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FEATURED Q&A

How Much Growth Will Latin America Experience in 2023?

Latin America will face economic headwinds from inflation and other factors next year, but some countries, including Panama, will see higher-than-average growth, CItigroup's Ernesto Revilla writes below. Panama City is pictured. // File Photo: Panamanian Government.

Q **The Organization for Economic Cooperation and Development said Nov. 22 that the world economy will grow 3.1 percent this year and 2.2 percent next year, and that a global recession will likely be avoided. At the same time, the OECD lowered its growth outlooks for Latin American countries, including Brazil, Mexico and Argentina. What level of economic growth can Latin America and the Caribbean expect in 2023? Which countries will see the highest levels of growth, and which will lag behind? What are the most significant forces that will fuel, or hold back, the region's economic growth in the coming year?**

A **José Manuel Salazar, executive secretary of the United Nations Economic Commission for Latin America and the Caribbean:** "Latin America and the Caribbean, at the end of 2022 and in 2023, will face an external context marked by the maintenance of restrictive monetary policies given the persistence of high prices, especially those of energy and food, as well as increases of financial volatility and greater risk aversion, and lower capital flows to emerging economies. This environment will affect not only Latin America and the Caribbean's economic activity, but also its access and cost of financing, very important for a region that has significantly increased its debt levels. The dynamics of economic activity during 2022 in this region reflect a higher-than-expected growth rate during the first half of the year and a slowdown during the second half. The reduction of rhythm observed in the second half of 2022 will continue through 2023, which suggests that the growth rate expected for next year will be significantly

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Argentine President Alberto Fernández urged the European Union to renegotiate a key trade deal with the Mercosur trade bloc.

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Peru's Castillo Ousted After Attempt to Dissolve Congress

Peru's Congress ousted President Pedro Castillo on Wednesday after he announced that he was dissolving the legislative body and taking unilateral control of the government. Vice President Dina Boularte was sworn in as the country's first female president.

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Castillo // File Photo: Peruvian Government.

POLITICAL NEWS

Peru's President Ousted After 'Coup' Attempt, VP Sworn in

Peru's Congress on Wednesday ousted President Pedro Castillo, who had already been facing impeachment, after he announced that he was dissolving Congress and forming an emergency government to rule by decree. Soon after Castillo made the televised announcement shortly before noon, Congress voted 101-6, with 10 abstentions, to remove him from office, and Vice President Dina Boularte was sworn in as Peru's first female president. "There has been an attempted coup d'etat," said Boularte, the Financial Times reported. "I assume the position of president, aware of the responsibility required of me," she added. By the end of the day, Castillo was under arrest. He was seen in a car departing the presidential palace in Lima and was taken into custody at a police station, the Associated Press reported. Late Wednesday, the public prosecutor's office said it had ordered Castillo's arrest on charges of "rebellion," the AP reported. "We condemn the breach of constitutional order," the prosecutor's office said in a statement, the Financial Times reported. "No authority can place itself above the constitution," it added. After Castillo announced that he was dissolving Congress, his prime minister and nine cabinet members resigned almost immediately, saying they did not support the move. In addition to Castillo's own cabinet, the armed forces and national police also signaled that they did not support his action. In a joint statement, they said the president can only dissolve Congress after two votes of no confidence during one presidential administration. Any other justification for dissolving the legislative body would amount to a "violation of the constitution," they said, the Financial Times reported. Castillo, who took office in July 2021, survived two previous impeachment attempts. However, his government was marked by instability, with more than 70 government ministers passing through his cabinet amid frequent cabinet shuffles. Among the cabinet members who resigned on Wednesday was Kurt Burneo, Castillo's third finance minister. Burneo said last month that political instability in Peru was damaging the country's business climate. In October, Fitch Ratings lowered its credit-rating outlook for the country from "stable" to "negative."

