COMMENTS ON RECENTLY ANNOUNCED NEP

- As usual, ahead of the Budgetary process, the Treasury and Finance Minister introduced the New Economic Program for the next 3 years. 2020 has been introduced as the rebalancing year, having a mild positive growth rate of 0.3%, while 2021 will be the normalization with the realization of pent-up demand achieving near 6% GDP growth.

- According to our own calculations, NEP assumes a gradually appreciating exchange rate from the current levels in the short term. Even with this, the cumulative currency depreciation and the expected rapid recovery of the activity would be the main triggers to prevent a rapid disinflation path as the Program has assumed.

- On the external side, the net negative impact of the tourism revenues and gold imports has been assumed 25bn$ and 12bn$, respectively, for 2020. Including that, current account deficit to GDP ratio is expected to realize 3.5%. And despite the higher contribution from domestic demand, the current account deficit is assumed to have a fast correction in the next years.

- Finally, on the public accounts front, as August budget figures already implied, fast economic recovery, especially solid consumption, supports the tax revenues, whereas the Government finds room to put on brakes on the expenditures side. Assuming this trend to continue, NEP forecasts could be likely for the budget performance for this year and next year, given the assumptions of a slower fiscal consolidation than we initially had assumed.

- All in all, regarding the shared baseline scenario, growth projections seem plausible given the strong 3Q GDP and the expected continuation of “the new normal”. The growth projections have already been in the range of our own GDP forecasts. However, whether this growth outlook could be materialized or not will depend on how the commitment for financial stability will be taking place in the coming future. On the other hand, inflation projections and current account deficit forecasts might not show the envisaged fast correction, given the currently realized upside risks. Therefore, a further monetary tightening could be needed to reinforce the commitment against inflation. Last but not least, the normalization in the pro-cyclical policies introduced during the first episode of the pandemic should be continued to support the goals already been introduced in the NEP.