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Latin American situation report

July 2022

Partners

Argentina

ECOLATINA
CONSULTORA EN ECONOMIA Y EMPRESAS

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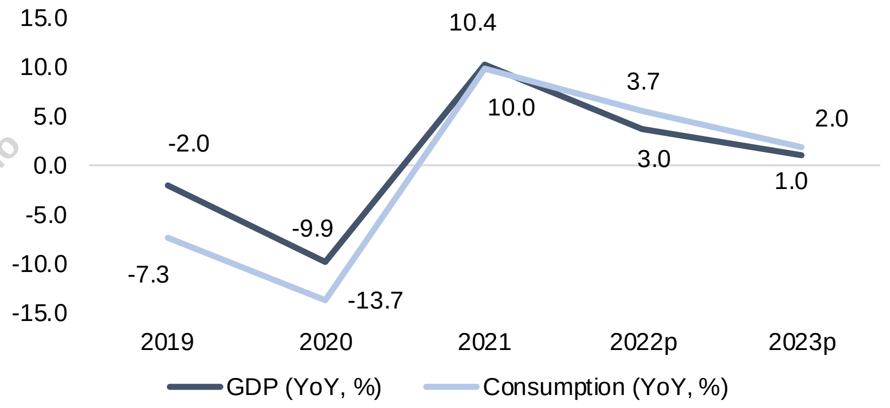
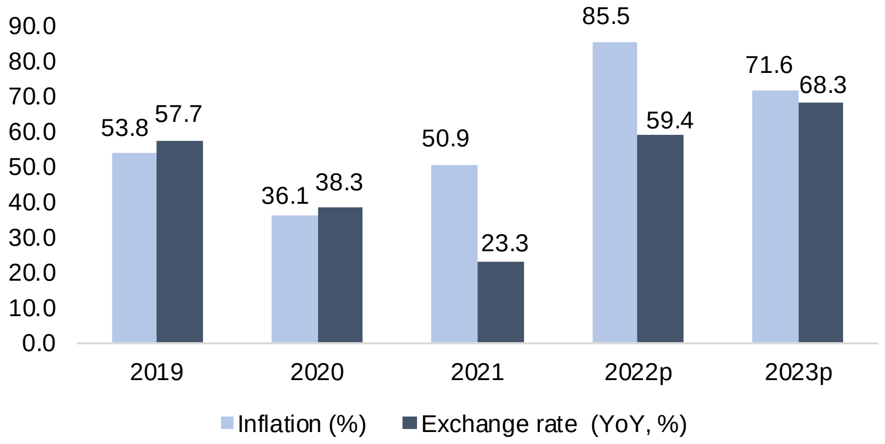
Economy: uncertainty sharpened. The resignation of Minister Martín Guzmán occurred in the midst of a weakening of the central pillars on which the economic program rested (positive net financing in pesos and accumulation of reserves), casting doubt on the sustainability of the crawling peg. The process of resignation and appointment of new authorities added further pressure, translating into a sharp increase in the exchange rate gap and an acceleration of inflation at the beginning of the month, which reversed the slow moderation observed before. These events hit the nominal scenario again and increased the risks of an exchange rate correction. Despite the change of minister, the central strategy of the government continues to be to avoid a discreet devaluation jump in what is left of the mandate in the framework of an agreement with the IMF. The latter not only constitutes the main anchor in terms of expectations regarding a turn towards deepening imbalances, but also the absence of sources of financing and the worsening of pressures on the exchange front that an abandonment of the program would imply limit the deviations in the short term and for 2023.

Politics: after the strain generated by the resignation of Martin Guzman and the appointment of Silvina Batakis, we observe that presidential leadership has further weakened, and that the backfill has not dispelled the doubts regarding the health of the government coalition and about there being a full commitment of all the members regarding the roadmap contained in the program agreed upon with the IMF, regardless of the limitations imposed by reality for an actual deviation. It remains to be seen if the higher difficulty arising from the recent uncertainty serves to reinforce the coalition's common will and if the political will to sustain the economic course can be marshalled. Or if, on the contrary, the internal strains smother those with the capacity to lead amid the crisis and if that ends up fully eroding the little confidence left among economic agents that this coalition may be able to take the Argentine economy out of its current situation. The margins for action have narrowed and the political risks have increased.





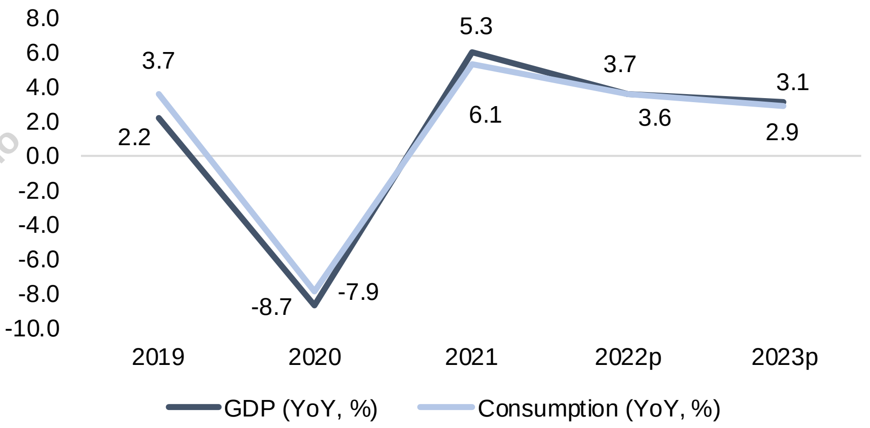
ARS/USD

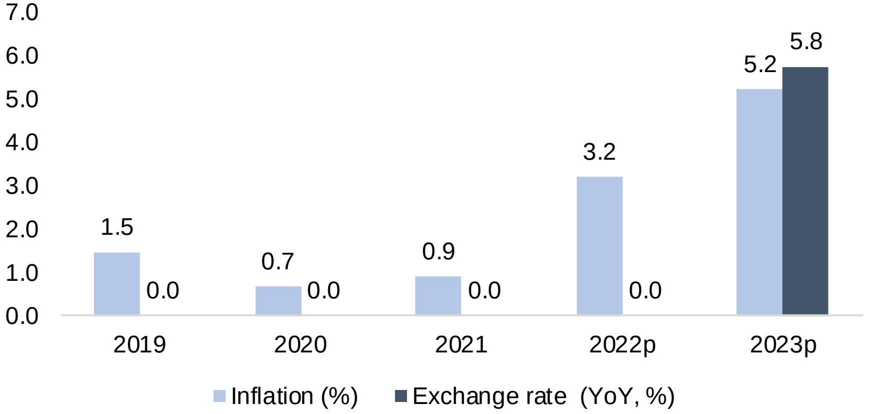
2019	2020	2021	2022p	2023p
59.7	82.6	101.9	162.5	273.3

Bolivia

Economy: until the closing of this edition, the INE did not publish the national accounts figures for the first quarter and the monthly advance of activity to May. Indicators were only released for certain sectors such as mining (3.5% rise compared to 2020, but 7.6% below 2019), hydrocarbons (9.3% drop and 2% below 2019) and power generation (10.2% increase and 6.1% above 2019). These figures suggest that growth would be slightly above 2% in the first quarter. This modest figure contrasts with the labor information, since unemployment fell from 7.8% to 4.2% between May 2021 and 2022, due to 358 thousand more jobs or 9% growth. But, the data from the annual household survey reveals that family income is still below the pandemic. Indeed, in 2019, on average, each household received USD618 per month, which fell to USD580 in 2020; but in 2021 it recovered to USD596. So, the drop in income would explain the greater participation in subsistence jobs.

