BANCTRUST & CO.

2023 Year Ahead Outlook

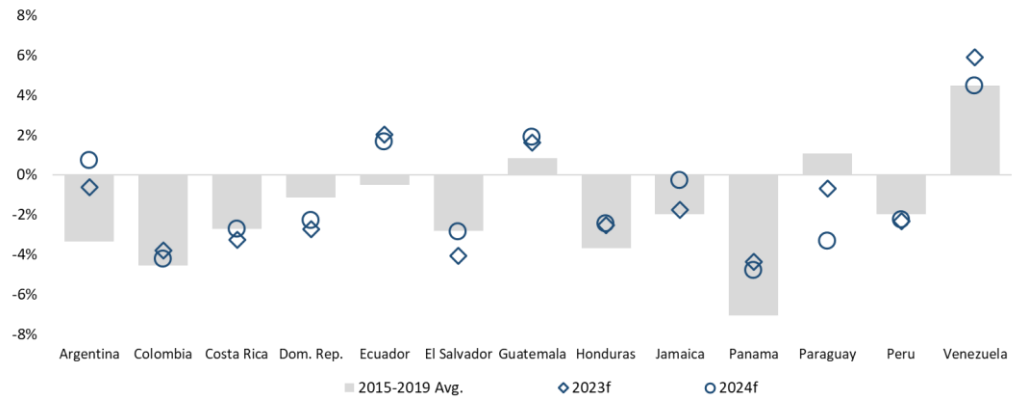
16 Dec 2022

LINGERING CHALLENGES

- **Global recession headwinds remain manageable …**
- **… But unsupportive politics could curb much-needed fiscal consolidation**
- **We see limited incremental appetite for risk at the outset of 2023**
- **We shorten the duration of our model portfolio but stick to our idiosyncratic convictions**
- **Amnesty is the silver lining for a political solution in Venezuela**

Global recession headwinds remain manageable… 2022 growth-inflation trade-off improved relative to our 5 September expectations (see Macro and Strategy Update: To the tune of global factors), with higher growth and lower inflation. Throughout 2022 several governments pursued active supply-side policies to protect vulnerable populations from soaring inflation, thus retaining an expansive fiscal policy bias. In turn, the recent moderation of commodity prices was instrumental in keeping current account deficits at bay, particularly for net commodity importers in Central America and the Caribbean (CAC). In 2023, slower global activity and more stringent international liquidity will eat into Latin America's growth prospects, but the impact will be far from dramatic due to: i) strong domestic buffers, ii) moderate FX debt maturities, iii) frontloaded rate hikes in the past two years. Twin deficits in 2023 will remain on the high end of pre-pandemic trends (Chart 1), and this certainly creates downward risks, especially if there is a renewed oil crisis. However, we think that these will remain manageable even in an adverse scenario due to the aforementioned factors and higher FX flexibility. Still-elevated CPI expectations (Chart 2), combined with the widespread belief that Fed tightening will continue into 1Q23 and that rate cuts would only start in 4Q23 will likely constrain regional policymakers' ability to ease monetary conditions.

Chart 1. 2023f and 2024f current account balances vs. pre-pandemic averages



Source: BancTrust & Co. based on central banks.

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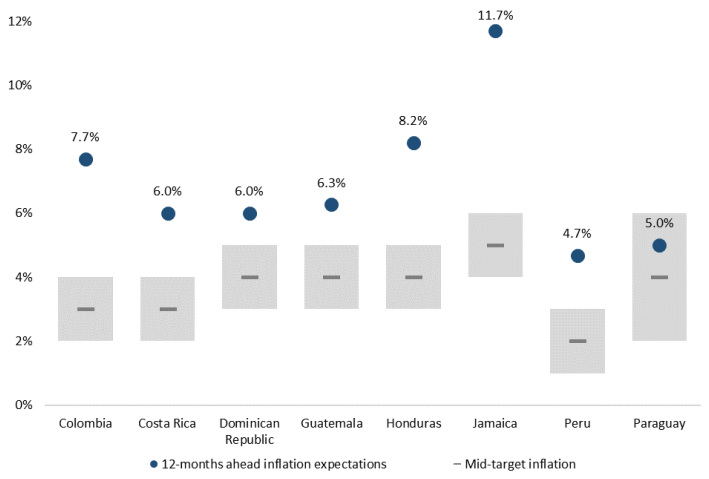
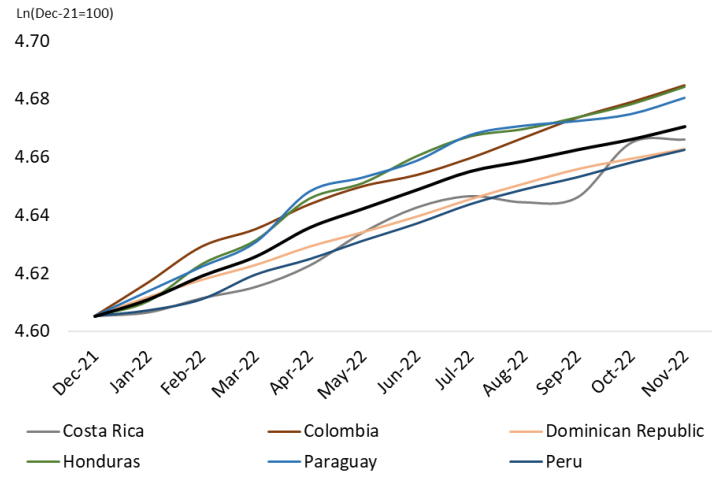
Chart 2. CPI expectations vs. targets



Source: BancTrust & Co. based on central banks.

Chart 3. Core inflation is still running high



Source: BancTrust & Co. based on central banks.

Hence, we only see regional central banks starting to lower borrowing costs timidly in 4Q23 so there is a non-negligible probability that regional growth disappoints relative to our forecasts. In an extremely adverse backdrop, we see countries where low credibility is crippling policy space (Argentina, Ecuador, El Salvador, Panama and Honduras) implementing a major procyclical adjustment. However, except for Argentina, The Bahamas, and to a lower extent El Salvador, a balance of payments crisis in 2023 remains a tail event, in our view. General elections will be held in Paraguay (April), Guatemala (June) and Argentina (October), but only in the latter case we see politics posing a threat to financial stability. Peruvian caretaking president Dina Boluarte announced that anticipated presidential elections will take place in April 2024, but mounting tensions and violence following the demise of former president Pedro Castillo might force an earlier ballot.

Table 1. Summary of main forecast revisions

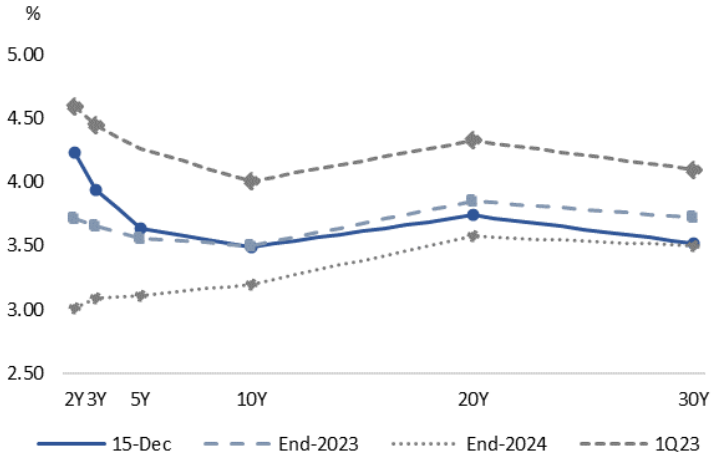
	New		Previous	
	2022	2023	2022	2023
Argentina				
Real GDP (% y-o-y)	5.5	-2.5	3.1	-2.8
CPI, year-end (% y-o-y)	96.6	115.0	103.2	113.6
Total fiscal balance (%GDP)	-4.1	-4.5	-4.1	-4.5
Current account balance (%GDP)	-0.5	-0.6	0.2	0.7
Monetary policy rate, year-end (%)	75.00	80.00	80.00	78.00
ARS/USD, year-end	171.3	451.3	168.3	425.1
Colombia				
Real GDP (% y-o-y)	7.6	1.2		
CPI, year-end (% y-o-y)	12.5	7.2		
Total fiscal balance (%GDP)	-4.1	-4.5		
Current account balance (%GDP)	-7.6	-3.8		
Monetary policy rate, year-end (%)	12.00	10.00		
COP/USD, year-end	4,823	4,768		
Costa Rica				
Real GDP (% y-o-y)	4.3	2.7	3.3	3.0
CPI, year-end (% y-o-y)	9.0	5.0	11.5	5.0
Total fiscal balance (%GDP)	-2.9	-1.7	-4.1	-2.9
Current account balance (%GDP)	-4.5	-3.2	-3.8	-2.3
Monetary policy rate, year-end (%)	9.00	8.00	9.00	5.00
CRC/USD, year-end	600.0	604.1	680.0	680.0
Dominican Republic				
Real GDP (% y-o-y)	5.0	4.8	5.2	4.9
CPI, year-end (% y-o-y)	7.2	4.9	8.6	5.2
Total fiscal balance (%GDP)	-3.2	-2.5	-3.6	-3.1
Current account balance (%GDP)	-4.3	-2.7	-3.5	-2.2
Monetary policy rate, year-end (%)	8.50	8.50	9.75	9.00
DOP/USD, year-end	55.6	59.9	53.9	54.6
Ecuador				
Real GDP (% y-o-y)	2.2	1.5	2.2	2.3
CPI, year-end (% y-o-y)	3.2	3.0	4.2	2.2
Total fiscal balance (%GDP)	-0.8	-2.1	-0.5	-0.3
Current account balance (%GDP)	2.7	2.0	2.4	2.1
El Salvador				
Real GDP (% y-o-y)	2.3	2.0	2.4	1.9
CPI, year-end (% y-o-y)	7.5	4.3	7.8	4.6
Total fiscal balance (%GDP)	-2.6	-3.6	-3.4	-5.2
Current account balance (%GDP)	-6.9	-4.0	-7.3	-5.4
Guatemala				
Real GDP (% y-o-y)	3.9	2.8	4.2	3.0
CPI, year-end (% y-o-y)	10.1	5.4	9.7	4.9
Total fiscal balance (%GDP)	-1.2	-1.5	-0.7	-0.8
Current account balance (%GDP)	0.6	1.6	0.3	0.8
Monetary policy rate, year-end (%)	3.75	5.00	3.50	3.50
GTQ/USD, year-end	7.8	8.0	7.7	7.8
Honduras				
Real GDP (% y-o-y)	4.1	3.2	3.7	3.1
CPI, year-end (% y-o-y)	10.1	9.2	10.2	8.9
Total fiscal balance (%GDP)	-3.5	-4.4	-5.0	-5.9
Current account balance (%GDP)	-1.8	-2.5	-3.9	-5.4
Monetary policy rate, year-end (%)	3.00	3.00	3.00	3.00
HNL/USD, year-end	24.8	24.9	24.7	25.1
Panama				
Real GDP (% y-o-y)	7.9	4.1	6.2	4.9
CPI, year-end (% y-o-y)	2.0	2.4	3.6	2.4
Total fiscal balance (%GDP)	-4.5	-3.7	-5.0	-4.0
Current account balance (%GDP)	-4.8	-4.4	-6.4	-6.0
Paraguay				
Real GDP (% y-o-y)	0.4	4.2	0.0	4.4
CPI, year-end (% y-o-y)	8.8	5.0	9.0	4.0
Total fiscal balance (%GDP)	-4.0	-3.3	-4.0	-3.3
Current account balance (%GDP)	-7.1	-0.7	-4.4	-1.4
Monetary policy rate, year-end (%)	8.50	7.50	8.25	6.00
PYG/USD, year-end	7,200	7,155	7,010	6,922
Peru				
Real GDP (% y-o-y)	3.0	2.8	3.2	3.0
CPI, year-end (% y-o-y)	8.0	3.0	8.6	3.0
Total fiscal balance (%GDP)	-1.6	-2.0	-2.2	-2.0
Current account balance (%GDP)	-4.0	-2.3	-3.6	-3.1
Monetary policy rate, year-end (%)	7.50	6.50	7.00	5.00
PEN/USD, year-end	3.8	3.8	4.1	4.2
The Bahamas				
Real GDP (% y-o-y)	8.2	4.6	6.7	4.6
CPI, year-end (% y-o-y)	7.2	4.3	6.9	5.4
Total fiscal balance (%GDP)	-5.7	-4.1	-6.6	-4.2
Current account balance (%GDP)	-15.6	-9.3	-16.0	-9.3
BSD/USD, year-end	1.00	1.15	1.00	1.15
Venezuela				
Real GDP (% y-o-y)	11.5	6.2	8.7	5.9
CPI, year-end (% y-o-y)	165.0	107.3	93.4	51.1
Total fiscal balance (%GDP)	-6.2	-5.7	-6.0	-5.5
Current account balance (%GDP)	5.4	5.9	5.6	4.6
VES/USD, year-end	11.8	23.4	6.6	8.1

Source: BancTrust & Co.

… But unsupportive politics could curb much-needed fiscal consolidation. For 2024, we see inflation hitting the mid-point of targeted CPI bands and growth at potential levels with the resumption of neutral monetary policy stances. Fiscal accounts will also improve, but, in light of higher indebtedness and more sluggish remittances, sustaining healthy debt metrics might command deepening fiscal discipline. An increase in domestic savings should help foster investment and productivity growth, while cementing the convergence of current account balances to pre-pandemic levels. This will be particularly critical for CAC countries that are currently facing a historical opportunity based on nearshoring and the US seeking to relocate production processes away from China. On the other hand, politics represent a risk to this view, inasmuch as general elections in El Salvador (February), Panama (May), Venezuela (December), and Ecuador (January 2025) lead to a ramp-up in public spending.

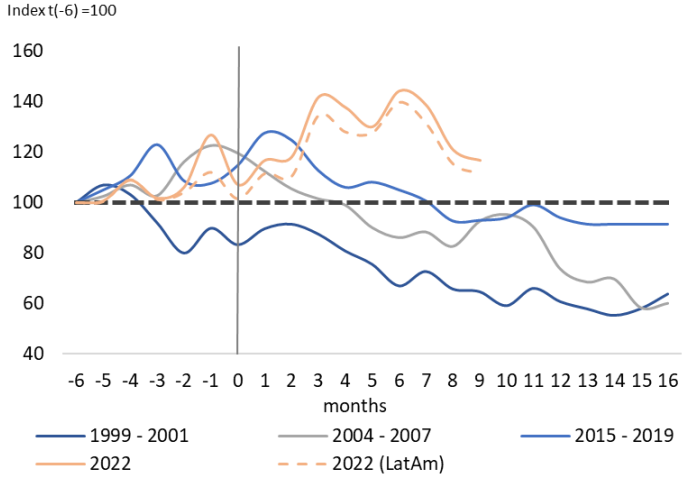
We see limited incremental appetite for risk at the outset of 2023. EM spreads are currently hovering around 380bps, above the 360bps value we had assumed for our global recession scenario (see To the tune of global factors). Higher demand for risk, as incoming economic data fuelled the "Fed pivot" narrative, boosted the returns of our model portfolio. By 13 December, our model portfolio had gained 9.8% versus 2 September, overperforming the benchmark -based on the weights assigned by the EMBIG to the bonds issued by the countries we track- by 3.3ppts. To a large extent, this result was driven by a more aggressive allocation to Salvadoran and Ecuadoran notes. Relative spreads of Salvadoran and Ecuadoran bonds narrowed 344bps and 207bps since 31 August to 1,535bps and 922bps, compared to our target of 1,600bps and 900bps, respectively. Instead, the relative spreads of low-beta names rose below our expectations, while Dominican Republic and Paraguay registered mild downticks. On the other hand, and contrary to our view, the downward slope of the US Treasuries yield curve became more pronounced. In line with the market's consensus, **we have now transferred our assumption of a flattish yield curve to end-2023**, as the Fed and other central banks in DCs cool down demand and gain credibility (Chart 4). Already chronic geopolitical tensions, faltering global growth, sticky inflation and high international rates could hold back further spread compression. Thus, **we pencil in a trading range for the EMBIG of 360-370bps by end-1Q23**, with the relative risk of LatAm consolidating at 35-45bps above the EMBIG, slightly below its pre-war levels.

Chart 4. US Treasuries yield curve assumptions



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

Chart 5. EM spreads in previous tightening episodes



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

We shorten the duration of our model portfolio but stick to our idiosyncratic convictions (El Salvador and Ecuador). Our 1Q23 model portfolio acknowledges these sources of lingering risks even if the pivot narrative is gaining momentum. In the absence of triggers that would stimulate demand for risky assets further, we moderate the duration of our portfolio relative to the benchmark to generate a more balanced risk-reward. On the other hand, we increase exposure to those credits where we have a conviction. In this regard, we continue to favour El Salvador, and to a lesser extent, Ecuador. In El Salvador we see relative spreads narrowing an additional 135bps following the payment of the 23s next January (Table 2). Ecuadoran spreads should post a more modest 23bps reduction versus the EMBIG as the government will need to stick to a strict fiscal discipline to bridge the financing gap. Conversely, we go underweight in those names where political fragmentation and/or weak administrations are denting fundamentals, setting the foundations for a future de-rating (i.e. Panama, Peru and

Honduras). In a context of spread stability, the short end of the Argentina curve (29s and 30s) should deliver handsome returns, but the large FX gap, low international reserves and the proximity of elections make us wary of going overweight until a clear catalyst emerges. Under our set of assumptions, we look to our model portfolio yielding a cumulative 1% until 31 March 2023, compared to -1% for the benchmark (Table A.1). For those investors who are more upbeat on the pace at which the US yield curve can flatten below the 4% threshold we devise a more aggressive portfolio. The rationale for a more aggressive allocation is that faster convergence of US yields can spur risk appetite, causing spreads to drop below our target. This portfolio extends duration, increases the weights of high-beta credits (Argentina, El Salvador and Ecuador) and lowers exposure to BBB and BB countries. The expected return of the aggressive portfolio under our current assumptions for US Treasury yields and spreads would slightly overperform our baseline (see Table A.2), but at the expense of adding much more risk. EXD bonded debt supply should remain limited in 1Q23 as we only see Costa Rica and Dominican Republic tapping the international market for USD2.5bn (Table 3), while most debt placements and LMOs would be concentrated in 4Q23 as the Fed introduces its first 25bps rate cut.

Amnesty is the silver lining for a political solution in Venezuela. The US government allowed for a mild relaxation of oil sanctions as negotiations between the opposition and Chavismo resumed in Mexico. However, recent polls suggest that there is a real chance that a united opposition candidate could defeat Chavismo in unrigged elections. Hence, we look to Maduro limiting political concessions granted in Mexico and stepping up efforts to disperse the opposition vote. In turn, this could bring to a standstill the recent recovery of Sovereign and PdVSA bond prices. The opposition primaries – that we have pencilled in for June 2023– will be the litmus test for reasonably smooth elections in 2024. The amnesty and transitional justice discussions –in line with the proposal of Colombia's president Gustavo Petro– remains the silver lining for a political solution, in our view. **We reiterate our long-held view that Venezuelan bonds will trade closer to our estimated recovery range of 20 to 35 cents on the dollar once there are convincing signs that the legitimacy of the next administration will not be contested** by the international community.

Table 2. Relative spreads (versus EMBIG): 1Q23 forecasts

	Spread Over Treasury (EMBIG)			Relative Spread		
	Level		Difference	Level		Difference
Country	13-Dec-22	Baseline (31-Mar-23)	Baseline (31-Mar-23)	13-Dec-22	Baseline (31-Mar-23)	Baseline (31-Mar-23)
EMBIG	**377**	**365**	**-12**			
BBB						
Peru	185	190	5	-192	-175	17
Panama	208	215	7	-169	-150	19
Colombia	372	365	-7	-5	0	5
Trinidad & Tobago	132	115	-17	-245	-250	-5
BB						
Guatemala	231	225	-6	-146	-140	6
Paraguay	222	205	-17	-155	-160	-5
Honduras	548	545	-3	171	180	9
Dominican Republic	373	365	-8	-4	0	4
B						
Jamaica	201	195	-6	-176	-170	6
Costa Rica	360	345	-15	-17	-20	-3
Barbados	461	415	-46	84	50	-34
Ecuador	1,300	1,265	-35	923	900	-23
CCC						
El Salvador	1,912	1,765	-147	1,535	1,400	-135
Argentina	2,270	2,265	-5	1,893	1,900	7

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

Table 3. EXD bonded debt Gross Issuance Forecasts 2023-24

USDmn	2022	2023f						2024f
	Actual	1Qf	2Qf	3Qf	4Qf	**Forecast**	Previous	**Forecast**
Barbados	**78**	0	0	0	0	**0**	0	**0**
Buybacks	***78***	*0*	*0*	*0*	*0*	***0***	*0*	***0***
Colombia	**1,624**	0	0	0	4,000	**4,000**		**5,000**
Buybacks	***919***	*0*	*0*	*0*	*0*	***0***		***0***
Costa Rica	**0**	1,500	0	0	1,500	**3,000**	1,000	**1,000**
Buybacks	***0***	*0*	*0*	*0*	*0*	***0***	*0*	***0***
Dominican Republic	**3,564**	1,000	0	0	1,000	**2,000**	2,000	**2,500**
Buybacks	*765*	*0*	*0*	*0*	*0*	***0***	*0*	***0***
Ecuador	**0**	0	0	0	637	**637**	600	**0**
Buybacks	***0***	*0*	*0*	*0*	*0*	***0***	*0*	***0***
Guatemala	500	0	0	0	250	**250**	250	**750**
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	0	**0**	0	**500**
Buybacks	***0***	*0*	*0*	*0*	*0*	***0***	*0*	***500***
Panama	**4,000**	0	0	0	2,000	**2,000**	2,800	**3,000**
Buybacks	***485***	*0*	*0*	*0*	*500*	***500***	*800*	***1,000***
Paraguay	**500**	0	0	0	500	**500**	450	**0**
Buybacks	***285***	*0*	*0*	*0*	*0*	***0***	*0*	***0***
Peru	**0**	0	0	0	3,000	**3,000**	6,000	**4,500**
Buybacks	***0***	*0*	*0*	*0*	*0*	***0***	*0*	***1,500***
El Salvador	0	0	0	0	0	**0**	0	**0**
Buybacks	*0*	*0*	*0*	*0*	*0*	***0***	*0*	***0***
The Bahamas	**385**	0	0	0	0	**0**	0	**400**
Buybacks	***0***	*0*	*0*	*0*	*0*	***0***	*0*	***0***
Trinidad and Tobago	**0**	0	0	0	0	**0**	400	**550**
Buybacks	***0***	*0*	*0*	*0*	*0*	***0***	*0*	***0***
Total Gross Issuance	**10,651**	**2,500**	**0**	**0**	**12,887**	**15,387**	13,500	**18,200**
Total Buybacks	***2,531***	*0*	*0*	*0*	*500*	***500***	*800*	***3,000***
Gross Issuance as % of total year		*16%*	*0%*	*0%*	*84%*			

Source: BancTrust & Co.

APPENDIX: BT MODEL PORTFOLIOS

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Table A.1. BT Baseline Model Portfolio

