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Latam Daily: Colombia—BanRep’s Survey of Expectations

- **Colombia: BanRep’s Survey—better inflation expectations, but a higher interest rate path**

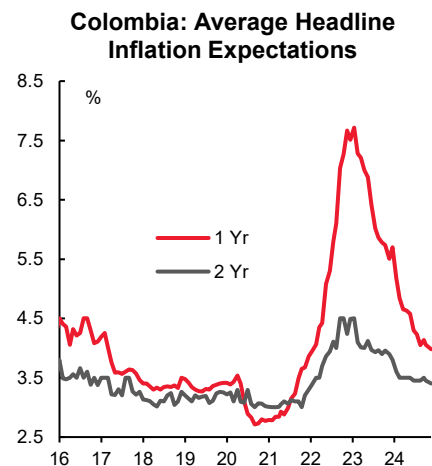
The central bank (BanRep) released their survey of economists’ expectations for November. Inflation expectations reflect the downside surprises of the last two months, showing lower inflation for the end of 2024. Inflation expectations were revised downwards for this year, going from 5.47% in the October survey to 5.12% y/y in November, becoming the lowest expectation of all surveys throughout the year. For the 1-year horizon, the expectation was 4.0%, showing a decrease of 13bps compared to the previous survey, while the expectation for the 2-year horizon remains relatively stable, going from 3.44% to 3.41% (chart 1). In the short-term, inflation expectations for November are 0.21% m/m, which could lead to inflation falling from 5.41% to 5.13%. Scotiabank Colpatría’s projection is 0.18% m/m and 5.10% y/y.

Regarding monetary policy, expectations rose following the arguments of the majority group on BanRep’s board who voted for 50bps cuts in recent meetings. The expectation of an acceleration in the easing cycle faded as uncertainty about the fiscal outlook increased and the message of graduality and caution prevailed in the board. The consensus estimates a new 50bps cut at the December 20th meeting, which would lead to a final rate of 9.25%, which is higher than the 9% estimated in the October survey. For 2025, the expectation was also revised upwards, going from 6% in October to 6.25% in November. Scotiabank Colpatría expects the rate to close at 9.25% in 2024 and at 6.75% in 2025.

The adjustment of interest rates has been more gradual than expected, and as the year draws to a close, the fiscal outlook will continue to generate discomfort among BanRep members. Additionally, the discussion of the salary adjustment for 2025 incorporates another degree of uncertainty, and even though inflation has shown a better decline, it would not be enough to trigger a larger cut at the next meeting. We believe that inflation will continue to fall to the target range of 2% to 4%, however, the statistical bases of some items could play against us next year, and again if the adjustment of the minimum wage is very high, it could impact the deflationary path, which means that the central bank will prefer to continue with gradual cuts.

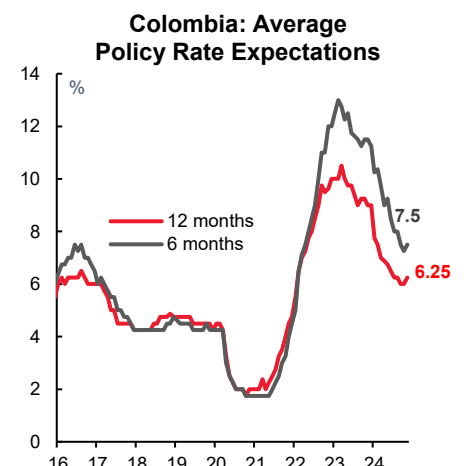
Regarding the exchange rate, it is important to note that after the elections in the United States, the strength of the dollar will remain in force for the rest of the year, leaving a higher structural level of the FX. A lower level of oil prices, risk aversion due to geopolitical conflicts, higher neutral rates, and a strength of the dollar at a global level imply a

Chart 1



Sources: Scotiabank Economics, BanRep.

Chart 2



Sources: Scotiabank Economics, BanRep.

November 20, 2024

continued weakness of the local currency. The consensus of analysts adjusted their outlook upward from 4,125 pesos in the October survey to 4,324 pesos. At Scotiabank Colpatría, an exchange rate of 4,338 pesos is expected by the end of 2024.

Key points from the survey

- Short-term inflation expectations.** For November, the consensus is 0.21% m/m, which would imply an annual inflation of 5.13% y/y, lower than the current 5.41%. The maximum expectation is 0.34% and the minimum is 0.06%. Scotiabank Colpatría Economics' projection is 0.18% m/m and 5.10% y/y. Core inflation, excluding food, projected by analysts is 0.22% m/m.
- Medium-term inflation expectations improve.** Inflation expectations for December 2024 fell by 35bps to 5.12% (table 1). Similarly, expectations for the 1-year horizon fell 13bps to 4%, and expectations for the 2-year horizon fell 3bps to 3.41%.
- Monetary policy rate.** The median of expectations is for a 50 basis point cut at the December 20th meeting, leaving the 2024 closing rate at 9.25%. While for 2025, the rate is estimated to fall to 6.25% (chart 2).
- FX.** Projections for the US dollar exchange rate for the end of 2024 averaged 4,324 pesos (199 pesos more than the previous survey). For December 2025, respondents, on average, expect an exchange rate of 4,263 pesos.

	Average	Change vs previous survey, bps
Nov-2024, m/m % change	0.21	...
Dec-2024, y/y % change	5.12	-35
1Y ahead, y/y % change	4.00	-13
Dec-2025, y/y % change	3.87	-2
2Y ahead, y/y % change	3.41	-3

Sources: Scotiabank Economics, BanRep.

—Daniela Silva

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