Box 2
Inflation Expectations and Their Recent Evolution

Inflation expectations refer to the level of inflation that economic agents anticipate in the future. In other words, they are the estimates made by individuals or groups regarding expected increases in the prices of goods and services most frequently consumed by households. These expectations are primarily measured through surveys of various market participants (such as analysts, firms, trade unions, among others), as well as through indicators derived from domestic sovereign debt securities, calculated as the yield differential between inflation-indexed bonds and nominal bonds (break-even inflation).

In conducting monetary policy, inflation expectations play a central role, particularly under an inflation-targeting framework. In addition to being a key input for the decision-making process of the Board of Directors of *Banco de la República* (BDBR), inflation expectations directly influence economic agents' decisions regarding consumption, savings, investment, and price-setting. Likewise, they play a key role in the transmission of monetary policy: when agents trust that the authority will take sufficient measures to achieve the 3.0% target, they adjust their decisions accordingly, thereby facilitating and accelerating price stabilization. If expectations remain anchored to the target, the credibility of the monetary authority is strengthened, the effectiveness of its actions is enhanced, and the costs of economic activity are reduced.

Since inflation expectations are an unobservable variable, *Banco de la República* uses different sources and methodologies to estimate them:

- Surveys that directly capture the views of economic agents[1]: the Monthly Survey of Economic Analyst Expectations (EME in Spanish), and the Quarterly Survey of Economic Expectations (ETE), which gathers perceptions from a sample of institutions in the following economic sectors: manufacturing industry and mining, the financial system, large retail chains, transport and communications, academics and consultants, and trade unions, across the four main cities of the country: Bogotá, Medellín, Cali, and Barranquilla.
- Implicit inflation measures are derived from the public debt market and are known as break-even inflation (BEI) and forward break-even inflation (FBEI). In Colombia, these are calculated by comparing the interest rates of Colombian sovereign bonds (TES) issued in nominal terms with TES indexed to inflation (Real Value Unit, UVR).

Surveys have the advantage of directly capturing agents' perceptions and enabling the identification of differences across participant types and time horizons. However, they tend to focus on shorter horizons, are conducted less frequently, and may be subject to response biases or representativeness issues. On the other hand, measures derived from the public debt market provide daily information, enable analysis across a wide range of horizons, and reflect expectations embedded in market decisions[2].

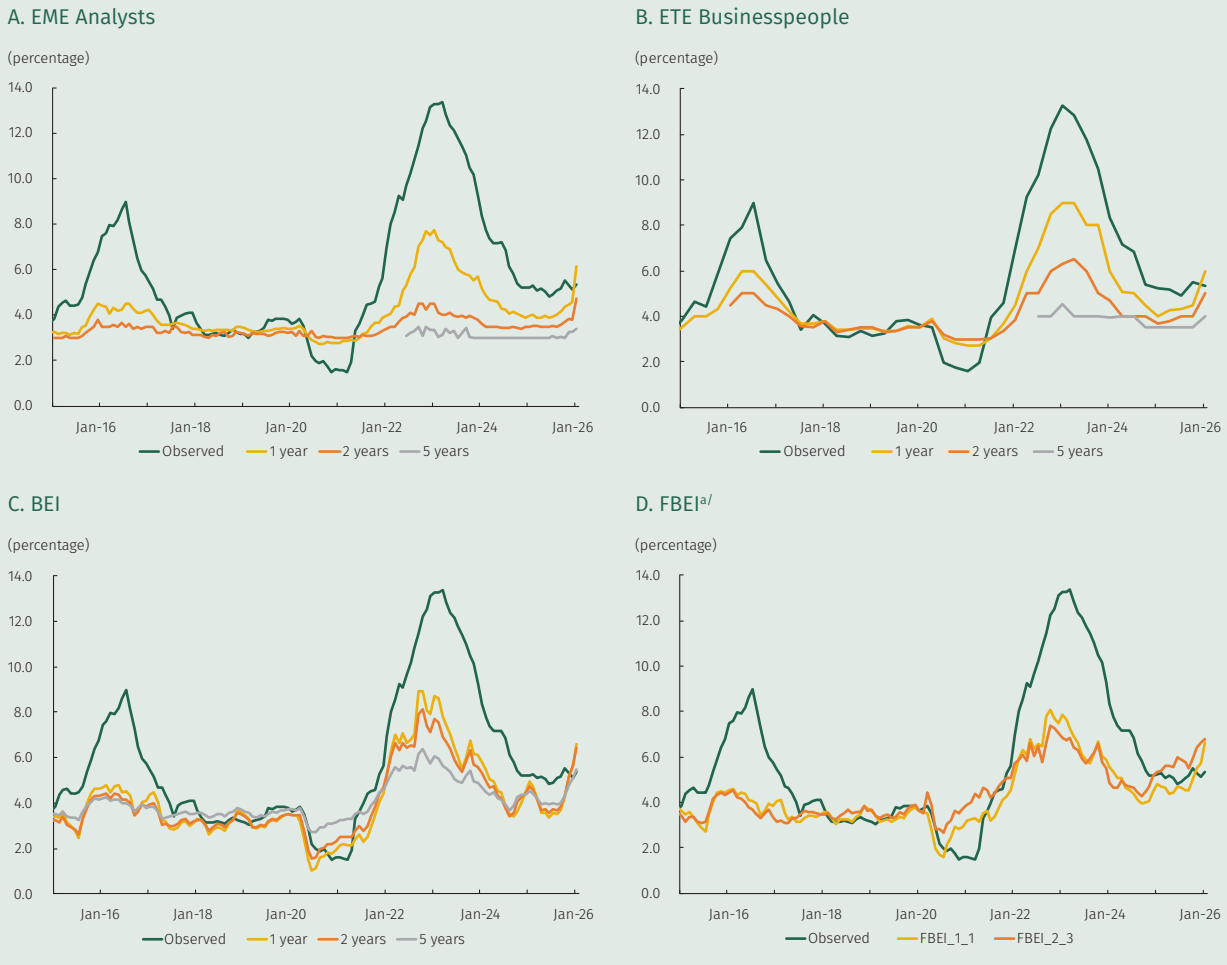
1 https://suameca.Banrep.gov.co/estadisticas-economicas/encuestas

