

Latam Daily: Chile BCCh Raises Rate 25 bps (to 0.75%), One More Hike Expected by Q4

- Chile: Central Bank raises policy rate by 25 bps (to 0.75%); We forecast one more hike by Q4-2021

CHILE: CENTRAL BANK RAISES POLICY RATE BY 25 BPS (TO 0.75%); WE FORECAST ONE MORE HIKE BY Q4-2021

On Wednesday July 14, despite June's surprise low inflationary record (0.1% effective versus 0.3% expected by the market), the Central Bank (BCCh) opted to start the normalization process earlier than anticipated, supported by a heterogeneous economic recovery and driven by private consumption, [according to its monetary policy statement](#). In our opinion, although the process of raising the Monetary Policy Rate started earlier than we anticipated, we do not expect it to surpass our base scenario of 1.0% by December 2021 (chart 1). The next hike in the Monetary Policy Rate would occur at the October or December meetings. Taking this into account, we further expect the recent fall in bond rates to be accentuated.

In the local scenario, the BCCh reports GDP growth is being driven by greater consumption and commercial activity. We reinforce that this dynamism in consumption has been highly supported by the government's fiscal supports and the added household liquidity allowed by pension withdrawals. Regarding employment, the central bank emphasized the recovery of formal salaried employment (a view that we share), which is an important measure of the normalization process. However, asymmetries remain, as labour participation remains subdued among a significant portion of the workforce consisting of the self-employed, informal workers and women.

In the external scenario, the BCCh slightly moderated its prospects for the world economy, recognizing the risk arising from the spread of new variants of Covid-19, as well as a significant lag in the advancement of the vaccination process in many emerging economies. The statement also highlighted that several central banks, mainly from commodities-exporter countries, have begun the process of normalizing their monetary policy.

We maintain our expectation of GDP expansion of 7.5% with an upward bias for 2021, but below the mid-range of the BCCh's expectations (8.5 – 9.5%).

Public spending would lose momentum towards the last quarter of this year, coinciding with an increase in precautionary savings for households, decreasing somewhat the strength of the dynamism of private consumption. This, in a context where the labour market (informal workers) will continue to have wide capacity gaps. In inflationary terms, we continue to expect inflation in 2021 to end at 3.5% y/y, yet another element that would contain aggressive increases in the Monetary Policy Rate during the second half of this year.

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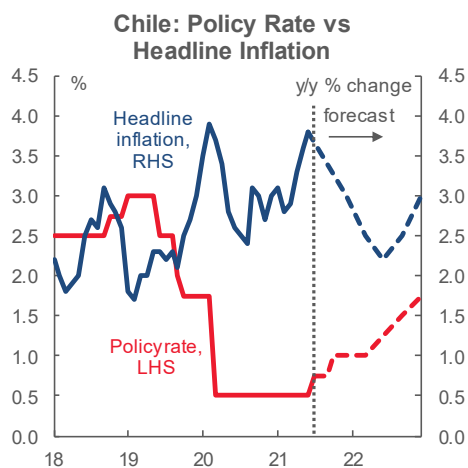
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Chart 1



Sources: Scotiabank Economics, BCCh, INE.

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