



# Flash September BanRep Meeting

INTERNAL NOTE

September 29, 2022  
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## Banco de la República raised its monetary policy rate by 100 bp to 10.0%. With a 6 to 1 split vote

At its September meeting, Banco de la República increased the monetary policy rate by 100 basis points, bringing it to 10.0%. The vote was divided with one member voting in favor of 50 bp increase.

- **Decision:** The Board, in a split decision, increased the monetary policy rate by 100bp to 10.0% (in line with the rate anticipated by BBVA Research, but lower than expected in the Bloomberg survey of analysts). The Bank reduces the pace at which it increases its rate. After two consecutive 150 bp increases, today's increase, despite being high, may begin to signal that the end of the rate hike cycle is near.
- **Inflation:** The press release highlights a new rebound in inflation in August, compared to the technical team's estimate (10.8% observed vs. 9.9% estimated by the Staff). It also highlighted that core inflation maintains the upward trend and is higher than estimated. At the same time states that medium-term expectations have increased and are far from the Central Bank's 3.0% target. For the Minister, the impact on inflation of the fuel hike decreed is relatively limited (two tenths in his estimate). He made it clear that an increase for next year has not yet been defined and that it will depend on the evaluation of inflation. Regarding the minimum wage, he did not enter into speculation on the expected increases, the Minister assured that the discussion on the increase has not started. Finally, when asked about the possibility of changing the inflation target, the Governor assured that there are no expectations of changing the target and clarified that the Board has communicated that the Bank's objective is to reach the inflation target gradually due to the high costs that this would imply. He commented that the target is expected to be reached in 2024.
- **Activity:** The statement highlights that economic activity continues at a good pace in the observed data, with the Staff revising the growth estimate for 2022 to 7.8% from 6.9% estimated in the previous meeting. However, the Minister emphasized that new information points to a moderation in the short-term of activity. In addition to this, the press release emphasizes that growth for 2023 would be lower than expected, revising to 0.7% from 1.1%.

Despite this moderation in growth, the Governor highlighted that the combination of the 2022 and 2023 adjustment implies a higher income than previously forecast, despite the downward revision of 2023.

- **External environment:** On this front, the press release highlights a monetary policy in developed countries that is more contractionary than expected, which affects international financial conditions and those faced by Colombia in particular. This produces a depreciation of the peso and other currencies. At the same time, they highlight the important fears of a possible global recession, which at the same time has an impact on raw materials. When asked about the depreciation of the exchange rate, both the Minister and the Governor pointed out that this was largely a global phenomenon and that the U.S. dollar is the currency that is appreciating due to various factors. In addition, the Governor pointed out that intervention to try to control the depreciation of the exchange rate has not been discussed nor is it considered appropriate. He highlighted the flexibility of the exchange rate as an appropriate and desirable policy instrument for the Colombian economy.
- **Credit:** At the press conference, the Minister emphasized that the Financial Superintendency is already working to seek moderation in the granting of consumer credit. He commented that the institution is in meetings with financial institutions to avoid the risks that an excessive granting of credit may generate. For his part, the Governor pointed out that credit is already beginning to be discouraged as a result of the increase in rates. He emphasized that there is already a moderation in the slope of credit growth, even stabilizing, still at high levels, but showing signs of a beginning of moderation.
- **Our vision:** *The decision has several relevant undertones. First, a smaller increase size than that recorded in the last two policy meetings, we believe signals the proximity to the end of the rate hike cycle. Second, this decision accompanied by an upward revision in 2022 growth, especially given the observed data and the explicit upward surprise of inflation in August, mark a greater relevance or importance to the reduction in the size of the increase.*

*We thus consider that the Bank is nearing the end of its rate hike cycle and especially that the lower growth expected in 2023 and the beginning of the expected decline in inflation play an important role in the decision and will do so with greater clarity in the coming months. After assessing inflationary surprises and revisions on the activity front, we believe the Bank could bring interest rates to near 11.0% this year and hold them steady for most of 2023.*

## Decision

Banco de la República increased the policy rate by 100 bps to 10.0% in a split decision of 6 votes to 1 (with one vote in favor of a 50 bps increase).

## Rationality

With the proximity to the peak in inflation, and an expectation of moderation in inflation and growth in 2023, it opens the door to lower required rate adjustments by the Issuer, which is consistent with the adjustment adopted.

## Our vision

The smaller size of the increase by itself, but accentuated by the upward inflationary surprise in the last month and the good activity data leading to increased growth expectations in 2022, provide greater value to the decision. This, we believe, marks the proximity of the end of the rate hike cycle.

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