

Latam Weekly: Recovery Radar

FORECAST UPDATES

- In Brazil, we made our longstanding, front-loaded rate path for the BCB's hiking cycle even more pro-active, with a first rate increase brought forward from Q2-2021 to the upcoming March 17 Copom meeting. In Mexico, the receipt of detailed sectoral Q4-2020 GDP data and indications of a stronger than expected hand-off to 2021 prompted a refresh of our outlook. While our forecast for real GDP growth in 2021 has been upgraded from 3.3% y/y to a 4.9% y/y, we continue to expect two more -25 bps cuts from Banxico before the end of Q3-2021.

ECONOMIC OVERVIEW

- COVID-19 second waves prompted new public health restrictions in late-2020 and early-2021, but their impact on economic activity has been less pronounced than measures imposed last year. As these contagion controls begin to be relaxed once again, we look at the corners of the Pacific Alliance countries' economies that are still working to re-open fully.

PACIFIC ALLIANCE COUNTRY UPDATES

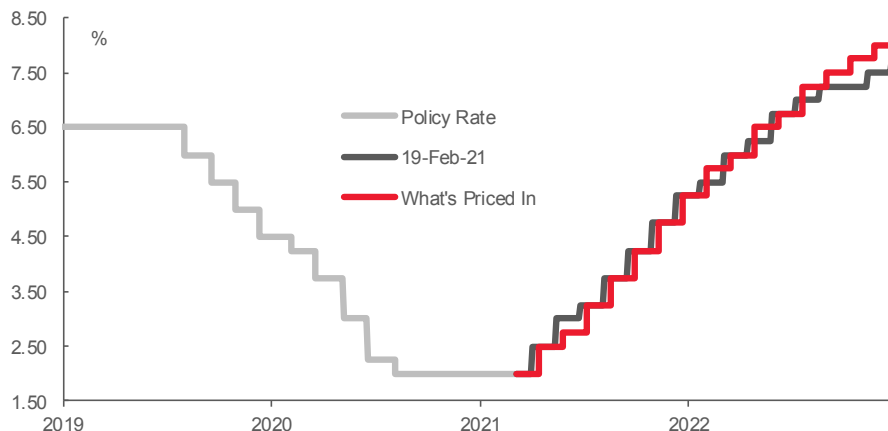
- We assess key insights from end-2020 data and the first months of 2021, with highlights on the main issues to watch over the coming fortnight in the Pacific Alliance countries: Chile, Colombia, Mexico, and Peru.

MARKET EVENTS & INDICATORS

- A comprehensive risk calendar with selected highlights for the period March 8–19 across the Pacific Alliance countries, plus their regional neighbours Argentina and Brazil.

Chart of the Week

Brazil: Markets Pricing Aggressive Hikes by the BCB



Source: Scotiabank GBM.

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

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THIS WEEK'S CONTRIBUTORS:

Jorge Selaive, Chief Economist, Chile
56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Carlos Muñoz, Senior Economist
56.2.2619.6848 (Chile)
carlos.munoz@scotiabank.cl

Sergio Olarte, Head Economist, Colombia
57.1.745.6300 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jackeline Piraján, Economist
57.1.745.6300 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Eduardo Suárez, VP, Latin America Economics
52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

Guillermo Arbe, Head of Economic Research
51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Raffi Ghazarian, Senior Research Analyst
416.866.4211
Scotiabank Economics
raffi.ghazarian@scotiabank.com

Forecast Updates

	2020				2021				2022							
Argentina	Q1	Q2	Q3	Q4e	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2019	2020e	2021f	2022f
Real GDP (y/y % change)	-5.2	-19.0	-10.2	-6.3	0.6	5.3	5.9	4.8	4.4	4.1	2.9	2.2	-2.1	-10.4	4.1	3.4
CPI (y/y %, eop)	48.4	42.8	36.6	36.1	39.1	44.3	46.4	42.9	40.5	39.5	37.5	36.5	53.8	36.1	42.9	36.5
Unemployment rate (% avg)	10.4	13.1	11.7	11.8	12.1	11.9	11.1	10.8	10.1	10.0	9.7	9.5	9.8	11.8	11.5	9.8
Central bank policy rate (% eop)	38.00	38.00	38.00	38.00	40.00	42.00	44.00	46.00	48.00	48.00	48.00	48.00	55.00	38.00	46.00	48.00
Foreign exchange (USDARS, eop)	64.40	70.46	76.18	84.15	89.90	95.80	99.70	106.10	108.30	107.20	105.00	101.40	59.87	84.15	106.10	101.40

	2020				2021				2022							
Brazil	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2019	2020e	2021f	2022f
Real GDP (y/y % change)	-0.3	-10.9	-3.9	-1.1	1.1	3.2	8.9	5.4	3.1	3.6	2.8	2.4	1.4	-4.1	4.6	3.0
CPI (y/y %, eop)	3.3	2.1	3.1	4.5	4.8	4.9	5.0	5.1	5.0	4.9	4.8	4.6	4.3	4.5	5.1	4.6
Unemployment rate (% avg)	11.7	12.9	13.7	14.1	13.8	12.3	12.1	11.7	11.7	11.8	11.6	11.4	11.9	13.1	12.5	11.6
Central bank policy rate (% eop)	3.75	2.25	2.00	2.00	2.50	4.00	5.50	6.00	6.50	7.00	7.00	7.00	4.50	2.00	6.00	7.00
Foreign exchange (USDBRL, eop)	5.21	5.47	5.61	5.19	5.21	5.02	4.76	4.55	4.47	4.54	4.67	4.63	4.02	5.19	4.55	4.63

	2020				2021				2022							
Chile	Q1	Q2	Q3	Q4e	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2019	2020e	2021f	2022f
Real GDP (y/y % change)	0.3	-14.5	-9.1	-0.4	0.3	15.6	7.8	1.8	0.8	3.3	4.6	5.3	1.1	-6.0	6.0	3.5
CPI (y/y %, eop)	3.7	2.6	3.1	3.0	3.1	3.8	3.5	3.0	2.5	2.2	2.5	3.0	3.0	3.0	3.0	3.0
Unemployment rate (% avg)	8.2	12.2	12.3	10.3	10.6	10.5	9.3	8.7	9.4	8.5	7.6	7.1	7.2	10.9	9.8	8.2
Central bank policy rate (% eop)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.50	1.75	0.50	0.50	1.50
Foreign exchange (USDCLP, eop)	854	821	784	711	720	720	720	720	720	720	710	700	753	711	720	700

	2020				2021				2022							
Colombia	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2019	2020	2021f	2022f
Real GDP (y/y % change)	0.7	-15.8	-8.5	-3.6	-3.2	14.1	5.8	3.4	4.2	4.1	3.6	4.2	3.3	-6.8	5.0	4.0
CPI (y/y %, eop)	3.9	2.2	2.0	1.6	1.1	2.2	2.4	2.8	2.9	2.9	3.0	3.0	3.8	1.6	2.8	3.0
Unemployment rate (% avg)	12.6	20.3	17.6	13.8	14.8	13.1	12.6	12.1	12.0	11.5	11.2	11.0	11.2	15.9	13.2	11.5
Central bank policy rate (% eop)	3.75	2.75	1.75	1.75	1.75	1.75	2.00	2.50	3.00	3.50	4.00	4.00	4.25	1.75	2.50	4.00
Foreign exchange (USDCOP, eop)	4,065	3,758	3,828	3,428	3,473	3,465	3,458	3,450	3,438	3,425	3,413	3,400	3,287	3,428	3,450	3,400

