

Latam Daily: Chile Constitutional Process Update; Peru October Inflation

- **Chile:** Update on the constitutional process—key dates to keep in mind
- **Peru:** Inflation surpasses market expectations again; BCRP likely to evaluate new rise in rates

CHILE: UPDATE ON THE CONSTITUTIONAL PROCESS—KEY DATES TO KEEP IN MIND

November 2 kickstarted the process of installing the seven thematic commissions that will address the different constitutional contents (or verticals), as established in the regulations binding the constitutional body. While some commissions are still fine-tuning their work schedules, others have already begun calling public hearings, as is the case with the Political Systems Commission. The Plenary timeline that has been presented already budgets for a one-time 3-month extension contemplated at the onset, foretelling that the constitutional body will indeed take the full year of work to conclude on July 5, 2022.

According to the commissions regulations, a series of technical secretariats made up of experts in each of the respective fields must accompany the work of the conventional ones. They will be collegiate and technical bodies and, for the most part, on commission or ad honorem. These secretariats are: Directorate of Administration, Finance and transparencies; Secretary of the Convention, Commissions and Subcommittees; Secretariat of Communications, Information and Transparency; Technical Secretary, External Assignment Committee and Ethics Committee. Some have already been formed, while others are in the process of calling for nominations, as is the case of the Technical Secretariat for Popular Participation, which will be in charge of implementing the different participation mechanisms established also by regulation, which in total add up to seven different instances between town councils, hearings, initiatives of popular norms, among others.

In the last two weeks, the different commissions have been preparing their work schedule, that is, what will be the deadlines for hearings, debates, reviews and votes: a Gantt Chart. This schedule must match the work of the Plenary and that of the committees. Along these lines, it has already presented a proposal that establishes a total term of one year, which implies making use of the three-month extension contemplated in the norm that approved the creation of the constitutional body, with the end date of the process being July 5, 2022.

The following dates have been established for the voting of the different constitutional norms emanating from the different commissions: January 10 to 14; January 31 to February 4; February 28 to March 4; March 28 to April 1. Subsequently, on April 28, the process of harmonizing standards will begin, also to be voted on between June 20 and 24. This last stage will be in the hands of a dedicated Harmonization Commission, whose members will be defined weeks in advance. This instance will be in charge of ensuring that each norm conforms to the constitutional ranges. The above proposed timeline must be voted on by the Commission's Plenary, and once this occurs, each committee must adapt its work based on this "master schedule".

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PERU: INFLATION SURPASSES MARKET EXPECTATIONS AGAIN; BCRP LIKELY TO EVALUATE NEW RISE IN RATES

Peru's inflation increased 0.58% m/m in October, higher than the Bloomberg consensus of 0.24% m/m, but in line with our forecast of 0.55% m/m. Headline annual inflation jumped from 5.2% y/y in September to 5.8% y/y in October (chart 1), surpassing the upper limit of the central bank's target range (between 1% and 3%) for the fifth consecutive month, and reaching levels not seen since the beginning of 2009. Inflation has been surprisingly strong and is moving further and further away from the BCRP's inflation forecast of 4.9% for this year. However, these results are in line with our inflation forecast of 6.5% for the full year in 2021 and 4.5% for 2022.

Core inflation also continued to pick up, going from 2.6% y/y in September to 2.8% y/y in October, exceeding the 2% y/y target for headline inflation. Wholesale inflation, linked to production costs, continues to rise, approaching 14% y/y, the highest rate in 27 years. Cost pressures are likely to continue to persist for the rest of this year and next. The PEN depreciation slowed somewhat, going from 15% y/y in September to 12% y/y in October, in a context of some moderation in political uncertainty. The dragging effects of the FX rate on inflation could also persist in the coming months, adding to the growing concerns at the BCRP.

Over the last three months, the central bank raised its benchmark rate by 125 basis points to 1.50% and increased reserve requirements twice, giving stronger signals to withdraw the monetary stimulus. The BCRP has been acting reactively rather preventively in the face of rising inflation, which is why we believe further increases in the policy rate will be necessary for inflationary expectations to return to the target range. We expect a 50 bps increase at the next BCRP meeting next week, on November 11.

Chart 1

Peru: Headline and Core Inflation



Sources: Scotiabank Economics, BCRP.

—Mario Guerrero

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