Latam Economic Insights

January 2025

Global scenario and implications for Latam

The global scenario remains challenging for Latin America. The U.S. economy remains strong, underpinned by healthy household and corporate balance sheets, both of which have ample buffers in the event of any stress. In this scenario, the pace of global central bank rate cuts is also likely to diverge in early 2025. Not only does U.S. economic resilience imply a reduced need for policy stimulus, but with tariffs and restrictive immigration policies threatening a pick-up in price pressures in 2025, the FED will be increasingly cautious about its monetary policy normalization path. By contrast, weak growth, recession, or fear of financial instability in other DM mean their central banks will have a more dovish bias -or less restrictive one- than the Fed. The offset of global policy desynchronization is a strong dollar. This is an adverse environment for the region, and is likely to be particularly the case against the more tariff-sensitive currencies like the Mexican peso. Also, the uncertainty about China's fiscal package continue as growth remains sluggish and inflation depressed, with yoy inflation averaging nearly zero over the past 12 months. This has been largely due to the economic malaise triggered by the ongoing property downturn and weak consumer demand, so the additional fiscal support makes sense, though the persistent disappointments from policy announcements the last couple of quarters, together with the need to be prepared to give extraordinary support in a tense international environment going forward, have somewhat dampened the expectations of a material announcement.

Brazil

Eonomic Activity:

Last activity data continued to indicate that GDP performed well above the expectations in 2024. In the third quarter of the last year, GDP increased by 0.9% qoq, in line with the expectations. On the demand side, domestic demand continues to grow at a very strong pace. Household consumption grew by 1.5% in the quarter and Investments advanced by 2.1%. With this result, the statistical carryover for 2024 is 3.0% and for 2025 is 0.8%. For the fourth quarter, last indicators suggest that activity remains strong as unemployment rate continued to fall. In November, the unemployment rate seasonally adjusted remained at 6.4%, the lowest level since the historical series began in March 2012. However, finally, some numbers show signals of deceleration and confirms that growth will slowdown in 2025. In November, net creation of formal showed a significant deceleration. More important, industrial production and retail sales contracted in October. In this scenario, we expect GDP to grow 3.3% in 2024. But for 2025, we forecast that GDP growth will decelerate to 2.1%. Despite the slowdown, the output gap is expected to continue positive, making more challenging the process of inflation convergence to the target.

Latam Economic Outlook

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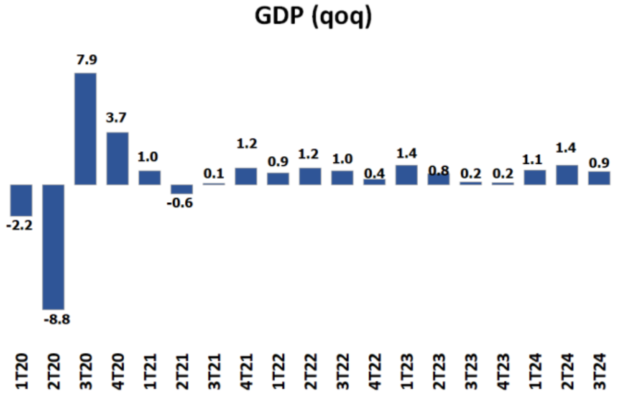
Brazil

Economic Activity:



Source: IBGE

Inflation and Monetary Policy:

On the inflation front, 2024 once again experienced inflation above the target. In December, the IPCA registered an increase of 0.52%, closing the year at 4.8% YoY, exceeding the inflation target range for the period. The breakdown shows a negative composition, with an increase in underlying measures. The overall core inflation rose by 0.58% and accelerated on yearly basis from 4.2% to 4.3%. For 2025, the inflation environment will remain challenging. Fiscal uncertainties create an unfavorable backdrop characterized by unanchored expectations, while the depreciated exchange rate and overheating domestic demand continue to pose risks to the inflation outlook. Consequently, we anticipate a persistently high inflation environment, possibly exceeding 5% next year. In this scenario, the Central Bank continued to promote adjustments in monetary policy. At the last meeting, the Copom raised the Selic rate by 1 percentage point, to 12.25%. More important, the committee's communication reinforced concerns about the inflationary scenario due to inflation expectations unanchored, fiscal uncertainties and the positive output gap. Trying to avoid a new deterioration of expectations, the Central Bank signaled that new increases of the same magnitude should occur in the next two meetings, indicating a continuous cycle of monetary tightening ahead. However, the hawkish forward guidance was not enough to offset the concerns about the deprecated level of the BRL and the frustration with the announcement of the fiscal package. In this scenario, we expect a deeper hiking cycle with the Central Bank taking the interest rate to a level of 15.5% at the end of this year.