	2020				2021				2022							
Mexico	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2019	2020	2021f	2022f
Real GDP (y/y % change)	-1.4	-18.7	-8.6	-4.3	-3.5	16.3	5.6	3.3	2.7	3.3	1.4	1.2	0.0	-8.3	4.9	2.1
CPI (y/y %, eop)	3.2	3.3	4.0	3.2	3.7	4.4	3.8	4.3	4.4	4.7	4.7	3.6	2.8	3.2	4.3	3.6
Unemployment rate (% avg)	2.9	5.5	5.1	3.8	3.7	4.2	3.9	3.7	3.7	3.6	3.8	3.8	3.5	4.3	3.9	3.7
Central bank policy rate (% eop)	6.50	5.00	4.25	4.25	4.00	3.75	3.50	3.50	4.00	4.50	4.75	5.00	7.25	4.25	3.50	5.00
Foreign exchange (USDMXN, eop)	23.67	22.99	22.11	19.91	20.81	21.20	21.53	21.62	21.32	22.07	22.45	22.87	18.93	19.91	21.62	22.87

	2020				2021				2022							
Peru	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2019	2020	2021f	2022f
Real GDP (y/y % change)	-3.7	-30.0	-9.0	-1.7	-0.8	30.1	4.4	6.3	4.5	6.2	3.4	3.4	2.2	-11.1	8.7	4.0
CPI (y/y %, eop)	1.8	1.6	1.8	2.0	3.0	2.9	2.7	2.6	2.6	2.5	2.5	2.3	1.9	2.0	2.6	2.3
Unemployment rate (% avg)	7.8	16.3	16.3	13.8	13.5	13.0	11.0	10.0	10.0	9.0	8.8	8.5	6.6	13.6	12.0	9.0
Central bank policy rate (% eop)	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	2.25	0.25	0.25	0.50
Foreign exchange (USDPEN, eop)	3.43	3.54	3.60	3.62	3.65	3.63	3.58	3.55	3.54	3.52	3.51	3.50	3.31	3.62	3.55	3.50

	2020				2021				2022							
United States	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2019	2020	2021f	2022f
Real GDP (y/y % change)	0.3	-9.0	-2.8	-2.5	-0.8	11.4	6.3	6.9	7.3	5.3	3.0	1.7	2.2	-3.5	5.8	4.3
CPI (y/y %, eop)	1.5	0.6	1.4	1.4	1.5	1.8	2.0	2.1	2.3	2.5	2.6	2.7	2.0	1.2	2.1	2.7
Unemployment rate (% avg)	3.8	13.1	8.8	6.8	6.7	6.2	5.7	5.2	4.6	4.1	3.8	3.6	3.7	8.1	6.0	4.0
Central bank policy rate (% eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.25	0.25	0.25
Foreign exchange (EURUSD, eop)	1.10	1.12	1.17	1.22	1.23	1.25	1.26	1.26	1.25	1.25	1.24	1.24	1.12	1.22	1.26	1.24

Source: Scotiabank Economics.

Red indicates changes in estimates and forecasts since previous *Latam Weekly* on February 22, 2021.

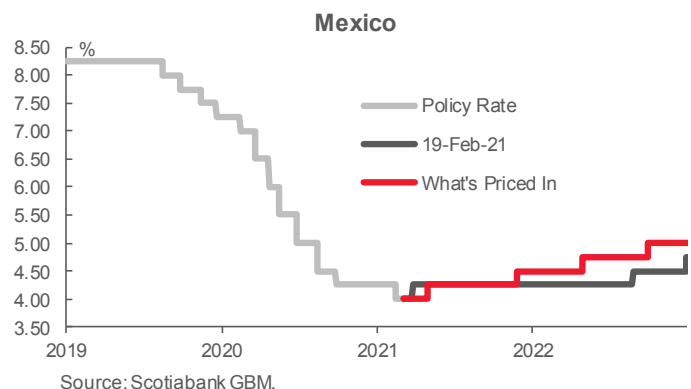
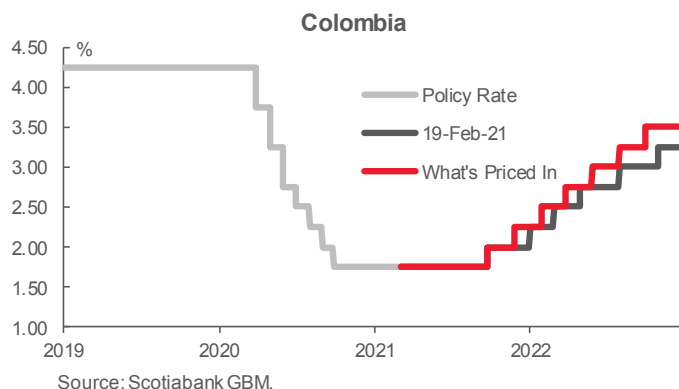
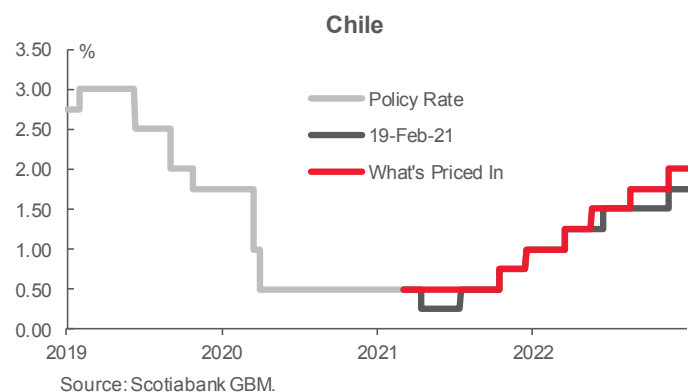
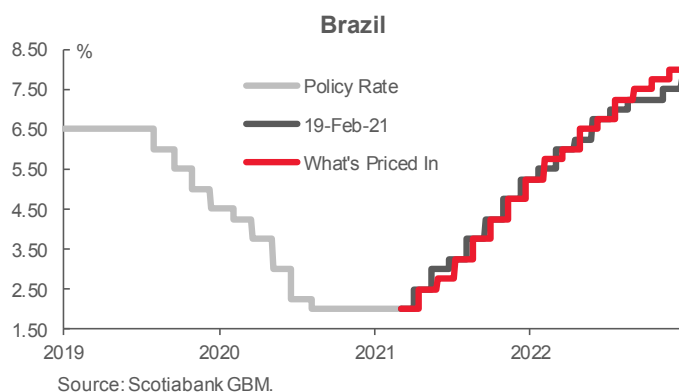
Forecast Updates: Central Bank Policy Rates and Outlook

