



LATIN AMERICA ECONOMICS WEEKLY

Argentina deeper in crisis, Ecuador votes

Argentina: PASO vote triggers more chaos

Last Sunday's [presidential primary election](#) in Argentina (known as the PASO) sent the economy deeper into crisis. Although the [results](#) probably portend a shift to the right (and more investor-friendly policymaking), the dominant theme right now is uncertainty. This spooked the markets and forced the government to [devalue](#) the peso by 18% against the dollar. As we noted in an [Update](#), this will push the economy into an even deeper recession and one step closer to a sovereign default. We now expect GDP to fall by 3.5% this year and 2.0% in 2024, and for inflation to hit 170% in the coming months. The one crumb of comfort is that the IMF's Executive Board still looks set to approve the [front-loaded disbursement](#) of the country's program.

The focus at the moment is very much on Argentina's *economic* woes. One angle receiving less attention is *geopolitical*: what the vote means for Argentina's place in a fragmenting world. In our '[mapping decoupling](#)' work, we placed Argentina in the lean-China camp. But the election results suggest that this could be about to change. Right-wing outsider Javier Milei, who came top in the PASO, has been vitriolically anti-China in media comments, suggesting that he would ally with the US. A victory for the centre-right coalition under Patricia Bullrich wouldn't result in such a dramatic turn in Argentina's political alignment, but this too would probably push the country closer to the US.

Ecuador's election: debt risks to rise?

From one election to another. The first round of Ecuador's presidential election takes place on Sunday, with the winner finishing the term (to early 2025) of [outgoing president](#) Guillermo Lasso. Opinion polls show a small lead for Luisa González, an ally of left-wing ex-president Rafael Correa.

The election has been overshadowed by the tragic murder of candidate Fernando Villavicencio. Unsurprisingly, security is key on voters' minds.

From an economic perspective, one key implication of Ecuador's election is the health of the public finances. In an [Update](#) published earlier this year, we highlighted that the country's public debt position is extremely fragile, despite years of austerity, and a shift to the left will only increase the chances of the public debt-to-GDP ratio returning to an upwards trajectory.

Admittedly, were a centre-right candidate to do well, there might be a rally in Ecuador's bond market. When Mr. Lasso (a centre-right politician) caused an upset by winning the 2021 presidential election, sovereign dollar bond spreads narrowed by c.350bp. But even then, given the way the political winds in Ecuador have shifted against fiscal austerity, it still looks most likely to us that Ecuador's government will turn to default once debt repayments ramp up in the second half of this decade.

Fitch warns Pemex

Fitch Rating's warning this week that Mexico's government will be negatively affected by support for state oil company Pemex echoes a point we made in a recent [Focus](#). In this, we argued that the scale of support Pemex needs makes it unlikely that it will be backstopped indefinitely (particularly when a new president is in power). Ultimately, we think its most likely that Pemex will restructure its debts.

Country Garden woes a risk for metals producers

Financial troubles at Chinese property developer, Country Garden, have made the headlines this week. While we think the immediate implications for the global economy are limited, the structural slowdown underway in China's property sector could weigh on metals prices, hitting metals exporters in Latin America like Chile, Peru and Brazil. (See [here](#).)

The week ahead

Besides the fallout from Ecuador's election, mid-month CPI figures for August are likely to show a rise in inflation in Brazil and a fall in Mexico.



