Latin American Alliance of Economic Consultancies juncture report

May 2020

© Ecoanalítica. Descargado por usuario no autenticado

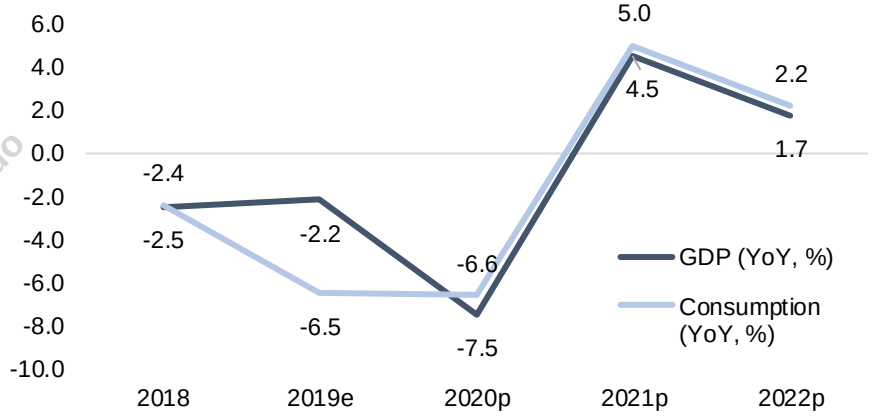
Partners

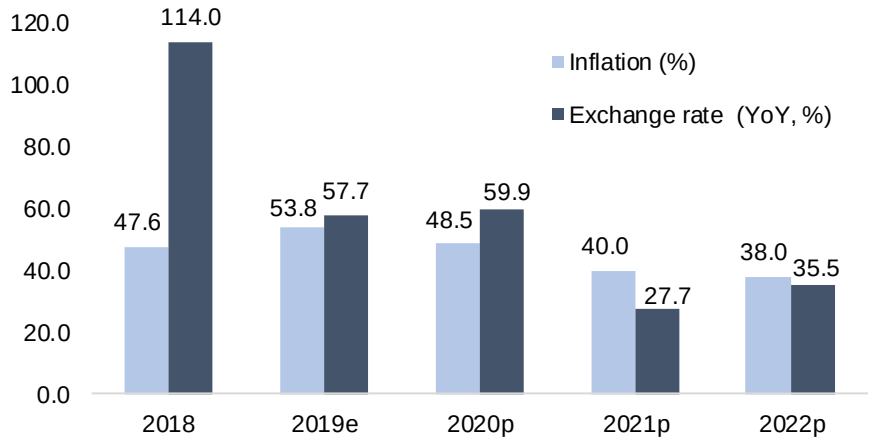
Argentina

Economy: Argentina was among the first country to introduce strict restrictions on population circulation as soon as the COVID-19 virus started spreading in the territory. The political decision of prioritizing health over the economy, increased the popularity of President Alberto Fernández and gave him power to implement and maintain extreme measures to win the battle against the virus. The problem with this strategy is that the Argentine economy was already in intensive care, suffering from two consecutive years with falls in activity, foreign exchange instability, inflation acceleration, social problems, pressures on the chain of payments and the risk of default in the public sector. Since the only available source of financing at the moment is currency issuance, economic measures need to be extremely fine-tuned to moderate damages with the least monetary expansion possible. Up until now, the government has implemented policies to guarantee at least a minimum level of income and food in the most vulnerable households. However, since businesses were not successfully aided to face the interruption of revenue, the already threatened chain of payments (and wages) is crumbling under the pressure, especially for smaller businesses. Bank credit at soft rates and the recent announcement that the State will pay part of the wages for businesses belonging to non-essential activities and that saw their sales collapse due to the quarantine, help to sustain private workers but not informal ones or the self-employed. A gradual and slow lift of the quarantine recommended from a health perspective encounters the dilemma of the increasing economic and financial difficulties.

Politics: There are two political objectives behind adopting the most drastic measures and putting the battle against the virus first: nobody can reproach the government about not having been sufficiently stern against the Coronavirus threat nor about the economic situation: the economic damages will be the consequence of the measures adopted under inevitable circumstances. The government will have to manage a trade-off between i) preventing the spread of the virus by maintaining the strict health measures adopted; ii) preventing more damage on an economy already battered by the quarantine; and, iii) overcoming the social cost of the situation, considering that 40% of the population are informal workers and 35% are below the poverty threshold. Unfortunately, these three objectives are not compatible in the medium term. Therefore, the government will have to regulate the strictness of isolation guidelines to underpin economic activity and protect social needs. The outcome will depend on the evolution of the pandemic.

Descargado por Usuario no autenticado





ARS/USD

2018	2019p	2020p	20210p	2022p
37,89	59,73	95,5	120,6	163,5

Bolivia

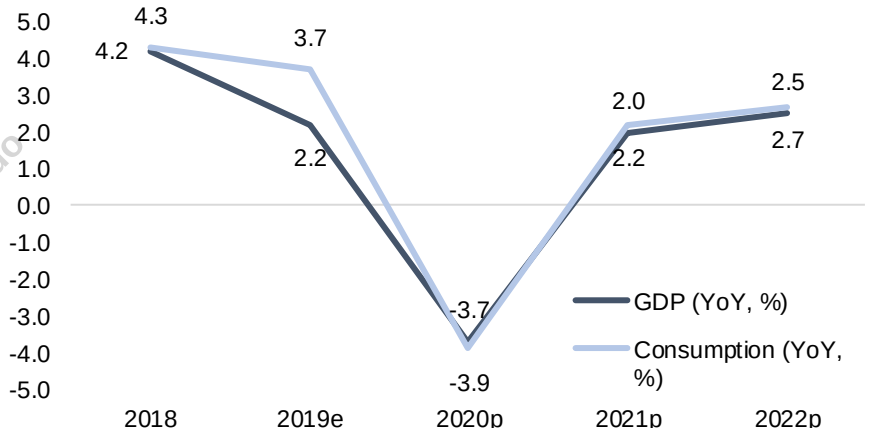
Economy: Bolivia's GDP would contract around 4% in the year as a result of the pandemic. This implies a correction of more than 6 percentage points with respect to previous projections, of which one third corresponds to the effects of quarantines on activity and the rest to lower external demand, which would also imply a drop of at least 20% on exports. As a result of this context and the policy measures taken to support families and companies, the fiscal deficit would be around 10% of GDP explained by the drop in tax and hydrocarbon income, higher transfers to households, but offset by a drop in public investment.

