Latin American Alliance of Economic Consultancies juncture report

May 2021

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Partners

Argentina

Economy: In the first quarter of 2021 the demand was recovering and half of the industries were returning to their pre-pandemic levels, while inflation sped up and hovered around 60% annualized in a context in which the economy's three main prices (i.e., official exchange rate, utility rates for public services and wages) were growing visibly below headline inflation. It was amid these circumstances that the second wave of coronavirus hit the country, and with it came new restrictions. Even though they are focused on some specific sectors, they are likely to moderate the recovery of activity if they are strengthened. We therefore maintain our annual GDP growth projection at 6%. Unlike what happened in 2020, a lockdown would not entail a major boost in currency issuance: after a drop of 65% in the Net Reservs during last year, they are in no condition to withstand another run on the peso, which is the almost immediate consequence of an excess in the supply of money. Consequently, even though lockdown restrictions may intensify, fiscal deficit will not rise sharply.

Politics: The Government's loss of popularity is exacerbated by three results: 1) The country's focus on the AstraZeneca and Sputnik V vaccines did not bear fruit, and now Argentina has lagged in vaccinating those at higher risk and is finding difficulties in obtaining more vaccines. 2) The government abused restraint measures in 2020, leading to steep economic and social consequences. As a result, these measures have now lost legitimacy and the room for maneuver is narrower. 3) The health system is more robust (with more hospital beds) but is stressed and lacks resources. The country is reaching a saturation point in which restrictions are becoming increasingly more inevitable. In this context, the government has been appealing to society's self-control. This approach results in worse health outcomes but has lesser economic costs than those of 2020. The balance ends up not being entirely favorable to the government since the impact on the daily lives of the population is still present.

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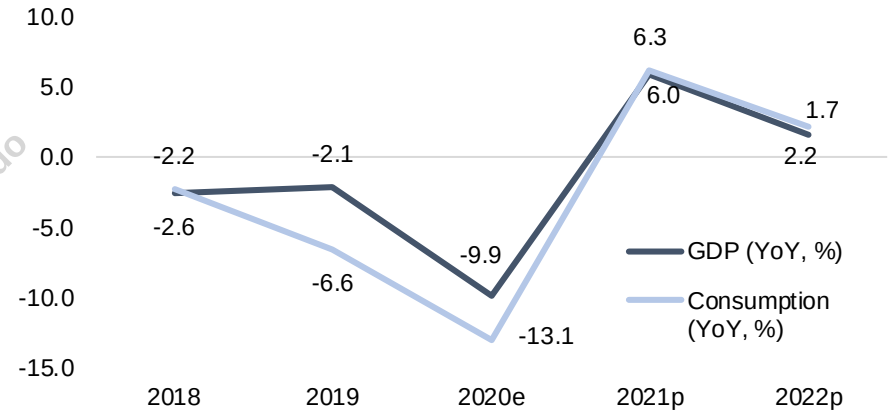

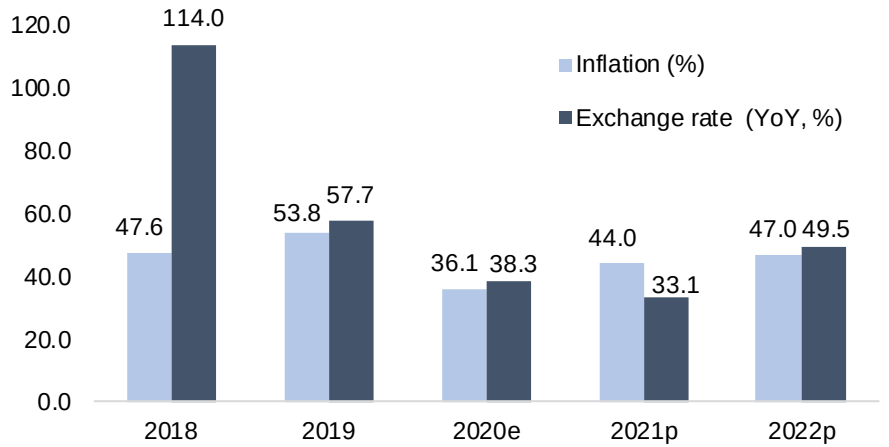

ARS/USD

2018	2019	2020	2021	2022p
38.0	59.9	82.6	110.0	164.5

Bolivia

Economy: The focused political discussion included an expansion of the scope of the Value Added Tax (VAT) to digital services. The government proposed this modification in line with similar and recent reforms in other countries. The project was rejected by public opinion; and the opposition raised the idea of creating taxes on coca production and the informal sector, related to the government. On the other hand, there was discussion about the reactivation of the railway section between Arica and La Paz. This road was disabled for 16 years and a technical test was being carried out to rehabilitate it. In that case, at most 10% of the non-traditional export load (mainly agro-industrial) could have been made viable by this means. But that would amount to a similar decline in road transport. In this sense, carriers have blocked the country's trunk roads, achieving so far that this foreign trade route is not reactivated.

Politics: As a result of the pandemic and its aftermath, extreme poverty (people with daily incomes below USD5.6 corrected for purchase parity, PPP) rose from 12.9% in 2019 to 13.7%, while moderate poverty (USD11.9 PPP) rose from 37.2% to 39%, according to the Household Survey 2020 (EH2020). In this way, 200 thousand people out of a total of 11.4 million entered poverty again. This low incidence is explained both by the aid programs for the vulnerable population and the high degree of informality that made them resume their activities quickly. In turn, the labor market data are moderately encouraging because the urban unemployment rate in March fell to 8.1%, from a maximum of 11.6% in July of last year, although it remains 2.4 percentage points above of similar month. However, the EH2020 reveals that employment in formally constituted companies fell from 585,000 to 400,000 units, in contrast to family employment and self-employed workers.

