Latam Daily: Chile Pensions, USD 20 bn Debt Issuance in 2022; Mexico GDP Proxy, Trade

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CHILE: FOURTH PENSION FUND WITHDRAWAL; Q3 PUBLIC FINANCE REPORT AND BUDGET BILL FOR 2022

I. Political debate focused again on pensions, as Lower House passes fourth 10% withdrawal

On Tuesday evening (September 28), after markets closed, the Lower House in Chile passed the bill for the fourth 10% pension fund withdrawal. The proposal, a result of various legislative projects led by opposition parties, was approved with 94 votes (93 required to pass), 39 against, and 9 abstentions. The bill does not include income tax on withdrawals, as has been proposed in earlier drafts. In April, we discussed the political debate that surrounded the third pension fund withdrawal, here.

The fourth pensions withdrawal bill, which is not supported by the administration, will now go to the Senate where it is likely to face greater opposition. At this stage, its outlook is uncertain. According to the Ministry of Finance (MOF), if approved, the measure would inject as much as USD 20 bn into the economy, putting pressure on inflation which is already at 4.8%.

II. Government will issue debt for USD 20 bn in 2022 to cover its financial needs, according to the Fiscal Budget

Earlier, on Tuesday September 28, the (MoF) presented to Congress its Q3-2021 Public Finance Report, issued alongside the 2022 Public Budget Bill. In the Report, the MoF delivered more details about the macroeconomic forecast for the short and medium term, as well as details about the public expenditures for 2022 contained in the Fiscal Budget Bill.

In the macroeconomic scenario, the MoF confirmed the announcement by President Piñera last week, increasing its GDP growth forecast for 2021, from 7.5% to 9.5% which considers an important projected growth for the domestic demand (16.2%). For now, our own GDP forecast remains at 10.7% for this year. For 2022, the government reduced its forecast from 2.9% to 2.5%, considering the expected drop of 22.5% in public expenditures compared to 2021's extraordinary expenses related to COVID-19. Compared to the budget originally approved for 2021, spending in 2022 will increase by 3.7%.

As for public debt, the MoF projects that it will increase from 34.9% of GDP in 2021 to 37.5% in 2022. According to the Public Finance Report, the Budget Bill authorized a maximum of issuances of USD 21 bn in 2022, of which USD 20 bn will be issued mainly to finance the fiscal deficit and to increase the Wealth Sovereign Funds in order to partially recover the level lost due to the pandemic.

—Anibal Alarcón

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MEXICO: JULY'S ECONOMIC REBOUND AND TRADE IN AUGUST LOST STEAM, BUT ENGINES REMAIN SOMEWHAT IN PLACE

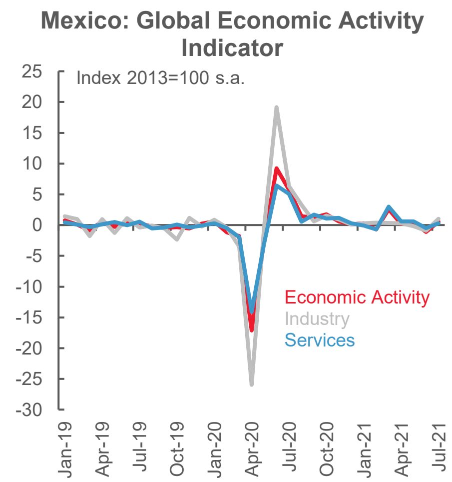
Statistical agency (INEGI) published the monthly GDP proxy (IGAE) for July, showing a continued rebound from the COVID-19 shock, but the strength of the rebound (+0.54% m/m s.a) (chart 1) came up well short of the print expected by consensus (+0.75% m/m sa). Primary activities remain a bright spot (+1.9% m/m s.a), with agriculture being one of the most consistent drivers over the last year. Secondary activities continued to expand at a robust pace (+1.1% m/m), but seem poised to take a hit from a worsening of the auto-sector supply disruption hit as H2–21 plays out. The softest performance was in services (+0.3% m/m sa), which is being weighed down by the new wave of COVID-19, despite the lack of material increases in the stringency of sanitary measures. Based on current COVID-19 infection trends, disruptions to the services sector could worsen in August.

Overall, the Mexican economy looks likely to not recover pre-pandemic activity levels (in real terms) until early 2023, which will be slow by regional standards.

On the merchandise trade front, we also got data for August (also from INEGI) where we saw another big trade deficit print of USD -3.9 bn, following a USD -4.1 bn deficit in July and compared to a consensus deficit of USD -1.1 bn. Our take is that subdued demand was the big driver of the MXN rapid recovery from the initial pandemic-panic driven sell-off, which led to huge trade surpluses. While in the 10 years before the pandemic shock the Mexican monthly trade balance averaged close to a USD 150 mn deficit per month, in June–December of 2020 the Mexican trade balance printed an average surplus of over USD 5 bn per month (chart 2). The first half of this year saw an almost flat trade balance, and the two first months of H2 has seen the balance swing sharply into deficit, driven by very strong imports (in August imports totaled USD 44 bn, versus exports of USD 40 bn) (chart 2, again). The good news, is that investment seems to be gaining some traction, with capital goods imports accounting for close to a third of total imports.

—Eduardo Suárez

Chart 1



Sources: Scotiabank Economics, INEGI.

Chart 2

Sources: Scotiabank Economics, INEGI.