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- Annual inflation in June fell to 4.8% from 5.1% in May, chiefly as a result of waning inflation in the food and regulated baskets. Food inflation fell from 4.7% to 4.3%, mainly due to a reduction in perishables inflation. Regulated products inflation fell from 6.3% to 5.5%, driven by lower inflation experienced by public services, particularly electricity. Core inflation, excluding food and regulated items, stabilized at 4.8%, halting its downward trend through increases recorded by various goods and services. Inflation expectations remained above target. According to the July surveys, analysts' median expectations stood at 4.7% and 3.8% for yearend 2025 and 2026, respectively, while outlooks from government bond markets show mixed results.
- Economic activity maintained the vigor of the first quarter, when it grew by 2.7% year-on-year. In fact, in May, the Economic Monitoring Indicator (ISE) depicted an annual change of 2.7%, spearheaded by tertiary activities. Other indicators, including retail sales, manufacturing production, and energy demand, also presented positive results. Accordingly, the Bank's technical staff forecasts that economic activity would grow year-on-year by 2.7% in the second quarter, driven by a 4.1% expansion in domestic demand.
- The country continues to face restrictive external financing conditions amid an environment of high global uncertainty resulting from conflicts in multiple regions of the world, global trade tensions that are slowly easing, and the anticipated gradual normalization of monetary policy in the United States. Concerning the latter two, recent trade negotiations between the United States and economies such as China, the United Kingdom, and the European Union have resulted in lower tariffs than those initially announced. In turn, the US Federal Reserve (Fed) opted to maintain its benchmark rate steady in the range of 4.25% and 4.5% during its July session.

Board members concurred in stressing the positive performance the Colombian economy has shown so far this year, characterized by robust economic activity and a falling unemployment rate. Simultaneously, credit is beginning to show real positive growth rates. They underscored the strengthening in domestic demand, driven mainly by private consumption. They acknowledged the slower-than-expected pace of inflation decline in the first half of 2025, against a backdrop of external shocks that have produced particularly restrictive international financial conditions. The Directors noted that the sustained fiscal imbalance generates significant challenges for the country. Under these conditions, four Board members favored maintaining the benchmark rate unchanged at 9.25%, two directors voted for a 50 basis-point reduction, and one Director endorsed a 25 basis-point cut.

The Directors in the majority group pointed out that the reduction seen in annual inflation in June and the prognosis for its progression in the coming months do not create favorable conditions to pursue a policy rate cut. They warned that the latter originates from a specific cause, thus failing to ensure the convergence of inflation towards the 3% target in a sensible horizon. In this regard, they noted that core inflation, excluding food and regulated items, remained unchanged in June, while July inflation expectations for yearend 2025 and 2026 did not fall, in contrast to expectations quantified in May. Although the technical staff projects headline and core inflation of 4.7% and 4.2% for 2025 and 3.2% and 3.3% for 2026, respectively, these Directors emphasized potential short-term inflationary risks if there are shortfalls in the financing of the fiscal deficit or the current balance of payments account that exert upward pressure on the exchange rate. They added that a substantial increase in the minimum wage by 2026, in line with previous years' increases, would again impede nearing the inflation target. Regarding the fiscal outlook, they stressed that the higher Central Government deficit anticipated for 2025 and 2026 generates a macroeconomic stimulus that would be reflected in higher inflationary pressures and an additional increase to the already high country risk premium. They noted that the favorable macroeconomic performance observed in growth and employment during the first semester eases monetary policy quandaries, allowing it to focus on the objective of seeking the convergence of inflation to the target through cautious interest rate decisions, without having to make significant short-term economic sacrifices, and seeking to achieve price stability. They stressed that inflation is a highly regressive tax that disproportionately affects poor households, pointing out that countries that have cemented stable prices tend to enjoy higher growth rates, mainly because they can maintain lower real interest rates over time.

The Directors who voted for a 50 bps reduction argue that the real benchmark rate discounting observed inflation (ex-post rate) for the last year and a half (January 2024 to June 2025) of 4.15% is 9.2 times higher than the average 0.45% noted between January 2010 and December 2023. They add that the ex-post observed inflation rate currently stands at 4.4%, the second-highest in the region, after Brazil. Based on this evidence, they point out that Colombia's monetary policy stance is highly restrictive. Additionally, they question the quantification of unobservable variables such as the neutral interest rate, the GDP gap, and the unemployment gap, which the technical staff uses to support its recommendations to the Board, because these rely on model results that cannot be empirically verified. They argue that annual inflation stood at 4.82% in June, down from 5.05% in May, surprising market analysts on the downside. Although it remains above target, its downward trajectory supports the breadth to continue reducing rates. The technical staff of the General Directorate of Macroeconomic Policy of the Ministry of Finance (DGPM for its Spanish acronym) estimates in its latest update of macroeconomic assumptions that inflation will end 2025 at 4.5%. Inflation expectations for yearend 2025 stand at 4.79% in July, two basis points below last month's forecast (4.81%). In addition, 12- and 24-month expectations remain anchored in the target range set by Banco de la República, at 3.79% and 3.49%, respectively, suggesting room to continue on the path of interest rate cuts. The real interest rate would stand at 4.6% in July, two basis points above the neutral level projected by Banco de la República (2.6%). Given the expectation that inflation would continue on its downward path for the remainder of the year, and foreseeing that the output gap would remain in negative territory, they consider it appropriate to continue implementing interest rate reductions in upcoming BDBR meetings. They insist that high real interest rates, such as those currently observed in Colombia, affect the possibilities of economic growth, particularly affecting the vigour of the manufacturing sector, which responds to greater incentives. Consequently, continuing on the path of interest rate cuts would favor propelling the industrial sector over economic growth. They added that reducing interest rates would also significantly boost micro-credit and the popular economy. Furthermore, they contend that increases in the real minimum wage during the last three years have not had the inflationary effects implied; moreover, they contribute to reducing poverty indicators, as evidenced by the decreasing unemployment rate and monetary poverty reduction. To address fiscal imbalances, it is critical to secure increased economic growth and a financing law that provides for fiscal sustainability in the medium term.

The Director who voted for a 25 bps cut believes that fulfilling the constitutional mandate of controlling inflation can be achieved by aligning with the primary objective of economic policy, which is to maintain sustained growth and increase employment, particularly in countries with high inequality, such as Colombia. They underscore that, despite activating the escape clause of the fiscal rule and the credit rate reduction, the risk premium has fallen in recent weeks, correcting previous deviations, as shown by the recent decrease in the credit default swaps. Additionally, they note that the exchange rate has remained below COP 4,200, close to the variations experienced by other countries in the region, hence a sign of stability. Finally, the Director warns that, although macroeconomic variables continue to display positive trends, private investment is decreasing in some traditional sectors, thus making it essential to signal confidence for investment, a key role played by the benchmark rate.