Mexico's Lower House Approves Electoral Reforms

The lower chamber of Mexico's Congress on Wednesday approved a watered-down version of President Andrés Manuel López Obrador's controversial electoral reforms, Agence France-Presse reported. The Chamber of Deputies approved a reduction in the budget of the National Electoral Institute, which organizes the country's elections, and it passed a measure to allow voters to use additional documents, such as passports or consular identification cards, in order to vote, the Associated Press reported. Lawmakers rejected broader reforms that the president had pushed, including a reduction in the size of Congress and provisions that critics say would have made politicians more beholden to their parties, the AP reported. The reforms now go to the Senate, which is likely to approve them. The broader package of reforms would have required constitutional amendments and a two-thirds majority. The slimmed-down reforms required only a simple majority, and the lower house passed them on a vote of 261-216, AFP reported. The opposition Institutional Revolutionary Party blasted the changes "a betrayal of Mexico." Tens of thousands of protesters took to the streets in Mexico on Nov. 13 to protest the proposed electoral reforms. Two weeks later, tens of thousands of López Obrador's supporters marched with him in Mexico City in support of his policies. The lower house's action would cut about $175 million from the electoral agency's $1 billion annual budget, the AP reported. López Obrador has said the agency is wasteful. However, Luis Rubio, chairman of Mexico Evalúa, told the Advisor in a **Q&A** published Nov. 29 that the electoral

NEWS BRIEFS

Former Guatemalan President, VP Convicted of Fraud, Conspiracy

Former Guatemalan President Otto Pérez Molina and his vice president, Roxana Baldetti, were convicted Wednesday on fraud and conspiracy charges, the Associated Press reported. Pérez Molina and Baldetti, whose sentences were not announced, were imprisoned after resigning in 2015. Prosecutors said they defrauded the state through a customs agency fraud scheme.

Argentine President Calls for Renegotiated E.U.-Mercosur Trade Deal

Argentine President Alberto Fernández urged the European Union to renegotiate a key trade deal with South America, arguing that it is unbalanced and poses a threat to the car industry in Brazil and Argentina, the Financial Times reported on Wednesday. "What we have to do is sit down and look at how we can reach an agreement on a more realistic basis," Fernández said at a Financial Times conference. The European Union and the South American trade bloc Mercosur agreed on a free trade treaty in 2019 after two decades of talks.

Sonnedix, Cubico Seeking to Acquire Enel's Solar Assets in Chile

Renewable energy developers Sonnedix and Cubico are competing to acquire the Italy-based Enel's solar power assets in Chile, Reuters reported on Wednesday. The assets, consisting of some 500 megawatts of operating and newly built sites, are estimated to garner up to $1 billion. Sonnedix is owned by a group of institutional advisors advised by JPMorgan Chase & Co.'s asset management arm, while Cubico is owned by Public Sector Pension Investment Board and Ontario Teachers' Pension Plan. Enel is expected to decide on the buyer by the end of the month.

agency's autonomy is at stake. "Although there is no question that money could be saved, the fundamental issue at stake is the autonomous nature of the electoral institutions precisely because of the extraordinary power of the federal government and its ability to make the Congress and the Supreme Court bend to its will," said Rubio.

ECONOMIC NEWS

Mexico Makes Proposals in Aim to Solve Energy Dispute

Mexico has submitted a resolution that would solve a large part of an ongoing energy dispute with the United States, and would reinstate investors' confidence, the economy ministry said on Wednesday, Reuters reported. In July, Washington and Ottawa requested settlement talks with Mexico over what they considered nationalist energy policies that discriminated against foreign companies and were in breach of the United States-Mexico-Canada trade deal, Bloomberg News reported. "We want to make quick progress so as not to distract the investor and so they don't lose interest in coming to Mexico," Economy Minister Raquel Buenrostro said at a news conference after visiting Washington for the first time since assuming her position in October. A third round of talks will be held between the end of this month and early January, Alejandro Encinas Najera, Buenrostro's deputy, told reporters. Encinas Najera did not give details about the plans, but he said Mexico had made two proposals that could "definitively" deal with two of the four areas that are at the center of the dispute, Reuters reported. Also at the news conference, they said President Andrés Manuel López Obrador was intent on creating three to four industrial parks producing renewable energy in Tehuantepec to develop the country's more impoverished south. The government is planning to auction a total of 10 parks in February as sites of potential hubs for key industries such as semiconductor production.

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lower than that of 2022. Along with the sharp decrease in growth, inflationary pressures remain, and although an acceleration of this indicator is not expected, price levels will remain high next year, conditioning monetary policy decisions, especially in what is referred to as the management of monetary policy rates. In terms of employment, despite growth recovery from the pandemic crisis, there is a drop in formal job creation, an increase in informality, stagnation/loss of real wages and growing social demands. Particularly, the recovery of the labor markets has not made it possible to eliminate the traditional gaps between men and women. Thus, at the end of the second quarter of 2022, the participation rate of women was 22.5 percentage points lower than that of men—52.1 percent and 74.6 percent, respectively."

