Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

February 7, 2025

Contributors

Juan Manuel Herrera
Senior Economist
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Jackeline Piraján, Head Economist, Colombia
+57.601.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Aníbal Alarcón, Senior Economist
+56.2.2619.5465 (Chile)
anibal.alarcon@scotiabank.cl

Valentina Guio, Senior Economist
+57.601.745.6300 Ext. 9166 (Colombia)
daniela.guio@scotiabankcolpatria.com

Latam Daily: Small Chile CPI Beat and Colombia Financing Plan

- **Chile: Above-expectations CPI, with limited second-round effects from electricity fees hike**
- **Colombia: Financing Plan Preview—Expectations and potential effects on the COLTES curve**

CHILE: ABOVE-EXPECTATIONS CPI, WITH LIMITED SECOND-ROUND EFFECTS FROM ELECTRICITY FEES HIKE

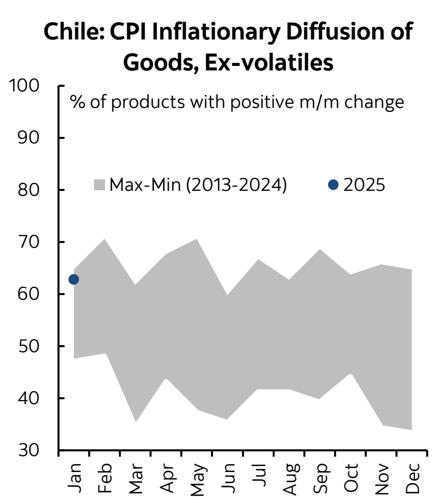
This morning, the INE published January price data showing a CPI increase of 1.1% m/m (4.9% y/y), above survey expectations (Economists' Survey: 0.8%; Traders' Survey 0.9%) although similar to our projection of 1%. For the Central Bank, this record does not represent a relevant surprise either, which, together with the positive December GDP, strengthens our call for a pause in policy rate cuts, at least during the first half of the year. As we anticipated, volatile inflation explained a large part of the total CPI change, not only because of the expected increase in electricity tariffs (10.8% m/m), fuels and food, but also because of a broad set of goods and services classified as volatile that would be more sensitive to exchange rate moves and also to Cyber events (discounts). For now, we observe limited second-round effects from the increase in electricity tariffs, which have been concentrated in specific products.

We see limited second-round effects of electricity rate hikes, for now. As in the October rate-setting, we again observed significant increases in the prices of very specific goods, directly affected by the increase in tariffs. Among the products we identified are bread (+2.2% m/m), common expenses (+4.8% m/m), soft drinks (+2% m/m) and bottled water (+6.1% m/m). For the time being, the pass-through of rate hikes would be affecting a limited set of products, without a generalized effect within the basket.

Meanwhile, inflationary diffusions show the expected rebound, especially at the goods level, as services continue to show no relevant inflationary pressures (charts 1 and 2). In this sense, the CPI diffusion of goods excluding food and energy, a category of goods that has shown to be highly dependent on Cyber events in retail trade in previous months, once again registered record highs in January.

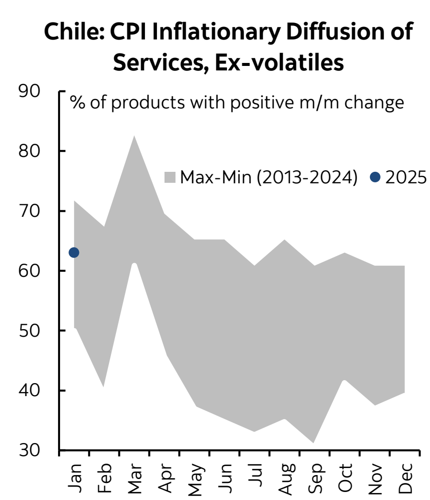
Cyber events would continue to inject volatility this year, although without pulling inflation away from its historical averages. Although the volatility of goods inflation (and its diffusion) was elevated last year, during the year it was at levels very close to its historical

Chart 1



Sources: Scotiabank Economics, INE.