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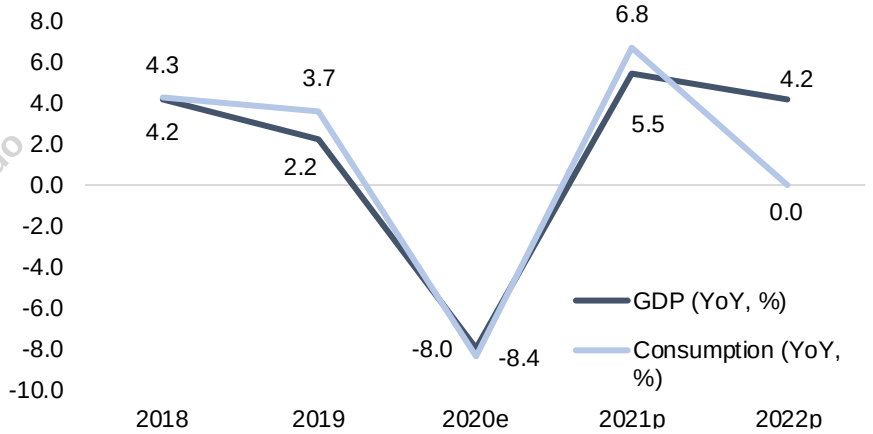

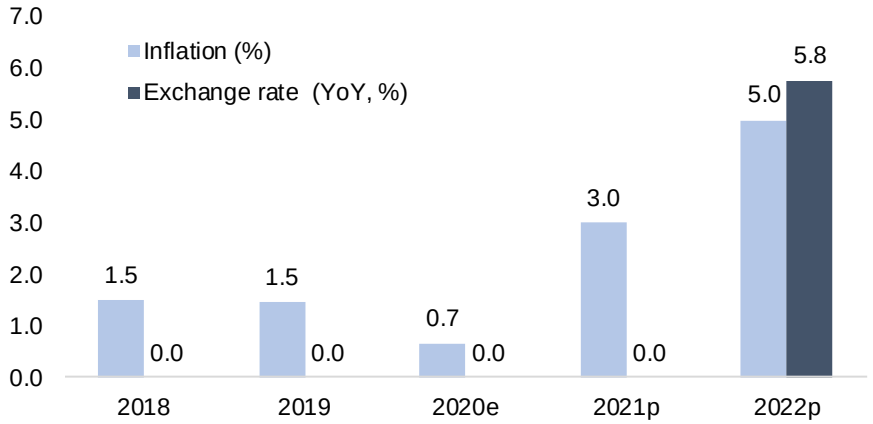

BOB/USD

2018	2019	2020	2021	2022p
6.96	6.96	6.96	6.96	7.36

Brazil

Economy: The economic cycle continues to be affected by the pandemic, especially through the reinforcement of social isolation measures. The most recent results, however, suggest the possibility of a less negative effect than the "first wave" period, maintaining a slight upward bias for activity in 2021. For the short term, the data should still show moderate recovery still affected the calendar with vaccination delays. The second semester, especially after the consolidation of government programs, should bring more relevant figures for the economic cycle. The exchange risk balance has changed significantly between domestic and foreign components. The international landscape is weighing on the devaluation of the dollar in relation to other currencies, due to growing inflationary concerns. In any case, the fiscal issue is still a restriction on the behavior of the exchange rate, which should limit the trajectory of the currency to what would be a level of equilibrium in line with economic fundamentals.

Politics: The presidential vetoes on the 2021 budget took the political picture out of the focus of economic agents, due to the beneficial effect on the amendment of the ceiling. To put it more bluntly: the recomposition of mandatory expenditures suggests that the constitutional spending cap is preserved until the end of the current administration. Such a view minimizes the prospective risks of the fiscal / budgetary framework and, in particular, does not capture the negative bias for the political environment in the short term. The pandemic CPI in the Senate should keep the government on a negative agenda, generating political-institutional tensions on the part of the president, in a strategy to minimize the damage from investigations. The doors are not closed for some of the reforms due, in particular, to the changes in regulations in times of remote work. Party leaders and presidents of the legislature have greater autonomy to bring a project to the floor. The governance window is short due to the lack of planning and a government that tensions with legislators.

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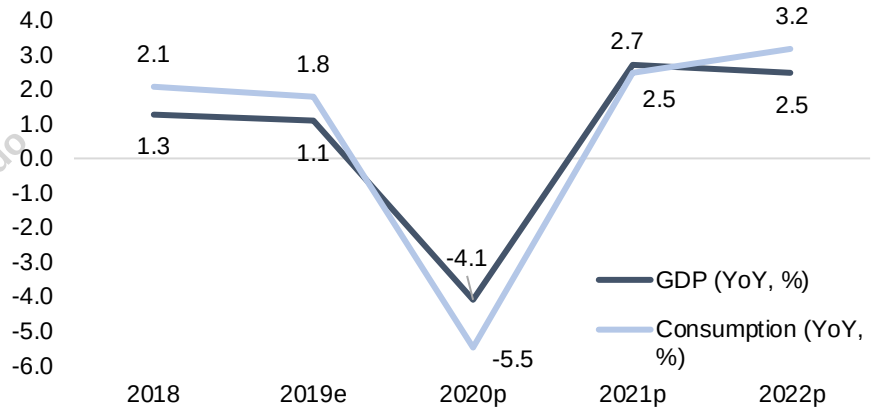

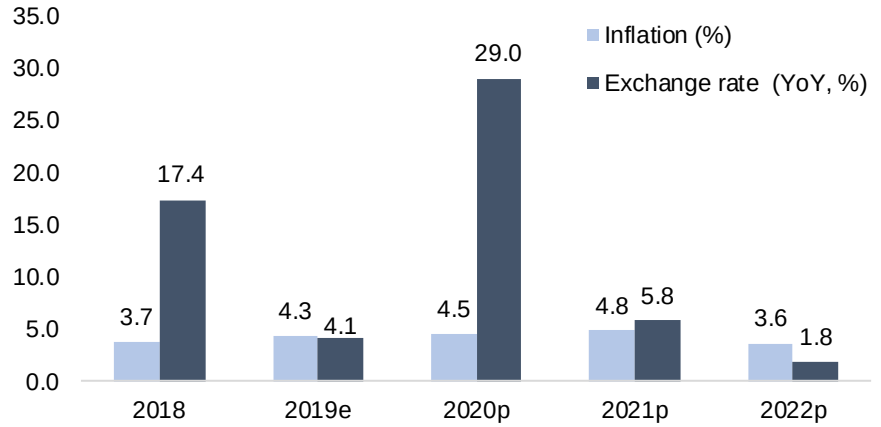

BRL/USD

2018	2019	2020	2021	2022p
3.87	4.03	5.20	5.50	5.60

Chile

Economy: The recovery in the economic activity has continued, according to information for the first quarter. The IMACEC grew 6.4% in the twelve months to March and 0.5% in the first quarter of the year, despite the lower mobility due to quarantines, which, in any case, had a greater impact in April. Everything indicates that the effects of last year's contraction (-5.8%) will be almost completely reversed this year. The big problem is and will be unemployment, which is very sensitive to mobility limitations. After a rapid recovery between August and November, the second wave of the pandemic and the restrictions associated with mobility, slowed down the normalization of employment, a situation that will extend to April and May. It is estimated that by the end of 2022 the almost one million jobs that are needed to return to the pre-pandemic situation will be recovered. Inflation, on the other hand, remains under control, standing at 3.3% in the twelve months to April. The fiscal situation looks somewhat more comfortable due to the higher price of copper, despite the increase in spending compared to that budgeted for the year to face the health crisis.

