LAECO

Latin American situation report

November 2022

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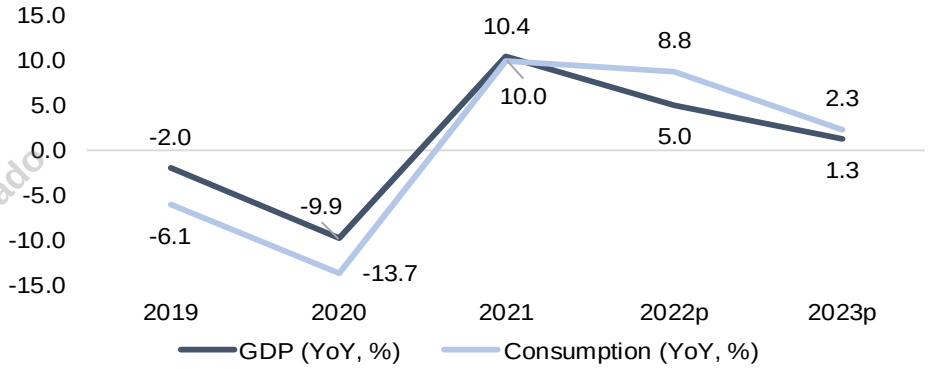
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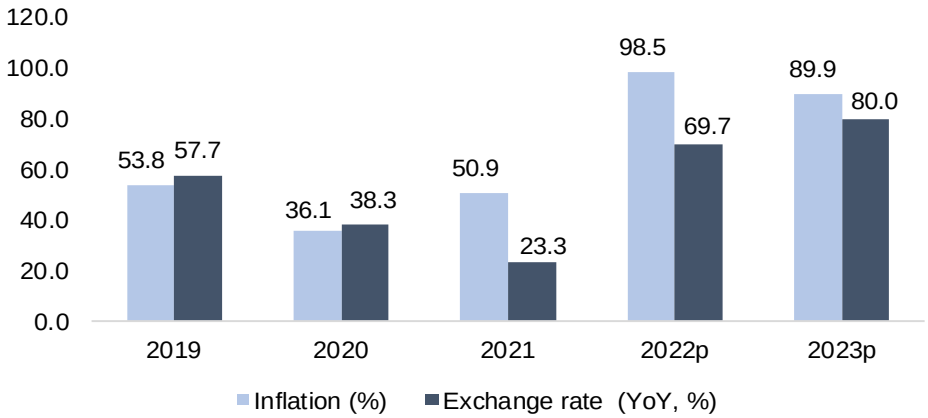
Argentina

Economy: with a certain degree of stability achieved on the financial and forex front during the first months of Massa's administration of the Ministry of Economy, new signs of strains within the government's two agendas began to emerge: an agenda that looks at 2023 from an electoral viewpoint and that seeks to address a complex social situation, and an agenda that is conscious of the narrow margin of action, the need to sustain the measures linked to the IMF agreement and the fact that the road towards 2023 is riddled with economic and political obstacles. Even though we do not expect the IMF agreement to be dropped in view of the challenges that lie ahead, the electoral campaign will start taking shape and the delicate economic, political and social balance management shall play a crucial role in the economic evolution of the upcoming months.

Politics: understanding power as relational, the government's marked electoral weakness determines both the government and the opposition, producing a curious paradox: the two main political forces see the 2023 scene as almost settled, which made their internal struggles gain more relevance than the external battle. Within the government, many believe the election is lost. In the opposition, many believe that the elections are won. Thus, each group is focused on their individual strategy of differentiating themselves from their internal competitors, but at the expense of damaging the group's collective strategy. In a context in which society and political leaders are fragmented into different groups that demand different things, and in a context in which the country needs a majority to agree on a roadmap, keeping the mechanism of primary elections becomes vital.

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ARS/USD

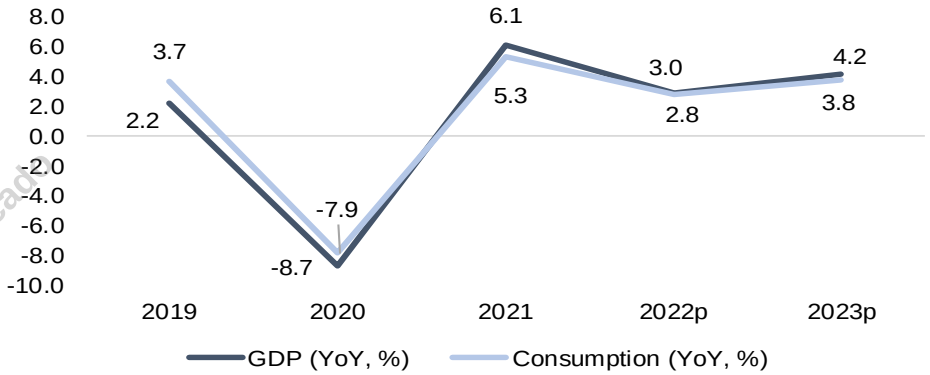
2019	2020	2021	2022p	2023p
59.7	82.6	101.9	172.9	311.2

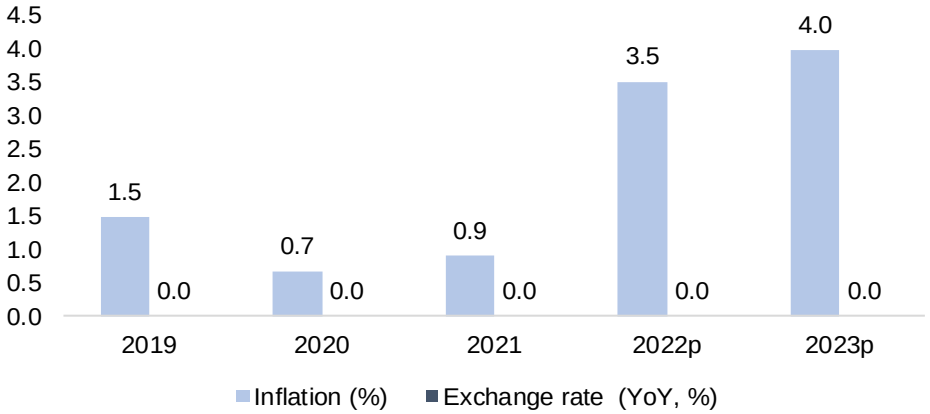
Bolivia

Economy: the information on activity for the first semester supports a GDP growth of 4% in the year. But the current political conflicts would imply at least one percentage point less expansion. Now, it is considered a punctual effect without lasting repercussions. Nevertheless, it will mean higher growth in 2023 based on a lower statistical comparison base. Given the liquidity restrictions in households, similar behavior in consumption is expected. Investment performed better than expected in the first half (7.7%). However, less private investment is expected in the future in a context of more significant political uncertainty. Regarding inflation, the political conflicts have meant a rise in prices higher than expected in October (0.7%), which is likely to continue in November. Therefore, there are prospects that it will close with a higher figure than previously expected. In turn, the rise in inflation would imply an increase in salary pressures in 2023.

