

LatAm Daily | Colombia hikes its MPR up to 6% as expected

Marina Conesa / Enestor Dos Santos / Hugo Perea / Cecilia Posadas / Jorge Selaive / Carlos Serrano / Juana Téllez

BanRep's challenge is to ensure that inflation converges to the target, so another 25bp hike is expected in February. In Chile, aggregate activity remained weak, although unemployment declined to 5.8%. Also, MP minutes suggest that the MPR will be maintained for some time. Preliminary GDP for 2015 in Mexico was 2.5% and we also expect a weak performance of GDP in 1Q16.

Colombia - BanRep increases its monetary policy rate to 6% in line with expectations

In December, BanRep's Board increased its monetary policy rate 25bp to 6%, in line with both the market's and our own in-house expectations. According to the communiqué, BanRep expects that GDP growth stood at 3% in 2015. For 2016, the CB expects GDP growth to be between 1.5% and 3.2% with a most likely outcome of 2.7%. In our view the challenge for the CB's board is to ensure the convergence of inflation and inflation expectations back to the target avoiding an overreaction to the downside in domestic demand. That said, we anticipate an additional 25bp increase at February's meeting, taking the repo rate to 6.25%, and remaining at that level for the rest of 2016 (See our [Colombia Flash](#) for details).

Colombia - the unemployment rate stood at 9.8% in December

December's urban unemployment rate stood at 9.8%, higher than last month's reading (seasonally adjusted) and 0.5 percentage points higher than last year's figure. The increase in the unemployment rate came as a surprise, since we were expecting a greater momentum in job creation (employment decreased 0.5% in December YoY). The area of social and community services which includes government continues to contribute the most in job-creation in December. Finally the weak job creation figures are in line with the expected deceleration in economic activity.

Colombia - President Santos said that the tax reform will be presented in 2H16

President Juan Manuel Santos said last week, that the Government expects to submit a tax reform to Congress in 2H16. According to President Santos this reform will start to apply in 2017.

Chile - Activity data remained weak in October

Manufacturing output decreased by 2.8% YoY (BBVAe: -1.9%; consensus: -2.0%), while mining production declined 4.6% YoY due to the negative contribution from copper. Meanwhile, retail sales decelerated to a positive 1.9% YoY but below expectations, explained by a positive contribution from the consumption non-durable goods. All in all, aggregate activity figures remained weak and suggest that the Imacec increased by around 1.0% YoY during December last year. With this figure, 2015 GDP growth should reach an expansion of 2.0% and a +1.4% YoY growth in 4Q15 (see our [Chile Flash](#) in Spanish for details).

Chile - Unemployment rate declined to 5.8% in December, a record low

The jobless rate registered a decline to 5.8% in December 2015 (from 6.1% previously), closing 2015 with an average of 6.2%, surprising for its resilience in the current business cycle. The quarterly figure was driven by a 1.5% YoY rise in job-creation (both self-employment and salaried) vs. the 1.3% YoY growth of the labour force, while inactivity is growing at a higher rate (+2.2% YoY) than the population of working age.

Annual job-creation was driven by hotels and restaurants, construction and commerce, whereas public-sector related job-creation is starting to decelerate. Finally, the figures still show a reallocation of employment from the northern region (mining intensive) towards central and southern regions (see our [Chile Flash](#) in Spanish for details).

Chile - The MP Minutes showed a greater concern on the external front and the risk it poses for economic recovery

January's monetary policy minutes revealed as policy options both an increase in rates of 25bp and a pause at 3.50%. The board highlighted the persistence of slow growth in activity due to the slack in demand in a context of low confidence, with expectations of widening output-gaps. The resilience of the unemployment rate was attenuated by acknowledging the deceleration of nominal and real wages. Concerns about short-term inflation persist, but are mainly transitory due to further exchange-rate depreciation driven by the decline in copper prices. All in all, in a context of gradual and data dependent monetary policy normalisation, the option for pause at 3.50% in rates prevailed (see our [Chile Flash](#) in Spanish for details).

Mexico - 2015 annual GDP grew 2.5% according to preliminary data

GDP's preliminary annual rate of growth for 2015 was 2.5%, and this was the by-product of a quarterly rate of growth of 0.6% in the seasonal adjusted series. Note that the services sector grew 0.9% QoQ, while the secondary sector remained flat (0.0% QoQ) and the primary sector decreased (-1.7% QoQ). The behaviour of the primary and secondary sectors indicates a weak performance of GDP that could extend to the first quarter of 2016.

