



LATIN AMERICA ECONOMICS WEEKLY

Argentina's belt tightening, Chile votes, LatAm & the Fed

Argentina's fiscal measures: mission impossible?

With Argentina's economy deep in crisis territory, the new Milei administration wasted no time in announcing a [stabilisation plan](#) for the economy this week. This included a steep devaluation of the peso and large fiscal tightening of c.5% of GDP in pursuit of a primary budget surplus in 2024. Markets welcomed the plan, with sovereign dollar bond spreads narrowing by more than 100bp this week. While the new government's swift action is encouraging, there are question marks about how feasible the announced fiscal measures are.

Argentina's history provides little comfort. In the past 30 years, the government has only ever run a primary surplus in times during which commodity prices were booming. And a reduction in the primary deficit equal to 5% of GDP in a single year has only been achieved once since 1900. Such adjustments are also extremely rare elsewhere in the EM world.

Pushing through these tough fiscal measures this time round will be a very tall order. Indeed, left-wing organisations have already called for an "immediate strike" as well as a large protest against austerity on 20th December. Even if the government defies the public backlash and keeps policy tight in the near-term, its commitment to austerity will be put to the test when the next legislative elections approach in two years' time. This is when former centre-right President Macri wavered on his austerity plans in a bid to shore up waning support, which ultimately paved the way for Argentina's crisis in 2018.

Chile's constitutional vote: an annual tradition

Chileans head to the polls once again on Sunday to approve or reject the latest draft constitution.

Back in 2022 – which marked the first, and unsuccessful, attempt at rewriting the constitution – the prospect of sweeping changes to Chile's economic model led to heightened volatility in the country's financial assets. In contrast, Sunday's vote

has become a bit of a non-event, reflecting the fact that the [new charter](#) is a lot more moderate and, according to [the latest Cadem poll](#), is likely to be rejected anyway (this would mean that the current Pinochet-era constitution remains in place).

While a rejection would remove the threat of radical changes to Chile's legal and business environment, the risk would be a renewed flare up of social unrest given that many of the issues that were at the heart of the mass protests in 2019 remain unresolved.

Fed gives breathing room for Lat Am central banks

Outside Argentina, the big moves in the region's financial markets this week were driven by the FOMC meeting on Wednesday. Interest rate expectations in the US have shifted down – but [we think](#) there will be more easing than is priced in.

In principle, this should open the door for more rate cuts within Latin America. Local interest rates can be lowered while maintaining a high differential vis-à-vis the US and reducing the risk of currency falls. But in practice, the Fed doesn't seem to influence Latin American central banks to the extent that might be expected. Tightening cycles started in Latin America much earlier than in the US, and some central banks are already *cutting* interest rates.

The key point is that domestically-generated inflation pressures are the key factor in central banks' reaction functions. With rapid wage growth likely to keep services inflation high, [we expect that](#) interest rates in Latin America will be cut by less than most expect. Mexico's is the one central bank more likely to follow the Fed given the two countries' close ties. But underlying inflation pressures appear stronger there than elsewhere, limiting room for maneuver – something evident at [Thursday's Board meeting](#).

The week ahead

Colombia's central bank is likely to kick off its easing cycle while policymakers in Chile will continue to normalise policy.



Data Previews

Tue. 19th Dec – Colombia Interest Rate Announcement (Dec.)

Forecasts	Time (GMT/ET)	Previous	Consensus	Capital Economics
Policy Rate (%)	18.00/13.00	13.25	13.13	13.00

Colombia to join club of rate cutters

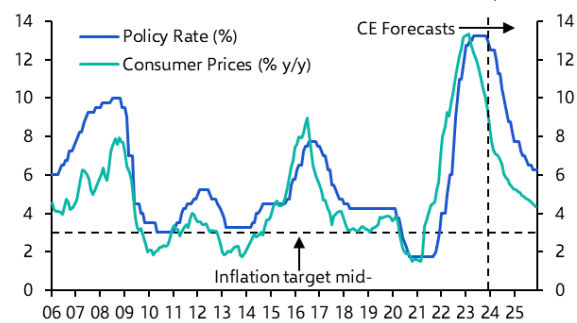
We think that Colombia’s central bank (BanRep) will kick off its easing cycle with a 25bp cut to 13.00% at next week’s meeting.

BanRep has left its policy rate unchanged since May amid strong price pressures owing to labour market dynamics and fuel price hikes. But the odds in favour of rate cuts have risen. At last month’s board meeting, two of the seven members voted for a 25bp cut. With November’s inflation reading showing a broad-based easing of price pressures and the economy struggling, we think the central bank will deliver its first cut on Tuesday.

