



LATIN AMERICA ECONOMICS WEEKLY

Argentina's peso woes, Paraguay's China-Taiwan vote

Panic stations in Argentina

Developments in Argentina have taken a(nother) turn for the worse over the past couple of weeks. March's grim inflation print (of 104% y/y) alongside rumours of an imminent devaluation and plans to renegotiate the country's IMF deal have led to a run on the currency, pushing the peso to new record lows against the dollar on the parallel market this week.

This prompted Economy Minister Sergio Massa to [promise](#) to use "all the tools" the government has to stabilise the situation. And he was quick to apply them, [announcing](#) that the government would draw on a swap line with the PBOC to pay for imports from China in renminbi rather than in US dollars to ease the pressure on Argentina's FX reserves. But this is a temporary solution; it won't affect the (very low) *net* FX reserve position given that this swap line is a liability that will need to be repaid at a later point.

Meanwhile, the central bank hiked its benchmark Leliq rate by 1,000bp, to 91%, on Thursday evening. This is primarily an attempt to curb the run on the currency and to quell inflation, but can also be seen as a sign of goodwill to the IMF, which has requested positive real interest rates.

While monetary policy is heading in the right direction, developments on the fiscal front are not. Tight fiscal policy is essential to curb inflation, keep the IMF on board and, fundamentally, restore macroeconomic stability. But the primary budget deficit continued to widen in March and now stands at 2.3% of GDP (on a twelve-month sum basis) – well above the IMF's 1.9% target.

And with the economy heading for a [steep recession](#) and the election approaching, there are big question marks about the government's willingness to enact austerity. Against this backdrop, it's hard to see the pressure on the peso easing and the risks of a disorderly devaluation are increasing.

Voting for China?

A key dividing line in Paraguay's presidential election on Sunday is whether the country will maintain relations with Taiwan or shift to China. The country is one of the few that officially recognise Taiwan. Santiago Peña, the candidate of the ruling Colorado party, is keen to continue this stance. But opposition leader Efraín Alegre has suggested that he will establish relations with the People's Republic. This seems to mark part of a broader trend in the region, coming on the heels of Honduras' recognition of China last month and warm words towards Beijing from [Brazil's president Lula](#). (For more, see our '[mapping decoupling](#)' work.)

Part of the case for establishing relations with China may be the recent memory of missing out on Chinese-made Covid vaccines. But there's an economic argument too. The country's main exports (other than electricity, which goes to Brazil) are agricultural products (beef and soybeans), which are in high demand in China. But most Paraguayan exports are not allowed directly into China.

In practice, this doesn't seem to be a major hurdle. Exports from the landlocked country have to transit through Argentina or Brazil. Reports suggest that Paraguayan goods are re-registered before being sent to China. And the economy has outperformed the rest of Latin America over the past decade. By the same token, we doubt that the economic outlook would improve materially if ties with China improve. In the near term, the economy should rebound after last year's drought-induced weakness. And, further ahead, it has the ingredients (including a favourable business environment and healthy balance sheet) to remain one of Latin America's outperformers.

The week ahead

Brazil's central bank will leave interest rates on hold and push back against the idea that it will shift to monetary easing imminently. (See *Data Preview*.)



Data Previews

Brazil Interest Rate Announcement (May)

Wed. 3rd May

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
Selic Rate (%)	22.00/17.00	13.75	13.75	13.75

Pushing back against rate cuts

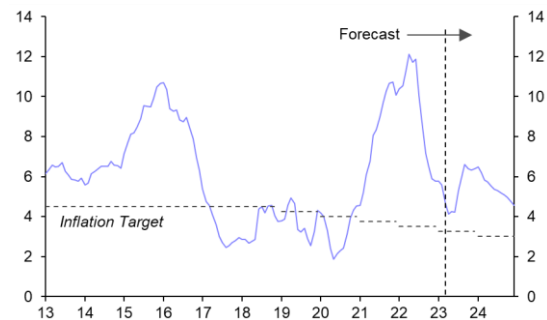
We expect that Brazil’s central bank will leave the Selic rate unchanged at 13.75% when it meets on Wednesday. The communications will probably not be as hawkish as before, but policymakers are likely to push back against expectations for imminent interest rate cuts.

In principle, the arguments in favour of monetary easing have built recently. The government has presented its [new fiscal framework](#), which has been relatively well received by investors. The real is almost at the 5/\$ mark. And [inflation](#) dropped to 4.2% y/y in the middle of this month, well within the central bank’s 3.25±1.5% target range.

The accompanying statement will probably acknowledge these developments. But policymakers will probably push back against the idea that interest rate cuts could materialise shortly.

Core inflation remains very strong and the headline rate will rise again before the end of the year. (See Chart 1.) Against this backdrop, we continue to think that the first interest rate cut will come in the last quarter of this year. Our forecasts are a little higher than the analyst consensus and the profile implied by market pricing.

