

# Economic Outlook for 2023 in Latin America

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## Introduction

The crisis produced by the outbreak of the Covid-19 pandemic and the strong socio-political instability that, in recent times, has characterized the Latin American scenario, makes it more necessary to identify the economic growth outlook projected for 2023. As informed by the World Bank report for Latin America and the Caribbean (LAC), an overall growth of 1.3% is expected. The present document will analyse the differences and similarities of some countries, given the geographical extension and diversity that characterizes the continent.

## Introduction

Latin America has been the region of the world most affected by the pandemic in socioeconomic and sanitary terms (Bianculli, 2021). It now faces the challenges of the current global crisis along with its domestic issues. Energy self-sufficiency is not enough to cushion the effects of China's economic slowdown and uncertainties related to the conflict in Ukraine: each country is searching for its own path to regain growth and ensure development that still depends heavily on investment and external factors. As highlighted by ECLAC (2022:11):

All the subregions will post lower growth in 2023: South America is set to grow by 1.0% (3.7% in 2022); the group comprising Central America and Mexico by 1.6% (3.3% in 2022); and the Caribbean (excluding Guyana) by 3.3% (4.5% in 2022). With these growth estimates for 2022 and 2023, the region would complete the decade 2014-2023 with average growth of 0.9%, which is below – less than half, in fact – even that of the “lost decade” of the 1980s during the external debt crisis.

The growth recorded in the first half of the 2022 in the LAC region was driven mainly by consumption, and labor markets recovery. To a great extent, it can be considered the bounce effect of the reopening of economies after the covid-19 crisis. However, activity weakened at the end of last year as the slowdown in global growth and the tightening of financial conditions began to be felt. Inflation rose significantly in 2022 and in many countries reached a multi-decade high; price pressures spread across a wide range of goods and services. Food prices elevated at a particularly rapid pace. Headline inflation appears to have peaked in mid-year in most countries and remains well above most central

bank targets. As a result, central banks continued to raise interest rates over the past year, reaching double digits in the region's largest economies.

### **Some considerations**

The Russia – Ukraine war and NATO sanctions to the invader have brought difficulties to most of the LAC countries. First, it is necessary to point that they all managed to resist the pressures of the USA to sanction or even break up with Russia and support Ukraine. Second, the effect of the presence of China must be considered in the region. For a great part of it, this country has become the main economic associate, displacing the USA as the major force. It is well known that Brazil's membership to the BRICS group has meant good business, even though it also has made it lag in complexity. Many countries have followed, in order to receive Chinese investments, and to align their agendas (see Guzmán, 2023). Third, the global scarcity of basic items yielded uneven results, depending on local availabilities: it was a problem for importers and an opportunity for producers. Fuels, grains, and fertilizers played different roles in the state of economies, but restrictions on credit, increases in interest rates and disruptions in supply chains since the pandemic, resulted in devaluation and inflation in most of the world. However, three major Latin American countries, Mexico, Brazil and Peru, in that order, managed their economies well enough to even strengthen their currencies against the US dollar.

It can be stated that exposition factors are not limited to the association to countries and regions, but also to the domestic capacities given by natural advantages, industrial maturity, and institutional soundness, mainly. The way they are cultivated and used determines much of the conditions to stand extra regional difficulties and even benefit from the challenges they represent. One case present in most South and Central America is the aforementioned association to China and the BRICS, which means the possibility to play upon a multipolar logic and benefit from it. An opposite case is Mexico in its role in the USMCA. In the first place, Mexico never associated to China as other countries did, but decided to compete with it in the North American market (Becerra, 2017). Then, the commercial conflict initiated by President Donald Trump with China, and deepened by his successor Joe Biden against the same country, plus Russia and the European Union is costing the USA and its allies and enemies billions of dollars, as well as producing millions of benefits for the American economy by far. Mexico is profiting from the gains without having to pay anything for the losses, by means of the Biden's anti-inflationary program that attracts European investments and qualified labor force, and the *nearshoring* policy that requires up to 75% of the manufactures value to be produced in North America in order to benefit from the USMCA tariffs exemption rules. This has resulted in repatriation of capitals from Asia and the attraction of foreign investments to Canada

and Mexico. The three Northern countries have initiated a multimillion program of substitution of Chinese imports which AMLO is pushing to extend to the whole continent, so to integrate the region and to diminish the power of China by means of economic competition, discouraging the use of war methods. A brief focus on some countries shows that Brazil, Latin America's top economy, will likely grow 0.9% in 2023, down from a 2.9% expansion expected for 2022. Mexico, another very interesting region from the perspective of future growth and investments, is seen advancing 1.1% this year, down from 2.9% of 2022. Meanwhile, Colombia's economy is expected to grow by a much slower 1.5%, compared to an 8% expansion of 2022. The country that will experience the fastest economic growth in the region next year is tiny Guyana, expanding by a whopping 30%, while Chile's economy is seen shrinking 1.1% in 2023.