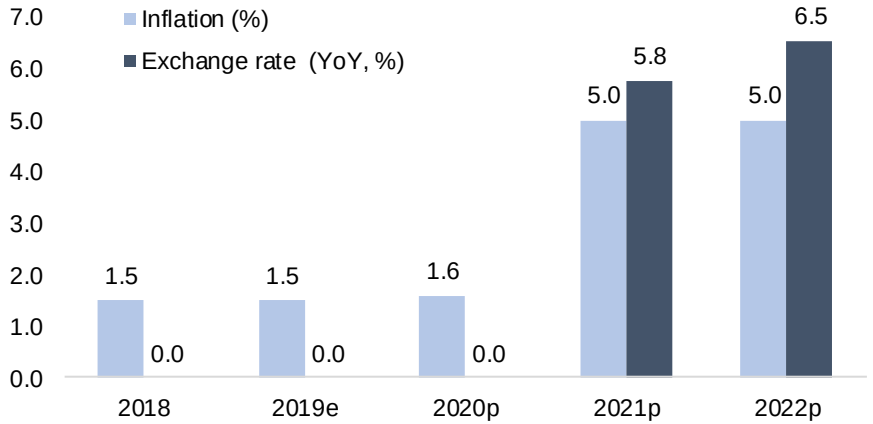
Given the drop on imports, both due to lower domestic demand and barriers to foreign trade in other countries, the current account deficit in the balance of payments would remain limited, reducing pressure on the exchange market. And, given the general cooling of the economy, inflation would be low.

Politics: The pandemic forced the suspension of the general elections that were to take place on May 3rd. Along with physical distancing measures, this has prevented political parties from carrying out campaigns with massive concentrations. Most of them have chosen to strengthen the campaign on social networks. Some polls suggest that current health situation and policy responses have improved the position of the country's candidate and president, Jeanine Añez, which has prompted Evo Morales's party to use the legislative means so that elections are scheduled in September, generating a conflict between the ruling party and the opposition.

In any case, voting intentions will change as the pandemic in the country evolves, since its sanitary and economic control will imply more votes for Añez, but an eventual lack of control would favor Morales's party. This reduces the prospects of former President Carlos Mesa.

© Econanalítica - Acordado por usuario no autenticado





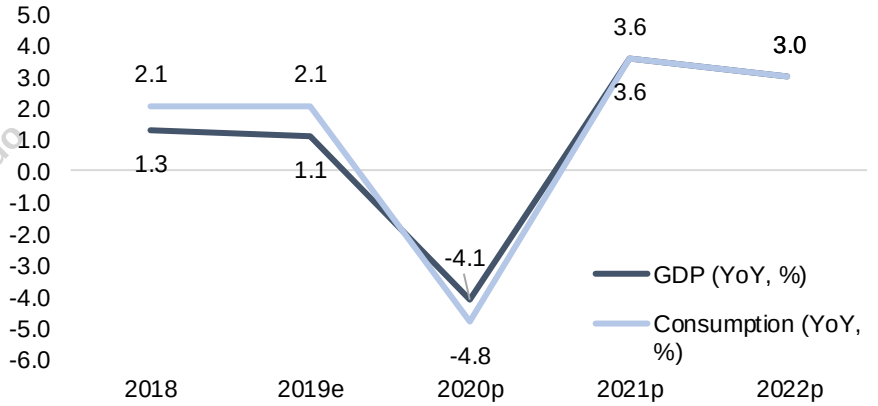
BOB/USD

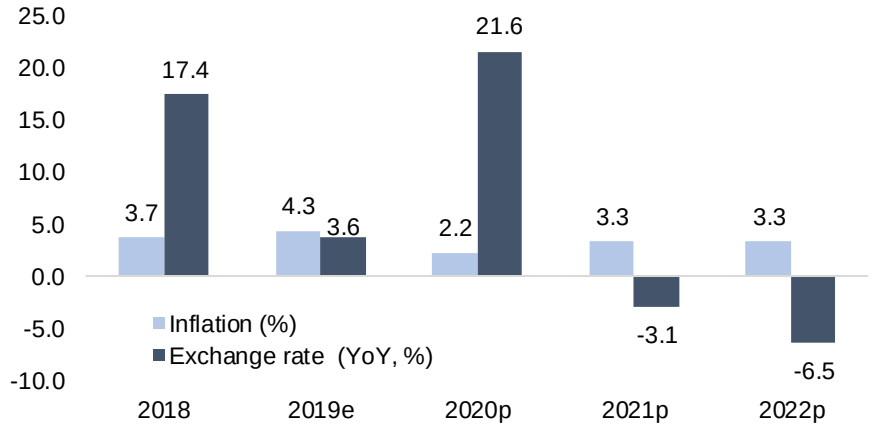
2018	2019p	2020p	2021p	2022p
6.96	6.96	6.96	6.96	6.96

Brazil

Economy: Times are not normal. The Brazilian economy still feels the effects of the covid-19, either due to the impacts on international markets or on the domestic scenario. The shock in the indicators of economic uncertainty has already shown its contractionary face. The degree of uncertainty assumed an exponential curve, much higher than the events of 2008 at the international level and 2015 at the time of the impeachment of former President Dilma. These conditions imposed by the pandemic must continue as the main source of explanation for the economic scenario. The bias towards the end of the year is still negative. The contagion curve still follows an upward trend. Part of this trend has already been incorporated into the assessment of a 4.1% drop in the economy for 2020. The lack of political coordination may reinforce a hasty return to social normality. The disinflationary effect of the crisis has already manifested itself, which provoked a strong revision of the inflationary scenario, resulting in a new cycle of loosening of monetary policy. The effects of domestic policy, however, contributed to the strong devaluation of Brazilian assets.

Politics: The presidential weakening should result in the debate about interrupting the presidential term. At this time, there are no political bases for a government transition. The perception of high risk must maintain the focus of leaders in building consensus for the emergency agenda. The picture of political tension, however, is chronic. President Bolsonaro's loss of credibility with other institutions is growing. The government has lost agenda power and is subject to several defeats by the constitutional court. The economic policy agenda is aimed at minimizing the effects of the pandemic, with an emphasis on the labor market, income transfer and access to credit measures. In the public sector, the loss of revenue from federated entities should result in a broad package of measures to preserve revenue. Emergency measures are expected to bring gross debt to close to 90% of GDP.





