



LATIN AMERICA ECONOMICS WEEKLY

Argentina votes, more good news on inflation

A fork in the road for Argentina

Sunday's open, simultaneous and compulsory primary elections (PASO) should give a first sign of whether Argentina will buck the regional political trend and shift to the right at the presidential election in October. All of our research on the election and its implications can be found [here](#). We also held a webinar on Wednesday to discuss the election – click [here](#) for an on-demand recording.

The four main candidates in Sunday's election are Economy Minister Sergio Massa of the ruling Peronists, Patricia Bullrich and Horacio Larreta of the "Juntos por el Cambio" coalition, and Javier Milei of the right-wing "La Libertad Avanza" bloc. Polls in Argentina are notoriously unreliable, but they generally show that the opposition is ahead.

Encouragingly, there seems to be broad-based consensus among opposition candidates about what's needed to address Argentina's deep-seated economic problems, including tighter fiscal policy, a halt of deficit monetisation as well as a devaluation of the peso. That said, there are some substantial differences when it comes to implementing these changes, with Larreta favouring a more gradual approach, Milei full-on shock therapy for and Bullrich something in between.

Massa has, so far, been vague on his plans. But given that he's seen as one of the more moderate Peronists, he would probably be more market-friendly than the current administration. Even so, we doubt that he'd push through the changes needed to tackle Argentina's problems head on.

The reaction in financial markets when they open on Monday will probably be determined by the Peronists' showing. A stronger-than-expected outcome for Massa will most likely result in a sell-off in Argentine financial assets. Equally, if the opposition does well – in particular if Bullrich comes out on top – markets will probably rally.

Taking a step back, though, the bigger point is that even if one of the more market-friendly candidates becomes Argentina's next president, they'll face large economic challenges. Argentina's history shows that even a well-intentioned administration might struggle to put the economy on a more sustainable footing.

Welcome developments on the inflation front

This week's raft of inflation data for July brought more good news for central bankers across the region, with yet more evidence of a broad-based easing of price pressures.

Admittedly, data from [Brazil](#) out today showed that inflation rose to 4.0% y/y last month. But that was mainly driven by the unwinding of favourable base effects that had previously pushed energy inflation down sharply.

In most major countries in the region, inflation is now running in single digits. What's more, core price pressures are easing too. In seasonally-adjusted m/m terms, which gives a better sense of the latest developments, our aggregate measure of core inflation hit its lowest level since April 2021 in July.

This means that the Latin American easing cycle is likely to broaden out over the coming months. Indeed, at yesterday's meeting, Peru's central bank (BCRP) dropped the line about future rate hikes, which, in [early EM rate cutters](#), has been a sign of a shift towards loosening. We expect the BCRP to deliver a first cut at next month's meeting. Colombia is likely to follow in October and Mexico around the turn of the year. That said, Banxico's hawkish rhetoric, as evidenced by its communications to [yesterday's meeting](#), means that rate cuts in Mexico will probably be more gradual than investors and the consensus currently anticipate.

The week ahead

GDP data from Chile and Colombia are likely to show that output in both countries contracted in Q2.



Data Previews

Tue. 15th August – Colombia GDP (Q2)

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
GDP % q/q (% y/y)	17.00/12.00	+1.4(+3.0)	-	-0.3(+1.3)

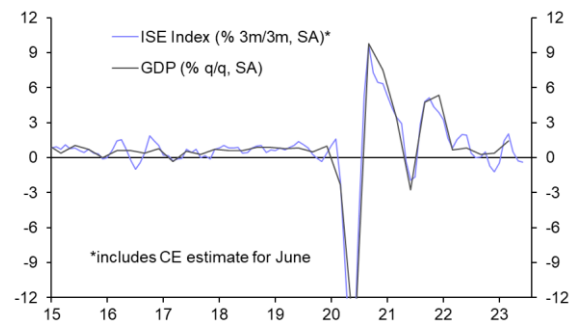
Stellar recovery likely to have come to an end in Q2

We think that GDP data from Colombia due out next Tuesday will show that the economy contracted by 0.3% q/q in Q2.

