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Central bank scorecard: Taking a stand

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Texto completo: Latin America's central banks are grappling with slowing growth, falling commodity prices and turning credit cycles - as well as dogged price pressures By Karen Schwartz Over the past year Latin America's central bankers have found themselves, like so many times since the start of financial crisis, caught on the horns of a dilemma. They have faced a delicate balancing act: standing ready to support their economies if adverse global shocks arise, while attempting to ensure that monetary policy keeps inflation expectations in check. Today, as growth slows across the region - amid weakening external demand, falling commodity prices and a turning in local credit cycles - there is a sizeable risk that a sudden worsening in the global backdrop could cause a much sharper downturn in Latin America. Concerns about the fragility of the global economy are increasingly front and center of the region's policy agenda. Despite a respite in August, there remains widespread anxiety about a possible worsening of the eurozone crisis in the final quarter of the year, as well as further signs that China's economy is slowing by more than most had expected. Together, these factors are likely to have offset inclinations towards rates hikes. Yet while the pressure on prices has receded in recent months, the inflation dynamic remains challenging across the region. Moreover, exceptionally low rates in the developed world have unleashed huge capital flows into emerging regions including Latin America, compounding the challenges facing central bankers. Countries have been left "in a delicate spot", caught between "the need to control appreciation of the currency because too much money is coming in, and cutting rates because growth is slowing down too much," says Alberto Bernal, head of emerging markets research at Bulltick Capital Markets. In the lead None of this, of course, is lost on Latin America's central bankers. But as LatinFinance's annual ranking shows, negotiating the trade-off between growth, inflation and flexible exchange rates has scarcely been so challenging. Colombia, where the central bank hit its inflation target for the third year running, tops this year's ranking. Its governor, Jose Dario Uribe, stands out for having opted to raise rates by a full 2.25 percentage points to 5.25% in the year to February 2012. Uribe stepped in decisively at a time when growth and capital inflows were rising too quickly. The bank has won widespread praise for its forceful stance. "They were one of the few central banks that reacted early to domestic inflationary pressures by hiking rates -- and they were willing to do so while other countries were fighting the currency wars with lower rates," says Pablo Goldberg, global head of emerging market research at HSBC. Drausio Giacomelli, managing director and head of emerging markets strategy at Deutsche Bank, says: "They've acted with resolve and in an accurate fashion, and they've communicated it well without creating false hopes." "They've been bold enough to go against the tide and hike while most central banks were easing. And that stands out to me as a bold and correct goal," he adds. Despite the tightening, interest rates in the country remain relatively low - making the achievement all the more praiseworthy. And in a surprise move in July, the bank cut its reference rate - its first drop since 2010 - to 5% from 5.25%. Today, Colombia's economy looks to have hit a wall, raising the likelihood of further policy easing over the coming months. But having proceeded with caution so far, the central bank has kept its powder dry, leaving it well placed to fight the next battle. Mexico came in second in this year's ranking. Its central bank proved particularly adept in pre-empting the macro trajectory while avoiding the excesses seen elsewhere in the region - so much so that today, the economy looks relatively well placed to weather a fresh global downturn. Banixco, led by Agustin Carstens, held steady on rates despite a slowing US economy and deepening euro crisis. The stance was vindicated when inflation hit a 28-month high of 4.4% in July, driven largely by a spike in food prices. The decision to leave rates unchanged showed that the central bank has been reactive without being dogmatic, says Goldberg: "It has been able to revise its views without being stubborn about condition changes." "The truth of the matter is that inflation has been rising and they were right in not easing," says Giacomelli. That said, core pressures are well contained and analysts expect headline inflation to fall back to 4% by the end of the year and close to its 3% target by end-2013 - which, according to research firm Capital Economics, could allow for a rate cut if the global environment deteriorates further. Peru - one of the fastest growing economies in the region - came in a close third. Banco Central de Reserva del Peru, under the stewardship of Julio Velarde, has won praise for keeping inflation in check while maintaining currency stability in the face of enormous pressure on the exchange rate in 2011. As HSBC's Goldberg puts it: "These are good results." Inflation is likely to remain subdued in the coming months as global economic weakness dominates the picture. The central bank, however, has plenty of space to loosen policy further, if necessary, to shield the economy. Chile's central bank, ranking fourth, saw a change at the helm in December, when Rodrigo Vergara took over from Jose de Gregorio as governor. The new central banker lost little time in cutting the benchmark rate by 25bp to 5.00% in January - a move seen by some as premature. Market consensus suggests rates will stay on hold in the coming months. But with slower growth beckoning and weaker domestic demand weighing on output, the bank could well opt for further policy easing. Courting controversy The verdict on Banco Central do Brasil, fifth in the ranking, is perhaps the most controversial. By July, BCB had cut the benchmark Selic rate eight times since August last year, bringing the rate to a record low of 8.0%. As LatinFinance went to press, analysts expected further cuts amid slowing growth. But policy stimulus has, as yet, had little effect on growth - and some analysts question whether the growth slump is in fact a function of supply side constraints rather than weaker demand. If the former, authorities will struggle to revive growth through further stimulus - a move which itself risks financial stability by fuelling a credit bubble that has been a source of growing alarm in recent months. Moreover, a widespread view is that the entire rate cutting cycle has smacked of government interference, with a presumed aim of helping ease the domestic debt burden rather than meeting legitimate monetary policy ends. One of the casualties, says Bulltick's Bernal, could be the management of inflation expectations. "It's a bad thing," he says. "In the future when you talk about Brazilian inflation, people will no longer talk about Brazil as having an orthodox inflation-targeting regime." The other central banks in LatinFinance's ranking - Guatemala as sixth, followed Costa Rica, Uruguay, the Dominican Republic and Jamaica - have drawn approval in particular for their inflation-fighting credentials. Guatemala - singled out for its consistent management of policy for several years running - is particularly noteworthy for its skill in containing inflationary pressures, says Franco Uccelli, an executive director of emerging markets research at JP Morgan. The same can be said of Costa Rica, he adds. In 2008 inflation was running at close to 14%, a figure reduced to 4% by the end of last year and likely to close this year at around 5%, as a result of policy moves made in 2010 and 2011. The central bank has earned a reputation for fighting inflation, even though it doesn't yet have fully fleshed out inflation targeting, says Boris Segura, senior Latin America strategist at Nomura Securities. "They are allowing for a higher degree of exchange rate flexibility which is helping them again to bring inflation down." Uruguay and the Dominican Republic, too, have both fought the fight against price inflation over the past year, moving aggressively to hike rates and keep a lid on prices - moves that have similarly won acclaim. Although it comes last in the list, Jamaica has also been working determinedly to keep inflation under control. And its central banker is credited for having broadly maintained financial stability. "That's even more remarkable because in early 2010, Jamaica was on the brink of default," Segura says. LF

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