



LATIN AMERICA ECONOMICS WEEKLY

Brazil's hawks, Ecuador's political crisis

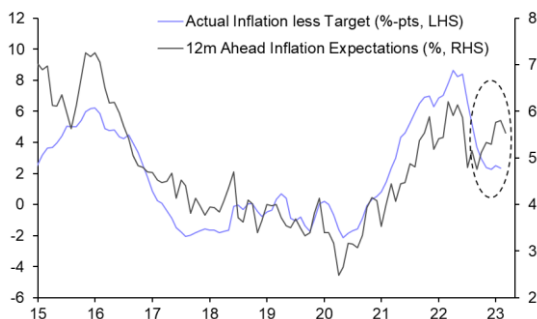
Copom's minutes will leave a sour taste for Lula

The [minutes](#) from last week's [Copom meeting](#), released on Tuesday, will have dashed any hopes (not least in the government) that policymakers might turn to interest rate cuts any time soon.

Three points stood out. First, although policymakers are concerned about [debt and bank risks](#), they emphasised that they're more likely to use macroprudential measures than interest rate cuts if problems flare up. Second, there was little in the way of concessions to the government and its demands for lower rates. The minutes warned that [Bndes lending](#) could require a higher Selic rate and that a new fiscal rule wouldn't automatically allow for a looser monetary stance. (The government's new fiscal plans look good on paper, but we're sceptical that they'll be implemented in full. See [here](#).)

Finally, and perhaps most importantly, Copom is clearly worried that inflation expectations have become unanchored. Whereas in February this was seen as a risk, Copom now thinks it has materialised. Analyst inflation expectations have drifted up and no longer seem to be held down by current low rates of inflation. (See [Chart 1](#).)

Chart 1: Brazil Inflation Less Target & Analysts' 12-Month Ahead Inflation Expectations (%)



Sources: BCB, Capital Economics

In short, despite the falls in inflation seen in the past year, we're nowhere near the point where Copom will consider interest rate cuts. We still expect these to arrive in Q4 when core inflation will be lower and

the Fed will probably be easing. But the risks are becoming skewed towards Copom not cutting rates at all this year and the modest rate cuts priced into financial markets around mid-year look [implausible](#).

Ecuador: the next Latin American crisis?

Ecuador's political crisis has deepened after the country's constitutional court ruled that impeachment hearings against President Guillermo Lasso can begin, and opposition lawmakers say that they have the votes to oust President Lasso.

Mr. Lasso is one of the few remaining market-friendly presidents in the region and helped to successfully complete the country's IMF deal in December last year. Were he to be impeached, vice-president Alfredo Borrero from Lasso's Creando Oportunidades party would take over (Lasso also has the option to dissolve congress, but that would trigger early elections). But the reform agenda already appears to have stalled. And opposition victories in municipal elections in key cities last month suggest that the opposition is gaining momentum raising the risk of a shift back to the populist left at presidential elections in 2025. Ecuador's dollar borrowing costs are likely to remain prohibitively high and a(nother) sovereign default is a growing risks, particularly as principal payments on the debt restructured in 2020 ramp up from 2026.

In case you missed it

We published our latest [Latin America Outlook](#) with updated key macroeconomic forecasts out to 2025. In a nutshell, regional growth will be weaker than most expect, but inflation concerns will limit central banks' room to cut interest rates to provide support.

The week ahead

The raft of inflation figures for March will probably show that inflation edged down in most countries. Otherwise, Chile's central bank will leave rates unchanged. (See [Data Preview](#).) Finally, we'll be hosting our next EM drop-in webinar. Sign up [here](#).



Data Previews

Chile Interest Rate Announcement (Apr.)

Wed. 5th Apr.

Forecasts	Time (GMT/ET)	Previous	Consensus	Capital Economics
Policy Rate (%)	23.00/18.00	11.25	11.25	11.25

Still too early for rate cuts

We think that Chile’s central bank will keep its policy rate unchanged at 11.25% at next Wednesday’s meeting.

