Latam Daily: Chile Fiscal Plans; Colombia Survey Data

- **Chile: Plenty of room for new fiscal package in March**
- **Colombia: CITI survey shows economists expect unchanged policy rate at next BanRep meeting**

CHILE: PLENTY OF ROOM FOR NEW FISCAL PACKAGE IN MARCH

New tax package of between 1 ppt and 2 ppts of GDP seems imminent in March

The pressure for a new withdrawal of pension funds is still present in part of Congress. Although the government is advancing an agreement to carry out the pension reform as soon as possible, we consider that this would not eliminate the political pressure of the most revolutionary left wing for a third withdrawal of funds, despite the fact that the Constitutional Court has already indicated its unconstitutionality.

The government has at least two alternatives to finance a new fiscal package of between 1 ppt and 2 ppts of GDP. On the one hand, the reference copper price for the Cyclically Adjusted Balance was revised in August 2020 to USD 2.88/pound at a time when the spot price was at USD 2.8/pound. We know that the spot price is highly correlated with the reference price, so a new call to the Committee of Experts to determine the reference price would lead to a relevant upward revision of this parameter that determines the room for public spending. In principle, if the benchmark copper price is revised to around USD 3.3/pound, room for an increase in spending of USD 2 bn would be achieved considering that each additional cent of the reference price of copper means around USD 45 mn in extra revenue.

Likewise, trend GDP was revised at a time when the economy was experiencing year-on-year contractions, strict quarantines, and a sharp drop in investment. The situation has clearly changed along these dimensions, and consensus expectations have persistently improved, placing GDP growth above 5% y/y, while we reaffirm our expectation of an expansion of at least 6% y/y for 2021. An increase of 1 ppt in trend GDP growth would raise about USD 1 bn in revenue.

So, as a first alternative, we have an additional spending space conditional on the revision of the referential parameters for something around USD 3 bn (higher than 1 ppt of GDP).

The second alternative, which does not exclude the review of the previous structural parameters, refers to using part of the large level of treasury assets resulting from an improvement in non-copper tax collection, together with other factors. In effect, as of December 2020 the Public Treasury has USD 3.221 bn in other assets, of which USD 2.536 bn are invested in pesos, and USD 685 mn in dollars.

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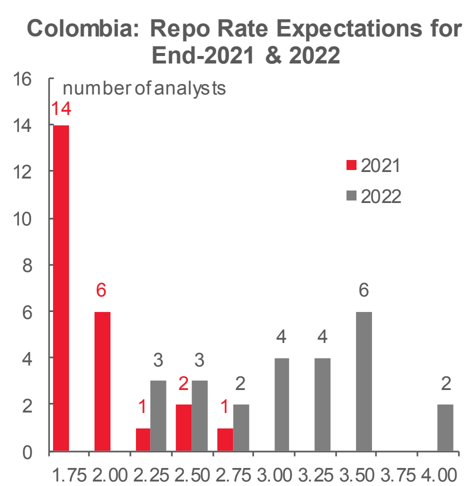
Chart 1



Sources: Scotiabank Economics, Citi Survey.

A third alternative to raise resources can be framed in the COVID-19 Fund created last year within the framework of understanding signed between the government and the opposition. This temporary emergency fund (COVID-19 Fund) was created with the aim of financing fiscal programs to solve the crisis up to a maximum of USD 12 bn, of which about 84% is already committed, which would also leave a space around USD 1.9 bn for new aid programs. In other words, the government has room, even without the revision of parameters, for a new fiscal package, although of a smaller size than we expect to be announced in March.

It should also be remembered that the level of indebtedness approved for the 2021 Budget Law provides plenty of space to raise borrowing. The current law allows up to USD 25 bn in debt (USD 21 bn from the Budget Law plus another USD 4 bn in Treasury assets) of which only USD 11.860 bn is required to finance the deficit with the rest for debt repayments (USD 7.6 bn) and other capital requirements (USD 4.5 bn). This provides plenty of fiscal room given the recovery in non-copper tax collection that we have seen in recent months.

