PUBLIC VERSION

Working Papers from the Board of Directors
Banco de la República

Monetary Policy Report

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OFFICE OF THE DEPUTY TECHNICAL GOVERNOR

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I. External Context

As expected, the external demand for Colombia is still recovering, mainly due to the best dynamics of absorption in advanced economies. The terms of trade continue to improve and support national income. The financial conditions for a number of emerging economies have deteriorated, partly due to their macroeconomic weaknesses, in an environment of normalization of monetary policy in some advanced countries and recent trade disputes. The risk premia for Colombia have not recorded significant changes, and the peso has depreciated slightly.

1. In recent months, the external context has been characterized by an increase of financial tensions in emerging markets, with significant effects on some countries of the region that are considered to be more vulnerable. As a result, there have been lower capital inflows to these economies, which have had impacts of varying magnitude on their currencies.
2. The origin of this situation is partly related with the expectations of rising interest rates in advanced economies, particularly in the United States, where positive growth results in recent months have increased the likelihood of inflationary pressures.
3. As for Colombia, the aforementioned events have been reflected on a moderate depreciation of the exchange rate. However, there has not been a significant increase in the country's risk premia. This has taken place along with increases in the price of oil, which have helped to improve the terms of trade and national income. Indeed, the price of *Brent* oil has remained at levels above USD 70 per barrel, and has even approached USD 80 in recent weeks. Thus, so far in 2018 to 18 September, the average price has been USD 72.35 per barrel.
4. Regarding external demand, the information available shows that in the last few months the recovery of economic growth for the country's trading partners continues to show few changes compared to July.
5. To the second quarter, the economy in the United States maintained a solid growth path, supported by a robust consumption that is still favored by relatively high confidence and household income, by a strong labor market, and by low interest rates. Added to this are the good dynamics of investment and exports, although the latter could be the result of the anticipation of additional restrictions to trade.
6. Growth of the Chinese economy has moderated slightly in the second quarter as a result of lower growth in investment and exports. In Latin America, the economies of Mexico, Peru, and Chile improved their performance in the second quarter, but those of Brazil and Argentina are exhibiting deterioration, partly associated with greater turbulence in the financial markets.
7. In this environment, the external financing conditions for the country remain relatively favorable. Interest rates of external credits in US dollars granted to private agents have increased, but maintain levels that can be considered as historically low.

a. External Growth Scenarios

Baseline or more likely scenario (Table 1)

8. This report does not expect substantial changes in the growth trends of the country's trading partners for the rest of the year. This is also expected to continue in 2019 thanks to a better performance of several of the economies of the region. In 2019, a gradual slowdown of growth rates towards figures closer to their natural output level is expected for the US and the euro zone, in line with less-expansionary monetary policies.

9. Particularly, the baseline growth forecast for the country's trading partners (excluding Venezuela) for 2018 is 2.8%, a figure similar to the one presented in the June report. This figure is higher than the one registered in the previous two years (2.6% in 2017 and 1.6% in 2016). Growth is expected to be at 2.8% in 2019 (see **Table 1**).

10. In the US, inflation, albeit at still moderate levels, has continued to gain ground slowly. Thus, it is expected that the Fed will continue with its strategy of gradual rate increases. This report considers an additional increase in the Fed's benchmark interest rate in the remainder of 2018. Thus, it would move from the current range (2.0%-2.25%) to 2.25% to 2.5% by the end of the year. Two new 25-basis points increases are expected in 2019. Added to this, the program for the reduction in the balance sheet would continue to be met as announced.

11. This report raised the forecast for the price of oil for the remainder of 2018 and for 2019. Thus, the average price this year is expected to be USD $72 per barrel (*Brent*), and USD $68 for 2019. A price decrease is still forecast toward the end of this year and in 2019, which could be explained by the gradual deterioration of the OPEC agreements, by increased production in the US, and by a lower growth of global demand.

12. In the last few months, the risks of a deterioration in the external outlook have increased, which in turn increases the uncertainty for the previous forecast baseline scenario. Firstly, a negative effect on global growth due to the recent adoption of protectionist measures in the USA and the announcement of additional barriers to trade cannot be ruled out. There is also risk of a greater contagion in Colombia in the event of an increase in the financial stress experienced by some particularly vulnerable emerging economies (Turkey, Brazil, and Argentina, among others). In addition to this, the risk that the Fed performs greater and/or sooner increases to its benchmark reference rate than what was contemplated in the baseline scenario. Similarly, the Chinese economy still exhibits high levels of leverage, which can lead to a faster-than-expected cool down of that economy, with adverse consequences on global growth and commodity prices. Finally, there remain political and commercial risks on account of *Brexit* and the commercial relationship between the US and Canada, among others.

