

LATAM Market Update

- **Chile: Is the process to reform the Constitution a black box?**
- **Peru: GDP growth, 2.2% y/y in September, disappoints again; As does government spending, keeping the fiscal deficit low in October (again)**

CHILE: IS THE PROCESS TO REFORM THE CONSTITUTION A BLACK BOX?

Recent polls suggest that the option to reform the constitution would win, and that the mechanism would be a constituent assembly. Beyond all the speculations, mechanisms, plebiscites and other formulas to unlock the great social and political crisis that Chile is experiencing these days, in the end there are always the cold and pragmatic numbers that each politician, sector or party makes at the end of the day.

At the level of mayors, the right has an electoral force of almost 10% more than any other sector in governed territories. They have key and popular municipalities. The right in mayors has more or less 166, while the left only 118 and the center a figure around 61. As you can see, nothing that resembles Venezuelan Chavism. At the level of votes for mayors, the right is by far the first force with almost 1.9 million votes, the moderate center brushes the million and the left almost 1.8 million. Consequently, taking any electoral formula from the current ones, the results will be, at the level of large numbers, similar to those recorded in the past. There will be no wave of extreme left or extreme right.

In April 2020 the mechanism with which the new Constitution should be designed will be plebiscited. If the "I approve" option wins, two options will be considered: Mixed Convention (50% of elected delegates and 50% designated by Congress) or Constitutional Convention (Constituent Assembly with 100% elected delegates). Both scenarios involve the election of delegates and constituent delegates.

Point 4 of the Agreement for a new Constitution states: "In case of constitutional convention, its members will be elected entirely for this purpose. The election of the members of both instances will be held in October 2020 together with the regional and municipal elections under universal suffrage with the same electoral system that governs the elections of deputies in the corresponding proportion".

The law on pacts states: "In the elections of Parliamentarians, two or more political parties may agree on an electoral pact. In the elections of deputies and senators, within each electoral pact, the political parties that are part of said pact may each associate with independent candidates." This, in practice, makes it almost impossible for independents to be elected outside a political party or pact. Therefore, the results will be highly determined by the current political proportionality.

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PERU: GDP GROWTH, 2.2% Y/Y IN SEPTEMBER, DISAPPOINTS AGAIN; AS DOES GOVERNMENT SPENDING, KEEPING THE FISCAL DEFICIT LOW IN OCTOBER (AGAIN)

The following shows sector growth for September:

Agriculture	-1.3	Reportedly affected by higher than normal temperatures and rains
Livestock	3.4%	Normal trend
Metals mining	-4.9%	The trend is deteriorating, led by iron ore and gold, but very broad
Oil & Gas	5.4%	Healthy, but doesn't have the weight of metals mining
Fishing	14.2%	Not relevant, as September is an off-season month
Construction	3.8%	Robust, but underperforming compared to trend, on weak public spending
Manufacturing	1.4%	Continues weak and non-aligned with domestic demand
Retail Sales	3.4%	Consumption is still healthy
Services	3.6%	Robust, but underperforming compared to trend

Peru's fiscal deficit remained at 1.6% of GDP, over the 12-months to October period. This low figure suggests that the fiscal deficit may very well end full-year 2019 below our forecast of 2.0%. Fiscal revenue has risen 6.1% in the YTD. This is healthy, although one-offs contributed mildly. Less encouragingly, fiscal spending rose only 3.3%, with government investment up a negligible 0.3%. Thus, the data for October ratifies what we have been seeing throughout the year, namely that government spending is not rising nearly as much as it needs to in order to stimulate greater GDP growth.

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