



LATIN AMERICA ECONOMICS WEEKLY

Argentina's sticking plaster, EU trade deal, rate cuts

Argentina continues to dodge exchange rate issue

An Argentine delegation travelled to Washington this week in a bid to close negotiations with the IMF on the fifth review of the country's \$44bn Extended Fund Facility (and, according to local media, to renegotiate parts of the deal).

The negotiations are taking place against mounting balance of payments strains. Trade data released this week showed that exports plunged to their lowest level since December 2020 in June amid a [severe drought](#). Imports fell too, albeit by less, causing the trade balance to remain in deficit for a fourth consecutive month, exacerbating the country's severe dollar shortage – we estimate that net FX reserves are now at a record-low of *negative* \$7bn.

The fragile balance of payments situation is putting downward pressure on the peso and is making it increasingly difficult for policymakers to prevent a disorderly devaluation. But instead of addressing the overvalued exchange rate – something the IMF emphasised in a [report this week](#) – Economy Minister Sergio Massa once again opted for temporary solutions. Argentine media have reported that he's about to announce a new exchange rate for the agricultural sector (although not for soybeans) and tighten import restrictions in an attempt to shore up FX reserves and avoid a devaluation ahead of upcoming elections.

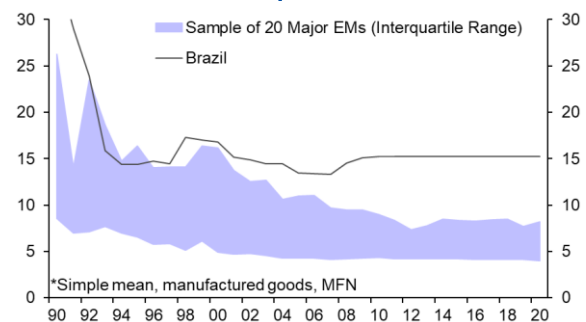
All this does, though, is kick the can down the road, leaving it for the next administration to sort out the mess. That could, of course, be led by Massa himself, who is heading the Peronist ticket. Encouragingly, most of the other leading presidential candidates have stated that addressing the exchange rate is one of their key priorities (although their plans vary substantially, see [here](#)). This would clearly be a step in the right direction, but given the scale of Argentina's economic woes, the next administration has plenty of work to do.

EU-Mercosur: a spanner in the works

The EU-Mercosur trade deal is facing further hurdles before the finish line. Brazil's President Lula this week criticised the EU's [environmental](#) demands. And he also said he will propose modifications to protect domestic firms. It's not clear to what extent these will delay the deal. Lula's rhetoric suggests that he is (broadly) keen to complete it. But it's possible that these differences prove intractable and delay things further – the deal has, after all, been more than 20 years in the making!

One point to make in all this is that Brazil would stand to benefit enormously from such a trade deal. As we've noted [before](#), the country's trade barriers are very high. Unlike in most other EMs, they didn't come down during the 2000s. (See [Chart 1.](#)) That, in turn, means Brazilian firms and households face higher prices for imported goods. This reduces domestic competition, holding back productivity.

Chart 1: Import Tariff* (%)



Sources: World Bank, Capital Economics

The week ahead

Chile will become the first of the large Latin American central banks to cut interest rates next week. (See [Data Preview](#).) Earlier this week, we published a [Focus](#) explaining why Chile is in a position where it can do so and why the growth outlook is better than most think. Otherwise, inflation probably ticked up in the middle of the month in Brazil but fell in Mexico.



Data Previews

Chile Interest Rate Announcement (Jul.)

Fri. 28th Jul.

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
Policy Rate (%)	23.00/18.00	11.25	-	10.75

Easing cycle set to begin

We expect Chile’s central bank (BCCh) to commence its easing cycle by delivering a 50bp interest rate cut, to 10.75%, when it meets next Friday.

