BanRep Minutes: The Board of Directors of Banco de la República decided by majority vote to increase the benchmark rate by 100 basis points (bps) to 11.25%

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- Headline inflation in January and February stood at 5.4% and 5.3%, respectively, above the level observed at the end of 2025 (5.1%). According to the CPI components, the increase in inflation was largely driven by services such as lodging and restaurants, recreation and cultural events, information and communication services, healthcare, and miscellaneous services. However, this upward pressure was partly mitigated in February by falling inflation in regulated items, driven by lower gasoline and energy prices and smaller monthly increases in gas prices. The baseline measure of core inflation excluding food and regulated items increased in both months to 5.4% and 5.5%, respectively, exceeding its December level (5.0%).
- Headline inflation expectations remain high and far from target. Analysts' sample survey of median inflation expectations for year-end 2026 fell from 6.4% to 6.3% between January and March, while remaining at 4.8% for year-end 2027. Inflation expectations at different horizons implied by the debt market showed slight declines in March but remain close to 7.0%. The persistence observed in inflation expectations is inconsistent with achieving the 3.0% target over the monetary policy horizon.
- According to seasonally adjusted figures from DANE, the GDP grew by 2.2% in the fourth quarter of last year, below its average growth of 4.4% over the previous three quarters. For 2025 as a whole, economic growth was 2.6%, below the technical staff's 2.9% forecast. Economic activity in the first quarter would have continued at a pace similar to that observed in the last quarter of 2025, as suggested by leading indicators such as the ISE (Economic Monitoring Indicator), retail sales, manufacturing, and energy demand, among others.
- The war in Iran poses risks to the growth and stability of the global economy against a backdrop of high uncertainty regarding its duration and intensity. Its effects on the Colombian economy would be mixed. On the one hand, it would improve the terms of trade due to higher oil prices. On the other hand, it would increase the cost of key imported goods such as gas and fertilizers, which the country imports in significant quantities. This could intensify inflationary pressures this year, driven by higher energy and food prices.

The majority cohort that voted to increase the policy interest rate by 100 bps recalled its forewarning at the January meeting that the Board's determination at the time was insufficient to offset rising inflation expectations and to maintain the contractionary monetary policy stance reflected in the real ex-ante interest rate in place in 2025. Consequently, said decision would only be the outset of a new monetary cycle. The members of this group stressed that the performance of both headline and core inflation in the first two months of the year, as well as the sharp rise in analysts' and implicit debt-market inflation expectations, confirms the need to continue the adjustment cycle. Furthermore, the implications of the war in the Persian Gulf, which has already begun to

generate surges in fuel, fertilizer, and other commodity prices that could exacerbate inflationary pressures in Colombia and around the world, have also raised the prospect of more contractionary monetary policies in advanced and emerging economies. They noted that the easing in regulated markets observed in February does not imply a generalized dissipation of inflationary pressures. On the contrary, annual service inflation continued to rise, reaching 6.5% in February above its December level (5.9%). In particular, they highlighted that inflation in minimum-wage-indexed items already exceeds 9%. Notably, the projections from the technical staff indicate the persistence of macroeconomic imbalances identified in previous quarters, characterized by a positive output gap that would continue until mid-2027, associated with excess demand and a tight labor market. They stressed the urgency of correcting the monetary policy stance to avoid larger, longer interest-rate hikes in the future, a shift facilitated by today's favorable economic activity and strong labor market. They expressed their concern regarding the fiscal course envisaged in the update of the Financial Plan for 2026, in particular by the intended adjustments in primary spending, which deviate significantly from the Independent Fiscal Rule Committee's estimates (CARF for its Spanish acronym) and point to trajectories that are not consistent with the fiscal anchor. Faced with the prospect of a significant acceleration in price increases during 2026 and major challenges in meeting the inflationary target in 2027, these directors warned of the risk of compromising the credibility of the inflation target regime. They stressed that said regime has been valuable in allowing *Banco de la República* to maintain low and stable inflation throughout this century, and to advance countercyclical policies that have contributed to stabilize GDP growth and domestic demand around the economy's potential growth.

