

Contributors

Juan Manuel Herrera, Senior Economist
+52.55.2299.6675 (Mexico)
juanmanuel.herrera@scotiabank.com

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Jackeline Piraján, Head Economist, Colombia
+57.601.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatia.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

Latam Daily: BanRep Decision Preview

Colombia: Monetary Policy Preview—Why It Could Be an Opportunity to Cut

Tomorrow, June 27th, BanRep will hold its fourth monetary policy meeting of 2025. It promises to be an interesting one, as many of the anticipated risk events have materialized without having a significant negative impact on the key variables monitored by the central bank. While most economic analysts and market consensus expect rate stability, at Scotiabank Colpatría we anticipate a 25 bps rate cut to 9.00%—likely in a split vote, although a unanimous decision cannot be ruled out.

From our perspective, the June meeting presents a window of opportunity to cut rates that may be harder to find in the second half of the year. Inflation is declining again, inflation expectations have remained broadly stable, and despite the materialization of several risk events, their impact has not been as severe as the central bank had projected earlier in the year. This creates some room to reduce the policy rate while keeping it in contractionary territory, consistent with a path of gradual economic recovery and further inflation anchoring.

In April, the central bank unanimously decided to cut the interest rate by 25 bps. According to the minutes, this consensus was the result of negotiation: some board members initially leaned toward maintaining the rate, while others advocated for a larger cut. Those favouring stability emphasized the need for the government to send clear and convincing signals of fiscal adjustment, while those pushing for a deeper cut highlighted the importance of supporting economic growth.

Since then, much has happened. Globally, volatility has surged amid geopolitical tensions, fiscal and monetary policy debates in the U.S., and other developments. Domestically, Colombia's economic activity has outperformed expectations, May inflation came in below forecasts, and the government released the Medium-Term Fiscal Framework, which projects a wider but more realistic deficit. However, the government also activated the escape clause of the fiscal rule, allowing them to bypass the fiscal rule for three years.

Despite this, the exchange rate and public debt instruments have not reacted negatively—likely because much of the fiscal deterioration had already been anticipated. As a result, the transmission of these risks to inflation via COP depreciation has not occurred, and macroeconomic indicators have held up reasonably well. This supports our view that there is room for a rate cut in June.

Looking at macroeconomic data, economic activity in April grew by 2.5% year-over-year on a seasonally adjusted basis. Headline inflation fell to 5.05%, with notable progress in core metrics: inflation excluding food dropped to 5.23% (from 5.29%), and inflation excluding food and regulated prices declined to 4.96% (from 5.07%). Inflation expectations have moved only slightly, with year-end inflation projected at 4.80% and December 2026 at 3.75%.

Arguing for a rate cut in recent months has not been easy, and we expect this challenge to persist. At Scotiabank Colpatría Economics, we believe that while the June outlook is far from perfect, it provides a reasonable case for easing both the nominal and real policy rates. This may be one of the last opportunities to cut rates this year. If our scenario of a rebound in inflation starting in August materializes, further cuts in the second half of the year could be more difficult. In other words, the rate cut is a “now or never” decision.

With that in mind, we maintain our call for 25 bps rate cuts in both June and July. However, we see a high likelihood of rate stability in the second half of the year, with the policy rate ending 2025 at 8.75%. We expect cuts to resume in Q1 2026, with the rate reaching 7.05% by year-end. In real terms, assuming inflation ends 2025 at 5.3% and 2026 at 4%, the real interest rate (deflated by both ex-ante and ex-post inflation) will remain contractionary at around 1% (means a real rate of 4%) during the forthcoming year.

—Jackeline Piraján

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