Research Team Colombia
Jackeline Piraján
Head of Research
jackeline.pirajan@davibank.com

Daniel García
Senior Economist
daniel.castro@davibank.com

Colombia: BanRep held the interest rate at 12%, while a sudden COP appreciation was the trigger for a new program of international reserve accumulation.

On Friday, July 31, BanRep decided to maintain its monetary policy rate at 12%, a new surprise for market consensus and for us, as we were expecting hikes of 50 bps and 75 bps, respectively. What is curious is that the wording in the post-meeting statement was as hawkish as the one we saw in June's meeting; however, the new ingredient is the assessment of recent exchange rate behavior. In that regard, the central bank launched a program to accumulate international reserves of up to USD 4 bn, a significant size under a well-known mechanism of put auctions of USD 400 million per month. Based on previous interactions with the board and given today's speech, we think the central bank is trying to figure out to what extent the contractionary monetary policy stance is supporting the strong Colombian peso.

It is worth noting that after this hold, Governor Villar emphasized that the central bank will continue to be data-dependent and that, for now, we cannot guarantee that we are at the end of the hiking cycle. The macroeconomic scenario still involves high uncertainty, and Governor Villar said the central bank will decide whether to increase the contractionary stance according to incoming data. The main upside risk for inflation remains the "El Niño" weather phenomenon; however, it is an ongoing concern whose impact will be known only as it unfolds.

Recognizing that this year has been particularly difficult to anticipate BanRep's moves, at DAVIbank we think that some events to monitor in assessing forthcoming moves involve, first, how inflation behaves relative to the updated projections that the central bank's economic staff will release next week. Also important are how the political agenda of the elected government evolves and whether it supports the good performance of local assets, including the FX market, and how severe and long-lasting the El Niño phenomenon turns out to be. We do not expect immediate signals on those fronts, and that is why, after today's meeting, we favor rate stability for a long time, at least until the end of the year. If inflation proves to reach a peak in December 2026, we favor the board starting to cut interest rates by mid-2027 (June/July), when we expect inflation expectations to be again within the tolerance range around the inflation target (defined between 2% and 4%).

Regarding the program to increase international reserves, we think it will initially promote stabilization in the recent FX appreciation trend. That said, we think the strongest signal actually came from the interest rate decision, and it could at least reverse part of the appreciation seen in the last week. In terms of assessing how beneficial a strong COP is for inflation, we tend to think the impact could be limited, as Colombian importers are not only facing a tailwind from the FX level, but are also managing the impact of higher domestic labor costs, energy prices, and strong demand, among other factors that could make the pass-through effect less significant. We will see, but in any case, Colombia is expected to maintain a very contractionary stance for a longer period however not as contractionary as previously expected by markets.

Forthcoming relevant publications from the central bank are: the minutes next Wednesday, Aug. 5, the Monetary Policy Report release on Tuesday, Aug. 4, and the press conference on Thursday, Aug. 6. It is worth highlighting that in August we will not have a rate decision, and that the next decision meeting will be on Wednesday, Sept. 30.

Other relevant details of today's meeting

- **During the press conference, Governor Villar highlighted that the board will continue to be data-dependent** and that, for now, sources of risk for inflation are mainly the El Niño weather phenomenon on the upside and FX appreciation on the downside.
- **Arguments for a pause.** Governor Villar said the pause was favored because the majority of the board sees it as necessary to assess the uncertain environment, especially regarding the exchange rate. Governor Villar said that FX appreciation, if sustained, could help reduce inflation in the future, lowering the need for a more aggressive contractionary stance.
- **About staff projections.** The Governor anticipates that the central bank is forecasting higher inflation by year-end 2026; however, for 2027 a downward path is still expected that would bring inflation back within the target range in 2028. Governor Villar said that despite some inflation pressures coming from supply shocks, the board should evaluate whether these shocks translate into something more persistent. In that regard, it is important to highlight that Governor Villar said the current contractionary stance is expected to show its effects next year, when inflation is expected to decline.
- **About the program for increase international reserves.** Current international reserve levels stand at USD 66.3 bn and, according to Governor Villar, this level is satisfactory. However, he said it is reasonable to accumulate an additional USD 4 bn over the next two years. The mechanism will involve selling put options for USD 400 million each month, and the strike price will be the 20-business-day average of the TRM (volume-weighted exchange rate per day). The first auction will be on Aug. 3, and the exercise period will be between Aug. 4 and Aug. 31. Based on data available today, we estimate an initial strike of approximately 3,263. In the past, this program was

successful in its initial stages, and we expect it will be effective again.

- **About what explains the exchange rate appreciation.** Governor Villar said that for now there is no clear explanation and that the situation in Colombia could reflect a combination of the international trend of dollar weakening, reduced risk perception, and the effect of the monetary policy rate. However, he highlighted that there is significant uncertainty around the topic, making it difficult to know whether the recent appreciation can be sustained. For now, staff projections do not assume that the current exchange rate will prevail in the future.

