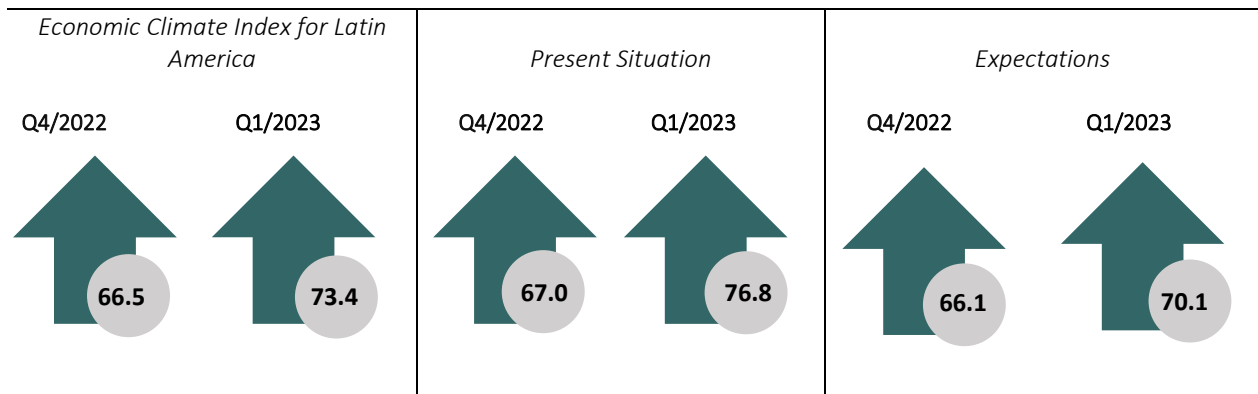


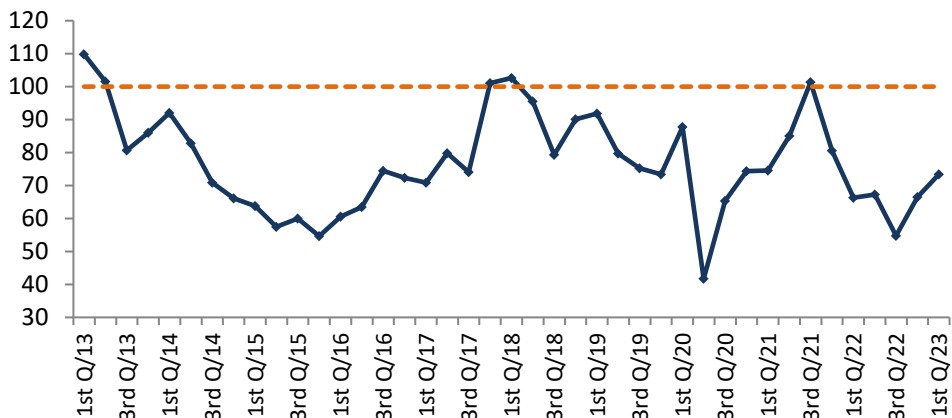
## The Economic Climate for Latin America improves in the first quarter. Brazil moves in the opposite direction.

The Economic Climate Index (ECI) for Latin America rises between the 4<sup>th</sup> quarter of 2022 and the 1<sup>st</sup> quarter of 2023, with improvements in six of the 10 main countries surveyed. Brazil moves in the opposite direction with an additional fall in the ECI driven by the indicator for the Present Situation.



The Economic Climate Index (ECI) for Latin America climbed 6.9 points between the 4<sup>th</sup> quarter of 2022 and the 1<sup>st</sup> quarter of 2023. Although it remains low in historical terms, the indicator reaches 73.4 points, the highest level since the 4<sup>th</sup> quarter of 2021. As shown in Graph 1, the ECI has remained in the adverse zone of the economic cycle since the 3<sup>rd</sup> quarter of 2013, with some exceptions - the 4<sup>th</sup> quarter of 2017, the 1<sup>st</sup> quarter of 2018, and the 3<sup>rd</sup> quarter of 2021. It can be observed, however, that in all these quarters, the index remained close to the neutral level of 100 points.

