



PIIE PETERSON INSTITUTE FOR
INTERNATIONAL ECONOMICS

Monetary Policy in Latin America

Alejandro Werner

January 9, 2024

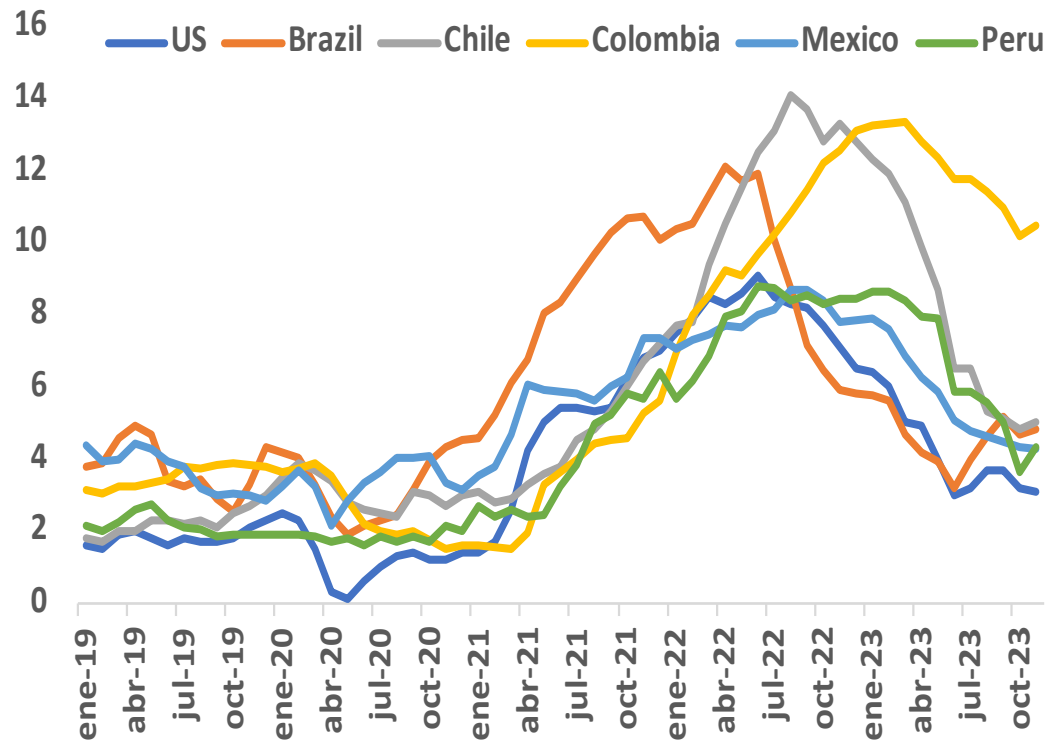
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Latin America: Inflation and MP

Inflation has fallen significantly. Core inflation shows that underlying pressures are easing.

