



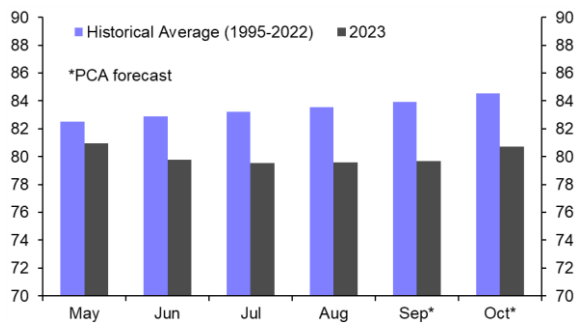
LATIN AMERICA ECONOMICS WEEKLY

Panama Canal, Brazil’s fiscal framework, Ecuador’s vote

Drought takes its toll on the Panama Canal

Panama is the latest victim of climate change in the region. The country is reeling from a drought with “no historical precedence” according to Panamanian authorities, which has seen water levels at the Gatun Lake, the country’s largest body of water, fall to multi-year lows. Water levels have been below their historical average since May and are likely to remain there over the coming months. (See Chart 1.)

Chart 1: Gatun Lake Level (Feet)



Sources: Refinitiv, ACP, Capital Economics

Gatun lake forms an essential part of the Panama Canal – ships have to pass through the lake and its water is needed to operate the Canal’s locks. Reduced water levels are taking an increasing toll on shipping activity. Earlier this month, the Panama Canal Authority (known as the ACP) reduced the daily number of vessels passing through the Canal to 32, from an average of 36 under normal conditions, leading to congestion at the Canal. More than 120 vessels are currently waiting for transit, around 30% higher than normal. And many of those that are passing have had to reduce their draught level, meaning they can carry less cargo.

Panama will bear the brunt of the economic effects of these disruptions. The ACP estimates that canal revenues could fall by \$200mn (c.0.3% of GDP), to \$4.9bn, in the 2023-2024 fiscal year (which begins in October). This adds to headwinds facing Panama’s economy from [weaker global trade](#).

But since the Panama Canal is one of the major global waterways and handles around 6% of global trade, there will be implications beyond Panama too. Trade between Asia and the east coast of the US looks particularly exposed – more than 40% of containers moving between these two regions passes through the Panama Canal.

The crumb of comfort is that, in contrast to 2021 when the Ever Given container ship blocked the Suez Canal, global supply chains are not nearly as stretched. Even so, timely freight rate data suggest that disruptions at the Panama Canal are putting upward pressure on shipping prices – the spot rate on containers shipped from Asia to the US East Coast, while still some way below last year’s highs, has risen by almost 40% over the past couple of months (other factors have probably played a role too though).

And the bigger picture is that, even once things normalise, higher temperatures and reduced rainfall caused by climate change are likely to lead to more frequent disruptions to shipping activity in the Panama Canal over the coming years and decades.

Brazil’s fiscal constraints loosened

Brazil’s new fiscal framework, approved by the lower house of congress this week, will tie President Lula’s hands. But the fiscal constraints are looser than the spending cap it replaces. And much depends on whether the government can lift revenues – as we’ve argued before [we’re sceptical](#).

Ecuador’s election: debt risks still high

Ecuador’s sovereign dollar bonds rallied this week after the first round of the [presidential election](#), which showed limited support for left-wing candidates. But as we’ve noted before, whoever wins faces an uphill task in avoiding another [default](#).

The week ahead

GDP data from Brazil are likely to show that growth slowed in Q2, after a bumper Q1.

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Data Previews

Fri. 1st September – Brazil GDP (Q2)

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
GDP % q/q (% y/y)	18.00/13.00	+1.0(+4.0)	+0.5(+2.7)	+0.3(+2.7)

Slowing after a bumper Q1

We think that Brazil’s Q2 GDP figures will show a marked slowdown in growth, to 0.3% q/q.

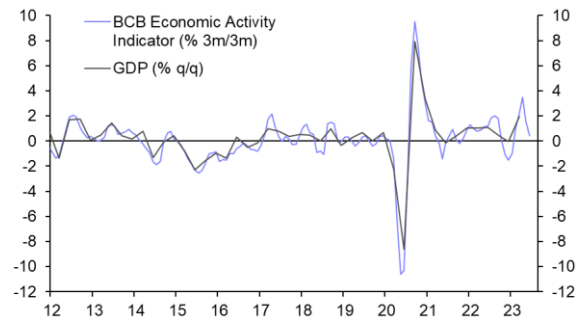
Forecasting the Q2 GDP figure is subject to a particularly high degree of uncertainty because of the volatility of the agricultural sector. A 21.6% q/q rise in agricultural output lifted GDP growth to an above-consensus 1.9% q/q in Q1. That scale of growth, of course, won’t be repeated.