Graph 1: Economic Climate Index for Latin America (in points)

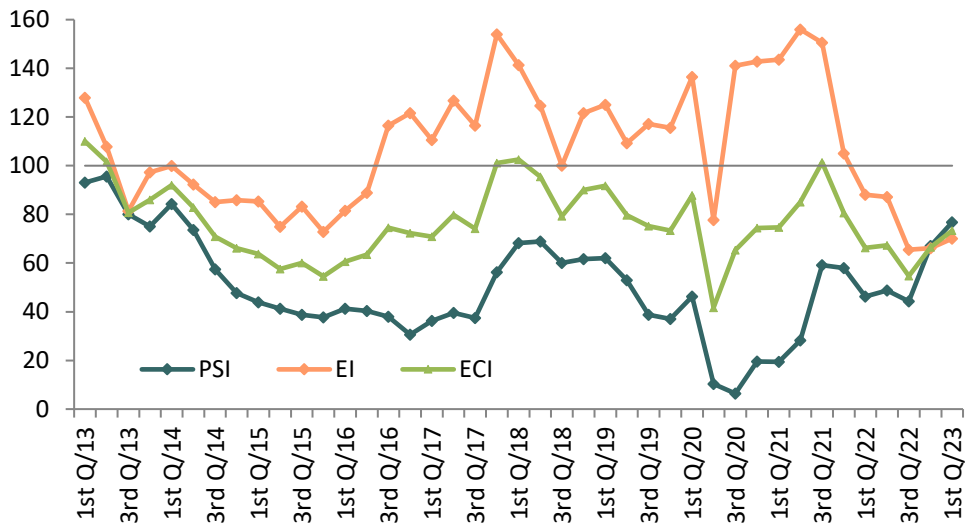


Source: FGV IBRE



The two indicators that make up the ECI improved this quarter. The Present Situation Index (PSI) increased 9.8 points and the Expectations Index (EI) 4.0 points. In both cases, the indicators remain in the adverse zone, with the PSI at 76.8 points and the EI at 70.1 points. As in the 4<sup>th</sup> quarter of 2022, the PSI result exceeded that of the EI, and the difference increased to 6.7 points, the highest since the 2<sup>nd</sup> quarter of 2012, when there was a gap of 15 points. However, in contrast to what can be observed today, on that occasion both indicators were in the favorable zone of the cycle (at 116.4 and 101.4 points, respectively).

**Graph 2: Present Situation Index (PSI), Expectations (EI), and Economic Climate Index (ECI) for Latin America (in points)**



Source: FGV IBRE

The results for the 1<sup>st</sup> quarter of 2023 were compared to those for the same period in the years 2020, 2021 and 2022. The PSI for Latin America in 2023 surpasses that of the previous three years, as shown in Table 1. The EI, however, which had been in the favorable zone in 2020 and 2021, is well below these two years today, and 18 points below 2022. The ECI recorded a worsening in relation to the results of 2020 and 2021 and an improvement in relation to 2022.

What draws attention in this comparison is the deterioration in expectations in relation to the first quarters of the previous years and the improvement in the Present Situation Indicator. Even in the harsh periods of the pandemic, the expectations were favorable, as at the beginning of 2021, when the EI recorded 143.6 points. Regarding the improvement in the Present Situation, the result reflects the recovery of economic growth in the region in relation to the recessive period of the pandemic.

**Table 1: Difference in the indicators for Latin America in relation to the same period in previous years**

	PSI	EI	ECI
2020	30.6	-66.4	-14.4
2021	57.4	-73.5	-1.2
2022	30.6	-18.0	7.1

**Obs.:** The results show the difference in points in the indicators in relation to the results of the 1<sup>st</sup> quarter of 2023.

## Economic climate: Results by country

Table 2 summarizes the Economic Climate results for the largest economies in the region monitored by FGV IBRE.

Paraguay leads the improvement in the regional economic climate. Between the 4<sup>th</sup> quarter of 2022 and the 1<sup>st</sup> quarter of 2023, Paraguay recorded a rise of 47.6 points in the ECI, mainly influenced by the increase of 83.3 points in the PSI and 3.6 points in the EI. In 2022, the country suffered a heavy drought and lost exports to Russia as a result of the war in Ukraine, which helps explain the improvement in the indicators.

The second stand out is Peru, which has shown a positive degree of resilience in political terms, despite the turbulence with the exit of the President elect. Other countries with improvements in the economic climate were Mexico, Ecuador, Argentina, and Chile. It can be observed that all the countries recorded an advance in the ECI, with improvements in relation to both the PSI and the EI, with the exception of Chile, which maintained the EI level of the 4<sup>th</sup> quarter of 2022.

