

LATAM 7 + Argentina

MACRO BRIEF

ECONVIEWS
ECONOMÍA Y FINANZAS

September, 2021



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ARGENTINA

Good news	To be alert	Bad news
Vaccination campaign advanced quickly last few months and variant Delta risks are lower than before.	Soybean price is USD 100 below its peak price in April. This implies a fewer inflow of dollars.	The meteorological phenomenon "La Niña" could affect next year's agriculture yields.

POLITICS

Primary elections were a hard hit for the Government as it lost in most provinces including Buenos Aires, Cordoba, Santa Fe, and Mendoza. In the national result, the opposition obtained a difference of 9 points over the ruling coalition. This defeat was the trigger of internal discussions among a sector more aligned with the VP Cristina Kirchner and another that supports President Alberto Fernandez. The conflict ended with the replacement of some members of the cabinet, including the Chief of Staff. The new cabinet organization seems to be more balanced in favor of Kirchnerism and will try to reverse the result in November's general elections.

ECONOMIC ACTIVITY

Economic activity grew 0.8% in July and 11.7% in the year-on-year comparison. This recovery is being led by Manufacturing, Commerce and Real Estate activities. Additionally, as the vaccination process continues and the pandemic seems to be giving in, consumption-related sectors will take the lead. That is the case of Cinemas, Theaters, Restaurants or Tourism. Electoral measures will be another factor that could contribute to boost economic growth. In part due to the statistical carryover that left last year, we expect the economy to grow 8% this year and 2.5% next.

INFLATION

August figure of 2.5% brought some oxygen to the Government, breaking the floor of 3% after 10 months. Regulated and seasonal prices were two key factors to achieve this result since they only increased 1.1% and 0.6% respectively. The categories with the highest increases were Education and Healthcare with 4.2% each one. However, the good news will not last long as inflation is expected to accelerate in coming months. We expect this year to end with an inflation of 51% YoY. Next year will also be challenging, as a correction in utility prices and the exchange rate is very likely. That is why headline inflation should be even higher in 2022 and we forecast it at 54%.

MONETARY SECTOR

Monetary assistance to the Treasury became an important expansionary factor during the third quarter, with transfers of ARS 180, 200, and 250 billion in July, August, and September (up to 22nd) respectively. Interest payments are also growing considerably, and the stock of remunerated liabilities has already surpassed ARS 4.2 trillion. The buying streak of the Central Bank has ended and, so far this month, it has sold USD 692 million. Political convulsion affected the free versions of the exchange rate. The informal version now stands at ARS 185.5 (spread of 88.2%), while the free BCS is trading at ARS 196.07 (spread of 98.9%).

FISCAL ACCOUNTS

Primary deficit accumulated to August has reached 1% of GDP, but this number would have been higher without the exceptional contribution of export taxes and the tax on large fortunes. Additionally, as economic activity recovers, tax revenues also grow. That is the case of VAT, the Fuel Tax, or the Tax on credits and debits, which all grew above inflation in August. After the negative result in the elections, we expect an increase in government expenditures, so the primary balance will worsen in coming months. Including interest payments, we expect that fiscal deficit will end 2021 at 5% of GDP (excluding the allocation of SDRs).

WHAT'S COMING NEXT?

- General elections will be held on November 14. If the primaries' result is confirmed, the government would lose power in Congress. For the opposition it could be a step in the right direction looking at 2023.
- The agreement with the IMF will be necessary to restore confidence and clarify next year's economic path.



APPENDIX

Dashboard

	Sep-21	Aug-21	Jul-21	Jun-21	2020
Exchange rate (ARS/USD, eop.)	98.70	97.74	96.68	95.70	84.15
Interest rate (%)	38.00%	38.00%	38.00%	38.00%	38.00%
National inflation (y/y)	-	51.42%	51.77%	50.20%	36.14%
Economic activity (y/y)	-	-	11.7%	11.7%	-9.9%
Industrial activity (y/y)	-	-	13.0%	19.4%	-7.6%
Automotive production (y/y)	-	48.1%	49.8%	155.7%	-18.5%

Source: EconViews based on several sources

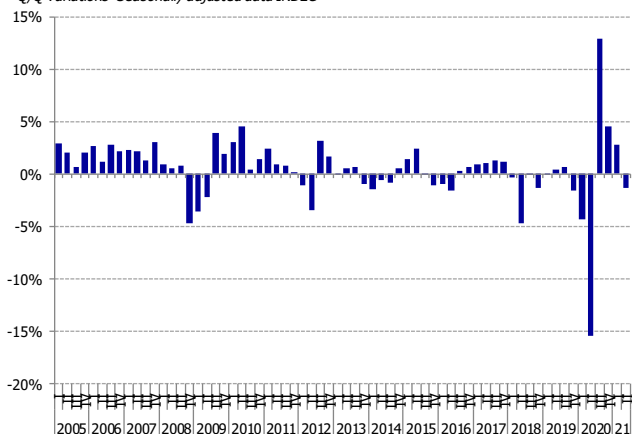
Macroeconomic Outlook

	2018	2019	2020	2021F	2022F
GDP growth (%)	-2.6%	-2.1%	-9.9%	8.0%	2.5%
National inflation (Dec-Dec)	47.6%	53.8%	36.1%	51.0%	54.0%
Fiscal Balance (% GDP)	-5.0%	-3.8%	-8.5%	-5.0%	-4.0%
Current Account (% GDP)	-5.2%	-0.8%	0.9%	0.5%	0.5%
International reserves (USD Bn)	65.8	44.8	39.4	40.4	46.4
Exchange rate (ARS/USD)	37.81	59.90	84.15	106.00	174.90

Source: EconViews based on official figures and own estimates

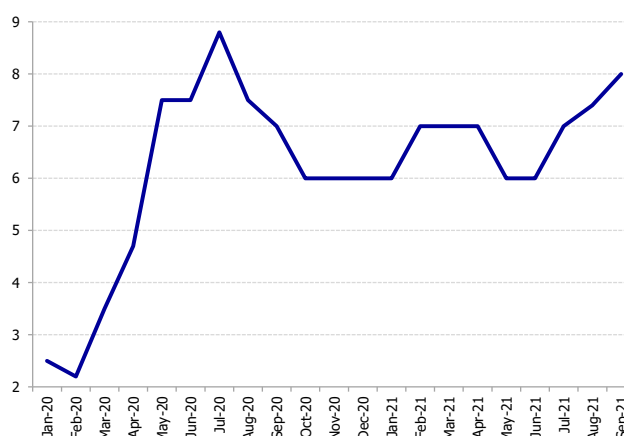
Real GDP

Q/Q variations - Seasonally adjusted data INDEC



GDP growth - rolling forecasts for 2021

In %

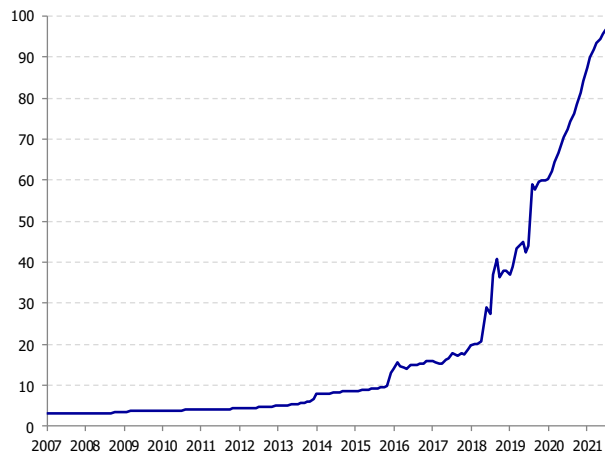


Inflation - General CPI

Annual changes



Argentinian Peso / Dollar





BRAZIL

Good news	To be alert	Bad news
Over 90% of the adult population has received at least one shot of a Covid-19 vaccine, and over 50% has received both shots.	The BRL is said to be weak compared to its fundamentals. The current account deficit is set to be one of the smallest in over a decade in 2021. FDI is recovering.	New loans fell in August both at the retail and corporate segments. However, the base of July was abnormally high.

