LATAM 7 + Argentina

MACRO BRIEF

ECONVIEWS

ECONOMÍA Y FINANZAS

March, 2023

ARGENTINA

Good news	To be alert	Bad news
Economic activity grew in January 0.3% and cut a streak of 4 months falling.	The Central Bank is losing reserves at an alarming rate. Changes in FX policy will be necessary soon.	The BCBA cut its harvest estimates and expected losses amount to USD 22 billion.

POLITICS

Presidential ambitions of Minister Massa start to dissipate, as the economy faltering. Inflation is at the highest mark in 3 decades, scarce international reserves, and energy shortages complicate Massa's position. VP Cristina Kirchner said she would not compete in elections due to her judicial restrictions, but, nothing prevents her from competing. Opposition leader Mauricio Macri also announced he would not compete for Juntos por el Cambio; Horacio Rodríguez Larreta and Patricia Bullrich are now the main contenders for the main opposition party. June is the deadline to enroll in the lists and there is still uncertainty about who will be the candidates.

ECONOMIC ACTIVITY

The economy grew 5.2% in 2022, mostly driven by 2021's statistical carryover. Investment displayed the highest growth rate (10.9% y/y), followed by private consumption (9.4%). Exports increased by 5.8% and public consumption by 1.8%. From the supply side, Hotels and restaurants had the best performance growing 35% while Agriculture and livestock appears at the bottom of the list with a fall of 4.1%. Economic activity rebounded 0.3% m/m in January, cutting a streak of 4 monthly drops. But due to the worsening of the drought and all the spillovers of that on sectors such as transport, fuel, and consumption, we reduced our GDP growth forecast to -4.5% for 2023.

INFLATION

Above all forecasts, February inflation was 6.6% and 102.5% LTM. That is the highest mark since 1990. Only in the first two months of the year, it has accumulated 13.1%. Another worrisome figure was that core inflation printed 7.7%. Seasonal prices only increased by 3.3% and regulated prices by 5.1%. The key was in Foods and Beverages which grew 9.8% and contributed 2.8 p.p. to the headline inflation. Inside this item, the most important increase was seen in beef. We think that more money printing, scarce reserves, lack of confidence in the midst of the electoral season and probably utility tariff increases, it is unlikely that inflation decelerates. In this way, we increased our forecast for 2023 to 115%.

MONETARY SECTOR

The Central Bank increased again the monetary policy rate which now stands at 78% APR or 113.31% effective. We think that the aim of this hike is not to reduce inflation but avoid an increase in market exchange rates. This decision will not be costless as remunerated liabilities will pay additional interest for around ARS 500 billion this year. According to our estimates, the stock of Leliqs and Repos will be ARS 27.2 trillion at the end of 2023. The drainage of reserves continues and the BCRA lost USD 2,643 million in the first three months of the year. Net reserves are only USD 1.1 billion. With the next IMF disbursement, they will grow but it will be temporary.

FISCAL ACCOUNTS

The primary deficit of the first two months of the year was worse than expected and it already accumulates 0.27% of GDP. With this result, the target set in the IMF program for the first quarter is impossible to be met. In February, total revenues contracted 8.3% y/y in real terms. Export and import duties fell 72.8% and 36.3% respectively. The anticipation of exports in December due to the soybean dollar is the main driver of this decrease. Primary expenditures decreased by 3.7% in real terms, most of it driven by the contraction of 6% of social expenditures. With a smaller GDP and lower revenues (due to the drought and lower activity) we expect a primary deficit of 3.6% for 2023 and 5.5% for total deficit.

WHAT'S COMING NEXT?

- In the next couple of months, candidacies, alliances, and electoral strategies will be known; the lists have to be presented in June.
- The Treasury will try to swap the Q3 debt and extend the maturities to go through the electoral process with calm.

APPENDIX

Dashboard

	Mar-23	Feb-23	Jan-23	Dec-22	2021
Exchange rate *(ARS/USD, eop.)*	207.82	197.15	186.98	176.74	102.75
Interest rate *(%)*	78.00%	75.00%	75.00%	75.00%	38.00%
National inflation *(y/y)*	-	102.5%	98.8%	94.8%	50.9%
Economic activity *(y/y)*	-	-	2.9%	-1.0%	10.4%
Industrial activity *(y/y)*	-	-	6.3%	-2.7%	15.8%
Automotive production *(y/y)*	-	22.9%	45.8%	-6.9%	69.0%

Source: EconViews based on several sources

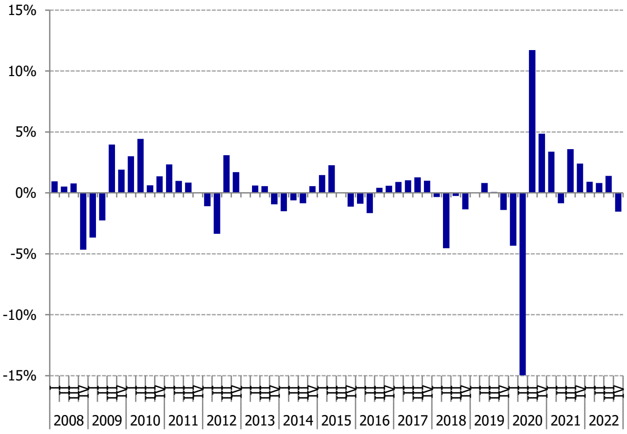
Macroeconomic Outlook

	2020	2021	2022	2023F	2024F
GDP growth *(%)*	-9.9%	10.4%	5.2%	-4.5%	0.0%
National inflation *(Dec-Dec)*	36.1%	50.9%	94.8%	115.0%	90.0%
Fiscal Balance *(% GDP)*	-8.4%	-4.8%	-4.4%	-5.5%	-2.0%
Current Account *(% GDP)*	0.8%	1.4%	-0.9%	-2.3%	1.5%
International reserves *(USD Bn)*	39.4	39.7	44.9	36.4	43.9
Exchange rate *(ARS/USD)*	84.1	102.8	176.7	460.6	829.0

Source: EconViews based on official figures and own estimates

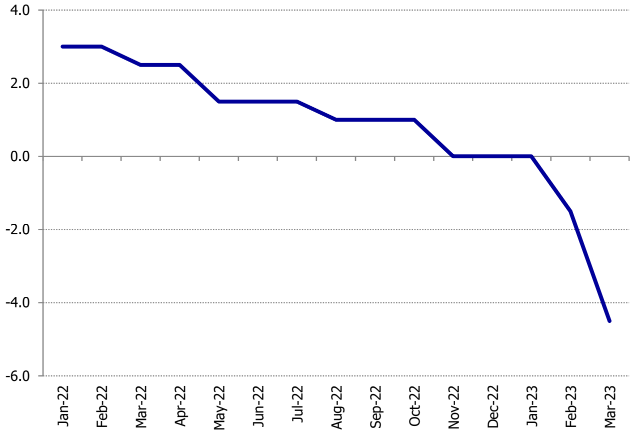
Real GDP

Q/Q variations- Seasonally adjusted data INDEC



GDP growth - rolling forecasts for 2023

In %

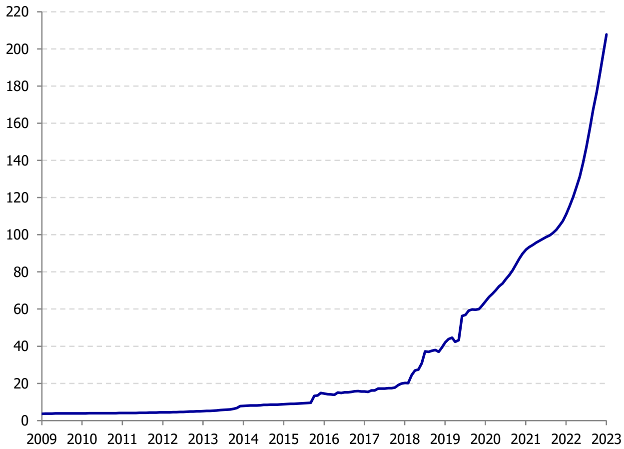


Inflation - General CPI

Annual changes

Source: Econviews based on INDEC

Argentinian Peso / Dollar



BRAZIL

Good news	To be alert	Bad news
Brazil does not suffer from the drought and expects a record harvest.	The SELIC rate remains at 13.75% since August, but Haddad puts pressure on the central bank to lower the rate.	An economic slowdown is expected in 2023, inflation is falling but slower than expected, and there are doubts on the fiscal side.