2 However, these measures may include inflation risk and liquidity premiums and therefore do not constitute a pure measure of expectations. For this reason, they are commonly estimated after removing the inflation risk premium from the measure.

1. Recent Evolution of Inflation Expectations

After the peak inflation level observed in Colombia in early 2023, both actual inflation and expectations for its future trajectory declined steadily until June 2025. Subsequently, this trend reversed, and in January 2026, a significant increase in inflation expectations was observed across different horizons, both in survey-based measures and in those derived from the public debt market (Graph B2.1). This increase occurred in the context of a substantial rise in the minimum wage for 2026 (23.2%), including the transport subsidy, which was significantly higher than the observed inflation for the end of 2025 (5.1%). In contrast to other countries in the region, Colombia recorded a sharp increase in inflation forecasts for the end of 2026[3] (Graph B2.2).

Graph B2.1
Inflation Expectations for Colombia

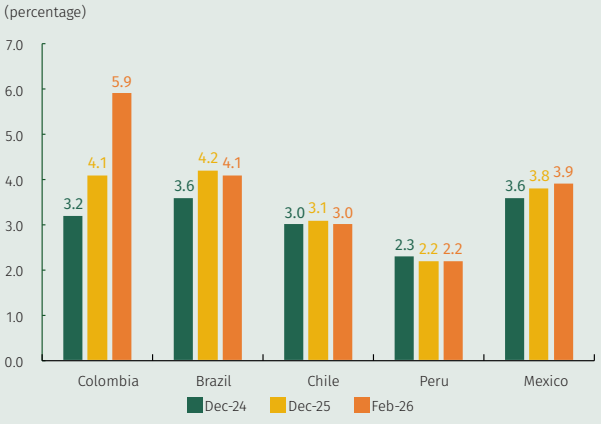


a/ FBEI_1_1 and FBEI_2_3 are reported, corresponding to one-year-ahead inflation expectations from the first year and three-year-ahead inflation expectations from the second year.
Sources: *Monthly Survey of Economic Analysts* (EME in Spanish), *Quarterly Survey of Economic Expectations* (ETE in Spanish), Electronic Trading System (SEN in Spanish), and Master Trader; calculations by *Banco de la República*.

