



Latin America Macroeconomic Update:

Challenging Growth Outlook, Despite Q222's Overperformance

Thursday, 20th October 2022

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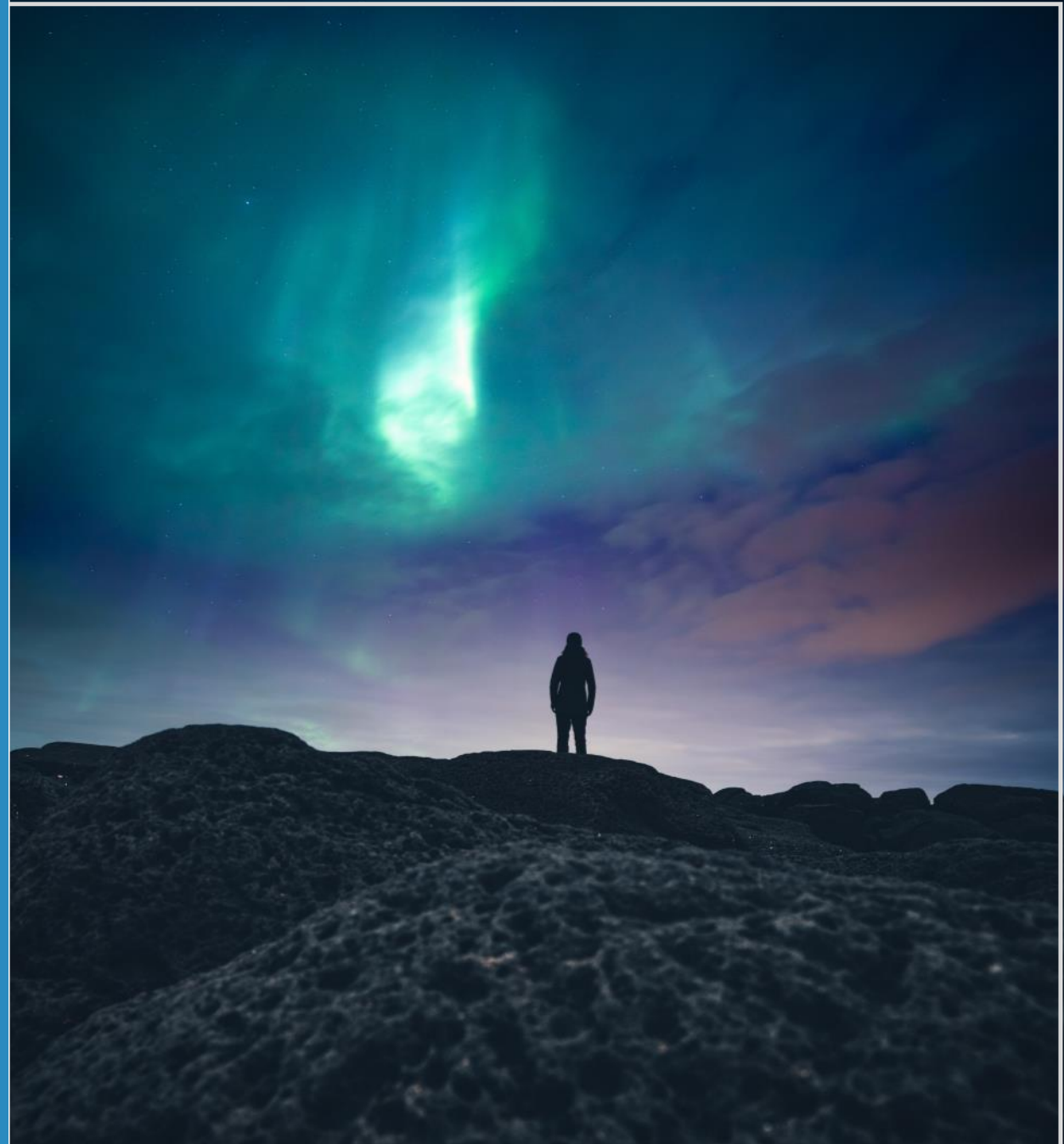
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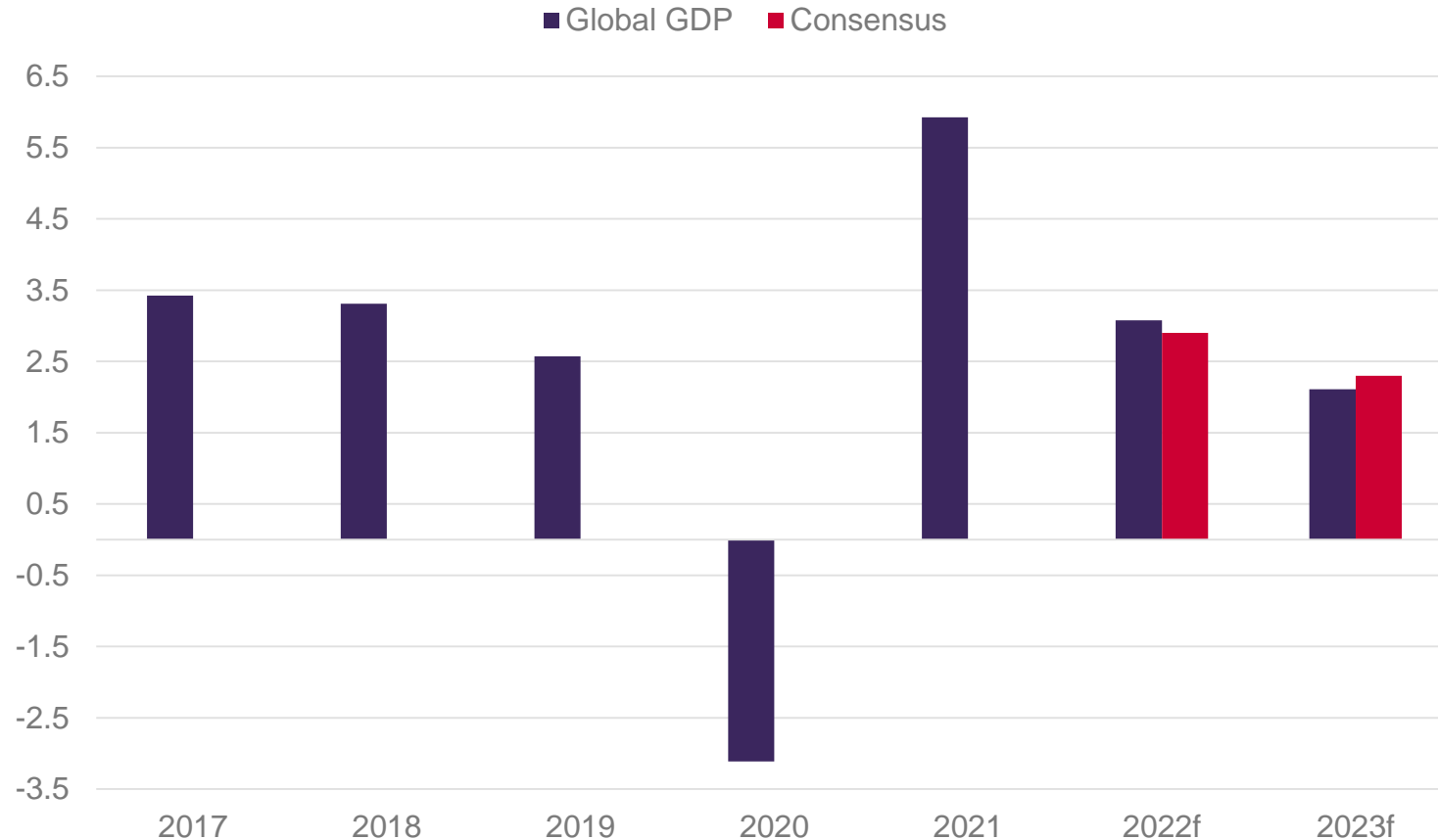


Global Outlook

Global Growth To Slow Sharply In 2023

Slightly Better In 2022, But Worse In 2023

Real GDP Growth, %



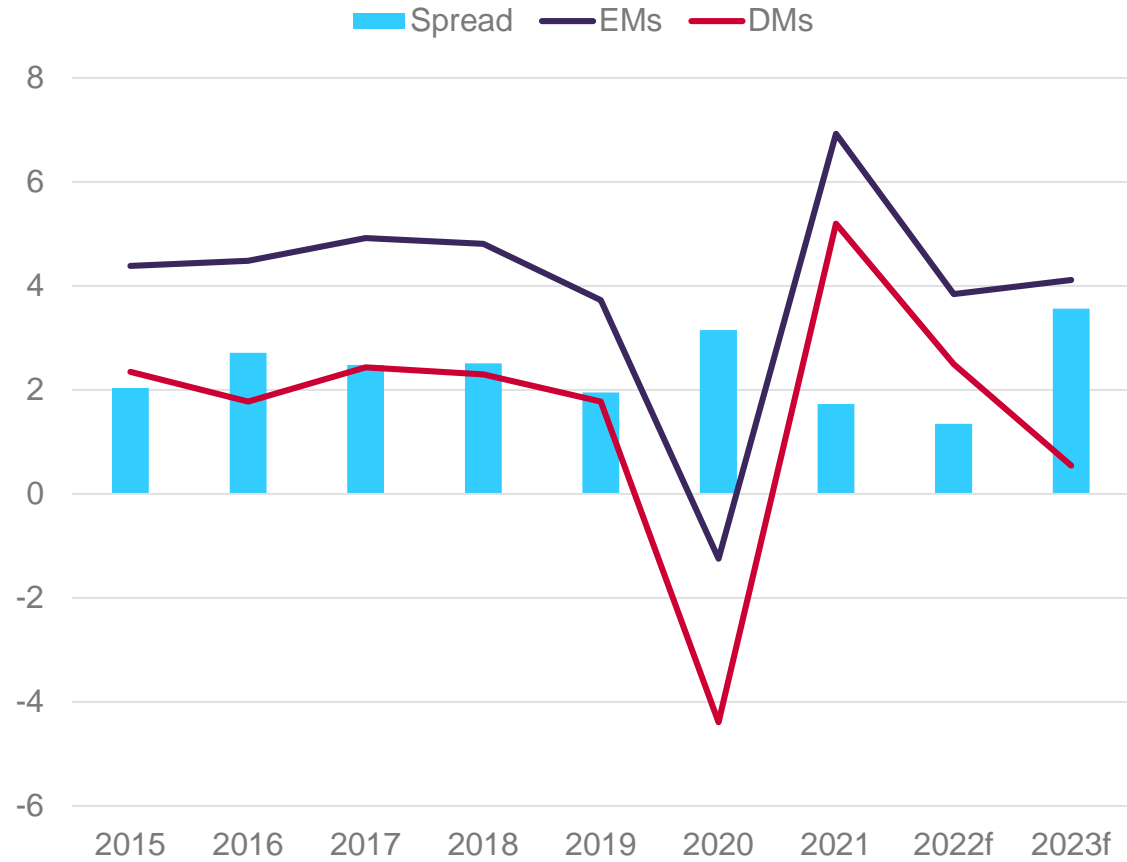
f = Fitch Solutions forecast. Source: Fitch Solutions

- We forecast a reasonably sharp slowdown in global growth from 3.1% in 2022 to 2.1% in 2023.
- Higher inflation is leading to a loss of purchasing power for households and weakening profit margins for businesses.
- Central banks will tighten monetary policy for longer, which will be felt through 2023.
- We expect the US will grow only 0.3% in 2023, falling into a minor recession late in the year, while the eurozone will contract 0.3%.
- Risks remain skewed to the downside given the multiple headwinds.

Diverging Trends In 2023

EM Growth Spread To Pick Up

Real GDP Growth, %



f = forecast. Source: Fitch Solutions

LatAm And EM Europe To Slow, While EM Asia Accelerates

Real GDP Growth, %

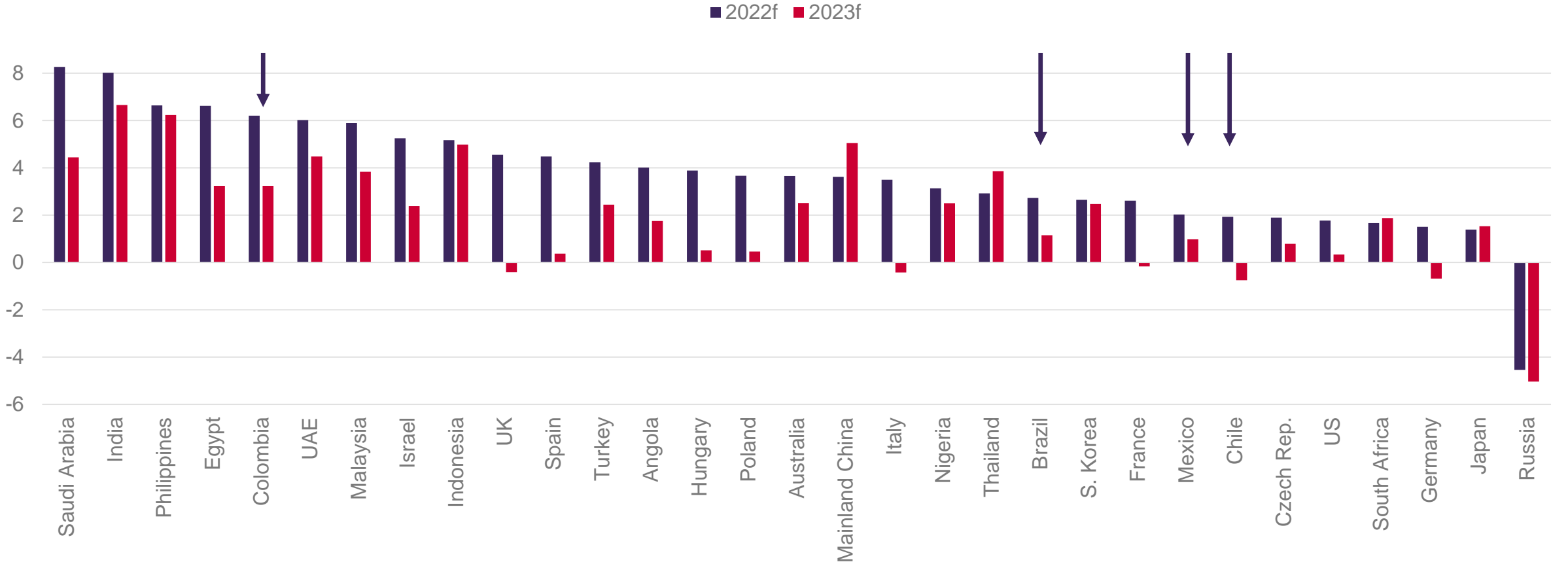


*Excludes Mainland China. Note: May include territories, special administrative regions, provinces and autonomous regions. Source: Fitch Solutions

Significant Variation In Growth In 2023

Relative Growth Performance

Real GDP Growth, %



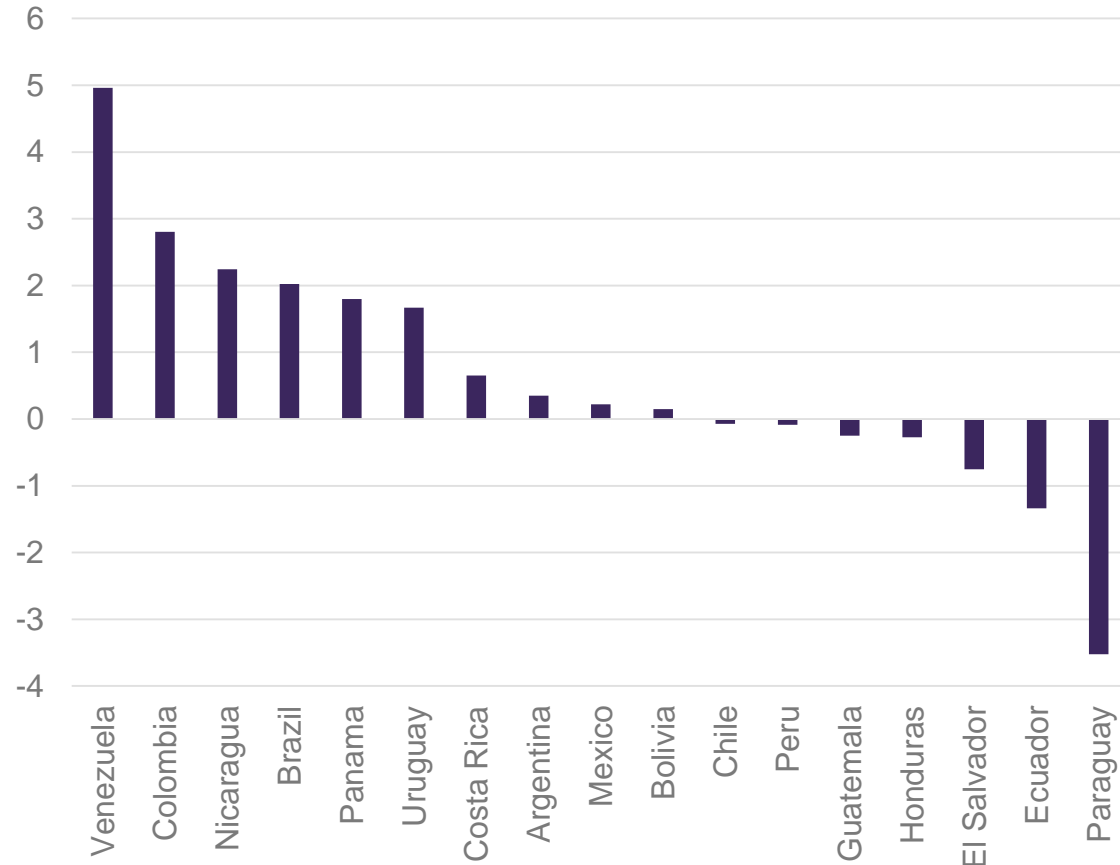
f = Fitch Solutions forecast. Source: Fitch Solutions

