



# Latin American situation report

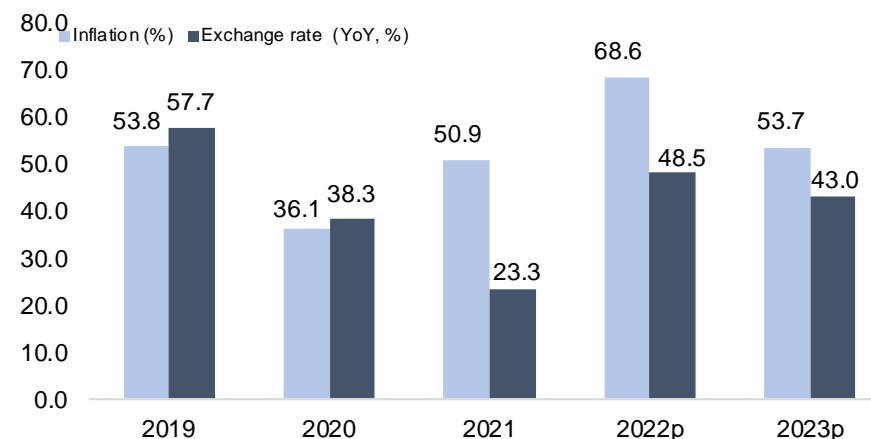
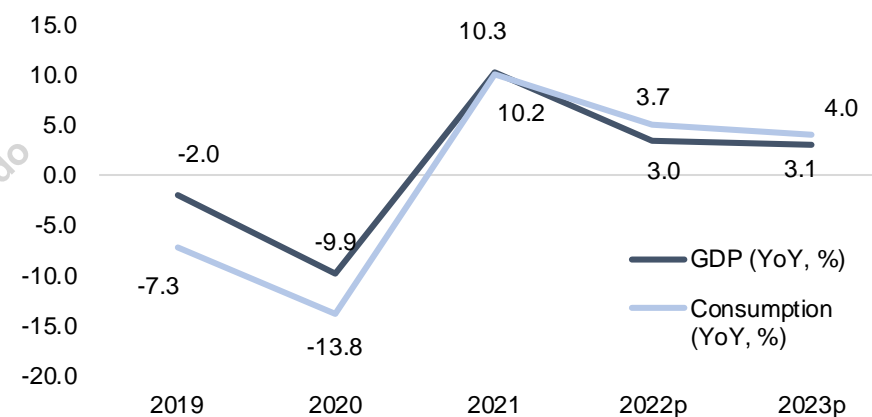
May 2022

## Partners



**Economy:** the agreement with the IMF made it possible to avoid a scenario of acute nominal crisis, but it is far from establishing a set of economic policies that address the structural imbalances that obstruct the Argentine economy. The global economic turbulence, the acceleration of inflation and the domestic political crisis put pressure on the course set in the agreement and endanger the objectives set forth therein, in a context of acceleration of inflation. Reversing the exacerbation of uncertainty caused by the lack of clarity regarding the course will be a crucial input to prevent the nominal race from climbing a new step. The first quarter of the year was marked both by the signing of the agreement and by global economic turbulence, the acceleration of inflation and the domestic political crisis that reaffirmed the agreement itself. While the first element dissipated part of the uncertainty that existed towards the end of 2021, the second cast fog regarding the sustainability of the course and the objectives that were pre-set in the agreement.

**Politics:** governance conditions continue to deteriorate and the process is only supported by the agreement with the IMF. If the performance of the economy depends on political conditions, those conditions continue to deteriorate, not only because of the loss of popularity or the mid-term electoral defeat, but also because of the wear and tear to which the president is being subjected by criticism from Coalition members disagree with the decision to agree with the IMF. The image of the president is at the lowest level of the entire cycle (only 19.7% positive image), the criticism of the administration of the government by officials and leaders who respond to Cristina Kirchner does not stop and the only thing that remains of the reservoir of presidential authority is deposited in the figure of Martín Guzmán, whose head the vice president asks to be able to stop her strategy of wearing down the president. How far can the crisis in the ruling party deepen? And what consequences would it have? The greatest risk of a deepening of the crisis in the ruling party is the deterioration of governance conditions

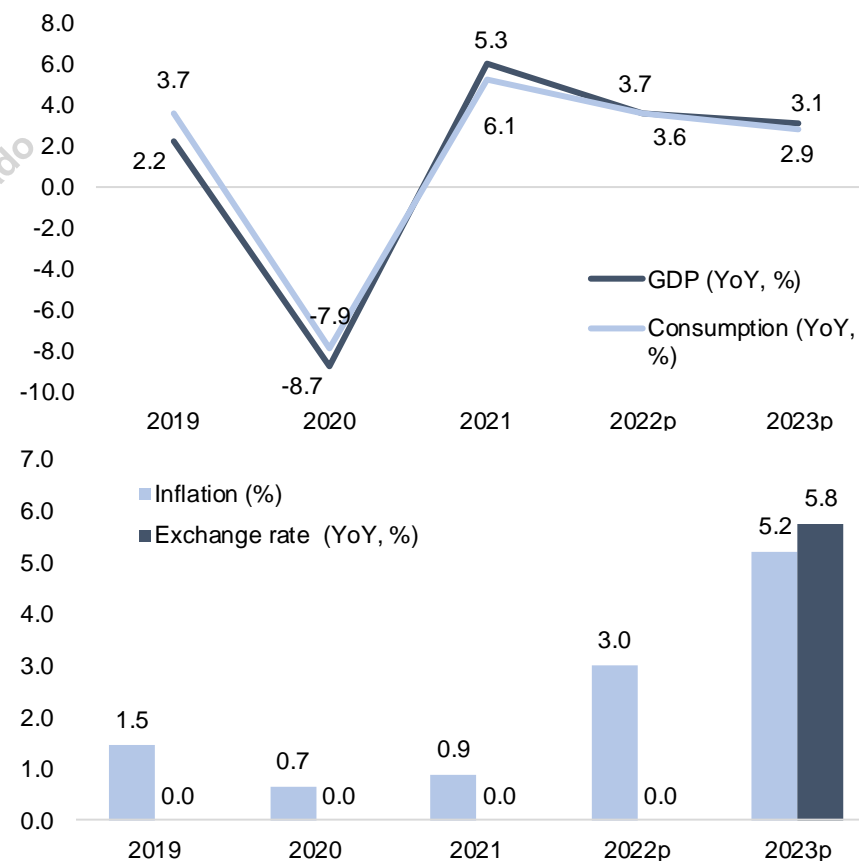


**ARS/USD**

Year	2019	2020	2021	2022p	2023p
ARS/USD	59.7	82.6	101.9	151.3	216.4

**Economy:** as usual on Labor Day, the government approved the general wage increase of 3%, as well as 4% for the minimum wage, leaving it at USD327 per month. This rise is inconvenient due to the slow pace of the recovery in comparative terms with other countries as well as within the sectors and items. Also because it would imply the continuity of the fall in employment in companies observed since 2015. Likewise, it is a measure that does not reach the majority of workers due to informality. And, low inflation is not consistent with the approved measure. On the other hand, the central bank published the information on the balance of payments at the end of 2021, which shows a current account surplus of USD815 million (MM), equivalent to 2% of GDP. Within the financial account, in addition to having recorded a loss of reserves (USD354MM); the loss of foreign exchange associated with smuggling and/or the accumulation of undeclared assets rose again to USD1,127MM.

