Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Colombia's BanRep Releases Minutes; Exports Surge in June

- **Colombia: BanRep sees positive output gap and higher terminal rate; exports rebound**

COLOMBIA: BANREP SEES POSITIVE OUTPUT GAP AND HIGHER TERMINAL RATE; EXPORTS REBOUND

I. BanRep Minutes reveal a majority of Board members see a higher neutral rate and a positive output gap

On Tuesday, August 2, the central released the Minutes of its most recent monetary policy meeting held on Friday, July 29, in which the Board of Directors decided to increase the monetary policy rate by 150 bps in a 6:1 vote, with the lone dissident voting for a 100 bps hike. While the Board was unanimous in the need to continue increasing the monetary policy rate, the vote points to a difference in analytical approaches. On the one hand, the majority has a demand-side approach. The dissenting member, on the other hand, is concerned about the potential negative effect of an aggressive monetary policy in addressing a supply-side shock.

- **The majority voting for a 150 bps hike argued that an aggressive pace of rate increases would make it possible to moderate the magnitude of future hikes, which could reduce the impact of the hiking cycle in the economic activity.** The majority also said that signals of strong domestic demand, including consumer credit increasing above 22% y/y, a high external deficit, a positive output gap, and improvements in the labor market, all point to upside pressures on inflation beyond a supply shock. Additionally, this group highlighted that the neutral real rate is probably higher owing to international financial tightening but also higher domestic risk premium.
- **The Board member who voted for a 100 bps hike, on the contrary, questioned the effectiveness of an aggressive monetary policy to solve a structural supply-side shock.** This member said that higher public spending probably is generating a crowding out effect. At the same time, the member highlighted that the business sector is generating an excess of savings while household spending is strong. That said, this member remarked that higher rates would be more negative than positive in re-establishing the macroeconomic equilibrium.
- **Finally, the Board again affirmed its data-dependent approach for future meetings.**

All in all, the minutes revealed that, despite the Board's concern about inflation dynamics, it is seeing more signals of excess of demand, especially in household consumption. In this regard, the majority seems more focused on demand metrics, while the member who voted for a 100 bps hike is more concerned with the negative impact of higher rates on the business sector (supply side).

Ahead of the September meeting, it will be important to closely monitor signals of strong demand to assess the magnitude of future hikes. For now, the majority group is pointing out that future moves would be lower, but again the data-dependent approach prevails. **At Scotiabank Economics, we are projecting a terminal rate of 9.50% but subject to a strong upside bias, with the actual outcome dependent on the evolution of inflation and growth.**

II. June exports at highest monthly level since March 2012 as mining-related exports rebound

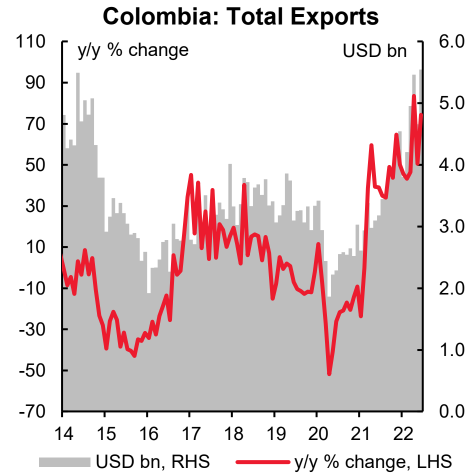
According to the DANE statistical agency data release on August 2, June's monthly exports stood at USD 5.55 bn, up 74.3% y/y (chart 1), rising from May's figure of USD 4.66 bn. In annual terms, traditional (mining-related, and coffee) exports contributed the most to the expansion fueled by higher commodity prices and a strong rebound of coal exports resulting from the resumption in mining operations suspended owing to maintenance. Non-traditional exports also showed a healthy expansion of 21% y/y and remained around historically high levels.

- **Traditional exports were up 120.3% y/y in June (chart 2),** reflecting higher international commodity prices, but also an annual rebound associated with the low statistical base effect generated by the nationwide strike one year ago for some products such as coffee. Coffee exports rebounded 227.96% y/y, as a result of a statistical base effect. Oil exports expanded by 54.03% y/y on price effects, with a contraction of 5.51% y/y in metric tons, while coal sales increased by 262.98% y/y, with a significant contribution from the exported volume (+69.60% y/y). In monthly terms, coal exports expanded strongly (+125.5% m/m), following the normalization in operations after maintenance.
- **The value of non-traditional exports was USD 1.79 bn (+21.2% y/y) in June,** close to the historical high achieved in the previous month (chart 2 again). Manufacturing exports drove the overall advance in non-traditional goods exports with an expansion of 42.9% y/y, on the back of diverse manufacturing goods (+88.8% y/y), and chemical products exports (+14.6% y/y). In the case of agricultural products (+69.6% y/y), the main contribution came from flower exports (+39.1% y/y), and bananas (+35.0% y/y), also pointing to the effects of higher international prices.

June's exports paint a positive picture. The strong year-over-year increase reflects statistical base effects generated by the nationwide strike one year ago, but also the contribution of increased coal production and higher commodity prices. Non-traditional exports remain a source of good news, and are associated with stronger economic activity in Colombia's main trading partners as well as higher international prices. We estimate the 2022 current account deficit will be around USD 17 bn, which is similar to the level observed in 2021. As a percentage of GDP, however, the deficit would represent around 5% or less given expected robust economic activity. That said, a high external deficit would limit the potential of the Colombian peso to appreciate strongly.

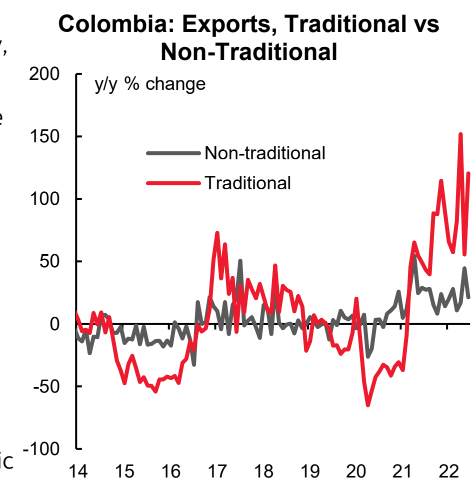
—Sergio Olarte, Maria (Tatiana) Mejía & Jackeline Piraján

Chart 1



Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.