Politics: Bolivia is marked by the political conflict over the census and its repercussions. Since October 22, the country's most populated and economically active region, Santa Cruz, has been on strike. During the 25 days the conflict has lasted, Santa Cruz achieved the census can be performed at the beginning of 2024 instead of November. Also, the results will be available for distributing resources and representatives in parliament in September of that year. The strike continues because Santa Cruz asks for a law to guarantee these agreements, in addition to demands for federalism. This conflict worsened when social groups related to the ruling party decided to surround the city of Santa Cruz during the days of most significant tension. The dispute occurred at a time when there would be a division within the ruling party between the supporters of President Luis Arce and those who are close to former President Evo Morales.

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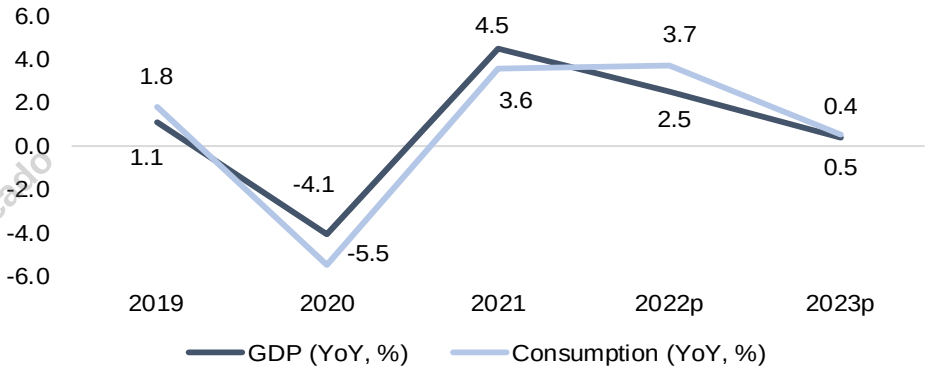
BOB/USD

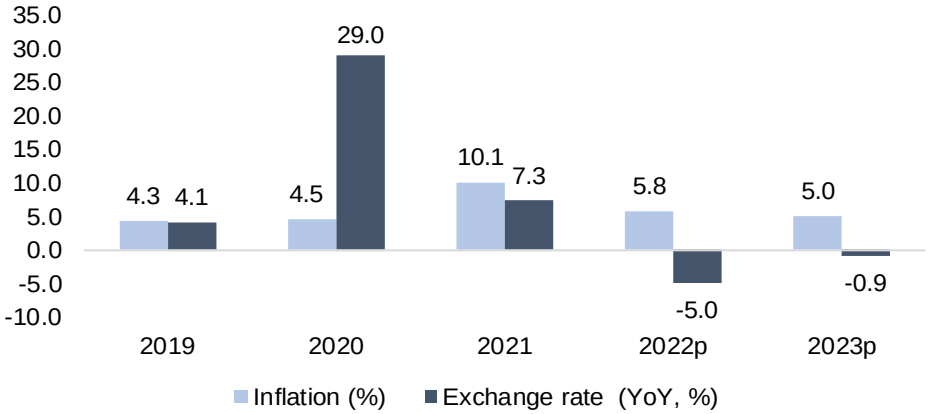
2019	2020	2021	2022p	2023p
6.96	6.96	6.96	6.96	6.96

Brazil

Economy: the most relevant point of the economic debate in Brazil focuses less on the analysis of the current year and more on the prospects for 2023. The electoral transition in the country reinforced the perception of fiscal risk in the face of the elected government's demand to increase public spending, especially in social spending and in investments. There are two lines of interpretation about the effects of domestic policy on economic activity. The first of them bets on a scenario of fiscal lack of control and, consequently, a crisis of confidence in Brazilian assets. This view points, then, to an increase in the interest rate in view of the inflationary pressures expected by the exchange rate depreciation. The other vision for the Brazilian economy is based on the reconstruction of the fiscal framework, which would allow monetary easing in the second half of next year. Our reading bets in fiscal control, but with less ambition to control spending in the country. In addition, the international scene should limit the dynamics of economic activity in 2023.

Politics: the prediction was confirmed. The 2022 presidential race has become the fiercest post-1988 Constitutional race, anticipating a very challenging picture for the president-elect. Lula returns to power under uncertainty about his conduct of economic policy. Some compare this new government with the 2002 transition, under the argument of PT's pragmatism. Others prefer the analogy with Lula's second term or with the government of the New Economic Matrix, signaling a perception that would anticipate a strong risk aversion of this new PT government. Our reading is that the dynamics of the electoral dispute reinforces the scenario of a certain pragmatism of the new president due to restrictions of two natures: 1) political and 2) market. The first signs of the elected government, however, point to strong volatility in Brazilian assets until the end of the year. The uncertainty regarding the new fiscal rule and the formation of the economic team.





BRL/USD

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

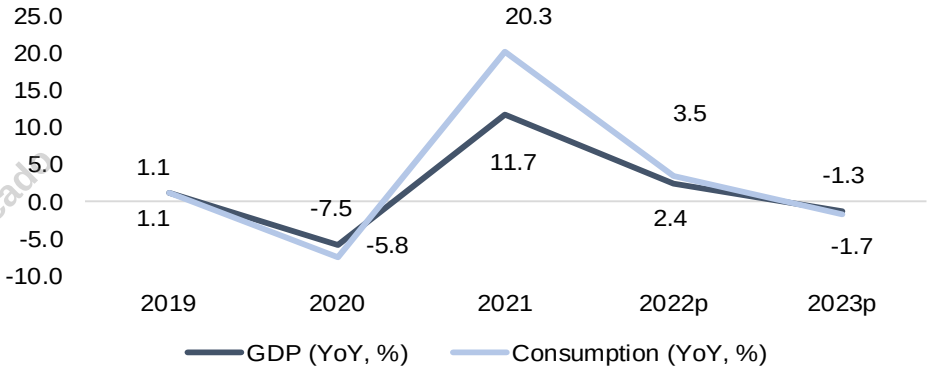
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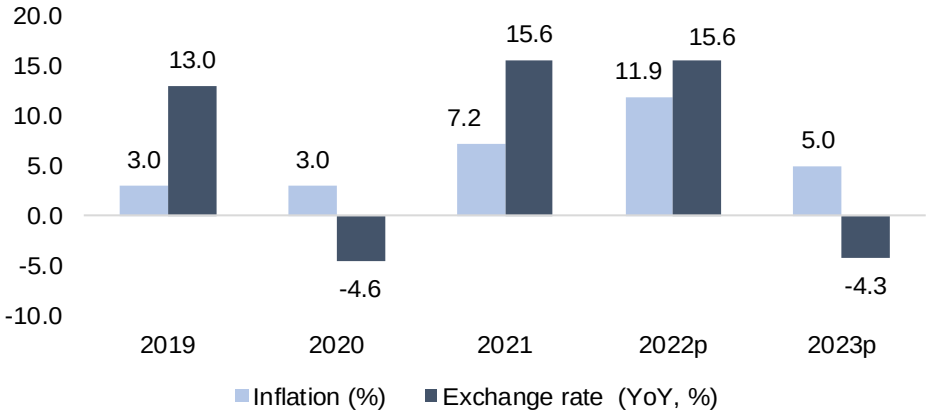
Chile

