

Latam Daily: Chile's GDP Forecast Up; Mexico's Inflation and a New Finance Minister

- **Chile:** *Quarterly Monetary Policy Report*, GDP forecast up (to 8.5%–9.5% y/y) and policy rate holds at 0.5%
- **Mexico:** AMLO shuffles finance minister; May y/y inflation down, but still well above Banxico target
- **Peru:** Elections—it's not over until it's over

CHILE: QUARTERLY MONETARY POLICY REPORT, GDP FORECAST UP (TO 8.5%–9.5% Y/Y) AND POLICY RATE HOLDS AT 0.5%

On Wednesday June 9, the central bank (BCCh) released its [Quarterly Monetary Policy Report \(IPoM\)](#), whose main takeaway is the economy's remarkable performance so far this year. This outcome is notable as quarantines effected a softer-than-anticipated impact despite a decline in activity in March and April.

In view of this solid performance, a much greater fiscal impulse, and favourable external conditions, the BCCh has raised its range of forecasted GDP growth to 8.5%–9.5% y/y from a 6.0–7.0% y/y in March (table 1). This follows April's [upward revision](#) from an earlier 5.5–6.5% y/y projection. The new forecast goes beyond our expected range of 7%–8% y/y, per our June 4 [Latam Weekly](#).

The neutral monetary policy interest rate (neutral MPR, or the *tasa de política monetaria neutral* in Spanish, TPMN) represents the long-term equilibrium level of the MPR in the absence of transitory shocks. To the extent that it anchors the long-term value to which the MPR should converge in the absence of future shocks, when the economy has normalized, the difference between the neutral MPR and the existing MPR is a key input in the calibration of the expansiveness of monetary policy. The update of the estimate of the neutral MPR shows that its level is around 0.5% in real terms. Adding the inflation target and considering the uncertainty regarding the estimates, the Board considers that the nominal neutral MPR is in a range between 3.25% and 3.75%, with a midpoint at 3.5%. This is 50 basis points lower than in the last update provided by the BCCh in June 2019.

The Board also updated its estimate of the trend growth of non-mining GDP (potential GDP) for the period 2021–30 to between 2.4% y/y and 3.4% y/y, with a midpoint at 2.9% y/y. This represents a decrease of 0.6 percentage points with respect to the range estimated in 2019 (3.25%–3.75%).

The economy's solid performance is attributed to various factors, notably the boost from much greater fiscal spending, recently approved income support programmes for small businesses and households, and pension withdrawals. It is worth noting that the combination of various expanded fiscal supports has significantly pushed up fiscal spending, bringing it close to a nominal 25% y/y, compared to the 5% y/y considered in the March *IPoM*.

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Table 1

Chile: Summary of main BCCh forecasts, June *IPoM*

	2021	2022
GDP growth (y/y % change)	8.5–9.5	2.0–3.0
Investment (y/y % change)	11.4	3.2
Consumption (y/y % change)	13.8	1.3
Current account (% of GDP)	-0.8	-1.1
CPI inflation (y/y %, eop)	4.4	3.1

Sources: Scotiabank Economics, BCCh June 2021, Monetary Policy Report.

The report also highlighted greater dynamism in consumption and private spending. And, while the labour market continues to improve, it is happening unevenly. More than half of the jobs lost following the onset of the pandemic have now recovered, but segments lag behind such as the self-employed, informal salaried workers, low-skilled workers and women.

With respect to monetary policy, the BCCh considers that economic recovery is still being impacted by the pandemic and the lag in the labour market. However, the economic dynamism poses important changes for the macroeconomic scenario over the next few months. As we noted in yesterday's *Latam Daily*, the BCCh is holding onto a 0.5% policy rate, but has strongly signaled a hike later this year. Our view is that inflation will temper over the short term, leading the central bank to hike at the October 13 meeting.

—Jorge Selaive

MEXICO: AMLO SHUFFLES FINANCE MINISTER; MAY Y/Y INFLATION DOWN, BUT STILL WELL ABOVE BANXICO TARGET

I. Mexico's AMLO shuffles finance minister, nominating Mr. Herrera as new central bank governor

President López Obrador shuffled his finance minister of the last two years, Arturo Herrera, announcing Rogelio Ramírez de la O as his new minister. The shuffle was motivated in order to nominate Mr. Herrera, a close ally of the president, as new governor of the central bank, Banxico. Incumbent Alejandro Díaz de León will conclude his term on December 31.

The nomination was widely expected, as the president had previously said he would not propose a second term for Gov. Díaz de León. Market reaction to the changes was muted.

Mr. Ramírez de la O has been close to the president since his 2006 presidential campaign. In the current administration, he has served as one of the president's main economic advisors and had previously been considered a possible successor to Carlos Urzúa, AMLO's first finance minister. Ramírez de la O holds a Cambridge PhD in economics and a BSc in economics from Mexico's UNAM. His nomination will be sent to the Senate for ratification towards the end of the year.

