September 22, 2020

Latam Economic Update

- **Argentina: August primary budget deficit corrects, but still in dire territory**
- **Colombia: September's Citi survey shows divisions among analysts regarding the next monetary policy meeting**
- **Mexico: As expected, Q2-2020 aggregate supply and demand suffered their worst declines ever**

ARGENTINA: AUGUST PRIMARY BUDGET DEFICIT CORRECTS, BUT STILL IN DIRE TERRITORY

Argentina's August fiscal accounts, released in the evening of Monday, September 21, showed a strong correction on the month, but remained in dire territory on an annual basis (chart 1). The monthly primary deficit moved from ARS -155.5 bn in July to ARS -89.5 bn in August on a combination of seasonal factors and improved activity on the productive side of the economy, even as households in greater Buenos Aires saw lockdown measures extended and intensified. The 12-month rolling primary deficit grew from ARS -1.2 tn in July to ARS -1.3 tn in August, equivalent to around -5% of GDP. Recall that in March, the IMF DSA anticipated a primary deficit of -1.6% of GDP in 2020. Consensus anticipates that the 2020 primary deficit will widen to -8.1% of GDP by end-2020 and retract to -5.0% in 2021. In contrast, the authorities are ambitiously anticipating a -4.5% of GDP primary deficit in 2021 on the back of a rosy forecast of 5.5% y/y real GDP growth in their 2021 draft budget submitted to Congress last week.

—Brett House

COLOMBIA: SEPTEMBER'S CITI SURVEY SHOWS DIVISIONS AMONG ANALYSTS REGARDING THE NEXT MONETARY POLICY MEETING

September's Citi Survey, which BanRep uses as one of its key measures of market expectations for inflation, the monetary policy rate, GDP, and the COP, came out on Monday, 21 September and showed some divided views. Major points included:

- **Growth forecasts were revised downward.** For 2020, a contraction of -6.81% y/y, 0.20 ppts below last month's survey reading of -6.61% y/y, is now expected. In 2021, the recovery is projected to hit a pace of 4.49% y/y, above the previous survey's 4.17% y/y consensus. We expect -7.5% y/y in 2020 and a rebound to 5.0% y/y in 2021.
- **Inflation is still expected to remain below the central bank's target range (2% to 4% y/y) in 2020, but it would return to the range in 2021.** September's monthly inflation rate is, on average, expected to be 0.11% m/m and 1.76% y/y; we expect 0.17% m/m and 1.84% y/y on the back of smaller offsetting forces from the reduction in education sector inflation versus the

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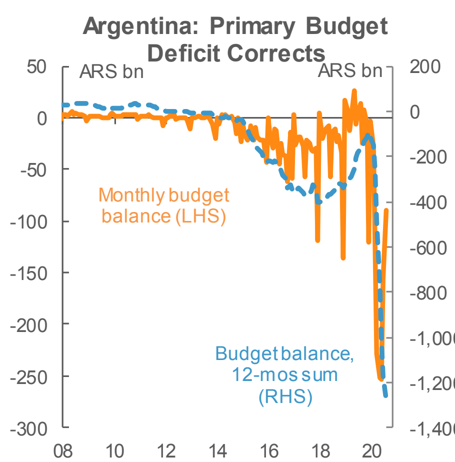
Chart 1



Sources: Scotiabank Economics, Ministerio de Hacienda.

boost in prices driven by the withdrawal of government aid. For December 2020, the survey's average projection is 1.89% y/y, down from August's survey 1.97% y/y. By December 2021, inflation is expected to hit 2.27% y/y, below the 2.9% y/y average projection in the previous survey.

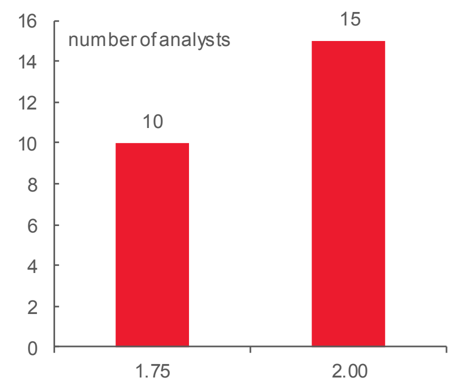
- **Expectations are divided for the September 25 BanRep monetary policy meeting.** Out of 25 analysts surveyed, 15 expect a pause at 2.00%, while 10 (including ourselves) expect a -25 bps cut (chart 2). If a -25 bps cut materializes, no more reductions are anticipated. Either way, by December 2020, the consensus expectation is that the monetary policy rate would be at 2.00%; in 2021, consensus looks forward to one 25 bps rate increase, although analysts' projections are dispersed between stability at 2.00% and one or two hikes (chart 3).