Brazil is in the group that recorded a fall in the three indicators in the 1<sup>st</sup> quarter of 2023. The ECI fell 11.0 points to 73.5 points, with the PSI dropping 21.7 points to 70.6 points, while the EI had a reduction of a lower magnitude of 0.4 points to 76.5 points. Differently to the aggregate result for Latin America, the level of the EI surpasses the PSI by 5.9 points. The scenario for Brazil described by the Survey is one of stability in expectations and an accentuated worsening (above 20 points) in the assessment of the present situation.

Uruguay, Colombia, and Bolivia accompany Brazil in the fall in the ECI, although certain differences can be highlighted. In Brazil, all three indicators are in the adverse zone; Uruguay and Colombia, however, have a favorable assessment of the present situation.

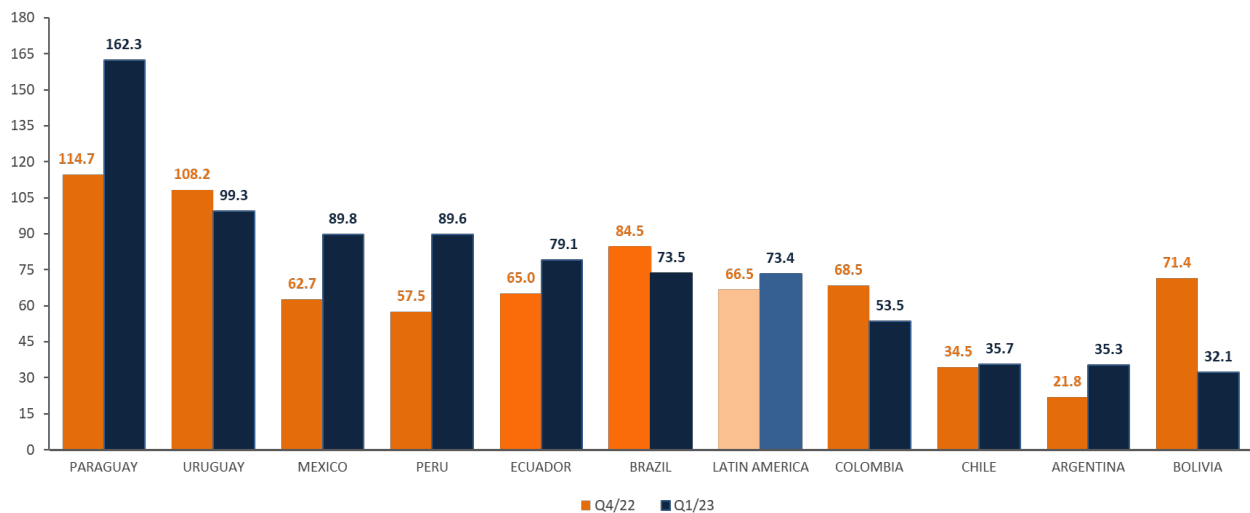
Table 2: Economic climate index and its components in the selected countries

Country	ECI		PSI		EI	
	Variation in number of points between Q4 2022 and Q1 2023	Index in Q1 2023	Variation in number of points between Q4 2022 and Q1 2023	Index in Q1 2023	Variation in number of points between Q4 2022 and Q1 2023	Index in Q1 2023
Paraguay	47.6	162.3	83.3	150.0	3.6	175.0
Peru	32.1	89.6	18.1	63.6	48.2	118.2
Mexico	27.1	89.8	44.4	100.0	10.0	80.0
Ecuador	14.1	79.1	15.0	75.0	13.3	83.3
Argentina	13.5	35.3	10.8	16.7	16.7	55.6
Latin America	6.9	73.4	9.8	76.8	4.0	70.1
Chile	1.2	35.7	2.2	22.2	0.0	50.0
Uruguay	-8.9	99.3	3.3	120.0	-20.0	80.0
Brazil	-11.0	73.5	-21.7	70.6	-0.4	76.5
Colombia	-15.0	53.5	6.0	121.4	-28.6	0.0
Bolivia	-39.3	32.1	-28.6	50.0	-48.9	15.4