ISIN	Price (Clean)	Concertation	Duration	YTM	Exit date	Benchmark Treasury	Spread	Exit Yield	Clean exit	Total Return	CAGR	Benchmark Portfolio Weights	Benchmark Portfolio Return	Model Portfolio Weights	Model Portfolio Return	Weight Change
ARGENTINA												**11.88%**	**0.63%**	**11.88%**	**0.79%**	**0.00%**
US040114HX11	26.8	14/12/2022	2.9	38.4%	31/3/2023	4.26%	34.7%	39.0%	29.0	9.2%	35.4%	0.48%	0.04%	0.95%	0.09%	0.47%
US040114HS26	27.2	14/12/2022	3.0	35.4%	31/3/2023	4.26%	31.7%	36.0%	29.4	8.4%	31.9%	2.95%	0.25%	5.86%	0.49%	2.91%
US040114HT09	25.1	14/12/2022	5.7	23.7%	31/3/2023	4.01%	20.2%	24.2%	25.7	4.1%	14.8%	3.50%	0.14%	2.10%	0.09%	-1.40%
US040114HU71	30.8	14/12/2022	4.6	23.9%	31/3/2023	4.01%	20.3%	24.3%	31.1	4.5%	16.2%	2.48%	0.11%	1.49%	0.07%	-0.99%
US040114HV54	28.4	14/12/2022	5.5	20.9%	31/3/2023	4.01%	17.4%	21.4%	28.4	3.3%	11.7%	2.11%	0.07%	1.27%	0.04%	-0.84%
US040114HW38	25.4	14/12/2022	4.3	25.4%	31/3/2023	4.26%	21.7%	26.0%	26.2	4.8%	17.4%	0.36%	0.02%	0.22%	0.01%	-0.14%
BARBADOS												**0.34%**	**0.01%**	**0.34%**	**0.01%**	**0.00%**
USP48864AQ80	93.5	14/12/2022	3.7	8.3%	31/3/2023	4.26%	4.2%	8.4%	93.3	1.9%	6.6%	0.34%	0.01%	0.34%	0.01%	0.00%
COLOMBIA												**17.47%**	**-0.29%**	**17.47%**	**-0.23%**	**0.00%**
US195325BQ70	98.1	14/12/2022	1.1	5.7%	31/3/2023	4.59%	1.4%	6.0%	98.3	1.4%	5.0%	1.07%	0.02%	0.64%	0.01%	-0.43%
US195325BD67	103.3	14/12/2022	1.3	5.7%	31/3/2023	4.59%	1.4%	6.0%	102.3	1.4%	4.8%	0.71%	0.01%	0.43%	0.01%	-0.28%
US195325CX13	94.7	14/12/2022	2.8	6.4%	31/3/2023	4.26%	2.7%	6.9%	93.8	0.5%	1.6%	0.99%	0.00%	0.59%	0.00%	-0.39%
US195325DL65	89.0	14/12/2022	3.9	6.8%	31/3/2023	4.26%	3.1%	7.4%	87.9	0.0%	0.1%	1.16%	0.00%	0.70%	0.00%	-0.46%
US195325DP79	88.5	14/12/2022	5.2	6.8%	31/3/2023	4.01%	3.2%	7.2%	87.0	-0.2%	-0.8%	1.22%	0.00%	2.26%	-0.01%	1.04%
US195325DR36	77.9	14/12/2022	6.1	7.0%	31/3/2023	4.01%	3.4%	7.4%	76.5	-0.6%	-1.9%	0.83%	0.00%	1.53%	-0.01%	0.70%
US195325DS19	76.1	14/12/2022	6.9	6.9%	31/3/2023	4.01%	3.4%	7.4%	74.5	-0.9%	-3.2%	1.33%	-0.01%	2.45%	-0.02%	1.13%
US195325DZ51	74.3	14/12/2022	7.6	7.0%	31/3/2023	4.01%	3.5%	7.5%	72.5	-1.2%	-4.0%	1.01%	-0.01%	1.87%	-0.02%	0.86%
US195325BK01	96.1	14/12/2022	8.6	7.8%	31/3/2023	4.01%	4.3%	8.3%	92.5	-1.4%	-4.8%	1.21%	-0.02%	2.23%	-0.03%	1.02%
US195325BM66	81.9	14/12/2022	9.7	8.0%	31/3/2023	4.33%	4.2%	8.6%	77.9	-2.5%	-8.4%	1.43%	-0.04%	0.86%	-0.02%	-0.57%
US195325EA91	65.0	14/12/2022	11.2	7.6%	31/3/2023	4.33%	3.8%	8.1%	61.6	-3.3%	-11.0%	0.45%	-0.02%	0.27%	-0.01%	-0.18%
US195325BR53	75.8	14/12/2022	10.7	8.0%	31/3/2023	4.33%	4.2%	8.5%	71.8	-3.0%	-9.8%	1.31%	-0.04%	0.79%	-0.02%	-0.53%
US195325CU73	70.9	14/12/2022	11.6	7.7%	31/3/2023	4.33%	3.9%	8.3%	67.0	-3.5%	-11.3%	2.24%	-0.08%	1.35%	-0.05%	-0.90%
US195325DQ52	70.8	14/12/2022	11.9	7.8%	31/3/2023	4.10%	4.2%	8.3%	66.8	-3.5%	-11.4%	1.35%	-0.05%	0.81%	-0.03%	-0.54%
US195325DT91	62.3	14/12/2022	13.3	7.3%	31/3/2023	4.10%	3.7%	7.8%	58.4	-4.3%	-13.9%	0.64%	-0.03%	0.38%	-0.02%	-0.25%
US195325DX04	58.5	14/12/2022	14.2	7.0%	31/3/2023	4.10%	3.4%	7.5%	54.5	-4.8%	-15.5%	0.52%	-0.03%	0.31%	-0.02%	-0.21%
COSTA RICA												**2.95%**	**-0.04%**	**2.95%**	**-0.02%**	**0.00%**
USP3699PGE18	97.3	14/12/2022	2.2	5.6%	31/3/2023	4.44%	1.5%	5.9%	97.0	1.0%	3.4%	0.33%	0.00%	0.20%	0.00%	-0.13%
USP3699PGK77	97.7	14/12/2022	5.6	6.5%	31/3/2023	4.01%	2.9%	6.9%	95.8	-0.1%	-0.2%	0.81%	0.00%	1.67%	0.00%	0.86%
USP3699PGF82	83.0	14/12/2022	11.1	7.2%	31/3/2023	4.33%	3.3%	7.7%	79.2	-2.5%	-8.4%	0.28%	-0.01%	0.17%	0.00%	-0.11%
USP3699PGH49	95.1	14/12/2022	10.6	7.5%	31/3/2023	4.33%	3.6%	7.9%	90.8	-2.3%	-7.5%	0.65%	-0.01%	0.39%	-0.01%	-0.26%
USP3699PGJ05	96.4	14/12/2022	10.6	7.5%	31/3/2023	4.33%	3.6%	7.9%	92.0	-2.3%	-7.7%	0.87%	-0.02%	0.52%	-0.01%	-0.35%
DOMINICAN REPUBLIC												**15.46%**	**-0.21%**	**15.46%**	**-0.16%**	**0.00%**
USP3579EBD87	100.0	14/12/2022	1.9	5.5%	31/3/2023	4.44%	1.5%	5.9%	99.3	0.9%	3.1%	0.89%	0.01%	0.53%	0.00%	-0.36%
USP3579EBK21	102.0	14/12/2022	2.7	6.1%	31/3/2023	4.26%	2.4%	6.7%	100.4	0.5%	1.6%	1.07%	0.00%	0.64%	0.00%	-0.43%
USP3579EBV85	98.7	14/12/2022	3.5	6.3%	31/3/2023	4.26%	2.6%	6.8%	97.0	0.1%	0.3%	1.17%	0.00%	0.70%	0.00%	-0.47%
USP3579ECB13	97.5	14/12/2022	4.6	6.5%	31/3/2023	4.26%	2.8%	7.1%	95.2	-0.4%	-1.4%	0.89%	0.00%	1.42%	-0.01%	0.53%
USP3579ECP09	93.2	14/12/2022	5.0	6.9%	31/3/2023	4.01%	3.3%	7.3%	91.5	-0.1%	-0.3%	1.15%	0.00%	1.85%	0.00%	0.70%
USP3579ECF27	86.7	14/12/2022	5.8	6.9%	31/3/2023	4.01%	3.3%	7.3%	84.9	-0.4%	-1.4%	1.20%	0.00%	1.92%	-0.01%	0.72%
USP3579ECN50	91.7	14/12/2022	7.2	7.1%	31/3/2023	4.01%	3.6%	7.6%	89.0	-1.0%	-3.3%	1.14%	-0.01%	1.82%	-0.02%	0.68%
USP3579ECH82	84.7	14/12/2022	7.3	7.1%	31/3/2023	4.01%	3.5%	7.5%	82.4	-1.0%	-3.5%	1.79%	-0.02%	2.87%	-0.03%	1.08%
USP3579ECJ49	78.8	14/12/2022	10.3	7.4%	31/3/2023	4.33%	3.6%	8.0%	74.9	-2.9%	-9.5%	0.82%	-0.02%	0.49%	-0.01%	-0.33%
USP3579EAY34	95.1	14/12/2022	10.3	7.9%	31/3/2023	4.33%	4.1%	8.4%	90.3	-2.7%	-8.8%	0.98%	-0.03%	0.59%	-0.02%	-0.39%
USP3579EBE60	88.8	14/12/2022	10.4	7.9%	31/3/2023	4.33%	4.1%	8.4%	84.2	-2.8%	-9.1%	1.24%	-0.03%	0.75%	-0.02%	-0.50%
USP3579EBY25	84.3	14/12/2022	10.9	7.9%	31/3/2023	4.10%	4.3%	8.4%	79.8	-2.9%	-9.6%	0.59%	-0.02%	0.35%	-0.01%	-0.23%
USP3579ECE51	82.9	14/12/2022	11.4	8.0%	31/3/2023	4.10%	4.4%	8.5%	78.4	-3.1%	-10.2%	0.85%	-0.03%	0.51%	-0.02%	-0.34%
USP3579ECG00	75.6	14/12/2022	12.0	7.9%	31/3/2023	4.10%	4.3%	8.4%	71.2	-3.4%	-11.2%	1.69%	-0.06%	1.02%	-0.03%	-0.68%
ECUADOR												**5.44%**	**0.20%**	**9.27%**	**0.36%**	**3.82%**
XS2214239506	38.8	14/12/2022	4.6	19.1%	31/3/2023	4.26%	15.1%	19.4%	40.5	4.4%	15.8%	0.26%	0.01%	3.15%	0.14%	2.90%
XS2214237807	64.3	14/12/2022	3.8	17.1%	31/3/2023	4.26%	13.1%	17.3%	65.2	3.9%	14.0%	1.63%	0.06%	1.92%	0.07%	0.29%
XS2214238441	45.8	14/12/2022	6.3	16.9%	31/3/2023	4.01%	13.1%	17.1%	46.9	3.8%	13.8%	2.62%	0.10%	3.09%	0.12%	0.47%
XS2214239175	40.9	14/12/2022	8.0	15.1%	31/3/2023	4.33%	11.0%	15.4%	41.5	2.5%	8.8%	0.93%	0.02%	1.10%	0.03%	0.17%
EL SALVADOR												**1.67%**	**0.18%**	**10.77%**	**1.15%**	**9.11%**
USP01012AS54	64.4	14/12/2022	1.7	29.5%	31/3/2023	4.44%	24.1%	28.6%	69.3	9.9%	38.1%	0.00%	0.00%	0.00%	0.00%	0.00%
USP01012AT38	44.1	14/12/2022	2.8	31.7%	31/3/2023	4.26%	26.6%	30.8%	47.3	11.1%	43.6%	0.25%	0.03%	1.29%	0.14%	1.04%
USP01012BX31	43.8	14/12/2022	3.5	28.3%	31/3/2023	4.01%	23.3%	27.3%	46.5	11.3%	44.5%	0.19%	0.02%	0.97%	0.11%	0.78%
XS0146173371	43.9	14/12/2022	4.5	23.1%	31/3/2023	4.01%	18.2%	22.2%	46.5	11.2%	43.8%	0.15%	0.02%	0.78%	0.09%	0.63%
USP01012AN67	40.0	14/12/2022	5.1	21.8%	31/3/2023	4.01%	16.8%	20.8%	42.3	11.5%	45.0%	0.29%	0.03%	2.62%	0.30%	2.33%
USP01012AR71	38.9	14/12/2022	4.9	20.5%	31/3/2023	4.33%	15.3%	19.6%	40.9	10.3%	39.8%	0.18%	0.02%	0.94%	0.10%	0.76%
USP01012CA29	38.8	14/12/2022	5.2	18.6%	31/3/2023	4.10%	13.6%	17.7%	40.9	10.0%	38.8%	0.30%	0.03%	1.55%	0.16%	1.25%
USP01012CC84	43.7	14/12/2022	4.3	21.8%	31/3/2023	4.10%	16.8%	20.9%	45.6	9.9%	38.1%	0.32%	0.03%	2.63%	0.26%	2.32%
GUATEMALA												**3.74%**	**-0.07%**	**3.74%**	**-0.06%**	**0.00%**
USP5015VAF33	96.8	14/12/2022	3.1	5.6%	31/3/2023	4.26%	1.9%	6.1%	95.5	0.1%	0.3%	0.51%	0.00%	0.31%	0.00%	-0.20%
USP5015VAG16	95.6	14/12/2022	4.0	5.5%	31/3/2023	4.26%	1.8%	6.1%	93.8	-0.4%	-1.5%	0.36%	0.00%	0.21%	0.00%	-0.14%
USP5015VAE67	97.3	14/12/2022	4.4	5.5%	31/3/2023	4.26%	1.8%	6.0%	95.1	-0.7%	-2.4%	0.52%	0.00%	0.31%	0.00%	-0.21%
USP5015VAH98	96.0	14/12/2022	5.4	5.6%	31/3/2023	4.01%	2.1%	6.1%	93.9	-0.7%	-2.3%	0.36%	0.00%	0.95%	-0.01%	0.59%
USP5015VAM83	83.9	14/12/2022	7.8	5.9%	31/3/2023	4.01%	2.3%	6.3%	81.4	-1.7%	-5.8%	0.32%	-0.01%	0.19%	0.00%	-0.13%
USP5015VAK28	98.9	14/12/2022	6.6	5.5%	31/3/2023	4.01%	2.0%	6.0%	96.0	-1.3%	-4.3%	0.37%	0.00%	0.99%	-0.01%	0.61%
USP5015VAN66	81.8	14/12/2022	11.5	6.3%	31/3/2023	4.33%	2.5%	6.8%	77.1	-4.0%	-12.9%	0.31%	-0.01%	0.18%	-0.01%	-0.12%
USP5015VAJ54	95.9	14/12/2022	12.7	6.4%	31/3/2023	4.10%	2.9%	7.0%	89.9	-4.4%	-14.2%	0.99%	-0.04%	0.60%	-0.03%	-0.40%
HONDURAS												**0.78%**	**0.00%**	**0.47%**	**0.00%**	**-0.31%**
USP5178RAC27	89.4	14/12/2022	3.4	9.4%	31/3/2023	4.26%	5.8%	10.0%	88.3	0.9%	3.0%	0.44%	0.00%	0.26%	0.00%	-0.18%
USP5178RAD00	81.0	14/12/2022	5.6	9.2%	31/3/2023	4.01%	5.7%	9.7%	79.3	0.0%	0.0%	0.34%	0.00%	0.20%	0.00%	-0.14%
JAMAICA												**3.57%**	**-0.09%**	**3.57%**	**-0.06%**	**0.00%**
US470160CA80	107.4	14/12/2022	3.7	4.8%	31/3/2023	4.26%	1.1%	5.4%	104.9	-0.5%	-1.7%	1.05%	-0.01%	2.06%	-0.01%	1.01%
US470160AV46	120.3	14/12/2022	9.2	5.9%	31/3/2023	4.33%	2.1%	6.5%	114.4	-2.9%	-9.6%	1.04%	-0.03%	0.62%	-0.02%	-0.42%
US470160CB63	116.2	14/12/2022	11.1	6.5%	31/3/2023	4.33%	2.7%	7.0%	109.5	-3.7%	-12.1%	1.48%	-0.05%	0.89%	-0.03%	-0.59%
PARAGUAY												**3.75%**	**-0.06%**	**3.75%**	**-0.05%**	**0.00%**
USP75744AD76	100.1	14/12/2022	3.0	5.0%	31/3/2023	4.26%	1.1%	5.4%	98.9	0.2%	0.8%	0.36%	0.00%	0.22%	0.00%	-0.15%
USP75744AE59	99.1	14/12/2022	3.8	4.9%	31/3/2023	4.26%	1.1%	5.4%	97.5	-0.1%	-0.4%	0.34%	0.00%	0.21%	0.00%	-0.14%
USP75744AJ47	98.3	14/12/2022	6.0	5.2%	31/3/2023	4.01%	1.6%	5.6%	96.3	-0.5%	-1.6%	0.67%	0.00%	1.41%	-0.01%	0.73%
USP75744AK10	81.8	14/12/2022	7.7	5.3%	31/3/2023	4.01%	1.6%	5.6%	80.2	-1.0%	-3.5%	0.34%	0.00%	0.70%	-0.01%	0.37%
USP75744AL92	89.0	14/12/2022	7.6	5.3%	31/3/2023	4.01%	1.7%	5.7%	86.9	-1.0%	-3.4%	0.31%	0.00%	0.19%	0.00%	-0.12%
USP75744AB11	98.2	14/12/2022	11.6	6.2%	31/3/2023	4.33%	2.3%	6.7%	93.5	-2.8%	-9.4%	0.68%	-0.02%	0.41%	-0.01%	-0.27%
USP75744AF25	89.8	14/12/2022	12.6	6.4%	31/3/2023	4.10%	2.7%	6.8%	85.4	-3.0%	-10.1%	0.33%	-0.01%	0.20%	-0.01%	-0.13%
USP75744AG08	88.7	14/12/2022	13.2	6.3%	31/3/2023	4.10%	2.6%	6.7%	84.1	-3.3%	-11.0%	0.72%	-0.02%	0.43%	-0.01%	-0.29%
PANAMÁ												**16.60%**	**-0.66%**	**9.96%**	**-0.37%**	**-6.64%**
US698299BD54	98.6	14/12/2022	1.7	4.9%	31/3/2023	4.59%	0.7%	5.3%	98.2	0.8%	2.9%	0.61%	0.01%	0.29%	0.00%	-0.32%
US698299BE38	97.8	14/12/2022	2.1	4.8%	31/3/2023	4.44%	0.9%	5.3%	97.1	0.4%	1.3%	0.90%	0.00%	0.43%	0.00%	-0.47%
US698299AV61	107.1	14/12/2022	2.7	4.7%	31/3/2023	4.26%	1.1%	5.4%	104.5	-0.3%	-1.1%	0.79%	0.00%	0.38%	0.00%	-0.41%
US698299AD63	117.5	14/12/2022	3.9	4.7%	31/3/2023	4.26%	1.2%	5.4%	113.5	-1.1%	-3.7%	0.85%	-0.01%	0.41%	0.00%	-0.44%
US698299BF03	96.2	14/12/2022	4.6	4.7%	31/3/2023	4.26%	1.1%	5.4%	93.4	-1.6%	-5.4%	0.89%	-0.01%	0.43%	-0.01%	-0.46%
US698299AK07	121.6	14/12/2022	4.8	5.3%	31/3/2023	4.01%	1.9%	5.9%	117.4	-1.1%	-3.8%	0.86%	-0.01%	0.41%	0.00%	-0.45%
US698299BK97	88.9	14/12/2022	6.1	5.0%	31/3/2023	4.01%	1.6%	5.6%	86.2	-2.0%	-6.5%	1.02%	-0.02%	0.92%	-0.02%	-0.10%
US698299BN37	77.5	14/12/2022	8.4	5.2%	31/3/2023	4.01%	1.8%	5.8%	74.4	-3.2%	-10.5%	1.42%	-0.05%	1.27%	-0.04%	-0.14%
US698299BR41	84.7	14/12/2022	8.2	5.3%	31/3/2023	4.01%	1.8%	5.9%	81.1	-3.1%	-10.1%	0.63%	-0.02%	0.56%	-0.02%	-0.06%
US698299AW45	109.5	14/12/2022	8.2	5.6%	31/3/2023	4.01%	2.2%	6.2%	104.1	-3.0%	-9.9%	1.66%	-0.05%	1.49%	-0.04%	-0.17%
US698299BG85	82.6	14/12/2022	13.3	5.9%	31/3/2023	4.10%	2.4%	6.5%	75.9	-6.3%	-20.1%	0.70%	-0.04%	0.34%	-0.02%	-0.36%
US698299BH68	81.2	14/12/2022	13.9	5.9%	31/3/2023	4.10%	2.5%	6.6%	74.4	-6.7%	-21.1%	1.48%	-0.10%	0.71%	-0.05%	-0.77%
US698299BB98	78.3	14/12/2022	14.6	5.9%	31/3/2023	4.10%	2.4%	6.5%	71.3	-7.1%	-22.3%	0.99%	-0.07%	0.48%	-0.03%	-0.52%
US698299BM53	79.0	14/12/2022	15.0	6.0%	31/3/2023	4.10%	2.5%	6.6%	71.8	-7.3%	-22.8%	1.43%	-0.10%	0.69%	-0.05%	-0.74%
US698299BL70	70.4	14/12/2022	15.9	5.8%	31/3/2023	4.10%	2.4%	6.5%	63.6	-7.8%	-24.3%	1.52%	-0.12%	0.73%	-0.06%	-0.79%
US698299BS24	77.0	14/12/2022	15.3	6.0%	31/3/2023	4.10%	2.6%	6.7%	69.8	-7.4%	-23.2%	0.85%	-0.06%	0.41%	-0.03%	-0.44%
PERU												**14.95%**	**-0.60%**	**8.97%**	**-0.31%**	**-5.98%**
US715638AS19	105.8	14/12/2022	2.3	4.9%	31/3/2023	4.44%	1.0%	5.5%	104.0	0.3%	1.1%	1.15%	0.00%	0.40%	0.00%	-0.75%
US715638DE95	93.4	14/12/2022	2.9	4.7%	31/3/2023	4.26%	1.1%	5.4%	92.3	-0.4%	-1.3%	0.65%	0.00%	0.23%	0.00%	-0.42%
US715638BU55	97.9	14/12/2022	4.2	4.6%	31/3/2023	4.26%	1.0%	5.3%	95.4	-1.2%	-4.1%	0.69%	-0.01%	0.24%	0.00%	-0.45%
US715638DA73	87.0	14/12/2022	6.5	4.9%	31/3/2023	4.01%	1.5%	5.5%	84.3	-2.1%	-6.9%	0.46%	-0.01%	0.16%	0.00%	-0.30%
US715638DF60	85.7	14/12/2022	7.0	5.0%	31/3/2023	4.01%	1.5%	5.5%	82.8	-2.3%	-7.7%	2.24%	-0.05%	2.01%	-0.05%	-0.22%
US715638DP43	75.7	14/12/2022	8.8	5.0%	31/3/2023	4.01%	1.5%	5.6%	72.7	-3.3%	-10.8%	0.52%	-0.02%	0.47%	-0.02%	-0.05%
US715638AP79	125.6	14/12/2022	7.4	5.6%	31/3/2023	4.01%	2.1%	6.2%	119.9	-2.4%	-7.9%	1.87%	-0.04%	1.68%	-0.04%	-0.19%
US715638DU38	82.5	14/12/2022	9.0	5.1%	31/3/2023	4.01%	1.6%	5.6%	78.8	-3.4%	-11.1%	1.30%	-0.04%	1.17%	-0.04%	-0.13%
US715638AU64	109.6	14/12/2022	8.9	5.5%	31/3/2023	4.01%	2.1%	6.1%	104.1	-3.2%	-10.5%	0.86%	-0.03%	0.78%	-0.02%	-0.09%
US715638DS81	77.1	14/12/2022	12.6	5.3%	31/3/2023	4.33%	1.6%	5.9%	71.3	-6.1%	-19.3%	0.67%	-0.04%	0.23%	-0.01%	-0.43%
US715638BM30	103.9	14/12/2022	14.2	5.4%	31/3/2023	4.10%	1.9%	6.0%	95.1	-6.8%	-21.3%	1.82%	-0.12%	0.64%	-0.04%	-1.18%
US715638DT64	76.1	14/12/2022	15.8	5.2%	31/3/2023	4.10%	1.7%	5.8%	69.0	-7.7%	-24.1%	0.93%	-0.07%	0.33%	-0.03%	-0.60%
US715638DQ26	62.8	14/12/2022	19.2	5.0%	31/3/2023	4.10%	1.5%	5.6%	55.9	-9.6%	-29.2%	0.87%	-0.08%	0.30%	-0.03%	-0.56%
US715638DW93	70.2	14/12/2022	18.1	5.3%	31/3/2023	4.10%	1.8%	5.9%	62.8	-8.8%	-27.1%	0.49%	-0.04%	0.17%	-0.02%	-0.32%
US715638DR09	62.8	14/12/2022	19.8	5.1%	31/3/2023	4.10%	1.6%	5.7%	56.1	-8.9%	-27.3%	0.44%	-0.04%	0.15%	-0.01%	-0.29%
TRINIDAD AND TOBAGO												**1.40%**	**0.00%**	**1.40%**	**0.00%**	**0.00%**
USP93960AF25	99.0	14/12/2022	1.0	5.3%	31/3/2023	4.59%	0.9%	5.5%	99.1	1.4%	4.9%	0.38%	0.01%	0.23%	0.00%	-0.15%
USP93960AG08	99.0	14/12/2022	3.3	4.8%	31/3/2023	4.26%	1.0%	5.3%	97.7	0.1%	0.2%	0.69%	0.00%	0.97%	0.00%	0.28%
USP93960AH80	95.8	14/12/2022	6.1	5.2%	31/3/2023	4.01%	1.5%	5.5%	93.9	-0.5%	-1.9%	0.33%	0.00%	0.20%	0.00%	-0.13%
												100.00%	**-1.00%**	**100.00%**	**1.03%**	**0.00%**

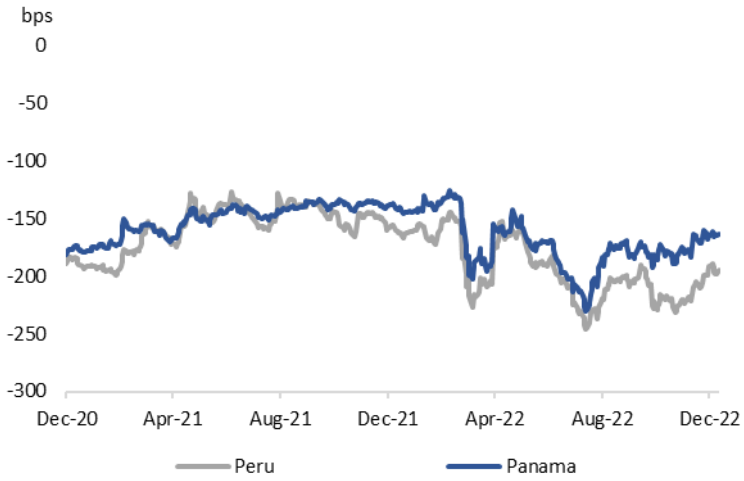
Source: BancTrust & Co. based on Bloomberg and own estimates.

Table A.2. BT Aggressive Portfolio

ISIN	Price (Clean)	Concertation	Duration	YTM	Exit date	Benchmark Treasury	Spread	Exit Yield	Clean exit	Total Return	CAGR	Benchmark Portfolio Weights	Benchmark Portfolio Return	Aggressive Portfolio Weights	Aggressive Portfolio Return	Weight Change
ARGENTINA												**11.88%**	**0.63%**	**13.88%**	**0.99%**	**2.00%**
US040114HX11	26.8	14/12/2022	2.9	38.4%	31/3/2023	4.26%	34.7%	39.0%	29.0	9.2%	35.4%	0.48%	0.04%	1.35%	0.12%	0.87%
US040114HS26	27.2	14/12/2022	3.0	35.4%	31/3/2023	4.26%	31.7%	36.0%	29.4	8.4%	31.9%	2.95%	0.25%	8.31%	0.70%	5.36%
US040114HT09	25.1	14/12/2022	5.7	23.7%	31/3/2023	4.01%	20.2%	24.2%	25.7	4.1%	14.8%	3.50%	0.14%	1.75%	0.07%	-1.75%
US040114HU71	30.8	14/12/2022	4.6	23.9%	31/3/2023	4.01%	20.3%	24.3%	31.1	4.5%	16.2%	2.48%	0.11%	1.24%	0.06%	-1.24%
US040114HV54	28.4	14/12/2022	5.5	20.9%	31/3/2023	4.01%	17.4%	21.4%	28.4	3.3%	11.7%	2.11%	0.07%	1.05%	0.03%	-1.05%
US040114HW38	25.4	14/12/2022	4.3	25.4%	31/3/2023	4.26%	21.7%	26.0%	26.2	4.8%	17.4%	0.36%	0.02%	0.18%	0.01%	-0.18%
BARBADOS												**0.34%**	**0.01%**	**0.34%**	**0.01%**	**0.00%**
USP48864AQ80	93.5	14/12/2022	3.7	8.3%	31/3/2023	4.26%	4.2%	8.4%	93.3	1.9%	6.6%	0.34%	0.01%	0.34%	0.01%	0.00%
COLOMBIA												**17.47%**	**-0.29%**	**14.47%**	**-0.33%**	**-3.00%**
US195325BQ70	98.1	14/12/2022	1.1	5.7%	31/3/2023	4.59%	1.4%	6.0%	98.3	1.4%	5.0%	1.07%	0.02%	0.62%	0.01%	-0.45%
US195325BD67	103.3	14/12/2022	1.3	5.7%	31/3/2023	4.59%	1.4%	6.0%	102.3	1.4%	4.8%	0.71%	0.01%	0.41%	0.01%	-0.30%
US195325CX13	94.7	14/12/2022	2.8	6.4%	31/3/2023	4.26%	2.7%	6.9%	93.8	0.5%	1.6%	0.99%	0.00%	0.57%	0.00%	-0.41%
US195325DL65	89.0	14/12/2022	3.9	6.8%	31/3/2023	4.26%	3.1%	7.4%	87.9	0.0%	0.1%	1.16%	0.00%	0.67%	0.00%	-0.49%
US195325DP79	88.5	14/12/2022	5.2	6.8%	31/3/2023	4.01%	3.2%	7.2%	87.0	-0.2%	-0.8%	1.22%	0.00%	0.71%	0.00%	-0.51%
US195325DR36	77.9	14/12/2022	6.1	7.0%	31/3/2023	4.01%	3.4%	7.4%	76.5	-0.6%	-1.9%	0.83%	0.00%	0.48%	0.00%	-0.35%
US195325DS19	76.1	14/12/2022	6.9	6.9%	31/3/2023	4.01%	3.4%	7.4%	74.5	-0.9%	-3.2%	1.33%	-0.01%	0.77%	-0.01%	-0.56%
US195325DZ51	74.3	14/12/2022	7.6	7.0%	31/3/2023	4.01%	3.5%	7.5%	72.5	-1.2%	-4.0%	1.01%	-0.01%	0.59%	-0.01%	-0.43%
US195325BK01	96.1	14/12/2022	8.6	7.8%	31/3/2023	4.01%	4.3%	8.3%	92.5	-1.4%	-4.8%	1.21%	-0.02%	0.70%	-0.01%	-0.51%
US195325BM66	81.9	14/12/2022	9.7	8.0%	31/3/2023	4.33%	4.2%	8.6%	77.9	-2.5%	-8.4%	1.43%	-0.04%	0.83%	-0.02%	-0.60%
US195325EA91	65.0	14/12/2022	11.2	7.6%	31/3/2023	4.33%	3.8%	8.1%	61.6	-3.3%	-11.0%	0.45%	-0.02%	0.64%	-0.02%	0.19%
US195325BR53	75.8	14/12/2022	10.7	8.0%	31/3/2023	4.33%	4.2%	8.5%	71.8	-3.0%	-9.8%	1.31%	-0.04%	0.76%	-0.02%	-0.55%
US195325CU73	70.9	14/12/2022	11.6	7.7%	31/3/2023	4.33%	3.9%	8.3%	67.0	-3.5%	-11.3%	2.24%	-0.08%	3.17%	-0.11%	0.93%
US195325DQ52	70.8	14/12/2022	11.9	7.8%	31/3/2023	4.10%	4.2%	8.3%	66.8	-3.5%	-11.4%	1.35%	-0.05%	1.91%	-0.07%	0.56%
US195325DT91	62.3	14/12/2022	13.3	7.3%	31/3/2023	4.10%	3.7%	7.8%	58.4	-4.3%	-13.9%	0.64%	-0.03%	0.90%	-0.04%	0.26%
US195325DX04	58.5	14/12/2022	14.2	7.0%	31/3/2023	4.10%	3.4%	7.5%	54.5	-4.8%	-15.5%	0.52%	-0.03%	0.74%	-0.04%	0.22%
COSTA RICA												**2.95%**	**-0.04%**	**2.95%**	**-0.05%**	**0.00%**
USP3699PGE18	97.3	14/12/2022	2.2	5.6%	31/3/2023	4.44%	1.5%	5.9%	97.0	1.0%	3.4%	0.33%	0.00%	0.23%	0.00%	-0.10%
USP3699PGK77	97.7	14/12/2022	5.6	6.5%	31/3/2023	4.01%	2.9%	6.9%	95.8	-0.1%	-0.2%	0.81%	0.00%	0.57%	0.00%	-0.24%
USP3699PGF82	83.0	14/12/2022	11.1	7.2%	31/3/2023	4.33%	3.3%	7.7%	79.2	-2.5%	-8.4%	0.28%	-0.01%	0.42%	-0.01%	0.13%
USP3699PGH49	95.1	14/12/2022	10.6	7.5%	31/3/2023	4.33%	3.6%	7.9%	90.8	-2.3%	-7.5%	0.65%	-0.01%	0.46%	-0.01%	-0.20%
USP3699PGJ05	96.4	14/12/2022	10.6	7.5%	31/3/2023	4.33%	3.6%	7.9%	92.0	-2.3%	-7.7%	0.87%	-0.02%	1.27%	-0.03%	0.41%
DOMINICAN REPUBLIC												**15.46%**	**-0.21%**	**13.14%**	**-0.22%**	**-2.32%**
USP3579EBD87	100.0	14/12/2022	1.9	5.5%	31/3/2023	4.44%	1.5%	5.9%	99.3	0.9%	3.1%	0.89%	0.01%	0.62%	0.01%	-0.27%
USP3579EBK21	102.0	14/12/2022	2.7	6.1%	31/3/2023	4.26%	2.4%	6.7%	100.4	0.5%	1.6%	1.07%	0.00%	0.75%	0.00%	-0.32%
USP3579EBV85	98.7	14/12/2022	3.5	6.3%	31/3/2023	4.26%	2.6%	6.8%	97.0	0.1%	0.3%	1.17%	0.00%	0.82%	0.00%	-0.35%
USP3579ECB13	97.5	14/12/2022	4.6	6.5%	31/3/2023	4.26%	2.8%	7.1%	95.2	-0.4%	-1.4%	0.89%	0.00%	0.62%	0.00%	-0.27%
USP3579ECP09	93.2	14/12/2022	5.0	6.9%	31/3/2023	4.01%	3.3%	7.3%	91.5	-0.1%	-0.3%	1.15%	0.00%	0.81%	0.00%	-0.35%
USP3579ECF27	86.7	14/12/2022	5.8	6.9%	31/3/2023	4.01%	3.3%	7.3%	84.9	-0.4%	-1.4%	1.20%	0.00%	0.84%	0.00%	-0.36%
USP3579ECN50	91.7	14/12/2022	7.2	7.1%	31/3/2023	4.01%	3.6%	7.6%	89.0	-1.0%	-3.3%	1.14%	-0.01%	0.79%	-0.01%	-0.34%
USP3579ECH82	84.7	14/12/2022	7.3	7.1%	31/3/2023	4.01%	3.5%	7.5%	82.4	-1.0%	-3.5%	1.79%	-0.02%	1.25%	-0.01%	-0.54%
USP3579ECJ49	78.8	14/12/2022	10.3	7.4%	31/3/2023	4.33%	3.6%	8.0%	74.9	-2.9%	-9.5%	0.82%	-0.02%	0.88%	-0.03%	0.06%
USP3579EAY34	95.1	14/12/2022	10.3	7.9%	31/3/2023	4.33%	4.1%	8.4%	90.3	-2.7%	-8.8%	0.98%	-0.03%	1.05%	-0.03%	0.07%
USP3579EBE60	88.8	14/12/2022	10.4	7.9%	31/3/2023	4.33%	4.1%	8.4%	84.2	-2.8%	-9.1%	1.24%	-0.03%	1.34%	-0.04%	0.09%
USP3579EBY25	84.3	14/12/2022	10.9	7.9%	31/3/2023	4.10%	4.3%	8.4%	79.8	-2.9%	-9.6%	0.59%	-0.02%	0.63%	-0.02%	0.04%
USP3579ECE51	82.9	14/12/2022	11.4	8.0%	31/3/2023	4.10%	4.4%	8.5%	78.4	-3.1%	-10.2%	0.85%	-0.03%	0.91%	-0.03%	0.06%
USP3579ECG00	75.6	14/12/2022	12.0	7.9%	31/3/2023	4.10%	4.3%	8.4%	71.2	-3.4%	-11.2%	1.69%	-0.06%	1.82%	-0.06%	0.13%
ECUADOR												**5.44%**	**0.20%**	**10.31%**	**0.39%**	**4.87%**
XS2214239506	38.8	14/12/2022	4.6	19.1%	31/3/2023	4.26%	15.1%	19.4%	40.5	4.4%	15.8%	0.26%	0.01%	1.92%	0.08%	1.66%
XS2214237807	64.3	14/12/2022	3.8	17.1%	31/3/2023	4.26%	13.1%	17.3%	65.2	3.9%	14.0%	1.63%	0.06%	2.74%	0.11%	1.11%
XS2214238441	45.8	14/12/2022	6.3	16.9%	31/3/2023	4.01%	13.1%	17.1%	46.9	3.8%	13.8%	2.62%	0.10%	4.17%	0.16%	1.55%
XS2214239175	40.9	14/12/2022	8.0	15.1%	31/3/2023	4.33%	11.0%	15.4%	41.5	2.5%	8.8%	0.93%	0.02%	1.48%	0.04%	0.55%
EL SALVADOR												**1.67%**	**0.18%**	**14.17%**	**1.52%**	**12.51%**
USP01012AS54	64.4	14/12/2022	1.7	29.5%	31/3/2023	4.44%	24.1%	28.6%	69.3	9.9%	38.1%	0.00%	0.00%		0.00%	0.00%
USP01012AT38	44.1	14/12/2022	2.8	31.7%	31/3/2023	4.26%	26.6%	30.8%	47.3	11.1%	43.6%	0.25%	0.03%	2.47%	0.28%	2.23%
USP01012BX31	43.8	14/12/2022	3.5	28.3%	31/3/2023	4.01%	23.3%	27.3%	46.5	11.3%	44.5%	0.19%	0.02%	1.86%	0.21%	1.67%
XS0146173371	43.9	14/12/2022	4.5	23.1%	31/3/2023	4.01%	18.2%	22.2%	46.5	11.2%	43.8%	0.15%	0.02%	1.50%	0.17%	1.35%
USP01012AN67	40.0	14/12/2022	5.1	21.8%	31/3/2023	4.01%	16.8%	20.8%	42.3	11.5%	45.0%	0.29%	0.03%	2.17%	0.25%	1.88%
USP01012AR71	38.9	14/12/2022	4.9	20.5%	31/3/2023	4.33%	15.3%	19.6%	40.9	10.3%	39.8%	0.18%	0.02%	1.80%	0.18%	1.62%
USP01012CA29	38.8	14/12/2022	5.2	18.6%	31/3/2023	4.10%	13.6%	17.7%	40.9	10.0%	38.8%	0.30%	0.03%	2.17%	0.22%	1.88%
USP01012CC84	43.7	14/12/2022	4.3	21.8%	31/3/2023	4.10%	16.8%	20.9%	45.6	9.9%	38.1%	0.32%	0.03%	2.19%	0.22%	1.88%
GUATEMALA												**3.74%**	**-0.07%**	**3.18%**	**-0.07%**	**-0.56%**
USP5015VAF33	96.8	14/12/2022	3.1	5.6%	31/3/2023	4.26%	1.9%	6.1%	95.5	0.1%	0.3%	0.51%	0.00%	0.36%	0.00%	-0.15%
USP5015VAG16	95.6	14/12/2022	4.0	5.5%	31/3/2023	4.26%	1.8%	6.1%	93.8	-0.4%	-1.5%	0.36%	0.00%	0.25%	0.00%	-0.11%
USP5015VAE67	97.3	14/12/2022	4.4	5.5%	31/3/2023	4.26%	1.8%	6.0%	95.1	-0.7%	-2.4%	0.52%	0.00%	0.36%	0.00%	-0.16%
USP5015VAH98	96.0	14/12/2022	5.4	5.6%	31/3/2023	4.01%	2.1%	6.1%	93.9	-0.7%	-2.3%	0.36%	0.00%	0.25%	0.00%	-0.11%
USP5015VAM83	83.9	14/12/2022	7.8	5.9%	31/3/2023	4.01%	2.3%	6.3%	81.4	-1.7%	-5.8%	0.32%	-0.01%	0.22%	0.00%	-0.09%
USP5015VAK28	98.9	14/12/2022	6.6	5.5%	31/3/2023	4.01%	2.0%	6.0%	96.0	-1.3%	-4.3%	0.37%	0.00%	0.26%	0.00%	-0.11%
USP5015VAN66	81.8	14/12/2022	11.5	6.3%	31/3/2023	4.33%	2.5%	6.8%	77.1	-4.0%	-12.9%	0.31%	-0.01%	0.35%	-0.01%	0.04%
USP5015VAJ54	95.9	14/12/2022	12.7	6.4%	31/3/2023	4.10%	2.9%	7.0%	89.9	-4.4%	-14.2%	0.99%	-0.04%	1.12%	-0.05%	0.13%
HONDURAS												**0.78%**	**0.00%**	**0.47%**	**0.00%**	**-0.31%**
USP5178RAC27	89.4	14/12/2022	3.4	9.4%	31/3/2023	4.26%	5.8%	10.0%	88.3	0.9%	3.0%	0.44%	0.00%	0.26%	0.00%	-0.18%
USP5178RAD00	81.0	14/12/2022	5.6	9.2%	31/3/2023	4.01%	5.7%	9.7%	79.3	0.0%	0.0%	0.34%	0.00%	0.20%	0.00%	-0.14%
JAMAICA												**3.57%**	**-0.09%**	**3.57%**	**-0.10%**	**0.00%**
US470160CA80	107.4	14/12/2022	3.7	4.8%	31/3/2023	4.26%	1.1%	5.4%	104.9	-0.5%	-1.7%	1.05%	-0.01%	0.74%	0.00%	-0.32%
US470160AV46	120.3	14/12/2022	9.2	5.9%	31/3/2023	4.33%	2.1%	6.5%	114.4	-2.9%	-9.6%	1.04%	-0.03%	0.73%	-0.02%	-0.31%
US470160CB63	116.2	14/12/2022	11.1	6.5%	31/3/2023	4.33%	2.7%	7.0%	109.5	-3.7%	-12.1%	1.48%	-0.05%	2.11%	-0.08%	0.63%
PARAGUAY												**3.75%**	**-0.06%**	**3.19%**	**-0.06%**	**-0.56%**
USP75744AD76	100.1	14/12/2022	3.0	5.0%	31/3/2023	4.26%	1.1%	5.4%	98.9	0.2%	0.8%	0.36%	0.00%	0.26%	0.00%	-0.11%
USP75744AE59	99.1	14/12/2022	3.8	4.9%	31/3/2023	4.26%	1.1%	5.4%	97.5	-0.1%	-0.4%	0.34%	0.00%	0.24%	0.00%	-0.10%
USP75744AJ47	98.3	14/12/2022	6.0	5.2%	31/3/2023	4.01%	1.6%	5.6%	96.3	-0.5%	-1.6%	0.67%	0.00%	0.47%	0.00%	-0.20%
USP75744AK10	81.8	14/12/2022	7.7	5.3%	31/3/2023	4.01%	1.6%	5.6%	80.2	-1.0%	-3.5%	0.34%	0.00%	0.24%	0.00%	-0.10%
USP75744AL92	89.0	14/12/2022	7.6	5.3%	31/3/2023	4.01%	1.7%	5.7%	86.9	-1.0%	-3.4%	0.31%	0.00%	0.22%	0.00%	-0.09%
USP75744AB11	98.2	14/12/2022	11.6	6.2%	31/3/2023	4.33%	2.3%	6.7%	93.5	-2.8%	-9.4%	0.68%	-0.02%	0.70%	-0.02%	0.02%
USP75744AF25	89.8	14/12/2022	12.6	6.4%	31/3/2023	4.10%	2.7%	6.8%	85.4	-3.0%	-10.1%	0.33%	-0.01%	0.34%	-0.01%	0.01%
USP75744AG08	88.7	14/12/2022	13.2	6.3%	31/3/2023	4.10%	2.6%	6.7%	84.1	-3.3%	-11.0%	0.72%	-0.02%	0.73%	-0.02%	0.02%
PANAMÁ												**16.60%**	**-0.66%**	**9.96%**	**-0.47%**	**-6.64%**
US698299BD54	98.6	14/12/2022	1.7	4.9%	31/3/2023	4.59%	0.7%	5.3%	98.2	0.8%	2.9%	0.61%	0.01%	0.29%	0.00%	-0.32%
US698299BE38	97.8	14/12/2022	2.1	4.8%	31/3/2023	4.44%	0.9%	5.3%	97.1	0.4%	1.3%	0.90%	0.00%	0.43%	0.00%	-0.47%
US698299AV61	107.1	14/12/2022	2.7	4.7%	31/3/2023	4.26%	1.1%	5.4%	104.5	-0.3%	-1.1%	0.79%	0.00%	0.38%	0.00%	-0.41%
US698299AD63	117.5	14/12/2022	3.9	4.7%	31/3/2023	4.26%	1.2%	5.4%	113.5	-1.1%	-3.7%	0.85%	-0.01%	0.41%	0.00%	-0.44%
US698299BF03	96.2	14/12/2022	4.6	4.7%	31/3/2023	4.26%	1.1%	5.4%	93.4	-1.6%	-5.4%	0.89%	-0.01%	0.42%	-0.01%	-0.46%
US698299AK07	121.6	14/12/2022	4.8	5.3%	31/3/2023	4.01%	1.9%	5.9%	117.4	-1.1%	-3.8%	0.86%	-0.01%	0.41%	0.00%	-0.45%
US698299BK97	88.9	14/12/2022	6.1	5.0%	31/3/2023	4.01%	1.6%	5.6%	86.2	-2.0%	-6.5%	1.02%	-0.02%	0.49%	-0.01%	-0.53%
US698299BN37	77.5	14/12/2022	8.4	5.2%	31/3/2023	4.01%	1.8%	5.8%	74.4	-3.2%	-10.5%	1.42%	-0.05%	0.68%	-0.02%	-0.74%
US698299BR41	84.7	14/12/2022	8.2	5.3%	31/3/2023	4.01%	1.8%	5.9%	81.1	-3.1%	-10.1%	0.63%	-0.02%	0.30%	-0.01%	-0.33%
US698299AW45	109.5	14/12/2022	8.2	5.6%	31/3/2023	4.01%	2.2%	6.2%	104.1	-3.0%	-9.9%	1.66%	-0.05%	0.79%	-0.02%	-0.87%
US698299BG85	82.6	14/12/2022	13.3	5.9%	31/3/2023	4.10%	2.4%	6.5%	75.9	-6.3%	-20.1%	0.70%	-0.04%	0.33%	-0.02%	-0.36%
US698299BH68	81.2	14/12/2022	13.9	5.9%	31/3/2023	4.10%	2.5%	6.6%	74.4	-6.7%	-21.1%	1.48%	-0.10%	0.71%	-0.05%	-0.77%
US698299BB98	78.3	14/12/2022	14.6	5.9%	31/3/2023	4.10%	2.4%	6.5%	71.3	-7.1%	-22.3%	0.99%	-0.07%	0.90%	-0.06%	-0.10%
US698299BM53	79.0	14/12/2022	15.0	6.0%	31/3/2023	4.10%	2.5%	6.6%	71.8	-7.3%	-22.8%	1.43%	-0.10%	1.29%	-0.09%	-0.14%
US698299BL70	70.4	14/12/2022	15.9	5.8%	31/3/2023	4.10%	2.4%	6.5%	63.6	-7.8%	-24.3%	1.52%	-0.12%	1.37%	-0.11%	-0.15%
US698299BS24	77.0	14/12/2022	15.3	6.0%	31/3/2023	4.10%	2.6%	6.7%	69.8	-7.4%	-23.2%	0.85%	-0.06%	0.77%	-0.06%	-0.09%
PERU												**14.95%**	**-0.60%**	**8.97%**	**-0.44%**	**-5.98%**
US715638AS19	105.8	14/12/2022	2.3	4.9%	31/3/2023	4.44%	1.0%	5.5%	104.0	0.3%	1.1%	1.15%	0.00%	0.54%	0.00%	-0.61%
US715638DE95	93.4	14/12/2022	2.9	4.7%	31/3/2023	4.26%	1.1%	5.4%	92.3	-0.4%	-1.3%	0.65%	0.00%	0.30%	0.00%	-0.34%
US715638BU55	97.9	14/12/2022	4.2	4.6%	31/3/2023	4.26%	1.0%	5.3%	95.4	-1.2%	-4.1%	0.69%	-0.01%	0.32%	0.00%	-0.37%
US715638DA73	87.0	14/12/2022	6.5	4.9%	31/3/2023	4.01%	1.5%	5.5%	84.3	-2.1%	-6.9%	0.46%	-0.01%	0.21%	0.00%	-0.24%
US715638DF60	85.7	14/12/2022	7.0	5.0%	31/3/2023	4.01%	1.5%	5.5%	82.8	-2.3%	-7.7%	2.24%	-0.05%	1.05%	-0.02%	-1.19%
US715638DP43	75.7	14/12/2022	8.8	5.0%	31/3/2023	4.01%	1.5%	5.6%	72.7	-3.3%	-10.8%	0.52%	-0.02%	0.24%	-0.01%	-0.28%
US715638AP79	125.6	14/12/2022	7.4	5.6%	31/3/2023	4.01%	2.1%	6.2%	119.9	-2.4%	-7.9%	1.87%	-0.04%	0.87%	-0.02%	-0.99%
US715638DU38	82.5	14/12/2022	9.0	5.1%	31/3/2023	4.01%	1.6%	5.6%	78.8	-3.4%	-11.1%	1.30%	-0.04%	0.61%	-0.02%	-0.69%
US715638AU64	109.6	14/12/2022	8.9	5.5%	31/3/2023	4.01%	2.1%	6.1%	104.1	-3.2%	-10.5%	0.86%	-0.03%	0.40%	-0.01%	-0.46%
US715638DS81	77.1	14/12/2022	12.6	5.3%	31/3/2023	4.33%	1.6%	5.9%	71.3	-6.1%	-19.3%	0.67%	-0.04%	0.31%	-0.02%	-0.36%
US715638BM30	103.9	14/12/2022	14.2	5.4%	31/3/2023	4.10%	1.9%	6.0%	95.1	-6.8%	-21.3%	1.82%	-0.12%	1.64%	-0.11%	-0.18%
US715638DT64	76.1	14/12/2022	15.8	5.2%	31/3/2023	4.10%	1.7%	5.8%	69.0	-7.7%	-24.1%	0.93%	-0.07%	0.83%	-0.06%	-0.09%
US715638DQ26	62.8	14/12/2022	19.2	5.0%	31/3/2023	4.10%	1.5%	5.6%	55.9	-9.6%	-29.2%	0.87%	-0.08%	0.78%	-0.07%	-0.09%
US715638DW93	70.2	14/12/2022	18.1	5.3%	31/3/2023	4.10%	1.8%	5.9%	62.8	-8.8%	-27.1%	0.49%	-0.04%	0.44%	-0.04%	-0.05%
US715638DR09	62.8	14/12/2022	19.8	5.1%	31/3/2023	4.10%	1.6%	5.7%	56.1	-8.9%	-27.3%	0.44%	-0.04%	0.40%	-0.04%	-0.04%
TRINIDAD AND TOBAGO												**1.40%**	**0.00%**	**1.40%**	**0.00%**	**0.00%**
USP93960AF25	99.0	14/12/2022	1.0	5.3%	31/3/2023	4.59%	0.9%	5.5%	99.1	1.4%	4.9%	0.38%	0.01%	0.26%	0.00%	-0.11%
USP93960AG08	99.0	14/12/2022	3.3	4.8%	31/3/2023	4.26%	1.0%	5.3%	97.7	0.1%	0.2%	0.69%	0.00%	0.48%	0.00%	-0.21%
USP93960AH80	95.8	14/12/2022	6.1	5.2%	31/3/2023	4.01%	1.5%	5.5%	93.9	-0.5%	-1.9%	0.33%	0.00%	0.65%	0.00%	0.32%
												100.00%	**-1.00%**	**100.00%**	**1.18%**	**0.00%**

