



LATIN AMERICA ECONOMICS WEEKLY

Argentina-IMF trouble ahead, Andean central banks

Argentina-IMF: targets a hard ask

A read between the lines of the IMF's Fourth Review of Argentina's \$44bn Extended Fund Facility suggests that the deal could be starting to fray at the seams.

To start with, the government and the IMF don't appear to be seeing eye to eye. The Fund was clearly disgruntled with recent government policies, diplomatically called "policy setbacks", such as the introduction of multiple exchange rates and the announced [debt exchange](#). These appear to be stopgap measures intended to shore up the exchange rate ahead of the election in October. But they don't address the economy's fundamental problems such as an [overvalued exchange rate](#) (which the Fund did at least acknowledge in this review).

It's also looking increasingly difficult for Argentina to meet its IMF targets. A lot of attention was on whether the Fund would lower the country's net FX reserve target due to the drought. It duly did. But one point that's missed is that the implied *accumulation* of reserves this quarter is actually larger than before. The Fund expects net reserves to increase by \$4.9bn between Q1 and Q2 (from \$1.9bn to \$6.8bn), whereas previously it targeted a \$3.1bn increase (from \$5.5bn to \$8.6bn). That will be increasingly difficult given the impact that the drought will have on [export earnings](#). The hit to fiscal revenues will also make hitting the budget balance targets harder.

In short, meeting the IMF's targets will require an additional tightening of policy and weaker domestic demand to improve the fiscal position and rebuild reserves. With a general election just over six months away, it's hard to see the economics winning out over the politics. That, in turn, raises the risk of a loss of confidence and a more disorderly move in the peso. While that would help to restore external competitiveness, it would also raise the public debt ratio and make it look even less likely that Argentina can regain access to global capital markets.

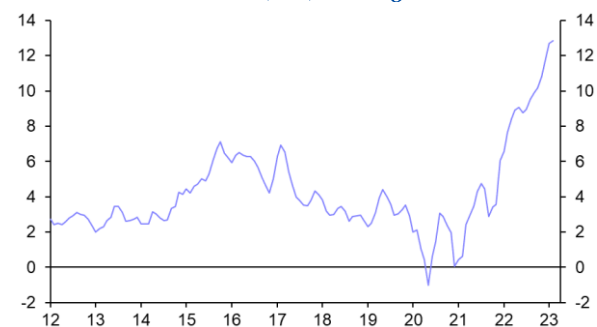
Andean central banks: a differing of opinions

The latest messaging from central banks in Chile (BCCh) and Colombia (BanRep) suggest that they have very different takes on inflation risks.

As we [noted](#) yesterday, the BCCh's [Monetary Policy Report](#) was surprisingly hawkish. But while we agree that inflation pressures are concerning, we think the weakness of the economy will argue in favour of easing before long. We've pushed our forecast for the first cut to July, from June, which still leaves the BCCh as one of the first to turn to easing.

In contrast, BanRep's communications struck a very different tone. The [minutes](#) to the meeting in late March (which saw a 25bp rate hike), talked of 'favourable signs' that inflation has peaked and that inflation expectations have moved in a 'desirable direction'. We argued [at the time](#) that the central bank sounded a bit too dovish. And inflation figures for March have reinforced our view. Although the headline rate was steady, core inflation rose in y/y terms. In seasonally-adjusted m/m terms, which gives a better sense of the latest developments, core inflation remains very strong. (See Chart 1.) This may force the Colombian central bank to re-assess its views at this month's monetary policy meeting.

Chart 1: Colombia Core Inflation
(% m/m, SA, 3m Avg.)



Sources: Refinitiv, Capital Economics

The week ahead

Peru's central bank is likely to keep its policy rate unchanged, while inflation in Brazil fell further.



Data Previews

Brazil Consumer Prices (Mar.)

Tue. 11th Apr.

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
Consumer Prices % m/m (% y/y)	08.00/13.00	+0.8(+5.6)	-	+0.7(+4.7)

A sharp fall, but won't sway Copom

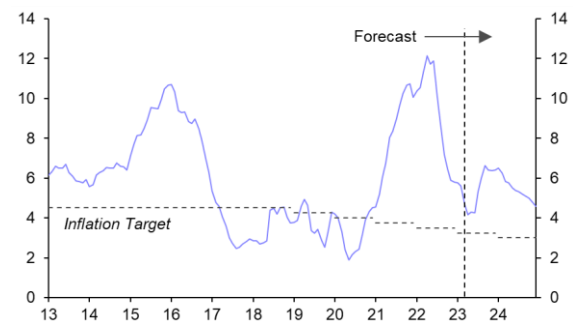
We think that Brazil's headline inflation rate dropped sharply in March, but we doubt the central bank's hawkish tune will change.

Inflation has been on a slow grind lower for several months. It's likely to have dropped sharply last month, to 4.7% y/y. But that's primarily due to the unwinding of unfavourable base effects, and we expect a rise in inflation in the second half of the year, leaving the headline rate uncomfortably above the BCB's target. (See Chart 2.)

