BanRep Minutes: The Board of Directors of Banco de la República decided by majority vote to maintain the monetary policy interest rate unchanged at 12.25%

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- Annual headline inflation edged up in September to 6.3%, slightly below market expectations. Its behavior was mixed: food inflation increased, driven by perishable goods prices, and services inflation rose slightly, reflecting higher rents and food away from home. By contrast, inflation for goods and regulated items declined.
- Core inflation, excluding food and regulated items, fell from 6.1% in August to 6.0% in September. The El Niño phenomenon poses significant upside risks to the trajectories of food and regulated items, although uncertainty remains regarding its duration and potential impact.
- Economic analysts' inflation expectations for December 2026 increased slightly to 6.9%, while expectations for a two-year horizon remained around 4.0%. Inflation expectations derived from the public debt securities market rose in the short term and remain above the 3% target across all horizons.
- The Colombian economy's annual growth is estimated to have slowed in the third quarter compared with the previous quarter. This is suggested by domestic demand indicators, which point to slower consumption growth in both the private and public sectors. In addition, the Economic Monitoring Indicator (ISE) for August and the manufacturing surveys suggest weak activity across economic sectors.
- The lower growth forecast for the third quarter reflects the negative effects of the earthquake on economic activity, the fading of many of the positive shocks that boosted growth in the second quarter (the FIFA World Cup and presidential elections), and drier weather conditions, which may have affected agricultural production.
- The evolution of public finances is a key factor in future macroeconomic performance and in monetary policy efforts to bring inflation to its target. In this regard, the Board of Directors emphasizes the importance of a rigorous review of the Economic Recovery Bill submitted to Congress.

The Board members who voted to leave the policy interest rate unchanged underscored the importance of maintaining a contractionary monetary policy stance in a context in which both observed inflation and inflation expectations remain far from the target. Nevertheless, they noted that the slower pace of increase in annual inflation in September, together with the decline in core inflation excluding food and regulated items, suggests that the moderation in domestic demand growth, as reflected in recent indicators, may be beginning to reduce excess demand and contain inflationary pressures. They cautioned that the available information is not conclusive and considered it prudent, in this context, to pause adjustments to the policy interest rate. They emphasized that this pause minimizes the risk of a costly monetary policy overshoot while additional and better information becomes available to determine whether the decline in core inflation observed in September is sustained, and to assess more accurately the potential impact of the El Niño phenomenon on food and regulated items inflation, including any second-round effects that may arise. Two Board members in this group added that

the outlook for significant fiscal consolidation in 2027 and a moderate minimum wage adjustment would support inflation converging toward the target. Another Board member, who initially advocated a 50-basis-point reduction in the policy interest rate but joined this group to help secure a majority, emphasized that the factors currently driving inflation upward are fundamentally supply-side in nature. These include the El Niño phenomenon, gas shortages, and higher fuel and agricultural input prices associated with international conflicts. This Board member argued that, under these circumstances, interest rate increases are largely unjustified, except as a means of containing second-round effects through an increase in inflation expectations, for which, in this member's view, there is insufficient empirical evidence. The member added that the sharp monetary policy tightening so far in 2026 has widened the interest rate differential vis-à-vis other countries, creating incentives for carry trade transactions that have reinforced pressures for peso appreciation. Finally, another Board member in this group supported their position by arguing that the costs of restrictive monetary policy have not been properly weighed against its gains, particularly on the eve of a complex fiscal reform that could have irreversible effects on the country's economic and social structure. In this regard, this Board member argued that the combination of a restrictive monetary policy stance, a sharp appreciation of the peso, international geopolitical and financial developments, and contractionary fiscal policy is generating negative expectations regarding decisions by companies in the real sector.

The Board members who voted for a 25-basis-point increase in the policy interest rate underscored the urgency of restoring credibility in the inflation target, which has been seriously weakened after such a prolonged period of inflation remaining above it. They emphasized the importance of achieving the target over the forecast horizon and, to this end, the need to ensure that inflation in 2027 does not exceed the technical staff's already elevated forecast of 4.8%. They noted that, although the current contractionary monetary policy stance would allow inflation to begin declining in 2027, additional monetary tightening is needed while excess demand conditions persist, in order to accelerate the convergence of inflation to the target in 2028 and re-anchor inflation expectations in the face of persistent supply shocks. They stressed that postponing the necessary increases in the policy interest rate would raise future economic and social costs in terms of output and employment. In this regard, they explained that the output gap would close by mid-2027 and turn negative thereafter, accompanied by higher unemployment. Under these circumstances, monetary policy would be unable to play its desirable countercyclical role, since delaying the adjustment in interest rates would mean that inflation would still be too high by then. They also warned that a very strong El Niño phenomenon, such as the one already anticipated, would have a greater impact on food and energy prices than in previous episodes, given insufficient domestic gas production and the resulting dependence on imports. They added that the earthquake's negative effects on economic activity and employment in the third quarter have been mitigated by the continued strength of the terms of trade and sustained improvement in household incomes. They concluded that the conditions described provide compelling reasons not to postpone the necessary interest rate increases. An additional advantage of implementing these increases now, while the economy still exhibits excess demand, is that they can be made at a lower cost than if they were delayed until economic activity has slowed. Regarding the impact that higher interest rates could have on peso appreciation by widening the interest rate differential with other countries, they argued that this is only one of many factors explaining the currency's appreciation and is not among the most significant. On the international environment, they noted that it has become less favorable to a rapid easing of monetary policy, as energy and food costs are generating new inflationary pressures while international interest rates remain elevated. Finally, these Board members agreed that persisting in efforts to bring inflation to the target sends a positive signal to markets and complements the Government's fiscal strategy and the Economic Recovery Bill, which is beginning its passage through Congress.

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-october-2026