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Latam Daily: BanRep Minutes, Peru Credit Recap

- **Colombia:** The majority of the BanRep's board affirmed the emphasis on the price stability mandate while the minority is willing to negotiate aiming for impulsing the economy
- **Peru:** Credit begins to show signs of recovery

COLOMBIA: THE MAJORITY OF THE BANREP'S BOARD AFFIRMED THE EMPHASIS ON THE PRICE STABILITY MANDATE WHILE THE MINORITY IS WILLING TO NEGOTIATE AIMING FOR IMPULSING THE ECONOMY

The Central Bank published the minutes of its March monetary policy meeting on the afternoon of Thursday, April 3rd. At the second monetary policy meeting of the year, the board decided, in a split decision, to hold the interest rate unchanged at 9.5% amid persistent inflation risks. The decision was divided, with four board members favouring stability and the remaining three favouring a 50bp cut. The minutes indicate an attempt to reach a consensus on a 25bp reduction; however, the members who voted in favour of stability emphasized the need for caution amid rising inflation expectations, a volatile international outlook, and an increase in risk perceptions in local assets due to fiscal adjustment needs.

The minutes reflect a strong division among board members, with one group advocating for caution and placing greater emphasis on inflation falling to the 3% target, in contrast with the other one that emphasizes the greater stimulus need for economic recovery. The March meeting was attended by the two new members appointed by the president, Laura Moisés and Cesar Giraldo, in addition to the newly appointed Minister of Finance, Germán Avila. The votes are secret; however, we assume the new members could have been the ones who voted to resume the rate cut cycle, given the much more pronounced split than in previous meetings. We believe the split could continue in the upcoming meetings, where the consensus to resume rate cuts would be subject to the evolution of inflation and the fiscal scenario.

Inflation has rebounded in the first two months of the year, and expectations have been gradually adjusted upward, which means that reaching the target would take longer than expected. The board agrees that progress on inflation has been significant, and has also expressed its desire for lower rates, which leads us to believe that the next step would be a rate cut. However, the timing and magnitude of the adjustment would depend on the evolution of inflation and the performance of the local market, since one of the concerns of the majority group is that the USDCOP could depreciate and lead to an increase in imported inflation, amid a climate of uncertainty regarding US tariff policies, coupled with deteriorating confidence in public finances.

For the April meeting, the board will receive the March inflation reading as well as an update on the central bank's technical team's projections. The minutes indicated an upward adjustment in economic growth expectations for 2025 from 2.6% to 2.8%. However, inflation expectations will be the focus of attention, since in the last presentation these were revised upward to 4.05% for 2025. Scotiabank Colpatria anticipates a 25bp cut at the April 30th meeting, subject to a decline in March inflation. However, risk aversion in the markets in response to tariffs and the depreciation of the local currency poses inflation pressures and risks, which could be used as an argument to remain cautious and leave rates unchanged once again.

Further details about BanRep's minutes:

- **Members agree that the rate should be lower in the future.** In the minutes, the group that voted for stability expressed a desire to continue reducing the interest

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rate; however, they believe it is necessary to maintain a consistent monetary policy that doesn't threaten the decline in inflation and imply raising interest rates in the event of an inflationary rebound. For the next meeting on March 30th, our baseline scenario is a 25bp cut to 9.25; however, there is a high probability that the rate will remain stable once again.

- **Fiscal policy is one of the main concerns.** A larger fiscal deficit recorded in 2024, greater financing needs for 2025, and a very optimistic projection of tax collection generate inconsistencies in the fiscal scenario. Markets have implied higher risk premiums given the uncertainty surrounding the management of public finances. The board would expect messages from the government that convey a greater commitment to complying with the fiscal rule and that these contribute to better market behavior.
- **The members who voted in favour of a 50bp cut highlighted the greater stimulus need to economic recovery.** The three members who voted to resume the cycle of cuts noted that core inflation (excluding food and regulated items) has maintained its downward trend, leaving room for a rate cut that would provide signs of support for the economic recovery. The group presented the proposal for a 25bp cut, seeking to reach a consensus, arguing that the measure would balance the need to support economic recovery with maintaining a degree of caution in the face of the international environment and fiscal challenges.
- **A strong message of independence.** Following the monetary policy decision, President Gustavo Petro made several remarks about the board members independence, insinuating that the decision to keep rates stable was motivated by political reasons. BanRep's Chair, Leonardo Villar, reacted to the allegations, highlighting the Central Bank's constitutional mandate to maintain the currency's purchasing power, and emphasizing that none of the members, except for the Minister of Finance, represent a political party.
- **The minutes make it clear that the main objective is to bring inflation to the target, maintaining a consistent policy.** At Scotiabank Colpatría, we believe the board's divisions will continue and that consensus will only be possible to the extent that the macroeconomic outlook reinforces the case for rate cuts. If the cuts are resumed, the magnitude would be moderate. For now, we expect the year to close with an 8% rate slightly above market analysts' expectations.

