TO THE TUNE OF GLOBAL FACTORS

- **In LatAm, fundamentals remain resilient...**
- **...But EM valuations will mostly perform to the tune of global factors**
- **We analyse the impact of alternative global assumptions**
- **Overweigh Ecuador, El Salvador and Peru in Recession**
- **Overweigh Costa Rica, El Salvador, Jamaica and Peru in Stagflation**

In LatAm, fundamentals remain resilient. In the medium term, manageable financing needs coupled with IFIs support will allow even the most fragile credits to muddle through. From a macro perspective, we expect growth to remain strong across the board, and inflation to start converging, even if we revised our forecasts on the upside due to the 2022 inflation surprise. On the other hand, oil importers in Central America and the Caribbean will be benefitted by the moderation of oil prices, which will in turn weigh negatively on the external accounts of Ecuador and Venezuela. In addition, despite a higher probability of recession, prospects of slow disinflation in the US will help support remittances. Coupled with piecemeal unwinding of the rate hikes introduced in 2022, we do not anticipate FX pressures. Capital inflows will continue to be driven by multilateral lending and FDI. Regarding portfolio inflows, we do not see Sovereigns tapping international markets in the remainder of the year, except for Costa Rica and Jamaica. In these cases, we expect liability management operations to clear upcoming maturities (Costa Rica) or to reduce coupons (Jamaica). For 2023 we look to USD13.5bn in gross issuances (USD7.5bn excluding Peru) to finance budgetary needs and boost reserves. Only Panama would conduct a LMO of the 24s (USD0.8bn due in September 2024). On the downside, fiscal consolidation will remain sluggish, particularly in those countries facing social tensions (Argentina, Panama, Ecuador, Honduras).

Regarding regional politics, Brazilians will go to the polls next October, where former President Lula da Silva is the favourite to win a new presidential term. Together with the victory of Petro in Colombia, a new Lula presidency in Brazil will bode positively for the Chavista regime in Venezuela. However, we think that lower oil prices will provide ample incentives for the Venezuelan government to resume negotiations with the opposition in Mexico. We look to some mild relaxation of sanctions that could allow US oil company Chevron to partially resume operations in Venezuela, which could give a moderate boost to bond prices. Presidential elections will take place in Argentina and Paraguay, respectively in April and October 2023. Given the depletion of external buffers, the resumption of the political cycle could have serious implications for financial stability and fiscal accounts in the case of Argentina, but we expect a rather muted impact in Paraguay.

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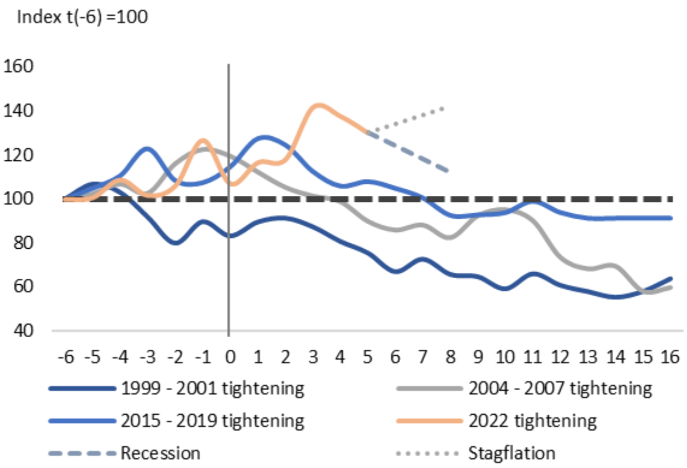
Table 1. Summary of main forecast revisions

	New		Previous	
	2022	2023	2022	2023
Argentina				
Real GDP (% y-o-y)	3.1	-2.8	2.7	1.7
CPI, year-end (% y-o-y)	103.2	113.6	68.0	51.1
Total fiscal balance (%GDP)	-4.1	-4.5	-4.1	-4.2
Current account balance (%GDP)	0.2	0.7	0.6	0.5
Monetary policy rate, year-end (%)	80.00	78.00	50.00	46.00
ARS/USD, year-end	168.3	425.1	156.8	226.9
Costa Rica				
Real GDP (% y-o-y)	3.3	3.0	3.3	3.3
CPI, year-end (% y-o-y)	11.5	5.0	8.0	3.7
Total fiscal balance (%GDP)	-4.1	-2.9	-4.2	-2.7
Current account balance (%GDP)	-3.8	-2.3	-4.1	-3.0
Monetary policy rate, year-end (%)	9.00	5.00	8.50	4.75
CRC/USD, year-end	680.0	680.0	680.7	664.5
Dominican Republic				
Real GDP (% y-o-y)	5.2	4.9	4.5	4.9
CPI, year-end (% y-o-y)	8.6	5.2	7.8	5.0
Total fiscal balance (%GDP)	-3.6	-3.1	-3.0	-3.1
Current account balance (%GDP)	-3.5	-2.2	-3.4	-2.5
Monetary policy rate, year-end (%)	9.75	9.00	9.00	8.25
DOP/USD, year-end	53.9	54.6	60.0	63.7
Ecuador				
Real GDP (% y-o-y)	2.2	2.3	3.7	2.6
CPI, year-end (% y-o-y)	4.2	2.2	3.1	2.2
Total fiscal balance (%GDP)	-0.5	-0.3	-0.2	-0.8
Current account balance (%GDP)	2.4	2.1	3.3	2.0
El Salvador				
Real GDP (% y-o-y)	2.4	1.9	1.2	1.9
CPI, year-end (% y-o-y)	7.8	4.6	6.0	4.0
Total fiscal balance (%GDP)	-3.4	-5.2	-5.0	-5.7
Current account balance (%GDP)	-7.3	-5.4	-5.1	-5.4
Guatemala				
Real GDP (% y-o-y)	4.2	3.0	3.5	3.0
CPI, year-end (% y-o-y)	9.7	4.9	5.5	4.5
Total fiscal balance (%GDP)	-0.7	-0.8	-0.7	-0.8
Current account balance (%GDP)	0.3	0.8	0.5	0.8
Monetary policy rate, year-end (%)	3.50	3.50	3.25	3.50
GTQ/USD, year-end	7.7	7.8	7.7	7.8
Honduras				
Real GDP (% y-o-y)	3.7	3.1	3.7	3.1
CPI, year-end (% y-o-y)	10.2	8.9	8.7	7.4
Total fiscal balance (%GDP)	-5.0	-5.9	-6.0	-5.9
Current account balance (%GDP)	-3.9	-5.4	-5.3	-6.3
Monetary policy rate, year-end (%)	3.00	3.00	3.50	4.00
HNL/USD, year-end	24.7	25.1	25.2	26.4
Panama				
Real GDP (% y-o-y)	6.2	4.9	6.2	4.9
CPI, year-end (% y-o-y)	3.6	2.4	5.8	2.4
Total fiscal balance (%GDP)	-5.0	-4.0	-4.0	-3.0
Current account balance (%GDP)	-6.4	-6.0	-4.3	-3.7
Paraguay				
Real GDP (% y-o-y)	0.0	4.4	0.0	4.0
CPI, year-end (% y-o-y)	9.0	4.0	9.0	4.0
Total fiscal balance (%GDP)	-4.0	-3.3	-4.3	-3.5
Current account balance (%GDP)	-4.4	-1.4	-4.0	0.5
Monetary policy rate, year-end (%)	8.25	6.00	8.25	6.00
PYG/USD, year-end	7,010	6,922	7,100	6,922
Peru				
Real GDP (% y-o-y)	3.2	3.0	3.6	3.1
CPI, year-end (% y-o-y)	8.6	3.0	7.5	2.6
Total fiscal balance (%GDP)	-2.2	-2.0	-2.6	-2.4
Current account balance (%GDP)	-3.6	-3.1	-2.7	-2.2
Monetary policy rate, year-end (%)	7.00	5.00	6.00	5.50
PEN/USD, year-end	4.1	4.2	4.1	4.2
The Bahamas				
Real GDP (% y-o-y)	6.7	4.6	6.0	10.9
CPI, year-end (% y-o-y)	6.9	5.4	6.5	6.5
Total fiscal balance (%GDP)	-6.6	-4.2	-6.9	-0.8
Current account balance (%GDP)	-16.0	-9.3	-16.9	-4.8
BSD/USD, year-end	1.00	1.15	1.00	1.15
Venezuela				
Real GDP (% y-o-y)	8.7	5.9	6.8	5.5
CPI, year-end (% y-o-y)	93.4	51.1	72.8	51.1
Total fiscal balance (%GDP)	-6.0	-5.5	-5.8	-5.3
Current account balance (%GDP)	5.6	4.6	6.6	4.9
VES/USD, year-end	6.6	8.1	5.1	6.0

Source: BancTrust & Co.

The outlook for EM valuations remains ambiguous. Despite the recent narrowing of EM Sovereign yields and some recovery in risk appetite, uncertainty on the scope of rate hikes in DCs has intensified as of late. This could thwart the ongoing compression of EM spreads that would have oversold relative to past tightening episodes (Chart 1). We think that EM returns will perform to the tune of the global backdrop. In what follows, we will introduce two model portfolios based on the weights of the EMBIG for the subset of credits we track, but increasing (reducing) exposure according to the impact of external and, to a lesser degree, idiosyncratic factors. We lay out two scenarios for the global economy that could become the cornerstone of risky asset valuations in the next three months: i) recession in DCs cementing disinflation and ii) stagflation, which would combine slower global growth with stubbornly high inflation. The first case would pave the way to less aggressive rate hikes and boost expectations of softer monetary conditions. Conversely, under Stagflation policymakers will need to resort to more frontloaded and persistent monetary tightening to re-anchor CPI expectations. In terms of US Treasuries (Chart 2), if expectations veer towards the Recession scenario, we would expect a flattish curve below current levels and converging to a 3% nominal yield in the next three months. Relative to the current shape of the US curve, most of the compression would take place in the long end. Instead, Stagflation would imply a further and sharp inversion of the Treasuries curve, but stable or somewhat lower yields for long-dated notes. Given the prospects of rate cuts kicking in relatively soon, we think that in the Recession scenario EM spreads will recede. Thus, we target an EMBIG of 360bps by November 2022, compared to 420bps currently. In contrast, higher risk aversion in Stagflation would lead to a widening of spreads, to 460bps in our estimates (Chart 1).

Chart 1. EM Spreads in Previous Fed tightening episodes



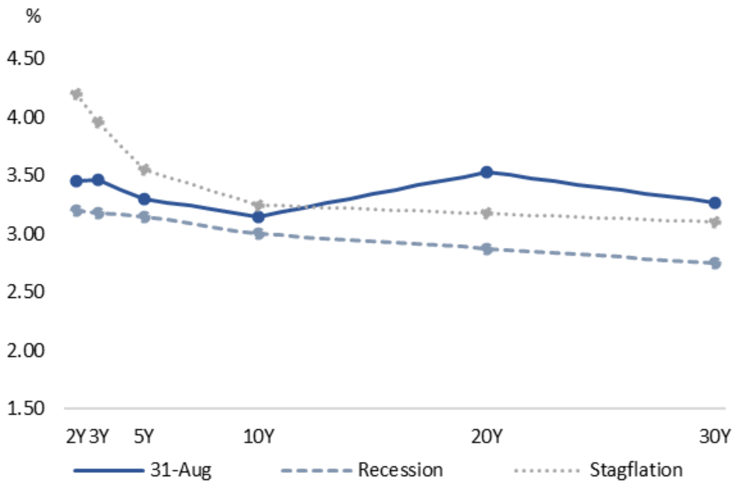
Source: BancTrust & Co. based on Bloomberg and own estimates.

Table 2. EXD bonded debt Gross Issuance Forecasts 2022-23

USDmn	2021	2022f						2023f
		1Q	2Q	3Qf	4Qf	**Forecast**	Previous	**Forecast**
Barbados	**0**	0	0	0	0	**0**	0	**0**
Buybacks	***0***	*0*	*0*	*0*	*0*	***0***	*0*	***0***
Costa Rica	**0**	0	0	0	2,250	**2,250**	1,500	**1,000**
Buybacks	***0***	*0*	*0*	*0*	*750*	***750***	*800*	***0***
Dominican Republic	**2,500**	3,564	0	500	0	**4,064**	3,564	**2,000**
Buybacks	***0***	*765*	*0*	*0*	*0*	***765***	*765*	***0***
Ecuador	**0**	0	0	0	0	**0**	0	**600**
Buybacks	***0***	*0*	*0*	*0*	*0*	***0***	*0*	***0***
Guatemala	**997**	0	0	500	0	**500**	0	**250**
Buybacks	***0***	*0*	*0*	*0*	*0*	***0***	*0*	***0***
Honduras	**0**	0	0	0	0	**0**	0	**0**
Buybacks	***0***	*0*	*0*	*0*	*0*	***0***	*0*	***0***
Jamaica	**0**	0	0	0	500	**500**	500	**0**
Buybacks	***0***	*0*	*0*	*0*	*500*	***500***	*500*	***0***
Panama	**4,450**	2,500	0	0	0	**2,500**	3,350	**2,800**
Buybacks	***413***	*0*	*0*	*0*	*0*	***0***	*850*	***800***
Paraguay	**826**	500	0	0	0	**500**	800	**450**
Buybacks	***330***	*285*	*0*	*0*	*0*	***285***	*523*	***0***
Peru	**11,172**	0	0	0	0	**0**	4,600	**6,000**
Buybacks	***0***	*0*	*0*	*0*	*0*	***0***	*0*	***0***
El Salvador	**0**	0	0	0	0	**0**	0	**0**
Buybacks	***0***	*0*	*0*	*0*	*0*	***0***	*0*	***0***
The Bahamas	**0**	0	385	0	0	**385**	0	**0**
Buybacks	***0***	*0*	*0*	*0*	*0*	***0***	*0*	***0***
Trinidad and Tobago	**0**	0	0	0	0	**0**	600	**400**
Buybacks	***0***	*0*	*0*	*0*	*0*	***0***	*200*	***0***
Total Gross Issuance	**19,945**	**6,564**	**385**	**1,000**	**2,750**	**10,699**	14,914	**13,500**
Total Buybacks	***742***	*1,050*	*0*	*0*	*1,250*	***2,300***	*3,638*	***800***
Gross Issuance as % of total year		*61%*	*4%*	*9%*	*26%*			
Total Gross Issuance w/o Peru	**8,773**	**6,564**	**385**	**1,000**	**2,750**	**10,699**	10,314	**7,500**
Gross Issuance as % of total year		*61%*	*4%*	*9%*	*26%*			

Source: BancTrust & Co. based on Finance ministries.

Chart 2. US Treasuries Curve Assumptions



Source: BancTrust & Co. based on Bloomberg and own estimates.

Overweigh Ecuador, El Salvador and Peru in Recession. The spreads of the riskiest credits would overperform in the Recession scenario. In addition to this, we could expect stronger appetite for duration. In Tables 3 and 4 we present our absolute and relative spread assumptions on a case-by-case basis. The relative spread versus the EMBIG of the low beta names would rise in Recession, while we would look to relative risk compression in Ecuador, El Salvador and Honduras. As mentioned earlier, bondholders would also favour securities with a higher interest rate sensitivity. Consequently, we could go overweigh in some high-duration bonds, even in the absence of relative spread gains. As shown in Table A.1 in the Appendix, our model portfolio features overweights for Ecuador, El Salvador and Peru. Total return in a three-month horizon would stand at 14% compared to 10.5% of the benchmark portfolio.

Overweigh Costa Rica, El Salvador, Jamaica and Peru in Stagflation. On the contrary, in stagflation we would anticipate lower risk tolerance. The flipside to this would be increasing demand for low beta paper. Interestingly, the strong inversion of the US yield curve could also produce a bias for long-dated instruments. This is because yields of shorter bonds would rise *vis à vis* longer maturities (assuming a parallel shift in the term structure of spreads). Therefore, the magnitude of this bias will also hinge on the duration and convexity metrics of each bond complex. Relative spreads of low beta names would narrow in Stagflation (Table 4). The only exception of a high beta credit with a significant reduction of relative risk would be El Salvador. The reason lies in the strong idiosyncratic component of this story. In this regard, we remain convinced that domestic politics will underpin short-term willingness to pay, to some extent reversing the selloff of Salvadoran paper earlier in 2022. In Stagflation, our model portfolio has an overweight on Costa Rica, El Salvador, Jamaica and Peru, delivering an expected total three-month return of 1.6% compared to a 0.1% loss of the benchmark (Table A.2 in the Appendix).

Table 3. Absolute Spreads in Recession and Stagflation

		Spread Over Treasury (EMBI)				
		Level			Difference	
Country	Rating S&P / Moody's / Fitch	31-Aug	Recession	Stagflation	Recession	Stagflation
EMBIG		**422**	**360**	**460**		
BBB						
Peru	BBB+/Baa1/BBB	218	180	220	-38	2
Panama	BBB/Baa2/BBB-	244	220	250	-24	6
Trinidad & Tobago	BBB-/Ba2	153	120	175	-33	22
BB						
Guatemala	BB/Ba1/BB-	278	235	305	-43	27
Paraguay	BB/Ba1/BB+	282	235	305	-47	23
Honduras	BB-/B1	673	560	760	-113	87
Dominican Republic	BB-/Ba3/BB-	441	390	460	-51	19
B						
Jamaica	B+/B2/B+	238	190	260	-48	22
Costa Rica	B/B2/B	450	395	465	-55	15
Barbados	B-/Caa1	434	385	455	-49	21
Ecuador	B-/Caa3/B-	1,550	1,260	1,610	-290	60
CCC						
El Salvador	CCC+/Caa3/CCC	2,301	1,960	2,210	-341	-91
Argentina	CCC+/Ca/CCC	2,385	2,310	2,760	-75	375

Source: BancTrust & Co. based on Bloomberg and own estimates.

Table 4. Relative Spreads (versus EMBIG) in Recession and Stagflation

		Relative Spread				
		Level			Difference	
Country	Rating S&P / Moody's / Fitch	31-Aug	Recession	Stagflation	Recession	Stagflation
EMBIG						
BBB						
Peru	BBB+/Baa1/BBB	-204	-180	-240	24	-36
Panama	BBB/Baa2/BBB-	-178	-140	-210	38	-32
Trinidad & Tobago	BBB-/Ba2	-268	-240	-285	28	-17
BB						
Guatemala	BB/Ba1/BB-	-143	-125	-155	18	-12
Paraguay	BB/Ba1/BB+	-140	-125	-155	15	-15
Honduras	BB-/B1	251	200	300	-51	49
Dominican Republic	BB-/Ba3/BB-	20	30	0	10	-20
B						
Jamaica	B+/B2/B+	-183	-170	-200	13	-17
Costa Rica	B/B2/B	28	35	5	7	-23
Barbados	B-/Caa1	12	25	-5	13	-17
Ecuador	B-/Caa3/B-	1,129	900	1,150	-229	21
CCC						
El Salvador	CCC+/Caa3/CCC	1,879	1,600	1,750	-279	-129
Argentina	CCC+/Ca/CCC	1,963	1,950	2,300	-13	337

Source: BancTrust & Co. based on Bloomberg and own estimates.

APPENDIX: BT Model Portfolio in Recession and Stagflation Scenarios

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Table A.1. BT Model Portfolio in Recession

