Banco de la República's board of directors (BDBR) raises interest rates by 100 basis points

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The board voted 5-2 to raise the benchmark interest rate to 4.0%; two board members voted for a 75-basis point increase.

The decision was based on the following considerations:

- Headline inflation continued on an upward trajectory, rising 0.73% in December and outpacing the technical staff's projection by 30-basis points. As a result, overall consumer inflation ended the year at 5.62%. Core inflation, measured excluding food and regulated items, closed the year at 2.49%, while the year-end average of core inflation indicators was 3.45%.
- Inflation results in 2021 led to a significant increase in inflation expectations from a variety of sources, among them inflation excluding food. The technical staff revised its headline and core inflation forecasts upward to 4.3% and 4.5% respectively in 2022, and to 3.4% and 3.6% in 2023.
- Data from the monthly economic tracking indicator (ISE) suggests that economic activity continued to expand in November. As a result, the technical staff was able to reaffirm its GDP growth forecast for 2021, at close to 10%. With this, annual GDP in 2021 would surpass 2019 levels, and remaining excess capacity in the economy would nearly be overcome. GDP growth in 2022 would be projected at around 4.3%.
- The current account balance of payments is expected to close 2021 with a deficit of around 5.7% of GDP. This would be expected to moderate in 2022 to 4.9%, as international financial conditions tighten due to the acceleration of monetary policy normalization in the United States and other advanced economies.
- With this decision, the BDBR has reiterated its commitment to the 3% annual inflation target. The increase in the benchmark interest rate takes into account the current dynamism of Colombia's economy, which has recovered quickly from the effects of the pandemic and no longer requires the same degree of monetary stimulus that has been administered over the course of the COVID-19 crisis.

Press conference

Fuente: https://www.banrep.gov.co/en/node/57046