Macroecomomic Outlook for Latin America

Alejandro Werner

September 26, 2023

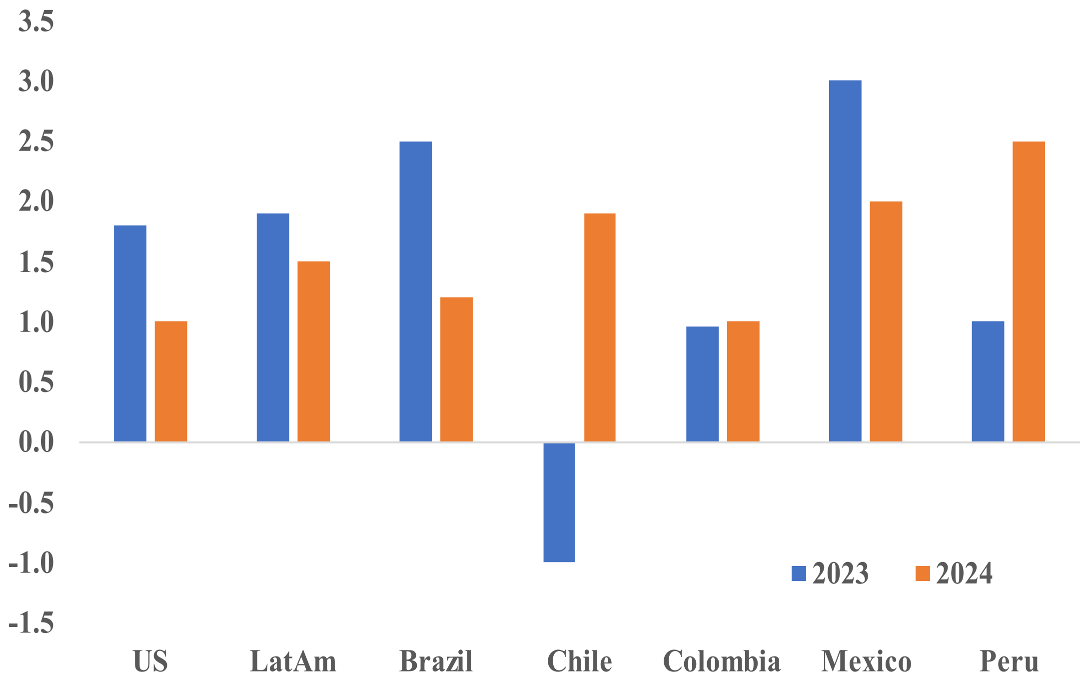
Presented at PIIE Global Economic Prospects: Fall 2023

1750 Massachusetts Avenue, NW | Washington, DC 20036 | www.piie.com

Growth

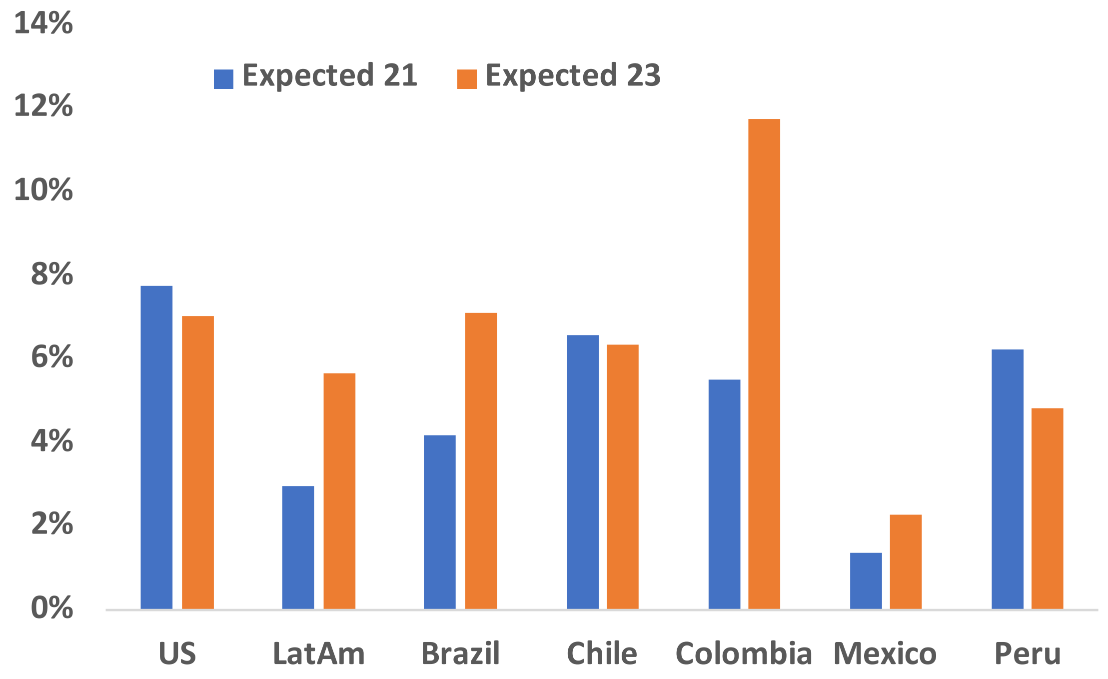
A slowdown is expected for Latin America in 2024 due to its largest economies. GDP gaps with respect to pre-Covid levels are above previous expectations in Latin America.

