April 20, 2021

Latam Daily: BCCh Board Member Puts Hike at Turn of Year; Colombia's February Uptick

- **Chile: BCCh Board member on first hike timing; new support to families to avoid third round of pension withdrawals**
- **Colombia: Strong growth rebound with lower imports in February**

CHILE: BCCh BOARD MEMBER ON FIRST HIKE TIMING; NEW SUPPORT TO FAMILIES TO AVOID THIRD ROUND OF PENSION WITHDRAWALS

I. BCCh Board member claims that even under a positive scenario, first hike would be around year-end or early-2022

In an interview (subscription) published in a local financial newspaper on Monday, April 19, Pablo García, a member of the Board of the BCCh, claimed that even under the most positive scenario, the first increase in the central bank's benchmark rate would be around the end of the year or the beginning of 2022. This perspective contrasts with some hawkish views that envisage a first rate hike as early as the second half of 2021 in the midst of a quick recovery from the effects of the pandemic. García's perspective is in line with our forecast, which anticipates a first hike in Q1-2022.

According to García, the Board believes that the BCCh's monetary stimulus must be maintained so that headline inflation stabilizes at the central bank's 3% y/y target. The latest annual inflation prints have been driven by transitory effects related to (1) fuels and (2) some more specific price increases in sectors that had low inventories just as demand was enhanced by pension-fund withdrawals. These short-term phenomena are masking large, underlying disinflationary pressures stemming from slack in the labour market.

In the interview, Garcia argued that if real GDP growth trends above the BCCh's current 2021 forecast range of 6–7% y/y, it would allow the BCCh to contemplate raising rates. But if one looks at the rate corridor laid out in the March *Monetary Policy Report*, under the most reasonable and positive set of circumstances, the BCCh's first rate increase would fall around the end of this year or the beginning of 2022. Alternatively, under a more negative scenario where the world is worse off and the pandemic is re-accelerating, there would be immediate dampening effects on real GDP growth. In this case, the BCCh's scenario analysis implies that the monetary-policy rate would remain at its technical minimum of 0.5% for much of 2022.

The next BCCh meeting is scheduled to be held on May 12 and 13; we do not expect major changes in the Board's forecasts so closely on the heels of its March update.

—Carlos Muñoz

II. Additional support to families to avoid a third round of withdrawals of pension assets

In a heated discussion in Congress about a third round of withdrawals of pension-fund assets, the government indicated on Monday, April 19, an improvement in its emergency family income supports worth an additional

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Guillermo Arbe
51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

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

Jorge Selaive
56.2.2619.5435 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

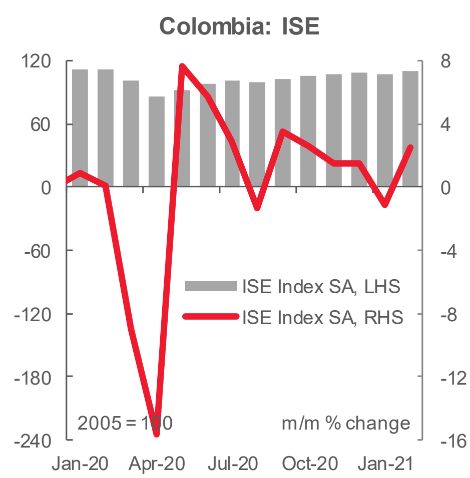
Eduardo Suárez
52.55.9179.5174 (Mexico)
Scotiabank Mexico
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Carlos Muñoz
56.2.2619.6848 (Chile)
Scotiabank Chile
carlos.munoz@scotiabank.cl

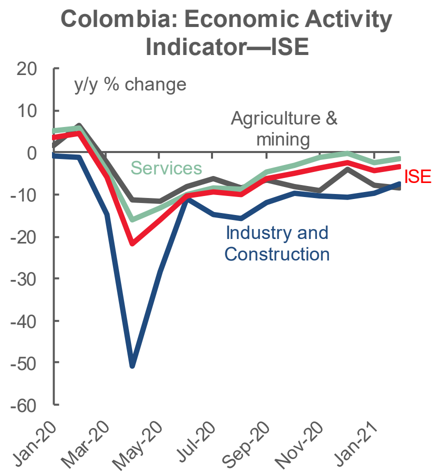
Jackeline Piraján
57.1.745.6300 (Colombia)
Scotiabank Colombia
jackeline.pirajan@scotiabankcolpatria.com

