

LATAM Market Update

- **Mexico: Aggregate supply & demand moderate their growth in 2018-Q4**
- **Peru: Proposal for political reform under consideration; Bank loans growth show a mixed picture**

MEXICO: AGGREGATE SUPPLY & DEMAND MODERATE THEIR GROWTH IN 2018-Q4

In the fourth quarter of 2018, aggregate supply and demand dynamics were consistent with the latest GDP figures, showing a persistent slowdown in economic activity, more pronounced during the last quarter of the year. The poor performance of private consumption in its original and seasonally adjusted measurements stands out and it suggests that its trajectory during 2019 may be weaker than anticipated.

Real annual growth rate of aggregate supply and demand slowed from 3.5% in 2018-Q3 to 2.7% in 2018-Q4 as a result of a weakening in GDP, from 2.5% to 1.7% (vs. 1.5% a year earlier), as well as a slowdown in imports, from 6.4% to 5.6% (vs. 7.0% in 2017-Q4), within its supply components. On the demand side, private consumption moderated its growth, from 2.2% to 1.4%, its lowest performance since 2015-Q2, while government consumption and exports also weakened from 1.0% to 0.2% and from 8.6% to 4.3%, respectively. Finally, gross capital formation contracted to its weakest result of the year, from 0.4% to -2.3%.

Seasonally adjusted, aggregate supply and demand tightened their pace between the third and fourth quarters of 2018, from 1.1% Q/Q to 0.5% Q/Q, where private consumption presented its lowest quarterly variation since 2014-Q3, going from 0.5% Q/Q to -0.3% Q/Q.

PERU: PROPOSAL FOR POLITICAL REFORM UNDER CONSIDERATION; BANK LOANS GROWTH SHOW A MIXED PICTURE

A Government appointed independent committee to formulate political reform has presented the following reform proposals:

- Introduce a two Chamber Congress, lower (“Diputados”) and upper (Senate), in lieu of the current single Chamber Congress.
- Elections to the low chamber would take place halfway through the presidential term.
- The lower chamber would begin with 130 members, but this number would increase in step with the increase in the country’s population.
- The new Senate would have a permanent membership of 50 senators.
- Parties would henceforth be required to hold simultaneous, open primaries under the supervision of Peru’s Electoral Board, for the election of candidates.
- Party Congressional candidate lists will be required to include men and women in equal proportion.

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The proposal represents real progress, with suggestions that are clear and specific, providing a good base for discussion to begin. The aim is that the reform be in place by the 2021 Congressional elections. This is possible, but difficult. The proposals involve changes to the Constitution, and must still be approved by the government, and then by Congress, both of which may introduce changes. As it is, the reform still has a long and hard road before it, if it is to become law, with many pitfalls along the way.

Bank loans outstanding were up 7.3%, y/y, in February. This is the slowest pace in nearly a year, and continues the downtrend of the past few months. Perhaps more significantly, February figures ratify a growing divorce between household loans and business loans. Household loans increased a strong 10.9%, the highest level since 2015. This is largely in line with employment and consumption growth. Meanwhile, business loans rose a weakish 5.3%, and have been slowing since June 2018. This does not bode well for private investment in early 2019.

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