

## Latam Daily: Presidential Impeachment in Peru

- **Argentina: Authorities to seek EFF from the IMF**
- **Mexico: October inflation came in higher than expected; October auto data mixed**
- **Peru: Pres. Vizcarra impeached; tax revenue improving slowly, in line with the economy**

### ARGENTINA: AUTHORITIES TO SEEK EFF FROM THE IMF

Minister of Economy Guzman confirmed that in negotiations this week the Argentine authorities will be seeking a new borrowing arrangement from the IMF under the Fund's Extended Financing Facility (EFF) rather than a simple roll-over of its credits under its existing Stand-By Arrangement (SBA). The move adds credence to our expectation that Argentina and the IMF will eventually agree to a new borrowing arrangement that is larger than the USD 44 bn that Buenos Aires currently owes to the Fund—but it also raises the bar for the policy package that Argentina will need to prepare in order to win approval from the Fund.

EFF arrangements are typically approved for three years, but may be extended to four years in cases where deep and sustained structural reforms are required, as is the case in Argentina. In turn, grace and repayment periods are both longer than under an SBA: as the IMF notes, amounts drawn under an EFF are to be repaid over 4½–10 years in 12 equal semi-annual installments. By contrast, credits under an SBA are repaid over 3¼–5 years.

—Brett House

### MEXICO: OCTOBER INFLATION CAME IN HIGHER THAN EXPECTED; OCTOBER AUTO DATA MIXED

#### I. October headline inflation above Banxico target range for a third month

On Monday, November 9, INEGI published price data for October and headline inflation (0.61% m/m, chart 1) was above analysts' average forecast in the *Financial Markets Expectations Survey* published by Citibanamex (0.52% m/m), and also above our 0.58% m/m monthly estimate. This held headline annual inflation at 4.09% y/y (chart 2), just above the upper limit of Banxico's target range for a third consecutive month.

- **Core inflation slowed** as it registered a monthly change of 0.24% m/m, in line with the average anticipated by the analysts' consensus and, below September's monthly 0.32% m/m gain. By sub-components, merchandise inflation decelerated from 0.42% m/m to 0.29% m/m between September and October. Meanwhile, services inflation (0.18% m/m) remained moderate; however, its downward trend slowed as the sector continued re-opening.
- **On the other hand, the non-core component accelerated** to 1.77% m/m, the steepest monthly increase since November 2019, compared to a 1.46% m/m rise a year earlier. The upward movement was driven by two factors: (1) the significant gains in energy prices (2.97% m/m), mainly as a

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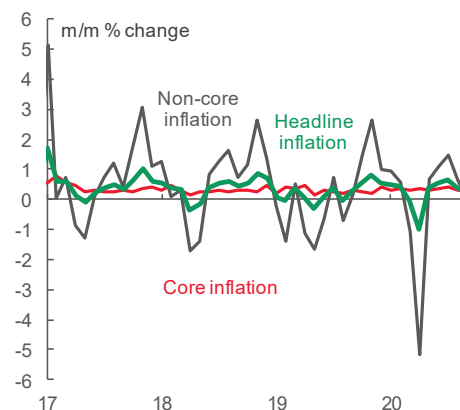
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Chart 1

Mexico: Headline & Core Inflation



Sources: Scotiabank Economics, INEGI.

consequence of the end of the subsidy to the summer electricity tariff program in 18 cities in the country; and (2) the growth in agricultural products' prices (1.45% m/m), led by the increase in the sub-component of fruits and vegetables (3.51% m/m).