Source: FGV IBRE

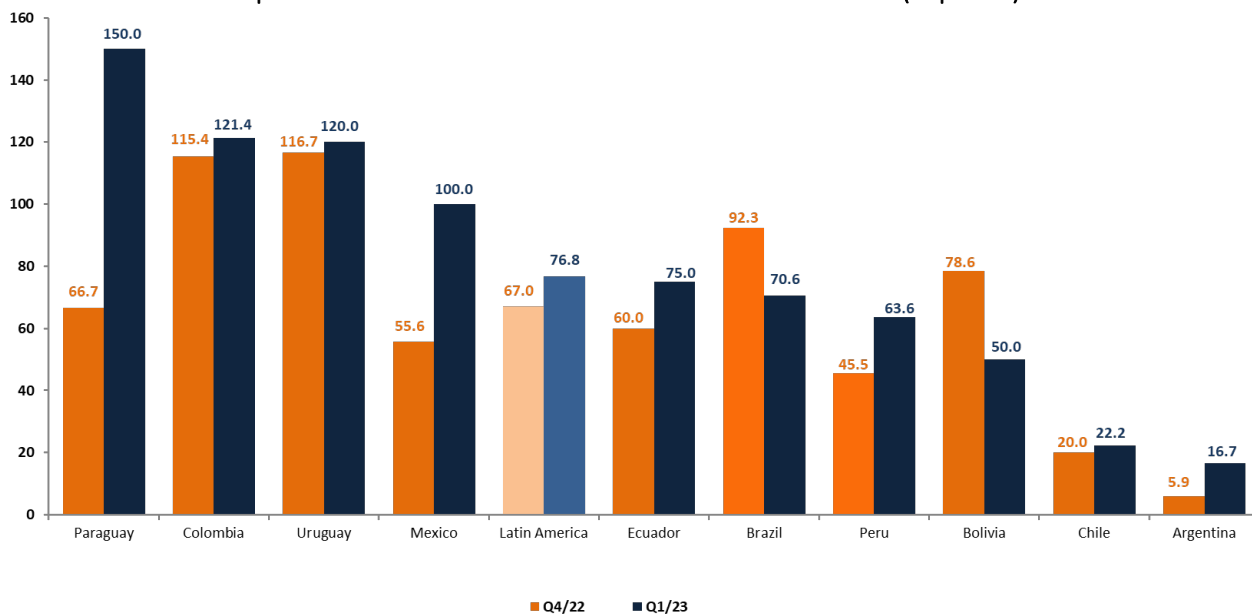
Graphs 3, 4, and 5 show the results of the indicators of the selected countries in the 4<sup>th</sup> quarter of 2022 and the 1<sup>st</sup> quarter of 2023.

Graph 3: Economic Climate Index of the selected countries (in points)



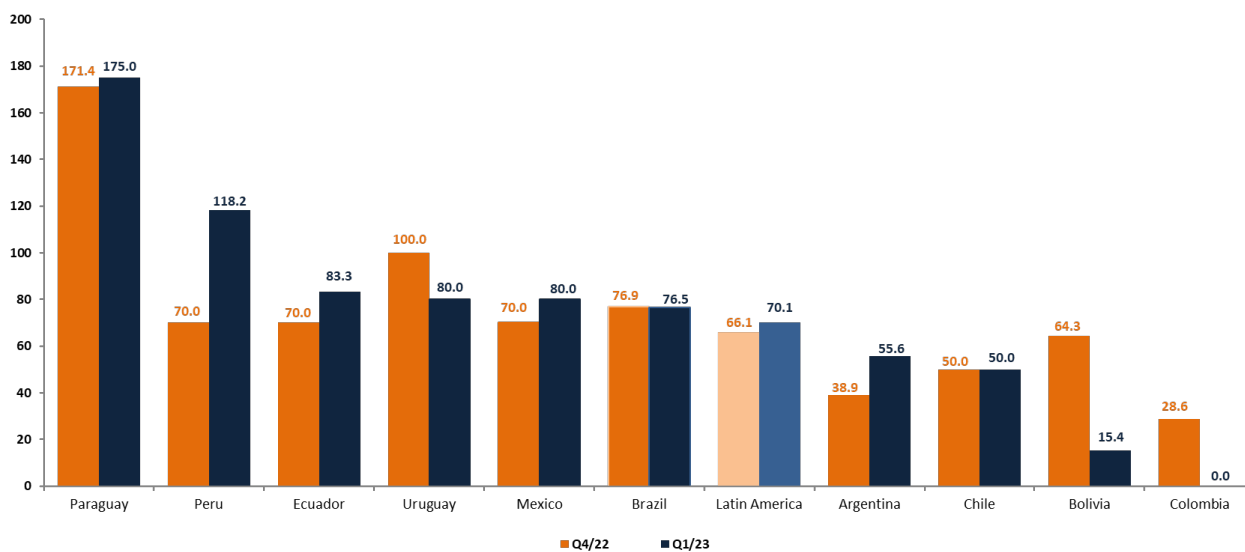
Source: FGV IBRE

Graph 4: Present Situation Index of the selected countries (in points)



