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Latam Daily: Chile's BCCh Raises Rates; Unemployment Rate Rises as Labour Force Grows

- **Chile: Policy rate to peak at 7.5%, with cuts beginning in December 2022; unemployment rate up on higher female participation rates**

CHILE: POLICY RATE TO PEAK AT 7.5%, WITH CUTS BEGINNING IN DECEMBER 2022; UNEMPLOYMENT RATE UP ON HIGHER FEMALE PARTICIPATION RATES

I. Policy rate to peak at 7.5%, with cuts beginning in December 2022

On Tuesday, March 29, the central bank (BCCh) increased the Monetary Policy Rate 150 basis points to 7%, in line with our expectations and below market surveys that anticipated a rate of between 7% and 7.5%. The BCCh confirmed our diagnosis of a slowdown, as indicated by the central bank's monitoring of indicators for consumption, credit and the perceptions of consumers and business.

Although inflation has motivated the monetary authorities to withdraw stimulus, according to the BCCh, prospects for global GDP growth have diminished and the Russia-Ukraine conflict has introduced new uncertainty with respect to the outlook.

The central bank recognizes the effect of higher commodity prices, especially oil, foodstuffs and copper, but notes that thus far the main repercussions have largely been limited to the countries in conflict. In this context, the appreciation of the peso since the previous meeting and the recovery of the local stock market stand out.

In addition, the BCCh released its *Monetary Policy Report (MPR)* for the first quarter of 2022 on Wednesday, March 30 (table 1). The MPR's updated baseline scenario is broadly consistent with Scotiabank's macroeconomic scenario, though with less inflation and slower GDP growth for 2022. In our view, the central bank is signaling that the benchmark rate will increase by 25 basis points in subsequent meetings, and end 2022 at a maximum level of 7.5%, as in our baseline scenario. The benchmark rate would remain at 7.5% until the start of the easing cycle, which is likely to begin in December 2022 and result in the policy rate at 4.75% in December 2023. In our view, the risks would be that the benchmark rate is below that level by the end of 2023.

Table 1: Chile—BCCh and Scotiabank Forecasts

%	2022		2023	
	BCCh	Scotia	BCCh	Scotia
GDP growth	1.0 / 2.0	3.0	-0.25 / 0.75	0.0
Total consumption	-0.2	1.5	-0.8	0.5
Investment	-3.8	2.5	-0.2	-1.0
CPI (end of period)	5.6	6.6	2.9	3.5

Sources: Scotiabank Economics, BCCh.

Under the BCCh baseline scenario, the economy expands around 1.6% in 2022 and 0.3% in 2023, or 1.9% over two years. In our scenario, activity grows by 3.0% overall in 2022 and 2023. Likewise, the central bank projects year-end 2022 inflation of 5.6%, below our projection of 6.6%, and markedly less than the 8% rate of inflation anticipated by the market.

II. Unemployment rate up on higher female participation rate

On Wednesday, March 30, the statistical agency released the unemployment rate for the quarter ended in February, which increased to 7.5%, up from the previous level of 7.3%. The rise in the unemployment rate is explained by the labour force growing faster than employment for the second consecutive month. This dynamic is largely attributable

March 31, 2022

to higher participation rates of women, marking a trend that we expect will continue in the coming months given the gradual lifting of health restrictions, the reduction of monetary aid, and the lower liquidity and disposable income of households. As a result of this trend, however, the female unemployment rate increased to 8.3% (up from 7.7% previously) while that of men remained at 6.9%.

In the quarter, 56k jobs were created compared to the previous moving quarter (31k men and 25k women), leaving a gap of 295k jobs to recover compared to the level prior to the COVID-19 crisis.

—Jorge Selaive, Anibal Alarcón, & Waldo Riveras

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