Latin America Outlook

2022 Growth Forecast Has Been Revised Up In Most Major Markets

2022 Growth Looking Better Than In March...

Latin America – Change In 2022 Real GDP Growth Forecast Since March, PP



Source: Fitch Solutions

...Due In Part To Stronger Q222 GDP Prints

Latin America (Selected) – Q222 Real GDP Growth, %, Against Consensus

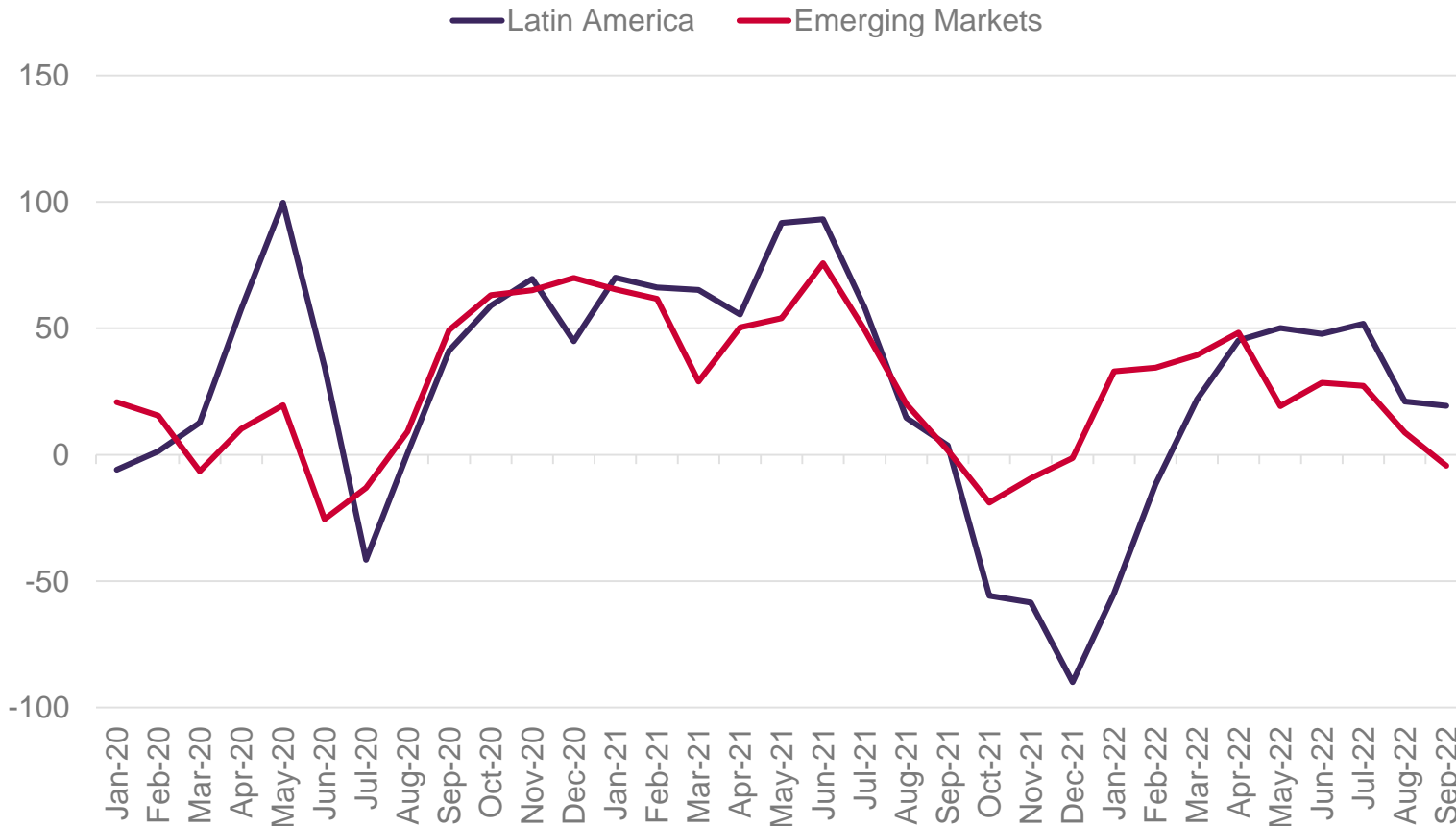
Country	Q2 Real GDP Growth, % y-o-y	Bloomberg Consensus	Difference	FS 2022 Growth Forecast Revision
Argentina	6.9%	6.5%	+0.4%	Held at 3.2%
Brazil	3.2%	2.8%	+0.4%	0.8% to 2.7%
Chile	5.4%	5.7%	-0.3%	1.4% to 1.9%
Colombia	12.6%	12.1%	+0.5%	5.8% to 6.2%
Mexico	2.0%	1.5%	+0.5%	1.5% to 2.0%
Peru	3.1%	3.0%	0.1%	2.4% to 2.7%

Note: Peru is average of monthly GDP prints. Source: Bloomberg, Fitch Solutions

Resilient Private Consumption, External Demand Fueling Growth

Economic Data Consistently Surprised To The Upside Through H122

Emerging Markets - Citi Economic Surprise Index



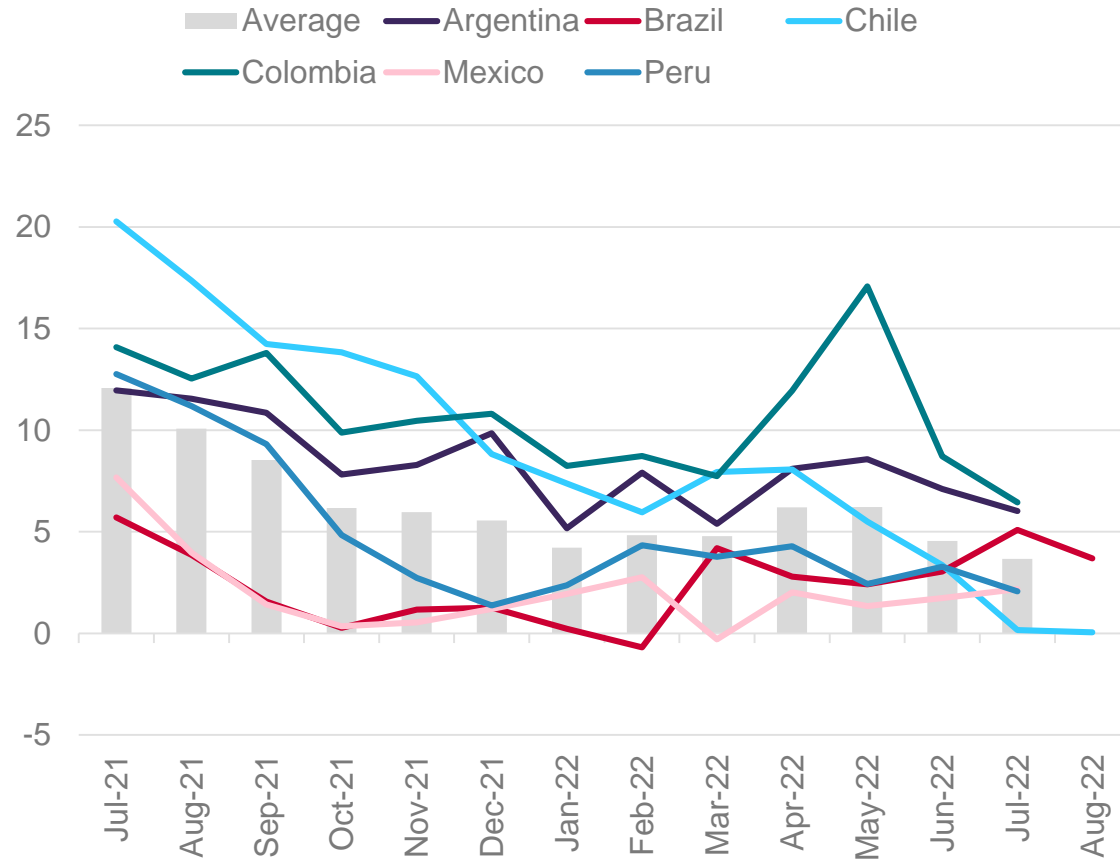
Note: Higher number = economic data surpasses expectations. Source: Citi, Macrobond, Fitch Solutions

- Two major factors have driven the overperformance in economic growth in the year thus far.
- First, private demand held up well, despite high inflation and rising interest rates, due to strength in the labour market, government transfers and remittances, among other factors.
- Second, elevated global commodity prices benefited the region's major exporters, while the tourism sector also recovered.
- Mexico and Central America particularly benefited from strong US consumer demand, boosting exports.

Slowdown Underway In Some Markets

Pace Of Regional Growth Steadily Moderating

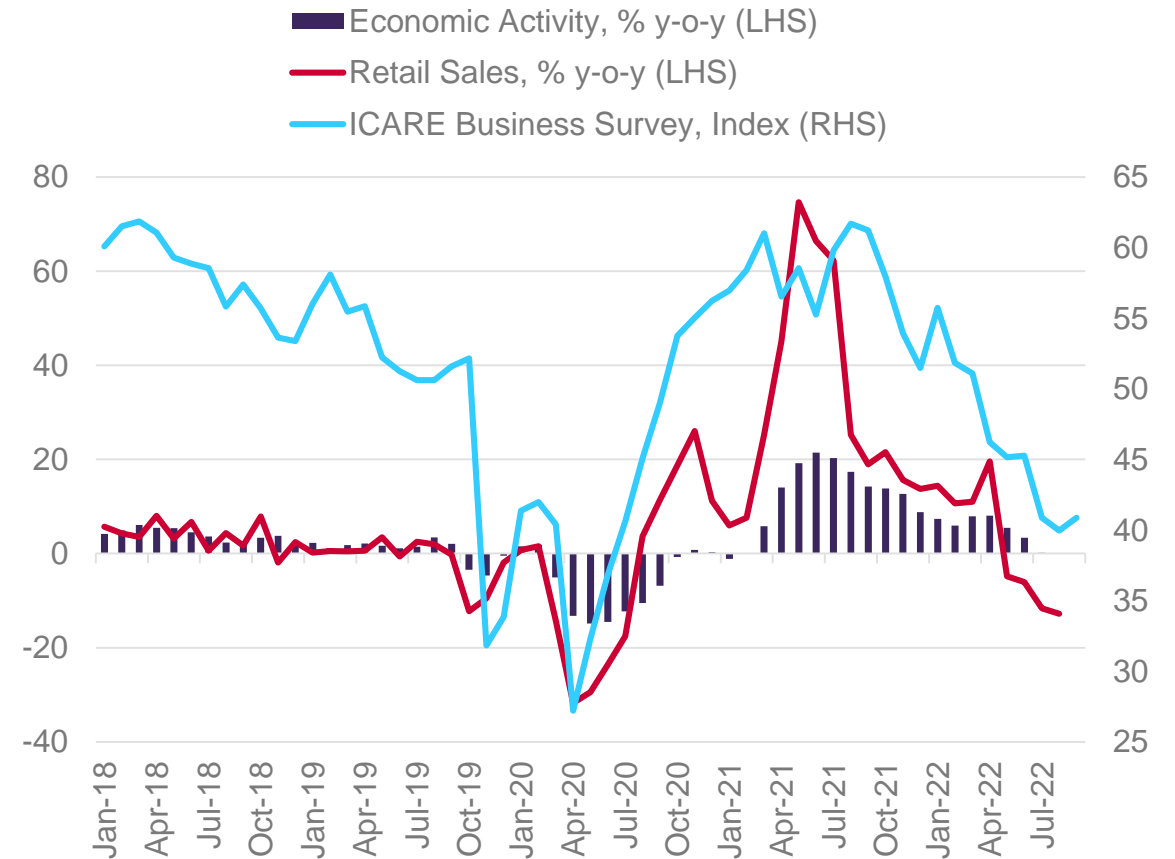
Latin America (Selected) – Economic Activity, % y-o-y (SA)



Source: Macrobond, Fitch Solutions

Data Has Deteriorated Rapidly In Chile

Chile - Economic Activity, Retail Sales And Business Confidence

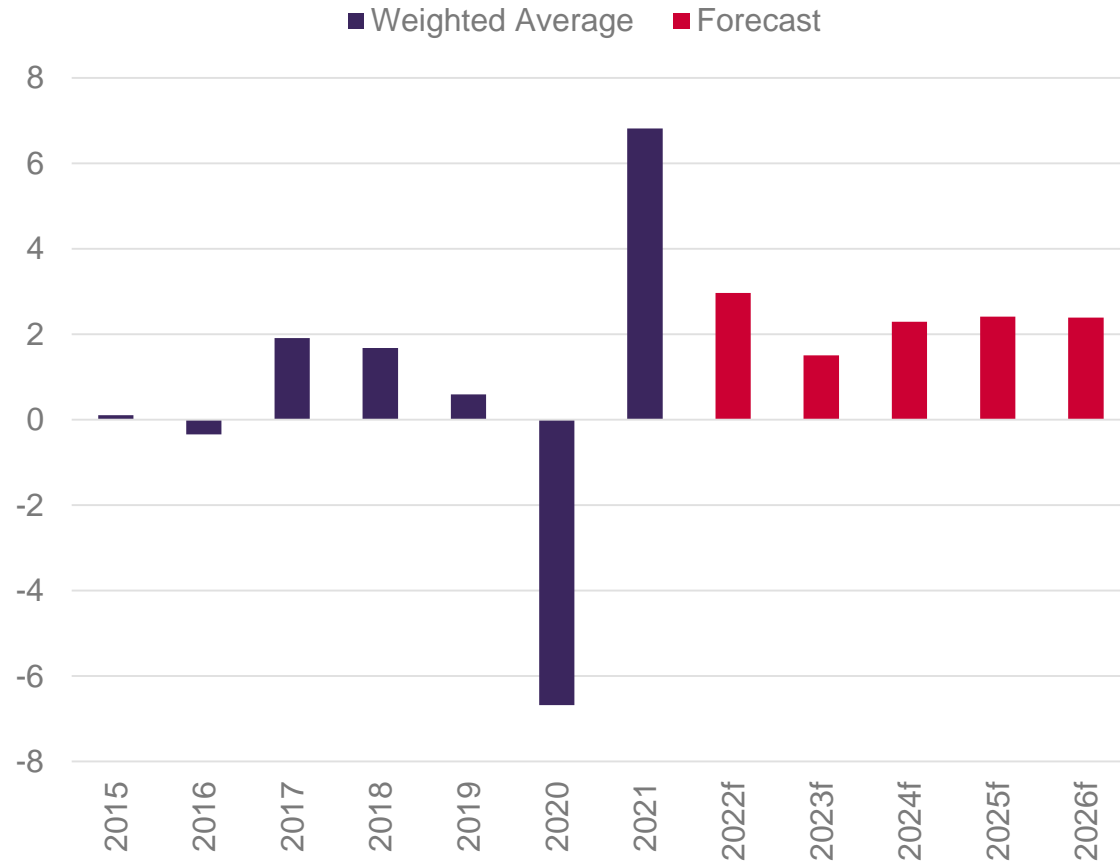


Source: Macrobond, Fitch Solutions

Growth To Slow Sharply In 2023

Regional Growth To Be Cut In Half, From 3.0% To 1.6%

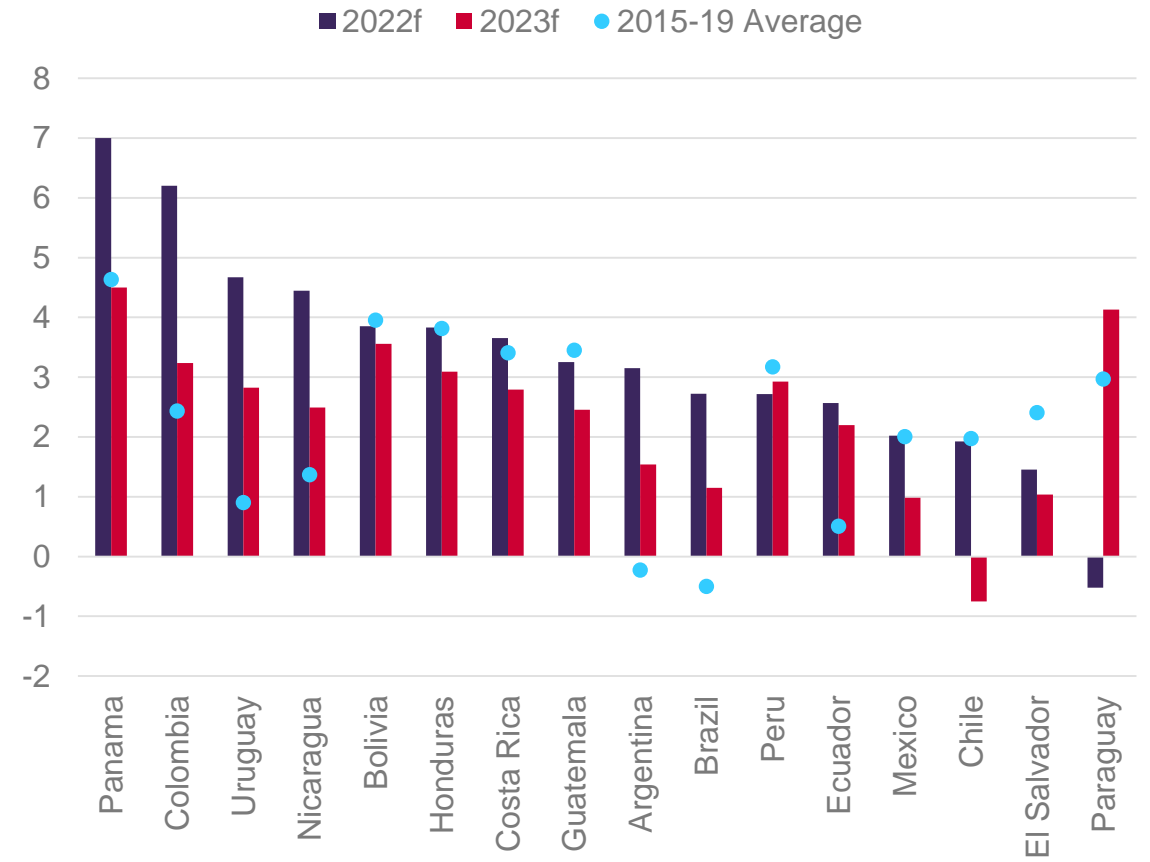
Latin America – Real GDP Growth, % y-o-y



