LAECO

Latin American situation report

October 2022

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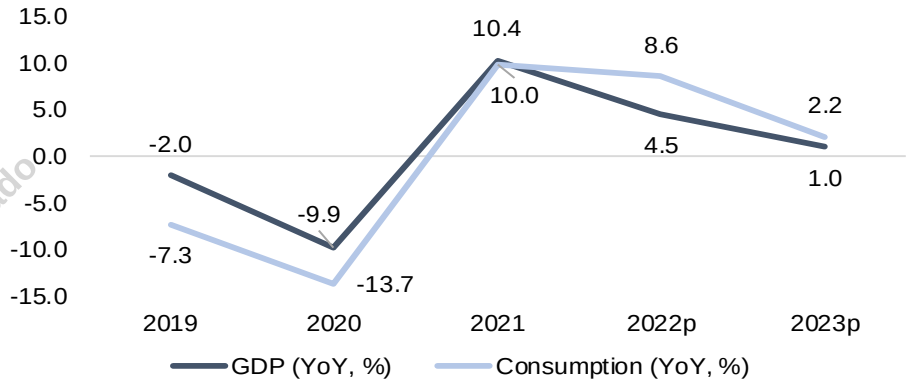
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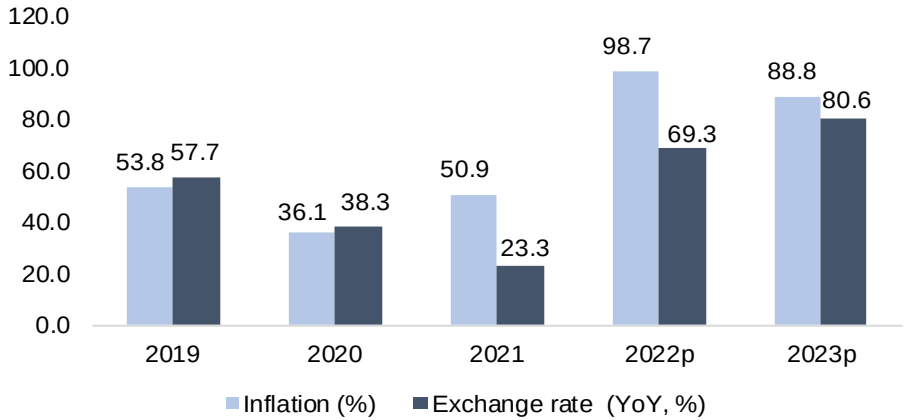
Argentina

Economy: based on the objectives of deactivating an imminent disorderly devaluation and laying the foundations to get through 2023 without renewed turbulence, the first stage of the "Massa's plan" consisted of a series of financial, fiscal and exchange measures that allowed reaching a point of substantially better than at the starting point on several fronts. However, throughout this short period new challenges were also incubated that will be crucial to address in view of the second stage and the second objective (going through 2023 without crisis). The initial success of Massa's plan is a necessary but not sufficient condition to meet all of the objectives (avoid an imminent disorderly devaluation and go through 2023 without a crisis) and the respite achieved in September in terms of reserves accumulation helps but does not solve the forex question.

Politics: Sergio Massa begins to find political, economic and social limits that show that reaching 2023 will not be a bed of roses. On one hand, the two most important figures of Kirchnerism appeared, raising their voices critically towards some decisions that are made or not in the economic area. A sign that Massa's honeymoon period has found its limit in Cristina and Maximo Krichern's patience. Perhaps, this is also due to other limits that have been emerging over the last few days, such as the social discontent and languishing economic activity. On the other hand, a growing social conflict. In the middle, the difficulty for the ruling party to rest on the aspiration that the economy will recovery in the run-up to the presidential election as long as it includes the configuration that the opposition electoral-offer may take.

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ARS/USD

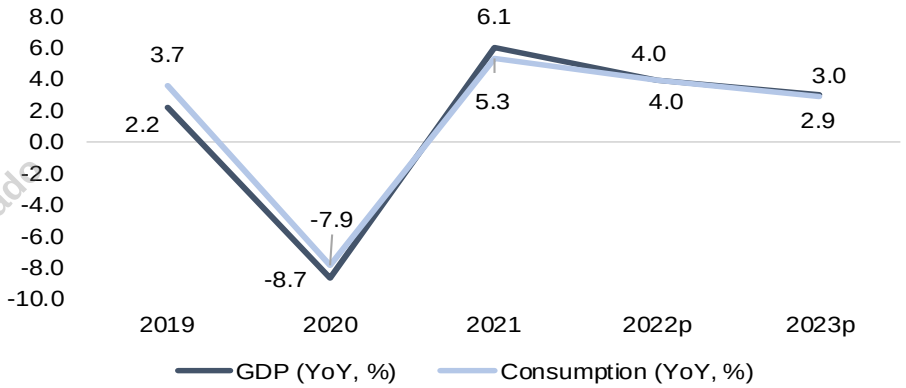
2019	2020	2021	2022p	2023p
59.7	82.6	101.9	172.5	311.6

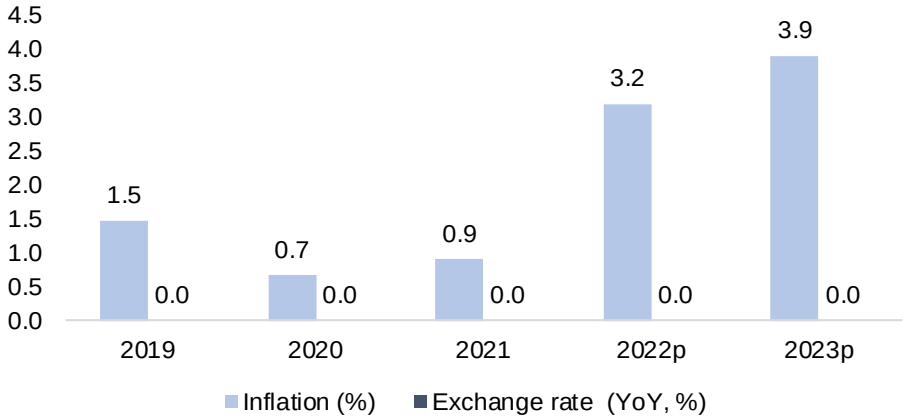
Bolivia

Economy: Bolivian statistics office delayed the publication of the GDP figures for the second quarter of 2022, even though it had anticipated that it would do so on the 14th of the month. This figure is essential for paying a double year-end bonus for formal workers since if the growth of economic activity between July 2021 and June 2022 is higher than 4.5%, that payment would be made. The GDP information available up to the first quarter and the monthly activity index up to May rule out this payment, but the delay has generated susceptibility in this regard. In foreign trade, exports set a record (USD9.5 billion) mainly due to the high prices of raw materials and despite the drop in the production and export of hydrocarbons. Similarly, the value of imports marked a milestone (USD8.4 billion), mainly due to the rise in fuel imports, compared to the lower production of natural gas.

