

## Daily Latam| Brazil adopts more fiscal measures to try to reach the primary surplus target

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

---

*The Colombian central bank kept MPR unchanged and stability is the most likely scenario for the rest of the year given the current macroeconomic outlook. In Mexico inflation in the first fortnight of May was below expectations and reached its lowest level in more than nine years, a sign of the low exchange rate pass-through to prices and weak internal demand.*

### Brazil - More measures to implement the fiscal adjustment

On Friday the government announced that the magnitude of the budget freeze for this year will be BRL69.9bn (1.2% of GDP), broadly in line with expectations. This measure means that the government will cut expenditure, mostly investment expenses, to try to reach the 1.2% of GDP primary surplus target for the year. Moreover, and with the same goal in mind, the government also increased the CSLL corporate tax on financial institutions, from 15% to 20%. These measures should increase public revenues by around 0.02% and 0.07% of GDP respectively in 2015 and 2016. In spite of these measures, the government will have to announce more tax hikes / expenditure cuts to fulfill the fiscal goal this year as a sharp deceleration of the economy is hitting public revenues and the government is having problems getting approval from Congress for some of the previously announced measures. All in all, although the ongoing fiscal adjustment is managing to reverse the expansive tone of fiscal policy (with a cost in terms of activity growth), it is still not clear whether the government will be able to deliver the desired primary surplus of 1.2% of GDP in 2015.

### Brazil - Inflation was in line with forecasts at the beginning of May

May's IPCA-15, which measures inflation from mid-April to mid-May, reached 0.60% MoM, in line with forecasts (BBVA: 0.58% MoM; consensus: 0.59% MoM). The figure was significantly lower than the previous ones thanks to a decline in the pressures from administered prices as most of the adjustment is now over. Nevertheless, annual inflation still remains at a very high level, 8.24% YoY to be precise. We expect the full-month IPCA to reach 0.45% MoM (8.16% YoY) in May.

### Colombia - BanRep keeps its monetary policy rate on hold

At the May meeting, BanRep's board kept its monetary policy rate unchanged, in line with both the market consensus and our own-in house expectations. During the press conference, the CB's Director, José Dario Uribe, said that the decision was taken unanimously by the seven-member board. In our view, interest rate stability is the most likely scenario for the rest of the year given the current macroeconomic outlook. That said, it is important to highlight that BanRep's board pointed out that the current level of the real interest rate is expansionary (See Flash Colombia).

### Mexico - Inflation in the first fortnight of May decreased to 2.93% YoY

Annual inflation in the first fortnight of May came out below expectations at 2.93% YoY (BBVAe: 3.06%; consensus: 3.03%), the lowest level in more than nine years. The surprise came in the core inflation component as the prices of goods and services basically did not increase in the period. This suggests that the low exchange rate pass-through to prices and weak demand remain. The seasonal reduction of electric tariffs and the lower agricultural and poultry prices contributed to the fortnight decrease in prices of -0.53%.

## What to watch today

No relevant news is expected for today.

## Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
<b>Brazil</b>						
FGV CPI IPC-S	24-May	May	0.61%		--	0.65%
FGV Consumer Confidence	25-May	May	--		--	85.6
Current Account Balance	25-May	Apr	-\$6750M		--	-\$5736M
Outstanding Loans MoM	26-May	Apr	--		--	1.2%
CNI Consumer Confidence	26-May	May	--		--	99.0
FGV Inflation IGPM MoM	27-May	May	0.4		--	1.17%
Central Govt Budget Balance	27-May	Apr	13		--	1.5B
GDP QoQ	28-May	1Q	-0.6	-0.6	--	0.3%
<b>Chile</b>						
Central Bank's Traders Survey	26-May	Apr	--	--	--	0
Unemployment Rate	28-May	Apr	6.2	--	--	6.1%
Manufacturing Index YoY	28-May	Apr	-2	--	--	-2.8%
Retail Sales YoY	28-May	Apr	1.6	--	--	0.4%
Copper Production Total	28-May	Apr	--	--	--	474507
<b>Colombia</b>						
Urban Unemployment Rate	28-May	Apr	9.7	9.50%	--	10.1%
National Unemployment Rate	28-May	Apr	--	--	--	8.9%
<b>Mexico</b>						
Trade Balance	24-May	Apr	-26	-140.0M	--	479.8M
Current Account Balance	24-May	1Q	-\$7091 M	--	--	-\$5310M
Retail Sales YoY	25-May	Mar	4.5	5.60%	--	5.6%
Retail Sales MoM	25-May	Mar	-0.2	0.50%	--	0.5%
Unemployment Rate SA	27-May	Apr	4.17	4.28%	--	4.20%
Unemployment Rate NSA	27-May	Apr	4.1	4.23%	--	3.86%

Source: Bloomberg and BBVA Research

## Most recent Latam reports

Date	Description
05.22.2015	<a href="#">Colombia: BanRep keeps its monetary policy rate on hold</a>
05.21.2015	<a href="#">Mexico: Annual GDP growth for 2015 was revised downwards from 3.5% to 2.5%</a>
05.19.2015	<a href="#">Mexico: In February, the number of mortgages exceeds the rate of 15%</a>
05.18.2015	<a href="#">Chile: GDP grew 2.4% y/y in 1Q15. We projected an IMACEC for April between 2.2% and 2.7% y/y</a>
05.15.2015	<a href="#">Peru: GDP showed better performance in March due to extractive sectors</a>
05.15.2015	<a href="#">Colombia: Colombian infrastructure: Where are we and where are we going?</a>
05.14.2015	<a href="#">Chile: Central Bank maintains the MPR at 3% for the seventh consecutive month</a>
05.14.2015	<a href="#">Peru: Central bank aims to normalize monetary conditions</a>
05.12.2015	<a href="#">Mexico: Industrial production in total pause. Had zero growth in March</a>
05.11.2015	<a href="#">Mexico: In March 2015 Mexico received USD2,257.9mn in remittances (+7.6% YoY)</a>

---

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.