

Latam Daily: Peru's BCRP Holds; Mexico Suspends Electricity Reform

- Mexico: Temporary suspension of the recently-approved Electrical Industry Law
- Peru: The BCRP held at 0.25%, updated forecast sees slower decline in inflation

MEXICO: TEMPORARY SUSPENSION OF THE RECENTLY-APPROVED ELECTRICAL INDUSTRY LAW

On Thursday February 11, a federal judge temporally suspended the application of the recently-approved Electric Industry Law that has been promoted by President Lopez Obrador. The ruling, made in response to a filing by renewable energy companies, found that the law could be anti-competitive and cause damage to the environment because it would advantage traditional energy sources over renewable ones. As we noted in our February 22 *Latam Weekly*, the law prioritizes in the national grid electricity generated by the state-owned Federal Electricity Commission (CFE) using fossil fuels and hydro facilities over energy produced by private and other renewable sources. This structure would be both economically inefficient by emphasizing relatively high-cost production and environmentally sub-optimal. Although the suspension granted is provisional, the legal challenge that prompted it is expected to be part of a broadly-based campaign against the law by private-sector electricity producers that would be harmed by the new regime.

—Miguel Saldaña

PERU: THE BCRP HELD AT 0.25%, UPDATED FORECAST SEES SLOWER DECLINE IN INFLATION

At its monthly meeting on Thursday, March 11, the BCRP's Board kept its benchmark interest rate unchanged at its record-low 0.25% for an eleventh consecutive month, as expected by both Scotiabank Economics and market consensus. The BCRP Board's statement reiterated its forward guidance from previous months that the reference rate will remain low for an extended period and so long as the pandemic's negative effects on inflation and its determinants persist. The statement did not comment on the recent volatility of long-term yields in international bond markets. We continue to forecast that the BCRP will stay on hold until the second half of 2022 (chart 1).

The decision came in a context where inflation has been higher than expected, at 2.7% y/y in January and 2.4% y/y in February. These prints seem to have had an impact on the BCRP's thinking: in the statement, the Board pushed out the date from end-2021 to end-2022 that it projects inflation to converge toward the lower half of the 1–3% y/y target range—even though core inflation has remained stable. The BCRP's new thinking may reflect concerns about still-high growth in money supply and credit (chart 2). We maintain our end-2021 inflation forecast at 2.6% y/y (see our March 9 *Latam Weekly*).

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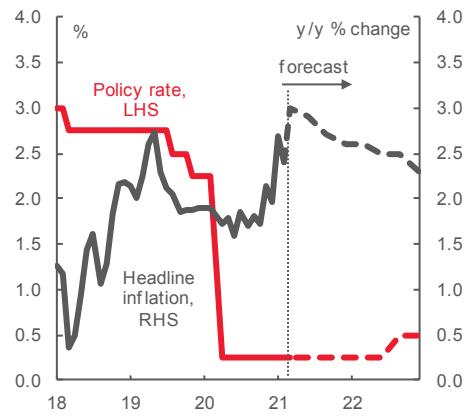
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Chart 1

Peru: BCRP Reference Rate vs Headline Inflation



Sources: Scotiabank Economics, BCRP, INEI.

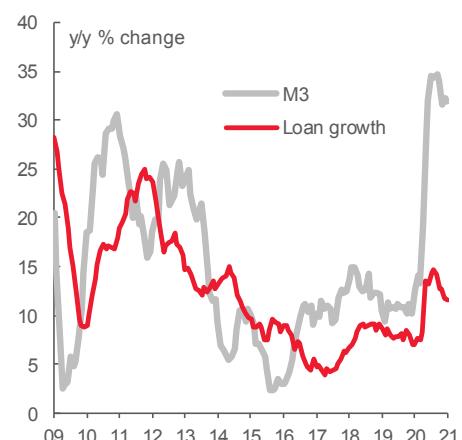
The statement highlighted that business expectations rebounded in February, but still remain in pessimistic territory. The BCRP kept unchanged its forecast that real GDP growth will hit 11.5% y/y in 2021, an ambitious figure that is well above our 8.7% y/y projection. We believe that the BCRP's number will be revised downward when its outlook is updated in the next *Inflation Report*, which is set to be published later this month.

With respect to FX, the BCRP has sold USD 219 mn in the spot market so far in March. This has not been enough to stop the PEN from weakening against the USD from 3.65 to 3.70, a record level. The BCRP has sold a total of USD 1.4 bn in the spot market in 2021. The derivatives offer has reached USD 2.7 bn in March alone, almost four times the net offer posted in February. The imbalance in the spot FX market worsened in March, reaching a record deficit of USD 3.6 bn, which added to pressure on the PEN.

—Mario Guerrero

Chart 2

Peru: M3 & Loan Growth



Sources: Scotiabank Economics, BCRP.

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