



# LATIN AMERICA ECONOMICS WEEKLY

## Brazil's fiscal rule, shifting monetary policy tide?

### **Brazil's new fiscal plans: taking a step forward**

Brazil's government presented the new planned fiscal framework to congress this week and the expectations are that it will progress quickly to a vote. [We covered](#) the framework when it was first announced in March.

To recap, there are three strands: i) federal primary spending growth can be no higher than 70% of the previous year's revenue growth, but ii) real primary spending growth must be within a range of 0.6-2.5% (higher than the limit permitted by the current 'spending cap', which this framework will replace, of zero), and iii) the government needs to hit primary budget targets – a balanced primary budget in 2024 and small (but growing) surpluses thereafter.

As we noted when the framework was announced, if everything goes to plan, the public debt-to-GDP ratio should stabilise. But there are several ways in which the framework could fall short. The first is that the fiscal plans only work if the government can raise revenues significantly, by c. 1% of GDP. If it can't, either spending has to be lower or the government will miss its primary balance targets. The government intends to square the circle by closing tax loopholes. But we are sceptical that this will be successful.

The second hurdle is a political one. It's unclear if Lula will have the political appetite to keep spending growth restrained. And congress could water down the government's fiscal framework.

The final point is that this fiscal framework doesn't seem to address some of the problems that arose with the spending cap, namely that it lost credibility after various workarounds were introduced to allow higher spending during the pandemic. It's not clear that this new framework has provisions that permit stimulus during a crisis. So if Brazil faces such a situation, policymakers may once again undermine the rule to run looser fiscal policy.

### **LatAm central banks: hawks vs. doves**

The past week has brought mixed messages from central banks across the region, with policymakers in Costa Rica and Uruguay cutting interest rates while major Latin America central banks continued to sound very hawkish.

Indeed, Argentina's central bank delivered a 300bp interest rate hike, to 81%, yesterday evening in response to the grim March inflation print. Meanwhile, the [minutes](#) to Chile's April [central bank meeting](#) (at which the policy rate was kept on hold at 11.25%) released yesterday confirmed that policymakers are very concerned about inflation developments. They stated that price pressures are "higher than previously expected" and that there was "still no evidence" of inflation converging to the central bank's target. And while the minutes to the January meeting revealed that one member was considering a discussion of interest rate cuts, that was not the case this time round. These hawkish communications come off the back of warnings against early rate cuts from Peru's central bank governor at last week's IMF spring meetings.

Despite these hawkish noises, we think that the monetary policy tide in the region might be about to shift. Indeed, central banks in Uruguay and Costa Rica both cut interest rates this week (by 25bp and 100bp respectively), with the statements noting that this was due to favourable developments on the inflation front. To be clear, inflation in the larger Latin American economies is still too high for central banks there to feel comfortable cutting rates just yet. But we do think that, as inflation falls back over the coming months, central banks will turn towards monetary easing from the middle of the year.

### **The week ahead**

Colombia's central bank is likely to deliver a final hike and inflation in Brazil and Mexico probably fell in the first half of April.



# Data Previews

## Mexico GDP (Q1)

Fri. 28<sup>th</sup> Apr.

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
GDP % q/q (% y/y)	13.00/08.00	+0.5(+3.6)	-	+1.2(+3.8)

### Mexico's economy headed into 2023 with little momentum

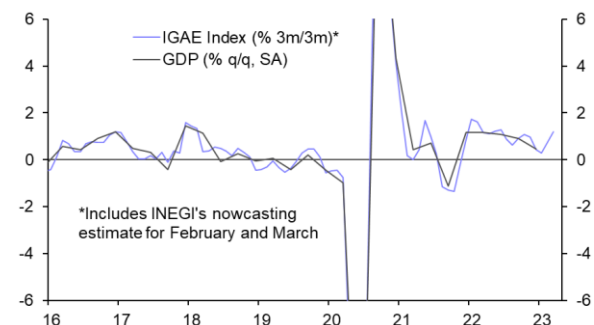
We think that provisional GDP figures due to be released on Friday will show that growth in Mexico's economy picked up to around 1.2% q/q in Q1.