POLITICS

President Bolsonaro's popularity has taken a toll. His fight against the Supreme Court is one of the factors. According to polls, people are not supporting his twist towards right-wing populism. The election year is approaching. Bolsonaro will seek re-election, while the leading opposition candidate is likely to be former president Lula. Finance Minister Paulo Guedes is challenging critics and says that government has 10-year plans that could privatize sacred cows such as Banco do Brasil and Petrobras.

ECONOMIC ACTIVITY

The economy is likely to grow by around 5% in 2021, recovering all the ground lost in 2020. At one point it seemed that Brazil could have performed even better this year, but political noise as well as higher inflation curbed enthusiasm. Investment would jump by 14% in 2021, private consumption by around 5% and exports by 6%. Government consumption would only rise by 1% and imports by 16%. For next year, however, Brazil would grow south of 2%. Unemployment remains stubbornly high at 13.5% by the end of this year and marginally lower in 2022.

INFLATION

Inflation reached 9.68% by August. However, Brazilian economists expect prices to ease somehow in the next few months, finishing at 8.45%, according to the latest Focus survey. This was the 25th consecutive increase in inflation expectation. Central Bank ceiling stands at 5.25%. For 2022 inflation is expected to go back to the target range at 4.4%. There are several factors behind the surge in inflation: global price increases, the drought that is affecting energy prices and a buoyant demand.

MONETARY SECTOR

Central Bank raised rates in September by 1 percentage point to 6.25%. Most in the market expect another 100 basis points in October and probably another 100 bps later in the year. A month ago, the end of the year forecast was at 7.5%, but inflation has proved resilient. Economists in Sao Paulo and Rio de Janeiro are unsure whether 8.25% is the end of the cycle or there is one more shot to go. Brazil has lived with high positive real rates for most of the previous 15 years. So it is hard to think of the Central Bank as a dovish player.

FISCAL ACCOUNTS

The primary balance has made a strong comeback. After a primary deficit of 9.4% of GDP in 2020, government accounts would only have a shortfall of 1% before interest. Total deficit would still be of around 6% of GDP. Recent news has increased downside risks, but not dramatically. Subnational governments and public companies are set to run surpluses, so more than 100% of the deficit comes from federal government. Gross public debt would come down from 88% of GDP to roughly 80%. Net debt, once international reserves are considered, goes down to around 55% of GDP.

WHAT'S COMING NEXT?

- The government is increasing the tax on financial transactions (IOF) temporarily with the view of raising over USD 400 million to pay for the new "Bolsa Familia", the flagship poverty alleviation program.
- The market is assessing the chances of electricity rationing. The good news is that new thermal facilities are coming to the market. The bad news is that even a 5% rationing factor could decrease GDP by 0.4 percentage points.



APPENDIX

Dashboard

	Sep-21	Aug-21	Jul-21	Jun-21	2020
Exchange rate (BRL/USD, eop.)	5.41	5.15	5.21	4.97	5.19
SELIC (%)	6.25%	5.25%	4.25%	4.25%	2.00%
Inflation (y/y)	-	9.7%	9.0%	8.4%	4.5%
Economic activity (y/y)	-	-	5.5%	9.0%	-4.1%
Industrial activity (y/y)	-	-	1.1%	12.0%	-4.5%
Automotive production (y/y)	-	-	21.2%	80.8%	-28.2%

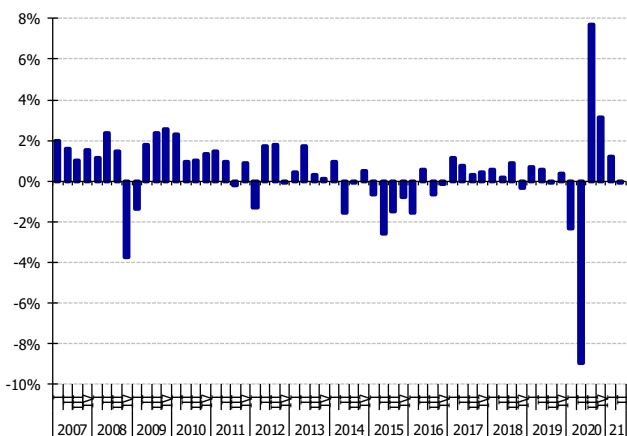
Source: EconViews based on several sources

Macroeconomic Outlook

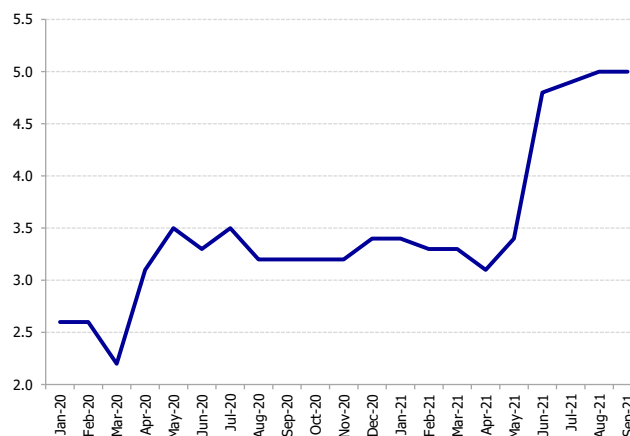
	2018	2019	2020	2021F	2022F
GDP growth (%)	1.8%	1.4%	-4.1%	5.0%	1.9%
Inflation (Dec-Dec)	3.7%	4.3%	4.5%	7.9%	4.4%
Fiscal Balance (% GDP)	-7.0%	-5.8%	-13.6%	-6.4%	-6.4%
Current Account (% GDP)	-2.7%	-3.5%	-1.8%	-0.5%	-1.3%
International reserves (USD Bn)	365.5	346.5	342.7	356.2	357.1
Exchange rate (BRL/USD)	3.88	4.02	5.19	5.13	5.26

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

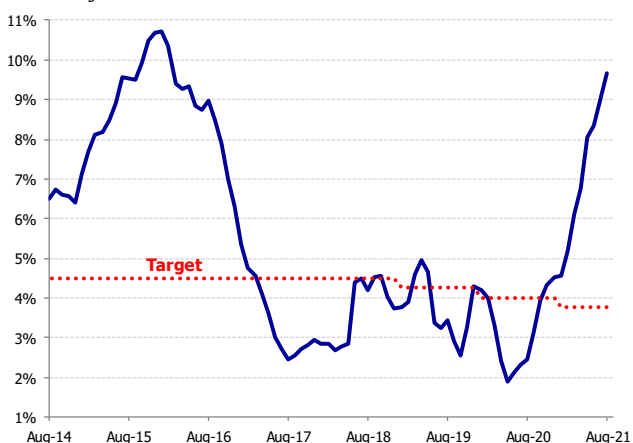
Real GDP
quarterly variations, in %



GDP growth - rolling forecasts for 2021
In %



Inflation (IPCA)
Annual changes



Brazilian Real / Dollar





CHILE

Good news	To be alert	Bad news
Coronavirus restrictions had a lesser-than-expected impact on activity, and consumption managed to grow in 2Q-2021	Labor strikes at copper mines have eased but investors deem it as a potential risk	Chile's borrowing costs are at 7-year highs due to political uncertainty

POLITICS

In November Chile will hold presidential elections after July's primaries, where the main contenders are both in the centre of the ideological spectrum. On the other hand, fears have arisen regarding the ongoing constitutional assembly, which is to draft a new constitution that is expected to significantly differ from the current market-friendly one. In addition, Congress is currently discussing a new early pension funds withdrawal, which could spur consumption in the short run but is seen as a great risk for longer-term financial stability.

