

LATAM 7 + Argentina

MACRO BRIEF

ECONVIEWS
ECONOMÍA Y FINANZAS

October, 2022



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ARGENTINA

Good news	To be alert	Bad news
The “soybean dollar” allowed the CB to buy roughly 5 billion dollars and gave some oxygen to international reserves.	The stock of CB remunerated liabilities reached ARS 8.5 trillion. It is not a huge problem now, but it could get worse.	Inflation will be the highest since 1991 and with unanchored expectations it will not improve next year.

POLITICS

There were two important events in the political scene during the last months. The first one is the replacement of Silvina Batakis from the Ministry of Finance by Sergio Massa, former president of the Chamber of Deputies. This movement gave him more relative power inside the government coalition to the detriment of the president Alberto Fernandez. The other relevant event was the assassination attempt on VP Cristina Kirchner, who is fully focused on its judiciary agenda. Regarding the opposition, internal confrontations do not ease. Recently, Manes from the UCR criticized Macri's administration but he was not backed up by the party's leaders.

ECONOMIC ACTIVITY

Economic activity grew 1.0% in the second quarter, above expectations, but it stagnated in July (-0.04% in July m/m, seasonally adjusted). Year-on-year the economy grew 5.6%, below the 6.9% in June and the 7.9% in May. We expect the decelerate during Q3 and contract in Q4 due to import controls that affect production and the impact of inflation on household incomes. In July, the most dynamic sectors were Hotels & Restaurants (45.7% y/y) and Mining (13.6%). On the other hand, fishing (-4.1%) and Agriculture & Livestock (-2.7) had the worst performances. Mostly explained by the statistical carryover, we forecast that the GDP will grow at least 4% this year.

INFLATION

Inflation shot up in July and August, with increases of 7.4% and 7% respectively. It skyrocketed to 78.5% year-on-year and it accumulates 56.4% YTD. We think that Guzman's resignation coupled with harder import controls were the main reasons. Regarding the index divisions, Clothes & Shoes had the greatest increase with 109% y/y, followed by Restaurants & Hotels (97.5%) and Food & Beverages (80%). With the depreciation rate, interest rate, and wage increases going around 6% per month we do not expect inflation to decelerate. For 2022 we raised our forecast to 100% and to 110% for 2023. Our view is that without credibility it will be impossible to anchor expectations and reduce inflation.

MONETARY SECTOR

The Central Bank increased the interest rate once again in September to 75% APR or 107% effective. At this level, it is nearly neutral in real terms. The measure is unlikely to have an immediate effect on inflation, but it will contribute to keep parallel exchange rates under control. The official exchange rate is now trading at ARS 148.2 while the Blue Chip Swap is at ARS 309.9, which leaves a spread of 109.1%. Last month the government implemented a program to boost soybean exports allowing the CB to buy roughly 5 billion dollars. To do this it had to issue ARS 1.14 trillion, which have been sterilized through Leliqs and Repos. Currently, the stock of BCRA remunerated liabilities amounts ARS 8.5 trillion.

FISCAL ACCOUNTS

In the first 8 months, the primary deficit reached 1.65% of GDP, 0.53 p.p. above that of the same period of last year. On the revenues side, total income shows a slight decrease in real terms. At the same time, expenditures grew 7.2% above inflation. Energy subsidies rose 15% in real terms and as increases in gas and energy bills have been suspended it will be difficult to reduce this. Operative costs grew 5% and with wage expenses up 11%. Other items such as social spending (5%), transfers to provinces (5%) and capital expenditures (29%) also grew in real terms. For 2022 we expect a correctly accounted primary deficit of 3.1% of GDP which is 0.3% above the IMF target (adjusting by non-cash rents).

WHAT'S COMING NEXT?

- Congress will treat the Budget Bill. It includes an inflation forecast of 60% for next year, while our one is 110%. The 2% for GDP growth is also more optimistic that our projection of 1%.
- After the success of the “soybean dollar”, we expect other measures to avoid reserves loss. It could be a kind of decoupling for tourism expenditures.



APPENDIX

Dashboard

	Sep-22	Aug-22	Jul-22	Jun-22	2021
Exchange rate (ARS/USD, eop.)	147.31	138.72	131.26	125.21	102.75
Interest rate (%)	75.00%	69.50%	60.00%	52.00%	38.00%
National inflation (y/y)	-	78.5%	71.0%	64.0%	50.9%
Economic activity (y/y)	-	-	5.6%	6.9%	10.4%
Industrial activity (y/y)	-	-	5.1%	7.3%	15.8%
Automotive production (y/y)	-	40.9%	37.9%	20.9%	69.0%

Source: EconViews based on several sources

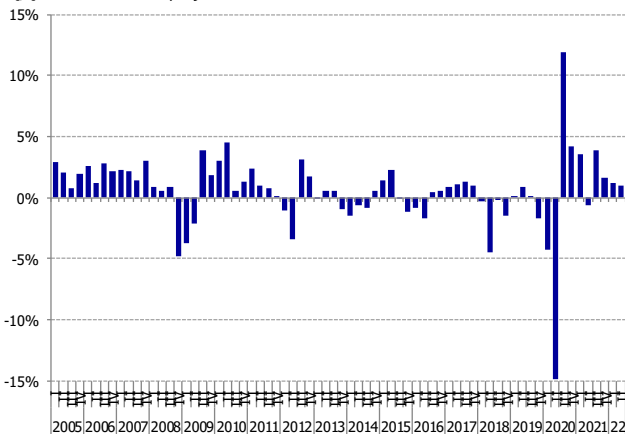
Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	-2.0%	-9.9%	10.4%	4.0%	1.0%
National inflation (Dec-Dec)	53.8%	36.1%	50.9%	100.0%	110.0%
Fiscal Balance (% GDP)	-3.6%	-8.4%	-4.8%	-4.6%	-4.8%
Current Account (% GDP)	-0.8%	0.8%	1.4%	-0.8%	0.0%
International reserves (USD Bn)	44.8	39.4	39.7	40.0	40.5
Exchange rate (ARS/USD)	59.90	84.15	102.75	179.80	350.70

