LATIN AMERICA ECONOMIC OUTLOOK

Brazil and Mexico to lose their shine

- **Overview** – The surprising strength this year of the region's two largest economies, Brazil and Mexico, will fade in 2024 and growth over the next couple of years is likely to come in below consensus expectations. In contrast, the Andean economies are set for a modest recovery. The large falls in inflation are now behind us and it will be a slow grind lower from here given the backdrop of continued rapid wage growth. The result is that central banks will tread more cautiously with interest rate cuts than most expect. Public debt concerns are likely to build. Argentina is heading for yet another default while sovereign debt dynamics elsewhere are likely to deteriorate from next year.

- **Brazil's** economy is entering a phase of softer growth, in part driven by the reversal of this year's agricultural boom. With growth slowing, the government seems unlikely to meet its budget targets set out in the new fiscal framework and the debt ratio will continue to rise.

- **Mexico's** economy is likely to lose steam over the next few quarters but the slowdown will be cushioned by fiscal loosening ahead of next year's election and strong wage growth. Labour market conditions will continue to worry Banxico, and the monetary easing cycle will be more gradual than most expect. The peso looks overvalued and appears set for a large fall.

- Javier Milei's victory in **Argentina's** presidential election puts the economy on track for shock therapy, albeit stripped of the most radical elements, especially dollarisation. While these measures are necessary to put the economy on a more sustainable footing, they will come at the expense of a steep recession next year. A sharp fall in the currency and another sovereign debt restructuring also lie in store.

- **Colombia's** economy will recover from a very weak 2023 in the coming quarters, although growth is set to come in below consensus expectations. While inflation – which has been more stubborn than elsewhere – should fall sharply, the central bank's easing cycle won't be as aggressive as most expect.

- We think that growth in **Chile** will surprise to the upside over the next couple of years as inflation moderates, policy becomes less restrictive and copper prices rise. This will also support the Chilean peso, which we expect to outperform other currencies in the region next year.

- **Peru's** economy will exit recession but growth in 2024-2025 will be weak by past standards as political uncertainty lingers. Falling inflation will, at least, allow the central bank to continue normalising policy.

- **Ecuador's** economy will remain weak next year on the back of fiscal tightening. Even then, we doubt that the public finances will return to an even keel. Elsewhere, an easing of US sanctions could lead to a U-turn in the outlook for **Venezuela**'s economy, but it remains to be seen if Maduro sticks to his side of the deal.

- Tight fiscal policy and weak external demand will offset inflation and monetary easing and cause growth in the **Dominican Republic**, **Costa Rica**, **Uruguay** and **Panama** to slow by more than most expect.

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Key Forecasts

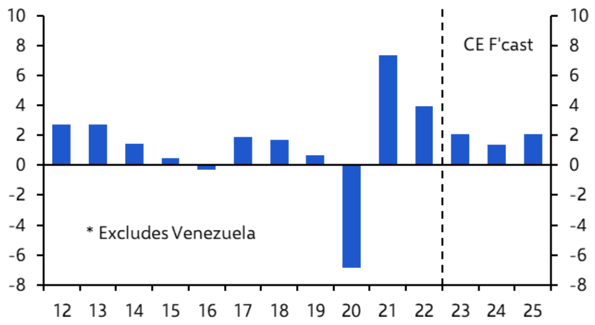
Table 1: Real GDP and Inflation

	Share of World[1]	GDP[2]					Inflation[2]				
		2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Brazil	2.3	4.8	3.0	**3.3**	**1.3**	**1.5**	8.3	9.3	**4.5**	**4.3**	**3.8**
Mexico	1.9	5.7	3.9	**3.5**	**1.8**	**1.8**	5.7	7.9	**5.5**	**4.3**	**3.5**
Argentina	0.7	10.7	5.0	**-2.5**	**-2.3**	**2.5**	48.4	72.4	**128**	**190**	**100**
Colombia	0.6	11.0	7.3	**1.0**	**1.3**	**2.3**	3.5	10.2	**11.8**	**6.5**	**4.8**
Chile	0.4	11.7	2.4	**0.0**	**2.3**	**2.8**	4.5	11.6	**7.8**	**3.8**	**3.3**
Peru	0.3	13.4	2.7	**-0.8**	**1.8**	**2.3**	4.0	7.9	**6.3**	**3.0**	**3.5**
Dom. Rep.	0.2	12.3	4.9	**2.0**	**3.3**	**4.8**	8.2	8.8	**4.8**	**4.0**	**4.0**
Ecuador	0.1	4.2	2.9	**1.3**	**1.0**	**1.8**	0.1	3.5	**2.3**	**1.8**	**2.0**
Venezuela	-	2.5	15.5	**6.5**	**5.0**	**5.0**	1,589	185	**340**	**90**	**80**
Panama	0.1	15.3	10.8	**6.0**	**3.0**	**3.5**	1.6	2.8	**1.5**	**1.5**	**1.3**
Costa Rica	0.1	7.9	4.6	**4.8**	**3.3**	**3.5**	1.7	8.3	**0.8**	**1.5**	**2.5**
Uruguay	0.1	5.3	4.9	**1.0**	**2.3**	**2.5**	7.7	9.1	**5.8**	**6.0**	**5.3**
Latin America[3]	**6.8**	**7.3**	**4.0**	**2.1**	**1.2**	**2.0**	**6.2**	**8.7**	**5.7**	**4.2**	**3.6**
US	15.5	5.9	2.1	**2.4**	**1.3**	**2.0**	1.2	8.0	**4.1**	**2.3**	**2.4**
China[4]	18.6	11.5	-3.5	**8.0**	**4.5**	**3.0**	2.5	2.0	**0.5**	**1.0**	**1.5**
Euro-zone	12.0	5.3	3.4	**0.4**	**0.0**	**1.0**	0.3	8.4	**5.5**	**2.2**	**1.8**

Sources: Refinitiv, Capital Economics.

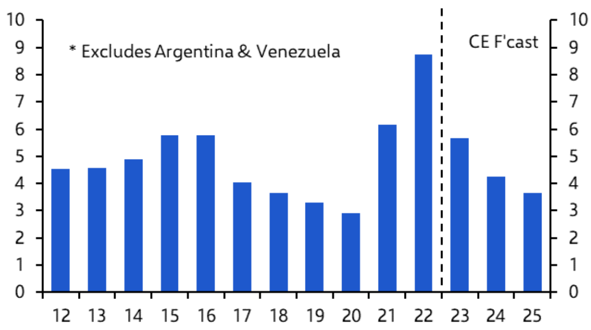
1) %, 2022, in PPP terms. 2) All % y/y annual average. 3) Regional GDP excludes Venezuela; regional inflation excludes Argentina & Venezuela. 4) China GDP based on CE China Activity Proxy (CAP) measure.

Chart 1: Latin America Real GDP* (% y/y)



Sources: Refinitiv, Capital Economics

Chart 2: Latin America Consumer Prices* (% y/y)



Sources: Refinitiv, Capital Economics

Financial Market Forecasts

Table 2: Central Bank Policy Rates							
	Policy Rate	Latest (7th Dec.)	Last Change	Forecasts			
				Next Change	End 2023	End 2024	End 2025
Brazil	Selic Target	12.25	Down 50bp (Nov. '23)	**Down 50bp (Dec. '23)**	**11.75**	**9.50**	**9.00**
Mexico	Overnight Rate	11.25	Up 25bp (Mar. '23)	**Down 25bp (Feb. '24)**	**11.25**	**9.25**	**7.25**
Argentina	Leliq Rate	133.0	Up 2,100bp (Aug. '23)	**Up 700bp (Dec. '23)**	**140.0**	**140.0**	**80.0**
Colombia	Intervention Rate	13.25	Up 25bp (Apr. '23)	**Down 25bp (Dec. '23)**	**13.00**	**8.25**	**6.25**
Chile	Overnight Rate	9.00	Down 50bp (Oct. '23)	**Down 75bp (Dec. '23)**	**8.25**	**5.25**	**4.25**
Peru	Reference Rate	7.00	Down 25bp (Nov.'23)	**Down 25bp (Dec. '23)**	**6.75**	**5.00**	**4.25**
Dom. Rep.	Overnight Rate	7.00	Down 25bp (Nov. '23)	**Down 25bp (Jan. '24)**	**7.00**	**5.75**	**5.00**
Costa Rica	Overnight Rate	6.25	Down 25bp (Oct. '23)	**Down 25bp (Dec. '23)**	**6.25**	**4.75**	**3.00**
Uruguay	Overnight Rate	9.25	Down 25bp (Nov. '23)	**Down 25bp (Dec. '23)**	**9.00**	**8.50**	**7.75**

