



**CAPITAL ECONOMICS**

INDEPENDENT ANALYSIS, FORECASTS  
AND CONSULTANCY

# Latin America Chart Pack

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# Latin America Chart Pack

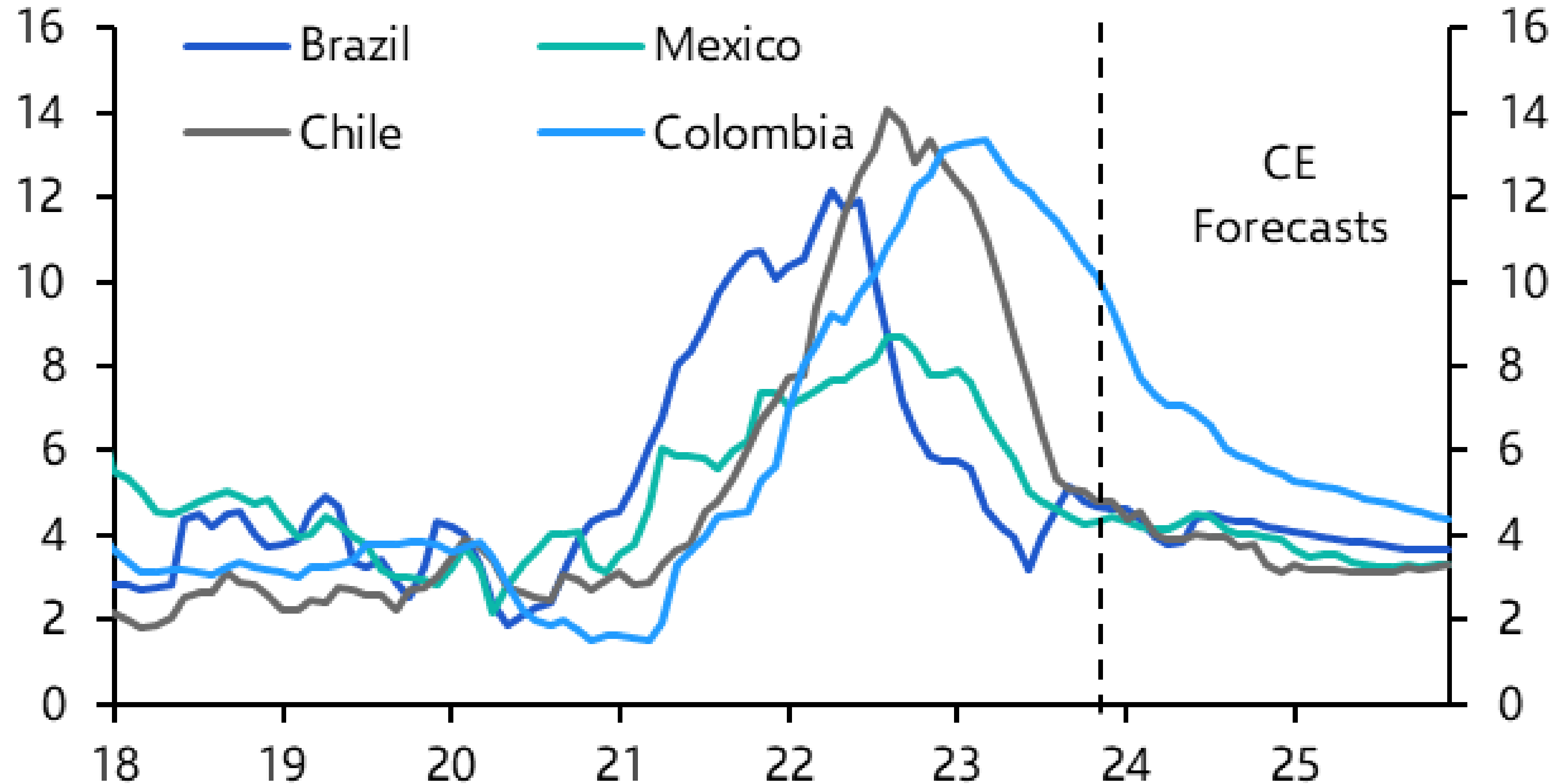
**Our View:** The surprising strength this year of the region's two largest economies, Brazil and Mexico, will fade in 2024 and growth over the next couple of years is likely to come in below consensus expectations. In contrast, the Andean economies are set for a modest recovery. The large falls in inflation 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.

- **Overview:** Outside Colombia the large falls in inflation are generally over. Regional growth picked up in Q3, but we expect it to weaken in the coming quarters.
- **Brazil:** The economy is entering a phase of softer growth, in part due to a reversal of the agricultural boom. Weaker growth will put pressure on the public finances and the debt ratio will continue to rise.
- **Mexico:** The economy has held up well this year but is likely to lose steam in 2024. Banxico's hawkishness at its last meeting poses a risk to our forecast that interest rates will start to be lowered in February.
- **Argentina:** Javier Milei's presidential victory has put Argentina on track for a shock therapy. However, the announced measures will come at the expense of even higher inflation and a steep recession next year.
- **Andes:** Growth will pick up in 2024 driven by domestic demand. Colombia's central bank became the latest in the region to kick off its easing cycle.
- **Other Lat Am:** Tight fiscal policy and weak external demand will offset lower inflation and monetary easing. Growth in the Dominican Republic, Costa Rica, Uruguay and Panama to slow by more than most expect.
- **To see all our analysis on Latin America's economy and details of our forecasts, visit our Latin America [landing page](#).**



Inflation generally fell in November, but the bigger picture is that the large declines are now behind us and the disinflation process in most countries will slow in 2024.

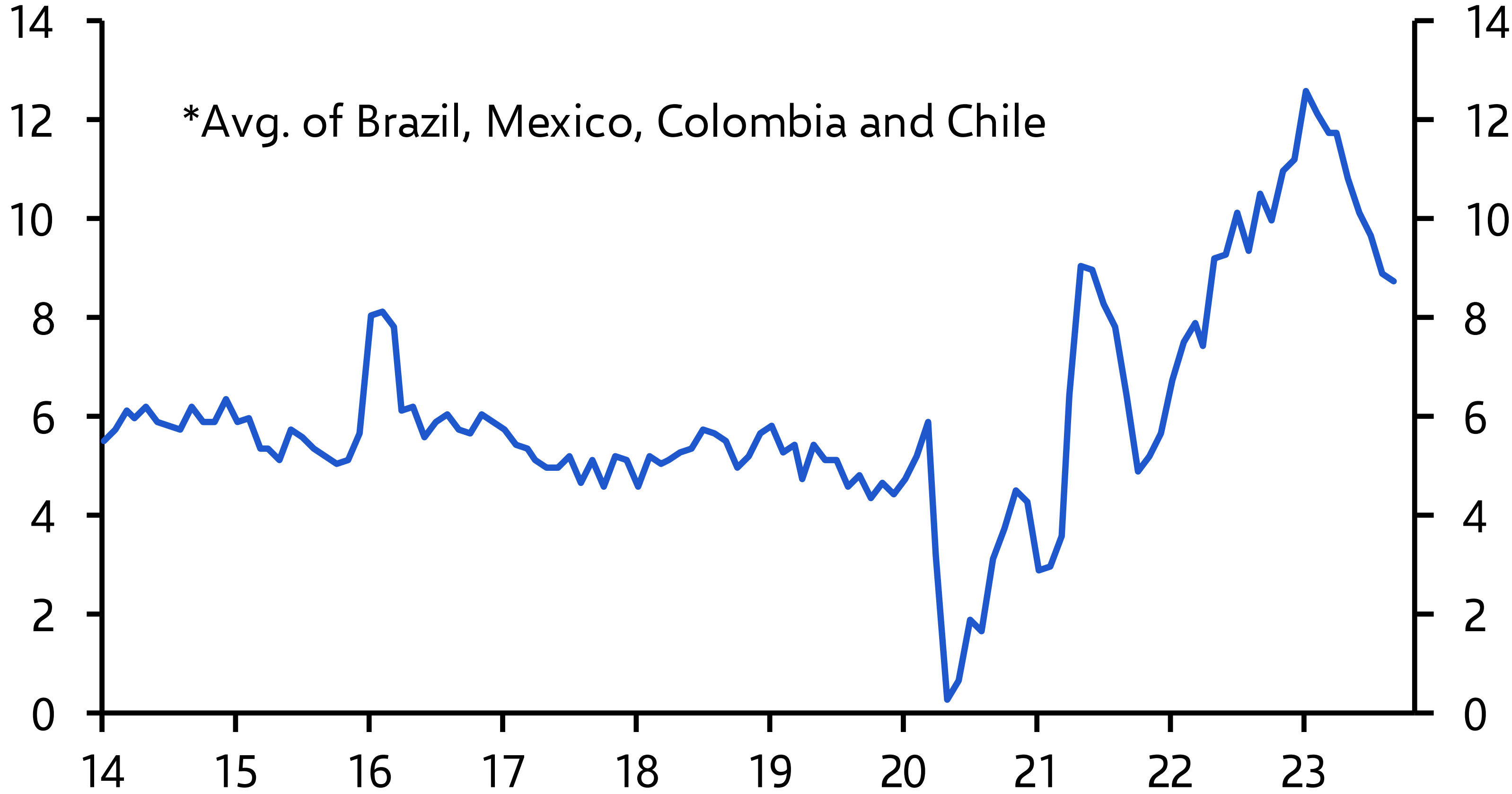
### Latin America Consumer Prices\* (% y/y)



Sources: Refinitiv, Capital Economics

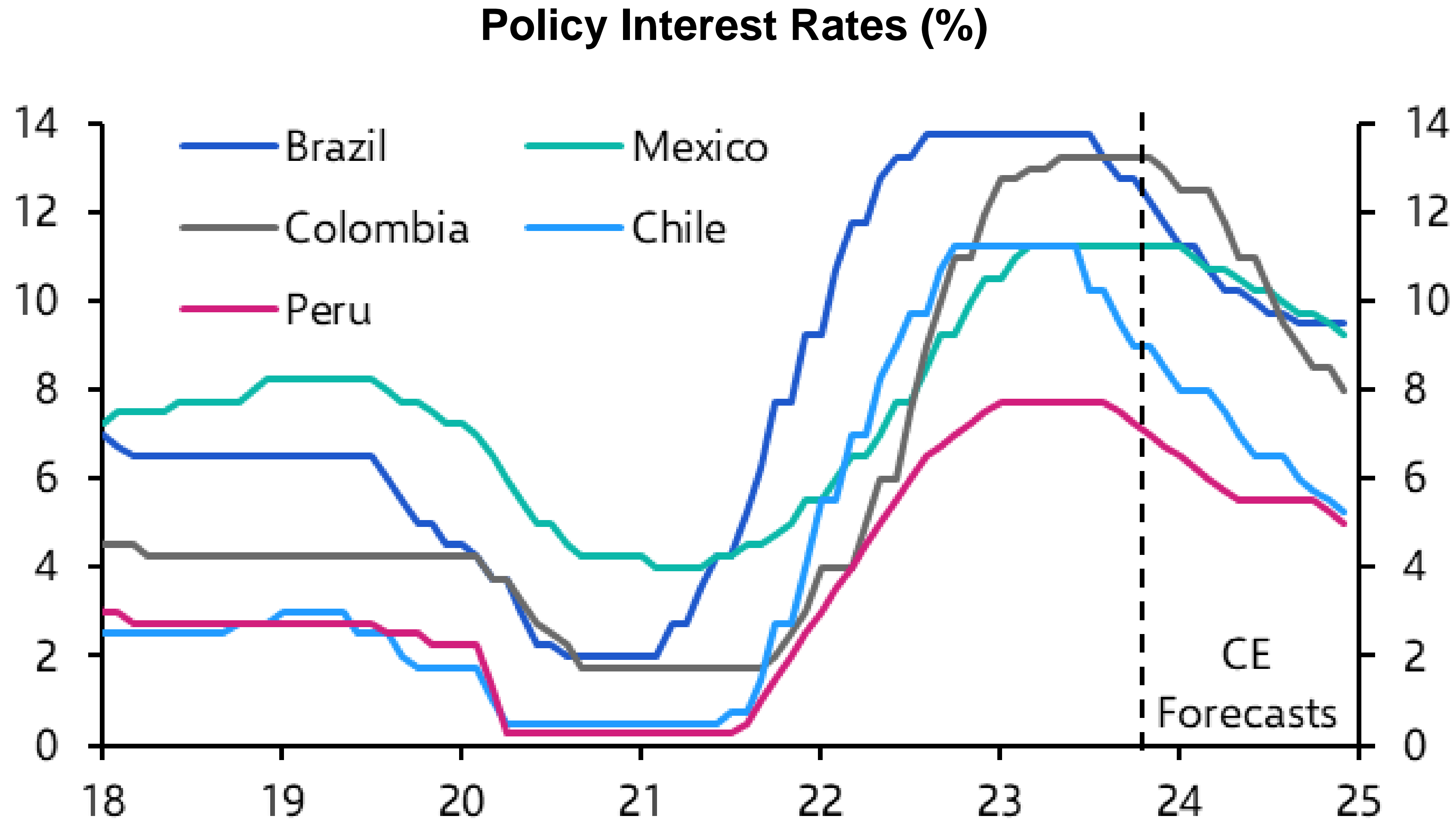
Wage growth remains strong, which will continue to fuel underlying inflation pressures.