Politics: after tensions within the ruling party (MAS), its main leaders (former president Evo Morales, president Luis Arce and vice president David Choquehuanca) showed signs of unity to avoid political erosion. In this environment, the government decided to postpone the population census for two years until 2024, which would favor it in political terms due to the parliamentary representation that it implies for the 2025 elections and because the resources would continue to be concentrated in the West of the country, which is the bastion of the ruling party. Similarly, a new phase has begun in the trial of political leaders who supported the departure of Morales in 2019, which has been reflected in the statements made before the prosecution by the main opposition politicians. Finally, the political environment has become more tenuous due to accusations of greater involvement of drug trafficking at various levels of the State, added to more acts of violence related to this activity.





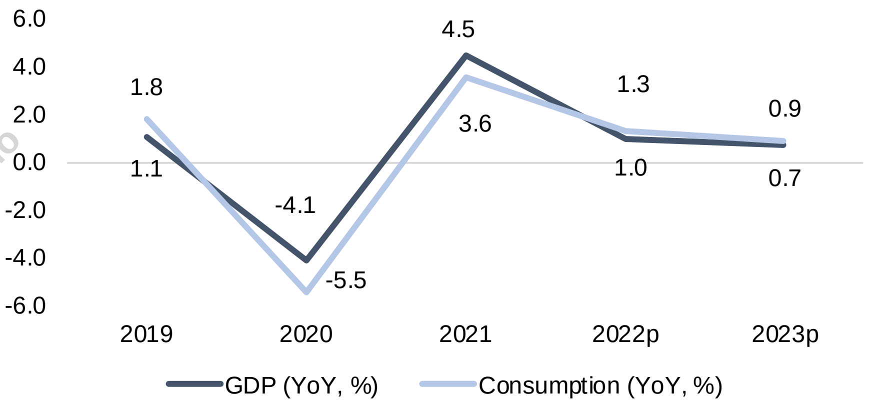
BOB/USD

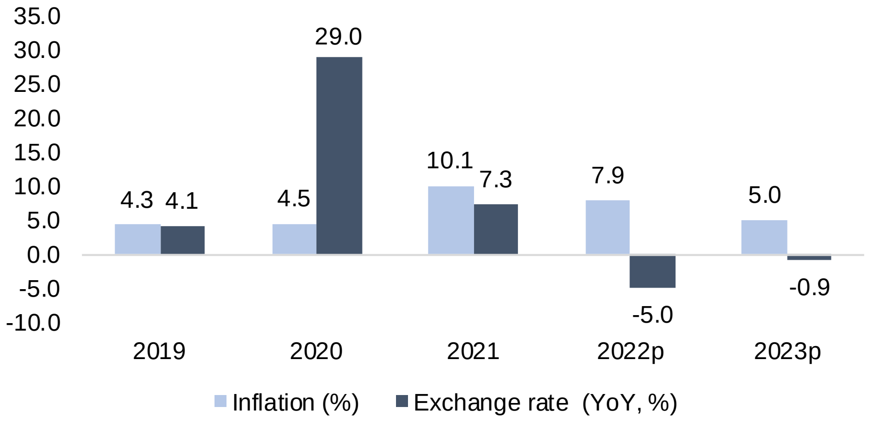
2019	2020	2021	2022p	2023p
6.96	6.96	6.96	6.96	7.36

Brazil

Economy: the performance of the Brazilian economy has been affected by two types of factors: 1) domestic political risks and 2) international scenario of increasing inflationary pressure and risk of economic stagnation. The current conjuncture expresses the negative weight of these factors on the macroeconomic balance, contributing to the explanation of the trend towards a reduction in the pace of activity during the second half of the year. These limitations to growth were not enough to contain the resilience of the Brazilian economy. Several activity indicators showed positive movement, especially the labor market, which brought positive surprises throughout the year. The combination of the fiscal risk arising from the voluntarism of the government in the reelection campaign and the international scene marked by the stronger cycle of monetary tightening imposes important restrictions on the performance of the economy in the second half of the year. Basically, the scenario is of higher interest rates than expected to face inflation in the main countries of the world.

Politics: the most recent political movements corroborate the view of Tendências for the economic agenda, whether throughout the year, but especially in view of a negative legacy for the activity for the next term. It is not by chance that Brazilian assets have suffered strong depreciation in recent weeks, also a result of the fall in expectations regarding the magnitude of the risk, especially in the fiscal dimension. The construction of reelection should leave a negative legacy for macroeconomic stability, producing a perverse balance for growth. The government changed the strategy for building the reelection of President Bolsonaro. Legislative activism, in general terms, was directed towards the revenue side through tax subsidies. The logic was to channel the positive collection to generate tax reductions in several chains. Uncertainties about the concrete effect of this strategy increased the voluntarism of the political elite. At the electoral level, the most recent polls reinforce the scenario of greater dispute between Lula and Bolsonaro. The improvement in the government's assessment anticipates a likely second round in 2022, fueling the perception of risk.





