

Latam Daily: Colombia Taps IMF FCL; Peru's New Cabinet Approved

- **Argentina:** Vehicle-sector revival starts to hit some limits
- **Colombia:** MoF drew on its IMF FCL and partially monetized it through the BanRep
- **Peru:** Congress approved the new Cabinet even as political tensions rose; vehicle sales were strong in November

ARGENTINA: VEHICLE-SECTOR REVIVAL STARTS TO HIT SOME LIMITS

Argentina's vehicle sector is in the midst of decade-long decline, but its revival has been leading the country's manufacturing recovery since April's comprehensive lockdowns. That revival seems to be reaching some of its limits. In November, vehicle production was up 13.5% m/m nsa, which put the level of output 20.2% y/y above November 2019's levels (chart 1). In contrast, both sales and exports fell from October to November, but with widely divergent implications for comparisons with their respective levels a year ago: while sales were still up 37.3% y/y in November, exports were down -35.8% y/y. Looking at three-month moving averages, November marked a trend slowdown in production and sales, while the trend in exports pulled back (chart 2).

—Brett House

COLOMBIA: MoF DREW ON ITS IMF FCL AND PARTIALLY MONETIZED IT THROUGH THE BANREP

The Ministry of Finance announced the drawing of USD 5.4 bn under Colombia's Flexible Credit Line (FCL) arrangement with the IMF. The remaining amount available stands at USD 12.2 bn; the Colombian authorities intend to treat this balance as precautionary while they work to strengthen the country's international reserves position.

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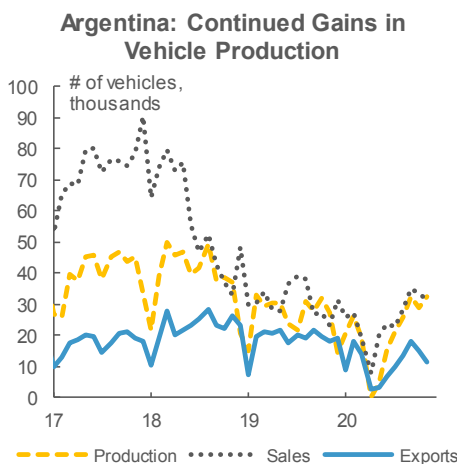
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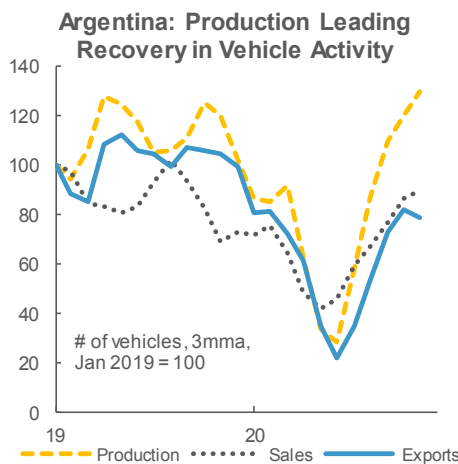
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Chart 1



Sources: Scotiabank Economics, ADEFA.

Chart 2



Sources: Scotiabank Economics, ADEFA.

On the other side of the transaction, the BanRep announced that it had increased its reserves by USD 1.5 bn as it takes on holding part of the FCL drawing for the government. Monetization of the FCL disbursement is expected to continue in 2021, although the speed by which this proceeds will depend on the urgency of Colombia's liquidity and financing obligations.

—Sergio Olarte & Jackeline Piraján

PERU: CONGRESS APPROVED THE NEW CABINET EVEN AS POLITICAL TENSIONS ROSE; VEHICLE SALES WERE STRONG IN NOVEMBER

In an unusual single session, Congress voted massively, with 111 yeas to 7 nays, to award the Violeta Bermúdez Cabinet its confidence on Thursday, December 3. The vote was to take place today, December 4, but members of Congress apparently decided that there was no reason to delay an already predetermined outcome and voted yesterday afternoon.

This was good news on the political front that contrasted with a wave of worrisome events this past week which, in general, do not augur well for the Sagasti Administration nor for political tensions in the country. The Government faced its first Cabinet resignation: Rubén Vargas left his post as Minister of the Interior and was replaced by Cluber Aliaga, a retired police general. Vargas tendered his resignation after the Government's decision to clean up the police hierarchy through the removal of 18 highly-ranked officers, a move which ignited protests within and outside the institution. Perhaps more importantly, members of Congress had threatened to deny the new Cabinet a vote of confidence if Vargas were not removed.

Meanwhile, Pres. Sagasti is facing his first bout of social protests. Agricultural workers along both the northern and southern coasts, where many of the main agro-industrial operations are located, have been protesting throughout the past week. Their main demand is for the elimination of a labour law that allows agricultural workers to be hired under work and pay conditions that are more flexible than under the country's standard regulations. Congress has taken up the issue and is debating the abolition of the law.

At the same time, protests have erupted around the Las Bambas mine. These have been recurring, although the demands have become more political over time.

To add to the feeling of malaise, Congress overrode a Presidential veto on a law that mandates payouts to all those covered by the public pension system.

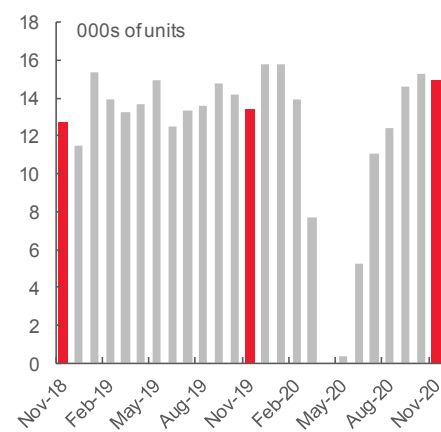
President Sagasti had earlier forewarned that he would take the issue to the Constitutional Court. The public pension system is a pay-as-you-go framework, which means that payouts would have to be drawn from current fiscal resources. This initiative should be found illegal as Peruvian law establishes that Congress has no authority to undertake spending measures. The Ministry of Finance has stated that the law would bear a fiscal cost amounting to about 2.3% of GDP (PEN 16 bn). The Constitutional Court should be expected to strike the law down, but the Court has also been less than reliable of late.

In other developments, new vehicle sales were up 11% y/y, in November (chart 3).

Demand from construction and mining drove both light and heavy vehicle sales. Light vehicle sales rose 10% y/y in November, surpassing pre-COVID-19 levels for the third consecutive month. Demand was particularly strong for pick-up trucks used in mining and construction activities and for minivans used in the delivery of goods. SUV sales, which are mainly purchased by households, also rose. Truck sales performed even better, up 20% y/y in November. Once again, that demand would have come mainly from construction and mining, although sales of heavy-load carriers were also high.

Chart 3

Peru: New Vehicle Sales



Sources: Scotiabank Economics, AAP.

—Guillermo Arbe

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