Chart 1



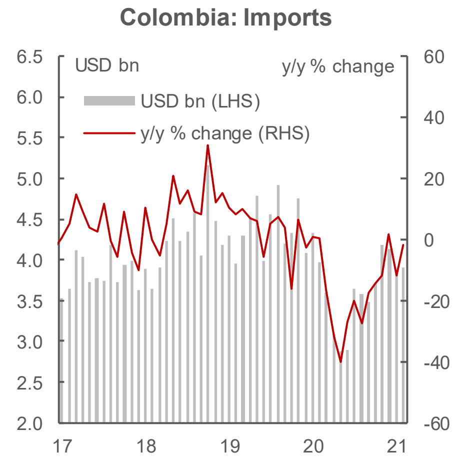
Sources: Scotiabank Economics, DANE.

Chart 2



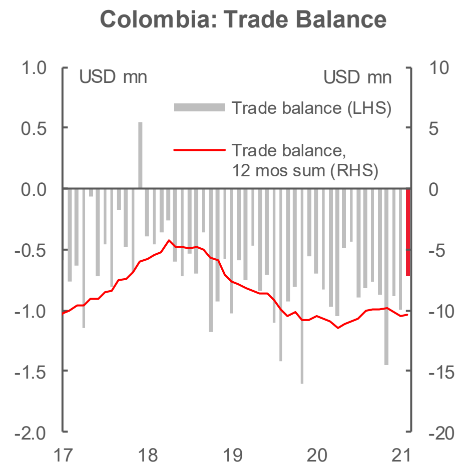
Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

Chart 4



Sources: Scotiabank Economics, DANE.

USD 1.3 bn (about 0.5% of GDP). With this move, the recently-announced fiscal package grows to USD 8 bn (3% of GDP). This is a fresh attempt by the government to avoid a Congressional vote in favour of a third set of withdrawals from the pension-fund system.

We do not have details on the proposed sources of funding for this new fiscal support, but we estimate that it would not require new debt issuance; instead, it may prompt some additional liquidation of dollars from the sovereign wealth fund. Since tax collection has come in above expectations in recent months, thanks to higher VAT revenues and increased copper prices (royalties), the government would use these monies to finance its newly-announced spending.

—Jorge Selaive

COLOMBIA: STRONG GROWTH REBOUND WITH SOLID IMPORTS IN FEBRUARY

I. Economic activity strongly rebounded in February's second re-opening

On Monday, April 19, DANE released February's Economic Activity Indicator (i.e., the ISE, Colombia's main GDP proxy). On a seasonally-adjusted basis, economic activity in February rebounded by 2.52% m/m compared with January, resulting from better dynamics in the second re-opening of the economy compared with last year's (chart 1). Set against February 2020, activity contracted by -3.48% y/y. The result was weaker than our expectations (-3.0% y/y) and market consensus (-2.5% y/y). In February 2021, there was one fewer business day than in February 2020, which affected annual growth in some services activities.

In February, Colombia's main cities lifted COVID-19-related mobility restrictions and the country operated again under broadly normal conditions. In this context, services-related sectors showed some better performances, which confirmed that the economy is reacting positively and faster to changes in mobility restrictions than it did last year. In the details:

- **Primary activities** (13% of the economy) were down -8.5% y/y (chart 2), but rose 2.3% m/m sa in February. The annual downturn was driven by weakness in the production of mining products, especially coal (-38% y/y) and oil (-18% y/y). Agriculture fell by -0.6% m/m, which reflected some mixed dynamics—gains in coffee and egg production, and losses in flowers and bananas;

- **Secondary sectors** (19% of the economy) were down by -7.3% y/y despite a sequential expansion of 0.5% m/m sa. Recent lockdowns were more targeted than last year's restrictions and did not significantly affect the industrial sector. Having said this, despite the recovery in residential construction, non-residential building activity posted a contraction of -35.1% y/y that weighed down the overall result; and

- **Services-related activities** (68% of the economy) were also down on an annual basis, but by a less significant -1.1% y/y, driven by a 2.1% m/m sa gain in the month. Commerce, transport, and hotels led the monthly gains (up 10.34% m/m) as Colombia's main cities withdrew mobility restrictions. Real estate activities remained resilient (growing 1.95% y/y and 0.27% m/m), while financial sector growth decelerated owing to lower revenue from commissions.