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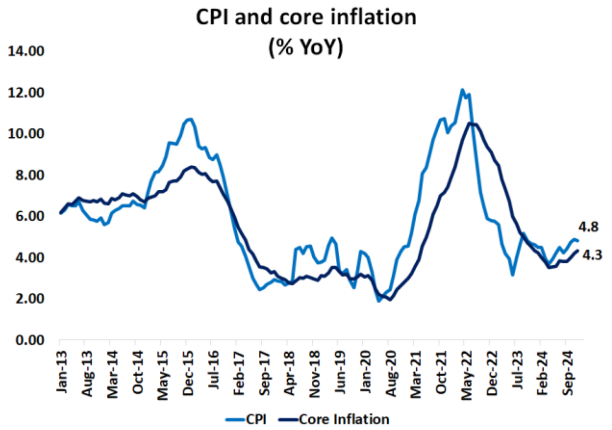
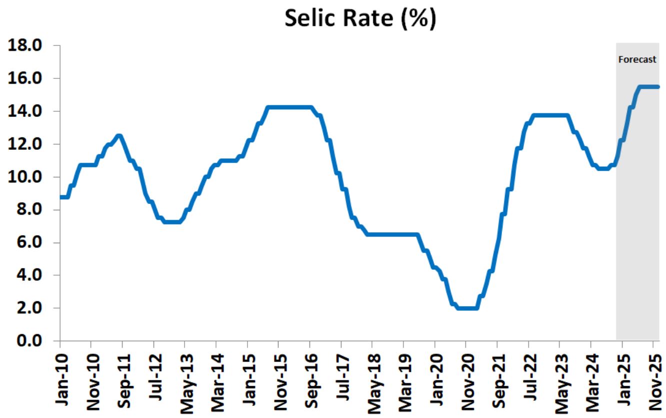
Inflation and Monetary Policy:





Source: IBGE and Brazil Central Bank

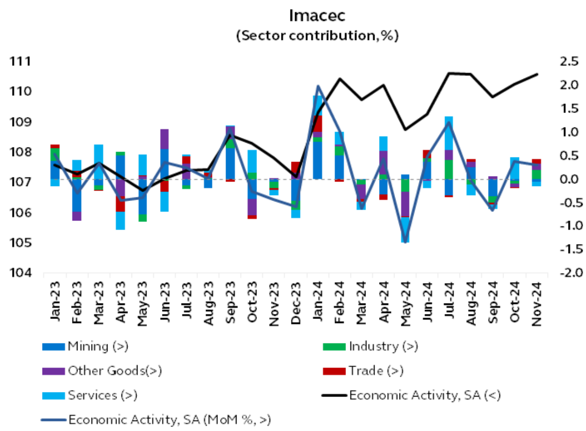
Fiscal accounts and political scenario:

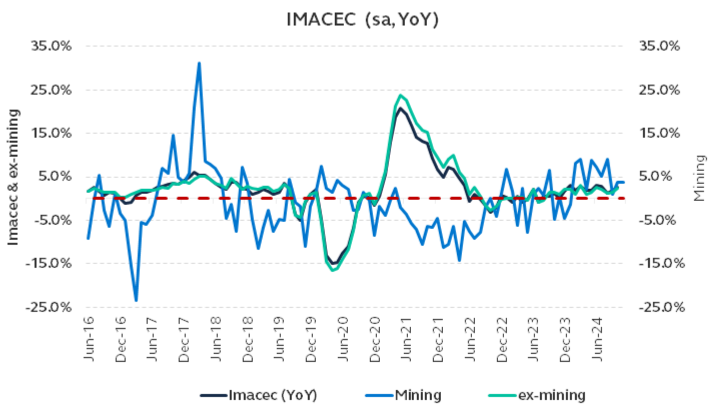
Although the announcement of the fiscal package frustrated, Congress surprised by the speed in approving the measures in the final weeks of 2024 before the parliamentary recess. However, some proposals were watered-down. Throughout the discussions, there was strong resistance to changes in the rules of social programs and measures that affected specific sectors of the economy. Although the Ministry of Finance's estimates have undergone only slight adjustment, the divergences regarding market´s forecasts remained, bringing more doubts about the sustainability of fiscal rules in the coming years. Furthermore, political factors turn the approval of new fiscal measures in 2025 more uncertain. The gridlock between the Legislative Branch and the Supreme Court on the release of parliamentary amendments, for example, remains unsolved and raises questions about Lula's governability in 2025. Another point of attention is the possible approval of the income tax exemption range for income up to R$5,000, which could become a relevant fiscal risk in the medium term. Although the government does not treat the issue as a priority, this was a campaign promise from the president, who may resume it in the coming months. Thus, political and fiscal uncertainties persist, and the effectiveness of the announced package in generating substantial savings remains in doubt. The government's position does not convey confidence in a robust fiscal commitment, especially with the 2026 electoral cycle approaching. Therefore, the economic scenario remains challenging and the impacts of the monetary tightening cycle on growth, added to the new Central Bank´s president and the next electoral cycle, will be the main points of attention for the economic scenario in 2025.

