

# LATAM 7 + Argentina

## MACRO BRIEF

**ECONVIEWS**  
ECONOMÍA Y FINANZAS

June, 2022



### Argentina

Complex politic and economic scenario challenge for Government

Page 2



### Brazil

Real slides and fiscal accounts worsen before elections

Page 4



### Chile

Fiscal worries fade away

Page 6



### Colombia

An expectant economy, in times of change

Page 8



### Mexico

AMLO wins midterms, but loses vote on reforms

Page 10



### Paraguay

Activity decelerates as inflation breaks records

Page 12



### Peru

Harsh reversal in terms of trade as copper sinks and food prices soar

Page 14



### Uruguay

Activity to grow despite monetary tightening

Page 16



# ARGENTINA

Good news	To be alert	Bad news
The IMF recently approved the first revision and disbursed roughly USD 4 billion.	Inflation will continue its ascending path.	The local debt market said enough is enough and there are doubts about the Government's financial program.

**POLITICS**

Fights inside the ruling coalition continue. VP Cristina Kirchner spoke out against the performance of the economy. She talked about tax evasion, linked the current inflation with debt taken during the last administration, and warned about an "imports festival". From the president side, the Minister of Production, Kulfas, one of his closest officials, was forced to resign due to a leak that denounced irregularities in the gas pipeline auction. In recent days, transport workers blocked roads in protest for fuel shortages. This will impact activity numbers for June. For its part, the agricultural sector announced a strike for the next July 13 to protest fuel shortages, tax pressure and the elevated FX spread.

**ECONOMIC ACTIVITY**

Economic activity is evolving with ups and downs since the beginning of the year. In February it grew 1.1%, in March it fell again 0.8% and in April it recovered 0.6%. Year-on-year positive rates are observed but it is mainly because of the low comparison base. In the accumulated of the year the economy grew by 5.7% y/y but we must remember that in this period of 2021 there were sanitary restrictions. The most dynamic sectors were Hotels and Restaurants (35% y/y), Fishing (15.9%), and Mining (14.3%). Manufacturing and Construction, two of the most important activities grew 4.8% and 3.8% respectively. With a statistical carryover of more than 4%, we expect that real growth will be 3.5% in 2022.

**INFLATION**

After the 6.7% in March and the 6% in April, monthly inflation was 5.1% in May. Thus, it accumulated 29.3% since the beginning of the year. In year-on-year terms, it reached 60.7%, the highest level in 30 years. So far this year, Food and Beverages (33.7%), Clothes (36.4%), and Education (36.9%) are the items with the highest increases. The inflation acceleration comes even though the exchange rate is yet being depreciated at a slow rate and utility price increases were relatively small. Inertia is very important and with unanchored expectations will continue adding pressure. For 2022 we have raised our forecast to 80%, and with no reasons to think about a deceleration, it could end 2023 at 85%.

**MONETARY SECTOR**

In the context of low international reserve purchases, the Central Bank imposed strong restrictions on the FX market. This measure enabled the CB to buy more than USD 1,500 million in the market in the last four days. Another relevant issue of the last weeks is the important role that took the Central Bank to finance the Treasury as the local debt market started to doubt fiscal solvency and seems reluctant to purchase long term Government debt, even indexed to inflation. In June, the CB printed more than ARS 400 billion to buy securities and another ARS 377 billion to finance the deficit. Market exchange rates jumped to around ARS 250 and the FX spread widened and exceeded 100%.

**FISCAL ACCOUNTS**

Fiscal numbers are getting worse. Excluding gains from CER debt issuance, up to May, the primary balance was -0.91% of GDP, while in the same period of 2021 it was only -0.24%. With revenues growing 3.4% in real terms, the key driver of this result is the primary spending which is increasing at a pace of 14.7% adjusted by inflation. Inside this number, we found that energy subsidies grew by 48.3%, transfers to provinces by 26%, and social spending by 11.1%. These numbers are on a completely different path from the needed to meet the 2.5% IMF target for this year. We expect that in 2022 the primary deficit will be 3.5% and the fiscal deficit 5% (excluding the accounting effect of primary debt issuance).

**WHAT'S COMING NEXT?**

- In the remainder of the year the Treasury will face debt maturities for over ARS 4.1 trillion.
- The Government will have to reduce public spending if meeting IMF targets is in its plans.
- The Central Bank will have to choose between higher inflation and lower activity or continued import restrictions to buy reserves



# APPENDIX

## Dashboard

	Jun-22	May-22	Apr-22	Mar-22	2021
Exchange rate (ARS/USD, eop.)	125.21	120.19	115.31	111.00	102.75
Interest rate (%)	52.00%	49.00%	47.00%	44.50%	38.00%
National inflation (y/y)	-	60.7%	58.0%	55.1%	50.9%
Economic activity (y/y)	-	-	5.1%	4.5%	10.4%
Industrial activity (y/y)	-	-	4.7%	3.7%	15.8%
Automotive production (y/y)	-	32.8%	49.5%	12.9%	69.0%

Source: EconViews based on several sources

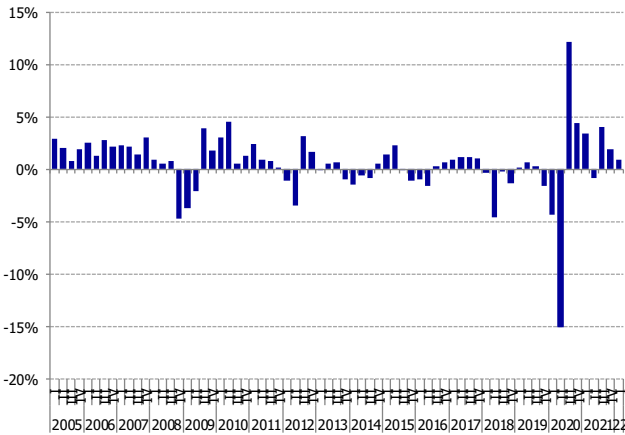
## Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	-2.0%	-9.9%	10.4%	3.5%	1.5%
National inflation (Dec-Dec)	53.8%	36.1%	50.9%	80.0%	85.0%
Fiscal Balance (% GDP)	-3.6%	-8.4%	-4.8%	-5.0%	-4.6%
Current Account (% GDP)	-0.8%	0.8%	1.4%	0.1%	0.6%
International reserves (USD Bn)	44.8	39.4	39.5	41.7	40.5
Exchange rate (ARS/USD)	59.90	84.15	102.75	174.70	297.00

Source: EconViews based on official figures and own estimates

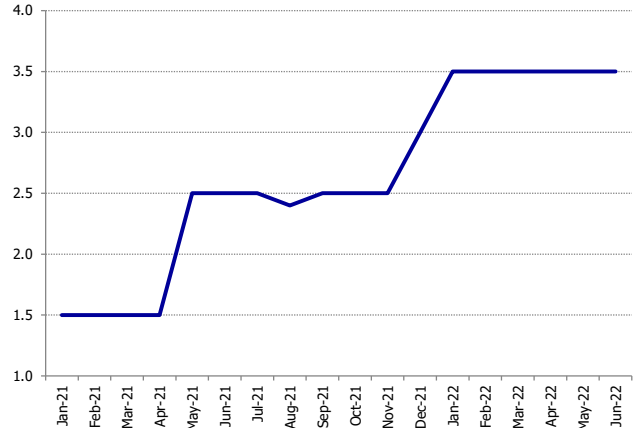
### Real GDP

Q/Q variations- Seasonally adjusted data INDEC



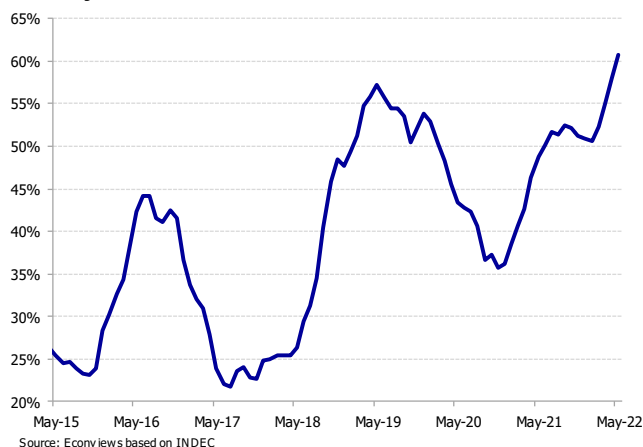
### GDP growth - rolling forecasts for 2022