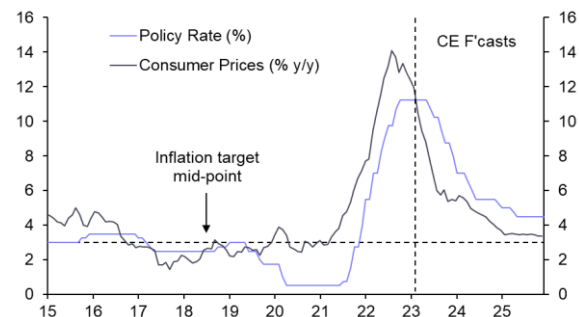
At its last meeting in January, at which rates were kept on hold, policymakers struck a hawkish tone, emphasising inflation risks and pushing back against market expectations of a rate cut in April. At next week’s meeting, the central bank is likely to continue to emphasise that inflation is still too high for its liking. The headline rate, while down from 12.3% y/y in January, still stood at 11.9% last month. And the central bank’s preferred measure of core inflation remained at 10.7% for a third consecutive month.

That said, policymakers might hint that rate cuts might come onto the agenda over the coming months. After all, inflation is likely to continue to fall towards the central bank’s target. Meanwhile, external risks – a key concern of policymakers in the past – are easing thanks to elevated copper prices amid China’s re-opening and weakness in domestic demand. This is supporting the peso –

having come under a bit of pressure during the global banking turmoil, the currency has rebounded strongly and, at 787/\$, is at its strongest level in almost a year.

All told, then, while it’s still too early for rate cuts at this meeting and the next one (in May), we think that by June the conditions will be in place for the central bank to lower its policy rate by 50bp, to 10.75%. (See Chart 1.) In total, we expect a cumulative of 325bp of cuts, which is a bit less tightening than most other analysts are expecting.

Chart 1: Chile Consumer Prices & Policy Rate



Sources: Refinitiv, Capital Economics



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Time (EDT)	Previous*	Median*	CE Forecasts*
Mon 3 rd		Chl Economic Activity (Feb.)	13.30	08.30	+0.5%(+0.4%)	-	-
		Brz S&P Manufacturing PMI (Mar.)	14.00	09.00	49.2	-	-
		Mex S&P Manufacturing PMI (Mar.)	16.00	11.00	51.0	-	-
		Uru CPI (Mar.)	18.00	13.00	+1.0%(+7.5%)	-	+0.8%(+7.2%)
		Mex IMEF Manufacturing (Mar.)	19.00	14.00	51.3	-	-
Tue 4 th		Chl Interest Rate Announcement	23.00	18.00	11.25%	11.25%	11.25%
		Col MPC Meeting Minutes Released	23.00	18.00	-	-	-
Wed 5 th		Col CPI (Mar.)	12.00	07.00	+1.7%(+13.5%)	+1.0%(+13.3%)	+1.1%(+13.4%)
		Mex CPI (Mar.)	13.00	08.00	+0.6%(+7.6%)	-	+0.3%(+6.9%)
		Brz S&P Services PMI (Mar.)	14.00	09.00	49.8	-	-
		Chl Wage Growth (Feb.)	14.00	09.00	(+11.1%)	-	-
		Arg Industrial Production (Feb.)	20.00	15.00	(+6.3%)	-	-
Thu 6 th		Chl CPI (Mar.)	13.00	08.00	-0.1%(+11.9%)	-	0.5%(+10.5%)
		Ecu CPI (Mar.)	15.00	10.00	0.0%(+2.9%)	-	0.1%(+2.9%)
Fri 7 th	-	No Significant Data or Events	-	-	-	-	-

Selected future data releases and events:

11 th Apr		Brz IPCA Inflation (Mar.)	13.00	08.00	+0.8%(+5.6%)	-	-
		Mex Industrial Production (Feb.)	13.00	08.00	+0.0%(+2.8%)	-	-
		Mex Wage Growth (Mar.)	-	-	8.4%	-	-
12 th Apr		Brz Retail Sales (Jan.)	13.00	08.00	+0.4%(-2.6%)	-	-
		C.Rc CPI (Mar.)	-	-	-0.9%(+5.6%)	-	-
13 th Apr		Mex MPC Meeting Minutes	16.00	11.00	-	-	-
		Per Interest Rate Announcement	23.00	18.00	7.75%	-	-
14 th Apr		Brz Services Output (Jan.)	13.00	08.00	+3.1%(+6.0%)	-	-
		Col Industrial Production (Feb.)	16.00	11.00	(+0.8%)	-	-
		Col Retail Sales (Feb.)	16.00	11.00	(+1.2%)	-	-
		Arg CPI (Mar.)	20.00	15.00	+6.6%(+102.5%)	-	-
		Pan CPI (Mar.)	-	-	(+0.0%)	-	-

Also expected during this period:

10 th – 13 th		Dom CPI (Mar.)	-	-	+0.1%(+6.4%)	-	-
10 th – 14 th		Pan GDP (Q4)	-	-	(+9.5%)	-	-

*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 (31 st 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	11.25	Up 25bp (Mar. '23)	Up 25bp (May. '23)	11.25	9.25
Colombia Intervention Rate	13.00	Up 25bp (Mar. '23)	Up 25bp (Apr. '23)	11.50	7.50
Chile Overnight Rate	11.25	Up 50bp (Oct. '22)	Down 50bp (Jun. '23)	8.00	5.25
Peru Reference Rate	7.75	Up 25bp (Jan. '23)	Down 25bp (Jun. '23)	5.75	4.50

Sources: Refinitiv, Capital Economics

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

Currency	Latest (31 st Mar.)	Forecasts		Stock Market	Latest (31 st Mar.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	5.07	5.25	5.00	Bovespa	103,155	99,750	139,250
Mexico MXN	18.0	21.0	21.0	Bolsa	54,437	52,600	62,100
Argentina ARS	209	400	600	Merval	254,452	-	-
Colombia COP	4,650	4,400	4,200	IGBC	1,158	970	1,290
Chile CLP	788	800	775	IPSA	5,320	4,900	6,500
Peru PEN	3.76	3.80	3.70	S&P/BVL	21,858	22,100	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	1.0	8.3	9.3	5.3	5.5
Mexico	1.8	1.3	4.7	3.1	1.8	1.3	5.7	7.9	6.0	4.8
Argentina	0.7	-0.7	10.4	5.2	-2.8	-1.3	48.4	72.4	104.0	104.5
Colombia	0.6	2.5	11.0	7.5	0.8	2.0	3.5	10.2	12.0	5.5
Chile	0.4	2.1	11.7	2.3	-0.5	2.5	4.5	11.6	8.0	4.8
Peru	0.3	2.4	13.6	2.7	2.0	2.5	4.0	7.9	6.8	4.0
Dom. Rep.	0.2	4.1	12.3	5.0	4.0	5.3	8.2	8.8	6.3	5.0
Ecuador	0.1	1.6	4.2	3.0	2.3	2.3	0.1	3.5	2.0	1.3
Venezuela	-	-12.7	2.5	15.5	6.5	5.0	1,589	170	110	60
Panama	0.1	3.5	15.3	10.5	1.8	2.8	1.6	2.8	2.0	1.5
Costa Rica	0.1	2.8	7.8	4.3	2.3	2.5	1.7	8.3	3.3	3.8
Uruguay	0.1	1.5	4.4	5.0	1.8	2.5	7.7	9.0	7.3	8.0
Latin America²	6.7	1.0	7.0	3.8	0.9	1.3	6.2	8.7	6.3	5.0

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



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