The economy slowed in the final quarter of last year, with GDP rising by 0.5% q/q compared with ~1% q/q in the previous three quarters. That was driven by a sharp slowdown in the tertiary (services) sector, although primary (agricultural) and secondary (industry) sectors also recorded softer growth.

Activity appears to have perked up at the start of 2023. The IGAE activity index jumped by 0.6% m/m in January and the statistics office's nowcasting model points to further strength over the rest of Q1. It points to growth of 1.2% q/q for the quarter as a whole. (See Chart 1.)

Looking ahead, we think that a recession in the US alongside tight fiscal and monetary policy mean that Mexico's economy over the rest of 2023. We have pencilled in GDP growth of 1.8% for this year.

Chart 1: Mexico IGAE Index & GDP



Sources: Refinitiv, Capital Economics

## Colombia Interest Rate Announcement (Apr.)

Fri. 28<sup>th</sup> Apr.

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
Policy Rate (%)	19.00/14.00	13.00	13.00	13.25

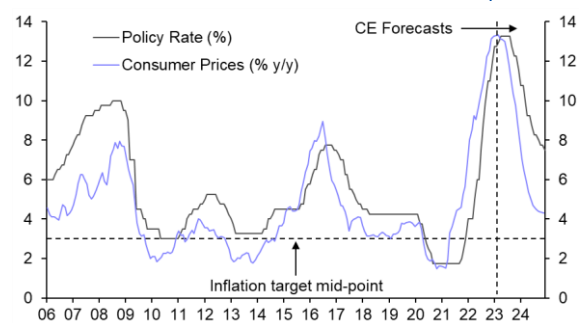
### One final hike

Next week's Colombian central bank (BanRep) meeting is a close call but, on balance, we think it's most likely that it will deliver one final 25bp hike, to 13.25% (rather than leave rates on hold).

At its last meeting, BanRep unanimously decided to slow the pace of tightening to a 25bp hike, to 13.00% (compared with the 75bp hike delivered in January). And its remarks made clear that April's decision will hinge on inflation developments. These have been mixed. While the headline rate did not rise further last month, price pressures show no signs of easing either – inflation stood at 13.3% y/y for a third consecutive month in March. What's more, core inflation continued to rise and, with the economy still operating above potential, core inflation will continue to trend higher over the coming months.

Next week's meeting is on a knife edge. But we suspect that the strength in core inflation will tilt the balance at the central bank towards one final 25bp hike, to 13.25%, on Friday. Once the tightening cycle has concluded, we expect rates to remain at their terminal level until Q3.

