



# LATIN AMERICA ECONOMICS WEEKLY

## Argentina & the IMF, Banxico hawks

### Argentina-IMF relations set for a rockier phase

Argentine officials headed to Washington this week to discuss the fourth review of the country's IMF deal. The good news is that Argentina is likely to have met last year's performance criteria, which should unlock the next tranche of funding. The bad news is that meeting this year's targets will be a lot harder.

For one thing, the severe drought that Argentina is reeling from will weigh heavily on the country's soy harvest – a key source of hard currency – imperilling the net FX reserves target. Admittedly, policymakers will probably seek a waiver if they fail to meet this target, arguing that the drought is out of their control. But even if the IMF agrees to a waiver, Argentina is likely to struggle with some of the other targets too.

The most obvious one is inflation, which is now running at close to 100% and heading upwards, taking it further away from the programme's end-year goal of 60% this year. Perhaps the biggest bone of contention with the Fund, however, will be fiscal policy. The IMF deal envisages a fiscal squeeze of 0.5%-pts of GDP this year.

Admittedly, Argentina outperformed its fiscal target in 2022, with the primary deficit coming in at 2.4% of GDP (vs. the target of 2.5%). However, data out this week showed that developments on the fiscal front are going in the wrong direction – the primary deficit *widened* last month. And fiscal consolidation will only become more difficult going forward. With the economy struggling (activity data out this week suggest that the economy contracted sharply in Q4) and the drought weighing on exports, government revenues will take a hit this year. This means that the adjustments will need to come on the expenditure side – just as the election race heats up (Buenos Aires mayor Horacio Rodriguez Larreta was the first opposition candidate to officially throw his hat in the ring as a presidential candidate this week).

History doesn't provide much cause for comfort in this regard – fiscal policy in Argentina has hardly

ever been tightened ahead of elections. All told, then, it's going to be much harder for Argentina to stick to its IMF targets – and improve the fiscal and external balance sheets – over the coming year.

### Stronger services inflation to keep Banxico hawkish

The [minutes](#) to Banxico's February Board meeting, at which it delivered a larger-than-expected 50bp interest rate increase, confirmed that policymakers are worried that underlying inflation pressures are becoming more pernicious.

While officials acknowledged that the economy had "lost momentum [in Q4] as compared to previous quarters", the inflation outlook continued to dominate the Board's deliberations. Policymakers are particularly concerned that, despite aggressive tightening (700bp of hikes since mid-2021), the risks to inflation are still deemed to lie to the upside.

The current focus is services inflation, which has continued to rise, and officials warned that this means "the disinflationary process will be, at the margin, more difficult than anticipated". Concerns will have only been reinforced by February's [mid-month inflation data](#) which showed services inflation hitting a fresh 20-year high of 5.6% y/y.

Banxico stated that another interest rate hike is on the cards in March that "could be of lower magnitude". We had thought that there would be a final 25bp hike, to 11.25%. And the minutes revealed that a number of officials feel that they are close to reaching the terminal rate. But the continued strengthening of services inflation means that there is a growing risk of a bit more tightening than we currently anticipate and that, even once the cycle is over, rates stay high for longer.

### The week ahead

GDP data from Brazil are likely to show that the economy stagnated in Q4. (See [Data Preview](#).) We'll also be holding our monthly EM Drop-in next week. Sign up [here](#).



# Data Previews

## Brazil GDP (Q4)

Thu. 2<sup>nd</sup> Mar.

Forecasts	Time (GMT/ET)	Previous	Consensus	Capital Economics
GDP %q/q (%y/y)	12.00/07.00	+0.4 (+3.6)	-0.3(+2.3)	0.0 (+2.5)

### Grinding to a halt

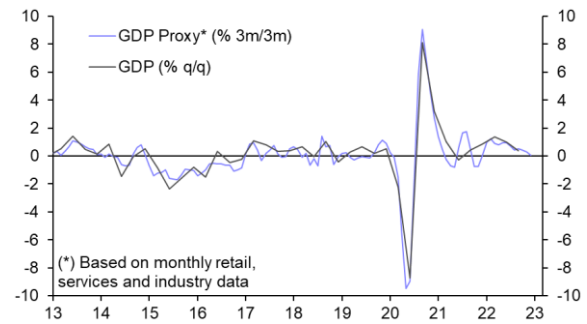
We think that data out next Thursday will show that Brazil’s GDP was flat between Q3 and Q4. That would be consistent with a slowdown in the year-on-year growth rate from 3.6% to 2.5%.

While the hard activity data showed some signs of improvement in December, Q4 as a whole was pretty weak. Retail sales and industrial production both contracted in q/q terms in the final quarter of last year. And while services output growth was positive, it slowed from Q3. Our GDP proxy, which takes account of these indicators, is consistent with GDP growth of 0% q/q in Q4, down from +0.4% q/q in Q3. (See Chart 1.)

We haven’t shared the pessimism that some analysts had regarding Brazil’s growth prospects for

this year. Commodity prices remain relatively high and inflation has come down a long way. But even so, growth over the course of this year will be pretty mediocre. We expect that output will expand by 1.0% over the year as a whole.