Colombia’s economy has been defying gravity over the past couple of years, with the 1.4% q/q rise in Q1 taking output more than 2% above its pre-pandemic trend. That said, there were signs of underlying weakness in the Q1 data – a trend we think continued in the second quarter. Indeed, imports continued to fall in Q2, pointing to weaker domestic demand. And although the monthly activity index (ISE) rebounded in May, assuming a modest rise in June, it still points to a contraction of around 0.3% q/q in GDP over Q2 as a whole. (See Chart 1.)

With inflation still high and monetary policy restrictive, we think the economy will continue to struggle over the coming quarters. We expect growth to slow to just 1.0% over 2023 as a whole, from 7.3% in 2022.

Chart 1: Colombia ISE Index & GDP



Sources: Refinitiv, Capital Economics

Fri. 18th August – Chile GDP (Q2)

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
GDP % q/q (% y/y)	13.30/08.30	+0.8(-0.6)	-0.6(-1.4)	-0.6(-0.6)

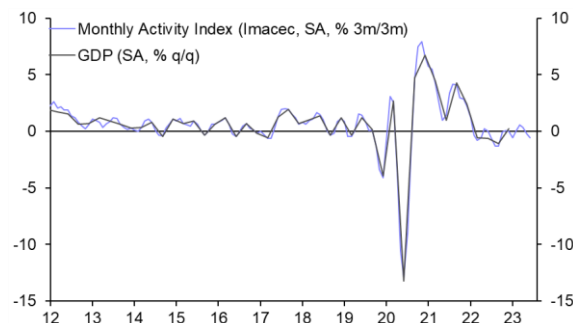
Weak Q2, but worst of the adjustment process now over

We expect GDP figures from Chile to show that the economy contracted by 0.6% q/q in Q2.

Having made a stronger-than-expected start to the year, expanding by 0.8% q/q in Q1, the activity data for Q2 suggest that Chile’s economy struggled last quarter. The monthly activity index (Imacec), which has a strong relationship with GDP, contracted in both April and May. And while it rebounded in June, it still points to a contraction of around 0.6% q/q over Q2 as a whole. (See Chart 2.)

Chile’s economy will rebound over the coming quarters. We see scope for a stronger rebound than most expect in 2024-25.

Chart 2: Chile Imacec & GDP



Sources: Refinitiv, Capital Economics



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Time (EDT)	Previous*	Median*	CE Forecasts*
Mon 14 th	Chl	Central Bank Meeting Minutes	13.30	08.30	-	-	-
	Col	Industrial Production (Jun.)	16.00	11.00	(-1.0%)	-	-
	Col	Retail Sales (Jun.)	16.00	11.00	(-5.1%)	(-6.7%)	-
	Pan	CPI (Jul.)	-	-	+0.1%	-	+0.9%
Tue 15 th	Per	Unemployment Rate (Jul.)	16.00	11.00	6.60%	-	-
	Per	Economic Activity Index (Jun.)	16.00	11.00	(-1.4%)	-	-
	Col	Trade Balance (Jun.)	16.00	11.00	-\$0.6bn	-\$0.7bn	-
	Col	Economic Activity Index (Jun.)	17.00	12.00	(+0.7%)	-	-
	Col	GDP (Q2, q/q(y/y))	17.00	12.00	+1.4%(+3.0%)	(+0.6%)	-0.3%(+1.3%)
	Arg	CPI (Jul.)	20.00	15.00	+6.0%(+115.6%)	-	-
	Uru	Interest Rate Decision	-	-	10.75%	-	10.25%
	Wed 16 th	-	No Significant Data or Events Scheduled	-	-	--	-
Thu 17 th	-	No Significant Data or Events Scheduled	-	-	--	-	-
Fri 18 th	Mex	Retail Sales (Jun.)	13.00	08.00	-0.5%(+2.6%)	-	-
	Chl	Current Account (Q2)	13.30	08.30	+\$0.8bn	-	-
	Chl	GDP (Q2)	13.30	08.30	+0.8%(-0.6%)	-0.6%(-1.4%)	-0.6%(-0.6%)
Selected future data releases and events:							
22 nd Aug	Arg	Trade Balance (Jul.)	20.00	15.00	-\$1.7bn	-	-
	Arg	Budget Balance (Jul.)	-	-	-\$611.7bn	-	-
23 rd Aug	Arg	Economic Activity Index (Jun.)	20.00	15.00	-0.1%(-5.5%)	-	-
24 th Aug	Mex	Bi-Weekly CPI (15 th Aug)	13.00	08.00	-	-	-
25 th Aug	Brz	Current Account (Jul.)	12.30	07.30	-\$0.8bn	-	-
	Brz	IPCA-15 Inflation (Aug.)	13.00	08.00	-0.1%(+3.2%)	-	-
	Brz	Current Account (Q2)	16.00	11.00	-\$1.4bn	-	-
Also expected during this period:							
21 st – 25 th	Per	GDP (Q2, q/q(y/y))	-	-	(-0.4%)	-	-

