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Latam Daily: BanRep Releases Monetary Policy Minutes

- **Colombia BanRep Minutes: The lack of consensus leads the central bank to maintain the cut pace at 50bps**

The central bank released minutes regarding September's monetary policy meeting late on Thursday, October 3rd. September was a difficult meeting to reach a consensus as the macroeconomic context could be read as a half-full or half-empty glass. Economist and market expectations were significantly divided, and apparently, the board discussion was the same way, as the minutes explicitly quoted: "Board members debated about the best decision without reaching a consensus." And in the case of doubts, it was better to maintain the pace. The board said their approach has been to accelerate inflation reduction, sacrificing economic activity as little as possible. Both voting groups agreed on the progress of inflation. However, the majority who voted for a 50bps cut highlighted that accelerating the pace could put the disinflationary process at risk, but they also argued that fiscal uncertainty could trigger inflationary risk due to the exchange rate depreciation. The minority who voted for 75bps showed concern about signals of economic weakness, especially in the labour market, saying that monetary policy became more restrictive as inflation reduction outpaced monetary policy rate cuts.

As has been the case in recent minutes, the board has reached a consensus about continuing to reduce the interest rate. However, the majority group remains cautious not only due to macroeconomic issues but also political concerns, especially fiscal uncertainty and the minimum salary negotiation. Having said that, at Scotiabank Colpatria, we anticipate the board will continue having meetings in which it is difficult to reach a consensus; however, as we don't expect main political issues to be solved by the end of October, we now expect the central bank will continue cutting the interest rate by 50bps at the October 31st meeting, with a chance of accelerating the rate cuts to 75bps at December's meeting if some of the political concerns vanish and macroeconomic indicators continue showing that inflation's downward trend is sustainable and that economic activity needs an additional impulse. For now, we expect a terminal rate of 5.50% to materialize by the end of 2025.

Further details about BanRep's minutes:

- **BanRep's board dropped a line about taking the monetary policy to a less contractionary stance.** Instead, there were additional arguments to favour the cautious pace of the easing cycle, maintaining a contractionary stance; the main one is that headline inflation is double the target range. However, what caught our attention was reading that the board didn't reach a consensus during their discussion. Having said that, and as we expect to still be a hard discussion in forthcoming meetings, we favour a scenario in which, in October, the central bank will continue cutting the interest rate by 50bps.

- **The majority group who voted for a 50bps cut said that accelerating the pace of the easing cycle could bring risk in the easing process.** This group considers that 1) the headline inflation remains elevated, 2) services inflation is still high due to indexation, 3) uncertainty around minimum wage negotiation, and 4) the stickiness of analysts' inflation expectations due to their expectation of the easing cycle. Additionally, this group highlighted that the uncertainty around the fiscal situation is preventing Colombia from benefiting from the easing in international financial conditions.

- This group also considers that the expectation that the easing cycle will continue has contributed to the surge of some recovery signals, while they consider that the labour market is resilient as the unemployment rate remains below the long-term level.

- **The three members who voted for a 75bps cut see further space to impulse the economy.** This group, now of three voters, said that the progress on inflation and inflation expectations reduction increases the confidence about the compliance of the inflation target. This group highlighted that the narrow current account deficit reflects the adjustment of the economic activity while also highlighting some concerns about the recent labour market behaviour. This group considers that accelerating the easing cycle will contribute to the impulse of the economy, especially on the investment side; however, one member said there is no macroeconomic space to impulse investments, a quote that wasn't analyzed in depth in the minutes.
- **Our take:** Minutes showed that the discussion wasn't easy and that political concerns are the main source of division. We don't expect those political issues, the fiscal uncertainty, and the minimum wage negotiation to be solved before the next monetary policy meeting; in that sense, we expect the board to continue favouring the cautious cut of 50bps in October. In December, we see space to accelerate the easing cycle to a 75bps cut, first, to prevent taking monetary policy in a more contractionary stance, and secondly, as we expect the economy to deliver further signals of weakness and better clarity around current political concerns. The monetary policy rate is expected to close the year at 9% in 2024, while next year, we maintain our estimation of a terminal rate of 5.5%.

—Jackeline Piraján

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