Economy: the economy, although decelerating consistently, does so at a slower pace than expected. The IMACEC for September contracted 0.4% in twelve months, considerably less than expected by the market, thus preventing the third quarter of the year from registering a negative variation compared to the same period in 2021. Everything now indicates that GDP growth in the year can approach 2.5%. Notwithstanding the foregoing, the seasonally adjusted figures show a stagnation in activity and the last three quarters show stagnation or null variations. Simply due to the effect of the statistical drag, we can expect a drop in activity in 2023. Furthermore, everything indicates that the deterioration in activity will continue in the coming months, ensuring a drop in GDP in 2023 of close to 1.5%. The good news is the apparent slowdown in inflation, which rose less than expected in October and slowed its annual variation to 12.8%. With this, new rises in the MPR are ruled out and, if the inflation trend continues in the same direction, the first drop in the MPR could come in January, although it is more likely in March.

Politics: the government seems, finally, to be somewhat recovering the initiative after the hard blow that the defeat in the constitutional plebiscite of 9/4 meant. It tries to confront delinquency and terrorism and, after several months of postponement, it presented the project to reform the pension system, which ends the current system, although it preserves individual capitalization for the current 10% contribution. The contribution would gradually rise to 16%, which would be administered by the State and used to make intra- and inter-generational transfers. In any case, it is a fairly radical change that does not ensure the permanence of the AFPs or their successors over time. Surely, it will experience many changes in the parliamentary discussion, since the government does not have a majority in either of the two chambers. If the project is approved, it will hardly be before the second half of 2023. The agreement on the constitutional reform, on the other hand, has been delayed and it is not clear when it will be reached.

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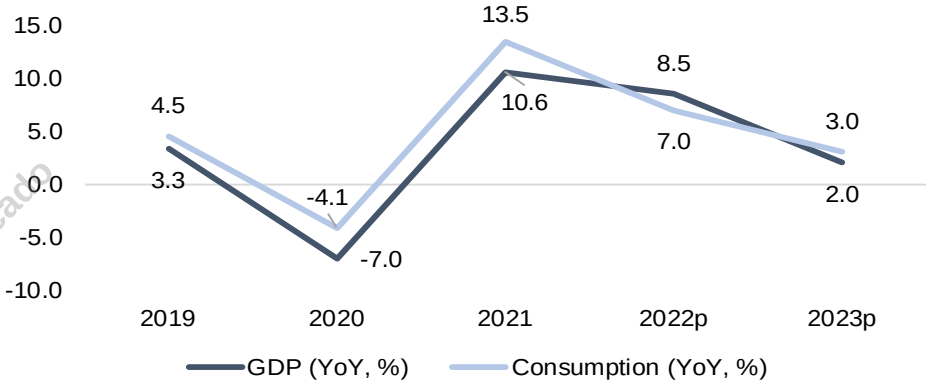
CPL/USD

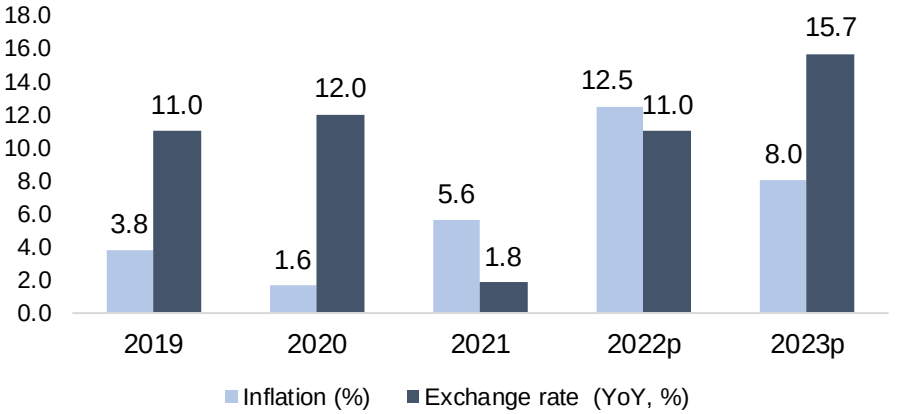
2019	2020	2021	2022p	2023p
770	735	849	930	900

Colombia

Economy: the Colombian economy shows clear signs of overheating. The latest GDP data place us as the fastest growing economy in the world in the last quarter. At first glance, this seems like good news. However, looking closely at data there are clear problem. Exports have fell compared to the second quarter of 2022, while imports increased. Thus, the trade balance will deteriorate further and will put even more upwards pressure on the exchange rate. On the other hand, despite high oil prices, the fiscal deficit has not improved. Thus, fundamental variables such as the current account deficit and the fiscal deficit make Colombia more vulnerable to the actions of the Federal Reserve. For these reasons, Colombian Peso has been on of the most affect by the increase in US interest rates. The timidity of the Central Bank, which has raised interest rates below market expectations, is added to this mix. The political situation in Colombia generates even more uncertainty.

Politics: the tax reform of the new Government is about to be approved, without major adjustments of substance. This shows that the new government has disciplined majorities in Congress and the Senate. In addition to this, the opposition has been ineffective, since there are no visible leaders capable of uniting the different sectors of the opposition. This combination of disciplined majorities and a fragmented opposition allows us to think that the Government will have room to successfully approve the next reforms. Details of the political reform and the pension reform are already available. The latter is particularly worrisome because, if approved in its entirety, it would have detrimental effects for the Colombian economy in the medium and long term.
A key event to follow is the motion of censure of the Minister of Mines and Energy, as it will be a demonstration of the opposition's capabilities.