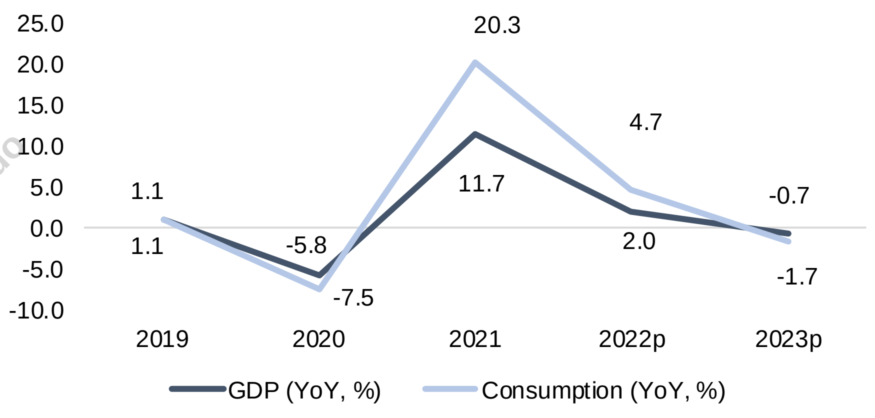
BRL/USD

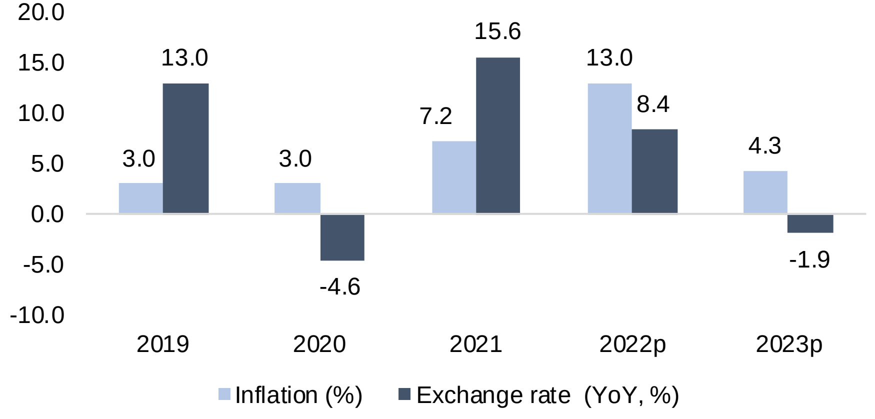
2019	2020	2021	2022p	2023p
4.03	5.20	5.58	5.30	5.25

Chile

Economy: the slowdown in GDP growth has been kept under control, which could prevent the existence of a technical recession (two consecutive quarters of decline) from being confirmed with the information for the second quarter. All in all, a pronounced slowdown is still anticipated in the second half of the year, as well as an acceleration in inflation, which could exceed 14% in August before stabilizing and beginning to decline not before the second quarter of 2023. Although employment continues to recover dynamically, real wages continue to fall and will have their worst performance since 1985. The depreciation of the currency, on the other hand, which has lost all support due to the fall in the price of copper, tends to aggravate the problem. Despite the recessionary scenario that is approaching, monetary policy has continued its contractionary path, reaching 9.75% for the first time since 2001.

Politics: the popularity of the government has maintained a sustained downward trend after the temporary rebound after the Public Account of June 1. This is explained by the deterioration in the economic situation, especially the growing inflation and the vicious circle that has been established between support for the government and that for the proposal for a new constitution delivered on July 4. The polls anticipate a victory for the rejection of the plebiscite on September 4, which, on the one hand, will complicate the government that supports the constitutional proposal, although not very openly, and, on the other, will maintain institutional uncertainty, regardless of the result. The government's tax increase proposal, which aims to raise 4.1% of GDP in four years, is seen as impractical due to its radical nature and the lack of support in Congress to approve it. It is assumed that there will be important changes in the parliamentary discussion and that it will be difficult to collect what is expected, especially due to the depressed state of the economy and the relevance of the proposal to reduce evasion, something that is perceived as very difficult.





CPL/USD

2019	2020	2021	2022p	2023p
770	735	849	920	820

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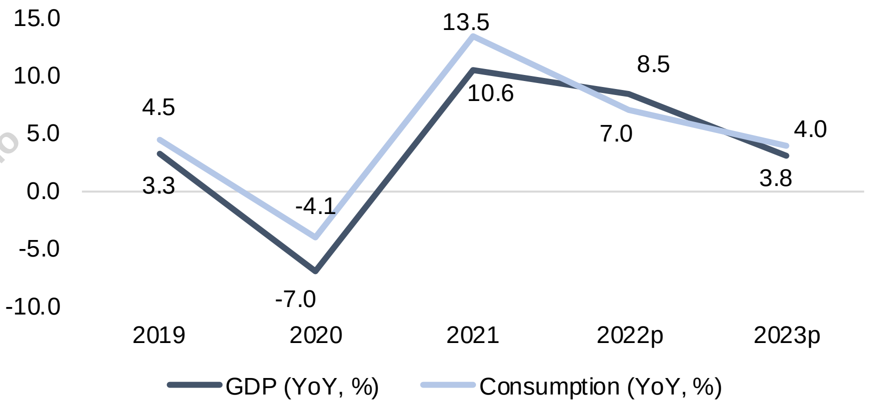
Colombia

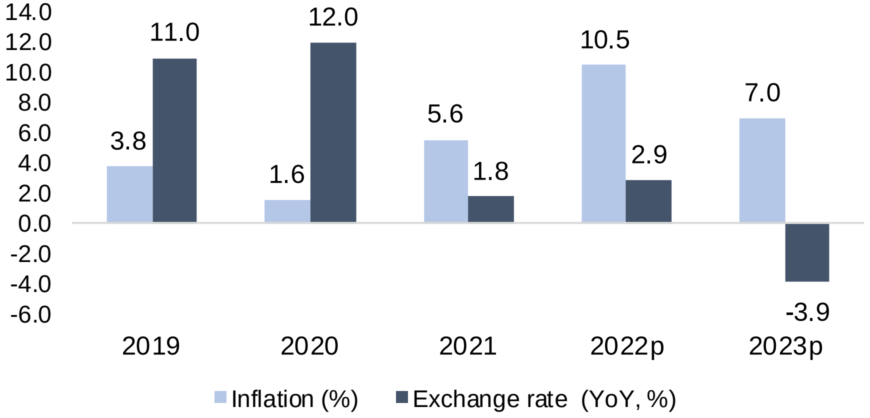
Economy: the last few weeks have been characterized by high uncertainty. On the one hand, countries such as the United States and Japan are showing signs of recession. On the other hand, inflation in these countries has increased significantly, making the role of monetary policy more difficult. In this scenario, Colombia has suffered a high devaluation of its currency. The higher global risk generates a greater flow of capital towards safer assets than the Colombian currency, such as the dollar and gold.

Additionally, the election of President Gustavo Petro (left-wing candidate) has increased Colombia's risk premia and TES yields and and has generated downward pressures in Ecopetrol shares. Despite this, the real economy shows positive signs, employment finally recovered pre-pandemic levels, the consumer confidence index entered growth territory, and the May ESI grew 16.5% compared to the same month of 2021. Therefore, we maintain our year-end forecasts, albeit with a downward bias in growth and an upward bias in inflation.

Politics: the election of Gustavo Petro generated significant economic uncertainty. Given this, the markets were attentive to the appointment of the Minister of Finance, a portfolio that was left in charge of José Antonio Ocampo. Ocampo is one of the most reputable economists in the country; in 1997, he had already held the position, and during 2017-2018, he was a member of the board of directors of the Banco de la Republica; he has worked in international organizations such as ECLAC and has been a professor at Columbia University. The above is very relevant for the markets as he is an official with extensive experience that generates tranquility when expecting prudence in his macroeconomic decisions.

On the other hand, the incoming government has the support of political parties such as the liberal and conservative parties. Thus, the president-elect has majorities in the Congress of the Republic. This is to be expected since the Colombian Congress has historically been pro-government, independent of the president's ideology. However, this may change if the president-elect takes radical measures.





