

Economics Colombia

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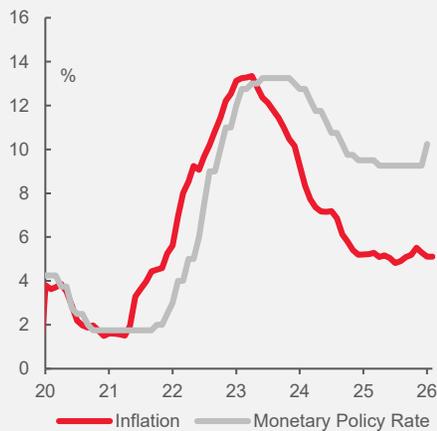
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Chart 1. Monetary Policy Rate vs Inflation



Sources: DAVIbank Economics, DANE, BanRep

Colombia: BanRep kicks off a new rate-hiking cycle with a strong but necessary 100 bps move.

The Central Bank delivered a 100-bps hike in the policy rate, bringing it to 10.25%. As in previous meetings, the decision was split: four members voted for the 100-bps hike, two members voted for a cut, and one member shifted to supporting rate stability. The decision was well above market expectations: the IBR market had priced slightly less than 75 bps, while economic analysts on average expected a 50-bps increase (including DAVIbank). Given that the 100-bps hike was a surprise, it sends a strong message from the Central Bank regarding its concern about the de-anchoring of inflation expectations.

The press conference was tense, and it was notable that the Minister of Finance expressed clear disagreement with BanRep's decision. The tension culminated in an announcement of a COP 500 reduction in gasoline prices—an action unlikely to be a game changer for inflation. If such reductions become recurrent, they could undermine efforts to keep the FEPC (Gasoline Price Stabilization Fund) generating a surplus.

At DAVIbank, we maintain our expectation that the Central Bank will reach a terminal rate of 12%. However, we now expect this level to be reached in the second quarter of the year, followed by a pause until inflation expectations begin to change trend. We see today's decision as broadly consistent with the reaction function suggested by the Taylor Rule, given inflation expectations of 6.3%—a type of reaction that has not been typical for BanRep. All in all, a historic wage shock paired with a historic rate increase demonstrates the independence of our Central Bank—one of Colombia's most valuable institutional assets.

Details of Today's Decision

- Communiqué themes:**

The communiqué highlighted the mild progress of disinflation during 2025 and the significant increase in inflation expectations, now pointing to levels above 6% by end-2026. It also underscored robust domestic demand, driven by household consumption and public spending, reflected in a wider trade deficit—all within a context of heightened geopolitical uncertainty.
- Minister of Finance's position:**

Minister of Finance Germán Ávila described BanRep's decision as a mistake, arguing it will not control inflation but will instead hurt the government's production capacity. He also

announced a COP 500 reduction in gasoline prices, which according to the Ministry's calculations would keep the FEPC neutral. Our own estimates suggest the price reduction will have only a limited impact on inflation and is insufficient to offset rising labor costs.

- **Fiscal issues:**

Several questions centered on fiscal matters. Notably, the Ministry of Finance expects to publish the 2026 Financing Plan next week, and the decree on the repatriation of pension fund resources is also expected to be enacted soon.

- **Macroeconomic forecasts:** Economic growth is projected at 2.9% for 2025 and 2.6% for 2026. Further details will be released Thursday afternoon during the press conference for the Monetary Policy Report. For inflation expectations, Central Bank staff estimate 6.3% for December 2026 (similar to DAVIbank's view), incorporating both short- and long-term effects of the minimum wage increase. Governor Villar emphasized the importance of strengthening the Central Bank's credibility and commitment to the target range.

- **Political timing and tensions:**

Raising interest rates during an electoral year is challenging. The meeting was tense, with Minister Ávila repeatedly criticizing the Bank for increasing government funding costs and slowing economic activity—adding fuel to an already polarized local environment. Governor Villar emphasized that while rate hikes are unpopular, maintaining low and stable inflation is essential to preserve workers' purchasing power. The contrast in messaging shows how rhetoric matters, especially in an election year with an uncertain outlook.

