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Latam Daily: Colombia Policy and Inflation Expectations

- Colombia: Citi survey reveals that the monetary policy rate is close to reaching its ceiling; meanwhile, inflation expectations continue to point north

COLOMBIA: CITI SURVEY REVEALS THAT THE MONETARY POLICY RATE IS CLOSE TO REACHING ITS CEILING; MEANWHILE, INFLATION EXPECTATIONS CONTINUE TO POINT NORTH

August's, Citi Survey, which BanRep uses as one of its measures of expectations for inflation, the monetary policy rate, GDP, and COP, was published on Monday, August 22.

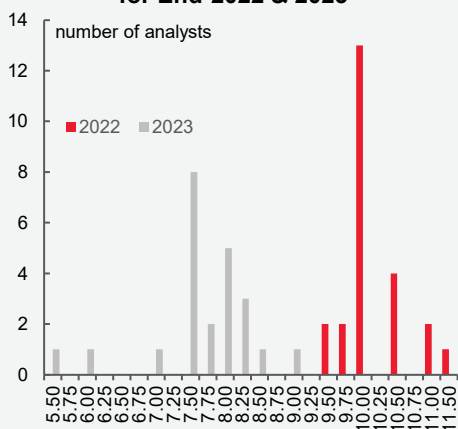
Key points included:

- Projections on economic activity improved for 2022, but fell for 2023.** Economic growth for 2022 is expected to reach the pace of 6.87%, above the previous forecast (6.32%). By 2023, economic growth expectations fell to 2.32% (previous: 2.67%). Looking ahead to 2024, economic growth is expected to be 2.91%.
- Inflation expectations deviated further from BanRep's target range.** August's monthly inflation rate is expected to be, on average, 0.54% m/m and 10.31% y/y. Scotiabank Economics is in line with consensus with 0.54% m/m and 10.3% y/y. In August, we still expect upward pressures from food inflation and energy prices, coupled with a stronger pass-through effect on new orders from imports goods. By the end of 2022, the consensus expects inflation close to 10.17% well above previous expectation of 9.38%. 2023 inflation is expected to stand at 5.73%, still above the central bank's target range.
- For the September monetary policy meeting, 11 out of 24 analysts expect an increase of 100 bps, while 5 expect an increase of 75 bps for the monetary policy rate and 8 expect a movement of 50 bps.** Meanwhile, the monetary policy rate is expected to close in 2022 at 10% by 13 analysts, while 3 analysts expect a higher terminal rate, the highest expectation is at 11% (chart 1). For the 2023 consensus monetary policy expectations is that will return to around 7%–8%. At Scotiabank Economics, we expect a terminal rate of 10% in 2022 and by 2023, a rate that closes at 8%.
- USDCOP forecasts point to further currency depreciation through December 2022.** On average, respondents expect a level of USD COP 4,177 by the end of 2022 and 4,051 by 2023.

—Sergio Olarte, Maria (Tatiana) Mejía & Jackeline Piraján

Chart 1

Colombia: Repo Rate Expectations for End-2022 & 2023



Sources: Scotiabank Economics, Citi Survey.

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