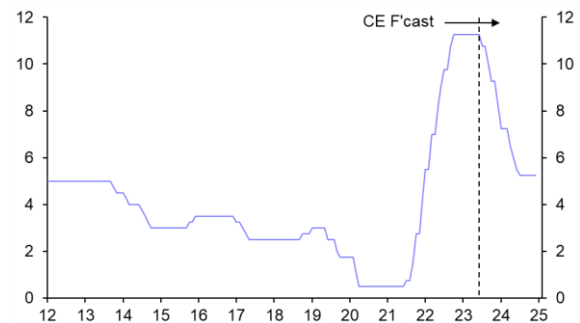
There was a surprisingly dovish shift at the central bank’s last meeting in June (at which rates were kept on hold at 11.25%). Two of the five Board members voted for a 50bp cut and, in the accompanying statement, policymakers softened their tone around inflation markedly, mentioning that inflationary risks “have been balancing out”. They also gave clear signals that the door to monetary easing is opening.

Developments since the last meeting have narrowed the odds of a cut at next week’s meeting. Recently-released activity data suggest that the economy struggled in Q2. And, more importantly, inflation in June came in weaker than expected – the headline

rate **dropped** to an 18-month low of 7.6% while core inflation eased to 6.9% last month.

We expect these factors to prompt the central bank to deliver a 50bp cut, to 10.75%, but the risks are tilted towards more aggressive easing. Overall, we expect a cumulative of 200bp of cuts this year, taking the policy rate to 9.25%. (See Chart 1.) This puts us on the dovish side of the debate.

Chart 1: Chile 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 th	 Mex	Bi-Weekly CPI (15 th Jul.)	13.00	08.00	+0.2%(+4.9%)	+0.3%(+4.8%)	+0.5%(+4.8%)
Tue 25 th	 Brz	IPCA-15 Inflation (Jul.)	13.00	08.00	+0.0%(+3.4%)	-0.0%(+3.3%)	+0.1%(+4.0%)
	 Mex	Economic Activity (May)	13.00	08.00	+0.8%(+2.5%)	+0.3%(+3.2%)	-
Wed 26 th	 C.Rc	Interest Rate Announcement	-	-	7.00%	-	6.25%
Thu 27 th	 Brz	Current Account (Jun.)	12.30	07.30	+\$0.6bn	-	-
	 Mex	Trade Balance (Jun.)	13.00	08.00	-\$0.1bn	-	-
Fri 28 th	 Brz	Unemployment Rate (Jun.)	13.00	08.00	8.30%	8.20%	-
	 Chl	Unemployment Rate (Jun.)	14.00	09.00	8.50%	-	-
	 Chl	Interest Rate Announcement	23.00	18.00	11.25%	-	10.75%
Selected future data releases and events:							
31 st Jul	 Brz	Nominal Budget Balance (Jun., BRL)	12.30	07.30	-119.2bn	-	-
	 Brz	Primary Budget Balance (Jun., BRL)	12.30	07.30	-50.2bn	-	-
	 Mex	GDP (Q2, q/q(y/y))	13.00	08.00	+1.0%(+3.7%)	-	-
	 Chl	Industrial Production (Jun.)	14.00	09.00	(-4.5%)	-	-
	 Chl	Retail Sales (Jun.)	14.00	09.00	(-10.5%)	-	-
	 Col	Unemployment Rate (Jun.)	16.00	11.00	10.50%	-	-
	 Col	Interest Rate Announcement	19.00	14.00	13.25%	-	-
	1 st Aug	 Brz	Industrial Production (Jun.)	13.00	08.00	+0.3%(+1.9%)	-
 Chl		Economic Activity (Jun.)	13.30	08.30	-0.5%(-2.0%)	-	-
	 Brz	S&P Global Manufacturing PMI (Jul.)	14.00	09.00	46.6	-	-
	 Mex	S&P Global Manufacturing PMI (Jul.)	16.00	11.00	50.9	-	-
	 Per	CPI (Jul.)	16.00	11.00	-0.2%(+6.5%)	-	-
	 Brz	Trade Balance (Jul.)	19.00	14.00	+\$10.6bn	-	-
	 Mex	IMEF Manufacturing Index (Jul.)	19.00	14.00	50.9	-	-
	 Mex	IMEF Non-Manufacturing Index (Jul.)	19.00	14.00	51.5	-	-
2 nd Aug	 Brz	Interest Rate Announcement	22.30	17.30	13.75%	-	-
	 Col	Monetary Policy Report	-	-	-	-	-
3 rd Aug	 Brz	S&P Global Services PMI (Jul.)	14.00	09.00	53.3	-	-
	 Uru	CPI (Jul.)	18.00	13.00	-0.5%(+6.0%)	-	-
4 th Aug	 Ecu	CPI (Jul.)	15.00	10.00	+0.4%(+1.7%)	-	-

