

### Contributors

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## Colombia—BanRep Cuts in Unanimous Decision

- **BanRep resumed the easing cycle in a unanimous vote**

The board of Colombia's central bank (BanRep) cut its monetary policy rate by 25 bps to 9.25% in a unanimous vote. This decision was a surprise for analyst consensus that expected stability, but it was aligned with Scotiabank Colpatria's expectations. In the statement and during the press conference, the central bank highlighted that inflation was the game changer in the decision, as it resumed its downtrend not only in headline metrics but also has a cumulative record of deceleration in core measures.

Governor Villar said that after the 25 bps cut, the real interest rate broadly maintains the same contractionary stance. Having said that, Governor Villar considers that today's decision is a cautious cut that is compatible with reducing inflation and pursuing sustainable growth. Regarding the IMF's suspension of the Colombia's Flexible Credit Line, Governor Villar emphasized that it is not necessary to consider a new program to increase international reserves, as the current size of the reserves (~USD 63.5 bn) is aligned with IMF standards.

At the end of the press conference, Governor Villar highlighted that the central bank's decision is in the best interest of the country, which is a response to the political pressure experienced after recent remarks from President Petro.

Our take is positive, first as it was the first unanimous BanRep vote since August 2023 showing that the traditional part of the board and the more dovish side are finally reaching a consensus. We see space for BanRep to continue cutting the rate as inflation is expected to continue decreasing in forthcoming months.

For now, we reaffirm our expectation of an 8.00% rate for Dec-2025. However, ahead of adjusting or maintaining 2026 expectations, it will be important to observe if the central bank's staff reassess their estimate for the neutral rate after volatility episodes in April that showed that Colombia's debt is incorporating a higher risk premium. If there is no change in the neutral rate estimation, we favour a level of 6.75% as the terminal rate of the current easing cycle.

The next policy rate decision will be on June 27<sup>th</sup>. By this time, we expect further moderation on inflation and better clarity about fiscal plans, as the Medium-Term Fiscal Framework will be published by mid-June. For now, the next milestone will be the release of the Monetary Policy Report on May 5<sup>th</sup> and the press conference on May 7<sup>th</sup>. The minutes to today's decision will be published on Tuesday, May 6<sup>th</sup>.

### Press conference highlights

- **Why cut? Inflation resuming its downtrend was key in the cut decision.** Governor Villar said that the inflation reduction increased confidence in resuming the easing cycle, and he also welcomed the decline in the break-even inflation metrics. He also considers that the board is making a decision consistent with incoming information, highlighting that the real interest rate remains in the same contractionary stance observed at the end of 2024. Villar also added that there is some optimism in improving fiscal management. In our perspective, if this logic continues, it is possible to have further rate reductions at the June and July meetings. In the second half of the year, we have the chance for a new pause if our expected inflation path (anticipating a rebound) materializes.
- **It is worth noting that despite Villar welcoming inflation reduction during his speech, the confidence in reaching the 3% target is weakening; instead, he preferred to mention that inflation is converging to the target range.**

April 30, 2025

- **On Colombia's risk premium.** April was a very volatile month for markets amid tariff announcements in parallel with the increase in risk premiums amid fiscal concerns. However, Finance Minister Avila said that markets are not punishing local debt and considers the risk premium for Colombia to be reasonable. Villar said that Colombia's situation is not comparable with episodes in different countries in the region, such as Brazil, and for that reason, he thinks the central bank is acting cautiously, maintaining a contractionary real rate.
- **On the IMD's FCL suspension,** Governor Villar said that the FCL is suspended waiting for ratification if there is better clarity in the fiscal strategy. He also emphasized that since Colombia wasn't expected to use the FCL, the risk is contained. Having said that, he said that the level of international reserves is enough, and purchases are not necessary as the returns on current reserves are increasing the reserves themselves.
- **On fiscal policy,** Minister Avila struggled again to give a certain picture of fiscal risk. For now, he emphasized that the government is prioritizing the increase in fiscal revenue. He expects the debt level to continue hovering at 60% of GDP and said that with the release of the medium-term fiscal framework in mid-June, we could have better information about spending adjustments if necessary.
- **Regarding the external context and its impact on Colombia,** Governor Villar considers that a tariffs scenario could potentially have more negative impacts on economic growth than on inflation. He highlighted that it is difficult to anticipate the result of the current shock as information changes frequently but, for now, he doesn't see inflationary pressure derived from trade barriers.

The next meeting is on Friday, June 27<sup>th</sup>. By this time, we see supportive macro fundamentals continuing with the easing cycle as inflation is expected to continue going down, and inflation expectations are the same.

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