ECONOMIC ACTIVITY

Economic activity showed much resilience during the second quarter despite renewed Covid-related restrictions, as both companies and consumers adapted to the lockdown. In fact, private consumption grew 1.8% q/q on a seasonally adjusted basis, aided by the third voluntary pension funds withdrawal in late March. In turn, GDP grew by 1% q/q and is expected to continue to grow in the third quarter as July's monthly activity numbers and consumer confidence showed strong results, while Covid cases have sunk. We revised our 2021 GDP upwards to 9.7% and 2.8% for 2022.

INFLATION

Inflation accelerated during last quarter and in August it reached 4.8% YoY, the highest print in 6 years, fuelled by greater fiscal stimuli and consumer spending. In year-on-year terms, price increases have been fuelled by higher transportation costs, as well as food and home maintenance costs. Chile's target inflation is 3.0% with a 24-month horizon range of 2.0% to 4.0% so monetary tightening is expected in coming months. We have revised upwardly our inflation forecast for 2021 to 4.9% and we envision inflation ending 2022 at 3.6%.

MONETARY SECTOR

As inflation pressures arose in the past recent months, the Central Bank has pivoted and adopted a more hawkish strategy. In this sense, it increased the monetary policy rate in July from 0.5% to 0.75% and then to 1.50% by the end of August. Further tightening is expected in the short run, as inflation pressures loom amid a possible new pension funds withdrawal that could fuel consumption in an already recovering economy. On the FX front, we expect the peso to lose some ground despite interest rate increases, as political uncertainty over the elections clouds the medium-term prospects.

FISCAL ACCOUNTS

A fiscal effort during the second quarter helped to sustain the economy through the lockdown has put further pressure on fiscal accounts. Since the start of the pandemic, the government has spent USD 22 billion in direct transfers and an additional 13 billion are compromised until the end of the year. As the health situation has significantly improved, the government announced it would cut public spending by 22% in 2022 to bring the structural deficit to 3.9% of GDP from 11.5% in 2021. We expect the general government fiscal deficit to end 2021 at 7.6% of GDP.

- WHAT'S COMING NEXT?**
- Chile is currently discussing to allow a new 10% pension funds withdrawal that could impact financial stability in the long run and negatively affect foreign investors' outlook in the short run
 - Presidential elections are two months away, while the constituency assembly has seven more months to finish redaction of the new constitution



APPENDIX

Dashboard

	Sep-21	Aug-21	Jul-21	Jun-21	2020
Exchange rate (CLP/USD, eop.)	808.05	772.63	756.20	731.70	711.25
Interest rate (%)	1.50%	1.50%	0.75%	0.50%	1.75%
Inflation (y/y)	-	4.8%	4.5%	3.8%	3.0%
Economic activity (y/y)	-	-	18.1%	20.6%	-5.8%
Industrial activity (y/y)	-	-	4.8%	6.1%	-0.9%
Mining production (y/y)	-	-	-2.0%	-1.0%	0.5%

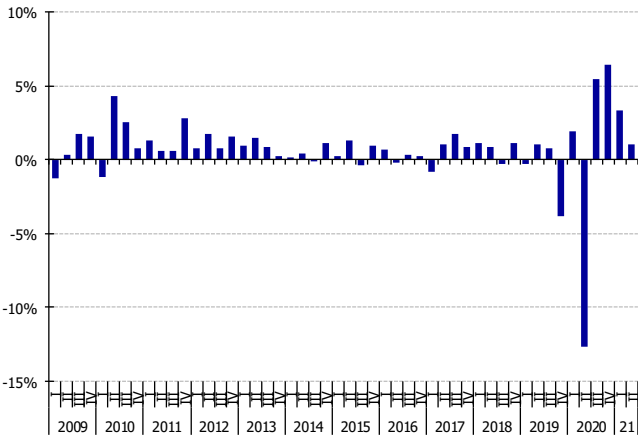
Source: EconViews based on several sources

Macroeconomic Outlook

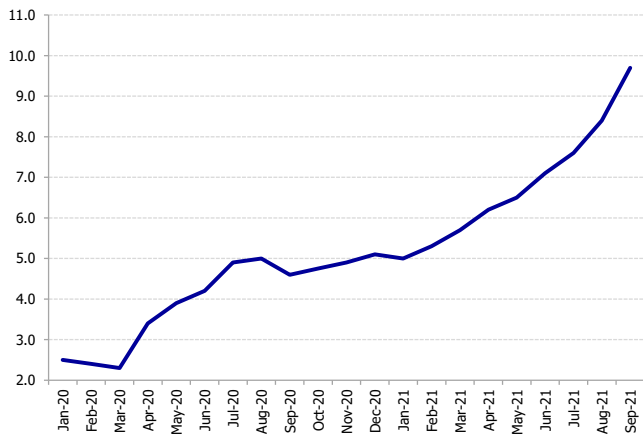
	2018	2019	2020	2021F	2022F
GDP growth (%)	3.7%	0.9%	-5.8%	9.7%	2.8%
Inflation (Dec-Dec)	2.6%	3.0%	3.0%	4.9%	3.6%
Fiscal Balance (% GDP)	-1.5%	-2.7%	-7.1%	-7.6%	-4.4%
Current Account (% GDP)	-3.9%	-3.8%	1.3%	-1.6%	-1.7%
International reserves (USD Bn)	38.7	39.5	37.8	47.5	49.2
Exchange rate (CLP/USD)	694.0	752.0	711.2	749.0	735.0

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

Real GDP
Q/Q variations



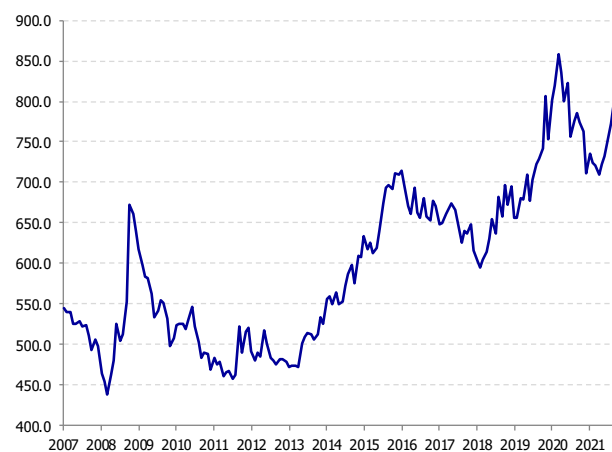
GDP growth - rolling forecasts for 2021
In %



Inflation - General CPI
Annual changes



Chilean Peso / Dollar





COLOMBIA

Good news	To be alert	Bad news
Growth prospects improve after a strong rebound after the third covid-19 wave and the social unrest of the Q2-21.	Covid-19 cases drop to 1-year lows despite that the fully vaccinated people is around the 33% of the population.	2022 Budget proposal brought an authorization to go from the private to the public retirement system with no contemplations of the fiscal impact.

POLITICS

The Government finally accomplished what will be the final major reform of Duque's term. Despite the protests that unleashed a social havoc in the second quarter, the polemic Tax bill -a new version of it- was approved by the Congress on Sept 8. The efforts to, in government words, provide a road map to allay investor fears and recover investment grade credit ratings comes with a high price. Gustavo Petro, the left-wing candidate, is leading in polls ahead of May 2022 elections as he capitalizes voter rage over unemployment and poverty left by last year's Covid-19 crisis. It looks like Colombia will no longer have the record to be the only country in the region that has never had an open leftist government.

ECONOMIC ACTIVITY

Despite significant negative shocks in the second quarter, such as the third wave of the coronavirus and the disruptions to public order, economic growth in the first half of the year was significantly higher than projected (9.1% vs 7.1%), a sign of a more dynamic economy that could recover more quickly than previously forecasted. Considering this, the technical staff of the Central Bank revised its growth projection for 2021 upward from 6.5% to 7.5%. The better-than-expected recovery in international demand, export commodities prices, and remittances from workers abroad determined that the economy could return to 2019 production levels by late 2021, that is earlier than previously estimated.