BRL/USD

2018	2019p	2020p	2021p	2022p
3.89	4.03	4.90	4.75	4.44

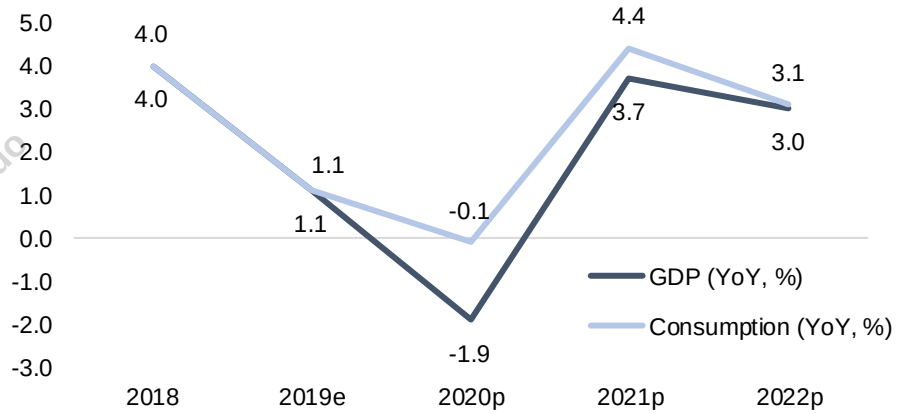
© Economist - Acordado por usuário não autenticado

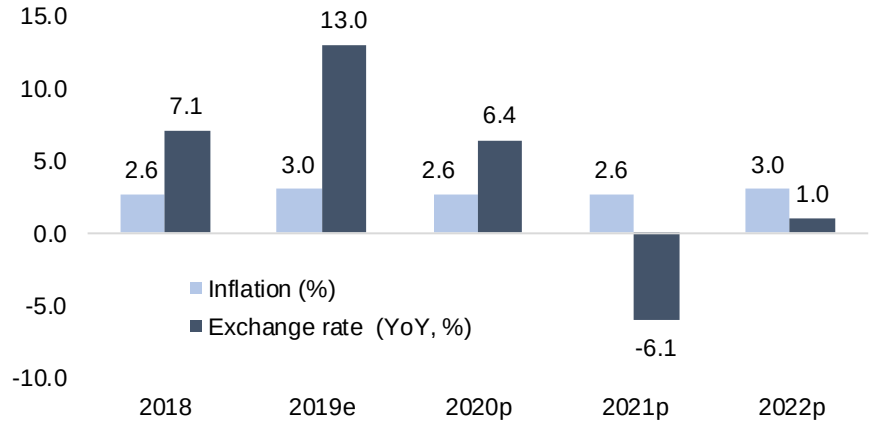
Chile

Economy: The sectorial evidence for March anticipates a contraction in activity in twelve months, but lower than anticipated. Given the above, it seems quite likely that the first quarter of the year ended with growth, partially reversing the contraction in the fourth quarter of 2019. Notwithstanding the foregoing, for April, as well as for the second and third quarters, a significant contraction in activity, which could be in the double digits in twelve months is expected. The above as a result of the restriction of activities and displacement measures taken to confront the COVID-19 pandemic. Unemployment in March rose to 8.2%, a figure that is the highest since 2010 for the same month of the year, but which, as it represents the moving quarter January-March, does not fully show the effects of the contraction in the activity to come. We estimate that unemployment would be above 10% from April to August this year. The employment protection law, which allows wages to be paid with unemployment insurance funds, but without decoupling workers, will prevent unemployment from approaching 20%. Inflation remains contained and is expected to be negative in April.

Politics: A Reasonable administration of the health crisis has allowed the government to regain some of the support lost after last October's insurrection, although it remains at around 20%. At the same time, it has allowed him to recover the initiative in the face of an opposition that is not only deeply divided, to the point that it was not able to maintain the presidency of the Chamber of Deputies despite the majority it holds, but has also become more discredited in front of the citizens for their lack of serious proposals (several populist, unconstitutional or irrelevant) and a rather ambiguous attitude towards the emergency facing the country. While violence and protests are expected to resume when the health emergency passes, they are expected to have less support than they had until early March. The restrictions associated with the control of the pandemic could begin to be gradually reduced after May 15, although in some places a partial process of normalization has begun, since the restrictions, except for the national curfew, are adjusted to reality. of each commune or city.

©Económica - Cargado por usuario autenticado





CPL/USD

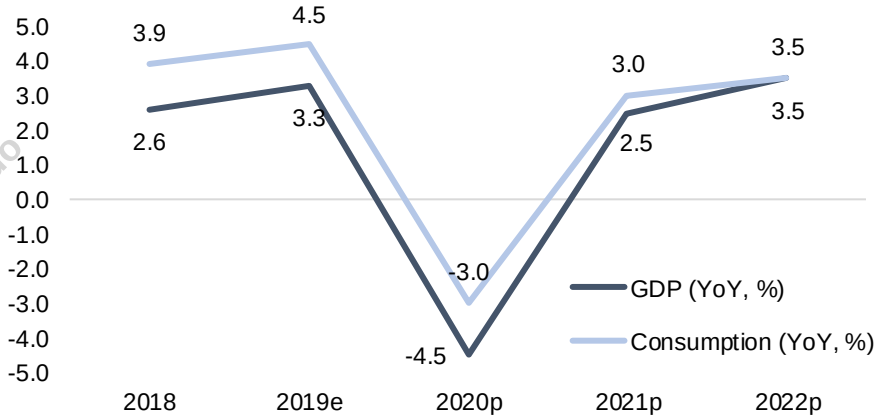
2018	2019p	2020p	2021p	2022p
682,0	770	820	770	778

