Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Colombia Economic Activity Recap, Peru Fiscal Resilience

- **Colombia: Economic activity in May driven by finance and commerce**
- **Peru's fiscal situation is likely to remain resilient into 2026**

COLOMBIA: ECONOMIC ACTIVITY IN MAY DRIVEN BY FINANCE AND COMMERCE

On Friday, July 18th, DANE released May's Economic Activity Indicator (ISE) data. The indicator registered a 2.8% y/y increase (chart 1), below market expectations of 2.9% y/y and showing positive variations in seven of the nine activities included in the indicator. The seasonally adjusted data showed a 2.7% y/y expansion in economic activity. In period-on-period terms, economic activity decreased by -0.1% m/m S.A., below the monthly variation in April (1.6% m/m) (chart 2).

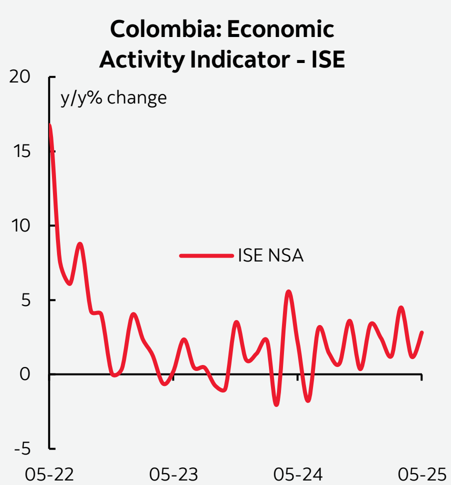
Economic activity was driven primarily by the services sector (charts 3 and 4). Services began 2025 in positive territory in which financial and insurance activities, and commerce were the best performers, followed by public administration, professional activities, communication services, real estate, and utilities. In contrast, the primary sector continued to slow, showing a slight contraction. Similarly, the secondary sector (manufacturing and construction) showed signs of slowing, mainly due to growth in the construction sector, while the manufacturing sector registered expansion during the month (**see here**).

Friday's results are compatible with our GDP projection of 2.6% expansion in 2025. The mixed results of the indicator indicate that household consumption is leveraging economic growth, with consumption of durable and semi-durable goods standing out amid the relative stability of the FX. While this result gives BanRep some room to remain cautious, the output gap remains negative but will close soon. While the economy is improving, the sustainability of the economic recovery requires less restrictive monetary policy in the future, given the negative trend in inflation indicators. Thus, we affirm our expectation of a 25bps rate cut at the July meeting, to 9.00%.

Highlights:

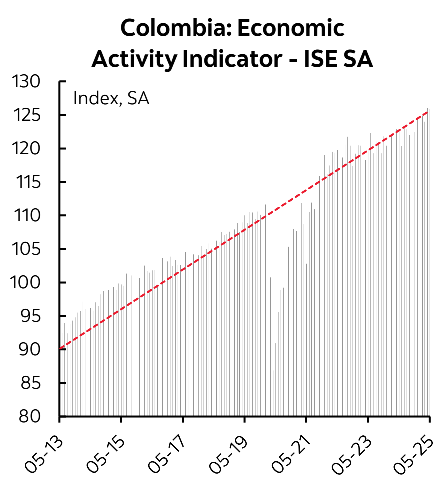
- **The primary sector showed a significant contraction.** In May, both agricultural and mining activities dropped by -0.8% y/y. In the agricultural sector, coffee exports grew by 61% y/y and overall agriculture exports grew by 23% y/y. On the domestic front, the supply of agricultural products registered an increase of 7.8% y/y which shows an

Chart 1



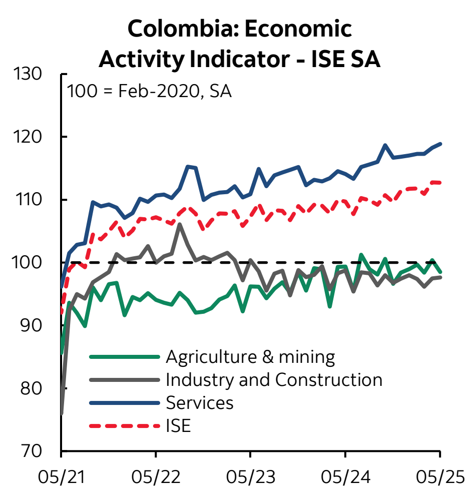
Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

Chart 3

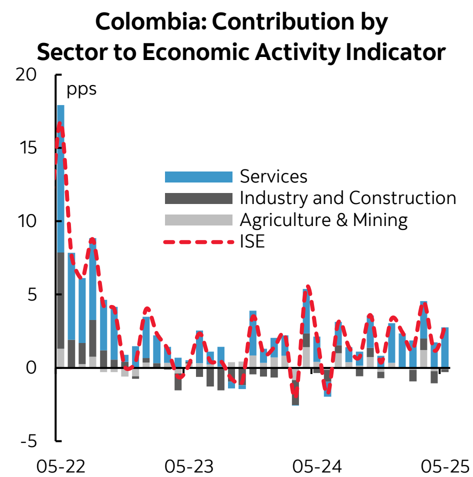


Sources: Scotiabank Economics, DANE.

acceleration compared to 2024 when agriculture supply increased by 0.5% y/y on average. Mining, coal, and extractive industries showed signs of contraction reflected in a 14.7% y/y decline in mining exports.