Politics: political conflict has continued to increase in Bolivia. In the first place, the discussion about the population and housing census date has become a point of disagreement, mainly between the Santa Cruz region and the central government. Three months ago, the government postponed this statistical operation until 2024, which implies fewer resources and parliamentary representation for the subnational areas with the highest population growth, with effects in the creation of social infrastructure. A people council with massive assistance in Santa Cruz approved that the region goes into an indefinite strike from October 22 if the census is not advanced to 2023. On the other hand, the conflict within the ruling party would exist between the line led by President Luis Arce and the one led by former President Evo Morales. Public statements between both sides reveal the high level of conflict between these factions, including the request for a change of ministers.

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BOB/USD

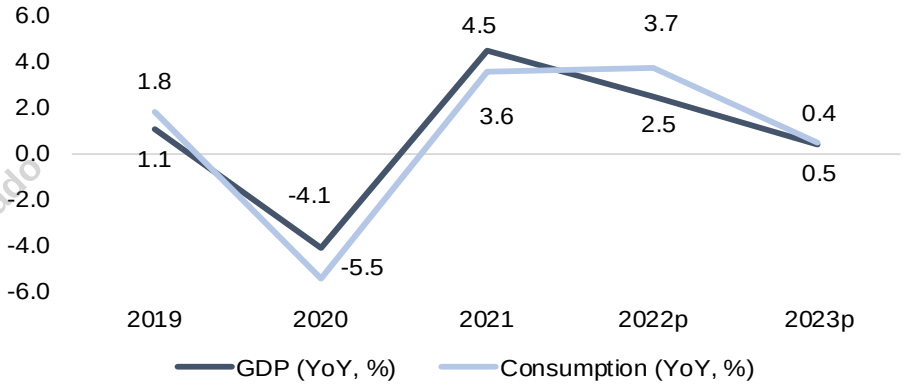
2019	2020	2021	2022p	2023p
6.96	6.96	6.96	6.96	6.96

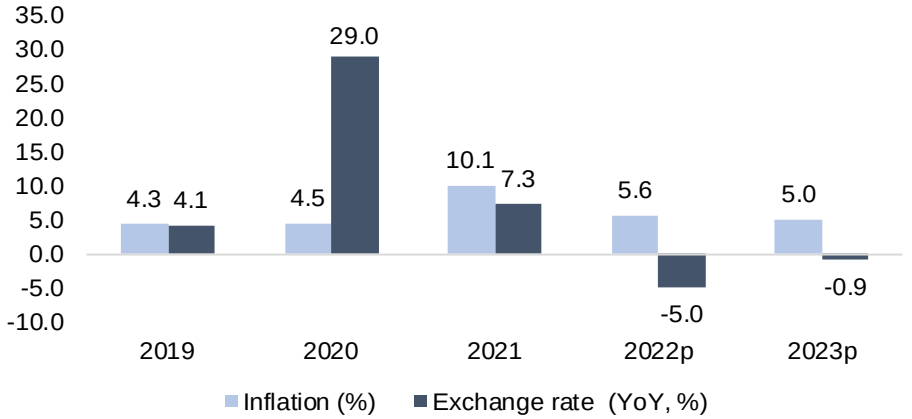
Brazil

Economy: in general terms, the most recent information shows important changes in the assessment of the Brazilian economic scenario. Economic data showed a combination of high growth, especially in the services sector, and fears of higher inflation. In fact, the most recent numbers point to a loss of breath in activity, as a result of the effects of tighter monetary policy. In addition, inflation has shown a recent drop, as a result of government interventions in the fuel sector. Economic activity in the last quarter may have a further slowdown, as from the end of the effects of demand shocks, promoted by income transfer programs. The bias for the present year is for a new positive change in the growth projection. In any case, concerns about activity in the next year are in the same direction. The first half of the year should still be impacted by monetary policy combined with the effects of fiscal uncertainty.

Politics: the political scenario should remain quite intense due to the second round of the presidential competition. The result of the first round showed a smaller difference between President Bolsonaro and former President Lula, with an important change in relation to what the polls indicated. This scenario, then, brought greater ambition from the government to announce new measures to pursue the arduous task of reversing the scenario in the second round. This presidential race dynamics reinforces fiscal risk and almost engages a debate over reforming fiscal rules. The most recent electoral polls show relative stability, after a slight upward trend in the Bolsonar candidate. The results of the first round provided important information for the analysis of political risk. In summary, the legislative elections show that the political risk under Lula is of instability of the coalition, while, under Bolsonaro, it is a risk of concentration of forces of agents without concern for the economic agenda.

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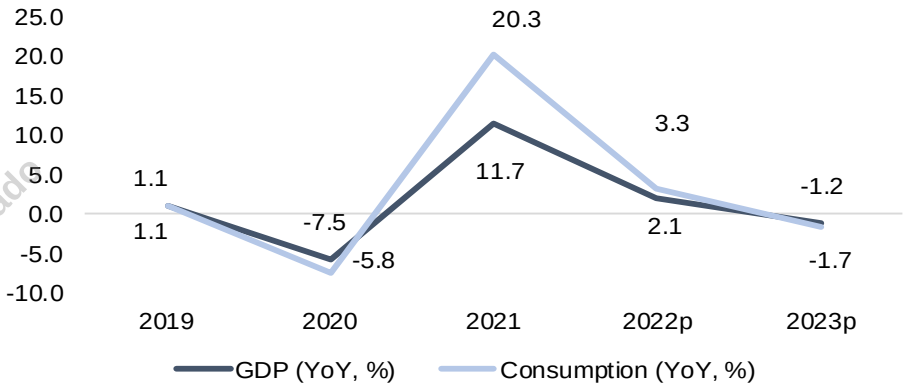
BRL/USD

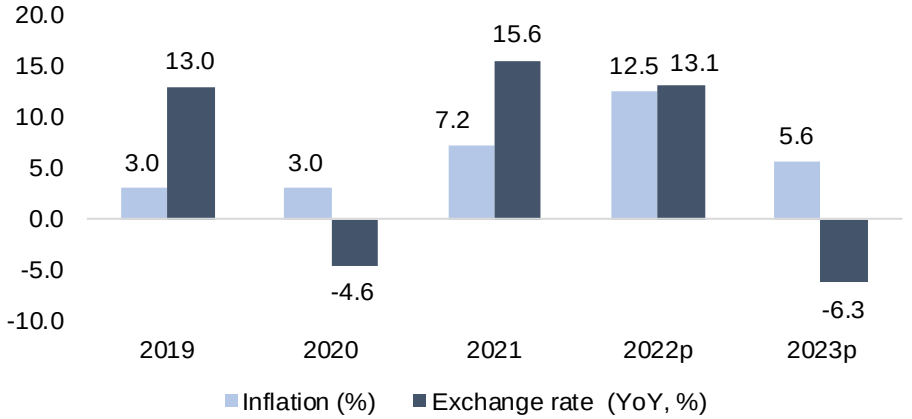
2019	2020	2021	2022p	2023p
4.03	5.20	5.58	5.30	5.25