CPI Inflation

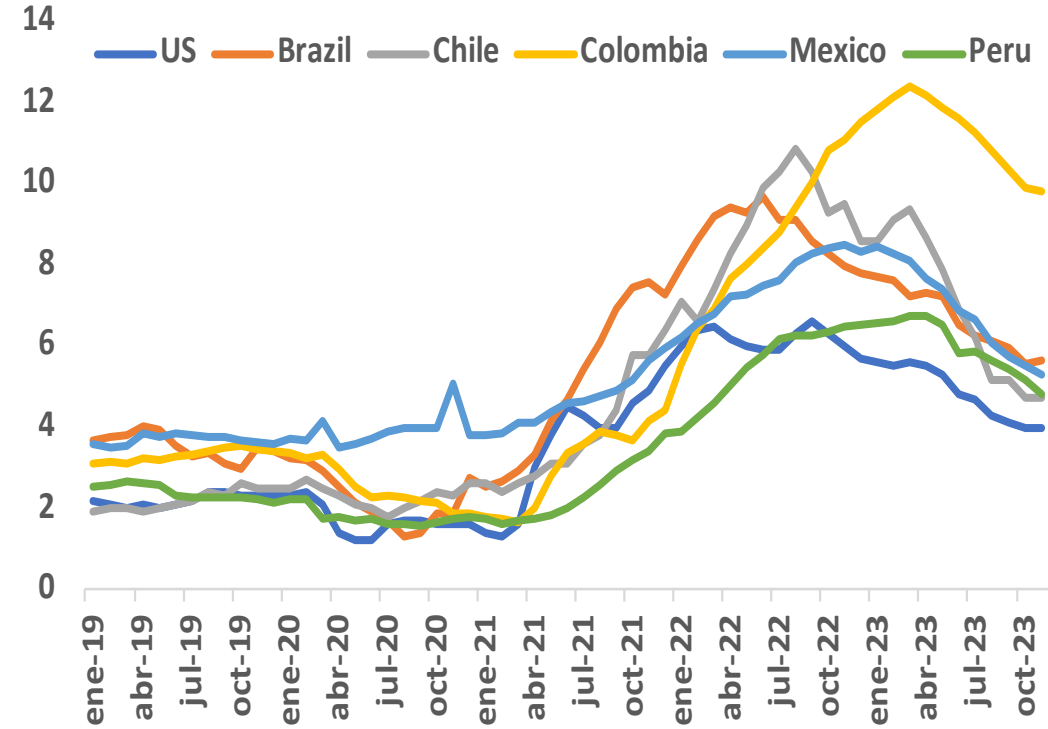
annual, %



Sources: National Statistics

Core Inflation

annual, %

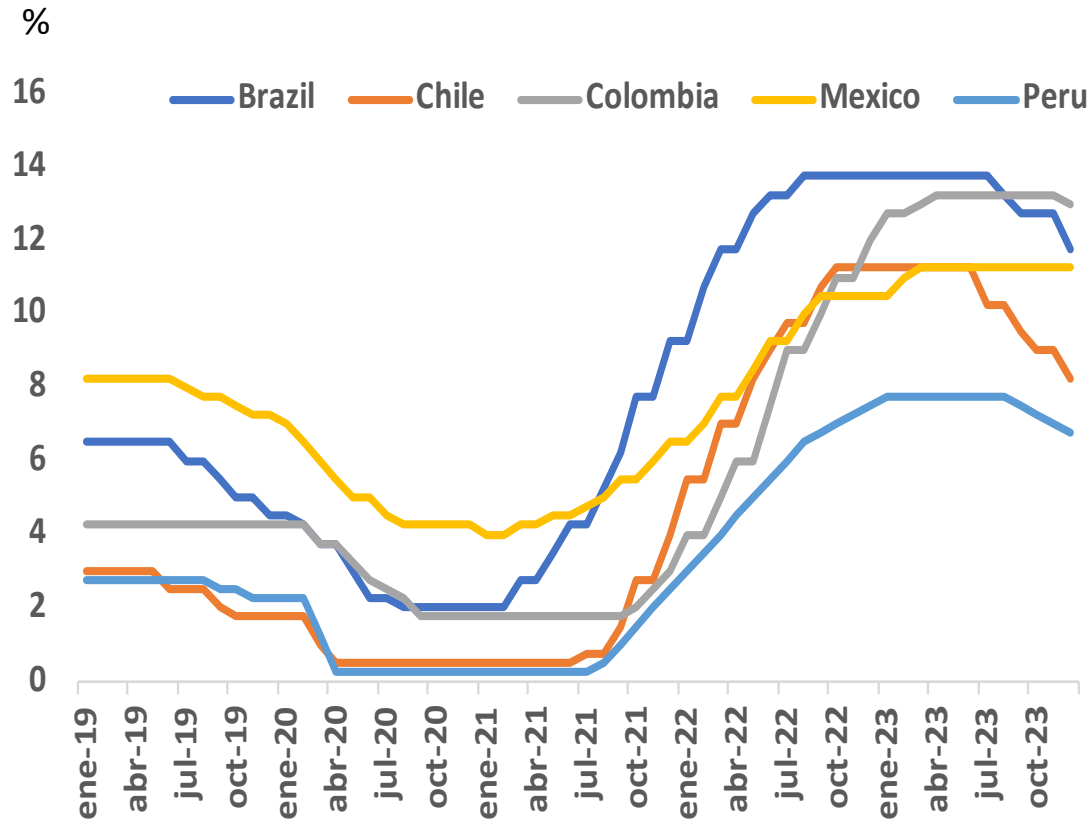


Sources: National Statistics