GDP growth forecasts
% annual



Source: Own estimations

2023-2019 GDP gaps
%

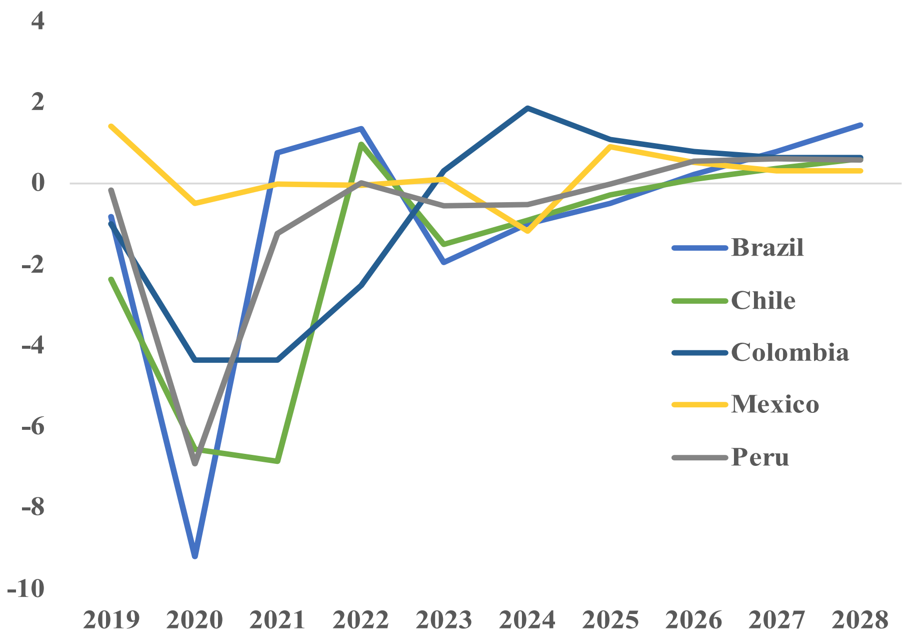


Source: Own estimations

Fiscal policy

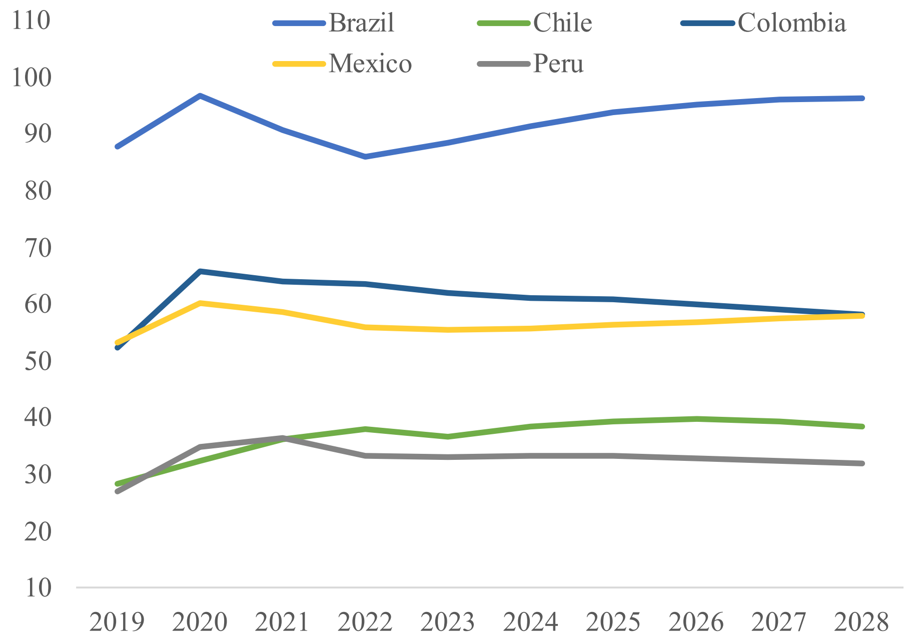
The countries in the region have implemented significant adjustments to reduce the imbalances caused by the response to the pandemic. However, their debt ratios are expected to remain above pre-Covid levels.

