



LATIN AMERICA ECONOMICS WEEKLY

Argentina's grim IMF review, Brazil's budget deficit

IMF losing its patience with Argentina

The IMF's fifth and sixth reviews (which were combined) of Argentina's \$44bn programme out late last Friday make for pretty depressing reading.

The Fund slashed its 2023 GDP growth forecast to -2.5% (from +2%) and revised up this year's inflation forecast to 120% (from 60%). And these revised assumptions still look optimistic – we expect a 3.5% drop in GDP this year (followed by another contraction in 2024) and inflation to surge to 170%. The Fund also continues to deem Argentina's debt "sustainable but not with high probability". And while the [18% devaluation](#) following the PASO elections leaves the exchange rate "realigned" in the Fund's view, the fact that it will be held steady at 350/\$ means that it's only a matter of time before the peso becomes severely overvalued again.

But perhaps the key message is that the IMF for the first time conceded that the programme "has gone off track", suggesting that the Fund's patience with Argentina is wearing thin. It's unclear how things will pan out given the uncertainty around the [presidential election](#). As we've noted in [previous research](#), the crumb of comfort is that the proposals of the two front runners, Javier Milei and Patricia Bullrich, would tackle many of Argentina's economic issues (the most radical of which is Milei's plan to dollarise the economy – we looked at the feasibility of this proposal in a [Focus](#) this week). But even so, it will take a long time to sort out Argentina's economic mess. And it's clear that the Fund is unlikely to tolerate more policy slippages from Argentina.

Brazil's fiscal outlook getting worse

The past week has brought bad news for the health of Brazil's public finances. The public sector's budget deficit is worsening more rapidly than many (ourselves included had expected). On a 12-month basis, the deficit hit 7% of GDP in July, up from 4.6% at the end of last year. In part, that's because interest payments have increased. But the main driver of the

deterioration was the primary balance as expenditures grew more quickly than revenues. Many of the factors that supported a narrowing of the deficit last year, including high commodity prices and rapid nominal GDP growth, have reversed.

On a positive note, the government's 2024 budget (known as the PLOA) sent to congress this week set a target for the primary balance of zero (compared with a deficit of 0.8% of GDP in July), as required to comply with the new fiscal framework. But the necessary revenue-raising measures still need to work their way through congress. And the GDP forecast for next year of 2.3% looks far too optimistic (our forecast is 0.8%). Moreover, local media report that some ministers are pressuring Lula to drop the primary balance target, suggesting that political pressure may start to work against fiscal discipline. Overall, these developments reinforce our initial concerns about the new fiscal framework – that compliance will fall short and the debt-to-GDP ratio will resume to an upward path. (See [here](#).)

Banxico: super peso too strong?

The news this week that Mexico's central bank will wind down a currency hedge programme and rumours that it may seek to rebuild FX reserves led to a sharp fall in the peso on Thursday. That Banxico is removing support for the currency shouldn't be a major surprise. As we've noted before, the peso looks [overvalued](#) and this appears to be having a negative impact [on the economy](#).

The week ahead

Chile's central bank will cut its policy rate while inflation in Mexico probably fell in August. Otherwise, Mexico's ruling Morena party will announce its presidential candidate (with Mexico City mayor Claudia Sheinbaum the seeming favourite). While it's hard to know the economic implications at this stage, as we argued in a recent [Focus](#), once Amlo is out of power, official support for Pemex and its debt repayments may start to fade.



Data Previews

Tue. 5th September – Chile Interest Rate Announcement (Sep.)

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
Policy Rate (%)	22.00/17.00	10.25	9.50	9.25

Another large cut

We think that Chile’s central bank (BCCh) will deliver another 100bp cut, to 9.25%, at next Tuesday’s meeting.