Latin America: Inflation and MP

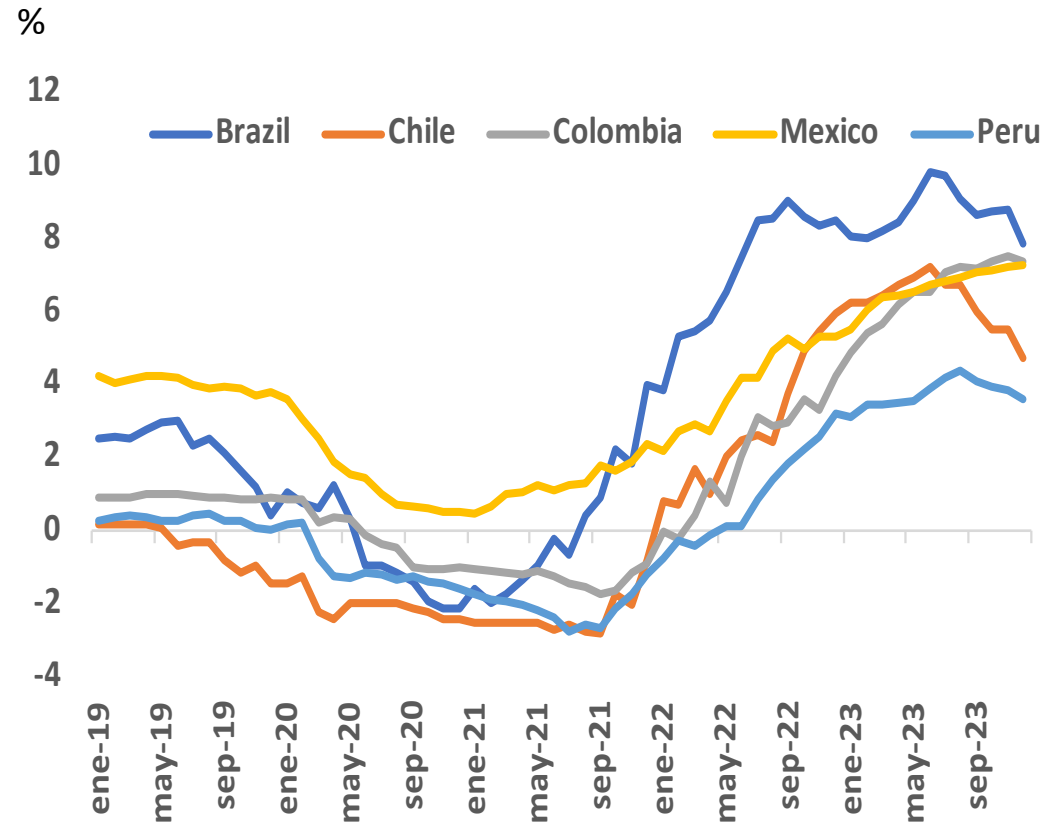
Brazil, Chile, Colombia, and Peru, have started to ease monetary policy, ex-ante real rates remain very high.