POLITICS

On January 1st, former president Lula da Silva (Labor Party) took office in what is his third presidency. After an election that left a country hyper polarized, Lula started his government in a complicated environment. On January 8th, thousands of people violently seized and looted various headquarters of the 3 State powers. The attackers assured that there was fraud in the last presidential elections, although that has not been proved. With Fernando Haddad at the head of the Ministry of Finance, the government is slowly giving signs of its economic policy but the economy that has been inherited is generating more concerns than expected.

ECONOMIC ACTIVITY

The Brazilian economy grew 2.9% in 2022. The last quarter of the year registered a fall of 0.2% QoQ s.a. The economic activity index rebounded 0.29% m/m (s.a.) in December, the best reading since July and halted a four-month streak of contractions, but 2023 starts with a negative statistical carryover of 0.04%. The National Index of Cost of Construction varied +0.18% in March, accumulating a high of 0.70% this year and of 8.17% in 12 months. After a drop in February, the seasonally adjusted consumer confidence index increased 2.5% m/m in March. For this year, a cooling of the economy is expected, and we estimate that GDP growth will moderate to 1% in 2023.

INFLATION

2022 closed with an inflation of 5.8%. In February, the CPI registered a 5.6% YoY variation, cooling to a two-year low, but it grew 0.84% m/m, the highest monthly print since April 2022. Education registered the highest variation (+6.28% m/m), followed by health and personal care (+1.26% m/m) and Communications (+0.98% m/m). Of the nine main items, only one registered monthly deflation: Clothing (-0.24%). But Clothing registered the highest year-on-year variation (15.15%), followed by Health and personal care (12.08% y/y) and Food and beverages (9.84% y/y). Inflation is going down slower than expected and we estimate 2023 to finish with an inflation close to 5.7% y/y.

MONETARY SECTOR

Lula has expressed in various occasions his dissatisfaction with the monetary policy exercised by the Central Bank (which includes the inflation target at 3.25%). Since August, the Selic policy rate remains at 13.75%. The cooling of headline and core inflation, coupled by slowing domestic activity prevented new hikes, but the President believes that the policy rate is too restrictive for an economy that is expected to cool down. The market believes that the Central Bank will cut rates, which are expected to be in 12.37% by the end of 2023. The Brazilian real is trading at 5.17 per USD but should lose ground this year due to uncertainty over fiscal policy and Fed hikes and will probably close the year trading at 5.25.

FISCAL ACCOUNTS

2022 left a primary surplus of 0.6% of GDP which, adding interest, becomes a fiscal deficit of 4.7%. Recently, Finance Minister Haddad presented his fiscal program for 2023 where he expressed his desire of achieving a primary deficit of 0.5-1% of GDP. To balance the new expenses, Haddad suggested re-implementing the fuel tax, which could add BRL 28.8 billion or 0.3% of GDP. Despite the controversies, he managed to get the rates, which Bolsonaro had lowered to zero, to escalate to BRL 0.69 per liter in July. The market expects public debt to finish the year at 78% of GDP, while the fiscal deficit is expected to close at 8.1% of GDP in 2023.

WHAT'S COMING NEXT?

- While several countries in the region are severely affected by drought, Brazil is headed for a record harvest (expected to harvest more than 150 million tons), and will displace Argentina as the world's top exporter of soy and corn.
- In the midst of political tension, former President, Jair Bolsonaro, will return to the country on March 30th.

APPENDIX

Dashboard

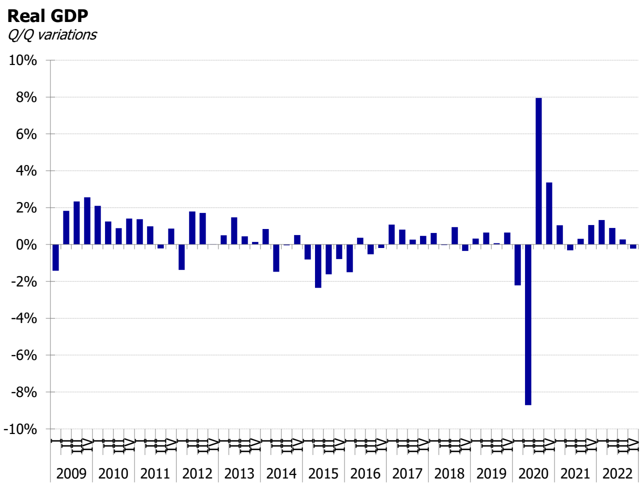
	Mar-23	Feb-23	Jan-23	Dec-22	2021
Exchange rate *(BRL/USD, eop.)*	5.17	5.24	5.07	5.29	5.57
SELIC *(%)*	13.75%	13.75%	13.75%	13.75%	9.25%
Inflation *(y/y)*	-	5.9%	6.5%	7.2%	10.1%
Economic activity *(y/y)*	-	-	3.7%	4.5%	4.6%
Industrial activity *(y/y)*	-	-	1.7%	0.4%	3.9%
Automotive production *(y/y)*	-	4.9%	15.1%	19.3%	11.6%

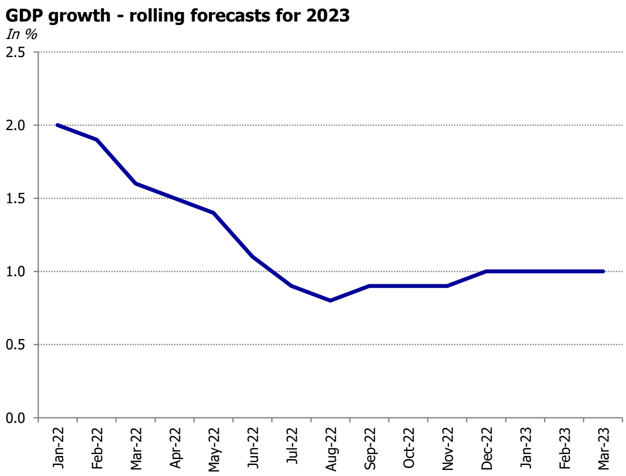
Source: EconViews based on several sources

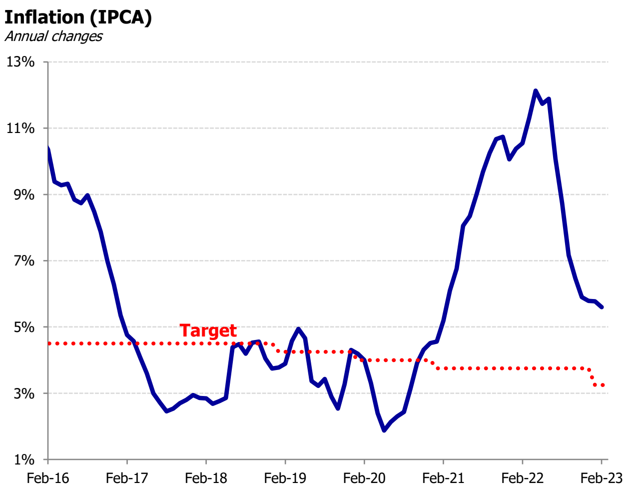
Macroeconomic Outlook

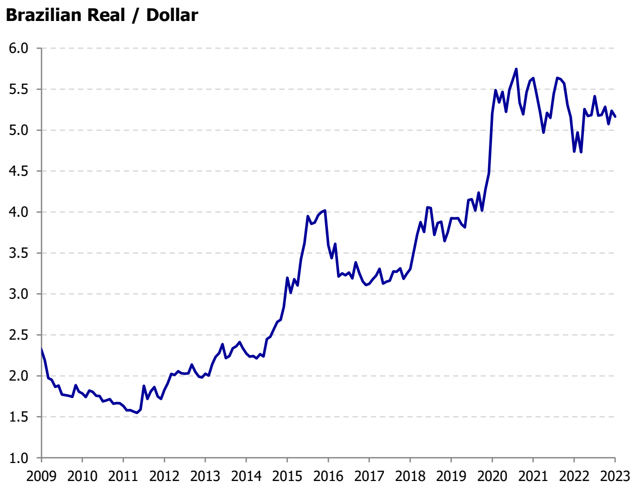
	2020	2021	2022	2023F	2024F
GDP growth *(%)*	-3.3%	5.0%	2.9%	1.0%	1.7%
Inflation *(Dec-Dec)*	4.5%	10.1%	5.8%	5.7%	4.1%
Fiscal Balance *(% GDP)*	-13.3%	-4.3%	-4.7%	-8.1%	-7.3%
Current Account *(% GDP)*	-1.9%	-2.8%	-2.9%	-2.4%	-2.4%
International reserves *(USD Bn)*	342.7	330.9	293.9	324.0	327.7
Exchange rate *(BRL/USD)*	5.19	5.57	5.29	5.25	5.30

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









CHILE

Good news	To be alert	Bad news
Fiscal accounts reached a surplus for the first time since 2012.	The new Constitutional process is underway and promises to add uncertainty.	The fiscal deficit is bound to return this year as the government failed to increase taxes.

