

## LATIN AMERICA: MORE EXPOSED TO INFLATIONARY PRESSURES THAN TO DISRUPTIONS IN HYDROCARBON SUPPLIES

Hélène Drouot

### Insufficient refining capacity

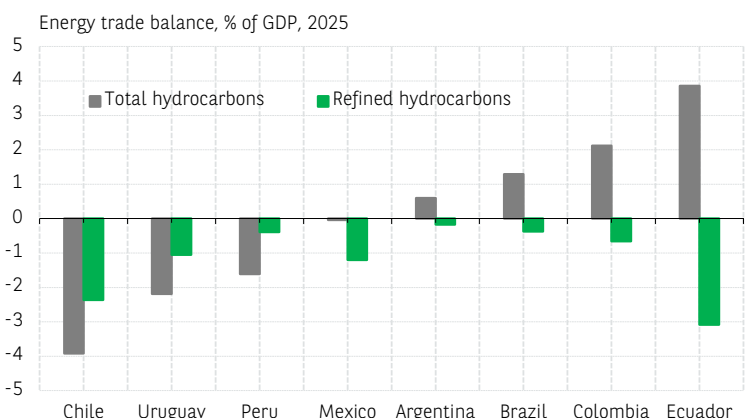


CHART 1

SOURCE: IMF, ITC, BNP PARIBAS

### Signs of resilience: very moderate corrections in the foreign exchange market since the start of the conflict

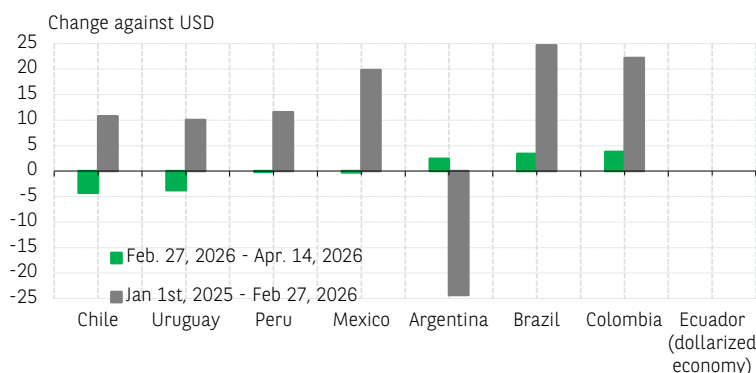


CHART 2

SOURCES: CENTRAL BANKS, BNP PARIBAS

Latin America is considerably less exposed than other emerging regions to the repercussions of the war in the Middle East. This is mainly due to its very low risk of hydrocarbon supply disruptions: the vast majority of imported hydrocarbons come from the United States and other countries in the region, with only a negligible portion coming from the Middle East. Furthermore, several countries are net exporters (Argentina, Brazil, Colombia and Ecuador (shown in grey in *Chart 1*)).

Due to this low level of vulnerability, the currencies of the main Latin American countries have reacted very little since the end of February (see *Chart 2*). The conflict in the Middle East has, admittedly, interrupted the trend of currency appreciation (against the USD) in countries that are net importers of hydrocarbons, a trend that has been observed since January 2025. However, these depreciations have remained very moderate, and the currencies of countries that are net exporters of hydrocarbons have even shown a slight appreciation as of 14 April.

However, refining capacity is limited, even in net hydrocarbon-exporting countries, which means that all the major countries in the region are therefore net importers of refined petroleum products (shown in green in *Chart 1*). Consequently, their balance of payments is exposed to fluctuations in the prices of refined hydrocarbons.

Net hydrocarbon importers, broadly defined to include Chile, Peru, Mexico, Uruguay and the Central American countries, are the most vulnerable, although exports of gold from Peru, crude oil from Mexico and copper from Chile will partially offset the impact of rising import prices. Chile and Uruguay have the largest energy deficits (-4% and -2.2% of GDP respectively). This largely explains why the Chilean and Uruguayan pesos have seen the sharpest depreciation against the USD since the start of the conflict, with declines of 4.3% and 3.8%, respectively. In the short term, however, the moderate levels of current account deficits will help to absorb the external shock.

Fiscal policy remains predominantly restrictive across Latin American countries. With the exception of Brazil, governments have generally opted to pass on the shock through price adjustments, indicative of limited room for manoeuvre and a desire to preserve the credibility of their economic policies. This stance is more a reflection of financing constraints than a matter of choice. In Chile and Colombia (although fiscal policy there is accommodative), existing mechanisms for controlling fuel prices were gradually phased out during March.

This decision implies a more significant transmission of the energy shock to domestic prices, the full effects of which are expected to materialise in Q2. Inflationary pressures were already evident in March, driven largely by the transport component, which accounts for nearly 15% of the total index on average across all countries in the region. This brings to an end the disinflationary trend observed since the second half of 2023 in Brazil, Chile, Mexico and Peru. On the monetary front, the easing cycle appears to have come to an end in Chile and Peru. In Mexico, the central bank has not ruled out a final rate cut, provided the situation in the Middle East stabilises, with the next meeting scheduled for 7 May. Brazil's central bank began its monetary easing in March, although it may proceed at a more gradual pace than initially anticipated. Finally, against a backdrop of ongoing inflation, Colombia stands out as the only major central bank in Latin America expected to raise its short-term interest rates.

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