Scotiabank.

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Colombia's Credit Rating Affirmed; Peru's Mining Investment/Loan Growth

- **Colombia: Fitch affirms Colombia's rating at BB+ Outlook Stable and expresses strong confidence in institutions**
- **Peru: Mining investment; loan growth slows**

COLOMBIA: FITCH AFFIRMS COLOMBIA'S RATING AT BB+ OUTLOOK STABLE AND EXPRESSES STRONG CONFIDENCE IN INSTITUTIONS

On Friday, June 10, Fitch Ratings affirmed Colombia's sovereign credit rating at BB+ (one notch below investment grade) with a Stable outlook table 1. According to Fitch, the rating reflects a tradition of macroeconomic and financial stability backed by an independent central bank and a freely-floating currency. However, Fitch highlighted that the fiscal deficit is still large and external accounts are weak, reflecting continuing dependence on commodity prices.

Fitch expects Colombia to grow 6% in 2022 as growth moderates in H2-2022. In fiscal metrics, Fitch projects a slight decrease in the General Government debt-to-GDP ratio to around 58% in 2022, which is still above the BB median.

Table 1: Colombia—Credit Ratings

	Rating	Outlook
Fitch	BB+	Stable
S&P	BB+	Stable
Moody's	Baa2	Stable

Sources: Scotiabank Economics, Fitch Ratings.

Fitch highlighted that Congressional elections resulted in a fragmented Congress, which requires consensus-building to pass legislation regardless of who wins the presidency. All the above supports the idea that the policy framework will remain intact and that institutional "checks and balances will prevent political radicalization". Fitch expects key areas of possible reforms will include tax policy, oil, and gas sector policies, pension reform, security, health, housing, and education.

Fiscal consolidation with a declining debt to GDP ratio and sustained economic growth above historical averages of 3.3%, would contribute to a better rating profile in the future, while the opposite would lead to a deterioration in the rating.

All in all, the Fitch announcement is market neutral. We nevertheless think it is positive to see the rating agency's confidence in institutions despite the uncertainty surrounding the presidential elections. For now, we highlight the importance of monitoring the composition of the new government's cabinet as well as policy announcements, especially the approach taken with respect to fiscal issues, in order to assess the prospects for regaining investment grade status in the future.

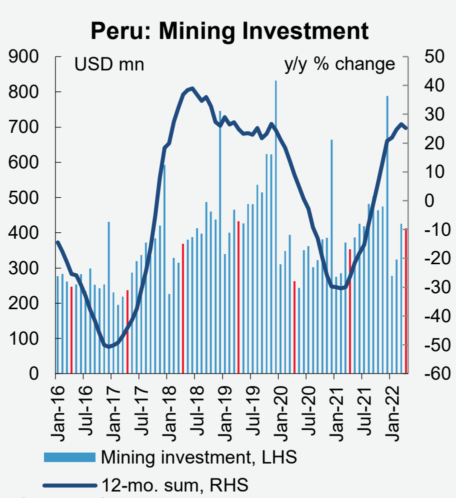
—Sergio Olarte, Maria (Tatiana) Mejía & Jackeline Piraján

PERU: MINING INVESTMENT; LOAN GROWTH SLOWS

I. Mining data in April 2022

Mining investment increased 16.5% y/y in April, according to Mining Administration. Mining investment continues to be driven by Anglo American's Quellaveco project, with investment expenditures up 13.2% y/y in April. The Antamina mine, which is expanding its operations after the approval of the environmental impact study, had the second highest investment. On a cumulative 12-month basis, total investment increased by 25.3% (chart 1).

Chart 1



Sources: Scotiabank Economics, Minem.

We expect investment growth to decelerate through the rest of the year, as the Quellaveco project nears completion. Construction will likely finish in the third quarter of this year and it will start production in the second half of 2022, with full capacity in 4Q22. The project was 88% complete as of April. Meanwhile, the construction of the Toromocho

Expansion by Chinalco was delayed during 2021 due to delays in permits for phase II of the project. We expect investment in this project to accelerate in the second half of the year.

Investment in exploration continued to increase, rising 59% y/y in April, accumulating an increase of 28.5% y/y in the first four months of the year. In the January-April period, mining investment increased 11.4% y/y.