f = Fitch Solutions forecast. Source: Fitch Solutions

Slowdowns Across Almost Every Market

Latin America (Selected) – Real GDP Growth, % y-o-y

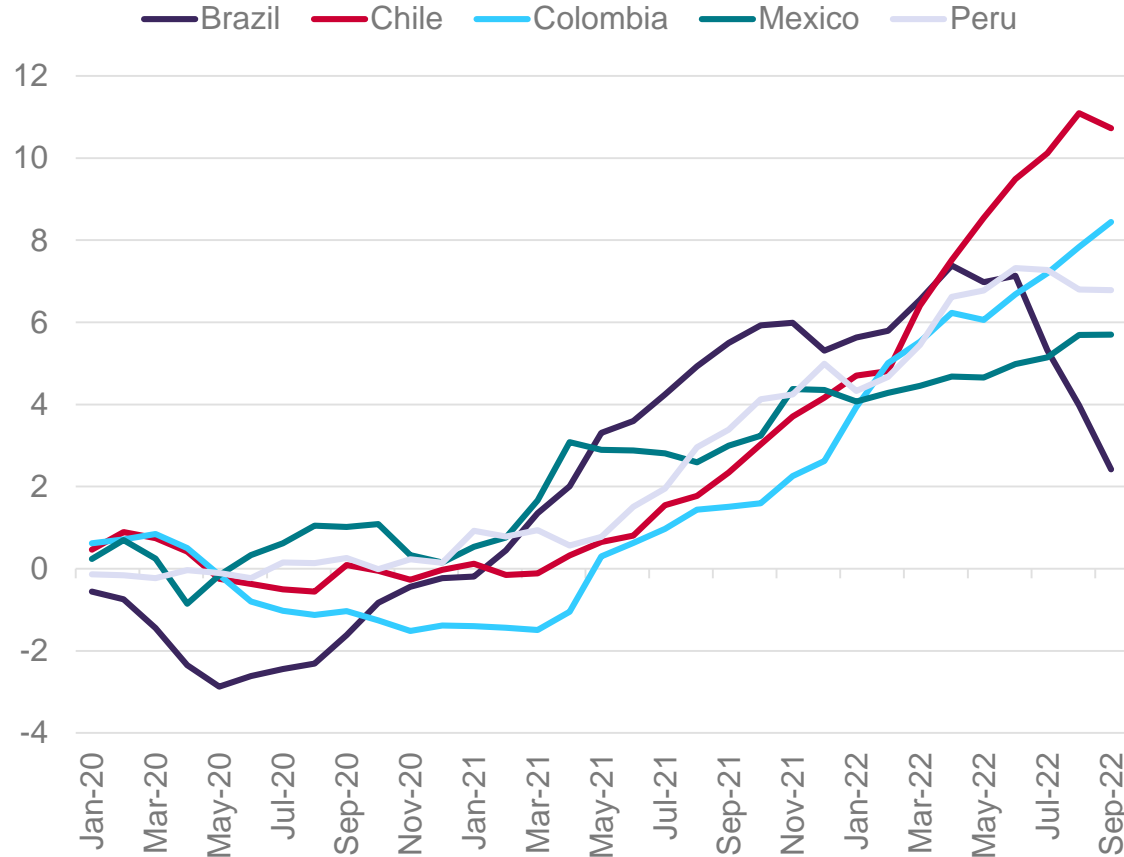


f = Fitch Solutions forecast. Source: Fitch Solutions

Restrictive Interest Rates Will Contribute To Growth Slowdown

Inflation Close To Peak, But Still Very Elevated

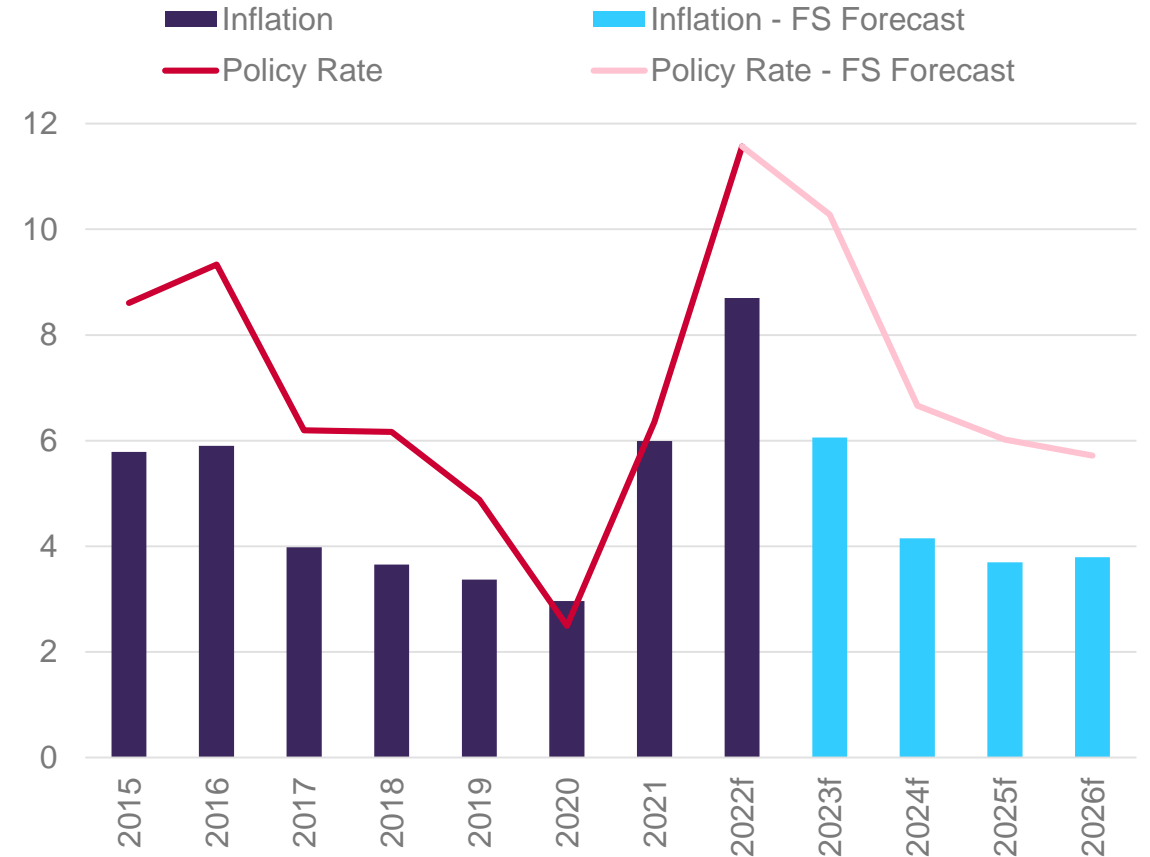
Latin America – Consumer Price Inflation, Deviation From Central Bank Target, %



Source: Macrobond, Fitch Solutions

Rates To Remain High Through 2023

Latin America – Weighted Average Inflation, % y-o-y And Policy Rate, %

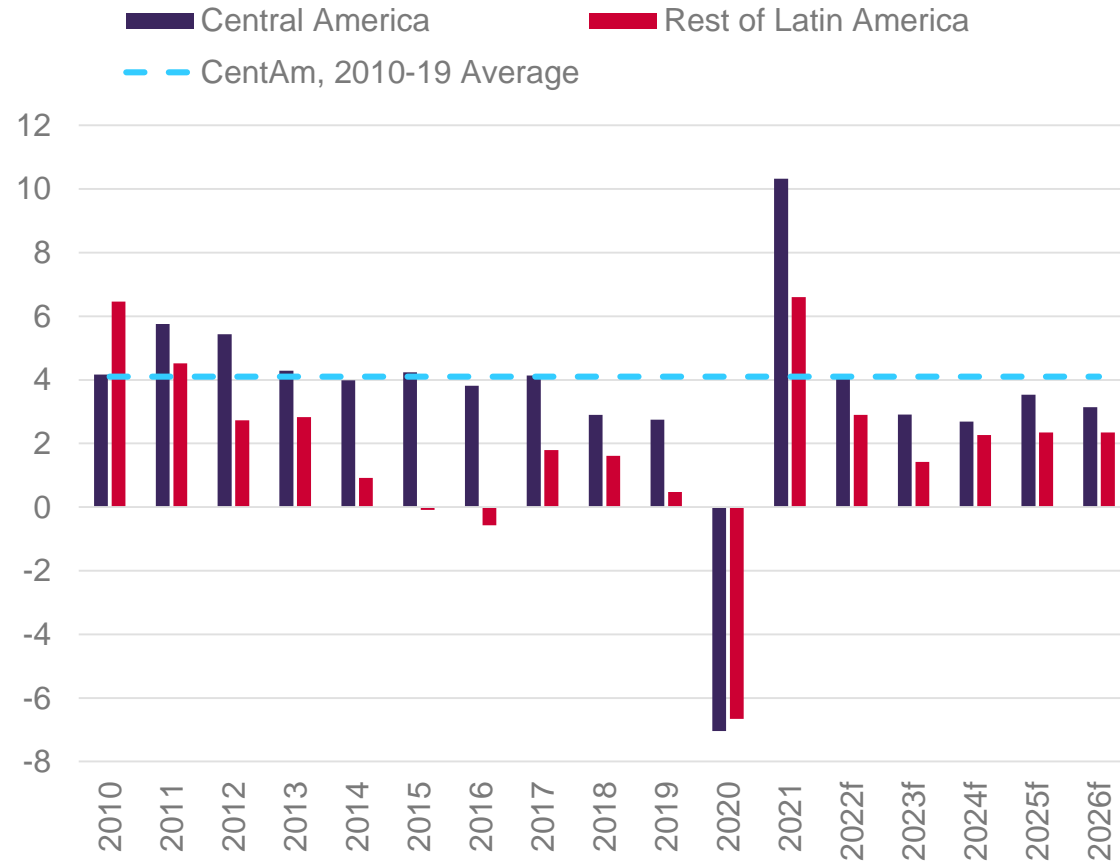


Excludes Argentina and Venezuela. f = Fitch Solutions forecast. Source: Fitch Solutions

Weaker US Growth To Hit Mexico, Central America Particularly Hard

CentAm To Lead Peers, But Lag 2010-19 Average...

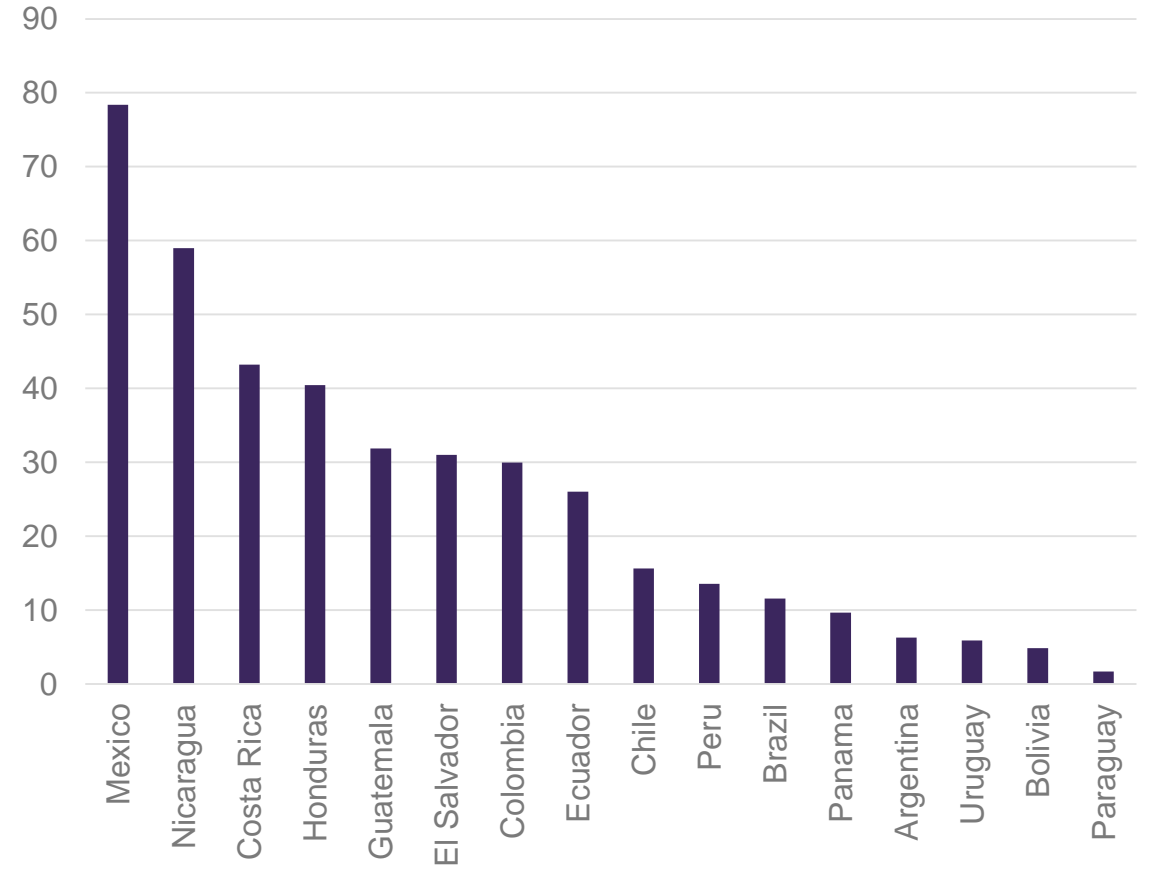
Latin America - Weighted Real GDP Growth, % y-o-y, By Sub-Region