Politics: The government's weakness has exceeded limits that seemed difficult to cross. A large number of his MPs crossed the aisle and voted with the opposition to approve a third withdrawal of pension funds, and the Constitutional Court declined to evaluate the passed law on a formal matter. The ten months that remain for the government will be very complicated if the vaccination process, which, at a slower pace than before, continues well under way but does not achieve effective control of the pandemic in the short term and end the quarantines. On May 15 and 16, the most important elections since 1988 will be held, since the 155 members of the Constituent Convention (CC) will be elected, which will draft the new constitution for the country. There is no reliable history to anticipate its composition, but it is estimated that the more moderate groups will get the 2/3 necessary to pass a reasonably sensible project. The work of the CC will last for nine months, extendable for another three, so that the project would be plebiscited in the second half of 2022.

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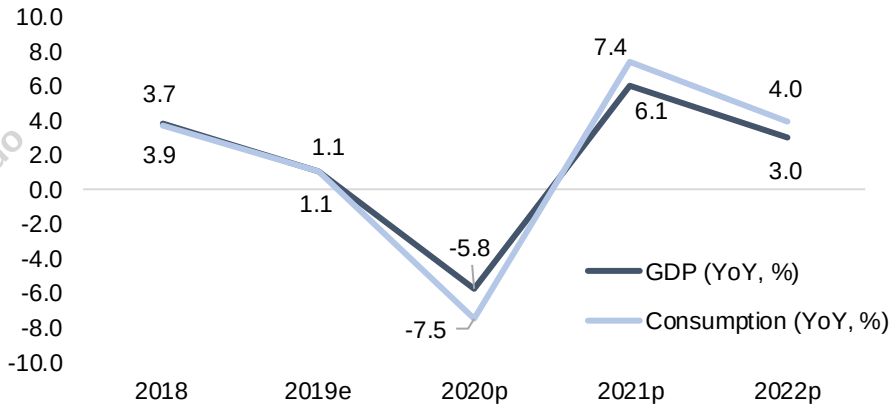

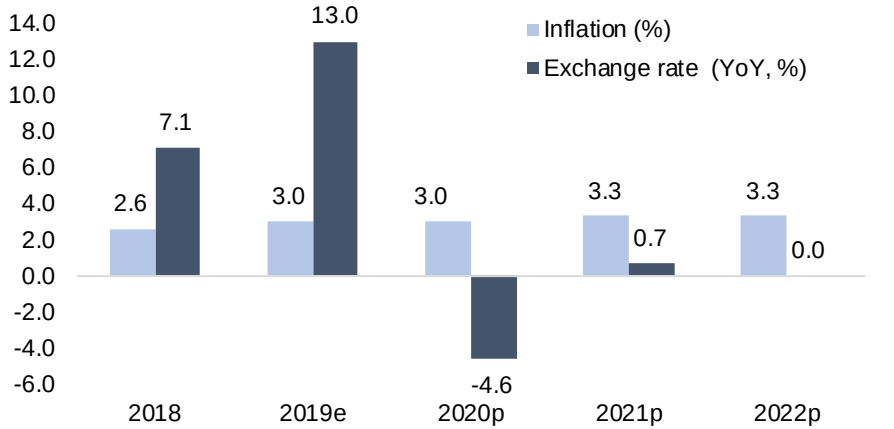

CPL/USD

2018	2019	2020	2021	2022p
682	770	735	740	740

Colombia

Economy: The Colombian economy faces a difficult situation. On the one hand, the third peak of the Covid-19 pandemic forced new confinements. On the other hand, the high fiscal deficit and public debt levels make tax reform necessary. Given this, the government presented a proposal that triggered very strong criticism that ended with the withdrawal of the bill. As a result, Colombia's perception of risk in international financial markets and the interest rate of long-term bonds increased. Government bond interest rates rose to levels of a non-investment grade. This generated a pronounced devaluation in recent days. On the other hand, protests and blockades have made food more expensive. For the above reasons, the inflation forecast for 2021 is adjusted by 3.1%. It is estimated that the exchange rate will remain close to 3,700 COP / USD, in the next 6 months. The approval of new tax reform can reverse these harmful effects.

Politics: The tax reform proposal was the trigger for the social outbreak that Colombia is currently experiencing. The proposal was opposed by both the political parties and the population of the country's main cities. This has led to demonstrations that have unleashed serious events of violence, the balance has been the death of more than 10 civilians and a policeman, in addition to the looting of shops, and clashes between some communities and protesters in the framework of the protests. The Minister of Finance and his technical team resigned. Although the government withdrew the bill, the protests continue and gather diverse claims ranging from protests against the excessive use of force by the police, to protests against the proposed health system reform and many more lawsuits. Although meetings with the protest leaders have already been announced, the scenario for the government is complex.

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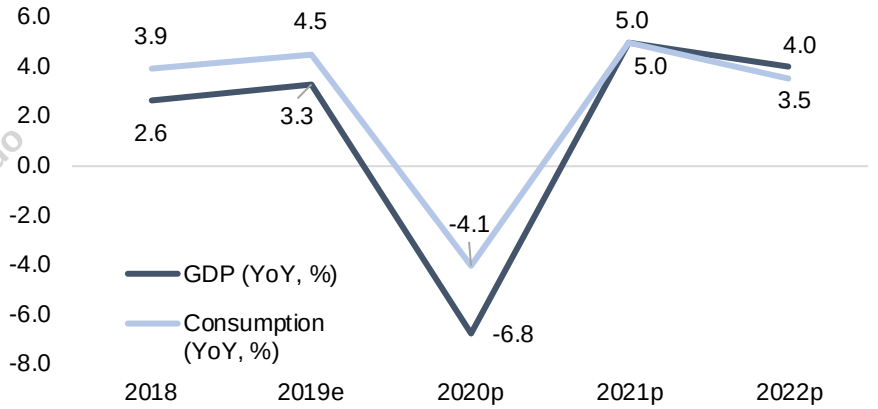

