

LatAm Daily | Brazilian government announces fiscal measures after the downgrade by S&P

Cecilia Posadas / Enestor Dos Santos / Jorge Selaive Carrasco / Juana Téllez Corredor / Carlos Serrano Herrera / Hugo Perea Flores / Marina Conesa Martínez

The government announced yesterday a set of fiscal measures to try to pave the way for the attainment of the 0.7% of GDP primary surplus target in 2016. Although they go into the right direction, we are skeptical about its implementation, mainly because they are likely to be opposed by the Congress.

Brazil - Government announces a set of measures to improve fiscal accounts

Following the [country's downgrade to high-yield by S&P last week](#), yesterday the government announced measures to increase revenues and cut expenditure. On the one hand, the government plans to cut 2016 expenditure by BRL26bn (0.4% of GDP) through a series of actions such as the postponement of wage adjustments, changing funding sources, reduction in health system expenses, reduction of administrative costs, among others. On the other hand, fiscal authorities proposed to increase 2016 revenues by BRL40.2bn (0.7% of GDP) mainly through the reintroduction of the CPMF tax on financial transactions (previous rumours about the reintroduction of this tax were received very negatively by important Congress members). Even though yesterday's announcement was a positive reaction to the S&P downgrade, indicating that the government is willing to act to prevent further downgrades and to recover the credibility of its economic policy, the government is likely to face significant hurdles to get them approved by Congress. We expect negative political and economic dynamics to result in the government failing to meet its primary surplus targets (0.15% and 0.7% of GDP in 2015 and 2016, respectively). In our view, the most likely outcome is that the government delivers primary deficits of 0.3% and 0.2% in 2015 and 2016, respectively.

What to watch today

Peru - GDP (July, 11:30 NYT)

The GDP figure for July will be released today. Our estimate is 3.3% YoY (consensus: 3.3%), higher than in the previous month (1.2% in May). The outcome for July was supported by the good performance of primary activities (mining and agriculture). However, non-primary GDP (composed of those sectors which more closely reflect the behaviour of domestic demand) remained weak.

Colombia - Industrial production and retail sales (July, 17:00hrs NYT)

We expect industrial production to have grown 1.2% YoY. We do not anticipate a negative contribution from refinery activities. Meanwhile, retail sales should grow 3.5% YoY. These results would confirm two things: a slow recovery of industry and a gradual slowdown of the manufacturing sector.

Colombia - Consumer confidence (August, no time scheduled)

We expect consumer confidence to remain at low levels (5.1 in a range between -100 and 100), although slightly above July's figure (2.6). This result would be in line with the expected performance of consumption in the second half of the year.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
Tax Collections	15-sep	Aug	99000.0			104868M
FGV CPI IPC-S	16-sep	1-sep	0.2			0.21%
Retail Sales MoM	16-sep	Jul	-1	-0.50%		-0.40%
IGP-M Inflation 2nd Preview	17-sep	Sep	0.7			0.17%
Economic Activity MoM	17-sep	Jul	-0.3	-0.30%		-0.58%
CNI Industrial Confidence	18-sep	Sep				37.10%
Chile						
Overnight Rate Target	15-sep	Sep	3.0	3%		3%
Bloomberg Sept. Chile Economic Survey	17-sep	Jan		--		
Colombia						
Retail Sales YoY	15-sep	Jul	3.0	3.50%		5.12%
Industrial Production YoY	15-sep	Jul	-0.4	1.20%		1.51%
Consumer Confidence Index	15-sep	Aug		5.1		2.60%
Trade Balance	18-sep	Jul	-916.0	-1.425		-814.4
Retail Confidence	18-sep	Aug		16.2		18.20%
Industrial Confidence	18-sep	Aug		2.5		0.10%
Mexico						
Formal Job Creation Total	14-sep	Aug		50.8	72.36	44.7K
Aggregate Supply and Demand	18-sep	2Q	3.1			3.50%
Peru						
Unemployment Rate	15-sep	Aug	6.4			6.80%
Economic Activity YoY	15-sep	Jul	3.3	3.30%		3.87%
Central Bank 3Q Inflation Report	18-sep	Jan				

Fuente: BBVA Research

Most recent Latam reports

Date	Description
09.12.2015	Mexico: Financial markets are pending the decision of the Federal Reserve (In Spanish)
09.11.2015	Peru: Central Bank surprises in September by delivering a 25bp policy rate hike
09.10.2015	Colombia: The slowdown of the Colombian economy remains orderly (In Spanish)
09.10.2015	Brazil: Copom sees 2016 inflation converging to the target, but also important risks
09.10.2015	Brazil: Inflation eased in August
09.10.2015	Mexico: The 2016 budget package reduces spending and promotes savings (In Spanish)
09.08.2015	Chile: CPI inflation surprisingly increased 0.7% MoM in August
09.07.2015	Chile: July IMACEC (2.5% YoY) in line with stabilization of growth (In Spanish)
09.07.2015	Colombia: An upward surprise in food prices removes inflation from its target (In Spanish)
09.02.2015	Mexico: Private sector credit increased 10.7% in July
09.01.2015	Peru: Inflation continued to accelerate in August
09.01.2015	Chile: Public expenditure increased by 8.9% in July
09.01.2015	Mexico: Remittances reached the highest growth rate of the year in July (11.7%)

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.