Economic Diary & Forecasts

Upcoming Events and Data Releases

| Date | Country | Release/Indicator/Event | Time (BST) | Time (EDT) | Previous* | Median* | CE Forecasts* |
|--|---|---|------------|------------|--------------|---------|---------------|
| Mon 21 st | - | No Significant Data or Events Scheduled | - | - | - | - | - |
| Tue 22 nd |  | Arg Trade Balance (Jul.) | 20.00 | 15.00 | -\$1.7bn | - | - |
| |  | Arg Budget Balance (Jul.) | - | - | -\$611.7bn | - | - |
| Wed 23 rd |  | Arg Economic Activity (Jun.) | 20.00 | 15.00 | -0.1%(-5.5%) | - | - |
| Thu 24 th |  | Mex Bi-Weekly CPI (15 th Aug) | 13.00 | 08.00 | +0.2%(+4.8%) | - | +0.4%(+4.5%) |
| |  | Mex Central Bank Meeting Minutes | 16.00 | 11.00 | - | - | - |
| Fri 25 th |  | Brz Current Account (Jul.) | 12.30 | 07.30 | -\$0.8bn | - | - |
| |  | Brz IPCA-15 Inflation (Aug.) | 13.00 | 08.00 | -0.1%(+3.2%) | - | 0.0%(+4.0%) |
| |  | Mex Current Account (Q2) | 16.00 | 11.00 | -\$14.3bn | - | - |
| Selected future data releases and events: | | | | | | | |
| 28 th Aug |  | Mex Trade Balance (Jul.) | 13.00 | 08.00 | +\$0.0bn | - | - |
| 29 th Aug |  | Mex IGAE Activity Index (Jun.) | 13.00 | 08.00 | -0.0%(+4.3%) | - | - |
| |  | Mex GDP (Q2, q/q(y/y), Fin.) | 13.00 | 08.00 | +0.9%(+3.7%) | - | - |
| 30 th Aug |  | Chl Unemployment Rate (Jul.) | 14.00 | 09.00 | 8.50% | - | - |
| |  | Mex Inflation Report | 19.30 | 14.30 | - | - | - |
| 31 st Aug |  | Brz Unemployment Rate (Jul.) | 13.00 | 08.00 | 8.00% | - | - |
| |  | Chl Industrial Production (Jul.) | 14.00 | 09.00 | (-2.7%) | - | - |
| |  | Chl Retail Sales (Jul.) | 14.00 | 09.00 | (-13.0%) | - | - |
| |  | Col Unemployment Rate (Jul.) | 16.00 | 11.00 | 9.30% | - | - |
| 1 st Sep |  | Brz GDP (Q2, q/q(y/y)) | 13.00 | 08.00 | +1.9%(+4.0%) | - | - |
| |  | Chl Economic Activity (Jul.) | 13.30 | 08.30 | +0.5%(-1.0%) | - | - |
| |  | Brz S&P Global Manufacturing PMI (Aug.) | 14.00 | 09.00 | 47.8 | - | - |
| |  | Mex S&P Global Manufacturing PMI (Aug.) | 16.00 | 11.00 | 53.2 | - | - |
| |  | Per CPI (Aug.) | 16.00 | 11.00 | +0.4%(+5.9%) | - | - |
| |  | Brz Trade Balance (Aug.) | 19.00 | 14.00 | +\$9.0bn | - | - |
| |  | Mex IMEF Manufacturing Index (Aug.) | 19.00 | 14.00 | 51.8 | - | - |
| |  | Mex IMEF Non-Manufacturing Index (Aug.) | 19.00 | 14.00 | 51.7 | - | - |
| |  | Col Current Account (Q2) | - | - | -\$3.4bn | - | - |
| 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 (18 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 (18 th Aug.) | Forecasts | | Stock Market | Latest (18 th Aug.) | Forecasts | |
|---------------|-----------------------------------|-----------|----------|-----------------|-----------------------------------|-----------|----------|
| | | End 2023 | End 2024 | | | End 2023 | End 2024 |
| Brazil BRL | 4.96 | 5.25 | 5.00 | Bovespa | 115,455 | 111,250 | 149,000 |
| Mexico MXN | 17.1 | 20.0 | 21.0 | Bolsa | 52,672 | 44,600 | 59,300 |
| Argentina ARS | 350 | 700 | 900 | Merval | 571,300 | - | - |
| Colombia COP | 4,117 | 4,500 | 4,200 | IGBC | 1,131 | 910 | 1,210 |
| Chile CLP | 864 | 825 | 775 | IPSA | 6,060 | 5,100 | 7,000 |
| Peru PEN | 3.71 | 4.00 | 3.70 | S&P/BVL | 22,730 | 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 | 4.5 | 3.8 |
| 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 | -3.5 | -2.0 | 2.5 | 72.4 | 125.0 | 155.5 | 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 | 3.3 | 3.8 | 4.3 | 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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