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

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- Headline inflation rose again in September for the third consecutive month, reaching 5.2%, a level last seen at yearend 2024. Core inflation, excluding food and regulated items, remained at 4.8%.
- Inflation expectations, as measured by surveys and the public debt market, increased in October. Median analyst expectations for yearend 2025 and 2026 stood at 5.2% and 4.3%, respectively. All measures exceeded the 3% target for the next two years.
- Available indicators of economic activity suggest that GDP continues to gather momentum, growing by 3% in the third quarter of the year. This increase is the result of strong domestic demand, characterized by sustained rises in both private and public consumption, as well as in investment, particularly in machinery and equipment, and civil works. In line with this, the technical staff projects economic growth of 2.6% for 2025.
- After adjusting for the previous two years, the trade deficit continued to widen due to a surge in imports associated with strong domestic demand. Exports, however, have remained relatively stable following reductions in the volumes of mining and energy products exported, which have been only partially offset by improvements in the terms of trade, thanks to sustained high prices for coffee, gold, and other export products.
- External financial conditions have become less restrictive following benchmark rate cuts in the United States, increased demand for risk assets, and a easing of global trade tensions; nevertheless, uncertainty remains high as geopolitical conflicts continue.

The directors concur on the importance of underscoring the mounting vigor of economic activity, encouraged by sustained consumption growth and the recent upturn in investment. They emphasized that this strengthening of domestic demand has been taking place amid a restrictive monetary policy. They also highlighted the strong performance of the labor market, which has recorded an upward trend in the employed population, while the unemployment rate has dropped to historic lows. They noted that the salaried segment has led job creation during recent months, contributing to a decrease in the scale of informal labor. Nevertheless, they acknowledged that the persistence of annual inflation numbers so far this year, including a rebound observed in recent months, poses significant challenges for monetary policy. They noted that the exchange rate’s appreciation has helped contain some inflationary pressures, yet warn of the volatility surrounding this variable. Finally, they agreed on the need to consolidate public finances, which will contribute towards maintaining macroeconomic stability and achieving the convergence of inflation to the 3.0% target. In this context, four members of the Board of Directors voted to maintain the benchmark rate unchanged at 9.25%, two voted for a 50-basis-point reduction, and one voted for a 25-basis-point cut.

The majority group insisted that the behavior of inflation and inflation expectations necessitates postponing any reduction in the policy interest rate until conditions are in place to ensure that inflation converges toward the

target within a reasonable timeframe. Several members even pointed out that future benchmark rate increases could be considered if certain inflationary risks materialize that, although not part of the central scenario, should not be underestimated. In this regard, all members of the majority group pointed out various risks they consider significant. The increase in headline inflation over the last three months, along with the stagnation of core inflation (excluding food and regulated items), reveals worrying signs of price indexation. This situation could be exacerbated in 2026 if the increase in the minimum wage is as high as the government has suggested, which would coalesce with the inflationary inertia resulting from high inflation by yearend 2025. If this scenario materializes, the Bank's credibility whereon the inflation-targeting framework is founded could be affected. In turn, this would weaken a policy framework that has brought the country great benefits so far this century, including higher economic growth with price stability and the expansion of the financial market. These directors add that the substantial increase recorded in October, as reflected in all measures of inflation expectations, serves as a warning signal that should not be ignored and needs to be addressed through an opportune monetary policy stance that reaffirms credibility in the inflation target. This is compounded by the significant strengthening of domestic demand, which is growing at a rate exceeding 4.0% per year, primarily driven by increased public spending, the widening of the fiscal deficit, higher remittances from workers abroad, and elevated coffee prices. They point out that, given the response of domestic production has been insufficient to meet this increased demand, the economy's external imbalance has been mounting. The last could increase the risk premium and reverse the appreciation of the exchange rate, with the resultant inflationary pressures this implies. Exchange rate pressures could also befall from a reversal in portfolio capital flows and foreign direct investment, which have thus far been favorable for the country. Other, more specific risks could arise from food prices, which are difficult to predict, as well as from the prices of some regulated items such as natural gas, amid a backdrop of growing dependence on gas imports for both industrial use and household consumption.

Those Board members who voted for a 50 bp cut in the benchmark rate point out that the positive margin of the real monetary policy interest rate over the real neutral interest rate is wide enough to allow a benchmark rate cut that continues driving the reactivation of economic activity. They note that, although economic activity has been growing at a faster pace than in 2024, it has not yet reached the desired level of vitality to increase the income of broad segments of the population, to maintain the pace of job creation, and to intensify the shift toward growth in those sectors beyond mining and energy that can beget greater added value for society. They add that they view the downward trend in inflation over the past two years with optimism and emphasize that the increase in headline inflation recorded in September was instigated by the food and regulated items categories, while core inflation, which excludes these items, remained stable. They point out that this denotes the increase in inflation was the result of supply shocks - rather than demand shocks - which the interest rate is unable to correct. Regarding the minimum wage, they emphasize it has increased in real terms since 2022, while inflation declined and employment grew during the same period, providing compelling empirical evidence that cannot be dismissed by counterfactual models. One director stated that they fail to believe a restrictive monetary policy, in terms of interest rates, and an expansionary monetary policy, in terms of monetary aggregates, are consistent with the Bank's latest decisions concerning the money supply. Finally, they noted that the greater disparity between the benchmark rate in Colombia and that of the United States in an environment of a peso revaluation may induce short-term capital inflows (carry trade), stimulating exchange rate appreciation and increasing financial vulnerability; a situation that, although not currently apparent, is very likely to arise should revaluation and investor appetite for emerging markets persist.

The Board member who voted for a 25 bp cut stressed that Colombia's inflation structure makes it particularly sensitive to supply shocks, some of which are persistent and cannot necessarily be mitigated by the domestic interest rate. By employing modeling and a literature review, they argued that the Colombian inflation structure can be understood proportionally more from the supply side than the demand side, and has been sustained by low wages that grow more slowly than productivity—a structure that is shifting due to structural transformations in the labor market. They also take into consideration other issues, such as the impact of climate change, that can bring about more persistent shocks to the food supply, reducing production and increasing inflation and inflation

expectations. The latter can be modified with interest rate adjustments, although its impact on this type of shock is uncertain. With the support of national and international literature, this Board member concludes that a contractionary monetary policy stance in a context of supply shocks could prove counterproductive to economic growth recovery, job creation, investment recovery, and the country’s economic expectations.

The majority of Board members who adopted the decision to maintain the interest rate unchanged emphasize the cautious nature of this monetary policy stance, acknowledging potential risks in the path of expected inflation convergence to the target. All Board members agree that future monetary policy decisions will be influenced by the observed behavior of economic activity, and particularly by signals that confirm or indicate potential risks to the convergence of inflation to the 3.0% target.

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