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Latam Daily: Mexico's Trade Deficit Widens in July; Peru's New Finance Minister Puts Policy Back on Track

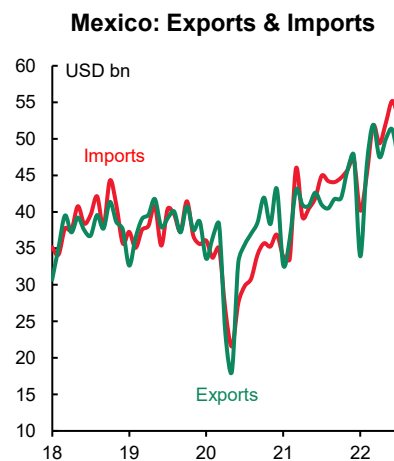
- **Mexico:** July's trade balance came in with a wider deficit and slower annual growth
- **Peru:** Finance Minister Burneo attempts to get economic policy back on track

MEXICO: JULY'S TRADE BALANCE CAME IN WITH A WIDER DEFICIT AND SLOWER ANNUAL GROWTH

According to **INEGI**, the balance of trade deficit increased in July from **-USD3,957 million to -USD5,959 million, the fourth consecutive monthly deficit, as both import and export growth decelerated on an annual basis (chart 1)**. Imports slowed from June's 32% y/y pace to 17% y/y, with a 37% increase in consumer imports offset by an increase of 14% in intermediate and capital goods imports. Exports also decelerated, from 20% y/y to 14%. Oil exports led the advance, at 32% y/y (compared to 54% previously), while growth of non-oil exports fell from 18% y/y to 12%. Manufacturing exports also moderated, from 20% y/y to 12%, while automotive exports fell to 13% y/y. On an annual accumulated basis, the trade balance records a deficit of **-USD18,903 million**, reflecting exports of **USD327,275 million** (representing an increase of 18.0%), and imports of **USD346,179** (equivalent to an increase of 23.7%) (chart 2). On a monthly seasonally adjusted basis, imports fell **-3.13%**, while exports declined **-0.26%**.

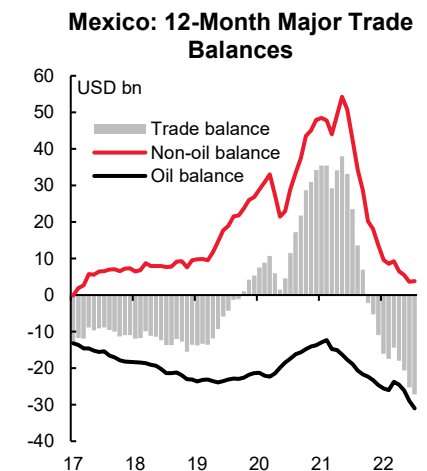
Going forward, we maintain an outlook of nominal increases in the value of trade, supported by higher prices, though trade volumes could post rather modest gains in an environment marked by high global uncertainty. On the export side, the greatest dynamism in the export volumes could be observed as global value chains normalize, but economic slowdown represents an important downside risk. Imports, meanwhile, could maintain a modest pace in line with the slower dynamic in private consumption.

Chart 1



Sources: Scotiabank Economics, INEGI.

Chart 2



Sources: Scotiabank Economics, INEGI.

—Miguel Saldaña & Brian Pérez

PERU: FINANCE MINISTER BURNEO ATTEMPTS TO GET ECONOMIC POLICY BACK ON TRACK

The Ministry of Finance released on Thursday, August 25 its annual policy framework document: The Multiannual Macroeconomic Framework 2023-2026 (Marco Macroeconómico Multiannual, MMM). Newly-appointed Minister of Finance, Kurt Burneo, provided more details in a press conference.

In our view, the main takeaway from the MMM is that Minister Burneo is seeking to get economic management, which has been derailed since President Castillo came to

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power (or, perhaps, arguably, before COVID knocked government policy out of whack), back on track. Namely, restore business confidence and get private investment back on board, re-emphasize infrastructure spending through Project Management Officer (PMO) and government-to-government initiatives, and pursue greater public investment through technical assistance to local governments and by unblocking obstacles to current projects. All this while maintaining fiscal prudence and avoiding ineffectual populist measures.