Monetary Policy Rates



Sources: Central Banks

Monetary Policy Real Rates



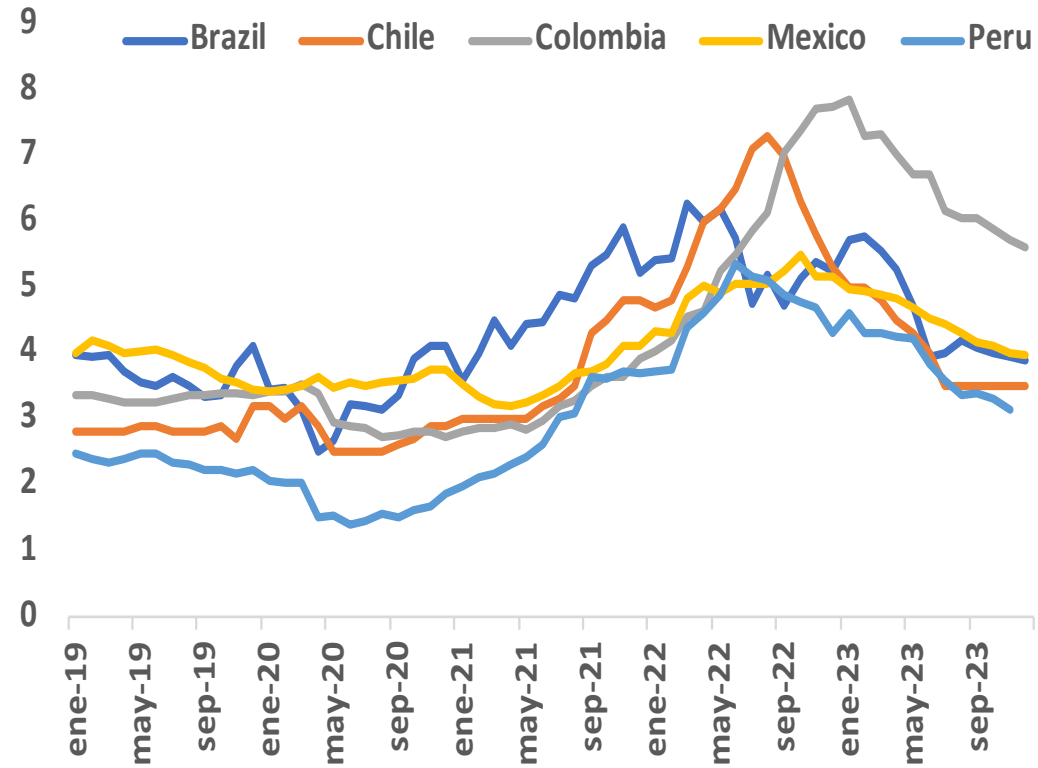
Sources: Central Banks

Latin America: Inflation and MP

Inflation expectations, both for the short and medium-term, have improved in the region.