Source: EconViews based on official figures and own estimates

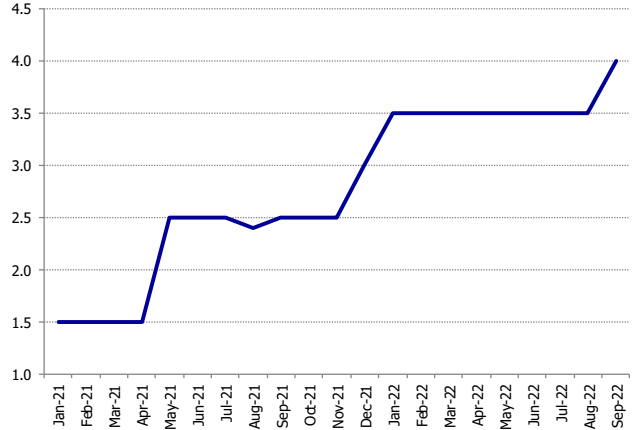
Real GDP

Q/Q variations - Seasonally adjusted data INDEC



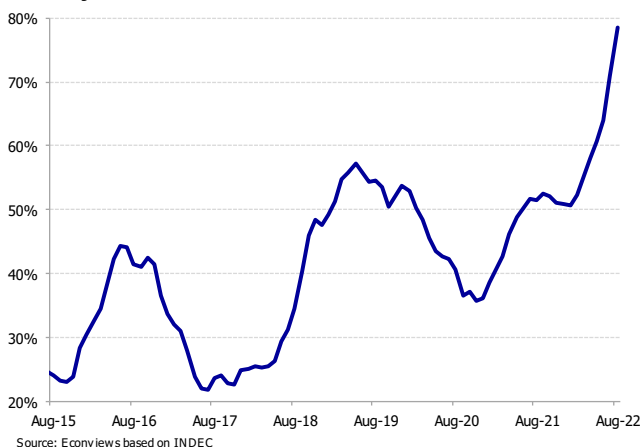
GDP growth - rolling forecasts for 2022

In %



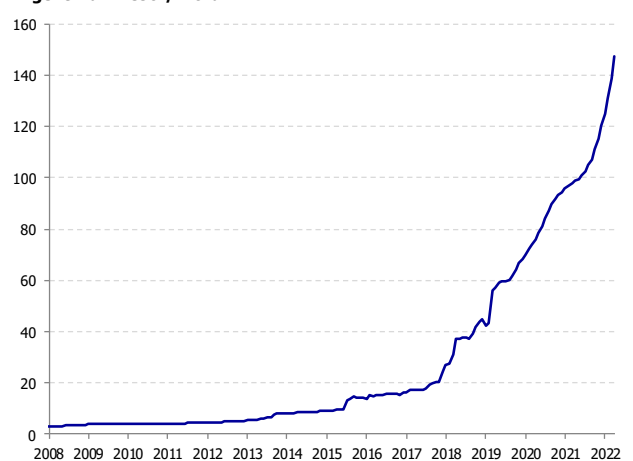
Inflation - General CPI

Annual changes



Source: Econviews based on INDEC

Argentinian Peso / Dollar





BRAZIL

Good news	To be alert	Bad news
Contrary to what is happening in other countries of the region, inflation has been given some air in recent months as it has slowed down.	A historical, tight election, will determine the future of Brazil in the next 4 years.	While the economy is having a better performance than expected, many doubts are left for 2023, particularly on the fiscal front.

POLITICS

On October 2nd, the first round of the presidential elections took place. Despite polls predicting a landslide win for former president Lula da Silva, he got 48.4% of the votes, while Jair Bolsonaro managed to add 43.2% of the votes. In third place, with just 4.2% of the votes, is Simone Tebet, a senator from former president Michel Temer's party (BDM), who already formalized her support to Lula. With a highly divided country, both da Silva and Bolsonaro face a tough road to the second round on October 30th. Recent polls show Lula as the winner, but the current president has been running from behind and surprising even his own party in the path to a definition where nothing is yet defined and everything is possible.

ECONOMIC ACTIVITY

In July, the Brazilian economy grew 1.17% m/m seasonally adjusted, above expectations and surpassing March's record. Economic activity accumulated in seven months grew 2.52% compared to the same period of 2021. GDP grew 1.2% QoQ s.a. in the second quarter of 2022, and 3.2% YoY, above the 2.8% expected. Retail sales contracted 5.2% YoY in July and Industry fell 0.5% YoY, but managed to grow 0.6% m/m s.a. Even though a fall is estimated in the last months of the year, we project an average growth of 2.7% for 2022, which contrasts with the pessimistic projections that the market had at the beginning of the year. We expect GDP to grow 0.5% in 2023.

INFLATION

In August, CPI fell 0.36% monthly, continuing the trend of July (-0.68% m/m), and it registered a year-on-year variation of 8.73%. These two consecutive reductions are the result of lower prices for fuel and gas for household use, mainly promoted by Bolsonaro's law that reduced the tax levied on fuels. Of the nine main items, three registered monthly deflation: Transportation (-3.24%), Communication (-1.05%), and housing (-0.07%). So far for September, we know that the CPI-15 maintains this downward trend by marking of -0.37% m/m, with a deceleration in Communications, Transport and Food and beverages. With these numbers we expect 2022 to finish with an inflation close to 6.2% y/y.

MONETARY SECTOR

In August, Brazil's Central Bank hiked its Selic policy rate by 50 points taking it to 13.75%, being the fifth rise this year. The Central Bank left the possibility of another hike in October and expectations put the rate close to 13.9% before the year ends. The market believes rates will be lower in 2023. The Central Bank keeps its inflation target in 3.8%, with a tolerance interval close of 1.5%. Before elections, the exchange rate shot up and reached BRL 5.42 per dollar, to later appreciate close to 5.2, although there is an electoral process in the middle that can affect this variable, we see it trading at 5.23 by year's end.

FISCAL ACCOUNTS

The government is expecting the first primary surplus in 9 years, despite cuts on gasoline taxes and expansion in social welfare (among which is the 50% increase in the plan *Auxílio Brasil*), which have given air to the present economic situation. The strong increase in tax collection, which has registered records in recent months together with limits in additional expenses and good revenues from Petrobras, alleviated fiscal accounts, but 2023's fiscal situation looks more challenging, as conversations of a possible raise of 30% in the non-taxable minimum are already underway. Despite the primary surplus, the fiscal deficit could reach 6.4% of GDP.

WHAT'S COMING NEXT?

- In an increasingly polarized context, October will be marked by politics, in what implies the final stretch of the electoral campaign that will define the next president of the country. Most polls give Lula as the winner.
- Brazil will probably end the year with better economic results than the ones expected, but after the measures implemented during the campaign, it will be interesting how the main macroeconomic variables will react.



APPENDIX

Dashboard

	Sep-22	Aug-22	Jul-22	Jun-22	2021
Exchange rate (BRL/USD, eop.)	5.39	5.18	5.17	5.26	5.57
SELIC (%)	13.75%	13.75%	13.25%	13.25%	9.25%
Inflation (y/y)	-	8.7%	10.1%	11.9%	10.1%
Economic activity (y/y)	-	-	3.9%	3.0%	4.6%
Industrial activity (y/y)	-	-	-0.5%	-0.5%	3.9%
Automotive production (y/y)	-	43.9%	33.4%	21.5%	11.6%

Source: EconViews based on several sources

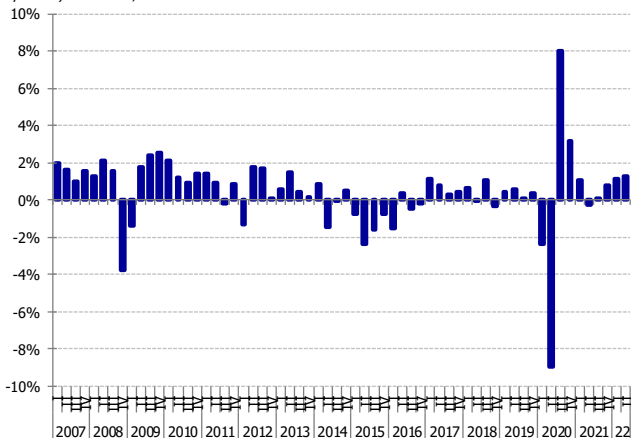
Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	1.2%	-3.9%	4.6%	2.7%	0.5%
Inflation (Dec-Dec)	4.3%	4.5%	10.1%	6.2%	5.0%
Fiscal Balance (% GDP)	-5.8%	-13.6%	-4.4%	-6.4%	-7.7%
Current Account (% GDP)	-3.5%	-1.7%	-1.7%	-1.1%	-1.6%
International reserves (USD Bn)	346.5	342.7	330.9	351.1	351.5
Exchange rate (BRL/USD)	4.02	5.19	5.57	5.30	5.20

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

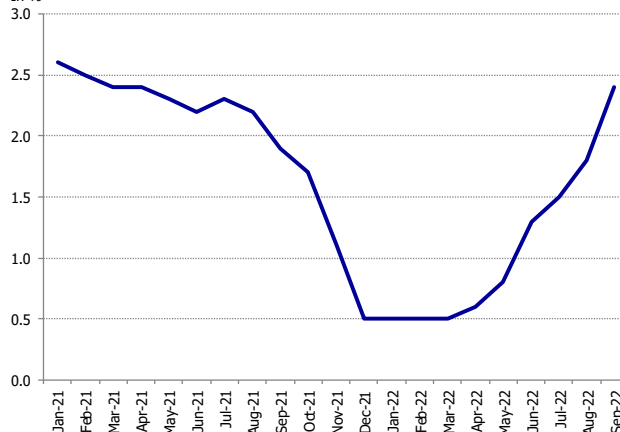
Real GDP

quarterly variations, in %



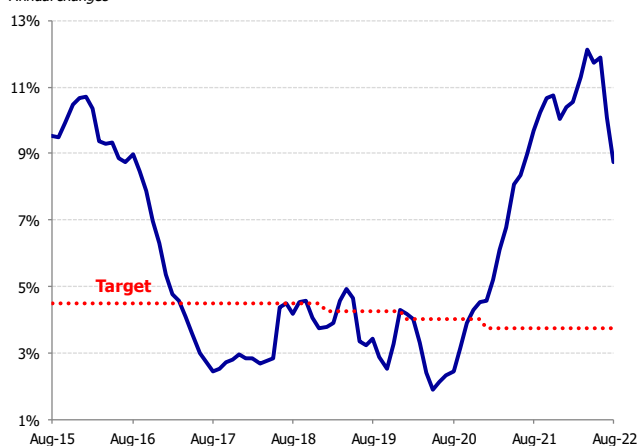
GDP growth - rolling forecasts for 2022

In %



Inflation (IPCA)

Annual changes



Brazilian Real / Dollar





CHILE

Good news	To be alert	Bad news
The radical constitution draft was rejected by a landslide.	Political instability and plans to raise taxes could dampen business sentiment.	Copper prices dropped by 18% in the last quarter.

