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Latam Daily: IMF Conditions Colombia's Flexible Credit Line

- **Colombia: The IMF conditions its Flexible Credit Line (FCL)**

On Saturday, April 26th, the IMF announced they've conditioned Colombia's USD 8.1 bn FCL on the completion of two processes: the [Article IV consultation](#) and the usual [mid-term review of the FCL](#).

The Article IV consultation is taking longer than usual. In the [most recent statement](#) related to Article IV on April 18, the IMF highlighted that the increase in the deficit and public debt has been above expectations and reflects some concern as the international uncertainty has increased.

Although we think the Government wasn't considering using the FCL, the IMF's conditioning is a signal of lower confidence in Colombia and probably is a pressure for the Government to have a more specific plan for its public finances. Unfortunately, we don't expect any plan to come before the publication of the Medium Term Fiscal Framework (due in mid-June).

The central bank usually considers the FCL a buffer that is complementary to other mechanisms such as international reserves. Given the IMF's announcement, we think it could put on the BanRep's table the discussion to increase the interest rate (we have to monitor this at Wednesday's meeting).

As for Colombian assets, risk premiums have been increasing significantly this year. We think that after the IMF announcement it is difficult to see this trend reverse but we have to wait for the government's response before anticipating a further widening in the risk premiums. For the Colombian Peso, we see current risks compatible with a macro-fundamental level of 4,350.

Regarding Monetary Policy:

- The IMF's announcement fuels expectations for rate stability on the 30th.
- Recall that the central bank staff updates its macro scenario this week, so there may be a discussion on whether the current widening in risk premium is structural and whether that would result in an increase to the neutral rate estimates again.
- With all the above we expect a steady BanRep rate in April and the possibility of an upside revision to the neutral rate. If that happens, we think it will be difficult for BanRep to resume cuts soon, though we would maintain an expectation for cuts late in H2-2025, and a potential skew to the terminal rate of the easing cycle in 2026 between 7.50% and 7.00%.

—Jackeline Piraján

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