COP/USD

2019	2020	2021	2022p	2023p
3,280	3,674	3,740	3,850	3,700

Costa Rica

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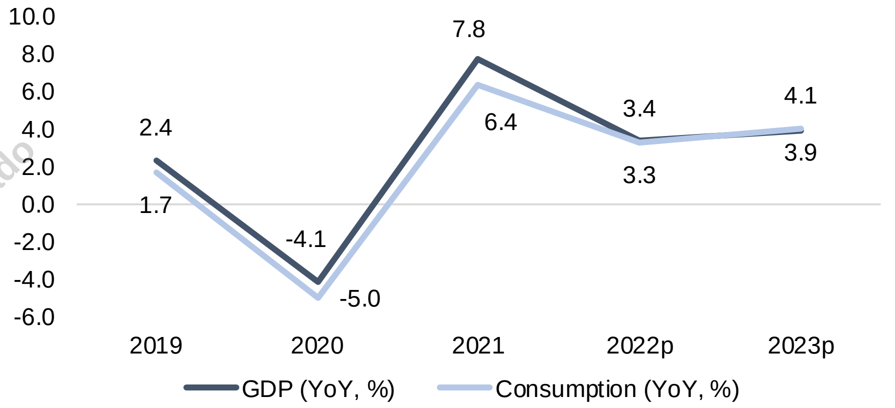
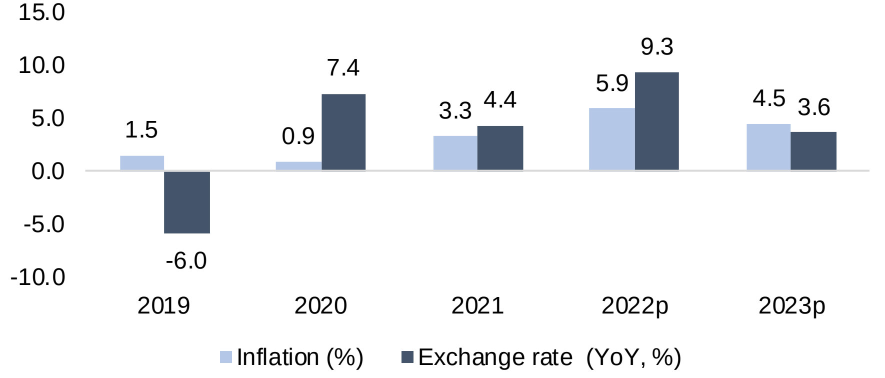
Economics: according to data published on June 30 by the Central Bank of Costa Rica (BCCR), Costa Rican household consumption registered an increase of 4.3% during the first quarter of 2022, 5.0 percentage points (p.p.) lower than in the previous quarter. In addition, total production increased by 8.2% in the same period, showing a deceleration with respect to previous quarters. Costa Rica's inflation, measured by the consumer price index (CPI), maintains a growing behavior and for June 2022 the highest variation since April 2009 was reported, which reached 10.06% in the last 12 months, the accumulated variation of this indicator, in 2022, reached 7.35%, and only in June, the indicator grew 1.78% with respect to the previous May.

Since the beginning of January 2020, there has been an upward trend in the exchange rate, which has intensified in recent weeks. By mid-June the price of the dollar exceeded 700 colones at over-the-counter of financial intermediaries, although in the market the price increase was reduced, this increase responds to a high demand and low supply of the currency during the first 3 weeks of the month. Between June 20 and 24, a decrease in the price of the dollar was reported in banks and in the Foreign Currency Market (Monex), after the BCCR increased the supply of dollars.

Politics: despite the fact that public debt exceeds 60% of the Gross Domestic Product (GDP), on June 22, President Rodrigo Chaves signed a reform to the decree regulating the fiscal rule, an instrument that limits the growth of public expenditure. Chaves announced that this fiscal tool will be calculated on the amounts budgeted by the institutions and not on the amounts executed, making the use of public resources more flexible. This change was made after the need to increase the budget of the Ministry of Foreign Affairs and the National Child Welfare Agency (PANI).

After a process of increase in fuel prices, the heads of the fraction of the Legislative Assembly and the Government seek to suspend for six months the update of the Single Fuel Tax, which would imply that the increases in prices will depend solely and exclusively on the international behavior and not on the application of a national law, with which it is expected that by July there will be a reduction in these price levels.





2019	2020	2021	2022p	2023p
573.2	615.4	642.3	702.2	727.7

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Ecuador

CORDES

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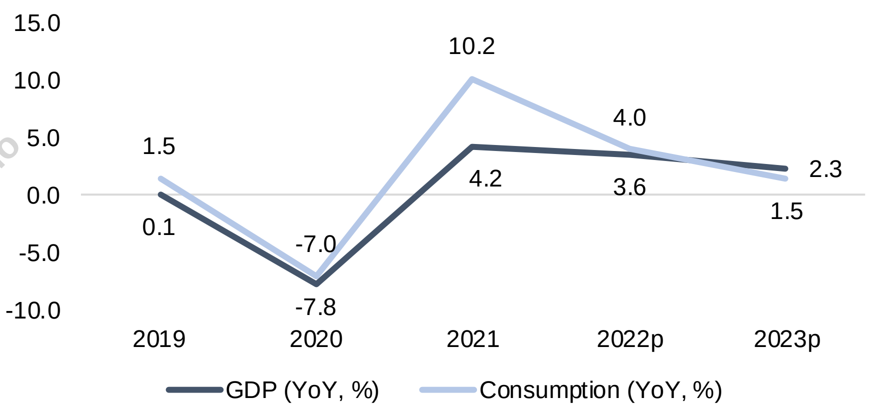
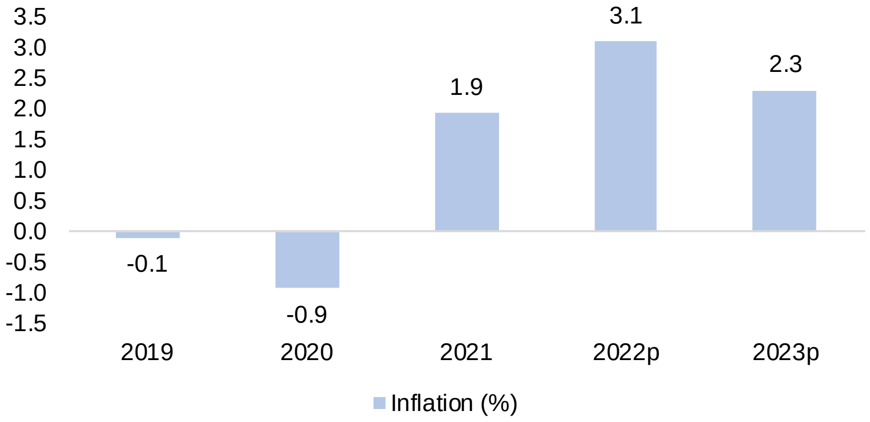
Economy: the recent national strike led by the Indigenous Movement, which began on June 13th, ended 18 days later, and left economic losses that the Central Bank estimates at $1,000 million (1% of Ecuador's GDP). These losses are mainly focused on the private sector and, within it, on tourism, commerce, and agricultural and livestock activities, either due to exports that were not carried out or due to production that was wasted because it could not reach the markets. In the public sector there were also losses, estimated at $225 million, due to the stoppage of some oil wells. The strike left other consequences for the Ecuadorian economy. On the one hand, the country risk climbed and reached more than 1,100 points during the days of protest and it continued to rise in the following days as a consequence not only of the political uncertainty derived from the attempt to remove President Guillermo Lasso, but also of the fiscal consequences in the long-term: to end the protests, the government agreed to cut the price of diesel and regular gasoline by 15 cents per gallon. The increase in the subsidy of both products will generate an increase in spending of around $350 million annually. The shortage caused by the strike also partly explains the increase in the inflation rate, which in June stood at 4.2% per year and responds to a certain extent to the rise in food prices that are produced locally, but whose distribution was affected. Annual food inflation climbed to 7.7%, almost doubling the cipher of the previous month.

