



LATIN AMERICA ECONOMICS WEEKLY

Could Copom cut (soon)? Chile's tax reform

Brazil: is a Q2 rate cut plausible?

The prevailing monetary policy story in Brazil so far this year has been one of 'higher for longer'. We set out such a view [recently](#), the BCB's [communications](#) point this way and analyst expectations have shifted up. A higher peak in [US rates](#) argues this way too (as it does elsewhere in the region, including [Mexico](#), where we revised up our rate forecast this week.)

It seems a little odd, then, that in Brazil a scenario now seems to be under discussion in corners of the market in which early rate *cuts* come back onto the table. This is reflected in implied market pricing – a 25bp cut at the Copom meeting in May now appears to be roughly 40% priced in. In our view, this scenario would require one of two things to happen.

The first is that the government implements a new fiscal rule that allays Copom's concerns about debt sustainability. Positive fiscal measures have opened the door to easing in the past (the spending cap in 2016 and pension reform in 2019). A report this week by [Bloomberg](#) suggests that Finance Minister Haddad has this in mind – that he plans to unveil a new rule ahead of the March Copom meeting.

We think Mr. Haddad will be disappointed though. For one, the new fiscal rule will have to be credible. A [degree of scepticism](#) is warranted here. What's more, in the past, Copom has only started easing cycles one fiscal measures have been approved by at least one chamber of congress. Even if Mr. Haddad unveils a new fiscal rule, it will be some time before it's been through the congressional machine.

The second trigger for an early rate cut would be if private sector debt problems prove far more severe than we (and others) anticipate. As we argued in a recent [note](#), we don't think this is a likely outcome. Were debt problems to become more widespread, we suspect that the central bank would probably roll out pandemic-era policies to support the refinancing of loans rather than cut interest rates and risk giving the appearance of abandoning the inflation fight.

Chile

Politics have once again taken centre stage in Chile this week. On Wednesday, the lower house rejected the government's flagship tax reform bill, which aimed at boosting tax revenues by 3.6% of GDP by 2026. We have yet to hear from Finance Minister Marcel on how the government plans to proceed on this matter, but it looks like the tax reform in its current form is all but dead.

The rejection deals a heavy blow to President Boric, whose position had already been weakened by the overwhelming rejection of the constitution in last year's referendum. This raises questions about the government's ability to push through some of its other key reform proposals, such as the [pension reform](#) and the mining royalty bill. It could prompt Boric to moderate his stance further, similar to what happened after last year's referendum.

But even if that were the case, there could still be substantial fiscal implications. Following large-scale protests in 2019, a consensus across the political spectrum emerged that the state should spend more on welfare. And the tax bill was the Boric administration's attempt to do this in a fiscally responsible way. There's a risk that lawmakers still press ahead with their spending plans, with larger budget deficits the result.

Investors don't appear to be too concerned, for now – bond yields edged down and the peso was up against the dollar on Wednesday. But we think the risks are skewed towards Chile's public finances, which improved substantially last year, coming under renewed strain. This would especially be the case if the new constitutional process, which kicked off this week, results in a more active role for the state in the provision of services to the public.

The week ahead

The main data release next week is Mexican industrial production which we think will show that the industrial sector rebounded in January.



