



LATIN AMERICA ECONOMICS WEEKLY

BanRep's inflation concerns, Chile votes (again)

Colombia: inflation worries taking centre stage

We had [warned](#) a few weeks ago that Colombia's central bank (BanRep) was too sanguine on inflation risks and this week's communications suggest that policymakers are coming round to our view.

At last Friday's meeting, BanRep raised its policy rate by 25bp, to 13.25% (we were among the minority to correctly anticipate the outcome) and the vote pattern – only two of the seven board members voted for no change while one voted for a larger 50bp hike – showed that the decision was not as close as expected. Inflation developments appear to have been one of the key reasons for the broad-based support for another hike. Indeed, in contrast to the surprisingly dovish tone at the March meeting, the minutes to last Friday's meeting sounded more concerned about inflation. Policymakers noted that inflation hasn't yet begun to decline (although data out today did at least show a decline in April).

And the central bank's [Monetary Policy Report](#), also published this week, revealed that with the economy adjusting more gradually than previously expected and the government continuing to raise [fuel prices](#), policymakers expect inflationary pressures to remain strong this year. This was reflected in an upward revision to the end-23 inflation forecast to 9.5%, from 8.7% previously – broadly in line with our own forecast for inflation to end the year at 9.7%.

This week's messaging from BanRep has reinforced our view that, while the tightening cycle has probably ended, interest rates will remain at their current level until late Q3 at least. And once the central bank does start to lower rates, it'll do so only gradually, delivering a cumulative of 175bp of cuts this year (taking the policy rate to 11.50% by end-23). And the fact that the Monetary Policy Report noted that the central bank's interest rate projections exceeded markets' expectations (for rates to end the year at 11.25%) means that the risks to our already

relatively hawkish forecasts are skewed to the upside.

Chile's constitutional process enters next stage

The second attempt to rewrite Chile's constitution is gathering pace, with Chileans heading to the polls on Sunday to elect the 50 members of the "Constitutional Council". The council is tasked with drawing up a new charter based on a preliminary (yet-to-be completed) draft put together by an expert committee. It will start its work in early June and has to deliver the charter by early November, with an exit plebiscite set to take place in December.

Investors' attention is likely to focus on the performance of the right-wing "Chile Seguro" list. Any changes to the preliminary draft require a three-fifths majority, so a strong showing for opposition candidates would give them the power to potentially shift the charter in a more market-friendly direction and/or veto any potentially more radical changes. This would probably cause some of the risk premium on the Chilean peso – we estimate that the peso is trading at a c.20% discount based on its past relationship with the price of copper – to narrow, at least in the near-term. By the same token, a strong performance for left-wing candidates – as was the case in May 2021 – would probably cause concerns about the direction of policymaking in Chile to flare up again, although the crumb of comfort is that [clearer boundaries](#) are set this time round, limiting the extent to which the constitution can change.

Taking a step back, though, the bigger picture is that, whatever the outcome of Sunday's vote, it is unlikely to change the fact that Chile is moving towards a [larger role in the economy](#), with larger budget deficits and a rising debt ratio the most likely result.

The week ahead

Inflation in Chile, Mexico and Brazil probably fell last month and central banks in Peru and Chile are likely to keep their policy rates unchanged.



Data Previews

Mexico Consumer Prices (Apr.)

Tue. 9th May

| Forecasts | Time (BST/ET) | Previous | Consensus | Capital Economics |
|-------------------------------|---------------|-----------|-----------|-------------------|
| Consumer Prices % m/m (% y/y) | 13.00/08.00 | 0.3 (6.8) | 0.0(+6.2) | -0.1 (6.2) |

Inflation on a downward path but a final hike still on the cards

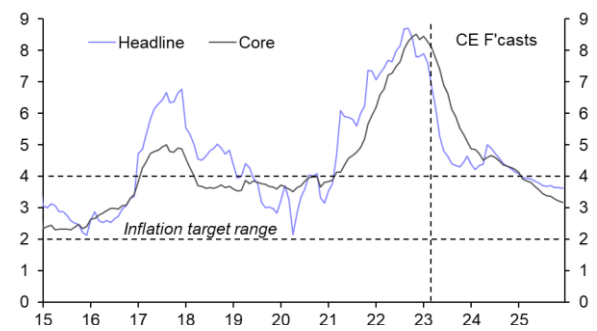
We think that data out on Tuesday will show that Mexico’s headline inflation fell to 6.2% y/y in April.

