

LATAM 7 + Argentina

MACRO BRIEF

ECONVIEWS
ECONOMÍA Y FINANZAS

September, 2020



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Unable to find credibility

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ARGENTINA

Good news	To be alert	Bad news
Argentina has successfully restructured its sovereign debt (local and foreign law) with almost no holdouts, no significant skeletons in the closet and clearing maturities until 2025.	The IMF will start the “due diligence” process on Argentina’s accounts in October, the first step towards a new deal that will likely roll over USD 44 billion in debt maturities due in 2021-2023.	The CB tightened financial restrictions for companies and individuals, leading to a new low in confidence. Pressure on net reserves may ease for a while, but the FX spread widened.

POLITICS

The government has made a turn towards radicalization. The wing led by former president and current Vice-President Cristina Kirchner seems to be leading the power struggle. This has resulted in decisions that have irritated the middle class. Attempts to expropriate an oilseed crusher, judicial reform allegedly to tone down corruption related cases, taking money from the City of Buenos Aires to pass it on to the Province of Buenos Aires are just some examples.

ECONOMIC ACTIVITY

Economic activity recovered from the trough of April in May and June and to a lesser extent in July. But it seems to have stopped there. The lack of an exit plan for the lockdowns coupled with severe injuries to government credibility have implied a strong hit on investment. The interior of the country that was almost Covid-free in Q2 is now starting to see a rise in cases, hence closing some activities previously allowed.

INFLATION

Inflation is picking up, although it has not risen as some expected. With tough restrictions the FX is only increasing by less than 3% and that has helped the cause. Still, core inflation printed 3% in August showing that underlying inflation is high. We now expect inflation to reach 36% this year and 57% in 2021, as the government will continue printing money to finance the budget deficit.

MONETARY SECTOR

Central Bank is a hostage of fiscal policy, as it is the lender of first resort. The positive element is that it tries to sterilize money printing, avoiding a more difficult outcome. However, there risk is now a snowball in Central Bank paper. Remunerated liabilities in the Central Bank are already larger than the monetary base. With the expected monetary emission of next year inflation will need to increase so liabilities do not grow out of control.

FISCAL ACCOUNTS

The government has been a bit more cautious with spending in the last couple of months. This reinforces our view that the primary deficit will be around 6.5% of GDP, better than some doomsday forecasts. However, the budget for 2021 is going to Congress with a 4.5% primary deficit that for us is too high if we assume a quasi-normalized economy. It may well be a strategy to reduce it in the IMF negotiations, though. Our thesis is that with 29% expected inflation (in the budget) the government under-estimated revenues. With higher inflation revenues may grow faster than spending, thus moving to a 3.5% primary deficit.

WHAT'S COMING NEXT?

- The IMF will start the “due diligence” process on Argentina's accounts in October. This will be the first step towards an agreement that will likely roll over USD 44 billion in debt maturities due in 2021-2023.
- Confidence in the government has shrunk for a fifth month in a row following the peak of April. This is an amber light for the president who needs to look for ways of regenerating his popularity in the midst of the pandemic



APPENDIX

Dashboard

	Sep-20	Aug-20	Jul-20	Jun-20	2019
Exchange rate (ARS/USD, eop.)	76.11	74.23	72.32	70.47	59.88
Interest rate (%)	38.00%	38.00%	38.00%	38.00%	55.00%
National inflation (y/y)	-	40.64%	42.36%	42.78%	53.83%
Economic activity (y/y)	-	-	-13.2%	-11.7%	-2.2%
Industrial activity (y/y)	-	-	-6.9%	-6.3%	-6.3%
Automotive production (y/y)	-	-16.2%	-1.5%	-34.5%	-32.4%

Source: EconViews based on several sources

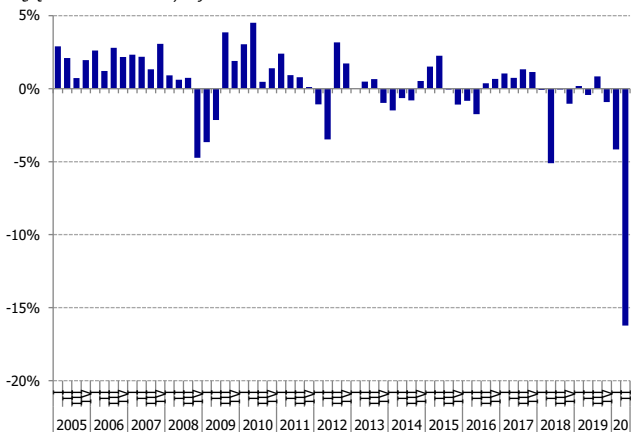
Macroeconomic Outlook

	2017	2018	2019	2020F	2021F
GDP growth (%)	2.8%	-2.6%	-2.1%	-11.6%	7.0%
National inflation (Dec-Dec)	24.8%	47.6%	53.8%	36.0%	57.0%
Fiscal Balance (% GDP)	-5.9%	-5.3%	-3.8%	-8.2%	-5.0%
Current Account (% GDP)	-4.9%	-5.3%	-0.8%	0.1%	-0.3%
International reserves (USD Bn)	55.1	65.8	44.8	41.5	41.5
Exchange rate (ARS/USD)	18.8	37.8	59.9	85.0	132.0

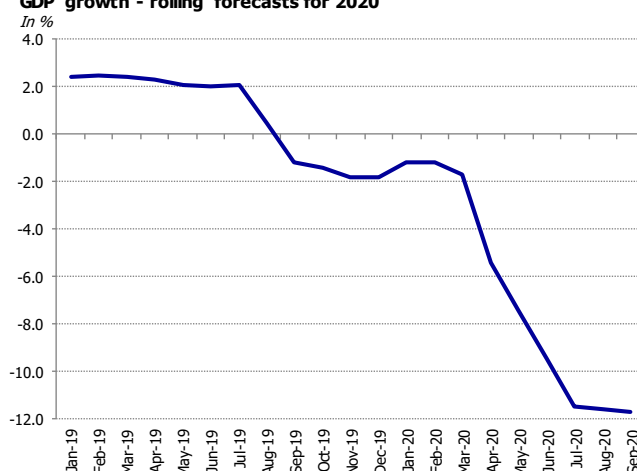
Source: EconViews based on official figures and own estimates

Real GDP

Q/Q variations- Seasonally adjusted data INDEC

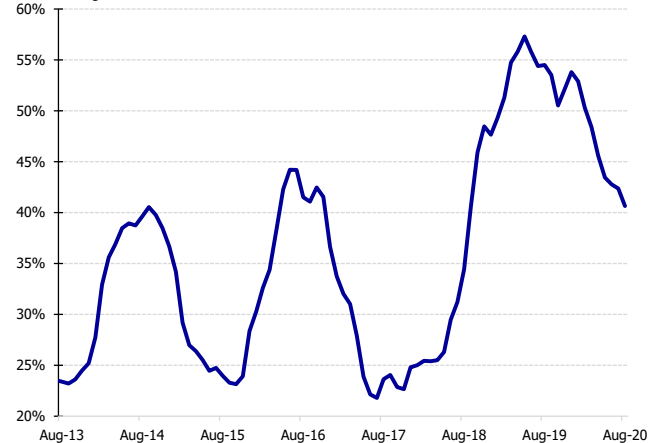


GDP growth - rolling forecasts for 2020

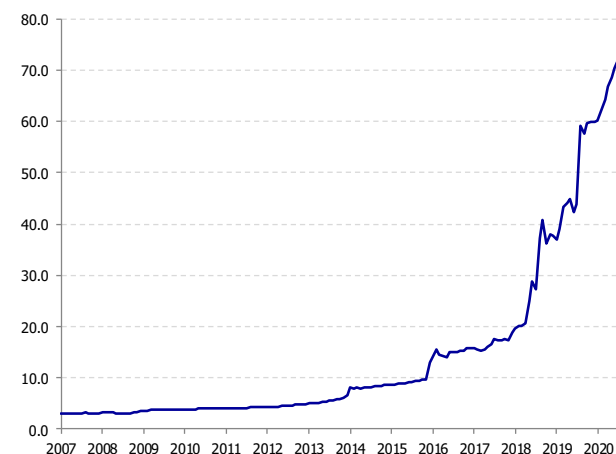


Inflation - General CPI

Annual changes



Argentinian Peso / Dollar



Good news	To be alert	Bad news
GDP is recovering faster than expected and GDP drop projected for this year was cut from 6.2% to 5.7%.	Economic upturn will largely depend on fiscal sustainability.	The labor market remains weak; the unemployment rate is expected to reach 16.6% at year-end and 16.2% in 2021.