Brazil - A sharp deterioration of public sector accounts in 2015

To a large extent due to the payment of delayed expenses (locally known as "pedaladas") in the last days of the last year, the public sector primary deficit increased to BRL71.7bn in December from BRL12.9bn one year ago. Taking that into account, the annual primary deficit in 2015 was BRL111.2bn (1.9% of GDP), which is by far the worst result ever recorded (in 2014 a 0.6% deficit was observed while in the 2001-13 period the average primary result was a 3.0% surplus). Apart from the payment of delayed expenses, the significant deterioration of the primary result is due to the impact of contracting activity on revenues and of high expenditure (in spite of the fiscal adjustment efforts). As a consequence of a worse primary result and of higher interest payments, which reached 8.5% of GDP (with 1.7% being due to expenses related to the stock of exchange rate swaps maintained by the BCB), the total fiscal result reached -10.3% of GDP. The gross public debt jumped to 66.2% of GDP in December, from 58.9% one year ago. Even though [the recently announced measures to boost public credit](#) should not have an immediate impact on fiscal results, we expect the primary result to remain in negative territory, the total fiscal deficit to be around 8.6% of GDP and the public debt to break the 70% level in 2016.

What to watch today

Peru - CPI (January, 11:30hrs NYT)

We estimate CPI to have gone up by 0.33% in January on the back of higher food prices and energy tariffs and in spite of a reduction in fuel prices. With this result, YoY inflation would accelerate from 4.4% in December to 4.6% in January, above the CB's target range (2% +/- 1pp).

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
FGV CPI IPC-S	1-Feb	Jan	1.70%			1.55%
Trade Balance Monthly	1-Feb	Jan	500			\$6240m
Industrial Production MoM	2-Feb	Dec	0.00%	0.00%		-2.40%
FIPE CPI - Monthly	3-Feb	Jan	1.36%			0.82%
FGV Inflation IGP-DI MoM	5-Feb	Jan	1.24%			0.44%
IBGE Inflation IPCA MoM	5-Feb	Jan	1.09%	0.95%		0.96%
CNI Consumer Confidence	5-Feb	Jan				96.3
Chile						
Economic Activity MoM	5-Feb	Dec	0.05%			-0.50%
Economic Activity YoY	5-Feb	Dec	0.85%			1.80%
Nominal Wage MoM	5-Feb	Dec				0.40%
Vehicle Sales Total	5-Feb	Jan				29835
Colombia						
Economic Activity Index SA YoY	5-Feb	Nov	2.60%	2.50%		3.30%
Quarterly Inflation Report	5-Feb					
Exports FOB	5-Feb	Dec	2400	2355		\$2362.3
CPI MoM	5-Feb	Jan	0.90%	0.89%		0.62%
Mexico						
Central Bank Economist Survey	2-Feb					
Vehicle Domestic Sales AMIA	2-Feb	Jan				160663
Overnight Rate	4-Feb	Feb	3.25%			3.25%
Consumer Confidence Index	5-Feb	Jan	90.6	90.8		93
ANTAD Same-Store Sales YoY	5-Feb	Jan				8.10%
Peru						
CPI MoM	1-Feb	Jan		0.33%		0.45%
CPI YoY	1-Feb	Jan		4.60%		4.40%

Fuente: BBVA Research

Most recent Latam reports

Date	Description
01.29.2016	Mexico: The peso appreciated nearly 2.0% over the week due to rising oil prices
01.29.2016	Colombia: BanRep increased its monetary policy rate to 6% in line with expectations
01.29.2016	Chile: Sectoral figures disappoint, supporting maintenance of monetary stimulus
01.28.2016	Brazil: A more dovish Copom redirects its focus to the global environment
01.26.2016	Peru: Trade deficit was enlarged in 2015, but we anticipate an improvement in 2016
01.25.2016	Mexico: The IGAE grew 0.1% MoM in November 2015
01.22.2016	Mexico: Moderate recovery of the peso at end of the week after hitting record highs
01.21.2016	Brazil: Copom refrains from beginning a new tightening cycle
01.15.2016	Mexico: Continuing decline in oil prices leads to the exchange rate to new highs
01.15.2016	Peru: November growth surprised on the upside
01.15.2016	Chile: Central bank maintained policy rate at 3.50%, in line with expectations
01.15.2016	Peru: BCRP maintains its focus on containing inflation expectations (in Spanish)
01.14.2016	Chile: Central Bank maintains the MPR at 3.5%, in line with expectations (in Spanish)
01.08.2016	Mexico: Oil in lowest level since 2004 and dollar in record high
01.08.2016	Brazil: Inflation peaked at 10.7% YoY in December
01.08.2016	Peru: Exports continue to improve in November (In Spanish)
01.08.2016	Chile: CPI closes 2015 with an increase of 4.4% YoY (In Spanish)
01.07.2016	Chile: Emissions by a total of 11,000md are announced (In Spanish)
01.06.2016	Colombia: Inflation closed 2015 at 6.8% (In Spanish)
01.05.2016	Chile: IMACEC growth in November disappoint again (In Spanish)

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.