POLITICS

After the rejection of the first proposal for a new Constitution last year, earlier this month the administration of Gabriel Boric suffered the rejection of its signature tax reform on the Lower House. The rejected initiative, which had received the go-ahead from the OECD last September, sought to raise 3.6% of GDP in four years, meant to increase Universal Guaranteed Pension and meet other social demands. But the narrow rejection means that a new tax project can only be presented within one year. Opposition leaders had argued that the proposal negatively affected small and medium enterprises.

ECONOMIC ACTIVITY

Economic activity stagnated in 2022's fourth quarter, posting a marginal growth of 0.06% QoQ in seasonally adjusted terms and ending the year with an average growth of 2.4%, in line with our estimates. Private consumption (-0.7% QoQ) and investment (-0.5% QoQ) shrank along with exports (-0.6%, softened by a good performance of mining and agricultural exports), but were offset by government consumption (+1.1% QoQ). January posted greater than expected growth (1.6% m/m s.a.), with a good performance of the mining sector (1.3% m/m) and services (2.7% m/m). We have revised upwardly our GDP growth forecast this year from -1.1% to -0.5%, and +2% for 2024.

INFLATION

On February, Inflation posted its lowest year-on-year register (11.9%) since May, with prices actually falling 0.1% on the monthly comparison, owing mainly to transport (-2.7% m/m) and foods (-0.3% m/m), Despite February's relief, food prices continue to be a major factor of pressure and in the last year they grew 21.4%, almost double headline inflation. Inflation should continue a downward trend owing to high rates and lower external pressure, but it is still far from the Central Bank's target of 3%. We maintain our forecast for 2023 at 4.8%, but we envision 2024 will end with a yearly print of 3.2%

MONETARY SECTOR

On its last monetary policy meeting on January 26th, the Central Bank decided to maintain its monetary policy rate unchanged at 11.25%, which has been in place since last October. Chile's Central Bank has signalled that it will keep the rate unchanged until the disinflation process has been consolidated, but the market expects rate cuts this year to support growth amid falling inflation, likely starting on the third quarter. The CLP has gained some grounds in recent weeks and in March it appreciated 4.7% on average since the beginning of the year. We expect the CLP to end the year at 831 per US dollar.

FISCAL ACCOUNTS

Fiscal accounts closed 2022 on a positive note. Revenues of the Total Central Government (TCG) grew 6.3% in real terms, driven mostly by net tax revenues (+9.6%), particularly non-mining revenues. Expenditures contracted by 23.1% in real terms, explained completely by a fall in current expenditures 26.3%, as capital expenditures actually grew 4.7%. As a result, the TCG achieved an effective surplus of 1.1% of GDP, a major improvement over 2021's deficit of 7.5% of GDP, and the first surplus since 2012. However, the deficit is bound to return in 2023, as revenues are expected to fall, especially copper-related ones, and expenditures are expected to grow. We estimate a deficit of 2.6% of GDP for 2023.

WHAT'S COMING NEXT?

- After last year's rejection, a panel of experts has started to prepare a new constitution draft, which will serve as a base for the constituents who are to be chosen in May. Public interest in a new constitution has markedly fallen.
- Higher copper prices have supported revenues in the first months of the year, but cooler world demand is estimated to bring down prices to USD 3.7 per pound by the year's end.

APPENDIX

Dashboard

	Mar-23	Feb-23	Jan-23	Dec-22	2021
Exchange rate *(CLP/USD, eop.)*	797.51	827.47	795.48	847.80	851.10
Interest rate *(%)*	11.25%	11.25%	11.25%	11.25%	4.00%
Inflation *(y/y)*	-	11.9%	12.3%	12.8%	7.2%
Economic activity *(y/y)*	-	-	0.1%	-2.0%	11.7%
Industrial activity *(y/y)*	-	-	0.5%	-1.2%	2.3%
Mining production *(y/y)*	-	-	2.9%	1.9%	-1.3%

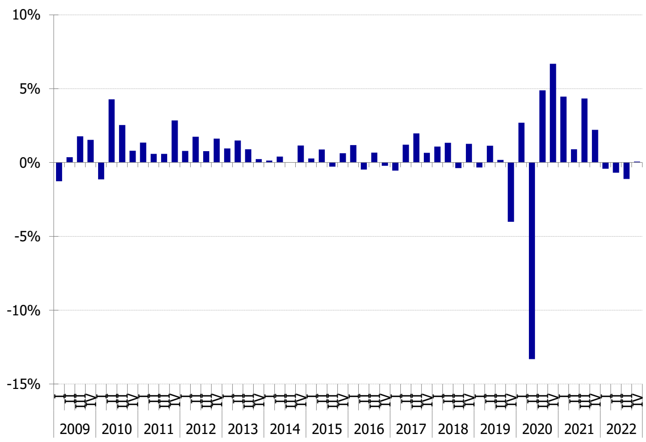
Source: EconViews based on several sources

Macroeconomic Outlook

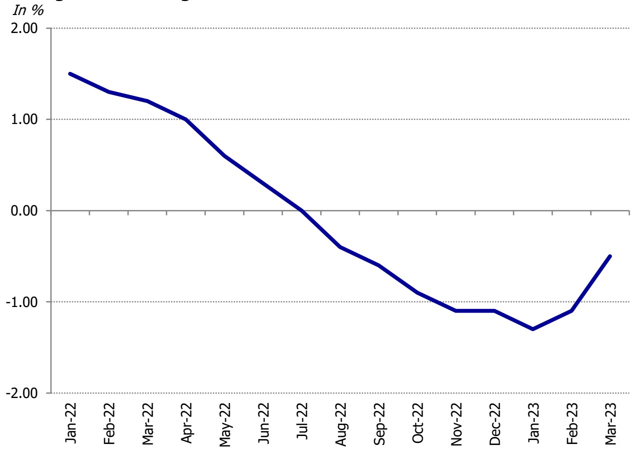
	2020	2021	2022	2023F	2024F
GDP growth *(%)*	6.1%	11.7%	2.4%	-0.5%	2.0%
Inflation *(Dec-Dec)*	3.0%	7.2%	12.8%	4.8%	3.2%
Fiscal Balance *(% GDP)*	-7.1%	-7.5%	1.1%	-2.6%	-2.2%
Current Account *(% GDP)*	-1.7%	-6.4%	-8.5%	-4.6%	-3.9%
International reserves *(USD Bn)*	37.8	47.1	35.2	42.6	43.9
Exchange rate *(CLP/USD)*	709.80	851.10	847.80	845.00	839.00

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

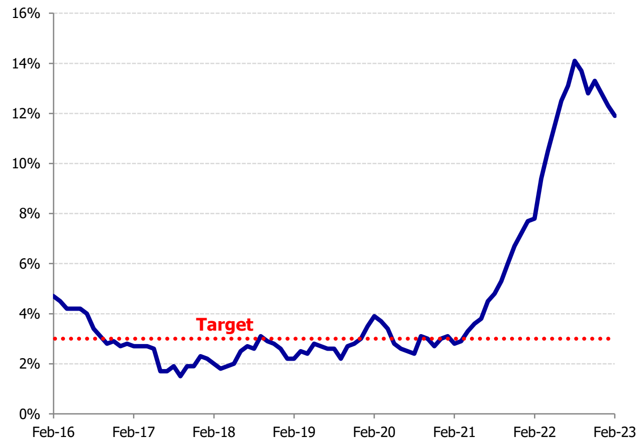
Real GDP
Q/Q variations



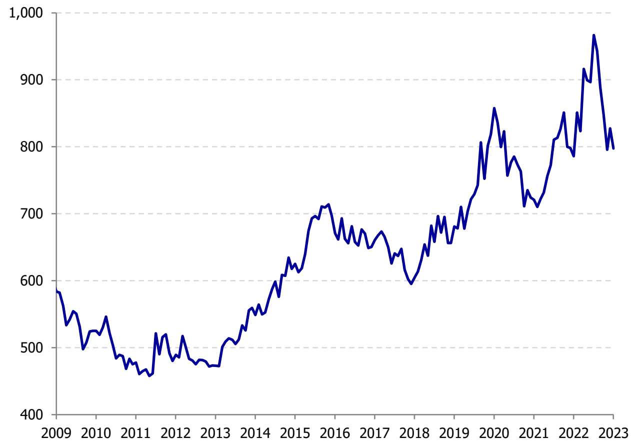
GDP growth - rolling forecasts for 2023
In %



Inflation - General CPI
Annual changes



Chilean Peso / Dollar



COLOMBIA

Good news	To be alert	Bad news
Despite some initial controversy, the new government is advancing in important topics of its agenda, such as the tax reform, the national budget, among others.	Despite having to give in on the political reform, Petro´s government maintains its intentions to move forward with the structural reforms it has in mind.	Inflation continues to break historical records. February's print was the highest since 1999.

