

## Contributors

**Juan Manuel Herrera**

Senior Economist/Strategist  
Scotiabank GBM  
+44.207.826.5654  
[juanmanuel.herrera@scotiabank.com](mailto:juanmanuel.herrera@scotiabank.com)

**Guillermo Arbe**, Head Economist, Peru  
+51.1.211.6052 (Peru)  
[guillermo.arbe@scotiabank.com.pe](mailto:guillermo.arbe@scotiabank.com.pe)

**Sergio Olarte**, Head Economist, Colombia  
+57.1.745.6300 Ext. 9166 (Colombia)  
[sergio.olarte@scotiabankcolpatria.com](mailto:sergio.olarte@scotiabankcolpatria.com)

**Jorge Selaive**, Head Economist, Chile  
+56.2.2619.5435 (Chile)  
[jorge.selaive@scotiabank.cl](mailto:jorge.selaive@scotiabank.cl)

**Eduardo Suárez**, VP, Latin America Economics  
+52.55.9179.5174 (Mexico)  
[esuarezm@scotiabank.com.mx](mailto:esuarezm@scotiabank.com.mx)

**TODAY'S CONTRIBUTORS:**

**María (Tatiana) Mejía**, Economist  
+57.1.745.6300 (Colombia)  
[Maria1.Mejia@scotiabankcolpatria.com](mailto:Maria1.Mejia@scotiabankcolpatria.com)

**Jackeline Piraján**, Senior Economist  
+57.1.745.6300 Ext. 9400 (Colombia)  
[jackeline.pirajan@scotiabankcolpatria.com](mailto:jackeline.pirajan@scotiabankcolpatria.com)

**Miguel Saldaña**, Economist  
+52.55.5123.1718 (Mexico)  
[msaldanab@scotiabank.com.mx](mailto:msaldanab@scotiabank.com.mx)

**Mario Guerrero**, Deputy Head Economist  
+51.1.211.6000 Ext. 16557 (Peru)  
[mario.guerrero@scotiabank.com.pe](mailto:mario.guerrero@scotiabank.com.pe)

## Latam Daily: Colombia Monetary Policy Minutes; Banxico Survey; Lima January Inflation

- **Colombia: Monetary policy minutes—high inflation vs economic slowdown explained the split vote in BanRep**
- **Mexico: Banxico Survey shows higher year-end inflation expectations**
- **Peru: Inflation surprises lower in January, but core inflation reaches peak**

### COLOMBIA: MONETARY POLICY MINUTES—HIGH INFLATION VS ECONOMIC SLOWDOWN EXPLAINED THE SPLIT VOTE IN BANREP

On Tuesday, January 31, BanRep revealed the minutes for the January 27 monetary policy meeting. The minutes showed that all the board agreed that it was necessary for a new rate hike since inflation had not peaked, and given that in December, inflation increased more than expected. However, the discussion was focused on the magnitude of the hike. In fact, the decision was in a split vote, with five members voting for a 75bps hike and two members for 25bps. Interestingly enough, nobody voted for keeping the pace of the hiking cycle and increasing the policy rate by 100bps.

The reason for slowing down the pace of the hiking cycle was not very explicit, but the central bank referred to a better international context which was reflected in reductions in the risk premium in Colombia.

The minutes also highlighted that uncertainty remains high, signaling that the board maintains a data-dependent approach and that the door is still open for a new rate hike in the future. However, the minutes also emphasized that the central bank is in the latest stages of the hiking cycle since in the document it was highlighted that “the monetary policy rate is approaching to the required position to induce inflation convergence towards the 3% target.”

Our take is that the board is signaling that the hiking cycle is in its final stages. BanRep won't have a rate decision in February, giving them room to wait-and-see the evolution of inflation and economic activity (Q4-GDP will be released on February 15). That said, we still see some space for BanRep to execute a final hike of 25bps in March, reacting to more stable inflation but still more than four times above target, while inflation expectations continue increasing for the longer run and economic activity slowing down at a moderate pace.