### Latin America\* Nominal Wage Growth (% y/y)



Sources: Refinitiv, Capital Economics

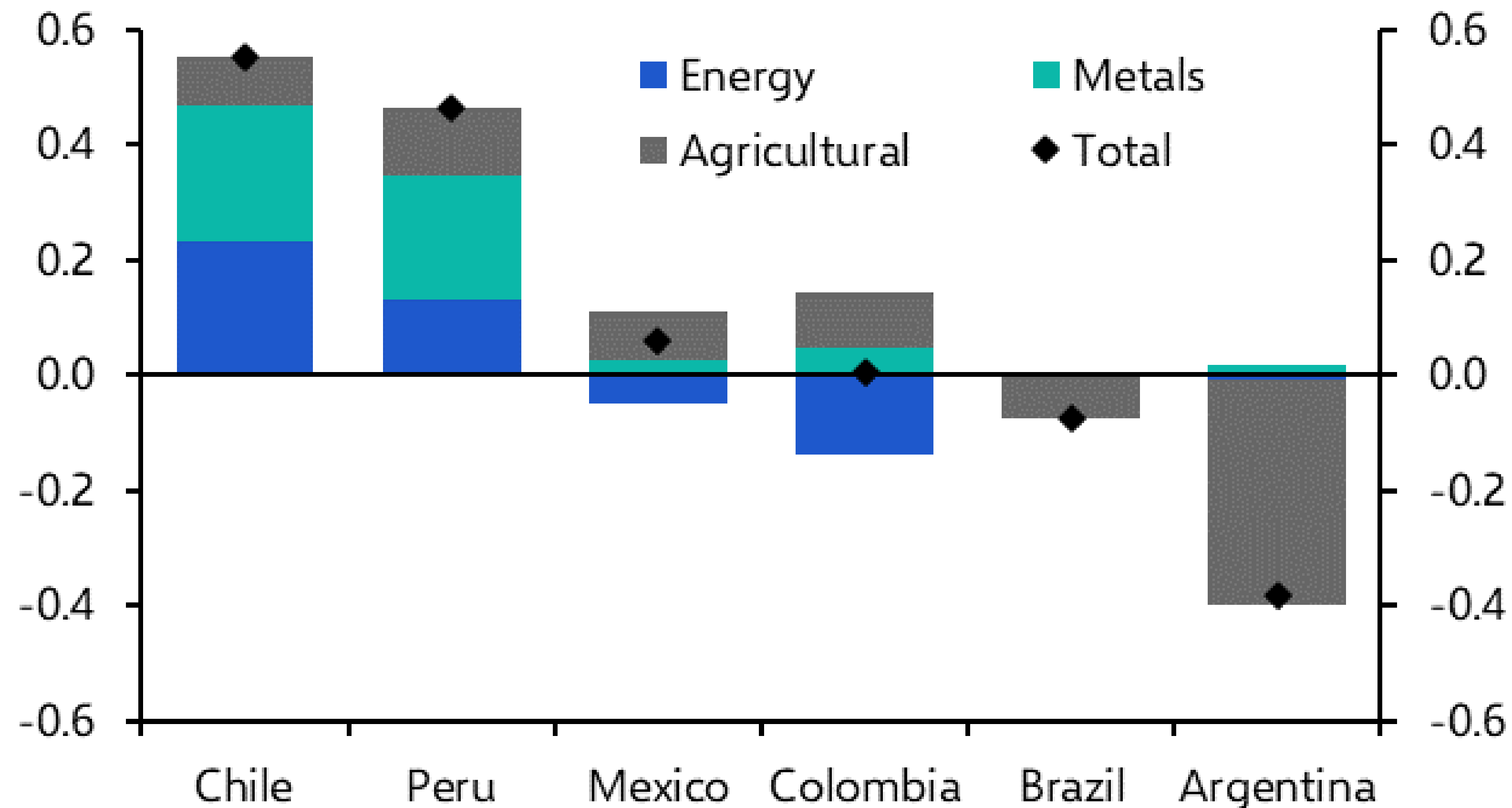
As a result, while central banks will continue to lower interest rates next year, we think that they will deliver less easing than most expect.



Sources: Refinitiv, Capital Economics

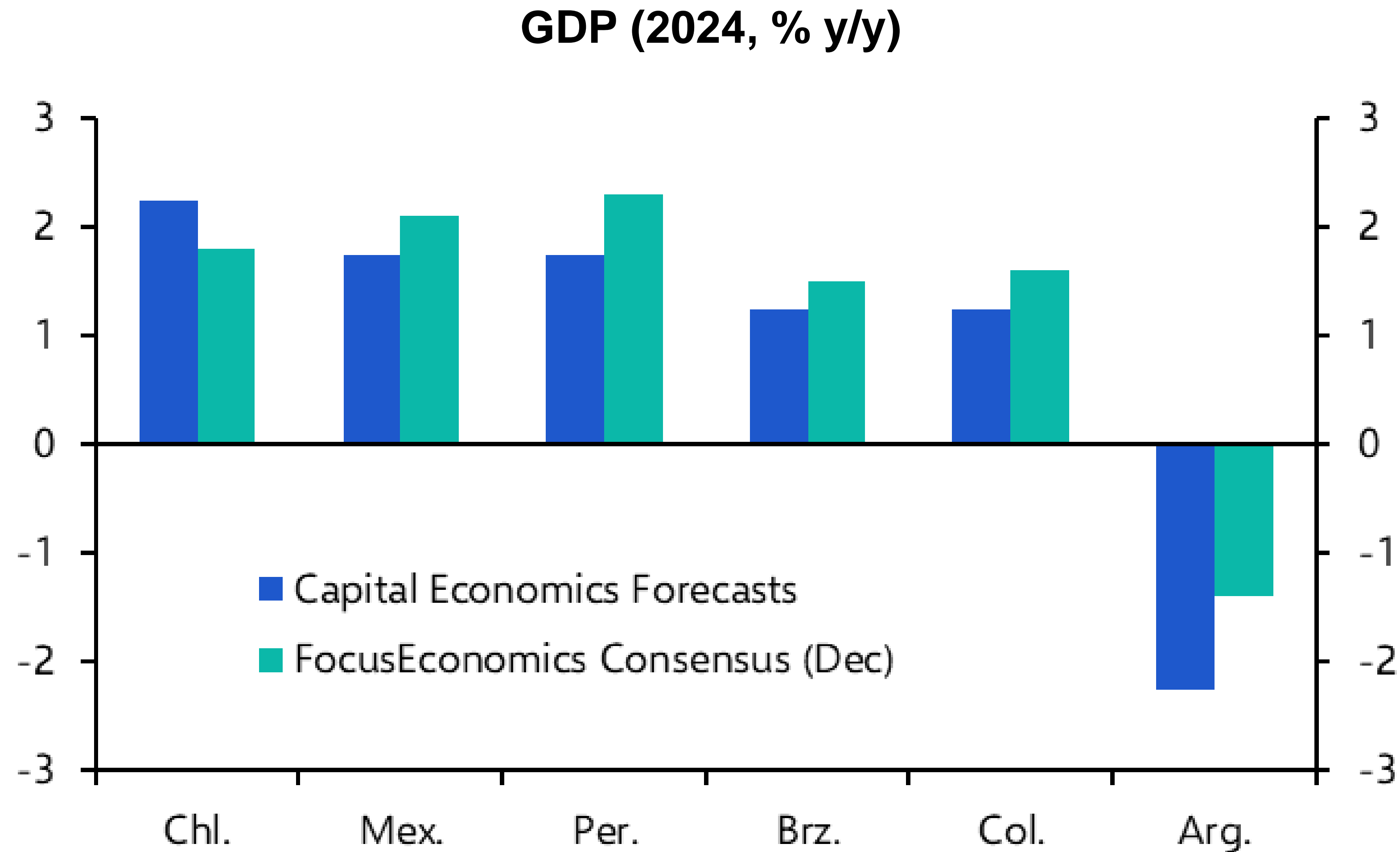
Higher copper prices will improve terms of trade in parts of the Andes, while lower agricultural prices mean that Brazil and Argentina's terms of trade will take a hit.

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



Sources: Refinitiv, Capital Economics

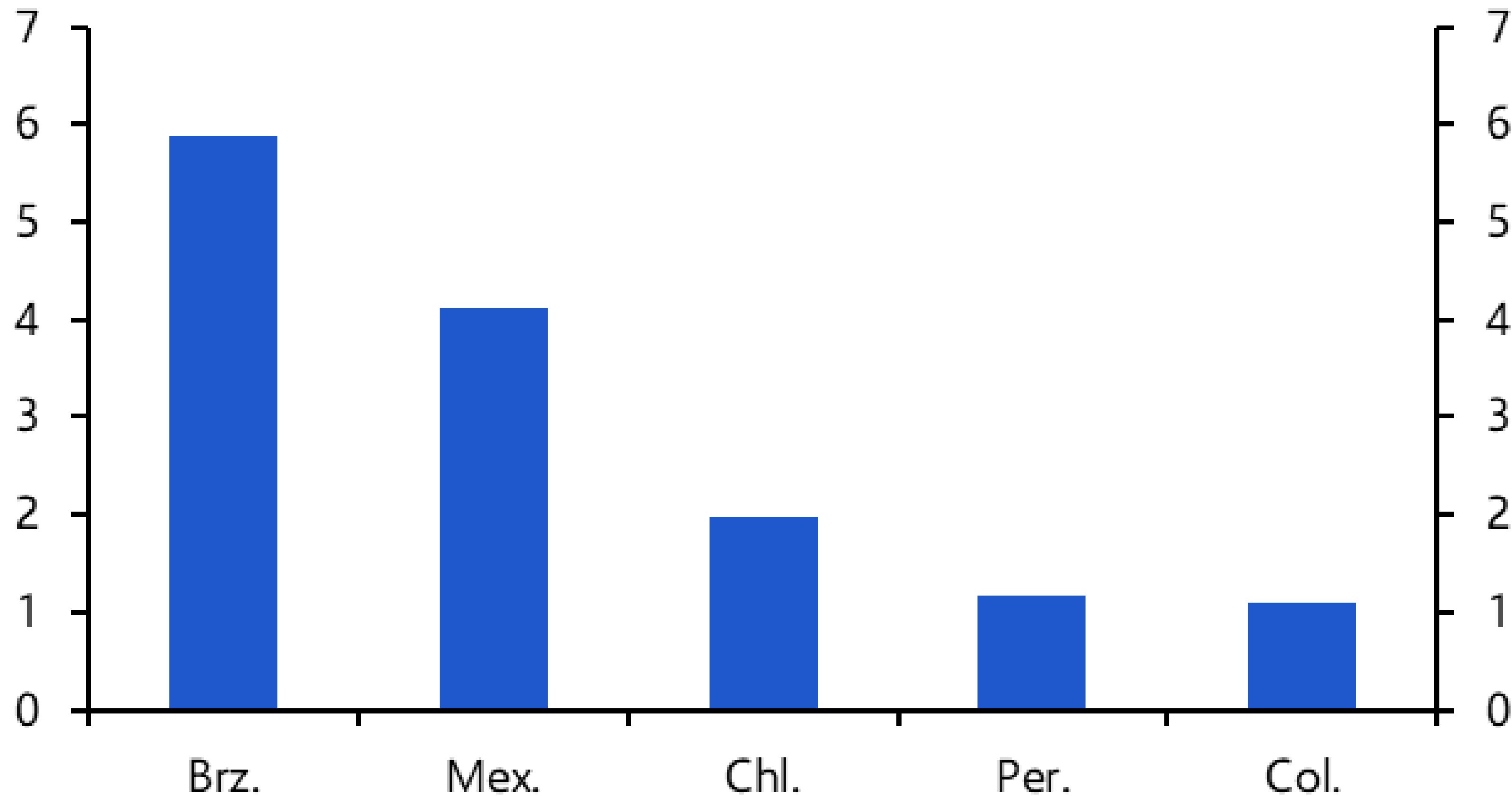
Overall, we expect regional growth to slow to just 1.2% in 2024, from 2.1% this year. Apart from Chile, our forecasts lie below the consensus.



Sources: Focus Economics, Capital Economics

Public debt concerns are likely to come back to the fore as public debt ratios rise - and by more than most expect.

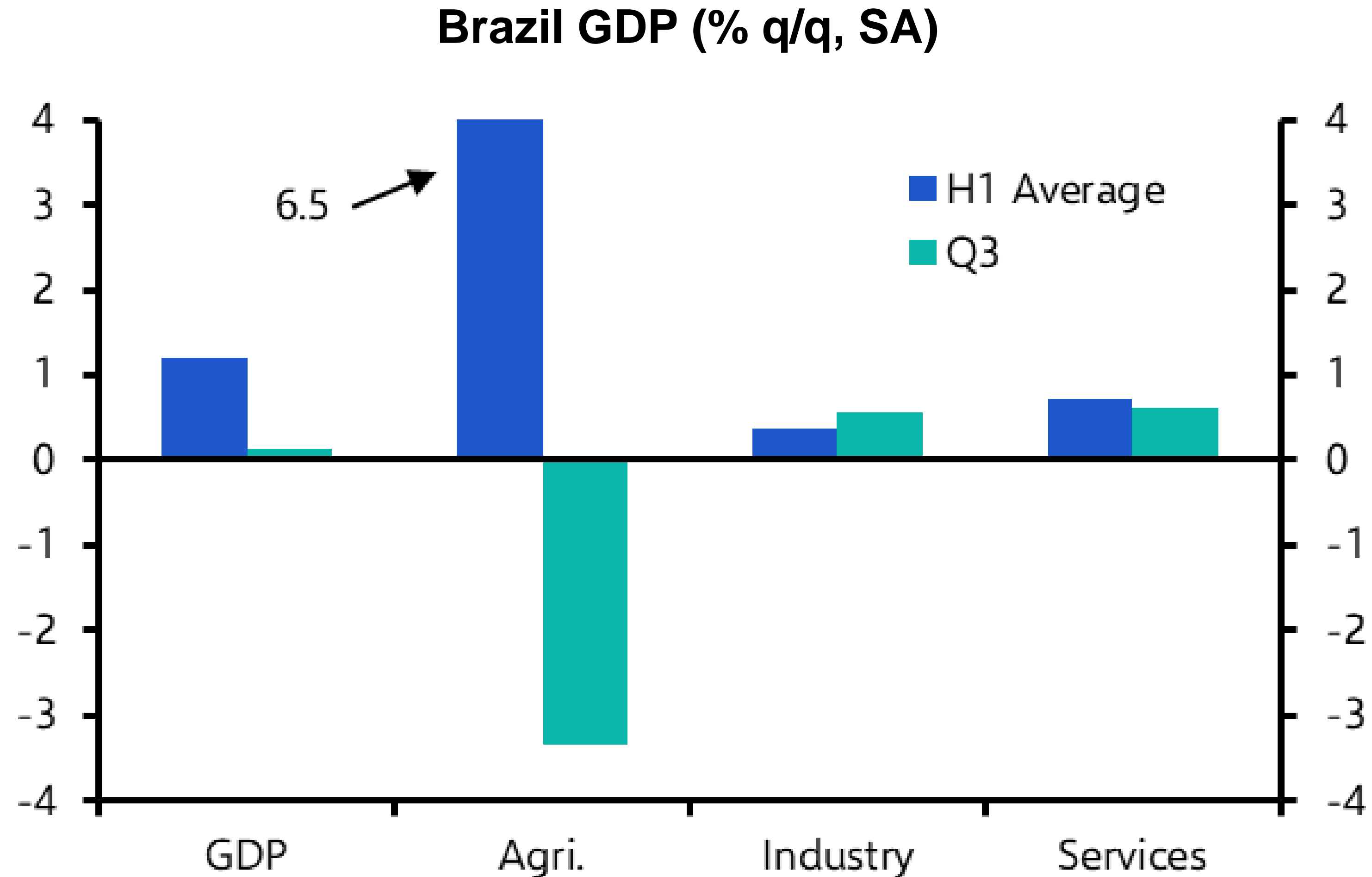
**Change in Public Debt (2023-25, CE Forecast, % of GDP)**



