March 2, 2021

Latam Daily: Current Account in Colombia; Mexican Credit; Peru Inflation

- **Colombia: Current account deficit widened in Q4 as the economy continued to recover**
- **Mexico: Lending data consistent with soft activity, while remittances continue to print new records**
- **Peru: Inflation declines towards a more moderate trend in February**

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COLOMBIA: CURRENT ACCOUNT DEFICIT WIDENED IN Q4 AS THE ECONOMY CONTINUED TO RECOVER

On Monday, March 1, BanRep released the Q4-2020 current account data. The deficit stood at USD 3.11 bn (versus USD -1.77 bn in Q3), equivalent to -4.1% of GDP (chart 1). That said, the current account deficit stood at USD 9.1 bn in 2020, equivalent to 3.3% of GDP, below the 2019's figure of USD 14.3 bn (4.4% of GDP).

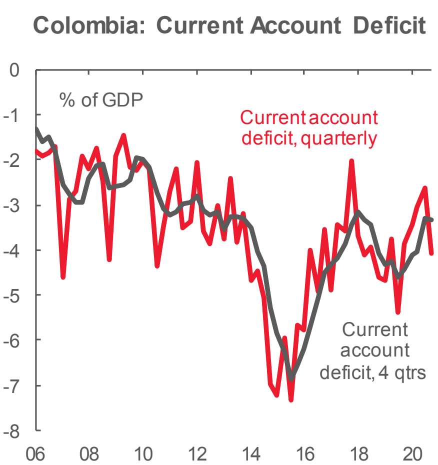
On the other side of the Balance of Payment (BoP), the financial account's main sources of funding in the Q4 came from net capital inflows of USD 2.5 bn, largely from new government to multilaterals, while net FDI stood at USD 1.9 bn. FDI was the main source of financing in 2020 (chart 2).

Looking at the numbers in more detail, the Q4 current account deficit widened by USD -1.36 bn q/q from Q3 to hit the aforementioned USD -3.11 bn (4.1% of GDP).

Current account

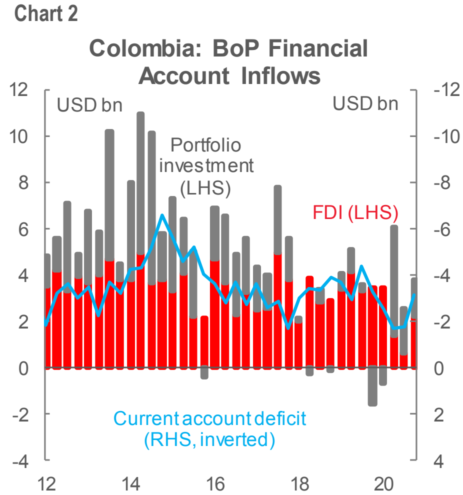
- The trade deficit widened by USD -680 mn from the previous quarter to USD -3.97 bn, mainly due to a higher deficit in trade of goods: goods exports contracted on an annual basis by -14.5% y/y, although in sequential terms they rose by 6.6% q/q to USD 8.76 bn, while imports contracted by -9.7% in

Chart 1



Sources: Scotiabank Economics, BanRep.

Chart 2



Sources: Scotiabank Economics, BanRep.

yearly basis but rose 12.1% q/q, deteriorating the trade deficit. According to DANE, December 2020 imports rose 1.57% y/y due to higher consumption and raw materials that boosted domestic demand.

- The total combined goods and services balance in the Q4 deficit stood at its highest level since September 2019 due to exports that remained at a four-year low and imports that reached a level similar to those observed in 2017.
- Additionally, income account outflows increased from the previous quarter as better export dynamics boosted profits across Colombia's main economic sectors, especially in oil and mining, transport and communications and commerce, restaurant and hotel activities, showing the positive effect of re-opening.
- Despite the negative economic environment abroad, remittances also increased, likely stemming from fiscal stimulus in developed countries.

Financing side

- Net capital inflows increased by USD 894 from Q3 and stood at USD 2.51 bn amid public sector indebtedness. The Q4 public sector received inflows from multilaterals (USD 5.6 bn), mainly due to the IMF-FCL and USD 1.61 bn from offshore purchases of COLTES.
- In Q4, international reserved increased by USD 1.71 bn mainly due to central bank FX purchases (USD 1.5 bn) to the government.
- FDI inflows surged to USD 2.21 bn, the best level since the pandemic started, and were 3.6 times the FDI inflows observed in Q3-2020.