POLITICS

The referendum on the proposed new constitution on September 4th was rejected by 62% of voters, dealing a blow to leftist president Boric, who responded with a reformulation of his cabinet, appointing more centrist figures. The constitution draft was seen by voters as too radical, as it included proposals like establishing a pluri-national state and the elimination of the senate. The constitutional process is not finished, and will likely lead to a new, more centrist and market-friendly draft. The news is positive for business sentiment, but political turmoil, low confidence in the government and the ongoing constitutional process will maintain investment subdued.

ECONOMIC ACTIVITY

Economic activity stagnated in the second quarter. It avoided a technical recession due to a better-than-expected performance of exports, which grew 1.6% QoQ s.a., driven by a 3.9% increase in industrial exports despite a 1.8% drop in mining exports. Meanwhile, private consumption contracted by 2.4% QoQ. The third quarter got off to a bad start with IMACEC falling 1% m/m s.a. but rebounded 0.6% in August driven by services (1.9% m/m) excepting commerce, which accumulated 4 months of contractions owing to higher interest rates, record inflation and dwindling consumption. We expect GDP to grow 2% this year and contract 0.6% in 2023 due to lower investment and consumption.

INFLATION

Inflation posted a new three-decade record in August as it reached 14.1% year-on-year, with monthly inflation averaging 1.2% monthly from May. Transport continues to lead the ranking, with registry of 27.8% YoY, followed by food and non-alcoholic beverage with a 21.7% YoY rise. Conversely, communications (-4.7% YoY) and clothing (1.5% YoY) were at the bottom of the table. Despite the sharp increase in interest rates, inflation has proven difficult to subdue but we expect it to peak in the third quarter and start moderating onwards. We have revised it upwardly to 12.4% in 2022 and forecast it to end at 4.7% in 2023.

MONETARY SECTOR

On September 6th The Central Bank increased its monetary policy rate by a further 100 basis points to 10.75%; marking the 6th hike in the year, it now stands 675 basis points above its level at the beginning of the year, as inflation pressures do not seem to yield. Another hike is likely before the year's end, but the Central Bank's stance now looks less hawkish. The Chilean Peso is currently trading at 930 CLS per USD, down from its peak of 1,049 in mid-July, and implying a depreciation YTD of 8.5%. We expect the Chilean peso to end 2022 trading at 887 per USD and at 860 by the end of 2023.

FISCAL ACCOUNTS

Fiscal accounts continued on a positive path through the second quarter. Adjusting for inflation, revenues of the Total General Government displayed a YoY growth of 36.7%, with net tax revenues (41.8% YoY) and property rents (395.9% YoY) being the most dynamic. Expenditures contracted 24.3% YoY in real terms. As a result, after net purchase of non-financial assets, fiscal accounts posted a net result of nearly CLP 6 trillion, the best result since 2007. On October 3rd, the Finance Minister announced that given the better than expected results, the country is now on track to reach a fiscal surplus after the record deficit in 2021, but deficit is bound to return in 2023.

WHAT'S COMING NEXT?

- Falling copper production will take a toll on GDP, but the rejection of the constitution is good news for the sector, that was threatened by heavy regulations or direct bans on the activity in some regions.
- While copper prices are expected to fall to USD 8,000 per ton in 2023, they will however remain above pre-Covid levels



APPENDIX

Dashboard

	Sep-22	Aug-22	Jul-22	Jun-22	2021
Exchange rate (CLP/USD, eop.)	966.63	896.50	899.50	916.30	851.10
Interest rate (%)	10.75%	9.75%	9.75%	9.00%	4.00%
Inflation (y/y)	-	14.1%	13.1%	12.5%	7.2%
Economic activity (y/y)	-	-	1.0%	3.3%	11.7%
Industrial activity (y/y)	-	-	-5.1%	-1.6%	2.3%
Mining production (y/y)	-	-	-6.5%	-2.1%	-1.3%

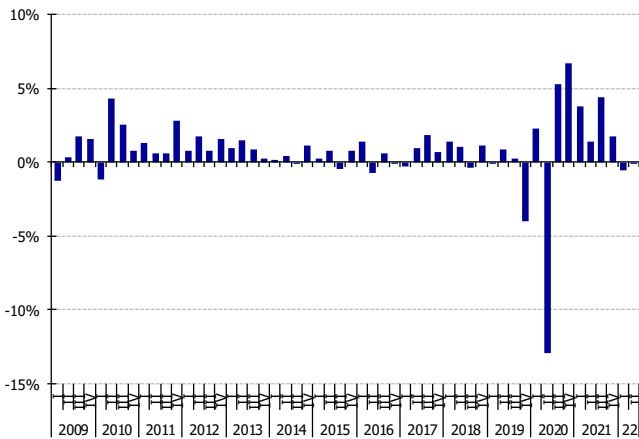
Source: EconViews based on several sources

Macroeconomic Outlook

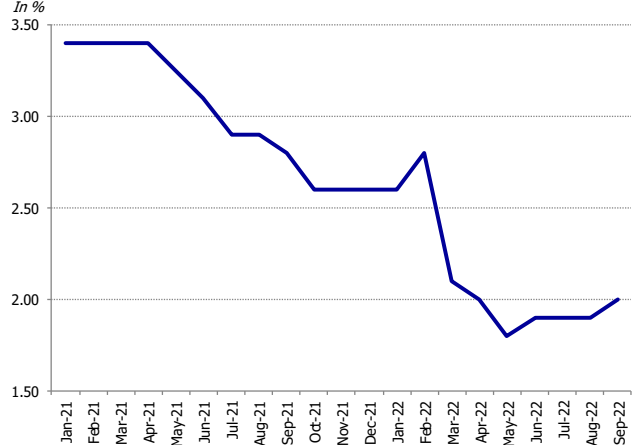
	2019	2020	2021	2022F	2023F
GDP growth (%)	0.9%	-6.0%	11.7%	2.0%	-0.6%
Inflation (Dec-Dec)	3.0%	3.0%	7.2%	12.4%	4.7%
Fiscal Balance (% GDP)	-2.7%	-7.1%	-7.5%	1.6%	-2.5%
Current Account (% GDP)	-5.2%	-1.7%	-6.4%	-6.4%	-4.6%
International reserves (USD Bn)	39.5	37.8	47.1	43.7	44.7
Exchange rate (CLP/USD)	751.5	709.8	851.1	887.0	860.0

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

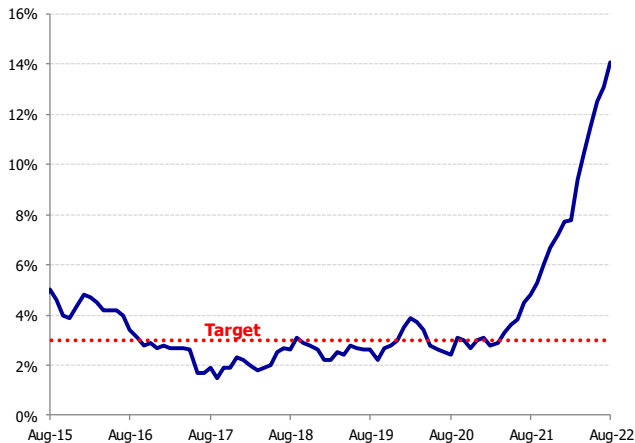
Real GDP
Q/Q variations



GDP growth - rolling forecasts for 2022



Inflation - General CPI
Annual changes



Chilean Peso / Dollar





COLOMBIA

Good news	To be alert	Bad news
Despite a challenging social and political context, the economy maintains solid growth expectations.	The new government has been facing a lot of criticism regarding several of the measures it aims to implement.	Inflation continues to break two-decade records.