Sources: Refinitiv, Capital Economics

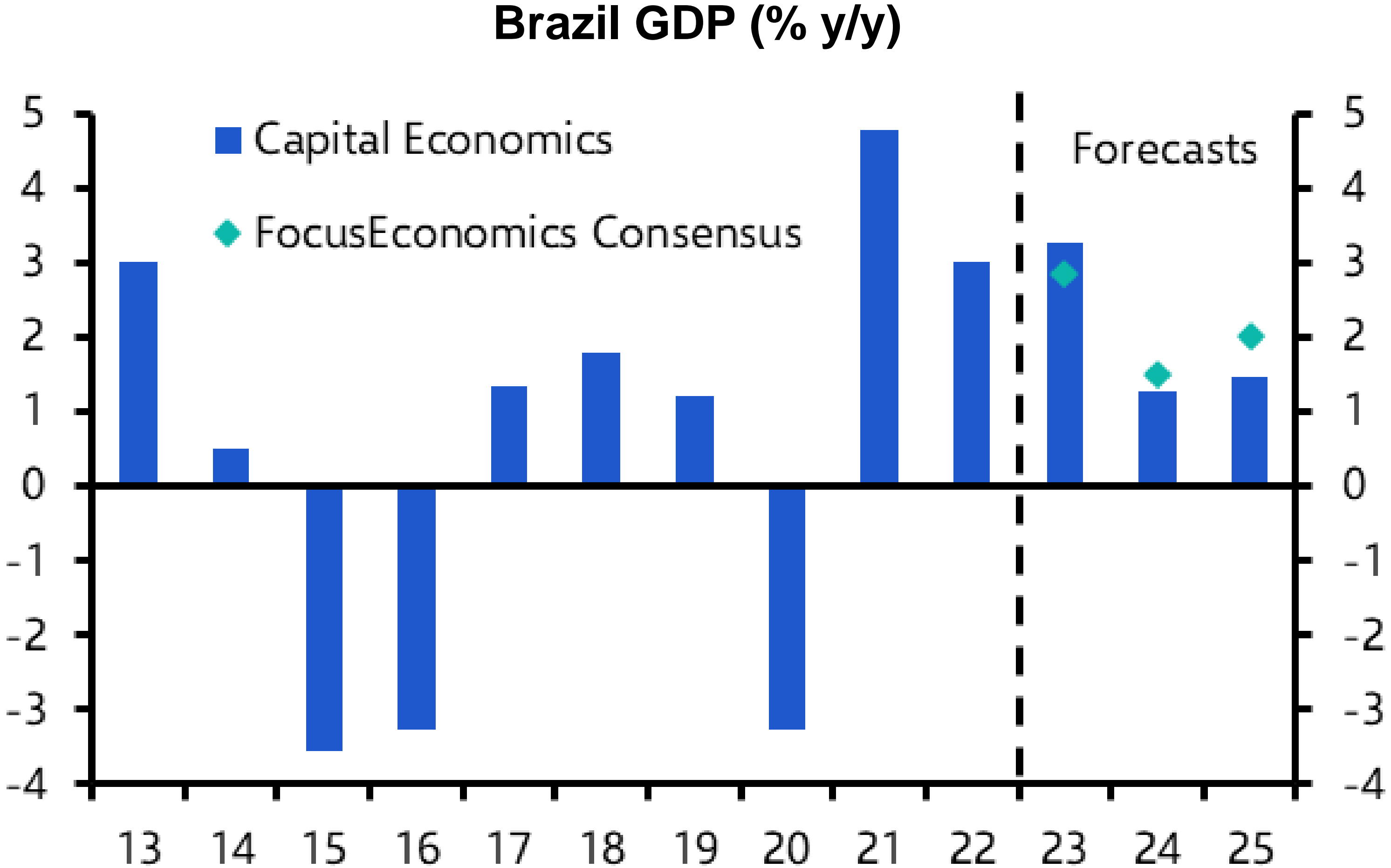


Brazil's economy is coming off the boil. Growth slowed to just 0.1% q/q in Q3, driven by a reversal of the agricultural boom and weaker growth in the services sector.



Sources: Refinitiv, Capital Economics

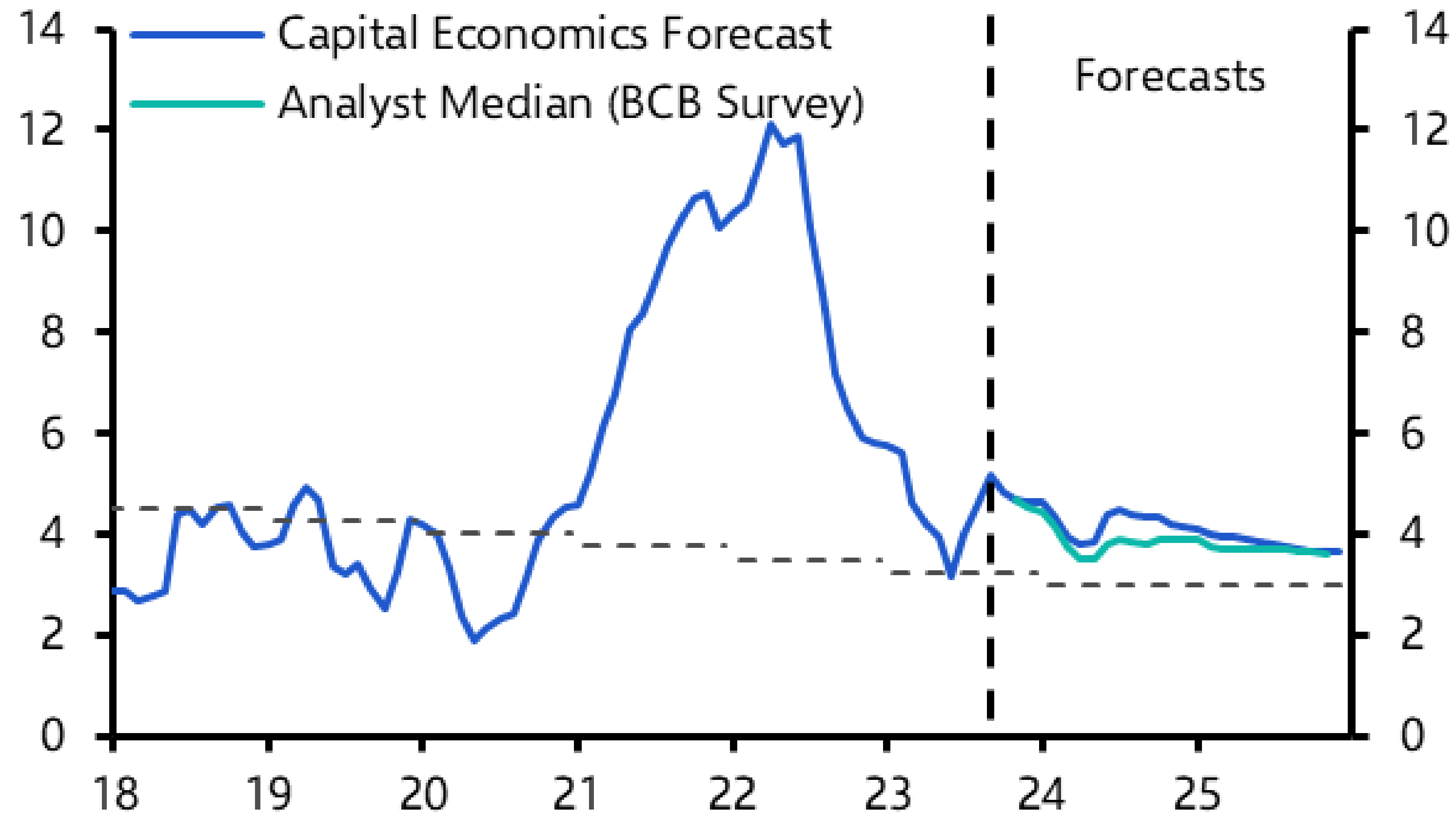
We expect Brazil's economy to continue to slow in 2024 amid weaker wage growth, further falls in agricultural output and a less favorable terms of trade.



Sources: Refinitiv, Focus Economics, Capital Economics

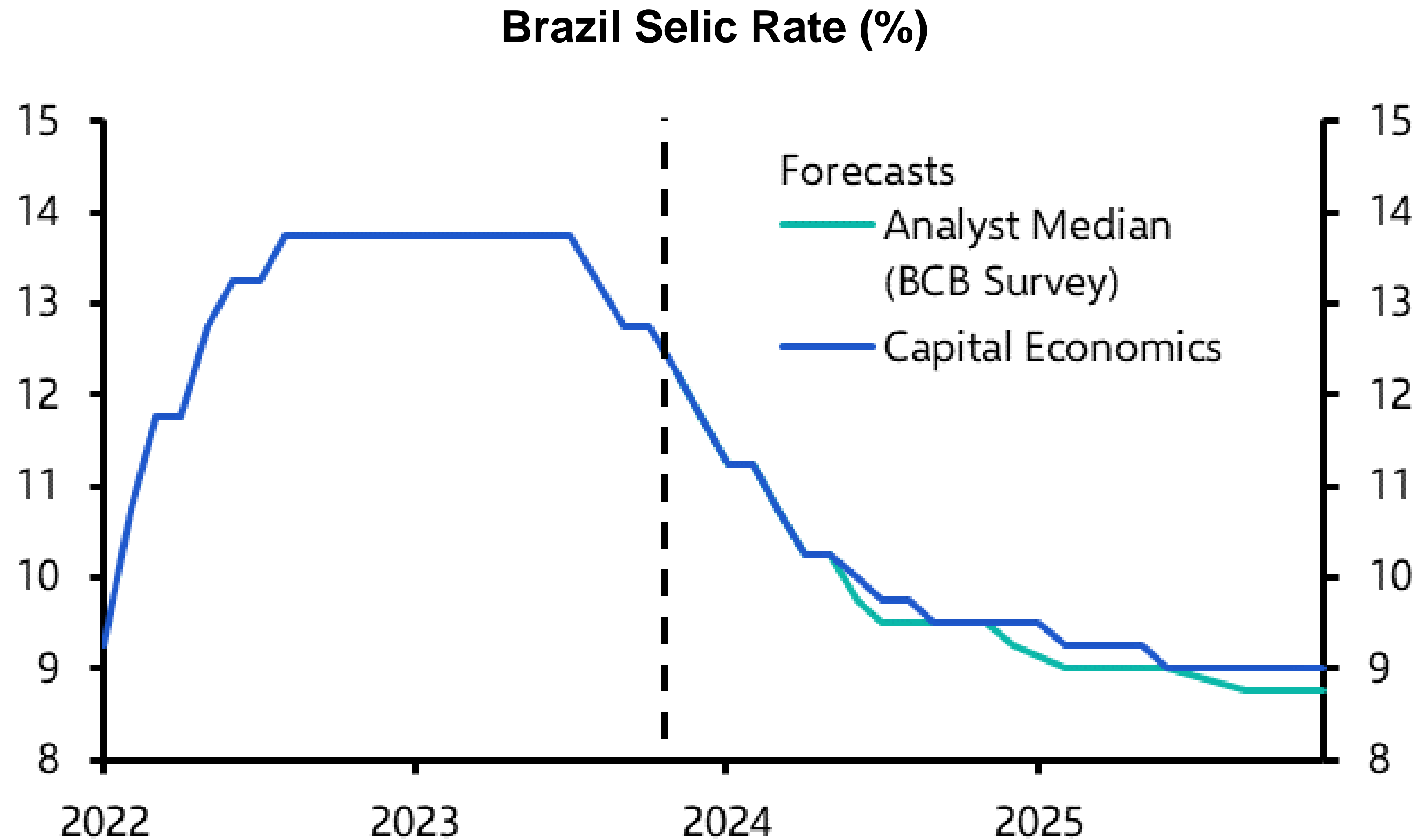
The recent mini-inflation cycle has now passed its peak. We expect the headline rate to decline over the coming months, but it will remain above target.