Chile

Economic Activity:

The monthly economic activity figures for November were a positive surprise despite the month having one less working day than last year, showing a 2,1% yearly growth and 0,3% seasonally adjusted monthly advance, both above market expectations and in line with this year ending around a 2,2% growth overall. Commercial activity gave a significant push, while mining activity contracted during the month, though all economic sector show growth from one year ago. December will have more working days than last year and a favorable comparison basis, so there's some optimism about a year ending uptick that might help for kickstarting 2025, though the economy has been stably following the same growth trend the last for a while now despite some monthly volatility, so for there should be no material changes in the growth outlook unless some more exciting news come from the investment side.





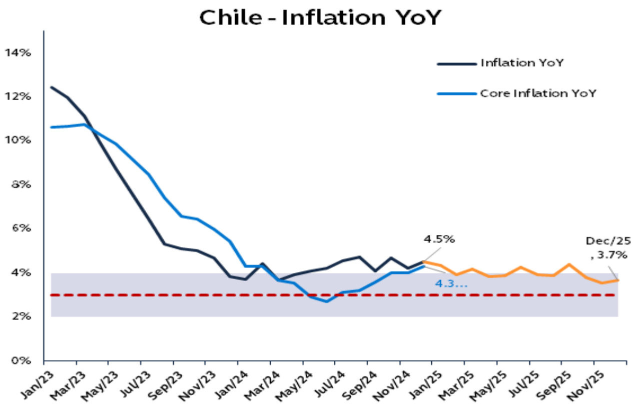
Source: Central Bank of Chile

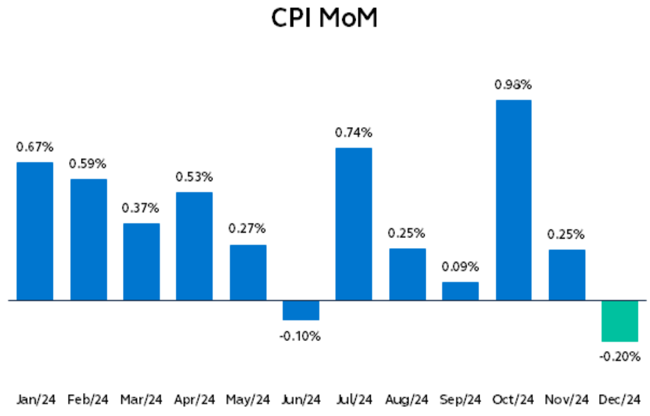
Inflation and Monetary Policy:

December's inflation print surprised to the downside, with a -0,2% monthly increase in prices while the market expected around a 0% change. Food prices and international air fares were the biggest drops. Although the data for December was negative, inflationary pressures are still expected in the short term due to specific factors that are expected first in January, with the pending adjustment of electricity rates, and then in March with the impact of the price indexation to the inflation of the previous year. These shocks in inflation, combined with the strong depreciation of the Peso, will probably keep the Central Bank on a cautious stance, so we expect the Central Bank to keep the monetary policy rate unchanged at 5% until mid-year.

Chile

Inflation and Monetary Policy:





Source: Central Bank of Chile

Fiscal accounts and political scenario:

The official public debt data for the third quarter of 2024 showed that gross debt increased around 0,8% from the second quarter, reaching 42,4%. Although there's some concerns about the magnitude of the increase, the overall level is still aligned with the 43% expected year end level of debt, and below the 45% threshold of what the Autonomous Fiscal Council considers "prudent". The political discussion is now focused on the proposed pension's reform, though the most optimist projections of a general agreement by late January seem a bit stretched, but there's a growing chance of that happening in the next couple of months.

Mexico

Economic Activity:

Mexican economy in the 4th quarter slowed further than anticipated, as the industrial sector continues its deterioration and services sector growth kept easing in the margin. Private consumption continues to support growth but the downside risks are increasing. Although unemployment rate is near historical lows, formal jobs creation has weakened substantially: 2024 saw the lowest gains in formal jobs since 2003 for a non-recession year.

