8 Unchanged prospects for fiscal deficits, except in Brazil and Argentina, where they have taken a considerable turn for the worse

The outlook for fiscal balances in Brazil in 2015 has deteriorated, in spite of the fiscal policy correction

The fiscal outlook is now gloomier in Brazil and slightly better in Argentina, while in the other countries there are no meaningful changes with respect to estimates a quarter ago (see Figure 4.9). In Brazil the government is carrying out a major fiscal adjustment aimed at checking the deterioration in the public finances. The correction entails cutting public spending and hiking taxes in certain sectors, such as specific manufactures and fuels. Although the fiscal correction was necessary, it is also the reason behind the downward revision in the outlook for growth, as was mentioned in Section 4. Despite these significant measures, the fiscal situation looking ahead is substantially bleaker now than it was a quarter ago (fiscal balance of -5.6% of GDP now, while it was -4.4% in January), which serves to illustrate the scale of the fiscal effort that is called for.

Meanwhile, for the Andean countries we are basically keeping the fiscal outlook unchanged for 2015. For Chile this already factors in the eventuality of lower tax collection, which will be compensated by budget execution of over 100%. In Colombia, the fiscal accounts have deteriorated with respect to the scenario in January, with the consequent cuts in spending needed to preserve the fiscal rule intact. A key factor in the poor results for tax revenues has been the bad set of results from Ecopetrol on the slide in the oil price, which has meant that government revenues are likely to have fallen away drastically, thus implying a need to slash spending. It is not, however, merely a question of oil revenues, as the 2012 tax reform could have upset the government’s revenue-generating capacity on a permanent basis. This worse situation will mean that there is a need for a reform towards 2016 which will involve tax hikes and spending cuts. Finally, in Peru, the fiscal deficit forecast which is being held unchanged takes account of the permanent cut in tax rates (a lasting decrease in fiscal revenues), as well as heavier investment spending associated with infrastructure projects. Even so, the estimated public finance deficits will be at manageable levels and do not compromise long term sustainability.

In Mexico the spending cuts announced at the beginning of the year will have a particular impact towards 2016 (oil-related revenues for 2015 are partly covered via hedging and petrol imports). In this regard the government has announced zero-based budgeting, whereby it intends to effect a wholesale revision of public expenditure for 2016; our new estimates have built in the effect of this.

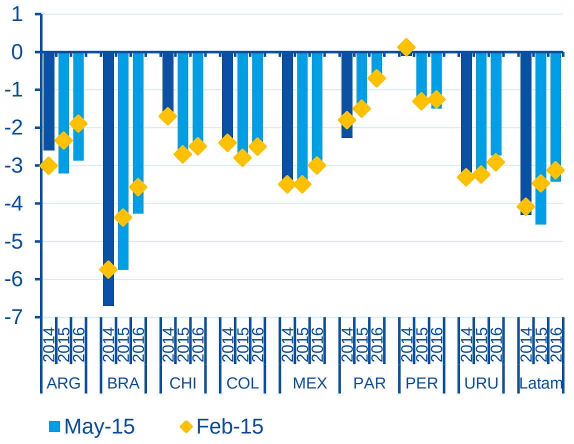
Finally, we are not expecting significant changes for this year in the handling of Argentine fiscal policy, although these will be required in the future and will have to entail reductions to energy and transport subsidies.

Public investment programmes will nevertheless be one of the drivers for growth, especially in the Andean countries

Public investment programmes will be key, particularly among the Andean countries: in Chile the government has shown ability in executing all of the budgeted public expenditure, unlike in the previous year. Such ability to execute is not entirely free of risks relating to red tape to cut through, although we forecast a substantial investment expenditure component. Meanwhile in Colombia, despite the predicted cut in public investment programmes, these funds will continue to underpin growth significantly, and on top of this account should be taken of the resources which were not executed from the 2013-2014 biennial budget, which will represent a major source of additional revenue for 2015-2016. It should be noted that Colombia recently announced a growth reactivation plan (PIPEII) which does not involve more spending but rather swifter prioritisation and execution of approved projects. In Peru implementation of the fiscal stimulus measures which were announced at the end of last year as high priority infrastructure investment projects will take effect. The impact of this on growth will also be positive given the basis for comparison effect (remember that in 2014 public investment fell 2.4%).