f = Fitch Solutions forecast. Source: Fitch Solutions

...Due To Significant US Exposure

Latin America – Goods Exports To The US, % Of Total, 2019-2021

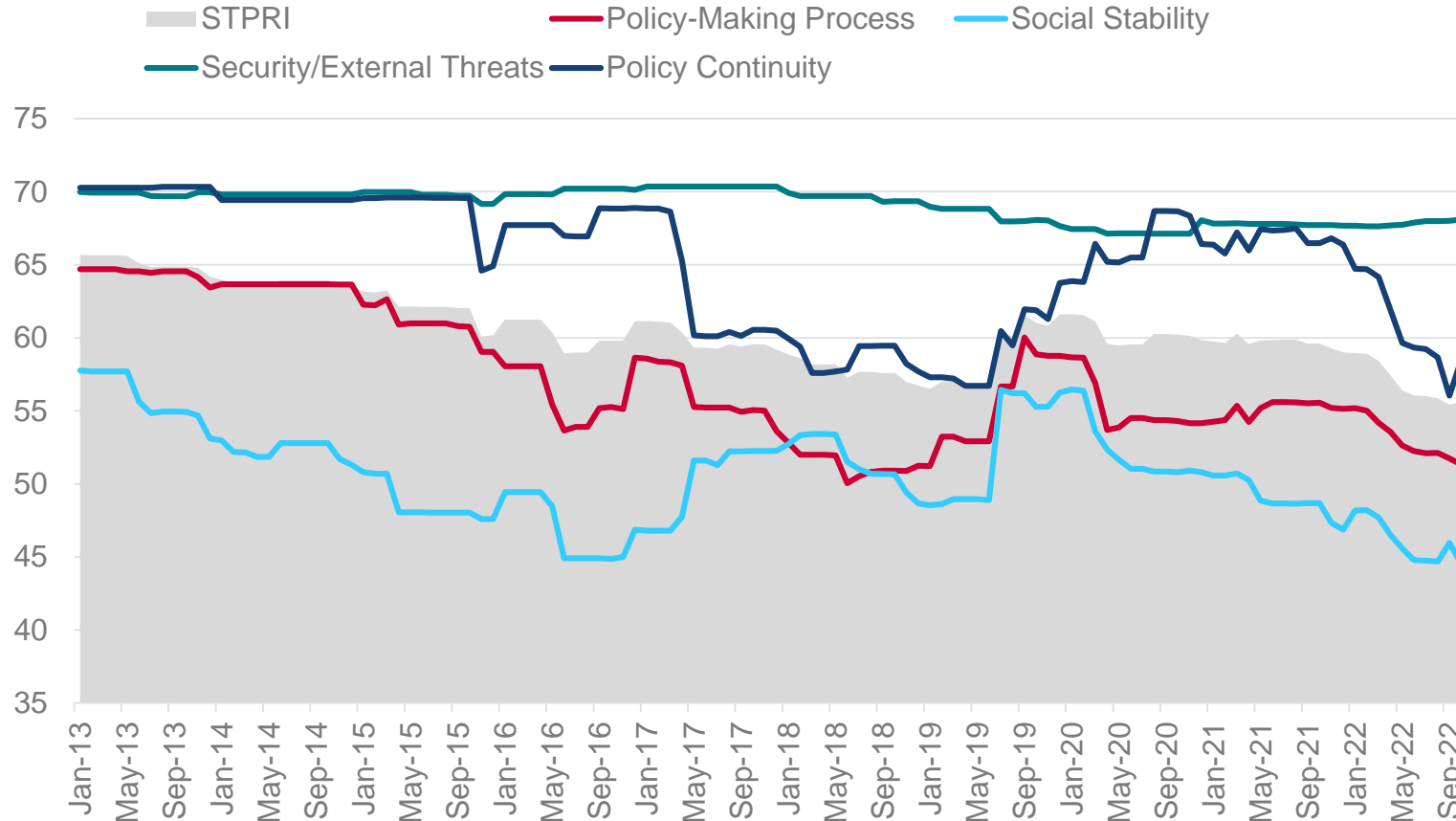


Source: Trade Map, Fitch Solutions

Political Outlook Remains Cloudy

STPRI Score Near An All-Time Low

Latin America – Regional Weighted Average Short-Term Political Risk Index (STPRI), Out Of 100



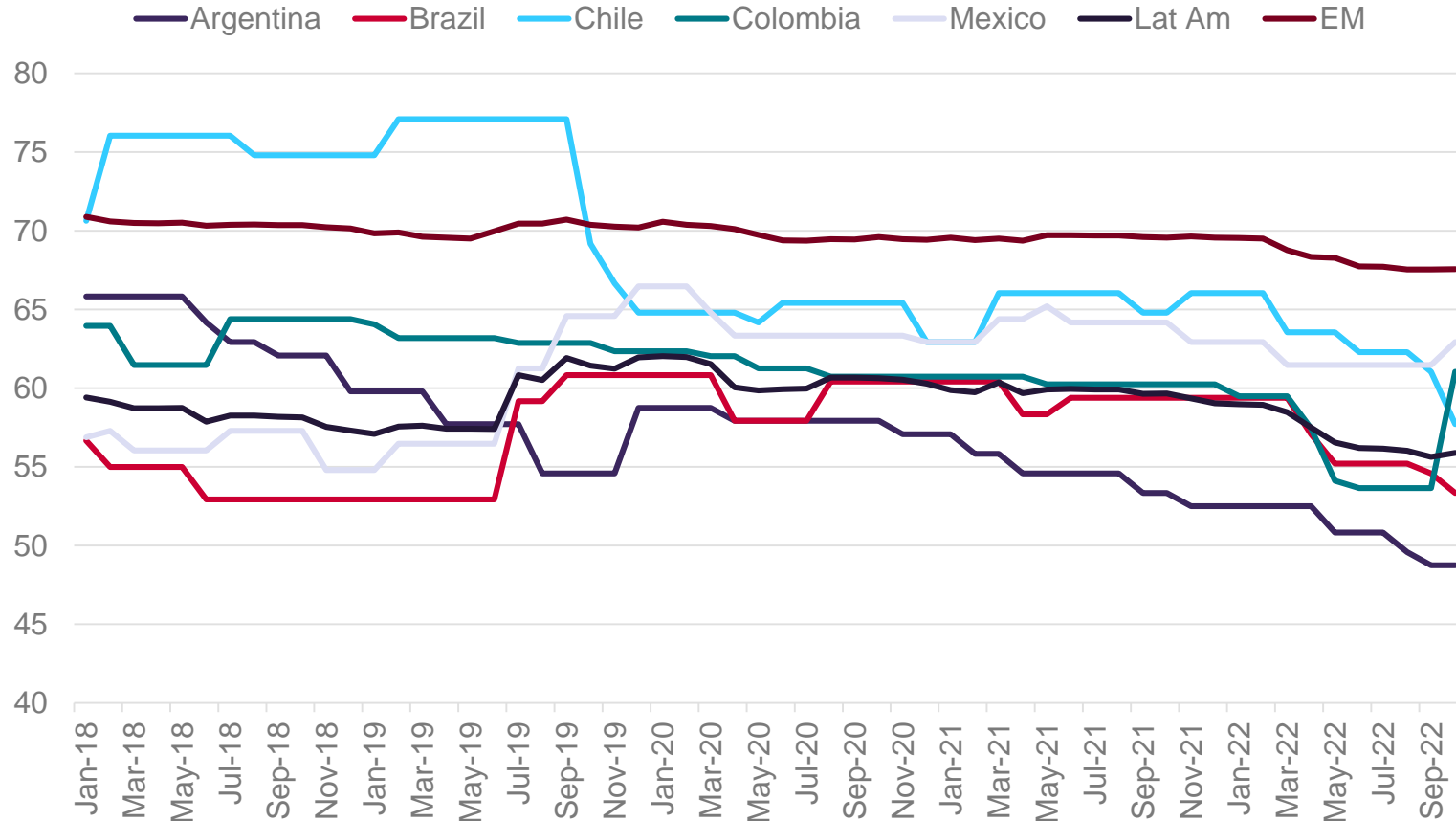
Note: Higher score = lower risk. Source: Fitch Solutions

- Latin America is firmly in a period of intense political risk, on both the street-level and policy fronts.
- The region's score in our Short-Term Political Risk Index is near the lowest level on record.
- At the street level, inflation remains elevated, which has contributed to protests across the region this year.
- At the policy level, looming elections and a broad shift towards left-wing governments have increased uncertainty.

Inflation, Elections, Reform Efforts Driving Political Risk

Significant Political Risk In Most Major Markets

Latin America – Short-Term Political Risk Index, Out Of 100



Note: Higher score = lower risk. Source: Fitch Solutions

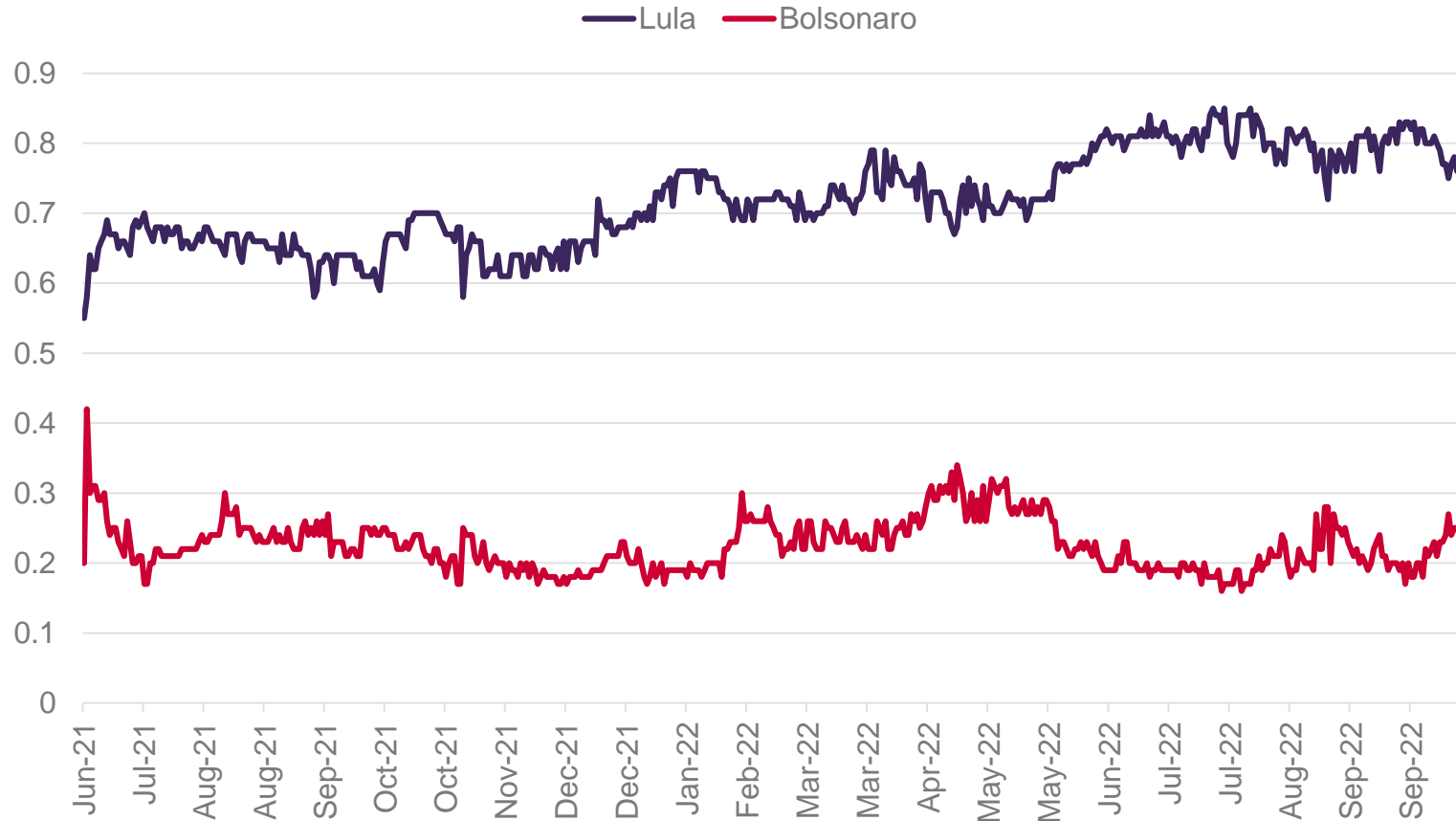
- We see notable political risk in most major markets in Latin America.
- Most immediately, Brazil's tight election and Chile's constitutional rewrite have introduced uncertainty, and Argentina faces competitive elections next year.
- Colombia is an exception, as President Gustavo Petro has governed more pragmatically than expected thus far.
- Political uncertainty should ease in the next 3-6 months, as we get more clarity on policy in major markets such as Brazil, Chile and Colombia and inflation cools.

Country Outlooks

Brazil: Lula Remains The Favourite To Win The Presidency

Betting Market Continues To Favour Lula

PredictIt – “Who will be elected president of Brazil in 2022?”, USD, Daily



Source: PredictIt, Macrobond, Fitch Solutions

- Despite Bolsonaro’s surprisingly strong performance, Lula won the most votes in the first round by a 48.4% to 43.2% margin.
- Given the competitive race and the loyalty of their respective bases, both Lula and Bolsonaro have adopted a more moderate tone to appeal to undecided centrists.
- While Bolsonaro can still win, the math is difficult. The third- and fourth-placed finishers, Simone Tebet and Ciro Gomes (who won 7.2% combined), have already endorsed Lula.
- Bolsonaro will have to win over some of Lula’s voters or hope that turnout shifts in his favour to help close the gap.

Brazil: Closer Runoff Increases Risk Of A Contested Election

Brazil – Scenarios For The Days Following A Lula Victory

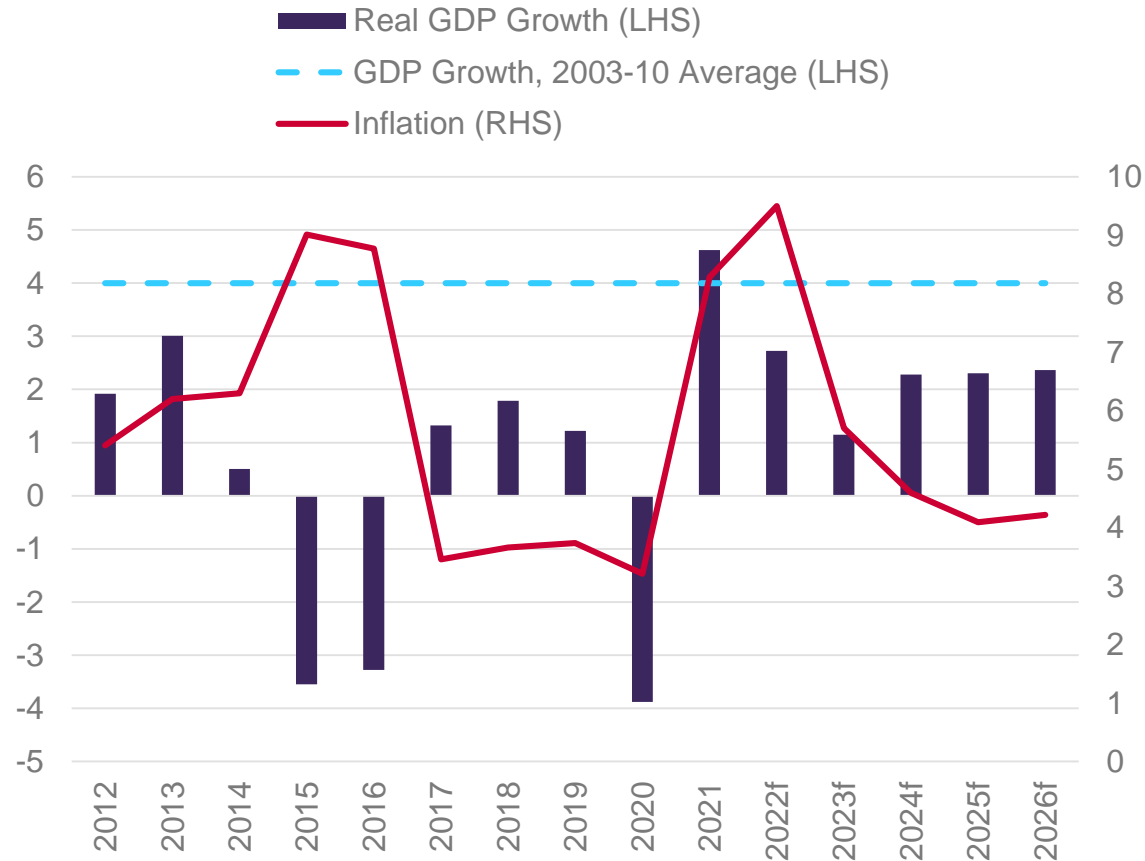
Scenario	Description	Impact	Likelihood
Peaceful Transition	Bolsonaro accepts election result relatively quickly, possibly encourages supporters to do the same. Risk of sporadic protests that would quickly fade. Lula is inaugurated on January 1, 2023.	Rally in financial markets and business and consumer confidence. Increased governability early in Lula's term.	Low Probability
Bolsonaro Contests The Result, But Lula Still Takes Office	Bolsonaro refuses to accept defeat, launches legal challenges and calls his supporters to the streets for disruptive protests. Security forces and political institutions broadly do not back Bolsonaro, his legal challenges are rejected, and Lula is inaugurated.	Financial market selloff and a notable hit to business investment, though likely a rally when Lula takes office. A more challenging environment for Lula, as Bolsonaro's supporters reject his legitimacy.	Medium-To-High Probability
Attempted Self-Coup	With the backing of at least some element of the armed forces Bolsonaro attempts to remain in office by force. Risk of direct physical confrontations in Brasilia, and clashes between supporters of the two candidates. Result could be parallel governments claiming legitimacy, and possible fractures between Lula- and Bolsonaro-supporting states.	Severe financial market selloff, capital flight and collapse in confidence. High risk of sanctions from foreign governments. Brazilian economy likely falls into recession.	Low-To-Medium Probability

Note: Scenarios are intended to be indicative, rather than comprehensive. Source: Fitch Solutions