INFLATION

Annual inflation increased more than expected in August (4.4%), the highest inflation rate since May 2017, moving above the Central Bank's upper bound of the 2.0%–4.0% target range. Meanwhile core inflation rose to 3.9% compared to July's 3.6%. Upward pressures from food prices expected to persist for the remainder of the year, said the CB, contributing to inflation remaining above the target. Overall year-end inflation is expected to be 4.1% in 2021 and 3.1% in 2022, and core inflation is expected to be 2.6% in 2021 and 3.2% in 2022.

MONETARY SECTOR

The Central Bank has kept interest rates at 1.75% but two of the seven board members voted for a quarter-percentage point increase, a sign that it may soon join the regional trend for tighter monetary policy as the growth outlook improves. In the last meeting (late July), CB pointed out that, consistently with the fact that the US inflation and growth figures were above expectations, the beginning of a normalization in monetary policy could come earlier than previously projected. Therefore, the space for continuing the current level of monetary stimulus is narrowing. Would not be a surprise that in the next meeting (September 30) rise the policy rate in 25 basis points.

FISCAL ACCOUNTS

Colombian Congress approved the "Social Investment Law" containing tax measures intended to collect revenues to fund new social programs and public spending to face the economic and social effects of the Covid-19 crisis. Income tax and VAT changes, tackling tax avoidance and implementing various changes to tax procedures, were the core of the reform bill. The law will raise 15.2 trillion pesos annually for 2022, equivalent to about 1.5% of GDP. The positive outlook for the GDP growth could push down the official prediction of the fiscal deficit (8.6% of GDP in 2021 vs 7.8% in 2020). The law also limits Colombia's debt to 71% of GDP with a goal of reducing it to 55% of GDP in the coming years.

WHAT'S COMING NEXT?

- With eight more months to go until the presidential elections, Gustavo Petro, the favorite candidate in the polls, started to show a more moderate figure, looking to move from the far-left position from which started.
- As Colombian protests dissipate, activists hit by wave of arrests, with at least 178 apprehended, according to authorities. The largest wave of protester arrests until now occurred in the days after demonstrations were held on July 20, Colombia's Independence Day



APPENDIX

Dashboard

	Sep-21	Aug-21	Jul-21	Jun-21	2020
Exchange rate (COP/USD, eop.)	3,832	3,767	3,874	3,747	3,430
Interest rate (%)	1.7%	1.7%	1.7%	1.7%	1.7%
Inflation (y/y)	-	4.4%	4.0%	3.6%	1.6%
Economic activity (y/y)	-	-	1.3%	3.9%	-6.8%
Industrial activity (y/y)	-	-	20.1%	20.8%	-7.9%

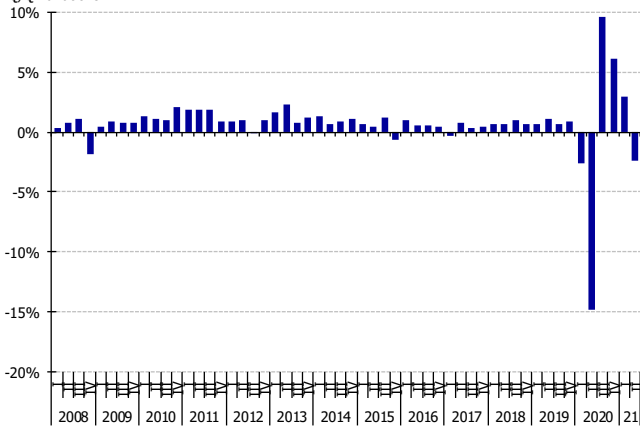
Source: EconViews based on several sources

Macroeconomic Outlook

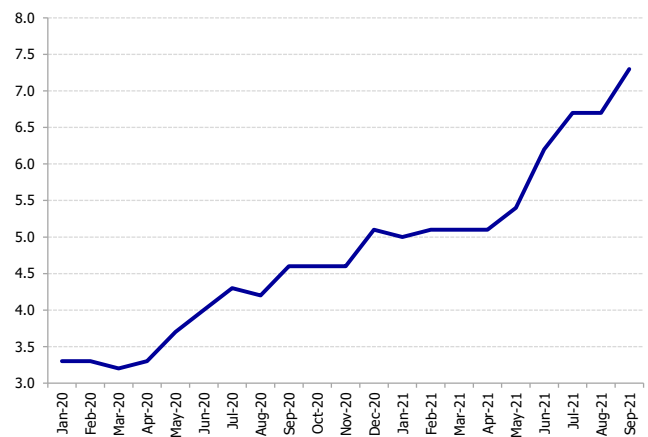
	2018	2019	2020	2021F	2022F
GDP growth (%)	2.6%	3.3%	-6.8%	7.5%	3.7%
Inflation (Dec-Dec)	3.2%	3.8%	1.6%	4.1%	3.1%
Fiscal Balance (% GDP)	-3.1%	-2.5%	-7.8%	-8.6%	-7.8%
Current Account (% GDP)	-4.2%	-4.6%	-3.7%	-4.1%	-3.9%
International reserves (USD Bn)	46.1	50.5	56.6	58.9	60.2
Exchange rate (COP/USD)	3,250	3,287	3,430	3,709	3,642

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

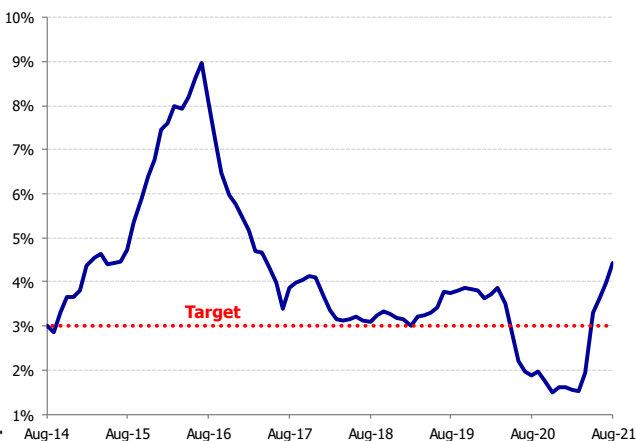
Real GDP
Q/Q variations - DANE



GDP growth - rolling forecasts for 2021
In %



Inflation - General CPI
Annual changes



Colombian Peso / Dollar



Good news	To be alert	Bad news
2022 Budget's tax reform lowers the tax burden to Pemex in order to reinvigorated	Due to the fiscal grip during the pandemic, the number of Mexicans living in extreme poverty rose by 2.1 million to reach 10.8 million	Inflation expectations are rising and the market considers that monetary policy is still loose, in terms of policy rate hike, compared his regional peers

POLITICS

New Finance Minister, Rogelio Ramirez de la O, pledged to maintain the country's austerity, making a better use of the resources, instead of increasing the debt burden. With half of the AMLO administration's mandate already over, the choice apparently is between keeping healthy the fiscal accounts or to push economic recovery further. The 2022 budget presented apparently is balancing those options, with a Tax reform that points to increase revenues, but also with a decision to reduce the burden to Pemex. All in all, the fiscal deficit does not narrow as much next year compared to 2021.

ECONOMIC ACTIVITY

The economy gained steam in Q2 (19.6% y/y), with the services sector (17.7% y/y) aided by surging remittances, healthier consumer confidence and lower Covid-19 cases and although the industrial sector was likely held back by supply issues. In the Q3, the economy lost some steam amid surging Covid-19 cases, with both manufacturing and non-manufacturing PMIs pulled back, while consumer confidence fell. Nevertheless, the economy should continue to recover as external demand—particularly in the U.S.—rebounds and the vaccine rollout continues. After a 6.1% growth projection for 2021, the 2022 Budget growth projection for next year is above 4%, while the market consensus is 3%.

INFLATION

Inflation ticked down to 5.6% y/y in August, following July's 5.8% y/y. August's figure represented the lowest inflation rate since March, but core inflation accelerated for the ninth straight month, from 4.66% y/y to 4.78% in the same comparison. The CB's forecast for headline for the end of the year is 5.7%, while the market consensus is close to 6.0%. The contribution of import prices seems to explain to a greater extent the variation in core inflation and that given Mexico's economic integration with the rest of the world, global inflation could be a limiting factor for the behavior of domestic inflation, especially if its main trade partner is registering high levels of inflation.