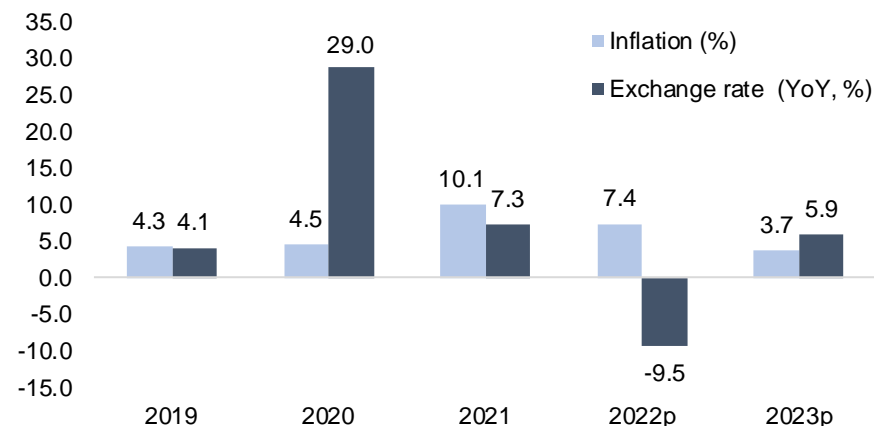
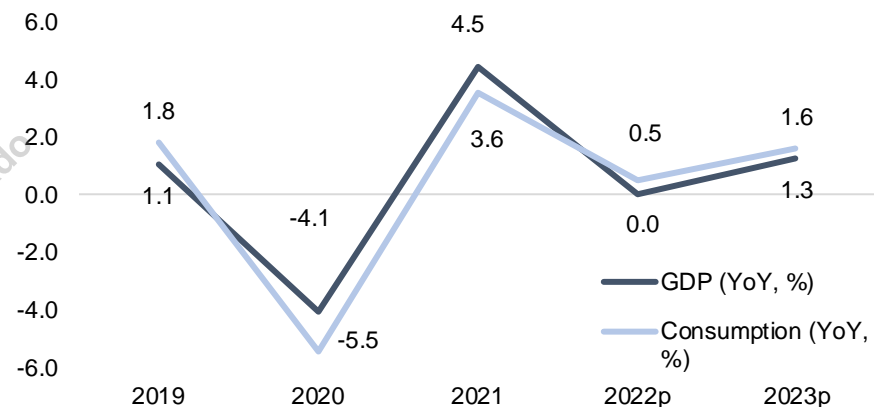
**Politics:** a Chilean television report uncovered the possible cover-up of the smuggling of stolen cars outside of Bolivia by Bolivian law enforcement agencies. This situation has strained the political environment, since the opposition to the ruling party points out that smuggling is institutionalized in the Bolivian state, a phenomenon that would have deepened in the government of Evo Morales. On the other hand, despite the fact that the ruling party and the opposition advanced unanimously in the selection process for the new ombudsman, tensions appeared in the final phase when candidates with a good professional and academic record were left aside and the short list focused on people close to the ruling party. The situation has not yet been resolved. Finally, the ordinary trial against former president Jeanine Añez was stopped when the judges decided to wait for the Constitutional Court to rule on the legality of this process.



BOB/USD				
2019	2020	2021	2022p	2023p
6.96	6.96	6.96	6.96	7.36

**Economy:** the international scenario marked by the change in monetary policy on the part of advanced economies to contain the inflationary scenario and the prolongation of the conflict between Russia and Ukraine appeared as obstacles to the resumption of growth of the Brazilian economy. Brazil was already facing the challenge of rebalancing the pillars of economic policy in the face of very persistent inflationary signs. It is not by chance that the Brazilian monetary authority took the lead in confronting inflation. The combination of these external challenges and the fight against inflation at the domestic level threw a conservative bias towards activity throughout 2022. The most recent data, however, suggest better forecasts for the year, driven by the services sector and the positive price shock of commodities. Thus, the economic scenario should combine a scenario of higher than expected inflation, demanding a stronger movement of monetary policy. This scenario brings a positive interest rate differential for capital inflows, contributing to the relative stabilization of the exchange rate in the short term.

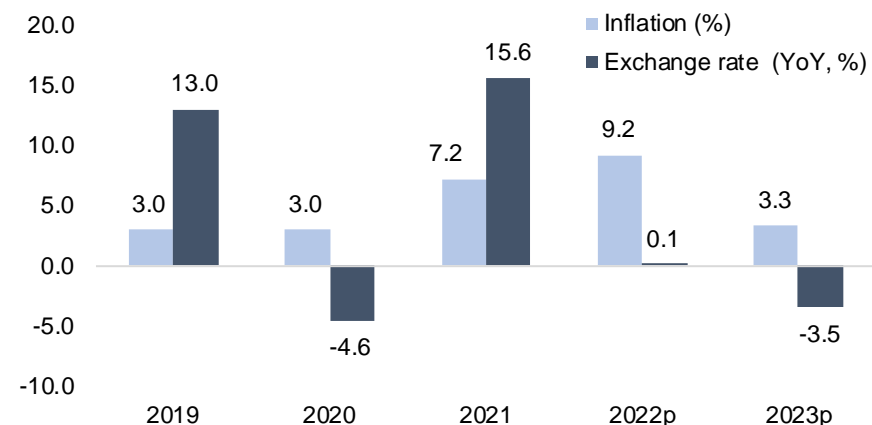
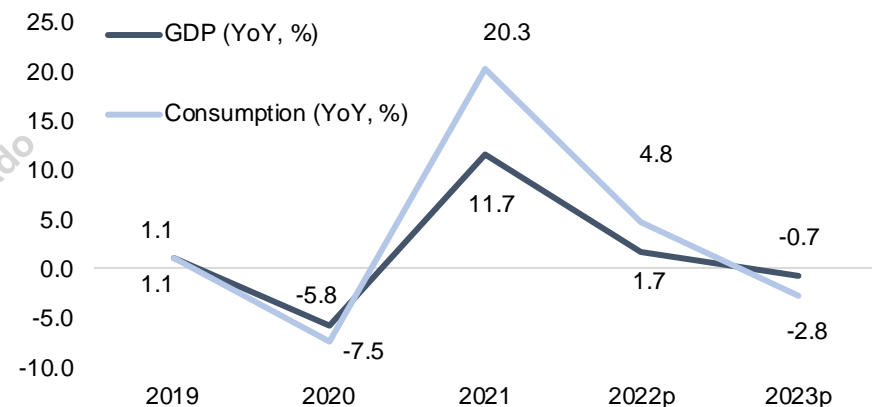
**Politics:** the domestic political landscape remains very instable due to the presidential race. This movement should add uncertainties to the economic environment throughout the year, contributing to a less optimistic reading for the 2022 scenario. This political component is fundamental for understanding a more modest outlook for activity when compared to versions of economic growth in 1%. In general terms, the scenario continues to be marked by legislative activism to alleviate the effects of a more turbulent international scenario, associated with a framework of institutional tension and high uncertainty regarding the presidential race. The government's assessment shows a slight improvement at the margin, as a result of the agenda power in the hands of the president. This improvement in the government's image affects the electoral scenario, given that the 2022 race should be a referendum on the performance of the current administration. The presidential race should continue to be marked by the broad dominance of the Lula-Bolsonaro polarization, especially in view of the fragmentation of "third party" electoral projects.