POLITICS

Although the Coronavirus has hammered Brazil, Bolsonaro is gaining popularity according to recent polls and is more popular than at any time since the beginning of his presidency. In the past two months his approval has risen from 32% to 37%, while his disapproval levels have dropped from 44% to 34%. Moreover, in the last weeks Coronavirus contagion has been showing signs of improvement and risks of a second wave seem contained. Uncertainties are receding with the gradual reopening of the economy.

ECONOMIC ACTIVITY

Economic activity continues recovering after the sharp declines registered due to the quarantine. In Q2-20 GDP fell 9.7% q/q, driven by sharp decreases in industrial production and the service sector. The agriculture sector has shown resilience during the crisis, with a larger than expected soybean crop. On the demand side, all components declined with the exception of exports. After reaching a floor during April, economic recovery is gaining momentum driven by low interest rates, easing social isolation measures, improving global economy and fiscal stimulus from emergency aid. In this context, we revise our 2020 GDP forecast to -5.7%, from -6.2% previously.

INFLATION

Inflation was 2.44% y/y in August and continued standing below the CB target (4%±1.5%). We expect some additional pressure on food prices during the next months, due to the recent hike in agricultural commodities, adverse weather and robust demand for these products. Short-term inflation will also remain under pressure from auto fuels, following the increase in international prices. Core prices (2.3% in August) have remained at surprisingly low levels for several months as the output gap remains wide. We expect inflation to reach 2.0% in 2020 and to accelerate to 3.3% in 2021 due to labor market slack.

MONETARY SECTOR

The Brazilian Real, which traded below 5.25 per dollar in mid-September, is now above 5.50. So far this year, the BRL depreciated around 38% (vs. 4.02 in 2019). Even though fundamentals suggest a stronger currency, there are still downside risks and appreciation from current levels requires reduced fiscal uncertainties. The milder global scenario with a near-zero current account deficit should further contribute to the appreciation of the currency. Thus, we expect the Brazilian currency to close the year at around 5.28 BRL per USD. Moreover, we expect the COPOM to keep the Selic rate at its all-time low of 2.0% for the rest of the year.

FISCAL ACCOUNTS

The fiscal cost of measures to fight the effects of the pandemic is likely to reach around 8% of GDP, mainly driven by the emergency aid cash transfer. Also, the fall in activity is having a negative impact on revenues. As a result of the combination of these effects, primary deficit of the central government is expected to reach a record high this year (11.5% of GDP), helping to push the fiscal deficit to 15.8% of GDP and gross debt to 95%, the highest level ever. For 2021, we anticipate an increase in social spending of around 0.9% of GDP and in the tax burden of 0.2% of GDP that would lead to a primary deficit of around 2.5% of GDP.

WHAT'S COMING NEXT?

- The tax reform has recently returned to the congressional agenda, and is expected to boost economic growth and indirectly reduce the fiscal effort required to stabilize public debt as a share of GDP in the long run.
- Fiscal and debt sustainability is another key factor for economic recovery. The deterioration of financial conditions could lead to higher interest rates, which would have a negative impact on economic activity.



APPENDIX

Dashboard

	Sep-20	Aug-20	Jul-20	Jun-20	2019
Exchange rate (BRL/USD, eop.)	5.51	5.49	5.22	5.47	4.02
SELIC (%)	2.25%	3.00%	3.75%	3.75%	4.50%
Inflation (y/y)	-	1.9%	2.4%	3.3%	4.3%
Economic activity (y/y)	-	-	-15.1%	-1.8%	0.9%
Industrial activity (y/y)	-	-	-27.2%	-3.7%	-1.1%
Automotive production (y/y)	-	-84.4%	-99.3%	-21.1%	2.2%

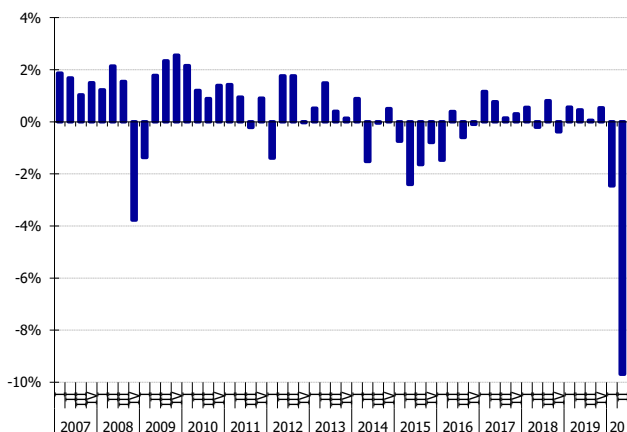
Source: EconViews based on several sources

Macroeconomic Outlook

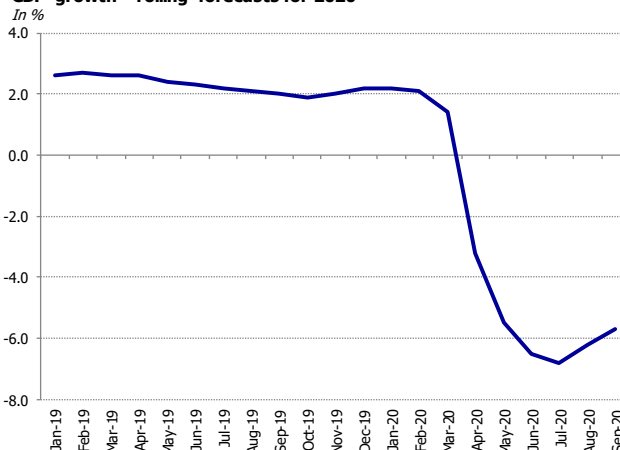
	2017	2018	2019	2020F	2021F
GDP growth (%)	1.3%	1.3%	1.1%	-5.7%	3.2%
Inflation (Dec-Dec)	2.9%	3.7%	4.3%	2.0%	3.3%
Fiscal Balance (% GDP)	-7.8%	-7.1%	-5.9%	-15.8%	-7.2%
Current Account (% GDP)	-0.7%	-2.2%	-2.8%	-0.8%	-1.4%
International reserves (USD Bn)	365.4	365.5	346.5	338.0	340.4
Exchange rate (BRL/USD)	3.31	3.88	4.02	5.28	5.02

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

Real GDP
quarterly variations, in %



GDP growth - rolling forecasts for 2020



Inflation (IPCA)
Annual changes



Brazilian Real / Dollar



Good news	To be alert	Bad news
Copper price was boosted by more demand from China and has reached its highest level since mid-2018, reaching USD 3 per lb.	Gross debt is expected to reach 40% of GDP in 2021, from 28% in 2020. Sovereign rating remains high but the outlook was revised down from stable to negative.	Unemployment rate reached 13.1% in the quarter ended in July, the highest since 1986, and there was a record-high job destruction of 1.8 million jobs.