Politics: during the strike, the National Assembly debated the impeachment of President Lasso. The motion received 80 votes of support, that is, 12 fewer than needed. The argument was that the country was experiencing a serious internal commotion. Although he passed the impeachment process, the president suffered an image deterioration because part of the population considers that the protesters, some of them violent, managed to subdue the State. Shortly after the end of the stoppage there were some cabinet changes. The most relevant was the departure of Simón Cueva from the Ministry of Economy and Finance and his replacement by Pablo Arosemena, a former business leader close to Lasso and who has maintained a libertarian discourse, although in his new role he has pointed out the importance of ensuring social spending and increase public investment. Another of the conditions to put an end to the protests, in addition to the reduction in fuel prices, was to establish dialogue meetings to deal with other demands of the Indigenous Movement. At the moment, the negotiations at those meetings look complicated.





Mexico

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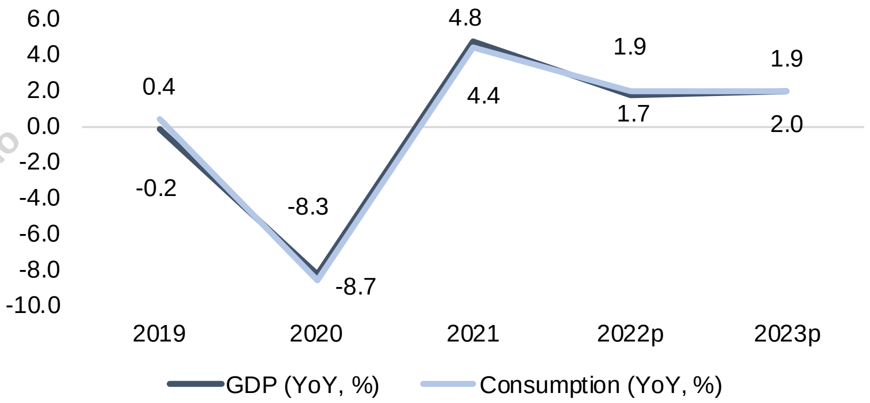
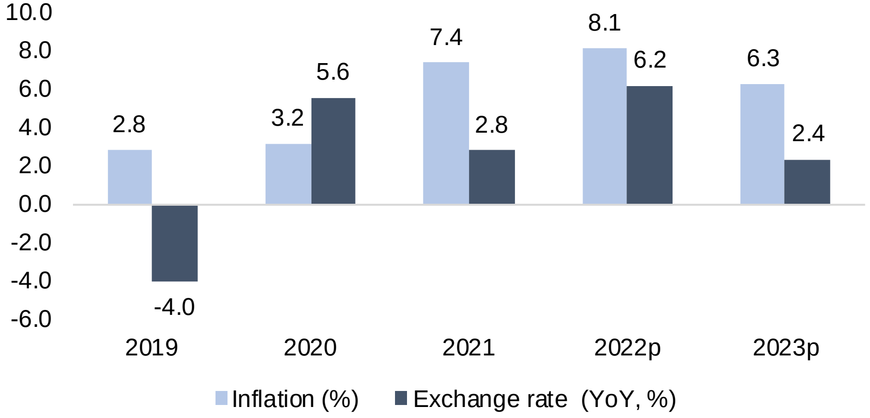
Economy: the Global Indicator of Economic Activity (IGAE) for the month of April increased to 1.1% at a monthly rate. This figure, by component, was obtained from growth with respect to the previous month of 1.3% for tertiary activities, 0.6% for secondary activities and -1.3% for primary activities. As outlined by Consultores Internacionales, S.C.®, it continues to be observed that the Mexican economy is stagnant, with the expectation that the situation will continue, at least in the short term.
Illusory inflation in Mexico continues to accelerate. In June, according to the National Institute of Statistics and Geography (INEGI), monthly inflation was 0.84%, an atypical level for such month as it was 4.5 times higher than the average observed between 2003 and 2021, bringing annual inflation to 7.99%. Nevertheless, we estimate that June inflation should be between 9.05% and 9.35% if we omit the effects of the costly gasoline subsidy of recent months.
In response, the Bank of Mexico is expected to raise its target rate for the second time by 75 basis points, from 7.75% to 8.5%, the highest level since the origin of this measure in 2008; if the trend continues, the rate is expected to be between 9.5% and 9.75% by the end of the year in order to anchor inflationary expectations.
The strengthening of the dollar due to expectations of higher interest rates in the United States has led to the depreciation of currencies worldwide. In Mexico, it has maintained an upward trend in the exchange rate, going from 19.87 pesos per dollar on June 27 to 20.74 on July 11. At Consultores Internacionales, S.C.® we foresee an exchange rate at levels of 20.72 and up to 21.73 if the depreciation continues at the end of the year.

Politics: in the midst of the controversy over the downgrading of Mexico's air safety, the Mexico City International Airport will have a new military director, continuing the trend of the Armed Forces directing national logistics, as has occurred with the Dos Bocas Refinery, the new Felipe Angeles International Airport (AIFA), the administration of ports and, soon, the Tren Maya railroad complex and the Inter-Oceanic Corridor of the Isthmus of Tehuantepec.
In foreign policy, Mexico's relationship with the United States continues to be strained by the statements made by the Presidency regarding the neighboring country's administration on the eve of the meeting to be held by the heads of state of the two nations in the middle of the month.
The Financial Intelligence Unit, in charge of combating crimes of operations with resources of illicit origin, denounced before the Attorney General's Office former President Enrique Peña Nieto and other persons (including family members) for obtaining economic benefits outside the law of approximately 1.3 million dollars in international transfers during 2019 and 2021.