MONETARY SECTOR

Banxico decide to hike rates for the second time in the year in August, after the first one last June, that was also the first one since December 2018. The move from 4.25% to 4.50% was expected as inflation continue to stray far from the Central Bank's 3% target. The next scheduled policy meeting is tomorrow, and it is almost certain that the rate will rise again, to 4.75%. The view of the CB is that although adverse effects on supply chains and productive processes of several goods push inflation above the target are transitory effects, due to their variety, magnitude, and the extended horizon over which they have affected it, they may pose risks to the price formation process in the long run.

FISCAL ACCOUNTS

Early in the month, the government presented the 2022 budget, the first prepared by the new Finance Minister, which aims for an overall fiscal shortfall to remain broadly unchanged as a percentage of GDP (3.1%). Moreover, it was also proposed a sharply reduction in the tax burden for Pemex with a slash in the profit-sharing rate from 54% to 40%. Spending for 2022 is set at MXN 7.0 trillion (roughly USD 350 billion), up from the MXN 6.7 trillion expected for 2021. Among key spending areas, health and social security spending will receive a significant boost, while investment spending will rise sharply to make progress on some of the president's key infrastructure projects.

WHAT'S COMING NEXT?

- Half of the population in Mexico is already vaccinate with at least one dose and 35% is fully vaccinated. Authorities hope to this situation push economic recovery further and reinvigorated the income of the poorest.
- Mexico's current level of debt to GDP is manageable and certainly one of the lowest among OECD countries, therefore fiscal pressures are increasing from both mandatory and discretionary expenditures.



APPENDIX

Dashboard

	Sep-21	Aug-21	Jul-21	Jun-21	2020
Exchange rate (MXN/USD, eop.)	20.56	20.06	19.86	19.93	19.91
Interest rate (%)	4.50%	4.50%	4.25%	4.25%	4.25%
Inflation (y/y)	-	5.59%	5.81%	5.88%	3.15%
Economic activity (y/y)	-	-	7.1%	13.3%	-8.5%
Industrial activity (y/y)	-	-	-	-	-10.0%
Automotive production (y/y)	-	-20.6%	-25.4%	6.7%	-20.8%

Source: EconViews based on several sources

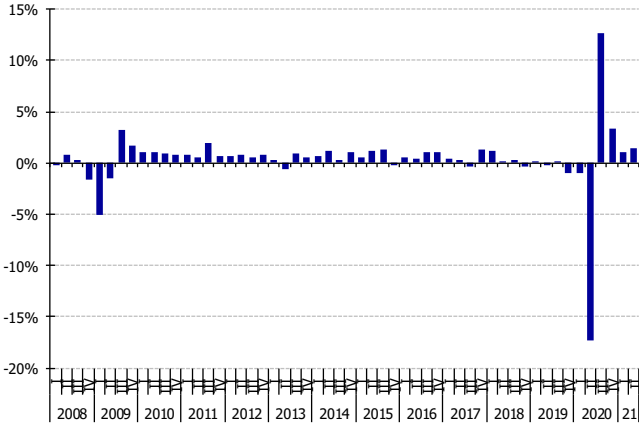
Macroeconomic Outlook

	2018	2019	2020	2021F	2022F
GDP growth (%)	2.2%	-0.2%	-8.3%	6.1%	3.0%
Inflation (Dec-Dec)	4.8%	2.8%	3.2%	6.0%	3.7%
Fiscal Balance (% GDP)	-2.1%	-1.6%	-2.9%	-3.0%	-2.9%
Current Account (% GDP)	-2.1%	-0.3%	2.4%	0.9%	0.3%
International reserves (USD Bn)	165.2	170.5	186.2	199.8	204.6
Exchange rate (MXN/USD)	19.65	18.93	19.89	20.20	20.67

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

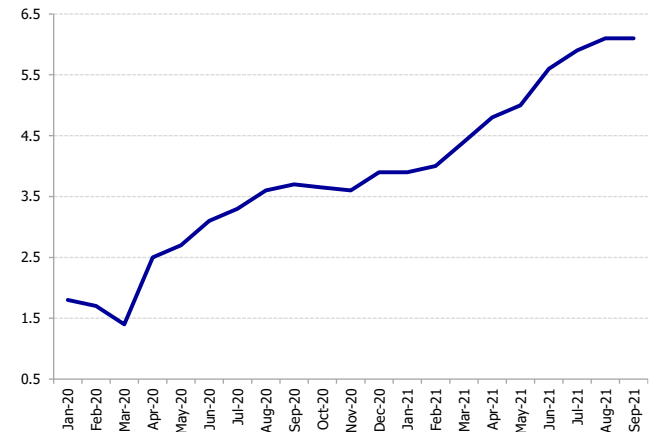
Real GDP

Q/Q variations - INEGI



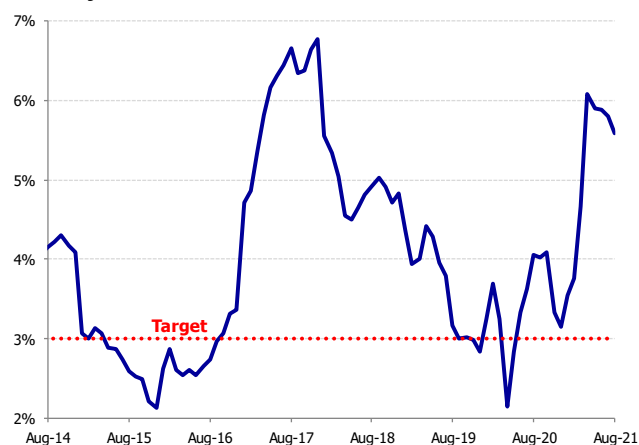
GDP growth - rolling forecasts for 2021

In %

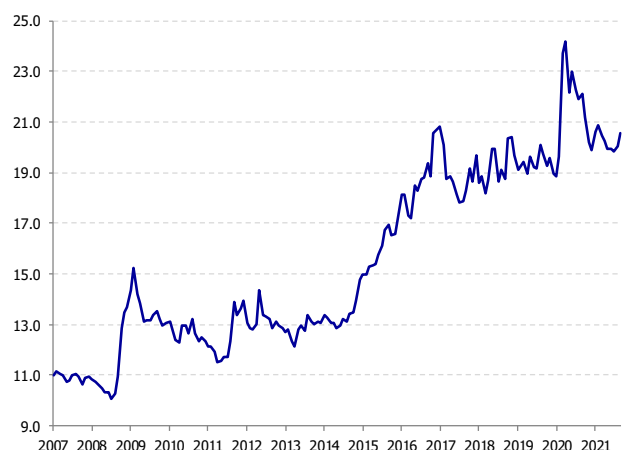


Inflation - General CPI

Annual changes



Mexican Peso / Dollar





PARAGUAY

Good news	To be alert	Bad news
COVID new cases and deaths declined, and normalization of the activity is on.	Fiscal deficit would deteriorate in the remainder of the year.	August inflation was the highest in more than 7 years and will end 2021 above CB's target.

POLITICS

Political activity is focused on the upcoming municipal elections that will be held on October 12, where mayors and councilors are to be elected. On a different note, at the United Nations General Assembly, President Mario Abdo Benitez has expressed his discomfort with the COVAX mechanism to distribute the vaccines. Currently, the country has only 25% of its population fully vaccinated and 36% with at least one dose. Despite the number of inoculations is not high, new daily cases have been decreasing since their peak in June and now stand below 100 per day. In the same way, deaths have also experienced an important reduction.