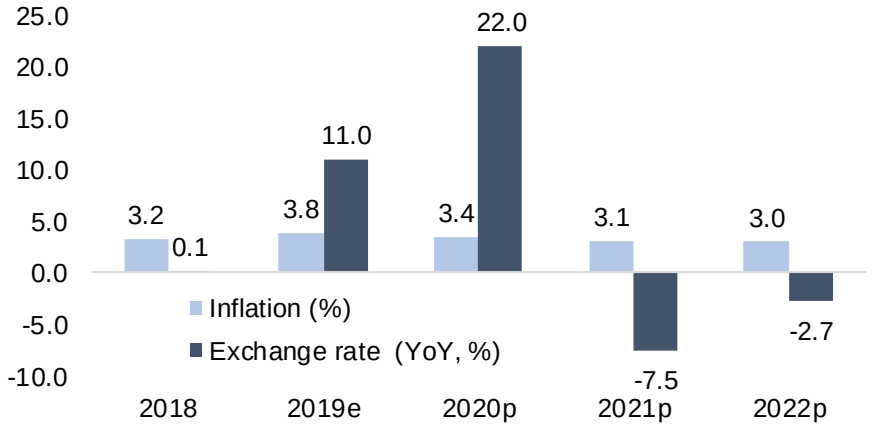
Colombia

econometría Consultores

LAECO

Economy: Colombia has faced two strong shocks simultaneously in the first quarter of the year, COVID-19 and a drop in oil prices. The first shock led to President Duque decreeing national quarantine be held from March 25 to May 11. The second shock, a drop in oil prices, negatively affects both the external sector and government income. It also has devalued the Colombian peso. We forecast a decline of between -3% and -6% of GDP in 2020. Low oil prices, for their part, affect both the deficit in current account (-5% of GDP) and a more significant fiscal deficit (-4% of GDP). These two shocks have opposite effects on inflation, and therefore inflation will be within the Banco de la República's (BR) target range. The latter will allow the Central Bank to reduce interest rates significantly, helping to finance part of the growing government spending at a lower cost.





Politics: In terms of economic policy, the government has taken multiple measures to face the coronavirus shock and the drop in oil prices. From the fiscal side, the government's response has represented additional spending of around 1.5% of GDP. From the monetary side, BR has increased liquidity in the economy, both in pesos and dollars. BR also lowered the interest rate from 4.25% to 3.75%. We expect the policy interest rate to be at 3.25% for May.

On the other hand, there has been an increase in the popularity of Colombian leaders. The situation helped President Iván Duque who, before COVID-19, was perceived as a ruler without a clear narrative to unite Colombians. However, there is a lack of coordination between the central government and the regions. This lack of coordination has led to tensions, mainly between Claudia López, mayor of Bogotá, and Iván Duque.

© Econométrica – Descargado por usuario no autenticado

COP/USD

2018	2019p	2020p	2021p	2022p
2,956	3,280	4,000	3,700	3,600

Costa Rica

ecoanálisis
consultores económicos y financieros

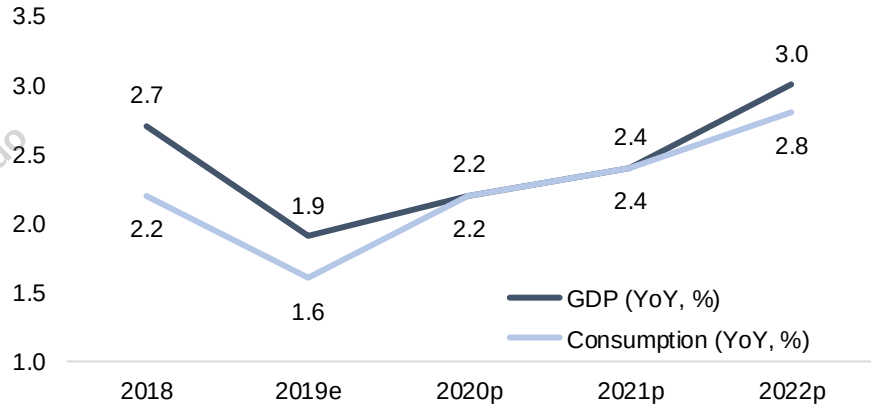
LAECO

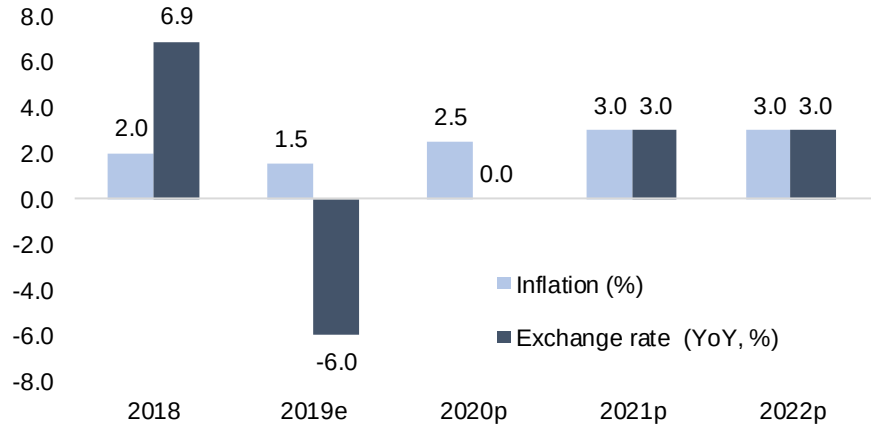
Economy: Less than two months after the first case of Coronavirus in Costa Rica, the country has the lowest mortality rate in the region, 0.84%, and relatively low infection rates, 713 cases. The low figures have been thanks to the rapid action of the government in closing the borders, canceling massive events and suspending the school cycle. However, as is widely known, the measures to contain the spread of the virus are detrimental to economic activity, and Costa Rica is no exception; the IMF and the World Bank predict a drop in economic activity of 3.3% in the GDP. The Central Bank anticipates negative economic growth of 3.6%, with tourism and construction being the hardest hit sectors. Given the low impact that the virus has had so far, and in order to alleviate the effects on the economy, the authorities have begun to slightly relax the containment measures; allowing the opening of: cinemas, theaters, barbershops and beauty salons.

Politics: With the arrival of this crisis, the popularity of President Carlos Alvarado has increased considerably. His mandate had been characterized by low political capital and popular approval from the beginning; however, his handling of this emergency has increased his popularity. According to the CIEP survey, during March, August and November of last year, only 27%, 21% and 22%, respectively, evaluated his management positively. These figures are completely different from those of April 2020, when 65% of the surveyed people evaluated it positively.

As for Congress, the Legislative Directorate will be changed on May 1st. Among the options for the new president of the Legislative Assembly, there are two opposition deputies; Pablo Abarca of the PUSC who wants to exclude the government from the board, and Eduardo Cruicksanhk of the PRN who, on the contrary, promotes the inclusion of the government.