Macroeconomic forecast DAVIbank Economics Colombia

Forecast	2019	2020	2021	2022	2023	2024	2025pr	2026pr	2027 pr
National Accounts									
Real GDP growth (yearly %)	3.2	-7.2	11.1	7.6	0.9	1.5	2.6	2.4	2.7
Domestic demand (y/y. %)	4.0	-7.5	13.8	10.5	-2.3	1.6	3.9	2.9	3.2
Consumption (y/y. %)	4.3	-4.3	14.1	9.5	0.7	1.4	4.4	3.4	3.1
Private (y/y. %)	4.0	-5.0	15.3	11.1	0.6	1.6	3.5	3.2	3.6
Goverment (y/y. %)	5.5	-0.9	10.3	2.2	1.1	0.0	8.3	4.4	0.8
Gross capital formation (y/y. %)	3.2	-7.2	11.1	7.6	0.9	1.5	2.6	2.4	2.7
Exports (y/y. %)	3.3	-22.3	15.7	13.6	3.1	0.3	1.8	1.9	1.7
Imports (y/y. %)	7.7	-19.8	28.5	25.0	-9.8	1.3	8.8	3.0	4.2
Laboral Market									
Unemployment (%. Average)	10.9	16.7	13.8	11.2	10.2	10.2	8.9	9	9.4
Balance of Payments									
Trade Balance (USD$. B)	-14.15	-13.10	-20.00	-16.10	-7.81	-9.77	-14.89	-16.61	-19.91
Exports (USD$. B)	51.3	38.2	50.9	73.5	68.7	69.1	71.5	79.22	82.1
Imports (USD$. B)	65.5	51.3	70.9	89.6	76.5	78.9	86.3	97.05	103.10
Current account (USD$ Balance. B)	-14.81	-9.27	-17.95	-20.88	-8.32	-7.10	-11.02	-13.4	-16.18
Current account (% of GDP)	-4.6	-3.4	-5.6	-6.0	-2.3	-1.7	-2.4	-2.3	2.7
Prices. Rates & Exchange Rates									
CPI (y/y. %. End period)	3.80	1.61	5.62	13.12	9.28	5.20	5.10	6.87	4.87
CPI (y/y. %. Average)	3.52	2.53	3.49	10.15	11.77	6.63	5.14	6.01	5.67
CPI without food (y/y. %. End period)	3.45	1.03	3.44	9.99	10.33	5.60	5.11	6.50	4.77
COP ($. End period)	3297	3422	4077	4850	3902	4405	3780	3567	3701
COP ($. Average)	3281	3694	3766	4254	4322	4153	4052	3643	3629
BanRep's rate (%. End period)	4.25	1.75	3.00	12	13.0	9.50	9.25	12.75	10
Fiscal projections*									
Net Debt of CNG (% of GDP)	48.4	60.7	60.1	57.6	53.4	59.3	58.5	61	62.9
Primary Balance of CNG (% del PIB)	0.4	-5.0	-3.6	-1.0	-0.3	-2.4	-3.5	-4.1	0.5
Deficit of CNG (% of GDP)	-2.5	-7.8	-7.1	-5.3	-4.3	-6.8	-6.4	-7.4	-5.1

*Source: CARF Report June 2026 about MTFF. For 2027 the projection assumes a 3.7% of GDP adjustment

Source: DAVIbank Economics Colombia.

Disclaimer

- This document has been prepared by Banco DAVIbank S.A., a banking institution, for distribution among its clients and those of its subsidiaries in Colombia: Fiduciaria and Brokerage Firm, entities subject to inspection, surveillance, and control by the Financial Superintendence of Colombia.

- This document is for informational purposes only. It should not be interpreted as professional advice or as a research report for making investment decisions, in accordance with the provisions of Articles 2.40.1.1.2 and 2.40.1.1.3 of Decree 2555 of 2010 and its complementary regulations.

- The information contained is provided for informational purposes only and does not constitute personalized investment advice, nor an invitation, offer, solicitation, suggestion, or obligation on the part of Banco DAVIbank S.A. or its subsidiaries in Colombia, their managers, representatives, associates, directors, partners, employees, advisors, or contractors. Accordingly, the information in this document is published for general use and does not take into account specific investment objectives, financial situations, or the needs of any particular investor. The use of the information provided is the sole responsibility of the recipient. The reader should understand that the purpose of this document is not to predict the future or guarantee a financial result, nor to ensure the fulfillment of the scenarios presented. This document does not predict future outcomes or guarantee financial results; all scenarios are strictly referential.

- Interested parties should seek authorized professional advice regarding the suitability of making investment decisions and should understand that statements regarding future outlooks may not materialize.

- The opinions contained in this document have been compiled or obtained from public sources considered reliable, but no express or implied warranty is made regarding their accuracy or completeness.

- Neither Banco DAVIbank S.A., nor its subsidiaries accept any responsibility for any direct, indirect, or consequential loss arising from any use of the information contained in this document.

- The information in this document is based on certain assumptions and analyses of the information available at the time it was prepared, which may or may not be correct. Therefore, there is no certainty that the projections contained in this document will be met; thus, nothing in this document is or should be considered a promise or guarantee regarding the future performance of such projections.

- The opinions, estimates, and projections contained in this document are subject to change without prior notice.

- This document does not constitute, nor should it be understood as: (i) an offer to sell or an invitation to buy securities; (ii) a proposal to carry out commercial transactions; (iii) personalized investment advice.