The fall in inflation and the government's new fiscal framework may lead to some more conciliatory rhetoric from policymakers at the central bank. But given the strength of core

inflation, we think it's very unlikely that the overall hawkish message will change. We continue to expect the first interest rate cut in Q4.

Chart 2: Brazil Consumer Prices



Sources: Refinitiv, BCRP, Capital Economics

Peru Interest Rate Announcement (Apr.)

Thu. 13th Apr.

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
Policy Rate (%)	23.00/18.00	7.75	-	7.75

Rates on hold

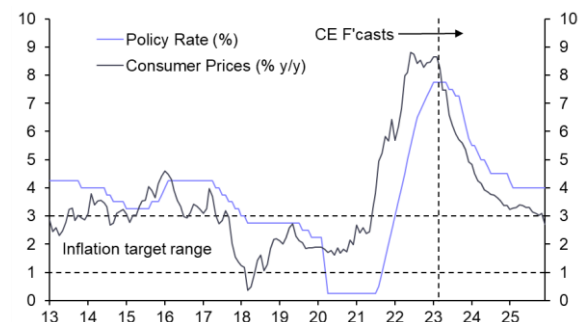
We think that Peru's central bank (BCRP) will keep its policy rate unchanged at 7.75% at its meeting next Thursday.

At its last meeting, the BCRP kept rates on hold for a second consecutive time, but the statement emphasised that this did "not necessarily imply an end" to the tightening cycle and that future interest rate decisions would depend on the inflation data and the "effects of the recent political unrest".

Recent developments mean that we doubt the central bank will resume its tightening cycle. Protest-related disruptions have eased further, reducing upside risks to inflation. Indeed, the headline rate edged down to 8.4% y/y in March, from 8.6% y/y in February. And barring a renewed flare up of unrest, inflation should continue to trend lower over the coming months. (See Chart 3.)

While inflation over the next couple of months is still likely to be too high for the central bank to shift towards rate cuts, we think that the conditions for monetary easing will be in place around the middle of the year. In total, we expect a cumulative of 200bp of rate cuts this year, taking the policy rate to 5.75% by end-December.

Chart 3: Peru Consumer Prices & Policy Rate



Sources: Refinitiv, BCRP, Capital Economics



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (BST)	Time (EDT)	Previous*	Median*	CE Forecasts*
Fri 7 th	-	No Significant Data or Events	-	-	-	-	-
Mon 10 th	Chl	Trade Balance (Mar.)	13.30	08.30	+\$2.0bn	-	-
Tue 11 th	Brz	IPCA Inflation (Mar.)	13.00	08.00	+0.8%(+5.6%)	-	+0.7%(+4.7%)
	Mex	Industrial Production (Feb.)	13.00	08.00	+0.0%(+2.8%)	-	-
	Mex	Wage Growth (Mar.)	-	-	8.4%	-	-
Wed 12 th	Brz	Retail Sales (Jan.)	13.00	08.00	+0.4%(-2.6%)	-	-
	C.Rc	CPI (Mar.)	-	-	-0.9%(+5.6%)	-	+0.2%(+4.9%)
Thu 13 th	Mex	MPC Meeting Minutes	16.00	11.00	-	-	-
	Per	Interest Rate Announcement	23.00	18.00	7.75%	-	7.75%
Fri 14 th	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%)	+7.0%	+6.7%(+102.4%)
	Pan	CPI (Mar.)	-	-	(+0.0%)	-	(+0.4%)
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%)	-	-
Selected future data releases and events:							
17 th Apr	Brz	Economic Activity (Jan.)	13.00	08.00	+0.3%(+1.4%)	-	-
	Per	Unemployment Rate (Mar.)	16.00	11.00	7.3%	-	-
	Per	Economic Activity (Feb.)	16.00	11.00	(-1.1%)	-	-
18 th Apr	Col	Economic Activity (Feb.)	17.00	12.00	(+5.9%)	-	-
	Brz	Industrial Production (Feb.)	13.00	08.00	-0.3%(+0.3%)	-	-
	Uru	Interest Rate Announcement	-	-	11.50%	-	-
20 th Apr	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%	-	-
	Col	Trade Balance (Feb.)	16.00	11.00	-\$14.bn	-	-
Also expected during this period:							
17 th – 21 st	Dom	GDP (Q1, YTD, Provisional)	-	-	(+4.9%)	-	-

*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 (6 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 (6 th Apr.)	Forecasts		Stock Market	Latest (6 th Apr.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	5.07	5.25	5.00	Bovespa	101,038	103,750	145,000
Mexico MXN	18.2	21.0	21.0	Bolsa	53,498	52,600	62,100
Argentina ARS	211	400	600	Merval	252,849	-	-
Colombia COP	4,564	4,400	4,200	IGBC	1,194	970	1,290
Chile CLP	810	800	775	IPSA	5,255	4,900	6,500
Peru PEN	3.76	3.80	3.70	S&P/BVL	21,916	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	2.4	-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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