ISIN	Price (Clean)	Concertation	Duration	YTM	Exit date	Benchmark Treasury	Spread	Exit Yield	Clean exit	Total Return	EMBIG Weights	Spread Difference	BT Portfolio Weights	Weight Change	Benchmark Portfolio Return	BT Portfolio Return
ARGENTINA											**12.94%**	**-75**	**9.06%**	**-3.88%**	**1.45%**	**1.01%**
US040114HX11	23.4	31/8/2022	3.1	39.8%	2/12/2022	3.15%	35.7%	38.9%	26.1	12.4%	0.52%	-0.7%	0.36%	-0.16%	0.064%	0.045%
US040114HS26	24.0	31/8/2022	3.3	36.5%	2/12/2022	3.15%	32.5%	35.6%	26.8	11.8%	3.18%	-0.7%	2.22%	-0.95%	0.373%	0.261%
US040114HT09	22.7	31/8/2022	5.8	24.6%	2/12/2022	3.00%	20.7%	23.7%	25.0	11.5%	3.72%	-0.7%	2.60%	-1.11%	0.426%	0.298%
US040114HU71	28.3	31/8/2022	4.8	25.0%	2/12/2022	3.00%	21.1%	24.1%	30.4	10.5%	2.77%	-0.7%	1.94%	-0.83%	0.291%	0.204%
US040114HV54	26.4	31/8/2022	5.6	21.8%	2/12/2022	3.00%	17.9%	20.9%	28.4	10.6%	2.37%	-0.7%	1.66%	-0.71%	0.251%	0.176%
US040114HW38	23.1	31/8/2022	4.5	26.4%	2/12/2022	3.15%	22.3%	25.5%	25.2	10.6%	0.39%	-0.7%	0.27%	-0.12%	0.041%	0.029%
BARBADOS											**0.44%**	**-49**	**0.31%**	**-0.13%**	**0.02%**	**0.01%**
USP48864AQ80	95.5	31/8/2022	3.9	7.6%	2/12/2022	3.15%	3.9%	7.0%	98.1	4.3%	0.44%	-0.5%	0.31%	-0.13%	0.019%	0.013%
COSTA RICA											**3.63%**	**-55**	**2.54%**	**-1.09%**	**0.41%**	**0.29%**
USP3699PGE18	97.8	31/8/2022	2.4	5.3%	2/12/2022	3.18%	1.3%	4.4%	99.8	3.2%	0.42%	-0.5%	0.29%	-0.13%	0.013%	0.009%
USP3699PGK77	93.9	31/8/2022	5.8	7.2%	2/12/2022	3.00%	3.5%	6.5%	97.9	5.8%	1.02%	-0.5%	0.71%	-0.31%	0.059%	0.042%
USP3699PGF82	75.7	31/8/2022	10.5	8.1%	2/12/2022	2.88%	4.0%	6.9%	86.6	15.8%	0.34%	-0.5%	0.24%	-0.10%	0.054%	0.038%
USP3699PGH49	87.5	31/8/2022	10.0	8.2%	2/12/2022	2.88%	4.2%	7.0%	99.5	15.2%	0.78%	-0.5%	0.55%	-0.24%	0.119%	0.083%
USP3699PGJ05	88.9	31/8/2022	10.1	8.2%	2/12/2022	2.88%	4.2%	7.0%	101.3	15.3%	1.07%	-0.5%	0.75%	-0.32%	0.163%	0.114%
DOMINICAN REPUBLIC											**19.41%**	**-51**	**13.59%**	**-5.82%**	**1.78%**	**1.25%**
USP3579EBD87	100.1	31/8/2022	2.2	5.5%	2/12/2022	3.18%	1.5%	4.7%	101.7	3.0%	1.09%	-0.5%	0.76%	-0.33%	0.032%	0.023%
USP3579EBK21	102.7	31/8/2022	3.0	6.0%	2/12/2022	3.15%	2.2%	5.3%	104.5	3.3%	1.33%	-0.5%	0.93%	-0.40%	0.045%	0.031%
USP3579EBV85	98.2	31/8/2022	3.8	6.4%	2/12/2022	3.15%	2.6%	5.8%	100.6	4.0%	1.44%	-0.5%	1.01%	-0.43%	0.058%	0.040%
USP3579ECB13	95.9	31/8/2022	4.8	6.8%	2/12/2022	3.15%	3.0%	6.2%	99.1	4.8%	1.09%	-0.5%	0.76%	-0.33%	0.053%	0.037%
USP3579ECP09	91.6	31/8/2022	5.3	7.1%	2/12/2022	3.00%	3.5%	6.5%	95.1	5.2%	1.46%	-0.5%	1.02%	-0.44%	0.076%	0.053%
USP3579ECF27	84.3	31/8/2022	6.0	7.3%	2/12/2022	3.00%	3.6%	6.6%	88.1	5.8%	1.49%	-0.5%	1.05%	-0.45%	0.086%	0.061%
USP3579ECN50	87.7	31/8/2022	7.4	7.7%	2/12/2022	3.00%	4.1%	7.1%	92.3	6.9%	1.44%	-0.5%	1.01%	-0.43%	0.099%	0.070%
USP3579ECH82	81.1	31/8/2022	7.3	7.6%	2/12/2022	3.00%	3.9%	6.9%	85.5	6.8%	2.28%	-0.5%	1.60%	-0.68%	0.154%	0.108%
USP3579ECJ49	74.6	31/8/2022	10.4	8.0%	2/12/2022	2.88%	3.9%	6.8%	84.6	15.1%	1.02%	-0.5%	0.72%	-0.31%	0.155%	0.108%
USP3579EAY34	91.7	31/8/2022	9.9	8.3%	2/12/2022	2.88%	4.2%	7.1%	103.7	14.7%	1.27%	-0.5%	0.89%	-0.38%	0.186%	0.130%
USP3579EBE60	85.2	31/8/2022	10.4	8.3%	2/12/2022	2.88%	4.3%	7.1%	96.7	15.4%	1.56%	-0.5%	1.09%	-0.47%	0.239%	0.167%
USP3579EBY25	80.8	31/8/2022	10.9	8.3%	2/12/2022	2.75%	4.5%	7.3%	90.9	14.4%	0.74%	-0.5%	0.51%	-0.22%	0.106%	0.074%
USP3579ECE51	79.1	31/8/2022	10.9	8.4%	2/12/2022	2.75%	4.6%	7.3%	89.1	14.4%	1.10%	-0.5%	0.77%	-0.33%	0.159%	0.111%
USP3579ECG00	71.2	31/8/2022	11.7	8.4%	2/12/2022	2.75%	4.6%	7.4%	81.0	15.7%	2.11%	-0.5%	1.48%	-0.63%	0.331%	0.232%
ECUADOR											**6.53%**	**-290**	**13.57%**	**7.04%**	**1.63%**	**3.38%**
XS2214239506	34.6	31/8/2022	4.8	20.4%	2/12/2022	3.15%	14.2%	17.4%	41.8	20.8%	0.34%	-2.9%	0.71%	0.37%	0.071%	0.147%
XS2214237807	53.4	31/8/2022	3.9	21.1%	2/12/2022	3.15%	14.9%	18.1%	61.6	17.8%	1.83%	-2.9%	3.80%	1.97%	0.325%	0.674%
XS2214238441	39.1	31/8/2022	6.2	18.9%	2/12/2022	3.00%	12.9%	15.9%	48.8	26.5%	3.21%	-2.9%	6.67%	3.46%	0.851%	1.768%
XS2214239175	35.0	31/8/2022	7.9	16.7%	2/12/2022	3.00%	10.6%	13.6%	46.2	33.0%	1.16%	-2.9%	2.40%	1.24%	0.381%	0.792%
EL SALVADOR											**1.85%**	**-341**	**16.29%**	**14.45%**	**0.42%**	**3.73%**
USP01012AS54	51.5	31/8/2022	1.8	38.4%	2/12/2022	3.18%	31.6%	34.7%	58.4	16.0%	0.30%	-3.4%	2.64%	2.34%	0.048%	0.424%
USP01012AT38	38.7	31/8/2022	2.9	34.4%	2/12/2022	3.15%	27.7%	30.9%	44.8	19.5%	0.24%	-3.4%	2.15%	1.91%	0.048%	0.419%
USP01012BX31	37.8	31/8/2022	3.5	31.7%	2/12/2022	3.00%	25.2%	28.2%	43.8	21.4%	0.19%	-3.4%	1.68%	1.49%	0.041%	0.360%
XS0146173371	38.3	31/8/2022	4.0	25.9%	2/12/2022	3.00%	19.4%	22.4%	45.5	22.2%	0.15%	-3.4%	1.36%	1.21%	0.034%	0.302%
USP01012AN67	35.2	31/8/2022	4.5	24.2%	2/12/2022	3.00%	17.7%	20.7%	42.3	24.6%	0.26%	-3.4%	2.30%	2.04%	0.064%	0.565%
USP01012AR71	34.6	31/8/2022	4.7	22.8%	2/12/2022	2.88%	15.9%	18.7%	42.9	28.8%	0.16%	-3.4%	1.42%	1.26%	0.046%	0.409%
USP01012CA29	34.4	31/8/2022	4.8	20.9%	2/12/2022	2.75%	14.2%	16.9%	42.7	28.7%	0.27%	-3.4%	2.35%	2.08%	0.076%	0.674%
USP01012CC84	37.6	31/8/2022	3.9	25.3%	2/12/2022	2.75%	18.6%	21.3%	44.6	24.2%	0.27%	-3.4%	2.39%	2.12%	0.066%	0.578%
GUATEMALA											**4.34%**	**-43**	**3.04%**	**-1.30%**	**0.35%**	**0.24%**
USP5015VAF33	98.3	31/8/2022	3.3	5.0%	2/12/2022	3.15%	1.3%	4.4%	100.2	3.1%	0.60%	-0.4%	0.42%	-0.18%	0.018%	0.013%
USP5015VAG16	97.1	31/8/2022	4.2	5.1%	2/12/2022	3.15%	1.3%	4.5%	99.5	3.6%	0.42%	-0.4%	0.29%	-0.13%	0.015%	0.011%
USP5015VAE67	97.2	31/8/2022	4.7	5.5%	2/12/2022	3.15%	1.7%	4.9%	100.0	4.0%	0.59%	-0.4%	0.41%	-0.18%	0.024%	0.017%
USP5015VAH98	95.5	31/8/2022	5.6	5.7%	2/12/2022	3.00%	2.1%	5.1%	98.7	4.6%	0.42%	-0.4%	0.29%	-0.13%	0.019%	0.014%
USP5015VAM83	81.3	31/8/2022	7.9	6.2%	2/12/2022	3.00%	2.6%	5.6%	85.5	6.2%	0.36%	-0.4%	0.25%	-0.11%	0.022%	0.016%
USP5015VAK28	96.3	31/8/2022	6.7	5.9%	2/12/2022	3.00%	2.3%	5.3%	100.2	5.4%	0.43%	-0.4%	0.30%	-0.13%	0.023%	0.016%
USP5015VAN66	79.7	31/8/2022	11.4	6.5%	2/12/2022	2.88%	2.6%	5.4%	90.9	15.0%	0.36%	-0.4%	0.25%	-0.11%	0.054%	0.038%
USP5015VAJ54	91.7	31/8/2022	12.3	6.8%	2/12/2022	2.75%	3.1%	5.8%	103.7	14.5%	1.17%	-0.4%	0.82%	-0.35%	0.169%	0.118%
HONDURAS											**0.92%**	**-113**	**0.64%**	**-0.28%**	**0.08%**	**0.05%**
USP5178RAC27	85.8	31/8/2022	3.6	10.4%	2/12/2022	3.15%	5.9%	9.1%	90.4	7.1%	0.52%	-1.1%	0.36%	-0.16%	0.037%	0.026%
USP5178RAD00	76.3	31/8/2022	5.8	10.1%	2/12/2022	3.00%	5.8%	8.8%	82.8	10.1%	0.40%	-1.1%	0.28%	-0.12%	0.040%	0.028%
JAMAICA											**4.35%**	**-48**	**3.04%**	**-1.30%**	**0.48%**	**0.34%**
US470160CA80	108.7	31/8/2022	3.9	4.6%	2/12/2022	3.15%	0.9%	4.0%	111.0	3.5%	1.32%	-0.5%	0.93%	-0.40%	0.047%	0.033%
US470160AV46	117.5	31/8/2022	9.1	6.2%	2/12/2022	2.88%	2.2%	5.1%	130.6	12.5%	1.26%	-0.5%	0.88%	-0.38%	0.158%	0.111%
US470160CB63	116.0	31/8/2022	11.3	6.5%	2/12/2022	2.88%	2.5%	5.4%	132.4	15.8%	1.76%	-0.5%	1.24%	-0.53%	0.278%	0.195%
PARAGUAY											**4.72%**	**-47**	**3.30%**	**-1.42%**	**0.46%**	**0.32%**
USP75744AD76	100.3	31/8/2022	3.2	4.9%	2/12/2022	3.15%	1.1%	4.3%	102.2	3.1%	0.46%	-0.5%	0.33%	-0.14%	0.014%	0.010%
USP75744AE59	99.3	31/8/2022	4.0	4.9%	2/12/2022	3.15%	1.1%	4.3%	101.8	3.5%	0.44%	-0.5%	0.31%	-0.13%	0.016%	0.011%
USP75744AJ47	96.7	31/8/2022	6.1	5.5%	2/12/2022	3.00%	1.9%	4.9%	100.5	5.1%	0.86%	-0.5%	0.60%	-0.26%	0.044%	0.031%
USP75744AK10	79.3	31/8/2022	7.9	5.6%	2/12/2022	3.00%	2.0%	5.0%	83.7	6.3%	0.38%	-0.5%	0.27%	-0.12%	0.024%	0.017%
USP75744AL92	86.0	31/8/2022	7.8	5.7%	2/12/2022	3.00%	2.1%	5.1%	90.5	6.3%	0.42%	-0.5%	0.30%	-0.13%	0.027%	0.019%
USP75744AB11	93.7	31/8/2022	11.6	6.6%	2/12/2022	2.88%	2.6%	5.5%	107.2	15.9%	0.83%	-0.5%	0.58%	-0.25%	0.133%	0.093%
USP75744AF25	85.6	31/8/2022	12.2	6.8%	2/12/2022	2.75%	3.1%	5.8%	97.3	14.8%	0.41%	-0.5%	0.29%	-0.12%	0.061%	0.043%
USP75744AG08	84.1	31/8/2022	12.7	6.7%	2/12/2022	2.75%	2.9%	5.7%	96.1	15.5%	0.90%	-0.5%	0.63%	-0.27%	0.140%	0.098%
PANAMÁ											**19.98%**	**-24**	**13.99%**	**-6.00%**	**1.56%**	**1.10%**
US698299BD54	100.0	31/8/2022	1.9	4.0%	2/12/2022	3.20%	0.3%	3.5%	100.8	1.8%	0.72%	-0.2%	0.51%	-0.22%	0.013%	0.009%
US698299BE38	99.2	31/8/2022	2.4	4.1%	2/12/2022	3.18%	0.4%	3.6%	100.4	2.1%	1.07%	-0.2%	0.75%	-0.32%	0.023%	0.016%
US698299AV61	109.4	31/8/2022	3.0	4.1%	2/12/2022	3.15%	0.6%	3.8%	109.9	2.1%	0.92%	-0.2%	0.64%	-0.27%	0.019%	0.014%
US698299AD63	118.9	31/8/2022	4.1	4.6%	2/12/2022	3.15%	1.1%	4.3%	119.9	2.6%	1.02%	-0.2%	0.71%	-0.31%	0.027%	0.019%
US698299BF03	96.3	31/8/2022	4.8	4.6%	2/12/2022	3.15%	1.1%	4.3%	98.2	2.9%	1.05%	-0.2%	0.74%	-0.32%	0.031%	0.022%
US698299AK07	122.6	31/8/2022	4.9	5.3%	2/12/2022	3.00%	1.9%	4.9%	124.2	3.1%	1.03%	-0.2%	0.72%	-0.31%	0.032%	0.023%
US698299BK97	88.3	31/8/2022	6.4	5.1%	2/12/2022	3.00%	1.7%	4.7%	90.8	3.7%	1.20%	-0.2%	0.84%	-0.36%	0.044%	0.031%
US698299BN37	77.9	31/8/2022	8.6	5.1%	2/12/2022	3.00%	1.7%	4.7%	81.0	4.6%	1.73%	-0.2%	1.21%	-0.52%	0.079%	0.055%
US698299BR41	85.2	31/8/2022	8.5	5.1%	2/12/2022	3.00%	1.8%	4.8%	88.3	4.6%	0.75%	-0.2%	0.52%	-0.22%	0.034%	0.024%
US698299AW45	108.1	31/8/2022	8.5	5.8%	2/12/2022	3.00%	2.4%	5.4%	111.6	4.7%	1.93%	-0.2%	1.35%	-0.58%	0.091%	0.064%
US698299BG85	80.6	31/8/2022	13.1	6.0%	2/12/2022	2.75%	2.5%	5.3%	89.5	12.1%	0.85%	-0.2%	0.60%	-0.26%	0.103%	0.072%
US698299BH68	79.6	31/8/2022	13.7	6.1%	2/12/2022	2.75%	2.5%	5.3%	88.7	12.7%	1.82%	-0.2%	1.27%	-0.55%	0.230%	0.161%
US698299BB98	76.8	31/8/2022	14.7	6.0%	2/12/2022	2.75%	2.5%	5.2%	86.2	13.6%	1.23%	-0.2%	0.86%	-0.37%	0.167%	0.117%
US698299BM53	77.8	31/8/2022	14.8	6.1%	2/12/2022	2.75%	2.5%	5.3%	87.6	13.7%	1.79%	-0.2%	1.25%	-0.54%	0.245%	0.172%
US698299BL70	69.3	31/8/2022	16.0	5.9%	2/12/2022	2.75%	2.4%	5.2%	78.7	14.9%	1.85%	-0.2%	1.30%	-0.56%	0.276%	0.193%
US698299BS24	75.9	31/8/2022	15.5	6.1%	2/12/2022	2.75%	2.6%	5.4%	85.8	14.5%	1.03%	-0.2%	0.72%	-0.31%	0.149%	0.104%
PERU											**19.17%**	**-38**	**19.42%**	**0.25%**	**1.78%**	**2.29%**
US715638AS19	107.8	31/8/2022	2.6	4.4%	2/12/2022	3.18%	0.6%	3.8%	108.8	2.7%	1.43%	-0.4%	1.00%	-0.43%	0.038%	0.027%
US715638DE95	93.8	31/8/2022	3.2	4.4%	2/12/2022	3.15%	0.7%	3.8%	95.7	2.7%	0.80%	-0.4%	0.56%	-0.24%	0.021%	0.015%
US715638BU55	98.3	31/8/2022	4.4	4.5%	2/12/2022	3.15%	0.8%	4.0%	100.6	3.4%	0.88%	-0.4%	0.61%	-0.26%	0.030%	0.021%
US715638DA73	87.1	31/8/2022	6.8	4.8%	2/12/2022	3.00%	1.3%	4.3%	90.5	4.7%	0.57%	-0.4%	0.40%	-0.17%	0.027%	0.019%
US715638DF60	85.6	31/8/2022	7.3	4.9%	2/12/2022	3.00%	1.4%	4.4%	89.3	5.0%	2.80%	-0.4%	1.96%	-0.84%	0.141%	0.098%
US715638DP43	76.3	31/8/2022	8.9	4.8%	2/12/2022	3.00%	1.3%	4.3%	80.4	5.9%	0.67%	-0.4%	0.47%	-0.20%	0.040%	0.028%
US715638AP79	129.3	31/8/2022	7.5	5.3%	2/12/2022	3.00%	1.7%	4.7%	134.0	5.3%	2.43%	-0.4%	1.70%	-0.73%	0.128%	0.090%
US715638DU38	81.7	31/8/2022	9.2	5.1%	2/12/2022	3.00%	1.6%	4.6%	86.1	6.2%	1.64%	-0.4%	1.15%	-0.49%	0.101%	0.071%
US715638AU64	110.0	31/8/2022	8.9	5.5%	2/12/2022	3.00%	2.0%	5.0%	115.2	6.1%	1.12%	-0.4%	0.79%	-0.34%	0.068%	0.048%
US715638DS81	76.3	31/8/2022	12.6	5.3%	2/12/2022	2.88%	1.4%	4.3%	87.5	15.4%	0.87%	-0.4%	1.38%	0.50%	0.134%	0.212%
US715638BM30	104.4	31/8/2022	14.1	5.3%	2/12/2022	2.75%	1.7%	4.4%	119.1	15.2%	2.39%	-0.4%	3.78%	1.39%	0.364%	0.575%
US715638DT64	74.9	31/8/2022	15.6	5.3%	2/12/2022	2.75%	1.6%	4.4%	86.9	16.8%	1.21%	-0.4%	1.91%	0.70%	0.202%	0.320%
US715638DQ26	62.6	31/8/2022	19.0	5.0%	2/12/2022	2.75%	1.3%	4.1%	75.0	20.7%	1.15%	-0.4%	1.82%	0.67%	0.239%	0.377%
US715638DW93	68.8	31/8/2022	18.1	5.4%	2/12/2022	2.75%	1.8%	4.5%	81.8	20.1%	0.63%	-0.4%	0.99%	0.36%	0.126%	0.198%
US715638DR09	62.6	31/8/2022	20.0	5.1%	2/12/2022	2.75%	1.5%	4.2%	74.9	20.8%	0.58%	-0.4%	0.91%	0.33%	0.120%	0.189%
TRINIDAD AND TOBAGO											**1.71%**	**-33**	**1.20%**	**-0.51%**	**0.05%**	**0.03%**
USP93960AF25	99.7	31/8/2022	1.3	4.6%	2/12/2022	3.20%	0.8%	4.0%	100.4	1.8%	0.47%	-0.3%	0.33%	-0.14%	0.008%	0.006%
USP93960AG08	99.2	31/8/2022	3.5	4.7%	2/12/2022	3.15%	1.1%	4.2%	100.9	2.8%	0.84%	-0.3%	0.59%	-0.25%	0.024%	0.016%
USP93960AH80	94.8	31/8/2022	6.4	5.3%	2/12/2022	3.00%	1.8%	4.8%	97.9	4.4%	0.41%	-0.3%	0.28%	-0.12%	0.018%	0.012%
											1.00000		**1.00000**		**10.5%**	**14.0%**

Source: BancTrust & Co. based on Bloomberg and own estimates.

Table A.2. BT Model Portfolio in Stagflation

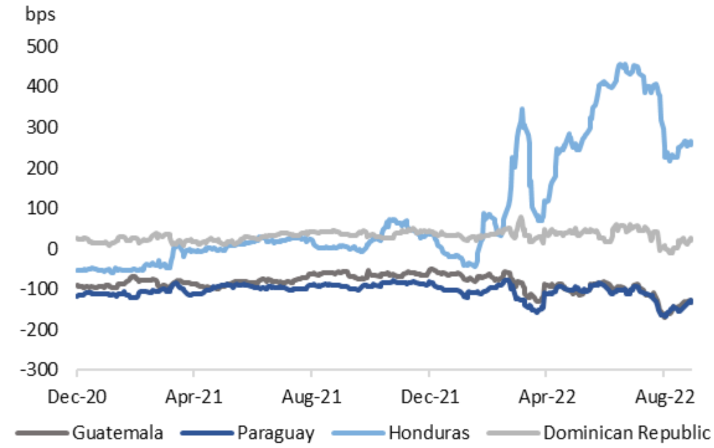
ISIN	Price (Clean)	Concertation	Duration	YTM	Exit date	Benchmark Treasury	Spread	Exit Yield	Clean exit	Total Return	EMBIG Weights	Spread Difference	BT Portfolio Weights	Weight Change	Benchmark Portfolio Return	BT Portfolio Return
ARGENTINA											**12.94%**	**375**	**9.06%**	**-3.88%**	**-1.27%**	**-0.89%**
US040114HX11	23.4	31/8/2022	3.1	39.8%	2/12/2022	3.55%	40.2%	43.8%	22.6	-2.3%	0.52%	3.8%	0.36%	-0.16%	-0.012%	-0.008%
US040114HS26	24.0	31/8/2022	3.3	36.5%	2/12/2022	3.55%	37.0%	40.5%	23.1	-3.5%	3.18%	3.8%	2.22%	-0.95%	-0.111%	-0.077%
US040114HT09	22.7	31/8/2022	5.8	24.6%	2/12/2022	3.25%	25.2%	28.5%	19.2	-13.7%	3.72%	3.8%	2.60%	-1.11%	-0.508%	-0.356%
US040114HU71	28.3	31/8/2022	4.8	25.0%	2/12/2022	3.25%	25.6%	28.8%	24.4	-10.2%	2.77%	3.8%	1.94%	-0.83%	-0.283%	-0.198%
US040114HV54	26.4	31/8/2022	5.6	21.8%	2/12/2022	3.25%	22.4%	25.6%	21.9	-13.4%	2.37%	3.8%	1.66%	-0.71%	-0.318%	-0.223%
US040114HW38	23.1	31/8/2022	4.5	26.4%	2/12/2022	3.55%	26.8%	30.4%	20.5	-9.5%	0.39%	3.8%	0.27%	-0.12%	-0.037%	-0.026%
BARBADOS											**0.44%**	**21**	**0.31%**	**-0.13%**	**0.00%**	**0.00%**
USP48864AQ80	95.5	31/8/2022	3.9	7.6%	2/12/2022	3.55%	4.6%	8.1%	94.0	0.2%	0.44%	0.2%	0.31%	-0.13%	0.001%	0.000%
COSTA RICA											**3.63%**	**15**	**8.54%**	**4.91%**	**0.09%**	**0.31%**
USP3699PGE18	97.8	31/8/2022	2.4	5.3%	2/12/2022	3.96%	2.0%	5.9%	96.6	-0.1%	0.42%	0.2%	0.29%	-0.13%	-0.001%	0.000%
USP3699PGK77	93.9	31/8/2022	5.8	7.2%	2/12/2022	3.25%	4.2%	7.4%	92.7	0.4%	1.02%	0.2%	0.71%	-0.31%	0.004%	0.003%
USP3699PGF82	75.7	31/8/2022	10.5	8.1%	2/12/2022	3.18%	4.7%	7.9%	77.5	4.1%	0.34%	0.2%	1.17%	0.83%	0.014%	0.048%
USP3699PGH49	87.5	31/8/2022	10.0	8.2%	2/12/2022	3.18%	4.9%	8.0%	89.4	4.0%	0.78%	0.2%	2.70%	1.91%	0.032%	0.109%
USP3699PGJ05	88.9	31/8/2022	10.1	8.2%	2/12/2022	3.18%	4.9%	8.0%	90.9	4.0%	1.07%	0.2%	3.67%	2.60%	0.043%	0.148%
DOMINICAN REPUBLIC											**19.41%**	**19**	**16.59%**	**-2.82%**	**0.22%**	**0.23%**
USP3579EBD87	100.1	31/8/2022	2.2	5.5%	2/12/2022	3.96%	2.2%	6.2%	98.7	0.0%	1.09%	0.2%	0.76%	-0.33%	0.000%	0.000%
USP3579EBK21	102.7	31/8/2022	3.0	6.0%	2/12/2022	3.55%	2.9%	6.4%	101.3	0.3%	1.33%	0.2%	0.93%	-0.40%	0.003%	0.002%
USP3579EBV85	98.2	31/8/2022	3.8	6.4%	2/12/2022	3.55%	3.3%	6.9%	96.7	0.0%	1.44%	0.2%	1.01%	-0.43%	0.000%	0.000%
USP3579ECB13	95.9	31/8/2022	4.8	6.8%	2/12/2022	3.55%	3.7%	7.3%	94.1	0.3%	1.09%	0.2%	0.76%	-0.33%	-0.004%	-0.002%
USP3579ECP09	91.6	31/8/2022	5.3	7.1%	2/12/2022	3.25%	4.2%	7.4%	90.5	0.3%	1.46%	0.2%	1.02%	-0.44%	0.004%	0.003%
USP3579ECF27	84.3	31/8/2022	6.0	7.3%	2/12/2022	3.25%	4.3%	7.6%	83.3	0.1%	1.49%	0.2%	1.05%	-0.45%	0.002%	0.001%
USP3579ECN50	87.7	31/8/2022	7.4	7.7%	2/12/2022	3.25%	4.8%	8.0%	86.1	-0.2%	1.44%	0.2%	1.01%	-0.43%	-0.003%	-0.002%
USP3579ECH82	81.1	31/8/2022	7.3	7.6%	2/12/2022	3.25%	4.6%	7.9%	79.7	-0.2%	2.28%	0.2%	1.60%	-0.68%	-0.005%	-0.004%
USP3579ECJ49	74.6	31/8/2022	10.4	8.0%	2/12/2022	3.18%	4.6%	7.8%	76.0	3.7%	1.02%	0.2%	1.11%	0.09%	0.038%	0.041%
USP3579EAY34	91.7	31/8/2022	9.9	8.3%	2/12/2022	3.18%	4.9%	8.1%	93.3	3.7%	1.27%	0.2%	1.38%	0.11%	0.047%	0.051%
USP3579EBE60	85.2	31/8/2022	10.4	8.3%	2/12/2022	3.18%	5.0%	8.1%	86.8	3.8%	1.56%	0.2%	1.69%	0.13%	0.059%	0.064%
USP3579EBY25	80.8	31/8/2022	10.9	8.3%	2/12/2022	3.10%	5.2%	8.3%	80.7	1.9%	0.74%	0.2%	0.80%	0.06%	0.014%	0.015%
USP3579ECE51	79.1	31/8/2022	10.9	8.4%	2/12/2022	3.10%	5.3%	8.4%	79.0	1.9%	1.10%	0.2%	1.19%	0.09%	0.021%	0.022%
USP3579ECG00	71.2	31/8/2022	11.7	8.4%	2/12/2022	3.10%	5.3%	8.4%	71.1	1.9%	2.11%	0.2%	2.29%	0.18%	0.039%	0.043%
ECUADOR											**6.53%**	**60**	**4.57%**	**-1.96%**	**0.03%**	**0.02%**
XS2214239506	34.6	31/8/2022	4.8	20.4%	2/12/2022	3.55%	17.7%	21.3%	34.9	1.0%	0.34%	0.6%	0.24%	-0.10%	0.003%	0.002%
XS2214237807	53.4	31/8/2022	3.9	21.1%	2/12/2022	3.55%	18.4%	22.0%	53.0	1.9%	1.83%	0.6%	1.28%	-0.55%	0.036%	0.025%
XS2214238441	39.1	31/8/2022	6.2	18.9%	2/12/2022	3.25%	16.4%	19.6%	38.6	0.3%	3.21%	0.6%	2.25%	-0.96%	0.011%	0.007%
XS2214239175	35.0	31/8/2022	7.9	16.7%	2/12/2022	3.25%	14.1%	17.4%	34.1	-1.3%	1.16%	0.6%	0.81%	-0.35%	-0.015%	-0.010%
EL SALVADOR											**1.85%**	**-91**	**10.29%**	**8.45%**	**0.19%**	**1.06%**
USP01012AS54	51.5	31/8/2022	1.8	38.4%	2/12/2022	3.96%	34.1%	38.0%	55.2	9.9%	0.30%	-0.9%	1.67%	1.37%	0.030%	0.165%
USP01012AT38	38.7	31/8/2022	2.9	34.4%	2/12/2022	3.55%	30.2%	33.8%	41.2	10.2%	0.24%	-0.9%	1.36%	1.12%	0.025%	0.139%
USP01012BX31	37.8	31/8/2022	3.5	31.7%	2/12/2022	3.25%	27.7%	30.9%	39.7	10.5%	0.19%	-0.9%	1.06%	0.87%	0.020%	0.112%
XS0146173371	38.3	31/8/2022	4.0	25.9%	2/12/2022	3.25%	21.9%	25.1%	40.1	9.3%	0.15%	-0.9%	0.86%	0.71%	0.014%	0.080%
USP01012AN67	35.2	31/8/2022	4.5	24.2%	2/12/2022	3.25%	20.2%	23.4%	36.8	9.6%	0.26%	-0.9%	1.45%	1.19%	0.025%	0.140%
USP01012AR71	34.6	31/8/2022	4.7	22.8%	2/12/2022	3.18%	18.4%	21.5%	36.9	11.8%	0.16%	-0.9%	0.90%	0.74%	0.019%	0.106%
USP01012CA29	34.4	31/8/2022	4.8	20.9%	2/12/2022	3.10%	16.7%	19.8%	36.3	10.6%	0.27%	-0.9%	1.48%	1.22%	0.028%	0.157%
USP01012CC84	37.6	31/8/2022	3.9	25.3%	2/12/2022	3.10%	21.1%	24.2%	39.3	10.5%	0.27%	-0.9%	1.51%	1.24%	0.028%	0.158%
GUATEMALA											**4.34%**	**27**	**3.04%**	**-1.30%**	**-0.01%**	**0.00%**
USP5015VAF33	98.3	31/8/2022	3.3	5.0%	2/12/2022	3.55%	2.0%	5.5%	96.8	-0.3%	0.60%	0.3%	0.42%	-0.18%	-0.002%	-0.001%
USP5015VAG16	97.1	31/8/2022	4.2	5.1%	2/12/2022	3.55%	2.0%	5.6%	95.2	-0.8%	0.42%	0.3%	0.29%	-0.13%	-0.003%	-0.002%
USP5015VAE67	97.2	31/8/2022	4.7	5.5%	2/12/2022	3.55%	2.4%	6.0%	95.1	-0.9%	0.59%	0.3%	0.41%	-0.18%	-0.006%	-0.004%
USP5015VAH98	95.5	31/8/2022	5.6	5.7%	2/12/2022	3.25%	2.8%	6.1%	93.7	-0.5%	0.42%	0.3%	0.29%	-0.13%	-0.002%	-0.002%
USP5015VAM83	81.3	31/8/2022	7.9	6.2%	2/12/2022	3.25%	3.3%	6.6%	79.3	-1.3%	0.36%	0.3%	0.25%	-0.11%	-0.005%	-0.003%
USP5015VAK28	96.3	31/8/2022	6.7	5.9%	2/12/2022	3.25%	3.0%	6.3%	94.1	-0.9%	0.43%	0.3%	0.30%	-0.13%	-0.004%	-0.003%
USP5015VAN66	79.7	31/8/2022	11.4	6.5%	2/12/2022	3.18%	3.3%	6.4%	80.7	2.6%	0.36%	0.3%	0.25%	-0.11%	0.009%	0.007%
USP5015VAJ54	91.7	31/8/2022	12.3	6.8%	2/12/2022	3.10%	3.8%	6.9%	90.6	0.5%	1.17%	0.3%	0.82%	-0.35%	0.006%	0.004%
HONDURAS											**0.92%**	**87**	**0.64%**	**-0.28%**	**-0.02%**	**-0.01%**
USP5178RAC27	85.8	31/8/2022	3.6	10.4%	2/12/2022	3.55%	7.9%	11.5%	83.1	-1.3%	0.52%	0.9%	0.36%	-0.16%	-0.007%	-0.005%
USP5178RAD00	76.3	31/8/2022	5.8	10.1%	2/12/2022	3.25%	7.8%	11.0%	72.7	-2.9%	0.40%	0.9%	0.28%	-0.12%	-0.012%	-0.008%
JAMAICA											**4.35%**	**22**	**6.04%**	**1.70%**	**0.08%**	**0.15%**
US470160CA80	108.7	31/8/2022	3.9	4.6%	2/12/2022	3.55%	1.6%	5.1%	106.4	-0.6%	1.32%	0.2%	0.93%	-0.40%	-0.008%	-0.005%
US470160AV46	117.5	31/8/2022	9.1	6.2%	2/12/2022	3.18%	2.9%	6.1%	118.8	2.8%	1.26%	0.2%	2.14%	0.87%	0.035%	0.059%
US470160CB63	116.0	31/8/2022	11.3	6.5%	2/12/2022	3.18%	3.2%	6.4%	117.7	3.2%	1.76%	0.2%	2.98%	1.22%	0.056%	0.095%
PARAGUAY											**4.72%**	**23**	**3.30%**	**-1.42%**	**0.02%**	**0.01%**
USP75744AD76	100.3	31/8/2022	3.2	4.9%	2/12/2022	3.55%	1.8%	5.4%	98.8	-0.2%	0.46%	0.2%	0.33%	-0.14%	-0.001%	-0.001%
USP75744AE59	99.3	31/8/2022	4.0	4.9%	2/12/2022	3.55%	1.8%	5.4%	97.5	-0.6%	0.44%	0.2%	0.31%	-0.13%	-0.003%	-0.002%
USP75744AJ47	96.7	31/8/2022	6.1	5.5%	2/12/2022	3.25%	2.6%	5.8%	94.8	-0.6%	0.86%	0.2%	0.60%	-0.26%	-0.005%	-0.004%
USP75744AK10	79.3	31/8/2022	7.9	5.6%	2/12/2022	3.25%	2.7%	5.9%	77.7	-1.2%	0.38%	0.2%	0.27%	-0.12%	-0.005%	-0.003%
USP75744AL92	86.0	31/8/2022	7.8	5.7%	2/12/2022	3.25%	2.8%	6.1%	84.1	-1.1%	0.42%	0.2%	0.30%	-0.13%	-0.005%	-0.003%
USP75744AB11	93.7	31/8/2022	11.6	6.6%	2/12/2022	3.18%	3.3%	6.5%	95.0	3.0%	0.83%	0.2%	0.58%	-0.25%	0.025%	0.018%
USP75744AF25	85.6	31/8/2022	12.2	6.8%	2/12/2022	3.10%	3.8%	6.9%	85.0	0.9%	0.41%	0.2%	0.29%	-0.12%	0.004%	0.002%
USP75744AG08	84.1	31/8/2022	12.7	6.7%	2/12/2022	3.10%	3.6%	6.7%	83.4	0.8%	0.90%	0.2%	0.63%	-0.27%	0.007%	0.005%
PANAMÁ											**19.98%**	**6**	**16.99%**	**-3.00%**	**0.26%**	**0.28%**
US698299BD54	100.0	31/8/2022	1.9	4.0%	2/12/2022	4.20%	0.6%	4.8%	98.6	-0.4%	0.72%	0.1%	0.51%	-0.22%	-0.003%	-0.002%
US698299BE38	99.2	31/8/2022	2.4	4.1%	2/12/2022	3.96%	0.7%	4.7%	98.0	-0.2%	1.07%	0.1%	0.75%	-0.32%	-0.002%	-0.001%
US698299AV61	109.4	31/8/2022	3.0	4.1%	2/12/2022	3.55%	0.9%	4.5%	107.8	0.2%	0.92%	0.1%	0.64%	-0.27%	0.001%	0.001%
US698299AD63	118.9	31/8/2022	4.1	4.6%	2/12/2022	3.55%	1.4%	5.0%	116.6	-0.1%	1.02%	0.1%	0.71%	-0.31%	-0.001%	-0.001%
US698299BF03	96.3	31/8/2022	4.8	4.6%	2/12/2022	3.55%	1.4%	5.0%	95.0	-0.3%	1.05%	0.1%	0.74%	-0.32%	-0.003%	-0.002%
US698299AK07	122.6	31/8/2022	4.9	5.3%	2/12/2022	3.25%	2.2%	5.4%	120.9	0.5%	1.03%	0.1%	0.72%	-0.31%	0.005%	0.004%
US698299BK97	88.3	31/8/2022	6.4	5.1%	2/12/2022	3.25%	2.0%	5.2%	87.7	0.2%	1.20%	0.1%	0.84%	-0.36%	0.003%	0.002%
US698299BN37	77.9	31/8/2022	8.6	5.1%	2/12/2022	3.25%	2.0%	5.2%	77.3	-0.1%	1.73%	0.1%	1.21%	-0.52%	-0.002%	-0.001%
US698299BR41	85.2	31/8/2022	8.5	5.1%	2/12/2022	3.25%	2.1%	5.3%	84.3	-0.1%	0.75%	0.1%	0.52%	-0.22%	-0.001%	0.000%
US698299AW45	108.1	31/8/2022	8.5	5.8%	2/12/2022	3.25%	2.7%	5.9%	106.5	0.1%	1.93%	0.1%	1.35%	-0.58%	0.002%	0.001%
US698299BG85	80.6	31/8/2022	13.1	6.0%	2/12/2022	3.10%	2.8%	5.9%	81.9	2.9%	0.85%	0.1%	0.90%	0.04%	0.025%	0.026%
US698299BH68	79.6	31/8/2022	13.7	6.1%	2/12/2022	3.10%	2.8%	5.9%	80.8	3.0%	1.82%	0.1%	1.91%	0.09%	0.054%	0.056%
US698299BB98	76.8	31/8/2022	14.7	6.0%	2/12/2022	3.10%	2.8%	5.9%	78.1	3.1%	1.23%	0.1%	1.29%	0.06%	0.038%	0.040%
US698299BM53	77.8	31/8/2022	14.8	6.1%	2/12/2022	3.10%	2.8%	5.9%	79.1	3.1%	1.79%	0.1%	1.88%	0.09%	0.055%	0.058%
US698299BL70	69.3	31/8/2022	16.0	5.9%	2/12/2022	3.10%	2.7%	5.8%	70.6	3.2%	1.85%	0.1%	1.95%	0.09%	0.060%	0.062%
US698299BS24	75.9	31/8/2022	15.5	6.1%	2/12/2022	3.10%	2.9%	6.0%	77.2	3.2%	1.03%	0.1%	1.08%	0.05%	0.033%	0.035%
PERU											**19.17%**	**2**	**19.42%**	**0.25%**	**0.30%**	**0.44%**
US715638AS19	107.8	31/8/2022	2.6	4.4%	2/12/2022	3.96%	1.0%	5.0%	105.8	-0.1%	1.43%	0.0%	1.00%	-0.43%	-0.002%	-0.001%
US715638DE95	93.8	31/8/2022	3.2	4.4%	2/12/2022	3.55%	1.1%	4.6%	93.5	0.3%	0.80%	0.0%	0.56%	-0.24%	0.002%	0.002%
US715638BU55	98.3	31/8/2022	4.4	4.5%	2/12/2022	3.55%	1.2%	4.8%	97.3	0.0%	0.88%	0.0%	0.61%	-0.26%	0.000%	0.000%
US715638DA73	87.1	31/8/2022	6.8	4.8%	2/12/2022	3.25%	1.7%	5.0%	86.7	0.4%	0.57%	0.0%	0.40%	-0.17%	0.002%	0.002%
US715638DF60	85.6	31/8/2022	7.3	4.9%	2/12/2022	3.25%	1.8%	5.0%	85.2	0.3%	2.80%	0.0%	1.96%	-0.84%	0.009%	0.007%
US715638DP43	76.3	31/8/2022	8.9	4.8%	2/12/2022	3.25%	1.7%	4.9%	75.9	0.1%	0.67%	0.0%	0.47%	-0.20%	0.001%	0.000%
US715638AP79	129.3	31/8/2022	7.5	5.3%	2/12/2022	3.25%	2.1%	5.4%	127.6	0.4%	2.43%	0.0%	1.70%	-0.73%	0.009%	0.007%
US715638DU38	81.7	31/8/2022	9.2	5.1%	2/12/2022	3.25%	2.0%	5.3%	81.1	0.1%	1.64%	0.0%	1.15%	-0.49%	0.002%	0.002%
US715638AU64	110.0	31/8/2022	8.9	5.5%	2/12/2022	3.25%	2.4%	5.6%	108.6	0.2%	1.12%	0.0%	0.79%	-0.34%	0.003%	0.002%
US715638DS81	76.3	31/8/2022	12.6	5.3%	2/12/2022	3.18%	1.8%	5.0%	79.9	5.6%	0.87%	0.0%	1.38%	0.50%	0.048%	0.077%
US715638BM30	104.4	31/8/2022	14.1	5.3%	2/12/2022	3.10%	2.1%	5.2%	106.6	3.4%	2.39%	0.0%	3.78%	1.39%	0.081%	0.128%
US715638DT64	74.9	31/8/2022	15.6	5.3%	2/12/2022	3.10%	2.0%	5.1%	76.7	3.6%	1.21%	0.0%	1.91%	0.70%	0.043%	0.068%
US715638DQ26	62.6	31/8/2022	19.0	5.0%	2/12/2022	3.10%	1.7%	4.8%	64.5	4.1%	1.15%	0.0%	1.82%	0.67%	0.047%	0.074%
US715638DW93	68.8	31/8/2022	18.1	5.4%	2/12/2022	3.10%	2.2%	5.3%	70.7	4.0%	0.63%	0.0%	0.99%	0.36%	0.025%	0.040%
US715638DR09	62.6	31/8/2022	20.0	5.1%	2/12/2022	3.10%	1.9%	5.0%	64.3	4.0%	0.58%	0.0%	0.91%	0.33%	0.023%	0.037%
TRINIDAD AND TOBAGO											**1.71%**	**22**	**1.20%**	**-0.51%**	**-0.01%**	**0.00%**
USP93960AF25	99.7	31/8/2022	1.3	4.6%	2/12/2022	4.20%	1.4%	5.6%	98.7	0.1%	0.47%	0.2%	0.33%	-0.14%	0.001%	0.000%
USP93960AG08	99.2	31/8/2022	3.5	4.7%	2/12/2022	3.55%	1.6%	5.2%	97.7	-0.4%	0.84%	0.2%	0.59%	-0.25%	-0.003%	-0.002%
USP93960AH80	94.8	31/8/2022	6.4	5.3%	2/12/2022	3.25%	2.4%	5.6%	93.0	-0.6%	0.41%	0.2%	0.28%	-0.12%	-0.003%	-0.002%
											1.00000		**1.00000**		**-0.1%**	**1.6%**

