Latam Daily: Chile Lockdown, 7.5% y/y GDP Forecast Unchanged; Peru BCRP Holds Rate

- **Chile: Santiago metropolitan region back on lockdown; Scotia Economics' 7.5% y/y GDP forecast unchanged**
- **Peru: Central bank holds rate at 0.25%, and takes action to mitigate volatility in financial markets**

CHILE: SANTIAGO METROPOLITAN REGION BACK ON LOCKDOWN; SCOTIA ECONOMICS' 7.5% Y/Y GDP FORECAST UNCHANGED

On Thursday June 10, Chile's Ministry of Health put Santiago's metropolitan region back on lockdown starting Saturday. Santiago represents approximately 50% of the country's population and GDP. In view of the re-imposition of such highly restrictive measures, we are maintaining our 7.5% y/y GDP forecast for 2021, with an upward bias, but below the central bank's baseline scenario. Earlier this week (see yesterday's *Latam Daily*), the BCCh had revised its baseline scenario up (GDP growth in the range of 8.5–9.5% y/y for 2021), assuming an easing of restrictions and greater mobility this month. This will no longer be the case. We therefore remain confident in our forecast of 7.5% y/y, with an upward bias.

Authorities had begun rolling back restrictions in April in certain municipalities, but a recent rise of new infections reached levels not seen thus far in 2021, renewing pressures on the healthcare system. Chile is reporting on average 7,264 new cases per day and a PCR positivity rate of 12%.

—Anibal Alarcón

PERU: CENTRAL BANK HOLDS RATE AT 0.25% AND TAKES ACTION TO MITIGATE VOLATILITY IN FINANCIAL MARKETS

At its monthly meeting on Thursday, June 10, the Board of Peru's Banco Central Republica (BCRP) kept its key interest rate unchanged at its current record low of 0.25% (chart 1) for the fourteenth consecutive month, as widely expected by both Scotiabank Economics and the market consensus. The BCRP reference rate has been at 0.25% since April 9, 2020, following the onset of the pandemic. In its statement, the Board reiterated its forward guidance from previous months: it advised that the benchmark rate would remain low as long as the pandemic's effects on inflation persist. The Board also reinforced its commitment to continue providing monetary stimulus as needed. The current policy mix seeks to strengthen long-term interest rate transmission mechanisms.

Inflation picked up again in May due to supply factors, going from 2.4% y/y in April to 2.5% y/y in May, above the BCRP's 2% y/y target. The persistent upward pressure from supply factors such as price increases in soft-commodities and fuels, had already led us to revise our inflation forecast from 2.6% y/y to 3.0% y/y for end-2021. Core inflation rose from 1.7% y/y to 1.8% y/y in May, still below the 2% y/y target for headline inflation. The BCRP's most recent survey on inflation expectations 12-months forward is creeping upward, from 2.3% y/y to 2.4% y/y. We see little immediate reason for the Board to change its current

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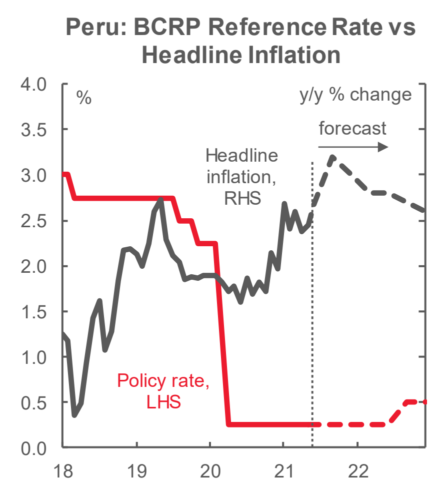
Chart 1



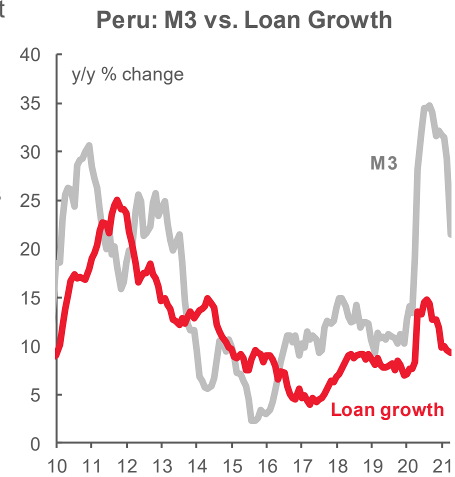
Sources: Scotiabank Economics, BCRP, INEI.

stance, even though level effects are expected to push headline inflation close to 3.0% y/y in the coming months. The economy's underperformance is expected to persist well into 2022.

Given recent developments, we reaffirm our view that the BCRP Board will keep its reference rate on hold at 0.25% until Q3-2022. An eventual increase in the rate would be preceded by a gradual shift in the Board's forward guidance towards a less-data dependent line. Monetary expansion, one of the strongest in the region, reached its highest rate in Q3-2020, but has since slowed. The growth rate of loans also shows a slowdown, from 12% y/y at end-2020 to 9% y/y in April (chart 2).

The BCRP's statement further noted actions taken to mitigate volatility of financial markets in the context of uncertainty surrounding the presidential election. The BCRP has injected USD 3.4 bn of liquidity so far in June, following the USD 1.9 bn provided in May (both through direct sales and repos) in a context of higher demand for dollars, as the USD/PEN exchange rate reached a new record of 3.98. Although the external accounts show a trade surplus—which already exceeds USD 10 bn during the last 12 months—net international reserves have decreased by USD 6.8 bn during April–May period, mainly due to a decrease in private sector deposits in the BCRP by USD 4.5 bn.

Chart 2



Sources: Scotiabank Economics, BCRP.

The BCRP is also buying sovereign bonds in the secondary market for the first time. The central bank bought the equivalent of USD 181 mn, in terms of between 10 and 20 years, seeking to reduce pressures on long-term interest rates. The Constitution prohibits the central bank from direct financing of the public sector but allows the BCRP to acquire up to 5% of the monetary base in the secondary market. Purchases made represent 0.8% of the monetary base and 0.6% of the sovereigns outstanding.

—Mario Guerrero