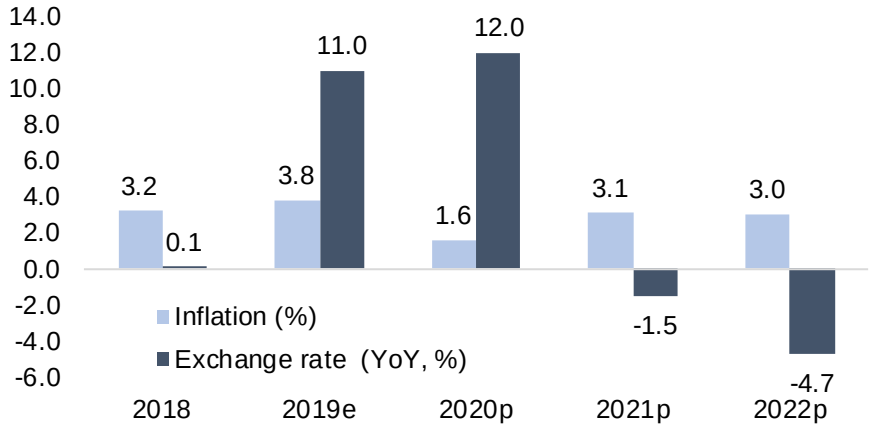

COP/USD

2018	2019	2020	2021	2022p
2,956	3,280	3,674	3,620	3,450

Costa Rica

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LAECO

Economy: As shown by the update of the National Institute of Statistics and Censuses (INEC) on the first quarter of 2021, the recovery in employment has slowed as shown by the unemployment and occupancy rates. These indicators, with values of 18.7% and 49.4% respectively, are slightly worse than in the last moving quarter of December-January-February, in which the unemployment rate was 18.5% and the occupancy rate reached 49.5%. However, an improvement is observed compared to the last quarter of 2020. On the other hand, recently the Central Bank of Costa Rica presented its Monetary Policy Report, in which it corrected its estimate of GDP growth for 2021 from 2.6% to 2.9%. Likewise, it also modified its projection of the GDP variation rate in 2020 from a contraction of 4.5% to one of 4.1%; both revisions show an improvement in the economic projections for this year. Finally, the country is facing a new wave of the pandemic that has caused an abrupt increase in COVID-19 cases, which has implications for economic expectations as well as for the dynamics of the economy, as evidenced during the last year.

Politics: With regard to the Public Employment Framework Law, fundamental for the agreement with the IMF and public finances, it is highlighted that it is still pending discussions in plenary. The period for discussing the reiteration motions ended in April, giving way to the review motions. The rest of the projects included in the agreement are progressing calmly, especially due to the pre-electoral environment in which the country finds itself. On the other hand, vaccination against COVID-19 began in December of last year and for this month of May, the application of 1 million doses (including first and second doses) in a population of a little more than 5 million inhabitants was barely exceeded. Due to the above and as a result of the considerable increase in cases with the arrival of a new wave of COVID-19, the government has been forced to negotiate a "vaccine loan" with the United States to accelerate the country's vaccination process. This situation has caused pressure from the medical sector, which increasingly demands the government to establish new measures to contain the saturation of hospitals, while the business sector supports a controlled and sustained opening of the economy.

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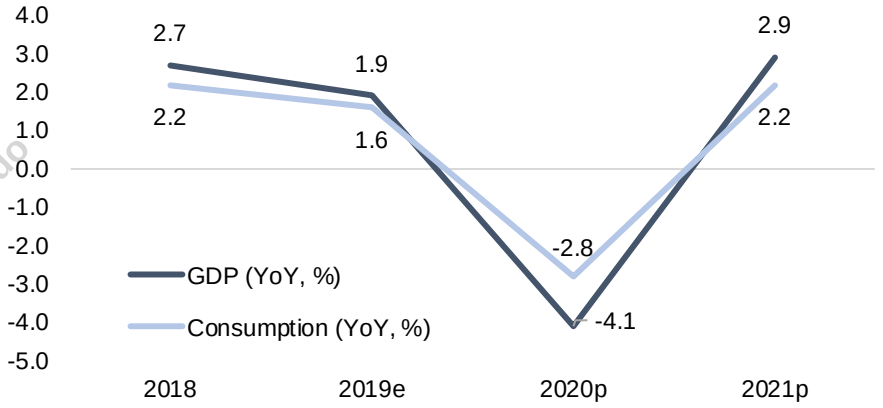
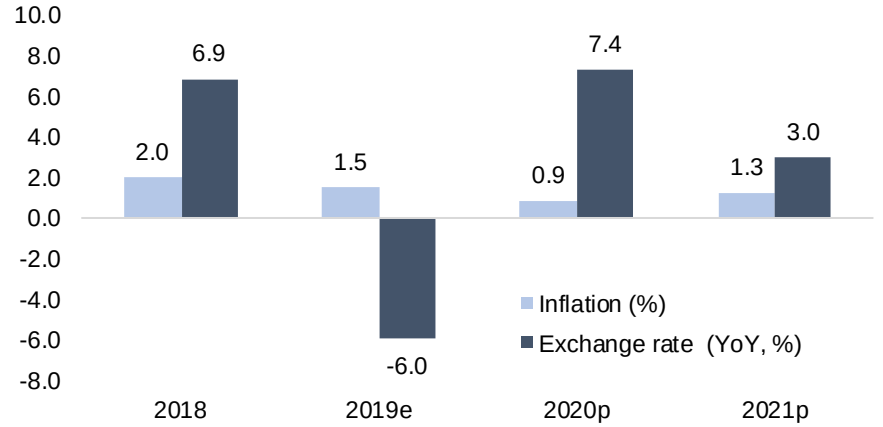




