

Andean region outlook 2021-22

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EM, Latin America Economic and Policy Research

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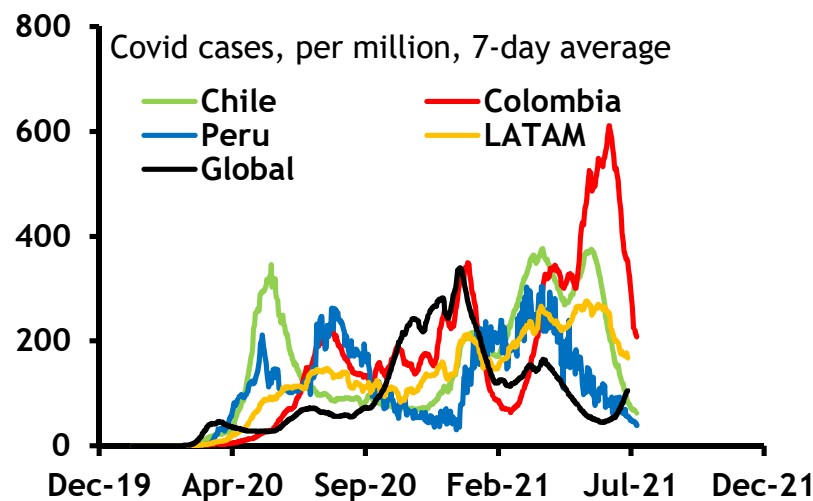
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Andean region: A slippery slope

- Growth had been more resilient than the region prior to the pandemic, but was still working through the adjustment of the fall in global commodities prices years earlier
- Political polarization and tension was already on the rise prior to the pandemic: inequality, corruption, unsatisfied expectations
- The Andeans came into the crisis with more policy space than most of the region given strong sovereign balance sheets and credible inflation targeting regimes—although Colombia had a more adverse starting point given twin deficits and higher debt
- A slippery slope down the ratings scale? Markets have already begun to differentiate

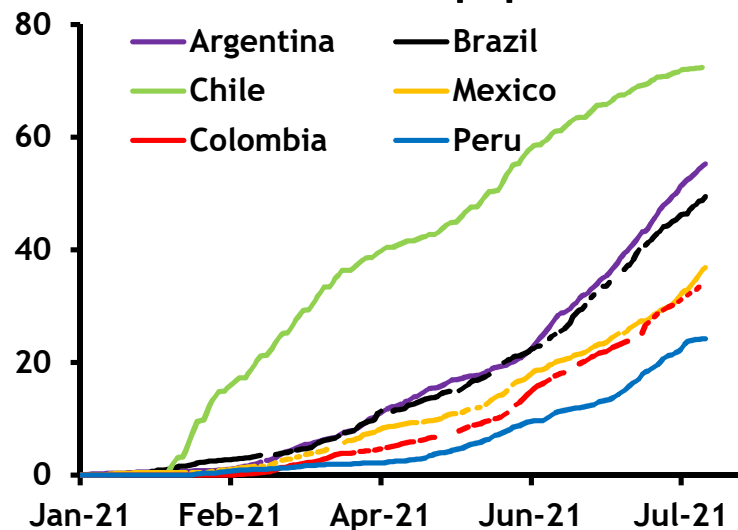
Latin America was among the hardest hit in the world by COVID-19 in 2020, and is now confronting the impacts of additional surges despite vaccines

The latest very strong wave is cresting...



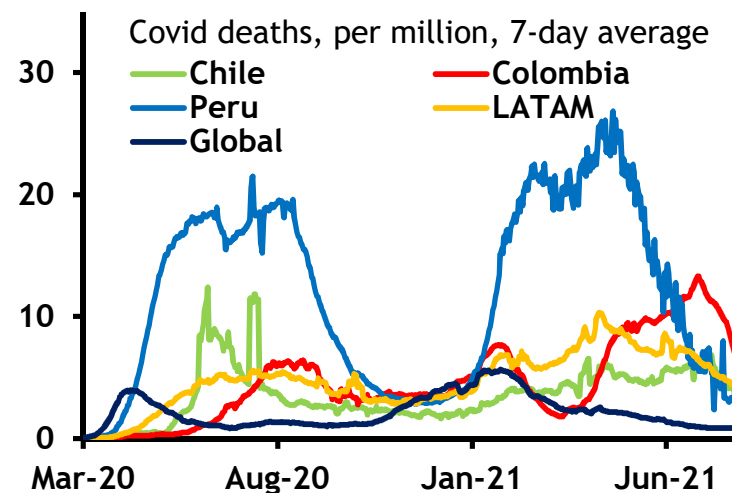
Source: Our World In Data

Vaccinations as % of population



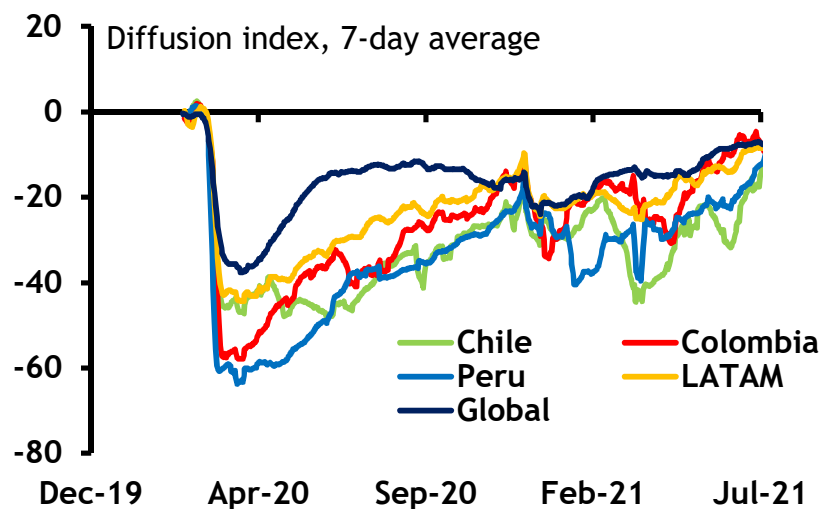
Source: University of Oxford

...but crisis still acute and delta looms



Source: Our World In Data

Mobility improving nonetheless



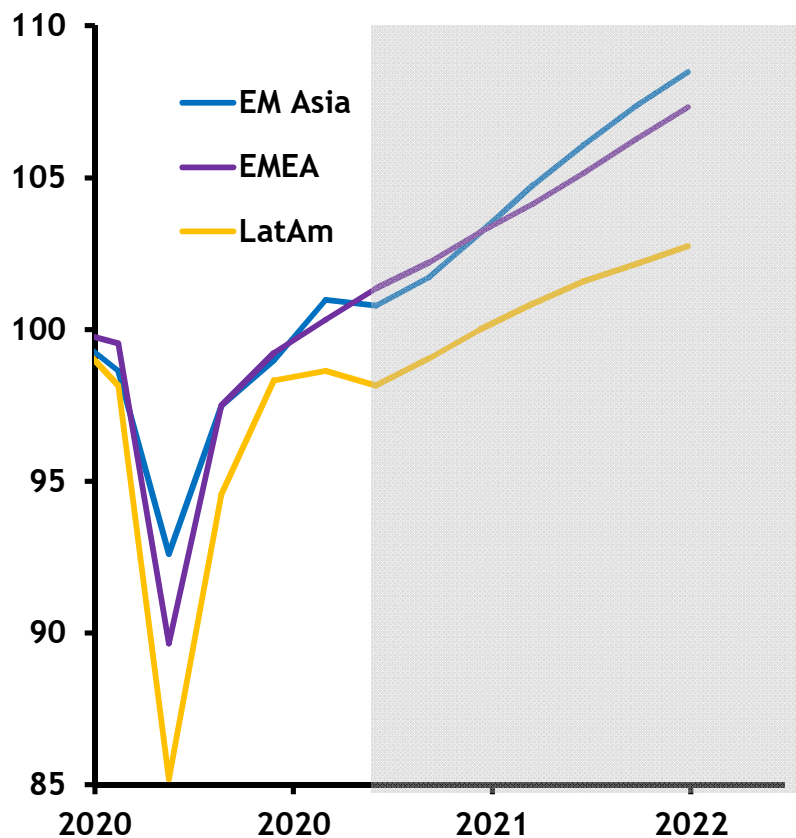
Source: Google and J.P. Morgan

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A very lagged recovery in Latam, Andeans, even if better than we'd previously expected