Detailed numbers for the 2020 results

In 2020 the current account deficit stood at USD 9.1 bn, USD 5.2 bn lower than in 2019, which is equivalent to 3.3%, close to our estimate of 3.2% of GDP. The lower current account deficit resulted from lower income account net outflows (USD 4.72 bn y/y), and to a lesser extent the lower trade deficit (USD 532 mn).

- Exports contracted by 21% versus 2019 on the back of lower oil and mining exports due to lower international prices (-38.6% y/y in oil and -22.2% y/y in coal) and lower exports volumes (-10.5% y/y in oil and -4.7% y/y in coal).
- Imports fell by -18.5%, mainly in capital goods and raw material imports (-13.0% y/y). Consumption goods contracted by 15.5% y/y owing to the negative impact of the pandemic on domestic demand.
- Income account net inflows fell by USD 4.72 bn y/y as earnings outflows fell in sectors such as oil (USD 1.78 bn), financial services (USD 1.19 bn), transport and communication (USD 1.08 bn), manufacturing (USD 809 mn), and mining (USD 758 mn).
- Transfers remained positive as net inflows increased by 0.2% amid better remittances (+1.8% y/y). In fact, remittances from the US increased by 9.5%, which offset the contraction in remittances from Latam (-20% y/y) and Spain (-1% y/y). Showing the effect of the expansive fiscal policy in the US.

In the financing account, net inflows stood at USD 8.1 bn (3% of GDP), decreasing by USD 5.15 bn from 2019.

- Capital inflows increased by USD 6.46 bn from 2019 on the back of a higher public sector indebtedness, which led to inflows of USD 18.45 bn.
- FDI contracted by 46.3% y/y versus 2019 (USD 6.62 bn lower). Within the FDI flows, 28% was in the financial sector, 23% in the oil and mining sectors, 11% in commerce and hotels, 10% in the energy sector, 8% in the manufacturing industry, and 20% in other areas. We highlight that FDI is diversifying, with inflows increasing outside the oil and mining sectors.

Finally, despite the expected narrowing in the current account deficit in 2020, we continue to forecast a larger current account deficit of roughly 3.8% of GDP in 2021 as Colombia's economic recoveries typically feature an increase in the external deficit via capital-goods imports. However, these imports are usually financed through higher FDI which make it sustainable.

—Sergio Olarte & Jackeline Piraján

MEXICO: LENDING DATA CONSISTENT WITH SOFT ACTIVITY, WHILE REMITTANCES CONTINUE TO PRINT NEW RECORDS

I. Outstanding consumer credit falls to worst record since 2010 as domestic market continues to show weakness

Bank lending data for January released on Friday, February 26, by Banxico showed that financing to the private sector contracted at a record pace in annual terms (chart 3). The year-on-year pullback stemmed from weakness in consumer spending and sharp declines in business activity. At the same time, financing to the federal public sector continued to grow at unusually quick rates.

Looking at the details:

- Total commercial bank financing to the private sector which accounts for more than half of total financing contracted by an all-time record of -4.8% real y/y in January from -4.4% real y/y in December. This is the sixth consecutive month in which financing to the private sector showed a negative contribution. Direct financing to business and private consumption continued to deteriorate in real annual terms. Mortgage financing maintained stable growth, to what it has maintained throughout the pandemic, possibly benefiting from the current attractive level of rates.
- Financing to the federal public sector (about 23% of total financing) continued to show very positive levels. For the month of January, financing was 36.1% y/y and compares with 26.0% y/y observed in December and a cumulative expansion of 11.4% y/y the previous year as a whole.
- As a result, total commercial bank financing (including the private sector and the public sector) registered higher real annual growth, rising from 2.5% y/y to 4.5% y/y between December and January.

Weak domestic demand, alongside a still high degree of uncertainty permeating the Mexican economy have turned bank clients relatively cautious, which in turn boosted deposits (chart 3, again).