Chile

Economy: measured in 12 months, the Chilean economy would register a drop in activity as of the recently completed third quarter, a process that would continue at least until the second quarter of 2023. Consumption has weakened, hand in hand with the end of extraordinary resources received by families regarding the pandemic, and will register a significant drop over the next year. Investment, which is expected to fall this year, will continue to contract throughout the next. High levels of political-institutional uncertainty, an important fiscal and monetary adjustment this year and a deterioration in external conditions are all factors that come together to explain the recessionary process underway. Inflation has given a first favorable signal in September, marking a downward inflection point in its twelve-month variation, while market expectations remain above the authority's target in the 12-24 months year time horizon. The exchange rate registers a downward adjustment with a volatility in accordance with the movements of the dollar at a global level.

Politics: as we predicted, finally the option to reject the constitutional project prevailed, although with a much higher margin than expected. Negotiations are under way to give continuity to the constituent process, although seeking guarantees of respect for certain basic principles that must be incorporated into the new text. In essence, narrower “borderlines” are set in the scope of the reform, guaranteeing the existence of a unitary State, the three independent powers, the right to property and the guarantee of the rights and freedoms of the population, among other aspects. It remains to define how the new constituent body will be composed, the deadlines and the ratification mechanisms of the process. In parallel, with high probability the reincorporation of compulsory voting will be approved, which would constitute a stabilizing element in political matters, leading more moderate sectors to participate in the electoral process. The government is weakened and it is difficult to carry out its program, which it will have to moderate in order to achieve parliamentary approval.





CPL/USD

2019	2020	2021	2022p	2023p
770	735	849	960	900

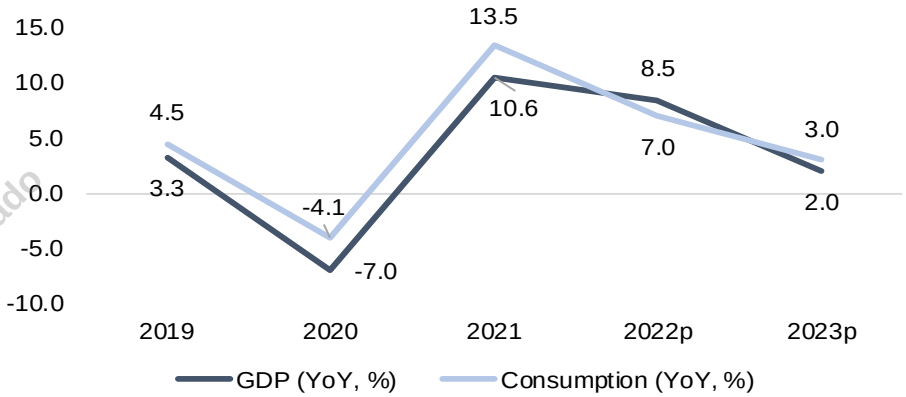
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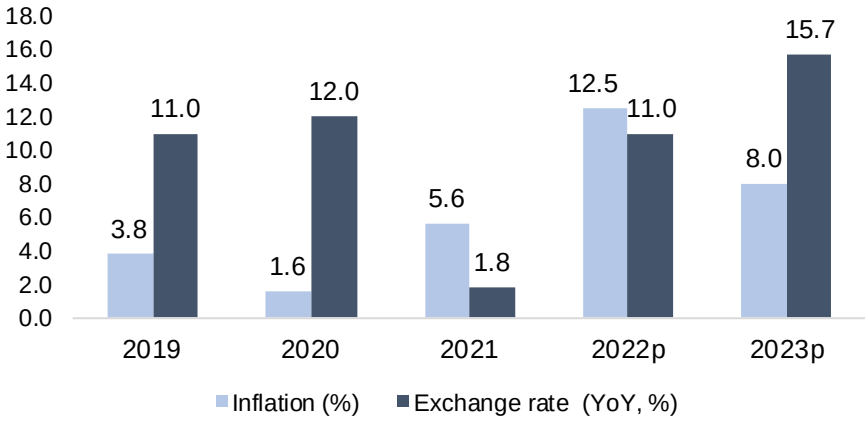
Colombia

Economy: a black cloud is rising in the sky, a strong storm is coming. Although 2022 seems to be a good year in terms of growth, with the latest available information it is credible that Colombia will have a growth between 8-8.5% in 2022, this indicator has as a counterpart an inflation between 12-13%. Additionally, the monetary tightening that the different central banks are doing will surely make financial conditions tighter and generate a complex 2023. First, external factors will have an impact on higher inflation. On the one hand, if the Federal Reserve continues to raise interest rates, the Colombian currency will devalue. On the other hand, when the crisis erupts, risk aversion will increase and will put upwards pressured in the already undervalued COP. Thus, an exchange rate between 4800-5000 seems feasible. The global crisis will surely affect our economy, which is why the 2023 growth forecast is lowered to 2%.

Politics: in addition to the uncertainty generated by the Russia-Ukraine war and the potential of a global crisis, in Colombia, the hasty trills and announcements by members of the cabinet do not help either. This has had detrimental effects on the exchange rate and the value of Ecopetrol's shares, since there have been several announcements by members of the government regarding the possibility of not granting new oil exploration permits. For his part, the Minister of Finance, José Antonio Ocampo, has had to come out repeatedly to deny the statements of his colleagues. In view of this scenario, it is natural that uncertainty increases, which is materialized both in our debt interests and in the value of the shares of Colombian companies.

Finally, the government will submit the tax reform to a second debate. Given the way in which it was approved in the first debate, it seems that the space for discussion of the same is smaller than expected and the modifications may not be as substantial as initially thought.





