



LATIN AMERICA ECONOMICS WEEKLY

Banking turmoil spillovers, Argentina's IMF loan

SVB, Credit Suisse and Latin America

Concerns about the health of the global banking system following the collapse of Silicon Valley Bank (SVB) and problems at Credit Suisse have triggered a sharp-sell off in Latin American financial markets this week (all our coverage on the banking turmoil can be found on our dedicated [website](#)). While the situation seems to have stabilised over the past couple of days, developments remain in flux and the turmoil could intensify before long. The good news is that direct exposure to the struggling banks appears to be small. Even so, there are three key channels through which the region may be affected.

First, tighter financial conditions in the US and Europe could cause growth, and by extension import demand, there to slow. With more than 80% of exports heading north, Mexico looks most exposed to a slowdown in the US. Weaker growth in the US and euro-zone would probably also put further downward pressure on the [prices of many commodities](#), weighing on producers' exports.

Second, risk appetite would probably stay subdued, causing capital inflows to dry up (or even reverse). This would not be a major cause for concern for Brazil and Mexico – external positions there are in decent shape. But Chile and Colombia look vulnerable. Both countries are running large current account deficits and, just as worrying, banking sector flows play a large role in [financing these shortfalls](#). This leaves both countries vulnerable to a sharp slowdown in flows from foreign banks, which would put fresh downward pressure on the Colombian and Chilean pesos (both currencies have already fallen by 2.5% and 4.2% respectively this week).

This brings us to the third channel, which is monetary policy. Intensifying strains in the banking sector could prompt the [Fed](#) to prioritise financial stability over monetary policy, leading to a lower interest rate profile there. In turn, this might prompt Banxico, which tends to follow the Fed most closely,

to end its tightening cycle a bit earlier than we're currently expecting. In contrast, sharp currency falls would probably push central banks in Colombia and Chile to extend (Colombia) or resume (Chile) their hiking cycles or possibly intervene in the FX market to avoid additional inflationary pressures from weaker currencies.

Looking beyond the direct impact of the global banking turmoil, there's a broader point about the [knock-on effect](#) of aggressive monetary tightening over the past couple of years on domestic banks. As we highlighted [recently](#), non-performing loan ratios in Brazil have already risen. The good news is that, so far, there is little evidence of widespread stress. But given how far interest rates have risen in Brazil and elsewhere in the region, we shouldn't discount the risk that home-grown problems emerge.

Argentina gets the next tranche of its IMF loan

In a rare piece of good news from Argentina, the IMF this week announced that a staff-level agreement has been reached with Argentina to release the next loan tranche. That said, it's worrying that the IMF and Argentine policymakers continue to ignore the fact that the peso is misaligned; we argued in an [Update](#) this week that the peso needs to weaken by around 30% to restore competitiveness. Given that a devaluation would exacerbate Argentina's inflation problem – data released earlier this week showed that the headline rate jumped to over 100% y/y in February, prompting the central bank to hike interest rates by 300bp (to 78%) – the ruling Peronists will probably do everything in their power to avoid a devaluation ahead of October's election. But if spillovers from the banking sector turmoil intensify, their hand might be forced earlier.

The week ahead

GDP data from Chile are likely to show that the economy rebounded in Q4 while Brazil's central bank is likely to keep its policy rate on hold. (See [Data Previews](#).)



Data Previews

Chile GDP (Q4)

Mon. 20th Mar.

Forecasts	Time (GMT/ET)	Previous	Consensus	Capital Economics
GDP % q/q (% y/y)	11.30/06.30	+0.3(-1.2)	-	+0.4(-1.7)

Modest rebound in Q4, but rocky road ahead

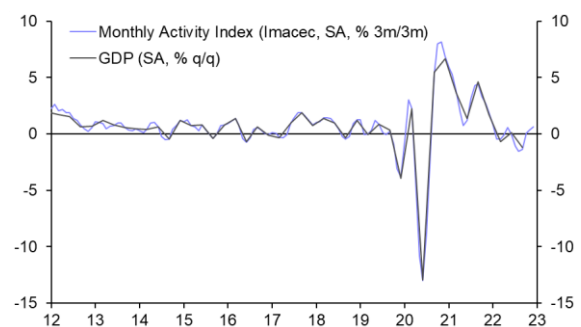
We think that Chile’s economy expanded by 0.4% q/q in Q4 following contraction in Q3. But we think this rebound will be temporary and expect the economy to struggle this year.

Chile’s economy struggled for most of last year, contracting in two of the first three quarters. But timely data suggest that the economy rebounded towards the end of 2022. The monthly activity index, which has a decent relationship with GDP, rose in December on the back of a rebound in mining and non-mining activity. On a 3m/3m basis, this points to growth of 0.4% over Q4 as a whole (see Chart 1), following a contraction of 1.2% q/q in Q3.

But we doubt that Chile’s economy is out of the woods yet. We think that high inflation and tight

monetary policy will outweigh the impact of looser fiscal policy and cause the economy to contract by 0.3% over 2023 as a whole.

Chart 1: Chile Imacec & GDP



Sources: Refinitiv, Capital Economics

Brazil Interest Rate Announcement (Mar.)