COP/USD

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

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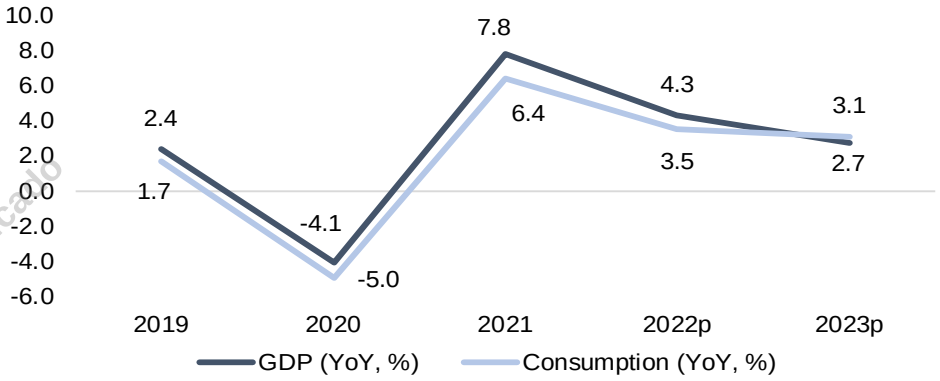
Costa Rica

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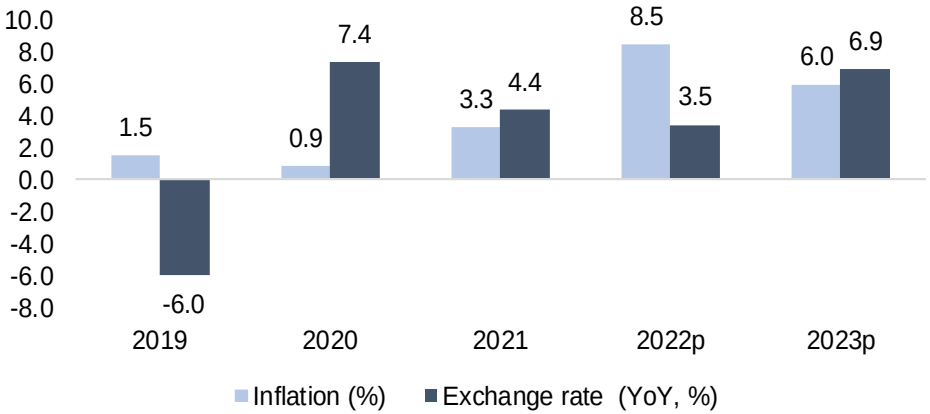
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Economics: according to the Monetary Policy Report published in October by the Central Bank of Costa Rica, economic growth of 4.3% and 2.7%, respectively, is expected for the biennium 2022 and 2023. In other words, compared to what was forecast last July, there was an upward revision of 0.9 p.p. for 2022, which is mainly attributed to the increase in external demand for goods produced by companies covered by the special regime for trade and services related to the entry of tourists. While, for its part, for 2023 there was a downward revision of 0.5p.p. compared to the previous review, which is explained by the behavior of domestic demand.

In addition, November broke an interannual inflation of 8.99%, which meant the second consecutive negative month over month variation (-0.76%) in the consumer price index, added to this, the average MONEX exchange rate reached the lowest level of the year on November 10, at which time it was positioned at 612.38 colons per dollar, which means that the colon has strengthened by approximately 5% so far this year.



Politics: during October, after approximately four months of discussion, the Economic Affairs Commission was dispensed with giving the endorsement to continue with the project that authorizes the Ministry of Finance to place $6 billion in securities on the international market (Eurobonds). After this, for final approval to be given, the project must obtain 38 votes in plenary; However, in the first days of November, the Minister of the Presidency, Natalia Díaz, called off the project due to the fact that two deputies of the Economic Affairs Commission are out of the country, while the Government hopes that the project advances and is approved at any time of the extraordinary period, because given the delay in the approval of the Eurobonds, the Minister of Finance, Nogui Acosta, said that the Government must seek $1,000 million in the local market to cover the maturity of the debt in January 2023.



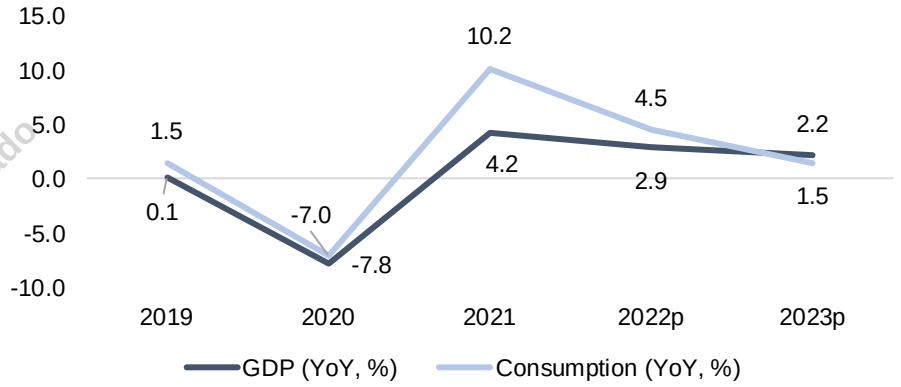
CRC/USD

2019	2020	2021	2022p	2023p
573.2	615.4	642.3	634.6	655.8

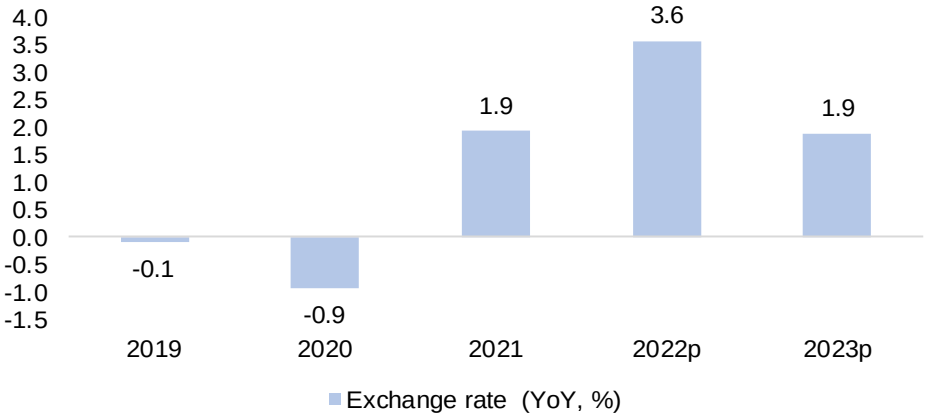
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Ecuador

Economy: the Government presented the General State Budget (GSB) for 2023. Although among the macroeconomic assumptions on which the budget is based is a conservative oil export price ($64.8 per barrel on average throughout 2023), other assumptions are, on the contrary, optimistic. These have to do with what is expected to be received from taxes (especially VAT), with the amount (close to 1% of GDP) that is expected to be obtained from the monetization of assets and with the levels of oil production, which should rise by about 5% compared to what has been observed in recent months. With these revenues, which seem to be overestimated, the government forecasts that next year's deficit will be 2.1% of GDP, similar to what we believe will be recorded at the end of this year. The sources of financing to cover this deficit and the amortization of the public debt are mainly concentrated in multilateral loans and new internal debt. In both cases, these are resources that have not yet been formally fully committed. Finally, the Government foresees that next year the Ecuadorian economy will grow 3.1%, which is a projection almost one point higher than the one we handle in CORDES (2.2%).



