

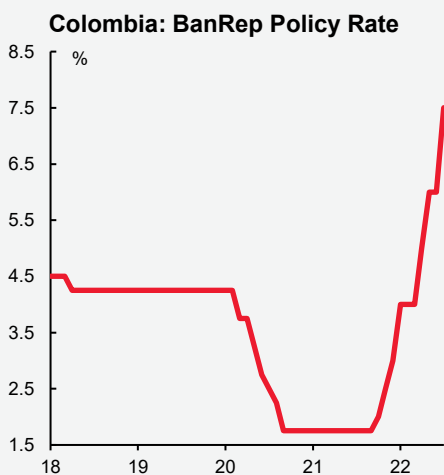
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Chart 1



Sources: Scotiabank Economics, BanRep.

Colombia—BanRep Hikes Policy Rate 150 bps to 7.5%

- **Aggressive policy response to inflationary pressures warranted by underlying strength of the economy.**

The Board of Colombia’s central bank (BanRep) increased the monetary policy rate by 150 bps to 7.50% (chart 1), as expected by market consensus and Scotiabank Economics. Today’s decision came in a unanimous vote as the Board agreed on the strong performance of economic activity and persistent upside pressures on inflation. The GDP growth forecast was raised again, this time from 5.0% to 6.3%. The Board also affirmed that stronger action will accelerate the convergence of inflation to target.

Key features of the decision include:

- **As the first unanimous vote in the current cycle, the decision shows that the doves on the Board now agree on the strength of the economy and that controlling inflation is the priority.** It also signals that the end of the hiking cycle is less clear now. In fact, in the press conference, Governor Villar said that is better not to anticipate the end of the cycle, but instead continue with a data-dependent approach.
- **The Board announced a new upside revision in the GDP growth forecast from 5% to 6.3%.** In the communiqué, the Board highlighted that consumer credit is expanding at a strong pace (above 22%), while other coincident indicators point to a stronger-than-expected economic performance.
- **Additionally, the Board is vigilant with respect to the current account deficit as it is also pointing to an excess of the domestic demand over productive capacity.** In the same vein, financing continues to tighten.
- **In the press conference, Governor Villar highlighted that the current inflation shock is imparting a stronger-than-expected persistence.** The indexation effect will impact in 2023, making the convergence to the target slower than usual.
- **Governor Villar also indicated that the central bank is not considering FX intervention, and prefers that the USD COP to fluctuate according to market forces.**

BanRep acted as expected with a 150 bps hike. The unanimous vote shows that the end of the hiking cycle is still not defined and that the Board will continue with a data-dependent approach. It will be key to follow consumer credit expansion to assess in future BanRep moves, while inflation risk remains a key variable to expect higher rates for longer. **We will revise our expectation of the terminal rate, which is currently calculated at 8.50%.** Ahead of the July meeting it will be relevant to follow the update in projections from the central bank staff to anticipate a potential end of the hiking cycle.

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