

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

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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 |
|-------------------------------|--------|--------|-----------|---------|--------|----------|
| Brazil | | | | | | |
| 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% |
| Chile | | | | | | |
| 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 |
| Colombia | | | | | | |
| Urban Unemployment Rate | 28-May | Apr | 9.7 | 9.50% | -- | 10.1% |
| National Unemployment Rate | 28-May | Apr | -- | -- | -- | 8.9% |
| Mexico | | | | | | |
| 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 | Colombia: BanRep keeps its monetary policy rate on hold |
| 05.21.2015 | Mexico: Annual GDP growth for 2015 was revised downwards from 3.5% to 2.5% |
| 05.19.2015 | Mexico: In February, the number of mortgages exceeds the rate of 15% |
| 05.18.2015 | Chile: GDP grew 2.4% y/y in 1Q15. We projected an IMACEC for April between 2.2% and 2.7% y/y |
| 05.15.2015 | Peru: GDP showed better performance in March due to extractive sectors |
| 05.15.2015 | Colombia: Colombian infrastructure: Where are we and where are we going? |
| 05.14.2015 | Chile: Central Bank maintains the MPR at 3% for the seventh consecutive month |
| 05.14.2015 | Peru: Central bank aims to normalize monetary conditions |
| 05.12.2015 | Mexico: Industrial production in total pause. Had zero growth in March |
| 05.11.2015 | Mexico: In March 2015 Mexico received USD2,257.9mn in remittances (+7.6% YoY) |

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