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# Latam Daily: BCRP Cut Surprise; Colombia Inflation Overshoot

- **Peru: BCRP surprises with a rate cut**
- **Colombia: Inflation rebounded again, tradable goods, indexation and easter explained the dynamic**

## PERU: BCRP SURPRISES WITH RATE CUT

The Board of the Central Reserve Bank of Peru (BCRP) cut its monetary policy rate by 25 bps, to 4.50%, after keeping it unchanged for three consecutive meetings. The decision was opposed to our expectation at Scotiabank and the market consensus (the Bloomberg median). With this decision, the positive spread of 25 bps between the BCRP and the Fed's reference rate disappears.

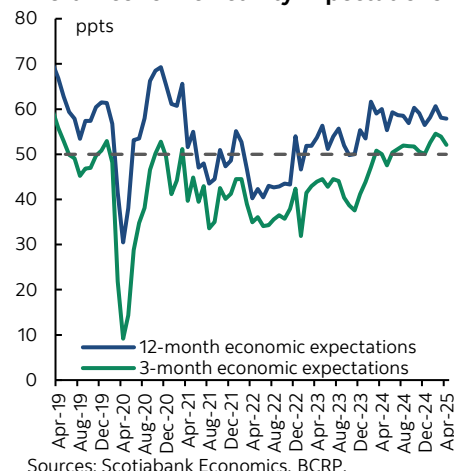
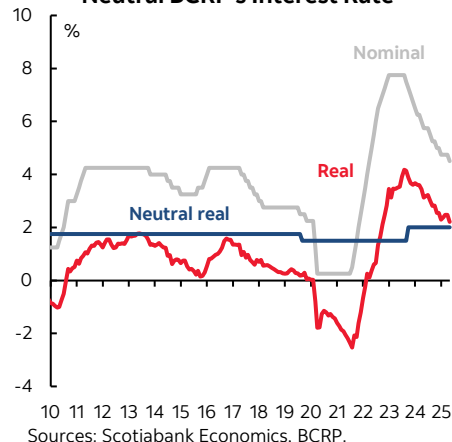
The arguments for cutting the reference rate are not clear. On the one hand, they continue to mention that trade tensions have affected inflation expectations in several major economies, deteriorated the outlook for economic activity, and resulted in volatility in financial markets—arguments that were used in previous statements when they had maintained the rate unchanged.

On the other hand, they indicate that in April the current economic indicators and economic expectations showed a slight deterioration, which would support the rate cut. However, they highlight that most indicators remained in the optimistic range, in a context where economic activity is around its potential.

Probably, with inflation expectations anchored, the BCRP is now focusing more on economic activity expectations. Although April's deterioration is not significant, it may be acting pre-emptively, providing greater stimulus to the economy before these indicators deteriorate more significantly.

With the decision, the real interest rate decreases from 2.47% to 2.21%, above the 2.00% level considered neutral, indicating that the BCRP has room to make one additional cut of 25 basis points. However, it will depend on how international trade tensions continue to evolve and if local economic expectations continue to deteriorate.

On the other hand, regarding May's inflation print due next week, we expect it to be close to -0.1%, reversing April's seasonal pressures. The figure would be similar to the -0.09% recorded in the same month of 2024. With this, annual general inflation would be around 1.7%, confirming our view that the bottom was reached in March (1.3%).

**Chart 1**
**Peru: Economic Activity Expectations**

**Chart 2**
**Peru: Nominal, Real and Neutral BCRP's Interest Rate**


—Ricardo Avila

May 9, 2025

**COLOMBIA: INFLATION REBOUNDED AGAIN, TRADABLE GOODS, INDEXATION AND EASTER EXPLAINED THE DYNAMIC**

Colombia's monthly CPI inflation rate was 0.66% m/m in April, according to data published by DANE on Thursday. The result was above analysts' expectations in the BanRep survey of 0.47% m/m and Scotiabank Colpatria's expectation of 0.50% m/m. During the month all the 12 groups had a positive monthly variation. Compared with April 2024, inflation in April 2025 reflected some pressures in groups that usually reflect are affected by the easter week, this change in the calendar lead the rebound on inflation, but some of these pressures could be reversed in May 2025.