13. A higher-than-expected oil price in the baseline scenario would be positive for Colombia. The persistence of international oil prices at levels above USD 75 over the last two months has been linked to supply reductions due to the sanctions imposed on Iran and the fall in the production of Venezuela.

Table 1: Growth projections for trading partners and prices of some *commodities*

Country or Region	2018			2019		
	Low	Baseline	High	Low	Baseline	High
USA	2.6	2.9	3.1	1.4	2.4	3.4
	2.1	2.8	3.2	1.4	2.4	3.4
Euro Zone	1.9	2.1	2.3	0.8	1.9	2.4
	2.0	2.2	2.5	1.0	2.0	2.6
China	6.3	6.5	6.7	5.6	6.3	6.9
	6.2	6.6	6.8	5.6	6.4	7.0
Brazil	1.0	1.5	2.0	1.0	2.6	3.5
	1.6	2.1	2.6	1.0	2.7	3.5
Ecuador	1.0	1.8	2.6	0.0	1.5	3.0
	0.5	1.8	3.0	0.0	1.5	3.0
Venezuela	-16.0	-12.0	-8.0	-8.0	-5.0	0.0
	-10.0	-9.0	-6.0	-7.0	-4.0	-1.0
Peru	3.2	3.8	4.2	2.0	3.8	4.3
	2.7	3.5	4.0	2.0	3.8	4.3
Mexico	1.7	2.2	2.7	1.0	2.3	3.5
	1.5	2.2	3.0	1.0	2.3	3.5
Chile	3.1	3.7	4.1	2.5	3.5	4.5
	2.8	3.5	3.8	2.0	3.3	4.0
Forecast for Trading Partners	1.7	2.3	2.7	1.3	2.5	3.4
	1.8	2.4	3.0	1.4	2.6	3.4
Forecast for Trading Partners (excluding Venezuela)	2.4	2.8	3.1	1.7	2.8	3.5
	2.3	2.9	3.4	1.7	2.8	3.6

COMMODITIES	2017	2018			2019		
	Observed	Low	Baseline	High	Low	Baseline	High
Oil (Brent)	54.79	69	72	74	60	68	76
		68	71	76	57	67	77
Coal	70.32	77	81	86	60	75	85
		75	79	86	60	75	85
Coffee	1.52	1.32	1.36	1.40	1.20	1.40	1.60
		1.30	1.40	1.50	1.20	1.45	1.80
Gold	1,258	1,340	1,290	1,240	1,500	1,280	1,100
		1,400	1,320	1,200	1,600	1,300	1,100

The current forecast is shown in black.

The forecast from the previous quarterly report is shown in red.

II. Foreign Trade and Balance of Payments

The improvement in the country's terms of trade has contributed to the reduction of the trade deficit in goods. Particularly, so far to July, exports increased 14.9% and imports 8.2%, respectively. The correction of the external balance in the current account stopped, and its level remains above the estimates for a sustainable current account.

Exports of Goods

14. In July 2018, total exports in US dollars registered an annual 16.2% growth explained by increases in the group of mining goods. In this sector, external sales of all items (except gold) increased during the month, led by oil and refining. Coal performed well once more, contributing 2.2 pp to the variation of the month **(Table 2).**

Table 2: Behavior of Exports in US dollars

	July 2018			
	Annual Variation [Contribution]	Main contributing items to annual variation, in the same direction:		
		Item	Annual variation of the item	Contribution to annual variation
Total Exports	16.2%			
Agricultural goods	-5.4%	Coffee (not roasted)	-29.5%	-2.1
	[-0.7]	Bananas	6.4%	0.1
Mining goods	32.4%	Oil	42.8%	11.7
	[18.4]	Oil refining and others	66.2%	2.7
Other exports*	-5.1%	Motor vehicles and other transport	-43.0%	-0.8
	[-1.6]	Food, beverages, and tobacco (excluding coffee)	-12.9%	-0.8
	Accumulated value for January - July 2018			
Total Exports	14.9%			
Agricultural goods	-4.9%	Coffee (not roasted)	-11.5%	-0.8
	[-0.7]	Bananas	-9.8%	-0.3
Mining goods	21.0%	Oil	24.6%	7.2
	[12.3]	Coal, lignite, and peat	20.2%	3.6
Other exports	12.3%	Chemical products	10.5%	0.8
	[3.4]	Motor vehicles and other transport	37.4%	0.5

Source: DANE

15. As for the variation from January to July, total exports exhibited an annual 14.9% growth explained by the increase in external sales of mining goods (21.0%), followed by other exports (12.3%). The group of agricultural goods contracted 4.9% annually.