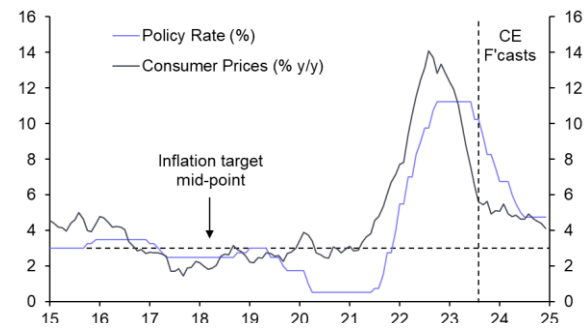
The BCCh kicked off its easing cycle with a larger-than-expected 100bp cut, to 10.25%, and its communications suggested that more front-loaded easing was likely. The big question ahead of next week’s meeting is how large the cut will be, with odds finely balanced between a 75bp and another 100bp cut. We think that, on balance, the latter is more likely.

Admittedly, the peso has come under pressure recently, falling by c.2% against the dollar this month. But in a speech at Jackson Hole, Vice President Garcia said that this would not change the outlook for monetary policy. What’s more, inflation recorded another large fall in July, to 6.5% y/y, while core price pressures are easing more markedly too.

At the same time, Chile’s economy continues to struggle, with GDP **contracting** by 0.3% q/q in Q2.

We think that this will prompt the BCCh to deliver another 100bp cut, to 9.25%. This move is likely to be followed by further monetary easing, taking the policy rate to 7.50% by end-23. (See Chart 1.) This is a bit more easing than most anticipate.

Chart 1: Chile Consumer Prices & Policy Rate (%)



Sources: Refinitiv, Capital Economics

Thu. 7th September – Mexico Consumer Prices (Aug.)

Forecasts	Time (BST/ET)	Previous	Consensus	Capital Economics
m/m (% y/y)	13.00/08.00	+0.5(+4.8)	-	+0.5(+4.6)

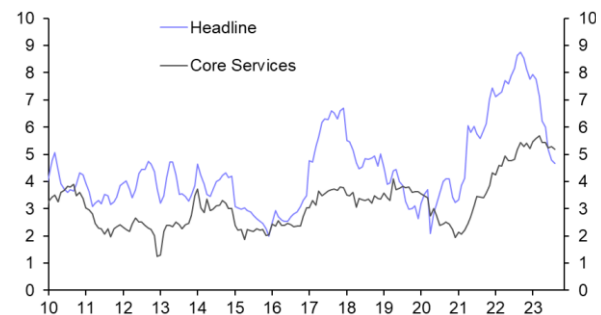
Sticky services inflation to keep Banxico in hawkish mood

We think that data out on Thursday will show that inflation in Mexico fell to 4.6% y/y in August.

Headline inflation has declined from a peak of 8.7% y/y in September last year to 4.8% y/y in July. And it dropped back further, to 4.7% y/y, in the first half of August – the lowest reading since February 2021. That said, core services inflation – which Banxico pays close attention to amid concerns about the persistence of inflation – remained sticky. (See Chart 2.) We expect the full month figures to paint a similar picture, with the headline rate falling to 4.6% y/y and services inflation hovering around 5.2%.

high. This, alongside recent hawkish comments from Banxico officials, means that rate cuts are likely to materialise around the turn of the year at the earliest.