Chart 1: Brazil GDP



Sources: Refinitiv, Capital Economics



## Economic Diary & Forecasts

### Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (GMT)	Time (EST)	Previous*	Median*	CE Forecasts*
27 <sup>th</sup> Feb	<b>Mex</b>	Trade Balance (Jan.)	12.00	07.00	+\$0.98bn	-	-
	<b>Chl</b>	Unemployment Rate (Jan.)	12.00	07.00	7.9%	-	-
28 <sup>th</sup> Feb	<b>Brz</b>	Unemployment Rate (Dec.)	12.00	07.00	8.1%	8.0%	-
	<b>Chl</b>	Industrial Production (Jan.)	12.00	07.00	(-1.0%)	-	-
	<b>Chl</b>	Retail Sales (Jan.)	12.00	07.00	(-11.1%)	-	-
	<b>Brz</b>	Primary Budget Balance (Jan.)	12.30	07.30	-\$70.8bn	-	-
	<b>Brz</b>	Nominal Budget Balance (Jan.)	12.30	07.30	-\$11.8bn	-	-
	<b>Col</b>	Unemployment Rate (Jan.)	15.00	10.00	10.3%	-	-
	<b>Dom</b>	Interest Rate Announcement	-	-	8.50%	-	8.50%
1 <sup>st</sup> Mar	<b>Brz</b>	S&P Global Manufacturing PMI (Feb.)	13.00	08.00	47.5	-	-
	<b>Per</b>	CPI (Feb.)	15.00	10.00	+0.2%(+8.7%)	+0.5%(+8.8%)	+0.3%(+8.6%)
	<b>Mex</b>	S&P Global Manufacturing PMI (Feb.)	15.30	10.30	48.9	-	-
	<b>Brz</b>	Trade Balance (Feb.)	18.00	13.00	+\$2.7bn	-	-
	<b>Mex</b>	IMEF Manufacturing Index (Feb.)	18.00	13.00	50.0	-	-
	<b>Mex</b>	IMEF Non-Manufacturing Index (Feb.)	18.00	13.00	52.2	-	-
	<b>Col</b>	Current Account Balance (Q4.)	-	-	-\$6.2bn	-	-
2 <sup>nd</sup> Mar	<b>Brz</b>	GDP (Q4, q/q(y/y))	12.00	07.00	+0.4%(+3.6%)	-0.3%(+2.3%)	0.0%(+2.5%)
	<b>Mex</b>	Budget Balance (Jan.)	-	-	-	-	-
3 <sup>rd</sup> Mar	<b>Brz</b>	S&P Global Manufacturing PMI (Feb.)	13.00	08.00	50.7	-	-
	<b>Uru</b>	CPI (Feb.)	17.00	12.00	+1.6%(+8.1%)	-	+1.6%(+8.1%)
4 <sup>th</sup> Mar	<b>Col</b>	CPI (Feb.)	17.00	12.00	+1.8%(+13.3%)	-	+1.4%(+13.1%)
<b>Also expected during this period:</b>							
20 <sup>th</sup> – 24 <sup>th</sup>	<b>Per</b>	GDP (Q4)	-	-	(+1.7%)	-	-
<b>Selected future data releases and events:</b>							
6 <sup>th</sup> Mar	<b>Ecu</b>	CPI (Feb.)	14.00	09.00	+0.1%(+3.1%)	-	-
7 <sup>th</sup> Mar	<b>Chl</b>	Trade Balance (Feb.)	11.30	06.30	\$2.6bn	-	-
	<b>Chl</b>	Wage Growth (Jan.)	12.00	07.00	(+10.8%)	-	-
	<b>C.Rc</b>	CPI (Feb.)	-	-	+0.2%(+7.7%)	-	-
8 <sup>th</sup> Mar	<b>Chl</b>	CPI (Feb.)	11.00	08.00	+0.8%(+12.3%)	-	-
	<b>Arg</b>	Industrial Production (Jan.)	19.00	14.00	(-2.7%)	-	-
	<b>Mex</b>	CPI (Feb.)	12.00	07.00	+0.7%(+7.9%)	-	-
9 <sup>th</sup> Mar	<b>Per</b>	Interest Rate Announcement	23.00	18.00	7.75%	-	-
10 <sup>th</sup> Mar	<b>Brz</b>	IPCA Inflation (Feb.)	12.00	07.00	+0.5%(+5.8%)	-	-
	<b>Mex</b>	Wage Growth (Feb.)	-	-	(+10.9%)	-	-
<b>Also expected during this period:</b>							
8 <sup>th</sup> – 13 <sup>th</sup>	<b>Dom</b>	CPI (Feb.)	-	-	+0.6%(+7.3%)	-	-

\*m/m(y/y) unless otherwise stated; † = previous day  
Sources: Bloomberg, Capital Economics