### Brazil Consumer Prices (% y/y)



Sources: Refinitiv, BCB, Capital Economics

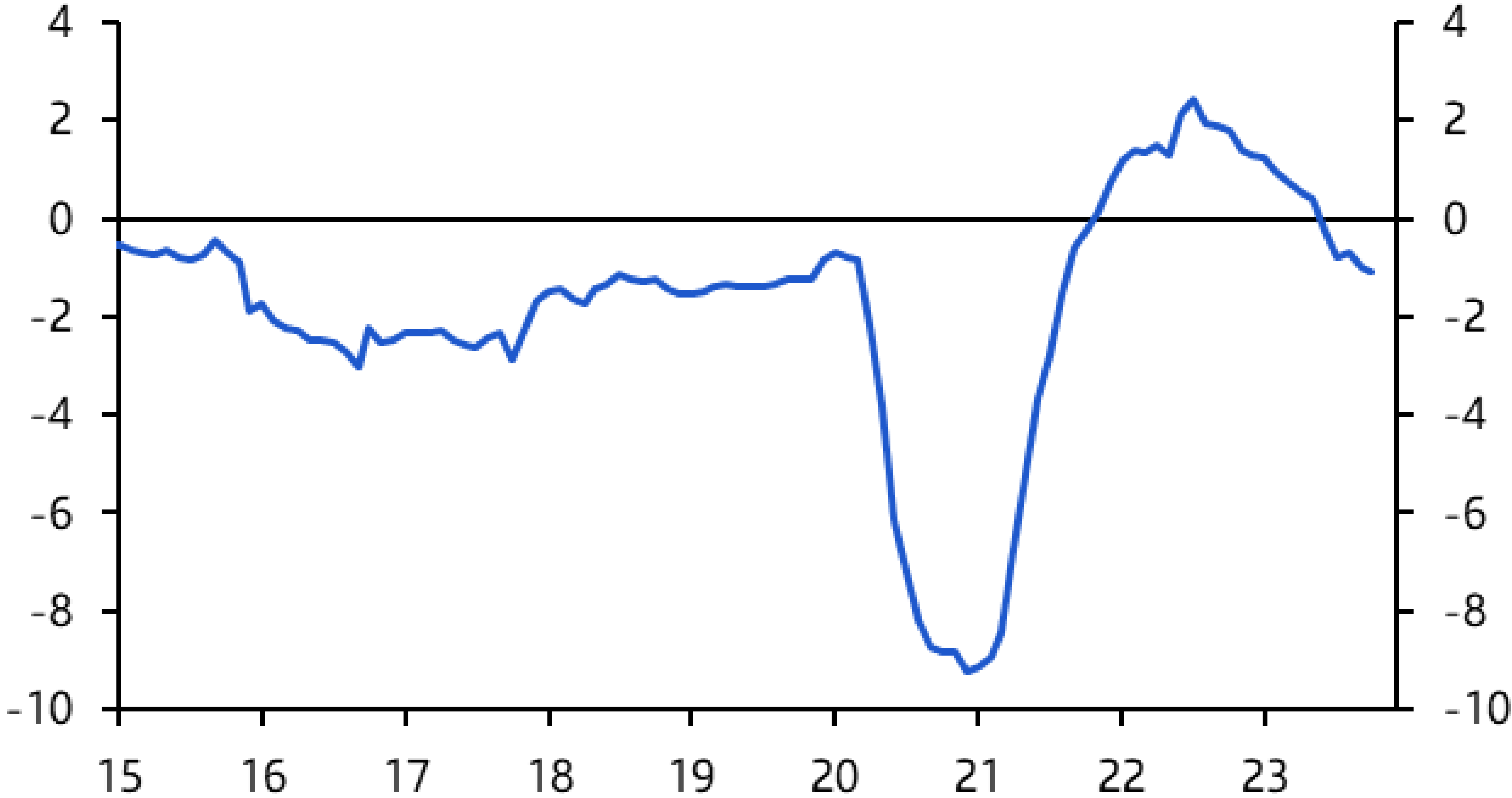
While the central bank made clear that a few more 50bp cuts are on the cards, we think that rates will come down next year more gradually than most anticipate.



Sources: Refinitiv, BCB, Capital Economics

The primary balance has continued to deteriorate and is now back in a deficit. Significant fiscal tightening is needed to meet the targets of the new fiscal framework.

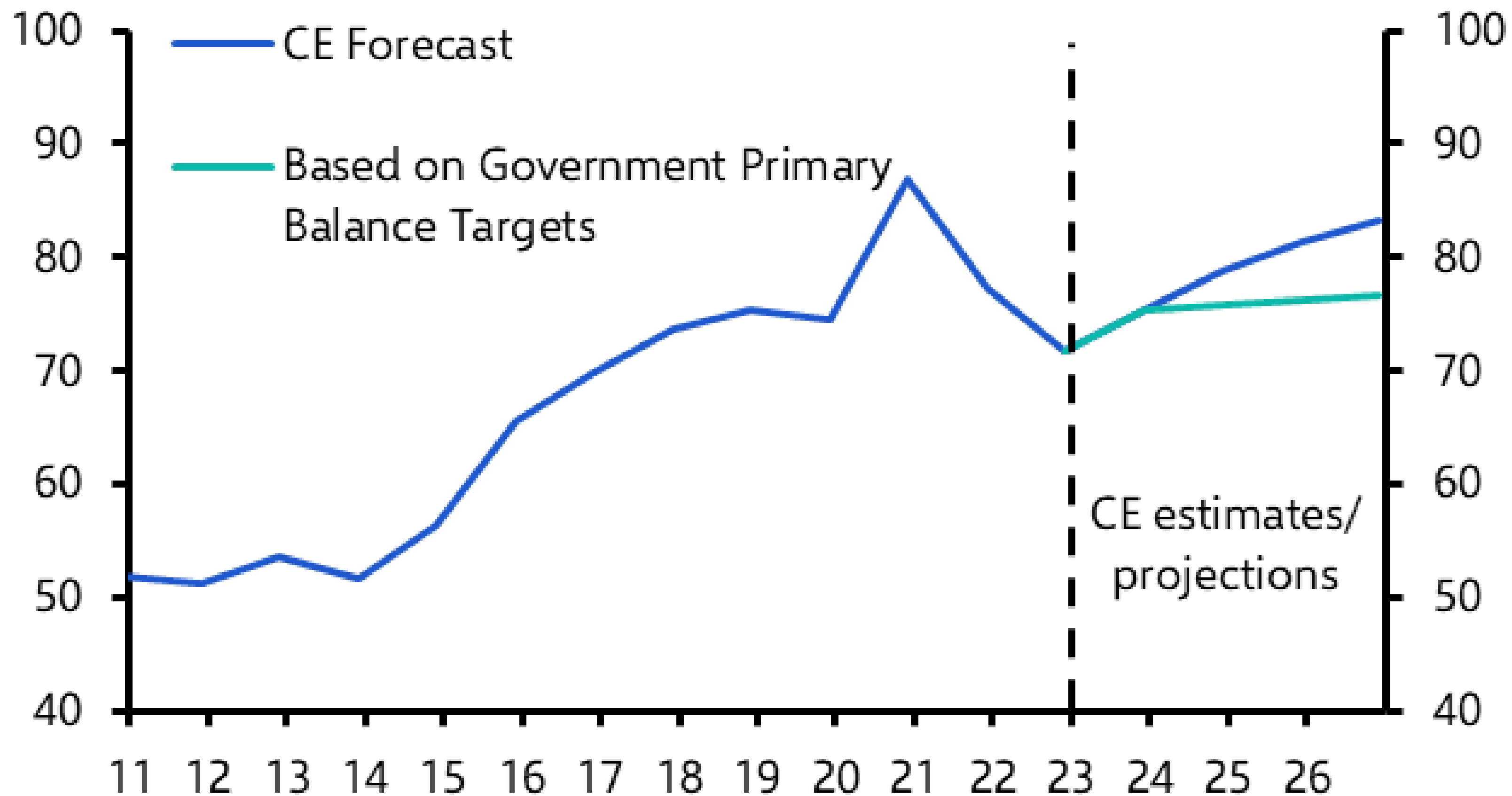
**Public Sector Primary Balance (% of GDP, 12m Sum)**



Sources: Refinitiv, Capital Economics

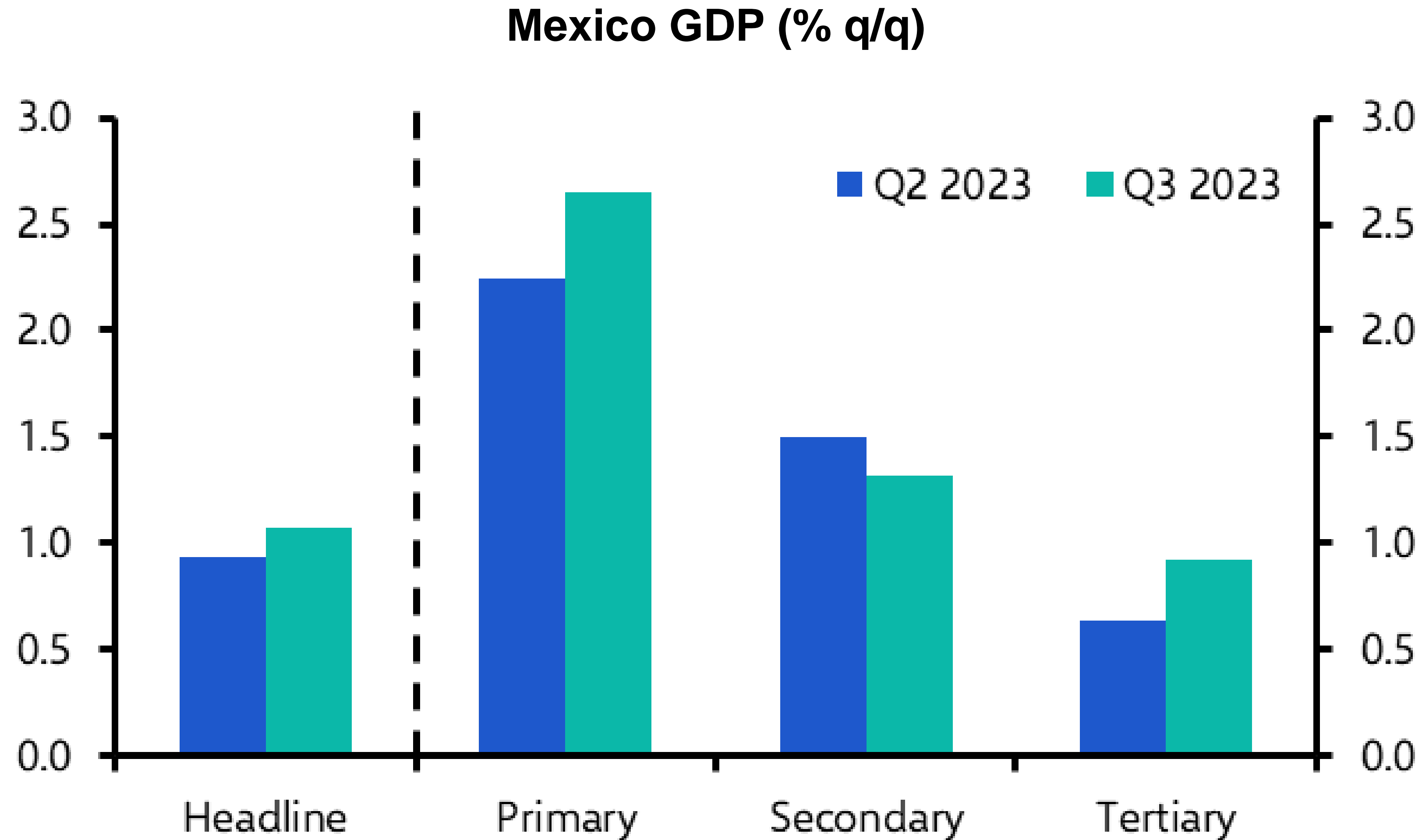
We doubt that this will happen and think that it's more likely than not that the public debt ratio will continue to rise.