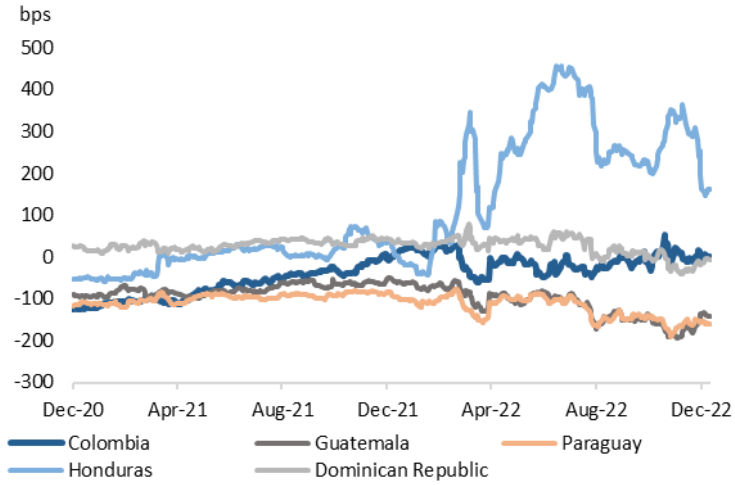
Source: BancTrust & Co. based on Bloomberg and own estimates.

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



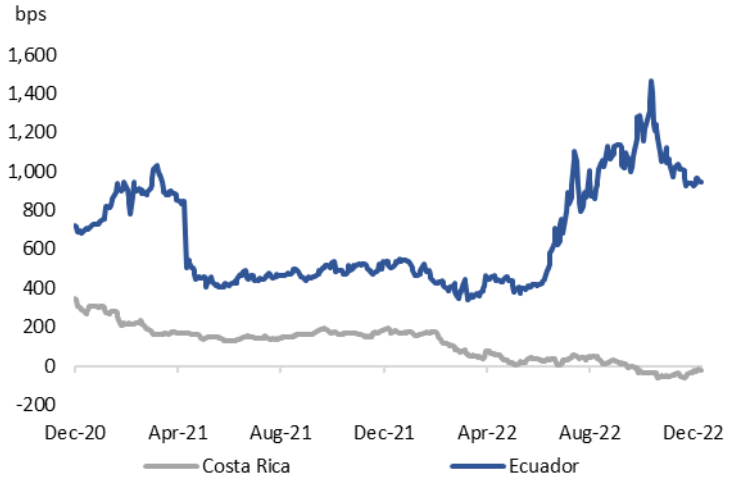
Source: BancTrust & Co. based on Bloomberg.

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



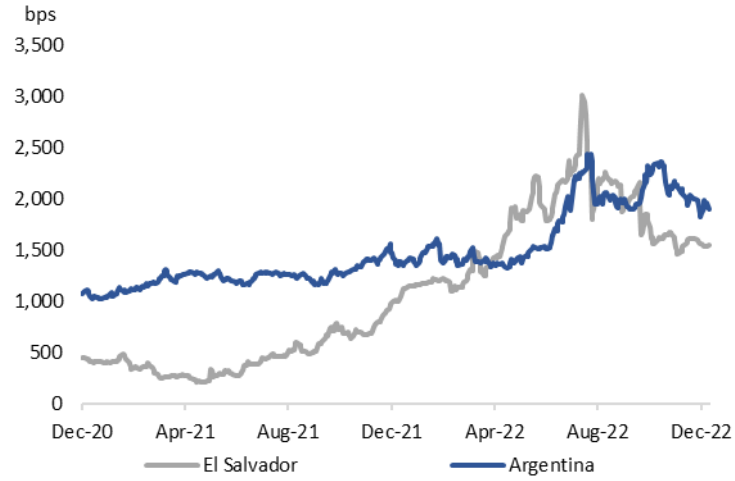
Source: BancTrust & Co. based on Bloomberg.

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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- **ARS supply remains unchecked, despite fiscal moderation**
- **RER overvaluation persists and takes a toll on reserves**
- **Economic activity is headed to recession due to dollar dearth and tight imports controls**
- **Official FX realignment could take place sooner rather than later as downside risks prevail**

Recent developments and 2023-2024 outlook

The government is on track to meet the primary deficit target of 2.5% of GDP. Following the fiscal deterioration in 1H that led to the June ARS debt crisis and the subsequent jump in parallel FXs, Economics Minister Sergio Massa put together a sharp fiscal adjustment to avoid a collapse of ARS demand. In Jul-Oct, primary expenses dropped by 6%y-o-y in real terms, after a 11.4%y-o-y expansion in 1H. Revenues, in turn, continued to rise fuelled by higher export taxes due to the implementation of the special FX regime for soybean exporters in September. Thus, the primary deficit -excluding some extraordinary revenues as per the IMF agreement[1]- amounted to 1.5% of GDP in this period, while adding interest payments the overall deficit reached 2.3% of GDP. Early fiscal data of November and the government's success in containing demands for higher social benefits suggest that the spending restraint continued in the last two months of the year. This, together with the reinstatement of the differential FX for soybean exporters in December will allow the government to meet the primary deficit target of 2.5% of GDP committed with the IMF for 2022.

Yields on Treasury debt have risen steadily since September and spiked again in November. To underpin the appetite of ARS debt, the Treasury validated higher borrowing costs in primary auctions while the central bank resumed the purchases of securities in the secondary market in October. The government also conducted another ARS debt swap in November to extend maturities, but only obtained a c50% relief in debt payments compared to the 81% acceptance attained in the August debt swap. In spite of this, authorities were unable to roll over all ARS debt maturities in November, raising concerns about the resumption of central bank financing.

ARS supply outpaces demand. The central bank lifted its benchmark rate to 75% in September, equivalent to an 107.3% a.r, and kept it unchanged as inflation started to moderate in the margin. Despite these efforts to anchor money demand, ARS supply continued rising steadily, thanks to the aforementioned incentive to exporters, the central bank's purchases of ARS debt and increasing interest payments on remunerated liabilities. To mop up this excess liquidity, the central bank continued to issue interest-bearing debt, which in November accounted for c208% of the monetary base, the highest ratio since the hyperinflation of 1989 (Chart 6).

Chart 6. Central bank's remunerated liabilities

Source: BancTrust & Co. based on Central Bank.

Inflation remains elevated. Amidst this fragile balance in the ARS market, inflation edged down to 4.9%m-o-m in November from its July high of 7.4%m-o-m, while annual inflation peaked at 92.4%y-o-y. Nevertheless, CPI expectations for the next 12 months have stabilised at c100%. The monthly inflation slowdown was driven by short-term stability in the parallel FXs and also to the temporary influence of price controls that were reinstated by the government, targeting a monthly inflation rate of 4% by March. Although we could see a further

[1] The IMF excludes financial gains from above-par debt issuances. Including these gains, the primary result as of October accumulated a deficit of 1.2% of GDP.

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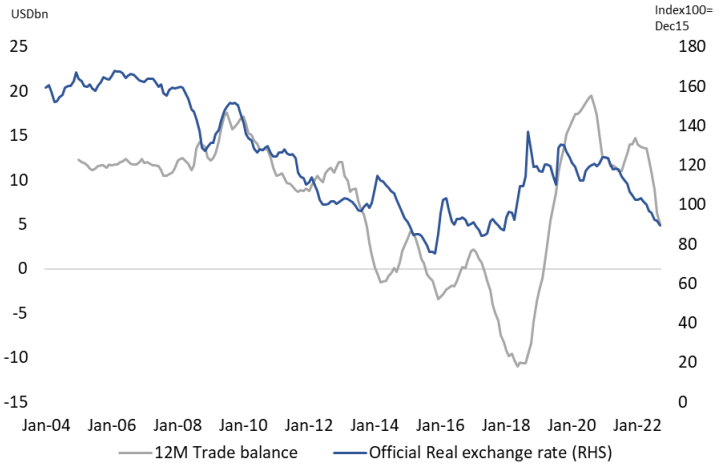
deceleration in prices, we do not expect inflation to fall beyond 5%, as flagging ARS demand and wage negotiations coming in at 100% will keep pressuring prices.

Transitory patches to accumulate reserves, as RER overvaluation persists. Despite the stabilisation of inflation, the central bank kept the pace of depreciation of the official FX above 6.5% m-o-m in October and November. This curbed the appreciation of the real exchange rate (RER), after strengthening by 12% since end-2021. Coupled with an FX gap hovering around 90-100% since August, the FX appreciation led to a further decline in the trade surplus, which stood at USD4.4bn in Jan-Oct, USD9.5bn below the same period of last year (Chart 7). Against this backdrop, the central bank has only been able to accumulate reserves thanks to the temporary FX benefit for soybeans producers. Through this measure the government accumulated USD4.6bn of reserves in September, while we estimate that the reinstatement of the scheme will result in USD1.5bn of additional reserves this month. In parallel, the government also tightened import controls to lower dollar demand. Together with lower energy imports due to the end of the cold season, the latter led to a 22% sequential drop in imports between October and July. All these transitory patches and the IMF disbursement of USD6bn expected before year-end will allow the central bank to meet the USD5bn net international reserves accumulation target for this year. Nevertheless, the fragility of external accounts remains unaddressed as long as the RER overvaluation and the significant FX gap persist.

Chart 7. Official RER and trade balance



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

Economic activity is headed to recession. In 3Q22, output increased by 5.8%y-o-y slowing down from the 7% expansion observed in 2Q. For the first time since March, in September economic activity dropped 0.3%m-o-m on a sequential basis. This has been driven by a slowdown in manufacturing but particularly in construction, which plunged 8.6% sequentially between October and July. The activity outlook is being dragged by the higher interest rates, the moderation of the fiscal policy and also by increasing shortages of intermediate goods due to the step-up in imports controls. Even though this trend has intensified in 4Q, output is set to close the year rising by 5.5%y-o-y, thanks to 1H growth.

Prospects of regime change in 2023 remain intact. Provincial elections begin next March, while presidential and primary elections are scheduled for October and August 2023. Currently, confidence on the government is close to its trough since the 2001 economic and political crisis and almost 50% below the level of December 2019, when President Fernández took office. The poverty rate has resumed an upward trend and is close to 40%, a threshold only exceeded during the 2001-02 crisis. This is consistent with the government's expected electoral defeat that current polls anticipate. These show the main opposition front Juntos por el Cambio (JxC) leading the electoral race with more than 30% of voting intentions, while the ruling coalition Frente de Todos (FdT) is in the second place with c25% of the vote. In third place, polls place Javier Milei's Libertarian party with 23% of support. If this electoral outcome materialises, Congress would have a much more market-friendly composition that could facilitate reforms in 2024.

FX pressures could rise sharply at the end of 1Q23. Against this backdrop, we believe the government will seek to avoid discrete devaluation to minimise the negative political backlash. Nevertheless, the accumulation of short-term ARS debt, the deterioration of the central bank's balance sheet and the expected downturn of agricultural dollar inflows due to the dry season could still force an FX realignment. We expect the official USD-ARS to weaken by c24% in real terms in 2023 due to the lack of buffers to sustain imbalances. The timing of this correction remains highly uncertain, but its likelihood will rise substantially at the end of 1Q23, when money demand typically falls, and the ARS debt profile becomes more challenging. Based on this, we expect the economic activity to contract by 2.5% in 2023, with sequential falls in 1Q and 2Q

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and some recovery in 2H due to the regime change prosects. The primary deficit would remain unchanged at 2.5% of GDP in 2023, due to a fiscally expansive bias during the electoral season. Inflation would accelerate from 96.6% this year to 115% next year, as we look to a relatively mild pass-through given that tradable goods are increasingly priced at the parallel FXs, but upside risks on inflation would prevail in this scenario. We see the official FX at ARS451 per dollar by December 2023, implying a c163% nominal depreciation over the year. Prospects of a landslide defeat of Kirchnerism could give some boost to money demand, leading to a reduction in the FX gap to 50%. On the external front, lower agricultural exports due to the lack of rains would more than offset the contraction of imports motivated by RER depreciation and lower output. Thus, we forecast a current account deficit of 0.6% of GDP, 0.1ppt higher than in 2022.

The 2024 outlook will likely hinge on the economic programme announced by the incoming authorities in their first 100 days, which will condition the remainder of the next presidential term. Our base scenario is that of a victory of a market-friendly candidate who manages to anchor expectations through a rapid fiscal convergence, a gradual withdrawal of FX controls and a working majority in Congress willing to endorse key reforms. In that context, we see the economic activity posting a slight recovery of 0.2%. Inflation would moderate to 64.8%y-o-y, inasmuch as fiscal accounts post a balanced result. On the back of a more consistent macroeconomic framework, we see a real appreciation, with the official FX depreciating by 55.6% to ARS702 per dollar. With the real exchange rate close to pre-August 2019 and better prospects of agricultural exports, the trade balance would widen significantly driving the current account into a 0.7% of GDP surplus. Finally, the better domestic and external outlook may allow the government to regain some market access and accumulate USD1bn in reserves throughout 2024.

Policy issues

Higher money demand in December and January will help the government to contain short-term FX pressures. Nevertheless, the monetary overhang left by 4Q22 will be difficult to absorb when ARS demand falls without pressuring central bank's remunerated liabilities further. These risks could be compounded by the step-up in monetary financing if the authorities are not able to refinance all their ARS debt maturities in the coming months. On top of this, lower agricultural inflows due to the dry weather will reduce dollar supply in 1H23 materially. The large FX gap seems unsustainable and to us it is only a matter of time to see some form of correction.

Even though in our base scenario the authorities manage to partially address the FX imbalance in an orderly fashion, we think that **risks are heavily tilted to the downside**. The additional FX resources that the government can raise in the run-up to the election will be critical to muddle-through. In this regard, Economics Minister Massa recently announced a new amnesty for undeclared assets held abroad as of 1 January. To encourage participation, the government also signed a tax agreement with the US to exchange information on bank accounts. The initiative could bring in some dollar inflows, but it must first be approved by Congress, where the government faces many difficulties in passing legislation after its electoral defeat in 2021.

Risks

The electoral campaign and deteriorating economic conditions could prompt the government to run a higher fiscal imbalance than expected. This, combined with a flagging ARS demand could boost FX pressures and end up in a disorderly adjustment and an overshooting of the exchange rate. In a worst-case scenario, to avoid a hyperinflation scenario, the government could impose restrictions on the withdrawal of ARS deposits, half of which are held by individuals.

Besides hindering the wheat harvest during December, the lack of rains is delaying and damaging the planting of soybeans and corn, the country's main agricultural exports. If poor weather conditions persist throughout the summer, a more severe drought could drastically reduce dollar supply in the midst of the electoral season.

On the bright side, growing prospects of a government electoral defeat and thus regime change could help anchor expectations. This would support ARS demand throughout the year, as was the case during the 2015 political transition, although expectations will be materially weaker given the more challenging economic backdrop. In this regard, the new administration will probably have more legislative power than

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that of former President Mauricio Macri, but will have a practically null leeway to adopt a gradualist approach. Besides generating credibility throughout its first 100 days in office, the new president will need to be cunning enough to deal with street politics that will potentially remain under the control of Peronism and left-wing movements.

Table 4. Argentina's Main Macroeconomic Forecasts

Argentina	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts		
								2022	2023	2024
Real GDP (% y-o-y)	2.7	-2.1	2.7	-2.5	-2.0	-9.9	10.4	5.5	-2.5	0.2
Nominal GDP (ARStn)	6.0	8.2	10.6	14.5	21.4	27.5	46.3	84.2	206.0	198.8
Nominal GDP (USDbn)	645.8	548.6	638.5	492.1	428.4	378.2	477.2	613.2	544.0	499.7
Private Consumption (% y-o-y)	3.7	-0.8	4.2	-2.2	-7.3	-13.8	11.5	9.1	-2.9	0.2
Gross Fixed Investment (% y-o-y)	3.5	-5.8	13.4	-5.7	-15.9	-12.9	33.3	15.3	-1.7	-0.4
Domestic Demand (% y-o-y)	3.8	-1.8	5.2	-2.0	-8.0	-12.5	13.8	9.7	-2.9	-0.5
Industrial Production (% y-o-y)	0.8	-5.6	2.6	-4.8	-6.3	-7.8	15.2	5.3	-1.6	0.3
Unemployment rate, average (%)	n/a	8.5	8.4	9.2	9.8	11.0	7.0	6.8	7.2	7.1
CPI, year-end (% y-o-y)*	26.9	39.4	24.8	47.6	53.8	36.1	50.9	96.6	115.0	64.8
CPI, year average (%)*	26.0	40.6	25.7	34.3	53.5	42.0	48.4	72.7	113.5	83.3
Total fiscal balance (%GDP)	-5.1	-5.8	-5.9	-5.0	-3.8	-8.3	-4.5	-4.1	-4.5	-2.0
Primary fiscal balance (%GDP)	-3.8	-4.2	-3.8	-2.3	-0.4	-6.4	-3.0	-2.5	-2.5	0.0
Merchandise exports (USDbn)	56.8	58.0	58.7	61.8	65.2	54.9	77.9	88.7	82.2	82.9
Merchandise imports (USDbn)	57.6	53.5	64.1	62.5	46.9	42.4	63.2	83.3	75.2	69.3
Trade Balance (USDbn)	-0.8	4.4	-5.4	-0.7	18.2	12.5	14.7	5.4	7.0	13.7
Current account balance (USDbn)	-17.6	-15.1	-31.2	-27.1	-3.7	3.3	5.8	-3.0	-3.3	3.7
Current account balance (%GDP)	-2.7	-2.8	-4.9	-5.5	-0.9	0.9	1.2	-0.5	-0.6	0.7
Remittances (USDbn)	1.1	1.1	0.4	1.2	0.8	1.1	1.4	1.8	2.0	2.2
Foreign Direct Investment (USDbn)	10.9	1.5	10.4	10.0	5.1	2.7	5.9	11.8	8.8	9.3
Foreign Direct Investment (%GDP)	1.7	0.3	1.6	2.0	1.2	0.7	1.2	1.9	1.6	1.9
NFPS External debt, year-end (USDbn)	101.7	122.0	161.3	197.3	197.4	193.8	189.5	196.4	198.3	199.6
Monetary policy rate, year-end (%)	29.00	19.88	23.25	49.50	39.44	38.00	38.00	75.00	80.00	47.00
Foreign reserves, year-end (USDbn)	25.4	37.3	54.9	51.2	44.8	39.4	39.7	43.0	43.0	44.0
ARS/USD, year-end	9.6	15.8	17.7	37.9	59.9	82.6	101.9	171.3	451.3	702.2

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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COLOMBIA

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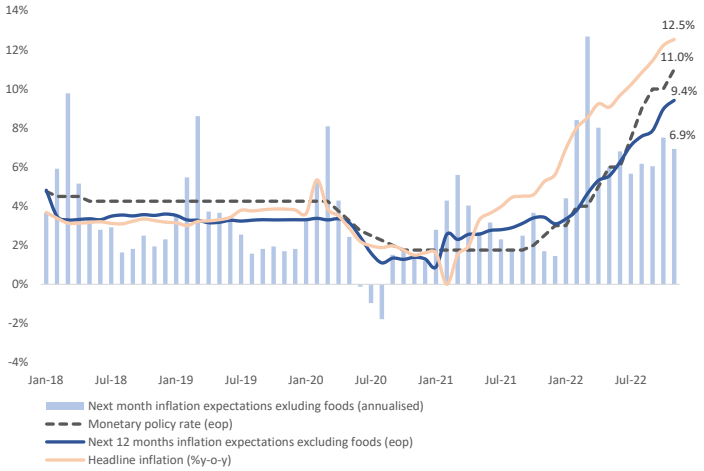
- **Growth would stall after overheating in 2022 …**
- **… Reducing pressure on the external balance**
- **The tax reform was finally enacted …**
- **… And further reforms are in the pipeline**

Recent developments and 2023-2024 outlook

Growth would stall after overheating in 2022 … After reaching pre-pandemic levels in 3Q21, economic activity continued growing robustly in 2022. The persistence of the expansive monetary and fiscal stance during 2021, the growth of loans and the use of accumulated savings during the pandemic buttressed a 9.4% cumulative growth up to 3Q22. These factors signal an overheated economy, considering growth averaged 2.2% in 2015-2019. The slow normalisation of policy rates in the first part of the year, its consequent acceleration of inflation and the de-anchoring of expectations are proof that policymakers' response lagged behind the development of the events. As a reminder, authorities were expecting a 4.3% rate on both growth and inflation for 2022 back in January. Nevertheless, the gradual tightening has driven the policy rate 1.6ppts above core inflation expectations for the next 12 months (Chart 8). This means the monetary policy is slowly converging to a neutral stance, considering that neutral real rates in Colombia hover around 2.2%. In this vein, sudden shocks in the reference rate are not expected given recent statements from monetary authorities that evidenced they are concerned about harming activity. As a result, we expect the central bank will make little or no adjustment to the policy rate after raising rates 100bps to 12% in the last meeting of the year and setting a restrictive stance. This should create appropriate conditions to begin reducing the output gap and driving inflation towards the 3%+/-1ppts inflation target. Despite we expect growth to slow down to 1.2% and 1.8% for 2023 and 2024 due to the contraction of domestic demand, inflation would not return to the target in 2024. The reluctance of the monetary authorities to make a bold move against inflation, plus the second-round effects of the de-anchoring of expectations, would delay the convergence to the target.

Chart 8. Inflation, expectations and monetary policy



Source: BancTrust & Co. based on Central Bank.

