

Latam Daily: BanRep Survey Foresees Stable Rates, Anchored Inflation

- Colombia: BanRep's macro survey points to policy-rate stability in 2021, while inflation expectations remain anchored

COLOMBIA: BANREP'S MACRO SURVEY POINTS TO POLICY-RATE STABILITY IN 2021, WHILE INFLATION EXPECTATIONS REMAIN ANCHORED

The results of BanRep's February survey of macroeconomic analysts, [published](#) on Monday, February 15, point to rate stability in 2021 with anchored inflation expectations.

- Medium-term inflation.** Consensus expects inflation at 2.64% y/y in December 2021, -5 bps lower than last month (table 1). Inflation expectations for longer tenors did not change much in the February survey. In fact, 1Y tenor stood at 2.86% y/y, just slightly above last month's survey reading (2.80% y/y), and the 2Y tenor was up only marginally at 3.08% y/y, which underscored that expectations remained anchored over the monetary policy horizon (chart 1). Scotiabank Economics expects CPI inflation to close 2021 at 2.77% y/y and end 2022 around 3.0% y/y.
- Near-term inflation.** On average, February's monthly inflation is expected to come in at 0.50% m/m sa, slightly below from Jan-2020's rate of 0.67% m/m, which would put expected annual inflation at 1.43% y/y. In February, Colombian inflation should reflect upside pressures from education fees, gasoline prices, and some utility charges, while indexation would continue modestly, mainly on rental rates, among other things. Economic weakness, however, leads us to expect a lower rate of price increases at 0.45% m/m and 1.38% y/y. Annual food price inflation should continue to be high, but we expect a milder m/m % change compared with January.
- FX.** USDCOP forecasts for end-2021 stood at 3,449 (up 14 pesos from the previous survey). For December 2022, respondents think, on average, that the peso will end the year at USDCOP 3,387 (-1 peso below the January survey). We believe that USDCOP cross rate is currently above its short-term fundamental level, which we estimate at around 3,400. Uncertainty around the pandemic and fiscal risk both remain elevated, which implies that the COP will find it difficult to appreciate much from here. Instead, we forecast (see the February 8 [Latam Weekly](#)) USDCOP 3,450 for end-2021 and USDCOP 3,400 for end-2022.
- Policy rates.** BanRep's repo rate is expected to close 2021 at 1.75%, according to the median of the survey's respondents (chart 2); that said, at least one analyst expected rate cuts this year, which likely reflected the dovish call the central bank's staff made at the last meeting. The first hike of 25 bps is expected by January-2022, one month later than the previous survey's consensus. On average, the policy rate is projected to hit 3.00% by the end of 2022. Our forecast is more front-loaded, with hikes in 2021.

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Table 1
Colombia: Headline Inflation Expectations

	Average	Change vs previous survey, bps
Feb-2021, m/m % change	0.50	...
Dec-2021, y/y % change	2.64	-5
1Y ahead, y/y % change	2.86	6
Dec-2022, y/y % change	3.06	-3
2Y ahead, y/y % change	3.08	3

Sources: Scotiabank Economics, BanRep.

BanRep’s survey showed that the market consensus broadly held to its existing view that inflation will increase in the months ahead, leading to higher monetary policy rates by the end of 2021 or early in 2022. We anticipate lower inflation in the first part of this year owing to smaller indexation effects in some traditional items: annual inflation should bottom out around 1.1% y/y in March. However, after March’s print, we expect headline inflation to converge to the central bank’s 3% y/y target: during 2021 we should see a reversal in 2020’s low levels of education fees and utility subsidies, among others. Additionally, the gradual recovery in economic activity should help inflation converge to 3% y/y by 2022.

All in all, the balance of risks tilts toward a normalization in the economy. While February’s BanRep meeting is not scheduled to feature a monetary-policy decision, we do continue to expect a first hike from the Board at the end of Q3-2021.

—Sergio Olarte & Jackeline Piraján

Chart 1

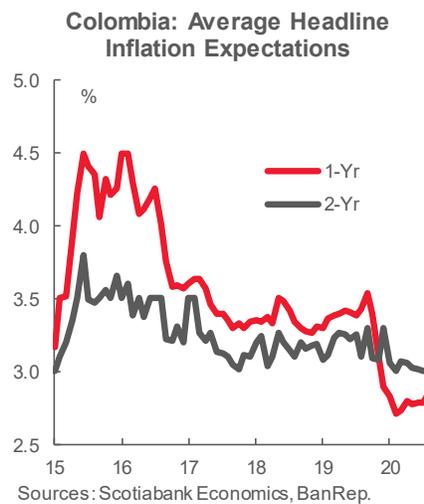


Chart 2



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