- **Secondary activities dropped by 1.1% y/y.** Construction registered a negative trend while manufacturing increased in line with the manufacturing output indicator which grew by 3.0% y/y during the same period. Therefore, from the May manufacturing output indicator, food (+19.5% y/y), chemical products (+13.2% y/y), apparel (+12.7% y/y), and mineral products (+7.1% y/y) contributed to the result. In contrast, the iron and steel industry (-16.6% y/y), the oil and fuel industry (-7.4% y/y) and metal products (-8.9% y/y), were the main sectors offsetting the boost in the period. On the other hand, in the housing sector, home sales have increased +24% y/y in May, but construction licenses registered a significant decline in the period.
- **The services sector continued expanding.** On an annual basis, the seven service sectors registered positive variations. In general, services such as financial and insurance activities (+10.0% y/y), commerce, transportation, and housing (+6.9 y/y) and public administration and leisure (+3.1% y/y) contributed the most to the general positive performance. Besides, professional activities (+1.9% y/y), communication services (+1.8% y/y), real estate (+1.8% y/y) and utilities (+1.5% y/y) continued with positive numbers.

Chart 4



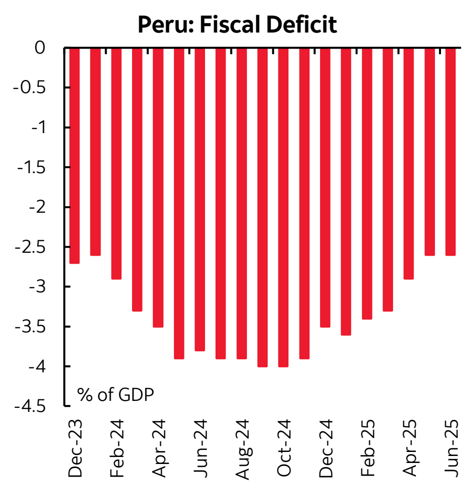
Sources: Scotiabank Economics, DANE.

—Valentina Guio

PERU'S FISCAL SITUATION IS LIKELY TO REMAIN RESILIENT INTO 2026

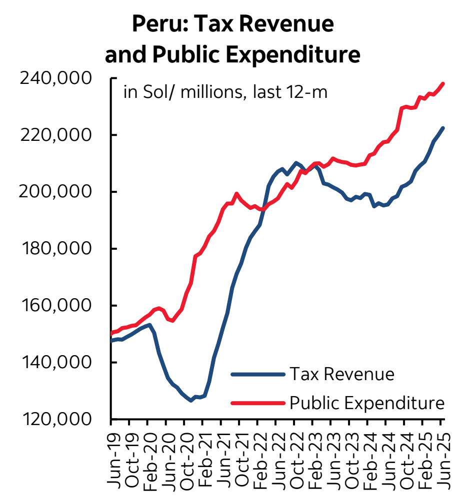
Peru's fiscal deficit has stabilized at 2.6% of GDP in the twelve months to June for the second consecutive month (chart 5). This was a figure sufficiently satisfying for the Minister of Finance, Raúl Perez Reyes, to state that the government would no longer raise the fiscal rule ceiling for 2025 to -2.8% of GDP (later revised to -2.5%), but leave it at the current deficit ceiling of 2.2% of GDP. Perez Reyes stressed with particular emphasis the performance of fiscal revenue. This is not without reason. Fiscal revenue for May was up 14.3%, YoY, outperforming expenditure, which rose an also hefty 12.9%. Minister Perez Reyes added that fiscal revenue continued to perform well in July, which is likely to be true.

Chart 5



Sources: Scotiabank Economics, BCRP.

Chart 6



Sources: Scotiabank Economics, BCRP.

Reading between the lines, by leaving the fiscal rule at a 2.2% deficit, Perez Reyes seems to be suggesting that government expenditure will not rise in the same measure as revenue going forward. This is possible. Even so, although revenue is, perhaps, not growing quite sufficiently to reach the 2.2% of GDP rule for the deficit. No matter, if the fiscal deficit ends the year at 2.4%–2.5%, that is fine.

The bottom line is that fiscal revenue is growing strongly, and, given the way metal prices have held up so far in 2025, this solid growth should continue into 2026. Revenue growth is giving the government a wide comfort zone for spending, and will be a sound starting place for the next government that starts in August 2026 (chart 6).

—Guillermo Arbe

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