Chart 2



Sources: Scotiabank Economics, INE.

average. At Scotiabank, we estimate that much of this volatility is observed in the months leading up to and following the Cyber events. This high linkage of inflation, as well as retail sales, to these events could be related to the weak labour market and low real income growth, leading consumers to take advantage of sales opportunities to make purchases. At the same time, this behaviour could reveal little room to continue increasing the prices of goods, in a context of limited momentum in activity and low job creation. Due to the above, we estimate that during this year we will continue to observe greater volatility in the prices of goods.

—Aníbal Alarcón

COLOMBIA: FINANCING PLAN PREVIEW—EXPECTATIONS AND POTENTIAL EFFECTS ON THE COLTES CURVE

The Financing Plan, which is due for release today, is one of the most important publications in Colombian fiscal policy. In this document, the Ministry of Finance (MoF) presents the performance of the public finances compared with the fiscal rule and their expectations for the fiscal balance and the uses and sources of financing in the year ahead.

In 2024, there are huge expectations about how the MoF will manage fiscal rule compliance while, in parallel, the Autonomous Committee for the Fiscal Rule is pointing to a chance of non-compliance.

What do we know?

- **The Finance Minister, Diego Guevara, repeatedly has said that the Government will comply with the fiscal rule.** Between January and November of 2024, the fiscal deficit reached 6.1% of GDP and the primary deficit was 2.1% of GDP. In this context, our estimate indicates that for all of 2024, the Government would comply with the fiscal rule but with a significant increase in the fiscal deficit that would be comparable to the pandemic result when the Colombian economy registered 7.8% of GDP.

- **Scotiabank Colpatria's estimates suggest the Government will release a fiscal deficit of 7.1% of GDP in 2024, however, the Government would comply with the fiscal metrics due to the inclusion of temporary transfers close to COP 30tn, which must be subtracted from the primary balance (table 1).** In this case, the payments to the Fuel Price Stabilization Fund (FEPC), higher legal bills and compensation associated with lawsuits faced by the state, and the refunding of mining royalties due to legal dispositions, were close to 2.2% of GDP compared to 0.3% of GDP expected in the Medium-Term Fiscal Framework (MTFF) 2024.

- In our opinion, despite the recent assessment from the Autonomous Committee for the Fiscal Rule (CARF), which anticipates the fiscal rule's non-compliance for 2024, the MoF will justify its compliance, and the market reaction will depend on the quality of its result.

- **Fiscal challenges seen in 2024 will continue in 2025.** For now, in the preliminary version of the 2025 Financial Plan presented in the 2025 General Budget project, the national government forecasts a fiscal deficit of 4.7% of GDP, an improvement over the 5.1% of GDP projected in the MTFF 2024. This reduction would be driven by an expected increase in fiscal revenue, projected to rise by COP 31tn (1.7% of GDP). Of this increase, COP 26.6tn is attributed to higher tax revenues, while the remaining COP 4.5tn is expected from other capital resources (BanRep earnings).

- **It is worth noting that, from the total COP 26.6tn projected for 2025, COP 12tn must be subtracted from the tax revenue due to Congressional rejection of the Financing Law project last year.** The remaining COP 14.6tn is anticipated to derive from improved revenue collection performance by the National Tax and Customs Directorate (DIAN). In this context, CARF has announced that the total projected fiscal revenue for 2025 could be overestimated by COP 34.6tn (equivalent to 2% of GDP), so, for 2025 the government would need to implement a spending cut of at least COP 32.9tn, but we cannot rule out that the spending cut may be greater to comply with the fiscal rule.

Table 1: Colombia—Fiscal Balance Projected Between MTFF 2024 Compared with Scotiabank Economics Estimates

(% of GDP)	2024 (MTFF)	2024 (Scotiabank Economics)
Structural Net Primary Balance (5+4-3-2-1)	**-0.2**	**-0.2**
(1) Economic cycle	-0.2	-0.2
(2) Mining cycle	-0.2	-0.2
(3) Temporal transfers	-0.3	-2.2
(4) Financial returns	0.0	0.0
(5) Primary Balance (7-6)	**-0.9**	**-2.4**
(6) Financial payments	**-4.7**	**-4.7**
(7) Fiscal Balance that complies with the Fiscal Rule	**-5.6**	**-7.1**

Sources: Scotiabank Economics, MoF.

