

## Economics Colombia

March 30, 2026

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## Colombia Monetary Policy Preview: BanRep to Continue the Tightening Cycle with a 100 bps Hike

Tomorrow, Tuesday, March 31st, is the second monetary policy meeting of 2026. In January, the central bank increased the monetary policy rate by 100 bps to 10.25%, and ahead of March's meeting, the majority of analysts (including DAVIbank) expect a new 100 bps hike to 11.25%. The IBR swap market discounts between a 75pbs and 100 bps hike, and the main difference between market and economists' consensus continues to be the terminal rate: the IBR market suggests a terminal rate around 13.5%, while analysts' consensus, according to the central bank survey, points to 11.75%.

### Since January, there have been mixed signals in key macro variables.

Inflation in February surprised to the downside, standing at 5.29%, reflecting a tailwind from regulated prices, while in terms of economic activity, Colombia recorded in January the lowest expansion rate since April 2025. In the domestic market, COLTES rates soared in February in response to apparently significantly high government liquidity needs, but also in a context of still challenging fiscal projections in the Financing Plan 2026. Meanwhile, the USDCOP remains under control, and recent Congressional votes demonstrate that checks and balances remain in place. In international markets, uncertainty is high amid the Iran war.

### DAVIbank Economics expects BanRep to raise its policy rate by 100 bps to 11.25%. As has been usual, the decision is expected to be taken by a majority vote, with four members supporting the move.

The discussion within the board could become more challenging over time, as downside surprises in economic growth for 2025 and January 2026 contrast with still-elevated inflation expectations. Either way, we continue to observe that persistently high inflation expectations, a wide current account deficit pointing to robust domestic demand, and uncertainty around the fiscal outlook provide sufficient arguments for the central bank to continue tightening monetary policy. As terminal point in the tightening we expect 12%, however all signals from tomorrow's meeting will be key to affirm this expectation.

### Key points to consider ahead of March's Meeting:

- In January, the central bank staff released its quarterly monetary policy report, arguing that Colombia was no longer in a dilemma. The staff highlighted that inflation expectations increased and deviated even further above the central bank's target after the minimum wage increase, while new estimations suggest Colombia has a positive output gap. Under the previous framework, the estimated interest rate path required to bring inflation back to target within the

policy horizon is, on average, above that expected by the economists' consensus. Additionally, the chief of staff, Hernando Vargas, also highlighted that sizable rate increases at the beginning of the tightening cycle could be more effective in anchoring inflation expectations.

- **Economic activity posted downside surprises:** GDP growth in 2025 stood at 2.6% ([link](#)), below market and BanRep expectations of 2.8% and 2.9%, respectively. The economy has shown weakening signals since Q4-2025; however, most of them are associated with lower productivity in the agricultural sector, while other components reflective of strong domestic demand remain solid. Commerce continues to build solid expansion on a strong statistical base from one year ago, while public spending remains significantly supportive of economic growth. In January, Colombia posted a 1.5% expansion, the slowest since April 2025. The debate around a weakening economy that contrasts with a still-strong job market will surely remain one to watch.
- **Inflation:** February's headline inflation stood at 5.29%, below analysts' expectations ([link](#)), showing tailwinds from regulated prices. However, core inflation metrics—especially excluding food and regulated prices—increased to 5.60% (+9 bps). Inflation expectations eased slightly; however, they remain unanchored, posting an average of 6.2% for the end of 2026 and 4.75% for December 2027. At DAVIbank Economics, we expect inflation to resume its upside trend starting in March, which supports the need to continue raising interest rates.
- **The current account deficit reflects strong domestic demand ([link](#)).** In 2025, the deficit stood at USD 10.88 bn (2.4% of GDP), mainly explained by the increase in the goods trade deficit (reflecting still-strong domestic demand). In terms of financing, inflows associated with higher government indebtedness increased their relevance, while FDI was less robust. The external deficit and its sustainability have been a concern for the central bank, as despite the overall deficit remaining under control, it could become more challenging over time.
- **Fiscal front:** The government released its Financing Plan 2026, targeting a total deficit of 5.1% of GDP ([link](#)). There are challenges surrounding fiscal spending projections, especially in the context of high inflation and the significant increase in the minimum wage. On the other hand, local rates markets faced significant stress in February, with COLTES rates surpassing 14%, especially at the short end and the belly of the curve. These signals suggest that fiscal risk remains a topic under monitoring for the central bank.

## Macroeconomic forecast DAVIbank Economics Colombia

Forecast	2019	2020	2021	2022	2023	2024	2025pr	2026pr
<b>National Accounts</b>								
Real GDP growth (yearly %)	3,2	-7,2	11,1	7,6	0,9	1,5	2,6	2,7
Domestic demand (y/y. %)	4,0	-7,5	13,8	10,5	-2,3	1,6	3,9	3,4
Consumption (y/y. %)	4,3	-4,3	14,1	9,5	0,7	1,4	4,2	3,5
Private (y/y. %)	4,0	-5,0	15,3	11,1	0,6	1,6	3,4	3,5
Government (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	2,8
Exports (y/y. %)	3,3	-22,3	15,7	13,6	3,1	0,3	0,6	0,5
Imports (y/y. %)	7,7	-19,8	28,5	25,0	-9,8	1,3	8,8	3,4
<b>Laboral Market</b>								
Unemployment (%. Average)	10,9	16,7	13,8	11,2	10,2	10,2	8,9	9,8
<b>Balance of Payments</b>								
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	
<b>Prices. Rates &amp; Exchange Rates</b>								
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
<b>Tax Codes*</b>								
Net Debt of CNG (% of GDP)	48,4	60,7	60,1	57,6	53,4	59,3	58,5	58,5
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	-7,1	-5,3	-4,3	-6,8	-6,4	-5,1

\*Source: Financing Plan 2026.

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