Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Chile's Policy Rate Remains Unchanged; Colombia's January Citi Survey

- **Chile: The Central Bank keeps the benchmark rate at 5% and introduces a neutral bias**
- **Colombia: January Citi Survey—Inflation expectations increased, while the majority of analysts expect a 25bps rate cut in January**

CHILE: THE CENTRAL BANK KEEPS THE BENCHMARK RATE AT 5% AND INTRODUCES A NEUTRAL BIAS

- **We anticipate a prolonged pause in the policy rate due to rising inflation risks**

On Tuesday, January 28th, the Central Bank's Board not only paused rate cuts, holding the policy rate at 5% (first pause since July 2024), but for the first time in this cycle introduced a neutral bias, indicating that the next policy rate movements will be evaluated, eliminating the explicit reference to further cuts. This change in the bias was not surprising for our scenario, given the increased risks to inflation in the short-term that made it advisable to be more cautious. Should these risks materialize, we believe that the Central Bank will hold again in March, and we do not rule out the possibility of an increase in the benchmark rate. In our scenario, we expect a prolonged pause, resuming easing no earlier than the second half of 2025, contingent on the risks mentioned by the Board dissipating.

The main sources of risk continue to be mostly external. The Board once again highlighted the increase in uncertainty as one of the main risks for the macroeconomic scenario, mentioning the strengthening of the US dollar and the increase in long-term interest rates driven by this uncertainty. The Board also pointed to the continued resiliency of the US economy, which has led markets to expect fewer cuts in the US monetary policy rate. In addition, the rise in the price of commodities stands out, due to the impact of rising oil prices on the short-term inflation outlook.

Downward surprise in inflation, but signs of incipient de-anchoring of expectations are a concern. There is no major news regarding local activity, although upside risks to inflation are intensifying. Additionally, the Board recognizes an increase in two-year inflation expectations in some surveys, which for us is a symptom of incipient de-anchoring, partly explained by inflation that would complete five and a half years above the Central Bank's target (if the IPoM projections materialize), and the real depreciation of the CLP, which keeps it above its equilibrium range estimated by the Central Bank. Should inflation register higher-than-expected in January (IPoM December: 1% m/m for January), this de-anchoring could intensify. Regarding economic activity, the statement highlighted that the GDP for November was above what was anticipated in the IPoM, but domestic demand was largely in line with estimates, while expectations generally remained in pessimistic territory. At the same time, it again highlighted low job creation and a relevant increase in wages, an aspect that would continue to concern the Board due to its impact on labour costs and inflation.

What elements would the Board evaluate ahead of the March IPoM? Once again, the need for caution in the face of inflationary risks is key, which will lead the Board to continue accumulating information ahead of the March IPoM. At Scotiabank, we believe that the most relevant information to recalibrate the future path of the policy rate would come with the inflation prints for January and February, data that will be known prior to the next IPoM in March. This period will allow the Board to re-evaluate the second-round effects of the electricity rate hikes, evaluate the exchange rate pass-through of the recent depreciation on goods prices and estimate whether the Pension Reform (soon to be approved) will have an impact on inflation, due to the possible increase in labour costs.

—Aníbal Alarcón

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COLOMBIA: JANUARY CITI SURVEY—INFLATION EXPECTATIONS INCREASED, WHILE THE MAJORITY OF ANALYSTS EXPECT A 25BPS RATE CUT IN JANUARY

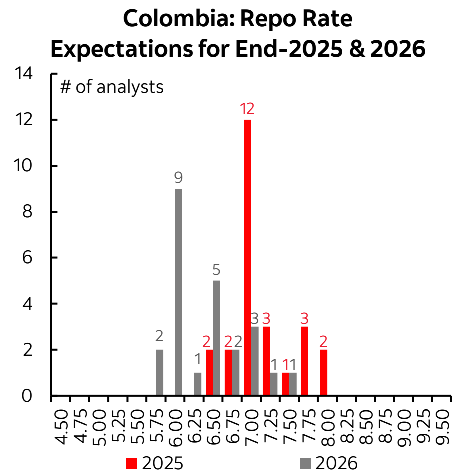
January's Citi Survey, with information collected up until January 26th, was released early this week. BanRep uses this survey as one of its indicators for inflation expectations, the monetary policy rate, GDP, and COP.

Key points included:

- **The economic growth projection improved for 2024 but was adjusted downwards for 2025 and 2026.** The average of respondents expect 2024 to have had a growth of 1.8% (3bps higher than the previous survey). For 2025 the average expectation is 2.6% (10bps lower than the previous survey), while for 2026 the average expectation is 2.96% (8bps lower than the previous survey). Expectations suggest that Colombia will maintain growth below its potential in the next two years.
- **Inflation expectations increased, reflecting the potential impact of the higher-than-expected increase in the minimum wage for 2025.** Inflation expectations for the end of 2025 average 4.08% y/y (23bps higher than the previous survey). Meanwhile, the consensus estimates that inflation will fall to 3.56% y/y by the end of 2026 (19bps higher than the previous survey). In the short term, analysts expect January inflation to stand at 0.85% m/m, which would lead to inflation of 5.13% y/y. Scotiabank Colpatria expects January inflation to be 0.87% m/m and 5.15% y/y. Inflation is expected to remain above the target range (2%–4%) throughout 2025 and close at 4.47% due to a high indexation effect, while inflation is expected to drop to 3.63% y/y in 2026.
- **Most respondents expect a rate cut at the BanRep meeting on January 31st.** According to the survey, 17 of the 25 respondents expect a 25bps cut to bring the monetary policy rate to 9.25%, while the remaining 8 (including Scotiabank Colpatria) estimate that the rate will remain at 9.50%. Expectations for the end of 2025 diverge in a range of 6.50% to 8%, with a median of 7%. While for 2026 the range is 5.75% and 7.5%. Scotiabank Colpatria expects the monetary policy rate to be 7.75% at the end of 2025 and 5.75% in 2026 (chart 1).
- **Finally, economist consensus expects that the exchange rate will be 4,278 pesos in January.** By the end of 2025, the average forecast is that the exchange rate will be 4,302 pesos and 4,210 pesos in 2026. Scotiabank Colpatria estimates an exchange rate of 4,367 pesos for 2025 and 4,364 for 2026.

—Daniela Silva

Chart 1



Sources: Scotiabank Economics, Citi Survey.