



LATIN AMERICA ECONOMICS WEEKLY

A silver lining in Argentina

Markets welcome Milei's win

From a political angle, it's hard to see Javier Milei's victory in Argentina's presidential election last Sunday as anything other than a rejection of the political establishment, in a similar vein to the surge in support seen for other political outsiders in the region such as José Antonio Kast in Chile and Rodolfo Hernández in Colombia. (For our initial response to the election, see [here](#). You can also listen to our podcast on the election from Monday [here](#).)

But Milei's victory brings some hope of a turnaround in Argentina's economic situation. Indeed, the stock market rallied while dollar bond spreads narrowed this week. (See our [Capital Daily](#) from Monday.)

Investors have welcomed the emerging narrative that Milei's weak political base will force him to work with former President Macri's centre-right allies. That would temper Milei's more radical proposals such as dollarisation. (In any case, as we argued earlier this year, [dollarisation](#) is no silver bullet for Argentina.) But at the same time, it would give Milei a working coalition to push through fiscal tightening and other reforms that tackle Argentina's economic mess.

Milei's early comments and rumours about nominations to key economic positions have reinforced this narrative. In his first speech after the election, he didn't mention dollarisation. And media reports suggest that Demian Reidel will be named central bank governor, rather than Emilio Ocampo who had appeared to be the front runner and is the intellectual force behind Milei's dollarisation plans. Mr. Reidel has worked at major investment banks and worked at the central bank during Macri's term.

Meanwhile, Luis Caputo, a Macri ally, is running Milei's economic transition team, fuelling expectations that he will be named Economy Minister (rumours Milei hasn't refuted). Taken together with Milei's comments about cutting public spending by 15% of GDP and privatising large parts

of the economy, a form of shock therapy stripped of some of its more radical elements appears likely.

Nonetheless, there are key hurdles that could disrupt the market's optimism. One is that unravelling Argentina's economic problems will prove extremely difficult and could lead to disorderly outcomes. The peso requires a large adjustment (the official rate probably needs to fall by ~50% against the dollar) and an(other) external debt restructuring is on the cards. Mr. Caputo will have to live up to his moniker of the Messi of finances.

There are political problems too. Milei may find himself torn between the need to work with Macri and his allies while preserving his image as a political outsider. Drastic fiscal tightening like Milei seeks will be much less popular among Argentine voters than it is in the bond market. The final and related political hurdle is Argentina's short election cycle. Legislative elections will take place in two years' time. The 2017 mid-term elections were one reason that the Macri adjustment failed. Fiscal policy was loosened ahead of that vote in a bid to build Macri's support. While the markets tolerated that at the time, it led to renewed economic imbalances in that paved the way for Argentina's crisis in 2018.

In case you missed it

Argentina is by no means the only country in the region with sovereign debt problems. As we argued in a [Focus](#) on Wednesday, while (thankfully) few countries share the acute vulnerabilities that Argentina suffers from, public debt dynamics in most major economies are likely to worsen from next year. We also published our [Chart Pack](#) for November, taking a closer look at the latest economic developments in the region and updating our views.


The week ahead

It's quiet on the data front. We'll be publishing an *Update* early next week that takes a closer look at the recent boom in investment in Mexico.














Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (GMT)	Time (EST)	Previous*	Median*	CE Forecasts*
27 th Nov	 Brz	Current Account (Oct.)	11.30	06.30	-\$1.4bn	-	-
	 Mex	Trade Balance (Oct.)	12.00	07.00	-\$1.5bn	-	-
28 th Nov	 Brz	IPCA-15 Inflation (Nov.)	12.00	07.00	+0.2%(+5.1%)	+0.3%(+4.8%)	+0.2%(+4.7%)
29 th Nov	 Brz	Budget Balance (Oct., BRL)	11.30	06.30	-99.8bn	-	-
	 Chl	Unemployment Rate (Oct.)	12.00	07.00	8.90%	-	-
30 th Nov	 Mex	Central Bank Inflation Report	18.30	13.30	-	-	-
	 Brz	Unemployment Rate (Oct.)	12.00	07.00	7.70%	7.50%	-
30 th Nov	 Chl	Industrial Production (Oct.)	12.00	07.00	(+1.5%)	-	-
	 Chl	Retail Sales (Oct.)	12.00	07.00	(-5.4%)	-	-
1 st Dec	 Col	Unemployment Rate (Oct.)	15.00	10.00	9.30%	-	-
	 Chl	Economic Activity Index (Oct.)	11.30	06.30	+0.0%(+0.6%)	-	-
1 st Dec	 Brz	Industrial Production (Oct.)	12.00	07.00	+0.1%(+0.6%)	(+1.5%)	-
	 Brz	S&P Global Manufacturing PMI (Nov.)	13.00	08.00	48.6	-	-
1 st Dec	 Mex	S&P Global Manufacturing PMI (Nov.)	15.00	10.00	52.1	-	-
	 Per	CPI (Nov.)	15.00	10.00	-0.3%(+4.3%)	-	+0.4%(+4.2%)
1 st Dec	 Brz	Trade Balance (Nov.)	18.00	13.00	+\$9.0bn	-	-
	 Mex	IMEF Manufacturing Index (Nov.)	18.00	13.00	50.5	-	-
1 st Dec	 Mex	IMEF Non-Manufacturing Index (Nov.)	18.00	13.00	52.2	-	-
	 Col	Current Account (Q3)	-	-	-\$2.5bn	-\$3.3bn	-