In %



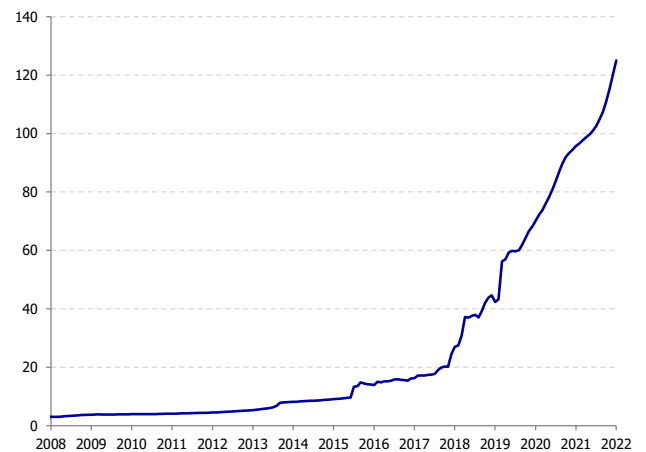
### Inflation - General CPI

Annual changes



Source: Econ views based on INDEC

### Argentinian Peso / Dollar





# BRAZIL

Good news	To be alert	Bad news
Unemployment fell to 9.8% in May, its lowest reading since 2015.	Petrobras hiked gas prices 5.2% in mid-June, but there is still a 15% gap with international markets. Further hikes could fan inflation in coming months.	Despite slowing down in April and May, food inflation remains high at 13.5% year-on-year, nearly 2 points above headline CPI.

**POLITICS**

With ex-president Lula still leading the polls by a wide margin, and only three months until the October 2<sup>nd</sup> elections, Bolsonaro is pressing Congress to approve an BRL 65 billion fiscal expansion, which entails a 50% increase in “Auxilio Brasil”, a key social welfare program, and a cut on gasoline taxes. Previous attempts to lower fuel prices led the CEO of Petrobras, the state oil company, to resign in June. After Sergio Moro backed out in April, governor of Sao Paulo Joao Doria also announced he would not be running for president in late May. With another competitive centrist candidate out of the race, the vote is expected to polarize even more. The official kick-off for the campaign will be in August.

**ECONOMIC ACTIVITY**

Quarterly GDP growth accelerated from 0.7 to 1% in Q1-2022, although below market expectations of 1.2%. Statistical corrections erased 2021’s short technical recession between Q2 and Q3. Manufacturing did poorly in April and is still 0.5% down year-on-year, despite a 6.8% surge in automobile production, which reached 205,916 units during May (although still 25% below pre-pandemic levels). On the other hand, retail sales picked up 5.9% since December and nearly compensated their 7% slump during the second half of 2021. A record wheat crop is also expected for this year. Overall, growth estimates for Brazil have improved from 0.5 to 1.3% in 2022, with a sluggish 1.1% GDP expansion expected for 2023.

**INFLATION**

Inflation slowed slightly to 11.73% in May, although the CPI-15 survey suggests it surpassed 12% again in June. The monthly variation more than halved from 1.1 to 0.47% between April and May, with the lowest increase in food prices (+0.25%) since November 2021. However, a drop in electricity rates due to higher rainfall helped knock half a point off of May’s print. Gasoline had also kept stable (+0.6%) over the last two months, but Petrobras’ 5.2% adjustment in mid-June will reflect on next month’s print, to Bolsonaro’s chagrin. The Central Bank expects inflation to moderate to 8.8% by December, while market consensus is even more optimistic at 8.2%. We see it closer to 9%, with chances of lowering to 5% in 2023.

**MONETARY SECTOR**

Brazil’s Central Bank has hiked its Selic policy rate 4 times in 2022, by a total of 400 basis points to 13.25%, making it one of the few countries with real positive rates, *ex-post*. A further hike to 13.75% is expected for the BCB’s August 3<sup>rd</sup> meeting, although the market believes it will come back below 10% in 2023. However, the BCB wants to keep the Selic rate at least 4 points above inflation expectations in the next years, a return to pre-2017 tighter monetary conditions. This partly reflects a worsening financial context, as the Fed continues to hike rates and commodities lose steam. After appreciating to 4.60 in April, the Real weakened 11% to 5.19 per dollar in June, and we see it trading at 5.30 by year’s end.

**FISCAL ACCOUNTS**

The proposed cuts on gasoline taxes and expansion in social welfare appears less worrying when paired with the fact that Brazil has achieved a BRL 3.8 billion primary surplus over the last 12 months, or 0.04% of GDP. However, the total fiscal deficit went up from 4.7 to 5.2% of GDP between January and April, and local and international rate hikes will add pressure on debt servicing. Growth has allowed Brazil to lower its gross debt to GDP ratio from 85 to 78.9% over the last year, as of April. This has not kept Brazil’s sovereign spread from rising by nearly 50 basis points since January, to 353 bps.

**WHAT’S COMING NEXT?**

- Recent polls have Bolsonaro at 30-35%, trailing Lula who is closer to 40-45%. However, these results must be taken with a pinch of salt, considering surveys widely underestimated Bolsonaro’s victory in 2018.
- After selling Electrobras, the Government has put eyes on Petrobras. Although the elections are too close to consider a full privatization, 3 refineries are currently up for auction.



# APPENDIX

## Dashboard

	Jun-22	May-22	Apr-22	Mar-22	2021
Exchange rate (BRL/USD, eop.)	5.19	4.73	4.97	4.74	5.57
SELIC (%)	13.25%	12.75%	12.75%	11.75%	9.25%
Inflation (y/y)	-	11.7%	12.1%	11.3%	10.1%
Economic activity (y/y)	-	-	-	-	4.6%
Industrial activity (y/y)	-	-	-0.5%	-1.9%	3.9%
Automotive production (y/y)	-	6.8%	-2.6%	-7.8%	11.6%

Source: EconViews based on several sources

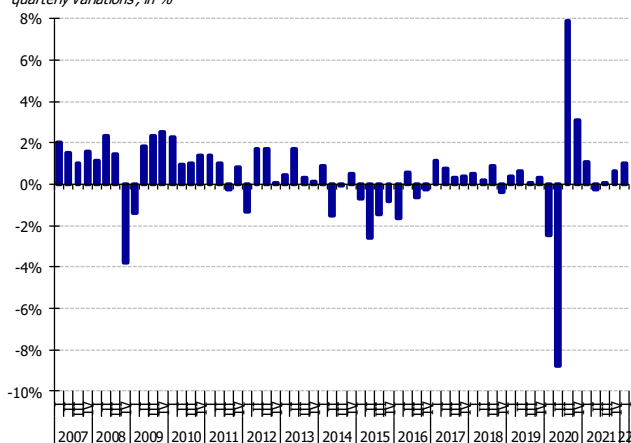
## Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	1.2%	-3.9%	4.6%	1.3%	1.1%
Inflation (Dec-Dec)	4.3%	4.5%	10.1%	9.0%	5.0%
Fiscal Balance (% GDP)	-5.8%	-13.6%	-4.4%	-6.7%	-7.2%
Current Account (% GDP)	-3.5%	-1.7%	-1.7%	-1.1%	-1.6%
International reserves (USD Bn)	346.5	342.7	330.9	352.4	354.0
Exchange rate (BRL/USD)	4.02	5.19	5.57	5.30	5.20