BRL/USD				
2019	2020	2021	2022p	2023p
4.03	5.20	5.58	5.05	5.35

**Economy:** despite signs of a slowdown, activity remains firm with information at the end of the first quarter, which would have grown 7.9% compared to the same period in 2021. However, in seasonally adjusted terms, GDP would have fallen 0.3 % compared to the last quarter of last year. Inflation has continued to accelerate, reaching 10.5% in the twelve months to April, exceeding expectations and reaching its highest level since August 1994. The additional devaluation of the peso, explained by the drop in the price of copper and the strengthening of the dollar in the international markets only aggravates the problem and forces the Central Bank to continue raising the MPR. On May 5, it announced an increase of 125 basis points, up to 8.25%, and it is expected to rise again in June and July to a level between 9% and 10%. Employment continues to recover the jobs lost during the pandemic, but it is still not enough, while real wages have fallen for several consecutive months due to the effect of higher inflation.

**Politics:** the government continues to make unforced errors, the product of declarations by ministers who continue to think that they are still in the opposition and can say whatever comes to mind without being aware that they are representatives of the State and committing it. The high point of the cabinet continues to be finance minister Mario Marcel, but he will have an increasingly difficult task as the economy enters a recession and inflation remains high. President Boric managed to stop the deterioration in his popularity, but he has tied his fate to the Constitutional Convention, which has lost the trust of the citizens as well as the proposed new constitution, which should be ready for the work of the harmonization commission during May. With the information available today, the draft of the new constitution could be rejected in the plebiscite on September 4 but, if it is approved, it will be by a very narrow margin and will not solve the institutional alley in which the country finds itself.

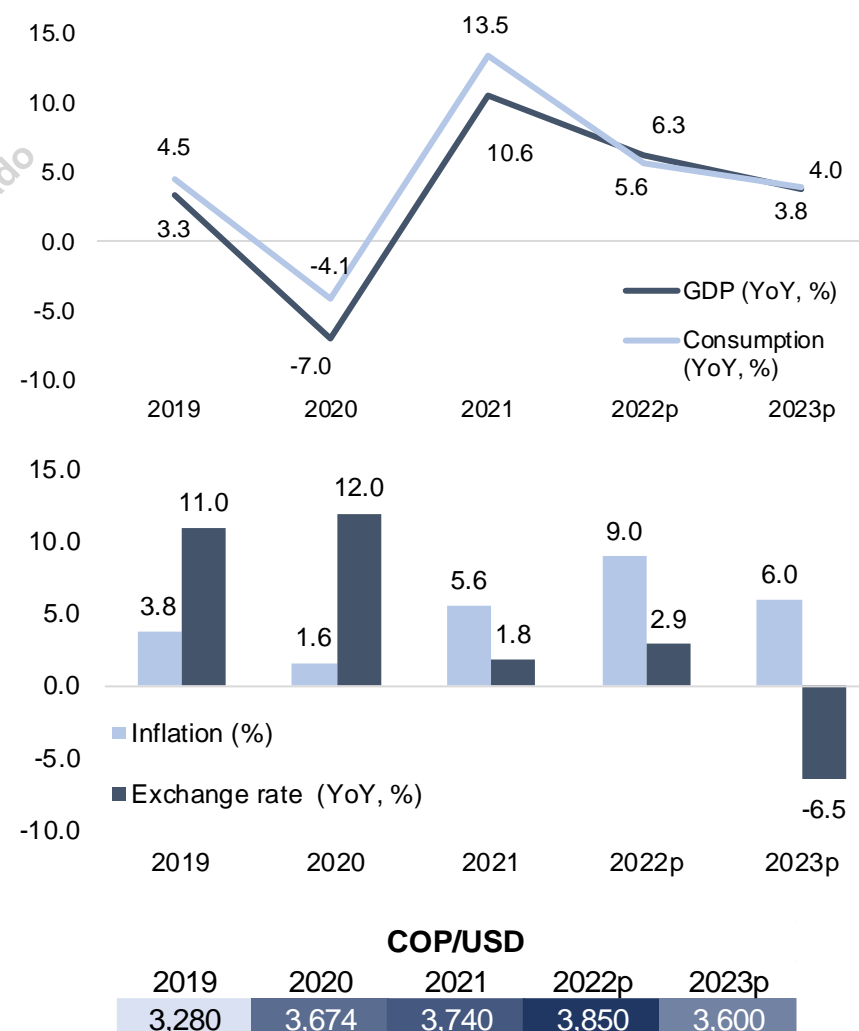


**CPL/USD**

Year	2019	2020	2021	2022p	2023p
CPL/USD	770	735	849	850	820

**Economy:** the Colombian economy grew 8.5% in the first quarter of 2022, close to our forecast of 8.25%. This is a positive number that shows a more robust economy. Nevertheless, there are some factors of concern. The tracking indicator for the economy is stagnating. Similarly, the unemployment rate has not come down from 12% levels and, while it is likely to decline in the second half of this year, it will not reach pre-pandemic levels, despite the fact that the current participation rate is significantly lower than in 2019. In addition, inflation continues to rise and is likely to reach 9% by the end of the year. For their part, external shocks from the war in Ukraine have pushed global inflation upwards and led to interest rate hikes that have put pressure on the exchange rate. Thus, the economic growth forecast is preserved, as the growth surprise in the first quarter will offset the subsequent slowdown in the economy that may be generated by the increase in prices.

**Politics:** the first round of the presidential elections will be held on 29 May. At the moment, polls suggest that the candidate of the left, Gustavo Petro, is leading the race, but without enough votes to win in the first round. He is followed by Federico Gutiérrez, representing the right and centre-right. Finally, there is great uncertainty about the third and fourth places, where, according to the polls, the candidate of the centre, Sergio Fajardo, and the independent candidate, Rodolfo Hernández, would be. It is worth remembering that polls have not always been accurate given that the country's electoral environment is particularly uncertain and the percentage of the population that still does not know who to vote for is high. There is room for the leading candidates to propose alliances with other candidates with lower polling, which would allow for a change in the outlook. Given this scenario, the alliances generated after the first round are very important.