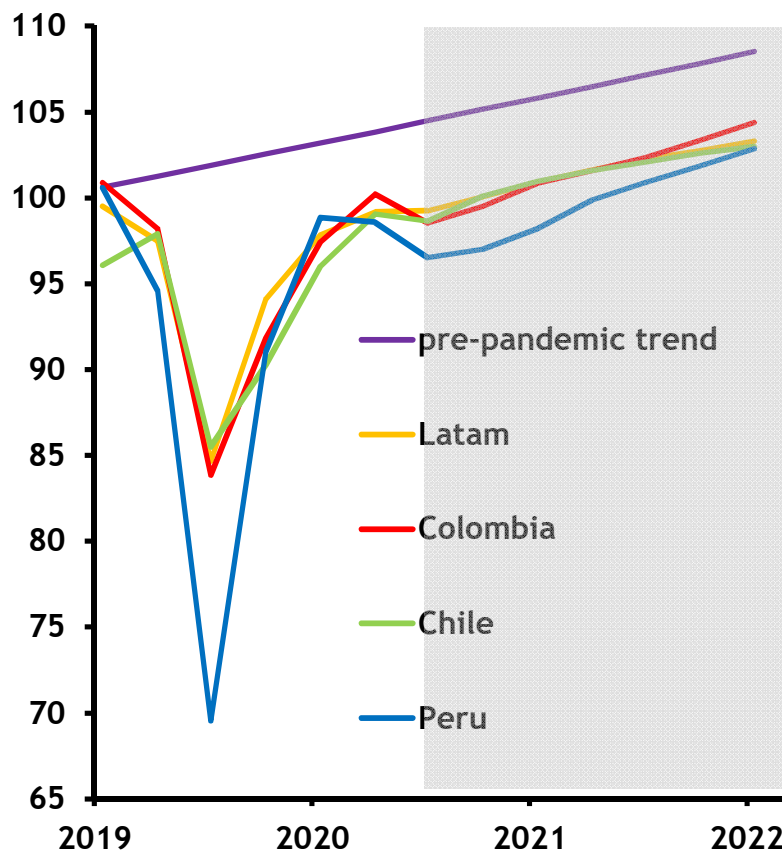
Still below the pre-pandemic hypothetical trend, but more of a “v” than feared

Real GDP, sa, Index 4Q19 = 100, sa



Source: J.P. Morgan

Latam real GDP, Index 3Q19 = 100, sa



Source: J.P. Morgan

Latin American growth: Statistical carryover to deliver 6% growth in 2021, but we see a slowing pace starting in 2Q

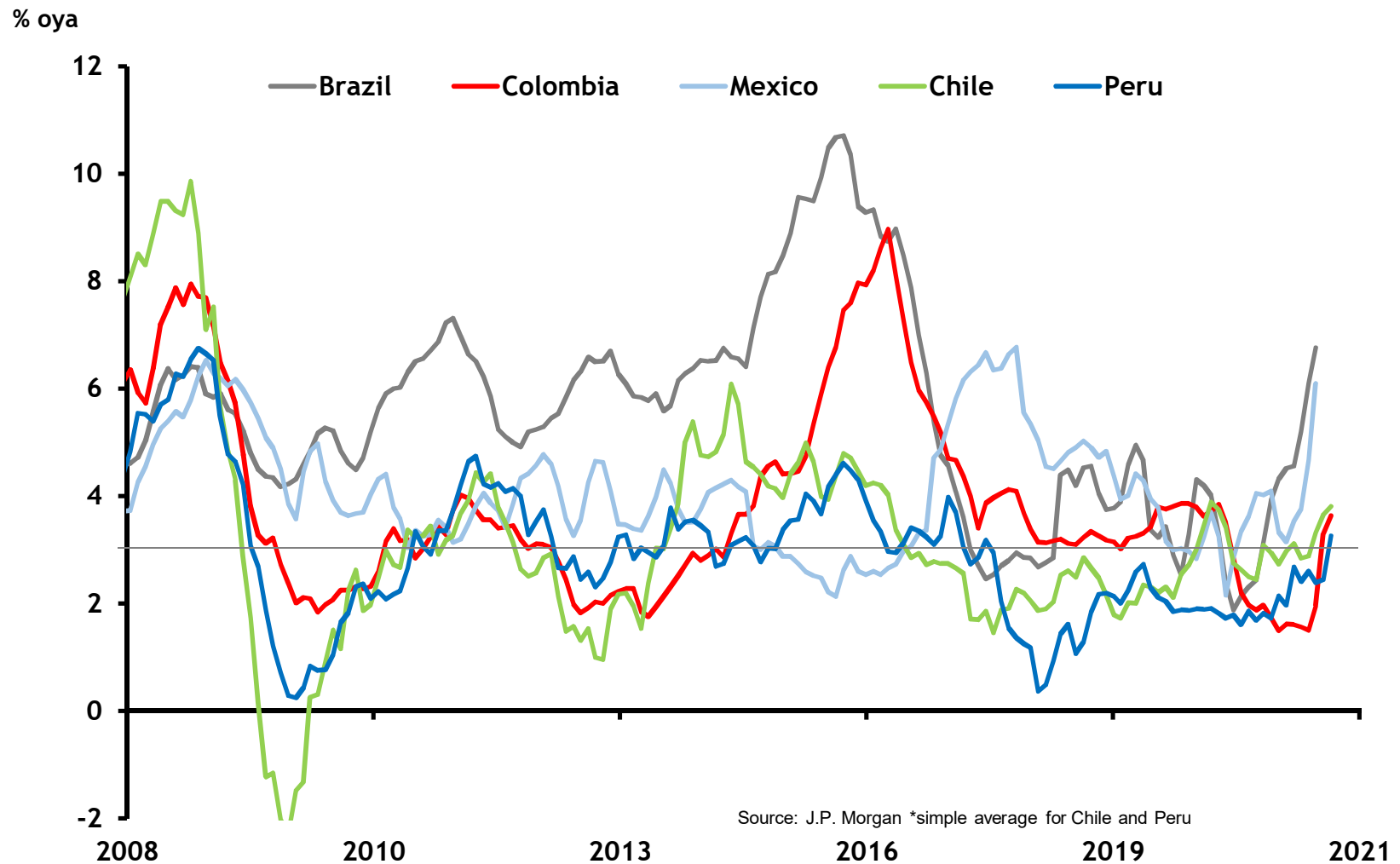
Real GDP growth forecasts (%oya, except quarterly data)

	2019	2020	%q/q, saar				2021	2022	Potential
			1Q21	2Q21	3Q21	4Q21			
Latin America*	0.7	-6.6	5.6	0.7	3.7	3.4	6.6	2.7	1.9
Argentina	-2.1	-9.9	11.0	-5.9	2.0	3.0	7.4	2.1	1.25
Brazil	1.4	-4.1	4.9	0.4	3.3	2.5	5.5	2.0	2
Chile	0.9	-5.8	13.4	2.6	12.7	2.5	9.5	2.7	2
Colombia	3.3	-6.8	11.9	-6.5	4.0	5.5	7.5	3.6	2.8
Ecuador	0.0	-7.8	2.7	2.5	4.5	4.0	2.0	3.5	1.7
Mexico	-0.2	-8.3	3.1	6.3	3.2	4.0	6.9	3.3	1.6
Peru	2.2	-11.1	-1.0	-8.0	2.0	5.0	10.8	4.1	2.5
Uruguay	0.4	-5.9	-2.2	-1.0	3.0	5.0	2.5	3.3	2

