
Exchange rate (BRL/USD, eop.)	4.96	5.22	5.44	5.64	5.19
SELIC (%)	2.75%	2.00%	2.00%	2.00%	2.00%
Inflation (y/y)	-	5.2%	4.6%	4.5%	4.5%
Economic activity (y/y)	-	-	-0.5%	1.6%	-4.1%
Industrial activity (y/y)	-	0.3%	2.3%	8.3%	-4.5%
Automotive production (y/y)	-	-6.6%	4.1%	21.8%	-28.2%

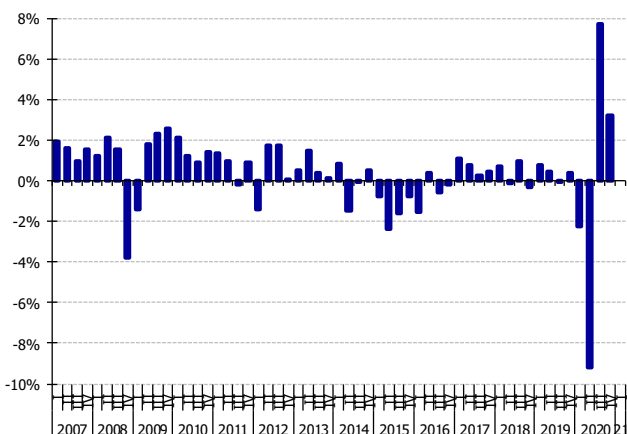
Source: EconViews based on several sources

## Macroeconomic Outlook

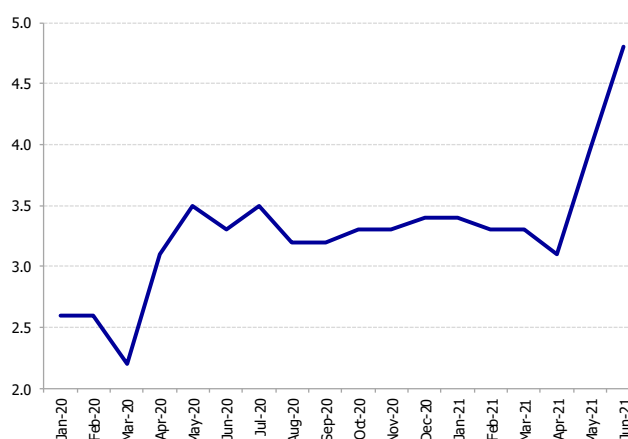
	2017	2018	2019	2020	2021F
GDP growth (%)	1.3%	1.8%	1.4%	-4.1%	4.8%
Inflation (Dec-Dec)	2.9%	3.7%	4.3%	4.5%	5.9%
Fiscal Balance (% GDP)	-7.8%	-7.0%	-5.8%	-13.6%	-7.3%
Current Account (% GDP)	-1.1%	-2.7%	-3.5%	-1.7%	-0.7%
International reserves (USD Bn)	365.4	365.5	346.5	342.7	355.0
Exchange rate (BRL/USD)	3.31	3.88	4.02	5.19	5.10

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

**Real GDP**  
quarterly variations, in %



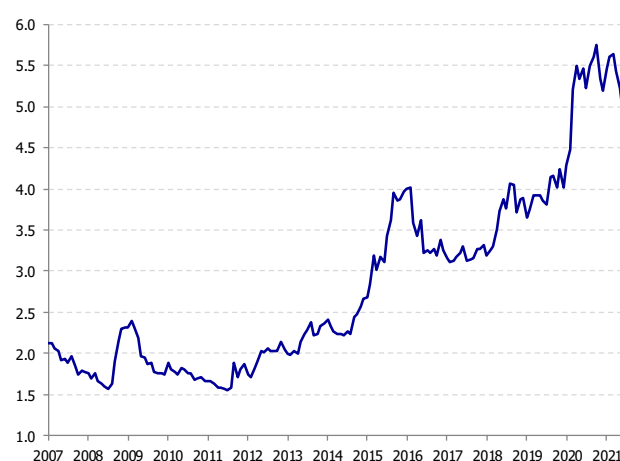
**GDP growth - rolling forecasts for 2021**  
In %



**Inflation (IPCA)**  
Annual changes



**Brazilian Real / Dollar**





# CHILE

Good news	To be alert	Bad news
Chile's public health regulator approved the use of Pfizer's COVID-19 vaccine for teenagers as the country races to hit a target of herd immunity.	Copper hits highest level since 2011 (4.471 US\$/lb) and although it could lose momentum the energy-transition demand will maintain in the following years.	China, the world's biggest metals consumer, is taking measures to cool a stellar rally in prices that has squeezed manufacturers' margins.

**POLITICS**

Anger about inequality drove voters to pick left-wing and independents for the constitutional convention. In late 2019 and early 2020 the country was rocked by protests but COVID-19 together with the promise to draft a new constitution took people off the streets and caused the protests to fizzle. Finally, Chileans used the ballot box to express their discontent: independent candidates grabbed 88 of the 155 seats and, together with the ones reserved for indigenous people, more than the two-thirds majority needed. The approval of the wording of the new constitution is out of the government's control.

**ECONOMIC ACTIVITY**

Economic recovery is faster than previously expected by a combination of fiscal stimulus and accommodative monetary conditions that helped real GDP to show a growth of 3.2% q/q in Q1. Even though the second wave imposed a new lockdown and a (less than expected) decline of -1.4% m/m in April, the 2021 GDP forecast was upgraded 2.5 percentage points, from 6.0-7.0% to 8.5-9.5%. The government approved to draw down a third tranche of the pensions savings that aims to improve even more the disposable income of middle-class households.

**INFLATION**

Both headline and core CPI have risen, and currently stand at around 3.5% y/y. Central Bank pointed out that price increases concentrate in fuels and goods, and that core CPI continue to be affected by strong demand, in a context in which some inventories have yet to be fully replenished, and global production and transportation costs have risen significantly. Nevertheless, one- and two-year-ahead expectations continue to be around 3% annually, right on target. December 2021 CPI official projection is 4.4% y/y, but we expect it to be 3.6%

**MONETARY SECTOR**

The Central Bank Board estimates that the economy is still affected by the impact on the recovery of the pandemic and the lagging labor market, but also considers that it is necessary to recalibrate the expansiveness of monetary policy going forward. Therefore, like the rest of the CB in the region, the stance will be less (more) dovish (hawkish) and the stock of FCIC, a liquidity facility program, will be gradually reduced as the assets in the portfolio are extinguished.