POLITICS

The health situation seems under control, after facing difficult times in the previous months, when Chile had reached the 9th place in world COVID-19 contagions. Nowadays the economy is gradually being reopened. Approval of President Piñera remains at low levels (near 20%) and as a consequence, populist initiatives are gaining space in Congress. Wealth tax and a second withdrawal from pension funds are on the radar. Some lawmakers consider a 2.5% tax on holding assets valued at more than USD 22 million. In addition, on October 25 it will take place a referendum to reform the Constitution, which had been delayed due to the COVID-19 outbreak.

ECONOMIC ACTIVITY

In 2Q-2020 activity contracted -13.2% q/q after having increased 3.0% in 1Q-2020. Private consumption slumped -20.4% while investment showed less volatility and contracted -13.3%. Mining activity stood relatively strong: it increased 0.8%, while other sectors such as industry collapsed 9.3%. Year-on-year activity slumped 14.1%, the worst reading on record. Activity recovered slightly in July and August (0.8% and 1.7% respectively) according to preliminary data, while both business and consumer confidence improved as well. Private consumption will be triggered by the pension fund withdrawal bill, which will lead to extra household income of around 6% of GDP during 3Q-2020.

INFLATION

In August prices increased 0.13% m/m, slightly above the previous record of 0.1%. Clothing prices increased 2.3% m/m and had the biggest incidence on the monthly figure, while food and beverages followed (0.2%). Transportation contributed negatively by -0.12 bps: fuel price decreased 2.6%. In y/y terms, inflation decelerated for the 6th month in a row to 2.4%, the lowest record since September 2019 and below CB's target of 3%. Core inflation (excl. food and energy) rebounded to 2.0% y/y, above the previous 1.8%. For 2020 inflation is expected to lower to 2.2%, affected by pressures from a significant output gap. In 2021 it could recover to 2.7%, still below CB target.

MONETARY SECTOR

The CLP appreciated to 757.08 per US Dollar at the end of July and has lost 3.5% since then to 783.28. However, the currency had reached an all-time minimum at 868.10 in March and has recovered 10%. In the last meeting, the CBCh maintained the policy rate at 0.5% and gave signals of keeping lower rates for at least the end of 2021. The entity reaffirmed its compromise to keep monetary stimulus in place, which include credit support facilities of up to USD 40 billion (USD 27 billion utilized) and asset purchases of USD 16 billion (USD 5.5 billion used). In addition, in early August Congress has passed the initiative to allow the CB to purchase Treasury bonds, an extra tool to manage rates.

FISCAL ACCOUNTS

The Government has already committed USD 28 bn (11% of GDP) for policies to fight COVID-19. Recently Piñera announced an investment plan for public works to boost employment that would require USD 2.5 bn from the USD 12 bn fund to fight COVID-19. In addition, a USD 2 bn plan to cover wages for 1 million workers was announced too. Recently, Congress passed a law to allow a partial withdrawal of savings from pension funds for an equivalent to 6% of GDP. The outlook for sovereign debt was revised down from stable to negative by S&P (A+), Moodys (A1), and Fitch (A). Fiscal deficit is expected to be -9.4% of GDP this year and to narrow to -5.5% in 2021.

WHAT'S COMING NEXT?

- Fiscal and monetary stimulus will support the recovery ahead. In particular, consumption is expected to be more dynamic as a result of pension funds withdrawals, which will represent more income for households (6% of GDP).
- With safety measures, a plebiscite for a new constitution will take place on October 25. There are some doubts on the participation rate due to Coronavirus.



APPENDIX

Dashboard

	Sep-20	Aug-20	Jul-20	Jun-20	2019
Exchange rate (CLP/USD, eop.)	783.28	776.55	757.08	823.10	752.40
Interest rate (%)	-	0.50%	0.50%	0.50%	1.75%
Inflation (y/y)	-	2.5%	2.4%	2.6%	3.0%
Economic activity (y/y)	-	-	-10.7%	-12.9%	1.1%
Industrial activity (y/y)	-	-	-3.3%	-2.7%	-0.6%
Mining production (y/y)	-	-	1.2%	2.9%	-2.2%

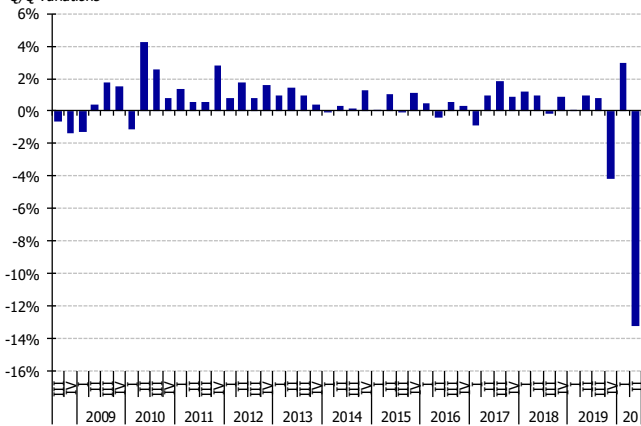
Source: EconViews based on several sources

Macroeconomic Outlook

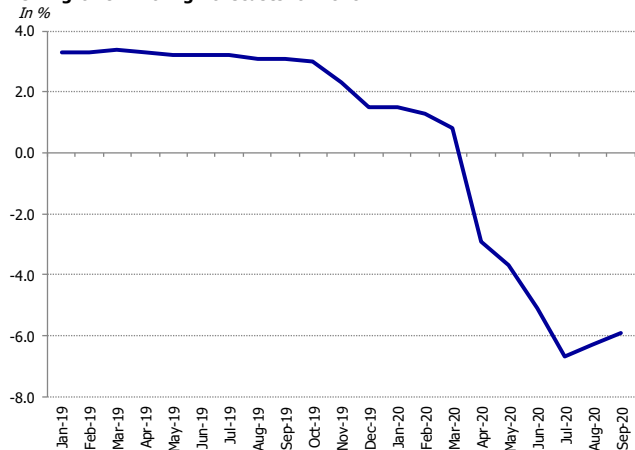
	2017	2018	2019	2020F	2021F
GDP growth (%)	1.2%	3.9%	1.1%	-5.9%	4.6%
Inflation (Dec-Dec)	2.3%	2.6%	3.0%	2.2%	2.7%
Fiscal Balance (% GDP)	-2.6%	-1.5%	-2.7%	-9.4%	-5.5%
Current Account (% GDP)	-2.3%	-3.6%	-3.9%	-0.6%	-1.4%
International reserves (USD Bn)	38.0	38.7	39.5	37.8	38.6
Exchange rate (CLP/USD)	616.2	695.2	752.0	783.0	766.0

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

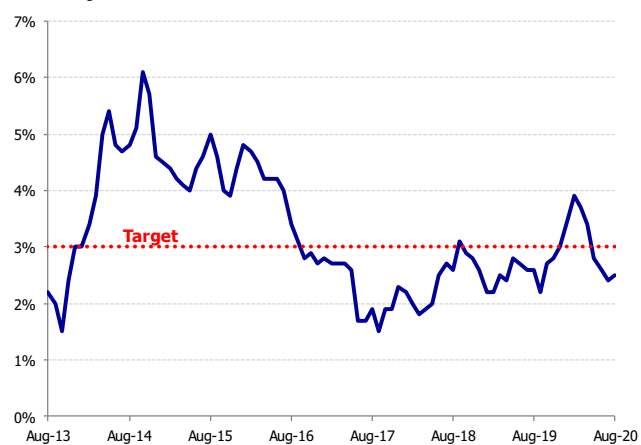
Real GDP
Q/Q variations



GDP growth - rolling forecasts for 2020



Inflation - General CPI
Annual changes



Chilean Peso / Dollar





COLOMBIA

Good news	To be alert	Bad news
Fedesarrollo's Business Confidence Index was positive in August for the first time since February. This may indicate that the worst is over for Colombia	President Duque said another “day without VAT” will likely be held in November or December. The previous Day was a success for sales earlier this year.	The economic recovery has plateaued since July. The Bogota lockdown took an important toll on people’s incomes. Colombia has over 25,000 Covid 19 deaths.

