

## Colombia | BanRep's Board should continue increasing the monetary policy rate

José Vicente Romero

---

During its April meeting the Central Bank decided to increase its monetary policy rate by 50bp, a decision that was 25bp more than market consensus and us. During the press conference, CB's Governor, José Darío Uribe, said that the decision was taken by majority. According to the communiqué, the main drivers of this decision were the recent behavior of inflation, the perception of a higher risk for the convergence of inflation to its target -despite the temporary nature of price and FX shocks-, and considerations regarding domestic demand. It is important to note that the Board highlighted that inflation expectations remain high, in a context where overspending is still high and the risk of an excessive slowdown in demand is moderate. That said, the Board considered that the 50bp is in line with the effort to ensure that inflation will converge to the target in 2017 and will contribute to moderate the current account deficit. In this context, it seems that some elements have gained momentum in the discussion and lead us to consider a tighter monetary policy stance. Among these elements, the discussion regarding demand pressures (national spending over national income) and the objective of achieving the inflation target in 2017, led us to consider an additional 50bp increase in the monetary policy rate in 2Q16, taking the repo rate to 7,50%.