Key points about the board's discussion:

- The majority group who voted for a 75bps hike highlighted that inflation risks remain high, mainly due to FX depreciation and indexation to the minimum wage and the inflation of December 2022. This group is concerned about the increase in inflation expectations, which makes it necessary to maintain a contractionary monetary policy rate.
- One board member who voted for a 75bps hike expressed that some indicators are signaling a reduction in the money demand (low confidence in the currency) which would conduct consumers to prefer international assets, durable goods, or consumption-related goods that, at the end will be reflected in high inflation.
- The dovish group, who voted for a 25bps hike, argued that economic activity is decelerating, and they consider that the central bank is achieving the goal of slowing down the economy. Additionally, the dovish group stressed that the effect of the hiking cycle on the economy will be strongly reflected in economic activity in 2023.

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- Moreover, the dovish group also said that the inflation dynamic had been mainly due to a supply shock, but the upside pressures on prices had eased recently. However, they were aware that indexation effects are prolonging the effect of supply shocks in overall inflation.

—Sergio Olarte, María (Tatiana) Mejía &amp; Jackeline Piraján

## MEXICO: BANXICO SURVEY SHOWS HIGHER YEAR-END INFLATION EXPECTATIONS

Respondents in the Banxico Survey of Expectations showed higher inflation, rate, and growth forecasts for 2023 (table 1). The mean forecast for inflation moved up from 4.99% to 5.19%, as well as the core component expectation, from 4.97% to 5.28%. For 2024, responses went marginally up for the headline inflation to 3.97%, and to 3.95% in the core component, suggesting that analyst expects stickier dynamics in both headline and core inflation, converging to the Banxico target rate of 3.0% at the end of 2024. In this sense, the median of responses for the expected policy rate at the end of 2023 rose from 10.25% to 10.50%, and stood at 8.25% for the end of 2024. Looking to quarterly forecast, the mean expected rate stands at 11.00% in Q1 and Q2—implying two consecutive hikes of 25bps in the upcoming meetings in February and March—while some analysts foresee the cuts cycling to start in Q3 (10.80% mean forecast). For our part, consider the cuts would start in Q4, ending the year at 10.50% (vs 10.50% median, 10.35 average forecast).

**Table 1: Mexico—Banxico Survey, Main Results**

Variable	Year	Sep.	Oct.	Change
<b>GDP</b>	2023	0.92	1.00	0.08
(Real annual % change)	2024	1.74	1.68	-0.06
<b>Headline inflation</b>	2023	4.99	5.19	0.20
(Annual % rate, Dec.-Dec.)	2024	3.97	3.98	0.01
<b>Core inflation</b>	2023	4.97	5.28	0.31
(Annual % rate, Dec.-Dec.)	2024	3.91	3.95	0.04
<b>Exchange rate</b>	2023	20.63	20.11	-0.52
(USDMXN, Dec.)	2024	20.93	20.62	-0.31
<b>Policy rate</b>	2023	10.25	10.50	0.25
(%, end of period)	2024	8.25	8.25	0.00

Sources: Scotiabank Economics, Banxico.

—Miguel Saldaña

## PERU: INFLATION SURPRISES LOWER IN JANUARY, BUT CORE INFLATION REACHES PEAK

Inflation in Lima reached 0.23% m/m in January data released on Wednesday, February 1, below our forecast (0.76%) and Bloomberg consensus (0.51%). Despite this, year-on-year inflation continued to creep upwards, going from 8.46% y/y to 8.67% y/y (chart 1), a pace that was also below what was projected by the MoF (between 8.8% and 8.9%). Inflation remains well above the upper limit of 3% of the inflation target. This is the 20<sup>th</sup> consecutive month in which inflation has been above the bank's target band, and it is highly probable that starting in February it will equal the longest period with inflation above 3%, which was 21 months (between October 2007 and June 2009), since the target band of 1–3% was established in 2007.

