

Latam Economic Update

- **Brazil:** Retail sales contracted sharply in April
- **Chile:** Central bank holds policy rate at 0.5%, expands measures, and anticipates a strong GDP correction for 2020

BRAZIL: RETAIL SALES CONTRACTED SHARPLY IN APRIL

On Tuesday June 16, Brazilian retail sales printed a record contraction of **-16.8% y/y for April (consensus -14.1% y/y, chart 1)**. A sharp deceleration across the board, including in services, had already been foreshadowed by the PMIs for April, as well as by mobility statistics. The good news is that the same releases also imply that for the services sector, April was likely the bottom. We'll get a very mild rebound in May—but it's important to highlight the "mild".

Longer term, the biggest hurdle we see for Brazil's consumers, who have been "the little engine that could" for the Brazilian economy, is debt levels. The BCB's statistics for household debt showed that consumers are already spending over 20% of disposable income on debt service, despite historically low interest rates. The last time such a high share was spent on debt service was after the 2009 crisis and right before the Dilma Rousseff presidency's deceleration.

Nevertheless, we still see household consumption as the strongest driver of Brazilian GDP for the coming year, particularly as political uncertainty is likely to drag investment even lower. However, as 2021 kicks in, we expect rates to start rising, presenting an additional headwind to leveraged consumers.

—Eduardo Suárez

CHILE: CENTRAL BANK HOLDS POLICY RATE AT 0.5%, EXPANDS MEASURES, AND ANTICIPATES A STRONG GDP CORRECTION FOR 2020

On Tuesday June 16, the central bank held its policy rate at 0.5%, as universally expected, and made a grim description of the economic scenario, reporting a deterioration in activity, employment, and expectations. Nothing here was different from what we have already seen in our high frequency report *Tracking COVID-19*. We maintain our forecast for a contraction in GDP of -4.5% y/y in 2020, but with a downside risk since the quarantine-sanitary measures have been extended until the end of June.

The BCCh's Board agreed to expand unconventional liquidity and credit support measures implemented since March. This expansion would include starting a second stage of the FCIC program (Conditional Credit Facility to Increase Loans) for an additional amount of USD 16 bn over eight months. To date, nearly 83% of the resources contemplated in the first stage (USD 24 bn) have been used, which implies that this remains a good tool to boost credit to smaller companies. The expansion of the FCIC is in clear coordination with the recent announcement by the government within the last fiscal package to strengthen and expand the COVID-Fogape line. The funding available to banks and non-bank credit agents from the central bank will continue to be obtained at 0.5% and flow through to companies.

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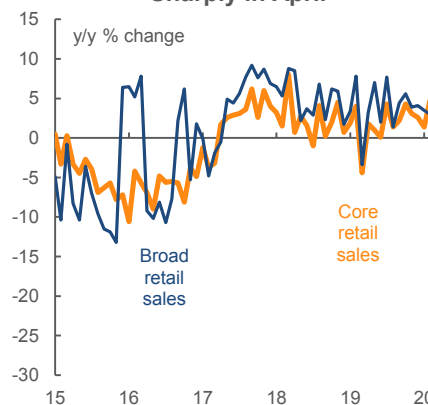
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Chart 1

Brazil: Retail Sales Contracted Sharply in April



Sources: Scotiabank Economics, Bloomberg.

Along with this, a special asset purchase program is contemplated for up to USD 8 bn over six months, which could include new types of assets. The details of this program will be known in the coming days. The previous program contemplated the purchase of corporate bank bonds for USD 8 bn and the repurchase of USD 8.5 bn in debt.

—Jorge Selaive

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