In the case of surveys, between October 2025 and January 2026, a sharp increase in inflation expectations was observed among both analysts and a broader group of agents covered by the quarterly survey, across one-, two-, and five-year horizons (Graph B2.3). Likewise, the dispersion of respondents' expectations increased, particularly in the quarterly survey. In par-

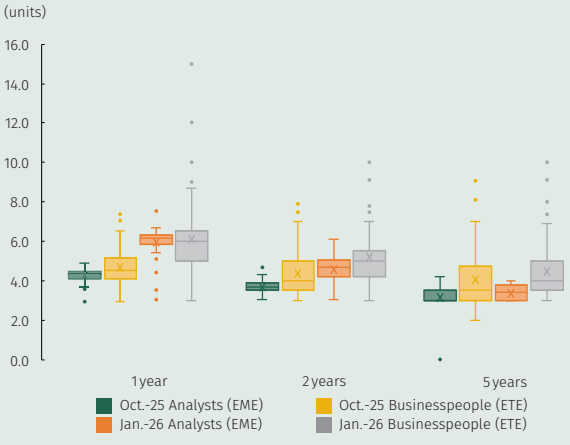
3 Inflation forecasts for December 2026 in surveys conducted by LatinFocus in December 2025 and February 2026 showed no significant changes for Mexico (10 basis points [bps]), Brazil (-10 bps), Peru (0 bps), and Chile (-10 bps), while for Colombia, they showed an increase of 180 bps.

Graph B2.2
Inflation Expectations for December 2026 for Selected Countries in the Region



Note: Measures of the change in inflation expectations for December 2026 were taken from surveys conducted in December 2024, December 2025, and February 2026.
Source: LatinFocus.

Graph B2.3
Annual Headline Inflation Expectations by Horizon (Oct.-25 vs Jan.-26)



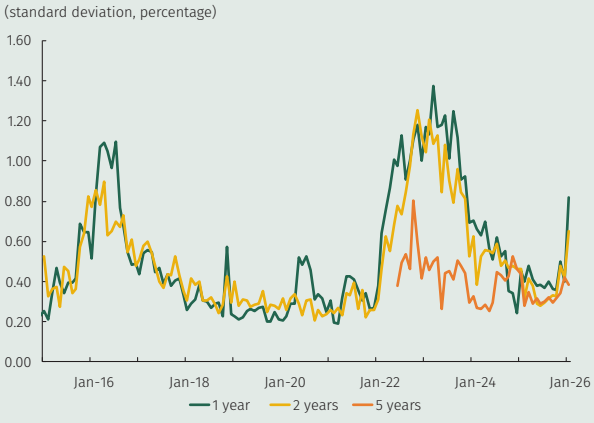
Sources: *Monthly Survey of Economic Analysts* (EME), *Quarterly Survey of Economic Expectations* (ETE), *Banco de la República.*

ticular, for the twelve-month horizon, the median of analysts' headline inflation expectations increased from 4.3% to 6.2%, while the ETE median rose from 4.5% to 6.0%. At the two-year horizon, the median for analysts rose from 3.7% in October to 4.7% in January, while the ETE median increased from 4.0% to 5.0%. This pattern is less pronounced for responses associated with the five-year horizon, where expectations in the EME and ETE increased by 40 bps and 50 bps, respectively, reaching 3.4% and 4.0%. On the other hand, in January 2026, for one-, two-, and five-year horizons, BEI inflation expectations stood at 6.6%, 6.4%, and 5.5%, respectively, which were higher by 231 bps, 209 bps, and 120 bps compared to the October 2025 estimates. This increase was also observed after adjusting for the risk premium in both BEI and FBEI.

Graph B2.4 shows the evolution of the dispersion of survey-based inflation expectations, reflecting respondents' uncertainty about the potential macroeconomic effects of recent surprises on inflation. On the other hand, Graph B2.5 shows the probability that analysts assign to different inflation ranges for the end of the current year and the following year (according to the EME). Particularly for December 2026, the highest average probability was concentrated in ranges above 6.0%, while for December 2027, it was concentrated in the 4.0% to 6.0% range.

