LatAm Daily | Further fiscal deterioration in Brazil

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The government eased its 2015 fiscal target due to lower than expected public revenues, problems in cutting expenditure and the decision of its court of audit to reverse certain creative accounting practices. As a result, the public sector could post a primary deficit of up to 1.7% of GDP. The decision could trigger a sooner than expected second downgrade to high-yield.

Brazil - Government eases the 2015 fiscal target once again

After adjusting the primary result target for 2015 from 1.2% to 0.15% of GDP at the beginning of the year, yesterday the government announced that it will now work with a primary result goal of -0.85% of GDP, equivalent to a BRL48.9bn deficit (with the target for the central government being -BRL51.8bn and the objective for regional governments equal to BRL2.9bn). The new target is a consequence of both a downward revision to the public revenues expected for this year (mainly, but not only, due to lower than expected tax revenues as a consequence of the more severe contraction in domestic demand) and of no changes in the expenditure estimates announced some months ago. In addition, the government announced that the fiscal target could be reduced again to -BRL60bn (or -1.05% of GDP), if the government fails to raise BRL11.1bn in the hydroelectric sector auctions in the remainder of the year. Finally, the government announced that any reversal of the accounting fiscal tricks (locally known as “creative accounting” or “pedaladas”) accumulated in the last few years would also be deducted from the announced targets, which in practice means that the target for 2015 could be eased to around -BRL100bn (or -1.7% of GDP, as the amount of the “pedaladas” is estimated to be around BRL40bn). No official announcement regarding the targets for 2016 onwards (0.7% of GDP in 2016, 1.3% in 2017, 2.0% from 2018 on) has been made. Taking into account the new developments, the most likely outcome in our view is that the 2015 fiscal deficit will be between 1.2% and 1.5% of GDP, which will probably take the gross public debt to 67% of GDP this year. Therefore, we would not be surprised if either Moody’s or Fitch downgrade Brazil to high-yield this year rather than next year as we previously expected.

Brazil - The credit stock contracted in real terms in September

For the first time in many years, the credit stock grew below the rate of inflation in September. While the former continued to decelerate and increased only 9.1% YoY, the variation in domestic prices was equal to 9.5% YoY in the period. The contraction in real terms was especially negative in some segments such as non-earmarked credit, construction and commerce credit as well as in credit from private banks. Quite surprisingly given the sharp deterioration of the economic environment, non-performing loans (NPL) remained stable at 3.1%, a relatively low level. However, some other indicators of credit unpunctuality -arrears from 15 to 90 days- reinforce our view that NPLs will increase going forward. Looking ahead, we continue to expect credit markets to continue to slow down, which in practice will be another element that could undermine private consumption.

Peru - Government issues euro-denominated bonds to pre-finance the 2016 budget

The Peruvian government issued yesterday EUR1.1bn in bonds due in January 2026. Demand amounted to EUR 4.25 bn (and the yield was 2.751%. This way, Peru is pre-financing its 2016 budget, taking advantage of the current low yields in euros, and diversifying its sources of funding. This is the country’s first euro-denominated issuance in more than a decade and therefore it will act as a benchmark for eventual future ones.

What to watch today

No relevant news is expected for today.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
FGV Consumer Confidence	26-Oct	Oct			75.7	76.3
Outstanding Loans MoM	27-Oct	Sep			0.80%	0.70%
CNI Consumer Confidence	28-Oct	Oct				96.3
FGV Inflation IGPM MoM	29-Oct	Oct	1.91%			0.95%
COPOM Monetary Policy Meeting Minutes	29-Oct					0
National Unemployment Rate	29-Oct	Aug	8.70%			8.60%
Central Govt Budget Balance	29-Oct	Sep	-14			-5.1b
Net Debt % GDP	30-Oct	Sep	33.30%			33.70%
Chile						
Central Bank's Traders Survey	28-Oct					
Manufacturing Production YoY	29-Oct	Sep	-1%			-1.40%
Retail Sales YoY	29-Oct	Sep	3.35%			1.90%
Copper Production Total	29-Oct	Sep				443285
Industrial Production YoY	29-Oct	Sep	-0.79%			-5.20%
Central Bank Meeting Minutes	30-Oct					
Unemployment Rate	30-Oct	Sep	6.60%			6.50%
Colombia						
Urban Unemployment Rate	30-Oct	Sep	9.70%	9.70%		9.90%
National Unemployment Rate	30-Oct	Sep				9.10%
Overnight Lending Rate	30-Oct	Oct	5.00%	5.00%		4.75%
Mexico						
Economic Activity IGAE YoY	26-Oct	Aug	2.40%	2.40%	2.58%	1.95%
Trade Balance	27-Oct	Sep	-1404.16	-1500	-1419.94	-2800.5m
Overnight Rate	29-Oct	Oct	3.00%			3.00%

Fuente: BBVA Research

Most recent Latam reports

Date	Description
10.27.2015	Mexico: The banking mortgage financing grows 16% for the third consecutive month
10.26.2015	Mexico: In August the annual growth rate of the IGAE was 2.8%, higher than July (2.2%)
10.26.2015	Mexico: We estimate that the economy will have grown around 2.4% annually in Aug.
10.26.2015	Chile: October CPI projected to be 0.24% MoM (3.8% YoY) (In Spanish)
10.22.2015	LatAm: Has exchange rate pass-through to prices increased in Latin America?
10.22.2015	Mexico: Bank deposits, dynamism driven by its two components
10.16.2015	Mexico: Weak US industrial prod. suggests that moderation in Mexico will continue
10.16.2015	Peru: Unsurprisingly, the central bank kept the policy rate at 3,50%
10.15.2015	Chile: Central bank increases the MPR to 3.25%, maintaining the contractionary bias (In Spanish)
10.15.2015	Peru: GDP growth in August was lower than expected (In Spanish)
10.14.2015	Chile: Complicated monetary policy decision (In Spanish)
10.12.2015	Peru: Transpacific agreement benefits still pose implementation challenges (In Spanish)
10.08.2015	Chile: CPI increased 0.5% MoM in September, below consensus expectations