Sources: Refinitiv, Capital Economics

Table 3: FX Rates vs. US Dollar & Equity Markets								
		Latest (7th Dec.)	Forecasts		Equity Market	Latest (7th Dec.)	Forecasts	
			End 2024	End 2025			End 2024	End 2025
Brazil	BRL	4.90	**5.20**	**5.30**	Bovespa	125,623	**143,250**	**150,000**
Mexico	MXN	17.3	**20.0**	**21.0**	Bolsa	54,100	**59,200**	**63,100**
Argentina	ARS	364	**1,300**	**2,000**	Merval	894,502	**-**	**-**
Colombia	COP	4,008	**4,300**	**4,500**	IGBC	1,134	**1,090**	**1,160**
Chile	CLP	870	**825**	**800**	IPSA	5,920	**6,600**	**7,200**
Peru	PEN	3.75	**3.80**	**3.90**	S&P/BVL	22,160	**24,550**	**26,200**

Sources: Refinitiv, Capital Economics

Table 4: 10-Year Local Currency Government Bond Yields (%)								
	Latest (7th Dec.)	End 2023	End 2024	End 2025		Latest (7th Dec.)	End 2023	End 2024	End 2025
Brazil	10.96	**10.90**	**10.25**	**10.00**	Chile	5.58	**5.60**	**4.75**	**4.50**
Mexico	9.19	**9.30**	**8.50**	**8.25**	Peru	6.92	**7.00**	**6.00**	**5.75**
Colombia	10.55	**10.50**	**9.25**	**9.00**					

Sources: Refinitiv, Capital Economics.

Overview

Brazil and Mexico to lose their shine

- The resilience of the Brazilian and Mexican economies this year will fade in 2024 while the Andean economies are set for a rebound, albeit only a modest one. The large falls in inflation are now behind us and it will be a slow grind lower given the strength of wage growth. As a result, central banks will tread more cautiously with interest rate cuts than most expect.

- Aggregate GDP growth in the region picked up slightly in Q3. (See Chart 3.) Brazil and Mexico have been the region's star performers this year, with growth surprising considerably to the upside. But activity will be weaker in 2024 as, among other things, agricultural and investment booms (respectively) reverse. In contrast, the Andean economies, which have been through a bout of weakness, should see a recovery driven by improving domestic demand.

- Higher copper prices alongside lower oil prices will cause terms of trade in parts of the Andes to improve. In contrast, lower agricultural prices mean that Brazil and especially Argentina's terms of trade will take a hit. (See Chart 4.)

- Having fallen sharply over the course of this year, the disinflation process in most parts of the region will slow in 2024. (See Chart 5.) Colombia, where inflation this year has stayed stubbornly high, is the key exception – the headline rate there will fall sharply next year.

- Even so, inflation in Colombia, as well as Brazil and Mexico will remain above target. In the latter in particular, this reflects the tight labour market and strong wage growth. Inflation in Chile and Peru is set to fall back within their central banks' target ranges next year.

- Latin American central banks were the first globally to embark on monetary easing cycles. Those in Colombia and Mexico are set to join around the turn of the year. Monetary policy will continue to be eased next year but, as the disinflation process slows, policymakers in Brazil and Chile are likely to reduce the size of cuts. And in general, we think that interest rates will end next year higher than the consensus is currently anticipating. (See Chart 6.)

- Public debt concerns are likely to return to the spotlight over the coming years. In Mexico, the purse strings are set to be loosened ahead of next year's election while in Brazil and parts of the Andes fiscal policy is unlikely to be tightened sufficiently to stabilise debt-to-GDP ratios. (See Chart 7.)

- Debt risks are most acute in Argentina and Ecuador. In the former, the victory for far-right candidate Javier Milei in the presidential election will bring about a major shift in economic policymaking, including a shock-therapy style approach to dealing with the country's woes. While these offer hope of longer-term stability, in the near term they are likely to deepen the economy's recession. And in the meantime, another sovereign debt restructuring will be needed.

- Overall, following GDP growth of around 2% in 2023, we expect Latin America's economy to expand by 1.2% and 2.0% in 2024 and 2025 respectively. Apart from Chile, our forecasts are generally below the consensus. (See Chart 8.)

- External imbalances have eased substantially, especially in Colombia and Chile. (See Chart 9.) This, alongside the improvement in terms of trade, means that the Chilean peso will outperform others in the region. In contrast, we think the Mexican peso is set for a large fall next year. (See Chart 10.)

Overview Charts

Chart 3: Latin America GDP (% q/q)

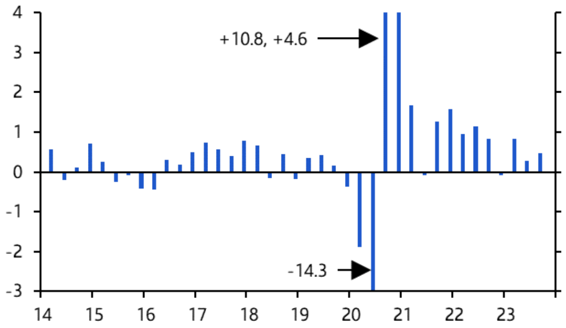


Chart 4: Change in Net Commodity Exports Implied by CE Price Forecasts (2023-2024, % of GDP)

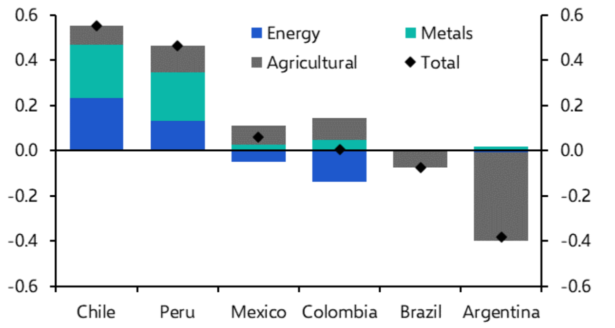


Chart 5: Consumer Prices (% y/y)

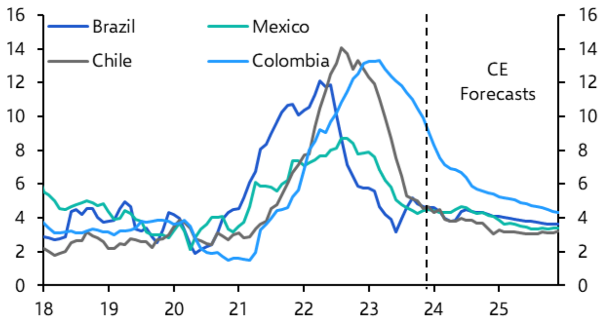


Chart 6: Policy Interest Rate Forecasts (%, end-24)

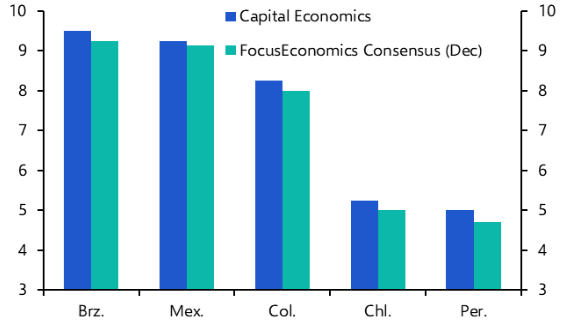


Chart 7: Change in Public Debt (2023-25, CE Forecast, % of GDP)