Source: BancTrust & Co. based on Bloomberg and own estimates.

Chart A.1. Relative Spreads (vs. EMBIG) of BBB credits

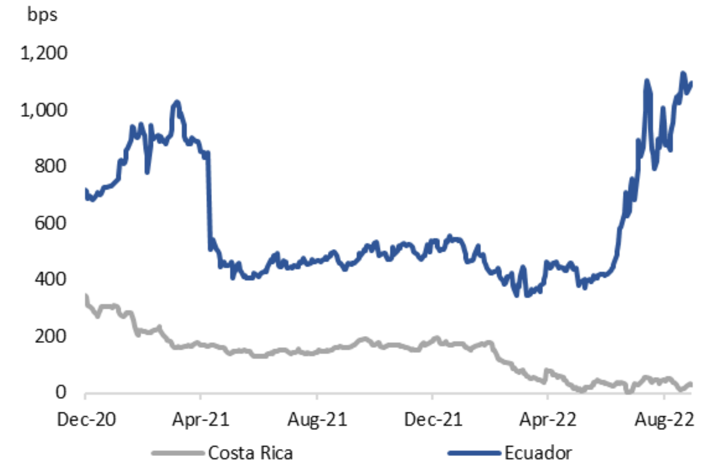
Source: BancTrust & Co. based on Bloomberg.

Chart A.2. Relative Spreads (vs. EMBIG) of BB credits



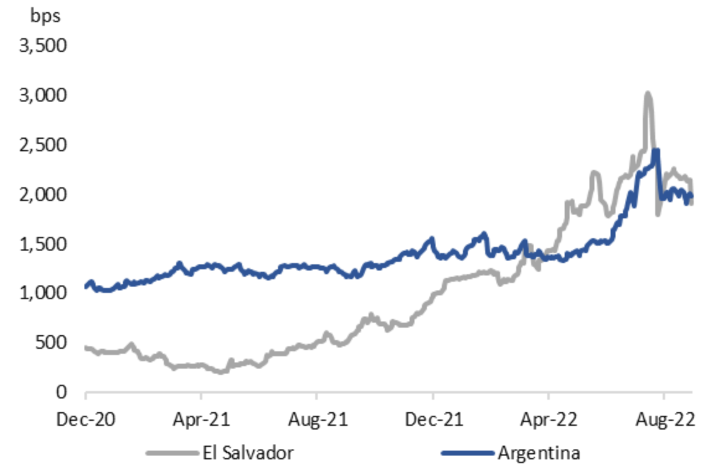
Source: BancTrust & Co. based on Bloomberg.

Chart A.3. Relative Spreads (vs. EMBIG) of B credits



Source: BancTrust & Co. based on Bloomberg.

Chart A.4. Relative Spreads (vs. EMBIG) of CCC credits



Source: BancTrust & Co. based on Bloomberg.

ARGENTINA

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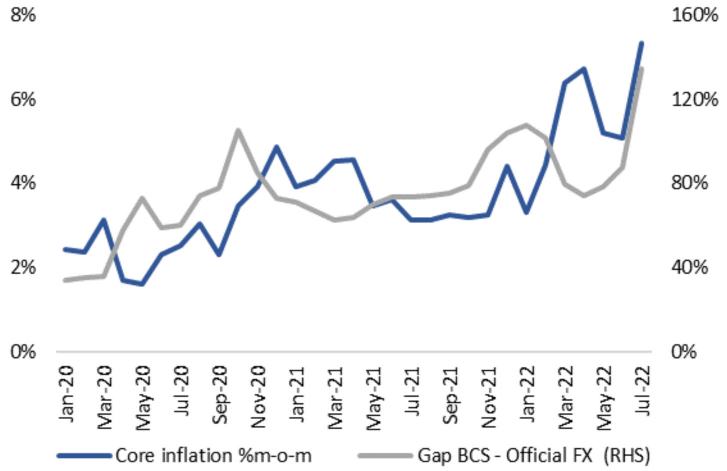
- **Activity outperforms, but headwinds mount**
- **Massa stabilised expectations… for now**
- **FX pressures remain latent and we see devaluation of official USD-ARS in early 2023**
- **Risks are heavily tilted to the downside, in our view**

Recent developments and 2022-2023 outlook

Activity outperforms, but headwinds mount. The tightening of monetary and fiscal policies that the authorities had agreed with the IMF did not materialise in 2Q. Instead, the government deepened its expansive bias and intensified monetary financing of the fiscal deficit. Additionally, policymakers avoided any material FX correction, resulting in a significant ARS strengthening that translated into a steady leakage of international reserves compounded by whopping energy imports. The fiscally expansive bias and the appreciation of the Peso fueled aggregate demand, paving the way to growth of 6.3%y-o-y in 1H. Activity outpaced our expectations, as we had envisaged a more front-loaded adjustment of utility tariffs and a tighter monetary policy that did not come about. As a symptom of the stronger RER, growth was mostly explained by the services sector, which expanded 7.6%y-o-y, while goods output rose by 4.9%y-o-y, showing high volatility amidst increasing FX scarcity and financial uncertainty.

Massa stabilised expectations… for now. Deteriorating domestic sentiment in light of inconsistent policymaking prompted a severe sell-off of ARS-denominated government debt in June. In a bid to support asset prices, the central bank (BCRA) purchased Treasury securities in the secondary market. This was financed with massive money printing equivalent to 0.8% of GDP. Shortly after, former Economics Minister Martín Guzmán stepped down from office suggesting that Kirchnerism was blocking the implementation of more wholesome policies. Plummeting ARS demand combined with faster base money supply triggered a sharp correction of the parallel FX rate and stoked inflation dynamics. During June and July, the Blue-Chip Swap (BCS) swelled c37% and the gap with the official USD-ARS jumped to c110%, up 35ppt relative to May (Chart 3). In turn, July inflation accelerated 210bps relative to June, to 7.4%m-o-m, which took year-on-year inflation to 71%. To replace Guzmán, the government appointed Silvina Batakis, an economist with a long-standing association to Kirchnerism. However, ambiguous support from Kirchnerism undermined Batakis' credibility right from the start. Expectations only stabilised (at least for the time being) when Batakis herself was substituted with Lower House Speaker Sergio Massa. The designation of Massa, a more moderate Peronist with political influence of his own and close connections in the US, suggested some kind of pact with Kirchnerism to put together a more rational economic framework. Bonds prices rebounded to pre-Guzmán resignation highs and the BCS receded as Massa gave concrete steps to ease fiscal dominance.

Chart 3. Core inflation and FX gap



Source: BancTrust & Co. based on Central Bank of Argentina and INDEC.

Some hints of fiscal pragmatism. In 1H the primary deficit stood at 0.9% of GDP, 0.5ppt higher than 1H21, as primary expenditures surged 11.4%y-o-y in real terms, while revenues increased at a more modest 5.1%y-o-y pace. Unchecked spending growth -not only restricted to rising energy subsidies- motivated concerns that Argentina might miss the 2.5% of GDP primary deficit target committed with the IMF. Instead, Minister Massa pledged to rein in public accounts (see Argentina Flash Report: The clock is ticking 04 August). Massa increased the scope of the energy subsidies cutback and obtained an advance of next year's income tax receipts from companies. However, we deem that these measures will not

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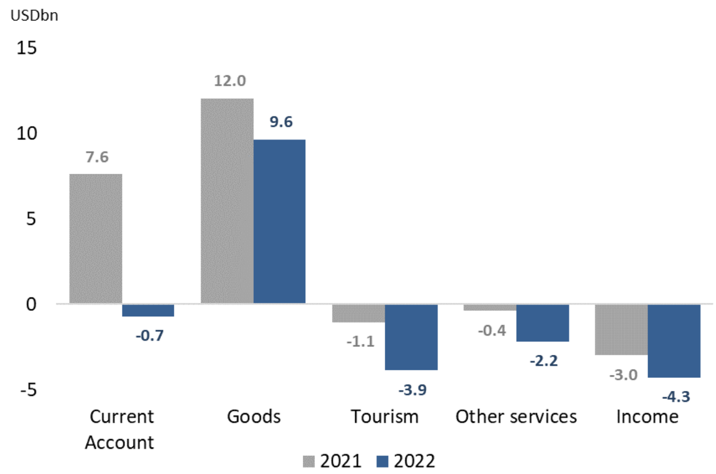
suffice. The expected fall in real pensions due to higher inflation will only partially offset the higher spending of 1H. Thus, the government will also have to scale back part of last year's electoral stimulus, which mostly consisted of one-offs. This could spark tensions with some Kirchnerist spinoffs such as the social movement led by Juan Grabois, who announced that would abandon ruling coalition's ranks in the absence of any economic measure in favour of low-income sectors. Cutting capital outlays could also help narrow the fiscal gap, although it could create a conflict with the Peronist Governors.

Higher interest rates bridge financing but are insufficient to tame inflation. Upon taking office, Minister Massa pledged not to resort to central bank borrowing for the remainder of the year. In 1H BCRA transferred ARS757bn (1% of GDP) to the Treasury if we net out some accounting gimmicks (SDR monetisation) introduced to comply with IMF targets. Importantly, other important sources of monetary expansion (i.e. the increase of the central bank's balance sheet) had remained unconstrained. Against this backdrop, and with parallel ARS weakening fueling inflation, BCRA lifted its benchmark rate by 1,750bps between July and August, to 69.5% (a monthly effective rate of 5.8%). While this helped abate the run on the currency, the policy rate would still lie below running inflation of 7.4% in July and 7% expected in August. The Treasury also raised borrowing costs materially and improved its debt profile in a LMO conducted in early August. The authorities successfully swapped 85% of its ARS debt maturing between August and October for bonds due in 1H23. To boost investor appetite, these bonds will be indexed by the greater of accumulated inflation and official USD-ARS depreciation. Judging by the success of the subsequent debt auctions in August, local agents are pricing in a reasonable chance of parallel FX stability until year-end.

Latent FX pressures. Between 31 May and 15 August, liquid reserves dropped from USD4.5bn to USD1bn. Reserves were drained by hefty energy imports and services outflows that compounded the impact of an overvalued RER and external debt payments (Chart 4). Although BCRA ramped up the pace of ARS depreciation, it still lagged versus running inflation, causing the RER to strengthen 9.3% YTD. This is discouraging exports and holding back dollar sales in the spot market. In this context, authorities launched measures to shift dollar demand to the parallel FX markets and to incentivise agricultural exports. By the time we write, these have had little impact in terms of bolstering dollar inflows. On 4 September, the government announced a scheme allowing soybeans exporters to sell proceeds at a temporary exchange rate of ARS200 per USD. This special FX rate would prevail only throughout September and is almost 50% above the official USD-ARS but one-third below the BCS. The authorities estimate that they could obtain as much as USD5bn but in our view this is overly optimistic. Instead, we would expect additional proceeds of USD2bn in a best-case scenario. Furthermore, Minister Massa has not delivered so far regarding alleged negotiations with private international banks and foreign governments to contract new FX loans to replenish reserves.

Even if BCRA has been unable to rebuild reserves, higher interest rates, tighter import controls and a subsiding energy bill are easing pressures in the FX market. From selling an average of USD150-100mn per day, BCRA is currently purchasing between USD1 to 10mn. Still, the situation of external accounts remains extremely fragile. The depletion of external buffers limits the policymakers' leeway to engineer an orderly devaluation of the official USD-ARS. This is because the latter would require some capacity to intervene in the spot market to fend off an overshooting of the exchange rate.

Chart 4. Current account cash balance in Jan-Jul



Source: BancTrust & Co. based on Central Bank.

We see devaluation of the USD-ARS in 2023. We look to the economy falling sequentially in 3Q and 4Q, leading to a 4.4% cumulative downturn in 2H22. Flagging activity would be the price to pay to uphold an uncompetitive currency. Besides the continuity of import controls, we anticipate 1,050bps in further MPR hikes to 80% by year-end (driving the total cumulative increase to 2,800bps since 27 July). However, with a real policy

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rate at 1.6% a.r. in December, we only see inflation receding marginally to 6%m-o-m. At an average pace of 5%m-o-m, nominal depreciation would still be lagging relative to inflation, offering little relief to the beleaguered external accounts. We pencil in a discrete devaluation at the outset of 2023 that would take the official USD-ARS to 267 in February, up 58% relative to the closing level of 2022. Real devaluation would also allow the government to attain some transitory fiscal gains by eroding the real value of some expenses and central bank liabilities.

If devaluation of the official USD-ARS is ultimately unavoidable, why is the government procrastinating and taking the economy to a recession? The first reason would be lack of conviction. Even if domestic prices are being increasingly swayed by the parallel FX, food prices are still heavily linked to the official exchange rate. Hence, devaluation could trigger a food inflation spike that would mostly hurt lower income segments, the hardcore supporter base of Kirchnerism. Another possibility is that the most pragmatic members of the government (presumably Massa and his team) are seeking to buttress reserves to prevent a post-devaluation overshooting of the FX (see above). Procrastination would also increase the costs of devaluation given that the RER would likely appreciate further in the remaining months of 2022. Finally, to contain potential second-round effects on prices, and despite some extra fiscal space created by the devaluation, policymakers would need to remain committed to strict fiscal and monetary policies, which have been fiercely resisted by Kirchnerism until the appointment of Minister Massa.

Our base scenario features real GDP contraction of 2.8% in 2023, inflation at 113%y-o-y (up only 11ppt relative to 2022) and the RER stabilising at 4Q18 levels, which would imply a real depreciation of 23% between endpoints in 2023. The main underlying assumption is that fiscal accounts do not post a sharp deterioration, with a primary deficit unchanged at 2.5% of GPD. Nevertheless, this could be a bold assumption in an election year. We also think that regime change prospects could anchor ARS demand, thus capping knock-on effects of devaluation. In our view, activity could start bouncing back as from 3Q23 with a cumulative seasonally adjusted increase of 2.2% in 2H versus the previous trough of 2Q. On the external front, the current account would post a 0.7% of GDP surplus in 2023, up from an almost balanced result this year (0.2%). The revamped competitive edge should have a moderate upside on international reserves due to a still uncertain portfolio and FDI inflows outlook.

Policy issues

We assign an almost zero probability to the Fernández administration implementing a conventional anti-inflation programme. In light of this, the main challenge ahead is how to muddle through until the new authorities take office in December 2023.

We think that Massa's recent pragmatic turn could work in the remainder of 2022 to stabilise domestic financial conditions. The external gap will be the hardest bone to crack, though. So far, there has been no concrete evidence of export advances or any external loan. Several multilateral creditors renewed their commitment to Argentina but disbursements are still to materialise. While the central bank is currently purchasing small amounts of dollars in the spot market (compared to average daily sales of between USD100-150mn before Massa was sworn in), we estimate a dollar shortfall of at least USD3bn between September and December. Without any correction of the FX misalignment, the government will have to materially cool down domestic absorption.

As we move into 2023, the proximity of the presidential elections will create incentives for the government to drift away from fiscal and monetary discipline. Our base scenario foresees a devaluation of the USD-ARS at the outset of next year and moderate fiscal slippage. However, we cannot discard alternative policy responses. In this regard, Kirchnerism could push for a major spending drive and to reinstate price and FX controls. This would set the economy on a collision course given the absence of external buffers to finance electoral populism. Even if this would seem irrational, we cannot rule out that Kirchnerism prefers chaos to recession, particularly if this is instrumental to sustain Cristina Kirchner's lawfare pitch amidst her likely conviction in the infrastructure corruption case known as *Caso Vialidad*. Peronist Governors would also have incentives to support higher transfers to Provinces, as this would allow them to finance clientelism, while they could still blame the federal government for the deterioration of general economic conditions.

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Risks

We think that risks are heavily tilted to the downside. Importantly, devaluation in our base scenario is not void of risks. Our assumption that the primary deficit remains steady at 2.5% of GDP could be an excessively weak fiscal anchor. Moreover, to avoid social unrest in a post-devaluation backdrop, the government might need to step up social benefits beyond our expectations, leading to a higher fiscal deficit. Money demand instability could resume, thus paving the way to a new bout of financial and FX distress together with a further inflation pick-up. On the other hand, we think that hyperinflation has a low probability given the size of the imbalances, and the fact that devaluation can erode the real value of central bank liabilities. Finally, the impact of regime change prospects on expectations would not be as strong as in 2015, at least until the new President cements credibility by announcing a well-designed stabilisation programme.

Recent political developments could also be detrimental to regime change prospects. The attempt against the life of Cristina Kirchner on 1 September may deepen political polarisation. In turn, this could be instrumental in reinforcing the cohesion of Kirchnerism and the voting allegiance of its hardcore supporters. Even if heightened polarisation will not be conducive to Kirchnerist victory in 2023, the fact that Cristina Kirchner could retain a substantial political clout could add uncertainty to the reform outlook. This could moderate bond price gains in the wake of an opposition win in the upcoming presidential ballot.

The other main source of risk -also discussed above- is that Kirchnerism reverts to the populist practices that have been so far tempered under Massa. Devaluation of the official USD-ARS would still unfold but with higher imbalances, a steeper inflation path and RER overshooting. On the upside, we think that this disturbing fallout could be unwound relatively fast if the incoming authorities show commitment to reform, fiscal consolidation and disinflation.

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Table 5. Argentina's Main Macroeconomic Forecasts

Argentina	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts 2022	2023
Real GDP (% y-o-y)	2.7	-2.1	2.7	-2.5	-2.0	-9.9	10.4	3.1	-2.8
Nominal GDP (ARStn)	6.0	8.2	10.6	14.5	21.4	27.5	46.3	82.8	140.8
Nominal GDP (USDbn)	645.8	548.6	638.5	492.1	428.4	378.2	477.2	608.0	531.2
Private Consumption (% y-o-y)	3.7	-0.8	4.2	-2.2	-7.3	-13.8	11.5	5.9	-4.4
Gross Fixed Investment (% y-o-y)	3.5	-5.8	13.4	-5.7	-15.9	-12.9	33.3	7.5	-5.4
Domestic Demand (% y-o-y)	3.8	-1.8	5.2	-2.0	-8.0	-12.5	13.8	5.2	-3.8
Industrial Production (% y-o-y)	0.8	-5.6	2.6	-4.8	-6.3	-7.8	15.2	5.2	2.7
Unemployment rate, average (%)	n/a	8.5	8.4	9.2	9.8	11.0	7.0	7.1	7.5
CPI, year-end (% y-o-y)*	26.9	39.4	24.8	47.6	53.8	36.1	50.9	103.2	113.6
CPI, year average (%)*	26.0	40.6	25.7	34.3	53.5	42.0	48.4	74.4	120.8
Total fiscal balance (%GDP)	-5.1	-5.8	-5.9	-5.0	-3.8	-8.3	-4.5	-4.1	-4.5
Primary fiscal balance (%GDP)	-3.8	-4.2	-3.8	-2.3	-0.4	-6.4	-3.0	-2.5	-2.5
Merchandise exports (USDbn)	56.8	58.0	58.7	61.8	65.2	54.9	77.9	88.8	84.4
Merchandise imports (USDbn)	57.6	53.5	64.1	62.5	46.9	42.4	63.2	79.0	72.7
Trade Balance (USDbn)	-0.8	4.4	-5.4	-0.7	18.2	12.5	14.7	9.9	11.7
Current account balance (USDbn)	-17.6	-15.1	-31.2	-27.1	-3.7	3.3	5.8	1.1	3.8
Current account balance (%GDP)	-2.7	-2.8	-4.9	-5.5	-0.9	0.9	1.2	0.2	0.7
Remittances (USDbn)	1.1	1.1	0.4	1.2	0.8	1.1	1.4	1.8	2.0
Foreign Direct Investment (USDbn)	10.9	1.5	10.4	10.0	5.1	2.7	5.9	9.2	8.2
Foreign Direct Investment (%GDP)	1.7	0.3	1.6	2.0	1.2	0.7	1.2	1.5	1.5
NFPS External debt, year-end (USDbn)	101.7	122.0	161.3	197.3	197.4	193.8	189.5	196.4	198.4
Monetary policy rate, year-end (%)	29.00	19.88	23.25	49.50	39.44	38.00	38.00	80.00	78.00
Foreign reserves, year-end (USDbn)	25.4	37.3	54.9	51.2	44.8	39.4	39.7	39.7	40.8
ARS/USD, year-end	9.6	15.8	17.7	37.9	59.9	82.6	101.9	168.3	425.1

NB: We chained City of BA's CPI, INDEC CPI for the GBA region and INDEC's National CPI.
Source: BancTrust & Co. estimates based on INDEC, BCRA and Ministry of Economics.

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COSTA RICA

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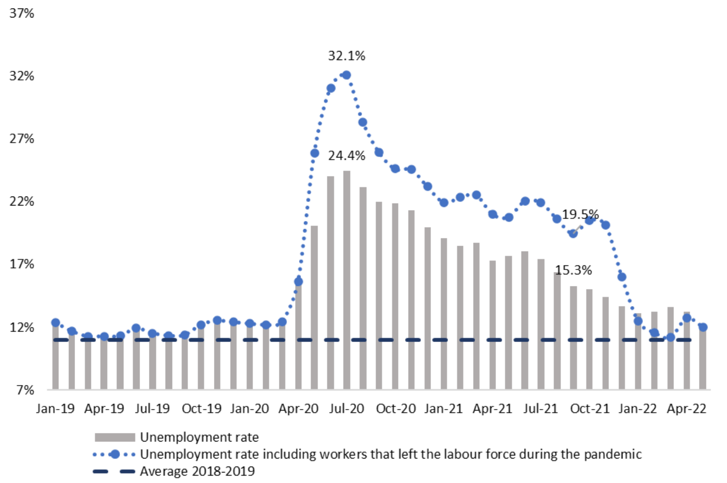
- **Growth cools as pandemic impact phases out**
- **The central bank reacted to FX pressures…**
- **…But disinflation will command more aggressive rate increases**
- **Weak legislative leverage limits governability and threatens FX stability**

Recent developments and 2022-2023 outlook

Growth cools as pandemic impact phases out. Economic activity rose 5.4%y-o-y in 2Q22, moderating relative to 1Q22 and 2021 as the base of comparison effect from the Covid-19 pandemic almost fully dissipated. Growth was driven by the transportation, communication, professional services and lodging sectors, which supported private consumption and exports. On the other hand, construction dropped 14.5%y-o-y because of soaring import prices of raw materials, dragging down investment and goods imports by 2.2%y-o-y and 1.9%y-o-y, respectively. On the other hand, employment figures, which were lagging relative to output, have almost returned to the pre-pandemic levels. We continue to see growth slowing further to 3.3% along with the phasing out of the low base of comparison effect. Nevertheless, we downgraded our 3.3% growth forecast for 2023 (see Macro and Strategy Update: Soft landing despite mounting headwinds, 10 May) to 3%, which was predicated the on weaker outlook for Costa Rica's trading partners and expected delays in public works execution.