16. So far this year, the value of exports increased, as explained by improvements in prices reflected in an annual 17.7% increase in the price index that was partially offset by the 2.5% fall in quantities. The improvement in prices in annual terms took place in the group of goods of mining origin (30.0%), which offset the fall in those of agricultural origin and other exports (-7.4% and -0.4% respectively).

Imports of Goods

17. The value of imports declared in July grew 15.9% *vis-à-vis* the same month of 2017, explained by the upturn of imports in all groups of goods, particularly intermediate goods, which contributed 9.3 pp to the total variation. The increase in external purchases of raw materials for industry stands out. These increased 23.8% in annual terms (**Table 3).**

18. From January to July, total imports grew 8.2% in annual terms, supported by increases in the three groups of goods. The greatest increase is observed in foreign purchases of raw materials, which explain 4.2 pp of the total variation.

19. The increase in total imports from January to July 2018 is explained by a 6.3% increase in the index of prices and 1.9% of the index for quantities.

Table 3: Behavior of Imports in US dollars

IMPORTS				
July 2018				
	Annual Variation [Contribution]	**Main contributing items to annual variation, in the same direction:**		
		Item	**Annual variation of the item**	**Contribution to annual variation**
Total Imports	15.9%			
Capital Goods	11.8%	Transport Equipment	33.7%	2.3
	[3.6]	Capital goods for industry	3.8%	0.8
Raw materials	20.3%	Raw materials for industry	23.8%	7.9
	[9.3]	Raw materials for agriculture	66.7%	2.0
Consumer Goods	12.8% [3.0]	**Durable consumption goods**	**17.4%**	**1.8**
		Private transport vehicles	32.6%	1.6
		Non-durable consumption goods	**9.2%**	**1.2**
		Pharmaceutic products and toiletries	13.2%	0.6
Accumulated value for January - July 2018				
Total Imports	8.2%			
Capital Goods	7.3%	Capital good for industry	9.8%	1.9
	[2.2]	Construction materials	9.0%	0.3
Raw materials	9.0%	Raw materials for industry	14.4%	4.8
	[4.2]	Raw materials for agriculture	12.6%	0.5
Consumer Goods	8.0% [1.8]	**Non-durable consumption goods**	**9.8%**	**1.2**
		Pharmaceutic products and toiletries	9.1%	0.4
		Durable consumption goods	**5.9%**	**0.6**
		Appliances and household devices	20.4%	0.5

Source: DANE

Balance of Trade for Goods

20. With the above results, the trade balance in July exhibited a deficit of USD 557 million (FOB). This means a 15.7% increase in the deficit *vis-à-vis* the previous year.

21. As for the period from January to July, the deficit stood at USD 3,404 million FOB, which stands for a 23.1% reduction compared with the same period in 2017, due to higher increase of exports (14.9%) than imports (8.2%).

Balance of Payments

22. With the information available so far this year and the external context scenario presented before, the preliminary revision of the forecast of the current account deficit for 2018 results in a 3.3% share of GDP in the baseline scenario. This performance would be due mainly to the lower trade deficit in goods and services. Added to this, higher income from current transfers would continue to contribute positively to the narrowing of the external imbalance. On the contrary, a widening of factor income is expected.

23. In terms of the financing of the current account, direct investment is expected to continue being the main item of foreign capital inflows in 2018. An increase in the number of loans by the public sector is expected (net disbursements), contrasting the net amortizations in 2017. As for portfolio investment, the baseline scenario for 2018 assumes a lower issuance of bonds by the Government and public institutions, and a less dynamic purchase of TES by foreigners.

24. A decline in prices of the main export products is expected in 2019, while an increase in exports of goods would take place due to the dynamism of external sales of industrial products. The path of positive growth in imports is expected to continue, in line with a greater economic growth. This would imply a larger trade deficit of goods versus the forecasts for 2018. Additionally, a lower deficit in non-factor services as well as in factor income is expected. Thus, preliminary exercises suggest that the current account deficit forecast for 2019 would be somewhat higher than the estimate for 2018.