*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 (21 st Jul.)	Last Change	Next Change	Forecasts	
				End 2023	End 2024
Brazil Selic Target	13.75	Up 50bp (Aug. '22)	Down 25bp (Aug. '23)	12.50	9.75
Mexico Overnight Rate	11.25	Up 25bp (Mar. '23)	Down 25bp (Q4 '23)	11.00	9.00
Colombia Intervention Rate	13.25	Up 25bp (Apr. '23)	Down 50bp (Q4. '23)	12.25	7.25
Chile Overnight Rate	11.25	Up 50bp (Oct. '22)	Down 50bp (Jul. '23)	9.25	5.25
Peru Reference Rate	7.75	Up 25bp (Jan. '23)	Down 25bp (Sep. '23)	6.75	5.00

Sources: Refinitiv, Capital Economics

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

Currency	Latest (21 st Jul.)	Forecasts		Stock Market	Latest (21 st Jul.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	4.80	5.25	5.00	Bovespa	118,083	111,750	149,500
Mexico MXN	16.9	20.0	21.0	Bolsa	53,561	44,600	59,300
Argentina ARS	269	400	600	Merval	459,108	-	-
Colombia COP	3,978	4,500	4,200	IGBC	1,174	910	1,210
Chile CLP	816	825	775	IPSA	6,323	5,100	7,000
Peru PEN	3.57	4.00	3.70	S&P/BVL	22,985	19,300	25,650

Sources: Refinitiv, Capital Economics

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

	Share of World ¹	2011-20 Ave.	GDP				Consumer Prices			
			2022	2023	2024	2025	2022	2023	2024	2025
Brazil	2.3	0.3	2.9	2.3	0.8	1.5	9.3	4.8	5.0	4.0
Mexico	1.8	1.3	3.0	2.8	1.3	2.0	7.9	5.8	4.8	3.5
Argentina	0.7	-0.7	5.2	-2.8	-1.3	2.5	72.4	114.5	134.0	103.5
Colombia	0.6	2.5	7.3	1.0	1.5	2.5	10.2	11.5	5.5	3.8
Chile	0.4	2.1	2.4	0.3	2.5	2.8	11.6	7.5	3.8	3.5
Peru	0.3	2.5	2.7	1.5	2.3	2.5	7.9	7.0	4.0	3.3
Dom. Rep.	0.2	4.1	4.9	3.8	5.0	5.0	8.8	5.0	4.3	4.0
Ecuador	0.1	1.6	2.9	2.5	2.0	2.5	3.5	1.5	1.3	1.5
Venezuela	-	-12.7	15.5	6.5	5.0	5.0	185	320	65	50
Panama	0.1	3.5	10.5	1.8	2.8	3.0	2.8	1.5	1.3	1.3
Costa Rica	0.1	2.8	4.3	3.5	2.5	2.5	8.3	1.5	2.5	2.8
Uruguay	0.1	1.5	4.9	1.5	2.5	2.3	9.1	7.3	7.8	7.0
Latin America²	6.7	1.0	3.7	1.6	1.1	2.1	8.7	5.9	4.7	3.7

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



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