12-month Inflation Expectations

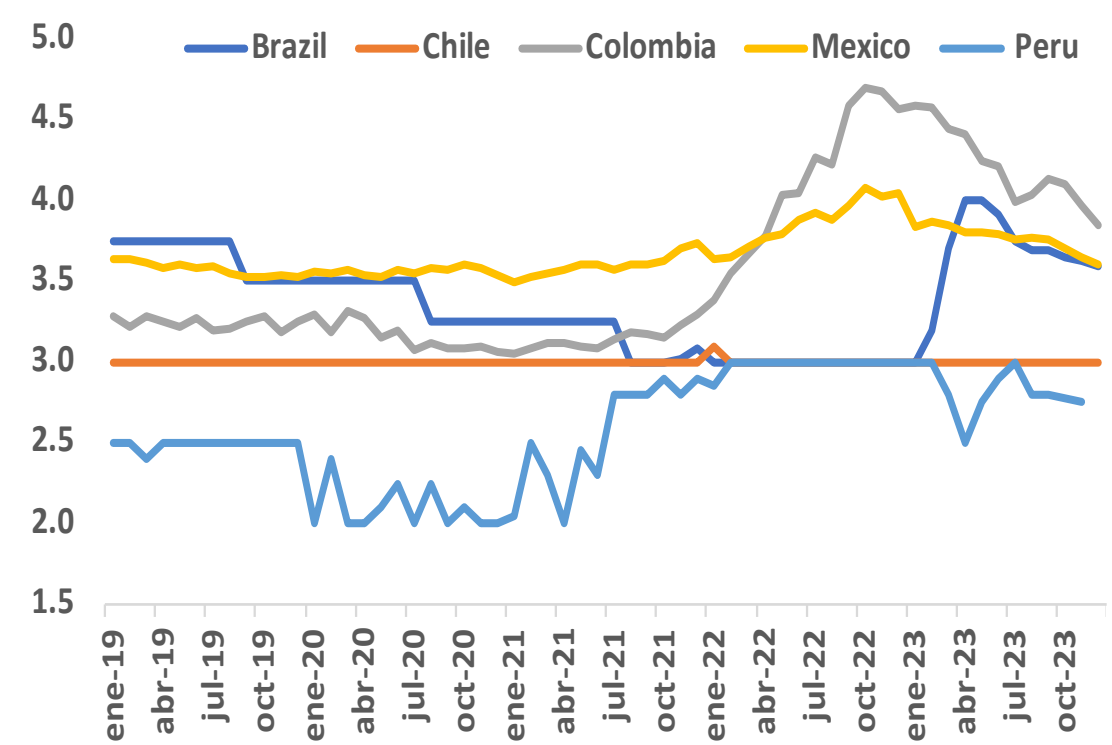
annual, %



Sources: Central Bank Surveys

Medium-term Inflation Expectations

annual, %



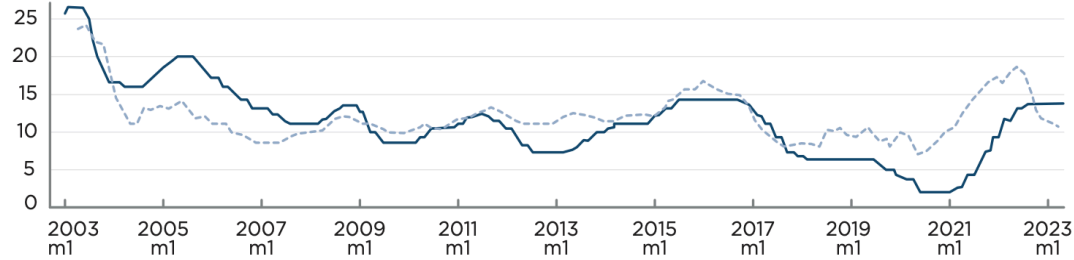
Sources: Central Bank Surveys

Latin America: Inflation and MP

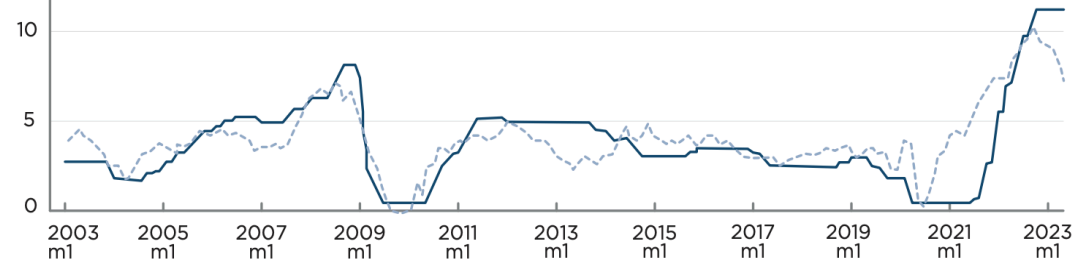
Actual and Projected Policy Rates

%

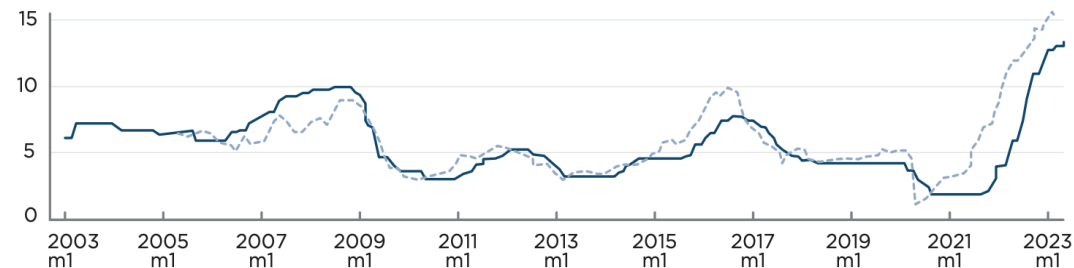
Brazil



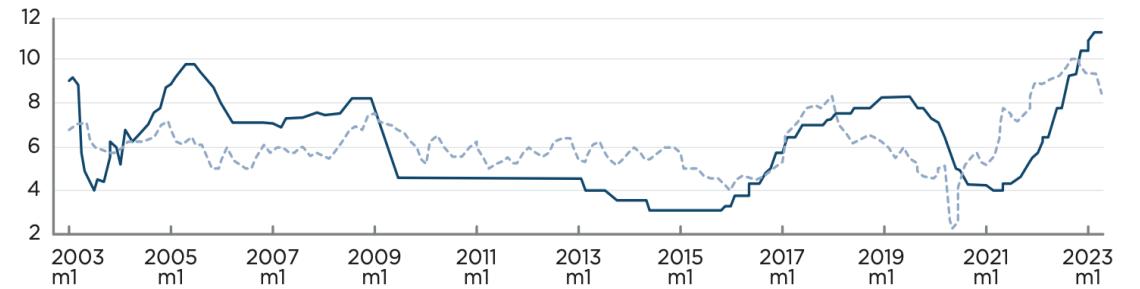
Chile



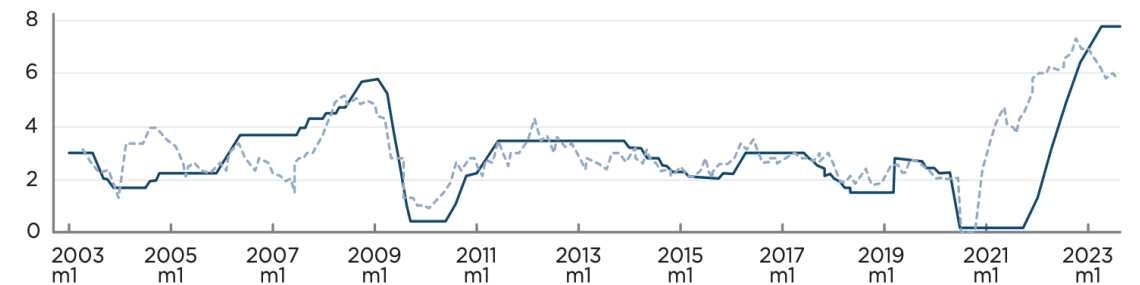
Colombia



Mexico



Peru



Source: Own estimations, Peterson Institute for International Economics