The BCB’s economic activity indicator points to an expansion in GDP of 0.3-0.4% last quarter. (See Chart 2.) That broadly tallies with other monthly indicators. While retail sales fared poorly in Q2, industrial production and services sector did better.

We suspect that growth will soften further in Q3 and Q4. But the economy is still on course to expand by

2.3-2.5% over the year as a whole – overall a pretty good showing given the headwinds from weakness in the global economy and high interest rates at home.

Chart 2: Brazil GDP & BCB Economic Activity Indicator



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 28 th	Mex	Trade Balance (Jul.)	13.00	08.00	+\$0.0bn	-	-	
Tue 29 th	Mex	IGAE Activity Index (Jun.)	13.00	08.00	-0.0%(+4.3%)	+0.5%(+4.4%)	-	
	Mex	GDP (Q2, q/q(y/y), Fin.)	13.00	08.00	+0.9%(+3.7%)	+1.0%(+3.6%)	-	
Wed 30 th	Chl	Unemployment Rate (Jul.)	14.00	09.00	8.50%	-	-	
	Mex	Inflation Report	19.30	14.30	-	-	-	
Thu 31 st	Brz	Nominal Budget Balance (Jul., BRL)	12.30	07.30	-89.6bn	-	-	
	Brz	Primary Budget Balance (Jul., BRL)	12.30	07.30	-48.9bn	-	-	
	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%	-	-	
	Fri 1 st	Brz	GDP (Q2, q/q(y/y))	13.00	08.00	+1.9%(+4.0%)	+0.5%(+2.7%)	+0.3%(+2.7%)
		Brz	GDP (4Qtrs Accumulated)	13.00	08.00	+3.3%	+3.0%	-
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	-	-	
Selected future data releases and events:								
5 th Sep		Brz	Industrial Production (Jul.)	13.00	08.00	+0.1%(+0.3%)	-	-
	Brz	S&P Global Services PMI (Aug.)	14.00	09.00	50.2	-	-	
	Uru	CPI (Aug.)	18.00	13.00	-0.4%(+4.8%)	-	-	
6 th Sep	Chl	Interest Rate Announcement	22.00	17.00	10.25%	-	-	
	Ecu	CPI (Aug.)	15.00	10.00	+0.5%(+2.1%)	-	-	
7 th Sep	Chl	Trade Balance (Aug.)	12.30	07.30	+0.8bn	-	-	
	Mex	CPI (Aug.)	13.00	08.00	+0.5%(+4.8%)	-	-	
	Arg	Industrial Production (Jul.)	20.00	15.00	(-2.3%)	-	-	
8 th Sep	C.Rc	CPI (Aug.)	-	-	-0.2%(-2.3%)	-	-	
	Col	CPI (Aug.)	00.00	19.00	+0.5%(+11.8%)	-	-	
	Chl	CPI (Aug.)	12.00	07.00	+0.4%(+6.5%)	-	-	
Also expected during this period:								
3 rd - 30 th	Pan	GDP (Q4, q/q(y/y))	-	-	(+9.5%)	-	-	

*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 (25 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 (25 th Aug.)	Forecasts		Stock Market	Latest (25 th Aug.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	4.88	5.25	5.00	Bovespa	116,358	111,500	149,250
Mexico MXN	16.7	20.0	21.0	Bolsa	53,031	44,600	59,300
Argentina ARS	350	700	900	Merval	613,509	-	-
Colombia COP	4,113	4,500	4,200	IGBC	1,103	910	1,210
Chile CLP	839	825	775	IPSA	6,049	5,100	7,000
Peru PEN	3.69	4.00	3.70	S&P/BVL	23,001	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	4.8	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	2.5	2.8	11.6	7.5	3.8	3.5
Peru	0.3	2.5	2.7	0.8	1.8	2.5	7.9	6.5	4.0	3.3
Dom. Rep.	0.2	4.1	4.9	0.0	0.0	0.0	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	1.4	0.8	2.0	8.7	5.8	4.4	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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