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Latam Daily: Colombia BanRep Monetary Policy Meeting Minutes

COLOMBIA: BANREP MINUTES REVEAL MAJORITY OF BOARD MEMBERS PREFER CONTINUING WITH GRADUAL RATE HIKES

On Tuesday, December 21, the central bank released the [minutes](#) of its most recent monetary policy meeting held on [Friday, December 17](#), in which the Board decided to increase the benchmark rate by 50 bps to 3.0% in a split vote (4 for 50bps vs. 3 for 75bps). Our expectation remains for a new 50 bps rate hike at the January 28 monetary policy meeting, with an upside risk of a 75bps hike subject to inflation prints. From yesterday's minutes, we highlight the following:

- **The Board agreed that the economy is consolidating strong levels of activity in the last quarter of 2021.** The Board reaffirmed the current 9.8% GDP growth forecast and the economy is expected to close the year operating above pre-pandemic levels. The board further emphasized that the recovery has been notably led by robust private consumption. However, labour market remains a concern, since it is still lagging behind the recovery.
- **While upside surprises on inflation came from foodstuff prices, some core components have also increased, leading to higher inflation expectations by the end of 2021 at 5.3% and 3.7% by Dec-2022.**
- **The central bank projects a current account deficit of 5.6% of GDP in 2021, while in 2022 is expected to close at 4.9% of GDP.** The board emphasized that a wide deficit is taking place in a context of less expansive financial conditions amid expected hiking cycles in interest rates of developed markets.
- **There was a consensus that the economy needs less monetary stimulus since the output gap is closing while inflation expectations continued increasing.**
- **The four members who voted for a 50 bps hike expressed that, as much as possible, they should continue with gradual increases to the interest rate to avoid the financial tensions that sharp changes could bring to the markets.** On the other side, they expressed concerns regarding the sustainability of the economic recovery as it remains uneven and investment is still lagging behind the rest of the economy.
- **The three members who voted for a 75 bps hike argued that the recent minimum wage increase (which was well above traditional rule) would contribute to unanchored inflation expectations.** In the same vein, the hawkish group emphasized that the recent increase in inflation and inflation expectations require a stronger reaction from the central bank, as they perceived that some factors that make inflation increase are becoming more structural.

Minutes revealed that both groups agree that the economy needs less monetary stimulus, however, there are varying levels of concern about economic growth. The dovish group expressed there is still uncertainty regarding the sustainability of current expansion levels, also highlighting that the board should continue with a gradual approach. While the hawkish side emphasized that monetary policy is facing additional challenges to keeping inflation expectations anchored. All in all, we expect BanRep to make a new 50 bps rate hike in January's meeting with upside risk of a 75bps hike if inflation ends again above expectations. For now, we affirm our expectation of a 5% rate by the end of 2022. If inflation does not begin to reverse in the second quarter of the year, we think the terminal rate would be higher.

—Sergio Olarte & Jackeline Piraján

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