**Table 1. Indicators for six major Latin American economies**

	Real GDP growth		Inflation forecast			Policy rate forecast		Current account balances forecast		Exchange rate to USD forecast		Potential annual increase in goods exports due to nearshoring in USD billions
	2022	2023e	2022	2023	Target	Dec. 2022	Dec. 2023	2022	2023	Dec. 2022	Dec. 2023	
Argentina	5.1	-0.5	99	112	--	N.A	N.A.	-0.7	-0.6	175	390	3.9
Brazil	2.8	0.2	5.6	5.2	4.5 (+/-1.5)	13.75	11.5	-1.8	-2	5.3	5.5	7.8
Chile	2.5	-1.2	12.3	5	3 (+/-1)	11.25	7	-8.7	-4.5	950	985	1.8
Colombia	8	0.9	12.2	7	3 (+/-1)	12	10	-6.1	-5	4900	5300	2.6
Mexico	3.1	1.8	8.4	5.1	3 (+/-1)	10.5	10.75	-1.1	-2.3	19.5	19.75	35.3
Peru	2.5	2.3	7.6	3.8	2 (+/-1)	7.5	3.75	-3.8	-1.8	3.85	3.95	1.4

Source: elaborated from J.P.Morgan (2023).

**Table 2. Governments' political affiliation and share in Latam supercycle, January 2023**

Country	Period	President	GDP PPP*	Latam share	Population**	Latam share
Center						
Costa Rica	2022-2026	Rodrigo Chaves	128,134	1	5,154	1
Panama	2019-2024	Laurentino Cortizo	158,608	1	4,351	1
Partial			286,742	3	9,505	2

Right Wing						
Ecuador	2021-2025	Guillermo Lasso	228,025	2	17,798	3
El Salvador	2019-2024	Nayib Bukele	69,314	1	6,314	1
Guatemala	2020-2024	Alejandro Giammatei	185,473	2	17,608	3
Paraguay	2018-2023	Mario Abdo Benítez	107,554	1	6,704	1
Uruguay	2020-2025	Luis Lacalle	94,783	1	3,429	1
Partial			685,149	6	51,853	9

Left Wing						
Argentina	2019-2023	Alberto Fernández	1,195,581	11	45,277	7
Bolivia	2020-2025	Luis Arce	117,877	1	12,079	2
Brazil	2023-2027	Luiz Inácio "Lula" da Silva	3,680,942	33	214,326	35
Chile	2020-2026	Gabriel Boric	568,319	5	19,493	3
Colombia	2022-2026	Gustavo Petro	940,589	8	51,517	8
Honduras	2022-2026	Xiomara Castro	69,388	1	10,278	2
		Andrés Manuel López				
Mexico	2018-2024	Obrador	2,890,685	26	126,705	21
Nicaragua <sup>1</sup>	2022-2027	Daniel Ortega	46,757	0	6,851	1
Peru	2021-2026	Pedro Castillo	513,715	5	33,715	6
Venezuela	2019-2025	Nicolás Maduro	160,132	1	28,200	5
Partial			10,183,985	91	548,441	90

Latam Total			11,155,876	100	609,799	100
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\*Gross Domestic Product based on Purchasing Power Parity calculated in international dollars as of April 2022.

\*\*Population as of July 2021.

Source: Author's own calculations based on GDP PPP data from IMF (2022) and Demographic indicators from UN (2022). Also, Zovatto (2021) and diverse official sites.

Different sectors in major Latam economies are expected to experience growth or contraction. Table 3 shows the earning expectations per sector and country as to observe their behaviours and take decisions on investments and associations.

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<sup>1</sup> While recording Daniel Ortega's position as left-oriented, there are numerous debates regarding free elections and the democratic system currently in place in Nicaragua.