III. Growth, Domestic Demand, and Credit

In the second quarter of 2018, economic growth was similar to the forecast. Domestic demand accelerated due to the gradual recovery of private consumption and the accumulation of inventories. Public consumption continues to grow above the main components of expenditure. The net trade balance subtracted from growth due to the largest increase in imports, which exceeded that of exports. For the third quarter, economic growth is estimated to be slightly higher than the one recorded in the first half of the year.

25. The results of GDP growth in the second quarter show that the Colombian economy grew 2.5% in the seasonally-adjusted and calendar effects adjusted series (**Table 4**). This figure is similar to the forecast by the technical staff at the Central Bank in the previous Inflation Report (2.6%).

26. In that period, domestic demand would have exhibited a better performance compared to the one observed in the first three months of the year, partly by an acceleration in private consumption which more than offset the lower rate of expansion of public consumption. However, the economy continued

to benefit from a positive shock to public consumption, although to a lesser extent than at the beginning of the year.

27. On the other hand, total investment recorded a low growth figure, albeit positive, which contrasted with the sharp fall in the first quarter. This result is mainly explained by a greater accumulation of inventories. Net exports contributed to the slowdown of GDP growth. While exports reported recovery, this was higher for imports (**Table 4**). It should be noted that non-traditional exports, according to estimates by the technical staff, have been growing at relatively high positive rates.

Table 4: GDP growth results on the side of demand

	2016	2017				2017	2018	
	Whole Year	1st Q	2nd Q	3rd Q	4th Q	Whole Year	1st Q	2nd Q
Total consumption	**1.4%**	**1.8%**	**2.3%**	**2.6%**	**2.2%**	**2.2%**	**2.9%**	**3.2%**
Household consumption	1.4%	1.7%	1.7%	2.0%	1.6%	1.8%	2.0%	2.6%
Non-durables	-0.4%	0.5%	1.3%	3.3%	2.9%	2.0%	2.6%	3.1%
Semi-durables	3.0%	-1.7%	-3.5%	-3.7%	-0.5%	-2.4%	0.6%	2.0%
Durables	-5.9%	0.1%	1.5%	4.7%	-3.2%	0.7%	5.2%	1.8%
Services	3.0%	3.0%	2.5%	2.0%	1.7%	2.3%	1.7%	2.5%
Government final consumption	1.8%	2.5%	4.2%	4.8%	4.5%	4.0%	6.4%	4.9%
Net Capital Formation	**0.3%**	**-2.6%**	**-1.2%**	**3.7%**	**2.8%**	**0.6%**	**-3.2%**	**0.5%**
Fixed net capital formation	-2.7%	0.8%	6.6%	4.4%	1.6%	3.3%	-2.6%	-2.5%
Housing	-0.2%	8.6%	7.2%	-0.5%	-9.5%	1.2%	-5.4%	-0.7%
Other buildings and structures	0.0%	2.5%	1.2%	0.5%	-3.0%	0.3%	-5.6%	-3.1%
Machinery and equipment	-7.9%	-5.4%	-1.6%	2.0%	-2.6%	-2.0%	1.6%	0.6%
Cultivated biological resources	13.1%	7.9%	-11.1%	-5.0%	7.1%	-0.6%	-2.1%	1.1%
Intellectual property products	-8.9	4.6%	14.7%	18.7%	20.7%	14.6%	7.2%	4.4%
Domestic Demand (C+FBK)	**1.2%**	**0.8%**	**1.5%**	**2.9%**	**2.3%**	**1.9%**	**1.6%**	**2.6%**
Domestic Demand (GDP-X+M)	**1.2%**	**2.0%**	**2.6%**	**1.3%**	**1.5%**	**1.8%**	**2.2%**	**2.9%**
Total Exports	**-1.4%**	**-4.2%**	**2.4%**	**3.4%**	**-4.1%**	**-0.7%**	**-0.3%**	**2.6%**
Total Imports	**-4.0%**	**0.2%**	**4.2%**	**0.0%**	**-3.2%**	**0.3%**	**-1.4%**	**4.8%**
GROSS DOMESTIC PRODUCT	**2.0%**	**1.4%**	**2.2%**	**1.8%**	**1.6%**	**1.8%**	**2.6%**	**2.5%**

Source: DANE, calculations by *Banco de la República*

28. For the third quarter, with preliminary information, the Central Bank's technical staff estimated a slightly higher growth figure than the one observed in the first half of the year. However, the staff expects public consumption to continue decelerating slowly in that period, while investment, particularly in construction, will continue showing an unsatisfactory performance. Private consumption would maintain its dynamics thanks to the recent performance of the labor market and consumer confidence.

