

LatAm Daily | Nelson Barbosa to replace Joaquim Levy as Brazil's Finance Minister

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The change in the Finance Ministry will probably imply a more gradual, flexible implementation of the fiscal adjustment. Aligned with that was the reduction of the 2016 fiscal target at the end of last week. Also, inflation at the beginning of the month surprised to the upside and October's activity to the downside. In Colombia, BanRep raised its MPR by 25bp as expected.

Brazil - Joaquim Levy resigns as Finance Minister; he will be replaced by Nelson Barbosa

Persistent rumours about Joaquim Levy leaving his position as Finance Minister were finally confirmed on Friday. Levy resigned after not being able to convince the government to adopt a faster, less gradual fiscal adjustment going ahead. The resignation actually follows President Dilma Rousseff's decision to ease the 2016 primary surplus target to 0.5% of GDP from 0.7% of GDP (see more below). To replace Levy, President Rousseff appointed the current Planning Minister Nelson Barbosa. Although after his appointment, Barbosa defended the need to adopt a fiscal adjustment, in the past he has been a supporter within the government of downward revisions to the fiscal targets and of a more gradual fiscal consolidation. In our view, the change at the helm of the Finance Ministry reinforces the perception that, in an environment marked by a sharp GDP contraction and the beginning of the proceedings to impeach President Rousseff, the government is now somewhat more reluctant to further cut expenditure and raise taxes. Among other consequences, it will add some extra pressure on the BCB's monetary policy.

Brazil - A lower fiscal target for 2016

At the end of last week the Congress approved the reduction of the public sector's primary surplus target for next year from BRL40.5bn (0.7% of GDP) to BRL30.5bn (0.5% of GDP). The change is a consequence of the negative impact of a sharper contraction of economic activity on public revenues and insufficient efforts to create additional revenues and mainly to cut expenditure. In any case, in our view the most likely outcome is that in a context of economic deterioration and political turmoil the government will be forced to further ease the 2016 fiscal target going forward in order to make it compatible with another primary deficit, which would be the third reduction in a row.

Brazil - Higher than expected inflation at the end of 2015

December's IPCA-15, which measures inflation from mid-November to mid-December, reached 1.18% MoM, higher than expected (BBVA: 0.93% MoM; consensus: 1.08% MoM). The figure is higher than the previous IPCA-15 (0.85% MoM) and above November's full-month IPCA (1.01% MoM), which shows that inflationary pressures gained momentum at the beginning of December. This was mainly due to greater increases in both food and transport prices. Food inflation reached 2.0% MoM while transport inflation came in at 1.76% MoM mainly due to a 3.4% MoM adjustment in fuel prices. On the whole, food and transport prices contributed with 0.82pp to inflation in the period. In annual terms, the IPCA-15 closed the year at 10.71% YoY. Looking ahead, after Friday's inflation figures, we have adjusted our forecast for December's full-month IPCA to 1.10% MoM / 10.8% YoY. Higher inflation at the end of 2015, together with weaker fiscal results, put more pressure on the BCB, which will meet at the beginning of January to decide whether to leave the Selic rate unchanged at 14.25% or to increase it.

Brazil - Economic activity contracted 0.6% MoM in October

The BCB's economic activity indicator, the IBC-Br, showed that activity dropped 0.6% MoM in October. The contraction was larger than expected by BBVA Research (-0.1% MoM) and the market consensus (-0.4% MoM). This is the eighth consecutive monthly drop in the IBC-Br (in 2015, the IBC-Br declined in all the months of the year with the exception of February). In annual terms, economic activity contracted 6.2% YoY, another very clear sign of weakness. All in all, IBC-BR figures for October suggest that GDP will contract again in 4Q15.

Colombia - BanRep increases its monetary policy rate by 25bp

In December, BanRep's Board increased its monetary policy rate by 25bp to 5.75%. According to the communiqué and the press conference the main drivers behind this decision were the recent dynamics of inflation, inflation expectations, domestic demand dynamics and a slower convergence of inflation to the inflation target range, similar to the previous communiqué. Taking this into account, we expect two additional +25bp interest rate hikes in BanRep's upcoming monetary policy meetings, in January and February (for more details, see our [Colombia Flash](#)).

