BanRep Minutes: The Board of Directors of Banco de la República decided by majority vote to maintain the monetary policy interest rate unchanged at 9.5%

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- Annual inflation increased marginally to 5.3% in February, following a three-month period of stability at 5.2%. The most significant increases were observed in the prices of processed foods and certain regulated items, including gas and transportation. Core inflation (excluding food and regulated items) continued the downward trajectory shown during 2024, falling from 5.0% in January to 4.9% in February 2025. Short-term debt market inflation expectations declined, while those derived from surveys increased. Both sources point to inflation expectations exceeding the 3% target over one- and two-year horizons.
- Risks of Inflationary pressure persist. The downward trend in inflation, which had been seen for most of the past two years, was interrupted in November, with a slight inflationary rebound noted in February. The latter, amid a backdrop of generalized tariffs, hinders international trade and potentially places upward pressure on global inflation. Furthermore, the current global geopolitical context and volatility experienced by external markets create uncertainty about future exchange rate fluctuations to which the country may be susceptible given its fiscal imbalance.
- After recording an annual GDP growth rate of 2.4% in the fourth quarter of 2024, the Economy Tracking Indicator (ISE for its Spanish acronym) yielded in January an annual variation of 2.5%. Internal demand would have continued to strengthen during the first quarter, driven by strong private consumption and investment. This has been facilitated by the interest rate cuts seen in 2024, the growth in remittances, higher revenues from exports of goods and services, and the increase in the minimum wage. In this context, the technical staff upgraded its economic growth forecast for 2025 from 2.6% to 2.8%.
- The labor market continues to exhibit favorable behaviors. In annual terms, employment in February enjoyed a significant 4.3% growth in the national aggregate, and seasonally adjusted figures for the unemployment rate decreased slightly to 9.3%, the lowest observed since April 2017.
- External financial conditions are expected to remain tight in an environment of slow monetary policy normalization in the United States. The aforementioned in an uncertain environment regarding the potential effects of U.S. immigration and trade policies and their impact on the global economy.

The Directors agreed that positive progress has been made toward the adjustment process, resulting in inflation falling from its March 2023 peak of 13.3% to the current 5.3% figure. In tandem, the pace of economic activity has been recovering, growing by 1.7% in 2024. It is expected to expand by a further 2.8% during the current year, contributing to a more dynamic labor market. Concurrently, after reaching 6.2% of GDP in 2022, a correction has been underway in the current account deficit, which is expected to fall to 1.8% of GDP by the end of 2024. These indicators underscore the country’s improving macroeconomic situation. However, the Directors recognize there is still more work to be done. Despite having decreased, inflation remains above the 3% target and is among the highest in the region. Likewise, economic growth must rise further to reach its full potential. In this context, four Directors voted to leave the policy rate unchanged at 9.5%, and three voted for a 50-bps reduction.

The majority bloc expressed its desire to continue lowering the benchmark rate but considered that current circumstances fail to meet the required conditions for this reduction. They contend that such a pronouncement could lead to further inflationary pressures to the detriment of the inflation target. It could even necessitate an interest rate increase at a later date due to a loss of credibility in the monetary policy and a de-anchoring of inflation expectations. Consequently, they emphasize the interruption noted in inflation's downward trajectory since November, with recent readings exceeding those expected in recent months, partly due to a minimum wage increase that was several points above the observed inflation and productivity. They also warn about inflationary risks associated with the future behavior of the exchange rate, the impact of tariff increases on global trade, supply shocks that could affect international food prices, and measures regarding adjustments in the prices of some regulated goods and services, especially in the gas sector, among other factors. These Board members add that the environment of uncertainty surrounding the country's public finances, after the significant increase in the Central Government deficit in 2024 and the difficulties in financing the 2025 budget are significant factors that increase the country's risk and reduce monetary policy's room for maneuver. They insist that a clear signal addressing concerns about the sustainability of public finances and ensuring compliance with the fiscal rule would improve market confidence and create essential opportunities for monetary policy easing.

The Directors who voted for a 50-basis-point reduction noted that the trend observed in 2024, of declining core inflation — particularly excluding food and regulated items — continued into the early part of this year, with a further 12-basis-point decline in February to 4.9% year-on-year. This suggests that the expansion of domestic demand taking place, favored in part by the increase in the minimum wage, has not generated significant pressure on price levels. Under such conditions, they point out that there is an opportunity to reduce the interest rate and provide a boost to growth and domestic demand, which would help offset the effects on the Colombian economy of the anticipated slowdown in the global economy. Consequently, this bloc of Directors presented a concerted proposal for a 25-basis-point benchmark rate reduction in order to signal their support for economic recovery while also acknowledging necessary caution in view of the international situation and the country's fiscal challenges. Accordingly, the Directors recognize that, although the forecast of economic growth for 2025 has improved, it remains insufficient and could be more ambitious. They consider that growth based on household consumption and productive investment - both favored by a decrease in the interest rate - is clearly more desirable than that based on the expansion of the mining sector, which generates little employment and flees abroad through the remission of profits. As such, they emphasize that the current growth model, which is based on coffee exports, tourism, and the positive effects of the minimum wage increase, is clearly a redistributive growth. Finally, several of these Directors echoed the significance of effectively aligning economic policy with longer-term structural objectives, without neglecting the necessary caution in light of pressures from volatile portfolio movements. They emphasize the importance of responding to current social demands, diversifying the country's trade and financial relations, enhancing its productivity and capacity for innovation, and pursuing greater international integration.

Directors acknowledged that new information emerging in the coming months will provide further insights to determine whether to continue further interest rate cuts.

Fuente: https://www.banrep.gov.co/en/news/board-directors/minutes-march-2025