



# LATIN AMERICA ECONOMICS WEEKLY

## Venezuela-Guyana tensions, new macro forecasts

### All eyes on Essequibo

Tensions between Venezuela and Guyana escalated this week after Venezuelans approved all five questions in last Sunday's (rubberstamp) referendum, including the establishment of a new state in oil-rich Essequibo, internationally recognised since 1899 as part of Guyana. Venezuela's President Maduro added fuel to the fire on Tuesday by ordering state-owned companies to "immediately" begin to exploit oil deposits and mines in Essequibo. Guyana's military has been put on "high alert".

Maduro's rhetoric appears to be aimed primarily at distracting from Venezuela's dire economic situation and shoring up support ahead of next year's presidential election, rather than signalling a planned annexation. Even so, the risk of some kind of miscalculation that leads to heightened political (or military) tensions is high. If that were to happen, the (modest) rebound in Venezuela's economy would take a hit while Guyana's record-breaking growth – the economy expanded by c.40% p.a. between 2020 and 2022 – would halt.

There could also be implications for the global oil market. For one thing, it would put Venezuela's very fragile [deal with the US](#), which includes the easing of sanctions on Venezuela's oil sector, at risk. On top of that, any skirmishes between the two countries could lead to disruptions to Guyana's [emerging oil sector](#) and/or delay planned increases in output.

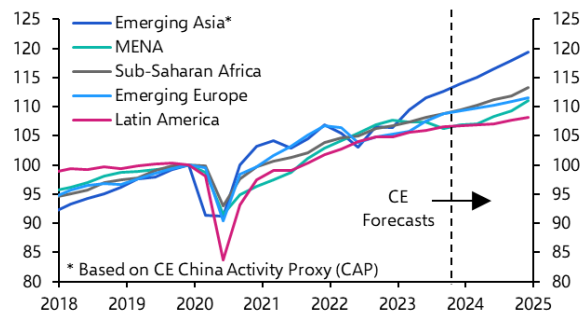
These risks haven't affected the oil market so far – prices have fallen this week. While a full scale invasion may lead to a spike in oil prices, the fact that Venezuela and Guyana are minor producers, accounting for c.1% of global output, means that it would have a small impact on our [supply forecasts](#).

### Latin America a laggard in the EM world

We published our [Outlook](#) this week with our latest macroeconomic forecasts. The key message is that growth will be sluggish in 2024. In particular, after a

surprisingly strong 2023, the economies of Brazil and Mexico are set to slow. This weakness continues a theme that has been going on for some time. Latin America's economic recovery from the pandemic has been the weakest of any EM region so far and, based on our forecasts, this will remain the case. (See Chart 1.)

Chart 1: Real GDP (SA, Q4 2019 = 100)



Sources: Refinitiv, Capital Economics

Several factors explain why Latin America has underperformed other EM regions. On the demand side, many countries provided only limited fiscal support following the pandemic, keeping domestic demand subdued. This is especially the case for Mexico. What's more, central banks across the region lifted interest rates earlier and more aggressively in response to the surge in inflation than many of their EM peers. And even now that interest rates have started to come down in many countries, monetary policy is still very restrictive.

But there are also problems on the supply side. Trend growth in Latin America is weak, partly reflecting low productivity growth. (We explored the reasons behind this for Brazil's economy [here](#).)

### The week ahead

Javier Milei will be inaugurated as president of Argentina on Sunday. We suspect that one of his first measures will be a large devaluation. Otherwise, inflation in Brazil probably edged down in November, paving the way for another rate cut. Finally, Banxico is set to keep rates on hold.



## Data Previews

### 12th-13th Dec – Brazil IPCA (Nov) & Interest Rate Decision (Dec.)

Forecasts	Time (GMT/ET)	Previous	Consensus	Capital Economics
IPCA % m/m (% y/y) (12 <sup>th</sup> Dec.)	12.00/07.00	+0.2(+4.8)	(+4.7)	+0.3(+4.7)
Selic Rate (%) (13 <sup>th</sup> Dec.)	21.30/16.30	12.25	11.75	11.75

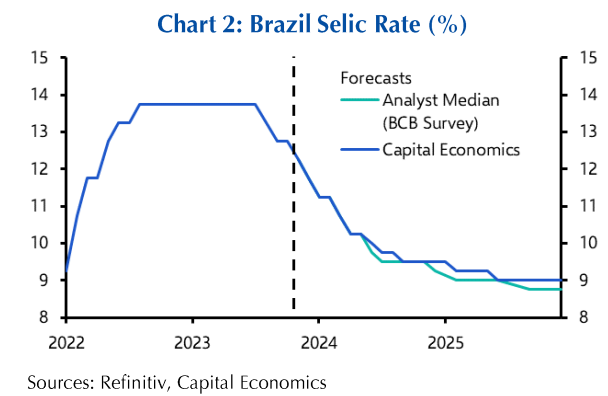
#### *Inflation coming down, another 50bp cut on the cards*

We think that Brazil’s inflation figures for November (out on Tuesday) will show a small fall in the headline rate to 4.7%, paving the way for the central bank to cut the Selic rate by another 50bp, to 11.75%, when it meets on Wednesday.