- **The individual products with the greatest impact on inflation** were electricity, tomatoes, onions and LP domestic gas, while the lowest were chicken, low-octane gasoline, oranges and lemons.
- **Headline annual inflation** was above the upper limit of the inflation range established by the Bank of Mexico for a third consecutive month, going from 4.01% y/y in September to 4.09% y/y in October, versus 3.02% y/y a year earlier. October's reading was the highest annual headline inflation rate recorded since May 2019 (4.28% y/y). Core prices rose 3.98% y/y (versus 3.68% y/y a year earlier), while the non-core component accelerated from 4.10% y/y to 4.42% y/y (versus 1.01% y/y in October 2019).
- **Finally, the price index for the Minimum Consumption Basket**, which is designed to monitor price variations in subsistence expenses, registered a gain of 0.71% m/m and 4.47% y/y in October; in the same month of 2019, the corresponding figures were 0.71% m/m and 2.56% y/y.

These numbers are the final major input for the Banxico Board's rate decision on Thursday, November 12, where we expect a hold.

## II. Mixed October data on the auto sector

Also on Monday, November 9, INEGI released October data for the auto sector, which painted a mixed picture of the industry in its fifth month of re-opening. Vehicle production and exports showed gains compared with 2019, but domestic sales remained down. Looking at the details:

- **Light auto production** grew 8.8% y/y in October, up from -5.5% y/y in September. From January to October, 2.4 mn units were assembled, down -25.0% y/y compared to the same period YTD in 2019 (chart 3);
- **Exports of vehicles** grew in annual terms for the first time since July 2019, accelerating from -13.1% y/y in September to 8.8% y/y in October. During January to October, 2.2 mn units were exported, which represented a decrease of -26.3% y/y YTD compared to a year earlier; and
- **Domestic sales of new vehicles** eased their annual contraction from -22.8% y/y in September to -21.3% y/y in October, which left domestic demand the weakest part of this auto triptych. During the first ten months of the year, 748.5k units were sold, which represented a decline of -29.6% y/y with respect to the same period YTD in 2019.

These results point to a still-slow recovery in domestic vehicle sales in the months ahead owing to weak domestic demand. This contrasts with better-than-anticipated results in production and exports, which are benefiting from the relatively positive environment in the US and Canada.

—Paulina Villanueva

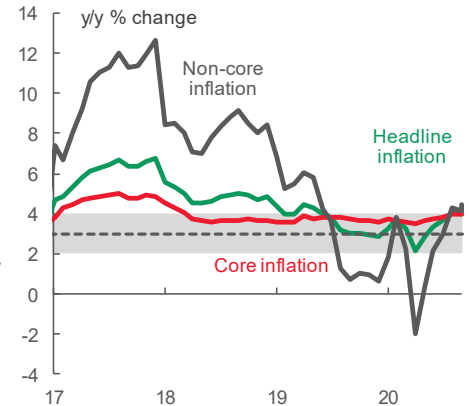
## PERU: PRES. VIZCARRA IMPEACHED; TAX REVENUE IMPROVING SLOWLY, IN LINE WITH THE ECONOMY

### I. Pres. Vizcarra accepts Congressional decision to remove him from power: first impressions

President Martin Vizcarra announced on Monday evening that he would accept Congress' decision to remove him from power. The announcement came two hours after Congress voted at 19:36 ET/Lima by a margin of 105 to 19 to have Pres. Vizcarra removed from office; 87 votes were needed for the motion to be approved. In principal, Manuel Merino, who presides over

Chart 2

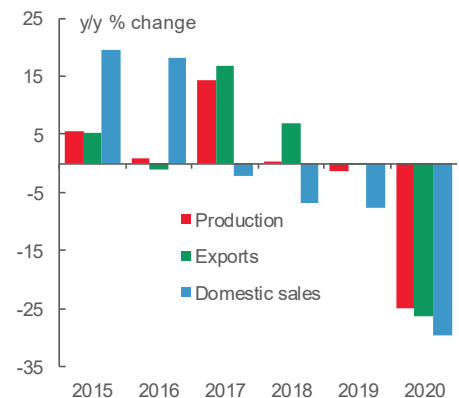
Mexico: Monthly Inflation & Its Main Components



Sources: Scotiabank Economics, INEGI.