POLITICS

Colombia's Congress is discussing an electoral reform. Among the changes proposed, the new law would introduce electronic voting while keeping paper ballots. The bill also includes incentives to reduce abstention rates, which in the last election reached 46% of the electorate. The overarching philosophy of the reform is to simplify the process for voters in such way that they don't see voting as a burden. The current electoral code has been in place for 34 years.

ECONOMIC ACTIVITY

Economic activity is expected to decline by 6.8% in 2020 followed by a recover of 4.6% in 2021. The most upbeat economists point to a decline of 5% while pessimists are thinking in terms of 8%. Early recovery expectations faded away and most interlocutors have reduced their numbers for 2020 but reviewed upwards 2021. Considering 2020 and 2021 together, the greatest loser is going to be investment. Still, there are a handful of interesting projects. Oil companies are said to invest over USD 700 million. Mining companies also have a good pipeline.

INFLATION

Inflation stood at 1.89 y/y in August, a 5-year low after prices declined by 0.01% in that month. Price pressures remained subdued, and inflation is now below the lower bound of the monetary target of 3% plus/minus 1%. Core inflation also remains below the 2% lower limit of monetary policy, a sign that pressures remain muted. The median of economic forecasters think inflation will remain at current levels for the remainder of the year while in 2021 prices should increase in line with the target of 3%.

MONETARY SECTOR

The Central bank cut rates by 25 bps to 1.75% in the last meeting of late September, probably the last cut of the cycle. The easing of monetary policy was not a safe bet and allegedly the decision was not unanimous with commentators betting for a 4-3 vote. The fear is that with activity recovering strongly next year, they may need to unwind easy monetary policy quite fast. Still, with the contraction of this year the output gap is significant. Central Bank's official forecast is a GDP loss of 6-10%.

FISCAL ACCOUNTS

The government is likely to post a deficit of around 8% of GDP, as Covid-19 programs take a toll on public finances. For next year, the budget assumes a deficit reduction of almost 3 percentage points. The government estimated this number with a growth rate of 6.6%, 2 percentage points more than private sector economists, so it looks quite optimistic. Still, if Colombia taps the FCL from the IMF, it should have no stress on its finances, more so with interest rates so low.

WHAT'S COMING NEXT?

- The IMF expanded the Flexible Credit Line with Colombia from USD 10.8 billion to 17.3 billion. This line carries no conditionality and has not been used by any country so far.
- Colombia showed intentions to effectively tap USD 5.3 billion.



APPENDIX

Dashboard

	Sep-20	Aug-20	Jul-20	Jun-20	2019
Exchange rate (COP/USD, eop.)	3,829	3,742	3,735	3,762	3,289
Interest rate (%)	2.0%	2.2%	2.4%	2.7%	4.1%
Inflation (y/y)	-	1.9%	2.2%	2.0%	3.8%
Economic activity (y/y)	-	-	-9.6%	-11.0%	3.1%
Industrial activity (y/y)	-	-	-8.5%	-9.8%	1.4%

Source: EconViews based on several sources

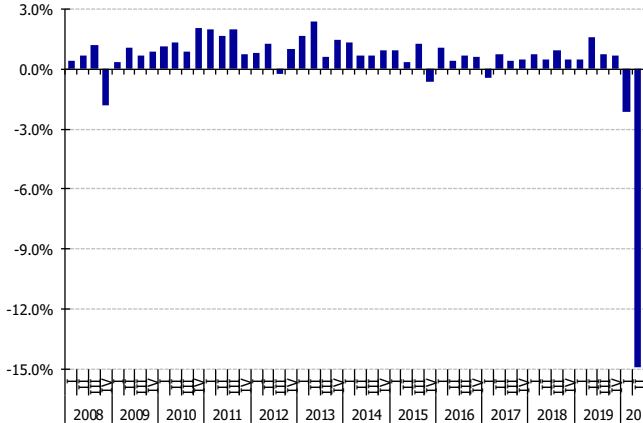
Macroeconomic Outlook

	2017	2018	2019	2020F	2021F
GDP growth (%)	1.4%	2.5%	3.3%	-6.8%	4.6%
Inflation (Dec-Dec)	4.1%	3.2%	3.8%	1.9%	3.0%
Fiscal Balance (% GDP)	-3.6%	-3.1%	-2.5%	-8.0%	-5.5%
Current Account (% GDP)	-3.3%	-3.9%	-4.2%	-3.9%	-3.8%
International reserves (USD Bn)	45.4	46.1	50.5	53.7	53.9
Exchange rate (COP/USD)	2,985	3,248	3,287	3,691	3,578

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

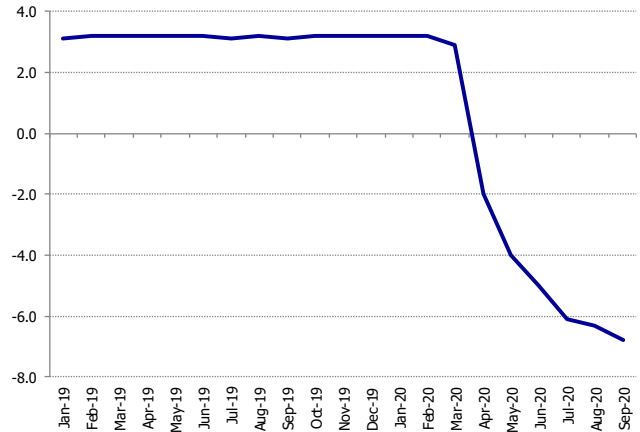
Real GDP

Q/Q variations - DANE



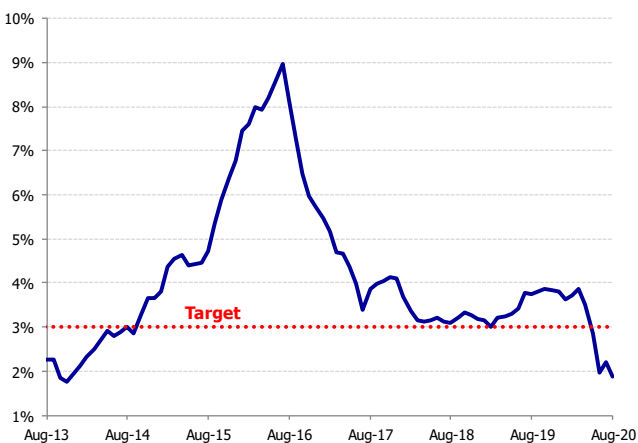
GDP growth - rolling forecasts for 2020

In %



Inflation - General CPI

Annual changes



Colombian Peso / Dollar



Good news	To be alert	Bad news
The rebound in manufacturing activity in Q3 has been prompt, particularly in the automobile sector.	The unemployment rate has eased, but remains extremely elevated near 14% and thus, consumption-driven services might remain depressed.	Monthly GDP is still 13.3% below February's level (pre-quarantine).