Latam Central Banks: Policy Rates and Outlook

	Next Scheduled Meeting				Market Pricing		BNS Forecast		BNS guidance for next monetary policy meeting
	Current	Date	Market	BNS	12 mos	24 mos	End-2021	End-2022	
Argentina, BCRA, TPM, n.a.	38.00%	n.a.	n.a.	40.00%	n.a.	n.a.	46.00%	48.00%	After cutting the benchmark Leliq rate by -200 bps in October 2020, the BCRA reversed these moves on Nov. 12, 2020 as negotiations resumed with the IMF mission. We brought forward additional gradual hikes to take real rates back into positive territory to control inflation and shore up the ARS.
Brazil, BCB, Selic	2.00%	Mar-17	2.40%	2.50%	6.06%	8.51%	6.00%	7.00%	Bets are mounting that the Copom could begin tightening the Selic at its March 17 meeting. DI rates are now pricing in 150 bps of hikes over the next 3 months, 375 bps of Selic increases over the next 12 months, and a very aggressive total of 700 bps of hikes over the next three years. In his latest comments on March 2, Gov. Campos Neto was somewhat non-committal: he noted that it was important to remain calm on inflation, but outlined an environment of higher growth and prices. New fiscal stimulus is set to be balanced by compensatory measures, which takes some pressure off the BCB. Still, we continue to think the Copom will front load its tightening cycle to minimize rollover risk on Brazil's public debt and lift the Selic by 50 bps in its next rate decision.
Chile, BCCh, TPM	0.50%	Mar-30	0.43%	0.50%	1.19%	2.15%	0.50%	1.50%	For the BCCh, the latest economic news is not entirely encouraging with respect to gaps in the labour market. Job creation has slowed and the quality of new positions remains a concern. Consequently, we do not expect changes to the Bank's stimulative bias at the next policy meeting on March 30.
Colombia, BanRep, TII	1.75%	Mar-26	1.69%	1.75%	2.64%	3.97%	2.50%	4.00%	We expect the policy rate to be kept on hold at the March meeting and over the coming months: the economy is rebounding again and annual inflation should begin rising after Q1-2021. We foresee hikes later in the year to take the policy rate to 2.50% by end-2021.
Mexico, Banxico, TO	4.00%	Mar-25	4.26%	4.00%	4.61%	5.26%	3.50%	5.00%	Banxico's latest Inflation Report showed a material increase in the Bank's base case 2021 GDP forecast from 3.3% y/y to 4.8% y/y, yet its balance of risks to growth were dominated by downside concerns. In addition, the unanimous vote on the most recent cut sent a fairly strong dovish signal. However, in light of the looming base-effect-driven spike in annual headline inflation, which should be particularly acute in April-May, as well as the ongoing increase in global interest rates, the margin for Banxico to ease further is becoming slimmer. We still call for two additional 25 bps cuts during the summer, but for those to materialize, we need to see the rise in US yields reverse, or at least stabilize.
Peru, BCRP, TIR	0.25%	Mar-11	n.a.	0.25%	n.a.	n.a.	0.25%	0.50%	Inflation softened to 2.4% y/y in February, putting it closer to the 2% y/y midpoint of the target range. This gives the BCRP more room to keep the reference rate at 0.25% for a prolonged period.

Sources: Scotiabank Economics, Scotiabank GBM, Bloomberg.

What's Priced In



Economic Overview: Lift-Off and Re-Opening

- Brazil's BCB is now expected to begin its hiking cycle at the Copom's March 17 meeting.
- Mexico's growth outlook for 2021 has been upgraded substantially.
- Pacific Alliance governments have begun lifting second-wave contagion controls, but as in most economies, service-sectors have the furthest still to go to re-open fully.

FORECAST UPDATES: BRAZIL AND MEXICO IN FOCUS

Our forecast updates (see table on p. 2) are focused on Brazil and Mexico, where some meaningful changes have been introduced.

In Brazil, we made our longstanding, front-loaded rate path for the BCB's hiking cycle even more pro-active, with a first rate increase brought forward from Q2-2021 to the upcoming March 17 Copom meeting. Consensus has now broadly aligned around this view. The DI market is currently pricing almost 700 bps of Selic raises over the next three years in response to annual inflation around 5% y/y, more fiscal stimulus, and debt-sustainability concerns.

In Mexico, the receipt of detailed sectoral Q4-2020 GDP data and indications of a stronger-than-expected hand-off to 2021 prompted a refresh of our entire outlook. While our forecast for real GDP growth in 2021 has been upgraded from 3.3% y/y to 4.9% y/y, we continue to expect two more -25 bps cuts from Banxico before the end of Q3-2021 owing to persistent softness in both investment and consumption. While level effects are set to keep headline annual inflation at the 4% y/y ceiling of Banxico's target range into Q2-2021, our team in Mexico City now foresees one -25 bps cut in Q2 and a second in Q3 (previously both were pencilled in for Q3), with policy rates heading upward again in early-2022.

CENTRAL BANKS: THE FIRST LIFT-OFF

March features a busy central bank calendar (see table, p. 3), with Brazil's BCB and Peru's BCRP leading the way.

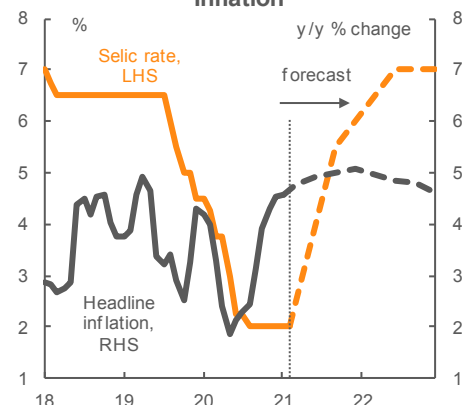
- **Brazil.** The Copom's next rate decision is scheduled for Wednesday, March 17, and we, along with the consensus of analysts, expect a 50 bps increase in the Selic to kick off the first major hiking cycle amongst major Latam central banks (chart 1). Persistently high inflation in the midst of a gradually falling BCB target (chart 2), roll-over concerns with respect to Brazil's large stock of public debt, and a fresh, if modest, round of fiscal stimulus prompted us to bring forward this first rate increase from our previous forecast that it would happen in Q2. Over the course of 2021, our Brazil economist expects the Copom to lift the Selic from 2.00% to 6.00%, and onward to 7.00% by end-2022. Our projected rate path is slightly more front-loaded than expected by the DI market, which is pricing 150 bps in hikes over the next three months and 375 bps in increases over the next year. Our calculus is that more pro-active moves by the Copom could limit this cycle's

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Chart 1

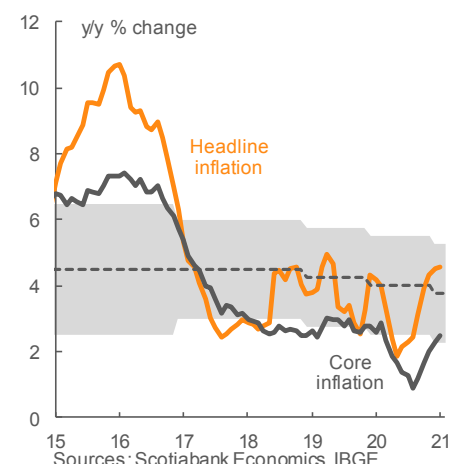
Brazil: Selic Rate vs Headline Inflation



Sources: Scotiabank Economics, BCB, IBGE.

Chart 2

Brazil: Headline & Core Inflation



Sources: Scotiabank Economics, IBGE.

terminal rate below the nearly 9.00% priced into DIs three years out (chart of the week, p. 1). Markets have opened a door for the Copom to move and we believe they'll take this opportunity—and then some.

Both our view—and the market's—is based on macro fundamentals rather than strictly a reflection of recent BCB communications. In his latest comments on Tuesday, March 2, Governor Campos Neto was somewhat equivocal: he stated that it's important to remain calm on inflation, but he also noted that we're in an environment of higher growth, with inflation becoming a new reality.

