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GLOBAL ECONOMICS

LATAM FLASH

April 29, 2022

Colombia—BanRep Hikes Policy Rate 100 bps to 6% in a Split Vote

- **In a split decision, BanRep hiked its policy rate 100 bps, to 6.0%, as expected. Four Board members voted for the 100 bps increase, with three members voting for a 150 bps rise.**
- **We retain our call for BanRep to keep hiking 100 bps over its next two meetings, leading to a terminal rate for this tightening cycle of 8.0%.**

Today, April 29, in a split decision, the Board of Colombia's central bank (BanRep) increased the monetary policy rate 100 bps to 6.0% (chart 1), as expected by market consensus and Scotiabank Economics. Four board members voted for the 100 bps hike, while three members wanted a more hawkish stance, voting for a 150 bps hike. Despite the split decision, the Board is unanimous in its intention to normalize monetary policy. BanRep's staff again increased its GDP growth forecast for 2022, this time from 4.7% to 5.0%. The communique was unusually short, though it recognized the high uncertainty with respect to inflation.

Key features of the decision include:

- The split vote shows that increasing inflationary risks have led to shift in the balance on the Board. For now, we affirm our expectation of 100 bps moves in the future, but the Minutes (to be released on Tuesday, May 3) will be relevant to make a balance ahead of forthcoming meetings.
- The Board received an update on the macroeconomic forecast, but Governor Villar provided few details in the press conference. Having said that, the governor acknowledged that the new forecast incorporates further inflationary risks, but still projects a gradual convergence to the target range in the medium term.
- Governor Villar also highlighted that a neutral rate is not the final target in the current hiking cycle and that depending on the inflation measure used (spot, 1-y expectations, or 2-y expectations) the real policy rate could currently be close to neutral, or even contractionary. Either way, Villar said the Board remains data-dependent.
- In the same vein, Villar highlighted that the main challenge for monetary policy is to ensure domestic demand is compatible with productive capacity. He emphasized that, while current inflationary pressures are partly attributable to supply shocks, strong demand explains why the central bank is continuing to increase the policy rate.
- Villar also noted that the IMF renewed the two-year Flexible Credit Line of USD 9.8 bn for Colombia. The MoF has said that the Government is not considering using this line and that the FCL will be treated as part of higher international reserves and is considered as a precautionary buffer.

As expected, BanRep hiked 100 bps, with one more Board member joining the hawkish side. Looking ahead, it will be important to monitor the balance of opinion for future meetings; in this regard, the Minutes will provide further details about the discussion and the arguments cited in support of different positions.

For now, we keep our call of further 100 bps hikes in each of the next two meetings, leading to a terminal rate of 8% for this tightening cycle. This projection is subject to inflation developments, however, and the staff's updated macroeconomic scenario, which will be released on Monday, May 2. This scenario will be key to assessing possible changes to the terminal rate. The press conference with the staff will be on Wednesday, May 4.

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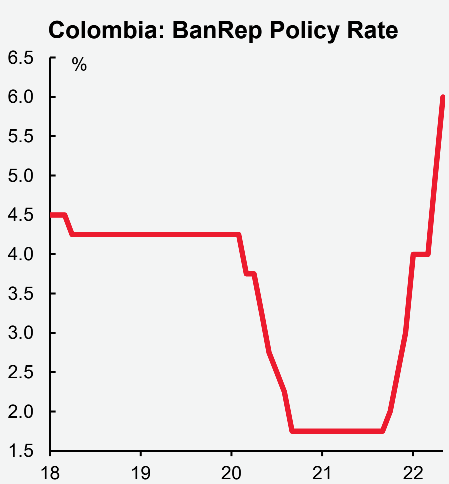
Chart 1



Sources: Scotiabank Economics, BanRep.