

## Latam Daily | Meeting the fiscal target will require more significant efforts in Brazil

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*In Chile government expenditures continue to support domestic demand. In Colombia the urban unemployment figure in March stood at its lowest figure since 2001. In Peru, inflation came in slightly above the central bank's target range and could remain so in the next few months; room for cuts in the MPR decreases.*

### **Brazil – An only just positive primary surplus in March; meeting the 2016 target will require more significant efforts**

The public sector generated a BRL0.2bn primary surplus in March. The figure shows an improvement with respect to the BRL2.3bn deficit recorded in February, but was the BRL3.6bn superavit observed one year ago. The result was a consequence of a BRL1.5bn primary surplus generated by the federal government (as the cut in expenditure was sufficient to offset the impact of slowing economic activity in federal revenues) and the BRL1.2bn deficit produced by regional governments and state-owned companies (unsurprising given the very high surpluses generated in the two previous months). The primary surplus totaled BRL19.0bn, 29% of the 2015 primary surplus target for 1Q15. However, this figure is somewhat misleading as the surplus generated by regional governments, which totalled BRL14.6bn in 1Q15, should not increase significantly going forward but rather remain close to their target for the year (BRL11.0bn), while the federal government surplus was equal to BRL4.9bn, only 7.4% of the target corresponding to the federal government. The latter means that the federal government will have to work harder to cut expenditure and/or raise revenues if it is to meet its primary surplus target.

### **Chile – Fiscal expenditure continues to support domestic demand**

Fiscal revenues increased 4.3% YoY in 1Q15. As expected, the lower revenues from the mining sector (both private and public due to the inter-annual decline in copper prices) were offset by higher revenues from VAT and income taxes. Government expenditures continue to support domestic demand and employment after increasing 10.3% YoY in 1Q15. All in all, we still forecast a fiscal deficit at around 3.0% of GDP this year.

### **Colombia – Good dynamics in job-creation**

The urban unemployment rate in March stood at 10.1% (-0.4pp YoY). The national level figure was 8.9% (-0.9pp YoY), the lowest print for that month since 2001. The reduction in unemployment was accompanied by a high job-creation, of 3811 at the urban level (3.7% YoY) and 854k at the national level (4.1% YoY). Note the good dynamics of formal job-creation (89% of the total jobs created were formal at the urban level and 63% nationally).

### **Mexico - Banxico remains on the lookout for the Federal Reserve.**

The overnight rate remains at 3.0% after the central bank balance of risks on domestic activity and inflation overall remained unchanged. As in the previous statement Banxico recognized the weakness of the economy in an environment of inflation converging to target and anchored expectations; however. Banxico reiterated the importance of the cycle of monetary normalisation in US as the main factor in its monetary policy decisions. We maintain our expectation of a rise in the overnight rate in September, with less of a bias to a late start and a restrictive cycle, given the weakness of economic activity.

## Peru – Inflation stays slightly above the target range

In April, YoY headline inflation stood at 3.02%, slightly above the ceiling of the central bank's target range. Inflation excluding food and energy, on the other hand, went up for the second month in a row, to 2.74%. For the next few months we forecast that headline inflation will remain around 3.0%. In this context, the room for the central bank to cut its monetary policy rate decreases, despite the cyclical weakness of the economy.

## What to watch today

### Chile – Monetary policy minutes (April, 07:30hrs NYT)

We expect further insights into the Board's discussion that supported the pause in policy rate as the only option at April's monetary policy meeting. Although worries over headline CPI inflation eased, core measures and wages figures are still increasing at high YoY levels. All in all, we expect further pauses in policy rates in the short term.

## Calendar indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	4-May	Apr 30	0.6			0.71%
Trade Balance Monthly	4-May	Apr	150			\$458M
Vehicle Sales Fenabrave	4-May	Apr				234681
CNI Capacity Utilization (SA)	5-May	Mar				79.7%
PPI Manufacturing MoM	5-May	Mar				0.26%
Industrial Production MoM	6-May	Mar	-0.7	-1.0		-0.9%
FGV Inflation IGP-DI MoM	7-May	Apr	0.88			1.21%
COPOM Monetary Policy Meeting Minutes	7-May	0				
National Unemployment Rate	7-May	Mar	7.8			7.4%
Vehicle Production Anfavea	7-May	Apr				253622
FGV CPI IPC-S	8-May	39203	0.6			
IBGE Inflation IPCA MoM	8-May	Apr	0.76	0.65		1.32%
<b>Chile</b>						
Economic Activity YoY	5-May	Mar	1	0.9		2.0%
Economic Activity MoM	5-May	Mar	-0.7	-0.7		-0.6%
Trade Balance	7-May	Apr	1225.45			\$999.0
Copper Exports	7-May	Apr				\$2862.0
CPI MoM	8-May	Apr	0.3	0.4		0.6%
CPI YoY	8-May	Apr	3.9	3.9		4.2%
<b>Colombia</b>						
PPI Total MoM	4-May	Apr				3.79%
Economic Activity Index SA YoY	5-May	Feb	2.8	2.5		3.0%
Exports (USD million)	5-May	Mar		3164		\$3128
CPI MoM	6-May	Apr	0.35	0.18		0.59%
CPI YoY	6-May	Apr	4.44	4.27		4.56%
CPI Core MoM	6-May	Apr		0.22		0.35%
CPI Core YoY	6-May	Apr		3.31		3.46%
Colombia Monetary Policy Minutes	8-May	0				
<b>Mexico</b>						
Leading Indicators (MoM)	4-May	Mar				-0.09
Gross Fixed Investment	4-May	Feb	2.5	1.2		7.3%
Remittances Total	4-May	Mar	2200	2251		\$1839.2M
IMEF Manufacturing Index SA	4-May	Apr	51.6	51.6		51.4
Vehicle Production AMIA	6-May	Apr				299809
CPI MoM	7-May	Apr	-0.25	-0.22		0.41%
CPI YoY	7-May	Apr	3.08	3.11		3.14%
Consumer Confidence Index	8-May	Apr	93.6	93.7		93.1
<b>Peru</b>						
Trade Balance	8-May	Mar	-344			-\$280M

Source: Bloomberg and BBVA Research

## Most recent Latam Reports

Date	Description
05.04.2015	<a href="#">Brazil Working Paper: Follow what I do and also what I say: monetary policy impact on Brazil</a>
05.02.2015	<a href="#">Peru: inflation remains slightly above the target range (in Spanish)</a>
04.30.2015	<a href="#">Chile: Imacec grew around 1.0% YoY in March</a>
04.30.2015	<a href="#">Mexico: We expect no change of MPR. Economic slowdown in the spotlight</a>

- 04.29.2015 [Brazil: Another 50bp hike in the SELIC to rein in 2016 inflation expectations](#)
- 04.27.2015 [Chile: We forecast CPI in April by 0.4% MoM \(In Spanish\)](#)
- 04.24.2015 [Colombia: BanRep kept its monetary policy rate on hold at 4.50% \(In Spanish\)](#)
- 04.23.2015 [Mexico: Inflation remains subdued](#)
- 04.23.2015 [Mexico :In February the IGAE shows a negative monthly performance \(-0.03% MoM, sa\)](#)
- 04.16.2015 [Chile: Central bank kept policy rate at 3%, as widely expected](#)
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