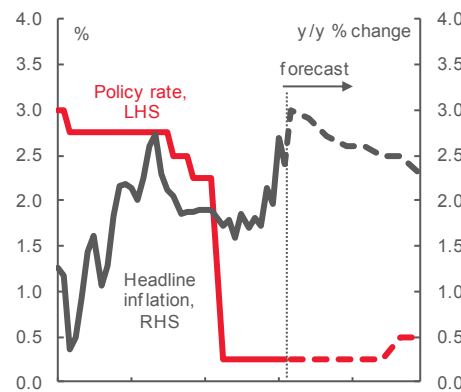
The BCB's job has been made somewhat easier by recent developments on the fiscal front. The new USD 7.8 bn stimulus package is likely to start flowing soon, and its Renda Brasil program, which replaces the Bolsa Familia system, should help sustain demand. Additionally, compensatory measures to maintain fiscal sustainability that were introduced by Minister Guedes managed to survive the legislative process without being undermined—which dampens some conflicting concerns for the BCB.

- **Peru.** The BCRP's Board is scheduled to meet on Thursday, March 11, and we don't anticipate any major developments at this meeting: the policy rate is expected to be held at the current record low of 0.25% with no meaningful change in the Board's communications (chart 3). At its previous rate decision on Thursday, February 11, the Board similarly kept its key policy rate on hold at 0.25% and held its forward guidance unchanged in its [statement](#). Board members advised that it would be "appropriate to keep the Bank's expansive monetary policy stance for an extended period, so long as the negative effects from the pandemic on inflation and its determinants continue to persist." The Board also repeated its promise that any further stimulus, if needed, would be provided through other instruments.

Following the pull back in annual inflation from 2.7% y/y in January to 2.4% y/y in February (chart 4), our team in Lima re-affirmed its expectation that the central bank will keep policy rates on hold through mid-2022. Although level effects could still drive headline annual inflation back toward the top of the BCRP's 1–3% y/y target range at some point in the coming months, sequential monthly inflation looks set to remain well contained.

Chart 3

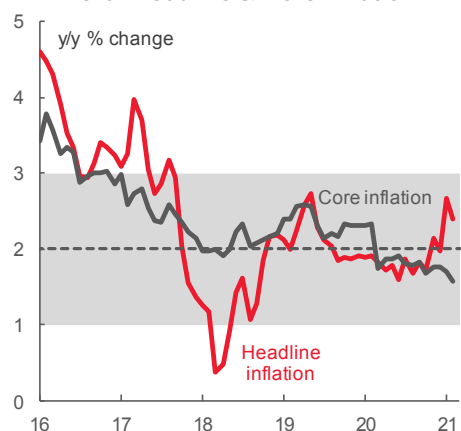
Peru: BCRP Reference Rate vs Headline Inflation



Sources: Scotiabank Economics, BCRP, INEI.

Chart 4

Peru: Headline & Core Inflation



Sources: Scotiabank Economics, BCRP, INEI.

GAPS IN THE RE-OPENING RADAR

Despite the imposition of new controls to head off rising second waves of COVID-19 through the turn of the year, the Pacific Alliance economies continue to be nearly fully re-opened (table 1). But as in most countries, significant reactivation challenges remain in sectors and business models where physical distancing is difficult. As charts 5 through 8 underscore, most of the major sectors in Chile, Colombia, Mexico, and Peru have returned to pre-pandemic levels of monthly economic activity. Notable exceptions remain in tourism, hospitality, culture, and entertainment across all four economies, where levels of economic activity are up to -20% below pre-COVID-19 numbers. Transportation remains similarly impaired across all four countries owing to mobility restrictions.

Table 1

PAC economic recovery timeline

	Approx. share of economy open, %	Expected return to 2019 real GDP levels
Chile	90	2021-Q4
Colombia	95	2022-Q3
Mexico	96	2023-Q3
Peru	95	2022-Q3

Source: Scotiabank Economics.

Construction is the other major sector where activity remains broadly impaired, but with substantial variation across the Pacific Alliance. Building activity is down between about 10% in Mexico and nearly 25% in Colombia compared with February 2020, but construction has recovered to 103% of pre-pandemic levels in Peru. Peru's outperformance reflects a relatively hot housing market in Lima and a recovery in public investment after a few quarters in which government capital spending had been a drag on growth.

In contrast, it's notable that manufacturing, retail trade, utilities, and extractive industries are more or less fully re-opened across all four economies. At this stage, even if a third wave should emerge and elicit new controls, it's unlikely that activity in these sectors would retrench again—we would instead simply see a delay in further gains.

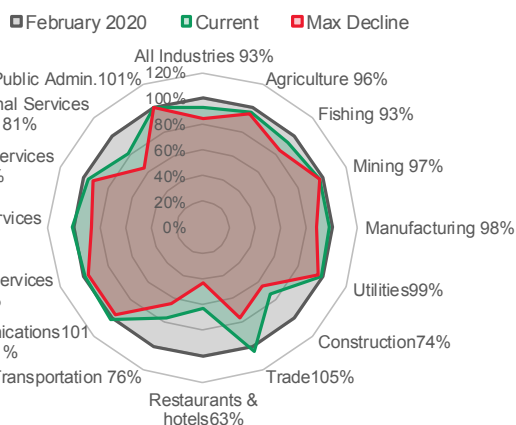
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Chart 5

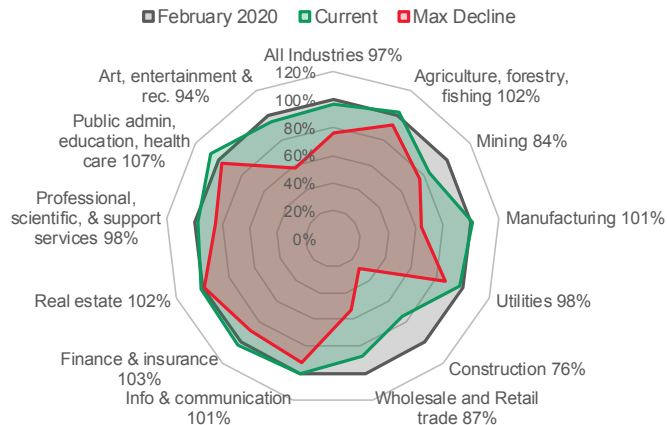
Chile: GDP Recovery by Industry



Sources: Scotiabank Economics, BCCh.

Chart 6

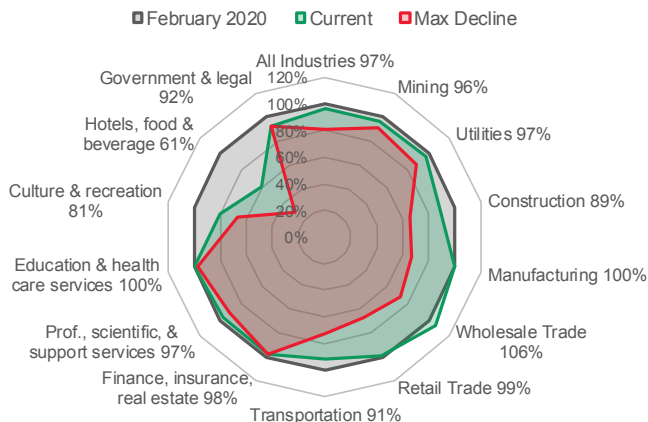
Colombia: GDP Recovery by Industry



Sources: Scotiabank Economics, DANE.

