

Latam Daily: Chile's Gas Taxes, Reserve Accumulation and Inflation

- Chile: Gas taxes and reserve accumulation

CHILE: LOWER GAS TAXES; RESERVE ACCUMULATION

As we anticipated, and in line with what the Ministry of Finance announced last week, the government has made changes to the fuel price stabilization mechanism (MEPCO). The changes will have an impact on short-term inflation. Based on information published in the Official Gazette of Wednesday, August 4, the MoF will temporarily reduce the total specific tax on gasoline as of Thursday, August 5, resulting in a drop of CLP 23 per liter in gasoline prices.

We estimate that lower gasoline prices will lower the m/m change in August CPI by 0.01 percentage points. However, we do not rule out the possibility that the MoF makes further reductions in the MEPCO over the next few weeks that could have an impact of up to 0.11 percentage points on August CPI.

Regarding the recent depreciation of the Chilean peso, which also puts pressure on domestic gasoline prices, we believe that the BCCh is evaluating the possibility of suspending its program of replenishment and expansion of international reserves. Since the beginning of the program on January 18, 2021, US\$ 5.5 billion have been purchased (46% of the accumulation program reserves of US\$ 12 billion). Moreover, reserves have appreciated in value, and now stand at 16.5% of GDP. As the BCCh's objective was to reach 18% of GDP, there would be technical arguments to suspend the purchase of US dollars in the context of an accelerated depreciation of the Chilean peso that could feed through to higher inflation.

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