ECONOMIC ACTIVITY

Gross Domestic Product grew 14.5% y/y in the second quarter and 2.8% compared to the first quarter s.a. It must be considered that the year-on-year figure is affected by the low comparison base. Among the key drivers of this rebound, we can find the Services sector followed by Manufacturing and Construction. On the other hand, the most affected activities were Agriculture and Electricity and Water. According to the IMAEP (proxy of GDP), activity decelerated in July falling 1.9% and growing only 3% y/y. Despite this, we raised our forecast for 2021 to 4.2% and to 3.9% for 2022.

INFLATION

The Consumer Price Index increased 0.9% in August, 0.3 percentage points below July figure, but high above the records of previous months. In year-on-year terms, inflation is growing since March and in August it was 5.6%, the highest number since 2014. In general terms, the re-openness of the economy and a higher demand seems to be the main factors of these increase. Additionally, there were more specific reasons such as higher international prices or increases in costs that pushed up local prices. In this way, we expect an inflation of 4.3% at the end of the year, a little bit above the Central Bank target (4%). For 2022 we consider that it will decline to 3.4%.

MONETARY SECTOR

Considering the surge of inflation, the Central Bank started to normalize its monetary policy, increasing the interest rate 25 basis points in August and other 50 bps in September. The aim of this decision is that, in view of the progress in the vaccination campaign and the consequent economic recovery, expectations do not get out of alignment with the target. In this way, the interest rate now stands at 1.5%, twice as much as two months ago. On the FX front, the Guaraní to USD exchange has stabilized during the last two months and even it showed a slight decrease. It now stands at 6,868 and we expect it to end 2021 at around 6,879. For 2022 we see an exchange rate of 6,898 eop.

FISCAL ACCOUNTS

Accumulated up to August, the fiscal deficit was 1.3% of GDP. This result was explained mainly by three facts. First, a decrease in current expenditure, specifically in social programs associated with the COVID crisis. Second, a higher level of revenues. Here there was a better performance of tax revenues, while those incomes from binational entities were reduced. Finally, there was a lower expenditure on investment. For the rest of the year, we expect a deterioration in fiscal accounts, with a fiscal deficit in December that will reach 4.4% of GDP. Throughout the next years there would be a fiscal convergence.

WHAT'S COMING NEXT?

- This week the Chamber of Deputies will discuss the law to raise the penalties for invasion of private property. This project has already been approved by the Senate, so the next step would be the enactment by the Executive.
- The labor union of teachers has announced protest measures to claim a wage adjustment. The government offer is just half of what teachers want (8% vs 16%).



APPENDIX

Dashboard

	Sep-21	Aug-21	Jul-21	Jun-21	2020
Exchange rate (PYG/USD, eop.)	6,868	6,911	6,911	6,722	6,948
Interest rate (%)	1.50%	1.00%	0.75%	0.75%	0.75%
Inflation (y/y)	-	5.6%	5.2%	4.5%	2.2%
Economic activity (y/y)	-	-	3.0%	7.1%	-0.6%

Source: EconViews based on several sources

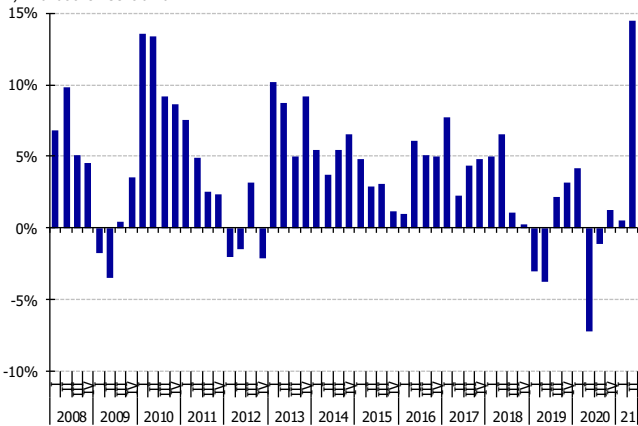
Macroeconomic Outlook

	2018	2019	2020	2021F	2022F
GDP growth (%)	3.2%	-0.4%	-1.0%	4.2%	3.9%
Inflation (Dec-Dec)	3.2%	2.8%	2.2%	4.3%	3.4%
Fiscal Balance (NFPS - % GDP)	-1.3%	-2.8%	-6.2%	-4.4%	-3.2%
Current Account (% GDP)	-0.2%	-0.6%	2.5%	2.3%	1.4%
International reserves (USD Bn)	8.0	7.7	9.5	9.8	10.4
Exchange rate (PYG/USD)	5,961	6,453	6,907	6,879	6,898

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

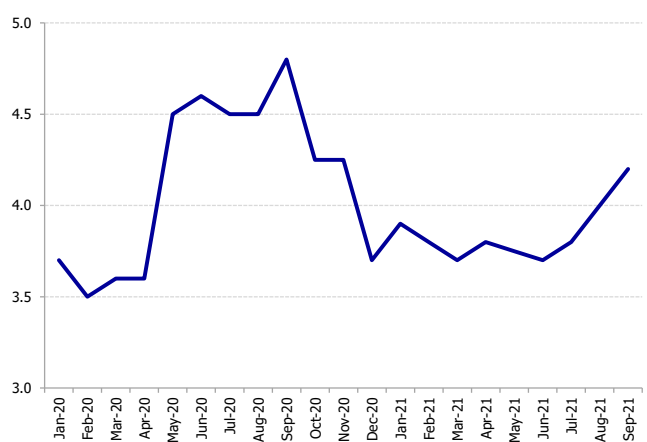
Real GDP

Y/Y variations - Central Bank



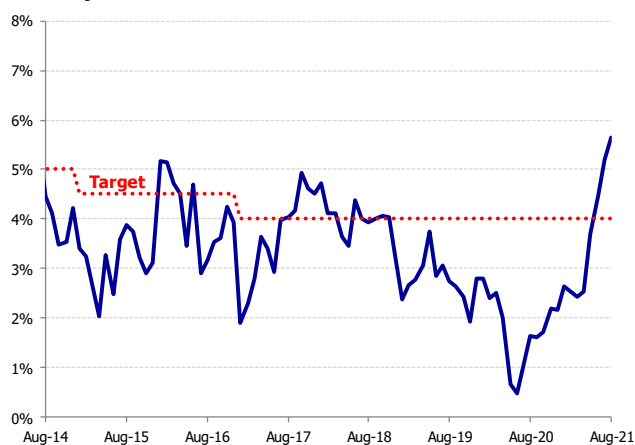
GDP growth - rolling forecasts for 2021

In %



Inflation - General CPI

Annual changes



Paraguayan Guarani / Dollar



Good news	To be alert	Bad news
Nearly half the population has received at least one shot and Covid cases are below 1,000 per day for the first time since April 2020.	Authorities are seeking an USD 3 billion loan from multilaterals to finance infrastructure and health projects.	The BCRP had to sell USD 1.3 billion in reserves in September alone, amidst continuing FX instability.

POLITICS

Pedro Castillo took office on July 28th, after winning the run-off against Keiko Fujimori by a slight margin. His first two months in office have been dominated by cabinet infighting, with the Minister of Foreign Affairs resigning after only three weeks at the post. Recently, Chief of Staff Bellido supported nationalizing Camisea Gas, and Castillo had to tone down and assure contracts would be respected. Bellido and other hard-liners from Perú Libre contrast with moderates like Pedro Francke, the Minister of Economy. Francke has proposed a tax reform for the mining sector with the World Bank's backing. Behind the noise, the vaccination campaign is picking up speed: 47% have received at least one shot.

ECONOMIC ACTIVITY

The economy reached pre-Covid levels in July, up 0.4% against the same period of 2019. In y/y terms activity grew 12.9% due to base effects. Compared against August 2019, retail (20.2%) had the strongest comeback, followed by fishing (5.9%). Agriculture (0.2%) never fell as much during the pandemic but has had a weak 2021 so far. On the other extreme, manufacturing (-7.2%) and mining (-25.8%) are well below 2019's levels. The latter drop is more surprising given the strength of export metals such as copper, up 40% over the last year. The economy added 267 thousand jobs over the last year, but is still another 100 thousand short of 2019 figures. We expect GDP to grow 9.8% in 2021 and 3.8% the following year.

