

Latam Daily: Moderates Gain in Chile's Regional Elections While Peru Bounces Back

- **Chile: Moderate left claims victory in regional elections featuring the lowest turnout since the voluntary vote was established in 2012**
- **Peru: Activity and fiscal revenues higher, but year-on-year GDP growth dominated by base effects while inflation edges up**

CHILE: MODERATE LEFT CLAIMS VICTORY IN REGIONAL ELECTIONS FEATURING THE LOWEST TURNOUT SINCE THE VOLUNTARY VOTE WAS ESTABLISHED IN 2012

The centre-left Unidad Constituyente (Constituent Unity) alliance was the big winner in elections for regional governors on Sunday, June 13. Second round elections were held in the 13 regions of Chile in which the first round of elections, May 15 and May 16, failed to produce a clear winner. The outcomes in three other regions were decided by the first round of elections.

Combined with its first round victories, the Constituent Unity bloc now controls 10 out of 16 regions—among them the Metropolitan Region of Santiago—making it the bloc with the broadest geographical strength. In the six regions Unidad Constituyente did not win, the far-left Frente Amplio (Broad Front) coalition won two (Valparaíso and Tarapacá), Chile Vamos (Let's Go Chile), the government coalition, prevailed in La Araucanía, while 3 independents won in Atacama, Bío-Bío, Coquimbo.

In the Santiago Metropolitan Region, Claudio Orrego of the Christian Democratic Party won with 52.7% of the votes, beating the Communist Party candidate, Karina Oliva (47.3%). Orrego was previously Minister of Housing and Minister of National Assets in 2000, Mayor of Santiago between 2004 and 2012, and was a presidential candidate for the Christian Democratic party in 2013. He served as Regional Governor of the Metropolitan Region between 2014 and 2018.

The election results suggest that moderate left-wing parties are positioned to gain votes in the November presidential election, in which they will likely face a communist party candidate and two other candidates from the right-wing parties.

However, there is considerable uncertainty with respect to the election outlook given the low voter turnout in Sunday's elections, which featured the lowest turnout since the voluntary vote was adopted in 2012, with only 19.6% of eligible voters casting a ballot. The previous record low (in the 2016 mayoral elections) was 34.9%. According to Servel, the national electoral service, only 2,556,898 of the 13,040,819 Chileans eligible voted in the second round elections on Sunday.

—Jorge Selaive, Anibal Alarcón, Carlos Muñoz, & Waldo Riveras

CONTACTS

Jim Haley
416.607.0058
Scotiabank Economics
jim.haley@scotiabank.com

Adriana Vega
613.564.5204
Scotiabank Economics
adriana.vega@scotiabank.com

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

Sergio Olarte
+57.1.745.6300 Ext. 9166 (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:

Anibal Alarcón
+56.2.2619.5435 (Chile)
Scotiabank Chile
anibal.alarcon@scotiabank.cl

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

Waldo Riveras
+56.2.2619.5465 (Chile)
Scotiabank Chile
waldo.riveras@scotiabank.cl

PERU: ACTIVITY AND FISCAL REVENUES HIGHER, BUT YEAR-ON-YEAR GDP GROWTH DOMINATED BY BASE EFFECTS WHILE INFLATION EDGES UP

I. Recovery on track, but y/y figures distorted by base effects

Preliminary indicators of April GDP growth [published](#) June 1 by the National Statistics Institute (INEI) point to year-on-year growth north of 50%, well above Scotiabank's expectation of 33% y/y GDP growth. Indeed, on Friday, June 11, the head of Economic Research at the Banco Central De Reserva Del Peru (BCRP) stated that he expected GDP growth of 60% y/y for April.

However, high year-on-year growth rates reflect pandemic-related base effects, comparing economic activity in April 2021, during which few mobility restrictions were in place, with April 2020, when a severe lockdown was underway. To put high growth rates into perspective, 60% y/y GDP growth over 2020 would, if realized, represent a 2.5% decline in GDP relative to April 2019.

The main indicators released by the INEI include:

- **Cement consumption** was around one million metric tonnes in April, in line with previous months in 2021. This compares with only 11,000 metric tonnes in April 2020. Cement consumption is one of two components of construction GDP, the other being **public sector infrastructure spending**, which was up 233% y/y. Putting the two together suggests construction GDP growth could reach upper triple digit, or even higher, levels. Of course, this reflects the near complete closure of cement production in April 2020.
- **Government investment** rose 149% y/y, while **current expenditure** rose 23.8% y/y. The latter figure is lower than for other indicators since many government services continued to operate during the 2020 lockdown.
- **Mining output** rose 76.4% y/y. Mining production was not entirely in lockdown in 2020, or the rebound would have been higher.
- **Oil & gas production** fell -8.1% y/y, as oil production, especially in the rainforest, has been in decline for some time.
- **Fishing output** grew 132% y/y, mostly reflecting a shift in seasonal activity.
- **Electricity generation** rose 35.6% y/y (the figure had already been released).
- **Imports**, which are a component of commerce GDP, rose 69.7% y/y.
- **Sales tax revenue**, an indicator of domestic demand, rose 74.9% y/y.

Year-on-year GDP growth figures are likely to continue high in May, albeit down from April. The trend supports the view that the recovery in production is faster and more robust than envisioned initially. However, high y/y growth figures may obscure the impact that political uncertainty is likely having on growth, and which would otherwise be more evident.

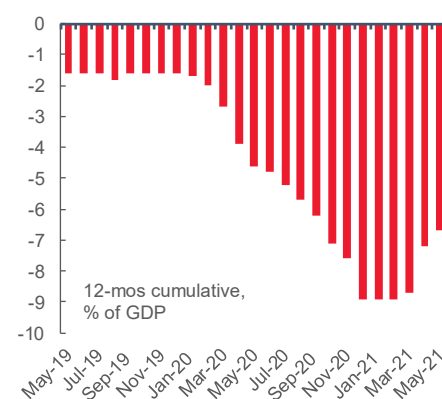
II. Inflation expectations edge higher, while fiscal balance improves

On Friday June 11 the BCRP gave its monthly [presentation](#) on its Monetary Program. Inflation expectations have increased by 32 basis points since February, standing at 2.43% in June. As a result, the reference rate stands at -2.18% in real terms, its lowest level in recent experience. If inflation expectations continue to rise, the BCRP may need to evaluate whether to raise its rate sooner than expected. For now, we maintain our expectation for a rate hike in mid-2022.

The 12-month rolling fiscal deficit fell to 6.7% of GDP in May (chart 1), declining for a third consecutive month from a high of 9.0% of GDP in April. A sharp

Chart 1

Peru: Fiscal Balance



Sources: Scotiabank Economics, BCRP.

improvement was expected, as tax collections peak in May. Tax revenues were up 37% y/y over the May 2020 lockdown period, and 9.3% higher as compared to pre-COVID-19 May 2019. Government spending rose 28.4% y/y in May (20.1% relative to May 2019). Government investment is strong: up 492% y/y versus the May 2020 lockdown, and a hefty 46.6% versus May 2019. In the year-to-May, public investment is up 107% y/y and 50.6% as compared to the same period in 2019. Overall, fiscal accounts are encouraging, with government spending providing stimulus to the economy, while higher revenues are slowly closing the fiscal gap.

—Guillermo Arbe

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