II. Remittances continue to be a significant source of income for some households

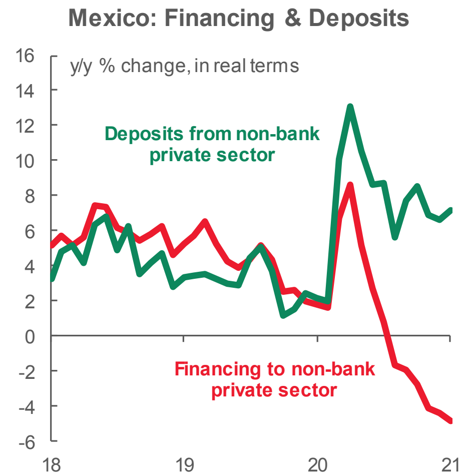
Remittances a new January record (released on March 1), coming in at US 3.298 bn in January, which represented a +25.8% y/y gain (chart 4). US government stimulus is believed to be part of the reason for the strong remittance flows, which are supporting consumption in lower-income households in Mexico. We expect that the new fiscal stimulus package proposed by President Biden, which has already been approved by the House of Representatives and was sent to the Senate, could continue to benefit remittances to our country in 2021.

—Eduardo Suárez & Paulina Villanueva

PERU: INFLATION DECLINES TOWARDS A MORE MODERATE TREND IN FEBRUARY

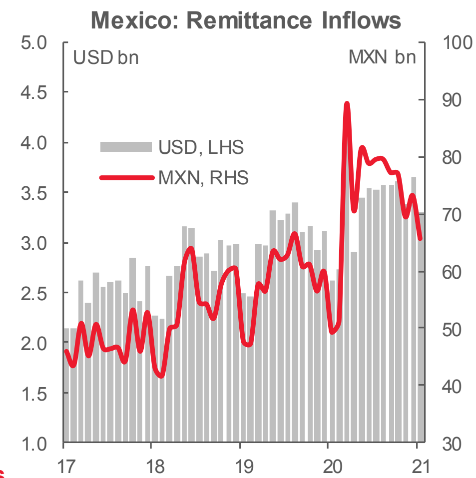
Inflation continues to jump around. After surprising to the upside in January (0.7%, monthly and 2.7% annually), it has now surprised to the downside in February, slumping -0.13% for the month, and taking annual inflation to 2.4%. Core inflation was 1.6% (chart 5). These figures, released by the National Statistics Institute on Monday

Chart 3



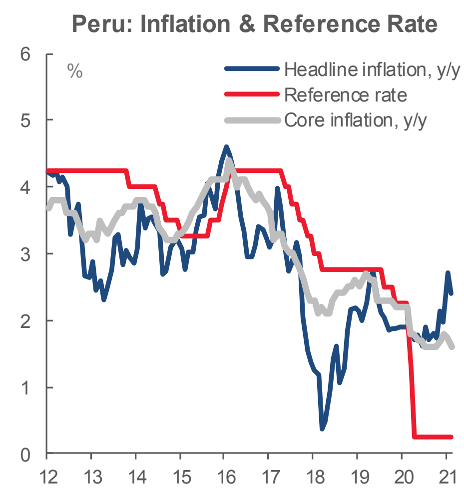
Sources: Scotiabank Economics, Banxico.

Chart 4



Sources: Scotiabank Economics, INEGI.

Chart 5



Sources: Scotiabank Economics, BCRP.

March 1, are for inflation in Lima, which is the official benchmark figure used by the central bank (BCRP). Inflation nationwide fell 0.01% in February, and came in at 2.8% annually.

Inflation volatility was mainly due to poultry prices, which have a high weight in inflation, and frequently distort the trend. However, in February, poultry would only have corrected what had been a surge in January, so the February 2.4% register is probably a better gauge of the ongoing trend of inflation. As such, it will give the BCRP space to maintain its reference rate at 0.25% without concern. Especially considering that core inflation has been persistently low throughout the last few months of headline volatility. Low core inflation, with just a hint of upward pressure from health, home rent and maintenance, and transportation, makes us comfortable with our forecast of 2.6% inflation for full-year 2021.

Meanwhile, there are news reports that the government is contemplating, in coordination with the BCRP, an extension of the grace period for Reactiva loans. The initial 12-month grace period is due to end in May.

—Guillermo Arbe