

## Latam Daily: Colombia Economic Survey Expects Higher y/y Inflation; Hike in Oct-Dec

- Colombia: BanRep's economic survey expects higher y/y inflation for 2021; first rate hike expected between October and December 2021

### COLOMBIA: BANREP'S ECONOMIC SURVEY EXPECTS HIGHER Y/Y INFLATION FOR 2021; FIRST RATE HIKE EXPECTED BETWEEN OCTOBER AND DECEMBER 2021

On Tuesday June 15, the central bank, BanRep, released its monthly economic expectations survey. A top takeaway is that, while expectations remain anchored for the long run, inflation will close 2021 above the 3% y/y target. A hiking cycle is now also expected earlier than anticipated towards the end of 2021. A full reopening of economic activity in Colombia's biggest cities supports this expectation of policy rate normalization as health protocols relax and the nationwide strike is suspended.

- Near-term inflation.** June's monthly inflation is expected to come in at 0.10% m/m, which would put annual inflation to June at 3.79% y/y (from the 3.30% expected at end-May). However, survey standard deviation is high (0.28%) with a minimum expectation of -0.60% m/m and a maximum of +0.70% m/m, signaling a high uncertainty amid recent developments and their impact on prices. Scotiabank Economics expects June's monthly inflation at -0.22% m/m and 3.46% y/y, given that food inflation is likely to fall somewhat as road blockages are lifted, although some products will remain scarce due to delays in some local production processes. Other key prices will likely continue with increases amid the re-opening of activities in main cities.
- Medium-term inflation.** Inflation expectations rose to 3.65% y/y by December 2021, 42 bps higher than in last month's survey (table 1), due to the strong upward surprise in May inflation. Expectations over the medium term continue to hover around 3% y/y: 1Y forward inflation stood at 2.97% y/y (above last month's reading at 2.84% y/y); and 2Y forward stood at 3.09% y/y, underscoring that expectations remained anchored over the monetary policy horizon (chart 1) despite the recent increase. Scotiabank Economics expects CPI inflation to close 2021 at 3.5% y/y and end-2022 at around 3.0% y/y, noting that current inflation pressures are transitory.

Table 1  
Colombia: Headline Inflation Expectations

|                          | Average | Change vs previous survey, bps |
|--------------------------|---------|--------------------------------|
| Jun-2021, m/m % change   | 0.10    | ...                            |
| Dec-2021, y/y % change   | 3.65    | 42                             |
| 1Y forward, y/y % change | 2.97    | 13                             |
| Dec-2022, y/y % change   | 3.24    | 13                             |
| 2Y forward, y/y % change | 3.09    | -1                             |

Sources: Scotiabank Economics, BanRep.

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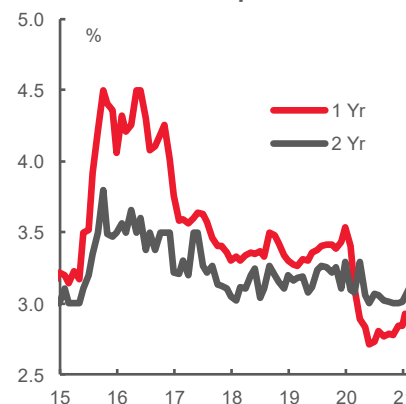
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Chart 1

#### Colombia: Average Headline Inflation Expectations



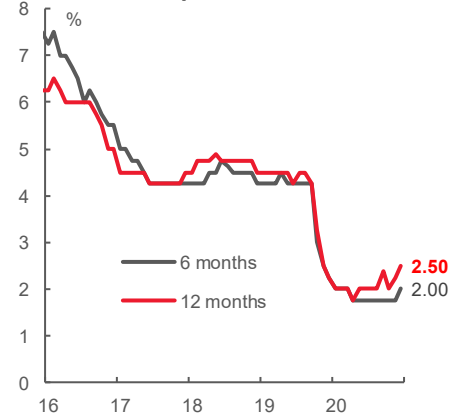
Sources: Scotiabank Economics, BanRep.

- Policy rate.** Consensus expects one hike this year in the policy rate to 2% (from a current 1.75%) sometime between October and December 2021 (chart 2). Scotiabank Economics' forecast is more front-loaded, with a hike expected in September 2021 in view of a stronger economic recovery and as inflation is likely to consolidate above 3% y/y. Compared to the previous survey, a significant takeaway this month is the market's expectation of a steeper cycle. For 2022, consensus expects a policy rate at 3.0% by the end of the year.
- FX.** USDCOP forecasts for end-2021 stood at 3,576 (4 pesos below from the previous survey). For December 2022, respondents think, on average, that the peso will end the year at USDCOP 3,522 (+22 pesos above the previous survey). We believe that USDCOP rate is currently above its short-term fundamental level, estimated at around 3,450. Eventually, the COP should return to a more fundamentally aligned level, as the local situation improves with the protest end and the fiscal reform discussion.

—Sergio Olarte & Jackeline Piraján

Chart 2

**Colombia: Average Policy Rate Expectations**



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