

Latam Daily: Chile Monetary Policy Report; Colombia Lowers Fiscal Deficit Estimation

- **Chile:** Central Bank confirms additional hikes in the MPR; We expect benchmark rate in the range 5.25–5.50% by March 2022
- **Colombia:** Ministry of Finance estimates lower fiscal deficit in 2021 due to better economic growth

CHILE: CENTRAL BANK CONFIRMS ADDITIONAL HIKES IN THE MPR; WE EXPECT BENCHMARK RATE IN THE RANGE 5.25–5.50% BY MARCH 2022

On Wednesday, December 15, the central bank (BCCh) [released](#) its quarterly *Monetary Policy Report*, which included updated forecasts for key macroeconomic indicators. In its *Report*, the central bank anticipates a GDP expansion of 11.8% for 2021 (range between 11.5% and 12%), in view of the strong performance of economic activity in recent months. For next year, the BCCh slightly increased its projection to 2.0% (range between 1.5% and 2.5%), which includes a contraction in both total investment and consumption. The BCCh's baseline scenario is considering a technical recession in 2022, a view that we share in Scotiabank. According to the central bank, today's level of economic activity is higher than the long-term level, which will imply a gradually deceleration in the GDP towards the end of the next year. Lastly, for 2023, the CB's forecast was reduced by 1 percent point, to 0.5% (range between 0% and 1%) (table 1).

With regard to inflation, the central bank increased its forecast for the end of 2022, from 3.5% to 3.7%, below both the market and our expectations. The BCCh is expecting a deceleration in both core and non-core inflation since the second half of 2022, led by reversals in tourist packages and air-transportation fares. In our view, we could see those reversals during the first quarter of 2022, depending of the evolution of the Chilean peso (CLP). However, we keep our end of period inflation forecast for 2022 in 4.5%, due to a higher inflationary persistence than the estimated by the central bank.

The scenario described by the central bank considers new increases in the **Monetary Policy Rate**. According to different scenarios, the rate could increase by at least 100 basis points (bps) towards the second half of the next year. In a scenario with higher than estimated dynamism of consumption or investment, the

y/y % change	2021		2022		2023	
	BCCh	Scotiabank	BCCh	Scotiabank	BCCh	Scotiabank
GDP growth	11.8	11.6	2.0	3.5–4.5	0.5	1.5–2.5
Total consumption	19.2	16.4	-0.5	3.0	-0.7	2.1
Investment	17.6	18.0	-2.2	3.0	0.1	2.0
CPI (end of period)	6.9	7.0	3.7	4.5	3.0	3.0

Sources: Scotiabank Economics, BCCh.

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rate could increase to 6.5% in the first half of 2022. As we commented in our [Latam Flash](#) earlier this week, we expect a 100 bps increase at the January meeting to reach a rate of 5.00% and another hike in March, of between 25–50 bps towards a rate of 5.25% or 5.50%.

—Jorge Selaive, Anibal Alarcón, & Waldo Riveras

COLOMBIA: MINISTRY OF FINANCE ESTIMATES LOWER FISCAL DEFICIT IN 2021 DUE TO BETTER ECONOMIC GROWTH

According to a local news agency, after a meeting with the Fiscal Rule Committee, the Ministry of Finance announced its new fiscal deficit estimation for 2021 at 7.6% of GDP, lower than the estimate in the earlier Medium-term fiscal framework (MTFF) in mid-June, which stood at 8.6% of GDP, and lower than the 2019 deficit (7.8% of GDP). The positive revision was made on the basis of better tax collection derived from a better-than-expected economic activity. It is worth noting that the Government revised up its forecast for economic growth in 2021 from 6% in MTFF-2021 to 8% and now to 9.7%.

In the same vein, the debt-to-GDP ratio is now calculated at 62.1% of GDP, 3pps lower than MTFF-2021 estimations, but still higher than the 2020 ratio of 60.4% of GDP. Either way, our take is positive and affirms the perspective of potential lower financing needs in 2022. Further information will be released early in 2022 in the Financing Plan. For now, we highlight that despite a challenging H1-2021 due to social protests amid a then-failed fiscal reform, we are now seeing some green shoots derived from the consolidation of economic recovery.

—Sergio Olarte & Jackeline Piraján

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