Latam Daily: Argentina Inflation Details Worrying; New Peru Pensions Initiative

- **Argentina: Inflation ticks up, worrying signs in the details; BCRA cuts benchmark policy rate**
- **Peru: September tax revenue continued under-performing; new initiative for AFP withdrawals**

ARGENTINA: INFLATION TICKS UP, WORRYING SIGNS IN THE DETAILS; BCRA CUTS BENCHMARK POLICY RATE

In price data released by INDEC on the afternoon of Wednesday, October 14, the national CPI basket rose 2.8% m/m in September, up from 2.7% m/m in August (chart 1). The monthly inflation print was in line with expectations, though still artificially dampened by price controls on utilities and public transportation, and official "price monitoring" on thousands of other items. Base effects from 2019 meant that annual inflation came down from 40.70% y/y in August to 36.6% y/y in September (chart 1, again).

Details in the monthly inflation print pointed to gathering inflation momentum, reflecting the ongoing slide in the ARS, some supply constraints, and continued extensive deficit monetization and expansion in the monetary base by the BCRA. Core inflation picked up from 2.3% m/m in August to 3.0% m/m in September, though base effects still pulled down the annual core number from 43.9% y/y to 38.3% y/y. Clothing prices, up 5.8% m/m in September, recorded the largest price gains of any sector in the month, which likely reflects pass-through from the weakening ARS.

While we expect monthly inflation to remain between 2% m/m and 3% m/m through end-2020 and persist around 3% m/m in 2021, base effects should continue to pull down the headline rate below 30% y/y by the end of the year before rising back above 40% y/y by end-2021. Aside from price controls, which are not sustainable, there is little in the Argentine policy mix that would augur for any slowdown in price increases.

Despite Argentina's ongoing struggle with inflation, the BCRA took a further step on Wednesday in the re-alignment of its interest-rate complex with a cut in the benchmark Leliq policy rate from 38% to 37%. We had expected a temporary cut of this sort in Q2/Q3 to help boost the domestic economy, but we took it out of our forecasts after the BCRA stayed on hold into the beginning of Q3. We still expect this cut to be short lived.

—Brett House

PERU: SEPTEMBER TAX REVENUE CONTINUED UNDER-PERFORMING; NEW INITIATIVE FOR AFP WITHDRAWALS

Tax revenue in September was down -19.9% y/y, according to figures released by the Tax Agency, Sunat, on Monday, October 12. Although this was the mildest annual contraction since March, the first month of the lockdown, it was still a bit of a disappointment, as it represented an only 1.3% m/m increase over August. Tax revenue has been improving significantly since June (when it

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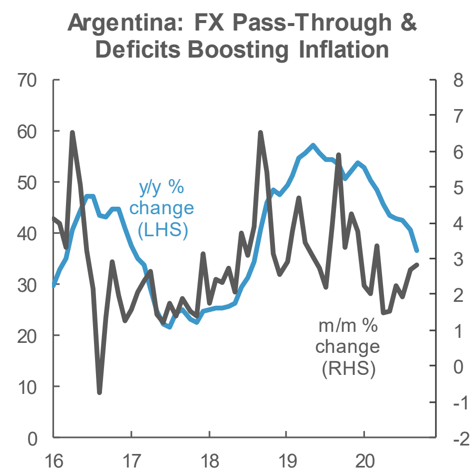
Chart 1



Sources: Scotiabank Economics, INDEC.

was down -47% y/y), but these gains seem to have slowed at levels that are still low compared with last year. Note, however, that part of the reason that tax revenue continues to be low is that temporary tax relief measures were still extant in September. Tax relief is particularly linked to income taxes, which were down -21% y/y. Meanwhile, domestic sales tax revenue, which is a better barometer of economic activity, was down a softer -7.3% y/y, and up a robust 8.4% m/m in sequential terms.

Also on Monday, October 12, a Congressional committee voted in favour of a bill that would allow non-working private pension fund (AFP) account holders to withdraw up to PEN 17,200. This would come on top of past withdrawals. As with the previous withdrawal initiative (up to PEN 12,000), only account holders who have been out of work over the past twelve months may access these funds. The committee softened a much harsher earlier version that would have allowed out of work account holders to withdraw the entirety of their retirement account holdings. The more modest bill followed a session with Central Bank President Julio Velarde, who advised them that the more ambitious version would do more damage than good. The bill must still be approved on the main floor of Congress.

—Guillermo Arbe