POLITICS

A few days ago, President Gustavo Petro received his first legislative setback since he took office. After a request from the congressmen of his party (Historical Pact), the government decided to withdraw the political reform, and present a new law later. This does not mean that the government has stopped insisting on the reforms; after passing the tax reform in 2022, in February of this year it announced that it would seek to sanction health, work and pension reforms that are already being discussed. In particular, the pension reform generates more controversy since it would reduce the flow of money to private pension funds (that are among the main players in the local market).

ECONOMIC ACTIVITY

GDP grew 0.7% (s.a.) in the fourth quarter of 2022 q/q, which resulted in the Colombian economy growing by 7.5% in 2022. Artistic, entertainment, recreation and other activities was the sector that registered the highest growth (+37.9%) although it did not have the highest incidence (1.2 p.p.). In terms of incidence, Wholesale and retail trade leads with 2.1 p.p., which grew 10.7% in 2022. In third place is the manufacturing industry, which increased 9.8% (with a 1.2 p.p. incidence). 2023 began with the Economy Monitoring Indicator registering a monthly growth of 2.57% (s.a.) in January (+5.85 y/y). For 2023, GDP is expected to grow just 0.9%.

INFLATION

2022 closed with an inflation of 13.1% y/y, a figure higher than expected. Inflation was 13.28% y/y in February, the highest since 1999. The monthly variation was of 1.66% compared to January, with 5 out of 12 sectors exceeding the national average, with highest rises being Education (8.5% m/m), Furniture, articles for the home (2.04% m/m) and Transport (1.99% m/m). The greatest contributions to inflation so far have come from Food and non-alcoholic beverages, with an incidence of 0.31 p.p. in February out of a monthly variation of 1.6%. In the coming months inflation is expected to decelerate, closing at 8.2% by the end of 2023.

MONETARY SECTOR

Inflation stubbornly stays way over the Central Bank´s target of 3%, and it seems as if Banrep is running behind the curve. However, as it has been happening since the beginning of 2022, on January 30th, the Central Bank authorities delivered its 12th consecutive rate hike by announcing an increase in the monetary policy rate by 75 bps, taking it to 12.75%. There are expectations that inflation should cool down during this year, but the market estimates another rate hike of 25 bps with possibilities of lowering rates by the end of 2023. The Colombian peso currently trades at COP 4,676 per USD, though with risks, we expect the COP to remain relatively stable during this year.

FISCAL ACCOUNTS

The fiscal deficit of 2022 was of 5.5% of GDP, lower than the 7.1% of GDP of 2021. The Government's Financial Plan for 2023 outlines as a target that the fiscal deficit will be of 3.8% of GDP, with a primary surplus of 0.6% of GDP. The reduction of the deficit will be supported by the tax reforms of 2021 and 2022 and by high oil revenues, which will allow expanding social spending. The market is less optimistic and projects a fiscal deficit -4.2% in 2023. Thanks to the reduction of the fiscal deficit, the government expects that the general national government debt would be reduced from 60.8% of GDP in 2021 to 59.6% in 2022, and to 57.5% in 2023.

WHAT'S COMING NEXT?

- The reform intentions, which even received the support of the IMF in its last visit to the country, remain at a steady pace and news about them can be expected in the coming weeks.
- Although the president announced that he seeks to respect the Total Peace agreement signed in 2016, paramilitary groups such as the Farc, ELN or Clan del Golfo did not show their willingness to respect this agreement with actions.

APPENDIX

Dashboard

	Mar-23	Feb-23	Jan-23	Dec-22	2021
Exchange rate *(COP/USD, eop.)*	4,676	4,857	4,668	4,847	4,065
Interest rate *(%)*	12.8%	12.8%	12.0%	12.0%	2.9%
Inflation *(y/y)*	-	13.3%	13.3%	13.1%	5.6%
Economic activity *(y/y)*	-	-	5.8%	1.2%	10.4%
Industrial activity *(y/y)*	-	-	0.2%	0.5%	10.2%

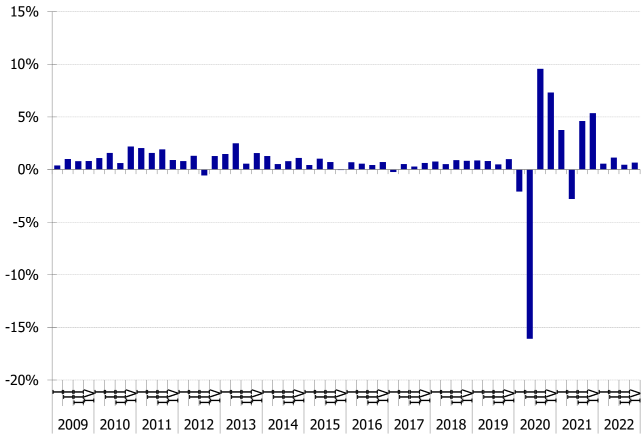
Source: EconViews based on several sources

Macroeconomic Outlook

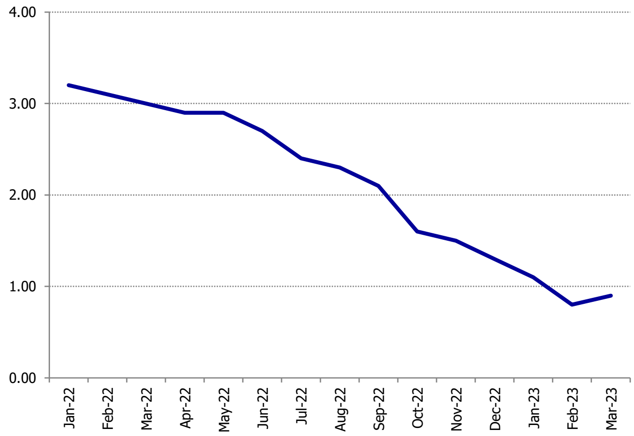
	2020	2021	2022	2023F	2024F
GDP growth *(%)*	-7.3%	11.0%	7.5%	0.9%	2.3%
Inflation *(Dec-Dec)*	1.6%	5.6%	13.1%	8.2%	4.3%
Fiscal Balance *(% GDP)*	-7.8%	-7.1%	-5.5%	-4.2%	-3.9%
Current Account *(% GDP)*	-3.5%	-5.6%	-6.2%	-4.4%	-3.9%
International reserves *(USD Bn)*	56.6	53.5	52.4	56.6	57.9
Exchange rate *(COP/USD)*	3,421	4,065	4,847	4,702	4,572

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

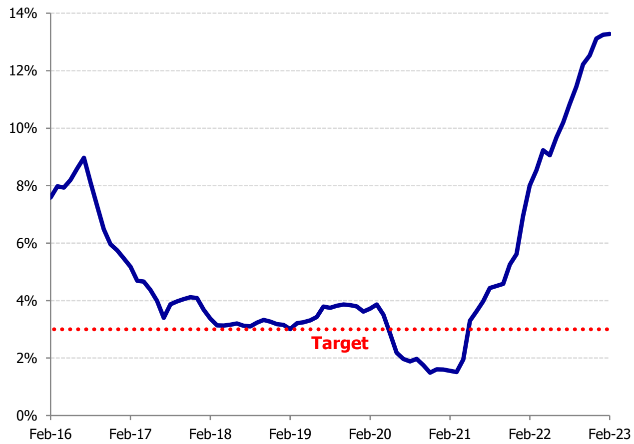
Real GDP
Q/Q variations - DANE



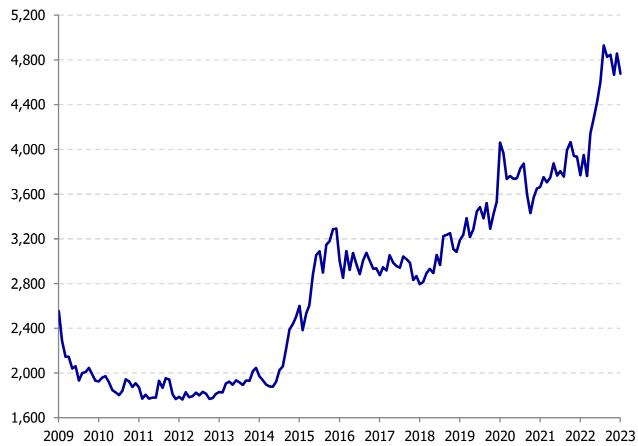
GDP growth - rolling forecasts for 2023
In %



Inflation - General CPI
Annual changes



Colombian Peso / Dollar



MEXICO

Good news	To be alert	Bad news
Tesla, BMW and Ford have announced investments in Mexico, as part of the "nearshoring" trend.	Core inflation remains stubbornly high and Banxico officials say further hikes may be needed.	The energy policy dispute with the US is getting bitter and there is chances the T-MEC panel will end in sanctions.