29. As for the labor market, the seasonally adjusted series to July continue exhibiting stability in the unemployment rate both at the national level and in the 13 major metropolitan areas, which is explained by similar behaviors in the global rate of participation and the occupation rate. Particularly, the participation and occupation rates for urban areas exhibit positive semi-annual variations, which shows a change in the downward trend that had been taking place in the last 2 years. In terms of quality of employment, positive annual growth figures continue for non-salaried and informal employment. However, the moving quarter ending in July was very favorable in terms of the creation of salaried jobs.

30. Although the Consumer Confidence Index (ICC) of Fedesarrollo with figures to August exhibited a slight decline, it remains relatively favorable. In particular, the level of the July-August two-month period (7.2) was higher than observed in 2017 (-14.9) and that the average for the first half of 2018 (1.6). The figures to July for the seasonally adjusted retail sales balance of the monthly survey of economic expectations (EMEE) by Banco de la República suggest that the dynamics of consumption would continue.

31. As for the Monthly Survey of Retail (EMCM) of DANE, retail sales grew 3.6% in July, which meant a slowdown compared to the second quarter (6.8%). Excluding vehicle sales, the remaining aggregate grew 2.3% *vis-à-vis* the same month in 2017. Finally, vehicle sales increased by 11.5% on a yearly basis in July, a record somewhat higher than the aggregate for the second quarter (10.5%).

32. Regarding Gross Capital Formation, the series for imports of capital goods (in constant pesos) and the seasonally adjusted series of the balance of investment expectations of the EMEE suggest that investment in capital goods would continue reporting improvements in the third quarter.

33. The seasonally adjusted series, corrected for calendar effects, of DANE's monthly economic monitoring indicator (ISE) recorded an annual 2.1% growth in July, lower than in June (2.8%) and than the aggregate for the second quarter (2.2%). The figures in the original ISE (uncorrected) revealed an annual expansion of 1.9% in July (vs. (vs. 2.9% in June and 2.8% in 2018-Q1).

34. On the supply side, the industry performed favorably. So did retail sales and oil production, although their expansions were more moderate. On the contrary, coffee production and construction indicators recorded falls.

35. In July, total industrial production and excluding oil refining (IPI) grew 3.5% and 3.8% annually, respectively. Oil refining expanded 2.1%.

36. In contrast, according to the figures from the Federation of Coffee Growers, coffee production stood at 1,155,000 bags on average in the two-month period of July-August, which represents a 13.4 decline.

37. Similarly, in July, cement production and shipments decreased 5.2% and 4.9%, respectively. So did the licenses for housing, which fell 0.6% during the same month.

38. Considering this and the results of the forecast models, a preliminary growth estimation stands at 2.7% for the third quarter of 2018, which would be consistent with a 2.7% expansion of GDP for the whole year. The annual estimate assumes that international financing conditions, the prices of commodities, and the demand from the country's trading partners will continue being favorable to the expansion of Colombia's GDP in 2018. Additionally, internal factors such as the decline in inflation, an expansive interest rate, and a labor market without many variations would strengthen the process of convergence towards the growth potential. In addition, the forecasts assume a recovery in civil works during the second half of the year, particularly in the last quarter of 2018.

IV. Behavior of Inflation and Prices

In the last few months, inflation has remained relatively stable at values close to the target. The average of core inflation indicators has fallen slowly and remains above 3.0%. Analysts' expectations and those embedded in public debt bonds to 2, 3, and 5-year horizons stand between 3.3% and 3.4%.

39. In August, yearly headline inflation stood at 3.10%, a level slightly lower than in July (3.12%. See **Table 5**). Thus, there have been five months with stable inflation figures between 3.1% and 3.2%, very close to the inflation target. Inflation year-to-date stood at 2.46%, a figure lower than the one observed in the same period last year (3.44%). Monthly variation was 0.12%, very similar to the market forecasts (0.10%) and those by the technical staff at *Banco de la República*.

40. The average of core inflation indicators to August closed at 3.31%, lower than the record in July (3.35%) and December (4.66%). Three of the four indicators declined, with the CPI excluding primary food, fuel, and public utilities showing the lowest level (2.76%), and the CPI excluding food the highest (3.83%).

