

LatAm Daily | Economic policy starts to focus on growth in Brazil

Marina Conesa / Enestor Dos Santos / Hugo Perea / Cecilia Posadas / Jorge Selaive / Carlos Serrano / Juana Téllez

After emphasising the need to tighten economic policies to correct previous distortions for some time, the focus is now on supporting economic activity. In this line, the Copom suggested that the Selic will remain unchanged and the government presented measures to stimulate the credit market through public banks. Also in Brazil, unemployment increased to 6.9% in December.

Brazil - Government plans to boost credit supply through public banks

The government yesterday announced a series of projects to increase the supply of credit to some specific segments (agriculture, real estate, infrastructure, exporters, payroll credit, etc.) by a total amount of BRL83bn, which is equivalent to equivalent to 1.4% of GDP or 2.6% of the credit stock. Even though these measures could eventually have some positive impact on activity, we expect this effect to be modest, as in our view the ongoing moderation in credit markets is to some extent due to a slowdown in demand. We also think Brazil needs more structural reforms, especially those that could increase domestic productivity, rather than a new round of credit-driven growth. Moreover, using public banks to try to revitalise credit markets at the same time as domestic demand is contracting sharply entails additional risks for these banks, and therefore for the public accounts. Also yesterday, government officials said that they are committed to the fiscal adjustment and suggested the creation of a legal ceiling to the expansion of public expenditure, a measure that we would regard as very positive.

Brazil - A more dovish Copom redirects its focus to the global environment

The minutes of [last week's monetary policy meeting](#) show that Copom is now more concerned about the evolution of the Chinese economy and oil markets, which "can strengthen the scenario of convergence of inflation to the 4.5% target in 2017". Copom's revised forecasts are "slightly" above that goal, suggesting that as far as the monetary authority is concerned, no additional tightening is needed. Therefore, even though the minutes did not explicitly close the door to a monetary tightening in the coming months, they reinforced the overall perception that interest rates will be left unchanged for some further time (for more details see our [Brazil Flash](#)).

Brazil - Unemployment reached 6.8% in 2015, 2p.p. higher than in 2014

The unemployment rate reached 6.8% in December, somewhat less than expected (respectively 7.0% and 7.4%). It declined in comparison to November due to seasonal factors and increased sharply in comparison to December 2014 (4.3%). In 2015 the unemployment rate averaged 6.8%, well above the 2014 average (4.8%) thanks to a 0.4% expansion of the labour force and a 1.7% decline in the number of employed. Real wages also deteriorated sharply last year (on average they declined 3.7%), contributing to the 5.3% contraction in the wage mass. As most of the factors that contributed to the worsening observed in 2015 will continue to play a role this year, we expect a further deterioration of labour markets ahead. In particular, we forecast that the unemployment rate will average 8.7% this year, which will contribute to another contraction of private consumption.

What to watch today

Chile - Minutes of monetary policy meeting (January, 06:30hrs NYT)

A pause in rates at 3.5% probably prevailed in the Board's decision because activity data remain weak. The decline in copper prices could also be a source of concern, not necessarily due to their impact on FX depreciation and short-term inflation figures, but rather because of the negative spillover effects to the real economy.

Chile - Activity data by sector (December 2015, 07:00hrs NYT)

We expect manufacturing output to have decreased by around 1.9% YoY in December last year, while retail sales should come in at around +3.5% YoY. Figures should still point to weakness in aggregate economic activity.

Chile - Unemployment rate (December 2015, 07:00hrs NYT)

We expect the jobless rate to remain steady at 6.1% in December 2015. Job-creation should nonetheless decelerate supported by public-sector employment.

Brazil - Fiscal report (December, 07:30hrs NYT)

The BCB's fiscal report will show that the public-sector accounts deteriorated very significantly in December and in 2015 as a whole. In particular, we expect it to show that after the payment of delayed expenses (locally known as "pedaladas") in the last days of the year, the public sector's annual primary balance fell to around -2.0% of GDP. In 2015, in comparison to -0.6% in 2014 and 2.9% on average in the 2004-13 period. As a consequence of that, and of much higher interest payments, the overall fiscal result will not be far off -10.0% of GDP (vs. -6.3% in 2014 and -2.8% on average in the previous decade).

Mexico - Preliminary GDP for 2015 (09:00hrs NYT)

INEGI will publish its preliminary estimate of the annual growth in GDP for 2015, which we consider will be 2.5%. This would be consistent with quarterly GDP growth of 0.4% (QoQ, sa). The 4Q15 quarterly growth will be lower than in 3Q15 (0.75%), and may indicate that GDP growth in 1Q16 will be only moderate.

