

## LatAm Daily | Further fiscal deterioration in Brazil

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*The primary result for the last 12 months reached -2.1% of GDP in February, from -1.8% in January. Fiscal indicators are likely to deteriorate more than previously expected. In Chile, aggregate activity showed a slight recovery. Figures suggest that IMACEC grew between 2%-2.5% YoY during February.*

### Brazil - The public sector exhibited a sharp primary deficit in February; fiscal prospects continue to worsen

The public sector posted a BRL23.0bn primary deficit in February. On the one hand, this is a consequence of the limited room to maneuver, as well as declining political incentives to cut expenditure. On the other hand, the large deficit recorded in February is the result of the decline in public revenues due to the contraction in domestic demand. The result compares very poorly with the BRL2.3bn deficit recorded in February 2015 and with the BRL27.9bn surplus observed in January 2016. The primary result accumulated in the last twelve months up to February moved to -2.1% of GDP from -1.8% of GDP in January 2016, while the total fiscal result declined slightly to -10.8% of GDP from -10.9% of GDP in the same periods due to a reduction in interest payments (as the exchange rate appreciation in February reduced the costs of bearing a significant stock of exchange rate swaps). In any case, gross public debt continued to trend upwards and reached 67.6% of GDP. Taking into account these figures, as well as the worsening prospects concerning the adoption of further adjustment measures this year due to increasing political tensions, the most likely scenario is that fiscal indicators will deteriorate more than previously expected. More precisely, we now expect a primary deficit of around 1.0% of GDP this year, in comparison to a previous forecast of -0.8% of GDP. On top of that, we have revised our 2016 forecasts for the total fiscal deficit and the gross public debt to 8.9% of GDP and 72.0% of GDP. By recently proposing a revision of the 2016 primary target from -0.9% of GDP to -1.6% of GDP, the government is acknowledging that fiscal deterioration will be even worse than anticipated.

### Chile - One additional working-day supported an improvement in activity data by sectors during February

Manufacturing output increased by 1.3% YoY, mainly driven by foods and supported by one additional working-day. Meanwhile, mining production also showed a recovery due to calendar effects, supported by a strong surge in molybdenum output (+57.2% YoY) and the stabilization of copper production (+0.2% YoY). Meanwhile, retail sales increased 7.4% YoY (BBVAe: +5.5%; consensus: +3.9%), explained by a positive contribution from car sales and apparel, but also supported by strong calendar effects. All in all, aggregate activity figures showed a slight recovery (mainly due to one additional working-day) and suggest that Imacec grew between 2.0%/2.5% YoY during February, freezing further downward correction in GDP growth expectations for this year (see our [Chile Flash](#) in Spanish for details).

### Colombia - Government starts peace talks with ELN, Colombia's second-biggest guerrilla group

The Colombian government and the leaders of the National Liberation Army, ELN, said that they would begin talks to end the five-decade conflict. A six-point agenda was set and negotiations will be held in Venezuela, Chile, Ecuador, Cuba and Brazil. ELN, with 1,500 fighters, is the second largest rebel group and

its target has been oil and energy infrastructure.

## What to watch today

### Brazil - Inflation report (1Q16, 7:30 hrs)

The BCB's 1Q16 Inflation Report will likely employ a more dovish tone, reinforcing the view that an extra dose of monetary tightening should not be expected. However, it should not suggest that monetary easing is imminent. In other words, we expect the report to support the view that the Selic rate will remain unchanged for some additional time.

### Chile - Unemployment rate (February, 8:00hrs NYT)

We expect the jobless rate to show a slight increase to 5.9% in February (from a previous 5.8%), showing a slowdown in job creation combined with a seasonal acceleration in workforce growth.

### Colombia - February's urban unemployment rate (February, 12:00)

We expect the urban unemployment rate to stand at 12.7%, stable on a seasonally-adjusted basis compared to January, but higher than last year's figure. It is worth remembering that last month's unemployment rate showed acceleration in line with our 1Q16 activity outlook.

## Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
<b>Brazil</b>						
Outstanding Loans MoM	29-mar	Feb			-0,5	-0,006
FGV Inflation IGPM MoM	30-mar	Mar	0,46		0,51	1,3%
Primary Budget Balance	30-mar	Feb	-10,4		-23,04	27,9b
Inflation Report	31-mar					
Industrial Production MoM	01-abr	Feb	-2,4	-1,5		0,40%
Trade Balance Monthly	01-abr	Mar	4307	4000		\$3043m
<b>Chile</b>						
Central Bank's Quarterly Report	28-mar					
Manufacturing Production YoY	30-mar	Feb	0	-1,0	1,26	-4,6%
Retail Sales YoY	30-mar	Feb	3,2	4,4	7,35	3,4%
Industrial Production YoY	30-mar	Feb	0,55		1,84	-8,3%
Unemployment Rate	31-mar	Feb	5,9	5,9		5,8%
<b>Colombia</b>						
Industrial Confidence	28-mar	Feb			10,4	5,3
Retail Confidence	28-mar	Feb			25,4	19,5
National Unemployment Rate	31-mar	Feb				11,9%
Urban Unemployment Rate	31-mar	Feb	12,65			14,1%
Colombia Monetary Policy Minutes	01-abr					
Economic Activity Index SA YoY	01-abr	Jan	3,1			3,7%
<b>Mexico</b>						
Trade Balance	28-mar	Feb			-724,68	-3441.0m
Economic Activity IGAE YoY	29-mar	Jan	2,5		2,33	2,6%
Unemployment Rate SA	30-mar	Feb	4,3		4,28	4,3%
Unemployment Rate NSA	30-mar	Feb	4,15		4,15	4,2%
Remittances Total	01-abr	Feb	1966,3			\$1932.2m
Central Bank Monetary Policy Minutes	01-abr					
Central Bank Economist Survey	01-abr					
<b>Peru</b>						
CPI MoM	01-abr	Mar	0,72	0,78		0,2%
CPI YoY	01-abr	Mar	4,46	4,5		4,5%

Source: Bloomberg and BBVA Research

## Most recent Latam reports

Date	Description
03.30.2016	<a href="#">Chile: IMACEC in February between 2% and 2.5%</a> (In Spanish)
03.29.2016	<a href="#">Mexico: Bank deposits: loses ground due to less dynamism in its two components</a> (In Spanish)
03.29.2016	<a href="#">Peru: Exports fell nearly 9% YoY in February</a> (In Spanish)
03.28.2016	<a href="#">Chile: CB sharply adjusts downwards GDP growth expectations</a> (In Spanish)
03.18.2016	<a href="#">Chile: GDP increased 2.1% in 2015 but showing weakness in 4Q15</a> (In Spanish)
03.18.2016	<a href="#">Mexico Weekly: The peso appreciates to levels close to those at the beginning of the year</a> (In Spanish)
03.18.2016	<a href="#">Mexico: Fondeo is maintained at 3.75%. Cautious tone despite an environment less volatile</a> (In Spanish)
03.18.2016	<a href="#">Colombia: BanRep continues tightening</a> (In Spanish)
03.17.2016	<a href="#">Chile: The CB maintains the MPR at 3.5%</a> (In Spanish)
03.17.2016	<a href="#">Mexico: Fondeo rate unchanged at 3.75%</a>

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