Table 5

Headline and Core Inflation to August 2018

Description	Weight	Dec 2017	Apr 2018	May 2018	June 2018	July 2018	Aug 2018	Participation percentage in monthly deceleration	Participation percentage in deceleration of the year to-date
Headline inflation	**100.00**	**4.09**	**3.13**	**3.16**	**3.20**	**3.12**	**3.10**	**100.00**	**100.00**
Non-food inflation	**71.79**	**5.01**	**3.80**	**3.85**	**3.81**	**3.91**	**3.83**	**257.77**	**82.26**
Tradables	26.00	3.79	1.51	1.58	1.83	1.57	1.67	(114.88)	50.02
Non-Tradables	30.52	5.49	4.59	4.57	4.27	4.31	4.16	218.71	40.85
Regulated items	15.26	5.86	5.65	5.79	5.82	6.60	6.36	153.93	(8.61)
Food inflation	**28.21**	**1.92**	**1.52**	**1.50**	**1.74**	**1.23**	**1.34**	**(157.77)**	**17.74**
Perishables	3.88	5.84	8.98	7.75	8.47	5.30	6.10	(159.18)	(1.75)
Processed food	16.26	(0.91)	(1.59)	(1.15)	(0.91)	(1.09)	(1.18)	69.02	3.84
Eating out	8.07	5.21	3.40	3.12	3.13	3.30	3.46	(67.62)	15.65
Core inflation indicators									
Non-food inflation		5.01	3.80	3.85	3.81	3.91	3.83		
Core 20		4.87	3.72	3.79	3.58	3.61	3.54		
CPI excluding perishable foods, fuel and utilities		4.02	2.77	2.80	2.71	2.72	2.76		
Inflation excluding food and regulated items		4.76	3.27	3.29	3.23	3.14	3.10		
Average of core inflation indicators		**4.66**	**3.39**	**3.43**	**3.33**	**3.35**	**3.31**		

Source: DANE. Calculations by *Banco de la República.*

41. Within the CPI excluding food, in August, the declines in annual CPI variation for non-tradables (from 4.31% to 4.16%), and the one for regulated items (from 6.60% to 6.36%) stand out. Regarding non-tradable goods, so far this year there has been an important decline that suggests scarce demand pressures and a price indexing that has been moderating, which adds to the fading of the impact of VAT in the first quarter. In August, within this sub-group the decrease in annual variation of leases (from 3.62% to 3.52%) and in the item that includes soccer tickets (from 5.55% to 4.37%).

42. As for regulated items, public utilities (from 7.40% to 7.18%) led the fall, particularly domestic gas, due to a favorable basis of statistical comparison rather than a decline in their rates. It is important to note that the rest of the components of regulated items maintain a very high level of annual adjustment (fuels 7.33%, and transport 5.05%).

43. In August, upward pressures on annual consumer inflation were concentrated in the CPI for tradable goods (excluding food and regulated items) and in the CPI for food (**Table 5**). In both cases, however, annual variations remain low. In the case of food, this has been possible due to a relatively abundant agro-livestock supply, while in tradables this would obey to the relative stability of the exchange rate so far this year until the end of July. It is still difficult to specify to what extent the recent depreciation

may be impacting consumer prices, since the effects will depend not only on its magnitude, but also if it is permanent or temporary.

44. In August, cost pressures remain contained in accordance with the behavior of producer prices. The total PPI of domestic supply (domestically produced and consumed plus imported goods) remained stable at low levels (2.45%). However, an upward trend in prices of imported products that would be linked to the recent increase in the exchange rate was noted. On the other hand, according to the available indicators, wage adjustments have remained moderate in most cases and compatible with the 3.0% target.

45. Inflation expectations did not exhibit a defined trend in the last month. Analysts' expectations and monthly survey expectations increased slightly to December of this year (from 3.20 to 3.23%) and to a twelve-month horizon (from 3.35% to 3.37%). According to this same survey, expectations for December 2019 decreased marginally (from 3.32 to 3.30%) and to 24 months (from 3.28% to 3.18%). On the other hand, those embedded in public debt bonds (*Breakeven Inflation*, BEI) to 26 September, stood at 3.27%, 3.35%, and 3.44% to 2, 3, and 5 year-horizons, respectively, on average. The average indicators for July increased by 38 bp, 23 bp, and 9 bp, respectively.

46. Using the Forward Break-Even Inflation (FBEI) curve, the estimation of annual inflation for 2018 is 3.59% (obtained by adding the accumulated inflation observed to inflation expectations for the remainder of the year). For 2019, 2020, and 2021, it is 3.40%, 3.50%, and 3.61%, respectively.