Economics Colombia
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Colombia: BanRep minutes highlight rising concerns among majority members over inflation-targeting credibility

The central bank published the minutes of its June monetary policy meeting late on Friday, July 3. As with the previous set of minutes, the Finance Minister has yet to approve the document. In terms of content, **the minutes revealed that the majority group remains highly concerned about medium-term inflation expectations, which continue to stand well above the central bank's target. In their view, this reflects a deterioration in the credibility of the inflation-targeting framework.** The minutes also showed that the central bank staff has revised its inflation projections upward, highlighting significant uncertainty surrounding the potential impact of the *El Niño* weather phenomenon.

In contrast, the minority groups attributed inflationary pressures primarily to supply-side shocks, which they believe are difficult to address through a more restrictive monetary policy stance. Instead, they expressed greater concern about the weak performance of economic activity, arguing that higher interest rates encourage currency appreciation and could further weaken investment.

Overall, divisions within the Board remain. However, this time we observed a greater degree of concern among the majority members regarding the persistence of elevated inflation expectations over the policy horizon. According to their macroeconomic assessment, there is currently no significant inflation-growth trade-off that would prevent monetary policy from moving further into restrictive territory. Another noteworthy point is that the majority of the Board called for a structural fiscal adjustment to complement monetary policy efforts. This is a topic on which government officials have been increasingly vocal in recent weeks, although we are not convinced that the preliminary announcements made so far will be sufficient to reassure the Board.

At DAVIbank, we expect the central bank to continue its tightening cycle in July, delivering a 75 bps rate hike. This view is consistent with the hawkish tone expressed by the majority group in both the minutes and recent public remarks. The coming months are likely to remain challenging, as inflation is still several months away from reaching its projected peak (December, according to DAVIbank forecasts), while uncertainty, particularly concerning weather-related shocks, remains elevated and could prevent inflation expectations from declining meaningfully.

In addition, it remains difficult to assess the impact of potential policies that may be implemented by the new government. Fiscal austerity measures and policies aimed at promoting private investment are likely to have different transmission lags and effects on domestic activity. It will also be important to monitor where the fiscal risk premium ultimately settles.

Ahead of the July meeting, the central bank staff will provide a comprehensive update of its macroeconomic outlook. At the same time, the economy is entering the period of the year in which the Board typically emphasizes the need for prudence in setting the minimum wage. Both developments will be important in determining whether the central bank is approaching the end of its tightening cycle.

Further details from June's minutes:

- The majority group remains concerned about the loss of credibility of the inflation-targeting framework. This group, which voted for a 75 bps rate hike, argued that inflation has become increasingly persistent. Members emphasized that the recent acceleration in inflation reflects a combination of strong wage growth and excess domestic demand, supported not only by resilient household consumption but also by an expansionary fiscal stance. They also stressed the uncertainty associated with the potential impact of the *El Niño* weather phenomenon. At this stage, the group does not perceive a significant sacrifice ratio between inflation and growth, suggesting that inflation expectations remain the key variable that could eventually justify a shift in the policy stance.

- Members who voted for a 50 bps rate cut argued that inflation is mainly driven by supply-side shocks. They pointed to adverse weather conditions, geopolitical tensions, and indexation mechanisms as the main sources of inflationary pressure. In their view, tighter monetary policy would do little to address these factors while potentially harming economic growth. They also argued that the widening interest-rate differential with the United States is contributing to peso appreciation and undermining export competitiveness.

- The member who voted to keep rates unchanged favored maintaining a wait-and-see approach while monitoring economic and labor market developments. This member acknowledged that inflation is primarily driven by supply-side and external factors rather than strong domestic demand. At the same time, economic activity remains weak, with only a modest recovery in industry, while a stronger peso could weaken competitiveness and discourage productive investment.

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Macroeconomic forecast DAVIbank Economics Colombia

Forecast	2019	2020	2021	2022	2023	2024	2025pr	2026pr
National Accounts								
Real GDP growth (yearly %)	3,2	-7,2	11,1	7,6	0,9	1,5	2,6	2,4
Domestic demand (y/y. %)	4,0	-7,5	13,8	10,5	-2,3	1,6	3,9	2,9
Consumption (y/y. %)	4,3	-4,3	14,1	9,5	0,7	1,4	4,2	3,4
Private (y/y. %)	4,0	-5,0	15,3	11,1	0,6	1,6	3,4	3,5
Goverment (y/y. %)	5,5	-0,9	10,3	2,2	1,1	0,0	7,4	3,6
Gross capital formation (y/y. %)	2,5	-21,1	13,4	16,6	-16,3	3,4	7,8	0,3
Exports (y/y. %)	3,3	-22,3	15,7	13,6	3,1	0,3	0,6	1,9
Imports (y/y. %)	7,7	-19,8	28,5	25,0	-9,8	1,3	8,8	3,0
Laboral Market								
Unemployment (%. Average)	10,9	16,7	13,8	11,2	10,2	10,2	8,9	
Balance of Payments								
Trade Balance (USD$. B)	-14,1	-13,1	-20,0	-16,6	-8,2	-9,77	-14.87	-19.27
Exports (USD$. B)	51,3	38,2	50,9	73,1	67,8	68,87	71,08	73,16
Imports (USD$. B)	65,5	51,3	70,9	89,6	76,0	78,63	85,95	92,44
Current account (USD$ Balance. B)	-15	-9	-18	-21,3	-9,7	-7,412	-10,88	-10,88
Current account (% of GDP)	-4,6	-3,4	-5,6	-6,2	-2,7	-1,8	-2,4	-2,4
Exchange terms (y/y. %)	4,04	-12,62	20,74	5,94	-8.22	8.56	1.46	
Prices. Rates & Exchange Rates								
CPI (y/y. %. End period)	3,80	1,61	5,62	13,12	9,28	5,20	5,10	6,60
CPI (y/y. %. Average)	3,52	2,53	3,49	10,15	11,77	6.63	5,14	5,93
CPI without food (y/y. %. End period)	3,45	1,03	3,44	9,99	10,33	5.60	5,11	6,35
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
Fiscal indicators*								
Net Debt of CNG (% of GDP)	48,4	60,7	60,0	57,6	53,3	59,0	58,6	58,9
Primary Balance of CNG (% del PIB)	0,4	-5,0	-3,6	-1,0	-0,3	-2,4	-3,5	-2,1
Deficit of CNG (% of GDP)	-2,5	-7,8	-7,0	-5,3	-4,2	-6,7	-6,4	-5,3

*Source: Medium Term Fiscal Framework 2026.

Source: DAVIbank Economics Colombia.

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