



# LATIN AMERICA ECONOMICS WEEKLY

## Public finance risks in Colombia, boom in Mexico?

### Colombia's fiscal watchdog sounds the alarm bell

Concerns about Colombia's public finances have re-emerged this week after the country's Autonomous Fiscal Rule Committee (CARF) warned that the government is unlikely to comply with the fiscal rule in the coming years.

Colombia's fiscal rule was introduced in 2011 and targets a net central government debt level of 55% of GDP (with a ceiling of 71%) by setting an annual floor for the structural budget balance (i.e. the government's fiscal position accounting for temporary effects due to the current position in the economic cycle). So, the higher the level of public debt, the tighter fiscal policy needs to be kept.

In a [report](#) this week, the CARF flagged the risk of the government failing to comply with the fiscal rule over the next few years. This is primarily because, on the revenue side, the government's projections rely heavily on uncertain revenues (such as revenue from arbitration processes). At the same time, the CARF warned that the planned increase in primary spending (of 1.2% of GDP) between this year and next would put "further pressure" on the country's public finances and was likely to reverse the fiscal consolidation efforts following the pandemic. Overall, the fiscal watchdog estimates that the floor set out by the fiscal rule could be exceeded by as much as 1% of GDP next year and 0.6% and 0.3% in 2025 and 2026 respectively.

We share these concerns about Colombia's public finances. Admittedly, the latest [political turmoil](#) has made it less likely that President Petro's costly reforms make it through congress (at least in their current form). And the latest monthly figures showed that the budget deficit narrowed substantially in Q1 (on a 12m sum basis, it stood at 4.6% of GDP in March down from 6.2% in March 2022). But we agree with the CARF that the Petro administration is unlikely to tighten fiscal policy enough to cause the

debt-to-GDP ratio to fall back towards 55%. Instead, we think it's most likely that the public debt ratio will rise to around 65% of GDP this year, before edging down to around 63% of GDP over the next couple of years. This would imply that Colombia's debt burden remains well above its pre-pandemic level and higher than in many other parts of the region.

### Nearshoring boom in Mexico?

There has been a lot of optimism recently that "nearshoring" is driving a boom in Mexico's economy and this week's stronger-than-expected [industrial production data](#) have added fuel to this narrative.

But a closer look at the data shows that the sector isn't quite as strong as the headline figure suggests. The 1.0% m/m rise in industrial output was driven in large part by a surge in construction activity, which tends to be quite volatile. In contrast, manufacturing contracted last month.

Taking a step back, the bigger picture is that Mexico's manufacturing sector has been stagnating over the past year. And with the US – by far Mexico's most important trading partner – set to fall into recession over the coming quarters, the sector is likely to continue to struggle in the *near-term*. We'll be looking into the implications of nearshoring in more detail in forthcoming research. But for now at least, it seems that there's less evidence of nearshoring driving the economy than some suggest. And it may take some time for the impact, if there is to be one, to really be felt.


















### El Niño

In a [note](#) yesterday, we outlined the potential implications of an El Niño weather event for Latin America. While Argentina might stand to benefit, the risks of disruption to activity appear to be largest in Colombia, Chile and Peru. And there's an upside threat to inflation across the region.



## Economic Diary & Forecasts

### Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Time (EDT)	Previous*	Median*	CE Forecasts*
Mon 17 <sup>th</sup>		<b>Brz</b> Economic Activity (May)	13.00	08.00	+0.6%(+3.3%)	-	-
		<b>Per</b> Unemployment Rate (Jun.)	16.00	11.00	6.8%	-	-
		<b>Per</b> Economic Activity Index (May)	16.00	11.00	(+0.3%)	-	-
		<b>Col</b> Economic Activity Index (May)	17.00	12.00	(-0.8%)	-	-
Tue 18 <sup>th</sup>		<b>Arg</b> Economic Activity Index (May)	20.00	15.00	-1.9%(-4.2%)	-	-
Wed 19 <sup>th</sup>		<b>Col</b> Trade Balance (May)	16.00	11.00	-\$0.9bn	-	-
		<b>Arg</b> Trade Balance (Jun.)	20.00	15.00	-\$1.2bn	-	-
Thu 20 <sup>th</sup>		<b>Mex</b> Retail Sales (May)	13.00	08.00	+1.5%(+3.8%)	-	-
		<b>Arg</b> Budget Balance (Jun., ARS)	-	-	-247.7bn	-	-
<b>Selected future data releases and events:</b>							
24 <sup>th</sup> Jul		<b>Mex</b> Bi-Weekly CPI (15 <sup>th</sup> Jul.)	13.00	08.00	+0.2%(+4.9%)	-	-
25 <sup>th</sup> Jul		<b>Brz</b> IPCA-15 Inflation (Jul.)	13.00	08.00	+0.0%(+3.4%)	-	-
26 <sup>th</sup> Jul		<b>C.Rc</b> Interest Rate Announcement	-	-	7.00%	-	-
27 <sup>th</sup> Jul		<b>Brz</b> Current Account (Jun.)	12.30	07.30	+\$0.6bn	-	-
		<b>Mex</b> Trade Balance (Jun.)	13.30	08.30	-\$0.1bn	-	-
28 <sup>th</sup> Jul		<b>Brz</b> Unemployment Rate (Jun.)	13.00	08.00	8.3%	-	-
		<b>Chl</b> Unemployment Rate (Jun.)	14.00	09.00	8.5%	-	-
		<b>Chl</b> Interest Rate Announcement	23.00	18.00	11.25%	-	-