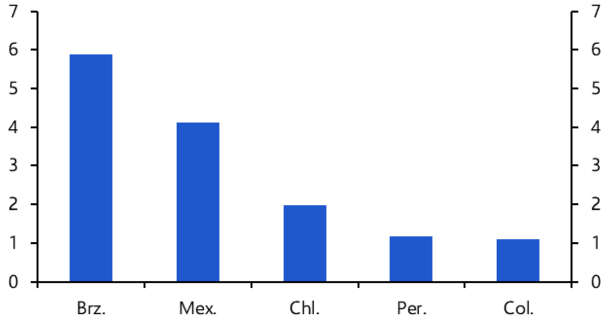


Chart 8: GDP (2024, % y/y)

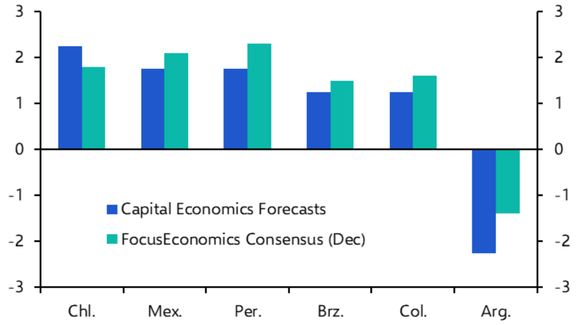


Chart 9: Current Account Balances (% of GDP)

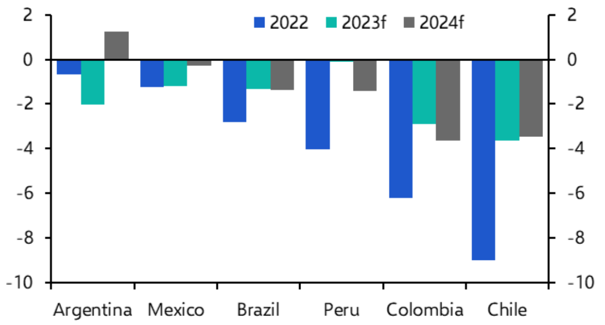
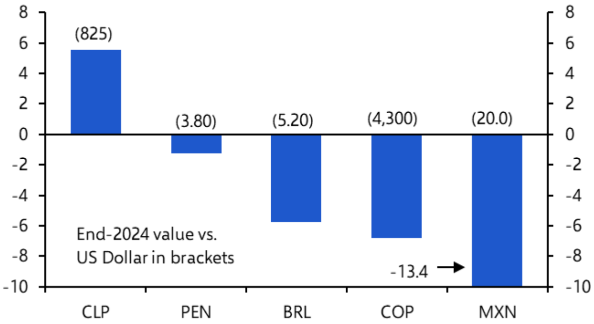


Chart 10: Currencies vs. US$ (Now – End 24)



Sources: Refinitiv, FocusEconomics, Capital Economics

Brazil

Growth slowing, debt problems mounting

- The Brazilian economy's recent period of outperformance is coming to an end and we think growth in 2024 will come in below consensus expectations. Public debt concerns are likely to build next year.

- After a surprisingly strong first half of the year, Brazil's economy is coming off the boil. GDP growth slowed to just 0.1% in Q3. (See Chart 11.) That was partly driven by a reversal of the recent agricultural boom but also by weaker growth in the services sector.

- We think that this is an inflection point and that the economy is now entering a phase of softer growth. Agricultural output is likely to decline further in 2024, given how far above its recent trend it has been this year. (See Chart 12.) We also think that Brazil's terms of trade will become less favourable in 2024 as the prices of its key commodities exports (oil, iron ore and soybeans) fall back. The country's recent export boom is likely to reverse.

- Consumer spending has been a bright spot in the economy. But wage growth is likely to soften further in the coming months (see Chart 13), taking some of the steam out of retail spending. Overall, we think the economy will expand by 1.3% next year. That's well below this year's rate of around 3.3% and below the consensus too. (See Chart 14.)

- The recent bump in inflation has now topped out and we expect the headline rate to decline over the coming months. But with real wage growth (while slowing) still likely to run well above productivity growth, services inflation will remain elevated and prevent headline inflation from returning to target over our near-term forecast horizon. (See Chart 15.) Inflation will remain higher than most expect too.

- The central bank's easing cycle is likely to proceed with 50bp cuts at the next few meetings, but we then expect it to shift to smaller 25bp steps around mid-2024. The consensus view has shifted towards ours, but it still looks a bit dovish. (See Chart 16.)

- We doubt that the central bank's monetary easing cycle will do much to boost the economy, particularly next year. Private sector debt servicing costs will remain high. (See Chart 17.) The government will be a bigger beneficiary as lower short-term interest rates tend to feed quickly into a reduction in interest payments.

- Even with that, the sovereign's debt dynamics remain challenging. Significant fiscal tightening is needed to stabilise the public debt ratio. The government's new fiscal framework offered a path to achieve that. But we were sceptical from the outset that the government would comply. Recent rumours that the targets would be watered down have only reinforced our view. As a result, we think the debt ratio will continue to rise. (See Chart 18.)

- Worsening public finances and a deterioration in the terms of trade feed into our view that the real's recent rally won't last into next year.

Table 5: Brazil Key Forecasts (% y/y unless stated)

	2021	2022	2023	2024	2025
GDP	4.8	3.0	**3.3**	**1.3**	**1.5**
Unemp. Rate (%)[1]	13.5	9.5	**8.3**	**8.8**	**8.8**
CPI[1]	8.3	9.3	**4.5**	**4.3**	**3.8**
Pub. Sector Bal.[2]	-4.3	-4.6	**-8.5**	**-7.5**	**-6.5**
Pub. Sector Debt[2]	77.3	71.7	**75.5**	**79.0**	**81.5**
Current Account[2]	-2.8	-2.8	**-1.3**	**-1.3**	**-2.0**
Interest Rate (%)[3]	9.25	13.75	**11.75**	**9.50**	**9.00**
BRL/USD[3]	5.57	5.28	**5.00**	**5.20**	**5.30**

Sources: Refinitiv, CE. 1) Annual avg. 2) % of GDP. 3) Year end.

Brazil Charts

Chart 11: GDP (% q/q, SA)

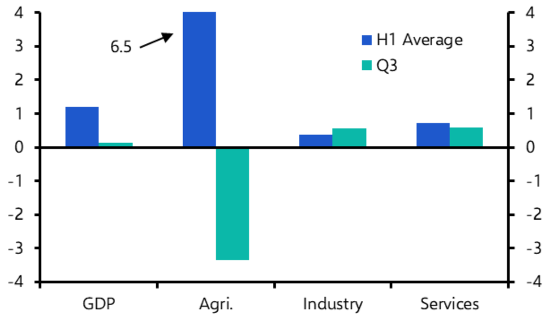


Chart 12: Agricultural Value Added (SA, 1995 = 100)

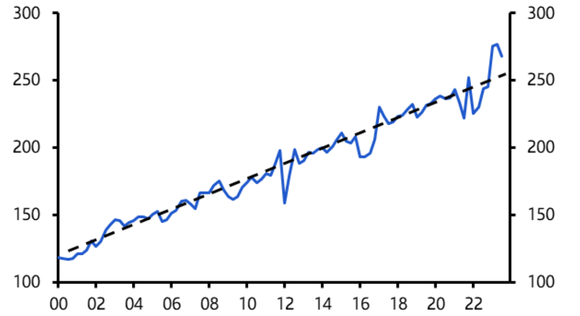


Chart 13: Average Nominal Wages (% y/y)