INFLATION

Inflation surged to its highest mark since 2009, at nearly 5% y/y in August. The Lima Metropolitan Area CPI rose 1% between August and July and monthly inflation has averaged 0.52% in 2021, well above the 0.1-0.2% averages from pre-pandemic years. Half of the rise responds to food prices (1.4% m/m), especially in fish and poultry due to FX depreciation. Housing costs contributed 0.25 points to monthly inflation, mainly due to a 6.4% m/m hike in gas prices and a 3.2% adjustment in electricity bills. The core index grew by 0.35% m/m and is up 2.4% in y/y terms. Prices have risen by 4.2% in the first 8 months of 2021, and we expect inflation to close December at 4.2% y/y, moderating to 2.9% next year.

MONETARY SECTOR

The Peruvian Sol depreciated 12% so far this year. In the last weeks it has stabilized around 4.13 per dollar, but at a high cost: the BCRP has sold USD 1.3 billion in international reserves only in September. Net reserves remain high, around USD 75 billion. We expect the FX rate to appreciate back to 4.01 PEN/USD by December. The news that Julio Velarde, chairman since 2006, will stay at the head of the Central Bank may help bring some calm. Credit to the private sector kept decelerating, to 2.5% y/y in August, as last year's large expansion is left behind. Although authorities believe the spike in inflation will be transitory, the policy rate was lifted to 0.5% in August and then to 1% in September.

FISCAL ACCOUNTS

As pandemic expenditures are rolled back, the fiscal front improves quickly. Peru actually reported a primary surplus of 1.7% of GDP in Q2-2021, leaving a positive fiscal result of 0.1% after interests. In the rolling 12-month average, the fiscal deficit stands at 6.4% of GDP, after closing 2020 at 8.9%. Commodity prices helped boost export royalties by 213% y/y, while the reopening impacts positively on VAT (77.5%). FX depreciation also increased the weight of import taxes (79.1%). Government investment is up 309% y/y, partly due to base effects but also to reactivation programs. We forecast a 5% fiscal deficit for 2021, which should further adjust to 4.1% of GDP in 2022.

- WHAT'S COMING NEXT?**
- Minister Francke is aiming to raise revenues by expanding the tax base, especially for small and medium businesses, and raising levies on mining companies. The IMF and World Bank are providing support for this second initiative.
 - In October, the Government will begin work on the "second land reform". Authorities have given little detail, other than announcing a focus on industrialization and family farms.



APPENDIX

Dashboard

	Sep-21	Aug-21	Jul-21	Jun-21	2020
Exchange rate (PEN/USD, eop.)	4.13	4.08	4.06	3.84	3.62
Interest rate (%)	1.00%	0.50%	0.25%	0.25%	0.25%
Inflation (y/y)	-	5.0%	3.8%	3.3%	2.0%
Economic activity (y/y)	-	-	12.9%	23.4%	-11.1%
Manufacturing activity (y/y)	-	-	6.7%	19.1%	-13.4%
Mining production (y/y)	-	-	-0.9%	7.8%	-13.2%

Source: EconViews based on several sources

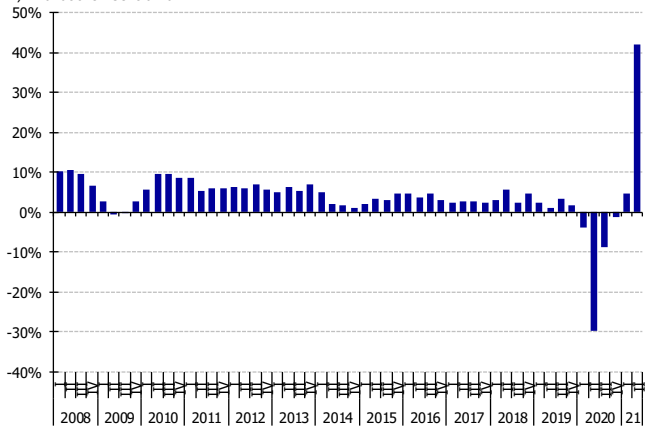
Macroeconomic Outlook

	2018	2019	2020	2021F	2022F
GDP growth (%)	4.0%	2.2%	-11.0%	9.8%	3.8%
Inflation (Dec-Dec)	2.2%	1.9%	2.0%	4.2%	2.9%
Fiscal Balance (% GDP)	-2.3%	-1.6%	-8.9%	-5.0%	-4.1%
Current Account (% GDP)	-1.7%	-0.9%	0.8%	-0.4%	-0.5%
International reserves (USD Bn)	60.3	68.4	74.9	74.8	72.9
Exchange rate (PEN/USD)	3.37	3.31	3.62	4.01	3.97

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

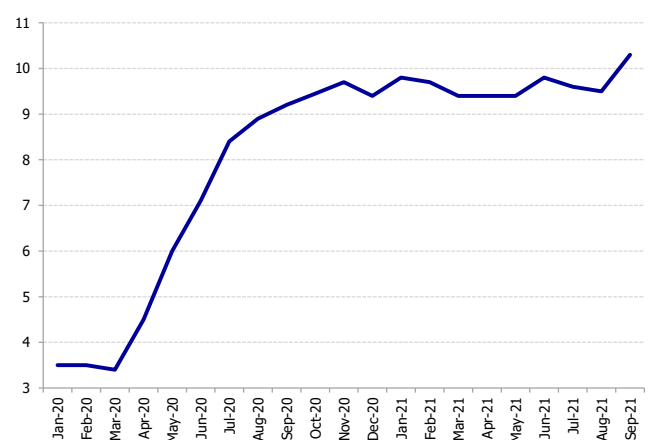
Real GDP

YY variations - Central Bank



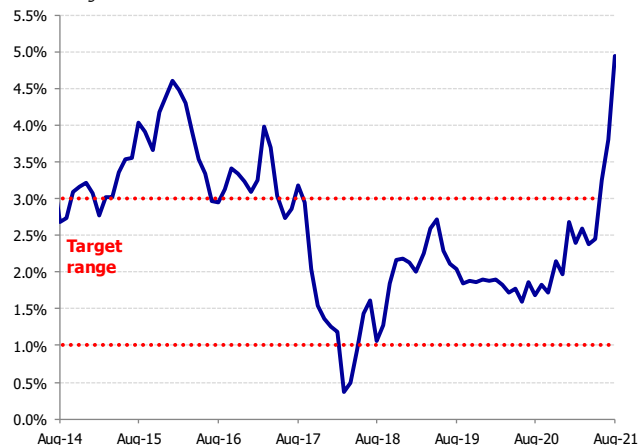
GDP growth - rolling forecasts for 2021

In %



Inflation - General CPI

Annual changes



Peruvian Sol / Dollar





URUGUAY

Good news	To be alert	Bad news
Covid cases plummeted and the country's vaccination rate is among the world's highest	Montevideo's port 50-year concession has led the opposition to call for investigations	Argentina's FX turmoil could negatively affect the recovery of the tourism sector

POLITICS

Uruguay has announced it started negotiations with China with the purpose of creating a bilateral Free Trade Agreement and is currently on a pre-feasibility stage that should finish before the year's end. As expected, the announcement was met with criticism from Argentine authorities who pointed out that bilateral trade agreements outside of Mercosur are in breach of Mercosur's rules and would be closely looking at future developments. Unlike Argentine authorities, Brazil has defended Uruguay's strategy as it considers Mercosur needs to adopt greater negotiating flexibility.

ECONOMIC ACTIVITY

After falling in the first quarter amidst an upshot in Covid cases, economic activity grew 0.9% in the second quarter as the health crisis greatly improved. On a sectoral level, services displayed the best performance in YoY terms, particularly "commerce, accommodation and supply of food and beverages" (23.1%) which ended 1.1 % above the same period in 2019. In addition, construction grew 14.2% and ended 14.2% above 2T-2019, thus making it the sector with the best performance compared to pre-pandemic times. The outlook for the third quarter remains positive as exports and investment continue to rise. We expect GDP to grow 3.4% this year and 3.4% in 2022.