**FISCAL ACCOUNTS**

Fiscal spending is expected to grow 25% y/y nominal this year, an increase of 20 percentage points compared to what was expected in March. This includes the additional expenditure that the recently approved household support measures will entail. Thus, the structural deficit programmed for the year now is 3.8% of GDP, up to the 3.5% initially expected. The effect of the fiscal expending is partially offset by the all-high copper prices.

**WHAT'S COMING NEXT?**

- So far, Chileans have withdrawn two 10% tranches of their pensions, totaling \$37.5 billion in savings, and the third one is already in the street, pushing consumption.
- The number of new COVID-19 cases was the lowest in four months and the Government is preparing a third booster vaccine dose, especially for those who were immunized with the Chinese Sinovac.



# APPENDIX

## Dashboard

	Jun-21	May-21	Apr-21	Mar-21	2020
Exchange rate (CLP/USD, eop.)	726.20	722.43	710.30	720.70	711.25
Interest rate (%)	0.50%	0.50%	0.50%	0.50%	1.75%
Inflation (y/y)	-	3.6%	3.3%	2.9%	3.0%
Economic activity (y/y)	-	-	14.1%	5.8%	-5.8%
Industrial activity (y/y)	-	-	5.1%	3.0%	-0.9%
Mining production (y/y)	-	-	4.2%	2.1%	0.5%

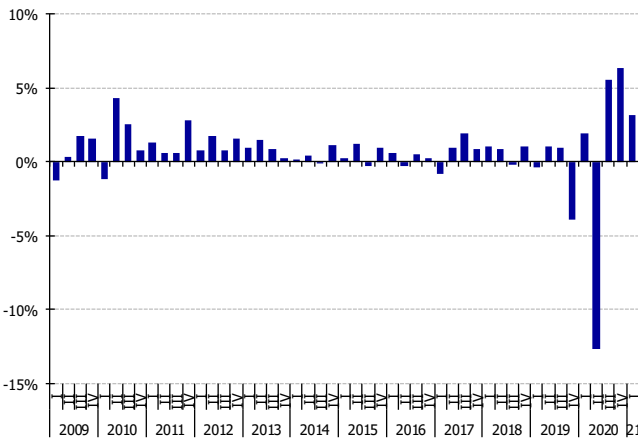
Source: EconViews based on several sources

## Macroeconomic Outlook

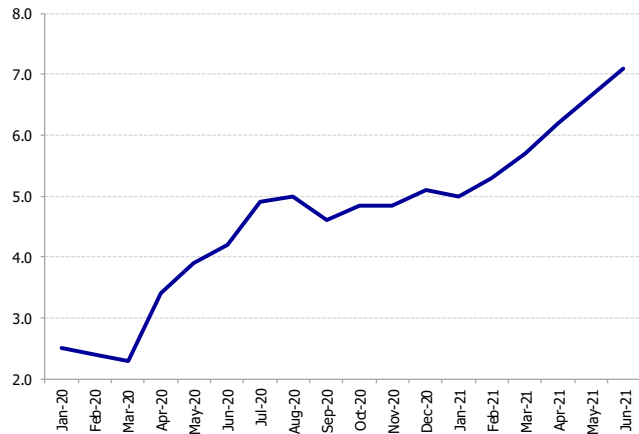
	2017	2018	2019	2020	2021F
GDP growth (%)	1.2%	3.7%	0.9%	-5.8%	7.1%
Inflation (Dec-Dec)	2.3%	2.6%	3.0%	3.0%	3.6%
Fiscal Balance (% GDP)	-2.6%	-1.5%	-2.7%	-7.1%	-5.6%
Current Account (% GDP)	-2.3%	-3.6%	-3.9%	0.1%	-0.5%
International reserves (USD Bn)	38.0	38.7	39.5	37.8	45.1
Exchange rate (CLP/USD)	615.0	694.0	752.0	711.2	718.0

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

**Real GDP**  
Q/Q variations



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



**Inflation - General CPI**  
Annual changes



**Chilean Peso / Dollar**





# COLOMBIA

Good news	To be alert	Bad news
Colombia's economy grew more than expected in the first quarter of 2021 and leading indicators points that dynamism have maintained through April.	Colombia surpassed 600 daily confirmed COVID-19 cases per million and ranks first in Latin America. It is the only country where cases are picking up	On May 20th Standard & Poor's downgraded Colombia's foreign-currency debt, ending a decade in which it had enjoyed investment-grade status.

**POLITICS**

Many cities have been hardest hit by the protests that set off on April 28th in response to a tax-reform bill. Despite the withdrawal of the bill on May 2nd and the resignation next day of the finance minister people were still out on the streets. The pandemic, and one of the longest lockdowns, has exacerbated a hidden inequality discontent. Gustavo Petro, Duque's left-wing former rival, is surging in the polls heading to the 2022 elections. The leftist former mayor of Bogota is gaining momentum and looks to capitalize the less than 33% approval rating of the government.

**ECONOMIC ACTIVITY**

Colombia's economy grew more than expected in the first quarter of 2021 and, according to the monthly economic tracking indicator (ISE), appears to have maintained its dynamism through April. However, a third wave of COVID-19 and roadblocks and other disruptions to public order since May will likely be reflected in reduced economic activity in the second quarter. Despite this, the positive economic performance through April justified an upward revision in Central Bank's growth projections for 2021, from 6% to 6.5%. Even in this case, however, economic activity would remain below 2019 levels this year.

**INFLATION**

Annual inflation in May exceeded projections at 3.3%. Upward pressures from food prices (9.52% y/y), and from perishable foods (18.16% y/y), came as the result of supply difficulties in several cities. Core inflation excluding foods and regulated items (1.56% y/y) remained below the target (3% with a permissible deviation of ±1 percentage point) and was in line with projections. The Central Bank has pointed out that a portion of the recent increase in inflation could prove to be somewhat persistent and affect inflation expectations, although remain anchored.

**MONETARY SECTOR**

The Central Bank has kept interest rates at 1.75% in an unanimously decision, that proves a hawkish call in the margin because in the last meeting there was one of the six votes that asked to lower the monetary policy rate in 25 bps. This notion is reinforced due to the warning in the Monetary Policy Committee about the "possibility of a faster start to normalization in U.S. monetary policy than previously expected, which could lead to a return to less favorable international financial conditions and affect risk appetite for investments in emerging markets", a concern that is share with others CB of the region.