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

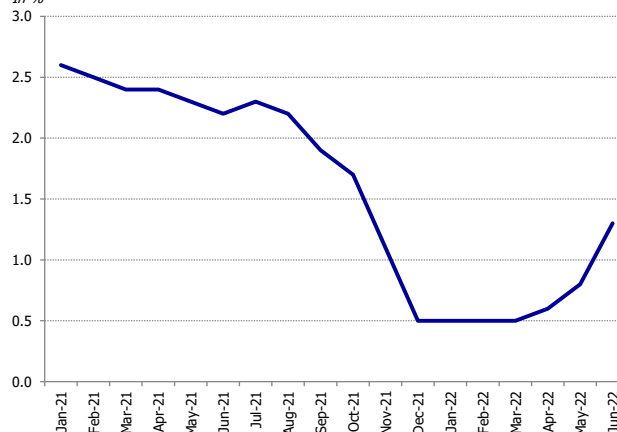
### Real GDP

quarterly variations, in %



### GDP growth - rolling forecasts for 2022

In %



### Inflation (IPCA)

Annual changes



### Brazilian Real / Dollar



Good news	To be alert	Bad news
Fiscal accounts are on a positive path, clearing fears of fiscal irresponsibility	Political instability could take a toll on business confidence and investment	Copper prices reached a 16-month low in June

**POLITICS**

The Constitutional Convention has finished the draft of the new constitution, which will increase the role of the state but is far from the worries that it would undermine Chile's tradition of independence of its Central Bank or the relevance of private enterprise and private mining rights. Still, the new constitution could lead to reforms that may have a negative impact on private investment. The constitution draft will be put to a referendum on September 4. Meanwhile, president Boric's positive image has deeply fallen in recent months and now stands at only 34% according to polls, the lowest level since the start of his administration.

**ECONOMIC ACTIVITY**

Economic activity got off to a bad start in the first quarter, with GDP contracting 0.8% quarterly s.a. From an expenditure viewpoint, investment led the falls with a drop of 5.9% quarterly s.a., while household consumption fell only 0.3%, partly offset by a 0.3% rise in exports and 6.3% jump in government consumption. In April, economic activity fell 0.3% but was explained by a drop of 3.4% m/m s.a. in mining production; meanwhile, commerce recovered 1.8% m/m taking the non-mining activity indicator to a positive variation of 0.2% m/m. We expect GDP to grow 1.9% in 2022 on average and 0.3% in 2023.

**INFLATION**

Inflation posted a fresh new high: in May it reached 11.5% year-on-year, the highest figure on record since July 1994 and well above the 3% target set by the Central Bank. The highest increases were recorded on Transportation (22.3%), affected by higher international energy prices; Food and non-alcoholic beverages (17.1%), impacted by imported agricultural commodities; and Restaurants & hotels (16.5%), due to the reopening of the economy. On the monthly comparison, the CPI slowed down to 1.2% in May, after posting variations of 1.9% and 1.4% in March and April respectively. We expect 2022 to end with an inflation of 9.7% and of 3.9% for 2023.

**MONETARY SECTOR**

On June 6<sup>th</sup> the Central Bank decided to increase its monetary policy rate by a further 75 basis points to 9%; it was the fourth hike in the year, and it now stands 5 percentage points above its level at the beginning of the year, as inflation pressures do not seem to yield. Further hikes can be expected in the short run, though of a smaller order. The Chilean Peso is currently trading at 921 CLS per USD, implying a depreciation YTD of 13% despite rising interest rates. We expect the Chilean peso to end 2022 trading at 818 per USD and at 800 by the end of 2023.

**FISCAL ACCOUNTS**

Fiscal accounts started the year on a positive note. On the first quarter, revenues grew 18.3% year-on-year in the first quarter, with property rents (+128.1%) and private-mining tax revenues (+28.1%) being the most dynamic items. Expenditures fell 4.3% year-on-year in real terms, with the sharpest drop displayed by subsidies and donations (-9.7%), and amounted to 4.8% of GDP including interests, while revenues amounted to 5.8% of GDP, thus taking the fiscal balance of the Total Central Government to +0.5% of GDP. We expect the year to end with a fiscal deficit of 2.9% of GDP, a sharp reduction from 2021's 7.5% record.

**WHAT'S COMING NEXT?**

- Copper has fallen to a 16-month low due to fears of recession in the United States, which could pose risks to fiscal consolidation and economic stability.
- The business confidence index sank to the lowest level since August 2020 and stood at 46.5 points, below the 50 points neutral threshold; economic slowdown could lower business sentiment even more.



# APPENDIX

## Dashboard

	Jun-22	May-22	Apr-22	Mar-22	2021
Exchange rate (CLP/USD, eop.)	921.20	823.38	851.13	785.88	851.10
Interest rate (%)	9.00%	8.25%	7.00%	7.00%	4.00%
Inflation (y/y)	-	11.5%	10.5%	9.4%	7.2%
Economic activity (y/y)	-	-	6.9%	6.4%	11.7%
Industrial activity (y/y)	-	-	-3.6%	0.9%	2.3%
Mining production (y/y)	-	-	-10.6%	-2.3%	-1.3%

Source: EconViews based on several sources

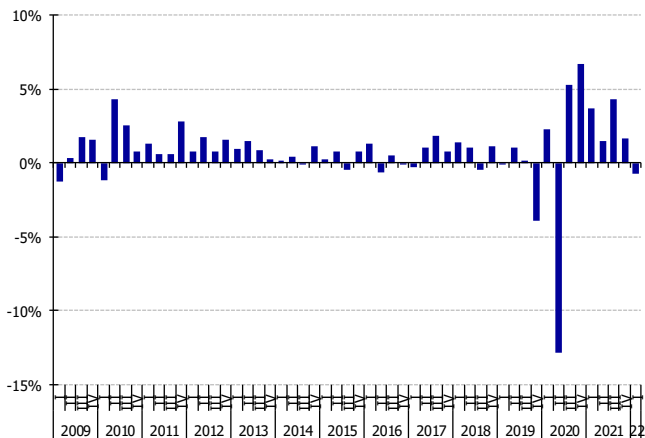
## Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	0.9%	-6.0%	11.7%	1.9%	0.3%
Inflation (Dec-Dec)	3.0%	3.0%	7.2%	9.7%	3.9%
Fiscal Balance (% GDP)	-2.7%	-7.1%	-7.6%	-2.9%	3.0%
Current Account (% GDP)	-5.2%	-1.7%	-6.4%	-5.0%	-3.5%
International reserves (USD Bn)	40.7	39.2	51.3	50.0	51.5
Exchange rate (CLP/USD)	751.5	709.8	851.1	818.0	800.0

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

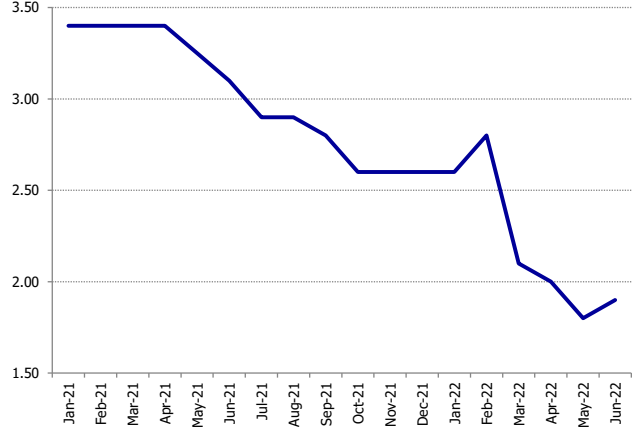
### Real GDP

Q/Q variations



### GDP growth - rolling forecasts for 2022

In %



### Inflation - General CPI

Annual changes



### Chilean Peso / Dollar





# COLOMBIA

Good news	To be alert	Bad news
Despite the fact that Colombia is experiencing political and social changes, the economy maintains solid growth expectations	The electoral results concern the business community who see in Petro's ideas a possible threat to the country's historical business-friendly economic model	Inflation reached its maximum in 22 years and appears stuck around 9%.The Banrep's inflation target is out of reach for 2022.

