Latam Daily: Chile Budget Bill FY 2022; Mexico Biweekly Inflation Up Again in Sept

- **Chile: Government announced an increase of 3.7% y/y in the 2022 fiscal budget**
- **Mexico: Headline inflation in the first half of September lands above expectations**

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CHILE: GOVERNMENT ANNOUNCED AN INCREASE OF 3.7% Y/Y IN THE 2022 FISCAL BUDGET

On Thursday, September 23, the Chilean Government presented the 2022 Fiscal Budget bill to Congress. The Budget includes expenditures of USD 82 bn and represents an increase of 3.7% y/y in real terms, compared to a 2021 base-year without the additional fiscal measures. We had discussed earlier this month that the improved structural parameters (long-term GDP and copper price expectations) were likely to allow an increase in the allotted fiscal spending for 2022.

The proposed additional fiscal expenditures will be centered on public investment, which will rise 8.1% y/y, and current spending will increase 2.8% y/y. In the same direction, the Government also revised its forecast for economic growth in 2021, from an earlier 7.5% to around 10%. Our own forecast for GDP growth by end-2021 is 10.7%.

The government also announced it will recover the fiscal balances, in line with the recommendations of the Autonomous Fiscal Council delivered earlier this week. The government's expectation is to reduce the structural fiscal deficit in 2022 to 3.9% (from an 11.5% this year), a path consistent with the fiscal commitment. Additionally, the budget bill contains an update to the projected 2021 public debt, which will increase to 34.9% of GDP.

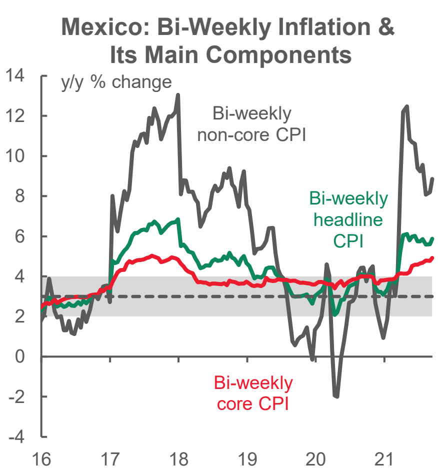
—Anibal Alarcón

MEXICO: HEADLINE INFLATION IN THE FIRST HALF OF SEPTEMBER LANDS ABOVE EXPECTATIONS

According to data released by statistical agency (INEGI), headline inflation accelerated from 0.18% 2w/2w to 0.42% 2w/2w on a sequential basis during the first half of September, well above the Citibanamex Survey of consensus of 0.27%. Non-core inflation led the way, soaring from 0.24% 2w/2w to 0.76% 2w/2w as the effect of price controls on energy and government tariffs dissipated, rising from -0.01% 2w/2w to 0.63% 2w/2w, and food also accelerated strongly, from 0.55% 2w/2w to 0.92% 2w/2w. Core inflation also accelerated from 0.17% 2w/2w to 0.31% 2w/2w, exceeding the consensus of 0.24% 2w/2w, as services rose from 0.07% 2w/2w to 0.17% 2w/2w and merchandise accelerated from 0.28% 2w/2w to 0.41% 2w/2w.

In its annual comparison, headline inflation accelerated from 5.60% y/y to 5.87% y/y (chart 1), above the 5.71% y/y expected. Core inflation maintained its upward trajectory, rising from 4.77% y/y to 4.92% y/y, its highest level since

Chart 1



Sources: Scotiabank Economics, INEGI.

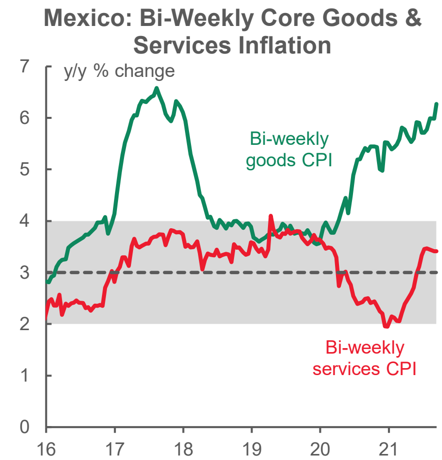
November 2017 (chart 1, again), also beating the 4.85% y/y consensus. Pressures came from the merchandise item, which rose 6.27% y/y from 5.99% y/y previously while services remained at 3.41% y/y (chart 2). The non-core component also accelerated, from 8.20% y/y to 8.86% y/y (chart 3), as administered and energy prices rose from 7.42% y/y to 7.95% y/y while food prices rose from 9.19% y/y to 10.77% y/y.

Our forecasts maintain that inflation will remain outside the monetary policy target range of 3.0% (+/- 1%) for the rest of 2021, and will end the year at 6.0%. Regarding its composition for the rest of the year, we anticipate energy and agricultural price pressures will be replaced by pressures in services and merchandises prices. This change would be driven by an increase in services demand, due to lower COVID-19-related risk, which would encourage more tourism and social intensive activities, as well as by increases in merchandise prices derived from inputs scarcity and bottlenecks in manufactures.

As we have discussed in earlier Latam publications, we expect this upward trend in inflation will encourage the Bank of Mexico to raise the monetary policy rate by a total of 75 points spread over the three remaining monetary policy meetings of the year to close the year at 5.25%. Thus we anticipate, as do the rest of analysts, a hike of 25 bps at the next meeting on September 30 that would bring the policy rate to 4.75%.

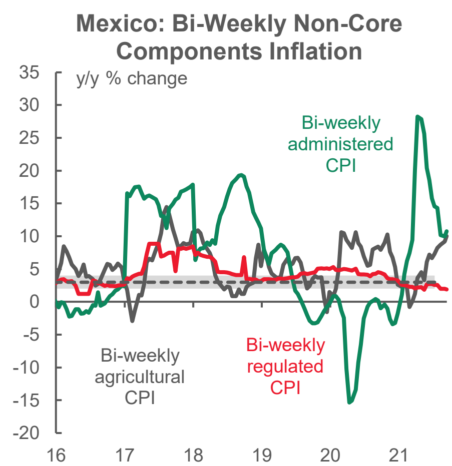
—Miguel Saldaña

Chart 2



Sources: Scotiabank Economics, INEGI.

Chart 3



Sources: Scotiabank Economics, INEGI.