Colombia - Contradictory results in industrial confidence

In November, retailer confidence decreased from 20.5 to 18.7 (BBVAe:18.0). Despite having reported lower stocks compared to October, the retailers' assessment of the current and future economic conditions declined, which is in line with our outlook of deceleration of private consumption in the coming months. On the other hand, the industrial confidence turned negative to -3.3 (vs. 2.1 in October and BBVAe: 4.0), explained by a reduction in the proportion of respondents reporting an improvement in current as well as future economic conditions. However, the use of capacity production reached its highest level since 2006, anticipating a recovery in private investment, in line with our forecasts. All in all, these results appear to be consistent with the lower GDP growth we expect for 4Q15 and 1H16.

What to watch today

Brazil - External accounts report (November, 7:30hrs NYT)

We expect contracting domestic demand and a weakening exchange rate to continue to trigger a downward adjustment in the current account deficit, which in annual terms we believe should be around 3.9% of GDP (vs. 4.0% in October and 4.4% at the end of 2014).

Chile - Monetary policy and financial stability report (December, 10:00hrs NYT)

We expect a downward revision of the GDP growth-range forecast for 2016, while the CPI inflation assessment should come without any major changes. The trend towards monetary policy normalisation during 2016 should prevail as the main message of the report, with at most two additional hikes of 25bp in the policy rate. Nonetheless, this process should be gradual and data dependant. On the other hand, the Financial Stability Report should shed some light on the evolution of both the balance sheets and indebtedness of the household, corporate and banking sectors in a scenario of gradual normalisation of financial conditions. Finally, we expect the report to address the recent increases in housing prices.

Colombia - Imports and trade balance (October, 16:00hrs NYT)

We expect imports to have fallen 28.9% YoY, settling at USD CIF 4,157mn. The trade deficit, on the other hand, could reach USD FOB 1,245mn, below the average of 3Q15 (-1,533 mn.). These results should imply a narrower current account deficit in the last quarter of the year.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
Current Account Balance	21-Dec	Nov	-4200.0	-\$4500m		-\$4166m
Total Outstanding Loans	22-Dec	Nov				3157b
FGV CPI IPC-S	23-Dec	Dec	0.94%			1.06%
FGV Consumer Confidence	23-Dec	Dec				76.70
Central Bank Quarterly Inflation Report	23-Dec					
Central Govt Budget Balance	23-Dec	Nov	-12.1			-12.3b
Chile						
Central Bank's Traders Survey	23-Dec					
PPI MoM	23-Dec	Nov				-0.10%
Colombia						
Trade Balance	21-Dec	Oct	-1346.0	-1245.0		-\$1419.3
Mexico						
Retail Sales YoY	21-Dec	Oct	5.00%			4.90%
Economic Activity IGAE YoY	23-Dec	Oct	2.00%			3.11%
Bi-Weekly CPI	23-Dec	Dec	0.30%	0.39%		-0.06%
Trade Balance	24-Dec	Nov	-2232.0			-1443.9m
Unemployment Rate NSA	24-Dec	Nov	4.30%			4.55%

Fuente: BBVA Research

Most recent Latam reports

Date	Description
12.18.2015	Mexico: Monetary hike that helps the peso in the range
12.18.2015	Colombia: BanRep increased its monetary policy rate in 25bp to 5.75%
12.18.2015	Chile: Central bank increases the policy rate to 3.50%, surprising part of the market
12.17.2015	Chile: 25bp hike in the MPR that we consider preventive rather than aggressive (In Spanish)
12.17.2015	Mexico: 0.25% rise in the monetary policy rate
12.16.2015	Mexico: We expect a 25 basis point increase in the monetary policy rate
12.15.2015	Mexico: A successful Phase 3 of Round 1 despite low oil prices
12.15.2015	Peru: Mining continues to support growth, but non-primary sectors decelerated (In Spanish)
12.15.2015	Chile: We expect the MPR to hold at 3.25% at this meeting (In Spanish)
12.14.2015	Mexico: The exchange rate reached new highs due to the collapse in oil prices (In Spanish)
12.11.2015	Peru: High inflation expectations lead the Central Bank to taper the monetary stimulus
12.10.2015	Colombia: The good GDP result in the third quarter will be temporary (In Spanish)
12.09.2015	Brazil: Double-digit inflation
12.07.2015	Chile: CPI with no monthly variation in November, while activity remain weak in October
12.07.2015	Colombia: November inflation climbs to 6.4%
12.04.2015	Peru: Exports fell nearly 14% yoy in October
12.04.2015	Mexico: The expectation for December interest rate hike is reinforced
12.03.2015	Chile: We expect null variation for November's CPI (4% YoY)
12.03.2015	Chile: Activity by sector data remained weak in October

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