COP/USD

2019	2020	2021	2022p	2023p
3,280	3,674	3,740	4,150	4,800

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Costa Rica

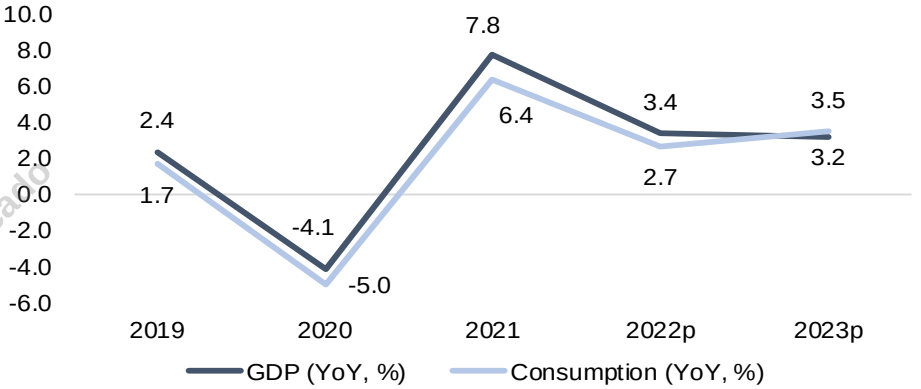
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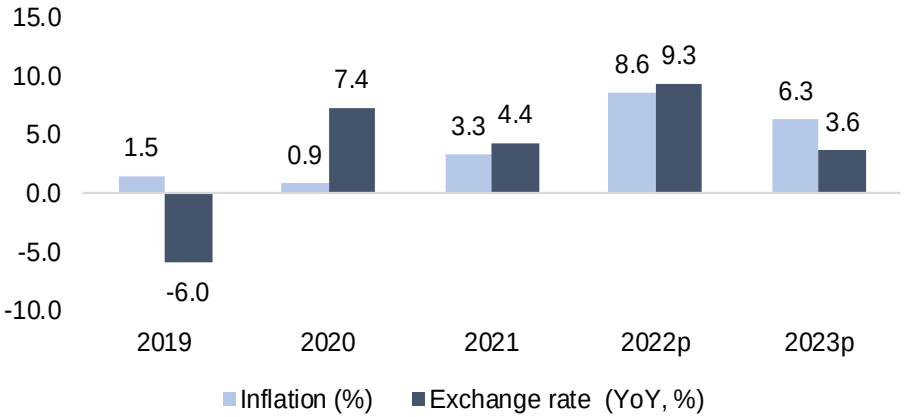
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Economics: according to the Central Bank of Costa Rica, during the month of September interannual inflation stood at 10.37%, thus becoming the first time that a negative month-on-month variation has been achieved since July 2021, with a decrease of 0.95% compared to the previous month, which is mainly attributed to the decrease presented in fuel prices, as well as in the exchange rate. Although the year-on-year rate of change is still above the tolerance limit established by the Central Bank, is expected to show its maximum during the month of August and it is expected that by mid-2024 it will return to the target value. On the other hand, the Costa Rican Institute of Statistics and Census published on October 6th the information corresponding to employment for the June-July-August moving quarter, where there is evidence of a stagnation in unemployment, remaining at 11.8%; despite the fact that this value did not show a significant change in percentage compared to the previous quarter, it is estimated that there is a decrease of approximately 4,000 people in state of unemployment.

Politics: on September 17th, the President of the Republic, Rodrigo Chaves, dismissed the president of the Caja Costarricense de Seguro Social, Dr. Álvaro Ramos, as he was unable to reach an agreement on an increase in the salary of health officials that had already been approved, however, it was postponed due to the situation of the COVID-19 pandemic. Likewise, on October 4th, the General Directorate of Migration and Immigration (DGME) updated a series of specific entry regulations for nationals of Venezuela, China, Colombia, El Salvador, and Nicaragua, in order to have greater control over immigration, mainly with the large influx of Venezuelans passing through Costa Rican territory on their way to the United States. On the other hand, on October 10, the Ministry of Health ordered a school break throughout the country due to health alerts due to a large number of hospitalized cases of respiratory virus.

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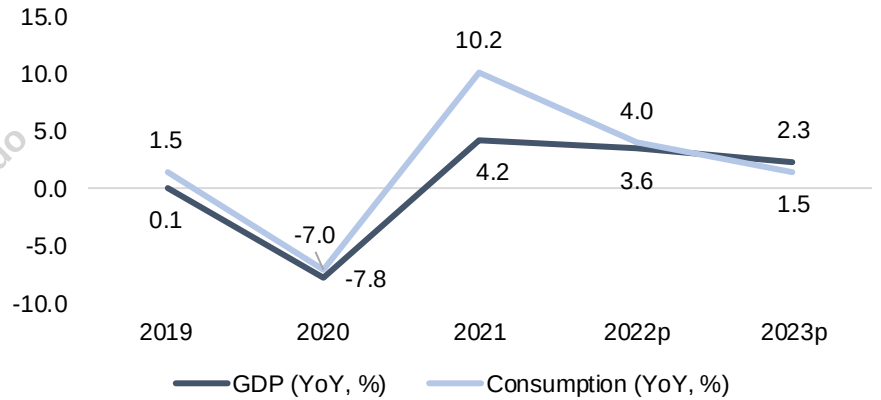
CRC/USD

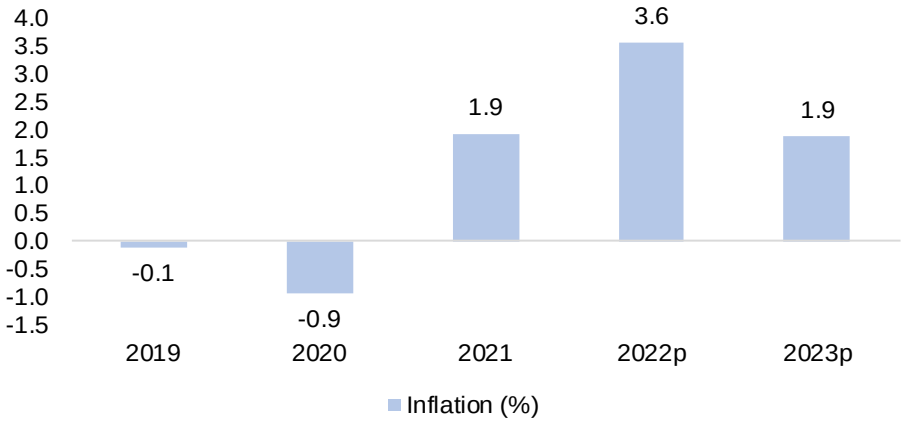
2019	2020	2021	2022p	2023p
573.2	615.4	642.3	635.3	672.5

Ecuador

Economy: according to preliminary figures from the Central Bank, in the second quarter of this year the Ecuadorian economy grew 1.7% in year-on-year terms. In the first quarter growth was 3.8%. The slowdown is due, in part, to the fact that the comparison base for the second quarter was higher than the comparison base of the first, but it also seems to be a consequence of the June strike. All components of GDP from the expenditure approach slowed down in the second quarter, except for exports, which fell 0,1%, a smaller contraction than the -0,4% recorded in the first. The slight drop in the second quarter is mainly due to the 11% drop in the volume of oil exports, but also, given that it concerns exports of goods and services, it may respond to the impact that the strike caused over the tourism sector. Regarding the other components of GDP, it is important to highlight what happened with household consumption which, although it reduced its year-on-year growth rate from 6,9% in the first quarter to 4,9% in the second, reached (a gross level, not per capita) a record volume. Imports, government consumption and physical investment also registered lower growth rates in the second quarter than in the first. In the case of investment, the volume remains well below the levels seen before the pandemic. Next month we will review our projections for the full year.