**POLITICS**

Colombia is undergoing intense changes. After a tense electoral process, in the first- round of elections on May 19<sup>th</sup> none of the candidates got more than a 50% of votes, so the leader of the left, Gustavo Petro (40.32% of the votes) and Rodolfo Hernández (28.15%), the most 'outsider' of the candidates, went to a second round. On June 19<sup>th</sup>, the second round of elections took place and Gustavo Petro won with 50.44% of the votes, thus becoming the future President of the country. Rodolfo Hernández got 47.31% of the votes. It is the first time in Colombia's history that a left-wing president is elected. Petro will be taking office on August 7<sup>th</sup>.

**ECONOMIC ACTIVITY**

After experiencing one of the region's strongest post-Covid recoveries in 2021, quarterly growth slowed to 1% in January-March of 2022. Activity is expected to remain stagnant in coming months. The government improved its growth estimations for this year from 5% to 6.5% due to dynamism of domestic consumption and higher investment, but we estimate a GDP growth of 5.5%. In April, economic activity expanded 12% annually, while industrial activity 9.1% y/y. The PMI index was 53.9 in May, lower than the 54.4 of April but it remains above the threshold of 50. While the unemployment rate in 2021 ended in 13.8%, in May it lowered to 10.6%. We expect it to end the year in 11.5%.

**INFLATION**

CPI was up 9.1% in May, slightly below April's 9.2%, but still one of the highest records since July 2000. The monthly variation was 0.84%. Food prices increased 1.56% between April and May, followed by hotels and restaurants (1.18%) and miscellaneous goods and services (0.88%). In terms of year-on-year variation, food and non-alcoholic beverages (21.6%) and hotels and restaurants (14.7%) stood out. For the first five months of 2022, inflation was nearly 7 points higher than the same period of 2021. We expect inflation to end at 8.8% in 2022 as monetary policy tightens, though it will remain way above the Central Bank's target range of 2-4% per annum.

**MONETARY SECTOR**

As it has been happening since the beginning of the year, on June 30, the Central Bank authorities announced the increase in the monetary policy rate by 150 bps, taking it to 7.5%. This implies an increase in 450 points compare to how it was at the beginning of the year. The Banrep hinted the possibility of additional hikes in order to ensure that inflation returns to target. We expect the rate to end the year around 8.5%. Petro's vision is that even if Banrep should still focus on inflation, it must also emphasize on growth and employment. The Colombian peso has depreciated after elections; it currently trades at 4,147 COP per USD. We expect the COP to end the year trading at 3,875 per USD.

**FISCAL ACCOUNTS**

2021's deficit closed at 7.1% of GDP. The government lowered its deficit estimations for 2022 going from 6.2% of GDP to 5.6%. At Econviews, we estimate a fiscal deficit of 5.8% of GDP for 2022. Last year, public debt fell to 63.8% of GDP. It will be interesting to see what will happen when the new government arrives as during campaign, they gave the idea of some changes in the fiscal front such as the repealing the tax reforms of 2019, a reduction of corporate tax collection and an increase in personal taxation. It is also willing to implement a change in the pension system.

**WHAT'S COMING NEXT?**

- The new government has promised reforms on tax, labor, and commercial policy, with a move towards more protectionist stances.
- One of Petro's most controversial campaign slogans was a ban on fracking and restrictions on oil and coal exploration contracts, although his aides have toned down these promises in informal talks with businessmen.





# APPENDIX

## Dashboard

	Jun-22	May-22	Apr-22	Mar-22	2021
Exchange rate (COP/USD, eop.)	4,147	3,761	3,951	3,768	4,065
Interest rate (%)	7.5%	6.0%	5.0%	5.0%	2.9%
Inflation (y/y)	-	9.1%	9.2%	8.5%	5.6%
Economic activity (y/y)	-	-	12.0%	7.7%	10.4%
Industrial activity (y/y)	-	-	9.1%	8.2%	10.2%

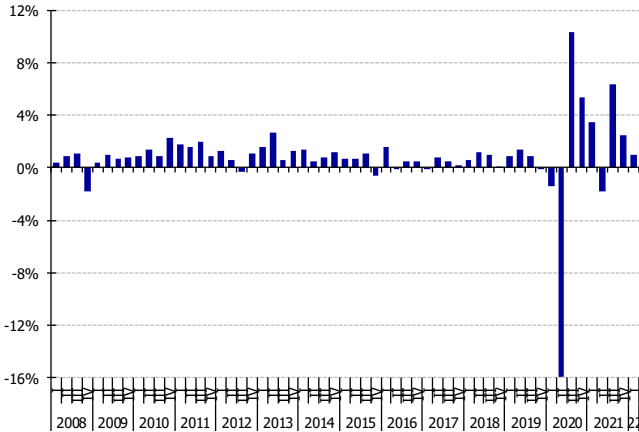
Source: EconViews based on several sources

## Macroeconomic Outlook

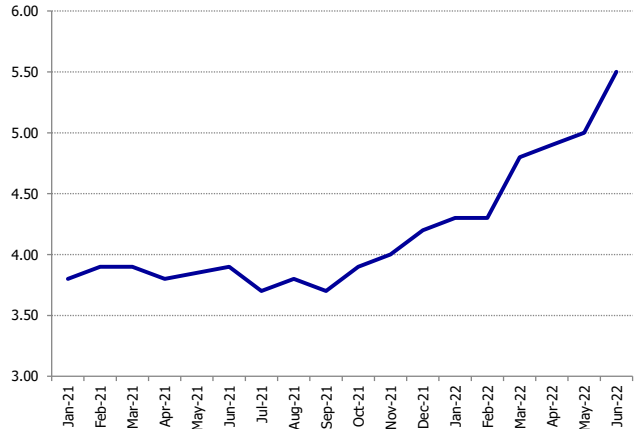
	2019	2020	2021	2022F	2023F
GDP growth (%)	3.2%	-7.0%	10.4%	5.5%	2.7%
Inflation (Dec-Dec)	3.8%	1.6%	5.6%	8.8%	4.5%
Fiscal Balance (% GDP)	-2.5%	-7.8%	-7.1%	-5.8%	-4.6%
Current Account (% GDP)	-4.6%	-3.4%	-5.7%	-4.5%	-4.1%
International reserves (USD Bn)	50.5	56.6	53.5	57.8	58.6
Exchange rate (COP/USD)	3,282	3,421	4,070	3,875	3,860

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

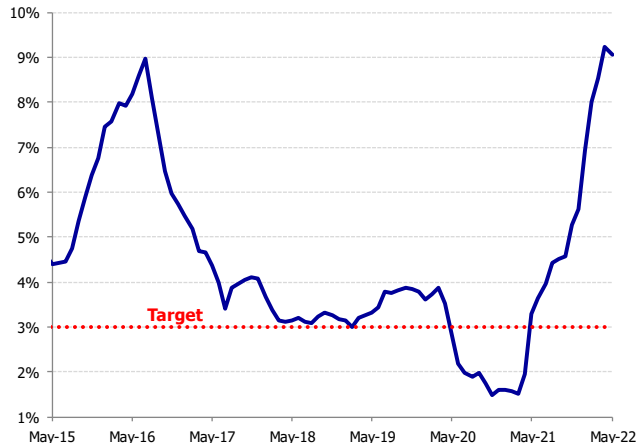
**Real GDP**  
Q/Q variations - DANE



**GDP growth - rolling forecasts for 2022**  
In %



**Inflation - General CPI**  
Annual changes



**Colombian Peso / Dollar**



Good news	To be alert	Bad news
While other LATAM currencies have devaluated sharply, the Mexican Peso has been holding well at 20.00 per USD so far.	Santander is reportedly interested in a USD 6.8 billion acquisition of Banamex, currently in the hands of Citigroup.	518,000 jobs were lost in May, with a higher drop in formal (-1.1%) than informal labor (-0.8%), which still represents nearly 60%.