Chart 2: Colombia 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 24 <sup>th</sup>	 <b>Mex</b>	Bi-Weekly CPI (Apr.)	13.00	08.00	+0.1%(+6.6%)	-0.1%(+6.3%)	-0.2%(+6.1%)
	 <b>Arg</b>	Economic Activity (Feb.)	20.00	15.00	+0.3%(+2.9%)	-	-
Tue 25 <sup>th</sup>	 <b>Brz</b>	Current Account (Mar.)	12.30	07.30	-\$2.8bn	+\$2.0bn	-
	 <b>Mex</b>	Economic Activity (Feb.)	13.00	08.00	+0.6%(+4.4%)	(+4.1%)	-
Wed 26 <sup>th</sup>	 <b>Brz</b>	Retail Sales (Feb.)	13.00	08.00	+3.8%(+2.6%)	+0.1%(+0.8%)	-
	 <b>Brz</b>	IPCA-15 Inflation (Apr.)	13.00	08.00	+0.7%(+5.4%)	0.6%(+4.2%)	+0.6%(+4.1%)
Thu 27 <sup>th</sup>	 <b>Mex</b>	Trade Balance (Mar.)	13.00	08.00	-\$1.8bn	-\$0.7bn	-
	 <b>Brz</b>	Services Output (Feb.)	13.00	08.00	-	-	-
Fri 28 <sup>th</sup>	 <b>Brz</b>	Nominal Budget Balance (Mar., BRL)	12.30	07.30	-90.6bn	-46.3bn	-
	 <b>Brz</b>	Primary Budget Balance (Mar., BRL)	12.30	07.30	-26.5bn	+1.6bn	-
	 <b>Mex</b>	GDP (Q1, Provisional Est.)	13.00	08.00	+0.5%(+3.6%)	+0.8%(+3.3%)	+1.2%(+3.8%)
	 <b>Brz</b>	Unemployment Rate (Mar.)	13.00	08.00	8.6%	8.9%	-
	 <b>Brz</b>	Economic Activity (Feb.)	13.00	08.00	0.0%(+3.0%)	+0.9%(+1.0%)	-
	 <b>Chl</b>	Industrial Production (Mar.)	14.00	08.00	(-1.1%)	-	-
	 <b>Chl</b>	Unemployment Rate (Mar.)	14.00	08.00	8.4%	-	-
	 <b>Chl</b>	Retail Sales (Mar.)	14.00	09.00	(-9.2%)	-	-
	 <b>Col</b>	Unemployment Rate (Mar.)	16.00	11.00	11.4%	11.3%	-
	 <b>Col</b>	Interest Rate Announcement	19.00	14.00	13.00%	13.00%	13.25%
	 <b>Arg</b>	Wage Growth (Feb.)	20.00	15.00	(+4.7%)	-	-
<b>Also expected during this period:</b>							
17 <sup>th</sup> – 21 <sup>st</sup>	 <b>Dom</b>	GDP (Q1, YTD, Provisional)	-	-	(+4.9%)	-	-
<b>Selected future data releases and events:</b>							
1 <sup>st</sup> May	 <b>Per</b>	CPI (Apr.)	16.00	11.00	+1.3%(+8.4%)	-	-
2 <sup>nd</sup> May	 <b>Chl</b>	Economic Activity (Mar.)	13.30	08.30	-0.3%(-0.5%)	-	-
	 <b>Brz</b>	S&P Global Manufacturing PMI (Apr.)	14.00	09.00	47.0	-	-
	 <b>Mex</b>	S&P Global Manufacturing PMI (Apr.)	16.00	11.00	51.0	-	-
	 <b>Brz</b>	Trade Balance (Apr.)	19.00	14.00	+\$110.9bn	-	-
	 <b>Mex</b>	IMEF Manufacturing (Apr.)	19.00	14.00	49.2	-	-
	 <b>Mex</b>	IMEF Non-Manufacturing (Apr.)	19.00	14.00	54.0	-	-
3 <sup>rd</sup> May	 <b>Col</b>	MPC Meeting Minutes Released	23.00	18.00	-	-	-
	 <b>Brz</b>	Interest Rate Announcement	22.30	17.30	13.75%	-	-
4 <sup>th</sup> May	 <b>Mex</b>	Unemployment Rate (Mar.)	13.00	08.00	(+2.7%)	-	-
	 <b>Brz</b>	S&P Global Services PMI (Apr.)	14.00	09.00	51.8	-	-
5 <sup>th</sup> May	 <b>Uru</b>	CPI (Apr.)	18.00	13.00	+0.9%(+7.3%)	-	-
	 <b>Col</b>	CPI (Apr.)	12.00	08.00	+1.1%(+13.3%)	-	-
	 <b>Chl</b>	Wage Growth (Mar.)	14.00	09.00	(+11.2%)	-	-
	 <b>Ecu</b>	CPI (Apr.)	15.00	10.00	+0.1%(+2.9%)	-	-