The recent social protests have had an impact on the economy, inflation and the FX rate, and their duration is still uncertain. Inflation in January reflected this impact on food prices, mainly perishable foods such as vegetables, legumes, and tubers, with a rise of 7.7% m/m (table 2), which were partially offset by lower prices for fish (-9.5%), meat (-0.9%), eggs (-2.6%) and cheese (-1.5%). In January, of the 586 products that make up the consumer basket (base 2021), 378 increased (64%), 111 decreased (19%) and 97 remained unchanged (17%), a dynamic like that posted in September 2022.

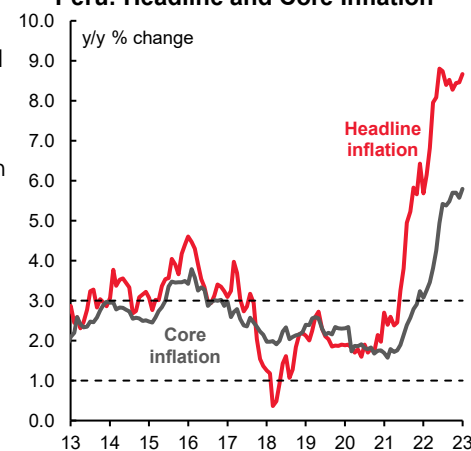
Core inflation rose from 5.57% y/y to 5.79% y/y, reaching a new peak and accumulating 14 months outside the target range. Various cost indicators, such as wholesale prices, increased from 7.0% y/y to 7.7% y/y, as did machinery and equipment prices, which rose from 0.3% y/y to 2.6% y/y, while construction material prices continued to slow down, going from 4.8% y/y to 4.7% y/y (chart 1 again).

At the city level (considering the 26 most important cities, not only Lima), year-on-year inflation readings accelerated in 19 of them (73%), mainly in the south of the country, which was the area most affected by roadblocks. The number of cities that posted annual inflation above 10% tripled, from 3 to 9.

Looking ahead, although our baseline scenario assumes that the inflation slowdown will continue, this pace is slower than expected. In our January 27 [Latam Weekly](#), we revised our inflation forecast from 4.5% to 5.0% at end-2023. Over the past seventeen months, the central

**Chart 1**

**Peru: Headline and Core Inflation**



Sources: Scotiabank Economics, BCRP.

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bank raised its reference rate by 750 basis points to 7.75% and raised reserve requirements three times. The real policy interest rate continues to rise and has already reached 3.45%, a level that doubles the neutral rate (1.50%), although it is low compared to other countries in the region. In its latest statement, the central bank left the door open to further increases. Although the low inflation in January suggests the possibility that the BCRP might consider the start of a pause in the rate hiking cycle, we would not be surprised by an increase of 25bps at its next meeting on February 9, since it seems to us that the factors that explained the low month inflation seem temporary and because core inflation continues to rise. Our baseline scenario is for the terminal rate to reach 8.00% in February and remain at that level for most of the year.

**Table 2: Peru—Lima CPI Basket—January 2023**

Groups of consumption	Base 2021	% m/m	% y/y
1. Food and non-alcoholic beverages	22.97	0.67	15.9
2. Alcoholic beverages, tobacco, drugs	1.61	0.31	3.9
3. Apparel and footwear	4.20	0.27	2.7
4. Housing, water, electricity, gas and others	10.55	0.10	4.6
5. Furniture and home maintenance	5.11	0.20	3.3
6. Health	3.48	0.26	5.0
7. Transport	12.40	-0.90	11.5
8. Communications	4.77	0.18	1.9
9. Recreation and culture	3.96	0.34	6.5
10. Education	8.61	0.00	3.9
11. Restaurants & hotels	15.89	0.53	9.3
12. Other goods and services	6.47	0.42	6.8
<b>Total CPI</b>	<b>100.00</b>	<b>0.23</b>	<b>8.7</b>

\*Adjusted base to 12 from 8 groups of consumption.

Sources: Scotiabank Economics, INEI.

—Mario Guerrero

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