POLITICS

On August 7th, the new government led by Gustavo Petro took office, becoming the first left-wing president in Colombia's history and bearer of a speech that manifests profound changes for the country. Petro's first weeks leading the government have not been that easy, and it has already faced a march from the opposition, and another is planned for the end of October against the reforms that the government is trying to implement. The most controversial topics are linked to the tax reform, and to the fiscal and economic situation that the country is facing. In any case, not even 100 days have passed since he took office and there is a long way to go.

ECONOMIC ACTIVITY

Colombia's economic activity indicators are showing signs of deceleration, and in July it contracted by 0.29% m/m s.a., but was still 6.41% above July 2021, while the manufacturing index of July registered a growth of 4.3% compared to July 2021, maintaining the slowdown already showed in June. GDP growth surpassed expectations in the second quarter and registered a growth of 1.5% (s.a.) QoQ and a positive variation of 12.6% in relation to the second quarter of 2021. After a good pandemic recovery in 2022, Colombia's economy is expected to growth 6.6% this year and 2.1% for 2023.

INFLATION

Inflation was 11.4% y/y in September, and for the third month in a row it continued to break two-decade records. The monthly variation was of 0.93% compared to August, with the highest rises being Furniture & others (1.65% m/m), Food and non-alcoholic beverages (1.61% m/m) and Clothing and footwear (1.33% m/m). The greatest contributions to the inflation so far have come from Food and non-alcoholic beverages, Accommodation, water, electricity, gas and others fuels and Hotels and Restaurants. We expect inflation to finish the year at 10.7% y/y and to decelerate to 5.7% in 2023.

MONETARY SECTOR

As it has been happening since the beginning of the year, on September 30, the Central Bank authorities announced the and increase in the monetary policy rate by 100 bps, taking it to 10%. This implies an increase in 700 since the beginning of the year. Banrep hinted the possibility of additional hikes, if necessary, in the face of an out-of control inflation and already far from the 3% target. We expect the rate to end the year near 10.4%. After a period of appreciation during a great part of September, the Colombian peso has depreciated in the last weeks, and it currently trades at COP 4,581 per USD. We expect the COP to end the year trading at 4,181 per USD.

FISCAL ACCOUNTS

Before taking office, the new government had already communicated its concern about the fiscal situation, which was defined as critical, and of the high level of indebtedness. With the objective of financing the desired reforms, the government is preparing a bill to raise taxes on the people with higher incomes and improve tax collection, which happens to be lower than other countries of the region. We expect the country to end the year with a fiscal deficit of 5.6% by the end of the year, and down to 4.4% in 2023, although everything will depend on the success of the new government at the hour of implementing its fiscal policies. As for public debt, we expect to end 2022 as 66.2% of GDP.

WHAT'S COMING NEXT?

- To achieve the government's plan of "total peace", it has been announced that in November the peace negotiations suspended in 2019 will resume with the last active guerrilla in the country, the National Liberation Army (ELN).
- The new minister of mine and energy is in the middle of negotiations with the energy generation and trading companies to reduce the rates.



APPENDIX

Dashboard

	Sep-22	Aug-22	Jul-22	Jun-22	2021
Exchange rate (COP/USD, eop.)	4,604	4,423	4,278	4,142	4,065
Interest rate (%)	9.0%	9.0%	7.5%	7.5%	2.9%
Inflation (y/y)	-	10.8%	10.2%	9.7%	5.6%
Economic activity (y/y)	-	-	6.4%	8.6%	10.4%
Industrial activity (y/y)	-	-	7.1%	9.5%	10.2%

Source: EconViews based on several sources

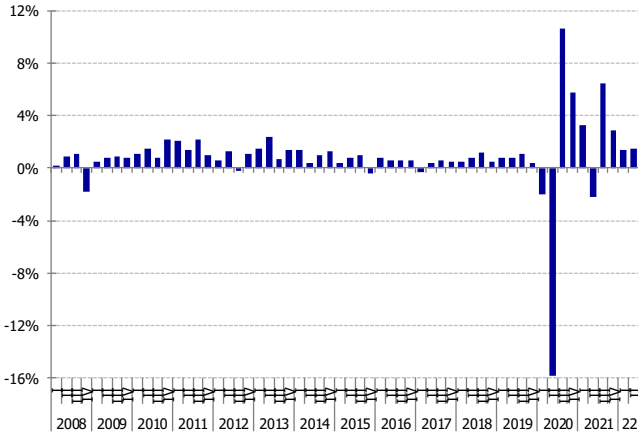
Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	3.2%	-7.0%	10.7%	6.6%	2.1%
Inflation (Dec-Dec)	3.8%	1.6%	5.6%	10.7%	5.6%
Fiscal Balance (% GDP)	-2.5%	-7.8%	-7.1%	-5.6%	-4.4%
Current Account (% GDP)	-4.6%	-3.5%	-5.6%	-5.1%	-4.4%
International reserves (USD Bn)	50.5	56.6	53.5	57.4	57.9
Exchange rate (COP/USD)	3,282	3,421	4,065	4,181	4,093

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

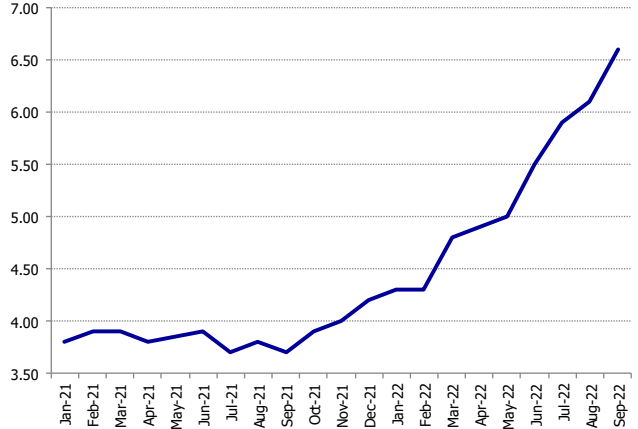
Real GDP

Q/Q variations - DANE



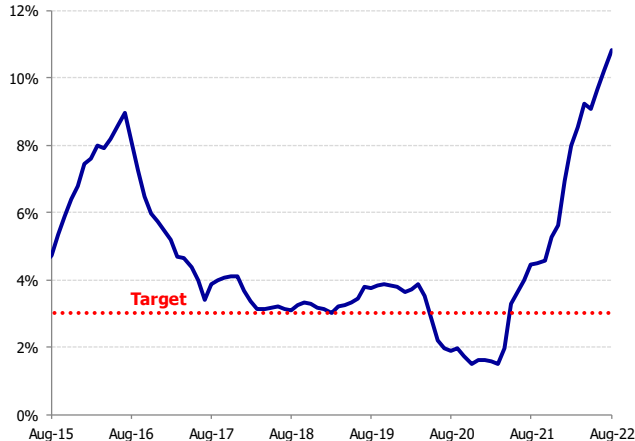
GDP growth - rolling forecasts for 2022

In %



Inflation - General CPI

Annual changes



Colombian Peso / Dollar



Good news	To be alert	Bad news
Unemployment remains low at 3.3% and in June real wages grew 2.4% year-on-year after 9 months of declines.	The Treasury expects the Banxico policy rate to stay high next year, ending 2023 around 8.5%.	Moody's downgraded state oil company Pemex from Ba3 to B1, amid high debt, stagnating production and political issues surrounding T-MEC (NAFTA)

POLITICS

In July, Canada and the US accused Mexico of breaching T-MEC (NAFTA) energy guidance by giving favorable treatment to state oil giant Pemex over foreign companies on prices, emissions and contracts. The process could lead to tariff sanctions on Mexico, although President AMLO sought to tone down the controversy after speaking with Biden in September, cancelling a planned speech on the matter. The 45-day query expires in October, but the Government is confident it can extend it until 2023 and avoid a panel resolution. AMLO continues to poll at high levels and his succession in 2024 is open, with Foreign Relations Minister Marcelo Ebrard and Mayor of CDMX Claudia Sheinbaum as front-runners.

