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Colombia—BanRep Increased Rate by 100bps to 11% in a Unanimous Vote

- **BanRep is more confident about the outlook for economic activity though inflation expectations continue to rise.**
- **We expect a final 50bps rise in December.**

Today, the Board of Colombia's central bank (BanRep) increased the monetary policy rate by 100bps to 11% in line with market consensus, reaching the highest level since the inflation targeting regime. The vote was unanimous, and according to Governor Villar, it is a strong response to the recent markets' volatility.

In this meeting the GDP growth projection for 2023 was cut again from 0.7% to 0.5%, despite that, the Board showed lower concerns about an economic slowdown. Governor Villar said that the Board continues to be data-dependent and since there will not be a rate decision in November, it will allow enough time to see the effects of the current tightening ahead of the decision in December's meeting. It is worth noting that BanRep evaluated the FX market and is not considering any intervention. **Our call is now of a 50bps hike to 11.50% in December's meeting.** Some key features of the decision included:

- **In the communiqué and during the press conference the volatility in local markets was a relevant concern for BanRep's Board.** Governor Villar emphasized that the unanimous vote was a signal of a strong response to previous market events. From our perspective, seeing that unanimous vote was appropriate to send a message of independence since the dissented vote in the previous session realize that further tightening is needed.
- **Regarding macro variables. The communiqué showed a new change in the GDP growth forecast.** To the upside in 2022 to 7.9%, and again to the downside ahead 2023 from 0.7% to 0.5%. Governor Villar said that these revisions are neutral on average and that economic activity level remains strong. He said that Colombia is expanding at a high rate compared with its peers. Governor Villar also said that recent economic indicators remained robust. That being said, this meeting's focus changed, with diminishing worries about the economy. On the other hand, Minister Ocampo said that the economic downturn is a global phenomenon.
- **Villar said that BanRep remains in a data-dependent mode.** He said that November will give the Board a wait-and-see window to observe the effects of the recent monetary policy decision. Our take is that despite BanRep looking hawkish today, there is no warranty that they will continue in this mode in the future. It is worth noting that there will be no decision regarding the monetary policy rate in November.
- **Regarding inflation, in the communication, the Board recognized that inflation expectations increased.** And Governor Villar said that staff projections also increased. Further details are expected with the presentation of the *Monetary Policy Report* on Monday and in a press conference on Wednesday, November 2.
- **On the FX side, Minister Ocampo said that the Board concludes that the FX spot and derivatives markets are working well.** That said there is no need to intervene. Later in the press conference, Governor Villar highlighted that the free-floating regime is appropriate for the autonomy of the monetary policy. All in all, we think the probability to see an FX intervention program in the medium term remains low.

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- **In the press conference, the conversation drifted away from monetary policy.** Minister Ocampo said that there is confusion about the recent decision in Ecopetrol. He said that there was a premature announcement of Carlos Gustavo Cano as President of the Board since the Board's meeting hadn't ended yesterday. That said, today's announcement of Cano's destitution is not true, what is true is that the Board's meeting continued today and that the final decision was to name Saúl Kattan, which represents the main stakeholder (the government) as President of the Board.

All in all, BanRep showed us a hawkish response to the recent market volatility. The data-dependent approach remains as the governor said the Board wants to see incoming information during November ahead of December's meeting. Our expectation now is of a 50bps hike in December, but again showing a data-dependent mode. The balance of risk will be key to anticipating a potential pause in the hiking cycle.

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