Primary Balance
% of GDP



Source: WEO; Mexico 2024 Budget

Gross debt
% del PIB



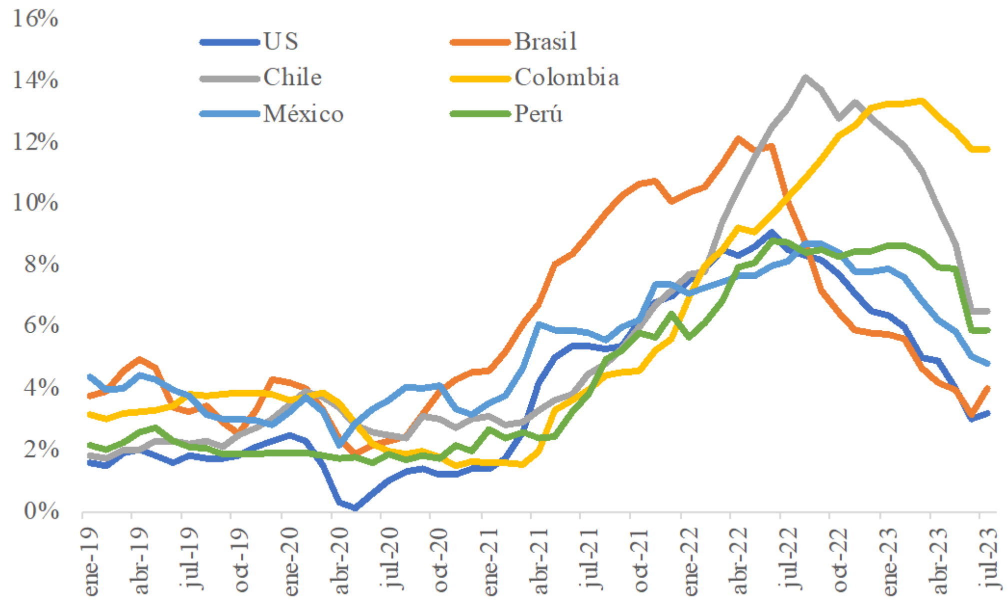
Source: WEO

Inflation

After reaching inflation rates not seen in decades in 2022, headline and core rates have diminished significanlty throughout 2023.