—Valentina Guio & Daniela Silva

PERU: CREDIT BEGINS TO SHOW SIGNS OF RECOVERY

Direct loans grew 1.1% year-on-year in February of 2025, above the 0.3% y/y recorded in January, consolidating signs of recovery after remaining in negative territory for 19 months (table 1). In line with higher-than-expected economic growth, driven by domestic demand and a recovering labour market. Commercial loans grew 1.6% y/y, showing signs of improvement for the first time in 28 months of contraction, and household loans are stagnating, but with signs of recovery growing at a rate of 0.4% y/y in February (chart 1 and 2).

Commercial loans were falling until mid-2023 and then showed a recovery, although still in negative territory until January of this year. The monthly flow is positive again compared to the same month in subsequent years, reflected by a good dynamism in corporate loans and large companies with an annual growth of 9.9% in February (7.9% y/y in January).

Household loans remain at an average annual growth of 0.2% in the last 8 months. Mortgage loans continue to be solid, maintaining growth above 5.0% y/y. Consumer loans continue to decelerate, accumulating 8 consecutive months of contraction. However, the negative effect is fading due to the exhaustion of AFP withdrawals. One factor that could affect the dynamics of consumer loans via amortization is another disbursement of funds, which so far have been presented by 10 bills proposing access to AFP funds and 18 projects for the withdrawal of CTS.

The system's delinquency rate stands at 3.8% as of February, after reaching its highest level historically in May 2024. In the loans delinquency

Chart 1

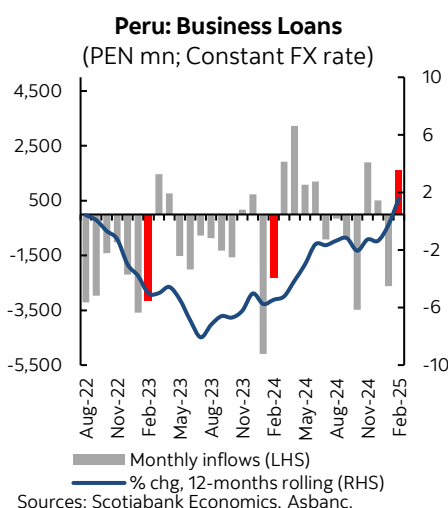
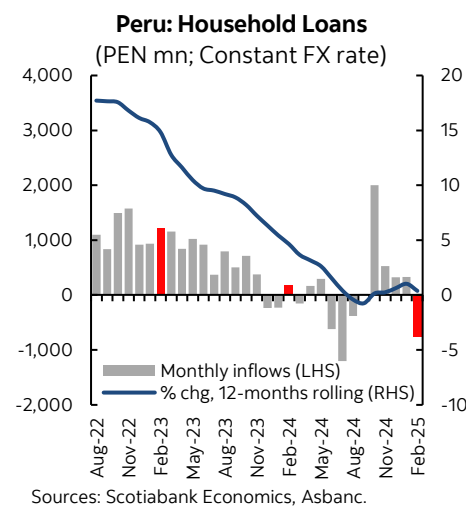


Chart 2



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to corporate (0.2%), micro (3.6%) and consumer (3.2%) there is a decreasing trend towards their average ratios. On the side of large companies (2.2%), medium-sized companies (13.9%), small companies (11.5%) and mortgages (2.7%), it remains at high levels with respect to its historical average but showing signs of reduction.

We expect direct loans to continue recovering and expand to 5.2% y/y by the end of the period. Commercial loans will grow 5.2% y/y and household loans 5.1% y/y, as the good dynamism of economic activity continues.

—Grecia Fajardo

Table 1: Peru—Loans Growth			
Groups of consumption	m/m % change	y/y % change	2025E
Business loans	0.8	1.6	5.2
Household loans	-0.5	0.4	5.1
Onshore loans	0.2	1.1	5.2
Sources: Scotiabank Economics, Asbanc.			

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