**Table 3. Percentage earnings growth estimates per sector for 2023,  
pondered for major Latam economies**

	IT	FN	HC	CD	IN	CS	TC	EN	MT	UT	RL	Full index
Latam	38	8	82	45	-26	15	17	-18	-27	20	4	-10
Brazil	38	10	82	44	-7	21	21	-18	-32	29	--	-13
Chile	--	-19	--	51	-58	16	--	-27	-9	-16	20	-22
Colombia	--	-2	--	--	--	--	--	-20	--	7	--	-1
Mexico	--	15	--	--	-8	11	17	--	-1	--	4	9
Peru	--	11	--	--	--	--	--	--	-15	--	--	5

IT = Information Technology, FN = Financials, HC = Healthcare, CD = Consumer Discretionary, IN = Industrials, CS = Consumer Staples, TC = Communication Services, EN = Energy, MT = Materials, UT = Utilities, RL = Real Estate. Consensus as of November 2022.

Source: J.P.Morgan (2023).

While information expressed in table 3 seems not have been equally available and/or useful for consensus, numbers show that LAC markets do not fall in a monolithic category of contraction or expansion market. Instead, what they talk about is the necessity to take a close look at specific sectors and countries in order to diversify the approaches, as different opportunities emerge in these markets. By looking at and combining the data provided in Tables I, II and III we can see that the growth rate projections for some countries are closely related to the current unstable political condition (e.g., Argentina, which is preparing for a presidential election and is coming from years of distorted vision by policymakers, distorted agricultural policies and three years of drought and is reporting non-positive growth rates). In general, then, the biggest risk associated with the ongoing regional swing to the left of the political spectrum is that it could prompt changes to the laws, regulations, or contracts governing investments in a way that adversely impacts their financial returns. The result, on the other hand, is that economies such as Mexico and Brazil-given their stability and economic organizational forecasts-are found to have the most positive prospects for the year 2023. Moreover, 2023 is also the time for Latin American countries to reposition themselves in the field of exports: sanctions on Russia could benefit them and they can take the place of the Russian country. In the short term, the main challenge for Latam countries is to coordinate public policies to ensure inflation subsidies. Central banks have already done their part, but the external lag of monetary policy means that price increases will remain above the inflation targets, even though most countries may have already experienced their inflation peaks. Governments, meanwhile, will benefit from fiscal discipline, to keep inflation

expectations down and to keep debt ratios under check. At the same time, it is crucial to avoid an extreme contraction of monetary and fiscal policies to prevent Latam from entering a deep economic slowdown.

### **The Latin America unpredictability**

Although projections that have been made by major agencies and international political barometers have been reported in the preceding paragraphs on growth expectations in the LAC region, it is important to emphasize how the Latin American region is characterized by a certain amount of unpredictability both politically and economically, an element that is inherent in its nature (both geographical and social issues) and yet is not always a deterrent to future investment, but requires a high degree of resilience and readiness to readjust. So we can argue that 2023 will be another challenging year during which perhaps a condition of what has been called “permacrisis” will be persistent. Thus, the report *Riesgo político América Latina 2023* reveals the growing perception of insecurity in the face of increasingly widespread organized crime; a setback of democracies besieged by populism, polarization and authoritarian proposals; risks of new outbreaks of social unrest in the face of an anemic economy and governments incapable of processing citizen demands in a timely and effective manner; a migratory crisis that does not decrease, and on the contrary opens up new scenarios especially among the states most weakened by the crisis and are mainly destined for Argentina, Chile and Brazil.; the appearance of issues such as food insecurity, the increase in cyber-attacks or the loss of competitiveness to develop the green economy, all this in a region that is suffering from a “diplomatic eclipse” that reduces its visibility and prominence on the global stage. Nevertheless, LAC stocks should still be considered for a number of reasons as underlined: they are coming off a period of remarkable resilience and currently trading cheap and, finally, they are poised to outperform emerging markets stocks broadly (Baxter, 2023).

### **Conclusions**

According to different sources and indicators, Latin America outperformed all regions in recovering from the pandemic in 2022. Different conditions pushed every country in its own proportion to stand against difficulties. Energy, commodities and water supplies, relations with big economies and domestic policies played their roles in the recovery. Even though 2023 is likely to pose greater challenges so to diminish the pace of growth observed in the region, it may remain as an outstanding option for investment, depending on the field and country of interest. Also, the political calendar is crucial for Argentina and Guatemala, where presidential elections are expected to be amply disputed.

Table 2 shows Paraguay as the only other country to organize general elections. Finally, the intentions that have emerged from Lula's recent meetings in Uruguay and Argentina leave ample room for reflection on the modernization of Mercosur, possibly open to new reforms involving the desired trade with China and EU (Osborn, 2023). Another scenario arisen in the same meetings is the possibility of creating a financial mechanism to conduct bilateral trade between Argentina and Brazil, circumventing dependence on the dollar.

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