MXN/USD

2019	2020	2021	2022p	2023p
18.9	19.9	20.5	21.7	22.2

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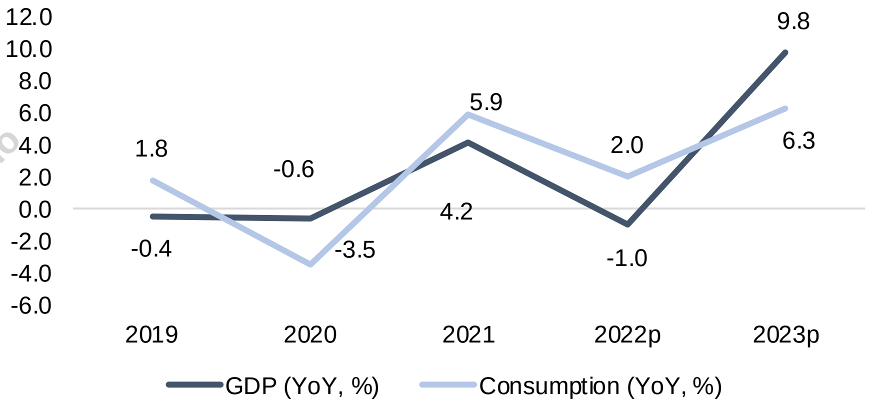
Paraguay

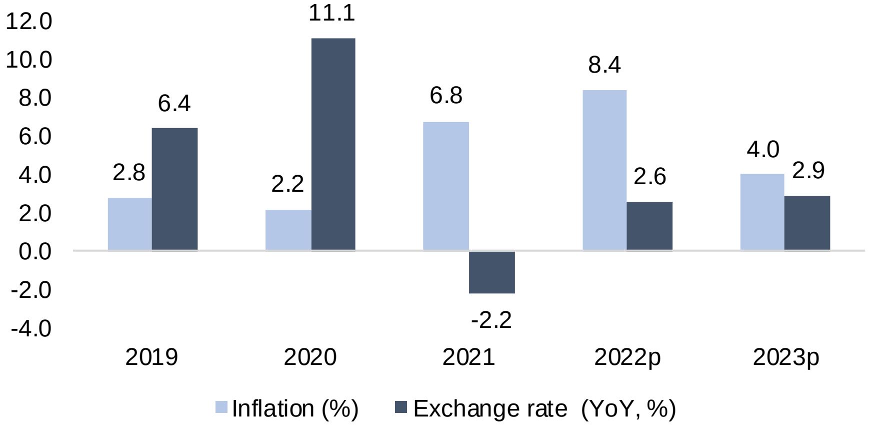
Economy: the Central Bank of Paraguay published the last report on the macroeconomic aggregates for the first quarter of 2022. At present, there was evidence of a 2.0% year-on-year drop in Gross Domestic Product. The result is explained, mainly, by the negative impact of agricultural activities; livestock, forestry, fishing and mining; and electricity and water. Indeed, agriculture shrank by 41.2%, the largest contraction recorded by the national accounts for this sector. Since December of 2021, the drought that affected the country, reduced soybean production by 66.1%. In addition, it had a negative impact on crops such as rice; sugar cane; manioc, among others.

Comparatively, Livestock, forestry, fishing, and mining presented an interannual reduction of 8.7%. Fundamentally due to the lower slaughter of cattle, porcine and poultry. Meanwhile, the generation of electricity and water decreased by 11.1%, due to the low water flow of the Paraná River. On the spending side, only exports registered a year-on-year decrease (9.3%), while imports grew by 19.7%, and domestic demand by 6.2%.

Politics: last May, a Venezuelan-flagged plane owned by the Aerocargo del Sur Transport Company (Emtrasur), a subsidiary of the Venezuelan Consortium of Aeronautical Industries and Air Services (Conviasa), sanctioned by the US Treasury Department, landed in Minga Guazú, Department of Alto Paraná. The plane landed with a crew made up of 7 Iranians and 11 Venezuelans. Said team remained for 3 days in Ciudad del Este, capital of the aforementioned department. Subsequently, they left for Aruba with a load of cigarettes from Tabacalera del Este S.A., a company that is part of the conglomerate of former President Horacio Cartes.

In June, Paraguay alerted other countries in the region the ties of one of the crew members, Gholamreza Ghasemi, with the Quds Force (part of Iran's Islamic Revolutionary Guard). At present, the activities carried out by the group are unknown during their stay in the country, and their relationship with political and economic groups in Paraguay. This, in a context where the president of the public, Mario Abdo Benítez, pointed out that part of the crew has links with terrorism.





PRY/USD

2019	2020	2021	2022p	2023p
6,279	6,974	6,824	7,000	7,200

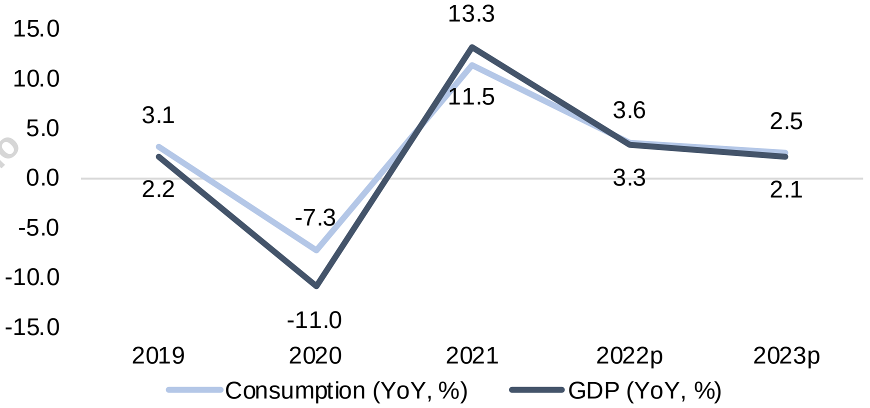
mf.com.py

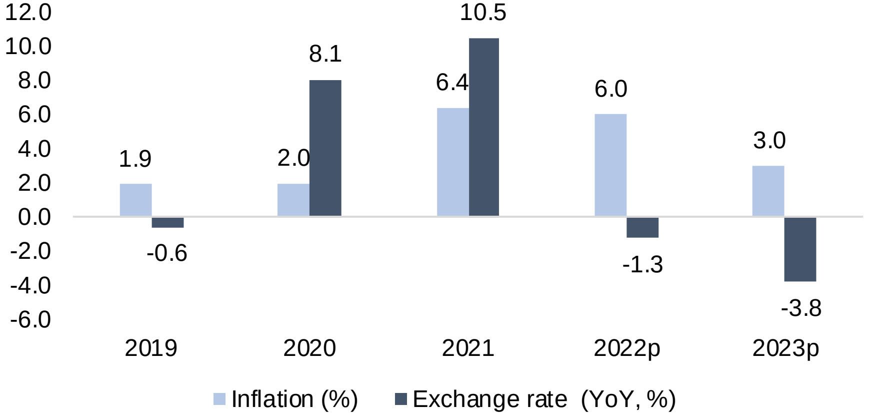
Peru

Economy: peruvian economic growth slowed to 2.3% yoy in May (3.7% in April and 3.8% in March) due in part to the stoppage of the Las Bambas copper mine. In the same month, the goods trade balance surplus stood at US$377 million, well below the almost US$1,500 on average in recent months, given the fall in the price of copper and high fuel imports. . On the other hand, the accumulated fiscal deficit of the last 12 months stood at 1.0% of GDP in June (0.9% in May).