**POLITICS**

Ruling coalition Morena was the main winner of the June 5<sup>th</sup> midterms, obtaining 4 out of 6 governorships in contest. In April, AMLO had already comfortably won an informal referendum on his presidency by 92%, although with low turnout. Despite voters' support, the Government was unable to reach a majority in Congress and its planned electrical reform lost 275-222. AMLO hasn't given up his other key initiative, electoral reform, and wants a popular vote on the matter next month. On July 12<sup>th</sup>, the Mexican leader will meet with Joe Biden to discuss migration and inflation, after spurning the US during the Americas Summit. Alleged violations of T-MEC in Mexico's energy policy are also straining bilateral relations.

**ECONOMIC ACTIVITY**

GDP grew 1.01% quarterly in the January-March period, accelerating sharply against Q4-2021's 0.2%. In year-on-year terms, the economy advanced 1.6%. Activity started out strong this quarter, expanding 1.1% between March and April, or 1.3% compared with the same month of 2021. Manufacturing scored a 2% yearly increase, with solid figures from the auto industry (+13.6%). With 288,923 vehicles produced, it was the best May since 2019. Despite higher prices, oil production was down 3.9% year-on-year in May. Unexpectedly, 518,000 jobs were lost last month, mainly in agriculture and the services sector, taking the unemployment rate up to 3.3%. Growth forecasts were notched down to 1.8% for 2022 and 2% in 2023.

**INFLATION**

Although Mexico has thus avoided the sharp acceleration seen in other LATAM countries, CPI remained high at 7.7% year-on-year in May. Monthly inflation decelerated from 0.99% in March to 0.18% in May, the lowest since November 2020. This slowdown was mainly due to a 3.5% drop in energy prices between April and May, as part of the planned utility adjustments for the summer season. Government estimates show that without subsidies on gasoline, CPI could be at double digits. Core inflation is running at 0.59% per month, or 5.5% over the last year. Considering higher expectations and global upside risks, our end of period forecast for 2022 was adjusted from 5.4 to 7.1%, but we trust in disinflation to 4.2% in 2023.

**MONETARY SECTOR**

Banxico last applied a harsh 75 basis point increase on June 23<sup>rd</sup>, taking its policy rate to 7.75%, a level unseen since late 2019. In magnitude, it was the largest hike since 2008, and put AMLO at odds with the Central Bank. In August, the board will likely decide on another 75 or even 100-point rise, as June's initial CPI data came in hot. Since mid-June, the Mexican Peso is back above 20 per USD, roughly at late 2021 levels, after appreciating to 19.54 at the beginning of the month. We see a 20.78 MXN/USD exchange rate by December. Foreign investors continue shedding their holdings of public securities, although at a slower pace than in 2020-21, with a MXN 105 billion net drop in the first half of 2022.

**FISCAL ACCOUNTS**

Since March the Treasury has been subsidizing 100% of the IEPS tax on gasoline and other fuels, as a way of countering the rise in oil prices. Besides encouraging arbitrage on the US border, the measure has an estimated MXN 550 million fiscal cost per month. However, oil royalties soaring 42.7% year-on-year in real terms more than compensated the loss. As of April, tax revenues were up 4.5% against 2021, even with VAT sinking 3.8%. Net expenditures kept more or less constant, with spending 97.5 billion pesos below the budgeted amount, allowing for a 182.8 billion primary surplus. After interests, financial requirements added up to MXN 54 billion. With continued austerity, we expect a fiscal deficit of 3.3% to GDP this year.

**WHAT'S COMING NEXT?**

- State oil company Pemex's financial condition is still in a weak state, although Fitch believes it could cut its USD 109 billion debt by 15% this year, thanks to higher prices and Government support.
- With inflation being contained by gas subsidies, analysts believe the Banxico has little room to loosen monetary conditions and see the policy rate as high as 9.25% by late 2022.



# APPENDIX

## Dashboard

	Jun-22	May-22	Apr-22	Mar-22	2021
Exchange rate (MXN/USD, eop.)	20.08	19.65	20.41	19.85	20.49
Interest rate (%)	7.75%	7.00%	6.50%	6.50%	5.50%
Inflation (y/y)	-	7.65%	7.68%	7.45%	7.36%
Economic activity (y/y)	-	-	1.3%	0.4%	4.9%
Industrial activity (y/y)	-	-	2.0%	-0.3%	4.9%
Automotive production (y/y)	-	13.6%	-5.4%	0.7%	0.6%

Source: EconViews based on several sources

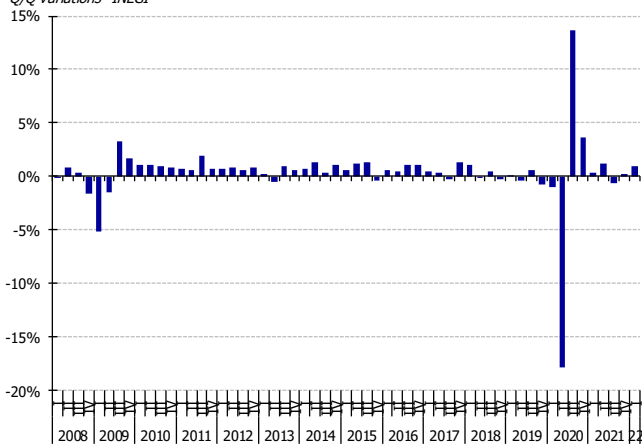
## Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	-0.2%	-8.1%	4.9%	1.8%	2.0%
Inflation (Dec-Dec)	2.8%	3.2%	7.4%	7.1%	4.2%
Fiscal Balance (% GDP)	-1.6%	-2.9%	-2.9%	-3.3%	-3.2%
Current Account (% GDP)	-0.3%	2.5%	-0.4%	-0.4%	-0.6%
International reserves (USD Bn)	170.6	184.2	180.8	199.2	204.4
Exchange rate (MXN/USD)	18.93	19.91	20.49	20.78	21.33

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

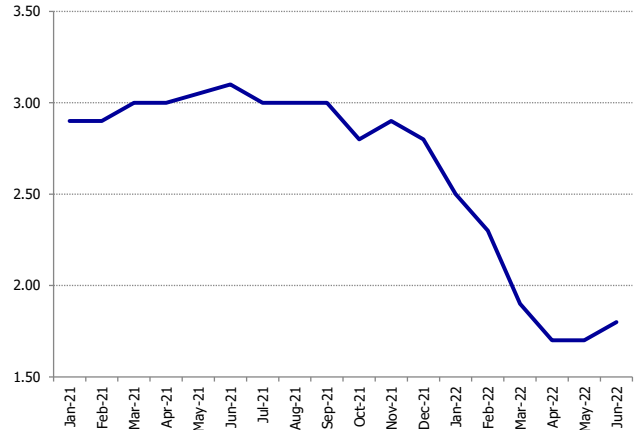
### Real GDP

Q/Q variations - INEGI



### GDP growth - rolling forecasts for 2022

In %

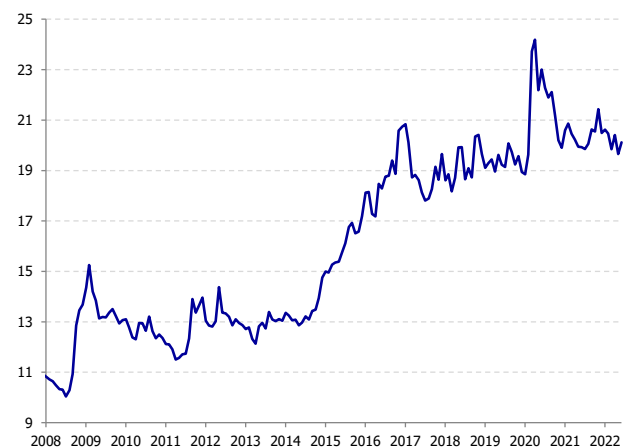


### Inflation - General CPI

Annual changes



### Mexican Peso / Dollar





# PARAGUAY

Good news	To be alert	Bad news
After falling in 2019 and 2020, GDP will grow for its second consecutive year.	Oil prices are growing fast, with spillover effects on costs for the rest of the economy.	Inflation is the highest since 2008 and it will take time to bring it down.

