

LatAm Daily | We believe Colombia will tighten its monetary policy stance

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We modified our MPR expectation and now consider an additional 50bp increase in 2Q16 to 7.50%, remaining at that level for the rest of the year. Moreover, despite some signals of deceleration, the Colombian monthly growth rate remained stable (3.5% YoY) in February. However, we expect a gradual slowdown in coming quarters, especially in private consumption.

Brazil - Tax increase on purchases of foreign currencies in cash

The government announced yesterday an increase to 1.1% from 0.38% in the IOF financial tax on purchases of foreign currencies in cash. According to official estimates, the measure could generate BRL2.4bn in extra revenues per year for the federal government. On top of that, the government also increased the IOF financial tax on repurchase operations between financial institutions and subsidiaries to 1% per day from 0% previously. This latter measure is expected to increase public revenues by around BRL0.15bn a year. Therefore, these measures, which could fix some loopholes in exchange rate markets, have the potential to increase public revenue by around 0.05% of GDP per year.

Colombia - The monthly growth rate remains stable

In February, the economic monitoring index (ISE for its acronym in Spanish) grew 3.5% YoY (BBVAe: 2.7%, Consensus: 3.4%). The seasonally adjusted series showed a growth of 3.0%. The average growth rates for the year to date (3.1 in the two series, original and seasonally adjusted) is similar to those observed in the fourth quarter of 2015 (3.2% in both series). This is due, despite some signals of deceleration, to households' confidence and imports; economic activity seemed to keep growth rates close to 3.0%. However, we expect a gradual slowdown in coming quarters, especially in private consumption.

Colombia - We modified our monetary policy rate expectation

The surprising 50bp increase in the monetary policy rate during BanRep's last meeting showed that the Board perceives a greater risk of a slower convergence of inflation. In this context, it seems that some elements have gained momentum in the monetary policy discussion inside the Board, leading us to consider a tighter monetary policy stance as our central scenario. Among these elements, concerns regarding demand pressures (domestic spending over domestic income), and whether the inflation target for 2017 will be reached, lead us to forecast an additional 50bp increase in the monetary policy rate in 2Q16, taking the repo rate to 7.50%, remaining at this level for the rest of 2016 (see our [Colombia Flash](#) in Spanish for details).

What to watch today

Brazil - Industrial production (March, 8:00hrs NYT)

We expect industrial output to rebound (1.0% MoM) in March following a contraction of 2.5% MoM in February. Even though we do not expect positive growth in March to be the beginning of an upward trend in industrial production, the performance of the sector should not be as negative as in the recent past going forward (among other things, because the industrial sector will be favoured by currency depreciation and lower inventories).

Colombia - Exports (March, 15:00hrs NYT)

We expect exports to have fallen 34.6% YoY, to settle at USD 2,261 mn. Non-mining exports, a high proportion of which are shipped to Latin American countries, which are experiencing a period of economic slowdown, will fail to offset the sharp drop in oil prices and the consequent fall in the value of exports of this fuel.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
FGV CPI IPC-S	02-may	Apr 29			0.49	0.38%
Trade Balance Monthly	02-may	Apr			4861	\$4435m
FIPE CPI - Monthly	03-may	Apr	0.51			0.97%
Industrial Production MoM	03-may	Mar	1.5	1.0		-2.50%
COPOM Monetary Policy Meeting Minutes	05-may					
Serasa April Retail Activity	05-may					
FGV Inflation IGP-DI MoM	06-may	Apr	0.37			0.43%
IBGE Inflation IPCA MoM	06-may	Apr	0.54	0.52		0.43%
Chile						
Economic Activity YoY	05-may	Mar	2.1	2.4%		2.80%
Economic Activity MoM	05-may	Mar	0.05	0.6%		0.80%
Nominal Wage YoY	05-may	Mar	5.09			5.40%
CPI YoY	06-may	Apr	4.2	4.1%		4.50%
CPI MoM	06-may	Apr	0.3	0.2%		0.40%
Colombia						
Exports FOB	03-may	Mar	2402.3			\$2297.4
Economic Activity Index SA YoY	05-may	Feb		2.261		3.20%
CPI YoY	06-may	Apr	8.1	2.7		7.98%
CPI MoM	06-may	Apr	0.65	8		0.94%
CPI Core MoM	06-may	Apr		0.59		0.66%
CPI Core YoY	06-may	Apr		0.39		6.20%
Mexico						
Central Bank Economist Survey	02-may					
Vehicle Domestic Sales AMIA	02-04 abr	Apr				116863
IMEF Manufacturing Index SA	03-may	Apr				51.6
IMEF Non-Manufacturing Index SA	03-may	Apr				50.8
Gross Fixed Investment	04-may	Feb	4.3			0.10%
Leading Indicators (MoM)	04-may	Mar				-0.17
Overnight Rate	05-may	May 05	3.75			3.75%
Consumer Confidence Index	06-may	Apr	90.1			89.2

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
05.03.2016	Colombia: BanRep's Board continue increasing the monetary policy rate
05.02.2016	Mexico: Remittances growth spurt break and fall 2.4% and flow 222.8 md in March (In Spanish)
05.02.2016	Mexico: Credit to private sector moderates its progress and closes 1Q16 with 14.0% growth (In Spanish)
05.02.2016	Peru: Inflation kept falling in April (In Spanish)
04.26.2016	Peru: Value of total exports continues to shrink (In Spanish)
04.23.2016	Mexico: Bank deposits: loss of momentum driven by term deposits (In Spanish)
04.22.2016	Mexico Weekly: The sluggishness of investment and exports will limit GDP growth (In Spanish)
04.15.2016	Mexico Weekly: Government measures alleviate the liquidity problems of PEMEX (In Spanish)
04.15.2016	Peru: GDP growth accelerated in February (In Spanish)
04.15.2016	Peru: Central Bank: MPR unchanged (In Spanish)

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