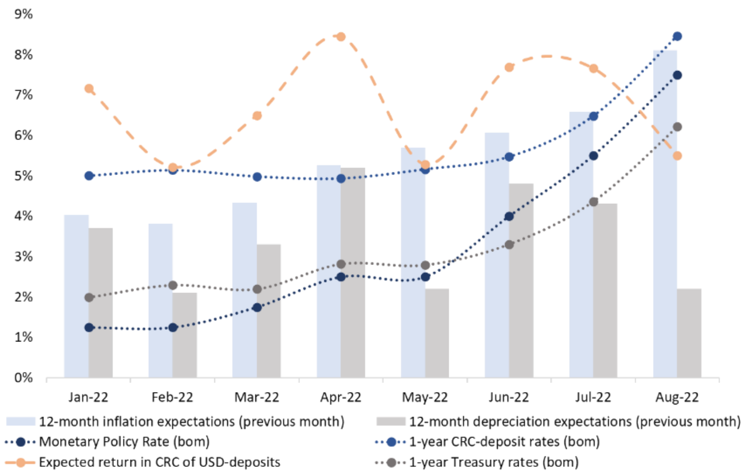
Chart 5. Unemployment



Source: BancTrust & Co. based on Costa Rica Statistics Bureau.

The central bank reacted to FX pressures… FX demand outstripped supply due to more expensive fuel imports, modest rollover of maturing domestic USD Treasury notes and higher private sector FX purchases. Stronger FX demand from the private sector was driven by timid monetary tightening by the BCCR, weak transmission channels of monetary policy and low expected dollar returns from holding CRC-denominated Treasury bills (Chart 6). As a result of this, the CRC depreciated 5.2% from mid-April to mid-June. BCCR responded by increasing reserve requirements by 3ppts to 15% on 15 June to curb loans growth and by stepping up rate hikes. In addition, the Treasury validated higher returns in its domestic debt auctions, which altogether helped to revert the 2Q depreciation.

Chart 6. Interest rates, inflation, and expectations



Source: BancTrust & Co. based on Costa Rica Central Bank.

…But disinflation will command more aggressive rate increases. Higher commodity prices exacerbated inflation pressures from a narrowing output gap. Prices recorded an 11.5%y-o-y increase in July and 6%y-o-y when excluding foods and energy, well above the 3%+/-1ppts inflation target range. Even though the new BCCR authorities accelerated the pace of monetary policy normalisation -taking the MPR 4% in May to 7.5% currently-, this has been insufficient to anchor 12-month ahead inflation expectations, which rose from 5.7% in April to 8.1% in July. Thus, we look to the central bank lifting the policy rate by another 150 basis points in the remainder of the year, to 9%. We deem that this measure, together with the cooling of commodity prices, would consolidate the

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disinflation process that is already on track, as ex food and energy monthly inflation receded from an 11.6% annualised reading in 2Q to 5% in July.

On the fiscal side, authorities reported a 0.2% of GDP primary surplus and an overall deficit of 1.8% of GDP in 1H22. The primary surplus was half the one recorded in 1H21. Disentangling the driver of this deterioration will require the full breakdown of fiscal accounts that remain unavailable post March 2022 due to last April's cyberattack. Nevertheless, authorities have highlighted they remained committed to the fiscal rule that would cap the deficit at 4.1% and 2.9% of GDP in 2022 and 2023. We would see space for a lower fiscal imbalance inasmuch as authorities successfully implement the globalisation of the personal income taxes, which under the proposal of former President Alvarado was expected to yield 0.4ppts of GDP.

We expect the central bank to rebuild reserves in 2022 and 2023 despite higher trade deficits and past interventions. The trade deficit is poised to increase due to the negative terms of trade shock and the pick-up of imports, from 4.5% of GDP in 2021 to 7.8% in 2022. The recovery in tourism inflows will partially offset the larger trade deficit, resulting in a 0.5ppts of GDP deterioration of the current account to a 3.8% of GDP deficit. In 2023 we expect that improving terms of trade and tourism receipts will allow for a reduction in the current account deficit to 2.3% of GDP. Despite the higher external gap, we anticipate reserves to rise by almost USD1bn per year this year and the next. Financing should not be an issue on the back of robust FDI and positive net external inflows to the public sector, in tandem with lower dollar demand because of more frontloaded monetary tightening.

Policy Issues

The shallow legislative footing of the current administration could delay the approval of external indebtedness or become a drag on growth-friendly reforms. In this regard, the government's financing plan relies heavily on external borrowing. For the current year, authorities plan to receive external loans of cUSD4bn (6% of GDP), USD1.9bn from multilaterals and USD2bn from international markets. We pencil in USD2.3bn in EXD bonded debt placements, of which USD0.75bn would account for a LMO to extend the maturity of the 23s that are due on 26 January. The government is seeking lawmakers' clearance to tap international markets by up to USD1.5bn per year until 2028 Nevertheless, a group of legislators anticipated that they would only support USD1.5bn in new indebtedness for 2022, unless the government provides more clear guidelines on future fiscal consolidation.

Risks

The LMO of the 23s would also hinge on obtaining legislative approval. Failure on this front would imply mounting pressures on domestic borrowing conditions. FX pressures could reignite if the government is forced to lean on domestic savings to bridge the financing gap, as well as higher interest rates that would crowd out private absorption.
Another risk is that the government tries to bypass the fiscal rule's spending caps by selling state assets to repurchase debt. Recently, President Chaves anticipated his plans to sell two national banks and shares from the national insurance company, worth altogether cUSD2.7bn (c3.7% of 2023 GDP) and issue those proceeds to repurchase debt. This would allow the government to reduce debt to c60% of GDP by 2023, allowing it to move to a less strict spending cap, limiting only current spending instead of total spending. On top of that, the debt repurchase would likely reduce the interest burden by c0.3% of GDP, which the government could use to increase primary spending. Nevertheless, this proposal will also require legislative endorsement, meaning that its implementation will likely drag. Being autonomous public entities, it is still unclear if the asset monetisation would require a two-third or a mere simple majority at the LA. This issue -and possible constitutional consultations around it- could become time consuming and convoluted.

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Table 6. Costa Rica's Main Macroeconomic Forecasts

Costa Rica	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts 2022	Banctrust & Co. Forecasts 2023
Real GDP (% y-o-y)	3.7	4.2	4.2	2.6	2.4	-4.1	7.8	3.3	3.0
Nominal GDP (CRCtn)	30.2	32.1	34.3	36.0	37.8	36.4	40.0	45.1	50.0
Nominal GDP (USDbn)	56.4	58.8	60.4	62.3	64.4	62.1	64.3	67.4	73.5
Private Consumption (% y-o-y)	4.7	3.8	5.6	1.9	1.7	-5.0	6.4	3.0	3.5
Gross Fixed Investment (% y-o-y)	3.5	6.0	0.1	1.6	-8.2	-1.7	8.7	3.6	4.0
Domestic Demand (% y-o-y)	4.2	4.1	3.5	1.9	0.2	-3.6	7.6	2.2	2.8
Industrial Production (% y-o-y)	-4.1	4.3	4.0	4.2	3.0	3.1	12.8	2.8	3.2
Unemployment rate, average (%)	9.6	9.5	9.1	10.3	11.8	19.6	16.5	12.0	10.5
CPI, year-end (% y-o-y)	-0.8	0.8	2.6	2.0	1.5	0.9	3.3	11.5	5.0
CPI, year average (%)	0.8	0.0	1.6	2.2	2.1	0.7	1.7	9.2	7.5
Total fiscal balance (%GDP)	-5.5	-5.1	-6.0	-5.7	-6.7	-8.4	-5.1	-4.1	-2.9
Primary fiscal balance (%GDP)	-2.9	-2.4	-2.9	-2.2	-2.6	-3.8	-0.3	0.9	2.1
Merchandise exports (USDbn)	9.5	10.1	10.8	11.7	11.8	12.0	14.8	16.3	17.6
Merchandise imports (USDbn)	14.1	14.5	15.2	16.4	15.7	13.8	17.7	21.5	22.6
Trade Balance (USDbn)	-4.6	-4.4	-4.4	-4.6	-3.9	-1.8	-2.9	-5.1	-5.0
Current account balance (USDbn)	-1.9	-1.3	-2.2	-1.9	-0.8	-0.7	-2.1	-2.6	-1.7
Current account balance (%GDP)	-3.4	-2.1	-3.6	-3.0	-1.3	-1.1	-3.3	-3.8	-2.3
Remittances (USDbn)	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5	0.5
Foreign Direct Investment (USDbn)	3.0	2.6	2.9	3.0	2.7	2.1	3.6	3.2	3.4
Foreign Direct Investment (%GDP)	5.2	4.5	4.8	4.8	4.2	3.4	5.5	4.8	4.6
NFPS External debt, year-end (USDbn)	8.2	8.6	8.7	8.8	11.0	12.2	12.9	15.6	17.2
Monetary Policy Rate year-end (%)	2.25	1.75	4.75	5.25	2.75	0.75	1.25	9.00	5.00
Foreign reserves, year-end (USDbn)	7.8	7.6	7.1	7.5	8.9	7.2	6.9	7.8	8.7
CRC/USD, year-end	537.3	553.2	569.5	606.5	571.3	613.2	642.3	680.0	680.0

Source: BancTrust & Co. estimates based on the IMF, Central Bank of Costa Rica and Ministry of Finance.

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DOMINICAN REPUBLIC

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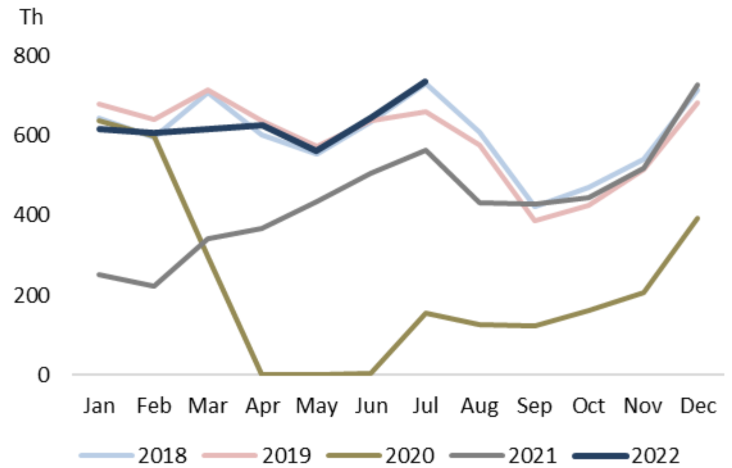
- **Tourism recovery boost economic activity**
- **Energy global crisis keeps inflation high…**
- **…And widens twin deficits…**
- **…But near-term financing seems manageable even under stress conditions**

Recent developments and 2022-2023 outlook

Economic activity remains solid as tourism posts robust rebound. Economic recovery remains on a firm footing, outpacing our expectations. Despite the tightening of monetary policy and higher global energy prices, activity expanded 5.6%y-o-y in 1H thanks to strong external demand for services and, to a lesser extent, goods. The services sector increased 7.7%y-o-y on the back of the impressive bounce back of tourism. Arrivals fully recovered in 2Q, exceeding the average recorded between 2017 and 2019 by 3.9% (Chart 7). Value-added of hotels, bars and restaurants soared 34.3%y-o-y in 1H and surged 8% y-o-y in the case of transport and storage. Against this, goods output posted a more moderate performance. Only industrial production in the free trade zones exceeded headline growth, while local manufacturing and construction lagged slightly behind. All in all, while domestic demand slowed, the external front continued to support growth, even in the wake of higher commodity prices and tighter financial conditions.

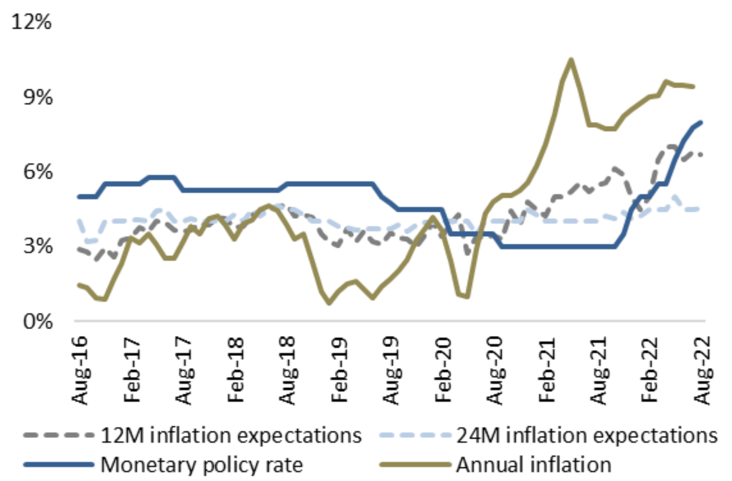
Chart 7. Tourist arrivals



Source: BancTrust & Co. based on Central Bank of Dominican Republic.

Inflation remains high, though it may already have peaked. 2Q inflation continued to mirror the impact of higher global energy and food prices. However, domestic inflation gained momentum thanks to second-round effects and strong economic activity. Headline inflation stood at 9.5%y-o-y in July, slightly below the April peak, when the jump in commodity prices fully impacted domestic prices. This stabilisation was also reflected in the core index, which climbed to a 7.3%y-o-y high in April and May, decelerating to 7.1%y-o-y in July. This modest reduction was driven by the fall in commodity prices at the end of 2Q and could deepen in the coming months following the more front-loaded tightening as of May (Chart 8). Since that month, the monetary authority lifted its benchmark rate by 250bps to 8.00%, accumulating 500bps since the current tightening cycle kicked off. In parallel, the central bank (BCRD) stepped up the mopping of excess liquidity from the pandemic, which translated into a sharp slowdown of monetary aggregates since February.

Chart 8. Inflation and monetary policy



Source: BancTrust & Co. based on Central Bank of Dominican Republic.

Fiscal slippage due to the global energy crisis. Despite the economic boom, the fiscal front deteriorated relative to our previous estimates due to higher spending to mitigate the impact of the commodity shock. Initially, the government had promised that the additional spending to address the crisis would be compensated by the extra revenues and fiscal savings generated earlier in the year (See Dominican Republic Economics: The unexpected policy dilemma, 18 March).

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However, the prolonged global energy crisis and increased resources destined to energy generation caused expenses to outstrip revenue growth. In 1H, revenues increased by 17.2%y-o-y, while spending surged 20.8%y-o-y, resulting in a fiscal deficit of 0.3% of GDP, 0.2ppt higher than in 1H21.

Resilient external accounts despite commodity shock. Imports increased 34.6%y-o-y in 1H, with oil-related imports soaring 104%y-o-y. Additionally, remittances recorded a decline of 7.6%y-o-y, even though they remained above the levels of 2020 and 2019. On the other hand, dollar inflows from tourism skyrocketed 92.5%y-o-y, while exports maintained a decent pace of increase (9.6%y-o-y). However, strong external demand will unlikely prevent a widening of the current account deficit, which had doubled in 1Q relative to 1Q21, to 1% of GDP. Nevertheless, strong FDI inflows at 1.7% of GDP in 1H to a large extent could have financed the higher external gap. Dollar galore motivated a 5.3% YTD nominal appreciation of the DOP, and enabled the central bank to accumulate international reserves, which ended July at USD14.2bn (+16.7%y-o-y).

Piecemeal unwinding of twin deficits does not cloud financing outlook. We upgrade our 2022 growth forecast to 5.2% from 4.5% on the back of the better activity readings and the tourism boom. We look to 2023 growth at 4.9%, stabilising at around potential, with tourism moderating to more normal levels. We see inflation losing momentum and ending 2022 at 8.6% y-o-y, as external pressures ease and the central bank takes the policy rate to 9.75%. We project 2023 inflation at 5.2%, slightly above the upper bound of the 4% +/- 1 percent CPI band, which should allow authorities to cut the MPR to 9.0% by year-end. We raised our 2022 fiscal deficit forecast to 3.6% of GDP (+0.6ppt) on the extra spending introduced to mitigate the social impact of higher inflation. For 2023, we maintained our forecast at 3.1% of GDP, as we expect authorities to withdraw the energy subsidy programme next year. In turn, we fine-tuned our current account deficit forecast to 3.5% of GDP (up 0.1ppt relative to our previous estimate), since we had already factored in the impact of higher oil prices in our last outlook. With energy imports falling along with lower international oil prices, the external gap would narrow to 2.2% of GDP next year. In spite of these twin deficits and the more stringent international liquidity, international reserves would remain strong, as firm FDI and further external debt would fully finance the external imbalance.

Policy issues

Curbing high inflation, and especially re-anchoring expectations, remains the main policy issue of the Dominican Republic. Unlike other central banks, BCRD should increase the policy rate even more to bring them into positive terrain and prevent further second-round effects. In this regard, we cannot rule out an interest rate overshooting as BCRD would have procrastinated at the beginning of the tightening cycle, in our view. The fiscal also looks challenging due to the need to eventually withdraw the fuel subsidies and of taking back the electricity pact -aborted last June- to the drawing board. Reducing the losses of the power generation companies would strengthen the fiscal position of the public sector in the short and medium term. Along with this, authorities should reinstate tax reform discussions to reach an agreement aimed at increasing the country's revenue base, which is one of the lowest in LatAm.

Risks

Despite strong economic activity, short-term risks are tilted to the downside. Global financial conditions and the war in Ukraine continue to weigh negatively on the outlook, the former via the financial channel and the latter through the trade balance and inflationary effects. A more frontloaded global tightening could lead to slower export growth, higher financing costs and volatile capital flows, impacting debt burden and domestic financial conditions. A protracted energy crisis could result in a sustained external shortfall due to higher oil imports and further pressures on inflation. This would lead to a deterioration of the fiscal accounts on the back of a heftier subsidy and social aid bills. On the bright side, the government has been able to clear up the near-term debt schedule through successful liability management. In this regard, the next large EXD bond maturity (USD1.3bn) is in January 2025.

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Table 7. Dominican Republic's Main Macroeconomic Forecasts

Dominican Republic	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts 2022	Banctrust & Co. Forecasts 2023
Real GDP (% y-o-y)	6.9	6.7	4.7	7.0	5.1	-6.7	12.3	5.2	4.9
Nominal GDP (DOPtn)	3.2	3.5	3.8	4.2	4.6	4.5	5.4	6.1	7.0
Nominal GDP (USDbn)	71.2	75.7	80.0	85.6	88.9	78.8	94.2	111.6	129.9
Private Consumption (% y-o-y)	6.4	6.0	4.4	5.7	4.6	-3.4	6.6	3.5	3.3
Gross Fixed Investment (% y-o-y)	18.9	12.3	-0.3	13.3	8.1	-12.1	22.1	5.0	5.8
Domestic Demand (% y-o-y)	9.1	6.9	2.3	7.7	6.2	-3.3	11.3	3.2	3.7
Industrial Production (% y-o-y)	8.7	7.3	3.2	7.9	2.7	-2.2	10.6	5.7	5.8
Unemployment rate, average (%)	7.6	7.3	5.8	5.9	5.9	7.4	7.1	6.1	5.9
CPI, year-end (% y-o-y)	2.3	1.7	4.2	1.2	3.7	5.6	8.5	8.6	5.2
CPI, year average (%)	0.8	1.6	3.3	3.6	1.8	3.8	8.2	9.2	6.3
Total fiscal balance (%GDP)	-0.3	-2.7	-2.8	-2.3	-2.3	-7.6	-2.7	-3.6	-3.1
Primary fiscal balance (%GDP)	2.1	-0.1	-0.2	0.3	0.4	-4.3	0.4	-0.4	0.2
Merchandise exports (USDbn)	9.4	9.8	10.1	10.6	11.2	10.3	12.5	13.1	13.5
Merchandise imports (USDbn)	16.9	17.4	17.7	20.2	20.3	17.1	24.1	29.6	28.2
Trade Balance (USDbn)	-7.5	-7.6	-7.6	-9.6	-9.1	-6.8	-11.7	-16.6	-14.7
Current account balance (USDbn)	-1.3	-0.8	-0.1	-1.2	-1.2	-1.5	-2.7	-3.8	-2.5
Current account balance (%GDP)	-1.8	-1.1	-0.2	-1.4	-1.3	-1.7	-2.9	-3.5	-2.2
Remittances (USDbn)	5.0	5.3	5.9	6.5	7.1	8.2	10.4	9.6	10.0
Foreign Direct Investment (USDbn)	2.4	2.5	2.6	2.8	2.9	2.4	3.0	3.9	4.2
Foreign Direct Investment (%GDP)	3.4	3.4	3.3	3.2	3.2	3.0	3.2	3.5	3.7
NFPS External debt, year-end (USDbn)	16.2	17.6	18.8	21.6	23.4	30.7	33.3	36.5	37.6
Monetary Policy Rate, year-end (%)	5.00	5.50	5.25	5.50	4.50	3.00	4.50	9.75	9.00
Foreign reserves, year-end (USDbn)	5.3	6.0	6.8	7.6	8.8	10.8	13.0	15.5	17.7
DOP/USD, year-end	45.5	46.7	48.2	50.4	53.1	61.0	57.2	53.9	54.6

Source: BancTrust & Co. estimates based on IMF, BCRD and Ministry of Finance.

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ECUADOR

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- **Activity improved in 2Q but protests could depress confidence**
- **External surpluses to continue despite weaker oil prices**
- **A more challenging financing outlook for 2023-24**
- **Unstable politics and vulnerability to an oil shock are the main risks ahead**

Recent developments and 2022-2023 outlook

Activity improved in 2Q but protests will likely take a toll on confidence. Early activity indicators signal consumption improved further in 2Q22, supported by the recovery of employment that returned to pre-pandemic levels. The evolution of loans and car sales suggests that households were optimistic about economic prospects in the short and medium terms, which encouraged them to step up borrowing. On the other hand, strong imports of construction materials and capital goods would have underpinned investment in 2Q notwithstanding lower capital outlays from the central government. Instead, exported volumes dropped due to lower crude oil exports, which were partially offset by higher mining, shrimp fishing and manufacturing external sales. This being said, June trade figures evidenced that oil exports pared the decline of previous months, despite the disruptions caused by the indigenous protests. Official preliminary figures estimated that protests reduced output by cUSD1bn (c1% of GDP). This is the main reason for us to downgrade our 2022 growth forecast to 2.2%, from 3.7% previously. The downward revision also factors more downbeat business and consumer sentiment that would weigh on domestic absorption. Despite cooling domestic demand, we kept our 2023 forecast at 2.6%, predicated on rising volumes of oil and non-oil exports.

External surpluses to continue despite weaker oil prices. In 2Q the trade balance remained in positive terrain but shrunk slightly in year-on-year terms as non-oil imports surged 26%y-o-y. Notwithstanding the external surplus, international reserves fell USD641mn in 2Q to USD8.6bn, because of the USD811mn contribution made by the central bank (BCE) to the Liquidity Fund (*Fondo de Liquidez*) and USD751mn in public external debt payments. These outflows were partially offset by the USD1bn disbursement from the IMF under the EFF programme. Looking ahead, we estimate that the current account will post a 2.4% of GDP surplus this year and of 2.1% in 2023, down from 2.8% in 2021. Oil prices should remain supportive, even if, based on the futures curve, we assume WTI declining from a yearly average of USD96 per barrel in 2022 to USD83 in 2023. In addition, we anticipate a gradual recovery of crude exports volumes and sustained growth of non-oil exports. In tandem with multilateral inflows, the external surpluses will allow BCE to continue building up reserves. However, the pace of reserve accumulation will slow down in 2023 as net multilateral lending will just be enough to compensate for bilateral debt servicing (mostly to China).

Table 8. Non-financial public sector's financing programme

USDbn	2021	2022f	2023f	2024f
Financing needs	**7.4**	**7.6**	**6.5**	**9.0**
Fiscal deficit	**1.6**	**0.6**	**0.4**	**2.7**
Amortisations	**5.8**	**7.1**	**6.1**	**6.3**
Domestic	3.8	4.0	3.6	3.6
External	1.9	3.1	2.5	2.7
Bilateral	0.5	1.2	1.2	1.0
Multilateral	0.8	1.1	1.0	1.5
Perenco's award	0.0	0.4	0.0	0.0
Other	0.7	0.4	0.3	0.3
Financing sources	**8.4**	**7.3**	**5.0**	**5.0**
Domestic	3.8	3.0	3.5	3.4
External	4.6	4.3	1.6	1.6
Bilateral	0.3	0.2	0.0	0.0
Multilateral	3.3	4.1	1.6	1.6
SDR allocation	0.9	0.0	0.0	0.0
Financing gap	**-1.0**	**0.3**	**1.5**	**4.0**
Memo items				
Ecu mix (USD/bbl)	62.0	86.8	73.0	67.6
Oil exports (mn bll)	117.4	108.1	118.2	126.0

Source: BancTrust & Co. based on Ecuador Ministry of Finance, Central Bank and IMF.

A more challenging financing outlook. The government committed c1.3% of GDP of new spending to appease the indigenous, mostly comprising higher fuel subsidies and subsidised loans (see Ecuador Economics and Strategy: A Farewell to Arms, 04 July). Nevertheless, authorities will likely cut other expenses, mostly capital spending, to comply with the 2% of GDP central government deficit target for 2022 committed with the IMF. With this in mind, we expect a 0.5% deficit for the non-financial public sector, thanks to the surpluses from public companies and social security. IFIs

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support and the USD1.0bn excess financing of 2021 will allow the government to meet 2022 borrowing needs in full (Table 8). Noteworthy, we had previously estimated USD1.7bn in extra fiscal savings in 2022. Instead, we now see a USD0.3bn funding gap as a result of weaker oil prices and the USD0.4bn compensation due to Perenco.

With no savings accumulation in 2022, and in the absence of spending cuts, we foresee a USD0.8bn financing shortfall in 2023. The gap would widen to USD4bn in 2024 due to lower multilateral inflows together with the phasing out of one-offs from privatisations and the tax reform. Nevertheless, we think that the government could tap USD3.3bn in additional resources that would narrow the 2024 financing gap to USD1.4bn (Table 9). USD1.7bn of these could stem from debt relief agreed with China. Assuming a three-year extension of principal payments owed to China, the government could save a total of USD1.5bn. A similar extension on the delivery period of oil sales committed with the Asian country would allow the sale of 42mn million barrels at market prices, which offer a USD5 premium per barrel relative to Chinese contracts. Also, the government could use the USD400mn guarantee approved by the Inter-American Development Bank to issue cUSD600mn through a hybrid bond similar to the one placed under former President Lenin Moreno in January 2020. Finally, Ecuador could be entitled to receive between USD0.7bn to USD1.35bn from the IMF's Resilience and Sustainability Trust.

Table 9. Financing programme with alternative sources

USDbn	2021	2022f	2023f	2024f	2022- 2024
Financing gap	**-1.0**	**0.3**	**1.5**	**4.0**	**5.8**
New sources		**0.6**	**1.5**	**1.3**	**3.3**
From China		0.6	0.9	0.3	1.7
Postponement of oil sales to China (+5USD per barrel)		0.1	0.1	0.0	0.2
3-year extension of principal payments		0.5	0.7	0.3	1.5
From multilateral and bilateral		0.0	0.6	1.0	1.6
Hybrid bond (2/3 guaranteed by the IADB)			0.6		
IMF Resilience Trust				1.0	1.0
Financing gap with new sources	**-1.0**	**-0.2**	**0.0**	**2.7**	
Deposits drawdown with new sources	-1.0	-0.2	0.0	1.3	
Government's deposits with new sources (eop)	1.0	1.3	1.3	0.0	

Source: BancTrust & Co. based on Ecuador Ministry of Finance, Central Bank and IMF

Policy issues

The government is doing efforts to contain the indigenous organisations through the technical negotiations that are expected to conclude in mid-October. Nevertheless, we cannot rule out that indigenous groups resume mobilisations arguing the government did not fulfil all their demands, such as increasing fuel subsidies or abandoning privatisations. Similarly, the opposition parties -that have almost full control of the National Assembly- are debating a bill to repeal the tax reform approved in November 2021, while simultaneously seeking to appoint allies in key government positions, such as the Social Control Council (CPCCS), the Superintendency of Banks and the Judicial Council. On 1 September the opposition fell five votes short of attaining the 92 votes majority required to remove three judges from the Judicial Council. However, a renewed assault on the Judiciary is a possibility, since there are no legal impediments that prevent a new vote on that matter. On the other hand, even if we assign a low probability to the nullification of the 2021 tax bill, the reform outlook in the remainder of the Lasso administration looks dim, particularly due to the President's low popularity readings (currently below 30%).