The main political difficulty to implement a new fiscal package would be the framework of understanding signed between the government and the opposition (June 14, 2020), where the amount of the 2021 budget deficit (reflecting flat real spending during 2021) was defined, along with agreement on the size of the fiscal impulse that would be applied in 2021. It is clear that there are resources available that do not imply breaking this framework of understanding, for example the resources available from the COVID-19 Fund, in addition to the use of other assets.

Market effect: rates hike, greater appreciation of the peso and some inflationary pressure on services, but with the central bank still maintaining a highly stimulative bias until Q3-2021

If our expectation of a new fiscal package materializes, it will strengthen the economy given the lack of recovery in labour income for the most affected households. We expect additional appreciative effects on the peso and further increases in nominal short and long interest rates. With the recovery in household income, coupled with a gradual removal of mobility restrictions, the service sector would be given a greater boost, which would add inflationary pressures in the medium term.

The central bank would still have room to maintain the dovish discourse acknowledging the relevant gap in the creation of quality employment. However, the recent increase in inflation, although it is eminently transitory, would begin to bother the central bank by mid-year, especially if a new fiscal package materializes and inflation does not rise as we expect in our baseline scenario. In this context, although we do not anticipate changes in the CB forward guidance in the short term, we could observe somewhat more hawkish reflections in the statements by the monetary authority in a scenario where the economy begins to show growth figures that could exceed what is projected in its base scenario. In effect, the rapid vaccination process that would allow a greater public and private investment towards the second semester, the high price of copper and a certain greater social calm would be ingredients that could make the CB "nervous" towards the third quarter.

All of the above in a somewhat less tense "social environment", given the direct and targeted support to lower-income households of the new fiscal package, could trigger an appreciation of Chilean assets whose valuations remain low. Crowning this eventual atmosphere of greater calm, there could be a surprise in the election of Constituents on April 11, where an election of Constituents similar to the political participation of Congress could generate new breaks and even setbacks in political uncertainty.

—Jorge Selaive, Carlos Muñoz, & Waldo Riveras

COLOMBIA: CITI SURVEY SHOWS ECONOMISTS EXPECT STABLE POLICY RATE AT NEXT BANREP MEETING

February's Citi Survey, which BanRep uses as one of its measures of expectations for inflation, the monetary policy rate, GDP, and the COP, came out on Monday, February 22.

Key points included:

- **Growth forecasts were broadly unchanged.** In 2021, the GDP recovery is expected to hit a pace of 4.77% y/y, a bit lower than the previous survey's 4.78% y/y, while in 2022 and 2023, economic growth is forecast to be 3.67% y/y and 3.48% y/y, respectively.

- **Inflation expectations did not change significantly for 2021, and they are anchored for 2022.** February's monthly inflation rate is, on average, expected to be 0.50% m/m and 1.43% y/y; we expect 0.45% m/m and 1.38% y/y on the back of a more modest indexation effect, but positive contributions from foodstuff, gasoline, education and utility fees prices. For December 2021, the survey's average projection is 2.69% y/y, slightly lower than the previous survey (2.68% y/y). Having said that, by December 2022, inflation is expected to hit 3.05% y/y, slightly above the central bank's target.

- **Market consensus points to rate stability as all analysts surveyed expect the monetary policy rate will remain at 1.75% for the March 26 meeting;** in 2021, analysts' projections are dispersed between stability and 100 bps hikes (in January's survey it was 125 bps) with the mode at 1.75%. In 2022 the average is at 3.00%, but most of the analysts expect higher rates (chart 1).

- **The USDCOP forecasts point to a slight appreciation in the currency through December 2021.** On average, respondents expect a USDCOP of 3,459 by the end of 2021 and USDCOP 3,433 in 2022.

—Sergio Olarte & Jackeline Piraján