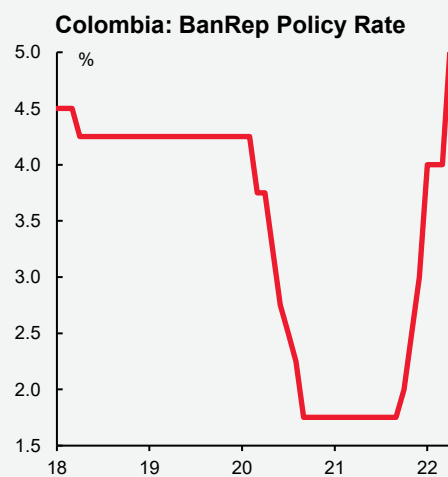


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Chart 1



## Colombia—BanRep Hikes Policy Rate 100 bps to 5% with Dovish Guidance

- The central bank raised the monetary policy rate by 100 bps to 5.00%, below the market consensus (and Scotiabank Economics' expectation) of 150 bps.
- Despite increased price pressures from higher global commodity prices and an upgrade to its GDP forecast, the Board provided dovish guidance in highlighting continuing uncertainty with respect to the recovery.

Colombia's central bank (BanRep) raised the monetary policy rate by 100 bps to 5.00% (chart 1), below the market consensus of 150 bps (also Scotiabank Economics' expectation). The decision came in a split decision, with five members of the Board voting for a 100 bps hike and two members voting for a 150 bps increase. The central bank presented a positive outlook for the economy and upgraded its GDP growth forecast to 4.7% from 4.3%. However, BanRep noted the upside pressure on international prices from Russia's invasion of Ukraine. The Board highlighted that uncertainty with respect to the recovery remains high and considers the 100 bps hike a significant move in the pursuit of price stability and will help anchor inflation expectations.

### Key features of the decision include:

- The split vote suggests that the Board prefers to continue with a gradual approach given the prevailing uncertainty. Governor Villar said that the hiking cycle is a process and that a 100 bps hike is still a significant hike.
- In the press conference, Governor Villar also stated that medium-term inflation expectations remained anchored. He argued that expectations reflect the current international shock and also future inflation that will be closer to the target, which points to credibility in the central bank. That said, Governor Villar reiterated that the central bank will pursue a gradual process of inflation reduction.
- The governor pointed out that because rate hikes have a lagged impact, the Board judged it appropriate to continue with a 100 bps hike. And despite the fact that the hike was below expectations, the Board said they are assessing the medium-term impact of current movements.
- The Finance Minister, Jose Manuel Restrepo, announced that new import tariff reductions on some agriculture production inputs will be announced in coming days. He also stressed that the headline inflation is expected to start to fall in May.
- BanRep's staff projects economic growth of around 4.7% in 2022, up from the previous estimate of 4.3%. According to the Board, the new forecast reflects a better-than-expected start to the year, suggesting that the output gap will close faster than previously anticipated.

**All in all, BanRep maintains its hiking pace of 100 bps with a strong majority and dovish guidance.** Despite the improved outlook for economic activity and increased upside inflation risk, the Board preferred to take a cautious approach, arguing that uncertainty remains high and that the effect of the current decision will be reflected in the future.

**The Board believes that the current pace will ensure a gradual return to the inflation target range in the medium term.** Scotiabank Economics expects the Board's decisions to continue to be "data dependent" and that the terminal rate will be determined by trend inflation. Meanwhile, today's decision could result in some pressure on the FX, as financial markets were pricing a more hawkish move.

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