Brazil: Challenging Economic Backdrop Would Await Lula

Growth Unlikely To Return To Lula Boom Years

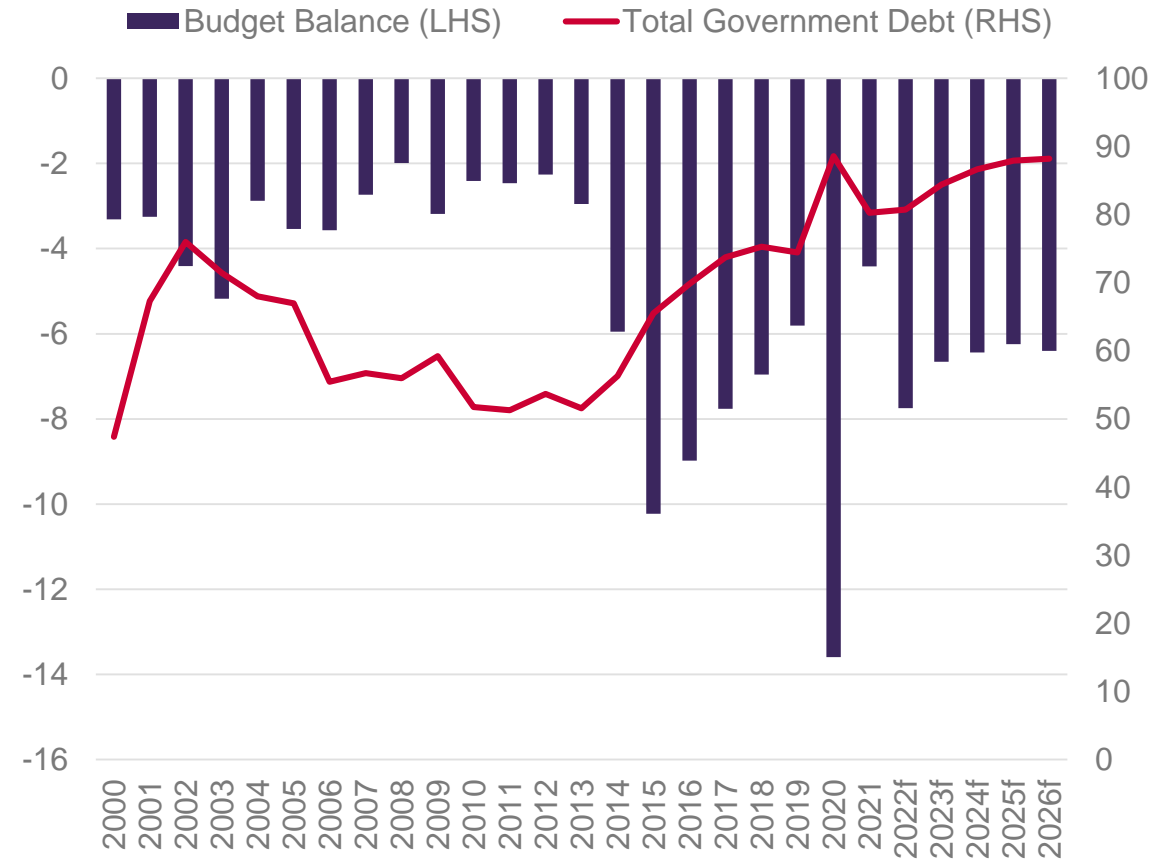
Brazil – Real GDP Growth And Average Inflation, % y-o-y



f = Fitch Solutions forecast. Source: Macrobond, Fitch Solutions

Fiscal Constraints Will Begin To Bite

Brazil – Budget Balance And Total Government Debt, % of GDP

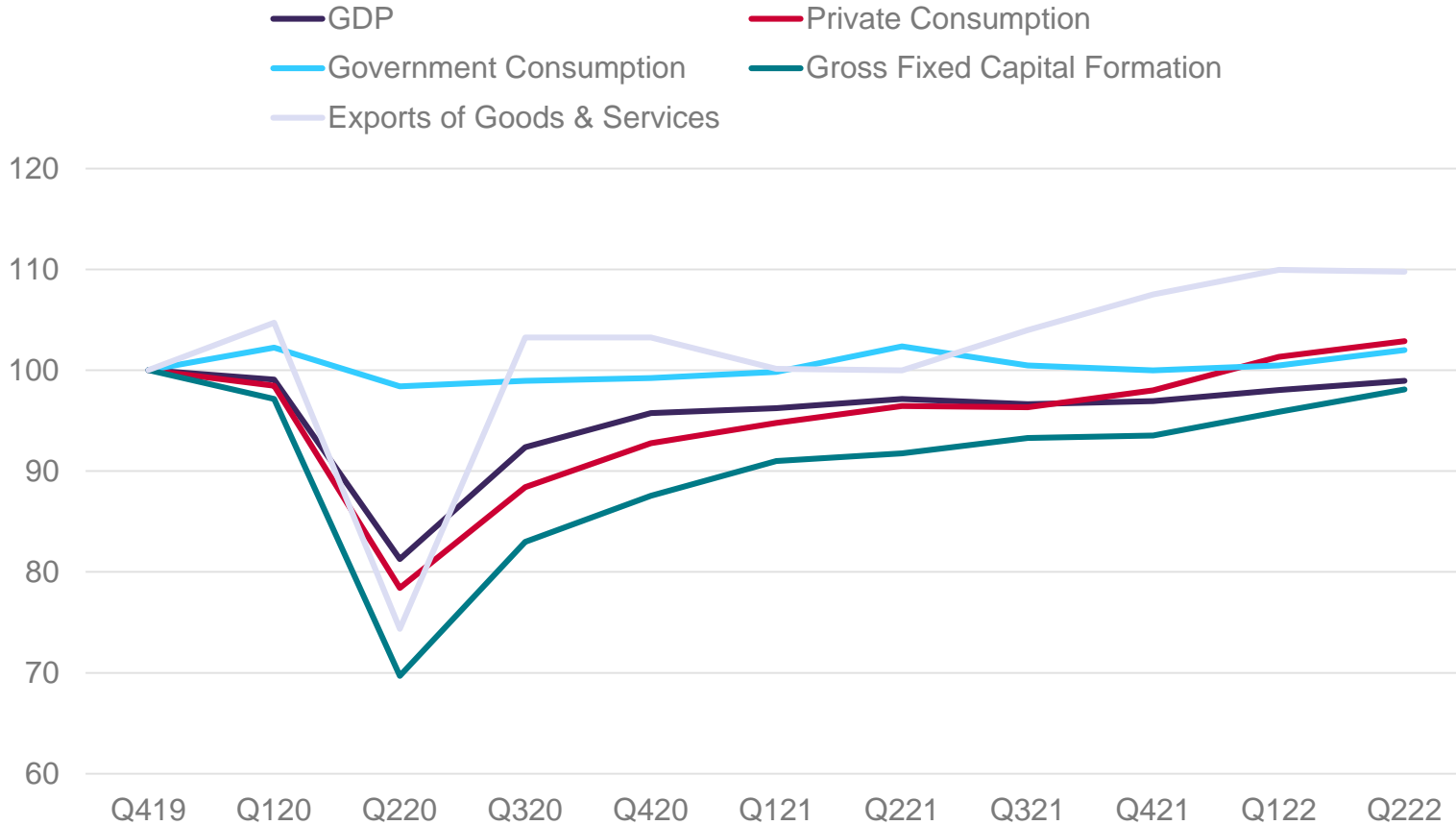


f = Fitch Solutions forecast. Source: Macrobond, Fitch Solutions

Mexico: Growth To Slow In 2023 Alongside US

Private Consumption, Exports Drove H122 Growth

Mexico - Quarterly Real GDP Index, SA, Q419 = 100



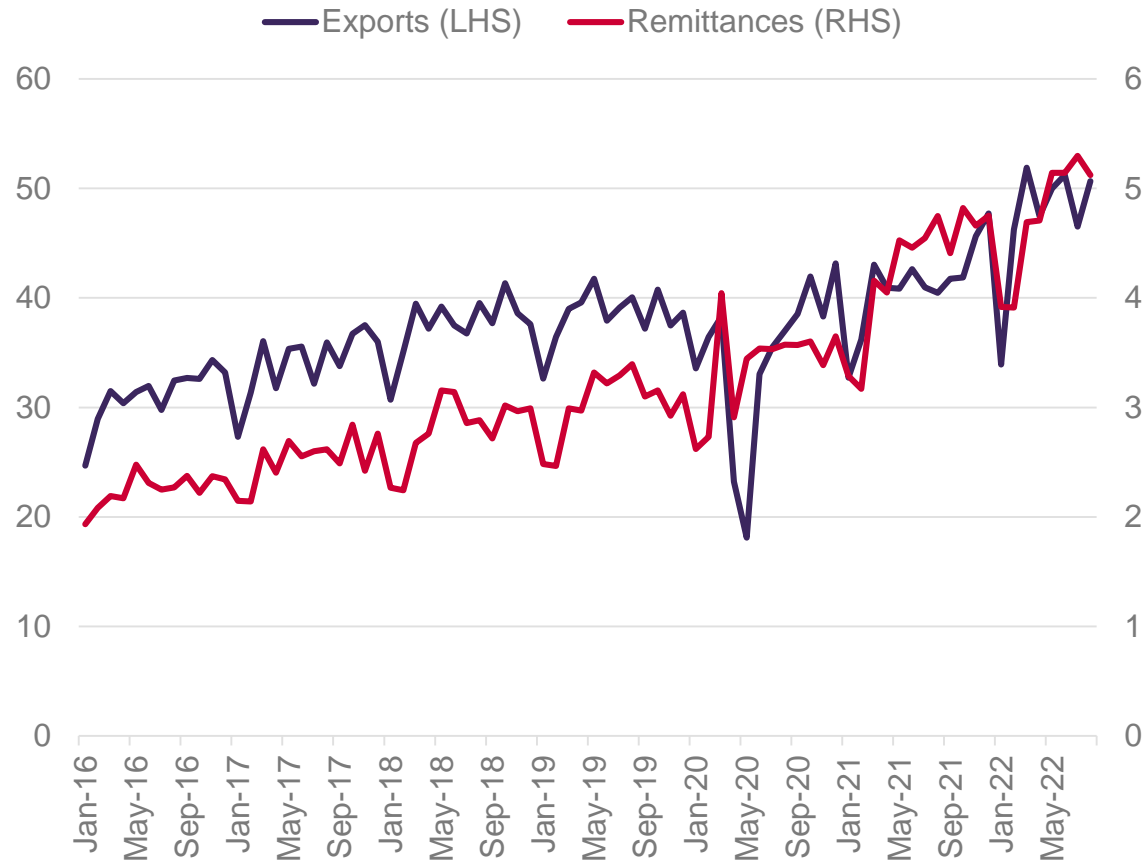
Source: Macrobond, Fitch Solutions

- We forecast 2.0% growth in Mexico in 2022, as the strength of US private consumption and labour market has propped up Mexican exports and remittance inflows.
- This has offset weak investment growth and high inflation, which has in turn sparked a rate hiking cycle by the Banco de México (Banxico).
- However, growth will slow to only 1.0% in 2023, as the US economy falls into a mild recession in H223. This will reduce exports and remittances.
- Additionally, Banxico will keep rates elevated through 2023, reducing borrowing and business investment.

Mexico: Weaker External Environment, Higher Rates Ahead

Exports, Remittances To Fall From Record Highs

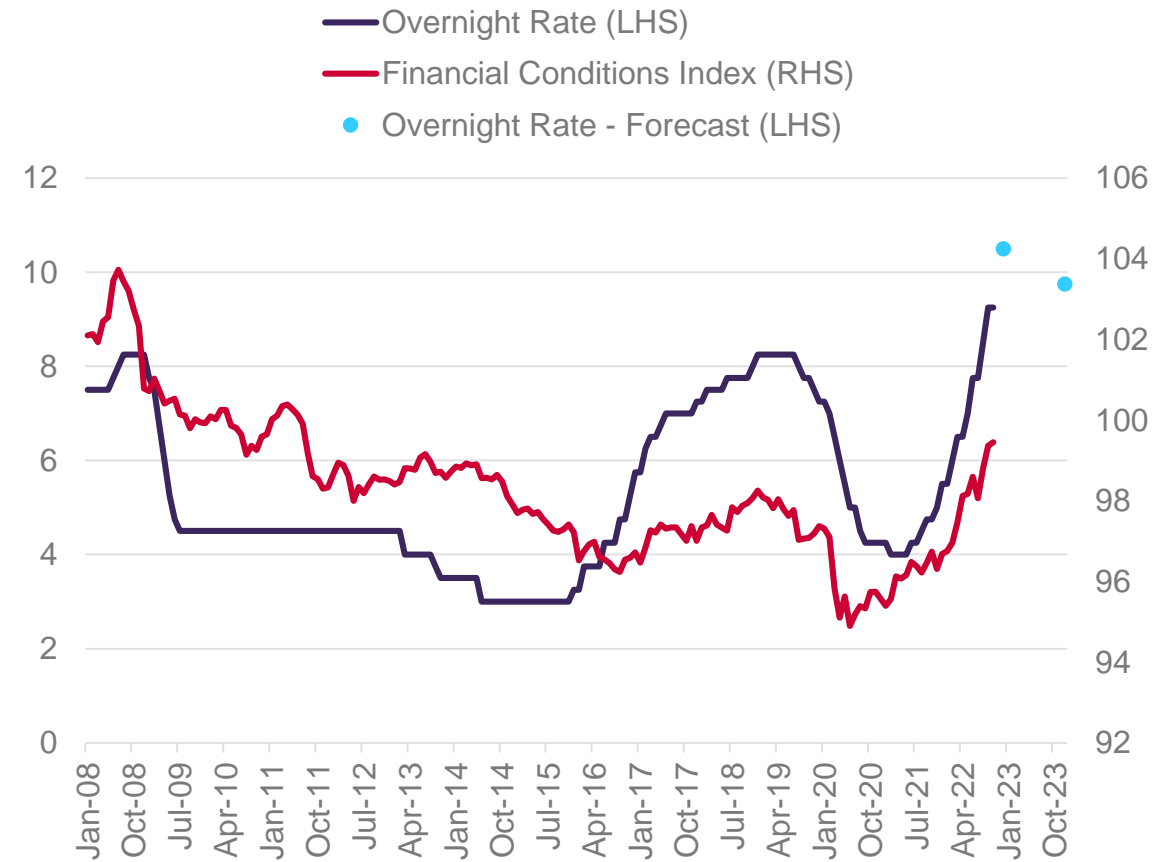
Mexico – Goods Exports And Remittances, USDbn



Source:

Banxico's Tightening Cycle Has Further To Run

Mexico – Policy Interest Rate, % & Goldman Sachs Financial Conditions Index

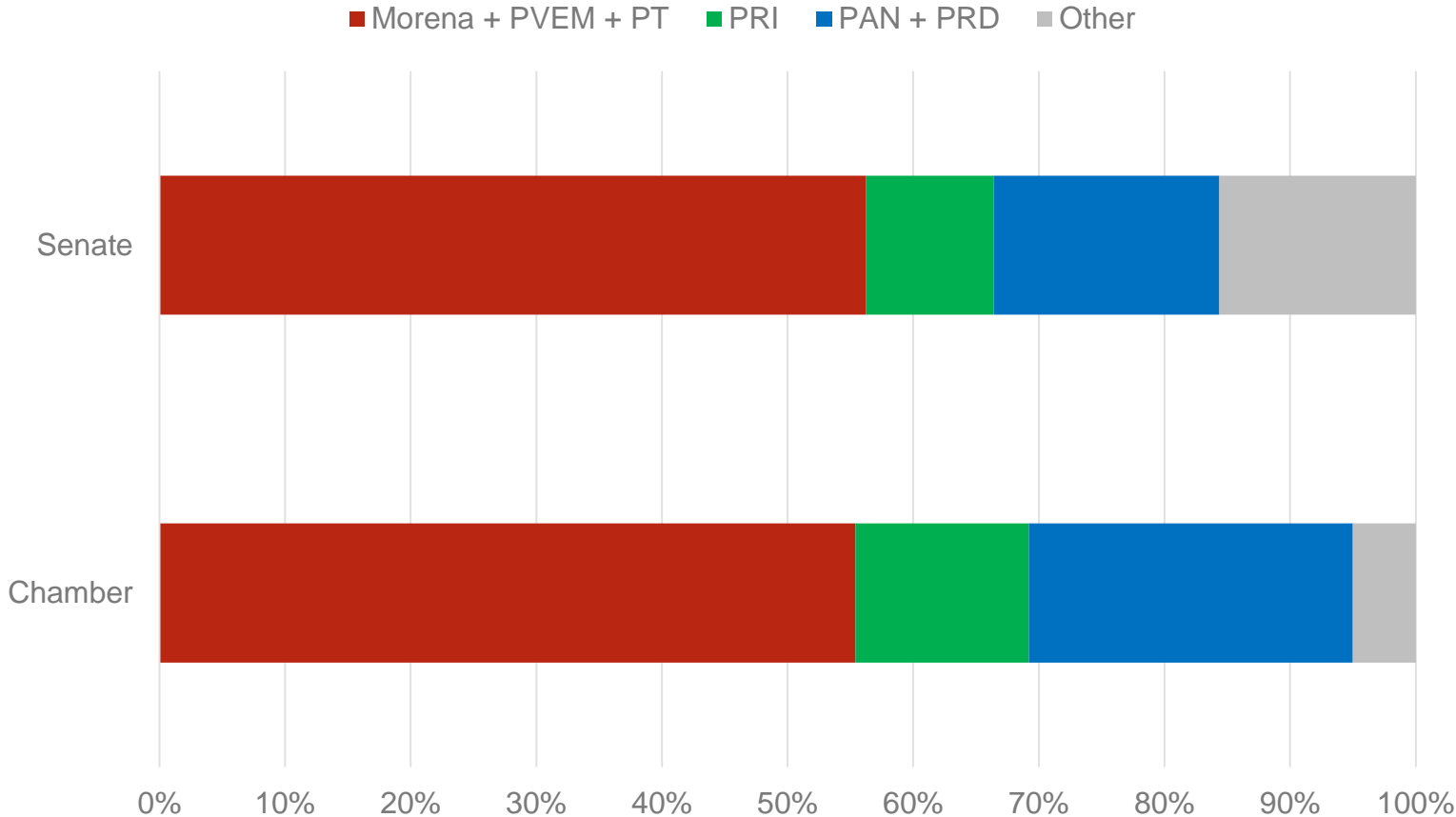


Source: Bloomberg, Fitch Solutions

Mexico: Fractured Opposition Reinforces Morena's Dominance

Support From PRI Gives Morena's Alliance Huge Advantage

Mexico – Seats In Congress By Grouping, % Of Total



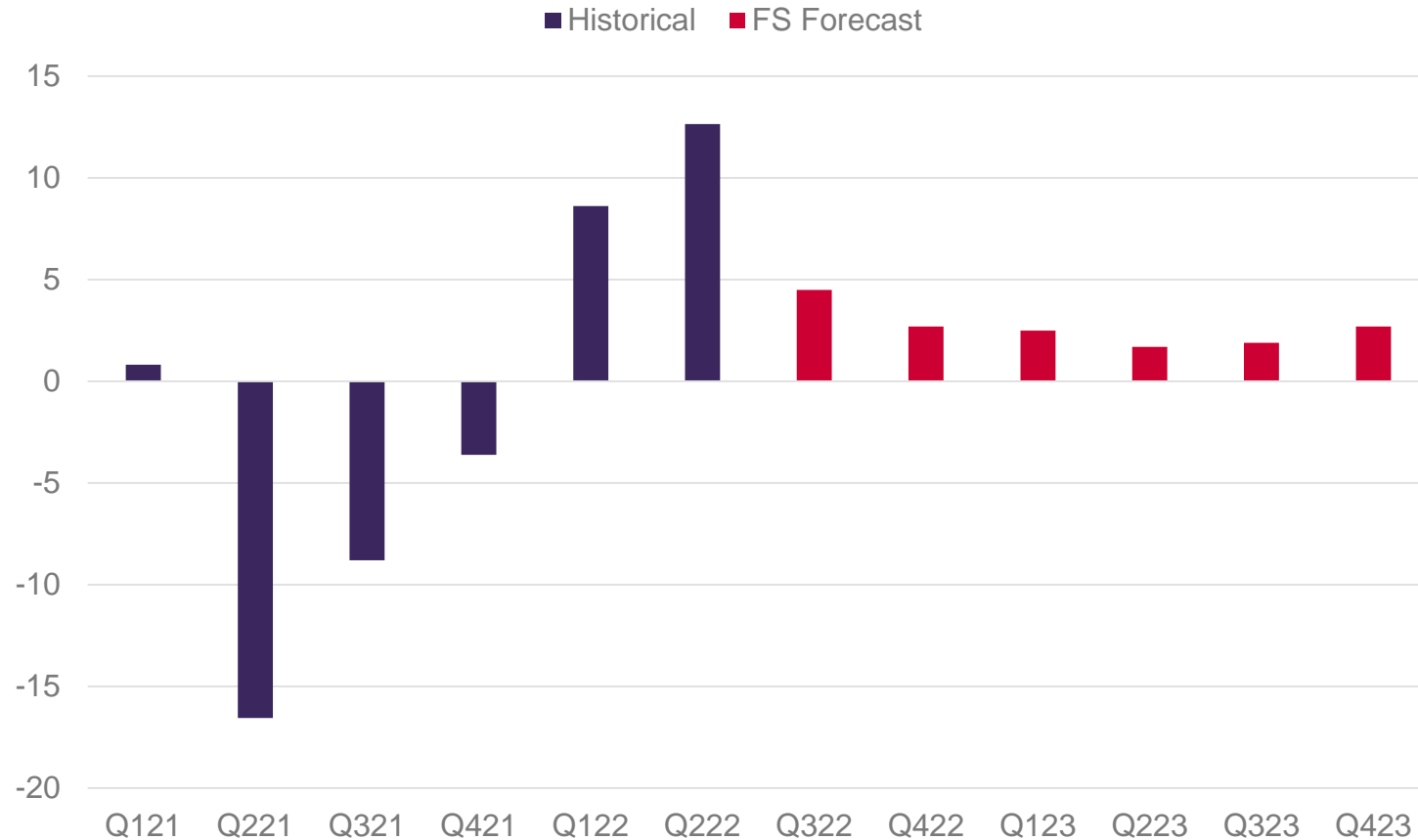
Source: Fitch Solutions

- The opposition PRI has voted with the governing Morena-PVEM-PT alliance on two recent bills focused on the role of the military in Mexico's public security.
- This is a major blow to the opposition, as the PRI had been set to work with the PAN and PRD to block AMLO's agenda and win back seats in the 2024 elections.
- Consistent support from the PRI would greatly ease policymaking in Mexico, and would ensure Morena remains the dominant political force after 2024.
- That said, a recent series of leaks from the Mexican military have put AMLO on the defensive, and will continue to shape the national dialogue.

Colombia: From Regional Outperformer To Below-Trend Growth

Easing Private Consumption And Investment Underpin 2023 Slowdown

Colombia – Real GDP Growth, % y-o-y



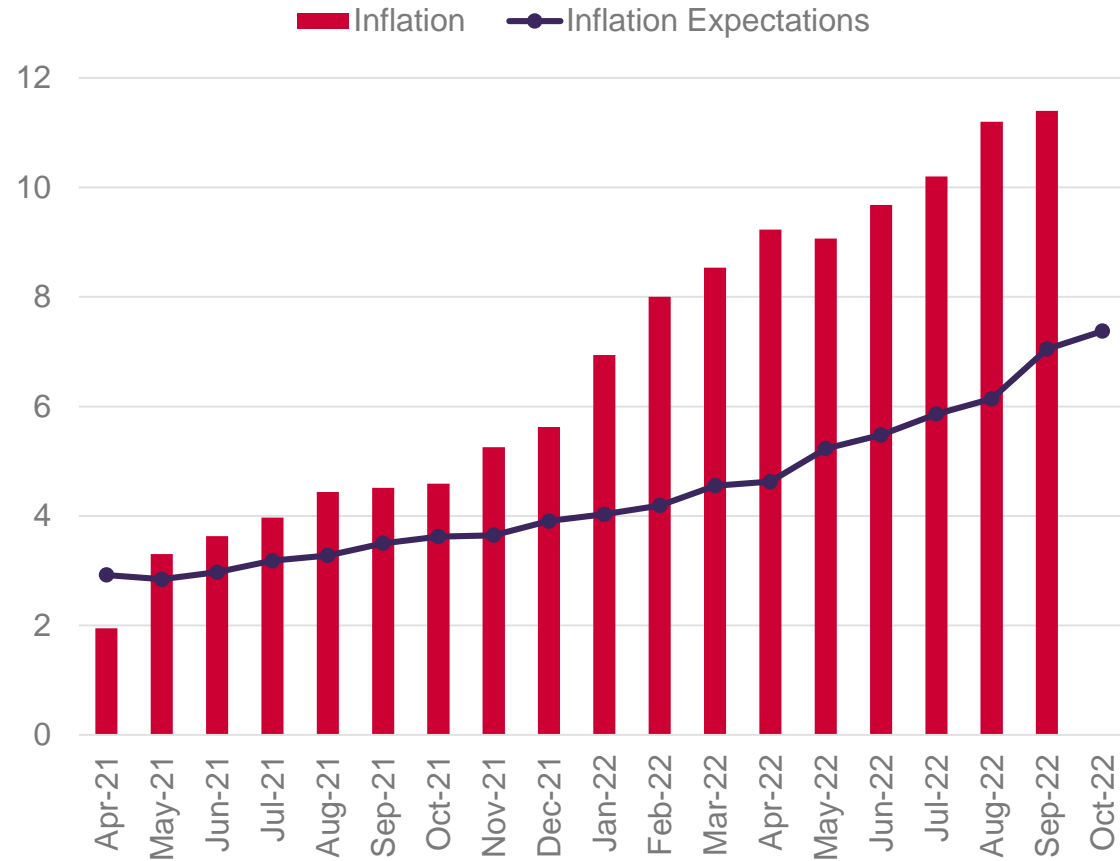
Source: DANE, Fitch Solutions

- Resilient private consumption and strong agricultural and industrial export growth underpin our forecast of 6.9% growth in 2022.
- In 2023, we expect that inflationary pressures will have a more pronounced impact on household purchasing power, substantially weakening private consumption growth.
- Additionally, elevated interest rates through the first half of next year, coupled with higher tax burdens on businesses, particularly on the Oil & Gas sector, will weaken investment growth.
- We expect growth will slow substantially to 2.2% in 2023, below the pre-pandemic trend of 2.4% between 2015 and 2019.

Colombia: Inflation Expectations Climb While Business Confidence Fall

Inflation To Dampen 2023 Consumption

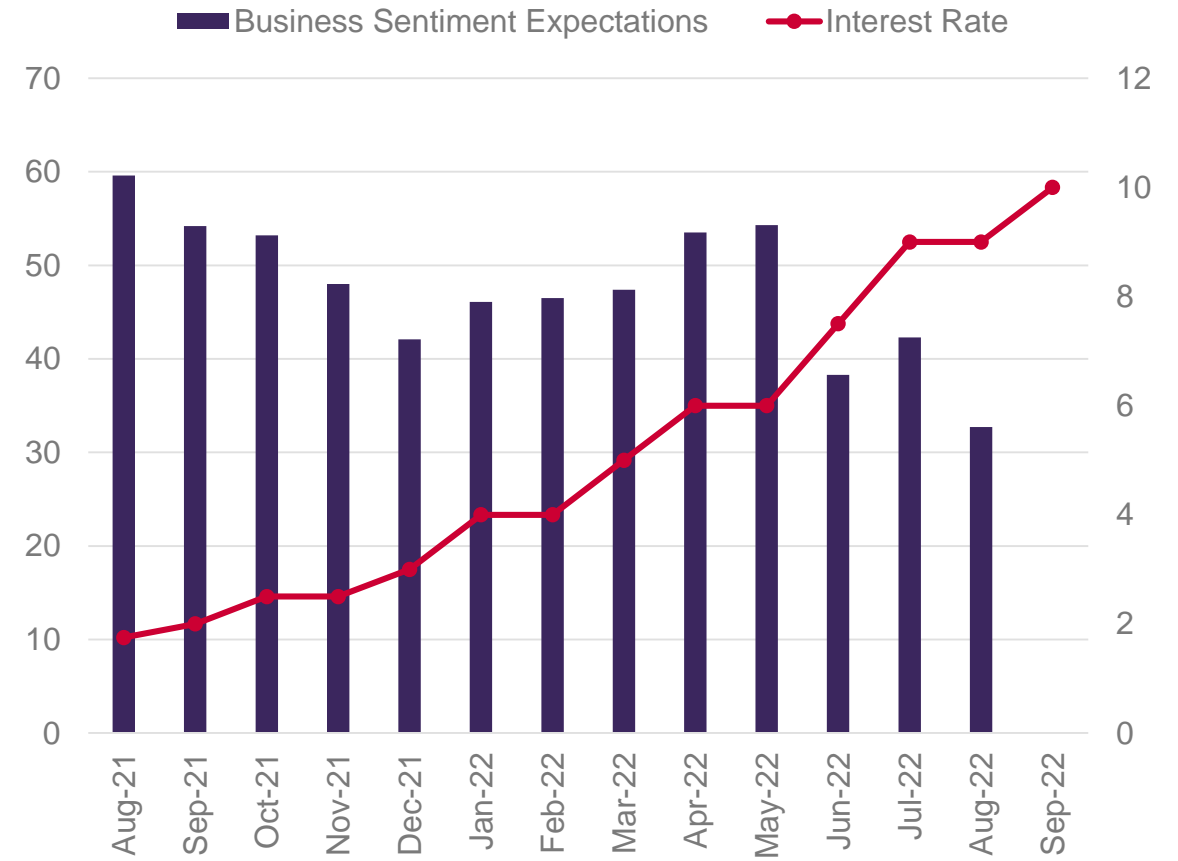
Colombia – 12-Month Inflation Expectations & Headline Inflation, % y-o-y



