

## LATAM Market Update

- **Colombia:** September's unemployment rate improved with mixed signals; BanRep keeps the MPR unchanged, and announced the end of the International Reserve Accumulation Program
- **Peru:** The New Government Plan promises more infrastructure investment, but underwhelms overall

### COLOMBIA: SEPTEMBER'S UNEMPLOYMENT RATE IMPROVED WITH MIXED SIGNALS; BANREP KEEPS THE MPR UNCHANGED, AND ANNOUNCED THE END OF THE INTERNATIONAL RESERVE ACCUMULATION PROGRAM

The unemployment rate remains higher compared with a year ago, but it improved in September compared with the bad results in August. Nationwide unemployment came in at 10.2% (September 2018 was 9.5%), while urban unemployment (13 cities) came in at 10.1% (September 2018, 9.5%). Labour force participation fell to 62.9% (September 2018, 64.1%) for nationwide and fell to 65.3% from 65.7% for urban reference.

Seasonally adjusted series showed a positive behaviour, 10.6% vs. 11.1% in August for nationwide, and 10.7% vs. 11.7% in August for urban. Labour market dynamics are showing a divergence between the urban and rural areas, particularly employment in rural areas is the most affected. While in rural regions employed population decreased (-1.03% y/y), in urban areas is almost flat (-0.04% y/y); the same is happening in unemployed population dynamics, in urban areas unemployed population decreased, but in rural areas is increasing (+6.5% y/y).

Due to the mixed dynamics between rural and urban labour markets, we saw another important characteristic, for instance, the employed population in the national figure contracted 1.8% y/y, but wage employment continues with robust growth (2.8 y/y in September), while informal employment (self-employment) is falling at a 6.9% y/y pace. Formal employment dynamics throughout the year are positive news and anticipate an improvement in labour quality. Having said that, rural employment, which usually is not formal, it is a big concern for the nationwide employment data.

Another important characteristic is that although there are some differences between rural and urban labour market, by sectors the dynamic is broadly the same, employment in commerce, agriculture and manufacturing are the most affected, while there is a recovery in jobs in sectors such as personal services, construction, and real estate activities.

Employment data, although it remains deteriorated from a year ago, it is improving in the quality of the employment, rural employment dynamic is still a concern. On monetary policy, employment data support our call that BanRep will not hike the monetary policy rate (MPR) in 2019, and will wait for more economic activity information while keeping its neutral-dovish tone with a slightly expansionary policy rate.

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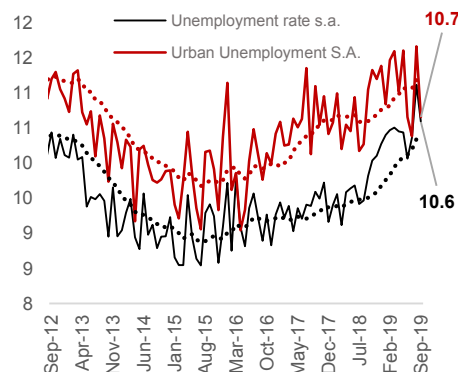
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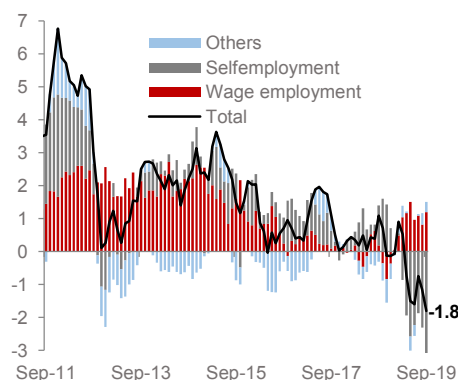
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**Colombia: Nationwide & Urban Unemployment S.A.**  
(%)



Sources: DANE, Scotiabank.

**Colombia: Employment Growth**  
(y/y, %)



Sources: DANE, Scotiabank.

**BanRep keeps the MPR unchanged, and announced the end of the International Reserve Accumulation Program**

BanRep kept its monetary policy rate (MPR) at 4.25% in a unanimous decision, meeting market consensus. The MPR marks its nineteenth month at the same level. The Board is weighing three forces: the recent increase in headline inflation and inflation expectations and better dynamics of economic activity, and international uncertainty. In other communiqué, Banrep announced the end of the International Reserve Accumulation Program, arguing that the current level US\$52bn is enough to cover liquidity needs.

- Temporary supply shocks in inflation, uncertainty about economic recovery, and volatility in the international markets were the main reasons to keep the MPR at 4.25%. As was mentioned in previous meetings, Governor Echavarría explained that recent inflation pick up is one of the factors that prevent BanRep from cutting rates, and emphasized that in his opinion, the best forecast for the coming months, is stability in the MPR. Worth noting, governor Echavarría said that persistence of the exchange rate depreciation is still a risk factor to keep an eye on the inflation arena.
- Governor Echavarría also said that the Staff had reduced neutral rate calculations to ~1.2% in real terms from 2% last year on the back of lower rates around the world. Therefore, with inflation expectations for 1Y at 3.4%, the neutral rate should be between 4.5% and 4.75% (currently 4.25% which means slightly expansionary policy rate).
- 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.
- International Reserve Accumulation Program is over. Governor Echavarría said that the International Reserve Accumulation Program started in September-2018 and suspended in May-2019 has officially ended. A positive perspective about a flexible credit line with the IMF and the actual level of reserves were the argument that backed the decision. BanRep has bought US\$2.8bn since September last year.

Bottom line, the October 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. The surprise was the announcement of the end of the Reserves Accumulation Program, Central Bank arguing a better perspective on IMF credit line negotiation.

—Sergio Olarte & Jackeline Piraján

**PERU: THE NEW GOVERNMENT PLAN PROMISES MORE INFRASTRUCTURE INVESTMENT, BUT UNDERWHELMS OVERALL**

On October 30<sup>th</sup>, the head of the cabinet, Vicente Zaballos, announced the new Government Plan. The new Plan will not affect our forecasts for 2019-21, at least not for the time being, for two reasons. First, very little that was mentioned as part of the Plan was actually new. The Plan mostly consisted of packaging together the government's current policies and ongoing efforts, and calling it a Plan. Secondly, the announcements made were largely generic, with few details forthcoming. At times Zaballos did seem to suggest that the government would revamp and accelerate its policies and efforts, through government decrees, but, until these decrees are revealed, there is little we can say in terms of how effective the measures might be.

Much of the Plan focused on improving welfare, including future measures to provide universal health insurance, to ensure that pharmacies have sufficient supplies of generic drugs, and to increase the minimum wage. Economically, the main focus was on public investment. However, very few, if any, of the investment projects mentioned were actually new. Our hope is that the government is simply signaling a greater determination in getting these projects moving sooner. Zaballos also stressed (again) the government's determination to overcome the obstacles that have paralyzed some 860 current government investment projects. This is something potentially very positive, if it is addressed effectively. Once again, we'll have to wait to see the details before we are totally convinced, however.

The Plan provided very little in terms of stimulating private investment, outside of a general statement to promote research & development. The Plan actually seems to give more importance to issues such as avoiding the formation of monopolies. More

poignantly, although the semi-autonomous official Mining Council reinstated the construction license for the Tía María copper project, Zeballos immediately announced that the government's environmental control office must first evaluate the environmental impact of the project. It's not clear why this would be necessary, as environment compliance should already be implicit in the construction license in the first place. One is left with the impression that the government re-awarded the construction license to comply with the law, but at the same time wishes to prevent the actual construction from taking place. As things stand, we don't see investment in Tía María getting underway anytime soon.

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