

Colombia | Economic Analysis

Banco de la República reduced its policy rate by 50 bp to 11.75%

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Banrep Board maintains March's pace of cuts, with a 50bp reduction in April, accumulating a total of 150bp since it started its rate downward cycle in December 2023. The decision was split, with 5 members in favor of the 50bp reduction, one member in favor of a 75bp reduction and one in favor of a 100bp reduction.

- Banrep's Board statement highlights that core and total inflation continued to decline in the month of March (close to 600bp reduction in total inflation over the last year). They highlight that goods and food inflation have contributed the most to the deceleration of inflation. In the same line, they highlight that inflation expectations remain stable, with the two-year inflation (3.5%) in the target range, although the one-year inflation (4.6%) remains above the target. It also highlights that those derived from market operations were reduced in the last month but remain above the target. No reference is made to the behavior and risks regarding services and regulated inflation.
- A revision of expected economic growth to 1.4% (from 1.2%) for 2024 and 3.2% (from 3.5%) for 2025 was announced. These revisions are due to a better start to the year in some indicators relative to what the Bank anticipated, particularly the performance of the primary and tertiary sectors. On the labor market front, they highlight a weakening in February, although they describe it as marginal or slight. No reference is made to the March labor market data, published simultaneously with the Board meeting, showing a more marked deterioration.
- The external context is highlighted in the press release. On this front they comment that core inflation remains above target and is more persistent, with a tighter labor market and some surprise in economic growth for the US. They highlight that medium and long-term interest rates have increased in global markets. This issue was emphasized in the Minister's speech, highlighting the difficulties that this implies not only for Colombia but also for other economies. On this issue, the Bank's Governor highlighted that the possibility of lower external rate reductions increases the pressure for a gradual adjustment and influenced the Bank's Board's decision.
- At the press conference, it was emphasized that the weak performance of the banking sector in recent months is due to cyclical factors and has no relevant impact on solvency indicators. Additionally, they consider that the worst of the portfolio deterioration is already behind us and anticipate improvements in the performance of the loan portfolio. For his part, the Minister emphasized that the weak performance of the economy has multiple effects, among them he highlights that they have observed a lower than expected income tax collection, which increases the pressure to meet the fiscal goals and he comments that this justifies a faster reduction pace of interest rates.
- Regarding the flexible credit line with the Monetary Fund, the Minister emphasized that its renewal is a support to macroeconomic stability and to the economic policies carried out by the country. He also pointed out that they were not renegotiating the debt with the Monetary Fund, but stressed that it is necessary to make the existence of this debt consistent with the current debt quota for the Nation.

Our view:

- The Board's decision to reduce the rate by 50bp, with a voting balance equal to that of March, is in line with the expectations of analysts, markets and BBVA Research in particular. In part, the gradual rate cuts are supported by factors such as short-term risks to inflation, a more complex external environment and a recent, albeit limited, depreciation of the exchange rate.
- We highlight the relevance that the Board placed on the external environment in the press release and in the discussion. In our view, uncertainty about the path of rate cuts in the United States is directly affecting the behavior of several monetary authorities globally. With the most recent data and speeches from the FED, rate cuts in 2024 are not ruled out, but may happen later and be less pronounced than initially expected.
- However, it is important to highlight that the Colombian economy is not only facing challenges on the inflationary front. The most recent activity figures point to a weak performance in the first half of the year, especially in terms of investment. With the publication of the labor market data for March, showing a strong weakening in job creation and a rise in the unemployment rate, added to an expected weak record for first quarter GDP growth, to be published in mid-May, we expect that the Central Bank may produce a more marked reduction in rates in its next meetings, although this will be contingent on how the external environment evolves.

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