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (GMT)	Time (EST)	Previous*	Median*	CE Forecasts*
Mon 13 th	Mex	Industrial Production (Jan.)	12.00	07.00	+0.7%(+3.0%)	-	+0.9%(+3.2%)
Tue 14 th	Arg	CPI (Feb.)	19.00	14.00	+6.0%(+98.8%)	+6.0%(+101.2%)	+5.8%(+100.9%)
Wed 15 th	Per	Unemployment (Feb.)	15.00	10.00	8.0%	-	-
	Col	Industrial Production (Jan.)	15.00	10.00	+0.7%(-1.8%)	-	-
	C.Rc	Interest Rate Announcement	-	-	9.0%	-	9.0%
	Pan	CPI (Feb.)	-	-	+0.1%	-	+0.3%(+1.0%)
Thu 16 th	-	No Significant Data or Events	-	-	-	-	-
Fri 17 th	Brz	Unemployment (Jan.)	12.00	07.00	-	8.2%	-
	Col	Trade Balance (Jan.)	15.00	10.00	-\$0.9bn	-	-
	Col	Economic Activity (Jan.)	16.00	11.00	(+1.3%)	-	-
Also expected during this period:							
8 th – 13 th	Dom	CPI (Feb.)	-	-	+0.6%(+7.3%)	-	+0.4%(+6.7%)
Selected future data releases and events:							
20 th Mar	Chl	Current Account (Q4)	11.30	06.30	-\$9.4bn	-	-
	Chl	GDP (Q4, q/q(y/y))	11.30	06.30	+0.3%(-1.2%)	-	-
21 st Mar	Arg	Budget Balance (Feb.)	-	-	-\$203.9bn	-	-
	Arg	Trade Balance (Feb.)	19.00	14.00	-\$0.5bn	-	-
22 nd Mar	Arg	GDP (Q4, q/q(y/y))	19.00	14.00	+1.7%(+5.9%)	-	-
	Arg	Unemployment Rate (Q4)	19.00	14.00	7.1%	-	-
23 rd Mar	Brz	Interest Rate Announcement	21.30	16.30	13.75%	-	-
	Mex	Retail Sales (Jan.)	12.00	07.00	+0.1%(+2.5%)	-	-
24 th Mar	Uru	GDP (Q4)	-	-	(+3.7%)	-	-
	Mex	Economic Activity (Jan.)	12.00	07.00	+0.4%(+2.6%)	-	-
	Brz	IPCA-15 Inflation (Mar.)	12.00	07.00	+0.8%(+5.6%)	-	-

*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 (10 th Mar.)	Last Change	Next Change	Forecasts	
				End 2023	End 2024
Brazil Selic Target	13.75	Up 50bp (Aug. '22)	Down 50bp (Q4 '23)	12.75	10.00
Mexico Overnight Rate	11.00	Up 50bp (Feb. '22)	Up 25bp (Mar. '23)	10.25	8.25
Colombia Intervention Rate	12.75	Up 75bp (Jan. '23)	Up 50bp (Mar. '23)	11.00	7.25
Chile Overnight Rate	11.25	Up 50bp (Oct. '22)	Down 50bp (May '23)	7.25	5.25
Peru Reference Rate	7.75	Up 25bp (Jan. '23)	Down 25bp (Q3 '23)	6.50	5.00

Sources: Refinitiv, Capital Economics

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

Currency	Latest (10 th Mar.)	Forecasts		Stock Market	Latest (10 th Mar.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	5.16	5.25	5.00	Bovespa	104,406	109,250	126,000
Mexico MXN	18.4	20.0	19.0	Bolsa	53,059	57,500	62,100
Argentina ARS	200	300	375	Merval	244,911	-	-
Colombia COP	4,717	4,400	4,400	IGBC	1,210	1,380	1,520
Chile CLP	793	820	780	IPSA	5,398	5,950	6,500
Peru PEN	3.77	3.80	3.70	S&P/BVL	21,664	25,100	27,400

Sources: Refinitiv, Capital Economics

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

	Share of World ¹	2011-20 Ave.	GDP				Consumer Prices			
			2021	2022	2023	2024	2021	2022	2023	2024
Brazil	2.3	0.3	5.0	2.9	1.0	1.5	8.3	9.3	5.0	5.3
Mexico	1.8	1.3	4.7	3.0	1.0	1.8	5.7	8.0	5.5	4.0
Argentina	0.7	-0.7	10.4	5.5	0.8	1.0	48.4	72.5	93.0	83.5
Colombia	0.6	2.5	11.0	7.5	0.8	2.0	3.5	10.3	11.8	5.5
Chile	0.4	2.1	11.7	2.8	-1.3	2.3	4.5	11.8	8.0	4.8
Peru	0.3	2.4	13.6	2.5	2.3	2.3	4.0	8.0	6.5	3.8
Dom. Rep.	0.2	4.1	12.3	4.8	4.0	4.8	8.2	8.8	4.8	4.3
Ecuador	0.1	1.6	4.2	3.0	2.3	2.0	0.1	3.5	1.8	1.0
Venezuela	-	-12.7	5.0	10.0	7.5	5.0	1,589	170	110	60
Panama	0.1	3.5	15.3	7.8	2.5	4.5	1.6	2.8	0.3	0.5
Costa Rica	0.1	2.8	7.8	4.5	2.5	2.3	1.7	8.3	3.5	3.3
Uruguay	0.1	1.5	4.4	4.8	1.5	2.0	7.7	9.0	7.0	8.0
Latin America²	6.7	1.0	7.0	3.8	1.0	1.8	6.2	8.8	5.9	4.6

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



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