… Reducing pressure on the external balance. The current account deficit is poised to widen 1.8ppts of GDP to 7.6% of GDP in 2022. The step-up of dividend payments in 2022 played a major role in the deficit widening, explaining 2.5ppts of GDP of the deterioration. This will be slightly muffled by higher remittances and the mild improvement in the goods and services balance, resulting from the net impact of the overheated activity, the positive terms of trade shock and stronger external demand over the year. We expect the current account deficit to narrow in the coming years to 3.8% and 4.2% of GDP, despite the potential fall in commodities prices and external demand. The weakening of the currency after Petro's victory in the second round of the presidential election drove the real exchange rate to record highs levels, unseen since 2003 (Chart 9). This, together with the cooling of domestic demand, would prompt a contraction of imports that would offset the external headwind. Lower dividend payments compared to the 2022 rise would also contribute significantly to reducing the deficit. Despite the deterioration in investors' confidence, the government proved its ability access to international markets by issuing USD1.6bn bonds in November. We expect the government to continue tapping markets in the coming years, which would serve to fund part of the external shortfall. On the other hand, despite lower investors' confidence FDIs would continue flowing but would show lower levels compared to previous years.

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Chart 9. Real exchange rate and terms of trade

Source: BancTrust & Co. based on Central Bank.

The tax reform was finally enacted … After several consultations and modifications to the original draft, Petro's tax reform was finally passed. The reform is expected to yield c1.3% of GDP in revenues during the following years that will fund new social spending pledged by Petro. Still, we expect the fiscal deficit to fall, as the tax reform would be also coupled with an inherited improvement on tax collection that paved the way to most of the improvement in taming the fiscal deficit during 2022 and would continue benefitting the government in the next year. The overall deficit would continue heading south along with the reversion of the spike in the interest payments on USD-denominated and inflation-linked instruments following the jump in FX and inflation in 2022. We estimate that Colombia would need to tap external markets for cUSD9bn in the following two years. Moreover, we estimate that domestic net financing needs would not surpass 2% of GDP for the following two years, which is achievable in our view. Our estimates consider the repurchases of outstanding external bonds due in 2023 and 2024 performed with part of the proceeds of the November global bond issuance. In this operation, the government weighed liquidity over sustainability given that it raised interest rate costs in exchange for clearing next year's external bonded debt maturity profile. In our view, this was a positive development in the sense that it anticipated funding that could end up being more expensive or harder to raise next year, despite it increased the average cost of debt. By the end of the year, the government is set to present the financial plan for 2023, which would provide a clearer outlook of its plans regarding fiscal policy in the short term.

Policy Issues

The government is going to keep pushing its electoral platform on several issues throughout 2023. One of the main topics on the agenda is the ongoing contracts of mining and drilling projects and the allocation of new ones. For now, government officials have been "coming and going" on the matter, issuing numerous contradictory statements. Up to date, the government announced that it would not award more open-pit coal mining contracts and suspended the allocation of new hydrocarbon exploration and exploitation contracts. In our view, the government would end up taking a soft approach, given that the country is still too dependent on those sources of income. There is also a planned reform of the pension system expected to be presented to Congress by April 2023, which is already being discussed between the government, businesses and workers' unions. 2023 could act as a pivot year as many of these economic policy decisions would have a direct impact on the country's prospects.

Risks

President Gustavo Petro took office only four months ago and was able to fulfil one of the main campaign pledges. During the tax reform discussion, the government proved it was open to dialogue, although this was requisite to achieve majorities in Congress. This dialogist stance could change if the government manages to raise its popularity and increase its representation in Congress. A potential radicalisation is a concern, considering that President Petro came to office with promises of more profound changes and a less market-friendly agenda. For instance, its harsh posture regarding fracking and mining or the developing discussion of the pension reform are signs that the government is still committed to its original pledges. Therefore, the recent improvement of Petro's approval rating could herald the radicalisation of the government's strategy. Notwithstanding the latter, we believe that risks in that sense are low since relevant policy issues would need a consensus outside the government. Also, sluggish economic growth would discourage dramatic changes in the energy or mining sector that could further dent investment. Finally, part of the improvement in Petro's popularity may be a result of his veering towards the centre. Therefore, we assess that the risks of disruptive policies that could damage economic growth or investment inflows are still limited.

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Table 5. Colombia's Main Macroeconomic Forecasts

Colombia	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts		
								2022	2023	2024
Real GDP (% y-o-y)	3.0	2.1	1.4	2.6	3.2	-7.0	10.7	7.6	1.2	1.8
Nominal GDP (COPtn)	804.7	863.8	920.5	987.8	1,060.1	998.7	1,177	1,395	1,538	1,657
Nominal GDP (USDbn)	294.3	283.7	311.9	334.0	322.9	271.1	313.7	327.5	320.8	354.0
Private Consumption (% y-o-y)	3.1	1.6	2.1	3.2	4.1	-5.0	14.8	9.2	1.0	1.5
Gross Fixed Investment (% y-o-y)	2.8	-2.9	1.9	1.0	2.2	-23.3	11.2	12.3	-6.6	1.5
Domestic Demand (% y-o-y)	2.4	1.2	1.1	3.5	4.0	-7.5	13.6	9.7	-1.2	1.6
Industrial Production (% y-o-y)	2.0	3.2	-1.8	1.5	1.2	-9.8	16.4	8.7	-1.3	-0.7
Unemployment rate, average (%)	8.9	9.2	9.4	9.7	10.5	16.1	13.8	12.3	12.7	13.0
CPI, end-year (% y-o-y)	6.8	5.7	4.1	3.2	3.8	1.6	5.6	12.5	7.2	4.7
CPI, year average (%)	5.0	7.5	4.3	3.2	3.5	2.7	3.4	10.1	8.9	5.8
Total fiscal balance (%GDP)	-3.4	-2.4	-2.7	-2.8	-2.4	-7.6	-7.2	-6.4	-4.1	-2.8
Primary fiscal balance (%GDP)	-0.6	0.9	0.5	0.2	0.5	-5.3	-5.3	-2.0	0.0	0.5
Merchandise exports (USDbn)	38.6	34.1	39.8	43.0	40.7	32.3	42.7	62.2	57.8	56.2
Merchandise imports (USDbn)	52.1	43.2	44.1	49.4	50.5	41.2	56.7	76.9	70.5	70.8
Trade Balance (USDbn)	-13.5	-9.2	-4.3	-6.4	-9.9	-8.9	-14.0	-14.7	-12.7	-14.6
Current account balance (USDbn)	-18.7	-12.6	-9.9	-14.0	-14.8	-9.3	-18.0	-24.7	-12.1	-15.0
Current account balance (%GDP)	-6.4	-4.4	-3.2	-4.2	-4.6	-3.4	-5.7	-7.6	-3.8	-4.2
Remittances (USDbn)	5.0	5.1	5.8	6.6	7.1	6.9	8.6	9.4	9.8	10.1
Foreign Direct Investment (USDbn)	11.6	13.9	13.7	11.3	14.0	7.5	9.4	15.5	11.0	10.0
Foreign Direct Investment (%GDP)	3.9	4.9	4.4	3.4	4.3	2.8	3.0	4.7	3.4	2.8
NFPS External debt, year-end (USDbn)	52.9	50.0	54.7	62.7	58.6	69.8	86.9	80.1	84.6	85.7
Monetary Policy Rate year-end (%)	5.75	7.50	4.75	4.25	4.25	1.75	3.00	12.00	10.00	6.00
Foreign reserves, year-end (USDbn)	46.7	46.7	47.6	48.4	53.2	59.0	58.6	56.4	57.5	54.1
COP/USD, year-end	2,752	3,049	2,951	2,956	3,283	3,697	3,750	4,823	4,768	4,594

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

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COSTA RICA

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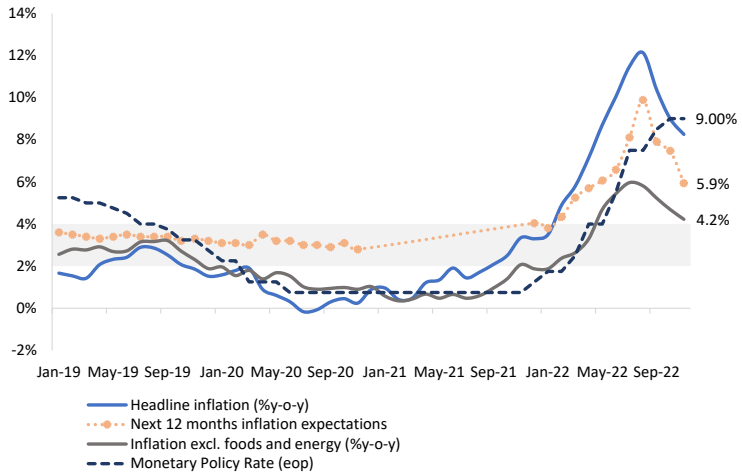
- **Inflation and growth are poised to cool down**
- **The CRC has room to continue appreciating with external financing**
- **Fiscal consolidation is on track to continue in 2023**
- **The medium-term outlook looks promising**

Recent developments and 2023-2024 outlook

The central bank continued tightening monetary policy to anchor inflation expectations. Previous policy rate hikes in 2Q and 3Q, together with the decline in commodity prices, allowed a sharp deceleration in headline inflation since August and stabilising core CPI readings. As a result, the real policy rate deflated by core CPI indicators has remained at c9% for several months already, prompting a 4ppts fall in 12-months ahead inflation expectations between August to November (Chart 10). Still, at 6% expectations are well above the 3%+/-1ppts target, preventing a loosening in monetary conditions at least until the first signs of convergence surface, not before 2024. In this regard, we expect the central bank (BCCR) will hold the policy rate at 9% in 2022 and most of 2023, as this level has proven efficient at consolidating the disinflation process, as we anticipated in To the tune of global factors. In our view, the BCCR will begin loosening monetary conditions cautiously by end-2023 to stem FX pressures, as international liquidity will remain tight.

Chart 10. Inflation, expectations and monetary policy



Source: BancTrust & Co. based on Central Bank and Statistics Bureau.

Slower but robust growth ahead. Economic activity surprised to the upside in 3Q22, supported by industries under special regimes which rose 10.8%y-o-y vs 1.3%y-o-y growth posted by the rest of activities. This originated in higher goods exports and private consumption that kept a healthy pace despite the phasing-out of the low statistical base effect. Nevertheless, construction declined because of soaring import prices of raw materials and lower execution of public works. Looking ahead, we expect that the BCCR's tightening and the global slowdown will curb growth relative to our 4.3% forecast for 2022. Still, activity will remain close to its 3% trend in 2023 and 2024 supported by further improvements in exports from companies under special regimes and the recovery of tourism inflows.

The FX has room to appreciate in real terms thanks to external financing. Improving transmission of monetary policy on bank and Treasury bill yields reverted the CRC depreciation in 2Q22. Even if the weaker terms of trade caused the trade deficit to swell, tourism inflows and external financing allowed the central bank to rebuild reserves since mid-August. With softer domestic demand growth in the coming years and prospects of further improvement in the tourism sector, we expect the current account deficit to gradually narrow from 4.5% of GDP in 2022 to 2.7% of GDP in 2024. As in previous years, we expect external financing from FDIs in special regime companies and public sector loans will continue offsetting the external shortfall. Regarding the latter, in mid-November authorities secured more financing from the IMF's Resilience and Sustainability Facility (RSF) for about USD725mn, which could also unlock more multilateral financing. Shortly after, the Legislative Assembly approved the Eurobond bills, allowing authorities to issue Eurobonds for USD3bn in 2023 and USD1bn in 2024 and 2025, respectively.

Authorities continued to deliver on the fiscal front. Fiscal consolidation gained momentum during 2022, with the October 12-month cumulative primary surplus rising to 1.8% of GDP, 2.1ppts above December 2021 figures (see Chart 11). Compliance with the fiscal rule spending ceilings, even after

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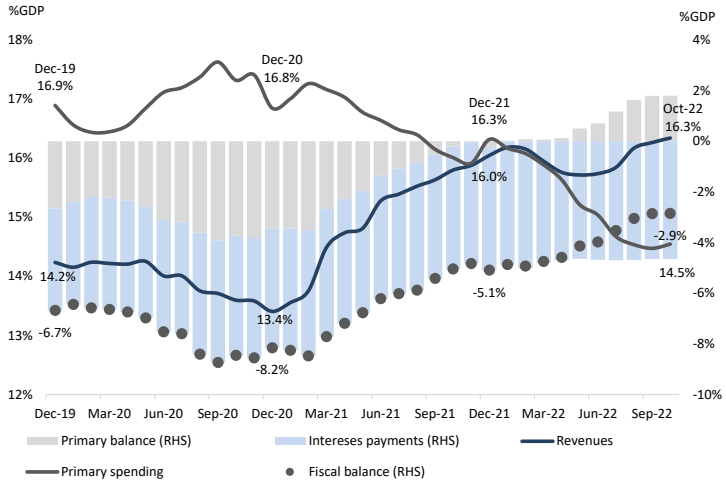
the change of methodology we mentioned in Costa Rica Economics and Strategy: Trip Notes: We reaffirm OVERWEIGHT on strong fiscal commitment, 22 September, held primary spending growth at 5.2%y-o-y in Jan-Oct, well below the cumulative 13.2%y-o-y increase of nominal GDP in 3Q22. This translated into a sharp decline in primary spending- to-GDP, of 1.8ppts. Faster consolidation will continue in 2023, as nominal growth will outpace spending due to the fiscal rule ceilings, allowing the primary surplus to increase from 2% of GDP in 2022 to 3.1% in 2023. This effect will moderate to 0.4ppts of GDP in 2024 as the spending ceiling will rise due to higher nominal growth in the past years, which determines those expenditure gaps. The deficit will continue to be funded mostly with external sources, mainly multilateral lending and bond issuances. For this year, we expect authorities will exhaust the issuance limits determined by the Legislative Assembly and make two USD1.5bn Eurobond placements in 2023. The first issuance would take place in late 1Q23 or early 2Q23 and the second one in 4Q23 which will serve to pre-fund the 2024 fiscal programme (see Table 3).

Chart 11. 12-month cumulative fiscal statistics as % of GDP



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

Policy Issues

The current administration's shallow legislative footing could become a drag on growth-friendly reforms. We could draw two lessons on opposition lawmakers' behaviour from the Eurobonds' bill saga. Firstly, they proved to be committed to exploiting systematically President Chaves' legislative weakness to erode his popularity. This was seen in the delays to debate the bill ahead of the USD1bn maturity due in January 2023, which the government will meet with their fiscal savings. The other lesson is that their political opportunism has a reasonable limit, as lawmakers approved the bill just in time to prevent the government from straining the domestic market. With this in mind, **we cannot rule out that the government continues to face legislative headwinds.** As we mentioned in We reaffirm OVERWEIGHT on strong fiscal commitment, the authorities plan to introduce a constitutional reform to include external financing discussions in the budgetary debates. This reform would significantly reduce lawmakers' capacity to constrain the executive branch, as it would reduce the required majorities to approve external lending from a two-thirds fixed majority of 38 to a simple majority of the legislators attending the session. The other major initiative would involve the reform of the Personal Income Tax, which aims to unify the tax schedule between employees and the self-employed, expected to yield 0.1% of GDP after including a reduction of tax exemptions.

Risks

Regardless of the progress of the aforementioned reforms, Costa Rica's outlook looks promising in the medium term. The main risks to the outlook are twofold. On the one hand, a rushed attempt to ease the fiscal rule and increase capital spending could backfire. Although there is space to improve the fiscal rule, its amendment should be addressed carefully, ensuring the support of multilateral organisations and opposition forces, to avoid denting confidence and discouraging private investment. The other risk is that external conditions deteriorate further, impairing exports growth and foreign investment in the country.

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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	2023	2024
Real GDP (% y-o-y)	3.7	4.2	4.2	2.6	2.4	-4.3	7.8	4.3	2.7	3.0
Nominal GDP (CRCtn)	30.2	32.1	34.3	36.0	37.8	36.4	40.0	45.2	49.1	52.6
Nominal GDP (USDbn)	56.3	58.7	60.4	62.3	64.3	62.0	64.2	69.9	81.6	86.7
Private Consumption (% y-o-y)	4.7	3.8	5.6	1.9	1.7	-6.9	7.0	3.4	2.7	3.0
Gross Fixed Investment (% y-o-y)	3.5	6.0	0.1	1.6	-8.2	-3.4	11.0	2.3	4.0	4.0
Domestic Demand (% y-o-y)	4.2	4.1	3.5	1.9	0.2	-4.8	7.8	2.5	3.5	3.5
Industrial Production (% y-o-y)	-4.1	4.3	4.0	4.2	3.0	3.1	12.8	4.1	2.5	2.7
Unemployment rate, average (%)	9.6	9.5	9.1	10.3	11.8	19.6	16.5	12.0	11.5	10.5
CPI, year-end (% y-o-y)	-0.8	0.8	2.6	2.0	1.5	0.9	3.3	9.0	5.0	3.4
CPI, year average (%)	0.8	0.0	1.6	2.2	2.1	0.7	1.7	8.4	5.8	3.9
Total fiscal balance (%GDP)	-5.5	-5.1	-6.0	-5.7	-6.7	-8.4	-5.1	-2.9	-1.7	-1.3
Primary fiscal balance (%GDP)	-2.9	-2.4	-2.9	-2.2	-2.6	-3.8	-0.3	2.0	3.1	3.5
Merchandise exports (USDbn)	9.5	10.1	10.8	11.7	11.8	12.0	14.8	16.5	18.3	20.2
Merchandise imports (USDbn)	14.1	14.5	15.2	16.4	15.7	13.7	17.7	21.7	23.4	25.2
Trade Balance (USDbn)	-4.6	-4.4	-4.4	-4.6	-3.9	-1.7	-2.8	-5.2	-5.1	-5.0
Current account balance (USDbn)	-1.9	-1.3	-2.2	-1.9	-0.8	-0.6	-2.1	-3.2	-2.6	-2.4
Current account balance (%GDP)	-3.4	-2.1	-3.6	-3.0	-1.3	-1.0	-3.3	-4.5	-3.2	-2.7
Remittances (USDbn)	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.6
Foreign Direct Investment (USDbn)	3.0	2.6	2.9	3.0	2.7	2.1	3.6	3.6	4.0	4.1
Foreign Direct Investment (%GDP)	5.2	4.5	4.8	4.8	4.2	3.4	5.5	5.2	4.9	4.7
NFPS External debt, year-end (USDbn)	8.2	8.6	8.7	8.8	11.0	12.2	12.9	18.5	23.2	24.7
Monetary Policy Rate year-end (%)	2.25	1.75	4.75	5.25	2.75	0.75	1.25	9.00	8.00	5.00
Foreign reserves, year-end (USDbn)	7.8	7.6	7.1	7.5	8.9	7.2	6.9	8.1	9.4	10.4
CRC/USD, year-end	535.6	555.5	570.2	609.9	574.0	615.0	642.3	600.0	604.1	609.4

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

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DOMINICAN REPUBLIC

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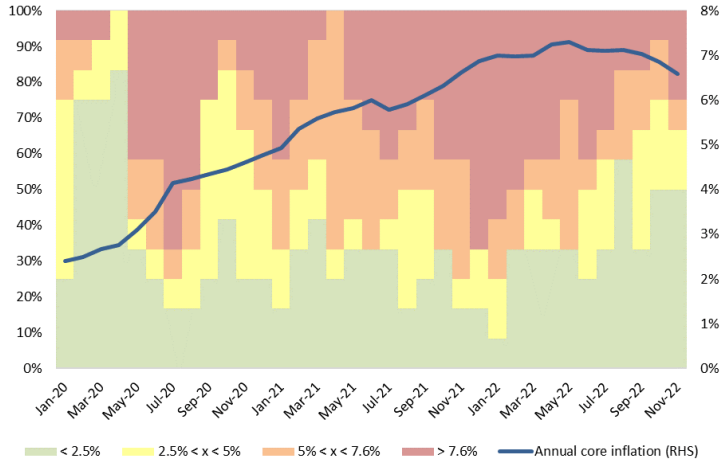
- **Resilient growth and cooling inflation but external gap widens**
- **Despite surprising to the upside, further improvements on the fiscal front remain unlikely**
- **Slower reserve accumulation as fiscal overhaul is placed on the back burner**
- **Downside risks prevail**

Recent developments and 2023-2024 outlook

Resilient growth… Growth prospects remain healthy, despite some sluggishness in 2H. In 3Q, the economy grew 5%y-o-y, slightly down from 5.1%y-o-y in the previous quarter, due to the impact of Hurricane Fiona in September. Fiona affected several economic activities across the country, leading to a sequential fall of 0.6% in September and October. Considering this, we cut our growth forecast for this year from the previous 5.2% to 5%, although the main engines of growth remain intact. Tourist arrivals continued to grow in 2H, with visitors in Jan-Sep exceeding the 2019 peak by 5.6%, despite a weak start due to a wave of Covid in the US earlier this year. On top of this, the credit to the private sector rebounded strongly despite the withdrawal of the central bank's credit line facilities in 1H, and in November increased by 8% in real terms. Against this backdrop, we consider that the economy will continue to grow at an elevated pace in 2023, in particular during 1Q23 given the low tourist inflows in 1Q22.

… Along with cooling inflation. Inflation slowed down beyond expectations in 3Q, along with the tightening of monetary conditions and falling commodity prices. Headline inflation stood at 7.6%y-o-y in November, 210bps below April's high, and is poised to close the year at 7.2%y-o-y. CPI components with annualised monthly increases above 5% dropped from 66.7% of the total in May to 33% in November (Chart 12), while core inflation abated to 6.6%y-o-y from 7.6%y-o-y in May. We think this is evidence of a broad-based reduction in inflation and the moderation of the strong second-round effects that had emerged in 1H. On the back of this and a steady decline of inflation expectations, the central bank moderated the hiking cycle during 3Q and paused in its November meeting. The monetary policy rate (MPR) currently stands at 8.5%, tantamount to a real rate of 1.6%. With inflation receding to 4.9% in 2023 and 4% in 2024, we expect the central bank to keep the MPR unchanged until at least December 2023, while we see a 100bps reduction in 2024, to 7.5%.

Chart 12. Inflation dynamics



Source: BancTrust & Co. based on Central Bank.

Fiscal accounts surprise to the upside, although further improvements remain unlikely. Faster revenues, slower social spending and a reduction in interest payments have led us to revise our fiscal deficit forecast downwards by 0.4ppt to 3.2% of GDP in 2022. Despite this, the overall fiscal deficit will rise 0.7ppt this year, with the primary balance moving to a deficit of 0.2% of GDP from a surplus of 0.6% of GDP in 2021. This deterioration in public accounts is almost entirely explained by the subsidies package introduced by the government to mitigate the impact of higher inflation, particularly in foodstuffs and fuels. According to our estimates, the aid programme would account for c1.5% of GDP (DOP92bn). Stronger revenues, which will surge 13%y-o-y in 2022, and accumulated savings allowed the government to meet the higher financing needs, without tapping the external markets. Despite easing inflation, we do not see the government removing all the extra spending next year. As we have argued previously, the authorities will be reluctant to overhaul fiscal accounts as elections approach. The electoral season begins next year with the October primaries, while municipal and presidential elections are scheduled for February and May 2024, respectively.

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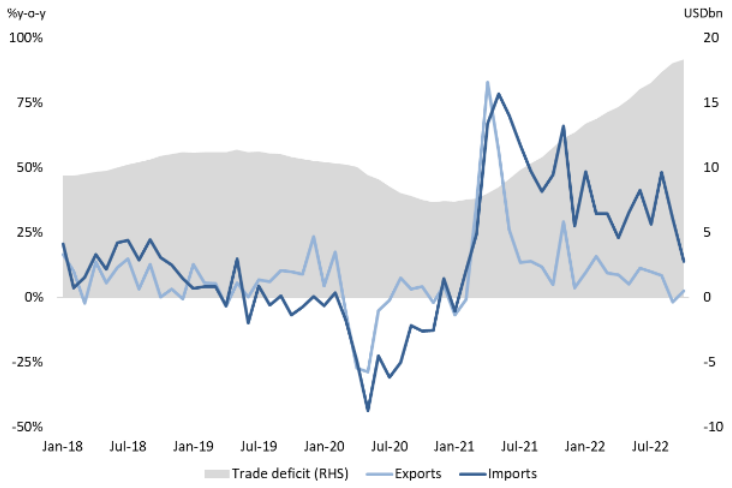
A rising current account deficit. Despite falling commodity prices, imports continue to post solid growth, while exports started to show some weakness (Chart 13). Better remittances in 2H would only partially offset the higher trade deficit. Therefore, we now expect a current account deficit (CAD) of 4.3% of GDP, up from 3.5% previously. In this context, foreign direct investment (FDI) would fall short of fully financing the external gap for the first time since 2013. Compounded by the government's unwillingness to tap external markets, this wider external shortfall will translate into nil reserve accumulation relative to 2022. This put some pressure on the Dominican Peso, which depreciated 3.4% to DOP55.5 per USD since September, after strengthening 6% in Jan-September.

Chart 13. Exports, imports and trade balance



Source: BancTrust & Co. based on central bank.

Slower reserve accumulation as fiscal overhaul is placed on the back burner. In 2023, we see growth at 4.8%, still robust compared to regional peers, but decelerating in line with the global downturn. Domestic demand through weaker investment will drive the slowdown, while net exports will continue to register a healthy expansion. In 2024, we expect output to increase by 5.2%, thanks to higher public spending due to the electoral season. As a result of the electoral push, we forecast the 2024 fiscal deficit at 3.3% of GDP, 0.7ppt higher than the 2.5% of GDP deficit we pencil in for 2023. We uphold our long-held view that the current administration will not deliver any structural improvement on the fiscal front before the presidential elections (See Dominican Republic Economics: A realistic (yet unambitious) budget, 08 October 2021). On the external sector, we have become more cautious about dollar galore going forward, as strong import payments have eroded the external deficit beyond our prior expectations. Next year, the current account would post a 2.7% of GDP deficit, 0.5ppt higher than our previous estimate, while we look to a 2.3% of GDP CAD in 2024. Reserve accumulation will moderate to USD14bn in 2023 (11.8% of GDP) and to USD14.7bn in 2024 (11.4% of GDP).

Policy issues

Policymakers should consolidate the downward trend of inflation. Also, the central bank will need to monitor closely monetary conditions in developed economies to maintain an adequate interest rate differential and avoid disruptive capital movements. On the fiscal side, the removal of the fuel subsidies remains a pending issue, along with the resumption of the electricity pact suspended last June. Lower oil prices should help authorities address these issues, which would translate into a reduction in subsidies to households and power generation companies. Finally, progress towards fiscal reform is also necessary to increase the Dominican Republic's low revenue base and strengthen fiscal accounts in the medium term.

Risks

Despite convergence in growth and inflation, risks are skewed to the downside, particularly due to the potential spillovers of a renewed pick-up in energy prices. Our forecasts incorporate the downward trend of oil shown by the forward curve, but the consensus of analysts' estimates reflect a different story in which oil keeps rising in 2023. If this alternative scenario materialises, a wider trade deficit due to an increasing level of oil-related imports will erode the external surplus and the milder reserve accumulation we envisage for next year. On top of this, reducing the fiscal deficit would become more challenging, as its impact on inflation will delay even more the withdrawal of the energy subsidies and the re-design of the electricity pact. The latter could weaken fiscal accounts in the medium term, harming investor confidence and resulting in wider spreads.

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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	2023	2024
Real GDP (% y-o-y)	6.9	6.7	4.7	7.0	5.1	-6.7	12.3	5.0	4.8	5.2
Nominal GDP (DOPtn)	3.2	3.5	3.8	4.2	4.6	4.5	5.4	6.2	6.8	7.5
Nominal GDP (USDbn)	71.2	75.7	80.0	85.6	88.9	78.8	94.2	111.8	117.0	121.4
Private Consumption (% y-o-y)	6.4	6.0	4.4	5.7	4.6	-3.4	6.6	4.0	3.9	4.5
Gross Fixed Investment (% y-o-y)	18.9	12.3	-0.3	13.3	8.1	-12.1	22.1	4.5	3.7	4.3
Domestic Demand (% y-o-y)	9.1	6.9	2.3	7.7	6.2	-3.3	11.3	4.3	3.7	4.4
Industrial Production (% y-o-y)	8.7	7.3	3.2	7.9	2.7	-2.2	10.6	3.5	5.2	5.5
Unemployment rate, average (%)	7.6	7.3	5.8	5.9	5.9	7.4	7.1	5.5	5.3	5.1
CPI, year-end (% y-o-y)	2.3	1.7	4.2	1.2	3.7	5.6	8.5	7.2	4.9	4.0
CPI, year average (%)	0.8	1.6	3.3	3.6	1.8	3.8	8.2	8.7	5.2	4.4
Total fiscal balance (%GDP)	-0.3	-2.7	-2.8	-2.3	-2.3	-7.6	-2.7	-3.2	-2.5	-3.3
Primary fiscal balance (%GDP)	2.1	-0.1	-0.2	0.3	0.4	-4.3	0.4	-0.2	0.4	-0.5
Merchandise exports (USDbn)	9.4	9.8	10.1	10.6	11.2	10.3	12.5	13.0	13.6	14.0
Merchandise imports (USDbn)	16.9	17.4	17.7	20.2	20.3	17.1	24.1	30.6	29.4	30.0
Trade Balance (USDbn)	-7.5	-7.6	-7.6	-9.6	-9.1	-6.8	-11.7	-17.7	-15.8	-16.0
Current account balance (USDbn)	-1.3	-0.8	-0.1	-1.2	-1.2	-1.5	-2.7	-4.8	-3.2	-2.8
Current account balance (%GDP)	-1.8	-1.1	-0.2	-1.4	-1.3	-1.7	-2.9	-4.3	-2.7	-2.3
Remittances (USDbn)	5.0	5.3	5.9	6.5	7.1	8.2	10.4	9.8	10.1	10.3
Foreign Direct Investment (USDbn)	2.4	2.5	2.6	2.8	2.9	2.4	3.0	3.9	4.1	4.2
Foreign Direct Investment (%GDP)	3.4	3.4	3.3	3.2	3.2	3.0	3.2	3.4	3.5	3.5
NFPS External debt, year-end (USDbn)	16.2	17.6	18.8	21.6	23.4	30.7	33.3	36.6	38.1	40.9
Monetary Policy Rate, year-end (%)	5.00	5.50	5.25	5.50	4.50	3.00	4.50	8.50	8.50	7.50
Foreign reserves, year-end (USDbn)	5.3	6.0	6.8	7.6	8.8	10.8	13.0	13.0	14.0	14.7
DOP/USD, year-end	45.5	46.7	48.2	50.4	53.1	61.0	57.2	55.6	59.9	62.5

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

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ECUADOR

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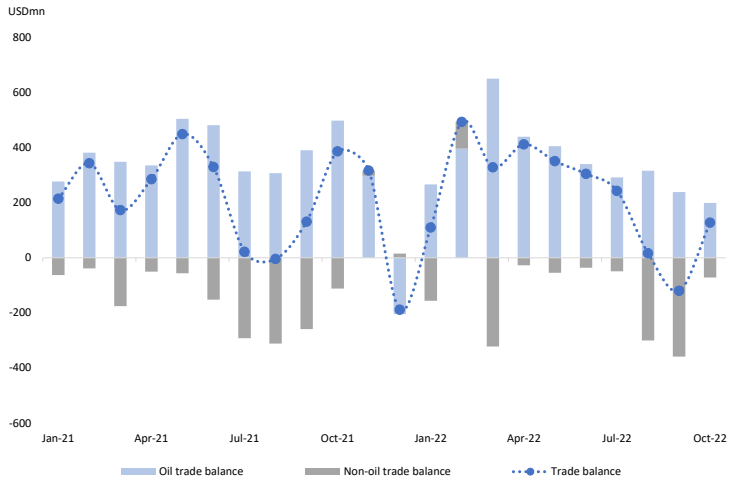
- **Growth is trending downwards**
- **The external balance would remain positive despite weaker terms of trade**
- **Axing capital spending ahead seems unavoidable**
- **Political weakness continues to fuel uncertainty**

Recent developments and 2023-2024 outlook

Growth is trending downwards. Early activity statistics signal that growth decelerated in 3Q. The performance of credit card sales, private loans, and imports of consumption goods suggests private consumption continued rising in 3Q but slowing down relative to 2Q. Similarly, a more subdued expansion in imports of construction materials and capital goods points to a deceleration in fixed investment. On top of that, the volume of goods exports remained stagnant in 3Q as external sales of oil and derivatives edged down, despite the recovery in oil production after the June indigenous protests. With this in mind, we expect activity to have slowed in 2H22 relative to the 1.7%y-o-y print posted in 2Q, taking annual growth to 2.2% in 2022. We see growth cooling further in 2023 and 2024 to 1.5% and 1%, supported by very slim improvements in exports, in particular of oil and shrimp. Our view assumes private consumption would lose traction after surpassing the pre-pandemic levels and that gross capital formation remains weak as the government reduces capital spending and private investment stalls due to political uncertainty.

