# Latam Daily: Summing Up BanRep's Busy Week; Peru's Pension and Vaccine News

- **Colombia: Data will continue to be BanRep's dominant guide; export recovery stayed on track in December**
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## COLOMBIA: DATA WILL CONTINUE BE BANREP'S DOMINANT GUIDE; EXPORT RECOVERY STAYED ON TRACK IN DECEMBER

### I. Amidst the arrival of new Board members and a new dovish staff forecast, data will still have the last word in policymaking at BanRep

**This week we received a vast amount of new information from the central bank.** On Monday, February 1, BanRep released the minutes from the Board's Friday, January 29, monetary-policy meeting and the staff produced its latest *Monetary Policy Report*. On Wednesday, February 3, the Bank held its traditional press conference to explain the *Report's* analysis. Additionally, also on Wednesday, President Duque announced two new BanRep Board members; a third member is due to be named shortly, which, altogether, should skew the Board to the dovish side. We take stock of all this new information and its possible implications for monetary policy.

**Regarding the BanRep staff's new forecasts:**

- **The estimate of the size of recent shocks has changed.**

  **Hernando Vargas, BanRep's Chief Economist, emphasized that the degree of uncertainty remains fairly high, which is reflected in forecast ranges that remain very wide.** However, the staff identified specific signals which drove their expectations that inflation would close 2021 below the 3% y/y target, with the economy-wide output gap remaining open until end-2022. The main change from October's *Monetary Policy Report* pertains to the staff estimate of the size of the shock related to the pandemic, which means that the staff now expects lower inflation and slower GDP growth this year than it previously did. The rise of COVID-19's second wave in January 2021 also underscores the extent to which sudden, regional lockdowns and restrictions remain a tail risk to the economic recovery.

  **On the other hand, ratification of Colombia's investment-grade status helped to keep the estimate of the real neutral rate broadly unchanged.** Still, volatility in international markets remains a concern and the potential scale and effects of new fiscal stimulus in the US remain unclear.

- **The staff's new baseline scenario should not trigger a new cutting cycle, but could lead to a fine-tuning at slightly lower rates.**

  **Under the new scenario, Hernando Vargas highlighted that, on average, the projected monetary-policy rate could move lower than the levels currently expected by consensus.** However, some key factors could affect the forecast, notably actual GDP growth and inflation surprises, evolving international financial conditions, and the eventual details of the government's expected fiscal reform package.

**Why did the central bank opt for rate stability instead of a cut at the last meeting?**

**Governor Leonardo Villar noted that the staff's forecasts are just one of the Board's inputs and that they provided some mixed signals: despite a worsening in the staff's outlook that could point to lower rates in the short term, the staff's baseline scenario also implied that any cuts would have to be unwound soon after being made.** As a result, Gov. Villar emphasized that the Board's majority decided to hold the benchmark policy rate at 1.75% and avoid volatility in monetary-policy decisions. The same point was stressed in the minutes of the January 29 meeting.

**Gov. Villar also emphasized that the Board would remain data dependent.** Rate cuts would be triggered only if a significantly worse scenario were to materialize in terms of GDP and inflation, with further easing in external financial conditions.

All in all, the existing Board strongly signaled its inclination to avoid volatility in its monetary-policy decisions in the absence of significantly negative new data.

**What to expect from the new Board members?**

**By the end of the month, the Board should have three new members, which could skew the Board's stance a bit further to the dovish side.** Mauricio Villamizar should tend to align his vote with the staff's recommendations since he comes directly from its ranks. On the other side, Bibiana Taboada's background focused on poverty and social issues could also imply a dovish bent. Despite the fact that the third name is so far unknown, the Taboada and Villamizar appointments increase the probability of rate cuts ahead.

**What is Scotiabank Economics' call?**

**We think that incoming data will remain the crucial determinant of the future of monetary policy in Colombia.** Under the Board's calendar, its February meeting won't feature a rate decision and its next scheduled update on its policy rate is due on March 26. That said, we think the Board is likely to avoid rate cuts in coming months, particularly if January and February inflation numbers (due for release on February 5 and March 5, respectively) surprise on the upside. Similarly, the Board should remain on hold if Q4 GDP data, due out on February 15, and ensuing high-frequency indicators as the economy re-opens, show new strength.

**Additionally, inflation dynamics from April onward could diverge from the BanRep staff scenario.** Our baseline scenario expects inflation to rebound to 2.8% y/y by end-2021, which, combined with ongoing recovery in economic activity, would be enough to consider a discussion on rate hikes by late-2021.