### Gross General Government Debt (National Definition, % of GDP)



Sources: Refinitiv, Capital Economics

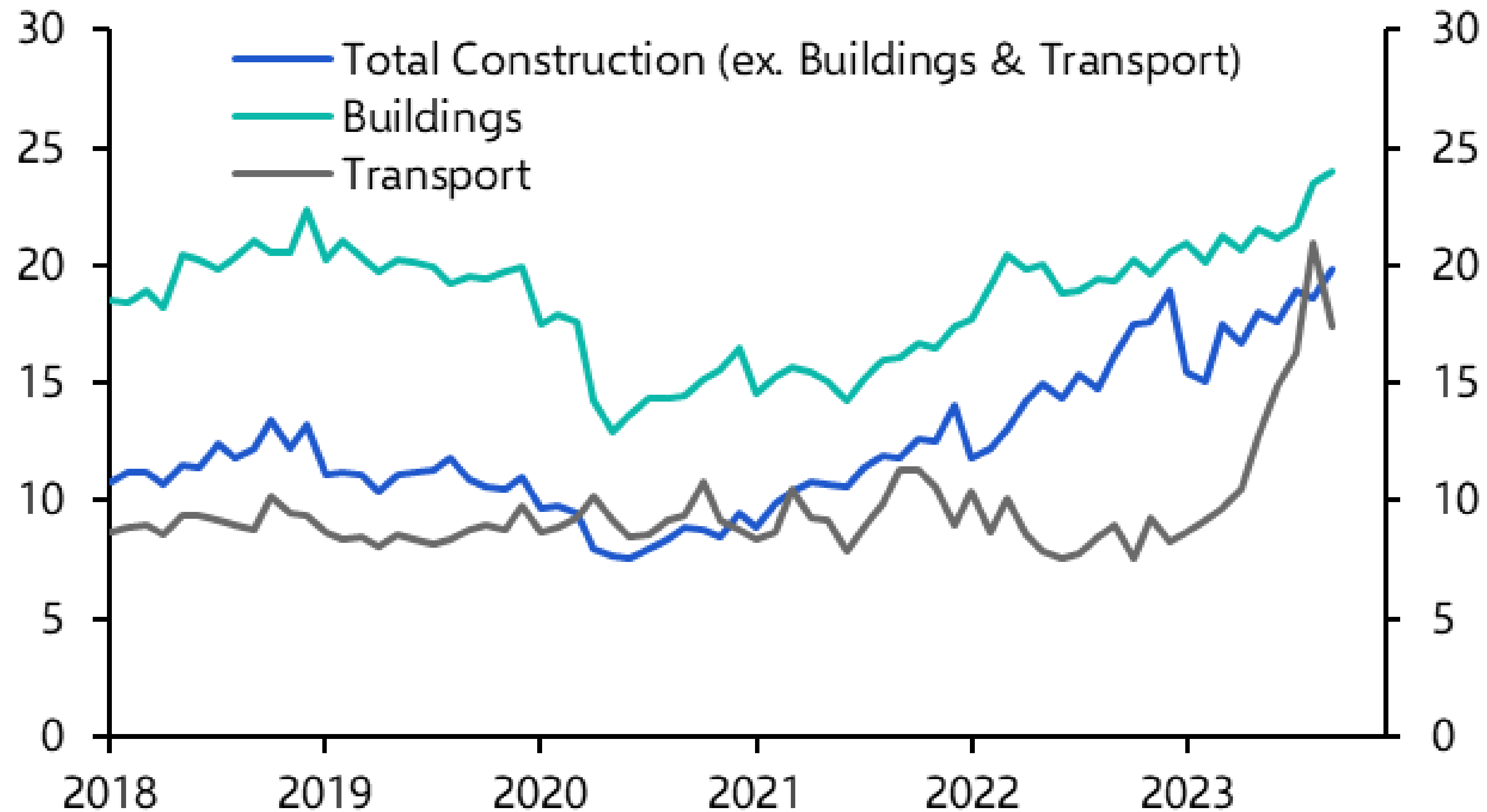
Mexico's economic resilience continued in Q3, with GDP growth accelerating to 1.1% q/q. But growth will slow next year amid tight monetary policy and weakness in the US.



Sources: Refinitiv, Capital Economics

On top of that, investment, which has been a key prop to growth this year, will become a drag as major transport infrastructure projects are completed.

### Construction (MXNbn, Current Prices, NSA)

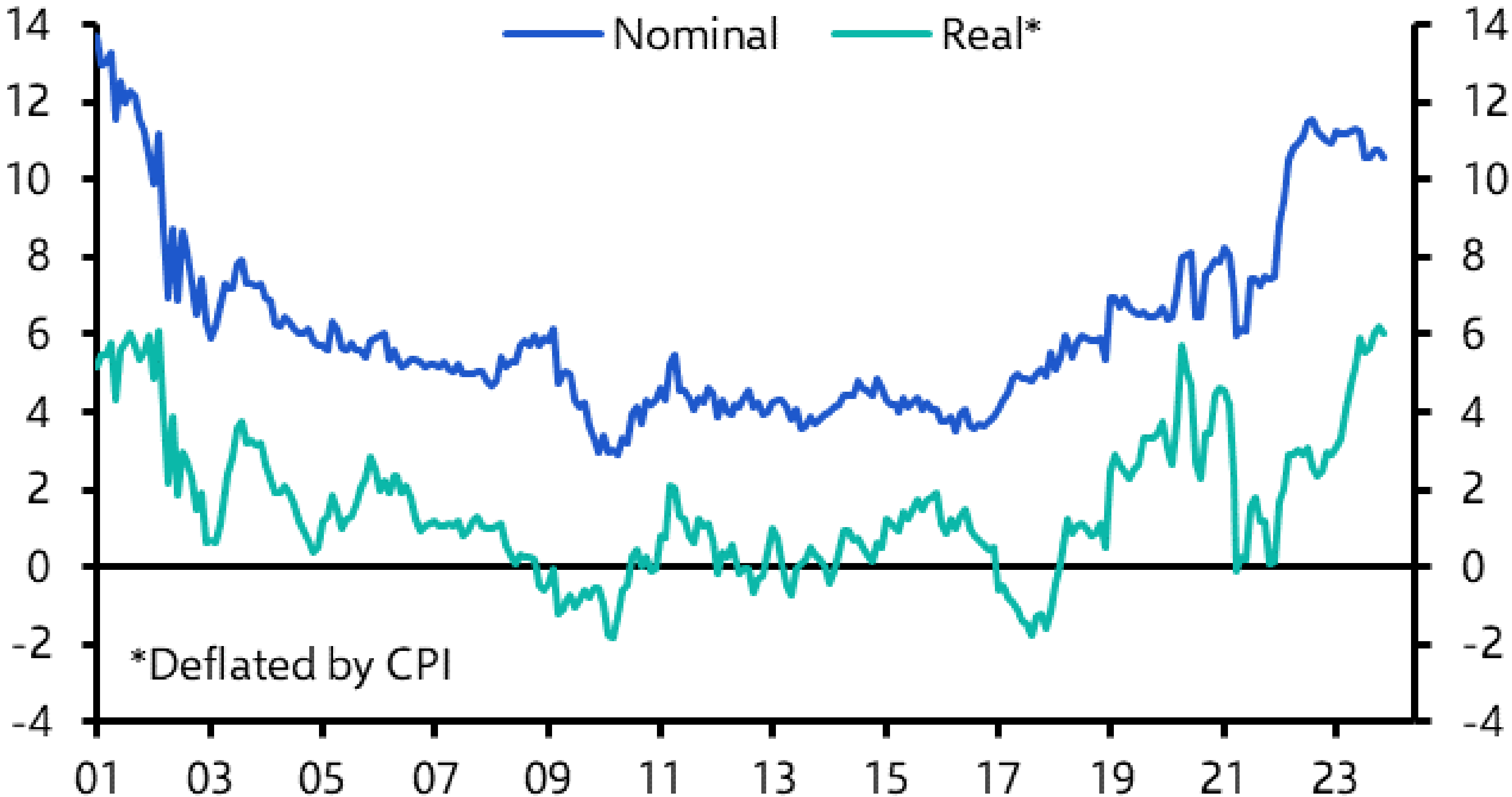


Sources: CEIC, Capital Economics



These headwinds will be cushioned somewhat by rapid wage growth, which will continue to support real incomes and consumer spending.

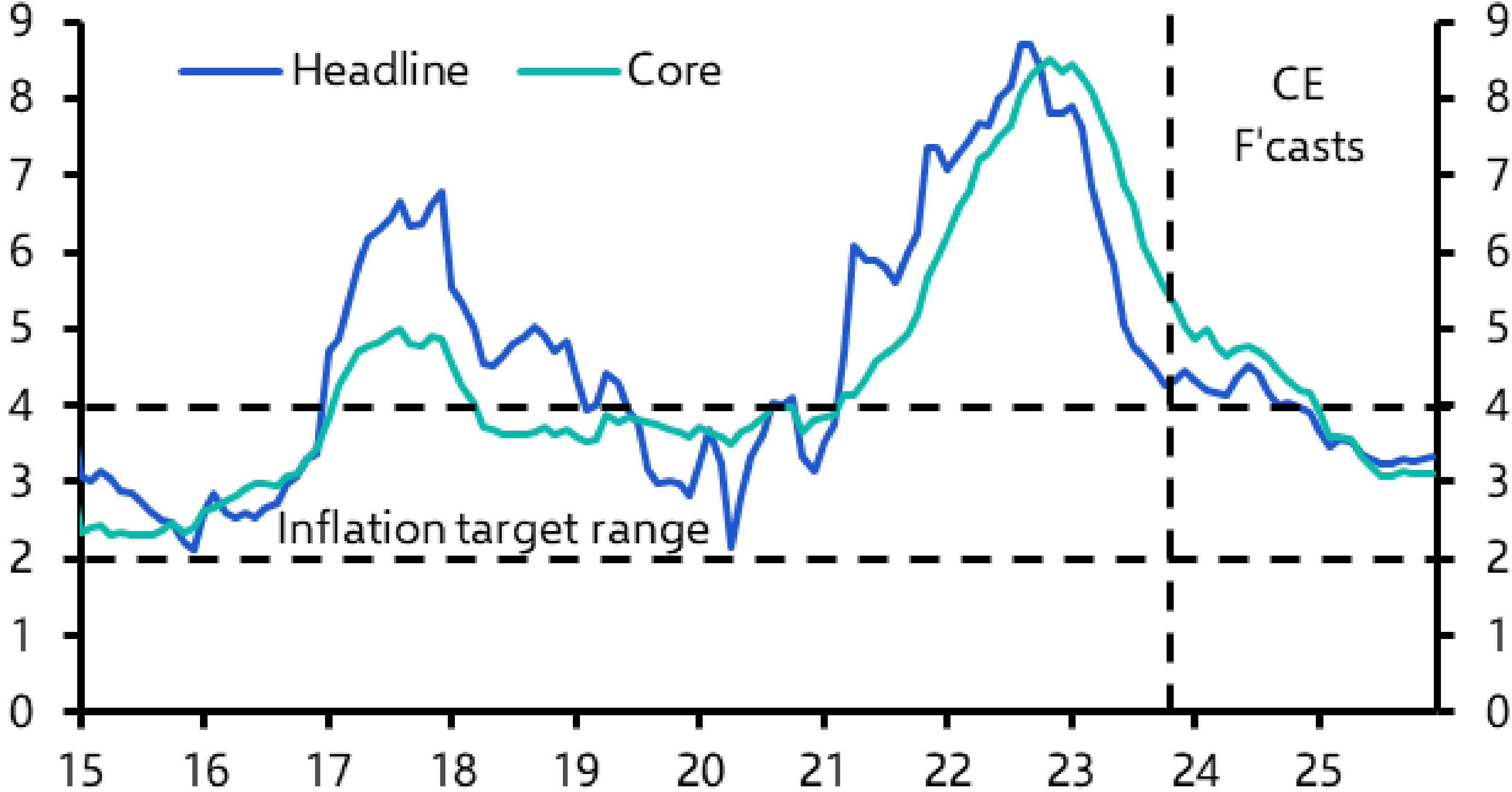
### Daily Wage of Insured Workers (IMSS, % y/y)



Sources: Refinitiv, Capital Economics

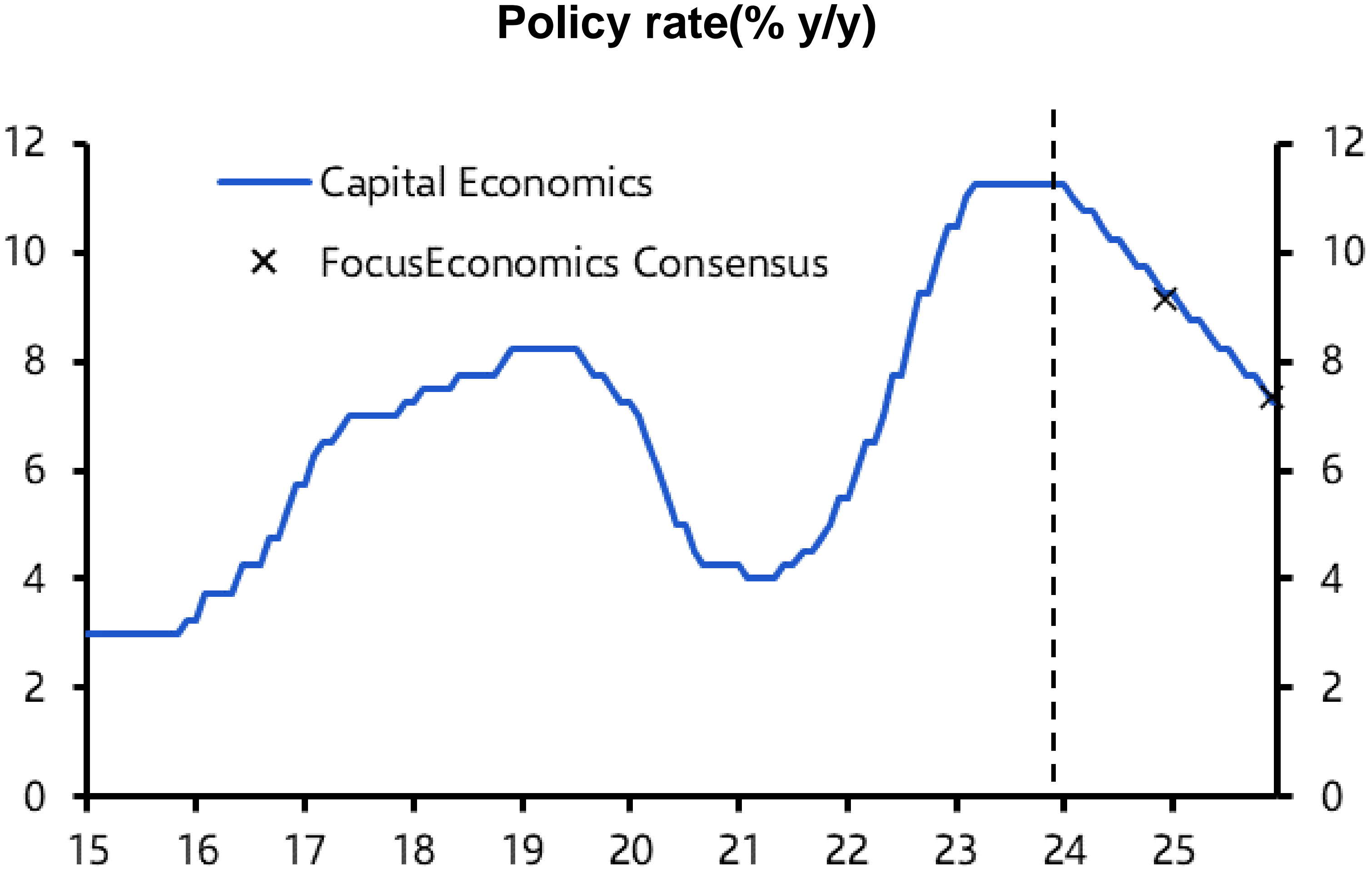
The flipside, though, is that headline inflation is unlikely to return to Banxico's 2-4% tolerance band on a sustained basis until end-2024.