Chart 7

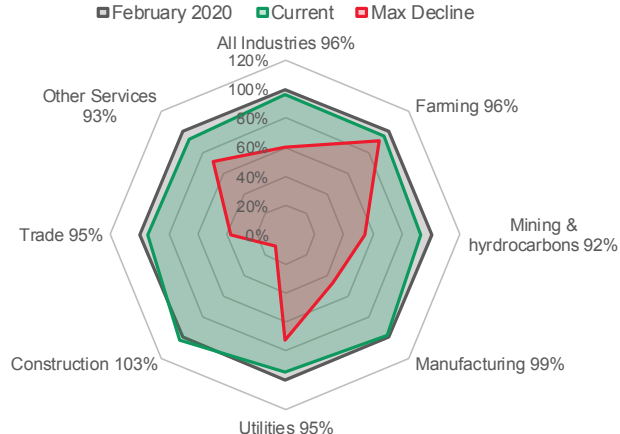
Mexico: GDP Recovery by Industry



Sources: Scotiabank Economics, INEGI.

Chart 8

Peru: GDP Recovery by Industry



Sources: Scotiabank Economics, BCRP.

Pacific Alliance Country Updates

Chile—Mass Vaccination Continues at a Formidable Pace; Employment Growth Slowed in January

Jorge Selaive, Chief Economist, Chile

56.2.2619.5435 (Chile)

jorge.selaive@scotiabank.cl

Carlos Muñoz, Senior Economist

56.2.2619.6848 (Chile)

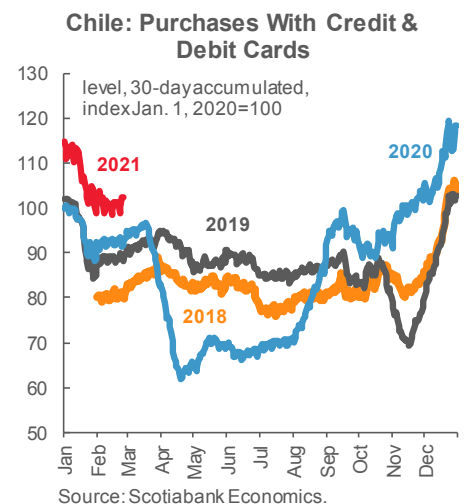
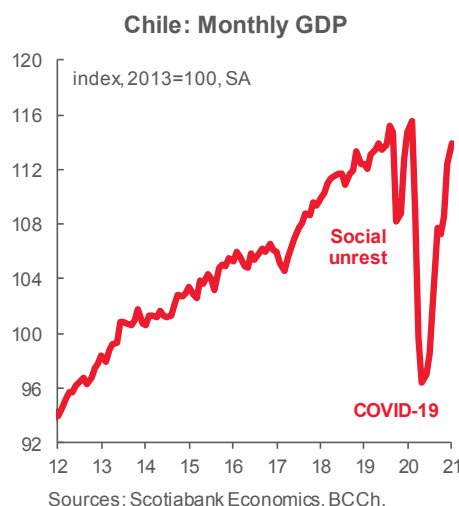
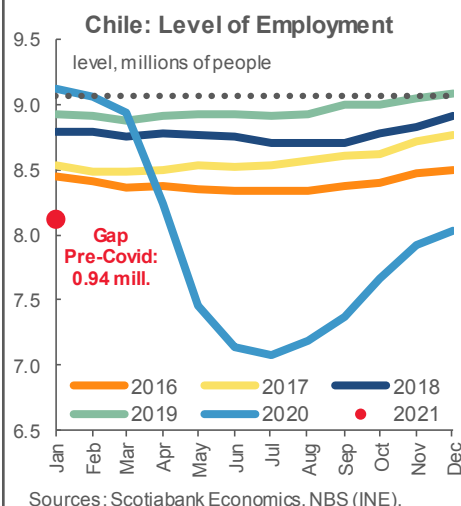
carlos.munoz@scotiabank.cl

Mass vaccination continues advancing at a formidable pace in Chile. As of the beginning of March, the national government had received 7,865,476 Sinovac vaccine doses and 505,050 Pfizer/BioNTech doses, which has allowed the vaccination of more than 19% of the population with at least a first dose.

In data released Friday, February 26, the unemployment rate decreased to 10.2% in the rolling quarter November 2020 to January 2021, but the workforce is starting to grow more rapidly than employment (first chart), as is to be expected given that mobility restrictions have been lifted and more active searches for employment have begun. This will curb the fall in the unemployment rate in the coming months, and we do not rule out that it may even rise as the number of people entering the labour force could run ahead of job creation. As we have mentioned before, as vaccinations advance and mobility returns, so will the desire to seek employment. Sectoral data for January was also released on February 26. Manufacturing production fell -4.4% y/y, a print that was below expectations, explained by a sharp decrease in the production of chemical substances due to lower external demand. Positive news came from retail sales, which expanded 10.2% y/y (excluding new cars), fueled by the second set of withdrawals of pension assets.

Data released on March 1 showed that January monthly GDP contracted -3.1% y/y (versus Bloomberg: -1.3% y/y and EEE: -1% y/y), owing to fewer working days relative to January 2020. On a seasonally adjusted basis, activity expanded 1.3% m/m, as services continue to rebound. The main disappointment came from construction, which fell relative to the previous month and in year-over-year terms, affected by COVID-19-control measures that have prevented a complete resumption of large construction activities. It should be noted that minor construction and architecture activities remain dynamic, as indicated in the central bank's February [Business Perceptions Report](#).

Given that February 2021 had the same number of business days as February 2020 and considering that seasonally adjusted growth that has been observed most months since June (interrupted only in October 2020, see second chart), we anticipate a decline between -1 y/y and 0% y/y in February GDP. So far, these results are fully consistent with an expansion of GDP in 2021 of no less than 6.0% y/y as the recovery gathers steam in the months ahead.



Our high-frequency indicators show that growth in the volume of Scotiabank Chile debit and credit card transactions has flattened at the margin, but remains above levels from a year ago (third chart). These data show that spending coming from the withdrawal of pension assets continues to lose momentum. But, in contrast, electricity generation levels have picked up in recent weeks, surpassing 2020 levels for the same period (fourth chart).

February inflation data was released on Monday, March 8. We anticipated a print of 0.3% m/m, explained by the rise in fuels, cigarettes, and upward pressure on mass consumption goods, fueled by the second withdrawal of pension assets. In the event, inflation came in at 0.2% m/m, and with this, annual inflation was 2.8% y/y last month, which followed 3.1% y/y in January. For year-end, we maintain our inflation forecast of 3.0% y/y, which is below market expectations. Our view is that the still-significant gap in the labour market should translate into lower pressures on prices throughout the year. This would offset the transitory upward shocks seen in the past few months, which were explained mainly by the withdrawal of pension assets and the liquidity measures to support household incomes.

Detailed national accounts data for Q4-2020 will be released on March 18. As often happens, we might see a slight revision in GDP figures, but that should not change the effective growth rate of 2020, which was -6.0% y/y. For 2021, on the other hand, we expect an increase of 6.0% y/y.