**FISCAL ACCOUNTS**

The tax-reform bill that unleashed a social havoc intended to raise around 2% of GDP in additional revenues, mainly by widening the net of income tax and removing exemptions in VAT. Despite the positive outlook for the GDP growth, the (new) finance minister maintained the official prediction of a deficit that will climb to 8.6% in 2021 (vs 7.8% in 2020). He also stated that Colombia will seek \$10.1 billion in external financing and will issue a total of 55.3 trillion pesos in TES. Privatizations of state assets could raise some 14 trillion pesos this year.

**WHAT'S COMING NEXT?**

- The government announced that the poorest 50% of students, who account for 97% of those at public universities and technical schools, would get free education from the second half of the year, and that it will implement a job-subsidy scheme, in which it covers 25% of the salary of around 500,000 18-to-28-year-olds for at least a year, in order to boost employment among the young.
- The list of demands that protests claim has grown longer—to include withdrawing a health-reform bill, introducing a guaranteed minimum income and an end to the forced eradication of coca crops, among other grievances—vis-a-vis the likelihood that they will not leave the streets.





# APPENDIX

## Dashboard

	Jun-21	May-21	Apr-21	Mar-21	2020
Exchange rate (COP/USD, eop.)	3,765	3,706	3,751	3,664	3,430
Interest rate (%)	1.7%	1.7%	1.7%	1.7%	1.7%
Inflation (y/y)	-	3.3%	2.0%	1.5%	1.6%
Economic activity (y/y)	-	-	28.7%	11.9%	-6.8%
Industrial activity (y/y)	-	-	63.7%	20.8%	-7.9%

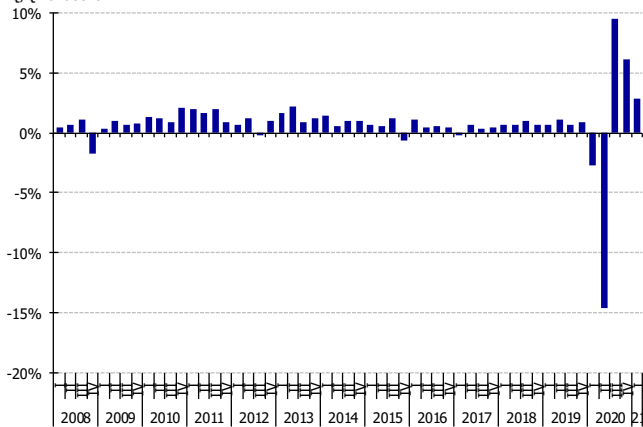
Source: EconViews based on several sources

## Macroeconomic Outlook

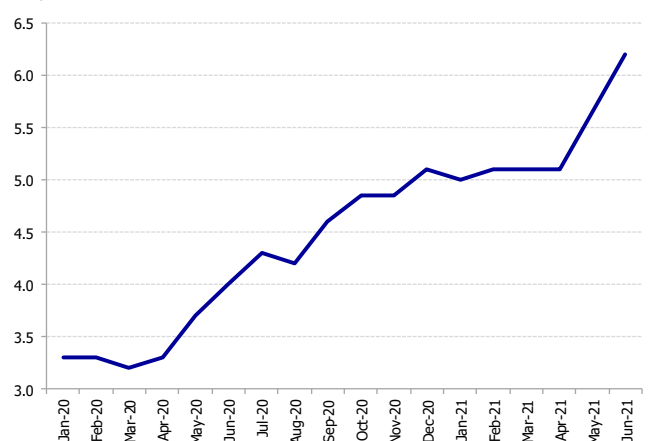
	2017	2018	2019	2020	2021F
GDP growth (%)	1.4%	2.6%	3.3%	-6.8%	6.2%
Inflation (Dec-Dec)	4.1%	3.2%	3.8%	1.6%	3.3%
Fiscal Balance (% GDP)	-3.6%	-3.1%	-2.5%	-7.8%	-8.3%
Current Account (% GDP)	-3.4%	-4.1%	-4.5%	-3.4%	-3.4%
International reserves (USD Bn)	45.4	46.1	50.5	56.6	59.1
Exchange rate (COP/USD)	2,987	3,250	3,287	3,430	3,588

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

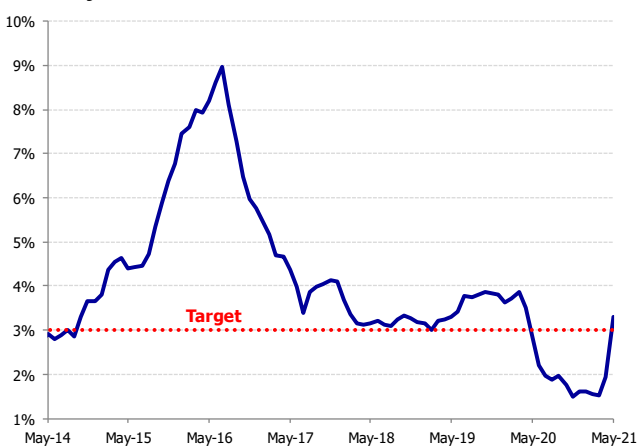
**Real GDP**  
Q/Q variations - DANE



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



**Inflation - General CPI**  
Annual changes



**Colombian Peso / Dollar**



Good news	To be alert	Bad news
Tax reform could raise 0.8% of GDP in the short term and up to 5% in the long term, according to analysts.	On Friday the Treasury signalled that it would raise issuance of 10, 20 and 30-year bonds in Q3, while reducing the growth of 5-year securities.	Moody's considers state oil company Pemex unlikely to improve credit rating, considering its indebtedness and low exploration.

**POLITICS**

The June midterms shook up Mexican politics, leaving the ruling coalition weaker in Congress but with more territorial power. With 279 seats in the Lower House, AMLO's Morena holds a simple majority but is short of the two-thirds necessary for constitutional reforms. On the other hand, Morena added 11 states and now lines up 17 out of 32 governors. A poor election in CDMX also casts doubt on Mayor Sheinbaum's project to succeed AMLO in 2024. Despite a divided Congress, the President has announced he will still go ahead with an electricity reform to lower bills. Covid cases saw a slight uptick since late May, while 23.3% of the population has been vaccinated with at least one dose so far.