**POLITICS**

A new survey positions the presidential candidate Santiago Peña of the Honor Colorado movement and ex Minister of Economy against his main opponent, the Vice President of the Republic, Hugo Velázquez. The Colorado Honor candidate has a 20% advantage over his rival for the internal party elections to be held on December 18<sup>th</sup>. On a different note, the Government has recently announced an increase in the minimum wage of 11.4%, in line with May inflation. This measure will try to compensate for the surge of inflation and will impact on 355,000 workers.

**ECONOMIC ACTIVITY**

Economic activity is losing momentum since its peak in December 2021. So far this year it accumulates a decrease of 3.6% and in April it was 6.2% below its level one year ago. The main factor of this result was the bad performance of agriculture, harmed by the drought. Among other sectors with a negative impact were manufacturing activities (dairy, bakery, metal, and machinery), construction (due to rain excess), and services such as transport, financial intermediation, and telecommunications. On the other hand, electricity generation and livestock helped soften the fall. For 2022 we expect a GDP growth of 1.8%, smaller than 5% of 2021.

**INFLATION**

As in many other countries, in Paraguay inflation is escalating to values not seen for more than 14 years. After hitting 11.8% year on year in April (a record since 2008), it slightly decelerated to 11.4% in May. In the first five months of the year, the accumulated prices increase reached 5.4%, while in the same period of 2021 it was 1.1%. Transport (22.1%), Food and beverages (18.4%), and Restaurants and Hotels (10.3%) were the activities with higher increases so far this year. The 58.4% y/y increase in oil seems to be a key determinant of the surge in inflation. For the remainder of the year, we expect a little decrease, ending 2022 at 7.4%, above the Central Bank target (4% +/- 2).

**MONETARY SECTOR**

As inflation does not ease and expectations remain high, the Central Bank continues tightening its monetary policy. In June it increased the policy rate 50 basis points to 7.75%. It is the tenth consecutive hike since August 2021. Despite this, total credit to the private sector is growing in real terms but the situation is not homogeneous. While loans in local currency increased 9.8% y/y, those in foreign currency grew 15.8%. The appreciation of the exchange rate in April could be a driver behind this fact. The PYG is now trading at 6,838 per dollar, 3.4% below the top value of the year. Our forecast is that it will end 2022 at 6,970, slightly above the current level.

**FISCAL ACCOUNTS**

So far this year, the fiscal balance accumulated a deficit of 0.6% of GDP, while the primary balance was positive at 0.4%. Expenditures showed an increase of 8.6% up to May, compared to the same period of 2021. This was explained mainly by raises in public wages, social assistance, and debt interests. The growth of public spending was offset by an accumulated variation of 11% of government revenues. Tax revenues and incomes from bi-national entities were the most dynamic factors, while non-tax revenues decreased. After the 3.7% record of 2021, we expect a reduction in fiscal deficit to 3.3% of GDP in 2022 and 2.4% in 2023.

**WHAT'S COMING NEXT?**

- In the run-up to the presidential elections of 2023, the well-known goalkeeper Jose Luis Chilavert announced that will compete for the presidency.
- However, the main contenders for the presidency are Hugo Velázquez, current vice-president, and Santiago Peña, ex Minister of Economy



# APPENDIX

## Dashboard

	Jun-22	May-22	Apr-22	Mar-22	2021
Exchange rate (PYG/USD, eop.)	6,838	6,853	6,817	6,922	6,857
Interest rate (%)	7.75%	7.25%	6.75%	6.25%	5.25%
Inflation (y/y)	-	11.4%	11.8%	10.1%	6.8%
Economic activity (y/y)	-	-	-6.2%	-4.2%	4.3%

Source: EconViews based on several sources

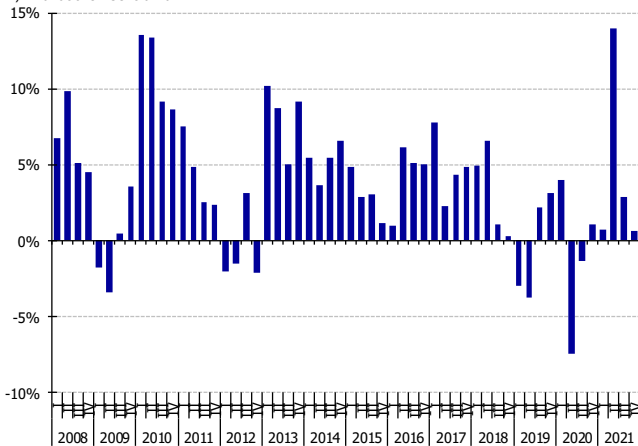
## Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	-0.4%	-0.6%	5.0%	1.8%	4.0%
Inflation (Dec-Dec)	2.8%	2.2%	6.8%	7.4%	4.1%
Fiscal Balance (NFPS - % GDP)	-2.8%	-6.1%	-3.7%	-3.3%	-2.4%
Current Account (% GDP)	-0.5%	2.7%	0.8%	-0.3%	0.6%
International reserves (USD Bn)	7.7	9.5	9.9	9.7	10.4
Exchange rate (PYG/USD)	6,453	6,907	6,857	6,970	7,082

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

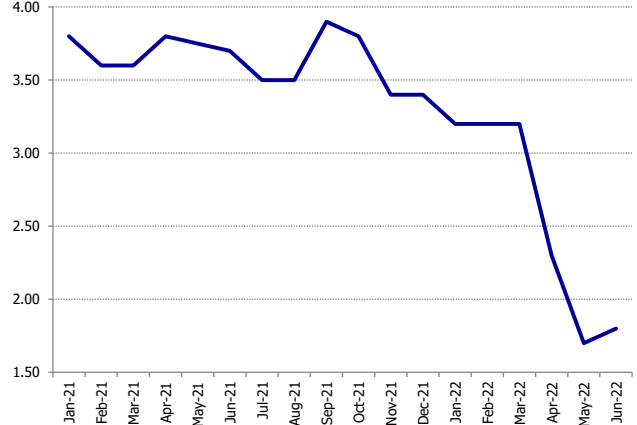
### Real GDP

YY variations - Central Bank



### GDP growth - rolling forecasts for 2022

In %

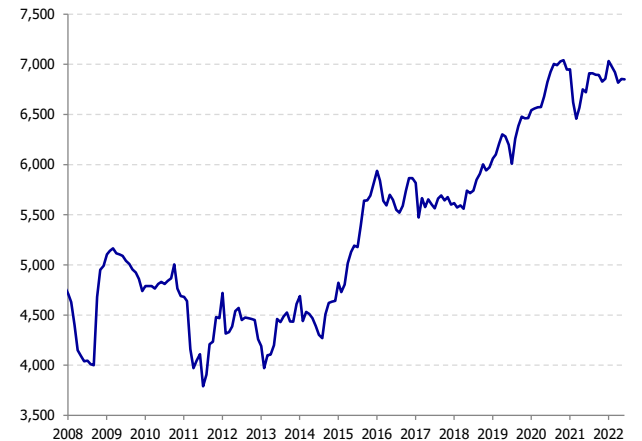


### Inflation - General CPI

Annual changes



### Paraguayan Guarani / Dollar



Good news	To be alert	Bad news
Perú renewed its USD 5.4 billion FCL with the IMF, lowering requested access from 600 to 300% of quota thanks to its "solid financial conditions".	The BCRP expects Perú to register its worst current account result since 2016 this year, a 3.4% of GDP deficit.	Terms of trade decreased 6.3% during the first half of the year, and exports slumped 20.5% against 2021 in April.

