Colombia | Economic Analysis

BanRep reduces 25bps its policy rate, unanimously, to 9.25%

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April 30, 2025

The Board of Banrep reduced the monetary policy rate by 25bp to 9.25% in April. This decision was unanimous. On this occasion, they highlighted that inflation and inflation expectations derived from the debt markets declined.

In the press release, the Board of Banrep highlighted the reduction of inflation in March, falling from 5.3% to 5.1%. At the same time, it indicated that inflation without food or regulated products maintained its downward trend, standing at 4.8% (compared to 4.9% observed in the previous month). Regarding inflation expectations, they highlighted that those derived from public debt papers decreased while those from surveys remained stable. On this front, it is worth noting that the reduction in core inflation was 6bp in the month, somewhat lower than that observed in February, and that expectations derived from public debt paper, due to liquidity issues, are subject to high volatility. No specific or particular information on inflation expectations was highlighted in the press conference or in the press release, beyond considering that there may be some additional moderation in the coming months and that inflation without food or regulated products could end the year within the target range (estimate in effect in past meetings).

- **Economic activity data continues to show some gradual improvement from the data observed in 2024. The Bank expects growth of around 2.5% for the first quarter of the year**, a figure that will be known in mid-May. At the same time, the statement highlights that the economy would have a growth of 2.6% in 2025 and 3.0% in 2026. In the case of 2025, it is worth mentioning that at the March meeting it had been adjusted upwards to 2.8% from 2.6%. This result, the lower growth in 2025, is associated in part with the expected slowdown in the global economy.
- **On this occasion, in the press release, they did not emphasize fiscal or market factors. However, they highlighted that external financing conditions have become more restrictive due to global trade tensions, high volatility and uncertainty in international financial markets.** They relate this to an upward pressure on Colombia's risk premium, a situation that is also related to local fiscal uncertainty. In the questions at the press conference, the recent news of the suspension of the International Monetary Fund's flexible credit line was addressed. On this front, the Bank's Governor emphasized that these are resources to attend special contingencies and that although access is suspended, the line is still in force. The Governor contemplates that once progress is made in the discussions on fiscal issues with the IMF, the line could be reinstated. On this issue, the Governor emphasized that Colombia's international reserves levels are sufficient and are even at the upper suggested levels by the IMF itself, thus he commented that there would be no need for a new reserve accumulation program for the time being.
- In the round of questions at the press conference, several questions were asked regarding fiscal issues. In particular, it is highlighted among the Minister's answers that several of the fiscal challenges are associated to income or debt service, which according to him, is inherited from the previous government, however, he does not make reference to spending issues and/or adjustments, except for a brief mention to the Medium Term Fiscal Framework in which they would evaluate the adjustment needs and that the rigidity in spending is very

high, while reiterating that it is necessary to guarantee the execution of the plans contained in the development plan, which suggests that the space for fiscal spending adjustments will be limited and will be known with the Medium Term Fiscal Framework. Among other considerations, he announced that they are evaluating the possibility of processing a new financing law for this year, to complement other tools they have such as debt management and/or new issues, according to the Minister's position, of a good placement in the international debt markets in previous weeks.

Our take:

- *The unanimous decision of the Board is highlighted, an important change compared to the position of the last meetings in which there was a division between the views of the different members. In this case, the position of the Board members who advocated 50bp cuts last month was moderated, while the majority group at the March meeting decided to resume a position in favor of gradual cuts after having voted for stability. This unanimous vote could be interpreted as a sign of greater confidence that the downward rate cycle has resumed. Despite this, it is important to note that in an environment of high uncertainty, the Bank's own stance has changed repeatedly in recent months, with cuts of up to 50bp and others for stability, which still leaves decisions open to new data, especially on the inflation and fiscal fronts.*
- *They highlighted that inflation resumed a decreasing path, which we consider may be an expression of an adjustment in the balance between inflation and growth, with lower concerns about current and expected inflation in favor of a more favorable stance in support of activity. In our opinion, this may be due to the fact that the risks in the global scenario of lower activity may have not minor impacts on the Colombian economy and may be part of the risk scenarios that have gained probability of occurrence in the last month.*
- *This decision, seen in the absence of the recent fiscal challenges, is in line with our stance on the need to materialize larger and faster interest rate cuts to address the needs of investment recovery in the economy. However, fiscal factors remain a high source of uncertainty for the Colombian economy with no significant, at least public, changes for the time being, which could have justified a more cautious stance at the April meeting.*
- *In the end, we agree with the Bank’s Governor, interest rates will tend to be lower in the coming months, although their pace of reductions will continue to be subject to the special conditions governing the global and local economy. However, we do emphasize that if fiscal risks are not contained, there is a risk of ending the current cycle with a natural (or terminal) rate higher than the anticipated and historical one.*

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