### Mexico Consumer Price Inflation (% y/y)



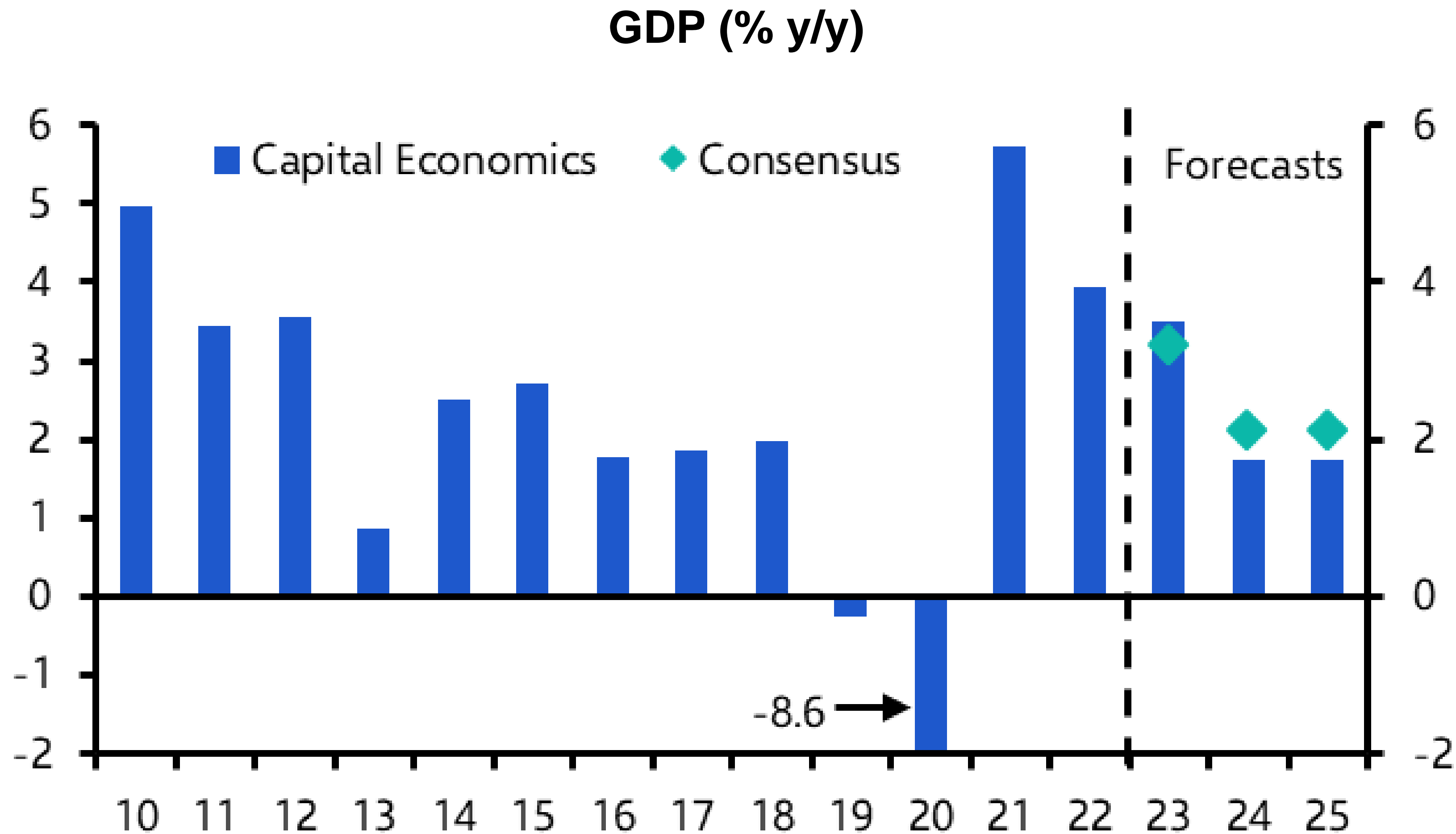
Sources: Refinitiv, Capital Economics

Banxico retained its hawkish bias at its last meeting, which in turn poses a risk to our forecast for the first interest rate cut to come in February.



Sources: Refinitiv, FocusEconomics, Capital Economics

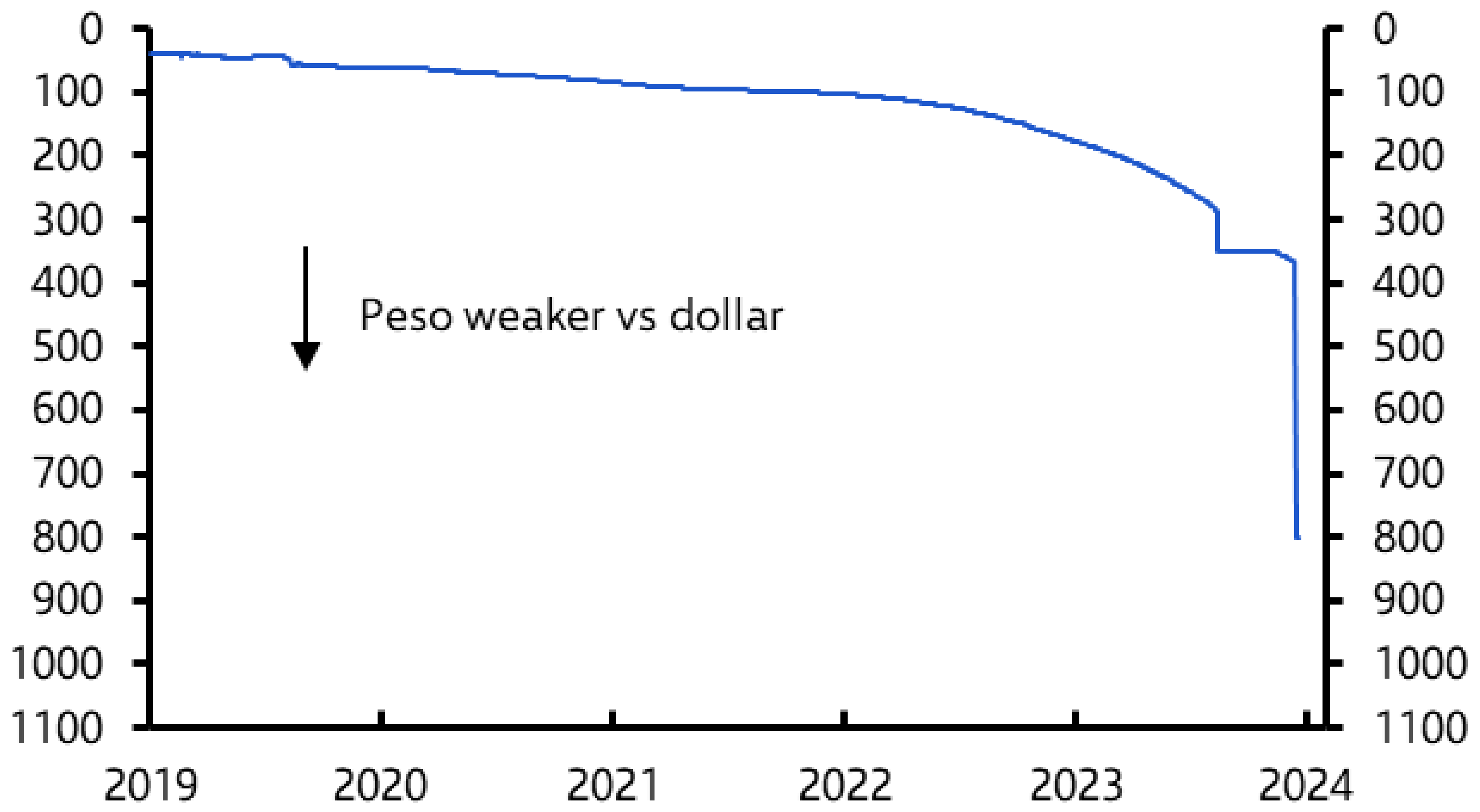
All told, following GDP growth of around 3.5% this year, we expect the economy to expand by just 1.8% in both 2024 and 2025. Our forecasts lie below the consensus.



Sources: Refinitiv, FocusEconomics, Capital Economics

Argentina's new president Javier Milei is determined to put the economy through shock therapy. One of his first measures included a 50%+ devaluation of the peso.

**Argentine Peso (vs. \$, Inverted)**



Sources: Refinitiv, Capital Economics

This brings the exchange rate closer to fair value, but the move to a crawling peg against the backdrop of high inflation will result in a renewed overvaluation before long.

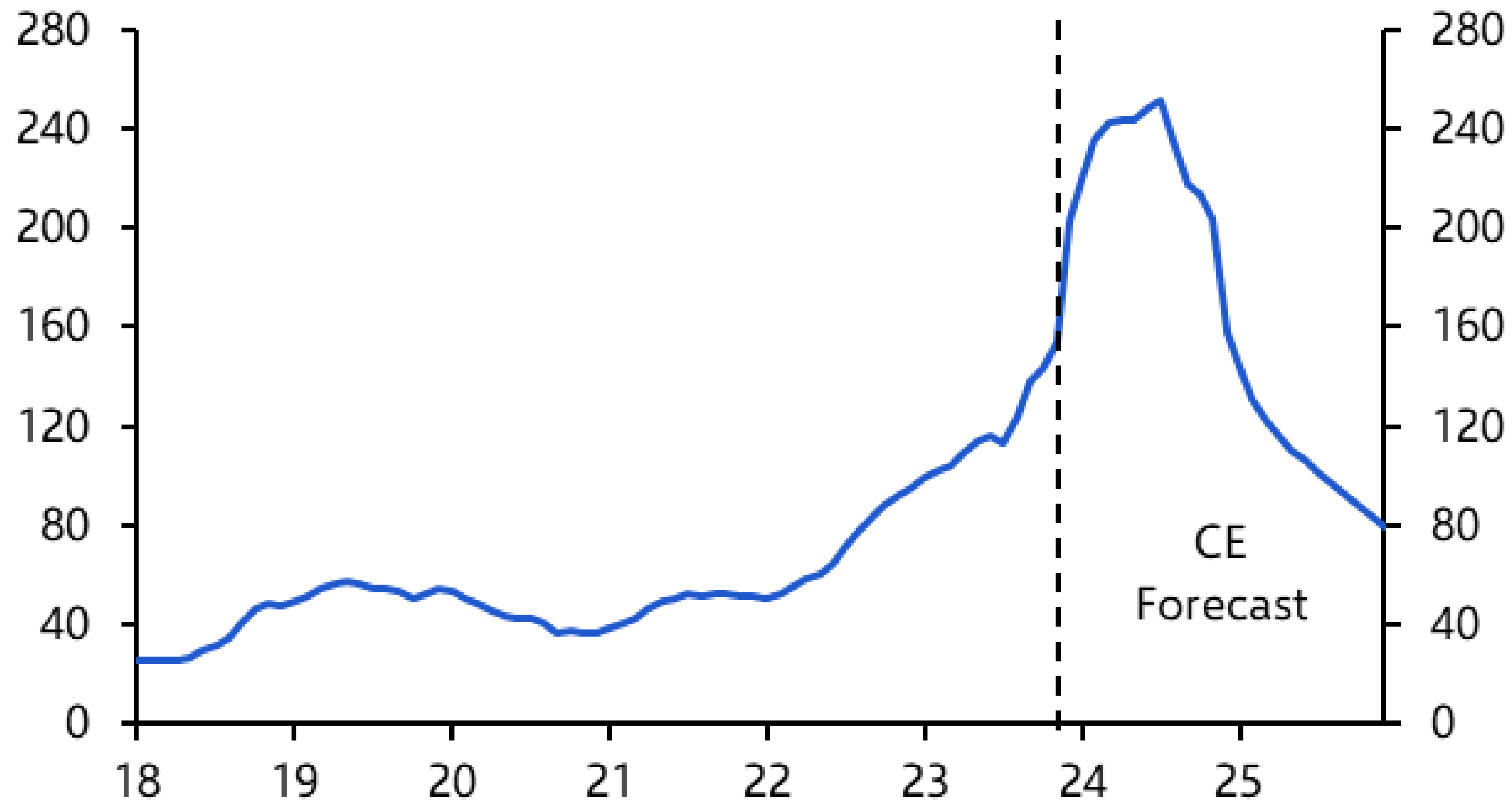
### Real Effective Exchange Rate



Sources: Refinitiv, Capital Economics

The large devaluation of the peso will push up already-high inflation even further over the coming months.

