

LATAM Market Update

- **Peru: Central Bank, not surprisingly, does the unusual, lowering rates 100bps, with more to come**

THE CENTRAL BANK, NOT SURPRISINGLY, DOES THE UNUSUAL, LOWERING RATES 100BPS, WITH MORE TO COME

The Central Bank complied with our suspicions, and lowered its reference rate between meetings. I cannot recall if the Central Bank has ever done this before. The magnitude of the decision was equally unusual, 100 basis points, to 1.25%. This is the lowest level the CB has ever taken its policy rate, equivalent to the rate floor during the 2009 Financial crisis. The CB has stated the likelihood of a global recession in the first half of the year as their rationale, although they must be aware, as are we all, of how strongly the government measures to confront COVID-19 are impacting domestic demand. Since the CB has broken into negative real interest rate territory, this floor has been removed, and the CB could well go lower. We expect it will, probably as soon as its April meeting, and possibly as much as 50bps.

The first three deaths linked to COVID-19 were recorded yesterday in Peru. It is still too early to tell whether the drastic measures taken by the government have flattened the trend sufficiently. Meanwhile, in a harbinger of what may be in store regarding March GDP growth, electricity demand has fallen over 25% during the last three days.

—Guillermo Arbe

CONTACTS

Eduardo Suárez, VP, Latin America Economics
52.55.9179.5174 (Mexico)
Scotiabank Economics
eduardo.suarez@scotiabank.com

Guillermo Arbe
511.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiabank.com.mx

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@co.scotiabank.com

Jorge Selaive
56.2.2939.1092 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

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