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Latam Daily: Cautious BanRep Minutes, Mixed Colombian Exports

- **Colombia: BanRep Minutes**—Increased caution amid inflationary risks suggests a prolonged period of contractionary rates; In May, non-traditional exports showed growth, but this was insufficient to offset the decline in extractive industry exports

COLOMBIA: BANREP MINUTES—INCREASED CAUTION AMID INFLATIONARY RISKS SUGGESTS A PROLONGED PERIOD OF CONTRACTIONARY RATES

The central bank published the minutes of its June monetary policy meeting late on Thursday, July 3rd. The board decided to maintain the policy interest rate at 9.25%, in a vote that reflected diverse positions: four members voted to keep the rate unchanged, two supported a 50 basis point cut, and one favoured a 25 basis point reduction.

At the previous meeting in April, the board had reached a consensus on a rate cut, based on declining inflation, inflation expectations that were perceived as favourable at the time, and the need to mitigate potential impacts on economic activity amid a projected global slowdown. However, in the June meeting, the divisions were shaped by an assessment of increased inflation risks, fiscal constraints, and improved economic momentum.

The evolution of inflation remains a determining factor for the board's decisions, and based on our anticipated inflation path, the scope for further cuts in the second half of the year would be limited. Considering the arguments presented by the majority, it is likely that the board will maintain a cautious stance in upcoming meetings, depending on inflation expectations, international developments, and domestic fiscal dynamics.

Our baseline scenario is a 25 basis point cut at the July 31st meeting, supported by a continued decline in June inflation. However, the probability of rates remaining unchanged for a longer period is high, particularly if economic activity remains a positive dynamic and inflation expectations remain above target.

Further details about BanRep's minutes:

- **The majority group highlighted future inflation risks, reflected in expectations that remain above the target range for 2025.** They also pointed to fiscal constraints and uncertainty surrounding the 2026 minimum wage increase, which could further delay the convergence of inflation to the 3% target. This group noted that the widening fiscal imbalance has pushed up government bond yields, which—combined with credit rating downgrades by Moody's and S&P—has raised the neutral real interest rate, thereby limiting the scope for a more expansionary monetary policy.
- **The board members who voted for a rate cut agreed on the need for greater economic stimulus, although they advocated for different magnitudes of easing.** Those who supported a 50 basis point cut emphasized the progress made in reducing inflation and noted that, although growth has improved, it remains insufficient. They also highlighted that unemployment figures and the behaviour of interest rates in the banking system provide room for continued rate reductions, which would also help improve the fiscal outlook through greater economic growth. The member who voted for a 25 basis point cut stressed that the economic recovery remains fragile and concentrated in a few sectors. He also noted that maintaining a wide gap between the real interest rate and inflation encourages rent-seeking investment while discouraging productive investment.
- **The fiscal outlook likely had a significant influence on the decision, alongside elevated international uncertainty.** The expectation of a larger fiscal deficit and

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the reaction from credit rating agencies—just one day before the decision—may have further reinforced the case for a cautious stance. Despite short-term decreases in inflation, we believe that future decisions will remain anchored to inflation expectations and risk assessments across multiple fronts.

- **In July, the BanRep technical team will present an update to its macroeconomic projections in the Monetary Policy Report.** At the last meeting, it was announced that the economic growth forecast for 2025 had been revised upward from 2.6% to 2.7%. Evaluating the trajectory of inflation and the real interest rate will be key to determining the path of monetary policy. In the April projection update, the real interest rate for 2025 remained at 2.7%, while the forecast for 2026 is 3%.

—Jackeline Piraján & Daniela Silva

IN MAY, NON-TRADITIONAL EXPORTS SHOWED GROWTH, BUT THIS WAS INSUFFICIENT TO OFFSET THE DECLINE IN EXTRACTIVE INDUSTRY EXPORTS

DANE published export data on Friday, July 4th. Monthly exports in May reached US\$4.35 billion FOB, representing a decrease of -2.1% compared to May 2024 (chart 1). However, compared to the previous month, exports grew by 5.8%. Non-traditional exports maintained positive momentum (+10.7% y/y), mainly driven by export of food and agricultural products. In contrast, traditional exports remained in negative territory (-13.2% y/y).

International prices continue to affect export dynamics. Coffee remains the only product within the group of traditional exports to maintain growth, while mining products continue to record negative annual variations, amid less favourable international prices and lower export volumes. Oil exports have been the most affected due to a drop in prices. The average price of Brent crude oil was \$64 USD/bbl in May 2025, 22% lower than the average price for May 2024 (\$83 USD/bbl).

On the other hand, non-traditional exports continue to enjoy favourable growth, holding a share of over 50% of total exports for the second consecutive month. In fact, in May non-traditional exports reached a record high of USD 2.29 billion, with significant contributions from the agricultural and food sectors.

- **In May, traditional exports stood at US\$2.061 billion FOB, a -13.2% y/y decrease.** International prices continue to affect the dynamics of fuel exports. In May, coal exports fell -13.4% y/y, while oil exports fell -24.78% y/y, in addition to registering a -6.06% y/y drop in export volume. Ferronickel exports fell -18.9% y/y, while on the positive side, coffee exports increased 60.9% y/y.
- **Non-traditional exports stood at US\$2.29 billion FOB, a 10.7% y/y increase.** Non-traditional exports have maintained a positive trend, representing 53% of total exports in May. Exports of food and agricultural products, excluding coffee, increased by 13.6% y/y, with increases in meat, fruits, sugars, oils, and animal products. Meanwhile, manufactured exports fell slightly by -0.1% y/y, mainly due to lower exports of iron and steel (-33.7% y/y), road vehicles (-25.2% y/y), and electrical equipment (-13.2% y/y). Non-monetary gold exports accounted for 8% of total exports, valued at US\$366 million (up 7.4% y/y) (chart 2).

—Daniela Silva

Chart 1

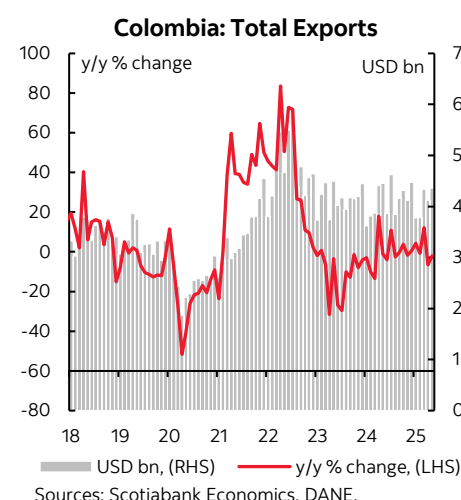
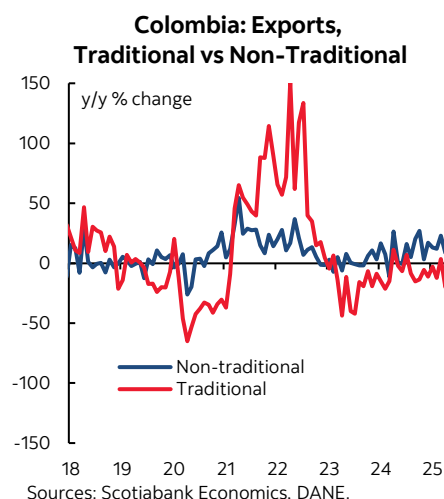


Chart 2



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