Politics: on October 4, the National Assembly approved a resolution according to which President Guillermo Lasso failed to comply with his government plan. The resolution, which was approved with 103 votes, that is, about 80% of the legislators, it is not a cause to remove the president (something that the Assembly tried in June) or to impeach him politically, but it can support an initiative of revocation of the mandate promoted by the citizens, although such a process requires several steps. On the other hand, on October 13, the Constitutional Court issued its opinion of the eight questions that the government hoped to submit to referendum. The opinion was favorable for six of the eight questions, that is, in them the Court considers that the constitutional amendment is a valid path. Among them are the reduction in the number of assembly members and the possibility of extraditing drug traffickers; The two questions rejected are the one that sought to get the military to support the police in the fight against organized crime and the one that sought to remove the power to appoint control authorities from the Citizen Participation Council. At the time of writing this report, the government had not yet commented on the Court's decision.





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Mexico

Economy: the economic forecasts for Mexico suffered cuts in the reports of several international organizations. The International Monetary Fund (IMF) cut its projection for Mexican GDP growth in 2022 from 2.4% to 2.1% and maintained the 2023 forecast at 1.2%; the World Bank adjusted downward the 2022 forecast from 2.1% to 1.8% and from 2.2% to 1.5% in 2023; finally, the Organization for Economic Cooperation and Development (OECD) raised its projection for 2022 from 1.9% to 2.1% and lowered the 2023 forecast from 2.1% to 1.5%. At Consultores Internacionales, S.C.®, we estimate a growth in 2022 between 1.5% and 1.9%, and 1.4% in 2023.

The increase in the price level during September was 8.76%; looking ahead to the last quarter, which historically has contributed strongly to annual cumulative inflation, an inflation rate for the end of the year close to 10% is expected. In response, the central bank of Mexico increased its benchmark interest rate to 9.25%, a historic high that, according to its minutes, will continue to rise as long as price increases continue. At Consultores Internacionales, S.C.®, we forecast inflation in 2022 between 8.6% and 9.3% and a benchmark interest rate between 9.5% and 9.75%.

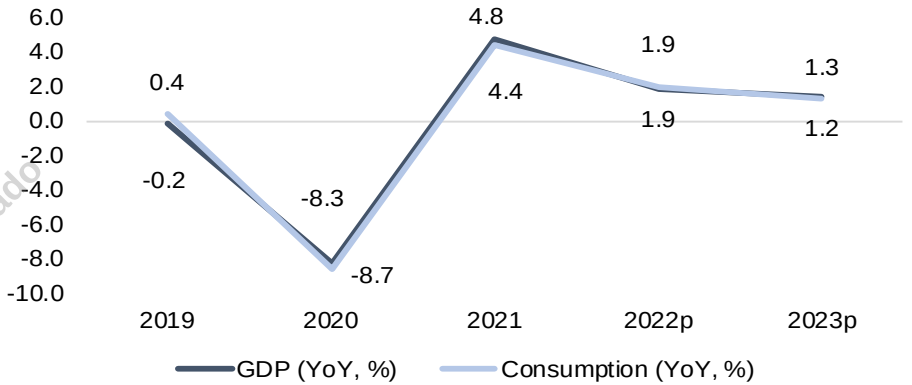
Foreign trade with the United States and Canada has taken prominence in recent weeks, with negotiations and disputes being postponed and the growing risk of the installation of settlement panels that could imply trade sanctions for our country. In addition, the recently presented industrial policy, crucial to improve productivity and competitiveness conditions in strategic sectors of the economy, faces a change in leadership at the Ministry of Economy.

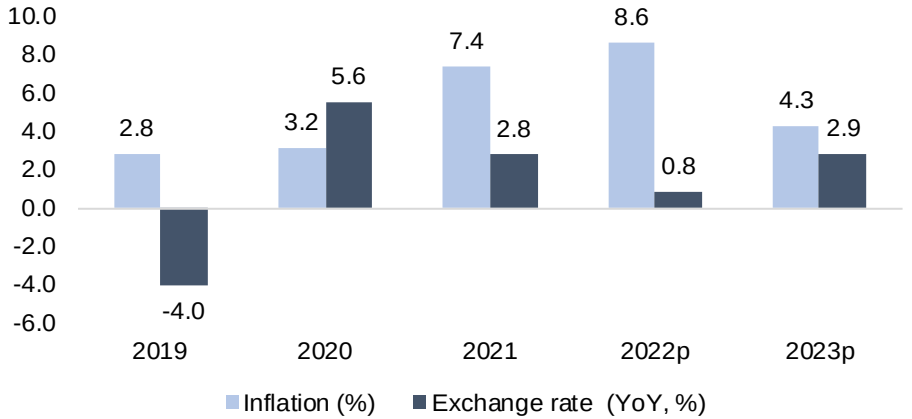
Politics: in terms of security, the incorporation of the National Guard into the Ministry of National Defense has already been approved, which also implies the extension of the period for which the Army will remain in charge of security and citizen protection operations. Considering the role of the Armed Forces as builders and administrators of several federal projects, the military sector is increasingly playing a leading role in the country's economy and security.

Mexico and the United States signed a new immigration agreement to grant work visas to Venezuelan and Haitian migrants. However, the terms imply the deportation to our country of all those who do not meet the requirements to migrate to the northern neighbor. In México, the immigrant population has a 9% higher unemployment rate compared to the rest of the country, in addition to lower wages and limited access to government services.

The approval of the electoral reform proposed by the Federal Executive is expected to be resolved in the following weeks. Among other things, the reform proposes the reduction in the number of plurinominal deputies, the election of members of the INE Council and of the magistrates of the Electoral Tribunal by popular vote, and the reduction of their budgets.

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MXN/USD

2019	2020	2021	2022p	2023p
18.9	19.9	20.5	20.6	21.2

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Paraguay

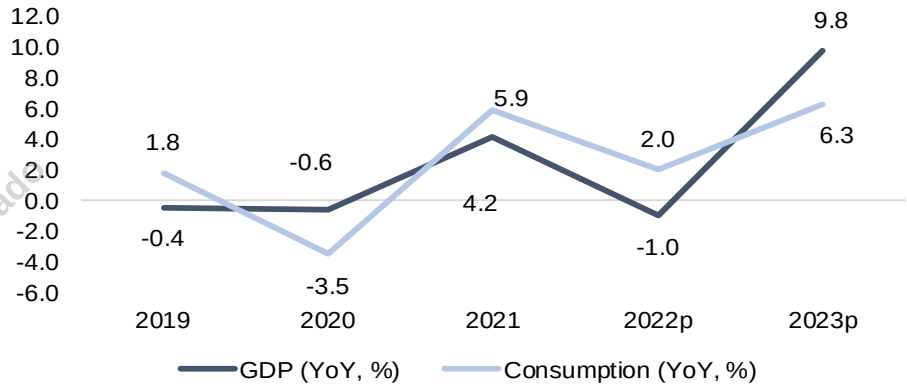
Economy: the Central Bank of Paraguay published the national accounts statistics corresponding to the second quarter of 2022, where it is evident that the economy entered a technical recession. This situation is due to the severe drought that affected the country at the end of 2021 and lasted during the first months of the year. Specifically, in the second quarter the Gross Domestic Product (GPD) fell by 3.4%.

