

Contributors

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Maria (Tatiana) Mejía, Economist
+57.1.745.6300 (Colombia)
Maria1.Mejia@scotiabankcolpatria.com

Jackeline Piraján, Senior Economist
+57.1.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Colombia—BanRep Hikes by 100bps to 10%

- **BanRep delivered a dovish hike of 100bps to 10%, due to an expected slowdown in the economy.**

Today, the Board of Colombia's central bank (BanRep) increased the monetary policy rate by 100bps to 10%, below the market's consensus and our expectation of 150bps.

The vote was split 6 to 1, with one Board member voting for an even smaller hike of 50bps. Despite the upward revision to 2022 GDP growth projections, the Board's projections for growth in 2023 were weaker. Governor Villar said the rate is already at a restrictive level, which would help moderate inflation in the future. It was made clear, however, that the deceleration in GDP growth is now more important to the BanRep's reaction function. Our call is now for a final hike of 50bps in October's meeting, and a terminal rate for 2022 of 10.50%.

Some key features of the decision included:

- **The staff increased their GDP growth forecast from 6.9% to 7.8% for 2022 but reduced the expectation for 2023 to 0.7% from 1.1%.**
- **During the press conference, Governor Villar said that the monetary policy rate is at a level that will lead to lower economic activity, which is aligned with lower inflation.** This leads us to believe that the Board is preparing to enter a wait-and-see mode. Governor Villar said that higher rates will contribute to a future moderation in credit growth, which, in the case of consumer credit, is currently expanding at a pace of 23% y/y.
- **Regarding the FX, Minister Ocampo and Governor Villar said that the COP depreciation is a part of an international trend.** Villar said that the central bank has to permit the free-floating of the currency, and currently the Board is not considering any intervention.
- **In the final remarks, Governor Villar said that 3% is the long-term inflation target.** But he recognized that won't be achieved by 2023 as inflation is expected to decline gradually.

To summarize, BanRep delivered a 100bps hike, while signaling that the end of the hiking cycle is close. Governor Villar emphasized that the current rate level warrants lower inflation in the future, but also slower economic activity. That said, we think BanRep's reaction function is being fine-tuned to place more weight on economic growth. We expect a final 50bps move during October's meeting. It is worth noting that in October, the staff will publish a new Monetary Policy Report, which is an appropriate opportunity to affirm a pause.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.