ECONOMIC ACTIVITY

Data is somewhat mixed, with reported 0.9% quarterly GDP growth in Q2-2022 but monthly data pointing at a stagnation in activity since April, with July's seasonally adjusted figure 0.012% below that month. In the Budget Bill the Government lowered its forecast from 4.1 to 2.4%, while JPMorgan adjusted upwards from 2 to 2.2%. We believe it will be somewhere in that range, falling to 1.3% in 2023. Manufacturing has done better, growing at a 0.3% monthly pace and up 2.6% year-on-year in July. Automobile production jumped 33% but is still 7% under 2019's levels. With prices retreating, oil output moved only 0.1% between July and August, with Pemex's production slipping 0.5%.

INFLATION

Inflation shot up to 8.7% year-on-year in August with an average monthly variation of 0.76% since June, doubling April and May's 0.36% rhythm. The main culprits were food prices, up 1.14% between July and August, and especially fruits and vegetables (+3.03%), although not out of line compared to other years. Core inflation is moving at 8.1% year-on-year and 0.8% monthly, indicating underlying pressures. Energy prices fell 0.11% monthly but could accelerate in coming months as the summer energy subsidies phase out. Without Treasury subsidies to gasoline, and more recently, food staples under the PACIC program, inflation would be closer to 10%. We expect it to finish 2022 around 8.3% and fall to 4.5% next year.

MONETARY SECTOR

On September 29th the Banxico hiked its policy rate for the sixth time this year by 75 basis points to 9.25%, levels unseen since 2005. The brief made clear the Banxico will continue to closely trail Fed policy, aside for listing other upside inflation risks from energy and agricultural prices. Real credit to the private sector contracted at a 1.9% annual rate in Q2, with a sharper fall in external financing due to corporate debt's poor performance abroad, only partially compensated by a recovery in local banks' credit supply. The Mexican Peso continues stable around 20.13 per dollar, up 1.8% YTD despite a tough external context. We see a 20.60 USD/MXN exchange rate by December and closer to 21 at the end of 2023.

FISCAL ACCOUNTS

Between January and July, total revenues grew 5.3% in real terms compared to the same period of 2021 after accounting for the IEPS subsidy on gasoline and other fuels, which amounted to MXN 172 billion. Income from oil leapt 39% due to higher prices. Total spending increased by 3.4% in real terms, adding up to a MXN 228 billion primary surplus and 254 billion fiscal deficit in seven months of 2022. We expect the fiscal deficit to end 2022 around 3.2% of GDP. The Treasury's 2023 Budget Bill forecasts an increase to 3.6% next year, fueled by higher social and capex spending. However, this figure assume oil prices will fall to USD 68.7 per barrel on average next year.

WHAT'S COMING NEXT?

- The 2023 Budget Bill sets out a 21.7% real increase in public investment and expects the debt to GDP ratio to rise from 48.9 to 49.4%.
- The PACIC subsidies for food staples will be extended until February 2023, while the Treasury lowered the subsidy on gasoline from 100 to 73% of the IEPS tax. This will reflect on September's CPI.



APPENDIX

Dashboard

	Sep-22	Aug-22	Jul-22	Jun-22	2021
Exchange rate (MXN/USD, eop.)	20.13	20.13	20.35	20.09	20.49
Interest rate (%)	9.25%	8.50%	7.75%	7.75%	5.50%
Inflation (y/y)	-	8.70%	8.15%	7.99%	7.36%
Economic activity (y/y)	-	-	1.3%	1.5%	4.9%
Industrial activity (y/y)	-	-	2.6%	3.7%	4.9%
Automotive production (y/y)	-	32.8%	11.3%	6.2%	0.6%

Source: EconViews based on several sources

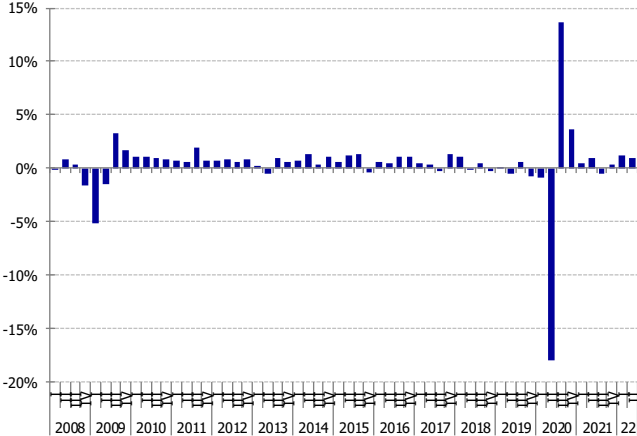
Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	-0.2%	-8.1%	4.8%	2.2%	1.3%
Inflation (Dec-Dec)	2.8%	3.2%	7.4%	8.3%	4.5%
Fiscal Balance (% GDP)	-1.6%	-2.9%	-2.9%	-3.2%	-3.6%
Current Account (% GDP)	-0.3%	2.5%	-0.4%	-0.7%	-0.8%
International reserves (USD Bn)	170.6	184.2	179.5	200.1	203.1
Exchange rate (MXN/USD)	18.93	19.91	20.49	20.60	21.00

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

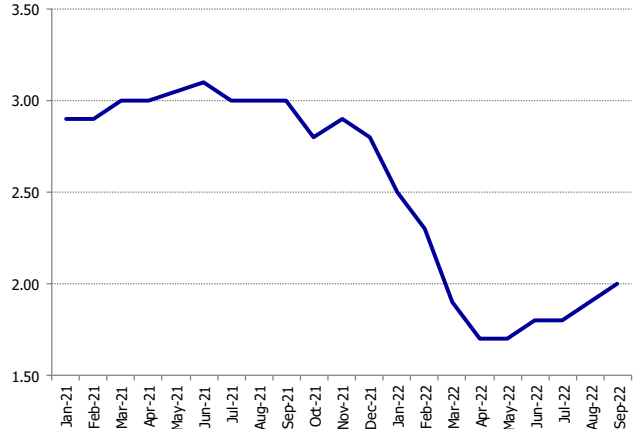
Real GDP

Q/Q variations - INEGI



GDP growth - rolling forecasts for 2022

In %

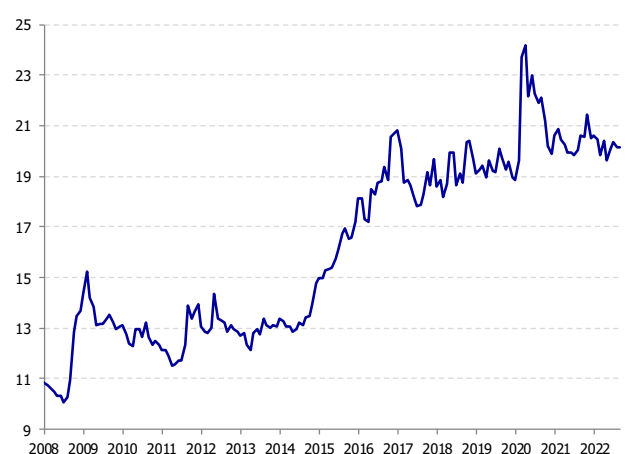


Inflation - General CPI

Annual changes



Mexican Peso / Dollar





PARAGUAY

Good news	To be alert	Bad news
In September prices fell 0.1% and inflation seems to be entering a downward path.	The fiscal deficit will end in 2022 at 3.2% of GDP. It will be the second consecutive year above 3%.	Economic activity is cooling down and the GDP growth will be the lowest in the region.

