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Latam Daily: Chile's Inflation and Policy Responses; Colombia's Confident Consumers

- **Chile: Fiscal measures to support households; BCCh's verbal intervention**
- **Colombia: June consumer confidence highest since August 2018**

CHILE: FISCAL MEASURES TO SUPPORT HOUSEHOLDS; BCCH'S VERBAL INTERVENTION

On Monday, July 11, the government announced fiscal measures to support households in the face of recent high inflation. As we anticipated (see our [Latam Daily July 7](#)), the government will transfer CLP 120,000 (USD 120) to low-income families, benefitting around 7.5 mn people. Among other measures, the government will also extend the Labor Emergency Family Income (IFE laboral) up to the Q4-2022, in order to encourage formal job creation. The fiscal cost of this package will reach USD 1.2 bn, and will be financed thanks to extra resources from income taxes, which will allow the fulfillment of the fiscal goals.

For its part, given the recent depreciation of the CLP and its unusual high volatility in recent days, the central bank made a verbal intervention to announce that, if necessary, it will implement measures to ensure the normal functioning of the internal and external payments. Although the central bank pointed out that the external shocks facing the Chilean economy are significant, it recognizes that uncertainty remains high, which, added to the relevant current account deficit and high inflation, makes the economy more sensitive to external shocks.

In our view, this verbal intervention comes too late (see our [Latam Flash June 22](#)), following several days of considerable volatility and exchange rate depreciation.

Likewise, we anticipate possible direct measures through the sale of US dollars in the spot market in conjunction with micro-macroprudential measures. However, the increased vulnerability of the Chilean economy highlighted by the central bank verbal intervention could lead to a short-lived effect, leaving the market looking for more artillery. In fact, CLP continued to show high volatility and depreciation after the verbal intervention.

— Anibal Alarcón

COLOMBIA: JUNE CONSUMER CONFIDENCE HIGHEST SINCE AUGUST 2018

Colombia's Consumer Confidence Index (CCI) stood at +2.9 ppts in June, an increase of 17.6 ppts over the previous month. The rise reflects an improvement in both the expectations of future conditions index, which rose from -3.5 ppts to 17.5 ppts (chart 1), and an increase in the index of current conditions from -31.6 ppts to -19 ppts. Consumer confidence is now at the highest level in four years.

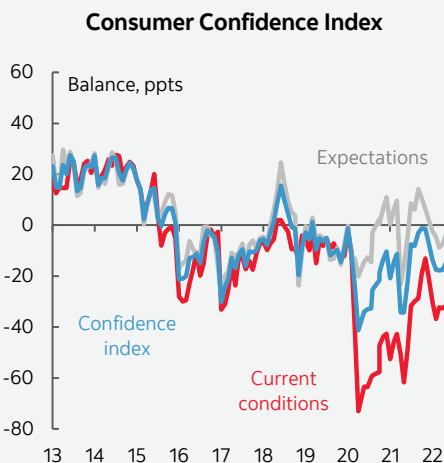
The expectations index improved the most, and is at its highest level since June 2018.

Consumers think that conditions will improve in the next year, along with the country's economic outlook. The willingness to buy durable goods increased, as did the willingness to purchase a house (from -33 ppts to -18.2 ppts) (chart 2). Willingness to buy a vehicle likewise registered a positive balance, rising 7.2 ppts compared to the previous month to -56.1 ppts. These increases occurred despite exchange rate depreciation and higher CPI inflation. Moreover, while households' perception of the economic future has improved, uncertainty persists with respect to announcements from the incoming government and future inflation.

Looking at June's details:

- **The Current Conditions Index reached -19 percentage points, recovering from -31.6 ppts in May.** Households' perceptions of the current conjuncture improved despite high inflation, possibly reflecting the fact that households have managed their budgets better while employment has shown a trend improvement that is closing gender gaps.

Chart 1

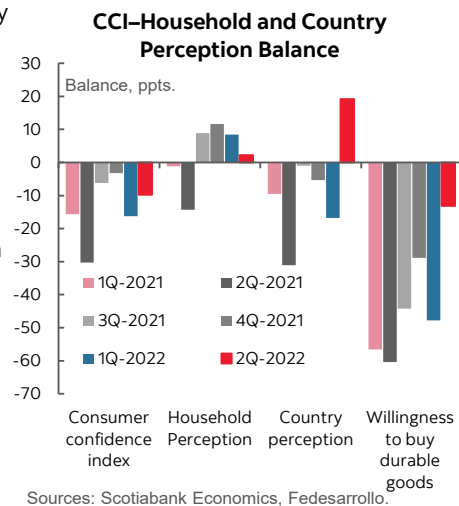


Sources: Scotiabank Economics, Fedesarrollo.

Additionally, in June, Colombia had a second VAT holiday (perhaps the last of year) that encouraged consumption. In the same vein, the willingness to buy durable goods increased by 8.3 ppts compared to the previous month.

- The Expectations Index rose to 17.5 ppts in June from -3.5 ppts in May (chart 1, again).** Expectations of households' future economic prospects improved (from -21.3 ppts to 9.6 ppts), while the evaluation of the country's economy stood at 14.3 ppts up from -5.1 ppts. **Although inflation has moderated slightly, especially in food, other living costs remain under pressure and it will be important to monitor the dynamics of consumption in the coming months to assess the impact on confidence.** At the same time, despite the president-elect representing a shift in traditional politics, his cabinet appointments have been read positively, which has supported confidence. Meanwhile, credit expansion remains robust, especially in the consumer segment, but with a significant adjustment of interest rates, some moderation can be expected in the second half of this year.
- Consumer confidence figures improved in the top five cities surveyed from May.** In Medellín, it increased 22.1 ppts, in Barranquilla 23.7 ppts, and in Bogotá consumer confidence improved 15.9 ppts. Similarly, in Cali and Bucaramanga it presented a positive balance. These increases were driven by a greater willingness to buy durable goods and housing.
- Confidence deteriorated by 0.8 ppts in high-income households, increased in the low-income population by 12.6 ppts and improved by 24.5 ppts in middle-income households.** These developments mark a change in the trend that has been observed in recent months, and could be explained by the perceived effects of inflation on the balance sheets and budgets of the different income levels.

Chart 2



All in all, consumer confidence in June shows that consumer sentiment regarding current and future prospects have improved. And while households continue to be affected by the effects of inflation, this effect appears to be modest, suggesting that the willingness to buy durable goods, vehicles and housing will remain buoyant. However, it is important to follow the impact of inflation on consumer confidence. Higher interest rates, meanwhile, is likely to discourage credit and lead to more sustainable consumption levels. **Accordingly, we expect the central bank to continue its cycle of monetary policy tightening; by July, we expect the policy rate to reach 8.50% and perhaps reach a terminal rate at 9% holding it longer. Our balance of risks is skewed to the upside, as we see inflation trajectories remaining high, with the prospects of reaching BanRep's target range in the short term narrowing.**

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

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