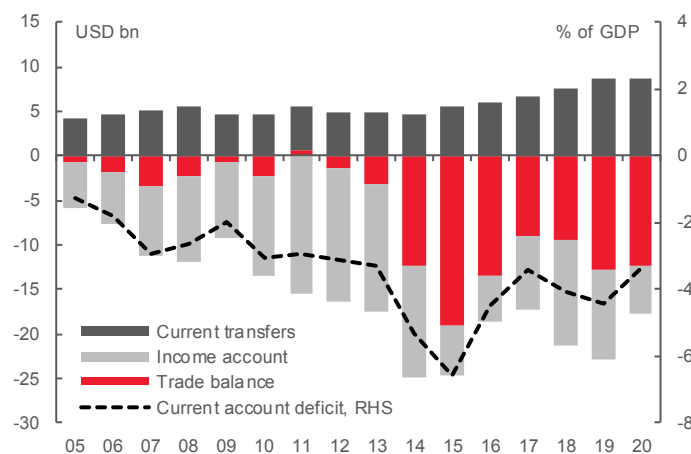
Colombia—Recovery Implies Wider Current Account Deficit, but It Should Be Covered by FDI

Sergio Olarte, Head Economist, Colombia
57.1.745.6300 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jackeline Piraján, Economist
57.1.745.6300 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

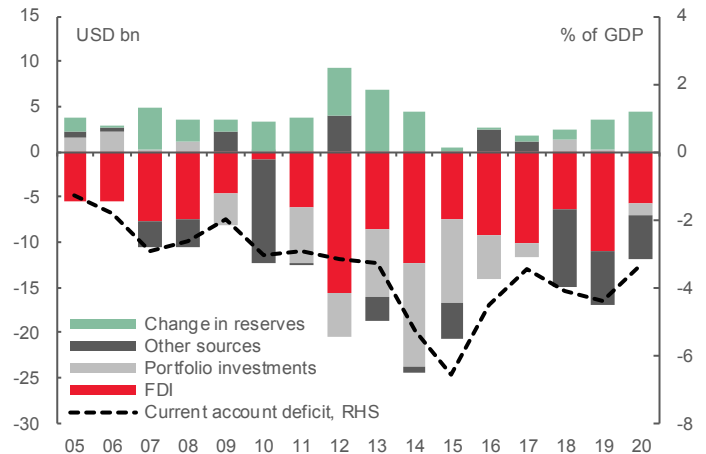
On March 1, BanRep published balance of payments (BoP) results for Q4-2020 and for 2020 as a whole, completing the picture in terms of macro variables for 2020. Not surprisingly, the current account deficit narrowed significantly in 2020 to -3.3% of GDP from -4.4% of GDP in 2019. A substantial decline in domestic demand led imports to fall by -21.7% y/y (goods and services) and reduced net outflows from the income account (also expected). These developments coincided with better-than-anticipated results for remittances—especially during the last quarter of 2020, which saw an expansion of 9.5% y/y—which confirmed that in 2020 the automatic stabilizers in Colombia's external accounts worked perfectly: indeed, the net effects between exports, imports, income, transfers, and remittances are themselves the automatic stabilizers (first chart).

Colombia: Current Account Deficit by Components



Sources: Scotiabank Economics, BanRep.

Colombia: Current Account Deficit & Financing



Sources: Scotiabank Economics, BanRep.

Additionally, in 2020 higher government indebtedness provided substantial new external financing (“other sources”, second chart) that was required to fill the shortfall in revenues resulting from the recession (COP 15.5 tn or 1.5% of GDP) and pandemic-related higher countercyclical spending equivalent to around 4% of GDP.

In Q4-2020, the current account deficit widened by -1.5% q/q to reach -4.1% of GDP, despite support to exports from better oil prices. Although a higher current account deficit is considered a vulnerability, it also showed that domestic demand recovered as mobility restrictions were eased. In fact, from September 2020 imports started a recovery path and, by December 2020, consumption and raw materials imports had turned positive compared with a year before. In contrast, capital goods imports were flat—very much in line with the quarter’s major GDP components, where private consumption was up by 8% q/q but investment rose by only 1.5% q/q. All this good news of rising domestic economic activity comes with a cost: the ample current account deficit had to be financed, and fortunately, the arrangement under the IMF’s Flexible Credit Line (FCL) saved the day.

For this year (as we stressed in the February 22 [Latam Weekly](#)), we expect economic activity to consolidate its recovery and GDP to grow 5% y/y on the back of improved investment along with a normalization in consumption; therefore, we expect the trade balance to deteriorate further owing to much higher capital imports, especially those related to transport and civil works. However, we do not anticipate the same speed of recovery for exports since coal (12% of total exports) has an endemic problem and we do not foresee higher exports from the sector this year. Additionally, as oil exports (in dollars) recover due price gains, outflows from the income account will also increase as a result of higher remittances of revenues from foreign oil companies back to their headquarters.

Finally, as the fiscal package passes in the United States, we believe remittances will benefit due to their high positive correlation with US economic activity. All in, the current account deficit in Colombia will likely deteriorate in 2021 to -3.8% of GDP or slightly more if economic activity accelerates further.

As discussed above, higher current account deficits must be financed; however, in 2021 Colombia will not have the extraordinary assistance from multilaterals it had in 2020 and government external debt issuance is unlikely to increase at the same pace as last year. Financing, therefore, must come from another source. The last couple of recovery cycles showed that higher current account deficits have been financed primarily by FDI. For instance, in 2011, Colombian GDP grew 7% y/y and the current account deficit deteriorated by USD 1 bn—but FDI grew 128% y/y to finance this greater external deficit. This trend continued for the next three years, especially since investment grew by 8.5% y/y, on average, during that time. Higher capital imports for investment were accompanied by their own financing via FDI. For 2021, we expect investment to rise by 7.7% y/y, financed by 48% y/y growth in FDI that would complete financing of the current account deficit.

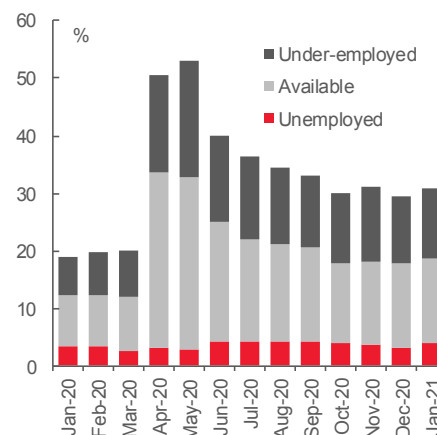
Colombia’s current account deficit is likely to put a limit on the extent to which the COP may appreciate in the near term. As vaccinations roll out, global economic activity grows, international trade recovers, and risk sentiment improves, EM currencies should receive some support, but Colombia’s balance of payments could dampen the extent to which the peso sees gains compared with its peers.

Mexico—Revisions to Our Forecasts

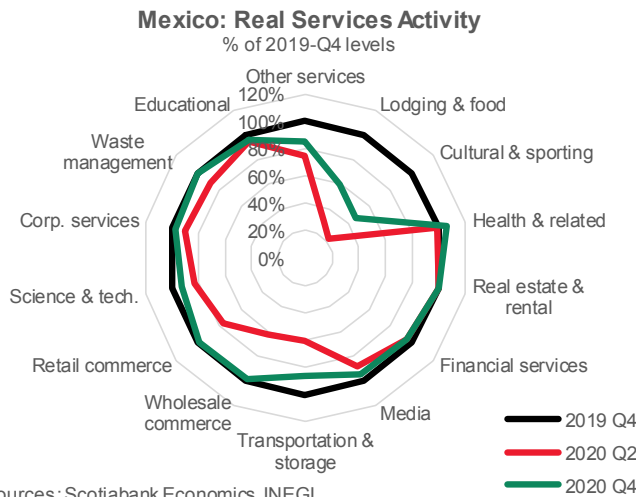
Eduardo Suárez, VP, Latin America Economics
52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

Mexico remains stuck in a “K-shaped” recovery where domestic demand and the services sector have lagged other major components of GDP. However, vaccination efforts in the US (which accounts for 65–77% of tourism into Mexico) as well as an eventual normalization in domestic activity imply that, during the second half of the year, we could see a stronger-than-anticipated recovery in tourism & entertainment, the weakest sub-sectors within services. The rebound in services should provide a significant boost to both GDP and employment. Mexico’s

Mexico: Labour Gap by Component



Sources: Scotiabank Economics, IMCO.



