

LATAM Market Update

- Colombia: Fedesarrollo released September's consumer confidence index (CCI); The Constitutional Court knocked down "Ley de Financiamiento," although with a possibility of reinstating it by year-end**

September's consumer confidence index increased a bit from the previous month but remained below last year's level. The index now stands at -10.7pps, better than the -11.8pps in August, and lower compared to September 2018. The monthly CCI improved due to an increase in both components: Economic Condition Index and Consumer Expectation Index, although mainly on the back of the former one. The willingness to buy houses and durable goods increased.

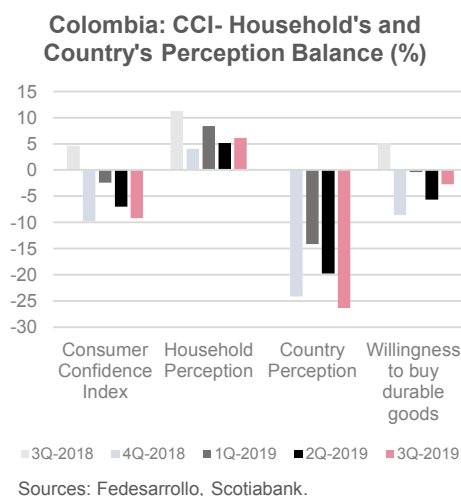
September's consumer confidence remained in a negative balance, and it continues to show divergence between consumers assessment of the country's situation and the assessment of the households' situation. In fact, the monthly improvement was due to a better assessment of the current households' situation, which increased by 7.4 pps to -5.9 pps; while the consumers' assessment of the country deteriorated again.

It is worth to stress out that on October 27th, the country will face regional elections, and it could affect consumer confidence too. The difference between the assessment of the households' situation and country's situation, explains the decoupling between hard data (retail sales) and sentiment surveys. Recent protests from various sectors (education, transport, among others) are also negative factors for future surveys.

Consumers' willingness to buy durable goods improved compared with the 2Q-2019 average, although still in negative territory. Exchange rate depreciation is one of the challenges to the durable goods demand recovery. However, the imports of durable goods remain strong. Another curious fact, was that the willingness to buy houses increased in the low-income population at the same time that the unemployment rate is increasing, we believe that it could be an effect of the recent announcement regarding new subsidies in the sector.

All in all, yesterday's result doesn't change our base case scenario, which implies that private consumption will continue supporting the economic recovery and that the Central Bank would leave its policy rate constant for the time being.

On Wednesday, the Constitutional Court decided to declare the "Ley de Financiamiento" unconstitutional due to a breach of procedure while the



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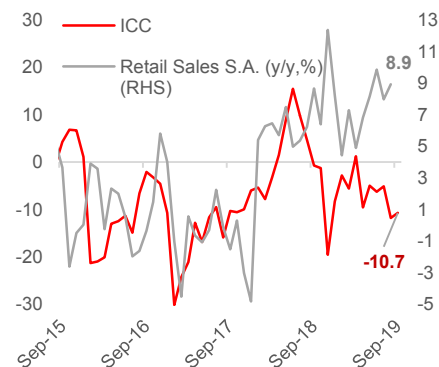
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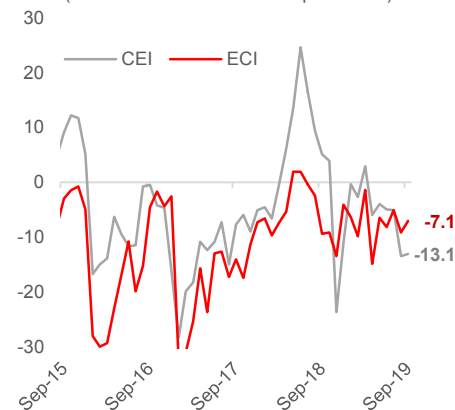
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Colombia: Consumption Confidence Index



Sources: DANE, Fedesarrollo, Scotiabank.

Consumption Confidence Index (Economic conditions and expectations)



Sources: Fedesarrollo, Scotiabank.

government was trying to pass it through Congress back in December 2018. In fact, since the reason to declare the “Ley de Financiamiento” unconstitutional is only because of a procedural error, the court decided to give to the government the possibility to pass the reform again through Congress before year-end and in the meantime, “Ley de Financiamiento” is still in place.

On Thursday, Finance Minister Alberto Carrasquilla announced that the government is going to pass the same text that was approved by Congress one year ago and will work to guardant the juridical stability in the fiscal framework. Carrasquilla said that the results of the “Ley de Financiamiento” have been positive and it could help Congress to reaffirm the law in the new vote.

However, we also think that this “impasse” also showed that Duque’s government has very low credibility and will make legislative agenda, especially pension reform, to be postponed for next year with low probabilities to pass satisfactory.

From the market’s point of view, local assets didn’t react in a significantly negative way; we think that international risk appetite and emerging market perception as a whole are the main fundamentals currently. As the Court provides time (until December 31st), the final effect will depend on the strategy adopted by the government. In 2018, the discussion of “Ley de Financiamiento” started in November, so there is enough time to do the approval again; the question is if the “Ley de Financiamiento” will pass as the original one or with some slight changes, it will depend on the negotiation with Congress. For now, we believe markets will continue with the regular volatility.

Finally, the main points of the Court’s communiqué

- The declaration of non-eligibility would only take effect as of January 1st, 2020, unless the government passes financial law before year-end.
- Congress has the opportunity to ratify, repeal, modify or subrogate the content of the Financing Law until before year-end.
- There will be no retroactivity, which means that 2019 is governed by the financial law.

—Sergio Olarte & Jackeline Piraján

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