How may markets react to the publication?

- **In Colombia, the publication of the Financial Plan has led to movements in the COLTES curve.** The publication of the Financing Plan usually takes place close to or after the closing of the markets in Colombia, so we usually observe the market's reaction days after (in today's case, Colombian markets will reopen on Monday to the Plan). In our estimates, before the pandemic, one day after the publication, the entire curve reacted by widening on average 1.5bps with this move persisting for up to 7 days, after which we have seen a flattening of the curve (chart 3).

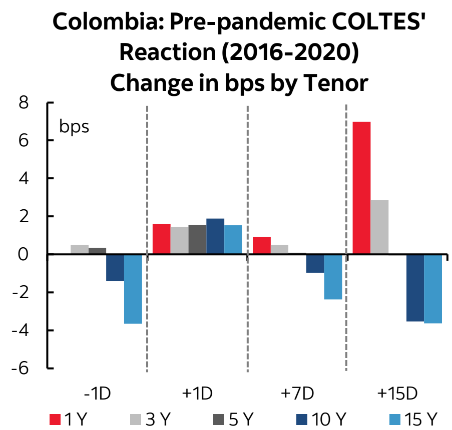
- **After the pandemic (chart 4), the curve's depreciation has been more persistent than in the past and tends to reflect a more permanent steepening even two weeks after publication.** Previous movements have taken place in a context in which central banks have made significant moves in monetary policy rates, but also in a context where the debt burden has increased worldwide. In 2025, the "higher for longer" scenario for central banks and concerns around debt sustainability could see COLTES continue to steepen after the FP publication.

- **Additionally, in 2025 the outlook for COLTES supply matters more than ever.** The difference between the fiscal deficit estimated in the MTFF and the Financial Plan is a concern, as we have mentioned in other reports, the lack of liquidity of the Government is what is impacting the COLTES curve the most, as the Government is substituting the use of cash for COLTES issuance to pay liabilities (as is the case of the FEPC). For now, we know that the public debt quota approved by Congress is close to COP 60tn for 2025. During the General Budget 2025 presentation, the MoF announced COP 45tn in auctions, COP 1.5tn in green bonds and COP 4.5tn in pension bonds. However, we estimate the Government will tend to increase the auctions to something closer to COP 50tn, while the reliance on international markets could still be significant with at least USD 9bn estimated in the previous Medium Term Fiscal Framework.

- **All in all, in 2025, the FP will influence the steepening of the curve, but contrary to pre-pandemic episodes, we see strong arguments to anticipate that this higher slope could last for longer.**

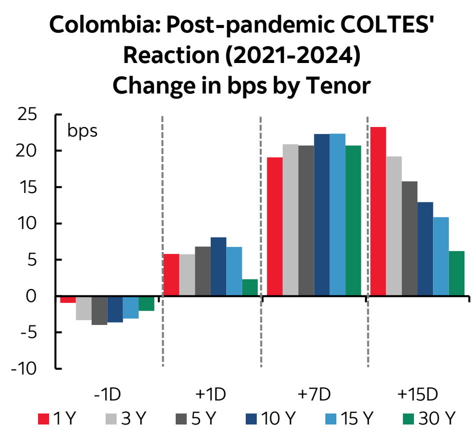
—Jackeline Piraján & Valentina Guio

Chart 3



-1D means 1 day before FP publication
+1D means 1 day after FP publication
1Y, 3Y, 5Y, 10Y and 15Y refers to the COLTES tenor
Estimations are based on the zero-coupon curve of the COLTES curve.
Sources: Scotiabank Economics, Bloomberg.

Chart 4



-1D means 1 day before FP publication
+1D means 1 day after FP publication
1Y, 3Y, 5Y, 10Y and 15Y refers to the COLTES tenor
Estimations are based on the zero-coupon curve of the COLTES curve.
Sources: Scotiabank Economics, Bloomberg.