After a small recent spike, inflation is on its way down. Weekly consumer price figures from FGV are consistent with a 4.7% y/y increase (down slightly from 4.8% y/y in October). This won’t make the central bank alter its easing cycle. It has made it clear that the bar for doing anything other than a 50bp interest rate cut Wednesday’s meeting is high.

But we think the strength of underlying wage and price pressures means that the central bank’s easing

cycle will shift to smaller cuts around the middle of next year and that the cycle will be more gradual than most expect. (See Chart 2.)



### Thu. 14<sup>th</sup> Dec. – Mexico Interest Rate Decision (Dec.)

Forecasts	Time (GMT/ET)	Previous	Consensus	Capital Economics
Policy Rate (%)	19.00/14.00	11.25	11.25	11.25

#### *Rates on hold but monetary easing cycle around the corner*

We expect Mexico’s central bank (Banxico) to leave its policy rate on hold at 11.25% at next Thursday’s Board meeting. But policymakers are likely to use the meeting to flag that the start of the monetary easing cycle is approaching.

Banxico [left rates unchanged](#) at its November meeting for a fifth consecutive time. But the Board toned down some of its hawkish rhetoric, with the statement acknowledging that “progress on disinflation has been made”. This slightly less hawkish rhetoric has been echoed by several Board members recently, including Jonathan Heath – one of the more hawkish members – who stated that Banxico could “adjust” rates by February or March.

While Banxico is all but certain to leave rates unchanged at next week’s meeting, we think that, by

February, the conditions will be in place for policymakers to lower the policy rate by 25bp, to 11.00%. That said, rapid wage growth and stubborn services inflation mean that the easing cycle will be more gradual than most expect. (See Chart 3.)





# Economic Diary & Forecasts

## Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (GMT)	Time (EST)	Previous*	Median*	CE Forecasts*
Mon 11 <sup>th</sup>	-	No Significant Data or Events Scheduled	-	-	-	-	-
Tue 12 <sup>th</sup>	<b>Brz</b>	IPCA Inflation (Nov.)	12.00	07.00	+0.2%(+4.8%)	(+4.7%)	+0.3%(+4.7%)
	<b>Mex</b>	Industrial Production (Oct.)	12.00	07.00	+0.2%(+3.9%)	-	-
Wed 13 <sup>th</sup>	<b>Brz</b>	Services Output (Oct.)	12.00	07.00	-0.3%(-1.2%)	-	-
	<b>Brz</b>	Interest Rate Announcement	21.30	16.30	12.25%	11.75%	11.75%
Thu 14 <sup>th</sup>	<b>Brz</b>	Retail Sales (Oct.)	12.00	07.00	+0.6%(+3.3%)	-	-
	<b>Mex</b>	Interest Rate Announcement	19.00	14.00	11.25%	11.25%	11.25%
	<b>Arg</b>	CPI (Nov.)	19.00	14.00	+8.3%(+142.7%)	+9.4%(+145.1%)	+10%(+154.4%)
	<b>Per</b>	Interest Rate Announcement	23.00	18.00	7.00%	-	6.75%
	<b>Uru</b>	GDP (Q3, q/q(y/y))	-	-	-1.4%(-2.5%)	-	0.6%(-1.2%)
	<b>Brz</b>	Economic Activity (Oct.)	12.00	07.00	-0.1%(+0.3%)	-	-
	<b>Per</b>	Unemployment Rate (Nov.)	15.00	10.00	6.60%	-	-
	<b>Per</b>	Economic Activity (Oct.)	15.00	10.00	(-1.3%)	-	-
Fri 15 <sup>th</sup>	<b>Col</b>	Industrial Production (Oct.)	15.00	10.00	(-2.8%)	-	-
	<b>Col</b>	Retail Sales (Oct.)	15.00	10.00	(-9.3%)	-	-
	<b>Arg</b>	GDP (Q3, q/q(y/y))	19.00	14.00	-2.8%(-4.9%)	-	+1.3%(-2.8%)
	<b>Pan</b>	CPI (Nov.)	-	-	-0.2%(2.1%)	-	+0.1%(+2.0%)
	<b>Col</b>	Economic Activity (Oct.)	16.00	11.00	(-0.1%)	-	-
	<b>Brz</b>	Monetary Policy Meeting Minutes	11.30	06.30	-	-	-
	<b>Col</b>	Interest Rate Announcement	18.00	13.00	13.25%	-	-
20 <sup>th</sup> Dec	<b>Chl</b>	Interest Rate Announcement	21.00	16.00	9.00%	-	-
	<b>Mex</b>	Retail Sales (Oct.)	12.00	07.00	-0.2%(+2.3%)	-	-
	<b>Col</b>	Trade Balance (Oct.)	15.00	10.00	-\$0.6bn	-	-
	<b>Arg</b>	Trade Balance (Nov.)	19.00	14.00	-\$0.5bn	-	-
21 <sup>st</sup> Dec	<b>C.Rc</b>	Interest Rate Announcement	-	-	6.25%	-	-
	<b>Arg</b>	Budget Balance (Nov., ARS)	-	-	-330.0bn	-	-
	<b>Brz</b>	Central Bank Inflation Report	11.00	06.00	-	-	-
	<b>Brz</b>	Bi-Weekly CPI (15 <sup>th</sup> Dec.)	12.00	07.00	-	-	-
	<b>Arg</b>	Economic Activity Index (Oct.)	19.00	14.00	+0.0%(-0.7%)	-	-
22 <sup>nd</sup> Dec	<b>Arg</b>	Unemployment Rate (Q3)	19.00	14.00	6.20%	-	-
	<b>Brz</b>	Current Account (Nov.)	11.30	06.30	-	-	-
	<b>Mex</b>	Trade Balance (Nov.)	12.00	07.00	-\$0.3bn	-	-
	<b>Mex</b>	IGAE Activity Index (Oct.)	12.00	07.00	+0.6%(+3.3%)	-	-
	<b>Col</b>	Monetary Policy Meeting Minutes	22.00	17.00	-	-	-

