Latin America Interest Rates

Latin America markets took pole position on monetary policy, and as we can see from the results so far, we believe it was the right choice.

Latin America central banks in Brazil, Chile, Colombia, and Mexico were at the forefront of the current tightening cycle well ahead of the Bank of England (BOE) and the Federal Reserve (FED).

Inflation

Latin America countries have experienced moments of high inflation in the past and are attuned to the risks. They recognized the risks and moved quickly.

Countries such as Mexico, Colombia, and Brazil have raised rates well above core inflation in 2023. These moves have played a role both in containing inflation expectations, as well as helping to reduce rates of core inflation.

Mexico`s rate began 2022 at 5.5% and reached a high of 10.5%; Brazil began at 9.25% and rose to 13.75%; for Chile those numbers were 4% and 11.25%; Peru 3% and 7.25%; Colombia, 3% and 12%, and Argentina, 38% and 75%.

Even though the U.S. dollar was historically strong, the high rates contributed to many Latin American currencies gaining value against the dollar.

It could be said that central banks in Latin America have done well so far with monetary policy with respect to the recent inflation crisis. Many countries in the region are already in disinflation mode, and are now cutting interest rates, well before their advanced markets peers will.

The success with inflation resulted from early action and some of the sharpest monetary tightening in the world in 2021. Those actions helped to better contain inflation

Looking forward

The U.S., as well as many of the Latin American countries have experienced inverted yield curves. The U.S. economy typically takes years to respond to monetary policy tightening. Should Mexico`s main trading partner have an economic downturn because of their policy tightening, it could be bad news for Mexico, but decidedly less of a concern for the rest of Latin America.

Most of the other countries rely heavily on trade with China, which has been growing at a slower pace than several years ago, plagued by COVID lockdowns and a declining real state sector.

Now that we have a clearer idea of when the Fed will cut rates, we believe the interest rates in Latin America will remain restrictive. This may affect investor`s appetite for riskier emerging market assets and domestic inflation. Central banks will need to try to be flexible, while being mindful of volatility and the potential for political interference.

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