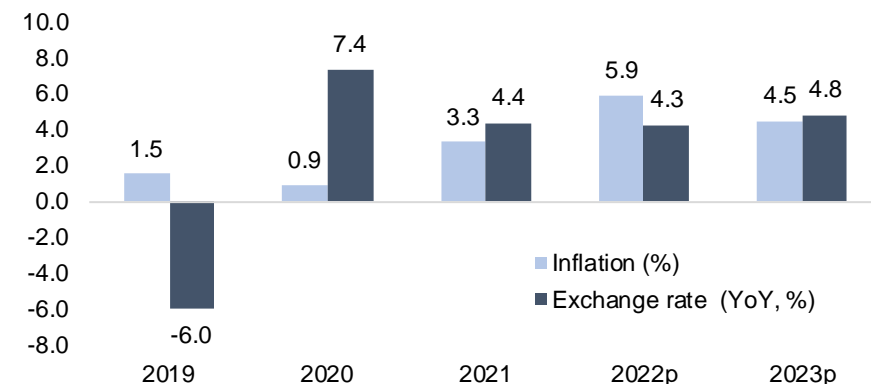
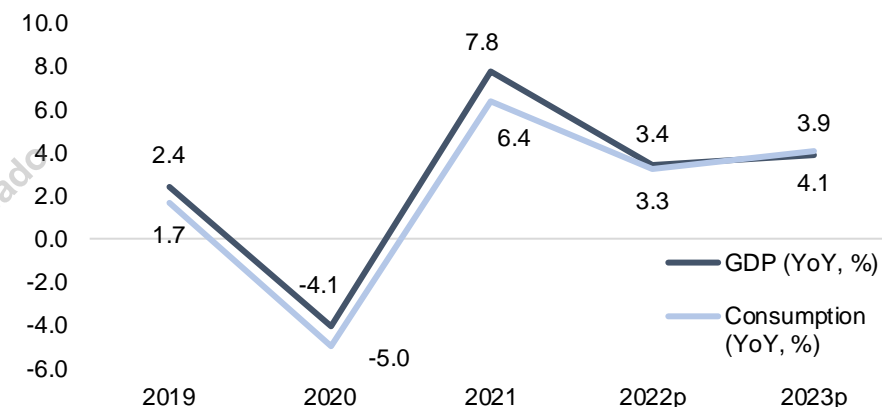


**Economics:** on April 27, the Board of Directors of the Central Bank of Costa Rica agreed to an increase of 150 basis points (bp) in the Monetary Policy Rate (TPM), which places it at a level of 4.0% per year. This is the fourth consecutive adjustment of the rate after the increase of 50 p.b. in December and January, and the increase of 75 p.b. in March of this year. The recent adjustments in the MPR are aimed at maintaining the inflation targeting scheme since inflation was 5.8% in March, which rose to 7.1% in April, values that exceed the tolerance range established by the Central Bank (3.0 %).

In addition, according to the Monetary Policy Report (IPM) published in April, a variation of the Gross Domestic Product of 3.4% and 3.9% is projected for 2022 and 2023, respectively, which represents a decrease of 0.5 percentage points ( p.p.) for 2022 and 0.1 p.p. for 2023 compared to 3.9% and 4.0% contemplated in the IPM of last January. In other words, downward revisions were made to the growth projections for the Costa Rican economy, reflecting lower global growth and high uncertainty in the face of the war between Russia and Ukraine, as well as the impact of the global evolution of the pandemic and to global and domestic inflationary pressures.

**Politics:** on May 8, the transfer of power took place, which marked the beginning of Rodrigo Chaves' mandate as president for the period 2022-2025. The ceremony took place in the Legislative Assembly, where the Catholic and Evangelical Church were in charge of blessing the new president, after two transfers of power where the religious presence was absent.

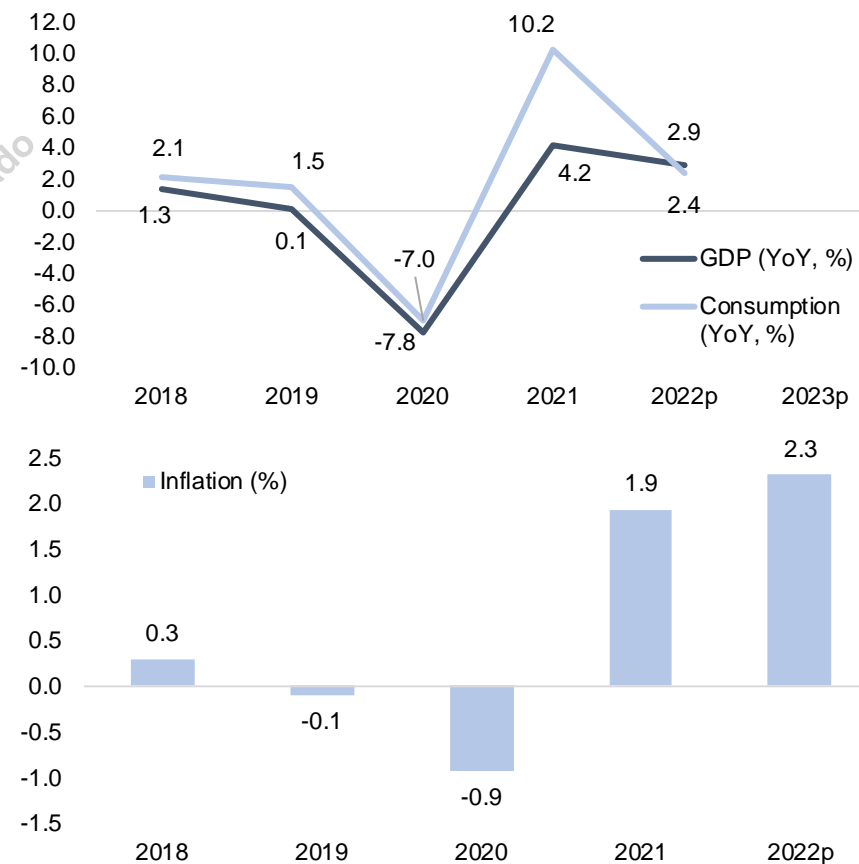
On the same day, the first session of the Council of Government of the new administration took place, in which the President signed his first three decrees. The first one corresponds to a declaration of national emergency due to cyber-attacks on the public sector, while the other two correspond to the elimination of the use of masks and the non-compulsory use of vaccines. However, only days after the beginning of his mandate, the president has been questioned because, although the decrees were published this May 11 in La Gaceta, the first one, referring to the use of masks is dated May 7 which means that it was signed before the current president took power, which would make it invalid, which has not impeded decree N°42421-S, with which the use of masks is no longer mandatory in open or closed spaces, to officially enter into force. On the other hand, the decree regarding the elimination of the vaccine had to be changed to an incitement to the employers not to dismiss those who do not have the vaccination scheme, since the elimination of the obligatory nature of the vaccine requires the endorsement of the National Commission of Vaccination and Epidemiology.



2019	2020	2021	2022p	2023p
573.2	615.4	642.3	669.9	702.1

**Economy:** on May 11, the government of Ecuador and the IMF announced that they had reached an agreement at a technical level within the framework of the current program in force since 2020. This new agreement - whose announcement took longer than expected, since the Fund's mission arrived in Ecuador in early March– will allow the country to receive a disbursement of \$1,000 million (slightly less than 1% of GDP) in mid-June once it is approved by the Board of Directors of the multilateral. In her press release, the head of mission pointed out that Ecuador met "all the quantitative criteria of the program, except for the one related to the balance of the central government", which was not met due to corrections in the data referring to transfers to social security. If the disbursement is approved, Ecuador would have received \$5.800 million of the \$6.500 million in the program. The disbursement of the remaining \$700 million will depend on a new review later this year. By 2022, the government expects to receive external financing (multilateral) for \$4.400 million, of which \$1.700 million correspond to the IMF.