Source: J.P. Morgan

Inflation showing important lift in most targeting countries, including Andeans

CPI inflation



Inflation is now seen moving substantially higher in 2021; the return closer to target midpoints in 2022 may depend on Central Bank's guarding expectations

Headline inflation - forecasts and targets (%Dec/Dec, except where noted)

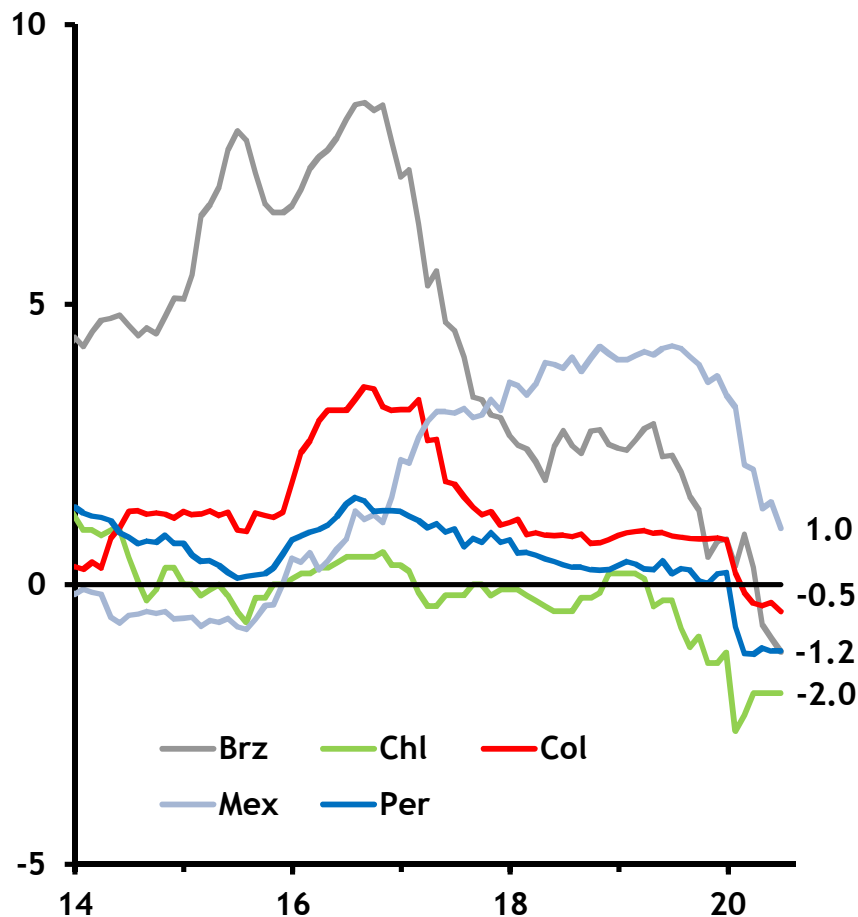
	2021 (%oya)								Inflation target	
	2018	2019	2020	1Q21	2Q21	3Q21	4Q21	2021	2022	
Inflation targeters	3.8	3.6	3.6	4.2	6.2	6.8	6.2	6.0	3.7	
Argentina	47.5	57.0	55.0	40.4	48.3	50.8	48.9	48.6	43.8	12-17
Brazil	3.7	4.3	4.5	5.3	7.7	9.1	7.7	7.0	3.7	4.5 (+/-1.5)
Chile	2.1	3.0	3.2	2.9	4.0	3.9	3.8	3.8	3.2	3.0 (+/-1.0)
Colombia	3.2	3.8	1.6	1.6	3.0	3.9	4.2	4.2	3.2	3.0 (+/-1.0)
Ecuador	0.3	-0.1	-0.9	-0.9	-1.0	0.4	0.9	1.2	0.1	
Mexico	4.8	2.8	3.2	4.0	6.0	5.4	5.6	5.8	3.9	3.0 (+/-1.0)
Peru	2.2	1.9	2.0	2.6	2.7	3.6	3.8	3.8	3.1	2.0 (+/-1.0)
Uruguay	8.0	8.8	9.4	8.8	6.9	7.2	7.2	7.2	6.2	5.0 (+/-2.0)

Source: J.P. Morgan forecasts

Monetary policy: After extraordinary support, normalizing hikes are on the way

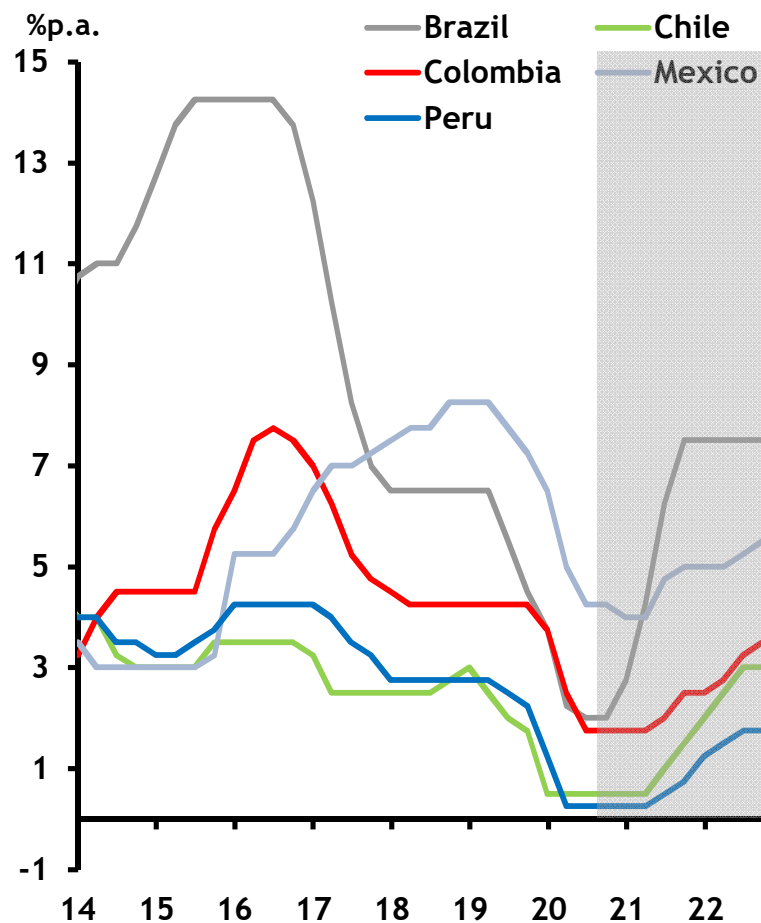
Real policy rate

%pa, nominal policy rate deflated by 12-month ahead



Source: BCB, BCCh, BCRP, Banxico, BanRep and J.P. Morgan

Slashed policy rates starting to head higher...