Risks

Apart from political pressures to increase spending, public accounts have become even more sensitive to the level of oil prices. A negative terms of trade shock from current oil price levels would likely force the government to implement a procyclical adjustment, materially increasing the odds of a populist administration taking office in 2025.

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Table 10. Ecuador's Main Macroeconomic Forecasts

Ecuador	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts 2022	2023
Real GDP (% y-o-y)	0.1	-1.2	2.4	1.3	0.0	-7.8	4.2	2.2	2.3
Nominal GDP (USDbn)	99.3	99.9	104.3	107.6	108.1	99.3	106.2	112.7	119.1
Private Consumption (% y-o-y)	-0.1	-2.4	3.7	2.1	0.3	-8.2	10.2	3.5	1.7
Gross Fixed Investment (% y-o-y)	-6.2	-8.9	5.3	2.0	-3.3	-19.0	4.3	3.5	1.7
Domestic Demand (% y-o-y)	-2.2	-4.3	5.5	2.2	-0.9	-10.2	8.1	3.3	1.3
Industrial Production (% y-o-y)	-0.8	-0.9	3.6	0.6	-0.1	-8.3	2.6	1.5	1.7
Unemployment rate, average (%)	4.3	5.4	4.4	4.1	3.8	7.6	5.1	4.2	4.2
CPI, year-end (% y-o-y)	2.8	0.8	-0.3	0.1	-0.5	-1.2	1.8	4.2	2.2
CPI, year average (%)	4.0	1.7	0.4	-0.2	0.3	-0.3	0.1	3.8	3.3
Total fiscal balance (%GDP)	-6.2	-9.1	-5.8	-2.8	-3.5	-7.1	-1.5	-0.5	-0.3
Primary fiscal balance (% GDP)	-4.8	-7.5	-3.7	-0.3	-0.7	-4.3	-0.2	1.0	1.2
Merchandise exports (USDbn)	19.0	17.4	19.5	22.2	22.8	20.6	27.2	32.7	32.8
Merchandise imports (USDbn)	20.7	15.8	19.3	22.4	21.7	17.1	24.0	30.8	31.1
Trade Balance (USDbn)	-1.6	1.6	0.3	-0.2	1.0	3.5	3.3	2.0	1.7
Current account balance (USDbn)	-2.2	1.1	-0.2	-1.3	-0.1	2.7	3.0	2.7	2.5
Current account balance (%GDP)	-2.2	1.1	-0.2	-1.2	-0.1	2.7	2.8	2.4	2.1
Remittances (USDbn)	2.4	2.6	2.8	3.0	3.2	3.3	4.4	4.9	5.1
Foreign Direct Investment (USDbn)	1.3	0.8	0.6	1.4	1.0	1.1	0.6	1.2	1.3
Foreign Direct Investment (%GDP)	1.3	0.8	0.6	1.3	0.9	1.1	0.6	1.1	1.1
NFPS External debt, year-end (USDbn)	21.5	28.1	33.7	36.9	40.7	44.6	46.0	47.2	46.2
Deposit rate, year-end (%)	5.11	5.51	4.91	5.32	6.05	6.07	5.48	6.00	6.50
Foreign reserves, year-end (USDbn)	2.5	4.2	2.0	2.2	2.9	7.1	7.9	9.0	10.4
Local currency/USD, year-end	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Source: BancTrust & Co. estimates based on the IMF, BCE and Ministry of Finance

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EL SALVADOR

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- **External demand drives economic activity**
- **Authorities rebuild fiscal buffers…**
- **…Although the external gap will take a toll on reserves**

Recent developments and 2022-2023 outlook

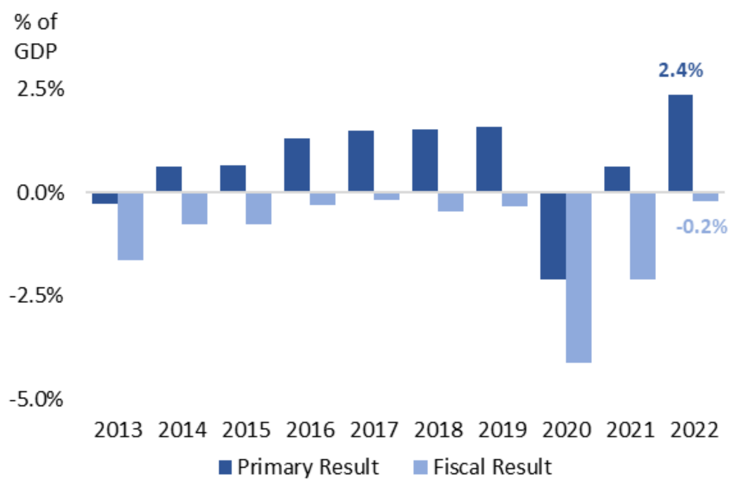
Fragile growth tied to external demand. After slowing down in 4Q21, the economy regained some traction at the end of 1Q22. The positive momentum continued through April and May according to preliminary activity data, exceeding our growth expectations for 1H. In 1Q, output increased by 2.7%y-o-y, with external demand as the main engine of growth. Net exports had a positive contribution on GDP, with exports jumping 14.3%y-o-y against a 10.6%y-o-y rise in imports. Strong growth of trading partners and a pick-up in tourism explained this performance. Conversely, domestic demand continued to weaken on the back of falling investment and cooler consumption. High inflation and slower remittances inflicted a double whammy on real incomes and thereby on consumption, while cuts in public capital spending weighed on investment. Despite growing above potential (2.5%), an external downturn could easily reverse the positive phase of the business cycle, which is mostly tied to US output due to the lack of domestic drivers.

Rebuilding fiscal buffers… In the absence of financing, the government deepened the adjustment of the fiscal accounts in 2Q. Notwithstanding a 17.5%y-o-y surge in revenues, authorities moderated the expansive bias of primary spending in 1H by slashing capital outlays and transfers, particularly during 2Q. Primary spending increased by only 3.1%y-o-y in 1H, well below the average inflation of the period. This also allowed the government to implement a package of tax exemptions and energy subsidies to temper inflation pressures stemming from the global energy crisis. In this context, the fiscal accounts in 1H posted a primary surplus of 2.4% of GDP and an overall deficit of 0.2% of GDP, the best results in more than a decade (Chart 9).

…To address short-term financing needs. Despite the fiscal overhaul, fears of default in early 2023 intensified along with the deteriorating global financial backdrop. This led to a massive widening of Salvadoran sovereign spreads, which reached c3,500bps in July. In this environment of depressed bond prices, the government announced a buyback of Eurobonds due in 2023 and 2025 at market prices to be conducted in mid-September. To finance the transaction, the government would use USD360mn of SDRs received last year from the IMF and a multilateral loan of USD200mn from the Central American Bank of Economic Integration (CABEI). In addition, the government could also tap a USD100mn loan from the World Bank approved in June to retroactively finance health expenses. As this would not be enough to buy the full amount of 23s and 25s, authorities said that will ask for new loans from CABEI and the Development Bank of Latin America (CAF) in the remainder of the year. This additional multilateral financing would amount to USD2bn, although they would not be fully disbursed this year, let alone before mid-September, when the buyback is expected to take place.

Inflation continued to accelerate in 2Q, albeit at a slower pace than in previous quarters. In June, headline and core inflation came in at 7.8%y-o-y and 5.1%y-o-y, 1.1ppt and 0.6ppt higher than in March. With global inflation slowing down and the recent fall in commodity prices, Salvadoran inflation is expected to ease, although unfreezing fuel prices in the future could transitorily boost prices.

Chart 9. 1H primary and fiscal result 2013-22f



Source: BancTrust & Co. based on Central Bank of El Salvador.

Widening current account deficit… A steady fall in the terms of trade, reflected in a higher increase of imports than in

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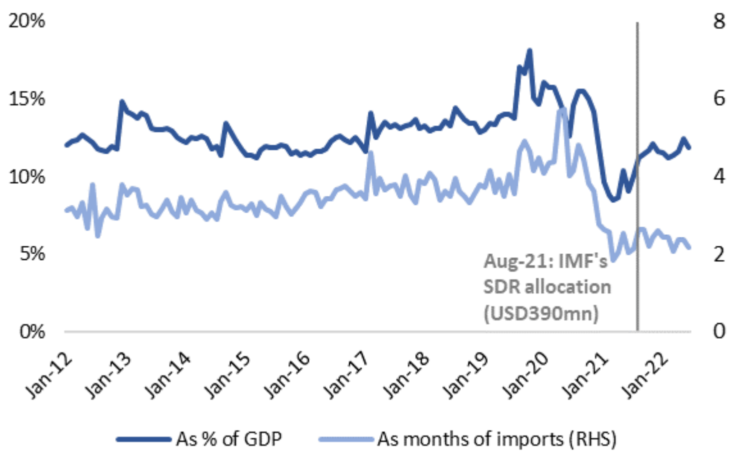
exports, fueled the expansion of the trade deficit in 2Q. Imports jumped by 25%y-o-y, and exports increased by 15.9%y-o-y. This is likely to have widened further the current account deficit (CAD) in 2Q, following the significant expansion of 1.4ppt to 2.3% of GDP in 1Q. On top of this, remittances, that last year compensated for a large part of the higher deficit, slowed down sharply in 2Q and rose by 1.5%y-o-y. Only the service sector due to the recovery of tourism is expected to temper the larger CAD in 2Q. Services in 1Q had posted a surplus of 1.2% of GDP, the highest since 2014. International reserves in turn remained stable, and closed July at USD3.4bn. Despite this, reserves remain at low levels, as they only accounted for 2.2 months of imports or 11.8% of GDP (Chart 10), below the optimal levels for emerging economies according to the IMF.

Chart 10. International reserves



Source: BancTrust & Co. based on Central Bank of El Salvador.

…That will take a toll on reserves. We revised upwards our growth forecast for this year to 2.4% from 1.2% as economic activity outperformed our expectations in 1H. For 2023, we kept our growth estimate unchanged at 1.9%. Weaker external demand stemming from slower US growth would drag output, although this could be mitigated by the authorities attempt to stimulate domestic demand ahead of 2024 presidential elections. Regarding fiscal accounts, we expect a primary surplus of 1.2% of GDP and a fiscal deficit of 3.4% of GDP this year. We uphold our view that the better fiscal performance will be transitory and that fiscal accounts are set to deteriorate as electoral season kicks in. For 2023, we foresee a primary deficit of 0.5% of GDP. On the external front, we project a current account deficit of 7.3% of GDP in 2022, 2.3ppt higher than our previous estimate, given the higher trade deficit and slower remittances. With terms of trade improving as energy global prices drop, the external gap would fall to 5.4% of GDP next year. In any case, elevated twin deficits and external debt payments will put pressure on international reserves, as the lack of external financing is likely to persist in the short term.

Policy issues

Authorities are focused on securing the remaining funding for the buyback and the payment of the Eurobonds maturing in January 2023. At most, authorities will have to address USD1.2bn payments in the next 6 months, considering that all the 2023 Eurobonds are paid at face value and that all the 2025 Eurobonds are repurchased at current market prices. Even if policymakers seek to reaffirm their willingness to pay, lingering uncertainty on El Salvador's ability to remain current on debt servicing may preclude new market funding. While we uphold our long-held view that a credit event in the run-up to the 2024 presidential election is unlikely (see El Salvador Economics & Strategy: Bukele shows his cards, 26 November 2021), we remain convinced that El Salvador will need to implement a major fiscal adjustment after the election to avoid a default.

Risks

El Salvador will remain extremely vulnerable to the global backdrop, even if it meets upcoming debt payments. Domestic politics are not currently supportive of deepening fiscal consolidation. The primary result in 1H was mostly accounted for by large cuts in capital expenses, while current spending is still running high. On top of this, the interest bill keeps rising, reaching 2.6% of GDP in 1H (0.7ppt above 2019 levels). Global recession and/or a new commodities shock could accelerate the depletion of external assets, dramatically increasing the odds of a balance of payments crisis. If El Salvador is able to sail through the electoral season unscathed, it will be key that the next administration radically changes the course of fiscal policy. Thus, engineering high primary surpluses and improving the debt profile will be critical to ensuring debt sustainability going forward. Moreover, dollarisation means that fiscal policy is the only available tool to gain competitiveness. However, current market valuations of Salvadoran bonds suggest that investors are sceptical of material fiscal revamp, even in the absence of a pressing political rationale.

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Table 11. El Salvador's Main Macroeconomic Forecasts

El Salvador	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts 2022	Banctrust & Co. Forecasts 2023
Real GDP (% y-o-y)	2.4	2.5	2.2	2.4	2.4	-7.9	10.3	2.4	1.9
Nominal GDP (USDbn)	23.4	24.2	25.0	26.1	27.0	24.6	28.7	29.4	32.2
Private Consumption (% y-o-y)	3.0	2.0	1.7	3.1	2.6	-10.6	15.4	3.5	2.3
Gross Fixed Investment (% y-o-y)	9.0	3.6	3.6	6.7	7.2	-7.9	24.5	2.0	1.0
Domestic Demand (% y-o-y)	3.6	1.8	1.7	3.2	2.4	-8.1	16.0	2.8	2.2
Industrial Production (% y-o-y)	3.0	1.3	1.3	2.2	1.4	-11.8	12.3	2.5	2.2
Unemployment rate, average (%)	7.0	7.0	7.0	6.3	6.3	12.0	10.3	8.5	7.8
CPI, year-end (% y-o-y)	1.0	-0.9	2.0	0.4	0.0	-0.1	6.1	7.8	4.6
CPI, year average (%)	-0.7	0.6	1.0	1.1	0.1	-0.4	3.5	7.4	5.7
Total fiscal balance (%GDP)	-3.6	-3.1	-2.5	-2.7	-3.1	-10.1	-5.6	-3.4	-5.2
Primary fiscal balance (%GDP)	-0.9	-0.2	0.7	0.9	0.6	-5.8	-1.1	1.2	-0.5
Merchandise exports (USDbn)	5.5	5.4	5.8	5.9	5.9	5.0	6.6	7.7	8.0
Merchandise imports (USDbn)	10.3	9.8	10.6	11.5	11.6	10.2	15.1	17.5	17.2
Trade Balance (USDbn)	-4.8	-4.4	-4.8	-5.9	-6.1	-5.2	-8.4	-9.8	-9.3
Current account balance (USDbn)	-0.8	-0.6	-0.5	-1.2	-0.2	0.2	-1.5	-2.2	-1.7
Current account balance (%GDP)	-3.5	-2.5	-2.1	-5.2	-0.7	0.8	-5.1	-7.3	-5.4
Remittances (USDbn)	4.3	4.5	5.0	5.4	5.6	5.9	7.2	7.3	7.6
Foreign Direct Investment (USDbn)	0.4	0.3	0.9	0.8	0.6	0.3	0.3	0.4	0.5
Foreign Direct Investment (%GDP)	1.7	1.4	3.6	3.2	2.4	1.1	1.1	1.3	1.5
NFPS External debt, year-end (USDbn)	8.4	8.8	9.3	9.2	9.6	10.7	11.5	11.8	12.4
Deposit rate, year-end (%)	4.19	4.43	3.86	3.65	3.61	3.25	3.33	3.50	4.50
Foreign reserves, year-end (USDbn)	2.8	3.2	3.6	3.6	4.4	3.1	3.4	3.3	2.8
Local currency/USD, year-end	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Source: BancTrust & Co. estimates based on BCR and Ministry of Finance.

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GUATEMALA

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- **Growth outpaces expectations again**
- **Monetary policy remains accommodative**
- **RER appreciation bias persists**
- **Strong economic framework is starting to show some cracks**

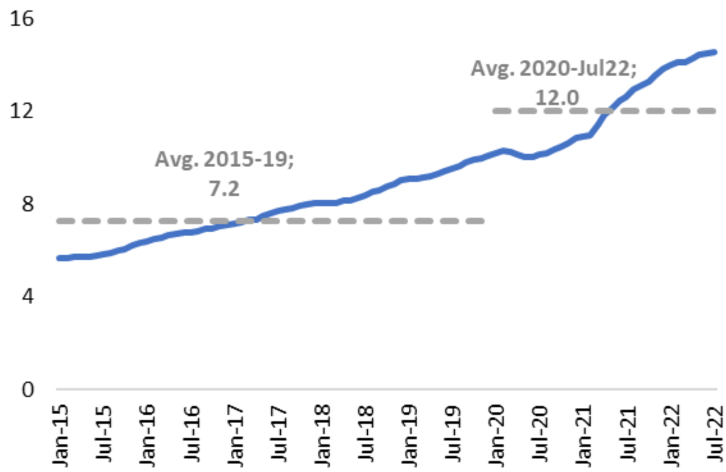
Recent developments and 2022-2023 outlook

The Guatemalan economy once more outperformed expectations, notwithstanding the difficult global backdrop. After slowing down by the turn of 2021, the economy has gained momentum. In 1Q and 2Q, activity expanded 4.5%y-o-y and 4.1%y-o-y, respectively, showing no signs of cooling. Indeed, the trend-cycle series of the monthly economic activity index recorded an unexpected acceleration in growth from 1.3%q-o-q in 1Q to 1.6%q-o-q in 2Q. Contrary to our expectations -that foresaw an economic downturn in 2Q- in 1H output exceeded our estimates and gained 4.2%y-o-y. External demand remained strong while remittances posted a remarkable resilience, unlike other countries where it started to moderate or even decline.

Monetary policy remains accommodative despite inflation uptick. After benign CPI prints during 2H21 and 1Q22, prices gained momentum in 2Q. Headline inflation climbed to an 8.4%y-o-y high in July, up 4ppt versus March driven by soaring energy and food prices. Importantly, unlike last year the rest of the index also accelerated significantly. 12 and 24-month ahead inflation expectations, however, stood at 4.9%y-o-y and 4.5%y-o-y in July, below the upper bound of the central bank's range of 4 +/- 1 percent. Monetary policy, in turn, remained accommodative. With two consecutive 25bps hikes, the central bank raised the monetary policy rate to 2.25% between May and June. Currently, the MPR stands 50bps below its pre-pandemic levels, reflecting the central bank's reluctance to materially tighten monetary conditions. The FX remained stable at GTQ7.75 per dollar throughout the year, exhibiting very low volatility, as the central bank continued with its intervention policy to prevent a nominal appreciation of the currency.

Fiscal accounts performed slightly better than we had envisaged. While slowing down, revenues posted a handsome 17% y-o-y expansion in Jan-July, boosted by activity-related taxes. In parallel, primary spending gained traction, rising by 15.8%y-o-y, following last year's drop. Social support to cope with the rise of fuel prices combined with better execution explained the pick-up of public spending. Against this, the primary surplus stood at 0.8% of GDP (GTQ6bn), slightly lower than last year, while the overall balance recorded a minor shortfall of 0.1% of GDP (GTQ0.5bn). Regarding financing, Guatemala unexpectedly placed a USD500mn Eurobond in August, abandoning its strategy of replacing private debt with multilateral lending. Higher domestic borrowing costs combined with expectations of FX stability and further monetary tightening in DCs probably accounted for this decision.

Chart 11. Remittances at 2014 constant dollars



Source: BancTrust & Co. based on Banguat.

Further decline in the external surplus. The current account surplus narrowed in 1Q22 to 0.2% of GDP, down 0.8ppt from a year earlier, due to a higher trade deficit in goods and services. This trend was deepened in 2Q, with the jump in global energy prices. In 1H, imports expanded by 34%y-o-y, with oil-related external purchases jumping by 65.3%y-o-y, while exports posted a 25.2%y-o-y increase, driven by higher prices of agricultural products. Despite the wider trade deficit, the strong inflow of remittances (+21.2%y-o-y in Jan-July) remained a positive offsetting factor. In this context, the central bank kept accumulating international reserves, which

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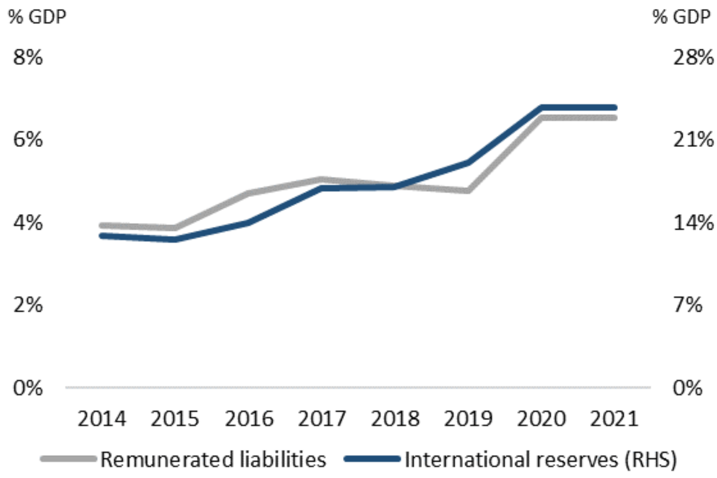
stood at USD20.8bn (+8.6%y-o-y) in July, helping to cement FX stability.

Outlook remains balanced. We raise our growth forecast by 0.7ppt to 4.2%y-o-y in 2022 due to the better-than-expected activity in 1H. Next year, we see output rising by 3% thanks to slowing external demand and a less accommodative monetary stance. Prices also surprised to the upside in 2022, so we increase our inflation and MPR forecasts to 9.7%y-o-y and 3.5%. For 2023, we foresee inflation at 4.9%y-o-y and the policy rate steady at 3.5%. Regarding fiscal accounts, we expect a 0.8% of GDP primary surplus and a 0.7% of GDP overall deficit for 2022. Still, risks are tilted to the upside inasmuch as revenues continue outperforming. Next year, we foresee a mild fiscal slippage featuring a primary surplus of 0.6% of GDP and a headline deficit of 0.8% of GDP, as the electoral season kicks off. On the external front, we cut our current account surplus forecast for 2022 to 0.3% of GDP, down 0.2ppt relative to our previous estimate. As global oil prices ease, we expect the external surplus to widen to 0.8% of GDP in 2023. On the back of this, we see a stable foreign exchange market, with the FX at GTQ7.7 and GTQ7.8 per dollar in 2022 and 2023, resulting in a further real appreciation of the domestic currency.

Policy issues

Taking inflation back to the central bank's range without denting economic activity emerges as the authorities' main challenge. From a medium-term perspective, Guatemala needs to cope with the steady appreciation of the real exchange rate. A strong inflow of remittances has been instrumental to a stronger currency even if this is uncorrelated with underlying productivity trends (Chart 11). This seems to be generating Dutch disease symptoms[1], and could provide an explanation for the authorities' reluctance to raise rates more aggressively. In parallel, authorities need to address its traditional infrastructure shortfalls and the striking social inequalities. Bottom-line, for a country at a relatively minor stage of development, Guatemala is saving too much or, alternatively, the efficiency of spending is too low. From the point of view of bondholders, traditional DSA metrics do not factor in the risks of pristine macroeconomic indicators that hide a potentially explosive social situation.

Chart 12. Remunerated liabilities and international reserves



Source: BancTrust & Co. based on Banguat.

Risks

Despite Guatemala's solid macroeconomic framework, some cracks are starting to show. A mild normalisation of monetary conditions could fall short of keeping inflation at bay, even if imported inflation tends to subside. Fear of appreciation could be behind the authorities' reluctance to engage in more frontloaded rate hikes to moor CPI expectations. So far, the central bank has been purchasing the excess supply of dollars in the FX market and mopping up GTQ liquidity with central bank paper (Chart 12). The stock of Banguat's remunerated liabilities currently stands at around 6.5% of GDP, up from 5% before the pandemic struck. Central bank debt cannot grow unboundedly so this approach only makes sense to cope with transitory appreciation pressures. However, our previous discussion suggests that there could be more structural factors behind lagging competitiveness (i.e. Dutch disease based on remittances) that could resurface depending on whether or not the remittances boom moderates ahead. Finally, weak institutions, elevated poverty and high exposure to natural hazards are traditional sources of risks that remain largely unaddressed.

[1] Edwards, S. (2022): "Evaluación del diseño e implementación de la política monetaria y cambiaria del banco de Guatemala: 2012–2022", Guatemala: Banco de Guatemala.

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Table 12. Guatemala's Main Macroeconomic Forecasts

Guatemala	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts 2022	2023
Real GDP (% y-o-y)	4.1	2.7	3.0	3.2	3.8	-1.5	8.0	4.2	3.0
Nominal GDP (GTQbn)	476.0	502.0	526.5	550.5	592.8	599.2	667.2	760.0	820.8
Nominal GDP (USDbn)	62.2	66.0	71.6	73.1	76.7	77.2	86.1	98.7	105.0
Private Consumption (% y-o-y)	5.1	4.1	3.2	3.5	4.3	-1.1	8.5	4.6	3.2
Gross Fixed Investment (% y-o-y)	-1.5	-1.7	4.0	4.6	7.2	-5.9	18.9	4.1	4.0
Domestic Demand (% y-o-y)	4.5	2.9	3.4	4.0	4.8	-1.9	11.4	3.5	3.0
Industrial Production (% y-o-y)	3.7	3.0	2.9	3.2	3.1	-0.2	7.5	4.0	2.9
Unemployment rate, average (%)	2.5	2.6	2.5	2.4	2.5	3.1	2.2	2.1	2.0
CPI, year-end (% y-o-y)	3.1	4.2	5.7	2.3	3.4	4.8	3.1	9.7	4.9
CPI, year average (%)	2.4	4.4	4.4	3.8	3.7	3.2	4.3	6.9	7.0
Total fiscal balance (%GDP)	-1.0	0.1	-0.2	-1.0	-1.8	-3.8	-0.4	-0.7	-0.8
Primary fiscal balance (%GDP)	0.4	1.4	1.1	0.4	-0.3	-2.2	1.1	0.8	0.6
Merchandise exports (USDbn)	9.1	9.0	9.7	9.6	9.9	10.1	12.4	16.0	17.1
Merchandise imports (USDbn)	15.5	15.0	16.4	17.6	17.9	16.4	23.3	32.9	33.6
Trade Balance (USDbn)	-6.4	-6.1	-6.8	-8.0	-8.0	-6.3	-10.9	-16.9	-16.4
Current account balance (USDbn)	-0.8	0.6	0.8	0.6	1.9	3.8	2.2	0.3	0.8
Current account balance (%GDP)	-1.2	0.9	1.2	0.9	2.3	5.0	2.5	0.3	0.8
Remittances (USDbn)	6.3	7.2	8.2	9.3	10.5	11.3	15.3	17.4	17.9
Foreign Direct Investment (USDbn)	1.2	0.8	1.0	0.9	1.2	1.0	3.5	1.4	1.5
Foreign Direct Investment (%GDP)	1.9	1.3	1.4	1.3	1.5	1.3	4.1	1.4	1.4
NFPS External debt, year-end (USDbn)	7.5	8.0	8.2	8.2	9.1	10.4	11.1	11.1	11.6
Monetary Policy Rate, year-end (%)	3.00	3.00	3.00	2.75	2.75	1.75	1.75	3.50	3.50
Foreign reserves, year-end (USDbn)	7.8	9.2	11.8	12.8	14.8	18.5	20.9	22.5	23.5
GTQ/USD, year-end	7.6	7.5	7.3	7.7	7.7	7.8	7.8	7.7	7.8

Source: BancTrust & Co. estimates based on Banguat and Ministry of Finance.

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HONDURAS

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- **Economic growth decelerates while inflation pressures mount**
- **Central bank seems reluctant to fight inflation**
- **Fiscal prudence could be abandoned in 2H**
- **Strong remittances cap downside of external accounts**

Recent developments and 2022-2023 outlook

Economic growth decelerates sharply at the end of 1H22. The monthly index of economic activity recorded a growth rate of 2.7%y-o-y last June, the slowest pace of the post-pandemic. Despite slowing down, output ended 1H22 with an accumulated increase of 5.1%y-o-y, a result that is in line with our 3.7% growth forecast for 2022, since we expect the soft patch to persist during 2H. Essentially, we continue to expect a moderation in remittances which, in tandem with falling real wages, should dent consumption growth in 2H. Also, weaker external demand would take a toll on Honduras' exports that are mostly targeted to the United States (33.1%) and Europe.

Inflation pressures widen, amid second-round effects. Consumer prices recorded an annual increase of 10.4%y-o-y in August (Chart 13). Despite a slight cooling from July, inflation remained at the highest levels since 2008. CPI components "food and non-alcoholic beverages" and "transport" led increases with jumps of 16.9%y-o-y and 12.8%y-o-y, respectively. More worryingly, core inflation stood at 8.9%y-o-y. In this regard, authorities from the Central Bank of Honduras (CBH) acknowledged, in the recent mid-year review of the monetary programme, the rising impact of second-round effects on price dynamics, particularly services. The recent inflationary shock is, therefore, expected to linger, in a context of monetary financing of the fiscal deficit and despite the more rigid anchoring of the exchange rate that is being observed in 2022.

