

## Latam Economic Update

- **Central banks: Cut expected Friday from Colombia's BanRep, minutes from Chile's BCCh**
- **Mexico: Economic activity shrank more deeply in May**
- **Peru: Loans growth slows in June, but still robust in line with policy action**

### CENTRAL BANKS: CUT EXPECTED FRIDAY FROM COLOMBIA'S BANREP, MINUTES FROM CHILE'S BCCh

Colombia's BanRep monetary policy committee meets on Friday, July 31, and our team in Bogota expects it to deliver another -25 bps cut to its headline rate. While the monetary policy committee is likely to maintain its data-dependent, gradualist tilt in its statement on Friday, with headline and core inflation well below target (chart 1) our forecasts anticipate another -25 bps cut at a subsequent meeting to keep taking the policy rate through record lows to a terminal rate of 2.00% for this easing cycle.

Friday will also see Chile's BCCh publish the *Minutes* from its July 15 policy decision, where it held the policy rate at its "technical minimum" of 0.5% following a unanimous vote. In the BCCh's July 15 [statement](#), the Board strengthened its guidance that the policy rate would be held at the technical minimum "over the entire projection horizon" and that "unconventional instruments" would be the focus of any further support to the economy. With the recent surge in COVID-19 cases and the re-intensification of lockdown measures in the capital region, our team in Santiago now expects the BCCh to lower its assessment of the technical minimum to 0.25% in its review due to be published in its September *Monetary Policy Report*—and to cut the policy rate by -25 bps to a new 0.25% floor.

The *Minutes* may shed some further light on the BCCh's thinking regarding the proposal before Congress to allow the central bank to engage in secondary-market government bond purchases. The *Minutes* may also reveal progress on the review of the policy rate's technical minimum.

See the latest edition of our [Latam Weekly](#) for more details on the further easing in monetary policy we expect from central banks across Latam.

—Brett House

### MEXICO: ECONOMIC ACTIVITY SHRANK MORE DEEPLY IN MAY

Despite the gradual re-opening of some economic sectors since mid-May, economic activity continued to soften in June, consistent with recent data on employment and commercial indicators. According to figures released on Friday, July 24, the Global Indicator of Economic Activity (IGAE), Mexico's monthly GDP proxy, decreased in May by -22.7% y/y nsa versus the -20.0% y/y market consensus, which marked the IGAE's fifth consecutive decline and the 12th contraction in the last 14 months (chart 2).

#### CONTACTS

**Brett House, VP & Deputy Chief Economist**  
416.863.7463  
Scotiabank Economics  
[brett.house@scotiabank.com](mailto:brett.house@scotiabank.com)

**Guillermo Arbe**  
51.1.211.6052 (Peru)  
Scotiabank Peru  
[guillermo.arbe@scotiabank.com.pe](mailto:guillermo.arbe@scotiabank.com.pe)

**Mario Correa**  
52.55.5123.2683 (Mexico)  
Scotiabank Mexico  
[mcorrea@scotiabank.com.mx](mailto:mcorrea@scotiabank.com.mx)

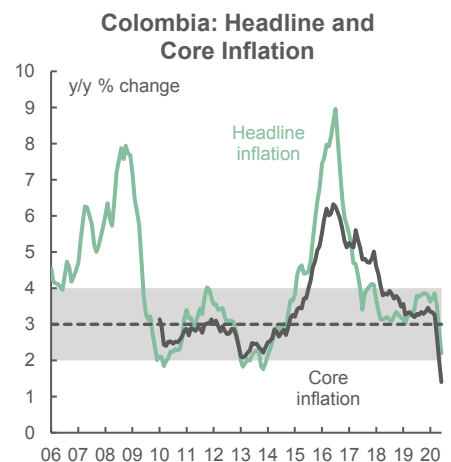
**Sergio Olarte**  
57.1.745.6300 (Colombia)  
Scotiabank Colombia  
[sergio.olarte@co.scotiabank.com](mailto:sergio.olarte@co.scotiabank.com)

**Jorge Selaive**  
56.2.2939.1092 (Chile)  
Scotiabank Chile  
[jorge.selaive@scotiabank.cl](mailto:jorge.selaive@scotiabank.cl)

#### TODAY'S CONTRIBUTORS:

**Daniel Mendoza**  
52.55.5123.2684 Ext. 31797 (Mexico)  
Scotiabank Mexico  
[damendoza@scotiabank.com.mx](mailto:damendoza@scotiabank.com.mx)

Chart 1



Sources: Scotiabank Economics, DANE.