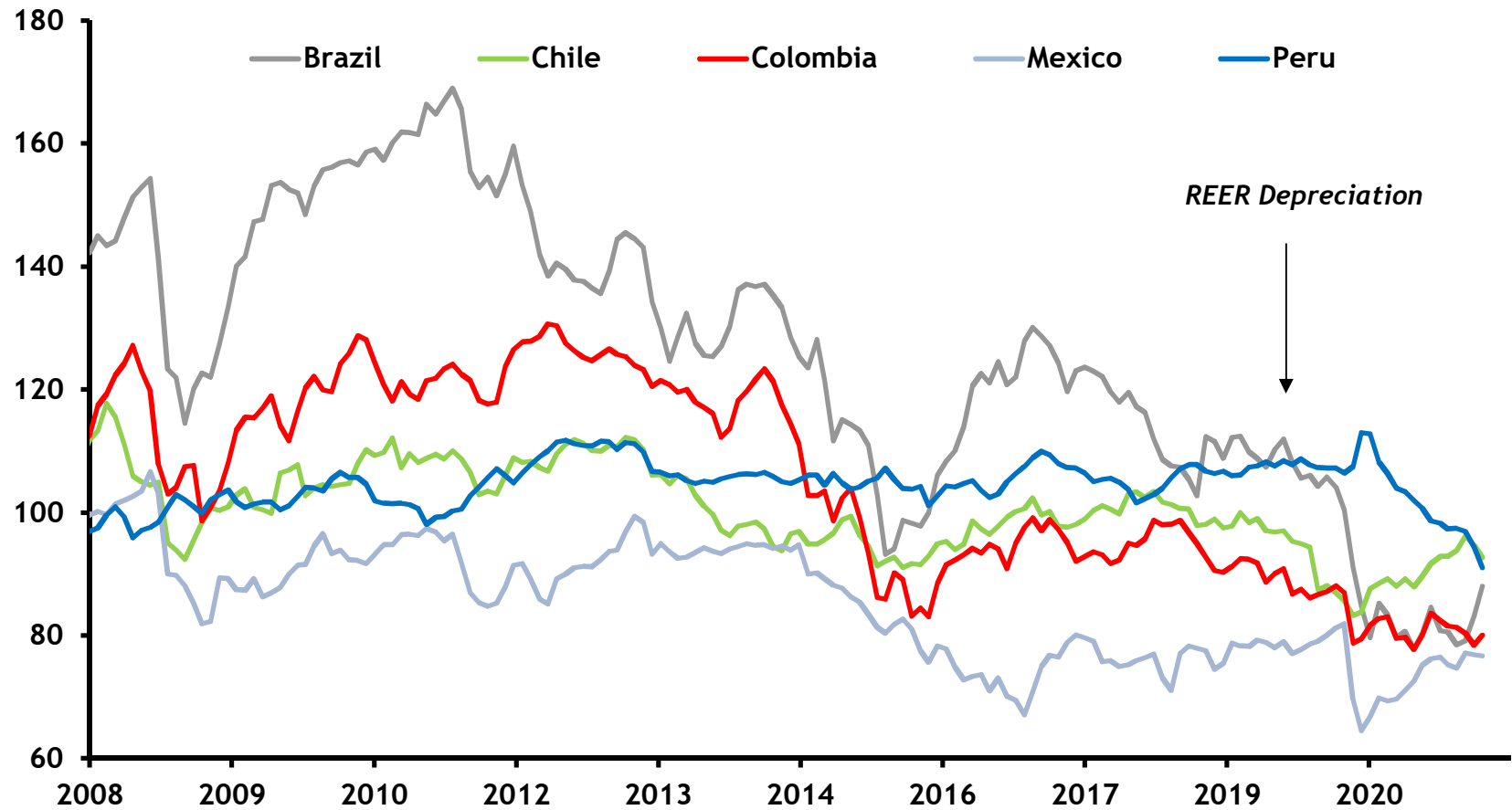


Source: BCB, BCCh, BCRP, Banxico, BanRep and J.P. Morgan

Real exchange rates adjusted after 2015, and a gradual depreciation since 2018 has accelerated after the COVID-19 shock, with some respite of late

Multilateral real exchange rate

levels, 2005=100

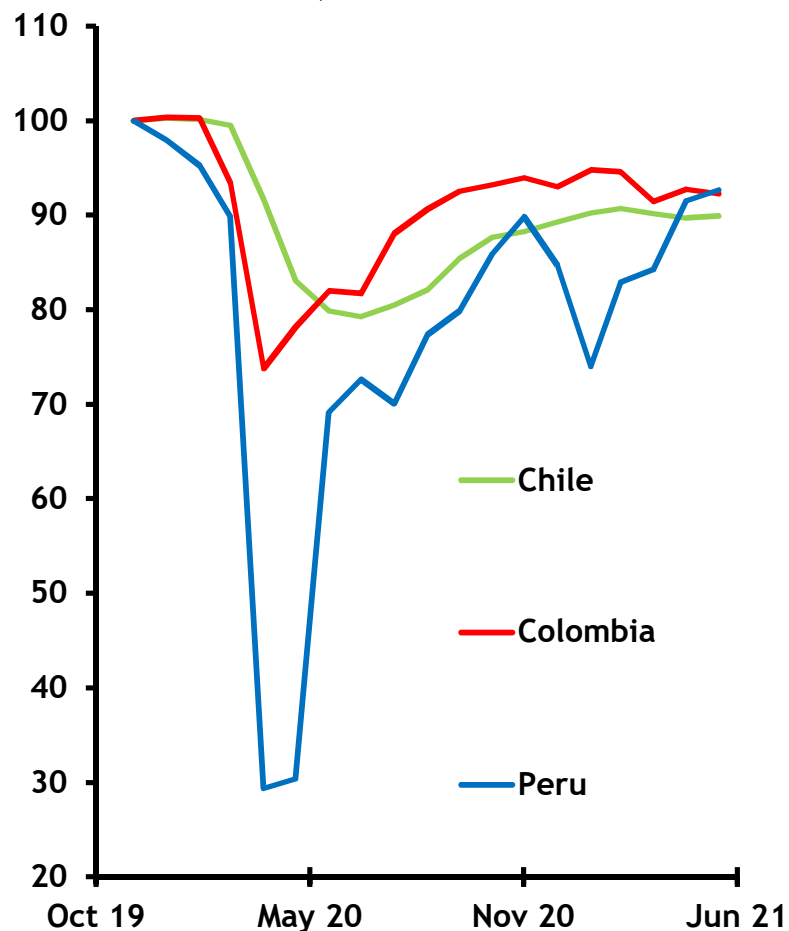


Source: J.P. Morgan.