Looking ahead, inflation should fall sharply over the course of next year. That said, it will remain well above BanRep’s 3±1% target, which supports our

view that the easing cycle won’t be as aggressive as most expect. We have pencilled in cumulative rate cuts of 475bp in 2024, which would leave the policy rate at 8.00% by the end of the year. (See Chart 1).

Chart 1: Colombia Consumer Prices & Policy Rate



Sources: Refinitiv, Capital Economics

Tue. 19th Dec – Chile Interest Rate Announcement (Dec.)

Forecasts	Time (GMT/ET)	Previous	Consensus	Capital Economics
Policy Rate (%)	21.00/16.00	9.00	8.50	8.25

Chile to shift back to aggressive rate cuts

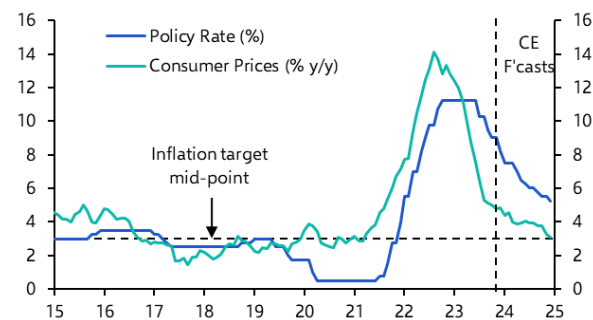
We think that Chile’s central bank (BCCh) will accelerate the pace of policy easing with a 75bp cut at next week’s meeting.

Admittedly, inflation fell by less than expected in November, to 4.8% y/y, from 5.0% y/y in October. But this was mainly reflective of stronger non-core price pressures. And the bigger picture is that price pressure have eased substantially this year.

What’s more, the factors that prompted the BCCh to cut rates by a smaller-than-expected 50bp (rather than the 75bp they’d flagged) at its last meeting – the falls in the peso and the rise in US Treasury yields – have reversed. All told, we think that the BCCh will return to the 75bp cuts it signalled in its [previous monetary policy report](#).

Going forward, while we expect the disinflation process to slow next year, we do think the headline rate will return to the central bank’s 3% target. This will prompt the central bank to cut rates more aggressively than in most other EMs, to 5.25% by the end of next year. (See Chart 2.)

Chart 2: Chile Consumer Prices & Policy Rate



Sources: Refinitiv, Capital Economics



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (GMT)	Time (EST)	Previous*	Median*	CE Forecasts*	
Mon 18 th	Col	Economic Activity (Oct.)	16.00	11.00	(-0.1%)	-	-	
Tue 19 th	Brz	Monetary Policy Meeting Minutes	11.30	06.30	-	-	-	
	Col	Interest Rate Announcement	18.00	13.00	13.25%	13.13%	13.00%	
	Chl	Interest Rate Announcement	21.00	16.00	9.00%	-	8.25%	
Wed 20 th	Mex	Retail Sales (Oct.)	12.00	07.00	-0.2%(+2.3%)	-	-	
	Brz	Economic Activity (Oct.)	12.00	07.00	-0.1%(+0.3%)	-0.1%(+1.8%)	-	
	Col	Trade Balance (Oct.)	15.00	10.00	-\$0.6bn	-	-	
	Arg	Trade Balance (Nov.)	19.00	14.00	-\$0.5bn	-	-	
	C.Rc	Interest Rate Announcement	-	-	6.25%	-	6.00%	
	Arg	Budget Balance (Nov., ARS)	-	-	-330.0bn	-	-	
	Thu 21 st	Brz	Central Bank Inflation Report	11.00	06.00	-	-	-
		Mex	Bi-Weekly CPI (15 th Dec.)	12.00	07.00	-0.1%(+4.3%)	-	-
Arg		Economic Activity Index (Oct.)	19.00	14.00	+0.0%(-0.7%)	-	-	
Arg		Unemployment Rate (Q3)	19.00	14.00	6.20%	-	-	
Fri 22 nd	Brz	Current Account (Nov.)	11.30	06.30	-\$0.2bn	-	-	
	Mex	Trade Balance (Nov.)	12.00	07.00	-\$0.3bn	-	-	
	Mex	IGAE Activity Index (Oct.)	12.00	07.00	+0.6%(+3.3%)	-	-	
	Col	Monetary Policy Meeting Minutes	22.00	17.00	-	-	-	
Selected future data releases and events:								
28 th Dec	Brz	IPCA-15 Inflation (Dec.)	12.00	07.00	+0.3%(+4.8%)	-	-	
	Mex	Unemployment Rate (Nov.)	12.00	07.00	2.75%	-	-	
	Arg	Current Account (Q3)	19.00	14.00	-\$6.4bn	-	-	
29 th Dec	Brz	Nominal Budget Balance (Nov., BRL)	11.30	06.30	-47.1bn	-	-	
	Brz	Primary Budget Balance (Nov., BRL)	11.30	06.30	+14.8bn	-	-	
	Brz	Unemployment Rate (Nov.)	12.00	07.00	7.60%	-	-	
	Chl	Industrial Production (Nov.)	12.00	07.00	(+1.1%)	-	-	
	Chl	Unemployment Rate (Nov.)	12.00	07.00	8.90%	-	-	
	Chl	Retail Sales (Nov.)	12.00	07.00	(-6.9%)	-	-	
	Col	Unemployment Rate (Nov.)	15.00	10.00	9.20%	-	-	
	Uru	Interest Rate Announcement	-	-	9.25%	-	-	