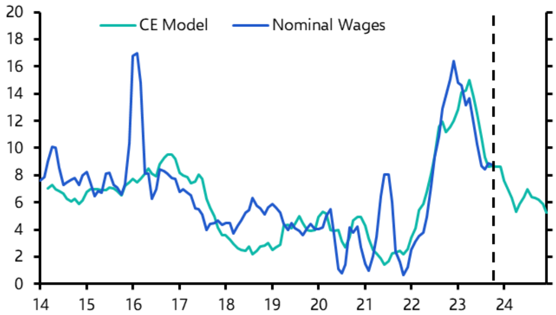


Chart 14: GDP (% y/y)

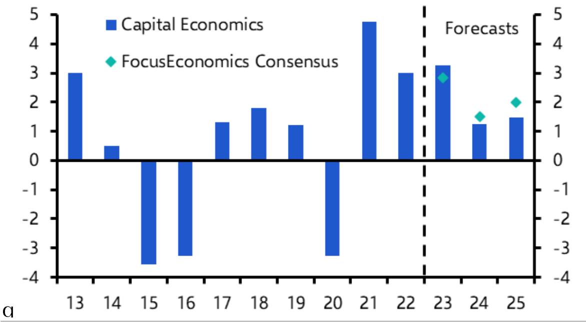


Chart 15: Consumer Prices (% y/y)

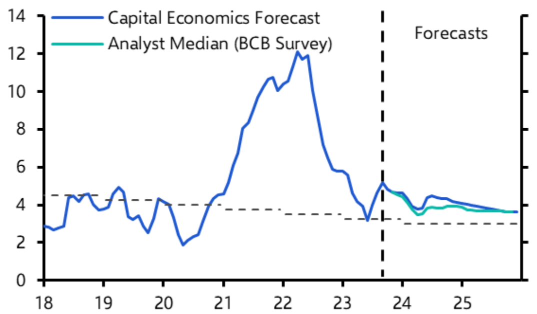


Chart 16: Selic Rate (%)

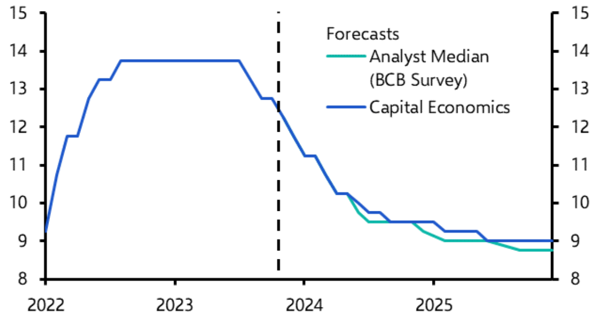


Chart 17: Private Sector Debt Interest Payments (% of Disposable Income)

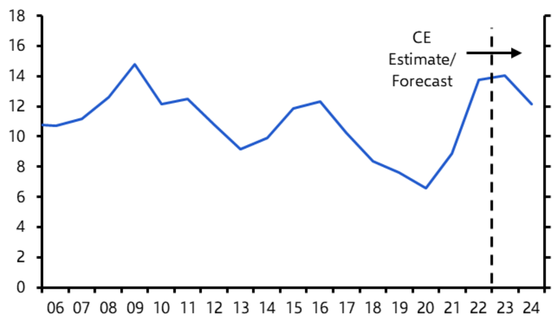
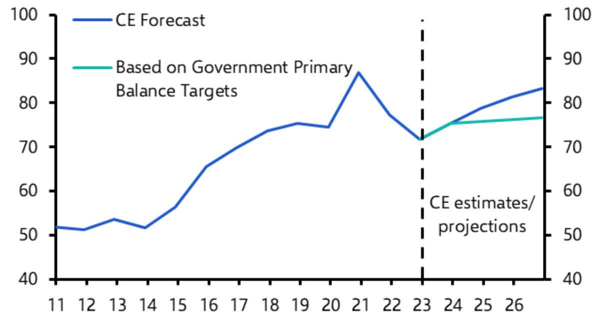


Chart 18: Gross General Government Debt (National Definition, % of GDP)



Sources: Refinitiv, IBGE, BCB, Capital Economics

Mexico

Growth to weaken but Banxico to move slowly with rate cuts

- Mexico's economy is likely to lose steam over the next few quarters but the slowdown will be cushioned by fiscal loosening and strong wage growth. Banxico will soon embark on an easing cycle, although we think that interest rates will be lowered more gradually than most expect.

- The economy's resilience continued into Q3, with GDP rising by 1.1% q/q. (See Chart 19.) And survey data point to a strong end to the year too. That said, a few factors will pull growth down over the coming quarters.

- The tight monetary policy stance will continue to weigh on credit growth. And investment, which has been a key support to growth this year, will become a drag as major transport infrastructure projects like the Maya Train are completed. (See Chart 20.) At the same time, weakness in the US will weigh on export growth, tourist arrivals and remittances. The strong peso seems to be hurting Mexico's external competitiveness too – we expect the peso to weaken against the dollar in 2024-25.

- That said, the slowdown will be cushioned by looser fiscal policy as the ruling Morena party seeks to bolster support for Claudia Sheinbaum ahead of June's election. The 2024 budget outlined a ~1% of GDP fiscal giveaway. (See Chart 21.) The strength of Mexico's public finances, a point of comfort for investors in recent years, can no longer be taken for granted. And the debt-to-GDP ratio will rise. (See Chart 22.) The debts of the state oil firm, Pemex, have come into the spotlight recently. We think it's likely that Pemex will default later this decade.

- Consumer spending will be supported by tight labour market conditions and, with inflation having fallen, rapid real wage growth. (See Chart 23.) A 20% minimum wage hike in 2024 will keep wage growth strong – around a third of workers are now covered by the minimum wage, up from 16% at the start of Amlo's term.

- Worryingly, rising real wages are not being matched by productivity gains, reinforcing Banxico's concerns about the persistence of inflation. Officials have opened the door to rate cuts, with the first likely to be delivered in February. But if we're right that inflation won't return to the 2-4% target range on a sustained basis until early 2025 (see Chart 24), the easing cycle will proceed gradually. We expect the policy rate to be cut by 200bp to 9.25% by end-2024. (See Chart 25.) Other analysts have come round to our previously hawkish view.

- All told, we expect GDP growth of 3.5% this year to be followed by an expansion of 1.8% in both 2024 and 2025. (See Chart 26.) Our forecasts lie below the consensus.

- Further ahead, we don't share the optimism that nearshoring will drive faster growth in Mexico. The obstacles that have prevented strong growth in parts of the manufacturing sector from filtering through to the wider economy in recent decades remain in place. What's more, next year's US election may pose a greater threat to Mexico's free trading relationship with its northern neighbour than many are assuming.

Table 6: Mexico Key Forecasts (% y/y unless stated)

	2021	2022	2023	2024	2025
GDP	5.7	3.9	**3.5**	**1.8**	**1.8**
Unemp. Rate (%)[1]	4.1	3.3	**2.8**	**3.5**	**3.3**
CPI[1]	5.7	7.9	**5.5**	**4.3**	**3.5**
Pub. Sector Bal.[2,3]	-2.8	-3.2	**-3.0**	**-4.3**	**-4.0**
Pub. Sector Debt[2,3]	50.7	48.3	**46.5**	**48.5**	**51.0**
Current Account[2]	-0.6	-1.2	**-1.3**	**-0.3**	**-0.3**
Policy Rate (%)[4]	5.50	10.50	**11.25**	**9.25**	**7.25**
MXN/USD[4]	20.5	19.5	**17.5**	**20.0**	**21.0**

Sources: Refinitiv, INEGI, SHCP, Capital Economics.
1) Annual average. 2) % of GDP. 3) Ministry of Finance definition (inc. Pemex and development banks). 4) Year end.