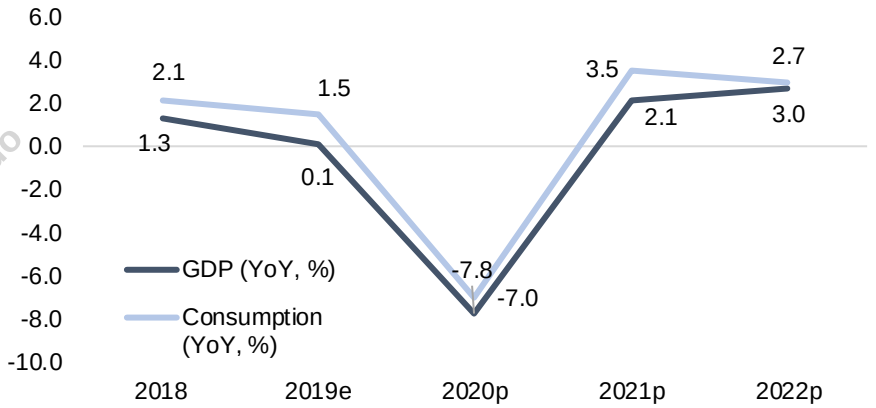
CRC/USD

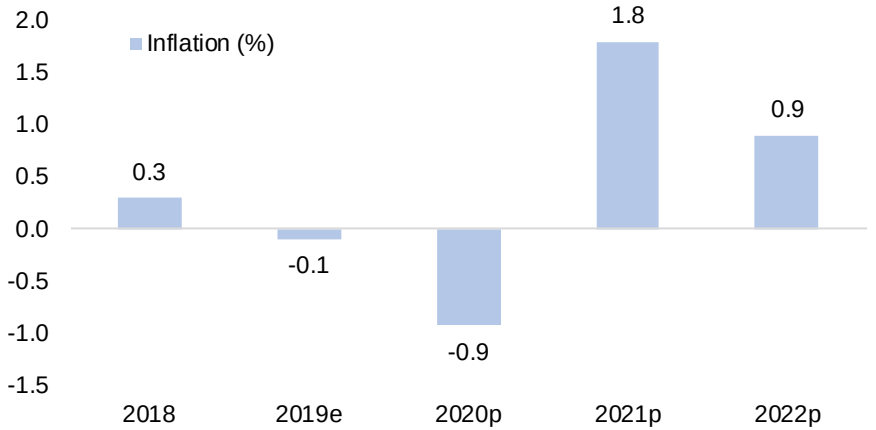
2018	2019	2020	2021	2022p
610	573	615	634	653

Ecuador

Economy: President-elect Guillermo Lasso has announced several names for his cabinet. The person in charge of the Ministry of Economy and Finance (MEF) will be Simón Cueva, PhD and Master in Economics from the University of Paris I (Pantheon-Sorbonne) and who, among other positions, was a senior official of the Central Bank of Ecuador and IMF representative in Bolivia. Cueva's appointment has been well received because he is considered a well-trained economist, who is clear about the need to advance in a process of fiscal consolidation and to maintain a good relationship with the multilaterals, but who at the same time has a more social vision than the circle of economists close to Lasso. Despite having worked at the IMF, the renegotiation of the agreement with that institution will not be easy, because Lasso has spoken out against a tax increase, which is what the IMF suggests Ecuador should do -together with reducing spending - to close the deficit. The fiscal outlook is further aggravated by the recent approval of a law that significantly raises the salary of public sector teachers and which, according to MEF estimates, will generate an increase in annual spending of more than 2% of GDP.

Politics: The Assembly composition, where Correism is the first political force with 49 out of 137 assembly members and the official party has only 12 (plus 19 from the Social Christian Party -PSC-, with which it formed an alliance in the presidential elections), generates serious challenges for the new government, because many of its reforms must have the approval of the Legislative. In this context, negotiations are taking place between the different movements to see who will be the new president of the Assembly. At the time of writing this report (May 13), the option of an agreement between CREO (the governing party), the PSC and Correism, so that a Social-Christian deputy becomes president and a Correist first vice-president, sounds very strong. This option, absolutely unthinkable just weeks ago, is already generating reactions in the public opinion, since a great part of the votes with which Lasso won were precisely from people who wanted to avoid the return of Correism.





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Mexico

Economy: On 2021 Q1, GDP recorded a quarterly growth of 0.4% and an annual decrease of -2.9%. With this result, the expectations of Consultores Internacionales, S.C.® at the end of the year continue between 2.5% and 3.5%.

The Monthly Industrial Activity Indicator, a physical volume index, published by INEGI, during March 2021 recorded an annual uptick of 1.7%, after 28 consecutive periods of negative results, since November 2018. The main boost was the manufacturing industry that grew 6.2% at an annual rate in March.

About financial economy variables, year-on-year inflation closed its highest level at 6.1% in April since 2017. Expectations are that towards the end of the year it converges towards the 3% target in the first half of 2022, that is the reason why Bank of Mexico has decided to keep the target one-day interest rate at 4.0%.

Politics: The Judiciary has ordered the temporary suspension of reforms to the Hydrocarbons Act, previously approved by congress, which ordered the suspension and cancellation of hydrocarbons import, marketing and storage permits, as well as allowing the government to occupy private facilities and hand them over to state-owned enterprises for operation. The suspension has been described as a direct support to the private sector by the president, and he has revealed his intention to make constitutional changes to ensure this policy of rectory on the energy sector.

Another event of relevance has been the accident on Line 12 of the Metro Collective Transport System, in Mexico City. On May 3rd, one of the elevated sections of the train collapsed, leaving 26 people dead and more than 70 injured. The current head of government and who ordered and inaugurated the work, in 2012, are two of the main close to the president and who consider themselves possible successors. The tragic event takes place a few weeks after the middle federal election, possibly affecting the president's political group and their career toward the presidency.

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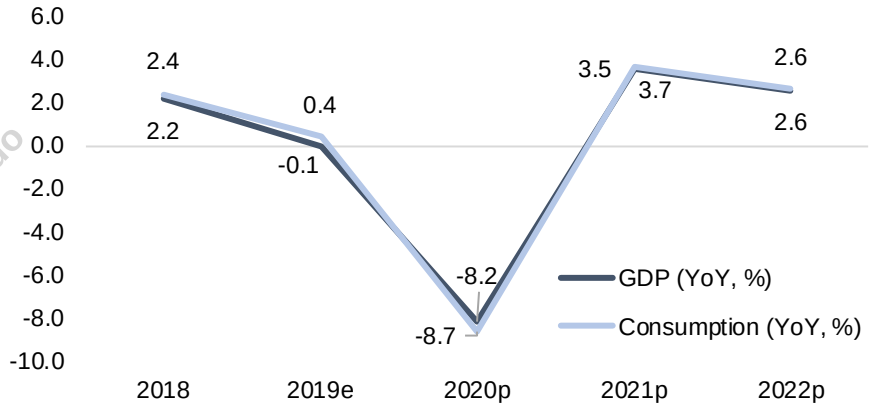

