

Colombia: BanRep Hikes Monetary Policy Rate by 50bps in a Hawkish Split Vote

Earlier today (Friday, December 17), the Board of Colombia's central bank (BanRep) decided to increase the monetary policy rate by 50bps to 3.00% as was expected by the consensus and Scotiabank Economics. In a split vote, 4 members voted for a 50 bps hike, while 3 members voted for a 75 bps hike. The board's split increases the probability of having a 75bps hike at the January meeting. The board further affirmed its GDP growth projection for 2021 at 9.8%, while revising its inflation forecast for 2021 to the upside at 5.3% and for 2022 to 3.7%, still showing that current inflation pressures are having higher than expected lasting effects due to the potential indexation. Governor Leonardo Villar emphasized that the monetary policy rate is still expansive and supports the economic recovery.

Some key features of the decision included:

- The split vote (4 members for 50bps vs 3 for 75pbs) increases the probability of having an acceleration in the hiking cycle in Q1-2021 if inflation continues showing higher than expected results and also if the minimum wage increase of 10.07% materially impacts the traditional price adjustments at the beginning of the year.
- The board remained constructive regarding the economic activity, however they did not revise the GDP growth forecast for 2021 to the upside on this occasion, keeping it at 9.8%.
- In the communique, the board expressed concerns about recent increases in inflation expectations above the 3% in the medium term, since it would motivate higher indexations effects in the medium term. During the press conference, Governor Villar emphasized that the central bank is increasing the monetary policy rate to avoid further indexation effects, however, he did not provide new details when specifically asked about the possibility of a hiking cycle ending beyond the neutral rate amid the higher inflation expectations over the medium term.
- On the external side, the board said its projection for the current account deficit is 5.6% of GDP in 2021 and expects a moderation to 4.9% in 2022.
- Regarding the international monetary policy, Governor Villar said that early hiking cycle from the Federal Reserve doesn't mean a higher neutral rate for Colombia. He emphasized that the board will be vigilant of the economic activity and inflation to decide further movements, but did not specify if the board would go beyond the neutral rate.
- On the inflation side, the Board emphasized recent results came in above expectations due to foodstuff and regulated prices, and now projects a 4.9% inflation for 2021 y 3.6% in 2022.

All in all, Banrep delivered the expected 50pbs hike, albeit with a hawkish tone in a split vote. That said, we think the hiking cycle would accelerate in Q1-2022, and the chance of having a 75bps hike has increased. It will be relevant to monitor inflation developments in the first months of 2022. It will also be relevant if inflation starts to moderate in April, affirming the expectation that the central bank won't increase its rate above the neutral rate. For now, we affirm our expectation of a 5% rate by the end of 2022, with an upside skew that would depend on inflation developments.

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