Mexico Charts

Chart 19: GDP (% q/q)

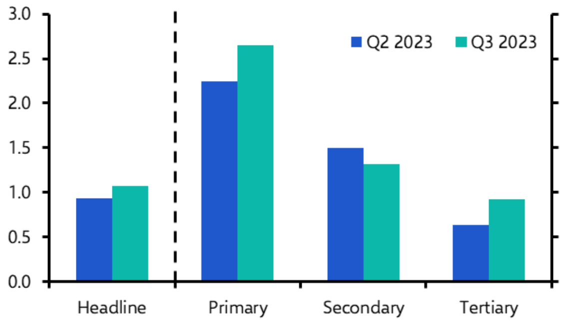


Chart 20: Construction (MXNbn, Current Prices, NSA)

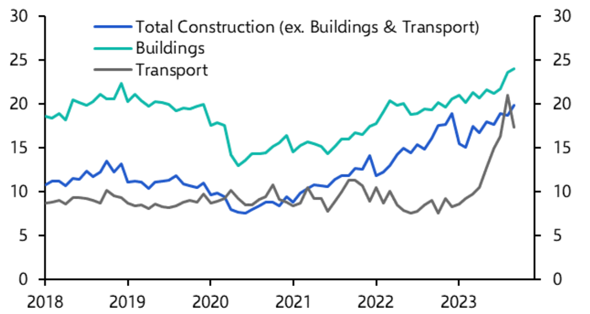


Chart 21: Primary Budget Balance (% of GDP)

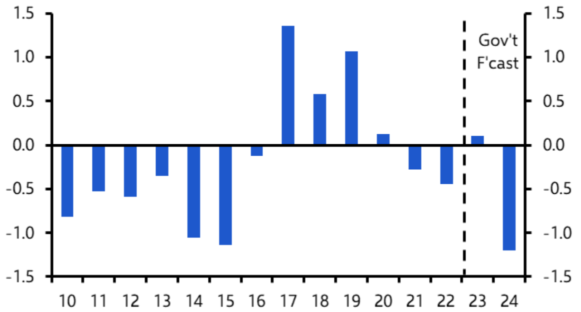


Chart 22: Public Sector Gross Debt (% of GDP)

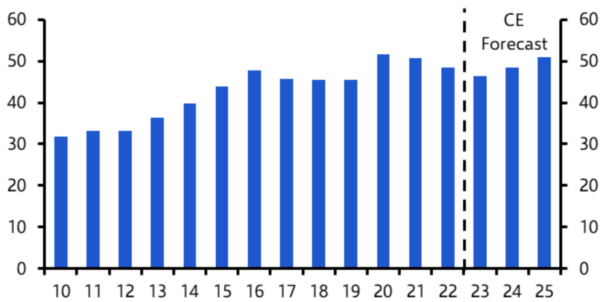


Chart 23: Daily Wage of Insured Workers (IMSS, % y/y)

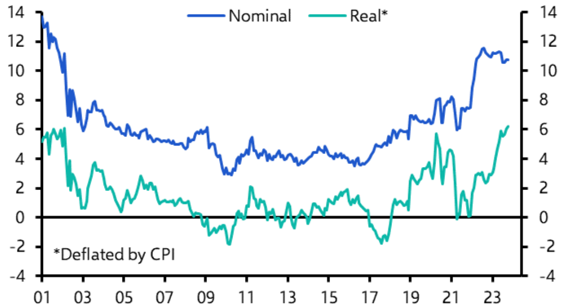


Chart 24: Consumer Prices (% y/y)

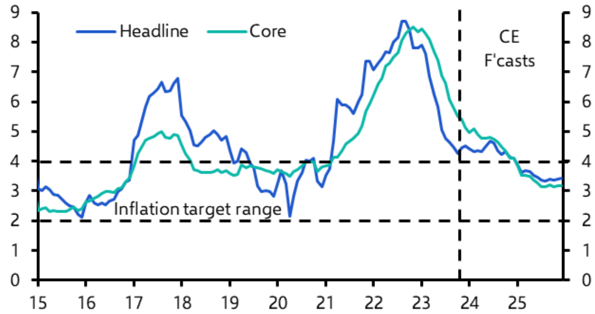


Chart 25: Policy Interest Rate (%)

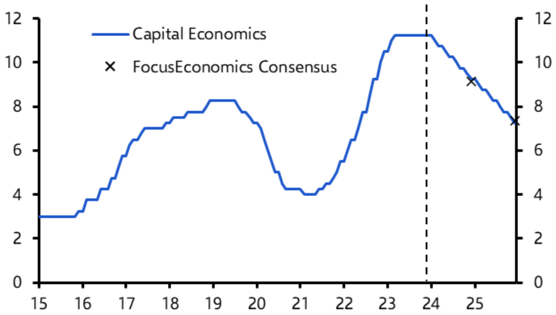
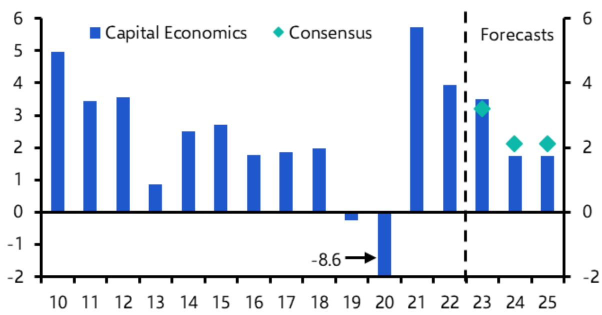


Chart 26: GDP (% y/y)



Sources: Refinitiv, Bloomberg, INEGI, Banxico, FocusEconomics, CE

Argentina

A long and challenging path back from the brink

- The victory for right-wing candidate Javier Milei in Argentina's presidential election puts the economy on track for shock therapy, albeit stripped of the most radical elements, especially dollarisation. These measures would help to put the economy on a more sustainable footing. But they will come at the expense of a steep recession next year.

- Although Milei has toned down his rhetoric and appointed centrists to key ministerial positions, drastic measures, such as a large fiscal adjustment over the next few years, are still on the cards. This, alongside a halt to deficit monetisation, is necessary to reduce Argentina's severe inflation problem. (See Chart 27.)

- The overvalued peso (see Chart 28) is set for a large devaluation. We think the peso will fall to 1,300/$ by end-2024. While this is necessary to restore external competitiveness and rebuild the central bank's FX reserves, it will push up inflation further and aggravate Argentina's public debt dynamics given the large share of FX-denominated debt.

- In turn, the IMF might have to deem Argentina's debt unsustainable, precluding it from lending to Argentina until another debt restructuring has been completed.

- Overall, Milei's policy platform sets the ground for stronger growth in the medium term. But the planned measures will come at the expense of substantial near-term pain, including a steep contraction in GDP. (See Chart 29.)

- In the meantime, a Milei administration is likely to result in much frostier relations with China. As a result, we've moved Argentina from the "lean China" to the "lean US" camp in our work on global fracturing.

Chart 27: Consumer Prices (% y/y)

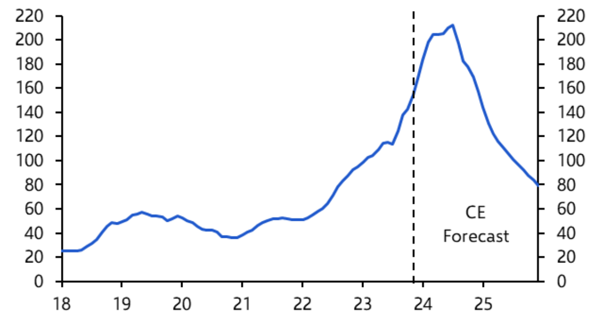


Chart 28: CE Arg. REER (Jan. '10 = 100, CPI-Based*))

