



LATIN AMERICA ECONOMICS WEEKLY

Argentina deregulates, Brazil's tax reform, rate cuts

Argentina: Milei takes a chainsaw to the state

Having [announced](#) large cuts to public spending as well as a steep devaluation of the peso last week, this week President Milei took a first big step towards fulfilling his campaign promise of reducing the role of the state in the economy. The emergency decree he signed on Wednesday contains a slew of measures, including the flexibilisation of the labour market, trade deregulation as well as changes to the legal status of state-owned enterprises, essentially paving the way for a large wave of privatisations.

These measures resemble those implemented by former President Carlos Menem in the 1990s, whose economic policy was based on the 'Washington Consensus'. This paid off economically – labour productivity increased sharply during Menem's presidency and the economy grew by an average of 4% per year in the 1990s. It's perhaps not surprising, then, that Milei considers Menem's first government to have been "the best (...) in [Argentina's] history". (And, of course, Menem's dollar peg policy – the Convertibility Plan – sowed the seeds for Argentina's catastrophic crisis in the early 2000s.)

But there are question marks as to whether Milei will be able to replicate Menem's deregulation drive. For one thing, congress – where Milei's party only holds a small number of seats – can still overturn the decree. And even if it doesn't, a public backlash – there have already been major protests this week – may force Milei to water down some of his measures.

Brazil's tax reform (at long last)

The approval by Brazil's congress of a tax reform bill suggests that hope for growth-lifting structural reforms hasn't entirely faded with Lula in power. The bill is long overdue (we were [writing](#) on it back in 2019) and it's likely to take a decade to be fully implemented. But better late than never.

Brazil's tax system is notoriously complex and is one reason behind the [weakness of productivity growth](#).

The reform will help by reducing five consumption taxes to two and limiting the variation in these tax rates by state and product. Companies will benefit from reduced compliance costs, allowing them to divert resources to more productive ventures.

The current tax system also creates distorting incentives. The Institute of Applied Economic Research (known as IPEA) [noted](#) that taxes are higher for more capital-intensive sectors with higher productivity, which increases relative prices and discourages investments in these sectors. The reform should allow a better allocation of resources.

While the reform is positive for long-run growth prospects, it doesn't improve Brazil's fiscal position. Revenues will still need to be raised if the government is to comply with its [fiscal framework](#).

Central bank round-up

One of the key messages to come out of this week's central bank decisions and communications is that policymakers are sitting a little more comfortably. The fall in US Treasury yields was one factor cited by policymakers in [Colombia and Chile](#) when they cut rates this week (and in [Brazil](#) last week). That said, as we [noted last week](#), the Fed is unlikely to be the key driver of Latin American central bank decisions.

Perhaps more importantly, inflation concerns seem to be waning a little. Monetary policy reports released in the past couple of days in [Chile](#) and [Brazil](#) also highlighted easing price pressures. This poses a downside risk to our interest rate forecasts, which are generally on the hawkish side. But we think most analysts (as well as policymakers) are underestimating the extent to which labour market conditions will continue to feed through to inflation.

The week ahead

It's quiet due to the holiday period. Brazilian mid-month inflation figures will show a further fall. This is our last *Weekly* of 2023. The next one will be published on 5th January.



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (GMT)	Time (EST)	Previous*	Median*	CE Forecasts*
Mon 25 th	-	No Significant Data or Events Scheduled	-	-	-	-	-
Tue 26 th	-	No Significant Data or Events Scheduled	-	-	-	-	-
Wed 27 th	-	No Significant Data or Events Scheduled	-	-	-	-	-
Thu 28 th	 Brz	IPCA-15 Inflation (Dec.)	12.00	07.00	+0.3%(+4.8%)	+0.3%(+4.6%)	+0.3%(+4.6%)
	 Mex	Unemployment Rate (Nov.)	12.00	07.00	2.75%	2.75%	-
	 Arg	Current Account (Q3)	19.00	14.00	-\$6.4bn	-	-
Fri 29 th	 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	7.6%	7.6%	-
	 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	9.0%	9.2%	-
	 Uru	Interest Rate Announcement	-	-	9.25%	-	9.00%
Selected future data releases and events:							
1 st Jan	 Per	CPI (Dec.)	17.00	12.00	-0.2%(+3.6%)	-	-
2 nd Jan	 Brz	S&P Global Manufacturing PMI (Dec.)	13.00	08.00	49.4	-	-
	 Mex	S&P Global Manufacturing PMI (Dec.)	15.00	10.00	52.5	-	-
	 Brz	Trade Balance (Dec.)	18.00	13.00	+\$8.8bn	-	-
4 th Jan	 Brz	S&P Global Services PMI (Dec.)	13.00	08.00	51.2	-	-
	 Mex	Monetary Policy Meeting Minutes	15.00	10.00	-	-	-
5 th Jan	 Brz	Industrial Production (Nov.)	12.00	07.00	+0.1%(+1.2%)	-	-
	 Ecu	CPI (Dec.)	14.00	09.00	-0.4%(+1.5%)	-	-
11 th Jan	 Brz	IPCA Inflation (Dec.)	12.00	07.00	+0.3%(+4.7%)	-	-

*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 (22 nd 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	Down 25bp (Dec. '23)	Down 50bp (Jan. '23)	13.00	8.25
Chile Overnight Rate	9.00	Down 75bp (Dec. '23)	Down 75bp (Jan. '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

Currency	Latest (22 nd Dec.)	Forecasts		Stock Market	Latest (22 nd Dec.)	Forecasts	
		End 2024	End 2025			End 2024	End 2025
Brazil BRL	4.89	5.20	5.30	Bovespa	132,182	143,250	152,500
Mexico MXN	17.0	20.0	21.0	Bolsa	57,488	59,200	64,500
Argentina ARS	804	1300	2000	Merval	942,904	-	-
Colombia COP	3,943	4,300	4,500	COLCAP	1,166	1,090	1,180
Chile CLP	876	825	800	IPSA	6,108	6,600	7,350
Peru PEN	3.68	3.80	3.90	S&P/BVL	25,628	24,550	26,650

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	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	4.3	3.5
Argentina	0.7	-0.7	5.0	-1.8	-2.5	2.3	72.4	132.5	218.5	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	2.2	1.2	2.0	8.7	5.7	4.3	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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