POLITICS

The honeymoon for Mexico's president seems to be over. Though he still has a 56% approval rating, it is down from his peak of 78% in March 2019. In his second state-of-the-union address, AMLO emphasized what he considers his major achievements: the fight against corruption and his government's austerity. The economy reopened further in August by region, according to a traffic light system. Only one state is on red alert (only essential activities), 21 states are on orange alert, allowing for more activities to operate but with restricted capacity, while 10 states are on yellow alert (24.4% of GDP), permitting all non-essential activities (excluding education activities).

ECONOMIC ACTIVITY

The economy collapsed in 2Q20 and fell 17.1% q/q, but looks set to bounce back in 3Q, even above expectations. June data has already shown a steep gain in activity, with GDP growing 8.9% m/m, and data for July is very likely to record an increase of around 7%. Industrial production and construction, which showed the worst performances in Q2, should be the ones driving the upswing in Q3. While most essential manufacturing industries are already quite close to their pre-pandemic levels, several non-essential industries and domestically-driven services have failed to bounce back. In this scenario, we expect GDP to fall 9.9% this year and to recover 3.7% in 2021.

INFLATION

Despite economic weakness, inflation accelerated further in August. Headline CPI increased to 4.1% y/y (from 3.6% in July). Core inflation was pressured by tradable goods, associated with temporary supply-demand shocks due to the quarantine. In early September, inflation remained at 4% y/y (the upper bound of Banxico's target range), but seems to have peaked and should ease modestly through year-end. As non-core inflation is likely to remain stable through year-end, favored by a high base of comparison, this should be sufficient to drive headline inflation near 3.6% by December. Meanwhile, core inflation is likely to remain near 4.0%.

MONETARY SECTOR

Unlike other currencies of the region, the Mexican Peso has been appreciating in the last three months and is currently trading at around 22 MXN/USD. However, it has weakened 16.8% so far this year and we expect it to close the year at around 22.40 MXN/USD. Moreover, the central bank is already back to gradualism after having cut the reference rate from 8.25% to 4.5% in one year. Thus, it cut its policy rate by 50 bps in August and 25bp in September to 4.25%. We expect it to close the year at around 4% in a context in which the output gap will stand around -20%.

FISCAL ACCOUNTS

The fiscal impact of the measures that were taken in response to the pandemic represented around 1% of GDP in 2Q20, and now the government is targeting a 0.2% primary surplus for this year driven by higher than expected extraordinary revenues and increasing excise taxes. The government is trying to prevent a sharp deterioration in fiscal accounts, but the impact of the quarantine on economic activity could end up being similarly harmful, eventually leading to higher debt-to-GDP ratios. In this scenario, we expect a fiscal deficit of around 4.8% of GDP for this year.

WHAT'S COMING NEXT?

- The recent deceleration of new daily COVID-19 cases could be associated with lower rates of testing, as the percentage of tests that are positive increased further. Resurgence in the number of cases is possible ahead as distancing measures are lifted.
- The government has drafted a proposal to reform pension system, which aims to increase the compulsory contribution to 15% of the salary from currently roughly 6.5%, with the private sector shouldering most of the increase.



APPENDIX

Dashboard

	Sep-20	Aug-20	Jul-20	Jun-20	2019
Exchange rate (MXN/USD, eop.)	22.13	21.90	22.29	23.01	18.94
Interest rate (%)	4.50%	4.50%	5.00%	5.50%	7.50%
Inflation (y/y)	-	4.05%	3.62%	3.33%	2.83%
Economic activity (y/y)	-	-	-	-13.2%	-0.3%
Industrial activity (y/y)	-	-	-11.3%	-16.7%	-1.7%
Automotive production (y/y)	-	-	-1.7%	-29.4%	-3.4%

Source: EconViews based on several sources

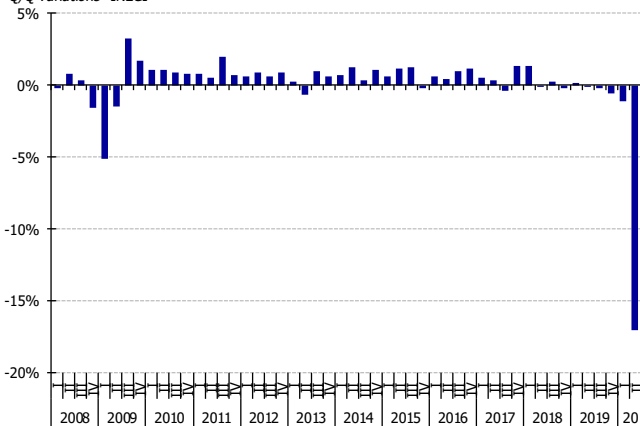
Macroeconomic Outlook

	2017	2018	2019	2020F	2021F
GDP growth (%)	2.1%	2.2%	-0.3%	-9.9%	3.7%
Inflation (Dec-Dec)	6.8%	4.8%	2.8%	3.6%	3.5%
Fiscal Balance (% GDP)	-1.1%	-2.1%	-1.6%	-4.8%	-3.7%
Current Account (% GDP)	-1.8%	-2.1%	-0.3%	-0.2%	-0.3%
International reserves (USD Bn)	164.9	165.2	170.6	184.5	186.0
Exchange rate (MXN/USD)	19.7	19.7	18.9	22.4	22.1

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

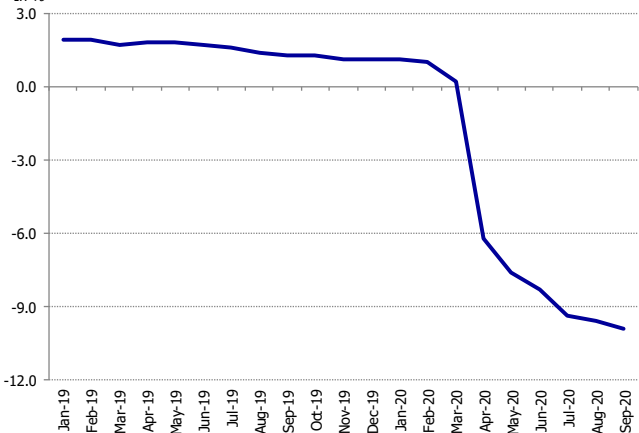
Real GDP

Q/Q variations - INEGI



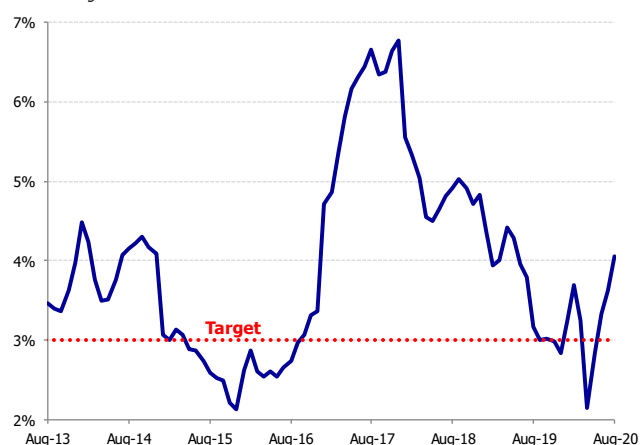
GDP growth - rolling forecasts for 2020

In %



Inflation - General CPI

Annual changes



Mexican Peso / Dollar





PARAGUAY

Good news	To be alert	Bad news
A low inflation rate will ensure an accommodative monetary policy stance to help activity	The government announced it will ask the Parliament for permission to increase the fiscal deficit up to 4.0% of GDP	Coronavirus daily cases have increased in the last weeks, after months with few ones

POLITICS

A well-managed pandemic, which has had a relatively minor impact in the economy when compared to neighbouring countries, has helped the government maintain a good image, but the conflict with guerrilla insurgents could deteriorate it. A recent clash involving public forces resulted in the casualty of two minors, for which people took to the streets as a sign of protest. The guerrilla retaliated with the high-profile abduction of a former vice-president, ensuring the conflict is nowhere near to an end.