Graph B2.4
Dispersion of Survey Inflation Expectation Results

A. EME Analysts



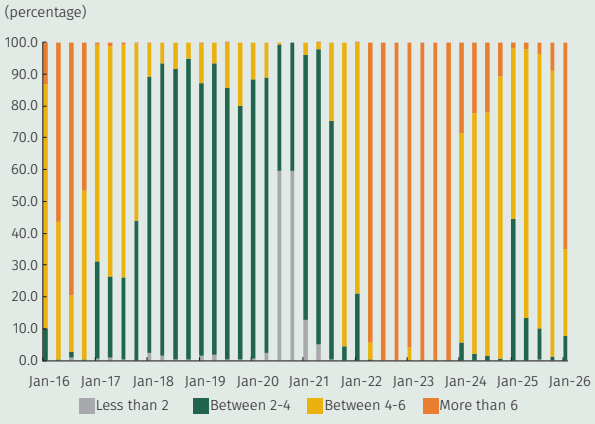
B. ETE Businesspeople



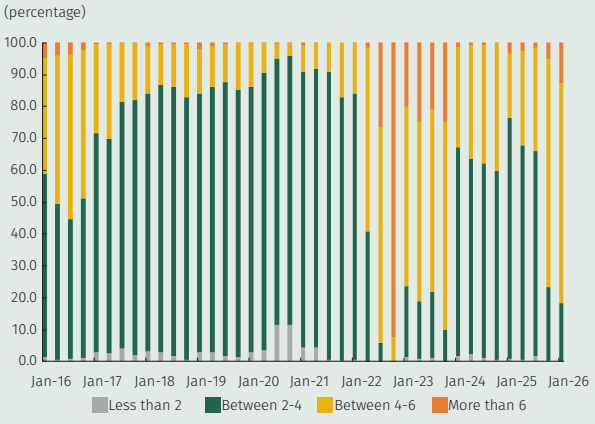
Sources: *Monthly Survey of Economic Analysts* (EME), *Quarterly Survey of Economic Expectations* (ETE), *Banco de la República.*

Graph B2.5
Probability Assigned in the EME to each Inflation Range

A. As of December of the Current Year



B. As of December of the Following Year



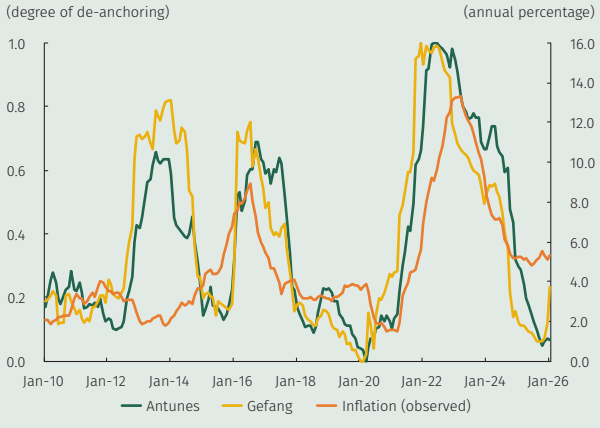
Sources: *Monthly Survey of Economic Analysts* (EME), *Banco de la República.*

2. Analysis of the Degree of De-anchoring of Inflation Expectations

An important concept in the study of inflation expectations is "anchoring," which refers to whether expectations tend to converge to a stable value over time, where this value is known as the "anchor." It is also important, within this concept, to understand the speed of convergence following shocks that temporarily move expectations away from the anchor. Assessing the value toward which inflation expectations converge in the medium and long term provides signals about the credibility of monetary policy. Additionally, if the value toward which expectations converge is close to the long-term inflation target, it is inferred that *Banco de la República's* inflation target is credible. Following international practice, the analysis of the degree of inflation expectations anchoring focuses on two dimensions: (1) assessing whether variations in short-term inflation expectations are not transmitted to medium- and long-term horizons, that is, whether the latter remain stable (anchored) in the face of temporary changes in short-term expectations; and (2) assessing the speed at which deviations between observed inflation and the target return to zero, which indicates adequate anchoring.

In the literature, there are econometric applications to measure the degree of anchoring, based on the notion of pass-through or co-movement between short-term expectations and those at medium- and long-term horizons. Graph B2.6 presents the results of the estimates by Antunes (2015) and Gefang (2012)[4] for short-term BEI rates (one year) relative to medium-term rates (averaged over three to five

Graph B2.6
Degree of Inflation Expectation De-anchoring



Source: *Banco de la República*; authors' own calculations.

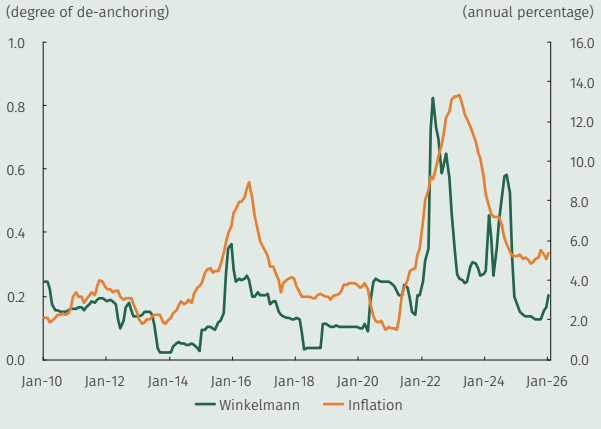
4 For further information on the application of these methodologies, see Box 2 of the October 2024 *Monetary Policy Report* (https://www.Banrep.gov.co/es/publicaciones-investigaciones/informe-politica-monetaria/recuadro2-octubre-2024)