As for consumer prices, total inflation stood at 8.8% in June, a maximum not seen in 25 years, for the thirteenth consecutive month above the target range of the Central Reserve Bank of Peru (BCRP, between 1% and 3%). In this context, the monetary entity again raised its reference interest rate by 50 basis points to 6.0% in July in its attempt to anchor 12-month inflation expectations, which stood at 5.4% in June, the maximum figure since registration. Lastly, after showing a downward trend in almost the entire first semester, the exchange rate has shown an upward behavior reaching a maximum of 3.97 soles per dollar, in line with the sharp drop in the price of copper (plus of 20% in a month).

Politics: the Congressional Fizcalization Commission approved the final report that recommends constitutionally charging President Pedro Castillo for the alleged crimes of influence peddling, criminal organization, incompatible negotiation and violation of Article 118 of the Constitution. With this approval, the report will go to the plenary session of Congress for approval and with it to the Subcommittee on Constitutional Accusations (SAC) to formalize the accusation. In the social field, the Executive reached an agreement with the carriers to avoid a new strike at the beginning of July. Among the agreements reached are a greater refund of the selective tax on fuels and subsidies for the payment of highway tolls.





PEN/USD

2019	2020	2021	2022p	2023p
3.35	3.62	4.00	3.95	3.80

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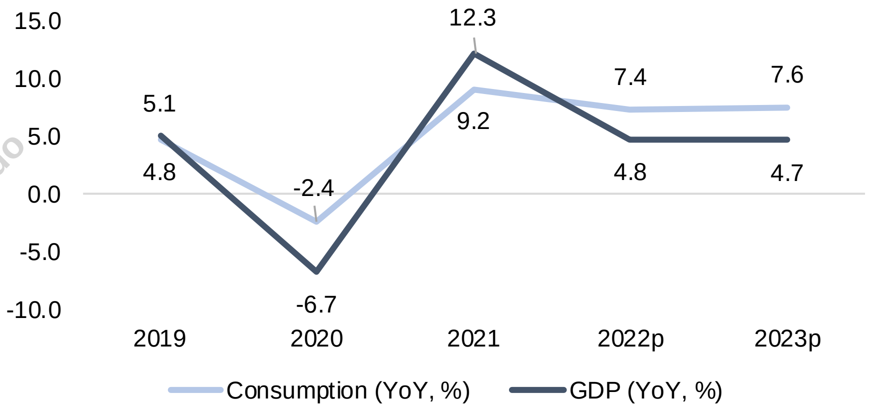
Republica Dominicana

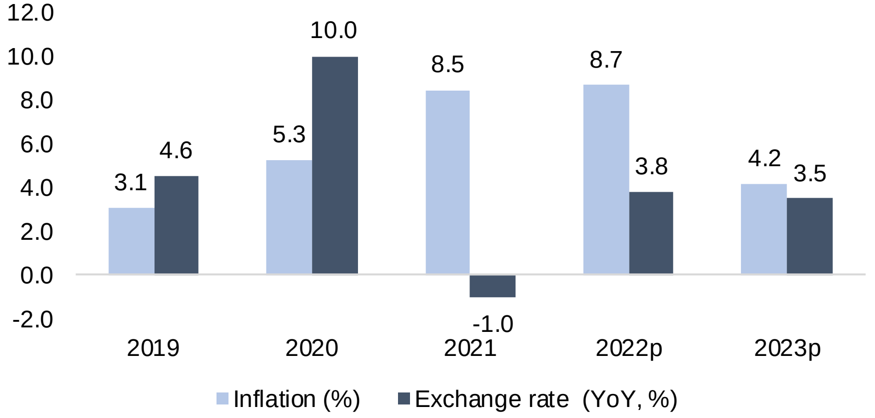
Economy: at its last monetary policy meeting, the Central Bank of the Dominican Republic (BCRD) increased its monetary policy rate to 7.25%. This would represent the fourth increase of the year, accumulating 2.75 percentage points (pp). The decision is based on the accelerated evolution of Dominican inflation, which in June reached 9.48% in interannual terms.

The BCRD explained that the behavior of local prices is being influenced by external factors such as the rise in oil prices, other imported raw materials used as inputs for local production, international freight rates and interruptions in the global supply chain. However, the elevated behavior of core inflation confirms that the upward pressure on the CPI also has a domestic component, marked by tariff adjustments of local goods and services driven by inflation expectations.

Politics: in early July, officials handed over the Medusa corruption case file. The file contains more than 12,000 pages, more than 3,500 pieces of evidence, 41 defendants, 22 companies involved and more than 400 witnesses. The main defendant in the case is the former Attorney General of the Republic, Jean Alain Rodríguez, considered the main executor of a corruption network that defrauded the State of more than DOP 6,000 million. The size of the case has led Wilson Camacho, of the Special Prosecutor's Office for the Prosecution of Administrative Corruption (Pepca), to describe it as a case without precedent in the history of the nation.

On the other hand, Joel Santos was appointed as new minister of the presidency in replacement of Lisandro Macarulla, who requested a leave of absence without giving detailed information about his decision. However, local media have echoed that one of the sons of the former minister would be one of the accused in the Medusa case, so it is assumed that Macarulla's decision is due to this new development.





