LATAM Market Update

- **Colombia: BanRep keeps MPR unchanged; upward revision to 2019 GDP growth; current account deficit is still a concern**
- **Mixed Results on Sales Performance in Mexico**

COLOMBIA: BANREP KEEPS MPR UNCHANGED; UPWARD REVISION TO 2019 GDP GROWTH; CURRENT ACCOUNT DEFICIT IS STILL A CONCERN

BanRep kept its monetary policy rate (MPR) at 4.25% in a unanimous decision, meeting market consensus. MPR marks its eighteenth month at the same level. The Board continues weighing two forces: the recent increase in headline inflation and inflation expectations and better dynamics of economic activity. Additionally, Governor Echavarría and Minister Carrasquilla emphasized that there are some concerns regarding the current account deficit level despite healthy financing.

- **2019 economic growth forecast was revised up to 3.2% from 3% last quarter**. According to the communiqué, based on new information BanRep revised the GDP forecast to 3.2% (previous: 3.0%); in the press conference Governor Echavarría and Minister Carrasquilla stressed that economic activity is running at a faster pace on the back of private consumption and private investment. Additionally, according to the authorities, a recent pick up in banking credit helped private economic activity and contributed to the revised GDP forecast.
- **Current account deficit is, still, a concern**. Both Governor Echavarría and Minister Carrasquilla emphasized that the current account deficit will remain above 4% of GDP for the rest of 2019. Although the current account deficit would be financed mostly by FDI, high external market volatility increases uncertainty in the future financing of the current account deficit. Additionally, it is worth to note that BanRep has stressed many times that the high current account deficit in Colombia is structural, and monetary policy has little to do with this structural imbalance.
- **Inflation does not allow lower rates**. Governor Echavarría explained that recent inflation pick up is one of the factors that prevents BanRep from cutting rates, and emphasized that in his opinion, the best forecast for the coming months, is stability in the MPR. It is worthwhile to stress that Echavarría said that BanRep expects a gradual inflation convergence toward 3% next year. He added that the Colombian macroeconomic scenario is different from the other Latam countries that are cutting rates. In fact, he said that Colombia is growing at a much higher rate than its peers and headline inflation is close to the upper limit of BanRep's target.
- **Reserve Accumulation Program far from be resume**. During the press conference, Governor Echavarría explained that the Board is carefully studying the external conditions before resuming the Reserve Accumulation Program, but in this meeting, the Board decided not to resume the program.

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Bottom line, September's monetary policy meeting confirmed that BanRep is in a passive mode and will try to keep the MPR on a slightly expansionary side for longer. Better assessment of 2019 economic activity growth and temporary headline inflation deviation from target help BanRep to be patient and leave the MPR constant. At the press conference, Echavarría was explicit, again, that the Board is not considering rate cuts.

—Sergio Olarte & Jackeline Piraján

MIXED RESULTS ON SALES PERFORMANCE IN MEXICO

In July, retail sales accelerated from 1.0% to 2.1% y/y in real terms beating market expectations of 1.4% y/y, while wholesale sales have declined for the sixth consecutive month, although they moderated their contraction from -4.8% to -0.9% y/y with original series. Seasonally adjusted, monthly retail sales stagnated, from -0.6% to 0.0%, while wholesale sales contracted from 0.2% to -0.2%. Overall, cumulative year growth for retail sales marginally increased from 1.7% to 1.8% (vs 1.2% in Jan-Jul 2018) while wholesales have decreased through the year on average from -2-2% to 2.0% (vs. 2.9% in 2018). The outlook for commercial activity in the second half of the year remains uncertain. Although strong wage gains and a recovery in consumer credit could drive up sales performance, factors such as the deterioration in job creation; some weakening of remittance inflows; and an overall greater than anticipated economic slowdown, could deteriorate it.

—Miguel Saldaña

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