

Policy Rate Held Steady at 9.25% in September, in a Split Decision

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The policy rate remained stable in September at 9.25% in a split decision. Additionally, it was decided to cancel the flexible credit line agreement with the International Monetary Fund.

The September decision maintained the balance observed at the July meeting, with four members in favor of stability, two in favor of a 50bp reduction, and one in favor of a 25bp reduction. A conservative tone is maintained, and the Issuer reiterates its cautious stance in addressing the current situation. In addition, a second statement was released announcing Colombia's decision to cancel the agreement for access to the flexible credit line with the International Monetary Fund, currently suspended by the multilateral bank.

- **The statement highlights that inflation in August rose to 5.1% and that core inflation, excluding food and regulated items, exceeded the technical team's forecasts.** This result led to an upward revision of inflation forecasts by the technical team, with levels slightly lower than those contemplated by the average of analysts, with a slower convergence towards the 3.0% target, despite reaching the inflation target range in 2026. They also highlighted that analysts' inflation expectations have increased in recent months, reaching 5.0% by the end of 2025 and 4.0% by the end of 2026, both figures above the Bank's target. On the other hand, they highlight that expectations derived from public debt securities remain above the 3.0% target.
- **In terms of activity, it should be noted that the economy continues to perform well, with growth of 2.5% in the second quarter, in line with the technical team's forecasts.** This performance shows some additional acceleration recently and is based on a recovery in consumption and, more recently, in some components of investment, especially machinery and equipment and civil works. Additionally, at the press conference, the Minister highlighted the good performance of the labor market, with an unemployment rate of 8.6% for the month of August. Regarding consumption and credit performance, the Manager highlights that the boost in consumption has been based mainly on an improvement in income and that, although consumer credit is performing better than in recent quarters, its growth rate remains low in real terms and is not fueling leveraged consumption.

- **Externally, they highlighted that financing conditions have become more relaxed in recent weeks.** However, they note that uncertainty surrounding US trade policy and regional and global geopolitical tensions persist. They made no reference to the change in monetary policy by the US Federal Reserve.
- **On this occasion, fiscal issues were not the focus of discussion in either the statement or the press conference.** In response to some questions on this subject, the Minister emphasized that the government's efforts are aimed at achieving a better fiscal balance. In the question section, regarding the possible direction of the budget and a proposal to reduce it, the Minister emphasized that an amount of 547 trillion was approved by a large majority in the committees, so he does not believe there is sufficient support for a reduction to 530 trillion in the budget. This scenario maintains a deficit level similar to the initial estimate, since the reduction in the budget amount is similar to the reduction in expected sources of financing under the financing law.
- **In a second statement, the Bank announced the termination of the flexible credit line agreement with the International Monetary Fund.** It should be noted that a few months ago, the IMF announced the suspension of access to resources. Colombia emphasized that current international reserve levels are comfortable and that the flexible line resources are not required. They also emphasized that there was no intention to make use of these resources during the remaining period of the current agreement. Both the Minister and the Manager believe that these decisions will have no impact on the markets or on Colombia's access to financing. It was announced that the remaining payments on the portion of the line taken during the pandemic will continue to be made.
- **During the question and answer session, the minister emphasized the need to approve the budget and tax reform to avoid fiscal adjustment that could lead to a marked economic slowdown,** echoing the reasons for activating the rule's escape clause and justifying the increase in primary spending. During this question and answer session, the Minister emphasized that they do not expect to reduce spending, and stressed that the responsibility lies with Congress to approve the budget and resources required by the government. This hinted at a lack of appetite for austerity on the part of the government and confirmed the possible pressure on domestic demand that the fiscal issue may have on spending, limiting monetary policy actions. For their part, several journalists asked about the statements made by the President of the Republic, who criticized the Bank's decision and associated it with a politically motivated decision. In response to these statements, the Bank's Manager strongly defended the independence of the Central Bank and the focus and technical quality with which decisions are made by its Board.

In our opinion, the tone of the statement and the press conference was somewhat more moderate than in July. However, this does not mark a significant change in the balance between the members of the Board or in our view of the monetary policy stance in the short term. Perhaps noteworthy is the emphasis on changes in inflation expectations and projections, as this phenomenon has occurred several times in recent years, with surprises and upward revisions. This may provide an additional argument for maintaining the current stance of caution and stability in rates.

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