

Latam Daily: Chile Q2-2021 y/y Growth and CB Reserves; Peru Minister Steps Down

- **Chile:** Solid y/y GDP growth of 18.1% in Q2-2021 boosted by base effects; and favourable valuation on CB's international reserves
- **Peru:** Foreign Affairs Minister steps down as upcoming congressional vote politics take hold; mining protests return sooner than expected

CHILE: SOLID Y/Y GDP GROWTH OF 18.1% IN Q2-2021 BOOSTED BY BASE EFFECTS; AND FAVOURABLE VALUATION ON CB'S INTERNATIONAL RESERVES

1. Solid year-on-year GDP growth of 18.1% in Q2-2021; we hold our annual 7.5% y/y forecast for 2021 with upward bias

On Wednesday, August 18, the BCCh [published](#) the national accounts figures for the second quarter of 2021, showing a GDP expansion of 18.1% y/y (+1.0% q/q), which is mainly explained by the very low base a year earlier due to COVID-19 lockdowns. By expenditure components, in Q2-2021 private consumption led economic growth (+33.7% y/y), associated with the higher liquidity available by households and the low comparison bases. Investment grew 24.8% y/y, mainly thanks to machinery and equipment. On the other hand, GDP growth for Q1-2021 was revised upwards, to 0.5% y/y (0.3% y/y previously).

As we have pointed out before, these figures are the product of a few specific ingredients: greater openness and mobility, a very strong expansion of public spending on direct transfers to households, and capital spending in conjunction with liquidity injections from withdrawals of pension funds.

The economy is likely to show a seasonally adjusted contraction in Q4-2021 explained by: the waning positive effects of a relaxation of lockdown restrictions in m/m comparisons; public spending that declines relative to previous quarters; a potential increase of COVID-19 cases towards the end of September and subsequent new quarantine measures; and political uncertainty that could affect sector dynamics and propensity to consume. We maintain our forecast of 7.5% y/y for 2021, with an upward bias.

—Jorge Selaive, Anibal Alarcón, & Waldo Riveras

II. Favourable valuation effects have left the central bank's international reserves close to USD 49.5 bn in August

In January 2021, Chile's central bank began a program of replacement and expansion of international reserves, implementing a foreign exchange purchase program for USD 800 mn per month for 15 months (USD 40 mn per day), with the objective of increasing the level of international reserves to around 18% of GDP.

Favourable valuation effects have left the central bank's international reserves close to USD 49.5 bn in August according to our estimates, which represents 17.6% of GDP. In January 2021, when the program was announced, the level of international reserves was 13.8% of GDP.

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Our view is that market participants should consider a significant probability that the central bank will stop the accumulation of reserves in the very near future, before April 2022, as was initially intended. Should our assessment prove accurate, we expect an appreciative pressure over the Chilean peso (CLP).

—Anibal Alarcón

PERU: FOREIGN AFFAIRS MINISTER STEPS DOWN AS UPCOMING CONGRESSIONAL VOTE POLITICS TAKE HOLD; MINING PROTESTS RETURN, SOONER THAN EXPECTED

I. The government juggles political issues—the first cabinet change

Héctor Béjar, Minister of Foreign Affairs, resigned after less than three weeks in office. Béjar came under intense fire from the press, opposition parties, and even other members of the cabinet, after the press resurrected controversial statements that he had made in the past. The main point of contention was a statement Béjar had made blaming Peru's naval forces, rather than Sendero Luminoso, for "initiating terrorism" during the 1980s in the country.

Although Béjar tendered a resignation, he stated that this was at the request of the Head of the Cabinet, Guido Bellido. Given that Béjar was linked to the far-left wing of Perú Libre, his removal may rebalance the party's influence in the cabinet. According to statements made to the press, the Minister of Defense, Walter Ayala, had voiced a strong opinion within the government against Béjar's statements, which, is perhaps, evidence of the inherent contradictions inside a cabinet that is a compromise between far-left and moderate figures.

Prior to Béjar's removal, Congress had been moving towards calling him in, which, given Peru's legislation, may have led to his impeachment. The government may have opted for his removal in order to prevent Béjar's presence in the cabinet from jeopardizing the possibilities that the cabinet obtain a vote of confidence from Congress on August 26. Be this as it may, the decision to remove Béjar would appear to be a hopeful sign that institutions are performing their role to ensure that the government faces a proper system of checks and balances.

The name of the person to replace Béjar had not been announced at the time of this writing. This designation will be key. If Béjar is replaced by someone who is moderate, this could modify the profile of the cabinet. It could also neutralize the stance that Béjar seemed to represent in favour of aligning Peru's regional foreign policy closer to that of Venezuela and Cuba at the Ministry of Foreign Affairs.

II. Local communities lift blockade of access road to the Las Bambas copper mine

Protests returned sooner than expected, a negative sign given that one of the first acts of the new government after taking office on July 28 was negotiating a 60-day reprieve. On Monday August 16, protestors blocked the road to the Las Bambas mine, but lifted the blockade on Wednesday, after government officials offered to hold meetings with protesting parties beginning on August 21. Protesters are demanding that the access road be reclassified, a change which would presumably allow them to levy tolls on vehicles accessing the mine. This is a high-profile event for the mining community, as the manner in which the government manages the protests, and the results which emerge, will set a precedent for mining operations elsewhere in the country.

—Guillermo Arbe

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