Latam Economic Update

- **Argentina: Government revenue picked up in August**
- **Chile: *Monetary Policy Report* very much in line with our baseline scenario**
- **Peru: Public investment in August compares well with July, but not so well with a year ago**

ARGENTINA: GOVERNMENT REVENUE PICKED UP IN AUGUST

Monthly government tax revenue rose 9.5% in nominal terms in August, increasing from ARS 559 bn in July to ARS 612 bn this past month (chart 1). July's tax figures had been of concern as they amounted to only a 2.4% m/m increase from June despite some relaxation of public-health restrictions outside of BsAs in the month. The August numbers were up 34% y/y over the same month in 2019 versus a 59% y/y increase last year. Although there is some usual seasonal fluctuation in the tax revenue series, the August tally does represent a decent gain and reflects further progress on re-opening in some parts of the country and some sectors of the economy. Still, continuing gains could be imperilled by the recent increases in COVID-19 cases detailed in yesterday's *Latam Daily*, which would further add to the significant fiscal challenges that will be central to the talks beginning with the IMF on a new lending program.

—Brett House

CHILE: *MONETARY POLICY REPORT* VERY MUCH IN LINE WITH OUR BASELINE SCENARIO

The BCCh's quarterly *Monetary Policy Report*, released on Wednesday, September 2, lays out a near-term future in which monetary policy will remain highly expansionary, combining a headline rate on hold at its existing floor of 0.5% with unconventional measures. These measures would be renewed or expanded if the recovery of the economy and the convergence of inflation to the target requires such moves.

Unsurprisingly, the BCCh says that the negative shock caused by the pandemic has been very significant, with a particular emphasis on the high number of people and companies whose sources of income have been affected. The recovery of job creation, restoring income flows to households, support for consumption, and keeping credit flowing to provide for the investment needs of companies constitute the greatest public-policy challenges for the economic recovery.

Given the numbers on economic activity from the first half of the year and the rebound that is taking hold in line with less-strict public-health measures, the BCCh forecasts that 2020 will end with a fall in GDP of between -4.5 y/y and -5.5% y/y. Recall that at Scotiabank we have for some time had a GDP forecast of -6% y/y for 2020 with an upward bias, as shown in the

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Chart 1

Sources: Scotiabank Economics, Min. of Economy.

August 22 edition of our *Latam Weekly*. For 2021, the central bank's baseline scenario puts GDP growth between 4% y/y and 5% y/y (Scotiabank Economics: 4.4% y/y). Overall, we are not surprised by the BCCh's economic activity forecasts (table 1). On the other hand, in terms of inflation, the central bank forecasts that CPI will end 2020 with an increase of 2.4% y/y, slightly higher than our 2.2% y/y projection. During the next few days, we will publish an update to our baseline scenario.

Table 1

Chile: BCCh's baseline scenario, y/y % change

	2020f	2021f	2022f
GDP	-5.5 / -4.5	4.0 / 5.0	3.0 / 4.0
Investment	-10.6	8.0	4.9
Consumption	-4.2	6.8	1.7
Inflation	2.4	2.8	3.0

Sources: Scotiabank Economics, BCCh.

The BCCh usually recalculates its estimates of the economy's structural parameters once a year, but it has postponed this update. The central bank said that the significant magnitude of the shock caused by the pandemic and the high uncertainty around its specific impact have forced it to delay its re-estimations as it gathers more information. The Bank will still aim to make a comprehensive assessment of medium- and long-term potential GDP growth and the neutral level for the benchmark rate. For now, considering the information available, the estimate of the technical minimum of the headline monetary policy rate remains at 0.5%.

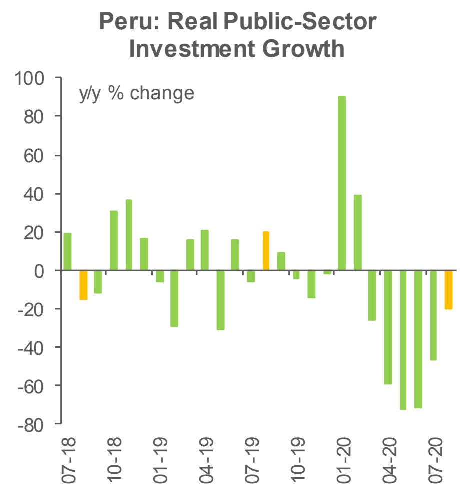
—Jorge Selaive

PERU: PUBLIC INVESTMENT IN AUGUST COMPARES WELL WITH JULY, BUT NOT SO WELL WITH A YEAR AGO

Public sector investment finally showed some life in August, rising 39.9% in month-on-month terms (versus July), and declining "only" -20.5% y/y (chart 2), according to the local press with preliminary access to government information on the subject. This was the best performance since March, and comes after declines of -50% y/y in July, and between -60% y/y and -72% y/y from April to June. What was rather surprising was that investment at the regional government level actually rose compared with a year ago, up 5.2% y/y. The details have not yet been made available to enable us to determine just where this increase in spending is taking place. It's especially curious considering that many regions continued to be in partial lockdown during August. Meanwhile, central government investment spending continues to lag, declining -25.1% y/y, in August. The figures, however, do add to the general sense of economic improvement in August.

—Guillermo Arbe

Chart 2



Source: Scotiabank Economics, MEF.