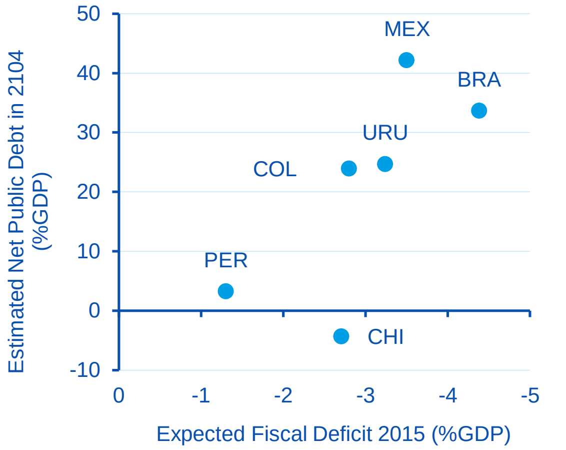
The adjustments required in Brazil and Mexico could conversely lead to less buoyant public investment. For Mexico, numerous projects have already been delayed due to choking of revenues due to the fall in the oil price which began last year. This hold-up will have to be resolved over the course of this year and certain projects will be re-channelled via public-private partnerships, although we lean more to the conservative side regarding the contribution of public investment this year. In Brazil cuts will have to be applied to funding for an entire raft of public expenditure projects, including spending on welfare and transfers.

Figure 8.1
Fiscal balances (% of GDP)



Source: BBVA Research *

Figure 8.2
Estimated fiscal deficit in 2015 and estimated net public debt in 2014 (% of GDP)



Source: BBVA Research and the IMF World Economic Outlook, April 2015.

DISCLAIMER

This report has been produced by the LatAm Co-ordination unit.

Chief Economist
Juan Ruiz
juan.ruiz@bbva.com

Enestor Dos Santos
enestor.dossantos@bbva.com

Cecilia Posadas
c.posadas@bbva.com

Pablo Urbiola
pablo.urbiola@bbva.com

Alejandro Faci
alejandro.faci@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive
jselaive@bbva.com

Colombia
Juana Téllez
juana.tellez@bbva.com

México
Carlos Serrano
carlos.serranoh@bbva.com

Perú
Hugo Perea
hperea@bbva.com

Venezuela
Oswaldo López
oswaldo.lopez@bbva.com

With the contribution of:

Economic Scenarios
Julián Cubero
juan.cubero@bbva.com

Rodolfo Mendez Marcano
rodolfo.mendez@bbva.com

Cross-Country Emerging Markets Analysis
Gonzalo de Cadenas
gonzalo.decadenas@bbva.com
+34 606 001 949

BBVA Research

Group Chief Economist
Jorge Sicilia Serrano

Developed Economies Area
Rafael Doménech
r.domenech@bbva.com

Spain
Miguel Cardoso
miguel.cardoso@bbva.com

Europe
Miguel Jiménez
mjimenezg@bbva.com

US
Nathaniel Karp
Nathaniel.Karp@bbva.com

Emerging Markets Area
Alicia García-Herrero
alicia.garcia-herrero@bbva.com

Cross-Country Emerging Markets Analysis
Alvaro Ortiz
alvaro.ortiz@bbva.com

Asia
Le Xia
le.xia@bbva.com

Mexico
Carlos Serrano
carlos.serranoh@bbva.com

LATAM Coordination
Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive
jselaive@bbva.com

Colombia
Juana Téllez
juana.tellez@bbva.com

Peru
Hugo Perea
hperea@bbva.com

Venezuela
Oswaldo López
oswaldo.lopez@bbva.com

Financial Systems and Regulation Area
Santiago Fernández de Lis
sfernandezdelis@bbva.com

Financial Systems
Ana Rubio
arubiog@bbva.com

Financial Inclusion
David Tuesta
david.tuesta@bbva.com

Regulation and Public Policy
María Abascal
maria.abascal@bbva.com

Recovery and Resolution Strategy
José Carlos Pardo
josecarlos.pardo@bbva.com

Global Coordination
Matías Viola
matias.viola@bbva.com

Global Areas

Economic Scenarios
Julián Cubero
juan.cubero@bbva.com

Financial Scenarios
Sonsoles Castillo
s.castillo@bbva.com

Innovation & Processes
Oscar de las Peñas
oscar.delaspenas@bbva.com

Contact details:

BBVA Research
Paseo Castellana, 81 – 7th floor
28046 Madrid (Spain)
Tel.: +34 91 374 60 00 and +34 91 537 70 00
Fax: +34 91 374 30 25
bbvaresearch@bbva.com
www.bbvaresearch.com