ECONOMIC ACTIVITY

After posting strong m/m contractions in March and April, when the impact of the pandemic and containment measures was fully felt, the economy has since been showing signs of recovery and the monthly activity indicator (IMAEP) grew 0.9% y/y in July. It was led by agriculture and industrial sectors, and especially construction, which has been favored by the reactivation of public works. GDP contracted 6.5% y/y in the second quarter, with the highest negative incidence coming from private consumption and investment. We have revised downwards our forecast for GDP contraction to 3.4% this year from our last LATAM report, but we envision a rebound of 4.8% for 2021.

INFLATION

Consumer prices recorded a 1.6 % y/y increase in August, after July's 1.1% record, due to rebounding food prices and accelerating transport costs. Even though inflation has accelerated from the records of May and June (under 1% y/y), prices are still growing at a slower rate than they did before the pandemic and well below the 4% target set by the Central Bank. As a result of the contraction of activity and low oil prices, we forecast inflation to end the year at 2.1%. In turn, we have revised our 2021 projection down to 2.2% (from 3% since our last report).

MONETARY SECTOR

The PYG is trading at levels of 7,000 to the USD, depreciating around 8.3% YTD. We expect it to depreciate further, ending the year at 7,025. As inflation sits well below the target, the CBP announced on September 23rd that it would keep the monetary policy target rate at the all-time low of 0.75% that was set in June, thus maintaining a loose monetary policy to help aid the economy in its recovery process and lead inflation to its target of 4% yearly.

FISCAL ACCOUNTS

As of August, the country registered an accumulated fiscal deficit of 3.4% of GDP, way above the limit set by the currently-suspended Fiscal Responsibility Law (1.5% of GDP), as dwindling resources due to the crisis and growing expenditures to ease the impact of the pandemic have eroded fiscal accounts. In early September, the government presented a budget draft for 2021 which is in line with limit set by the FRL, but the Ministry of Economy has requested permission to extend the deficit to 4% of GDP. Thus, we forecast the deficit to reach 6.4% of GDP in 2020 and 4.2% in 2021.

WHAT'S COMING NEXT?

- Coronavirus cases have increased in the last weeks, which could further weaken the economy.
- Despite the growing cases, authorities have presented the protocols to reopen the border with Brazil.
- Ongoing conflict with local *guerrillas* could add political turmoil and uncertainty amid the crisis.



APPENDIX

Dashboard

	Sep-20	Aug-20	Jul-20	Jun-20	2019
Exchange rate (PYG/USD, eop.)	7,001	7,003	6,925	6,822	6,464
Interest rate (%)	0.75%	0.75%	0.75%	1.25%	4.00%
Inflation (y/y)	-	1.6%	1.1%	0.5%	2.8%
Economic activity (y/y)	-	-	0.9%	2.3%	0.0%

Source: EconViews based on several sources

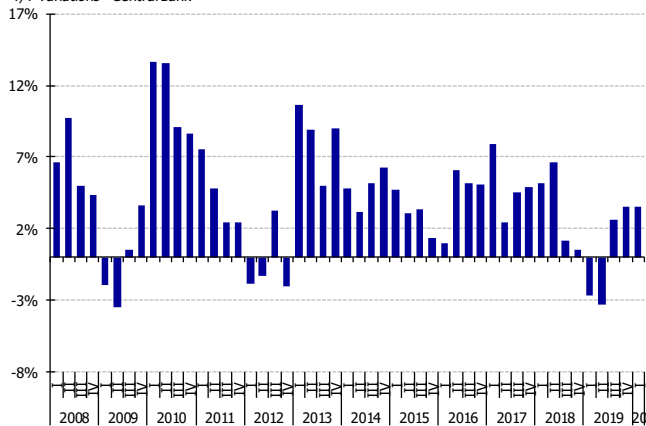
Macroeconomic Outlook

	2017	2018	2019	2020F	2021F
GDP growth (%)	5.0%	3.4%	0.2%	-3.4%	4.8%
Inflation (Dec-Dec)	4.5%	3.2%	2.8%	2.1%	2.2%
Fiscal Balance (NFPS - % GDP)	-1.1%	-1.3%	-2.8%	-6.4%	-4.2%
Current Account (% GDP)	3.1%	-0.2%	-1.0%	-1.2%	-0.8%
International reserves (USD Bn)	8.1	8.0	7.7	7.9	8.2
Exchange rate (PYG/USD)	5,602	5,974	6,464	7,025	7,289

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

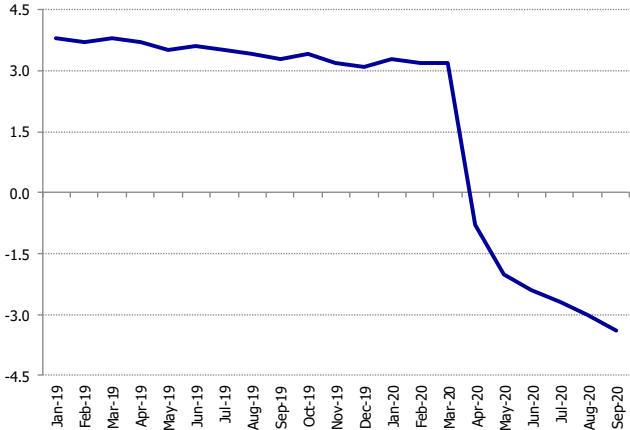
Real GDP

Y/Y variations - Central Bank



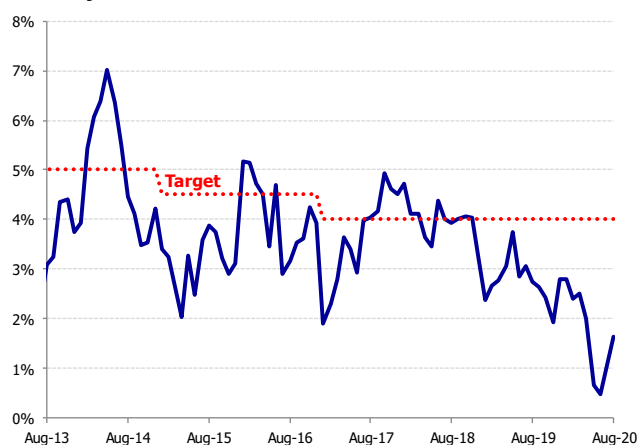
GDP growth - rolling forecasts for 2020

In %



Inflation - General CPI

Annual changes



Paraguayan Guarani / Dollar



Good news	To be alert	Bad news
The fiscal stimulus is very aggressive and will boost recovery in coming months. Activity for 3Q-2020 is expected to strongly rebound.	Political turmoil is back on the agenda and disapproval of President Vizcarra has begun to rise again. Recently the President was almost impeached.	GDP will plunge 12.6% in 2020. Peru will suffer the worst economic performance in Latam (even worse than Argentina, which will contract 11.6%).