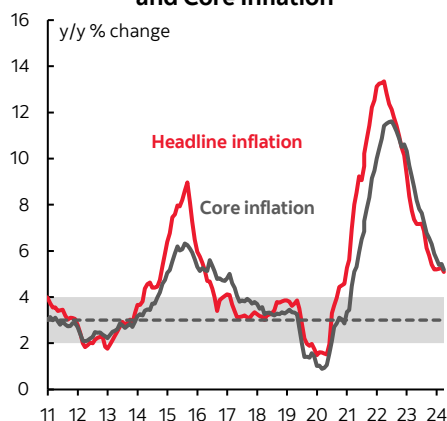
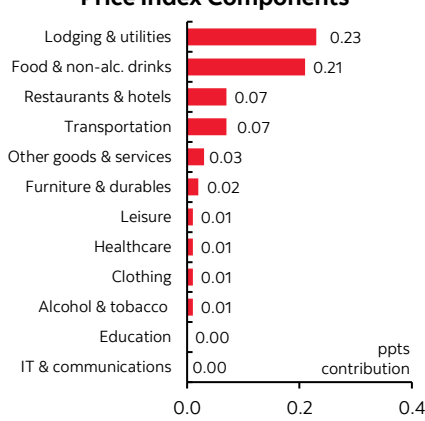
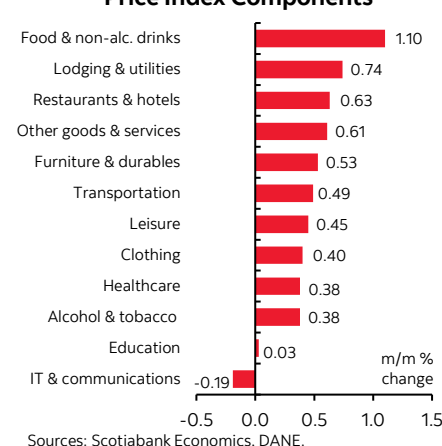
Either way, inflation is not only reflecting the calendar effect in April, but we also still saw upside pressures from indexation effects in some services prices, and a moderate rebound in tradable goods. All in all, today's result is a challenge for the central bank as inflation is reluctant to continue a smooth downtrend, and it could produce a more erratic monetary policy path. Our call for an interest rate cut is vanishing as May inflation could go down again, but not enough to open significant space for a cut in the nominal rate maintaining the real rate stable.

Annual inflation increased from 5.09% in March to 5.16% in April, stopping the downtrend (chart 3). Non-food inflation also increased, rising from 5.19% to 5.29%, while inflation excluding food and regulated prices increased from 4.86% in March to 4.90%. Goods inflation maintained its uptrend, rising from 0.93% y/y to 1.1% y/y, while services inflation remained stagnant at 6.37%.

Prices could continue to be pressured by the effects of indexation in May, in addition to less favourable statistical bases that could support a decline in inflation below the level recorded in March (5.09%), which allowed for a cut in the monetary policy interest rate. In this context, expectations that the BanRep will adopt a more cautious stance at its June 27<sup>th</sup> meeting are gaining strength. Our base scenario is a 25bp cut to 9% at the next monetary policy meeting; however, from a technical perspective, keeping the rate stable at 9.25% is the most consistent approach.

**Other highlights:**

- **Three major groups accounted for 77% of monthly inflation.** Lodging and utilities were the largest contributors, with a monthly increase of 0.74% and a contribution of 23 bps (chart 4). Rental rates contributed the most to this trend, as did increases in energy and water supplies. Gas rates registered a negative change for the second consecutive month; however, this trend failed to offset the price increases of the other components.
- **Food was the second largest contributor to inflation, with a monthly increase of 1.10% and a contribution of 21 bps (chart 5).** The increase in food prices is primarily associated with the seasonal effect of Holy Week. The food items that increased the most and contributed to the positive change were onions (+8.64% m/m), potatoes (+8.42% m/m), tomatoes (+7.26% m/m), and coffee (+6.11%), the latter associated with higher international coffee prices.
- **The restaurant and hotel sector was the third largest contributor to inflation.** Restaurants and hotels registered a 0.63% m/m variation and contributed 7 bps to the total. The price behavior in this sector is also associated with the Easter holiday season, which typically sees price increases for meals outside the home (+0.64% m/m) and hotel accommodation services (+0.66% m/m), as well as for other related service items such as travel packages (+1.70% m/m).

**Chart 3****Colombia: Headline and Core Inflation****Chart 4****Colombia: Consumer Price Index Components****Chart 5****Colombia: Consumer Price Index Components****—Jackeline Piraján & Daniela Silva**

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