This "getting policy back on track in a prudent and non-populist manner" may be the most important message that Minister Burneo is conveying.

And, in fact, he is apparently trying to send this message not only to the business community, but to the government itself. The financial press has played up most especially the comment Burneo made during his press conference that he had not liked a recent cabinet decision to reduce the sales tax for the tourist and hospitality industries (he was apparently appointed too late to prevent the cabinet giving the measure), and that any other cabinet decision involving economic management that was made without his consent would motivate his resignation.

Minister Burneo and the MMM both stress the importance of fiscal sustainability. The MMM explicitly stated the need to "continue with Peru's long history of fiscal prudence". In line with this, the MMM maintained its previous forecast of a fiscal deficit of 2.5% of GDP for 2022, as well as projecting a path of decreasing the fiscal deficit to 1.0% by 2026. It may be tempting to see this as conservative fiscal spending at work. However, to expect (or, perhaps, seek?) a fiscal deficit of 2.5% of GDP by year-end, when the deficit is currently at 1.2%, is hardly fiscally conservative. If anything, the government would need to spend aggressively for the remainder of the year to reach this level. Which is precisely what Minister Burneo has been signalling he intends to do. Apparently, a fiscal deficit of 2.5% of GDP this year and of 2.0% of GDP in 2023 gives it ample room to implement an expansionary fiscal policy. We would agree with this assessment and, if anything, the challenge for Minister Burneo will be to increase spending sufficiently.

An additional note of market interest concerns fiscal financing. According to the MMM, the Ministry of Finance has reduced domestic debt financing for 2022 by PEN8.8bn (approximately USD2.3bn). It has maintained global debt issues at USD. In short, given lower fiscal needs, the government is preferring to cut debt issuance in Pen rather than USD, most likely due to interest rate differentials and debt market dynamics.

Many comments have centered around the new GDP growth forecast for 2022 (table 1), which the MMM reduced from 3.6% previously, to 3.3%. This was not much of a change, but does bring the forecasts closer to our own forecast of 2.6%. More interestingly, the MMM is forecasting nil private investment growth (versus our forecast of -2.3%). Overall, these and other growth figures suggest an encouraging reckoning with reality.

More important than the forecast tweaks were the policy guidelines that the MMM provided, and which appear to spell out the philosophy of what we may call Burneoeconomics. There are three main focal points:

1. Stimulate private spending, by promoting new infrastructure spending, unblocking current projects, simplifying procedures, and enhancing the investment-for-taxes mechanism. In addition, provide temporary subsidies to vulnerable households to help them deal with inflation.
2. Accelerate public investment by providing greater resources to the most vulnerable regions, reactivating projects that have been interrupted, improving project management through technical assistance to all government levels, promoting Project Management Officer, PMO, mechanism.
3. Recover business confidence, by structuring a New National Infrastructure Plan, promoting the government-to-government project management system, advancing towards joining OECD, and in generating new—and unblocking extant—private-public partnerships.

The thing to note is that two of Minister Burneo's three focal points are centered on the private sector.

Overall, he seems intent on turning back the clock on economic management and policy to pre-COVID and pre-Castillo times. This would represent a bit of a change in philosophy for the Anibal Torres cabinet. Hopefully, Minister Burneo will win the day within the cabinet and the Castillo administration. The risk, of course, is that, in a government in which the average life of a cabinet member has been a short four months, Minister Burneo may not stay on long enough for economic management and policy to get fully back on track, and for business confidence to actually recover sufficiently.

Table 1: Peru—Ministry of Finance GDP Growth Forecasts

%	2022	2023	2024-2026
GDP	3.3	3.5	3.3
Domestic demand	2.9	3.0	3.1
Private consumption	3.7	3.1	3.1
Private investment	0.0	2.5	3.0
Public consumption	1.8	1.6	1.4
Public investment	8.5	4.5	7.0
Exports volume	4.8	6.9	5.0
Imports volume	3.4	4.7	4.2

Sources: Scotiabank Economics, Marco Macroeconómico Multianual - Ministry of Finance.

—Guillermo Arbe

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