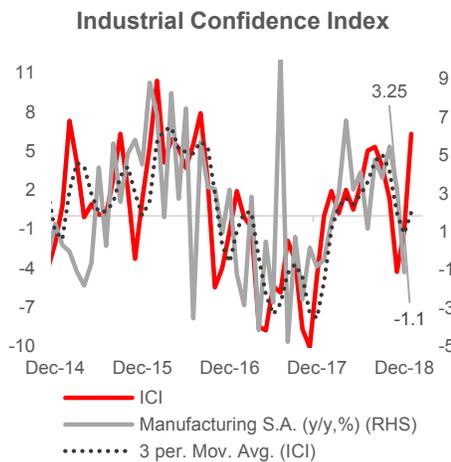


## LATAM Market Update

- **Colombia:** Fedesarrollo released January industrial confidence
- **Peru:** 2019 Government fiscal deficit forecast to be revised down from 2.7% to 2.3%, in part on tax changes; SBP 2019 mining investment forecast raised from 14% to 23%

### COLOMBIA: FEDESARROLLO RELEASED JANUARY INDUSTRIAL CONFIDENCE

It came at +6.3% and improved with respect to both, January 2018 and December 2018. The component that boosted up industrial confidence was the expectation component that increased more than 25pp from last month and more than 5pp from January-2018. The current economic conditions also improved in annual basis, while it came in flattish at the margin. We think, industrial confidence is finally in line with recent manufacturing improvement trend, higher energy demand, and strong capital and raw materials imports. Finally the better industrial confidence along with higher consumption confidence bode well for 1Q19 GDP growth and FY19 economic activity growth.



### PERU: 2019 GOVERNMENT FISCAL DEFICIT FORECAST TO BE REVISED DOWN FROM 2.7% TO 2.3%, IN PART ON TAX CHANGES; SBP 2019 MINING INVESTMENT FORECAST RAISED FROM 14% TO 23%

Carlos Oliva, Minister of Finance, stated that the Ministry (MEF) would likely reduce its fiscal deficit forecast from 2.7% to 2.3%, in its yearly revision in April. Oliva also said that there has been no change in the commitment to bring the deficit down to 1% of GDP by 2021 and stabilize public sector debt at 25% of GDP. To add strength to this commitment, the MEF will submit to Congress three projects, one to "rationalize" (read: reduce) tax exemptions, another to increase property taxes, which are low by regional standards, and, finally, a simplification of the Income Tax regime. A few comments. The revision would bring the MEF forecast much closer to our own, which is 2.0%. We would have been surprised if the MEF did not lower their forecast. Furthermore, although no details were given, the difference between the MEF's 2.3% and our 2.0% probably is (or will turn out to be) because the MEF is more optimistic about government investment growth, despite the change in regional and local authorities. As for the three tax changes, there is a fair, but not certain, chance that Congress will approve each one. Reducing tax exemption for regional government might be the most difficult for approval. Overall, the measures ratify our view of the economic team as one that

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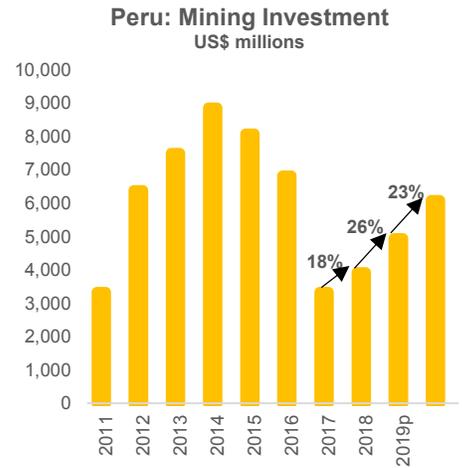
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knows the day-to-day working of the government very well, and introduces, not large reforms, but, rather, small, but effective, improvements in economic management.

Our mining analyst at Scotiabank Peru (SBP) Katherine Salazar, has increased SBP forecasts for 2019 mining investment growth to 23%, from 14%.

This increase will be on the back of 26% growth in 2018, and represents a rise from US\$4.95bn in 2018, to US\$6bn in 2019, the highest figure in four years. The main reason for the 2019 forecast increase was the announcement by Quellaveco of their intention to invest US\$1bn in 2019, versus US\$500mn that SBP was expecting before. The leading mining projects include: the US\$5.3bn Quellaveco (Anglo American) copper project, the US\$1.6bn Mina Justa (Marcobre) copper project and the US\$1.3bn expansion of Toromocho (Chinalco, copper). Other projects include Quecher Main (US\$300mn, Newmont, gold), San Rafael B2 Tailings (US\$200m, Minsur, tin) and Ariana (US\$125m, copper-zinc). The forecasts do not include projects, such as Corani, Lagunas Norte, or Tía María, because of the uncertainty that surround them.



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