\*m/m(y/y) unless otherwise stated; † = previous day  
Sources: Bloomberg, Capital Economics



## Main Economic & Market Forecasts

**Table 1: Central Bank Policy Rates (%)**

Country	Policy Rate	Latest (8 <sup>th</sup> Dec.)	Last Change	Next Change	Forecasts	
					End 2023	End 2024
Brazil	Selic Target	12.25	Down 50bp (Nov. '23)	<b>Down 50bp (Dec. '23)</b>	11.75	9.50
Mexico	Overnight Rate	11.25	Up 25bp (Mar. '23)	<b>Down 25bp (Feb. '24)</b>	11.25	9.25
Colombia	Intervention Rate	13.25	Up 25bp (Apr. '23)	<b>Down 25bp (Dec. '23)</b>	13.00	8.25
Chile	Overnight Rate	9.00	Down 50bp (Oct. '23)	<b>Down 75bp (Dec. '23)</b>	8.50	5.25
Peru	Reference Rate	7.00	Down 25bp (Nov. '23)	<b>Down 25bp (Dec. '23)</b>	6.75	5.00

Sources: Refinitiv, Capital Economics

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

Country	Currency	Latest (8 <sup>th</sup> Dec.)	Forecasts		Stock Market	Latest (8 <sup>th</sup> Dec.)	Forecasts	
			End 2024	End 2025			End 2024	End 2025
Brazil	BRL	4.91	5.00	5.20	Bovespa	126,375	128,000	143,250
Mexico	MXN	17.34	17.5	20.0	Bolsa	54,235	54,300	59,200
Argentina	ARS	363.91	650	1300	Merval	941,830	-	-
Colombia	COP	3985.72	4,000	4,300	COLCAP	1,145	1,010	1,090
Chile	CLP	870.30	875	825	IPSA	5,971	5,900	6,550
Peru	PEN	3.74	3.70	3.80	S&P/BVL	22,023	22,600	24,550

Sources: Refinitiv, Capital Economics

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

Country	Share of World <sup>1</sup>	2011-20 Ave.	GDP				Consumer Prices			
			2022	2023	2024	2025	2022	2023	2024	2025
Brazil	2.3	0.3	3.0	3.3	1.3	1.5	9.3	4.5	4.3	3.8
Mexico	1.9	0.9	3.9	3.5	1.8	1.8	7.9	5.5	4.3	3.5
Argentina	0.7	-0.7	5.0	-2.5	-2.3	2.3	72.4	128.0	188.5	101.5
Colombia	0.6	2.5	7.3	1.0	1.3	2.3	10.2	11.8	6.5	4.8
Chile	0.4	2.1	2.4	0.0	2.3	2.8	11.6	7.8	3.8	3.3
Peru	0.3	2.5	2.7	-0.8	1.8	2.3	7.9	6.3	3.0	3.5
Dom. Rep.	0.2	4.1	4.9	2.0	3.3	4.8	8.8	4.8	4.0	4.0
Ecuador	0.1	1.6	2.9	1.3	1.0	1.8	3.5	2.3	1.8	2.0
Venezuela	-	-12.7	15.5	6.5	5.0	5.0	185	340	90	80
Panama	0.1	3.5	10.8	6.0	3.0	3.5	2.8	1.5	1.5	1.3
Costa Rica	0.1	2.8	4.6	4.8	3.3	3.5	8.3	0.8	1.5	2.5
Uruguay	0.1	1.5	4.9	-0.5	1.8	2.3	9.1	5.8	6.0	5.3
Latin America2	<b>6.8</b>	<b>0.9</b>	<b>4.0</b>	<b>2.1</b>	<b>1.2</b>	<b>2.0</b>	<b>8.7</b>	<b>5.7</b>	<b>4.2</b>	<b>3.6</b>

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



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