Source: FGV IBRE

Graph 5: Expectations Index of the selected countries (in points)



Source: FGV IBRE

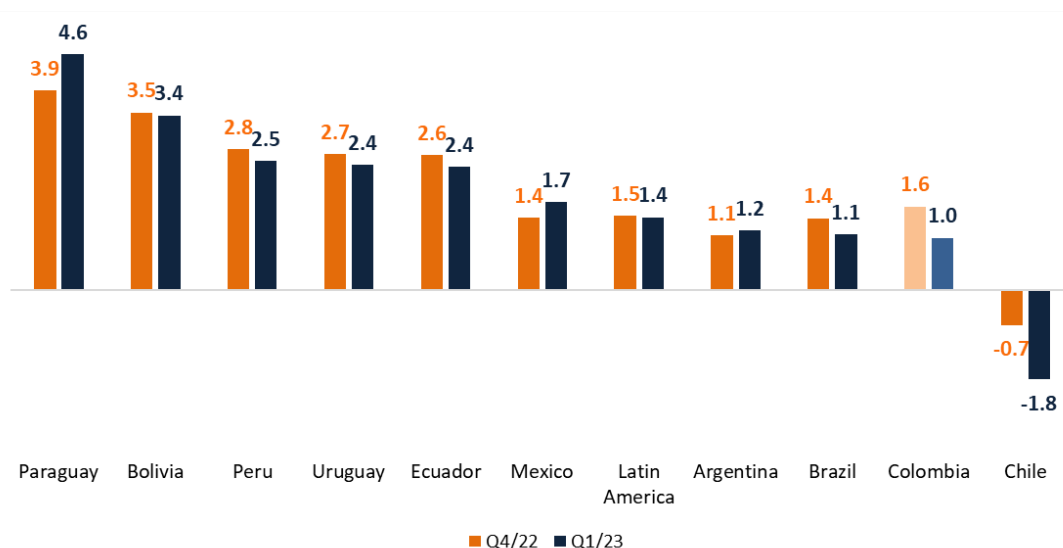
## GDP growth forecasts for 2023

Graph 6 shows the specialists' GDP growth forecasts for 2023 made in the 4<sup>th</sup> quarter of 2022 and the 1<sup>st</sup> quarter of 2023. In this survey, growth for 2023 was revised upwards in Paraguay, Mexico, and Argentina. Paraguay stands out as the GDP growth forecast passed from 3.9% to 4.6%, the highest forecast growth rate in the region. In Mexico, the GDP variation increased from 1.4% to 1.7%, and in Argentina, from 1.1% to 1.2%.

In all the other countries, the forecast reduced the growth rate, the largest difference being in Chile, which passed from a fall of 0.7% to -1.8%. This is followed by Colombia, with a forecast going from 1.6% to 1.0%. The percentage differences for the remaining countries were of only 0.1% (Bolivia), 0.2% (Peru, Uruguay, and Ecuador) and 0.3% (Brazil). In Brazil the forecast fell from 1.4% to 1.1%.

The forecasts show a performance that is not very favorable, with most growth rates below 3%, which is worrying for a developing region with limitations to physical infrastructure and social development indicators. On aggregate for Latin America, given the small variations in the forecasts, the GDP growth rate fell from 1.5% to 1.4%.

Graph 6: GDP growth forecasts for 2023 for the selected countries (in %)



Source: FGV IBRE

Table 3 shows the incidence of responses in relation to the changes in the forecasts. In the set of analyzed countries, 61.3% responded that they revised their forecasts and 62.6% said that the revision was for a reduction in growth. In the case of Brazil, 50% of the interviewees said that they changed their forecast.

