

Colombia: January Monetary Policy Decision

- **Non-event**

BanRep kept its monetary policy rate (MPR) constant at 4.25% in a unanimous decision, in line with market consensus. The communiqué was factual and did not give much information on future scenarios for the policy rate. The Board seemed confident that inflation will remain under control and inflation expectations will be around target. On economic activity, BanRep did not change its 2019 GDP growth of 3.5%.

According to the communiqué, headline inflation and core inflation measures in 2018 dropped and are very close to target. In fact, headline ended at 3.18% in December and average core inflation measures came in at 3.03% at the end of last year. Governor Echavarría in the post-meeting press conference said that, currently, the inflation balance of risks are balanced and downplayed the 6% minimum wage increment, on the back of the extra labour supply coming from Venezuelans.

BanRep kept its 2019 GDP growth forecast at 3.5% on the back of higher durable goods consumption and improvement in capital imports that indicate a recovery in investment. Additionally, BanRep expects positive impact from the “Ley de Financiamiento” due to lower corporate taxes. Finally, the communiqué and Governor Echavarría said that the economic activity projection includes lower oil prices and lower trade partners’ growth.

In a different communiqué, Governor Echavarría announced that BanRep will auction tomorrow put-options of international reserves accumulation for US\$400mn (also expected) in continuity with the program that started in September last year. Additionally, BanRep will buy US\$1bn to Government in a one-off operation to compensate for the poor put-options execution last year.

Bottom line, the January monetary policy meeting confirmed that BanRep is in a wait-and-see mode and will try to keep the MPR in expansionary mode as long as they can to boost economic activity. Stable inflation and inflation expectations, COP stability or even a timid appreciation also help BanRep to be patient and leave the MPR constant at least in 1H19. We maintain that BanRep will start its short hiking cycle in 2H19.

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