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

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

The board of Colombia's central bank (BanRep) cut the monetary policy rate by 50bps to 11.25% in a split vote, with four members voting for a 50bps cut and two members voting for 75bps. It is worth noting that in this meeting, board member Jaime Jaramillo, was absent. The board highlighted that the real rate remains contractionary and is compatible with achieving the inflation target by mid-2025. During the press conference, Governor Villar said that the board prefers not to provide forward guidance about future steps, but he said that an acceleration in the easing cycle will depend on a faster drop in the CPI inflation.

Today's decision was expected, and the division of the votes suggests that the probability of an acceleration of the easing cycle at the July meeting has diminished. During the press conference, Governor Villar emphasized that the board prefers a predictable path and cautious approach to ensure convergence to the inflation target.

In today's communique, BanRep's board emphasized three topics: first, breakeven inflation remains above the central bank target until the end of 2025; second, economic activity is showing some recovery; and third, international financial conditions have tightened, leading to an increase in the risk premium in the FX. No major information was provided, which aligns with the preference to remain cautious.

All in all, we expect BanRep to continue carefully cutting rates. There is a low chance to have an acceleration at July's meeting, and having said that we revise our expected rate for Dec-2024 from 8.25% to 8.50%. We still expect a terminal rate of 5.50% reaching this level in the second half of 2025.

### Key points about June's BanRep meeting:

- **Governor Villar said that future decision will depend on Colombia's macroeconomic conditions.** In our opinion it discards the possibility of having a scenario of decelerating the easing cycle just following the Latin American style in recent meetings. Governor Villar said that for now Colombia's real rate is less contractionary compared with regional peers, however it doesn't mean that Colombia will follow the action of other central banks.
- **Regarding FX:** Despite recent volatility, Governor Villar discards the necessity of intervening in the FX market. On the other hand, despite not exercising the central bank's put option in June, Governor Villar said that the program has accumulated USD 825mn in international reserves so far this year. This is good progress towards the target this year of increasing international reserves by around USD 1.5bn.
- **The central bank welcomes the release of the Medium-Term Fiscal Framework.** Governor Villar said that the MTFF-2024 shows consistency in the fiscal responsibility, which contributes to the adjustment of the economy but also to build confidence in Colombia's ability to achieve better funding cost.
- **The Finance Minister, Ricardo Bonilla said he decided to vote for a 75bps cut to tilt the decision towards a bigger rate cut.** We think that this approach will continue in forthcoming meetings. However, we don't expect enough consensus amongst board members to see an acceleration in the easing cycle in July.
- **About pension reform, the Finance Minister said that they are expected to be implemented by July 2025, and regulation is pending.** This regulation will be key to defining the role of the central bank in the management of the sovereign pension fund.
- **Minutes will be released next Thursday after 5pm (local time).**

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