

Colombia: BanRep Hikes Policy Rate by 50 bps Amid Better Economic Perspectives

Earlier today (Friday, October 29), the Board of the central bank (BanRep) increased the monetary policy rate by 50 bps to 2.50%. In a split vote, 5 members voted for a 50 bps hike, while 2 members voted for a 25 bps hike. The Board showed a more constructive view on the economic activity, revising yet again its GDP growth forecast for 2021 from 8.6% to 9.8%, and from 3.9% to 4.7% in 2022. This follows an earlier revision from the meeting held on [September 30](#). On the other hand, inflation projections were also revised to the upside to 4.9% in 2021 and 3.6% in 2022. Our own Colombia and region-wide forecasts can be found [here](#).

At the Board meeting, Governor Leonardo Villar said that the monetary policy rate would remain expansive for most of 2022. Key features of the decision included:

- GDP growth forecast was again revised up, in line with improved domestic demand. This would reflect on a wider current account deficit, which is estimated at 5.3% of GDP in 2021.
- On the inflation side, the Board emphasized that recent results came in above expectations due to foodstuff and regulated prices, and now projects a 4.9% inflation for 2021 y 3.6% in 2022.

During the press conference, Governor Villar highlighted that monetary policy will continue to be expansionary for most of 2022, which would signal that a neutral rate would be reached sooner than expected. However, Villar also said it would be premature to think about a monetary policy rate above neutral levels and that for now, the Board remains in a normalization process.

In the same way, Governor Villar and Finance Minister Restrepo said that economic activity is improving at a faster pace than expected, while on the inflation side, they highlighted that indexation effects are still a source of concern and that the central bank is sending a strong message to maintain inflation expectations anchors. With the previous result, the central bank would likely make a new 50 bps hike at its December 17 meeting, however, we maintain our view of a terminal rate of 4.50% by the end of 2022.

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