\*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 (21 <sup>st</sup> Apr.)	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	11.25	Up 25bp (Mar. '23)	<b>Up 25bp (May. '23)</b>	<b>11.25</b>	<b>9.25</b>
Colombia Intervention Rate	13.00	Up 25bp (Mar. '23)	<b>Up 25bp (Apr. '23)</b>	<b>11.50</b>	<b>7.50</b>
Chile Overnight Rate	11.25	Up 50bp (Oct. '22)	<b>Down 50bp (Jul. '23)</b>	<b>8.50</b>	<b>5.75</b>
Peru Reference Rate	7.75	Up 25bp (Jan. '23)	<b>Down 25bp (Jun. '23)</b>	<b>5.75</b>	<b>4.50</b>

Sources: Refinitiv, Capital Economics

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

Currency	Latest (21 <sup>st</sup> Apr.)	Forecasts		Stock Market	Latest (21 <sup>st</sup> Apr.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	5.05	<b>5.25</b>	<b>5.00</b>	Bovespa	104,367	<b>106,000</b>	<b>148,000</b>
Mexico MXN	18.0	<b>21.0</b>	<b>21.0</b>	Bolsa	53,878	<b>52,600</b>	<b>62,100</b>
Argentina ARS	219	<b>400</b>	<b>600</b>	Merval	285,415	-	-
Colombia COP	4,538	<b>4,400</b>	<b>4,200</b>	IGBC	1,225	<b>970</b>	<b>1,290</b>
Chile CLP	796	<b>800</b>	<b>775</b>	IPSA	5,298	<b>4,900</b>	<b>6,500</b>
Peru PEN	3.76	<b>3.80</b>	<b>3.70</b>	S&P/BVL	22,483	<b>22,100</b>	<b>27,400</b>

Sources: Refinitiv, Capital Economics

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

	Share of World <sup>1</sup>	2011-20 Ave.	GDP				Consumer Prices			
			2021	2022	2023	2024	2021	2022	2023	2024
Brazil	2.3	0.3	5.0	2.9	<b>1.0</b>	<b>1.0</b>	8.3	9.3	<b>5.5</b>	<b>5.5</b>
Mexico	1.8	1.3	4.7	3.1	<b>1.8</b>	<b>1.3</b>	5.7	7.9	<b>5.8</b>	<b>4.8</b>
Argentina	0.7	-0.7	10.4	5.2	<b>-2.8</b>	<b>-1.3</b>	48.4	72.4	<b>107</b>	<b>105</b>
Colombia	0.6	2.5	11.0	7.5	<b>0.8</b>	<b>1.8</b>	3.5	10.2	<b>12.0</b>	<b>5.3</b>
Chile	0.4	2.1	11.7	2.4	<b>-0.3</b>	<b>2.5</b>	4.5	11.6	<b>8.3</b>	<b>5.0</b>
Peru	0.3	2.4	13.6	<b>2.7</b>	<b>2.0</b>	<b>2.5</b>	4.0	7.9	<b>6.8</b>	<b>4.0</b>
Dom. Rep.	0.2	4.1	12.3	<b>5.0</b>	<b>4.0</b>	<b>5.3</b>	8.2	8.8	<b>6.3</b>	<b>5.0</b>
Ecuador	0.1	1.6	4.2	<b>3.0</b>	<b>2.3</b>	<b>2.3</b>	0.1	3.5	<b>2.0</b>	<b>1.3</b>
Venezuela	-	-12.7	2.5	<b>15.5</b>	<b>6.5</b>	<b>5.0</b>	1,589	170	<b>110</b>	<b>60</b>
Panama	0.1	3.5	15.3	<b>10.5</b>	<b>1.8</b>	<b>2.8</b>	1.6	2.8	<b>2.0</b>	<b>1.5</b>
Costa Rica	0.1	2.8	7.8	<b>4.0</b>	<b>2.3</b>	<b>2.5</b>	1.7	8.3	<b>2.8</b>	<b>3.5</b>
Uruguay	0.1	1.5	5.3	<b>4.8</b>	<b>1.3</b>	<b>2.5</b>	7.7	9.0	<b>7.5</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>0.9</b>	<b>1.3</b>	<b>6.2</b>	<b>8.7</b>	<b>6.3</b>	<b>5.0</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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