Fiscal consolidation in 2025, a deeper than expected slowdown on private investment, uncertainty regarding US relations and the prospects of tariffs further complicate the macroeconomic scenario for the first half of the year. This scenario has led us to revise lower the GDP forecast for 2025 to 1% from 1.2% .

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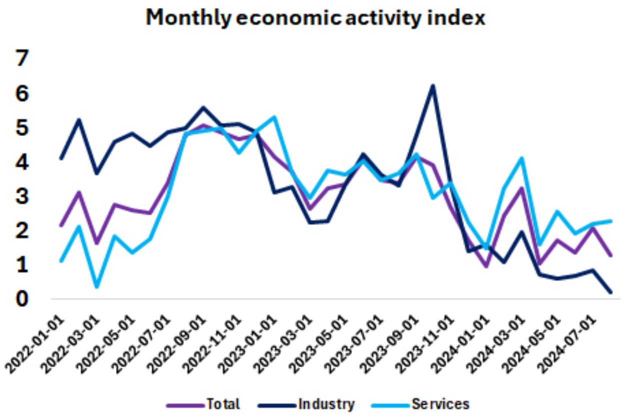
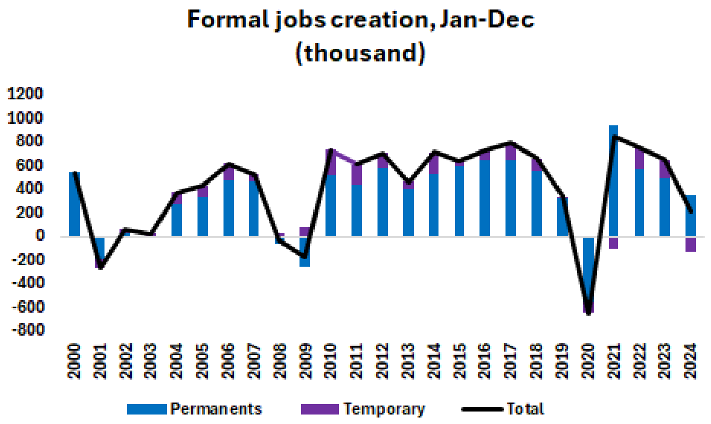
Mexico

Economic Activity:





Source: INEGI

Inflation and Monetary Policy:

December inflation decreased to 4.21%, the lowest level since February 2021. The improvement in the general inflation reading was largely driven by a strong decline in agricultural inflation, which is part of the non-core component. Nonetheless, the core component saw a marginally uptick last month, highlighting our concerns about persistent inflation in 2025, as services inflation remained elevated and goods inflation went up. The main risk is that a normalization of the goods component in the coming months (which is more than 200 basis points below its historical average), coupled with pressured services prices driven by strong wages increases could complicate inflation convergence in 2025. However, we believe that, despite these risks, Banxico will continue to adjust lower the interest rate based on two main arguments: deep economic slowdown and the fact that the current real rate level is too restrictive. This means that the Central Bank approach will be one of a “less restrictive stance” rather than taking interest rates to neutral levels. In this scenario, the February meeting could see a 50 bps cut, but internal and external risks could derail Banxico’s cutting cycle plans down the road.

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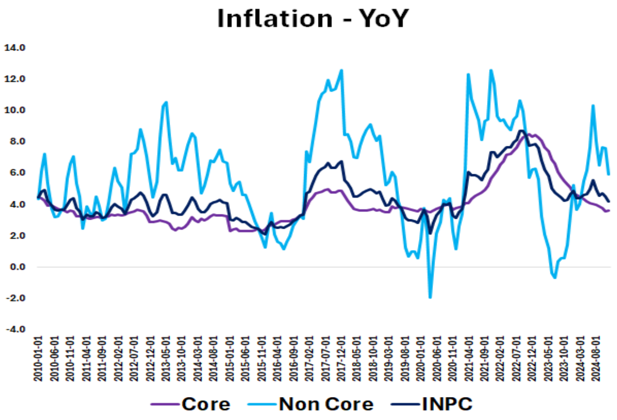
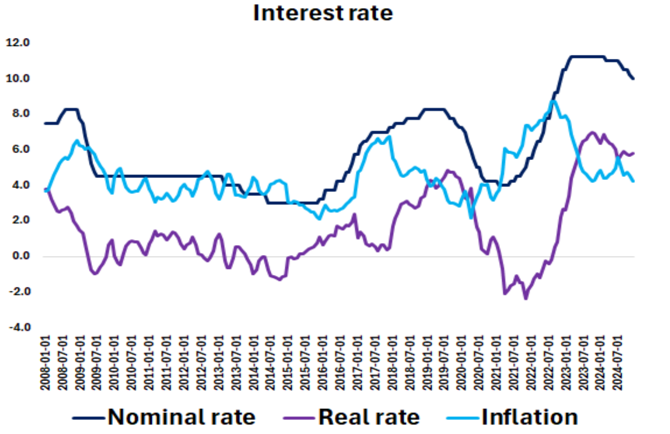
Inflation and Monetary Policy:





Source: INEGI and Banxico

Fiscal policy and political scenario

As described on previous reports, 2025 will be a challenging year for fiscal accounts. Although the Federal Government is making an important effort in reducing the fiscal deficit, lower growth, possible higher for longer rates, and external uncertainty could complicate achieving the 3.9% of GDP deficit goal. We believe that 2025 fiscal deficit most likely will be above 4% of GDP, but it will still be a positive sign to reduce the deficit from the 5.9% of GDP in 2024. In this scenario, 4% levels should not raise alarms for the sovereign rating in 2025, but we expect this concern to be present in the coming years.

On the political front, all eyes will be focused on Trump's inauguration and its first 100 days of presidency. The prospects of an aggressive deportation policy and tariffs to USMCA partners represent the higher risks to Mexico in the short term. Although we believe that a full deployment of his campaign's migration and tariffs plan is not feasible, uncertainty is high and should start to decrease after January 20th

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January 2025

Key Latam Forecasts

Key latam Forecasts	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 (f)	2025 (f)	2026 (f)
Brazil													
Inflation (%, end of period)	6.4	10.7	6.3	3.0	3.7	4.3	4.5	10.1	5.8	4.6	4.8	4.4	3.8
Real GDP (%)	0.1	-3.8	-3.6	1.3	1.3	1.1	-4.1	4.6	2.9	2.9	3.3	2.1	1.4
Policy rate (end of period)	11.75	14.25	13.75	7.00	6.50	4.50	2.00	9.25	13.75	11.75	12.25	15.50	12.50
Gross debt a (% of the GDP)	56.3	65.5	69.8	73.7	75.3	74.4	86.9	78.3	72.9	74.3	78.0	81.7	86.1
Current account balance (% of the GDP)	-4.1	-3.0	-1.4	-1.1	-2.7	-3.5	-1.9	-2.8	-2.8	-1.3	-2.3	-2.0	-1.8
Exchange rate (USDBRL, end of period)	2.7	3.9	3.3	3.3	3.9	4.0	5.2	5.6	5.2	4.8	5.7	5.7	5.4
Chile													
Inflation (%, end of period)	4.6	4.4	2.7	2.3	2.6	3.0	3.0	7.2	12.8	3.9	4.5	3.7	3.1
Real GDP (%)	1.8	2.2	1.8	1.4	4.0	0.6	-6.1	11.3	2.1	0.2	2.2	2.0	2.0
Policy rate (end of period)	3.0	3.5	3.5	2.5	2.8	1.8	0.5	4.0	11.3	8.3	5.0	4.50	4.50
Gross debt a (% of the GDP)	15.0	17.4	21.1	23.7	25.8	28.3	32.4	36.4	37.8	39.4	41.0	43.0	43.0
Current account balance (% of the GDP)	-3.5	-2.7	-2.6	-2.8	-4.5	-5.2	-1.9	-7.3	-8.7	-3.6	-2.2	-2.4	-2.0
Exchange rate (USDCLP, end of period)	606.5	707.8	670.7	615.4	693.6	751.8	711.8	852.0	851.1	879.0	1000.0	970.0	900.0
Mexico													
Inflation -end of period- (%)	4.1	2.1	3.4	6.8	4.8	2.8	3.2	7.4	7.8	4.7	4.2	4.0	3.8
Real GDP (%)	2.5	2.7	1.5	2.1	2.0	-0.4	-8.5	6.3	3.7	3.2	1.3	1.0	1.8
Policy rate (end of period)	3.0	3.0	5.3	7.0	8.0	7.5	4.3	5.0	10.0	11.3	10.0	8.5	7.25
Gross debt a (% of the GDP)	41.1	44.9	47.2	44.5	43.6	43.3	50.2	49.1	47.7	46.8	51.4	51.6	52.0
Current account balance (% of the GDP)	-1.8	-2.6	-2.2	-1.9	-2.0	-0.3	2.4	-0.3	-1.2	-0.4	-0.4	-0.4	-0.4
Exchange rate -end of period- (USDMXN)	14.7	17.2	20.6	19.7	19.7	18.9	19.9	20.5	19.5	16.9	20.1	20.6	20.60

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