Mexico: Forecasts

	CPI, % eop	GDP, y/y % change	USDMXN	Banxico o/n rate, %
21-Q1	3.7	-3.5	20.81	4.00
21-Q2	4.4	16.3	21.20	3.75
21-Q3	3.8	5.6	21.53	3.50
21-Q4	4.3	3.3	21.62	3.50
22-Q1	4.4	2.7	21.32	4.00
22-Q2	4.7	3.3	22.07	4.50
22-Q3	4.7	1.4	22.45	4.75
22-Q4	3.6	1.2	22.87	5.00
23-Q1	2.8	2.1	22.92	5.25
23-Q2	2.6	1.7	23.08	5.50
23-Q3	2.6	1.5	23.14	5.75
23-Q4	3.1	1.7	23.38	5.75

Source: Scotiabank Economics.

employment gap remains over 10 percentage points wider than its pre-COVID-19 level (first chart), with an important part of the recovery to date coming from secondary activities. We expect the recovery in the tourism & entertainment sector, which accounts for around 10% of employment, to support jobs gains and to provide an impulse to broader domestic demand. Accordingly, despite still seeing an economy in contraction on a y/y basis in Q1-2021, we are revising our 2021 growth forecast upwards, based on our expectation of much more dynamic services-sector activity in H2-2021 that begins closing existing gaps (second chart). Our revised 2021 real GDP growth forecast of 4.9% y/y, on the back of a stronger quarterly profile (table), is 10 bps higher than the base case Banxico just released in its [Quarterly Inflation Report](#).

The next couple of weeks are relatively light for the data pipeline, with the first major release being February CPI on March 9. In the event, the print came in tight to consensus at 0.63% m/m and 3.76% y/y, just above our projections. Although this brought sequential inflation down from 0.86% m/m in January, level effects pushed annual inflation up from 3.54% y/y. Looking ahead, we get ANTAD same store sales for February (March 10), which should improve after a dismal January; and industrial production for the first month of the year (March 12), which we expect to show a loss in momentum. On March 19 we will also get aggregate demand data, where we expect domestic activity to remain broadly subdued, with investment still the weakest link in the recovery.

The next Banxico rate decision is scheduled for March 25, and we expect the Board to stay on hold at that time.

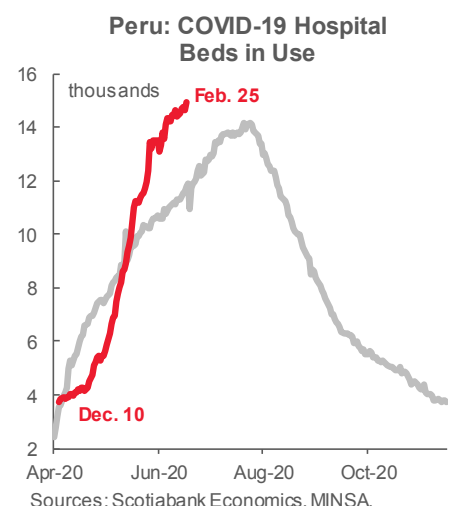
Monetary-policy decisions will remain finely balanced through the middle of the year as policy makers and markets look to see how headline inflation fares through Q2-2021, but we expect -50 bps of additional cuts during Q2-Q3.

Peru—Double Uncertainty in Q1: COVID-19 and Elections

Guillermo Arbe, Head of Economic Research
51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

COVID-19 concerns continue to dominate the government agenda. Although there are incipient signs that the second wave of new cases is passing its peak (first chart), the country is still far from being out of the woods. However, most of the restrictions that were put in place in February have been lifted, and the government seems to be inclined to continue to ease controls. Vaccinations have started, with about 1% of the population having received shots.

The economy appears to have gotten off to a slower start in 2021, as COVID-19 measures, as limited as they have been, put a pause on the impressive recovery

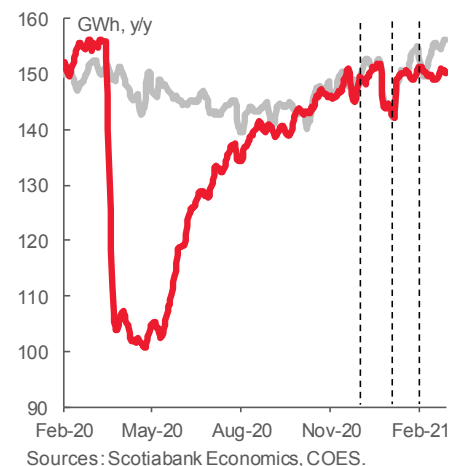


with which 2020 ended. We now expect a mild -1.5% y/y contraction in GDP in January. February is more difficult to gauge. The restrictions were broader, but they affected mobility—and therefore demand—rather than production. Electricity output declined a rather benign -1.8% y/y in February (second chart) and government officials reported a strong 18.7% y/y increase in public investment in February. However, what we're really looking forward to seeing is March, which will be the first month to compare with last year's lockdown, so GDP growth should be very high. Just how high will tell us how much of the growth is simply a rebound off a low base, and how much is more than that. Construction, real estate, agroindustry, and government spending are sectors and sources of demand that are currently clearly above pre-COVID-19 levels.

Politics will dominate economics until the April 11 elections. The elections continue to be very open, with the leading candidates for the presidency garnering no more than 10% to 11% of support in polls. Only seven percentage points separate the leading candidates from those in 6th to 7th place. Undecided and blank poll results garnered three times the responses of the leaders in the polls. In short, there are only so many ways to say that the race is as open as can be. As elections near, votes typically start concentrating around candidates who are more likely to get into the second round.

In recent economic news, inflation subsided to 2.4% y/y in February from 2.7% y/y in January and, with this print, our concerns over inflation's trend have also eased. This is a level of inflation at which the BCRP can be comfortable leaving its reference rate at 0.25% for a prolonged period of time (third chart).

Copper has been the talk of the town ever since it surpassed USD 4/lb, a price nearly beyond belief just six months ago. The FX market has yet to acknowledge high metal prices, however, and the PEN has continued to weaken. A correction and realignment with metal price fundamentals later in the year may depend on how much confidence the soon-to-be elected authorities instill in markets. In the short term, corporate USD demand has continued to be firm, but at a reduced pace, while offshore USD demand has come off the sidelines to put additional downward pressure on the PEN. In response, the BCRP has become more active in containing the PEN's losses. The end result is a moderate softening of the USDPEN to the 3.66–3.68 level. We had been expecting this range, as the PEN typically weakens prior to elections.