POLITICS

Last month VP Velazquez was included on a USA's corruption list and was prohibited from entering the country. He is accused of offering bribes to a public officer. At first, he announced his resignation from the vice presidency but then backtracked. Even though he denied this accusation, this scandal made him give up his career for the presidency. Before this, his candidacy was supported by the current president Mario Abdo. His substitute will be Arnoldo Wiens who will try to beat Santiago Peña to represent the "Colorado" party in the general elections. The opposition party is the "Concertación", and its candidate will also emerge from internal elections between four candidates.

ECONOMIC ACTIVITY

In Q2, GDP fell 3.4% year-on-year. Only private consumption showed a positive variation (0.4%) while public spending (-7.4%), investment (-5.6%) and exports (-4.4%) contracted. Imports grew 18.7% compared to the same period last year. The latest data suggest that economic activity did not improve in July falling 1.9% y/y and 2.8% in the first seven months of 2022. From the supply side, agriculture, construction, and livestock were the sectors with the worst performances. Droughts have had a lot to do with this result. Electricity generation, manufacturing, and services did it better and smoothed the tumble. In this context, we reduced our GDP growth forecast for 2022 from 1.8% to 0.3%.

INFLATION

After hitting a 14-year record in the second quarter, inflation decreased in Q3 printing 11.1%, 10.5%, and 9.3% y/y in July, August, and September respectively. The monthly print for August was 0.4%, below 0.7% of July, but the highlight came in September with CPI falling 0.1%. This is explained by a reduction in food and fuel prices and a cut in electricity bills. So far this year, the general price level accumulates an increase of 7.1%. This is twice the accumulated for the same period of last year (3.6%). The highest increases were seen in Transport (15.5% y/y), Food & Beverages (8.2%), and Restaurants & Hotels (8.4%). We expect that inflation will end in 2022 at 8.5%, well above the Central Bank's target of 4%.

MONETARY SECTOR

The Central Bank continues tightening the monetary policy as inflation expectations for the monetary policy horizon are still above the target (4.5% vs 4%). In this way, in September, it increased the policy rate 25 basis points to 8.5%. It is the fourteenth hike since July 2021 when it was at 0.75%. Despite higher interest rates, credit to private sector increased 11.1% y/y in August. Credit in local currency grew 5.2%, while credit in foreign currency (+24.5%) destined to agriculture, livestock, and wholesale trade sectors. The exchange rate depreciated 2.7% since end-august and now is trading at PYG 7,074 per dollar. For next three months we forecast an appreciation of the PYG, ending 2022 at 6,910.

FISCAL ACCOUNTS

Up to August, the fiscal balance shows a negative result of 1.2% of GDP, while the operative balance is positive by 0.4% of GDP. This figure implies a better performance compared with previous years. Although Brazil and Paraguay governments agreed on a price cut for Itaipu energy, which generates fewer non-tax revenues, total income increased by 10.1% boosted by tax revenues. Expenditures grew 7.8%, driven by an increase in wages of public teachers and health workers and social expenditures. At the same time, purchases of goods and services decreased. We reduced our forecast of fiscal deficit from 3.3% of GDP in our last report to 3.2% for 2022 and from 2.4% to 2.3% for 2023.

WHAT'S COMING NEXT?

- On December 18th internal elections will be held to define the candidates to compete for the presidency. The polls are led by Santiago Peña inside the Colorado party and by Efraín Alegre in the Concertación party.
- In April 2023 the presidential election will take place. Current polls indicate that the former economy minister of the Cartes administration, Santiago Peña, is the favorite to win the elections.



APPENDIX

Dashboard

	Sep-22	Aug-22	Jul-22	Jun-22	2021
Exchange rate (PYG/USD, eop.)	7,079	6,888	6,857	6,838	6,857
Interest rate (%)	8.50%	8.25%	8.00%	7.75%	5.25%
Inflation (y/y)	9.3%	10.5%	11.1%	11.5%	6.8%
Economic activity (y/y)	-	-	-1.9%	-2.7%	4.3%

Source: EconViews based on several sources

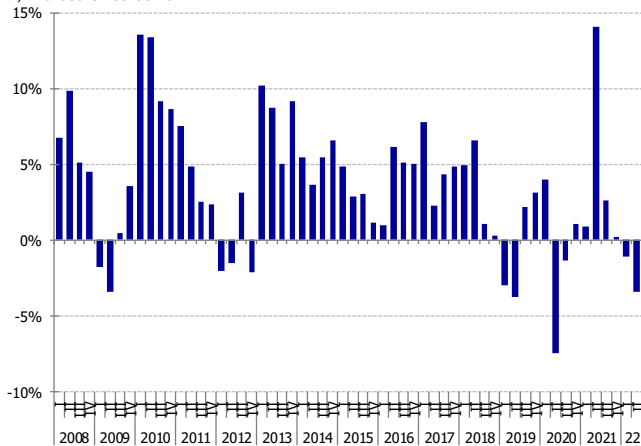
Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	-0.4%	-0.6%	5.0%	0.3%	4.1%
Inflation (Dec-Dec)	2.8%	2.2%	6.8%	8.5%	4.7%
Fiscal Balance (NFPS - % GDP)	-2.8%	-6.1%	-3.7%	-3.2%	-2.3%
Current Account (% GDP)	-0.5%	2.7%	0.7%	-1.1%	0.1%
International reserves (USD Bn)	7.7	9.5	9.9	9.5	10.3
Exchange rate (PYG/USD)	6,453	6,907	6,857	6,910	7,018

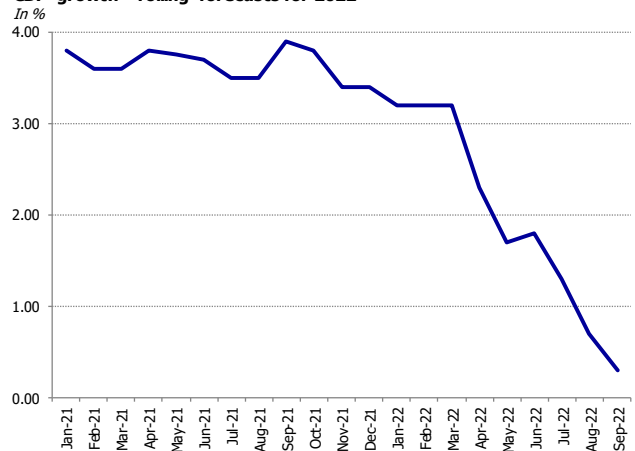
Source: EconViews based on Consensus Forecast, LatinFocus Forecast & IMF

Real GDP

YY variations - Central Bank



GDP growth - rolling forecasts for 2022

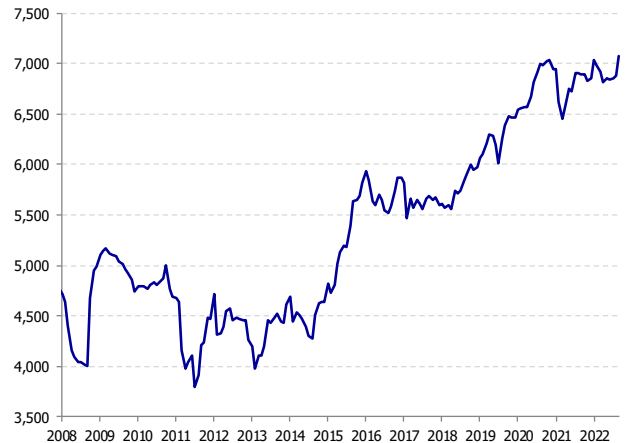


Inflation - General CPI

Annual changes



Paraguayan Guarani / Dollar



Good news	To be alert	Bad news
Private investment in 2022 is 15% above 2019's levels in real terms.	Moody's downgraded its global mining outlook from "stable" to "negative" due to falling prices: Perú is also dealing with widespread protests in the sector.	Terms of trade are expected to deteriorate 7.2% in 2022 and a further 2.3% next year.