**Table 3 – Perspectives on GDP in the selected countries for the end of 2023**

Country	Have you changed your GDP growth forecast for 2023 in the last three months?		How has it changed?	
	Yes	No	Now it is higher	Now it is lower
Colombia	92.9	7.1	7.7	92.3
Bolivia	92.3	7.7	0.0	100.0
Peru	91.7	8.3	18.2	81.8
Chile	80.0	20.0	25.0	75.0
Mexico	60.0	40.0	16.7	83.3
Argentina	50.0	50.0	22.2	77.8
Paraguay	50.0	50.0	60.0	40.0
Brazil	50.0	50.0	77.8	22.2
Ecuador	41.7	58.3	40.0	60.0
Uruguay	40.0	60.0	0.0	100.0
<b>Latin America</b>	<b>61.3</b>	<b>38.7</b>	<b>37.4</b>	<b>62.6</b>

Source: FGV

IBRE

Table 4 shows the percentage for factors that positively affected the revised GDP forecasts, where the specialists can choose more than one factor. In Brazil, new stimulus measures (57.1%) was followed by improved political environment (28.6%), and the same percentage (14.3%) for each of the remaining items — reduced restrictive measures on mobility, improved internal macroeconomic conditions, and improved international macroeconomic conditions.

In Argentina, 50% highlighted the improved political environment and 50% other measures, where the respondents specify public spending related to the elections. Another case in which the percentage for *Others* is high is that of Colombia (100%), which is related to the increase in exports to Venezuela, based on the normalization of commercial relations between the countries. In Paraguay, it was the previously mentioned climate conditions that were the source of losses in 2022.

For Latin America, the highest percentage refers to the improved political environment (48.4%), followed by international macroeconomic conditions (37.5%). The improved political environment result was influenced by Mexico (100% of the specialists indicated this item as the reason for reviewing the country's GDP growth forecast upwards) and Peru (100%).



Table 4: Factors that positively affected the revised GDP forecasts for 2023 (in % of the total of each country)

(In case it's higher) Which factor(s) affected the revision of your forecast?						
Country	Reduced restrictive measures on mobility	Internal macroeconomic conditions have improved	International macroeconomic conditions have improved	The political environment has improved	New stimulus measures	Others (Please, specify)
Argentina	0.0	0.0	0.0	50.0	0.0	50.0
Bolivia	--	--	--	--	--	--
Brazil	14.3	14.3	14.3	28.6	57.1	14.3
Chile	50.0	0.0	100.0	0.0	0.0	0.0
Colombia	0.0	0.0	0.0	0.0	0.0	100.0
Ecuador	0.0	50.0	0.0	50.0	0.0	0.0
Mexico	0.0	0.0	100.0	100.0	0.0	0.0
Paraguay	0.0	33.3	33.3	33.3	0.0	66.7
Peru	0.0	0.0	0.0	100.0	0.0	0.0
Uruguay	--	--	--	--	--	--
<b>Latin America</b>	<b>7.3</b>	<b>6.2</b>	<b>37.5</b>	<b>48.4</b>	<b>19.3</b>	<b>18.9</b>

Source: FGV IBRE

Table 5 shows the factors that influenced a downwards revision for GDP growth in the 1<sup>st</sup> quarter of 2023 in relation to the 4<sup>th</sup> quarter of 2022.

In the case of Brazil, all the respondents (100%) highlighted a worsening in internal macroeconomic conditions, international macroeconomic conditions, the political environment, and the fiscal situation. Such unanimity was not identified in the other countries.

In the *Others* item, high percentages stand out for Argentina, with the 2023 elections as a negative factor for GDP performance, and Paraguay, with lower growth than expected in the agriculture sector.

For Latin America, the main items mentioned (above 50%) to explain the downwards revision in GDP growth were the worsening in international macroeconomic conditions (74.7%), the political environment (66.5%), internal macroeconomic conditions (58%), and the fiscal situation (55.2%).