Central Bank is reluctant to fight inflation. In the context of accelerating inflation and with the economy expanding at above-trend rates, monetary authorities have left the nominal reference interest rate at a record low of 3.0%. With conspicuous implications over central bank independence, the justification for such a stance has been offered, not by the CBH, but by members of the executive branch (most notably, Secretary of Economic Development Pedro Barquero), who basically argue that "other central banks in the region have lifted rates without success". For now, the CBH has sought to gradually withdraw excess liquidity from the financial system through open market operations. However, monetary aggregates reveal the timid anti-inflationary approach, with base money contracting 0.7%y-o-y in June (+21.8%y-o-y and +31.9%y-o-y in Jun-20 and Jun-21, respectively), while monetary liquidity or M2 surged 10.6%y-o-y in June (+17.4%y-o-y and +17.1%y-o-y in Jun-20 and Jun-21, respectively). Note that these aggregated figures hide the "historically high" (as described by the BCH) rates of expansion of domestic credit to the private sector (17.5%y-o-y in June).

Chart 13: Headline and core inflation

Source: BancTrust & Co. estimates based on Central Bank of Honduras.

Temporary fiscal restraint. Despite the authorities' populist bias, public accounts reflect a rather surprising containment of government's expenditures amid strong revenues growth. Figures through May showed a surplus of 2.6% of GDP in the overall balance of the non-financial public sector (NFPS), a significant increase from the surpluses of 1.0% and 0.8% of GDP recorded in the same periods of 2021 and 2019, respectively. The relatively large fiscal surplus seen so far in 2022 is essentially explained by a sudden stop in capital spending, which contracted by 62.4% y-o-y between January and May. This could have been driven by execution difficulties related to

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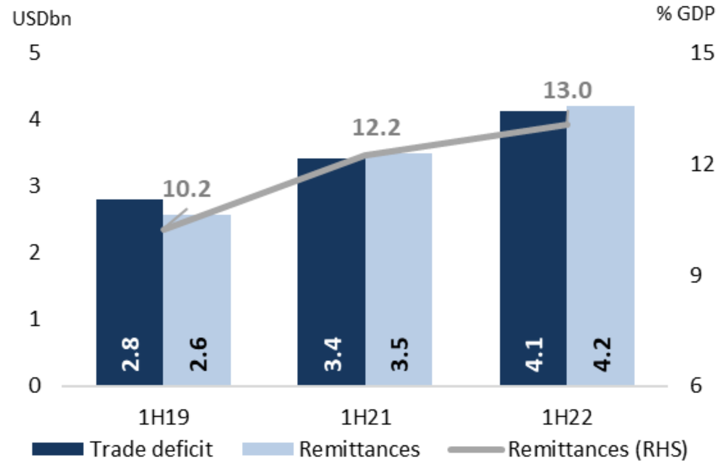
the change in government. This being said, current expenditures expanded 9.0% y-o-y in the same period, which, in fact, constitutes a decline when measured in real terms. The combination of both results translated into an increase of only 0.3% in nominal primary spending. This thriftiness has motivated the criticism of President Xiomara Castro's supporters. Hence, we continue to expect a marked increase in government spending in 2H, not only due to seasonality factors, but also as the government steps up central bank borrowing to resume infrastructure projects. Also, we see tax and non-tax revenues cooling as activity loses momentum following robust growth of 20.6% and 26%y-o-y, respectively, in January-May. In light of these positive fiscal surprise in the first months of the year, we adjusted downwards our 2022 NFPS deficit forecast, from 6.0% to 5.0% of GDP, a level that would be broadly in line with the 4.9% of GDP limit determined by exception clause of the Fiscal Responsibility Law (FRL) for the year.

Chart 14: Trade balance and remittances



Source: BancTrust & Co. estimates based on Central Bank of Honduras.

Remittances offer a buffer to lack of external funding. The trade balance recorded a deficit of USD4.1bn in 1H22, a figure that is equivalent to 12.8% of our estimated annual GDP. The trade deficit featured a notorious widening of 20.9%y-o-y, as the value of imports jumped 24.7% to USD1.5bn due to the surge of international commodities prices. Exports, on the other hand, expanded at an even faster rate (29.7%y-o-y), but only amounted to USD0.8bn. The growing deficit has been offset by robust growth in remittances, which reached USD4.2bn (+20.5%y-o-y) in the same period, more than enough to finance the structural imbalance in the goods account. As a result of these trends, we now expect a smaller current account deficit in 2022 (3.9% of GDP vs 5.3% of GDP before), a welcome development considering the reduction of international reserves expected for 2H22 (USD1.0bn to finance public expenditures).

External assets at high levels… for now. Net international reserves stood at USD8.3bn in mid-August, a figure that is equivalent to an estimated 6.0 months of imports of goods and services or 25.9% of GDP. The two ratios continue to be at healthy levels, but they evidence a decline when compared to December 2021 (6.6 months and 30.5% of GDP). After authorities tap reserves for USD1.0bn, these indicators would be decreasing to 5.2 months of imports and 22.8% of GDP. It would be particularly important to see how the central bank reacts in the money market to this expected financing to the government, as this would require partial or complete sterilisation to avoid further monetary expansion.

Policy issues

Policymakers should concentrate on avoiding that the recent inflationary shock translates into higher and more persistent inflation in the medium term. This requires a commitment to limit monetary financing of the fiscal deficit, a more flexible and independent framework for monetary policy, and an improved management of fiscal resources. Nevertheless, we see government actions going in the opposite direction. In this vein, we look to fiscal slippage in 2H as authorities abandon the conservative spending stance of 1H. In turn, dovish monetary policy combined with fiscal dominance eroding the level of international reserves could ignite capital flight. Against this backdrop, the emergence of FX pressures could compromise not only the inflation outlook but also financial stability. It is worth highlighting that the still sizeable war chest of reserves should prevent a credit event or balance of payments episode in the next two or three years. On the other hand, we assign a low probability to an IMF-sponsored programme throughout the remainder of her term that expires on 27 January 2026.

Risks

The country faces important external risks related to the ongoing slowdown of the global economy, especially United States, and its potential effects on remittances growth and the external demand of Honduran goods. In particular, the growing

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relevance of family transfers from abroad, after representing 25.3% of GDP in 2021 (up from an average of 19.0% of GDP between 2015 and 2019) severely increases the vulnerability of the economy to this risk factor. Domestically, we think that the balance of risks is skewed to an even more expansive fiscal policy relative to our forecasts. In this vein, the government might boost social benefits to protect lower income segments against softer growth and rising inflation. Despite the positive fiscal surprise in 1H, we cannot rule out that the Castro administration misses the fiscal ceilings for 2022-23.

Table 13. Honduras' Main Macroeconomic Forecasts

Honduras	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts	
								2022	2023
Real GDP (% y-o-y)	3.8	3.9	4.8	3.8	2.7	-9.0	12.5	3.7	3.1
Nominal GDP (HNLbn)	460.4	495.9	543.4	575.3	614.9	585.7	684.2	775.8	876.2
Nominal GDP (USDbn)	21.0	21.7	23.2	24.1	25.1	23.8	28.5	32.2	37.5
Private Consumption (% y-o-y)	3.9	4.0	5.2	5.5	4.7	-6.2	9.8	5.6	3.9
Gross Fixed Investment (% y-o-y)	12.3	-7.4	11.2	7.3	-5.2	-23.8	44.0	6.7	4.4
Domestic Demand (% y-o-y)	7.2	2.1	6.2	5.5	-0.2	-8.8	15.2	6.2	4.1
Industrial Production (% y-o-y)	3.9	3.0	3.9	3.9	2.0	-14.0	19.4	6.3	3.6
Unemployment rate, average (%)	7.3	7.4	6.7	5.7	5.7	10.9	7.1	6.7	6.0
CPI, year-end (% y-o-y)	2.4	3.3	4.7	4.2	4.1	4.0	5.3	10.2	8.9
CPI, year average (%)	3.2	2.7	3.9	4.3	4.4	3.5	4.5	9.3	9.5
Total fiscal balance (%GDP)	-0.9	-0.5	-0.8	-0.9	-0.9	-5.5	-3.7	-5.0	-5.9
Primary fiscal balance (%GDP)	0.1	2.2	1.4	1.4	1.4	-2.7	-1.1	-2.5	-3.5
Merchandise exports (USDbn)	8.2	8.0	8.7	8.6	8.8	7.7	10.2	11.6	12.4
Merchandise imports (USDbn)	11.2	10.6	11.4	12.5	12.1	10.2	15.0	17.6	19.5
Trade Balance (USDbn)	-2.9	-2.6	-2.8	-3.8	-3.4	-2.6	-4.8	-6.0	-7.1
Current account balance (USDbn)	-1.0	-0.7	-0.3	-1.6	-0.7	0.7	-1.4	-1.3	-2.0
Current account balance (%GDP)	-4.7	-3.1	-1.2	-6.6	-2.7	2.8	-4.9	-3.9	-5.4
Remittances (USDbn)	3.6	3.8	4.3	4.8	5.4	5.6	7.2	8.3	8.9
Foreign Direct Investment (USDbn)	1.2	1.1	1.2	1.0	0.5	0.4	0.7	1.0	1.1
Foreign Direct Investment (%GDP)	5.7	5.3	5.1	4.0	2.0	1.8	2.5	3.2	2.9
NFPS External debt, year-end (USDbn)	5.8	6.0	7.0	7.3	7.6	8.5	8.6	8.5	8.5
Monetary Policy Rate, year-end (%)	6.25	5.50	5.50	5.50	5.50	3.00	3.00	3.00	3.00
Foreign reserves, year-end (USDbn)	3.8	3.9	4.8	4.9	5.8	8.1	8.7	7.0	6.5
HNL/USD, year-end	22.4	23.6	23.7	24.5	24.8	24.3	24.3	24.7	25.1

Source: BancTrust & Co. estimates based on Central Bank of Honduras, Finance Secretary, and IMF.

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PANAMA

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- **Mounting social tensions could take a toll on long-run growth**
- **We look to further fiscal slippage…**
- **…And more fragile external accounts**
- **Growing macro imbalances might increase reliance on multilateral lending**

Recent developments and 2022-2023 outlook

A messy social crisis with several roots. An acute social crisis broke out in Panama in late June. Protests undertaken by agricultural workers due to high fuel prices gradually translated into broad-based demonstrations that spread across the country. Besides soaring fuel prices -that surged 61.7% in June- social discontent was compounded by a generalised dissatisfaction on living conditions and the low perceived effectiveness of public spending.

To appease protests the government set up a national dialogue table, bringing together representatives of the main social organisations and the Catholic Church. Highlighting the myriad of social demands, talks revolved around eight different topics, including: the cost of the basic consumption basket, fuels and medicines, the education budget, social security and corruption issues, together with a mechanism to monitor any subsequent agreements. As a result, the administration of Laurentino Cortizo implemented a reduction of up to 40% in fuel prices, price caps to 72 products of the basic consumption basket, suspension of tariffs on imports of basic consumption goods, and a 30% reduction in the retail price of medicines.

In addition to the immediate adverse impact of the protests on activity –especially road blockades, which hindered retail and wholesale trade, agriculture, and tourism–, the crisis could have a lingering growth fallout. Private companies have been so far excluded from the negotiations, which have generated distortions in the market price system that could dent private investment. In this regard, the National Competitiveness Centre (CNC) assessed that the measures would hurt competitiveness and called for a comprehensive review. This NGO emphasised that discussions have not factored in technical aspects, while neglecting important stakeholders.

An upside growth surprise in 1H22 prevents us from lowering our real GDP forecasts, but the balance of risks is now tilted to the downside. The official index of economic activity recorded an unexpected 14.2%y-o-y expansion in January-May, with May's print accelerating to 26.3%y-o-y from 6.2%y-o-y in April. In spite of this, we decided to maintain our 6.2% growth projection for 2022 while we wait for new economic data in the wake of the social crisis. In any case, we think that recent events will deepen an already heterogenous growth track record. Also, the erosion of competitiveness could intensify the dependence on large infrastructure projects to preclude a loss in potential output.

We look to further fiscal slippage… As a result of the more interventionist stance of the Panamanian government, our baseline scenario now depicts a fiscal deficit of 5.0% of GDP in 2022, which would imply breaching the 4.0% ceiling established in the Fiscal and Social Responsibility Law (FSRL) for this year. Only the fuel subsidies are projected to have a fiscal cost of 0.6% of GDP, which would be only partially mitigated by the austerity plan measures announced by President Laurentino Cortizo in mid-July. The crisis will only exacerbate an already major policy challenge. The latest fiscal figures for 2Q and 1H 2022 portrayed a 2.8% of GDP deficit for the Non-financial Public Sector (NFPS) in 1H, increasing risks of exceeding the annual limit determined by the FSRL. It is important to notice that capital expenditures in 2Q were cut by 48.9%y-o-y, after expanding 65.2%y-o-y in 1Q. As a share of GDP, in 2Q capital outlays even dropped below the level attained during the most critical quarter of the pandemic (Chart 15). To us, this depressed size of capital spending is consistent with our view that authorities are opportunistically manipulating these expenses not to miss the fiscal targets (see Panama Economics and Strategy: Back to the old tricks, 20 May). However, the effectiveness of this ploy in 2H could be compromised given that in 4Q 2021 capital expenditures had been shaved by almost 50% y-o-y.

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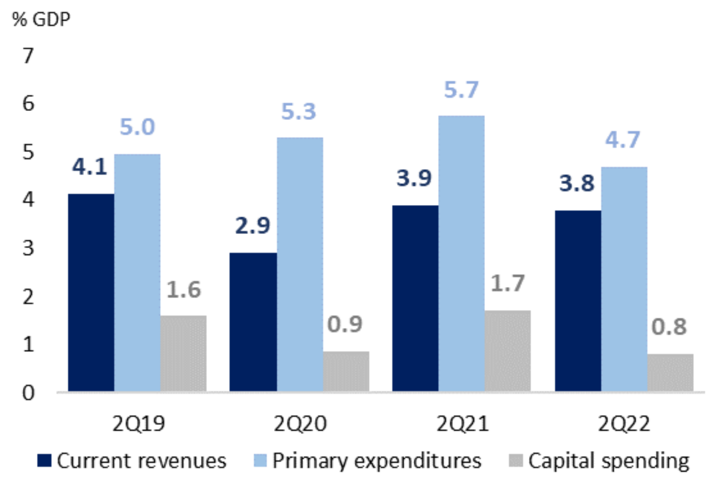
Chart 15: NFPS revenues and expenditures

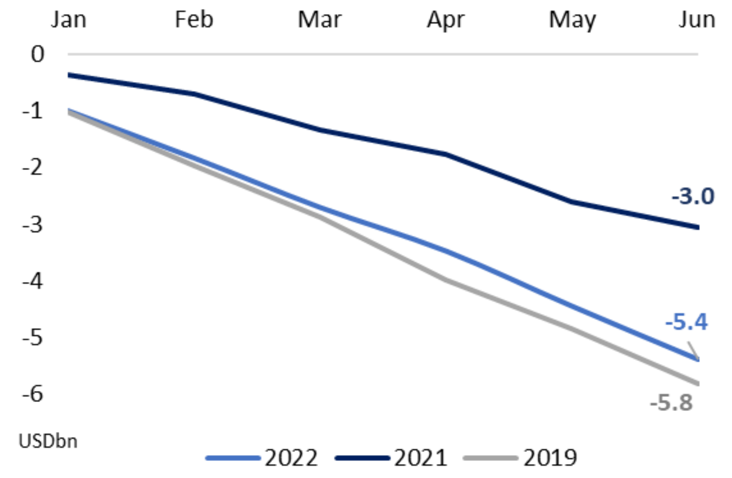


Source: BancTrust & Co. estimates based on Economics and Finance Ministry.

Another worrisome fiscal trend relates to the cooling of revenues. 2Q revenues went down by 3.6%y-o-y on the back of lower proceeds from the Social Security Fund (-1.3%y-o-y) and non-consolidated enterprises (-67.3%y-o-y). Notwithstanding these singular factors, revenues posted an across-the-board slowdown, from 19.5%y-o-y growth in 1Q to 6.5% in 2Q. The soft patch of revenues intensified in July with an expansion of just 1.0%y-o-y. Thus, cumulative revenues up to July have underperformed by 5% the projection laid out in the budget, with this shortfall likely amplifying going forward.

…And a higher current account deficit. The trade deficit swelled 82.9%y-o-y to USD5.4bn in 1H, roughly replicating the level recorded in 1H19, before the boom of copper exports (Chart 16). Unsupportive terms of trade due to the surge of international oil versus copper prices largely accounted for this result. In addition, the volume of cargo crossing the Panama Canal was up by a mere 0.6%y-o-y in 1H22. In contrast, tourist arrivals posted a handsome 301.1%y-o-y rebound in 1H22, even if they remain 26.7% down pre-pandemic levels. We have revised up our current account deficit forecast for 2022 to 6.4% of GDP, from 4.3% previously. In 2023 we see the current account deficit at 6.0% of GDP given a less upbeat fiscal outlook. On the back of the more fragile domestic narrative and tighter global liquidity, **we think that authorities could rely increasingly on multilateral lenders**, to the point of even tapping the Precautionary Liquidity line set up with the IMF.

Chart 16: Trade balance



Source: BancTrust & Co. estimates based on National Institute of Statistics.

Policy issues

One of the main underlying causes of the current episode of broad social unrest is the unbalanced nature of economic recovery after the pandemic, which left sizeable scars on the country's labour market. A socially inclusive growth strategy is necessary to render growth sustainable, considering the high levels of income inequality that persist in Panama.

Achieving this more balanced growth path should not be at odds with fiscal consolidation and the FSRL. In this regard, we are already projecting that the government will be unable to meet the deficit ceilings of 4% and 2% of GDP established for 2022 and 2023, respectively. Expenditure rigidities and growing subsidies in the context of weaker revenue growth will be a hurdle hard to overcome for an administration with low approval ratings such as the one of Laurentino Cortizo.

Risks

Continued social tensions constitute an important short-term risk to the outlook. Eroding competitiveness could have a lingering impact on FDI, potential growth and fiscal accounts. The government seems too weak to satisfy conflicting demands, and there is still a long way to the 5 May 2024 general election. We now see a higher probability of further credit downgrades, especially by S&P and Moody's, which have Panama two notches above investment grade (S&P already holds a negative outlook on the rating).

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Table 14. Panama's Main Macroeconomic Forecasts

Panama	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts 2022	2023
Real GDP (% y-o-y)	5.7	5.0	5.6	3.7	3.0	-17.9	15.3	6.2	4.9
Nominal GDP (USDbn)	54.1	57.9	62.2	64.9	67.0	54.0	63.6	69.9	74.9
Private Consumption (% y-o-y)	2.8	7.1	2.7	3.2	3.4	-17.0	11.2	6.2	4.9
Gross Fixed Investment (% y-o-y)	6.5	2.1	7.6	0.7	-2.6	-47.8	69.5	12.7	7.2
Domestic Demand (% y-o-y)	4.8	3.7	5.5	3.3	-0.1	-26.1	24.0	8.5	5.7
Industrial Production (% y-o-y)	3.4	1.1	2.6	1.0	-1.1	-22.0	11.1	6.9	3.5
Unemployment rate, average (%)	5.3	5.8	6.4	6.2	7.4	n/a	11.3	8.7	8.0
CPI, year-end (% y-o-y)	0.3	1.5	0.5	0.2	-0.1	-1.6	2.6	3.6	2.4
CPI, year average (%)	0.1	0.7	0.9	0.8	-0.4	-1.6	1.6	3.5	2.1
Total fiscal balance (%GDP)	-2.3	-2.2	-2.2	-2.9	-3.2	-10.2	-6.7	-5.0	-4.0
Primary fiscal balance (%GDP)	-0.5	-0.4	-0.4	-1.0	-1.2	-7.6	-4.2	-2.6	-1.8
Merchandise exports (USDbn)	12.8	11.7	12.5	13.4	13.2	10.2	14.9	15.9	16.8
Merchandise imports (USDbn)	22.6	20.7	22.3	24.0	22.3	14.3	20.4	25.0	26.4
Trade Balance (USDbn)	-9.8	-9.0	-9.8	-10.6	-9.0	-4.1	-5.5	-9.1	-9.6
Current account balance (USDbn)	-4.8	-4.5	-3.7	-5.0	-3.3	1.2	-1.4	-4.5	-4.5
Current account balance (%GDP)	-9.0	-7.8	-5.9	-7.6	-5.0	2.2	-2.2	-6.4	-6.0
Remittances (USDbn)	0.5	0.4	0.4	0.5	0.5	0.4	0.5	0.6	0.6
Foreign Direct Investment (USDbn)	4.6	4.7	4.2	5.1	4.1	0.6	1.8	2.4	2.9
Foreign Direct Investment (%GDP)	8.4	8.2	6.7	7.8	6.1	1.1	2.9	3.5	3.9
NFPS External debt, year-end (USDbn)	15.6	16.9	18.4	20.6	24.2	29.8	32.8	35.0	37.1
Deposit rate, year-end (%)	2.9	3.0	3.0	3.0	3.1	2.7	2.65	2.94	2.98
Foreign reserves, year-end (USDbn)	3.9	4.4	3.5	2.6	4.4	9.3	7.6	7.1	7.0
Local currency/USD, year-end	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Source: BancTrust & Co. estimates based on IMF, Ministry of Finance and INEC.

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PARAGUAY

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- **Activity is set to bounce back as drought impact phases out.**
- **Investment boom caps current account upside.**
- **Fiscal challenges remain despite supportive recent developments.**
- **The US shakes up domestic politics ahead of the 2023 election**

Recent developments and 2022-2023 outlook

Activity is set to bounce back as drought impact phases out. As we anticipated in Macro and Strategy Update: Soft landing despite mounting headwinds, 10 May, the negative fallout of the drought on agriculture and power generation dragged economic activity. Output fell 3% y-o-y in 1H as the 2021 drought cut the soybean harvest by 57% and reduced power generation in 1Q22 by 29%y-o-y (see Table 15). Lower agricultural volumes began spilling over into the rest of the economy in 2Q, weakening consumption and investment. Despite this, we continue to expect better activity readings in 2H supported by more benign weather conditions. Additionally, gross fixed investment would pick up along with the construction of the pulp factory Paracel and the biodiesel plant Omega Green. With this in mind, we upgraded our gross fixed investment estimate for 2022 to 2.8%. This is because we look to the aforementioned projects bolstering imports of machinery and construction materials, thus offsetting lower investment from the agricultural sector. As a result, we uphold our 0% growth forecast for 2022, but tweak our 2023 forecast to 4.4% from 4% on the back of an improved investment outlook.

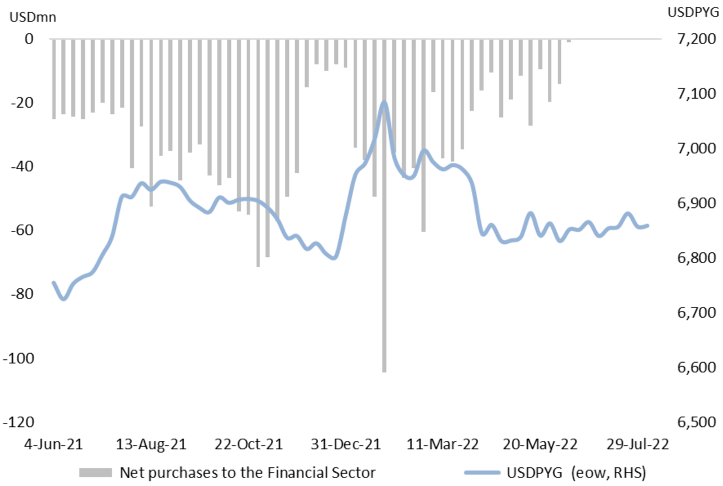
Table 15. Early activity indicators

%y-o-y	Economic Activity Index (IMAEP)	Soybean exports (ton)	Power generation (MW)	IMAEP excl. Agriculture and Binationals	Sales in supermarkets	Sales of construction materials	Capital goods imports (vol.)
2019	0.2%	-18.7%	-16.8%	2.1%	2.8%	1.0%	-16.1%
2020	-0.3%	35.0%	-6.3%	-1.1%	0.4%	12.6%	-7.2%
2021	4.5%	-4.4%	-12.3%	8.1%	-2.1%	13.0%	37.3%
1Q21	0.8%	-15.6%	-6.3%	2.8%	-1.8%	14.4%	15.2%
2Q21	13.5%	2.1%	-11.9%	17.9%	3.1%	34.6%	69.6%
3Q21	3.2%	3.3%	-26.5%	7.3%	-3.6%	5.8%	37.5%
4Q21	1.7%	-13.5%	-5.4%	5.7%	-6.1%	2.1%	38.5%
2022							
1Q22	-1.7%	-42.0%	-29.2%	5.3%	-5.9%	10.1%	7.2%
Jan	2.9%	67.6%	-31.7%	10.0%	-4.2%	18.2%	12.8%
Feb	-4.4%	482.2%	-43.0%	3.9%	0.8%	9.8%	0.8%
Mar	-3.3%	-69.4%	-10.1%	2.6%	-12.6%	4.5%	8.5%
2Q22	-4.3%	-57.4%	11.7%	-1.9%	-12.7%	-6.8%	-6.1%
Apr	-5.8%	-48.2%	8.1%	-2.7%	-11.9%	-7.0%	-9.1%
May	-3.9%	-59.9%	3.7%	-1.2%	-10.6%	-3.6%	-7.4%
Jun	-3.1%	-64.2%	25.9%	-1.9%	-15.4%	-9.6%	-1.4%
3Q22							
Jul		-75.7%	36.9%				-7.3%

Source: BancTrust & Co. based on Paraguay Central Bank, Ministry of Finance and Ministry of Energy.

Investment boom caps current account upside. As a result of the poor harvest, exports of soybeans and its by-products plummeted 11% and 34%y-o-y in 1Q and 2Q, overriding higher external sales of meats and non-traditional products. On the other hand, imports soared 26%y-o-y in 1H22, boosted by demand from non-agricultural sectors in 1Q and higher commodity prices. The trade balance posted a USD0.25bn deficit compared to a USD1.3bn surplus in 1H21. This reversion was broadly in line with our expectations and explains the modest 0.4ppt revision of our 2022 current account deficit forecast (4.4%). Even though we had previously anticipated a positive current account balance for 2023 (0.5%), we now see a 1.4% of GDP deficit. This is because while soy and energy exports should bounce back, the ongoing investment projects will put pressure on imports, thus limiting the reduction of the external gap. Importantly, the latter should not weigh on international reserves as incremental investment should be funded by additional FDI inflows.

Chart 17. Central bank interventions in the FX market



Source: BancTrust & Co. based on Paraguay Central Bank.

Lower USD inflows in 1H triggered a bout of FX pressures, which the central bank (BCP) eased by intervening heavily in the spot market until the FX stabilised in 2Q (see Chart 17). In the same line, the BCP's aggressive unwinding of the monetary stimulus, by increasing the policy rate from 0.75% in June 2021

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to 8.25% in August 2022, contributed to anchoring PYG demand and long-term inflation expectations. We expect that this policy reaction will be enough to re-anchor inflation expectations around the mid-target of the 4%+/-2ppts inflation band and curb direct and indirect effects provoked by the spike in commodities prices by 1Q23. The latter, together with the downward trend in food and fuel prices, would allow monthly inflation to return to levels consistent with the target in 2Q23. Subsequently, we expect that the BCP will start shaving the policy rate in 2Q23 and pencil in 225bps in cuts, to 6.0% by year-end (unchanged from our previous set of forecasts).

Fiscal challenges remain despite supportive recent developments. Accelerating tax collection and spending containment in 2Q reverted the fiscal deterioration observed at the outset of the year. Despite widening 0.4ppt of GDP in 1Q, the cumulative fiscal deficit stood at 0.9% of GDP by July 2022, unchanged from 2021. Tax collection as percentage of GDP increased 0.5ppts relative to the previous year, offsetting the drop in other revenues. We expect this trend to continue in the remainder of 2022, which together with improving royalties from power generation, will buttress revenues. On the other hand, threats of spending initiatives sponsored by the Congress (including wage increases) have dissipated. With this in mind, we expect the government to meet its 3% of GDP deficit target in 2022, which would translate into a 4% deficit for the non-financial public sector. For 2023 we expect the government to reach the transition fiscal deficit target of 2.3% of GDP, as recent wage increases for 2023 will be balanced by nominal growth. Nevertheless, returning to the 1.5% of GDP deficit ceiling by 2024 as planned, will require authorities to continue efforts at containing expenditures.