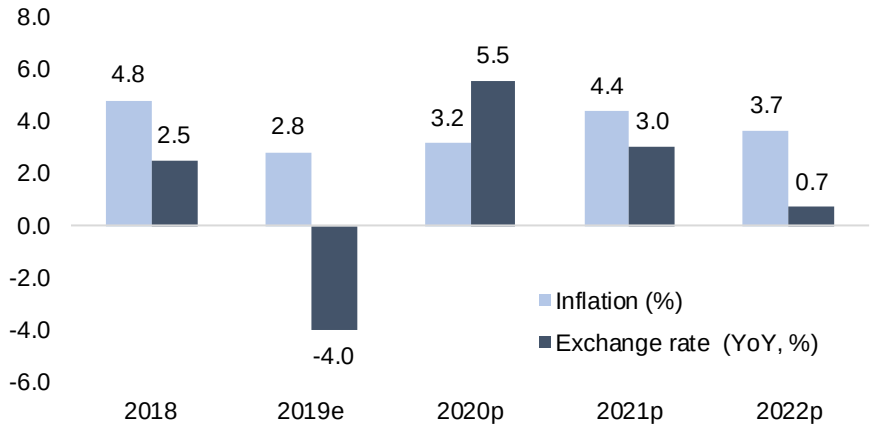

MXN/USD

2018	2019	2020	2021	2022p
19.7	18.9	19.9	20.5	20.7

Paraguay

Economy: Preliminary estimates from the Central Bank of Paraguay (BCP) show that, during the first quarter of 2021, the Monthly Indicator of the Economic Activity of Paraguay (IMAEP) registered a cumulative variation of 0.7%. Although the IMAEP does not fully reflect the Gross Domestic Product (GDP), it allows us to advance its trajectory. Livestock; construction; and some branches of manufacturing are the sectors that lead the economic recovery of the country. Indeed, it is worth highlighting the favorable performance registered in the execution of public and private works; and the production of meat; dairy products; milling and bakery; metal products and common metals; among others. On the contrary, agriculture and electricity generation showed unfavorable results.

On the other hand, in the same period, commercial sales accumulated a variation of 5.3%. In the commercial sector, the contraction persists in sales of hyper, supermarkets, distributors and others (1.8%), while a certain dynamism is maintained in the sales of construction materials (14.9%) and mobile phone services (5.9%). Finally, a recovery in sales of household equipment (11.4%); vehicles (9.6%) and fuel (4.5%) stands out.

Politics: Paraguay faces the second wave of the COVID-19 pandemic, with around 2,500 cases and 100 deaths per day, in a context of shortages of medicines and vaccines; saturation of the health system; and strong demand for coverage for medical expenses. The foregoing led the president to enact a Law that establishes that the resources of the social funds of the binational entities Itaipú and Yacyretá will be used to purchase inputs; biosafety materials; improvement of hospital infrastructure; and social protection.

Similarly, new measures were announced to support the entertainment sectors; gastronomic; events; hospitality; and tourism. Among them, a subsidy of 50.0% in the consumption of electricity and drinking water, for the period July - December 2021; reduction of 50.0% in the payment of VAT for the rental of commercial stores, between May and October 2021; strengthening of the Guarantee Fund of Paraguay (FOGAPY), for loans to small and medium-sized companies; and food kits for informal workers in these sectors.

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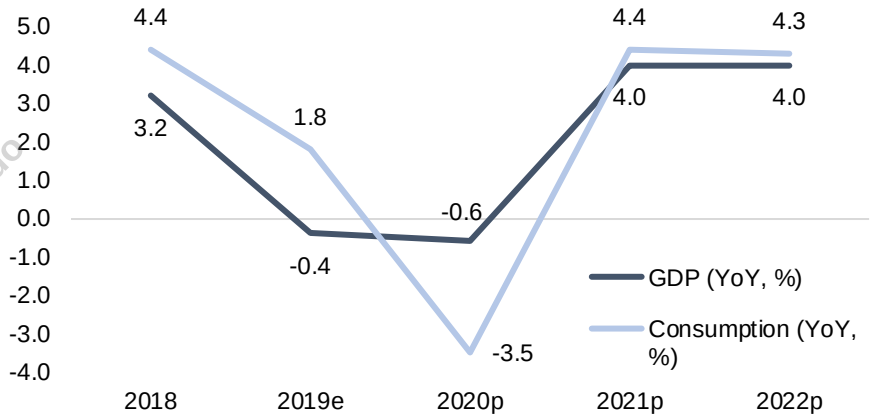

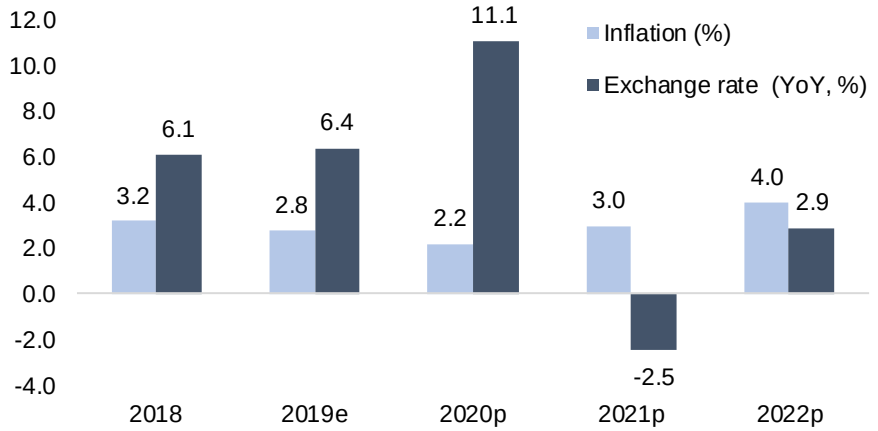

PRY/USD

2018	2019	2020	2021	2022p
5,899	6,279	6,974	6,800	7,000

Peru

Economy: Regarding the pandemic, we are emerging from the second wave of covid-19. The series of excess deaths (measured through the National Death Registration System, which compares deaths since March 2020 with respect to the same period in 2019) shows a clear slowdown in daily deaths. It is expected to continue its decline and reach lows in mid-July. However, an eventual third wave is not ruled out, with a greater probability of occurrence during the last quarter of the year. Although the vaccination process, which would accelerate over the next few months, would mitigate its impact.