**Table 5: Factors that negatively affected the revised GDP forecasts for 2022 (in % of the total of each country)**

(In case it's lower) Which factor(s) affected the revision of your forecast?							
Country	Possibility of new restriction measures on mobility	Internal macroeconomic conditions have worsened	International macroeconomic conditions have worsened	The political environment has worsened	The fiscal situation has worsened	Reduction of exports due to the external economic slowdown	Others (Please, specify)
Argentina	28.6	57.1	28.6	42.9	28.6	28.6	42.9
Bolivia	8.3	75.0	58.3	91.7	66.7	33.3	8.3
Brazil	0.0	100.0	100.0	100.0	100.0	0.0	0.0
Chile	0.0	80.0	80.0	60.0	20.0	0.0	0.0
Colombia	8.3	66.7	66.7	41.7	33.3	25.0	25
Ecuador	0.0	0.0	33.3	100.0	0.0	33.3	0
Mexico	0.0	16.7	66.7	50.0	50.0	33.3	16.7
Paraguay	50.0	50.0	0.0	0.0	0.0	0.0	50
Peru	22.2	33.3	66.7	88.9	0.0	11.1	11.1
Uruguay	0.0	50.0	50.0	50.0	0.0	50.0	0.0
<b>Latin America</b>	<b>5.3</b>	<b>58.0</b>	<b>74.7</b>	<b>66.5</b>	<b>55.2</b>	<b>17.8</b>	<b>13.0</b>

Source: FGV IBRE

Reading of Tables 4 and 5 shows that despite not being unanimous, the perceptions of the common items in the two tables have a greater incidence of negative influence for the factors affecting the GDP evaluation. The political environment stands out with the highest incidence of responses in the evaluation of those that forecast an improvement in GDP growth, with 48.4%, while it is the second item of those that forecast reduced growth (66.5%).

## APPENDICES

### Appendix 1 – Mean ECI of the selected countries for the last four quarters

<i>Country</i>	<i>Q4/22</i>	<i>Q1/23</i>
Argentina	32.3	30.5
Bolivia	67.3	59.3
Brazil	65.0	68.8
Chile	40.3	38.1
Colombia	84.1	72.6
Ecuador	71.1	71.7
Mexico	61.6	66.9
Paraguay	100.0	117.3
Peru	56.9	65.1
Uruguay	130.0	119.9
<b>Latin America</b>	<b>63.7</b>	<b>65.5</b>

Source: FGV IBRE

## Appendix 2 – Historical series of the indicators of the selected countries

### PRESENT SITUATION INDEX

<i>PSI</i>	<i>Q1/21</i>	<i>Q2/21</i>	<i>Q3/21</i>	<i>Q4/21</i>	<i>Q1/22</i>	<i>Q2/22</i>	<i>Q3/22</i>	<i>Q4/22</i>	<i>Q1/23</i>	<i>10-year mean</i>
Argentina	9.1	16.7	25.0	12.5	18.7	15.8	6.7	5.9	16.7	36.0
Bolivia	33.3	44.4	50.0	90.0	70.0	75.0	57.1	78.6	50.0	101.8
Brazil	25.0	17.6	69.2	54.5	22.2	30.0	42.9	92.3	70.6	31.7
Chile	33.3	41.7	87.5	100.0	44.4	53.8	27.3	20.0	22.2	66.0
Colombia	5.6	33.3	47.1	100.0	118.2	120.0	135.7	115.4	121.4	93.6
Ecuador	10.0	0.0	20.0	80.0	55.6	54.5	58.3	60.0	75.0	52.0
Mexico	20.0	33.3	57.1	46.2	50.0	44.4	25.0	55.6	100.0	59.1
Paraguay	77.8	77.8	90.0	133.3	50.0	54.5	40.0	66.7	150.0	110.2
Peru	6.7	36.4	80.0	64.3	42.9	54.5	38.5	45.5	63.6	80.6
Uruguay	12.5	0.0	11.1	66.7	120.0	133.3	128.6	116.7	120.0	88.0
Latin America	19.4	28.2	59.1	58.0	46.2	48.8	44.3	67.0	76.8	50.4

### EXPECTATIONS INDEX

<i>EI</i>	<i>Q1/21</i>	<i>Q2/21</i>	<i>Q3/21</i>	<i>Q4/21</i>	<i>Q1/22</i>	<i>Q2/22</i>	<i>Q3/22</i>	<i>Q4/22</i>	<i>Q1/23</i>	<i>10-year mean</i>
Argentina	150.0	92.3	105.6	64.7	68.7	65.0	46.7	38.9	55.6	109.3
Bolivia	77.8	100.0	100.0	84.6	58.3	57.1	78.6	64.3	15.4	73.3
Brazil	137.5	182.4	176.9	72.7	100.0	100.0	66.7	76.9	76.5	121.4
Chile	187.5	166.7	122.2	61.5	44.4	38.5	45.5	50.0	50.0	106.2
Colombia	172.2	176.5	175.0	180.0	81.8	73.3	21.4	28.6	0.0	111.7
Ecuador	90.0	130.0	163.6	160.0	100.0	90.9	83.3	70.0	83.3	76.4
Mexico	140.0	146.7	135.7	130.8	88.9	90.0	75.0	70.0	80.0	96.3
Paraguay	177.8	125.0	166.7	133.3	142.9	133.3	177.8	171.4	175.0	132.8
Peru	142.9	140.0	126.7	100.0	71.4	72.7	61.5	70.0	118.2	128.2
Uruguay	162.5	157.1	188.9	183.3	160.0	166.7	116.7	100.0	80.0	108.8
Latin America	143.6	156.0	150.6	105.1	88.1	87.2	65.5	66.1	70.1	107.2