POLITICS

Regional elections on October 2nd showed little support for the ruling Perú Libre party, but also for Keiko Fujimori's Fuerza Popular, the main opposition force in last year's presidential elections. Voters were fragmented along the country, with right-wing candidate Rafael López Aliaa leading in the capital city of Lima. Pedro Castillo's first year in office has been marked by several impeachment attempts, a formal break with Perú Libre, which is led by Vladimir Cerrón but votes together with the Government on some issues in Congress, and social protests especially in the mining sector. However, Perú's economy has kept its fame as being "insulated" from politics, with Julio Velarde steady at the head of the Central Bank.

ECONOMIC ACTIVITY

Year-on-year growth weakened from 3.4% in June to 1.4% in July. The economy has accumulated 3.2% growth in the first seven months of 2022, meaning our 2.7% forecast for the full year implies a slowdown in the second half. Widespread conflicts in the mining sector, which makes up 10% of GDP, caused a 5.8% year-on-year contraction in July. On the other hand, fishing activity soared 29%, with help from a low comparison base due to last year's oil spill. Manufacturing also slowed from 5.7 to 1.6% growth. With the bulk of the cycle of rate hikes over, we believe GDP could expand 2.4% in 2023, nominally less than this year, but significant considering a starting point without 2021's statistical carryover.

INFLATION

Lima's Metropolitan CPI ticked up to 8.5% in September and remains at levels unseen since the late 90s, although the monthly variation slowed from 0.67 to 0.52%, the lowest reading since May and the third straight month of decline. Food and beverage prices increased 1.34% between August and September with sharp rises in staples like fish (+7%) and potatoes (+23%). Utilities were up 0.65% led by water bills (+4%), although gas prices lowered. An 8.3% drop in gasohol prices allowed transport to fall 0.34% last month, despite diesel up 6.2%. In year-on-year terms, food and beverages (+14%) and transport (+12%) have risen the most. We updated our 2022 forecast to 7.2% and expect a drop to 3.5% next year.

MONETARY SECTOR

After 13 consecutive 50 basis point hikes since August 2021, this September the BCRP nudged its policy rate up 25 basis points to 6.75%. Chairman Julio Velarde recently told businessmen he believed that the cycle was nearly complete, although he did not expect inflation to come down until Q2-2023. The Sol is trading at 3.97 per dollar, up 0.3% YTD, one of the few currencies to avoid depreciation this year. This has come at a cost of USD 1.1 billion in BCRP interventions. Accounting operations with the public sector and other factors, reserves are down by USD 4.4 billion this year. Credit to the private sector is growing at an 6.7% annual rate. We expect the Sol to close the year around 3.95 USD/PEN.

FISCAL ACCOUNTS

The 12-month rolling fiscal deficit ticked up from 1% in May to 1.6% in August, mainly due to a decrease in tax revenues, down 10% year-on-year. Income tax levied on businesses grew 25% but fell for persons (-10%). VAT increased 18%, with basic food staples exonerated from the tax until December 31st. Taxes on fuel (-0.9%) and other taxes (-64%) fell against the same month of 2021. On the side of expenditures (+9.7%), spending on wages (+10%) rose above inflation while goods and services (-5.3%) fell in nominal year-on-year terms. The accumulated primary result in eight months was PEN 18 billion, nearly 3.1% of GDP, although expenses tend to rise in September-December. We expect a 2.1% fiscal deficit this year.

WHAT'S COMING NEXT?

- Despite being one of the more stable emerging market currencies, the Sol slid 4% to 3.97 USD/PEN in the last weeks, as the Fed Funds hikes put extra pressure on the BCRP.
- A new political map is emerging from the regional elections, with right-wing candidates taking the lead.



APPENDIX

Dashboard

	Sep-22	Aug-22	Jul-22	Jun-22	2021
Exchange rate (PEN/USD, eop.)	3.97	3.83	3.92	3.81	3.99
Interest rate (%)	6.75%	6.50%	6.00%	5.50%	2.50%
Inflation (y/y)	8.5%	8.4%	8.7%	8.8%	6.4%
Economic activity (y/y)	-	-	1.4%	3.4%	13.5%
Manufacturing activity (y/y)	-	-	1.6%	5.7%	18.7%
Mining production (y/y)	-	-	-5.8%	3.0%	7.5%

Source: EconViews based on several sources

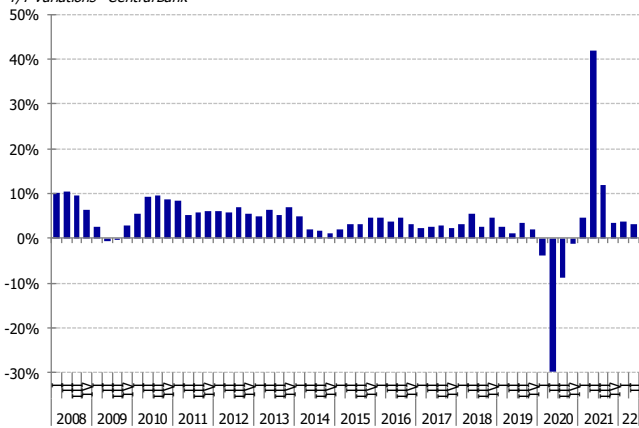
Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	2.2%	-11.0%	13.3%	2.7%	2.4%
Inflation (Dec-Dec)	1.9%	2.0%	6.4%	7.2%	3.5%
Fiscal Balance (% GDP)	-1.6%	-8.9%	-2.6%	-2.1%	-2.4%
Current Account (% GDP)	-0.7%	1.2%	-2.3%	-3.1%	-2.1%
International reserves (USD Bn)	68.3	74.7	78.5	76.6	77.7
Exchange rate (PEN/USD)	3.31	3.62	3.99	3.95	3.93

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

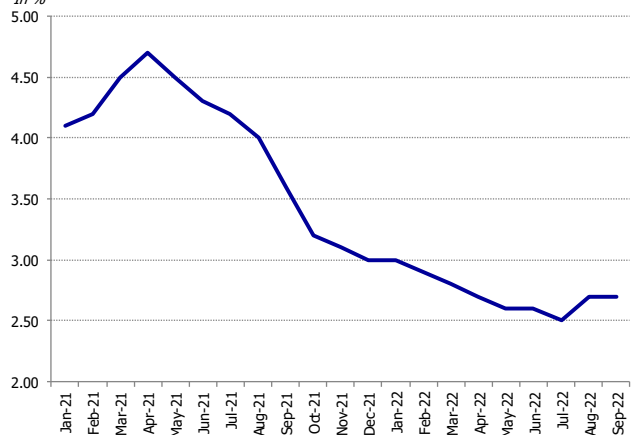
Real GDP

YY variations - Central Bank



GDP growth - rolling forecasts for 2022

In %

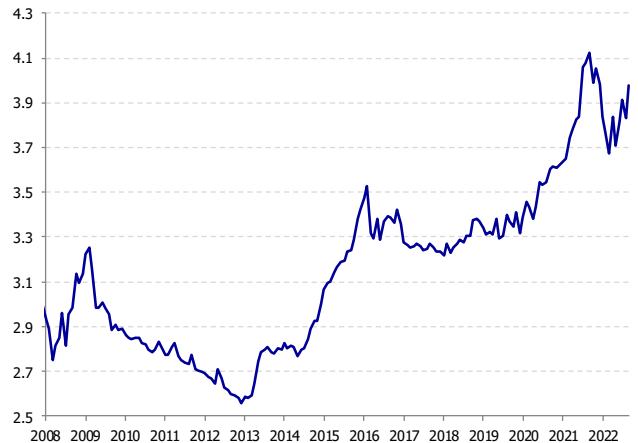


Inflation - General CPI

Annual changes



Peruvian Sol / Dollar





URUGUAY

Good news	To be alert	Bad news
Economic growth will be among the highest in the region this year	A proposal to profoundly modify the pensions system could be put under vote in coming weeks	Inflation accelerated again in the third quarter and new rate hikes are likely

POLITICS

The confederation that groups most unions in the country, PIT-CNT, called for the fourth general strike since president Lacalle Pou took office, as pensions and salaries have not yet recovered from the pandemic as economic activity did. Rising interest rates could take a further toll on private consumption and eventually could lead to renewed demands from unions and left-wing sectors, who are now rejecting an official proposal to change the pension system, which is currently undergoing some modifications in its original text.