Labor markets have been hit hard

Employment still lagging in Andes

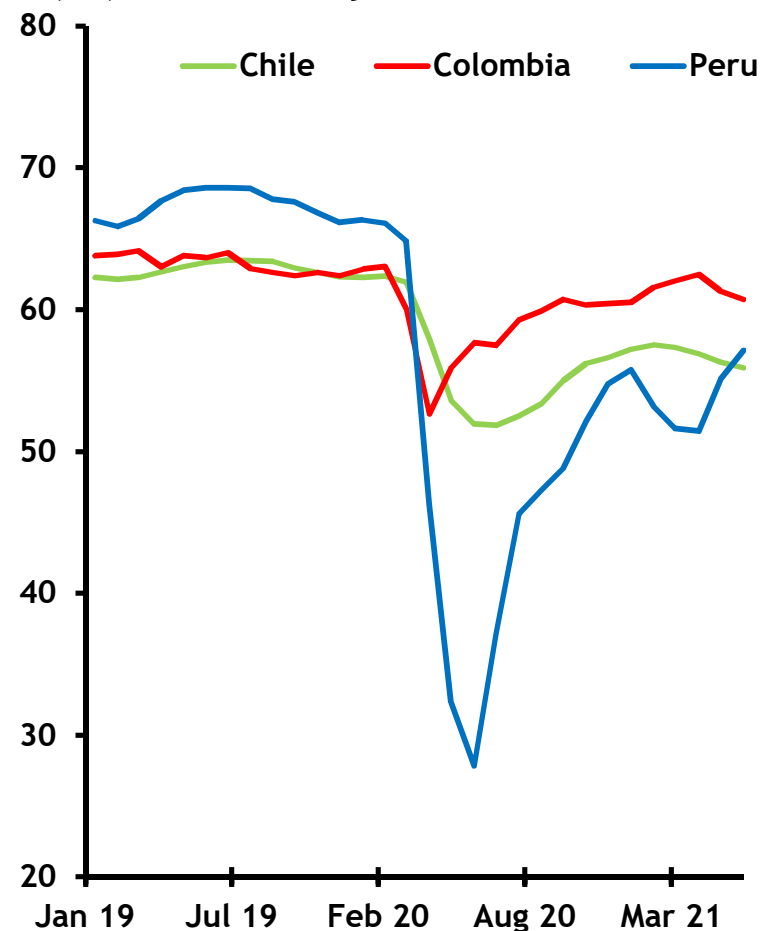
Index Dec-2019 = 100, sa



Source: Statistical agencies and J.P. Morgan

Participation rates sink in Latam

%, sa, JPM seasonal adjustment

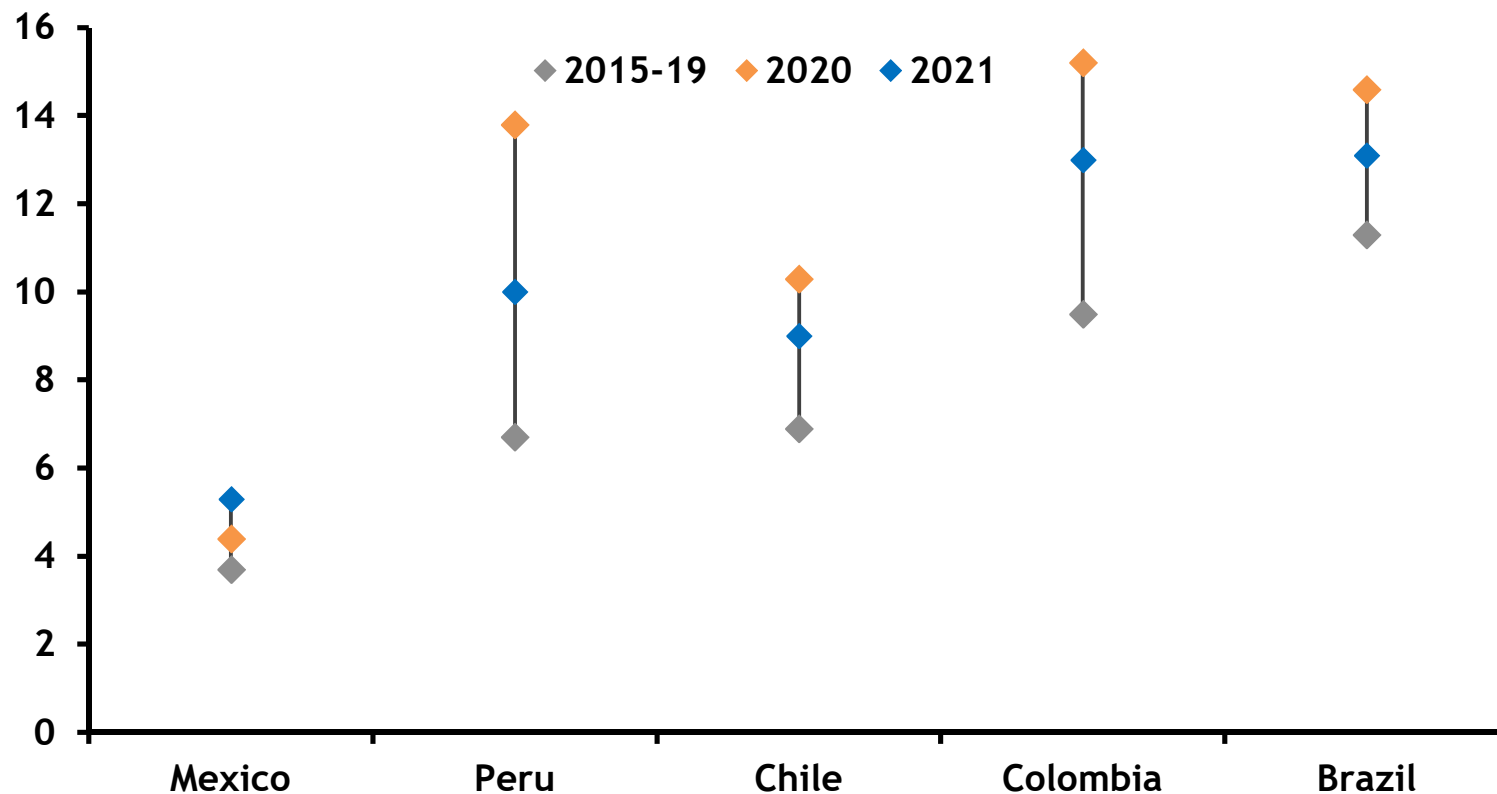


Source: Statistical agencies and J.P. Morgan

Furthermore, damage to labor market is likely to prove lasting

Latin America unemployment rate forecasts

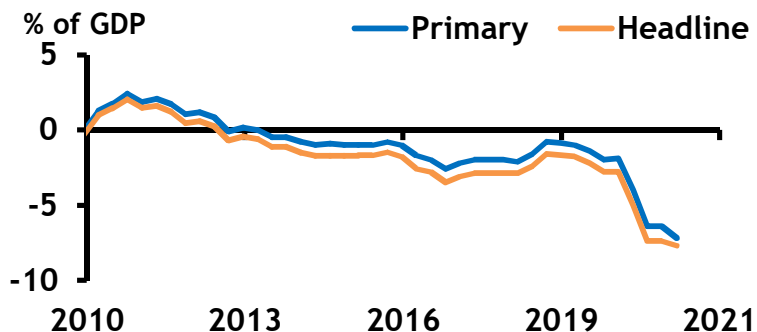
%, annual average



Source: J.P. Morgan

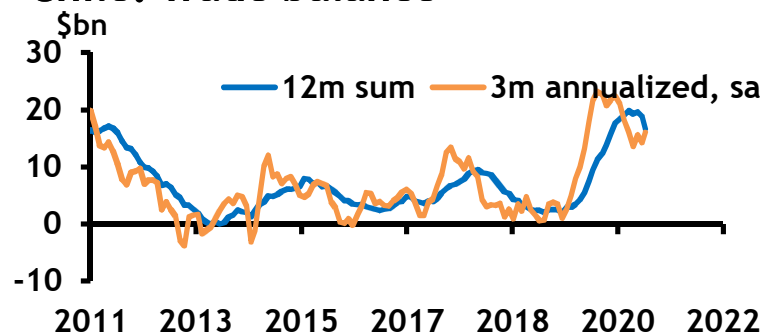
Fiscal accounts were generally stretched heading into the crisis, and deficits are now diving wider; while trade balances are in a better place

Chile: Fiscal balance



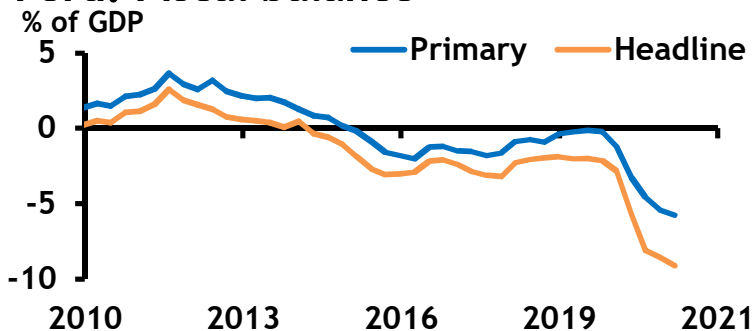
Source: BCCh. Central government balance

Chile: Trade balance



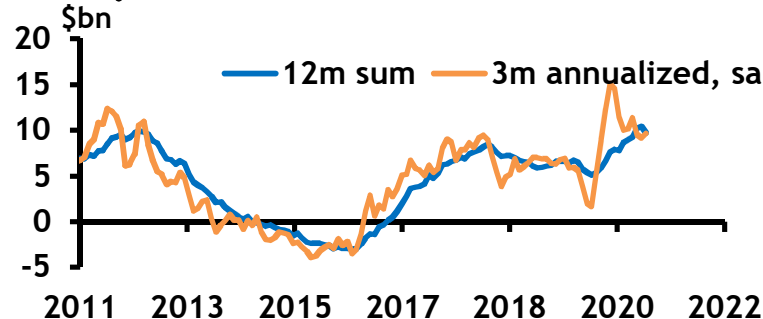
Source: INE, J.P. Morgan seasonal adjustment