Finally, the economy has been recovering faster than expected. In the first quarter of 2021 it grew + 3.8% year-on-year. On the sector side, the main driving force was construction (+ 40.6% in the same period). This recovery is expected to continue in the coming months, reaching rates close to 40% in the second quarter of this year, as a result of the statistical effect when compared to the lockdown period of 2020. However, it would be partially attenuated by the effect of the Political uncertainty and the prolonged precariousness of employment, especially in Metropolitan Lima. Growth at the end of this year and 2022 will depend on which candidate wins the second round. If the pro-market option prevails, a 10.1% rebound in GDP is expected in 2021 and 4.7% growth in 2022.

Politics: Political uncertainty continues in the run-up to the second round of elections to be held on June 6. Although the mood in the markets has improved, because Keiko Fujimori, from the Fuerza Popular party (conservative right), has shortened the vote intention gap that distanced her from Pedro Castillo, from the Peru Libre party (radical left), the risk of the anti-system option winning is still high.

On the other hand, the new Congress will have a decisive role, in any scenario. The alliances that the candidates can generate, according to their political affinity, would allow them to avoid any attempt to vacate (a constitutional figure that allows the president to be removed from office with two-thirds of the votes). However, they would not be enough to undertake major reforms (pensions, labor market, among others). This is not necessarily a negative thing, since it would serve as a barrier against harmful measures if the anti-system option takes power.

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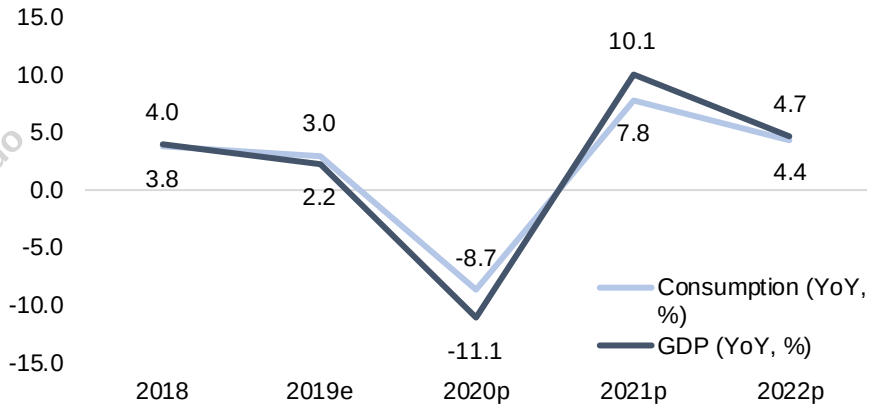

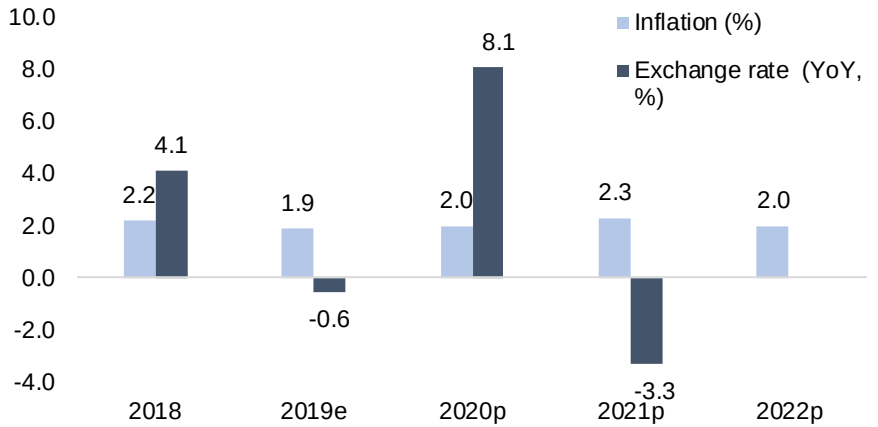

PEN/USD

2018	2019	2020	2021	2022p
3.37	3.35	3.62	3.50	3.40

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Uruguay

Economy: For the first time since April 2018, the inflationary record for March was within the Central Bank's target range of between 3% and 7%. The figure of 6.8% represents a drop of 1.6 percentage points (pp.) over the immediately previous month and of 4.1 pp. compared to March 2020. Prices in March grew 0.5% driven by the rise in Food and non-alcoholic beverages (0.7%), Clothing and footwear (1.9%) and Transport (1.4%). The inflationary decline was the result of various economic factors instead of a restrictive monetary policy that could deepen the current recessive situation. On the one hand, the strong contraction in activities created a lower demand that was transferred to prices; on the other hand, the production of fruits and vegetables had no adverse climatic effects that could surge up prices; lastly, the government has decided to postpone the adjustment of fuel rates, which has an important impact on the formation of prices in the economy.

According to the projections of Oikos C.E.F. prices would remain quite stable during the remainder of the year at levels close to current levels and in 2022 they could be closer to 6.5% as a result of the implementation of a restrictive monetary policy announced by the monetary authority and put on hold by the pandemic.

Politics: In a very gradual and progressive way, the government is designing a plan to resume activities that are currently restricted; the return of in person classes in primary education in rural areas in May, and the rest of primary and gradually secondary in June, as well as the return of amateur sports activities in the month of June.

The full return of in person staff in the public sector has not been discussed. Public offices remain “teleworking” with minimum staffing levels to cover essential services.

To the existing measures in force since last year, the General Taxation Office (DGI in Spanish) and the Social Security Bank have announced the application of payment facilities in employer, personal and single-tax contributions. The DGI will also assign exemptions to fines, surcharges and interest on financing, which has a significant impact on the maintenance of business activities.