© ecoanalítica. Prohibido por usuario no autenticado





CRC/USD

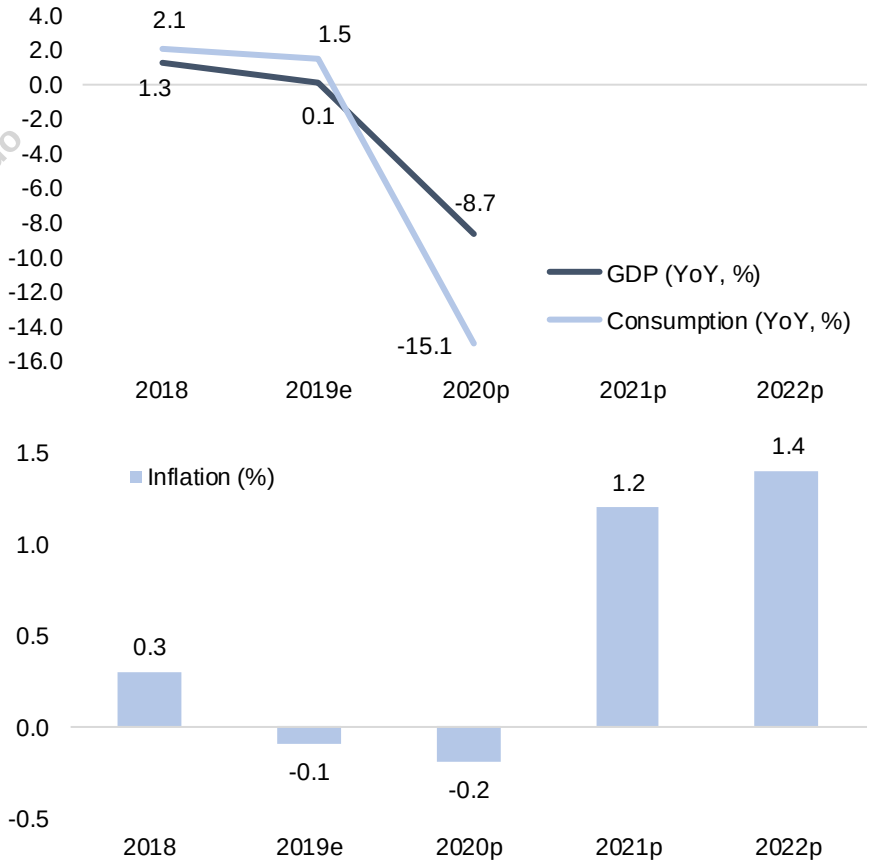
2018	2019p	2020p	2021p	2022p
610	573	573	590	608

Ecuador

Economy: In mid-April President Lenin Moreno sent to the National Assembly two law projects regarding economic issues, both qualified as urgent. This means that the Assembly has a 30-day period (until May 15) to approve or reject each one separately. The first one ("Ley de Apoyo Humanitario") has two main points. On the one hand, amid a critical fiscal situation, it aims to collect funds from the private sector through "contributions" in order to support the most vulnerable sectors in the population and also the most affected companies due to the economic crisis. In the Executive's proposal, the contributions would be in charge of individuals that earn a monthly income over $500 (through a progressive table), and of companies that reached profits above one million dollars in 2018 (although the most affected sectors would be exempted). On the other hand, this project presents a temporal normative framework that the Government is promoting in order to allow companies to reach agreements for new payment conditions with their counterparts (employees, suppliers, banks) and therefore avoid an immense bankruptcy. The second law project aims to guarantee a more organized management in the public accounts through, for example, fiscal rules, stabilization funds and a higher incidence of the Finance Ministry in the budget of all institutions within the public sector.

Politics: Given the political weakness of the Government, there is no certainty on the future of both project at the Assembly. The most rejected project has been the first one, both from the ones who oppose new taxes and the ones who refuse the possibility of the new emergency normative framework due to possible abuses. The second project (order in the public finances) has more possibilities to be approved without major changes. At one-point government authorities mentioned the possibility to apply cross-death (a constitutional figure that allows the President to dissolve the Assembly and call early elections, but, in the meantime, he has the capacity to legislate) if a blockade occurs at the Assembly. However, this possibility has not been mentioned again.

© Economist Intelligence Unit Limited. Reproducción prohibida. Contenido auténticado

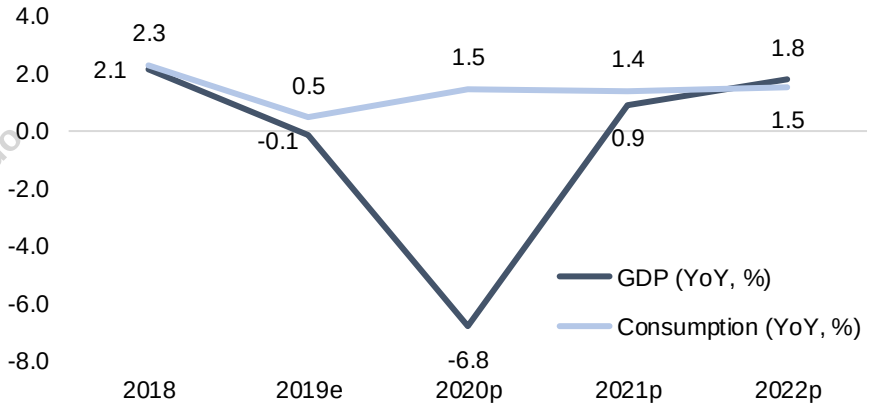


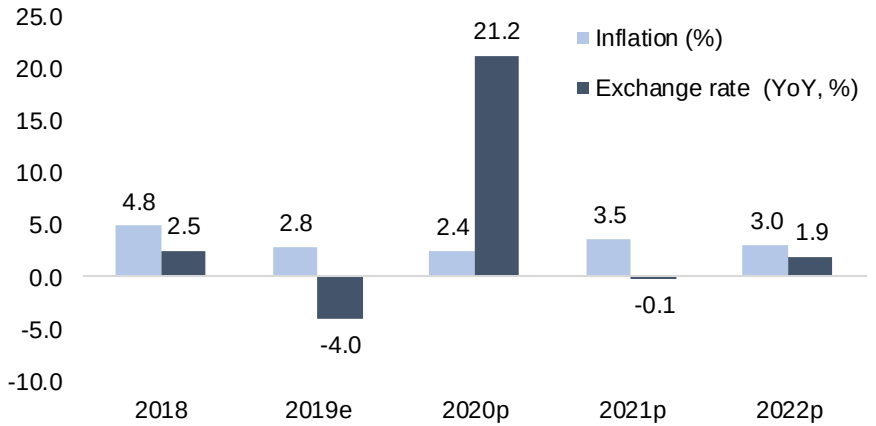
Mexico

Economy: Last April 30th, National Institute of Statistics and Geography (INEGI) published its timely GDP estimates for 2009 Q1, -1.6% at annual rate, remarkably similar to the estimated by Consultores Internacionales, S.C.® of -1.7%. By the end of the year we expect a GDP drop between -6.0% and -7.7%. In an environment of uncertainty, we consider 3 main reasons for this outcome, of course, the pandemic caused by SARS-COV-2, the effects of falling in international oil prices on public finances, and the lack of public sector strategic for corporate bailout. In fact, we estimate that towards the end of the year, more than 425 thousand formal jobs could be lost. To this, we must add the downgrade of the rating of the sovereign bond and Pemex, the parastatal oil producer enterprise of Mexico.

