



LATIN AMERICA ECONOMICS WEEKLY

Lula's first 100 days, Chile's and Brazil's export boost

Lula's 3.0: an inauspicious start

Brazil's president Lula marked his first 100 days in office this week and, while there's been a bit more enthusiasm from investors for Brazilian assets in the past few days, there hasn't really been much for investors to cheer since he won the election.

On the economic front, Lula's policies can be grouped into four broad categories. The first is the relentless push for lower interest rates. While he's right to be [concerned](#) about the impact of tight monetary policy, his continued criticism of the central bank has contributed to a rise in [inflation expectations](#) and [higher long-term interest rates](#).

The second is fiscal policy. Lula's spending plans announced before he took office brought his post-election honeymoon with investors to an abrupt end. The recent [new fiscal rule](#) has gone some way to restoring hope that the public finances will stabilise, and is one factor behind the real's appreciation this week. But the government's plans hinge on major revenue raising measures being implemented successfully – we're not holding our breath.

The third area is reforms. We'd hoped that Lula might have pushed through tax reform to simplify Brazil's complex system, but this hasn't seen the light of day. Similarly, there has been no progress on trade liberalisation – the inking of the EU-Mercosur deal has been held because of the lack of firm commitments to halt [deforestation](#). In the meantime, the government appears keen to reverse fuel price liberalisation and to strengthen the role of [BNDES](#). All in all, it's been a step backwards in terms of reforms needed to lift [productivity](#).

The final area is Lula's shift towards China, including steps to use [renminbi](#) for trade settlement, and his current trip to Beijing to push for more trade and investment. Whereas we'd placed Brazil in the unaligned camp in our '[mapping decoupling](#)' work, it may be shifting to the lean China camp.

Chile & Brazil: March export boom

The surge in Chilean exports in March comes off the back of strong trade data from Brazil released earlier this month and suggests that external positions in both countries improved in Q1.

Chile's exports rose by 5.5% m/m in March on the back of a strong rebound in copper shipments. At the same time, imports took another leg down and, in seasonally adjusted terms, are now close to their lowest level in two years. Taken together, these pushed the trade surplus to its highest level since the mid-2000s. Trade data from the region's other early reporter, Brazil, released earlier this month painted a similar picture of strong exports – shipments were up by over 12% y/y, causing Brazil's trade surplus to rise to a 19-month high in March (on a 12m basis).

The improvement in both countries' trade surpluses suggests that current account deficits narrowed in Q1, which is particularly good news for Chile, the country in the region where [external risks](#) have loomed largest. It also helps to explain the recent strength of their currencies, although [hawkish communications](#) from both countries' central banks and the [US CPI](#) print helped too.

While the extraordinary strength in exports seen last month is unlikely to last, elevated commodity prices should continue to support Chilean and Brazilian exports this year. As we noted [here](#), most of the commodity windfall this year is likely to be saved rather than spent, meaning that the impact on GDP growth will probably be small. Indeed, we expect both economies to struggle this year (see our latest [Latin America Outlook](#)). The flipside is that current account positions should improve, which, in Chile's case, will further mitigate large external risks.












The week ahead

Industrial production data from Brazil are likely to show another small fall in output in February.



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Time (EDT)	Previous*	Median*	CE Forecasts*
Mon 17 th		Brz Economic Activity (Jan.)	13.00	08.00	+0.3%(+1.4%)	+0.6%(+1.9%)	-
		Per Unemployment Rate (Mar.)	16.00	11.00	7.3%	-	-
		Per Economic Activity (Feb.)	16.00	11.00	(-1.1%)	-	-
Tue 18 th		Col Economic Activity (Feb.)	17.00	12.00	(+5.9%)	-	-
Wed 19 th		Brz Industrial Production (Feb.)	13.00	08.00	-0.3%(+0.3%)	-	-0.2%(-1.4%)
		Uru Interest Rate Announcement	-	-	11.50%	-	11.50%
Thu 20 th		Mex Retail Sales (Feb.)	13.00	08.00	+1.6%9+5.3%)	-	-
		Chl MPC Meeting Minute Released	13.30	08.30	-	-	-
		Arg Trade Balance (Mar.)	20.00	15.00	+\$0.2bn	-	-
		Arg Budget Balance (Mar.)	-	-	-\$228.1bn	-	-
		C.Rc Interest Rate Announcement	-	-	8.50%	-	8.00%
Fri 21 st		Col Trade Balance (Feb.)	16.00	11.00	-\$1.4bn	-\$0.6bn	-
Also expected during this period:							
17 th – 21 st		Dom GDP (Q1, YTD, Provisional)	-	-	(+4.9%)	-	-
Selected future data releases and events:							
24 th Apr		Arg Economic Activity (Feb.)	20.00	15.00	+0.3%(+2.9%)	-	-
25 th Apr		Brz Current Account (Mar.)	12.30	07.30	-\$2.8bn	-	-
		Mex Economic Activity (Feb.)	13.00	08.00	+0.6%(+4.4%)	-	-
		Brz Retail Sales (Feb.)	13.00	08.00	-	-	-
26 th Apr		Brz IPCA-15 Inflation (Apr.)	13.00	08.00	+0.7%(+5.4%)	-	-
27 th Apr		Mex Trade Balance (Mar.)	13.00	08.00	-\$1.8bn	-	-
		Brz Services Output (Feb.)	13.00	08.00	-	-	-
28 th Apr		Brz Nominal Budget Balance (Mar., BRL)	12.30	07.30	-90.6bn	-	-
		Brz Primary Budget Balance (Mar., BRL)	12.30	07.30	-26.5bn	-	-
		Mex GDP (Q1, Provisional Est.)	13.00	08.00	+0.5%(+3.6%)	-	-
		Brz Unemployment Rate (Mar.)	13.00	08.00	8.6%	-	-
		Brz Economic Activity (Feb.)	13.00	08.00	-	-	-
		Chl Retail Sales (Mar.)	14.00	09.00	(-9.2%)	-	-
		Col Unemployment Rate (Mar.)	16.00	11.00	11.4%	-	-
		Col Interest Rate Announcement	19.00	14.00	13.00%	-	-
		Arg Wage Growth (Feb.)	20.00	15.00	(+4.7%)	-	-

*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 (14 th Apr.)	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 (Jul. '23)	8.50	5.75
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 (14 th Apr.)	Forecasts		Stock Market	Latest (14 th Apr.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	4.96	5.25	5.00	Bovespa	106,039	106,250	148,500
Mexico MXN	18.1	21.0	21.0	Bolsa	54,470	52,600	62,100
Argentina ARS	215	400	600	Merval	272,895	-	-
Colombia COP	4,424	4,400	4,200	IGBC	1,241	970	1,290
Chile CLP	798	800	775	IPSA	5,393	4,900	6,500
Peru PEN	3.78	3.80	3.70	S&P/BVL	22,463	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	104.5	104.5
Colombia	0.6	2.5	11.0	7.5	0.8	2.0	3.5	10.2	12.0	5.3
Chile	0.4	2.1	11.7	2.4	-0.5	2.5	4.5	11.6	8.3	5.0
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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