**Politics:** beyond the tense relationship between the Executive and the Legislative, the political environment in Ecuador continues to add new elements of uncertainty. In the National Assembly, a "multiparty" commission was formed (with a clear dominance of Correismo and allies) to evaluate the performance of Guadalupe Llori as president of that institution. An eventual dismissal of Llori, who has been close to the government, could generate new problems for the Executive (more difficulty in processing projects of his interest or even the possibility of advancing in the repeal of the last tax reform). On the other hand, the new majority in the Legislature would also be interested in prosecuting the members of the Council of Citizen Participation, which is the body in charge of appointing the control authorities (prosecutor, comptroller, prosecutor, superintendents) and, eventually, seek the removal of President Lasso, although that possibility seems more distant and the president, in this case, has the tool of "cross death", which consists of dissolving the Legislative and calling new elections, but also putting his position at stake.



# Mexico



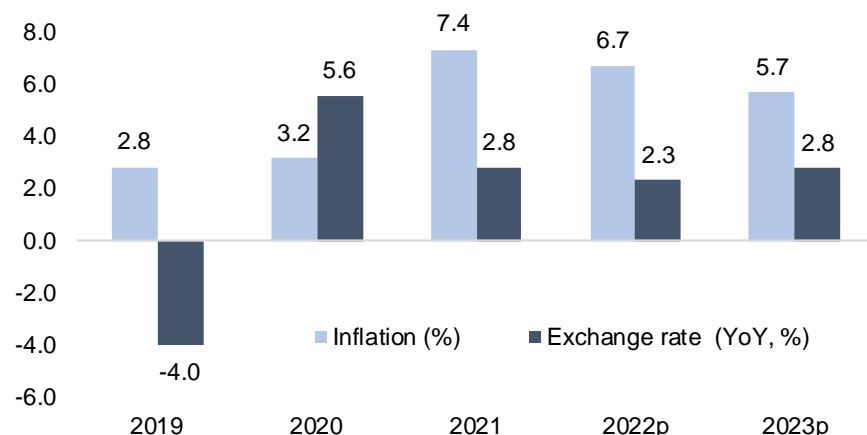
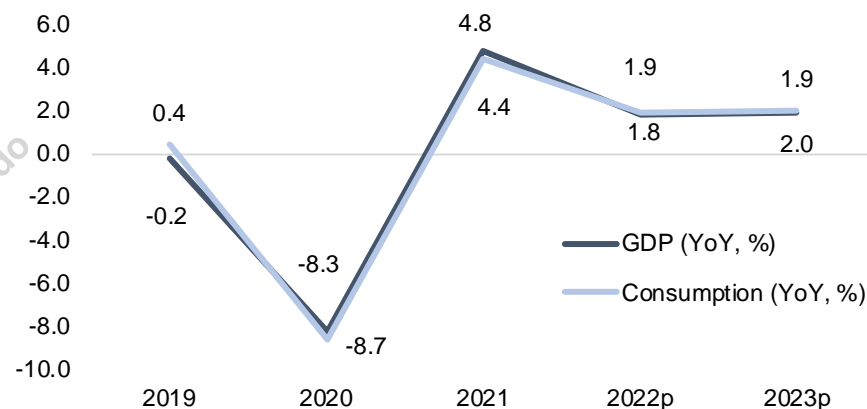
**Economy:** the GDP for the first quarter of 2022 grew by 0.9% with respect to the previous quarter - and by 1.6% annually with respect to the same period of 2021-, which led to a downward adjustment of growth expectations for the year 2022. The Ministry of Finance and Public Credit, the most optimistic forecast, estimated a growth of around 2.5% per year, but institutions such as the International Monetary Fund, the World Bank and ECLAC, point to a growth of 2.0% per year. Beyond the distortions in global value chains, high world inflation and the war conflict, the misguided conduct of Mexico's economic policy has led to economic stagnation, which is why, at Consultores Internacionales, S.C.®, we estimate annual growth of between 1.4% and 1.8%.

Annual inflation in April was 7.68%, the highest recorded in this century. In response to this, the federal government, together with the private sector, promoted the Package Against Inflation and Famine (PACIF), a program that seeks to agree on the prices of 24 basic goods and services. In our analysis, we believe that PACIF, which does not seek to control prices, will be insufficient since inflation is a structural phenomenon that requires policies that promote productivity and competitiveness of employment and companies.

Banco de México's monetary policy decision replicated that of the U.S. Federal Reserve. At the beginning of the month, the FED increased its interest rate by 50 basis points and our central bank announced an increase of the same magnitude, placing the reference interest rate at 7.0%. At Consultores Internacionales, S.C.® we have predicted that one of its impacts will be the increase in the cost of financing, particularly public debt, whose cost will affect the health of public finances and depress the low level of investment.

**Politics:** the Presidency presented a reform that intends to replace the National Electoral Institute -in charge of organizing the electoral processes in the country- with the National Institute of Elections and Consultations. This change seeks for the electoral system to have a smaller budget and for the electoral councilors to be elected by direct vote. We consider this decision to be another action that seeks to denigrate INE, motivated in good measure by the failed citizen consultation for the recall of the mandate.

The President of Mexico traveled to several Central American countries to propose a trade integration among the economies of the region that would be similar to that of the European Union and thus face the economic ups and downs. Among his positions, he has sought the withdrawal of the U.S. economic embargo on Cuba, as well as the Mexican government's position to prevent the U.S. government from vetoing certain countries from attending the next Summit of the Americas. In the face of a difficult international negotiation framework, Mexico must be firm in its position without neglecting its friendship and business ties with its main trading partner.