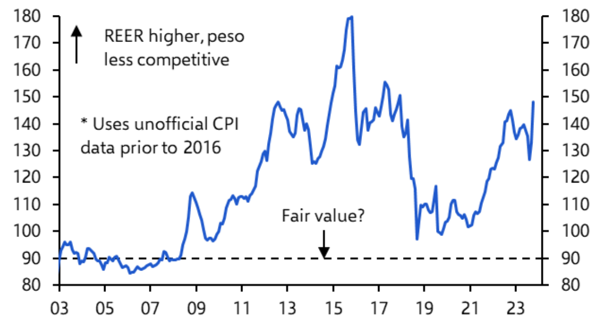
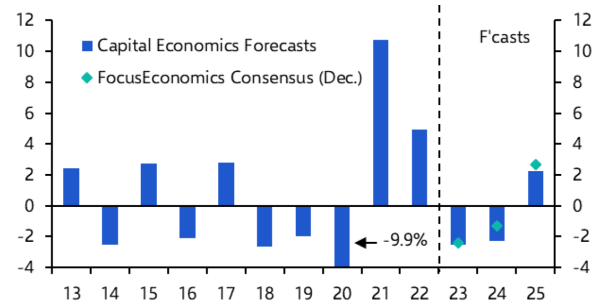


Chart 29: GDP (% y/y)



Sources: Refinitiv, FocusEconomics, Capital Economics

Table 7: Argentina Key Forecasts (% y/y unless stated)

	2021	2022	2023	2024	2025
GDP	10.7	5.0	**-2.5**	**-2.3**	**2.5**
Unemp. Rate (%)[1]	8.8	6.8	**8.0**	**9.0**	**8.0**
CPI[1]	48.4	72.4	**128**	**190**	**100**
Pub. Sector Bal.[2]	-3.6	-3.8	**-5.0**	**-2.5**	**-2.0**
Pub. Sector Debt[2,3]	80.8	84.7	**148.0**	**91.0**	**63.5**
Current Account[2]	1.4	-0.7	**-2.3**	**1.0**	**1.3**
Policy Rate (%)[4]	38.0	75.0	**140.0**	**140.0**	**80.0**
ARS/USD[4]	103	177	**650**	**1,300**	**2,000**

Sources: Refinitiv, Ministerio de Economía, Capital Economics.
1) Annual Average. 2) % of GDP. 3) Federal Government. 4) Year-end.

Colombia

Sluggish growth despite falls in inflation

- Colombia's economy will recover from a very weak 2023 in the coming quarters, although growth is set to come in below consensus expectations. While inflation – which has been more stubborn than elsewhere – should fall sharply, the central bank's easing cycle won't be as aggressive as most expect.

- GDP expanded only marginally in Q3 after a large contraction in Q2. Growth over 2023 as a whole will probably come in at just 1%, and we think it will pick up only modestly in 2024.

- Admittedly, inflation, having been stronger than elsewhere in the region this year, will fall sharply in 2024. This will support households' real incomes. That said, inflation will remain well above BanRep's 3±1% target throughout next year. (See Chart 30.)

- This won't stop BanRep from easing monetary policy – we expect the first cut in December – but it means that interest rates will come down more slowly than most anticipate and monetary policy will remain tight next year. Fiscal policy will be restrictive too, although we doubt that the government will run a primary surplus of c.2% of GDP in 2024 as planned. The government debt ratio will remain high at over 60% of GDP. (See Chart 31.)

- Overall, we expect growth to disappoint consensus expectations at just 1.3% and 2.3% in 2024 and 2025 respectively. (See Chart 32.)

- The Colombian peso looks overvalued and we think that it will weaken next year. The good news here is that the improvement in the current account balance over the past 12-18 months should temper the scale of the fall. We expect the peso to end next year at 4,300/$.

Chart 30: Consumer Prices & Policy Rate

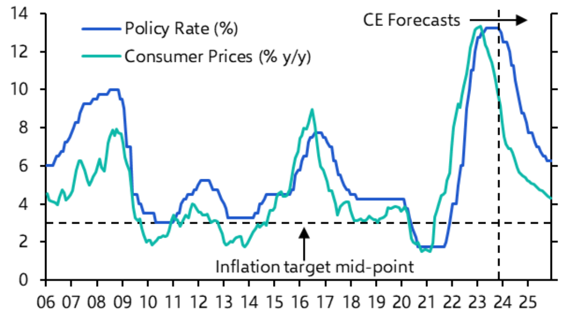


Chart 31: Public Debt (% of GDP)

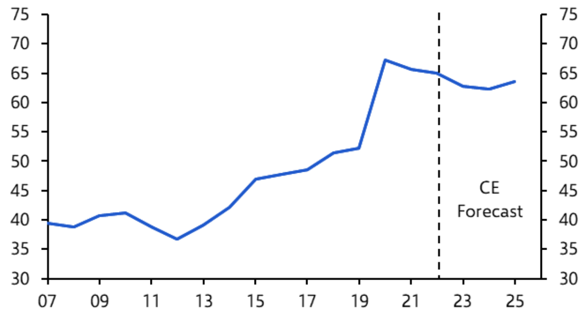
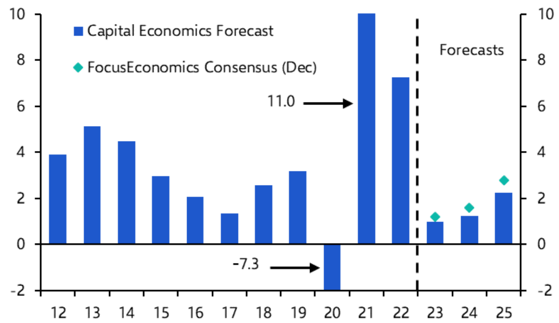


Chart 32: GDP (% y/y)



Sources: Refinitiv, FocusEconomics, Capital Economics

Table 8: Colombia Key Forecasts (% y/y unless stated)

	2021	2022	2023	2024	2025
GDP	11.0	7.3	**1.0**	**1.3**	**2.3**
Unemp. Rate (%)[1]	13.8	11.2	**10.0**	**9.5**	**9.5**
CPI[1]	3.5	10.2	**11.8**	**6.5**	**4.8**
Pub. Sect. Bal.[2,3]	-7.1	-6.5	**-5.0**	**-4.5**	**-4.5**
Pub. Sect. Debt[2,3]	65.7	64.9	**63.0**	**62.5**	**63.5**
Current Account[2]	-5.6	-6.2	**-3.0**	**-3.5**	**-3.8**
Policy Rate (%)[4]	3.00	12.00	**13.00**	**8.25**	**6.25**
COP/US$[4]	4,070	4,848	**4,000**	**4,300**	**4,500**

Sources: Refinitiv, DANE, URF, Capital Economics.
1) Annual Average. 2) % of GDP. 3) General Government. 4) Year-end.

Chile

Bright spot in the Andes

- Chile's economy will surprise to the upside in the next couple of years as inflation moderates, policy becomes less restrictive and copper prices rise. This will also support the peso, which we expect to outperform other currencies in the region next year.

- While the disinflation process will proceed at a slower pace next year, unlike most of the rest of the region, we do think the headline rate will return to the central bank's target. As a result, the central bank's easing cycle will be more aggressive than elsewhere in the region. We expect a few more large rate cuts before policymakers slow the pace of easing from Q2. (See Chart 33.) We expect the policy rate to be lowered from 9.00% now to 5.25% by end-2024.

- The external environment will turn more favourable too as the global economy recovers later in 2024. This, alongside an increase in green transition related projects will boost copper prices and, by extension, Chile's export incomes. In turn, the current account deficit should remain in check, despite a pick-up in imports as the economy recovers. This should pave the way for the Chilean peso to strengthen, to 825/$ next year. (See Chart 34.)

- Overall, we expect the economy to outperform consensus expectations and expand by 2.3% and 2.8% in 2024 and 2025 respectively. (See Chart 35.)

- The process of drafting a new constitution will come to an end in December. The latest polls suggest that the second and more moderate charter will, once again, be rejected in a referendum, meaning that the current constitution will remain in place for the foreseeable future.