### ECONOMIC CLIMATE INDEX

<i>ECI</i>	<i>Q1/21</i>	<i>Q2/21</i>	<i>Q3/21</i>	<i>Q4/21</i>	<i>Q1/22</i>	<i>Q2/22</i>	<i>Q3/22</i>	<i>Q4/22</i>	<i>Q1/23</i>	<i>10-year mean</i>
Argentina	70.5	51.7	62.2	37.2	42.4	39.1	25.8	21.8	35.3	70.2
Bolivia	54.6	70.8	73.9	87.3	64.1	65.9	67.6	71.4	32.1	87.4
Brazil	75.6	88.5	118.5	63.4	58.2	62.7	54.5	84.5	73.5	71.7
Chile	100.7	97.7	104.4	80.1	44.4	46.0	36.2	34.5	35.7	84.2
Colombia	76.6	96.4	104.4	137.6	99.4	95.7	72.6	68.5	53.5	100.9
Ecuador	46.8	56.9	82.8	117.5	76.9	72.1	70.5	65.0	79.1	61.5
Mexico	73.5	84.4	93.8	85.4	68.7	66.2	48.7	62.7	89.8	76.1
Paraguay	124.0	100.5	126.1	133.3	92.8	91.2	101.1	114.7	162.3	118.8
Peru	66.2	83.5	102.4	81.6	56.8	63.4	49.7	57.5	89.6	102.6
Uruguay	77.5	67.2	86.5	119.7	139.4	149.6	122.6	108.2	99.3	95.9
Latin America	74.6	85.0	101.4	80.6	66.3	67.3	54.7	66.5	73.4	76.9

Source: FGV IBRE

## METHODOLOGICAL ASPECTS OF THE SURVEY

The Latin America Economic Survey aims to monitor and forecast economic trends, based on quarterly information supplied by specialists in the economy of their respective countries. The survey is simultaneously applied with the same methodology in all the countries in the region, which is a method that enables the construction of an agile and comprehensive picture of the economic situation in countries and economic blocks. In the 1<sup>st</sup> quarter of 2021, 146 economy specialists were consulted in 15 Latin American countries.

The survey generates information of both a qualitative and a quantitative nature. The Economic Climate Index (ECI), is the synthesis indicator, comprised of two items of a qualitative nature, the Present Situation Index (PSI) and the Expectations Index (EI), which deal, respectively, with the general economic situation in the country at the moment and for the upcoming six months.

Beginning with the edition for the 1<sup>st</sup> quarter of 2021, the Present Situation (PSI) and Expectations (EI) indexes for each country are expressed as a balance of responses of the respective qualitative items plus 100 (+100), as per the formula presented below:

$$PSI \text{ or } EI = \frac{([option]_+ - [option]_-) * 100}{n} + 100$$

$[option]_+$  = Favorable option;

$[option]_-$  = Unfavorable option; and

$n$  = number of specialists who answered this question

The Economic Climate Index is constructed as the geometric mean of the PSI and the EI, as per the formula described below:

$$ECI = \sqrt{(PSI + 200) * (EI + 200)} - 200,$$

ECI = Economic Climate Index.

As such, the index scale varies from 0 (zero) to 200. One hundred (100) is the point of inflection.

To reach the figures of any cluster of countries, such as the total for Latin America, the indexes are aggregated by GDP corrected for Purchasing Power Parity (GDP, PPP, according to IMF data). The weights are modified annually.

In the 1<sup>st</sup> quarter of 2023, 143 economics specialists in 15 Latin American countries were consulted.

LATIN AMERICA ECONOMIC SURVEY | Quarterly publication of FGV IBRE – Brazilian Institute of Economics

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