<em lang="es">BanRep Minutes: The Board of Directors of <em lang="es">Banco de la República decided unanimously to keep the benchmark rate unchanged at 11.25%

BanRep Minutes: The Board of Directors of *Banco de la República* decided unanimously to keep the benchmark rate unchanged at 11.25%

The Board of Directors considered the following elements:

- In March, headline inflation stood at 5.6%, 46 basis points (bps) above the December figure. Core inflation(excluding food and regulated items) also rose to 5.8%, 77 bps above the December reading.
- Inflation expectations at one-year-ahead horizons or longer declined. However, median expectations derived from surveys for year-end 2026 increased again. All measures remain above the 3% target set by the Banco de la República over the two-year horizon.
- Economic activity indicators, including energy demand, manufacturing output, retail trade, and goods exports and imports, suggest that first-quarter growth would exceed that of the last quarter of 2025, driven by dynamic domestic demand.
- The labor market remains dynamic, with historically low unemployment levels and continued growth in salaried employment.
- A prolonged conflict in the Middle East could generate additional upward pressure on international prices for energy, fertilizers, and some goods, as well as tighter external financial conditions for the country.

The unanimous decision to keep the benchmark rate steady indicates a shared understanding and mutual respect among the Board members. It shows consensus was possible despite differing opinions on the appropriate policy interest rate path, preventing the Bank’s policies from being interpreted as elements associated with the electoral process. This decision also considers the practical consideration of providing extra time until the next policy meeting of the Board, allowing additional information to become available for assessing the effects of past benchmark rate adjustments on inflation and its outlook, the evolution of domestic demand, and the international environment.

In this context, the directors shared their perspectives on the appropriate direction of monetary policy to fulfill the mandate of achieving price stability while remaining consistent with the objectives of growth and employment, amid an environment of risk and uncertainty.

A group of four directors expressed concern regarding the increase observed in headline and core inflation, as well as in inflation expectations. They emphasized that in only four months—between November (when the inflation target for 2026 was established) and March—core inflation excluding food and regulated items rose from 4.9% to 5.8% year-on-year, reinforcing signals of inflation persistence in the more inertial components of the consumer basket. They added that, over the same period, the median of analysts’ inflation expectations for end-2026 increased from 4.4% to 6.3%, which, in their view, cannot be considered a temporary phenomenon, particularly given that two-year inflation expectations increased from 3.8% to 4.5% during the same period. They stressed that even if price shocks are partly supply-driven, monetary policy must respond if these shocks lead to a de-anchoring of inflation expectations, to prevent inflation from becoming persistent through second-round effects. They also noted that inflationary pressures are partly associated with excess demand, taking into account the large primary deficit of the National Government and real increases in the minimum wage well above any measure of productivity, which are already exerting clear pressures on prices, particularly in services. They pointed out that future inflationary risks have intensified, as the El Niño phenomenon is projected to strengthen during the second half of 2026, which could place upward pressure on food and energy prices. In addition, these pressures are compounded by the prolonged conflict in Iran, which has increased international energy and fertilizer prices and could raise food production costs. They clarified that the trade-off faced by monetary policy between inflation and growth exists only in the short term, since over the medium and long term, the highest sustainable economic growth is achieved in an environment of price stability. In this context, they considered that keeping interest rates unchanged, rather than increasing them under the current circumstances, could create the risk of having to maintain higher interest rates for longer, which would be costly for the economy. They noted that the increases in the policy interest rate implemented in January and March were intended precisely to avoid such a scenario. They also highlighted that, at the Board meeting scheduled for June 30, additional information would be available that would be valuable for the adoption and communication of the monetary policy decision.

The two directors advocating a more accommodative monetary policy stance maintained that annual inflation has declined substantially from the peaks observed in previous years, and its recent increases are mainly the result of supply shocks and indexation to past inflation, rather than excess demand that would justify a more contractionary monetary policy response. In this regard, they emphasized that the March increase in annual food inflation was driven mainly by weather-related factors and global geopolitical shocks that have put upward pressure on agricultural input costs. They added that the March increase in services inflation was largely explained by indexation processes, while the rebound in inflation in the information and communications component was likewise not driven by demand-side factors. Regarding inflation expectations, they pointed out that their recent increase has been driven primarily by higher food inflation, which they consider a transitory phenomenon for which monetary policy has limited effectiveness. They stressed that, following the cumulative 200-basis-point increase in the policy interest rate during the last two meetings of the Board of Directors, monetary policy in Colombia is in a highly restrictive stance compared with most countries in the region and other emerging economies. They also emphasized that additional increases in the policy interest rate would widen the differential relative to U.S. interest rates, thereby accentuating speculative capital inflows and further appreciating the exchange rate, with adverse effects on the export sector. They added that higher interest rates would discourage economic growth, at a time when several leading indicators already suggest weaker-than-expected performance and growth below the economy’s potential capacity. Regarding the use of inflation expectations as a guide for monetary policy decisions, these members of the Board argued that such expectations are not a purely technical or neutral variable indicating the expected path of inflation, but may also be affected by exchange rate, fiscal, financial, and risk-related factors, as well as by the returns demanded by debt holders. Accordingly, they emphasized that when the monetary authority reacts mechanically to elevated inflation expectations by increasing the policy interest rate, it may end up validating a signal generated by financial markets themselves and transforming it into higher financial returns.

Another Board member argued that March inflation could be explained by several factors, with supply shocks predominating, especially in food prices and in supply chains affected by the global conflict. In particular, they noted that among agricultural inputs, approximately 46% of fertilizer prices recorded increases in March relative to February. In addition, they pointed out that, as a result of the conflict in the Middle East, the main component contributing to the increase in the Producer Price Index (PPI) has been mining and quarrying activities. They stressed that these are supply shocks whose effects and duration cannot yet be fully assessed. They further argued that climate-related supply shocks should be analyzed over the long term, given that they have become a structural issue. Drawing on relevant literature, they noted that the global interconnectedness of the economy implies that global supply chains play a fundamental role in domestic inflation dynamics. They warned that, in an environment characterized by geopolitical uncertainty, tensions in global supply chains, and greater risks of climate-related shocks, the actions of the central bank may have larger distributional effects on the economy and on the country’s productive capacity. Finally, they noted that the literature has not identified a stable, monotonic relationship between inflation and growth sufficient to support the view that low inflation targets are necessarily associated with high rates of economic growth. In this regard, they highlighted the importance of pursuing research to identify stable inflation levels that do not hinder sustained growth, job creation, and environmental sustainability over the long term.

The decision adopted by the Board of Directors continues to support the recovery of economic activity without jeopardizing the convergence of inflation toward the target. They reaffirm that future policy decisions would depend on information available at the time.