CPI inflation

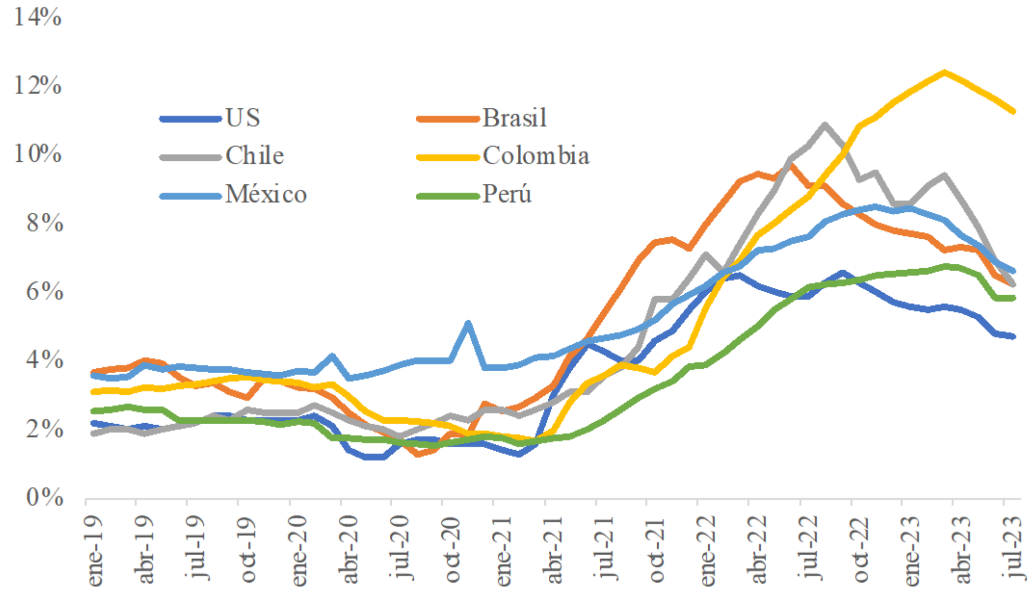
% annual



Source: National authorities

Core inflation

% annual



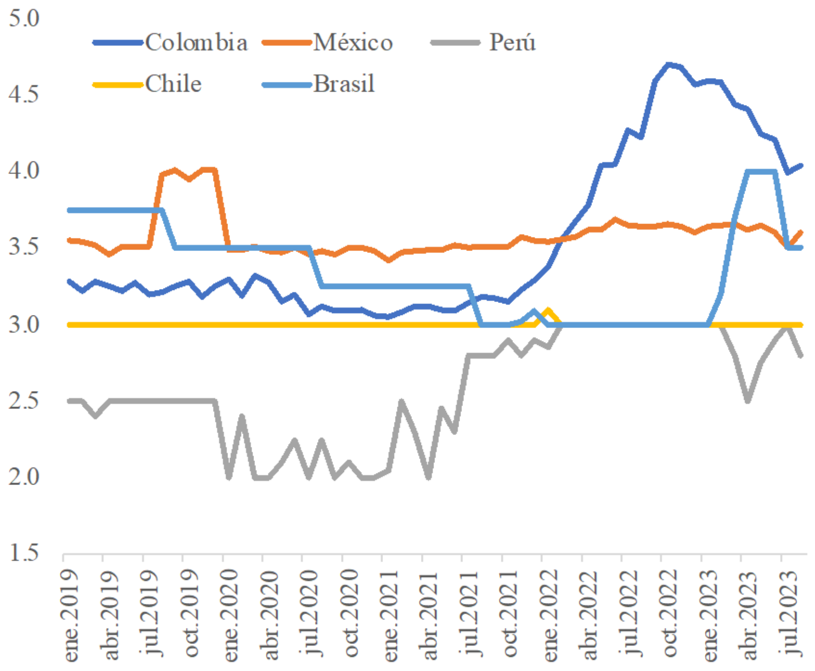
Source: National authorities

Monetary policy

Medium-term inflation expectations have diminished and real interest rates increased.