years)[5]. Under this concept, a value close to zero would indicate low co-movement (or pass-through) between short- and long-term expectations, implying well-anchored expectations. The results show that although expectations had stabilized in 2025, both their level and variability increased at the beginning of 2026. This suggests greater sensitivity to recent changes in inflation and that expectations will take longer to return to levels close to the target. Even so, the degree of de-anchoring remains low compared with other past inflationary episodes. The results show a marked increase in dependence across both horizons since December 2025, indicating greater transmission from short-term to long-term expectations.

In addition to expectation pass-through, it is important to have a measure that captures the evolution of the persistence of deviations in inflation expectations from a given level, as well as a measure that reflects the market's perceived anchor. For this purpose, the methodology of Strohsal and Winkelmann (2014) was implemented, where, for simplicity, the results are averaged for BEI rates with maturities of three to five years (Graphs B2.7 and B2.8). It is important to note that most of the results hold across all maturities. Graph B2.7 shows that the degree of de-anchoring is related to the persistence of shocks to inflation expectations and to their reversion to the mean (the perceived anchor). In this regard, the lower the persistence of such shocks, the more anchored inflation expectations are. This implies that when the indicator is close to zero, shocks are more transitory and, therefore, expectations are anchored. In contrast, when the indicator is close to one, it reflects a higher degree of de-anchoring. Although there has been a recent deterioration in this measure, the level of de-anchoring remains low compared with previous inflationary episodes and is close to its historical average. Graph B2.8 shows the market-perceived anchor, which has been gradually declining since the 2023 peak. Recently, this measure increased above 4.0%, even after adjusting for the inflation risk premium.

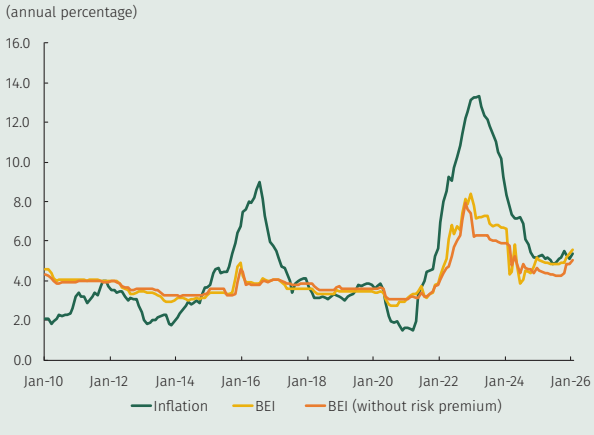
Based on the previous exercises, it can be observed that both the level and volatility of the various inflation expectations measures have increased significantly in recent periods. Headline and core inflation, along with their expectations measures, remain above the target, and the different indicators of the degree of de-anchoring suggest caution in terms of monetary policy, as they have not yet returned to desirable levels that would allow inflation and expectations to continue converging toward *Banco de la República's* inflation target. It is important to note that the analysis of the interest rate goes beyond the present exercise, as the Board of Directors monitors a range of variables, such as external financial conditions, international commodity prices, domestic economic activity, and other factors that may affect confidence in the achievement of the inflation target over the policy horizon.

Graph B2.7
Degree of De-anchoring as a Mean-reversion Measure (market anchor)



Source: *Banco de la República*; authors' own calculations.

Graph B2.8
Market Anchor Derived from Public Debt (Winkelmann Methodology)



Source: *Banco de la República*; authors' own calculations

5 The results remain when comparing short-term expectations with long-term expectations (six to ten years).

References

Antunes, A. A. (2015). "Co-movement of Revisions in Short- and Long- Term Inflation Expectations," *Finance and Economics Discussion Series*, No. 2015-15, Bank of Portugal.

Gefang, D.; Koop, G.; Potter, S. (2008). "The Dynamics of UK and US Inflation Expectations," Finance and Economics Discussion Series, No. 2015-15, University of Glasgow.

Strohsal, T.; Winkelmann, L. (2014). "Assessing the Anchoring of Inflation Expectations," *Journal of International Money and Finance*, http://dx.doi.org/10.1016/j.jimonfin.2014.09.00

Muñoz, J. A. (2026). "A Level-Dependence Approach for Assessing De-Anchoring of Inflation Expectations: Evidence from Colombia," *Latin American Journal of Central Banking*.