POLITICS

Tensions with the US on energy policy are on the rise again. Biden threatened AMLO with trade sanctions over alleged T-MEC (NAFTA) violations by limiting foreign participation in the energy market. An international ruling is expected for October. The tense relation is at odds with a favorable business climate due to "nearshoring", which has had Tesla, BMW and Ford, among others, announcing investments in Mexico. AMLO retains a high positive image of 54% and his MORENA party is expected to hold the government in next year's presidential election. Claudia Sheinbaum, the mayor of CDMX, is showing a slight advantage over Foreign Minister Marcelo Ebrard.

ECONOMIC ACTIVITY

Mexico grew 2.9% in 2022, a positive number considering expectations were closer to 2% for most of the last year. Manufacturing expanded 3.3% in the full year driven by the auto industry, which increased vehicle output by 9.8% against 2021. US "nearshoring" due to geopolitical concerns on China and the Ukraine war have proved an unexpected boon for Mexico. Tesla recently announced a USD 10 billion investment to set up an EV plant in the country. Data for January shows the economy started out 2023 with the right foot: activity was up 4.4% year-on-year, and manufacturing grew by 2.8%. We have improved our growth forecast for 2023 from 0.9 to 1.3% and foresee 1.9% growth in 2024.

INFLATION

Year-on-year inflation eased from a peak of 8.7% in August to 7.6% in February, the lowest print in a year. However, food and beverage prices increased 14% over the last 12 months and core inflation is at 8.3%. These increases were partially compensated by utilities, which rose only 2.8% year-on-year, especially energy (+1.5%). Monthly inflation remains hot coming in at 0.56% in February, explained mostly by goods (+0.65%) and food and beverages (+0.68%). Initial data shows a slowdown to 7.1% year-on-year in the first weeks of March, but Banxico officials have shown doubts on disinflation. We expect CPI to increase 5.1% over 2023, moderating to 3.8% by December 2024.

MONETARY SECTOR

In February the Banxico hiked another 50 basis points to 11%, citing worries over inflation in core goods and services. In the press release, it weighed a smaller (25 basis point) increase for its next meeting, set for March 30th. Considering inflation expectations, the *ex-ante* real rate is 6.2 points positive, the highest in the last decade and well above the neutral real rate of 1-3%. The Mexican Peso has strengthened considerably, 5.2% during 2022 and 6.9% in three months of 2023, currently trading at 18.2 MXN/USD, levels unseen since 2018. We believe it may weaken to 18.5 by December, although FDI flows could help attenuate this.

FISCAL ACCOUNTS

The fiscal deficit increased from 2.9% of GDP in 2021 to 3.4% in 2022, or MXN 979 billion, 103 billion more than set out in the budget. Oil-related revenues grew 19% in real terms and income tax rose 11%. This was insufficient to counter a 3.5% real increase in spending, driven by pensions (+7.2%), transfers to state oil company Pemex (+6.3%) and also an increase in interest costs (+10%). 2023 started off with a sharp contraction in primary expenditures, which fell 5.1% year-on-year in January due to under execution of social security spending (-32%) and transfers to Pemex (-45%), both of which were well below the budget indications. However, we expect Mexico's fiscal deficit will stay at around 3.6% of GDP in 2023.

WHAT'S COMING NEXT?

- Presidential elections will take place next year, and chances are that ruling Morena party will continue in power.
- Andrés Manuel López Obrador seeks to avoid a controversial energy panel that could cost the country up to 30 billion dollars in trade sanctions.

APPENDIX

Dashboard

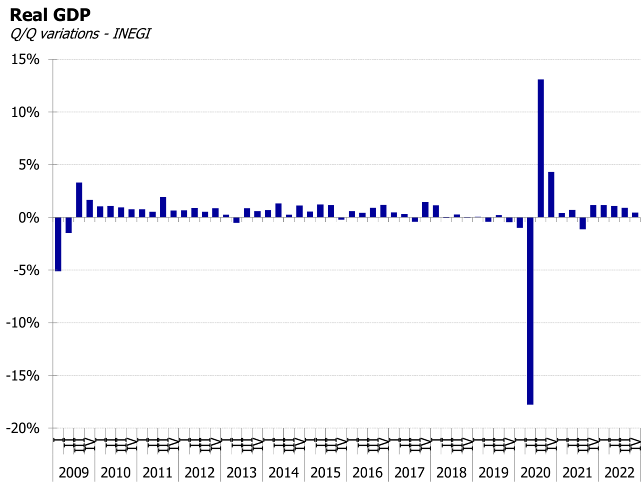
	Mar-23	Feb-23	Jan-23	Dec-22	2021
Exchange rate *(MXN/USD, eop.)*	18.21	18.30	18.82	19.47	20.49
Interest rate *(%)*	11.00%	11.00%	10.50%	10.50%	5.50%
Inflation *(y/y)*	-	7.62%	7.91%	7.82%	7.36%
Economic activity *(y/y)*	-	-	4.4%	2.6%	4.9%
Industrial activity *(y/y)*	-	-	2.8%	3.0%	4.9%
Automotive production *(y/y)*	-	10.3%	3.6%	3.7%	0.6%

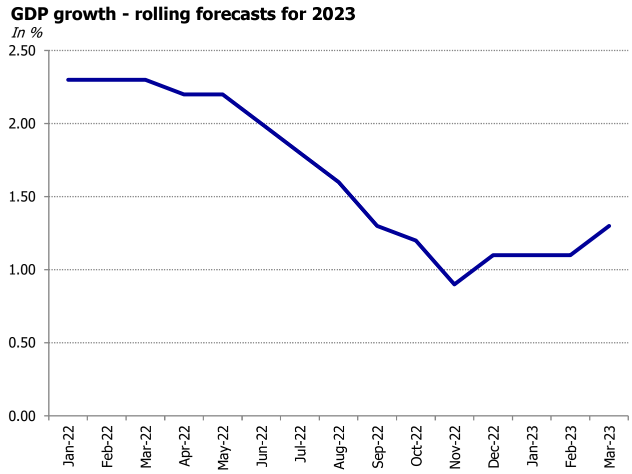
Source: EconViews based on several sources

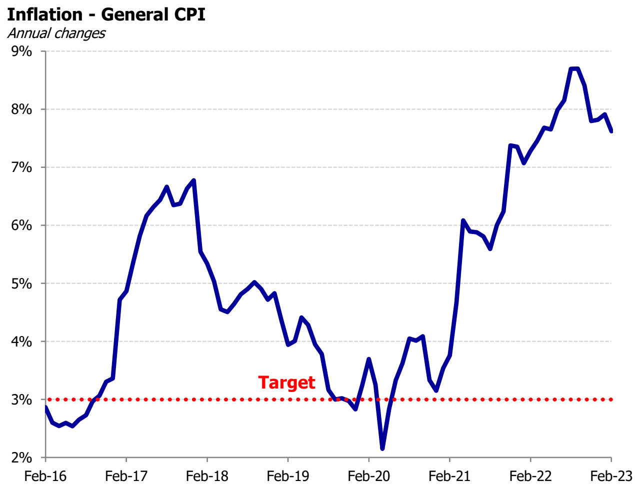
Macroeconomic Outlook

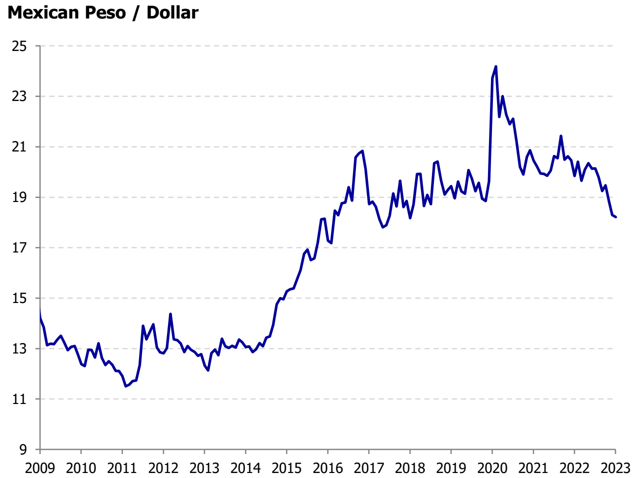
	2020	2021	2022	2023F	2024F
GDP growth *(%)*	-8.0%	4.7%	3.1%	1.3%	1.9%
Inflation *(Dec-Dec)*	3.2%	7.4%	7.8%	5.1%	3.8%
Fiscal Balance *(% GDP)*	-2.9%	-2.9%	-3.4%	-3.6%	-3.5%
Current Account *(% GDP)*	2.1%	-0.6%	-0.9%	-1.1%	-1.1%
International reserves *(USD Bn)*	184.2	180.8	174.8	197.0	200.4
Exchange rate *(MXN/USD)*	19.91	20.49	19.47	18.50	19.00

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









PARAGUAY

Good news	To be alert	Bad news
The fiscal deficit is on the way to fall for the third year in a row.	The electoral process is likely to add uncertainty in the market.	Despite its deceleration, inflation is still high and is not likely to reach the target range until 2024.