All in all, February's economic activity numbers showed a positive rebound after Colombia's main cities reduced mobility restrictions, especially in service-related sectors. Total economic activity in February 2021 was the best monthly result since the pandemic began, which points to the economy's increasing resilience in the face of contagion-control measures and its quickening reaction to re-openings. In March, Colombia's principal cities remained broadly open, however at the end of the month some fresh restrictions arose, which would again moderate growth in some service-related activities. Despite that, we affirm our expectation that real GDP growth will hit 5% y/y in 2021.

II. February's imports fell by -1.6% y/y on lower incoming fuel shipments; monthly trade deficit narrowed

February's imports data, released by DANE on Thursday, April 19, came in at USD 3.9 bn CIF, a contraction of -1.6% y/y, although imports reached one of the highest levels since the pandemic began (chart 3). Fuel oil and other mining-related imports contracted by -24.2% y/y and accounted for the strongest negative contribution to annual imports growth, while agriculture-related imports increased by 5.2% y/y and manufacturing-related imports grew by 0.1% y/y. The monthly trade deficit shrunk by 14% y/y to USD 714 mn FOB on the back of higher exports and the contraction in imports (chart 4). Colombia's YTD trade deficit stood at USD 1.70 bn for January–February.

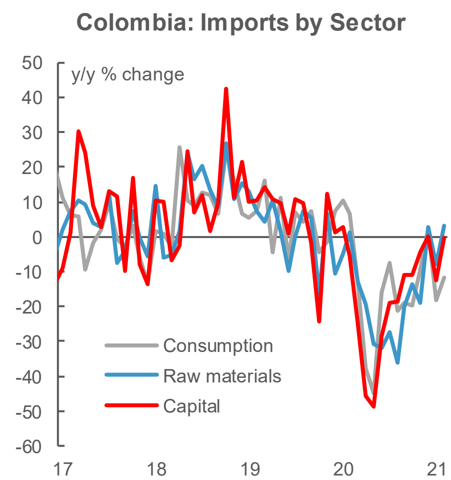
From the perspective of imports by use, the three major segments showed mixed signals compared with a year ago (chart 5).

- **Consumption-goods imports** contracted by -11.8% y/y, owing mainly to lower durable-goods imports (-14.6% y/y), especially in vehicles (-20.7% y/y); meanwhile, non-durable goods imports fell by -9.4% y/y, mainly on softer food-related imports (-12.9%y/y) and clothing imports (-22.1% y/y).

- **Raw-materials imports** grew by 3.1% y/y, principally due to larger purchases of foreign goods for the industrial (11.1 % y/y) and agriculture (21.5% y/y) sectors, which offset the lower imports numbers for fuel oil (-35.9% y/y).

- **Capital-goods imports** were down by -0.3% y/y, as investment-related imports in industry (-1.6% y/y) and transport equipment purchases (-1.7% y/y) contracted; these declines offset greater capital-goods imports in the construction (9.9% y/y) and agricultural (25.2% y/y) sectors.

Chart 5



Sources: Scotiabank Economics, DANE.

To sum up, February imports hit a remarkable level: after showing a significant moderation in January, February's numbers showed some green shoots of economic recovery, especially in agriculture-related imports and others items. For 2021, we expect gaps in consumption- and investment-related imports trends to keep closing, which should contribute to wider trade deficits in the forthcoming months. In fact, as the economic recovery consolidates, we expect a slight deterioration in Colombia's external balance. Maintaining our view of several months, we continue to project a current account deficit of -3.8% of GDP in 2021 or even wider.

—Sergio Olarte & Jackeline Piraján