*m/m(y/y) unless otherwise stated; † = previous day
Sources: Bloomberg, Capital Economics



Main Economic & Market Forecasts

Table 1: Central Bank Policy Rates (%)

Country	Policy Rate	Latest (15 th Dec.)	Last Change	Next Change	Forecasts	
					End 2023	End 2024
Brazil	Selic Target	11.75	Down 50bp (Dec. '23)	Down 50bp (Jan. '24)	11.75	9.50
Mexico	Overnight Rate	11.25	Up 25bp (Mar. '23)	Down 25bp (Feb. '24)	11.25	9.25
Colombia	Intervention Rate	13.25	Up 25bp (Apr. '23)	Down 25bp (Dec. '23)	13.00	8.25
Chile	Overnight Rate	9.00	Down 50bp (Oct. '23)	Down 75bp (Dec. '23)	8.25	5.25
Peru	Reference Rate	7.00	Down 25bp (Nov. '23)	Down 25bp (Dec. '23)	6.75	5.00

Sources: Refinitiv, Capital Economics

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

Country	Currency	Latest (15 th Dec.)	Forecasts		Stock Market	Latest (15 th Dec.)	Forecasts	
			End 2024	End 2025			End 2024	End 2025
Brazil	BRL	4.93	5.00	5.20	Bovespa	130,334	128,000	143,250
Mexico	MXN	17.21	17.5	20.0	Bolsa	56,818	54,300	59,200
Argentina	ARS	801.05	650	1300	Merval	960,651	-	-
Colombia	COP	3960.93	4,000	4,300	COLCAP	1,160	1,010	1,090
Chile	CLP	874.10	875	825	IPSA	6,155	5,950	6,650
Peru	PEN	3.76	3.70	3.80	S&P/BVL	23,945	22,600	24,550

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	3.0	3.3	1.3	1.5	9.3	4.5	4.3	3.8
Mexico	1.9	0.9	3.9	3.5	1.8	1.8	7.9	5.5	4.5	3.5
Argentina	0.7	-0.7	5.0	-2.5	-2.3	2.3	72.4	132.0	219.5	101.5
Colombia	0.6	2.5	7.3	1.0	1.3	2.3	10.2	11.8	6.8	4.8
Chile	0.4	2.1	2.4	0.0	2.3	2.8	11.6	7.8	4.0	3.3
Peru	0.3	2.5	2.7	-0.8	1.8	2.3	7.9	6.3	3.0	3.5
Dom. Rep.	0.2	4.1	4.9	2.0	3.3	4.8	8.8	4.8	4.0	4.0
Ecuador	0.1	1.6	2.9	1.3	1.0	1.8	3.5	2.3	1.8	2.0
Venezuela	-	-12.7	15.5	6.5	5.0	5.0	185	340	90	80
Panama	0.1	3.5	10.8	6.0	3.0	3.5	2.8	1.5	1.5	1.3
Costa Rica	0.1	2.8	4.6	4.8	3.3	3.5	8.3	0.8	1.5	2.5
Uruguay	0.1	1.5	4.9	1.0	2.3	2.8	9.1	5.8	6.0	5.3
Latin America²	6.8	0.9	4.0	2.1	1.2	2.0	8.7	5.7	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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