Medium-term inflation expectations

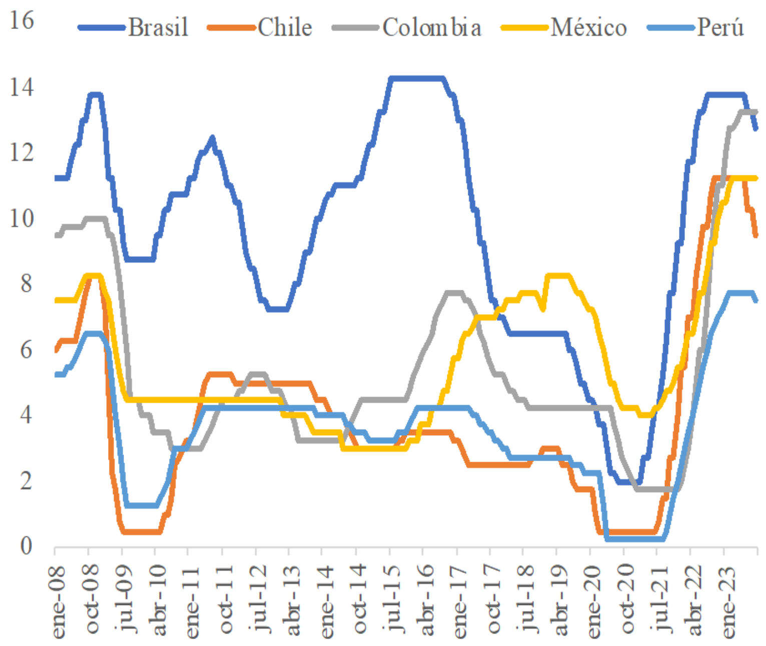
% annual



Source: National authorities and central banks

Nominal monetary policy rate

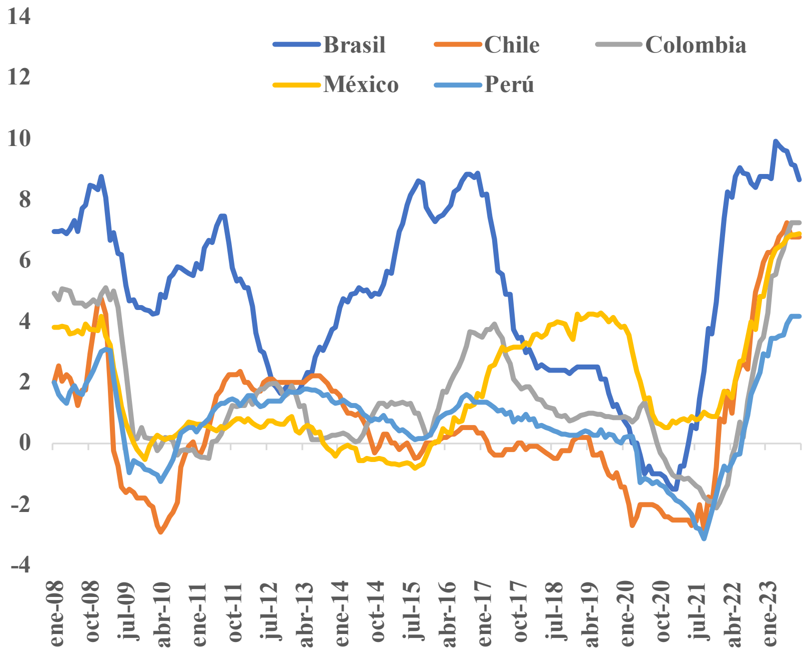
% annual



Source: National authorities and central banks

Real monetary policy rate

% annual



Source: National authorities and central banks

Elections in the next 12 months

Argentina:

- First round: October 22, 2023
- Potential second round: November 19, 2023

Milei, Massa and Bullrich fight it out as the economy descends into hyperinflation

Ecuador:

- Second round: October 15, 2023

The election moves on under the shadow of violent events

Mexico:

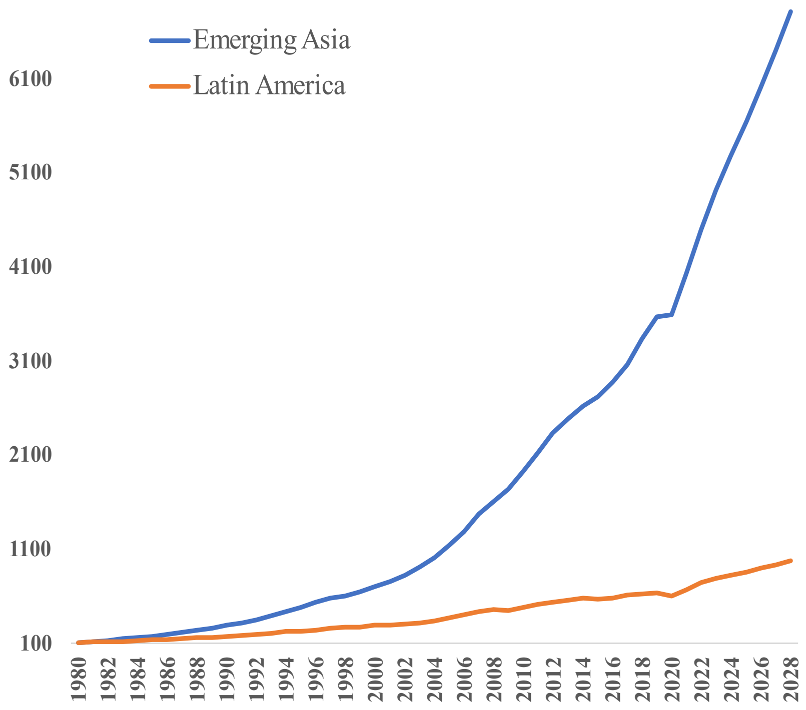
- Only one round: June 2, 2024

Claudia vs Xóchitl decide the future of the 4th Transformation

Medium-term

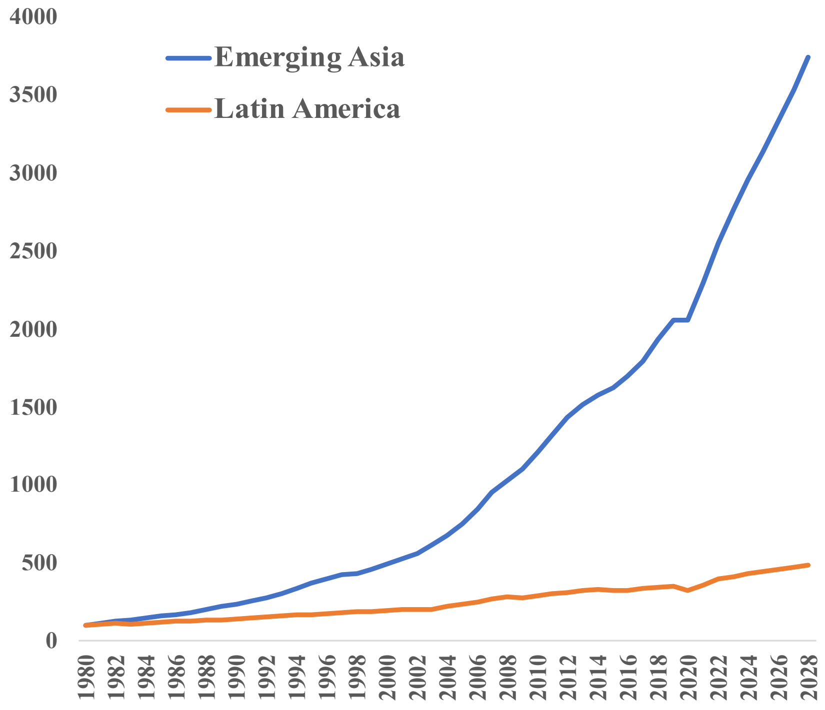
The performance of Latin America in recent decades compares unfavorably to other regions

GDP
Index 1980=100



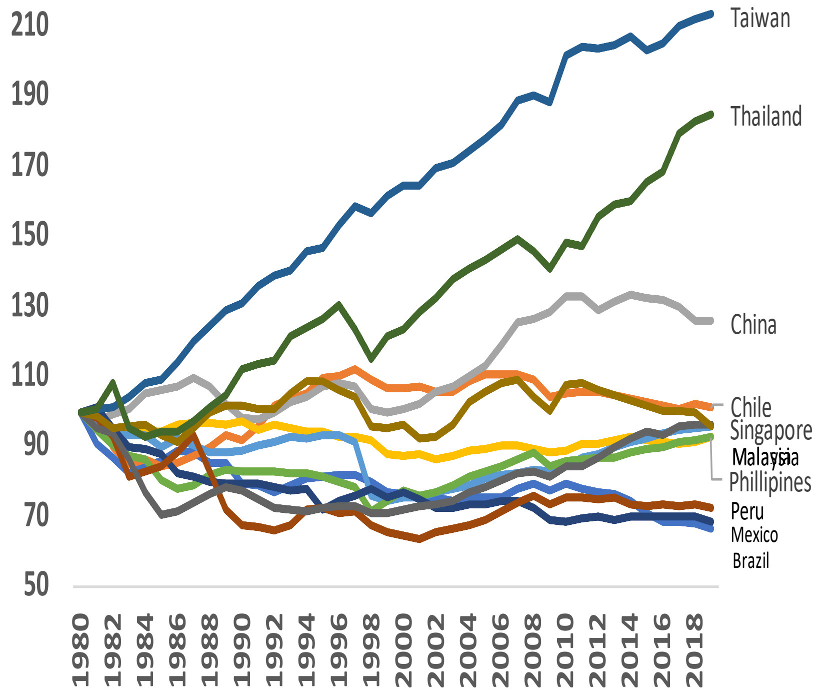
Source: WEO

Percapita GDP
Index 1980=100



Source: WEO

Total Factor Productivity
Index 1980=100



Source: OurWorldinData

Medium-term

Some considerations about the challenges that Latin America faces:

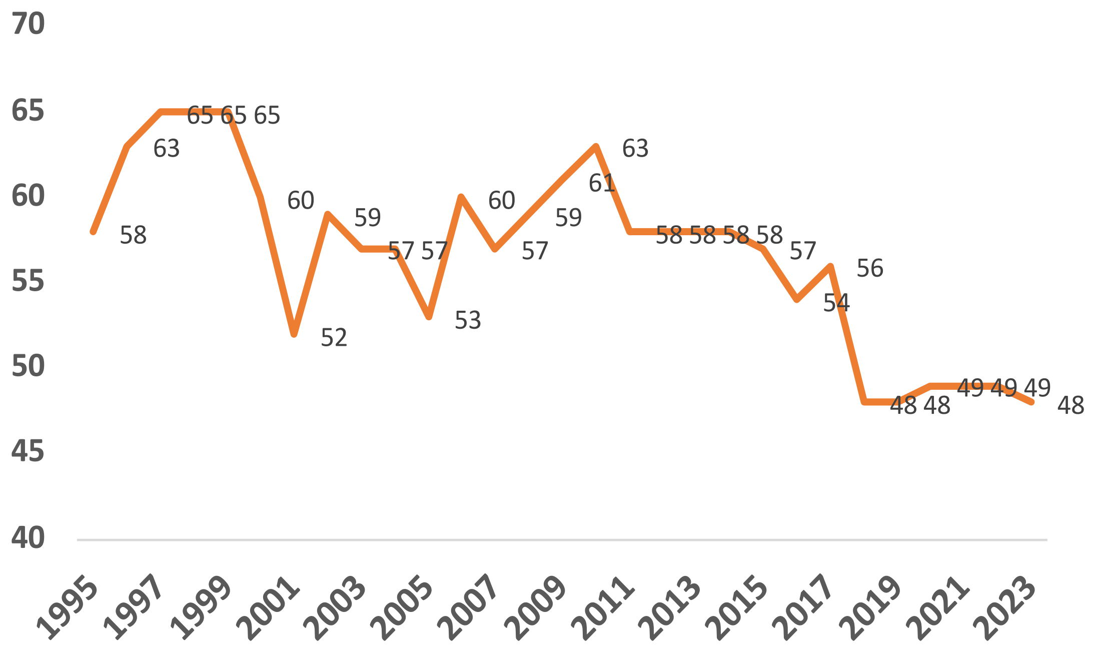
- Polarized societies
- Midium-income, low-growth, unequal countries find it hard to strike a balance to move forward
- Two positive aspects ahead:
    - Energy transition (although there can be winners and losers)
    - Nearshoring