\*m/m(y/y) unless otherwise stated; † = previous day  
Sources: Bloomberg, Capital Economics



## Main Economic & Market Forecasts

**Table 1: Central Bank Policy Rates (%)**

Policy Rate	Latest (14 <sup>th</sup> Jul.)	Last Change	Next Change	Forecasts	
				End 2023	End 2024
Brazil Selic Target	13.75	Up 50bp (Aug. '22)	<b>Down 25bp (Aug. '23)</b>	<b>12.50</b>	<b>9.75</b>
Mexico Overnight Rate	11.25	Up 25bp (Mar. '23)	<b>Down 25bp (Q4 '23)</b>	<b>11.00</b>	<b>9.00</b>
Colombia Intervention Rate	13.25	Up 25bp (Apr. '23)	<b>Down 50bp (Q4. '23)</b>	<b>12.25</b>	<b>7.25</b>
Chile Overnight Rate	11.25	Up 50bp (Oct. '22)	<b>Down 50bp (Jul. '23)</b>	<b>9.25</b>	<b>5.25</b>
Peru Reference Rate	7.75	Up 25bp (Jan. '23)	<b>Down 25bp (Sep. '23)</b>	<b>6.75</b>	<b>5.00</b>

Sources: Refinitiv, Capital Economics

**Table 2: FX Rates vs. US Dollar & Equity Markets**

Currency	Latest (14 <sup>th</sup> Jul.)	Forecasts		Stock Market	Latest (14 <sup>th</sup> Jul.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	4.80	<b>5.25</b>	<b>5.00</b>	Bovespa	118,773	<b>111,750</b>	<b>149,500</b>
Mexico MXN	16.8	<b>20.0</b>	<b>21.0</b>	Bolsa	54,189	<b>44,600</b>	<b>59,300</b>
Argentina ARS	265	<b>400</b>	<b>600</b>	Merval	448,305	-	-
Colombia COP	4,100	<b>4,500</b>	<b>4,200</b>	IGBC	1,174	<b>910</b>	<b>1,210</b>
Chile CLP	812	<b>825</b>	<b>775</b>	IPSA	6,076	<b>5,100</b>	<b>7,000</b>
Peru PEN	3.57	<b>4.00</b>	<b>3.70</b>	S&P/BVL	22,867	<b>19,300</b>	<b>25,650</b>

Sources: Refinitiv, Capital Economics

**Table 3: GDP & Consumer Prices (% y/y)**

	Share of World <sup>1</sup>	2011-20 Ave.	GDP				Consumer Prices			
			2022	2023	2024	2025	2022	2023	2024	2025
Brazil	2.3	0.3	2.9	<b>2.3</b>	<b>0.8</b>	<b>1.5</b>	9.3	<b>4.8</b>	<b>5.0</b>	<b>4.0</b>
Mexico	1.8	1.3	3.0	<b>2.5</b>	<b>1.3</b>	<b>2.0</b>	7.9	<b>5.8</b>	<b>4.8</b>	<b>3.5</b>
Argentina	0.7	-0.7	5.2	<b>-2.8</b>	<b>-1.3</b>	<b>2.5</b>	72.4	<b>118.5</b>	<b>136.5</b>	<b>103.5</b>
Colombia	0.6	2.5	7.3	<b>1.0</b>	<b>1.5</b>	<b>2.5</b>	10.2	<b>11.8</b>	<b>5.8</b>	<b>4.0</b>
Chile	0.4	2.1	2.4	<b>0.3</b>	<b>2.3</b>	<b>2.5</b>	11.6	<b>8.0</b>	<b>4.8</b>	<b>3.8</b>
Peru	0.3	2.5	2.7	<b>1.5</b>	<b>2.3</b>	<b>2.5</b>	7.9	<b>7.0</b>	<b>4.0</b>	<b>3.3</b>
Dom. Rep.	0.2	4.1	4.9	<b>3.8</b>	<b>5.0</b>	<b>5.0</b>	8.8	<b>5.3</b>	<b>4.5</b>	<b>4.0</b>
Ecuador	0.1	1.6	2.9	<b>2.5</b>	<b>2.0</b>	<b>2.5</b>	3.5	<b>1.5</b>	<b>1.3</b>	<b>1.5</b>
Venezuela	-	-12.7	15.5	<b>6.5</b>	<b>5.0</b>	<b>5.0</b>	185	<b>320</b>	<b>65</b>	<b>50</b>
Panama	0.1	3.5	10.5	<b>1.8</b>	<b>2.8</b>	<b>3.0</b>	2.8	<b>1.5</b>	<b>1.3</b>	<b>1.3</b>
Costa Rica	0.1	2.8	4.3	<b>3.5</b>	<b>2.5</b>	<b>2.5</b>	8.3	<b>2.3</b>	<b>3.3</b>	<b>3.0</b>
Uruguay	0.1	1.5	4.9	<b>1.5</b>	<b>2.5</b>	<b>2.3</b>	9.1	<b>7.3</b>	<b>7.8</b>	<b>7.0</b>
<b>Latin America<sup>2</sup></b>	<b>6.7</b>	<b>1.0</b>	<b>3.7</b>	<b>1.6</b>	<b>1.1</b>	<b>2.1</b>	<b>8.7</b>	<b>5.9</b>	<b>4.8</b>	<b>3.7</b>

Sources: Refinitiv, Capital Economics. 1) % of GDP, 2021, PPP terms. 2) GDP Excl. Venezuela; Consumer Prices Excl. Argentina &amp; Venezuela.



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