**ECONOMIC ACTIVITY**

After a strong March (7.7% m/m) activity slumped 2.9% in April, although it grew 22.3% against 2020's worst month. In quarterly terms, the economy advanced 0.8% q/q in Q1-2021 but remains 3.6% below January-March of 2020. Only agriculture (2.8% y/y) has made a full recovery, while manufacturing was still 0.6% down, and its monthly proxy sunk 0.2% between March and April 2021. Retail has more ground to cover, as it is 3.8% under Q1-2020's levels. Around 250,000 vehicles, auto production was still 30% below 2019's records in May, doing worse than in previous months. After contracting 8.3% in 2020, analysts expect Mexico to undergo a slow comeback, growing 5.6% this year.

**INFLATION**

Monthly inflation decelerated between March (0.8%) and May (0.2%), helped by a 2.7 m/m fall in electricity tariffs as the warm season subsidies kicked in. However, at 0.8% m/m food prices grew at the fastest pace since May 2020, especially fruits and vegetables, up 2.9% after having increased 4.3% between March and April. In y/y terms, the national CPI shot up to 5.9% in May, and a flash report for the first half of June showed a 6.02% y/y variation, although both are partly due to base effects. In the first five months of 2021 accumulated inflation reached 2.9%, already beating 2019's 12-month register (2.8%) and on road to 5.1% y/y by December, according to the consensus view.

**MONETARY SECTOR**

The highest y/y CPI growth in 40 months prompted the Banxico to hike rates for the first time since December 2018. The move from 4 to 4.25%, after cutting rates by 3 points along 2020, surprised the market. If inflation continues to stray far from the Central Bank's 3% target, rates could be further increased at the next scheduled policy meeting in mid-August. The last statement expressed worries over the drought's effect on agricultural prices, along with pressure from reopening. The Mexican Peso gained 1.8% after the announcement and currently stands at 19.80 MXN/USD. The exchange rate is expected to close 2021 at 20.51.

**FISCAL ACCOUNTS**

The Government is also aiming at a fiscal reform. Authorities have declared tax rates will not be modified, other than observing the G20 consensus on the global corporate tax, instead focusing on expanding the taxable base and improving efficiency. The IMF has recommended Mexico undertake reforms after the pandemic, noting weak VAT compliance and low outreach for personal income tax. The Treasury hopes to pass from the 0% primary balance forecast for this year to a 0.4% of GDP surplus in 2022. Taking interests into account, the official estimate for the fiscal deficit is 2.8% in 2021, while the market believes it will end up around 3% of GDP.

**WHAT'S COMING NEXT?**

- On average, Mexico is vaccinating 0.4% of its population daily, and authorities hope to reach herd immunity by Q1-2022, while private sector estimates see July 2022 as a more likely date.
- Along with the already mentioned electrical and fiscal reforms, the Government will also pursue changes in the electoral and military structures. These efforts will likely mark the second half of AMLO's presidency, while Banxico reform tanked and must undergo revisions.



# APPENDIX

## Dashboard

	Jun-21	May-21	Apr-21	Mar-21	2020
Exchange rate (MXN/USD, eop.)	19.80	19.95	20.23	20.46	19.91
Interest rate (%)	4.25%	4.00%	4.00%	4.00%	4.25%
Inflation (y/y)	-	5.89%	6.08%	4.67%	3.15%
Economic activity (y/y)	-	-	22.3%	0.8%	-8.5%
Industrial activity (y/y)	-	-	36.6%	1.7%	-10.0%
Automotive production (y/y)	-	851.5%	4324.1%	13.1%	-20.8%

Source: EconViews based on several sources

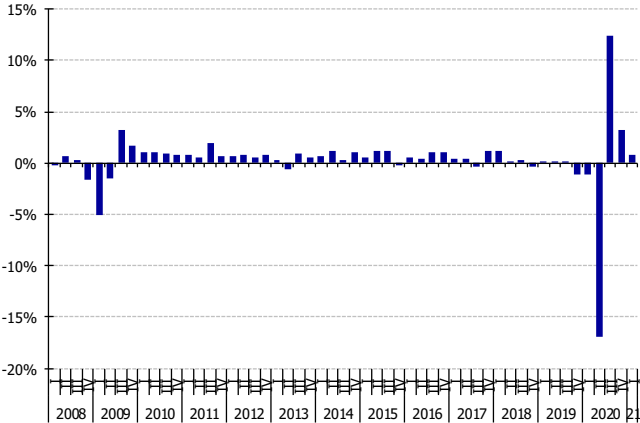
## Macroeconomic Outlook

	2017	2018	2019	2020	2021F
GDP growth (%)	2.1%	2.2%	-0.2%	-8.3%	5.6%
Inflation (Dec-Dec)	6.8%	4.8%	2.8%	3.2%	5.1%
Fiscal Balance (% GDP)	-1.1%	-2.1%	-1.6%	-2.9%	-3.0%
Current Account (% GDP)	-1.8%	-2.1%	-0.3%	2.4%	1.0%
International reserves (USD Bn)	164.9	165.2	170.5	186.2	200.0
Exchange rate (MXN/USD)	19.65	19.65	18.93	19.89	20.51