Chart 2: Mexico 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 4 th	-	No Significant Data or Events Scheduled	-	-	-	-	-
Tue 5 th		Brz Industrial Production (Jul.)	13.00	08.00	+0.1%(+0.3%)	-	-
		Brz S&P Global Services PMI (Aug.)	14.00	09.00	50.2	-	-
		Uru CPI (Aug.)	18.00	13.00	-0.4%(+4.8%)	-	+0.3%(+4.2%)
		Chl Interest Rate Announcement	22.00	17.00	10.25%	9.50%	9.25%
Wed 6 th		Ecu CPI (Aug.)	15.00	10.00	+0.5%(+2.1%)	-	-0.1%(+2.0%)
Thu 7 th		Chl Trade Balance (Aug.)	12.30	07.30	+0.8bn	-	-
		Mex CPI (Aug.)	13.00	08.00	+0.5%(+4.8%)	-	+0.5%(+4.6%)
		Arg Industrial Production (Jul.)	20.00	15.00	(-2.3%)	-	-
		C.Rc CPI (Aug.)	-	-	-0.2%(-2.3%)	-	+0.7%(-1.7%)
Fri 8 th		Col CPI (Aug.)	00.00	19.00+	+0.5%(+11.8%)	+0.5%(+11.2%)	+0.4%(+11.1%)
		Chl CPI (Aug.)	12.00	07.00	+0.4%(+6.5%)	+0.4%(+5.6%)	+0.4%(+5.6%)
Also expected during this period:							
3 rd - 30 th		Pan GDP (Q4, q/q(y/y))	-	-	(+9.5%)	-	-
8 th - 13 th		Dom CPI (Aug.)	-	-	+0.5%(+4.0%)	-	-
Selected future data releases and events:							
11 th Sep		Mex Industrial Production (Jul.)	13.00	08.00	+0.6%(+3.7%)	-	-
12 th Sep		Brz IPCA Inflation (Aug.)	13.00	08.00	+0.1%(+4.0%)	-	-
14 th Sep		Brz Services Output (Jul.)	13.00	08.00	+0.2%(+4.1%)	-	-
		Arg CPI (Aug.)	20.00	15.00	+6.3%(+113.4%)	-	-
		Uru GDP (Q2, q/q(y/y))	-	-	(+1.2%)	-	-
15 th Sep		Per Interest Rate Announcement	00.00	19.00+	7.75%	-	-
		Brz Retail Sales (Jul.)	13.00	08.00	+0.0%(+1.3%)	-	-
		Per Unemployment Rate (Aug.)	16.00	11.00	6.30%	-	-
		Per Economic Activity (Jul.)	16.00	11.00	(-0.6%)	-	-
		Col Industrial Production (Jul.)	16.00	11.00	(-2.1%)	-	-
		Col Retail Sales (Jul.)	16.00	11.00	(-11.9%)	-	-
		Pan CPI (Aug.)	-	-	+0.0%	-	-
Also expected during this period:							
3 rd - 30 th		Pan GDP (Q4, q/q(y/y))	-	-	(+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 (1 st Sep.)	Last Change	Next Change	Forecasts	
				End 2023	End 2024
Brazil Selic Target	13.25	Down 50bp (Aug. '23)	Down 50bp (Sep. '23)	11.75	9.50
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	10.25	Down 100bp (Jul. '23)	Down 100bp (Sep. '23)	7.50	4.75
Peru Reference Rate	7.75	Up 25bp (Jan. '23)	Down 25bp (Sep. '23)	6.75	4.75

Sources: Refinitiv, Capital Economics

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

Currency	Latest (1 st Sep.)	Forecasts		Stock Market	Latest (1 st Sep.)	Forecasts	
		End 2023	End 2024			End 2023	End 2024
Brazil BRL	4.91	5.25	5.00	Bovespa	115,742	111,750	149,750
Mexico MXN	17.0	20.0	21.0	Bolsa	53,021	44,600	59,300
Argentina ARS	350	700	900	Merval	653,603	-	-
Colombia COP	4,086	4,500	4,200	IGBC	1,076	910	1,210
Chile CLP	848	825	775	IPSA	6,009	5,100	7,000
Peru PEN	3.68	4.00	3.70	S&P/BVL	23,134	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	3.5	0.8	1.5	9.3	4.8	4.8	3.8
Mexico	1.8	1.3	3.0	3.0	1.3	2.0	7.9	5.5	4.3	3.5
Argentina	0.7	-0.7	5.0	-3.5	-2.0	2.5	72.4	125.0	155.5	103.5
Colombia	0.6	2.5	7.3	1.0	1.3	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	0.8	1.8	2.5	7.9	6.5	4.0	3.3
Dom. Rep.	0.2	4.1	4.9	0.0	0.0	0.0	8.8	5.0	4.3	4.0
Ecuador	0.1	1.6	2.9	2.5	2.0	2.5	3.5	2.0	1.8	1.8
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	6.0	6.3	6.5
Latin America²	6.7	1.0	3.7	1.9	0.8	2.0	8.7	5.8	4.4	3.6

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



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