Latam Daily: Colombia September Inflation; Chile Pensions

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CHILE: DOOR OPENS TO NEW ROUND OF PENSION FUND WITHDRAWALS; POLITICAL IMPACT OF PANDORA PAPERS

I. Door opens to a new (fourth) round of pension fund withdrawals

Political dynamics among the political opposition are shifting support in favour of a new round of pension withdrawals. Opposition Senators who had previously expressed their refusal to a new withdrawal have more recently stated that they are now open to discuss the bill and even to approve it if the necessary adjustments are made. The low approval—around 10%—of Ms Yasna Provoste, a centre-left candidate for Christian Democracy, Socialist Party and other ex-Concertación, appears to be moving such key Senate votes.

The political scene is very liquid and there are still many barriers to overcome. Even if 26 votes are obtained in the Senate to approve the bill, it can be modified and returned to a mixed commission of senators and deputies, and then returned to a vote in both chambers. If it is approved in that commission and in the chambers, the president has the right to a veto, which has not been used in previous withdrawals, but could be used this time since the government has spent a lot of political capital in opposing this bill. The Senate vote is scheduled for October 27.

What kind of modifications would the Senate propose then? Several. Among them: that withdrawals pay income tax; that a longer term is given to withdraw; decreasing the maximum withdrawal amounts (currently at USD 5,500 per person); among many others. The central bank has warned that a new withdrawal of funds (USD 20 bn per the bill approved in the lower house) would pressure inflation by stimulating consumption and eventually overheating the economy. This would lead to the process of increases in the monetary policy rate being more intense than already considered.

II. Pandora Papers lead to potential constitutional indictment against President Piñera

The release of the Pandora Papers have led an important group of parliamentarians to prepare a constitutional indictment against President Piñera that would be presented as early as next week. According to the government, this accusation would have little foundation, but political analysts have pointed out that the electoral scenario offers maneuvering room for opposition candidates, notably Ms Yasna Provoste who lags behind in the polls. Consequently, we see a high probability that this accusation will be presented and discussed in Congress, although we see low probability that it means an early departure for Mr Piñera.

—Jorge Selaive

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COLOMBIA: SEPTEMBER INFLATION INCREASED ON MIXED EFFECT; SPLIT RATE VOTE AT BANREP'S OCTOBER MEETING LIKELY

Monthly CPI inflation was 0.38% m/m in September 2021, according to DANE data published on Tuesday, October 5. This result is close to the median forecast in BanRep's survey (0.30% m/m), Bloomberg's survey (0.35% m/m), Scotiabank Economics' projection (0.32% m/m) and the previous month's 0.45% m/m. However, its breakdown deserves a closer look, because despite the overall number being closer to expectations, its composition was surprising as core inflation fell while annual headline inflation rose.

August's CPI result brings annual headline inflation to 4.51% y/y, up from 4.44% y/y in August (chart 1), above the ceiling of BanRep's target range (2%–4%) for the second month in row, and the highest since mid-2016. On the other side, core inflation fell from 3.11% to 3.03% y/y, while ex-food and regulated goods inflation was 2.23% y/y (down from the 2.32% in the previous month). As we discussed yesterday, this could lead to ongoing divided opinions at the central bank's Board in relation to inflation expectations and rates. Our base-case scenario remains a 25 bps hike at the October 29 monetary policy meeting. However, there is a chance of a 50 bps hike if inflation expectations increase and show significant deviations from the target in the medium term.

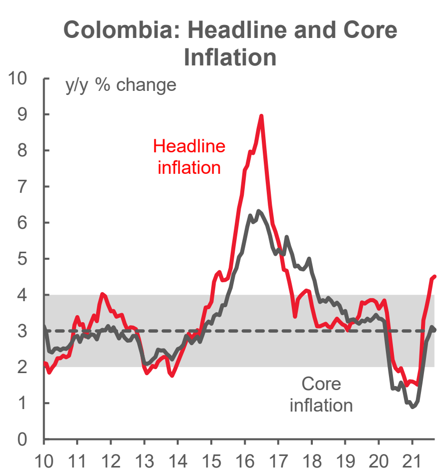
Looking at the September numbers in detail, only 1 out of 12 sectors retreated (charts 2 and 3). Once again, foodstuff inflation posted one of the highest gains. The main highlights are:

- **Foodstuff and lodging & utility sectors had the largest contribution (+13 bps each).** In the case of foodstuff inflation (+0.76% m/m), main gains came from pork (+3.59% m/m), meat (+1.19% m/m), chicken (+0.91% m/m) and fresh fruits (+2.56% y/y). However, some key prices are declining, such as eggs (-5.85% m/m) rice (-3.59% m/m), and onions (-4.86% m/m), pointing to some normalization after the significant impact from the nationwide strike earlier this year. We expect foodstuff inflation to moderate in the coming months, however, increasing inputs prices is something to keep an eye on, especially imported commodities such as soy and corn. On the other side, restaurant & hotel's inflation in September contributed to the overall inflation to a lesser degree than in previous months, a trend that we expect would continue.

- **On the lodging & utilities sector, the main positive contribution of utility fees (+1.13% m/m) were water (+2.09% m/m), and electricity (+0.96% m/m).** Rental fees increased by 0.19% m/m, showing normalization effect after the pandemic.

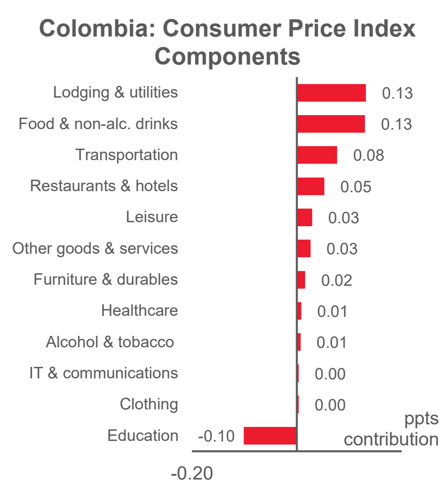
- **The only negative contribution came from education-related services (-2.92% m/m and -10 bps), which was unexpected but explained by the implementation of temporary subsidies in university fees for the low-income population.**

Chart 1



Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

Chart 3

Sources: Scotiabank Economics, DANE.

- **It is worth noting that food inflation and regulated prices continued leading inflation.** However, core prices remained under control, and, despite the majority standing on the side of increases, in some cases we perceived moderation, affirming that as reopening consolidates, sudden prices changes are vanishing.

Looking at annual inflation across major categories, goods inflation increased to 2.97% y/y (versus 2.73% y/y in August), while services inflation fell by 24 bps from 2.16% y/y to 2.01% y/y. Regulated-price inflation fell by 26 bps to 5.94% y/y, since one year ago, normalization on utility fees started as some subsidies expired. That said, September is showing a mixed result, as core inflation components—especially services-related inflation—are decreasing.

All in all, despite September's inflation results landing close to market consensus, they showed mixed signals. Core inflation metrics are falling due to a temporary factor (education subsidies), which reduces pressures ahead of the year-end inflation and, thus, indexation effects. In the last quarter of the year, inflation will face new downward pressures with the VAT holiday, which in our opinion would contribute to maintaining inflation expectations anchored in the medium term, especially in core metrics. That said, in terms of monetary policy, our base case scenario is still a 25 bps rate hike for the October 29 BanRep meeting, although a split decision would prevail, making our base case scenario a close call given the possibility of a 50 bps hike. With prices showing a mixed effect, however, we still think that the majority of board members would prefer to make cautious rate hikes.

—Sergio Olarte & Jackeline Piraján