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

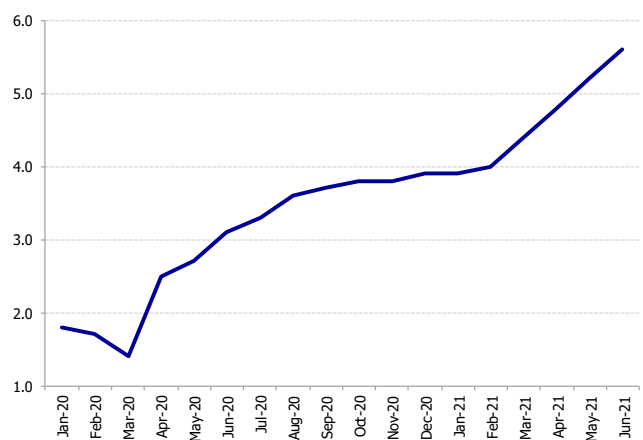
### Real GDP

Q/Q variations - INEGI



### GDP growth - rolling forecasts for 2021

In %

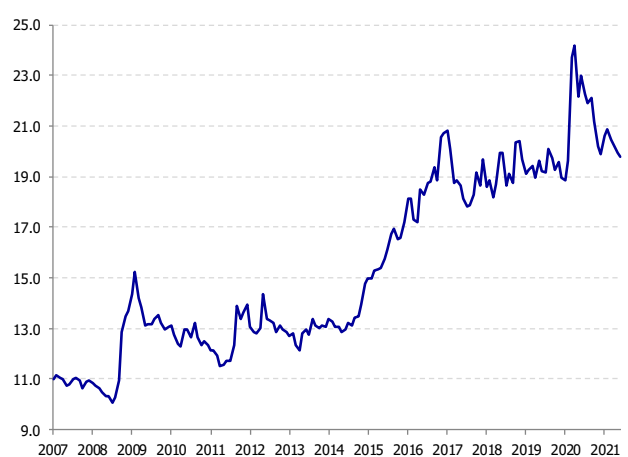


### Inflation - General CPI

Annual changes



### Mexican Peso / Dollar





# PARAGUAY

Good news	To be alert	Bad news
United States will donate 1 million doses of Pfizer vaccine, to allow the immunization of 500,000 people	Inflation rose in May, although it is still in line with the CB's target, it was the highest mark since May-19	After a slight decrease, deaths caused by Covid reached their highest level three days ago.

## POLITICS

Last week there were primary elections to decide the candidates to compete in the general elections of October. The social atmosphere is quite convulsed due to the sanitary situation. The government is under scrutiny for its management of the Covid-19 situation. It was in the context of the maximum level of new daily cases, which peaked during the first week of June. Now they stand at about 1400, while deaths have recently reached their highest value (154 on June 26). The Health System is overburdened with an occupancy of 100% in intensive care units and shortages of supplies.

## ECONOMIC ACTIVITY

The economy grew 0.6% y/y in the first quarter of the year driven by the construction sector, Livestock, Manufacturing, and Services. On the demand side, there were contractions in consumption (public and private) and exports, while Investment increased 15.4%. Preliminary data from April suggests a rebound of 19.3% y/y but this is mainly explained by the statistical effect. Compared to a month ago, activity fell 3.5% after the positive variations of February and March (7.7% and 1.4% respectively). We keep our forecast of 3.7% of economic growth for 2021.

## INFLATION

Inflation was 2.4% in March, 2.5% in April, and 3.7% in May, printing its highest figure in 2 years in y/y terms. In part, this number is explained by a low comparison base, but this is not the only reason. Compared to a month ago, prices increased 0.6% after a 0.1% deflation in the previous month. The main categories that explain this rise are Food, Beverages, Health and Transport. Rises in commodities prices and stronger demand for exports also contributed to inflation. For next few months, we expect a slight decrease in inflation. Notwithstanding, we raised our forecast for 2021 from 3.1% to 3.5%.

## MONETARY SECTOR

The Central Bank decided to keep the monetary policy interest rate at 0.75%. In its last press release, the committee said that the increase in inflation is transitory and given that expectations still in line with the target they decided to keep the expansive nature of the monetary policy. After the appreciation of the first quarter of the year, the Guaraní has depreciated since the end of March and now stands at 6,752. We expect it to end 2021 at 6,845.

## FISCAL ACCOUNTS

So far this year (Jan-May), the fiscal deficit has been 0.6% of GDP, and the operational balance has shown a positive result of 0.3% of GDP. On the expenditure side, there was a clear reduction in transitory social assistance that allowed a total expenditure reduction of 1.3%. Revenues also contributed with a nominal increase of 35.2% (low comparison base). In May tax revenues reached their highest value since the start of the pandemic. Public investment has been reduced by 19.9 p.p. and currently equal to 0.9% of GDP. We expect a fiscal deficit of 4.7% of GDP at the end of the year and a gradual consolidation through next years

## WHAT'S COMING NEXT?

- The government expects to inoculate about 40 thousand people daily in the second stage of the vaccination process.
- The president must enact or veto before July 7, a recently approved law to audit binational hydroelectric dams.



# APPENDIX

## Dashboard

	Jun-21	May-21	Apr-21	Mar-21	2020
Exchange rate (PYG/USD, eop.)	6,736	6,751	6,567	6,457	6,948
Interest rate (%)	0.75%	0.75%	0.75%	0.75%	0.75%
Inflation (y/y)	-	3.7%	2.5%	2.4%	2.2%
Economic activity (y/y)	-	-	19.3%	8.4%	-0.6%

Source: EconViews based on several sources

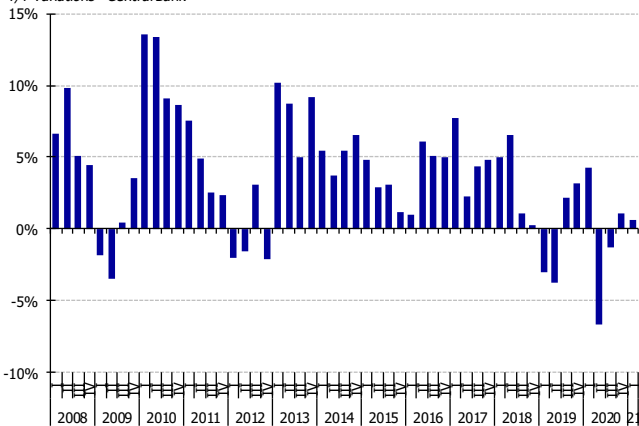
## Macroeconomic Outlook

	2017	2018	2019	2020	2021F
GDP growth (%)	5.0%	3.4%	0.2%	-0.6%	3.7%
Inflation (Dec-Dec)	4.5%	3.2%	2.8%	2.2%	3.5%
Fiscal Balance (NFPS - % GDP)	-1.1%	-1.3%	-2.8%	-6.2%	-4.7%
Current Account (% GDP)	2.9%	-0.2%	-0.6%	2.1%	1.7%
International reserves (USD Bn)	8.1	8.0	7.7	9.5	9.2
Exchange rate (PYG/USD)	5,588	5,961	6,453	6,907	6,845

