
[Download](#)

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

[Romero-Chamorro, José Vicente Naranjo-Saldarriaga, Sara](#)

The series [Borradores de Economía \(Working Papers on Economics\)](#) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc). The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Publication Date:
Thursday, 10 of November 2022

Abstract

Colombia is particularly affected by the El Niño Southern Oscillation (ENSO) weather fluctuations. In this context, this study explores how the adverse weather events linked to ENSO affect the inflation expectations in Colombia and how to incorporate these second-round effects into a small open economy New Keynesian model. Using BVARx models we provide evidence that the inflation expectations obtained from surveys and break-even inflation measures are affected by weather supply shocks. Later, using this stylised fact, we modify one of the core forecasting models of the Banco de la República by incorporating the mechanisms in which weather-related shocks affect marginal costs and inflation expectations. We find that ENSO shocks had an important role in both inflation and the dynamics of inflation expectations, and that policymakers should consider this fact.