The external balance would remain positive despite weaker terms of trade. The oil and non-oil trade balance deteriorated in the last months despite supportive oil prices (Chart 14). On the one hand, the oil balance declined relative to the previous year's levels because of the 9.5%y-o-y spike in the volume of fuel imports in Aug-Oct and the 5.6%y-o-y reduction in oil and derivatives exports. On the other hand, the non-oil balance worsened due to the increase in consumption goods imports, which outpaced the improvement in non-oil exports, mostly in shrimp. Weaker trade accounts, together with external debt payments, explained the USD1.5bn fall on international reserves since end-July, which stood at USD7.5bn in November. Nevertheless, we expect reserves to pick up to USD8.7bn by year-end boosted by the last disbursement from the IMF's EFF programme of SDR497mn (cUSD659mn). Reserves would continue improving going forward, supported by lower but still positive current account balances and external financing of the public sector. We expect the current account would fall from a 2.7% of GDP surplus in 2021, to 2% and 1.7% in 2023 and 2024, as a consequence of weaker oil prices. This fall would be partially compensated by a mild recovery in the volume of oil and non-oil exports, and a narrowing of the services account deficit following a recovery of tourism inflows and lower transportation fees.

Chart 14: Oil and non-oil trade balance



Source: BancTrust & Co. based on Central Bank.

Capital spending cuts seem unavoidable. Authorities managed to compensate for the fall of oil prices by smoothing its debt profile through negotiation with Chinese banks, as we explained in Ecuador Economics and Strategy: We prefer short-term bonds to capture impact of positive news, 18 October. Nevertheless, lower oil prices have not been the only setback endured by the government in the last months, as the tender of sale of the state-owned bank "Banco del Pacifico", from which the government expected to receive USD200mn in 2023, was declared void in November. Additionally, collection from one-off taxes approved in November 2021 has also disappointed, and are poised to deliver 0.7% and 0.3% of GDP in 2022 and 2023, well below the initial estimates of 1.1% and 0.8% of GDP. On the bright

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side, the government would meet its 2% of GDP deficit target for the central government in 2022 and secure additional financing from multilaterals to meet 2023 financing needs (see Table 8). Nevertheless, the government would be forced to shave non-permanent expenditures in 2023, mostly related to public investment, to avoid a severe fiscal slippage and meet its financing programme, as we highlighted in our Ecuador Economics and Strategy: Limited upside, 23 November. We expect authorities to cut non-permanent spending by 1.3ppts and 0.3ppts of GDP in 2023 and 2024, which would result in a non-financial public sector deficit of 2.1% and 2.3% of GDP, respectively. Our estimates assume authorities manage to sign a Policy Coordination Instrument (PCI) with the IMF in 1H22 which would entitle them to borrow cUSD1bn from the IMF's Resilience and Sustainability Facility. The PCI could also serve as a platform to facilitate the issuance of an IADB or DFC-sponsored bond for USD0.6bn. Even accounting for this extra funding, authorities would have to seek additional resources for USD2.3bn to bridge the 2024 financing gap.

Table 8: Non-financial public sector financing programme

USDbn	2021	2022f	2023f	2024f
Financing needs	**5.0**	**4.0**	**6.0**	**6.3**
Fiscal deficit	**1.8**	**0.9**	**2.6**	**2.9**
Primary deficit	0.3	-0.8	0.7	0.7
Interest payments	1.5	1.7	1.8	2.2
Amortisations	**3.2**	**3.1**	**3.4**	**3.5**
Domestic	1.4	0.7	1.1	1.1
External	1.8	2.4	2.3	2.4
Financing sources	**6.6**	**3.9**	**5.3**	**3.2**
Domestic	2.0	-0.3	1.3	0.9
External	4.5	4.2	4.0	2.3
Multilateral and bilateral	4.5	4.2	3.4	2.3
IMF EFF	1.4	1.7	0.0	0.0
IMF RSF			0.3	0.7
Bonds	0.0	0.0	0.6	0.0
Financing gap	**-1.6**	**0.1**	**0.6**	**3.2**
Cumulative financing gap	**-1.6**	**-1.5**	**-0.9**	**2.3**
Memo items				
Ecu mix prices (USD/bbl)	62.0	83.2	65.0	59.2
GDP	106.2	115.1	120.3	124.9

Source: BancTrust & Co. based on Ministry of Finance.

The referendum could boost the government's meagre popularity. Authorities summoned a referendum for 5 February, matching with municipal and provincial elections. The government included eight questions in the referendum, which if approved with a simple majority of valid votes, would reform the constitution in several aspects. The most important question is the one that transfers the Citizens' Participation and Social Control Council (CPCCS) right to appoint top court judges, electoral officials, and banking regulators, among other public officials, to the National Assembly. The referendum would also seek to allow the extradition of Ecuadoran citizens, strengthen the autonomy of the Prosecutor General's Office, increase qualifications to create and maintain political parties, reduce the number of lawmakers, protect water resources, and provide compensation for individuals and organisations that provide environmental protection services. According to a survey from pollster Ipsos in October, there would be sufficient support to approve all the referendum questions, as the least popular question would be backed by 67% of respondents. The potential approval of the referendum could be a booster for the government's weak popularity, which hovers around 10% to 17% according to different surveys. On the other hand, we do not expect local elections to serve as a thermometer of the government's approval. The abundance of political alliances the government hammered out, accounting for c80% of its tickets, will obscure the interpretation of the election's results. Nevertheless, special attention will be paid to the results in Guayas and Pichincha, the most populated provinces, and of Guayaquil and Quito, the capital cities of those provinces.

Policy issues

The government's political weakness increases uncertainty on governability, discouraging private investment and constraining growth. As we anticipated in To the tune of global factors, indigenous groups are complaining that the government has not fulfilled all the agreements reached through negotiations concluded in October. However, Ecuador's Native Communities Federation (CONAIE) ruled out resuming mobilisations before carrying out a comprehensive implementation assessment of the agreements in February 2023. This constant threat bodes negatively for private investment. A similar effect is brought about by the opposition's chronic attempts to remove government officials from key positions, such as the members of the CPCCS and the Judicial Council.

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Risks

Public accounts have become more sensitive to the level of oil prices and production. A negative terms of trade shock or disruptions to oil production could force the government to implement more procyclical adjustments, materially increasing the odds of a populist administration taking office in 2025. On top of that, despite we are optimistic regarding the authorities' ability to prevent another wave of indigenous protests without compromising fiscal accounts, we cannot rule out the possibility of renewed social tension damaging sentiment on Ecuador and hurting activity.

Table 9. Ecuador's Main Macroeconomic Forecasts

Ecuador	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts		
								2022	2023	2024
Real GDP (% y-o-y)	0.1	-1.2	2.4	1.3	0.0	-7.8	4.2	2.2	1.5	1.0
Nominal GDP (USDbn)	99.3	99.9	104.3	107.6	108.1	99.3	106.2	115.1	120.3	124.9
Private Consumption (% y-o-y)	-0.1	-2.4	3.7	2.1	0.3	-8.2	10.2	4.3	1.7	1.5
Gross Fixed Investment (% y-o-y)	-6.2	-8.9	5.3	2.0	-3.3	-19.0	4.3	3.2	1.6	1.5
Domestic Demand (% y-o-y)	-2.2	-4.3	5.5	2.2	-0.9	-10.2	8.1	3.2	1.0	0.6
Industrial Production (% y-o-y)	-0.8	-0.9	3.6	0.6	-0.1	-8.3	2.6	1.6	1.0	0.6
Unemployment rate, average (%)	4.3	5.4	4.4	4.1	3.8	7.6	5.1	4.2	4.2	4.5
CPI, year-end (% y-o-y)	2.8	0.8	-0.3	0.1	-0.5	-1.2	1.8	3.2	3.0	2.2
CPI, year average (%)	4.0	1.7	0.4	-0.2	0.3	-0.3	0.1	3.5	3.5	2.7
Total fiscal balance (%GDP)	-7.2	-10.2	-5.8	-2.8	-3.5	-7.2	-1.7	-0.8	-2.1	-2.3
Primary fiscal balance (% GDP)	-5.8	-8.6	-3.7	-0.3	-0.7	-4.3	-0.3	0.7	-0.6	-0.6
Merchandise exports (USDbn)	19.0	17.4	19.5	22.2	22.8	20.6	27.2	33.8	31.3	31.2
Merchandise imports (USDbn)	20.7	15.8	19.3	22.4	21.7	17.1	24.0	30.3	29.3	29.3
Trade Balance (USDbn)	-1.6	1.6	0.3	-0.2	1.0	3.5	3.3	3.5	2.1	1.9
Current account balance (USDbn)	-2.2	1.1	-0.2	-1.3	-0.1	2.7	3.0	3.1	2.4	2.1
Current account balance (%GDP)	-2.2	1.1	-0.2	-1.2	-0.1	2.7	2.8	2.7	2.0	1.7
Remittances (USDbn)	2.4	2.6	2.8	3.0	3.2	3.3	4.4	4.7	4.9	5.0
Foreign Direct Investment (USDbn)	1.3	0.8	0.6	1.4	1.0	1.1	0.6	1.2	1.3	0.8
Foreign Direct Investment (%GDP)	1.3	0.8	0.6	1.3	0.9	1.1	0.6	1.0	1.1	0.6
NFPS External debt, year-end (USDbn)	21.5	28.1	33.7	36.9	40.7	44.6	46.0	47.9	49.5	49.5
Deposit rate, year-end (%)	5.11	5.51	4.91	5.32	6.05	6.07	5.48	6.30	6.00	5.80
Foreign reserves, year-end (USDbn)	2.5	4.2	2.0	2.2	2.9	7.1	7.9	8.7	10.3	11.0

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

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EL SALVADOR

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- **Fiscal overhaul and recent buybacks point to a higher willingness to pay**
- **Despite lower CAD, reserves are set to fall further in 2023**
- **We uphold our long-term view of no default before 2024 presidential elections …**
- **… Though restructuring risks prevail thereafter**

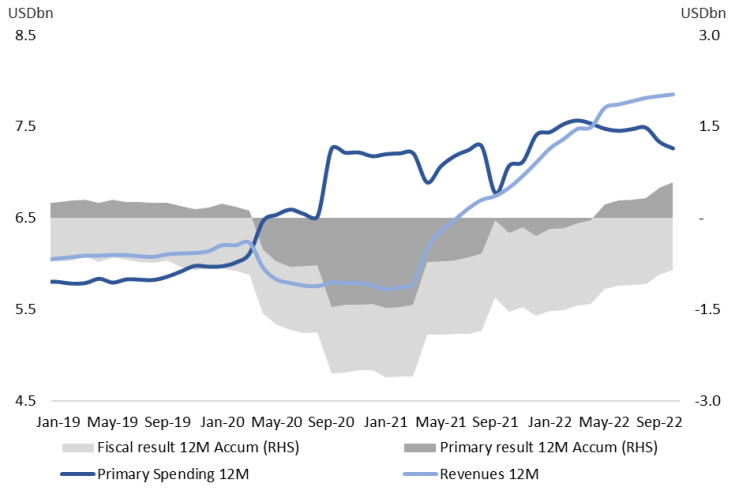
Recent developments and 2023-2024 outlook

Climate shocks and US downturn take a toll on Salvadoran output. Economic activity increased by 1.5%y-o-y in 3Q, slowing down sharply from the 2.9%y-o-y rise observed in 2H and accumulating a 2.4%y-o-y expansion in Jan-Sep. Besides the slowdown in the US, output in 3Q was particularly affected by a couple of tropical storms and floods that heavily damaged production. In 3Q, the agricultural and industrial sectors contracted by 1.5%y-o-y and 0.5%y-o-y, respectively. All other sectors cooled significantly, with the exception of construction and communications that continued to perform strongly. Even though we expect a sequential recovery, the main growth drivers such as exports and remittances weakened in 4Q. Against this backdrop, we expect growth to end at 2.3% this year, slightly below our previous forecast of 2.4%.

In November, headline inflation stood at 7.3%y-o-y, with core inflation at 5% y-o-y. The recent drop in commodity prices, in particular oil, has not yet translated into lower CPI readings in El Salvador. This has been explained by the freeze on gasoline prices that the government imposed at the beginning of the commodities shock to avoid a further impact on inflation and is now playing in the opposite direction.

Fiscal consolidation deepened in 2H. In Jul-Oct, primary spending dropped by 8%y-o-y, deepening the contraction seen during 1H. This was mainly explained by slashes in capital spending and current transfers, while the wage bill and operating expenditures remained subdued. This major reduction in expenses was motivated by a rapid slowdown in revenues during 2H (Chart 15). In Jul-Oct, revenues increased by only 5%y-o-y, compared to 17.5%y-o-y in 1H. This resulted in a further reduction of the fiscal deficit to 1.6% of GDP (USD516mn), 2.8ppt lower than in the same period of 2021. It should be noted that the government managed to conduct such a meaningful fiscal adjustment without hammering President Bukele's popularity. Using this same political adroitness, the government presented a pension reform that increases benefits to retirees without any fiscal cost. The proposal rises pensions by c30%, financed by higher employer contributions and lower fees for pension administrators.

Chart 15. Fiscal dynamics



Source: BancTrust & Co. based on Central Bank.

Successful buybacks point to higher willingness to pay. Amidst fears of a default in 2023, the government took advantage of depressed bond prices and repurchased part of its Eurobonds maturing in 2023 and 2025. First in September and then in December, the government carried out two buybacks that reduced the amount outstanding of the 2023 bonds from USD800mn to USD604mn and of the 2025 bonds from USD800mn to USD347mn. As the buybacks were conducted at market prices, both transactions resulted in total fiscal savings of USD283mn, equivalent to 0.9% of GDP. The government financed the operations using USD360mn of SDRs from the central bank and a USD200mn loan from the World Bank. Although the government did not fully lighten up January 2023 debt maturities, both buybacks reinforced the government's willingness to pay, in our view (see El Salvador Flash Report: Bonds rally as government favours repurchase of 25s over 23s, 22 September).

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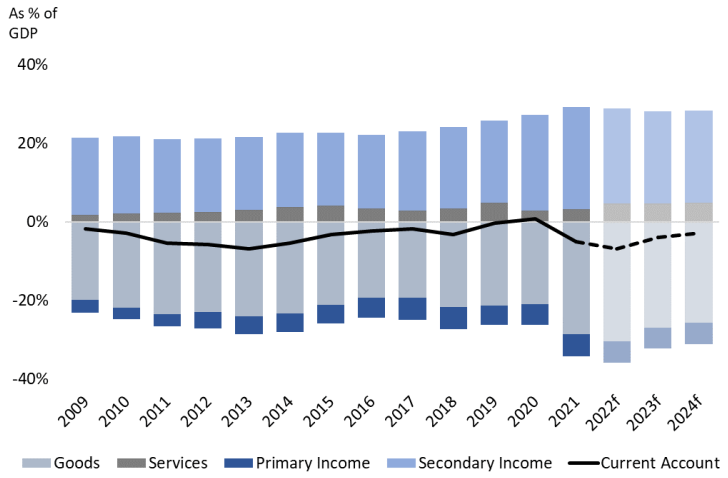
Large CAD and low external financing... Despite this year's fiscal consolidation and slower economic activity, the current account is poised to close the year with the highest negative imbalance since 2013 (Chart 16). We estimate the current account deficit (CAD) at 6.9% of GDP this year, 1.8ppt higher than in 2021. The main driver of this deterioration has been the sharp increase in imports fuelled by the higher global energy prices. Accumulated in Jan-Oct, imports jumped 20%y-o-y, outpacing the 13.9%y-o-y rise in exports, while the trade deficit stood at USD8.5bn or 27.3% of GDP. Remittances, which surprised to the upside in 3Q, and tourism recovery have only partially compensated for this higher external imbalance. On the other hand, BoP data for 2Q revised downwards FDI inflows in 1Q and pointed to a significant reduction in 2022. This was one of the reasons why we reduced our FDI forecast for this year. In this context, international reserves have been the main source of external financing, although the increase of Errors & Omissions in BoP data suggests that there might have been unreported savings financing the CAD. In 2022, we expect international reserves to stand at USD2.7bn (8.6% of GDP), falling USD700mn from last year.

Chart 16. Current account breakdown



Source: BancTrust & Co. based on Central Bank.

Despite a more moderate external gap in 2023, reserves are set to fall further. Despite more feeble growth in the US, we do not expect a recession in El Salvador in 2023, on the back of a stimulative fiscal policy and the absence of a default before the 2024 presidential elections. In this context, we see 2023 growth at 2% with public and private consumption supporting domestic demand. Amidst the lack of fiscal buffers, authorities will have to roll back quickly the fiscal push after the elections. This will imply slower growth, which we see at 1% in 2024. Against this backdrop, we foresee a deterioration of the fiscal deficit to 3.6% of GDP in 2023, and an improvement to 3.1% of GDP in 2024. The primary surplus would fall to 0.9% of GDP in 2023 and then stand at 1.5% of GDP in 2024, above the pre-pandemic average. Despite the more stimulative fiscal policy in 2023, the external deficit would improve due to the expected fall in global energy prices. We forecast the 2023 current account deficit at 4% of GDP. Thanks to a more prudent fiscal policy, lower growth and even weaker oil prices, the current account shortfall would narrow further to 2.8% of GDP in 2024. Given the very low external financing, the elevated current account deficits would continue to erode external buffers. In this vein, we see international reserves dropping to USD1.5bn (4.4% of GDP) in 2023 and remaining unchanged thereafter on the back of the lower CAD.

Policy issues

We uphold our long view of no default before 2024 presidential elections. While the authorities' willingness to pay has been bolstered by the fiscal overhaul and the recent buybacks, the ability to meet the upcoming debt payments emerges as the main challenge for the authorities in the near term. Indeed, it remains unclear where the funds to address external debt payments through 2023 will come from. However, we remain convinced that the government will not default before the 2024 presidential elections, as the associated costs are much higher than next year's USD1bn external debt payments (El Salvador Economics and Strategy: Trip Notes: More than Meets the Eye, 19 September). The outlook after the 2024 election is even more uncertain, although under current conditions a soft debt restructuring is our baseline. In this scenario, Salvadoran bond prices remain below recovery levels. We see limited chances of El Salvador entering into a hard default given the large potential damage of such an event for its small, open and dollarised economy. This being said, an IMF agreement could also be in the cards. Much of the fiscal adjustment requested by the Fund has already taken place, so the costs of engaging in an IMF-sponsored programme are substantially lower than before.

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Risks

The scenario presented above is based on the assumption of lower oil prices in 2023 and 2024. If this does not materialise and energy prices instead drift higher, there could be a sharp contraction of output due to the inability to finance higher external deficits. A strong fall in economic activity would reduce fiscal revenues, further damaging public accounts. This would undoubtedly result in a widening of spreads, as it would increase the chances of a default. In this regard, any event that could reduce dollar inflows through the current account or the financial account is a source of risk due to the fragility of the external accounts. On the bright side, Bukele's political ability to maintain a high approval rating without incurring higher fiscal costs is an asset that could continue to be used again next year to muddle-through.

Table 10. El Salvador's Main Macroeconomic Forecasts

El Salvador	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts		
								2022	2023	2024
Real GDP (% y-o-y)	2.4	2.5	2.2	2.4	2.4	-7.9	10.3	2.3	2.0	1.0
Nominal GDP (USDbn)	23.4	24.2	25.0	26.1	27.0	24.6	28.7	31.5	33.9	35.3
Private Consumption (% y-o-y)	3.0	2.0	1.7	3.1	2.6	-10.6	15.4	3.5	2.4	0.8
Gross Fixed Investment (% y-o-y)	9.0	3.6	3.6	6.7	7.2	-7.9	24.5	1.8	0.9	0.2
Domestic Demand (% y-o-y)	3.6	1.8	1.7	3.2	2.4	-8.1	16.0	2.7	2.2	0.3
Industrial Production (% y-o-y)	3.0	1.3	1.3	2.2	1.4	-11.8	12.3	2.4	2.3	1.2
Unemployment rate, average (%)	7.0	7.0	7.0	6.3	6.3	12.0	10.3	8.5	8.3	7.8
CPI, year-end (% y-o-y)	1.0	-0.9	2.0	0.4	0.0	-0.1	6.1	7.5	4.3	2.4
CPI, year average (%)	-0.7	0.6	1.0	1.1	0.1	-0.4	3.5	7.2	5.4	3.3
Total fiscal balance (%GDP)	-3.6	-3.1	-2.5	-2.7	-3.1	-10.1	-5.6	-2.6	-3.6	-3.1
Primary fiscal balance (%GDP)	-0.9	-0.2	0.7	0.9	0.6	-5.8	-1.1	2.0	0.9	1.5
Merchandise exports (USDbn)	5.5	5.4	5.8	5.9	5.9	5.0	6.6	7.4	7.6	7.9
Merchandise imports (USDbn)	10.3	9.8	10.6	11.5	11.6	10.2	15.1	17.5	16.8	17.0
Trade Balance (USDbn)	-4.8	-4.4	-4.8	-5.9	-6.1	-5.2	-8.4	-10.1	-9.1	-9.1
Current account balance (USDbn)	-0.8	-0.6	-0.5	-1.2	-0.2	0.2	-1.5	-2.2	-1.4	-1.0
Current account balance (%GDP)	-3.5	-2.5	-2.1	-5.2	-0.7	0.8	-5.1	-6.9	-4.0	-2.8
Remittances (USDbn)	4.3	4.5	5.0	5.4	5.6	5.9	7.2	7.5	7.7	8.1
Foreign Direct Investment (USDbn)	0.4	0.3	0.9	0.8	0.6	0.3	0.3	0.2	0.3	0.4
Foreign Direct Investment (%GDP)	1.7	1.4	3.6	3.2	2.4	1.1	1.1	0.6	0.7	1.0
NFPS External debt, year-end (USDbn)	8.4	8.8	9.3	9.2	9.6	10.7	11.5	10.9	10.5	10.6
Deposit rate, year-end (%)	4.71	4.97	4.79	4.57	4.60	4.52	4.93	5.12	6.15	6.00
Foreign reserves, year-end (USDbn)	2.8	3.2	3.6	3.6	4.4	3.1	3.4	2.7	1.5	1.5

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

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GUATEMALA

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- **Growth remains strong despite weakening confidence**
- **Procrastination of rate hikes unmoored CPI expectations**
- **Despite external surplus, debt payments take a toll on reserves**
- **Further fiscal slippage ahead of the electoral season**

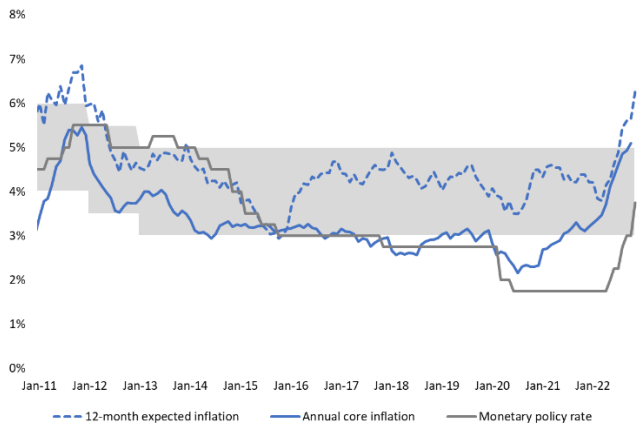
Recent developments and 2023-2024 outlook

Growth remains strong despite weaker expectations. The activity confidence index published by the central bank started to point to a slowdown in activity in July, when it fell below its neutral level for the first time since December 2020. Nevertheless, output growth only moderated to 3.9%y-o-y in Jul-Oct, after rising by 4.3%y-o-y in 1H. Decent growth of remittances and exports reflected the resilience of the external demand amidst the deterioration of the global environment. On the domestic side, credit to the private sector increased by 7.1%y-o-y in Jul-Nov, slightly decelerating from 1H, despite the tightening of monetary conditions. Against this backdrop, we expect growth at 3.9% this year, slightly below our previous estimate of 4.2%.

Monetary policy is behind the curve after procrastination of the hiking cycle. In November, annual inflation stood at 9%y-o-y, well above the central bank's targeted range of 4 +/- 1 percent. Increases in transport and foodstuffs were the main driver of the uptick in inflation, but across-the-board price increases suggest a broad-based inflationary process. In parallel, 12-month inflation expectations exceeded the upper bound of the CPI range for the first time in a decade and stood at 6.3% in November. After procrastinating rate hikes, the central bank (Banguat) was forced to modify its monetary stance sharply in 2H. In this context, Banguat raised its monetary policy rate (MPR) rate up to 3.75%, accumulating an increase of 200bps since the beginning of the year (Chart 17). In spite of this, monetary conditions remain accommodative given current inflation levels and CPI expectations. Without further monetary policy meetings, the benchmark rate will close at 3.75% in 2022, but we believe that more hikes are in the cards. Despite faster inflation and low domestic rates, the FX depreciated 1.5% to GQT8.85 per dollar between June and December, reflecting the authorities' fear of floating.

Faster spending outpaced stronger revenues. Accumulated in Jan-Oct, the fiscal deficit stood at 1.2% of GDP, up 0.4ppt from last year. This has been driven by better spending execution and the deployment of a package of fuel subsidies and social benefits to cope with the pick-up in inflation. In Jan-Oct, primary spending accumulated an expansion of 19.4%y-o-y, while adding interest payments, total expenditures were up by 19.9%y-o-y. In recent months, spending accelerated beyond expectations. We expect this trend to become more pronounced as the electoral season approaches. On the revenues side, tax collection has increased steadily, although not enough to compensate for the step-up in expenditures. Total revenues expanded by 16.3%y-o-y in Jan-Oct, mainly due to higher VAT and income tax proceeds. For this year, we expect the fiscal deficit to close at 1.2% of GDP, 0.5ppt above our previous forecast, due to higher-than-expected spending. On another note, the government has announced that it will send a tax reform to Congress in 2023. According to Finance Minister Edwin Martínez the proposal will not include new taxes or tax changes, as it will only aim at updating tax regulation. With the reform, authorities seek to increase tax revenues to 15% of GDP in the medium-term, from 12% of GDP in 2021.

Chart 17. Monetary policy and inflation



Source: BancTrust & Co. based on Central Bank.

Electoral outlook. General elections will be held in Guatemala in June 2023, with a possible second round scheduled for August. In addition to the President and Vice-President, the full Congress and the majority of municipalities are up for renewal.

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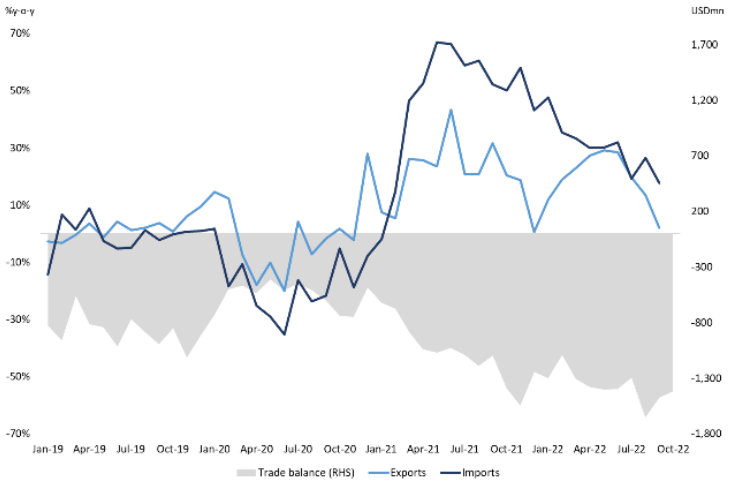
According to the latest polls, the favourites to compete in a run-off are Zury Ríos and Sandra Torres, both from opposition parties. President Alejandro Giammattei is not eligible for re-election, but has launched an early campaign to raise the profile of his anointed candidate lawmaker Manuel Conde. Given that the most popular candidates belong to conservative parties, the victory of any of them does not pose a threat to Guatemala's solid macroeconomic framework. However, the fact that Zury Ríos is the daughter of former dictator Efraín Ríos Montt could generate uncertainty as to the future of institutions if she is elected president.

Debt payments take a toll on reserves, despite external surplus. After increasing sharply during 1H, exports and imports finally moderated their growth due to the recent fall in commodity prices (Chart 18). In Jan-Oct, exports accumulated an 18%y-o-y expansion while imports increased by 26.5%y-o-y. The trade deficit, in turn, amounted to USD12.3bn, USD2.3bn higher than in the same period last year. On the other hand, remittances surprised to the upside, as they maintained robust growth in recent months. After rising 19%y-o-y in Jan-Nov, we expect remittances to close the year at USD18bn, thus exceeding the trade deficit that would stand at USD16.9bn. We project a current account surplus of 0.6% of GDP in 2022, lower than in 2021 due to the larger trade deficit, but higher than our previous estimate due to stronger remittances. The current account surplus has not translated into reserve accumulation. Indeed, international reserves stood at USD20.1bn in October, falling USD800mn since the end of last year. This was mainly explained by the repayment of the USD700mn Eurobond last June, which the government decided not to rollover in external markets due to rising interest rates. Against this backdrop, we expect international reserves to close at USD19.9bn, almost USD1bn lower than in 2021.

Further fiscal slippage ahead of the electoral season. On the back of the global downturn and a less accommodative stance, we see output rising 2.8% next year. In addition, we look to 2024 growth at 3%, as the global economy gains some traction. With next year's presidential elections, public accounts will deteriorate in the margin, so we foresee a fiscal deficit of 1.5% of GDP in 2023, 0.3ppt higher than this year. We see no fiscal improvements soon after the new administration takes office, thus the overall deficit would remain unchanged in 2024. Still, risks are tilted to the upside if the authorities are successful with the implementation of the upcoming tax reform. On the monetary front, we expect the central bank to continue lifting its benchmark rate to 5% in 2023. In 2024, we see the MPR falling to 4.5%, in line with the lower rates expected in developed countries. In parallel, we expect inflation to fall to 5.4% in 2023 and 4.5% in 2024. On the external side, we envisage a further widening of the current account surplus in the coming years along with lower oil prices. We pencil in a current account surplus of 1.6% of GDP and of 1.9% of GDP in 2023 and 2024, respectively.

Chart 18. Exports, imports and trade balance



Source: BancTrust & Co. based on Central Bank.

Policy issues

Banguat has been one of the latest central banks in the region to tighten its monetary policy, which has been reflected in the recent pick-up in inflation and CPI expectations. In this context, the main challenge for the central bank is to bring inflation back to within the inflation band without dampening economic activity. Additionally, the credibility of the inflation targeting regime could be undermined if the monetary policy does not respond in a credible and consistent manner. In the medium-term, authorities still need to address the steady appreciation of the real exchange rate, as it could start to harm competitiveness and investment, both of which are necessary to improve economic and social conditions. In parallel, the country needs to improve tax collection and broaden the tax base to create room for new spending to address the country's traditional infrastructure weaknesses.

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Risks

Given the reluctance to hike rates in a timely manner, the necessary monetary tightening to tame inflation could be much more aggressive than otherwise. On top of this, it could run for a longer period if inflation expectations take longer to abate. This much more hawkish monetary stance would compound the slowdown of economic activity envisaged for next year. On the fiscal front, a higher fiscal slippage than expected in 2023 due to the presidential elections could dent fiscal accounts permanently. Widespread corruption and elevated poverty could amplify the negative social fallout of any deterioration in economic conditions, while climate risks are also considerable due to poor infrastructure and the higher frequency of natural disasters in Central America.

