Banco de la República | Colombia
Somos el banco central de Colombia

Great Expectations? Evidence from Colombia's Exchange Rate Survey

Working Paper No. 735 Keep in mind
The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Juan José Echavarría Mauricio Villamizar
In this document we use the Expectations Survey conducted monthly by the Central Bank of Colombia during the period of October 2003 – August 2012. We find that exchange rate revaluations were generally followed by expectations of further revaluation in the short run (1 month), but by expectations of devaluations in the long run (1 year), and that expectations are stabilizing both in the short and long run. The forward rate is generally different from the future spot rate, mainly because forecast errors are on average different from cero. This suggests that exchange rate expectations are not rational. The role of the risk premium is also important, albeit statistically significant only for the 1 year ahead forecasts (not for 1 month).

One month expectations are much better predictors than the models of extrapolative, adaptive or regressive expectations or even the forward discount, and all of them outperform a random walk. But results are almost the opposite for 1 year. In this case traders and analysts could actually do much better by following some simple models or by looking at some key variables rather than by following the strategy that they pursue today.

Resumen: *Se utiliza en este documento la Encuesta de Expectativas realizada mensualmente por el Banco de la República entre Octubre de 2003 y Agosto de 2012. Se encuentra que las revaluaciones de la tasa de cambio llevaron a expectativas de nuevas revaluaciones en el corto plazo (1 mes), pero a expectativas de devaluación en el largo plazo (1 año), y que las expectativas son estabilizadoras tanto en el corto como en el largo plazo. La tasa de cambio forward es en general diferente de la tasa spot en el futuro, principalmente pues los errores de pronóstico son en promedio diferentes de cero. Esto sugiere que las expectativas de tasa de cambio no son racionales. El papel del riesgo cambiario también es importante, sin embargo, siendo estadísticamenente significativo a 1 año (no a 1 mes).*

Las expectativas a 1 mes resultan mejor para predecir que los modelos de expectativas extrapolativas, adaptativas o regresivas, o que la tasa de cambio forward, y todas ellas superan las predicciones de una caminata aleatoria. Pero los resultados a 1 año son prácticamente opuestos. En este caso los traders y analistas pronosticarían mucho mejor utilizando modelos simples o incorporando en sus proyecciones algunas variables conocidas.

Updated 30/11/2016 4:38 p.m.

Fuente: https://www.banrep.gov.co/en/borrador-735