Politics: The Health Secretary announced the extension of healthy distance journey until May 30th and the Phase 3 of the pandemic by COVID-19. As of April 30th, nearly 18,000 contagions were confirmed, and more than 1,700 deaths were reported. Given the current situation, President López Obrador announced an austerity decree for the federal public administration, reducing the salary of mid-level officers by 25%, reducing spending on materials and supplies by up to 75%, and deferring government, except for projects associated with social welfare, and infrastructure flag projects like Santa Lucia Airport, Mayan Train, and Dos Bocas refinery, among others. This, amid a sharp domestic market depression, could backfire, given that the expectation is that government spending could incentivize the economy. The president's annoyance at the agreement between the Inter-American Development Bank (IDB) and the Mexican Business Council for $12 billion in funding to help businesses, small and medium-sized, in the face of the crisis, even if it does not involve public financing.

Documento de uso exclusivo para el cliente. Prohibida su reproducción por usuario no autenticado





MXN/USD

2018	2019p	2020p	2021p	2022p
19.7	18.9	23.4	23.1	23.4

Paraguay

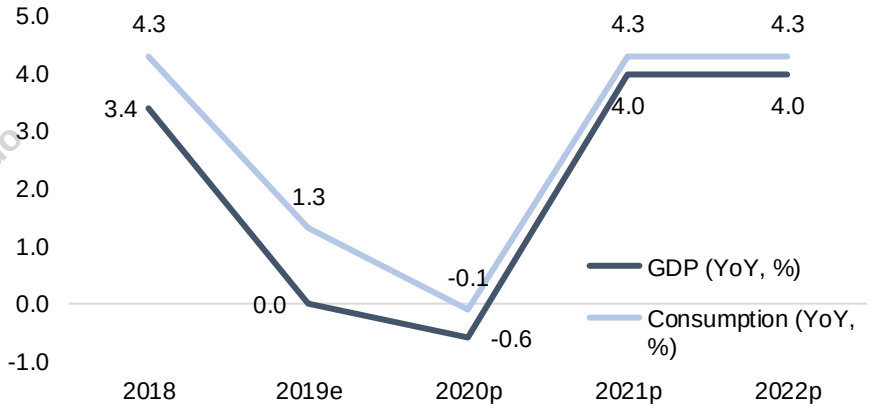
Economy: A recovery in economic activity was estimated for 2020, after a year of economic stagnation, where the Gross Domestic Product (GDP) remained at the 2018 level. However, the outbreak of the COVID-19 pandemic affected the preliminaries forecasts. Until now, the sectors that have been most affected, by restrictions established by the government to flatten the contagion curve, are those of entertainment and recreation. While the food, pharmaceutical and general cleaning industry has been benefited.

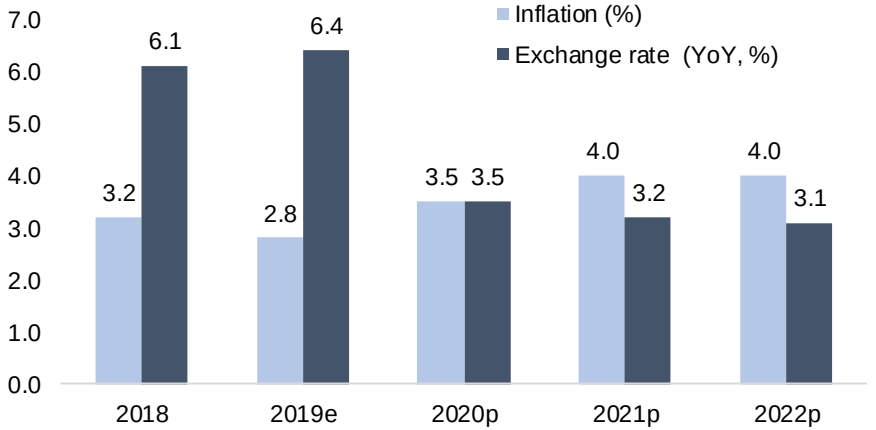
For the baseline scenario, a contraction in GDP of 0.6% is estimated, which is contained by the important performance of the agricultural sector, with a record soybean harvest of approximately 11.5 million tons. However, the base scenario may vary downward (upward), as a consequence of lower (higher) public spending and a greater contraction (lower contraction) of trade and the financial system. In other words, scenarios could be verified where the GDP falls 1.5% and / or grows 0.3%. It should be noted that these forecasts are uncertain, since they depend on factors such as: pandemic length; number of jobs lost; number of companies that will survive and, mainly, the effectiveness of the economic policy measures that the government has implemented.

Politics: In the framework of the State of Emergency Declaration Law, which contemplates the contracting of loans for USD 1,600 million (approximately 4.0% of GDP), to face the effects of the COVID-19 pandemic. On April 23, 2020, Paraguay made an issue of Sovereign Bonds in the international market for USD 1,000 million. The Bond denominated in USD will be amortized, in three equal parts, during the years 2029, 2030 and 2031, in order to deconcentrate the maturity profile of the public debt. The interest rate of the instrument is fixed at 4.95%, highly favorable, in a context of uncertainty, volatility and tightening of financial conditions. The emission resources will be destined to the health system; social politics; subsidies for the most vulnerable people, and the Guarantee Fund for Micro; Small and Medium Enterprises, which will allow to cover guarantees of credit operations.

Likewise, on April 21, 2020, the Executive Board of the International Monetary Fund (IMF) approved a disbursement for Paraguay in the amount of approximately USD 274 million, under the Rapid Financing Instrument. These resources will cover part of the balance of payments requirements derived from the outbreak of the pandemic. In addition, they will allow channeling resources for essential health expenses and strengthening the social safety net.