Table 11. Guatemala's Main Macroeconomic Forecasts

Guatemala	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts		
								2022	2023	2024
Real GDP (% y-o-y)	4.1	2.7	3.0	3.2	3.8	-1.5	8.0	3.9	2.8	3.0
Nominal GDP (GTQbn)	476.0	502.0	526.5	550.5	592.8	599.2	667.2	760.3	823.5	823.5
Nominal GDP (USDbn)	62.2	66.0	71.6	73.1	76.7	77.2	86.1	97.5	102.5	108.2
Private Consumption (% y-o-y)	5.1	4.1	3.2	3.5	4.3	-1.1	8.5	4.5	3.1	3.4
Gross Fixed Investment (% y-o-y)	-1.5	-1.7	4.0	4.6	7.2	-5.9	18.9	3.5	2.7	3.2
Domestic Demand (% y-o-y)	4.5	2.9	3.4	4.0	4.8	-1.9	11.4	3.7	2.8	0.0
Industrial Production (% y-o-y)	3.7	3.0	2.9	3.2	3.1	-0.2	7.5	3.8	2.8	3.0
Unemployment rate, average (%)	2.5	2.6	2.5	2.4	2.5	3.1	2.2	2.1	2.0	2.0
CPI, year-end (% y-o-y)	3.1	4.2	5.7	2.3	3.4	4.8	3.1	10.1	5.4	4.5
CPI, year average (%)	2.4	4.4	4.4	3.8	3.7	3.2	4.3	7.0	7.6	4.8
Total fiscal balance (%GDP)	-1.0	0.1	-0.2	-1.0	-1.8	-3.8	-0.4	-1.2	-1.5	-1.5
Primary fiscal balance (%GDP)	0.4	1.4	1.1	0.4	-0.3	-2.2	1.1	0.5	0.2	0.3
Merchandise exports (USDbn)	9.1	9.0	9.7	9.6	9.9	10.1	12.4	15.8	16.3	16.8
Merchandise imports (USDbn)	15.5	15.0	16.4	17.6	17.9	16.4	23.3	32.7	32.4	33.4
Trade Balance (USDbn)	-6.4	-6.1	-6.8	-8.0	-8.0	-6.3	-10.9	-16.9	-16.1	-16.5
Current account balance (USDbn)	-0.8	0.6	0.8	0.6	1.9	3.8	2.2	0.6	1.7	2.1
Current account balance (%GDP)	-1.2	0.9	1.2	0.9	2.3	5.0	2.5	0.6	1.6	1.9
Remittances (USDbn)	6.3	7.2	8.2	9.3	10.5	11.3	15.3	18.0	18.8	19.1
Foreign Direct Investment (USDbn)	1.2	0.8	1.0	0.9	1.2	1.0	3.5	1.0	1.3	1.4
Foreign Direct Investment (%GDP)	1.9	1.3	1.4	1.3	1.5	1.3	4.1	1.1	1.3	1.3
NFPS External debt, year-end (USDbn)	7.5	8.0	8.2	8.2	9.1	10.4	11.1	11.1	11.5	12.1
Monetary Policy Rate, year-end (%)	3.00	3.00	3.00	2.75	2.75	1.75	1.75	3.75	5.00	4.50
Foreign reserves, year-end (USDbn)	7.8	9.2	11.8	12.8	14.8	18.5	20.9	19.9	21.7	24.0
GTQ/USD, year-end	7.6	7.5	7.3	7.7	7.7	7.8	7.8	7.8	8.0	8.2

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

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HONDURAS

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- **Better-than-expected real GDP growth, but with some caveats**
- **High inflation shows more persistence, as expected**
- **The public sector records surprisingly large fiscal savings through September**
- **Limited twin deficits expected in 2022, but risks abound**

Recent developments and 2023-2024 outlook

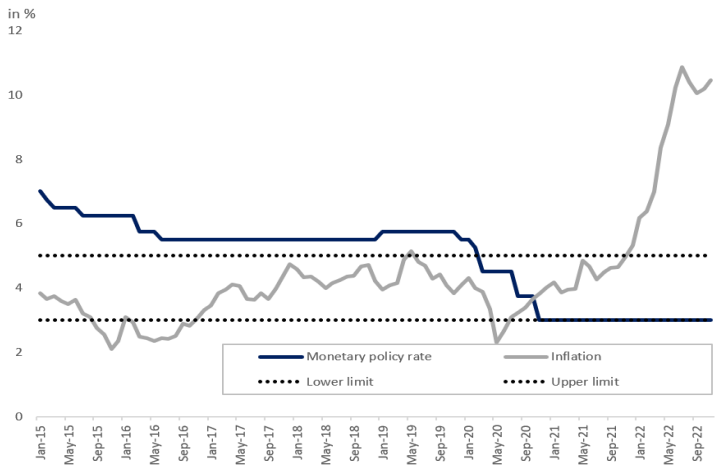
Better-than-expected real GDP growth, but with some caveats. The Honduran economy is about to close the year with an expansion of 4.1%, slightly surpassing our expectations (3.7%) and those from multilateral institutions [IMF (October): 3.4%; World Bank (June): 3.1%]. This rate is also above potential growth estimates (3.5%-4.0%), as the economy continues to benefit from stronger-than-expected remittances inflows, as well as from soft domestic monetary conditions. For 2023, we anticipate a deceleration in the rate of expansion to below-trend levels (3.2%) as local economic activity is adversely affected by the deterioration of the external growth outlook (in particular, a lower dynamism of US), and a resulting moderation in remittances and foreign demand.

In 2022, the economic expansion has been driven by the strength of private consumption (+6.2% y-o-y in 1H22), after households' disposable income rose in response to surging family transfers from abroad. This helped to compensate the decline observed in real wages, which dropped by an estimated 3.4% in the period. Gross fixed investment has also showed strength (+8.6 y-o-y in 1H22), although it has been fundamentally associated with private outlays. Capital expenditures reported by the public sector contracted, in nominal terms, by 46.1% y-o-y in the January-September period. Even though the reasons behind the acute decline of public investment in 2022 are not clear, a more balanced growth pattern is anticipated for upcoming years.

From the supply side point of view, the heterogeneous performance of the economy is even more worrisome. During the first 9 months of 2022, three sectors recorded double-digit growth rates: "Hotels and Restaurants", 25.2% y-o-y; "Financial Intermediation", 14.7% y-o-y; and "Transport and Storage", 12.8% y-o-y. The rest of activities exhibited an (unweighted) average expansion of only 1.3%, with two activities actually declining in the period: among them, the key agricultural sector (-0.7% y-o-y) and other services (-12.7% y-o-y). Clearly, overall growth has been favoured by low-base effects in some activities (Hotels and Restaurants are only 2.7% above 2019 levels), the remittances-related boom of imports, and negative and declining real interest rates. This assessment supports the view that risks to economic growth in 2023-2024 are tilted to the downside.

Meanwhile, inflation has shown more persistence at high levels, as expected. The monthly rate of advance in consumer prices accelerated for the third consecutive month in November, this time to 0.98%, from 0.66% in October and a 3-month moving average of 0.25%. As a result, annual inflation rose from 10.2% to 10.5%, still below the cycle-high of 10.9% observed last July. The accommodative monetary stance and the lack of a clear commitment to reduce inflation are factors that explain the second and third round effects being observed in prices, despite the partial reversal of the energy price shock. These considerations also justify our somewhat pessimistic view on inflation, which would be returning to the official target of 4%±1% only after 2024 (absent any new adverse shock).

Chart 19: Inflation and monetary policy rate (in %)



Source: BancTrust & Co. based on Central Bank.

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The reluctance of economic authorities to use the reference interest rate as a tool for reducing inflationary pressures and expectations, constitute an important flaw in the policy framework of President Castro. In addition, it must be noted that monetary liquidity (or M2) expanded at a rate of 15.5% in September, which evidences an acceleration with respect to the pace observed immediately after the pandemic shock (+11.0% y-o-y in December 2021). Without a doubt, this constitutes a signal of the credit multiplier at work in a context of declining real interest rates.

The stance adopted by the Central Bank of Honduras (BCH) also reveals fiscal dominance by the government in a context of weak institutional independence. Different members of the Executive Cabinet, most notably Secretary of Economic Development Pedro Barquero, have expressed their opposition to raising interest rates as a tool to bring down inflation, citing a perceived failure of such policies in other latitudes. Meanwhile, Secretary of Finance Rixi Moncada has explicitly indicated that higher interest rates cannot be implemented due to the adverse impact on the government domestic interest expenditures. This aversion to conduct counter cyclical monetary actions makes more troublesome understanding the contractionary stance of fiscal policy during the first year of Xiomara Castro's period.

The surprisingly large fiscal savings. The overall balance of the non-financial public sector (NFPS) recorded a surprising surplus equivalent to 3.0% of GDP through September. The figure constitutes a significant widening of fiscal savings when compared to the surplus of 0.5% of GDP observed in the same period of 2021, under the more orthodox administration of Juan Orlando Hernández. Primary expenditures under Castro increased by only 0.2% y-o-y through September, a figure that hides a startling contrast between an expansion of 8.7% y-o-y in current spending (excluding interests) and a drop of 46.1% y-o-y in capital outlays. However, even the rise in current expenditures was lower than the one observed in current revenues (15.7% y-o-y), evidencing an unexpectedly low propensity to spend. The low execution rate and the fiscal restraint has been attributed to reforms being implemented in the procedures and steps to approve public spending, but we also perceive clear limitations in fiscal programming capabilities by the new authorities.

Also note that the public balance contrasts with the space created by the budget and fiscal reform approved in April, which increased the expenditures and deficit limits of the public sector, not only for 2022, but also for the next 4 years. Furthermore, the government has not even disposed of the USD1.0bn from international reserves that was conceded to attend the "fiscal emergency" decreed by Castro. After considering these conflicting signals, we have cut the projected disequilibrium for 2022 and beyond, although we foresee the overall balance deteriorating by at least 1 percentage point in each of the last three months of the year. However, we acknowledge a significant amount of uncertainty about fiscal outcomes and projections. This elevated uncertainty might also explain why the mission from IMF did not complete its latest review of the economy last October nor the IMF published its forecasts for fiscal variables in the October World Economic Outlook.

Limited twin deficits expected in 2022, but risks abound. Along with the expectation of a limited fiscal imbalance in 2022, we anticipate a relatively small current account deficit (USD0.6bn or 1.8% of GDP). This would approximately half the size of the Honduras' external disequilibrium between 2015 and 2019. The surge of remittances (+18.9% y-o-y through November) has been enough to finance a projected rise of 16.9% in imports, cover a large part of the structural deficits in trade and services. Nevertheless, the moderation observed in the rate of growth of family inflows in the last three months sends an important early warning signal. In November, remittances showed an advance of 10.2% y-o-y, its slowest pace of expansion in more than two years. The risks associated with the deterioration of the United States economic outlook might translate into more significant slowing down of these inflows in 2023-2024, with significant adverse consequences for Honduras (mainly lower growth and a larger current account deficit).

In this favourable context, gross international reserves are about to close the year at USD8.3bn, for a reduction of only 4.3% y-o-y. In terms of the size of the economy, however, external assets declined from 30.5% of GDP in 2021 to 26.3% of GDP in 2022, still above their 2015-2019 average (20.0% of GDP). A similar message is obtained if gross reserves are measured in months of imports, with this ratio declining to 5.7 months in 2022 (6.9 months in 2021, 2015-2019 average

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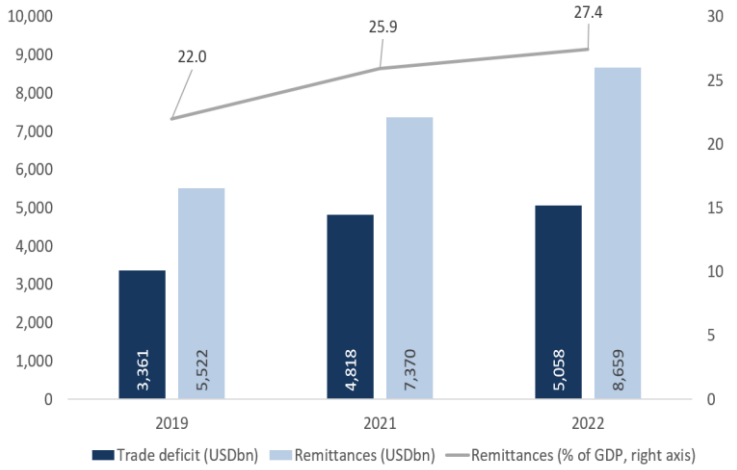
of 4.8 months). This level of external buffers continues to be perceived as sufficient to sustain the fixed exchange rate regime, at least in the short to medium term. However, the real appreciation of 3.0% observed in October might constitute another risk factor if the trend accentuates in upcoming years (i.e., if inflation differentials with trade partners persist for too long).

Chart 20: Trade deficit vs remittances (USDbn, and % of GDP)



Source: BancTrust & Co. based on Central Bank.

The aversion to external debt shown by national authorities, as well as legislators in Congress, explain the reduction of 3.3% registered in the level of liabilities through September. As a result, the debt-to-GDP ratio declined to 28.4%, the lowest level since 2016. We expect the Castro's administration to continue avoiding the international debt market, while it continues to negotiate a stand-by programme with the IMF.

Policy issues

Honduran authorities must design a set of macroeconomic policies that is internally consistent and oriented to restore domestic equilibriums. Reducing inflation back to official targets is considered critical to avoid the re-emergence of large external imbalances, in a context of the crawling peg regime that prevails in the country. In this vein, a resumption of the transition process to a more flexible exchange rate arrangement initiated under the supervision of the IMF, and advancing in structural reforms to guarantee a greater degree of independence for the BCH, must be two key policy objectives.

In addition, improving financing programming capabilities of national institutions (BCH, Secretary of Finance) is considered also an important goal, as this would contribute to a greater level of consistency of economic policies. Finally, policymakers should engage with international financing institutions to design and implement an energy sector reform that does not translate into a violation of existing contracts, while solving the structural financial disequilibrium of the National Electricity Company (ENEE).

Risks

In our view, the main risk faced by the Honduran economy is related to a larger-than-expected moderation in remittances growth in 2023 and beyond. Note that the rise of these inflows in Honduras (and, for that matter, the rest of Central America) surpassed expectations of local authorities, multilateral institutions, and private agents. Even though recent literature has identified volume (more people sending remittances, switch to digital mechanisms) and value effects (rising US wages and fiscal support) taking place, there is uncertainty regarding the rate of growth towards which this variable will converge to in upcoming years.

In the political arena, government coalition has shown a significant fragility, mainly as a result of two factors: (1) the persistent and intense confrontation between Presidential Designate Salvador Nasralla and Presidential Counsellor Manuel Zelaya; and (2) the internal divisions of the ruling party Liberty and Refoundation, visible in the lack of support for the current Congress Board. Advances in key structural reforms might be hindered by this unstable political equilibrium (as well as ideological inconsistencies), a critical factor that must be taking into consideration when evaluating the likelihood and viability of an IMF agreement.

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Table 12. Honduras' Main Macroeconomic Forecasts

Honduras	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts		
								2022	2023	2024
Real GDP (% y-o-y)	3.8	3.9	4.8	3.8	2.7	-9.0	12.5	4.1	3.2	3.0
Nominal GDP (HNLbn)	460.4	495.9	543.4	575.3	614.9	585.7	684.2	776.9	875.7	972.3
Nominal GDP (USDbn)	21.0	21.7	23.2	24.1	25.1	23.8	28.5	31.5	35.4	38.9
Private Consumption (% y-o-y)	3.9	4.0	5.2	5.5	4.7	-6.2	9.8	6.8	4.5	4.0
Gross Fixed Investment (% y-o-y)	12.3	-7.4	11.2	7.3	-5.2	-23.8	44.0	9.5	5.5	4.3
Domestic Demand (% y-o-y)	7.2	2.1	6.2	5.5	-0.2	-8.8	15.2	5.1	4.6	4.0
Industrial Production (% y-o-y)	3.9	3.0	3.9	3.9	2.0	-14.0	19.4	6.8	4.9	3.8
Unemployment rate, average (%)	7.3	7.4	6.7	5.7	5.7	10.9	7.1	6.7	6.0	5.4
CPI, year-end (% y-o-y)	2.4	3.3	4.7	4.2	4.1	4.0	5.3	10.1	9.2	6.7
CPI, year average (%)	3.2	2.7	3.9	4.3	4.4	3.5	4.5	9.1	9.2	7.7
Total fiscal balance (%GDP)	-0.9	-0.5	-0.8	-0.9	-0.9	-5.5	-3.7	-3.5	-4.4	-3.9
Primary fiscal balance (%GDP)	0.1	2.2	1.4	1.4	1.4	-2.7	-1.1	-1.2	-2.1	-1.8
Merchandise exports (USDbn)	8.2	8.0	8.7	8.6	8.8	7.7	10.2	12.5	13.2	13.7
Merchandise imports (USDbn)	11.2	10.6	11.4	12.5	12.1	10.2	15.0	17.6	19.1	20.3
Trade Balance (USDbn)	-2.9	-2.6	-2.8	-3.8	-3.4	-2.6	-4.8	-5.1	-5.9	-6.6
Current account balance (USDbn)	-1.0	-0.7	-0.3	-1.6	-0.7	0.7	-1.4	-0.6	-0.9	-1.0
Current account balance (%GDP)	-4.7	-3.1	-1.2	-6.6	-2.7	2.8	-4.9	-1.8	-2.5	-2.4
Remittances (USDbn)	3.6	3.8	4.3	4.8	5.4	5.6	7.2	8.6	9.5	10.5
Foreign Direct Investment (USDbn)	1.2	1.1	1.2	1.0	0.5	0.4	0.7	0.8	0.9	1.0
Foreign Direct Investment (%GDP)	5.7	5.3	5.1	4.0	2.0	1.8	2.5	2.5	2.4	2.5
NFPS External debt, year-end (USDbn)	5.8	6.0	7.0	7.3	7.6	8.5	8.6	8.9	9.1	9.4
Monetary Policy Rate, year-end (%)	6.25	5.50	5.50	5.50	5.50	3.00	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	8.3	7.0	6.4
HNL/USD, year-end	22.4	23.6	23.7	24.5	24.8	24.3	24.3	24.8	24.9	25.2

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

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PANAMA

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- **Economy overperforms despite social crisis**
- **Price controls reduce inflation, but they also have their costs**
- **Latest public accounts data reveal renewed challenges to meet fiscal deficit limit in 2022**
- **The failure of negotiations with Minera Panamá adds to fiscal uncertainties**

Recent developments and 2023-2024 outlook

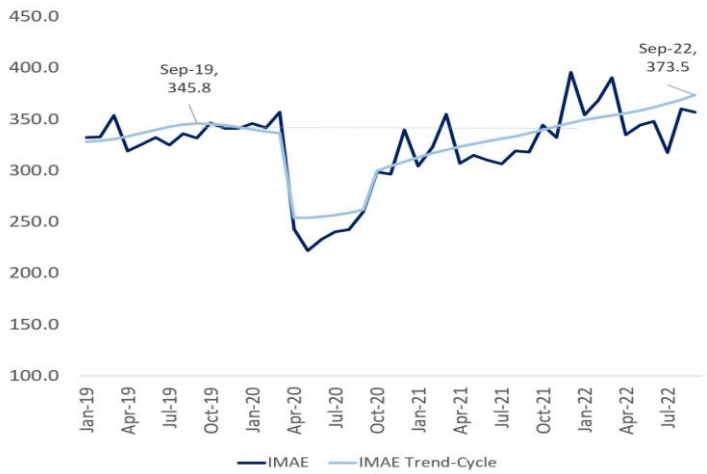
Economy overperforms despite social crisis. The pace of economic growth showed only a mild deceleration in 3Q22, despite the adverse impact caused by the episode of social unrest observed during the month of July. The official index of economic activity recorded an expansion of 9.6% y-o-y in the period, an outcome that was just a tad below the rate of 10.2% y-o-y registered in 2Q22. In light of this overperformance, we have decided to adjust upwards our growth forecast for this year, from 6.2% to 7.9%, but expect a more important deceleration in 2023, to 4.1%, as the domestic economy is affected by the lower dynamism of global activity and trade flows.

Qualitative information shared by the National Statistics Institute (INE) in its monthly activity report indicated that construction continues to be one the main drivers of rapid economic growth, mainly due to the impetus of private projects. Similarly, the recovery of tourism inflows benefited the activities related with commerce, as well as hotels and restaurants. Among the quantitative indicators whose performance was consistent with the resilience observed in the monthly index we underline those associated with tourist arrivals and copper production. The first of these two finally managed to surpass its pre-pandemic level in September, after recording an increase of 2.5% versus the same month of 2019, although the 2022 average was still 21.4% below its comparable period of 2019. Regarding copper, after an expansion of 5.5% y-o-y in 1H22, the production of the mineral gained strength in 3Q22, recording an increase of 10.6% y-o-y, to 117.3 tonnes per month.

Rapid economic growth accompanied by low inflation. Even though part of the positive performance of economic activity obeys to statistical low-base effects, the combination of above trend growth and declining inflation is the outcome that every policymaker would like to achieve. In this case, however, the favourable mix has been attained through a broader set of administrative price controls implemented by President Laurentino Cortizo between June and July of this year. The strategy was adopted to alleviate mounting social tensions in a context of low approval rates of the government.

The latest inflation report available, corresponding to October, showed a monthly advance of consumer prices of only 0.04% in that month. The marginal increase followed three consecutive periods of price declines, during which the overall index declined at an average rate of 0.9% m-o-m. As a result, annual inflation continued decelerating, reaching 1.7%, its lowest level in 16 months. Clearly, the use of these administrative price controls and related subsidies over prolonged periods could bring large economic costs to a dollarised small open economy like Panama. This is especially so in terms of their fiscal burden and the negative incentives for the development of domestic productive capacities.

Chart 21: Monthly index of economic activity (1996=100)



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

The challenges to meet the fiscal deficit target reappear in 2022. Macro-fiscal figures through September evidenced a smaller improvement in the government's overall balance than is probably required to meet the fiscal target without implementing heterodox measures or drastic spending cuts in

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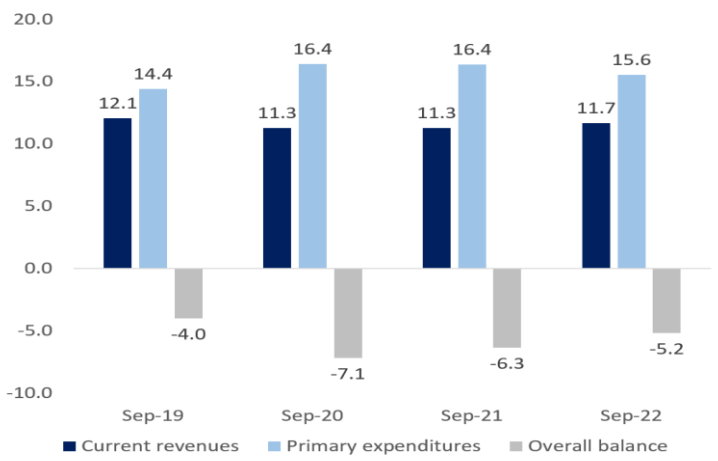
4Q22 (see Panama Economics and Strategy: Back to old tricks, 20 May). To be precise, the non-financial public sector (NFPS) recorded a deficit of USD3.5bn through September, an amount equivalent to 5.2% of official the GDP projected for this year. The imbalance is lower than the disequilibrium of USD4.0bn (6.3% of GDP) observed in the same period of 2021, but it revealed a significant deterioration with respect to the deficit accumulated through June (USD1.9bn or 2.8% of GDP). As a result, the NFPS will have to run a significant surplus in 4Q22 to accomplish the deficit ceiling of 4.0% of GDP established in the Fiscal and Social Responsibility Law.

Regarding the outlook for public revenues, even though their rate of growth moderated to 6.9% y-o-y through September (+7.8% y-o-y through June), early reports corresponding to October pointed to a sudden jump of 59.4% in tax proceeds, creating some hopes of a revenue-led improvement in the public balance. Primary expenditures, nevertheless, have remained elevated. In the 9-month period ended last September, public primary spending expanded at a pace of 1.7% y-o-y, slightly faster than the rate observed through June (+0.9% y-o-y). This acceleration was explained by a recovery of capital outlays (+4.8% y-o-y, versus a contraction of 2.9% y-o-y through June), combined with a more moderate increase in current expenditures (+0.7% y-o-y, versus +2.2% y-o-y through June). The large ups and downs in public spending from one quarter to another are expected to continue in 4Q22, as authorities make a last-minute effort to meet the fiscal targets.

From an institutional point of view, the fiscal restraint shown by the central administration in 3Q22 with regard to current expenditures (-1.9% y-o-y through September, versus +1.5% y-o-y through June) was a positive development. However, it was insufficient to compensate larger expenses by the Social Security Fund (CSS), which increased by 5.1% y-o-y through September (+3.0% y-o-y through June). This worrisome pattern constitutes a warning signal for national authorities of the potential consequences of postponing the necessary reform of the country's social security system. In particular, after the International Labour Organisation identified the imminent unsustainability of the defined benefit subsystem (see Panama Economics and Strategy: Slow-motion de-rating: For how long?, 31 October).

Chart 22: Fiscal balance (in % of GDP)



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

The failure of negotiations with Minera Panamá, a significantly negative development. By the time we write, President Laurentino Cortizo had just announced in national TV the failure of negotiations with Minera Panamá. Consequently, the Panamanian President ordered the immediate suspension of commercial operations of the company's copper pit. Even though President Cortizo expressed that he would "look for the best alternatives to guarantee the sustained operations of the mine", the breaking of the relationship with the subsidiary of the Canadian First Quantum Materials considerably increases the uncertainty around the future of the pit.

Importantly, the rapid expansion of copper production and exports was one of the main drivers of economic growth in recent years, as well as the element behind the reduction in the size of the structural current account deficits of the country. Nevertheless, the extremely favourable mining tax regime that prevailed in the country impeded that this cooper boom translated into an improvement in fiscal revenues. This is a particularly relevant issue for Panama, the country that has evidenced the lowest tax burden in the Latin American and Caribbean region in recent years (7.1% of GDP vs an average of 17.8% of GDP in LAC countries in 2021).

It is important to recall that, last October, the agency Moody's changed the outlook of Panama's rating to "negative", from "stable", precisely after considering that growing fiscal pressures would hinder improvement of the country's debt metrics. Specifically, Moody's cited the "increasingly rigid spending structure (…) and prospects of a persistent deterioration in the financial position of the social security's

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defined-benefit program". The message by Moody's was pretty clear and reaffirms our expectations of an eventual downgrade in Panama's rating to the lowest level in the investment grade scale, not only by Moody's, but also by S&P Global.

Policy Issues

Policymakers should strive to stay on the fiscal consolidation path depicted by the modified Fiscal and Social Responsibility Law. The successful achievement of those fiscal objectives would allow the country to gradually revert the sizable increase observed in the country's debt-to-GDP ratio as a result of the pandemic shock. In order to achieve this objective, it is necessary that national authorities successfully reform the mining tax regime, reaching an agreement with Minera Panamá that finds the right balance between the tax burden and the adequate retribution to private equity. From the point of view of spending, national authorities must embrace the gradual lifting of subsidies and price controls adopted either during the pandemic and/or during the oil price boom of 1H22. The gradual withdrawal of these policy interventions would contribute to achieving more flexibility and space to transfer resources towards capacity-building projects, with positive implications for long-term growth dynamics.

Another important goal should be to finally exit the so-called "grey list" of jurisdictions under increased monitoring by the Financial Action Task Force (FATF), due to strategic deficiencies in the country's Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regimes. Also, policymakers should meet the demands set by the European Council to exit the list of non-cooperative jurisdictions for tax purposes.

Risks

A global economic downturn is the main external risk faced by the Panamanian economy. The decline of external demand would impact the country through two main channels: (1) the volume channel, through which the country would face a lower demand of copper products and a lower demand of transport services through the Panama Canal; and, (2) a price channel, through a decline of copper prices that translates into a resurgence of elevated current account deficits. The lower economic growth that such a scenario would imply for Panama would affect negatively public revenues when the government does not have the fiscal space to accommodate such a shock. A new and significant departure from the established fiscal consolidation path would surely follow.

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Table 13. Panama's Main Macroeconomic Forecasts

Panama	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts		
								2022	2023	2024
Real GDP (% y-o-y)	5.7	5.0	5.6	3.7	3.0	-17.9	15.3	7.9	4.1	4.6
Nominal GDP (USDbn)	54.1	57.9	62.2	64.9	67.0	54.0	63.6	70.6	74.3	79.5
Private Consumption (% y-o-y)	2.8	7.1	2.7	3.2	3.4	-17.0	11.2	6.4	4.2	4.8
Gross Fixed Investment (% y-o-y)	6.5	2.1	7.6	0.7	-2.6	-47.8	69.5	15.9	6.5	6.0
Domestic Demand (% y-o-y)	4.8	3.7	5.5	3.3	-0.1	-26.1	24.0	9.8	5.1	5.1
Industrial Production (% y-o-y)	3.4	1.1	2.6	1.0	-1.1	-22.0	11.1	7.6	3.6	4.6
Unemployment rate, average (%)	5.3	5.8	6.4	6.2	7.4	n/a	11.3	8.4	7.9	8.0
CPI, year-end (% y-o-y)	0.3	1.5	0.5	0.2	-0.1	-1.6	2.6	2.0	2.4	2.2
CPI, year average (%)	0.1	0.7	0.9	0.8	-0.4	-1.6	1.6	2.9	1.2	2.3
Total fiscal balance (%GDP)	-2.3	-2.2	-2.2	-2.9	-3.2	-10.2	-6.7	-4.5	-3.7	-4.0
Primary fiscal balance (%GDP)	-0.5	-0.4	-0.4	-1.0	-1.2	-7.6	-4.2	-2.1	-1.5	-1.8
Merchandise exports (USDbn)	12.8	11.7	12.5	13.4	13.2	10.2	14.9	17.4	17.3	18.2
Merchandise imports (USDbn)	22.6	20.7	22.3	24.0	22.3	14.3	20.4	27.5	28.1	30.4
Trade Balance (USDbn)	-9.8	-9.0	-9.8	-10.6	-9.0	-4.1	-5.5	-10.1	-10.9	-12.2
Current account balance (USDbn)	-4.8	-4.5	-3.7	-5.0	-3.3	1.1	-1.4	-3.4	-3.2	-3.8
Current account balance (%GDP)	-9.0	-7.8	-5.9	-7.6	-5.0	2.0	-2.2	-4.8	-4.4	-4.8
Remittances (USDbn)	0.5	0.4	0.4	0.5	0.5	0.4	0.5	0.5	0.5	0.6
Foreign Direct Investment (USDbn)	4.6	4.7	4.2	5.1	4.1	0.6	1.8	2.9	3.2	3.6
Foreign Direct Investment (%GDP)	8.4	8.2	6.7	7.8	6.1	1.1	2.9	4.1	4.3	4.6
NFPS External debt, year-end (USDbn)	15.6	16.9	18.4	20.6	24.2	29.8	32.8	36.7	38.6	40.2
Deposit rate, year-end (%)	2.9	3.0	3.0	3.0	3.1	2.7	2.65	2.67	2.67	2.67
Foreign reserves, year-end (USDbn)	3.9	4.4	3.5	2.6	4.4	9.3	7.6	4.6	4.4	4.1
Local currency/USD, year-end	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Source: BancTrust & Co. estimates based on Economics and Finance Ministry, and National Statistics Institute.

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PARAGUAY

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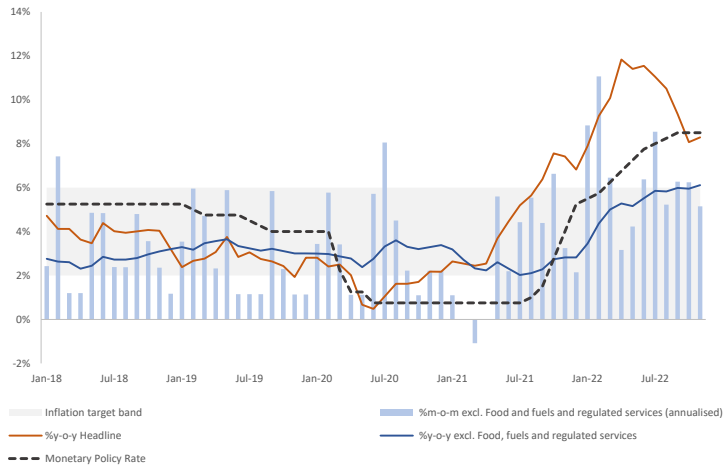
- **Policy rates to remain high as activity recovers from drought**
- **The external deficit would remain high reflecting higher investment**
- **Fiscal convergence to the deficit ceiling remains challenging**
- **We expect continuity in fiscal commitment from the next government**

Recent developments and 2023-2024 outlook

Economic activity rebounded in 2H22. After being hit by drought in end-2021 activity started to rebound in 3Q22. The monthly activity gauge rose 3.5%y-o-y in Aug-Oct, reducing the cumulative fall after the 2.8% contraction in Jan-Jul to 0.9%. This recovery followed the better climate conditions that allowed a recovery in agriculture, cattle raising and power generation, which offset the lower manufacturing and construction. We expect the economic recovery to continue throughout the year, reversing the cumulative fall to a 0.4% growth. Additionally, conditioned on climate conditions not deteriorating, activity is piosed to increase by 4.2% in 2023, thanks to the construction of new foreign investment projects to produce paper pulp and biofuels projected to kick off in 2023. Regarding the latter, we expect the investment drive to continue in 2024, boosting growth to 3.1% despite the phasing-out of the base effect of the recovery in agriculture and a slightly restrictive monetary policy.

Monetary tightening to persist to consolidate the disinflation process. The central bank (BCP) paused its monetary tightening after raising its policy rate to 8.5% in September (Chart 23). Despite the BCP began dismantling the pandemic-related monetary stimulus in mid-2021, there is evidence suggesting that it would take some time before loosening monetary conditions. On the one hand, the last prints show that monthly core inflation is running at an annualised pace of 6%, just at the upper bound of the 4%+/-2ppts inflation target range. Similarly, inflation expectations for the next month remain at 0.5% (6.2% annualised) since September, meaning ex-ante real policy rates are slightly above the 2.2% neutral levels. Considering also our view that activity is poised to improve in the next years, convergence to the centre of the inflation target in the medium term would require the central bank to keep its restrictive policy stance for most of 2023 before starting to cut rates. As a result, we expect the central bank to move cautiously with rate cuts allowing a gradual fall in inflation to 5% and 4% in 2023 and 2024.

Chart 23: Inflation and monetary policy



Source: BancTrust & Co. based on Central Bank.