Peru: Electricity Demand Growth

Peru: Inflation & Reference Rate


Market Events & Indicators for March 8–19

ARGENTINA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
03-10	14:00	Capacity Utilization Rate (%)	Jan	--	--	58.4	
03-11	14:00	Greater Buenos Aires CPI (m/m)	Feb	--	--	3.3	
03-11	14:00	Greater Buenos Aires CPI (y/y)	Feb	--	--	35.9	
03-11	14:00	National CPI (m/m)	Feb	--	3.7	4.0	Monthly inflation is set to stay in the 3–4% m/m range into Q2-2020.
03-11	14:00	National CPI (y/y)	Feb	--	40.7	38.5	Level effects that pulled down annual inflation in late-2020 are rolling off.
03-17		UTDT Leading Indicator (m/m)	Feb	--	--	-0.8	

BRAZIL

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
03-08	6:00	FGV Inflation IGP-DI (m/m)	Feb	--	2.3	2.9	Actual: 2.7
03-08	6:00	FGV Inflation IGP-DI (y/y)	Feb	--	29.4	26.6	Actual: 30.0
03-08	13:00	Trade Balance Weekly (USD, mn)	07-Mar	--	--	1,004.9	Actual: -427.6
03-09	3:00	FIPE CPI - Weekly (m/m)	07-Mar	--	0.3	0.4	Actual: 0.2
03-09	7:00	IBGE Services Sector Volume (y/y)	Jan	--	-4.8	-3.3	Actual: -4.7
03-09		Formal Job Creation Total	Jan	--	188,326	-67,906	
MAR 9-12		Economic Activity (y/y)	Jan	--	-0.5	1.3	
MAR 9-12		Economic Activity (m/m)	Jan	--	0.3	0.6	New fiscal support should sustain growth through 2021.
03-10	6:00	IGP-M Inflation 1st Preview (m/m)	Mar	--	1.8	1.9	
03-11	7:00	IBGE Inflation IPCA (m/m)	Feb	--	0.7	0.3	
03-11	7:00	IBGE Inflation IPCA (y/y)	Feb	--	5.0	4.6	
03-12	7:00	Retail Sales (y/y)	Jan	--	0.0	1.2	
03-12	7:00	Retail Sales (m/m)	Jan	--	-0.2	-6.1	
03-12	7:00	Retail Sales Broad (y/y)	Jan	--	-0.5	2.6	
03-12	7:00	Retail Sales Broad (m/m)	Jan	--	-0.6	-3.7	
03-15	14:00	Trade Balance Weekly (USD, mn)	14-Mar	--	--	--	
03-16	7:00	FGV Inflation IGP-10 (m/m)	Mar	--	2.0	3.0	
03-17	4:00	FIPE CPI - Weekly (m/m)	15-Mar	--	0.3	--	
03-17	17:00	Selic Rate (%)	17-Mar	2.50	2.50	2.00	We expect the Copom to initiate an extended hiking cycle at the March meeting.
03-18	7:00	IGP-M Inflation 2nd Preview (m/m)	Mar	--	2.0	2.3	

CHILE

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
03-08	6:00	CPI (m/m)	Feb	0.3	0.4	0.7	Rise in prices of fuels, cigarettes, and other consumer goods, driven by the second withdrawal of pension
03-08	6:00	CPI (y/y)	Feb	2.9	3.1	3.1	assets. Actual: 0.2 m/m; 2.8 y/y.
03-08	6:30	Trade Balance (USD, mn)	Feb	--	1,100.0	1,739.8	Actual: 1,516
03-08	6:30	Exports Total (USD, mn)	Feb	--	--	7,037.7	Actual: 7,071
03-08	6:30	Imports Total (USD, mn)	Feb	--	--	5,297.8	Actual: 5,555
03-08	6:30	Copper Exports (USD, mn)	Feb	--	--	2,733.2	Actual: 3,879
03-08	6:30	International Reserves (USD, mn)	Feb	--	--	38,998	Actual: 39,562
03-18	7:30	Current Account Balance (USD, mn)	4Q	--	--	-25.0	
03-18	7:30	GDP (q/q)	4Q	--	--	5.2	
03-18	7:30	GDP (y/y)	4Q	-0.4	--	-9.1	

COLOMBIA

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
03-08		Consumer Confidence Index	Feb	--	-10.8	-20.8	Actual: -14.6
03-15	11:00	Manufacturing Production (y/y)	Jan	-2.8	--	1.5	Major cities implemented new lockdowns to contain the recent COVID-19 outbreak. Commerce was hard hit as
03-15	11:00	Retail Sales (y/y)	Jan	-8.0	--	-2.8	Bogotá faced strict mobility restrictions during weekends.
03-15	15:00	Industrial Production (y/y)	Jan	--	--	-5.4	
03-15		Central Bank Economist Survey	Jan	--	--	--	
03-18	11:00	Trade Balance (USD, mn)	Jan	--	--	-880.2	
03-18	11:00	Imports CIF Total (USD, mn)	Jan	--	--	4,142.5	
03-18	15:00	Economic Activity NSA (y/y)	Jan	-5.0	--	-2.5	

MEXICO

Date	Time	Event	Period	BNS	Consensus	Latest	BNS Comments
03-08	7:00	Consumer Confidence Index	Feb	--	--	38.4	Actual: 38.4
03-09	7:00	CPI Core (m/m)	Feb	0.3	0.4	0.4	Actual 0.39
03-09	7:00	CPI (m/m)	Feb	0.5	0.6	0.9	Actual: 0.63
03-09	7:00	CPI (y/y)	Feb	3.7	3.8	3.5	Actual: 3.76
03-09	7:00	Bi-Weekly Core CPI (m/m)	28-Feb	0.0	0.1	0.2	Actual : 0.18
03-09	7:00	Bi-Weekly CPI (m/m)	28-Feb	0.1	0.3	0.2	Actual: 0.31
03-09	7:00	Bi-Weekly CPI (y/y)	28-Feb	3.6	3.7	3.8	Actual: 3.68
03-09	10:00	International Reserves Weekly (USD, mn)	05-Mar	--	--	195,270	
03-10		ANTAD Same-Store Sales (y/y)	Feb	--	--	-8.2	
03-10		Nominal Wages (y/y)	Feb	--	--	3.8	
03-12	7:00	Industrial Production SA (m/m)	Jan	--	0.2	0.1	
03-12	7:00	Industrial Production NSA (y/y)	Jan	--	-4.2	-2.1	
03-12	7:00	Manuf. Production NSA (y/y)	Jan	--	-0.9	2.5	
03-12	13:00	Formal Job Creation Total (000s)	Feb	--	--	47.9	
03-17	11:00	International Reserves Weekly (USD, mn)	12-Mar	--	--	--	
03-19	8:00	Aggregate Supply and Demand (y/y)	4Q	--	--	-11.4	

Forecasts at time of publication.

Sources: Scotiabank Economics, Bloomberg.

Market Events & Indicators for March 8–19

PERU

<u>Date</u>	<u>Time</u>	<u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest BNS Comments</u>
MAR 9-11		Trade Balance (USD, mn)	Jan	--	--	-479.0
03-11	18:00	Reference Rate (%)	11-Mar	0.25	0.25	0.25
03-15	11:00	Lima Unemployment Rate (%)	Feb	13.0	--	13.0 New COVID-19 restrictions should cause the improvement in the unemployment trend to pause.
03-15		Economic Activity (y/y)	Jan	-1.5	--	0.5 January-February will see a softening in demand.

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Subscribe: carlos.munoz@scotiabank.cl
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