Those directors who voted for a 50-basis-point (bps) reduction in the policy interest rate emphasized that observed inflation has declined significantly from the peaks recorded in previous years. They remarked that this behavior is largely explained by supply shocks and indexation mechanisms, rather than by excess demand that would warrant a contractionary monetary policy stance. In this regard, they highlighted that geopolitical conflicts generate supply shocks—such as increases in oil prices and international transportation costs—that raise the prices of imported agricultural goods and inputs, and which cannot be offset by monetary policy. Attempting to counteract these effects through tighter monetary policy would instead impose additional costs on economic activity. They also stressed that the current monetary policy stance is already highly contractionary, with Colombia exhibiting one of the highest real interest rates in the region, alongside Brazil. In their view, a further increase in the policy rate would widen interest rate differentials, contributing to an appreciation of the Colombian peso and adversely affecting the export sector. In addition, they noted that leading indicators for the first quarter do not point to an improvement relative to the last quarter of 2025, making an increase in the policy rate untimely in a context of a weakening global economy. On the fiscal front, they noted that an increase in the policy rate would exert upward pressure on public debt interest rates and lead to declines in the market value of TES (bonds issued by the Colombian government and managed by *Banco de la República* for its Spanish acronym). Moreover, these directors questioned the reliability of measures of inflation expectations. They argued that survey-based measures largely reflect the views of financial sector analysts and may not correspond to actual expectations. In their view, these responses may incorporate the preferences of the financial sector, including a bias toward higher interest rates. They also expressed reservations about market-based measures of inflation expectations derived from public debt instruments, noting that these do not represent pure expectations but rather financial prices arising from the difference between nominal TES yields and inflation-indexed (UVR) yields. These measures reflect not only expected inflation but also risk premia, liquidity conditions, and regulatory factors affecting demand for these assets. They added that similar biases may be present in analyst surveys, given that most respondents are affiliated with financial institutions. Finally, they noted that the concept of inflation expectations may have limitations in an economy where a significant share of households derives income from informal activities, implying short planning horizons. In this context, these directors emphasized that inflation expectations have empirical and theoretical limitations that may weaken their role as a primary anchor for monetary policy and as a guide for interest rate decisions.

The Board member who voted to maintain the policy interest rate unchanged stated that the crisis cycle triggered by the pandemic has not yet fully stabilized. In the case of Colombia, they noted that an economic restructuring

process is underway in both production and employment, the effects of which are not yet fully measurable. They suggested that during crises, when uncertainty discourages investment and influences expectations, the government can take an active role in boosting confidence. In their view, this goal could be hindered by ongoing increases in *Banco de la República*'s benchmark rate. Regarding the minimum wage, their position is based on quantitative analysis and a review of the literature, which suggests that it plays an important role in preventing wage deterioration, contributing to poverty reduction, and functional income distribution. They added that progress should be made toward a framework in which wages reflect a fair share of value added and prices incorporate production costs and normal profit margins. They also noted that the potential effects on inflation are not entirely clear, given that indexation mechanisms have introduced distortions in price formation that are currently being corrected over time and are not yet fully captured by existing models. In light of recent geopolitical developments, they expressed concern and considered that tightening monetary conditions at this juncture could entail higher costs, particularly given that the post-pandemic monetary policy easing cycle began late and from very high interest rate levels. Finally, they questioned the effects of *Banco de la República*'s communication strategy on the formulation of expectations. In this regard, they highlighted the limitations of survey-based measures for understanding expectation formation, noting that using average or median expectations assumes homogeneity among agents and that all economic agents process the same information.

The majority decision adopted by the Board of Directors to increase the interest rate by 100 basis points aims to return inflation to a downward trajectory. Future decisions will consider new information as it becomes available.

**This version of the Minutes has not been approved by the Minister and is therefore subject to change.*

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/news/board-directors/minutes-march-2026