- **The USDCOP forecasts point to a relatively stable currency through December 2020 and a COP appreciation in 2021.** On average, respondents expect a level of USDCOP 3,705 by the end of 2020 and USDCOP 3,580 in 2021.

—Sergio Olarte & Jackeline Piraján

Chart 2

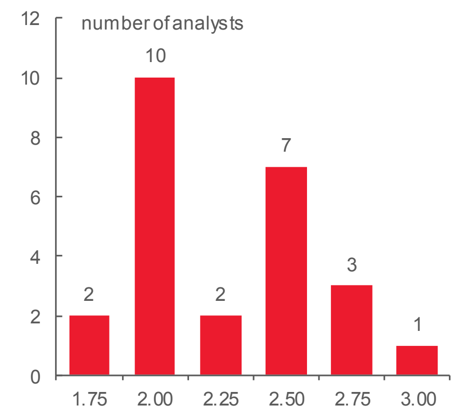
Colombia: September Citi Survey Repo Rate Expectation for the Next Meeting (September 25)



Sources: Scotiabank Economics, Citi Survey.

Chart 3

Colombia: September Citi Survey Repo Rate Expectation for End-2021



Sources: Scotiabank Economics, Citi Survey.

MEXICO: AS EXPECTED, Q2-2020 AGGREGATE SUPPLY AND DEMAND SUFFERED THEIR WORST DECLINES EVER

According to data published by INEGI on Monday, September 21, real aggregate supply and demand contracted during Q2-2020 for a fifth consecutive quarter, widening their combined decline from -1.8% y/y to -21.6% y/y, the worst contraction on record. On an accumulated YTD basis, aggregate supply and demand contracted by -11.9% y/y, the most pronounced decline for the first half of the year since current records began in 1993.

- **On the supply side,** the results drove a pronounced decline in GDP, from -1.3% y/y to -18.7% y/y (versus -1.1% y/y in Q2-2019). The collapse in imports, from -3.2% y/y to -29.7% y/y (versus -1.2% y/y a year earlier) marked the sharpest drop in recent history.

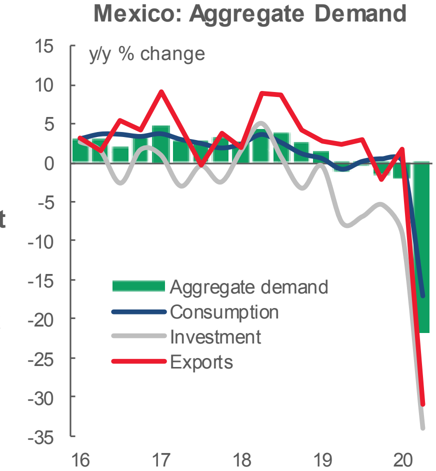
- **By components of demand (chart 4),** private consumption, the main driver of economic activity on the demand side, registered its largest historical contraction, going from -0.5% y/y to -20.6% y/y (versus -0.4% y/y a year earlier), while government consumption moderated from 3.4% y/y to 2.4% y/y. Overall, combined private and public consumption growth dropped from 0.12% y/y in Q1 to -17.1% y/y in Q2. Gross capital formation (GCF) deepened its contraction to -34.0% y/y, from -9.3% y/y in the previous quarter, the sharpest drop in 25 years. Exports fell by the most in the history of the indicator, from 1.8% y/y to -30.9% y/y,

In conclusion, Q2's downturn in aggregate supply and demand reflected the impact of activity closures in the second quarter. However, the uncertainty generated by the pandemic, as well as by external and internal factors, continues to weigh on the outlook for the economy: monthly indicators for the beginning of the third quarter of the year point to persistent internal weakness in the initial months of re-opening. This softness could continue until the end of the year, considering the prevailing risks around the pandemic and related policy responses.

—Paulina Villanueva

Chart 4

Mexico: Aggregate Demand



Sources: Scotiabank Economics, INEGI.