POLITICS

About one month before the elections, the general prosecutor initiated a criminal case against Horacio Cartes (former president) and Hugo Velazquez (current VP), both accused by the US of corruption. Despite this fact, the candidate of the Colorado party, Santiago Peña was not damaged and is likely to win the election. From the opposition, the candidate elected in the primaries was Efrain Alegre. Some polls forecast a winning for Peña, but others go with Alegre, so there is no clear favorite. The current president, Mario Abdo, belongs to the Colorado party, which governed since 1948, only interrupted in 2008 when Lugo took the power.

ECONOMIC ACTIVITY

GDP grew only 0.1% in 2022. From the demand side, only private consumption had a positive variation (2.2%), while public consumption (-5.7%), investment (-2.3%), and exports (-1.6%) contracted. Focusing on the main sectors, agriculture fell 12.7%, followed by construction with -4.3%. Electricity & water and services were the most dynamic activities, growing 6.8% and 1.6% respectively. In January the economy fell 1.3% m/m s.a. but is still 4.5% above one year before. The energy generation is doing well thanks to the recovery of the water flow of the Paraná River. Agriculture, livestock, and services also had a good performance. For 2023 we expect GDP growth of 4.1%, slightly below our previous forecast.

INFLATION

Inflation is showing signs of deceleration. In 2022 ended at 8.1%, in January it decreased to 7.8%, and in February to 6.9% (0.5% m/m). Core inflation was below the headline index recording a monthly increase of 0.3% and 6.1% y/y. As the diesel price increased 36.4% y/y, the transport was the category with the highest figure in February (12.5%). Alcoholic beverages, Restaurants & hotels, and Food also had significant increases with 9%, 8.2%, and 6.8% respectively. The inflation target of the Central Bank is 4% so it is still well above, and May 2021 was the last month that inflation was below. We forecast that at the end of the year will be 4.8%, much closer to the target.

MONETARY SECTOR

In March, for the sixth month in a row, the Central Bank kept the monetary policy interest rate at 8.5%. The chief reason is that inflation is still above the target and there are some risks in the convergence path. With banking lending rates at 16%, credit to the private sector in national currency is falling in real terms. It represents 55% of the total credit. The other 45% belongs to credit in USD, which grew 14.2% y/y in January. The exchange rate reached its highest nominal value in January, surpassing the record of January 2003. Since then, it appreciated and now is trading at 7,175. For the remainder of the year, we expect a depreciation, ending 2023 at 7,329 per dollar.

FISCAL ACCOUNTS

The fiscal deficit was 3% of GDP in 2022, smaller than the 3.6% in 2021. So far this year, the accumulated deficit reaches 0.6% of GDP, explained by 0.3% of the operative balance and 0.3% of the investment. Total revenues fell 5.3%. Inside this number, tax revenues grew 0.3% and other revenues 17%, while social contributions and donations fell 74.8% and 6.4% respectively. Expenditures increased 17.5%, driven by social assistance (+21%), and public wages (+6.5%). Public investment, which represents half part of the deficit increased by 4.8% in the first two months of 2023. Our forecast for 2023 is that the fiscal deficit will end at 2.4% of GDP.

WHAT'S COMING NEXT?

- On April 30th, presidential and legislative elections will be held and both candidates can get the victory.
- On August 15th, the new government will take office. One of its challenges will be to control inflation and reduce the fiscal deficit.

APPENDIX

Dashboard

	Mar-23	Feb-23	Jan-23	Dec-22	2021
Exchange rate *(PYG/USD, eop.)*	7,175	7,221	7,285	7,323	6,857
Interest rate *(%)*	8.50%	8.50%	8.50%	8.50%	5.25%
Inflation *(y/y)*	9.3%	6.9%	7.8%	8.1%	6.8%
Economic activity *(y/y)*	-	-	4.5%	-0.2%	4.3%

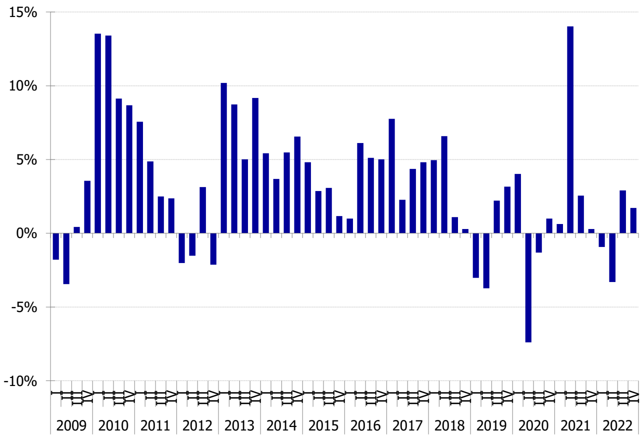
Source: EconViews based on several sources

Macroeconomic Outlook

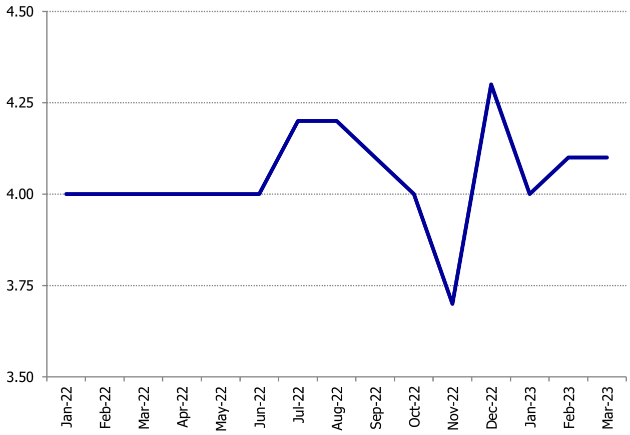
	2020	2021	2022	2023F	2024F
GDP growth *(%)*	-0.6%	5.0%	0.1%	4.1%	4.3%
Inflation *(Dec-Dec)*	2.2%	6.8%	8.1%	4.8%	3.2%
Fiscal Balance *(NFPS - % GDP)*	-6.1%	-3.6%	-3.0%	-2.4%	-1.7%
Current Account *(% GDP)*	2.7%	0.7%	-5.0%	-0.8%	-0.7%
International reserves *(USD Bn)*	9.5	9.9	9.8	10.2	10.8
Exchange rate *(PYG/USD)*	6,907	6,877	7,323	7,329	7,460

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

Real GDP
Y/Y variations - Central Bank

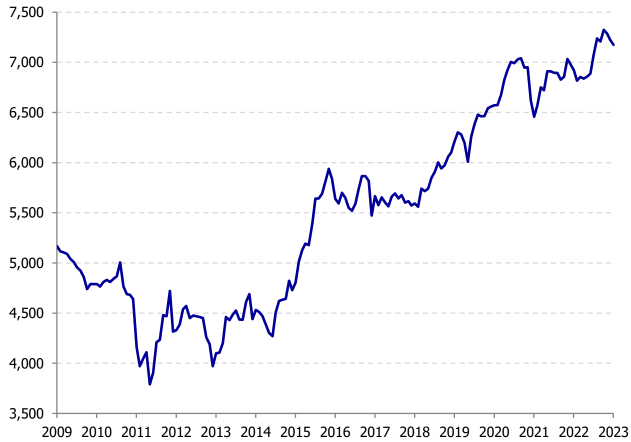


GDP growth - rolling forecasts for 2023
In %



Inflation - General CPI
Annual changes

Paraguayan Guarani / Dollar



PERU

Good news	To be alert	Bad news
Markets remain divorced from the political crisis, with the Peruvian Sol appreciating 3.5% to 3.76 in the last two months.	The BCRP is holding its policy rate at 7.75% since January and cuts are on the table, but also depend on the volatile political situation.	Over two-thirds of Peruvians think President Boluarte should resign, after three months of protests and police violence.