Colombia - Unemployment rate (December 2015, 12:00hrs NYT)

We expect the unemployment rate to stand at 8.8% in December (a decrease of 0.5pp YoY). Job-creation should be mainly in the social and community services area, which includes government employees, as in October and November.

Colombia - BanRep's monetary policy meeting (No set time)

The Central Bank's Board will have its first monetary policy meeting for this year. We expect the Board to increase the monetary policy rate by 25bp taking the repo rate up to 6%, in line with consensus. It is important to note that we also expect BanRep to raise rates by a further 25bp at its February meeting.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
Federal Debt Total	25-Jan	Dec			2793	2717b
FGV CPI IPC-S	25-Jan	Jan			1.55%	1.30%
FIPE CPI - Weekly	26-Jan	Jan			1.21%	1.02%
Current Account Balance	26-Jan	Dec			-2460	-\$2931m
FGV Consumer Confidence	27-Jan	Jan			67.9	75.2
FGV Inflation IGPM MoM	28-Jan	Jan	0.80%		1.14%	0.49%
COPOM Monetary Policy Meeting Minutes	28-Jan					
Unemployment Rate	28-Jan	Dec	7.40%	7.00%	6.90%	7.50%
PPI Manufacturing YoY	29-Jan	Dec				10.44%
CNI Consumer Confidence	29-Jan	Jan				96.30
Outstanding Loans MoM	27-Jan	Dec			1.30%	0.60%
Central Govt Budget Balance	28-Jan	Dec			-60.72	-21.3b
Primary Budget Balance	29-Jan	Dec				-19.6b
Chile						
Retail Sales YoY	29-Jan	Dec	3.60%	3.50%		5.50%
Manufacturing Production YoY	29-Jan	Dec	-1.00%	-1.90%		-0.20%
Unemployment Rate	29-Jan	Dec	6.00%	6.10%		6.10%
Industrial Production YoY	29-Jan	Dec				0.60%
Colombia						
Retail Confidence	25-Jan	Dec		15	23.5	18.7
Industrial Confidence	25-Jan	Dec		-2	1.3	-3.3
Overnight Lending Rate	29-Jan	Jan	6.00%	6.00%		5.75%
Urban Unemployment Rate	29-Jan	Dec	8.60%	8.80%		8.10%
Mexico						
Unemployment Rate SA	25-Jan	Dec	4.12%		4.37%	4.09%
Economic Activity IGAE YoY	25-Jan	Nov	1.85%	2.10%	2.70%	2.28%
Retail Sales YoY	26-Jan	Nov	4.70%		5.70%	4.80%
Retail Sales MoM	26-Jan	Nov	0.50%		0.50%	0.30%
ANTAD Same-Store Sales YoY	26-Jan	Dec			8.10%	6.00%
Trade Balance	27-Jan	Dec	-1092.0m		-926.51	-1568.8m
GDP NSA YoY	29-Jan	4Q	2.30%	2.40%		2.60%
GDP SA QoQ	29-Jan	4Q	0.50%			0.80%
Budget Balance YTD	30-Jan	Dec				-515.8b

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
01.28.2016	Brazil: A more dovish Copom redirects its focus to the global environment
01.26.2016	Peru: Trade deficit was enlarged in 2015, but we anticipate an improvement in 2016
01.25.2016	Mexico: The IGAE grew 0.1% MoM in November 2015
01.22.2016	Mexico: Moderate recovery of the peso at end of the week after hitting record highs
01.21.2016	Brazil: Copom refrains from beginning a new tightening cycle
01.15.2016	Mexico: Continuing decline in oil prices leads to the exchange rate to new highs
01.15.2016	Peru: November growth surprised on the upside
01.15.2016	Chile: Central bank maintained policy rate at 3.50%, in line with expectations
01.15.2016	Peru: BCRP maintains its focus on containing inflation expectations (in Spanish)
01.14.2016	Chile: Central Bank maintains the MPR at 3.5%, in line with expectations (in Spanish)
01.08.2016	Mexico: Oil in lowest level since 2004 and dollar in record high
01.08.2016	Brazil: Inflation peaked at 10.7% YoY in December
01.08.2016	Peru: Exports continue to improve in November (In Spanish)
01.08.2016	Chile: CPI closes 2015 with an increase of 4.4% YoY (In Spanish)
01.07.2016	Chile: Emissions by a total of 11,000md are announced (In Spanish)
01.06.2016	Colombia: Inflation closed 2015 at 6.8% (In Spanish)
01.05.2016	Chile: IMACEC growth in November disappoint again (In Spanish)
01.04.2016	Peru: Inflation surprising on the upside in December
01.04.2016	Chile: We forecast CPI for December at 0.1% MoM (4.5% YoY) (In Spanish)
01.04.2016	Mexico: Remittances grow 6.3% in November with a flow of 1887.9md (In Spanish)

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.