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BanRep maintained its benchmark rate in June at 9.25%

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Policy rate held steady in June, at 9.25% in split decision

The decision showed a majority vote of four members for stability in rates, while among the remaining three members, two voted for a 50 bp reduction and one voted for a 25 bp reduction.

- **The statement highlights that inflation decreased marginally in May to 5.1%.** They also highlight that inflation without food and regulated goods reduced by a similar magnitude to 4.8%. They emphasize in the text that the reduction was not greater due to the rigidity of the food and services baskets and a rebound in goods.
- **Regarding expectations, they highlight that those coming from surveys remain at levels above the inflation target.** It is worth highlighting that they show a perception of a longer delay in the convergence of inflation to the target than previously expected.
- **They comment that the higher fiscal deficit expected for 2025 and the following years is a challenge for the sustainability of public finances, and in particular reduces the room for monetary policy easing.** This issue, although not a novelty, the events in the previous weeks with the decision to activate the escape clause of the rule and the more adverse path creates a more complex environment for economic and particularly monetary policy. The Minister highlighted that the decision to activate the escape clause is due to the inflexibility of spending and the possible effect that an adjustment could have on the economy and referred to the downgrade which he considers a warning about the downside risks on the fiscal front. He also commented that they expect to present a tax reform to Congress in order to meet the needs of revenue enhancements and reduce the fiscal deficit, however, they do expect increases in debt and the cost of debt in this context.
- **At the activity level, they note that the growth rate of the economy has been recovering, reaching 2.7% in the first quarter of the year, above the forecasts of the Bank's Staff.** The information available for the second quarter suggests that the pace of expansion continues and they ratify the growth forecast for 2025 of 2.7% (higher than BBVA Research estimate of 2.3%). In the question and answer session, the Governor highlighted that recent trade figures show a satisfactory performance and that this is also reflected in the behavior of domestic demand. He considers that this phenomenon has been supported by the reduction of inflation and interest rates.
- **In terms of the external environment, the Board noted that although global trade tensions have moderated somewhat, uncertainty remains high.**

- In the round of questions, questions were asked about possible scenarios for the accumulation of international reserves, partly in response to recent events such as the suspension of the Flexible Credit Line and the recent rating downgrades. **In this regard, the Bank's Governor pointed out that the level of reserves, close to 64 billion pesos, is quite robust and no such program has been contemplated.** The Governor commented that for the moment there are no plans to buy dollars from the Government from external financing, however, he leaves open the possibility of discussing this possibility at a later date, although he emphasized that it would not be with the argument of carrying out operations to accumulate reserves.
- The Bank's Governor, when asked about the risks that may arise in the financial system, **emphasized that the system remains very solid.** Although there were important costs of the increase in funding rates on credit and profitability, the system was able to absorb them and maintain a solvency much higher than the minimums established by the regulation. They are already beginning to observe an improving trend, with credit growth and moderation of delinquency, while maintaining a good liquidity position and, therefore, they believe that it can support the recovery process of the economy.
- The Governor, to a question about the neutral interest rate, commented that it has presented an upward trend in recent years but that although it is an unobservable variable**, he considers that the current rate is "clearly" higher than the natural rate. This ratifies the contractionary stance of monetary policy.**
- Regarding a consultation on Colombia's possible entry into the development bank linked to the BRICS, the Minister emphasized that an application for membership was made with a capital commitment of US$ 512 million, of which US$ 102 million is committed to be paid over the next 8 years with a first payment of US$ 7 million. He affirmed that this strategy opens the way to a financing capacity of close to one billion dollars.

In our opinion, the press release and press conference reduced the relevance of traditional factors such as inflation and activity, with very limited mentions and marginalist adjectives. However, it highlighted in greater detail the new data on fiscal issues and their impact on the economy and in particular on Banco de la República's ability to reduce interest rates in the current cycle. This marks a clear concern within the Board that is also reflected in the vote, with four members in favor of stability, presumably those who were already part of the Board since last year, but in particular a split among the three members who voted in favor of the rate reduction, with one of them advocating a more cautious reduction. This outcome will maintain the cautious stance of the Issuer going forward and going forward, in the absence of new information on fiscal issues, the speed of inflation reduction will begin to carry more weight.

In the segment dealing with inflation expectations, a change in the analysis is also evident, highlighting on this occasion survey expectations over market expectations, which were central in the April meeting to justify the rate reduction. This time, analysts' inflation expectations are elevated, remain above target, and show a more gradual convergence to target. This may be a sign of some particular concern by the Issuer about the behavior of inflation going forward, which biases the scenario of cuts to a gradual profile and contingent on the evolution of this variable.

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