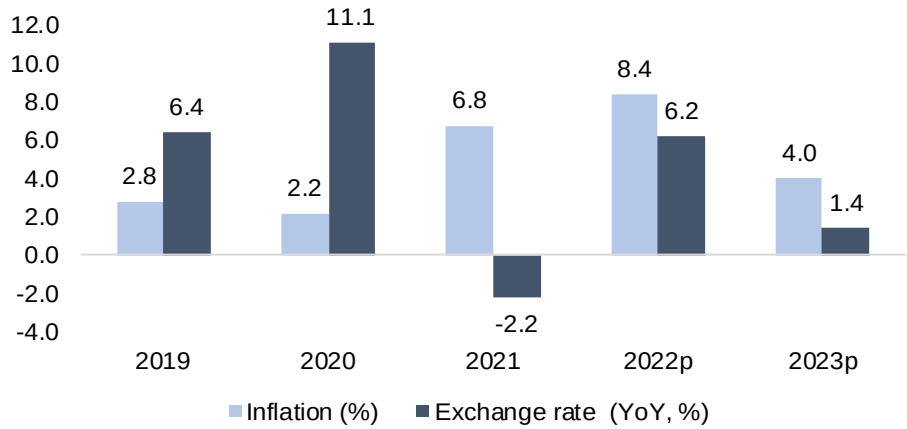
The impact of the drought was not only evident in the 35.0% drop in agricultural production, but it was also reflected in industrial activity, which showed a 3.4% decrease. In fact, the lower soybean harvest translated into less availability of raw material to produce oils and meals. The services sector was also impacted, registering a slowdown that placed its growth rate at 0.1%. This activity includes the transportation item, which experienced a reduction in freight. On the contrary, the group of electricity and water cushioned the decrease in economic activity, increasing by 8.9% due to the greater flow of the Paraná River.

Politics: the President of the Republic, Mario Abdo, participated in the General Assembly of the United Nations where he ratified the country's commitment to stability, democracy, human rights, and the fight against transnational organized crime. In this context, he pointed out that Paraguay will continue to lead a resolution in the Human Rights Council to continue investigations into the violation of human rights in Venezuela. In addition, he expressed his concern about the war in Ukraine and the humanitarian crisis derived from it. In this sense, Abdo called for the cessation of hostilities and the resumption of negotiations.

In terms of security, he highlighted the joint work with foreign intelligence agencies, which allowed carrying out the largest operation against organized crime in Paraguay. Also, he mentioned the possibility of alerting about the route of an airplane and its crew linked to international terrorism. Therefore, he reaffirmed the importance of cooperation to face global challenges.

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PRY/USD

2019	2020	2021	2022p	2023p
6,279	6,974	6,824	7,250	7,350

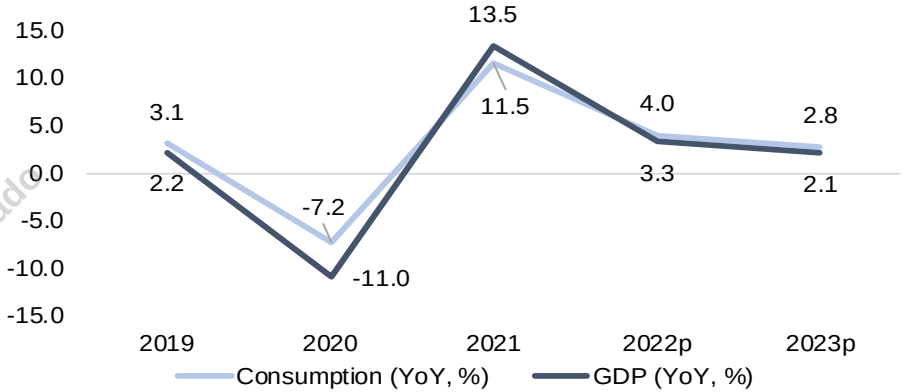
Peru

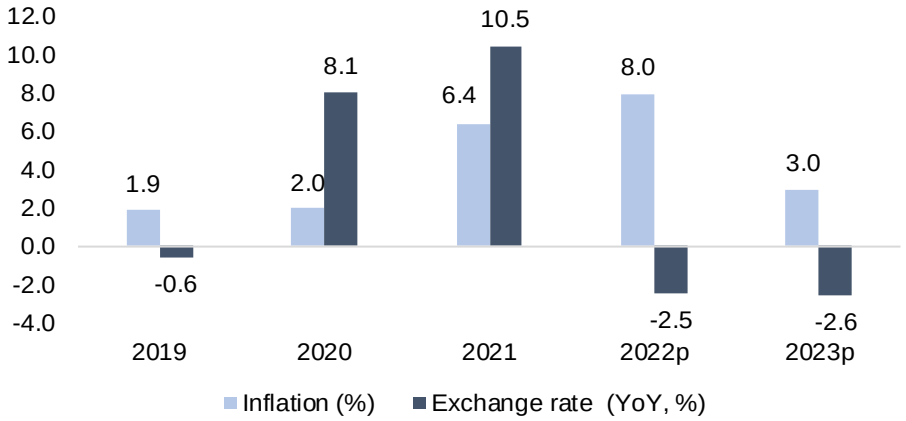
Economy: after growing 3.5% year-on-year in the first half of 2022, the Peruvian economy has shown a marked slowdown in July and August with year-on-year rates of 1.4% and 1.7%, respectively. Behind this behavior is the lower growth of the service sector and non-primary manufacturing due to weaker-than-expected consumption and a sharp drop in hydrocarbon production due to supply problems. In this sense, our projection of economic growth for 2022 will be revised downwards.

On the other hand, after reaching a peak of 8.8% year-on-year in June, the inflation rate has shown some resistance to go down. Thus, after two months of decline, consumer prices accelerated again in September to 8.5% year-on-year. In this way, we have corrected our inflation estimate for the end of the year to 8.0%. In this environment, the Central Reserve Bank of Peru once again raised the reference interest rate by 25 basis points to 7.0% in September, in its attempt to anchor 12-month inflation expectations, which continued to show a decrease to 4.9% in September (5.1% in August). Likewise, in the last two weeks, the exchange rate has shown upward pressure, rising to around S/ 4 in a context of strengthening of the dollar worldwide.

Politics: in the political sphere, the National Prosecutor, Patricia Benavides, filed to the Congress of the Republic a constitutional complaint against President Pedro Castillo for the alleged crimes of criminal organization, influence peddling and collusion, a fact that had strong media coverage. Congress will have to process it. However, when counting the parlamentary's votes, it seems unlikely that the complaint will become an accusation, so the stability of the president does not seem threatened.

