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Latam Daily: Upside Growth Surprise in Peru, Argentina IMF Talks Hit Another Bump

- **Argentina: Peronists show agreement with IMF won't be easy**
- **Peru: September GDP growth exceeded expectations**

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ARGENTINA: PERONISTS SHOW AGREEMENT WITH IMF WON'T BE EASY

In a twelve-page open letter to the Managing Director of the IMF released on Sunday, November 15, a group of nearly 40 Peronist Senators took the Fund to task for the "failure" of the 2018 adjustment program agreed with the Macri Administration and attempted to set pre-conditions for the negotiations on a new arrangement currently underway in Buenos Aires with the Fund mission. Some of the Senators demands were more bluster than substance: for instance, their call for a grace period on repayments to the Fund stretched out to 2025 is entirely consistent with the authorities' request to replace the current Stand-By Arrangement (SBA) with financing under the Extended Financing Facility (EFF), which is a longer-term credit window. However, the Senators' concurrent request that IMF funds be provided free of conditionalities is simply a provocation when EFF loans are designed expressly to support fundamental structural reforms. Given that Economy Minister Martin Guzman has promised to send any eventual deal with the IMF to Congress for approval, moves such as this letter are set to make that process more fraught and contentious than it might otherwise be. Adding to the drama, Pres. Fernandez appeared to endorse the letter in remarks on Monday, November 16.

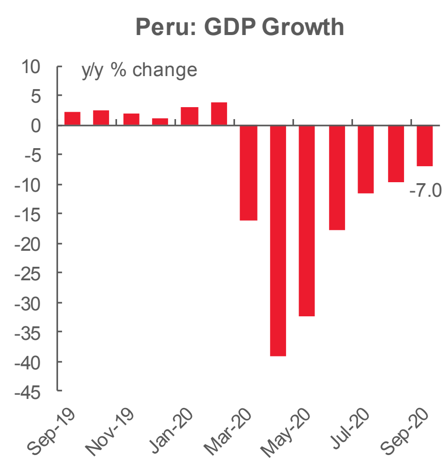
The letter and the President's remarks added further substance to our view that negotiations with the IMF are likely to be drawn out. Despite orthodox moves last week to raise interest rates and initiate pension-system reforms, on Monday, November 16, the authorities extended their ban on firing workers for an additional 60 days and legislation on a hotly-debated wealth tax is set to head to Congress today.

—Brett House

PERU: SEPTEMBER GDP GROWTH EXCEEDED EXPECTATIONS

September GDP data released by INEI on Monday, November 16, showed a positive surprise with a -7.0% y/y print (chart 1), better than consensus expectation of -7.8% y/y and the -8.8% y/y that we had forecast in the latest *Latam Weekly*. This was the softest annual contraction since the lockdown began in March. As a result, Q3-2020 GDP should be down -9.5% y/y (the BCRP will produce the official figure later this week), which is also better than our -10% y/y forecast. This gives us a little more confidence in our full-year 2020 projection of a -11.5% y/y contraction—although this will also depend on the impact of the political crisis in November on the economy, which we expect to be mild. September's economic activity represented 1.5% m/m growth from August.

Chart 1



Sources: Scotiabank Economics, INEI.

Once again, resource sectors were weak while some domestic demand-linked sectors outperformed expectations (table 1). Agricultural activity continued to be down from a year ago and, at this point, the contraction has persisted for too long to be attributable to shifts in seasonal timings. Mining fell -12.2% y/y compared with September 2019. However, here's the silver lining: if not for mining, aggregate growth would have been closer to -6% y/y than -7% y/y. In October, mining should once again add to growth rather than subtract from it. The decline in September (as in August) was due to the need to quarantine part of the labour force at key mines due to COVID-19. It is our understanding that these employees returned to work in October.

Table 1

Peru: GDP Growth (y/y % change)

	Sep-20
Agriculture	-2.6
Fishing	7.3
Mining and oil & gas	-12.2
Manufacturing	-6.3
Electricity and water	-1.7
Construction	4.4
Commerce	-6.1
Transportation	-25.7
Tourism and restaurants	-50.2
Telecom	5.1
Financial services	21.4
Public services	4.1
Other services	-16.6
GDP	**-7.0**

Sources: Scotiabank Economics, INEI.

Construction continued to be robust in September, up 4.4% y/y, as real estate has become a driving force in the economy. Furthermore, although manufacturing and commerce were each down by a bit more than -6% y/y, these levels were much improved versus previous months, which signalled that consumption is rebounding better than expected. Government services, financial services, and telecoms activity growth continued to accelerate.

Overall, the data for September ratifies the perception of an economy that is recovering, but at vastly different paces between sectors. The annual contraction in October should be even milder, as the trend narrows towards our -11.5% y/y full-year forecast. November might provide a bump in the road however, due to the magnitude of political turbulence this month. With the appointment of Francisco Sagasti as the new President, Peru's political turmoil looks set to calm down (see our note here), and if so, then the tumult will have been too short-lived to have had too great an impact on the economy.

—Guillermo Arbe