**MXN/USD**

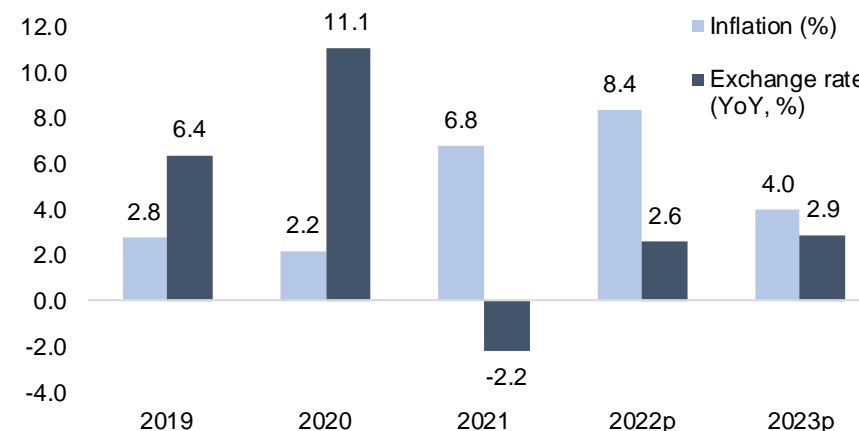
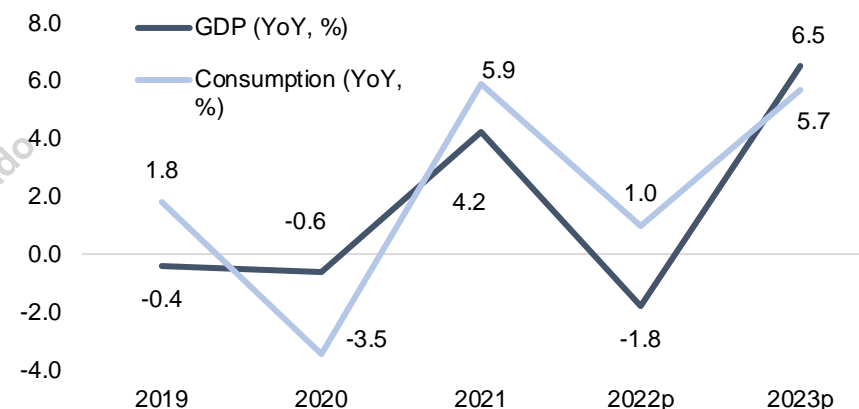
Year	2019	2020	2021	2022p	2023p
Value	18.9	19.9	20.5	20.9	21.5

**Economy:** in April 2022, the interannual variation of the Consumer Price Index, stood at 11.8%. With this result, it reached two consecutive months of double-digit records. It is noteworthy that inflationary pressures continue to be concentrated in categories of food and non-alcoholic beverages and transportation. These revealed interannual variations of 19.8% and 24.4%, respectively. For the first quarter of the year, accumulated inflation stood at 5.3%.

During the first quarter of 2022, the Monthly Indicator of Economic Activity registered a fall of 2.7%. This is mainly explained by the significant retraction of soybean production (66.1%) showed after drought, and the lower generation of electricity associated with the low flow of the Paraná River. In fact, if these two economic activities are excluded from the indicator, an accumulated growth of 5.3% is observed. In turn, the unemployment rate stood at 8.5%, which represents a slight increase of 0.3 percentage points compared to the same quarter of 2021. By economic sectors, as expected, there was a decrease in employment in the primary sector.

**Politics:** the rise in fuel prices remains on the country's political agenda. In this sense, the Chamber of the Senate presented and sanctioned a bill by which Petróleos Paraguayos (Petropar) could acquire fuels without intermediaries, through direct purchases. This project was also sanctioned by the Chamber of Deputies, who argued that this would result in the elimination of cost overruns, therefore in lower final prices for consumers. However, the Executive Power partially vetoed it, considering that all purchasing processes should be administered by the public procurement regime which guarantees the safeguarding of resources and transparency.

Along the same lines, the president of the Upper House of the Senate in union with other members, met with a delegation of Venezuelan parliaments who seek to resume an energy agreement. This, under which Paraguay could acquire hydrocarbons at prices below the international market. However, the president of Paraguay, Mario Abdo Benítez, ruled out this possibility since he does not have relations with the Venezuelan government.

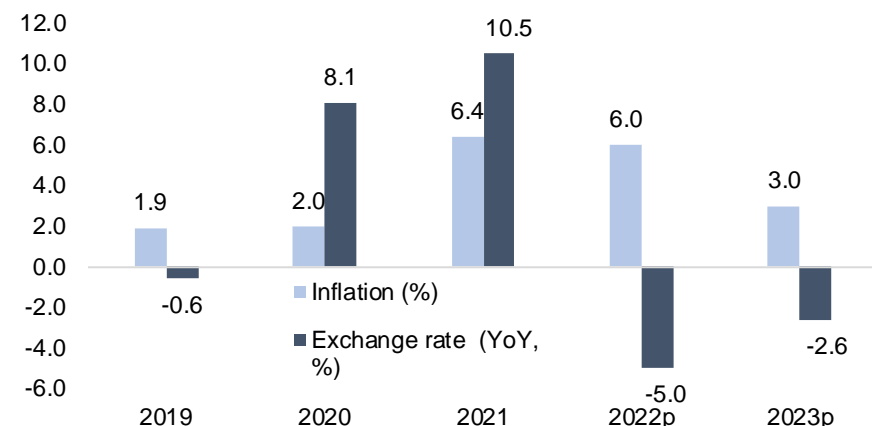
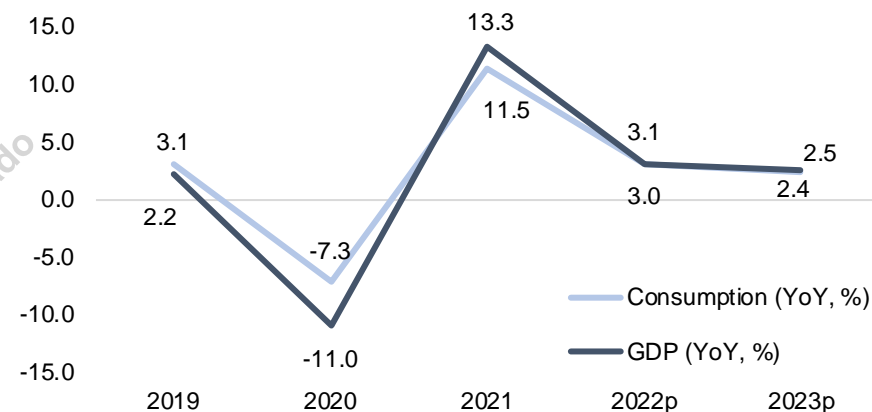


PRY/USD				
2019	2020	2021	2022p	2023p
6,279	6,974	6,824	7,000	7,200

**Economy:** the Peruvian economy grew 3.8% year-on-year in the first quarter of 2022, slightly above the 3.2% in the fourth quarter of last year. On the other hand, the annualized trade balance of goods surplus reached a new all-time high of US\$15.9 billion in March (7.1% of GDP), while the annualized fiscal deficit narrowed to 1.0% of GDP in April. In both cases, the behavior occurs in a context of high copper prices that boosted exports and public income due to regularization of the income tax. In addition, it was reported that monetary poverty reached 26% of the population in 2021 (30% in 2020).

As for consumer prices, total inflation stood at 8.0% in April, a maximum not seen in more than 20 years, for the eleventh consecutive month above the target range of the Central Reserve Bank of Peru (BCRP) ( between 1% and 3%). Although a good part of the figure was explained by the inflation of food and energy (+13.5%), the inflation of the rest of goods and services was also above the target range (+3.8%). In this context, the BCRP once again raised its reference interest rate by 50 basis points to 5.00% in May in its attempt to anchor 12-month inflation expectations, which stood at 4.6% in April.

**Politics:** in the last month, the political landscape was characterized by the presentation and approval of various laws that could be described as anti-technical or populist. On the Executive side, it sent to Congress a draft law for consultation via referendum for the preparation and approval of a new Constitution through the installation of a Constituent Assembly. This project was finally shelved by the Constitution Commission of Congress. On the Legislative side, he highlighted the approval of a sixth early withdrawal of funds from the Private Pension System (SPP). A withdrawal of S/ 32 billion (3.7% of GDP) is estimated, almost 25% of the total SPP funds. Regarding social conflicts, the Las Bambas mine suspended its operations again (the last time was last December).