Inflation in Mexico had been slow to come down, but the last couple of inflation prints confirmed that inflation is now on a clear downward path. Indeed, the headline rate fell to an 18-month low of 6.2%y/y in the **first half of April** and, encouragingly, core price pressures are (finally) showing more marked signs of easing.

We think that the headline rate will come in in line with the mid-month inflation print of 6.2% y/y, a drop from 6.8% y/y in March. (See Chart 1.) This would provide some comfort to officials at Banxico and would lengthen the odds of a final 25bp at the central bank’s next meeting later this month.

But, on balance, we think that, with the economy **holding up well** at the start of this year and the **labour market** still tight, a final hike is more likely than not.

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



Sources: Refinitiv, Capital Economics

Brazil Consumer Prices (Apr.)

Fri. 12th May

| Forecasts | Time (BST/ET) | Previous | Consensus | Capital Economics |
|-------------------------------|---------------|------------|-----------|-------------------|
| Consumer Prices % m/m (% y/y) | 13.00/08.00 | +0.7(+4.7) | - | +0.1%(+4.1%) |

A further fall, but Copom not for turning

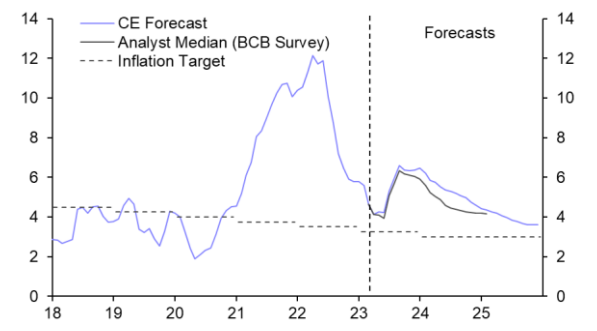
We think that Brazil’s inflation figures for April will show that the headline rate dropped to a two-and-a-half year low of 4.1% but that won’t shift Copom from the hawkish stance on display at this week’s rate setting meeting.

The weekly IPC-S consumer price series, which has a good relationship with the official monthly series, points to a 0.5% m/m rise in prices. That will cause the year-on-year rate of inflation to decline from 4.7% y/y to 4.1% y/y. That would be the lowest rate since October 2020 and comfortably within the inflation tolerance range of 3.25±1.5% for this year.

This fall in the year-on-year rate is mainly a result of lower food and energy inflation; core inflation remains high. And high core inflation is likely to keep headline inflation above the central target over our forecast horizon – and above most analysts’

expectations. (See Chart 2.) It was clear from this week’s **Copom meeting** that policymakers remain concerned about inflation risks. We doubt the further decline in inflation last month will cause them to shift their stance.

Chart 2: Brazil Consumer Prices (% y/y)



Sources: Refinitiv, Capital Economics



Chile Interest Rate Announcement (May)

Fri. 12th May

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

Still too early for rate cuts

We expect Chile’s central bank (BCCh) to keep its policy rate unchanged at 11.25% at next Friday’s meeting.

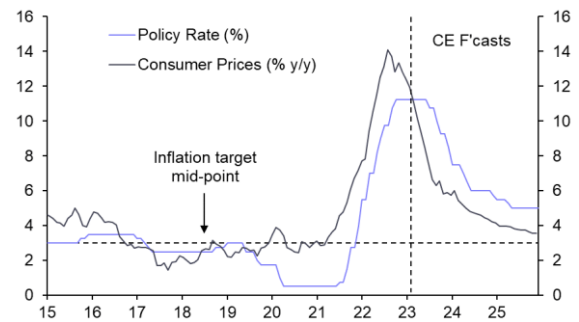
At its last meeting in April, BCCh kept its [policy rate on hold](#) for a third consecutive time as widely expected. But policymakers’ communications were surprisingly hawkish and revealed that the central bank remains very concerned about inflation, and stubbornly strong core price pressures in particular.

Policymakers will pay close attention to April’s inflation print, which will be released on Monday. For our part, we think the headline rate fell to 10.1% y/y last month, from 11.1% in March. This would clearly be welcome news for the central bank, but we doubt it will move the dial at next Friday’s meeting – we expect rates to be left unchanged and for the central bank to re-iterate that it wants to see clearer evidence of inflation

falling back towards its 3% target before considering a shift towards rate cuts.

With inflation set to fall more sharply over the coming months, we think that the central bank will feel comfortable to kick off its easing cycle in early Q3. (See Chart 3.) That said, we expect rates to be lowered more gradually than most other analysts.