Latin America: Inflation and MP

Inflation is expected to get closer to the respective targets by the end of 2024, so it will be a year of significant rate normalization

Inflation and Monetary Policy Rates

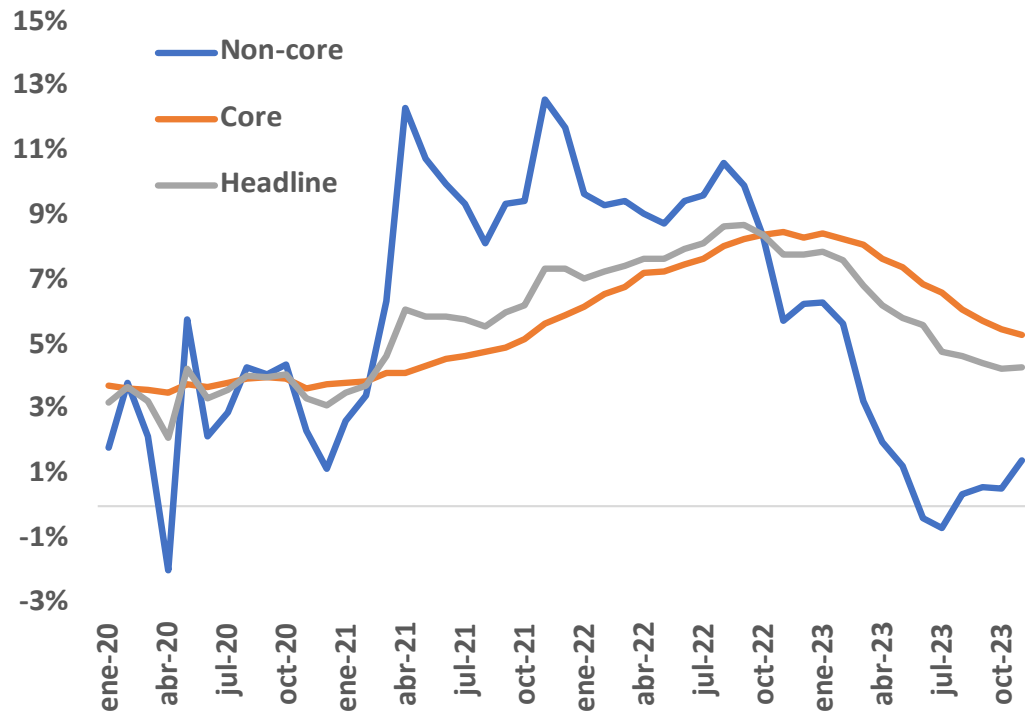
%

Country	Exp. Inflation Dec/2023		Exp. Inflation Dec/2024		MP rate	
	Headline	Core	Headline	Core	Last	Avg 2017-19
Brazil	4.5	5.8	3.9	4.5	11.25	7.5
Chile	3.9	5.4	3.0	3.0	8.25	2.6
Colombia	9.5	10.3	5.7	5.4	13.00	4.8
Mexico	4.4	5.1	4.0	4.0	11.25	7.5
Peru	3.2	2.9	2.7	2.6	6.75	3.0