**POLITICS**

Pedro Castillo survived the latest impeachment attempt and widespread protests in March and April, but now faces a new challenge from the Judiciary, which is pressing on alleged corruption charges. This week, transport workers across Peru went on strike to cry out against high gas prices. Tax reforms for the mining and energy sectors have stalled, with high rotation among the officials in charge, in the middle of harsh confrontations between miners, business and the Government. Investment in the sector could fall up to 15% in 2023, according to a BCRP study. Municipal and regional elections will be held October 2<sup>nd</sup>, and may serve to gauge popular support for the Castillo administration.

**ECONOMIC ACTIVITY**

Despite political instability, Peru's economy has maintained a solid rhythm in the first 4 months of 2022, growing 3.8% year-on-year through Q1 and 3.7% in April. Due to intense social conflicts, mining activity (-0.8%) has been contracting since February, even with still high prices. An oil spill near Lima last January has paralyzed local fishing (-37.5%) for months, leading the sector into a deep crisis. However, manufacturing (+2.7%), construction (+4.9%) and retail sales (+2.6%) have managed to extend their strong post-pandemic recovery, allowing the general index to remain positive. Peru's GDP forecast for 2022 was slightly lowered from 2.8 to 2.6%, while 2023's estimate was corrected from 2.9 to 2.7%.

**INFLATION**

Lima Metropolitan CPI shot up to a new high of 8.1% in May, the hottest reading since 1998. In monthly terms, inflation has averaged 0.63% this year, although it decelerated from April's 0.96% to 0.38%. Food and beverages prices (+13.3%) are leading the index, although they dropped 0.7% against April, thanks to an increase in the supply of onion, (-10%) potatoes (-8%) and other vegetable staples. Housing (+11%) and transport (+10.6%) have also seen double digit increases against May 2021, due to surging energy prices. Fuel costs have led to truckers' strikes, which also feeds into problems with food supplies. 2022's inflation forecast has been adjusted from 4.5 to 6.1% in line with global pressures, with 3.2% for 2023.

**MONETARY SECTOR**

The BCRP has hiked rates 300 basis points so far in 2022, the last time by 50 points to 5.5%, citing external problems and a rise in inflation expectations to 4.9%, although it expects a moderation in year-on-year CPI after July. During 2021 the Central Bank accumulated nearly USD 4 billion in reserves, but this year it has already lost 2.34 billion, 1.4 billion due to consolidation of the Fiscal Stability Fund, and 800 million in FX intervention. Together with higher commodity prices, this has allowed the Sol to appreciate 4.3% in 2022, at 3.82 per dollar. We see it trading at 3.88 by December, and similar in 2023. Despite monetary tightening, credit to the private sector grew from 4.4% year-on-year last December to 6.7% in April.

**FISCAL ACCOUNTS**

The 12-month rolling fiscal deficit kept falling, from 1.6% of GDP last December to 0.9% in May, recording a PEN 639 million surplus that month. Revenues grew 21.4% year-on-year, led by income tax (+40%) and VAT (+25%), despite basic food staples being exonerated from the tax since May 1<sup>st</sup>, in order counter rising prices. Mining, oil and gas royalties helped non-tributary revenues increase 7.2%. Expenditures rose only 6.9%, shrinking in real terms, with the National Government's capital investment rolling back 17.5%. In the first 5 months of 2022, the accumulated primary surplus was PEN 16 billion, 8 times more than the same period of 2021. In light of this, we lowered our yearly deficit forecast from 2.9 to 2.2% of GDP.

**WHAT'S COMING NEXT?**

- The Government is pushing a law to unify energy rates across the country and promote a switch from LNG to natural gas for residential users, as well as boosting investment in the sector.
- After rallying 23% in 2021, copper prices dropped 7.7% during June and hit a 14-month low over fears of global recession and more Fed hikes, hurting one of Peru's key exports.



# APPENDIX

## Dashboard

	Jun-22	May-22	Apr-22	Mar-22	2021
Exchange rate (PEN/USD, eop.)	3.82	3.71	3.84	3.68	3.99
Interest rate (%)	5.50%	5.00%	4.50%	4.00%	2.50%
Inflation (y/y)	-	8.1%	8.0%	6.8%	6.4%
Economic activity (y/y)	-	-	3.7%	3.8%	13.5%
Manufacturing activity (y/y)	-	-	2.7%	4.7%	18.7%
Mining production (y/y)	-	-	-0.8%	-1.2%	7.5%

Source: EconViews based on several sources

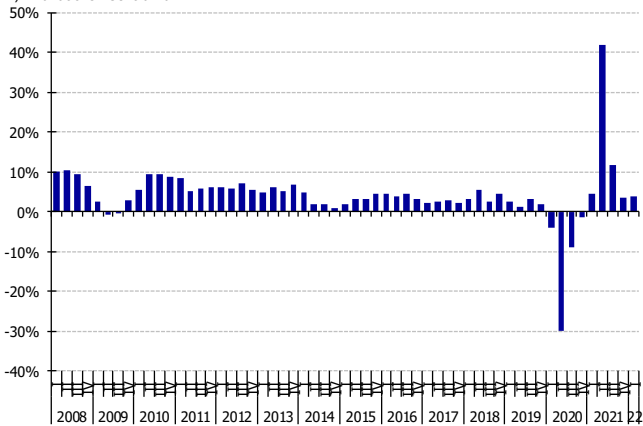
## Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	2.2%	-11.0%	13.5%	2.6%	2.7%
Inflation (Dec-Dec)	1.9%	2.0%	6.4%	6.1%	3.2%
Fiscal Balance (% GDP)	-1.6%	-8.9%	-2.6%	-2.2%	-2.3%
Current Account (% GDP)	-0.7%	1.2%	-2.3%	-1.9%	-1.4%
International reserves (USD Bn)	68.3	74.7	78.5	79.2	80.9
Exchange rate (PEN/USD)	3.31	3.62	3.99	3.88	3.89

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

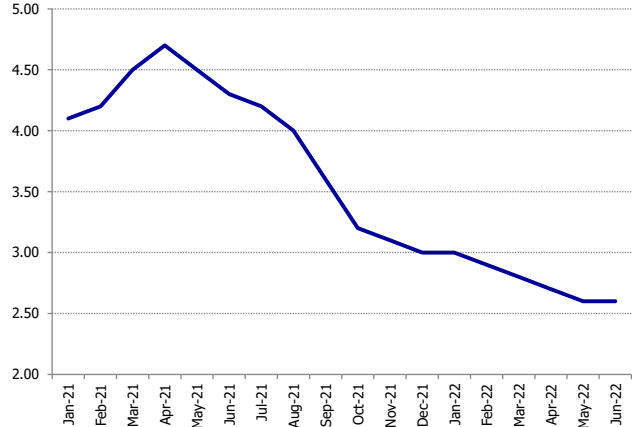
### Real GDP

YY variations - Central Bank



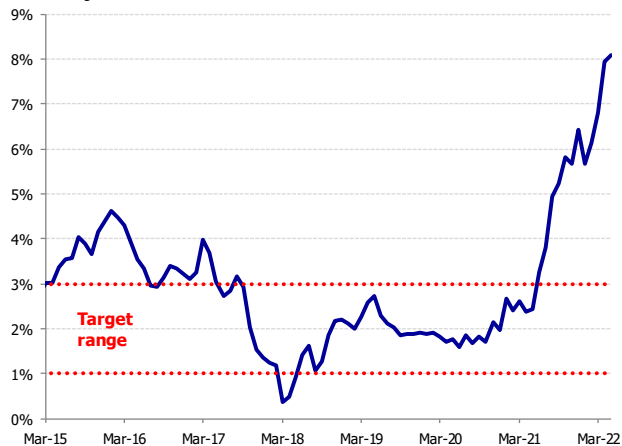
### GDP growth - rolling forecasts for 2022

In %



### Inflation - General CPI

Annual changes



### Peruvian Sol / Dollar





# URUGUAY

Good news	To be alert	Bad news
Economic activity is likely post a strong growth in 2022	Lacalle Pou's reformist agenda could be challenged as the opposition is emboldened by a narrow failure to derogate the Emergency Law	Inflation will remain high in 2022 despite a recent moderation in the monthly variations

**POLITICS**

A referendum to repeal 135 articles of the pro-market "Emergency Law" put forward by President Luis Lacalle Pou in March was narrowly rejected with a 49.9% vs 48.8% result, giving a tight triumph for the ruling center-right wing party. The law put into question included areas such as public security, education, the economy and public companies, work relations and social security, the pricing of fuels and others. It is the most important piece of legislation put forward by the reformist ruling party, and its narrowly failed challenge points to deep political divisions in the country.