POLITICS	<p>Political turmoil has returned to the stage. President Martín Vizcarra has recently faced impeachment charges for accusations of obstructing a corruption probe into his own administration. Vizcarra presented his defense to Congress on 18 September. Finally, Congress rejected the presidential vacancy against Vizcarra for 32 positive votes, 78 negative and 15 neutral. In August presidential disapproval rate has climbed to 37%, the highest record in a year. Although the health situation is improving slowly, Peru stands in the world's first place of deaths per 100,000 population.</p>
ECONOMIC ACTIVITY	<p>In 2Q-2020 the economy faced the worst global performance by collapsing -27.2% q/q, as a result of a very strict nationwide lockdown and border closures. Year-on-year activity plunged -30.2%, the worst reading on record. The slump was broad-based, but gross fixed investment was one of the most affected sectors, by collapsing -67.2% y/y. Private consumption was also hit and fell -22.1% y/y. The external front was severely hit by border closures and exports of goods and services contracted -43.6%. Government consumption was weak and receded 3.9% but should improve as a result of fiscal stimulus. Activity is expected to shrink -12.6% in 2020, the worst performance in Latam.</p>
INFLATION	<p>On a monthly basis, inflation was -0.1% m/m in August. Food prices decreased 0.45% m/m as a result of seasonal factors. Residential electricity price climbed 0.6%. Medicines were 0.2% more expensive while new cars prices went up 2.9%, influenced by new models available and depreciation of the currency. Annual inflation was 1.7% y/y, slightly below the previous record and below the 2% CB's target. Moreover, core inflation was 0.11% m/m and 1.8% y/y. There is downside risk pressure for prices as inflation expectations for the next 12 months have decreased from 2.2% at the end of last year to 1.6% in August. Inflation is expected to decelerate to 1.2% this year (1.8% for next year).</p>
MONETARY SECTOR	<p>Peruvian Sol is under pressure and has reached the lowest level in 18 years, hitting 3.59 per US Dollar. The currency has depreciated 8.4% YTD. However, the market does not expect further depreciation. The gradual reopening of the economy should help to normalize FX inflows. On the last meeting, the BCRP has maintained the policy rate in 0.25% for the fifth time in a row. Liquidity injections totaled 61 billion PEN as of 9 September. As a result of the strong monetary stimulus, credit has grown 14% y/y in July. The BCRP kept its forward guidance without changes and confirmed that "is ready to extend monetary stimulus in different ways". Policy rate will remain at the current level for at least late 2021.</p>
FISCAL ACCOUNTS	<p>Peru has responded to the Coronavirus crisis with one of the biggest stimulus packages in Latam, equivalent to 20% of GDP. Extra fiscal expenditure will amount 4.6% of GDP, while tax rebates will represent 2.3% of GDP. Measures to boost liquidity for households and enterprises will account for 13% of GDP and include the access to credits and extraordinary withdrawals from pension funds. The country has presented its 2021 Budget and plans to issue new debt for USD 11.5 billion, equivalent to four times the amount issued in 2020. Fiscal deficit is expected to reach 9.4% of GDP this year and would reduce to 5.1% in 2021.</p>
WHAT'S COMING NEXT?	<ul style="list-style-type: none"> • In July and August activity began to show signs of recovery; a strong rebound for Q3-2020 is expected. • The market expects the PEN to appreciate to 3.46 per US Dollar.



APPENDIX

Dashboard

	Sep-20	Aug-20	Jul-20	Jun-20	2019
Exchange rate (PEN/USD, eop.)	3.60	3.54	3.54	3.54	3.32
Interest rate (%)	0.25%	0.25%	0.25%	0.25%	2.25%
Inflation (y/y)	-	1.7%	1.9%	1.6%	1.9%
Economic activity (y/y)	-	-	-	-18.1%	2.2%
Manufacturing activity (y/y)	-	-	-	-6.8%	-1.7%
Mining production (y/y)	-	-	-	-14.4%	0.0%

Source: EconViews based on several sources

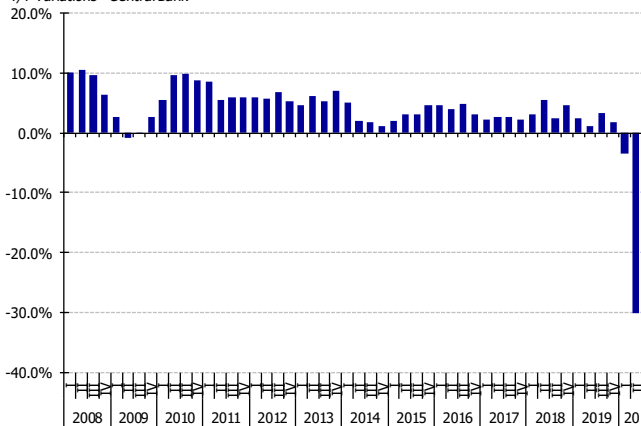
Macroeconomic Outlook

	2017	2018	2019	2020F	2021F
GDP growth (%)	2.5%	4.0%	2.2%	-12.6%	9.2%
Inflation (Dec-Dec)	1.4%	2.2%	1.9%	1.2%	1.8%
Fiscal Balance (% GDP)	-3.0%	-2.3%	-1.6%	-9.4%	-5.1%
Current Account (% GDP)	-1.3%	-1.7%	-1.5%	-1.3%	-1.3%
International reserves (USD Bn)	61.4	57.9	64.9	69.1	72.8
Exchange rate (PEN/USD)	3.24	3.37	3.32	3.46	3.42

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

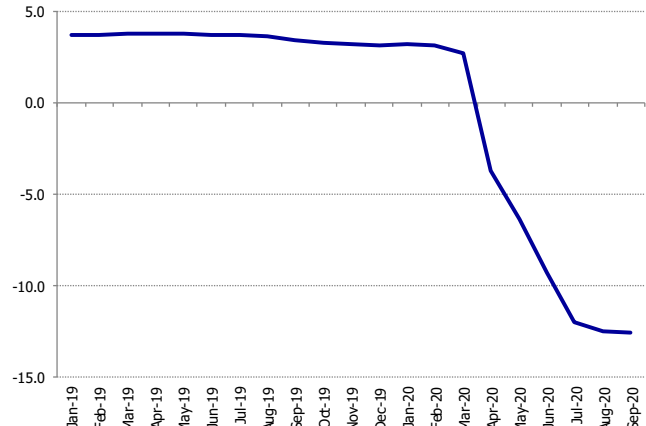
Real GDP

Y/Y variations - Central Bank



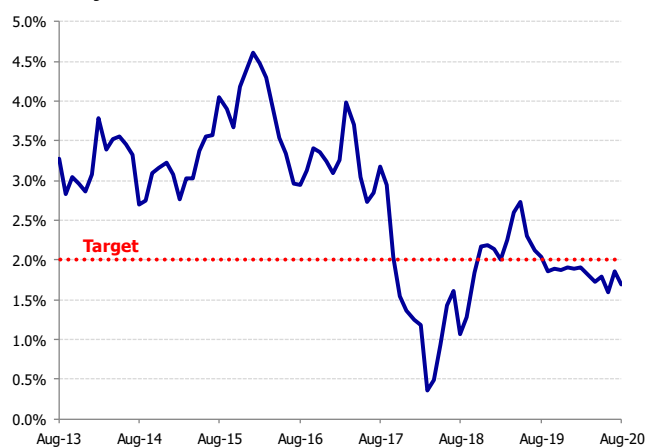
GDP growth - rolling forecasts for 2020

In %



Inflation - General CPI

Annual changes



Peruvian Sol / Dollar





URUGUAY

Good news	To be alert	Bad news
The governing party obtained a victory in regional elections, signaling broad support of the public of its agenda	Union workers and left-wing movements have taken to the streets to protest cuts in public expenditure	Fiscal accounts have eroded due to the pandemic and the fiscal deficit will reach 6.6% of GDP this year

POLITICS

Despite the sanitary crisis' growing impact on the economy, the market-friendly Luis Lacalle Pou has managed to maintain a high approval rate, especially when compared to other presidents in the region. The 2020-24 budget draft was presented, and it relies on a reduction of taxes which will translate into lower expenditures. Left-wing movements took to the streets to protest the reformist agenda, but the leading Partido Nacional (National Party) still enjoys broad support, and it got the most votes in the latest regional elections.