Chart 33: Consumer Prices and Policy Rate

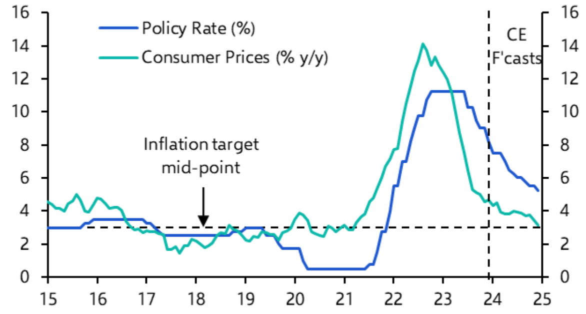


Chart 34: Chilean Peso (vs. $, Inverted)

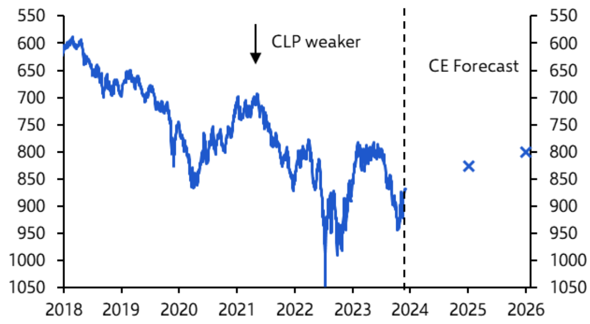
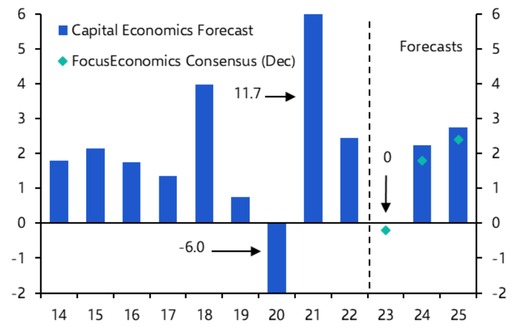


Chart 35: GDP (% y/y)



Sources: Refinitiv, FocusEconomics, Capital Economics

Table 9: Chile Key Forecasts (% y/y unless stated)

	2021	2022	2023	2024	2025
GDP	11.7	2.4	**0.0**	**2.3**	**2.8**
Unemp. Rate (%)[1]	9.1	7.8	**8.5**	**7.5**	**7.5**
CPI[1]	4.5	11.6	**7.8**	**3.8**	**3.3**
Pub. Sector Bal.[2,3]	-7.5	1.4	**-4.0**	**-3.5**	**-3.0**
Pub. Sector Debt[2,3]	36.3	38.0	**38.5**	**40.0**	**41.0**
Current Account[2]	-7.4	-8.9	**-3.8**	**-3.5**	**-3.3**
Policy Rate (%)[4]	4.00	11.25	**8.25**	**5.25**	**4.25**
CLP/USD[4]	852	848	**875**	**825**	**800**

Sources : Refinitiv, BCCh, DIPRES, Capital Economics.
1) Annual Average. 2) % of GDP. 3) General Government (inc. municipalities). 4) Year-end.

Peru

Set for a period of historically weak growth

- Peru's economy will exit recession but growth in 2024-2025 will be weak by past standards as political uncertainty lingers. Falling inflation will, at least, allow the central bank to continue normalising monetary policy.

- Peru's economy remained in recession in Q3 and growth over this year as a whole will probably come in at -0.8%. The economy should rebound next year, albeit only modestly.

- Inflation will fall back within the central bank's target range in early 2024, prompting the BCRP to deliver a few more 25bp cuts. But as inflation rises again in the latter half of 2024, the central bank is likely to proceed more gradually with its easing cycle. (See Chart 36.) Our forecast for the policy rate to end next year at 5.00% is a bit more hawkish than the consensus.

- Fiscal policy will be loosened, with the 2024 budget envisaging an increase in *real* spending. With Peru's public finances generally in decent shape and the public debt ratio low, fiscal fears are unlikely to flare up in the near-term.

- At the same time, a rise in copper prices in the next couple of years should support Peru's key mining sector and the economy more broadly. (See Chart 37.)

- While the political situation has stabilised somewhat, Peru's governability issues remain unresolved, making a renewed flare up of political turmoil a key risk and keeping investment subdued.

- Overall, we expect Peru's economy to expand by 1.8% and 2.3% over the next couple of years. This is a more sluggish recovery than most others expect (see Chart 38) and implies that growth over the coming years will be weaker than in the decade preceding the pandemic.

Chart 36: Consumer Prices & Policy Rate

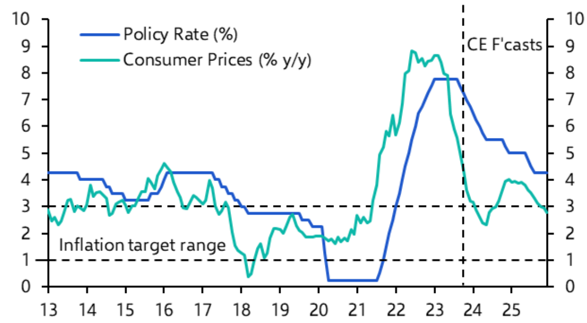


Chart 37: Exports & Copper Price

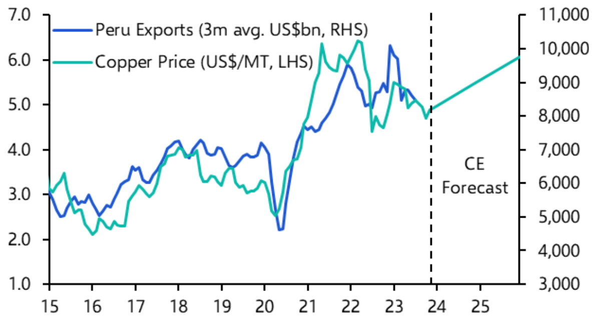
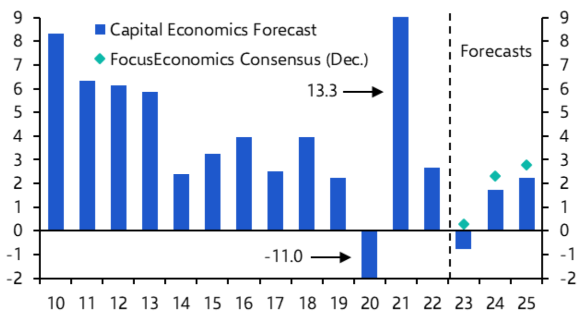


Chart 38: GDP (% y/y)



Sources: Refinitiv, BCRP, FocusEconomics, Capital Economics

Table 10: Peru Key Forecasts (% y/y unless stated)

	2021	2022	2023	2024	2025
GDP	13.4	2.7	**-0.8**	**1.8**	**2.3**
Unemp. Rate (%)[1]	11.3	7.7	**7.0**	**7.0**	**6.5**
CPI[1]	4.0	7.9	**6.3**	**3.0**	**3.5**
Pub. Sector Bal.[2,3]	-2.5	-1.7	**-3.0**	**-3.0**	**-2.3**
Pub. Sector Debt[2,3]	35.9	33.8	**34.5**	**36.0**	**36.5**
Current Account[2]	-2.2	-4.1	**0.0**	**-1.5**	**-1.5**
Policy Rate (%)[4]	2.50	7.50	**6.75**	**5.00**	**4.25**
PEN/USD[4]	3.99	3.81	**3.70**	**3.80**	**3.90**

Sources: Refinitiv, Capital Economics.
1) Annual Average. 2) % of GDP. 3) Non-Fin. Public Sector. 4) Year-end.

Ecuador & Venezuela

Turning the corner?

- **Ecuador's** economy will remain very weak next year on the back of fiscal tightening. Even then, we doubt that the public finances will return to an even keel.

- Newly-inaugurated President Daniel Noboa has talked a good game on lifting growth and tightening fiscal policy. But he inherits a struggling economy. Growth appears to have slowed sharply in Q3. (See Chart 39.) And efforts to reduce the budget deficit will cause demand to weaken further next year. We expect growth of just 1.0% in 2024.

- Despite likely austerity, we don't think this will be enough to reduce Ecuador's sovereign debt ratio. (See Chart 40.) A potential public backlash against austerity (which hobbled his predecessor's plans) and the next presidential election in 2025 will limit room for manoeuvre.