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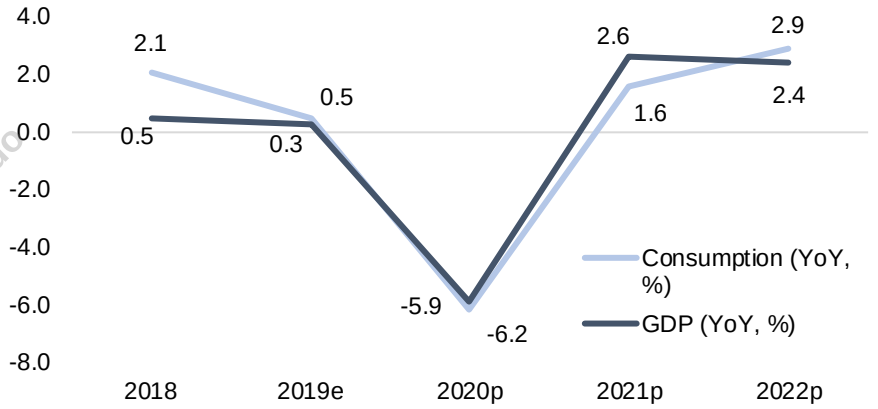

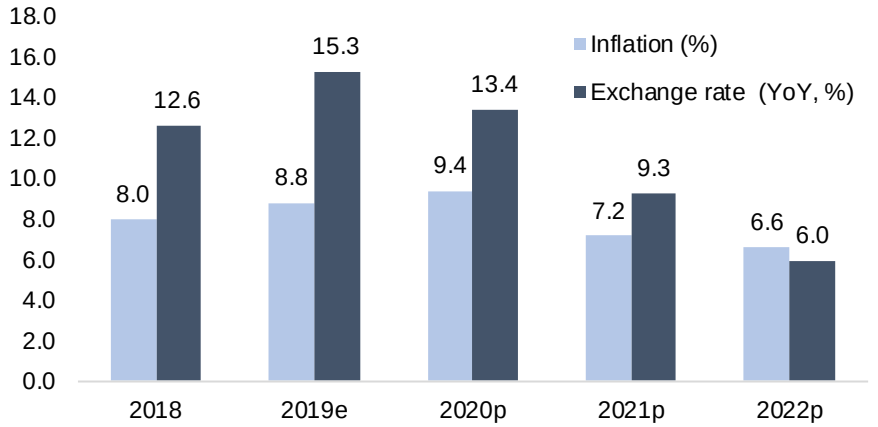

UYU/USD

2018	2019	2020	2021	2022p
32	37	42	46	49

Venezuela

Economy: President Nicolas Maduro decreed the increase of the minimum wage last May 1 to VES 7 million, an increase of 288.9% over the previous amount (VES 1.8 million). This represents the 33rd increase of his administration.

The National Superintendence for the Defense of Socioeconomic Rights (Sundde) made 1,429 price adjustments in April. These adjustments are due to non-compliance with the prices set in the list of 27 products published by the Venezuelan Government and non-compliance with the use of the official exchange rate published by the Venezuelan Central Bank for foreign currency transactions.

Additionally, the Venezuelan Central Bank published that inflation was 16.1% in March and 33.8% in February on a month-over-month basis. This indicates that the increase in prices was 127.8% in the first quarter of the year and 3,012.2% in interannual terms, which exceeds Ecoanalítica's inflation projection.

Politics: On May 4, the five rectors of the National Electoral Council who will be in office for seven years were sworn in by the 2020 National Assembly. According to the civil association Súmate, 60% of the main and alternate rectors of the CNE are linked to the PSUV.

Last April 22, the Delegated Legislative Commission authorized the Interim Government to submit a request to the Venezuelan Central Bank for a credit equivalent to approximately USD 152.33 million to be drawn from an account under the custody of the Federal Reserve of New York. The funds were to be used mainly for the purchase of vaccines against COVID-19 and for humanitarian aid.

According to government figures as of May 12, the country accumulated 210,948 registered cases of coronavirus and 2,337 deaths. At the same time, as of April 12, the latest available data, it is estimated that 0.88% of the population has received at least one dose of some vaccine.

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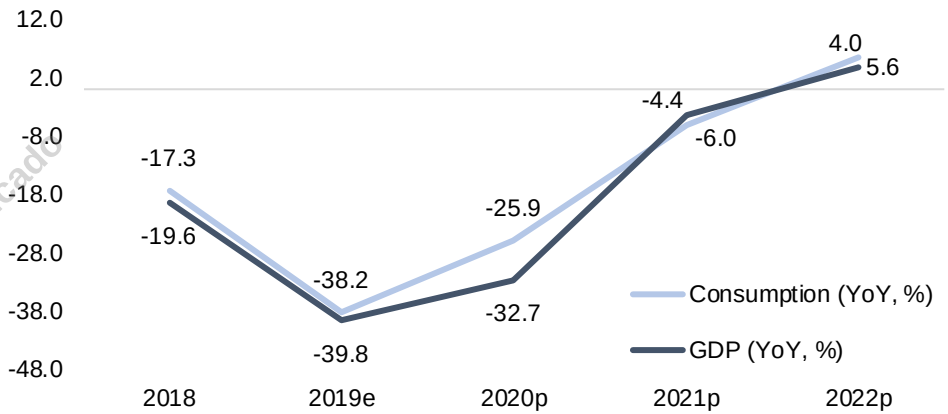

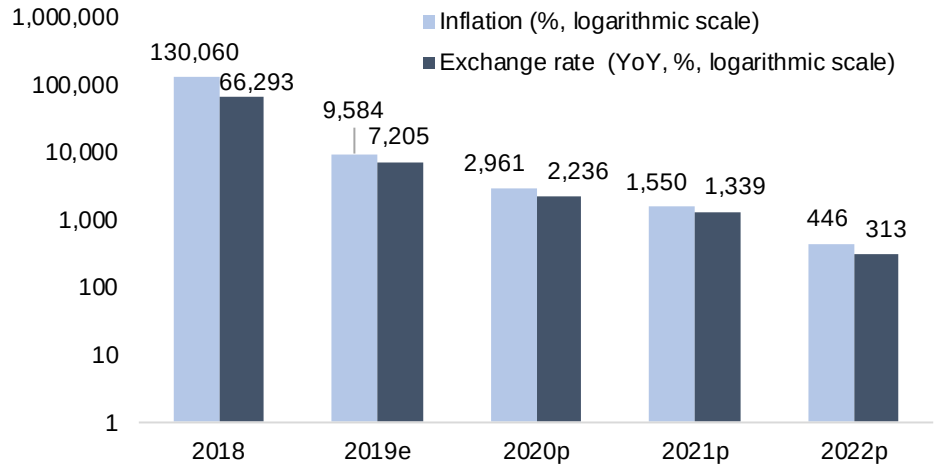

VES/USD

2018	2019	2020	2021	2022p
638	46,621	1,089,058	15,675,981	64,779,651