Politics: the wave of violence that Ecuador experienced at the beginning of November was close to generating a new political crisis for the government. In the early hours of November 1, there were a dozen outrages with attacks on police stations and explosions at different points, mainly in Esmeraldas and Guayaquil. As a result of this, correísmo began to promote the idea of seeking the removal of President Lasso in the National Assembly due to a "serious internal commotion." However, other parties did not support this initiative, which ended up deflating. The Government reacted to the attacks by decreeing a state of emergency in three provinces of the Costa region and transferring some leaders of criminal gangs, who apparently organized criminal operations from prison. Finally, the Constitutional Court approved the question on the possibility of extraditing drug traffickers that the Government wants to include in the referendum that will take place in the upcoming months.



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Mexico

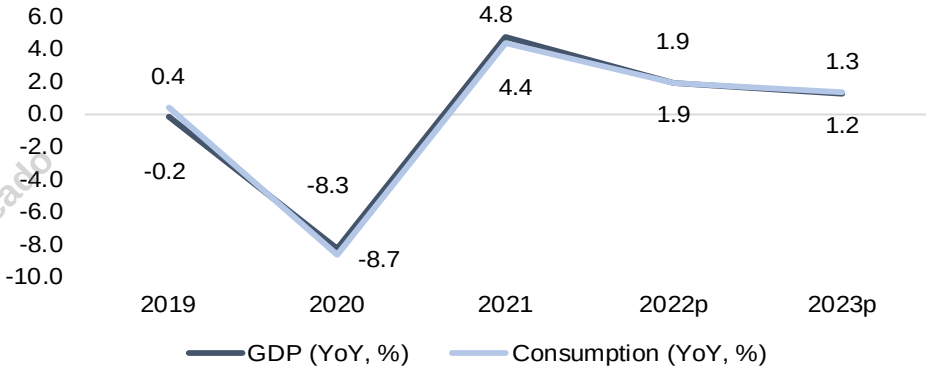
Economy: the National Institute of Statistics and Geography (INEGI), in its Timely Estimate of Gross Domestic Product (GDP), indicated that there was an increase of 1% in real terms during the third quarter of 2022 compared to the previous quarter. At a quarterly rate, the GDP of primary activities grew by 1.8%, that of secondary activities by 0.9% and that of tertiary activities by 1.2%. At Consultores Internacionales, S.C.®, we maintain our forecast for GDP growth at the end of the year between 1.5% and 1.9%.

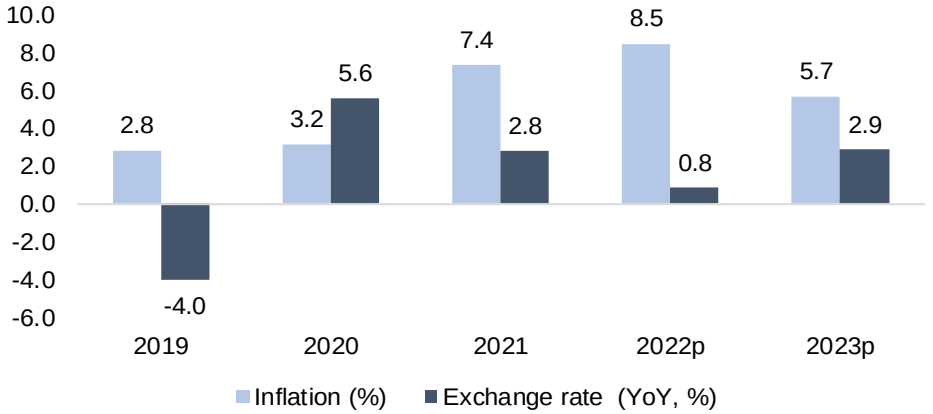
Contrary to expectations, inflation decelerated during October and reached a rate of 8.41%, below September's rate and analysts' projections. Nonetheless, core inflation continued to push upwards, reaching 8.42% in October. In response, the Bank of Mexico persisted in tightening its monetary policy: on November 10, it announced an increase of 75 basis points to the benchmark interest rate, placing it at an all-time high of 10.0%. At Consultores Internacionales, S.C.® we forecast inflation in 2022 between 8.5% and 9.1% and a benchmark interest rate between 10.0% and 10.5%.

The Mexican peso remains strong against the dollar as a result of rising exports and Foreign Direct Investment, high interest rates, and the relatively high transactionality of the currency in international financial markets. In addition, remittances are expected to close the year at historic levels, underpinning domestic consumption and dollar inflows into the country.

Politics: in addition to the serious economic concern about the controversies regarding the USMCA that are being discussed with encountered positions, the internal political discussion and the entire society regarding the Constitutional Reform of the National Electoral Institute is added, which has caused enormous polarization in society. The Government intends to disappear the current electoral authority and return its dependence under the protection of the Ministry of the Interior, thus losing autonomy and a setback in the exercise of democracy in Mexico; Civil society has reacted in a dynamic and organized manner through demonstrations, marches and demands to the representatives of the legislature not to approve these reforms.

New political and social concerns have arisen since the approval of amendments to the Federal Law on Budget and Financial Responsibility with a view to strengthening the Budget Revenue Stabilization Fund, whose objective is to mitigate the impact of possible decreases in the Federal Government's revenues on public finances and the Mexican economy. The approved reform expands the capacities of the Treasury to capitalize it, but also unclearly opens the possibility of the use of retirement and pension funds, which would have serious future consequences.





MXN/USD

2019	2020	2021	2022p	2023p
18.9	19.9	20.5	20.2	21.9

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Paraguay

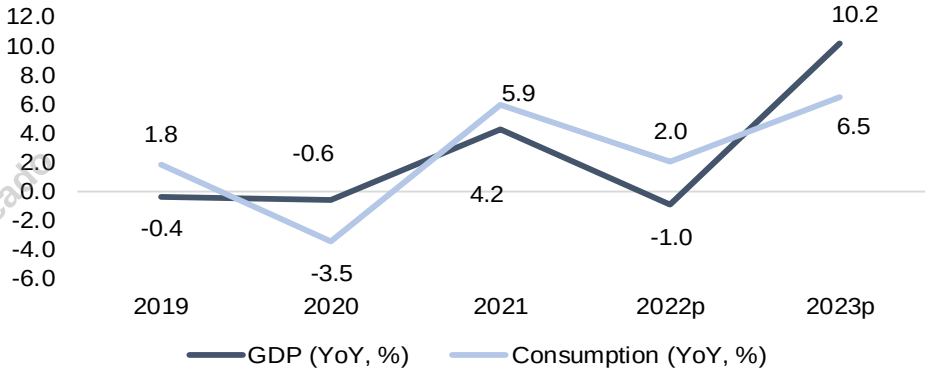
Economy: the interannual variation of the Consumer Price Index (CPI) showed, for the second consecutive month a one-digit record. Thus, for the month of October, inflation stood at 8.1% which marked four consecutive months of slowdown. The reduction in fuel prices was decisive for this result. On the contrary, among the upward factors, the greater depreciation that the exchange rate has observed in recent months stands out. In fact, at the retail level, it averaged 7,175 Gs. /USD, with which the year-on-year variation was 4.6%.