On the other hand, the elections of subnational authorities (regional presidents, provincial and local mayors) were held. Rafael López Aliaga, leader of the Popular Renovation opposition party and former presidential candidate in the last elections, was elected as mayor of Metropolitan Lima for the 2023-2026 period. In his first statements, López Aliaga ruled out meeting with Pedro Castillo and was harshly critical of his government. In the rest of the country, the regional governorships were won, or will be disputed in the second round, mainly by candidates from regional movements and most of these have investigations for alleged acts of corruption.





PEN/USD

2019	2020	2021	2022p	2023p
3.35	3.62	4.00	3.90	3.80

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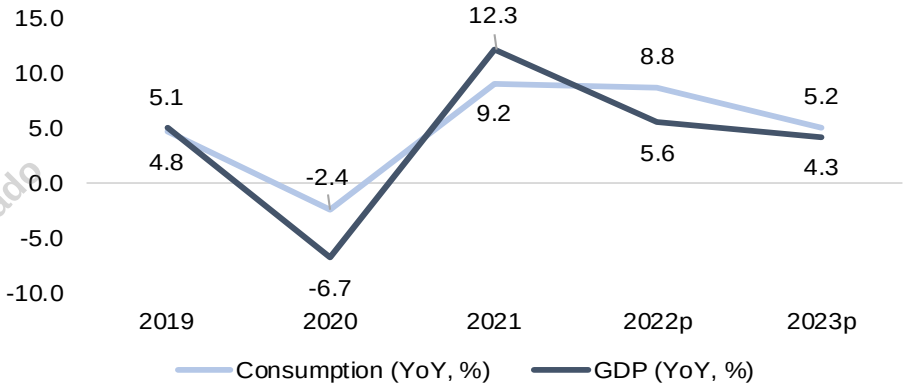
Republica Dominicana

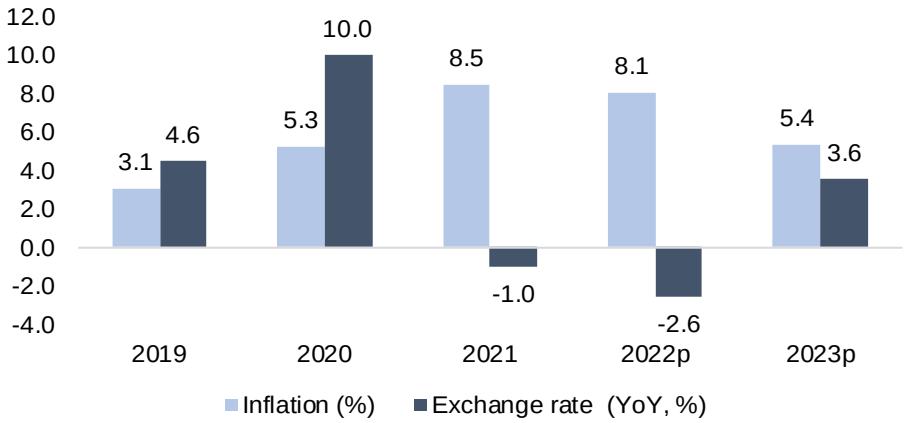
Economy: at its last monetary policy meeting, the Central Bank of the Dominican Republic (BCRD) increased its benchmark rate by 25 percentage points (pp) to 8.25% per annum. Even so, in the same statement the BCRD seemed to imply that it will take a more cautious stance in sanctioning further increases. Among the reasons, the BCRD commented that the increases made in the monetary policy rate, together with the reduction in inflation expectations, have caused the real interbank interest rate to be approximately one percentage point above its estimated neutral level.

On the other hand, the BCRD's Monthly Economic Activity Indicator (IMAE) registered a cumulative interannual variation of 5.5 % in the January-August 2022 period, the same as that observed in July of this year. This was mainly driven by the performance of the services sector (highlighting "hotels, bars and restaurants" and "health"). With this result, the BCRD maintained its 2022 growth projection in a range of 5.0%-5.5%.

Politics: the General Directorate of Customs (DGA) presented to British investors and businessmen the conditions that make the Dominican Republic an attractive destination for foreign investment and a point of connection for trade relations between the United Kingdom and the Caribbean nations.
The presentation led by the Deputy Director of Technology of the DGA, Daniel Peña, dealt with the great commitment of the DGA to be a trade facilitator. He highlighted all the advances that the institution has made in recent years (such as the 24-Hour Clearance, the Customs Law and the new Online Services platform) as part of the "Zero Bureaucracy" program. In addition, it was emphasized that the Government's collective objective is to turn the Dominican Republic into the logistics hub of the region. The project to advance the logistics and production hub in the country would support significant growth in the "free zone manufacturing" and "transportation and warehousing" sectors.

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DOP/USD

2019	2020	2021	2022p	2023p
52.8	58.1	57.5	56.0	58.0

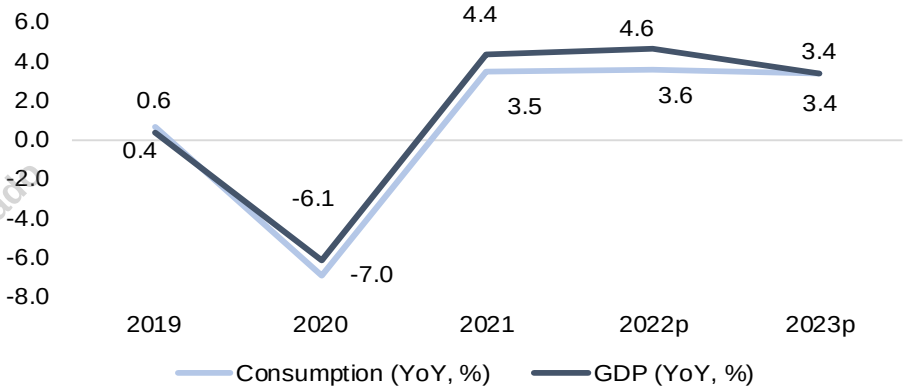
Uruguay

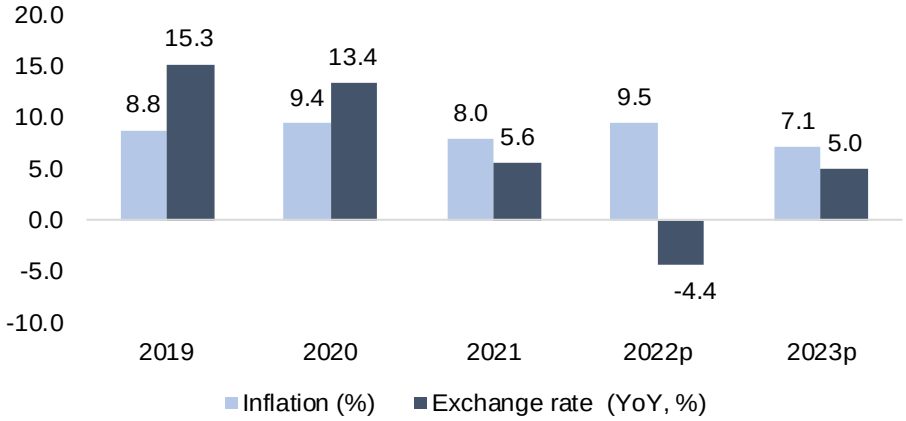
Economy: the Gross Domestic Product (GDP) showed an increase of 3.1% in the second quarter of the year over the immediately previous one, and of 7.7% over the same period in 2021 – which was still affected by the restrictions of sanitary conditions due to the COVID-19 pandemic– thus confirming and consolidating the growth in the level of activity.