Peru: Fiscal balance



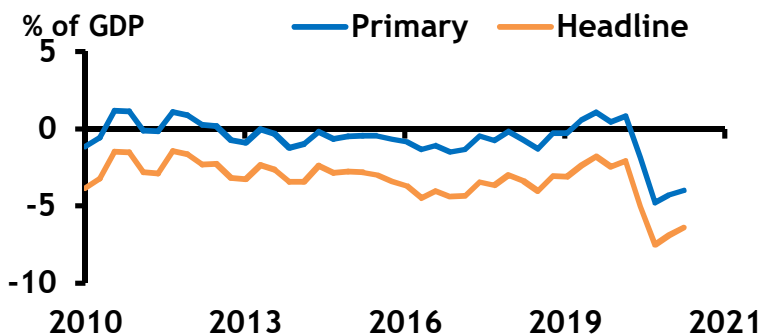
Source: BCRP. Central government balance

Peru: Trade balance



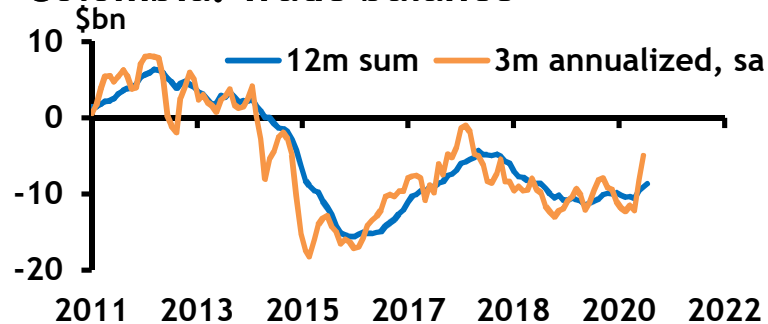
Source: INEI, J.P. Morgan seasonal adjustment

Colombia: Fiscal balance



Source: BanRep. Central government balance

Colombia: Trade balance

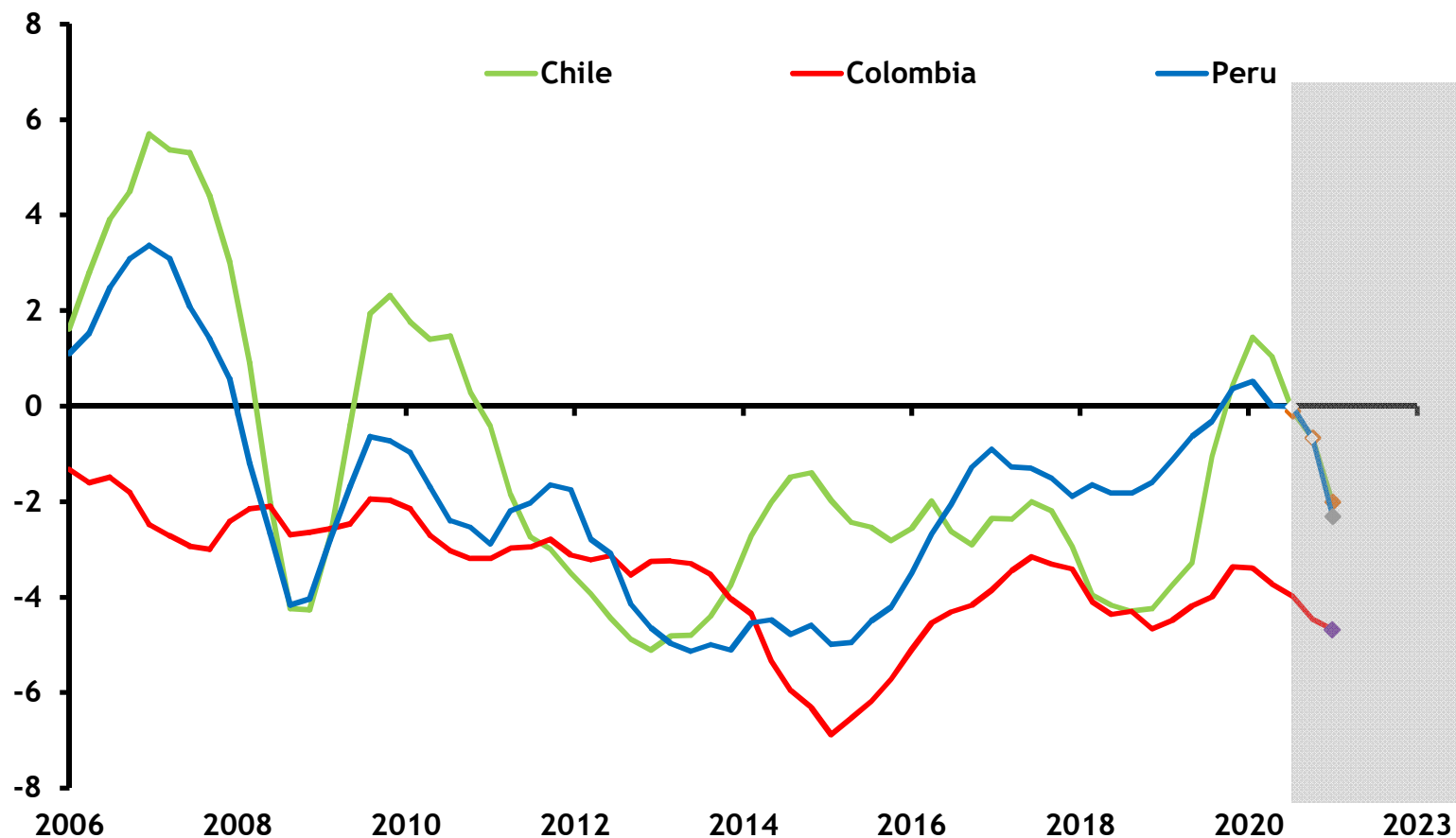


Source: DANE, J.P. Morgan seasonal adjustment

FX adjustment and growth collapse narrowed current account deficits in 2020, but we expect a widening this year despite a supportive external backdrop

Single-country current account balances

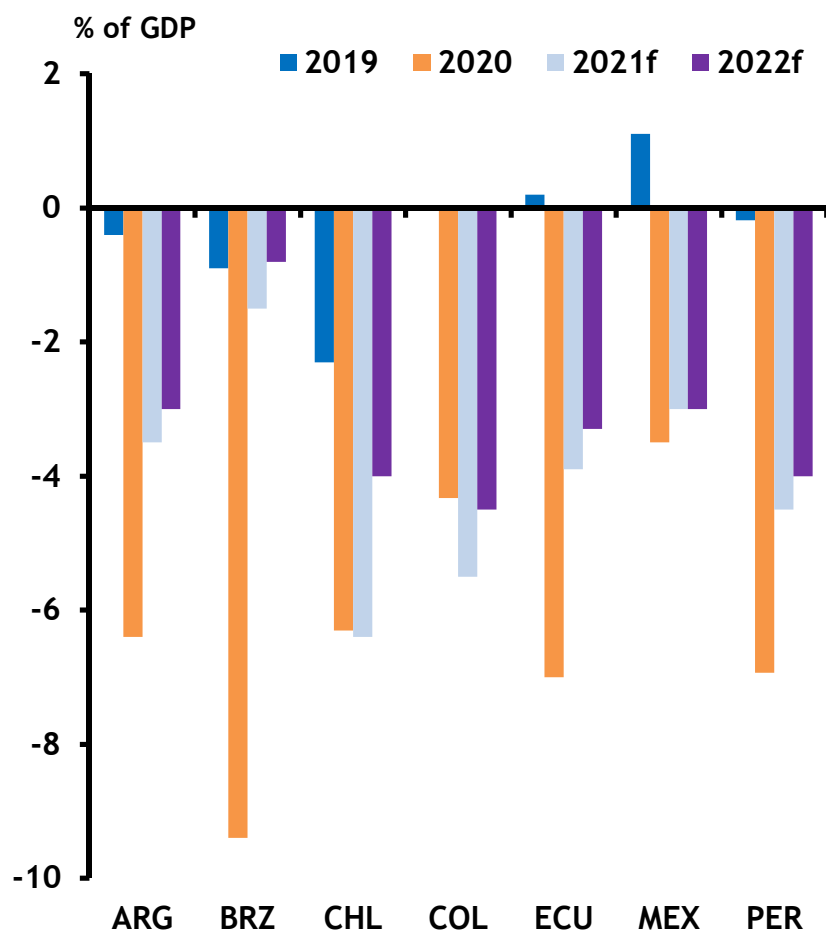
% of GDP, 12mma



Source: J.P. Morgan.