*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 (11 th Aug.)	Last Change	Next Change	Forecasts	
				End 2023	End 2024
Brazil Selic Target	13.25	Down 50bp (Aug. '23)	Down 50bp (Sep. '23)	11.75	9.50
Mexico Overnight Rate	11.25	Up 25bp (Mar. '23)	Down 25bp (Q4 '23)	11.00	9.00
Colombia Intervention Rate	13.25	Up 25bp (Apr. '23)	Down 50bp (Q4. '23)	12.25	7.25
Chile Overnight Rate	10.25	Down 100bp (Oct. '22)	Down 100bp (Sep. '23)	7.50	4.75
Peru Reference Rate	7.75	Up 25bp (Jan. '23)	Down 25bp (Sep. '23)	6.75	4.75

Sources: Refinitiv, Capital Economics

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

Currency	Latest (11 th Aug.)	Forecasts		Stock Market	Latest (11 th Aug.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	4.89	5.25	5.00	Bovespa	118,742	111,500	149,000
Mexico MXN	17.0	20.0	21.0	Bolsa	53,891	44,600	59,300
Argentina ARS	287	400	600	Merval	470,381	-	-
Colombia COP	3,985	4,500	4,200	IGBC	1,153	910	1,210
Chile CLP	853	825	775	IPSA	6,273	5,100	7,000
Peru PEN	3.67	4.00	3.70	S&P/BVL	23,678	19,300	25,650

Sources: Refinitiv, Capital Economics

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

	Share of World ¹	2011-20 Ave.	GDP				Consumer Prices			
			2022	2023	2024	2025	2022	2023	2024	2025
Brazil	2.3	0.3	2.9	2.3	0.8	1.5	9.3	4.8	5.0	4.0
Mexico	1.8	1.3	3.0	3.0	1.3	2.0	7.9	5.5	4.3	3.5
Argentina	0.7	-0.7	5.0	-2.8	-1.3	2.5	72.4	115.0	134.5	103.5
Colombia	0.6	2.5	7.3	1.0	1.3	2.5	10.2	11.5	5.5	3.8
Chile	0.4	2.1	2.4	0.3	2.3	2.8	11.6	7.5	3.8	3.5
Peru	0.3	2.5	2.7	1.5	2.3	2.5	7.9	6.5	4.0	3.3
Dom. Rep.	0.2	4.1	4.9	3.8	5.0	5.0	8.8	5.0	4.3	4.0
Ecuador	0.1	1.6	2.9	2.5	2.0	2.5	3.5	2.0	1.8	1.8
Venezuela	-	-12.7	15.5	6.5	5.0	5.0	185	320	65	50
Panama	0.1	3.5	10.5	1.8	2.8	3.0	2.8	1.5	1.3	1.3
Costa Rica	0.1	2.8	4.3	3.5	2.5	2.5	8.3	1.5	2.5	2.8
Uruguay	0.1	1.5	4.9	1.5	2.5	2.3	9.1	6.0	6.3	6.5
Latin America²	6.7	1.0	3.7	1.6	1.1	2.1	8.7	5.8	4.5	3.7

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



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