POLITICS

President Pedro Castillo's impeachment in December, following a failed coup, sparked protests across the country. Former VP Dina Boluarte succeeded him and had held on to power supported by right and center-wing parties in Congress. However, she is highly unpopular, and protests have left nearly 70 dead, with the Interamerican Commission on Human Rights expressing concern over police and army violence. Boluarte's term expires in 2026, but there have been several attempts in Congress to bring the election forward to 2023 or 2024, so far with no success. Attempts to impeach Boluarte, led by her former coalition, have also failed. The situation remains highly unstable, with no clear leadership.

ECONOMIC ACTIVITY

Peru's GDP grew 2.7% in 2022, with activity stagnating in Q4 as the political situation deteriorated. Year-on-year growth was down to 0.9% in December and went negative in January (-1.1%). Manufacturing expanded 1% in the full year but slumped 2.2% year-on-year in Q4, although it rebounded in January (+1.1%). Fishing had a terrible 2022 with a 14% contraction. Paralyzed by strikes and conflicts, the mining sector grew only 0.4% in 2022 and in January activity was 3.6% below the same month of last year. Growth forecasts for Peru in 2023 have worsened from 2.2 to 1.9% in the last months, however, in 2024 it could rebound to 3% growth rates.

INFLATION

Lima's Metropolitan CPI has been above 8% year-on-year for eleven months now, coming in at 8.6% in February. In monthly terms, there was a slight decrease from 0.55% averages in Q4-2022 to 0.26% over the last two months, but annualized this is still out of the 1-3% target range. Education (+0.8%) and food and beverages (+0.6%) increased the most between January and February, while a 1% decrease in utilities, mainly electricity (-4%) helped compensate. At 16.3%, food inflation practically doubles the headline index over the last 12 months. We expect a slower disinflation and have raised our end of 2023 forecast from 3.6 to 4%, although inflation should return to the target range at 2.9% by late 2024.

MONETARY SECTOR

After hiking 500 basis points over 2022, the BCRP nudged its policy rate another 25 basis points to 7.75% in January and left it untouched since. This is an *ex-ante* positive real rate, 3.5 points above expected inflation. Market rates responded in form. The Central Bank lost around USD 6.6 billion in international reserves last year but in the first two months of 2023 it recovered 2 billion, bringing total reserves to USD 73.9 billion. The PEN/USD exchange rate spiked to 3.89 in early February, but since then the Peruvian Sol has appreciated 3.5% to 3.76, the lowest levels since Pedro Castillo won the elections in June 2022. Our forecast is for a 3.90 parity by December.

FISCAL ACCOUNTS

Peru managed to cut its fiscal deficit from 2.5% of GDP in 2021 to 1.6% in 2022. Due to rising interest costs the 12-month rolling deficit increased to 1.8% in February but without losing the primary equilibrium. Tax revenues are expected to fall 1.8% in real terms during 2023 due to regularization of income tax, and lower prices for export commodities. However, this should be compensated by a 0.5% contraction in real spending, due to a rollback of Covid-19 emergency expenditures. With these figures, we expect a 2.2% fiscal deficit for the full year, which would keep the net debt to GDP ratio stable around 21%. The 10-year benchmark government bond is yielding 5.2%, in line with the LATAM average.

WHAT'S COMING NEXT?

- Political tensions are sure to continue this year, and added uncertainty could take a toll on investment.
- The government announced the launch of several public-private projects worth around USD 9 billion which should aid the economy this year.

APPENDIX

Dashboard

	Mar-23	Feb-23	Jan-23	Dec-22	2021
Exchange rate *(PEN/USD, eop.)*	3.76	3.78	3.83	3.80	3.99
Interest rate *(%)*	7.75%	7.75%	7.75%	7.50%	2.50%
Inflation *(y/y)*	-	8.6%	8.7%	8.5%	6.4%
Economic activity *(y/y)*	-	-	-1.1%	0.9%	13.5%
Manufacturing activity *(y/y)*	-	-	1.1%	-4.6%	18.7%
Mining production *(y/y)*	-	-	-3.6%	9.3%	7.5%

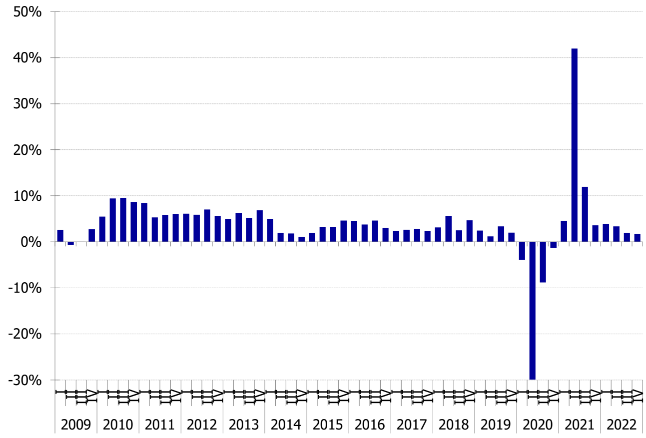
Source: EconViews based on several sources

Macroeconomic Outlook

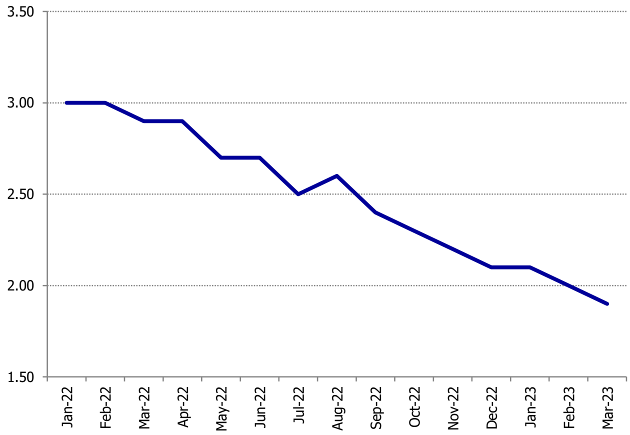
	2020	2021	2022	2023F	2024F
GDP growth *(%)*	-10.9%	13.4%	2.7%	1.9%	3.0%
Inflation *(Dec-Dec)*	2.0%	6.4%	8.5%	4.0%	2.9%
Fiscal Balance *(% GDP)*	-8.9%	-2.6%	-1.8%	-2.2%	-2.0%
Current Account *(% GDP)*	1.2%	-2.3%	-4.4%	-3.0%	-2.2%
International reserves *(USD Bn)*	74.7	78.5	71.9	76.1	78.9
Exchange rate *(PEN/USD)*	3.62	3.99	3.80	3.90	3.86

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

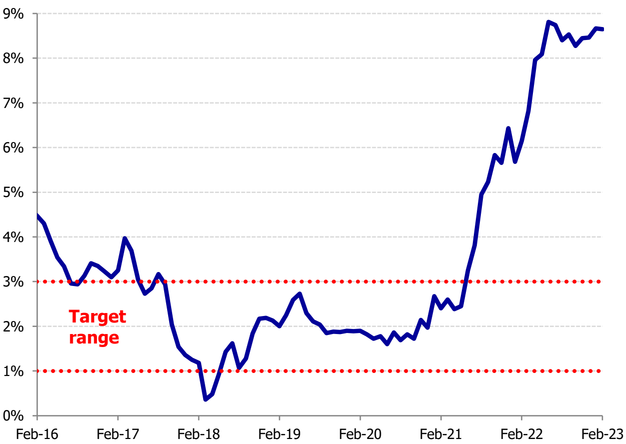
Real GDP
Y/Y variations - Central Bank



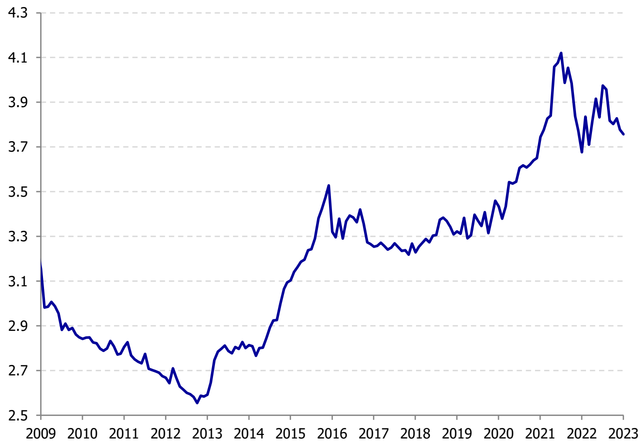
GDP growth - rolling forecasts for 2023
In %



Inflation - General CPI
Annual changes



Peruvian Sol / Dollar



URUGUAY

Good news	To be alert	Bad news
The pension reforms passed the Senate and is likely to pass the Lower Chamber, but might be delayed until 2023-2H.	After a strong appreciation in 2022, the Uruguayan peso is expected to lose ground this year.	Monthly inflation accelerated and food prices could add pressure in coming months.

