

Latam Daily: Peru—Fiscal Accounts Continue Improving, Deficit in Line With Forecast

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PERU: FISCAL ACCOUNTS CONTINUE IMPROVING; DEFICIT IN LINE WITH FORECAST

The central bank (BCRP) [released](#) the latest fiscal deficit number at **5.0% of GDP for the twelve-month period to August (chart 1)**. This is broadly in line with our forecast of 4.4% for the full-year 2021. The risk is to the downside, in part considering the speed with which the deficit is declining. The register for July had been 6.0%, whereas the year had begun at 8.9% of GDP.

The main aspect of note is that tax revenue [continues](#) to soar, outpacing fiscal spending that is also rising at a robust pace. In a sense, this is an ideal scenario: a declining deficit that is accompanied by higher (stimulus) spending, and is being driven by greater revenue, much of which is coming from mining, a source that is benefitting from windfall prices. Fiscal revenue in the YTD (January to August) is up 46.6% y/y. As proof that this is not solely due to lower revenue during the 2020 lockdown, revenue is also up by a strong 16.8% versus the same period in pre-COVID-19 2019. It is, however, true, that approximately a third of the increase in fiscal revenue YTD stems from one-off inflows from payments under protest of past income tax liabilities, which continue in litigation and could conceivably be reversed sometime in the indefinite future (these lawsuits take years to be resolved). The remainder comes from more traditional sources.

Income tax revenue YTD rose 37% y/y, and 19% versus 2019, while sales tax revenue was up 46% and 18%, respectively. And the trends are improving. In the month of August alone, income tax revenue was up 55% y/y and 35% versus August 2019, while sales tax revenue was up 56% y/y and 33% versus August 2019.

Government spending is finding it hard to keep pace. Aggregate government spending rose 20% y/y during the January–August period (23% versus the same period in 2019). Public sector investment led the way, up a huge 115% YTD to August (29% versus 2019). There was little break in public sector investment with the change of government in August, rising 70% during the month. Where the change of government may have had some impact, judging by the data, is in current spending. Current spending fell 15% y/y in August at the national government level. This likely reflects a lapse in government assistance programs, including household transfers and job stimulus programs.

—Guillermo Arbe

CONTACTS

Adriana Vega
613.564.5204
Scotiabank Economics
adriana.vega@scotiabank.com

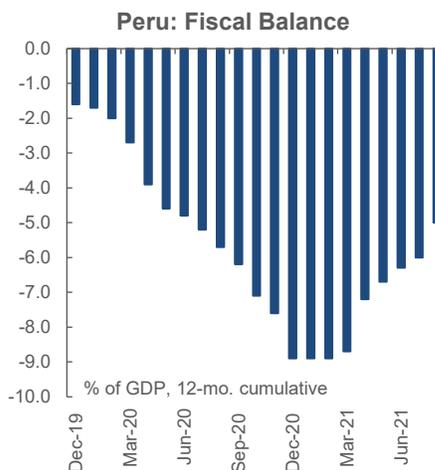
Guillermo Arbe
+51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Sergio Olarte
+57.1.745.6300 Ext. 9166 (Colombia)
Scotiabank Colombia
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive
+56.2.2619.5435 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

Eduardo Suárez
+52.55.9179.5174 (Mexico)
Scotiabank Mexico
esuarezm@scotiabank.com.mx

Chart 1



Sources: Scotiabank Economics, BCRP.

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