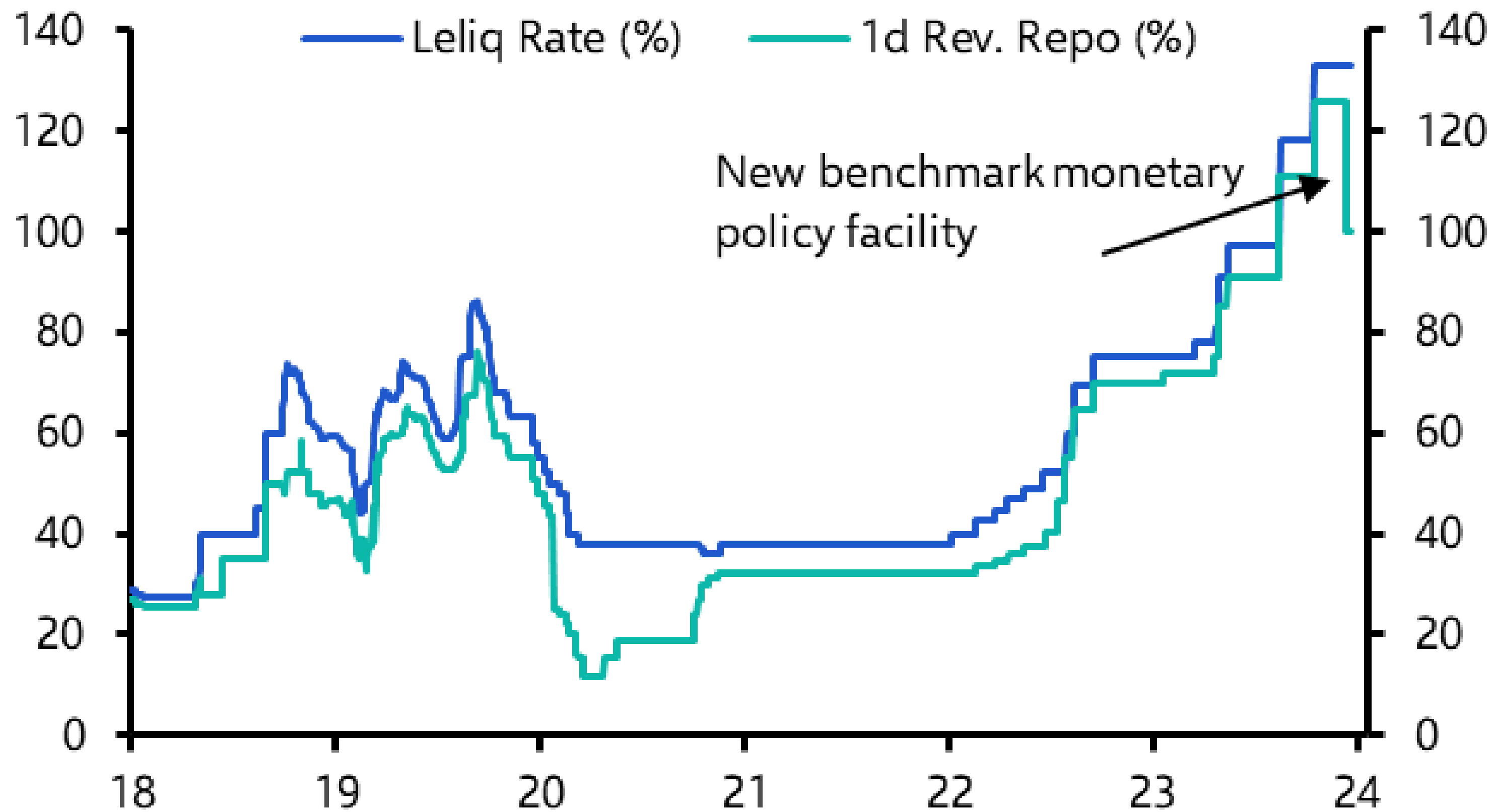
### Consumer Price Inflation (% y/y)



Sources: Refinitiv, Capital Economics

Even so, the Argentine central bank effectively loosened policy by switching its benchmark facility in an attempt to shift its large peso debt burden back to the Treasury.

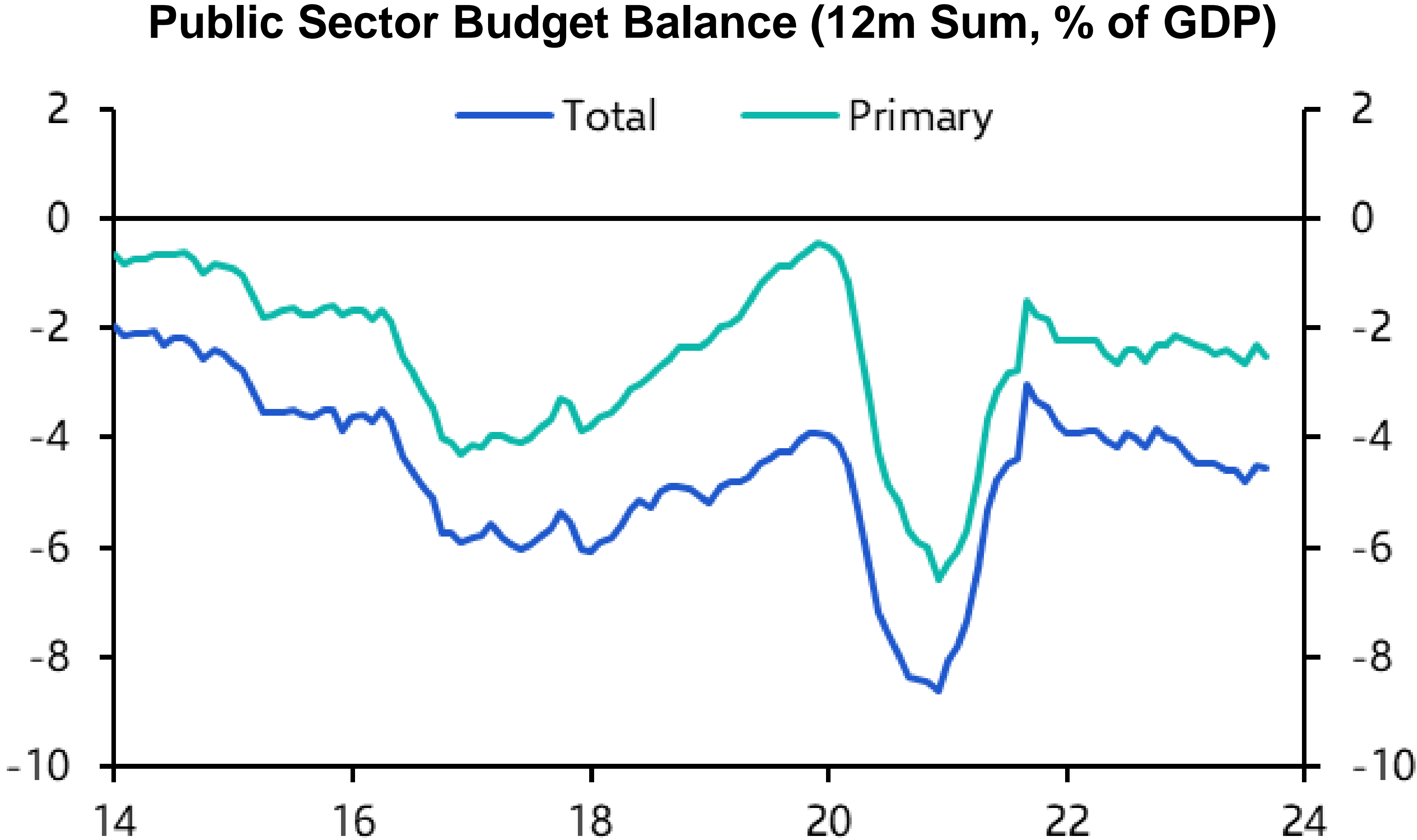
### 28-day Leliq Rate and 1d Reverse Repo Rate (%)



Sources: Refinitiv, Capital Economics

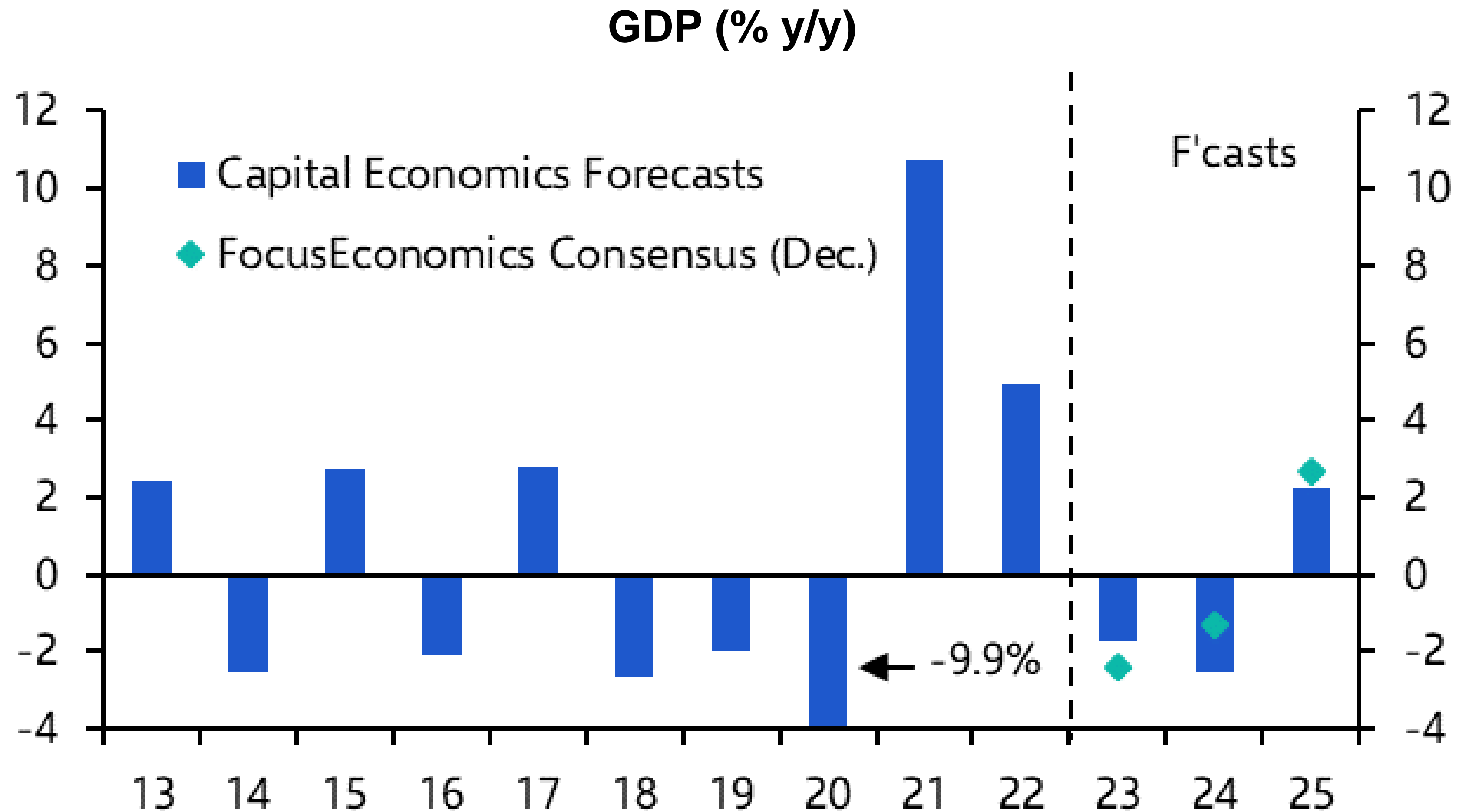


On the fiscal side, the Milei administration's plans encompass spending cuts equivalent to close to 3% of GDP, with the aim of achieving a primary budget surplus.



Sources: Refinitiv, Capital Economics

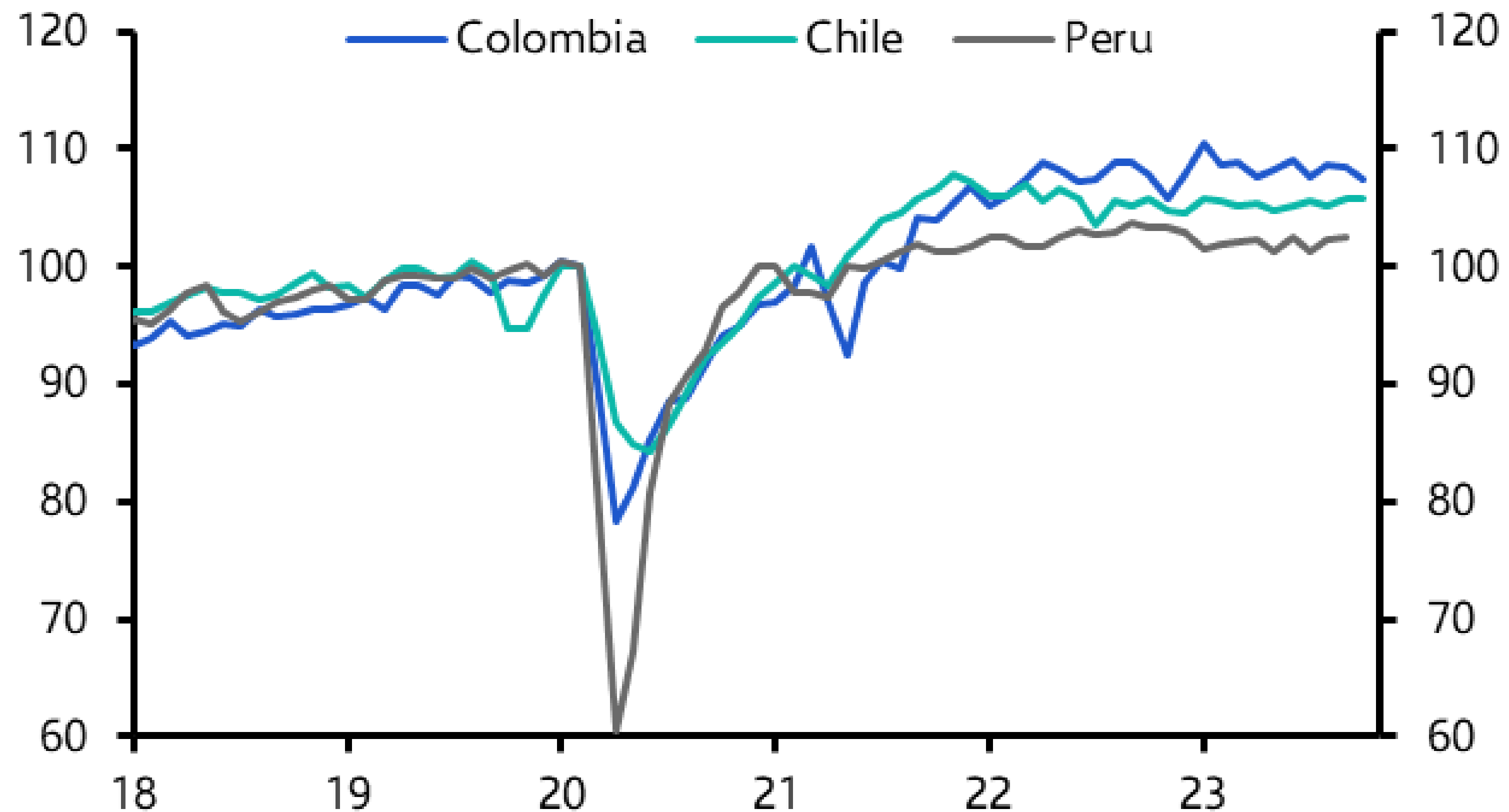
Milei's shock therapy is necessary to put Argentina's economy on a more sustainable footing. But the measures will come at the expense of a steep recession next year.



