<em lang="es">BanRep Minutes: The Board of Directors of <em lang="es">Banco de la Repúblicadecided by majority vote to maintain the monetary policy interest rate unchanged at 12.0%

BanRep Minutes: The Board of Directors of *Banco de la República*decided by majority vote to maintain the monetary policy interest rate unchanged at 12.0%

- Between May and June, headline inflation rose from 5.8% to 6.1%, mainly driven by food and regulated items. Food inflation increased year-on-year from 6.0% to 6.8%, mainly due to higher prices for perishables. Inflation for regulated items rose from 5.2% to 5.9%, driven by higher rates for certain public services. Meanwhile, core inflation, which excludes food and regulated items, remained steady at 6.0%.
- Economic analysts' inflation expectations for December 2026 and 2027, according to the July survey results, rose to 6.6% and 5.0%, respectively. However, analysts' core inflation expectations, which exclude food and regulated items, for these same dates fell by just over 10 bps, to 6.1% and 4.8%, respectively. Inflation expectations derived from the public debt market remained above 6.0% across all horizons, although they decline as the maturity lengthens.
- Information available for the second quarter suggests that the Colombian economy continued to strengthen. The Economic Monitoring Indicator (ISE) posted an annual increase of 4.1% in May, driven by the strong performance of tertiary activities, which include public administration, health, education, and entertainment. Various activity indicators as of June, including the regional pulse, cargo transport, vehicle and motorcycle registrations, and consumer confidence, confirm this perception. In addition, the national aggregate unemployment rate continued to decline to 8.0% in June. In line with this, the technical staff projects a 2.5% growth for 2026.
- The Colombian peso continued to appreciate and has outperformed several peer currencies as a result of both external and internal factors. These developments help mitigate inflationary pressures. If this appreciation persists, economic growth in 2026 across sectors could be uneven, with some sectors more affected than others.
- The recent intensification of the Middle East conflict and the likely El Niño event increase risks to global and local inflation, and could reduce economic growth.

The majority group that voted to maintain the interest rate unchanged considers a hiatus sensible to further verify the results of the interest rate increases made so far, bearing in mind that effects on the economy are transmitted with a lag and that the strong revaluation of the peso, which has strengthened over the past two months, could be significantly mitigating inflationary pressures. They consider that the interest rate level reached after the cumulative 275 bps increase in the first half of this year clearly implies a restrictive monetary policy, which should lead to a path of inflation convergence towards the target during 2027 and the first part of 2028. They underscored their concern about the impact that a new policy interest rate increase could have on the exchange rate, since, by widening the differential relative to the external interest rate, it, together with other factors, could encourage "carry trade" mechanisms. These, in turn, may lead to an unsustainable appreciation of the peso and generate volatility that might be problematic to the Colombian economy. One of the group's directors deemed that resuming upward adjustments in interest rates should be evaluated during future Board meetings, using new information as it becomes available and the materialization of upside and downside risks identified today in inflationary pressures. Some directors stressed that the stability in core inflation, which excludes food and regulated items, seen in June suggests that demand pressures may be starting to dissipate. They also consider it positive that analysts' expectations for core inflation in December 2026 and 2027 fell in June, as this suggests these agents perceive that the restrictive monetary policy stance will eventually contain excess demand. Three directors of this group insist that inflationary pressures stem from supply shocks, such as those exerting upward pressure on food and regulated prices, primarily due to unfavorable weather conditions and the effects of the conflict in the Middle East on energy and fertilizer prices. The latter are unrelated to the increase in the minimum wage, which they consider has been overly emphasized as an explanation for inflation. They emphasize that interest rate increases will not work to eliminate these external pressures. Finally, one director questioned the approach of fighting inflation exclusively through contractionary monetary policies that can reduce aggregate demand, without resolving the structural causes of price increases related to productive heterogeneity, sectoral bottlenecks, external restrictions and price setting in less competitive markets, among other factors.

Directors who voted for a 50 bps increase in the policy interest rate argue that, based on analysis by the technical staff and available empirical evidence, it is very difficult to attribute a significant share of the recent exchange rate movement to monetary policy. In this regard, they argue that the deviation in the structural component of the exchange rate is mainly attributable to idiosyncratic factors and to a reduction in the country risk premium. They also add that the attractiveness of carry-to-risk operations has relatively little weight in explaining the exchange rate, which currently seems to be driven more by exchange-rate volatility than by interest-rate differentials. On the other hand, they stress that the probability of a strong or very strong El Niño event exceeds 95%, and that it could materialize by the end of the third quarter of the year. They consider it reasonable to include the realization of this risk in the most likely forecast scenario and to adopt monetary policy measures in advance to limit the contagion of this phenomenon to all prices in the economy, which could occur through the increase in inflation expectations. They clarify that the current monetary policy stance, measured through the ex-ante real interest rate gap, which discounts inflation expectations from the nominal interest rate and the neutral interest rate, is essentially similar to a year ago or even slightly lower, reflecting that although the increases in the policy rate seem large, theyhave barely managed to offset increases in inflation expectations throughout the year. Thus, they recall what happened in 2025, when inflation remained persistent despite this restrictive monetary policy stance. In this context, they consider that the cycle of policy rate increases must continue and that now is the least costly time to intensify the adjustment. Acting in a timely manner favors the convergence of inflation, limits the costs of a delayed reaction, and preserves flexibility as conditions improve. Finally, they point out that, although core inflation excluding food and regulated items remained stable in June, its 6.0% level suggests that inflationary pressures persist and are concentrated in the most volatile components.

The decision adopted by the majority of the members of the Board of Directors supports a restrictive monetary policy, consistent with the outlook of reducing inflation in 2027. Future decisions will depend on new information as it becomes available.

Fuente: https://www.banrep.gov.co/en/news/board-directors/minutes-july-2026