The external deficit would remain high along with FDI-funded imports and weaker terms of trade. Because of the contraction of external sales of soybeans and its by-products after the drought, Paraguay would record a 7.1% of GDP current account deficit in 2022. While we remain optimistic about the 2022/2023 soy harvest, we do not expect the current account balance to return to a surplus soon. On the one hand, the gradual deterioration of commodities prices would muffle part of the recovery in the volume of agricultural exports. On the other hand, imports are also likely to spike due to the increase in machinery and equipment imports related to the construction of the paper pulp and biofuel projects, which are expected to account for USD4bn in FDI. We expect this increase to be more significant in 2024, as most of the project's construction would focus on that year. As a result, the external deficit would contract to 0.7% of GDP in 2023 and widen again to 3.3% in 2024. Nevertheless, the BCP would be able to increase reserves, thanks to FDI and public external financing.

Fiscal convergence to the deficit ceiling continues to be challenging. Up to November, authorities have managed to keep the fiscal deficit at 2.1% of GDP, in line with previous year levels (Chart 24). This was thanks to a slight improvement in tax collection and lower goods and services expenditures,

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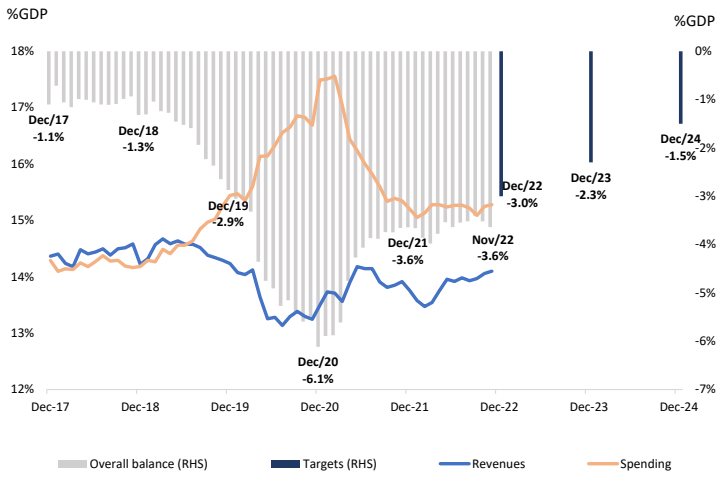
which compensated for higher social benefits and capital spending. Authorities explained they will meet the 3% of GDP deficit target for this year, as capital expenditures would fall 0.4ppts of GDP this month relative to December 2021, as they have distributed the execution of this item more evenly throughout the year. This would translate into a 4% of GDP deficit for the non-financial public sector according to our estimates. For 2023, the government already proposed a budget targeting a 2.3% of GDP deficit, which will be attained mostly by trimming public investments to levels close to those preceding the 2019 drought and the Covid-19 pandemic. This leaves little space to continue cutting investment to meet the 1.5% of GDP deficit target in 2024. The target could be met if the government manages to resist future pressures from lawmakers or unions to increase inflexible spending above nominal growth, as it has done so far. The government would continue relying on external loans to cover its financing needs. For 2023 the government requested permission to issue cUSD0.5bn bonds, which we expect it will delay until 4Q23, seeking a better external backdrop. In this regard, authorities have already anticipated they will use instalments from a World Bank loan to meet the USD238mn global bond maturity due in January 2023.

Chart 24: 12-month cumulative fiscal statistics as % of GDP



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

We expect fiscal commitment from either of the presidential candidates for the April 2023 election. Primaries to choose the presidential candidates for the 30 April general election, will be held on 18 December. Polls suggest that Honor Colorado's presidential hopeful Santiago Peña will represent the Colorado party (ANR), although chances of the Fuerza Republicana faction candidate Arnoldo Wiens are not negligible. On the other hand, former presidential candidate from the liberal party (PLRA) Efraín Alegre continues to lead vote intention for the primary election of the opposition alliance Concertación. Considering the narrow differences in the previous election, and the erosion of the ANR's popularity due to the pandemic mismanagement and several corruption cases, we believe there is a real possibility that the Concertación candidate wins the April 2023 election. As stated in To the tune of global factors, 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).

Policy issues

Despite commitment to fiscal responsibility, political weakness has prevented authorities from cementing expectations on the fiscal outlook. Congressional delays to debate several bills seeking to improve the efficiency of public finances and some lawmakers' initiatives to expand inflexible spending have increased uncertainty on fiscal convergence. In particular, the delay in addressing the increasing deficit of the public officials pension fund "Caja Fiscal" is worrisome, as the pension fund is poised to exhaust its reserves in three years, forcing the government to cover its deficit of c0.5% of GDP with its resources. Authorities have tried to solve this problem by signing a two-year IMF Policy Coordination Instrument (PCI) approved in November. This instrument seeks to anchor expectations and serve as a transitory government plan for the next administration. Additionally, the PCI could unlock additional multilateral financing, particularly from the IMF's Resilience Sustainability Trust, for which Paraguay could receive cUSD0.3bn.

Risks

The higher frequency of adverse climatic events has made evident the country's vulnerability to these episodes. The new investment projects would diversify the production matrix and reduce the country's reliability on crops. Continuing with the diversification of the production matrix would require further improvement of the country's infrastructure, adding pressure

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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.

Table 14. Paraguay's Main Macroeconomic Forecasts

Paraguay	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts		
								2022	2023	2024
Real GDP (% y-o-y)	3.0	4.3	4.8	3.2	-0.4	-0.8	4.1	0.4	4.2	3.1
Nominal GDP (PYGtn)	188.5	204.6	219.1	230.6	236.7	239.9	267.5	295.0	324.5	349.6
Nominal GDP (USDbn)	36.3	36.1	39.0	40.2	37.9	35.4	40.2	42.3	45.2	48.5
Private Consumption (% y-o-y)	2.0	3.7	4.8	4.4	1.8	-3.6	5.7	2.3	2.5	2.9
Gross Fixed Investment (% y-o-y)	-2.1	2.0	5.9	6.9	-6.1	5.3	18.6	4.2	13.4	14.6
Domestic Demand (% y-o-y)	0.8	1.4	5.8	6.4	0.2	-2.8	10.0	6.4	3.7	3.8
Industrial Production (% y-o-y)	5.2	4.6	6.2	2.4	-1.1	-1.3	6.7	-0.2	3.1	2.3
Unemployment rate, average (%)	5.4	6.0	6.1	6.2	6.6	7.7	7.7	7.2	6.5	6.3
CPI, year-end (% y-o-y)	3.1	3.9	4.5	3.2	2.8	2.2	6.8	8.8	5.0	4.0
CPI, year average (%)	3.1	4.1	3.6	4.0	2.8	1.8	4.8	9.8	5.6	4.4
Total fiscal balance (%GDP)	-1.8	-0.4	-0.9	-1.6	-3.8	-7.2	-6.2	-4.0	-3.3	-2.5
Primary fiscal balance (%GDP)	-1.0	0.5	0.1	-0.5	-2.5	-5.8	-4.5	-2.5	-1.7	-0.9
Merchandise exports (USDbn)	10.9	11.7	13.0	13.2	12.1	11.0	13.2	13.3	17.4	17.8
Merchandise imports (USDbn)	10.2	9.6	11.3	12.6	11.9	9.7	12.6	15.3	17.0	18.5
Trade Balance (USDbn)	0.7	2.1	1.7	0.6	0.2	1.2	0.6	-2.0	0.4	-0.7
Current account balance (USDbn)	-0.1	1.3	1.1	-0.1	-0.2	0.7	-0.3	-3.0	-0.3	-1.6
Current account balance (%GDP)	-0.4	3.6	2.9	-0.2	-0.6	2.0	-0.9	-7.1	-0.7	-3.3
Remittances (USDbn)	0.5	0.5	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.6
Foreign Direct Investment (USDbn)	0.4	0.5	0.3	0.2	0.2	0.1	0.1	0.4	1.6	2.0
Foreign Direct Investment (%GDP)	1.0	1.4	0.9	0.4	0.6	0.3	0.3	0.9	3.5	4.1
Public external debt, year-end (USDbn)	4.0	4.8	5.6	6.4	7.2	10.5	11.8	13.1	14.4	0.0
Monetary Policy Rate year-end (%)	6.75	5.75	5.50	5.25	4.00	0.75	5.25	8.50	7.50	6.00
Foreign reserves, year-end (USDbn)	6.2	7.1	8.1	8.0	7.7	9.5	9.9	9.2	10.8	11.5
PYG/USD, year-end	5,782	5,738	5,588	5,964	6,465	6,912	6,877	7,200	7,155	7,262

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

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PERU

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- **Castillo finally and unexpectedly vacated from power**
- **Social and political instability limits investment and total factor productivity growth…**
- **…And, therefore, it can also lead to credit downgrades**
- **Sound macroeconomic policies prevail despite intensification of persistent political crisis**

Recent developments and 2023-2024 outlook

Castillo vacated from power… the end of the crisis? The swift impeachment of Pedro Castillo and his immediate imprisonment for attempting to dissolve Congress last 7 December seemed to open the door for a solution to the political impasse between the Executive and the Legislative powers. The quick designation of First Vice President Dina Boluarte as President, her more conciliatory tone, and her call for a political truce among the different political actors and institutions were positive signals about the willingness to end the crisis. However, during her assumption speech in Congress, President Boluarte showed her intentions to complete Castillo's presidential period. This was probably not the best course of action, considering her weak political floor inside and outside of Congress. A few days later, Boluarte was forced to decree a state of national emergency for 30 days to face mounting social tensions and violent manifestations from protesters who demanded general elections.

Latest political fiasco is just another episode of a structural representativeness crisis. A total of 6 Presidents in the last 7 years, constitutes clear evidence of the structural character of the institutional crisis currently faced by Peru. The political leadership that has managed to reach the Presidency has either failed to conduct themselves in correspondence with the minimum moral principles required to occupy that post or has promoted an unsustainable level of political confrontation among different actors. In this regard, it is important to bear in mind that social demonstrations being observed reflect an elevated dissatisfaction with the broad political class. The high level of rejection of Congress observed in public surveys (even higher than Castillo's) has been a key ingredient of the crisis. Polls from different institutions continually pointed to the "all-leave solution" (that is, all members of the Executive and Legislative powers resign to their posts) as the most favoured exit to the crisis. Without doubt, the discontent with political actors reflects a deep-rooted and protracted representativeness crises in the country.

The implications of this diagnosis are troublesome. Renovating current leaderships and improving the pollical capacities of Peruvian politicians is a process that will take time. Thus, confrontation and political instability is expected to continue in the short to medium term. A broad and sincere process of constructive dialogue and negotiations could alleviate tensions and mitigate negative consequences on the economy. It is a necessary condition for the country to navigate towards a more sustainable equilibrium between political institutions.

The economy has managed to grow around its potential, although a declining one. In the January-September period real GDP expanded by 2.9% y-o-y, a rate that is only marginally below current estimates of multilateral institutions of Peruvian potential growth (3.0%). Using different statistical filters, the country's trend-growth rate has been declining steadily since the start of the last decade, with risks clearly biased towards a continued reduction in potential. In fact, Central Bank Governor Julio Velarde recently indicated that Peruvian long-run growth rate was "2.9% or lower", a disappointing acknowledgment by the monetary authority.

Consequently, we have adjusted downwards our projections for GDP growth for the period 2022-2024, but consider that risks of observing a more significant deceleration are considerably large. In the first 9 months of 2022, private investment recorded an increase of only 0.2% y-o-y, but this weakness is expected intensify and persist in 4Q22 and during 2023-2024. This would be the lagged reaction to the higher levels of real interest rates and, more importantly, the notorious uncertainty about the political outlook. Private consumption has been the main driver of the expansion, after growing by 5.0% y-o-y in the January-September period. However, this component of aggregate demand is also expected to lose dynamism in response to weakness in real wages and more restrictive monetary conditions.

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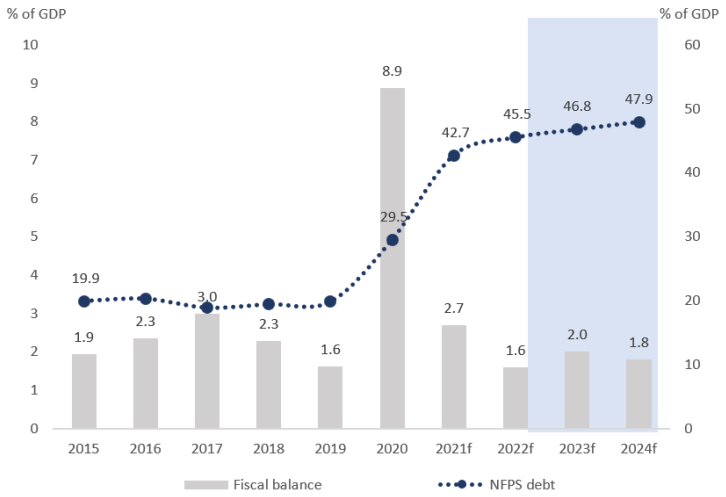
Fiscal policy to the rescue. Previous to the demise of Pedro Castillo, national authorities had already identified the need to push spending in order to avoid a more significant downturn. The growth plan *Impulso Perú* was designed to implement a series of administrative and legislative reforms oriented to improve execution rates of the public budget and increase the level of productive investment being made by central and regional governments. In this regard, it must be noted that the GDP components related to public final consumption and public fixed investment showed disappointing figures between January and September 2022 (a contraction of 0.2% y-o-y and an expansion of only 0.6% y-o-y, respectively). In 2023-24, a more vigorous increase of public spending will be needed to sustain growth and create infrastructure capacities that eventually promote a higher level of private investment.

Chart 25: NFPS overall balance (% of GDP)



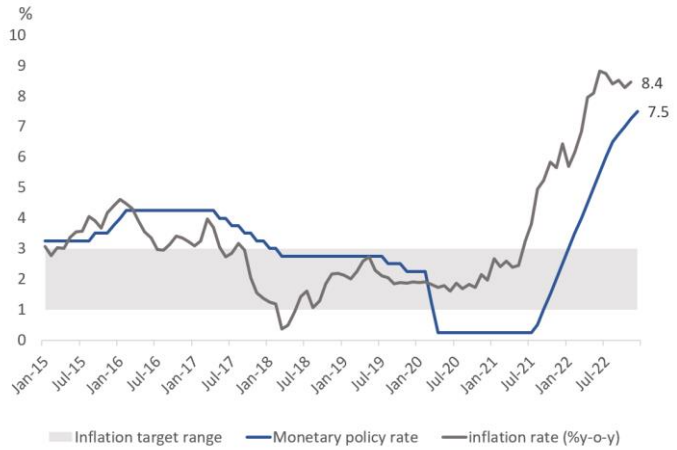
Source: BancTrust & Co. estimates based on Central Bank.

Authorities can use available fiscal space. In the 12-month period ended last October, the non-financial public sector (NFPS) recorded a deficit of only 1.2% of GDP, significantly below the 2.6% of GDP official projection made for this year. The reduced disequilibrium was favoured by a strong expansion of public revenues, which jumped by 17.8% y-o-y in the January-October period. The expenditures figures corresponding to October started to reveal a more significant expansion of non-financial expenditures (+14.3% y-o-y in the month) and a revival of capital spending in the context of the launch of the Impulse Peru growth plan (+52.8% y-o-y). The fiscal balances for the last two months of the year are expected to continue reaffirming these trends, as the deficit stays below target.

Monetary policy to remain restrictive for some time. After raising the reference interest rate to 7.5% in December, monetary authorities are expected to hold it at this high level until a clear convergence of inflation in observed towards the official target. As a result of this last adjustment, the real ex-ante policy rate now sits at 2.8%, clearly above the range estimated by monetary authorities for the neutral rate (1.5%-2.0%) in the country. The Central Reserve Bank of Peru (BCRP) is clearly sending a message of low tolerance to deviations of inflation from the target, as it does not want to deal with inflation expectations staying at high levels for too long. In this regard, maintaining a high level of anti-inflation credibility is an utmost objective for policymakers.

The restrictive stance maintained by the BCRP is a response to monthly readings of inflation staying at relatively high levels in recent months (3-month average of 0.5% m-o-m in both overall and core CPI), as well as the excessively slow decline of inflation expectations, which stood at 4.7% in November. Policymakers see inflation returning to the interval of 2%±1% in 4Q22, but risks continue to point to a more protracted deviation from the official goal.

Chart 26: Inflation and monetary policy rate (MPR)



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

Amid the unstable political environment, a strong PEN. An interesting development observed during the most recent period of elevated political uncertainty has been the strength shown by the local currency. The nominal exchange rate closed at PEN/USD3.84 on 14 December, a level that reflects an appreciation of 0.3% with respect to the end of November, and a strengthening of 3.7% versus the end of 2021. Even though the political crisis is still developing as we elaborate this

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analysis, the nominal appreciation has occurred in the context of relatively limited interventions by the BCRP during the days following the destitution of Pedro Castillo.

The strength of the Sol is even more remarkable considering the deterioration observed in external accounts during 2022. In this regard, the balance of payments recorded a current account deficit of USD3.7bn in 3Q22, equivalent to 6.0% of the GDP observed in the period. The size of the disequilibrium was significantly larger than the imbalance registered in 2Q22 (-3.5% of GDP) and 3Q21 (-1.8% of GDP). The main explanatory factor behind the result was a severe reduction in the country's trade surplus, which declined to USD1.0bn in 3Q22 (1.6% of GDP), from USD4.1bn in 3Q21 (7.4% of GDP), on the back of a severe drop in the country's terms of trade. In fact, the adverse performance of international relative prices contributed 3.2 percentage points to the total deterioration observed in the current account. The reduction in the trade surplus is slightly larger than the one we envisaged for the whole year 2022 (-26.0% to USD11.0bn). The negative terms-of-trade shock is clearly one of the main factors behind the decline in the trade surplus. In October, this indicator dropped by 19.7% y-o-y, reflecting the adverse combination of lower export prices (-13.4% y-o-y) and higher import prices (+7.8% y-o-y).

During 3Q22, the lower trade surplus was compensated, only partially, by a reduction of the structural deficit in the primary income account, from USD4.5bn (8.0% of GDP) to USD3.7bn (6.1% of GDP), as benefits from external companies operating in the country diminished, especially in the mining sector. In the financial account, a net inflow of short-term capital was recorded (USD1.7bn), the first positive result observed in this component of the balance of payments in the last 9 quarters. Meanwhile, long-term financing by the private sector declined to USD4.7bn, from USD6.5bn in the same period of 2021. As reported by the BCRP, these results were associated with larger sales of external assets by pension funds, banks, and mutual funds. After these outcomes, total Peruvian external assets ended 3Q22 at USD153.6bn (64.3% of GDP), for a decline of USD1.5bn when compared to 3Q21.

Policy issues

The main challenge for current authorities is to facilitate a gradual and smooth political transition, through a call to national dialogue and the implementation of early general elections. The electoral process would allow voters to re-legitimise members of the Executive and Legislative powers and, hopefully, improve the outlook for investment and economic growth in upcoming years.

Regarding economic policies, monetary authorities need to maintain an anti-inflationary bias in order to bring back inflation and inflation expectations towards the target. Avoiding a prolonged period of high inflation is critical to preserve the high level of credibility attained over more than two decades, in which Peru become the reference for price stability in the Latin American region.

Risks

The incapacity of the political class to reach agreements continues to be the main risk ahead for the Peruvian economy. As we have emphasised in the past, persistent political instability and confrontation not only affects private investment, it also translates into sustained declines in total factor productivity with adverse consequences for economic growth, as the last institutional crisis demonstrates. In turn, the weakening of potential growth might give rise to downgrades in the credit rating of the country, a point emphasised in recent days by S&P Global, after reviewing the outlook of the country's note to "negative".

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Table 15. Peru's Main Macroeconomic Forecasts

Peru	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts		
								2022	2023	2024
Real GDP (% y-o-y)	3.3	4.0	2.5	4.0	2.2	-11.0	13.5	3.0	2.8	2.5
Nominal GDP (PENbn)	611.6	659.8	703.3	745.5	775.3	719.5	875.9	968.4	1,047.8	1,101.4
Nominal GDP (USDbn)	192.0	195.4	215.6	226.7	232.2	205.7	224.4	248.6	255.2	267.9
Private Consumption (% y-o-y)	4.0	3.7	2.6	3.8	3.2	-9.8	11.7	4.7	3.5	3.2
Gross Fixed Investment (% y-o-y)	-3.2	-4.1	-0.4	6.6	-0.6	-18.9	26.6	-0.4	1.7	1.8
Domestic Demand (% y-o-y)	2.8	1.3	1.7	4.1	2.2	-9.9	14.6	2.9	2.9	2.7
Industrial Production (% y-o-y)	-1.5	-1.4	-0.2	5.9	-1.7	-12.5	17.8	0.5	0.5	0.3
Unemployment rate, average (%)	6.4	6.7	6.9	6.7	6.6	12.8	11.3	7.9	7.8	8.0
CPI, end-year (% y-o-y)	4.4	3.2	1.4	2.2	1.9	2.0	6.4	8.0	3.0	2.4
CPI, year average (%)	3.5	3.6	2.8	1.3	2.1	1.8	4.0	7.8	5.2	2.5
NFPS fiscal balance (%GDP)	-1.9	-2.3	-3.0	-2.3	-1.6	-8.9	-2.7	-1.6	-2.0	-1.8
NFPS Primary fiscal balance (%GDP)	-0.9	-1.2	-1.8	-0.9	-0.2	-7.3	-1.1	0.0	-0.4	-0.2
Merchandise exports (USDbn)	34.4	37.1	45.4	49.1	48.0	42.9	63.2	65.5	67.3	69.8
Merchandise imports (USDbn)	37.3	35.1	38.7	41.9	41.1	34.7	48.3	56.9	59.6	61.9
Trade Balance (USDbn)	-2.9	2.0	6.7	7.2	6.9	8.2	14.8	8.6	7.7	7.9
Current account balance (USDbn)	-8.9	-4.4	-2.0	-2.9	-1.7	2.4	-5.3	-9.8	-5.9	-6.1
Current account balance (%GDP)	-4.7	-2.3	-0.9	-1.3	-0.7	1.2	-2.3	-4.0	-2.3	-2.3
Remittances (USDbn)	2.7	2.9	3.1	3.2	3.3	2.9	3.6	3.6	4.0	4.1
Foreign Direct Investment (USDbn)	7.3	6.8	7.4	5.9	4.8	0.7	7.5	10.7	6.1	6.7
Foreign Direct Investment (%GDP)	3.8	3.5	3.4	2.6	2.0	0.4	3.3	4.3	2.4	2.5
NFPS External debt, year-end (USDbn)	19.9	20.3	18.9	19.4	19.8	29.5	42.7	45.5	46.8	47.9
Monetary Policy Rate, year-end (%)	3.75	4.25	3.25	2.75	2.25	0.25	2.50	7.50	6.50	4.00
Foreign reserves, year-end (USDbn)	61.5	61.7	63.7	60.3	68.4	74.9	78.5	73.4	73.0	73.0
PEN/USD, year-end	3.4	3.4	3.2	3.4	3.3	3.6	4.0	3.8	3.8	3.9

Source: BancTrust & Co. estimates based on Central Bank, National Statistics Institute, and Economics and Finance Ministry.

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THE BAHAMAS

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- **Fiscal and external performance support sentiment overhaul...**
- **... But the biggest challenges are ahead**
- **Repayment of the 24s is achievable...**
- **... But lack of FX liquidity could force a devaluation of the BSD**

Recent developments and 2023-2024 outlook

Fiscal and external performance support sentiment overhaul. The Bahamas' external bonds have been rallying since early October. The benchmark 2032 bond rose 37% since then and the yield curve became once more upward sloping. In our view, the recent improvement in market sentiment over this credit may be driven by the country's fiscal performance and its ability to sustain the level of international reserves. Up to the fourth month of FY22/23 (Jul-Oct 2022), the primary balance reverted to a 0.6% of GDP surplus from a 0.2% of GDP deficit in the same period of the last fiscal year. Not only revenues increased on the back of higher tourism activity and international trade volumes, but primary expenditures were trimmed by 1.3% during that period.

On the other hand, external reserves remain at historically high levels. Despite they were built on the back of public sector indebtedness, the central bank and the government managed to buttress external buffers. This provided a good signal to investors worried about the external sustainability of the country and its ability to serve its external debt, which is threatened not only by the wide current account deficits but also by the sizable external financing needs.

But the biggest challenges are ahead. Notwithstanding the relatively good performance shown in the last few months, The Bahamas is still facing its main challenges during the remainder of the fiscal year and until January 2024. First of all, the Treasury has to repay the USD180mn JP Morgan loan and also some other minor partial instalments from multilaterals and other financial institutions by end-2022. This would be followed by the need to settle cUSD300mn of principal maturities throughout the next calendar year. Secondly, the central bank's international reserves would also be challenged by large current account deficits and growing capital flight.

Regarding the first challenge, the government would face difficulties in refinancing the maturities. The Treasury is behind schedule on its Annual Borrowing Plan since, according to the Finance Ministry, gross external indebtedness would reach USD764.7mn throughout the fiscal year. Still, only USD45mn was registered in the first four months. On the other hand, domestic debt also started to show some signs of stress. Domestic bond sales are becoming increasingly concentrated on shorter-term instruments such as the 3Y and 5Y notes, while a year ago the demand was on the 30Y horizon. Also during October, the government had to rely on central bank lending, signalling liquidity constraints and difficulties in raising funds in the domestic market, even in the light of improved fiscal results. Finally, a Bank of The Bahamas Director stated that commercial banks were close to their regulatory and prudential limits of government debt holdings and that the successive downgrades by rating agencies were hitting the banks' balance sheets on the valuation of their holdings of domestic debt.

Meanwhile, the external outlook remains the most important constraint of the Bahamian economy, in our view. Against our expectations, the Central Bank of The Bahamas was able to keep building up its international reserves stock during 2022, on the back of both private and public sector inflows. As a result, external reserves would end this year considerably above of our previous forecasted level. But, as mentioned before, the public sector struggled to access external financing in the past few months. In this context, the central bank lost cUSD300mn in Aug-Oct due to outflows from the private sector that were not compensated by dollar purchases from the central bank to the public sector. It is worth mentioning that the second half of the year has a negative seasonality due to lower tourism-related income, but the magnitude of October's decline (USD187mn) was abnormally high. Moreover, the recent balance of payments data (3Q22) provided evidence of the private sector repaying external loans and FDI outflows surpassing inflows.

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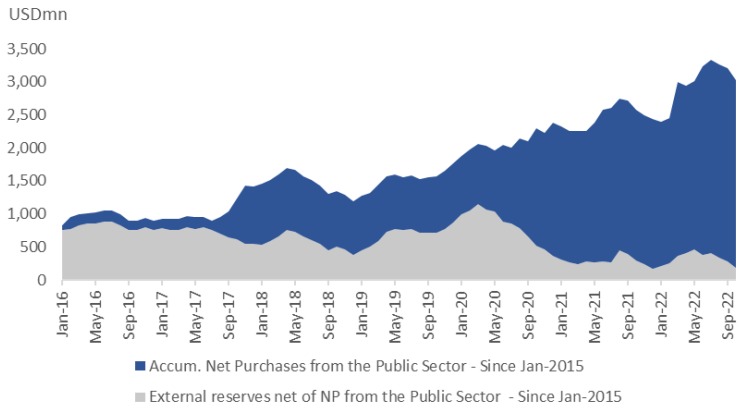
Chart 27. External reserves accumulation from public sector FX inflows



Source: BancTrust & Co. based on Central Bank.

Repayment of the 24s is achievable, but FX liquidity would force the devaluation. Even under the aforementioned scenario and taking into account lower-than-budgeted external funding, The Bahamas would still count on enough liquidity to serve the 2024 external bonds due in January 2024. But this would be at the expense of draining most of the Treasury's liquidity and depleting international reserves. Under these stressed conditions, we expect that the market would end up forcing a devaluation of the domestic currency before or right after this maturity. We still expect the 15% devaluation of the BSD against the USD to happen in the last quarter of 2023.

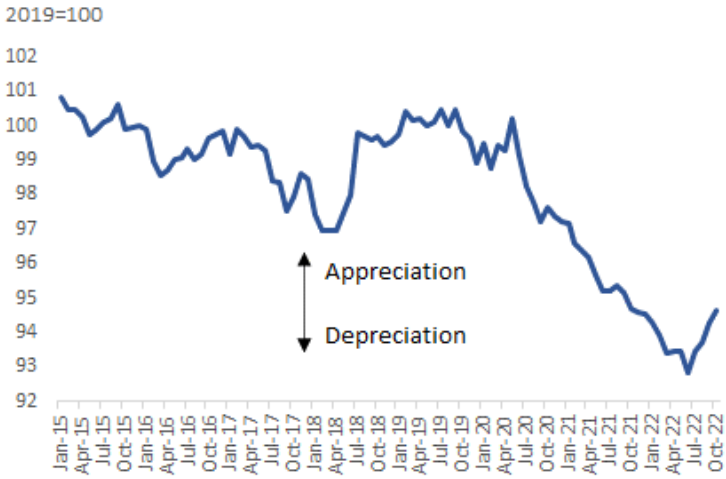
Policy issues

Despite achieving good fiscal results, the revenue performance is distant from the path ending at 25% of GDP by FY25/26. On the expenditure side, the greater contributors to lower spending were the elimination of most Covid-related expenditures together with a cut on capex. Therefore, as sources for further improvement ran out, additional fiscal policy measures would be required. Increasing taxes and cutting subsidies to SOEs would become necessary to come closer to the medium-term fiscal objectives set by the government. Also, it would be necessary to build domestic savings that partially compensate for wide external gaps.

On the monetary side, FX control measures would strengthen during the following year as the stock of international reserves declines. Recently, the government waived the Investment Currency Market premium of 5% for those Bahamians that intended to purchase Bahamas' external bonds. The central bank had to back off as it registered applications for over USD200mn (7% of the FX reserves stock) in about 2 months.

We still assess that the devaluation of the currency is the best course of action for the government. True, debt-to-GDP would increase. Still, long-term fundamentals of the economy would improve, revamping also confidence and competitiveness. Investors would perceive healthier metrics and FDI inflows would accelerate on the back of the weaker currency. Moreover, after a devaluation, the most reasonable strategy would be to engage in a programme with the IMF. Not only it would allow The Bahamas to roll over cUSD240mn in debt services of the RFI agreement, but it would also open the opportunity to tap the Resilience and Sustainability Trust, which could add up to cUSD350mn (2.9% of GDP) in fresh funds. If that was the case, the government could even avoid the mild restructuring of its debt that could be needed to mitigate the short-term social costs of the depreciation of the BSD.

Chart 28. Real effective exchange rate



Source: BancTrust & Co. based on IMF.

The government could also choose to perform an "internal" devaluation by reducing domestic costs. But this is a much more painful and risky option. Bahamians would still face lower real salaries and the government would need to keep on dealing with challenging financing needs for several years while investor confidence remains low due to external sustainability concerns. In this regard, the real effective exchange rate depreciated by c5.5% compared to pre-pandemic levels and could take years to achieve a sustainable level.

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Risks

The balance of payments accounts feature substantial net inflows accounted as net errors and omissions that represent a risk to our outlook. The central bank registered over USD1bn (9.1% of GDP) in unidentified FX inflows during 2021 which remain unaddressed, while the net errors and omissions account totaled USD840mn (6.5% of GDP) in the first nine months of 2022. These amounts are close to a half of the current account deficit for those periods, making the FX dynamics hard to assess. If the central bank keeps on building reserves even on the back of these unidentified inflows, our view would be changed as the government could avert devaluation.

Also, authorities could tap alternative financing sources, such as the sale of carbon credits, the sale of the Grand Lucayan resort, or blue economy-related loans and bonds. All of these have been alternatives weighed by policymakers, but have been delayed or proved hard to achieve. Finally, spillovers from the collapse of the cryptocurrency exchange FTX and its effects on the banking system, the external accounts, and the rest of the cryptocurrency industry in the country are also sources of uncertainty to the outlook.