Selected future data releases and events:

5 th Dec	 Brz	GDP (Q3, q/q(y/y))	12.00	07.00	+0.9%(+3.4%)	-	-
	 Brz	GDP 4Qtrs Accumulated (Q3)	12.00	07.00	+3.2%	-	-
	 Brz	S&P Global Services PMI (Nov.)	13.00	08.00	51.0	-	-
6 th Dec	 Uru	CPI (Nov.)	17.00	12.00	(+4.3%)	-	-
	 Ecu	CPI (Nov.)	14.00	09.00	-0.2%(+1.9%)	-	-
7 th Dec	 Chl	CPI (Nov.)	11.00	06.00	+0.4%(+5.0%)	-	-
	 Chl	Trade Balance (Nov.)	11.30	06.30	+\$0.9bn	-	-
7 th Dec	 Mex	CPI (Nov.)	12.00	07.00	+0.4%(+4.3%)	-	-
	 Arg	Industrial Production (Oct.)	19.00	14.00	(-3.6%)	-	-
8 th Dec	 Col	CPI (Nov.)	23.00	18.00	+0.3%(+10.5%)	-	-
	 Cro	CPI (Nov.)	-	-	+0.2%(-1.3%)	-	-

Also expected during this period:

2 nd – 23 rd	 Pan	GDP (Q4, q/q(y/y))	-	-	(+9.5%)	-	-
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*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 (24 th Nov.)	Last Change	Next Change	Forecasts	
				End 2023	End 2024
Brazil Selic Target	12.25	Down 50bp (Nov. '23)	Down 50bp (Dec. '23)	11.75	9.50
Mexico Overnight Rate	11.25	Up 25bp (Mar. '23)	Down 25bp (Q1 '24)	11.25	9.25
Colombia Intervention Rate	13.25	Up 25bp (Apr. '23)	Down 25bp (Dec. '23)	13.00	8.00
Chile Overnight Rate	9.00	Down 50bp (Oct. '23)	Down 50bp (Dec. '23)	8.50	5.25
Peru Reference Rate	7.00	Down 25bp (Nov. '23)	Down 25bp (Dec. '23)	6.75	5.00

Sources: Refinitiv, Capital Economics

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

Currency	Latest (24 th Nov.)	Forecasts		Stock Market	Latest (24 th Nov.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	4.89	5.10	5.00	Bovespa	125,806	110,750	141,500
Mexico MXN	17.1	19.0	20.5	Bolsa	53,060	48,400	58,100
Argentina ARS	356	700	900	Merval	902,883	-	-
Colombia COP	4,052	4,200	4,200	COLCAP	1,131	910	1,120
Chile CLP	874	875	850	IPSA	5,795	5,700	6,900
Peru PEN	3.74	3.70	3.80	S&P/BVL	22,119	22,700	26,400

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	3.5	0.8	1.5	9.3	4.8	4.5	4.0
Mexico	1.9	0.9	3.9	3.5	2.0	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	129.5	171.0	97.5
Colombia	0.6	2.5	7.3	1.0	1.3	2.5	10.2	11.8	6.0	4.3
Chile	0.4	2.1	2.4	0.0	2.5	2.8	11.6	7.8	4.3	3.3
Peru	0.3	2.5	2.7	0.8	2.0	2.5	7.9	6.5	4.0	3.8
Dom. Rep.	0.2	4.1	4.9	2.3	3.0	4.8	8.8	4.8	4.3	4.0
Ecuador	0.1	1.6	2.9	0.8	1.8	2.0	3.5	2.3	2.0	2.0
Venezuela	-	-12.7	15.5	6.5	5.0	5.0	185	340	90	80
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	5.3	3.3	3.5	8.3	0.8	1.5	2.5
Uruguay	0.1	1.5	4.9	1.0	2.5	2.5	9.1	5.8	6.0	5.3
Latin America²	6.8	0.9	3.9	2.1	1.1	2.1	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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