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

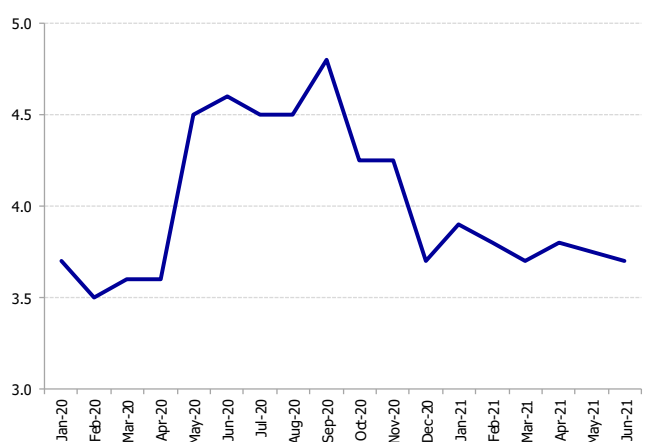
### Real GDP

Y/Y variations - Central Bank



### GDP growth - rolling forecasts for 2021

In %

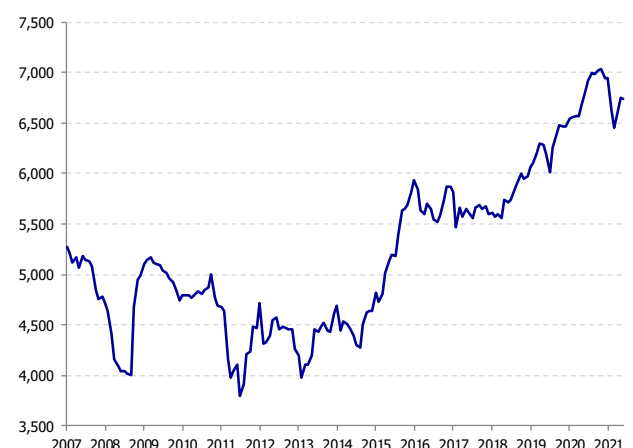


### Inflation - General CPI

Annual changes



### Paraguayan Guarani / Dollar



Good news	To be alert	Bad news
On June 24 <sup>th</sup> , the World Bank approved a USD 350 million loan to Peru to contribute with social, health and education spending.	All eyes are on Julio Velarde, CB President since 2006, after Castillo offered to ratify him in his post.	Cases of the more contagious Delta variant have already been reported in Lima and Arequipa, with only 12.9% of population vaccinated.

**POLITICS**

At the balloting on June 6<sup>th</sup>, left-wing union leader Pedro Castillo was elected President by a 44,000-vote margin. The Lima stock exchange fell 7% and the dollar shot up to PEN 3.92. Nearly one month later, runner-up Keiko Fujimori refuses to acknowledge defeat, while a letter from retired army generals called to disavow Castillo's triumph. A judge's resignation from the electoral board is delaying official confirmation of results. Castillo has signaled moderation y requesting Julio Velarde, president of the Central Bank since 2006, to remain in office. Ex World Bank Pedro Francke is a likely pick for finance minister. Around 13% of the population has received at least one dose, while daily cases fall.

**ECONOMIC ACTIVITY**

Activity showed a strong y/y rebound in April 2021 (58.5%) due to base effects but remains 3.5% below levels for the same period of 2019. Compared against April 2019, fishing (12.1%) is growing strongly, manufacturing (0.5%) has managed to recover lost ground and mining (-8.9%) is still far from its pre-pandemic level. This last sector may face higher taxes under a Castillo administration, although nationalizations are off the table for now. Agriculture even fell against 2020 in y/y terms (-5.2%). GDP grew 3.8% y/y in Q1-2021. Peru's contraction last year (-11.1%) was one of the worst in the region, and analysts expect the economy to recover 9.8% in 2021.

**INFLATION**

Inflation has kept within bounds, reaching 2.45% y/y in May. The Lima Metropolitan Area CPI rose 0.27% in monthly terms, after falling 0.1% between March and April. Food and beverage grew the fastest at 0.62% m/m, partly because of poultry prices. Transport and communications costs (0.6% m/m) were pressured by renewed demand for local and international flights and gasoline hikes. These variations were compensated by a downwards adjustment in residential electricity tariffs (-2.8%). The Central Bank expects inflation to hit the upper bound of its 1-3% target range this year, in line with private estimates of 2.5% annual inflation in 2021.

**MONETARY SECTOR**

FX intervention to contain volatility during the elections has cost the BCRP USD 10 billion in reserves since January. Authorities expect the surge in metal commodities, especially copper, to balance out the dollar drain. The Peruvian Sol brushed a historical low of 4 PEN per dollar in late June but fell to 3.88 after the current Central Bank head considered remaining in post on June 28<sup>th</sup>. The Sol has depreciated 6.8% YTD. With inflation rising less than in other Latin American countries, the BCRP has resolved to keep its interest rate at 0.25%. Credit to the private sector grew 4.7% y/y in May, decelerating from April due to base effects from last year's large monetary expansion.

**FISCAL ACCOUNTS**

After a 30-year record fiscal deficit of 8.9% of GDP in 2020, the 12-month accumulated deficit shrank to 6.7% of GDP in May. The recovery of VAT (85.6% y/y) and royalties from mining companies (238%) due to higher copper prices both helped the fiscal consolidation. This was achieved despite the growth of current expenditures (4.2% y/y), from rises in education and health payrolls (6.5%) and goods and services (51.7%), which includes a boost in spending on medical supplies. Capital expenditures soared 492% y/y, mainly due to the "Arranca Peru" public works program, which seeks to boost employment in the post-pandemic. We forecast a 5.7% of GDP fiscal deficit by the end of 2021.

**WHAT'S COMING NEXT?**

- Beyond all the commotion, Castillo has not yet been officially confirmed as president-elect. The electoral board is still studying nullity requests from Fujimori's party, although international observers have disregarded claims of fraud.
- A donation of 2 million Pfizer doses from the US could help speed up the vaccination campaign, which has also used Sinopharm and AstraZeneca.