The growth of activity was generalized among the productive sector with the exception of the Activities of the public administration. Health and Education services had the greatest incidence, since during the second quarter of 2021 they were strongly affected by the pandemic. The growth of the primary sector is explained by the expansion of agriculture derived from a greater production of soybean in the 2021/2022 harvest. Livestock production was another "growth factor" although to a lesser extent, since the increase in livestock production compensated for the drop in the remittance of milk to industrial plants. Within the manufacturing sector, the highlight was the production of cellulose pulp and food in general.

Expenditure for Private Consumption continues its recovery, with the highlight on outgoing tourism expenses, mainly to Argentina, as well as transportation and education services. The increase in investment is consistent with the largest civil engineering works – associated with the Central Railway – as well as machinery and equipment. Exports grew significantly as a result of higher sales of soybean, beef, and cellulose – among goods – and receptive tourism – among services. Imports slowed down although they continue to show significant growth associated to the requirements of capital goods for the works of the third pulp mill.

Politics: the Departmental Board of Montevideo approved the impeachment of the head of the municipality of Montevideo, governed by the Frente Amplio party (FA), Ms. Carolina Cosse, for not appearing when called to court to provide explanations on requested reports. The measure was promoted by the city representatives of the Nacional party and Colorado party, on the grounds that the Mayor's failure to appear before Court was a violation of the Constitution. The measure does not have the necessary votes in the Senate of the Republic for the Mayor's dismissal from office. Mayor Ms. Carolina Cosse is one of the potential candidates for the Presidency of the Republic by the FA party





UYU/USD

2019	2020	2021	2022p	2023p
37.3	42.3	44.7	42.8	44.9

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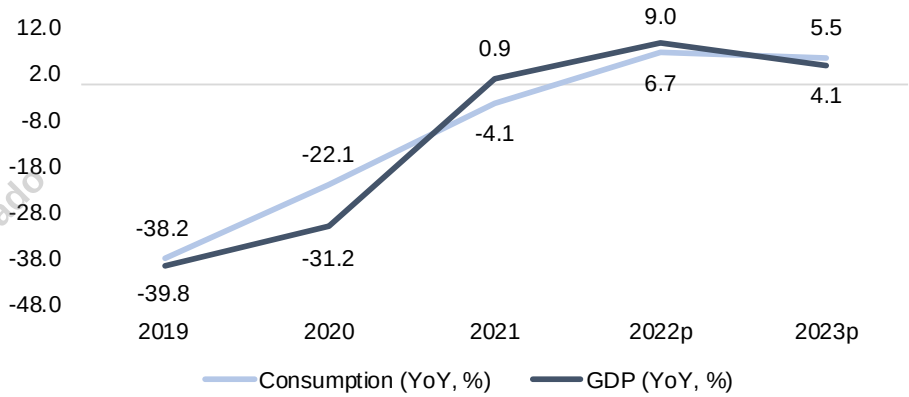
Venezuela

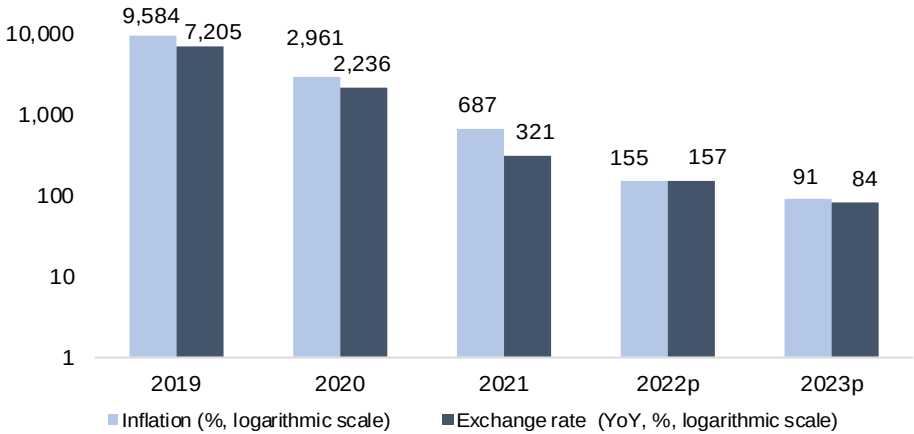
Economy: Venezuelan crude oil production in September closed at 666 kb/d according to direct communication sources, showing a 7.9% drop with respect to the previous month and a 23.5% drop compared to the end of 2021. With this, production in the third quarter of the year averaged 673 kb/d, lower than the average observed in both the second and first quarters of this year. At the same time, according to Refinitiv Eikon figures, September exports were 710 kb/d, closing the last quarter average at 662 kb/d and showing an upward trend in each quarter - opposite to that of production.

On the other hand, in the external sector, the president of the Federation of Chambers and Associations of Commerce and Production of Venezuela, Carlos Fernández Gallardo expects that the reopening of the borders between Colombia and Venezuela will result in a commercial exchange between both countries worth USD 1,200 million next year. Gallardo stated that this would represent a good start, especially for commercial, industrial and tourism sectors.

Politics: the Venezuelan government-appointed board of the Central Bank of Venezuela (BCV) will appeal a court ruling over the Venezuelan gold case that in July of this year granted authority over it to the government of Juan Guaidó. Judge Sara Cockerill, English magistrate of the Commercial Division of the High Court, gave authorization to proceed, but no date has been set for the BCV board to present its arguments.

On the other hand, on September 26, the border between Colombia and Venezuela was reopened. For the time being, circulation has been maintained only for citizens on foot and cargo vehicles and certain conditions are still pending for the resumption of traffic for private vehicles. For the time being, no air connection has been established between the two countries. The Colombian Minister of Transportation, Guillermo Reyes, stated that from Venezuela they have only postulated the airline Conviasa and they must consult with the U.S. given the sanction placed on this company in 2020.





VES/USD

2019	2020	2021	2022p	2023p
0.1	1.1	4.6	11.8	21.7

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