

Contributors

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jackeline Piraján, Senior Economist
+57.1.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Colombia—BanRep Cuts Monetary Policy Rate by 50bps in a Split Vote

- **The board affirmed the cautious approach, highlighting that international conditions have tightened.**

The board of Colombia's central bank (BanRep) cut the monetary policy rate by 50bps to 11.75% with the same split vote observed during March's meeting: five members voted for a 50bps cut, one member for a 75bps cut, and one member (the Minister of Finance) for a 100bps cut. The decision was aligned with the market and economists' consensus. The forecast for GDP growth in 2024 was revised up to 1.4% (previously 1.1%). However, Governor Villar said that this improvement doesn't imply a material change to the inflation forecast, which they still expect to go back to the target range by mid-2025.

A new piece of information in today's meeting and press conference was that Governor Villar emphasized the board was concerned about the tightening of international financial conditions, which motivated it to continue with a cautious approach. That said, the board preferred not to surprise the market to avoid adverse developments in local assets, especially the exchange rate. In our opinion, this is a strong statement as it reveals that the board, for now, is not concerned about the economic growth despite its estimates of a negative output gap; instead, it is focusing on controlling any potential risk that could impact the inflation trajectory as it converges back to the target.

All in all, we didn't have material surprises in today's meeting; however, the central bank's staff will provide further colour about the assessment of risk in the macro scenario as the Monetary Policy Report (IpoM) will be released on Friday. The press conference of the IpoM will take place next Tuesday, May 7th. It is worth noting that BanRep won't make a rate decision in May, and the next decision will be on June 28th. By this time, we will have a couple more inflation readings and the GDP result for Q1-2024.

For now, we maintain our forecast favouring a cautious rate cut of 50bps in June. We expect a potential acceleration in the H2-2024, tilting rate cuts to a 75bps pace to close the year at 8.25%. In 2025, we expect the central bank to continue the easing cycle to reach a terminal rate of 5.50% by mid-2025.

Key points about today's decision:

- **The central bank's staff improved the GDP forecast for 2024; however, it doesn't mean an increase in inflation expectations.** According to Governor Villar, the GDP forecast improvement in 2024 was due to economic activity being better than expected at the start of the year, while pointing to Colombia's negative output gap. Governor Villar emphasized that inflation projections still support a return to the target range by mid-2025. In our opinion, the previous remark demonstrates that for now, BanRep is not concerned about economic growth and that it will focus only on inflation risk when deciding how to set the monetary policy rate. On the other hand, Minister Bonilla called again for the necessity to stimulate the economy and said that despite the board being unanimous in cutting rates, there is still no unanimity in supporting the economy.
- **The banking system is resilient.** Governor Villar said that the Colombian economy adjusted significantly, which helped to reduce inflation. However, this adjustment had a cost to the financial system, with increases in non-performing loans and credit contractions. Despite that, Governor Villar stated that the Colombian financial system was robust, and BanRep did not identify any solvency and liquidity concerns. He also mentioned that the worst of the economic cycle was behind us, and that in the future, domestic demand will improve to make the credit rebound more healthy.

April 30, 2024

- **About the management of pension savings amid the Pension Reform debate.** Minister Bonilla welcomed the advance of the Pension Reform to the Congress. However, one issue that remained unresolved was defining the role of the central bank in the management of pension savings. In his concept, this would involve the task of safeguarding the savings without interfering with the administrative aspects of a regular pension fund. Governor Villar said that more clarity was needed with regards to the central bank's scope of action regarding the potential pension fund resources.
- **About concerns around international financial conditions.** In today's meeting, the board emphasized that they cared about not surprising the market to avoid negatively impacting the FX market in a way that would threaten inflation reduction efforts. Previous remarks suggested BanRep would prefer to maintain a cautious approach if the international context remained uncertain. However, it was unclear if, in today's meeting, there was a preference to accelerate the easing cycle outside of the two traditional board members who voted for a larger cut. In any case, previous remarks affirmed the market's assessment of the prudence from BanRep, and it could be supportive of the carry-trade thesis on Colombian currency.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.