## Main Economic & Market Forecasts

**Table 1: Central Bank Policy Rates (%)**

Policy Rate	Latest (24 <sup>h</sup> Feb.)	Last Change	Next Change	Forecasts	
				End 2023	End 2024
Brazil Selic Target	13.75	Up 50bp (Aug. '22)	<b>Down 50bp (Q4 '23)</b>	<b>12.75</b>	<b>10.00</b>
Mexico Overnight Rate	11.00	Up 50bp (Feb. '22)	<b>Up 25bp (Mar. '23)</b>	<b>10.25</b>	<b>8.25</b>
Colombia Intervention Rate	12.75	Up 75bp (Jan. '23)	<b>Up 50bp (Mar. '23)</b>	<b>11.00</b>	<b>7.25</b>
Chile Overnight Rate	11.25	Up 50bp (Oct. '22)	<b>Down 50bp (Q2 '23)</b>	<b>7.25</b>	<b>5.25</b>
Peru Reference Rate	7.75	Up 25bp (Jan. '23)	<b>Down 25bp (Q2 '23)</b>	<b>6.50</b>	<b>5.00</b>

Sources: Refinitiv, Capital Economics

**Table 2: FX Rates vs. US Dollar & Equity Markets**

Currency	Latest (24 <sup>h</sup> Feb.)	Forecasts		Stock Market	Latest (24 <sup>h</sup> Feb.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	5.19	<b>5.25</b>	<b>5.00</b>	Bovespa	106,281	<b>109,250</b>	<b>126,000</b>
Mexico MXN	18.4	<b>20.0</b>	<b>19.0</b>	Bolsa	52,682	<b>57,500</b>	<b>62,100</b>
Argentina ARS	196	<b>300</b>	<b>375</b>	Merval	244,769	-	-
Colombia COP	4,848	<b>4,400</b>	<b>4,400</b>	IGBC	1,187	<b>1,380</b>	<b>1,520</b>
Chile CLP	822	<b>820</b>	<b>780</b>	IPSA	5,308	<b>5,950</b>	<b>6,500</b>
Peru PEN	3.81	<b>3.80</b>	<b>3.70</b>	S&P/BVL	21,494	<b>25,100</b>	<b>27,400</b>

Sources: Refinitiv, Capital Economics

**Table 3: GDP & Consumer Prices (% y/y)**

	Share of World <sup>1</sup>	GDP					Consumer Prices			
		2011-20 Ave.	2021	2022	2023	2024	2021	2022	2023	2024
Brazil	2.3	0.3	5.0	<b>3.0</b>	<b>1.0</b>	<b>1.5</b>	8.3	<b>9.3</b>	<b>5.0</b>	<b>5.3</b>
Mexico	1.8	1.3	4.7	<b>3.0</b>	<b>1.0</b>	<b>1.8</b>	5.7	<b>8.0</b>	<b>5.5</b>	<b>4.0</b>
Argentina	0.7	-0.7	10.4	<b>5.5</b>	<b>0.8</b>	<b>1.0</b>	48.4	<b>72.5</b>	<b>93.0</b>	<b>83.5</b>
Colombia	0.6	2.5	11.0	7.5	<b>0.8</b>	<b>2.0</b>	3.5	<b>10.3</b>	<b>11.8</b>	<b>5.5</b>
Chile	0.4	2.1	11.7	<b>2.8</b>	<b>-1.3</b>	<b>2.3</b>	4.5	<b>11.8</b>	<b>8.0</b>	<b>4.8</b>
Peru	0.3	2.4	13.6	<b>2.5</b>	<b>2.3</b>	<b>2.3</b>	4.0	<b>8.0</b>	<b>6.5</b>	<b>3.8</b>
Dom. Rep.	0.2	4.1	12.3	<b>4.8</b>	<b>4.0</b>	<b>4.8</b>	8.2	<b>8.8</b>	<b>4.8</b>	<b>4.3</b>
Ecuador	0.1	1.6	4.2	<b>3.0</b>	<b>2.3</b>	<b>2.0</b>	0.1	<b>3.5</b>	<b>1.8</b>	<b>1.0</b>
Venezuela	-	-12.7	<b>5.0</b>	<b>10.0</b>	<b>7.5</b>	<b>5.0</b>	1,589	<b>170</b>	<b>110</b>	<b>60</b>
Panama	0.1	3.5	15.3	<b>7.8</b>	<b>2.5</b>	<b>4.5</b>	1.6	<b>2.8</b>	<b>0.3</b>	<b>0.5</b>
Costa Rica	0.1	2.8	7.8	<b>4.5</b>	<b>2.5</b>	<b>2.3</b>	1.7	<b>8.3</b>	<b>3.5</b>	<b>3.3</b>
Uruguay	0.1	1.5	4.4	<b>4.8</b>	<b>1.5</b>	<b>2.0</b>	7.7	<b>9.0</b>	<b>7.0</b>	<b>8.0</b>
<b>Latin America<sup>2</sup></b>	<b>6.7</b>	<b>1.0</b>	<b>7.0</b>	<b>3.8</b>	<b>1.0</b>	<b>1.8</b>	<b>6.2</b>	<b>8.8</b>	<b>5.9</b>	<b>4.6</b>

Sources: Refinitiv, Capital Economics. 1) % of GDP, 2021, PPP terms. 2) GDP Excl. Venezuela; Consumer Prices Excl. Argentina &amp; Venezuela.



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