Though Investment in April was 1% above our estimate, we maintain our estimate of a 2.6% decline for this year given the drop in investment in the second half once the Quellaveco project comes into production. For 2023, we estimate mining investment to decrease around 15% as there will no new major projects to replace Quellaveco project.

Mining output fell in April due to blockades at Southern's Cuajone mine (March and April) and new blockades around the Las Bambas mine, which began in April and have been paralyzed for more than 50 days. Copper production fell 1.7% in May due to falls of 48.3% in Cuajone and 40.7% in Las Bambas but was partially offset by Antamina (+5.3%), Cerro Verde (+15.4%) and Chinalco (+37.8%). Production continues to be driven by high metal prices; however, ongoing conflicts are hampering production in a situation where the economy is slowly recovering. Regarding the other metals, Zinc output fell 23.6% y/y in April. For precious metals, gold output fell 0.1% YoY in April, accumulating a drop of 1.6% in 1Q22.

—Katherine Salazar

II. Loan growth slows in April, in line with economic activity

Bank loans decelerated slightly in April, rising 0.5% m/m and 7.0% y/y in April, down slightly from the 7.4% y/y increase posted in March. More significantly, this was the first monthly decline in growth since mid-2021 (chart 2).

Business loan growth (3.9% y/y) and household loan growth (13.5%) continues to grow at different rates, but both were broadly in line with our forecast for the 2022 fiscal year ending in October: Business loans (3.0%) and household loans (17.1%).

Business loans, were in line with our expectations, and actually fell, -0.1% m/m (3.9% y/y). Within business loans, corporate loan growth has stabilized but at high levels of loans outstanding. Meanwhile, low loan growth for large, mid- and small businesses continue to reflect amortizations and pre-payments of the government-sponsored Reactiva Program put in place to provide liquidity during the COVID lockdown (table 2).

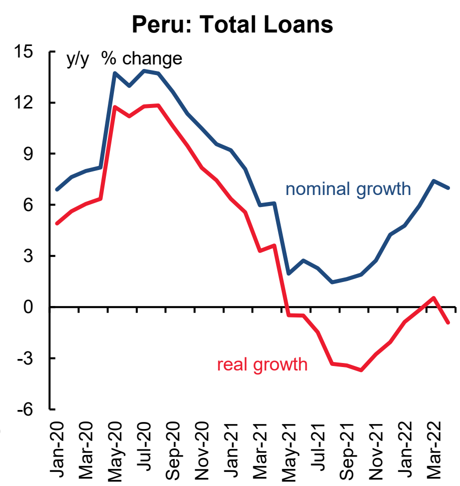
Household loan growth was much more dynamic, 13.5% y/y in April, and continue to be more robust than we have been expecting. Household lending was led by consumer loans (18.9%) and mortgage loans (7.9%). Household loans growth accelerated in recent months driven by the further relaxation of restrictions after of strict COVID lockdowns, the back-to-school campaign and pent-up demand that fueled the entertainment industry, retail stores, restaurants and hotels.

PEN lending rates continued to increase, reflecting the more hawkish monetary policy stance adopted by the BCRP, which raised its reference rate to 5.0% in May. Interest rates on wholesale loans increased by 70bps on average in May compared to April and increased by 470bps on average since the BCR raised its monetary policy interest rate for the first time in August 2021.

Note that nominal growth of loans also reflect the high inflation of recent months, which in May reached its highest level in 24 years, 8.1%.

—Ricardo Avila

Chart 2



Sources: Scotiabank Economics, Asbanc.

Table 2: Peru—Loan Growth

	% m/m	% y/y	2020F
Business loans	-0.1	3.9	3.0
Corporate	0.2	17.9	13.7
Large businesses	0.3	1.2	0.5
Medium businesses	-1.2	-9.3	-8.6
Small businesses	1.3	5.7	4.0
Micro businesses	-1.6	10.3	14.1
Household loans	1.5	13.5	17.1
Consumer loans	2.0	18.9	24.7
Mortgages	1.0	7.9	9.2
On shore loans	**0.5**	**7.0**	**7.5**

Sources: Scotiabank Economics, BCRP.