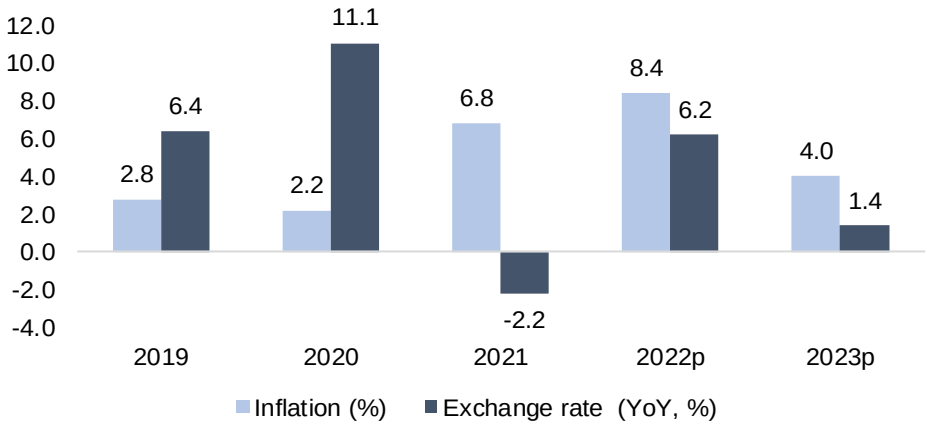
In addition, the Central Bank of Paraguay published, as of September 2022, the result of the monthly indicator of economic activity, which although it does not cover all the sectors contemplated within the structure of the Gross Domestic Product, allows its behavior to be anticipated. Thus, for the first nine months of the year, the economy accumulated a contraction of 1.2%. But, if the agricultural sector and electricity generation are excluded from the indicator, the accumulated growth would be 1.5% which shows the negative impact of the drought.

Politics: the campaign advances for the simultaneous party elections that will be held on December 18, 2022, in which the candidates who will be measured in the presidential election on April 30, 2023, will be chosen. In accordance with the guidelines of the electoral schedule, from November 12 to 15, the hardware and software of the voting machines will be audited and verified, with the presence of the different political organizations. In this process, the Superior Court of Electoral Justice will provide technical support and supervision.

On the other hand, the president, Mario Abdo Benitez, was on an official visit to Spain and Germany, where he held meetings with groups of businessmen from both countries with the aim of attracting capital to the country. To this end, Abdo Benitez highlighted stability; competitive advantages; economic growth; and the improvement of the country's connectivity. Additionally, the negotiation process for the elimination of double taxation between Paraguay and Spain was completed. Now the agreement signed by the countries must be ratified by the respective Congresses.

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PRY/USD

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

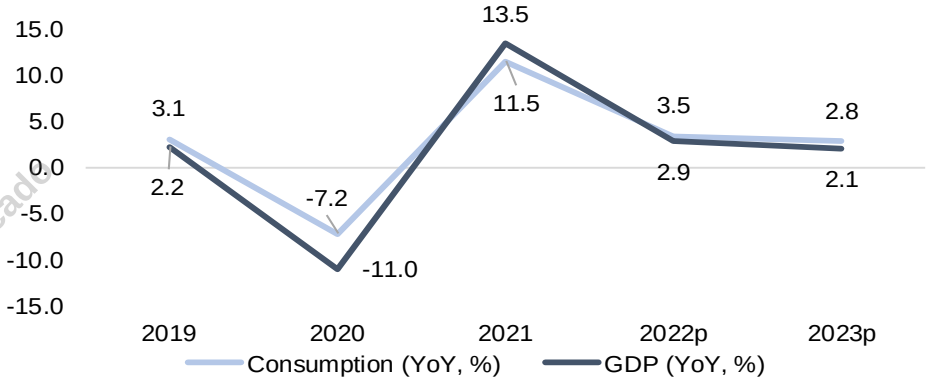
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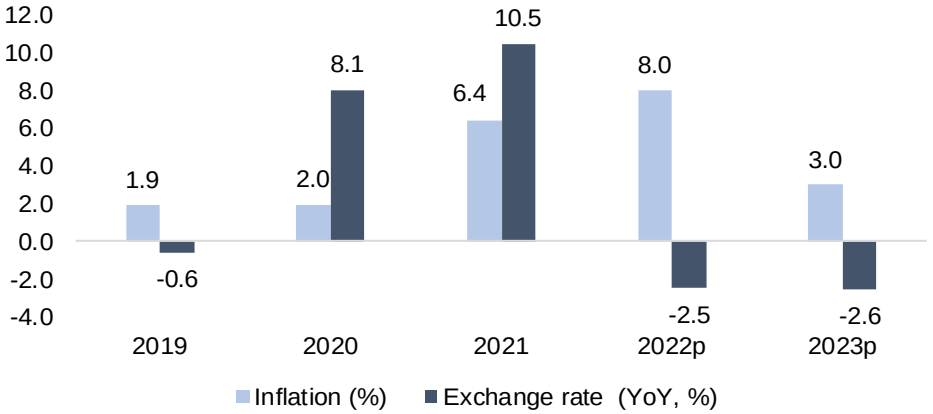
Peru

Economy: GDP growth slowed from 3.6% year-on-year in the first half of the year to 1.7% year-on-year in the third quarter, mainly due to less dynamism in domestic demand and supply shocks that affected sectors such as mining and hydrocarbons. Said result was lower than initially expected, which is why we have revised our projection of economic growth to 2.9% for 2022.

As for consumer prices, inflation slowed again to 8.3% year-on-year in October. However, inflation excluding food and energy stood at 5.7% year-on-year, a maximum in more than 22 years. In this environment, the Central Reserve Bank of Peru (BCRP) again raised the reference interest rate by 25 basis points to 7.25% in October, in its attempt to anchor 12-month inflation expectations, which continued to show a decrease to 4.8% in October (4.9% in September). Lastly, the Fitch agency lowered the credit rating outlook to negative, while the S&P rating agency kept the outlook stable.