Documento descargado por LAECO autenticado





PRY/USD

2018	2019p	2020p	2021p	2022p
5,899	6,279	6,500	6,710	6,920

Peru

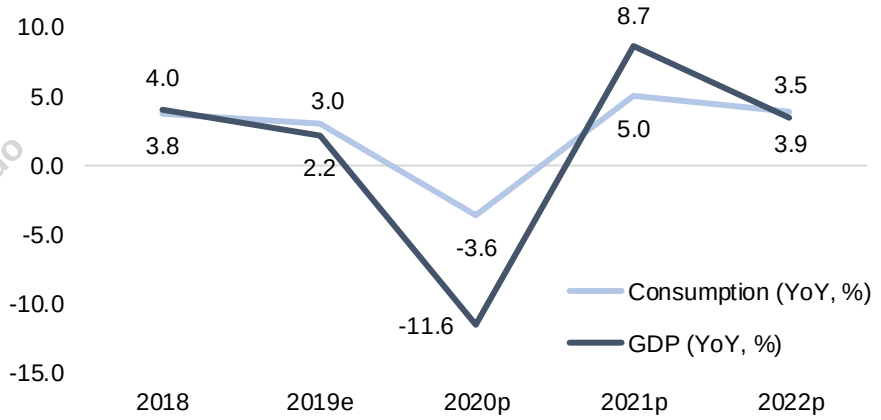
Economy: Considering a negative international environment (except for financial conditions), a quarantine that not extent, a gradual reopening of the economy and a relatively successful economic policy, we estimate an 11.6% drop in Gross Domestic Product (GDP) by 2020 and a rebound of 8.7% for 2021. If we focus on the projections for this year, the activities related to tourism, entertainment and construction would be the hardest hit. The latter would drop almost 30%.

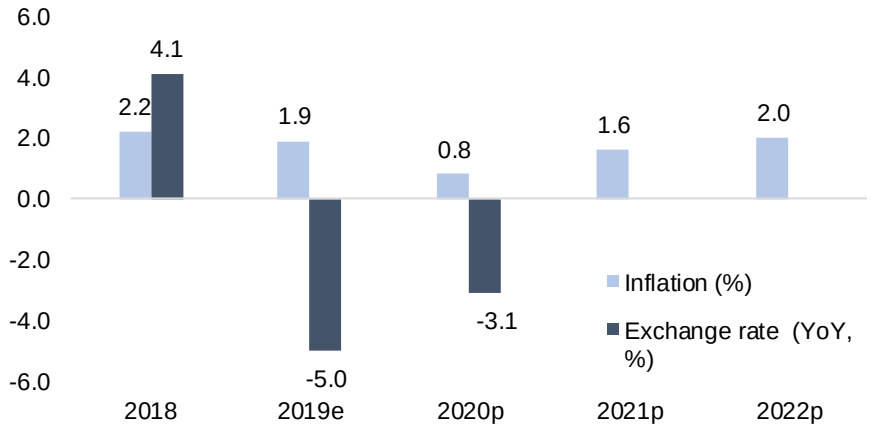
The projection for this year hides two clearly differentiated periods: the first and the second semester. Undoubtedly, the first semester will concentrate a good part of the fall that we will see during 2020, with a GDP contraction close to 20%. In the second half of the year, we expect the contraction to be much less (-4%) but that it depends on three key factors: the effectiveness of the policy of reopening economic activities, the number of infections and the sufficiency of the measures of economic support from the government. These, in turn, are risk factors.

Although we do not expect the reopening to be orderly, we cannot rule out that it could get escape of hand with the government, which would rapidly increase the number of infections and would force new measures to be taken to suppress it, which, in the worst scenario, could become widespread again. On the other hand, it is key that the measures of government be of the appropriate amount and opportunity. If these are insufficient and arrive too late, the drop in the second semester could be greater.

Politics: Congress has made evident its desire to gain prominence by promoting populist measures. Among these is the recently approved law that allows up to 25% of the individual accounts of the private pension fund to be withdrawn (with a maximum limit of almost US $ 3,800). The approval of this measure, despite the opposition of the Executive, would mark the beginning of a new cycle of tensions between both powers of the State. This time, beyond the political revenue, there is a risk of weakening the economic system.

©Fotografía – Descargado por usuario no autenticado





PEN/USD

2018	2019p	2020p
3.37	3.20	3.10

sim.macroconsult.pe

Uruguay

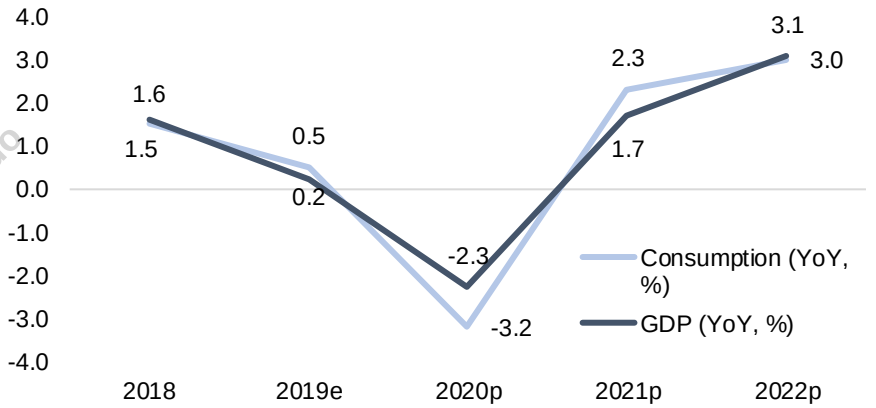
Economy: The labor market data for February prior to the start of the COVID-19 pandemic showed a significant deterioration but reaffirms the trend; the unemployment rate stood at 10.5% of the Economically Active Population, which has not happened since May 2007.