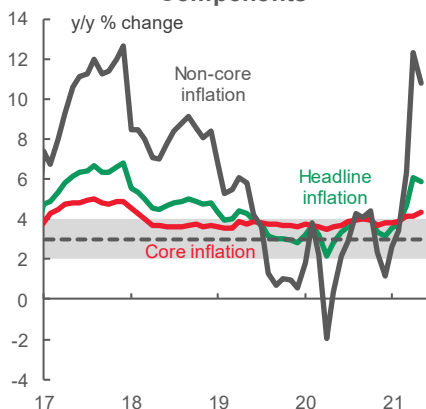
—Eduardo Suárez & Miguel Saldaña

II. Inflation slows in May, but stays well above central bank target

According to [data](#) released by Statistical Agency, INEGI, on June 9, CPI declined in May to 5.89% y/y, from 6.08% y/y the previous month (chart 1), slightly above the Bloomberg consensus (5.86% y/y) and materially above the high end of Banxico's target range. This was the third consecutive month surpassing the 4.00% y/y upper limit of Banxico's target band. We maintain our view that the central bank will keep its key target rate on hold at 4.00% y/y through the remainder of 2021.

Chart 1

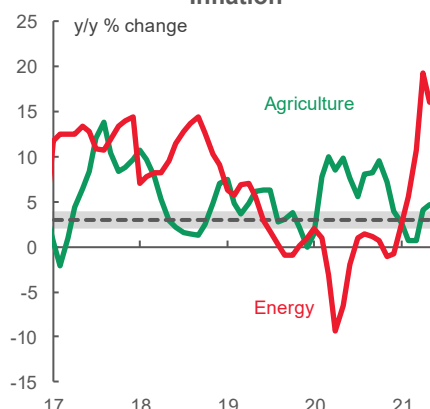
Mexico: Headline Inflation & Its Main Components



Sources: Scotiabank Economics, INEGI.

Chart 2

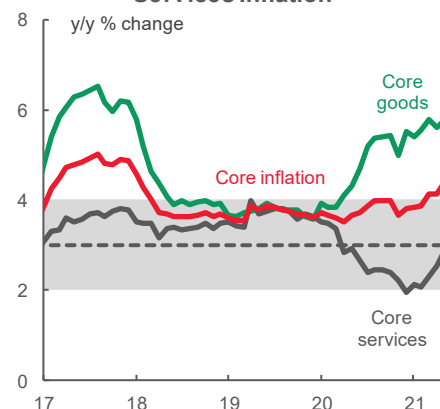
Mexico: Non-Core Components Inflation



Sources: Scotiabank Economics, INEGI.

Chart 3

Mexico: Core Goods & Services Inflation



Sources: Scotiabank Economics, INEGI.

The moderating inflation components were non-core items that softened their sub-index inflation from 12.34% y/y to 10.76% y/y (chart 1 again). Pressures in energy prices slowed from 19.30% y/y to 15.97% y/y, which was partly offset by agricultural prices where inflation rose from 4.08% y/y to 4.67% y/y (chart 2). Core inflation maintained an upwards trend as it moved from 4.13% y/y to 4.37% y/y (chart 1 again), with pressure from both goods prices (5.76% y/y from a previous 5.59% y/y) and services (up from 2.53% y/y to 2.84% y/y) (chart 3).

On a monthly basis, headline inflation moderated from 0.33% m/m to 0.20% m/m, above the 0.16% m/m consensus in the Citi Survey. Non-core inflation was in fact negative, coming in at -0.75% m/m (0.21% m/m previous), owing to lower electricity prices at the beginning of the seasonal energy tariff subsidy programme. The core component rose from 0.37% m/m to 0.53% m/m, above the 0.46% m/m consensus. Pressure again came from surges in goods prices (0.62% m/m), and in services prices (0.42% m/m). All told, inflation materially above Banxico's target range should keep the Board cautious, but the sequential inflation trend gives it some maneuvering room for now.

In its June [Quarterly Report](#), Banxico revised up inflation estimates for 2021, but still sees it converging to 3.00% in Q2-2022, suggesting that the Board considers the recent spike in inflation as a transitory event mainly driven by base effects. The Board also considered the balance of risk for inflation skewed at the upside.

—Miguel Saldaña

PERU: ELECTIONS—IT'S NOT OVER UNTIL IT'S OVER

Vote count has virtually been completed. With 99.998% voting booths processed, Pedro Castillo has a narrow but clear lead of about 70,000 votes. Despite this, the election is not yet over, as processed votes do not yet include the approximately 280,000 votes submitted for validation to the elections authority, JNE.

Keiko Fujimori's party, Fuerza Popular, believes that a large portion of these votes, if validated, would go to Fujimori, using the argument of excessive challenges by the opposite party's booth representatives. If that were the case, these votes by the JNE could conceivably alter the final results. Compared to the previous election, 1,395 both results are currently under review by the JNE, against just over 1,200 in 2016. These had no impact on the final outcome.

Fujimori's FP is further requesting the annulment of another 200,000–230,000 votes from more than 800 booths, citing evidence of unusual behaviour or results. As an example, the FP cites booths that reported having no votes, in stark contrast to neighbouring areas. It is unclear whether the JNE will accept these claims, and such annulments are allowed by law, but it is yet to be seen how the law will be interpreted on votes already counted. There is no precedent for JNE rulings on challenged votes overturning elections results in the past. The current environment could leave lasting challenges in the country beyond the election if half of the country questions its legitimacy.

—Guillermo Arbe

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