Wed. 22nd Mar.

Forecasts	Time (GMT/ET)	Previous	Consensus	Capital Economics
Selic Rate (%)	21.30/16.30	13.75	-	13.75

BCB to stick to hawkish script

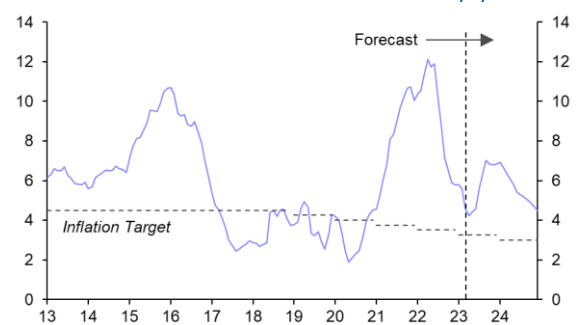
Brazil’s central bank is set to keep its policy rate unchanged at 13.75%. And we suspect that policymakers will continue to toe a hawkish line, stressing inflation and fiscal risks.

The arguments in favour of earlier monetary easing have built over the past week on the back of turmoil in the global banking sector. A potentially lower path for interest rates in the US might support lower rates in Brazil. And the focus on bank vulnerabilities may make policymakers in Brazil a bit more concerned about the financial stability risks at home. The government’s efforts to rush out a fiscal rule (apparently being looked at by President Lula) ahead of the upcoming BCB meeting could also help to ease fiscal concerns.

These points will probably be acknowledged in the accompanying statement. But we don’t expect

policymakers to give a sense that very much has shifted. After all, core price pressures remain strong and will keep the headline rate above target this year and next. (See Chart 2.) So while the odds are shifting towards an earlier rate cut than we have in our profile (Q4), we don’t think the BCB will suggest that rate cuts are on the agenda yet.

Chart 2: Brazil Consumer Prices (% y/y)



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*
Mon 20 th		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%)	-	+0.4%(-1.7%)
Tue 21 st		Arg Budget Balance (Feb.)	-	-	-\$203.9bn	-	-
		Arg Trade Balance (Feb.)	19.00	14.00	-\$0.5bn	-	-
Wed 22 nd		Arg GDP (Q4, q/q(y/y))	19.00	14.00	+1.7%(+5.9%)	-	-0.9%(+2.7%)
		Arg Unemployment Rate (Q4)	19.00	14.00	7.1%	-	-
Thu 23 rd		Brz Interest Rate Announcement	21.30	16.30	13.75%	13.75%	13.75%
		Mex Retail Sales (Jan.)	12.00	07.00	+0.1%(+2.5%)	-	-
		Mex Bi-weekly CPI (15 th Mar)	12.00	07.00	+0.2%(+7.5%)	+0.3%(+7.3%)	0.4%(+7.0%)
		Uru GDP (Q4)	-	-	(+3.7%)	-	-
Fri 24 th		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%)	+0.6%(+5.3%)	+0.6%(+5.3%)

Selected future data releases and events:

27 th Mar		Mex Trade Balance (Feb.)	13.00	08.00	-\$4.1bn	-	-
		Brz Current Account (Feb.)	13.30	08.30	-\$8.7bn	-	-
28 th Mar		Arg Current Account (Q4)	20.00	15.00	-\$3.0bn	-	-
29 th Mar		Arg Economic Activity (Jan.)	20.00	15.00	-1.0%(-1.2%)	-	-
30 th Mar		Chl Unemployment Rate (Feb.)	13.00	08.00	8.0%	-	-
		Brz Industrial Production (Jan.)	13.00	08.00	0.0%(-1.3%)	-	-
31 st Mar		Col Interest Rate Announcement	19.00	14.00	12.75%	-	-
		Mex Interest Rate Announcement	20.00	15.00	11.00%	-	-
		Mex Unemployment Rate (Feb.)	13.00	08.00	3.0%	-	-
		Chl Industrial Production (Feb.)	13.00	08.00	(+0.5%)	-	-
		Chl Retail Sales (Feb.)	13.00	08.00	(-10.4%)	-	-
		Brz Unemployment Rate (Feb.)	13.00	08.00	-	-	-
		Brz Nominal Budget Balance (Feb., BRL)	13.30	08.30	46.7bn	-	-
		Brz Primary Budget Balance (Feb., BRL)	13.30	08.30	99.0bn	-	-
		Col Unemployment Rate (Feb.)	16.00	11.00	13.7%	-	-
		Arg Wage Growth (Jan.)	20.00	15.00	(+5.3%)	-	-

*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 (17 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 (17 th Mar.)	Forecasts		Stock Market	Latest (17 th Mar.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	5.27	5.25	5.00	Bovespa	101,860	109,250	126,000
Mexico MXN	18.9	20.0	19.0	Bolsa	51,975	57,500	62,100
Argentina ARS	203	300	375	Merval	218,164	-	-
Colombia COP	4,832	4,400	4,400	IGBC	1,115	1,380	1,520
Chile CLP	834	820	780	IPSA	5,208	5,950	6,500
Peru PEN	3.79	3.80	3.70	S&P/BVL	21,327	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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