DOP/USD

2018	2019	2020	2021	2022p
52.8	52.8	58.1	57.5	59.7

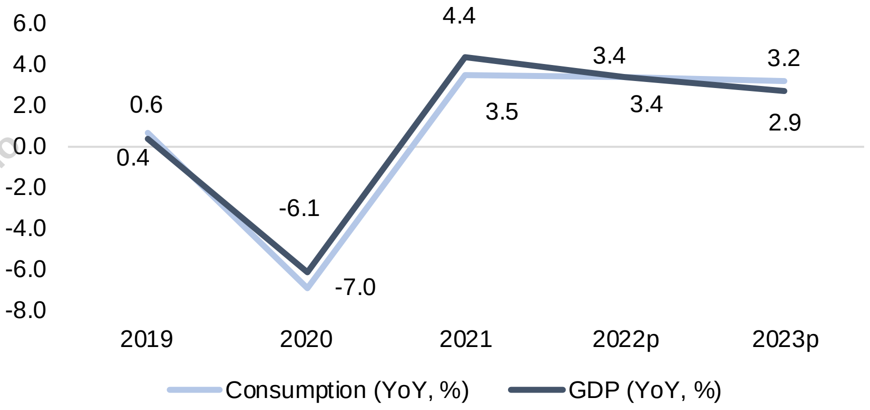
Uruguay

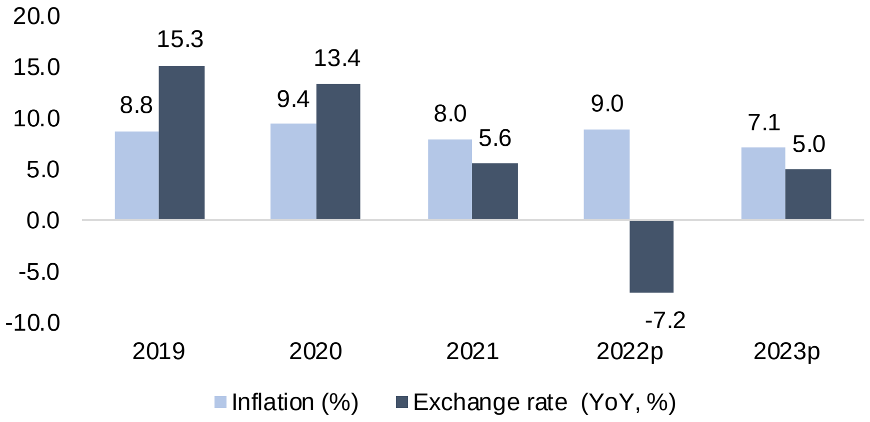
Economy: this past June 30, the Executive Branch introduced the 2021 Government Performance and Results Bill to Parliament. Budget expenditure grew by 0.78% in real terms in 2021, thus reaching $685,717 million. The level of budget execution was 97% of the credits granted, remaining stable over the previous year. While GDP increased by 4.4% in real terms in the same year, real spending, considering the GDP deflator, fell by 1.3%, which led spending to stand at around 26.5% of GDP in 2021.

Expenditures with a lower degree of discretion decreased their share in total expenditure by 2 percentage points compared to the previous year. Transfers to Social Security and interest on Public Debt remain, as a whole, at 32.5% of total spending in 2021. If we additionally consider the Credit Certificates issued by the General Taxation Bureau (DGI for its acronym in Spanish) and the General Revenue contributions for the financing of the health system deficit, these expenses amount to 47% of the total.

Politics: in the aforementioned Bill, the Executive Branch kept an eye on long-term issues, and prioritized resources for structural reforms that aim to increase the potential growth of the economy, such is the case of the educational transformation.

This transformation is organized around five major axes: 1) the Governance Reform focused on modifying the institutional design and the fundamental rules of the game, so as to increase efficiency and decision making processes; 2) the reduction of inequality in the educational system, aimed at breaking the determinism based on the socio-educational origin of the students; 3) the educational center management reform, aimed at changing the role of directors and the operating logic of grade schools and high schools, to transform them into communities capable of retaining their students and generating quality learning; 4) the curriculum reform, focused on updating plans and programs from kindergarten to the end of high school; and 5) the reform of teacher training courses, which aims at launching a process to improve and update teacher training, with university qualifications and professional development as the axis and stimulus.





UYU/USD

2019	2020	2021	2022p	2023p
37.3	42.3	44.7	41.5	43.6

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Venezuela

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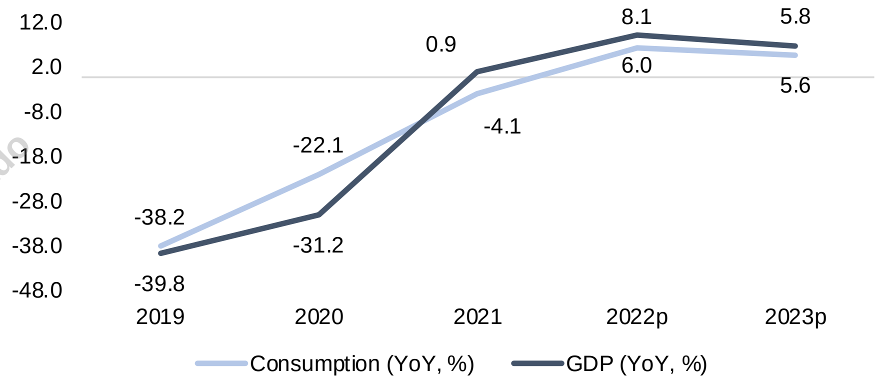
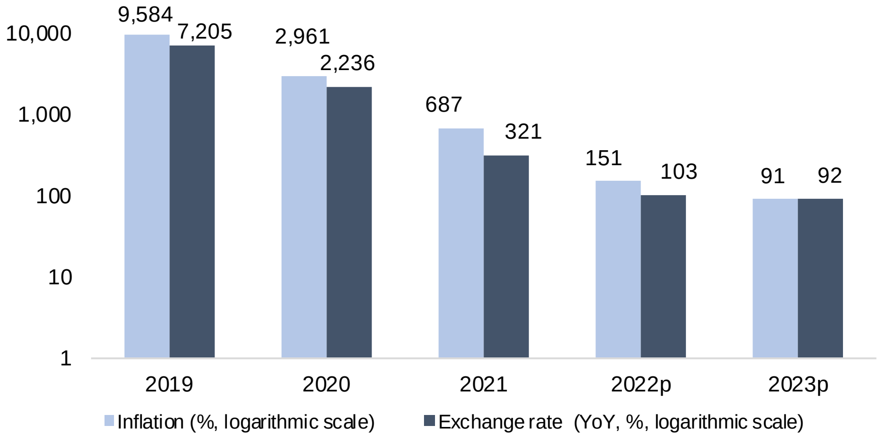
Economy: the BCV reported that May inflation was 6.5% month-over-month, which is the highest monthly inflation since January of this year. With this figure, accumulated inflation for 2022 rises to 23.9%, while interannual inflation stands at 167.2%.

On the other hand, Venezuelan crude oil production in June remained stable at slightly over 700 kb/d as measured by OPEC direct and secondary sources. At the same time, after presenting difficulties at marketing levels due to interruptions in port cargoes or returns by its partners due to their quality, Venezuelan crude oil exports presented a significant increase during June to reach, according to Reuters, 631 kb/d. However, this increase is due to the resumption of crude oil shipments to the European oil companies Repsol and Eni after they were authorized by the US Treasury Department under a debt-for-oil swap modality.

Politics: on political matters, Washington did not invite Venezuela, Nicaragua and Cuba to the Summit of the Americas, allegedly because they do not present democratic models and claiming that the conference is being held to strengthen democracies. On June 6, the first day of the conference, the crowd was surprised by the absence of four more presidents, among them, Lopez Obrador of Mexico, who excused his absence arguing that he did not agree with the exclusion of certain countries and claiming that the sovereignty and independence of all countries in the region were not respected.

On the other hand, on May 5, the American state gave permission to the Italian oil company Eni SpA and the Spanish company Repsol SA to process Venezuelan crude oil to supply the shortage of Russian crude in Europe. However, this would not represent new income for PDVSA, but rather the payment of the debt owed to the same two years before when Washington applied sanctions against Venezuela. This would cut Europe's dependence on Russian crude and redirect some of Venezuela's charges from China.





VES/USD

2019	2020	2021	2022p	2023p
0.1	1.1	4.6	9.3	17.9

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