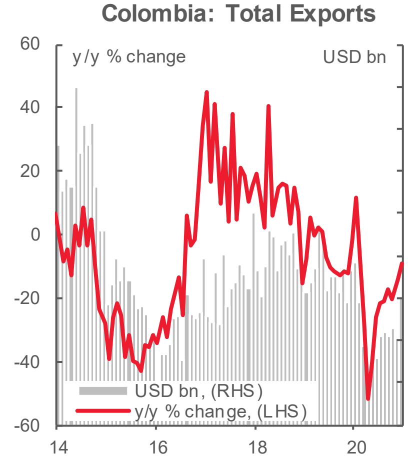
**Uncertainty remains high, particularly amidst recent efforts to stop the second wave of COVID-19. Still, the new control measures are set to be less stringent and could be lifted more quickly than those we saw in 2020, which should moderate their negative effects on the economy.** Additionally, despite the likelihood that level effects could keep annual inflation readings relatively low in the coming months, risks are tilted toward upside surprises. Although the Board's new membership implies a need for careful monitoring, data should continue to have the last word in setting BanRep policy.

## II. Export recovery stayed on track in December

**According to DANE's release on Thursday, February 4, December's monthly exports stood at USD 3.03 bn (-9.0% y/y, chart 1), which was up 62.3% from April's nadir (USD 1.87 bn) when pandemic-related lockdowns hit the economy hardest.** Non-traditional exports reached their best level since 2013, broadly led by gold and agricultural exports, while traditional exports remained at near their lowest numbers in four years, despite some improvements in recent months. Oil and mining trade were still the main drag on exports. In fact, exports of these goods were down -19.3% y/y in

**Chart 1**

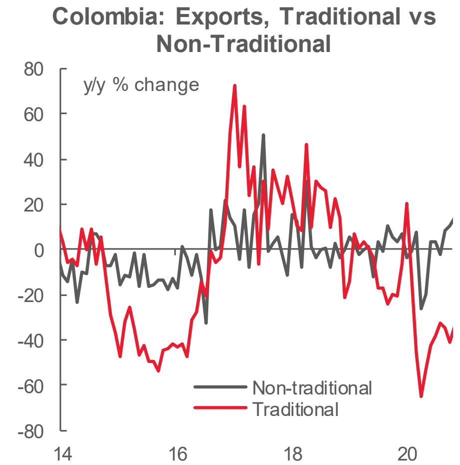
**Colombia: Total Exports**




Sources: Scotiabank Economics, DANE.

December, although their gaps compared with a year ago narrowed. Agricultural exports were up 32.9% y/y in December, while manufacturing exports showed gains of 7% y/y.

Chart 2




Sources: Scotiabank Economics, DANE.

**Traditional exports were down by -30.6% y/y in December (chart 2), a touch better than November's figures, but still soft compared with recent years.** Oil-related exports represented 28% of total exports in 2020 compared with an average of 40% in 2019, owing to both lower production and soft international prices. Coal exports contracted by -30.85% y/y in December and around -25% y/y in 2020 as a whole. The outlook for coal is not encouraging as users are accelerating their shift to lower-carbon alternatives. Coffee exports increased by 30.6% y/y due to both better volumes and prices. Non-traditional exports amounted to USD 1.59 bn in December, an increase of 25.7% y/y compared with a year ago (chart 2 again), owing to significantly expanded exports of gold (up 36.3% y/y), agricultural products such as bananas (102.9% y/y), and other products (31.7% y/y).

**December's export numbers provided a positive close to 2020. Although oil and mining exports remain a concern, we think the outlook for 2021 is brighter: prices have improved and demand should continue to rise, though the recovery may be slowed by second and third waves of COVID-19.** The impact on Colombia's current account should be moderate due to a simultaneous improvement in exports and imports. We expect a current account deficit of about -3.2% of GDP in 2020 and a widening to around -3.8% of GDP in 2021.

**—Sergio Olarte & Jackeline Piraján**

## PERU: CONSTITUTIONAL COURT DEFIED CONGRESS ON PAYMENTS LINKED TO PUBLIC PENSION FUNDS; MORE VACCINES SECURED

**In a unanimous decision, the seven members of the Constitutional Court struck down as unconstitutional the law passed by Congress in December that mandated non-pension payments to all those that are in the public pension system.** The court determined that Congress is prohibited by the constitution from undertaking initiatives that require government financing. The law could have required a total USD 4 bn fiscal outlay. The decision was widely expected and ratifies the perception that, as much as Congress is a source of controversy and uncertainty, State institutions are working sufficiently well to stem questionable initiatives.

**In a press conference on Thursday, February 4, President Sagasti announced that the government had reached an agreement with Pfizer for 20 mn doses of COVID-19 vaccines, with a first 250,000 lot arriving in March, and as much as 5 mn arriving by July.** Furthermore, Peru would obtain through the COVAX facility 117,000 doses of the Pfizer vaccine by the end of February and 400,000 of the AstraZeneca vaccine in March. These commitments add to a pact with Sinopharm for 38 mn doses, of which the first lot of 1 mn is due for delivery by mid-February, and 14 mn would come directly from AstraZeneca. Altogether, over 1.1 mn vaccine doses are set to hit Peru in February, at least 400,000 in March, and as much as 6.5 mn in aggregate by July.

**—Guillermo Arbe**