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Latam Daily: Colombia's Inflation Expectations on the Rise

- Colombia: Citi survey shows rising inflation expectations with monetary policy rate close to terminal level

COLOMBIA: CITI SURVEY SHOWS RISING INFLATION EXPECTATIONS WITH MONETARY POLICY RATE CLOSE TO TERMINAL LEVEL

July's Citi Survey, which BanRep uses to assess inflation expectations, the monetary policy rate, GDP, and the COP, came out on Tuesday, July 26.

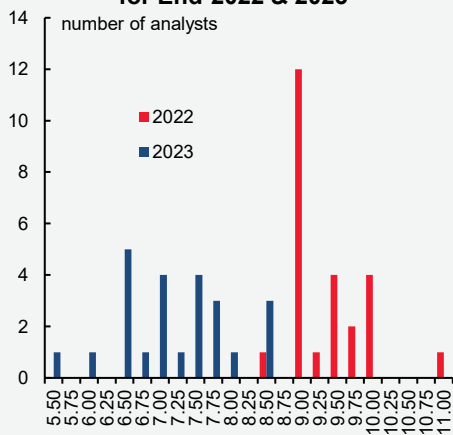
Key points included:

- Projections regarding economic activity improved for 2022 but fell for 2023.** For 2022, economic growth is expected to hit 6.35%, well above the previous forecast (5.96%). For 2023, growth expectations fell to 2.67% (previously 2.87%). Growth for 2024 is expected at 3.05%.
- Inflation expectations deviated further from BanRep's target range.** July's monthly inflation rate is, on average, expected to be 0.59% m/m and 9.99% y/y. Scotiabank Economics has an expectation close to consensus with 0.60% m/m and 10% y/y. For July, we expect upside pressures from food inflation, the reversal effect of the VAT holiday, and the increase in gasoline prices. It is worth noting that, while annual inflation will increase from the previous 9.67% to 10%, by the end of 2022, consensus expects inflation to close at 9.38% well above the previous expectation of 8.87%. Inflation is also expected to stand at 5.25% at end-2023, above the central bank's target range.
- Ahead of July's monetary policy meeting, 18 out of 25 analysts expect a 150 bps hike in the policy rate, while two expect a 125 bps increase and five expect a 125 bps move (chart 1).** Meanwhile, the monetary policy rate is expected to close 2022 at 9% by 12 analysts, with 12 analysts expecting a higher terminal rate, with the highest expectation at 11%. Consensus expects the monetary policy to go back to around 7%–7.50% in 2023. At Scotiabank Economics, we expect a 9% terminal rate in 2022 and a rate of 7% at end-2023.
- The USDCOP forecasts point to a mild appreciation in the currency through December 2022.** On average, respondents expect a level of USDCOP 4,180 pesos by the end of 2022 and 4,113 pesos by 2023.

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

Chart 1

Colombia: Repo Rate Expectations for End-2022 & 2023



Sources: Scotiabank Economics, Citi Survey.

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