Sources: Refinitiv, Focus Economics, Capital Economics

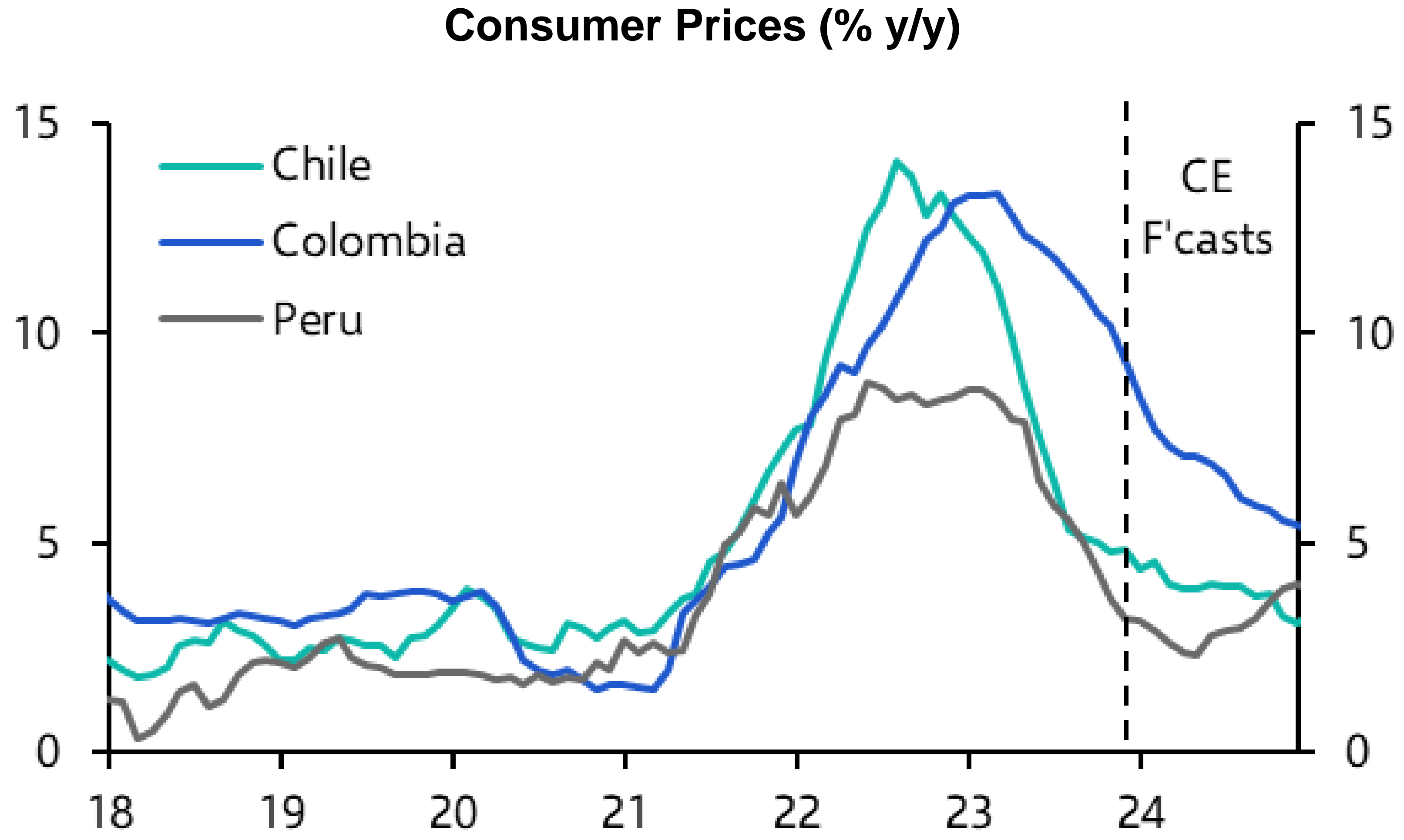
Growth in the Andean economies remained sluggish in October. But we think they will recover next year, with Chile's economy likely to surprise to the upside.

**Activity Indices (Feb. 2020 = 100)**



Sources: Refinitiv, Capital Economics

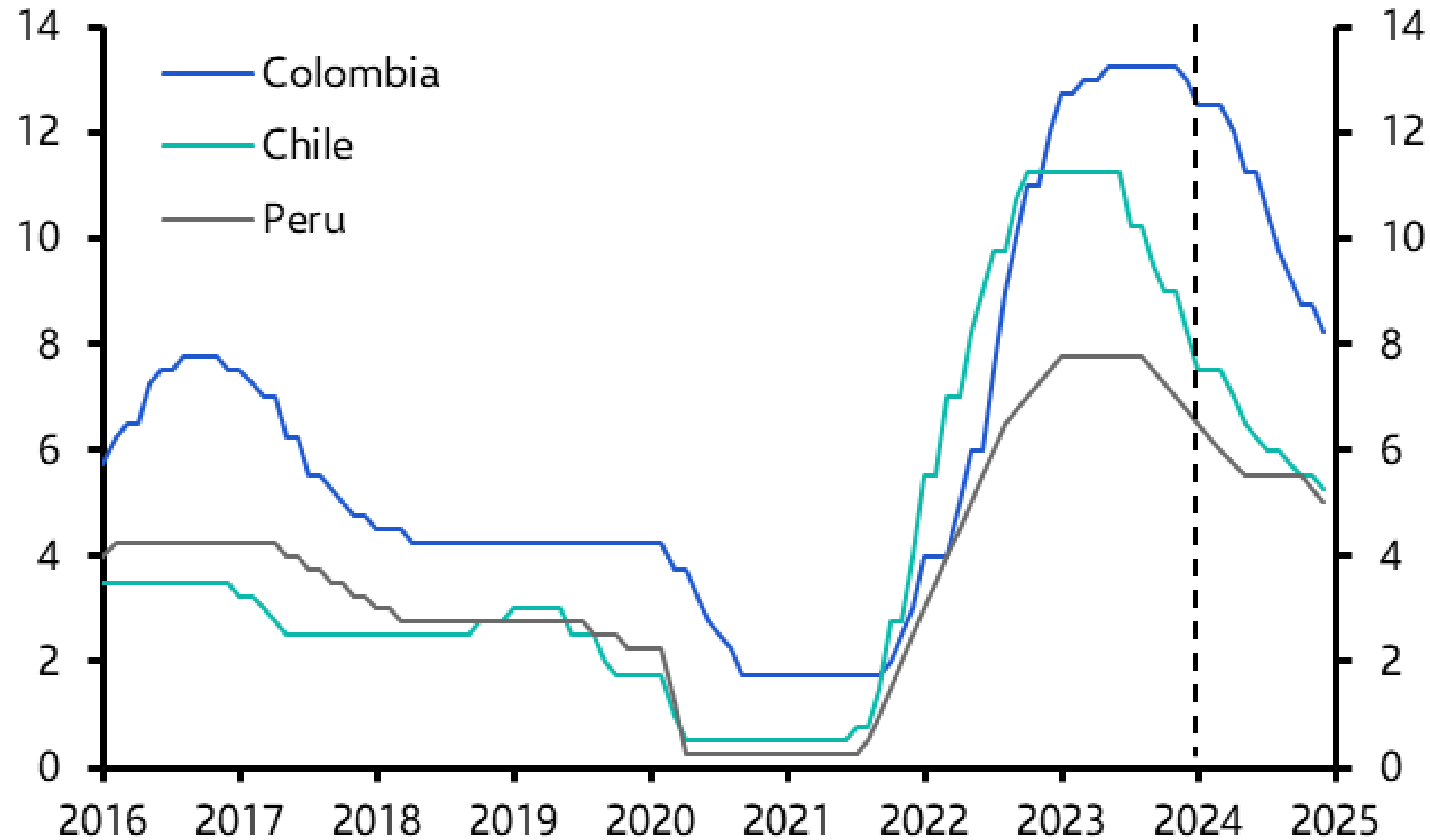
The disinflation process in Chile and Peru will slow in the coming months but has further to run in Colombia where price pressures have been much stronger.



Sources: Refinitiv, Capital Economics

Colombia's central bank was the latest to kick off its easing cycle this month. Those in Chile and Peru are set to continue easing monetary policy.

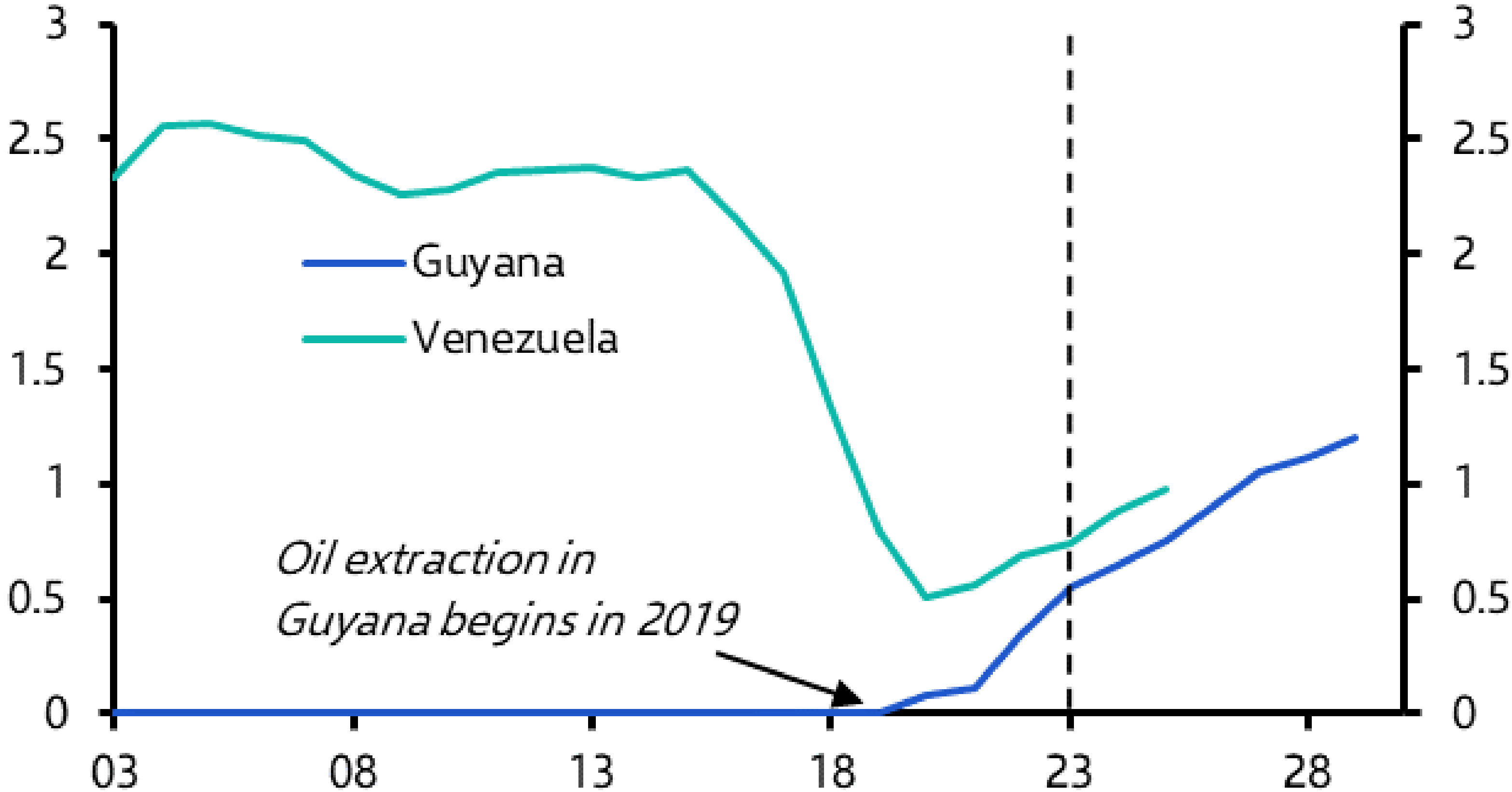
### Policy Interest Rates (%)



Sources: Refinitiv, Capital Economics

Despite recent talks, tensions between Guyana and Venezuela remain elevated. An escalation of the conflict would deal a blow to oil production in both countries.

**Oil Production (mn bpd)**



Sources: Refinitiv, Capital Economics

Heightened uncertainty about the future of Panama's largest copper mine, and by extension government revenues, has led to a widening of sovereign dollar bond spreads.

**Stripped Spread of JP Morgan EMBI Panama Index (bp)**



Sources: Refinitiv, Capital Economics

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