Source: BanRep, Fitch Solutions

Business Confidence Sours As Hiking Cycle Continues

Colombia – 6-Month Business Sentiment Expectations & Policy Interest Rate

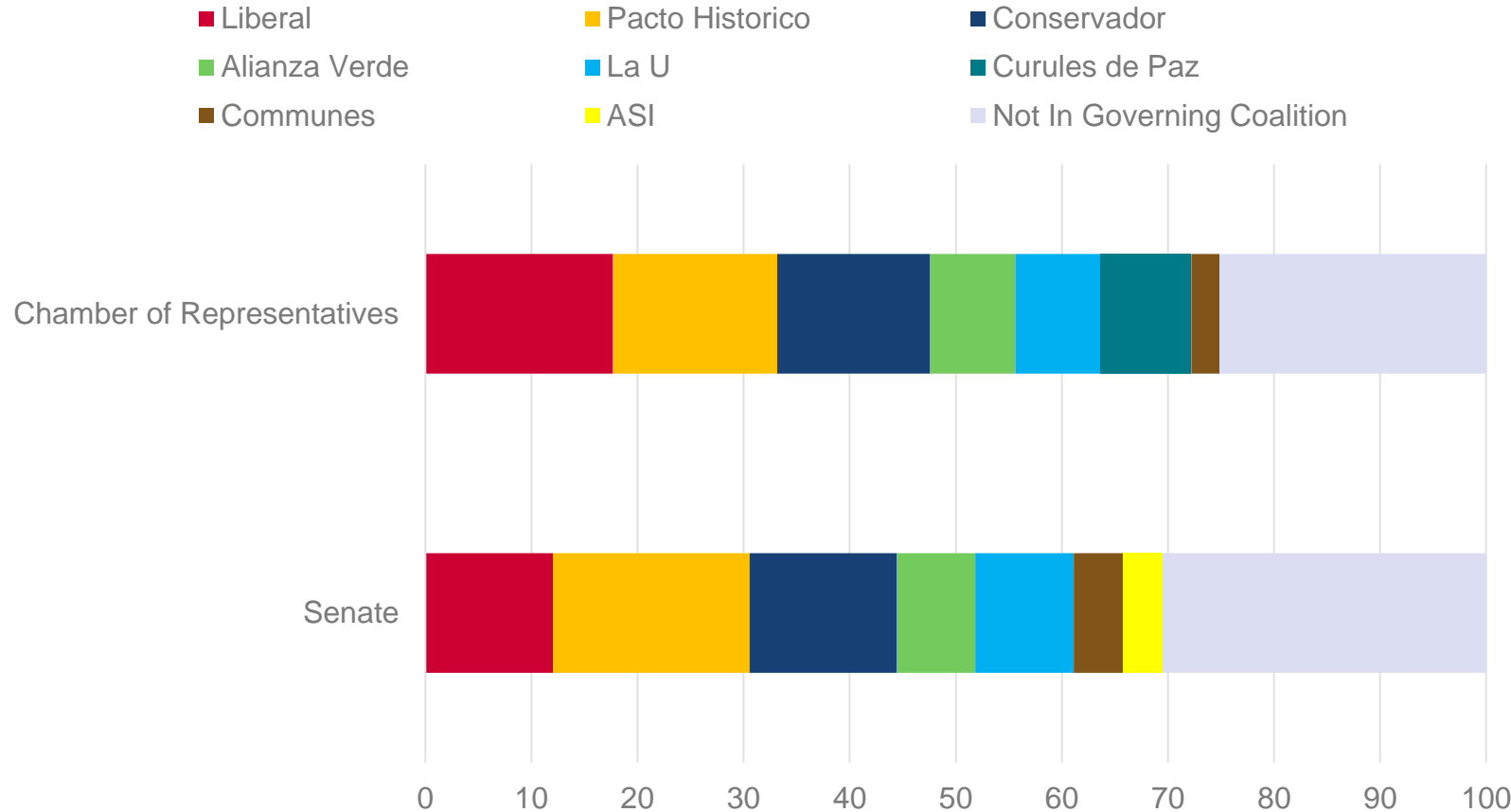


Source: Fedesarollo, BanRep, Fitch Solutions

Large, Diverse Coalition A Double-Edged Sword For Petro's Policy Agenda

Large Governing Coalition Will Facilitate Policymaking Through Early 2023

Colombia – Governing Coalition Breakdown, % of Total Seats In Each Chamber



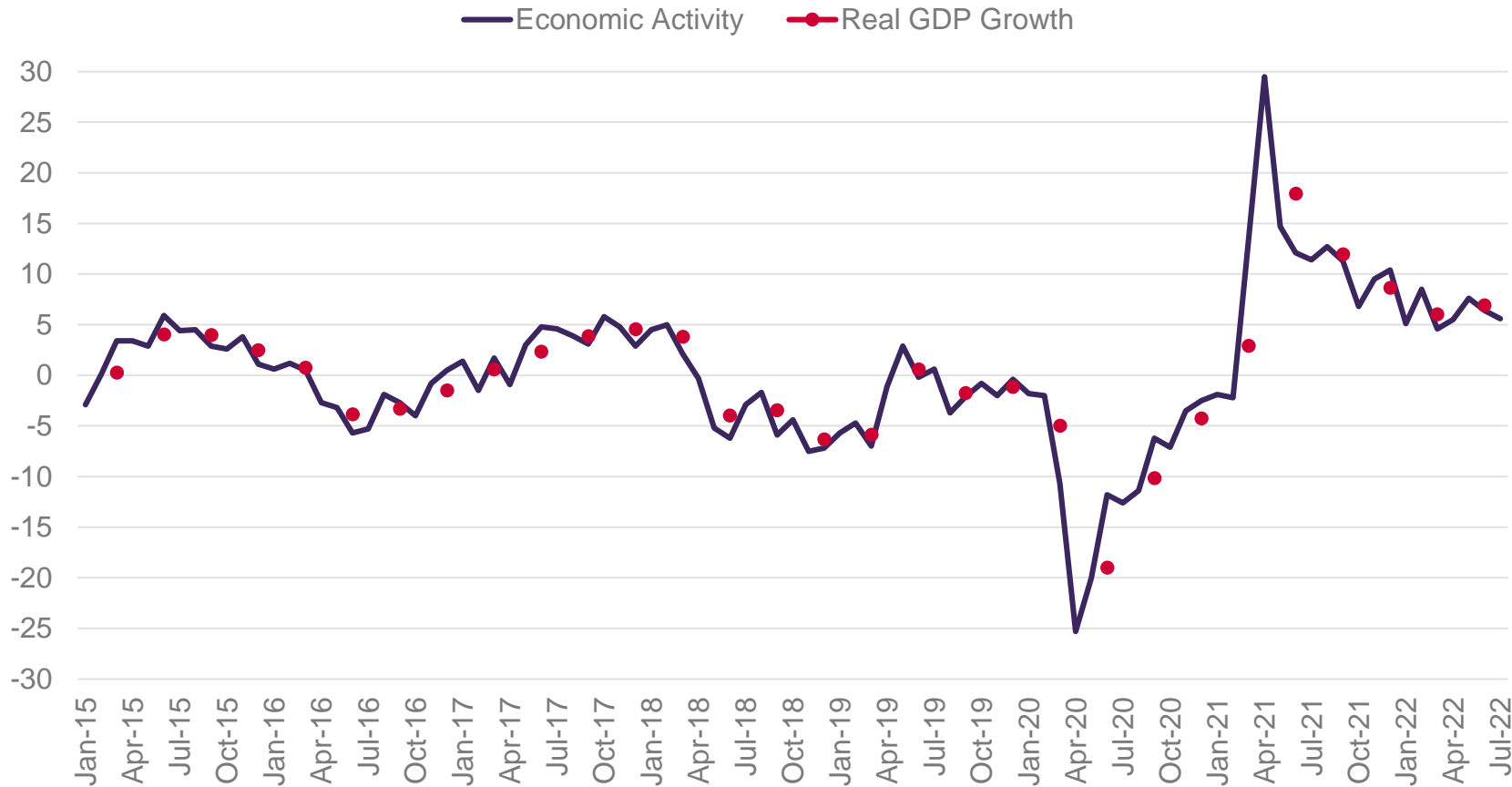
Source: Fitch Solutions

- With the inclusion of centre-right parties in his governing coalition, President Gustavo Petro will have wider latitude to pass his policy agenda.
- That said, consensus-building and compromise will be key to passing legislation.
- While we expect the Petro administration's flagship tax reform bill will pass in November, more left-leaning bills will face greater obstacles.
- In the year ahead, persistent inflationary pressures and rising public unrest pose the greatest risk to policymaking in Colombia.

Argentina: Economic Growth To Slow in 2023

Economic Growth Set To Weaken In 2023 After A Strong Performance In 2022

Argentina – Monthly Economic Activity Growth & Quarterly Real GDP Growth, % y-o-y



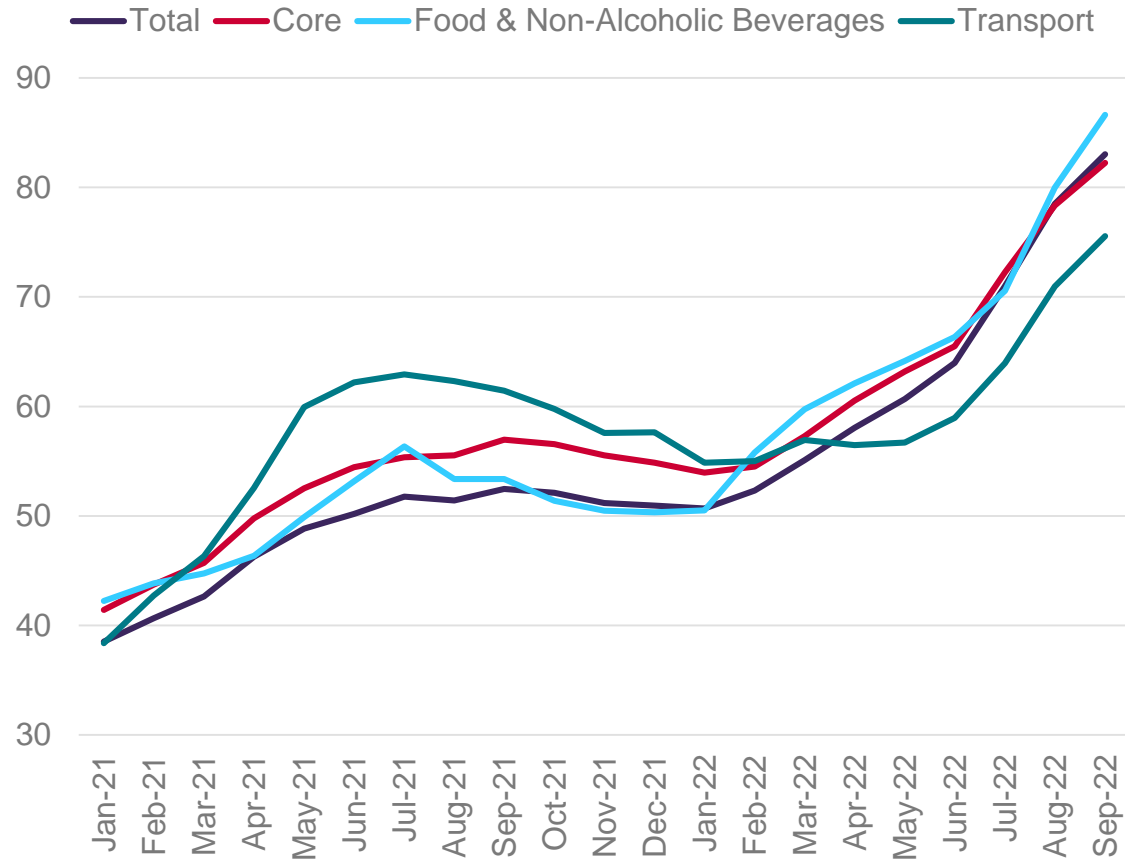
Source: INDEC, IMF, Fitch Solutions

- We expect Argentina will see 3.2% growth in 2022 due to robust agricultural commodity exports and resilient private consumption.
- While we expect stronger agricultural yields in 2023, elevated inflationary pressures and subsidy cuts will substantially weigh on private consumption growth.
- Additionally, a hawkish monetary policy by the BCRA and lingering political risks will also weigh on investment growth.
- We forecast Argentine growth will fall to 1.5% next year, still higher than its pre-pandemic average of -0.2%.

Argentina: Inflationary Pressures & Financial Volatility To Persist In 2023

Food And Fuel Prices Continue To Drive Headline Inflation

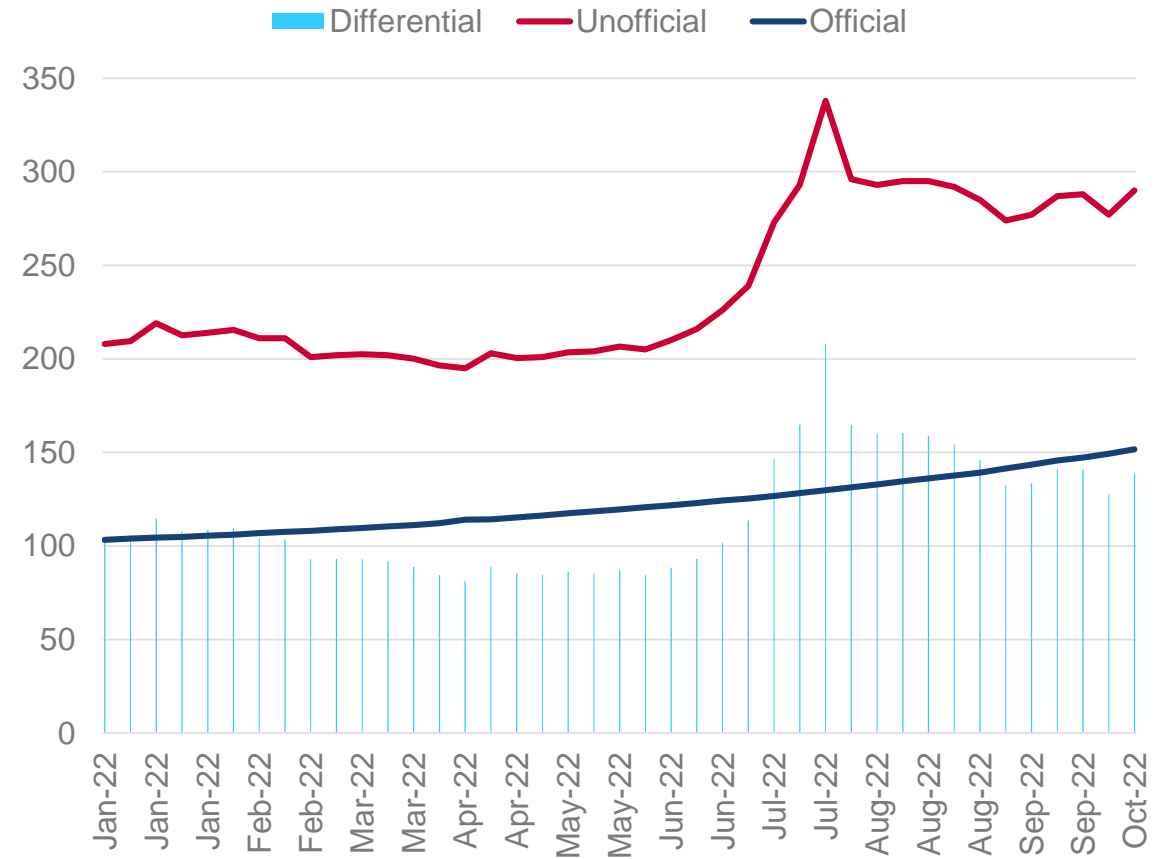
Argentina – Consumer Price Inflation (Selected Indicators), % y-o-y



Source: Macrobond, Fitch Solutions

Political Risks Will Fuel Financial Volatility

Argentina – Exchange Rates Official, Unofficial And Differential, ARS/USD

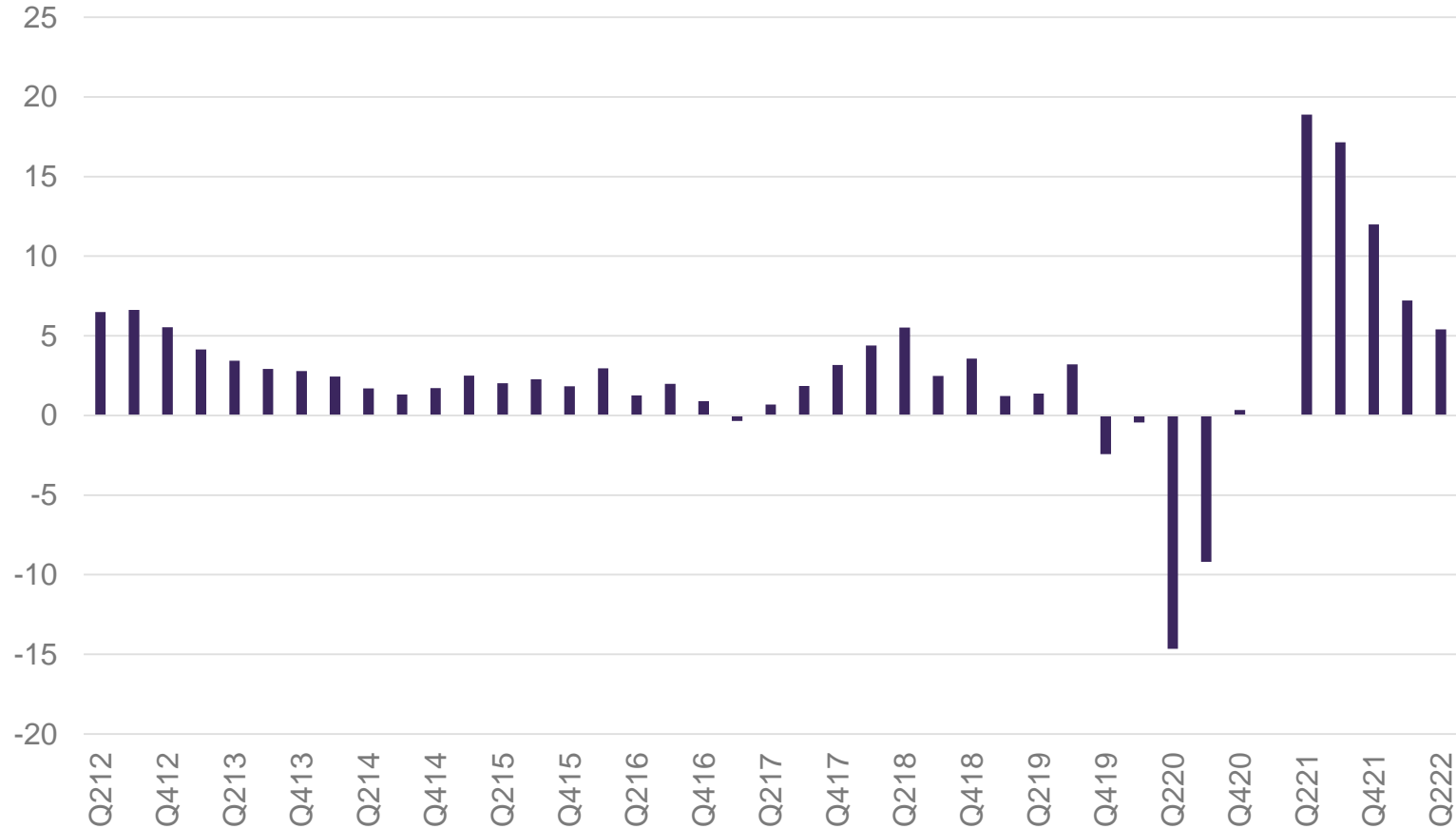


Source: Macrobond, Fitch Solutions

Chile: Growth Will Contract In 2023 As Private Consumption, Investment Weaken

Growth Will Slow Rapidly As Various Headwinds Mount

Chile – Real GDP Growth, % y-o-y



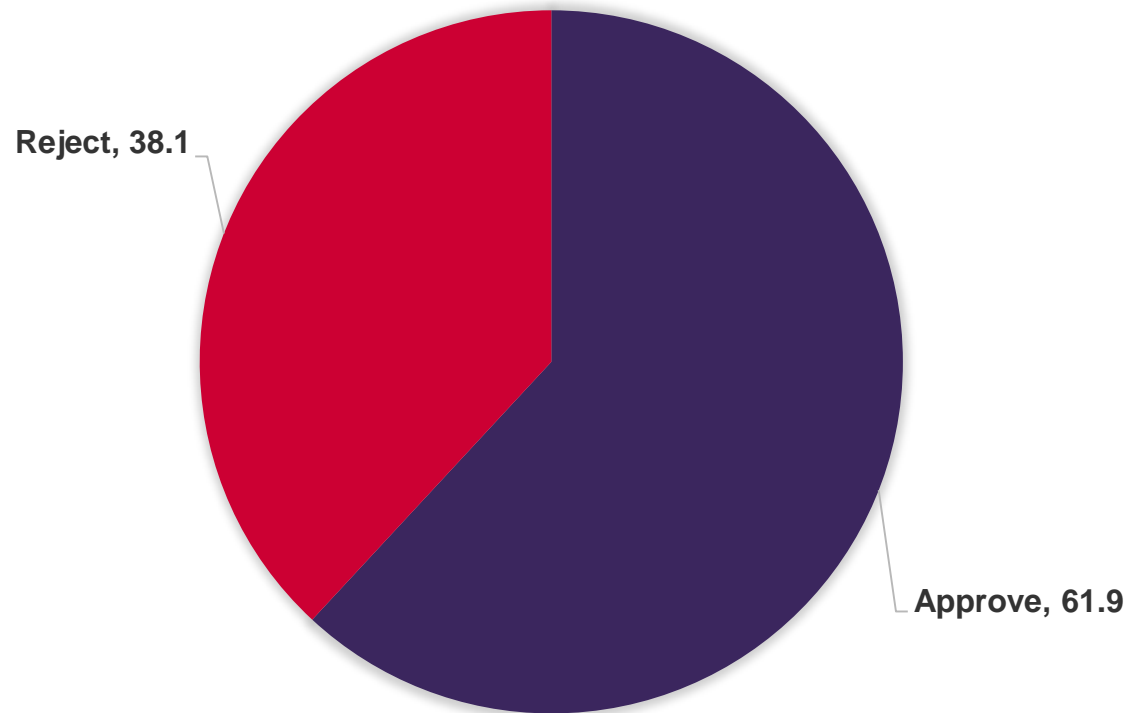
Source: BCC, Fitch Solutions

- We expect the Chilean economy will grow 1.9% in 2021 before contracting 0.8% in 2023, as elevated inflation and reduced fiscal stimulus limits consumer spending.
- The Banco Central de Chile will keep interest rates at 11.25% through H123 after finishing its hiking cycle in October, weighing on consumption and investment.
- Uncertainty surrounding President Gabriel Boric and the ongoing constitutional reform will drag on investment.
- That said, rebounding demand from China will support copper exports, supporting a relatively upbeat external outlook.