PEN/USD				
2019	2020	2021	2022p	2023p
3.35	3.62	4.00	3.80	3.70

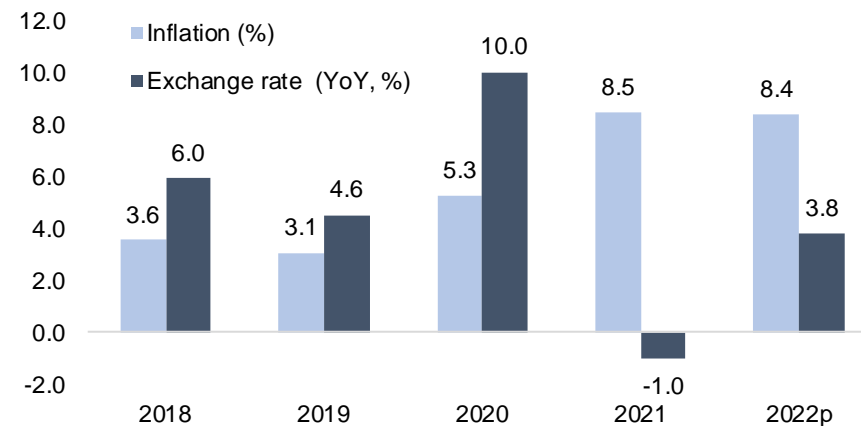
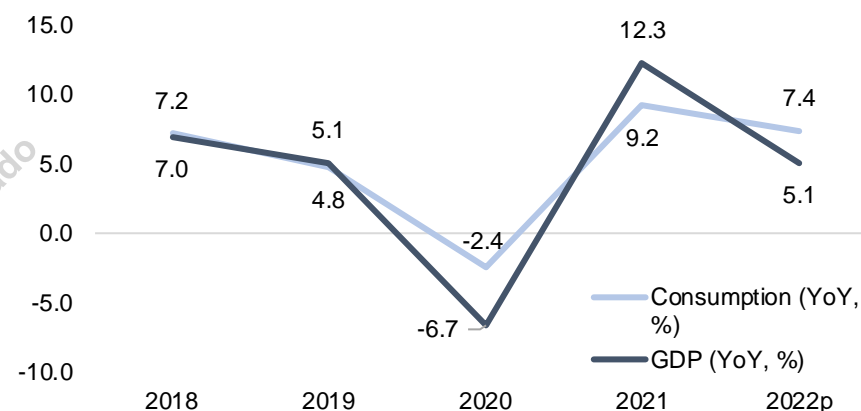
**Economy:** in its last monetary policy meeting, the Central Bank of the Dominican Republic (BCRD) decided to increase the monetary policy rate by 50 basis points, to the current 5.5%. The decision is motivated by the recent evolution of the reference price indicator, where the interannual inflation for March was 9.05% - with this, it accumulates five consecutive months on the rise. Likewise, core inflation, which isolates the impact of the most volatile commodities such as energy and food and is the most used for making monetary policy decisions, was estimated at 6.99% in March compared to the same month in 2021.

On the other hand, according to the Ministry of Industry, Commerce and Mipymes (MICM), the decision to freeze fuel prices has meant a fiscal sacrifice of USD 98.3 million in the first three months of the year. Given that the effects of the current global situation on crude oil prices are not expected to dissipate in the short term, we think that sustaining these measures could mean a worsening of the fiscal deficit of 0.5% with respect to GDP. Considering this impact, we have estimated in our last report, a fiscal deficit of -4.2% for the end of the year.

Finally, at Ecoanalítica we expect the Dominican economy to grow 5.1% in 2022; however, these expectations continue to be linked to economic factors on a global scale, mainly the conflict between Russia and Ukraine and higher inflationary pressures, which have reduced our growth forecasts for 2022 by 1.8 percentage points in the March revision. However, despite the recent frictions, the trends seem to indicate that the Dominican Republic will maintain its growth path, reestablished in 2021.

**Politics:** Government spokespersons assured that they would resume the discussions on the constitutional reform after Easter week, even though these would not count with the presence of the opposition parties which decided to withdraw. The representatives of these parties emphasized that their refusal to participate would be because they do not see the need to do so in the current situation, assuring that there are other priorities to the agenda proposed by the Executive. Among the issues to be discussed was the modification of the attributions of the Attorney General of the Republic, as well as other changes at the electoral level.

In a similar vein, the president of the Central Electoral Board (JCE), Román Andrés Jáquez Liranzo, recalled the importance of holding the meetings to discuss the electoral reform in order to have laws for the 2024 elections that "guarantee labor integrity" and that the vote is not used as a tool of political retaliation. He also expressed concern about the absence of the political parties at the discussion table that was expected to be held a week ago.



## DOP/USD

2018	2019	2020	2021	2022p
52.8	52.8	58.1	57.5	59.7

**Economy:** the Central Bank of Uruguay (BCU) published its latest Monetary Policy Report, which allows to forecast its actions based on the occurrence of different scenarios. As stated by the Bank, “the monetary policy reacts to deviations in inflation and activity and creates a growing path for its monetary policy rate (MPR). In particular, this path is conditional on the following: the international context of consensus, the rates in line with the macroeconomic coordination framework and nominal wages evolving as consented in the agreements; likewise, it incorporates the 125 bp increase in the MPR adopted this past April 7.

At the domestic level, the BCU has identified three relevant risks: the loss of investment grade, the misalignment of inflation expectations with respect to the target range, and an expansion of the coronavirus due to the appearance of new variants. The Bank assigns a low probability of occurrence to the first of the risks, taking into account that the government has managed to gradually reduce the fiscal deficit and will continue to implement measures in this regard to ensure long-term debt sustainability. Although a new outbreak of coronavirus in Uruguay could have a significant impact on the level of activity, considering the strong progress in the vaccination process and the end of the health emergency, the probability of this risk materializing is considered medium-low.