ECONOMIC ACTIVITY

Economic activity sped up in the second quarter, registering a seasonally adjusted growth of 1.1% QoQ after the 0.5% record from the first quarter; in year-on-year terms, it mildly moderated to 7.7% from 8.2% owing to a slowdown in consumption (5.6% YoY) amid rising interest rates. GDP will be favorably affected by a lower comparison base in the third quarter. It should somewhat slowdown in the quarterly comparison, but will continue to grow, as the CERES leader index grew 0.3% and 0.4% m/m in July and August respectively. We expect the year to end with a growth of 4.4%, one of the highest in the region, and forecast a growth of 2.5% in 2023.

INFLATION

Inflation decelerated in the second quarter, with an average monthly registry of 0.51%, down from 1.45% in the first quarter. However, the third quarter started with a mild acceleration as it reached 0.77% and 0.83% m/m in July and August respectively, taking the annual registry to 9.53%, well above the Central Banks' range upper bound of 6%. Higher interest rates should start to soften price increases in coming months, but the 24-month expectation of 6.9% remains above target. We expect inflation to end 2022 at 8.9% and forecast it will decelerate to 7.1% in 2023.

MONETARY SECTOR

On its last meeting in August, the Monetary Policy Committee increased the monetary policy rate by 50 bps, taking it to 10.25%, arguing that expectations remain rigid and underlying inflation remains out of target. It also indicated that similar further increases can be expected before the year's end. The Uruguayan peso is currently trading at 41.2 per USD, implying a depreciation of 0.8% vs September's average, but an appreciation of 8.5% YTD, making the UYU one of the best performing currencies in the region this year. We expect some weakening in coming months though due to the FED's tightening, and we forecast the UYU to end 2022 at 43.1 per USD.

FISCAL ACCOUNTS

Revenues of Central Government amounted to 26.7% of GDP in the 12 months accumulated to August, while the cumulative expenditures were also 26.7% of GDP, 0.2 p.p. lower than July's record, and interests summed 2.2% of GDP. Including the results of public companies, the Central Bank and the total non-monetary public sector, the cumulative fiscal balance of the General Public Sector reached 2.4% of GDP. We expect 2022 to end with a fiscal balance of -3% of GDP, and the fiscal consolidation should continue in 2023 bringing the deficit down to 2.7% of GDP.

WHAT'S COMING NEXT?

- The Uruguayan peso has had one of the best performances this year in the region, and will only mildly depreciate in coming months.
- A proposal to deeply reform of the pensions system is being modified as it did not gather enough support, but is likely to bring about important changes, including a reduction in the retirement age.



APPENDIX

Dashboard

	Sep-22	Aug-22	Jul-22	Jun-22	2021
Exchange rate (<i>UYU/USD, eop.</i>)	41.59	40.90	40.87	39.47	44.70
Interest rate (%)	10.25%	10.25%	9.75%	9.25%	4.22%
Inflation (<i>y/y</i>)	-	9.5%	9.6%	9.3%	8.0%
Manufacturing activity (<i>y/y</i>)	-	-	-1.0%	3.6%	12.3%

Source: EconViews based on several sources

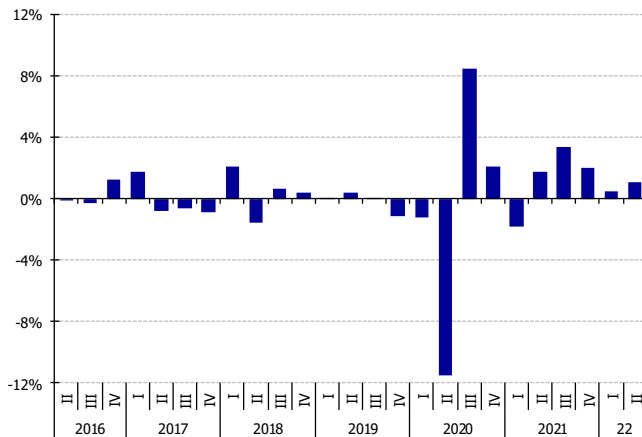
Macroeconomic Outlook

	2019	2020	2021	2022F	2023F
GDP growth (%)	0.2%	-5.9%	4.4%	4.4%	2.5%
Inflation (<i>Dec-Dec</i>)	8.8%	9.4%	8.0%	8.9%	7.1%
Fiscal Balance (% GDP)	-3.2%	-5.2%	-3.6%	-3.0%	-2.7%
Current Account (% GDP)	1.6%	-0.8%	-1.8%	-1.0%	-0.6%
International reserves (<i>USD Bn</i>)	14.5	16.2	17.0	16.9	16.9
Exchange rate (<i>UYU/USD</i>)	37.34	42.37	44.70	43.10	45.20

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

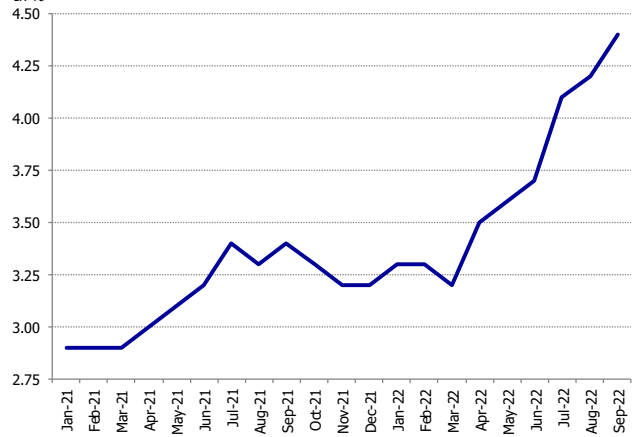
Real GDP

Q/q variations, s.a. - BCU



GDP growth - rolling forecasts for 2022

In %

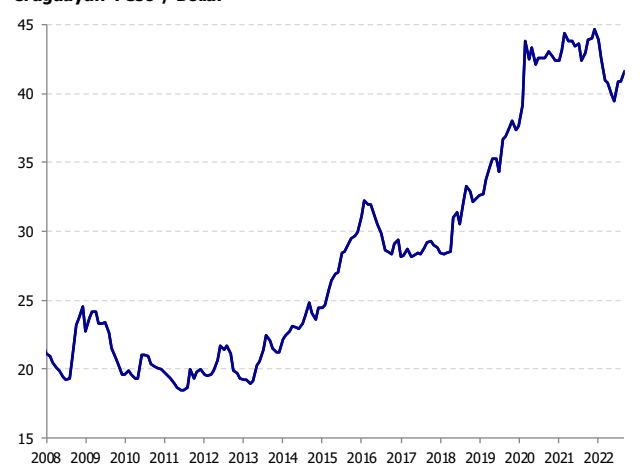










Inflation - General CPI

Annual changes



Uruguayan Peso / Dollar



	GDP		Inflation	
	2022	2023	2022	2023
	4.0%	1.0%	100.0%	110.0%
	2.7%	0.5%	6.2%	5.0%
	2.0%	-0.6%	12.4%	4.7%
	6.6%	2.1%	10.7%	5.6%
	2.2%	1.3%	8.3%	4.5%
	0.3%	4.1%	8.5%	4.7%
	2.7%	2.4%	7.2%	3.5%
	4.4%	2.5%	8.9%	7.1%

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