Politics: in the political sphere, tensions between the Executive and Congress have intensified. On the one hand, the Subcommittee on Constitutional Accusations of Congress approved the final report that recommends denouncing President Pedro Castillo for treason. The next step is for it to be approved by the Permanent Commission and then go to the Plenary Session of Congress. However, when counting the votes in said state power, it seems unlikely that the complaint will become an accusation, so the president's stability does not seem to be threatened. On the other hand, the president of the Cabinet, Aníbal Torres, raised before Congress a question of confidence seeking to repeal the law that indicates that constitutional reforms that have not previously been approved by Congress cannot be submitted to a referendum (which includes citizen initiatives, through which they tried to force a constituent assembly). Although the latter opens up a series of scenarios, the most probable is that Congress indicates to the Executive that a request like this cannot be processed because it does not comply with the law.





PEN/USD

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

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Republica Dominicana

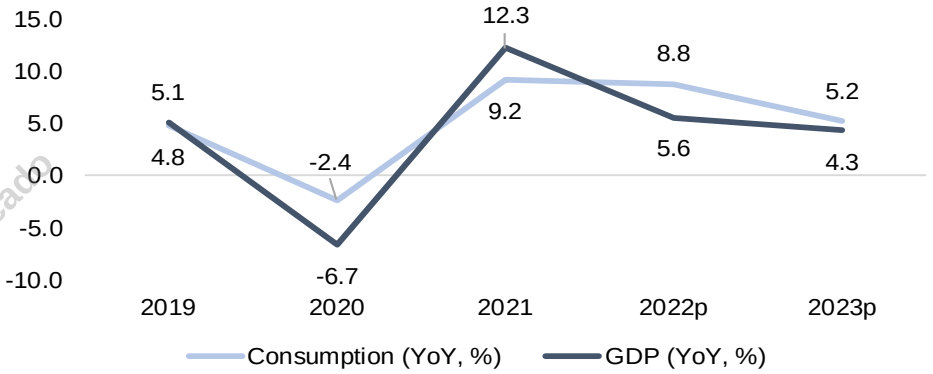
Economy: once again, the BCRD announced a 25bp interest rate hike to leave the benchmark rate at 8.5%. We expect this increase to be the last one due to the messages they have conveyed in their communications regarding the positive difference between the monetary policy rate and 12-month inflation expectations as a sign of the end of the rate hike cycle, with the idea of not affecting the resilience of economic activity so far.

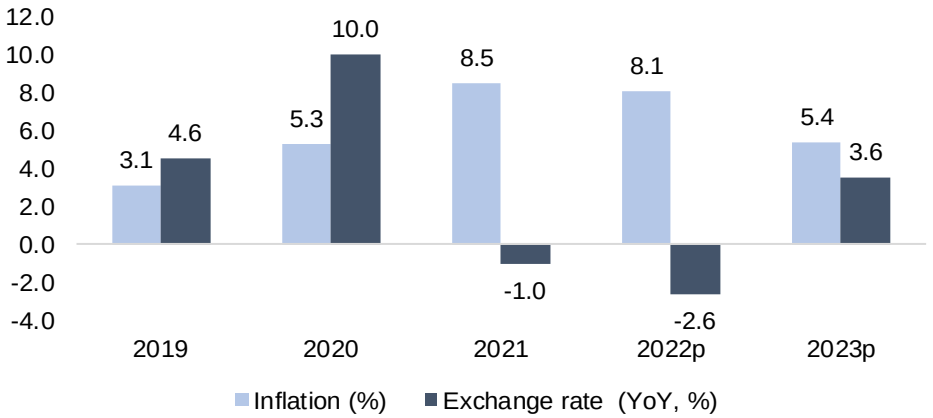
The same entity has stated that tourism and free trade zone activity are the main reasons for the good performance of the country's real activity in 2022, which they expect to show growth between 5.0%-5.5%, similar to our forecast of 5.6%. This resilience will be tested in 2023 in the face of the expected international outlook and its effects on the two aforementioned sectors. On the fiscal side, despite higher revenues than initially expected, the increase in government expenditures due to fuel and basic food basket subsidies have pressured the fiscal gap, in contrast to the lower execution of capital expenditures, which will leave a fiscal gap in the order of 3.8% of GDP for this year, 0.8pp above the original budget.

Finally, with respect to the exchange rate, from Ecoanalítica we expect the exchange rate to close 2022 at DOP 56 /USD, with a small depreciation of 3.5% towards the end of the year, but with an accumulated appreciation of 2.4% in the annual aggregate.

Politics: the situation of citizen insecurity in which the country has been plunged in recent months has become one of the main political criticisms of the government, and has forced on more than one occasion the President of the Republic, Luis Abinader, to come out in defense of the actions that have been taken, and guaranteeing that he will bring peace and tranquility to every Dominican home.

In the face of complaints from citizens of high crime and delinquency rates, the President has issued strong warnings to the criminals. The last one given by the head of state while participating in the first congress of Community Standards of the National District, held at the San Carlos Sports and Cultural Club, he assured that the Government and the National Police will confront crime in any terrain, which may involve confrontations between gangs and official bodies to control criminal groups.





DOP/USD

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

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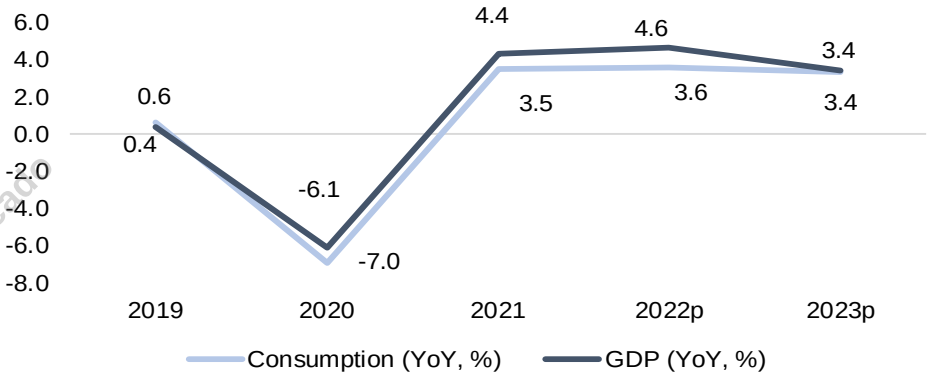
Uruguay

