November 16, 2021

Latam Daily: Peru GDP in September, Strong Fiscal Accounts; Colombia Economic Survey

- **Colombia: BanRep economic survey reveals one more 50 bps rate hike is expected at December's meeting**
- **Peru: Resilient GDP growth in September; fiscal accounts strengthen; minister of defence resigns**

COLOMBIA: BANREP ECONOMIC SURVEY REVEALS ONE MORE 50 BPS RATE HIKE IS EXPECTED AT DECEMBER'S MEETING

On Friday, November 12, the central bank, BanRep, released its monthly survey of economic expectations (see the previous survey here). Inflation expectation by the end of 2021 fell by 3 bps amid the downside surprise in October's inflation. Indexation effects are probably reflected in higher expectations for 1Y ahead, however, the long-term inflation expectations remain anchored. Regarding monetary policy, expectations for BanRep's December 17 meeting point to a 50 bps hike, consistent with our own Scotiabank Economics expectation

- **Short-term inflation.** Monthly inflation for November is expected to be 0.18% m/m, which places annual inflation at 4.91% year-on-year (from 4.58% in October). That said, the dispersion of the survey remained significantly high with a minimum expectation of 0.05% m/m and a maximum of +0.50% m/m. Scotiabank Economics expects monthly inflation for November to be + 0.20% m/m and 4.94% y/y, with a still high penalty from food prices, but also incorporating a moderate negative contribution of 8 bps due to the new VAT holiday and other generalized discounts campaigns.

- **Medium-term inflation.** Inflation expectations fell to 4.84% y/y for December 2021, 3 bps lower than last month's survey (table 1). Current inflationary pressures are still perceived as temporary since expectations in the medium term continued within the target range: 1-year inflation stood at 3.65% y/y (above last month's reading of 3.63% y/y); and the 2-year forward was within the target range at 3.23% y/y, which underlines that expectations remained anchored in the monetary policy horizon (chart 1). Scotiabank Economics expects CPI inflation to close 2021 at around 4.8–4.9% y/y and 2022 at around 3.7–3.8% y/y amid indexation effects, but more importantly, a reversal in some temporary effects such as the VAT holiday, some telecom fees, among others.

Table 1

Colombia: Headline Inflation Expectations

	Average	Change vs previous survey, bps
Nov-2021, m/m % change	0.18	…
Dec-2021, y/y % change	4.84	-3
1Y ahead, y/y % change	3.65	2
Dec-2022, y/y % change	3.61	9
2Y ahead, y/y % change	3.23	9

Sources: Scotiabank Economics, BanRep.

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Chart 1

Colombia: Average Headline Inflation Expectations

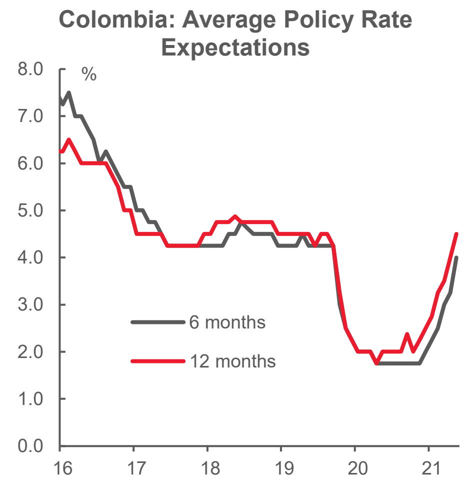
Sources: Scotiabank Economics, BanRep.

- **Regarding core inflation, expectations remained broadly stable.** One year ahead expectation is at 3.27% (above the previous survey expected 3.22%), while in the two-year horizon the expectation increased by 6 bps to 3.00%, exactly in the central bank target.

- **Policy rate.** On average, the consensus expects one more 50 bps rate hike this year in the policy rate, which would close at 3.0% in 2021 (from the current 2.5%, chart 2); Scotiabank Economics' forecast is in line with the consensus. By 2022, the consensus expects a policy rate of 4.50% by the end of the year, increasing from the previous survey (4.0%). Scotiabank Economics' forecast was recently revised to 5.0% for December 2022, assuming a trajectory of gains of 25 basis points at each decision-making meeting next year. Also assuming that the central bank would reach a neutral rate as de output gap is expected to close in the H2-2022.

- **FX.** The USDCOP projections for the end of 2021 were located at 3,779 (29 pesos above the previous survey). By December 2022, respondents think, on average, that the peso will end the year at USDCOP 3,662 (+20 pesos above the previous survey). We believe that the USDCOP would appreciate by the end of the year to 3,760.

Chart 2



Sources: Scotiabank Economics, BanRep.

—Sergio Olarte & Jackeline Piraján

PERU: RESILIENT GDP GROWTH IN SEPTEMBER; FISCAL ACCOUNTS STRENGTHEN; MINISTER OF DEFENCE RESIGNS

I. Strong GDP growth in September proves ongoing resilience to political noise

Aggregate GDP rose 9.7% y/y in September, compared to August's 11.8% y/y. This is a significant figure, given that the lockdown broadly ended in September 2020, and it represents a 3.0% growth over pre-COVID-19 figures for the same month in 2019 (table 2). The upshot is that GDP continues to be much more robust than expected. Growth is also showing considerable resiliency despite the political uncertainty. GDP has shown positive monthly growth versus 2019 consistently since the second-round elections in June (chart 3).

