BanRep Minutes: The Board of Directors of Banco de la República opted by majority vote to maintain the benchmark rate unchanged at 9.25%

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- Headline inflation stood at 5.1% in August, while core inflation excluding food and regulated items ended the month at 4.8%, exceeding the technical staff's forecasts. The largest deviation was seen in food, primarily in perishable items and in the international prices of certain foods and fertilizers. In the case of other goods and services, upward surprises were more modest and mainly resulted from a slower deceleration in rents and increases in the food-away-from-home segment. Inflation of regulated goods and services fell due to lower adjustments in electricity service rates. Consequently, the convergence of headline and core inflation toward the 3% target suggests a slower course than previously anticipated.
- Surveys' inflation expectations have increased over the past two months. Analysts now expect inflation to reach 5% in 2025 and 4% in 2026, versus the respective 4.7% and 3.8% outlooks recorded in July. In addition, although public debt market expectations showed mixed results, they continue above the 3% target for all maturities.
- Economic activity continues to exhibit a positive momentum. GDP grew by 2.5% in the second quarter of the year, consistent with the technical staff's expectations. This growth reflects robust domestic demand, with continued increases in consumption and a new recovery in investment, as well as a more recent surge in investment growth, most notably in civil works and machinery and equipment; however, investment remains below pre-pandemic levels.
- External financial conditions have eased following the recent interest rate cut by the US Federal Reserve, along with expectations of further cuts, as mirrored in the reduction of the country risk premium and the appreciation of the exchange rate. However, uncertainty surrounding the effects of US trade policy and regional and global geopolitical tensions continues.

All directors emphasized the strong performance of various macroeconomic indicators that point to a stable economy with robust domestic demand. They highlighted economic growth that exceeds the Latin American average, along with the positive performance of the labor market, whose unemployment rates have fallen to historic lows. They also note that the recent decrease in the Colombian peso's exchange rate against the US dollar has eased external inflationary pressures, although they caution about the volatility of this variable. However, they stress that the inflation rate's downward trajectory throughout 2024 was interrupted in 2025, in turn pushing up inflation expectations at different horizons. In this context, four directors opted to maintain the policy interest rate unchanged, two directors supported a 50-basis-point reduction, and one director voted for a 25-basis-point cut.

The adherents of the majority group noted even more compelling reasons to maintain the benchmark rate unchanged versus those logged in previous Board meetings. They emphasize that, so far in 2025, inflation has remained relatively stable at around 5%. They also stress that core inflation, excluding food and regulated items, has continued to hover around 4.8% over the past six months. Nevertheless, they note that the disinflation

process going forward remains uncertain, as it largely depends on the dilution of food basket shocks, which are difficult to predict, and a continued decline of regulated basket prices against a backdrop of increasing structural weaknesses in the energy supply. They emphasize that the increase in the fiscal deficit results in a boost to domestic demand, which, in the absence of an adjustment, increases the country's debt and risk premium. Additionally, they warn that recent public announcements hint at a possible excessive increase in the minimum wage in 2026, which would have significant inflationary effects that would delay the convergence of inflation to the target. They underline that this uncertain environment surrounding price behavior has led to widespread increases in inflation expectations for 2025 and 2026, which would increase the future inflationary inertia of indexed baskets. They emphasize that the future behavior of the exchange rate is quite uncertain, making it very risky to rely on currency appreciation as a sufficient and stable mechanism to support the convergence path of inflation to the target in the coming months. The former is because the recent appreciation of the peso against the US dollar has largely been driven by portfolio capital flows directed at the government, rather than increases in foreign direct investment, which is already exhibiting signs of weakening. The directors also note that to counterbalance the momentum of domestic demand, which is ending the year with growth of close to 4%, the trade balance has deteriorated, resulting in a higher balance of payments current account deficit as imports, mainly of consumer goods, have increased notably. Finally, they emphasize the lack of signs regarding any decisive measures concerning greater adjustments to public finances, either on the tax revenue side or through any significant reduction on the expenditure side. They stress that the high fiscal deficit and its high financing costs could be displacing private investment, as reflected in the growing share of public debt securities in the balance sheets of credit institutions, to the detriment of the loan portfolio portion.

The Board members who voted for a 50-bp reduction consider the majority group's position to be too conservative, having allowed a mere 25-bp reduction in the benchmark rate so far this year. They argue that this position is not consistent with the national goal of achieving higher growth rates that will reinforce economic recovery. They insist that, although economic indicators of economic activity and employment are quite favorable, there is room to stimulate growth even further through lower interest rates. The latter would enhance the Colombian government's capacity to respond to a complex external environment increasingly affected by protectionist policies in the United States and the escalation of regional and global geopolitical conflicts. A director in this cohort expressed their opinion that failing to reduce the benchmark rate could introduce destabilizing dynamics in the finance realm, particularly in an environment of rate reductions in the United States and a scenario of a marked Colombian peso revaluation, which could impact the country's financial stability. This group of directors notes that the peso's revaluation affects exports by decreasing their attractiveness, particularly in the current setting where the most active exports are no longer in the mining and energy sectors. They argue that, under the current condition of a negative output gap, as the technical staff purports, a demand stimulus would most likely result in increased production rather than a price upsurge. Furthermore, they warn that, although the unemployment rate has reached historically low levels of around 8.6% according to the latest figures from DANE, it remains relatively high by international standards, which casts doubt on whether easing the monetary policy would have inflationary effects. Finally, they reiterate that the country is shifting its development pattern toward a growth more heavily leveraged on household consumption versus mining and energy exports, as evinced in the expansion of the domestic market, the popular economy, the non-carbon-intensive manufacturing industry, and the rural economy. This reality must be taken into account when designing monetary policy. Attempting to cool the economy by increasing the real interest rate to reduce household consumption would worsen income distribution and hinder the configuration of a new development pattern.

The Board member who voted for a 25-bp reduction accepts the slight inflationary increase in inflation but considers there are no significant variations that would give rise to concerns about worrying inflationary spikes. In this regard, they propose buttressing the modest growth and sustaining job creation. The director raises the possibility of evaluating whether the 3% inflation target is most appropriate in the short term for achieving

sustainable improvements required by the country’s economic and labor structure, given the current complex international scenario. While the foregoing is a challenging debate in the current circumstances, it is not dissimilar to the positions adopted by other central banks. The Board member cites pertinent international literature suggesting the possible relaxation of monetary policy frameworks to achieve other objectives, including employment, production, and financial stability. Furthermore, the director questions the conventional analysis regarding the effects of minimum wage increases on inflation and employment, considering that the discussion surrounding the minimum wage should not be solely centered on costs, but rather framed more broadly as a mechanism to regulate income and wealth distribution instead of merely a tool responsible for job creation or to ensure low prices at the expense of job insecurity. The Board member argues that specific empirical exercises provide evidence that innovation improvements serve to decrease costs faster than wage increases, resulting in an aggregate positive effect.

The majority decision adopted by the Board of Directors reflects a cautious approach to monetary policy that incorporates the identified risks surrounding the expected convergence of inflation to the target. Future interest rate movements will reflect variations in inflation and its expectations, the behavior of economic activity, and the internal and external risk balance.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/news/board-directors/minutes-september-2025