Chile: Constitutional Reform Will Continue

Draft Constitution Decisively Voted Down...

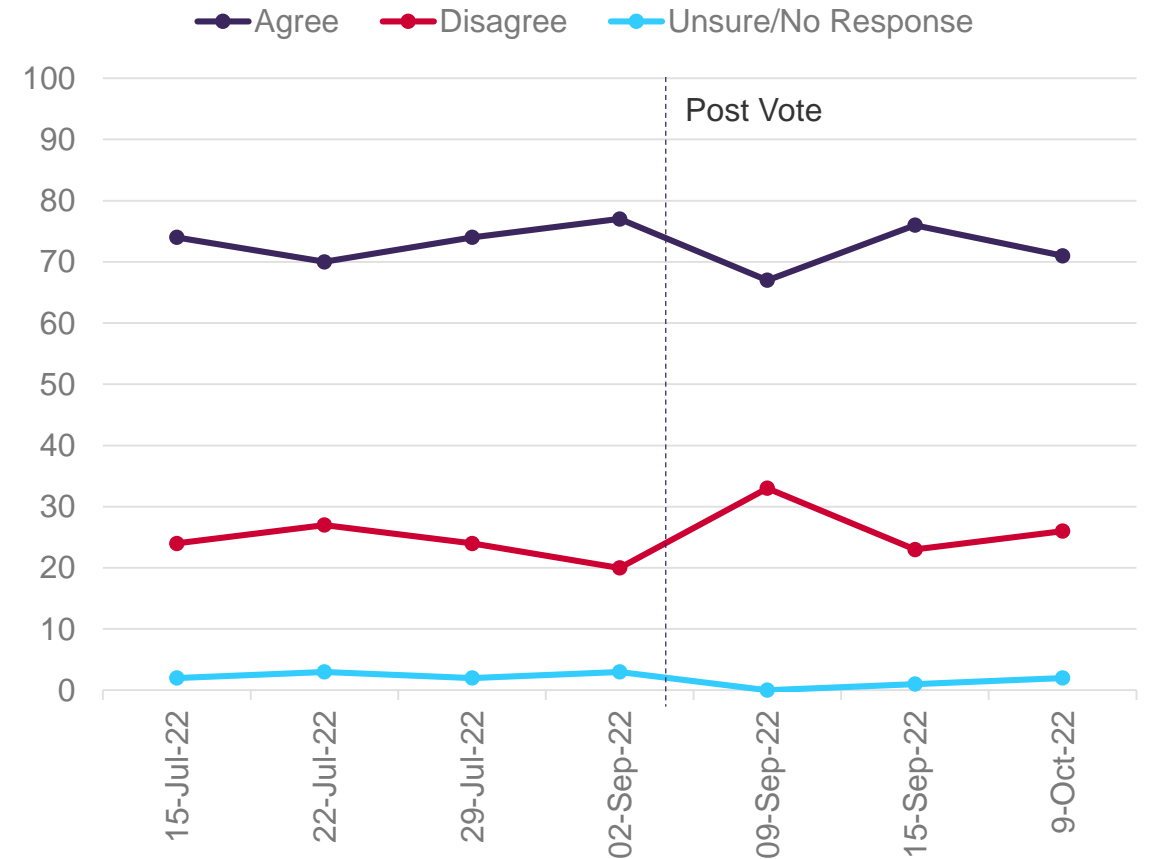
Chile – Share Of Constitutional Vote, %



Source: SERVEL, Fitch Solutions

...Though Change Is Still Desired

Poll - 'Do you agree or disagree with starting a new process so that Chile has a new constitution?', %

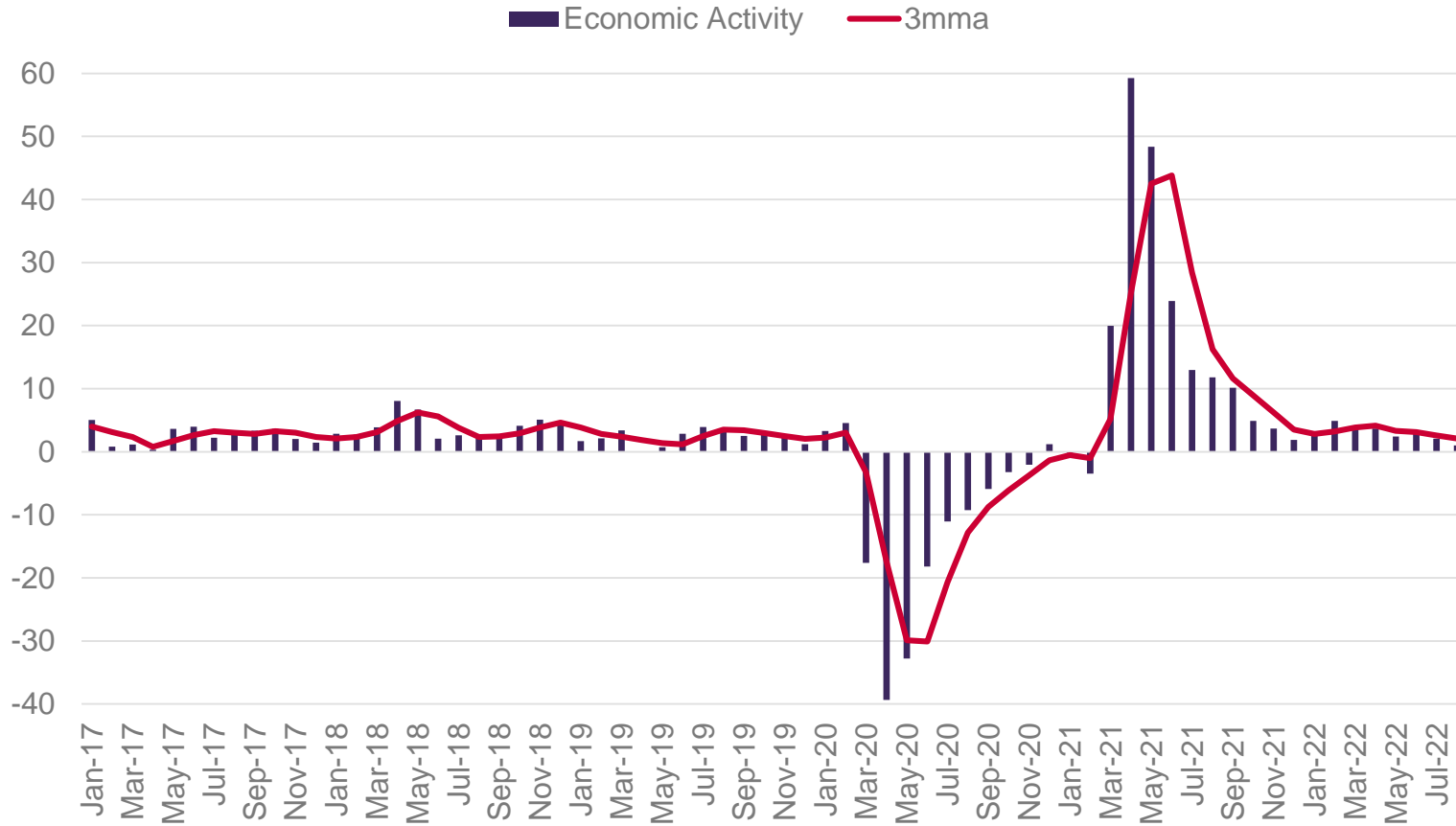


Source: Cadem, Fitch Solutions

Peru: Growth Will Slow Modestly In 2023 As Consumption & Investment Weaken

Economic Activity Will Moderate Further In 2023

Peru – Economic Activity, % y-o-y



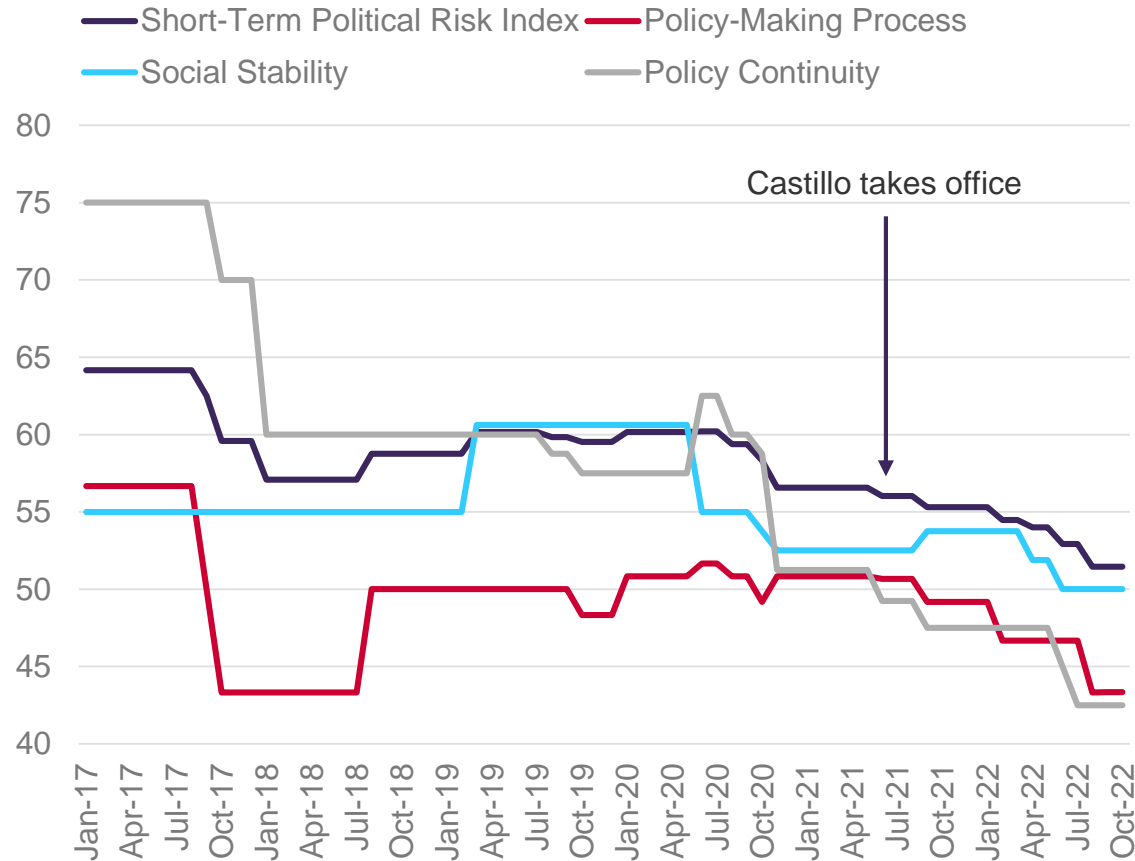
Source: BCRP, Fitch Solutions

- We forecast that real GDP growth in Peru will slow from 2.7% in 2022 to 2.5% in 2023 as expiring income support measures and persistent inflation caps growth.
- The Banco Central de Reserva del Perú will hike to 7.25% before easing rates in H223, undermining spending and investment.
- Nevertheless, robust energy demand will support natural gas exports and rebounding demand for Peruvian copper from China will sustain export growth.

Peru: Political Uncertainty Will Linger As Impeachment Risk Looms

Political Risk Has Increased During Castillo's Presidency

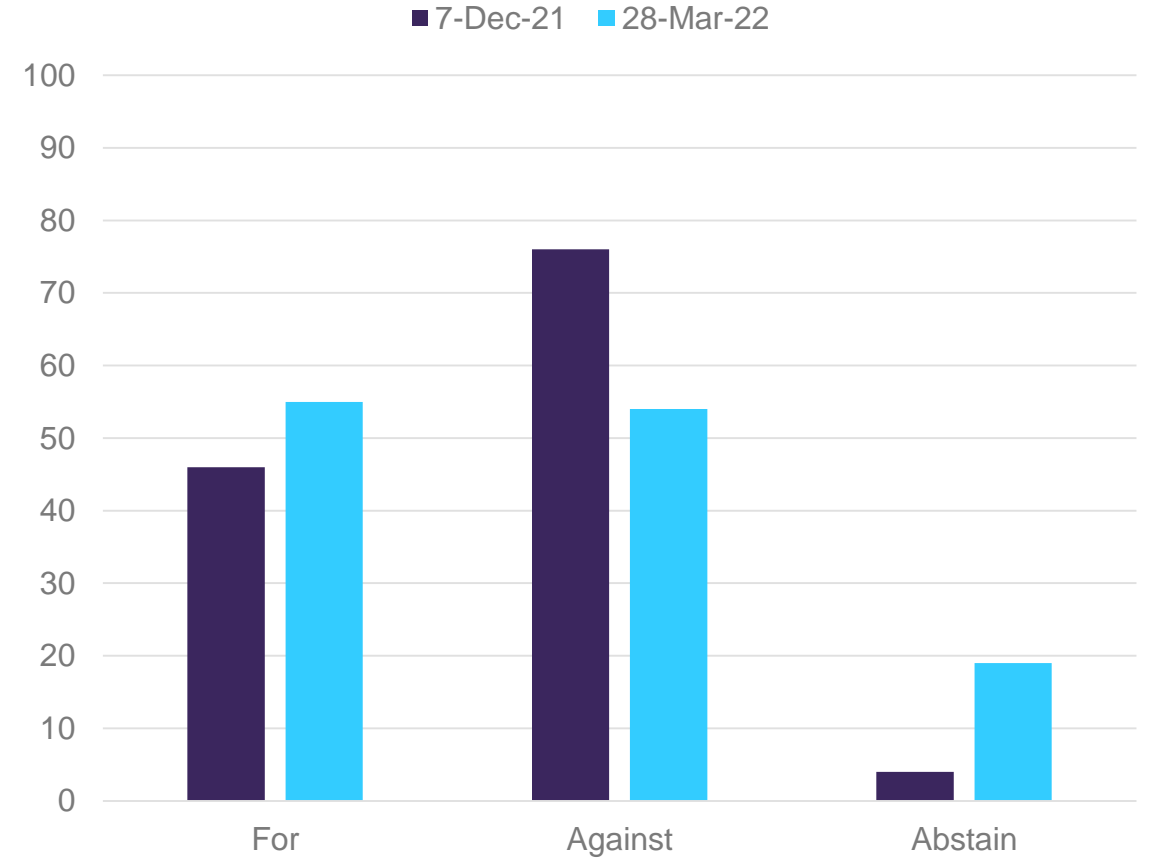
Peru – Short-Term Political Risk Index & Select Components



Note: Lower score denotes higher risk. Scores out of 100. Source: Fitch Solutions

Congressional Support For Castillo's Removal Has Increased

Peru – Votes On Impeachment, Number Of Legislators



Source: Peruvian Congress, Fitch Solutions

Q&A



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