- As a result, we suspect that Ecuador will remain locked out of global capital markets, making a sovereign default more likely than not by 2025-26 when foreign bond payments ramp up.

- **Venezuela** is on the brink of a possible U-turn in its outlook. Oil output has started to recover (see Chart 41.) And inflation has come down and could even return to double digits by next year. A recent easing of US sanctions will help. But there are question marks around whether this détente will continue. The government's commitment to free and fair elections next year is very much up in the air. Tensions with Guyana could make matters worse.

- In any case, it would take a much more significant lifting of sanctions and a lot of time for Venezuela to raise oil output back to levels seen in the early 2010s. And it would take even longer to reverse the mismanagement of the economy over the past few decades.

Chart 39: Ecuador IDEAC Activity Indicator & GDP (% y/y)

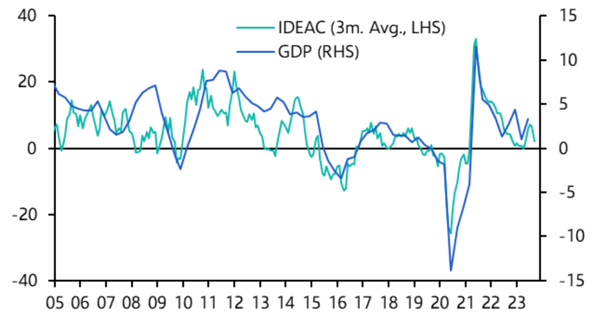


Chart 40: Ecuador Gross General Government Debt (% of GDP)

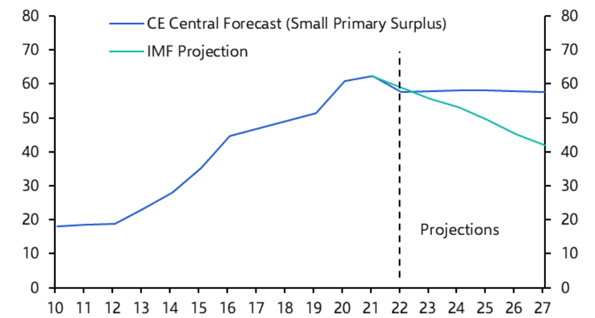
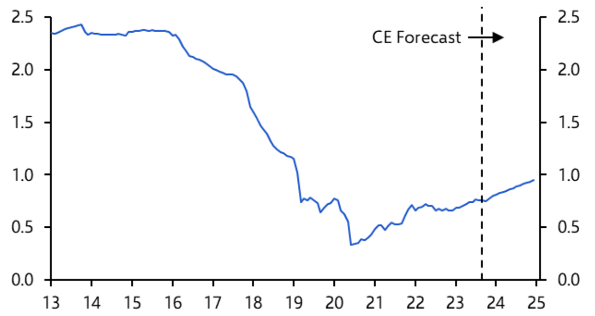


Chart 41: Venezuela Oil Production (mn bpd)



Sources: Refinitiv, Capital Economics

Table 10: Key Forecasts (% y/y unless stated)

	2021	2022	2023	2024	2025
Ecuador					
GDP	4.2	2.9	**1.3**	**1.0**	**1.8**
CPI[1]	0.1	3.5	**2.3**	**1.8**	**2.0**
Venezuela					
GDP	2.5	15.5	**6.5**	**5.0**	**5.0**
CPI[1]	1,589	185	**340**	**90**	**80**

Sources: Refinitiv, Capital Economics.
1) Annual Average. 2) % of GDP.

Other Latin America

Set for outperformance despite slowdown

- Tight fiscal policy and weak external demand will offset the effects of lower inflation and monetary easing and weigh on growth in **Uruguay, Panama, Dominican Republic** and **Costa Rica.** Our 2024 growth forecasts are generally below the consensus. (See Chart 42.)

- Having fallen sharply this year, inflation outside of Panama will edge up again next year. (See Chart 42.) But it is likely to stay within central banks' targets ranges, prompting policymakers to continue lowering rates. (See Chart 43.)

- In Uruguay, the economy should recover from the effects of a severe drought. But weakness in Brazil and especially Argentina, two of Uruguay's main trading partners, mean that the rebound will be smaller than most anticipate.

- In Panama, the effects of strong construction growth and the expansion of the Panama Canal are fading. On top of that, a severe drought will continue to weigh on shipping at the Canal, and thus toll revenues. This, as well as ongoing uncertainty surrounding a Supreme Court ruling that led to a closure of Panama's largest copper mine are likely to drag on growth in 2024.

- Elsewhere, in the Dominican Republic, with tourist arrivals back at their pre-pandemic trend, the boost from the tourism sector is likely to fade, posing a headwind to the recovery.

- Finally, in Costa Rica, robust exports and strong consumption growth are likely to continue to support growth, though to a lesser extent than in 2023.

- While we expect the these headwinds to take a toll on growth in all four countries, our forecasts still imply that they will outperform their peers in Latin America next year.

Chart 42: GDP (% y/y, 2024)

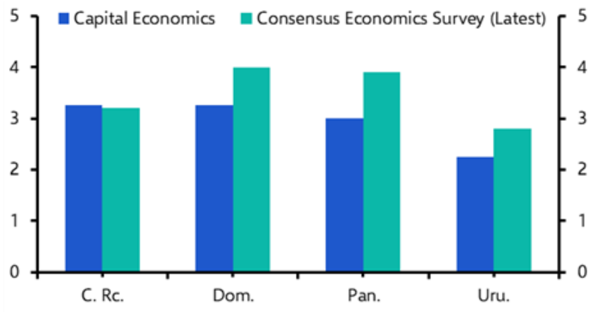


Chart 43: Policy Rates (%)

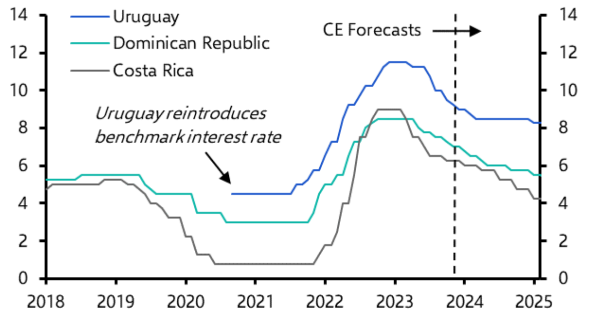
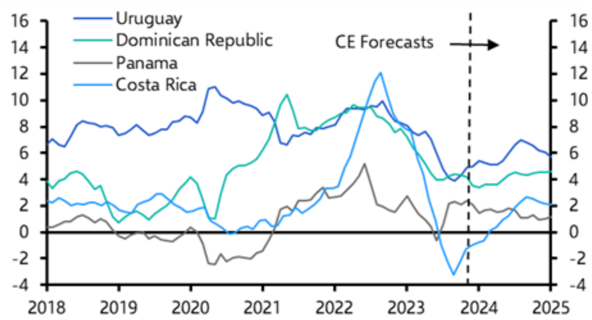


Chart 44: Consumer Prices (% y/y)



Sources: Refinitiv, Capital Economics

Table 12: Key Forecasts (% y/y unless stated)

	2021	2022	2023	2024	2025
Dom. Republic					
GDP	12.3	4.9	**2.0**	**3.3**	**4.8**
CPI	8.2	8.8	**4.8**	**4.0**	**4.0**
Panama					
GDP	15.3	10.8	**6.0**	**3.0**	**3.5**
CPI	1.6	2.8	**1.5**	**1.5**	**1.3**
Costa Rica					
GDP	7.9	4.6	**4.8**	**3.3**	**3.5**
CPI	1.7	8.3	**0.8**	**1.5**	**2.5**
Uruguay					
GDP	5.3	4.9	**1.0**	**2.3**	**2.5**
CPI	7.7	9.1	**5.8**	**6.0**	**5.3**

Sources: Refinitiv, Capital Economics. 1) Annual Average.

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