Minutes for Banco de la República's Board of Directors Meeting on April 29, 2022

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On April 29, Banco de la República's board of directors (BDBR) voted 4-3 in favor of a 100-basis point increase to the benchmark interest rate, bringing it to 6.0%; three board members voted for a 150-basis point increase.

The decision took into account the following considerations:

- Headline inflation in March rose in annual terms by 8.53%, marking a year of continuous increases. Inflation excluding food and regulated items rose from 4.11% in February to 4.51% in March
- Analysts' inflation expectations rose to 7% for 2022; expected inflation was 4% for 2023 and 3.7% 24 months forward.
- Economic activity continued to suggest significant dynamism in the Colombian economy. The economic tracking indicator (ISE) registered 7.9% annual growth in February in seasonally adjusted figures. The technical staff revised its 2022 growth forecast upward from 4.7% to 5.0%, and maintained its 2023 projection of 2.9%. With this the technical staff estimates that remaining excess productive capacity in the economy would have been depleted.
- Persistent disruptions to global supply chains, the escalation of Russia's invasion of Ukraine, and new quarantine restrictions in China related to COVID-19 could accentuate upward pressure on international food and energy prices.

The BDBR was unanimous in its support for the need to continue to adjust monetary policy to ensure the progressive return of inflation to the 3% annual target, in line with Colombia's ongoing economic recovery. The board members noted that inflation has become more accentuated and has extended to diverse components of the basic family basket beyond foods. They highlighted the importance of continuing to adjust monetary policy to moderate the increase in inflation expectations and prevent second-order effects. They also underscored the strength of economic activity, largely a product of monetary stimulus in 2020 and 2021 that has ceased to be necessary and the continuation of which would risk generating demand pressures on prices. They also signaled the emergence of new sources of external uncertainty that could lead to increased inflationary pressures.

Additionally, the board members examined improvements in the labor market observed in recent months and concluded that it would cease to be a source of downward pressure on the inflation rate. Finally, they noted that U.S. Federal Reserve's shift to less expansionary monetary policy, in line with similar steps taken in other countries, together with an increased risk premium would make financing for Colombia more difficult both in fiscal terms and for the current account, and would generate upward pressure on the exchange rate.

While the board members were in agreement over these points, they did express differing opinions on the speed with which monetary policy should be adjusted in light of recent economic developments. Four board members supported a 100 basis-point increase to the policy rate, while three voted in favor of a 150-basis point increase.

The board members who voted in favor of a 100-basis point increase, which came after two rate increases of the same magnitude in previous meetings, considered it to be sufficient as part of an ongoing monetary policy adjustment process aimed at ensuring convergence to the inflation target while also being gradual enough to preserve dynamism in productive activity. They underlined that this process would continue as more information becomes available in the coming months. The board members noted that economic activity in the year-to-date

has suggested significant dynamism in the Colombian economy, but identified some symptoms of deceleration in aggregate demand given the fall in consumer confidence indicators in recent months and lower levels of real imports beginning in November 2021. Finally, they signaled that the increase in inflation in March was marginally lower than in previous months, and that medium-term inflation expectations have started to show convergence to the 3% target.

The members of the board who voted for a 150 basis-point increase highlighted that the most recent surveys of analysts' inflation expectations increased significantly for 2022, and to a lesser extent for 2023 and forward 24 months as well. They noted that this would suggest more persistent inflation that could weaken the credibility of the return of inflation toward the target pursued by monetary policy. They highlighted that the credit market has shown significant dynamism, particularly in the commercial and consumer portfolios. They reiterated their preference for a faster adjustment to the interest rate that would contribute to maximizing the impact of policy decisions on inflation expectations and on price-fixing practices, and could reduce the risk that subsequent increases to the policy rate would need to be of a greater magnitude.
There was consensus among the board members that the decision adopted in this meeting reiterated the BDBR's commitment to a gradual but steady adjustment of monetary policy that would guarantee the progressive return of inflation to the 3% annual target.

Fuente: https://www.banrep.gov.co/en/minutes-banco-republicas-board-directors-meeting-april-29-2022