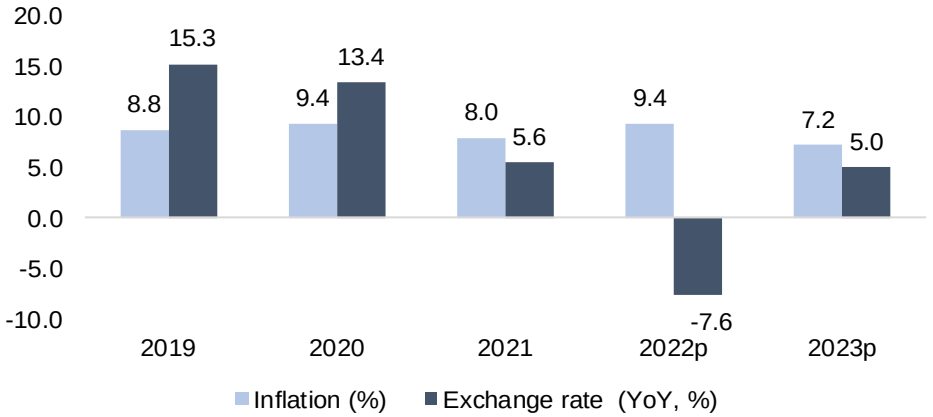
Economy: the Government finally materialized the issuance of a new US dollar-denominated Bond Indexed to Climate Change Indicators (BIICC in Spanish) in the global market with final maturity in 2034 (amortization schedule in 2032, 2033 and 2034). Simultaneously, a repurchase offer was made for shorter-term global bonds in dollars. One of the objectives of the country is to link its sovereign financing strategy to its environmental goals, implementing a new symmetric adjustment mechanism for interest rate that indexes capital costs to the achievement of climate goals and nature conservation objectives of the country.

The issue amounted to approximately US$ 1,500 million, of which US$ 1,000 million were in exchange for cash, issuing the remainder to repurchase eligible bonds. The demand far exceeded the amount issued, with a combined order book that reached US$3.96 billion at its maximum. The BIICC was issued at a yield of 5.935% p.a. (and a coupon of 5.75% p.a.), corresponding to a spread of 170 basis points with respect to the benchmark US Treasury bond.

Despite the current high global uncertainty, Uruguay has managed to obtain large-scale financing, at intermediate terms through an innovative instrument. The BIICC is the first global bond indexed to sustainability indicators that incorporates a rate increase or decrease structure depending on the achievement of the established goals.

Politics: when announcing the completion of the bill drafting for the social security reform, President Luis Lacalle stated: "The social security reform is necessary, supportive and sustainable". With this reform, only in 2040 will the first Uruguayan retire at the age of 65. Thus, the increase in the retirement age would affect those born in 1973, retiring at 63 years of age in 2036, followed by those born in 1974, retiring at 64 years of age in 2038, and then those born in 1975, who would be the first generation to retire at the age of 65 in 2040. Currently, the retirement age is 60 with 30 years of registered work contributions. Among other objectives, this reform seeks to reduce public pension spending that grew almost 3 points of GDP between 2008 and 2020 as a result of the country's level of demographic aging.





UYU/USD

2019	2020	2021	2022p	2023p
37.3	42.3	44.7	41.3	43.4

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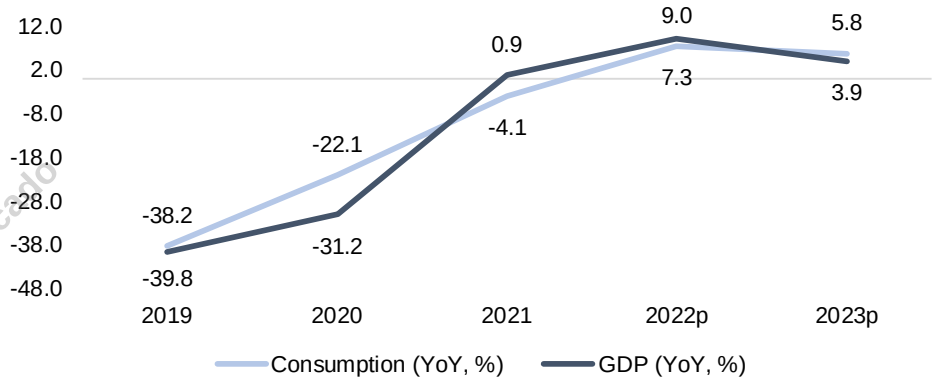
Venezuela

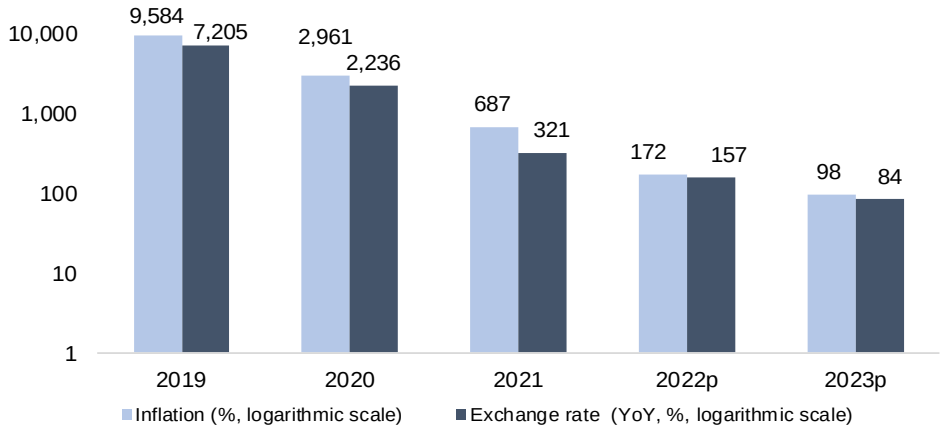
Economy: the Central Bank of Venezuela (BCV) published its inter-monthly inflation figures for the months of September and October 2022, reaching variations of 28.7% and 6.2% respectively, hence the accumulated inflation for the year amounts to 119.4 % and year-on-year inflation at 155.8%; exceeding the informal goal of a price increase of less than 3 figures adopted by the authorities at the beginning of the year. The rise in September is explained by a lagged capture of the impact on prices triggered by the exchange rate shock at the end of August.

For its part, according to Reuters data, oil exports fell below 600 kb/d in October, falling 25% compared to September and 23% compared to the same month of the previous year. The fall is associated with a drop of almost 60 kb/d in oil production, to which is added difficulties in locating oil in the Asian market in the face of Russian competition. The structural ceiling for Venezuelan production is estimated at 750-800 kb/d without larger investments in the sector.

Politics: representatives of the Venezuelan government and the Unitary Platform (opposition) met in Paris occupying a space in the Forum for Peace, sponsored by French President Emmanuel Macron, and with the accompanying participation of Presidents Gustavo Petro (Colombia) and Alberto Fernández (Argentina). The meeting is part of a series of exploratory approaches for the reopening of negotiations in Mexico between the government and the opposition to address the political impasse, with the former demanding relaxation of international sanctions and the latter credible electoral conditions.

On the other hand, the attorney general of the International Criminal Court (ICC), Karin Khan Karim Khan, requested to continue with the investigation into crimes against humanity in Venezuela, arguing that the postponement requested by Venezuelan authorities in April is not justified. In response, the Venezuelan Foreign Ministry issued a statement rejecting the resumption of the ICC investigation, arguing that Khan has "a clearly biased view of the situation in Venezuela."





VES/USD

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

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