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GLOBAL ECONOMICS

LATAM DAILY

October 7, 2025

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Latam Daily: BanRep Minutes Recap

- **Colombia: BanRep minutes—majority group see further reasons for rate stability**

The central bank published the minutes to its September monetary policy meeting late on Friday, October 3rd. The board decided to keep the policy interest rate at 9.25%, with the same voting split observed in previous meetings: four members voted to keep the rate unchanged, two supported a 50 basis point cut, and one favoured a 25 basis point reduction. It is worth noting that the post-meeting communiqués in July and September contained limited descriptive detail about the monetary policy discussions, which is why the minutes gain even more relevance, as they appear to be increasingly detailed regarding the topics under discussion.

All board members agree that economic performance has been robust, especially in terms of domestic demand and employment. However, there are some nuances: the majority sees this robustness as a reason not to rush the easing cycle, while the members who voted for a cut believe that economic growth momentum could benefit from lower rates. On inflation, the board agrees that it has stagnated while expectations have risen again. Yet, for the majority, the main concern is that convergence toward the target is taking longer than expected, whereas the members favouring a cut do not view this as a major issue.

Regarding the exchange rate, the behaviour of the USDCOP has helped reduce inflationary pressures; however, it remains a volatile indicator. In fact, during the discussion, the majority noted that the recent FX behaviour reflects financing inflows to the public sector, while foreign direct investment (FDI) is weakening. It is worth highlighting that the board has been vocal in stating that concerns about the exchange rate are more related to its influence on future inflation than to its general level.

The only point mentioned in the minutes that does not reflect a consensus is the concern around fiscal accounts. The majority sees two channels of impact: first, through a higher neutral rate (via the risk premium component), and second, through the crowding-out effect. Interestingly, the minutes focused entirely on domestic issues, with no significant remarks made about the international situation.

From the document, we can infer that the board member voting for a more moderate cut (25 bps) is likely Laura Moisa, as her public speech emphasized that the short-term inflation target should be reconsidered—a sentiment echoed in the minutes. This leaves the Finance Minister Ávila and César Giraldo as the board members leaning toward the dovish side.

Following the publication of the minutes, the likelihood of an interest rate cut before the second half of 2026 has decreased. Our current projection is for a 9.25% rate in December 2025, and we now expect the easing cycle to resume in the second half of 2026. This also shifts our year-end rate forecast toward a level around 8.25% to 8.50%. The previous decision supports relative calm in the FX market, as one of the main factors behind COP strength is having a conservative and still-restrictive central bank—especially in a context where even the Federal Reserve has resumed its easing cycle.

Further details from the minutes:

- **The most interesting remark from the minutes to September's meeting is that the majority group now sees stronger reasons to maintain interest rates at current levels.** Their main concern is that inflation expectations are rising, while the factors driving inflation downward are mostly beyond the board's control—such as food prices, regulated prices, and, more critically, the minimum wage—all within a context of very strong domestic demand. This group of four board members noted the possibility of an excessive salary increase, which could delay inflation convergence toward the target.

- Regarding the fiscal situation, they mentioned that there are no strong measures in place to adjust public finances, while signs of a crowding-out effect are emerging. It is worth noting that one channel through which the fiscal situation impacts monetary policy is via higher risk premiums—an argument also highlighted in the minutes.
- **The majority of the board also appears skeptical about the recent USDCOP dynamics, arguing that the movement is not driven by FDI inflows but rather by financing sources for the public sector.** The board stated that the trade deficit is widening, making recent FX signals difficult to interpret as stable enough to support inflation convergence toward the target.
- **In the minority group, we see an interesting remark.** The main insight is that board member Laura Moisa appears to be the least dovish within this group. She has been vocal in suggesting that the central bank should consider some short-term flexibility around the 3% inflation target, aiming to achieve more sustainable growth and employment gains. In the minutes, the member who voted for a 25 bps cut argued that the minimum wage debate should not focus solely on costs, and emphasized that productivity shocks are more effective in reducing costs than the cost increases caused by wage hikes.
- **The most dovish members of the board—the two who voted for a 50 bps rate cut—see more room to stimulate the economy.** They believe this could also help the government manage a challenging international environment and avoid destabilization of public finances. This group now welcomes the recent COP strength, noting that it could negatively affect export growth. They mentioned that monetary policy should consider the evolving structure of economic growth, with greater contributions from the “popular economy” and less reliance on carbon and mining intensive activities. From their perspective, attempting to cool down the economy through higher interest rates could worsen income distribution and hinder development dynamics.

This has been one of the most complete and complex discussions we’ve seen in the minutes. All the content suggests that the division within the board may persist, as the shocks Colombia is facing are being interpreted differently by each voting group. On October 31st, there will be a new monetary policy meeting. By then, the central bank staff will prepare a fresh set of macroeconomic projections in the Monetary Policy Report, which typically serves as a key input for the board’s discussions.

—Jackeline Piraján & Valentina Guio