INFLATION

As economic activity recovered, inflation accelerated in past months and reached 7.59% YoY last August, the highest print since last March and above the upper bound of the Central Bank's target. In August, monthly inflation was 0.85% (the highest since January) and it was led by increases in food and non-alcoholic beverages. In view of the recovery, Central Bank adopted a more hawkish stance and after months of dovish monetary policy, setting a new target range for inflation over the next 24 months of between 3% to 6%, from the prior 3 to 7%. We expect the year to close at 7.3% and 6.6% in 2022.

MONETARY SECTOR

In its last meeting in August, the Central Bank decided to raise the target interest rate from 4.5% to 5%, signaling a shift in its previous accommodative stance to support the recovery. As economic activity both domestically and abroad improve, the CB now sees a gradual raising of the target interest rate to drive inflation expectations towards the newly set inflation target of 3 to 6%. On the FX front, the UYU is currently trading at 42,7 per USD, which is 2.8% below the second quarter's average and driven by the rise in interest rates. But as inflation remains above the CB's target, in coming months the UYU should lose some ground, but this could be partially upset by further rate hikes -a likely scenario.

FISCAL ACCOUNTS

Fiscal accounts eroded slightly in the last few months, but the outlook remains positive. The 12-month accumulated fiscal deficit of the non-monetary public sector reached 5.2% of GDP, up from 5.1% in June (excluding Covid fund's revenues). Despite this, in August Moody's highlighted Uruguay's prudent fiscal management during the pandemic that limited the rise in the debt burden as well as the pro-market ongoing reforms, confirming its Baa2 rating. From September 1st Uruguay has tied fuel prices to the evolution of oil's international price to eliminate its fiscal discretion. We expect 2021 to close with a fiscal deficit of 4.7% of GDP and 3.8% in 2021.

WHAT'S COMING NEXT?

- Besides ongoing talks with China, the Uruguayan government has also admitted it has started talks with other countries about possible future agreements, but without specifying which countries
- Uruguay has announced it would open borders on November 1st to stimulate tourism ahead of summer holidays, but higher local prices and a more expensive exchange rate could mean fewer Argentine tourists in the Uruguayan coasts



APPENDIX

Dashboard

	Sep-21	Aug-21	Jul-21	Jun-21	2020
Exchange rate (UYU/USD, eop.)	42.82	42.43	43.65	43.47	42.37
Interest rate (%)	-	3.73%	3.45%	3.78%	4.22%
Inflation (y/y)	-	7.6%	7.3%	7.3%	9.4%
Manufacturing activity (y/y)	-	-	18.7%	19.8%	-5.0%

Source: EconViews based on several sources

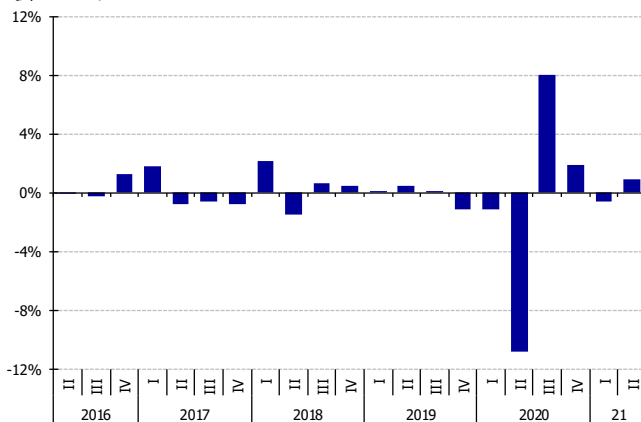
Macroeconomic Outlook

	2018	2019	2020	2021F	2022F
GDP growth (%)	1.6%	0.2%	-5.9%	3.4%	3.4%
Inflation (Dec-Dec)	8.0%	8.8%	9.4%	7.3%	6.6%
Fiscal Balance (% GDP)	-2.9%	-3.2%	-5.3%	-4.7%	-3.8%
Current Account (% GDP)	-0.5%	1.4%	-0.7%	-0.7%	-0.3%
International reserves (USD Bn)	15.6	14.5	16.2	16.7	16.8
Exchange rate (UYU/USD)	32.45	37.34	42.37	44.00	45.90

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

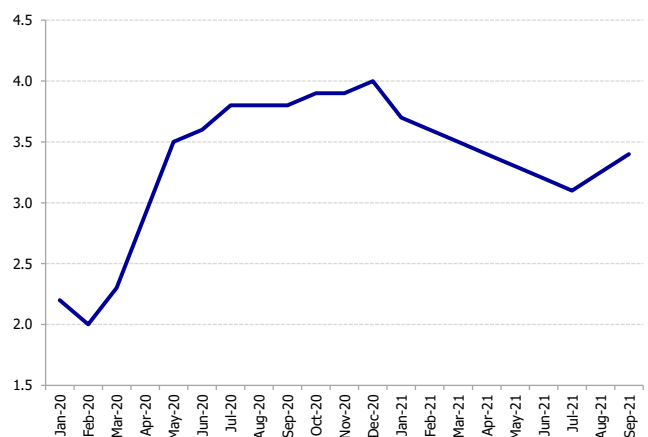
Real GDP

Q/q variations, s.a. - BCU



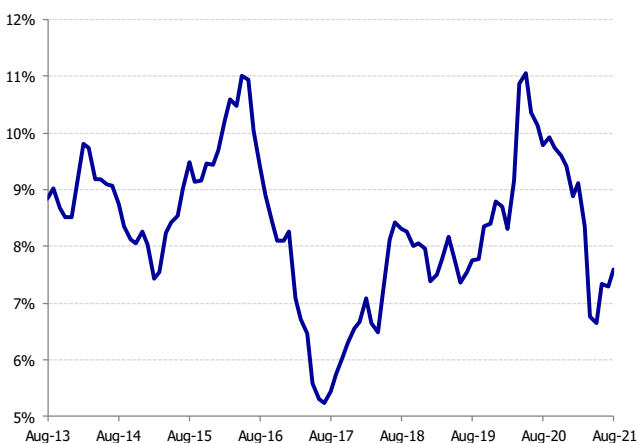
GDP growth - rolling forecasts for 2021

In %

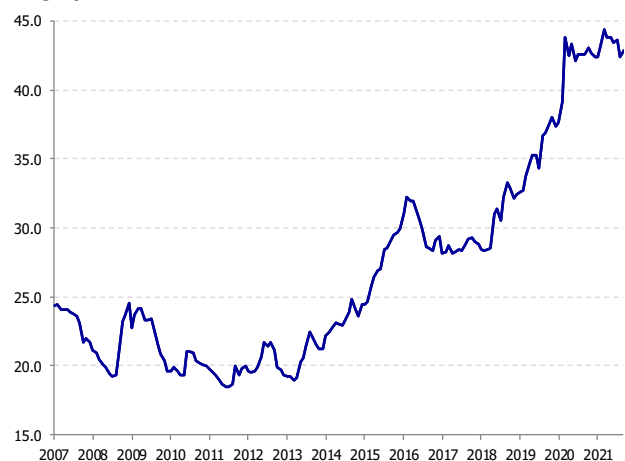










Inflation - General CPI

Annual changes



Uruguayan Peso / Dollar



	GDP		Inflation	
	2021	2022	2021	2022
	8.0%	2.5%	51.0%	54.0%
	5.0%	1.9%	7.9%	4.4%
	9.7%	2.8%	4.9%	3.6%
	7.5%	3.7%	4.1%	3.1%
	6.1%	3.0%	6.0%	3.7%
	4.2%	3.9%	4.3%	3.4%
	9.8%	3.8%	4.2%	2.9%
	3.4%	3.4%	7.3%	6.6%

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