# APPENDIX

## Dashboard

	Jun-21	May-21	Apr-21	Mar-21	2020
Exchange rate (PEN/USD, eop.)	3.88	3.83	3.78	3.74	3.62
Interest rate (%)	0.25%	0.25%	0.25%	0.25%	0.25%
Inflation (y/y)	-	2.4%	2.4%	2.6%	2.0%
Economic activity (y/y)	-	-	58.5%	18.2%	-11.1%
Manufacturing activity (y/y)	-	-	114.1%	50.3%	-13.4%
Mining production (y/y)	-	-	57.8%	15.4%	-13.2%

Source: EconViews based on several sources

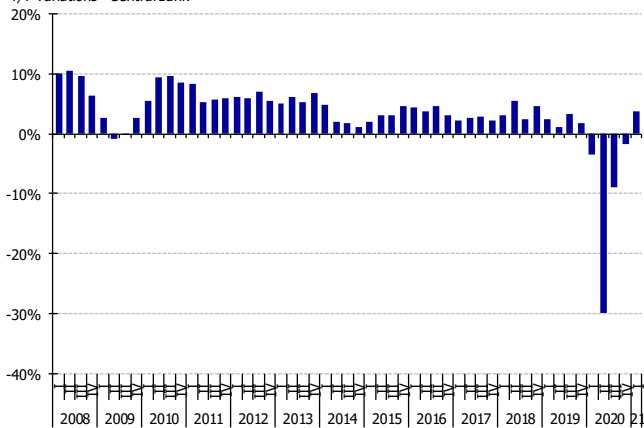
## Macroeconomic Outlook

	2017	2018	2019	2020	2021F
GDP growth (%)	2.5%	4.0%	2.2%	-11.1%	9.8%
Inflation (Dec-Dec)	1.4%	2.2%	1.9%	2.0%	2.5%
Fiscal Balance (% GDP)	-3.0%	-2.3%	-1.6%	-8.9%	-5.7%
Current Account (% GDP)	-1.3%	-1.7%	-1.2%	0.7%	0.0%
International reserves (USD Bn)	61.4	57.9	64.9	72.8	74.8
Exchange rate (PEN/USD)	3.24	3.37	3.31	3.62	3.69

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

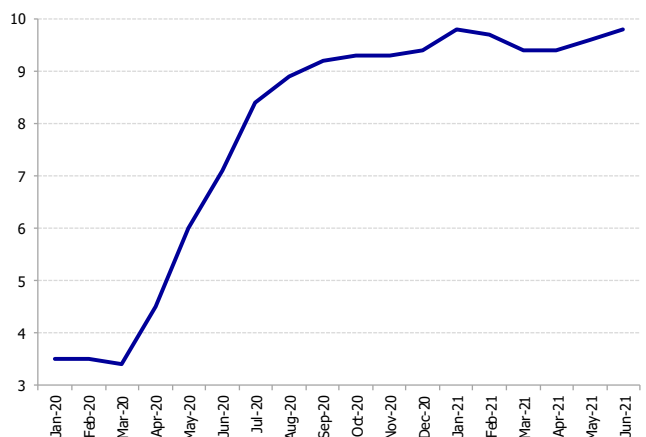
### Real GDP

Y/Y variations - Central Bank



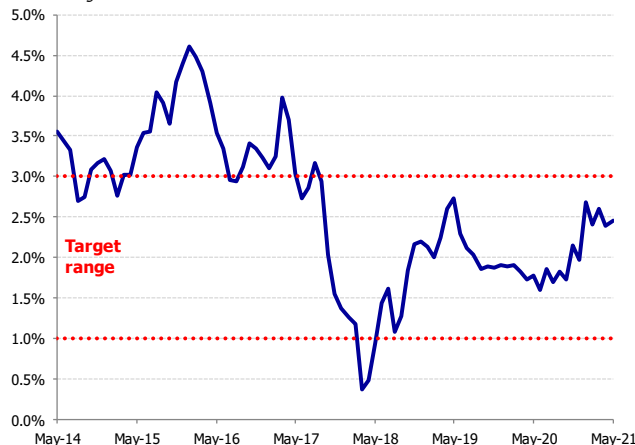
### GDP growth - rolling forecasts for 2021

In %



### Inflation - General CPI

Annual changes



### Peruvian Sol / Dollar





# URUGUAY

Good news	To be alert	Bad news
Quick vaccine rollout combined with moderate restrictions has led to a marked drop in Covid cases in recent weeks	Fiscal consolidation continues but the pandemic clouds the outlook	Economic activity has been affected by the health crisis and 2021 will end with a lower than expected rebound

**POLITICS**

Swift vaccine rollout is finally showing signs of improvement in the health situation, which significantly worsened in the last couple of months and turned Uruguay into the country with the highest per-capita deaths in the world. Much resisted restrictions were imposed from April to June to bring the situation under control, but at the cost of delaying a strong economic recovery. On the external front, Uruguay has remained in the same line with Brazil regarding the Mercosur, seeking a greater flexibilization of the external negotiations' mechanism, but has been met with strong opposition from Argentina.

**ECONOMIC ACTIVITY**

The recovery of economic activity was paused during the 1Q-2021. An upshot of Covid cases led to a fall in population mobility, which averaged -33% throughout the quarter, compared to -27% in 4Q-2020, thus capping activity. As a result, GDP dropped by 0.5% q/q seasonally adjusted. On a sector level, the agricultural sector displayed the best performance, growing 10.4% y/y, helped by a growth in exports, although adjusting for base effect, Construction (3.3% y/y) leads the recovery. On the contrary, services sectors were the worst-off, especially Professional activities (-7.0%), Energy provision (-6.1%), and Commerce (-6.0%). We lowered our GDP forecast to 3.2% in 2021 from 3.5%.

**INFLATION**

Inflation kept decelerating so far this year. In May, consumer prices grew by 0.46%, from 0.50% in April, the lowest print since last December. On the year-on-year comparison, headline inflation fell to 6.6%, thus becoming the lowest record since April 2018, and staying within the Central's Bank target of 3.0%-7.0%. As economic activity could be affected by a worsening of the health situation, inflation will stay low in the next few months and should rise marginally as the economic recovery resumes. We expect the year to close at 7.3%, from 7.5% since our last report, and at 6.6% in 2022.

**MONETARY SECTOR**

In its last meeting in mid-May, the Central Bank decided to keep the 4.5% target interest rate set in September 2020, maintaining an accommodative stance on monetary policy, as economic activity has not yet shown signs of continued recovery and inflation has fallen. The CB stated that rates should start to rise once the crisis is over, but without specifying when that would be. As for the UYU, it is currently trading at 43.49 per USD, its lowest record since early March but still well above pre-Covid levels. As inflation should surpass the CB's target upper bound nearing the end of the year, we expect the UYU to lose some ground and close at 44.7 per USD at the end of the December.