POLITICS

The signature of the social security bill put forward by president Lacalle Pou's party was approved by the Senate in December and was set to be put up for vote in the Chamber of Deputies before March's end. But is likely to be postponed until the second half of the year, as Cabildo Abierto leaders, part of the ruling coalition, have not reached an agreement over some specific articles of the draft. Meanwhile, unions and social organizations are taking to the streets to protest the bill; the rise of the minimum retirement age from 60 to 65 is one of the most polarizing parts of the proposal.

ECONOMIC ACTIVITY

Economic activity continued to weaken in 2022's fourth quarter, with GDP posting a seasonally adjusted drop of 1.3% QoQ after falling 0.7% QoQ in Q3-2022, as industrial production and merchandise exports dwindled. Still, GDP grew 4.9% on average in 2022 mainly due to 2021's carryover effect of 4%. Household consumption grew 6% in the year, investment 5.2% and exports 11.1%. But in the last quarter, investment fell 1.2% YoY, and exports contracted too (-5.6%), though household consumption remained firm with a YoY growth of 4.5%, while public consumption shrank 0.2%. GDP is expected to growth at a softer pace of 2.2% this year, but a proposed tax-cut could support household consumption.

INFLATION

Consumer prices accelerated in the first two months of the year, growing 1.6% m/m and 1.0% in January and February respectively, thus offsetting drops registered in November and December. Still, on the yearly comparison inflation reached 7.6%, the lowest print since September 2021, in part thanks to a high comparison base. Food (10.9%) and restaurants & hotels (11.8%) continue at the top of the ranking. With interest rates positive in real terms and the economy slowing down, inflation is expected to decline in coming months to end the year at 7.2%, still above the upper bound of the 3-6% target range, but below 2022's 8.3% print.

MONETARY SECTOR

On its last meeting in February, the Monetary Policy Committee decided to maintain the monetary policy rate at 11.25%, as year-on-year inflation has been falling steadily and inflation expectations have begun to converge, though they still remain above the 3-6% target range. Also, they recognized that the drought may have an impact on food prices but that it should be transitory; the market is expecting rate cuts to start later this year. The Uruguayan peso is currently trading at around 38.8 per USD, remaining stable so far this year but accumulating an average appreciation of 8% in the last 12 months.

FISCAL ACCOUNTS

2022 ended with a Public Sector fiscal deficit of 3.2% of GDP, in line with expectations, and of 3.4% excluding revenues from the Social Security Trust (vs 3.6% and 4.1% in 2021, respectively). Revenues of the central government shrank by 0.5% of GDP compared to a year before, as the national electricity company had had extraordinary revenues in 2021. Primary expenditures of the central government shrank further, by 1.3% of GDP, mainly driven by lower Covid-related expenses. We expect the fiscal consolidation to continue this year and estimate a Public Sector fiscal deficit of 2.8% of GDP.

WHAT'S COMING NEXT?

- The government's social security bill is likely to be passed despite a proposed postponement of its debate in the Chamber of Deputies. It could have a substantial positive effect on fiscal accounts in the middle run.
- The external context becomes more challenging, and Argentina's economic downturn could take a toll on exports of goods and services.

APPENDIX

Dashboard

	Mar-23	Feb-23	Jan-23	Dec-22	2021
Exchange rate *(UYU/USD, eop.)*	38.78	39.04	38.75	39.95	44.70
Interest rate *(%)*	11.50%	11.50%	11.25%	11.25%	4.22%
Inflation *(y/y)*	-	7.6%	8.0%	8.3%	8.0%
Manufacturing activity *(y/y)*	-	-	0.6%	1.1%	12.3%

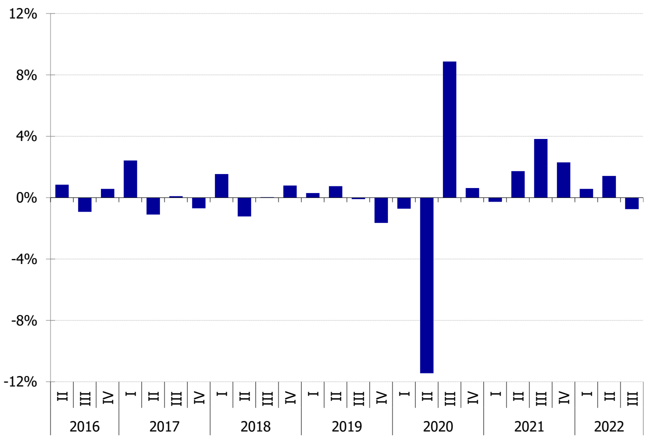
Source: EconViews based on several sources

Macroeconomic Outlook

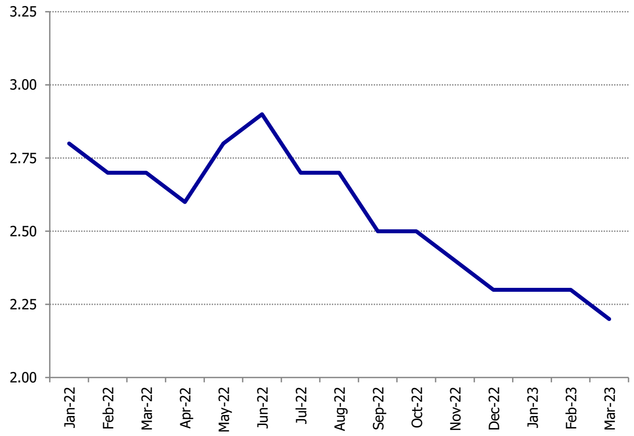
	2020	2021	2022	2023F	2024F
GDP growth *(%)*	-5.9%	4.4%	5.1%	2.2%	2.6%
Inflation *(Dec-Dec)*	9.4%	8.0%	8.3%	7.2%	6.6%
Fiscal Balance *(% GDP)*	-5.2%	-3.6%	-3.2%	-2.8%	-2.4%
Current Account *(% GDP)*	-0.9%	-2.7%	-2.0%	-1.5%	-1.1%
International reserves *(USD Bn)*	16.2	17.0	15.1	16.2	16.8
Exchange rate *(UYU/USD)*	42.37	44.70	39.95	42.20	44.50

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

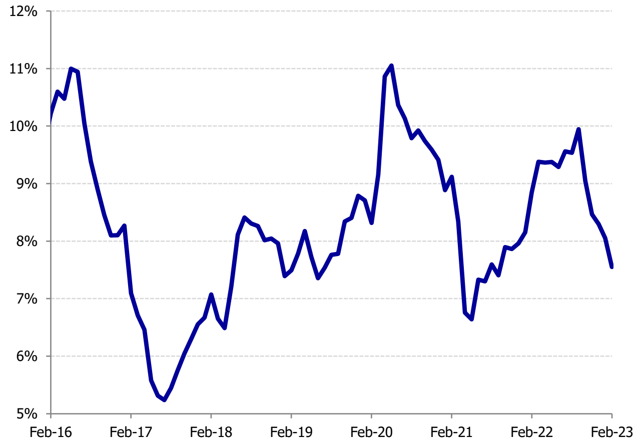
Real GDP
Q/q variations, s.a. - BCU



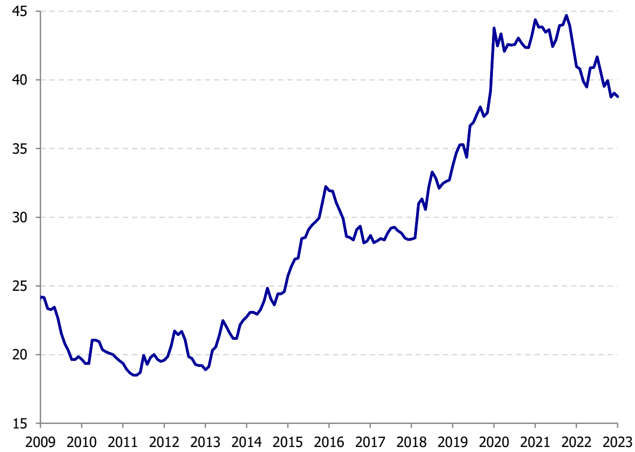
GDP growth - rolling forecasts for 2023
In %



Inflation - General CPI
Annual changes



Uruguayan Peso / Dollar



	GDP		Inflation	
	2023	2024	2023	2024
	-4.5%	0.0%	115.0%	90.0%
	1.0%	1.7%	5.7%	4.1%
	-0.5%	2.0%	4.8%	3.2%
	0.9%	2.3%	8.2%	4.3%
	1.3%	1.9%	5.1%	3.8%
	4.1%	4.3%	4.8%	3.2%
	1.9%	3.0%	4.0%	2.9%
	2.2%	2.6%	7.2%	6.6%

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