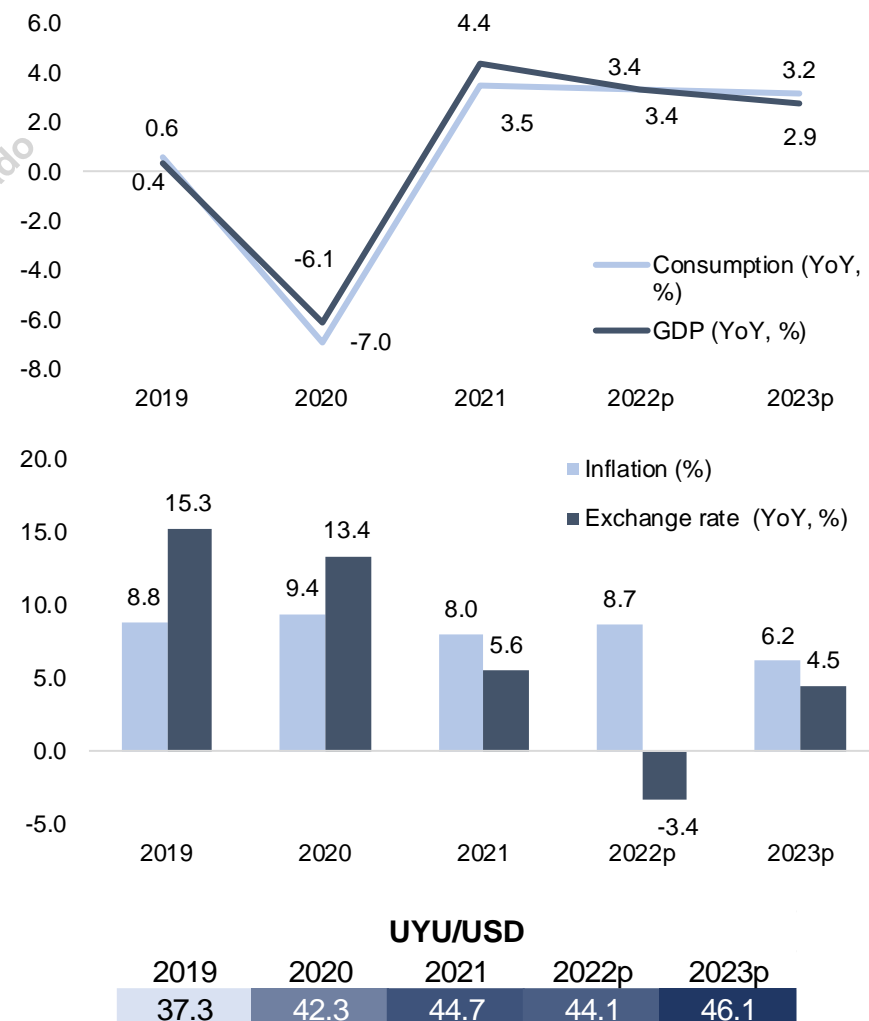
The greatest risk is that inflation expectations continue to be misaligned; consistency of fiscal, monetary, and income policies is a central element in mitigating this risk.

**Politics:** the government presented the program to begin the eradication of slum settlements, which should be continued in future administrations. In the last Rendering of Accounts, the Executive Branch approved a trust that took resources from the National Institute of Colonization to allocate them to the slum settlement plan. The trust will have USD 240 million and the objective of the Ministry of Housing is to work closely with the municipalities.

The other topic that the government is beginning to discuss and that will also continue in other administrations is the pension reform. After a meeting with the parliamentary caucus of the coalition parties, President Luis Lacalle stated that the reform is a government, coalition and personal commitment.

The current deficit of the system is 11 points of GDP, while in 2008 it was 8 points.

In principle, no reform will affect the current situation of retirees or workers whose retirement is projected within the next five years. A gradual transition is proposed towards a scheme to increase the retirement age, which would affect those born after 1967. In the current scheme of 60 years of age and 30 years of contributions, the proposal is that for those born that year there will be one more year added to the limit, and so on until those born in 1971, who will need to reach the minimum age of 65 to retire.

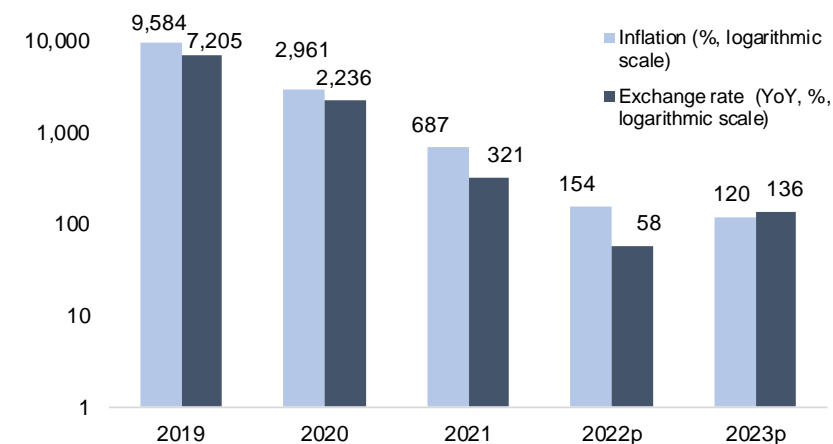
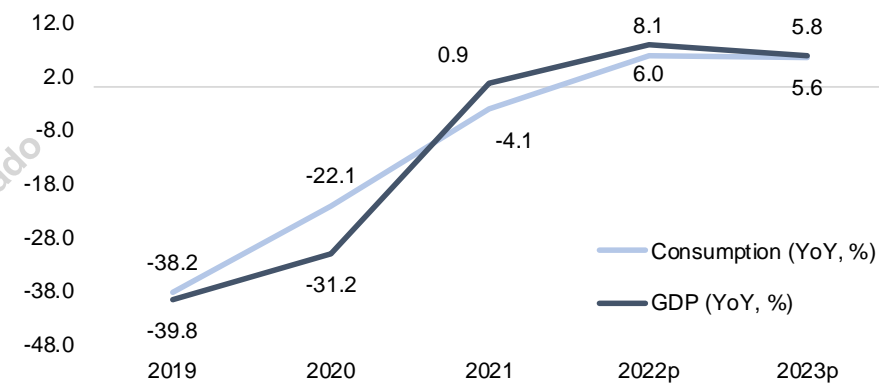


**Economy:** Nicolás Maduro announced that shares of state-owned public companies will be offered in the first public offering of the (partial) privatization of such companies. Specifically, the offer of shares will be between 5% and 10%. Among the state-owned companies to be offered in the local market are telecommunications, mixed oil, petrochemical, gas and Guayana companies. So far it is not known whether the placement of securities will be made in foreign currency or in bolivars. Such sale would represent an important source of financing for the public sector; however, the structural problems will continue to be present for the creditors, and therefore the willingness to invest, especially foreign capital, will continue to be limited.

The parallel exchange rate went from VES 4.5/USD to VES 5.1/USD between May 3 and 10. This increase in the rate seems to be a response to the increase in inflation in recent weeks, as well as new banking costs in dollar accounts. However, it does not seem that the sudden increase observed in the exchange rate will translate into a change in the growth trend of the variable.

**Politics:** Alberto Fernández, president of Argentina, expressed that he intends to resume diplomatic relations with Venezuela and invited other Latin American countries to resume them as well. In relation to these declarations of the Argentinean president, the president of Ecuador, Guillermo Lasso, stated that Ecuador will analyze the proposal and will not make a decision yet, however, he welcomes the invitation and the rapprochement of Venezuela with the United States.

Members of the opposition Unitary Platform announced that it was agreed to hold primary elections in 2023 to elect a presidential candidate. Similarly, the Venezuelan opposition announced that they decided to appoint Omar Barboza as executive secretary of the Unitary Platform. Members of the organization stated that Barboza will be a facilitator of the decisions and operations of the leaders who oppose Nicolás Maduro.



VES/USD				
2019	2020	2021	2022p	2023p
0.1	1.1	4.6	7.2	17.0