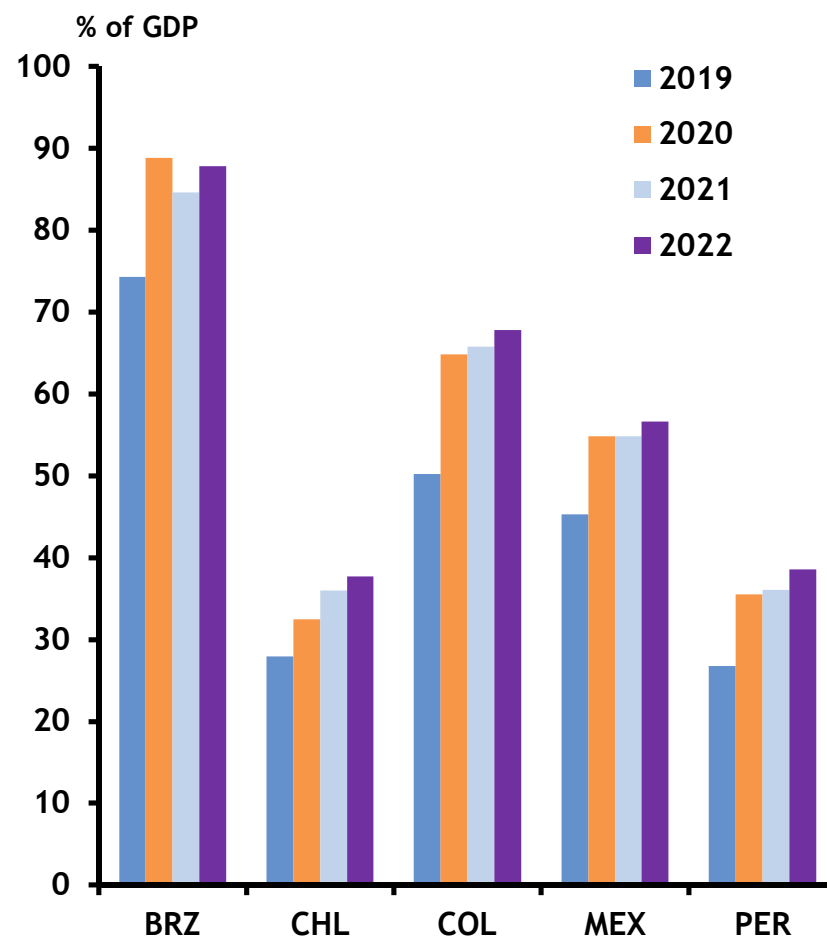
Fiscal stretch and higher debt as governments seek to fight off crisis

Primary balance forecasts for Latin America



Source: J.P. Morgan

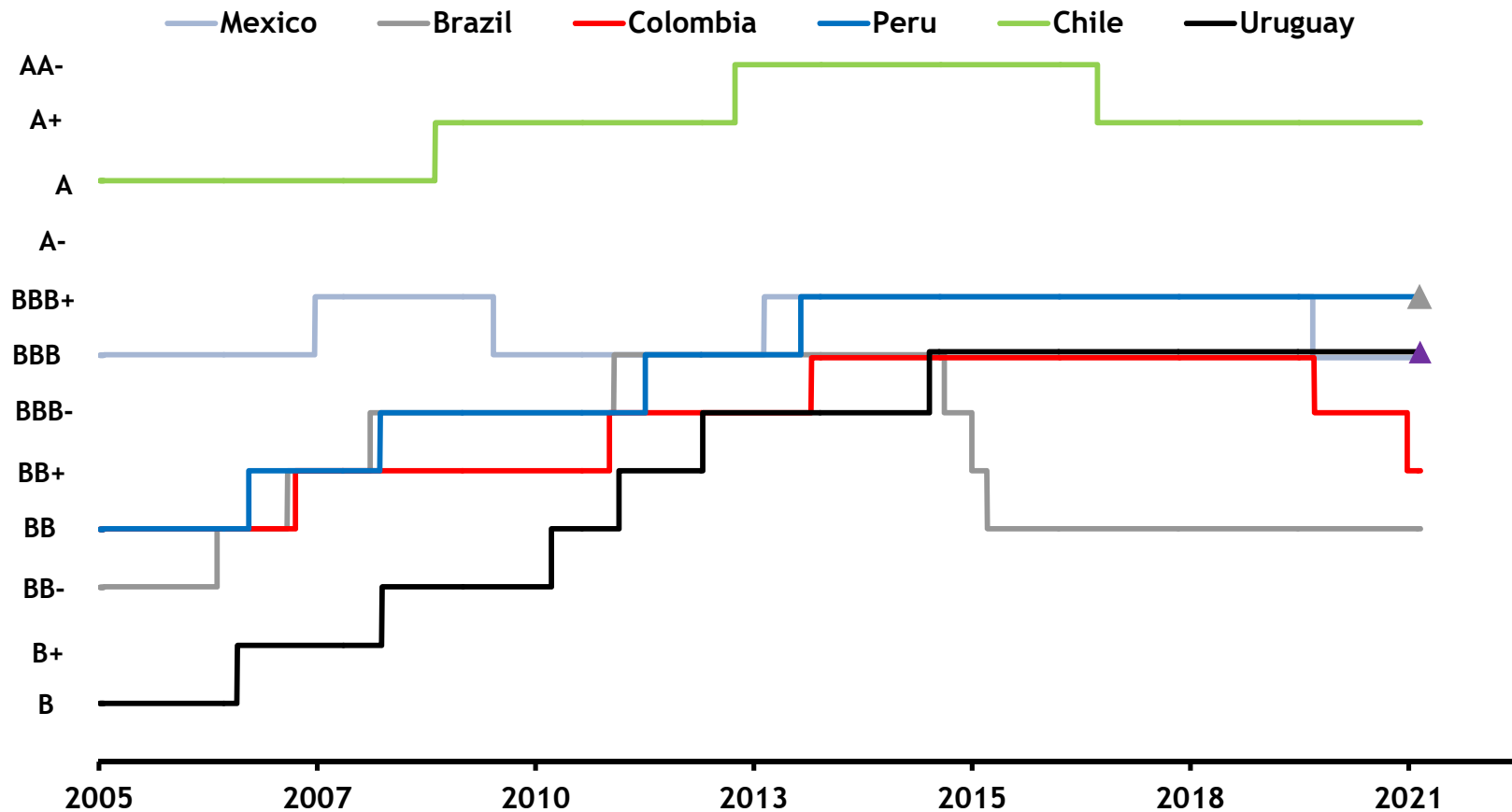
Debt to GDP to rise across the region



Source: J.P. Morgan

The forthcoming strong deterioration in debt dynamics will likely add to negative pressures on all credit ratings

Credit ratings*



Source: S&P, Moody's, Fitch and J.P. Morgan;

* Reflects median rating and scale corresponds to S&P and Fitch scales; on Moody's scale AA- corresponds to Aa3 and so on.