**ECONOMIC ACTIVITY**

Economic activity started the year on a positive note, as GDP grew 0.62% on the first quarter relative to 4Q-2021 and 8.3% year-on-year. Household consumption grew 6.9% year-on-year while investment -net of stocks variation- grew 4.8% year-on-year. The most dynamic factor on the demand side was exports, which jumped 23.5% strengthened by high agricultural prices. In April industrial activity slowed to a Year-on-year growth of 3.9% from 5.5% and 11.5% the previous months, but the loosening of Covid-related restrictions in April should stimulate growth in the second quarter. We expect the year to end with an annual growth of 3.7% and envisage a growth of 2.9% for 2023.

**INFLATION**

In May, inflation posted its lowest monthly record so far this year at 0.46% but the year-on-year measure remained at 9.37%, far from the current target band of 3-7% set by the Central Bank, which is set to shrink to 3-6% in September. Prices of foods and non-alcoholic beverages aided the slowdown, but they were still up 10.2% compared to a year ago. Transport (14.5% YoY) and Restaurants & Hotels (11.7%) displayed the highest year-on-year increases due to the lifting of lockdown measures. We expect inflation to end the year at 8.9% and a moderation to 7.1% in 2023.

**MONETARY SECTOR**

The Central Bank announced "the entry into the contractor phase of monetary policy" as it established on its last Monetary Policy Committee meeting a further increase of 75 basis points in the monetary policy rate, taking it to 9.25%, as both inflation and inflation expectations remain above the CB's target upper bound. We expect further increases, taking the monetary policy rate to 10.25% by 2022's end. The Uruguayan peso is currently trading at 39.7 per USD, an appreciation of 10.5% YTD owing to the increase in interest rates and strong external accounts. We expect some weakening in coming months though due to the FED's tightening, and we forecast the UYU to end 2022 at 43.7 per USD.

**FISCAL ACCOUNTS**

Revenues of Central Government amounted to 26.1% of GDP in the 12 months accumulated to April, while the cumulative expenditures were 27.1% of GDP and interests summed 2.1% of GDP. The fiscal deficit of the Central Government remained unchanged relative to March (3% of GDP). But including the results of the Central Bank and the total non-monetary public sector, the cumulative fiscal balance of the General Public Sector reached -3.2% of GDP. In 2021 it had closed the year at -3.7% of GDP and we expect the year to end at -3.3% and at -2.9% of GDP by 2023.

- WHAT'S COMING NEXT?**
- The recent narrowly failed challenge to the ruling party's signature law could lead to future challenges and risks Lacalle Pou's reformist agenda.
  - The improvement of economic activity relative to pre-pandemic level and high inflation expectations will likely lead to further tightening of monetary policy.





# APPENDIX

## Dashboard

	Jun-22	May-22	Apr-22	May-22	2021
Exchange rate (UYU/USD, eop.)	39.74	39.88	40.80	40.97	44.70
Interest rate (%)	9.25%	9.25%	8.50%	7.25%	4.22%
Inflation (y/y)	-	9.4%	9.4%	9.4%	8.0%
Manufacturing activity (y/y)	-	-	3.9%	5.5%	12.3%

Source: EconViews based on several sources

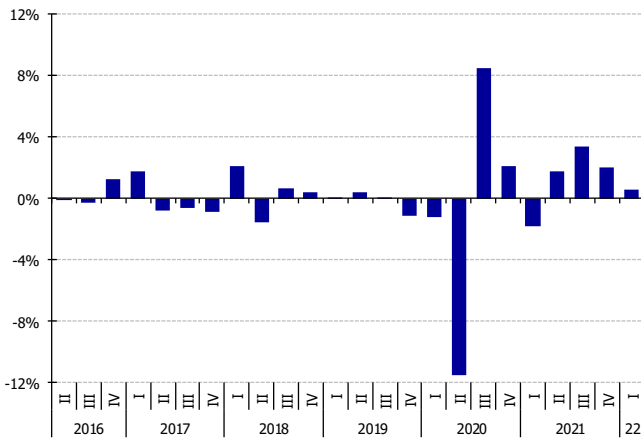
## Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	0.2%	-5.9%	4.4%	3.7%	2.9%
Inflation (Dec-Dec)	8.8%	9.4%	8.0%	8.9%	7.1%
Fiscal Balance (% GDP)	-3.2%	-5.2%	-4.3%	-3.6%	-3.1%
Current Account (% GDP)	1.6%	-0.8%	-1.8%	-1.1%	-0.5%
International reserves (USD Bn)	14.5	16.2	17.0	17.1	17.2
Exchange rate (UYU/USD)	37.34	42.37	44.70	43.70	46.10

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

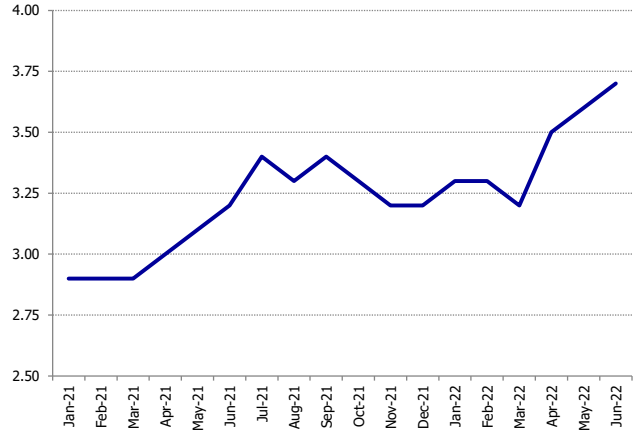
### Real GDP

Q/q variations, s.a. - BCU



### GDP growth - rolling forecasts for 2022

In %

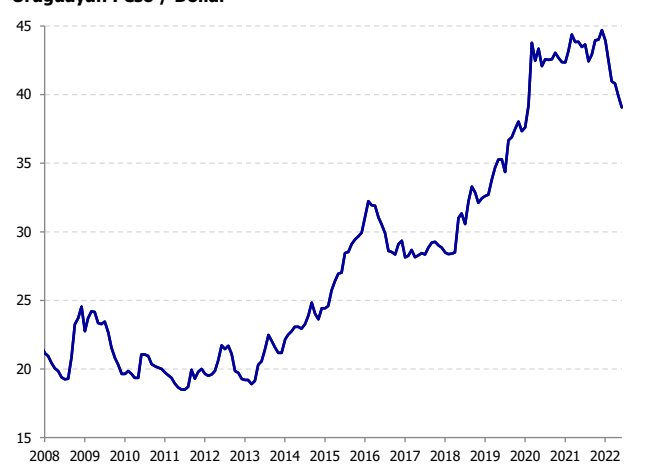










### Inflation - General CPI

Annual changes



### Uruguayan Peso / Dollar



	GDP		Inflation	
	2022	2023	2022	2023
	3.5%	1.5%	80.0%	85.0%
	1.3%	1.1%	9.0%	5.0%
	1.9%	0.3%	9.7%	3.9%
	5.5%	2.7%	8.8%	4.5%
	1.8%	2.0%	7.1%	4.2%
	1.8%	4.0%	7.4%	4.1%
	2.6%	2.7%	6.1%	3.2%
	3.7%	2.9%	8.9%	7.1%

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