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Latam Daily: Chile—BCCh Sees ‘Limited’ Rate Cuts in 2023; Peru Loan Growth Continues

- **Chile:** BCCh signals terminal MPR of 11%; we anticipate an aggressive process of cuts next year
- **Peru:** Loans growth above 6% y/y continues in July

CHILE: BCCH SIGNALS TERMINAL MPR OF 11%; WE ANTICIPATE AN AGGRESSIVE PROCESS OF CUTS NEXT YEAR

On Wednesday, September 7, the central bank (BCCh) published the *Monetary Policy Report* for September, in which it updated its macroeconomic scenario and the corresponding path for the Monetary Policy Rate (MPR). **In general, the new BCCh scenario was close to the one Scotia had a few months ago, in terms of GDP growth, inflation and current account deficit.**

The BCCh revised its GDP growth forecast upwards for 2022 and downwards for 2023, close to our baseline scenario (table 1). The BCCh projects GDP growth of 2.04% for 2022 (Scotia: 2.06%), where domestic demand would increase 1.2% owing to growth in total consumption (2.2%) against a contraction in total investment (-3.3%). For 2023, the BCCh projects a GDP contraction of 0.93% (Scotia: -0.91%) due to a drop in domestic demand (-4.7%).

Table 1: Chile—Macroeconomic Scenario

| Indicator | Scotia | | BCCh | |
|------------------------------------|--------|-------|-------|-------|
| | 2022F | 2023F | 2022F | 2023F |
| GDP growth (%) | 2.1 | -0.9 | 2.0 | -0.9 |
| Inflation (% eop) | 12.5 | 3.7 | 12.0 | 3.3 |
| Current account deficit (% of GDP) | -6.0 | -4.0 | -6.3 | -3.6 |
| MPR (% eop) | 11.00 | 3.50 | 11.00 | 7.60 |

Sources: Scotiabank Economics, BCCh.

As for inflation, the BCCh revised its forecast higher, in line with our base scenario. According to the BCCh, annual inflation will ease to 12% y/y in December 2022 (Scotia: 12.5% y/y) and to 3.3% y/y in December 2023 (Scotia: 3.7% y/y). In our view, annual inflation will peak during the third quarter of this year (around 14%) and will begin to slow down in the coming months thanks to lower external pressures for energy and food, as well as a deterioration of domestic demand that would lead to lower core inflationary pressures.

We maintain that a smooth but persistent convergence of the current account deficit towards sustainable levels is practically guaranteed. The BCCh shares our diagnosis that the current account deficit (8.5% of GDP in Q2-22) would converge to around 6% of GDP in December this year (BCCh: 6.3%) (see our [Latam Insights: Chile—Let’s Talk about the Current Account Deficit](#)), which would be led by a contraction of domestic demand and compliance with the fiscal rule. In this sense, we reaffirm that an additional real depreciation of the Chilean peso (CLP) is not necessary for a convergence towards sustainable levels.

Interestingly, in its base scenario, the central bank never reaches the neutral MPR in its forecast horizon, despite projecting inflation at 3% and the economy growing around its long-term pace. We think it will be difficult for the BCCh to avoid acting aggressively by cutting the MPR if a disinflationary scenario materializes like the one proposed in its projections, where the economy would find itself with a negative output gap as of Q4-22. Perhaps the reason for not delivering a terminal MPR around neutral (3.5%) towards the end of the horizon lies in the intention to keep inflation expectations anchored. However, we insist that if a scenario of economic contraction and low inflation materializes, the BCCh will be forced to quickly bring the MPR closer to neutral levels.

—Anibal Alarcón

PERU: LOANS GROWTH ABOVE 6% Y/Y CONTINUES IN JULY

In July, bank loans accelerated slightly, rising 0.8% m/m. In y/y terms, this represented an increase of 6.4%, versus the 6.2% y/y recorded in June (chart 1). Growth in business loans at 1.4% y/y remains at odds with household loans growth at 17.2%. However, both are broadly in line with our forecast for October 2022 (Canadian Fiscal Year): business loans at 3.0% and household loans at 17.1%.

The net monthly flow in business loans continued its improvement since May, led by corporate loans (9.9% y/y, table 2). Lending to large businesses rose only 0.9% in y/y terms, but posted the highest monthly net increase since the beginning of the pandemic, while net flows to small businesses have been positive for six consecutive months. Meanwhile, subdued growth in loans to medium-sized businesses continued, stringing 14 months of negative monthly flows. Micro business loans fell again. Both of these declines reflected amortizations and pre-payments of the state-guaranteed Reactiva loan program that was put in place to provide liquidity during the COVID-19 lockdowns.

Household loans growth was much more encouraging, up 17.2% y/y in July, and has continued to be more robust than we have been expecting. Leading in household loans growth were consumer loans (25.1% y/y) and mortgage loans (8.9% y/y). However, household loans registered their lowest monthly increase in 11 months, for two separate reasons. The first is a seasonality effect due to a legal worker bonus that is equivalent to an extra monthly wage that is paid out in July and December. The second is new withdrawals available from private pension funds and worker compensation accounts (CTS).

Pension fund withdrawals will continue in August and September and will likely impact household loans growth until December.

—Ricardo Avila

Chart 1

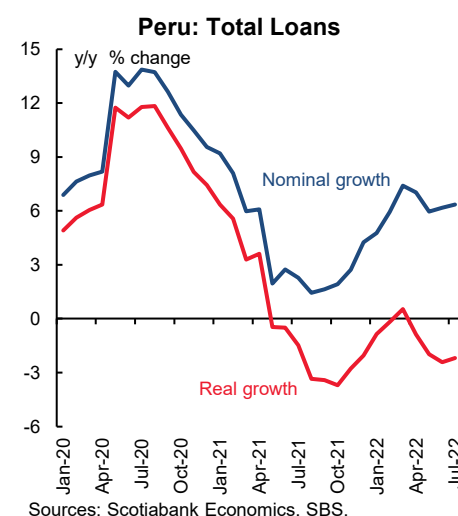


Table 2: Peru—Loan Growth

| | % m/m | % y/y | 2022F |
|-----------------------|------------|------------|------------|
| Business loans | 1.0 | 1.4 | 3.0 |
| Corporate | 2.5 | 9.9 | 13.7 |
| Large businesses | 1.9 | 0.9 | 0.5 |
| Medium businesses | -1.7 | -11.2 | -8.6 |
| Small Businesses | 0.8 | 10.0 | 4.0 |
| Micro businesses | -0.4 | 5.9 | 14.1 |
| Household loans | 0.5 | 17.2 | 17.1 |
| Consumer loans | 0.6 | 25.1 | 24.7 |
| Mortgages | 0.4 | 8.9 | 9.2 |
| On shore loans | 0.8 | 6.4 | 7.5 |

Sources: Scotiabank Economics, SBS.

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