MNI EM INTERVIEW: Gradual Cuts Allow Lower Rates

Original interview Tenga en cuenta
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Only significant surprises changing the expected path of inflation for next year would impact Colombian monetary policy decisions in the coming meetings, Central Bank of Colombia director and board member Mauricio Villamizar told MNI, adding that more gradual cuts would allow the terminal rate to reach a lower level.

"In my view, only very large inflationary surprises, those that alter next year's trajectory, would influence decisions in the coming months," Villamizar said in an interview, noting that monetary policy operates with lags of nine to 18 months.

The Central Bank of Colombia (BanRep) reduced its policy interest rate by 50 basis points to 10.25% last month in a split 4-3 decision, with three members voting for a 75bp cut.

"While I cannot disclose my vote, what I can say is that, since December of last year, when we began the cycle of rate cuts, we have all agreed to reduce the contractionary stance, which not only depends on the policy rate but also on inflation expectations and the neutral rate," he said.

While it is difficult to predict the minimum point for rates in the central bank's easing cycle, a gradual approach could permit this to be lower than otherwise, Villamizar said, noting that surveyed analysts expect quicker reductions than implied by market expectations. (See MNI INTERVIEW: BCB To Up Pace In Short Hiking Cycle - Kanczuk)

TERMINAL RATE
"It is difficult to determine how long a contractionary stance needs to be maintained and what the terminal rate of the cycle will be. As Mario Draghi, former president of the ECB, said, transparency only goes as far as uncertainty allows," he said.

"Very rapid adjustments in the policy rate likely imply a higher terminal rate, while more gradual reductions allow for lower terminal rates. Therefore, the one who moves faster doesn't always go further."

Villamizar said that BanRep had reached a sufficiently contractionary position "to allow inflation to converge to its target in the medium term." However, he noted that there have been differences within the board regarding the pace of easing.

While consensus "is always possible," a split vote can sometimes "be more informative" he said.

"It's important to remember that even within consensuses, different viewpoints are debated. For me, the most important thing is the sustainability of this easing cycle and avoiding the need to reverse or halt the process we've undertaken."

INFLATION IMPACTS

Villamizar said that rents, a component of core inflation, are a particular concern. "This category represents about 25% of total inflation and has remained close to 8% for an extended period. Another concerning category is meals outside the home," he said, adding that he doesn't see much demand-side pressure.

Officials will also closely monitor the inflationary impact of a five-day truckers' strike which ended on Sept 6, Villamizar said, though he noted that much of its effect has already been already incorporated into the central bank's models.

FED CUT

While BanRep is not tied to the policy of the Federal Reserve, "of course it matters," he said.

"In other words, we are not Fed-dependent, but we are Fed-sensitive. And it matters to us for several reasons, among them, because the Fed's restrictive measures make external financing more expensive, cause further depreciation of the peso, and drive capital flows away," he explained.

Amid expectations of shifts in the board, Villamizar commented that the president of the Republic has the power to appoint two board members in the middle of his term.

"Since I have been at BanRep, having joined more than 20 years ago, my impression is that the board members quickly adapt to the autonomous role of monetary policymakers. And, of course, this can be explained by the impeccable rigor of the technical team that supports them, which I had the fortune to be a part of for many years," he said.

Original interview

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Fuente: https://www.banrep.gov.co/es/publications-and-research/presentations-speeches/mni-em-interview-gradual-cuts