

## Latam Daily: BanRep May Analysts' Survey Raises Short-Term Inflation Outlook

- Colombia: BanRep's May survey of analysts showed higher inflation projections for 2021 and anchored expectations over the long run; first rate hike expected by Dec-2021

### COLOMBIA: BANREP'S MAY SURVEY OF ANALYSTS SHOWED HIGHER INFLATION PROJECTIONS FOR 2021 AND ANCHORED EXPECTATIONS OVER THE LONG RUN; FIRST RATE HIKE EXPECTED BY DEC-2021

BanRep released the May edition of its monthly [survey](#) of economic analysts with data collected over the period May 6 to 12. The results showed higher inflation projections for 2021, still-anchored expectations over the longer run, and anticipation of a first rate hike from the BanRep Board by December 2021.

#### Highlights of the survey included:

- Medium-term inflation.** The analyst consensus (median) expects inflation at 3.23% y/y by December 2021, 39 bps higher than last month (table 1) due to the strong upward surprise in April's price data. In contrast, inflation expectations for longer tenors continued hovering around BanRep's 3% y/y target. In fact, analysts' outlook for the 1Y tenor stood at 2.84% y/y, a bit below last month's survey reading (2.92% y/y), and the consensus projection for the 2Y tenor stood at 3.11% y/y, which underscored that expectations remained anchored over the monetary policy horizon (chart 1). Scotiabank Economics projects CPI inflation to close 2021 at 3.13% y/y, but with an upward bias, and end 2022 around 3.0% y/y. See our full forecasts in the May 7 [Latam Weekly](#);
- Near-term inflation.** On average, May's monthly inflation is expected to come in at 0.50% m/m sa, which would put annual inflation at 2.78% y/y. May's inflation reading should reflect upside pressures from protests and blockades, especially in perishable goods, and a continued normalization of some core prices. Scotiabank Economics expects May inflation to come in at 0.89% m/m sa and 3.18% y/y;

	Average	Change vs previous survey, bps
May-2021, m/m % change	0.50	...
Dec-2021, y/y % change	3.23	39
1Y ahead, y/y % change	2.84	-8
Dec-2022, y/y % change	3.11	-1
2Y ahead, y/y % change	3.11	-2

Sources: Scotiabank Economics, BanRep.

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Chart 1



- FX.** USDCOP median forecasts for end-2021 stood at 3,580 (up 63 pesos from the previous survey). For December 2022, respondents think, at the median, that the peso will end the year at USDCOP 3,500 (30 pesos above the previous survey). We believe that the USDCOP rate is currently above its short-term fundamental level, which we estimate at around 3,450. We think that once the noise from the protests and fiscal reform is resolved, the COP should return to a more fundamentally aligned valuation; and
- Policy rates.** BanRep's repo rate is expected to stay at 1.75% through November, but, for the first-time, the median of analysts' expectations envisions one 25 bps hike in December to take the repo rate to 2% by end-2021 (chart 2); for end-2022, the consensus median expects a policy rate of 3.0%. Our forecast is more front-loaded, with a first hike in Sept-2021.

**BanRep's May survey showed that inflation expectations remained anchored over the longer run.**

Having said this, the post-pandemic normalization of prices is now expected to advance at a quicker pace—which is in line with our view that the BanRep will begin raising its benchmark policy rate in September. Additionally, the recent upward surprise in economic activity readings for Q1-2021 points to a more front-loaded rate path than consensus has heretofore anticipated, notwithstanding the fact that the recent protests will take some wind out of the economy's sails in Q2-2021.

Chart 2

**Colombia: Average Policy Rate Expectations**



Sources: Scotiabank Economics, BanRep.

—Sergio Olarte & Jackeline Piraján

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