ECONOMIC ACTIVITY

Economic activity took a deep plunge in the second quarter, as GDP contracted by a record 9.0% q/q in s.a. terms. In particular, as restrictions imposed to face the sanitary crisis affected shops, especially hotels and restaurants, commercial activity plunged 29.2% q/q. Industrial activity also took a hard hit, falling over 19% y/y in both April and May, although the slump softened in July, when it fell 5.3% y/y. Amid a weak level of consumption and investment, as well as a poor performance by its main trading partners -particularly Argentina-, we project a contraction of GDP of 4.2% this year, followed by a rebound of 3.8% in 2021.

INFLATION

Consumer prices grew 10.1% in July and 9.8% in August year-over-year, decelerating from May's record (11.1%), helped by a lower impact from food and transport prices. Still, inflation stands above the upper bound of the Central Bank's 3-7% target range. Early this month, the Central Bank decided to maintain its target range for the next two years, but lower the upper bound from 7 to 6% starting September 2022. Despite inflation's deceleration, Uruguay's weakened currency will maintain it high, and we forecast it will end the year at 9.3%, but falling in 2021 to 7.3% as fiscal policy is set to turn more austere.

MONETARY SECTOR

The UYU has been trading stable in September in the area of 42.5 to the USD with a cumulative YTD depreciation of about 13.7%, but is expected to end the year at 43.9 due to weak economic activity. In early September, the CBU decided to implement a monetary-policy interest rate approach rather than targeting money aggregates. It was set at 4.5%, based on the observed overnight interbank rate, thus maintaining an accommodative stance on monetary policy. In addition, the CB decided to maintain the current 3-7% inflation target range, but lower the upper bound to 6% starting in September 2022.

FISCAL ACCOUNTS

Fiscal accounts took a hit in the last months, as expenditures have been growing in face of the crisis, especially due to transfers for unemployment insurance (which soared 250% y/y in July), while revenues have diminished as economic activity fell, in particular the ones that constitute the Social Security Trust Fund. As a result, in July the global public sector registered a 12-month accumulated fiscal deficit of 5.9% of GDP, the highest in about 30 years. Continuing expenditures will put more pressure on fiscal accounts, and we expect the fiscal deficit to reach 6.6% of GDP in 2020 and fall to 3.9% of GDP in 2021.

WHAT'S COMING NEXT?

- A second wave of coronavirus could put further pressure on an already weakened economy and stressed fiscal accounts
- Regional elections brought about a victory for the ruling party in most jurisdictions, but the key district of Montevideo city was held by the *Frente Amplio* opposition



APPENDIX

Dashboard

	Sep-20	Aug-20	Jul-20	Jun-20	2019
Exchange rate (UYU/USD, eop.)	42.45	42.53	42.57	42.08	37.34
Interest rate (%)	-	-	5.06%	5.41%	6.53%
Inflation (y/y)	-	9.8%	10.1%	10.4%	8.8%
Manufacturing activity (y/y)	-	-	-5.3%	-0.8%	-1.5%

Source: EconViews based on several sources

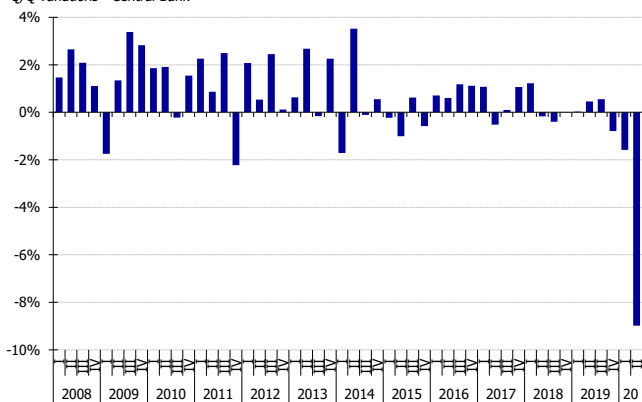
Macroeconomic Outlook

	2017	2018	2019	2020F	2021F
GDP growth (%)	2.6%	1.6%	0.2%	-4.2%	3.8%
Inflation (Dec-Dec)	6.6%	8.0%	8.8%	9.3%	7.3%
Fiscal Balance (% GDP)	-3.5%	-2.9%	-3.5%	-6.6%	-3.9%
Current Account (% GDP)	0.7%	0.0%	0.6%	0.0%	-0.2%
International reserves (USD Bn)	16.0	15.6	14.5	14.8	15.1
Exchange rate (UYU/USD)	28.85	32.45	37.34	43.90	46.50

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

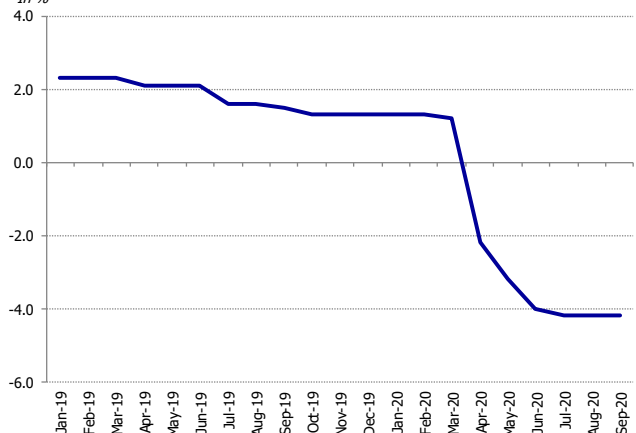
Real GDP

Q/Q variations - Central Bank



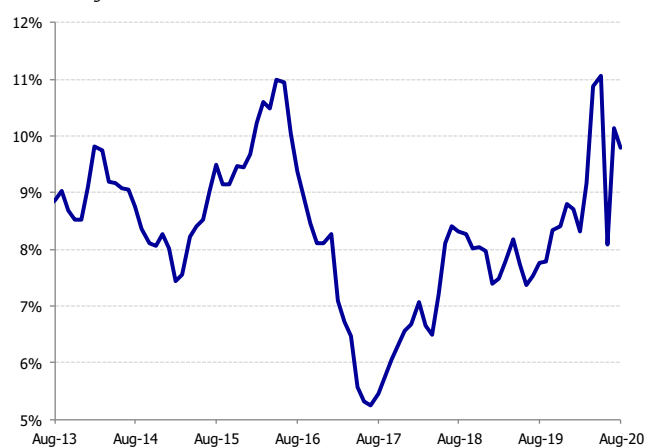
GDP growth - rolling forecasts for 2020

In %











Inflation - General CPI

Annual changes



Uruguayan Peso / Dollar



	GDP		Inflation	
	2020	2021	2020	2021
	-11.6%	7.0%	36.0%	57.0%
	-5.7%	3.2%	2.0%	3.3%
	-5.9%	4.6%	2.2%	2.7%
	-6.8%	4.6%	1.9%	3.0%
	-9.9%	3.7%	3.6%	3.5%
	-3.4%	4.8%	2.1%	2.2%
	-12.6%	9.2%	1.2%	1.8%
	-4.2%	3.8%	9.3%	7.3%

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