All sectors rose (table 2, again) except fishing, down 39.2%, although this holds little weight as September is an off-season for fishing. Agriculture was the greatest surprise, up 11.5% y/y, and a huge 14.8% versus pre-COVID-19 2019. Agro -industry was behind the strong performance. In fact, agro-industry is the leading sector driving jobs growth in the country. Less surprising, but just as significant, construction GDP rose 12.6% y/y and 17.1% versus 2019. Construction, another labour intensive sector, has been growing strongly throughout 2021, although it is no longer accelerating month over month. The sector that has started to turn around most sharply is hotels & restaurants, up 85% y/y, although still down 7.4% from 2019. Transportation, mining and business services are all up in y/y terms, but still below pre-COVID-19 levels. Manufacturing and commerce, which are both bellwethers for consumption, show good y/y growth, but only mild growth compared to 2019.

Table 2

Peru: GDP Growth by Sector

%	2021/2020	2021/2019
Aggregate GDP	**9.7**	**3.0**
Agriculture	11.5	14.8
Fishing	-39.2	-31.6
Mining & oil	11.1	-2.5
Manufacturing	7.0	2.8
Electricity	6.0	4.1
Construction	12.6	17.1
Commerce	7.4	1.1
Telecom	7.5	15.7
Transportation	24.4	-7.3
Business services	8.8	-9.3
Hotels & restaurants	85.1	-7.4
Public administration	3.2	7.4
Financial services	-1.6	19.6
Other services	7.8	-2.5

Sources: Scotiabank Economics, INEI.

All in all, GDP growth continues outperforming expectations, is actually accelerating versus pre-COVID-19 levels, and appears to be ignoring political uncertainty. We see upside risk to our forecast of 12.3% GDP growth for 2021.

II. Fiscal account continues to strengthen

On November 11, the BCRP released the 12-month fiscal deficit figure for October, at 4.1% of GDP. This is the lowest figure since April 2020, and is less than half the deficit of 8.9% of GDP at the start of 2021 (chart 4). Given the strong downtrend, the figure is in line with our forecast of 3.7% of GDP fiscal deficit for the full-year 2021. Once again, fiscal revenue is the strongest driver for improvements in the fiscal balance. Revenue was up 46% y/y in the January–October period, and also greater by 17.9% compared to the same period in 2019—this is very strong. Both income tax, up 40% y/y (21% versus 2019) and sales tax, up 43% y/y (20% versus 2019) also contributed. Thus, although high metal prices are a driver of greater revenue, it is not the only one. Government expenditure was also up, but at a more moderate 15.5% y/y (25.2% versus 2019) pace over the January–October period.

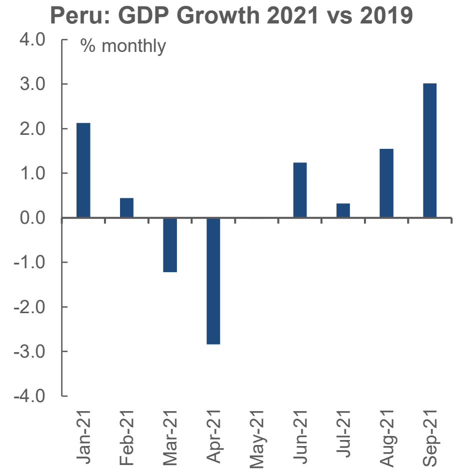
It would seem that, for as long as metal prices continue high and the increasing digitalization of sales persists, fiscal revenue will continue outpacing government spending, and the fiscal deficit should continue declining.

These results put into perspective the government decision over the weekend to award all workers on payroll (thereby excluding informal workers) a one-time PEN 210 bonus. The measure's impact will be minimal both fiscally and on consumption. Originally, there had been talks of an increase in the minimum wage, currently at PEN 980 per month. This, however, was soon replaced by the proposal of a "temporary" PEN 70 per month subsidy. In the end, in lieu of the subsidy, the government settled the one-time bonus.

III. Another one bites the dust

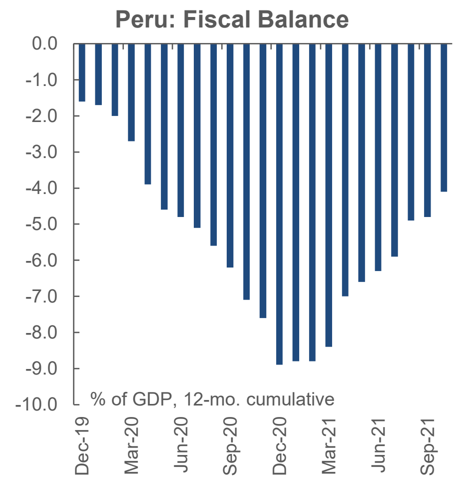
The Minister of Defence, Walter Ayala, resigned on Sunday, November 14. However, at the time of his writing, he had not been replaced. This would be Peru's tenth cabinet change in just over 120 days, at a rate of one cabinet member replaced every twelve days. Minister Ayala had been under flak for having attempted to interfere with the internal army procedures for the naming of new high ranking officials (see our *Latam Daily* from November 12). Claims are that Minister Ayala had pressured the army chief of staff, General José Vizcarra to promote a Coronel close to the administration, but, faced with opposition, the Minister then had the General removed. Likewise, the Commander in Chief of the Air Force was also removed. As a result, Congress had called Minister Ayala in for questioning in a session which was to take place on November 16. The process could conceivably had led to his impeachment. Minister Ayala apparently resigned in order to avoid this process. Initially, Minister Ayala appeared to have the support of President Castillo, but not that of the Head of the Cabinet, Mirtha Vásquez.

Chart 3



Sources: Scotiabank Economics, BCRP.

Chart 4



Sources: Scotiabank Economics, BCRP.

—Guillermo Arbe