Table 16. The Bahamas' Main Macroeconomic Forecasts

Bahamas	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts		
								2022	2023	2024
Real GDP (% y-o-y)	-0.9	3.1	1.8	1.9	-23.8	13.7	8.2	8.2	4.6	3.7
Nominal GDP (BSDbn)	11.8	12.4	12.8	13.2	9.7	11.2	12.8	12.8	14.2	15.6
Nominal GDP (USDbn)	11.8	12.4	12.8	13.2	9.7	11.2	12.8	12.8	14.0	13.6
Private Consumption (% y-o-y)	1.9	6.5	0.3	-5.4	-20.7	22.6	-0.2	-0.2	0.8	-6.9
Gross Fixed Investment (% y-o-y)	5.5	9.8	-4.8	2.2	-32.1	22.7	12.3	12.3	-4.9	12.3
Domestic Demand (% y-o-y)	2.1	8.6	-0.6	-0.9	-22.6	20.5	3.0	3.0	-0.2	-0.8
Unemployment rate, average (%)	12.2	10.1	10.4	10.1	25.6	18.1	13.6	13.6	11.0	8.8
CPI, end-year (% y-o-y)	0.8	1.8	2.0	1.4	1.2	4.1	7.2	7.2	4.3	6.5
CPI, year average (%)	-0.3	1.5	2.3	2.5	0.0	2.9	5.8	5.8	5.7	6.1
Total fiscal balance (%GDP)*	-2.6	-5.4	-3.3	-1.7	-7.3	-13.6	-5.7	-5.7	-4.1	-3.3
Primary fiscal balance (%GDP)*	-0.3	-3.2	-0.8	0.8	-4.2	-9.3	-1.1	-1.1	0.3	1.2
Merchandise exports (USDbn)	0.5	0.6	0.6	0.7	0.4	0.6	0.8	0.8	1.0	1.2
Merchandise imports (USDbn)	2.6	3.1	3.3	3.0	2.0	3.2	3.5	3.5	3.9	4.2
Trade Balance (USDbn)	-2.2	-2.5	-2.7	-2.3	-1.6	-2.6	-2.7	-2.7	-2.8	-3.0
Current account balance (USDbn)	-1.5	-1.7	-1.2	-0.3	-2.3	-2.6	-2.0	-2.0	-1.3	-0.6
Current account balance (%GDP)	-12.4	-13.4	-9.4	-2.6	-24.1	-22.9	-15.6	-15.6	-9.3	-4.4
Foreign Direct Investment (USDbn)	0.6	0.5	0.6	0.5	0.4	0.4	0.4	0.4	0.2	0.4
Foreign Direct Investment (%GDP)	4.9	3.7	5.1	3.7	4.5	3.4	2.9	2.9	1.5	2.8
NFPS external debt, year-end (USDbn)	1.7	2.6	2.6	2.6	4.0	4.3	5.0	5.0	5.0	5.3
Monetary policy rate, year-end (%)	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	5.00	5.00
Foreign reserves, year-end (USDbn)	0.9	1.4	1.2	1.8	2.4	2.4	2.7	2.7	1.4	1.5
BSD/USD, year-end	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.15	1.15

* Fiscal data refer to fiscal year ending on 30 June

Sources: BancTrust & Co. based on central bank, Department of Statistics of the Government of The Bahamas and Ministry of Finance.

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VENEZUELA

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- **Recovery loses steam, as oil production stagnates**
- **Rapid monetary financing of the fiscal deficit in a context of falling oil prices generates FX pressures.**
- **Negotiations resume, but we expect limited political concessions from Maduro.**
- **Human rights considerations the key to extreme (positive and negative) outcomes.**

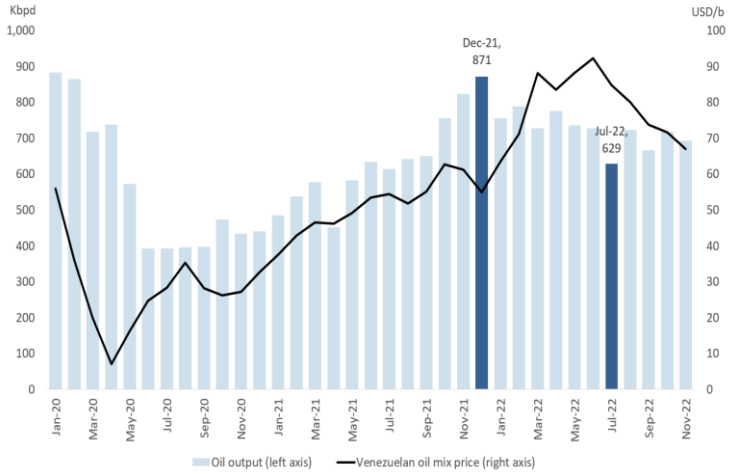
Recent developments and 2023-2024 outlook

After a strong 1H22, the economy loses steam. According to the economic activity index built by the Venezuelan Finance Observatory (OVF), the Venezuelan economy recorded an expansion of 9.8% y-o-y in 3Q22. The figure reveals an important deceleration from the rapid pace of growth observed in 1H22 (15.4% y-o-y), a process that we estimate to have intensified in 4Q22, due to lower oil production and revenues, a sustained drop in real wages, and the dissipation of low-base effects. We project that real GDP will end the year with an expansion of 11.5%, a level that still denotes a larger increase than we initially expected.

Momentum is dragged down by stagnating oil production… Direct communication figures published by OPEC showed that oil production stagnated around an average of 686k barrels per day (bpd) between July and November of this year. This level reflects a slight contraction of 1.6% y-o-y, although the November reported figure of 693k bpd points to a more significant drop of 15.9% y-o-y. In fact, crude output is projected to register a drop of 13.2% in 4Q22. In 2023-2024, oil production will be favoured by the licence issued to Chevron by the Biden administration, and the new contracts signed between the company and the Venezuelan government. We depict an increase of 100k bpd in total output by the end of 2023, and a total expansion of 385k bpd in a period of 3 to 5 years.

…And declining foreign exchange inflows. Before this Chevron-related anticipated recovery, however, the economy had to deal with a significant decline in oil revenues, due to both lower production and lower prices. The price of the country's reference basket (Merey) fell by 6.5% m-o-m in November, to USD66.9 per barrel. It was the fifth consecutive monthly decline in Venezuelan crude prices, after reaching a high of USD92.3 per barrel last June (Chart 29). In this context, oil revenues are estimated to have declined by 16.1% y-o-y in 2H22, to USD6.5bn, a critical development for a country that subsists with liquid international reserves below USD1.0bn.

Chart 29: Venezuelan Oil Output and Prices



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

The exchange rate as the first indicator of the inconsistencies in policies. Between September and November, economic authorities opted for accelerating the growth of the monetary base in order to finance the fiscal disequilibrium. High-powered money grew at an average rate of 26.0% m-o-m in those months, underestimating the consequences in terms of exchange rate and consumer price dynamics. In a context of a weak external position, the decrease in oil sales quickly translated into two crises episodes in the foreign exchange market. The first one had its peak last September, with a depreciation of 25.0% m-o-m. The second started in November and is still developing as we write these notes. The nominal exchange rate is projected to end December with a jump of 48.1%, closing 2H22 with a nominal depreciation of 166.2%.

Large and immediate pass-through underlines risks of a new hyperinflationary period. Official inflation figures reflected the swift impact of the Bolívar downfall on consumer prices during the first crisis episode. The National Consumer Price Index (INPC) experienced an increase of 28.7% m-o-m in September, causing a jump in the annual inflation rate to 157.4%. The INPC

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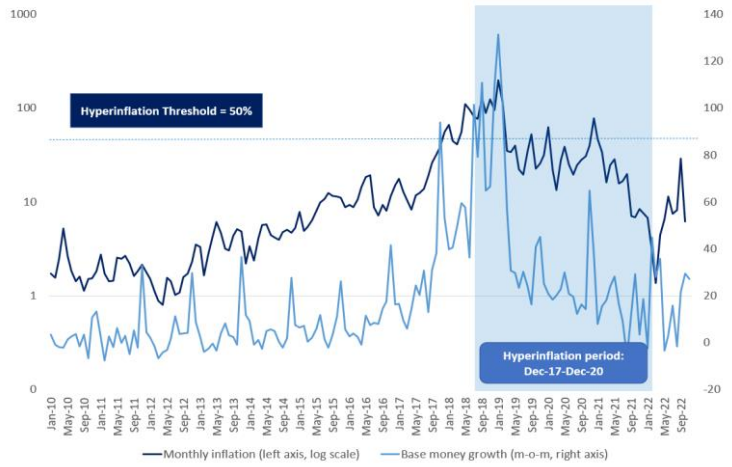
numbers for November have not been released yet, but the alternative index built by the OVF showed an advance of 21.9% m-o-m in November, a significant acceleration from the already rapid rate of 14.5% m-o-m recorded in October. It is clear that, absent growing foreign exchange inflows, national authorities lack the necessary tools and financial strength (external assets) to stabilise the exchange rate and inflation. In this regard, the adoption of other explicit types of nominal anchors (monetary or fiscal) has not been possible either, due to the low level of credibility and the lack of commitment with the disinflationary goal.

Chart 30: Inflation and Monetary Base (monthly growth rates)



Source: BancTrust & Co. based on Central Bank.

Negotiations resume, but we expect limited concessions by Maduro. Even though Maduro showed a strong hand during the period that preceded the return to the Mexico's dialogue process, the fragile and unstable economic situation continues to be one of the main drivers of his willingness to negotiate. The Venezuelan government managed to obtain limited sanctions relief and access to humanitarian funds just to come back to the table. The details about both achievements are not completely clear yet, but they will certainly help with the overall objective of improving social conditions ahead of the 2024 elections.

In particular, **the resources to be administered by United Nations will be important**. The funds are expected to reach USD3.0bn (5.0% of 2023 GDP) and will be spent, during the next three years, in infrastructure projects and programs that directly address humanitarian needs in the country. Bear in mind that, after inflation, the main concerns of Venezuelans are related to deficiencies in public services like water and electricity, which severely affect living conditions in the country. In addition, persistent power outages and a limited electricity productive capacity constitute important bottlenecks that limit the recovery of economic activity, in particular the oil and industrial sectors.

The licence to Chevron creates a slight of hope. As commented above, the American oil giant is expected to gradually expand domestic oil production, with the estimated level of output at the end of 2023 anticipated to be 15% higher than November 2022. Regarding the proceeds from the corresponding higher levels of exports, the general licence does not authorise the payment of taxes, royalties, or dividends to the Venezuelan government. This restriction would seem to limit the economic benefits of the licence, for the national government, to the reduction of outstanding debts with Chevron. In fact, a press release by the US Department of the Treasury, issued shortly after granting the licence, states that "this authorisation prevents PDVSA from receiving profits from the oil sales by Chevron". However, the fact that the US company only has a minority interest in the joint ventures actually opens a channel for the Venezuelan government to benefit from the higher export sales, since the mixed companies (Petroindependencia, Petroboscán, Petroindependiente, and Petropiar) are the ones responsible for paying taxes, royalties, and dividends, not Chevron.

Furthermore, unofficial information about the contracts signed with the government points to the possibility that the US firm would be taking indirect control of the joint ventures through service contracts with PDVSA. For some legislators and analysts, this would be a violation of the Venezuelan Constitution and Hydrocarbons Organic Law, which explicitly prohibits that a company other than PDVSA controls a joint venture. Nevertheless, the regime has already made use of these vehicles in the past to elude the legal framework in place.

Despite weak underlying macroeconomic fundamentals, Maduro hardens its stance. Only a few days after resuming formal negotiations in Mexico, Nicolás Maduro significantly hardened his stance by conditioning the holding of free and fair elections to a complete lifting of sanctions. Following this announcement, the Venezuelan President went on to announce the start of conversations with "all the oppositions",

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in clear defiance to the representativeness of the opposition parties grouped under the Unitary Platform. In our view, the sudden change in the attitude and demands from Maduro were partly a response to results of a recent survey that evidenced the significant dangers that a unified opposition would pose for his continuity in the Presidency (see report Venezuela Economics and Strategy: Confrontation unexpectedly steps up, 6 December). Thus, considering that staying in power is the utmost objective of the regime, we expect only limited political concessions by Maduro in the Mexico's process. His willingness to concede more demands would respond inversely to changes in the degree of unity of opposition forces, with the potential economic benefits from further sanction relief playing a secondary role.

Human rights considerations the key to extreme (positive and negative) outcomes. Our base case scenario in which limited political concessions by Maduro and limited sanctions relief by Biden translate into slow progress in the negotiations, is subject to important tail risks. On the positive side, the general amnesty proposed by Colombian President Gustavo Petro continues to be the silver lining for a quick solution to the crisis. Even though this proposal is ethically difficult to accept by opposition leaders (possibly also unconstitutional), it is the one that could give rise to extremely positive outcomes in terms of a rapid improvement in macroeconomic and financial conditions. On the negative side, further progress in the investigation by the International Criminal Court, and the eventual indictment of Maduro and high-ranked officials for crimes against humanity, could give rise to extreme negative outcomes, where the regime reinforces its authoritarian ways and there is no political solution to the crisis.

Policy issues

From a normative point of view, the government of Nicolás Maduro should strive to reach an agreement with the main opposition parties in the Mexico's negotiation process. This would certainly bring a gradual transition to a more democratic regime, a complete lifting of sanctions after sufficiently fair elections are held in 2024, and a sustained recovery after the economic collapse of 2014-2020.

In the meantime, economic authorities face the daunting challenge of stabilising the exchange rate and consumer prices in a sustainable way. In the absence of external financing and under sanctions, this could only be achieved by an explicit commitment to gradually reduce the monetary financing of the fiscal deficit. In this regard, policymakers should adopt a clear anti-inflationary strategy, with the aim of progressively recovering the credibility lost during years of high inflation and hyperinflation. A consistent and explicit stabilisation program is a necessity, one that recognises the restrictions imposed by the current political and economic context, but that signals the willingness and commitment of transiting towards a more sustainable macroeconomic equilibrium.

Risks

A further decline in oil prices continues to be the main risk ahead for the Venezuelan economy. Oil prices has been on a downtrend since last June and the darkening of the global economic outlook for 2023 could prolong the adjustment after the peak reached in 1H22. It is important to note that this risk factor incorporates notorious uncertainty to local political dynamics. On the one hand, the concomitant deterioration in macroeconomic conditions should incentivise a more flexible stance by Maduro, in order to obtain additional sanctions relief and larger access to external funds. On the other hand, it can reinforce the authoritarian character of the government, in order to demand an unconditional lifting of restrictions, while blaming the main opposition parties for the economic downturn. Unfortunately, in the event of a continuous drop in crude prices, this second scenario is the most likely one, in our view.

The continuation of the investigation for crimes against humanity by the ICC is another important risk factor that must be considered. Last November, Prosecutor Karim Khan filed an application before the ICC Pre-Trial Chamber seeking authorisation to resume the investigation of the Venezuelan case. The application explained the reasons why the deferral request made by the Venezuelan government should not be warranted. A resumption of the Prosecutor examinations could give rise, at least initially, to extreme negative scenarios, where national authorities opt to hang on to power by any means. In this case, however, transitional justice strategies might be the light at the end of the tunnel for the country.

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Table 17. Venezuela's Main Macroeconomic Forecasts

Venezuela	2015	2016	2017	2018	2019e	2020e	2021e	Banctrust & Co. Forecasts		
								2022	2023	2024
Real GDP (% y-o-y)	-6.2	-17.0	-15.7	-19.6	-22.5	-25.0	3.2	11.5	6.2	5.7
Nominal GDP (VESbn)	0.0	0.0	0.0	0.0	0.4	7.8	135.6	419.1	1,064	2,225
Nominal GDP (USDbn)	139.4	193.3	143.8	59.6	31.7	24.4	43.6	64.8	60.9	68.8
Private Consumption (% y-o-y)	-8.9	-19.4	-16.2	-20.1	-22.0	-23.9	3.7	12.0	5.9	5.1
Gross Fixed Investment (% y-o-y)	-20.4	-45.2	-45.3	-37.5	-27.9	-28.6	6.3	18.1	11.0	8.4
Domestic Demand (% y-o-y)	-11.8	-26.3	-21.1	-18.2	-23.1	-24.2	2.6	11.1	6.6	5.8
Industrial Production (% y-o-y)	-10.4	-22.9	-19.1	-36.4	-22.0	-20.0	1.0	10.7	4.8	4.3
Unemployment rate, average (%)	7.1	7.3	7.3	7.3	6.9	8.6	8.0	6.9	6.8	6.7
CPI, year-end (% y-o-y)	181	274	863	130,060	9,585	2,960	686	165.0	107.3	82.0
CPI, year average (%)	122	255	438	65,374	19,906	2,355	1,589	177.1	139.1	97.9
Total fiscal balance (%GDP)	-14.1	-28.6	-22.4	-13.1	-12.1	-14.9	-9.7	-6.2	-5.7	-6.7
Primary fiscal balance (%GDP)	-11.8	-27.2	-19.4	-7.8	-8.5	-11.0	-7.6	-4.7	-4.2	-5.2
Merchandise exports (USDbn)	37.2	27.4	34.0	33.7	23.2	7.1	10.9	16.9	18.3	20.2
Merchandise imports (USDbn)	33.3	16.4	12.0	12.8	8.3	6.6	7.5	10.4	11.9	14.3
Trade Balance (USDbn)	3.9	11.0	22.0	20.9	14.9	0.5	3.4	6.5	6.4	5.9
Current account balance (USDbn)	-16.1	-3.9	8.7	8.6	4.9	-0.2	2.5	3.5	3.6	3.1
Current account balance (%GDP)	-11.5	-2.0	6.0	14.4	15.5	-0.8	5.7	5.4	5.9	4.5
Remittances (USDbn)	-0.2	0.2	0.6	2.0	3.2	2.6	2.9	3.2	3.4	3.6
Foreign Direct Investment (USDbn)	0.8	1.1	-0.1	0.9	0.3	-0.1	0.2	1.0	1.0	1.0
Foreign Direct Investment (%GDP)	0.6	0.6	-0.1	1.5	0.9	-0.4	0.5	1.5	1.6	1.5
NFPS External debt, year-end (USDbn)	201.9	198.1	193.3	189.0	186.0	184.0	183.5	185.0	185.1	185.2
Deposit rate, year-end (%)	14.98	14.60	14.50	14.60	35.68	37.27	36.35	36.00	36.00	36.00
Foreign reserves, year-end (USDbn)*	16.4	11.0	9.7	8.8	6.6	6.4	5.9	5.0	4.8	4.6
VES/USD, year-end	0.0	0.0	0.0	0.0	0.0	1.1	4.6	11.8	23.4	42.0

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

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OTHER CARIBBEAN

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BARBADOS

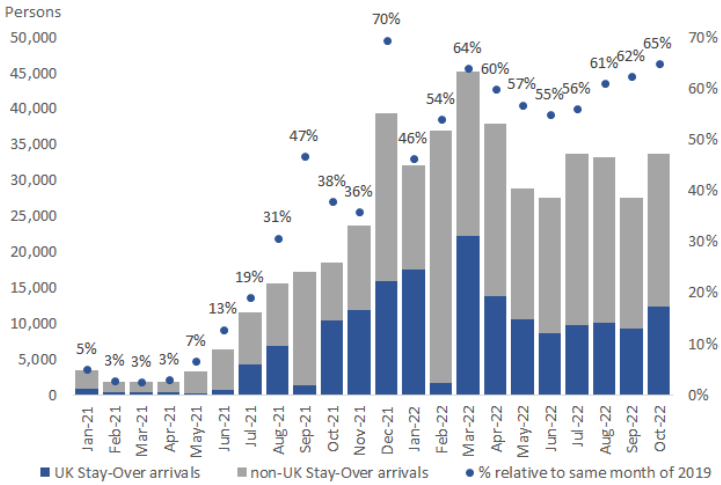
- **A new agreement with the IMF was finally reached**
- **Dependency on multilaterals would remain high**
- **External financing provides a margin of safety for investors**

A new agreement with the IMF was finally reached. As we have been anticipating in our previous reports, Barbados reached a new agreement with the IMF for a 36-month EFF programme that would build on the previous one and seek the gradual increase in primary surpluses through the improvement of the tax administration, the rationalisation of SOEs and growth-enhancing measures. Not less importantly, the programme would also feature the implementation of the pension reform, a structural benchmark delayed under the previous programme, which is currently underway. It is worth mentioning that the government is already enhancing the fiscal position on the back of lower transfers to SOEs and despite sluggish tourism dragging down revenues. But still, in our view, it was only natural that it engaged in a new programme with the multilateral institution since the country left the fiscal consolidation path unfinished under the previous programme due to Covid-related delays. In this sense, the country is still operating fiscal deficits with public debt above 125% of GDP and presents wide current account deficits as a consequence of the rise in commodity prices and the sluggish recovery in tourism.

Dependency on multilaterals would remain high. Even in the presence of considerable private financing of the external imbalances (net FDI and private credit running at c7.5% of GDP) Barbados still needs to rely on public sector FX inflows to avoid consuming the buffer of the international reserves stock. The renewed EFF programme will match the rollover of the previous programme's maturities (USD113mn or 1.8% of GDP over the next three years) while additional financing will be provided through the Resilience and Sustainability Trust (USD189mn or 3.0% of GDP). Notwithstanding the recent success of the repurchase of a small portion of its 2029 external bond and Series E local bond, global conditions pose a difficult picture for the country to access the market through an unsecured bond or loan at sustainable rates. In this vein, the additional financing that the BERT 2022 plan (as the homegrown plan presented to the IMF is called) features is key. Several multilateral financing sources are embedded in the programme, namely USD150mn from the Inter-American Development Bank and USD100mn from the World Bank for budget support, in addition to USD500mn of project-specific funding from various IFIs. It is worth mentioning that Barbados is unable to achieve domestic financing. The failure of the saving bonds plan (BOSS+) provides evidence of this, after it only raised 5% of the expected amount, allegedly due to local investors' low confidence after the 2018-19 restructuring.

External financing provides a margin of safety for investors. All in all, as long as Barbados delivers results under the IMF programme, FX uses and sources would be easily matched for the following three-year period under the baseline scenario. Risks are that Barbados keeps on underperforming in its tourism industry's performance leading to lower investment in the sector. If willingness to deploy capital recedes, the external imbalance may start taking a toll on the international reserves stock. In this vein, fears of recession and lower consumer disposable income if its main source market (UK) pose a risk to the outlook as tourism figures still struggle to surpass 60% of pre-pandemic levels. Market-friendly and growth-enhancing reforms must be worked on during the duration of the programme so that, at the end of it, Barbados regains sustainability metrics that allow it to access both domestic and external markets.

Chart 31. Inbound tourism



Source: BancTrust & Co. based on Barbados Statistical Service

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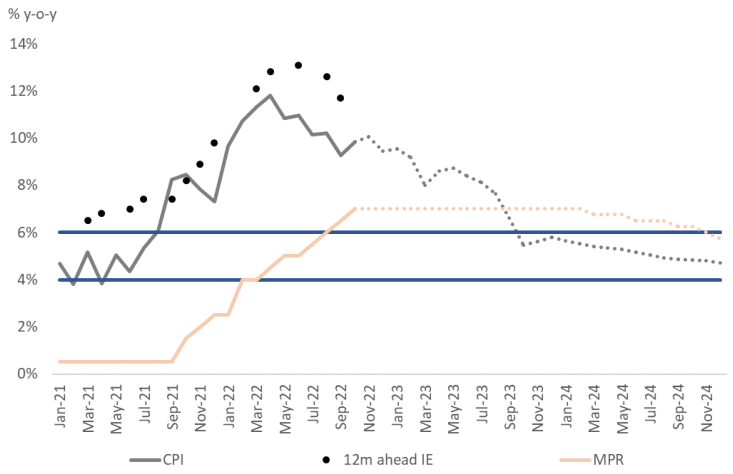
JAMAICA

- **Positive real rates for longer**
- **Tourism recovery is supporting activity levels and strong fiscal accounts**
- **Therefore, the monetary policy remains as the main challenge**

Positive real rates for longer. After a year since the Bank of Jamaica (BOJ) began to tighten its monetary policy, it recently announced that it would pause further rate hikes until the transmission mechanisms take full effect in the economy. The BOJ added that this was conditional on the pass-through of commodity prices and the US Federal Reserve targeted rates. Taking the BOJ's assessment into account, the MPR would remain flat at the current 7% level this year and, we presume, into the following one. In our view, a more accommodative monetary policy than the current stance would be constrained by the US monetary policy that would not free space for rate cuts without a surge in FX outflows. Thus, we anticipate a lower MPR relative to our previous expectations (at 7, down from 8%), but for longer (until the beginning of 2024), resulting in positive real rates in 2H23. Despite this softer-than-expected monetary policy for the short term and the recent spikes in headline inflation, the CPI would eventually follow suit and decrease at a slower rate in a convergent path to the target rate of 4% by end-2024.

Chart 32. Inflation and MPR dynamics



Source: BancTrust & Co. based on Bank of Jamaica and STATINJA.

Tourism recovery is supporting activity levels and strong fiscal accounts. Both economic activity levels and fiscal results came in even higher than our positive expectations, mainly supported by the recovery in tourism. In this regard, tourism already surpassed pre-pandemic levels in 3Q22 and is facing a lack of employees as unemployment hit historical lows (6.6%). On another note, the Jamalco refinery started production again in September and would return to 100% capacity production by end-2023. As a consequence, we once again revised our 2022 growth forecast up (to 4.4% from 3.6%) while we expect a slower rate for 2023 (2.5% from 3%). This better picture for activity is also driving surprises to the upside in fiscal accounts, leading revenue to a 30%y-o-y increase in the Aug-Oct quarter. Meanwhile improved revenues were coupled with a 9.5%y-o-y increase in primary expenditure (stable in real terms) showing a very prudent policy even in the face of huge fiscal surpluses. This creates room for maintaining overall fiscal surpluses while implementing the new wage structure reform that would take effect by the end of 2022. Notwithstanding this positive news, we see growth slowing down by end-2024 as tourism is reaching a bottleneck.

Therefore, the monetary policy remains as the main challenge. The outlook for next year seems propitious for Jamaica. Commodity prices would recede leading to lower current account deficits, the economic activity would keep growing and fiscal results would remain strong. Also, there are no external bonded debt maturities until 2H25. As a result, monetary policy would be in the spotlight. Even though the strategy of pausing further hikes could be risky if inflation expectations start rising again, the inflation slowdown at the current MPR level would put Jamaica in a very comfortable situation heading to 2024. Although we assess that the current MPR would be effective in taming inflation, there are risks to this outlook. In our view, surprises on the upside in inflation, inflation expectations or the FX rate should be addressed by adjusting rates. We expect that an enhanced fiscal and monetary position by 2024 would allow Jamaica to perform some kind of LMO during that year, in order to extend maturities and lower coupon rates. In this regard, the country lost a window of opportunity to perform an LMO early this year.

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TRINIDAD AND TOBAGO

- **Gas production accelerating while oil is still lagging**
- **Meanwhile, booming global energy prices are a breath of fresh air for external accounts**
- **Fiscal performance was supported by the country´s favourable context**

Gas production accelerating while oil is still lagging. Trinidad and Tobago accelerated the execution of several gas projects that were stalled in the first half of the year, in a bid to take advantage of the energy price boom. Between January and September, natural gas production averaged 2,724 mmcf/d (+5.2%y-o-y) and is expected to increase further. In this regard, numerous energy companies announced their gas fields will soon start to operate. On the other hand, crude oil production averaged 58.7kbpd (-1.2%y-o-y) during the same period, partially offsetting the impact of higher prices. However, some companies operating in the oil sector are expected to start production in some of their fields next year. In addition to the acceleration of the energy sector, we also expect that the domestic economy starts recovering it pre-pandemic levels by the end of 2023 as spillovers from the energy sector would remain for longer than expected. In this context, we revised upwards our GDP growth forecasts to 4.1% in 2022 and 2023, from 4% and 1.8% previously.

Booming global energy prices are a breath of fresh air for external accounts. The windfall provided by the energy sector allowed Trinidad and Tobago to significantly improve its current account balance this year, accumulating massive surpluses. Yet the country´s difficulties to accumulate reserves persisted. Despite not counting on updated information, we estimate that the current account balance accumulated a USD4.2bn surplus in January-September, while international reserves remained flat during that period. As we pointed out in previous reports, the absence of updated balance of payments statistics and the high amounts in the "errors and omissions" entry – which accounted for a yearly average of c7.5% of GDP during the past decade- brings uncertainty in assessing Trinidad and Tobago´s external sustainability. Nevertheless, we have reasons to believe that the external performance would remain strong in the short term. Inasmuch as energy prices remain at current levels and production does not wane, the country will likely continue operating current account surpluses. In this sense, we recalibrate our current account surplus forecast to 21.3% of GDP in 2022 and 11.5% of GDP in 2023, from 18.8% and 10.3% previously.

Fiscal performance was supported by the country´s favourable context. Spillover effects from the energy sector also resulted in stronger fiscal accounts. For the 2022 Fiscal Year (October 2021-September 2022), authorities informed the fiscal deficit closed at 1.1% of GDP, below our estimate of 4.6% and the IMF's forecast of 2.6%. This better-than-expected result was mainly explained by higher oil and gas-related revenues, which tripled compared to the previous year. Moreover, the government remains reluctant to grant a significant wage increase to public employees, reaffirming its commitment to lower spending. In this regard, it should be recalled that negotiations have been stalled since September. The two sides will eventually reach an agreement, yet we expect a lower impact on public accounts as the government remained in its strong stance. This fact, in combination with higher oil and gas price forecasts for the following year, made us revise our 2023 fiscal deficit forecast to 2.1% of GDP from 4.2% previously.

Despite we have turned more optimistic for Trinidad and Tobago, risks remain elevated in the longer term. The country´s dependence on high energy prices is nothing new. Indeed, a decline in prices will very likely lead to a deterioration in the current account, putting further pressure on the accumulation of reserves.

Chart 33. Oil and gas output

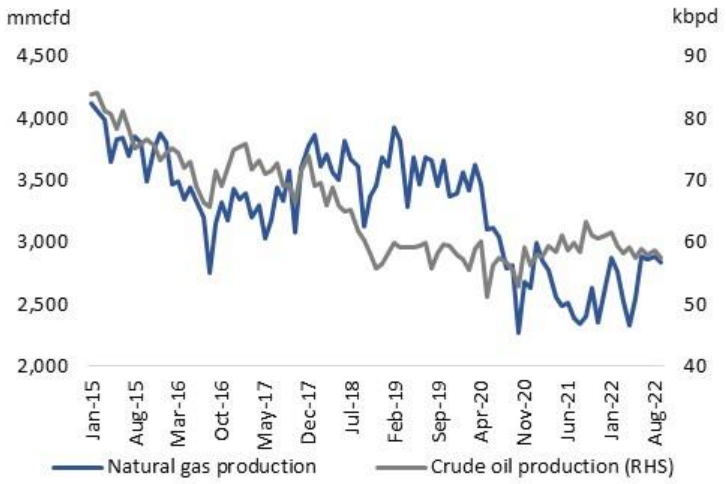

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Table 18. Other Caribbean's Main Macroeconomic Forecasts

	2015	2016	2017	2018	2019	2020	2021	Banctrust & Co. Forecasts		
								2022	2023	2024
Barbados										
Real GDP (% y-o-y)	2.5	2.5	0.5	-1.0	-0.2	-13.5	-0.3	9.1	4.1	3.5
CPI, year-end (% y-o-y)	-2.5	3.8	6.6	0.7	7.2	1.2	5.0	6.1	3.8	2.4
Total fiscal balance (%GDP)	-9.1	-5.4	-4.5	-0.3	3.6	-4.8	-4.8	-1.8	-0.6	-0.1
Current account balance (%GDP)	-6.1	-4.3	-3.8	-4.4	-2.8	-5.9	-10.9	-12.2	-9.1	-8.0
Foreign reserves, year-end (USDbn)	0.4	0.3	0.2	0.5	0.7	1.3	1.5	1.3	1.2	1.2
BBD/USD, year-end	2.0	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	4.4	2.5	2.4
CPI, year-end (% y-o-y)	3.7	1.7	5.2	2.4	6.2	5.2	7.3	9.5	5.8	4.7
Total fiscal balance (%GDP)	-0.3	-0.2	0.5	1.2	0.9	-3.1	0.8	1.0	0.6	0.6
Current account balance (%GDP)	-3.0	-0.3	-2.7	-1.6	-2.2	-0.4	0.9	-3.9	-1.7	-0.3
Monetary policy rate, year-end (%)	5.25	5.00	3.25	1.75	0.50	0.50	2.50	7.00	7.00	5.75
Foreign reserves, year-end (USDbn)	2.9	3.3	3.8	3.5	3.6	4.1	4.8	4.3	4.3	4.5
JMD/USD, year-end	120.0	128.9	124.6	128.6	131.7	141.7	153.9	154.9	156.4	158.0
Trinidad and Tobago										
Real GDP (% y-o-y)	-0.8	-6.8	-4.7	-0.9	0.1	-7.7	-1.0	4.1	4.1	3.8
CPI, year-end (% y-o-y)	1.6	3.1	1.3	1.0	0.4	0.8	3.5	6.2	3.4	2.6
Total fiscal balance (%GDP)	-7.9	-10.4	-10.8	-5.9	-3.7	-11.6	-8.5	-1.1	-2.1	-2.4
Current account balance (%GDP)	7.6	-3.3	5.9	6.7	4.3	-6.4	11.9	21.3	11.5	5.9
Foreign reserves, year-end (USDbn)	9.9	9.5	8.4	7.6	6.9	7.0	6.9	6.9	7.2	6.0
TTD/USD, year-end	6.4	6.6	6.7	6.8	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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