- **Exchange rate considerations:** Governor Villar noted that the recent COP appreciation does not appear to be driven by speculative flows. No clear signals were given regarding whether the Board discussed increasing international reserves.

- **Next key dates:**

- **Wednesday, Feb 4:** Release of the minutes from today's decision, expected to shed light on the variables that may continue driving the Central Bank's reaction.
- **Thursday, Feb 5:** Press conference on the Monetary Policy Report, which will be released on February 3. It will be important to monitor the balance of risks and any revisions to key parameters such as the neutral real rate (currently estimated at 3.1%).

Macroeconomic forecast DAVIbank Economics Colombia

Forecast	2019	2020	2021	2022	2023	2024	2025pr	2026pr
National Accounts								
Real GDP growth (yearly %)	3,2	-7,2	10,8	7,3	0,7	1,6	2,8	2,9
Domestic demand (y/y. %)	4,0	-7,5	13,4	10,3	-2,5	2,0	4,3	3,3
Consumption (y/y. %)	4,3	-4,2	13,8	9,0	0,6	1,4	4,1	3,8
Private (y/y. %)	4,1	-5,0	14,7	10,8	0,4	1,6	3,6	3,9
Government (y/y. %)	5,3	-0,8	9,8	1,0	1,6	0,7	6,5	3,6
Gross capital formation (y/y. %)	3,0	-20,7	11,6	16,0	-16,0	5,2	5,0	0,8
Exports (y/y. %)	3,1	-22,5	14,6	12,5	3,1	2,5	1,2	1,5
Imports (y/y. %)	7,3	-20,1	26,7	24,0	-9,9	4,4	8,9	3,1
Laboral Market								
Unemployment (%. Average)	10,9	16,7	13,8	11,2	10,2	10,2	9,2	9,8
Balance of Payments								
Trade Balance (USD\$. B)	-14,1	-13,1	-20,0	-16,6	-8,2	-9,77	-12,91	-14,10
Exports (USD\$. B)	51,3	38,2	50,9	73,1	67,8	68,87	69,6	72,6
Imports (USD\$. B)	65,5	51,3	70,9	89,6	76,0	78,63	82,54	86,6
Current account (USD\$ Balance. B)	-15	-9	-18	-21,3	-9,7	-7,412	-10,05	-11,29
Current account (% of GDP)	-4,6	-3,4	-5,6	-6,2	-2,7	-1,8	-2,4	-2,5
Exchange terms (y/y. %)	4,04	-12,62	20,74	5,94	-18,0	-0,7	-1,0	
Prices. Rates & Exchange Rates								
CPI (y/y. %. End period)	3,80	1,61	5,62	13,12	9,28	5,20	5,10	6,34
CPI (y/y. %. Average)	3,52	2,53	3,49	10,15	11,77	6,63	5,14	5,79
CPI without food (y/y. %. End period)	3,45	1,03	3,44	9,99	10,33	5,60	5,11	7,06
COP (\$. End period)	3297	3422	4077	4850	3902	4405	3780	3918
COP (\$. Average)	3281	3694	3766	4254	4322	4153	4050	3924
BanRep's rate (%. End period)	4,25	1,75	3,00	12	13,0	9,50	9,25	12,00
Tax Codes*								
Net Debt of CNG (% of GDP)	48,4	60,7	60,1	57,6	53,4	59,3	61,3	63,0

Primary Balance of CNG (% del PIB)	0,4	-5,0	-3,6	-1,0	-0,3	-2,4	-2,4	-1,4
Deficit of CNG (% of GDP)	-2,5	-7,8	-7,1	-5,3	-4,3	-6,8	-7,1	-6,2

*Source: MTFF 2025.

Source: DAVIbank Economics Colombia.

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