Chart 3: 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 8 th |  Chl | CPI (Apr.) | 13.00 | 08.00 | +1.1%(+11.1%) | +0.4%(+9.9%) | +0.5%(+10.1%) |
| |  C.Rc | CPI (Apr.) | - | - | -0.2%(+4.4%) | - | 0.4%(+3.2%) |
| Tue 9 th |  Mex | CPI (Apr.) | 13.00 | 08.00 | +0.3%(+6.9%) | 0.0%(+6.2%) | -0.1%(+6.2%) |
| |  Arg | Industrial Production (Mar.) | 20.00 | 15.00 | (-1.4%) | - | - |
| Wed 10 th |  Brz | Industrial Production (Mar.) | 13.00 | 8.00 | -0.2%(-2.4%) | - | - |
| |  Arg | Wage Growth (Mar.) | 20.00 | 15.00 | (+6.0%) | - | - |
| |  Mex | Wage Growth (Apr.) | - | - | (+9.2%) | - | - |
| Thu 11 th | - | No Significant Data or Events | - | - | - | - | - |
| Fri 12 th |  Per | Interest Rate Announcement | 00.00 | 19.00 [†] | 7.75% | 7.75% | 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%) | - | +0.1%(+4.1%) |
| |  Col | Industrial Production (Mar.) | 16.00 | 11.00 | (+0.8%) | - | - |
| |  Col | Retail Sales (Mar.) | 16.00 | 11.00 | (+0.1%) | -0.2% | - |
| |  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 | 11.25% | 11.25% | 11.25% |
| | 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%) | - | - |
| Selected future data releases and events: | | | | | | | |
| 15 th May |  Per | Unemployment Rate (Apr.) | 16.00 | 11.00 | (+7.5%) | - | - |
| |  Per | Economic Activity (Mar.) | 16.00 | 11.00 | (-0.6%) | - | - |
| |  Col | Economic Activity (Mar.) | 17.00 | 12.00 | (+3.0%) | - | - |
| |  Col | GDP (Q1) | 17.00 | 12.00 | +0.7%(+2.9%) | - | - |
| |  Pan | CPI (Apr.) | - | - | +0.2% | - | - |
| 16 th May |  Brz | Services Volume (Mar.) | 13.00 | 08.00 | +1.1%(+5.4%) | - | - |
| |  Col | Trade Balance (Mar.) | 16.00 | 11.00 | -\$0.5bn | - | - |
| |  Uru | Interest Rate Announcement | - | - | 11.25% | - | - |
| 17 th May |  Brz | Retail Sales (Mar.) | 13.00 | 08.00 | -0.1%(-2.3%) | - | - |
| 18 th May |  Chl | GDP (Q1) | 13.30 | 08.30 | +0.1%(-2.3%) | - | - |
| |  Mex | Interest Rate Announcement | 20.00 | 15.00 | 11.25% | - | - |
| 19 th May |  Mex | Retail Sales (Mar.) | 13.00 | 08.00 | -0.3%(+3.4%) | - | - |
| |  Brz | Economic Activity (Mar.) | 13.00 | 08.00 | +3.3%(+2.7%) | - | - |

*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 (5 th May) | 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 (Apr. '23) | Down 50bp (Q3. '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 (5 th May) | Forecasts | | Stock Market | Latest (5 th May) | Forecasts | |
|---------------|---------------------------------|--------------|--------------|-----------------|---------------------------------|----------------|----------------|
| | | End 2023 | End 2024 | | | End 2023 | End 2024 |
| Brazil BRL | 4.96 | 5.50 | 5.00 | Bovespa | 103,184 | 102,250 | 142,750 |
| Mexico MXN | 17.8 | 20.0 | 21.0 | Bolsa | 54,989 | 52,600 | 62,100 |
| Argentina ARS | 226 | 400 | 600 | Merval | 292,015 | - | - |
| Colombia COP | 4,558 | 4,800 | 4,200 | IGBC | 1,174 | 970 | 1,290 |
| Chile CLP | 794 | 850 | 775 | IPSA | 5,433 | 4,900 | 6,500 |
| Peru PEN | 3.70 | 4.00 | 3.70 | S&P/BVL | 21,861 | 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 | 5.5 | 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 | 12.3 | 6.0 |
| 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 | 3.0 | 2.0 | 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 | 6.3 | 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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