The US shakes up domestic politics ahead of the 2023 election. The US placed two top leaders of the ruling Colorado party (ANR) in its blacklist list that now includes former President Horacio Cartes and current Vice-President Hugo Velázquez. These prominent politicians have been linked with terrorism and corruption cases, amongst other alleged offenses. The news broke out just weeks ahead of the registration deadline for the tickets competing in the 18 December primaries. This could weaken the presidential bid of ANR's main presidential hopefuls, namely Santiago Peña and Arnoldo Wiens. On the other side, the opposition unified its forces around the Liberal party (PLRA) to pick a unity candidate representing the "Concertación" coalition. PLRA leader and former presidential candidate Efraín Alegre has the highest chance of winning the Concertación's nomination, having been only 3ppt shy of securing the presidency in 2018. Based on the eroding support for the ANR, there is a real possibility that the Concertación candidate wins the April 2023 election, in our view. We believe that a potential Concertación victory should have a positive, albeit mild impact on bond prices, due to the coalition's commitment to uphold the fiscal rule. However, we do not rule out that the new administration attempts to levy additional taxes to ramp up public investment (see Paraguay Economics: Trip notes: Winds of change, 18 March 2022). While Paraguay's lagging infrastructure could benefit from this, it is also true that the effectiveness of public spending is constrained by poor governance. Against this backdrop, attempts to increase public investment could be resisted (at least initially) by private creditors.

Policy issues

Despite commitment to fiscal responsibility, political weakness has prevented authorities from cementing expectations on the fiscal outlook. Congressional delays in approving procurement enhancement practices and some lawmakers' initiatives to expand pension benefits have increased uncertainty on fiscal convergence.

Risks

Weak governance threatens the fiscal outlook and casts doubt on the government's ability to meet the 1.5% of GPD deficit ceiling by 2024. Additionally, the higher frequency of adverse climatic events has made evident the country's vulnerability to these episodes, build resilience against climate change and diversify the production matrix. Moving in this direction would require further improvement of the country's infrastructure, adding pressure to increase public investment and threatening the 2024 fiscal target. Overhauling governance and institutions will probably be a mandatory first step before policymakers can think about relaxing fiscal discipline to cater for higher public investment. In this regard, a partial solution could be awarding a larger role to private investors through concessions or PPPs, although some pundits argue that profitability could be too low for efficient private sector involvement.

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Table 16. Paraguay's Main Macroeconomic Forecasts

Paraguay	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts 2022	Banctrust & Co. Forecasts 2023
Real GDP (% y-o-y)	3.0	4.3	4.8	3.2	-0.4	-0.8	4.1	0.0	4.4
Nominal GDP (PYGtn)	188.5	204.6	219.1	230.6	236.7	239.9	267.5	294.2	322.8
Nominal GDP (USDbn)	36.3	36.1	39.0	40.2	37.9	35.4	40.2	42.5	46.3
Private Consumption (% y-o-y)	2.0	3.7	4.8	4.4	1.8	-3.6	5.7	2.3	3.8
Gross Fixed Investment (% y-o-y)	-2.1	2.0	5.9	6.9	-6.1	5.3	18.6	2.8	12.0
Domestic Demand (% y-o-y)	0.8	1.4	5.8	6.4	0.2	-2.8	10.0	2.4	4.0
Industrial Production (% y-o-y)	5.2	4.6	6.2	2.4	-1.1	-1.3	6.7	-0.5	3.3
Unemployment rate, average (%)	5.4	6.0	6.1	6.2	6.6	7.7	7.7	7.2	6.5
CPI, year-end (% y-o-y)	3.1	3.9	4.5	3.2	2.8	2.2	6.8	9.0	4.0
CPI, year average (%)	3.1	4.1	3.6	4.0	2.8	1.8	4.8	10.0	5.1
Total fiscal balance (%GDP)	-1.8	-0.4	-0.9	-1.6	-3.8	-7.2	-6.2	-4.0	-3.3
Primary fiscal balance (%GDP)	-1.0	0.5	0.1	-0.5	-2.5	-5.8	-4.5	-2.5	-1.7
Merchandise exports (USDbn)	10.9	11.7	13.0	13.2	12.1	11.0	13.2	12.2	14.9
Merchandise imports (USDbn)	10.2	9.6	11.3	12.6	11.9	9.7	12.6	13.4	14.8
Trade Balance (USDbn)	0.7	2.1	1.7	0.6	0.2	1.2	0.6	-1.2	0.1
Current account balance (USDbn)	-0.1	1.3	1.1	-0.1	-0.2	0.7	-0.1	-1.9	-0.7
Current account balance (%GDP)	-0.4	3.6	2.9	-0.2	-0.6	2.1	-0.2	-4.4	-1.4
Remittances (USDbn)	0.5	0.5	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Foreign Direct Investment (USDbn)	0.4	0.5	0.3	0.2	0.2	0.1	0.1	0.4	1.6
Foreign Direct Investment (%GDP)	1.0	1.4	0.9	0.4	0.6	0.3	0.3	0.9	3.5
Public external debt, year-end (USDbn)	4.0	4.8	5.6	6.4	7.2	10.5	11.8	13.1	14.4
Monetary Policy Rate year-end (%)	6.75	5.75	5.50	5.25	4.00	0.75	5.25	8.25	6.00
Foreign reserves, year-end (USDbn)	6.2	7.1	8.1	8.0	7.7	9.5	9.9	9.3	10.9
PYG/USD, year-end	5,782	5,738	5,588	5,964	6,465	6,912	6,877	7,010	6,922

Source: BancTrust & Co. estimates based on BCP, Ministry of Finance and IMF.

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PERU

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- **Political crisis intensifies, but departure from sound macro framework is unlikely**
- **Growth and inflation decelerate moderately amid political uncertainty**
- **Rate-hike cycle close to an end**
- **External accounts worsen in the context of adverse terms of trade dynamics**

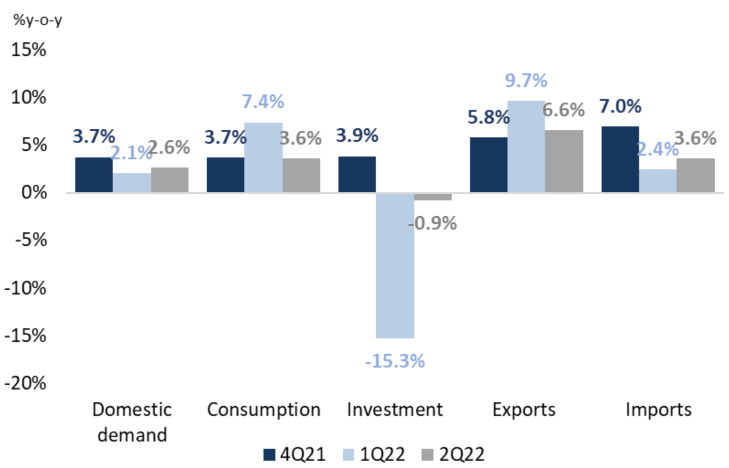
Recent developments and 2022-2023 outlook

Castillo under mounting political and institutional pressure. The ongoing Peruvian political and institutional crisis intensified during recent months, as new judicial and legislative probes targeting President Pedro Castillo kicked off. Mr. Castillo is facing a myriad of accusations, from influence meddling and obstruction of justice to treason, and even being part of a criminal organisation. Close relatives of Castillo are also undergoing judicial investigations (sister-in-law, nephew) as well as former members of his inner political circle (Secretary of the Presidency, Home Minister). Political noise has deepened. Prime Minister Aníbal Torres tendered his resignation, which was not accepted by the President. In turn, Castillo faces political isolation after quitting the so far ruling coalition Free Peru. The party's leadership had held him responsible for growing fragmentation and internal divisions, and for drifting away from the campaign platform. In this fragile political environment, and with approval ratings near record lows, it is hard to foresee Castillo remaining in his post much longer. The most likely outcome, in our view, is that Castillo steps down, an event that could occur through one of different mechanisms: vacancy motion, being found legally unfit for office or even outright treason.

Growth and inflation slow down moderately amid political uncertainty. Amid this complicated and extremely uncertain political environment, growth cooled to 3.3%y-o-y in 2Q22, from 3.8%y-o-y in 1Q22. Despite decelerating from the robust 6.9%y-o-y print in 1Q, private consumption posted a strong 4.9%y-o-y surge. Similarly, exports advanced at a healthy rate of 6.6%y-o-y in 2Q22, but below the 9.7%y-o-y reading of the previous quarter (see Chart 18). The positive performance of these two aggregate demand components contrasted markedly with the weak performance of gross fixed investment (-0.9%y-o-y in 2Q), even though it pared the decline relative to 1Q (-15.3%y-o-y).

We consider that rapid consumption growth would be hard to sustain in 2H due to inflation squeezing households' disposable income and due to the absence of one-off factors like the withdrawal of pension savings that occurred in 2Q. Also, we project exports to continue losing steam in 2H in tandem with weaker global growth. At the same time, subpar private investment (+1%y-o-y in 2Q, from +0.8%y-o-y in 1Q) is expected to persist, but public capital spending could gain some traction as execution of public infrastructure projects speeds up. In this regard, public investment posted a tepid 1.8%y-o-y rebound in 2Q22, timidly reverting the severe 13.8%y-o-y downturn registered 1Q. As a result, we cut our 2022-2023 growth estimates slightly, to 3.2% and 3.0%, from 3.6% and 3.1%, respectively, with the balance of risks yet again biased to the downside.

Chart 18: Real GDP growth by type of expenditure



Source: BancTrust & Co. estimates based on Central Reserve Bank of Peru.

From the supply-side breakdown, the performance continued to be heterogeneous, with primary sectors showing annual contractions for the third quarter in a row, although at a milder pace (-0.3%y-o-y in 2Q22 vs -0.7%y-o-y in 1Q22 and -2.2%y-o-y in 4Q21). The key "mining and hydrocarbons" sector posted a 1.3%y-o-y loss in 2Q22, affected by the persistent confrontations with communities around the main mining facilities. Mining and hydrocarbons output is down 9.9%y-o-y

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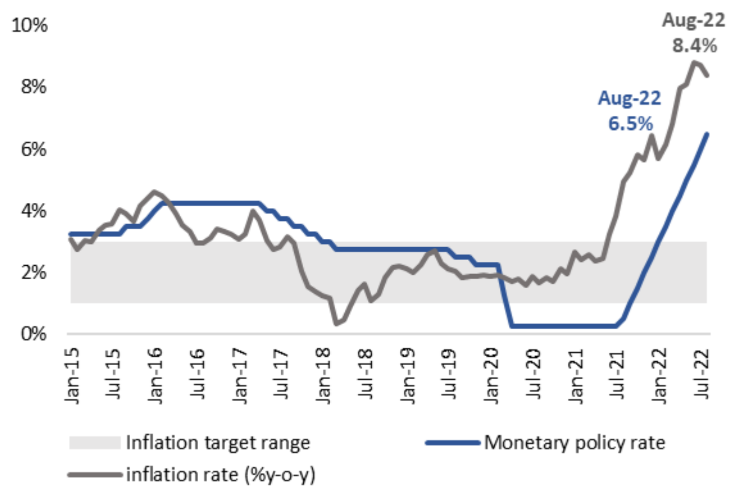
relative to 2019 levels, being the weakest performance across all activities. Growth of non-primary sectors edged down from 5.0%y-o-y in 1Q22 to 4.4%y-o-y in 2Q22, dragged by commerce that expanded in 2Q at less than half its pace of 1Q (2.6%y-o-y vs. 5.9%), a rather puzzling result given the strong private consumption data.

Inflation came in at 0.7%m-o-m in August, barely down relative to July's 0.9%m-o-m print. Monthly core inflation also decreased in August (from 0.7% to 0.3%), but the annual comparison remained stable at 5.4%. We project consumer prices to show a sustained deceleration in upcoming months, as food and fuel prices ease from the peaks reached in 1H. This being said, higher-than-expected inflation in the last few months since we published our previous forecast round-up prompted us to revise our end-2022 projection upwards, to 8.6% from 7.5%. However, strong disinflation thereafter would allow 2023 CPI to end at the higher bound of the official target range of 2% +/- 1 percent.

Rate-hike cycle close to an end. Monetary authorities continued adjusting the reference rate in 50bps steps, reaching 6.50% in August (Chart 19). We pencil in a final 50bps increase in September, which would place the real policy rate close to the neutral range of 1.75% - 2.0%, using expected inflation. This outlook hinges on two critical assumptions: (i) that both overall and core monthly inflation show a more significant deceleration from August onwards as international commodity prices keep heading south, and (ii) that 12-month ahead inflation expectations remain on a downward path.

Chart 19: Inflation and monetary policy rate (MPR)



Source: BancTrust & Co. estimates based on Central Reserve Bank of Peru.

Fiscal figures surprised to the upside between April and June, as the 12-month deficit of the Non-financial Public Sector (NFPS) narrowed to 1.0% of GDP by the end of 1H22, significantly lower than the 2.5% of GDP observed in December 2021. The improvement in fiscal accounts was driven by a faster-than-expected increase in revenues in 1H (+26.6%y-o-y), supported by the rise in commodity prices and taxable earnings from mining companies. Also, non-interest expenditures grew by only 4.5%y-o-y in 1H, with capital outlays from the national government dropping by 5.3%y-o-y. Conversely, the 12-month deficit of the NFPS deteriorated to 1.2% of GDP in July, and we expect this trend to continue during the rest of the year, on the back of higher spending and slower revenues. In fact, gross capital formation already showed a notorious jump of 28.9% y-o-y in July, while revenues growth moderated to 6.7%y-o-y. As a result of these contrasting trends, we forecast the NFPS deficit to end the year at 2.2% of GDP, which is lower than our previous estimate (2.6% of GDP) due to fiscal overperformance in 1H. Risks, however, are tilted to a higher deficit, as the new Economics and Finance Minister Kurt Burneo has signalled a stronger expansionary stance, publicly highlighting his worries about economic activity.

Deteriorating terms of trade put pressure on external accounts. During 2Q, the price of imported goods grew by 18.9%y-o-y, speeding up relative to 1Q (+17.6%y-o-y). The prices of Peruvian exports, however, increased 7.7%y-o-y, moderating relative to the 15.8%y-o-y surge in 1Q. These opposing trends translated into a 9.4% terms-of-trade loss. This, together with cooling demand from China, the US and other advanced economies caused the trade surplus to shrink, from USD4.2bn in 1Q to USD1.5bn in 2Q. Factoring in more conservative external demand assumptions, we revised up our 2022 current account deficit forecast, from USD6.7bn (2.7% of GDP) to USD9.0bn (3.6% of GDP). Thus, the 2022 external gap would rise well above the current account deficit recorded in 2021 (USD5.3bn or 2.3% of GDP), and the 2.4% of GDP average observed in the past decade.

Strong external buffers and policy credibility provide support to the PEN. Peru is still well-equipped to face these adverse external developments, with gross international reserves closing July at USD74.2bn, down from USD78.5bn in December 2021, but still at a healthy 29.7% of GDP. In terms of trade flows, reserves stood at 16.8 months of imports. On top of this

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war chest of reserves, authorities have access to resources for up to USD5.4bn under the Flexible Credit Line arrangement approved by the IMF last May. The strong external position of Peru and the recovery of the local currency have discouraged new speculative attacks against the PEN, after the period of high volatility and uncertainty observed in 2021. In fact, despite persistent political headwinds, during 2022 there has been a marked reduction in foreign exchange interventions by the central bank, with the level of net interventions close to nil in 1H22, a clear contrast with net sales of USD17.5bn seen in 2021.

Policy issues

Finding a solution to the ongoing institutional crisis is the main policy challenge for the Peruvian political leadership. Even though we consider acute political confrontation and instability to be a structural problem (i.e., one that could only be attenuated in the medium to long term), the extreme uncertainty levels observed since Pedro Castillo was sworn in considerably limits the performance of the economy in the short run.

From a macroeconomic policy perspective, monetary authorities face the difficult challenge of fine-tuning the so-called "normalisation process" of their policy stance. Excessive tightening in response to an adverse shock in commodity prices might have unwanted collateral consequences on economic growth. On the other hand, an undershooting of interest rates might translate into an unmooring of inflation expectations. Thus, policymakers must remain flexible as the rate-hike cycle draws to an end.

Risks

The Peruvian economy currently faces important downside risks, emanating from both, domestic and external factors. Domestically, an escalation of the political crisis and, consequently, higher uncertainty about changes in public policies, constitute the main risk going forward, due to its potentially larger adverse impact on private investment and growth. Externally, a more protracted slowdown of the global economy, particularly from China, and a sustained deterioration in the terms of trade, might accentuate the structural external imbalance and take a toll on growth. This being said, we do not foresee Peru unwinding decades of hard-earned credibility by undermining its sound macroeconomic framework. This would essentially require a constitutional reform that is unlikely given high political fragmentation and the failure of Castillo's populist-leaning administration.

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Table 17. Peru's Main Macroeconomic Forecasts

Peru	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts 2022	2023
Real GDP (% y-o-y)	3.3	4.0	2.5	4.0	2.2	-11.0	13.5	3.2	3.0
Nominal GDP (PENbn)	611.6	659.8	703.3	745.5	775.3	719.5	875.9	972.4	1057.9
Nominal GDP (USDbn)	192.0	195.4	215.6	226.7	232.2	205.7	224.4	249.5	256.3
Private Consumption (% y-o-y)	4.0	3.7	2.6	3.8	3.2	-9.8	11.7	4.6	3.8
Gross Fixed Investment (% y-o-y)	-3.2	-4.1	-0.4	6.6	-0.6	-18.9	26.6	-4.5	2.8
Domestic Demand (% y-o-y)	2.8	1.3	1.7	4.1	2.2	-9.9	14.6	3.7	3.1
Industrial Production (% y-o-y)	-1.5	-1.4	-0.2	5.9	-1.7	-12.5	17.8	2.0	1.1
Unemployment rate, average (%)	6.4	6.7	6.9	6.7	6.6	12.8	11.3	8.3	8.0
CPI, year-end (% y-o-y)	4.4	3.2	1.4	2.2	1.9	2.0	6.4	8.6	3.0
CPI, year average (%)	3.5	3.6	2.8	1.3	2.1	1.8	4.0	8.0	5.6
Total fiscal balance (%GDP)	-1.9	-2.3	-3.0	-2.3	-1.6	-8.9	-2.7	-2.2	-2.0
Primary fiscal balance (%GDP)	-0.9	-1.2	-1.8	-0.9	-0.2	-7.3	-1.1	-0.6	-0.4
Merchandise exports (USDbn)	34.4	37.1	45.4	49.1	48.0	42.9	63.2	65.6	70.2
Merchandise imports (USDbn)	37.3	35.1	38.7	41.9	41.1	34.7	48.3	54.6	57.9
Trade Balance (USDbn)	-2.9	2.0	6.7	7.2	6.9	8.2	14.8	11.0	12.3
Current account balance (USDbn)	-8.9	-4.4	-2.0	-2.9	-1.7	2.4	-5.3	-9.0	-8.0
Current account balance (%GDP)	-4.7	-2.3	-0.9	-1.3	-0.7	1.2	-2.3	-3.6	-3.1
Remittances (USDbn)	2.7	2.9	3.1	3.2	3.3	2.9	3.6	3.7	3.8
Foreign Direct Investment (USDbn)	7.3	6.8	7.4	5.9	4.8	0.7	7.5	8.9	6.8
Foreign Direct Investment (%GDP)	3.8	3.5	3.4	2.6	2.0	0.4	3.3	3.6	2.6
NFPS External debt, year-end (USDbn)	19.9	20.3	18.9	19.4	19.8	29.5	42.7	42.4	40.3
Monetary Policy Rate, year-end (%)	3.75	4.25	3.25	2.75	2.25	0.25	2.50	7.00	5.00
Foreign reserves, year-end (USDbn)	61.5	61.7	63.7	60.3	68.4	74.9	78.5	71.5	69.3
PEN/USD, year-end	3.4	3.4	3.2	3.4	3.3	3.6	4.0	4.1	4.2

Source: BancTrust & Co. estimates based on IMF, BCRP and Ministry of Finance.

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THE BAHAMAS

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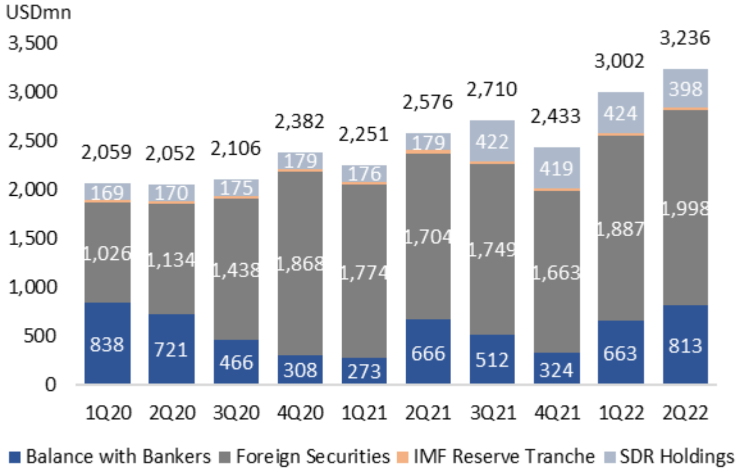
- **Investor sentiment is on a downward trend…**
- **… Still, the government has gained space to muddle through**
- **We now lean towards a procrastination scenario**
- **We expect the government to devalue the currency 15% in 4Q23.**

Recent developments and 2022-2023 outlook

Investor sentiment is on a downward trend… The Bahamas' bonds have been taking successive blows since September last year that eventually led to a downward sloping curve in March 2022. The benchmark 2032 bond is currently priced at 16.5% compared to 20% of the 24s. In turn, the yield paid by the 24s has widened 1500bps since September 2021. These distressed valuations are the flipside to mounting concerns that the credit could be heading to some kind of credit event.

… Still, the government has gained space to muddle through. Despite taxing conditions and against our expectations, The Bahamas has been able to secure further funding from private creditors in 1H, including a USD207mn repo with Goldman Sachs (2 March), an EUR207mn senior unsecured loan with Deutsche Bank (18 March), and USD335mn from the issuance of two bonds partially guaranteed by the IADB (9 June). As a result, the central bank would have accumulated enough international reserves to muddle through in the short term.

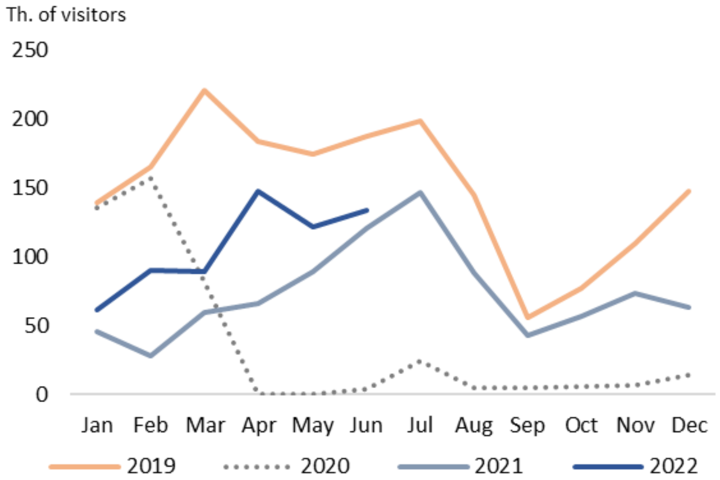
Chart 20. Breakdown of international reserves



Source: BancTrust & Co. based on Central Bank of The Bahamas

We now lean towards a procrastination scenario. Our long-held view is that The Bahamas' FX is overvalued and that RER realignment should have a positive impact on otherwise unchecked fiscal and external imbalances. True, indebtedness metrics are likely to suffer on the wake of BSD devaluation, but we calculate that a supportive flow picture would thereafter place debt dynamics on a convergent path (see The Bahamas Economics and Strategy: Double trouble, single getaway, 7 April). The rebuilding of buffers would allow the authorities to postpone politically costly remedial measures, although these will become unavoidable when liquid reserves become scarce by end-2023. The depletion of reserves would be the consequence of hefty twin deficits in a context of modest capital inflows (both private and official) combined with accelerating outflows and only partial roll-over of maturing debt. Stronger capital controls cannot be ruled out, but this will not prevent the massive current account deficit from taking a toll on reserves. Imports restrictions to reduce the external gap could backlash due to the tourism industry's dependence on imported goods. Importantly, the erosion of external buffers implies higher odds of an overshooting of the exchange rate once the peg becomes unsustainable.

Chart 21. Inbound stopover tourists



Source: BancTrust & Co. based on Ministry of Tourism

We expect the government to devalue the currency 15% in 4Q23. The authorities' belated action is a risky move, in our view, and increases the probability of a disorderly adjustment that could translate into heavier losses to investors. Relative

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to our previous outlook, the obvious reluctance to devalue the BSD led us to cut 2023 growth and to increase our current account and fiscal deficit forecasts. In this context, we see a further inversion of the yield curve as investors brace for a more aggressive restructuring. Thus, we see the 24s trading at a yield of around 70% by June 2023 as the full redemption of this note at maturity (January 2024) becomes less likely.

Policy issues

Small open economies with a fixed exchange rate regime such as The Bahamas have typically been unsuccessful to gain competitiveness through severe fiscal adjustments. The government has announced a fiscal consolidation strategy that, despite repeated revisions, rests on overly optimistic assumptions. The advantage of devaluation in the case of The Bahamas is that, contrary to other EM economies, its negative impact on domestic demand could be quickly offset through higher tourism inflows and investment. In addition, a relatively high spare capacity suggests that the pass-through on prices would be slow. Even though we had previously calculated that a 10% real depreciation would suffice to revert imbalances, we now look to 15% instead due to the policymakers' resistance to adjust the peg. As mentioned early, the authorities' procrastination introduces upward risks on the FX. True, a weaker FX could depress real wages and might spark social tensions. The government is already having trouble with multiple unions, which could intensify after the devaluation episode. In this regard, we think that some kind of debt restructuring, aimed to free fiscal space and build up social safety nets will follow through.

Risks

An overshooting of the FX increases the risks of a higher PV loss for investors as it could entail a larger haircut in the debt restructuring process. Also, the authorities are placing high expectations on the sale of the Grand Lucayan resort and carbon credits. If these do not materialise, the overshooting scenario could be closer and set in earlier than expected. The Bahamas is also extremely vulnerable to renewed external shocks or global recession that could cloud the outlook of tourism. This would compound the already convoluted domestic dynamics.

Upside risks consist on a faster tourism rebound, although the available evidence shows that The Bahamas is lagging on this front relative to its regional peers. The latter also supports our belief that the BSD might be overvalued. Tapping additional private funding cannot be dismissed, but success should be limited in the absence of a trigger that revamps expectations. Authorities could apply for IMF support under the Resilience and Sustainability Trust, but this would imply agreeing to an IMF-sponsored programme and its conditionalities, which may also demand a devaluation of the BSD. Under this scenario, not only would the government earn additional financing, but it would also regain some of the lost investor confidence. Against this backdrop, we think that The Bahamas could avert an aggressive debt restructuring

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Table 18. The Bahamas' Main Macroeconomic Forecasts

Bahamas	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts 2022	Banctrust & Co. Forecasts 2023
Real GDP (% y-o-y)	1.0	-0.9	3.1	1.8	1.9	-23.8	13.7	6.7	4.6
Nominal GDP (BSDbn)	11.9	11.8	12.4	12.8	13.2	9.7	11.2	12.6	13.9
Nominal GDP (USDbn)	11.9	11.8	12.4	12.8	13.2	9.7	11.2	12.6	13.6
Private Consumption (% y-o-y)	1.3	1.9	6.5	0.3	-5.4	-20.7	22.6	6.9	1.6
Gross Fixed Investment (% y-o-y)	-18.8	5.5	9.8	-4.8	2.2	-32.1	22.7	7.0	-4.8
Domestic Demand (% y-o-y)	-3.1	2.1	8.6	-0.6	-0.9	-22.6	20.5	6.3	-0.8
Unemployment rate, average (%)	13.4	12.2	10.1	10.4	10.1	25.6	18.1	14.4	11.8
CPI, end-year (% y-o-y)	2.0	0.8	1.8	2.0	1.4	1.2	4.1	6.9	5.4
CPI, year average (%)	1.9	-0.3	1.5	2.3	2.5	0.0	2.9	5.7	5.4
Total fiscal balance (%GDP)*	-3.3	-2.6	-5.4	-3.3	-1.7	-7.3	-13.6	-6.6	-4.2
Primary fiscal balance (%GDP)*	-1.2	-0.3	-3.2	-0.8	0.8	-4.2	-9.3	-2.3	0.1
Merchandise exports (USDbn)	0.5	0.5	0.6	0.6	0.7	0.4	0.6	0.7	0.6
Merchandise imports (USDbn)	2.8	2.6	3.1	3.3	3.0	2.0	3.2	3.6	3.9
Trade Balance (USDbn)	-2.3	-2.2	-2.5	-2.7	-2.3	-1.6	-2.6	-2.9	-3.3
Current account balance (USDbn)	-1.5	-1.5	-1.7	-1.2	-0.4	-2.4	-2.2	-2.0	-1.3
Current account balance (%GDP)	-12.5	-12.4	-13.7	-9.4	-2.7	-24.5	-19.2	-16.0	-9.3
Foreign Direct Investment (USDbn)	0.3	0.5	0.4	0.6	0.4	0.4	0.2	0.1	0.1
Foreign Direct Investment (%GDP)	2.9	3.9	3.3	4.4	2.8	3.9	1.4	1.0	0.9
NFPS external debt, year-end (USDbn)	1.7	1.7	2.6	2.6	2.6	4.0	4.3	5.0	5.0
Monetary policy rate, year-end (%)	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	9.00
Foreign reserves, year-end (USDbn)	0.8	0.9	1.4	1.2	1.8	2.4	2.4	2.0	1.0
BSD/USD, year-end	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.15

* Fiscal data refer to fiscal year ending on 30 June
Sources: BancTrust & Co. based on Central Bank of the Bahamas, Department of Statistics of the Government of the Bahamas and Ministry of Finance.

