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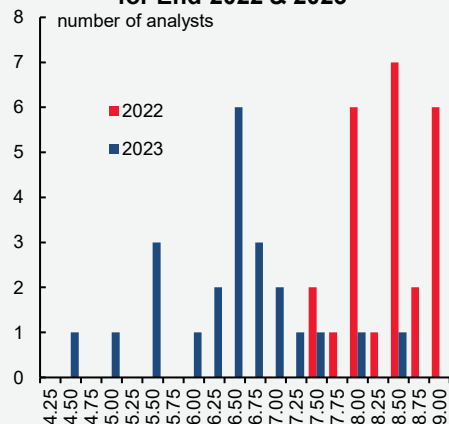
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Chart 1

#### Colombia: Repo Rate Expectations for End-2022 & 2023



Sources: Scotiabank Economics, Citi Survey.

## Latam Daily: Colombia's Expectations Survey; Mexico's Inflation Respite

- **Colombia:** Citi survey shows expectations of robust economic growth and higher inflation, with terminal monetary policy rate now expected at 8.50%
- **Mexico:** Inflation in-line with consensus in early May, but year-end expectations remain on the upside

### COLOMBIA: CITI SURVEY SHOWS EXPECTATIONS OF ROBUST ECONOMIC GROWTH AND HIGHER INFLATION, WITH TERMINAL MONETARY POLICY RATE NOW EXPECTED AT 8.50%

The latest Citi Survey, which BanRep uses as one of its measures of inflation expectations, the monetary policy rate, GDP, and the COP, came out on Tuesday, May 24. Key points included:

- **Projections regarding economic activity improved after the Q1-2022 upside surprise.** For 2022, economic growth is expected to hit 5.42%, well above the previous forecast (5.06%). For 2023, economic growth expectations fell to 2.87%, down from 3.03% previously. Ahead of 2024, the growth is expected at 3.23% as compared to the previous reading of 3.18%.
- **Inflation expectations further diverged from BanRep's target range.** May's monthly inflation rate is expected to be 0.83% m/m and 9.05% y/y. Scotiabank Economics' forecast is close to consensus with 0.84% m/m and 9.06% y/y. We still expect upside pressures on food inflation. But as we don't anticipate extraordinary effects in other components of the consumer price basket, the monthly inflation might be lower than in previous months. Annual inflation will fall from the previous 9.23% to 9.05% due to statistical effects on food prices (mainly reflecting the nationwide strike one year ago). However, consensus expects headline inflation to close 2022 at 8.44% well above the previous expectation of 7.17%, and core inflation is also expected to stand at 6.51%, above the central bank's target range.
- **Ahead of June's monetary policy meeting, 12 out of 25 analysts expect a 100 bps hike in the policy rate, 11 are calling for a 150 bps increase, and two project a 125 bps move (chart 1).** Meanwhile, the policy rate is expected to close in 2022 at 8.50%, above the previous survey of 7.75%. In 2023, consensus has the monetary policy returning to 6.50% (again above the previous survey's 5.50%). Scotiabank Economics anticipates an 8% terminal rate in 2022 and we have revised our expectation for 2023 up from 5.5% to 6%.
- **The USD COP forecasts point to a mild appreciation in the currency through December 2022.** On average, respondents expect a level of USDCOP 3,832 by the end of 2022 (previous survey: 3,971) and 3,751 pesos by 2023.

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

### MEXICO: INFLATION IN-LINE WITH CONSENSUS IN EARLY MAY, BUT YEAR-END EXPECTATIONS REMAIN ON THE UPSIDE

According to INEGI, annual headline inflation decelerated from 7.65% y/y to 7.58% in the first half of May, broadly consistent with the consensus estimate 7.57% (chart 2). Core inflation eased slightly, from 7.27% y/y to 7.24%, as prices for services went from 4.73% y/y to 4.76% and merchandise goods prices from 9.52% y/y to 9.45% (chart 3). Non-core inflation also moderated, dropping from 8.76% y/y to 8.60%, with agricultural products decelerating from 13.49% y/y to 12.67%, while energy products rose from 6.04% y/y to 6.32% (chart 4). In its biweekly sequential comparison, inflation dropped -0.6% 2w/2w from 0.18%. Core

Chart 2

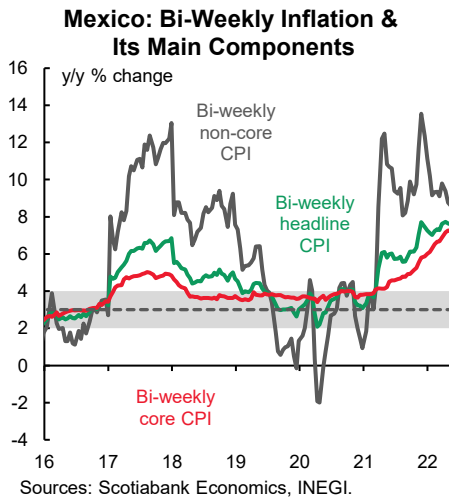


Chart 3

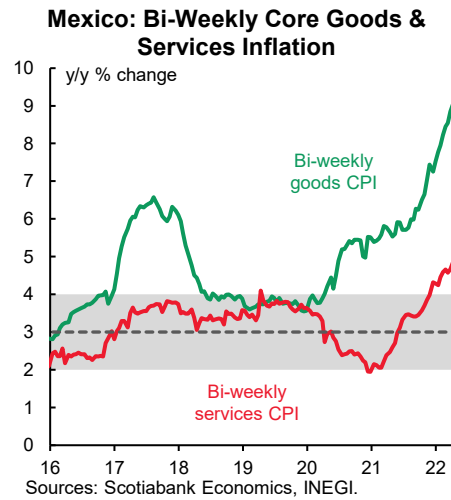
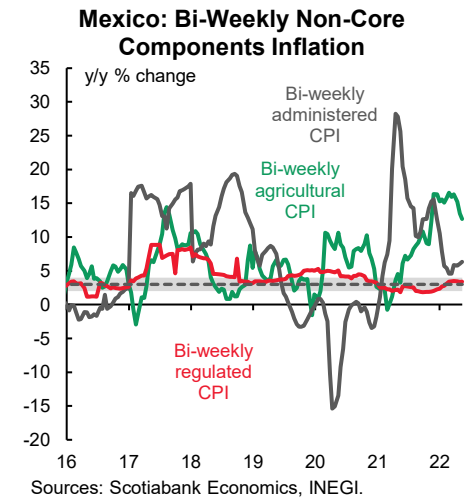


Chart 4



inflation rose from 0.27% 2w/2w to 0.31%, with merchandise prices at 0.35% and services at 0.25%. Non-core inflation dropped from -0.09% 2w/2w to -1.15%, with agriculture and livestock at 0.47%, and energy at -3.46%.

**Because Mexico’s plan to contain inflation was only launched in the first days of the month, its contribution to the slowdown in inflation was marginal.** More significant was the beginning of the seasonal summer subsidies to electricity charges, which drove the decrease in energy prices. In fact, several products covered by the PACIC anti-inflation plan in the basic consumption basket were also the ones that contributed the most to the increase in inflation, including, for example, tomatoes, eggs, chicken, oranges and milk. This fact reinforces our view that the PACIC is likely to have only a limited effect.

—Brian Pérez & Miguel Saldaña

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