A **Ernesto Revilla, managing director and head of Latin America economics at Citigroup:** "For 2023, concerns persist, including continued challenges from the pandemic and the Russia-Ukraine war, high inflation and headwinds from central bank rate hikes. The global economy will endure 'rolling' country-level recessions during the coming year, but they should be mild. Considering the circumstances, the outlook for Latin America is not that bad. Prospects for 2023 are better than what one might expect in the midst of a Fed hiking cycle. There will be an impact of the worsening external conditions on growth. While the lack of convergence with the United States is striking and has implied a deeper discontent in the region, in the short run mediocre growth is now standard. Forecasts are benign for the rest of the macro outlook: inflation is peaking and should fall in 2023, rates have reached their maximum (or close to) and should come down and currencies look relatively stable. Among the countries with slower growth will be Chile (-1 percent), Argentina (-0.5 percent) and Brazil (0.3 percent). The ones that will grow more are Panama (4.5 percent), the Dominican Republic (4.4 percent), Costa Rica (3 percent) and Peru (2.9 percent). The second half of 2023 should be relatively better, when we expect looser U.S. monetary conditions and a stronger recovery in China. Keep in mind that uncertainty remains elevated. In the medium term, Latin America's experience is likely to reflect both lower potential growth associated with lack of a growth model and reforms, and tailwinds from decarbonization with its heavy use of raw materials from the region, and nearshoring."

A **Mariana Zepeda, Latin America analyst at FrontierView:** "Despite soaring inflation and rising global uncertainty, Latin America's largest economies, particularly Brazil and Colombia, outperformed expectations in 2022. However, most of the key factors that drove higher-than-expected 2022 growth will begin to fade in 2023. The impact will vary across markets; FrontierView is currently forecasting 2023 recessions in Argentina (-1.1 percent) and Chile (-0.5 percent) along with subdued economic activity in Brazil and Mexico, which will grow by 0.7 percent and 1.1 percent, respectively. Colombia and Peru, however, will continue to outperform regional peers, though growth in Colombia (1.7 percent) will slow much more significantly than in Peru (1.8 percent). Across these markets, government stimulus, which bolstered economic activity, particularly in Brazil and Colombia, will recede as governments cope with increased fiscal strain amid rising debt servicing costs. Higher interest rates will also affect investment and labor market recovery across Latin America, slowing job creation, which has been strongest in Colombia and Peru. Additionally, tightening credit costs will weigh on consumption; as savings built up during the pandemic dwindle and credit costs rise, consumers will be less likely to maintain high levels of discretionary spending, particularly in Chile, where savings

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have taken a nose-dive in 2022. Lastly, slower global growth in 2023 will affect the resilience of Latin America's export industries; while countries like Colombia and Mexico will benefit from still-high oil prices, Argentina and Brazil will see a slowdown in agricultural export revenues while metals prices, particularly copper, continue to decline, stunting export growth Chile and Peru. Still, firms should note that Latin America will remain among the most resilient regions globally regardless of shifting economic dynamics."

A **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "A more significant global slowdown in 2023 will drag down Latin America's economic growth next year given its trade links with the United States, one of its two main trading partners. Several economies are already immersed in a significant deceleration and even contractions as in the case of some European countries, at a time when the U.S. economy is expected to start losing strength. As a result of the weakening global demand, Latin American exports will lose steam, thus taking a toll on the main regional exporters as in the case of Brazil, Mexico, Argentina, Chile and Colombia. Beyond the lower global demand, the region will still face the monetary brake imposed by central banks in order to bring inflation down and close to the target's upper range. Commodity exporters will also be affected by lower international prices, which will impose restraints on government revenues. The region as a whole is expected to decelerate significantly, reporting growth of around 1 percent in 2023 after advancing 3.5 percent in 2022. Countries with growth above 1 percent will be Uruguay, Peru and Colombia, while Argentina, Brazil and Mexico will report growth below 1 percent. Chile is expected to report an extended recession as its economy is already contracting in the second half of 2022. Central America will remain in positive territory in 2023 thanks to the advance of the U.S. market. Unfortunately, Latin American economies will be affected by two shocks in 2023, one from the domestic side given by the low or null contracyclical power of domestic economic policies and the other from the weakening external demand. The region's economic outlook could worsen given the increasing probability of a global recession, which could be aggravated by a sudden correction in financial markets."

> **"As a result of the weakening global demand, Latin American exports will lose steam..."**
>
> **— Alfredo Coutiño**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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