

Contributors

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jackeline Piraján, Senior Economist
+57.1.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Colombia—BanRep Held the Interest Rate at 13.25% in a Split Vote

- **Inflation remains the main concern, while GDP growth projections were revised up.**

The Board of Colombia's central bank (BanRep) kept the policy rate at 13.25%. Five members voted for holding and two for a 25bps cut, the same balance observed in September. The communique was similar to September's statement; they only included a new reference about increasing uncertainty in international financial markets. The central bank's board continued emphasizing that there is not enough confidence to start a sustainable easing cycle. During the press conference, Governor Villar said that the board is facing a challenging dilemma balancing inflation and economic activity outcome; however, concerns about high inflation dominate concerns about a deceleration in economic activity. Having said that, we think today's meeting is probably a non-event for markets. Options remain open; however, we still believe there is a close call between the possibility of having a rate cut in December or Q1-2024.

Interestingly, BanRep's staff revised their GDP projection for 2023 from 0.9% to 1.2%. Governor Villar said that despite growth decelerating, the level of economic activity remains above the long-term potential level (which means a positive output gap and excess demand). All in all, today's meeting continues pointing out that the majority of the board is waiting for further information before starting the easing cycle. Minister Bonilla continued being very vocal, calling for a rate cut, and we expect this disagreement will persist in the medium term.

The next monetary policy meeting will be on December 19th; we think that seeing further correction in core inflation and some better clarity about minimum wage negotiation could support some probability of having a rate cut. If information by then is not convincing, the easing cycle could be delayed to Q1-2024. In any case, our scenario favours a 50 bps rate cut if the easing cycle starts in December, or a stronger start with no less than a 100 bps cut if the easing cycle begins later in Q1-2024. Either way, we maintain our expectation of a monetary policy rate closing 2024 around 6.75%.

Key points about today's decision:

- Today's statement emphasized that inflation remains well above the 3% target. They said that services and regulated prices have shown persistence in recent months. In the same vein, the board is concerned because inflation expectations increased and remain well above the central bank target.
- On the economic activity front, the central bank's staff revised up their 2023 forecast to 1.2% GDP expansion from the previous estimate of 0.9%. During the press conference, Governor Villar said that although the activity is decelerating, the output gap is still positive. Villar repeated that the broad picture is mixed; some sectors are decelerating, but the unemployment rate remains historically low.
- During the press conference, Governor Villar said that credit growth deceleration is compatible with the context of higher rates. He also highlighted that non-performing loans are increasing but, for now, are not a big concern since the financial system in Colombia is robust and is prepared to support this kind of shock. The previous assessment indicates BanRep can tolerate further deceleration to pursue price stability.
- Governor Villar also said that despite having lower rates that could help economic activity, the cost of having persistent inflation is higher. In that sense, BanRep is still revealing that inflation signals are more relevant than economic activity signals in deciding the start of an easing cycle.

October 31, 2023

- Regarding uncertainty around inflation, Governor Villar said that not only does minimum wage negotiation matter but there are also many other factors such as regulated prices, El Niño weather phenomenon, etc, that could impact the convergence towards the 3% target.
- Minister Bonilla again voted for a rate cut. He said that despite inflation remaining high, the expectation of a further reduction in forthcoming months is a reason to consider a moderate start of the easing cycle. That said, we think Minister Bonilla will continue voting for rate cuts in coming meetings.
- The central bank staff is expected to provide further details about their economic projections in the Monetary Policy Report to be published on Thursday, November 2nd, and during the press conference on Tuesday, November 7th. Minutes will be released on Friday (5 pm local time).

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.