**FISCAL ACCOUNTS**

Fiscal accounts have shown some improvement in last months, but monthly results have not displayed a consistent reduction in the deficit. In this sense, the primary deficit of the Consolidated Public Sector in March was the highest since February 2020, adjusted for inflation, but in May Uruguay posted a surplus which failed to compensate the previous month's poor results. As sluggish economic activity could also threaten revenues, earlier this month Fitch Ratings decided to maintain the current credit rating of BBB- but with a negative outlook, turning Uruguay into the only country with the lowest investment-grade rating and negative outlook simultaneously.

- WHAT'S COMING NEXT?**
- As the Coronavirus Delta variant worries countries around the world, Uruguay has decided to increase requirements to enter the country, as it seeks to avoid a new surge in cases.
  - Mercosur talks regarding a reduction of the common external tax rate and a more flexible mechanism to negotiate with non-member countries will likely continue in coming months, but no clear result is expected as Argentina's protectionist stance clashes with Uruguay and Brazil's views.





# APPENDIX

## Dashboard

	Jun-21	May-21	Apr-21	Mar-21	2020
Exchange rate (UYU/USD, eop.)	43.48	43.85	43.84	44.39	42.37
Interest rate (%)	-	4.00%	3.77%	4.01%	4.22%
Inflation (y/y)	-	6.6%	6.8%	8.3%	9.4%
Manufacturing activity (y/y)	-	-	24.5%	3.7%	-5.0%

Source: EconViews based on several sources

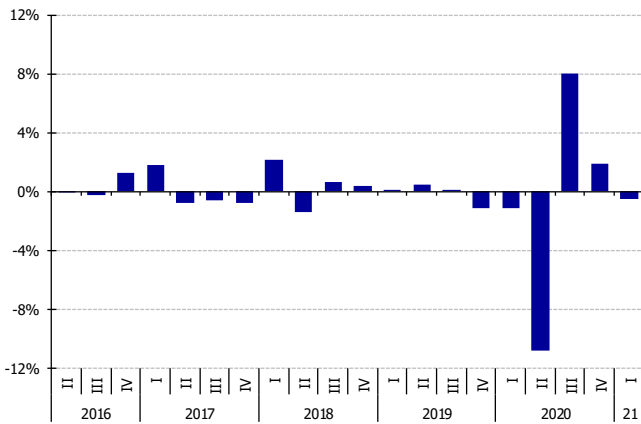
## Macroeconomic Outlook

	2017	2018	2019	2020	2021F
GDP growth (%)	2.6%	1.6%	0.2%	-5.9%	3.2%
Inflation (Dec-Dec)	6.6%	8.0%	8.8%	9.4%	7.3%
Fiscal Balance (% GDP)	-3.5%	-2.9%	-3.2%	-5.3%	-5.0%
Current Account (% GDP)	0.0%	-0.5%	1.3%	-0.6%	-0.9%
International reserves (USD Bn)	16.0	15.6	14.5	16.2	16.7
Exchange rate (UYU/USD)	28.85	32.45	37.34	42.37	44.70

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

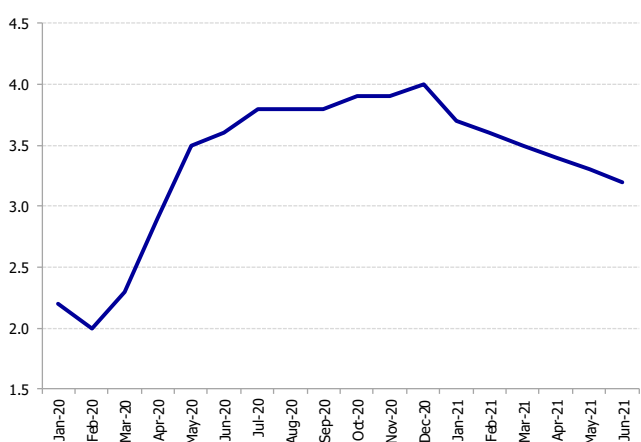
### Real GDP

Q/q variations, s.a. - BCU



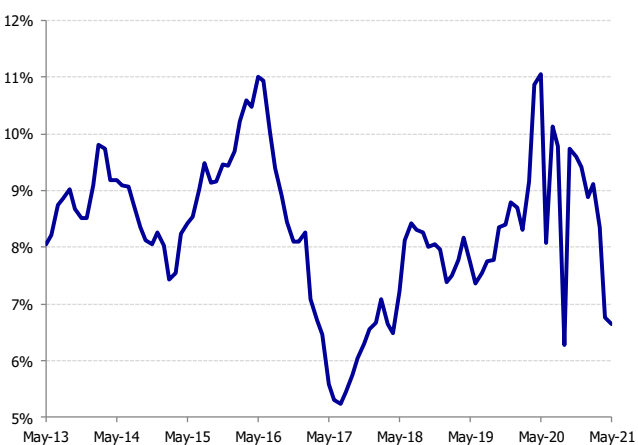
### GDP growth - rolling forecasts for 2021

In %

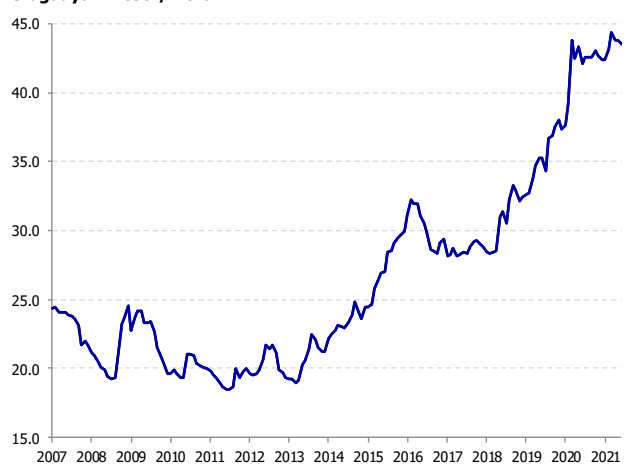










### Inflation - General CPI

Annual changes



### Uruguayan Peso / Dollar



	GDP		Inflation	
	2020	2021	2020	2021
	-9.9%	6.0%	36.1%	46.0%
	-4.1%	4.8%	4.5%	5.9%
	-5.8%	7.1%	3.0%	3.6%
	-6.8%	6.2%	1.6%	3.3%
	-8.3%	5.6%	3.2%	5.1%
	-0.6%	3.7%	2.2%	3.5%
	-11.1%	9.8%	2.0%	2.5%
	-5.9%	3.2%	9.4%	7.3%

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