Democracy

Approval for democracy has been falling

Evolution 1995-2023

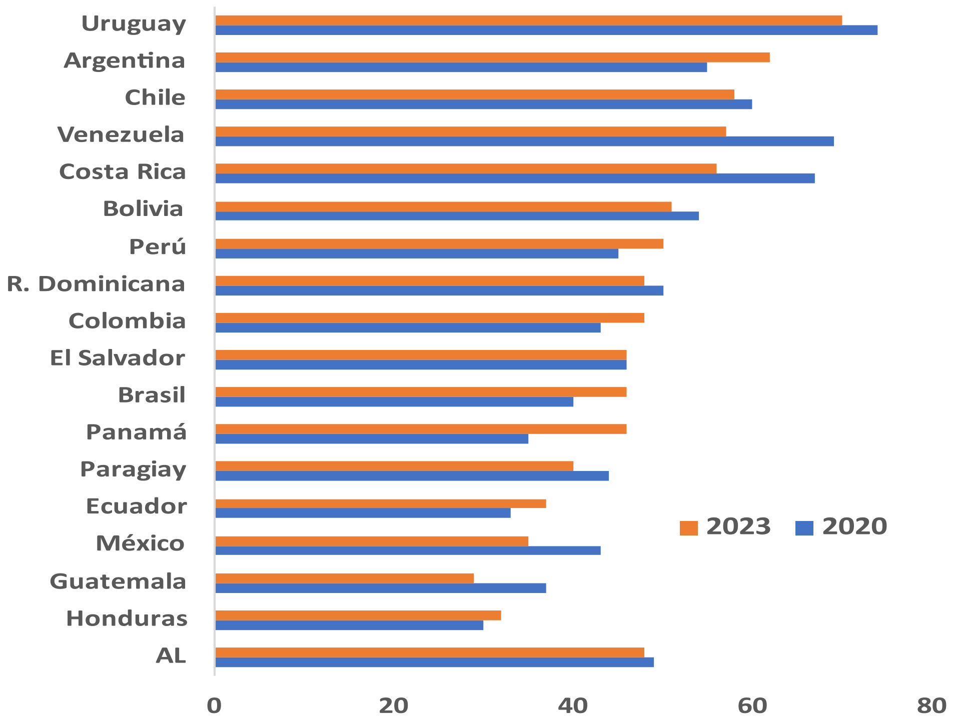
%



Source: Latinbarómetro

By country 2020 vs 2023

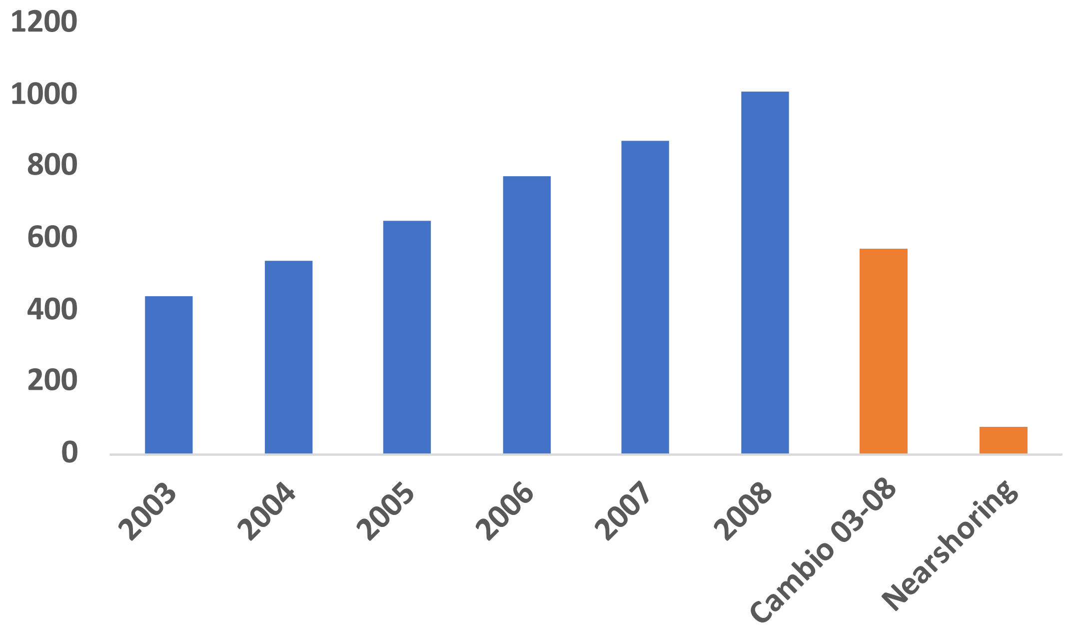
%



Nearshoring and energy transition

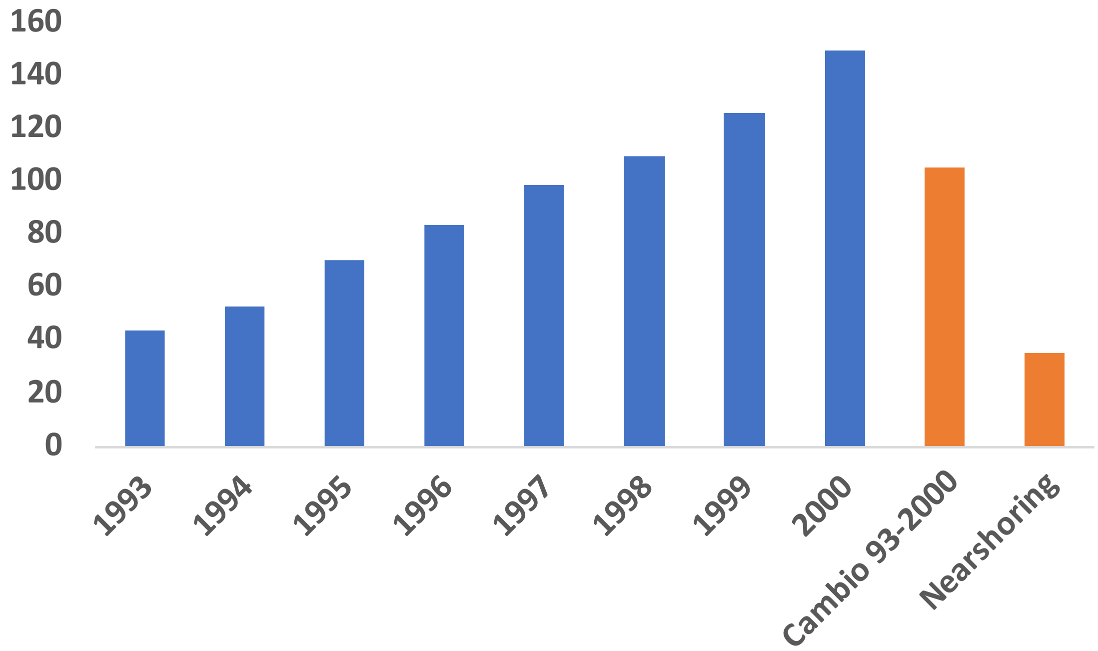
The region has gone through important exporting booms that have not triggered a medium-term convergence to sustained high income levels.

Exports of Latin America
2003-2008, US$bn



Source: IMF and IADB

Exports of Mexico
1993-2000, US$bn



Source: IMF and IADB

PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

Macroecomomic outlook for Latin America

Alejandro Werner

AWerner@piie.com