

Latam Daily: Colombia's BanRep Meeting Minutes—Inflation Expectations and Rate Hike

- **Colombia: BanRep minutes reveal that inflation expectations are crucial to determine pace of future hikes**

COLOMBIA: BANREP MINUTES REVEAL THAT INFLATION EXPECTATIONS ARE CRUCIAL TO DETERMINE PACE OF FUTURE HIKES

On Monday, October 4, Colombia's central bank released the minutes of its most recent monetary policy meeting held on Thursday, September 30, in which the Board decided to **increase** the benchmark rate to 2.0% in a **hawkish split vote (4–3)**. The minutes revealed that inflation expectations will determine the future pace of hikes in the monetary policy rate. This, considering that Board members broadly agree that the current shocks are temporary, however, they disagree on how lasting the supply shocks in prices could affect inflation expectations over the long run.

From the minutes, we further highlight:

- **The stronger economic recovery and concerns about a potential upside deviation of inflation expectations were the main reasons for the Board to start the hiking cycle.** There was a consensus that current inflation is mainly due to supply shocks. However, the Board emphasized that with the recent spike in headline inflation, the real rate has become more expansive, which led to the unanimous decision to increase rates, albeit with a split vote on the pace.
- **The four members who voted for a 25 bps hike said that as inflation expectations remain anchored, giving space for a gradual approach in the hiking cycle.** Additionally, they emphasized that the labour market hasn't completely recovered and that uncertainty about the impact of the COVID-19 Delta variant remains high.
- **The three members who voted for a 50 bps hike, meanwhile, said that core inflation expectations are already above 3% and they consider that starting the hiking cycle with a stronger pace would affirm the commitment to inflation and contribute to avoiding further inflation expectation deviations.** They also mentioned that there is high uncertainty over how long the current supply shock in inflation will last.

September inflation data (to be released later today, Tuesday, Oct 5) and inflation expectations will continue to be critical for future decisions. Having now seen the meeting minutes, we see a higher probability of a 50 bps hike at the next BanRep Board meeting (on October 29), however, if the next inflation reading doesn't materially change expectations, the Board's division will remain. For 2022, we expect rate normalization to continue at a gradual pace, closing the year at 4.50%.

—Sergio Olarte & Jackeline Piraján

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