- **May's economic contraction originated from a new record drop in industry**, which saw its 15th month of decline in a row, from -29.3% y/y in April to -30.7% y/y, and to **a historic fall in services**, from -16.2% y/y to -20.3% y/y. The advance in the **agricultural sector**, which accelerated from 0.8% y/y in April to 2.5% y/y in May, only partially compensated for the declines in other sectors.
- **In the first five months of 2020, economic activity averaged a decrease of -9.2% y/y, its strongest decline in this period in recent history (1994)**, which exceeded even the -7.5% y/y recorded in January–May 2009 (chart 3).
- **The contraction in the industrial sector was a result of a pronounced decline in manufacturing**; a strong setback in **construction** (albeit a bit softer from May); and a stronger decline in **utilities and mining**.
- **Within the services sector**, eight of its nine components reported annual decreases in May.
- **Meanwhile, in seasonally adjusted terms, economic activity significantly moderated its monthly decline, from -17.3% m/m in April to -2.6% m/m in May, amid a smaller drop in its two main components.** Industry's contraction slowed from -25.2% m/m in April to -1.8% m/m in May, while services' slide went from -14.3% m/m to -3.2% m/m. In contrast, the agricultural sector rebounded from -7.0% m/m in April to 1.6% m/m in May.

**May's weak economic performance is expected to persist and further cuts to our growth forecast for 2020 are possible.** April investment numbers and data on job creation, the auto industry, and National Association of Supermarkets and Department Stores (ANTAD) sales in June point to continued softness ahead. In the most recent edition of the *Latam Weekly* we marked down for real GDP growth forecast from -8.7% y/y to -9.1% y/y, with further risks to the downside.

—Daniel Mendoza

**PERU: LOANS GROWTH SLOWS IN JUNE, BUT STILL ROBUST IN LINE WITH POLICY ACTION**

**Loans growth slowed slightly in June, albeit to a still vibrant 14.0% y/y, from 14.6% y/y in May (chart 4).** The main difference between the two months involved the government-sponsored Reactiva guaranteed loans program. The first stage of the Reactiva resources was concentrated in May with very little spillover into June. The present stabilization in loans growth will not last as the second stage of the Reactiva program has been implemented in July. We, therefore, expect another strong wave of loans growth in July, followed by a more moderate, and normal, pace thereafter.

**The broad underlying trends did not change from May to June, but their details did evolve.** **Business loans** continued accelerating in June, up 20.1% y/y, slightly faster than the 19.8% y/y recorded in May. However, most business loans in June went to small firms; in contrast, previous months saw a focus on the corporate sector. Meanwhile, **household loans** growth weakened, rising only 3.4% y/y, in June, compared to 5.7% y/y in May.

—Guillermo Arbe

Chart 2



Chart 3

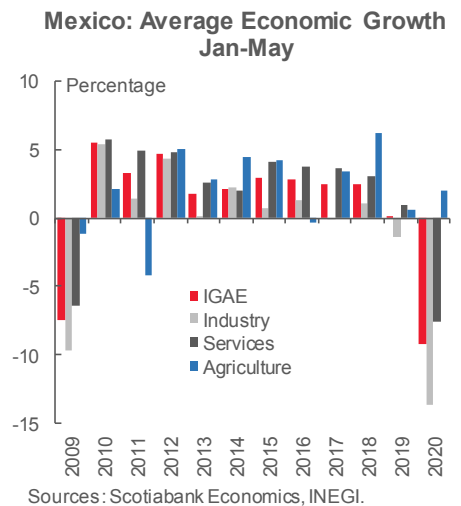
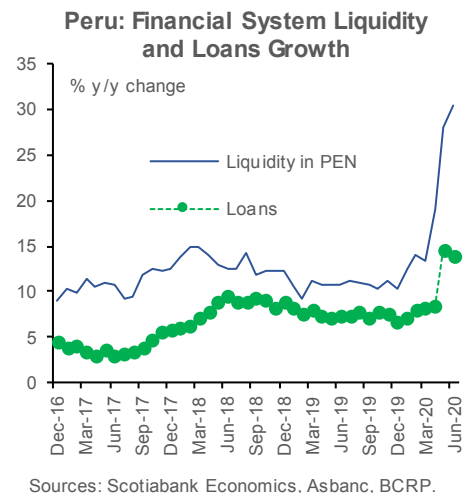


Chart 4



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