Chart 3

Mexico: Auto-Sector Growth, Jan-Oct



Sources: Scotiabank Economics, INEGI.

Congress as its President (akin to Speaker), is set to succeed Pres. Vizcarra. Congress had initially called for a session on Tuesday, November 10, at 17:00 ET/Lima to swear Merino in as the new President, but this was changed to 10:00 ET/Lima after Vizcarra's announcement. One suspects that the real reason for the change in time is to pre-empt calls for protests that are being made on social media. Merino would take over from Vizcarra because there hasn't been a Vice-President since the previous VP, Mercedes Aráoz, resigned when President Kuczynski was removed in 2019. Vizcarra stated that his government would offer no legal impediment to the transition of power.

**Vizcarra's announcement would seem to ensure that Merino would become President on Tuesday, but uncertainty persists. It is not clear with whom Merino would govern.** There is talk that he would seek a Cabinet that is broadly-based. At the same time, however, it is not obvious what his definition of "broad" encompasses, who might accept an invitation to join a Merino Cabinet, or whether the criteria used would be based more on politics or on expertise. In the same vein, it is not yet evident who is to become the next head of Cabinet or the next Minister of Finance. By extension, it is not clear what type of policies the new administration would seek to implement. The only signs we have had to this point have been the backing Merino and his party have given to unorthodox policies emanating from Congress.

**It is also not clear how other public institutions would perform in light of the new government or what new authorities might be appointed.** There should be no changes at some of the stronger economic institutions, such as the BCRP (Central Bank) and the Superintendent of Banks. However, the same cannot be said for other institutions, especially those linked to the judicial system.

**Furthermore, this would not be a popular government.** It is born with a stigma of questionable legitimacy that will not be easy to shake off. It is hard to see how Merino will gain the trust of a significant part of the population that opposes the impeachment of Vizcarra, as well as the overall behaviour of Congress under Merino's leadership.

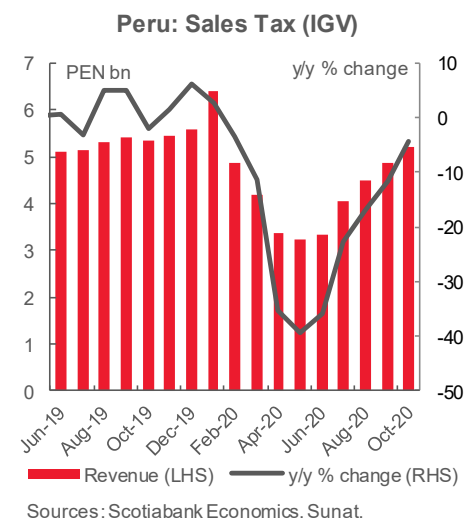
**Finally, there is also uncertainty on whether the new government will honour the current schedule for Presidential and Congressional elections in April 2021.** Merino stated that this would be the case, but some political analysts have their doubts. Vizcarra himself warned that "we would soon know" the true motivations behind the decision taken by Congress. He seems to have been alluding to recent news reports that a segment of Congress would be interested in postponing the elections in order to retain their seats for a longer period of time and/or allow their parties and leadership to better prepare for the elections once they occur.

## II. Tax revenue improving slowly

**In data released by the tax authorities (Sunat), October was the best month for sales-tax revenue growth since the pandemic-cum-lockdown began in February with an increase of 7.6% m/m.** Even so, sales tax revenue was still below pre-COVID-19 levels, albeit down only -4.2% y/y (chart 4). Sales tax revenue has been improving since it bottomed out in May, when it was down -39.4% y/y. Sales tax revenue is of particular interest because of what it tells us about trends in consumption. Sales-tax data are also less contaminated by tax relief measures than other revenue numbers. Overall tax revenue was down -12.9% y/y in October (up 11.9% m/m), due to the fact that many of the underlying taxes, in particular income taxes, were subject to ongoing effects from tax relief measures.

—Guillermo Arbe

Chart 4



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