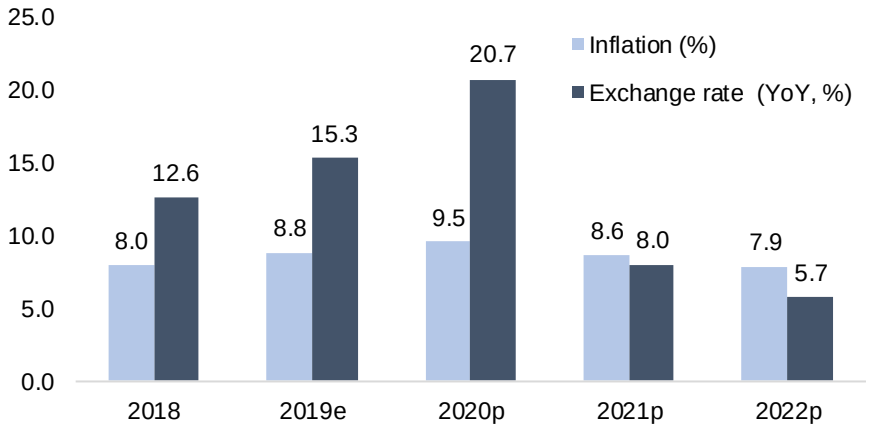
Given the health emergency scenario and the deepening of the drop in the level of activity as a result of the voluntary quarantine, it is reasonable to expect that the labor market will deteriorate further. The foundations for the evolution are the uncertainty regarding the duration of the pandemic, the slow recovery expected from both internal and external demand, and the situation that many companies will not be able to resume their activity. It is estimated that some improvement will be seen in the second half of the year.

Politics: Immersed in the acute phase of the COVID-19 crisis, the conviction is that the crisis will be overcome but, despite its temporary nature, the shock will have structural effects.

Surely, after it, the health system will be strengthened and new forms of work organization - globally and locally - will probably emerge at the productive level, either by shortening value chains in exchange for improving their resilience, or by spreading forms of remote work. The actions in the first of the two areas focus on containing the expansion of COVID-19 (through more or less restrictive variants of social distancing), in order to flatten the contagion curve and, in this way, limit the pressure on the Systems of health. In the second, a battery of economic actions is being rapidly deployed to prevent a temporary shock from ending up having persistent negative effects.

© Cuartina Descargado por usuario no autenticado





UYU/USD

2018	2019p	2020p	2021p	2022p
32	37	45	49	51

Venezuela

Economy: In response to the sharp increase in local prices in early April, Vice President Delcy Rodriguez announced last Friday that three important companies in the food sector in Venezuela (Alimentos Polar, Empresas Plumrose and Matadero de Turmero) will be under a "supervised sales" mechanism, in order to stop price speculation.

Additionally, Rodriguez announced the "temporary occupation for 180 days" of the Coposa oil company, alleging similar reasons. Rodriguez also announced the installation of a technical roundtable with representatives of the National Association of Supermarkets and auto-services (Ansa), with whom they established "agreed prices" for 27 items.

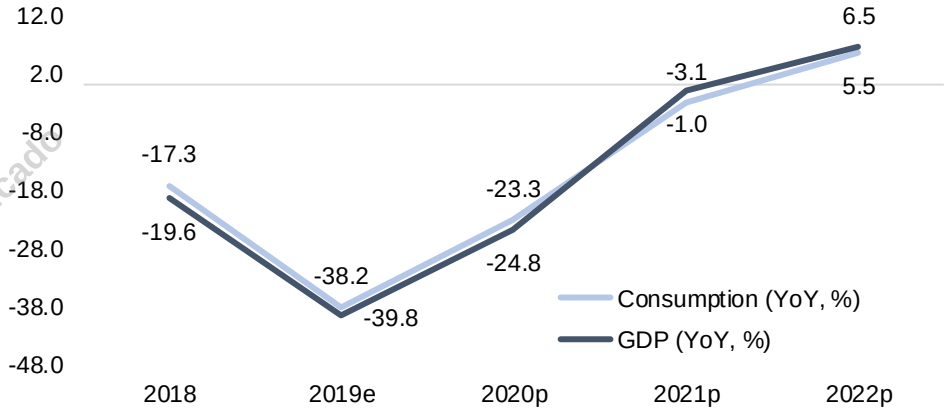
At the same time, the Minister of Labor Eduardo Piñate announced that as of May 1st the new value of the minimum wage, the food allowance, and pensions will come into effect. In total, the new value of the (integral) wage was set at VES 800,000 (approximately US$4.4).

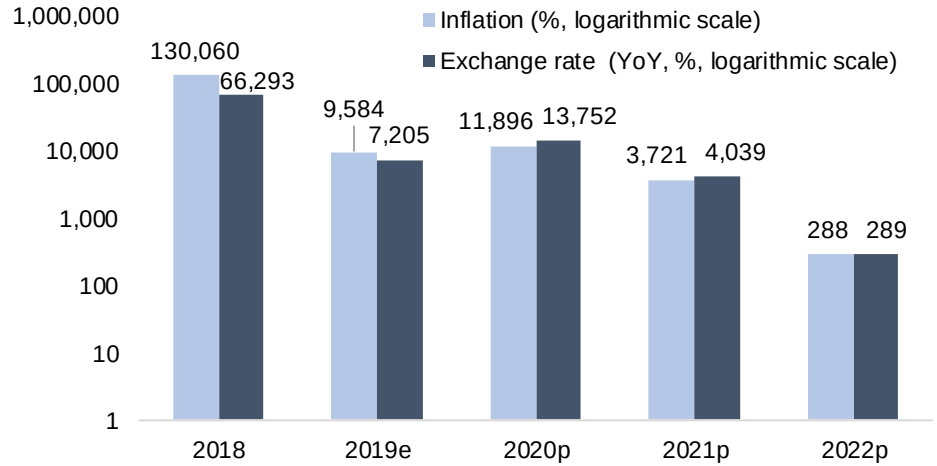
Politics: After almost a month of the beginning of the policy of social distancing in Venezuela derived from the COVID-19 pandemic, on Saturday, April 11, President Nicolás Maduro announced the extension of the quarantine for 30 more days, due to the increase in the number of persons infected with the virus. Two weeks later, the Minister of Communication and Information, Jorge Rodriguez, declared the possibility of relaxing the quarantine, establishing daily and age-specific spreading schedules. So far, 331 cases have been reported, with 10 deaths and 142 recovered.

The political tensions between the Executive and the US Government have not ceased. President Donald Trump announced earlier this month the mobilization of U.S. Navy ships to Venezuela to strengthen its "anti-drug" operations in Latin America.

After these declarations, President Maduro informed that, as part of the permanent operation "Bolivarian Shield", he ordered the mobilization of artillery pieces, in order to be prepared for the possible "fight for peace".

© Ecoanalítica - Descargado por usuario no autenticado





VES/USD

2018	2019p	2020p	2021p	2022p
638	46,621	6,457,707	267,256,732	1,039,926,736