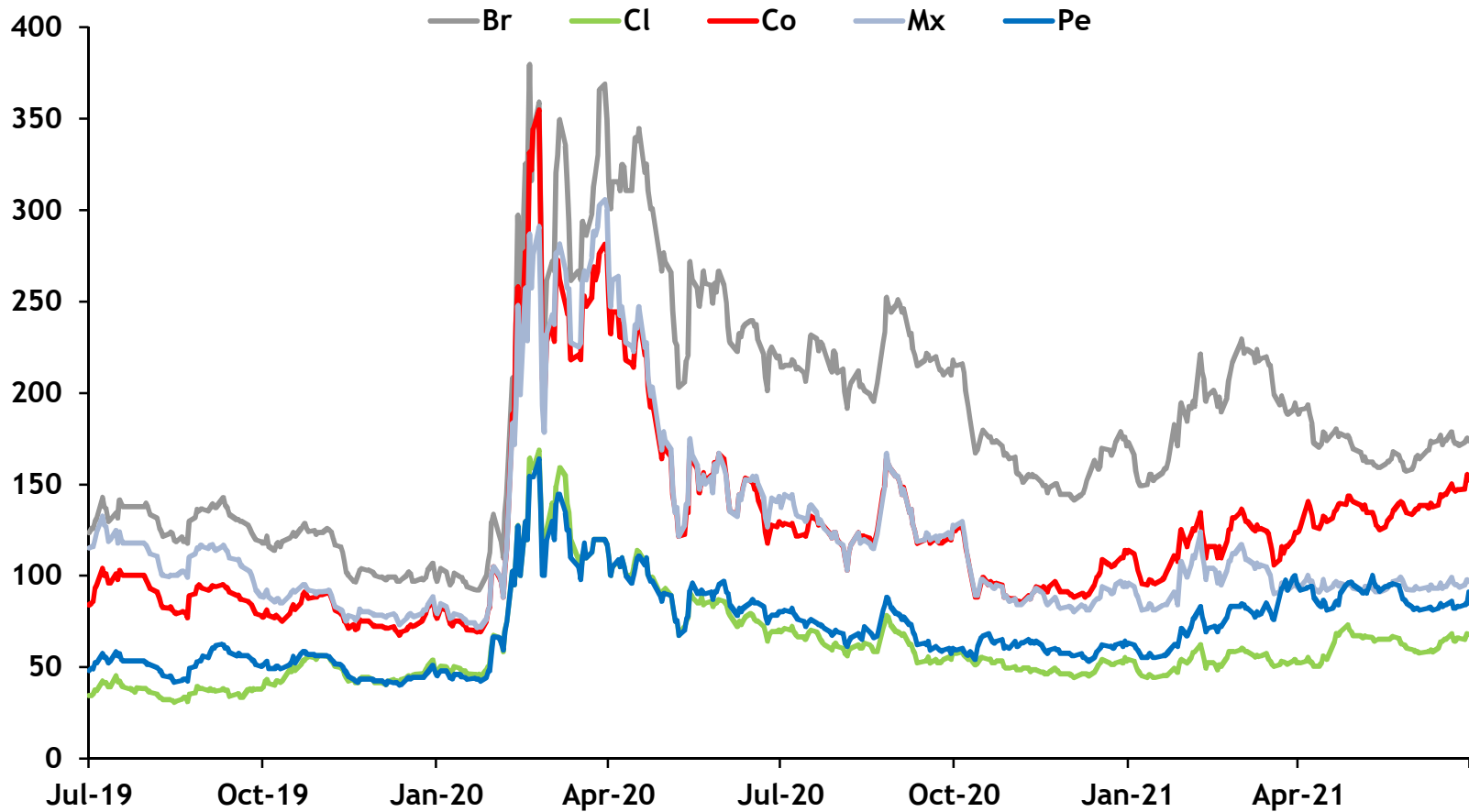
Markers indicate negative outlook in 2 out of 3 rating agencies.

Andeans: Markets pricing some additional credit risk vs ratings



Peru CDS has decoupled from Chile, while Colombia has decoupled from Mex

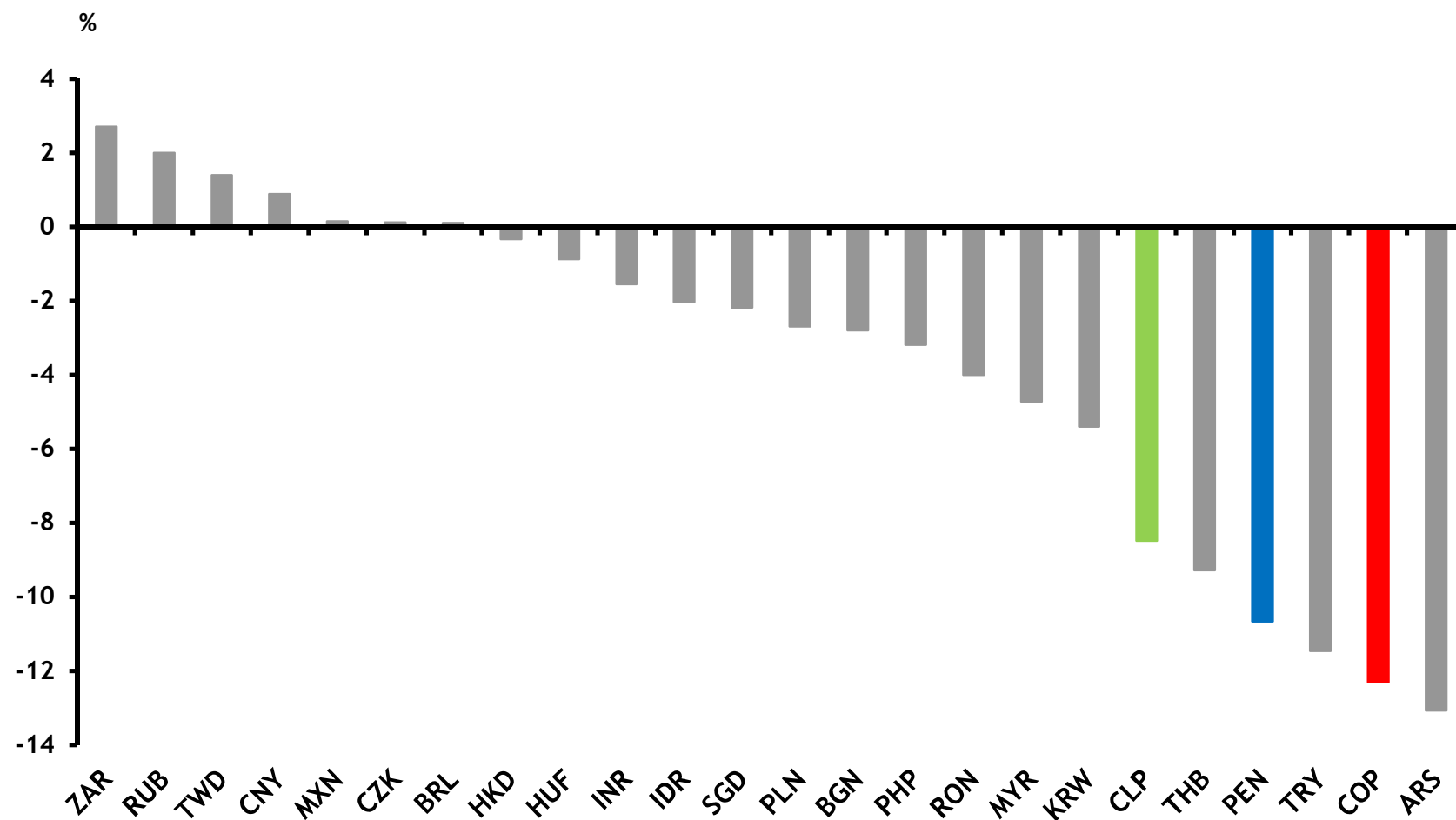
5yrCDS



Source: J.P. Morgan.

Andean FX among the worst performing in EM

Spot returns, since Jan 1, 2021 to date



Source: Bloomberg Finance LLC. & J.P. Morgan.

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