Chart 1: Brazil Consumer Prices (% y/y)



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 1 st	Per	CPI (Apr.)	16.00	11.00	+1.3%(+8.4%)	(+0.4%)	+0.2%(+7.6%)
Tue 2 nd	Chl	Economic Activity (Mar.)	13.30	08.30	-0.3%(-0.5%)	-0.4%(-1.4%)	-
	Brz	S&P Global Manufacturing PMI (Apr.)	14.00	09.00	47.0	-	-
	Mex	S&P Global Manufacturing PMI (Apr.)	16.00	11.00	51.0	-	-
	Brz	Trade Balance (Apr.)	19.00	14.00	+\$110.9bn	+\$7.43bn	-
	Mex	IMEF Manufacturing (Apr.)	19.00	14.00	49.2	-	-
	Mex	IMEF Non-Manufacturing (Apr.)	19.00	14.00	54.0	-	-
	Col	MPC Meeting Minutes Released	23.00	18.00	-	-	-
Wed 3 rd	Brz	Interest Rate Announcement	22.30	17.30	13.75%	13.75%	13.75%
Thu 4 th	Mex	Unemployment Rate (Mar.)	13.00	08.00	(+2.7%)	-	-
	Brz	S&P Global Services PMI (Apr.)	14.00	09.00	51.8	-	-
	Uru	CPI (Apr.)	18.00	13.00	+0.9%(+7.3%)	-	+0.7%(+7.5%)
Fri 5 th	Col	CPI (Apr.)	12.00	08.00	+1.1%(+13.3%)	+0.9%(+13.0%)	+1.1%(+13.1%)
	Chl	Wage Growth (Mar.)	14.00	09.00	(+11.2%)	-	-
	Ecu	CPI (Apr.)	15.00	10.00	+0.1%(+2.9%)	-	-

Selected future data releases and events:

8 th May	Chl	CPI (Apr.)	13.00	08.00	+1.1%(+11.1%)	-	-
	C.Rc	CPI (Apr.)	-	-	-0.2%(+4.4%)	-	-
9 th May	Mex	CPI (Apr.)	13.00	08.00	+0.3%(+6.9%)	-	-
	Arg	Industrial Production (Mar.)	20.00	15.00	(-1.4%)	-	-
10 th May	Brz	Industrial Production (Mar.)	13.00	8.00	-0.2%(-2.4%)	-	-
	Arg	Wage Growth (Mar.)	20.00	15.00	-	-	-
	Mex	Wage Growth (Apr.)	-	-	(+9.2%)	-	-
12 th May	Per	Interest Rate Announcement	00.00	19.00 [†]	7.75%	-	-
	Mex	Industrial Production (Mar.)	13.00	08.00	+0.7%(+3.5%)	-	-
	Brz	IPCA Inflation (Apr.)	13.00	08.00	+0.7%(+4.7%)	-	-
	Col	Industrial Production (Mar.)	16.00	11.00	(+0.8%)	-	-
	Col	Retail Sales (Mar.)	16.00	11.00	(+0.1%)	-	-
	Uru	Industrial Production (Mar.)	18.00	13.00	(+1.0%)	-	-
	Arg	CPI (Apr.)	20.00	15.00	(+7.7%)	-	-
	Chl	Interest Rate Announcement	23.00	18.00	-	-	-

Also expected during this period:

8 th – 11 th	Dom	CPI (Apr.)	-	-	-0.2%(+4.4%)	-	-
8 th – 12 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 (28 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 (28 th Apr.)	Forecasts		Stock Market	Latest (28 th Apr.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	4.99	5.50	5.00	Bovespa	102,906	103,000	143,750
Mexico MXN	18.0	20.0	21.0	Bolsa	54,749	52,600	62,100
Argentina ARS	223	400	600	Merval	294,221	-	-
Colombia COP	4,640	4,800	4,200	IGBC	1,171	970	1,290
Chile CLP	801	850	775	IPSA	5,402	4,900	6,500
Peru PEN	3.72	4.00	3.70	S&P/BVL	21,793	22,100	27,400

Sources: Refinitiv, Capital Economics

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

	Share of World ¹	GDP					Consumer Prices			
		2011-20 Ave.	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	5.5	5.5
Mexico	1.8	1.3	4.7	3.1	2.5	1.3	5.7	7.9	5.5	4.5
Argentina	0.7	-0.7	10.4	5.2	-2.8	-1.3	48.4	72.4	107.0	105.0
Colombia	0.6	2.5	11.0	7.5	0.8	1.8	3.5	10.2	12.0	5.3
Chile	0.4	2.1	11.7	2.4	-0.3	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	4.9	3.8	5.0	8.2	8.8	5.8	4.8
Ecuador	0.1	1.6	4.2	2.9	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	3.0	2.3	1.7	8.3	2.8	3.5
Uruguay	0.1	1.5	5.3	4.8	1.3	2.5	7.7	9.0	7.5	8.0
Latin America²	6.7	1.0	7.0	3.8	1.1	1.2	6.2	8.7	6.2	4.9

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



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