Sources: Central Banks

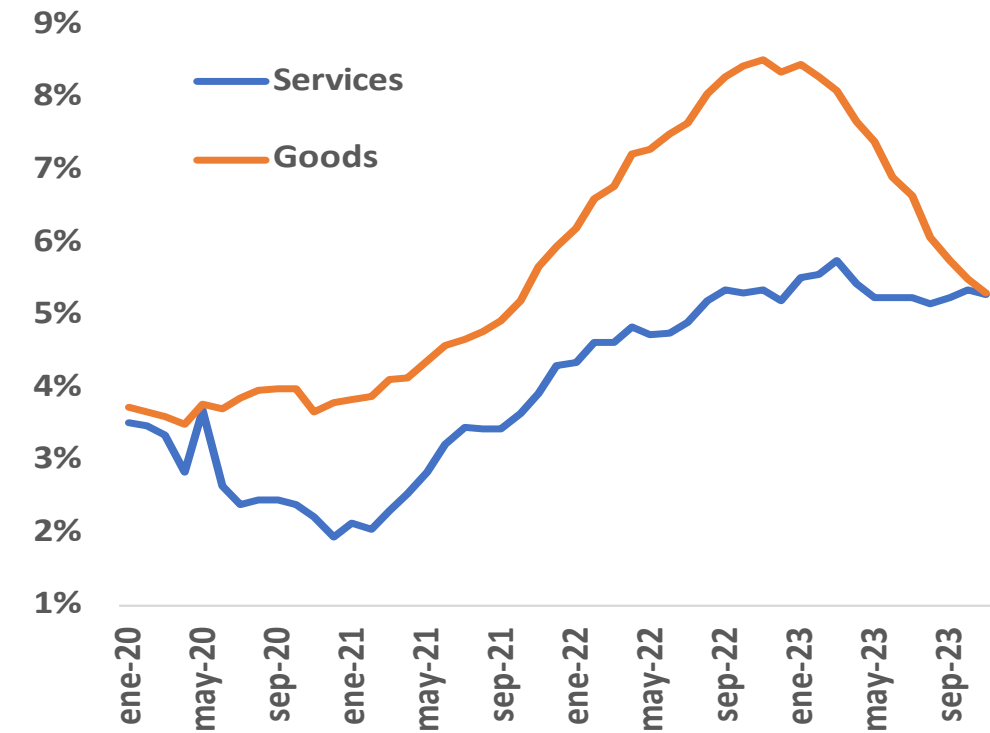
Mexico, what is Banxico waiting for?

CPI Inflation: Mexico
annual, %



Sources: National Statistics

Core Inflation: Mexico
annual, %



Sources: National Statistics

Argentina's stabilization.

INITIAL STEPS TO STABILIZE THE ECONOMY: ACHIEVING A BALANCE BUDGET, NORMALIZING KEY RELATIVE PRICES AND ENDING CENTRAL BANK FINANCING TO THE GOVERNMENT

THESE MACROECONOMIC MEASURES WERE FOLLOWED BY AGGRESSIVE PROPOSALS TO DEREGULATE AND OPEN THE ECONOMY

A SECOND PHASE OF THE STABILIZATION STRATEGY WILL NEED TO BE UNVEILED SOON

POSSIBLE SCENARIOS FOR SECOND HALF OF 2024 AND 2025

1. Goldilocks scenario: Inflation drops sharply in the second quarter of 2024 and returns to moderate levels.
2. Middle of the road scenario: This scenario points to a long stabilization process that can take more than four years.
3. Collapse and hyperinflation: If the fiscal adjustment gives way to social unrest, or inflation does not drop.