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VENEZUELA

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- **…But disinflation is losing momentum**
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Recent developments and 2022-2023 outlook

Maduro's strong hand might be weakening fast. Despite the incentives offered by the United States, the Venezuelan authorities have reneged on their commitment to return to the negotiation process, while demanding additional actions and concessions just to sit back to the table. In recent months, the Biden administration has lifted restrictions for European companies Eni and Repsol to repay debts with crude oil shipments. Also, former National Treasurer Carlos Malpica Flores (nephew of first lady Cilia Flores) has been removed from the list of sanctioned individuals. However, these "gestures" (quoting a US official), were insufficient to effectively bring back the regime to Mexico.

We reaffirm our base scenario that a deal with the opposition ahead of the 2024 election is unlikely, but with some tweaks. The decline of international oil prices since last June is a major risk to the ongoing economic recovery and inflation slowdown. The continuity of this process is key to support the 2024 presidential bid of Chavismo, particularly since the room to tamper with election results is virtually non-existent. Thus, lower oil prices could increase incentives for Maduro to speed up political negotiations, which is the prerequisite to obtain further sanctions relief. Nevertheless, recent decisions by the judicial system have been a reminder that the regime can always revert to its authoritarian ways. In this vein, our long-held view has been that substantial concessions to the opposition could also be detrimental to the odds of a Chavista victory. On behalf of Chavismo, remaining competitive for the 2024 election will command a balancing act between conflicting objectives.

Oil price weakness offers a powerful argument for some political moderation. On 30 August Oil Minister Tareck El Aissami said in Caracas that Venezuela was ready to work with Chevron to restart operations in the country, but that the driller still needed US permissions. Adding to this, some media outlets reported that Chevron had requested the US government to expand its license to operate in Venezuela after the company had agreed with PDVSA to revamp joint ventures. We now assign higher chances to an intermediate scenario that would be consistent with Chavismo's balancing act. One way this could potentially roll out is with the resumption of Mexico negotiations against increased investments from US oil company Chevron in the Venezuelan oil industry. Higher production of the Chevron-controlled fields could be shipped to Europe. Actually, some press reports have indicated that Venezuela would only be willing to keep oil flowing to Italy's Eni and Spain's Repsol in exchange for fuel cargoes, instead of settling debts. On 1 September Minister El Aissami stated that the government was in talks with both companies to boost production at a joint gas project.

An upside surprise in economic activity during 1H22... According to the unofficial index of economic activity built by the Venezuelan Finance Observatory (OVF), the economy posted 12.3%y-o-y expansion in 1H22, a figure that reflects greater dynamism than initially expected even if it was influenced by a low comparison base. As a result, we have upgraded our real GDP forecasts for 2022-2023, from 6.8% and 5.5% to 8.7% and 5.9%, respectively. Qualitative and quantitative information from business guilds and public officials also support this stronger growth outlook. We note that convergence to a growth rate in the medium and long run of 5%-6% would imply that the economy returns to its 2013 level (before the 7-year downturn) by 2046.

…As high oil prices boosted domestic demand in 1H. The absence of genuine financing sources and an extremely low level of liquid external assets has deepened the structural vulnerability of the real economy to fluctuations in international oil prices. After jumping 76.5%y-o-y in 1H22, the price of the Venezuelan reference basket (Merey) fell 8.2%m-o-m in July and would slide further in August. In turn, even if it remains up in year-on-year terms, domestic oil production in

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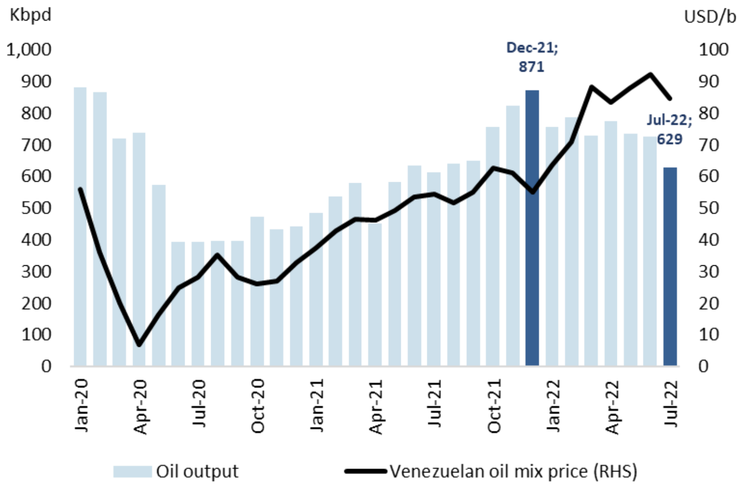
July declined to 629k barrels per day (bpd), a drop of 27.8% from its December peak. Frequent unofficial reports about operational problems and accidents, logistic bottlenecks, and power and gas outages are clear evidence of the dismal conditions of the oil industry, not to mention the growing difficulties to sell Venezuelan crude in the sanctioned oil market.

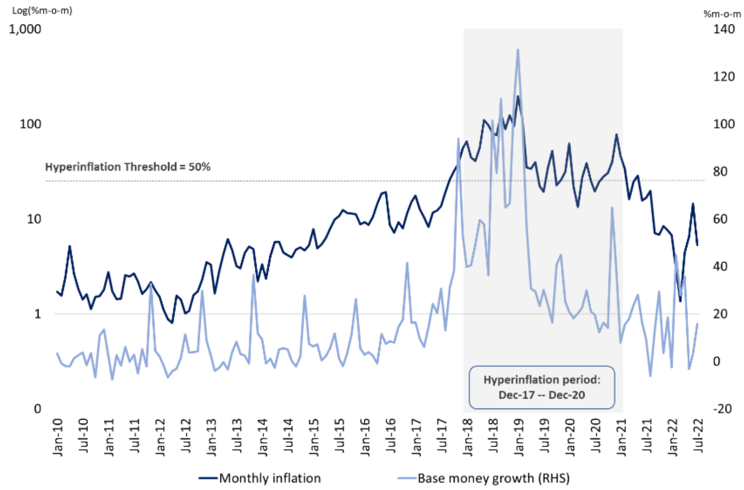
Chart 22: Oil output and price of Venezuelan mix



Source: BancTrust & Co. based on OPEC and PDVSA.

Disinflation is losing momentum. Official inflation figures, available until May, estimated an average monthly increase in consumer prices of "only" 4.4% in the first 5 months of the year (29.9% in the same period of 2021). Conversely, the alternative index built by the OVF reflected an acceleration to 9.9% between June and July. As a result, we have adjusted our 2022 inflation forecast up, to 93.4% from 72.8% previously. Risks are skewed towards faster inflation on the back of mounting FX pressures amidst expectations of lower dollar revenues and the pick-up in base money growth. The Bolivar lost 75.9% against the dollar in the period of May-August, after appreciating 2.2% in nominal terms between January and April. According to some market sources, this would have forced the central bank (BCV) to intervene heavily, as official FX sales statistics are unavailable. Base money essentially stalled in May-June (-0.1%m-o-m), following a 36.2% surge in February-April to finance higher public spending. Preliminary figures show that base money growth resumed a rapid expansion in July (+15.8%m-o-m).

Chart 23: Inflation and monetary base



Source: BancTrust & Co. based on Central Bank of Venezuela.

A weak external position in a context of oil price uncertainty. International reserves have accumulated a decline of USD0.6bn YTD, closing July at USD5.3bn (excluding the 2021 IMF SDR allocation). Most of the drop was accounted for by the step-up in central bank dollar sales to mop up excess liquidity. Importantly, from this level of external assets, only USD0.7bn are estimated to be in foreign exchange, with the rest being distributed between monetary gold (a part of which is frozen in the Bank of England), the position at the IMF, and other (less liquid) reserve assets. Against this backdrop, policymakers announced new measures to attract private investment. In mid-May, President Maduro unveiled that the government would offer shares of selected state-owned enterprises (SOEs) in the local stock exchanges (see Venezuela Economics: A new pragmatic turn to orthodoxy, 3 June). The second step was the approval, in mid-July, of the Law of Special Economic Zones, which foresees large fiscal incentives to private investment in five specially designated areas.

Policy issues

The potential economic and financial upside of resuming negotiations in Mexico and of making some political concessions continue to be substantial: eventual access to SDR allocation (USD5.0bn) and the gold in the Bank of England (approximately USD1.8bn), a resumption of oil exports to Europe, the largely awaited authorisation to Chevron to increase output and exports and minimising the large price discounts applied to Venezuelan oil. These resources, or at least part of them, would be enough to stabilise the FX, cement

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the disinflationary process, and support economic recovery, all of which would surely buttress Chavismo's electoral edge. In spite of this, the regime has so far shown little interest to even resume formal negotiations, finding a myriad of excuses to delay the process.

Weaker oil prices could alter the regime's cost-benefit equation going forward. We look to at least the resumption of discussions in Mexico that could allow for new sources of FX via some flexibilisation of sanctions. However, we remain convinced that political normalisation will be extremely piecemeal. Hence, we stick to our view that there is little hope of full sanctions relief until the legitimacy issue is solved, presumably after a new administration takes over in January 2025.

The absence of significant progress in political negotiations together with the less supportive terms of trade outlook should preclude a strong remonetisation of the economy. If authorities attempt to put together a fiscal and monetary stimulus, this could backfire through a sharp acceleration of inflation.

Risks

An oil price rout is clearly the main risk to the macroeconomic outlook. International reference baskets have dropped more than 25% from the peaks reached in early June, and fears of recession in advanced economies, along with the ongoing China slowdown, darken the prospects of the oil market. Flagging oil revenues could have severe consequences for the Venezuelan economy, especially considering the low (and declining) level of liquid external assets, increased competition in the sanctioned oil market, and the oil production setback throughout 2022.

On the upside, a US-backed deal with Chevron could trigger some positive price action for bonds, ahead of our targeted timing of 2H 2024 (see Venezuela Flash Report: Winds of change?, 30 August). Nevertheless, the near-term upside would be limited, in our view.

Radicalisation of Chavismo cannot be ruled out. The regime has responded to economic hardship by tightening the reins only too often in the past. The new Colombian administration led by Gustavo Petro and a Lula victory in Brazil could secure Chavismo powerful regional allies, as well as alternative financing sources. On 1 September, President Nicolás Maduro said that Venezuela and Colombia are taking "firm steps" toward a progressive border reopening. President Maduro also emphasised that Venezuela had a "very good" export offer for Colombia and invited Colombian investors to consider the Venezuelan countryside.

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Table 19. Venezuela's Main Macroeconomic Forecasts

Venezuela	2015	2016	2017	2018	2019e	2020e	2021e	Banctrust & Co. Forecasts 2022	2023
Real GDP (% y-o-y)	-6.2	-17.0	-15.7	-19.6	-22.5	-25.0	3.2	8.7	5.9
Nominal GDP (VESbn)	0.0	0.0	0.0	0.0	0.4	7.8	135.6	357.9	646.9
Nominal GDP (USDbn)	139.4	193.3	143.8	59.6	31.7	24.4	43.6	66.4	87.5
Private Consumption (% y-o-y)	-8.9	-19.4	-16.2	-20.1	-22.0	-23.9	3.7	8.5	5.3
Gross Fixed Investment (% y-o-y)	-20.4	-45.2	-45.3	-37.5	-27.9	-28.6	6.3	13.9	8.1
Domestic Demand (% y-o-y)	-11.8	-26.3	-21.1	-18.2	-23.1	-24.2	2.6	8.3	6.0
Industrial Production (% y-o-y)	-10.4	-22.9	-19.1	-36.4	-22.0	-20.0	1.0	8.7	4.5
Unemployment rate, average (%)	7.1	7.3	7.3	7.3	6.9	8.6	8.0	7.0	6.9
CPI, year-end (% y-o-y)	181	274	863	130,060	9,585	2,960	686	93.4	51.1
CPI, year average (%)	122	255	438	65,374	19,906	2,355	1,589	142.8	70.7
Total fiscal balance (%GDP)	-14.1	-28.6	-22.4	-13.1	-12.1	-14.9	-9.7	-6.0	-5.5
Primary fiscal balance (%GDP)	-11.8	-27.2	-19.4	-7.8	-8.5	-11.0	-7.6	-4.5	-4.0
Merchandise exports (USDbn)	37.2	27.4	34.0	33.7	23.2	7.1	10.9	17.5	19.1
Merchandise imports (USDbn)	33.3	16.4	12.0	12.8	8.3	6.6	7.5	10.7	12.2
Trade Balance (USDbn)	3.9	11.0	22.0	20.9	14.9	0.5	3.4	6.7	6.8
Current account balance (USDbn)	-16.1	-3.9	8.7	8.6	4.9	-0.2	2.5	3.7	4.1
Current account balance (%GDP)	-11.5	-2.0	6.0	14.4	15.5	-0.8	5.7	5.6	4.6
Remittances (USDbn)	-0.2	0.2	0.6	2.0	3.2	2.6	2.9	3.2	3.4
Foreign Direct Investment (USDbn)	0.8	1.1	-0.1	0.9	0.3	-0.1	0.2	1.0	1.0
Foreign Direct Investment (%GDP)	0.6	0.6	-0.1	1.5	0.9	-0.4	0.5	1.5	1.1
NFPS External debt, year-end (USDbn)	201.9	198.1	193.3	189.0	186.0	184.0	183.5	185.0	185.1
Deposit rate, year-end (%)	14.98	14.60	14.50	14.60	35.68	37.27	36.35	36.00	36.00
Foreign reserves, year-end (USDbn)*	16.4	11.0	9.7	8.8	6.6	6.4	5.9	5.7	5.9
VES/USD, year-end	0.0	0.0	0.0	0.0	0.0	1.1	4.6	6.6	8.1

* Excludes SDR allocation by the IMF.
Source: BancTrust & Co. estimates based on Central Bank of Venezuela and Ministry of Finance.

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OTHER CARIBBEAN

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BARBADOS

- **Delivering on the fiscal…**
- **…But external accounts remain the weak spot**
- **The IMF will keep playing an important role**

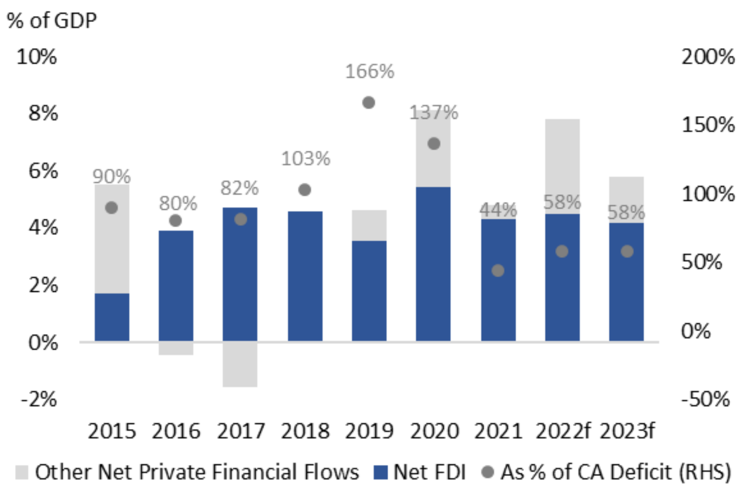
Delivering on the fiscal… After achieving all quantitative targets for the last review under the IMF programme, Barbados kept delivering sound fiscal results during the first quarter of the 22/23 fiscal year (2Q22). The improvement in fiscal accounts leveraged on higher revenues linked to the recovery of tourism (even if it is still lagging) and lower transfers to SOEs that are down in annual terms for the third quarter in a row. This, together with the changes on the public sector pension system and the call for a public consultation on the National Insurance Scheme reform are evidence of the government's commitment to remain on track with the IMF-sponsored programme. Despite some pending issues such as the accumulation of arrears and the setting up of a fiscal rule, fiscal accounts are overperforming compared to our previous estimates. In this vein, we revised the fiscal deficit forecasts to 2.1% in FY22/23 and to 0.7% in FY23/24 (from 2.5% and 0.9%, respectively).

… But external accounts remain the weak spot. On the other hand, exogenous factors keep pressuring the external front. We have revised our current account deficit forecasts upwards to 13.4% of GDP for 2022 and to 8.3% of GDP for 2023 (from 11.9% and 7.5% of GDP, respectively). The slower-than-expected recovery of the tourism industry fully accounts for the revision. Stopover tourists seem to have stalled at 50%-60% of 2019 levels, allegedly due to a loss of competitiveness against some of its peers and the impact of inflation and a potential recession in the UK, its main source market.

In the short-term the latter should not set off the alarm bells, though. For a couple of years now, the vast levels of FX being consumed by current account transactions have been more than compensated by massive IFI lending, and we expect this to remain at least for the current fiscal year. Moreover, the level of international reserves is enough to finance between three to four years of the estimated current account deficit. Therefore, Barbados still counts on relevant buffers to finance the transition to the full recovery of the tourism sector and more favourable terms of trade. Despite these buffers, Barbados needs to strengthen its medium and longer-term fundamentals. We stick to the view that FDI inflows are key to the sustainability of the Barbadian economy and policies should be aimed at cementing this source of current account financing.

The IMF will keep playing an important role. In this context, the relationship with multilaterals would remain critical to uphold investor sentiment. A new programme with the IMF would signal the commitment to moving forward with the remaining reforms and would offer an additional bridge to finance the transition to a better global backdrop. These flows are not only important to bridge the external gap, but also to compensate for the difficulties in raising domestic debt. In addition, by securing a new programme Barbados could tap the IMF's Resilience and Sustainability Trust to buttress reserves and fund the convergence to a more efficient energy matrix.

Chart 24. Private sector financing of the external gap



Source: BancTrust & Co. based on Central Bank of Barbados

JAMAICA

- **Tourism surprised to the upside…**
- **…As inflation is receding**
- **Tourism and inflation strengthen the near-term fiscal outlook**

Tourism surprised to the upside… Jamaica's tourism is bouncing back faster than expected, with stopover visitors at

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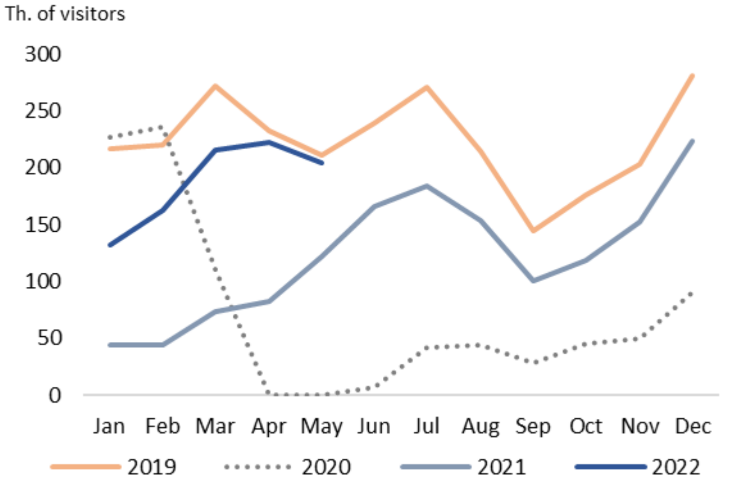
96% of pre-pandemic levels during April and May. We had previously expected tourism to reach the pre-Covid peak by end-2023, but this metric could be attained already this year. If this recovery is coupled with the resumption of mining during 4Q22, as expected, it would allow GDP to surpass pre-pandemic levels by the beginning of 2023. In this vein, we revised up our GDP growth estimates to 3.6% in 2022 (from 2.8%) while we cut our 2023 forecast to 3% (from 3.2%) given that a higher share of the recovery was brought forward to this year.

Chart 25. Inbound stopover tourists



Source: BancTrust & Co. based on STATINJA.

This stronger activity outlook is also driving other improvements in domestic fundamentals. Despite the impact that food and energy prices are having on the trade deficit, which expanded USD529.1mn (3.2% of GDP) in 1Q22 compared to 1Q21, we expect higher tourism-related inflows to offer partial compensation. Thus, we revised down our current account deficit forecast to 4.7% of GDP in 2022 (from 6.6% of GDP) and to 1.9% of GDP in 2023 (from 2.0% of GDP). This improvement would not be directly translated into international reserves accumulation given the external debt deleveraging of the public sector.

… As inflation is receding. Inflation spiked above 11% but we expect it to decline to 8.1% by year-end, once US inflation decelerates and tighter monetary policy is transmitted into domestic borrowing conditions. We still see a further tightening of monetary policy given the acceleration of inflation expectations that would drive the MPR to 8% by year-end. Afterwards, we expect that the central bank would have already subdued inflation and inflation expectations, but it would still require positive interest rates amid worldwide tighter policies, not allowing further relaxations until inflation returns back to the target range (4% to 6%).

Tourism and inflation strengthen the near-term fiscal outlook. The acceleration of inflation together with the ongoing economic recovery are currently allowing Jamaica to shore up public accounts. Higher activity and external demand are boosting tax collection in real terms while faster inflation has eroded real spending. All in all, both effects are enhancing the primary result in terms of GDP. Also, inflation is bringing down the weight of the interest bill as c75% of domestic debt is issued at fixed interest rates. Taking this into consideration we have also revised up our fiscal surplus forecast to 0.6% of GDP for both FY22/23 and FY23/24 (from 0.3% of GDP respectively).

TRINIDAD AND TOBAGO

- **Dutch Disease symptoms intensify…**
- **…But International reserves accumulation was null**
- **Risks are tilted to the downside in the medium to longer term**

Dutch Disease symptoms intensify… Trinidad and Tobago keeps benefiting from exceptionally high terms of trade resulting from the oil and gas price boom. This new external scenario helped the country to compensate for a poor track record in the real economy, fiscal and external accounts. However, despite the spillovers of the energy sector, the rest of activities remain stagnant, dragged by an overvalued exchange rate. It is important to highlight that the energy sector is not fully profiting from the external drive since declining production is partially offsetting the impact of higher prices. In this regard, crude oil and natural gas production averaged 59.2kbpd (+0.3%y-o-y) and 2,608mmcfd (-4.6%y-o-y) during January-May. Consequently, we cut our GDP growth forecasts to 4% in 2022 and 1.8% in 2023, from 5.7% and 2.5%.

…But International reserves accumulation was null. We flag the difficulties that the country is facing to translate its massive current account surpluses into higher international reserves. We estimate that the current account balance resulted in a USD2.8bn surplus in 1H22, while international reserves remained nearly flat during the same period. As has been typically the case, massive outflows have been registered in

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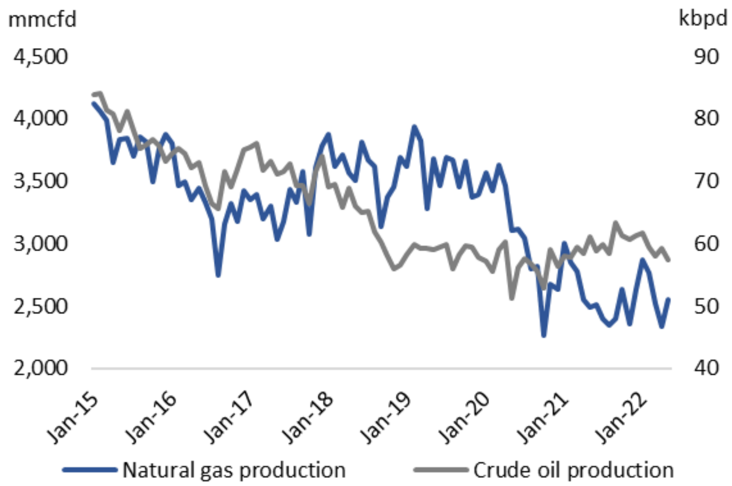
the "errors and omissions" entry. During the past decade, errors and omissions accounted for USD18.7bn in total outflows, equivalent to a yearly average of c7.5% of GDP. This, combined with the absence of balance of payments statistics since end-2021, brings uncertainty in assessing the sustainability of the country's external accounts.

Risks are tilted to the downside in the medium to longer term. Inasmuch as energy prices remain at current levels, Trinidad and Tobago will likely cope with financial outflows without depleting reserves. Meanwhile, fiscal accounts are not only benefited by the energy boom but by the government's dominant position in public sector wage negotiations. Moreover, the government is also encouraging spending downsizing in many companies fully or partially owned by the public sector.

Going forward, the decline in oil and gas output is a reason for concern since avoiding a deterioration of the current account would command permanent price increases to compensate for waning production. These constraints would kick in already in 2023, given that both the consensus of analysts surveyed by Bloomberg and the futures curve are predicting lower gas prices compared to our previous forecast round-up. This fact made us recalibrate our current account surplus forecast to 10.3% of GDP in 2023 (from 13.2% of GDP) and our fiscal deficit estimate to 4.2% of GDP (from 3.2%). Given this more pessimistic outlook, current market valuations and the recent upgrade in S&P's rating watch to stable, we think that there is a window of opportunity for Trinidad and Tobago to tap markets but, considering existing coupon rate structures, we do not see much upside from a LMO.

Chart 26. Oil and gas output



BancTrust & Co. based on Central Bank of Trinidad and Tobago

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Table 20. Other Caribbean's Main Macroeconomic Forecasts

	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts 2022	2023
Barbados									
Real GDP (% y-o-y)	2.5	2.5	0.5	-1.0	-0.7	-14.0	0.5	8.6	4.1
CPI, year-end (% y-o-y)	-2.5	3.8	6.6	0.7	7.2	1.2	5.0	6.2	3.7
Total fiscal balance (%GDP)	-9.1	-5.3	-4.5	-0.3	3.6	-4.8	-4.8	-2.1	-0.7
Current account balance (%GDP)	-6.1	-4.3	-3.8	-4.4	-2.8	-5.9	-10.9	-13.4	-8.3
Foreign reserves, year-end (USDbn)	0.4	0.3	0.2	0.5	0.7	1.3	1.5	1.4	1.4
BBD/USD, year-end	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Jamaica									
Real GDP (% y-o-y)	0.9	1.5	0.7	1.8	1.0	-9.9	4.6	3.6	3.0
CPI, year-end (% y-o-y)	3.7	1.7	5.2	2.4	6.2	5.2	7.3	8.1	4.6
Total fiscal balance (%GDP)	-0.3	-0.2	0.5	1.2	0.9	-3.1	0.8	0.6	0.6
Current account balance (%GDP)	-3.0	-0.3	-2.7	-1.6	-2.2	-0.4	0.9	-4.7	-1.9
Monetary policy rate, year-end (%)	5.25	5.00	3.25	1.75	0.50	0.50	2.50	8.00	6.00
Foreign reserves, year-end (USDbn)	2.9	3.3	3.8	3.5	3.6	4.1	4.8	4.1	4.1
JMD/USD, year-end	120.0	128.9	124.6	128.6	131.7	141.7	153.9	156.3	157.8
Trinidad and Tobago									
Real GDP (% y-o-y)	1.8	-6.3	-2.7	-0.7	-0.2	-7.4	-1.3	4.0	1.8
CPI, year-end (% y-o-y)	1.6	3.1	1.3	1.0	0.4	0.8	3.5	4.4	2.8
Total fiscal balance (%GDP)	-7.9	-10.4	-10.8	-5.9	-3.7	-11.6	-8.2	-4.6	-4.2
Current account balance (%GDP)	8.1	-3.5	6.0	6.8	4.3	-6.3	10.3	18.8	10.3
Foreign reserves, year-end (USDbn)	9.9	9.5	8.4	7.6	6.9	7.0	6.9	7.1	7.2
TTD/USD, year-end	6.4	6.6	6.7	6.8	6.8	6.8	6.8	6.8	6.8

NB: Fiscal data refer to fiscal years. In Barbados and Jamaica: beginning on 1 April, in Trinidad and Tobago: ending on 30 September.
Sources: BancTrust & Co. based on Barbados Statistical Service, Central Bank of Barbados, Bank of Jamaica, Statistical Institute of Jamaica, Ministry of Finance of Jamaica, Central Bank of Trinidad and Tobago, Trinidad and Tobago Central Statistical Office, Ministry of Finance of Trinidad and Tobago, Bloomberg and International Monetary Fund.

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