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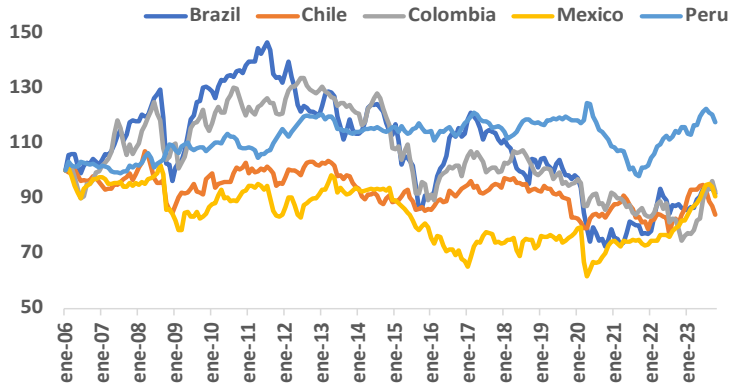
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Latin America: RERs

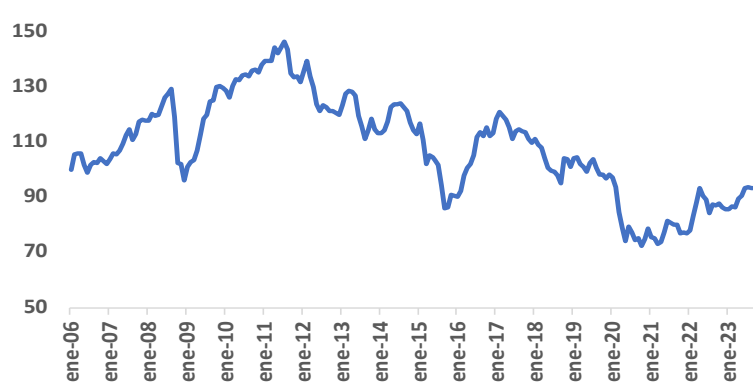
Real Exchange Rate

Index Jan06=100



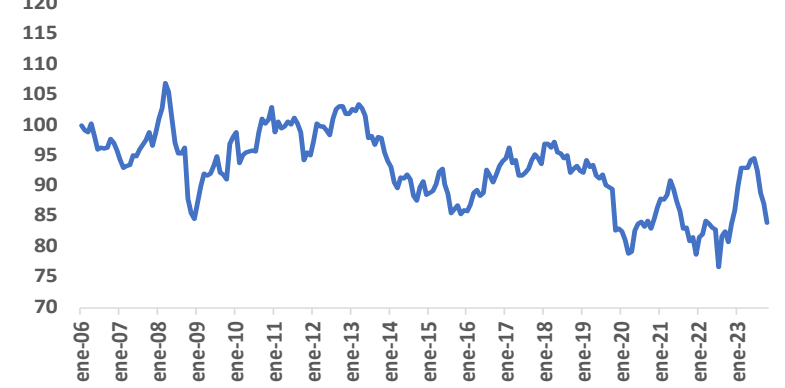
Brazil Real Exchange Rate

Index Jan06=100



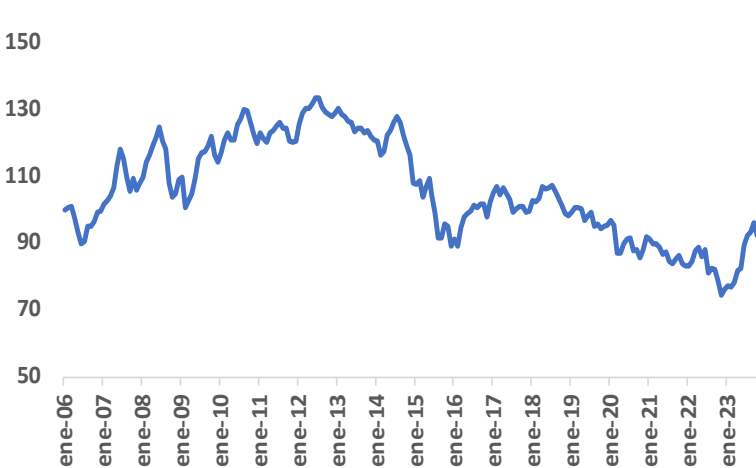
Chile Real Exchange Rate

Index Jan06=100



Colombia Real Exchange Rate

Index Jan06=100



Mexico Real Exchange Rate

Index Jan06=100



Peru Real Exchange Rate

Index Jan06=100

